Capital Market Review

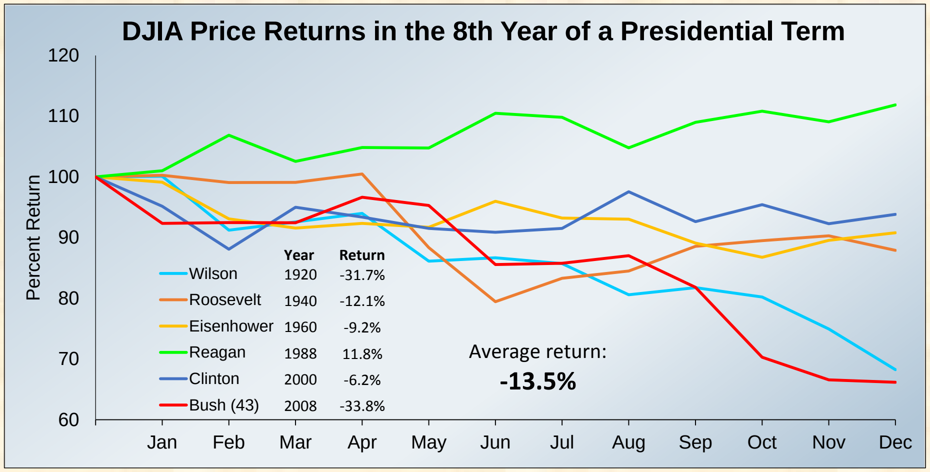
March 31, 2016

Another Roller Coaster Ride

- Investors were taken on a wild ride through the first quarter. However, the equity market at the beginning of the second quarter is within shouting distance of the year's starting mark. Many stocks were boosted by the turnaround in oil and the dollar that happened in mid February.
- Potential Federal Reserve action will likely stay at the forefront of investors' minds. The conflicting messages coming from the recent Fed meeting in March add to their consternation.
- This Presidential election year could make markets more interesting as we march toward November. It looks like the Republicans may go to a contested convention. Ten conventions have been contested with the eventual nominee going on to win the Presidency six times.
- The eighth year of a Presidential term has typically been a tough year for the market. Of the last six two-term Presidents, five have presided over a negative market in their eighth year with an average return of negative 13.5%.

Past Republican Contested Conventions

Year	Leader entering convention	Ballot	Winner at convention	Elected President?
1952	Robert Taft (OH)	First	Dwight Eisenhower (NY)	Won
1948	Thomas Dewey (NY)	Third	Thomas Dewey (NY)	Lost to Truman
1940	Thomas Dewey (NY)	Sixth	Wendell Wilkie (NY)	Lost to Roosevelt
1920	Leonard Wood (NH)	Tenth	Warren Harding (OH)	Won
1916	Charles Evans Hughes (NY)	Third	Charles Evans Hughes (NY)	Lost to Wilson
1888	John Sherman (OH)	Eighth	Benjamin Harrison (IN)	Won
1884	James Blaine (ME)	Fourth	James Blaine (ME)	Lost to Cleveland
1880	Ulysses S. Grant (IL)	36th	James Garfield (OH)	Won
1876	James Blaine (ME)	Seventh	Rutherford B. Hayes (OH)	Won
1860	William Seward (NY)	Third	Abraham Lincoln (IL)	Won



