



Q1 2017 IN REVIEW

A Synopsis of the Financial Market Environment

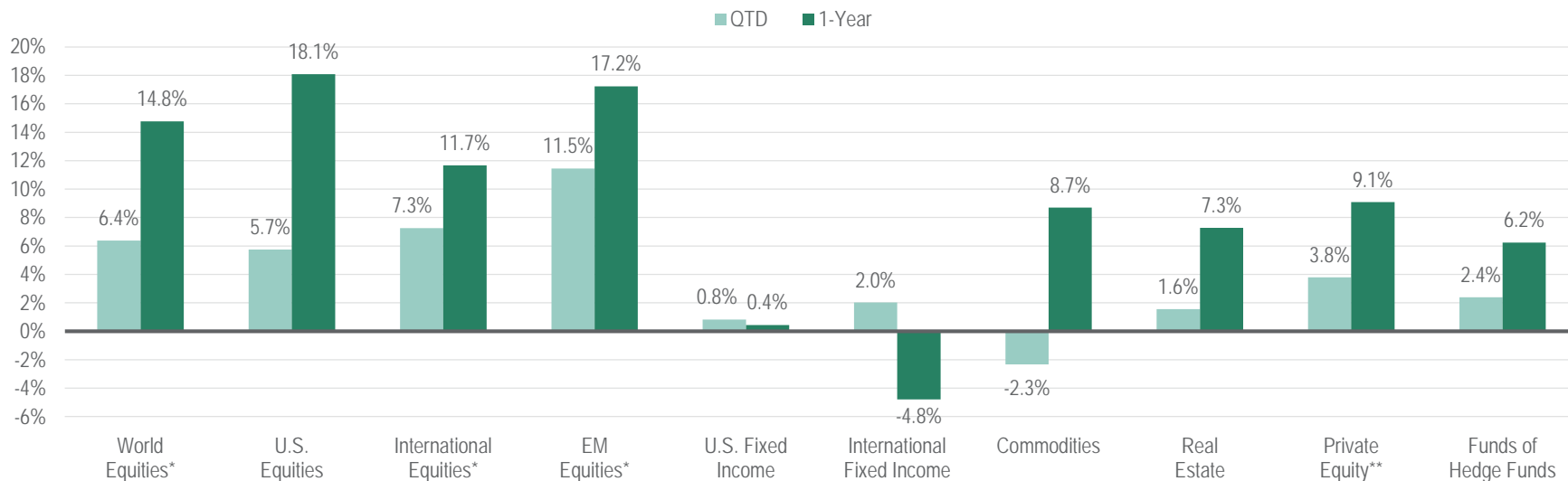
May 2017



 Segal Marco Advisors

Q1 2017 In Review

Summary of Investment Returns



Quarterly Synopsis

- World equity markets were positive due to continued optimism about the U.S. economy and signs of growth in Europe.
- U.S. equity gained in Q1 with solid corporate earnings and optimism that economic growth will continue.
- International equity rose as economic fundamentals in Europe improved and the dollar struggled.
- Emerging market equity surged in Q1 with stronger Asian economic data and declining nervousness about U.S. trade policy.
- U.S. fixed income was nearly flat as investors anticipate further U.S. interest rate hikes after March's rate increase.
- Non-U.S. fixed income was positive for the quarter with investors gravitating toward bonds amid political uncertainty.
- Hedge funds benefited from rising stock markets, and particularly from gains in technology and healthcare.

* Net of Dividends

** Performance reported as of Q3 2016 because Q4 2016 and Q1 2017 performance data is not yet available.

Sources: eVestment Alliance, Hueler Analytics, Investment Metrics, Thomson One

Q1 2017 In Review: Index Returns

| Asset Class | Indices | QTD | YTD | 1-Year | 3-Year | 5-Year | 10-Year |
|------------------------|------------------------------------|-------|-------|--------|--------|--------|---------|
| World Equity | MSCI World* | 6.38 | 6.38 | 14.77 | 5.52 | 9.37 | 4.21 |
| U.S. Equity | Russell 3000 | 5.74 | 5.74 | 18.07 | 9.76 | 13.18 | 7.54 |
| Non-U.S. Equity | MSCI EAFE* | 7.25 | 7.25 | 11.67 | 0.50 | 5.83 | 1.05 |
| Emerging Market Equity | MSCI EM* | 11.45 | 11.45 | 17.22 | 1.18 | 0.81 | 2.72 |
| U.S. Fixed Income | Bloomberg Barclays U.S. Aggregate | 0.82 | 0.82 | 0.44 | 2.68 | 2.34 | 4.27 |
| Non-U.S. Fixed Income | Citigroup Non-U.S. WGBI (Unhedged) | 2.02 | 2.02 | -4.79 | -2.56 | -1.50 | 2.64 |
| Commodities | Bloomberg Commodity Index | -2.33 | -2.33 | 8.69 | -13.92 | -9.54 | -6.22 |
| Private Real Estate | NCREIF NPI | 1.55 | 1.55 | 7.27 | 10.58 | 10.69 | 6.72 |
| Private Equity | Thomson Reuters Private Equity** | 3.80 | 6.84 | 9.08 | 12.24 | 13.41 | 10.37 |
| Hedge Funds | HFRI Fund of Funds Composite | 2.39 | 2.39 | 6.23 | 1.80 | 3.22 | 1.24 |

* Net of Dividends

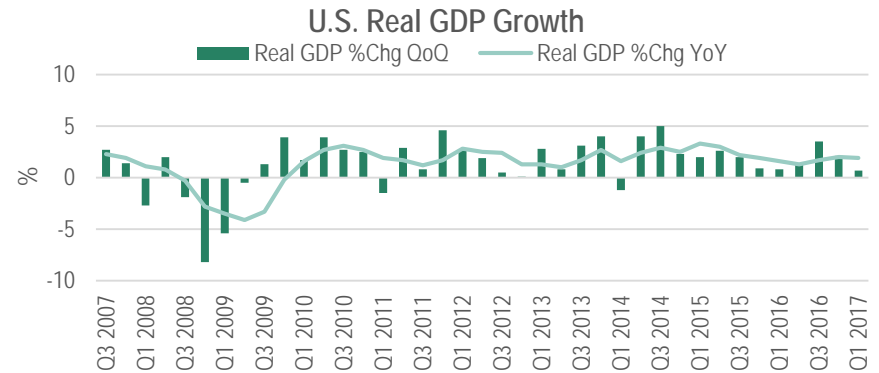
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Q1 2017 In Review: U.S. Economy

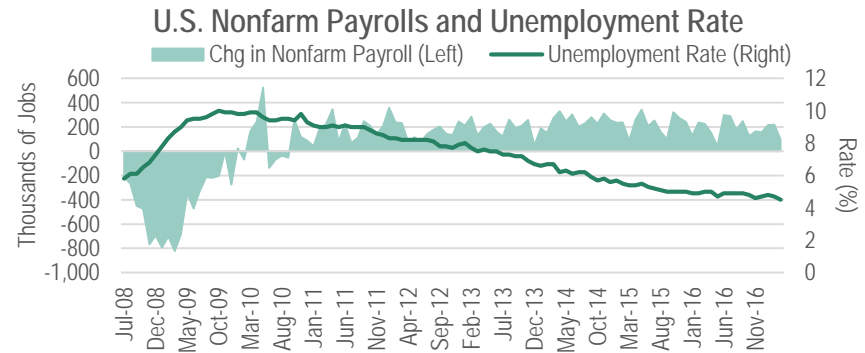
GDP Growth

- Real GDP grew at an annualized rate of 0.7% in Q1.
- Positive contributors to GDP were nonresidential fixed investment, residential fixed investment, exports and personal consumption expenditures.
- Private inventory investment, state and local government spending and federal government spending detracted from GDP growth, along with increased imports.



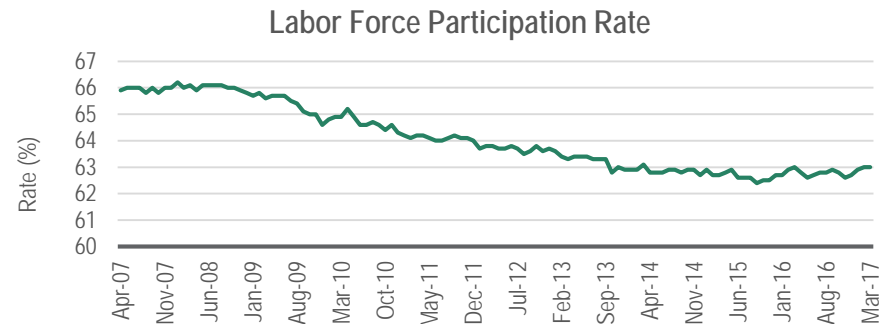
Employment Picture

- The unemployment rate decreased from 4.7% in Q4 to 4.5% at the end of Q1 2017.
- Nonfarm payrolls increased by 533,000 jobs in Q1.
- Employment in professional and business services increased, and education and health services positions rose steadily. Retail jobs fell. Government employment rose in Q1.



