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2015 2nd Quarter Market Commentary

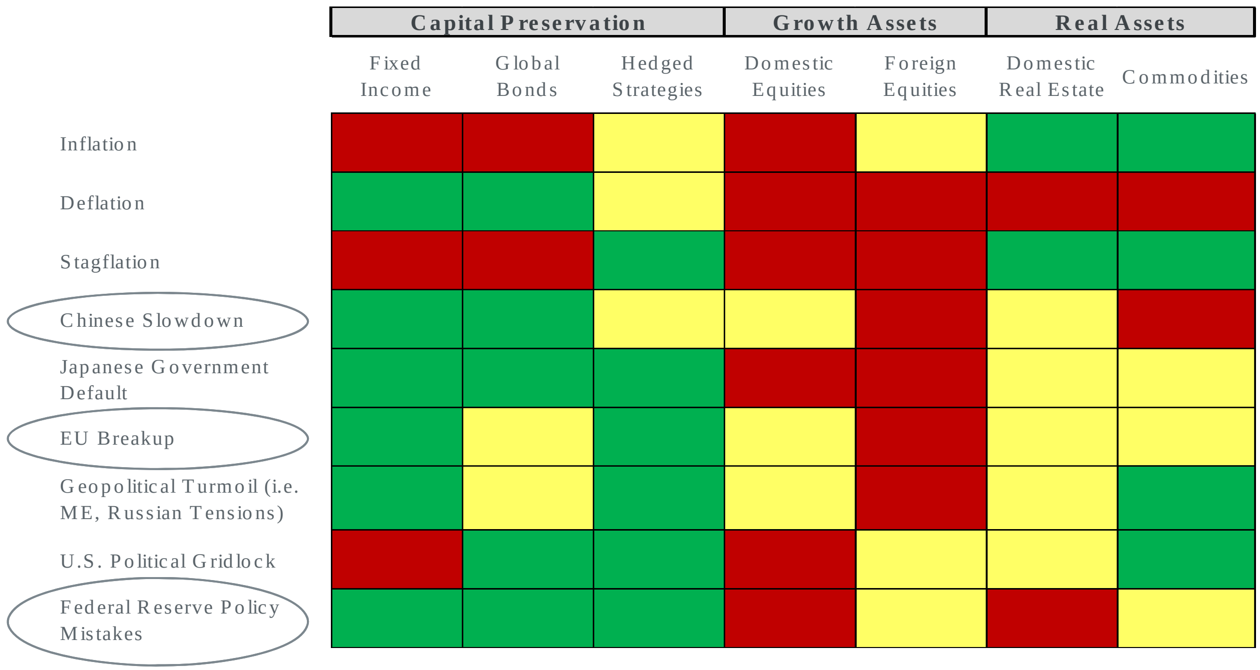
Second Quarter Summary

- The U.S. Federal Reserve communicated that recent economic growth means the era of easy money may soon come to a close, causing bond yields to rise (Positive)
- Oil prices stabilized after U.S. producers responded to recent price declines by reducing the number of active drilling rigs (Positive)
- Asset allocation played an important role in client portfolios with both equities and bonds experiencing separate periods of volatility (Neutral)
- Reported Q1 earnings for the S&P 500 grew only 0.7%, the lowest earnings growth since Q3 2012 (-1.0%), with a strong U.S. Dollar as the primary culprit (Negative)

Uncharted Territory – Greece/Eurozone Update

- On July 5th, Greek citizens voted "No" on a referendum set forth by their ruling party, rejecting their creditors' terms for austerity measures (pension cuts, tax increases, etc.) in return for financial aid
- The "No" vote does not represent an immediate expulsion from the Eurozone; however, the likelihood of default and a Greek exit from the Euro have gone up materially
- The Greek economy represents only 2% of euro area GDP, and is likely to have a much smaller influence on global markets today than in 2010-2012, when private creditors owned most of Greece's debt
- The economic impact of the Greek saga is likely to be muted given the country's limited impact on economic growth, debt markets, and corporate earnings
- Short-term volatility often results in long-term opportunities for managers who are able to stay disciplined and take advantage of recent turmoil
- The situation remains dynamic, with the outcome having larger, potentially unknown consequences, such as further fracturing of the Eurozone and the possible impact on Federal Reserve policy later this year

