Executive Summary

At the end of 2015, we described several themes which we believed would be important topics for investors in 2016. As we near the halfway point of the year, we thought it would be useful to provide an update on those themes. We also touch on two new themes which we believe are relevant for the remainder of the year.

<table>
<thead>
<tr>
<th>2016 Themes</th>
<th>Mid-Year Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Growth</td>
<td>We see limited possibility of a U.S. recession for the remainder the year, but also do not see much upside in growth for the balance of 2016</td>
</tr>
<tr>
<td>Europe</td>
<td>Political risk has risen in Europe due to a lack of action and reform and greater risk is on the horizon</td>
</tr>
<tr>
<td>Fed Rate Hike(s)</td>
<td>We continue to see low probability of significantly higher interest rates</td>
</tr>
<tr>
<td>Search for Return</td>
<td>Asset class valuations are still elevated and there are few markets that appear attractive</td>
</tr>
<tr>
<td>Energy Market Uncertainty</td>
<td>We believe oil prices have anticipated greater demand and supply balance. However, given the current growth backdrop globally and continued supply resilience, we do not believe fundamentals have fully caught up to prices.</td>
</tr>
<tr>
<td>Bond Market Liquidity</td>
<td>In 2016, we have been able to identify bond market dislocations that we feel have been exacerbated by illiquidity. Many of these opportunities have generated equity-like returns year-to-date.</td>
</tr>
</tbody>
</table>

New themes for the remainder of 2016

| U.S. Consumer and Housing Strength | We remain optimistic that the U.S. consumer can be a positive force for growth going forward. However, the consumer appears restrained by economic uncertainty, rising costs and weak income growth. |
| Central Bank Policies            | Global interest rate markets have been manipulated by central bank policies |

Global Growth May Disappoint

Key Takeaways at Year-end 2015: Global growth will be supportive of or undermine asset class returns in 2016, not so much depending on the absolute level of growth, but more in how that varies from investors’ expectations.

Mid-Year Update: Realized growth for most major economies during the first half of the year was largely in line with expectations. Fears of a recession, which were prevalent in January and February, have largely abated. As a result, performance for global equity markets has been relatively flat while most fixed income markets have generated strong results due to falling global interest rates. We see limited possibility of a U.S. recession for the remainder the year, but also do not see much upside in growth for the balance of 2016. Investors should also be mindful of growth in China which continues to slow.
Global Growth May Disappoint - continued

**Portfolio Strategy for the Remainder of 2016:** We would encourage investors to remain diversified and avoid reaching for yield or return in ways inconsistent with long-term objectives or risk tolerance. Equity market valuations, particularly in the U.S., remain elevated and yields across most fixed income markets are relatively unattractive. While low bond yields may tempt investors to reach for additional return, we believe it is critical for investors to be aware of whether or not they are getting paid to take risk. For example, risk premiums in U.S. equity markets are low while high yield and emerging market debt markets are offering risk premiums which are in-line with historical averages.

The European Backdrop May Again Drive Markets

**Key Takeaways at Year-End 2015:** Political risk is rising in Europe due to a lack of reforms and the influx of refugees.

**Mid-Year Update:** Originally thought to be a late-2016 or 2017 item, the “Brexit” referendum is now scheduled for June 23rd. While polling results are close and there are many undecided voters, the current expectation is that Britain is staying in the European Union. A British exit from the EU would likely result in increased volatility across global capital markets. Beyond the U.K. referendum, refugee absorption issues coupled with almost a lost decade of growth have exacerbated political polarization trends across Europe.

**Portfolio Strategy for the Remainder of 2016:** Despite significant positive sentiment among professional and individual investors in favor of U.S. dollar strength, the dollar has not appreciated for almost 18 months relative to other developed market currencies and is actually down against the yen over the last year. Periods of dollar strength in the last couple of years have served to undermine U.S. exports and growth, subsequently weakening the rationale for a strengthening dollar. Negative sentiment towards Europe for its economic and political travails has served to keep valuation levels modest for many globally competitive firms. We believe investors focused on the long-term should be more constructive on non-U.S. equity investments relative to the U.S. equity market.

