GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

The Asset Allocation Advisor

Perspectives on Potential Asset Class Returns, Risks and Portfolio Positioning

Eric J. Weigel, Managing Partner

March 2016

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Key Recommendations – March 2016

- **Investor risk aversion remains in the Extreme Risk Zone, but it's still too early to indiscriminately enhance exposure to risk assets -** we recommend a defensive portfolio risk profile

- **Major Asset Class Exposures:**
  - **Overweight:** International Developed Mkt Stocks, EM Stocks, EM Debt, Cash
  - **Underweight:** US Bonds, Commodities

- **Relative to a 60/40 portfolio we recommend 56% in stocks, 33% in bonds, 3% in alternatives and 8% in cash -** view cash as a tactical weapon

- **Long-term investors face three main difficulties:**
  - **Below-average expected returns** to all major asset classes due to high starting valuations, lower growth and rock bottom fixed income yields
  - **Higher expected capital market volatility** as monetary policy continues to lose effectiveness
  - **Lack of effective hedging of equity risk** with long-duration high quality bonds offering the only inexpensive form of true diversification

- **Key questions facing multi-asset class investors:**
  - **Is the recovery in Commodities for real?** *TOO EARLY TO TELL. AN INCREASE IN INFLATIONARY EXPECTATIONS WILL BE OUR SIGNAL TO INCREASE EXPOSURES. WE ARE NOT THERE YET*
  - **Will the USD keep depreciating?** *NO, THE FED WILL PROBABLY HIKE RATES AGAIN IN 2016. WE DO NOT EXPECT THE FED TO RESORT TO NEGATIVE RATES. WE EXPECT THE USD TO MOVE WITHIN TIGHT BANDS FOR THE EST OF 2016*
  - **Are bonds worth holding?** *YES, AS A WAY TO HEDGE AGAINST ADVERSE EQUITY MARKET CONDITIONS. THE BEST AND MOST INEXPENSIVE HEDGE AGAINST EQUITY MKT RISK ARE TREASURIES. LOOK TO DIVIDEND GROWTH STOCKS AND REITS AS INCOME GENERATORS*
  - ***Is BREXIT likely to happen?*** *NO, BUT THE UNCERTAINTY AROUND THIS ISSUE WILL CREATE TEMPORARY EXCESS VOLATILITY IN EUROPEAN CAPITAL MARKETS*

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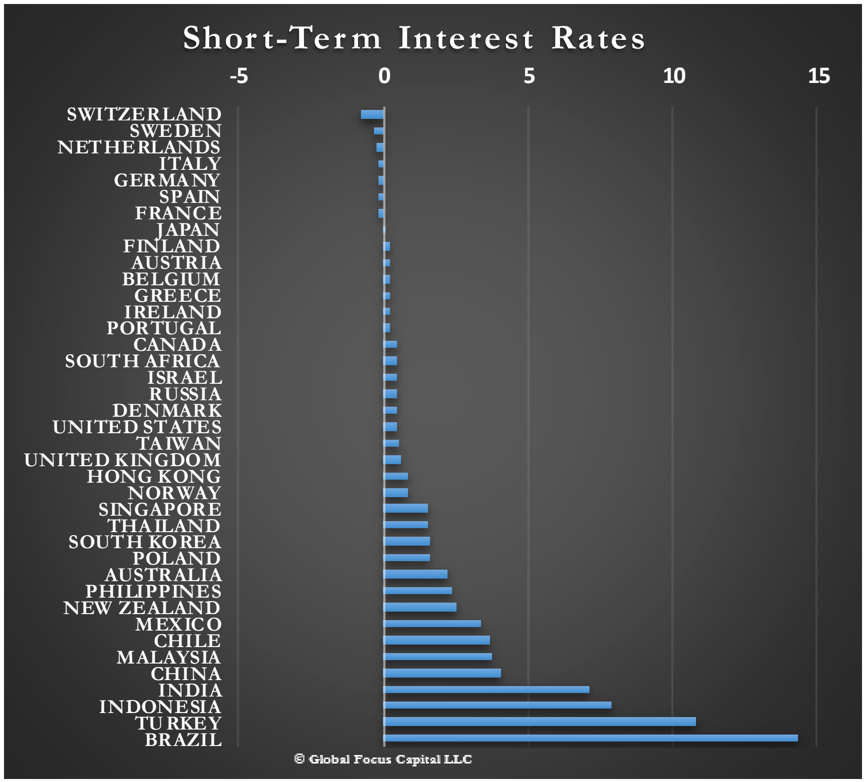
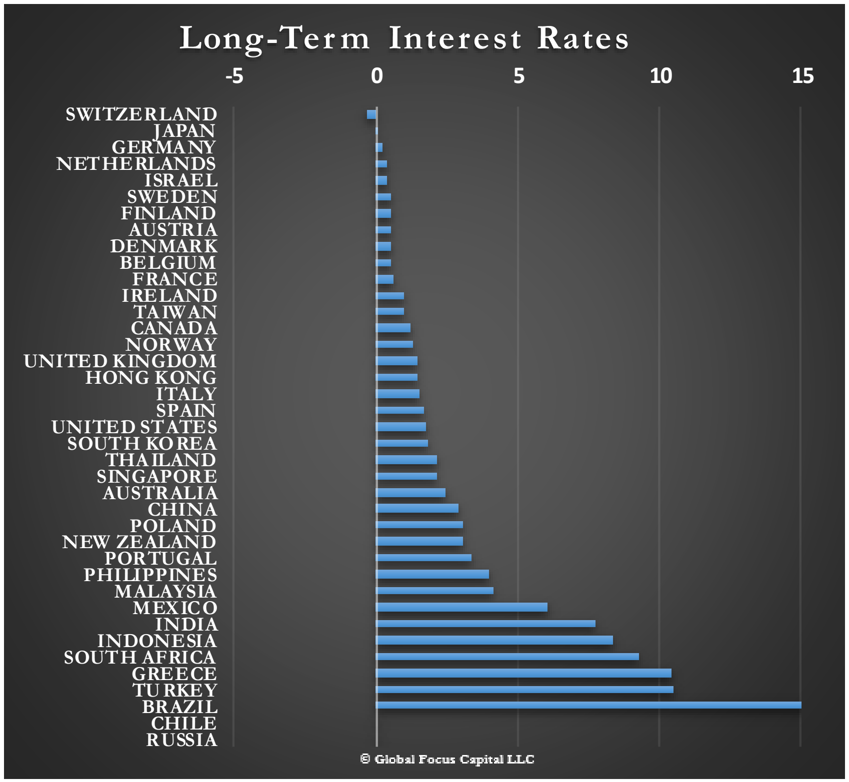
Capital Market Context

Macro Environment: Interest Rates

- Current rates are significantly below historical norms both on the short and long-end of the yield curve
- The gap between developed and emerging market interest rates is quite wide and reminiscent of the early days of investor interest in emerging market investing
- It is highly unusual to see negative short-term rates but several European markets are currently living in that scenario.
- The negative rates are reflective of poor global growth conditions





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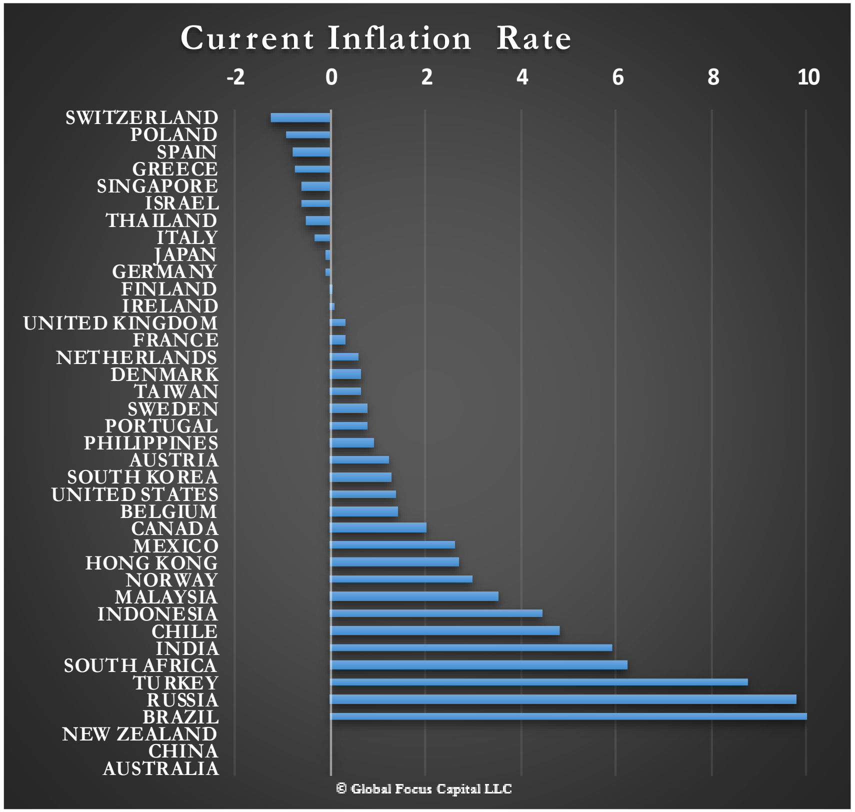
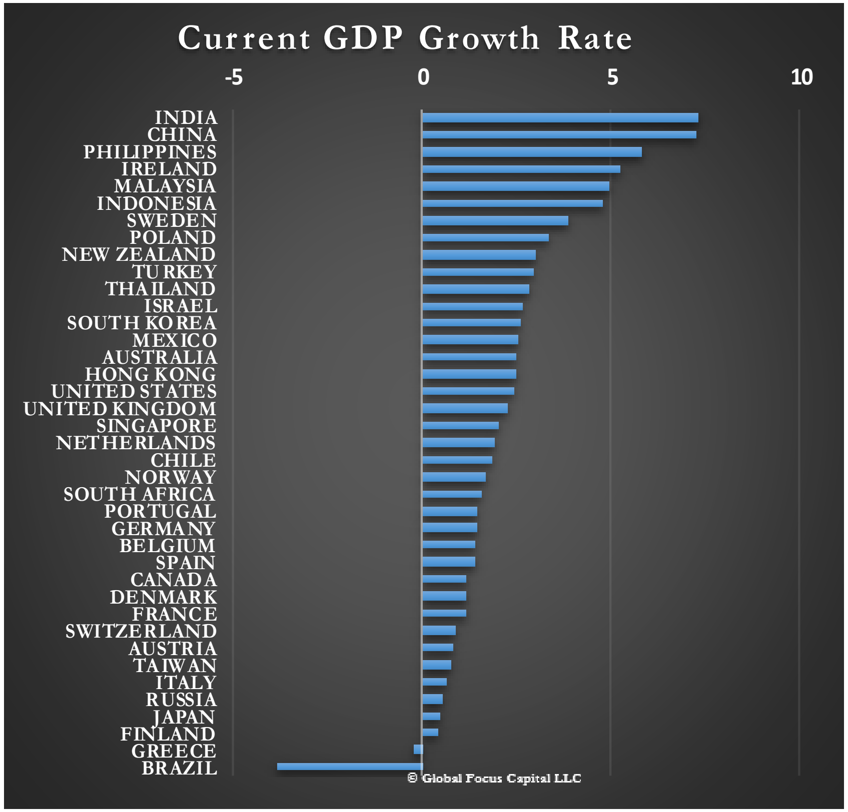
Macro Environment: Inflation and Growth

- Deflationary pressures are clearly seen in select European nations
- Several of these emerging markets have experienced severe currency depreciation further exacerbating import price pressures
- GDP growth expectations for 2016 may prove optimistic for developed nations. If commodity prices recover, EM growth will surprise on the upside





Macro Environment: Changing Interest Rate Conditions

- Term structure slopes have been trending down implying lower future economic growth
- Could rising rates signal a positive outlook for risky assets such as equities?
  - We have seen rising rates in resource-oriented countries such as Australia, Brazil, Mexico and South Africa

INTEREST RATES	SHORT-TERM	2 YEAR	10 YEAR	TERM SPREAD	SPREAD TO US - ST	SPREAD TO US - 1O YR	1 MO CHG IN 10 YR YIELD	12 MO CHG IN 10 YR YIELD
DEVELOPED:								
AUSTRALIA	2.00%	1.77%	2.40%	0.63%	1.68%	0.67%	-0.18%	2.01%
CANADA	0.46%	0.51%	1.19%	0.68%	0.14%	-0.55%	-0.03%	-0.11%
EUROZONE	-0.56%	-0.56%	0.11%	0.67%	-0.88%	-1.63%	-0.22%	-0.18%
JAPAN	-0.09%	0.54%	-0.07%	-0.61%	-0.41%	-1.80%	-0.16%	-0.40%
SWITZERLAND	0.00%	-1.05%	-0.45%	0.00%	-0.32%	-2.19%	-0.18%	-0.45%
UK	0.51%	0.31%	1.34%	1.02%	0.19%	-0.40%	-0.22%	-0.46%
US	0.32%	0.78%	1.74%	0.96%			-0.19%	-0.26%
EMERGING:								
BRAZIL	13.96%	14.37%	15.15%	0.78%	13.64%	13.41%	-0.32%	2.83%
CHINA	2.26%	2.50%	2.91%	0.41%	1.94%	1.17%	0.02%	-0.48%
INDIA	0.00%	7.42%	7.62%	0.20%	-0.32%	5.88%	-0.02%	-0.16%
KOREA	1.47%	1.47%	1.79%	0.32%	1.15%	0.05%	-0.19%	-0.57%
MEXICO	3.98%	4.28%	6.09%	1.81%	3.66%	4.36%	0.07%	0.46%
RUSSIA	9.41%	9.46%	9.34%	-0.12%	9.09%	7.61%	-0.59%	-3.87%
SOUTH AFRICA	6.94%	8.30%	9.39%	1.09%	6.62%	7.66%	0.22%	1.79%
TAIWAN	1.63%	0.37%	0.86%	0.49%	1.30%	-0.88%	-0.13%	-0.73%

