

Call instructions

Verus⁷⁷⁷

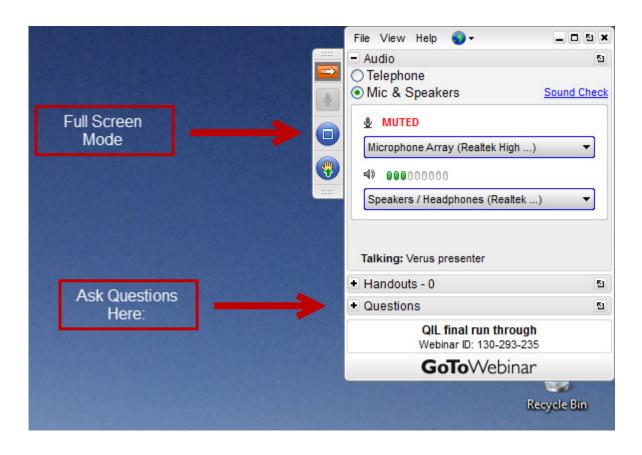
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Ask questions for the Q&A session in the Questions window.



1st quarter conference call



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IMPORTANT INFORMATION

Dial in: (866) 952-7297 U.S. & Canada

URL: https://attendee.gotowebinar.com/register/7348232291955639297

Access Code: 445-406-603

Playback Info: Will be available on the website after the call

www.verusinvestments.com

Audio You may choose to listen through the webcast on your computer *or*

Options: dial in.

Please register and login to the above website and/or dial in the

Instructions: number above and use the provided access code. Questions can be

asked by using the question feature on the control panel.

Introduction Loffrey Mask can Chie

Jeffrey MacLean, Chief Executive Officer

Presented by: Ian Toner, CFA, Managing Director

Scott Day, CFA, Managing Director



Jeffrey J. MacLean
Chief Executive Officer



lan Toner, CFA
Managing Director



Scott Day, CFA
Managing Director

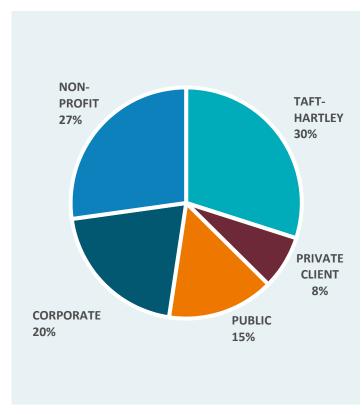
An update on Verus

2016 marks our 30th anniversary

Since 1986, Verus has provided high quality services to institutional investors, growing our depth of investment team and expertise as the capital markets have become exponentially more complex. Some highlights of our recent achievements:

- In 2011, we brought in an investment team headed by Jeffrey Scott, CFA, former Chief Investment Officer of the Alaska Permanent Fund Corporation, to lead our expansion into full discretionary investment services ("OCIO"). Today, this team manages over \$19 billion in institutional assets.
- In April 2015, in recognition of our evolution and continued investment into capital markets research, risk analytics and portfolio management capabilities, we rebranded from Wurts & Associates to Verus.
- In December 2015, we closed our merger with Strategic Investment Solutions, growing our total staff to more than 100 professionals. We now have offices in Seattle, Los Angeles and San Francisco, and serve clients across the US, in Canada and in South America.
- In January 2016 we expanded our ownership base from 11 to 22 employee-owners.
- Throughout all of these years, we are pleased to have continued to be rated highly for overall quality of service. We have ranked in the top quartile of the Greenwich Associates annual institutional investor survey 10 of the past 11 years.
- Today our suite of offerings includes non-discretionary consulting, risk advisory, private markets consulting, discretionary management, and outsourced CIO services.

\$337 BILLION IN ASSETS / 148 RELATIONSHIPS*



*Estimated discretionary and non-discretionary regulatory assets under management as of 1/1/2016; chart reflects client breakdown by number of relationships



1st quarter summary

THE ECONOMIC CLIMATE

- Global growth has benefited from improvements in Europe and Japan, but headwinds persist in emerging market economies. U.S. real GDP growth fell slightly quarter-over-quarter to 2.0%.
- There is continuing global disinflationary pressure from falling commodity prices and excess manufacturing capacity. Despite this, inflation in the U.S. and other developed markets rose slightly in Q4.
- Some emerging market economies are experiencing economic depression. China continues to moderate with real GDP growth falling to 6.9%.