BROAD MARKET OVERVIEW

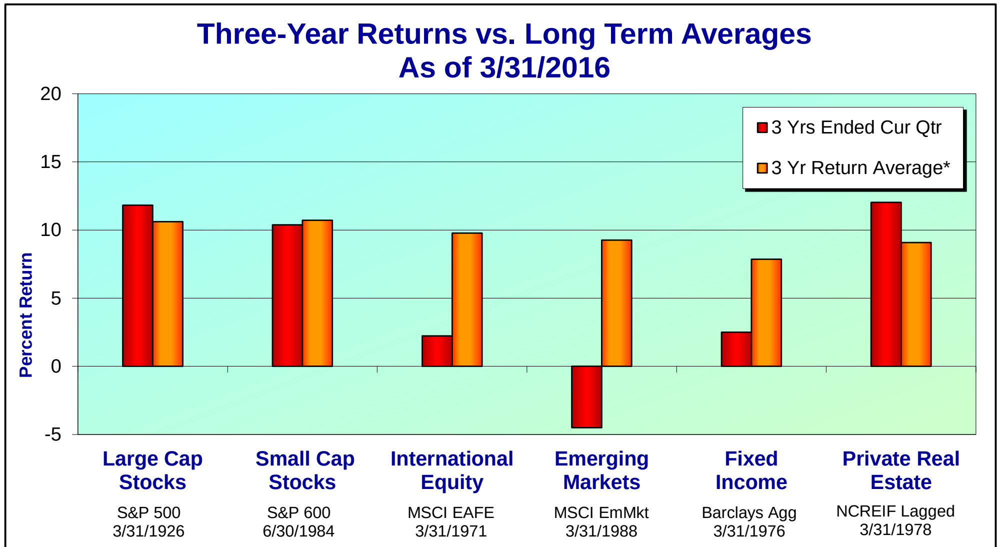
DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-0.3	-3.5	6.8	6.5	4.3
DeMarche 3000	2.0	-1.8	8.3	7.6	5.8
Russell 3000	1.0	-0.3	11.1	11.0	6.9
S&P 500	1.3	1.8	11.8	11.6	7.0
MSCI EAFE	-3.0	-8.3	2.2	2.3	1.8
DeMarche Bond	3.2	2.2	2.3	3.9	4.7
Barclays Aggregate	3.0	2.0	2.5	3.8	4.9
Citigroup Non-U.S. Gov't Bond	9.1	7.7	-0.2	0.2	4.0
Barclays Global Aggregate	5.9	4.6	0.9	1.8	4.3
NCREIF (Private RE)	2.2	11.8	11.9	11.9	7.6
Bloomberg Commodity	0.4	-19.6	-16.9	-14.1	-6.2

*Notes: All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.*

DeMarche International Indexes not available at this time.

Indicator Year Ending 3/31	2016	2015	2014	2013	Long Term Average
GDP Annual Growth Rate	2.0	2.9	1.9	1.7	5.9
Unemployment	5.0	5.5	6.6	7.6	5.9
Inflation (CPI)	0.9	-0.1	1.5	1.5	3.7
10-Year Interest Rates	1.8	1.9	2.7	2.0	5.9



*Return averages based on three year annualized returns rolling quarterly using dates above.

- The movement to negative rates in other developed nations, such as Japan and most of Europe, had a significant impact on international bond returns. In addition, a weaker dollar helped international returns.
- Rates also fell in the U.S. during the quarter which helped intermediate bond returns. The Barclays Aggregate posted a quarterly return higher than the 1- and 3-year returns. Domestic bonds now carry a lower coupon rate, so interest rate moves will impact returns to a greater degree than in the past.
- Stocks rallied during March making up a lot of ground from low points during January and February to finish in positive territory for the quarter. Overseas stocks continued to post negative returns during the quarter.
- Commodity prices firmed up in the first quarter after years of falling prices. The price of West Texas Intermediate Crude Oil hit a low point in February, and then rallied over 30% during March.
- The chart at the left shows international stocks have underperformed in the past three years as compared to their rolling three year averages. This suggests that international stocks are undervalued compared to history. On the other hand, domestic large cap and small cap stocks are more in line with history.