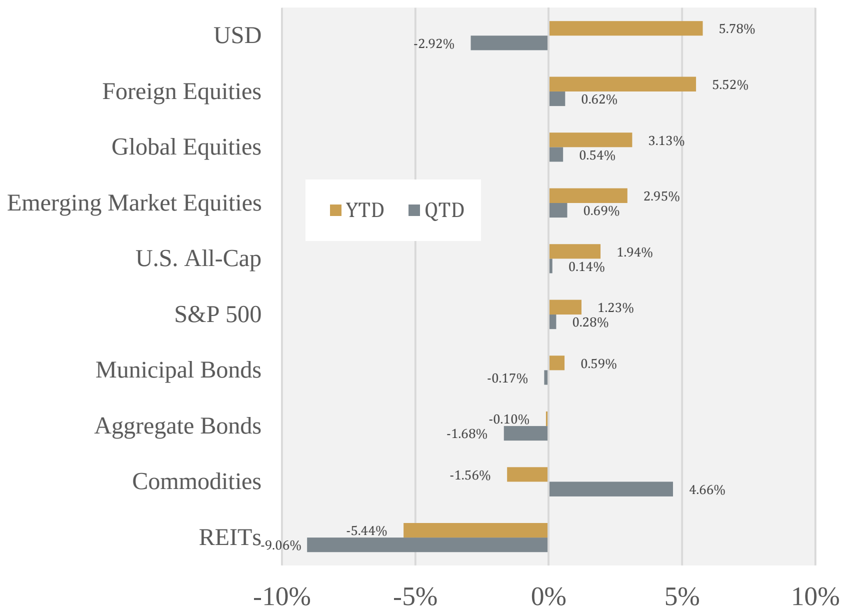
Market and Portfolio Risks



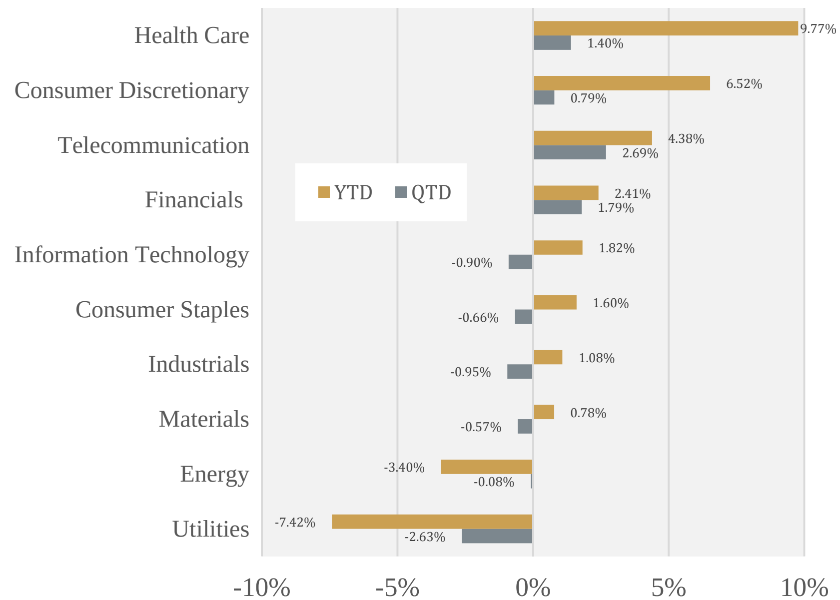
- Greek citizens voted “No” to creditor’s terms, leaving greater uncertainty around the country’s future as a part of the Euro
- The Federal Reserve deferred hiking the fed funds rate until later in 2015
- Chinese stock markets experienced significant volatility, correcting sharply after a meteoric rise over the last 12 months
- Puerto Rico faced likely municipal debt default as the Commonwealth seeks concessions from creditors

