CAPITAL MARKETS REVIEW

4th Quarter 2015

December 31, 2015

OVERVIEW

World equity markets rallied in October following a period of heightened volatility during the prior quarter. Positive price momentum proved to be short lived, however, as most markets gave back a significant portion of early gains by quarter's end. As a whole, 2015 had few bright spots. Headwinds included substantial US dollar strengthening, diverging central bank monetary policies, commodity market dislocations, and emerging market asset volatility. World equity, bond, and commodity markets each ended the year in negative territory, with commodities and emerging market equities suffering the largest declines. The S&P 500 barely bucked the trend, finishing the year with marginal gains.

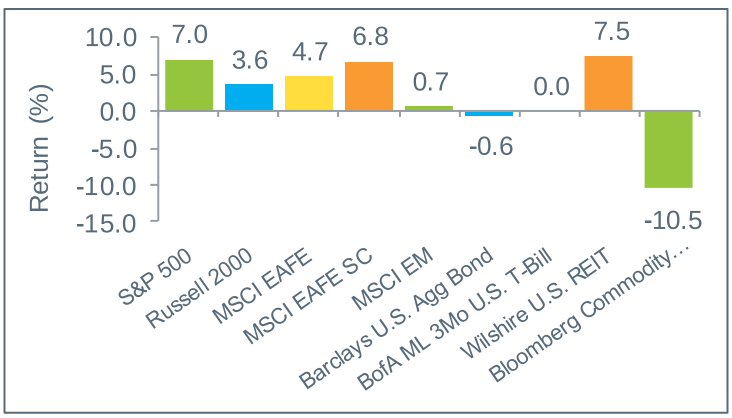
In a move that was widely anticipated, the Federal Reserve Open Market Committee (FOMC) voted to raise the benchmark Federal Funds rate by 25 basis points during its December meeting. In the Fed's view at the time, economic conditions in the United States continued on a path consistent with a gradual firming of monetary policy. The FOMC meeting minutes referenced ongoing job gains and declining unemployment as evidence of stronger labor market utilization, while also noting that concerns regarding below-target inflation readings were alleviated by the transitory effects of falling commodity prices on CPI. Economic data released shortly after the FOMC meeting were largely supportive of the Fed's view. Non-farm payrolls were up 292,000 in December, the unemployment rate held steady at 5.0%, and the December ISM non-manufacturing reading of 55.3 indicated expansion. On the flipside, the ISM Purchasing Managers Index (PMI), which measures the health of the manufacturing sector, showed weakness with a reading of 48.2, a post-recession low. Market-based measures of inflation expectations were up modestly during the quarter, but still remain low from a historical perspective. 10-year break-evens imply a 1.6% inflation rate, which is up from 1.4% at the end of the third quarter.

In Europe, Mario Draghi and the European Central Bank (ECB) expanded monetary stimulus measures, extending the Quantitative Easing program by six months and lowering the deposit rate to -0.3%. The immediate market reaction was negative, however, as the market had priced in greater easing. As a result, European equities fell by more than 3% and the euro appreciated versus the US dollar on the day of the announcement. Despite the negative market reaction, economic conditions in the Eurozone appear to be improving, with December's Markit PMI of 54.3 indicating moderate expansion. In China, pressure on foreign exchange reserves driven by the US dollar peg led the People's Bank of China (PBoC) to formally adjust its currency management strategy, shifting to a trade-weighted basket of currencies to manage the value of the yuan.

Trailing Period Market Performance (%)

	QTD	CYTD	1 Year	5 Years	10 Years
S&P 500	7.0	1.4	1.4	12.6	7.3
Russell 2000	3.6	-4.4	-4.4	9.2	6.8
MSCI EAFE	4.7	-0.8	-0.8	3.6	3.0
MSCI EAFE SC	6.8	9.6	9.6	6.3	4.6
MSCI EM	0.7	-14.9	-14.9	-4.8	3.6
Barclays U.S. Agg Bond	-0.6	0.5	0.5	3.2	4.5
BofA ML 3Mo U.S. T-Bill	0.0	0.1	0.1	0.1	1.2
Wilshire U.S. REIT	7.5	4.2	4.2	12.4	7.3
Bloomberg Commodity Index	-10.5	-24.7	-24.7	-13.5	-6.4

