2015 3rd Quarter Market Commentary

Third Quarter Summary

- Many economic indicators such as employment, GDP, housing starts and auto sales continued positive trends, pointing to stable, albeit low domestic growth (Positive)
- Commodity prices continued to weaken as supply/demand imbalances persisted, creating a potential boost to the consumer, but acting as a headwind for portfolio returns (Neutral)
- The Federal Reserve again delayed a rate hike, appearing to be influenced by a fragile global economy and concerns about Chinese growth prospects (Negative)
- Investor anxiety and market volatility escalated during the quarter, as fear of a slowing Chinese economy and a steep decline in Chinese equities led to broader selling in both Developed and Emerging markets (Negative)

Market and Portfolio Risks

	Capital Preservation			Growth Assets		Real Assets	
	Fixed Income	Global Bonds	Hedged Strategies	Domestic Equities	Foreign Equities	Domestic Real Estate	Commodities
Inflation	Decline	Decline	Stable	Decline	Stable	Increase	Increase
Deflation	Increase	Increase	Stable	Decline	Decline	Decline	Decline
Stagflation	Decline	Decline	Increase	Decline	Decline	Increase	Increase
Chinese Slowdown	Increase	Increase	Stable	Stable	Decline	Stable	Decline
Japanese Government Default	Increase	Increase	Increase	Decline	Decline	Stable	Stable
EU Breakup	Increase	Stable	Increase	Stable	Decline	Stable	Stable
Geopolitical Turmoil (i.e. ME, Russian Tensions)	Increase	Stable	Increase	Stable	Decline	Stable	Increase
U.S. Political Gridlock	Decline	Increase	Increase	Decline	Stable	Stable	Increase
Central Bank Credibility	Stable	Stable	Increase	Decline	Decline	Stable	Increase

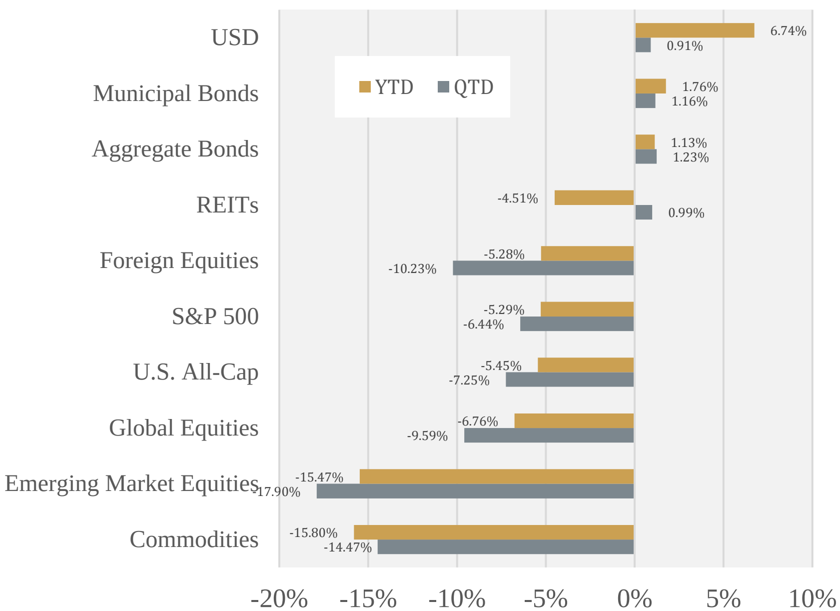
Return Expectations:

- Decline
- Stable
- Increase

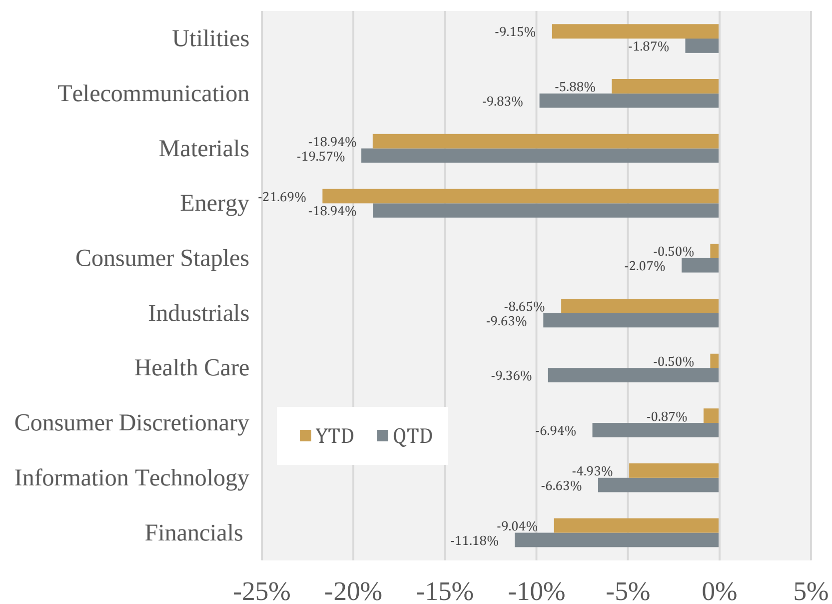
- Stagnant global economic growth and slumping commodity demand have increased deflationary pressures around the world
- The Federal Reserve postponed a rate hike in September, attributing the decision to concerns over a fragile global economy, but suggested a likely increase before year end
- Concerns over a slowdown in the Chinese economy heightened as policymakers announced a devaluation of the Yuan and took several extreme measures to backstop a falling stock market