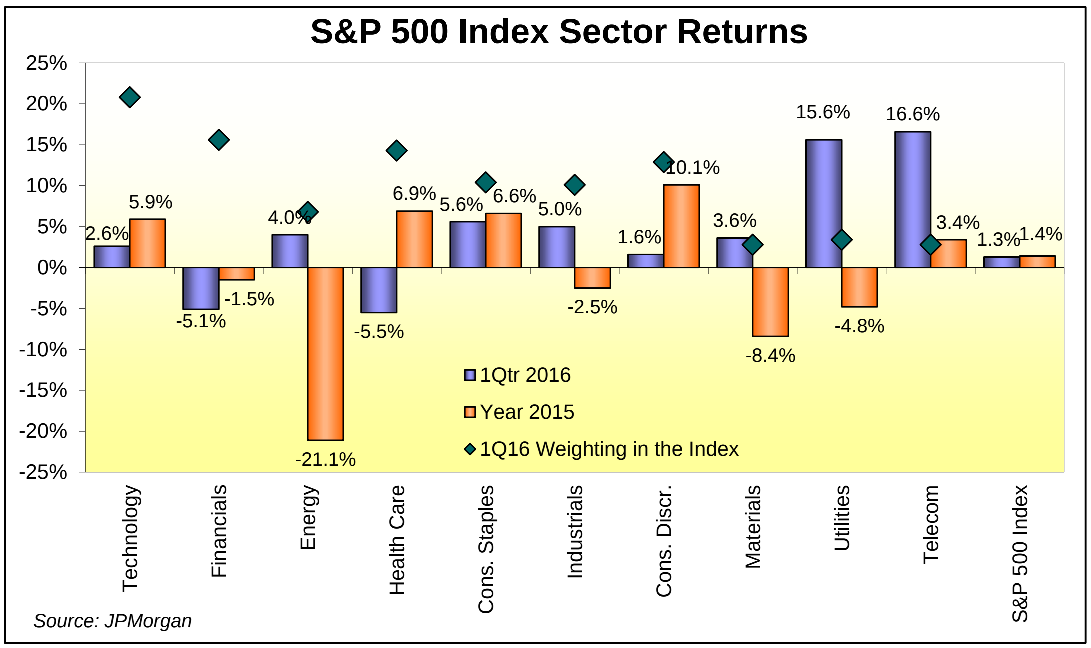
DeFact

The Federal Reserve did not hike the Fed Funds rate in March, citing a concern for sustained economic growth, weakness in core inflation, and international influences on the U.S. economy. From that point to the end of the month, riskier asset classes performed well. Emerging markets and small cap stocks outperformed the S& P 500 and high yield bonds outperformed the Barclay's Aggregate.

~Allianz, DeMarche Associates

DOMESTIC EQUITIES

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	0.9	0.1	11.0	9.5	7.1
DeMarche Value	3.5	-4.5	4.9	5.0	4.1
DeMarche Aggressive	-4.1	-19.7	2.7	2.5	2.3
DeMarche Defensive	2.5	0.1	8.7	8.0	6.0
DeMarche Large Cap	1.7	-0.4	8.4	7.5	5.4
Large Cap Growth	0.9	2.0	11.7	9.8	7.0
Large Cap Value	2.9	-3.6	4.7	4.7	3.4
DeMarche Small Cap	-0.9	-11.7	6.1	5.7	4.0
Small Cap Growth	-5.9	-14.9	5.9	4.5	2.8
Small Cap Value	3.0	-9.4	6.2	6.5	4.8
S&P 500	1.3	1.8	11.8	11.6	7.0
S&P Mid-Cap 400	3.8	-3.6	9.5	9.5	7.8
S&P Small-Cap 600	2.7	-3.2	10.4	10.4	7.0
Russell 1000	1.2	0.5	11.5	11.4	7.1
Russell 1000 Growth	0.7	2.5	13.6	12.4	8.3
Russell 1000 Value	1.6	-1.5	9.4	10.2	5.7
Russell 2000	-1.5	-9.8	6.8	7.2	5.3
Russell 2000 Growth	-4.7	-11.8	7.9	7.7	6.0
Russell 2000 Value	1.7	-7.7	5.7	6.7	4.4



- Small cap stocks lost ground to large cap stocks in the first 2 ½ months of the quarter. However, small cap stocks did rebound in the second half of March subsequent to Fed Chairman Yellen's policy remarks.

