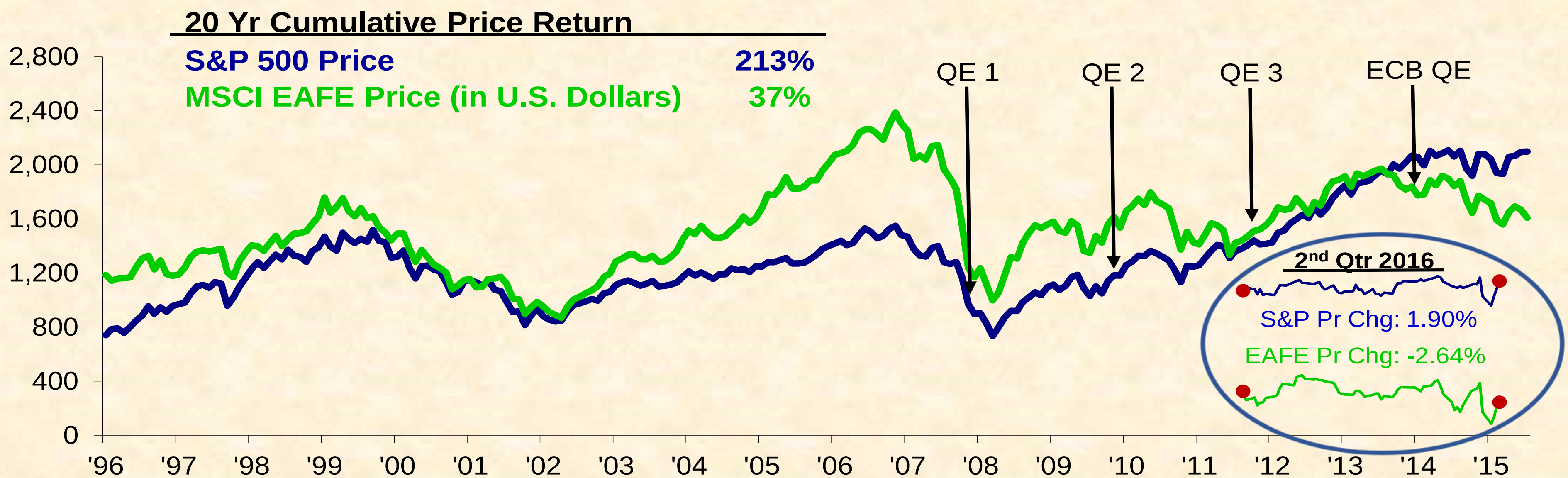
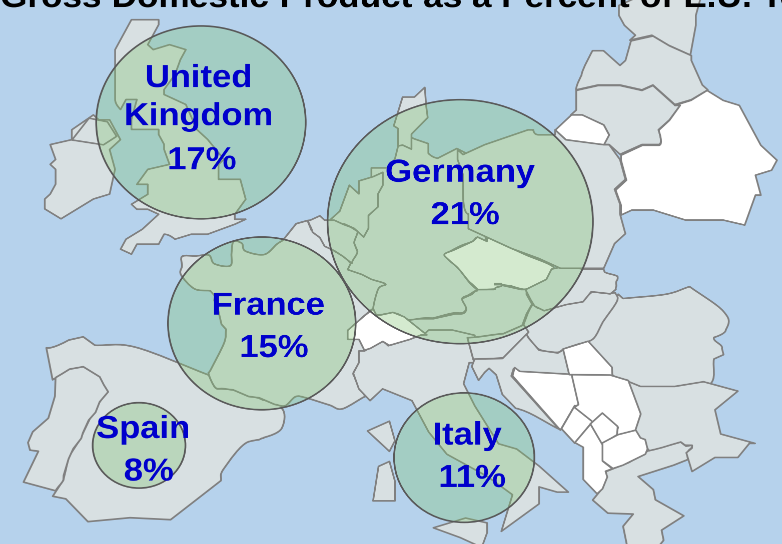
Capital Market Review

June 30, 2016

The Brexit Disruption – Much Ado About Nothing?



Gross Domestic Product as a Percent of E.U. Total



Source: International Monetary Fund

The U.K. vote to leave the European Union (E.U.) sets in motion a long period of political, economic and market uncertainty for the U.K. and E.U. Britain is the second largest economy in the E.U., after Germany, and the process will be difficult to sort out. Understandably, not long after the vote, the financial markets plunged along with the British pound. It should be noted that a weaker pound will benefit large British companies with overseas earnings.