Labor Force Participation

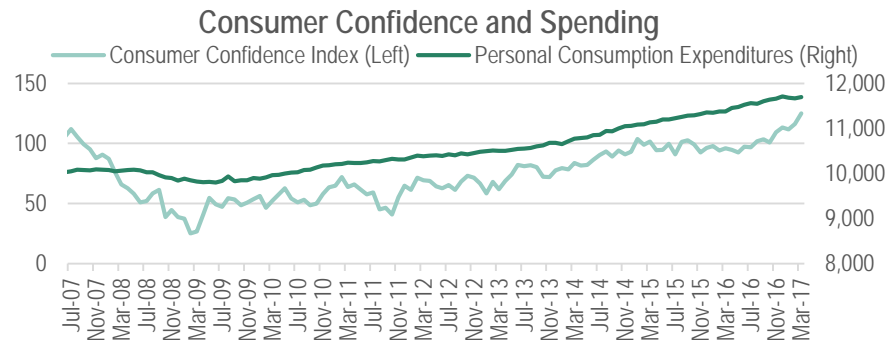
- The labor force participation rate was 63.0% at the end of March, the highest it has been since March 2016.
- Labor force participation has bounced between 62% and 63% since 2014.



Q1 2017 In Review: U.S. Economy

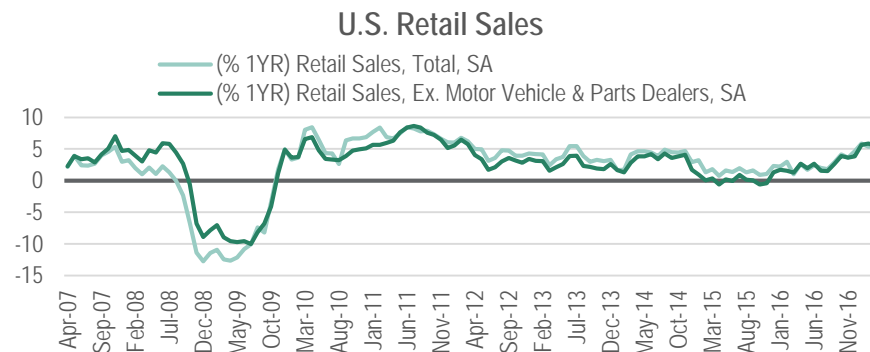
Consumer Confidence and Spending

- Consumer confidence continued its post-Presidential election surge in Q1, reaching a level of 126.
- However, personal consumption expenditures fell a bit during the quarter.
- The election of President Donald Trump spurred optimism that economic growth would continue, but people were less optimistic about their own financial situations.



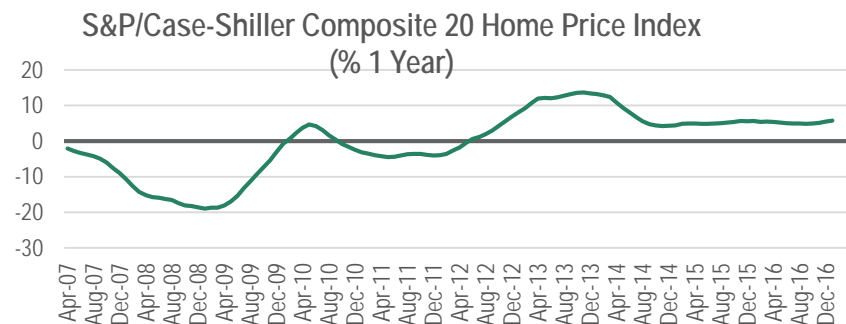
Retail Sales

- Retail sales rose in Q1 but weakened in March.
- Retail sales ex motor vehicle sales slid late in the quarter.



Home Prices

- Home prices rose 1.5% in the fourth quarter.*
- Though interest rates rose in December, home prices are not expected to decline any time soon.
- Unusually low housing inventories continue to support home price gains.

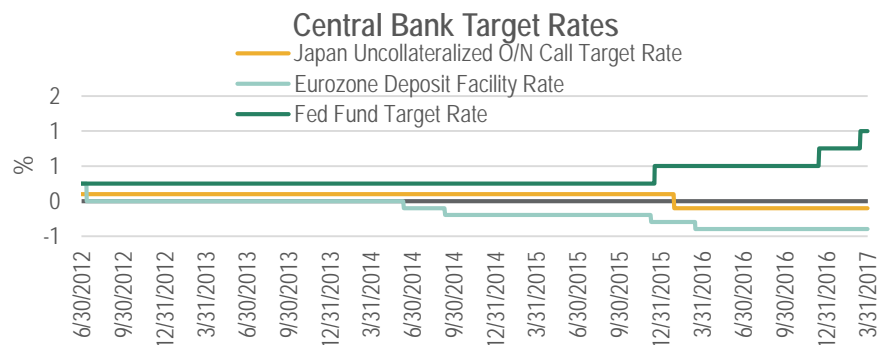


*The most recent quarterly data available.
Source this page: FactSet

Q1 2017 In Review: Global Economy

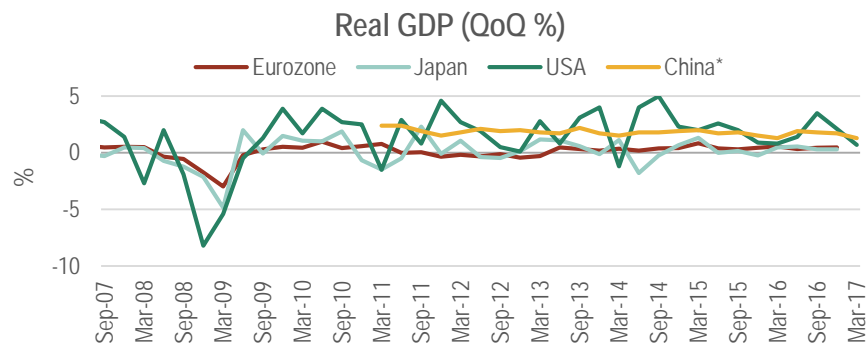
Monetary Policies/Global Interest Rates

- Central bank deposit rates remain negative in most developed markets.
- The United States is the exception—the Federal Reserve raised its policy rate in March and indicated that more hikes were likely in 2017.



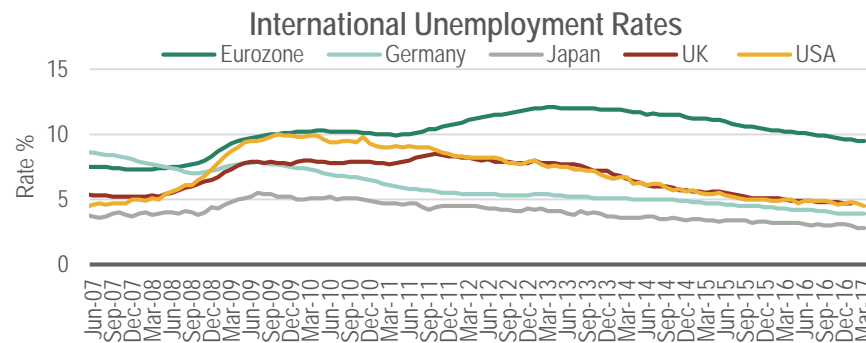
World GDP Growth

- Japan GDP growth was predicted to be higher in Q4, but was relatively flat amid declining government investment.
- Eurozone GDP growth rose only slightly. Household consumption drove growth but net external demand was negative.



Global Employment Picture

- Unemployment in developed countries was relatively flat in the quarter.
- Eurozone unemployment edged a bit lower in Q1. German unemployment was at a post reunification low, though France's was flat.
- Japan's unemployment rate fell to 2.8% in February from 3.1% in December.



