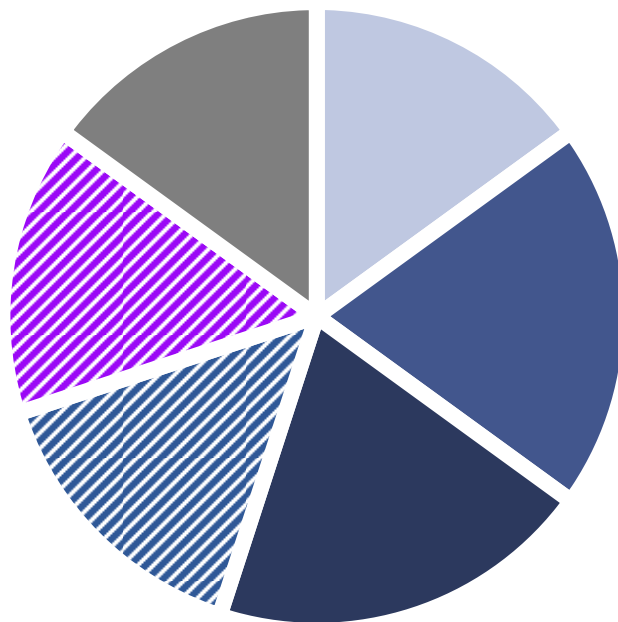


Asset Allocation Guide



Investment Policy Committee

OBSERVATIONS THAT MAY INFLUENCE THE YEAR AHEAD

Investment Policy Committee

Year in Review

For investors, this past year proved frustrating despite economic conditions that would have seemingly been more constructive for markets. An improving economic backdrop in Europe and Japan, strong payroll gains and impressive auto sales in the U.S., along with extremely accommodative monetary conditions around the globe, all seemed to support opportunity for gain. But a weather-induced U.S. economic slowdown kicked off 2015, then gave way during the second quarter to headlines declaring a potential messy exit by Greece from the Eurozone. Despite these headlines, markets were in reasonably good shape through June 30th; stock markets produced mid-single-digit gains, while bonds and even commodities offered mostly flat returns.

During the summer a decelerating Chinese economy led to the surprising devaluation of the Yuan, the result of which was a massive decline in equity markets around the world. Concerns regarding the world's second largest economy were exacerbated by divergent central bank policies and the prospects of Federal Reserve tightening. The astonishing meltdown of commodity markets and corresponding declines of resource-based industries and economies reflected the realities of excess supply and a rapidly appreciating \$US Dollar. Geopolitical crises, pan-global terrorism and a bizarre U.S. political backdrop all helped boost uncertainty.

Ultimately, though, the chief headwind for equity markets was weak corporate profits. Not surprisingly, the appreciating \$US Dollar and the corresponding collapse in the price of oil hurt the earnings outlook for most energy, material and industrial companies. Surprisingly, these same factors failed to lift consumer spending or the economies that are heavy users of energy resources.

In the end, the U.S. economy expanded at a modest pace, achieving near 2% Real GDP growth. But financial markets reflect the level of enthusiasm investors have about the future, not the past, and slumping stock prices, deteriorating credit spreads and collapsing commodity contracts suggest the 2016 outlook contains an increasing amount of anxiety and uncertainty.

10 observations that may influence the year ahead

There are many factors that impact the ebb and flow of economic conditions and influence the financial markets. As in years past, we begin 2016 by sharing some of our observations that may influence the year ahead. Some of these may never materialize while others may already be present in the markets. Investors should always consider the myriad forces that can influence markets, placing greater attention to those with the highest probability of occurrence while not ignoring those that may appear of lesser relevance; sometimes it is the least expected force that ends up mattering the most.

- 1 Real GDP growth is the sum of the number of workers entering the workforce and the increases in worker output (productivity), both of which have declined in recent years with little evidence from the Bureau of Labor Statistics that suggests this trend is going to change. While stubbornly low Real GDP may frustrate economists and policy makers, it may simply reflect the reality of demographic trends and expectations may need to be adjusted.
- 2 Many have wondered why the extraordinary collapse in energy prices has not resulted in stronger consumer spending. Perhaps the trend toward high-deductible private and public insurance plans is offsetting the enormous consumer savings; the delta between a \$500 deductible and a \$2,500 deductible is a lot of gallons of cheaper gasoline.
- 3 Fiscal policy has generally been a headwind to U.S. GDP in recent years. While we are big fans of fiscal discipline in Washington, the 2016 Budget Act includes spending in categories that provide a modest tailwind to the real economy; data suggests that infrastructure projects provide among the best returns for taxpayers.
- 4 Profit margins began to decline in 2015 from record highs despite falling commodity prices. If GDP growth regains traction, it is likely to include higher wages, which suggests that margins have probably peaked for this business cycle.
- 5 Many companies have taken advantage of low interest rates by issuing debt in order to fund aggressive share repurchase programs. The higher EPS growth achieved by companies through financial engineering should not be underestimated as we enter a period where the cost of capital is likely to rise.
- 6 Geopolitics, terrorism and cyber attacks continue to haunt investors but have had remarkably little market impact. These events are unlikely to abate; it is likely a matter of when, not if, an event is significant enough for markets to react adversely. The enemy is much more elusive today and their methodologies and tools can cause awesome damage in a hurry.

- 7 China's banking system is a key mechanism for executing Chinese government spending programs. The track record for fiscal spending programs is likely mediocre at best and suggests that the Chinese banking system may have considerably more bad loans on their books than markets expect. If markets choose to demand the discovery of bad debts, China's banking system may be the source of the next global credit crisis.
- 8 Lower for longer is an oft-heard comment regarding the prospects for commodity prices these days. Even so, momentum often carries prices in a direction for longer and further than most investors ever anticipate. The economic pain associated with the recent commodity collapse is just in its infancy and calls for a sharp reversal may be wishful thinking.
- 9 The Populist movement has been increasing its membership across many geographies, including the United States. Financial markets are likely to become increasingly uncomfortable with the uncertainty associated with the movement and the political candidates who find themselves atop the polls. Further, Google analytics has identified an alarming rise in the popularity of socialist ideologies.
- 10 Despite the efforts of central banks, money continues to pour into instruments offering negative real yields across most of the developed world. Savers may prove more risk averse than policy makers desire, especially as these populations continue to age. It may be that zero interest rate policies are self-fulfilling prophecies for deflationary forces. Developed market economies have actually experienced rising savings rates despite monetary policy actions designed to induce the opposite behavior.

The Year Ahead

In many ways, 2016 may resemble the year just past. We believe we are in the midst of an extended economic expansion that is slow, choppy and frustrating. Global growth was increasingly uneven in 2015 and a major variable for the year ahead will be whether growth slows further or is able to regain traction. Modest expansions are, not surprisingly, more vulnerable to negative events and downside risks. The divergence of central bank policies has been a significant contributor to the instability of markets and it is reasonable to expect economic consequences to follow. On the surface, modest Fed rate hikes seem tolerable and unlikely to derail the expansion. But against a backdrop of policy easing in Europe, Japan and elsewhere, the policy differences place stress on key liquidity functions across financial markets that risk bleeding into the Main Street economy.

