Acacia Wealth Advisors

Investment Synopsis

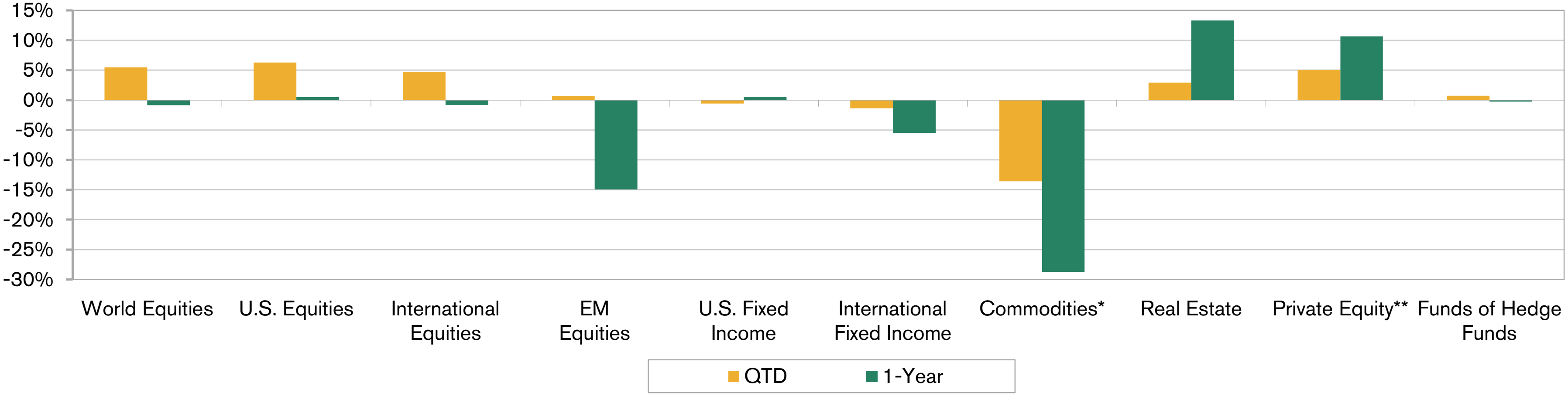
Fourth Quarter 2015

Rogerscasey
A DIVISION OF SEGAL ADVISORS

Fourth Quarter 2015 Investment Performance: Summary by Asset Class

This section provides data on investment performance for select market indices mostly for the fourth quarter (Q4) 2015, as well as Rogerscasey's commentary.

Asset Class Summary: Quarter-to-Date (QTD) and One-Year Returns



Asset Class	Indices	QTD	YTD	1-Year	3-Year	5-Year	10-Year
Equities	MSCI World (Net of dividends)	5.50	-0.87	-0.87	9.63	7.59	4.98
	Russell 3000	6.27	0.48	0.48	14.74	12.18	7.35
	MSCI EAFE (Net of dividends)	4.71	-0.81	-0.81	5.01	3.60	3.03
	MSCI EM (Net of dividends)	0.66	-14.92	-14.92	-6.76	-4.81	3.61
Fixed Income	Barclays Capital Aggregate	-0.57	0.55	0.55	1.44	3.25	4.51
	Citigroup Non-U.S. WGBI (Unhedged)	-1.38	-5.54	-5.54	-4.27	-1.30	3.05
Other	Commodity Splice*	-13.58	-28.76	-28.76	-20.50	-14.33	-8.50
	NCREIF NPI	2.91	13.33	13.33	12.04	12.18	7.76
	Thomson Reuters Private Equity**	5.07	7.15	10.68	16.10	15.35	12.06
	HFRI Fund of Funds Composite	0.73	-0.26	-0.26	3.95	2.10	2.27

*Commodity Splice, a Rogerscasey index, blends the Bloomberg Commodity Index (50%) and the S&P GSCI Index (50%), rebalanced monthly.

**Performance reported as of Q2 2015 because Q3 2015 and Q4 2015 performance data is not yet available.
Sources: eVestment Alliance, Investment Metrics, Thomson One and Hedge Fund Research, Inc.

World equity markets were positive in Q4 and modestly negative for 2015. On a global developed factor* basis for Q4, Growth, Sentiment and Quality generally performed well, while Value and Risk were mixed. International developed and emerging market equities underperformed the U.S. on both a quarterly and yearly basis.

U.S. and international fixed income performed negatively in Q4. The U.S. finished 2015 in positive territory, while International fixed income markets fell. The Federal Reserve raised the target for the federal funds rate by 25 bps to 0.25-0.50 percent.

Commodities ended Q4 and 2015 in negative territory. All major sectors were down in Q4. Energy performed the worst, followed by Industrial and Precious Metals.

Hedge fund of funds were positive in Q4, but slightly negative for the year. In Q4 for direct hedge funds, Equity Hedge and Emerging Markets had positive performance, Event-Driven and Relative Value fell, and Macro was flat.

*Factors are attributes that explain differences in equity performance. Stocks are sorted based on their exposure to a particular factor, with the factor return being the difference in returns between stocks with high exposure and low exposure to a particular attribute.

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World Economy: Key Indicators

This section provides data on select U.S. and global economic indicators for Q4 2015 along with Rogerscasey's commentary.

GDP Growth

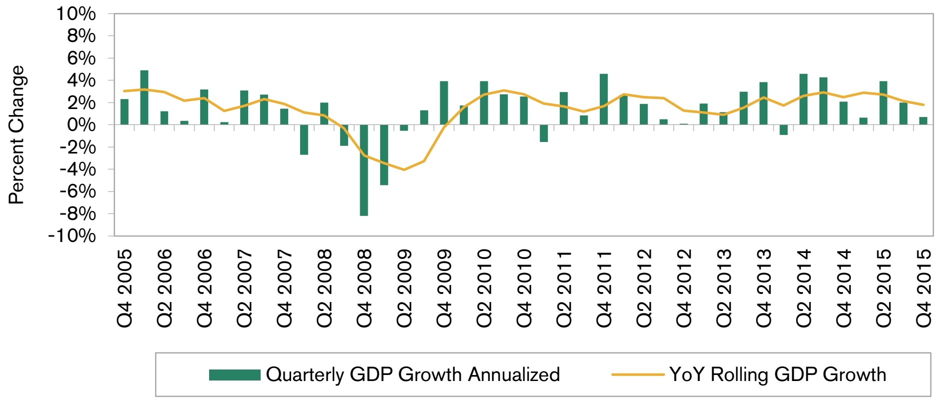
Real GDP grew at an annualized rate of 0.7 percent in Q4. The adjacent graph shows annualized GDP growth, along with the year-over-year (YoY) rolling percentage change in GDP. In 2015, real GDP increased 2.4 percent, the same rate of growth as in 2014.

Positive contributors to GDP in Q4 included personal consumption expenditures (PCE), residential fixed investment, and federal government spending.

Private inventory investment, exports, nonresidential fixed investment and increased imports detracted from GDP during Q4.

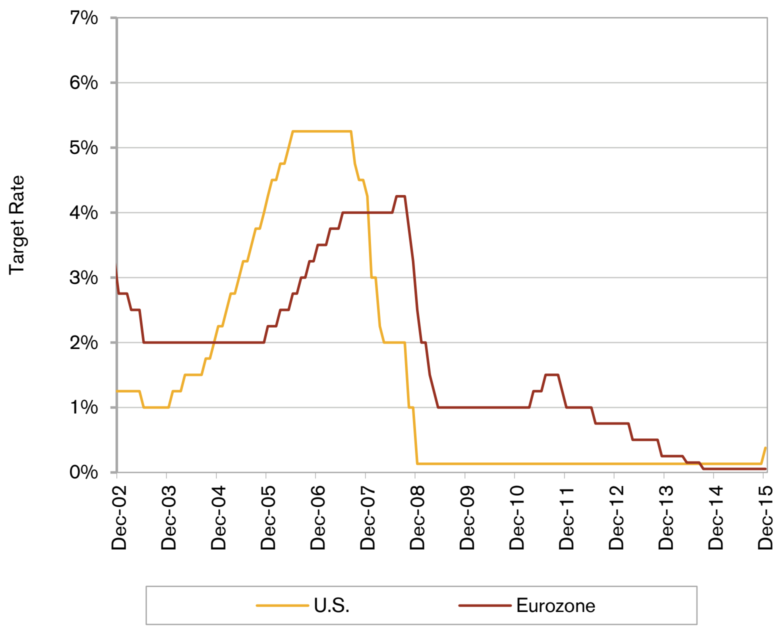
Personal and disposable income grew less in Q4 than in Q3. The personal savings rate increased to 5.4 percent in Q4, up 0.2 percent from Q3.

U.S. GDP Growth: Annualized Quarterly and Year-over-Year (YoY) Rolling (%)



Source: U.S. Bureau of Economic Analysis

Target Rates: U.S. and Eurozone



Sources: Rogerscasey using data from the Federal Reserve Board and the European Central Bank

Monetary Policy

At its December meeting, the Federal Open Market Committee (FOMC) stated the following:

- Economic activity expanded at a moderate pace and labor market conditions continued to improve.
- Net exports were weak.
- Inflation remained below its 2 percent objective due to declines in energy prices and lower-priced, non-energy imports.
- Due to the improved labor market and confidence that inflation will rise to 2 percent over the medium term, the Federal Funds Rate increased by 25 bps to 0.25-0.50 percent.
- The Fed will continue its existing policy of reinvesting principal payments from holdings of agency debt and agency mortgage-backed securities and rolling over maturing Treasury securities at auction so as to maintain an accommodative policy.

In December, the European Central Bank (ECB) continued to hold its target refinancing rate at 0.05 percent, as well as its marginal lending rate at 0.30 percent. It lowered the deposit rate to -0.30 percent from -0.20 percent.

The Bank of Japan (BoJ) maintained its quantitative and qualitative easing policy with the goal of increasing the monetary base by approximately ¥80 trillion on an annual basis.

World Economy: Key Indicators

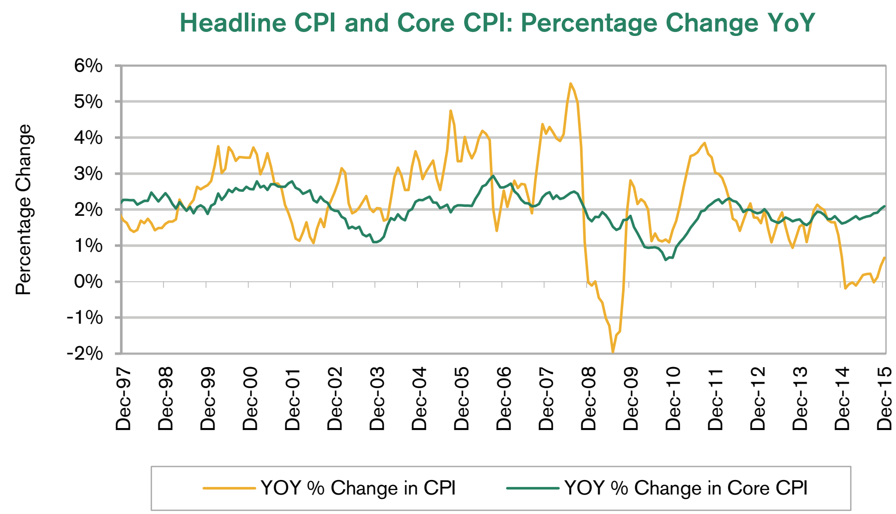
This section provides data on select U.S. and global economic indicators for Q4 2015 along with Rogerscasey's commentary.

