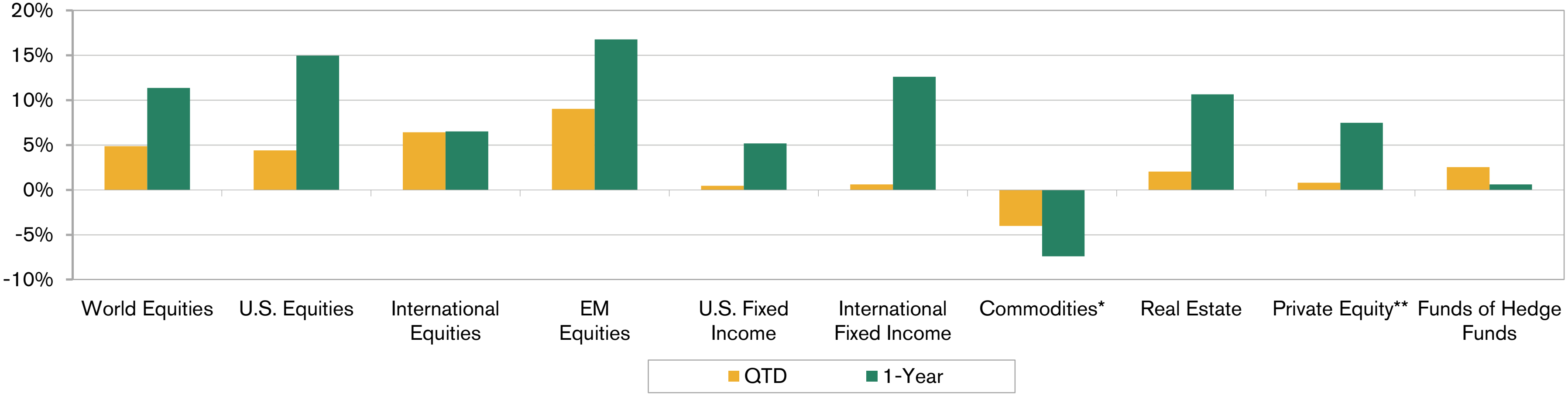
Investment Synopsis

Third Quarter 2016

Third Quarter 2016 Investment Performance: Summary by Asset Class

This section provides data on investment performance for select market indices mostly for the third quarter (Q3) 2016, as well as Rogerscasey's commentary.

Asset Class Summary: Quarter-to-Date (QTD) and One-Year Returns



Asset Class	Indices	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Equities	MSCI World (Net of dividends)	4.87	5.55	11.36	5.85	11.63	4.47
	Russell 3000	4.40	8.18	14.96	10.44	16.36	7.37
	MSCI EAFE (Net of dividends)	6.43	1.73	6.52	0.48	7.39	1.82
	MSCI EM (Net of dividends)	9.03	16.02	16.78	-0.56	3.03	3.95
Fixed Income	Barclays Capital U.S. Aggregate	0.46	5.80	5.19	4.03	3.08	4.79
	Citigroup Non-U.S. WGBI (Unhedged)	0.60	14.18	12.61	1.21	0.24	3.94
Other	Commodity Splice*	-4.01	7.09	-7.40	-17.25	-10.99	-7.19
	NCREIF NPI	1.77	6.13	9.22	11.31	11.18	7.22
	Thomson Reuters Private Equity**	0.81	0.81	7.49	13.33	11.49	10.62
	HFRI Fund of Funds Composite	2.39	-0.25	0.47	2.16	3.16	1.77

*Commodity Splice, a Rogerscasey index, blends the Bloomberg Commodity Index (50%) and the S&P GSCI Index (50%), rebalanced monthly.

**Performance reported as of Q1 2016 because Q2 2016 and Q3 2016 performance data is not yet available.
Sources: eVestment Alliance, Investment Metrics, Thomson One and Hedge Fund Research, Inc.

World equity markets performed strongly in Q3. On a global developed factor* basis for Q3, Value and Risk performed well, while Quality and Sentiment performed poorly. Results for Growth were mixed. Non-U.S. developed equity and emerging market equities both outperformed U.S. market equities for the quarter.

U.S. and international fixed income performed positively in Q3. U.S. nominal Treasury yields edged higher in Q3, while high-quality credit spreads contracted modestly.

Commodities ended Q3 in negative territory. On a sector basis, Agriculture, Livestock, and Energy had negative returns, while Precious Metals were flat and Industrial Metals increased.

Hedge fund of funds gained in Q3. With regard to direct hedge funds, four of the five major strategies – Emerging Markets, Equity Hedge, Event-Driven and Relative Value – posted positive returns, while Global Macro fell.

*Factors are attributes that explain differences in equity performance. Stocks are sorted based on their exposure to a particular factor, with the factor return being the difference in returns between stocks with high exposure and low exposure to a particular attribute.

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World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q3 2016 along with Rogerscasey's commentary.

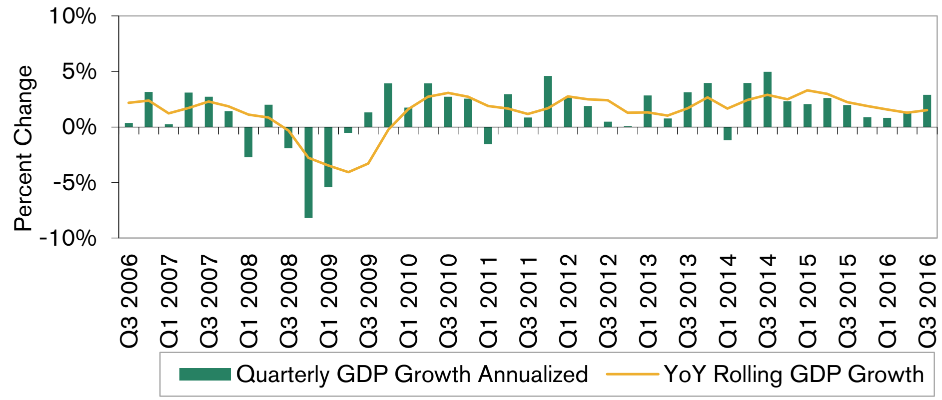
GDP Growth

Real GDP grew at an annualized rate of 2.9 percent in Q3. The adjacent graph shows annualized GDP growth, along with the year-over-year (YoY) rolling percentage change in GDP.

Positive contributors to Q3's growth included personal consumption expenditures, exports, private inventory investment, federal government spending, and nonresidential fixed investment. Residential fixed investment and state and local government spending detracted from GDP growth during the quarter.

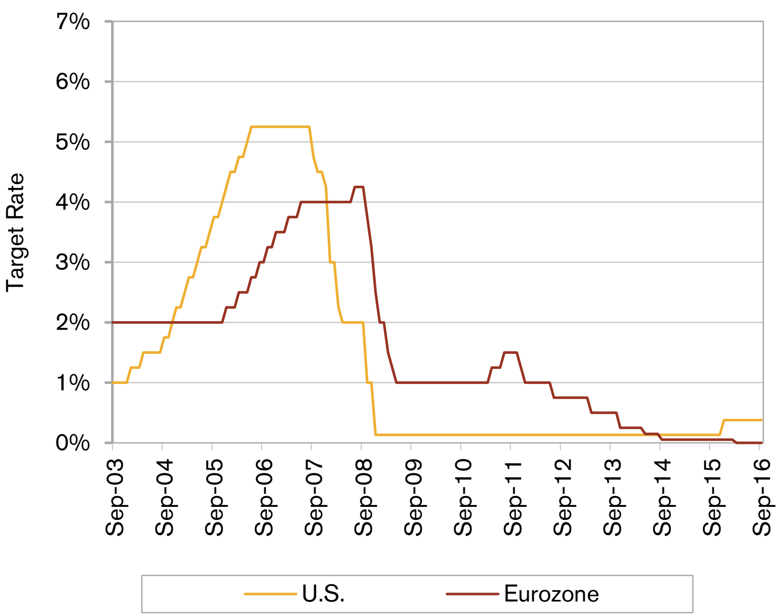
Disposable personal income grew less in Q3 than in Q2. The personal savings rate was unchanged at 5.7 percent in Q3.

U.S. GDP Growth: Annualized Quarterly and Year-over-Year (YoY) Rolling (%)



Source: U.S. Bureau of Economic Analysis

Target Rates: U.S. and Eurozone



Sources: Rogerscasey using data from the Federal Reserve Board and the European Central Bank

Monetary Policy

At its September meeting, the Federal Open Market Committee (FOMC) stated the following:

- Economic activity has picked up from a modest pace in the first half of the year.
- The labor market has continued to strengthen.
- Household spending has been growing strongly, but business investment remains soft.
- Inflation remained below the Federal Reserve (Fed)'s 2 percent objective due to decreased energy prices and lower-priced non-energy imports, but should rise to 2 percent over the medium term.
- The Federal Funds Rate will remain between 0.25 and 0.50 percent.
- To maintain an accommodative policy, the Fed will continue reinvesting principal payments from holdings of agency debt and agency mortgage-backed securities, and will keep rolling over maturing Treasury securities at auction.

In September, the European Central Bank (ECB) held its target refinancing rate at zero percent, its marginal lending rate at 0.25 percent, and its deposit rate at -0.40 percent.

The Bank of Japan (BoJ) in September continued its quantitative and qualitative easing policies. In addition, it introduced a new target of zero percent on 10-year government securities in an effort to control the yield curve.

World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q3 2016 along with Rogerscasey's commentary.

Inflation

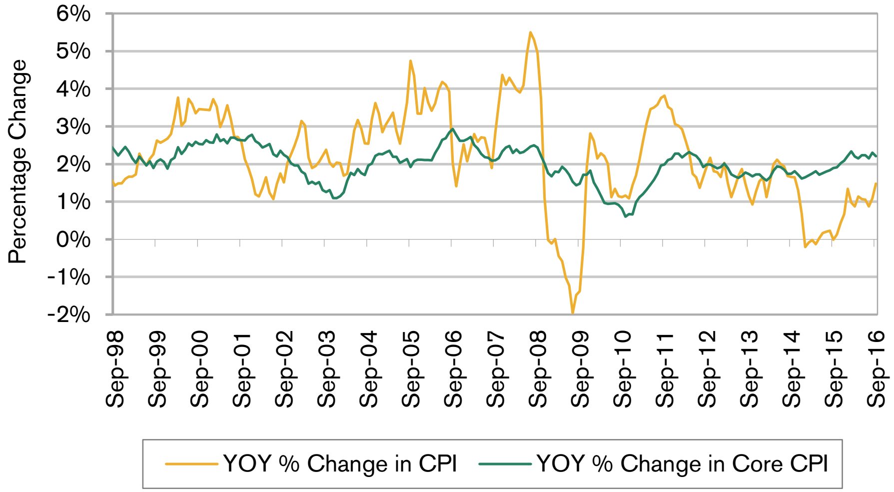
The headline seasonally adjusted Consumer Price Index (CPI)* was up 0.46 percent in Q3, and increased 1.48 percent on a YoY basis.

Seasonally adjusted Core CPI, which excludes both food and energy prices, rose 0.46 percent in Q3 and 2.21 percent YoY.