We expect global capacity for extracting raw materials and producing manufactured goods to be reduced in the coming years, but it is easy to underestimate the amount of time required for excesses to be eliminated. Investors may benefit by exhibiting greater patience before increasing exposures to export-dependent economies and resource-oriented sectors.

While we believe that commodities will enter a bottoming process during 2016, a price recovery would seem overly optimistic. Therefore, we see little catalyst for global inflationary pressures to emerge, aside from an increasing risk that labor markets may generate stronger wage gains in the United States. Slow growth and rising inflation is a challenging environment for bond markets, in particular, to navigate.

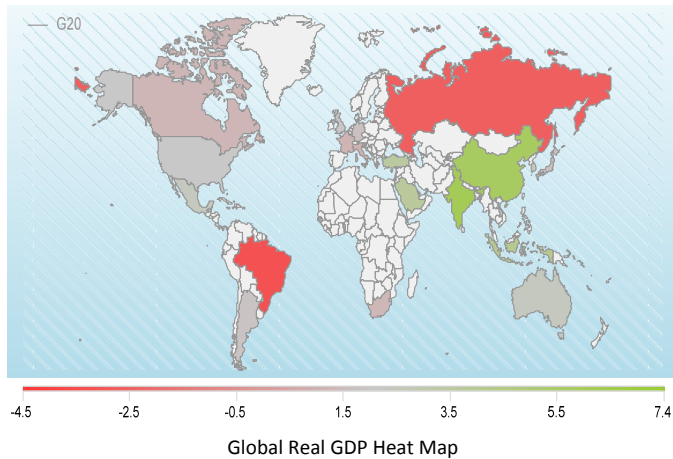
Equity markets have shown great resiliency to uneven economic conditions in recent years, but earnings growth must improve for prices to advance in 2016. As long as global growth increases, earnings should recover. And if profits expand, even modestly, valuations offer reasonable opportunity. However, if economic headwinds prove overwhelming and usher in a conclusion to this business cycle, the combination of falling profits and lofty PE multiples create a slippery slope for stock prices.

Overall, we expect one of two economic scenarios to emerge through 2016 and assign nearly equal probabilities to each: Growth will regain traction as China achieves stability, or the nearly seven-year-old business cycle will reach its conclusion. Either scenario will present difficulties for investors who face low absolute yields and fairly rich valuations.

We subscribe to the belief in reversion to the mean. On an inflation adjusted basis, financial markets have produced superior returns for investors in recent years, and the cumulative growth of financial assets has far exceeded the cumulative growth of economic output. This doesn't suggest that 2016 is the year of reckoning for investors, but we do caution that more subdued inflation-adjusted returns are likely in the future. We are living in the age of the central banker, and despite their best intentions, there is no free lunch.

ECONOMICS | Neutral

Investment Policy Committee



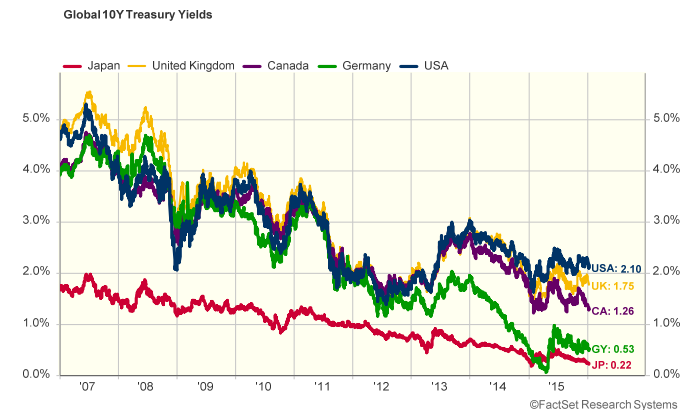
International

Economic conditions remain relatively soft around the globe. Regions dependent on the export of raw materials or manufactured goods are under considerable stress; many are now experiencing contracting economies. China may be the epicenter of the slower global growth trend. Its consumption of raw materials, while awesome at its height, was ultimately unsustainable and led to the malinvestment that now engulfs so many commodity-producing nations. Although China's rate of economic growth remains the envy of many, it falls short of the lofty expectations established by markets and reinforced by government prognostications.

Developed countries are generally fairing better, reaping the benefits of cheaper energy, easing monetary and fiscal policies, and significantly more competitive currency values. Many constituents of the Eurozone, as well as Japan, have exceeded economic recovery expectations, even though demand for goods and services remains extremely modest.

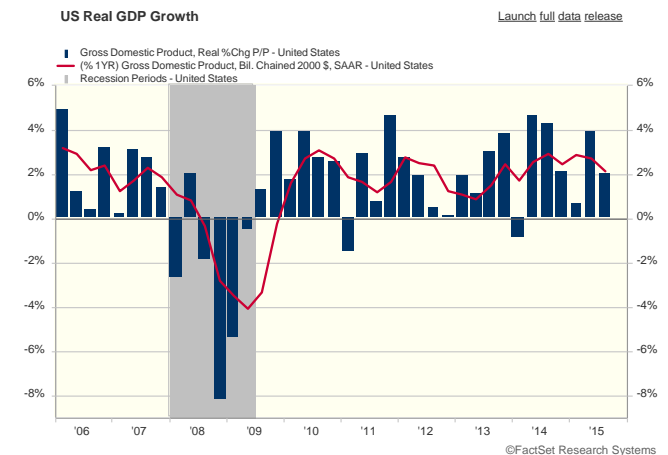
Anemic aggregate demand is unable to match the robust supply and excess capacities that currently plague the global economy. The imbalances place considerable downward pressure on prices and increase the risk of widespread deflationary trends. Developed market yield curves, despite massive government debt loads, have collapsed to unprecedented levels and suggest that markets are extremely skeptical of the effectiveness of fiscal stimulus or of any central bank's ability to reflate prices and induce sustainable economic growth.

The contrarian investor may view the hardest-hit markets as an opportunity, but we remain cautious until prices indicate confidence that the markets are finally clearing their excesses and economic conditions are easing. The U.S. investor accepts currency risk when venturing to the opportunities that exist in foreign economies, and foreign-exchange pressures have yet to abate.

