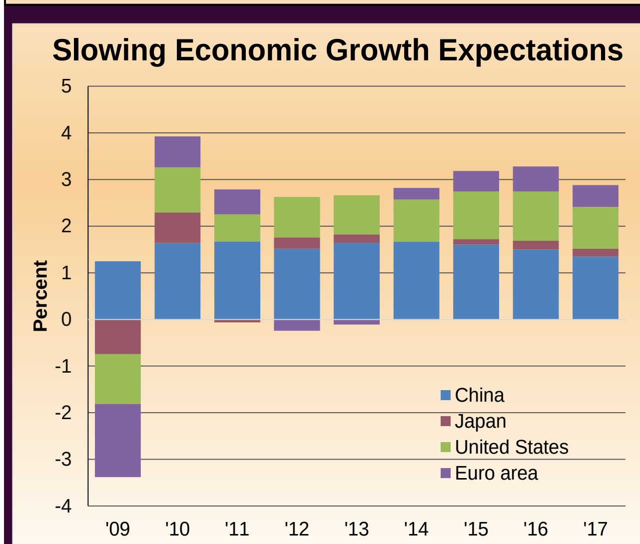
Capital Market Review

September 30, 2015

DeMarche ASSOCIATES, INC. Putting Research To Work

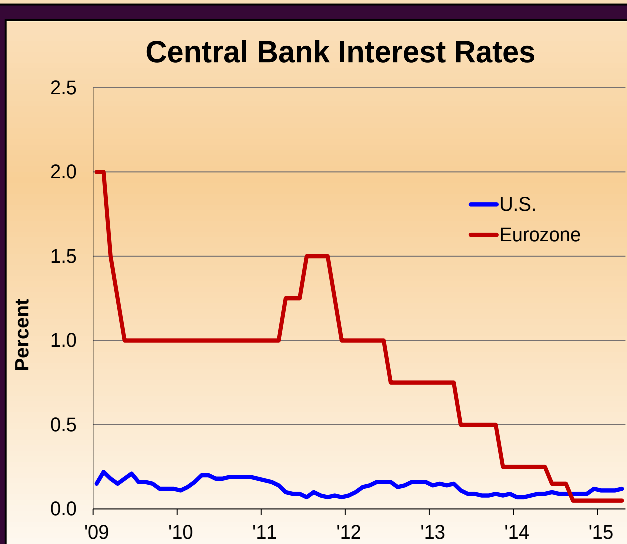
Risk Reprices Rapidly



Source: World Bank Annual GDP Growth weighted by GDP in current US Dollars

The last time the S&P 500 fell over 10% was in 2011, when it fell 19.4%. At the time, markets were concerned about the risk of recession in Europe, the European debt crisis and the credit downgrade of US Treasury debt. Ultimately, this led the Fed to implement an open ended quantitative easing program in 2013 and rate cuts in Europe.

Similarly, current concerns about slowing global growth have caused market jitters. **The chart to the left shows** the market expects growth in China to slow and growth in the developed countries to moderate. In response to risk repricing, the Fed delayed any tightening of interest rate policy until further notice. **As the chart to the right shows**, the ECB tried to raise interest rates in 2011 but quickly reversed policy when the European economy faltered. The Fed learned that lesson and will not increase rates now just to decrease them later.