MARKET PORTFOLIO IMPACTS

- The U.S. dollar rose in Q4 to a level not seen since 2003. Appreciation hit investors with unhedged equity exposure, commodity markets, and earnings of international businesses.
- Risk assets have broadly suffered, with particular recent weakness in equity markets and credit fixed income, especially high yield energy.

THE INVESTMENT CLIMATE

- Sentiment across risk markets seems to be shifting in increasingly a more bearish direction.
- Developed countries may have limited ability to stimulate growth and inflation with lower interest rates.
- The Federal Reserve implemented a 25bps rate hike in December. Underlying weakness in the domestic economy may lead to policy shifts.

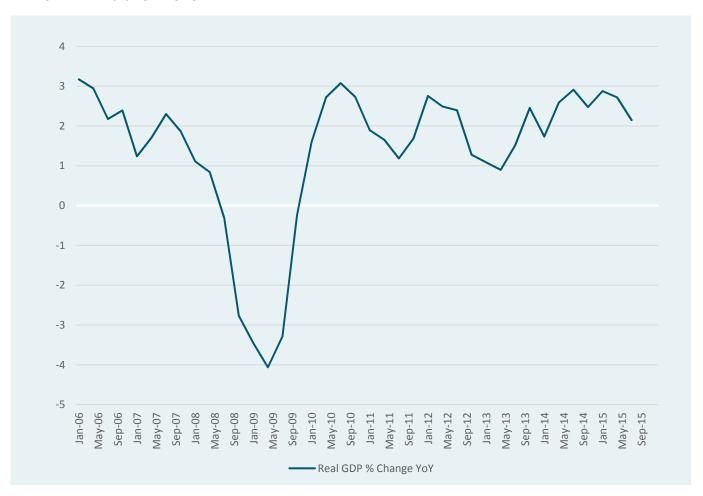
ASSET ALLOCATION ISSUES

- High yield spreads widened in Q4, with energy leading the way. There is a potential for market concerns to spread towards higher quality credit.
- Market sentiment towards risk assets in general suggests careful consideration of risk exposures in all asset classes is warranted.
- U.S. dollar strength may be at a secular high, which could have implications for currency hedging decisions.

We are increasingly concerned over the behavior of risk assets and are watching economic and market developments carefully for signs of more sustained weakness

U.S. GDP growth

MEDIUM TERM U.S. GDP GROWTH



A downturn in domestic GDP in the most recent numbers

The Atlanta Fed GDPNow model sees lower growth, with a forecast of 0.7% for Q4 2015 as at January 20

Source: FRED, as of 9/30/15



U.S. unemployment

UNEMPLOYMENT - BROAD AND NARROW



U3 and U6 measures are still dropping, but the ratio between them seems to be stable

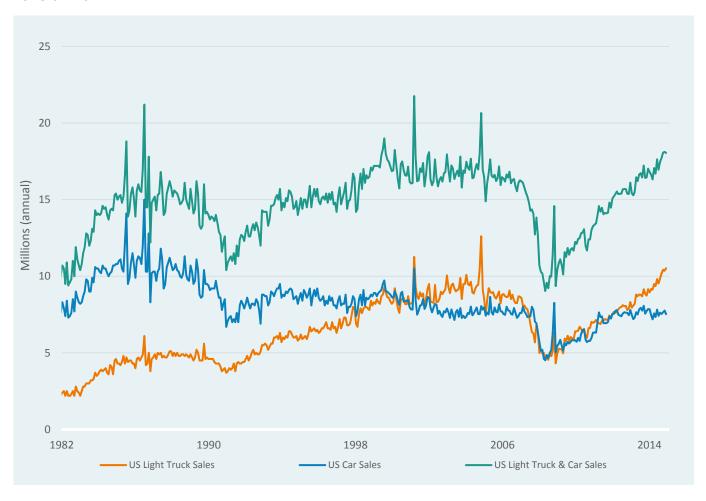
Participation rates increased in Q4

Source: FRED, as of 11/1/15



Consumers buying cars

AUTO SALES



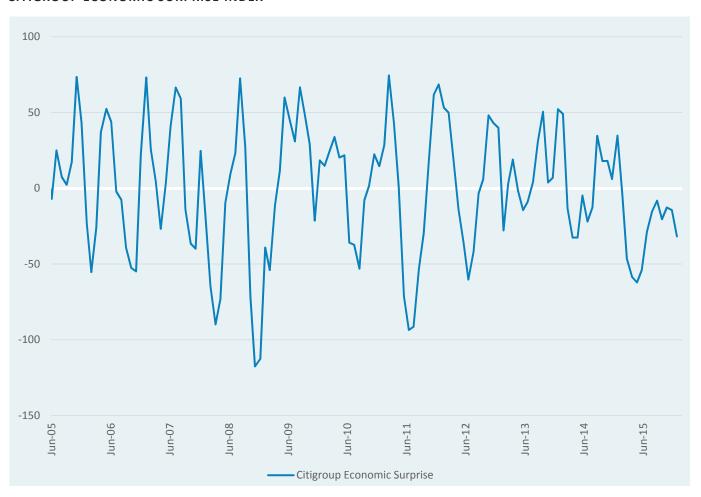
Continuing progress in the auto sales market is a good sign of consumer confidence