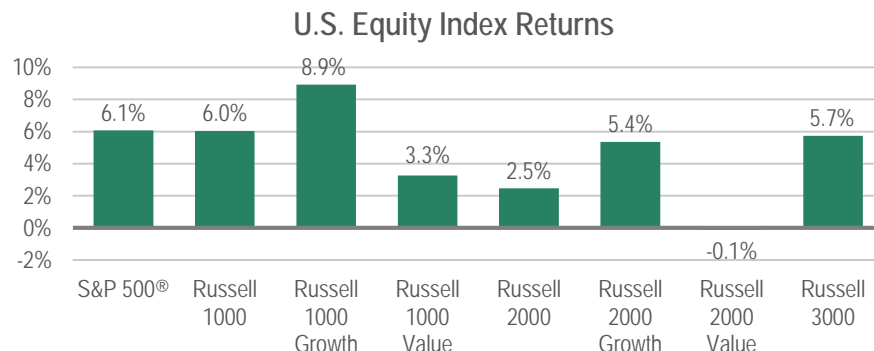
*Quarter over quarter data calculations began in 2011

Source this page: FactSet

Q1 2017 In Review: U.S. Equity

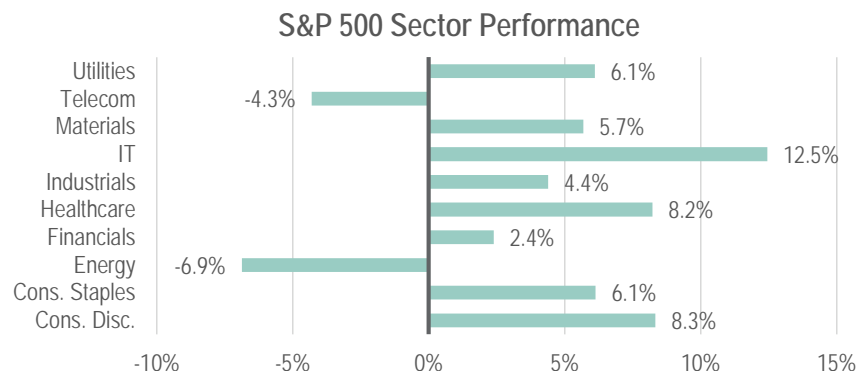
Performance

- U.S. equities rose to all-time highs during Q1 2017, with the Dow Jones Industrial Average breaking 21,000 in March. Broad-based market indices such as the S&P 500 and Russell 1000 delivered returns in excess of long-term averages.
- In a reversal of the trends we saw in 2016, during Q1 2017 large cap stocks outperformed small cap stocks, growth beat value, and quality outperformed more cyclical issues.



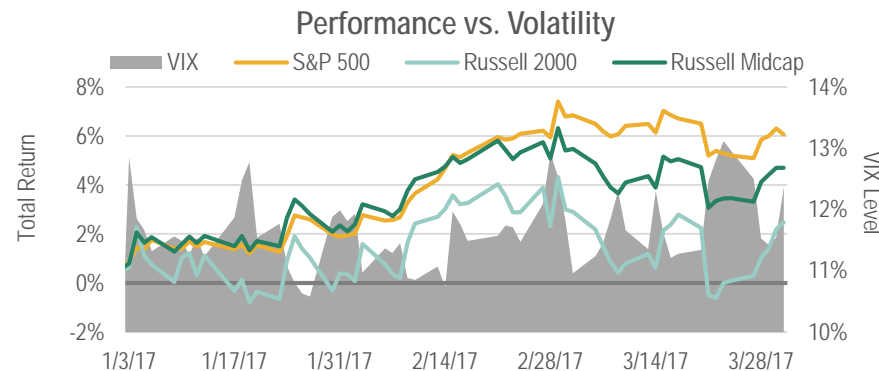
Sector Returns

- Energy was the most significant laggard in the S&P 500. Oil's decline helped lead commodities lower.
- Information technology (IT) was Q1's best performer at 12.5%. Healthcare delivered strong returns of 8.2% even amid policy uncertainty around President Trump's failed push to repeal the Affordable Care Act.
- Bond proxy sectors such as utilities and consumer staples rebounded somewhat from a difficult second half of 2016.



Performance vs. Volatility

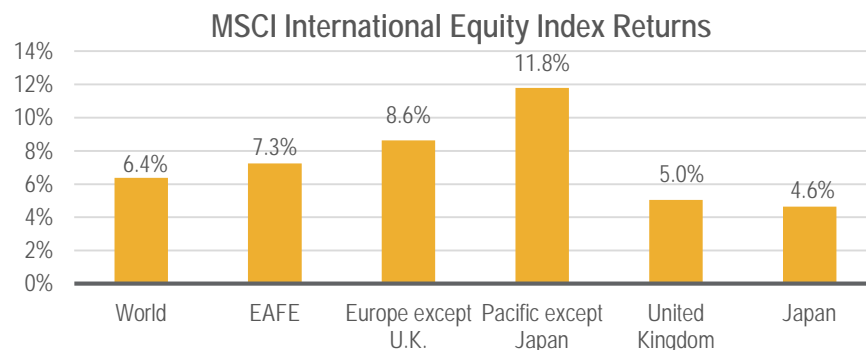
- The CBOE VIX index continues to be a poor indicator of the level of volatility in equity markets.
- The VIX remains well below 20, the level considered to be the threshold for more stable markets. In contrast, a level above 30 is generally considered to be a measure of market instability.
- The unappreciated level of risk in both domestic and international equity markets has been challenging for many investors with respect to risk management and monitoring investment portfolios.



Q1 2017 In Review: International Equity

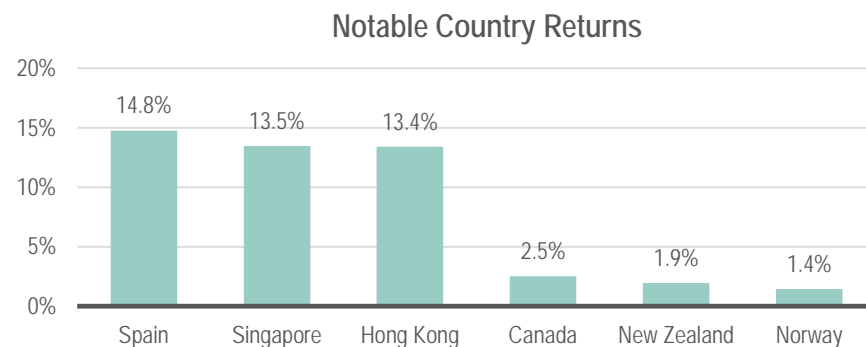
Performance

- Equity markets around the globe experienced one of the strongest starts to a year since 2012. Investors remained optimistic that corporate profitability would be buoyed by the U.S. administration, despite its protectionist trade rhetoric.
- Encouraging economic growth from across the U.S., Europe and Asia, as well as improving employment data and strengthening manufacturing conditions globally, contributed to a robust 7.3% return for the MSCI EAFE index.



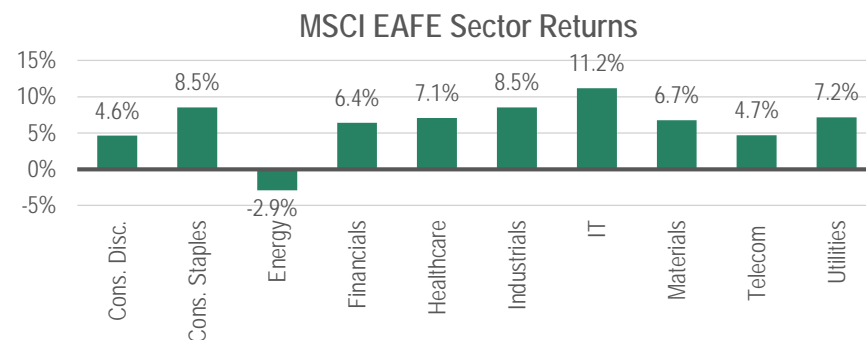
Country Returns

- Asian markets were some of the best performers as positive earnings revisions and easing concerns over a potential U.S. trade war boosted returns.
- European equities delivered strong gains amid positive economic data points and fading political worries about further eurozone breakups after the center-right party win in the Dutch elections.
- At a stock level, Spanish banks Banco de Sabadell and CaixaBank, were among the best performers in European markets, contributing to Spain's strong 14.8% return.



Sector Performance

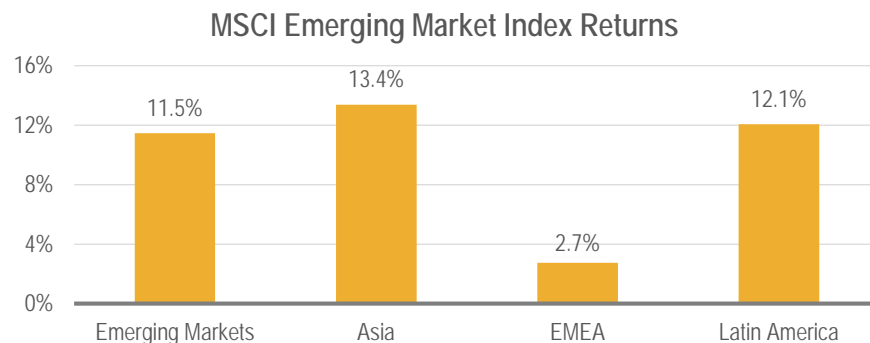
- The information technology (IT) sector was the top performer, followed by industrials and consumer staples.
- Energy was the only sector to post a negative return, as the prospect of faster growth in U.S. oil production and rising U.S. stockpiles remained on investors' minds.