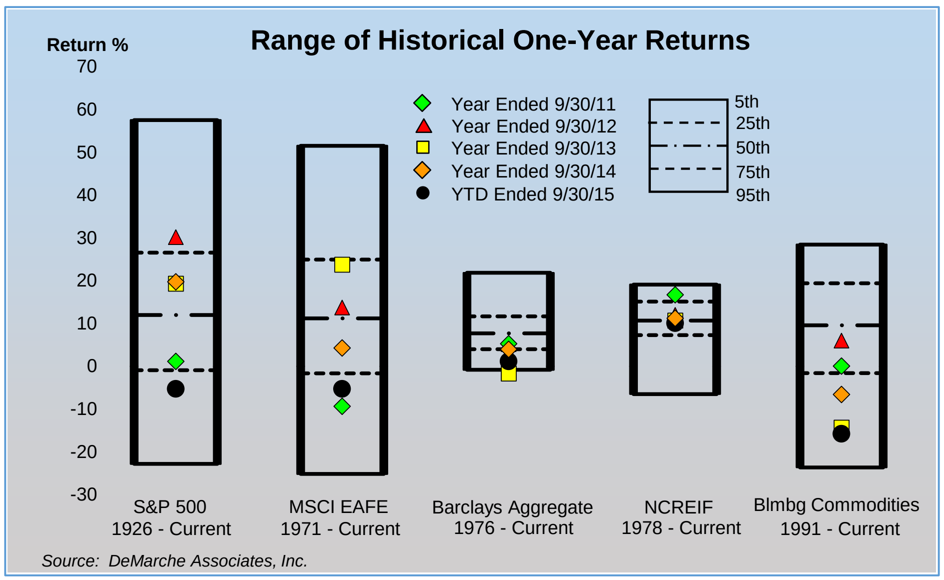


Source: Federal Reserve Bank of St. Louis, European Central Bank

INDEX	3rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	-8.4	-5.1	8.6	8.3	4.7
DeMarche World*	-9.7	-6.2	7.6	6.7	5.0
DeMarche 3000	-8.4	-4.8	9.3	9.4	5.9
Russell 3000	-7.2	-0.5	12.5	13.3	6.9
S&P 500	-6.4	-0.6	12.4	13.3	6.8
DeMarche International	-8.4	-5.0	6.7	4.1	4.1
MSCI EAFE	-10.2	-8.7	5.6	4.0	3.0
DeMarche Bond	1.3	3.4	1.5	3.0	4.4
Barclays Aggregate	1.2	2.9	1.7	3.1	4.6
Citigroup Non-U.S. Gov't Bond	1.7	-7.0	-4.6	-1.3	2.9
NCREIF (Private RE)	3.1	13.5	11.9	12.5	8.0
Bloomberg Commodity	-14.5	-26.0	-16.0	-8.9	-5.7

Notes: All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.

Indicator Year Ending 9/30	2015	2014	2013	2012	Long Term Average
GDP Annual Growth Rate	2.0	2.9	2.3	2.7	3.1
Unemployment	5.1	5.9	7.2	7.8	6.0
Inflation (CPI)	0.0	1.7	1.2	2.0	3.7
10-Year Interest Rates	2.1	2.5	2.8	1.7	6.0



- The third quarter was negative for global equities as markets adjusted to slowing growth, particularly in China. Worries about China and slowing US corporate earnings, jolted global stock markets into correction territory for the first time since 2011. The Fed reacted by not raising interest rates, citing global concerns.
- Bonds provided the safe refuge in the storm of volatility. The Barclays Aggregate posted a positive return, as did global bonds, in the quarter. However, the impact of the dollar strengthening can be seen in negative longer term returns for global bonds.
- Fears of deflation were resurrected by concerns of slowing growth and caused commodity prices to fall by double digits. The impact of a slowing Chinese economy, which is a heavy user of commodities, was pronounced. Energy prices led the decline.
- The chart at the bottom left shows a range of trailing 12 month returns for various asset classes. The returns of stocks, both international and domestic, show a wide range of returns. Most comparable to the current environment is 2011, which was also a period of global monetary policy changes and growth challenges. Bonds and commodities continue to perform below average. Real estate has been the most consistent performer.

DeFact

The Federal Reserve maintained its policy target of 0% to 0.25% saying in its press release that “will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments” before it begins raising interest rates.

