



Sherpa Investment View 1st Quarter 2016

First Quarter 2016

Commentary

The first quarter of 2016 was split in two halves. Asset prices collapsed in the first part of 2016 and market volatility reached a five-month high as oil bottomed out. In March, the Fed gave markets dovish guidance with Janet Yellen noting that the Fed's guidance is only a forecast and should not be considered a specific plan for future rate increases. This accommodative stance by the Fed gave markets a boost towards the end of the quarter.

Outlook

While the end of the first quarter saw a rebound in asset prices giving global investors a chance to breathe a sigh of relief, we feel that more market volatility may still lurk ahead. Investors around the world remain skittish and will fly to safety at the first hint of uncertainty. Geo-political issues like production agreement violations by oil producing countries and concerns over China's slowing growth remain sources of concern and may lead to a revival of volatility in the second quarter.

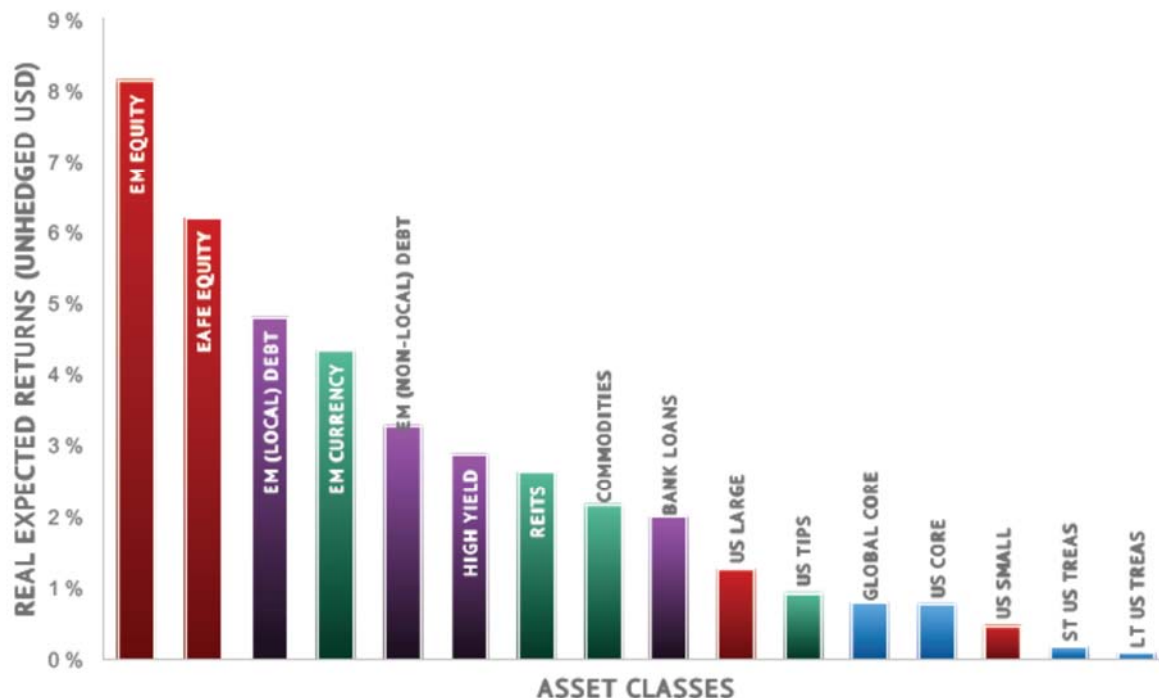
Data taken from Morningstar, Investopedia, and Yahoo Finance

Asset Classes

REAL 10-YEAR EXPECTED RISK & RETURN



Geometric expected returns for core asset classes show mainstream stocks and bonds suffering from low real yields and anemic growth. Opportunities for return do exist for investors willing to go beyond mainstream assets.



As of 03/31/2016. 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. ©2016 Research Affiliates, LLC. All rights reserved.

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.

