



 **PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

4<sup>TH</sup> QUARTER 2015  
Investment Landscape  
Conference Call

# Call instructions

Verus<sup>777</sup>

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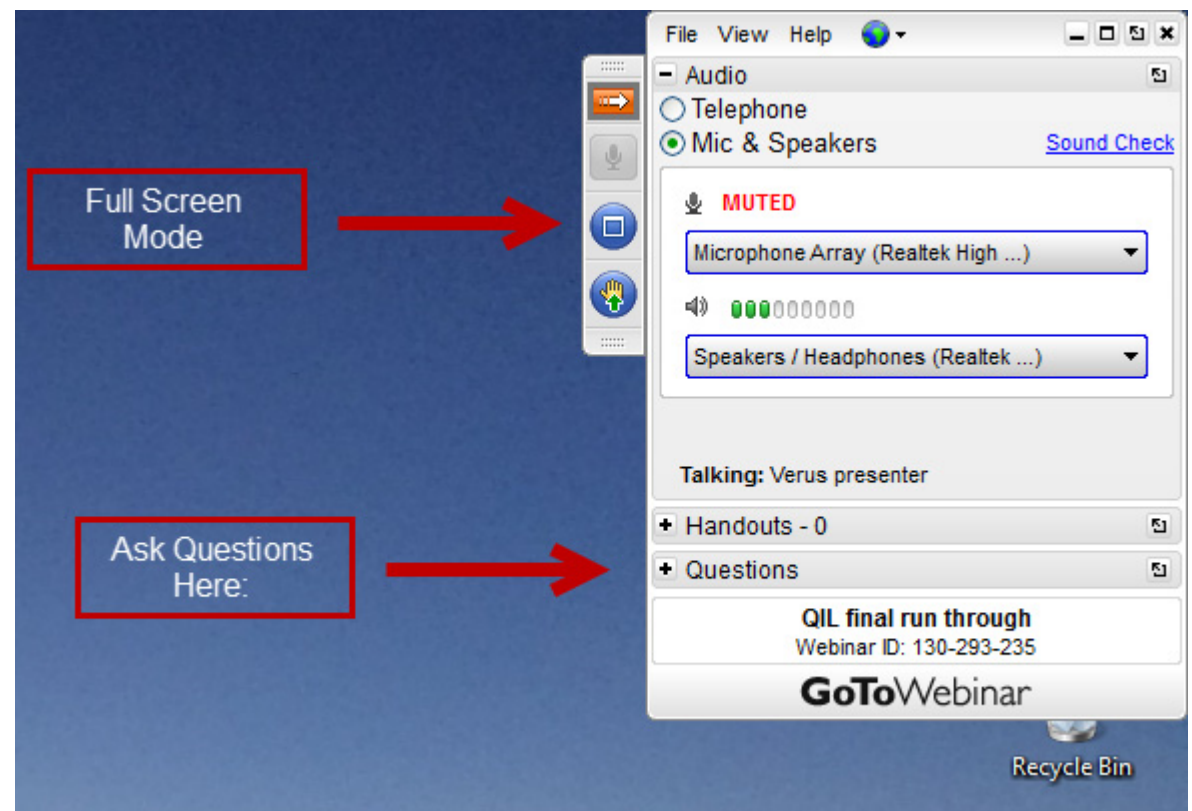
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Ask questions for the Q&A session in the Questions window.



# 4<sup>th</sup> quarter conference call

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## IMPORTANT INFORMATION

**Dial in:** (877) 309-2071 U.S. & Canada

**URL:** <https://attendee.gotowebinar.com/register/1506799691290062849>

**Access Code:** 841-650-147

**Playback Info:** Will be available on the website after the call  
[www.verusinvestments.com](http://www.verusinvestments.com)

**Audio Options:** You may choose to listen through the webcast on your computer *or* dial in.

**Instructions:** Please register and login to the above website *and/or* dial in the number above and use the provided access code. Questions can be asked by using the question feature on the control panel.

**Introduction by:** Jeffrey MacLean, Chief Executive Officer

**Presented by:** Ian Toner, CFA, Managing Director  
Scott Day, CFA, Managing Director



**Jeffrey J. MacLean**  
Chief Executive Officer



**Ian Toner, CFA**  
Managing Director



**Scott Day, CFA**  
Managing Director

# Verus firm update

- On October 21<sup>st</sup>, we announced the intention to merge with Strategic Investment Solutions, Inc. (“SIS”). The anticipated closing date is January 1, 2016. There will be no material change in Verus’ ownership, as the controlling interests in Verus will remain unchanged. As a result of the cash and stock transaction, several SIS employees will become minority shareholders in Verus.
- With the addition of the SIS team, our investment professional count grows to 81, out of a total 100 employees.
- Our combined firm will advise clients with total assets in excess of \$380 billion\* across all client types and the continent.



San Francisco, home of  
our newest Verus office

\*Preliminary as of October 1, 2015.

# 4<sup>th</sup> quarter summary

## THE ECONOMIC CLIMATE

- The U.S. economy continues at a lukewarm pace, with improvement in employment rates but lackluster participation and wage growth.
- Inflation remains near zero, but is in a normal range if the effects of food and energy are excluded. Inflation rests near zero in developed countries.
- Decelerating growth in China has had far reaching impacts. However, milder growth and decreasing fiscal stimulus are in line with China's hoped-for transition to a consumption-oriented economy.

## MARKET PORTFOLIO IMPACTS

- The U.S. dollar further appreciated against emerging market currencies – particularly against the “fragile five” currencies.
- Developed economy 10-year yields broadly declined. Global FX reserves fell as central banks made efforts to support currency values in the face of falling oil price and weakening demand from China.

## THE INVESTMENT CLIMATE

- Risk markets remain expensive relative to history, though August's selloff resulted in improved valuations.
- The Federal Reserve left rates unchanged in September. It remains uncertain whether the Fed will move rates by year-end.

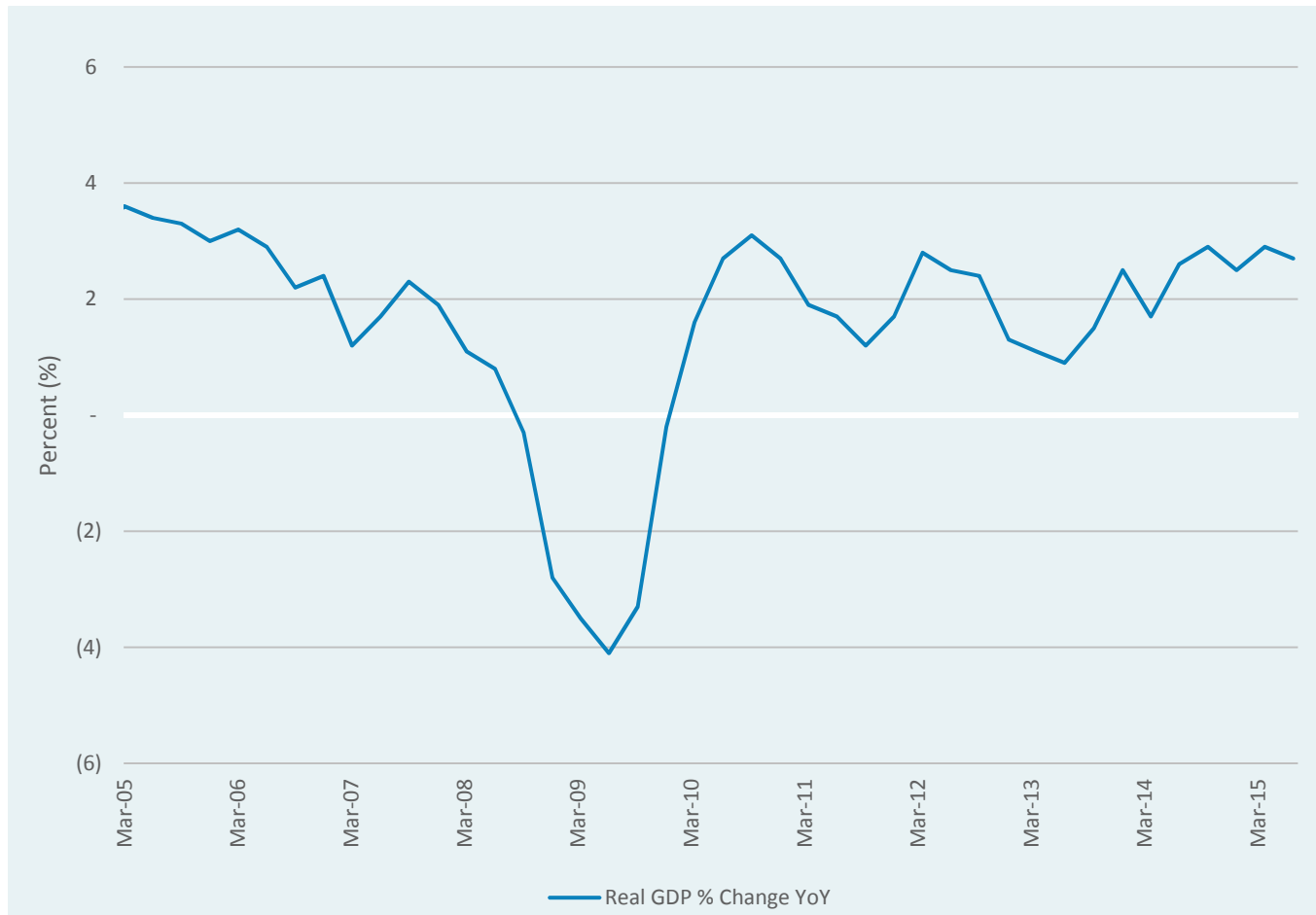
## ASSET ALLOCATION ISSUES

- Credit spreads widened substantially across the board, with energy leading the way. It is essential for investors to understand the extent of credit risk exposure in portfolios.
- Recent market behavior reminds us of the need to pause and assess the investment landscape objectively and dispassionately.
- Inflation-hedging assets have realized significant volatility and are increasingly difficult to own. It is important to remember that inflation sensitive assets also provide exposure to downward inflation movement.

