

**Global Economy**

Recent economic data displayed underlying strength in consumer spending. US households increased spending against a backdrop of solid income growth, cheap gasoline and rising home values. A Commerce Department report showed consumer purchases climbed in January by 0.5%, the most in eight months, led by a rise in spending on durable goods such as automobiles. Wages and salaries advanced 0.6% in January following a 0.2% increase in December. Additionally, the government's second estimate of US Q415 GDP was revised higher. The estimate was increased to a 1% annualized pace, compared with an initial estimate of 0.7% reflecting a higher value of business inventories. The ongoing decline in energy prices continued to depress US inflation, which advanced only 1.4% in January from a year earlier. Core prices, which exclude energy and food, climbed 2.2% in the past 12 months, the most since June 2012.

After facing the headwinds of a strengthening US dollar and weakness in the energy industry, US manufacturing may have reached a turning point in February as a rise in production boosted factory activity. The Institute for Supply Management's (ISM) factory index increased to 49.5 from a 48.2 reading in January. Separately, orders for durable goods, which are items meant to last at least three years, rose 4.7%. The increase was broad based ranging from automobiles to computers, indicating widespread domestic demand. Additionally, the US added 242,000 jobs in February, while the unemployment rate stayed steady at 4.9%.

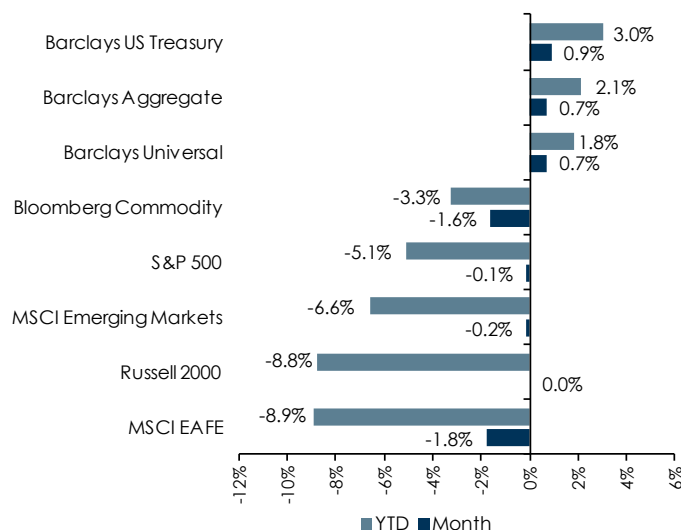
Another bright spot, low borrowing costs and steady job gains are further strengthening the US residential real estate market. The National Association of Realtors reported sales of existing owned homes increased 11% in January from the same month last year. Continuing demand and lean inventories kept pressure on prices, as the median price of an existing home rose 8.2% from January 2015 to \$213,800.

Strong domestic demand outweighed slumping business investment, helping drive the UK economy to a 12th straight quarter of growth in Q415. Also, the euro-area inflation rate increased an annual 0.3% in January, well below the European Central Bank's (ECB) medium-term inflation goal of just under 2.0%.

	Current	Dec-15
US GDP (%)	1.00	0.70
US Unemployment (%)	4.90	5.00
CPI (Core) (%)	2.20	2.00
Fed Funds (%)	0.25 – 0.50	0.25 – 0.50
10 Year U.S.T Yld (%)	1.74	2.27
S&P 500 Div Yld (%)	2.29	2.15
S&P 500 P/E (Trailing)	17.52	18.27
Gold/oz.	\$1,234.40	\$1,060.20
Oil (Crude)	\$33.75	\$37.04
Gasoline (Natl Avg)	\$1.89	\$2.14
USD/Euro	\$1.09	\$1.09
USD/GBP	\$1.39	\$1.47
Yen/U.S.D	¥112.69	¥120.22

**Global Markets**

**Key Market Indices**



US stocks started February sharply lower as investors weighed the impact of a slowdown in China's economy and a rout in global oil prices. However, equities staged a mid-month rally amid better than forecasted US economic data, ultimately closing February slightly lower. For the month, the S&P 500 fell 0.10% to 1,932.23, as material and industrial related shares were the top performers. Financial companies lagged during the month as investors' feared the precipitous decline in interest rates could hurt profitability. Mid cap equities outperformed large caps, as the Russell Midcap index rose 1.1%.

European equities retreated after lower than forecasted inflation raised concerns over the effectiveness of the ECB's measures to fight the deflationary forces of falling oil prices. The MSCI Europe index declined 1.7% (USD), the fourth consecutive monthly decline, led by European banks that revealed an increased level of bad loans. Japanese stocks slumped as volatility surged. In a single week, the MSCI Japan index posted a near 10% decline, and then gained 9% the following week after data showed the economy contracted in Q415 raising prospects of more stimulus from the Bank of Japan (BOJ). The MSCI Japan index lost 2.7% (USD) in February.

Emerging market stocks outperformed their developed market counterparts as the MSCI EM index declined 0.2% buoyed by additional Chinese government measures to support growth. Indian stocks underperformed as the MSCI India index fell 7.1% (USD) despite government reports showing the economy grew 7.3% (year - over - year) in Q4 2015.

Oil prices started February lower, hitting a close to 13-year low of \$26 per barrel on February 11 before rebounding to \$33.75 per barrel. Gold prices rose 10.6% as investors rotated toward safe haven assets.

**Global Markets (continued)**

US government bond prices posted gains in February, sending yields lower after the global decline in risk assets raised the appeal of higher quality investments. Benchmark Treasury yields declined as the continued slow pace of US economic growth tempered expectations the Federal Reserve (Fed) would raise interest rates this year. In December, Fed officials predicted they would raise interest rates four times in 2016. However, interest rate futures markets indicate a 70% probability of only a single increase by the Fed's December meeting. US Treasury 10-year yields fell 19 basis points (bps) in February to 1.74%, and now have declined 53 bps since the start of 2016. The BofA Merrill Lynch US Treasury index rose 1.0%, after a gain of 2.2% in January.