~Federal Reserve

Domestic Equities

DeMarche
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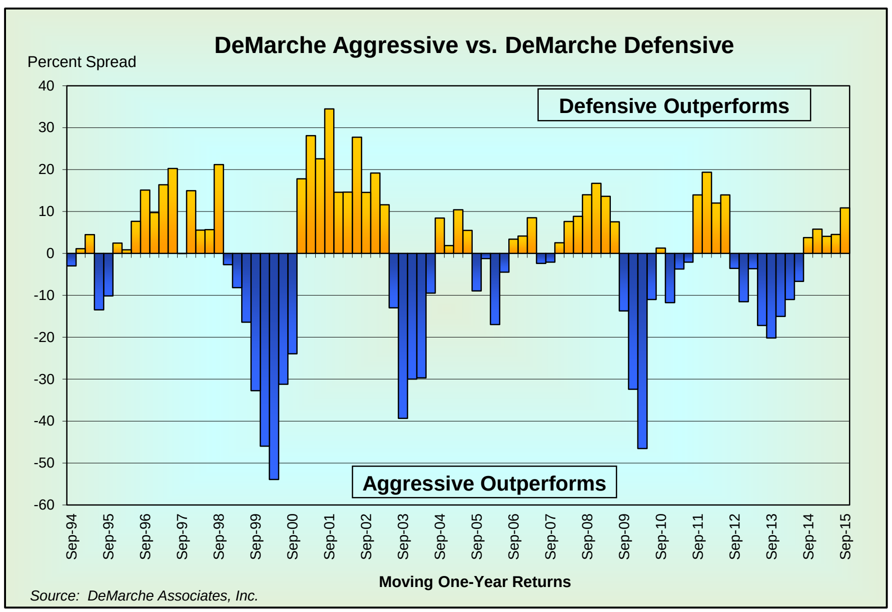
INDEX	3rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	-6.6	0.8	11.5	11.3	7.1
DeMarche Value	-10.7	-11.7	6.7	6.8	4.4
DeMarche Aggressive	-18.0	-14.6	9.3	7.0	3.9
DeMarche Defensive	-7.4	-3.7	9.1	9.5	6.0
DeMarche Large Cap	-7.7	-4.8	8.8	8.8	5.4
Large Cap Growth	-5.7	1.0	11.5	11.1	6.7
Large Cap Value	-10.2	-11.7	5.9	6.1	3.7
DeMarche Small Cap	-15.6	-6.5	9.0	10.1	5.5
Small Cap Growth	-15.4	-3.1	8.5	10.3	4.6
Small Cap Value	-15.7	-8.9	9.2	9.8	6.1
S&P 500	-6.4	-0.6	12.4	13.3	6.8
S&P Mid-Cap 400	-8.5	1.4	13.1	12.9	8.3
S&P Small-Cap 600	-9.3	3.8	13.0	14.0	7.7
Russell 1000	-6.8	-0.6	12.7	13.4	7.0
Russell 1000 Growth	-5.3	3.2	13.6	14.5	8.1
Russell 1000 Value	-8.4	-4.4	11.6	12.3	5.7
Russell 2000	-11.9	1.2	11.0	11.7	6.5
Russell 2000 Growth	-13.1	4.0	12.8	13.3	7.7
Russell 2000 Value	-10.7	-1.6	9.2	10.2	5.3



Source: DeMarche Associates, Inc.

- Small cap stocks fell during the quarter on growth concerns. However, over the past 12 months, small cap stocks have outperformed large cap. Small cap growth securities were the worst performer as the small cap biotech sector was hit hard by the slowdown worries.

- Large cap stocks fell single digits in the quarter. Large cap growth stocks performed the best and were led by quality growth companies. The consumer sector was the best performer and has a large weight in the growth stock indexes.

- Large cap value stocks were hit hardest due to energy stocks having the worst performance of any sector included in the large cap universe. Energy stocks make up over 14% of large cap value stocks.

- Even with the negative quarter, longer term returns show a healthy double digit return. 10 year returns are slightly below long term historical average of 8%.

- The reward for investing in the less risky stocks was evident by the outperformance of the DeMarche Defensive Index versus the DeMarche Aggressive Index. Aggressive stocks are identified by lower quality companies with higher debt ratios. As the chart at the bottom left shows, one year performance of defensive stocks strongly outperformed in the past year.