Macro Environment: The Regional Picture

CATEGORY	NORTH AMERICA	EUROPE	JAPAN	EMERGING MKTS	FRONTIER MKTS
GROWTH	BELOW TREND. MODERATING BUT STEADY	SLOW WITH DOWNSIDE RISK	CAME CLOSE TO A RECESSION IN 2015. STRONGER YEN IS NOT GOOD FOR GROWTH	HIGHLY VARIABLE BUT COULD SURPRISE IF COMMODITIES RECOVER	VOLATILE. DEPENDANT ON GLOBAL GROWTH, COUNTRY SPECIFIC
INFLATION	LOW FOR NOW, COULD SEE A SHOCK IF COMMODITY PRICES RECOVER	LOW, SEEING DEFLATION. PLENTY OF SLACK CAPACITY	DEFLATIONARY. WIDE GDP OUTPUT GAP.	UNDER CONTROL. RECOVERING CURRENCY COULD OFFSET PRESSURES	COUNTRY SPECIFIC DEPENDING ON FOREIGN TRADE BALANCE
MONETARY	GETTING TIGHER. EXPECT FED FUNDS AT 1% BY YEAR END (LOWER EXPECATION). BELOW TAYLOR RULE	VERY LOOSE BUT HOW LONG CAN YOU GO WITH NEGATIVE RATES? NOT LEADING TO MUCH GROWTH	LOOSE & STAYING LOOSE FOR A LONG TIME. DO NOT EXPECT ANY REAL CHANGES IN 2016	CONSERVATIVE IN HIGH INFLATION COUNTRIES. CENTRAL BANKS HAVE BEEN PROACTIVE IN EM	NORMAL. REACTIVE TO FX MARKET CONDITIONS
FISCAL	HAS SLOWLY DETERIORATED DESPITE ECONIOMIC RECOVERY. SIGNIFICANTLY WORSE OFF THAN PRE FIN CRISIS	BETTER THAN THE US AND JAPAN. STEADY RATIO OF DEBT/GDP AROUND 90%	POOR AND SIGNCANTLY HIGHER THAN 10 YEARS AGO. STEADILY DETERIORATING	MUCH BETTER THAN IN DEVELOPED MARKETS. HIGH REAL RATES DISCOURAGE BORROWING	HIGHLY COUNTRY SPECIFIC
UNEMPLOYMENT	HAS COME DOWN TO 4.5% BUT LABOR PARTICIPATION IS LOW DUE TO STRUCTURAL ISSUES	STUCK AT HIGH LEVELS ABOVE 10%. SIGNIFICANTLY HIGHER IN PERIPHERY COUNTRIES	TRENDING DOWN IN LAST COUPLE OF YEARS. AROUND 3.5%	OFFICIAL STATISTICS PAINT A STEADY EMPLOYMENT PICTURE BUT HOW MUCH UNDER-EMPLOYMENT IS THERE?	HIGH. NORMAL. LABOR COST ADVANTAGE PERSISTS
OTHER KEY ISSUES	NOVEMBER US ELECTIONS. TRUMP? CORP INVERSIONS. USD STEADY. OIL PATCH DEFAULTS	MIGRANT ISSUE. DEBT MGT IN SECOND TIER. STRUCTURAL UNEMPLOYMENT, BREXIT?	YEN APPRECIATION. AGING POPULATION. POLICY INEFFECTIVENESS.	YUAN NOW PART OF IMF SDR BASKET IMPLIES CURRENCY DEPRECIATION, SLOWING GROWTH	CO-DEPENDENCY WITH GLOBAL ECONOMIES, POLITICAL STABILITY
OVERALL ASSESSMENT	MILDLY POSITIVE ABOUT 2016. 2.5% GDP GROWTH IS ATTAINABLE	UNCERTAIN, 2% GDP GROWTH IN 2016 IS A STRETCH	AT RISK IF YEN APPRECIATES SIGNIFICANTLY	LESS PESSIMISTIC AS COMMODITY MKT'S STABILIZE	MILDLY NEGATIVE WITH LOTS OF UNCERTAINTY.
GRADE	B	B-	C	C *(UPGRADE)*	D

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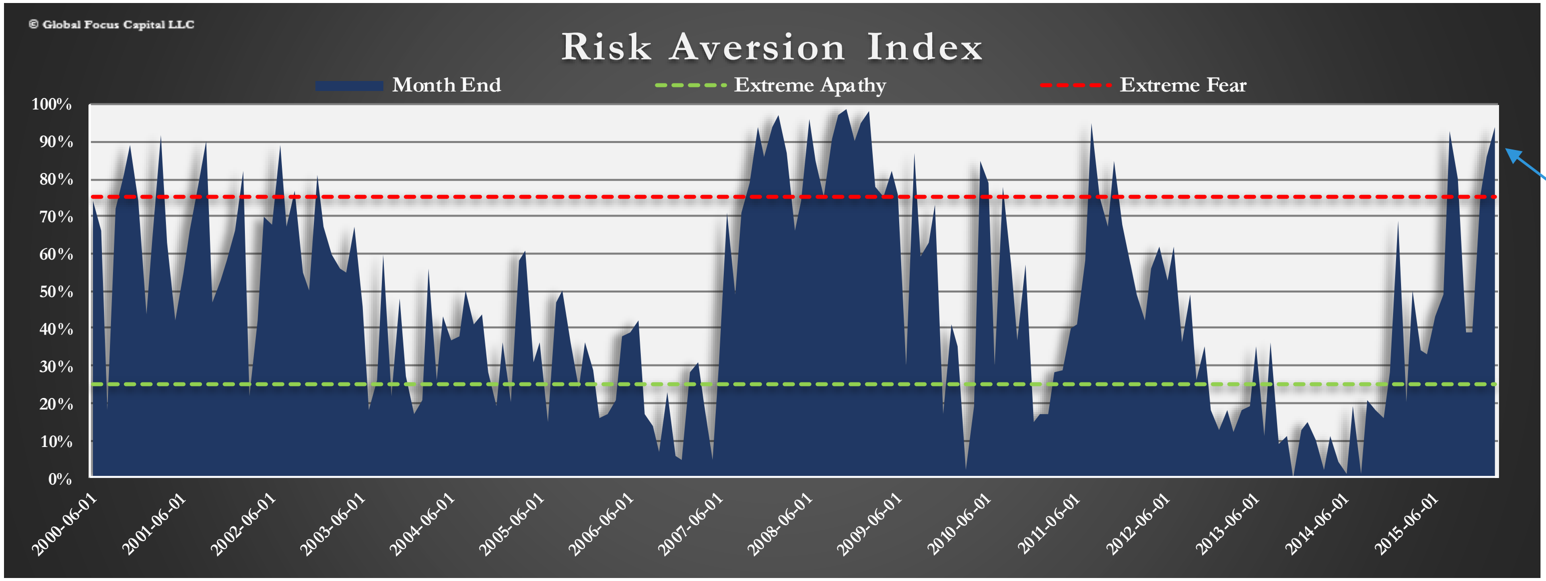
Investor Risk Aversion Assessment

- Our investor risk aversion is still in the **Extreme Risk Aversion Zone** (reading of 94%)
- Remaining in the Extreme Risk Aversion Zone for this long without a major macro-economic or market related blowup is unusual
  - Investors seem fixated on talking about negative macro issues
- While we are still recommending defensive portfolio positions we are getting ready to deploy capital as investors loose some of their fear



Do the fundamentals justify such levels of fear?

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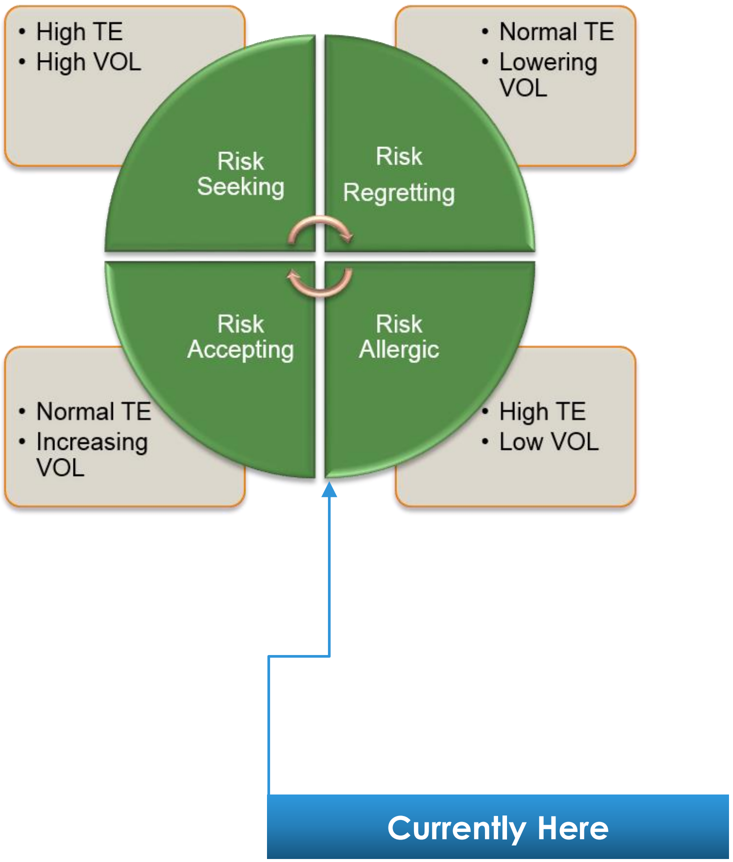
Investor Risk Aversion Assessment: Short-Term Portfolio Positioning Implications

- Based on our research it is **too early to aggressively raise the exposure to risky assets**
  - Typically extreme risk regimes persist for a couple of months
  - Expect the high level of risk aversion to subside soon as macro conditions and commodity markets stabilize
- **Our short-term recommendation:**
  - Be ready to deploy cash as investor risk aversion comes down
  - Marginally increase portfolio volatility
  - If you are benchmarked to an index, raise your tracking error
- **Our long-term recommendation:**
  - Assuming unchanged fundamentals, ignore the noise and look for extreme bargains
    - Maybe EM equities?



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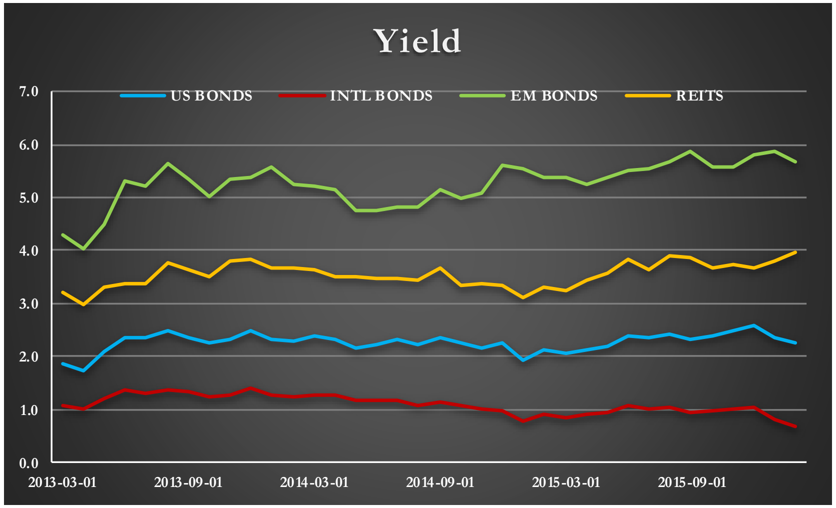
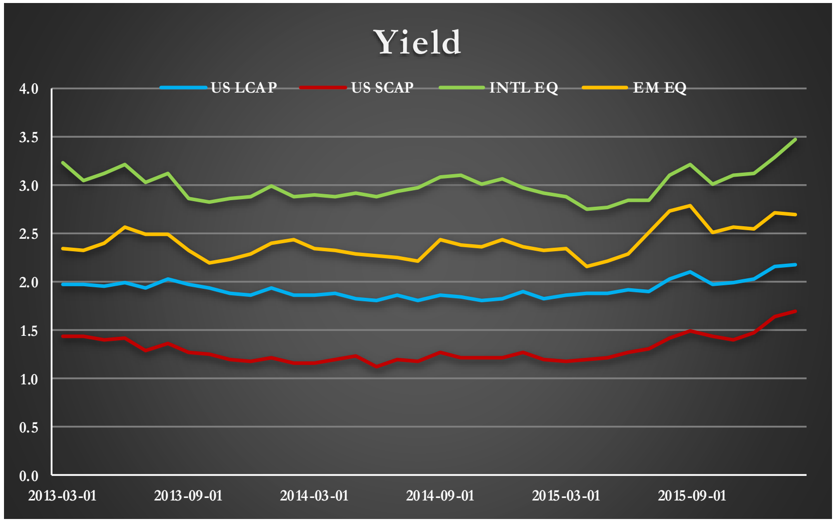
Asset Class Fundamental Trends

Diminished Income Potential

- Getting yield requires taking significant credit and currency risk
  - Market participants do not seem in the mood to take a lot of credit risk at the moment
  - Best yields are in Emerging Market Debt
- Yields remain anchored by loose monetary policy and below-average inflation
- Equity market yields have remained flat in recent years as stocks have generally appreciated
  - Developed and Emerging Market stocks offer the highest current yields
- REIT yields are trending higher (close to 4%). REIT asset values are also benefitting from a global revival in property prices





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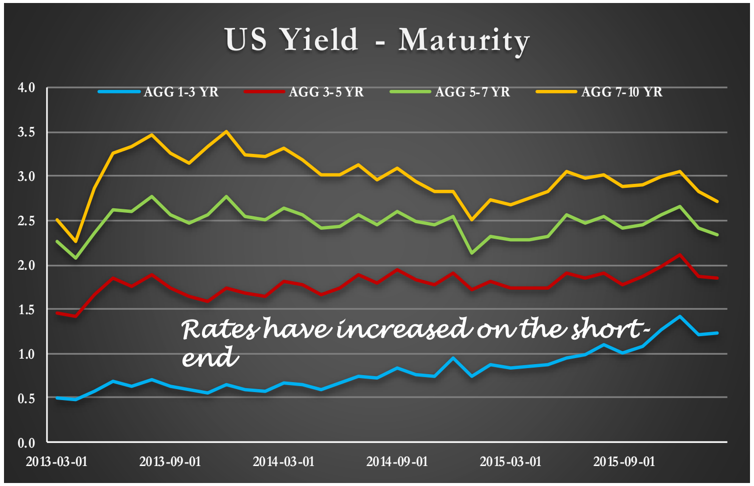
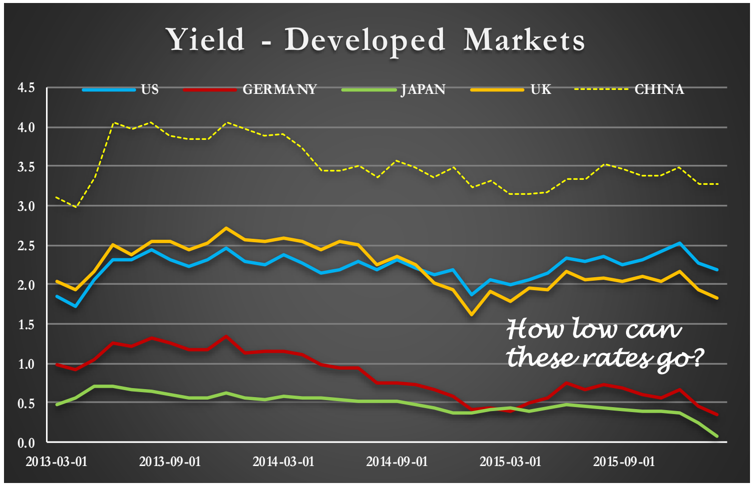
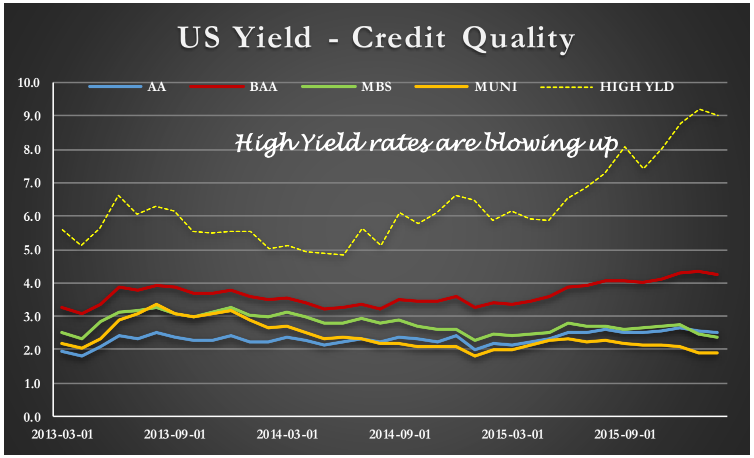
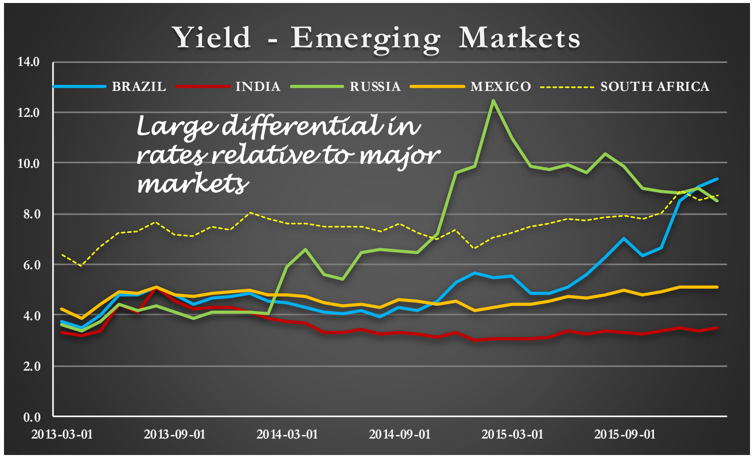
Getting yield requires taking significant credit as well as currency risk