Market Returns

Global Asset Classes



Global Equity Sectors



- Foreign equities were the best performing asset class this year as accommodative monetary policies in Europe and Asia along with weakening currencies gave overseas companies a lift
- Healthcare returns were spurred on by significant merger and acquisition activity in the sector
- Global fixed income securities lagged equities as general interest rate levels rose, impacting many yield sensitive sectors such as REITs and utilities
- Declines in the energy sector slowed during the 2nd quarter as global oil prices began to stabilize

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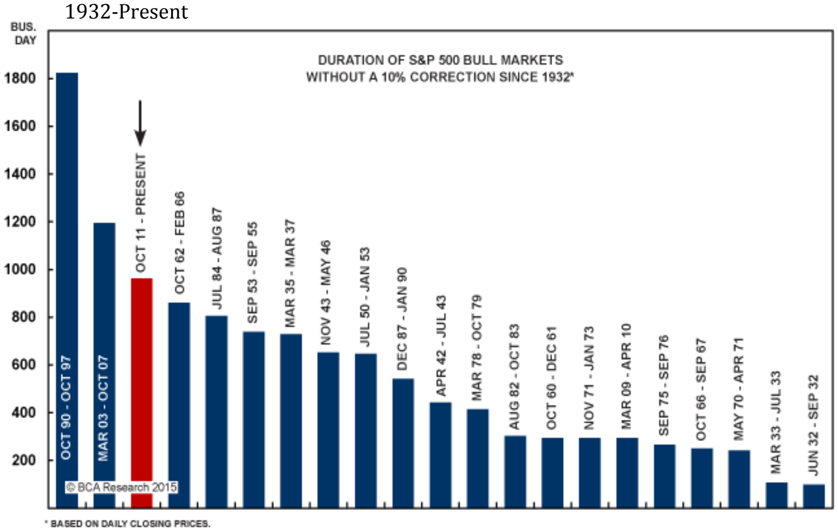
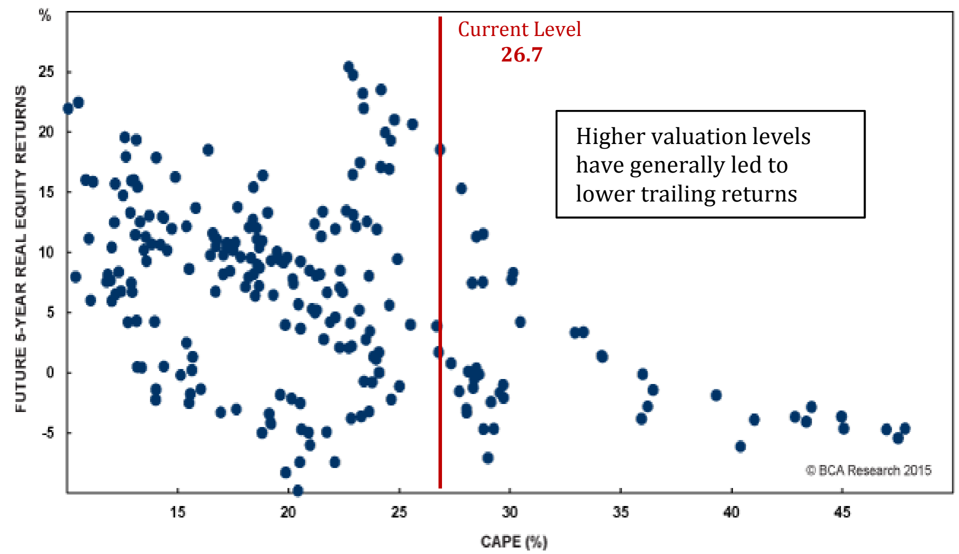
*Indices used include the following: MSCI EAFE, Barclays Muni 5-yr, ICE USD Spot, Barclays US Agg, MSCI EM, MSCI ACWI IMI, Russell 3000, Bloomberg Commodity Index, S&P 500 TR, FTSE NAREIT All Equity TR
**Sector returns are from the MSCI All Country World Investable Market Index