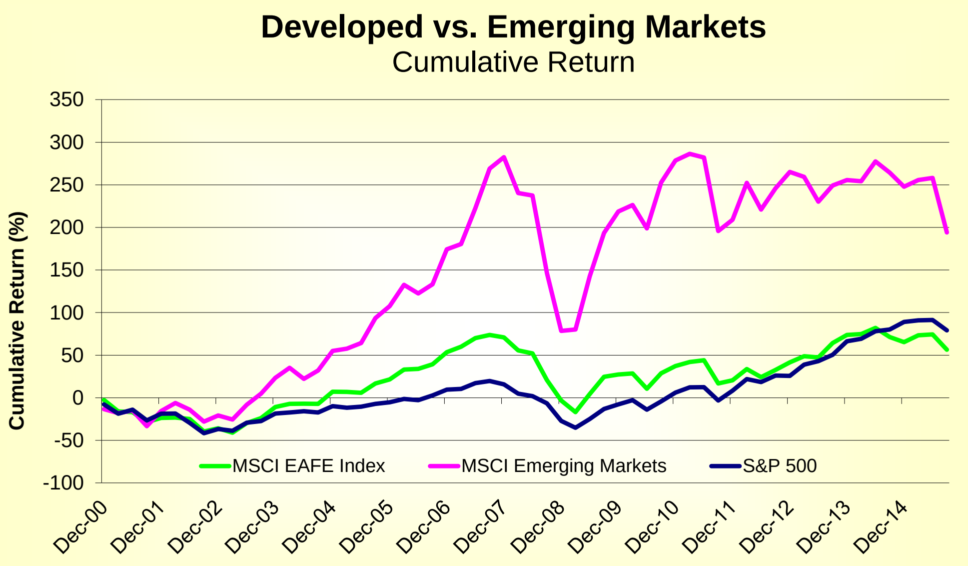
DeFact

Market volatility was the norm during the quarter. The S&P 500 reached a quarterly high of 2128 in July (all-time high is 2132) but fell to 1867 in August for a total drop of 12.3%. On the last day of the quarter, the market bounced 1.7%. During the quarter, the index rose or fell over 2% on 8 out of 64 trading days. In the first and second quarters, the index fluctuated 2% on only a single day.

~ DeMarche Associates

INTERNATIONAL EQUITIES

INDEX	3rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Intl	-8.4	-5.0	6.7	4.1	4.1
Growth	-10.2	-2.5	4.9	4.3	4.5
Value	-12.3	-11.7	6.3	2.8	3.3
DeMarche Intl Small Cap	-9.9	-4.8	8.0	4.3	4.2
DeMarche EM	-17.4	-8.3	0.1	-0.2	4.7
MSCI EAFE Local	-9.0	0.8	12.7	7.7	3.3
MSCI EAFE USD	-10.2	-8.7	5.6	4.0	3.0
Growth	-8.7	-4.7	6.5	4.8	3.8
Value	-11.8	-12.6	4.7	3.1	2.1
MSCI Japan	-11.8	-2.2	9.0	4.9	1.1
MSCI AC Asia-ex Japan	-17.0	-12.4	0.0	0.4	6.4
MSCI Germany	-10.9	-9.3	5.2	4.7	5.0
MSCI France	-6.4	-7.7	7.4	2.8	2.2
MSCI UK	-10.0	-12.1	3.0	4.5	3.0
MSCI EAFE Small Cap	-6.8	0.3	10.2	7.3	4.7
MSCI EM	-17.9	-19.3	-5.3	-3.6	4.3
MSCI All Country-ex US	-12.2	-12.2	2.3	1.8	3.0



Source: DeMarche Associates, Inc.

- The impact of the dollar strengthening against other currencies over the past 12 months shows up in the one year returns of EAFE local and EAFE USD. Returns expressed in local currency strongly outperformed dollar returns. The opposite impact is evident in 3 year returns when the dollar weakened. Over the quarter, the dollar strengthened only slightly so the quarterly returns are similar.
- Emerging market stocks have been the most negatively impacted by dollar strength in the past 12 months, down over 19%. In local currency, emerging market stocks were down 9.4%. In addition to the currency impact, concerns about the Chinese economy slowing has impacted Asian markets more so than European markets.
- Over the past twelve months, Japanese stocks have performed the best among developed country stocks. The ongoing quantitative easing program in Japan has continued to boost their market. Dollar strength is evident here also with investments in Yen returning 5% for the past 12 months but returning -2.2% in dollar terms.
- Over the past five years, emerging market stocks have underperformed developed market stocks. However, since 2000, emerging market stocks still hold a wide lead in cumulative return. With the GDP growth of emerging markets leading the world and valuations being lower than developed markets, now may be a good time to rebalance equity allocations between markets.