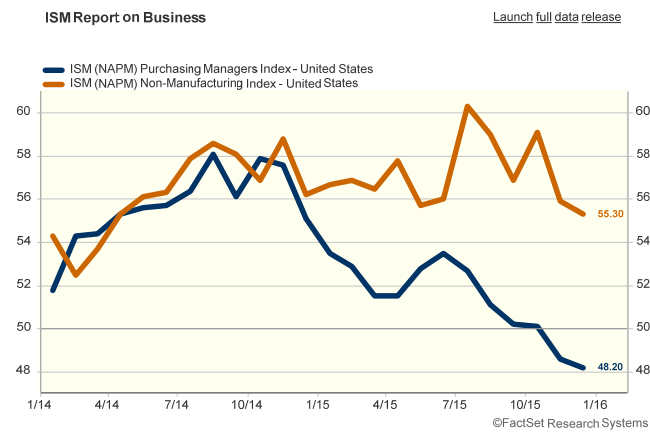


United States

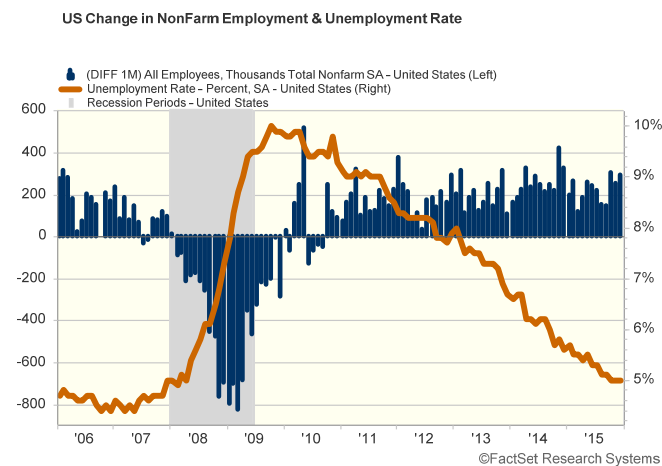
The United States is not immune to the mounting pressures on global growth. As an active participant in globalization, the U.S. economy has failed to achieve expected Real GDP growth rates, despite massive quantitative easing measures taken by the Federal Reserve to generate liquidity and stimulate expansion. At approximately 2% annual Real GDP growth, the relatively weak demand for goods and services is not supporting capital investment activities that typically emerge at this stage of a business cycle.



Hurt by the rapid appreciation of the \$US Dollar, global demand for U.S. exports is exceptionally weak. And, when combined with slumping capital spending associated with the bursting U.S. energy production boom, the domestic manufacturing sector is in recession. For the first time since 2009, the ISM Manufacturing Index is at risk of remaining in contraction for three consecutive months. Its divergence from the ISM Non-Manufacturing Index is stark and may reflect the new reality of globalization, where manufactured goods travel freely to all corners of the globe, while services are delivered more locally. We would expect the two to reunite in the coming year, with the strength of the services sector pulling manufacturing out of contraction, or the weakness of the later dragging down the former.



At nearly 70% of U.S. Real GDP, consumption is by far the greatest contributor to economic activity, making a healthy and confident consumer vital to expansion. Strong monthly job creation and an unemployment rate below 5% provide excellent support for worker confidence and consumption growth. As labor conditions tighten, it would be reasonable to expect wage increases to accelerate for the first time in more than a decade.



Unfortunately, labor markets tend to be a lagging indicator and a poor measure of current economic conditions. But if the path of least resistance continues to pursue moderate domestic growth, wage gains may finally materialize for working America and support an extension of the current business cycle.

The Federal Reserve has a dual mandate in the U.S., to promote economic expansion while managing the level of prices for goods and services (inflation). Markets predict the success of monetary policy by changing the structure of the yield curve. Markets that anticipate faster growth and rising inflation will dictate a steeper yield curve, while observations of decelerating economic conditions and falling inflation may lead to a flattening or inverted curve. The spread of the 10Y UST to the 2Y UST has narrowed from nearly 300 points to less than 120, suggesting markets are either less convinced of the path for economic growth or don't anticipate inflationary pressures to materialize.



The flattening of the yield curve may be a temporary phenomenon rather than a longer-term trend. The Fed's recent decision to transition policy toward a path of higher interest rates appears in contravention to a nearly two year collapse in the prices of most all commodities.



The costs associated with labor and materials exert the greatest influence over inflation, so declining commodity prices have been a deflationary force of late. However, if we are correct, that tighter labor market conditions are in the early stages of pushing wages higher, and if prices for the broad basket of commodities stabilize through the course of 2016, then the path toward higher interest rates by the Federal Reserve may be justified by rising inflation. This is not the path that financial markets are prepared for.

Headwinds

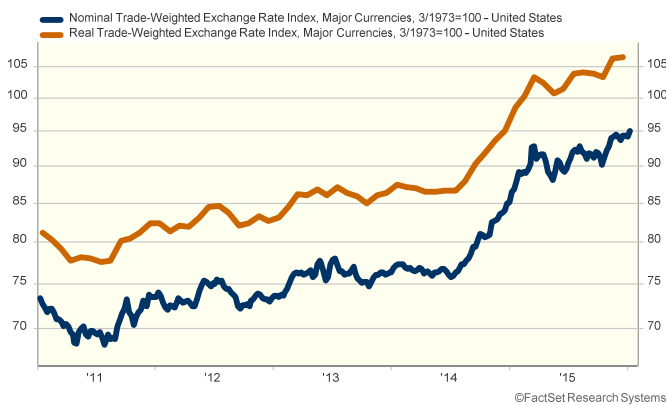
The world is awash in productive capacity, with an excess supply of labor, raw materials and manufacturing capacity. The ability to transport commodities and finished goods with ease, and relatively little expense, means that deflationary pressures associated with excess supply are pervasive around the globe. Aggregate demand for goods and services continues to grow, but consumption is not a large enough contributor to global growth and is unable to match today’s productive capacity.

Since the Great Recession, policy makers have unleashed programs of enormous scale and duration to reflate growth and inflation. The effectiveness appears to be waning and the tools available to policy makers are dwindling.

The U.S. economy received an extraordinary boost from its resurgence of energy resources and related infrastructure investments. But the collapse of oil and natural gas prices threatens to destroy much of the capital investment and leave suppliers with weak order books and heavy debt.

While a smaller percentage of the overall economy, the export sector is important and has been badly damaged by the sharp rise in the value of the \$US Dollar.

Trade Weighted US\$ vs. Major Currencies



After years of aggressive monetary policy action that eased liquidity conditions, the Federal Reserve has initiated a

reversal of course. The path toward higher interest rates and tighter conditions is likely to be very gradual, but a rising cost of capital typically depresses overall economic activity.

Tailwinds

For many regions outside of the U.S., monetary policy actions are pumping economies with liquidity to support growth. Fiscal programs are also being implemented to provide additional stimulus. The Eurozone, Japan and China are all engaged in policies aimed at boosting overall consumption and investment.

While monetary policy is reversing in the U.S., the absolute level of rates and quantity of money supply remain very accommodative. Fiscal policy has also become a larger participant in the U.S. and is set to make a more substantial contribution to 2016 Real GDP.

For consumers of energy, the sharp price declines generate meaningful savings that may be distributed to a wider and more impactful portion of the economy. Many of the largest economies in the world are net importers of energy resources and stand to benefit from the lower prices.

As the U.S. labor market continues to tighten, wages are likely to increase in substantially more meaningful terms. Higher real incomes should support increases to both savings and spending for a wider swath of U.S. consumers.

