Sherpa Investment View 4th Quarter 2015

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Fourth Quarter 2015

Commentary

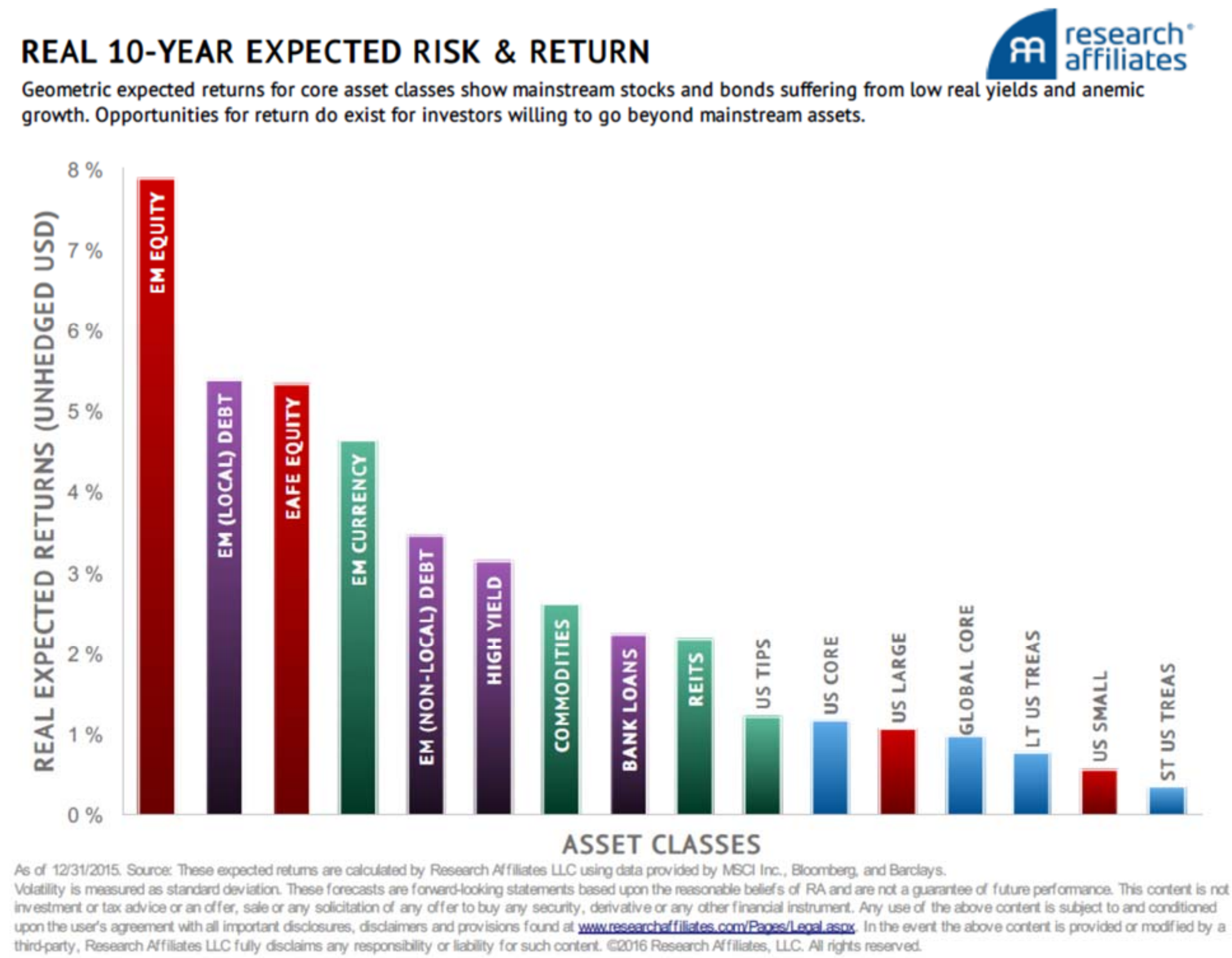
2015 was a volatile year. Stateside, the dollar strengthened but stocks and bonds ended largely flat. The S&P 500 gained about 4.5% through July then dropped toward the end of August as markets around the world fled to safety on concerns about a slowdown in China. Weaker pricing for oil and other commodities weighed on emerging market equities throughout 2015 with the MSCI Emerging Markets Index down nearly 15% for the year. The US rate hike in December and the Fed's plan to steadily increase its main policy rate by a quarter point every quarter through 2016 has removed at least one source of uncertainty from investors' minds. Overseas, the equities of Eurozone countries posted positive returns overall, helped by hopes for further quantitative easing (QE) but some of these gains were eroded, however, as the eventual announcement by the European Central Bank that it would extend its QE initiative indefinitely but not expand it disappointed investors. Over the last quarter of 2015, Japan was the best performing equity market beginning with a sharp rebound in Japanese equities in October.