Within days, markets subsequently rebounded across the globe. The S&P 500 finished the quarter in the black while international markets were slightly negative – a recognition that this process will be long and the "winners and losers" are not yet clear. Continue to expect global central banks to be accommodative.

As the above market index charts show, international developed markets have not kept pace with the S&P 500 since 2013. Be cognizant that in times of uncertainty, buying opportunities can arise.

BROAD MARKET OVERVIEW

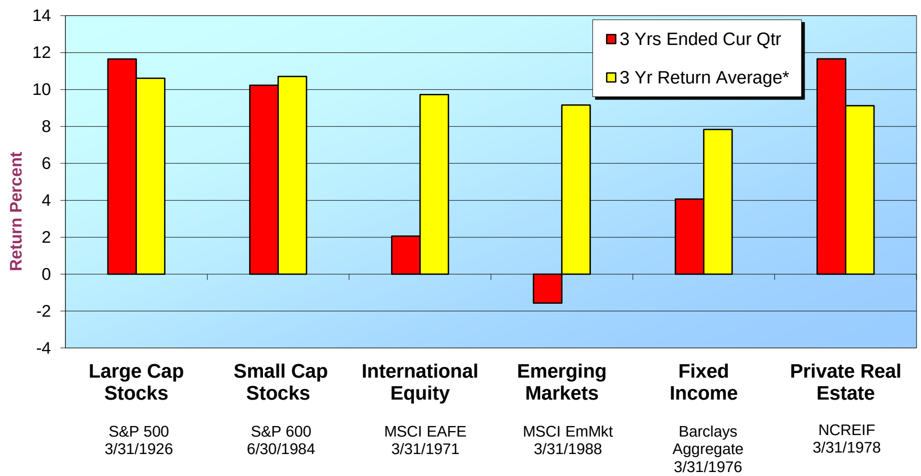
DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	1.0	-2.8	6.9	6.6	4.4
DeMarche World*	0.7	-4.2	6.2	5.3	4.5
DeMarche 3000	2.4	0.3	8.7	8.2	6.1
Russell 3000	2.6	2.1	11.1	11.6	7.4
S&P 500	2.5	4.0	11.7	12.1	7.4
DeMarche International	-1.5	-7.9	3.9	2.0	2.7
MSCI EAFE USD	-1.5	-10.2	2.1	1.7	1.6
DeMarche Bond	2.0	6.0	3.8	3.8	4.9
Barclays Aggregate	2.2	6.0	4.1	3.8	5.1
Citigroup Non-U.S. Gov't Bond	4.0	13.8	2.4	0.3	4.0
Barclays Global Aggregate	2.9	8.9	2.8	1.8	4.4
NCREIF (Private RE)	2.0	10.6	11.6	11.5	7.4
Bloomberg Commodity	12.8	-13.3	-10.6	-10.8	-5.6

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

Indicator Year Ending 6/30	2016	2015	2014	2013	Long Term Average
GDP Annual Growth Rate	1.2	3.0	2.4	1.8	3.1
Unemployment	4.9	5.3	6.1	7.6	5.9
Inflation (CPI)	1.0	0.1	2.1	1.8	3.7
10-Year Interest Rates	1.5	2.4	2.6	2.3	6.0

Three-Year Returns vs. Long Term Averages
As of 6/30/2016



*Return averages based on three year annualized returns rolling quarterly since dates above.
Source: DeMarche Research

- Despite the volatility at the end of June in response to the "Brexit" vote, returns were positive in most asset classes. The exception was international stocks, which acted negatively due to more direct exposure to U.K. and European uncertainty.

- Bond yields fell at the end of the quarter. The ten- year yield fell below 1.50% as investors purchased "safe haven" assets amid the uncertainty. The Barclays Aggregate index performed well as it contains a high percentage of Treasuries. International bonds performed even better as yields fell into negative territory for many government bonds.

- The rebound in commodity prices led to a strong double-digit quarterly return. Energy prices rebounded over 18% in the quarter. However, precious metals, such as gold and silver, lagged energy, and returned over 9% for the quarter (all in the month of June).

- The chart to the left shows the most recent three- year returns for various indexes versus average three-year returns historically. Of the public securities markets, only large cap stock returns have outpaced their average. International developed and emerging stocks have lagged due to a strengthening dollar in recent years and due to adjustments to slower global growth. Political uncertainty, such as Brexit, also is a contributing factor.