Inflation

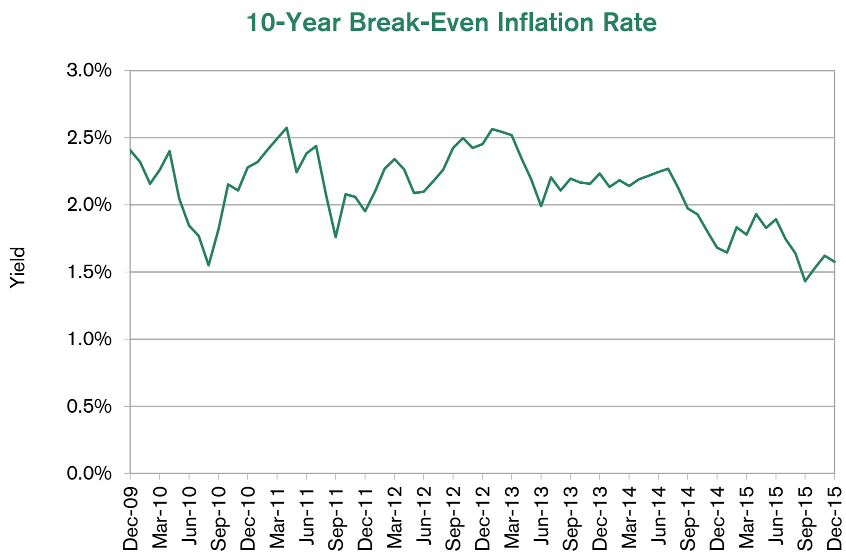
The headline seasonally adjusted Consumer Price Index (CPI)* was up 0.1 percent in Q4, and increased 0.7 percent on a YoY basis, its second lowest December to December increase in the last 50 years.

Seasonally adjusted core CPI, which excludes both food and energy prices, rose 0.5 percent in Q4, bringing the YoY core CPI increase to 2.1 percent.

On an unadjusted 12-month basis ending December 2015, the energy component fell the most at -12.6 percent. Commodities less food and energy commodities was also slightly negative. Food and services less energy services were positive.



Source: Bureau of Labor Statistics



Source: Bloomberg

Break-Even Inflation

The adjacent graph shows the 10-year break-even inflation rate, which measures the difference in yield between a nominal 10-year Treasury bond and a comparable 10-year Treasury inflation-protected security bond (TIPS). The break-even inflation rate is an indicator of the market's inflation expectations over the horizon of the bond.

During Q4, the 10-year break-even rate increased to 1.58 percent from Q3's 1.43 percent. As noted on page 2 (see "Monetary Policy"), the Fed expects inflation to gradually rise to 2 percent in the medium term.

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World Economy: Key Indicators

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Labor Market and the Unemployment Rate

Unemployment fell from 5.1 percent at the end of Q3 to 5.0 percent in Q4. Total nonfarm payrolls increased by 292,000 jobs in December and 851,000 jobs over the quarter. In 2015, employment gains totaled 2.7 million jobs, 400,000 less than in 2014.

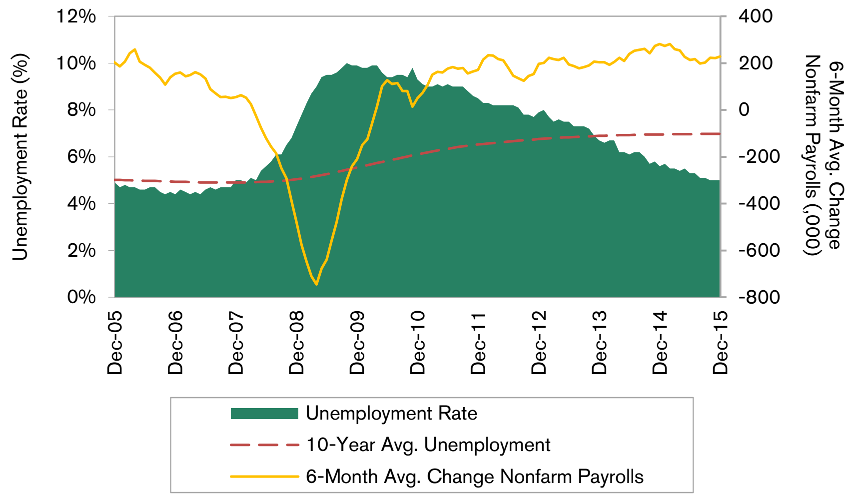
In December, increased job growth occurred in professional and business services, construction, health care, and food services and drinking places. Employment in mining declined.

The one-month total private diffusion index* stood at 64.4 in December, down from 69.2 the prior year. The one-month manufacturing diffusion index was also down in December, falling to 58.8 from 64.4 the prior year.

The labor force participation rate increased from 62.4 in September to 62.6 percent in December, which has been the average participation rate for the year.

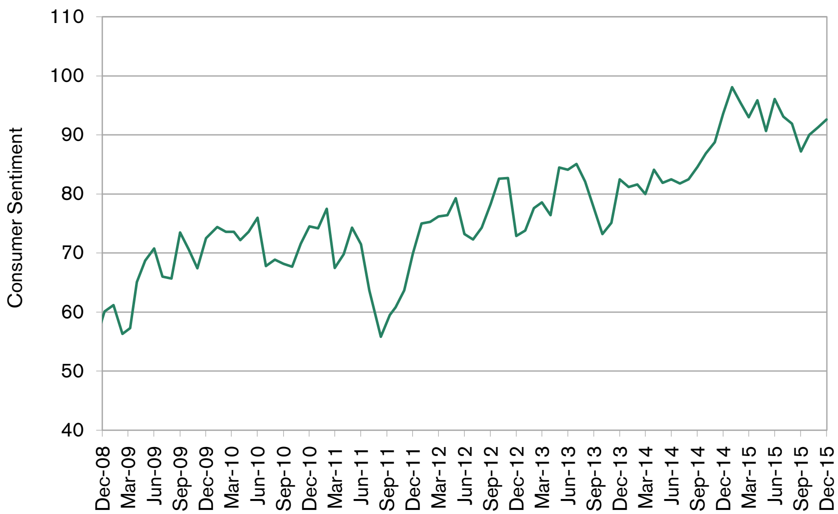
*Per the Bureau of Labor Statistics, figures represent the percent of industries with employment increasing plus one-half of the industries with unchanged employment, where 50 percent indicates an equal balance between industries with increasing and decreasing employment.

Unemployment and Nonfarm Payrolls



Source: Bureau of Labor Statistics

U.S. Consumer Sentiment



Source: Moody's Economy.com using data from the Thomson Reuters/University of Michigan Consumer Sentiment Index

Consumer Sentiment

The University of Michigan Index of U.S. Consumer Sentiment is an economic indicator that measures individuals' confidence in the stability of their incomes as well as the state of the economy. The Consumer Sentiment Index increased from 87.2 in September to 92.6 in December, which was close to the 2015 average of 92.9, the highest annual level since 2004. Views on both current economic conditions and expectations improved in Q4, but the yearly improvement was primarily driven by consumers' positive views on present conditions.

Q4 gains were driven by low inflation, which strengthened real incomes and increased buying plans for household durables.

Ongoing global economic weakness and a strong U.S. dollar (USD) will continue to cause goods to be discounted, and consumers are expected to maintain a disinflationary psychology.

Investor Sentiment: Mutual Fund Flows

This page presents mutual fund flows across equity and fixed-income funds. Flow estimates are derived from data collected covering more than 95 percent of industry assets and are adjusted to represent industry totals.

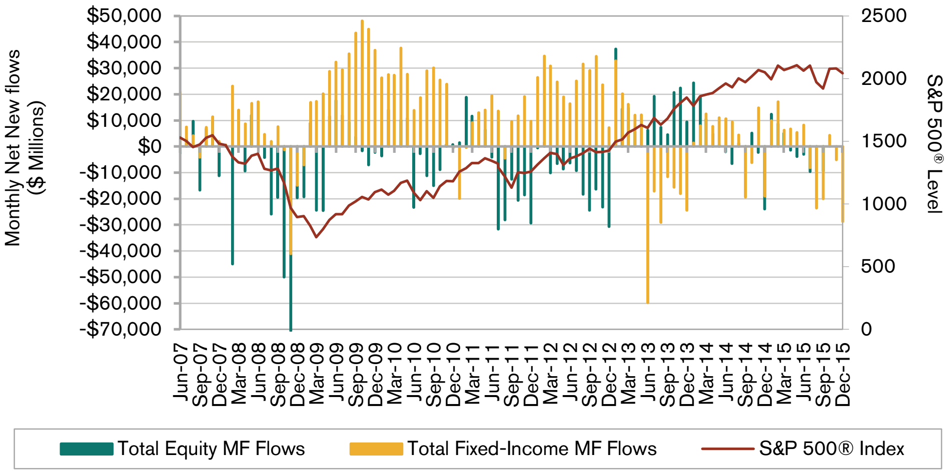
Net Mutual Fund Flows

The adjacent graph shows net flows into equity and fixed income mutual funds. In Q4, mutual funds experienced net outflows of approximately $67.0 billion. Outflows in Q4 were driven by equity mutual funds in October and November and by fixed income funds in December. Throughout 2015, equity and fixed income mutual funds experienced net outflows totaling $75.4 billion. Equity funds had inflows during Q1, with a majority of outflows in Q4, while fixed income funds had net inflows during Q1 and Q2, only experiencing losses in the second half of the year.

As expected, the Fed raised interest rates to a range of 0.25 - 0.50 percent in December. Overall, the Treasury yield curve widened in Q4. The 10-year Treasury note closed at 2.27 percent, 21 bps higher than at the end of Q3.

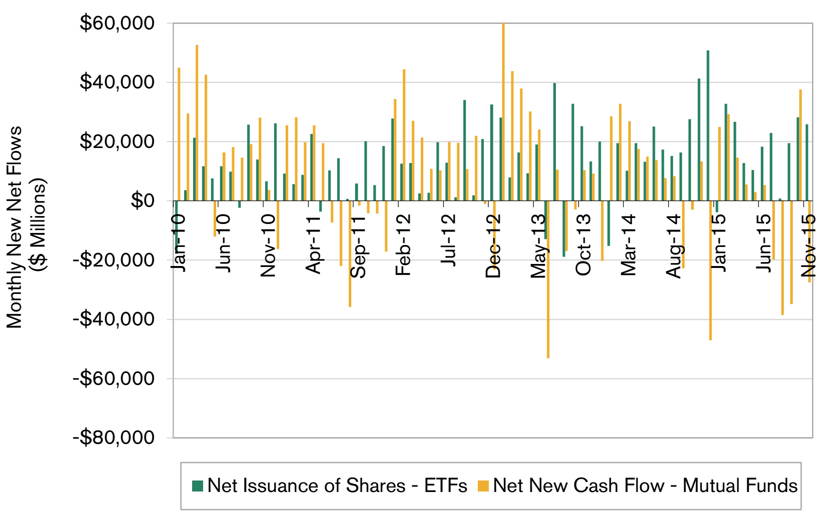
Equity mutual funds experienced $37.6 billion in outflows during Q4. U.S. and international funds lost $56.4 billion and $10.3 billion in assets, respectively. Hybrid mutual funds also experienced outflows of $19.3 billion.