We are tactically slightly underweight in risk terms, and watchful of China and commodity-producing economies

Economic progress continues slowly in the developed markets

# U.S. GDP growth



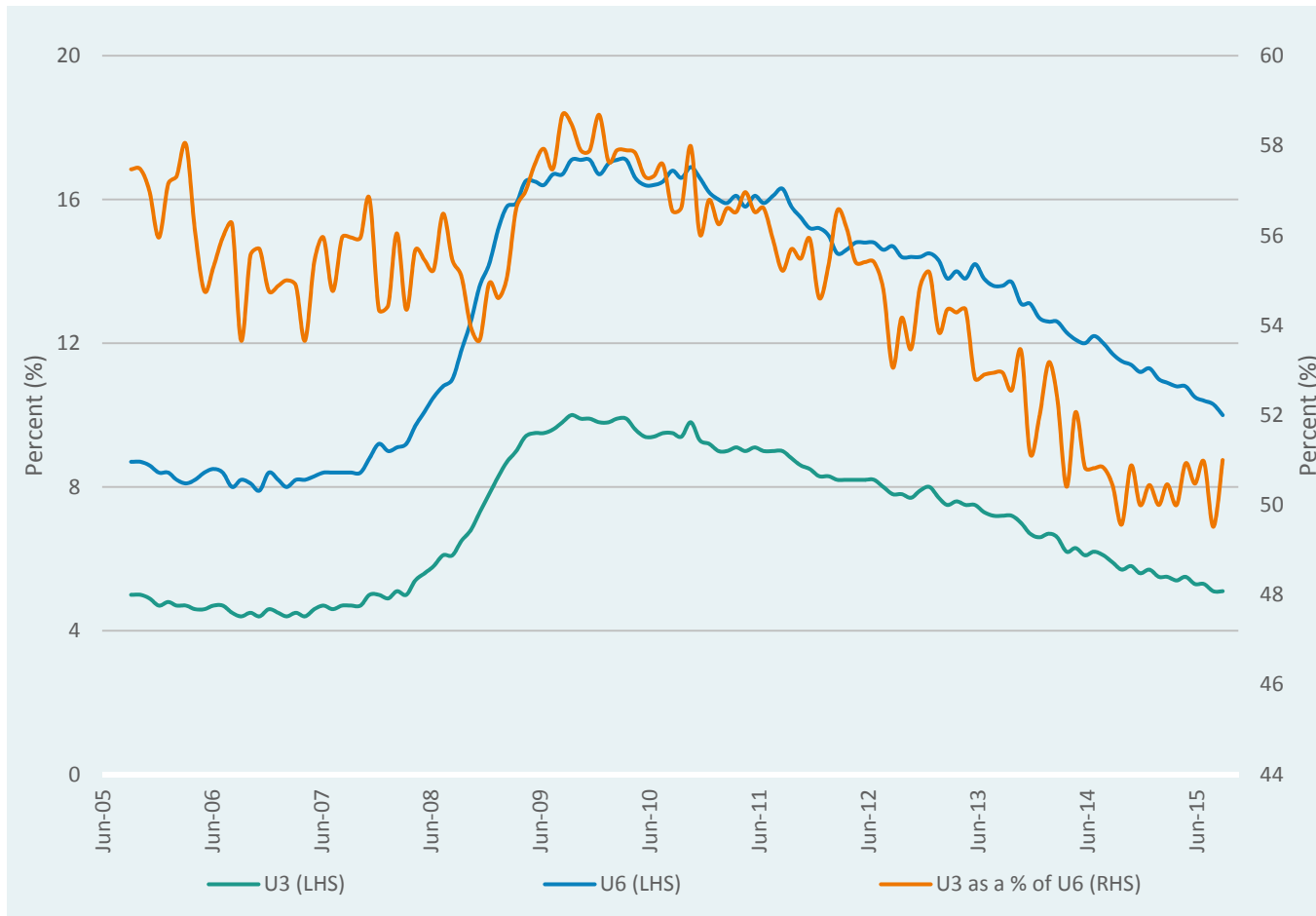
A continual slow growth, although expectations for Q3 a little lower

Dollar strength and energy price weakness pose challenges

Slow growth better than many countries

Source: FRED, as of 6/30/15

# U.S. unemployment

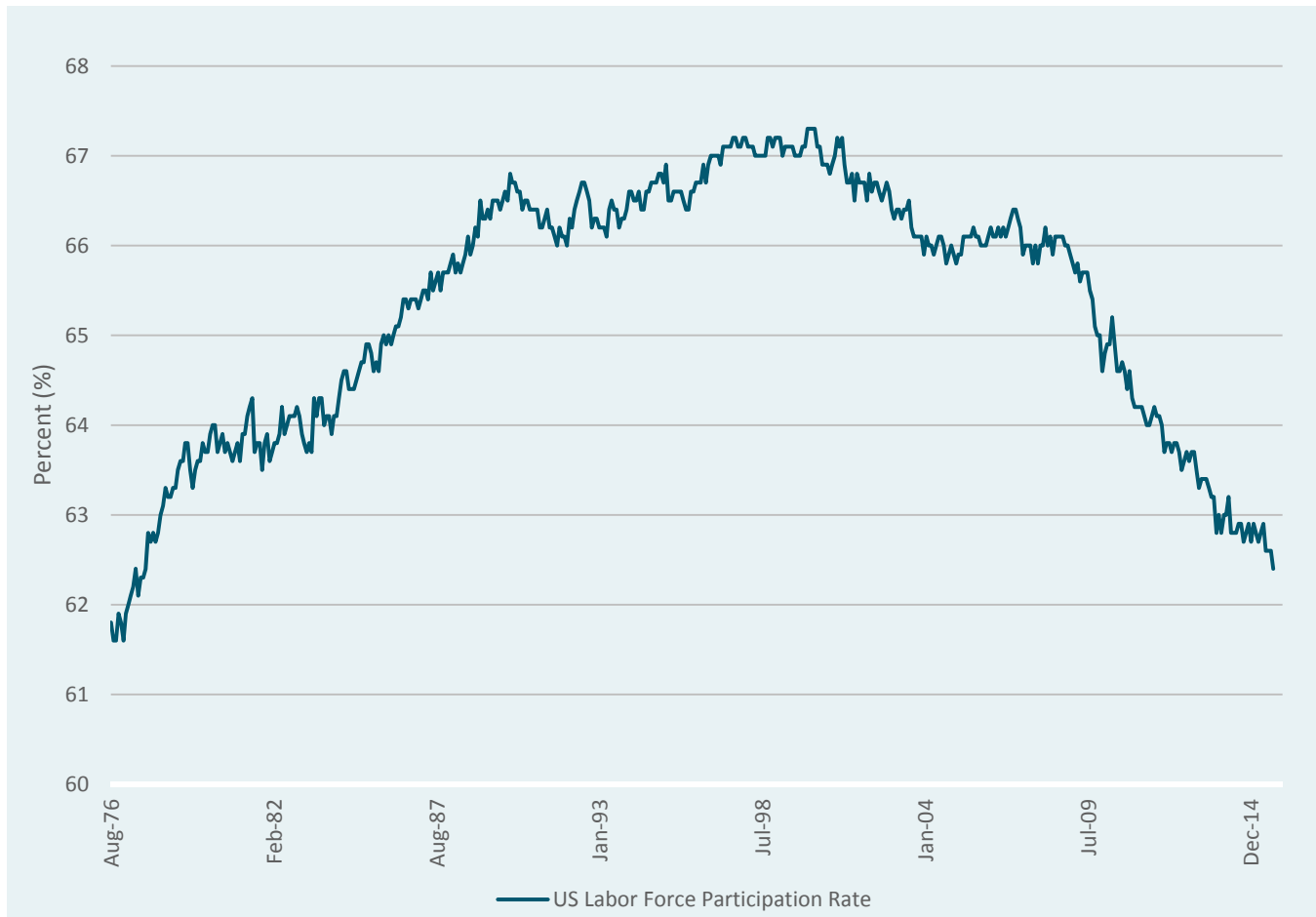


Continuing  
slow drip of  
unemployed  
back into work

The  
relationship  
between U3  
and U6 seems  
range-bound

Source: FRED, as of 9/1/15

# Labor force participation



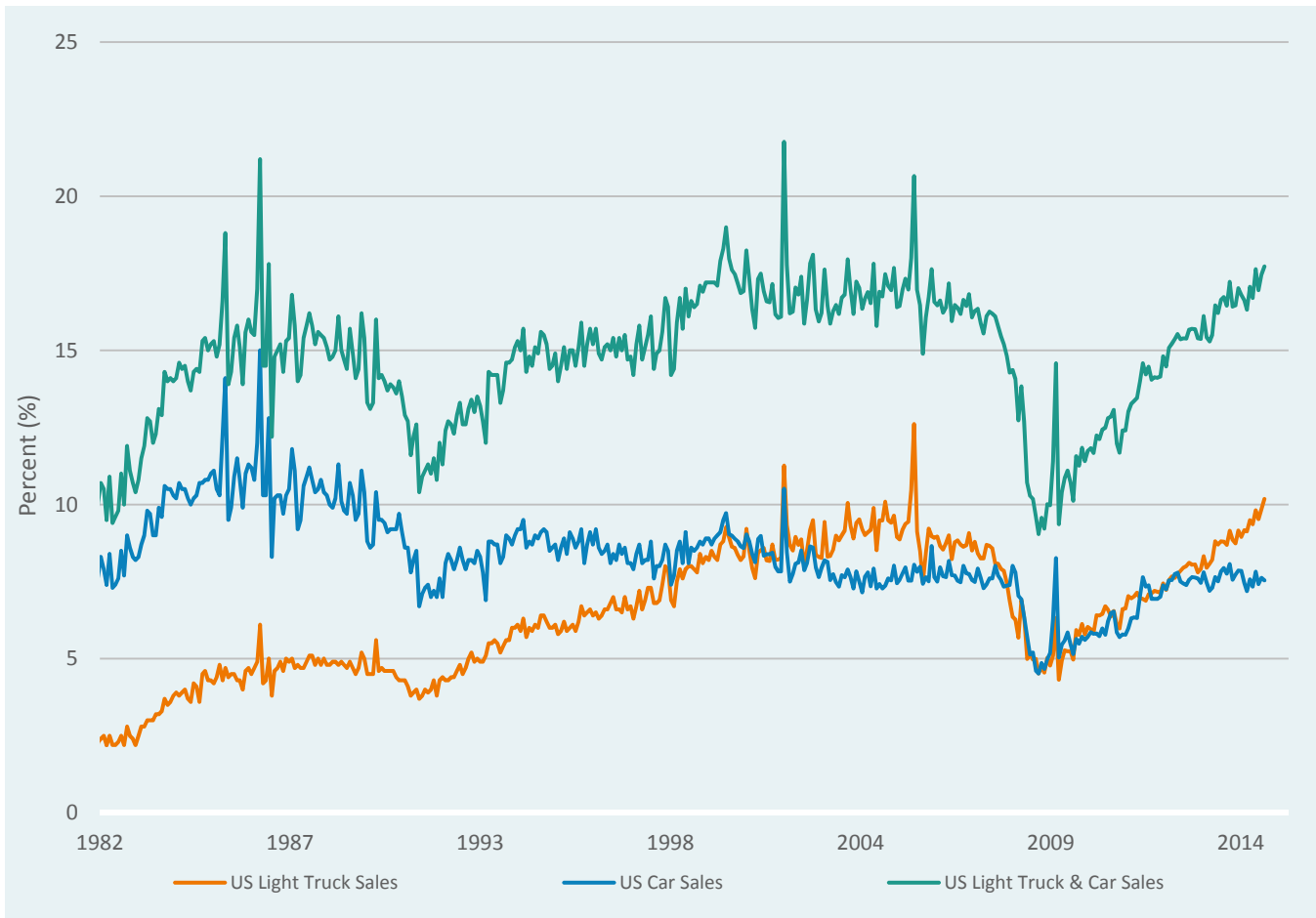
Labor force participation remains historically extremely low

