2017 Capital Markets Forecast

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EXECUTIVE SUMMARY

Long-Term Forecast

Syntrinsic continues to see a long-term capital markets environment driven by muted global economic growth and historically low interest rates.

- Our ten year global equity return forecast was only slightly reduced to 6.7% - 7.7%, with expectations for foreign developed equity slightly outpacing US equity expectations, and emerging market equity assumptions materially higher than those for developed markets, coming in at 8.5% - 10.5%.
- Following a volatile year for global interest rates, we continue to expect low returns in global fixed income over the decade to come. Looking forward, global aggregate bond return projections are 1.3% - 2.3% annualized, with meaningfully better expectations for US bond returns relative to lower yielding foreign issuers. Of course, additional return may also be possible through overweights to corporate and emerging market issuers.
- The same factors that impact our equity and fixed income outlook also affect listed real estate, commodities, and hedge fund strategies, reducing our ten year forecasts in those asset classes by about 0.5% - 1.0% per year.

Near-Term Sentiment

Over the next three years, Syntrinsic sees dramatically increased political and policy uncertainty around the world as an additional challenge for the capital markets. Central bank policies continue to meaningfully impact markets while challenges to the institutions and agreements that have come to define globalization are on the upswing across the developed world.

- Our near-term sentiment for developed markets have come down since last year, leading us to a Neutral/Positive outlook for the US and a Neutral outlook for Europe, the UK, and Japan. Conditions in the emerging markets have improved with commodity price stabilization, improving our outlook to Neutral from our less favorable view last year.
- Relative to other asset classes, we remain positive on global equities, though no one region displays renewed strength or weakness as to cause us to change our regional biases.
- While Syntrinsic's has a negative outlook on the bond market over the next three years we continue to recognize the benefit of fixed income as a worthwhile diversifier, particularly if investors take advantage of the most compelling corporate and sovereign issuers.
- Even though our near-term sentiment on listed real estate and hedge fund strategies has moderated modestly, we remain slightly positive on both asset classes. The underlying supply/demand fundamentals for real estate remain strong driving near-term earnings growth.

Forecasting Long-Term Returns

Syntrinsic evaluates expected returns, volatility, and correlations across global capital markets in order to better understand the investment tools available that may help our clients meet their objectives.

Long-term forecasting (10+ years) of capital market returns serves as the foundation of the portfolio construction process, informing high level asset class decisions across portfolios.

Near-term performance will seldom reflect long-term forecasts and for this reason we assess market and economic issues that may present opportunities or threats over three year periods. We seek to add value within a market cycle by tactically adding exposure to areas we think will outperform and reducing areas that have a strong likelihood to underperform.

When using forecasts for planning purposes, it is essential to recognize that returns are not guaranteed and are vulnerable to periods of significant deviation from the forecast and even loss. We expect diversification to help reduce the size and duration of these underperforming periods, but recognize that such periods are not always avoidable. The value of long-term forecasting is only significant if investors have the patience to allow long-term fundamentals to play out.

Long-Term Returns Forecast

Global Equity Forecast

Syntrinsic bases the global equity forecast on regional expectations for real growth, inflation, and yield. We also take into account foreign economic exposure of regional equity markets. While the factors that inform these numbers are dynamic and can change from year to year, the size of such changes normally will be small. In our near-term sentiment, we account for more cyclical factors such as expectations for changes in margins and valuations.

Exhibit 1: Syntrinsic Economic Growth Assumptions

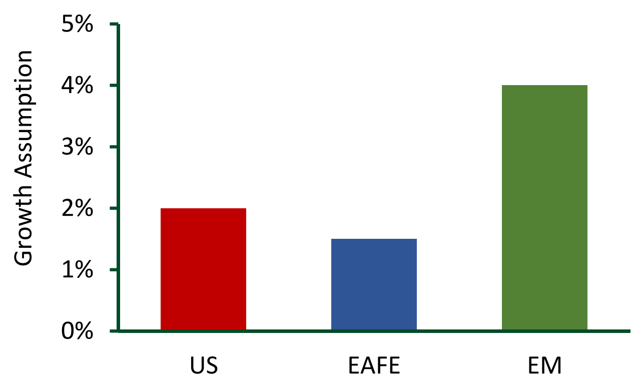


Exhibit 1 outlines Syntrinsic's real growth assumptions for the US, foreign developed economies ("EAFE"), and the emerging markets ("EM"). Consistent with consensus expectations, we expect modest long-term real growth potential based on slowing global trends across demographics, growth, and productivity. The recent near-term improvements to consensus expectations would be included in our outlook only if policy-level discussions were to develop into real policy action.

Exhibit 2: Syntrinsic Inflation Assumptions

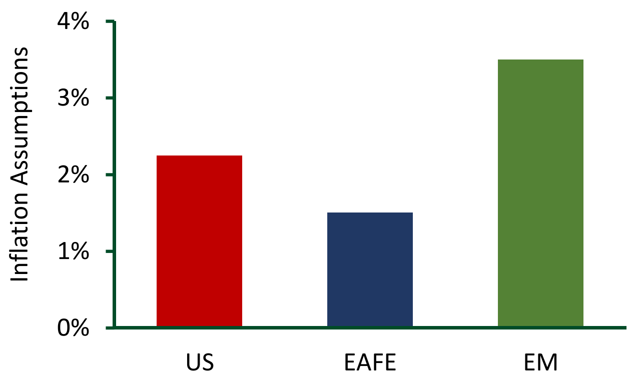
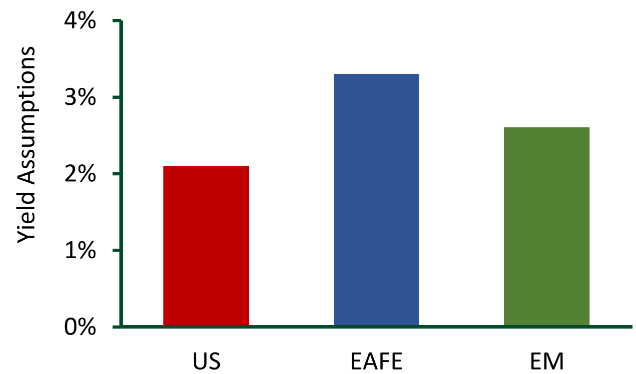


Exhibit 2 outlines Syntrinsic's inflation assumptions. Our expectations are unchanged from last year and continue to be at a slight discount to historical inflation levels due to the same factors discussed in our growth outlook.