Monthly Mutual Fund Net Flows ($ Millions) Q4 2015



Source: Investment Company Institute http://www.ici.org

Mutual Fund Flows vs. ETFs ($ Millions): New Net Cash Flows



Source: Investment Company Institute http://www.ici.org

Mutual Fund Flows vs. Exchange-Traded Funds

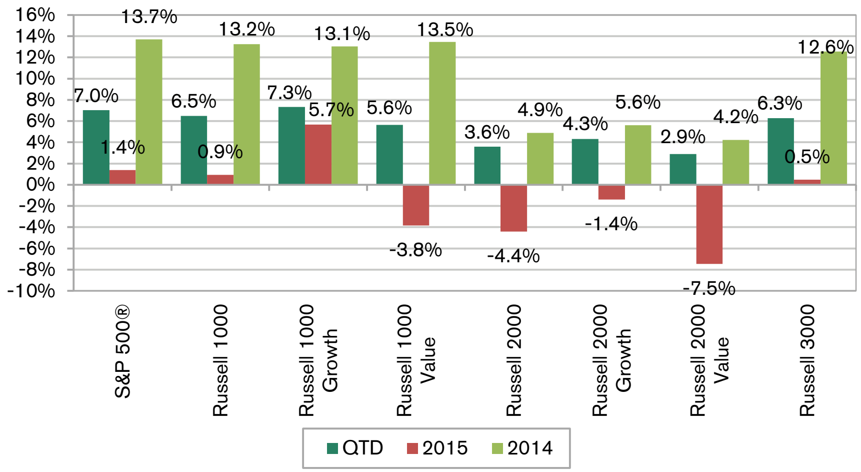
While mutual funds experienced $67.0 billion of net outflows in Q4, ETFs experienced net flows totaling $54.1 billion during October and November 2015 (December numbers have not yet been reported). At the end of November, ETF assets totaled about $2.1 trillion, up from around $1.9 trillion in November 2014. All types of ETFs, including domestic equity, foreign equity, taxable bonds, municipal bonds, and hybrid mutual funds, experienced inflows in October and November.

Investment Performance: U.S. Equities

This section presents data and Rogerscasey's commentary on U.S. equity index returns and sector performance for Q4 2015.

U.S. Equity Index Returns

The graph below illustrates Q4 2015, 2015 and 2014 rates of return for selected U.S. equity indices. The table shows returns for the quarter, one-year, prior calendar year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



Equity Indices	QTD	2015	2014	3 Year	5 Year	10 Year
S&P 500® Index	7.04	1.38	13.69	15.13	12.57	7.31
Russell 1000	6.50	0.92	13.24	15.01	12.44	7.40
Russell 1000 Growth	7.32	5.67	13.05	16.83	13.53	8.53
Russell 1000 Value	5.64	-3.83	13.45	13.08	11.27	6.16
Russell 2000	3.59	-4.41	4.89	11.65	9.19	6.80
Russell 2000 Growth	4.32	-1.38	5.60	14.28	10.67	7.95
Russell 2000 Value	2.88	-7.47	4.22	9.06	7.67	5.57
Russell 3000	6.27	0.48	12.56	14.74	12.18	7.35

Sources: Standard & Poor's and Russell Investments

S&P 500 Index® Sector Performance – Q4 2015

	QTD (%)	2015 (%)	2014 (%)
Consumer Discretionary	5.79	10.11	9.68
Consumer Staples	7.64	6.60	15.98
Energy	0.20	-21.12	-7.78
Financials	5.96	-1.53	15.20
Healthcare	9.22	6.89	25.34
Industrials	8.00	-2.53	9.83
Information Technology	9.17	5.92	20.12
Materials	9.69	-8.38	6.91
Telecommunications Services	7.61	3.40	2.99
Utilities	1.07	-4.85	28.98

This table shows quarter-to-date and year-to-date price changes for each sector.
Source: Standard & Poor's

Index and Sector Performance

The positive results from Q4 2015 mask a tumultuous quarter. The S&P 500® (7.0 percent) rose 8.4 percent in October, barely moved in November (0.3 percent), and fell in December (-1.6 percent). Growth extended its lead during Q4, ending the year with an 11.2 percent advantage to value in large cap stocks. Large cap stocks did markedly better than small caps in Q4 and eked out a positive total return for the year, as measured by the Russell 1000 (0.9 percent). Smaller names had a more difficult time in 2015, as indicated by the Russell 2000 (-4.4 percent).

Each sector of the S&P 500 ® Index supplied a positive return in Q4, though the results across sectors in 2015 showed wide dispersion. Oil prices continued to decline in 2015, leading to a one-year decline in Energy (-21.12 percent). The U.S. consumer was able to benefit from this drop, as well as other positive economic tail winds, benefiting Consumer Discretionary (10.1 percent). Healthcare (6.9 percent) had a good, if bumpy year, but not as good as 2014, when it rose 25.3 percent. Utilities (-4.9 percent) showed a sharp reversal in 2015 after a 29.0 percent increase in 2014.

Investment Performance: U.S. Equities

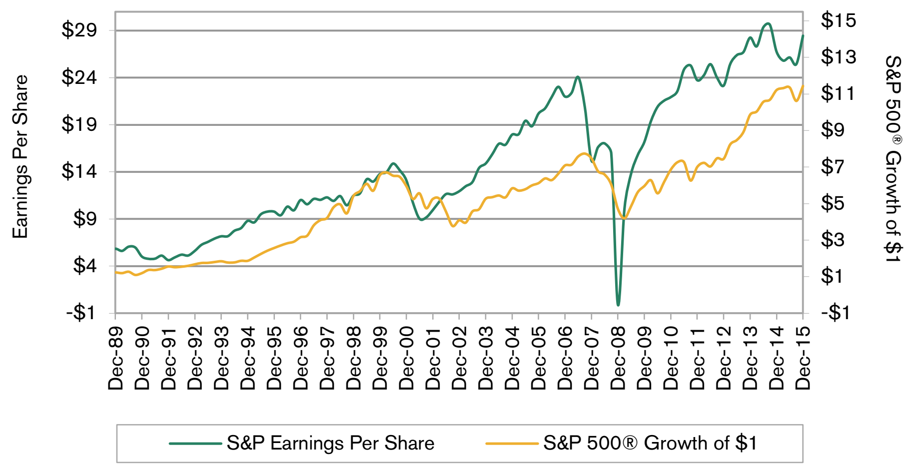
This section presents Rogerscasey's commentary on U.S. equity earnings and growth- vs. value-stock performance for Q4 2015.

U.S. Equity Market Earnings and Volatility

The adjacent graph compares the earnings per share of companies in the S&P 500® Index and the growth of $1.00 since December 1989. While earnings per share growth does not align perfectly with the growth of stock prices, there does appear to be a directional linkage, which is something upon which many investors count.

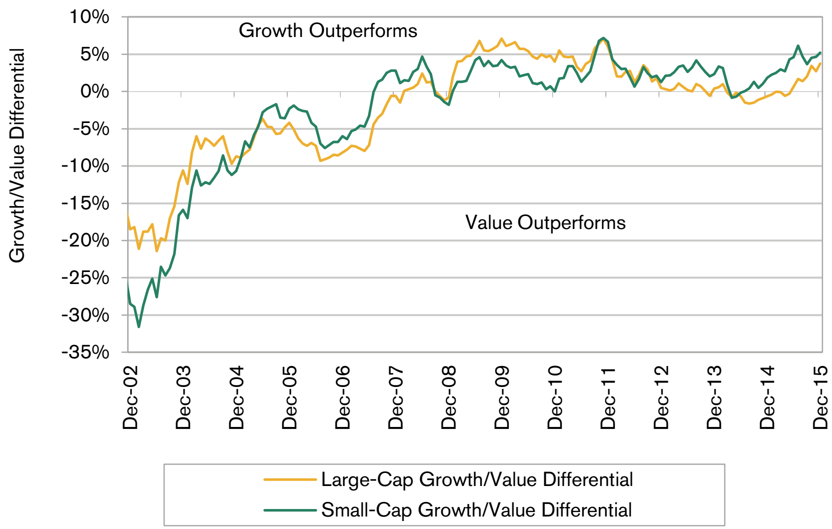
Earnings are perhaps the single most studied metric in a company's financial statements because they show a company's profitability. A company's quarterly and annual earnings are typically compared to analysts' estimates and guidance provided by the company itself. In most situations, when earnings do not meet either of those estimates, a company's stock price will tend to drop. On the other hand, when actual earnings beat estimates by a significant amount, the share price will likely surge. At the aggregate level, these swings tend to be more muted.

S&P 500® Index: Earnings Per Share and Growth of $1.00



Source: Standard & Poor's

Growth Stocks vs. Value Stocks (Rolling 3-Year)



Source: Russell Investments

Growth vs. Value

The adjacent graph depicts the growth versus value differential for both large- and small-cap stocks over rolling three-year intervals. The large-cap calculation uses the Russell 1000 Growth (R1000G) versus the Russell 1000 Value (R1000V) and the small-cap differential is composed of the Russell 2000 Growth (R2000G) versus the Russell 2000 Value (R2000V).

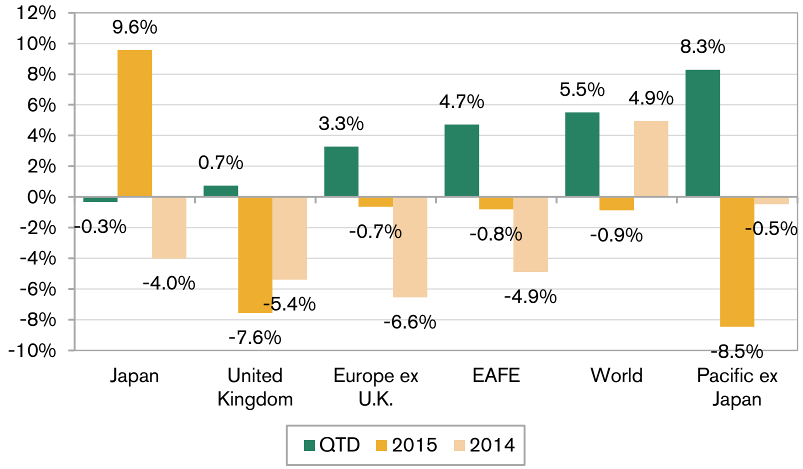
An interesting dynamic is that for several years until the latter half of 2015, growth and value had largely been irrelevant in driving large cap equity returns. This reversed in a large way with the strength of growth in 2015. The gap has been widening toward the growth advantage even greater with small cap stocks, a trend that continued in Q4.

Investment Performance: Non-U.S. Equities

This section presents data and Rogerscasey's commentary on international equity returns and sector performance for Q4 2015.

MSCI Non-U.S. Equity Index Returns

The graph below illustrates Q4 2015, 2015 and 2014 rates of return for selected non-U.S. equity indices. The table shows returns for the quarter, one-year, prior calendar year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



MSCI Indices	QTD	2015	2014	3 Year	5 Year	10 Year
World	5.50	-0.87	4.94	9.63	7.59	4.98
Europe, Australasia and Far East (EAFE)	4.71	-0.81	-4.90	5.01	3.60	3.03
Europe except U.K.	3.27	-0.65	-6.55	5.83	4.02	3.50
Pacific except Japan	8.29	-8.47	-0.47	-1.32	0.87	6.07
United Kingdom	0.73	-7.56	-5.39	1.81	6.46	3.05
Japan	-0.34	9.57	-4.02	10.17	4.38	0.91

Source: Morgan Stanley Capital International

MSCI EAFE Sector Performance – Q4 2015

	QTD (%)	2015 (%)	2014 (%)
Consumer Discretionary	5.3	-0.2	-6.5
Consumer Staples	4.8	6.3	-4.9
Energy	-0.4	-22.1	-21.9
Financials	3.1	-5.8	-8.4
Healthcare	5.2	5.7	3.7
Industrials	6.2	-1.6	-9.6
Information Technology	10.2	3.0	-2.3
Materials	1.1	-19.2	-12.9
Telecommunications Services	5.9	0.4	-7.4
Utilities	1.7	-8.2	0.4

This table shows quarter-to-date, year-to-date price, and prior calendar year changes for each sector.
Source: Morgan Stanley Capital International

Index and Sector Performance

Global equity markets delivered positive results overall in Q4, despite weakness in the second half of the quarter. Eurozone equities were propped up by hopes that the ECB would announce substantial further monetary policy easing, and markets abroad recovered from the sharp selloff that occurred during the summer amid global growth fears and negative investor sentiment about China. In Q4, Pacific ex Japan (8.3 percent) rose the most compared to other broad regions, while EAFE (4.7 percent) and World (5.5 percent) also posted gains. Japan (-0.3 percent) was the only region to fall in Q4, but it posted the only gain for the year (9.6 percent), which was a strong rebound from its 2014 result. Almost every developed nation in the equity markets gained in Q4; Canada (-5.1 percent), Spain (-2.6 percent), Italy (-2.3 percent) and Norway (-0.5 percent) were the only laggards in USD terms, while on a local currency basis, only Canada fell (-1.7 percent local).

