Global Economic Update

First Quarter 2017

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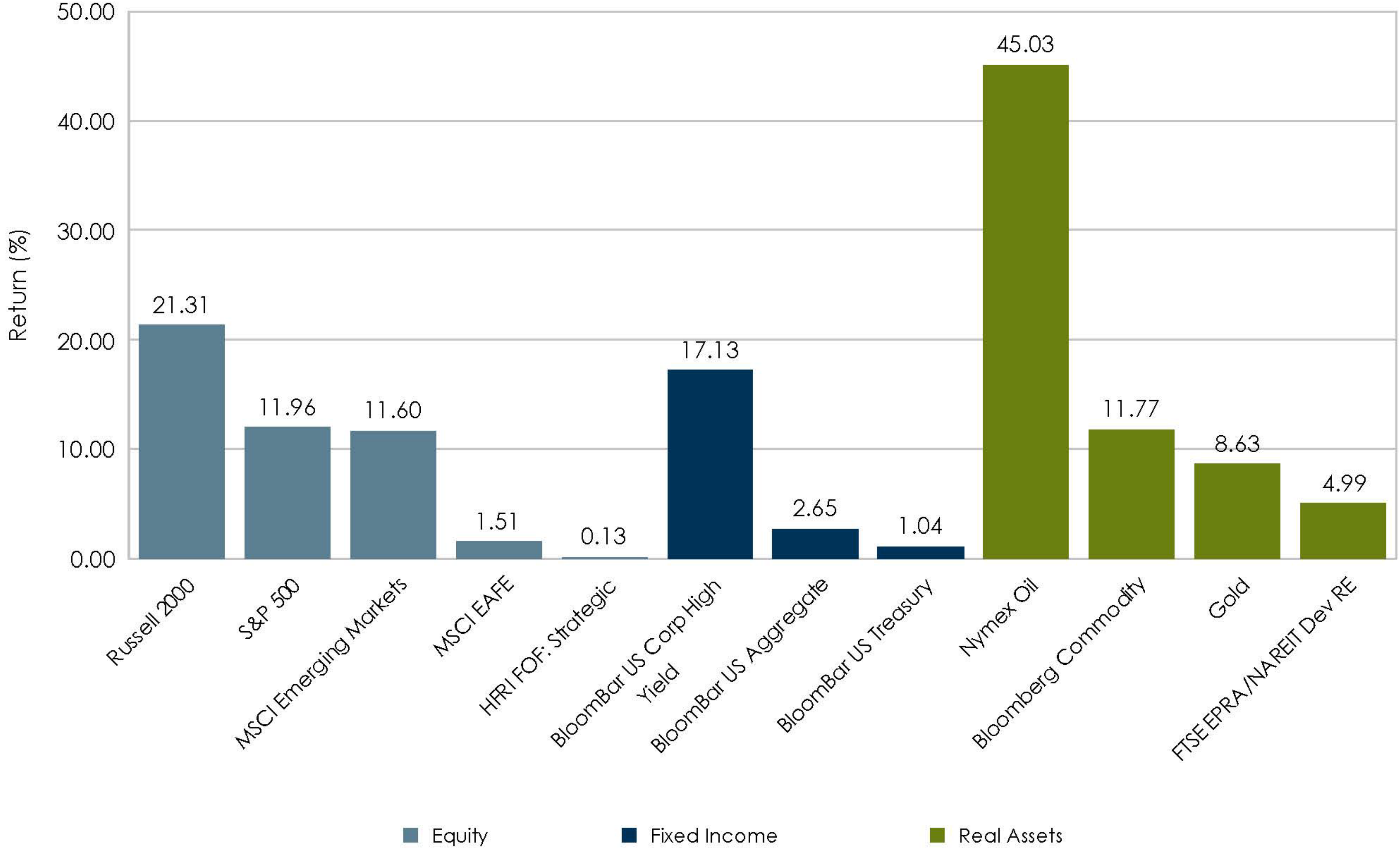
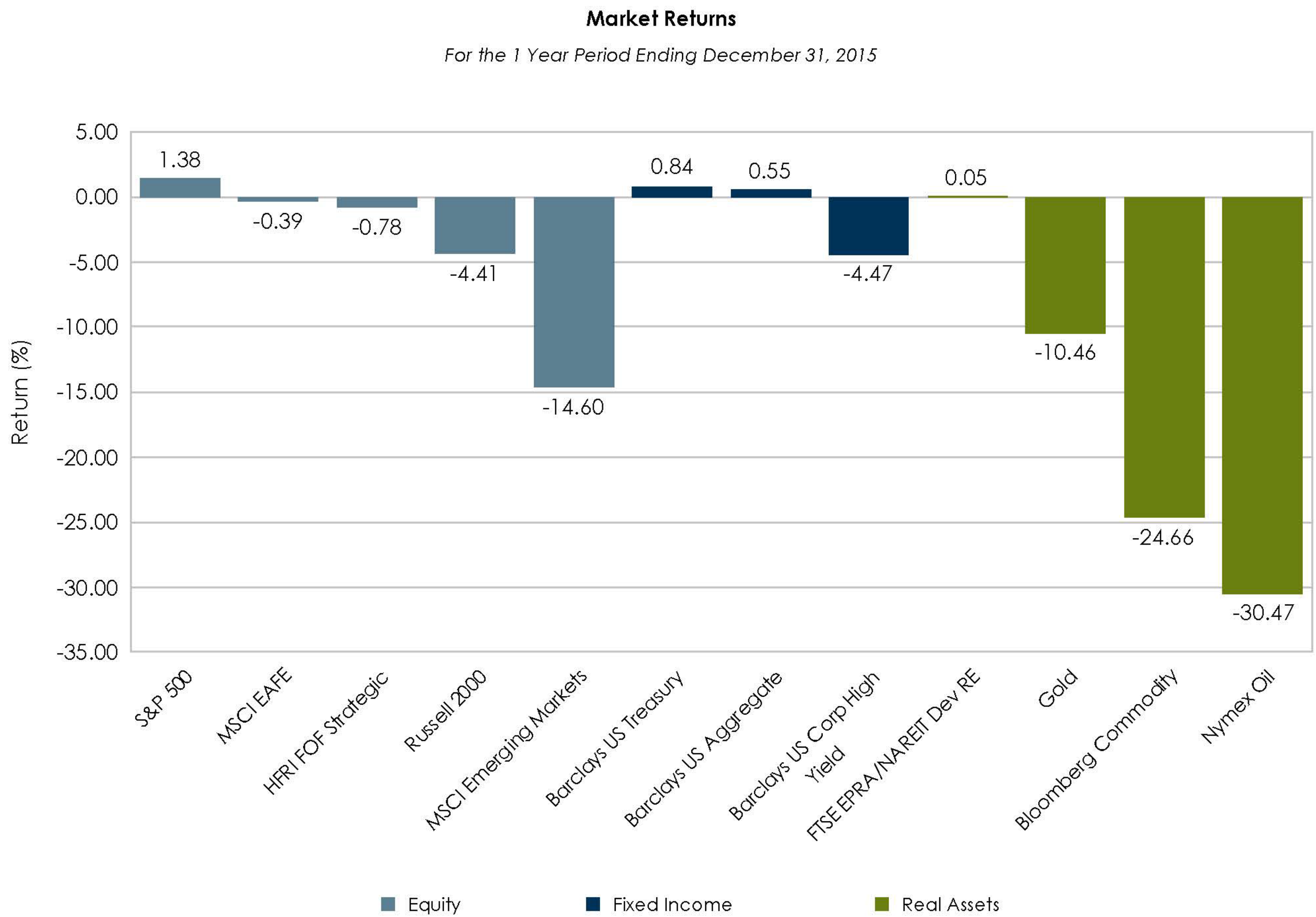
Market Returns