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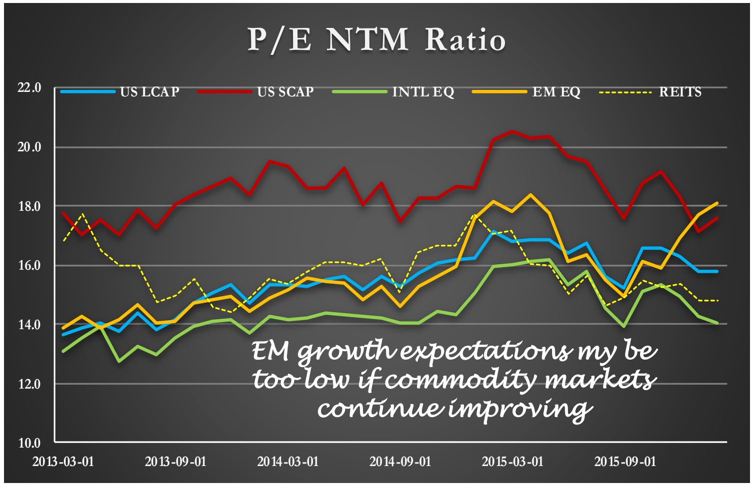
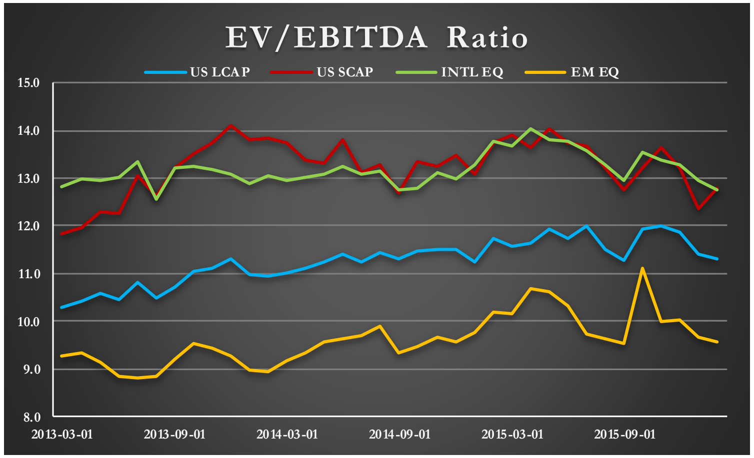
Equity valuations remain stretched but are converging

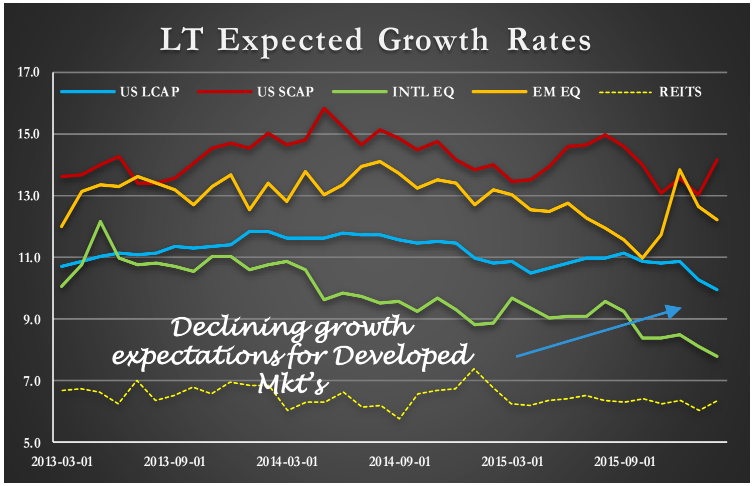
- Valuations have been creeping up over the last few years
- While stocks have benefitted from an earnings rebound (of the low in 2009) returns have disproportionally benefited from multiple expansion
- At the moment there is significant clustering of valuations (all a bit high) among US and International stocks
- EM stocks look cheapest in terms of EV/EBITDA multiples
- Based on expected NTM growth rates, EM equities do not look cheap but growth expectations will improve as commodity markets stabilize

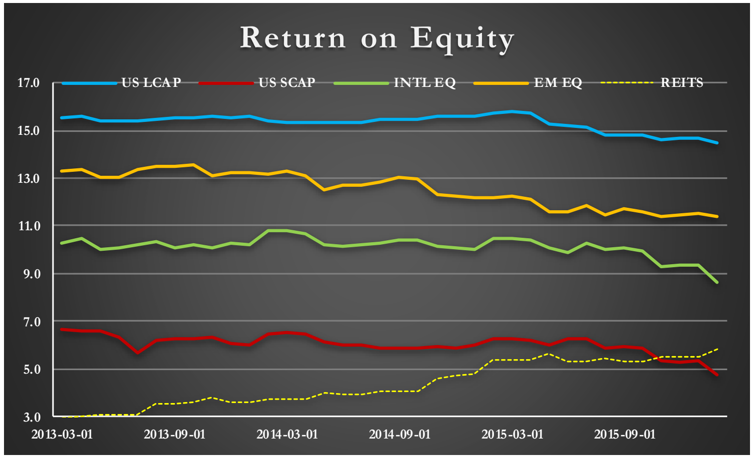




We are in a low growth environment but profitability remains strong and steady

- Long-term EPS growth projections rank small cap US as the highest growth area followed by EM equities
- International equities are projected to grow more slowly than US stocks
- US large cap equities remain the most profitable (in terms of ROE's) sub-asset class followed by EM equities
- US small cap while expected to grow the most also shows the lowest profitability





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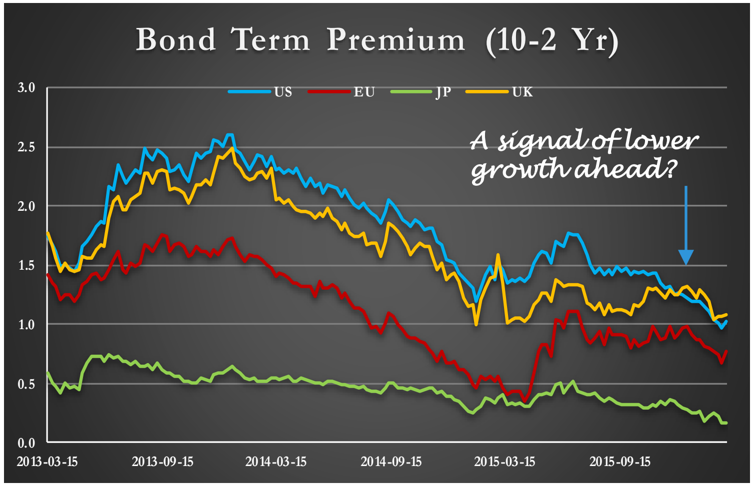
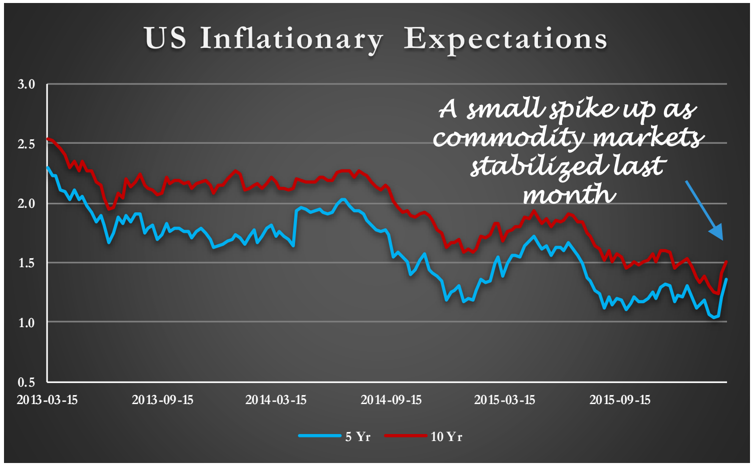
Living in a deflationary world requires new thinking

- The bond term premium for the major markets remains positive but it has been trending down

- A positive bond term premium has typically been positively related to future economic growth

- Inflationary expectations are low but spiked up last month as commodity markets continued stabilizing





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Asset Class Performance Summary

Asset Class Performance Summary

- Risky assets have recovered nicely in the last few weeks
- The recovery has been especially strong in EM equities and commodities
- Fixed income is still out-performing equities but the gap has narrowed significantly as macro conditions seem a bit less uncertain
- International Fixed Income has been strong in large part due to currency gains. Income potential remains sub-par at 40 bp

	US LCAP	US SCAP	INTL EQ	EM EQ	COMM	RE	US BD	INTL BD	EM BD	CASH
RETURN 1 WK	2.71	4.34	4.67	6.92	3.88	3.71	-0.22	0.69	1.37	0.01
RETURN 1 MO	-0.13	0.00	-1.80	-0.15	-1.63	-0.39	0.71	4.70	1.85	0.03
RETURN YTD	-1.73	-4.54	-4.66	-0.21	-0.17	0.17	1.73	5.85	3.03	0.07
RETURN 2015	1.38	-4.41	-0.39	-14.60	-24.66	2.52	0.55	-4.43	1.29	0.10
RETURN 2014	13.69	4.89	-4.48	-1.82	-17.01	30.38	5.97	-2.97	7.12	0.06
RETURN 2013	32.39	38.82	23.29	-2.27	-9.52	2.47	-2.02	-5.57	-6.34	0.10
RETURN 2012	16.00	16.35	17.90	18.63	-1.06	17.77	4.21	0.46	18.32	0.12
RETURN 2011	2.11	-4.18	-11.73	-18.17	-13.32	8.69	7.84	5.98	8.80	0.15
CURRENT VOLATILITY	13.62	16.89	14.23	18.25	11.83	14.28	3.15	7.85	4.89	0.04
RELATIVE STRENGTH	61.44	63.55	57.21	63.93	54.90	64.41	50.14	66.79	75.84	33.65
TECHNICAL STAGE	IMPROVING	IMPROVING	DOWN TREND	IMPROVING	IMPROVING	BREAK OUT	BREAK OUT	UP TREND	BREAK OUT	DOWN TREND
INCOME (YIELD)	2.18	1.69	3.48	2.69	0.00	0.04	2.26	0.40	5.67	0.35
LONG-TERM RETURN	5.00%	5.00%	5.25%	5.50%	2.00%	4.00%	3.00%	2.50%	4.00%	1.50%
LONG-TERM VOLATILITY	16.00%	19.00%	17.00%	20.00%	18.00%	14.00%	6.00%	7.00%	9.00%	0.50%

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Major Asset Class Performance – A low return environment will take some time getting used to!

- Cumulative ten-year returns highlight massive performance differences among asset classes
- The 60/40 portfolio rebalanced annually fared particularly well in terms of risk-adjusted returns
- Commodities have significantly under-performed in the last 5 years but seem on the path to recovery

© Global Focus Capital LLC ASSET CLASS	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	10 YR CUM
US LCAP	-1.7	1.4	13.7	32.4	16.0	2.1	15.1	26.5	-37.0	5.5	15.8	102.4
US SCAP	-4.5	-4.4	4.9	38.8	16.3	-4.2	26.9	27.2	-33.8	-1.6	18.4	93.1
INTL EQ	-4.7	-0.4	-4.5	23.3	17.9	-11.7	8.2	32.5	-43.1	11.6	26.9	41.1
EM EQ	-0.2	-14.6	-1.8	-2.3	18.6	-18.2	19.2	79.0	-53.2	39.8	32.6	47.3
COMMODITIES	-0.2	-24.7	-17.0	-9.5	-1.1	-13.3	16.8	18.9	-35.6	16.2	2.1	-48.5
REAL ESTATE	0.2	2.5	30.4	2.5	17.8	8.7	28.5	28.6	-38.0	-16.8	35.9	103.2
US BONDS	1.7	0.5	6.0	-2.0	4.2	7.8	6.5	5.9	5.2	7.0	4.3	55.5
INTL BONDS	4.6	-6.0	-3.1	-3.1	4.1	4.4	4.9	7.5	4.4	11.0	8.2	35.7
EM BONDS	3.0	1.3	7.1	-6.3	18.3	8.8	12.1	27.6	-10.7	6.2	11.1	97.3
CASH	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.3	2.4	5.0	4.8	13.9
60/40	-0.3	1.1	10.6	18.6	11.3	4.4	11.7	18.3	-20.1	6.1	11.2	91.7

Currency movements often mask asset class performance

- Our view that the USD would lose some steam in 2016 is proving accurate
  - The USD has depreciated relative to all major currencies except for Sterling (Brexit concerns) and the Renminbi (managed devaluation)
  - In a surprise move, the Brazilian Real has appreciated the most in 2016
- Over the last decade the USD is virtually unchanged versus the Yen and Euro
- The annual rate of depreciation versus the Renminbi over the last decade has been slightly over 2% - we expect this trend to accelerate in coming years

© Global Focus Capital LLC USD PER	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	10 YR CUM	ANNUAL RETURN
YEN	5.7	-0.3	-12.3	-17.7	-11.0	5.4	14.8	-2.6	23.2	6.7	-0.9	-1.9	-0.19%
EURO	1.3	-10.2	-12.2	4.5	1.6	-3.2	-6.5	3.2	-4.9	10.9	11.8	-7.9	-0.82%
SWISS FRANC	0.8	-0.7	-10.5	2.9	2.2	-0.3	10.9	3.0	6.4	7.8	8.0	31.7	2.79%
POUND	-3.6	-5.5	-5.9	1.9	4.6	-0.7	-3.0	12.3	-27.8	1.7	14.0	-14.1	-1.51%
CA DOLLAR	3.9	-16.6	-8.3	-6.3	2.3	-2.4	5.5	17.8	-20.1	17.9	0.4	-15.9	-1.72%
AU DOLLAR	1.8	-11.1	-8.5	-13.8	1.3	0.0	14.0	29.0	-20.6	11.4	7.5	-0.8	-0.08%
RENMINBI	-0.4	-4.5	-2.4	2.9	1.0	4.7	3.6	-0.1	7.1	6.9	3.4	24.3	2.20%
BZ REAL	5.9	-32.8	-11.2	-13.2	-8.9	-11.0	5.0	33.8	-23.7	19.9	9.4	-41.0	-5.13%
RUBLE	1.2	-17.8	-45.2	-7.0	5.2	-5.0	-0.7	0.7	-19.6	7.3	9.2	-60.6	-8.90%
RUPEE	-1.5	-4.6	-2.0	-11.4	-3.1	-15.8	4.1	4.7	-19.1	12.3	1.7	-32.0	-3.78%