Global Market Returns

Global Asset Classes



Global Equity Sectors

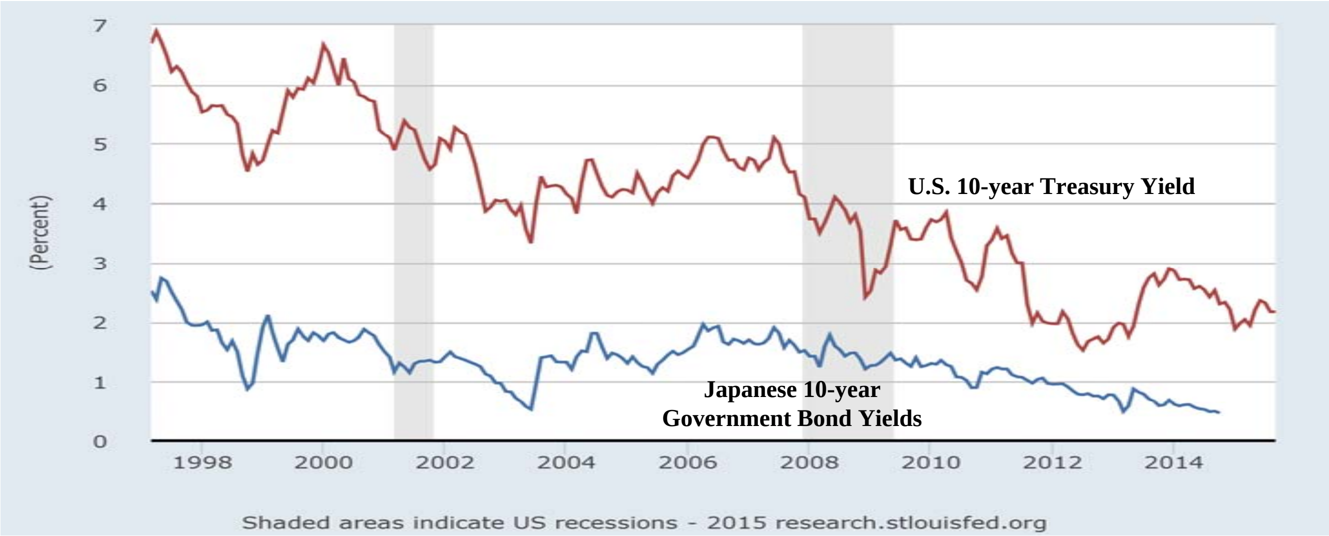


- Fixed income securities outperformed as interest rates generally declined and investors sought safety from increased equity market volatility
- Global equities, particularly those domiciled in emerging markets, were among the worst performing asset classes during the third quarter with currency movements magnifying the negative returns
- While certain equity sectors (Consumer Staples, Utilities) outperformed on a relative basis, each global sector declined for the 3rd quarter and year-to-date

*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

Low Rate Environments Can Persist

Historical U.S. Treasury and Japanese Government Bond Rates



Reminder: Bond prices and yields move inversely to one another

- Current U.S. interest rates, both long and short term, sit at or near historic lows, having trended downward for the last 30 years
- While the focus for the last several years has been on potentially rising interest rates, Japanese bond yields provide an example that low rates and deflation can remain for long periods, resulting in lower returns for short-term bondholders
- Active management of interest rate sensitivity (duration) helps generate portfolio returns during periods of rising interest rates as well as persistent low or falling yields

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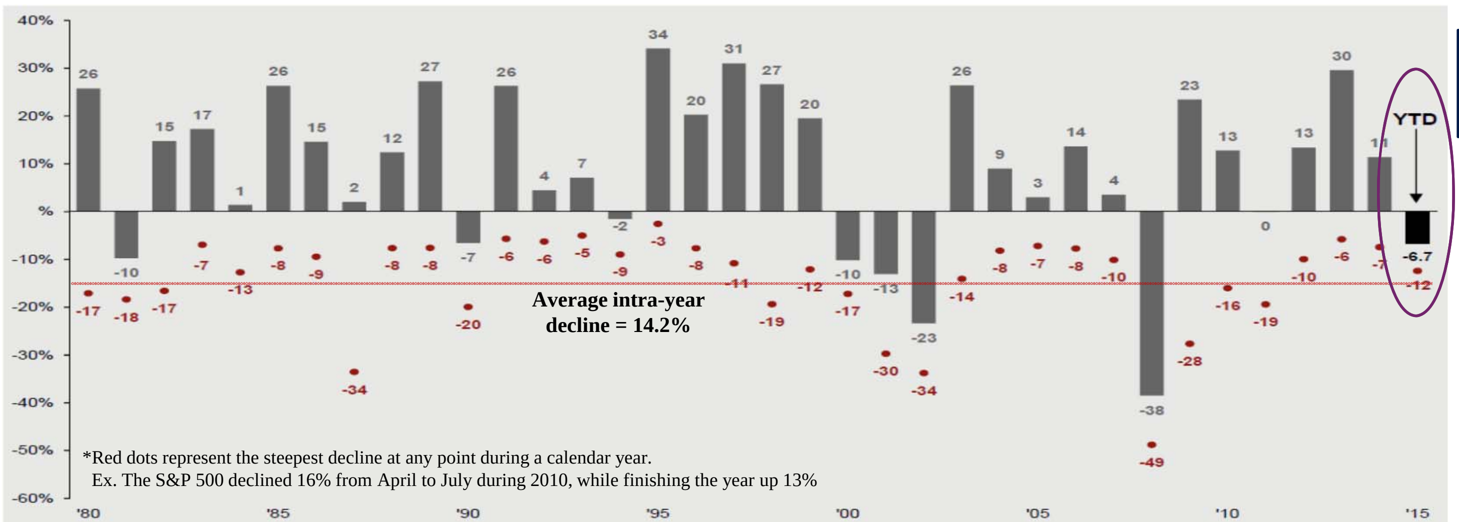
Source: FRED: U.S. 10-year Treasury Yield = 10-Year Treasury Constant Maturity Rate
Japanese 10-year Government Bond Yields = Long-term Government Bond Yields: 10-year: Main for Japan