Like the broader market, all but one of the sectors in the EAFE benchmark rose in Q4. Technology (10.2 percent) was the best performing sector, as these types of companies were positively affected by the strong performance of a few U.S. technology firms, such as Facebook and Amazon. Energy (-0.4 percent) remained a central concern for investors as oil prices continued to fall. As of year-end, Energy (-22.1 percent) was the worst performer, followed by Materials (-19.2 percent), as slowing commodity demand plagued these sectors.

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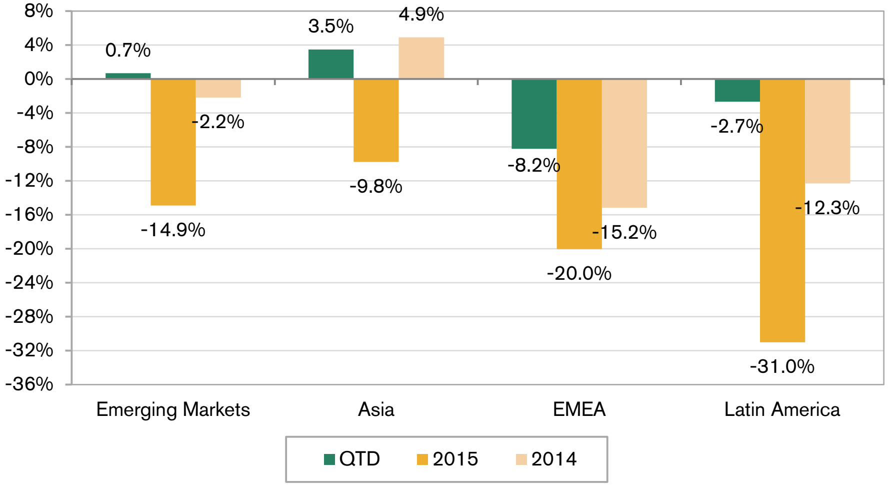
Investment Performance: Emerging Market Equities

This section presents data and commentary on emerging market (EM) equity returns and sector performance for Q4 2015.

MSCI Emerging Market Equity Index Returns

The graph below illustrates Q4 2015, 2015 and 2014 rates of return for selected emerging market equity indices. The table shows returns for the quarter, one-year, prior calendar year, three-year, five-year, and 10-year annualized timeframes. All data in the table are percentages.



MSCI EM Indices	QTD	2015	2014	3 Year	5 Year	10 Year
Emerging Markets (All)	0.66	-14.92	-2.19	-6.76	-4.81	3.61
Asia	3.46	-9.79	4.89	-1.18	-0.76	5.76
Europe, Middle East and Africa (EMEA)	-8.22	-20.04	-15.18	-13.68	-9.00	-0.91
Latin America	-2.70	-31.04	-31.04	-19.38	-14.41	1.16

Source: Morgan Stanley Capital International

MSCI EM Sector Performance – Q4 2015

	QTD (%)	2015 (%)	2014 (%)
Consumer Discretionary	2.2	-11.3	-1.5
Consumer Staples	-1.8	-9.1	-4.9
Energy	-0.1	-17.1	-26.8
Financials	0.9	-18.7	5.2
Healthcare	2.2	-5.2	19.5
Industrials	-3.2	-16.8	-2.9
Information Technology	6.4	-6.9	9.9
Materials	-1.9	-21.6	-19.6
Telecommunications Services	-6.0	-19.6	-1.8
Utilities	-1.3	-20.8	2.4

This table shows quarter-to-date and year-to-date price changes for each sector.
Source: Morgan Stanley Capital International

Index and Sector Performance

The MSCI Emerging Markets (EM) Index rose (0.7 percent) in Q4, despite continued headwinds from a stronger USD and concerns over slowing growth in China, which put downward pressure on commodity prices. At the total index level, currency had a minor negative impact on Q4 performance, with local currency returns coming in 0.8 percent better than the USD results. Currencies such as the Russian ruble (USD returns were 8.7 percent worse than local returns) and the South African rand (10.8 percent worse in USD terms) extended their declines against the USD. For the year, the EM index was negative, with a steeper loss than in 2014.

From a regional perspective, EM Asia (3.5 percent) was the best performer in Q4, though negative results in November and December tempered the strong gains from October. Asia's longer-term performance was also better than the other EM regions. Indonesia (20.8 percent) was the best performing market in Asia during Q4, buoyed by the appreciation of the rupiah and economic data showing a reduction in the country's account deficit. EMEA (-8.2 percent) and Latin America (-2.7 percent) declined in Q4. Greece (-19.0 percent) was the weakest performing country, dragged down by major declines in banking stocks. In Latin America, all countries in the region underperformed, hurt by commodity price weakness, but Columbia (-9.4 percent) declined the most.

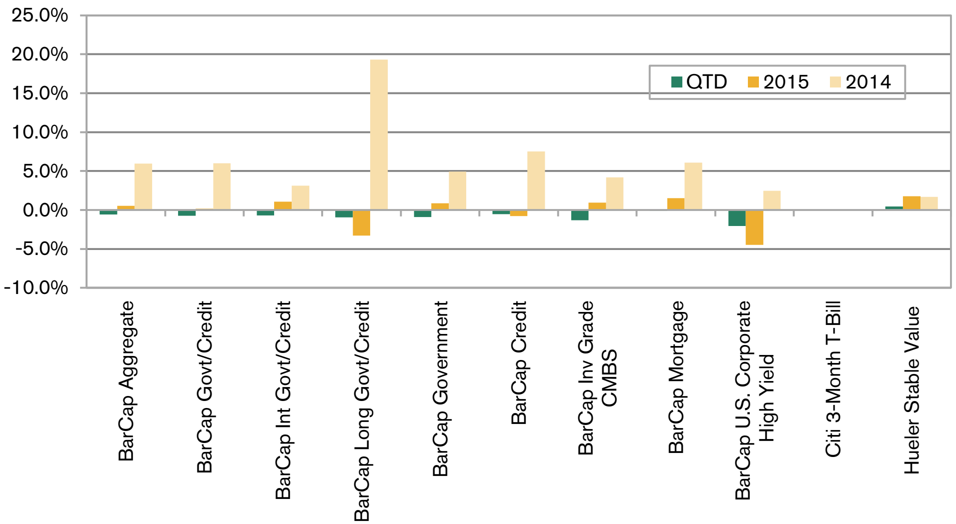
Sector returns were mixed in Q4. Telecommunications (-6.0 percent), Industrials (-3.2 percent), and Materials (-2.0 percent) dropped the most, while Technology (6.4 percent), Consumer Discretionary (2.2 percent), and Healthcare (2.2 percent) outperformed.

Investment Performance: U.S. Fixed Income

This section presents select U.S. fixed-income index data along with commentary on option-adjusted spreads (OAS) during Q4 2015.

U.S. Fixed Income Index Returns

The graph below illustrates Q4 2015, 2015 and 2014 rates of return for selected U.S. fixed-income indices. The table shows returns for the quarter, one-year, prior calendar year, three-year, five-year and 10-year annualized timeframes. All data in the table are percentages.



Fixed-Income Indices	QTD	2015	2014	3 Year	5 Year	10 Year
BarCap* Aggregate	-0.57	0.55	5.97	1.44	3.25	4.51
BarCap* Govt/Credit	-0.74	0.15	6.01	1.21	3.39	4.47
BarCap* Int Govt/Credit	-0.69	1.07	3.13	1.10	2.58	4.04
BarCap* Long Govt/Credit	-0.94	-3.30	19.31	1.70	6.98	6.45
BarCap* Government	-0.91	0.86	4.92	1.01	2.77	4.10
BarCap* Credit	-0.52	-0.77	7.53	1.49	4.38	5.18
BarCap* Inv Grade CMBS	-1.32	0.94	4.21	1.77	4.31	4.95
BarCap* Mortgage	-0.10	1.51	6.08	2.01	2.96	4.64
BarCap* U.S. Corporate High Yield	-2.07	-4.47	2.45	1.69	5.04	6.96
Citi 3-Month T-Bill	0.01	0.03	0.02	0.03	0.05	1.17
Hueler Stable Value	0.44	1.76	1.69	1.76	2.05	3.07

Sources: Barclays Capital, Citigroup and Hueler Analytics

OAS* in Bps

	09/30/15	12/31/15	Change in OAS	10-Year Average
U.S. Aggregate Index	59	56	-3	67
U.S. Agency (Non-mortgage) Sector	47	51	4	43
Securitized Sectors:				
Mortgage-Backed Securities	31	24	-7	53
Asset-Backed Securities	69	72	3	131
Commercial Mortgage-Backed Securities	108	121	13	226
Corporate Sectors:				
U.S. Investment Grade	169	165	-4	167
Industrial	184	183	-1	155
Utility	152	150	-2	157
Financial Institutions	145	134	-11	188
U.S. High Yield	630	660	30	561

*OAS is the yield spread of bonds versus Treasury yields taking into consideration differing bond options.
Source: Barclays Capital

Option-Adjusted Spreads

Most sectors of the bond market experienced a spread contraction during Q4, which was a reversal from Q3. U.S. High Yield maintained its outward expansion as energy has continued to drive volatility. Securitized sectors also experienced spread widening during Q4, with asset-backed securities remaining one of the few sectors above its respective 10-year spread average.

Continued economic growth within the U.S., along with accommodative policy decisions in China and Europe, resulted in a 25 bps increase from the near-zero levels of the Fed funds rate in December. The anticipation of the hike caused Treasury yields to rise, while changes in spreads remained mixed across the board. U.S. High Yield continued its spread expansion, as a decline in commodity prices resulted in severe underperformance in the Energy sector. Spread widening was more modest within the high quality Securitized sectors, as supply was not an issue and the Fed continued to reinvest principal and interest payments.