Outlook

For 2016, our Investment Committee believes that the bull market is finally over for US equities with valuation, momentum, leading economic indicators, and earnings all showing negative signals. For emerging market (EM) equity, commodity price stabilization and corporate earnings growth improvements are going to play a key role in turning around investor sentiment about this asset class. EM equity has historically been a natural-resource dependent asset class and with the decline in oil prices of more than 60% from their high of $110/barrel in June 2014 there is little room left for further large decreases. This should ease headwinds for EM equity in 2016. China is another source of volatility for global investors but with the recent news that Beijing is looking to prioritize supply-side reforms instead of demand-side stimulus investors should be encouraged. In the developed world outside the US, we have a positive outlook for the Eurozone as they seem to have weathered the Greek storm and continue to focus dovish monetary policy.

Data taken from Morningstar

Asset Classes



Bolstered by strong balance sheets and hefty foreign currency reserves, emerging market equities are expected to have the highest real returns over the next decade or so but also the highest level of risk among other asset classes. Investors with long time horizons and the willingness and ability to withstand volatility in their portfolios should stand reap some benefits by holding this asset class.

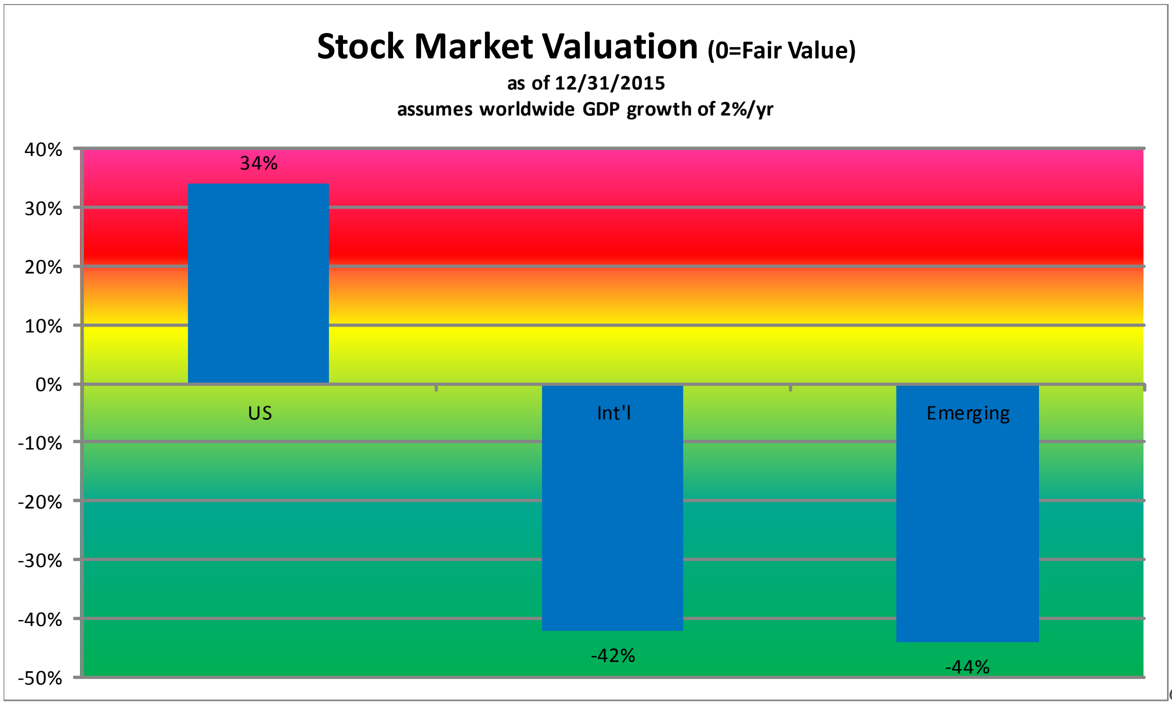
Historical & Forecasted Equity Returns

	HISTORICAL REAL TOTAL RETURN						FORECAST REAL RETURN		
Index Name	YTD	1-Year	3-Year Annualized	5-Year Annualized	10-Year Annualized	10-Year Relative Rank	10-Year Annualized	10-Year Relative Rank	Growth of $10K
EQUITY									
MSCI EAFE	-1.3%	-1.3%	4.4%	2.5%	1.6%		5.3%		$16,791
MSCI EMERGING MARKETS	-15.5%	-15.5%	-7.5%	-6.0%	2.1%		7.9%		$21,335
RUSSELL 2000	-5.3%	-5.3%	10.6%	7.6%	4.9%		0.5%		$10,558
S&P 500	0.5%	0.5%	14.1%	11.0%	5.4%		1.1%		$11,112