For the 1 Year Period Ending December 31, 2016




Market Returns
For the 1 Year Period Ending December 31, 2015
Return (%)
5.00
0.00
-5.00
-10.00
-15.00
-20.00
-25.00
-30.00
-35.00
1.38
-0.39
-0.78
-4.41
-14.60
0.84
0.55
-4.47
0.05
-10.46
-24.66
-30.47
S&P 500
MSCI EAFE
HFRI FOF Strategic
Russell 2000
MSCI Emerging Markets
Barclays US Treasury
Barclays US Aggregate
Barclays US Corp High Yield
FTSE EPRA/NAREIT Dev RE
Gold
Bloomberg Commodity
Nymex Oil
Equity
Fixed Income
Real Assets

US

- **Recent economic indicators continued** to show the US economy gained momentum during the second half of 2016 from the tepid pace set earlier this year.
- Although growth is still heavily reliant on the US consumer, **business activity appears to be improving.**
- The labor market showed **signs of tightening.** Better employment prospects and the potential for **higher wages** are drawing more people into the workforce.
- The Federal Reserve took steps **to normalize interest rates** in December. While some indicators point to more frequent policy adjustments in 2017, the Committee generally maintained the view that **future rate hikes are likely to remain at a gradual pace.**

Global/Non-US

- Economic activity in the euro area picked up in the fourth quarter driven by **strong consumer demand,** increased government spending and accelerating manufacturing activity.
- This economic momentum in the region spurred **an acceleration in inflation, largely due to energy prices**.
- Japan's economy expanded in the third quarter, with a **weaker yen driving exports**. Still, consumer spending remained lackluster, **as wage growth was weak** amid the remnants of the 2014 sales tax hike.
- A 6.7% year-over-year **third quarter expansion in China's GDP** was within the government's 6.5-7.0% target range, after posting 6.7% during the second quarter. Recent data **showed resilient growth**, with industrial production steady and **consumer spending slowing slightly**.

Current Issues

- Where we've been and where we're going
- Potential risks for 2017
- Where to invest now
- Do bonds still make sense?

Where We've Been And Where We're Going

Key trends in 2016 for economic activity and financial markets:

- Modest cyclical growth for developed economies; tracked below 2%.
- Emerging economies, while undergoing a slight deceleration from 2015, were once again the global engine for growth.
- Though inflationary pressures were generally muted, falling in emerging countries, inflation increased late in 2016 driven by higher energy prices.
- Global Central banks maintained accommodative monetary policy in order to sustain economic momentum.
- Market expectations of higher growth and inflation, lifted US Treasury yields.
- US corporate earnings rebounded, largely due to a stabilization in the energy sector. Europe was hurt by weak domestic demand.
- The US dollar (USD) appreciated nearly 4% versus its developed market peers, but EM currencies jumped 7% from 5-year lows set in January.

Global outlook 2017:

- Global growth expectations remain modest and uneven. Broad emerging market economies showing signs of stabilization.
- Anticipation that developed economies will begin to utilize fiscal measures to stimulate growth.
- Expectations for a gradual path of US Fed interest rate increases. Divergent monetary policy outside the US with continued easing at BOJ and ECB.
- Currently, financial markets are discounting an improved outlook for growth, earnings and inflation spurring a modest uptick in bond yields.