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Investment Performance: U.S. Fixed Income

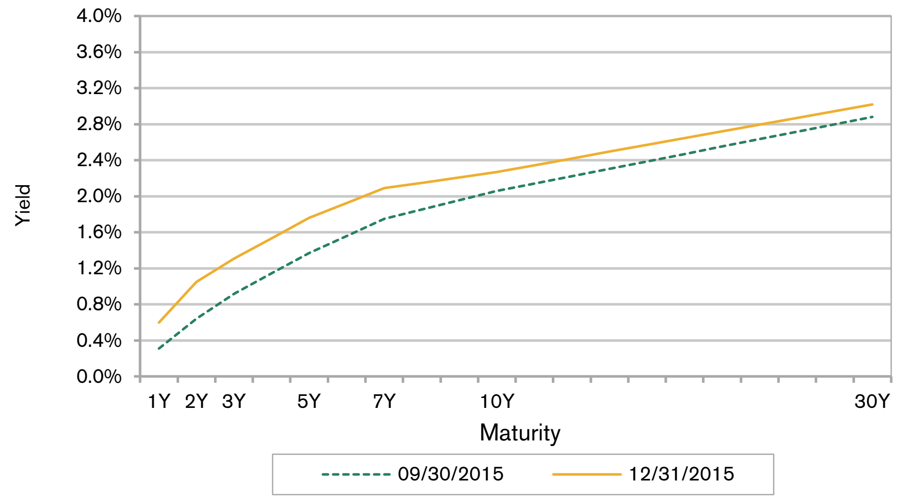
This section presents commentary on the U.S. Treasury yield curve and credit spreads during Q4 2015.

Yield Curve

The U.S. Treasury yield curve expanded during Q4, with the yield gap between 2-year and 10-year Treasuries decreasing from 1.42 percent to 1.22 percent. Yields rose across the curve during Q4, as growth in the U.S. economy continued to head in the right direction, resulting in the Fed raising the central bank interest rate after years at near-zero levels. Shorter-duration Treasuries experienced the largest expansion during the quarter, while intermediate and long yields rose by lesser amounts.

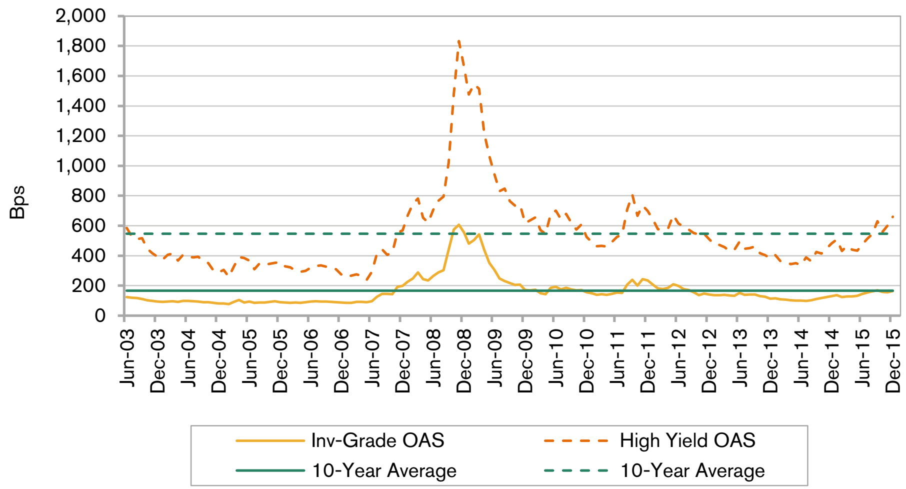
The 10-year U.S. Treasury yield ended Q4 at 2.27 percent, 21 bps above Q3.

U.S. Treasury Yield Curve



Source: Bloomberg

Barclays Capital Corporate Bond Spreads



Source: Barclays Capital

Credit Spreads

Investment grade corporate spreads contracted by 4 bps during Q4 2015 and ended the quarter with an option-adjusted spread of 165 bps over Treasuries, as shown in the adjacent graph. From a historical perspective, as of December 31, 2015, spreads were 2 bps below the 10-year average of 167 bps.

High yield bond spreads widened by 30 basis points during Q4, ending the quarter with an OAS of 6.60 percent, which is 99 bps above the 10-year average of 561 bps.

Investment Performance: Non-U.S. Fixed Income

This page focuses on international fixed-income asset class data and information on EM debt (EMD) for Q4 2015.

International Fixed Income

In Q4, global sovereign bonds, as measured by the Citigroup World Government Bond Index (WGBI), gained 0.01 percent in local currency terms, but fell 1.2 percent in unhedged terms. The BarCap Global Aggregate Index, which includes spread sectors, declined 0.9 percent, leading the sovereign-only Citigroup WGBI Index by roughly 31 bps on an unhedged basis. Non-U.S. government bonds, as measured by the Citigroup Non-U.S. WGBI, outperformed U.S. government bonds by roughly 140 bps in local currency terms, but trailed by 46 bps in unhedged currency terms.

On an unhedged basis, nearly all WGBI components finished Q4 in negative territory. Australia, Japan, Malaysia, and Singapore were the only positive contributors, which was a reversal from Q3.

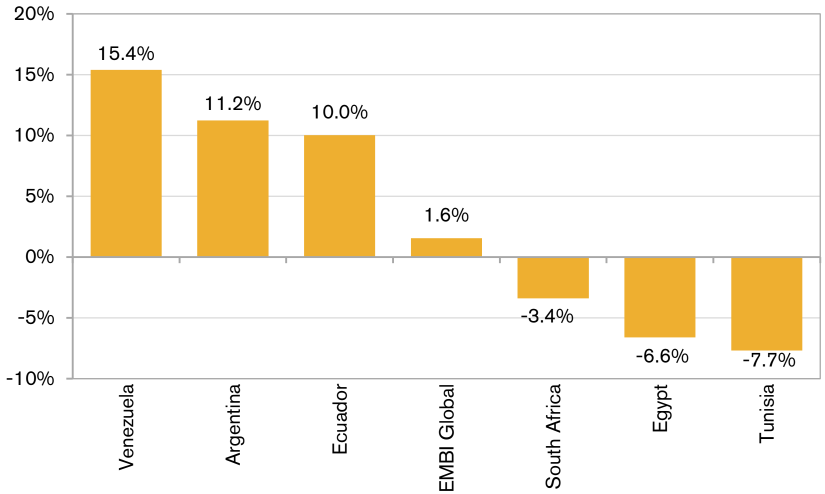
On a local currency basis, results were virtually flat, with the year-to-date number inching slightly higher to 1.3 percent. Notable outperformers during Q4 included Canada (0.7 percent) and Italy (1.7 percent), which both represent sizeable weights in the index. Detractors during the period included Australia (-0.5 percent), the United Kingdom (-1.3 percent), Sweden (-1.6 percent) and the U.S. (-0.9 percent), with the slowdown of the Chinese economy and appreciating USD triggering volatility.

Citigroup WGBI: Returns of Major Constituents (%)

Country	Local Currency Return (Qtr)	Currency Effect	Unhedged Total Return (Qtr)
United States	-0.9	-	-0.9
Canada	0.7	3.5	-2.8
Australia	-0.5	-3.6	3.1
Japan	1.2	0.5	0.7
Austria	-0.2	2.7	-2.9
Belgium	-0.5	2.6	-3.1
France	-0.1	2.6	-2.7
Germany	-0.4	2.6	-3.0
Italy	1.7	2.8	-1.1
Netherlands	-0.1	2.7	-2.8
Spain	1.2	2.7	-1.5
United Kingdom	-1.3	2.7	-4.0
Non-U.S. Govt. Bond	0.5	1.9	-1.4
World Govt. Bond	0.0	1.2	-1.2

Sources: Citigroup and Barclays Capital

J.P. Morgan EMBI Global Index Best and Worst-Performing Markets



Source: J.P. Morgan

Emerging Market Debt

In Q4, emerging markets debt (EMD) gained as measured by the J.P. Morgan Emerging Market Bond Index (1.6 percent). Positive results can be attributed to healthy performance in China (0.8 percent), Indonesia (2.0 percent), Russia (2.4 percent), Turkey (3.8 percent) and Venezuela (15.4 percent), which represent 5 of the 10 largest countries in the index.

The corporate J.P. Morgan CEMBI Broad Diversified Index rose 0.5 percent during Q4, with China (2.3 percent), Russia (3.0 percent) and Indonesia (5.8 percent) adding the most value. Year-to-date 2015, Russia, which represents a 6 percent weight in the index, returned 26.0 percent, while the CEMBI Broad returned 1.2 percent.

The local J.P. Morgan GBI-EM Global Diversified Index (-0.01 percent) fell modestly in USD unhedged terms, but gained 156 bps on a local currency basis. From a regional perspective, the Middle East/Africa had the largest drag on results in USD unhedged terms, returning -16.0 percent, while Asia added 664 bps of positive performance.

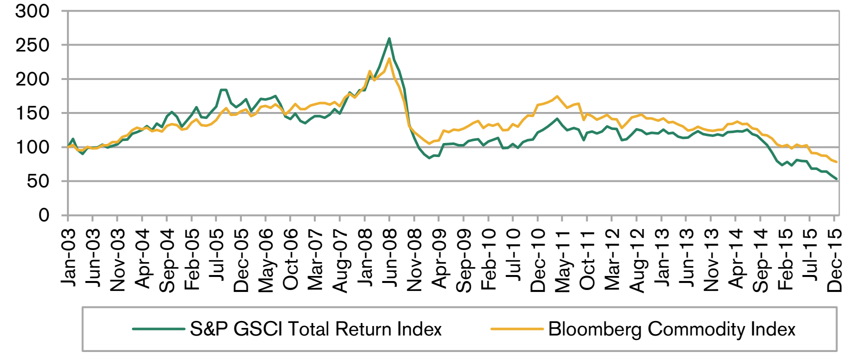
Investment Performance: Commodities and Currencies

This section presents performance information about commodities and major world currencies as of Q4 2015.

Commodities

Commodities continued to decline in Q4. Both the Bloomberg Commodity Index (BCOM) and the S&P GSCI fell significantly, with returns of -10.5 percent and -16.6 percent, respectively. These results brought 2015 annual returns to a dismal -24.7 percent for the BCOM and -32.9 percent for the S&P GSCI. During Q4 and for the year, all sectors in both indices posted negative returns, but the greatest detractor was Energy. In Q4, Energy posted a -22.7 percent return in the BCOM and a -24.9 percent return in the GSCI, bringing the total decline for the year to -38.9 percent and -41.5 percent, respectively. Energy, like all other sectors, suffered due to oversupply and a strong USD. Agriculture and Livestock were the best performers in Q4, each dropping less than 5 percent over the period.

Monthly Commodity Returns, Growth of $100: January 2003 – December 2015



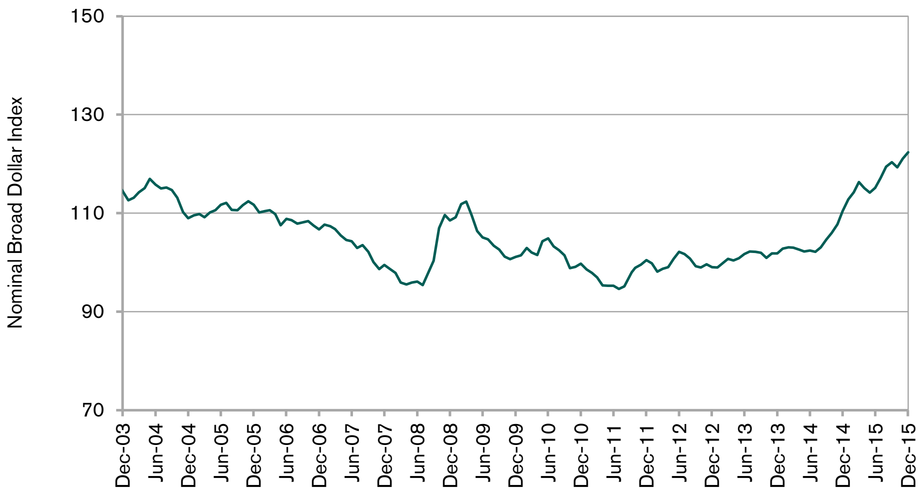
The graph above shows the major commodity indices, the S&P GSCI* Index and the Dow Junes-UBS Commodity Index**

* The S&P GSCI Index is calculated primarily on a world production-weighted basis and is composed of the principal physical commodities that are the subject of active, liquid futures markets.