Source: FRED, as of 11/30/15



Economic surprise

CITIGROUP ECONOMIC SURPRISE INDEX



While this index is highly variable, it is concerning that it has been below zero since early 2015

Surprises have been more on the downside than we would like

Source: Bloomberg, as of 12/31/15



Inflation pressures?

MEDIUM TERM U.S. CPI (QOQ)



Inflation in the US has come under pressure

A variety of factors are pushing against a return of inflation

Source: FRED, as of 12/1/15



The signal from the market

MARKET EXPECTATIONS OF INFLATION



Market inflation expectations have steadily decreased through time

There is little sign of this basic trend moving in a different direction

Source: Bloomberg, University of Michigan, as of 12/31/15



International economy

A mixed picture

Area	GDP (Real, YoY)	Inflation (CPI)	Unemployment
United States	2.1% 9/30/15	0.5% 11/30/15	5.0% _{11/30/15}
Western Europe	1.8%	0.2%	8.9%
	9/30/15	12/31/15	9/30/15
Japan	1.6%	0.3%	3.4%
	9/30/15	11/30/15	9/30/15
BRIC Nations	4.7%	4.2%	5.1%
	9/30/15	9/30/15	9/30/15
Brazil	(4.5%)	10.5%	7.6%
	9/30/15	11/30/15	9/30/15
Russia	(4.1%)	15.0%	5.3%
	9/30/15	11/30/15	9/30/15
India	7.4% 9/30/15	4.6% 9/30/15	8.6% 12/31/14
China	6.9% 9/30/15	1.5% 11/30/15	4.0% 9/30/15

Developed economies seem to be moving in a similar direction

Some emerging economies seem to be challenged

Sometimes good isn't...



There is an inflation trend...

INTERNATIONAL INFLATION (CPI YOY)



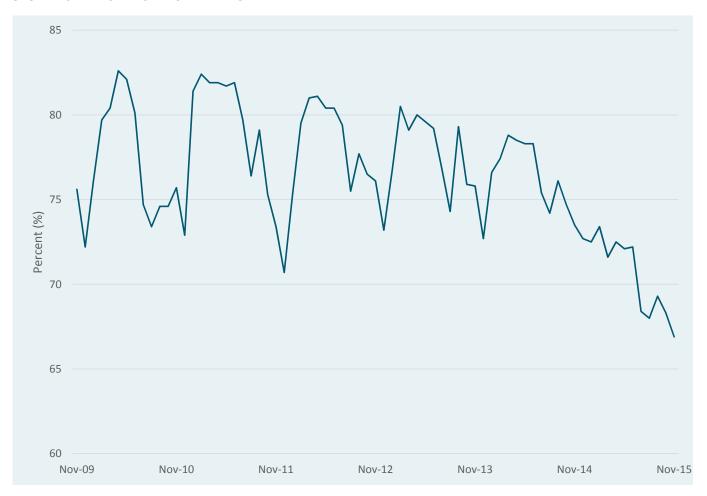
In many places there is a clear trend in the inflation figures — and that trend is generally downwards

Source: Bloomberg, as of 11/30/15



An underlying driver

GLOBAL STEEL CAPACITY UTILIZATION



Across a range of commodities and other goods there are concerns over excess capacity

Of course, this is a normal consequence of commodity cycles and easy money...