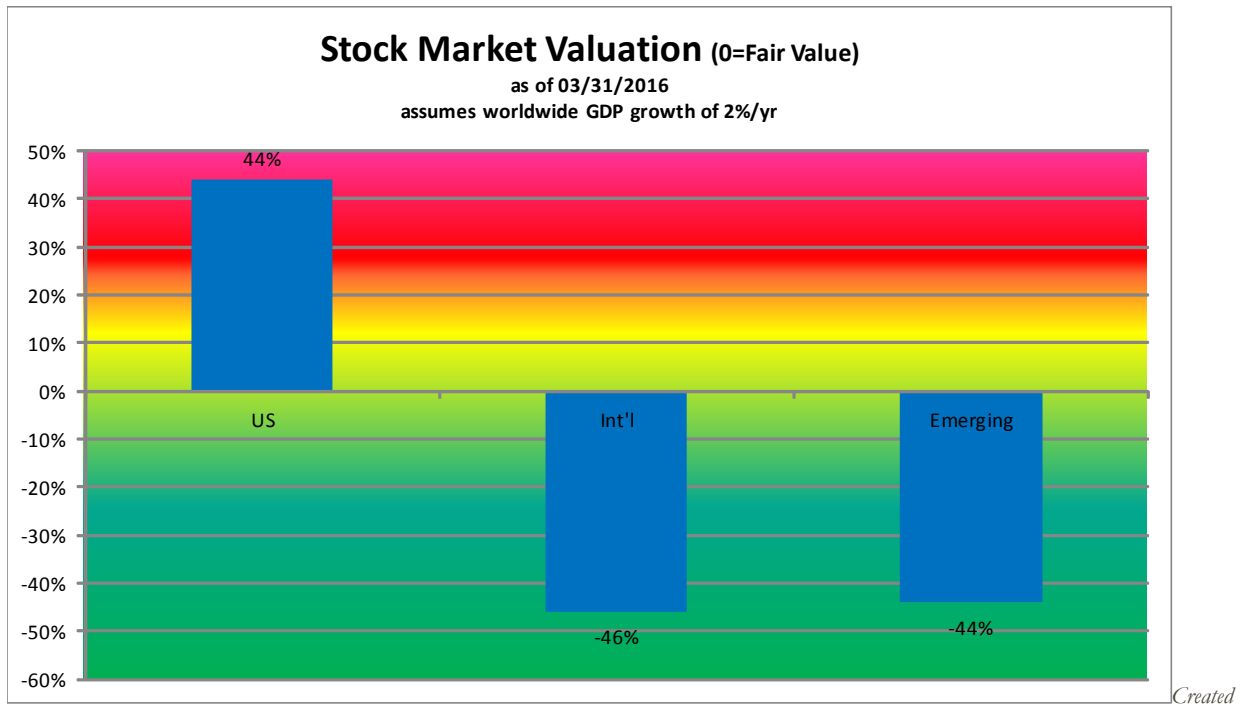
Historical & Forecasted Equity Returns

Index Name	HISTORICAL REAL TOTAL RETURN						FORECAST REAL RETURN		
	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	-3.2%	-8.4%	2.0%	1.6%	0.5%	■	6.2%	■	\$18,246
MSCI EMERGING MARKETS	5.4%	-12.2%	-4.8%	-5.0%	1.6%	■	8.1%	■	\$21,884
RUSSELL 2000	-1.8%	-10.3%	6.2%	6.0%	3.5%	■	0.4%	■	\$10,446
S&P 500	1.0%	1.3%	11.2%	10.4%	5.3%	■	1.3%	■	\$11,324