Despite The Fed Rate Hike, Do Not Expect Much Change Further Out On The Yield Curve

**Key Takeaways at Year-End 2015:** Expect continued downward pressure on the long-end of the U.S. yield curve in 2016.

**Mid-Year Update:** Pressure on the long-end of the yield curve remains as 10-year and 30-year U.S. Treasury yields are 65 and 58 basis points lower, respectively, through June 10, than they were at the start of the year. While U.S. interest rates are low by historical standards, they remain among the highest across developed country markets. Most notably, U.K. and Germany interest rates hit all-time lows in early June. We believe this yield advantage will result in continued demand for U.S. Treasuries.
Despite The Fed Rate Hike, Do Not Expect Much Change Further Out On The Yield Curve - continued

**Portfolio Strategy for the Remainder of 2016:** We continue to encourage investors to maintain an exposure to investment grade bonds as this allocation can act as a store of wealth and a source of portfolio diversification. As we have said for several years, core fixed income returns might be weak going forward but they may still beat many other higher risk asset classes. While there is the potential for additional rate hikes from the Fed for the remainder of the year, we believe the long end of the U.S. yield curve could remain low given negative rates in Europe, sluggish global growth and subdued inflation.

**The Search For Return And Yield Continues**

**Key Takeaways at Year-End 2015:** Asset class valuations are still elevated and the few public markets that appear attractive (e.g., emerging market equity) have challenges to overcome.

**Mid-Year Update:** For a brief period in the first quarter, valuations across many asset classes were attractive as equity and credit markets sold-off to start the year. However, a significant rally in risk over the last four months has pushed valuations back to unattractive levels. High yield spreads, for example, are currently trading around 550 basis points after widening out to more than 800 basis points in mid-February.

**Portfolio Strategy for the Remainder of 2016:** We believe investors would benefit from taking an opportunistic approach that allows them to take advantage of market dislocations. Although February’s dislocation was brief, we believe investors should seek to take advantage of future market declines. Should investors be unable or unwilling to be more opportunistic, we believe investors may want to position their portfolios more defensively by holding high quality fixed income which can preserve investor capital and dampen downside outcomes. Investors who can accept some illiquidity may want to allocate to private assets, such as real estate lending investments, which continue to offer attractive risk premiums.

**Uncertainty In The Oil / Energy Market Continues**

**Key Takeaways at Year-End 2015:** The fundamental backdrop for energy prices remains challenging as global supply remains robust.

**Mid-Year Update:** After bottoming at $26/barrel in February, WTI crude oil prices bounced back to $50/barrel. Although the recovery off the lows is impressive, oil prices remain down more than 50% from their 2014 levels. While U.S. production has slowed, the pace of the decline has been much slower than many had anticipated. Further, production from many countries outside the U.S. remains near peak levels and oil inventories in the U.S. remain at record highs. A further increase in oil prices is possible, but in our opinion, we do not believe a full recovery in oil prices will occur until there are greater signs of demand and supply balance.
Uncertainty In The Oil / Energy Market Continues - continued

**Portfolio Strategy for the Remainder of 2016:** As we have done for several years, we continue to recommend that clients divest commodity futures allocations. Contango in futures markets continues to detract return as evidenced by the fact that oil spot prices are up 34% since the beginning of the year, but the total return for oil futures is just 9% over the same time period\(^1\). While the opportunity set in commodity markets is slightly less attractive today, we continue to believe that the best way to take advantage of the energy sector dislocation is by investing in private debt and equity vehicles with long time horizons.

**Bond Market Liquidity Remains An Important Issue**

**Key Takeaways at Year-End 2015:** Bond market liquidity continues to have an impact on investors’ portfolios.

**Mid-Year Update:** We continue to see bouts of illiquidity in the bond market as evidenced by prices “gapping” lower (i.e., falling significantly in price in a short period of time). Dealer balance sheets continue to shrink and are now just a fraction of what they were pre-crisis\(^2\). CLO liabilities and midstream energy credit were two pockets of the credit markets which dislocated earlier this year, partially as a result of deteriorating bond market liquidity. We expect to find additional investment opportunities in credit markets as a result of poor bond market liquidity.

