4Q2015

SUMMARY OF ECONOMIC REVIEW AND MARKET COMMENTARY

➢ *The Fed, Oil, and China Drive Financial Markets in the 4th Quarter*

- Early in the quarter, economic data releases suggested the economy was growing at a modest pace. Non-farm jobs growth continued above trend, consumer sentiment remained high, and consumer spending and housing starts both surprised to the upside. Financial markets recovered from 3rd quarter concerns about lower oil prices and their impact on the global economy. Worries about China's economic growth and currency subsided.
- All focus shifted to the Federal Reserve Bank's December meeting. Based on an assessment that improving labor market conditions and increasing wages would drive inflation to their 2% objective, the Fed instituted the first interest rate increase since 2006.
- The Fed Funds target range was moved to 0.25-0.50%. The Fed's official statement clearly indicated that the pace and level of future rate increases would be gradual, measured, and data dependent. Projections included approximately a 1% increase per year over the next two years.
- Meanwhile, the economy also showed important signs of weakness. The ISM manufacturing index posted in December indicated that this sector was clearly contracting, due to dollar strength and lower oil prices, both of which were not going to reverse anytime soon.
- Oil prices resumed their downward slide at the end of the quarter, dragging commodity and emerging market indices with it. This situation began to raise serious questions about the outlook for inflation and the Fed's projections for U.S. growth, especially when additional data from China reignited worries about weaker than expected 4th quarter growth and manufacturing.
- Financial analysts and market participants reassessed the economic climate, revising down expectations for 1st quarter U.S. GDP in the range of 1.0-1.5%. Economic news, currency problems, and the continued slide in oil prices ignited fears of a global recession and spelled trouble for financial markets at the start of the new year.
- Developed market indices maintained respectable gains, although only the S&P 500 held onto gains for the year. REITs continued to maintain their top position, not only for the quarter but for the second year in a row. Emerging market and commodities indices occupied the bottom of market performance charts. Interest rates increased, but credit spreads, especially in the high yield energy sector, increased faster. This pulled down 4th quarter and yearly returns for fixed income indices.
- A more detailed analysis reveals that there was disparity within broad market indices. Within the S&P 500, the ten largest companies drove much of the performance. Sales growth and momentum factors had the biggest impact on performance, while value factors were detrimental.
- The first estimate for 4th quarter GDP was a meager 0.7%, driven lower from the previous quarter due in part to a 1.8% decline in business investment that was tied to collapsing energy prices. Also detracting from GDP were lower exports, attributed to dollar strength, and a decline in consumption, as unseasonably warm weather at the end of 2015 reduced spending in utilities. For the year, U.S. GDP growth was 2.4%, matching the 2014 level.

➢ *A Very Cautious Outlook Amid Financial Market Volatility*

- The start of 2016 was the worst two week period on record for equities. Fears of weaker global growth, in addition to concerns related to China's currency and stock market declines, further suppressed oil prices and global financial markets. In addition, there has been a recalibration of equity valuations now that the era of easy money is coming to a close.
- U.S. manufacturing data kicked off economic releases for 2016; the December ISM Manufacturing Index was 48.2, below the 50 index level benchmark for the second month in a row. (It is important to note that the related service index was more expansionary in the range of 54-60 for the last two years). Further acerbating the decline in equity prices was weaker industrial production, consumer sentiment, and retail sales data for December.

- However, employment and jobs data continue to look strong, and wages are picking up slowly (2% Y/Y increase for 2015, including benefits). There is no sign of inflation overheating, and the Fed continues to reiterate their stance that interest rate increases will be data dependent.
- New oil supply from Iran will keep downward pressure on prices. Concerns about Chinese economic growth and the strength of the dollar could keep pressure on the Fed to follow a slower path than initially specified. Trends in employment will also be closely monitored ahead of the March 2016 FOMC meeting. Analysts believe, given market volatility and global concerns, that the Fed most likely will not raise rates again until the June 2016 meeting.
- Lower oil prices have been a net negative for economic growth. Retrenchment in oil and energy services sectors has led to a decline in demand for related business goods and services, while the expected consumption boost from cheaper gasoline has appeared to flow into savings. However, analysts still think that it is only a matter of time until consumers spend this gasoline dividend.
- The most recent economic information from China continues to suggest the country will avoid a hard landing. Fourth quarter GDP was lower but within trend at 6.8%. Some of the issues that put pressure on their financial markets were related to the government's mishandling of trading controls. The devaluation of their currency, when viewed in the context of the global currency market, was in keeping with that of other trading partners.
- U.S. exports to China are only about 1% of U.S. GDP, so the immediate impact to the U.S. economy should be minimal. However, the indirect linkages are much more complex; China is a significant export market for the Eurozone, Australia, Japan, and many emerging markets. Numerous countries are vulnerable to general commodity price weakness.
- The divergence between U.S. and global monetary policy continues to strengthen the Dollar, suppressing exports. Coupled with high levels of inventory and weaker global demand, first quarter growth will remain under pressure. Currently, analysts have said that they do not view this situation as a sign of structural problems but part of a mid-to-late cycle adjustment. As stated previously, first quarter U.S. GDP is estimated to be 1.0-1.5%.
- Certainly financial markets have beared the brunt of the concerns about global growth coupled with an outlook for declining corporate earnings. While economists have revised down growth expectations, the general consensus at this time is that the world will avoid a global recession.

➢ *A Brief List of Other Risks to Consider*

- Geopolitical Risks: North Korea nuclear testing appears to have resumed, and diplomatic strains have intensified between Saudi Arabia and Iran. The threat of terrorism looms in the background.
- Brazil, Chile, Venezuela, Russia, and Korea (large commodity producers or exporters to China) are experiencing high economic pressure. Politics, high debt levels, and in some cases turmoil inflation have constrained policy decisions. Credit markets are trying to assess the implications.
- Brexit? Will the UK hold a referendum on their status as a member of the EU? If they leave the EU, what does this mean for other member countries? To add, the influx of refugees is putting a strain on economic and political systems throughout Europe.
- Energy prices have stressed producers and service providers. How will credit downgrades and increased default rates filter through the system? What are the implications for Middle East producers and their budgets that are 70%-80% reliant on oil?
- Expensionary central bank policies, particularly from the Fed, fueled a large increase in global dollar denominated debt, especially in China and other emerging markets. Capital outflows out of those regions can be attributed to a reversal in Fed policy and a strengthening dollar. This interconnectivity could make the U.S. economy and financial markets more vulnerable to a global growth slowdown and outside credit event than analysts think.