Rebalancing Opportunities

S&P 500 Intra-year Declines vs. Calendar Year Returns



First equity correction in 4 years

Opportunistic Rebalancing = Taking Advantage of Normalizing Volatility

- Despite historically low volatility until recently, stock corrections are a normal part of market cycles, with an average decline of 14.2% each calendar year since 1980
- Despite these market corrections, stocks have had positive returns in 27 of the last 35 years
- Opportunistic rebalancing and tax-loss harvesting result in stronger portfolio performance following market corrections and higher after-tax returns over time

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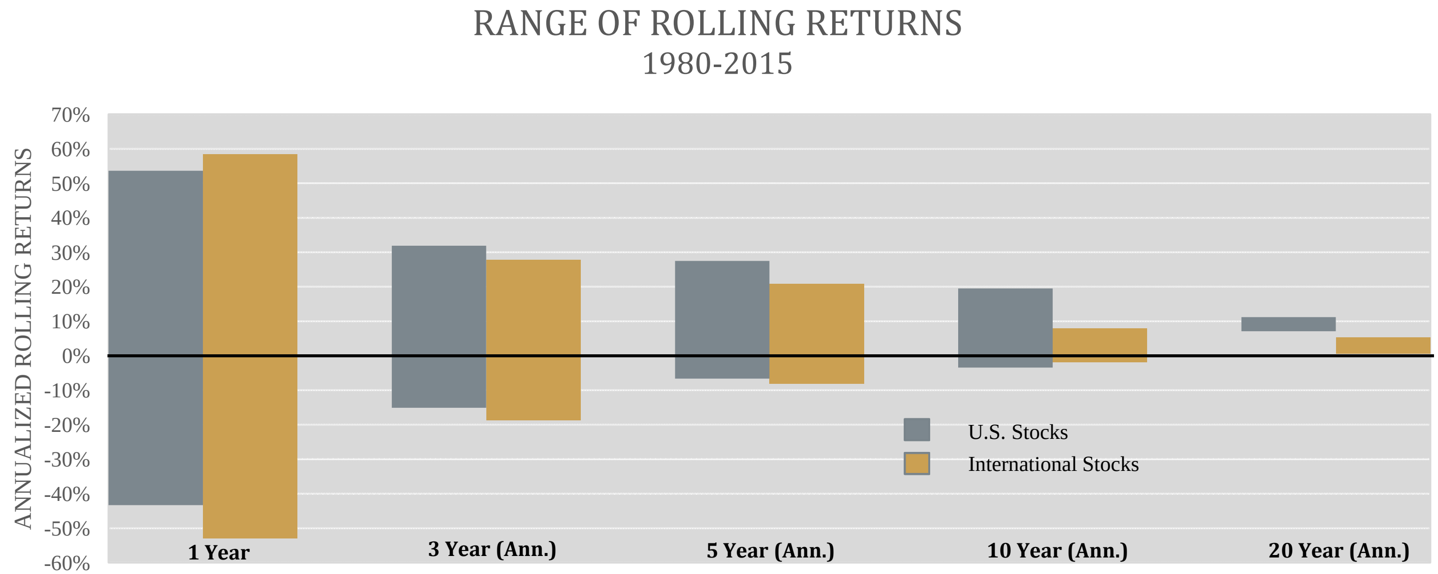
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. *Returns shown are calendar year returns from 1980 to 2014 excluding 2015 which is year-to-date.Guide to the Markets –U.S. Data are as of September 30th, 2015.