On an unadjusted 12-month basis ending September 30, 2016, the gasoline and fuel oil energy index components fell the most, both dropping more than 6.5 percent. Medical care commodities and medical care services each posted solid gains. Shelter costs and transportation services also increased.

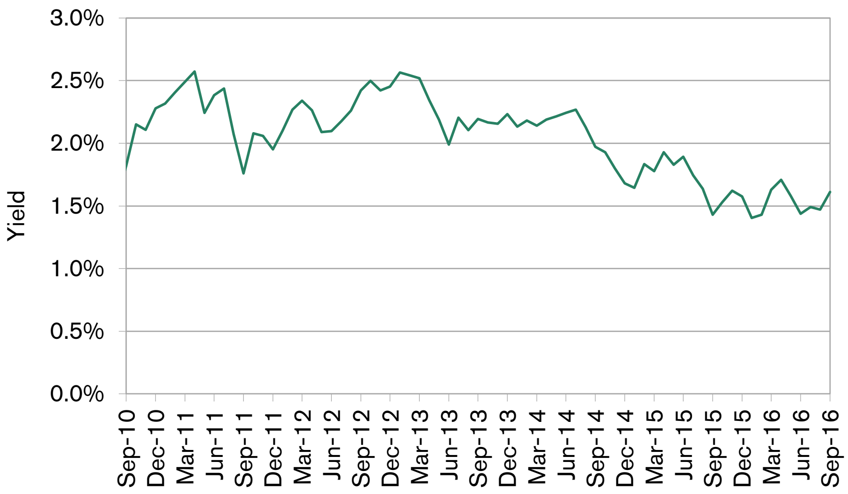
* Headline CPI is the CPI-U, the CPI for all urban consumers.

Headline CPI and Core CPI: Percentage Change YoY



Source: U.S. Bureau of Labor Statistics

10-Year Break-Even Inflation Rate



Source: Bloomberg

Break-Even Inflation

The adjacent graph shows the 10-year break-even inflation rate, which measures the difference in yield between a nominal 10-year Treasury bond and a comparable 10-year Treasury Inflation-Protected Securities (TIPS) bond. The break-even inflation rate is an indicator of the market's inflation expectations over the horizon of the bond.

During Q3, the 10-year break-even rate increased to 1.61 percent from Q2's 1.44 percent. This indicator has recently lagged the Fed's expectations of inflation rising to 2 percent in the medium term.

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World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q3 2016 along with Rogerscasey's commentary.

Labor Market and the Unemployment Rate

Unemployment increased slightly from 4.9 percent at the end of Q2 to 5.0 percent at the end of Q3.

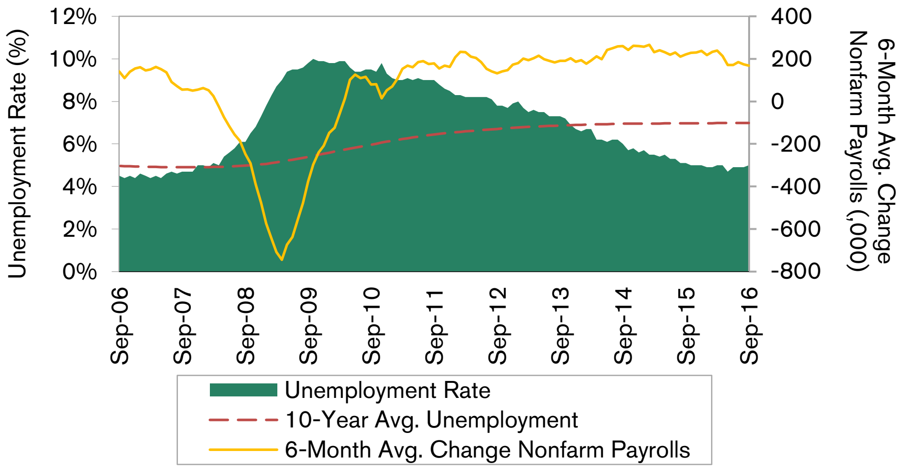
Total nonfarm payrolls increased by 575,000 jobs in Q3. Employment in private industries increased in service-providing jobs, while goods-producing jobs remained stable. Government employment also grew modestly in Q3.

The one-month total private diffusion index* stood at 57.8 in September, up from 52.9 the prior year. The one-month manufacturing diffusion index was also up in September, standing at 39.2 versus 38.6 the prior year.

The labor force participation rate increased slightly from 62.7 in June to 62.9 percent in September.

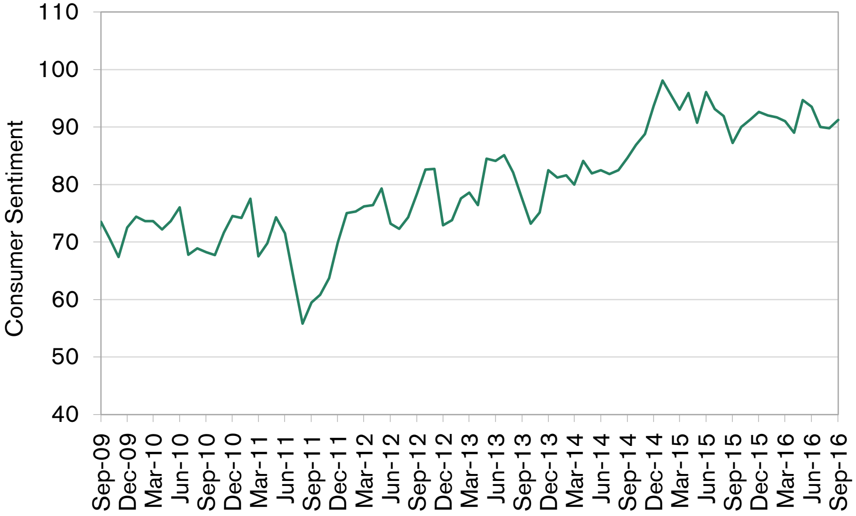
*Per the Bureau of Labor Statistics, figures represent the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.

Unemployment and Nonfarm Payrolls



Source: U.S. Bureau of Labor Statistics

U.S. Consumer Sentiment



Source: Moody's Economy.com using data from the Thomson Reuters/University of Michigan Consumer Sentiment Index

Consumer Sentiment

The University of Michigan Index of U.S. Consumer Sentiment is an economic indicator that measures individuals' confidence in the stability of their incomes as well as the state of the economy. The Index of Consumer Sentiment decreased from 93.5 in June to 91.2 in September.

The Index of Consumer Sentiment's level in September was little changed from its level at the beginning of 2016 (91.4 versus 91.2). The index measuring current economic conditions fell from 110.8 in June to 104.2 in September, while the expectations index rose from 82.4 to 82.7.

Real consumer spending is expected to increase by 2.7 percent through mid-2017.

Investor Sentiment: Mutual Fund Flows

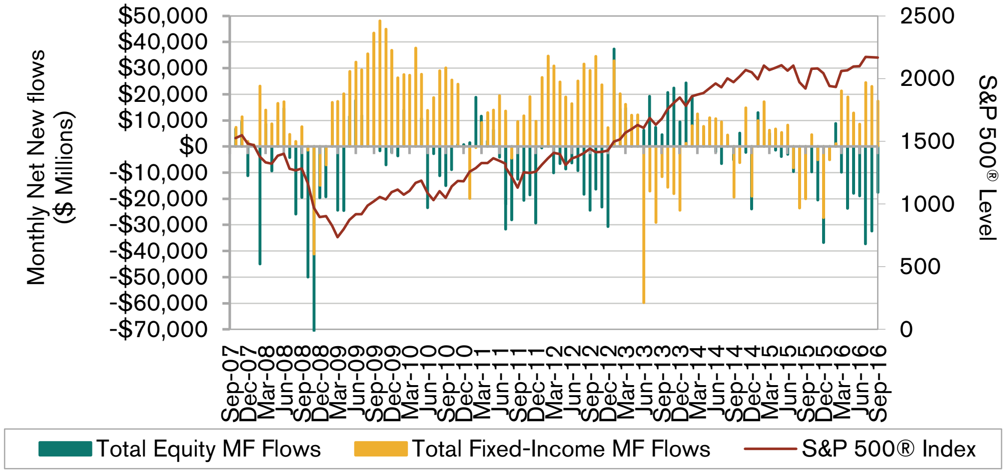
This page presents mutual fund flows across equity and fixed-income funds. Flow estimates are derived from data collected covering more than 95 percent of industry assets and are adjusted to represent industry totals.

Net Mutual Fund Flows

The adjacent graph shows net flows into equity and fixed income mutual funds since September 2007. In Q3, mutual funds experienced net outflows of approximately $28.2 billion, following outflows of around $25.4 billion in Q2 2016. Outflows throughout the quarter continued to be driven by equity mutual funds, which totaled $87.2 billion. Fixed income funds had net positive inflows, totaling $65.0 billion. Hybrid mutual funds had outflows of $6.0 billion. Overall, July was the weakest month for equity funds, with outflows of $37.3 billion, while it was the strongest for fixed income funds, with inflows of $24.5 billion.

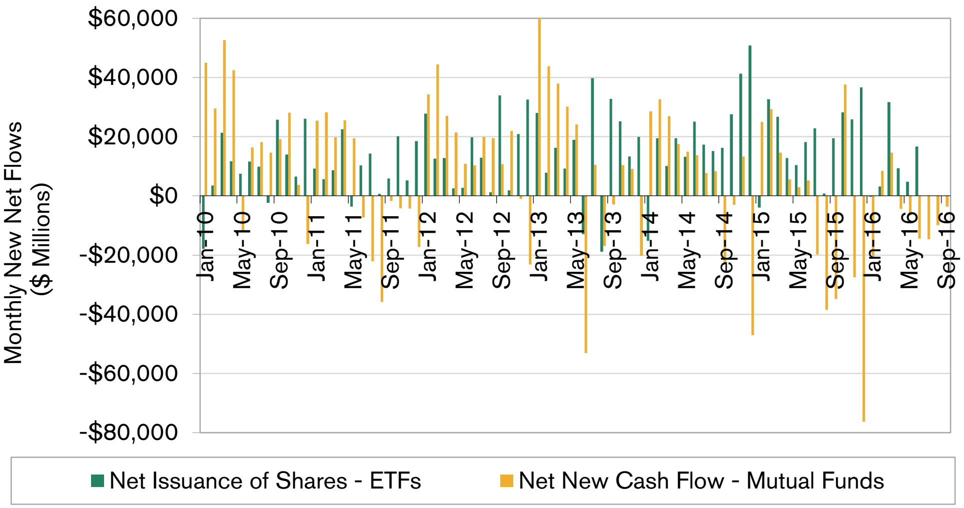
From an asset class perspective, the $87.2 billion of equity outflows continued to be driven by U.S. equity mutual funds, across the market cap spectrum, though large cap and all cap funds had combined outflows of $47.1 billion. Global equity outflows were driven by non-U.S. mutual funds. Fixed income inflows were led by investment grade and multi-sector bond funds, with combined inflows of $42.8 billion. Municipal bonds also saw net inflows of $16.6 billion.