Market Expectations for 2016

- We surveyed information provided by a number of banks and investment firms and summarized their forecasts below:

2016 Forecast	Global GDP (%)	US GDP (%)	US CPI Inflation (%)	US Unemployment (%)	Targeted Fed Funds Rate (%)	Highlights of Forecast
Citibank	2.8	2.5	1.6	-	1% by year-end	• Global economic growth will be lower due to weaker economic growth across Asia, Brazil, and South Africa. • GDP forecast for emerging markets, excluding China, is 2%, (first time in 10 years below developed market growth). • While U.S. growth will be solid, it is below recent expectations, but forecasts for Eurozone growth have improved modestly. • Global inflation will be less than 3%, but over 2% due to currency depreciation-related inflation in India, Russia, and Brazil.
Deutsche Bank	3.3	2.1	1.9	4.7	1.125% by year-end	• Weak global trade/subdued emerging markets growth will suppress global growth, while global liquidity remains generous. • U.S. growth will continue to be driven by household consumption, although credit growth remains controlled. • Eurozone inflation could approach the ECB target, resulting in the start of QE tapering. Economic growth should continue to improve, especially as German growth could approach 2%. • Oil prices could normalize, adding 0.25-0.50% to global GDP. • Geopolitical risks could play a role in investment sentiment.
Goldman Sachs	2.5-3.3	2.0-2.75	1.3	4.8	About 1.3% by year-end	• U.S. GDP growth will be above trend in 2016, and Eurozone growth could approach upwards to 2%, based on expectations of improving trade and fiscal situations. • While U.S. manufacturing is in recession, it is only 12% of U.S. output and should not spill over into broader economy. • Goldman notes that mismeasurement in technology's contribution to GDP may be underestimating U.S. growth by 0.5-1.0%. • Risks to outlook: additional decline in oil and geopolitical events.
JP Morgan Chase	-	2.3	1.5	4.5	Rate hikes could surprise market to upside	• Divergence in economic growth and interest rate policy continues in 2016. Bright spots are developed markets and consumers, keeping developed economies out of recession. • Main risks are missteps by the Fed/ECB resulting in significant dollar strength, continued recalibration to the downside for China's economic growth, and political uncertainty in the U.S. and Europe (fallout related to immigration issues).

	Global GDP (%)	US GDP (%)	US CPI Inflation (%)	US Unemployment (%)	Targeted Fed Funds Rate (%)	Highlights of Forecast
Morgan Stanley	-	1.8	1.7	4.8	About 1.125% by year-end	• Domestic economic growth will be driven by wage growth (especially from higher minimum wage levels) and healthy household balance sheets that will, in turn, drive increases in consumer demand. • Monetary tightening will be slow and steady with an eye on economic growth, the strength of the dollar, and oil prices. • Global growth will be supported by growth in Europe, Japan, and an improvement in oil prices.
PIMCO	2.6	2.0-2.5	1.5-2.0	-	-	• U.S. growth will be supported by better labor demand and an increase in wages, which will drive some increases in consumption. • The budget agreement at the end of 2015 will provide the U.S. with a boost from an increase in government spending. • China's weak outlook will weigh on global GDP, negatively impacting exports especially from Europe. • However, increased economic growth in Europe from an improvement in credit conditions (and a possible expansion of QE) and continued stability and strength in periphery countries will provide support to the overall global picture.
Federal Reserve Bank Median Projections	-	2.4	1.6 (PCE inflation)	4.7	1.4	• The Fed raised the Fed Funds rate in December 2015 based on data that showed U.S. GDP was improving at a moderate pace. Projected inflation remained below the 2% targeted level, constrained by weak prices in energy and non-energy imports. • FOMC participants saw "diminishing" downside risks from lower global growth, weaker exports, and improvements in spending and consumption driven by improvements in employment and wages. • The Committee believes that gradual adjustments to interest rates would allow policy makers to assess the economic response to these changes, and a cautious approach could minimize risks.
Broader Consensus	-	2.5	1.2-1.9	4.7-4.8	About 1.125% by year-end	• Based on a Wall Street Journal survey of 78 economists, December 2015.

Portfolio Evaluations, Inc.
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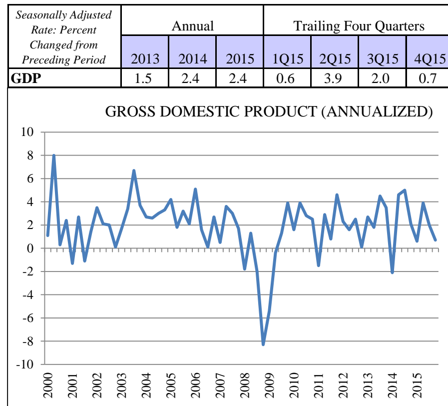
4Q2015