** The DJ-UBSCI is composed of futures contracts on physical commodities, with weighting restrictions on individual commodities and commodity groups to promote diversification.

Sources: eVestment Alliance and Deutsche Bank

Nominal Broad Dollar Index: USD vs. Basket of Major Trading Partners



Sources: Federal Reserve and Bloomberg

Currencies

The adjacent graph shows the USD against a basket of 16 major market currencies, including those listed in the table below: the Canadian dollar (CAD), the euro (EUR), the Japanese yen (JPY), the Swiss franc (CHF) and the British pound-sterling (GBP).

In Q4, the U.S. nominal broad dollar strengthened by 1.67 percent. The USD should continue to benefit from higher relative economic growth and rising interest rates.

USD Major Trading Partners	Pairs	Q4 Level	YTD	5-Year Average
Canada	USD/CAD	1.3839	19.09%	1.0838
Eurozone	USD/EUR	0.9210	11.42%	0.7819
Japan	USD/JPY	120.2200	0.37%	97.0493
Switzerland	USD/CHF	1.0021	0.78%	0.9249
U.K.	USD/GBP	0.6786	5.72%	0.6305

Investment Performance: Hedge Funds

This section provides an overview of hedge fund results along with an analysis of strategy performance during Q4 2015.

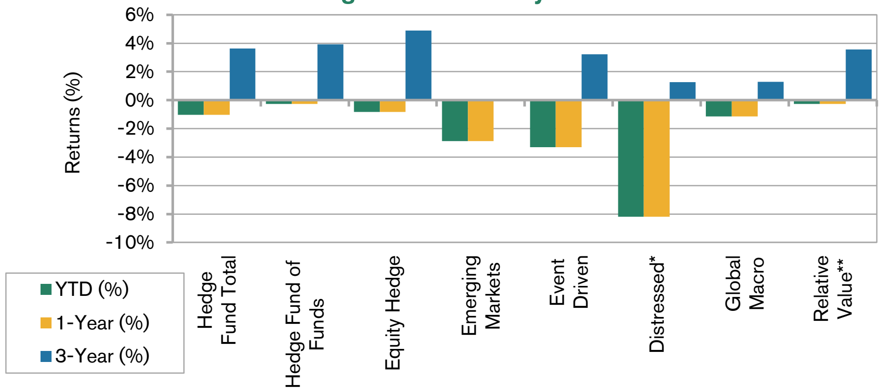
Hedge Fund Overview

The Hedge Fund Research, Inc. (HFRI) Fund Weighted Composite Index (0.8 percent) rose during Q4, posting positive returns in October and November, but declining in December. Two the five major hedge fund strategies ended Q4 in positive territory: Equity Hedge (1.9 percent) and Emerging Markets (2.1 percent). Global Macro (0.0 percent) was flat, while Event Driven (-0.1 percent) and Relative Value (-0.2 percent) fell. All of the major hedge fund strategies posted negative annual returns for 2015.

Longer-term results were positive. Hedge funds recorded a gain of 3.6 percent over the three-year period ending December 31, 2015, as measured by the HFRI Fund Weighted Composite Index.

Hedge funds of funds also gained in Q4, as represented by the HFRI Fund of Funds (FOF) Composite Index (0.7 percent). The HFRI FOF: Conservative Index (0.1 percent) and the HFRI FOF: Diversified Index (0.6 percent) also rose. Hedge fund of funds ended the year in negative territory.

Hedge Fund Industry Performance



* Distressed funds focus on companies that are close to or in bankruptcy.
**Relative-value funds focus on arbitrage opportunities between equity and fixed income securities.
Source: Hedge Fund Research, Inc.

HFRI Index Returns – Q4 2015 (%)

	Oct	Nov	Dec	QTD	YTD
Fund of Funds Composite	0.9	0.3	-0.5	0.7	-0.3
FOF: Conservative	0.3	0.2	-0.4	0.1	0.5
FOF: Diversified	0.7	0.5	-0.6	0.6	0.0
Fund Weighted Composite	1.7	0.2	-1.0	0.8	-0.9
Equity Hedge (Total)	2.9	-0.1	-1.0	1.9	-0.6
Equity Market Neutral	1.0	0.1	0.2	1.3	4.3
Short Bias	-2.4	1.0	-0.2	-1.5	-2.0
Event-Driven (Total)	1.4	-0.7	-0.7	-0.1	-3.2
Distressed/Restructuring	0.1	-1.3	-2.0	-3.2	-8.2
Merger Arbitrage	1.0	-0.0	1.1	2.1	3.3
Relative Value (Total)	1.0	-0.3	-0.9	-0.2	-0.2
FI-Convertible Arbitrage	1.5	-0.3	-1.0	0.2	1.9
Global Macro (Total)	-0.2	1.5	-1.3	0.0	-1.1
Emerging Markets (Total)	3.3	-0.6	-0.5	2.1	-2.9

Source: Hedge Fund Research, Inc.

Strategy Analysis

The HFRI Emerging Markets Index (2.1 percent) gained the most of all the major hedge fund strategies. All underlying indices contributed positively to performance except Latin America and MENA (Middle East & North Africa). China was the best performer, followed by Asia ex-Japan, India, Russia/Eastern Europe and Global.

The HFRI Equity Hedge Index (1.9 percent) gained in Q4. The Technology/Healthcare Sector, Equity Market Neutral, Multi Strategy, both Fundamental Growth and Value and Quantitative Directional all were positive contributors to the Equity Hedge index, while the remaining indices were negative. Energy/Basic Materials lost the most, followed by Short Bias.

The HFRI Global Macro Index (0.0 percent) was flat. The strategy received $2.5 billion in new capital, which was the greatest amount of inflows for Q4 of all the major hedge fund strategies. Several underlying strategies reported positive quarterly results. Leading the way was Multi-Strategy, followed by the Active Trading, Currency and Commodity indices. Meanwhile, the Systematic Diversified index was the worst-performing underlying index, followed by Discretionary Thematic.

The HFRI Event-Driven Index (-0.1 percent) fell slightly, while underlying indices contributed contrasting performances. The Activist index fared the best, followed by Merger Arbitrage and Special Situations. Those gains were offset by losses in Distressed/Restructuring and Credit Arbitrage.

The HFRI Relative Value Index (-0.2 percent) declined. The underlying Sovereign Fixed Income index was the strongest performer for the period. Other positive contributors were the Volatility, Fixed-Income Convertible Arbitrage and Fixed-Income Multi-Strategy indices. The Yield Alternatives index fared the worst, followed by Fixed-Income Asset Backed and Fixed-Income Corporate.

Investment Performance: Private Equity

This section provides data on private equity industry performance, fundraising, buyout funds, initial public offering (IPO) activity and venture capital. The information in this section reflects the most recent private equity data available.

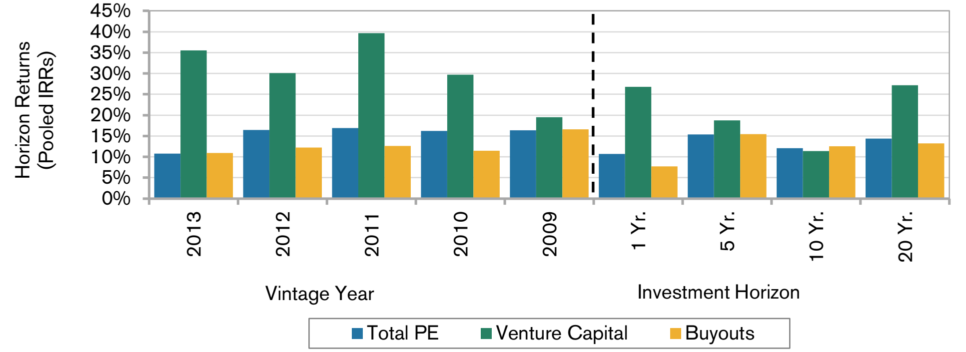
Private Equity Industry Performance

The adjacent graph shows private equity fund performance for Q2 2015, calculated as pooled internal rates of return (IRRs) of funds reporting to Thomson One. Performance for 2009 through 2013 vintage-year* funds, as well as one-, five-, 10- and 20-year returns, is calculated for funds in the following categories: all private equity, venture capital and buyouts.

Private equity funds for all regions returned approximately 5.1 percent in Q2 2015 and 10.7 percent over the one-year period. This includes performance across all private equity strategies. Over a 20-year period, all private equity, venture capital and buyout funds generated double-digit returns of 14.4 percent, 27.2 percent and 13.2 percent, respectively.

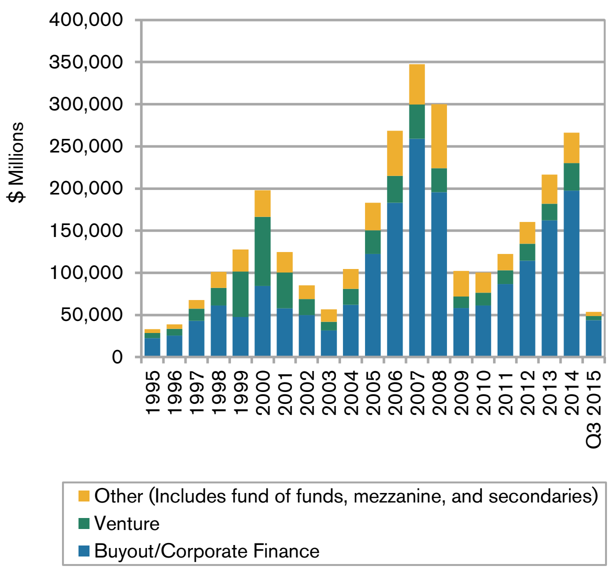
*"Vintage year" refers to the first year capital was committed in a particular fund. Vintage-year performance is calculated as the median percentile returns of all funds reporting as pooled IRRs.

Private Equity Performance by Vintage Year and Investment Horizon: All Regions



Source: Thomson Reuters

Private Equity Commitments: United States



Source: *The Private Equity Analyst*

Private Equity Overview

According to *Private Equity Analyst*, private equity funds raised approximately $53.6 billion in Q3 2015, a 9 percent decrease in dollars raised from Q3 2014. Year-to-date through September 30, 2015, private equity funds raised approximately $197 billion, broken down as follows: $148.3 billion in buyouts and corporate funds, $26.7 billion in venture capital, $7.5 billion in fund of funds, $8.0 billion in mezzanine, and $6.3 billion in other private equity.

Buyout and corporate finance strategies together raised the most capital among private equity strategies in Q3 2015 at $43.7 billion, which is approximately 3 percent less than the amount raised in Q3 2014. Venture capital experienced a 20 percent decrease in dollars from Q3 2014, raising $5.2 billion versus the $6.5 billion in capital raised during the same period one year prior.

Venture-backed IPO activity significantly decreased in Q3 2015, down 55 percent in total offerings and 54 percent in total dollars from Q2 2015. The number of IPOs fell to 13 from Q2's 29*, and in dollar terms, exits decreased from $3.8 billion* to $1.7 billion, although the Fitbit IPO in Q2 comprised approximately 22 percent of the capital raised during that quarter. Muted IPO activity was attributed to market volatility and companies that might file for IPOs staying private longer due to later-stage investments from non-traditional sources. (See p. 18 for more information on the recent trend of companies delaying IPOs.) Venture-backed M&A activity was up 39 percent in disclosed deal value, making Q3 the strongest quarter of the year by this measure, and was up 42 percent in number of deals over Q2. Buyout M&A exits decreased slightly from Q2, but were down 35 percent from Q3 2014. Total disclosed deal value at $25.5 billion was close to the $25.0 billion from one year ago, but down $10.3 billion from Q2 2015. There were four buyout IPOs in Q3 with deal value at $661 million, marking the weakest quarter in number and value terms since Q4 2011.