There remain few signs that this trend is due to reverse

A weakness and also a potential

Source: FRED, as of 9/30/15

# Automotive sales strength

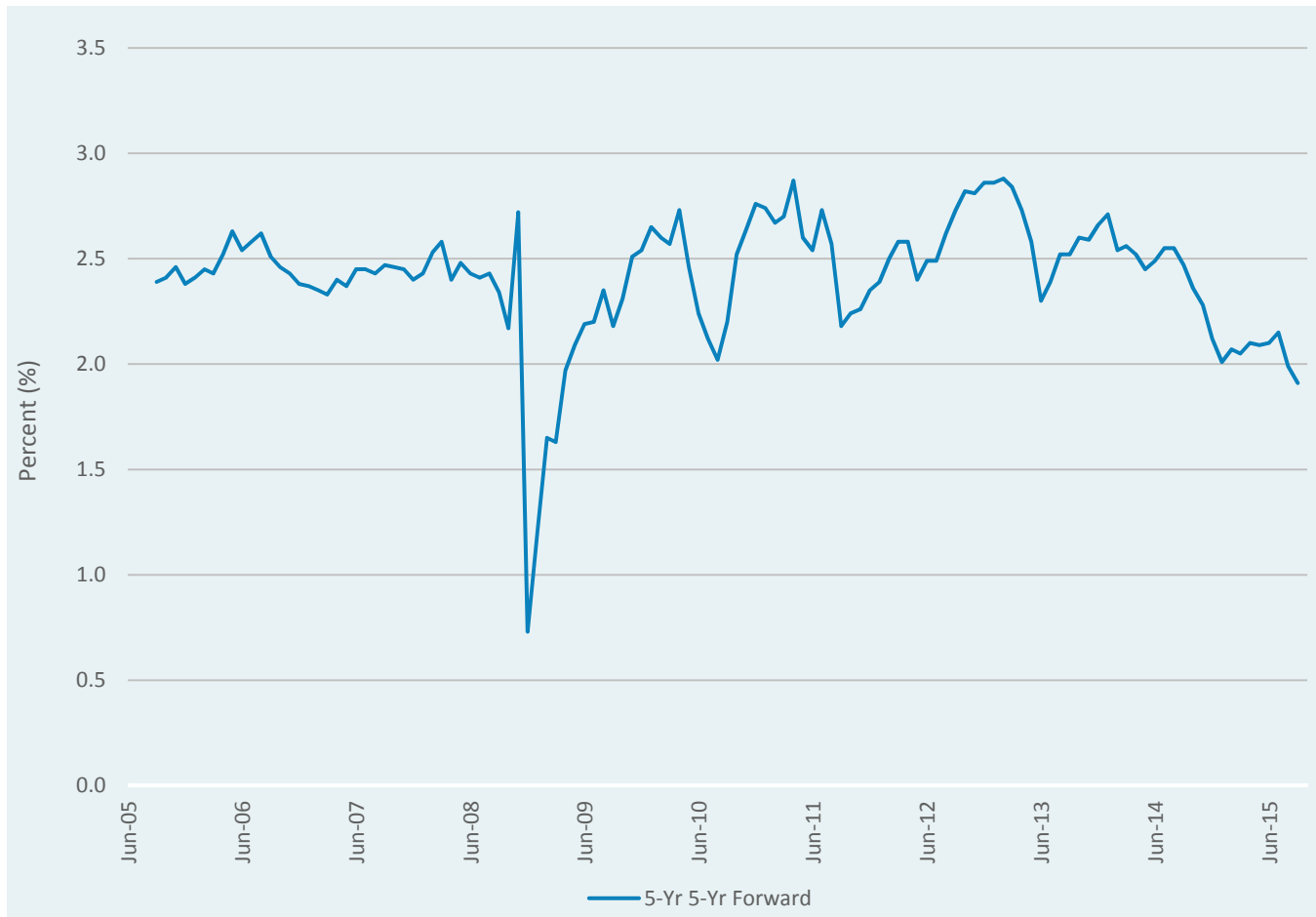


Continuing strong growth in vehicle sales

An indicator of ongoing consumer improvement

Source: FRED, as of 8/31/15

# Market inflation expectations



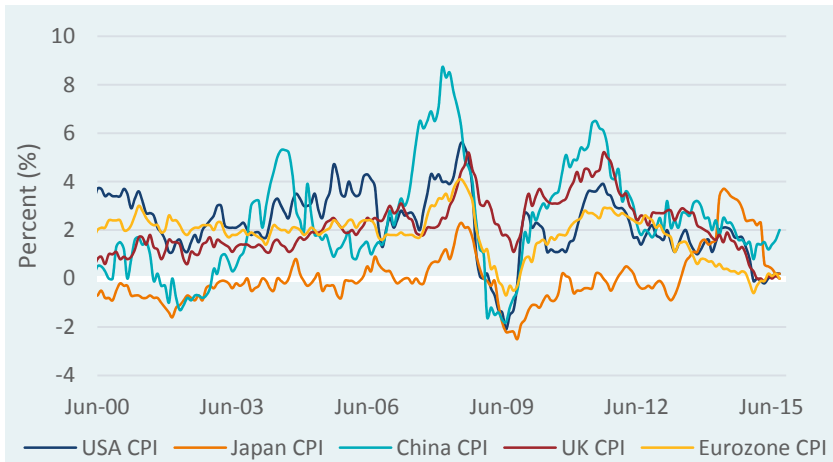
Declining inflation expectations pose questions as to source and implications

Effect on nominal returns is important

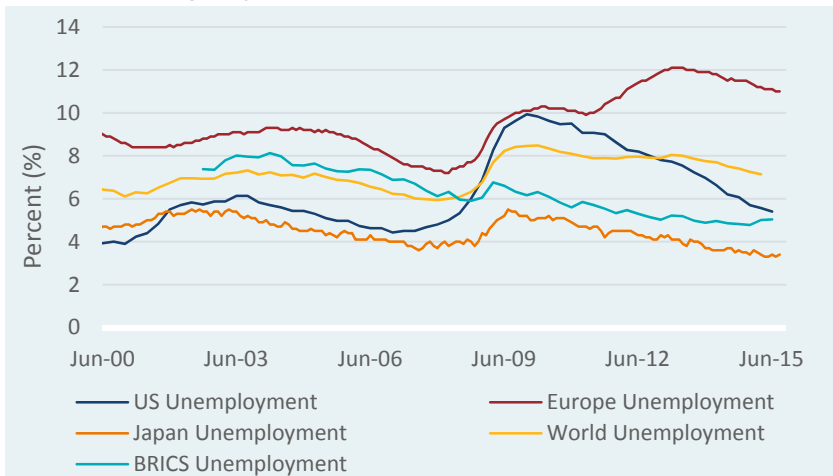
How long will this last?

Source: FRED, as of 9/1/15

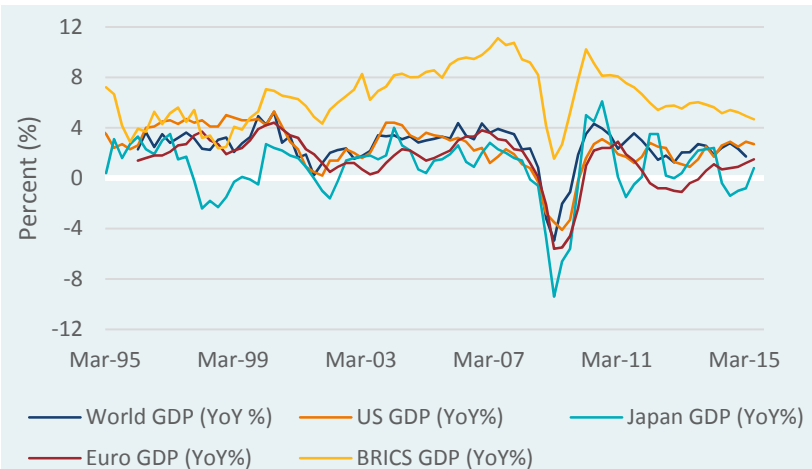
# International economics



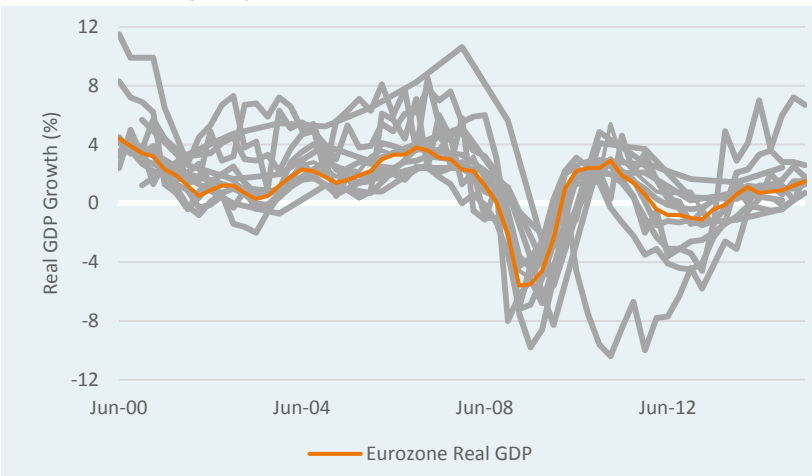
Source: Bloomberg, as of 8/31/15



Source: Bloomberg, as of 8/31/15



Source: Bloomberg, as of 6/30/15



Eurozone member nations, as of 9/30/15

Continuing slow to flat growth, and decreasing joblessness

Although progress continues in Europe remember the degree of disparity between economies

# The Origins of the Federal Reserve

THE FIRST FEDERAL RESERVE (1914)



THE GOLD STANDARD – SOUND MONEY CURRENCY



FEDERAL RESERVE NOTES (1914)