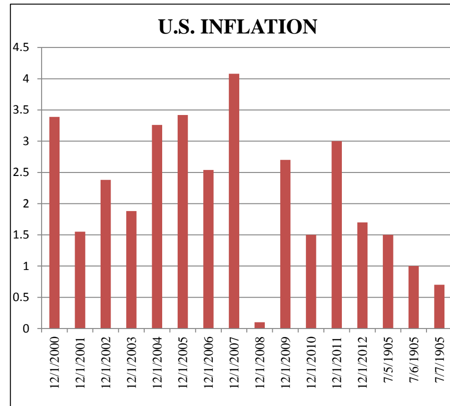
ECONOMIC REVIEW

ECONOMIC REVIEW AND MARKET COMMENTARY

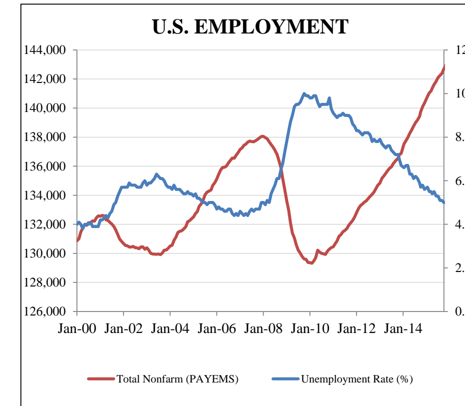


Seasonally Adjusted Rate: Percent Changed from Preceding Period	Annual			Trailing Four Quarters			
	2013	2014	2015	1Q15	2Q15	3Q15	4Q15
GDP	1.5	2.4	2.4	0.6	3.9	2.0	0.7

Source: Bureau of Economic Affairs



Source: United States Department of Labor



Source: United States Department of Labor

Economic Growth

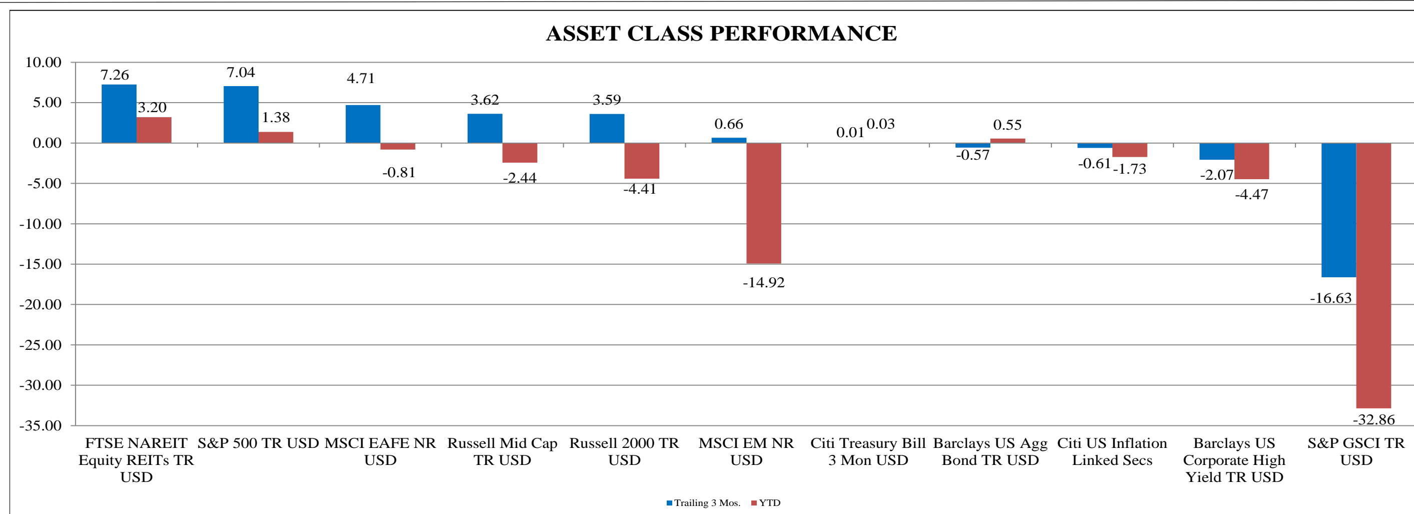
Early in the quarter, economic information such as employment was favorable and provided the needed incentive for the Federal Reserve to raise the target range for Fed Funds. At the end of the quarter, indicators began to reflect the dynamics of commodity prices and weak global growth. Oil prices resumed their decline, negatively impacting business expenditures in energy related industries and creating general uncertainty within both manufacturing and service sectors. Consumer spending during the quarter softened, yet was supported by continued improvements in jobs data and wages. Manufacturing continued to be a weak spot, both here (primarily due to the dollar's strength) and abroad (due to weak growth in China). GDP weakened in the fourth quarter to 0.7% due to low business investment and weaker exports due to the strength of the U.S. dollar. Internationally, the most notable data came out of China, where industrial production fell 25% lower than its pace in 2014. China's retail sales growth also trailed 2014 levels, and 4th quarter GDP at 6.8% fell short of the government's target of 7.0%.

Policy

At the FOMC meeting on December 16, 2015, the target range for the Fed Funds rate was raised by 0.25%, the first increase since 2006. Anticipating a stable to improving outlook for the U.S. economy, employment and inflation, the Committee begin the normalization process. Janet Yellen stressed that the Fed will remain flexible and data-dependent and there was no set timetable for tightening. Certainly the Fed will continue to monitor global events and their impact on U.S. growth and inflation. Based on projections, the path to higher rates will be slow and steady, with expectations that Fed Funds will rise another 1.125% over the course of 2016 and reaching a range of 2.9-3.5% by 2018. It should be noted that the futures market is anticipating a slower, lower rate of increase than the Fed's projections, and early 2016 data that suggests additional economic weakness could prolong the timing to the next interest rate hike. The ECB signaled a possible expansion in their QE program to provide further stimulus. Markets did not react favorably when they presented a watered-down, six month QE extension and decrease in the deposit facility rate but did not increase the size of the asset purchase program. The People's Bank of China also cut the official lending rate to provide support to the weakening economy and stock market. Following the currency devaluation in the third quarter, China implemented a number of currency and financial reforms that resulted in the IMF approving the inclusion of the Yuan into its Special Drawing Rights basket of currencies.

Markets

Financial markets initially responded well to the increase in Fed Funds, but were not as impressed by actions by the ECB. Developed market indices such as the S&P 500 Index and the MSCI EAFE Index were up for the quarter. Meanwhile, economic news about China and oil prices weighed heavily on emerging markets and commodities indices, the later which was in negative territory by double digits for both the quarter and the year. Widened credit spreads, especially in the high yield energy sector, pushed fixed income indices negative for the quarter.