Source: Research Affiliates as of 12/31/2015

Global Equity View

We have tilted out of US stocks as we view them as overpriced and unfavorable and tilted into the equity markets of developed international and emerging market countries.



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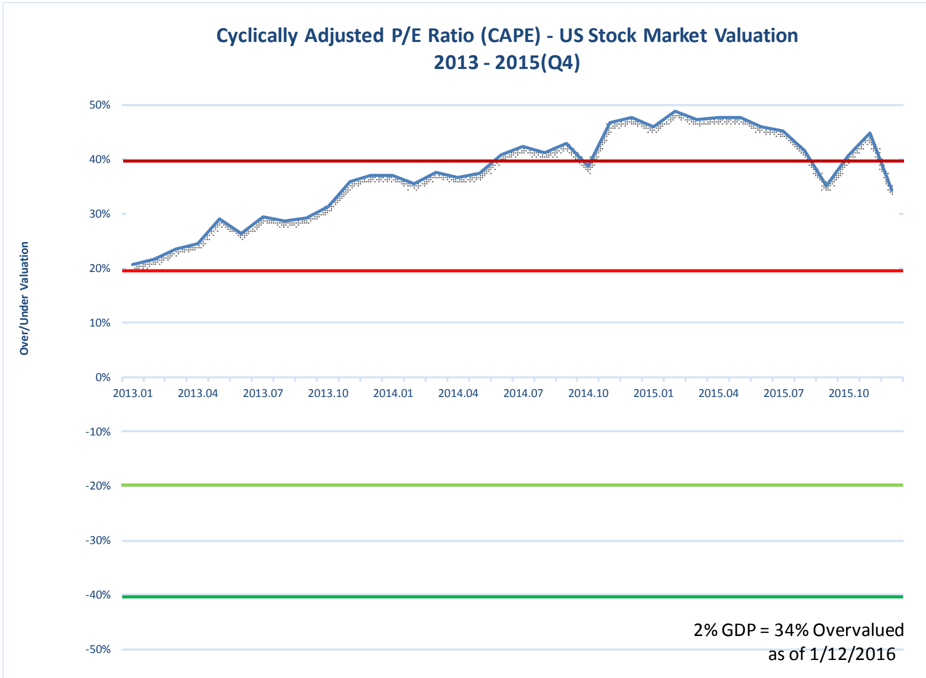
Highly Overvalued Overvalued Undervalued

Based on the Cyclically Adjusted Price Earnings (CAPE) ratio The US equity market is approximately 34% overvalued while the Canadian equity market is 19% undervalued, developed international countries' equities are 42% undervalued, and emerging market countries' equities are 44% undervalued.



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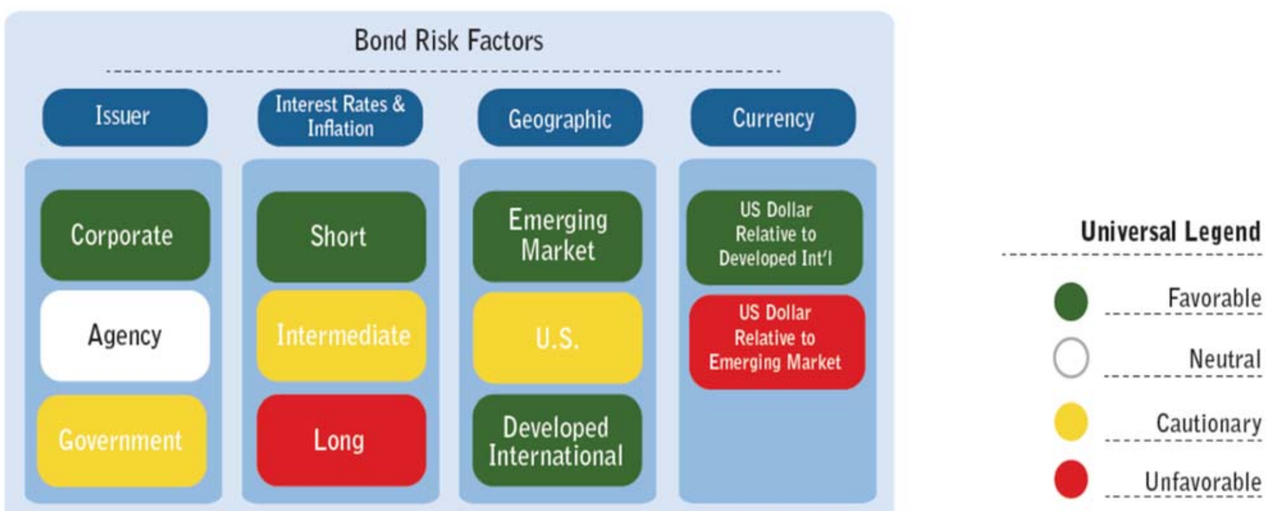
Earnings in the S&P 500 fell over the fourth quarter causing the US equity market to go deeper into overvalued territory.