# An outbreak of speculation

TRUMAN AND JACOBSON HABERDASHERY

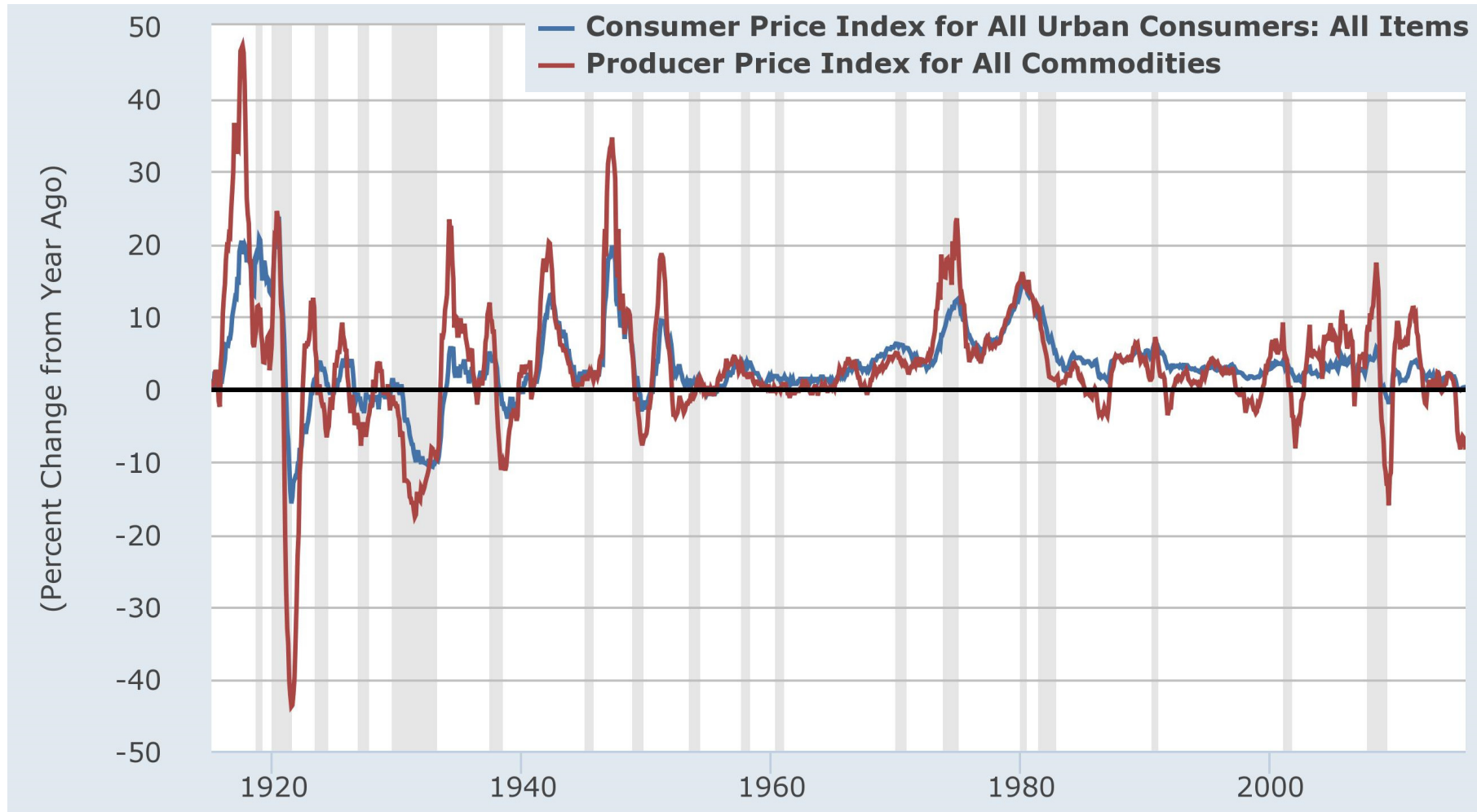


# The depression begins

WALL ST. BOMBING 1920



# The depression of 1920 - 1921



# Intelligent and courageous deflation

WARREN HARDING ACCEPTANCE SPEECH – REPUBLICAN NATIONAL CONVENTION



# A cure not a cause

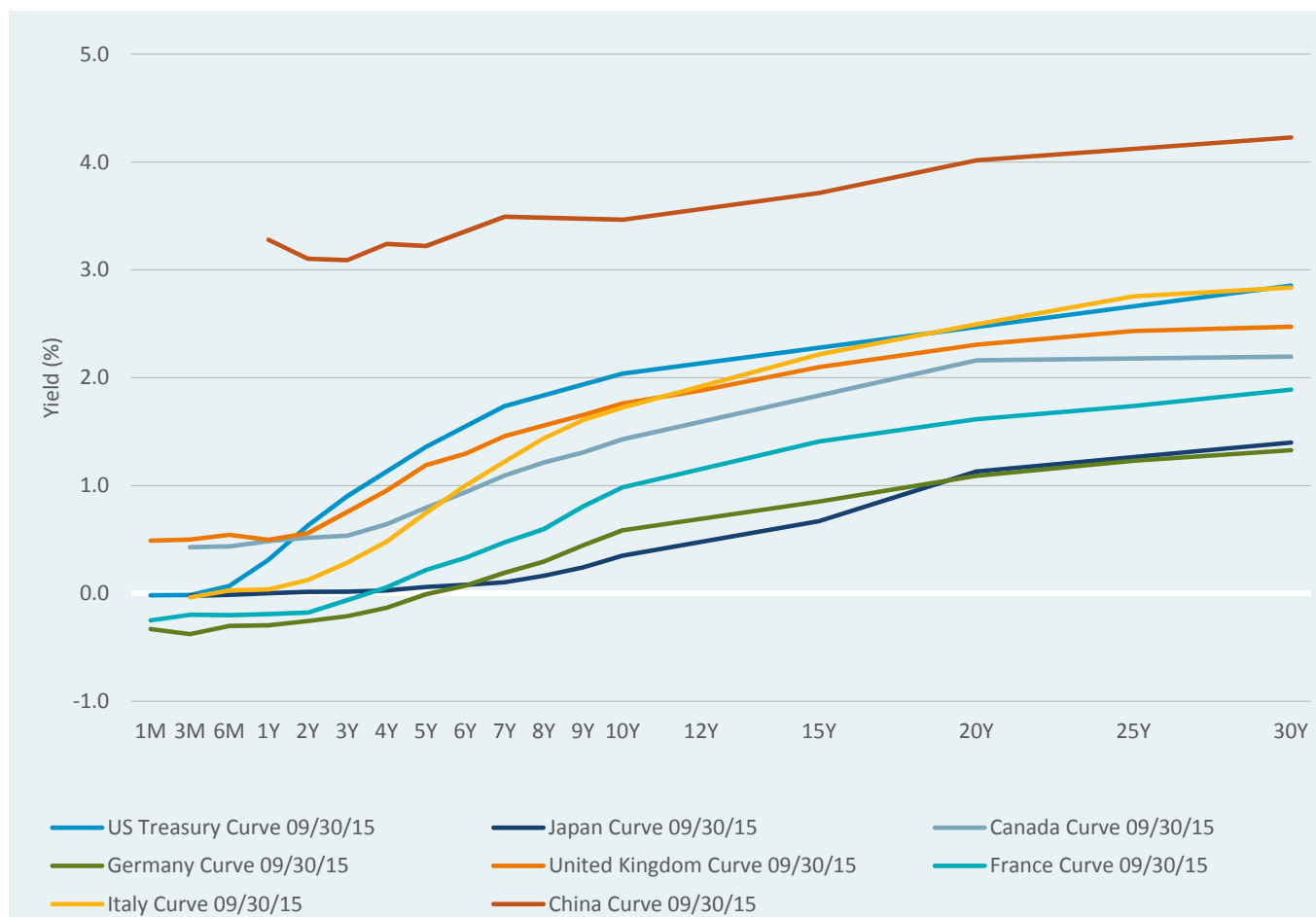
A MARKET CLEARING PRICE



# Roaring 20s



# Global government yield curves

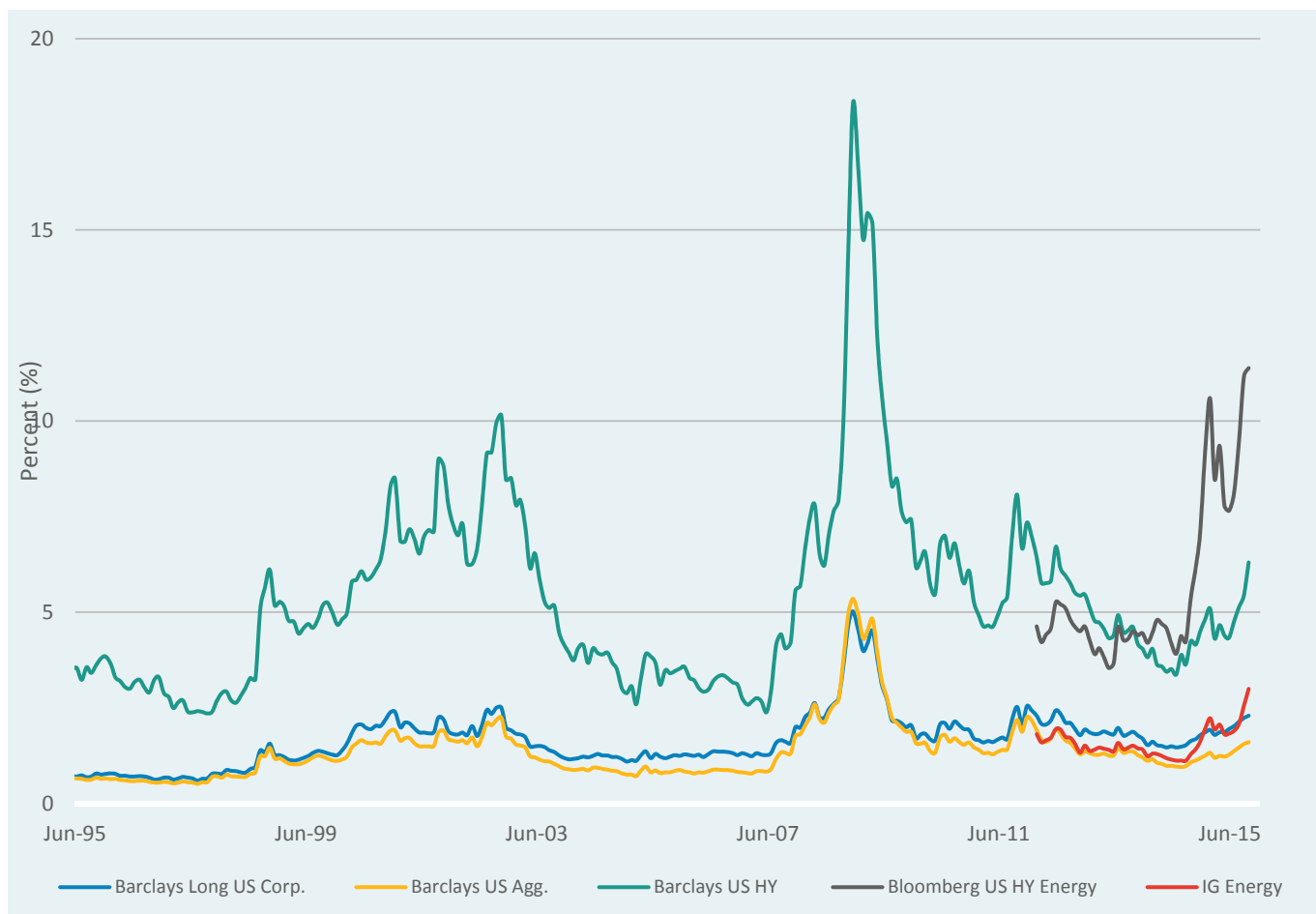


U.S. remains one of the highest yielding government bond markets

Negative nominal rates persist, although note the inflation environment

Source: Bloomberg

