

Table of contents



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Executive summary		Current conditions and outlooks	1:
Why include real assets?	4	Appendix	2!
The role of real assets in a portfolio	8		
Outlook summary	9		

Executive summary

- Real asset exposures can provide three key portfolio benefits: inflation protection, a differentiated source of return, and portfolio level diversification. Return and diversification benefits are largely independent from inflation protection benefits.
- Inflation levels remain moderate across the globe and are projected to remain at the lower end of the normal range.
 The ever-present risk of unexpected inflation shock suggests that it is prudent to maintain real assets exposures with other return drivers outside of pure inflation.
- Private real estate appears favorable compared to other inflation protecting asset classes. Real estate fundamentals have improved alongside a slow and steady economic recovery, without the overbuilding that is typically seen at this stage of the cycle. We recommend a conservative approach to leverage, liquidity and quality.

- Commodities can still play a role in diversifying portfolios and protecting against unexpected inflation even in a global environment of declining commodity prices and low inflation expectations.
- Commodity exposures can also be achieved through the ownership of commodity producers in both public and private market spheres. This approach carries risk factors not related to commodities, such as equity, credit, and company-specific risk. Private market exposures may also add illiquidity to the portfolio.
- It is important to distinguish between strategic allocations and intermediate-term valuation differentials. This report is written primarily with an intermediate-term view (3-5 years), and is intended to help guide potential tilts within strategic target allocations and new capital deployment. It is not intended to override long-term portfolio planning.

Why include real assets in a portfolio?

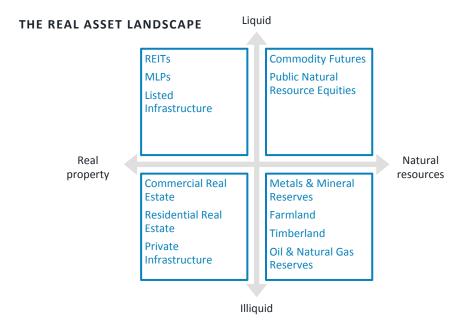
Why do we include real assets in institutional portfolios?

- Inflation protection
- Diversification
- Income generation
- Total return
- Reduction of equity sensitivity

Adding real assets to a strategic asset allocation has historically improved returns while providing diversification benefits and reducing drawdowns in down markets.

A basic 60/40 portfolio including only stocks and bonds would have experienced periods of negative 10-year real returns during high inflationary periods.

Real assets are intended to serve as a guard against <u>unexpected</u> inflation. Because it is difficult to predict <u>when</u> inflation will rise, investors should continue to hold real assets during low inflation periods.



INFLATION VS 60/40 REAL RETURNS (10 YR ROLLING)



Source: MPI, Bloomberg, as of 1/31/16



Why include real assets in a portfolio?



- Most institutional portfolios include total allocations to real assets (including real estate) in the 10-20% range. Real estate tends to be the largest component of real assets.
- The chart on the top left shows that real estate, commodities and TIPS have been sensitive to inflation (CPI). Correlations, however, will vary over time, which is why a diversified basket of real assets is recommended.
- The correlation of real assets to a 60/40 portfolio is typically low, which provides diversification value.
- There is a definite trade-off for diversification and liquidity, however, as publicly traded real assets tend to be more highly correlated (e.g., correlation of REITs to the S&P 500 is 0.78 while the correlation of private real estate to the S&P 500 is 0.26) partly due to the smoothing effect of appraisal-based valuations.