Monthly Mutual Fund Net Flows ($ Millions) Q3 2016



Source: Investment Company Institute

Mutual Fund Flows vs. ETFs ($ Millions): New Net Cash Flows



Source: Investment Company Institute

Mutual Fund Flows vs. Exchange-Traded Funds

Unlike mutual funds, ETFs experienced net inflows in Q3, totaling $91.4 billion. Flows primarily came in July with $46.9 billion of net inflows, $35.5 billion of which were equity ETFs, $9.2 billion were fixed income, and hybrid and commodity ETFs made up the balance. In total, throughout Q3, equity ETFs had $67.5 billion of net inflows, driven by U.S. ETFs, followed by $21.6 billion in fixed income, and $1.9 billion in commodity ETFs.

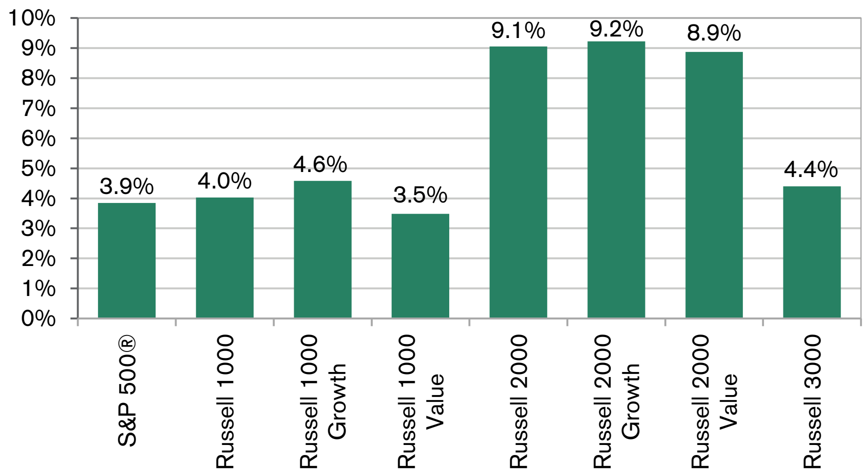
At the end of August, the most recent data available, ETF assets totaled about $2.4 trillion, up from around $2.0 trillion in August 2015.

Investment Performance: U.S. Equities

This section presents data and Rogerscasey's commentary on U.S. equity index returns and sector performance for Q3 2016.

U.S. Equity Index Returns

The graph below illustrates Q3 2016 rates of return for selected U.S. equity indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



Equity Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500® Index	3.85	7.84	15.43	11.16	16.37	7.24
Russell 1000	4.03	7.92	14.93	10.78	16.41	7.40
Russell 1000 Growth	4.58	6.00	13.76	11.83	16.60	8.85
Russell 1000 Value	3.48	10.00	16.20	9.70	16.15	5.85
Russell 2000	9.05	11.46	15.47	6.71	15.82	7.07
Russell 2000 Growth	9.22	7.48	12.12	6.58	16.15	8.29
Russell 2000 Value	8.87	15.49	18.81	6.77	15.45	5.78
Russell 3000	4.40	8.18	14.96	10.44	16.36	7.37

Sources: Standard & Poor's and FTSE Russell Investments

S&P 500 Index® Sector Performance – Q3 2016

	QTD (%)	YTD (%)
Consumer Discretionary	2.9	3.6
Consumer Staples	-2.6	7.6
Energy	2.3	18.7
Financials	4.6	1.4
Healthcare	0.9	1.4
Industrials	4.1	10.9
Information Technology	12.9	12.5
Materials	3.7	11.4
Telecommunications Services	-5.6	17.9
Utilities	-5.9	16.1

This table shows quarter-to-date and year-to-date price changes for each sector.
Source: Standard & Poor's

Index and Sector Performance

The S&P 500® (3.9 percent) gained in Q3. The U.S. market delivered strong returns for domestic investors, as expectations for an increase in Fed rates reemerged in spite of concerns about the stability of the European economy. At the Jackson Hole Economic Symposium, Janet Yellen agreed that the arguments in support of a rate rise had strengthened, and this was later supported by the FOMC at its September meeting. Across the market capitalization range, stocks posted positive returns. The Russell 2000 Growth (9.2 percent) and Russell 2000 Value (8.9 percent) ended Q3 up, as small cap companies were supported by their lower exposure to overseas earnings. The Russell 1000 Value (4.6 percent) and Russell 1000 Growth (3.5 percent) both gained, but more moderately. As memories of the Global Financial Crisis recede, only the 10-year index returns shown in the table above incorporate those bad times; the 5-year returns for small and large cap equities are now well above the very-long-term historical averages for U.S. equities.

In large cap stocks, there was significant dispersion across the sector returns. IT (12.9 percent) outperformed on the back of strong stock-specific results, and Financials (4.6 percent) rallied somewhat as the potential for a rate increase was reignited. Meanwhile, bond proxy sectors such as Utilities (-5.9 percent) and Telecom (-5.6 percent) dropped, returning some of their outperformance from earlier in the year.

Investment Performance: U.S. Equities

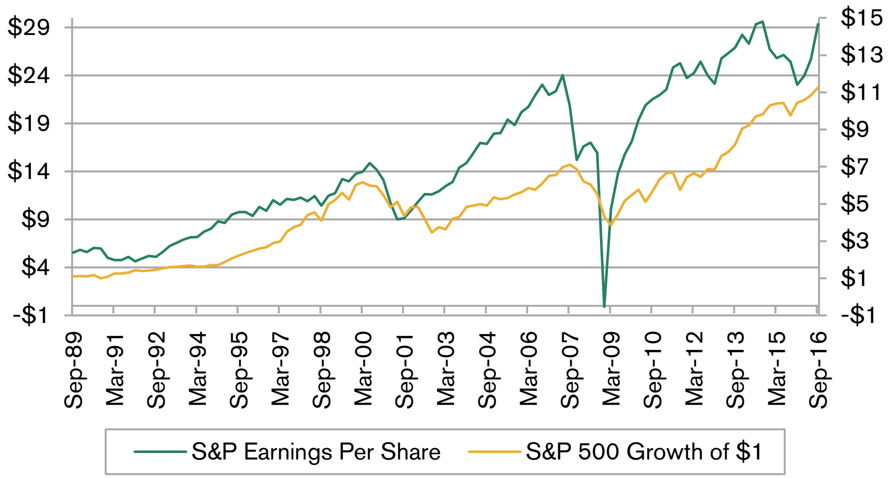
This section presents Rogerscasey's commentary on U.S. equity earnings and growth- vs. value-stock performance for Q3 2016.

U.S. Equity Market Earnings and Volatility

The adjacent graph compares the earnings per share of companies in the S&P 500® Index and the growth of $1.00 in that index since September 1989. While earnings per share growth does not align perfectly with the growth of stock prices, there does appear to be a directional linkage, which is something many investors count upon.

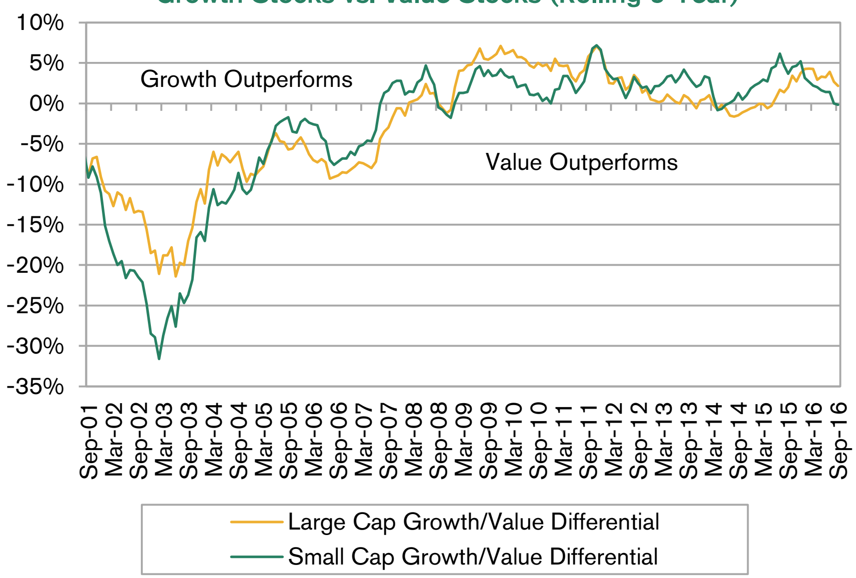
Earnings are perhaps the single most studied metric in a company's financial statements because they show a company's profitability. A company's quarterly and annual earnings are typically compared to analysts' estimates and guidance provided by the company itself. In most situations, when earnings do not meet either of those estimates, a company's stock price will tend to drop. On the other hand, when actual earnings beat estimates by a significant amount, the share price will likely surge. At the aggregate level, these swings tend to be more muted.

S&P 500® Index: Earnings Per Share and Growth of $1



Source: Standard & Poor's

Growth Stocks vs. Value Stocks (Rolling 3-Year)



Source: FTSE Russell Investments

Growth vs. Value

The adjacent graph depicts the growth versus value differential for both large- and small-cap stocks over rolling three-year intervals. The large-cap calculation uses the Russell 1000 Growth versus the Russell 1000 Value and the small-cap differential is composed of the Russell 2000 Growth versus the Russell 2000 Value. When the line is above the 0% line, the market has been favoring growth stocks over value, and vice-versa.

An interesting dynamic in recent years has been the fact that growth and value have largely been irrelevant in driving large cap equity returns, as the spread between the growth and value benchmarks has been relatively narrow in comparison to equivalent time periods in the early 2000s. Markets have shown some preference for growth stocks since early 2014, however the dominance of growth stocks in the small cap space has waned in recent quarters.

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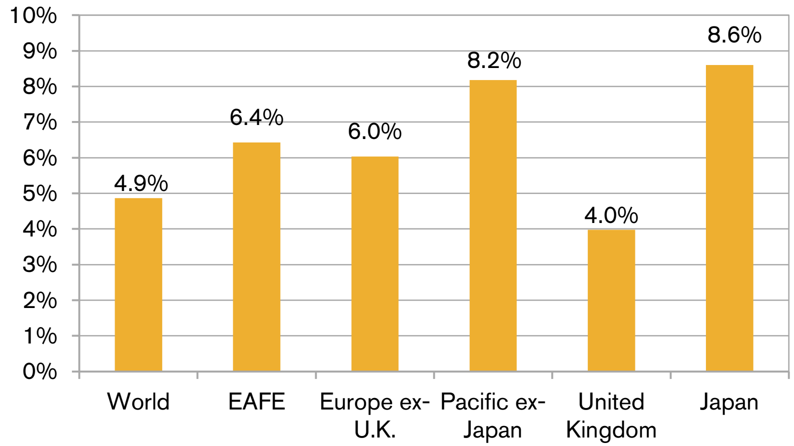
Investment Performance: Non-U.S. Equities

This section presents data and Rogerscasey's commentary on international equity returns and sector performance for Q3 2016.