Relative Expectations

As is typical entering a new year, expectations are full of enthusiasm that 2016 will be witness to accelerating growth. We are more cautious than consensus, expecting the trend toward modest global growth to continue for yet another year. Many emerging markets suffer from the weight of excess capacities that are unlikely to abate quickly, while developed markets struggle with weak consumption, aging populations and dwindling policy tools.

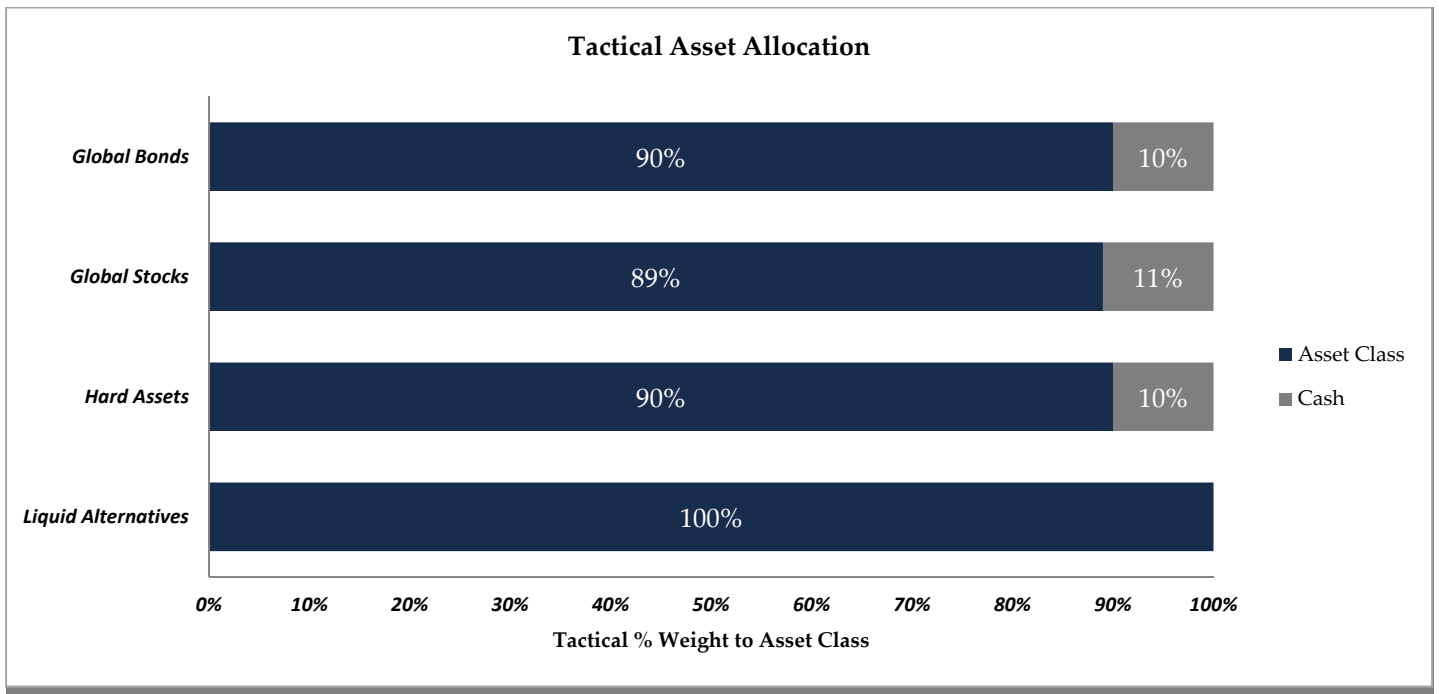
The United States will fair relatively better given its preferred mix of economic contributors. But inflation may freshen and require policy action that diverges further from others and surprises observers. Slow growth and rising inflation would present a new set of challenges for policy makers that increase the risk of a negative outcome.

We continue to assign the highest probability outcome to another year of modest economic growth. However, the risks of recession have risen considerably and can not be ignored.

Economic Rating

The IPC rating of the economy is **NEUTRAL**

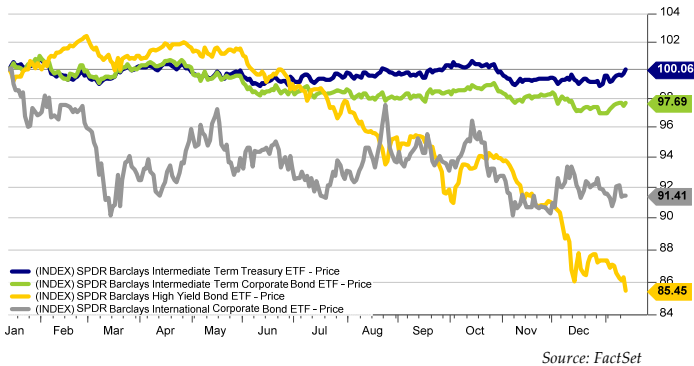
Tactical Asset Class Weights



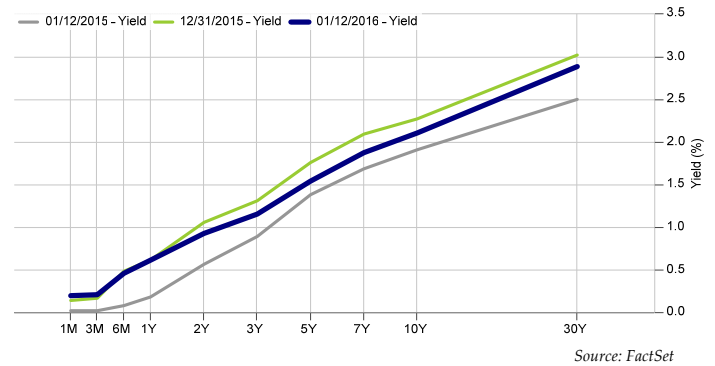
GLOBAL BONDS | Underweight

Investment Policy Committee

Credit Quality Relative Performance - TAXABLE



United States Treasury Yield Curve



Headwinds

For U.S. investors in fixed income securities, there are generally five risks that need to be considered and each are present to some degree in today's environment: (1) The absolute levels of yields within investment grade securities are near historic lows and risk losing purchasing power to inflation; with Core CPI and PCE inflation measures running near 2%, U.S. maturities short of 7 years are at risk of losing real value. (2) With the Federal Reserve beginning lift-off from its six-year ZIRP experiment, rate risk is a headwind to U.S. securities now facing the unknown of how far policy may carry short-term rates. Its stated "target rate" is significantly higher than current levels and would place downward pressure on bond prices, suppressing total returns. Moderate economic growth with a tight labor market is a recipe for rising real wages and would require a more assertive path of rate increases. (3) Spreads within investment grade securities are still quite narrow, suggesting that credit risk may not be fully priced into securities. Given rising debt levels across corporate balance sheets in recent years (in part to support share-repurchase activities), it is possible that rating agencies may find themselves behind deteriorating credit should cash flows deteriorate as a result of a decelerating business cycle. (4) While the bond markets are considered exceptionally large, size is not necessarily a determinant of liquidity. A change in Fed policy that seeks to reverse easy money and excess supply, increases the liquidity risk for investors looking to sell bonds. When combined with Dodd-Frank legislative efforts that have effectively reduced the participation of financial institutions as dealers in the bond markets, liquidity risk is more substantial today than in past years. (5) currency risk has been a significant headwind for U.S. investors seeking fixed income opportunities abroad. While the value of the \$US Dollar may appropriately reflect diverging central bank policies, a widening of policy direction beyond market expectations would place additional headwinds on prices of foreign obligations via currency translation.