DeFact

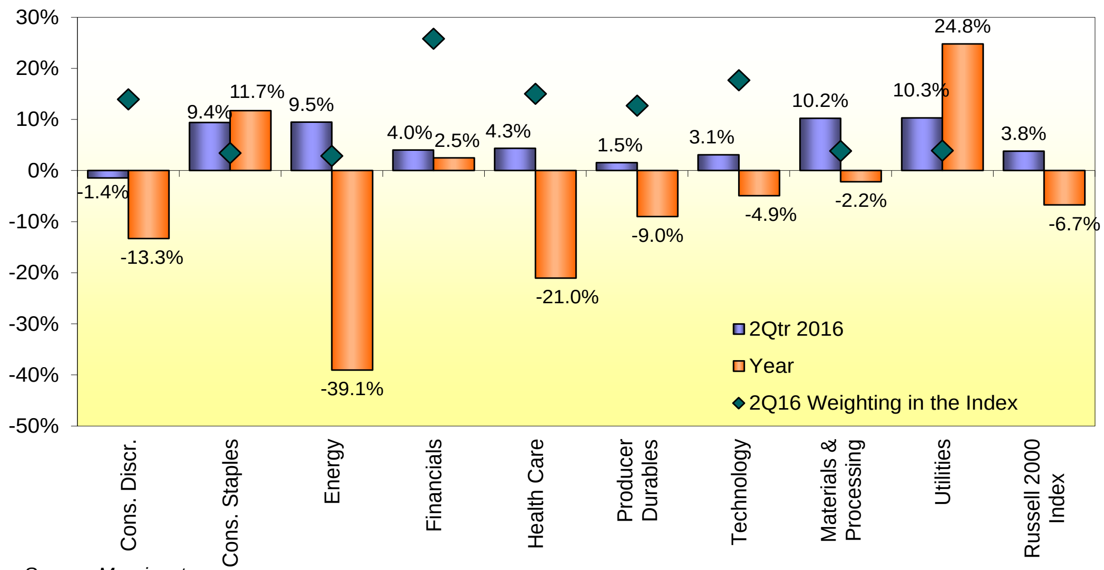
The U.S. now holds more recoverable oil reserves than either Saudi Arabia or Russia. Rystad Energy estimates that the U.S. has 264 billion barrels of oil as compared with Saudi Arabia's 212 billion barrels and Russia's 256 billion barrels. More than half the U.S. reserves are in shale oil.

DOMESTIC EQUITIES

DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	1.0	1.0	11.0	9.7	7.5
DeMarche Value	4.4	-0.8	5.7	6.2	4.4
DeMarche Aggressive	3.2	-16.4	2.5	4.1	3.3
DeMarche Defensive	2.4	2.0	9.2	8.5	6.3
DeMarche Large Cap	2.1	1.2	8.7	8.1	5.7
Large Cap Growth	0.7	2.5	11.6	10.0	7.3
Large Cap Value	4.1	-0.6	5.4	5.8	3.6
DeMarche Small Cap	3.6	-10.3	5.6	7.2	5.3
Small Cap Growth	2.7	-14.8	5.5	5.4	4.1
Small Cap Value	4.2	-6.8	5.7	8.4	6.1
S&P 500	2.5	4.0	11.7	12.1	7.4
S&P Mid-Cap 400	4.0	1.3	10.5	10.5	8.6
S&P Small-Cap 600	3.5	0.0	10.2	11.2	7.9
Russell 1000	2.5	2.9	11.5	11.9	7.5
Russell 1000 Growth	0.6	3.0	13.1	12.3	8.8
Russell 1000 Value	4.6	2.9	9.9	11.4	6.1
Russell 2000	3.8	-6.7	7.1	8.4	6.2
Russell 2000 Growth	3.2	-10.8	7.7	8.5	7.1
Russell 2000 Value	4.3	-2.6	6.4	8.1	5.2

Russell 2000 Index Sector Returns



Source: Morningstar

- Value stocks outperformed growth stocks in the quarter. The trend is evident in both large and small cap stocks, but for different reasons. Aggressive stocks rebounded in the quarter but lag defensive stocks by over 18% in the past year.
- Large cap growth stocks were weighed down by the struggling technology sector as stock prices reacted to slowing earnings growth. Large cap value stocks did benefit from strong energy stock performance, but were mostly unaffected by the “Brexit” turmoil in global financials. Large domestic financial stocks held their own compared to European financials.
- Small caps were also led by value stocks, which have outperformed growth for the quarter and the year. Small cap value stocks were led forward by the utility, energy and materials sectors, which were helped by the rebound in commodities. Small cap growth stocks were helped by the rebound this quarter in health care that have had a miserable year and have greatly influenced the 12 month returns.
- The chart at the left further shows the dichotomy in small cap stocks. Small value stocks have large exposure to financials, which have done fine over the month and year. Small growth stocks have a large exposure to health care that had a decent quarter but are down 21% for the past year.