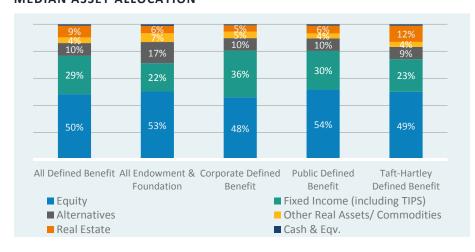
ROLLING 3-YEAR CORRELATIONS



Source: MPI, Bloomberg, 10-year correlations, as of 3/31/2016

Source: MPI, as of 3/31/16

MEDIAN ASSET ALLOCATION



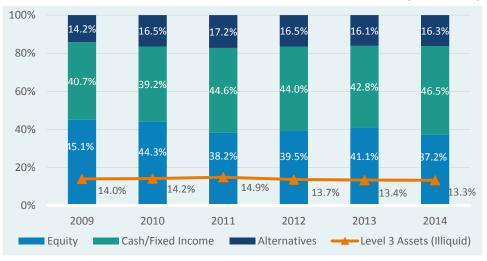
Source: InvestorForce



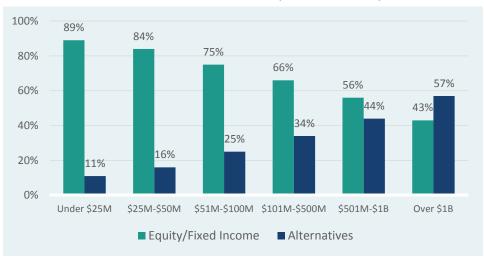
Implementation – liquid vs. illiquid?

- Investors can gain exposure to most real assets through both liquid (publicly-traded securities) and illiquid (private vehicles).
- The approximate mix of liquidity in a portfolio varies dramatically by client depending on a number of variables, including risk tolerance, income needs, and investment time horizons.
- The trade-off for gaining exposure through illiquid vehicles is typically greater diversification, lower equity risk, and possibly an illiquidity return premium.
- Many liquid real assets (REITs, natural resource equities, listed infrastructure, MLPs) also come with embedded equity risk in addition to exposure to the underlying real assets. Because these assets trade on the equity markets, they are subject to market sentiment.
- Private, illiquid investments tend to have higher costs and higher minimums.

ALLOCATION TO ALTERNATIVES AND LEVEL 3 ILLIQUID ASSETS (PENSIONS)



ALTERNATIVE ALLOCATIONS BY PLAN SIZE (ENDOWMENTS)



Source: Towers Watson Source: NACUBO



Inflation sensitivity

Real Assets	Deflation	Rising Inflation	High Inflation
Real Estate	Real estate would face headwinds in a deflationary environment as the ability to raise leases/rents would become challenging.	As inflation rises, input prices for commercial real estate go up, increasing the replacement cost for real estate, thereby allowing easier rent/lease increases.	Price appreciation would be higher, thus good protection against inflation as a store of capital. But higher interest rates would decrease the attractiveness of using leverage.
Infrastructure	The stable, steady contracted or regulated income streams of core infrastructure should hold up well even with declining inflation	Automatic inflation adjustments to many of the regulated assets and contracted assets increase income during times of rising inflation.	Nominal returns should be higher during a high inflationary period as many regulated and contracted utility rates have inflation kickers in their contracts.
TIPS	The principal of TIPS cannot be reduced below par value when held to maturity. This implied put characteristic can make TIPS broadly attractive during a deflationary period.	TIPS offer protection during inflationary environments as the instrument's principal is adjusted every 6 months based on CPI levels. This helps protect real returns. If the inflation prints higher than the TIPS breakeven, investors are being over-compensated relative to Treasuries.	During high inflation, the protection offered by TIPS may be less than adequate as the adjustment to principal is only made every six months and has a lag on the payout. However, the payout of the investment is still guaranteed by the government so there should be marginal protection.
Commodity Futures	Commodity futures typically have dropped during deflationary or disinflationary environments. Gold and other precious metals may be a good store of wealth during deflationary times.	Periods of rising inflation are the best environment for commodity futures as they tend to provide very direct exposure to price movements.	High inflation doesn't necessarily mean high returns for commodity futures. The rate of change of inflation is a larger determinant in the returns than the absolute level of inflation.
Natural Resource Equities	Real assets have typically seen declining demand during these periods, affecting both spot prices and companies with exposure to the natural resources, whether it be oil & gas, metals, timber or agriculture.	Increasing prices have a direct impact on profit margins for companies with commodity exposures. However, overall equities tend to underperform in periods of rising inflation.	High inflation may improve profit margins of natural resource companies in the near term, but longer periods of high inflation have had a negative impact on overall equity valuations as debt costs are typically higher in such periods as well.