Source: Research Affiliates as of 3/31/2016

Global Equity View

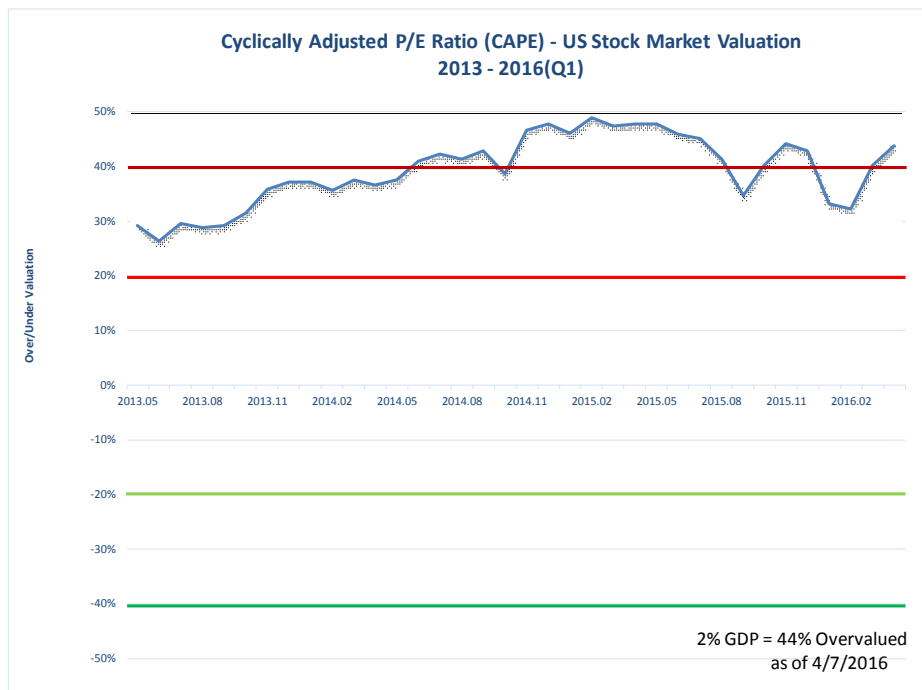
We have tilted out of US stocks as we view them as overpriced and unfavorable and tilted into the equity markets of developed international and emerging market countries.



by Sherpa Investment Management and data obtained from <http://www.econ.yale.edu/~shiller/data.htm> & Research Affiliates

■ Highly Overvalued ■ Overvalued ■ Undervalued

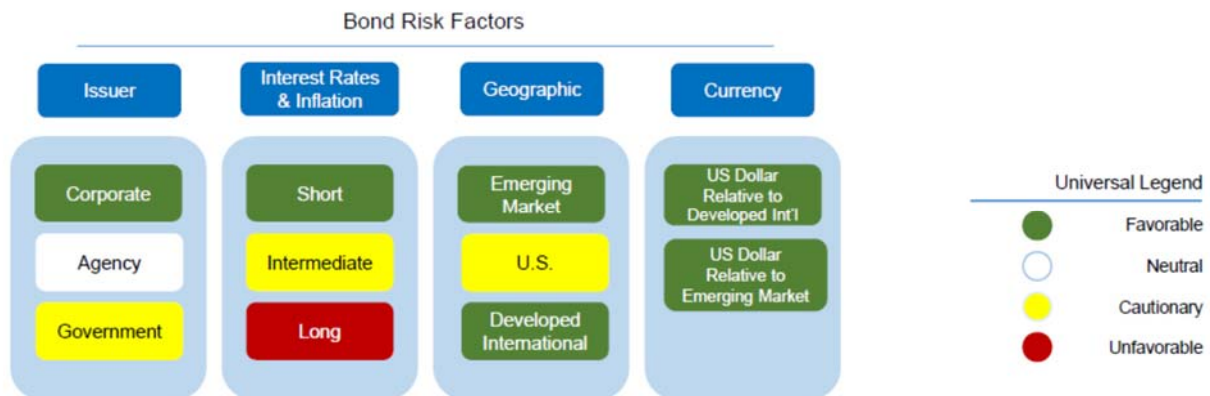
Based on the Cyclically Adjusted Price Earnings (CAPE) ratio The US equity market is approximately 44% overvalued while developed international countries' equities are 46% undervalued, and emerging market countries' equities are 44% undervalued.



Created by Sherpa Investment Management and data obtained from <http://www.econ.yale.edu/~shiller/data.htm> & Research Affiliates

With the rebound in oil prices and the accommodative stance taken by the Fed late in the first quarter, US equity prices rose keeping the US equity market in overvalued territory.