DeFact

Thirty companies went public in the second quarter after only nine in the first quarter. 2016 is on track to be the worst year for IPOs since 2009. The pickup in activity occurred in May when 17 companies went public. The pace slowed in June as volatility increased as the Brexit vote neared.

~WSJ

INTERNATIONAL EQUITIES

DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	-1.5	-7.9	3.9	2.0	2.7
Growth	-1.1	-8.4	3.8	2.4	3.4
Value	-1.9	-12.8	2.1	0.4	1.7
DeMarche In'tl Small Cap	-2.4	-8.5	5.0	2.5	2.9
DeMarche EM	-0.7	-16.9	1.8	-1.6	3.5
MSCI EAFE Local	-0.7	-10.2	5.8	6.2	2.1
MSCI EAFE USD	-1.5	-10.2	2.1	1.7	1.6
Growth	-0.1	-4.8	4.2	3.2	2.9
Value	-2.8	-15.4	-0.1	0.1	0.2
MSCI Japan	1.0	-8.9	2.7	4.2	0.1
MSCI AC Asia-ex Japan	0.4	-12.0	2.1	0.1	5.6
MSCI Germany	-5.6	-11.6	1.1	0.0	3.1
MSCI France	-4.3	-8.9	1.8	-1.0	0.3
MSCI U.K.	-0.7	-12.1	0.7	1.7	1.4
MSCI EAFE Small Cap	-2.6	-3.7	7.3	4.8	3.6
MSCI EM	0.7	-12.1	-1.6	-3.8	3.5
MSCI All Country-ex U.S.	-0.6	-10.2	1.2	0.1	1.9

Note: DeMarche International Indexes not available at this time

Characteristics As of 6/30/2016

	S&P 500	MSCI EAFE
Index Level	$2,099	$1,608
Dividend Yield (%)	2.12	3.49
P/E Ratio	23.49	17.53

	U.S. Treas.	Ger. Bund
10 Yr. Yield (%)	1.49	-0.10

MSCI EAFE Country Weights

Japan	23.3%	Switzerland	9.3%
United Kingdom	19.6%	Germany	8.7%
France	9.6%	Other	29.6%

Sources: S&P, MSCI

- The Brexit vote disrupted the European markets far more than the Asian international markets. Interestingly, the U.K. market was down 0.7%, while markets in continental Europe, such as France and Germany, suffered larger losses. European financial stocks led the fall in the quarter.

- Asian stocks also escaped the European volatility and disruption. Japan posted positive returns. The largest Asian EM countries – China, Korea, Taiwan and India – all had positive returns of 1.3%, 0.9%, 2.4% and 4.3%, respectively.

- Emerging markets posted positive returns in the quarter. The firming up of the commodity markets helped reverse one negative effect on EM stocks. The impact of the stronger dollar versus the U.K. pound due to the Brexit volatility had little influence on EM currencies, thus abating another impediment to EM equity returns.

- The table shows a comparison of EAFE to the S&P 500 index. The uncertainty of the past few years in developed countries has moved interest rates lower and stocks cheaper than in the U.S. The U.K. is the second largest country by GDP in the E.U. after Germany and the second largest country weight in the MSCI EAFE after Japan. However, Germany, while the largest country by GDP in Europe, lags non-E.U. countries, notably Japan and Switzerland, in its EAFE country weight.