Tailwinds

The most significant headwinds of 2015 may be nearing an inflection point and could transition to becoming tailwinds in 2016. Foreign bonds that crushed U.S. investor returns because of the currency risk have priced in a very strong \$US Dollar relative to many currencies. While the economic risks of many emerging markets may continue for some time still, the policies stimulating growth in the Eurozone and certain other regions may be enough for central bank policy divergence to narrow from expectations, making foreign bond markets marginally more attractive to U.S. investors in the event that the \$US Dollar is done appreciating. The second major headwind in 2015 was generated by deteriorating credits and increasing default risk in the high yield sector of the bond markets, particularly within the energy patch, but not exclusively. Spreads have widened considerably within this segment and yields may prove reasonably attractive relative to the risk profile that has been priced in by markets. If commodity and industrial sectors can stabilize, and the U.S. economy continues modest but positive expansion, then actual default rates may be lower than current prices are intimating.

Asset Class Strategy

Our outlook for modest economic growth and an extension of the current business cycle, require greater consideration of the potential rate risk, particularly if tighter labor markets result in wage growth and require more assertive policy action. This outweighs the opportunity cost associated with owning longer-dated maturities in the event that the yield curve flattens from here.

Given the duration of the current business cycle relative to historical expansions, we prefer slightly higher credit quality than earlier in the cycle and a dominant position in \$US Dollar denominated credits. High yield exposure has been cut but not eliminated from the tactical strategy given that weaker credit quality spreads mostly reflect expected default rates. The maturity schedule and duration profile are very short dated relative to benchmarks.

Relative Valuation

Our baseline outlook, for modest Real GDP growth and tighter labor markets, suggests that Fed rate hikes are likely to be on a steady path higher toward normalization, making most all components of the bond market look expensive on an absolute basis. By maturity, shorter duration bonds look relatively more attractive given an expectation of a generally parallel shift of the yield curve. By credit quality, thin spreads suggest that U.S. Treasury securities may be more attractive than other investment grade credits, but only marginally so. High Yield has been under increasing price pressure of late and begins to fully value the higher default risk that may emerge within the sector. Currency risk remains high, leading to the conclusion that foreign bond exposure is less attractive to U.S. investors at the current time. Variable rate debt securities and inflation protected securities are increasingly attractive.

For investors in mid-to-high tax brackets, municipal bond yields compare favorably to after-tax returns of equivalent taxable bonds.

Investor Sentiment

While rate hikes have been discussed for months, if not years, at this point, investors have poured enormous sums into the bond markets over the past years and continued to do so in 2015. This suggests that many investors do not anticipate the rate risks as being particularly material to total returns for the asset class. If history serves as example, then bond investors are likely to prove far too passive relative to the risks of higher rates and reduced liquidity. The UST yield curve does not reflect the “dot path” that the Fed has outlined and places significant risk to prices if inflation pressures emerge and policy makers follow the path.

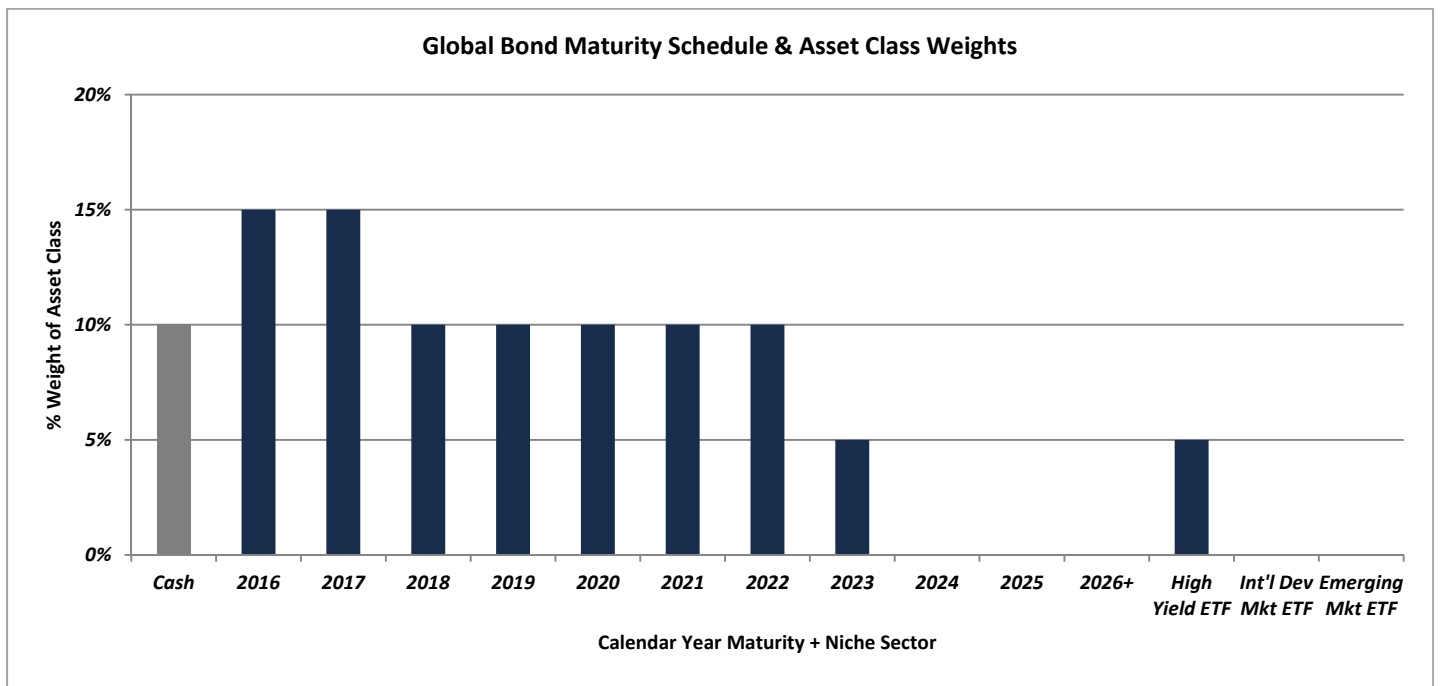
Asset Class Rating

The IPC rating is **UNDERWEIGHT** Global Bonds.