“Long in the Tooth” Market Rally

Duration of S&P 500 Bull Markets without a 10% Correction
1932-Present



Equity Valuation and Future 5 Year Real Returns



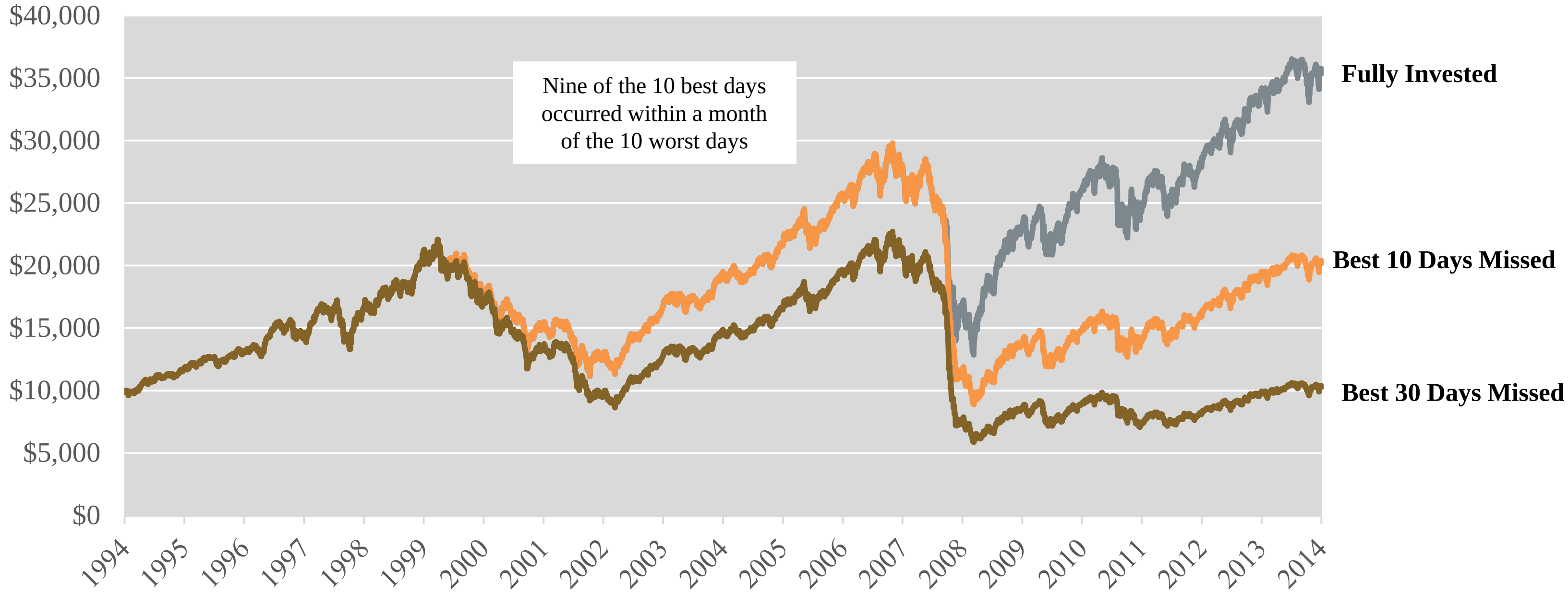
- At 43 months and counting, we are in the midst of the 3rd longest S&P 500 market rally in 73 years without a 10% correction. However, the last two major market rallies lasted longer than the current episode
- Many analysts believe the U.S. stock market could display mediocre performance over the next few years as valuations, by many measures, are above long-term averages

Source: BCA Research
The cyclically adjusted price-to-earnings ratio (“CAPE %”) is a valuation measure usually applied to the US S&P 500 equity market. It is defined as price divided by the average of ten years of earnings (Moving average), adjusted for inflation.