MSCI Non-U.S. Equity Index Returns

The graph below illustrates Q3 2016 rates of return for selected non-U.S. equity indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



MSCI Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
World	4.87	5.55	11.36	5.85	11.63	4.47
Europe, Australasia and Far East (EAFE)	6.43	1.73	6.52	0.48	7.39	1.82
Europe except U.K.	6.03	-0.36	2.90	0.01	8.17	1.53
Pacific except Japan	8.18	10.86	20.05	0.42	7.07	5.85
United Kingdom	3.98	0.80	1.53	-1.80	5.99	1.40
Japan	8.60	2.54	12.13	3.33	7.36	1.05

Source: Morgan Stanley Capital International

MSCI EAFE Sector Performance – Q3 2016

	QTD (%)	YTD (%)
Consumer Discretionary	10.3	-5.0
Consumer Staples	1.4	6.2
Energy	-2.8	10.1
Financials	8.8	-10.6
Healthcare	-2.7	-6.5
Industrials	8.1	6.6
Information Technology	14.4	5.5
Materials	15.3	17.6
Telecommunications Services	-1.2	-3.1
Utilities	-0.4	-0.9

This table shows quarter-to-date and year-to-date price changes for each sector.
Source: Morgan Stanley Capital International

Index and Sector Performance

While Q2 ended on the Brexit surprise, Q3 was characterized by uncertainty around OPEC discussions, the American and German elections, and the political fallout of the U.K. following its late-June referendum. Overall, the markets rebounded in Q3, with the MSCI EAFE Index up 6.4 percent. The U.K. (4.0 percent) saw the earlier-than-expected resignation of its prime minister and a number of other Brexit supporters and the appointment of its next leader, who had not been on the side of a U.K. exit. The uncertainty about how, or if, the country would exit the European Union continued to weigh on the pound, which accounted for a roughly 30 percent negative currency impact on U.S. investors.

A number of individual countries had an exceptional quarter, with Austria (16.7 percent), New Zealand (12.4 percent) and Hong Kong (11.9 percent) rising the most. Denmark (-6.3 percent), Israel (-2.0 percent) and Singapore (-0.2 percent) were the only EAFE markets to decline during Q3.

There was wide dispersion across results at the sector level. Consumer Discretionary (10.3 percent) reversed a downward trend from the first half of the year with a positive Q3 return, while Energy (-2.8 percent) gave back some first half gains. Materials (15.3 percent) and IT (14.4 percent) were the best performers in Q3, with Materials also leading all other sectors year to date.

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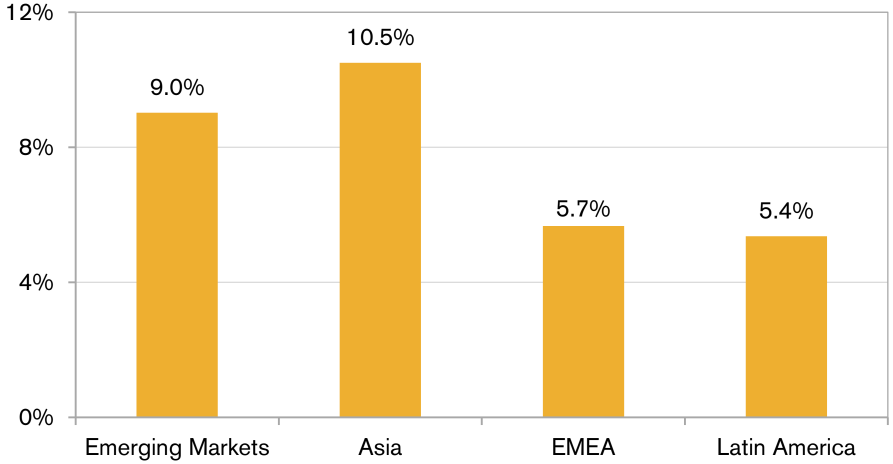
Investment Performance: Emerging Market Equities

This section presents data and commentary on emerging market (EM) equity returns and sector performance for Q3 2016.

MSCI Emerging Market Equity Index Returns

The graph below illustrates Q3 2016 rates of return for selected emerging market equity indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year, and 10-year annualized timeframes. All data in the table are percentages.



MSCI EM Indices	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Emerging Markets (All)	9.03	16.02	16.78	-0.56	3.03	3.95
Asia	10.51	12.99	16.90	3.48	6.35	5.56
Europe, Middle East and Africa (EMEA)	5.67	17.79	8.11	-7.15	-1.02	0.33
Latin America	5.37	32.21	28.65	-7.91	-3.93	2.37

Source: Morgan Stanley Capital International

MSCI EM Sector Performance – Q3 2016

	QTD (%)	YTD (%)
Consumer Discretionary	9.59	11.44
Consumer Staples	1.23	12.10
Energy	7.97	26.36
Financials	9.73	13.76
Healthcare	2.33	2.25
Industrials	4.85	4.56
Information Technology	16.08	24.73
Materials	10.19	26.09
Telecommunications Services	2.15	8.76
Utilities	0.94	10.75

This table shows quarter-to-date and year-to-date price changes for each sector.
Source: Morgan Stanley Capital International

Index and Sector Performance

The MSCI Emerging Markets (EM) Index rose 9.0 percent in Q3. Central banks around the world maintained accommodative monetary policies, leading investors to focus on high-returning assets, which benefitted emerging markets. At the total index level, currency had a positive impact for U.S. investors, with local currency returns coming in 1.4 percent below the USD results.

From a regional perspective, Asia (10.5 percent) was the best-performing region in Q3. China (13.9 percent) posted the strongest return within the region, lifted by a stabilization in macroeconomic data. The Philippines (-5.3 percent), on the other hand, was the weakest market, as foreign investors became nervous about the law enforcement policies of newly elected President Rodrigo Duterte. EMEA (5.7 percent) posted positive results as well, as Russia (8.4 percent) and South Africa (6.3 percent) particularly benefited from investors searching for high-returning assets. Turkey (-5.3 percent), by contrast, posted the weakest result of the region due to the failed coup by elements of the army in July. Latin America (5.4 percent) also produced a solid return, as Brazilian equities rallied (11.3 percent) after the Brazilian Senate voted to impeach President Dilma Rousseff and permanently remove her from office.

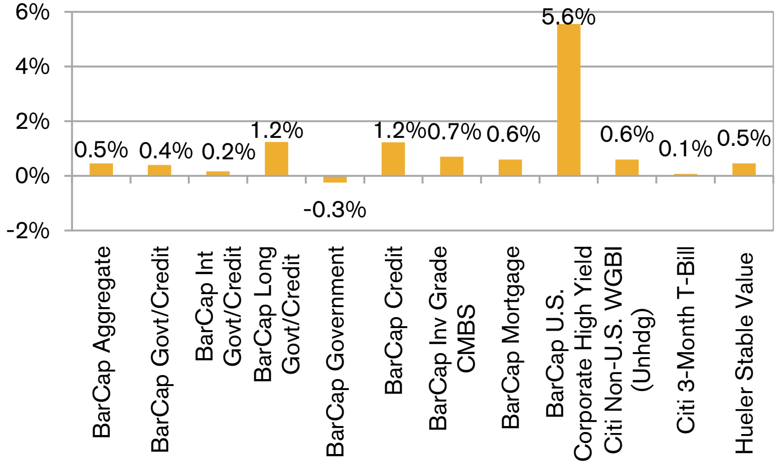
All sectors were positive in Q3. IT (16.1 percent) and Materials (10.2 percent) posted the strongest returns, while Utilities (0.9 percent) and Consumer Staples (1.2 percent) gained the least.

Investment Performance: U.S. Fixed Income

This section presents select U.S. fixed-income index data along with commentary on option-adjusted spreads (OAS) during Q3 2016.

U.S. Fixed Income Index Returns

The graph below illustrates Q3 2016 rates of return for selected U.S. fixed-income indices. The table shows returns for the latest quarter, year-to-date, one-year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



Fixed-Income Indices	QTD	YTD	1-Year	3-Year	5-Year	10-Year
BarCap Aggregate	0.46	5.80	5.19	4.03	3.08	4.79
BarCap Govt/Credit	0.40	6.66	5.86	4.22	3.24	4.86
BarCap Int Govt/Credit	0.16	4.24	3.52	2.80	2.45	4.17
BarCap Long Govt/Credit	1.24	15.74	14.66	10.08	6.32	7.84
BarCap Government	-0.25	4.96	4.00	3.32	2.16	4.34
BarCap Credit	1.23	8.86	8.30	5.44	4.83	5.77
BarCap Inv Grade CMBS	0.70	6.60	5.20	4.09	4.97	5.24
BarCap Mortgage	0.60	3.72	3.61	3.61	2.65	4.65
BofA ML US High Yield Master II	5.55	15.11	12.73	5.28	8.34	7.71
Citi Non-U.S. WGBI (Unhdg)	0.60	14.18	12.61	1.21	0.24	3.94
Citi 3-Month T-Bill	0.07	0.19	0.20	0.08	0.08	0.84
Hueler Stable Value	0.45	1.33	1.77	1.74	1.90	2.85

Sources: Barclays Capital, Citigroup and Hueler Analytics

OAS* in Bps

	6/30/2016	9/30/2016	Change in OAS	10-Year Average
U.S. Aggregate Index	55	47	-8	66
U.S. Agency (Non-mortgage) Sector	54	51	-3	43
Securitized Sectors:				
Mortgage-Backed Securities (MBS)	27	14	-13	51
Asset-Backed Securities	61	55	-6	127
Commercial MBS	98	84	-14	219
Corporate Sectors:				
U.S. Investment Grade	156	138	-18	167
Industrial	159	140	-19	156
Utility	142	132	-10	156
Financial Institutions	152	137	-15	185
U.S. High Yield	594	480	-114	551

*OAS is the yield spread of bonds versus Treasury yields taking into consideration differing bond options.
Source: Barclays Capital

Option-Adjusted Spreads

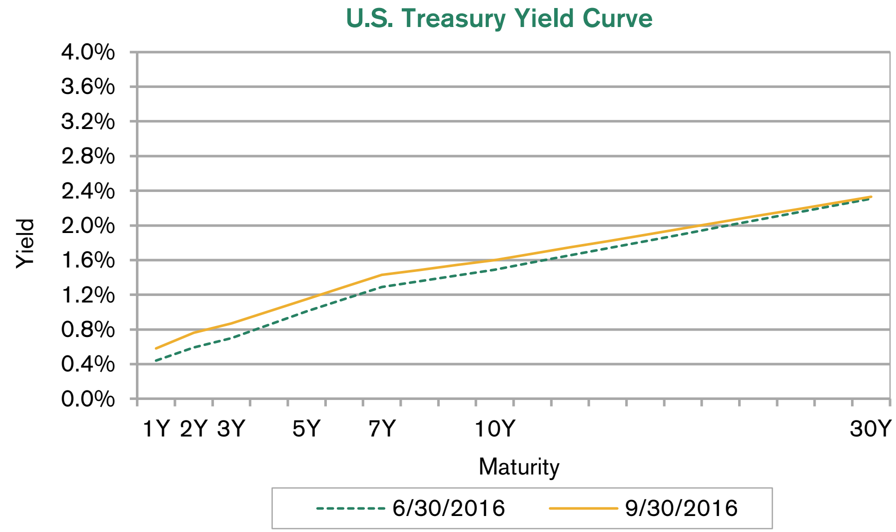
Continuing the trend from Q2, spreads tightened further during Q3 on strong demand from global investors for higher and positive-yielding fixed income assets. While the Fed chose to leave rates unchanged in September, the market believes that the odds of a rate hike later this year are much greater, and this would further compound the divergence with Europe and Japan, which continue to pursue policies that push rates further into negative territory. With Brexit concerns moderating as Q3 progressed, positive U.S. economic signals, and strong fundamentals, spreads tightened across the board in this favorable risk-on environment. As shown in the adjacent table, high yield spreads tightened the most (-114 bps to 480 bps) and fell below the 10-year average of 551 bps, while investment grade corporate spreads declined 18 bps to 138 bps, which is also below the 10-year average of 167 bps.