DeFact

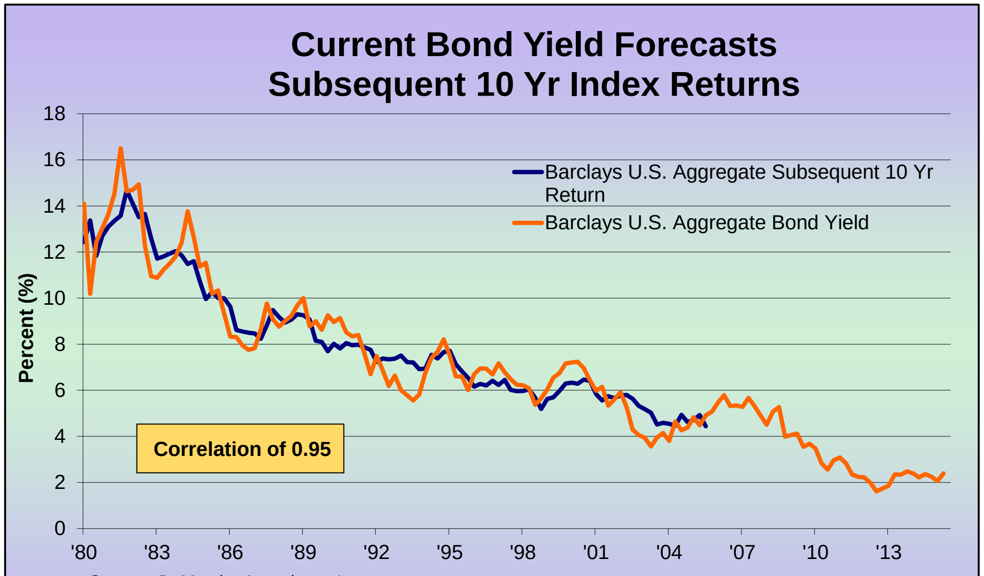
Volkswagen, the largest carmaker in the world by sales, had its stock price fall over 38% in two days in September as news broke that the company was falsifying emissions data to the EPA. Volkswagen is one of 30 members of the DAX, the German stock market index.

~ Bloomberg

FIXED INCOME

DeMarche ASSOCIATES, INC. Putting Research To Work

INDEX	3rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	1.3	3.4	1.5	3.0	4.4
Quality					
AAA/Aaa	1.4	3.5	1.0	2.4	4.0
BBB/Baa	0.5	2.4	3.5	5.8	6.3
Duration					
1-5 Years	0.6	2.2	1.2	1.8	3.5
5-10 Years	1.6	4.5	1.6	3.8	5.3
10-20 Years	3.5	6.3	2.8	6.3	5.8
Sector					
U.S. Treasuries	1.4	3.6	0.9	2.4	4.1
U.S. Agencies	0.9	2.8	1.4	2.0	3.6
Corporates	0.8	2.9	3.3	5.5	6.0
Barclays U.S. TIPS	-1.1	-0.8	-1.8	2.5	4.0
Barclays Aggregate	1.2	2.9	1.7	3.1	4.6
Barclays Gov Credit Long	2.2	3.1	2.2	6.0	6.7
Merrill Lynch High Yield	-4.9	-3.5	3.4	5.9	7.0
CSFB Leveraged Loan	-1.2	1.2	3.8	4.8	4.4
JPM Emerging Mkt Debt Global	-2.0	-2.0	0.5	4.4	6.8



Source: DeMarche Associates, Inc.

- Bonds proved to be the safe haven alternative during the volatile quarter. Interest rates fell as the flight to quality positively impacted returns for the Barclay's Aggregate which is dominated by U.S. government bonds.
- Consistent with the heightened concern about risk assets, high yield bond returns fell on concerns about defaults in the energy sector. Over the longer time frames, high yield bonds have been strong relative performers.
- U.S. government bonds performed better than corporate bonds in the quarter as the flight to quality trend played itself out in investment grade bonds as well. Corporate bonds lead in longer time periods as the yield pickup offered by corporates enhance total return.
- Long duration bonds performed the best of all bond sectors during the quarter. Interest rates fell in the quarter as investors, concerned about global slowdown, bought bonds as a safe haven.
- The chart at the bottom left shows how closely long-term bond returns track current yields. If the trend holds, bond returns, as measured by the Barclays Aggregate, will average about 2% over the next ten years. The chart suggests that bond returns for the next 10 years will be the lowest in the past 35 years.