Quarter-to-Date Performance (%)



KEY ECONOMIC INDICATORS

		As of	9/30/2015	6/30/2015	10 Year Average
Federal Funds Rate	0.20%	12/31/2015	0.07%	0.08%	1.32%
Treasury - 1 Year	0.65%	12/31/2015	0.33%	0.28%	1.33%
Treasury - 10 Year	2.27%	12/31/2015	2.06%	2.35%	3.14%
Treasury - 30 Year	3.01%	12/31/2015	2.87%	3.11%	3.88%
Breakeven Inflation - 1 Year	0.85%	12/31/2015	-1.75%	0.73%	1.00%
Breakeven Inflation - 10 Year	1.58%	12/31/2015	1.43%	1.89%	2.11%
Breakeven Inflation - 30 Year	1.76%	12/31/2015	1.63%	2.03%	2.33%
Barclays US Corp: Hi Yld Index - OAS	6.60%	12/31/2015	6.30%	4.76%	5.78%
Capacity Utilization	76.95%	11/30/2015	77.86%	77.50%	76.73%
Unemployment Rate	5.00%	12/31/2015	5.10%	5.30%	7.00%
ISM PMI - Manufacturing	48.20%	12/31/2015	50.20%	53.50%	52.20%
Baltic Dry Index - Shipping	478	12/24/2015	900	800	2,769
Consumer Confidence (Conf. Board)	96.50	12/31/2015	102.60	99.76	75.27
CPI YoY (Headline)	0.50%	11/30/2015	0.00%	0.10%	2.00%
PPI YoY - Producer Prices	-3.20%	11/30/2015	-4.10%	-2.60%	2.40%
US Dollar Total Weighted Index	$94	12/31/2015	$92	$90	$78
WTI Crude Oil per Barrel	$37	12/31/2015	$45	$59	$81
Gold Spot per Ounce	$1,061	12/31/2015	$1,115	$1,172	$1,140

ASSET CLASS COMMENTARY

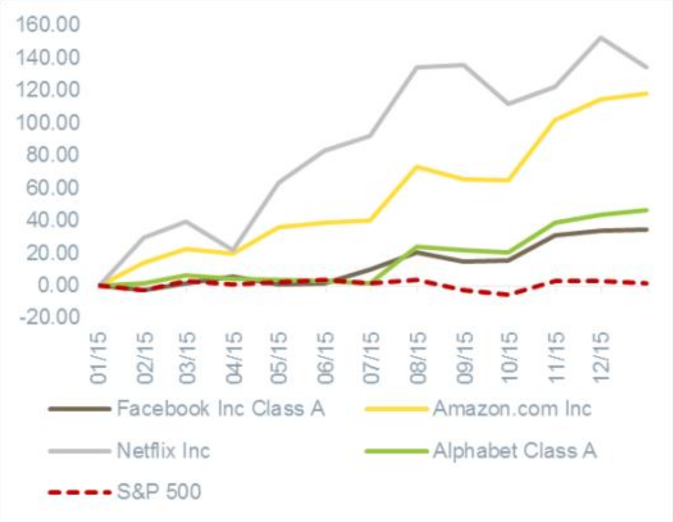
US Equity

The US equity market recovered during the fourth quarter, erasing losses incurred during the global sell-off in August. Despite poor performance in November and December, the Russell 3000 Index delivered strong returns in October and finished the quarter up 6.3%. The strong fourth quarter lifted the broad US equity market into positive territory for the year, with the Russell 3000 Index posting a return of 0.5% for 2015. While the index avoided a loss, 2015 marked the lowest calendar year return for the index since 2008.

Growth leadership persisted across the market cap spectrum and large-cap stocks continued to outpace small-cap. Mega-cap names provided the strongest returns during the fourth quarter with the Russell Top 50 Index returning 9.3% during the time period. Performance dispersion between S&P 500 Index constituents was high as a small number of stocks accounted for the majority of index performance. The S&P 500 equal-weighted index returned -2.2% during 2015, versus its market cap-weighted counterpart, which finished the year ahead 1.4%. Additionally, the top ten largest stocks in the S&P 500 Index averaged a 23.4% return for the year, while the remaining 490 stocks averaged a -2.0% return.