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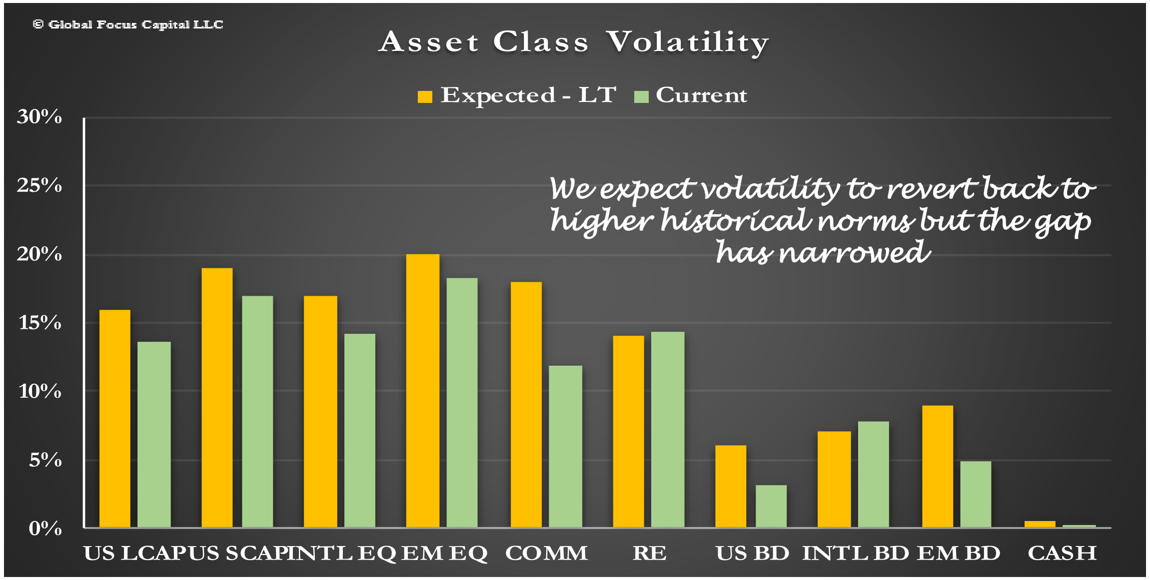
Major Asset Class Risk Profiles

Asset Class Volatility – expect a reversal to historical norms



- The gap between our normalized levels of asset class volatility and those seen in the markets has narrowed in 2016
- Investors have become overly sensitized to short-term capital market volatility and risk as a concept has been significantly under-prized in the last few years
- Investors will need to extend their time horizons and accept more normalized levels of asset class volatility over the next decade

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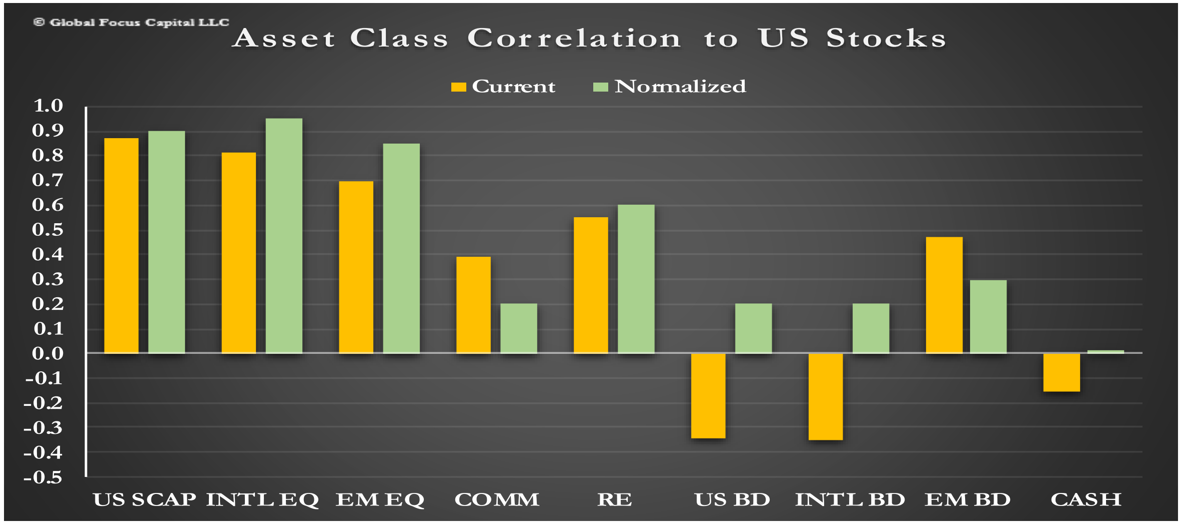
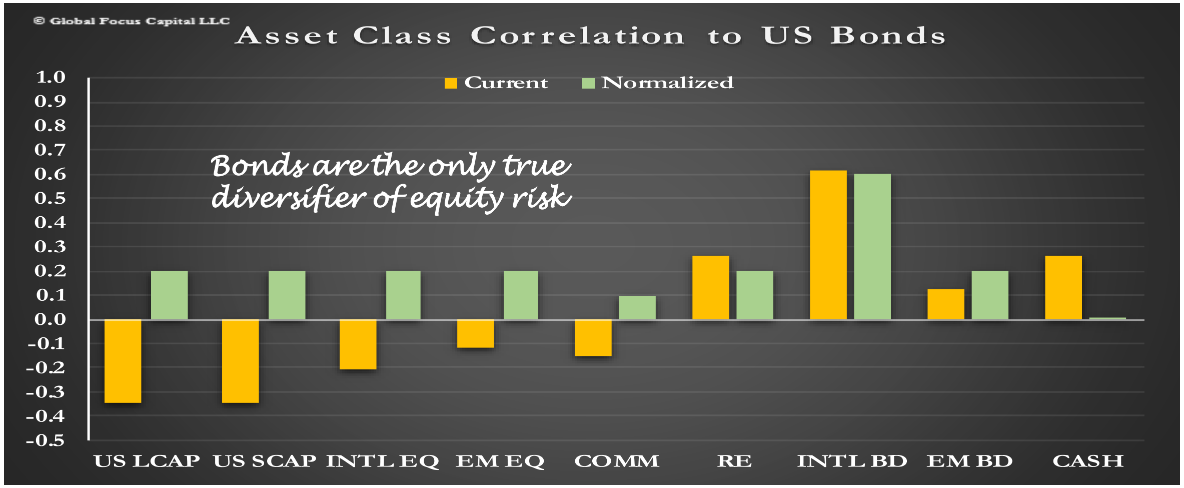
Key Asset Class Correlations





- The biggest problem faced currently by investors is the lack of adequate diversification opportunities
- At the moment only high quality bonds offer significant diversification potential to equity investors
- Real estate has recently become more correlated with interest
- The role of fixed income in a multi-asset class portfolio has shifted almost entirely to volatility reduction

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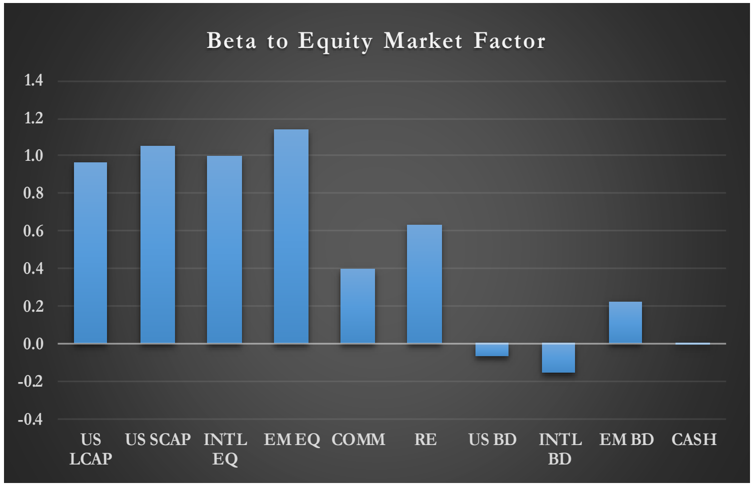
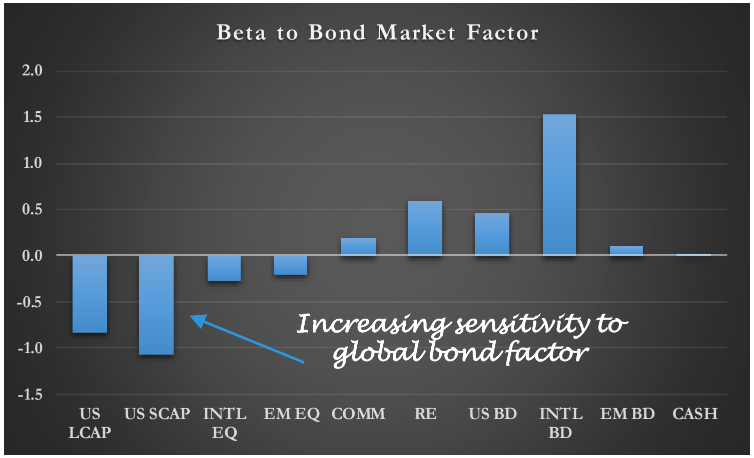
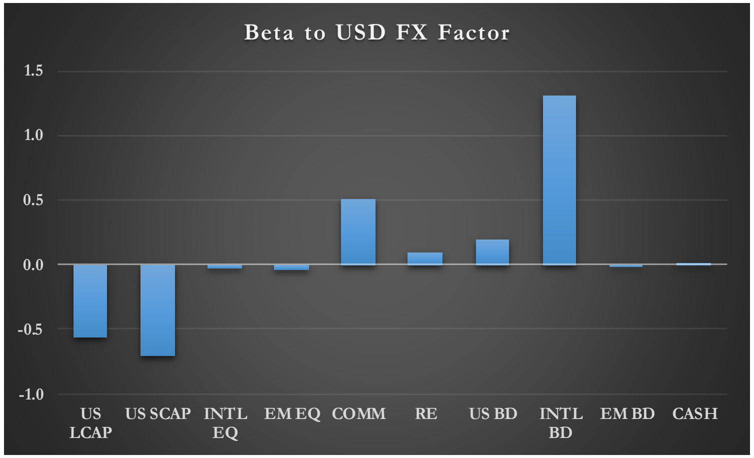
Macro-Economic Risk Exposures – Major Asset Class Factors



- Equities are exhibiting increasing sensitivity to the global bond market (beta of -0.8)
- US bonds are statistically uncorrelated to changes in equity markets (beta of -0.07)
- Commodities and International Debt exhibit the highest exposure to the FX (USD) factor
- All equity categories exhibit betas to the equity factor close to one highlighting very similar behavior





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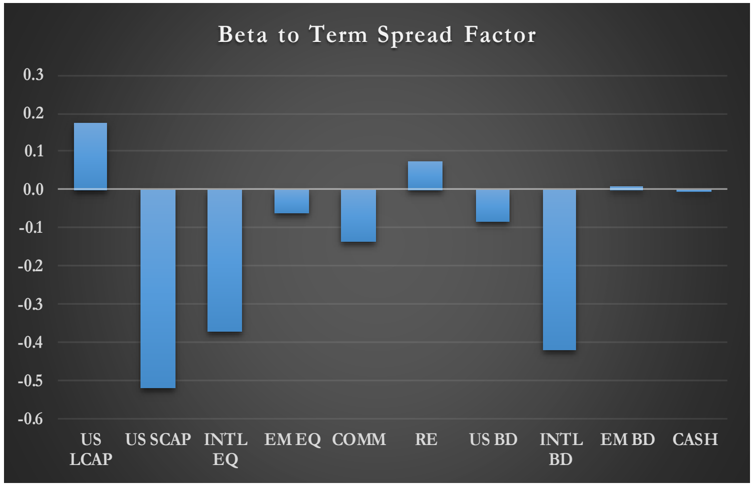
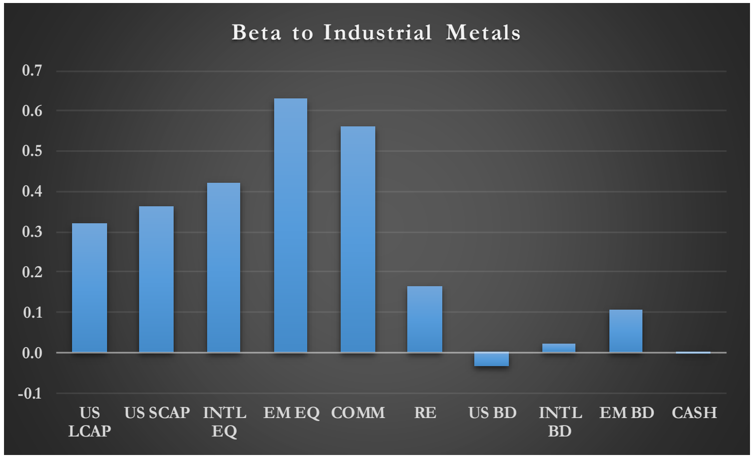
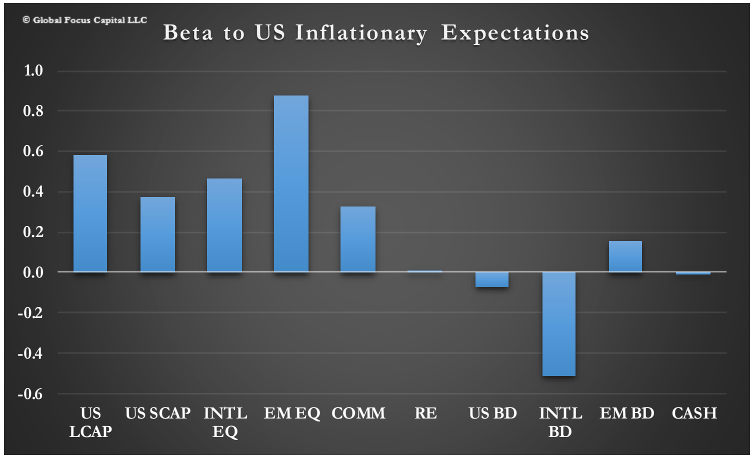
Macro-Economic Risk Exposures – Growth Factors



- Equity asset classes are significantly positively exposed to "growth" factors
- Commodities, in particular, have high betas to our growth factors
- Our estimates indicate that higher inflationary expectations would be beneficial to all asset classes except high quality bonds





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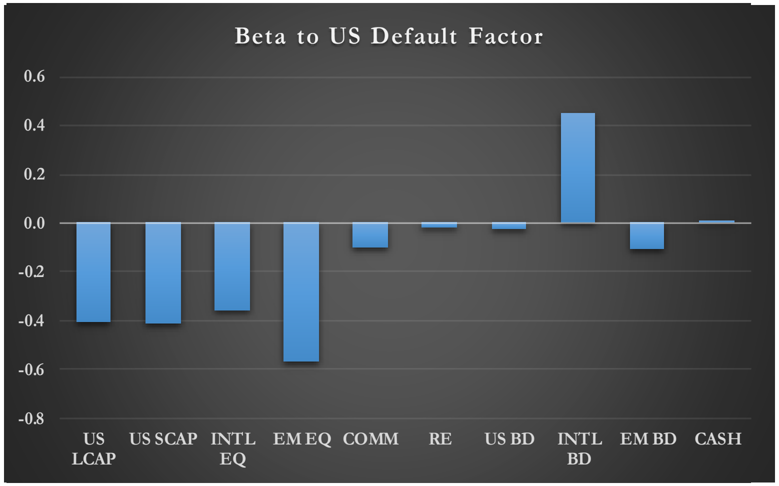
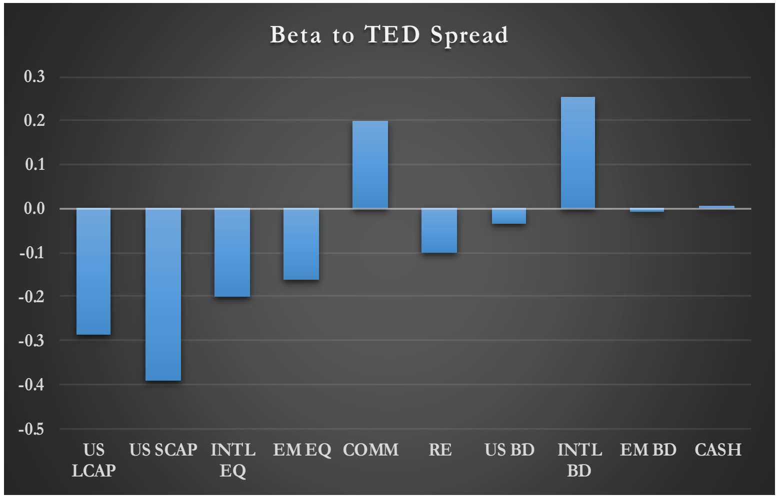
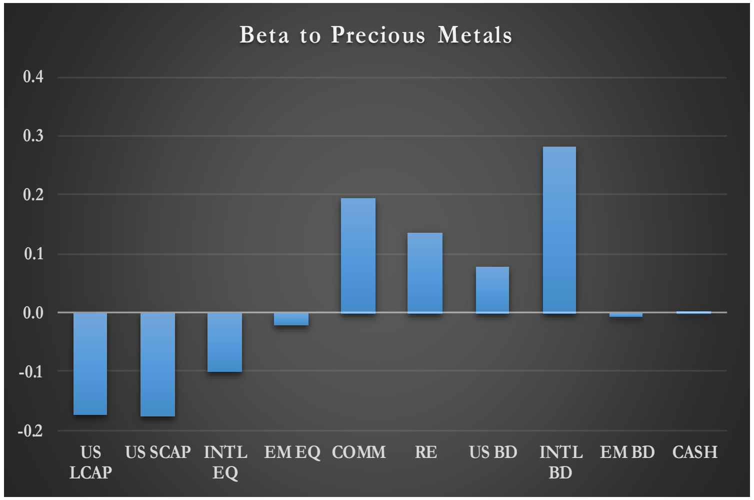
Macro-Economic Risk Exposures – Uncertainty Factors