Global Bond View



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In the US, bond yields are still low and bond prices are high as volatility in global equity markets has pushed investors toward safer investments. Bond values in the US are also still heavily dependent on fed policy. As a result, we favor shorter-term and corporate bonds.

REAL 10-YEAR EXPECTED RISK & RETURN

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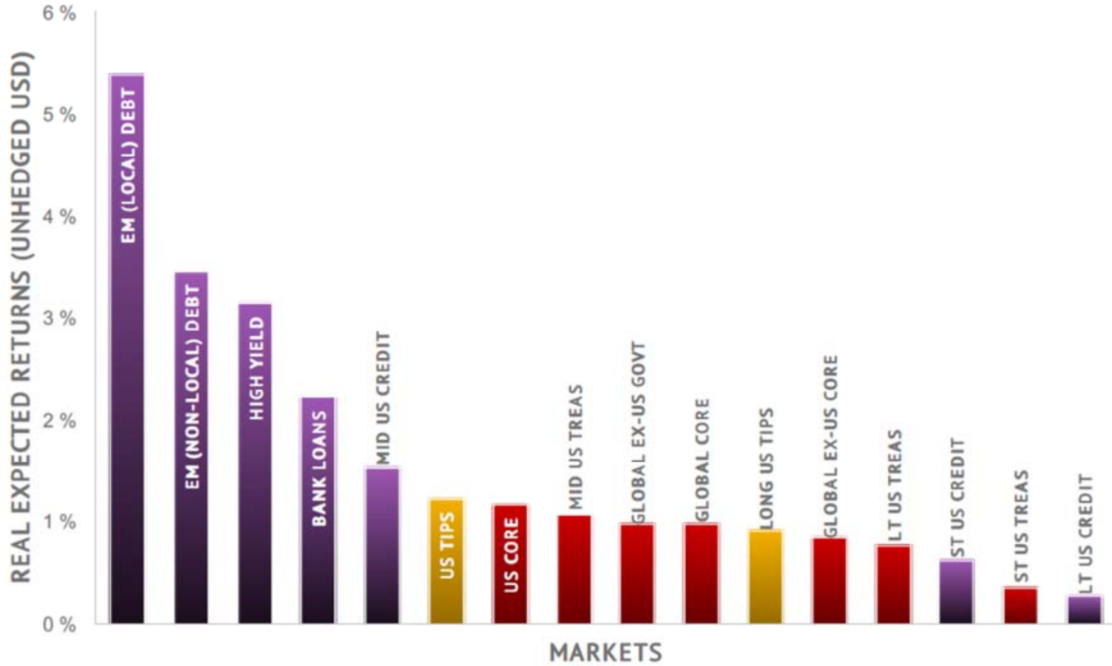
Low yields indicate low future real returns for most government and credit assets. Inflation-linked securities could benefit if inflation rates are higher than market-priced break even inflation rates. Local emerging-markets debt benefits from higher credit ratings for these countries as well as higher yields.



As of 12/31/2015. Source: These expected returns are calculated by Research Affiliates LLC using data provided by MSCI Inc., Bloomberg, and Barclays.
Volatility is measured as standard deviation. These forecasts are forward-looking statements based upon the reasonable beliefs of RA and are not a guarantee of future performance. This content is not investment or tax advice or an offer, sale or any solicitation of any offer to buy any security, derivative or any other financial instrument. Any use of the above content is subject to and conditioned upon the user's agreement with all important disclosures, disclaimers and provisions found at www.researchaffiliates.com/Pages/Legal.aspx. In the event the above content is provided or modified by a third-party, Research Affiliates LLC fully disclaims any responsibility or liability for such content.