What changed in 2016

Direction from 2015 ↑ ↓	US	Developed Non-US	Emerging Markets
Real GDP (y/y%)			
US	1.6 ↓		
Eurozone		1.6 ↓	
Japan		0.9 ↓	
Emerging			3.8 ↓
BRICS			4.7 ↓
China			6.7 ↓
Inflation (y/y%)	1.3 ↑	0.9 ↑	3.3 ↓
Central Bank Rates	↑	—	↓
10-year Yields	↑	↑	↓
High Yield Spreads	↓	↓	↓
Corporate Earnings	↑	↓	↑
Equity Valuations	↑	↑	—
US Dollar	—	↑	↓

Source: ACG Research, Bloomberg

Projections for 2017

Direction from 2016 ↑ ↓	US	Developed Non-US	Emerging Markets
Real GDP (y/y%)			
US	2.3 ↑		
Eurozone		1.4 ↓	
Japan		1.0 ↑	
Emerging			4.7 ↑
BRICS			5.5 ↑
China			6.5 ↓
Inflation (y/y%)	2.3 ↑	1.9 ↑	3.1 ↓
Unemployment Rate	4.9 ↓	6.0 ↓	5.6 ↑
Central Bank Rates	↑	↑	↓
10-year Yields	↑	↑	↓
Corporate Earnings	↑	↑	↑
Equity Valuations	↓	↓	↓
US Dollar	—	—	↑

Source: ACG Research, Bloomberg

Potential Risks For 2017

Market View:

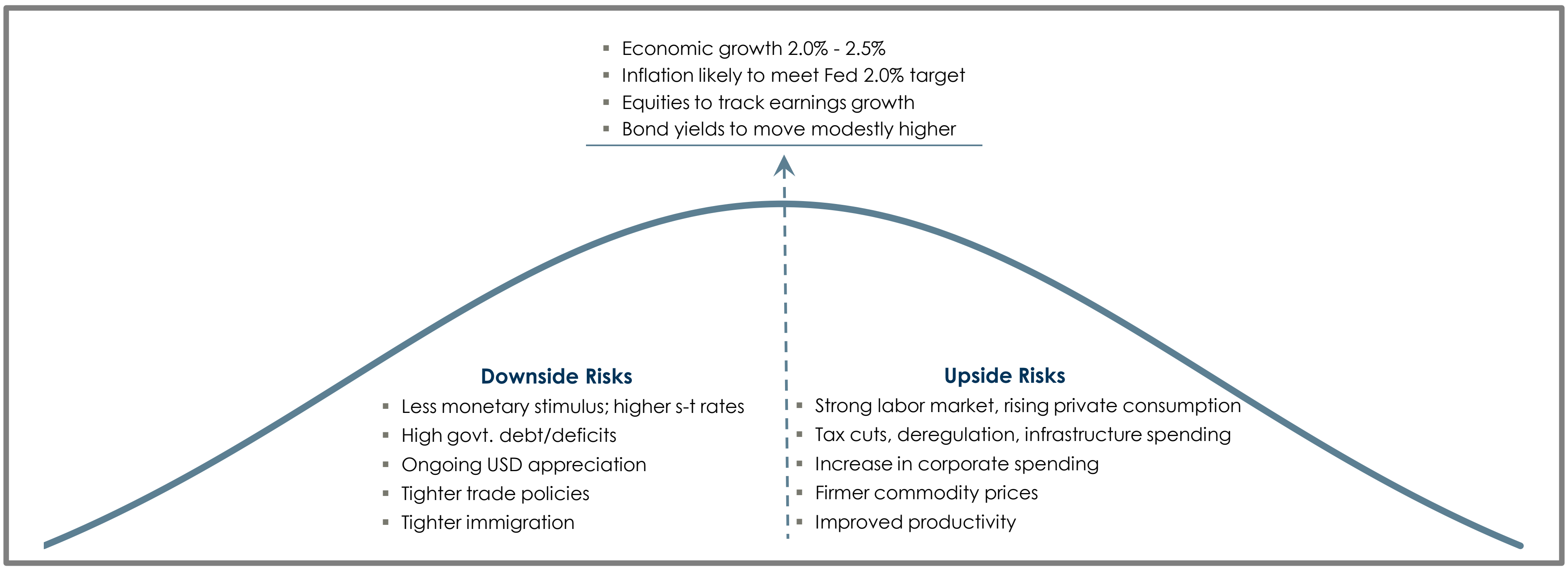
- Global monetary policy actions.
- Growth of populism around the world and its potential impact on global trade.
- Impact of Brexit and ongoing political instability within Europe.
- China's continued transition to consumer driven economy.
- Valuations and market expectations regarding global growth.