Source: Bloomberg, as of 11/30/15



Global growth

REAL GDP GROWTH



There is little excitement to be had in the global growth figures

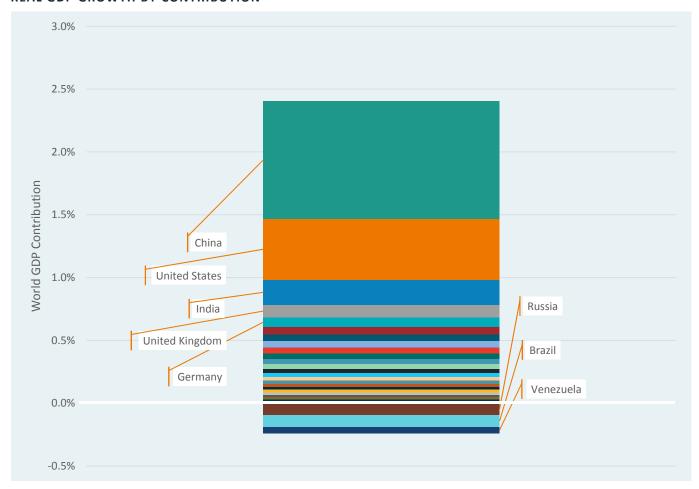
While there is steady progress in some developed economies elsewhere the picture is more mixed

Source: Bloomberg, as of 9/30/15



Global growth environment

REAL GDP GROWTH BY CONTRIBUTION



China is the second largest contributor to world GDP, but is the largest contributor to GDP growth

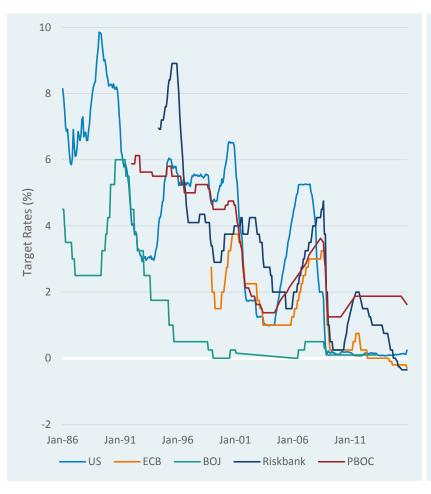
Developed economies not necessarily contributing the most to growth

Source: World Bank, as of 12/31/15



Long & shorter term rates

Limited Tools, And Recent Divergence





Policymakers have few tools in their armory, at least in the standard toolkit

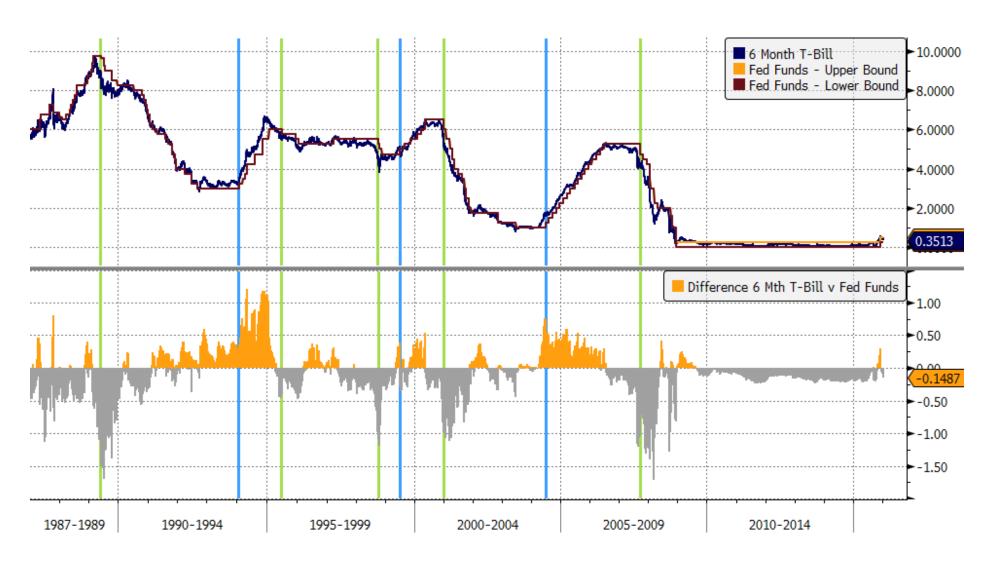
Markets that are pricing in rate hikes may feel relief if those hikes fail to materialize