Venture capital deal activity totaled $16.3 billion in 1,070 deals during Q3, which was slightly lower in dollar terms and in number of deals versus Q2. Q3 was the seventh consecutive quarter when more than $10 billion was invested in venture capital during a single quarter and the second highest quarter in aggregate investment dollars since Q4 2000. Deal volume in buyouts increased in Q3 (as of September 25) compared to the same period one year prior (as of September 29, 2014), but disclosed dollar volume fell by 60 percent versus the year-ago period due to volatility in equity and debt markets.

*Updated as of October 1, 2015

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Investment Performance: Real Estate

This page presents data and Rogerscasey's commentary on private and public real estate. The information below reflects the most recent data available.

Private Real Estate

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI), which tracks private real estate in the U.S., gained 2.9 percent during Q4. The total return is composed of 1.2 percent income and 1.7 percent property-level appreciation. Over the trailing one-year period, the Index gained 13.3 percent, composed of 8.0 percent property-level appreciation and 5.0 percent income.*

In the regions of the U.S., the West performed the best during Q4 and over the last 12 months, as shown in the adjacent table.

Property valuations continue to strengthen due to solid operating fundamentals supported by modest economic growth, limited new supply deliveries, availability of credit, and demand from investors for prime assets. On average, private core real estate values are 20 percent above the peak levels reached in 2007. Supply is growing in markets with strong tenant demand, albeit more slowly than in previous cycles with the exception of the apartment sector. There is also increasing supply in the office and industrial sectors while retail is only slowly recovering even though its operating performance has been strong. The growth in hotel supply has been modest with the exception of New York City.

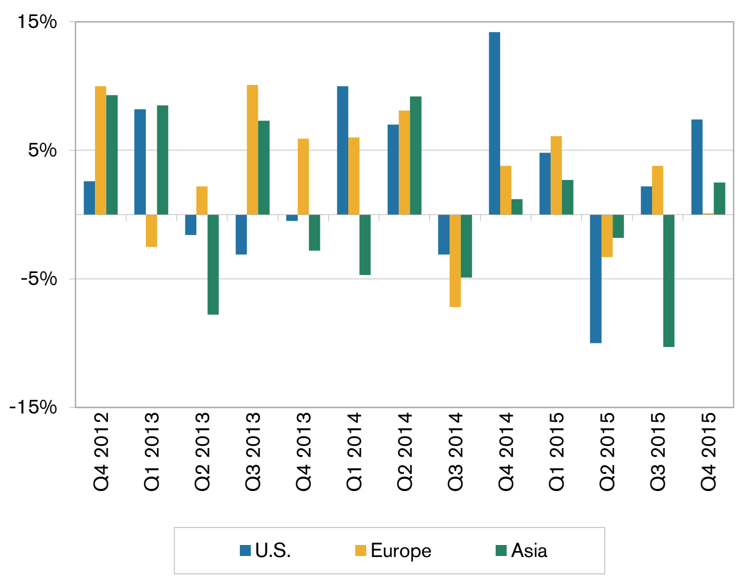
* Does not add up to total due to rounding.

National Property Index Sector and Region Performance

		Returns as of Q4 2015	
	Ending Weight (%)	QTD (%)	1 Year (%)
NCREIF NPI Total Return	100.0	2.9	13.3
Sector			
Apartment	24.0	2.7	12.0
Hotel	1.2	3.0	13.2
Industrial	14.4	3.2	14.9
Office	37.1	2.6	12.5
Retail	23.3	3.5	15.3
NCREIF Region			
East	33.3	2.3	11.3
Midwest	9.4	2.4	12.1
South	20.4	3.0	14.0
West	36.9	3.6	15.2

Source: National Council of Real Estate Investment Fiduciaries

Regional Real Estate Securities Performance



Source: National Association of Real Estate Investment Trusts

Public Real Estate

The FTSE EPRA/NAREIT Global Developed Real Estate Index total market capitalization increased to $1.3 trillion in Q4, broken down as follows: North America $724 billion, Europe $223 billion, and Asia $339 billion. Reduced investor concern over economic growth in the U.S. as well as an improving economic outlook for Asia led to a 4.4 percent gain on a global basis in Q4. The U.S. (7.4 percent) outperformed Asia (2.5 percent) and Europe (0.1 percent) as measured by the FTSE EPRA/NAREIT indices. Sector performance in the U.S. was mostly positive: Self Storage (16.8 percent), Student Apartments (16.3 percent), Data Centers (15.7 percent), Industrial (9.7 percent), Shopping Centers (9.3 percent), Manufactured Home Communities (9.1 percent) and Primary CBD Office (9.1 percent) outperformed the broader index while Lodging (-2.3 percent), Diversified/Financial (-1.5 percent), Healthcare (2.6 percent), Secondary CBD/Suburban Office (6.3 percent), and Regional Malls (6.6 percent) lagged the index.

Property stocks in Europe were supported by a continuation of the region's economic recovery, but this was offset by concerns over slowing net asset value growth in the U.K. In Europe, Sweden (11.3 percent), Finland (7.4 percent), Switzerland (7.2 percent), Belgium (6.3 percent), Ireland (6.2 percent) and Austria (5.2 percent) outperformed in Q4, while Greece (-9.9 percent), the U.K. (-4.2 percent), Norway (-2.6 percent), the Netherlands (-0.5 percent), and France (-0.3%) underperformed. In Asia, New Zealand (15.8 percent), Australia (9.6 percent), and Singapore (7.7 percent) outperformed while Hong Kong (-0.5 percent) and Japan (0.3 percent) lagged the region.

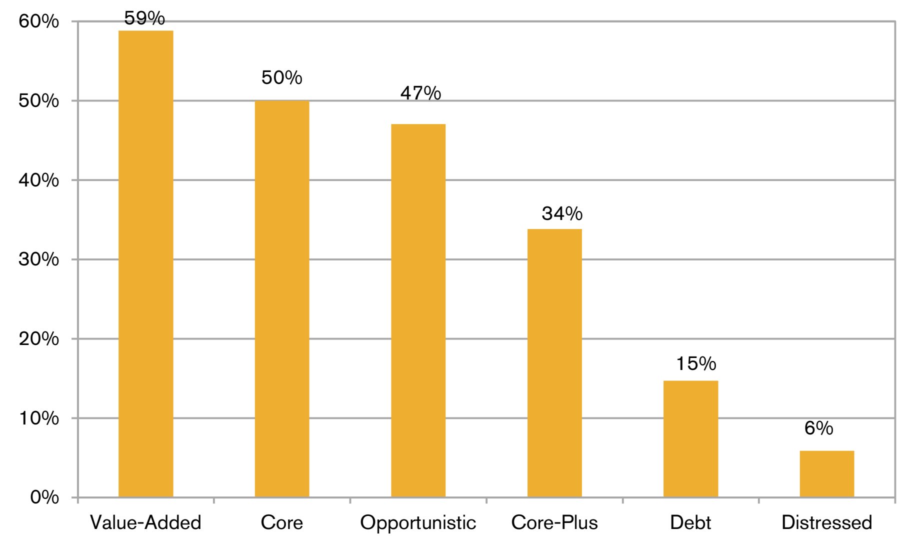
Investment Performance: Real Estate

This page presents data and Rogerscasey's commentary on value-added and opportunistic real estate. The information in this section reflects the most recent data available.

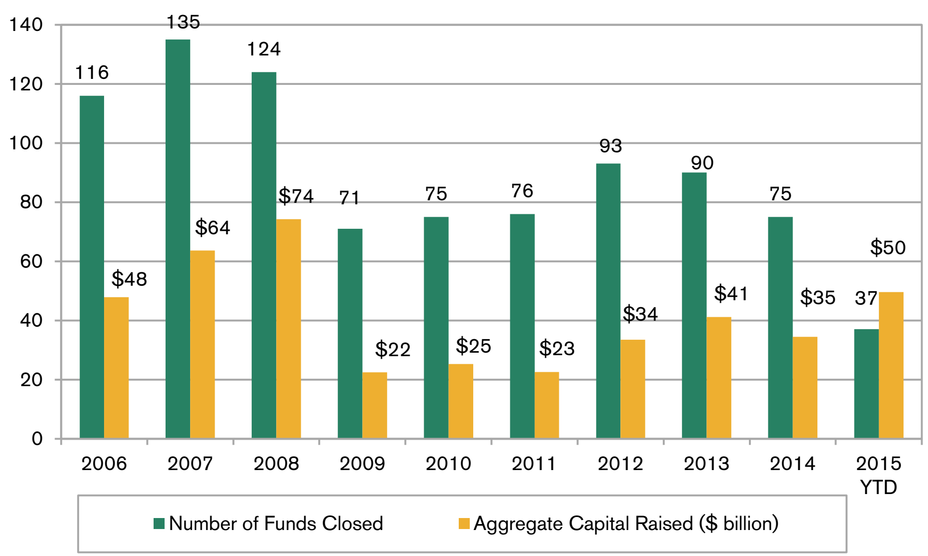
Value-Added and Opportunistic Real Estate

Investors continued to move up the risk/return spectrum due, in part, to the concern at some institutions with the pricing of core real estate assets. As shown in the graph at right, 59 percent of investors are targeting value-added strategies in the next year while almost 50 percent are targeting opportunistic strategies. As illustrated in the graph below at left, opportunistic fundraising continued to strengthen in 2015 with the most recent data showing 37 opportunistic closed-end private real estate funds raising $50 billion; however, the number of funds has declined as investors have allocated their capital to fewer managers, which resulted in larger funds. Blackstone raised the largest opportunistic fund in 2015 and received capital commitments totaling $15.8 billion, while Lone Star and Starwood received capital commitments of $5.8 billion and $5.6 billion, respectively. A total of 128 opportunistic funds are currently in the market targeting capital commitments of nearly $47 billion. As shown in the graph below at right, North America continues to be the primary geographic focus of opportunistic funds, although activity in Europe has been strong with $21 billion raised over the last two years. According to Preqin, investor interest in European real estate assets has increased significantly. In November 2014, 36 percent of investors targeted Europe in the next 12 months, but that number rose to 47 percent at the end of 2015.