Investment Performance: U.S. Fixed Income

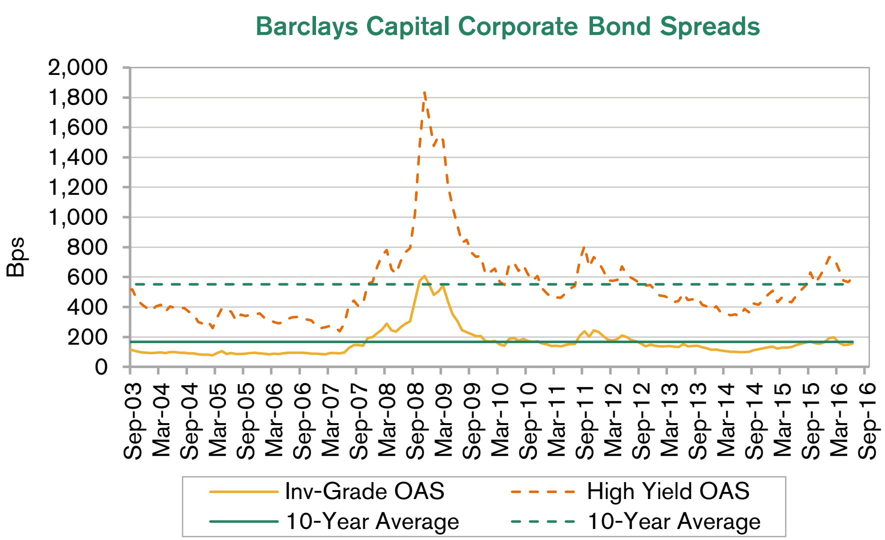
This section presents commentary on the U.S. Treasury yield curve and credit spreads during Q3 2016.

Yield Curve

The yield curve modestly flattened in Q3 as 2-year and 5-year yields rose 17 and 14 bps, respectively, while 10-year and 30-year yields rose 11 and 2 bps, respectively. The yield gap between 2-year and 10-year Treasuries decreased from 90 bps in Q2 to 84 bps in Q3, and this compares to 106 bps in Q1. While the Fed chose to not raise rates in September, its language led the market to believe that the odds of a hike later this year are much higher. In addition, Brexit fears subsided and U.S. economic releases were favorable. The 10-year U.S. Treasury yield ended Q3 at 1.60 percent.



Source: Bloomberg



Source: Barclays Capital

Credit Spreads

Investment grade corporate spreads tightened by 18 bps during Q3 and ended the quarter with an option-adjusted spread of 138 bps over Treasuries, as shown in the adjacent graph. From a historical perspective, spreads are now 29 bps below the 10-year average of 167 bps.

High yield bond spreads narrowed during Q3 by 114 bps, ending with a OAS of 480 bps at the end of September, which is 71 bps below the 10-year average of 551 bps.

Investment Performance: Non-U.S. Fixed Income

This page focuses on international fixed-income asset class data and information on EM debt (EMD) for Q3 2016.

Developed Non-U.S. Fixed Income

In Q3, global sovereign bonds, as measured by the Citigroup World Government Bond Index (WGBI), declined 0.2 percent in local currency terms, but gained 0.3 percent in unhedged terms. The Barclays Capital Global Aggregate Index, which includes spread sectors, returned 0.82 percent, outperforming the government-only index by 52 bps. Non-U.S. government bonds, as measured by the Citigroup Non-U.S. WGBI, outperformed U.S. government bonds by roughly 10 bps in local currency terms, and by 90 bps in unhedged terms.

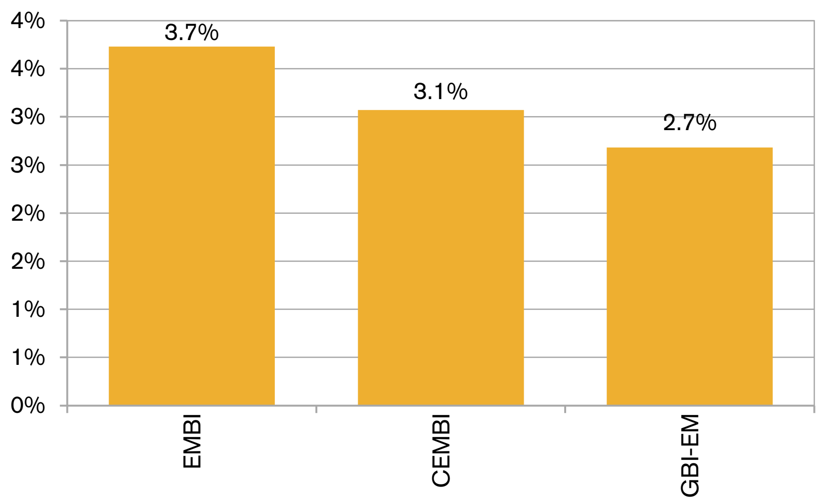
Highlights include the United Kingdom, which saw a bond market gain of 2.5 percent more than offset by a 2.8 percent depreciation of its currency against the USD. In addition, the Australian bond market's gain of 0.8 percent was boosted further by an appreciating currency, which rose 2.8 percent against the USD. The Japanese bond market struggled in local terms (-2.2 percent), but was partially offset by the yen's appreciation of 1.3 percent against the USD.

Citigroup WGBI: Returns of Major Constituents (%)

Country	Local Currency Return (Qtr)	Currency Effect	Unhedged Total Return (Qtr)
United States	-0.3	-	-0.3
Canada	0.5	-1.2	-0.7
Australia	0.8	2.8	3.6
Japan	-2.2	1.3	-0.9
Austria	0.7	1.2	1.8
Belgium	0.3	1.2	1.5
France	0.2	1.2	1.4
Germany	-0.2	1.2	1.0
Italy	1.1	1.2	2.3
Netherlands	0.1	1.2	1.3
Spain	2.2	1.2	3.4
United Kingdom	2.5	-2.8	-0.4
Non-U.S. Govt. Bond	-0.2	0.8	0.6
World Govt. Bond	-0.2	0.5	0.3

Sources: Citigroup and Barclays Capital

Emerging Markets Debt



Source: J.P. Morgan

Emerging Markets Debt

The USD-denominated JPMorgan EMBI Global Index (3.7 percent) led the emerging markets fixed income market in Q3, with the strongest gains coming from Latin America and Africa. Countries that contributed to the gain included Venezuela (28.4 percent), Argentina (5.2 percent) and Indonesia (5.3 percent), while detractors included Turkey (-2.0 percent), Poland (-0.5 percent) and Mexico (0.0 percent).

The JPMorgan CEMBI Broad Diversified Index, which comprises USD-denominated corporate bonds, rose 3.1 percent in Q3. The performance drivers were comparable, with Brazil standing out with a 7.0 percent return. In particular, issues in the oil & gas and the metals & mining sectors outperformed.

The local currency benchmark, JPMorgan GBI-EM Global Diversified Index, returned 2.7 percent during Q3. The strongest contributors included South Africa (10.5 percent), Indonesia (5.9 percent) and Columbia (5.2 percent), while laggards included Mexico (-4.2 percent), Turkey (-3.0 percent), and Peru (-0.9 percent).

Investment Performance: Commodities and Currencies

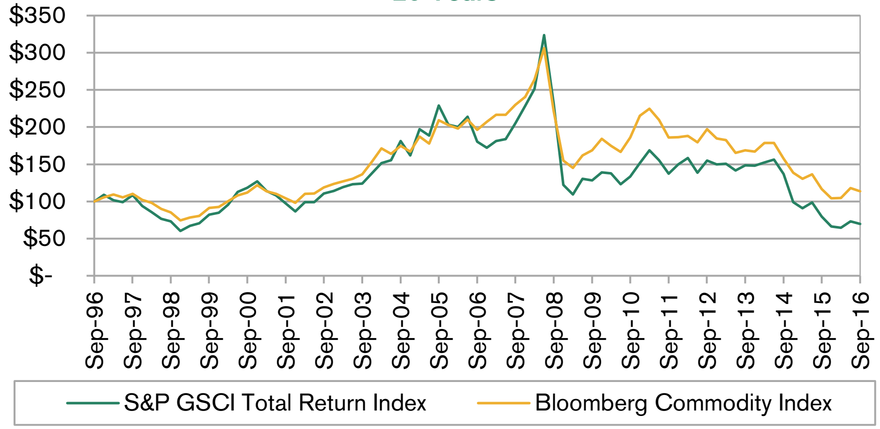
This section presents performance information about commodities and major world currencies as of Q3 2016.

Commodities

The adjacent graph shows the 20-year growth of $100 for the Bloomberg Commodity Index ("BCOM") and the S&P GSCI Index. Commodities pulled back in Q3, but remained positive year to date. The BCOM declined -3.9 percent and the S&P GSCI declined -4.2 percent during the quarter.

The largest detractor was the Livestock sector (-21.3 percent BCOM; -19.0 percent GSCI), which fell due to smaller than expected declines in cold storage inventories. The Agriculture (-8.1 percent BCOM; -7.5 percent GSCI) and Energy (-3.7 percent BCOM; -2.7 percent GSCI) sectors registered notable losses as well. The U.S. Department of Agriculture is projecting a record soybean crop in the U.S. due to ideal weather conditions, putting downward pressure on prices. Within the Energy sector, OPEC released a preliminary plan to cap oil production, but the output agreement will not be completed until the November policy meeting. Industrial Metals (4.1 percent BCOM; 3.7 percent GSCI) generated positive returns after China reported slightly better economic data and Philippine mine closures reduced supply. Precious Metals posted mixed returns within the indices (0.2 percent BCOM; -0.3 percent GSCI), as gold fell modestly.

Quarterly Commodity Returns, Growth of $100: 20 Years



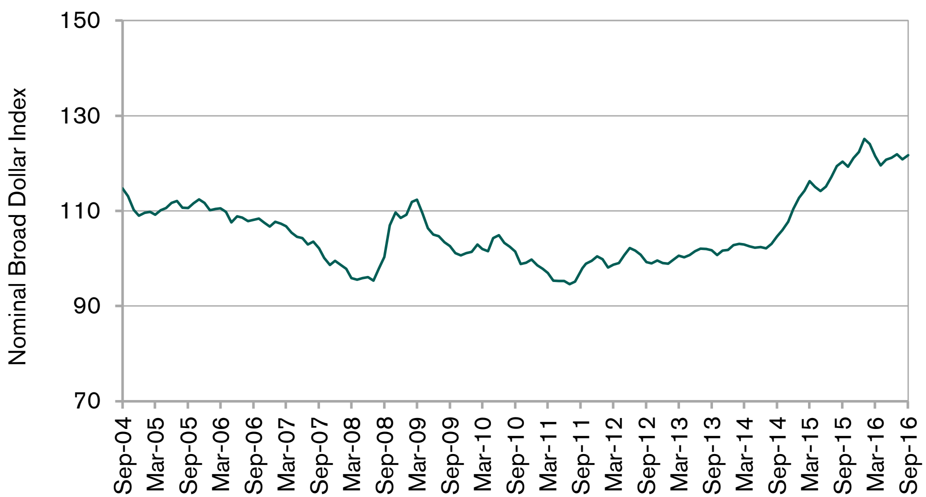
The graph above shows the major commodity indices, the S&P GSCI* Index and the Bloomberg Commodity Index**

* The S&P GSCI Index is calculated primarily on a world production-weighted basis and is composed of the principal physical commodities that are the subject of active, liquid futures markets.