ACG Position:

- Most global central banks remain accommodative. The Fed is on track to gradually normalize rates in the US.
- Improved near term outlook due to prospective pro-business and pro-growth policies in Washington.
- Near term risks present uncertainty but may create opportunities for long term investors.

Portfolio Implications:

- Favor equities over fixed income.
- Employ actively managed opportunistic strategies in less efficient asset classes.
- Maintain hedged strategies for downside protection.



Source: ACG Research

Market View:

- Modest expectations for global economic growth, coupled with relatively high asset class valuations and relative low volatility provide a challenging market environment.

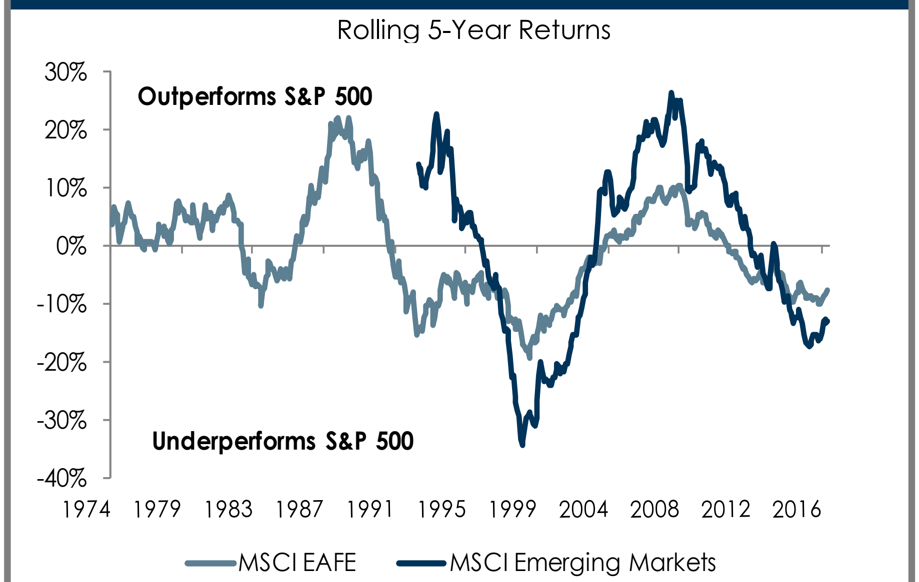
ACG Position:

- Global growth could become more synchronized and monetary policy may remain accommodative for some time.
- The global search for yield and quality provides consistent demand for fixed income and other yield oriented investments.
- Despite the recent rally, equity markets could be supported by improving economic conditions.
- Improving economic prospects outside the US and attractive valuations support investments in non-US developed and emerging market equities.

Portfolio Implications:

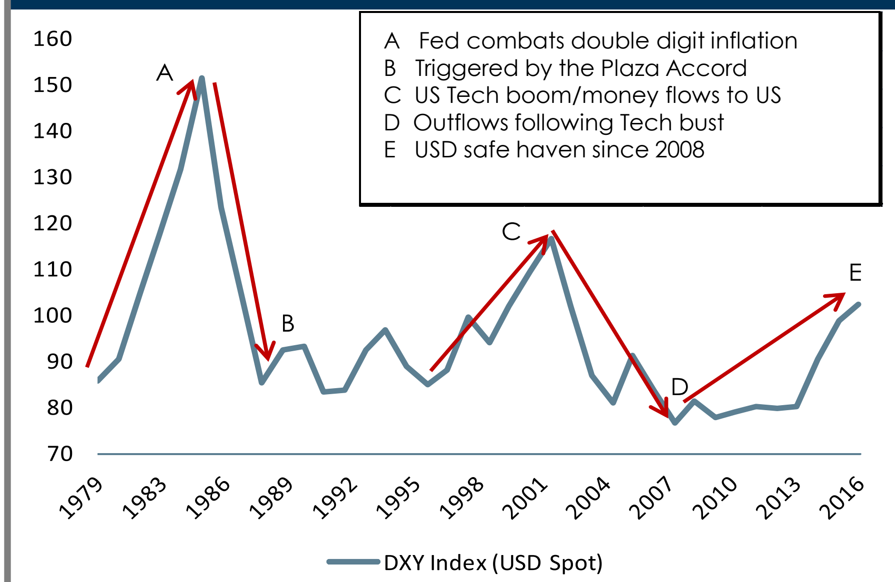
- Maintain non-US equity exposure at or above target allocations.
- Employ active managers that can respond to opportunities.
- Maintain hedged strategies for downside protection.

Relative performance of Non-US & EM vs. S&P 500



Source: Bloomberg

US dollar Life Cycle



Source: Bloomberg

Do Bonds Still Make Sense?

Market View:

- Yields/rates likely to rise due to Fed policy and higher inflation.

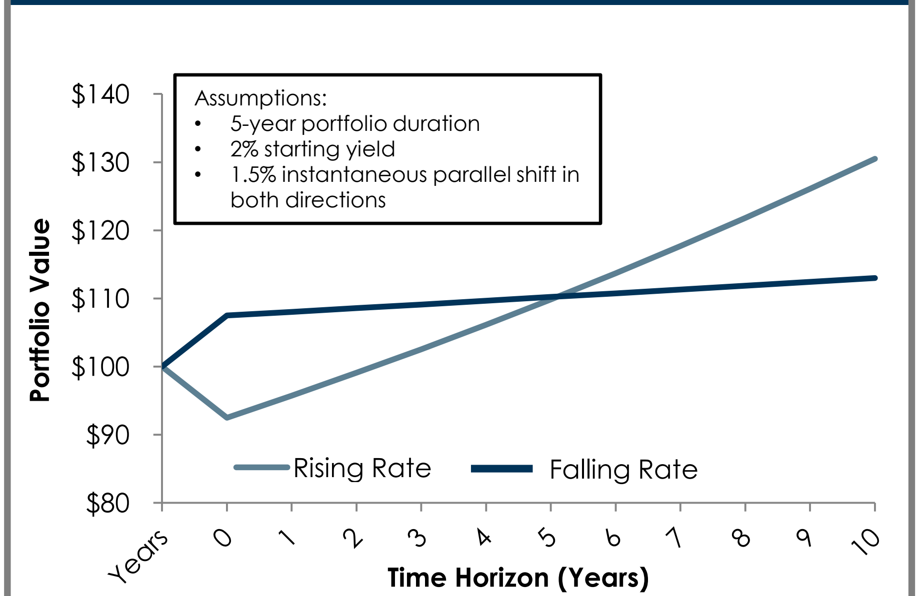
ACG Position:

- Concerns are justified In the wake of a low interest rate environment, with improving economic growth and rising inflationary expectations.
- Knowing the direction of yields/rates is less important than knowing the path they take.
- Central banks are not projected to aggressively move interest rates higher.
- Economic growth remains below potential, which reduces upward pressure on interest rates.
- Bonds continue to provide diversification and long-term benefits.