- Growth underperformed value in the quarter, especially in small cap. The health care sector, which make up a large percentage of the growth indexes, had a tough quarter posting negative returns. Large and small biotech stocks fell over 22% and 24% respectively, in the quarter.

- Large cap value indexes were helped by energy stocks which stopped their decline and increased slightly in the quarter. Financial stocks, which make up over 40% of the small cap value index, underperformed the index. The leading small cap performing stocks were utilities, followed by consumer discretionary.

- The chart at the left shows first quarter returns for sectors as compared to annual returns. The strong performance of Utilities and Telecom stand out, but they have small index weightings. The biggest impacts came from Energy, with positive performance in the quarter but strongly negative for the year, and from Healthcare, which was negative for the quarter and positive for the last year.

DeFact

Buybacks are showing the first signs of retreat in the last three years. Share repurchases totaled less than $25 billion at the end of March, a 21-month low compared to $94.6 billion in February. One reason stated for the slowdown is investors are tiring of companies spending comparatively little on capital spending, the lack of which is partly blamed for slow revenue growth.

~CNBC, Bank of America Merrill Lynch

INTERNATIONAL EQUITIES

DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI EAFE Local	-6.5	-11.2	6.5	6.2	1.7
MSCI EAFE USD	-3.0	-8.3	2.2	2.3	1.8
Growth	-2.1	-3.7	3.8	3.7	2.9
Value	-4.0	-12.8	0.6	0.8	0.6
MSCI Japan	-6.5	-7.1	3.8	4.0	-0.4
MSCI AC Asia-ex Japan	1.8	-11.9	0.1	0.0	5.4
MSCI Germany	-2.5	-11.7	4.0	2.4	3.7
MSCI France	0.1	-4.5	4.2	0.7	1.0
MSCI UK	-2.3	-8.8	0.2	2.2	2.0
MSCI EAFE Small Cap	-0.6	3.2	7.3	5.6	3.4
MSCI EM	5.7	-12.0	-4.5	-4.1	3.0
MSCI All Country-ex US	-0.4	-9.2	0.3	0.3	1.9

Note: DeMarche International Indexes not available at this time

Projected 5-Year Stock Returns As of 3/31/16

S&P 500 — Current Yield 2.15%; Current P/E 20.3

MSCI EAFE — Current Yield 3.44%; Current P/E 16.7

MSCI Emg. Mkts. — Current Yield 2.80%; Current P/E 13.7

Earnings Growth Rate	S&P 500 12.0	S&P 500 16.0	S&P 500 20.0	MSCI EAFE 12.0	MSCI EAFE 16.0	MSCI EAFE 20.0	MSCI Emg. Mkts. 12.0	MSCI Emg. Mkts. 16.0	MSCI Emg. Mkts. 20.0
8.0%	0.2	5.5	9.9	5.0	10.6	15.1	8.2	14.0	18.7
4.0%	-3.8	1.5	5.9	1.0	6.6	11.1	4.2	10.0	14.7
0.0%	-7.8	-2.5	1.9	-3.0	2.6	7.1	0.2	6.0	10.7
-4.0%	-11.8	-6.5	-2.1	-7.0	-1.4	3.1	-3.8	2.0	6.7

Ending P/E (Annualized Values)

Source: Morgan Stanley & DeMarche Associates, Inc.

- The U.S. dollar weakened against other developed nation currencies, such as the euro and, in particular, the yen. As a result, returns of international stocks in dollar terms outperformed local returns during the quarter and year. This is a reversal of the longer term dollar strengthening trend that has negatively impacted 3- and 5-year dollar returns.