Exhibit 3: Syntrinsic Dividend Yield Assumptions



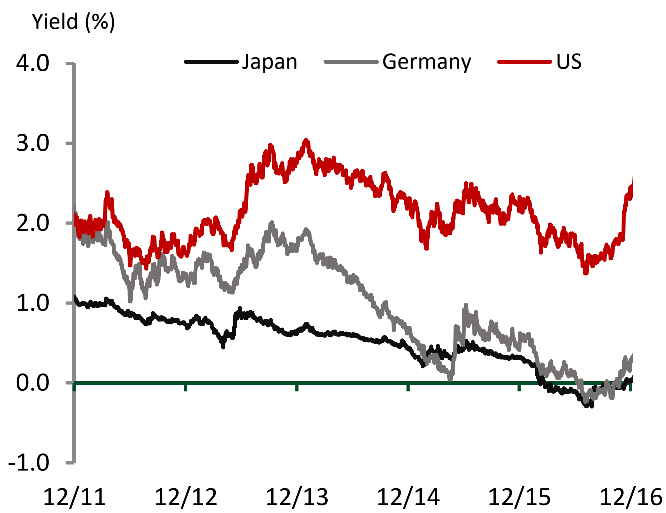
In Exhibit 3, we show our expectations for equity dividend yields. Without a strong reason to expect material changes to corporate behavior on dividend distributions, we continue to use current equity yields. If the current trend continues, increased dividends in Japanese companies may possibly increase foreign developed ("EAFE") yield expectations.

Asset Class	Segment	Long-Term Forecast (10 Years)	Rationale
GLOBAL EQUITY FORECAST	Global Equity	6.7% - 7.7%	Syntrinsic estimates global equities should have an average annual return from 6.7% to 7.7%. The forecast range assumes a market weight to equities based on global market capitalization as well as adjustments to account for global trade. The potential for alpha through active security selection is not accounted for in the forecast.
	United States	6.3% - 7.3%	We expect real growth to be slightly lower than historical averages as demographics, reduced labor participation levels, and reduced productivity growth pose downside risk. Inflation is expected to be slightly below recent averages while dividend yields are assumed to be consistent with recent levels. Equity valuations and profitability are near levels expected in healthy markets and neither add nor detract from potential returns.
	Foreign Developed	6.6% - 7.6%	The growth and inflation assumptions for foreign developed equity returns remain mature and lower than those for the US; however, revenue exposure to US and emerging economies and a persistent dividend advantage support the net return assumption. Inflation is expected to improve but not back to historic levels. The dividend yield is assumed unchanged.
	Emerging Markets	8.5% - 10.5%	While we expect growth in the emerging Markets (“EM”) to continue decelerating from previous levels of higher growth, EM growth remains faster than developed markets. Inflation continues to moderate and we expect inflation to be lower than recent averages. We estimate that dividend yields will remain unchanged from recent levels. Return assumptions continue to modestly slow as emerging Markets transition toward more mature growth rates.

Fixed Income Forecast

The forecast for fixed income is based on the current yield environment and expectations for change in global interest rates. We regularly model several scenarios across the fixed income universe (e.g. short-term, intermediate, corporate and international) incorporating different interest rate environments from strong expansion to moderate growth as well as a recession scenario. Based on this analysis, we recognize there is a high degree of uncertainty around near-term fixed income performance; that said, over the longer term it is difficult to anticipate a meaningful deviation from the current yield.

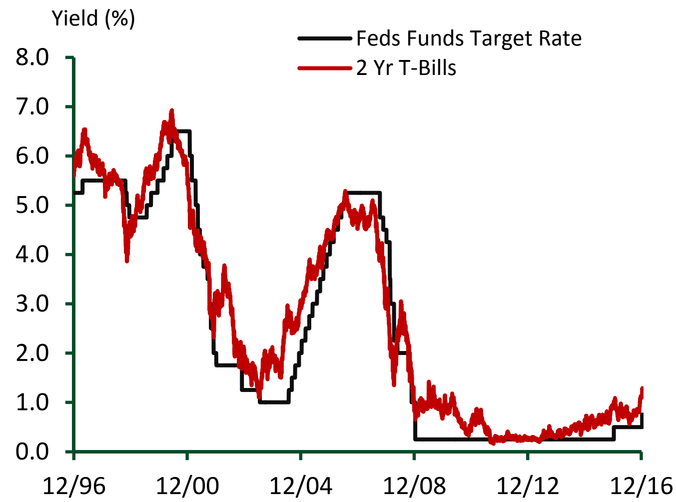
Exhibit 4: Ten-Year Sovereign Bond Yields



Source: Bloomberg

Exhibit 4 underscores our preference for US fixed income over bonds from most other developed economies. While interest rates are low, they are higher in the US than most other sovereign issues.