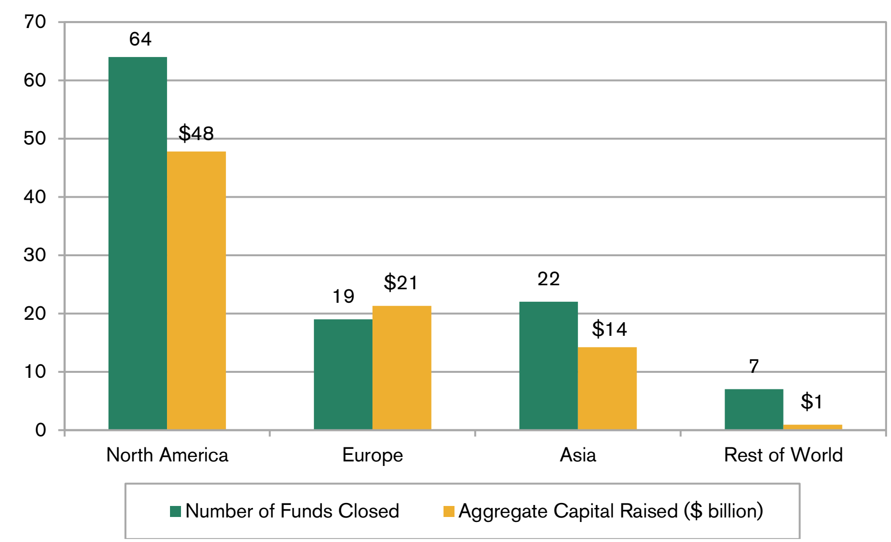
Investors Targeting Private Real Estate Funds in the Next Year



Opportunistic Closed-End Private Real Estate Fundraising



Opportunistic Closed-End Private Real Estate Funds by Primary Geographic Focus with a Final Close in 2014 and 2015



Source (this page): Preqin Real Estate Online

Noteworthy Developments

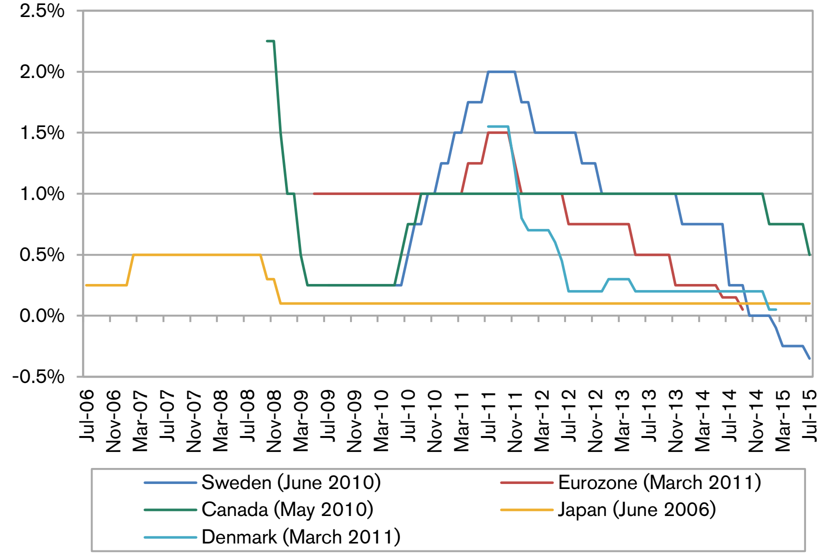
Rogerscasey finds the developments discussed in this section to be noteworthy for investors.

Fed Reaches "Lift-Off," But For How Long?

After the first interest rate increase in nine years, the Fed claims to be poised to further increase rates in 2016. Market pricing of futures contracts indicates short-term rates near 1 percent by year end. But with uncertainty about the strength of the global economy and continued market instability, there are real concerns that higher rates could be coming at a time when the economy is unable to handle them. And, as the adjacent chart shows, the recent history of rate increases followed shortly thereafter by rate reductions may portend significant headwinds for rate increases by the Fed in 2016 and beyond.

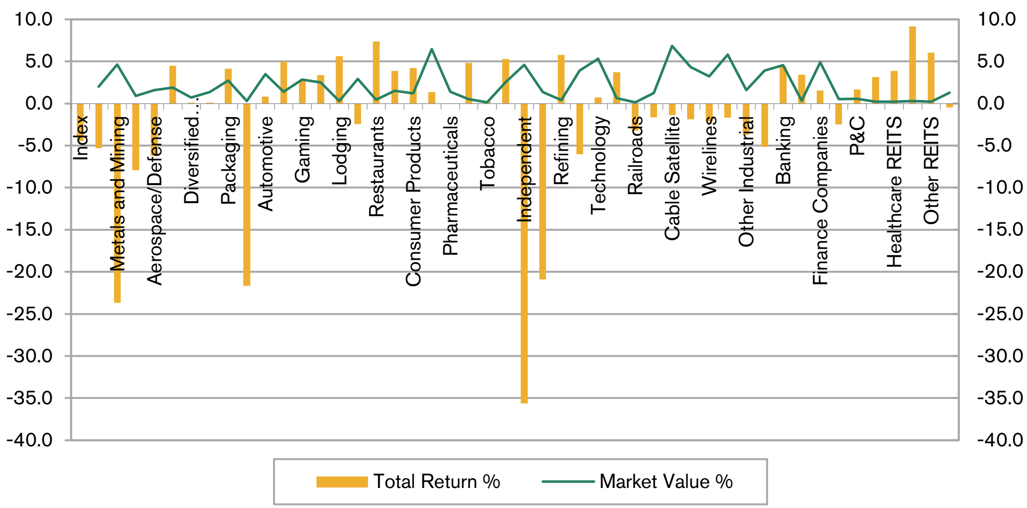
Central banks reduce rates, in some cases towards zero, to stimulate economies and avoid recessions. Retrenching out of this zero interest rate policy is often difficult for several reasons, some argue. First, central banks may place too much optimism on the effects that unconventional monetary policies (quantitative easing or QE) may have on markets, and their ability to reverse those policies. The second explanation describes rate reductions leading to a "liquidity trap" where QE measures are useless because central banks have money to lend, but no creditworthy borrowers. Lastly, increased global savings without attractive investment options creates a global low demand, slow growth environment that requires broad, coordinated action across global economies to address deficiencies. Immigration and aging demographic challenges, economic reforms and heavy government borrowing all must be a part of the equation. While there is no shortage of global QE measures, the liquidity trap explanation and savings-investment gap phenomenon may have relevance in today's global economy and interest rate environment.

Interest Rate Movement Following Central Banks' First Increase from Near –Zero Rates (%)



Sources: Central Banks, CME, Global-Rates.com

Barclays U.S. Corporate High Yield Index – Industry Returns in 2015



Source: Barclays Point

2015: A Rough Year for High Yield

While 2015 was a challenging year for high yield bonds, as measured by the Barclays U.S. Corporate High Yield Index (-4.5 percent), performance across industries varied considerably. For example, the debt of energy and commodity-oriented companies declined approximately 20-35 percent, which is in sharp contrast to that of building, home construction, and other consumer-oriented areas that increased between 3-5 percent. Given that 2015 was the first down year in the high yield market since 2008, the adjacent graph provides some transparency into the drivers of returns. This highlights the importance of credit selection in a more challenging market.

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Noteworthy Developments

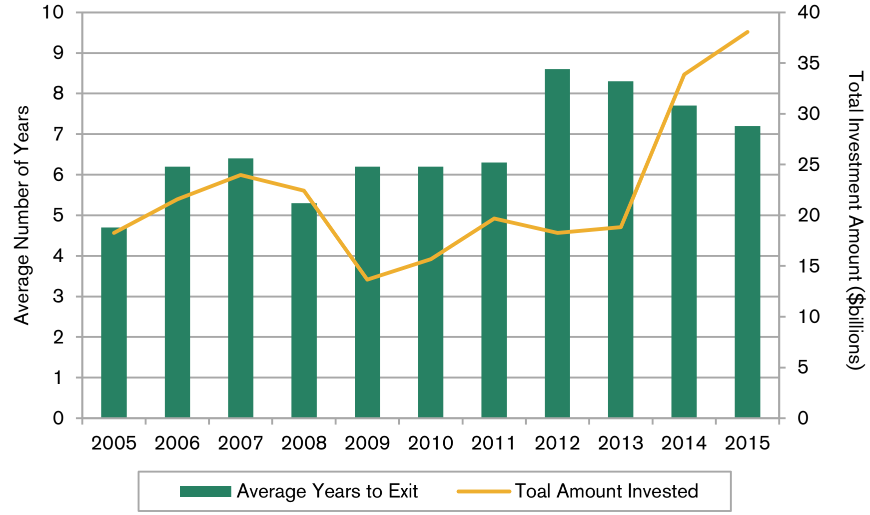
Rogerscasey finds the developments discussed in this section to be noteworthy for investors.

Venture Capital – Companies Staying Private Longer

Due to the low interest rate environment over the past few years, non-traditional investors have sought the high returns venture capital has historically offered. Since 2013, the total amount of capital invested in late and expansion stages of venture capital has increased approximately 102 percent, with the majority of the inflows from mutual funds and hedge funds. Additionally in 2015, there were 92 equity-financing rounds that raised over $100 million, compared to just 48 in 2014. The large inflow of late and expansion stage capital over the last few years has allowed venture capital-backed companies to stay private longer. In 2015, the average time to exit for a venture capital-backed tech IPO was 7.2 years, higher than the 2007 average of 6.4 years. According to a recent Fenwick & West Silicon Valley Venture Capital Survey, the percentage of series B financings* over the past decade has decreased approximately 20 percent. This decline could be attributed to companies staying private longer, resulting in an extended period between initial investment and liquidation, thereby changing the overall risk of the investment. More recently, there have been signs of a dislocation between the public and private markets, with Fidelity announcing a markdown on its stakes in Snapchat and Dropbox. In addition, Square recently priced its IPO at $9.00 a share, $6.46 a share below its last private market valuation. The recent dislocation could be a reason for the 45 percent decrease in the total amount invested in late and expansion stage venture capital in Q4 2015 compared to Q3, as investors are hesitant to continue to invest in later stage venture capital.

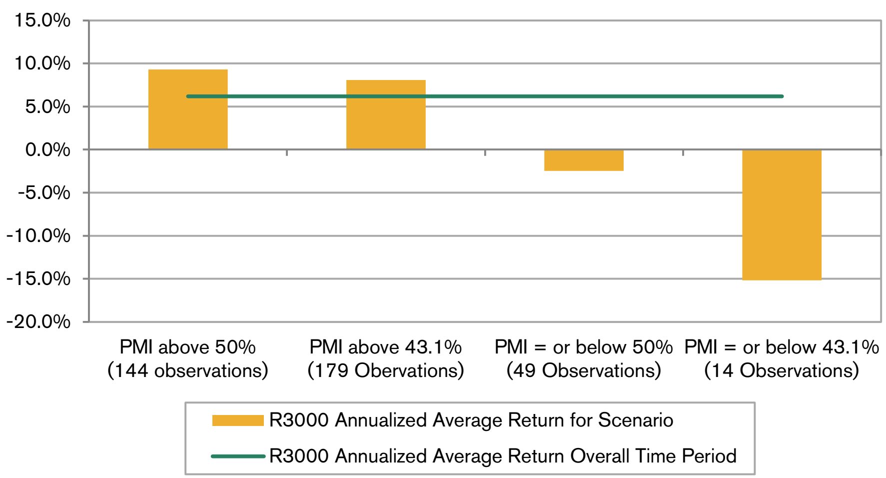
*A series B financing is a second round of financing for a business by private equity investors or venture capitalists.

Average Number of Years to Exit vs. Total Investment ($ billions)



Sources: PricewaterhouseCoopers and National Venture Capital Association MoneyTree™ Report, VC Journal, Fenwick & West Silicon Valley Venture Capital Survey

U.S. Equity Performance and PMI Level (December 1999 to December 2015)



Sources: Bloomberg and Investment Metrics

Manufacturing's Correlation to Equities

The Institute for Supply Management (ISM) Purchasing Managers' Index (PMI) is an economic indicator of the health of the manufacturing sector. PMI recently experienced a 34-month growth trend that ended in October 2015, when it entered into a two month contraction, standing at 48.2 percent on December 31, 2015. According to ISM, "A [PMI] reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting. A PMI above 43.1 percent, over a period of time, generally indicates an expansion of the overall economy."

The adjacent graph shows the annualized average performance of U.S. equities (as measured by the total return of the Russell 3000) when PMI was above or below 50 percent and 43.1 percent for the period December 1999 to December 2015. While there are more observations during this period when PMI was above 50 percent and 43.1 percent, the graph shows that equities tended to outperform their average when PMI was at least above 43.1 percent, and underperformed when PMI was below 43.1 percent.

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