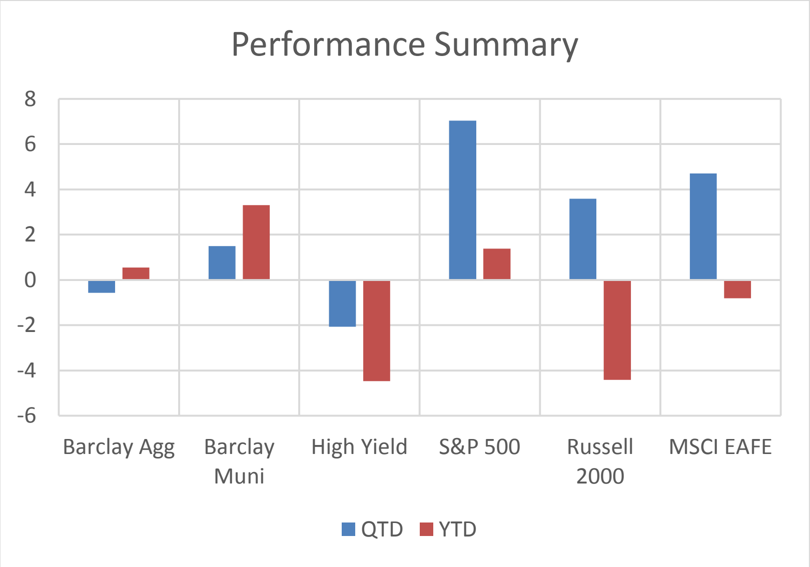
Q4 Investment Commentary

Global equities rebounded in the fourth quarter. The S&P 500 was up 7% for the quarter and finished the year with a gain of 1.4%. **The relatively flat returns masks the reality that it was a year full of increased volatility and wide divergences in performance.** Small-cap stocks lagged for the year, finishing with a 4.4% decline. Growth stocks outperformed value by a wide margin, up 5.7% vs. -3.8%, as investors paid-up for fast growers in a slow economic environment. Foreign developed market stocks finished the year down slightly at -0.4%, while emerging market stocks were down sharply at -14.6%. In general, emerging markets were impacted by slow economic growth, depreciating currencies and large weightings to the sectors that were hardest hit in 2015: commodities, energy and materials.

Fixed income markets also experienced large divergences in 2015. With core bonds up 0.6%, while riskier high yield and emerging bonds were down -4.5% and -14.9% respectively.



In many ways 2015 was a tale of two halves of the year. The first half of the year was relatively calm and generated steady although unspectacular returns. **The second half of the year was more of a roller-coaster ride with lots of ups and downs**. The ride began when China's stock market went into freefall and their currency was devalued. The Chinese stock market crashed a total of 45% from its June high to its bottom in August. This prompted concerns about global economic and earnings growth, and triggered a sell-off in the U.S. and global stock markets. Other events that contributed to second half volatility were the collapse of energy prices, the anticipation and actual increase of interest rates by the Fed, and the expectation of further stimulus from the ECB, Bank of Japan and the People's Bank of China.

As we move into 2016, our expectation is the roller-coaster ride is likely to continue. This is driven by the global forces of ongoing slow economic and earnings growth, a debt overhang and adverse demographics in most major economies. Here are a few thoughts on markets and investment themes in 2016:

Economic growth in the U.S. is stuck in the "New Normal" and will remain below potential, in the 2% range, with risks to the downside.

The Fed will likely increase rates less than the expected four times. Fiscal policy needs to play a bigger role in economic policy, however the political will won't be there unless we have a recession.

Core bonds offer low long-term return potential, however they still play a big role in hedging downside risk and have diversification benefits. High-yield and emerging market bonds should be underweighted as better buying opportunities are likely.

Segments of the U.S. equity market are overvalued and the technical conditions have deteriorated; stay selective and expect lower long-term returns. Foreign developed markets trade at better valuations and should outperform longer-term.

Several assets classes have been decimated, we are looking for signs of capitulation and better buying opportunities in these areas: commodities, energy, emerging markets, high-yield bonds, MLPs and materials.