Market Timing Results in Poor Returns

Investment Growth of MSCI All Country World Investable Market Index

Growth of a $10,000 investment from 12/31/1994 to 12/31/2014



- The impact of being out of the equity markets on the best performing days can meaningfully impair performance and the probability of reaching personal goals
- Staying invested and avoiding attempts to "time the market" can significantly increase long-term returns in the portion of the portfolio designed to participate in global growth

This chart is for illustrative purposes only

Source: Morningstar Direct
Performance for "Fully Invested" portfolio represents growth of a $10,000 investment in the MSCI ACWI IMI NR (USD) Index from 12/31/1994 to 12/31/2014
Performance for "Best 10 Days Missed" portfolio represents growth of a $10,000 investment in the MSCI ACWI IMI NR (USD) Index from 12/31/1994 to 12/31/2014 after removing performance of the 10 best days
Performance for "Best 30 Days Missed" portfolio represents growth of a $10,000 investment in the MSCI ACWI IMI NR (USD) Index from 12/31/1994 to 12/31/2014 after removing performance of the 30 best days

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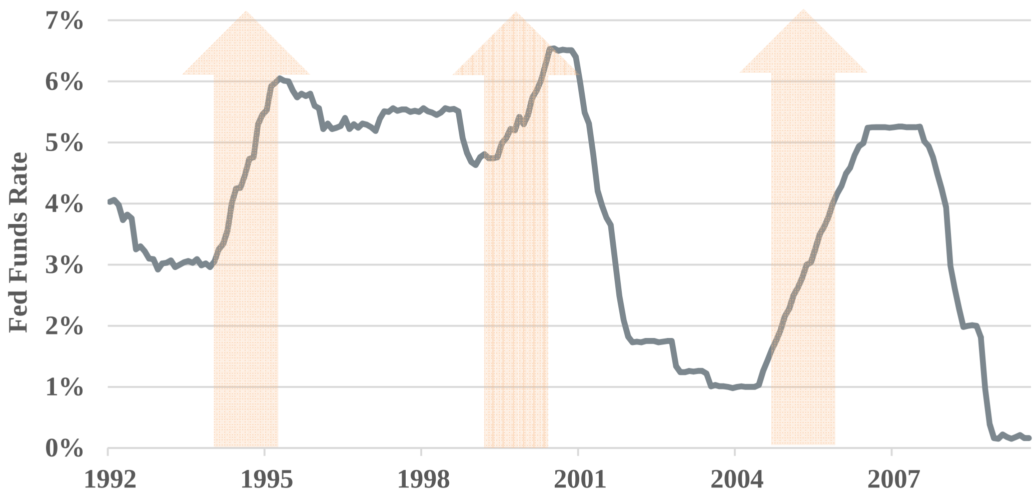
Historical Fed Funds Rate Cycles

Commodities	5.31%	7.45%	22.27%
Energy Equities	0.33%	4.77%	114.96%
U.S. Equities	-2.56%	2.25%	21.29%
U.S. Bonds	-3.64%	-0.74%	9.63%



- The Federal Reserve typically increases the fed funds rate to control an overheating economy with building inflationary pressure
- During these periods, Real Assets tend to significantly outperform equities and bonds
- While typically the most volatile asset class, maintaining exposure to Real Assets is important during these cycles