Q1 2017 In Review: Emerging Market Equity

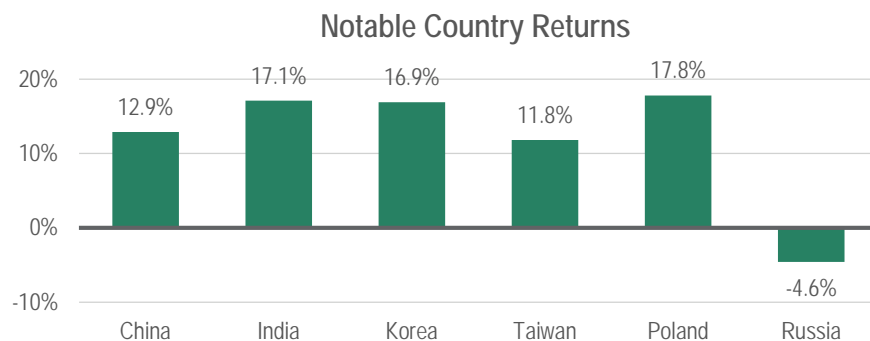
Performance

- The MSCI Emerging Markets Index rose by 11.5% in Q1, posting the best quarterly increase in five years.
- An improvement in global growth prospects, higher prices for industrial metals, and a weaker USD all provided a tailwind for returns.
- At the total index level, currency had a positive impact for U.S. investors, with local currency returns coming in 3.7% below the USD results.



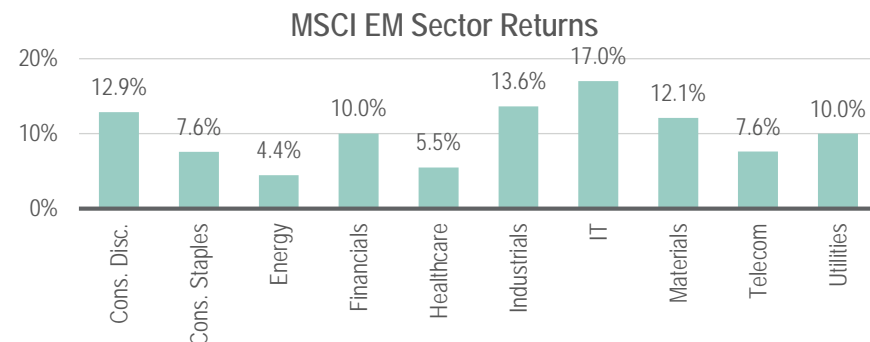
Country Returns

- China gained on robust industrial production figures and continued strength in the property market. Korea and Taiwan rallied on strong exports of technology related components.
- India gained as its central bank forecasted strong economic growth for the year and kept interest rates unchanged. The ruling BJP's success in state elections also provided a tailwind.
- Poland performed the best of all index constituents, as positive economic data increased expectations for growth in 2017. Russia lost the most, hurt by a decline in energy prices.



Sector Performance

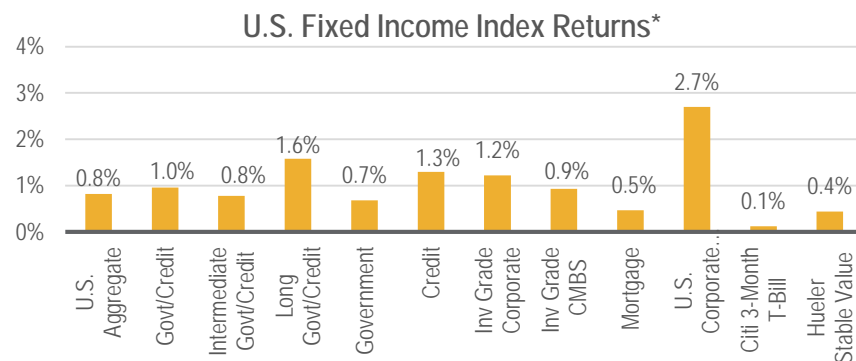
- All sector returns were positive in Q1.
- The technology and industrials sectors were the best performers, while the energy and healthcare sectors lagged.



Q1 2017 In Review: U.S. Fixed Income

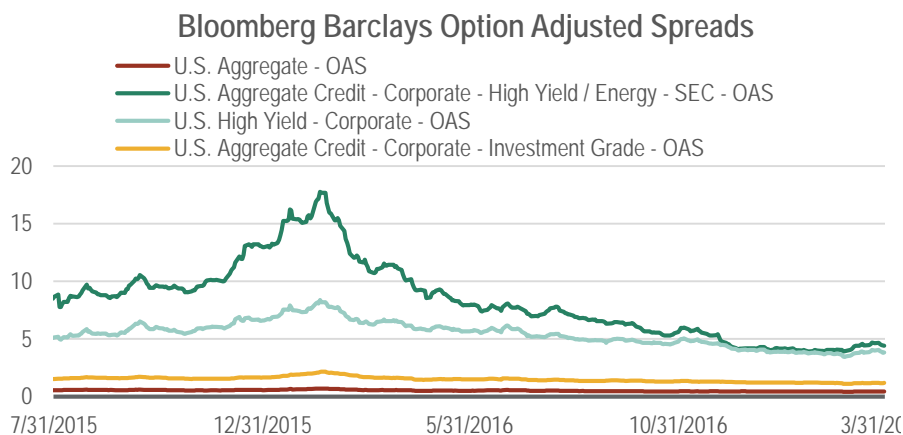
Performance

- Overall, credit outperformed Treasuries in Q1.
- The Bloomberg Barclays U.S. High Yield Index extended its 2016 run, generating 2.7% in Q1. Lower quality names outperformed higher quality names.
- The Bloomberg Barclays U.S. Aggregate Index had strong performance from the investment-grade corporate sector constituent (1.2% for the quarter).



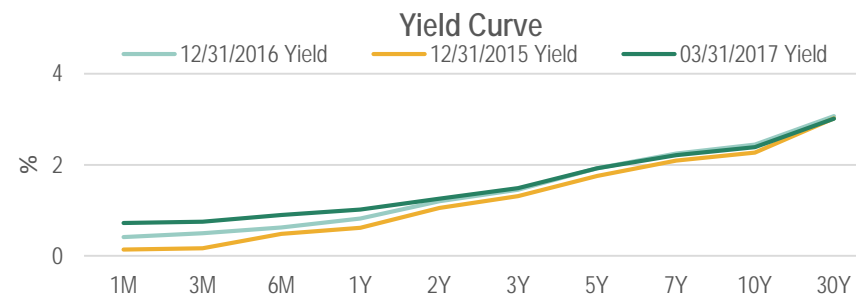
Spreads

- All standard U.S. spread sectors were trading below historical medians at quarter end.
- High yield bond spreads ended Q1 below high yield bank loans at 392 bps over like-duration Treasuries vs. 438 bps over Libor for loans.



Yield Curve

- The yield curve flattened modestly in Q1, with the 30- and 10-year tenors falling 6 bps each, yielding 3.01% and 2.39%, respectively, at quarter end.
- The 2-year nominal Treasury note rose 7 bps to yield 1.26% behind a 25 bps Fed policy hike and inflation repricing.

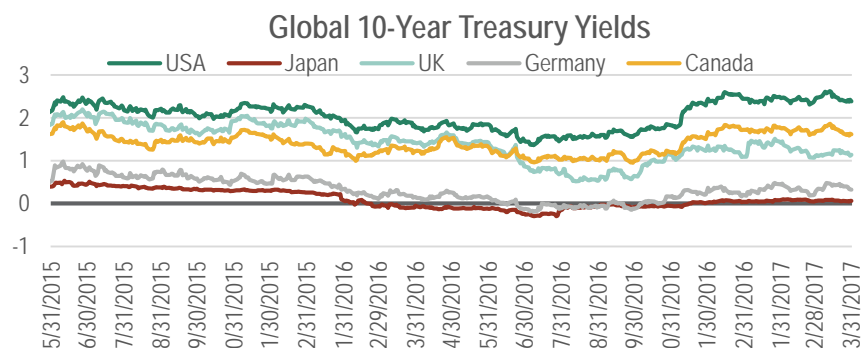


*Bloomberg Barclays Indices, unless otherwise noted.
Sources this page: eVestment, Hueler Analytics, Barclays Live, FactSet

Q1 2017 In Review: International Fixed Income

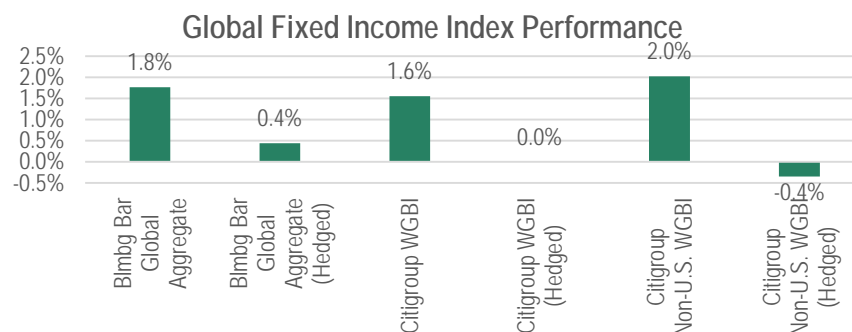
Global Treasuries

- The USD depreciated in Q1, which benefitted international and global indices with the euro, yen, and other developed ex-U.S. currencies.