# Credit spreads



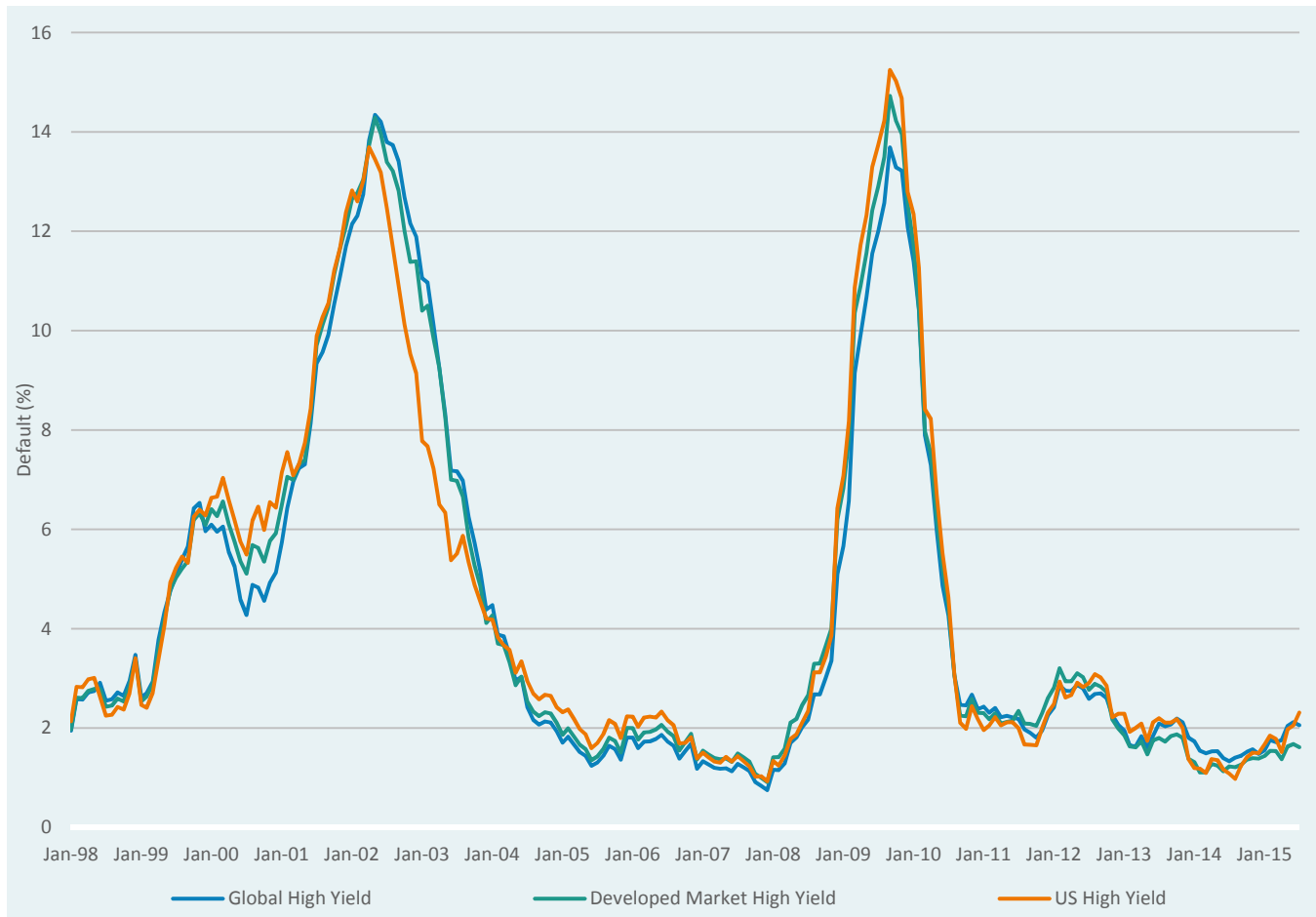
Credit spreads at wider levels

Significant continued stress in energy market affecting high yield especially

Source: Barclays Capital Indices, Bloomberg, as of 8/31/15

# Default trends

## 12 MONTH ROLLING DEFAULT RATES

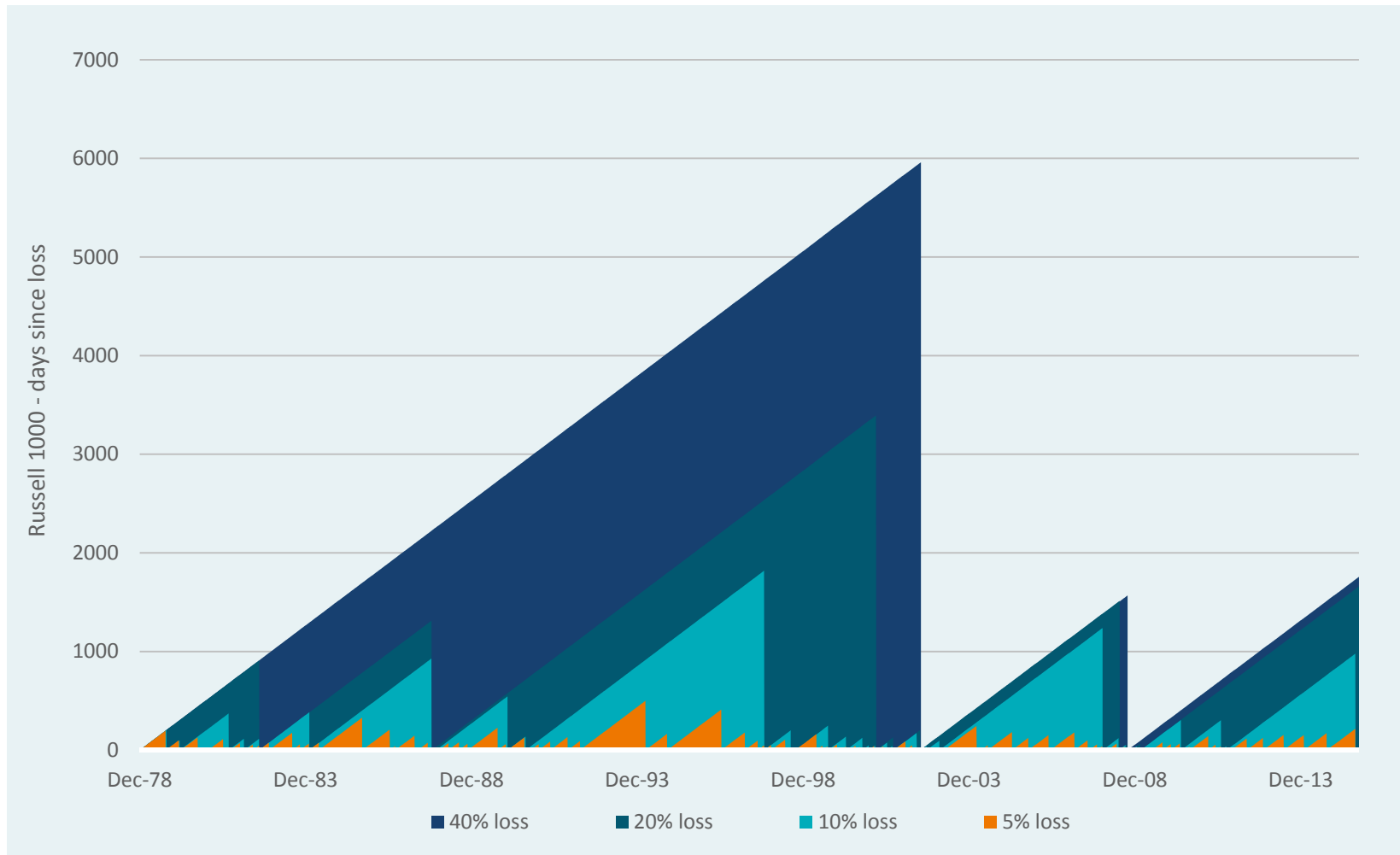


Default rates remain low, although higher than in the recent past

Clearly not yet moving towards concerning levels

Source: Credit Suisse, BofA, as of 6/30/15

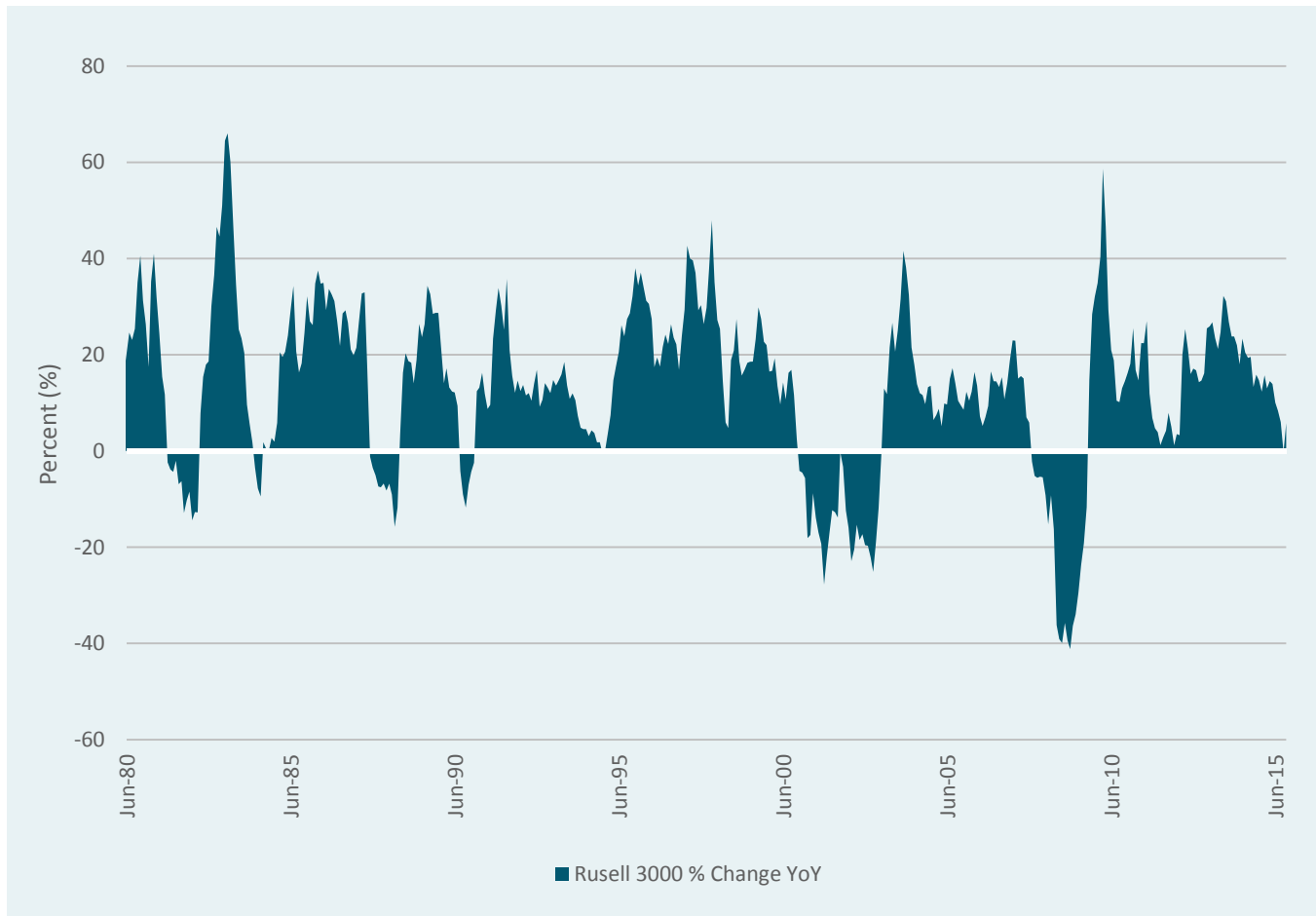
# Drawdowns happen more than you think



The recent equity market drawdown when examined over a 30 year period appears relatively normal