Source: Morningstar

In a volatile quarter dominated by Fed tightening, global events, news about China's growth, and oil prices, developed equity markets were able to hold on to gains for the quarter. The price pattern was higher earlier in the quarter, in part due to a rebound from 3rd quarter selling and a new round of stimulus from China, followed by a sell-off as oil prices resumed their decline and more negative economic news from China was released.

REITs were buoyed by strong fundamentals and demand for commercial real estate. However, performance varied by property type, with significant double-digit returns in self-storage as compared to negative returns for hotels.

U.S markets were higher for the quarter and mixed for the year. Growth stocks continued to outperform value. Large cap stocks outperformed mid and small cap stocks, which returned modest gains for the quarter and negative returns for the year. Much of domestic equity's positive performance was concentrated in "new economy" stocks such as Netflix and Amazon.

Energy and Utility sectors held back overall market performance and obscured respectable performance from Healthcare, Technology, and Consumer sectors for both the quarter and the year.

Some of the quarterly gains in the MSCI EAFE Index from earlier in the period, on the back of positive PMI data and expectations of further central bank easing, were maintained even though oil, commodities, and slowing global growth dragged down performance for the year.

In fixed income markets, oil price declines put a strain on the high yield sector. A yield curve flattening following the Fed announcement provided some support to intermediate bonds, as did rotation to the higher quality corporate sector. Funds with exposure to European debt were adversely impacted by the failure of the ECB to apply more aggressive stimulus to their QE program.

High yield bonds dropped most dramatically among the fixed income sectors. Energy related issuers make up a sizable portion of the sector. Large cash flows out of the high yield sector, following the suspension of redemptions and liquidation of a high yield debt/bank loan fund and a levered-credit hedge fund, put an additional strain on prices. Non-energy related sectors performed better.

Emerging equity and commodity markets suffered greatly due to declining oil prices and a growing concern about global growth following more negative economic news from China. WTI oil prices declined 20% to $38 per barrel on continued over-supply from the Middle East, putting additional strain on oil producing emerging nations already under pressure from the slow-down in China.