Global Bond View



Created by Sherpa Investment Management

- High demand for government bonds around the world have pushed these bonds into overvalued territory
- When interest rates rise, longer-term bonds will be negatively impacted more than shorter-term bonds

- We favor international and emerging market bonds due to more favorable monetary policy overseas

We forecast that the US dollar will strengthen against most foreign currencies. This means that when interest is paid in foreign currencies these currencies will buy fewer dollars upon conversion. Monetary easing in most countries is causing capital to flow out of these countries, resulting in lower currency values. As a result, we have hedged (removed) your exposure to foreign currencies.

REAL 10-YEAR EXPECTED RISK & RETURN



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 03/31/2016. 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. ©2016 Research Affiliates, LLC. All rights reserved.

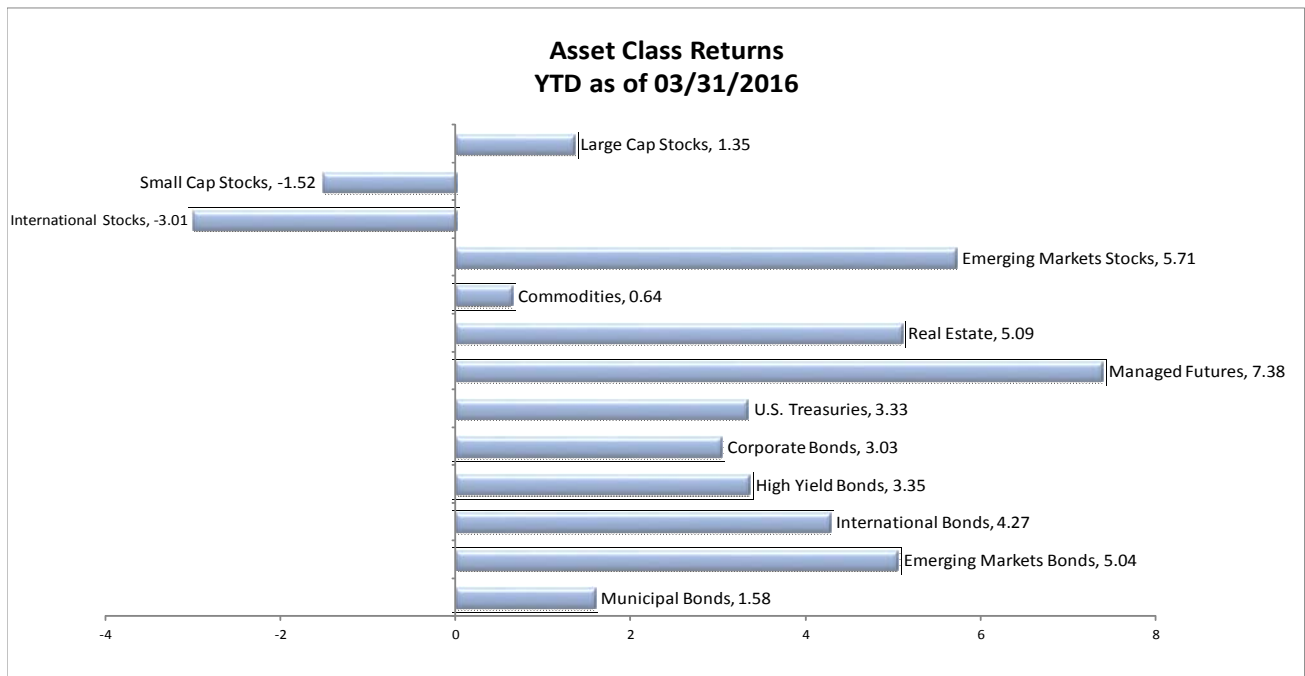
In the bond space, emerging market bonds denominated in local (emerging market) currencies are expected to have the highest return with commensurate risk.