Asset Class Views

Asset Class	View*	Comments
Equities		
U.S. Large Cap	↔	Markets rebounded in the quarter, leaving valuations at relatively high levels. We expect long-term returns to be below the long-term average. Volatility will likely remain high as monetary policy starts to normalize. Keep a focus on value and resist the temptation to chase momentum stocks that are overvalued.
U.S. Small/Mid Cap	↓	We have been underweight for several years. Although relative valuation has improved, we still, expect returns over the next five years to be sub-par.
International Developed	↑	Valuations are more attractive than U.S. stocks. Volatility is likely to remain high near-term, however we expect foreign developed stocks to outperform U.S. stocks over the next five years due to better valuations.
Emerging Markets	↔	Markets have pulled back sharply and valuations look attractive; however, we expect volatility to remain high due to concerns about currency, debt, slow-growth and liquidity risks. We will wait for better opportunities.
Fixed Income		
Investment Grade	↔	Yields remain in a trading range; absolute returns will be in the low single-digits, however we recommend keeping exposure for risk management and diversification purposes.
High-Yield Bonds	↓	Valuations have improved but do not justify the risks. If the economy continues to slow or enters recession, we expect substantial downside risk. Would only buy at better valuations or if economy gathers strength.
Municipal Bonds	↔	Valuations are fair, however they look attractive for high tax-bracket investors.
TIPS	↔	Valuations are fair; TIPs make sense in tax-deferred accounts as a hedge against inflation.
Floating-Rate Loans	↔	We view FRLs as reasonably attractive, however rates are well below the “floor’ level and it may take several rate increases for any rate adjustments to kick-in.
Emerging Markets	↔	Valuations have improved, however we are concerned about currency and liquidity risks. We remain cautious and will wait for potential “wash-outs” before looking to pick-up bargains.
Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes; investors need to maintain a long-term perspective. Returns in the past year have been disappointing.
REITs	↔	Valuations for the general asset class look full; selectively we see opportunities in specific REITs and expect good risk adjusted returns if interest rates stay contained.
Commodities/Gold	↔	We view gold as an “insurance” asset and recommend holding small positions, precious metals have been in a tight trading range and we will watch closely to see if they break support or resistance. Commodities have sold off dramatically and may be nearing a buying opportunity for long-term investors.

*** ↔ Neutral weight ↓ Underweight ↑ Overweight**

U.S. Stocks
Market Performance, Fourth Quarter 2015

Index	Q4 2015	YTD
S&P 500	7.04%	1.38%
Russell 1000	6.50%	0.92%
Russell 1000 Value	5.64%	(3.83%)
Russell 1000 Growth	7.32%	5.67%
Russell Midcap	3.62%	(2.44%)
Russell 2000	3.59%	(4.41%)

Source: Morningstar

- Stocks rallied from oversold conditions in the third quarter.
- The S&P 500 was up 7% and finished the year with a small gain of 1.38%, including dividends. Small-cap stocks rallied, but continue to lag large-cap stocks for the quarter and year. A sign of a risk averse market.
- Growth stocks continued their outperformance of value stocks. Value stocks are trading at more attractive valuations, however a catalyst is needed to see a rotation away from growth. We have a slight bias towards growth, as we await a catalyst to move towards value stocks.

International Stocks
Market Performance, Fourth Quarter 2015

Index	Q4 2015	YTD
MSCI EAFE	4.75%	(0.39%)
MCSI EME	0.73%	(14.60%)
MSCI BRIC	1.33%	(13.25%)

Source: Morningstar

- International developed had a strong quarter, up 4.75%. Emerging markets were roughly flat and continue to lag, as investors remain concerned about currency, liquidity, debt and slow economic growth.
- We believe foreign developed markets are attractively valued relatively to the U.S., and expect them to outperform over the next five years. We remain underweight emerging markets due to the risks mentioned above, and are awaiting better opportunities.

Fixed Income
Market Performance, Fourth Quarter 2015

Index	Q4 2015	YTD
Vanguard Total Bond Index	(0.63%)	0.30%
Barclays Muni Bond	1.50%	3.30%
Barclays US Corp High-Yield	(2.07%)	(4.47%)
JPM GBI- EM Global Diversified	(0.01%)	(14.92%)
iShares TIPS Bond	(0.66%)	(1.59%)
BofA Merrill Lynch 3 month Treasury Note	(0.01%)	0.00%

Source: Morningstar

- Core bonds were down slightly for the quarter, as yields rose in anticipation of the December Fed hike. Gains for the year are essentially flat.
- More aggressive parts of the bond market continued to struggle, high yield bonds finished the year down 4.47% and emerging market bonds were down significantly at 14.92%.
- Core bonds yields remain in a low trading range and we have modest expectations for returns in the coming years. We own core bonds mainly for diversification and risk management.

Alternative Assets
Market Performance, Fourth Quarter 2015

Index	Q4 2015	YTD
PIMCO All Asset All Authority	(1.36%)	(11.73%)
AQR Diversified Arbitrage	(2.67%)	(4.87%)
Gateway	2.81%	2.59%

Source: Morningstar

- In general, liquid alternative assets have struggled this year. The one exception has been the Gateway fund, which outperformed the S&P 500 on both an absolute and risk-adjusted basis.
- We continue to recommend moderate allocations for the long-term and believe they will improve the risk-adjusted return of portfolios.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		**Description**
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		**Description**
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
Gateway	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.