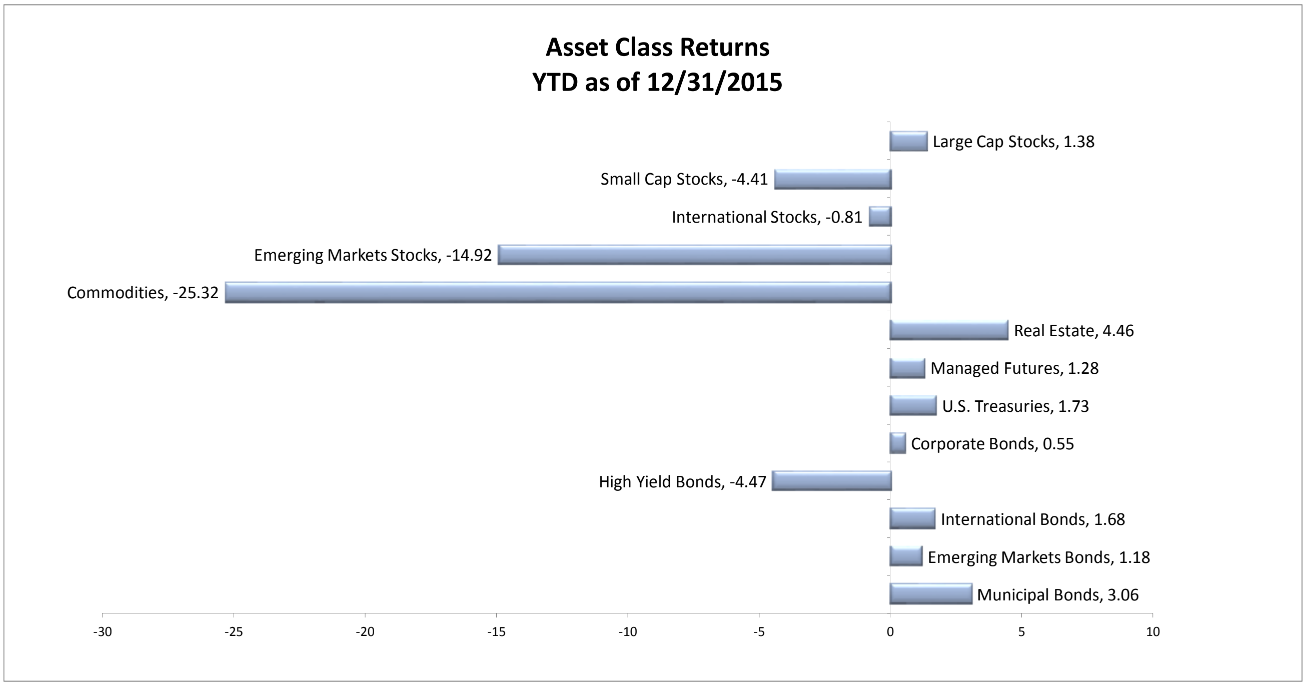
In the bond space, emerging market bonds denominated in local currencies are expected to have the highest return.