Asset Class Benchmark

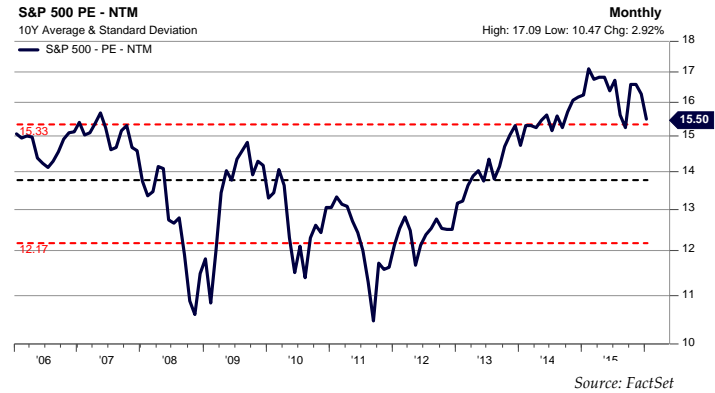
Barclays Global Aggregate Bond Index

Maturity Schedule



GLOBAL STOCKS | Underweight

Investment Policy Committee



Headwinds

Following greater than five years of profit growth and expanding PE multiples, that together delivered better than average returns to stock investors, a series of headwinds have gathered that may make it increasingly difficult for the favorable trend to continue. Profit growth has been tremendous for an economy that has been expanding at a very modest rate as compared to history. Real GDP growth, a proxy for aggregate sales, has been a fraction of profit growth, suggesting that profit margins have widened considerably in recent years. From current levels, it is difficult to expect further margin expansion to come from, 1) cost cutting (aside from M&A activity) that has been so prevalent in recent years, 2) a meaningful reduction in input prices from today's commodity price levels, and 3) an ability to hold the line on wage inflation as the labor market continues to tighten. We suspect that profit margins are nearing their top, if not having already peaked, for this business cycle. Profits per share have had the added benefit of extraordinarily high levels of share repurchase activity, a result of strong company cash flow generation and access to cheap capital. Further growth of the aggregate market EPS is likely to require a sustainable, and perhaps accelerating, rate of economic growth, a difficult feat for a business cycle now long-in-the-tooth. The PE multiple for the aggregate market has expanded nearly 6 full points over the past four years, reflecting healthy profit margin growth. Near record level profit margins and a PE now more than a full standard deviation above its 10 year average, are indicative of stock markets that are much closer to fully valued than they are to cheap. Deteriorating credit conditions and changing monetary policy are classic headwinds for stocks.

Tailwinds

Most economic indicators suggest that the current U.S. expansion remains modest but mostly in-tact, and there are signs that conditions in Europe and elsewhere are improving on the margin. With nearly 50% of S&P500 earnings coming from international markets, improving GDP (sales) and stabilizing currencies (\$USD) would be positive for boosting absolute profits. Monetary policy, despite diverging in the U.S., remains exceptionally accommodative to growth, and the wave of austerity measures ushered in by governments after the Great Recession are beginning to fade and, in certain instances, transition toward fiscal stimulus. To the extent that energy prices remain low and labor markets tight, consumers have an increasing ability to earn and spend. Finally, the forward calendar will be lapping extremely poor quarterly earnings from the energy, materials and portions of the industrial sectors, which may help improve the trajectory of aggregate market earnings.

Asset Class Strategy

The somewhat lofty valuation of the aggregate market and slightly out of balance aggregate supply relative to demand in the economy calls for a defensive posture toward stock market exposure with downside risk outweighing upside opportunity. This is especially true if the path for U.S. interest rates is higher. The top down (Macro) view leans toward more defensive sectors of the market. However, valuations within the markets and sectors are very diverse and suggest positioning be very industry and security specific. By region, OUS markets are relatively more attractive given accommodative monetary actions and security prices, but we remain underweight developed and emerging markets based on specific economic uncertainties and currency headwinds that are not quite ready to abate. By style, growth has outpaced value handsomely in 2015, and we expect to witness some reversion, especially as the risk free rate increases and causes sharper contraction in high PE ratio names. Our current outlook increases

weight to Technology and Financials in the near term, while looking for opportunity to increase Energy and Industrials as appropriate over time given how out of favor these groups have become. Healthcare and Consumer Discretionary have performed admirably and their sector PE multiples are now stretched.

Relative Valuation

Our baseline outlook for modest Real GDP growth, slow but steady increases to U.S. interest rates, and profit margins that will be increasingly difficult to hold, suggest that consensus expectations for earnings growth may be overly optimistic. Market P/E ratios that are based on a forward view of earnings are high relative to historical measures, thereby providing limited upside and perhaps significantly greater downside risk. On a CAPE (cyclically adjusted price earnings) basis that normalizes long-term earnings, the markets look even more expensive relative to history. Given the divergence within the market indices by style, specifically the dramatic outperformance of growth over value, and the recognition that a very few large capitalization companies have carried the markets during the 2H15, the question of relative valuation requires a deeper dive into specific sectors and down to the industry and company level. Doing so, there appear to be a growing list of companies whose relative valuations are quite a bit more attractive than that of the overall market index.

Investor Sentiment

In many respects, investor sentiment depends on the investor style (growth investors are happy, value investors are not) and the specific sectors being viewed. Investors remain very negative regarding the Energy, Material and Industrial sectors, while relatively more optimistic about Technology, Healthcare and perhaps Financials. Macro trends have investors slightly more nervous heading into 2016 and the prospect of steady interest rate hikes in the U.S. leave many observers with increased anxiety. The consensus expects a generally higher rate of volatility in 2016. The risk to profit margins and the role of share repurchase activity in engineering earnings growth are two areas that may not be fully appreciated by investors and increase the risk to markets.