** The Bloomberg Commodity Index is composed of futures contracts on physical commodities, with weighting restrictions on individual commodities and commodity groups to promote diversification.

Source: Bloomberg

Nominal Broad Dollar Index: USD vs. Basket of Major Trading Partners



Sources: Federal Reserve and Bloomberg

Currencies

The adjacent graph shows the U.S. dollar (USD) against a basket of 16 major market currencies, including those listed in the table below: the Canadian dollar (CAD), the euro (EUR), the Japanese yen (JPY), the Swiss franc (CHF), and the British pound-sterling (GBP).

In Q3, the U.S. nominal broad dollar index increased by 0.48 percent. Higher relative economic growth should provide a tailwind for the USD to strengthen going forward.

USD Major Trading Partners	Pairs	Q3 Level	YTD	5-Year Average
Canada	USD/CAD	1.3127	-5.14%	1.1344
Eurozone	USD/EUR	0.8901	-3.36%	0.8105
Japan	USD/JPY	101.3500	-15.70%	101.2655
Switzerland	USD/CHF	0.9714	-3.06%	0.9413
U.K.	USD/GBP	0.7705	13.54%	0.6467

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Investment Performance: Hedge Funds

This section provides an overview of hedge fund results along with an analysis of strategy performance during Q3 2016.

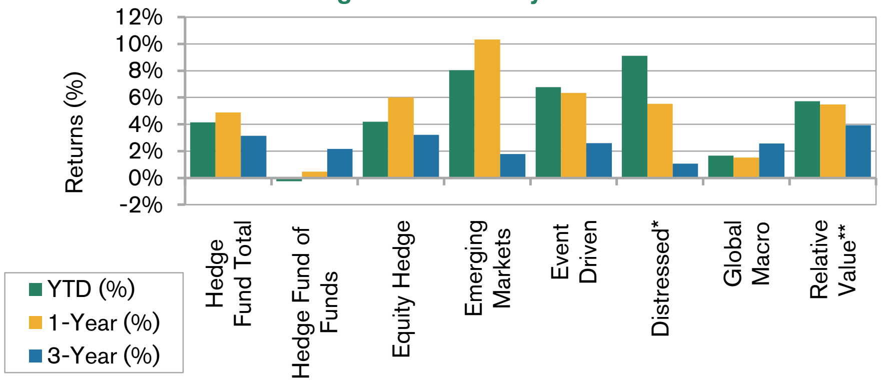
Hedge Fund Overview

The Hedge Fund Research, Inc. (HFRI) Fund Weighted Composite Index increased 2.9 percent during Q3, posting gains in July, August and September. Of the five major hedge fund strategies, Global Macro (-1.1 percent) ended Q3 with the weakest performance. Emerging Markets (5.1 percent) was the best performer, followed by Equity Hedge (4.6 percent), Event Driven (4.5 percent), and Relative Value (3.0 percent).

Longer-term results were also positive. Hedge funds recorded a gain of 3.2 percent over the three-year period ending September 30, 2016, as measured by the HFRI Fund Weighted Composite Index.

Hedge funds of funds posted a positive result in Q3, as measured by the HFRI Fund of Funds (FOF) Composite Index (2.4 percent). The HFRI FOF: Conservative Index (1.9 percent) and the HFRI FOF: Diversified Index (1.9 percent) also increased.

Hedge Fund Industry Performance



* Distressed funds focus on companies that are close to or in bankruptcy.
**Relative-value funds focus on arbitrage opportunities between equity and fixed income securities.
Source: Hedge Fund Research, Inc.

HFRI Index Returns – Q3 2016 (%)

	Jul	Aug	Sep	QTD	YTD
Fund of Funds Composite	1.5	0.4	0.5	2.4	-0.2
FOF: Conservative	0.9	0.6	0.4	1.9	0.3
FOF: Diversified	1.4	0.2	0.3	1.9	-0.5
Fund Weighted Composite	1.9	0.4	0.6	2.9	4.1
Equity Hedge (Total)	2.7	0.9	1.0	4.6	4.2
Equity Market Neutral	0.9	-0.3	0.2	0.8	0.9
Short Bias	-1.1	-3.3	-0.8	-5.2	2.7
Event-Driven (Total)	1.9	1.8	0.7	4.5	6.8
Distressed/Restructuring	2.4	2.1	1.0	5.5	9.1
Merger Arbitrage	0.6	0.8	0.7	2.1	2.2
Relative Value (Total)	1.2	0.9	0.9	3.0	5.7
FI-Convertible Arbitrage	1.7	1.2	0.6	3.6	5.9
Global Macro (Total)	0.8	-1.5	-0.4	-1.1	1.7
Emerging Markets (Total)	2.7	1.6	0.8	5.1	8.0

Source: Hedge Fund Research, Inc.

Strategy Analysis

The HFRI Emerging Markets Index (5.1 percent) rose in Q3 and was the best performing major hedge fund strategy of the quarter. The sole detracting underlying regional index was the MENA Index, which lost 0.2 percent. However, once again, emerging markets posted significant gains, led this time by the China Index (7.6 percent), bringing that index's year-to-date return to 1.6 percent. Asia Ex-Japan (6.9 percent) also posted a solid return.

The HFRI Equity Hedge Index (4.6 percent) posted the second largest gain of all major hedge fund strategies, due to strong results from the Technology/Healthcare (7.2 percent) and the Energy/Basic Materials (7.2 percent) sector-focused indices. The Fundamental Value (5.3 percent) and Fundamental Growth (4.7 percent) indices were also significant contributors in Q3.

The HFRI Event-Driven Index (4.5 percent) also had a strong quarter. All six underlying indices contributed positively, with Activist (5.9 percent), Distressed/Restructuring (5.4 percent) and Special Situations (5.1 percent) leading the way. Credit Arbitrage (4.7 percent) and Multi-Strategy (2.9 percent) sub-strategy index returns were noteworthy as well.

The HFRI Relative Value Index (3.0 percent) increased as all underlying indices gained. The Fixed Income Corporate Index (3.9 percent), which realizes spread opportunities between multiple corporate bonds, was the strongest performer, followed by the Fixed Income Convertible Arbitrage Index (3.5 percent) and the Fixed Income Yield Alternatives Index (3.3 percent).

The HFRI Global Macro Index (-1.7 percent) was the only major-strategy index to decline in Q3. The Systematic Diversified Index (-2.7 percent) was the greatest detractor to performance.

Investment Performance: Private Equity

This section provides data on private equity industry performance, fundraising, buyout funds, initial public offering (IPO) activity and venture capital. The information in this section reflects the most recent private equity data available.

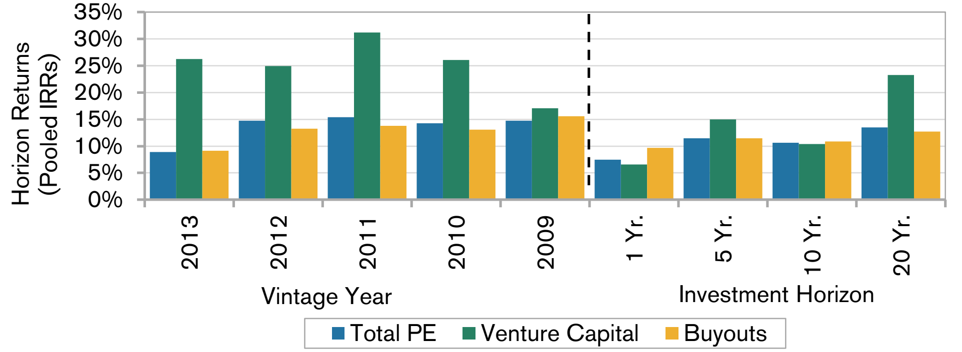
Private Equity Industry Performance

The adjacent graph shows private equity fund performance for Q1 2016, calculated as pooled internal rates of return (IRRs) of funds reporting to Thomson One. Performance for 2009 through 2013 vintage-year* funds, as well as one-, five-, 10- and 20-year returns, is calculated for funds in the following categories: total private equity, venture capital and buyouts.

The total return for private equity funds, comprising performance across all regions and strategies, was 0.8 percent in Q1 2016 and 7.5 percent over the one-year period. Long-term performance has been strong, with double-digit returns for the three-, five-, 10- and 20-year time periods of 13.3 percent, 11.5 percent, 10.6 percent and 13.5 percent, respectively.

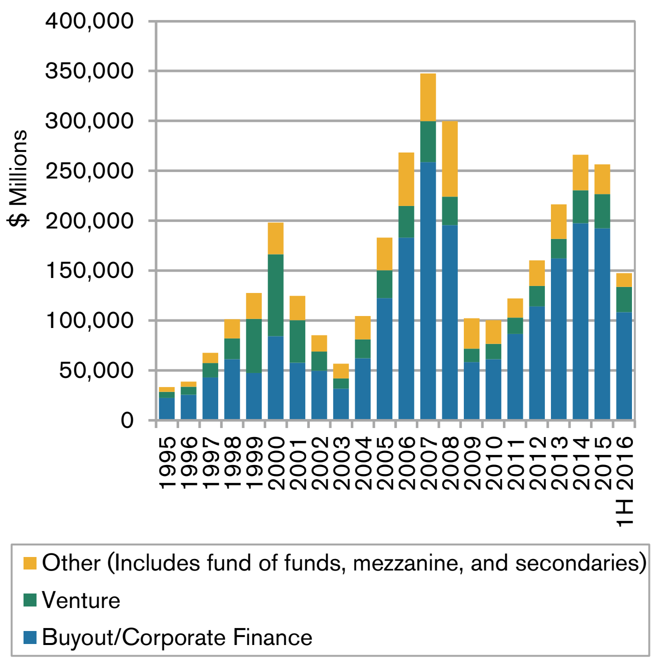
*"Vintage year" refers to the first year capital was committed in a particular fund. Vintage-year performance is calculated as the median percentile returns of all funds reporting as pooled IRRs.

Private Equity Performance by Vintage Year and Investment Horizon: All Regions



Source: Thomson Reuters

Private Equity Commitments: United States



Source: *Private Equity Analyst*

Private Equity Overview

According to *Private Equity Analyst*, U.S. private equity funds raised approximately $147.6 billion in the first half (1H) of 2016, which was 6 percent less than 1H 2015, but still the second highest level of fundraising in five years. Amid public market volatility and low yields in fixed income, many managers were able to raise capital quickly and close their funds. Notably, the median time from initial marketing to final closing in 1H 2016 was five months, which was the fastest median fundraising period in at least five years.

Buyout/corporate finance strategies raised the most capital among private equity strategies in 1H at $108.5 billion, approximately $4.3 billion less than in 1H 2015, but across 32 fewer funds. Mezzanine dropped to a five-year low in both capital raised and number of fund closings. Venture capital raised 13 percent more in dollars than in the same period one year prior. Secondary funds* rebounded and are on track for a record year of fundraising, closing on more than double the capital raised during 1H 2015.