- The beta of equity-like assets to "uncertainty" factors is large and negative
- Clearly fixed income acts as a distress counterbalance to equities





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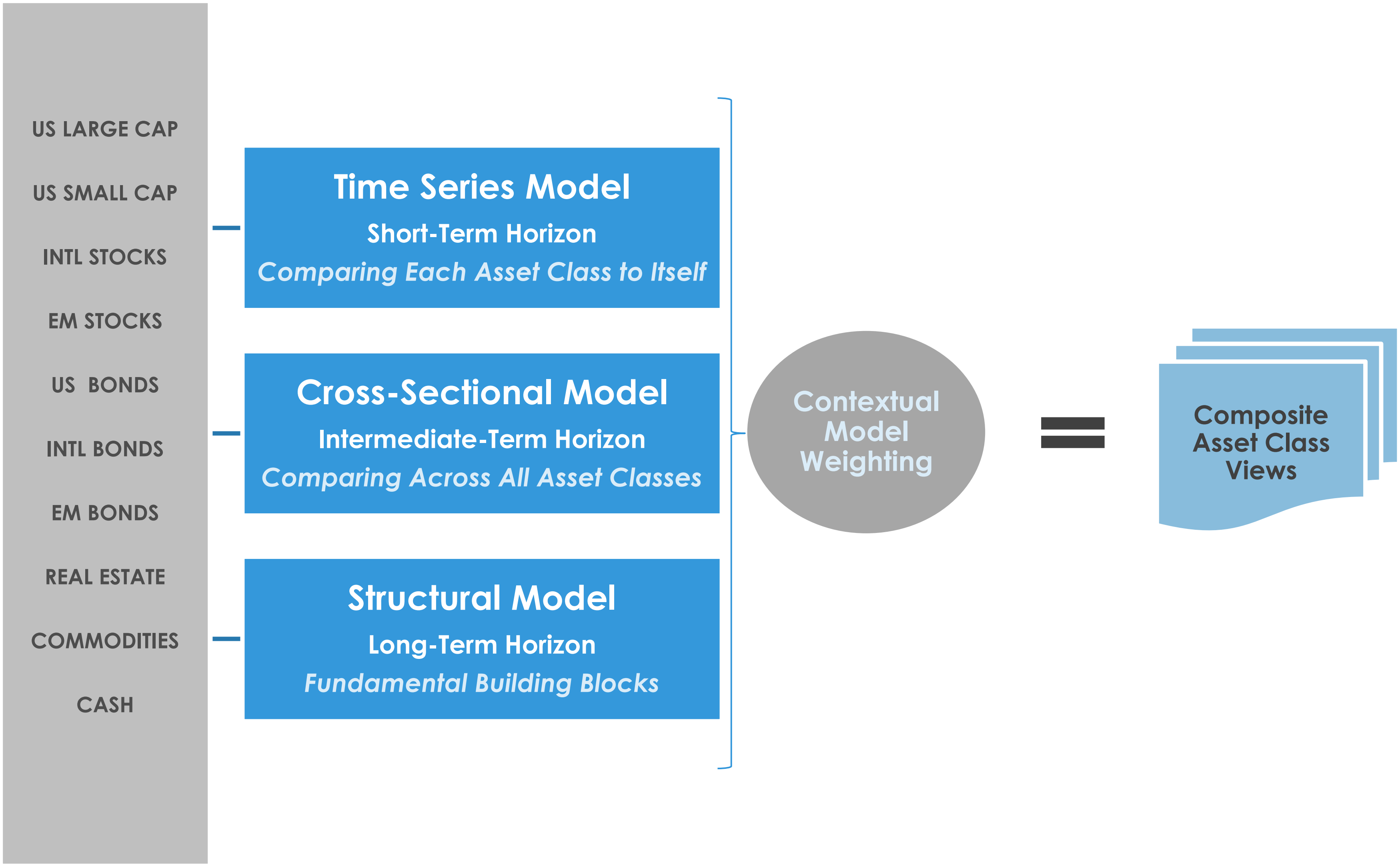
Asset Class Views

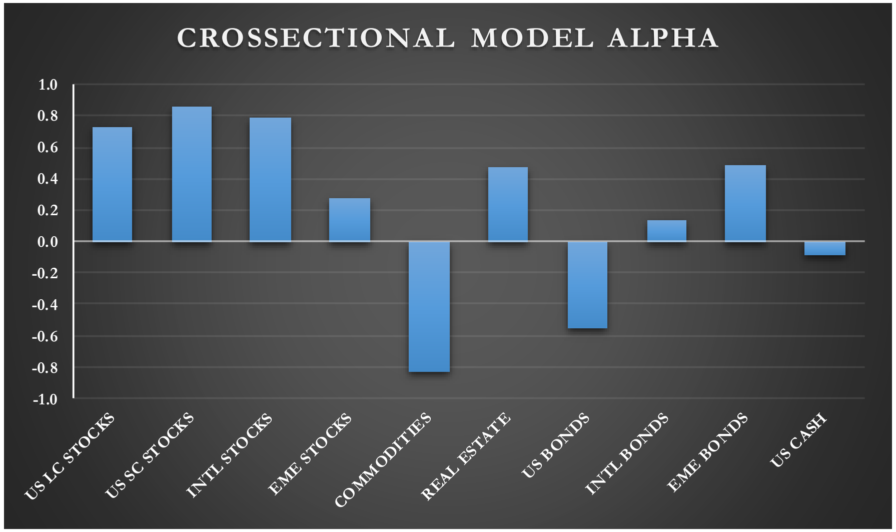
Forward Looking Returns and Risks

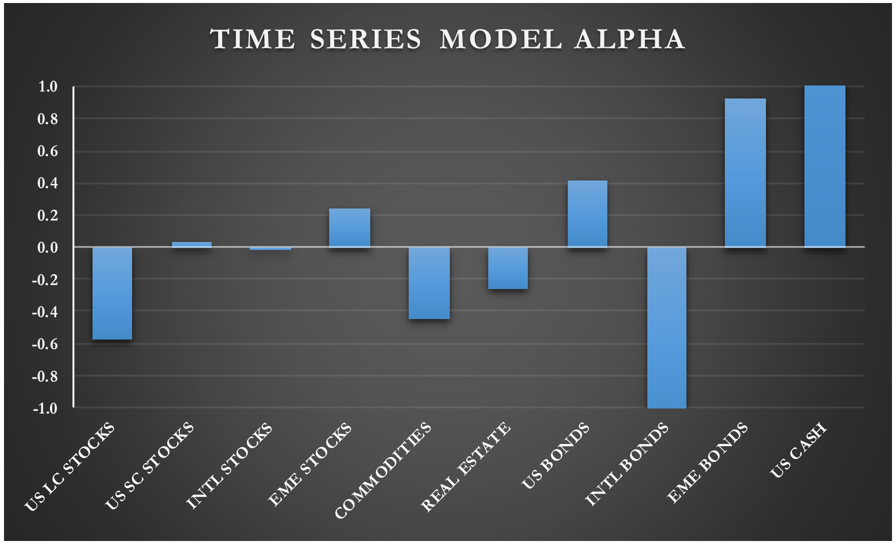
Asset Allocation Methodology – Assessing Return Potential by Combining Different Horizons and Perspectives



The Cross-Sectional and Time Series Perspectives are currently offering mixed signals

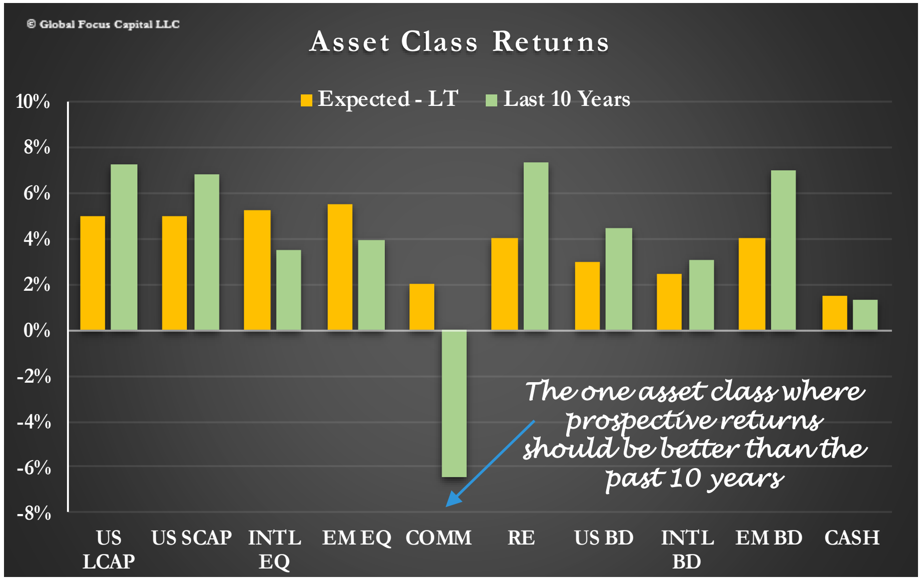
- The cross-sectional model compares fundamental drivers of return across all asset classes
  - Equity categories rate most attractive under this perspective
- The shorter-term time series approach compares each asset class to its own recent history
  - Under this perspective we rate US and EM bonds as well as cash as most attractive relative to their past
- EM equities and EM bonds are the only two asset classes with above average prospects under both perspectives

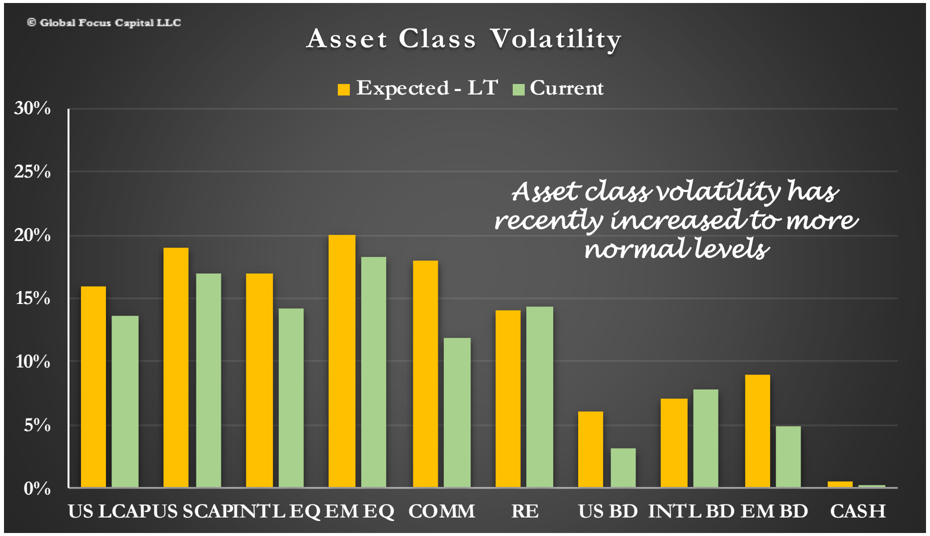




The Long-Term Structural Model is currently predicting significantly below-average prospective asset class returns

- It's shaping to be a difficult decade for investors
  - Low prospective returns
  - Higher volatility
  - Lack of inexpensive diversification opportunities
- Low starting yields for fixed income securities create significant headwinds
- Similarly, high starting valuations for equity markets are expected to depress ten-year ahead returns
- Commodities are expected to reverse their poor ten-year track record
  - We are forecasting a 2% annual rate of appreciation for commodities





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Summary Composite Asset Class Views

ASSET CLASS	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	VOLATILITY	CONCERNS	ADDITIONAL COMMENTS
GLOBAL EQUITIES		▲		Slight Up Drift		Capital Growth
US Large Capitalization		■			Valuation, Slowing Growth	Stay away from Energy. Overweight Financials
US Small Capitalization		■			Valuation, Slowing Growth	
International Developed Mkt			■		Lack of growth	Focus on Asia & Europe, USD range bound
Emerging Market Equity			■		Poor sentiment, redemptions	Latam improving
GLOBAL BONDS	▲			Rising		Tail Risk Protection/Diversification
US Bonds	■				Credit risk, energy co defaults	Best available equity hedging asset
International Developed Mkts	■				Negative rates	Currency offset to yields
Emerging Market Debt			■		Growth slowdown in EM	Best source of yield (if USD hedged)
REAL ESTATE		▲		Rising	Valuation	Still decent growth & income combination
COMMODITIES	▲			Lower	Slow global growth, oversupply	Tactical rebound play, stick to precious metals
CASH			▲	Rising		Liquidity source

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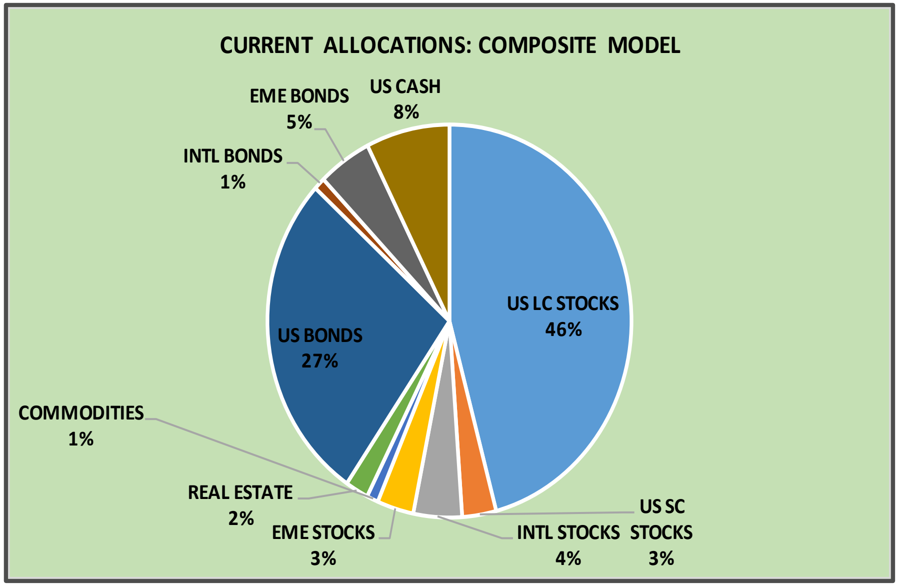
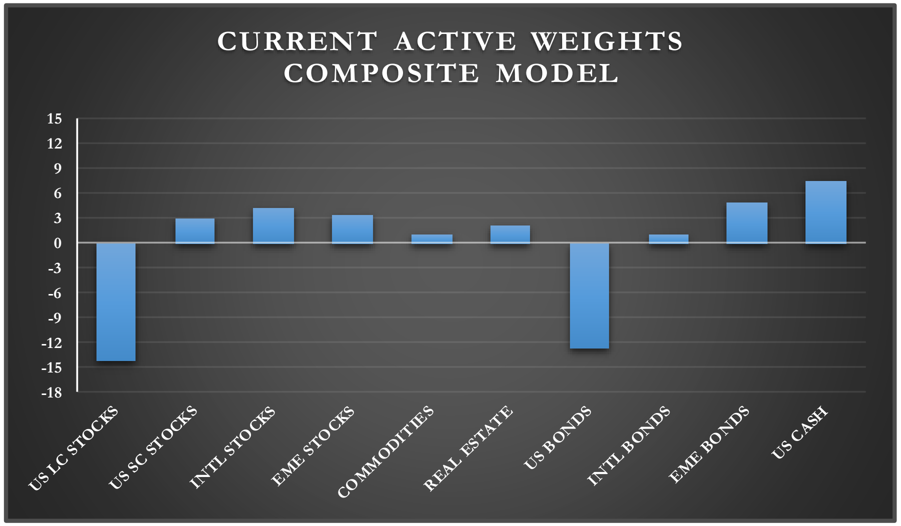
Multi-Asset Class Portfolio Positioning Implications