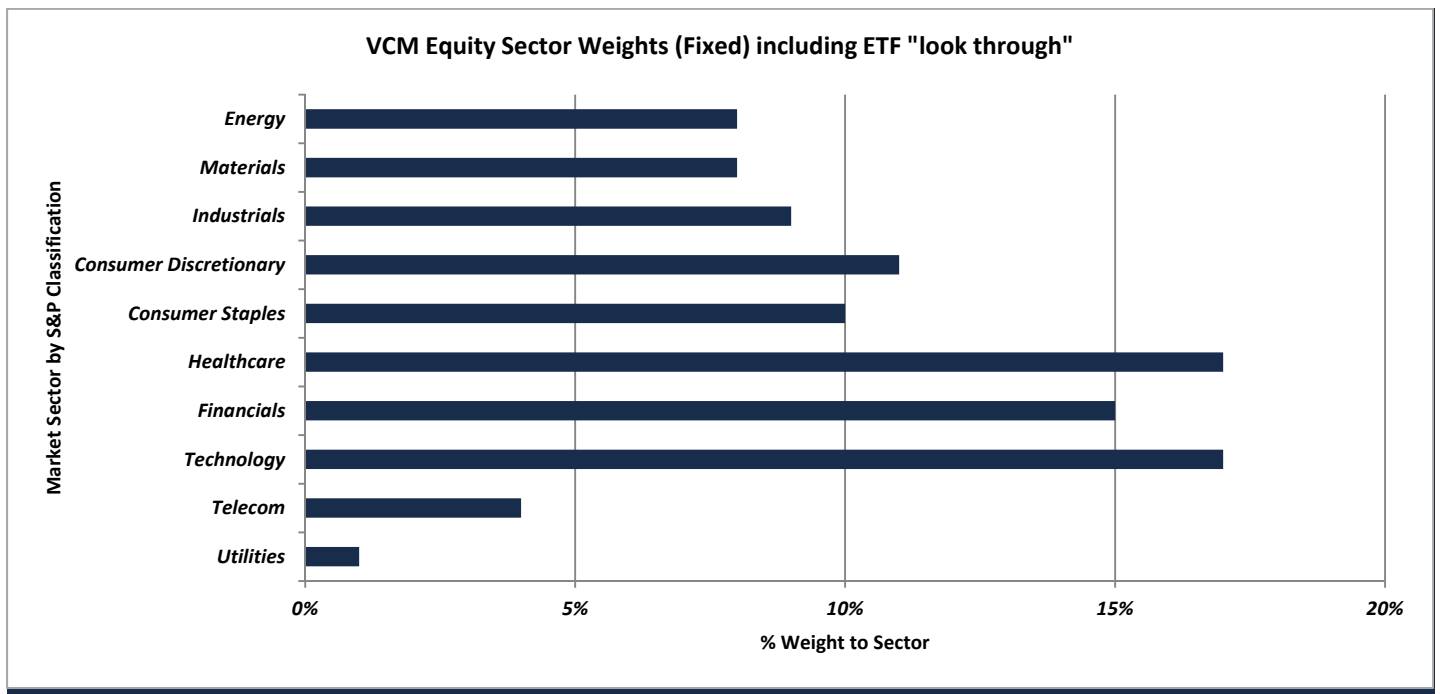
Asset Class Rating

The IPC rating is **UNDERWEIGHT** Global Stocks.

Asset Class Benchmark

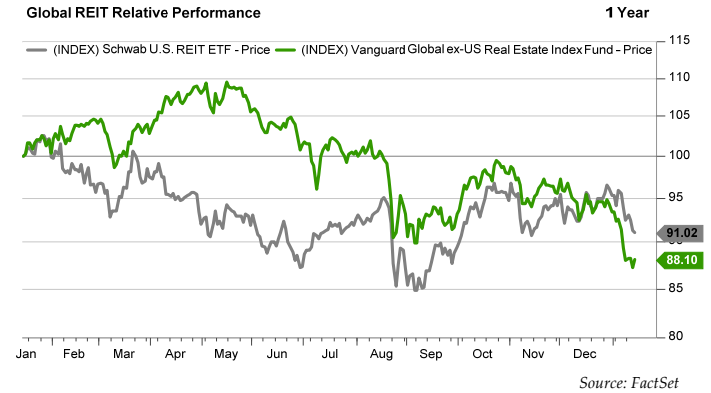
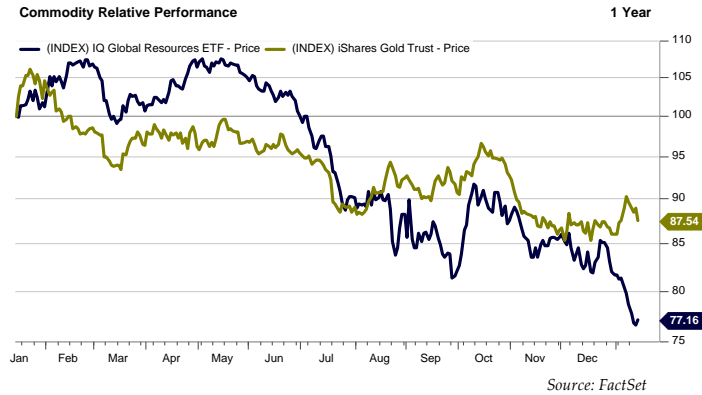
FTSE All-World Equity Index

Sector Weights



HARD ASSETS | Underweight

Investment Policy Committee



Commodity Exposure - Underweight

Commodities have been the worst performing major asset class for four years running. While dominated by the energy complex, large price declines have occurred across a broad swath of commodities, including industrial metals, precious metals, agriculture, livestock and timber. The reasons are varied and can be category specific, but price pressures generally mount when the supply and demand for the given commodity are out of balance. In recent years, the world’s capacity to extract increasing volumes of raw materials has expanded at extraordinary rates. Rising supplies of energy and industrial metals were expected to be soaked up by strong demand from China and other regions that were expanding infrastructure and manufacturing capacities. This has not come to pass as the more modest pace of global economic growth experienced since the Great Recession has resulted in demand curves for commodities that are well short of the supply. Global producers have been reluctant to reduce volumes fast enough to clear markets, leaving a glut of commodities and correspondingly depressed prices.

Each commodity market is unique in its function; some are influenced by politics and others by weather, but all share the common trend of excess supply and weak market prices. We have yet to see the production cuts necessary to reduce inventories of energy products, metals and grains. Therefore, we remain at an underweight exposure to the asset class. That said, the pain within many of the commodity markets is reaching severe levels and is increasingly likely to force marginal producers to the sidelines and leaders to cut production volumes in favor of higher price. As more rationale behavior materializes and commodity prices establish sustainable bottoms, the asset class is likely to gain better relative performance.

Importantly, the role of a rapidly appreciating \$US Dollar should not be overlooked. Many commodities are priced globally in \$US Dollar terms, thereby creating an inverse pricing relationship. Gold trades in multiple currencies and has done considerably better in non-\$US Dollar terms.

We expect the Bloomberg Commodity Index to achieve a bottom during 2016 and begin to work its way to higher levels late in the year. The catalysts for a reversal in the multi-year trend will be: (1) more aggressive production cuts by producers, and (2) measurable reductions in global inventory levels.

Global REIT Exposure – Equal Weight

The fundamentals for many REITs across broad geographies has improved materially in recent years as the global economy maintains its current expansion, albeit more modestly than in past business cycles. The demand for housing, apartments, storage and certain industry-specific commercial space (healthcare), has experienced growth ahead of GDP with generally rational investments in new supply.

Improvements to economic conditions have increased lease rates against a very low cost of capital, thereby allowing strong growth in funds from operations for many REIT categories. The healthy cash flows from the sector are supporting expanding payouts to investors. This trend should continue for those regions that are able to maintain reasonable economic expansion, low costs of

capital, and rational investments in new supply. Many international geographies, particularly developed Europe and portions of Asia, are in the sweet spot for these REIT fundamentals and should enjoy tailwinds for some time to come.

All REITs are subject to two major hazards: an excess supply of available rental properties and rising interest rates. For sure, certain U.S. geographies and specific REIT sectors have experienced strong price gains and FFO growth, thereby attracting robust supply expansion. But many remain in healthy supply-and-demand balance. The Fed's transition toward higher interest rates does pose a headwind to the U.S. REIT market in the form of rising cost of capital and potential yield competition. In the longer-term, rising interest rates can lead to slowing economic activity and may impact the demand for rental and lease properties.