**Portfolio Strategy for the Remainder of 2016:** As we have already pointed out, we believe investors should be opportunistic in nature when investing in credit markets. Should an investor’s governance structure prohibit their ability to act swiftly, investors may want to consider utilizing investment managers who can exploit price dislocations resulting from the illiquidity in the bond market. As always, investors should also examine liquidity needs and, if necessary, consider making adjustments to their fixed income portfolios while market volatility remains relatively low.

**U.S. Consumer and Housing Strength Should Keep U.S. Growth Positive**

**Key Takeaways:** The U.S. consumer appears to be in relatively good shape as the labor market continues to improve, inflation remains low and, despite rising recently, gas prices remain relatively low. Although brick-and-mortar retailers have struggled recently, online retailers such as Amazon have more than made up for the decline experienced by traditional retailers. Within the labor market, the jobless rate continues to move lower, although this is partially the result of a declining labor force participation rate. The U.S. housing market also continues to show signs of strength as new home sales, existing home sales, and housing starts have all remained steady or improved in recent months. Further, housing demand should remain strong as mortgage rates remain near multi-year lows and banks are gradually easing lending standards.

\(^1\)Based on the S&P GSCI Crude Oil Spot Price (+33.9%) and Total Return (+9.2%) Indexes from 1/1/2016 to 6/10/2016.

\(^2\)Dealer balance sheets are approximately 83% smaller than they were prior to the global financial crisis.
U.S. Consumer and Housing Strength Should Keep U.S. Growth Positive - continued

**Portfolio Strategy for the Remainder of 2016:** Strength in the U.S. consumer and housing sectors should help growth remain positive for the remainder of the year. As a result, credit markets may continue to move higher. Although valuations in high yield and banks loans are not overly attractive, returns for the remainder of the year could be modestly positive assuming continued strength in the consumer and housing markets help growth remain positive.

Central Bank Policies Continue to Distort Financial Markets

**Key Takeaways:** Central banks across many developed markets continue to look for ways to stimulate economic growth. Recently, the European Central Bank (“ECB”) began purchasing investment grade corporate bonds as part of its stimulus package which we believe will continue to put pressure on corporate bond yields that are already at historically low levels. Currently, European corporate bond yields are below 1% and several high quality corporate borrowers in both Europe and Japan have been able to issue debt with 0% coupons. Government bond yields in many developed countries remain negative, in some cases out to 10-years on the yield curve. We remain troubled by the determination of central banks to focus on monetary measures when they are unlikely to generate real growth. In our view, growth will not improve without structural reform and fiscal policy measures. Until there is a change in direction, we appear locked in a downward interest rate spiral as central banks inject leverage into the system which undermines growth and, therefore, leads central banks to be motivated to inject more leverage.

**Portfolio Strategy for the Remainder of 2016:** Investors remain yield starved and continue to look for safe-haven assets. Investors should avoid dedicated non-U.S. developed fixed income mandates given the lack of yield and, in the case of unhedged mandates, the potential for significant currency volatility. Absent fiscal and structural reforms, growth may remain weak in Europe and Japan. While empirically there is little-to-no correlation between economic growth and equity market returns, continued weakness in developed markets may limit potential equity market upside. Investors may also want to explore fixed income markets which have benefitted less from central bank easing, such as municipal bonds and emerging market debt.
Performance Information and Return Expectations
The analysis contained in this document may include projections of long-term return and risk expectations. There is no guarantee that the projected returns or risk will be realized. The projections are based in part on historical performance of various asset classes, and past performance is no guarantee of future performance. The projections include assumptions, including those regarding risk and return. These assumptions are used for modeling purposes only and may not be realized. Because the analysis is based on assumptions and projections, there can be no warranties or guarantees.