Rolling Returns



% Positive Periods	**80%**	**62%**	**81%**	**72%**	**82%**	**73%**	**89%**	**97%**	**100%**	**100%**

- Significant equity volatility to both the upside and downside often exists in shorter time periods
- Regardless of your starting point, however, every 20-year period since 1980 has been positive for both domestic and international stocks
- Longer holding periods have significantly improved the risk/return profile of stocks, smoothing the volatility and increasing the likelihood of positive returns

Source: Morningstar Direct
Periods represent rolling returns on a quarterly step for each time period. Returns data begins on 9/1/1980 through 8/31/2015.
U.S. Stocks are represented by S&P 500 TR USD, and International Stocks are represented by MSCI ACWI Ex USA PR USD.
% of Positive Returns: Ex. 80% of 1 year rolling periods in U.S. Stocks were positive during that time period

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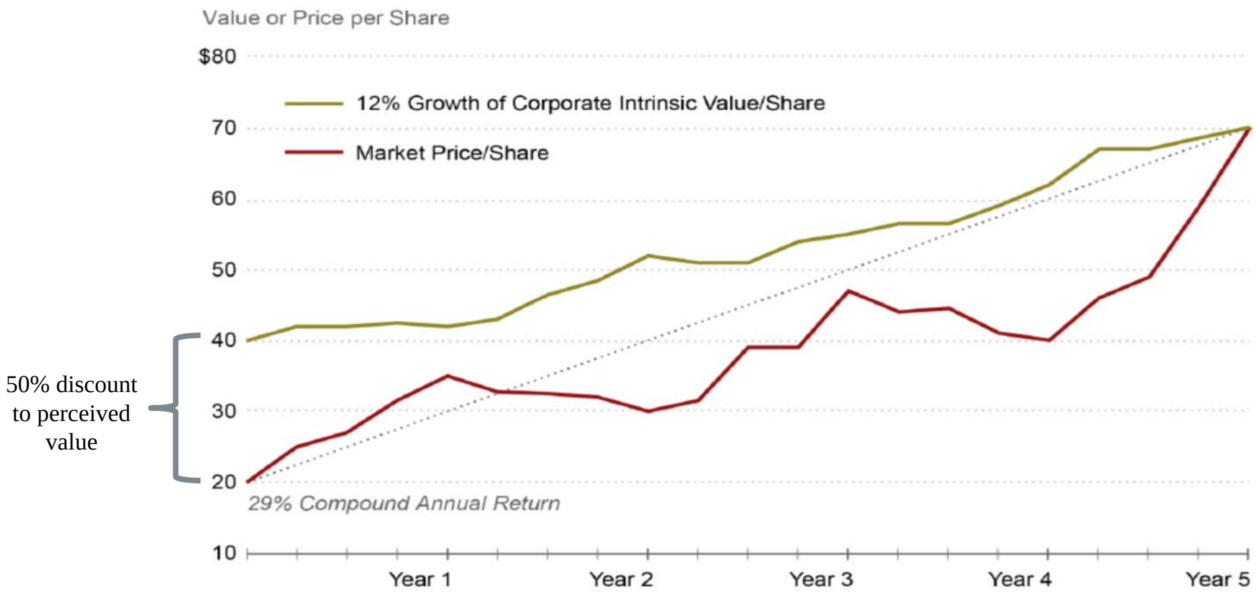
Margin of Safety



Discount Scenarios

P/V at Purchase	5 Year CAGR
50%	29%
60	24
70	20
80	17
90	14
100	12

In this illustration, which does not reflect performance of any particular security, an investment purchased at $20 and sold at $70 in five years creates a 29% CAGR. This assumes that 12% comes from the business' value growth, and 17% comes from the stock moving from half of value at the outset to full value in five years. Actual investment performance and returns are not guaranteed.