DeFact

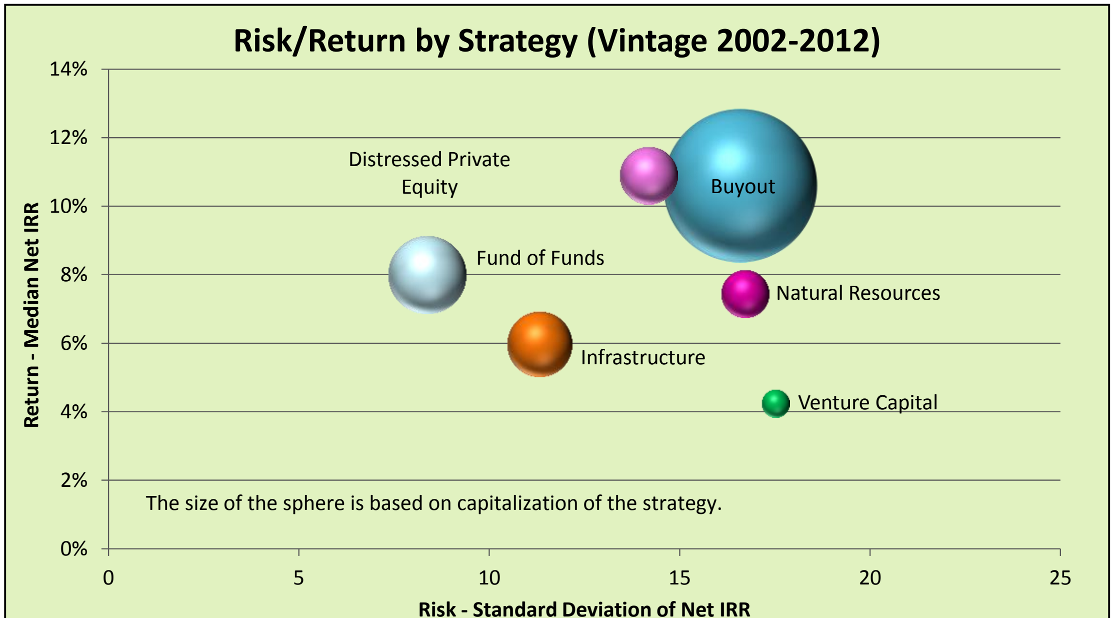
Ten of the 18 largest funds that invest in corporate bonds have significant holdings of seldom traded bonds. Mutual funds have invested 15% or more of their money in such securities which could portend a liquidity crunch. Bond managers have been attracted to these bonds in search for yield in a low interest rate environment.

~ WSJ

Less Liquid Strategies

DeMarche Associates, Inc. — Putting Research To Work

INDEX	3rd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	3.1	13.5	11.9	12.5	8.0
Apartment	2.9	12.0	10.9	12.6	7.6
Industrial	3.7	15.6	13.2	13.2	7.9
Office	3.0	13.1	11.1	11.7	7.8
Retail	3.1	14.4	13.6	13.6	9.0
NAREIT (Public RE)	0.8	7.4	8.6	11.7	6.3
NCREIF Timberland	0.8	9.3	9.8	6.3	7.9
HFR FOF Composite	-3.7	-0.1	4.1	2.7	2.4
Conservative	-1.8	0.6	4.2	2.8	2.1
Diversified	-3.0	0.4	4.3	2.9	2.5
Strategic	-6.1	-1.6	4.1	2.6	2.4
Bloomberg Commodities	-14.5	-26.0	-16.0	-8.9	-5.7



Source: 2015 Preqin Alternative Assets Performance Monitor

- The economic slowdown in China, the world's largest importer of many raw materials, has pummeled global commodity prices. Energy prices continue to lead the decline, falling over 22% during the quarter. Precious metals, which make up 16% of the index, fell the least at 5.5%

- Private real estate has been a steady performer in all time periods. Since the recession in 2008, the rebound in real estate has provided double digit returns in one, three and five year periods.

- Strategic hedge funds underperformed other hedge fund styles during the quarter as equity markets swooned. Conservatively managed funds performed the best. Over longer time periods, hedge fund strategies have performed similarly to each other.