Source: Russell Investments, as of 9/30/15

# Up is more common than down

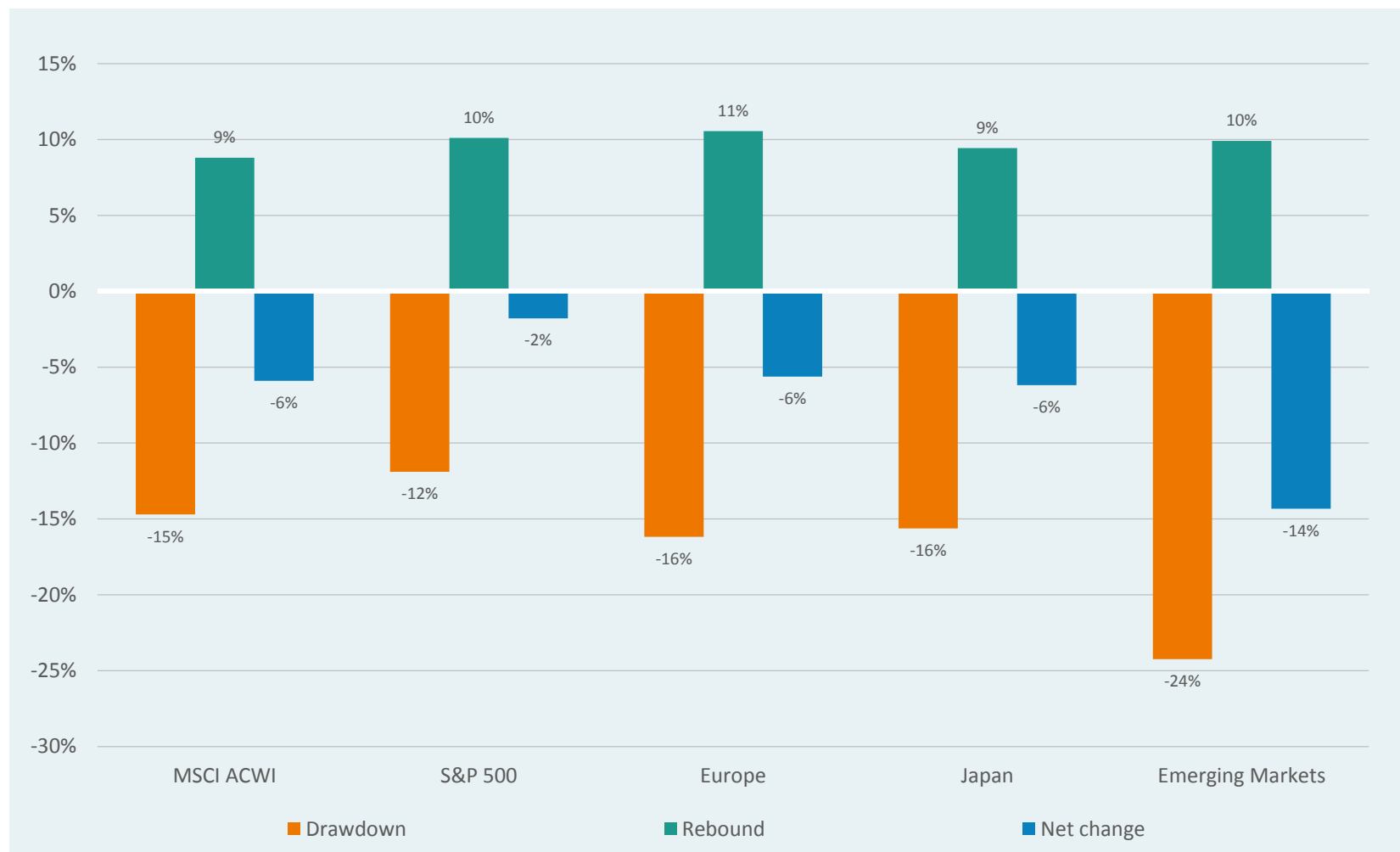


Negative experiences in the equity market do happen

Even simply reducing the observation rate to 1 year rolling data begins to demonstrate the equity risk premium

Source: FRED, as of 10/1/15

# Close look at recent correction

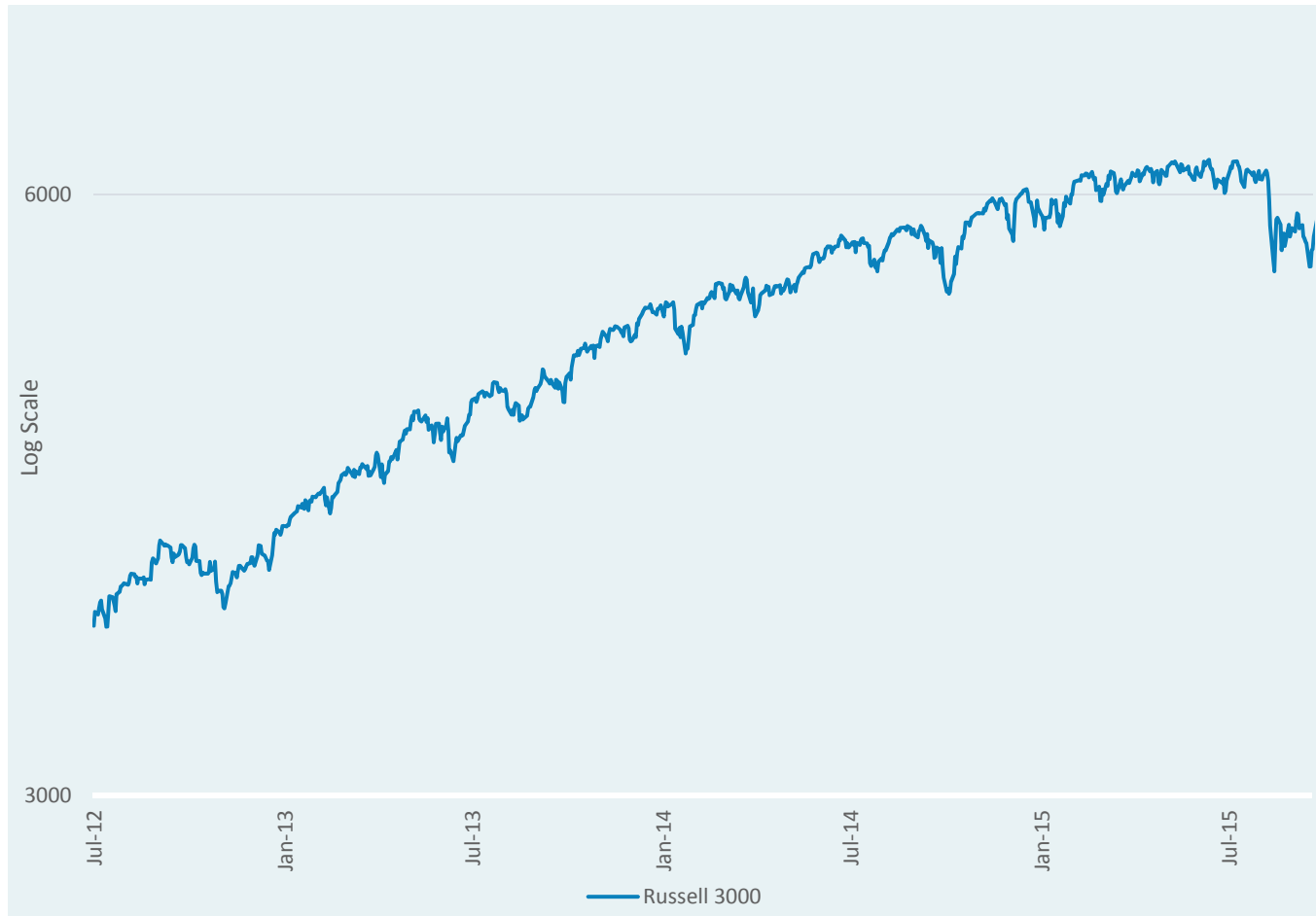


Equity markets have retraced much of their losses from earlier in the year

These markets are still below May levels

Source: Bloomberg, as of 10/23 Returns are for the drawdown and rebound observed during the 5/21/15 thru 10/23/15 period. Indices are stated in USD and returns are gross.