Venture-backed IPO activity rebounded in Q2 2016 versus Q1 2016, which registered as the slowest quarter since Q3 2011. The number of IPOs doubled over Q1, and dollars raised increased by 56 percent. Biotechnology companies comprised 75 percent of Q2's IPO activity. Venture-backed M&A activity decreased by 29 percent compared to Q1; however, on a sector basis, two large life sciences deals during Q2 set a record for venture-backed M&A exits in that sector. After Q1, when there were no buyout IPOs, three companies went public in Q2. Buyout M&A activity increased by approximately $9 billion over Q1, but across fewer deals. Total buyout M&A exit deal volume in 1H 2016 was about 44 percent less than that of 1H 2015.

Venture capital deal activity increased by 20 percent over Q1 in terms of dollars invested and decreased by 5 percent in number of deals. At $15.3 billion, venture investment hit its tenth consecutive quarter of over $10 billion in financing during a single quarter. The top 10 deals (out of 961 total deals) in Q2 totaled 39 percent of total dollars invested, with the top two deals themselves totaling 31 percent of all financing during the quarter. In buyouts, dollar volume was $37.6 billion, 9.3 percent higher than in Q2 2015.

*Includes both U.S. and European data, as secondary funds tend to invest globally.

Investment Performance: Real Estate

This page presents data and Rogerscasey's commentary on private and public real estate. The information below reflects the most recent data available.

Private Real Estate

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI), which tracks private real estate in the U.S., gained 1.8 percent during Q3. The total return is composed of 1.2 percent income and 0.6 percent property-level appreciation. Over the trailing one-year period, the Index gained 9.2 percent, composed of 4.8 percent income and 4.3 percent property-level appreciation.*

In the regions of the U.S., the West performed the best during Q3 and over the last 12 months, as shown in the adjacent table.

In Q3, performance was driven by strong income returns, which was a result of solid operating performance driven by steady demand for space due to modest economic growth. Growth in asset values is slowing, which is evident with decreasing quarter-over-quarter appreciation returns for four of the five NCREIF property sectors. Future appreciation is expected to be generated by property specific events, such as new leases and renovations, rather than further yield compression, as capitalization rates have leveled off at historic lows.

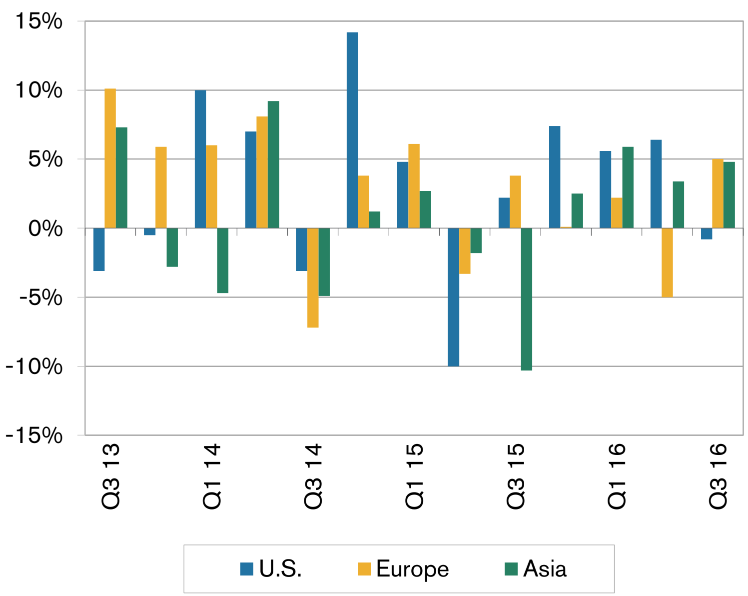
* Does not add up to total due to rounding.

National Property Index Sector and Region Performance

		Returns as of Q3 2016	
	Ending Weight (%)	QTD (%)	1 Year (%)
NCREIF NPI Total Return	100.0	1.8	9.2
Sector			
Apartment	24.8	1.7	8.5
Hotel	1.0	1.4	7.2
Industrial	14.1	2.9	12.5
Office	36.6	1.3	7.5
Retail	23.4	2.0	11.0
NCREIF Region			
East	33.2	1.5	7.3
Midwest	9.0	1.5	8.2
South	19.9	1.6	8.8
West	37.9	2.2	11.5

Source: National Council of Real Estate Investment Fiduciaries

Regional Real Estate Securities Performance



Source: National Association of Real Estate Investment Trusts

Public Real Estate

The FTSE EPRA/NAREIT Global Developed Real Estate Index total market capitalization remained at $1.4 trillion in Q3, broken down as follows: North America $815 billion, Europe $232 billion, and Asia $386 billion. Stronger operating fundamentals in some Asian markets as well as increased monetary stimulus in Europe led to a 1.5 percent gain on a global basis in Q3. Europe (5.0 percent) outperformed Asia (4.8 percent) and the U.S. (-0.8 percent), as measured by the FTSE EPRA/NAREIT indices. Sector performance in the U.S. was mixed: Industrial (6.6 percent), Primary CBD Office (3.6 percent), Single Family Homes (3.3 percent), Healthcare (2.6 percent), Secondary CBD/Suburban Office (1.8 percent) and Net Lease (0.5 percent) outperformed the broader index while Self Storage (-12.2 percent), Data Centers (-9.0 percent), Diversified/Financial (-8.1 percent), and Student Apartments (-3.9 percent) lagged the index.

Property stocks in Europe gained as a result of an increase in quantitative easing as well as record low bond yields, while improved cash flows and cap rate compression in Hong Kong boosted Asia. In Europe, Norway (21.3 percent), Austria (17.3 percent), Finland (15.6 percent), France (8.3 percent), Spain (8.1 percent) and Sweden (7.6 percent) outperformed, while Italy (-4.8 percent), Switzerland (0.6 percent), and the U.K. (2.0 percent) underperformed the broader index. In Asia, Hong Kong (16.6 percent) outperformed while Japan (unchanged), Australia (0.8 percent), New Zealand (2.8 percent), and Singapore (4.1 percent) lagged the region.

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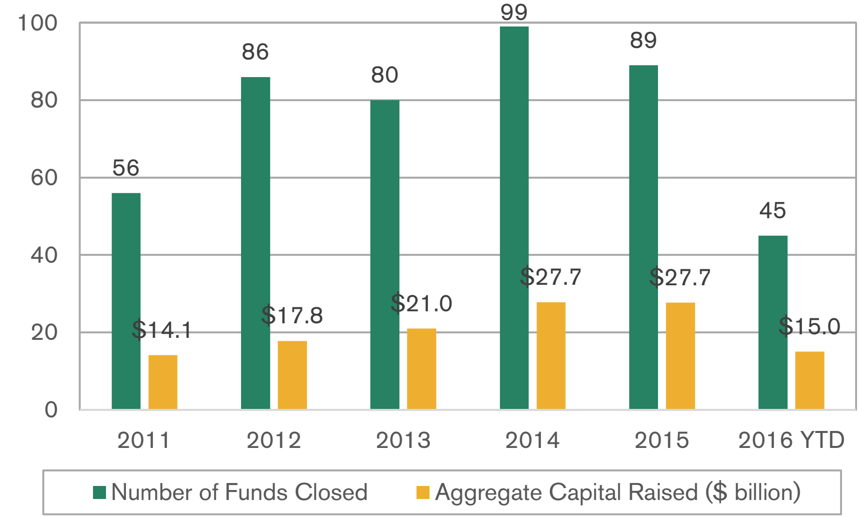
Investment Performance: Real Estate

This page presents data and Rogerscasey's commentary on value-added and opportunistic real estate. The information in this section reflects the most recent data available.

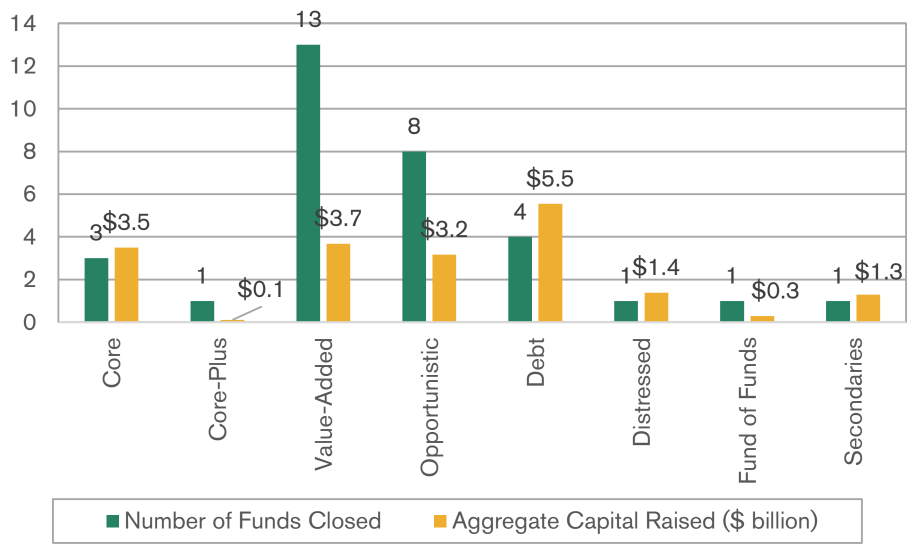
Value-Added and Opportunistic Real Estate

According to Preqin, closed-end private real estate fundraising declined in Q3, with a total of 32 funds receiving capital commitments of $19 billion with continued concentration of capital across fewer managers. As shown in the graph below, value-added and opportunistic strategies received the most interest from investors with 13 value-added funds closing on $3.7 billion of capital commitments and eight opportunistic funds closing on $3.2 billion of capital commitments during Q3. It is also important to note that four debt funds closed on $5.5 billion of capital commitments. As shown in the graph at right, value-added fundraising has strengthened significantly since 2011, while 2016 is on track to deliver somewhat weaker results relative to 2014 and 2015. As shown in the graph below at right, since 2014, value-added funds have primarily focused on diversified exposure to the market, followed by residential and office strategies, which closed on 42 and 20 funds representing $8.5 billion and $5.4 billion of capital commitments from investors, respectively. Overall, in Q3, there were 513 private real estate funds in the market seeking capital commitments of $182 billion, which is an increase from the beginning of the year.