Source: Bloomberg, as of 12/31/15

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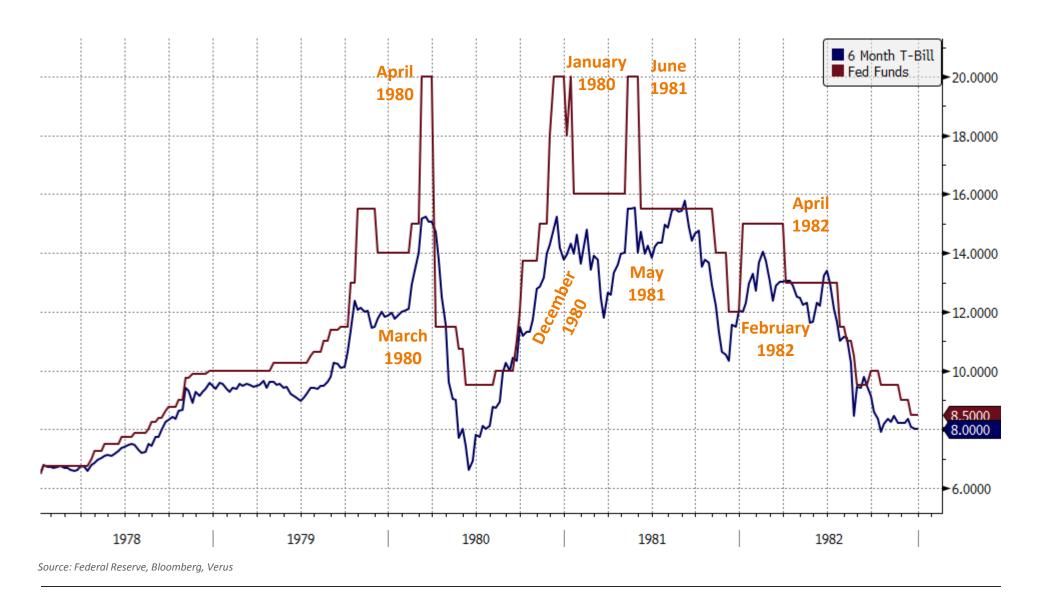
Who drives rates, the Fed or the markets?



Source: Federal Reserve, Bloomberg, Verus

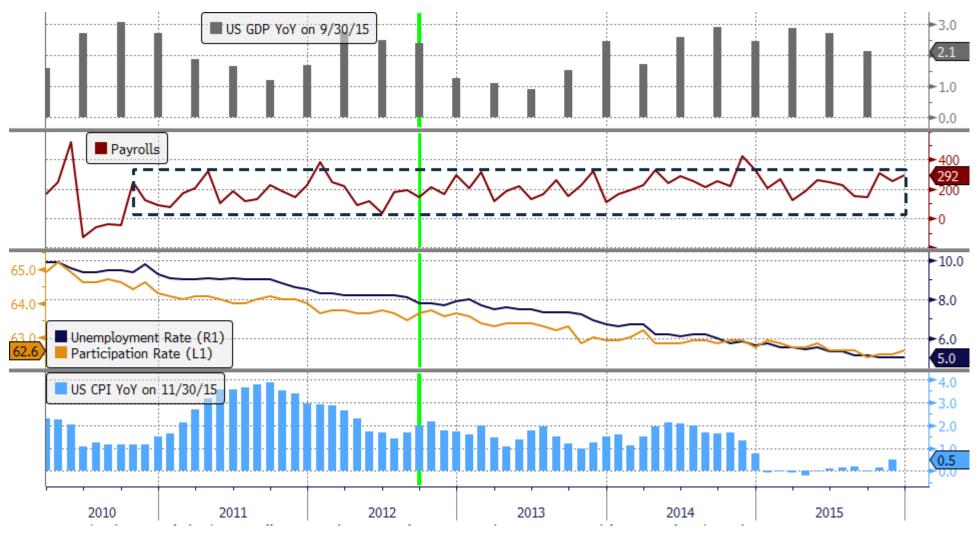


Who drives rates, the Fed or the markets?





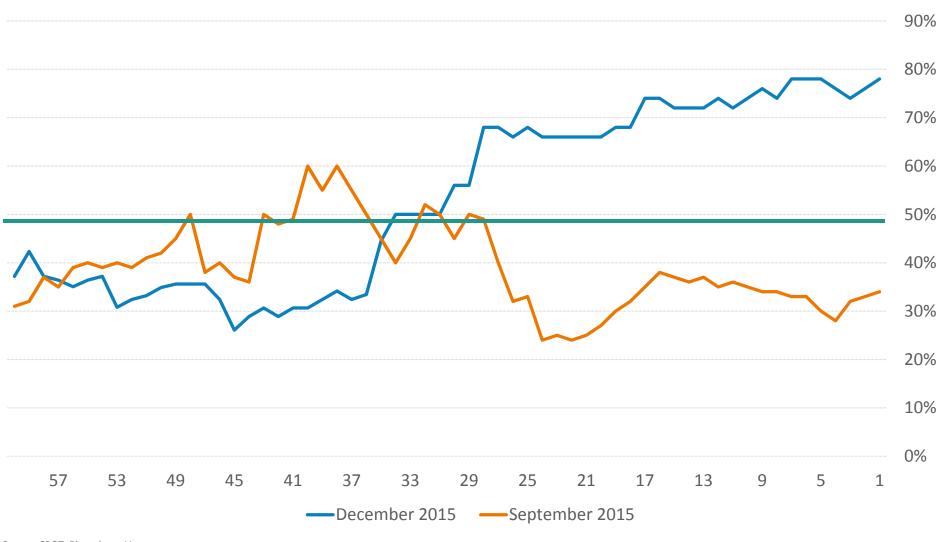
Mrs. Yellen, what's changed...?