# U.S. domestic equity



The recent market action appears more air pocket than trend change

Concerns remain, however, and a tactical mild underweight can be justified

Source: FRED, as of 9/1/15

# Valuations slightly improved

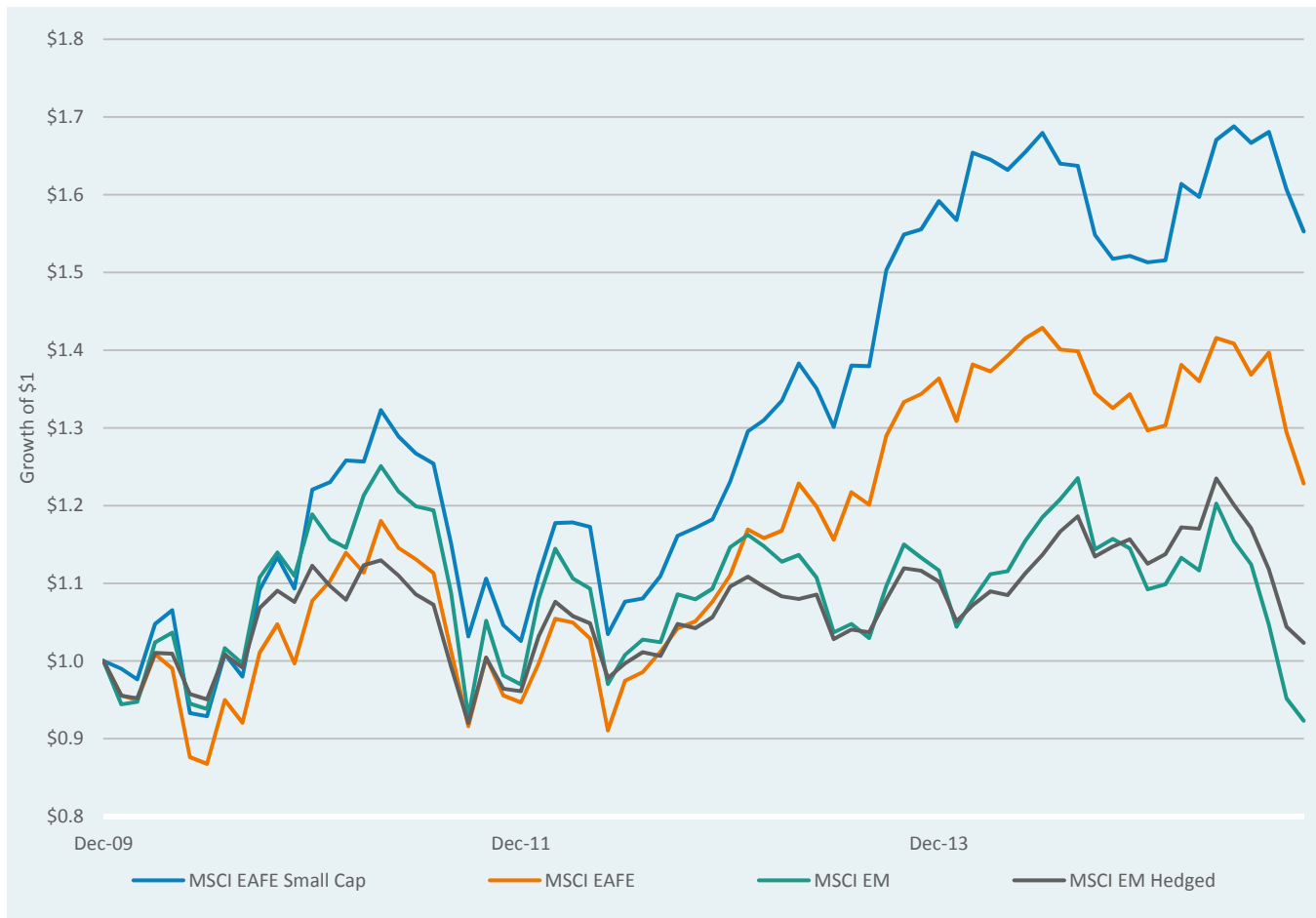


Shiller P/E may have flaws, but is often used to raise concerns over recent market valuations

The recent downdraft has made valuations more attractive

Source: Shiller, as of 9/30/15

# International equity



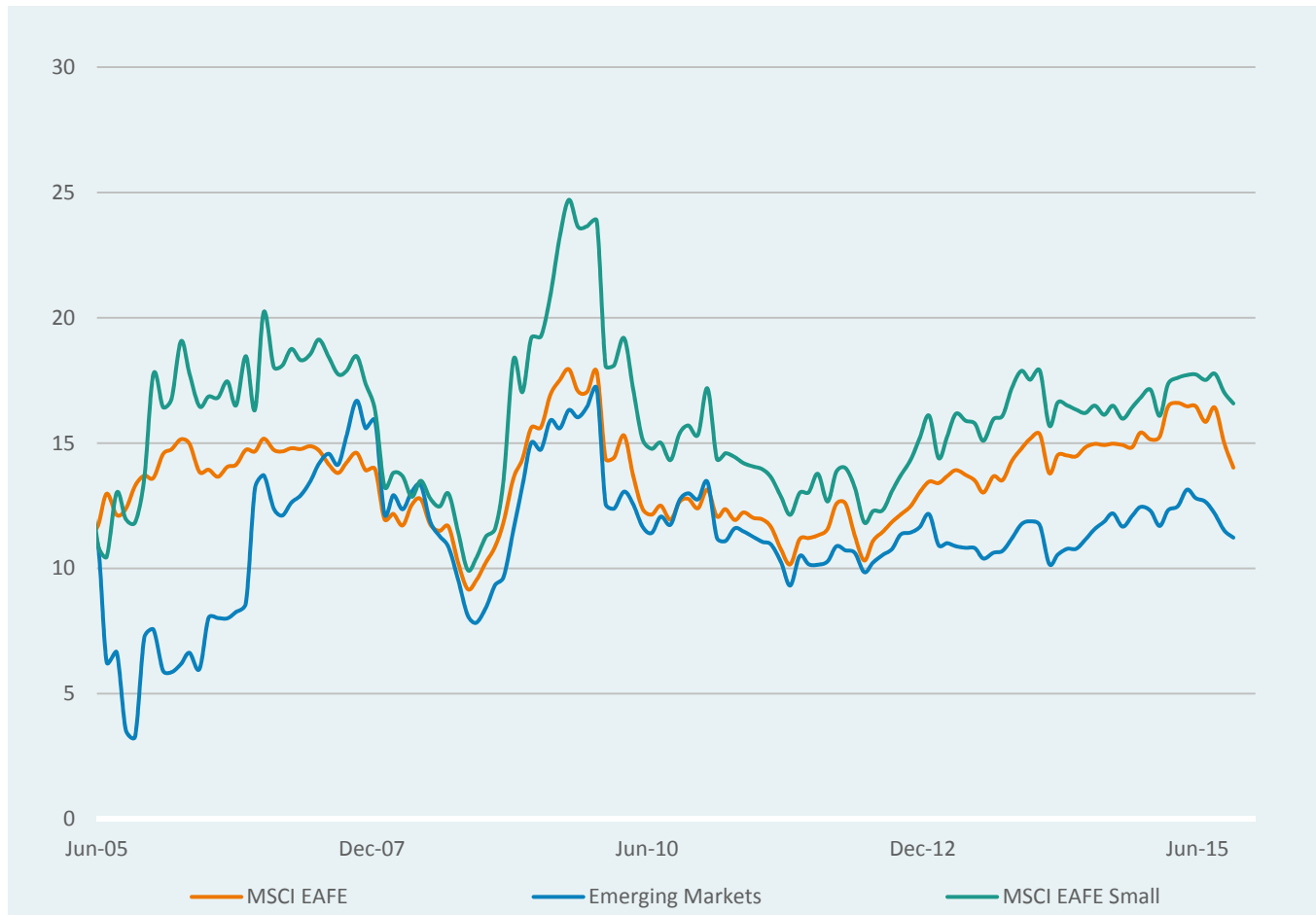
Weakness has been shared globally

This has been particularly the case in emerging markets

Notice the strong currency effect in emerging markets

Source: MSCI, as of 9/30/15

# International equity forward p/e



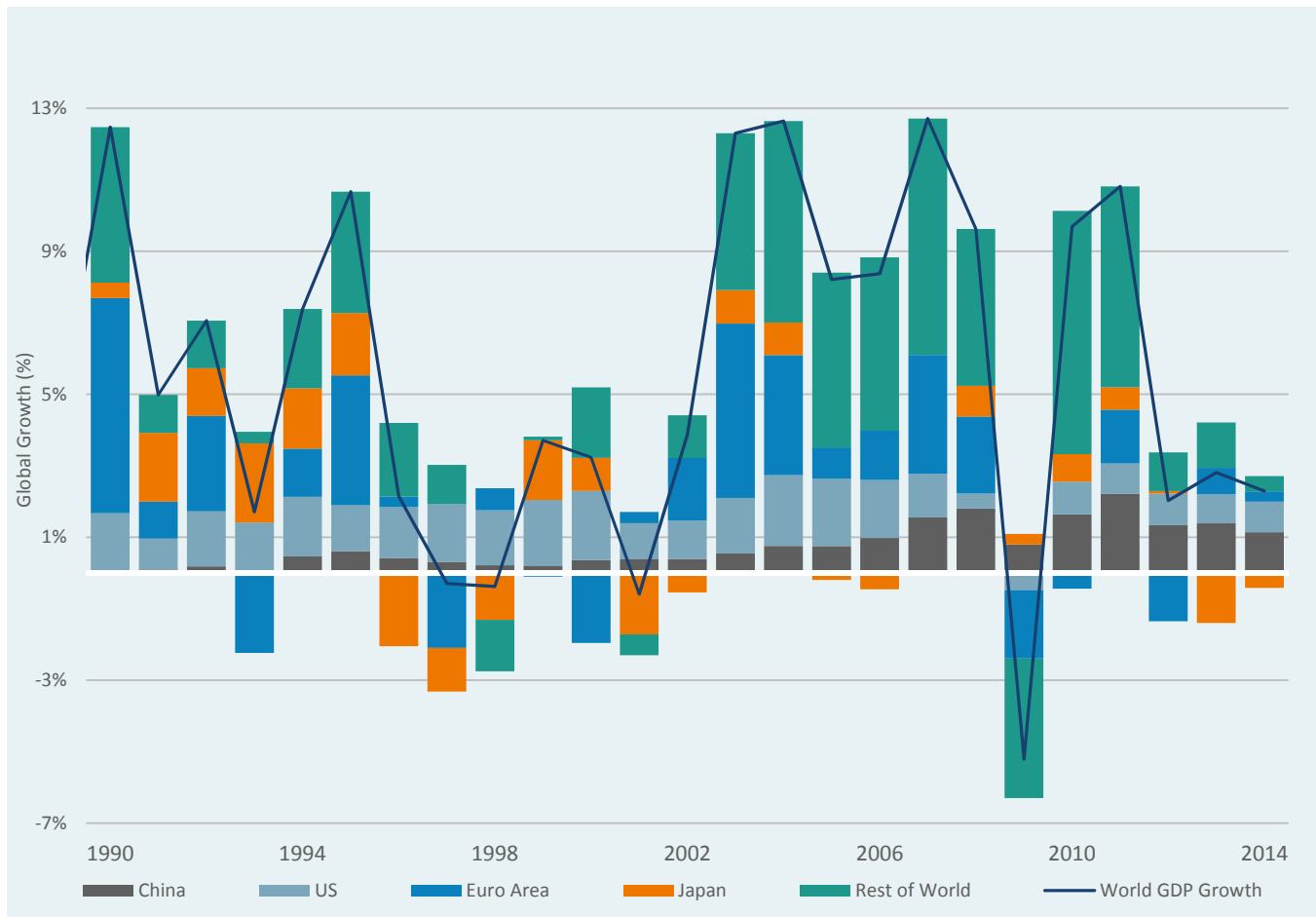
Recent price weakness has improved valuations

There remain significant opportunities outside the U.S.