- Emerging market stocks strongly outperformed developed market stocks in the quarter. The start of the latest move up followed the rebound of commodity prices, that began in the quarter (oil is up over 30% since February lows). The powerful gains were sustained by a weaker dollar as the market reassessed the outlook for Fed interest rates policy after March 16th.

- International small cap stocks posted a slightly negative quarter. However, the asset class is the only one which posted positive returns for one year, and has the highest returns for 3 years. Small companies, no matter their location, typically operate almost exclusively within the local economy, thus offering diversification potential to larger cap multi-national stocks.

- The table to the left shows projected stock returns for different stock indexes. The domestic market has been performing well and now looks fully valued. International and emerging stocks have lagged in performance and look undervalued compared to domestic.

DeFact

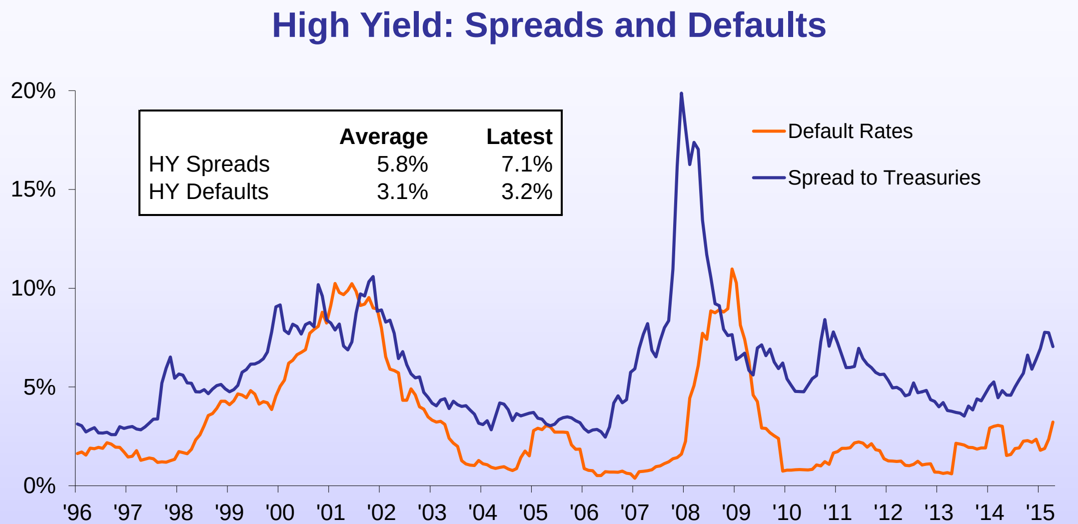
Despite Japan's negative interest rate policy announced at the end of January, the yen appreciated over 10% versus the U.S. dollar since then, as Japan's current-account surplus makes it attractive for local investors seeking a haven.

~ CNBC

FIXED INCOME

DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	3.2	2.2	2.3	3.9	4.7
Quality					
AAA/Aaa	3.4	2.2	1.9	3.4	4.3
BBB/Baa	2.5	1.9	3.8	5.9	6.7
Duration					
1-5 Years	1.7	1.8	1.4	2.0	3.5
5-10 Years	4.1	3.3	2.5	4.9	5.7
10-20 Years	7.0	2.9	5.4	8.7	6.8
Sector					
U.S. Treasuries	3.5	2.2	1.9	3.5	4.4
U.S. Agencies	1.6	1.8	1.7	2.3	3.7
Corporates	2.6	2.5	3.8	5.7	6.4
Barclays U.S. TIPS	4.5	1.5	-0.7	3.0	4.6
Barclays Aggregate	3.0	2.0	2.5	3.8	4.9
Barclays Gov Credit Long	7.3	0.4	4.8	8.5	7.6
Merrill Lynch High Yield	3.2	-3.9	1.8	4.7	6.8
CSFB Leveraged Loan	1.3	-1.1	2.2	3.5	4.0
JPM Emerging Mkt Debt Global	5.2	4.4	2.4	6.0	7.1



Default rates are defined as the par value percentage of the total market trading at or below 50% of par value and include any Chapter 11 filing, prepackaged filing or missed interest payments.