Recommended Allocation (relative to 60/40) - Integrating Return Prospects and Risks for Today's Environment

- From a high level perspective we advocate holding:
  - **56% in equities**
  - **33% in bonds**
  - **3% in alternatives**
  - **8% in cash**
- We recommend under-weights to core US equity and fixed income assets
  - US large cap: 46%
  - US bonds: 27%
- We recommend allocations to non-benchmark positions in international stocks (7%), REITS (2%) and EM Debt (5%)
- Given the "Extreme Fear" reading of our Risk Aversion Index we would temporarily own about 8% in cash, but be ready to deploy into risky assets

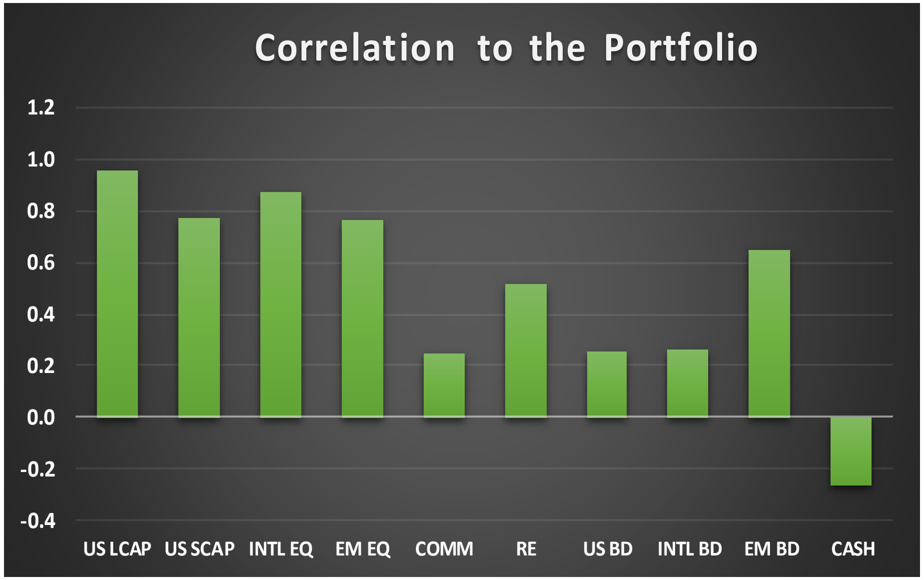


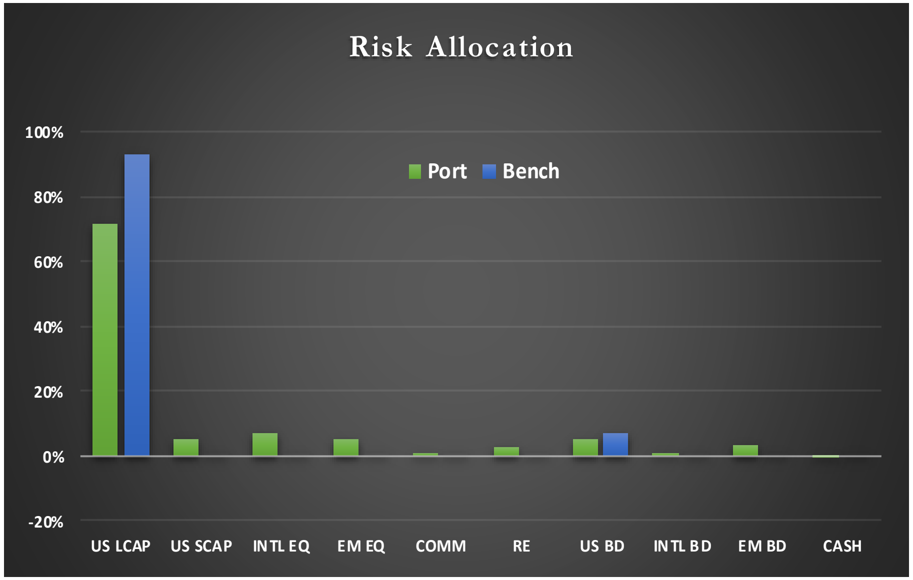


Prospective Recommended Allocation (relative to 60/40 Benchmark)

- **Expected Volatility:**
  - Benchmark: 6.7%
  - Portfolio: 6.5%
- **Tracking Error:** 1%
  - This is at the very low end of our historical targets
  - Primarily due to current high risk aversion reading
- **Expected Beta:** 0.98

- The greatest source of absolute risk to our target allocations involves our <u>under-weight to US large cap stocks</u>
- The portfolio retains a significant correlation to equity-like risks





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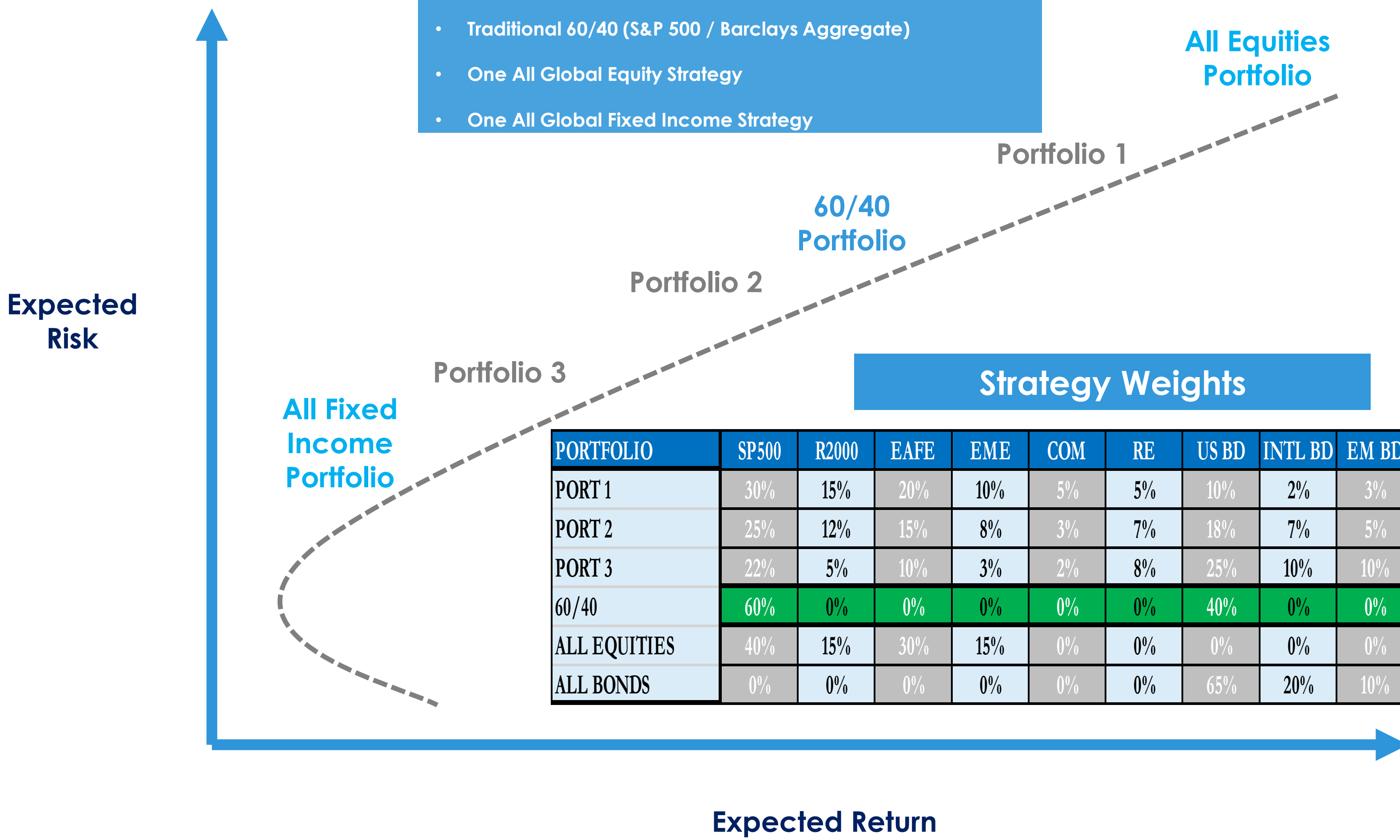
Multi-Asset Class Portfolios Conceptual Positioning

- Three Multi-Asset Strategies with distinct risk/return tradeoffs
- Traditional 60/40 (S&P 500 / Barclays Aggregate)
- One All Global Equity Strategy
- One All Global Fixed Income Strategy



Strategy Weights

PORTFOLIO	SP500	R2000	EAFE	EME	COM	RE	US BD	INTL BD	EM BD	CASH
PORT 1	30%	15%	20%	10%	5%	5%	10%	2%	3%	0%
PORT 2	25%	12%	15%	8%	3%	7%	18%	7%	5%	0%
PORT 3	22%	5%	10%	3%	2%	8%	25%	10%	10%	5%
60/40	60%	0%	0%	0%	0%	0%	40%	0%	0%	0%
ALL EQUITIES	40%	15%	30%	15%	0%	0%	0%	0%	0%	0%
ALL BONDS	0%	0%	0%	0%	0%	0%	65%	20%	10%	5%

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The Multi-Asset Class Strategies – Current Performance Summary

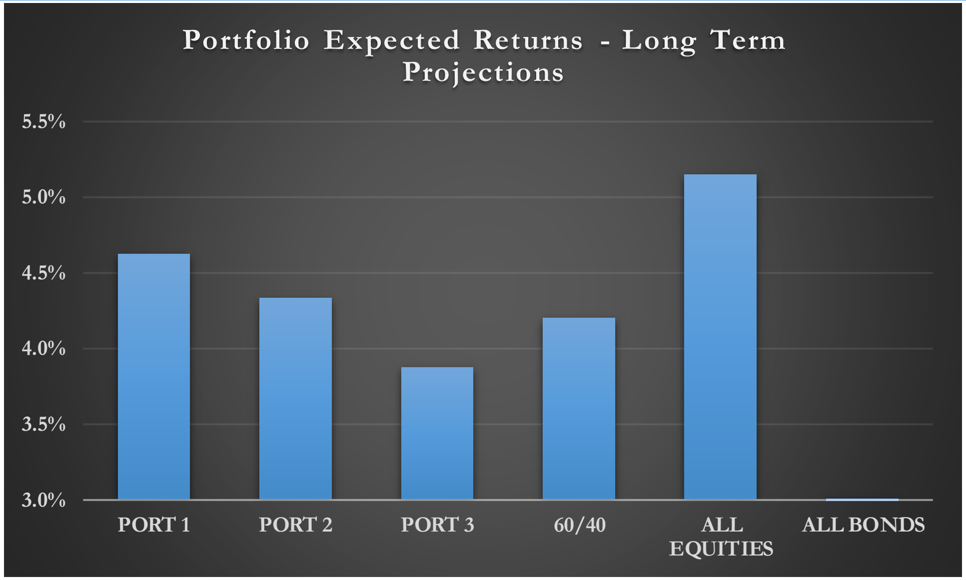
© Global Focus Capital LLC	PORT 1	PORT 2	PORT 3	60/40	ALL EQUITY	ALL FIXED INC
RETURN 1 WK	3.50%	2.91%	2.01%	1.54%	4.17%	0.14%
RETURN 1 MO	-0.30%	0.16%	0.56%	0.20%	-0.62%	1.59%
RETURN YTD	-1.77%	-0.81%	0.25%	-0.35%	-2.80%	2.60%
RETURN 2015	-2.89%	-2.12%	-0.86%	1.05%	-2.42%	-0.40%
RETURN 2014	5.18%	6.03%	6.75%	10.60%	4.59%	4.00%
RETURN 2013	19.12%	14.88%	9.64%	18.62%	25.43%	-3.06%
RETURN 2012	14.51%	13.06%	11.02%	11.29%	17.02%	4.67%
RETURN 2011	-3.22%	-0.71%	2.41%	4.40%	-6.03%	7.18%
INCOME - CURRENT	2.28%	2.21%	2.18%	2.21%	2.57%	2.13%
VOLATILITY - CURRENT	11.00%	8.97%	6.36%	7.83%	13.69%	3.33%
VOL - 3 MO AGO	9.63%	7.88%	5.68%	7.18%	12.07%	3.30%
VOL - 12 MO AGO	8.60%	7.21%	5.50%	6.43%	10.63%	3.65%
EXPOSURES (BETAS)						
GLOBAL EQUITY	0.81	0.65	0.45	0.55	1.01	-0.05
GLOBAL BOND	-0.37	-0.15	0.06	-0.32	-0.60	0.61
DEFAULT SPREAD US	-0.31	-0.23	-0.14	-0.25	-0.42	0.07
TED SPREAD	-0.19	-0.15	-0.09	-0.19	-0.26	0.03
PRECIOUS METALS	-0.07	-0.03	0.00	-0.07	-0.13	0.11
INDUSTRIAL METALS	0.33	0.27	0.18	0.18	0.40	-0.01
TERM HORIZON SPREAD	-0.13	-0.12	-0.09	0.07	-0.13	-0.14
INFLATIONARY	0.41	0.30	0.17	0.32	0.56	-0.13
USD FX	-0.21	-0.08	0.03	-0.26	-0.34	0.39
60/40 PORTFOLIO	1.33	1.08	0.75	1.00	1.65	-0.07
LONG-TERM RETURN	4.62%	4.33%	3.88%	4.20%	5.15%	2.93%
LONG-TERM VOLATILITY	13.41%	11.31%	8.45%	10.35%	16.57%	5.14%