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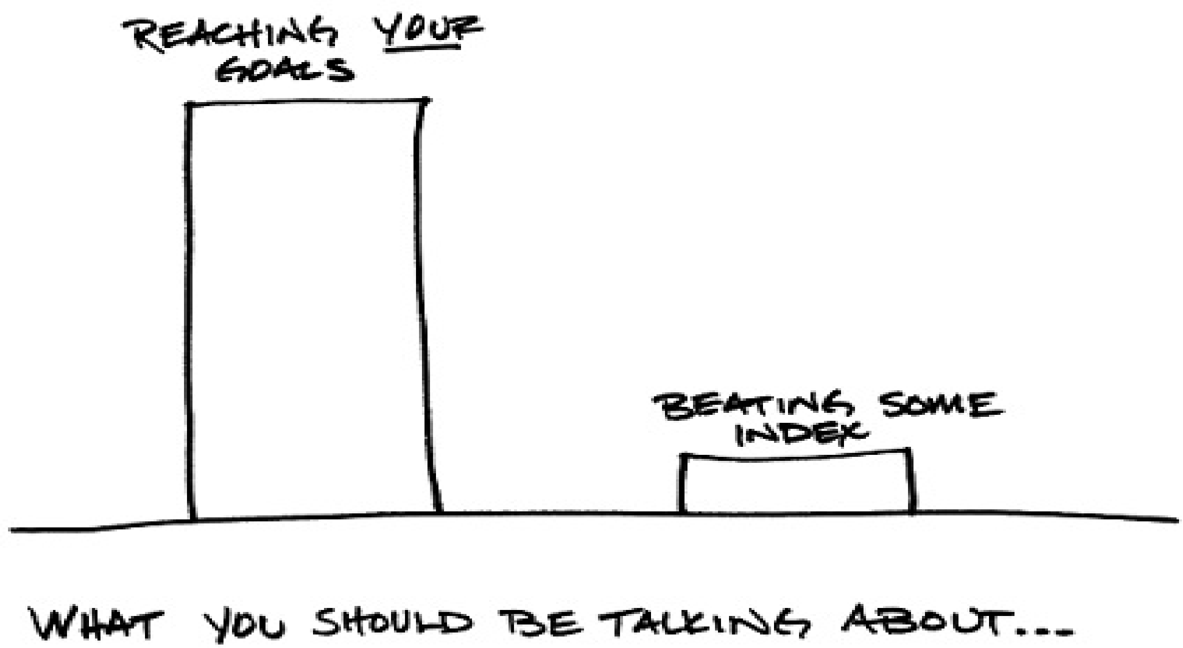
Source: St. Louis Fed, Gresham Asset Management, Morningstar Direct
Performance listed is for Jan 1994-April 1994, June 1999-July 1999, and June 2004-August 2004

Establish an Appropriate Benchmark



- While indices can be useful for gauging broad market performance and general valuation levels, an individual investor's goals and circumstances represent a more appropriate benchmark
- Proper alignment of this benchmark with a long-term focus, a disciplined investment plan, and realistic expectations results in investment success over a long time horizon

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Source: BehaviorGap.com

The Purpose of an Asset

Asset Class	Purpose	Example Strategies
Capital Preservation	Minimize Drawdown, Reduce Volatility	Fixed Income, Hedge Strategies
Growth	Portfolio Growth, Meet Future Expenses/Goals	Global Equities
Real Assets	Inflation Protection	Commodities, Energy Equities, MLPs, Real Estate Equities
Private Investments	Opportunistic Growth	Private Equity Strategies

- Traditional asset classification does not effectively communicate an asset's role in the portfolio
- Defining an asset by its role in the portfolio helps investors manage emotions through market highs and lows by keeping their eyes focused on the big picture
- For example, understanding the role of Real Assets in a portfolio as an inflation protector helps investors remain disciplined amidst recent volatility

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Investment Themes

- Real assets such as energy and commodities have generated significant excess returns compared to traditional bonds and stocks during periods of Federal Reserve rate hikes
- Maintaining a disciplined process and staying invested through volatile periods allows investors to participate in the best performing days in the global markets
- An investor’s long-term goals and needs should represent the most appropriate benchmark for performance
- Defining the purpose of each investment in a portfolio fosters a big picture outlook for investors and creates a more intuitive portfolio tailored to meet individual circumstances