Source: J.P. Morgan; Federal Reserve

- Interest rates fell during the quarter as it became clearer that the Fed's rate tightening policy would remain on hold. Longer duration bonds performed the best during the quarter.
- High yield bonds rebounded in the quarter due to the firming of oil prices in February and an accommodative Fed in March.
- Emerging market debt also had a good quarter due to the weakening dollar and greater confidence that global growth in emerging countries would not collapse, especially in China.
- TIPS had a strong quarter partially due to falling interest rates but also because of concerns that firming commodity prices would impact inflation. Core inflation (ex food and energy) already show wage and price growth above 2%.
- Due to some stress in the energy sector, high yield bonds experienced a spread widening and pickup in defaults in 2014 and 2015. However, defaults are still close to long term averages. Overall, the demand is strong for the ongoing supply of bonds, which recorded the highest level of issuance ever in March according to S&P Capital IQ/LCD.

DeFact

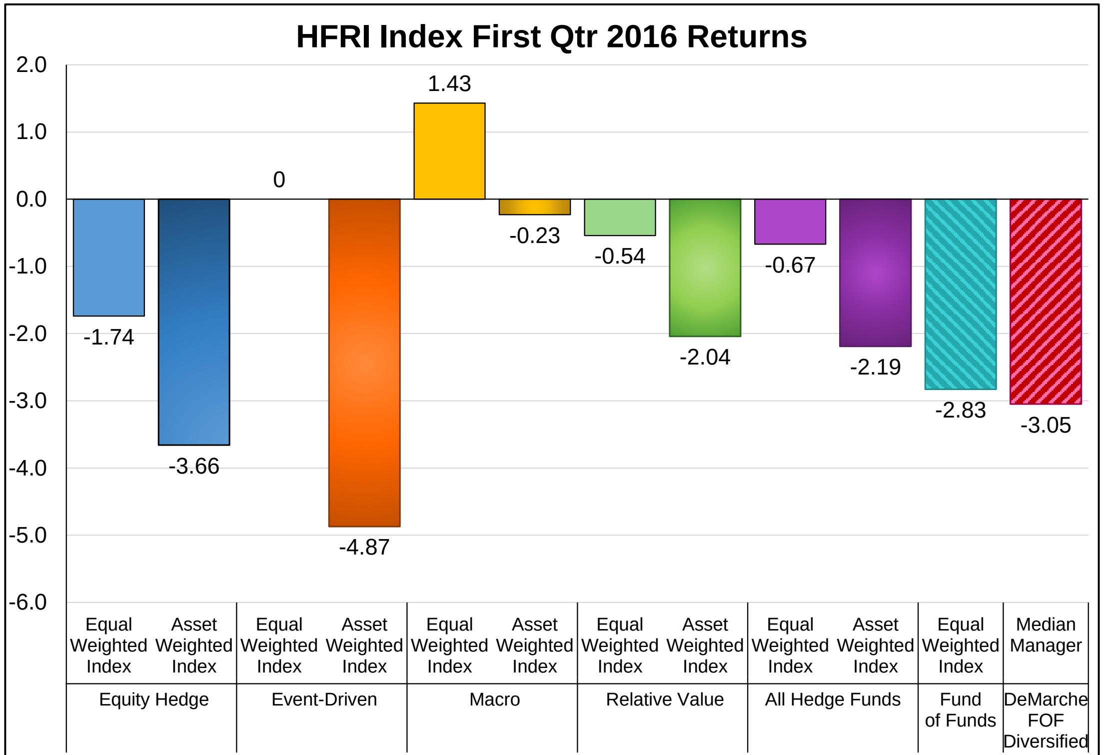
The European Central Bank made negative rates their policy, with a deposit rate of minus 0.40%. Switzerland has a rate of minus 0.75%. In Sweden, the rate is minus 0.35%. The Bank of Japan also has announced a negative interest rate of 0.01%. In total, over $7 trillion of international sovereign bonds yield below 0%.