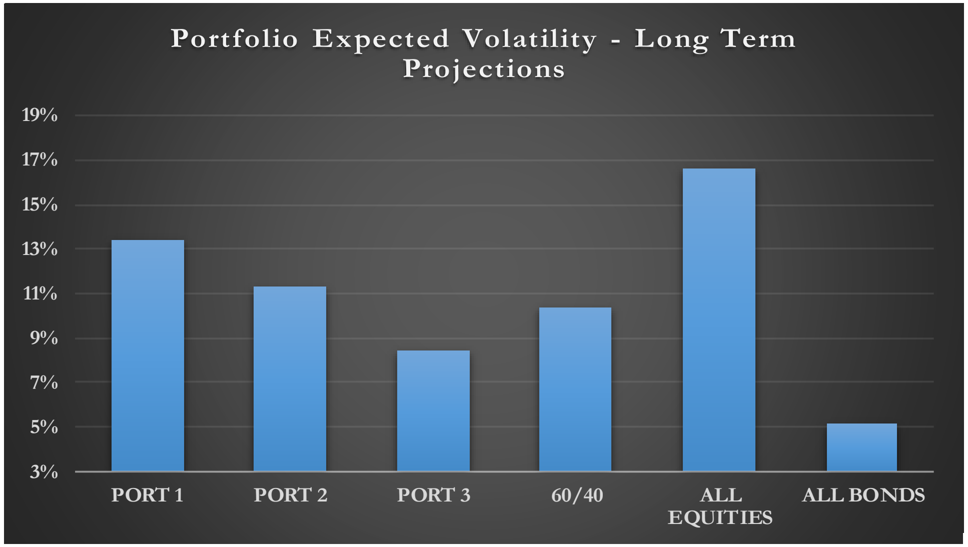
Long-Term Risk and Return Expectations for the Multi-Asset Class Strategies

- These estimates are a function of our 10 year-ahead fundamentally-based asset class projections

- Returns for all portfolios are expected to fall short of historical norms
  - Starting valuations will be a long-term drag on performance
  - The low rates of yield on fixed income are a huge headwind for risk averse multi-asset class investors
  - Investors will need to get out of their comfort zone and adopt new tactics in order to achieve target returns in the 6-7% range

- Asset class volatility is expected to further increase over the next decade once monetary policy returns to more normal conditions





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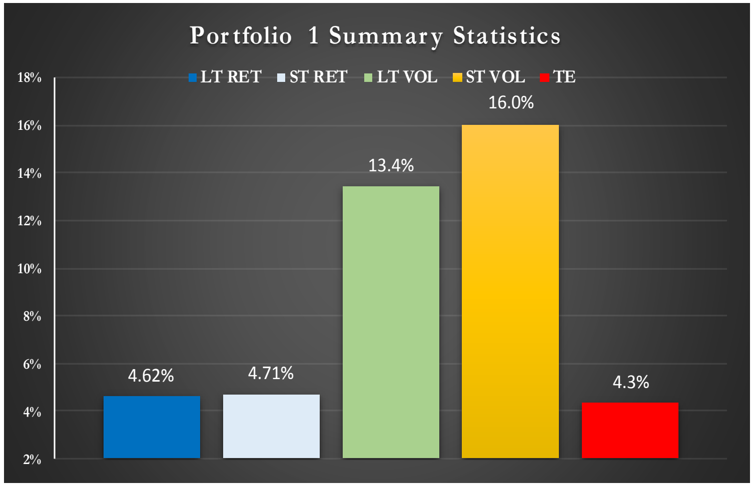
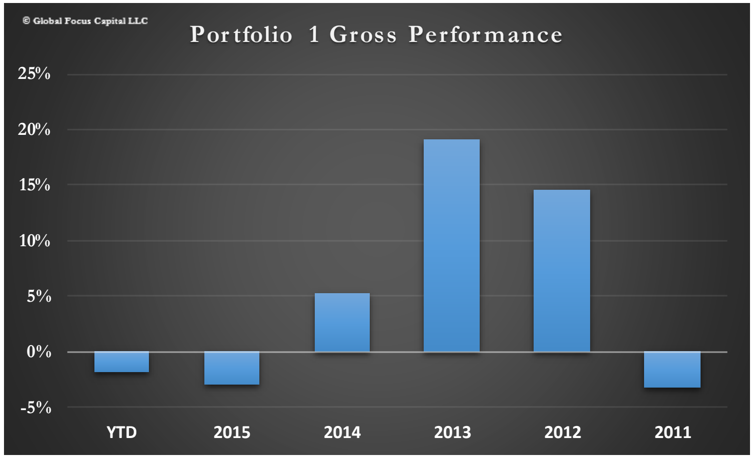
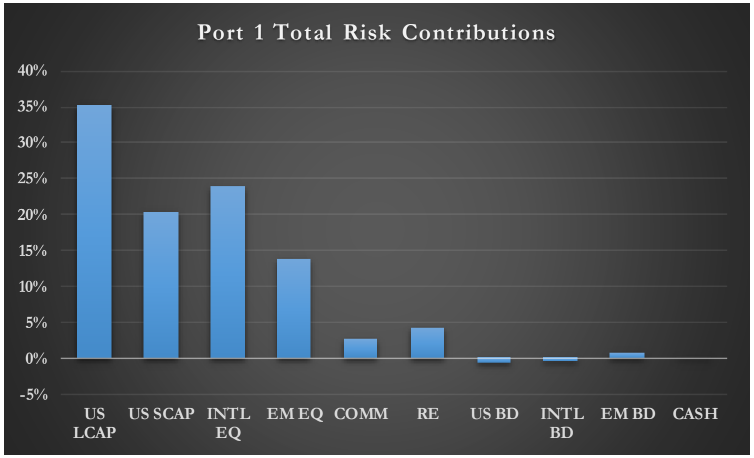
Portfolio 1: Risk & Return Characteristics

- Portfolio 1 is an equity oriented multi-asset class portfolio suitable for aggressive growth investors
- Its current predicted volatility is about 2% higher than what we would expect in the long run
- Over the next 10 years we expect an annualized return of 4.6% - significantly below historical norms
- As expected most of the risk emanates from its equity positions







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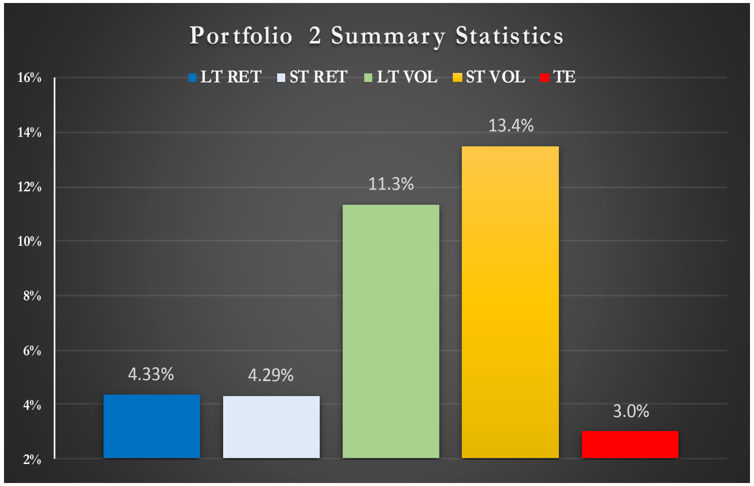
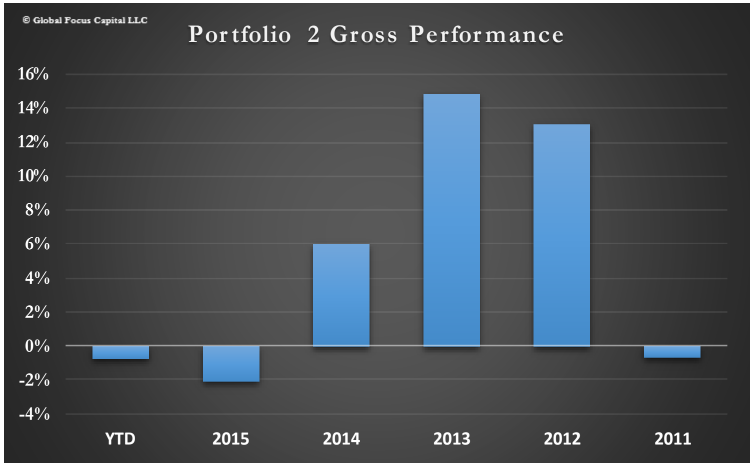
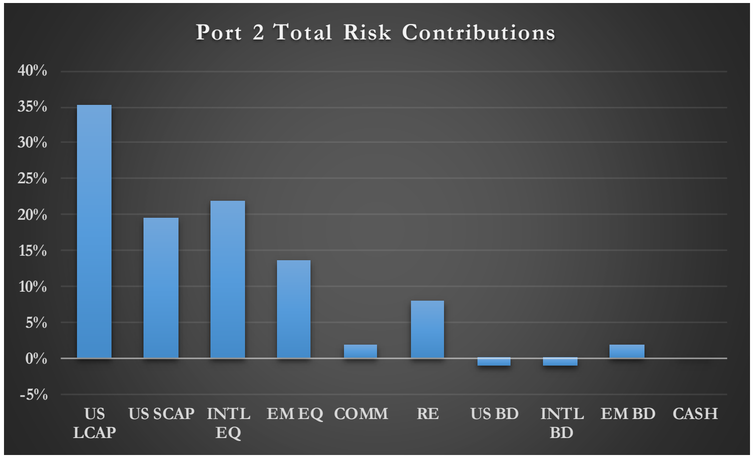
Portfolio 2: Risk & Return Characteristics

- This portfolio is also fairly aggressive with current expected short-term volatility 2% lower than Portfolio 1
- The lower expected long-term return of this strategy (4.3%) comes at lower volatility compared to Portfolio 1







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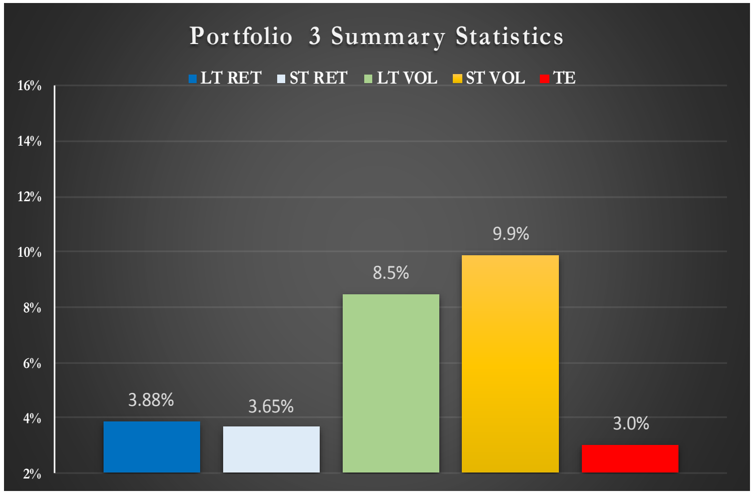
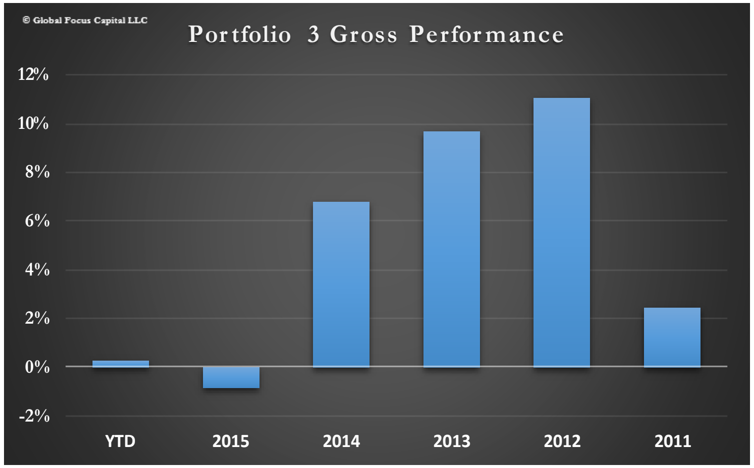
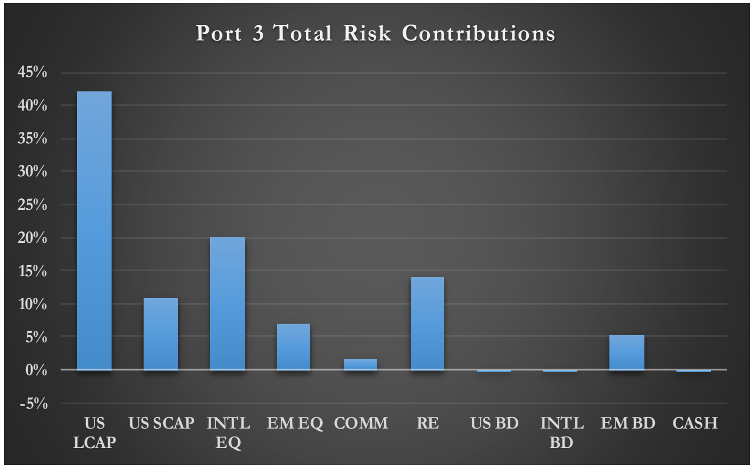
Portfolio 3: Risk & Return Characteristics

- This portfolio is less volatile than the 60/40 benchmark with only slightly lower expected returns
- Portfolio 3 exhibits a flatter risk contribution profile, but US large cap stocks still account for 40% of its total risk







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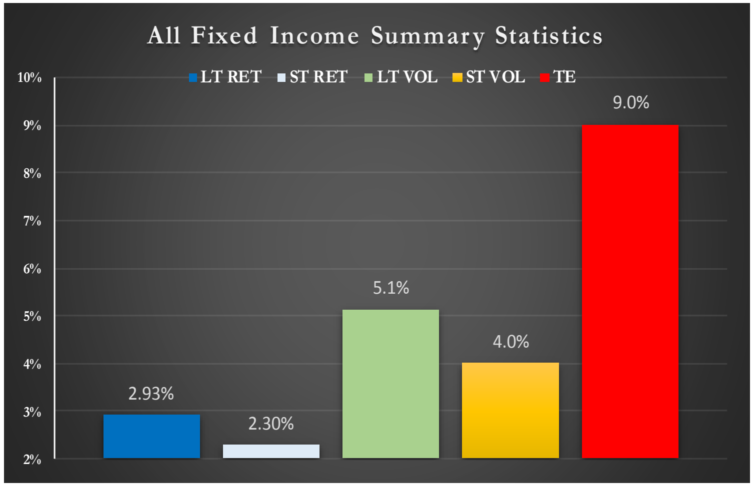
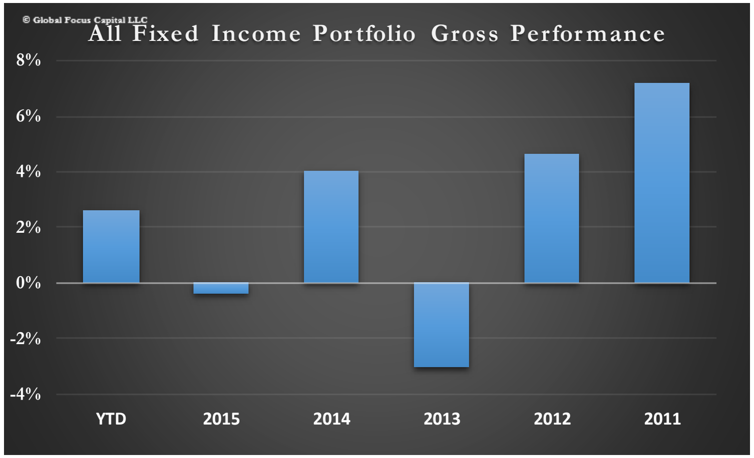
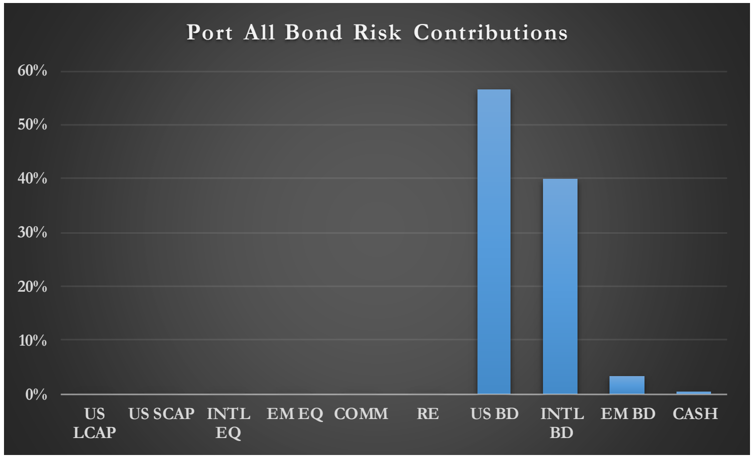
All Fixed Income Portfolio: Risk & Return Characteristics