Figure 1 illustrates cumulative performance of "FANG" stocks (Facebook, Amazon, Netflix, and Google [Alphabet]) in 2015. This list, along with a few other high flying stocks, are primarily responsible for the positive performance of US equity markets.

Figure 1: FANG Cumulative Performance



Non-US Equity

Developed international equity markets finished the quarter in positive territory after a strong start in October. Growth continued to outperform value, resulting in increased style dispersion. In contrast to the US, small-cap stocks outperformed large-cap stocks. Returns in most developed markets were positive with only a few countries lagging the general market. Central bank policies continued to diverge with monetary stimulus continuing in Europe but pausing in Japan. Third quarter GDP data was revised upward by the Bank of Japan.

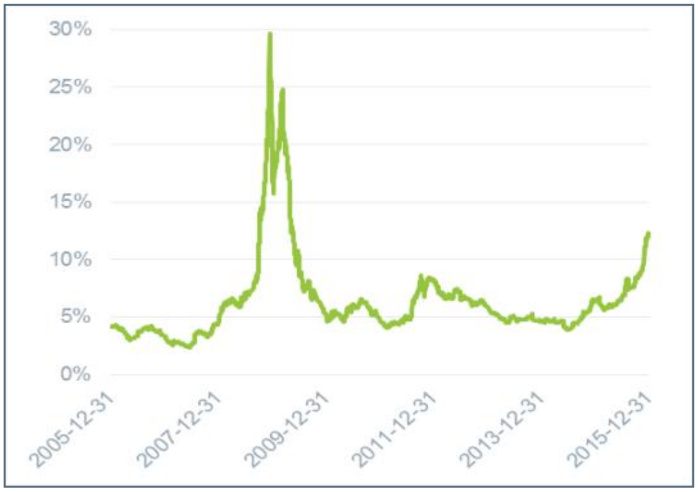
Emerging markets equity lagged their developed counterparts by a wide margin but still delivered slightly positive returns during the quarter. Continuing the trend from the prior quarter, growth stocks outperformed value stocks and small-cap stocks outperformed large-cap stocks. Greece continued its downward spiral and was the worst performing emerging market country this quarter. Prior to the selloff in 2016, China was the strongest contributor to performance among emerging market countries in the fourth quarter. A key driver was an acceleration of domestic consumption, evidenced by retail sales growing much faster than the overall economy.

Fixed Income

The Barclays US Aggregate Bond Index finished the quarter and year with relatively poor returns of -0.6% and 0.6%, respectively. US Treasurys posted negative returns as yields rose across all maturities. Among corporate bonds, the financial institutions sector significantly outperformed industrial and utilities sectors for the quarter and the year. Securitized debt, including MBS, CMBS, and ABS, were less sensitive to interest rate increases and ended the year as some of the better performing investments within fixed income.

The BofA ML US High Yield Master II Index returned -4.6% for the year, as the US high yield market continued to suffer from depressed oil and commodity prices. The spread between BB-rated and CCC-rated bond yields, shown in **Figure 2**, widened significantly during the quarter, as investors began predicting a higher default rate in the upcoming year. Accordingly, BB-rated bonds returned -1.0% vs. -12.1% for CCC-rated bonds.

Figure 2: BB and CCC Bond Yield Spread



The S&P LSTA Leveraged Loan Index returned -0.7%, outperforming the high yield index for the first calendar year since 2005.

Currency fluctuations continue to drive global bond returns. As the dollar strengthened during the quarter, the Citigroup World Government Bond Index returned -1.2% and ended at -3.6% for the year. Weakness in emerging markets and a fairly aggressive trend of devaluation among emerging market currencies caused the JPM GBI-EM Global Diversified Index to finish the year at -14.9%, the worst calendar year return since the inception of the local currency index.