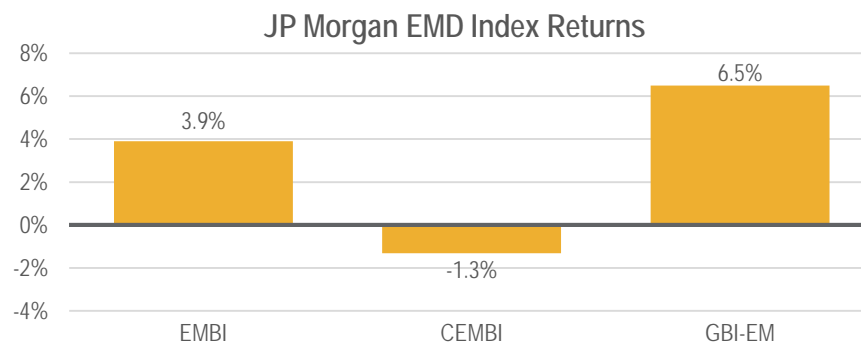
Global Fixed Income Index Returns

- The Global Aggregate Index was up 1.8% in Q1, while the USD-hedged version of that index was only up 0.4%. The USD's weakness held back the hedged index's performance.
- The Citigroup World Government Bond (1.6%) and Non-U.S. World Government Bond (2.0%) indices also outpaced their hedged counterparts.



Emerging Market Debt

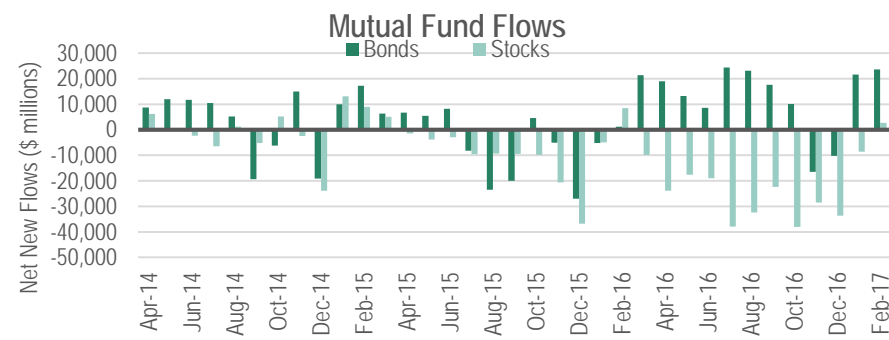
- The USD-denominated corporate bond index (CEMBI) fell. The USD-denominated EMBI Global and the local currency GBI-EM Global Diversified indices gained.
- Commodity prices found a bid in Q1 and meaningful emerging market currency appreciation occurred in pockets of the universe where valuations aren't supported by fundamentals.
- In Latin America, Brazil and Mexico currencies appreciated 4.3% and 10.7%, respectively, versus the USD.
- In Asia, the South Korean won, Taiwanese dollar, and Indian rupee all appreciated meaningfully by quarter end.



Q1 2017 In Review: Mutual Fund Flows

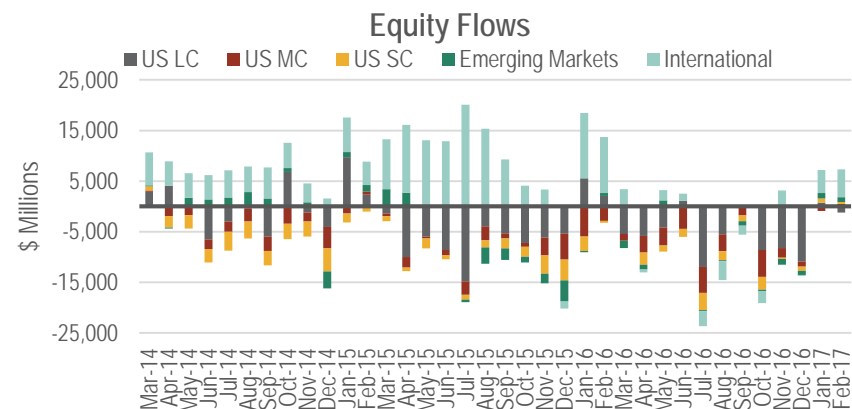
Equity and Fixed Income Flows

- Fixed income received net new inflows of approximately \$45.3 billion in Q1 through February 28, 2017.*
- Equity experienced net outflows of approximately \$5.9 billion during the same time period. Net inflows of around \$2.6 billion in February were not significant enough to offset January's net outflows of approximately \$8.6 billion in the quarter-to-date (QTD) calculation.



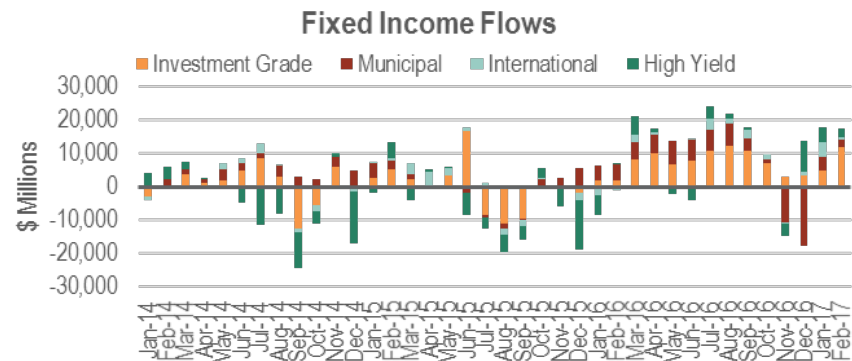
Equity Flows

- International equity experienced the greatest net inflows QTD through February 28* with a total of approximately \$10 billion.
- U.S. large and mid caps were net negative QTD, while small caps and emerging markets were net positive.



Fixed Income Flows

- Investment grade bonds saw the greatest net inflows at approximately \$17 billion QTD through February 28.*
- International, high yield and municipal bonds were also net positive.
- The only segment that experienced net outflows was government (not shown in graph).

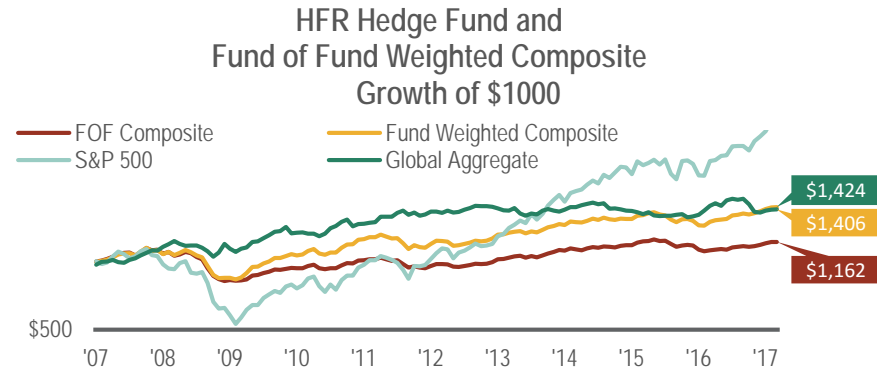


*The most recent data available.
Source this page: FactSet

Q1 2017 In Review: Absolute Return Strategies

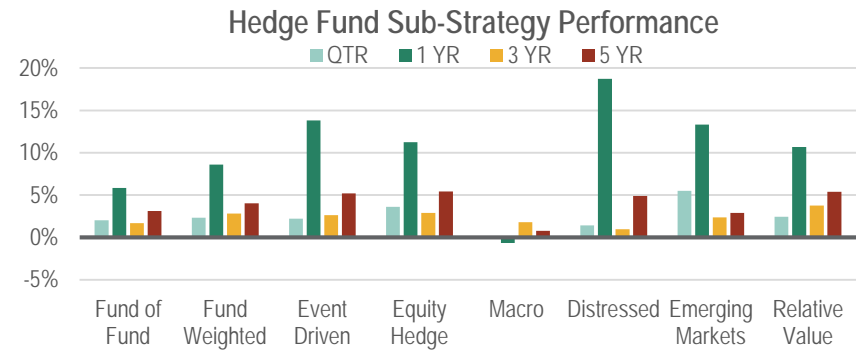
Hedge Funds and Fund of Funds

- Q1 hedge fund performance as represented by the HFRI Fund Weighted Composite was positive at 2.4%. The index has gained for four consecutive quarters and has trailing 1-, 3-, and 5-year returns of 8.7%, 2.8%, and 4.0%, respectively.
- The HFRI Fund of Funds Composite Index was also positive for the fourth consecutive quarter and up 2.4% in Q1. The index now has trailing 1-, 3-, and 5-year returns of 6.2%, 1.8%, and 3.2%, respectively.