Exhibit 5: Federal Funds Target Rate vs. 2 Year US T-Bill Yield



Source: Bloomberg

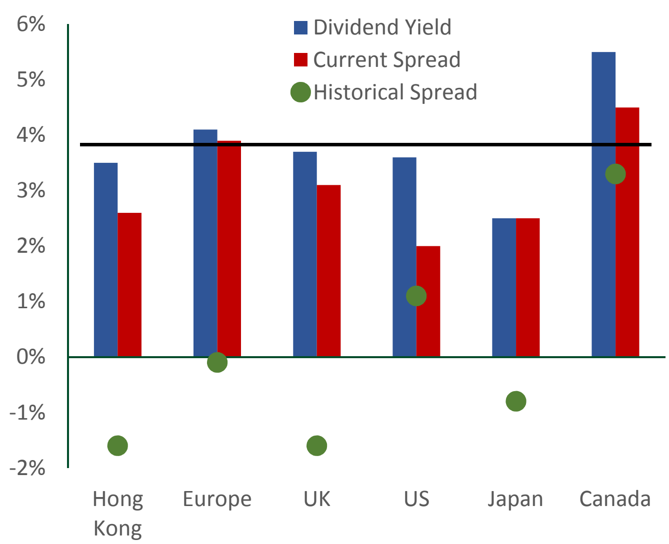
In Exhibit 5, we chart the Federal Reserve's Target Rate versus the 2 Year US T-Bill yield. Our near-term economic outlook for the US supports Federal Reserve rate hikes over the next few years. We do not have that same level of confidence for the major foreign developed central banks (e.g. European Central Bank, Bank of Japan, etc.) and have thus modeled hikes into our US fixed income return outlook while relying more heavily on interest rate yield as guidance for the forecast return of foreign bonds. While we do not expect that a perfect parallel shift will occur in intermediate rates from a Fed hike, we do anticipate varying pressures across the US yield curve with continued high correlations between short-term rates and the Fed Funds Target Rate.

Asset Class	Segment	Long-Term Forecast (10 Years)	Rationale
GLOBAL FIXED INCOME FORECAST	Global Fixed Income	1.3% - 2.3%	The timing and rate of US Federal Reserve interest rate changes will play a significant role in both long and near-term fixed income returns. We have made a conservative estimate in light of this relatively uncertain dynamic by modelling a moderate rise in domestic rates earlier in the forecast period while using the current yield as a guide for foreign bonds. The class level return is based on the Barclays Global Aggregate Index which is biased towards low yielding sovereign bonds from developed countries.
	US Short–Term	2.3% - 2.8%	The yield on US short-term debt remains low (Exhibit 5), and currently are below our long-term forecast. We have assumed the Fed will gradually tighten policy and push up short-term yields for higher future reinvestment.
	US Core	2.3% - 3.3%	We expect only modestly higher rates for core bonds due to average US growth and inflation expectations, (Exhibits 1 and 2), combined with attractive yields relative to foreign bonds (Exhibit 4). The higher duration and uncertainty of the path of rate increases make it difficult to expect returns much beyond yield.
	US Core Plus	3.3% - 4.3%	Core plus bonds provide fewer opportunities than they did earlier in the cycle, but we still expect additional value (and risk) over Core Bonds through a greater opportunity set of issuer quality, structure, and yield.
	Foreign Developed	0.5% - 1.0%	Yields are low as major sovereign issuers engage in significant stimulus measures. We are taking a conservative approach by not crediting long-term returns above current rates due to uncertainty of the future size and duration of these extraordinary central bank policies.
	Emerging Markets	5.0% - 7.0%	Differentiation of credit quality, interest rate policy, and yield among emerging bond issuers is significant. Yields remain well above developed market averages. Elevated levels of uncertainty regarding domestic rates, currencies, and political situations keep us close to the current yield as a base case.

Real Assets and Hedge Fund Strategies Forecast

Our starting place for evaluating listed real estate, similar to global equities, is current global yields (Exhibit 6).

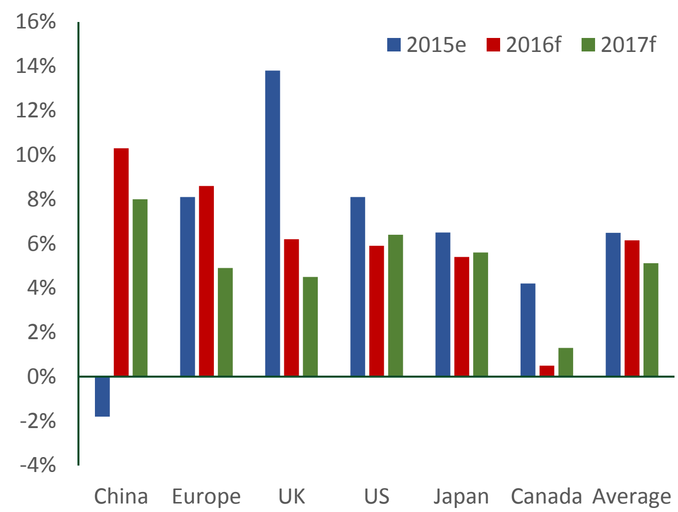
Exhibit 6: Global Real Estate Dividend Yields



Source: CBRE Clarion, FactSet and Bloomberg as of 9/30/16

From there, we evaluate underlying real estate supply and demand fundamentals and earnings growth forecasts. In the near-term, earnings forecasts are expected to be closer to 6%, given the lack of real estate supply in the marketplace (Exhibit 7). However, when evaluating over a long-term period, we expect growth to moderate and revert to historic levels of 2% - 3%.

Exhibit 7: Global Real Estate Earnings Growth



Source: CBRE Clarion as of 9/30/16

In forecasting hedge fund strategies, our core building block is equity and fixed income beta. We evaluate the historic beta and correlations to the global equity markets, fixed income market, and Hedge Fund of Fund universe to determine the appropriate beta for the different hedge fund strategies including equity hedge, market neutral, relative value, and multi-strategy. We then apply those beta estimates to our long-term return forecasts for equity and fixed income to establish a return forecast.

Finally, we assess historic alpha trends to estimate an alpha adjustment to our projected returns. The alpha adjustment is based not only on historic trends but also our overall view of hedge fund strategies and market conditions.