Diversified Hedge Funds

Hedge funds returns were mixed for the fourth quarter, capping off a year that saw a widening of dispersion across hedge fund strategies. Outsized equity market gains in the month of October were a relative detractor, as many hedged equity managers de-risked portfolios following drawdowns in the third quarter. This dynamic was similar to the one that played out in 2011. However, unlike in 2011, long/short equity managers were largely positive on the year. Managers tracked closely by RVK were generally able to generate alpha in both long and short positions over the course of the year. In contrast, multi-strategy manager returns varied widely depending on investment style. As a whole, however, both of these groups largely outperformed global equity markets as measured by the MSCI All Country World Index. Other hedge fund strategies struggled to perform in 2015. Distressed debt was the worst performing strategy for the quarter and year, returning -3.6% and -8.4%, respectively. Macro strategies had a similarly difficult quarter, as result of unexpected trends in European currency and bond markets following a weaker than expected easing announcement from the ECB in December. FoHF managers with sizeable allocations to equity-oriented strategies performed well on a relative basis, while those focused more on credit and macro were more likely to end the year in negative territory.

GTAA

Diversification did not reward investors in 2014, and 2015 saw a continuation of a similar theme wherein most GTAA managers underperformed a standard 60/40 blend. In the fourth quarter, performance varied widely among GTAA managers; outperforming strategies included those that avoided foreign equities or hedged currency volatility. Managers with significant allocations to emerging markets equity due to an expected reversion to the mean in valuation or that relied on short US equity exposure in favor of other regional exposures provided the highest level of underperformance. Risk parity managers provided disparate returns with most poor performers suffering from difficult performance in credit-sensitive fixed income, TIPS, and non-US equity.

Real Return

In a year with historically low inflation expectations, strategies designed to protect against inflation underperformed by a wide margin. Deflationary headwinds included a strengthening US dollar, sharp declines in commodity prices, and weakening growth expectations for major exporting nations. The sharp decline of crude oil prices was perhaps the most obvious source of deflationary pressure in the fourth quarter and throughout 2015. At the end of 2015, West Texas Intermediate (WTI) Crude Oil was priced at just $37 per barrel, compared to $91 in September 2014 and $53 at the end of 2014. Partially a consequence of declining commodities prices, market expectations of future inflation remains low. Due to a weak inflationary environment, inflation protection strategies provided a sub-par quarter and calendar year. REITs allocations were a bright spot while MLP, commodities, and natural resource equity exposures detracted significantly. Managers with larger REIT and TIPS exposure fared a little better, but most strategies were down substantially with narrow divergence.

Real Estate

As a result of continued demand for well-occupied, well-located property, core real estate investors were rewarded with strong positive returns in the fourth quarter. In particular, the NCREIF-ODCE Index marked its 24th consecutive quarter of gains with an estimated 3.3% return. While the index had its sixth straight year of double-digit returns, the trailing twelve month income component of the benchmark decreased from 6.6% to 4.8% in that timeframe. This decline demonstrates the value that investors place on yield, and are willing to pay higher prices for properties as a result. Listed real estate rebounded with a 7.1% quarterly return as measured by the FTSE NAREIT All REITs index, with a dividend yield of 4.3%.

Even as US property valuations surpass all-time peak levels, as measured by capitalization rates, fundamentals amongst major property types remain strong. In the office sector, leasing activity experienced its single highest quarterly mark since 2007, while average rents increased 3% over the prior year. Furthermore, the apartment sector experienced a year-over-year average rent increase of 4.7% during the fourth quarter, with vacancies holding steady at 4.4%. Despite record-level property valuations and transaction levels, real estate investors currently hold $252 billion in dry powder, compared to $196 billion in the prior year, indicating continued appetite for investment into real estate.

DISCLAIMER

This document was prepared by RVK, Inc. (“RVK”) and may include information and data from Axiometrics, Bloomberg, CBRE, FRED, JLL, Merrill Lynch, Morningstar Direct, NCREIF, Preqin, and RCA. While RVK has taken reasonable care to ensure the accuracy of the information or data, we make no warranties and disclaim responsibility for the inaccuracy or incompleteness of information or data provided or for methodologies that are employed by any external source. This document is not intended to convey any guarantees as to the future performance of investment products, asset classes, or capital markets.

About RVK

RVK was founded in 1985 to focus exclusively on investment consulting and today employs over 100 professionals. The firm is headquartered in Portland, Oregon, with regional offices in Chicago and New York City. RVK is one of the ten largest consulting firms in the US (as defined by Pensions & Investments) and has a diversified client base of over 190 clients covering 28 states. This includes endowments, foundations, corporate and public defined benefit and contribution plans, Taft-Hartley plans, and high-net-worth individuals and families. The firm is independent, employee-owned, and derives 100% of its revenues from investment consulting services.