- Irrational or excessive movements in stock markets often create a large separation of a company's stock price and the company's underlying value
- This phenomenon creates opportunities for disciplined active managers to purchase high quality, growing companies trading at significant discounts to their actual worth
- Investing with a "margin of safety" helps portfolios weather volatility and capitalize on long-term convergence of price and value

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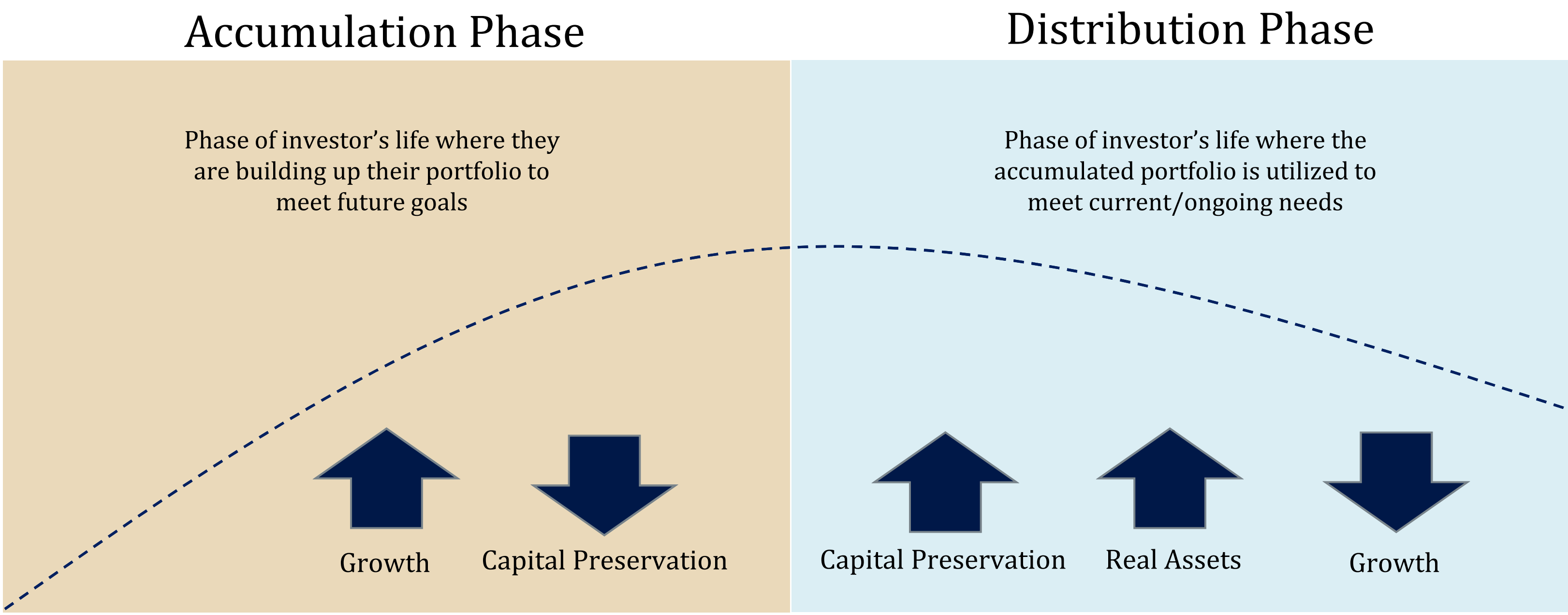
Source: Southeastern Asset Management

Time Horizon Phases



<u>Important Considerations:</u>

- Increased ability to take on risk due to longer overall time horizon
- Consistent additions to the portfolio can help absorb volatility
- Higher growth focus to meet long term future goals and obligations

- Greater focus on reducing drawdowns and volatility in the portfolio
- Protecting purchasing power is crucial as distributions are taken from portfolio

Investment Themes

- Despite the first correction in over 4 years, U.S. equity valuations are still not cheap by many metrics, indicating a need for an active approach towards portfolio risk management

- Flexible equity managers that use cash as a strategic asset often protect capital during downturns and allow for opportunistic purchases of attractively priced companies

- Maintaining a long-term focus when investing in equities results in an improved risk/return profile and a higher probability of achieving financial goals

- Disciplined rebalancing and tax-loss harvesting helps investors take advantage of volatile markets and achieve greater after-tax returns