The role of real assets

	Strategy	GDP sensitivity	Inflation sensitivity	Income orientation	Return enhancing	Risk reducing	Liquidity
	Private real estate core						
Privately-traded real assets	Private real estate value added						
ded rea	Private real estate opportunistic						
ely-tra	Private infrastructure						
Private	Timber						
_	Farmland / agriculture						
۶۲	TIPS						
Publicly-traded real assets	Commodity futures						
ed rea	REITs						
-trade	MLPs						
blicly	Listed infrastructure						
Pu	Natural resources equity						

Note: the summary above was determined using historical averages and correlations on a relative basis within each category. It is important to note that investments within these asset classes are often heterogeneous and may possess different qualities and sensitivities (see Appendix for further details).

No and the da	Low/None	Moderate	High
Magnitude			



Outlook summary

Strategy	Current environment	Potential risks	Outlook / Implementation	
Private Real Estate	A slow and steady recovery in real estate has led to six consecutive years of double-digit returns. Economic tailwinds of increased job growth support lower vacancies and increased NOI growth for all property types. Conservative lending standards have moderated new supply coming online.	Economic growth is the dominant driver of returns. A slowdown is the largest risk factor. Rising interest rates could pose a headwind to cap rates, although current spreads to Treasuries remain near historical highs. New supply levels remain below historic averages in all property types except multifamily.		Positive
REITs	As with the private real estate, fundamentals continue to be positive and improving. Overall, REIT valuations appear to be slightly cheap relative to private real estate.	REITs tend to be very sensitive to interest rates in the short-term and tend to be more volatile and quicker to react to rising rates than private markets.	We believe REITS are currently experiencing positive overall real estate fundamentals and relatively fair valuations. Higher leverage and volatility lead to a preference for private real estate; however, REITs can be an additional source of diversification as a portion of a broader real estate portfolio.	Neutral
Commodities	Commodities have continued to underperform significantly in recent years in a low inflationary environment with slowing growth and over-supply issues. Oil has led the charge with a drop from \$114/bbl in June 2014 down to \$29/bbl in January 2016. Since January, the price has rebounded over 40% through March.	sensitivity to GDP growth. Since many commodities are US dollar-denominated,	to oversupply with negative roll yields. Lower inflation has also contributed to difficulties. Plans can diversify their commodity exposure by investing in commodity producers (energy and	Neutral
TIPS	Low nominal interest rates combined with low inflation has led to a low return environment for TIPS.	Decreasing inflation expectations or declining interest rates due to an additional slowdown in global growth or continued decline in energy prices would be a headwind to TIPS.	Given the low current yields and modest inflation expectations, other real assets offer higher total return potential than TIPS.	Negative
Infrastructure	downward pressure on prospective returns. More capital is chasing fewer and larger deals. At the same time,	There are a large number of structural risks to investing in infrastructure including overall economic conditions, regulatory risks, labor issues, leverage, currency, liquidity, credit and interest rates.	steady income, but increased competition has hurt returns. Value-added infrastructure	Neutral



Outlook summary (continued)