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4Q2015

TOTAL RETURN OF ASSET CLASSES
ECONOMIC REVIEW AND MARKET COMMENTARY

As of December 31, 2015

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Trailing 3-Year	Trailing 5-Year	Trailing 10-Year
S&P GSCI Commodity 49.74%	NAREIT - Equity REIT 13.93%	S&P GSCI Commodity 32.07%	MSCI Emerging Markets 55.82%	NAREIT - Equity REIT 31.58%	MSCI Emerging Markets 34.00%	NAREIT - Equity REIT 35.06%	MSCI Emerging Markets 39.42%	BarCap Aggregate 5.24%	MSCI Emerging Markets 78.51%	NAREIT - Equity REIT 27.96%	Citi US Inflation-Linked 14.01%	MSCI Emerging Markets 18.22%	Russell 2000 38.82%	NAREIT - Equity REIT 30.14%	NAREIT - Equity REIT 3.20%	S&P 500 15.13%	S&P 500 12.57%	Russell Mid Cap 8.00%
NAREIT - Equity REIT 26.37%	BarCap Aggregate 8.44%	Citi US Inflation-Linked 16.71%	Russell 2000 47.25%	MSCI Emerging Markets 25.55%	S&P GSCI Commodity 25.55%	MSCI Emerging Markets 32.14%	S&P GSCI Commodity 32.67%	Citi 3 Month T-Bill 1.80%	BarCap US High Yield 58.21%	Russell 2000 26.85%	NAREIT - Equity REIT 8.29%	NAREIT - Equity REIT 18.06%	Russell Mid Cap 34.76%	S&P 500 13.69%	S&P 500 1.38%	Russell Mid Cap 14.18%	NAREIT - Equity REIT 11.96%	NAREIT - Equity REIT 7.41%
Citi US Inflation-Linked 13.1%	Citi US Inflation-Linked 7.92%	BarCap Aggregate 10.26%	Russell Mid Cap 40.06%	MSCI EAFE 20.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	Citi US Inflation-Linked 11.60%	Citi US Inflation-Linked -1.17%	Russell Mid Cap 40.48%	Russell Mid Cap 25.48%	BarCap Aggregate 7.84%	MSCI EAFE 17.32%	S&P 500 32.39%	Russell Mid Cap 13.22%	BarCap Aggregate 0.55%	Russell 2000 11.65%	Russell Mid Cap 11.44%	S&P 500 7.31%
BarCap Aggregate 11.63%	BarCap US High Yield 5.28%	NAREIT - Equity REIT 3.82%	MSCI EAFE 38.59%	Russell Mid Cap 20.22%	Russell Mid Cap 12.65%	Russell 2000 18.37%	MSCI EAFE 11.17%	BarCap US High Yield -26.16%	MSCI EAFE 31.78%	MSCI Emerging Markets 18.88%	BarCap US High Yield 4.98%	Russell Mid Cap 17.28%	MSCI EAFE 22.78%	BarCap Aggregate 5.97%	Citi 3 Month T-Bill 0.03%	NAREIT - Equity REIT 11.23%	Russell 2000 9.19%	BarCap US High Yield 6.96%
Russell Mid Cap 8.25%	Citi 3 Month T-Bill 4.09%	Citi 3 Month T-Bill 1.70%	NAREIT - Equity REIT 37.13%	Russell 2000 18.33%	NAREIT - Equity REIT 12.16%	S&P 500 15.79%	BarCap Aggregate 6.97%	Russell 2000 -33.79%	NAREIT - Equity REIT 27.99%	BarCap US High Yield 15.12%	S&P 500 2.11%	Russell 2000 16.35%	BarCap US High Yield 7.44%	Russell 2000 4.89%	MSCI EAFE -0.81%	MSCI EAFE 5.01%	BarCap US High Yield 5.04%	Russell 2000 6.80%
Citi 3 Month T-Bill 5.96%	Russell 2000 2.49%	BarCap US High Yield -1.41%	BarCap US High Yield 28.97%	S&P GSCI Commodity 17.28%	S&P 500 4.91%	Russell Mid Cap 15.26%	Russell Mid Cap 5.60%	S&P 500 -37.00%	Russell 2000 27.17%	S&P 500 15.06%	Citi 3 Month T-Bill 0.08%	S&P 500 16.00%	NAREIT - Equity REIT 2.47%	Citi US Inflation-Linked 4.55%	Citi US Inflation-Linked -1.73%	BarCap US High Yield 1.69%	MSCI EAFE 3.60%	BarCap Aggregate 4.51%
Russell 2000 -3.02%	MSCI Emerging Markets -2.62%	MSCI Emerging Markets -6.17%	S&P 500 28.68%	BarCap US High Yield 11.13%	Russell 2000 4.55%	BarCap US High Yield 11.85%	S&P 500 5.49%	NAREIT - Equity REIT -37.73%	S&P 500 26.46%	S&P GSCI Commodity 9.03%	S&P GSCI Commodity -1.18%	BarCap US High Yield 15.81%	Citi 3 Month T-Bill 0.05%	BarCap US High Yield 2.45%	Russell Mid Cap -2.44%	BarCap Aggregate 1.44%	BarCap Aggregate 3.25%	Citi US Inflation-Linked 3.98%
BarCap US High Yield -5.86%	Russell Mid Cap -5.62%	MSCI EAFE -15.94%	S&P GSCI Commodity 20.72%	S&P 500 10.88%	Citi 3 Month T-Bill 3.00%	Citi 3 Month T-Bill 4.76%	Citi 3 Month T-Bill 4.74%	Russell Mid Cap -41.46%	S&P GSCI Commodity 13.48%	MSCI EAFE 7.75%	Russell Mid Cap -1.55%	Citi US Inflation-Linked 7.18%	S&P GSCI Commodity -1.22%	Citi 3 Month T-Bill 0.03%	Russell 2000 -4.41%	Citi 3 Month T-Bill 0.04%	Citi US Inflation-Linked 2.62%	MSCI Emerging Markets 3.61%
S&P 500 -9.10%	S&P 500 -11.89%	Russell Mid Cap -16.19%	Citi US Inflation-Linked 8.26%	Citi US Inflation-Linked 8.40%	Citi US Inflation-Linked 2.86%	BarCap Aggregate 4.33%	BarCap US High Yield 1.87%	MSCI EAFE -43.38%	Citi US Inflation-Linked 10.12%	BarCap Aggregate 6.54%	Russell 2000 -4.18%	BarCap Aggregate 4.21%	BarCap Aggregate -2.02%	MSCI Emerging Markets -2.19%	BarCap US High Yield -4.47%	Citi US Inflation-Linked -2.35%	Citi 3 Month T-Bill 0.05%	MSCI EAFE 3.03%
MSCI EAFE -14.17%	MSCI EAFE -21.44%	Russell 2000 -20.48%	BarCap Aggregate 4.10%	BarCap Aggregate 4.34%	BarCap US High Yield 2.74%	Citi US Inflation-Linked 0.40%	Russell 2000 -1.57%	S&P GSCI Commodity -46.49%	BarCap Aggregate 5.93%	Citi US Inflation-Linked 6.46%	MSCI EAFE -12.14%	S&P GSCI Commodity 0.08%	MSCI Emerging Markets -2.60%	MSCI EAFE -4.90%	MSCI Emerging Markets -14.92%	MSCI Emerging Markets -6.76%	MSCI Emerging Markets -4.81%	Citi 3 Month T-Bill 1.17%
MSCI Emerging Markets -30.83%	S&P GSCI Commodity -31.93%	S&P 500 -22.1%	Citi 3 Month T-Bill 1.07%	Citi 3 Month T-Bill 1.24%	BarCap Aggregate 2.43%	S&P GSCI Commodity -15.09%	NAREIT - Equity REIT -15.69%	MSCI Emerging Markets -53.33%	Citi 3 Month T-Bill 0.16%	Citi 3 Month T-Bill 0.13%	MSCI Emerging Markets -18.42%	Citi 3 Month T-Bill 0.07%	Citi US Inflation-Linked -9.37%	S&P GSCI Commodity -33.06%	S&P GSCI Commodity -32.86%	S&P GSCI Commodity -23.71%	S&P GSCI Commodity -15.18%	S&P GSCI Commodity -10.56%

Small Cap - Russell 2000 Index; REIT - NAREIT Equity REITs Index; Mid Cap - Russell Mid Cap Index; Large Cap - S&P 500 Index; Commodities - S&P GSCI Commodity Index; High Yield Bonds - BarCap US Corporate High Yield Index; Emerging Markets - MSCI Emerging Markets Index; International Equity - MSCI EAFE (net) Index; Inflation-Linked Securities - Citi US Inflation-Linked Securities; Bonds - Barclays US Aggregate Index; Money Market - Citigroup Treasury 3 Month T-Bill

Source: Morningstar

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	7.70	0.21	0.21	12.66	11.30	7.75
	S&P 500	7.04	1.38	1.38	15.13	12.57	7.31
	NASDAQ Composite	8.71	6.96	6.96	19.81	14.91	9.65
	Wilshire 5000 Total Market	6.36	0.67	0.67	14.72	12.09	7.40
Large Cap	Russell 1000	6.50	0.92	0.92	15.01	12.44	7.40
	Russell 1000 Growth	7.32	5.67	5.67	16.83	13.53	8.53
	Russell 1000 Value	5.64	-3.83	-3.83	13.08	11.27	6.16
Mid Cap	Russell Mid Cap	3.62	-2.44	-2.44	14.18	11.44	8.00
	Russell Mid Cap Growth	4.12	-0.20	-0.20	14.88	11.54	8.16
	Russell Mid Cap Value	3.12	-4.78	-4.78	13.40	11.25	7.61
Small Cap	Russell 2000	3.59	-4.41	-4.41	11.65	9.19	6.80
	Russell 2000 Growth	4.32	-1.38	-1.38	14.28	10.67	7.95
	Russell 2000 Value	2.88	-7.47	-7.47	9.06	7.67	5.57