We expect international REITs to benefit from accommodative monetary and fiscal policies and to outperform in 2016, while U.S. REITs are caught in-between good economic fundamentals that are increasing FFO and looming headwinds associated with rising interest rates.

Asset Class Rating

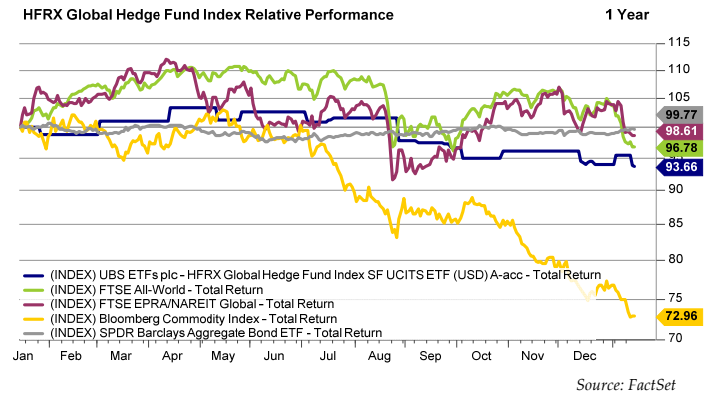
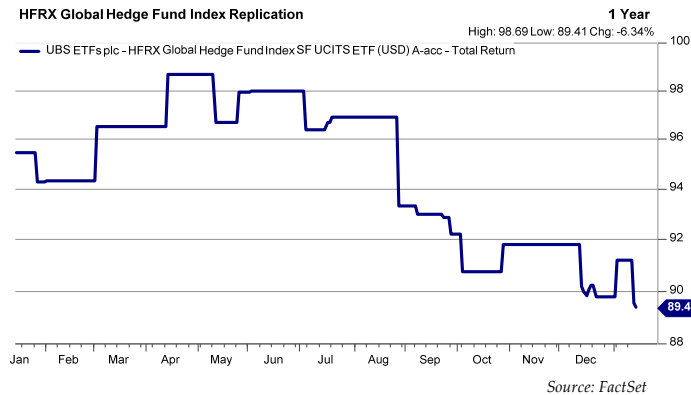
The IPC asset class rating is **Underweight**

Asset Class Benchmark

50% Bloomberg Commodity Index / 50% NAREIT Global Equity REIT Index

LIQUID ALTERNATIVES | Equal Weight

Investment Policy Committee



Review

2015 was a relatively poor year for the hedge fund universe as measured by the HFRX Global Hedge Fund Index. This was surprising, in the sense that the environment for leading hedge fund strategies appeared reasonably favorable. The level of volatility across all asset classes increased during the year but few strategies were able to take advantage of it consistently. By sub-strategy, Equity Long/Short was weak, as long exposure to single stock holdings widely held by hedge funds (13F filings) and value style detracted from performance. Event Driven strategies were mixed through the year as factors around high-yield credit markets, interest rates and equity volatility vacillated during 2H15. Global Macro strategies contributed the largest positive performance to the index on the back of long European bond exposure, short commodity baskets, and mixed weights to currencies. Relative Value strategies were a negative contributor with long exposure to high-yield credit the largest detractor. Trend Following strategies did relatively well as trends across asset classes lasted long enough to contribute positive performance before shifting, particularly within currencies and commodities.

Expectations

The recessionary conditions associated with collapsing commodity markets and depressed global exports are at conflict with accommodative monetary policies, fiscal stimulus programs and a relatively strong services sector. The diversity of current economic conditions suggests that global macro factors may offer outsized investment opportunity. Diverging monetary policy actions in the U.S. should lead to increasing volatility in fixed income markets and among currencies which may benefit a variety of hedge fund strategies. Finally, a changing cost of capital structure combined with peak profit margins is likely to lead to diverging performance among peers, reallocation of capital among market sectors, and an increasing volume of mergers and acquisitions. These conditions are ripe for equity long/short and relative value strategies.

Asset Class Strategy

The alternative asset class offers an attractive diversifying effect for portfolios through its historically low correlation to traditional asset classes. By adding the market exposure and trading strategies associated with alternative investing, the addition of this asset class to portfolios increases the potential to enhance risk-adjusted performance. Mitigating the effects of bear markets, particularly in core equities, by reducing drawdowns, can help investors maintain their asset allocation and long-term risk profiles during periods of market uncertainty.

Our strategy for gaining exposure to the alternative asset class includes two important criteria: liquidity and factor-based methodology. In recent years, the ability for investors to gain access to alternative strategies has increased through the introduction of mutual funds and ETFs that include daily liquidity features as opposed to traditional private-placement vehicles. In addition, we believe that liquidity is enhanced when funds do not invest in specific manager funds but instead implement factor-based investment processes that utilize actively-traded market vehicles to replicate hedge fund sub-strategies.

Our exposures today are broad based, taking advantage of the diversified set of market and trading strategies used by hedge funds, including but not limited to managed futures, equity hedged, global macro, event driven, fixed income arbitrage and relative value.

Asset Class Rating

The IPC asset class rating is [Equal Weight](#)

Focus List

AQR Managed Futures Strategy Fund (AQMIX): Invests in futures, forward and swap contracts both long and short within global equity, global bond, commodities and currencies. The trend-following approach seeks to go long markets that are rising in price and short markets that are falling in price. The target volatility for the fund is approximately 10%. Since inception, correlations to traditional asset classes have been extraordinarily low.

Goldman Sachs Absolute Return Tracker Fund (GJRTX): The fund seeks to deliver the overall risk-and-return profile of a diversified universe of hedge funds across four styles: equity long/short, macro, relative value, and event driven. The fund uses a dynamic process to identify the appropriate weights to market exposures and trading strategies that approximate the return and risk patterns of specific hedge fund sub-strategies. The fund does not invest in specific managers.

IQ Hedge Multi-Strategy Tracker Fund (QAI): The fund uses a systematic, rules-based investment process that seeks to identify ETFs that represent asset classes that drive hedge fund returns. The fund replicates the risk-and-return profiles of six distinct hedge fund strategies: emerging market hedge, global macro, equity long/short, event driven, market neutral, and fixed income arbitrage. The fund does not invest in specific managers.

Asset Class Benchmark

HFRX Global Hedge Fund Index

Investment Management Disclosures

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Please contact Vigilant Capital Management, LLC if there are any changes in your financial situation or investment objectives, or if you wish to impose, add or modify any reasonable restrictions to the management of your account.

Vigilant Capital Management, LLC completes and updates regulatory filings with the SEC as required. Please refer to the Firm's ADV Part 1, Part 2A and Part 2B filings for important information about how the Firm manages investment portfolios, what fees may apply to investment portfolios, important Firm disclosures, and information about employees that may participate in the investment process of the Firm. These filings may be viewed at www.sec.gov and are available upon request.