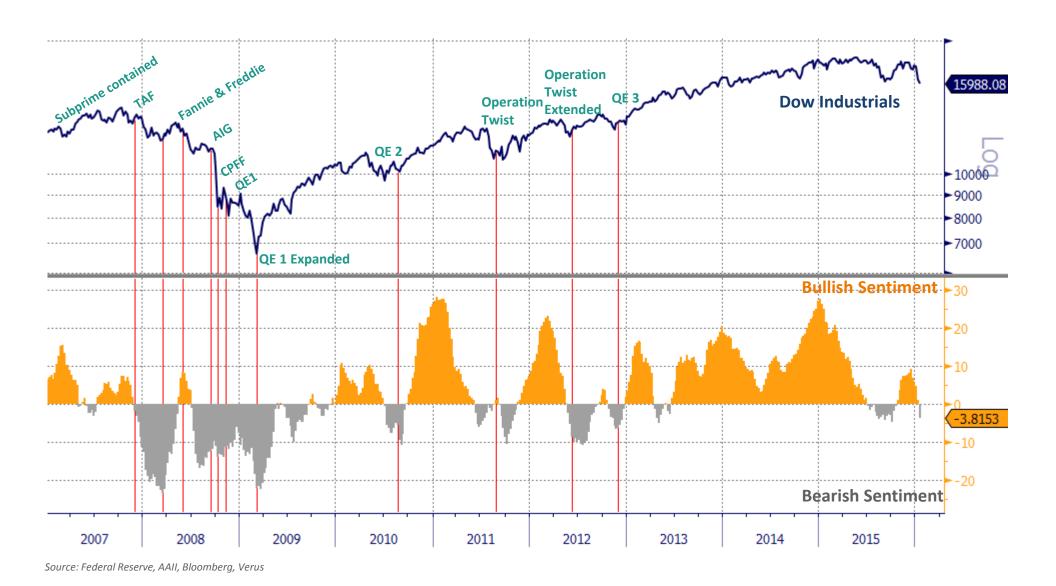
The *real* driver of Fed policy



Source: CBOT, Bloomberg, Verus



The Fed and the markets





The Illusion of control

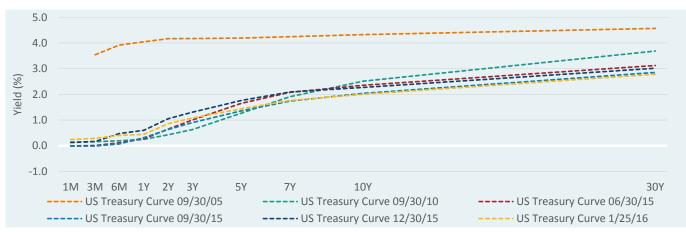
When the markets go up, the Fed seems to **be in** control.

When the markets go down, the Fed seems to lose control.

The aspect of control is only an illusion (with both rates and equities).