Asset Class	Segment	Long-Term Forecast (10 Years)	Rationale
REAL ASSETS AND HEDGE FUND STRATEGIES FORECAST	Listed Real Estate	5.5% - 6.5%	Current global yields on publically traded real estate are near 4% (Exhibit 6), while forecasted Funds From Operations ("FFO") growth remains attractive for the near-term. We estimate yields will remain in the 3.0% to 5.0% range and FFO growth to gradually decline to historic levels. Despite a lowered outlook for global growth, the lack of real estate inventory is supportive of the asset class. Valuations are not significantly different from long-term averages, leading to our assumption that multiples will not experience significant net change over the ten year time horizon.
	Commodities	2.0% - 3.0%	Recently, commodity prices have rebounded and have seen some stabilization. As recent over-production transitions towards a more balanced supply-demand dynamic, prices should be range-bound around the inflation of the marginal cost of production, which we expect to come in between 1.8% and 2.8%. We believe that positive changes in valuations are limited in the current supply / demand environment, thus limiting return potential to not much beyond inflation.
	Hedge Fund Strategies	1.8% - 5.3%	The continued divergence of performance within and across other asset classes will provide opportunities for hedge fund strategies to add modest alpha over the long-term. We expect the elevated competition for alpha to subside over the forecast horizon as competition drives managers from the space while also lowering fees to the benefit of investors. Varying degrees of beta exposure across hedged strategies also could be a source of limited return, which we estimate will range from 0.0% to 3.0%. Current cash returns are near zero but are expected to gradually rise over the long-term, offering further support for the asset class.

Forecasting Near-Term Sentiment

The near-term sentiment process seeks to identify opportunities and risks that are likely to effect performance over a three year horizon. We base our near-term outlook on a global assessment of economies health and momentum, balanced with our outlook for market fundamentals, technicals, and sentiment.

We begin with crafting our economic sentiment of the three major equity regions, the United States, foreign developed (Europe, United Kingdom, Japan), and the emerging Markets, with an emphasis on the most relevant EM economies. We seek to balance opportunities and risks to determine the general health and direction of these regions. We seek to understand the drivers of growth and inflation in these economies to build a fair and balanced outlook.

We also strive to take advantage of the markets' shorter-term considerations that can significantly impact performance of asset classes over the next three years, what we consider our investment sentiment. Central bank policies, factors diving profitability and earnings, geopolitical issues, currencies, and investor behavior are just a few of the issues that can materially alter asset class or segment attractiveness. These shorter-term considerations help shape our investment sentiment.

We consider both our economic sentiment and our investment sentiment for the three major equity regions to inform our allocation sentiment for equities, fixed income, real assets, and hedged strategies. Given the nature of near-term volatility and "noise" in the marketplace, Syntrinsic sentiment is expressed across a qualitative range from positive to negative.

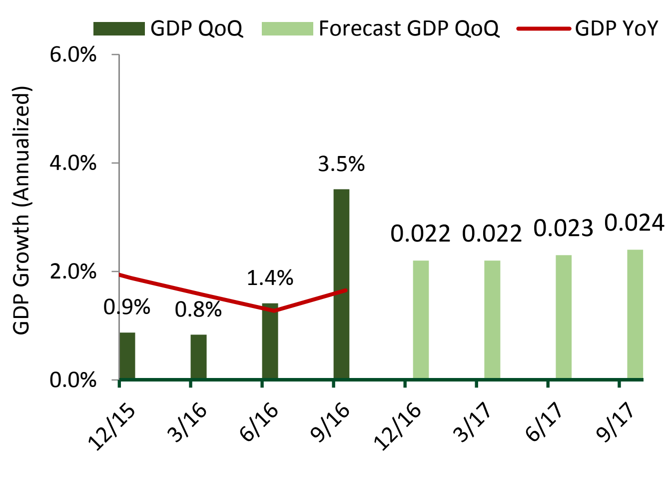
Near-Term Sentiment Forecast

United States Sentiment

Economic Sentiment	Neutral/Positive

The US Federal Reserve remains accommodative to the economic recovery and likely will continue the historically slow, gradual rise of interest rates as long as inflation and labor market data continue to move in a favorable manner. GDP growth (Exhibit 8) looks to remain low but positive for the near-term while inflationary pressures appear to be gradually rising. We believe a strengthening US economy can withstand a gradual rise in rates while the Fed appears willing to be patient about the firming of inflation. Risks include a stronger-than-expected pickup in inflation, that could cause the Fed to react with faster rate hikes that could put the already tepid economic recovery at risk.

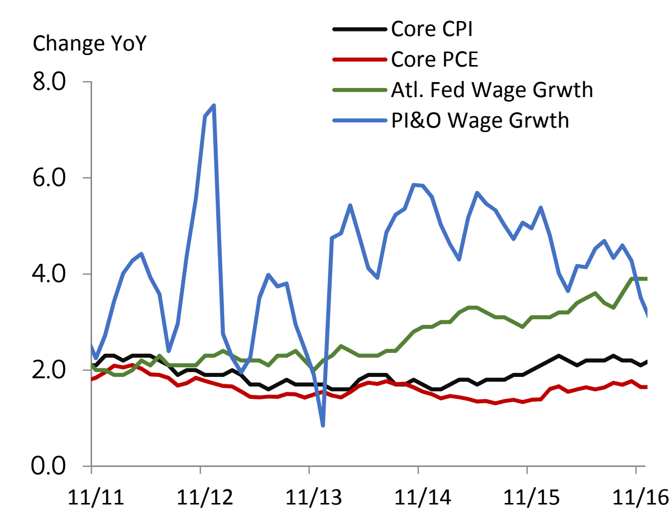
Exhibit 8: Realized & Forecasted US GDP Growth



Source: Bloomberg

US consumers are in a position to further support economic and revenue growth as labor markets remain healthy, energy costs are low, dollar strength is aiding purchasing power, and consumer sentiment is stable. These factors support the largest driver of the US economy, personal consumption. The housing sector has recovered in many areas of the country; however, strong housing price gains and higher interest rates may act to temper further progress in the sector. A wage growth picture that has lagged but is showing signs of accelerating (Exhibit 9). Relatively low energy prices should also support consumer spending, but additional material benefit from still lower oil prices is unlikely.