- The portfolio is <u>best suited to the risk averse investor</u>
- The lower volatility of the strategy comes at a cost of lower expected returns
- We expect the mean expected return over the short-term to be about 2% and 3% long-term
- YTD this is the only strategy with positive returns for 2016







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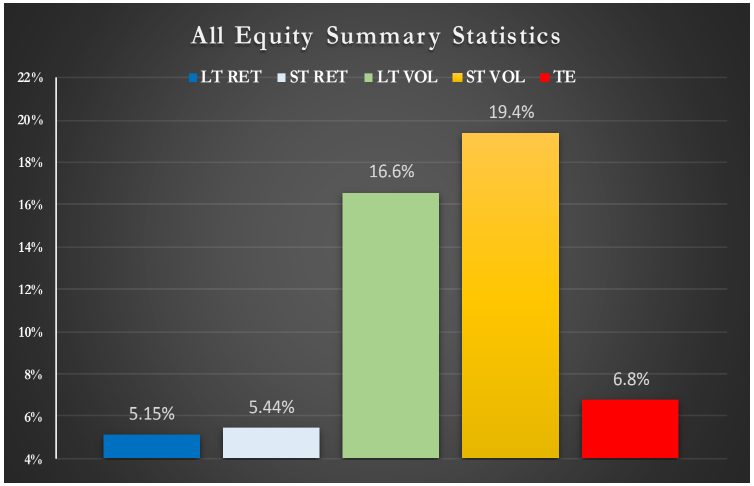
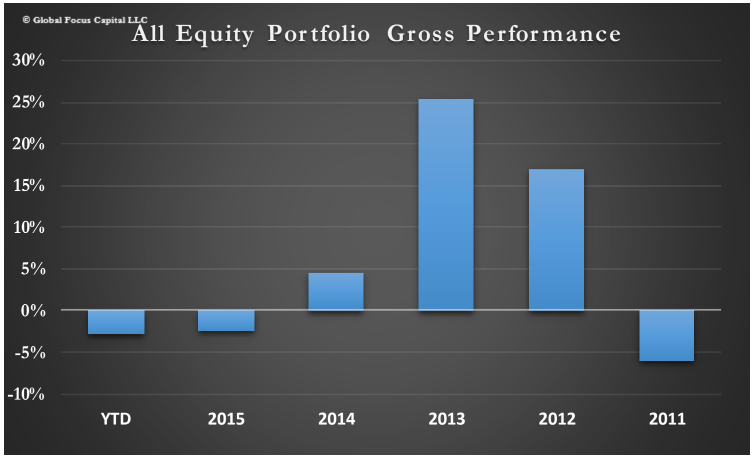
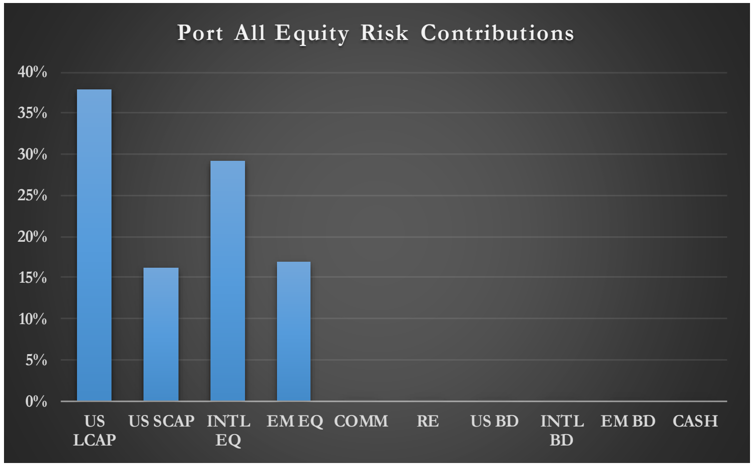
All Equity Portfolio: Risk & Return Characteristics

- This is the <u>most aggressive portfolio</u> in our menu of strategies
- Short term volatility is expected to be high given the extreme risk aversion currently manifested by investors
- The expected short-term return is about 5% at the moment
- The risk distribution of the strategy is regionally diversified but still carries significant equity risk







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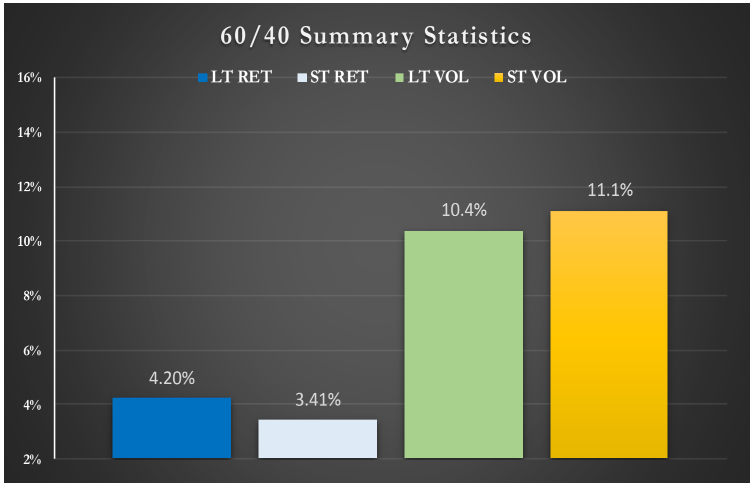
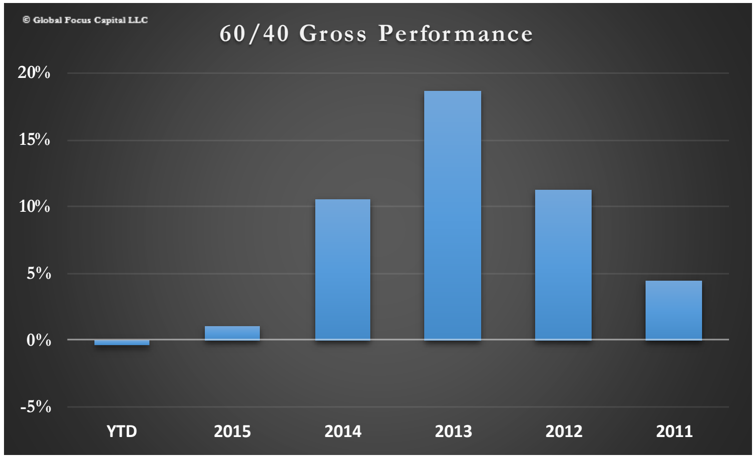
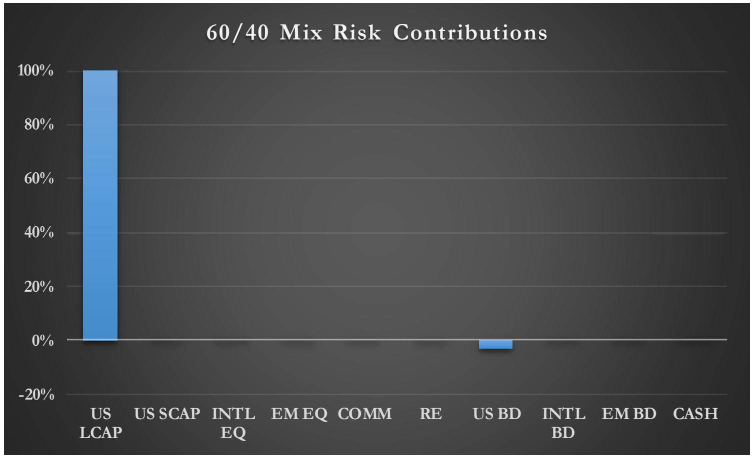
60/40 Portfolio Risk & Return Characteristics

- The widely used 60/40 portfolio carries significant equity risk
- The long-term expected return is anchored at 4.2% with a 10% volatility
  - These returns are likely to prove un-interesting to most investors
- A low return capital market environment will require investors to adopt new tactics to enhance returns
  - The use of tactical asset shifts is one approach to return enhancement







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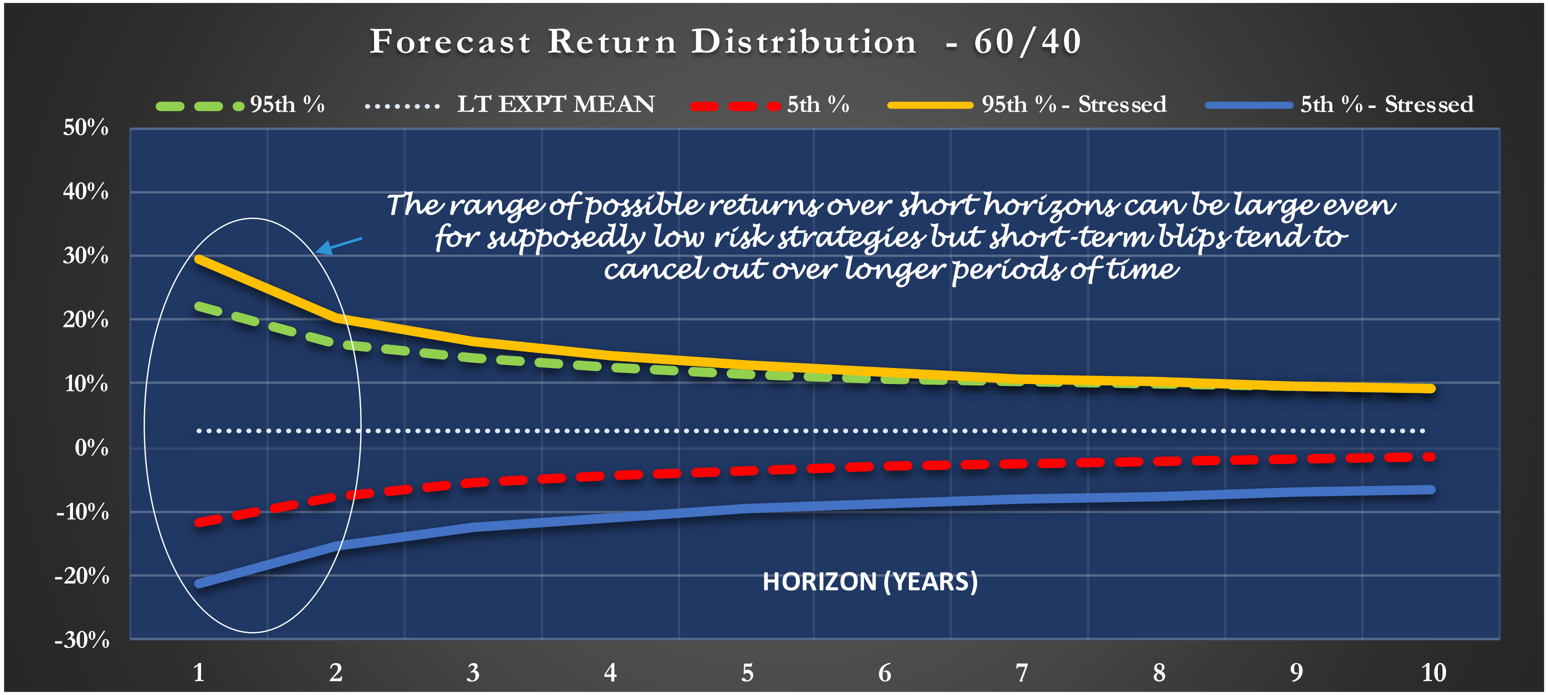
Return Patterns of the 60/40 Portfolio

- The expected distribution of annualized compounded strategy returns implies a fairly wide range of potential returns over short holding periods
  - In year 1 we would, for example, expect returns to lie between 22 and -12% given the assumed 10% volatility of the strategy
- Stress testing the return pattern of the 60/40 strategy results in a Year 1 return band between +29% and – 21%



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Key Recommendations

Key Recommendations – March 2016

- **Investor risk aversion remains in the Extreme Risk Zone, but it's still too early to indiscriminately enhance exposure to risk assets -** we recommend a defensive portfolio risk profile

- **Major Asset Class Exposures:**
  - **Overweight:** International Developed Mkt Stocks, EM Stocks, EM Debt, Cash
  - **Underweight:** US Bonds, Commodities

- **Relative to a 60/40 portfolio we recommend 56% in stocks, 33% in bonds, 3% in alternatives and 8% in cash -** view cash as a tactical weapon

- **Long-term investors face three main difficulties:**
  - **Below-average expected returns** to all major asset classes due to high starting valuations, lower growth and rock bottom fixed income yields
  - **Higher expected capital market volatility** as monetary policy continues to lose effectiveness
  - **Lack of effective hedging of equity risk** with long-duration high quality bonds offering the only inexpensive form of true diversification

- **Key questions facing multi-asset class investors:**
  - **Is the recovery in Commodities for real?** *TOO EARLY TO TELL. AN INCREASE IN INFLATIONARY EXPECTATIONS WILL BE OUR SIGNAL TO INCREASE EXPOSURES. WE ARE NOT THERE YET*
  - **Will the USD keep depreciating?** *NO, THE FED WILL PROBABLY HIKE RATES AGAIN IN 2016. WE DO NOT EXPECT THE FED TO RESORT TO NEGATIVE RATES. WE EXPECT THE USD TO MOVE WITHIN TIGHT BANDS FOR THE EST OF 2016*
  - **Are bonds worth holding?** *YES, AS A WAY TO HEDGE AGAINST ADVERSE EQUITY MARKET CONDITIONS. THE BEST AND MOST INEXPENSIVE HEDGE AGAINST EQUITY MKT RISK ARE TREASURIES. LOOK TO DIVIDEND GROWTH STOCKS AND REITS AS INCOME GENERATORS*
  - ***Is BREXIT likely to happen?*** *NO, BUT THE UNCERTAINTY AROUND THIS ISSUE WILL CREATE TEMPORARY EXCESS VOLATILITY IN EUROPEAN CAPITAL MARKETS*

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For further information on our research subscriptions, consulting or asset management products please contact us at:

eweigel@gf-cap.com

Phone 617-529-2913

or visit our website at http:\\gf-cap.com

Who We Are

Eric J. Weigel began his career with the Federal Reserve Bank of Dallas in the economic research department providing econometric support and general research assistance. He subsequently worked at Russell Investments in the capital market research group focusing on the development of global tactical asset allocation strategies, macro-based risk models, and derivative pricing models.

After leaving Russell he has headed up a variety of senior portfolio and research efforts within established firms such as MFS, Pioneer, Chancellor/Invesco as well as entrepreneurial hedge fund ventures such as Milestone International, LongPoint Partners and Windsor Re. Most recently he was a senior PM and Director of Research at Leuthold Weeden.

In addition to his extensive exposure to a variety of long-only equity strategies, he has significant experience in running long/short strategies and was one of the early practitioners in the field of global tactical asset allocation.

Mr. Weigel has published numerous articles in professional and academic investment journals including the Journal of Portfolio Management, the Financial Analysts Journal, Journal of Investing and Management Science.

Mr. Weigel received an M.B.A degree in Finance from the University of Chicago, where he was the recipient of the Dart & Kraft Fellowship Award. He also has a M.S. degree in Applied Economics & Statistics from the University of Minnesota and graduated from Iowa State University with a B.S. degree in agricultural economics.