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Developed	MSCI AC World	5.03	-2.36	-2.36	7.69	6.09	4.76
	MSCI AC World Ex US	3.24	-5.66	-5.66	1.50	1.06	2.92
	MSCI EAFE	4.71	-0.81	-0.81	5.01	3.60	3.03
	MSCI EAFE Growth	6.67	4.09	4.09	6.83	4.60	4.03
	MSCI EAFE Value	2.68	-5.68	-5.68	3.14	2.55	1.96
	MSCI EAFE Small Cap	6.79	9.59	9.59	10.44	6.32	4.55
	MSCI Europe	2.49	-2.84	-2.84	4.51	3.88	3.36
	MSCI Europe Ex UK	3.27	-0.65	-0.65	5.83	4.02	3.50
	MSCI Pacific Free	9.00	2.96	2.96	5.82	3.18	2.37
	MSCI Pacific Free Ex Japan	8.29	-8.47	-8.47	-1.32	0.87	6.07
	MSCI Japan	9.34	9.57	9.57	10.17	4.38	0.91
Emerging	MSCI Emerging Markets	0.66	-14.92	-14.92	-6.76	-4.81	3.61
	MSCI BRIC	1.30	-13.46	-13.46	-6.74	-6.44	4.34
	MSCI EM Latin America	-2.70	-31.04	-31.04	-19.38	-14.41	1.16
	MSCI EM Europe	-5.20	-14.74	-14.74	-17.08	-11.56	-4.05
	MSCI EM Asia	3.46	-9.79	-9.79	-1.18	-0.76	5.76

Source: Morningstar

FIXED INCOME

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
BarCap Aggregate	-0.57	0.55	0.55	1.44	3.25	4.51
BarCap US Government	-0.91	0.86	0.86	1.01	2.77	4.10
BarCap US Credit	-0.52	-0.77	-0.77	1.49	4.38	5.18
BarCap Intermediate Govt/Credit	-0.69	1.07	1.07	1.10	2.58	4.04
BarCap Long Govt/Credit	-0.94	-3.30	-3.30	1.70	6.98	6.45
Citi US Inflation-Linked	-0.61	-1.73	-1.73	-2.35	2.62	3.98
BarCap Emerging Markets Bond	0.98	1.29	1.29	0.57	5.12	6.72
BarCap ABS	-0.57	1.25	1.25	0.95	2.31	3.29
BarCap MBS	-0.10	1.51	1.51	2.01	2.96	4.64
Citigroup US 3-Month T-Bill	0.01	0.03	0.03	0.04	0.05	1.17
BofA ML 1-3 Year Treasury	-0.44	0.54	0.54	0.51	0.70	2.42
BarCap US Corp Aaa	0.51	0.43	0.43	1.67	4.14	4.26
BarCap US Corp A	-0.11	0.60	0.60	1.92	4.55	4.87
BarCap US Corp Baa	-1.19	-2.25	-2.25	1.47	4.83	5.89
BarCap US High Yield	-2.07	-4.47	-4.47	1.69	5.04	6.96
BarCap US High Yield Caa	-7.51	-12.11	-12.11	-0.36	3.44	5.57

Source: Morningstar

STABLE VALUE & MONEY MARKET

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Median Taxable Money Market Fund	0.04	0.12	0.12	0.15	0.18	1.49
Median Stable Value Fund	0.44	1.76	1.76	1.76	2.05	3.07
Consumer Price Index	-0.15	1.18	1.18	1.15	1.63	1.90

Source: PEI

REAL ASSETS

Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
NAREIT - Equity REIT	7.26	3.20	3.20	11.23	11.96	7.41
Bloomberg Commodity	-10.52	-24.66	-24.66	-17.29	-13.47	-6.43
S&P GSCI Commodity	-16.63	-32.86	-32.86	-23.71	-15.18	-10.56

Source: Morningstar

Trailing performance as of: December 31, 2015

(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)

3 Month

	Value	Blend	Growth
Large	**5.64**	**6.50**	**7.32**
Mid	**3.12**	3.62	4.12
Small	**2.88**	**3.59**	4.32

1 Year

	Value	Blend	Growth
Large	-3.83	**0.92**	**5.67**
Mid	**-4.78**	-2.44	**-0.20**
Small	**-7.47**	**-4.41**	-1.38

3 Year

	Value	Blend	Growth
Large	**13.08**	**15.01**	**16.83**
Mid	13.40	14.18	**14.88**
Small	**9.06**	**11.65**	14.28

5 Year

	Value	Blend	Growth
Large	11.27	**12.44**	**13.53**
Mid	11.25	11.44	**11.54**
Small	**7.67**	**9.19**	**10.67**

10 Year

	Value	Blend	Growth
Large	**6.16**	7.40	**8.53**
Mid	7.61	**8.00**	**8.16**
Small	**5.57**	**6.80**	7.95

15 Year

	Value	Blend	Growth
Large	5.86	**5.25**	**4.33**
Mid	**9.12**	**8.15**	**5.85**
Small	**8.17**	7.28	6.03

Top 3 Performers **Bottom 3 Performers**

Calendar Year Performance By Style Within Capitalization Category

(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)