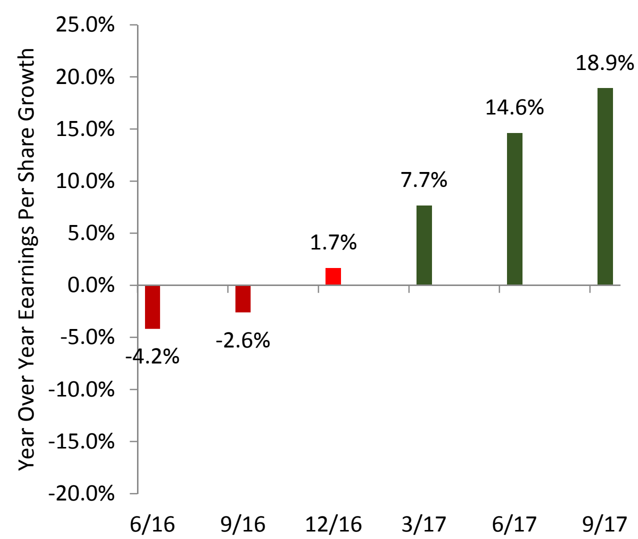
Exhibit 9: US inflation Measures



Source: Bloomberg

The US corporate picture is mixed. Most US corporations are able to service debts and maintain healthy profit margins; however, corporate debt is increasing and the earnings cycle is reaching mature stages. Also, margins could come under pressure due to rising labor and borrowing costs. Despite these pressures, and after a series of weak quarterly earnings, forward estimated Earnings Per Share (EPS) (Exhibit 10) are set to gain strength due in part to energy price stability and moderate revenue growth. Domestic demand remains stable, though a still-strong dollar could temper international demand for US goods and services, a headwind for earnings in the coming quarters.

Exhibit 10: S&P 500 Trailing & Forward Estimated EPS



Source: Bloomberg

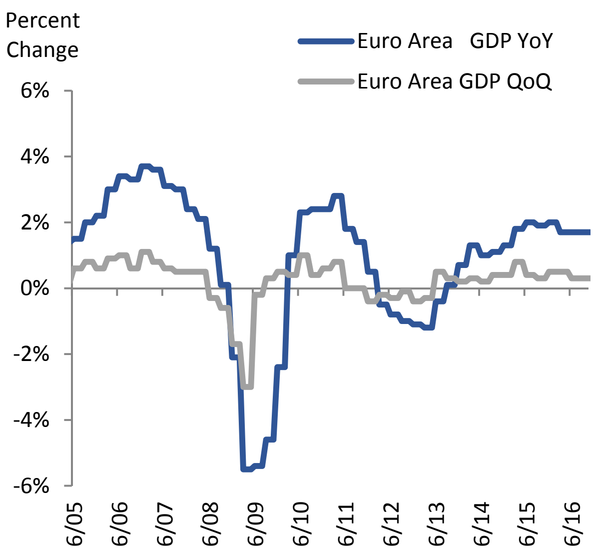
Foreign Developed Sentiment

Economic Sentiment	Neutral

We expect Europe's growth (Exhibit 11) to continue along a positive but slow path with modest improvements over the next few years. Inflation should remain positive yet slow as well. The European Central Bank (ECB) will remain in easing mode with low rates and an extended bond purchase program, though the ECB's practical limits of bond purchases is nearing. Credit demand and standards have improved and corporate surveys are indicating improvements to business activity. European consumers have seen improvements to labor markets and confidence, but will be vulnerable to political uncertainty both locally and at the EU level. There are a number of important elections nearing and while these are not expected to go against the European

Union, the relative strength of several populist candidates create sufficent uncertainty to keep our view biased toward neutral.

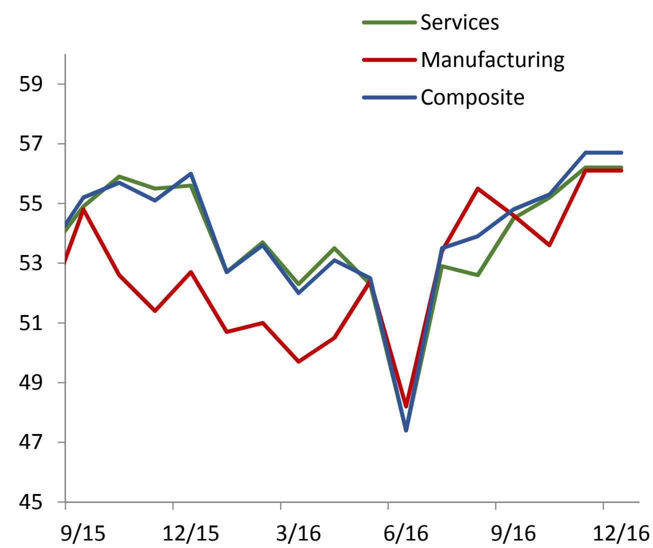
Exhibit 11: Eurozone GDP



Source: Bloomberg

Economic activity in the United Kingdom since the June 2016 Brexit referendum has been positive, with spending and investment improving as evidenced by the UK Purchasing Managers Index, (Exhibit 12). UK Economic growth should remain positive, but with some downside risk compared to recent years. Consumers have been the engine of the economy and employment remains historically strong with wages growing. The decline in the pound sterling likely will help public companies that are mostly export dependent while possibly reducing consumer spending power in inflation adjusted terms. Near-term uncertainty remains concerning the Brexit and its implications for UK consumers and companies, thus keeping us more neutral on the UK than we would be otherwise.