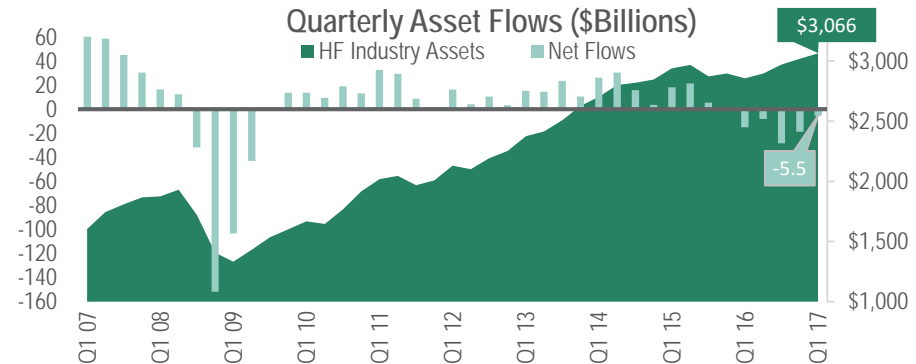
Hedge Fund Sub-Strategies

- Emerging Markets led sub-strategy performance in Q1, up 6.1%, driven largely by India and Asia ex-Japan.
- Equity Hedge also posted a solid gain of 3.6% and benefited from technology and healthcare specific managers.
- Macro was the weakest strategy, down -0.2%, driven by Active Trading and Systematic managers.



Hedge Fund Industry Asset Flows

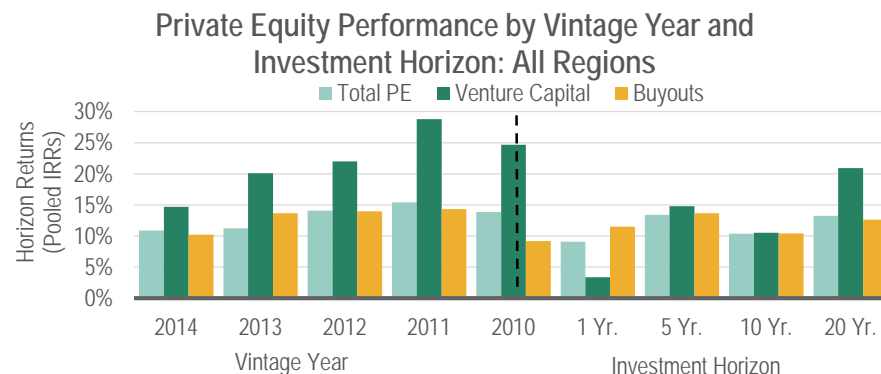
- Total hedge fund industry capital rose for the fourth consecutive quarter. Industry-wide assets totaled \$3.07 trillion by the end of Q1.
- Assets increased by \$47 billion as investors increased capital to Event Driven and Trend Following Systematic Macro strategies. Trailing 12-month industry capital increased 7.3%.
- 2016 saw the largest annual outflow since 2009; however, investor outflow slowed to \$5.5 billion in Q1 2017, the lowest quarterly outflow since Q4 2015.



Q1 2017 In Review: Private Equity

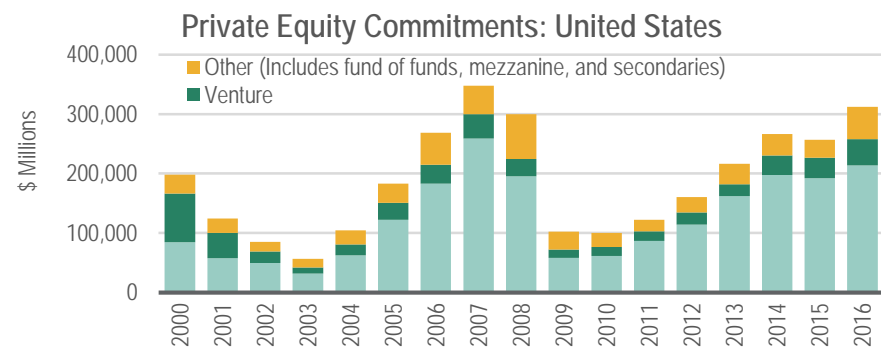
Performance

- The total return for private equity funds, comprising performance across all regions and strategies, was 3.8% in Q3 2016* and 9.1 percent over the 1-year period ending Q3.
- Long-term performance was strong, with double-digit returns for the 5-, 10- and 20-year time periods ending Q3 2016 of 13.4 percent, 10.4%, and 12.2%, respectively.
- Performance for 2010 through 2014 vintage-year funds has been solid, with double-digit returns for each vintage year.



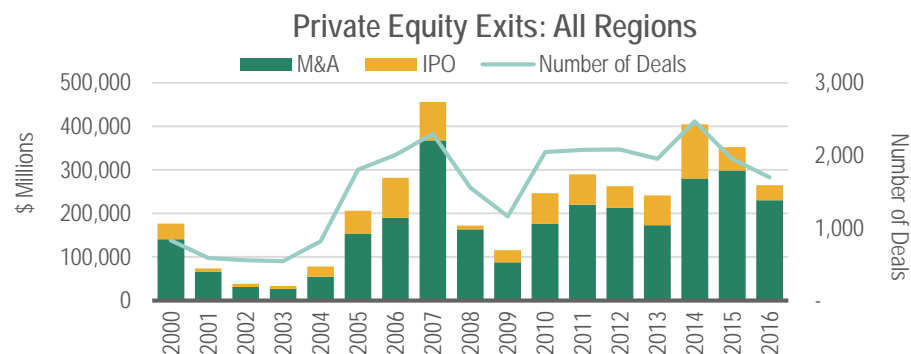
Fundraising

- U.S. private equity funds raised approximately \$118.2 billion in Q4 2016,* resulting in a total of \$312.2 billion in fund commitments across 872 fund closings in 2016, around 6% more money and 77 more closings than in 2015.
- Corporate finance strategies, including buyouts and other strategies attracted \$213.6 billion across 334 funds in 2016. Buyout funds, especially big buyout vehicles, helped drive overall U.S. private equity fundraising. The \$103.9 billion gathered by buyout funds in 2016 marked the largest amount raised since 2008.



Exit Activity

- Exit activity declined sharply in Q4 2016.* Compared to Q3, the number of private equity exits decreased by 10%, while the aggregate value of exits fell 44.3%. The number of exits in 2016 hit its lowest level since 2009, while the aggregate exit value fell to its lowest level since 2014.
- Macro concerns and geopolitical uncertainty weighed heavily on the global IPO and M&A markets, making it the quietest year for IPOs since 2012 and represented a 23% decline in value for M&As compared to the previous year.



* The most recent data available.

Q1 2017 In Review: Real Estate

U.S. Private Real Estate

- Among NPI property types, industrial continued its relative outperformance (2.8%) with a 130 bps total return lead on the index's second best performing property type (retail).
- The West outperformed all other regions (2.0%).
- Completed real estate deals in Q1 were significantly lower (-33% QoQ), reflecting a \$19bn decrease in aggregate deal value.
- High quality U.S. assets have fully recovered in value and, on average, are now valued 20% in excess of 2007 peak valuations. Despite the continued recovery, current valuations have U.S. assets trading at an overall slight premium to NAV.

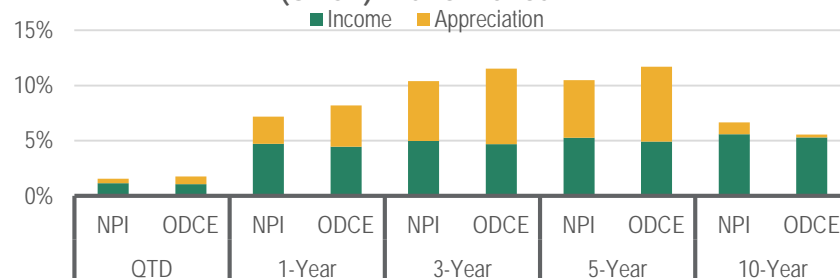
Value Add Real Estate

- Q1 2017 closed-end private real estate fundraising activity saw a reversal in momentum from 2016: (42%) YoY; (53%) QoQ.
- The number of closed-end funds reaching a final close declined concomitantly, down from 72 in Q4 2016 to only 38 in Q1 2017.
- Value-added funds represented the largest number of funds closed and capital raised in Q1.
- Dry powder increased 3% QoQ, setting a record high level of \$245bn at the end of Q1.