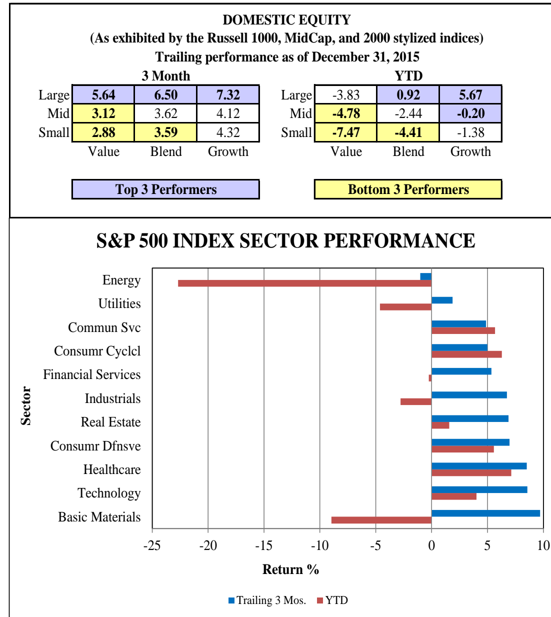
	LARGE CAP		MID CAP		SMALL CAP		LARGE	MID	SMALL
	Russell 1000 V	Russell 1000 G	Russell MCV	Russell MCG	Russell 2000 V	Russell 2000 G	Russell 1000	Russell MC	Russell 2000
2000	**7.01**	-22.42	**19.18**	-11.75	**22.83**	-22.43	-7.79	**8.25**	-3.02
2001	**-5.59**	-20.42	**2.33**	-20.15	**14.02**	-9.23	-12.45	-5.62	**2.49**
2002	**-15.52**	-27.88	**-9.64**	-27.41	**-11.43**	-30.26	-21.65	**-16.19**	-20.48
2003	**30.03**	29.75	38.07	**42.71**	46.03	**48.54**	29.89	40.06	**47.25**
2004	**16.49**	6.30	**23.71**	15.48	**22.25**	14.31	11.40	**20.22**	18.33
2005	**7.05**	5.26	**12.65**	12.10	**4.71**	4.15	6.27	**12.65**	4.55
2006	**22.25**	9.07	**20.22**	10.66	**23.48**	13.35	15.46	15.26	**18.37**
2007	-0.17	**11.81**	-1.42	**11.43**	-9.78	**7.05**	**5.77**	5.60	-1.57
2008	**-36.85**	-38.44	**-38.44**	-44.32	**-28.92**	-38.54	-37.60	-41.46	**-33.79**
2009	19.69	**37.21**	34.21	**46.29**	20.58	**34.47**	28.43	**40.48**	27.17
2010	15.51	**16.71**	24.75	**26.38**	24.50	**29.09**	16.10	25.48	**26.85**
2011	0.39	**2.64**	**-1.38**	-1.65	-5.50	**-2.91**	**1.50**	-1.55	-4.18
2012	**17.51**	15.26	**18.51**	15.81	**18.05**	14.59	16.42	**17.28**	16.35
2013	32.53	**33.48**	33.46	**35.74**	34.52	**43.40**	33.11	34.76	**38.82**
2014	**13.45**	13.05	**14.75**	11.90	4.22	**5.60**	**13.24**	13.22	4.89
2015	-3.83	**5.67**	-4.78	**-0.20**	-7.47	**-1.38**	**0.92**	-2.44	-4.41

Source: Morningstar

PEI Portfolio Evaluations, Inc.
THE BENCHMARK IN INVESTMENT CONSULTING

4Q2015

DOMESTIC AND INTERNATIONAL EQUITY
ECONOMIC REVIEW AND MARKET COMMENTARY

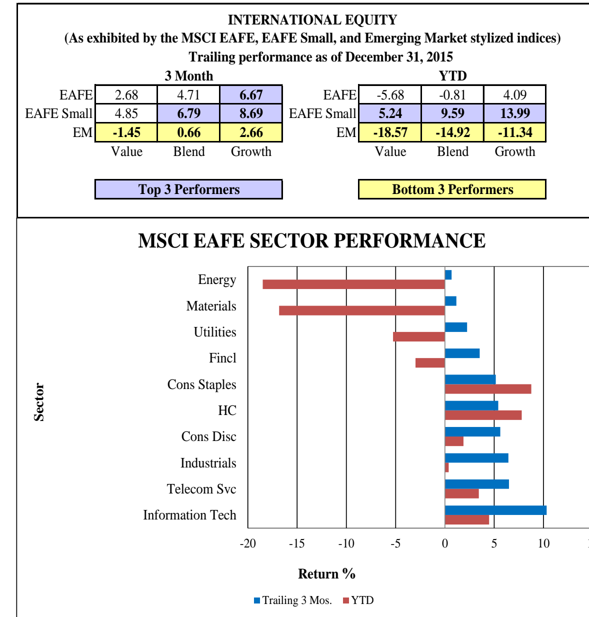


DOMESTIC EQUITY
(As exhibited by the Russell 1000, MidCap, and 2000 stylized indices)
Trailing performance as of December 31, 2015

	3 Month			YTD		
	Value	Blend	Growth	Value	Blend	Growth
Large	5.64	6.50	7.32	-3.83	0.92	5.67
Mid	3.12	3.62	4.12	-4.78	-2.44	-0.20
Small	2.88	3.59	4.32	-7.47	-4.41	-1.38

Top 3 Performers | Bottom 3 Performers

Source: Morningstar



INTERNATIONAL EQUITY
(As exhibited by the MSCI EAFE, EAFE Small, and Emerging Market stylized indices)
Trailing performance as of December 31, 2015

	3 Month			YTD		
	Value	Blend	Growth	Value	Blend	Growth
EAFE	2.68	4.71	6.67	-5.68	-0.81	4.09
EAFE Small	4.85	6.79	8.69	5.24	9.59	13.99
EM	-1.45	0.66	2.66	-18.57	-14.92	-11.34

Top 3 Performers | Bottom 3 Performers

Source: Morningstar

Domestic Equity

U.S. stock markets mitigated most of the volatility triggered earlier in the year, with the S&P 500 Index posting a 7.0% gain during the quarter. For the year, the S&P 500 Index was up a modest 1.4%, including dividends, with disproportionate results coming from a handful of large companies, including Amazon, Alphabet (formerly Google), and Microsoft. Large-cap stocks led mid- and small-cap stocks, which had nearly equal returns, during the quarter. Growth stocks once again outperformed value stocks. From a sector perspective, technology stocks led the charge, closely followed by health care stocks, which benefited from continued consolidation in the industry. Energy was the only sector to post a negative return, as the price of oil continued to slide and put pressure on stock prices. During the calendar year, energy stocks fell by 22.7%. On a valuation basis, the 16.1 forward price-to-earnings ratio of the S&P 500 Index is above the index's long-term average price-to-earnings ratio of 15.8, indicating the market is now slightly overvalued.