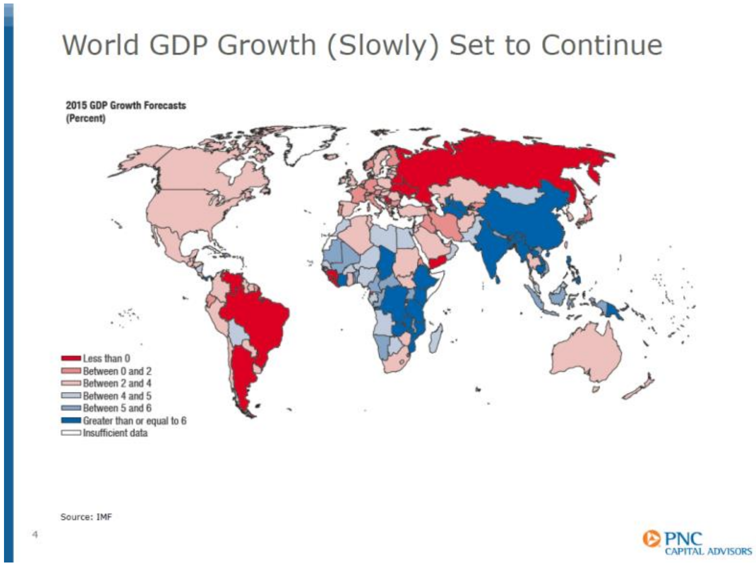
- The chart to the left shows the mix of private equity options available. Buyouts (which are when companies are taken private or when private business owners sell) leads subsectors in capitalization and has performed the best.

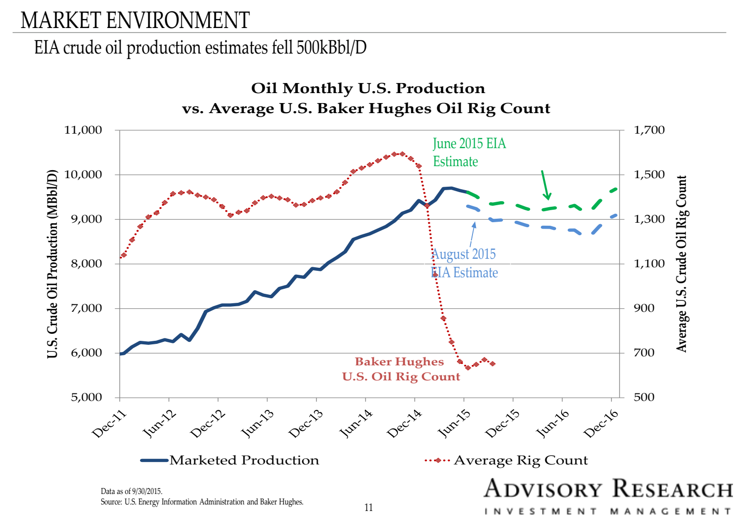
DeFact

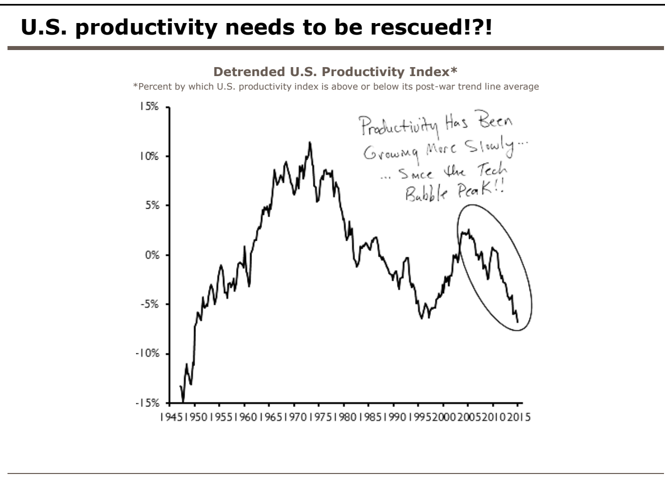
Brent Oil fell during the quarter to its lowest price since the end of 2008. As a result, active rig counts in the US are falling by over 50% during 2015. With falling rig counts, the expectation among market experts is US production will decrease in 2016.

~JP Morgan

DeMarche Client Conference 2015 Highlights







Save the Date!

Annual DeMarche Conference 2016

September 7-9, 2016 at the InterContinental Hotel, Country Club Plaza