Public Real Estate

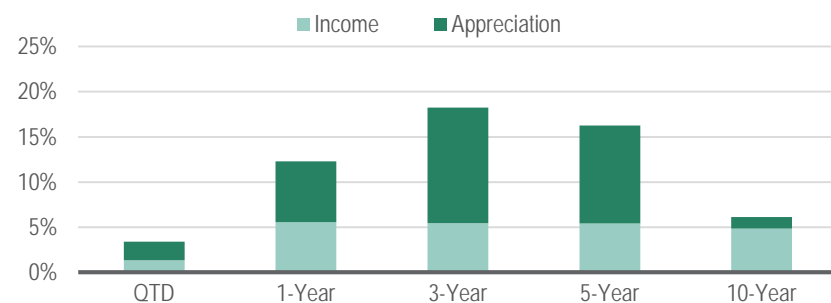
- Global public real estate stocks saw modest gains in Q1.
- The overall global investable property stock universe is trading at a 2% discount, suggesting public markets may be pricing in a potential decline in asset values.
- Despite the relative value discounts, certain segments of the global listed property markets are trading at premiums, driven by investor demand for defensive exposure and for yield.

NCREIF NPI & Open-End Diversified Core Equity (ODCE)* Performance

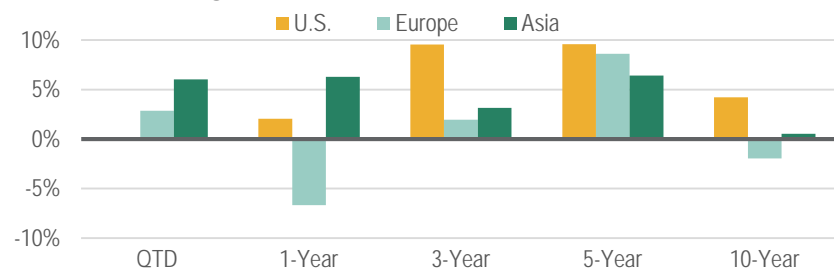


* The NPI (NCREIF Property Index) is a U.S. direct investment real estate index based on gross, market value weighted returns of individual properties and the ODCE (Open-end Diversified Core Equity) is a fund-level cap-weighted, gross of fee, time-weighted return index.

Closed End Value Add Performance



Regional Real Estate Securities Performance

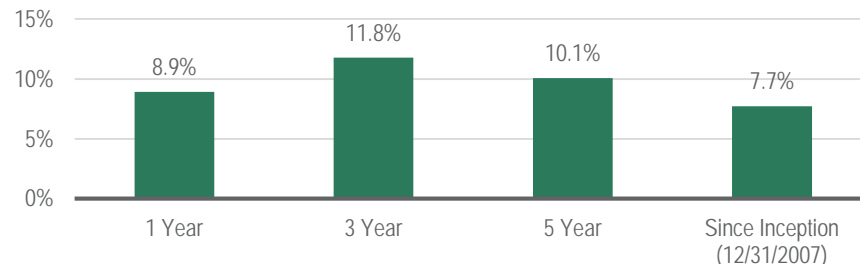


Q1 2017 In Review: Infrastructure

Private Infrastructure Performance

- Infrastructure has posted significant returns over the past 3 years as private market investments have realized price appreciation that has been felt across capital markets.
- Double-digit annualized returns realized in the 3- and 5-year periods were not matched in the 1-year period. Private infrastructure is expected to continue to generate strong single-digit returns while avoiding equity correlation.

Preqin Infrastructure Annualized Return as of 6/30/2016*

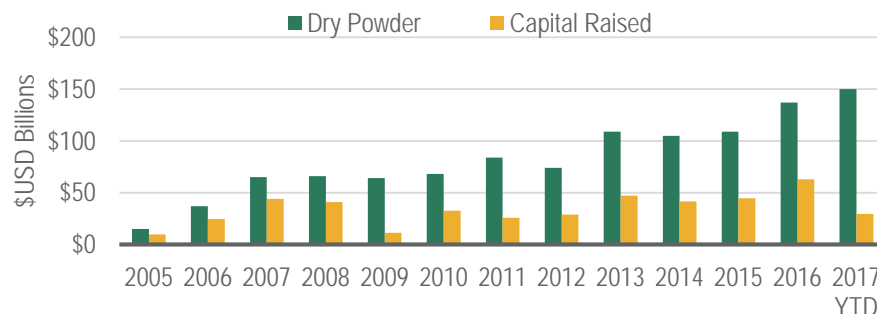


* Most recent data available

Dry Powder and Fundraising

- Fundraising has been strong for infrastructure investors over the past decade as institutional investors have become more active in the space.
- Dry powder has grown significantly as managers have been able to draw capital with a compelling growth and investment story.
- Infrastructure became a hot topic during the 2016 presidential election and Q1 2017 illustrated the sector's popularity with a record quarterly fundraising total for unlisted infrastructure managers.

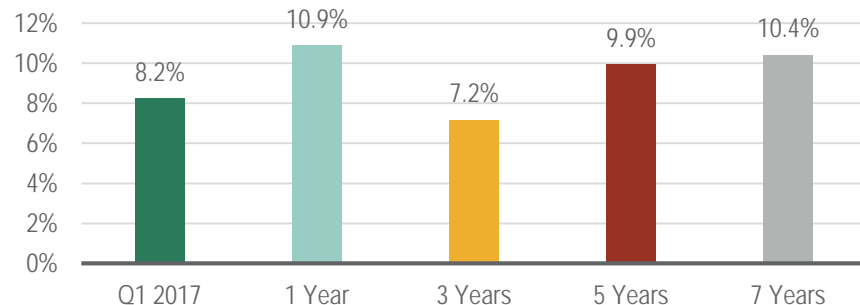
Dry Powder and Fundraising



Public Infrastructure Performance

- The talk of infrastructure during the presidential campaign not only helped fundraising on the private side but it aided performance for public vehicles.
- Q1 2017 was a great quarter for global infrastructure, as many analysts expected a pickup in economic activity and higher infrastructure spending coming from Washington.
- The backdrop of strong global equities helped public infrastructure generate robust returns.

FTSE Global Core Infrastructure 50/50 Index



Q1 2017 In Review: Commodities and Currencies

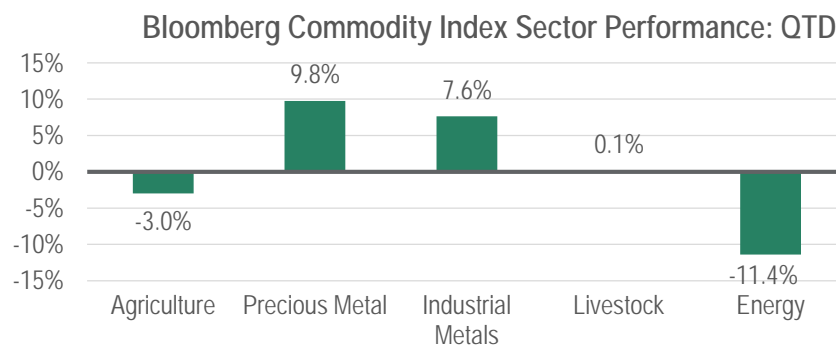
Quarterly Commodity Returns

- Commodities (-2.3%) ended Q1 down after a strong 2016, when the Bloomberg Commodity Index posted its first calendar-year gain since 2010.
- Energy and agriculture drove the decline, as natural gas, oil and sugar were negative.
- Industrial metals rose with disruptions at copper mines curbing supply. Prospective U.S. infrastructure investment and Chinese demand also boosted metals.



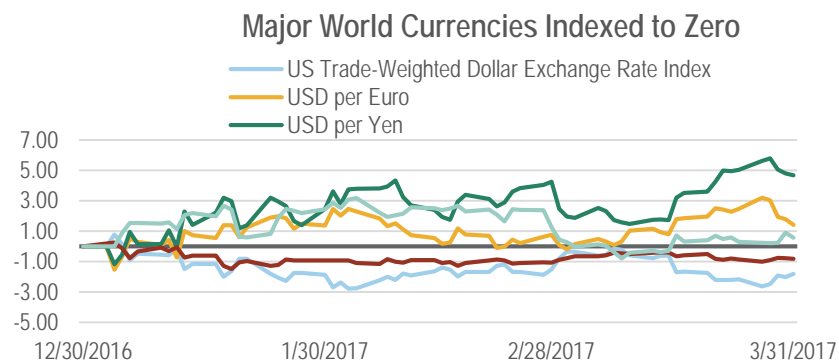
Sector Returns

- The energy sector posted the largest decline in the index. Oil prices fell due to questionable sustainability of the OPEC production cut and lukewarm prospects for growth in U.S. output.
- Precious metals outperformed, increasing 9.8% for the quarter. Expectations of rising inflation and volatility in other asset classes boosted gold prices.



