INSIGHT: IMPLICATIONS FROM "ELEPHANT IN THE ROOM" 2017 CLIENT CONFERENCE

By Timothy J. Marchesi, CIO and Portfolio Manager *September 2017*

During this year's Client Conference, titled "The Elephant in the Room," held earlier this month in Kansas City, we addressed many of the governance and investment issues impacting us as we manage our institutions' assets. These "elephant" issues are sometimes left unanswered when discussed, or avoided all together. DeMarche expressed our belief that careful consideration and decision making, not avoidance, are the keys to successful investing.

In my Market Outlook presentation, I shared the fact that I'm always being asked two "elephant-like" questions from clients:

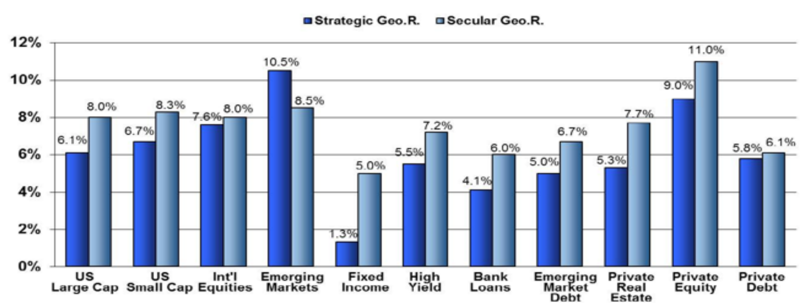
- How much higher will stocks go?
- Are there any other investment strategies we should consider?

Regarding the first elephant, I offered our odds on four scenarios for U.S. equities:

- 20%, Scenario I – "Bull market" continues and earnings grow
- 40%, Scenario II – Stocks do reach a new high, then shift to a sideways range
- 30%, Scenario III – Stocks enter a "correction", then sideways range/recovery
- 10%, Scenario IV – Other scenarios, such as a "bear" market

In response to the second question, we shared our modest five year "strategic" return assumptions for a broad array of asset classes and compared them to the long term "secular" return expectations. They are shown in the table below:

2017 Asset Allocation Inputs



Implications from the discussion of "elephant" issues, and these modest return assumptions, are that additional client actions may be necessary to best align your investment objectives, risks and opportunities to add return. These include:

1. Diversify further to include additional less-traditional asset types, such as US mid cap stocks, emerging markets stocks, bank loans, and emerging markets debt
2. Add a diverse blend of alternatives with moderate liquidity, such as private real estate, hedge funds, commodities, energy infrastructure, and REITs
3. Add liquidity premium to your portfolio by including private equity and private debt, considering your unique capital liquidity needs
4. Utilize the active management premium over full market cycles; include using a risk budget to define asset class efficiency and varying levels of alpha opportunity
5. Rebalance systematically and stick to your plan; those rebalancing back to policy targets consistently benefit from an effect of selling high/buying low while maintaining your risk profile

If you would like to receive more detailed information on our market outlook or on our discretionary consulting services, please contact Tom Woolwine, President, at (913) 384-4994 or twoolwine@demarche.com. Let's begin a conversation.

Disclaimer: The asset class and/or investment strategies described here may not be suitable for certain investors. We encourage you to work with your investment counsel to understand the risk characteristics and potential fit with your investment program.