International Equity

International markets remained volatile throughout the fourth quarter as investors grappled with a sharp slowdown in China, continued weak commodity prices, a sluggish global economy, and the impact rising U.S. interest rates will have on economies around the world. The MSCI EAFE Index gained 4.7% during the quarter while the MSCI Emerging Markets Index gained 0.7%. For the calendar year, both indices posted negative returns, with the EAFE down 0.8% and the Emerging Markets Index down 14.9%. Against this backdrop, emerging market equities underperformed their developed market counterparts as they suffered from lackluster demand, depreciating currencies, and the downturn in commodity prices. For the quarter, Eurozone equities delivered solid returns as economic data for the region was mostly encouraging and central bank stimulus measures continued to be supportive albeit underwhelming. Japanese equities were one of the top performers for the quarter, with performance driven by improvement in the cyclical sectors and continued central bank support. Chinese equities remained volatile throughout the year, posting positive returns for the quarter but ending the year down over 7.0%. While the Chinese government and central bank moves, including interest-rate cuts and stock market interventions, were attempts to shore up the economy and stimulate growth, they ultimately did little to calm investors' fears. From an international perspective, the information technology and industrials sectors fared the best for the quarter, while growth stocks outperformed their value counterparts.

Portfolio Evaluations, Inc.
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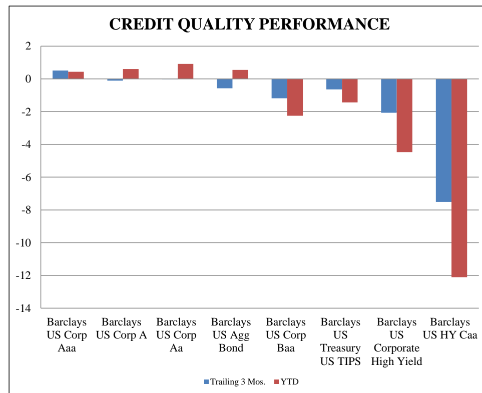
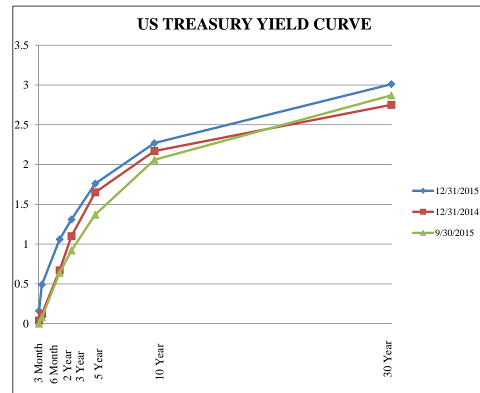
4Q2015

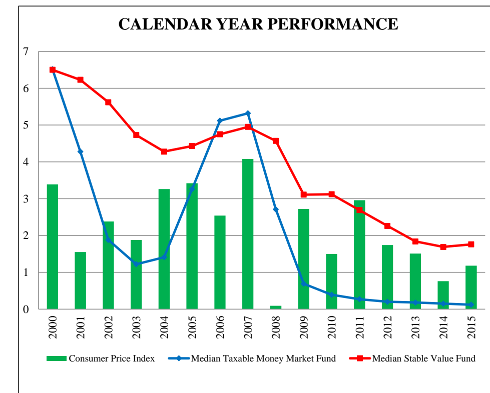
FIXED INCOME, MONEY MARKET, AND STABLE VALUE
ECONOMIC REVIEW AND MARKET COMMENTARY



Source: Morningstar



Source: The Federal Reserve



Source: PEI

Fixed Income

The majority of US fixed income asset classes posted modest negative returns as bonds were volatile and yields trended higher in a quarter marked by the first Fed rate hike since 2006. Ten-year US Treasury yields rose 0.2%, ending the year at 2.3%. Longer maturity bonds finished lower, while shorter maturity bonds were flat. The yield curve flattened as short term yields rose more than intermediate and longer term yields. Rate hike expectations drove shorter maturity yields up, while longer term yields were capped due in part to the market's subdued inflation expectations. The broader fixed income market, as represented by the Barclays Capital US Aggregate Bond Index, fell 0.6% in the quarter, but it managed to outperform duration matched Treasuries given the allocation to higher quality securities. In general, investors favored high quality bonds over high yield as concerns about the high yield market triggered record outflows from corporate bond funds. Government backed and investment grade sectors represented some of the strongest areas of the market. Investment grade spreads recovered over the quarter as global growth fears subsided. Investment grade corporates returned -0.6% but outperformed comparable duration Treasuries. High quality securitized sectors like MBS (-0.1%) and ABS (-0.6%) were also among the best quarterly performers. The continued fall in oil prices negatively impacted energy and other commodity related issues as investors worried about overleveraged producers. High yield debt struggled amid this backdrop. The Barclays US High Yield Index returned -2.1% in the quarter. The Barclays Municipal Bond Index (1.7%) was once again one of the best performing fixed income asset classes, as municipal bonds offered high grade investors better yields than those earned on US Treasuries and were insulated from the volatility in the international markets.

Money Market and Stable Value

Money market fund managers anticipate the Fed's rate hike. Typical WAM continued to hover around thirty-five to forty days, as funds looked forward to increasing yields. Now entering a rising rate environment, there is a possibility money managers put an end to waiving fees and implementing clawbacks. Other considerations impacting fund management included global events and the SEC money market reform. With the implementation date for the reform requirements coming in October 2016, more money market providers have announced plans for their fund lineups. Provider plans for consolidation and mergers into government funds have led to many questions regarding future supply issues for short term government paper. Prime fund managers continue to build liquidity in anticipation of outflows due to the reforms, especially to Government/Treasury funds that will not be required to float the NAV or implement redemption gates and liquidity fees. Stable value funds have experienced inflows during the quarter. Their cash positions have been slightly elevated to provide flexibility as interest rates rise. Wrap capacity continues to improve since 2008, with wrap providers slowly giving more investment flexibility to managers. On average, wrap fees have been ranging between 0.20%-0.25%.