Currencies

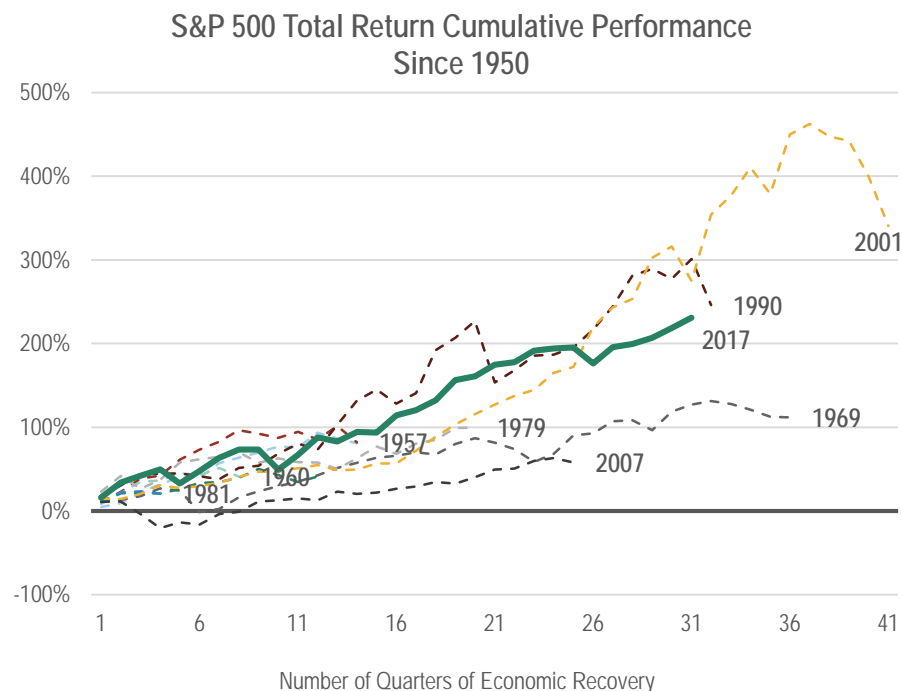
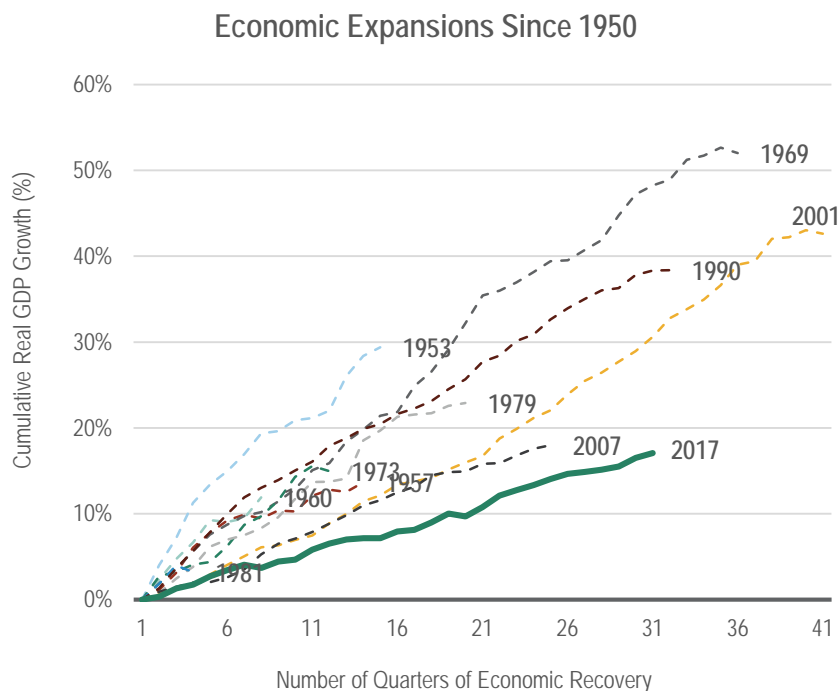
- The USD retreated modestly in Q1 after a run up following the U.S. election.
- Higher interest rates and tax reform will be tailwinds for the USD going forward.



Q1 2017 In Review: Noteworthy Developments

Financial Assets Outpace Economic Growth in the Current Expansion

- As shown in the graph at left below, the current economic expansion is the third longest since 1950, as well as one of the slowest in terms of economic growth.
- Meanwhile, the current bull market in equities is the third strongest over that same time period, as illustrated in the graph at right below.
- This means the value of financial assets has far outpaced underlying economic growth, contributing to a few observations:
 - The current state of the capital markets of overvaluation across virtually all asset classes.
 - The disconnect between the upper and middle classes, since the upper class typically benefits most from gains in financial assets while slow growth has not benefitted the middle class to the same extent.

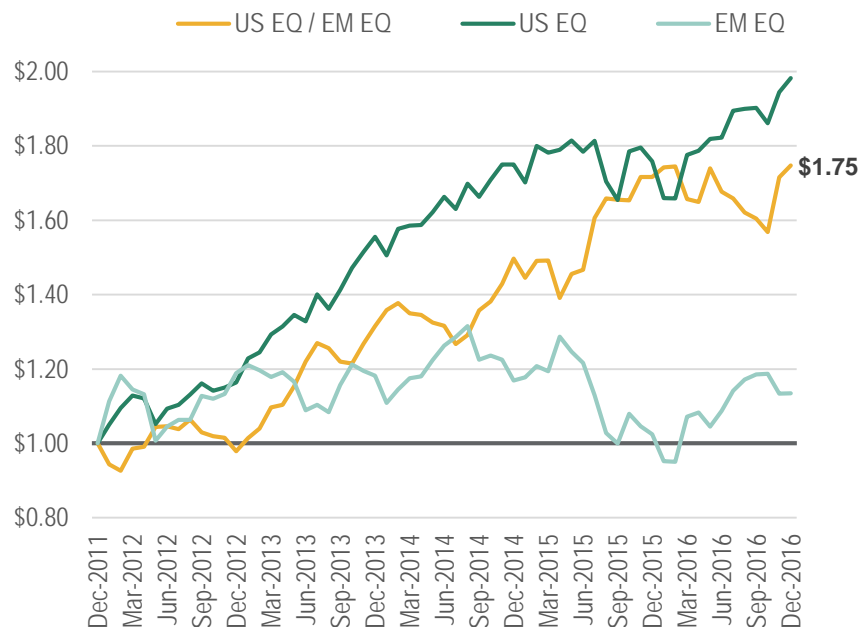


Q1 2017 In Review: Noteworthy Developments

The Quiet Black Swan

- Over the last 5 years the U.S. equity market has outperformed emerging market equities by 12% per annum.
- In other words, going long \$1.00 in U.S. equities and short \$1.00 in emerging markets would have given you \$1.75 in a year.
- This has occurred even though these two assets classes had a correlation of 0.66 throughout the period.
- Using the historical standard deviations and correlations, the probability of this occurring is 1%, or 1-in-99 years.*

U.S. Equity Versus Emerging Market Equity
Trailing 5 Years



| | Risk Premium** | Historical Standard Deviation | Historical Correlation | |
|-----------------------------|----------------|-------------------------------|------------------------|------|
| U.S. Equity | 6% | 11% | 1.00 | 0.66 |
| Emerging Market Equity | 8% | 16% | 0.66 | 1.00 |
| Long U.S. Equity/ Short EME | -1% | 12% | | |
| Z-Score | 2 | | | |
| Probability | 1% | | | |

* This is according to the Capital Asset Pricing Model, or CAPM, which is a formula that is widely used in finance for the pricing of risky securities.

** Ex Ante CAPM

Sources this page: Investment Metrics, Segal Marco Advisors analytics

Q1 2017 In Review: Noteworthy Developments

High Yield in a Rising Rate Environment

- Typically, rising interest rates are negative for the bond market. However, high yield bonds have historically performed well in a rising rate environment.
- During the six periods of rising rates over the last 30 years, the high yield market's median return was 8.1%. Furthermore, in all six periods, the high yield returns were positive.
- Given that we may be headed into another period of rising interest rates, investors should consider high yield bonds as a potential investment for their portfolio.



| Date | | Number of Months | 10-Year Treasury Yield | | | Annual Performance | |
|--------|--------|------------------|------------------------|------|--------|--------------------|------------------------------------|
| Begin | End | | Begin | End | Change | 10-Year Treasury | BofA Merrill Lynch U.S. High Yield |
| Aug-86 | Sep-87 | 13 | 6.9% | 9.6% | 2.7% | -8.9% | 6.9% |
| Sep-93 | Nov-94 | 14 | 5.4% | 7.9% | 2.5% | -8.8% | 6.9% |
| Sep-98 | Jan-00 | 16 | 4.4% | 6.7% | 2.2% | -7.7% | 3.7% |
| May-03 | May-06 | 37 | 3.4% | 5.1% | 1.7% | -0.5% | 9.3% |
| Dec-08 | Dec-09 | 12 | 2.2% | 3.8% | 1.6% | -9.8% | 57.5% |
| Jul-12 | Dec-13 | 17 | 1.5% | 3.0% | 1.6% | -6.2% | 9.5% |
| | | | | | Median | -8.3% | 8.1% |

Questions? Contact Us.

To discuss the implications for your investment strategy of the data presented in this synopsis of the financial market environment, contact your Segal Marco Advisors investment consultant, [our nearest office](#) or one of the following experts:

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