We remain particularly interested in Japan

Source: MSCI, as of 9/30/15

# China in a bull shop

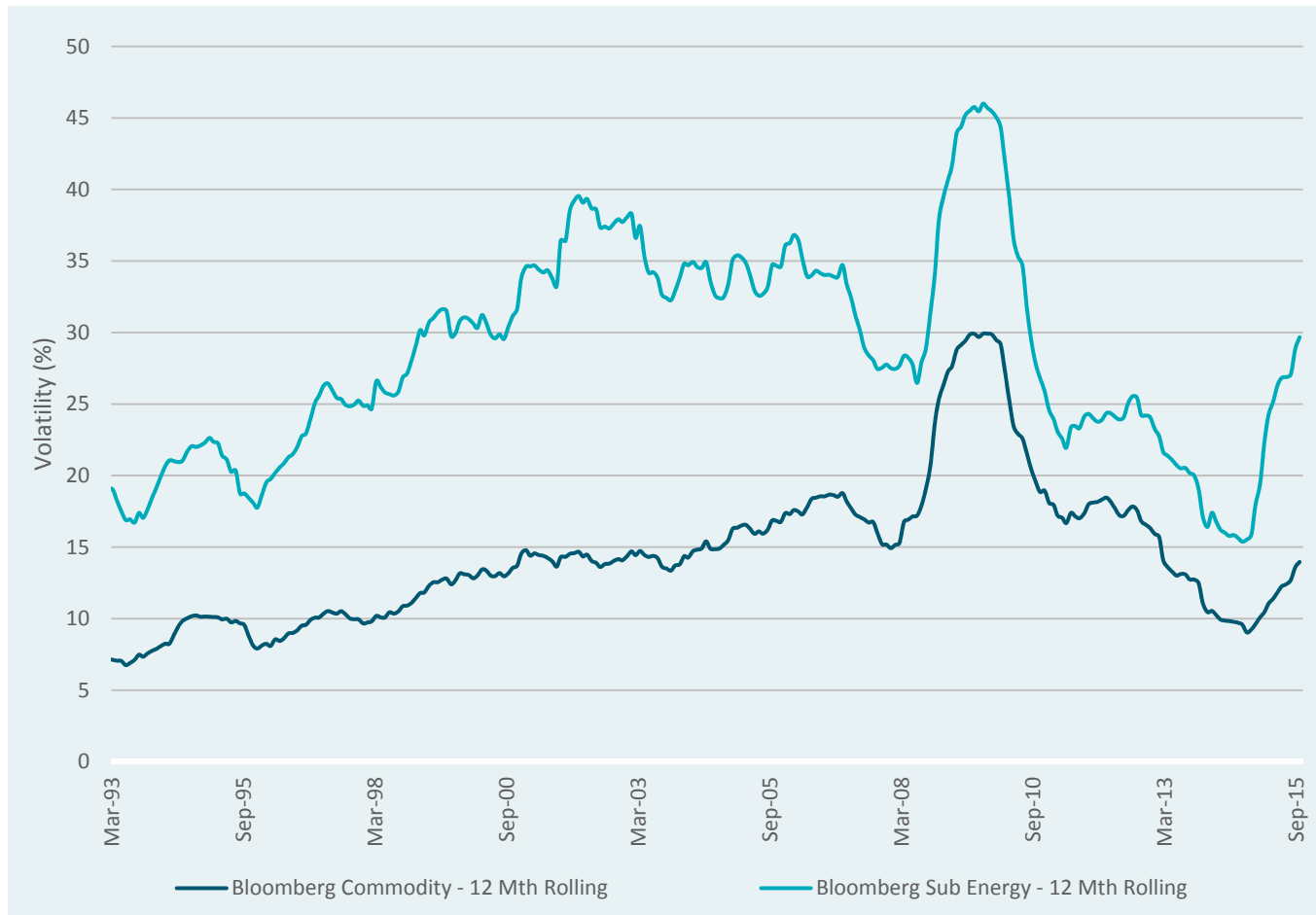


China is now contributing around 50% to world growth

Despite much discussed weakness in GDP growth China remains a key driver of the world economy

Source: Bloomberg

# Commodity volatility

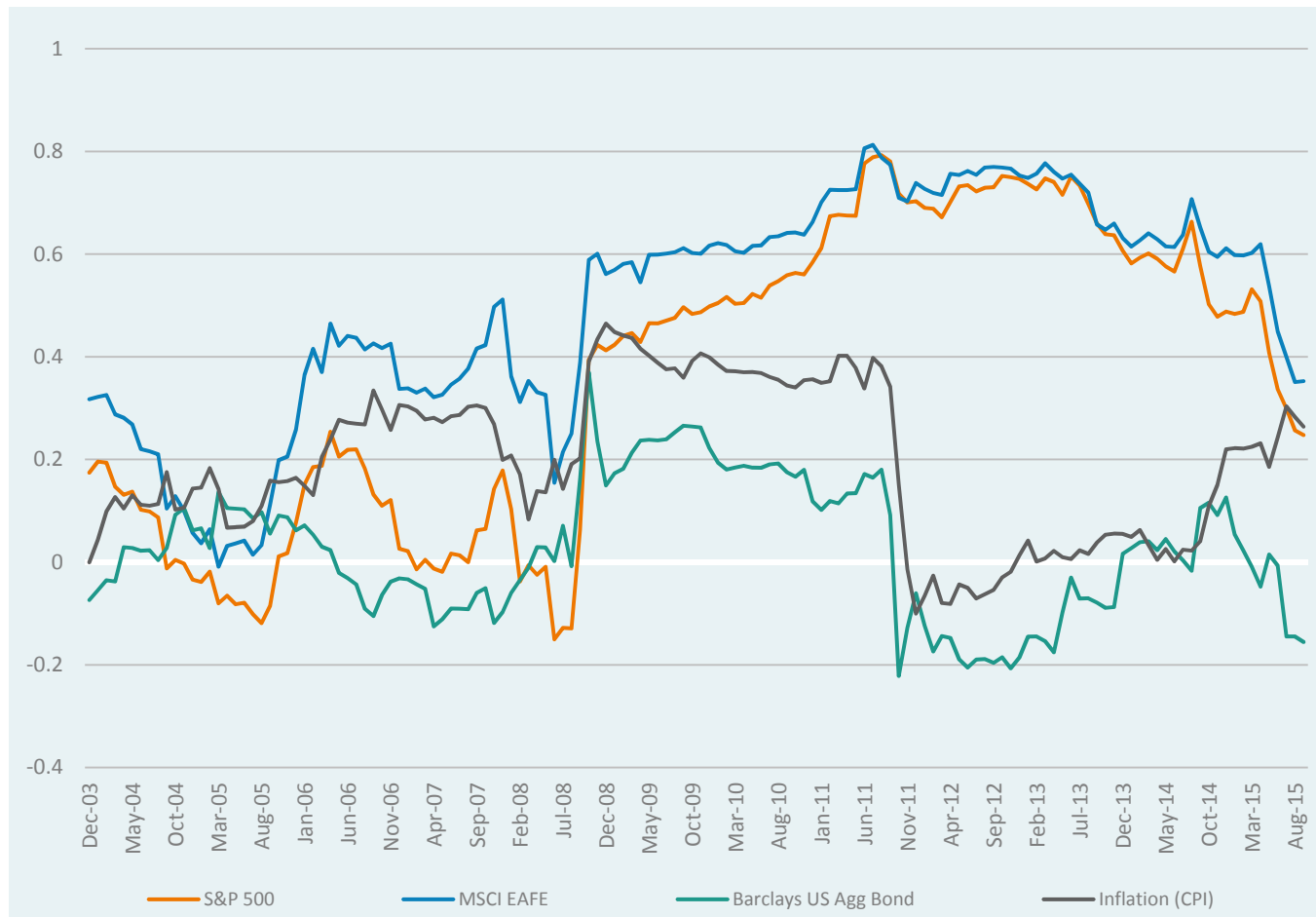


We have seen a rise in commodity volatility

Commodities have remained hard to own

Source: Bloomberg, as of 9/30/15

# Commodity correlation to other assets



Commodities have not had a stable relationship with other asset classes

Correlations are relatively low to other major asset classes

Down diversifies up, but prospect theory says it hurts more

Source: MPI, as of 9/30/15 - correlation to Bloomberg Commodity

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# Q&A

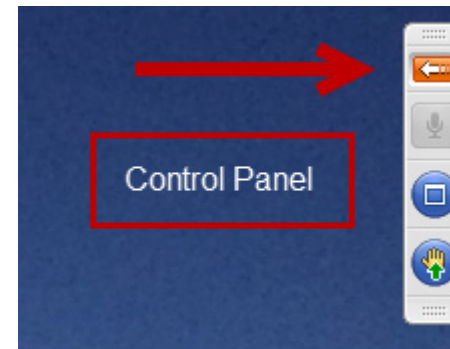
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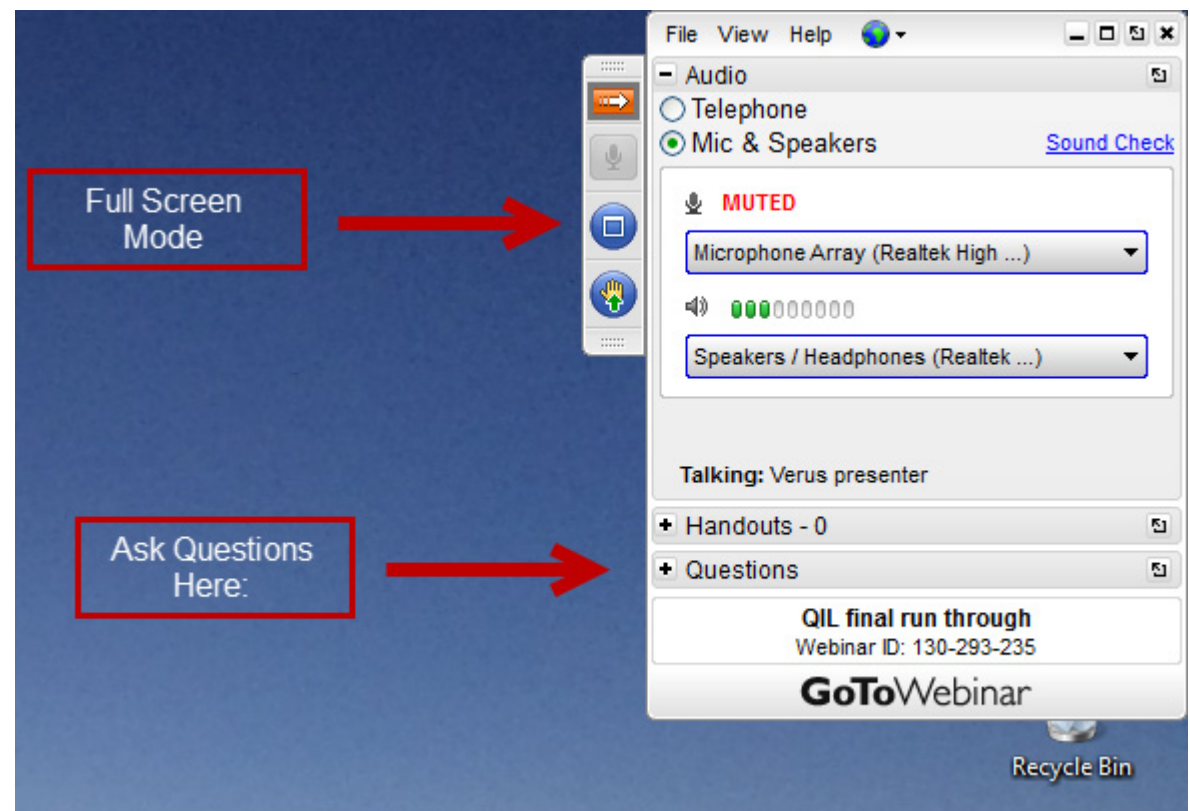
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# Thank you