Global yield curve

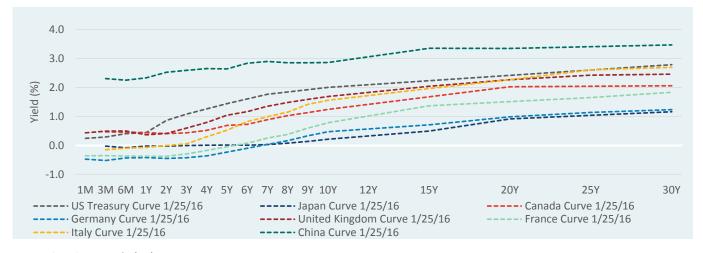
U.S. YIELD CURVE



The U.S. Treasury curve shifted up in anticipation of the Fed's decision

Foreign developed interest rates broadly decreased in Q4

GLOBAL GOVERNMENT YIELD CURVES



Source: Bloomberg, as of 1/25/16



Credit spread expansion

CREDIT SPREADS



There has been a recent expansion of credit spreads

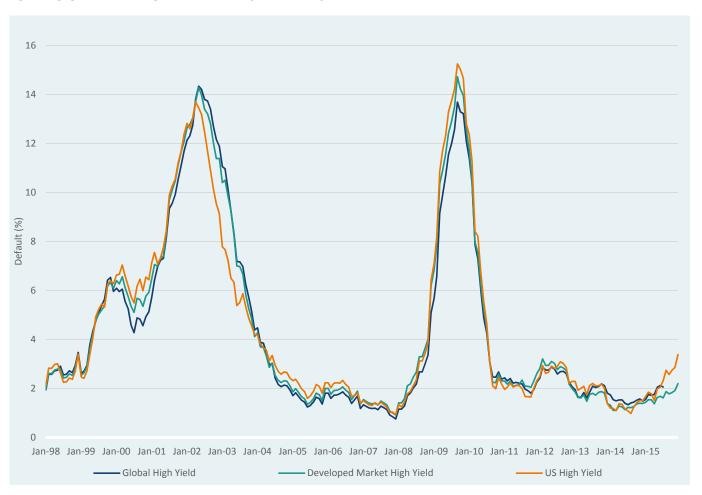
Notice the degree to which energy has led the pack in this move

Source: Barclays Capital Indices, Bloomberg, as of 12/31/15



High Yield defaults up – but still low

ROLLING ONE YEAR HIGH YIELD DEFAULT TRENDS



There is increasing concern over high yield, in particular due to changes in the energy market ecosystem

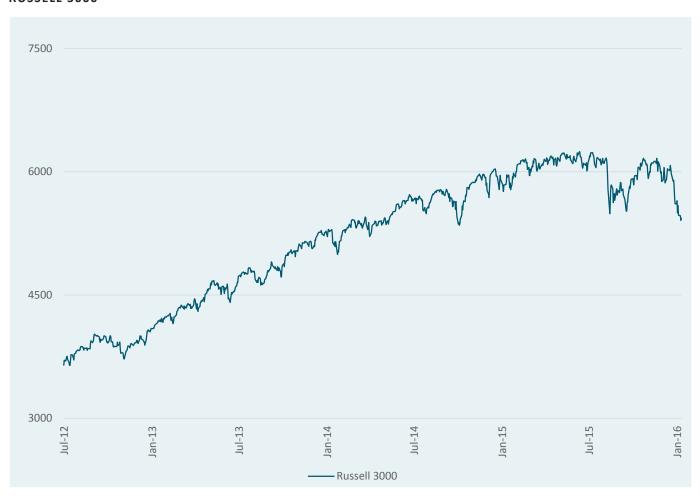
Note that defaults remain somewhat low for now, though climbing

Source: Credit Suisse, BofA, as of 12/31/15



Domestic equity

RUSSELL 3000



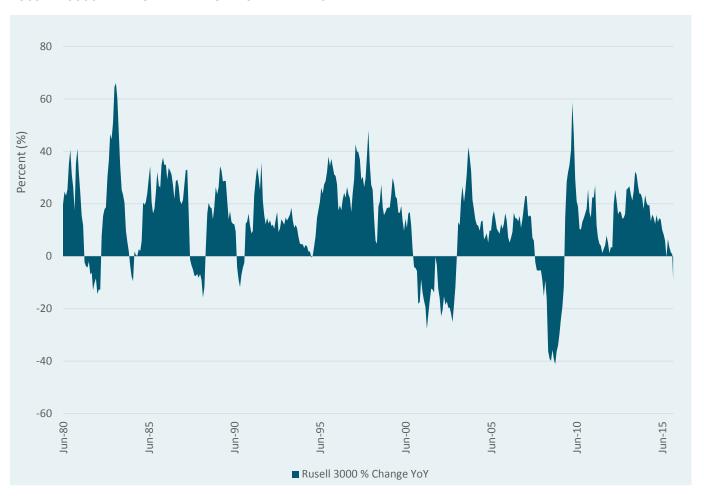
After a rebound from a decline in the fall of 2015 we have seen another weak period