US corporate bond yields moved modestly lower in February as average yields on the Barclays Capital Corporate Investment Grade index fell 7 bps to 3.55%. After US speculative grade bond yields spiked to near 10% in January, yield seeking bond investors were attracted to the higher valuations, driving average yields on the Barclays Capital US Corporate High Yield 15 bps lower to 9.02% in February. The index rose 0.6% for the month, the first monthly gain since October 2015. Average yields on the Barclays Capital High Yield Energy sector closed at 17.09%, up from 15.75% at the start of the year.

European government bonds rallied after reduced inflationary pressures fueled speculation of further ECB easing measures to boost growth and inflation. Markets drove yields on German debt with maturities through seven years below zero. German 10-year yields fell by 22 bps to 0.11%, while peripheral 10-year yields rose slightly with Spanish 10-year yields up 2 bps from January. The People's Bank of China cut the amount of cash the nation's banks must reserve in an effort to inject cash into the financial system and shore up economic growth. The JPMorgan EMBI Global bond index of US dollar emerging market debt gained 2.0% in February, following a 0.2% decline in January.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-15
Japan	-0.06	0.27
Germany	0.11	0.63
France	0.47	0.99
Italy	1.42	1.60
Spain	1.53	1.77
United States	1.74	2.27
Portugal	2.99	2.52
Greece	10.22	8.29

**Indices Report (Periods Ending February 29, 2016)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	-0.13	-5.09	-6.19	10.75	10.13	6.44	5.07
Russell 1000	-0.03	-5.41	-7.21	10.43	9.92	6.49	5.32
Russell 1000 Growth	-0.04	-5.62	-5.05	12.54	10.95	7.74	4.76
Russell 1000 Value	-0.03	-5.19	-9.41	8.27	8.81	5.13	5.66
Russell 2500	0.70	-7.33	-13.30	6.84	7.34	6.02	7.78
Russell 2000	0.00	-8.80	-14.97	5.72	6.11	4.95	6.74
Russell 2000 Growth	-0.71	-11.47	-16.65	7.05	6.90	5.72	5.66
Russell 2000 Value	0.68	-6.08	-13.35	4.37	5.27	4.08	7.53
Wilshire 5000 Cap Wtd	-0.05	-5.51	-7.44	10.14	9.59	6.42	5.64
MSCI ACWI	-0.63	-6.60	-11.83	4.22	4.27	4.10	4.63
MSCI ACWI ex US	-1.11	-7.83	-17.00	-1.77	-0.85	1.88	4.37
MSCI EAFE	-1.80	-8.89	-14.80	0.81	1.01	1.95	3.87
MSCI EAFE Local Currency	-3.53	-9.15	-12.18	6.51	5.45	2.27	2.81
MSCI EAFE Growth	-1.70	-7.95	-10.15	2.55	2.53	3.03	3.85
MSCI EAFE Value	-1.90	-9.86	-19.40	-1.00	-0.58	0.80	3.81
MSCI Emerging Markets	-0.15	-6.62	-23.13	-8.58	-5.08	2.15	8.04
<b>Fixed Income</b>							
BofA ML 1-3 Yr Treasury	0.12	0.73	0.98	0.72	0.83	2.47	2.76
Barclays US Aggregate	0.71	2.10	1.50	2.22	3.60	4.70	4.94
Barclays Gov't Bond	0.86	2.95	2.83	2.08	3.38	4.41	4.58
Barclays US Credit	0.84	1.36	-1.20	2.01	4.47	5.29	5.66
Barclays 10 Yr Municipal	0.09	1.60	4.53	3.67	5.57	5.27	5.29
Barclays US Corp High Yield	0.57	-1.04	-8.30	0.72	4.09	6.61	6.90
Citigroup World Govt Bond	2.91	4.32	2.04	-0.49	0.69	3.80	4.89
Barclays Global Aggregate	2.23	3.11	0.84	-0.11	1.36	3.97	4.92
Barclays Multiverse	2.15	2.91	0.39	-0.16	1.42	4.03	5.01
<b>Real Assets</b>							
NCREIF Property	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NFI ODCE Net	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FTSE NAREIT US Real Estate	-0.42	-3.76	-3.57	8.03	9.41	6.05	10.92
Bloomberg Commodity	-1.63	-3.28	-26.50	-17.71	-14.44	-6.31	-1.06
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.03	0.03	0.08	0.06	0.08	1.20	1.55

# Definitions

## **Barclays Capital Aggregate**

The Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

## **Barclays Capital Global Aggregate Index**

The Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

## **Barclays Capital Muni 5 Yr**

The Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

## **Barclays Capital U.S. Credit Index**

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

## **The Barclays U.S. Treasury Index**

The Barclays U.S. Treasury Index is a component of the Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

## **The Barclays Capital U.S. Universal Index**

The Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

## **BofA ML High-Yield Index Master II**

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

## **Bloomberg Commodity Index**

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

## **CITI World Government Bond Index**

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

## **FTSE EPRA/NAREIT Developed Index**

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

## **HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

## **HFRI Fund of Funds (FOF) Strategic Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

## **MSCI ACWI Index (exU.S.)**

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

## **MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

## **MSCI EAFE Growth Index**

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

## **MSCI EAFE Value Index**

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

## **MSCI Emerging Markets Index**

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

## **Ncreif® Property Index**

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

## **Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

## **Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

## **Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

## **Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

## **Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

## **Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

## **S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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