Historical & Forecasted Bond Returns

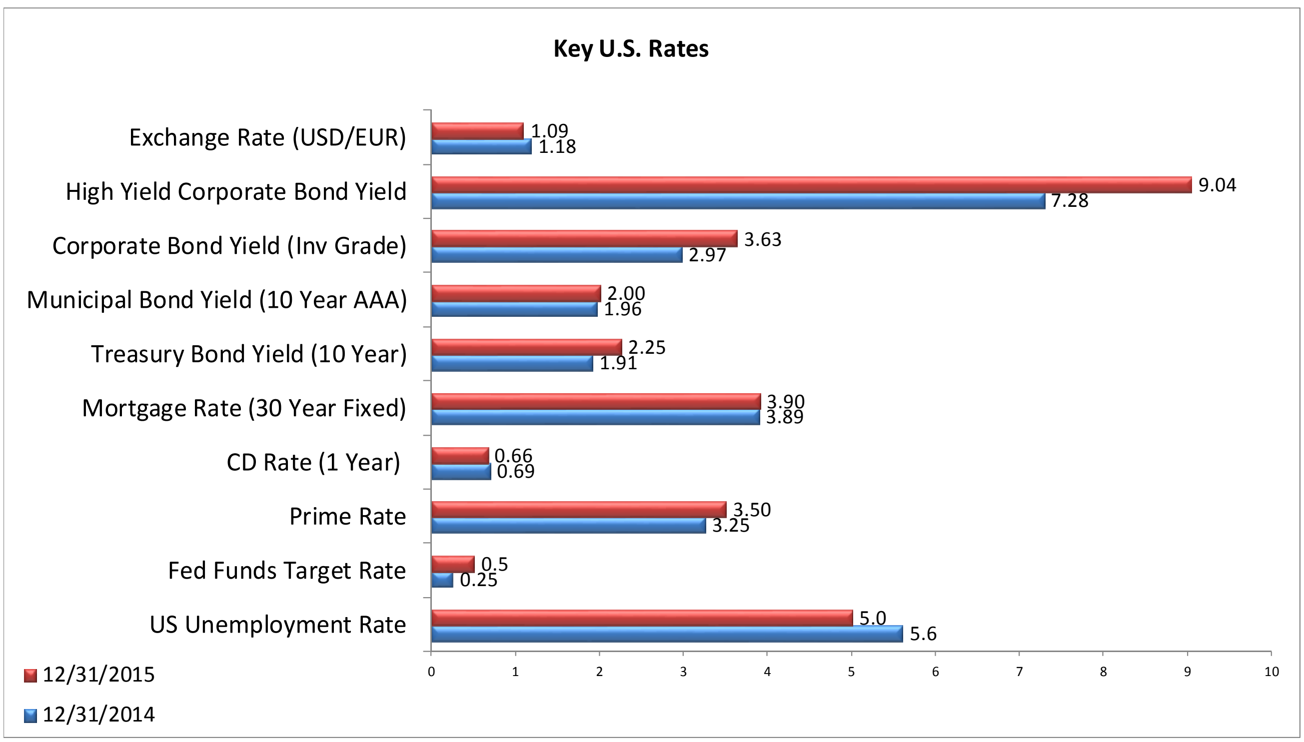
	HISTORICAL REAL TOTAL RETURN						FORECAST REAL RETURN		
Index Name▲	YTD	1-Year	3-Year Annualized	5-Year Annualized	10-Year Annualized	10-Year Relative Rank	10-Year Annualized	10-Year Relative Rank	Growth of $10K
CORE BONDS									
BARCLAYS GLOBAL (EX-US) AGGREGATE	-6.9%	-6.9%	-5.1%	-2.4%	1.2%		0.8%		$10,875
BARCLAYS GLOBAL (EX-US) TREASURY	-5.7%	-5.7%	-5.2%	-2.7%	1.2%		1.0%		$11,026
BARCLAYS GLOBAL AGGREGATE	-4.0%	-4.0%	-2.8%	-0.7%	1.9%		1.0%		$11,012
BARCLAYS US AGGREGATE	-0.3%	-0.3%	0.4%	1.7%	2.6%		1.2%		$11,224
BARCLAYS US TREASURY 1-3 YR	-0.3%	-0.3%	-0.5%	-0.9%	0.6%		0.3%		$10,353
BARCLAYS US TREASURY INTERMEDIATE	0.3%	0.3%	-0.2%	0.5%	1.9%		1.1%		$11,107
BARCLAYS US TREASURY LONG	-2.1%	-2.1%	1.5%	6.2%	4.9%		0.8%		$10,786

Source: Research Affiliates as of 12/31/2015

Market & Economic Review



Data obtained from Morningstar



Data obtained from Morningstar

Conclusions:

1. US equities remain expensive while the equities of emerging market countries and developed international countries have more attractive valuation levels
2. Indications are that the bull market is finally ending in the US with valuation, momentum, leading economic indicators, and earnings all showing negative signals
3. The Fed will timidly move toward policy normalization and likely limit 2016 rate increases to 50 basis points
4. We continue to favor high yield municipal bonds as the most attractive area within the fixed income markets, given the high income produced by the sector and the relative credit strength
5. Oil prices have declined more than 60% from their high of $110/barrel in June 2014 leaving little room for further large decreases; prices should stabilize due to anticipated production cuts
6. Positive outlook for developed international countries as Europe seems to have weathered the Greek storm and Japan continues to aggressively fight deflation
7. Chinese officials have prioritized supply-side reforms over demand-side stimulus; this should ease volatility in the region
8. Seek alternate sources of return via low correlation investments (managed futures)
9. Focus on the protection of capital rather than the quest for high returns (sometimes the best offense is a good defense!)
10. Wait for the fat pitch: price levels are high and we believe patience is the key