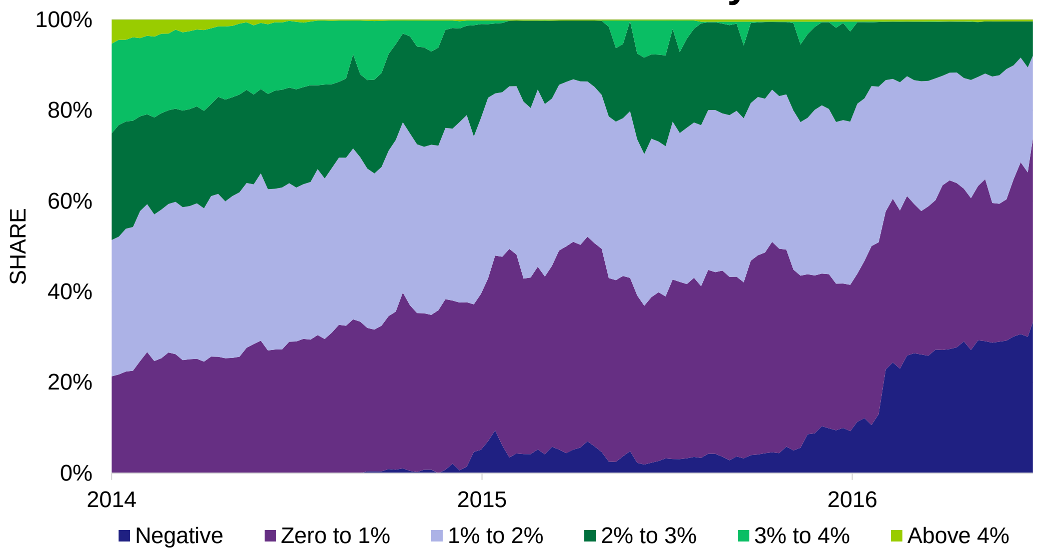
DeFact

MSCI, the keeper of indexes, decided that China "A" shares were not ready for inclusion in the Emerging Market index, despite the efforts of Chinese regulators to create new trading rules. MSCI cited the need for a period of observation to assess the effectiveness of the liquidity and transparency rules for its decision.

~WSJ

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	2.0	6.0	3.8	3.8	4.9
Quality					
AAA/Aaa	2.0	6.0	3.5	3.3	4.5
BBB/Baa	2.1	5.5	5.3	5.8	7.0
Duration					
1-5 Years	0.7	2.5	1.9	1.8	3.6
5-10 Years	2.1	7.1	4.6	4.6	6.0
10-20 Years	5.5	16.1	9.2	9.2	7.5
Sector					
U.S. Treasuries	2.0	6.2	3.6	3.4	4.7
U.S. Agencies	0.8	2.9	2.5	2.2	3.8
Corporates	2.0	6.0	5.0	5.6	6.6
Barclays U.S. TIPS	1.7	4.4	2.3	2.6	4.7
Barclays Aggregate	2.2	6.0	4.1	3.8	5.1
Barclays Gov Credit Long	6.5	15.7	9.3	9.2	8.4
Merrill Lynch High Yield	5.8	1.7	4.2	5.7	7.4
CSFB Leveraged Loan	2.9	0.9	3.0	4.0	4.2
JPM Emerging Mkt Debt Global	5.4	10.3	6.4	6.2	7.9

Global Government Bonds by Yield



Sources: BlackRock Investment Institute, J.P. Morgan and Thomson Reuters. Based on J.P. Morgan Global Developed Gov't Bond Index.

- Long duration bonds provided the best returns in the quarter. Interest rates fell during the Brexit volatility as investors sold riskier assets and purchased government debt. The U.S. Treasury ten-year yield fell from 1.74% to a low of 1.48% following the Brexit vote.

- High yield bonds also performed well as energy prices continued to rebound. Energy companies make up over 15% of the high yield index, thus the improvement helped spreads tighten within the sector.

- Investors searching for yield across the globe aided emerging market debt returns. EM bonds typically yield more than developed market bonds. As negative yields became more and more common, investors looked to selectively add EM debt.

- The chart at the bottom left shows the effect of the dramatic drop in interest rates across the developed markets. More than 70% of bonds in the developed market government indexes today have yields below 1%, with roughly a third below zero.