Portfolio Implications:

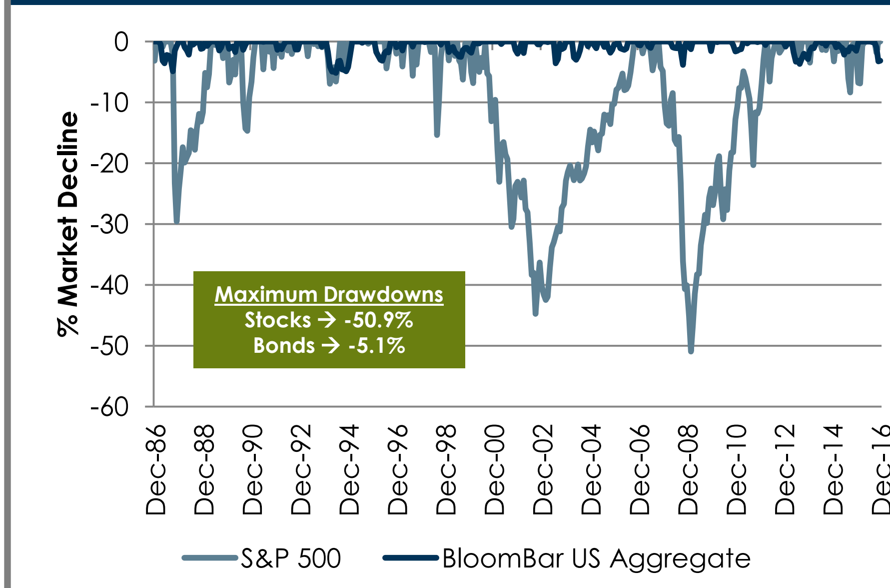
- Maintain meaningful fixed income exposure (within policy guidelines).
- Consider strategies with lower interest rate sensitivity and tactical allocation capabilities.

Potential Upside to Rising Rates For Longer-Term Investors



Source: ACG Research

Drawdown Analysis – Bonds Offer Protection



Source: ACG Research

Investment Themes (January 2017)

Theme	Rationale	Implementation Strategy
Geopolitical & Policy Uncertainty	▪ Disparate global fiscal/monetary policies ▪ Potential US fiscal stimulus; reduced Euro area austerity ▪ Long term constraint from high government debt ▪ Rise of nationalism; populism vs. globalism ▪ Terrorism concerns, immigration, nuclear issues, territorial disputes, climate change concerns, social media	▪ Maintain global diversification ▪ Increase risk-reducing strategies ▪ Maintain disciplined rebalancing strategy
Improving Global Growth Expectations	▪ Rebound in commodity-sensitive economies ▪ Pro-growth policies in the US ▪ Continued monetary support in Europe/Japan ▪ China transitioning to consumer-driven economy ▪ Improving growth metrics across regions	▪ Prefer equities over fixed income ▪ Focus on actively managed, opportunistic strategies in less efficient asset classes (e.g. US Small Cap, Non-US, EM, Multi-sector fixed income) ▪ Maintain dedicated, differentiated managers ▪ Consider strategies with sustainability orientation
Fixed Income Market Headwinds	▪ Stretched sovereign valuations at low yields ▪ Fed policy normalization ▪ Later stage of economic/credit cycle ▪ Liquidity challenges may increase volatility	▪ Retain fixed income allocation for diversification ▪ Prefer credit and securitized over sovereign debt ▪ Include exposure to private debt or other yield enhancing strategies (e.g. high yield, EM debt) ▪ Incorporate absolute return oriented strategies
Return of Global Inflation	▪ US wage pressure building ▪ Consumer spending rising ▪ Energy prices normalizing/stabilizing ▪ Corporate pricing power improving ▪ Import prices rising (potential tariffs)	▪ Retain meaningful equity exposure ▪ Retain core real estate (RE) exposures ▪ Incorporate diversified commodity exposure
Muted Return Expectations	▪ Relatively high valuations across asset classes ▪ Shrinking public equity market ▪ Global economic growth remains positive but tepid ▪ Longer-term challenges of demographics/debt levels ▪ Yields and inflation advancing from historic lows	▪ Revisit investment objectives, constraints and strategic allocation ▪ Implement private equity and/or debt strategies ▪ Consider active strategies with enhanced flexibility ▪ Employ risk management solutions

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