Source: FRED, as of 1/21/16



Domestic equity downside events

RUSSELL 3000 YEAR-ON-YEAR DOWNSIDE EVENTS



Recent price declines have pushed yearon-year returns into negative territory

Source: FRED, as of 1/21/16



International equity

INTERNATIONAL EQUITY MARKETS SHORT TERM RETURN



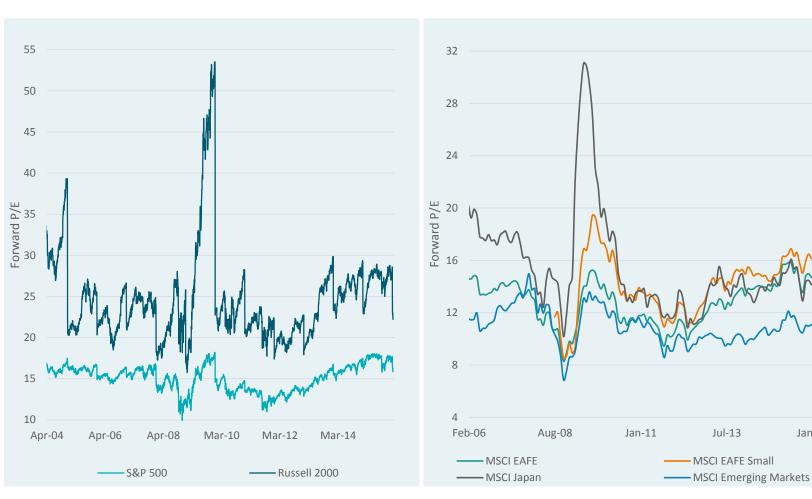
The equity markets outside the US continue to suffer

Source: MSCI, as of 1/25/16



Equity valuations

Lower prices – better valuations. Somewhat...



Price declines do create better valuations, all things being equal, but better valuations are not always great buying opportunities

Source: Standard & Poor's, Russell Investments, as of 1/21/16

Source: MSCI, as of 12/31/15



Jan-16

Emerging markets equity & oil

CUMULATIVE PRICE RETURN OF EMERGING MARKET EQUITIES & OIL



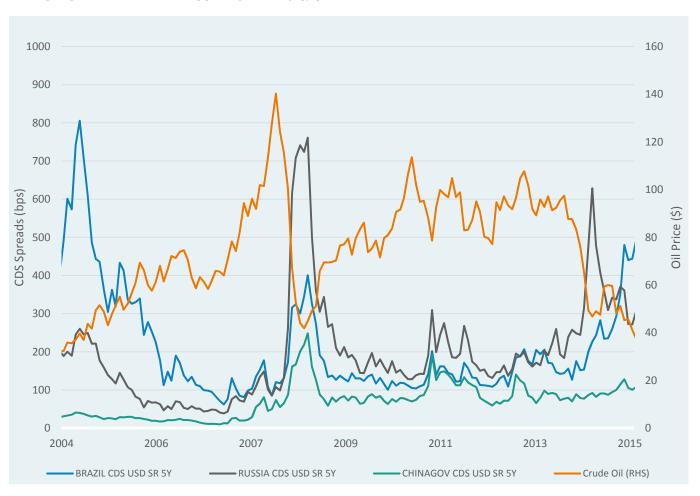
The movement in oil has coincided with a movement lower in emerging market equities

Source: MSCI, as of 1/25/16



Emerging markets fixed income & oil

EMERGING MARKET FIXED INCOME SPREADS & OIL



Emerging market fixed income has been hit at the same time that oil has declined precipitously

Source: Bloomberg, as of 12/31/15



But oil not driving more than usual

EQUITY MARKET ROLLING 3 MONTH CORRELATION WITH WTI OIL PRICE



Oil price correlation has been at this level often

Oil may be representing both signal and driver in current market movements

Source: MSCI, as of 1/25/16



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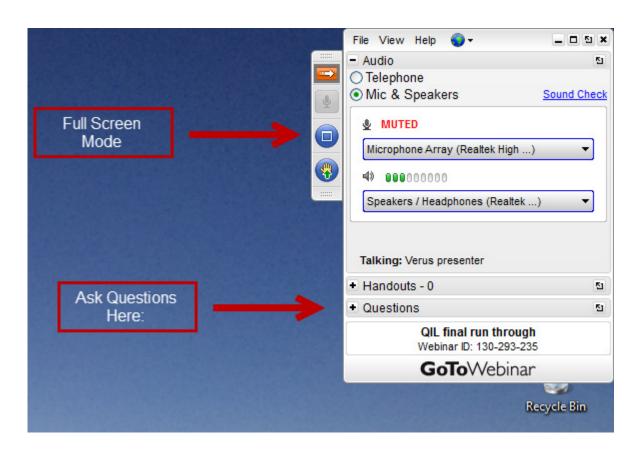
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Thank you