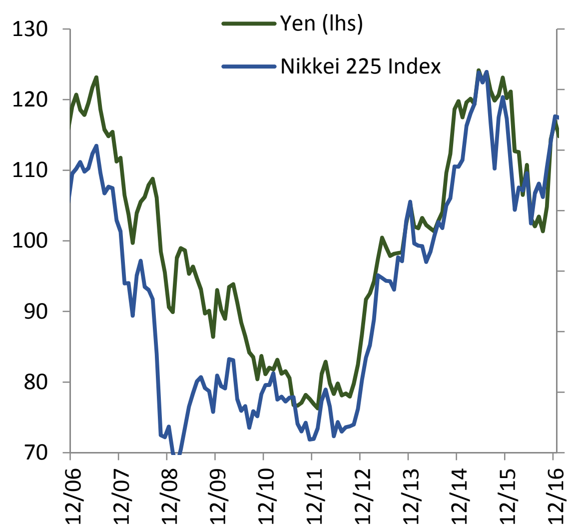
Exhibit 12: UK Purchasing Managers Index



Source: Bloomberg

In Japan, we expect positive slow growth to continue with ongoing dedication to extraordinary stimulus and reform efforts. We do not expect inflation to meet the Bank of Japan's (BoJ) target and thus expect the central bank to continue support through yield curve control and expanding fiscal stimulus. Still, progress on reform objectives remains modest and while such progress might be a source of future stimulous, we need more evidence before accounting for that potential impact. Companies have benefited from these policy efforts but the economic impact of Japanese consumers has lagged with wage growth low despite a healthy labor market. The recent Yen (Exhibit 13) decline may offer some short-term help but is not sustainable. The stabilization seen within emerging markets economies should add support to near-term Japanese exports.

Exhibit 13: Nikkei 225 and Yen



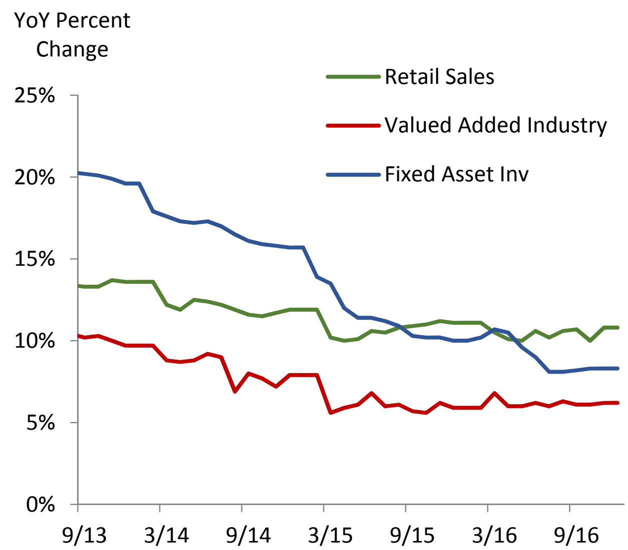
Source: Bloomberg

Emerging Markets Sentiment

Economic Sentiment	Neutral

We expect aggregate near-term emerging market GDP growth to stabilize with continued mild deceleration in China offset by improvements in other regions. Inflation is expected to remain low but has some upside risk due to commodity price stabilization and positive producer price trends. Emerging markets continue to be vulnerable to headwinds from higher US interest rates as well as a strong US dollar. We think that commodity prices have stabilized and that they will be range bound for the near-term; thus, they do not pose the same risk as a year ago. Uncertainty around the openness of global trade has emerged as a possible risk, but potential changes to trade policy on a significant scale are highly uncertain at this point.

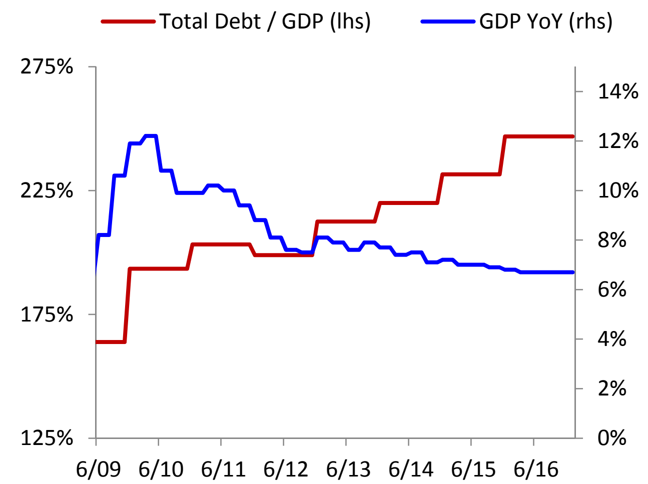
Exhibit 14: China's Economic Indicators



Source: Bloomberg

China's outlook appears more stable than last year, with signs that easing measures enacted over the last few years are indeed working their way into economic metrics. We expect that the government will continue to manage the transition towards consumption while erring on the side of over-stimulus when needed. We remain encouraged by the impact of the Chinese consumer on consumption growth and economic transformation (Exhibit 14). While heavy industry appears to be on more stable footing, we expect related sectors to continue decelerating due to the unsustainability of the borrowing levels and pace of state-sponsored investment. Debt is growing quickly (Exhibit 15), especially on corporate balance sheets and remains an intermediate-level concern. Inflation has been quite low recently and we expect prices to modestly rise with firmer commodity prices and signs that excess capacity is being worked down, data confirmed in both corporate surveys and recovering producer prices.

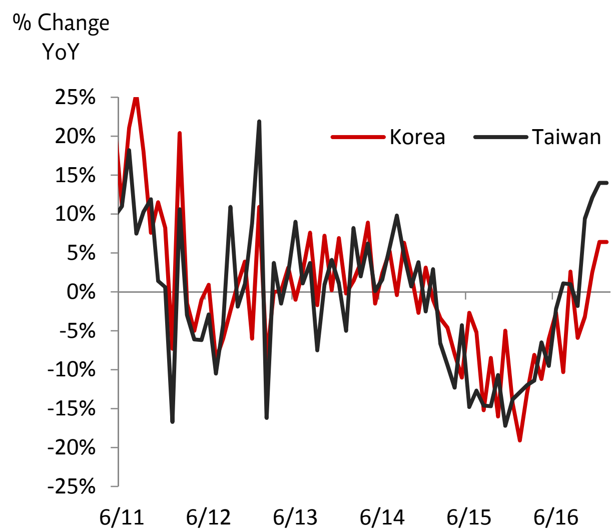
Exhibit 15: China Debt to GDP



Source: Bloomberg

Outside of China, we expect other regions in Asia to be generally healthy and supported by firmer data from China as well as continued global growth. Korea has significant political issues to navigate over the next year but should see trade improve from last year's levels (Exhibit 16) given commodity price stabilization and with trade with China and the rest of the world expected to strengthen. Taiwan is highly trade dependent and we hold a similar view of positive low growth. Brazil should exit their recession and benefit from higher commodity prices, but with limited signs of improvements to local consumers, the next few years will likely be soft.