~ Marketwatch

LESS LIQUID STRATEGIES

DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	2.2	11.8	11.9	11.9	7.6
Apartment	1.9	10.9	10.6	11.5	7.1
Industrial	3.0	14.3	13.7	13.1	7.7
Office	1.7	10.8	11.2	11.1	7.3
Retail	3.0	13.1	13.5	13.2	8.7
NAREIT (Public RE)	5.9	4.1	9.2	11.4	6.1
NCREIF Timberland	-0.3	2.9	7.7	6.6	6.6
HFR FOF Composite	-2.8	-5.4	1.9	1.3	1.5
Conservative	-2.0	-3.5	2.0	1.7	1.4
Diversified	-2.8	-5.3	2.0	1.5	1.6
Strategic	-3.6	-6.6	1.7	1.2	1.4
Bloomberg Commodities	0.4	-19.6	-16.9	-14.1	-6.2



Source: Hedge Fund Research, Inc.

- Commodity prices firmed up in the first quarter, reversing years of downward pressure. Energy prices were up in March, but were slightly negative for the quarter. Precious metals, which make up over 17% of the Bloomberg index, drove returns for the quarter as they were up over 15%.
- Real estate returns are starting to revert toward the norm of higher single digits. Going forward, core real estate managers anticipate that a greater portion of their returns will come from income.
- Hedge fund managers struggled during the quarter. Strategies that employed more risk controlled investment processes underperformed while macro strategies outperformed. The market dislocation during the quarter clearly benefitted some strategies while hurting others.
- The chart to the left shows the disparity between large funds and small funds. HFR provides returns on both the standard indexes, which are equally weighted, and an asset weighted version, which means that larger size funds have a higher weighting in the index. The takeaway is that larger funds (which tend to have more institutionalized/risk controlled processes) underperformed smaller funds for the quarter.

DeFact

Hedge funds may have taken too big a bite of Apple. Shares of Apple are one of the biggest bets among hedge funds while mutual funds managers are going the opposite direction. Apple is the one of the largest underweight holdings among mutual fund managers who view Apple's growth prospects more modestly.

~FINalternatives

DeMarche's Client Education Workshops 2016

DC Plans: Best Practices

- The DC landscape is rapidly changing and requires fiduciaries to implement a clearly defined, transparent process
- As a fiduciary, one has a heightened standard of care; "the Prudent man" rule has become a "prudent expert" rule
- A well-designed QDIA can help with retirement readiness
- Understand the impact of target date fund glide paths on plan participants

Kansas City: January 27

Future of Fixed Income

- Interest rate headwinds may require options outside of traditional fixed income yield. Real asset and non-traditional fixed income strategies provide yield and diversification benefits
- Timber, infrastructure, private real estate and unconstrained fixed income are possible opportunities

Omaha: February 24

Pension Liability & Risk

Tuesday, May 17
New York Hilton – Midtown 8:00 am – 12:00 pm

Dynamic economic and investment market environments combined with changing regulatory policies are forcing trustees to evaluate pension risk management strategies. It is imperative to balance tradeoffs between risks and opportunities to identify the most appropriate solution.

Minneapolis: March 31

Searching for Alpha

- Asset allocation and manager due diligence are critical to a successful investment program
- As central bank policies normalize, opportunities within U.S., international and emerging equity markets become easier due to reliance on fundamentals
- SRI and ESG interest has increased and strategies have provided stronger screening/performance

Chicago: April 21

Alternative Strategies

- Believe it or not, equities were once considered an alternative asset class !!
- Opportunities to harvest gains/income from less efficient spaces such as low-middle market buyouts, value added real estate, MLPs, private debt, global renewable power and more
- Diversification, income and absolute return benefits that may eclipse traditional fixed income returns