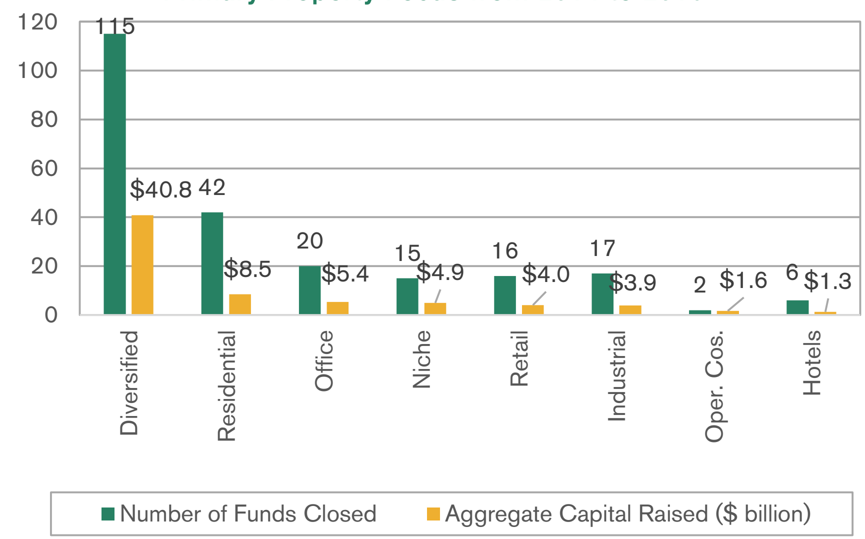
Annual Closed-End Value-Added Private Real Estate Fundraising from 2011 to 2016



Closed-End Private Real Estate Fundraising in Q3 2016 by Primary Strategy



Closed-End Value-Added Private Real Estate Fundraising by Primary Property Focus from 2014 to 2016



Source (this page): Preqin Real Estate Online

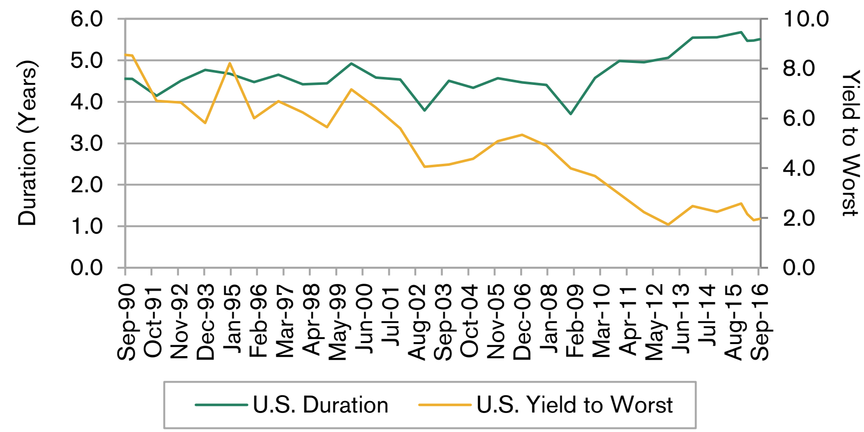
Noteworthy Developments

Rogerscasey finds the developments discussed in this section to be noteworthy for investors.

Yield vs. Risk

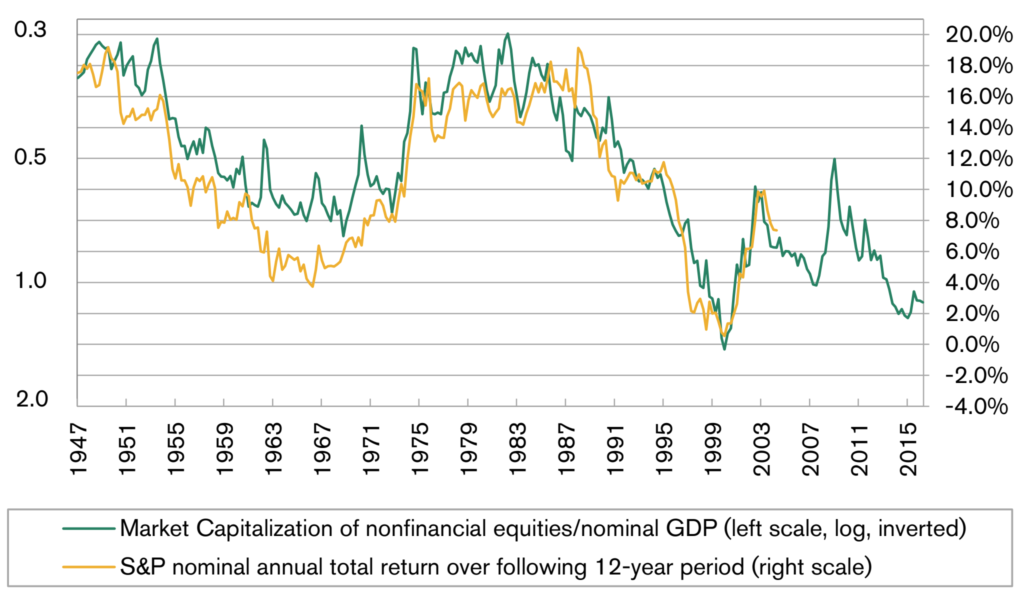
The adjacent graph shows the duration and yield of the Barclays Aggregate Bond Index and illustrates one of the challenges to bond investors over the years as the level of compensation (yield) has declined relative to one measure of risk (duration), which has increased. The yield per unit of duration recently reached an all-time low of approximately 0.50 after averaging roughly 0.75 to 1.50 in the 2000s, 1.50 to 2.00 in the 1990s, and 3.00 to 4.00 in the 1980s. Despite an uptick through 2015, yields have declined in 2016 through Q3, while durations have extended for a number of reasons, including those related to the characteristics of the MBS market and index issuance.

Yield and Duration of the Barclays U.S. Aggregate Bond Index



Sources: Barclays Live and Bloomberg Index Services Limited

Nonfinancial Stocks/GDP



Source: Federal Reserve Bank of St. Louis

The Wealth Effect

The blue line is an inverted ratio of the market capitalization of nonfinancial stocks to nominal GDP. It has been a reasonably reliable measure of how expensive markets are, with a correlation to subsequent 12-year market returns (the red line) above 90 percent. Generally speaking, the lower the ratio, the cheaper stocks are, and the higher the subsequent stock return. However, even at trough valuations in 2003 and 2009, expected future returns did not get much over 10 percent, compared to previous highs in the upper-teens. Since 2009, the ratio has risen to levels only exceeded in 1929 and during the dot-com bubble. Based on this ratio, the expected nominal return on the S&P 500® over the next 12 years is under 2 percent.

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Noteworthy Developments

Rogerscasey finds the developments discussed in this section to be noteworthy for investors.

A Third Bubble?

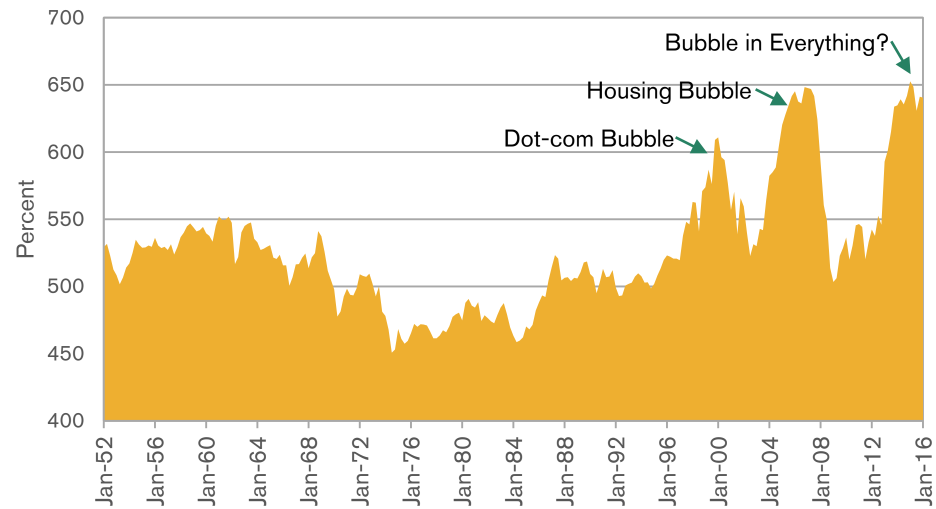
The economic recovery from the Great Recession, now in its seventh year, has been modest and uneven. Nowhere is that more apparent than in the ratio of Net Worth to Disposable Income which is back to all-time highs.

This ratio also encapsulates the great uncertainty existing today in both the financial and political arenas. There is a constant stream of debate on whether asset prices today are justified fundamentally or whether we are in midst of the third bubble in the last two decades.

With the U.S. in a presidential election year and with numerous key political elections in Europe shortly, there is also much rhetoric regarding wealth inequality and whether central bank policies have benefited "the 1 percent" (net worth) with little help to "the 99 percent" (disposable income).

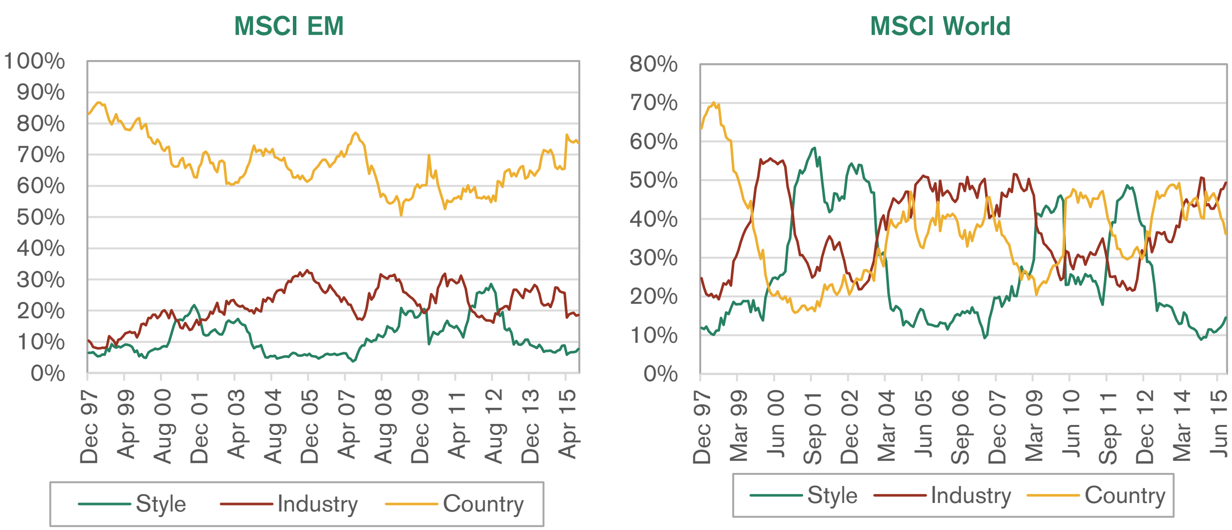
It is also interesting to note how demographics may be skewing the ratio away from historical averages. With the baby-boom generation continuing to retire and the millennial generation facing more modest wage prospects, the net-worth-to-disposable-income ratio may be shifting to a permanently high plateau going forward. Of course we remember what Irving Fisher said about a 'permanently high plateau'.

Households and Nonprofit Organizations – Net Worth as a Percentage of Disposable Personal Income



Source: Federal Reserve Bank of St. Louis

Contribution of Risk Factors by Index



Source: Morgan Stanley Investment Management Research

Country Risk in Emerging Markets

The two adjacent charts contrast the high level risk factors of investing in Emerging Markets (LHS) and Developed Markets (RHS), represented by the MSCI EM Index and MSCI World Index, respectively. It is notable that since the start of the data in 1997, risk factors within the MSCI EM Index have been dominated by country selection, which consistently contributes more than 50 percent of overall risk, while the Style (Growth vs. Value) and Industry risk factors are less dominant. In contrast, the MSCI World Index has not experienced an extended period where risk has been dominated by one particular factor, with more rotation between Style, Industry, and Country selection considerations.

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