Historical & Forecasted Bond Returns

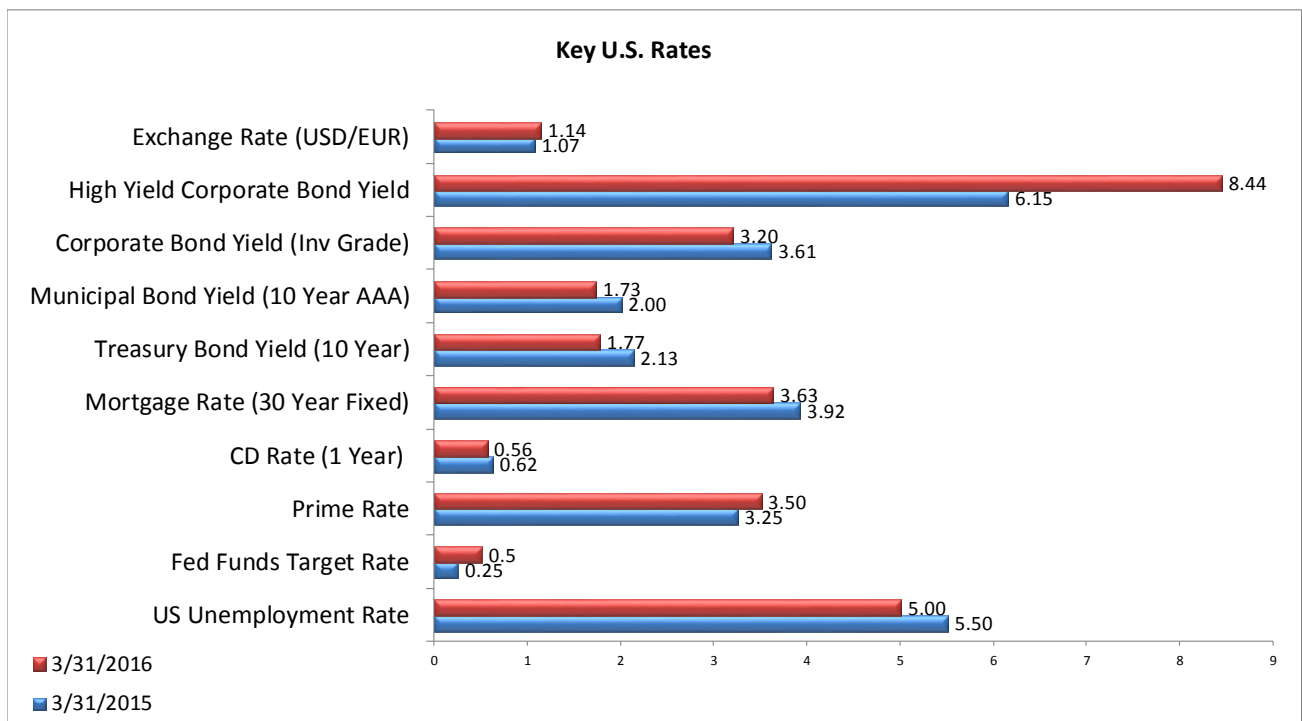
Index Name	HISTORICAL REAL TOTAL RETURN						FORECAST REAL RETURN			
	YTD	1-Year	3-Year Annualized	5-Year Annualized	10-Year Annualized	10-Year Relative Rank	10-Year Annualized	10-Year Relative Rank	Growth of \$10K	
CORE BONDS										
BARCLAYS GLOBAL AGGREGATE	5.6%	4.1%	0.2%	0.6%	2.6%		0.8%	■	\$10,812	
BARCLAYS US AGGREGATE	2.7%	1.5%	1.9%	2.6%	3.2%	■	0.8%	■	\$10,781	
BARCLAYS US TREASURY 1-3 YR	0.6%	0.4%	0.1%	-0.3%	0.8%	■	0.2%	■	\$10,167	
BARCLAYS US TREASURY LONG	7.8%	2.3%	5.5%	8.5%	6.2%	■	0.1%	■	\$10,071	

Source: Research Affiliates as of 3/31/2016

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. The Fed continues to timidly move toward policy normalization and will likely limit rate increases in 2016
3. We continue to favor high yield municipal bonds given the high income produced by the sector and the relative credit strength
4. Oil prices saw a rebound toward the end of the first quarter but we forecast continued volatility in prices until oil producing countries come to a definitive production agreement
5. We favor international and emerging market assets due to more favorable monetary policy overseas
6. Seek alternate sources of return via low correlation investments (managed futures)
7. Focus on the protection of capital rather than the quest for high returns (sometimes the best offense is a good defense!)
8. Wait for the fat pitch: price levels are high and we believe patience is the key