Exhibit 16: Exports: Korea and Taiwan



Source: Bloomberg

NEAR-TERM ASSET CLASS SENTIMENT

Our Near-Term investment sentiment for the three major equity regions is crafted by first developing a near-term outlook for equity performance in each region based on drivers of revenue, profitability, earnings, valuations, currencies, and other factors.

Then, on a relative basis, we determine our Allocation Sentiment by considering both our Economic and Investment Sentiments. This process is nuanced and based on qualitative factors, as over time economic and investment factors can very in importance.

Near-Term Equity Sentiment

United States

Economic Sentiment	Neutral/ Positive	Investment Sentiment	Neutral	Allocation Sentiment	Neutral

After a modest earnings recession, US corporate Earnings per Share (EPS) growth looks to rebound over the next several quarters (Exhibit 10) with both headwinds and tailwinds.

As we look over the near-term, US consumers are in strong position to support revenue growth. Recent moderation of profit margins has starting to reverse. Potential for infrastructure spending and consumer and corporate tax cuts could be a net positive for US corporate earnings in the near-term, but significant uncertainty remains regarding the policy outcomes of the new administration and Congress.

On the downside, profit margins could be under pressure due to moderately rising labor and borrowing costs and a potential stronger dollar. These factors, combined with the slightly elevated valuations and mature stage of the current economic expansion, are reflected in our Neutral investment sentiment.

Foreign Developed

Economic Sentiment	Neutral	**Investment Sentiment**	Neutral	**Allocation Sentiment**	Neutral

Following a challenging year for earnings, we expect Earnings per Share (EPS) growth to be supported by a slow but still positive economic backdrop, a more supportive environment for energy and materials firms, and better US and emerging markets demand. The potential return of currency declines in certain regions should also be favorable for exporters.

In some regions, profitability levels and earnings still have room to recover. Foreign Developed markets continue to offer a reasonable yield advantage over the US. Debt burdens are lower while companies also have benefitted from lower rates. Valuations are no longer cheap compared to past levels, although they remain well below US earnings multiples.

In addition to valuations, the primary concern leading to our Neutral investment sentiment is the political uncertainty around Brexit and major elections in the European Union this year.

Emerging Markets

Economic Sentiment	Neutral	**Investment Sentiment**	**Negative/ Neutral**	**Allocation Sentiment**	**Negative/ Neutral**

The emerging markets landscape is highly diverse, but has generally shown signs of stabilization over the last year (Exhibit 14 and 16) that should be supportive of future earnings growth. Ongoing easing measures in China and recoveries in select other emerging regions should be supportive of top line growth as well.

The aggregate valuations of EM companies relative to developed market companies appear attractive, but there is wide dispersion across companies with well-known faster growing names trading at much higher multiples. Additionally, corporate debt levels continues to rise at an unsustainable pace and is a growing concern.

While long-term growth forecasts continue to indicate a positive environment for companies with local exposures, we have concerns around the possible effects of a stronger dollar and higher US interest rates. Additional uncertainty, although less likely, stems from the tail risk of more protectionist actions from select developed economies and a potentially less friendly global trade environment.

Near-Term Fixed Income Sentiment

Short-Term

Allocation Sentiment	Neutral/ Positive

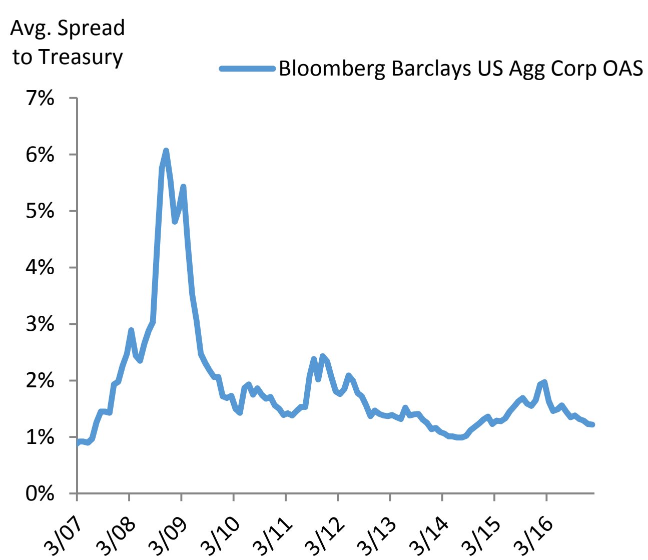
Our expectations for Fed Fund Target Rates and short-term yields remains similar to last year with a gradual pace of target rate hikes over the near-term maintaining a high correlation with short-term rates. Reflation efforts are a risk and would likely accelerate Fed tightening. In this scenario, longer term yields would also likely rise due to higher inflation and growth expectations, making shorter duration bonds more appealing on a relative basis and enabling investors to reinvest faster at higher rates. For conservative investors, a low duration strategy seems more prudent than extending maturities for incremental yield at the cost of higher downside risk.