DeFact

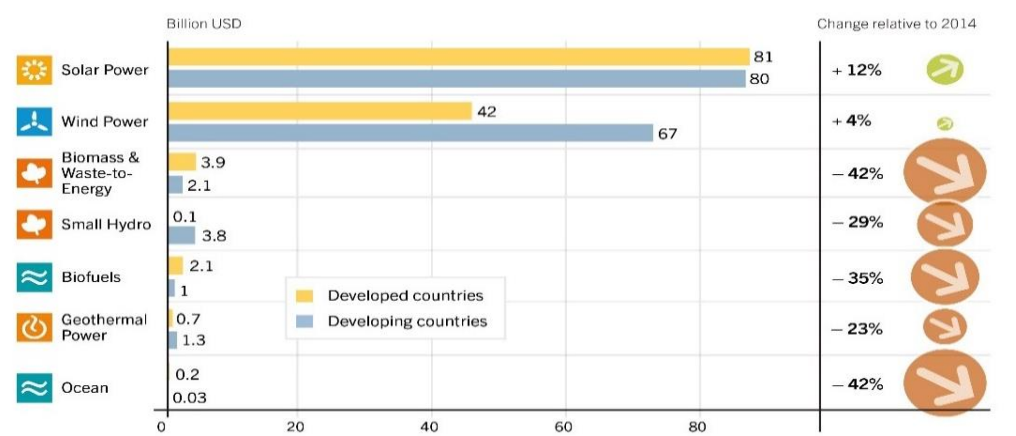
Interestingly, negative rates in Japan have led to a dramatic increase in the sale of safes. Shimachu Co., a hardware store operator, reported that safes are out of stock and the wait time is a month. At the end of June, about 40 trillion yen ($365 billion) in cash has piled up in homes across Japan.

~ WSJ, Financial Times.

LESS LIQUID STRATEGIES

INDEX	2nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	2.0	10.6	11.6	11.5	7.4
Apartment	1.9	9.7	10.4	11.0	6.9
Industrial	2.9	13.3	13.6	12.8	7.5
Office	1.7	9.3	10.8	10.5	7.0
Retail	2.2	12.2	13.1	13.1	8.6
NAREIT (Public RE)	7.4	22.7	13.1	12.3	7.0
NCREIF Timberland	1.1	3.5	7.8	6.7	6.4
HFR FOF Composite	0.6	-5.4	1.9	1.6	1.6
Conservative	0.5	-3.3	1.9	1.9	1.4
Diversified	0.5	-4.8	2.1	1.8	1.7
Strategic	0.7	-7.8	1.7	1.4	1.6
Bloomberg Commodities	12.8	-13.3	-10.6	-10.8	-5.6

Global New Investment in Renewable Energy by Technology, Developed and Developing Countries, 2015



REN21 *Renewables 2016 Global Status Report*

Source: BNEF

- Real estate continues to provide solid returns quarter after quarter. However, the returns in recent years are slightly lower than longer-term averages, due to the fading appreciation boom that occurred after the 2008-09 recession.
- Commodities had a great quarter as oil rebounded from its bottom in February. Some specific agricultural products, such as sugar, rallied in the quarter, but the much larger weighted agricultural products, such as corn and soybeans, lagged the index. Precious metals jumped on the disruption caused by the Brexit vote, but lagged in the quarter as a whole.
- Hedge funds rebounded in the quarter, but are still posting less than attractive longer-term returns. The volatility in the quarter helped some strategic oriented managers outperform.
- Another disruptive force around the globe is the drive to increase the amount of renewable energy capacity. Currently, renewables produce about 24% of global production, mostly from hydropower. As the chart to the left shows, other technologies, such as wind and solar, are now the fastest growing part of future production.

DeFact

Global clean energy investment totaled more than $329 billion in 2015. According to the International Energy Agency (IEA), $13.5 trillion of clean energy investments will take place over the next 15 years. As a result, in North America, the IEA sees wind and solar growing from 6% of capacity in 2013 to 24% in 2040. In the E.U. and Europe, the figures are 22% and 38%. In Asia-Pacific, they are 7% and 21%.

~ International Trade Admin., U.S. Dept. of Commerce

DeMarche Client Conference

September 7 - 9 at the InterContinental on the Plaza

Whether economically, politically, socially, ecologically, or interpersonally, we all must find balance in the middle of turbulence and disruption. We hope you can join us at our 33rd Annual Client Conference in Kansas City to learn more about the effects of worldwide disruption and explore how the recent events impact our world.

Dis-rup-tion

noun

1. To cause disorder or turmoil in:
2. A major disturbance, something that changes your plans or interrupts some event or process.
3. A radical change in an industry, business strategy, etc., especially involving the introduction of a new product or service that creates a new market.

This year's conference starts on the evening of Wednesday, September 7, and will run through lunch on Friday, September 9, 2016. You can expect each session to be full of insight related to the global disruptions that take over the news each night. Nothing is guaranteed except disruption; how we deal with the effects will set the tone of the global stage.

For more information, visit www.demarche.com/events or contact
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