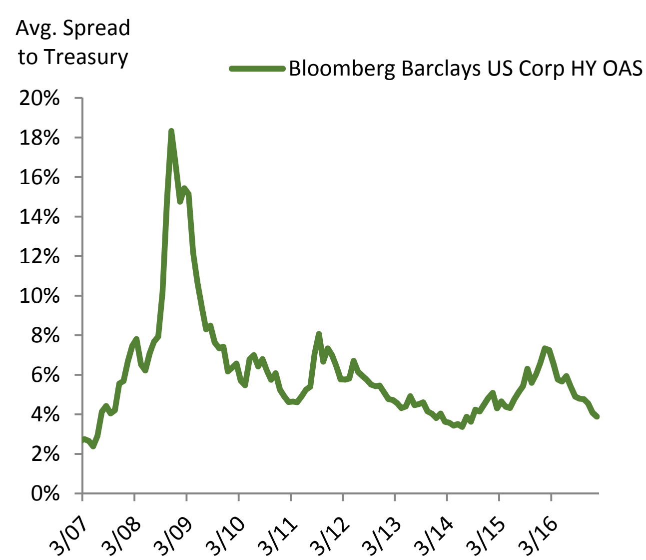
Core

Allocation Sentiment	Neutral

US Core Bond yield opportunities remain challenging; however, we remain comfortable recommending thoughtful credit risk in the current environment. Investment grade corporate balance sheets continue to appear healthy, keeping us comfortable with the spread tightening that we have seen over the last year (Exhibit 17) as well as the slight increase in corporate leverage. The post-election rise in rates has pushed US Treasury yields back toward last year's levels. It likely has brought the market back in line with our expectations for moderate growth and inflation in the US. Continued dedication to low rates and quantitative easing abroad will allow for rates to rise, but not dramatically. We continue to believe that core bonds can dampen volatility and diversify more growth orientated portfolios leading to our Neutral sentiment in this challenging environment of modestly rising rates.

Exhibit 17 and 18: Blomberg Barclays US Aggregate & HY Corporate Option Adjusted Spread





Source: Bloomberg

Core Plus

Allocation Sentiment	Neutral

Core Plus Bonds continue to offer a yield premium, but strong spread tightening (Exhibit 18) in lower rated bonds this year makes this space less compelling than in last year's forecast. Spreads in most categories are at or near their top quartile of historic valuation relative to Treasuries. Our positive sentiment on most credit issuers and additional yield opportunity helps us still remain Neutral instead of Negative. We continue to approach the segment using an opportunistic manager with the flexibility to add credit exposure when the risk/reward profile appears justified.

Foreign Developed

Allocation Sentiment	Negative

Foreign Developed bond yields continue to be very low and negative in some places (Exhibit 4). While, interest rate risk should be limited with foreign developed central banks expected to continue bond purchase programs and maintain extraordinarily low policy rates, this does not offset the current extremely low yields informing our Negative sentiment. Additionally, dollar strength remains a risk; that said, we believe this consensus view is likely priced into valuations.

Emerging Markets

Allocation Sentiment	Neutral

Emerging market bonds offer an attractive carry over most developed market yields, but not without credit and currency risks, liquidity concerns, and potential US Federal Reserve policy headwinds. A more stable economic outlook, along with less intense expected currency pressure, and stable commodities prices should help offset some of the potential pressure from gradual Fed rate hikes. A scenario in which the Fed is prompted to tighten more aggressively than anticipated due to accelerating inflation keeps us Neutral on a segment that otherwise has significantly better yield opportunities than its developed market counterparts.

Near-Term Real Assets and Hedged Strategies Sentiment

Listed Real Estate

Allocation Sentiment	Neutral/ Positive

Globally strong and/or improving labor markets remain supportive for real estate fundamentals leading to our Neutral/Positive sentiment. Low supply, as evidenced by annual percentage of total housing stock around 1.5% below the historical average of 2.1% (Source: CBRE), demonstrate favorable supply/demand dynamics that are supportive of strong rents and low vacancy rates.

Global real estate earnings growth, despite decelerating, continues to appear stronger and more stable than broader equity growth (Exhibit 7) in the near-term, though long-term return forecasts remain slightly stronger for equities. While we have seen valuations oscillate near or slightly above historical averages, rising rates and inflation will likely limit further valuation growth.

Commodities

Allocation Sentiment	Neutral

Commodities have seen a return to price stability with supply/demand imbalances having improved for energy, though such dynamics are mixed for other commodities. The outlook for the demand for many commodities continues to be weak due primarily to China's slowing growth.

We believe supply is moving towards balance in most commodities but anticipate range bound prices are likely to stay around the marginal cost of production because of inflation and technological advances in commodity extraction.

Hedge Fund Strategies

Allocation Sentiment	Neutral/ Positive

The opportunity set for hedge fund strategies remains attractive as correlations between assets have been decreasing; however, increased competition in the space will likely weigh on alpha potential in the near-term while elevated asset valuations will limit beta potential.

Increased scrutiny of the industry's high fees and lackluster recent performance across the asset class should lead to both closures and consolidation. We estimate that fewer hedge fund managers could lead to higher alpha opportunity and lower fees within the space in the intermediate term.

Even with the limited beta and alpha potential, hedge fund strategies remain an attractive lower-volatility compliment to equity given their relative value over bonds, the traditional portfolio risk reducer.

Definitions

Alpha	The excess risk-adjusted return relative to the risk-adjusted return of the benchmark.
Beta	A measure of the volatility, or systemic risk, of an investment in comparison to a specific market.
Brexit	A term used to describe the potential or actual departure of the United Kingdom from the European Union.
Correlation	The relationship or connection between two things such as an economic event and a market's reaction. The relationship may or may not reflect causation.
Diversification	A portfolio management technique that can be used to manage risk by varying investment exposures to varied asset classes, economic factors, or other criteria.
Inflation	A sustained increase in the general prices for goods and/or services, generally across a sector or region.
Volatility	A measure of the historic or anticipated changes in value of an economic factor, frequently used to reflect the price uncertainty inherent in a portfolio.

Disclosures

The information in this document is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance.

Given the complex nature of risk-reward trade-offs involved in portfolio construction, we advise clients to consult with financial professionals on specific investment-related decisions. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. In addition, past performance is not a guarantee of future results.

Assumptions, opinions and estimates are provided for illustrative purposes only and are subject to significant limitations. Expected return estimates are subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios to which actual returns could be significantly higher or lower than forecasted. They should not be solely relied upon as recommendations to buy or sell securities.

Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness.

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