Strategy	Current environment	Potential risks	Outlook / Implementation	
Private Natural Resources	Most natural resource prices have declined substantially in recent periods. Metals have been down for four years while energy prices (oil and gas) have been down sharply in the last 18 months. Stressed environments exist for many producers.	Continued declines in natural resource prices would be a key risk factor in the space.	Clients can gain underlying commodity exposure through owning the producers (exploration and production in oil & gas and miners in the metals sector) with higher return potential than commodity futures but with greater illiquidy and equity exposure.	Neutral
MLPs	down 53% peak to trough in February 2016, surpassing the 44% slide during the	Cuts in distributions have been limited to upstream producers, but could continue with midstream MLPs if stressed, low energy price environment continues for extended period. Higher cost of capital due to lower stock prices and higher debt issuance costs may reduce growth potential within the space.	While pricing of MLPs appear favorable relative to history by most valuation metrics, the overall risks have increased dramatically leading to much higher volatility in the space. The potential exists for a much slower growth environment, and potential credit defaults from counterparties lead us to take a cautious stance for the sector.	Neutral
Timberland	Increased competition for land use has lifted timberland prices over the last decade. Low global growth has hurt timber prices as the asset tends to be highly correlated to the new housing markets.	Any decline of the current slow recovery of the U.S. housing market would be a challenge for timber use, affecting pricing for timberland. Continued slowdowns in Europe and Asia would also decrease demand for timber.	We currently view this asset class as expensive. This is not a good near-term entry point, especially given the illiquid and niche nature of the asset class.	Negative
Farmland	Farmland investing is heavily reliant on weather conditions which may either diminish crops or lead to an oversupply. Recently, crop values have been on the decline due to oversupply, especially in corn.	Lower energy cost inputs have been a recent benefit to profit margins as fuel costs are a large component of costs. Any increase in energy costs would detract from margins. Continued strengthening of the US dollar would continue to hurt export orders.	We currently view this asset class as expensive. This is not a good near-term entry point, especially given the illiquid and niche nature of the asset class.	Negative



Current conditions and outlooks



Real estate performance – recent history

- Core real estate has seen six consecutive years of 10-14% annual returns since the global financial crisis. During the same timeframe, average vintage returns for non-core real estate have been 11-18%, with the exception of 2014, which is considered early in the J-curve and is expected to improve.
- Correlation between GDP growth and core real estate returns has historically been very high. A slow but steady recovery has
 created a positive environment for real estate fundamentals without leading to excessive new supply overheating the market.
- Some of the best non-core real estate vintage years occur during years of recessions (2001-2003 and 2008-2009) due to the ability to purchase at attractive valuations and the higher volumes of distressed properties available.
- Late stage vintage years have been the most challenged (1998-1999) and (2005-2007).

NCREIF RETURNS



Source: NCREIF, as of 12/31/15

VINTAGE YEAR RETURN (%) - NON CORE REAL ESTATE



Source: Thomson One, as of 9/30/15

REAL ESTATE AND THE BUSINESS CYCLE



Source: NCREIF, BEA as of 12/31/15



Real estate fundamentals

- Vacancy rates have been on a steady downward trend for most property types. Multifamily saw an earlier recovery and has
 actually seen vacancy rates level out as new construction increased, although vacancy rates are still near historic lows.
- Industrial vacancies continued to have the steepest declines as e-commerce has increased demand for unfilled warehouse space.
 Office property vacancies have been slower to recover and are still at or above pre-crisis levels.
- Net operating income (NOI) growth rates continue to be strong, between 5-10% for all property types.
- Multifamily growth rates have again risen above 10%, continuing their leadership in the space from the early part of the recovery.
- Cap rates have continued to decline steadily along with interest rates, although spreads to Treasuries remain attractive.

VACANCY BY PROPERTY TYPE



Source: NCREIF, as of 12/31/15 Source: NCREIF,

CAP RATE SPREADS



Source: NCREIF, as of 12/31/15

4-QTR ROLLING NOI GROWTH (%) BY PROPERTY TYPE



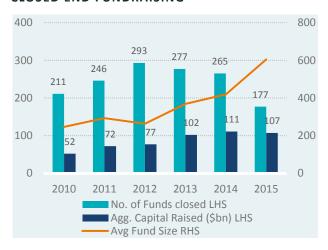
Source: NCREIF, as of 12/31/15



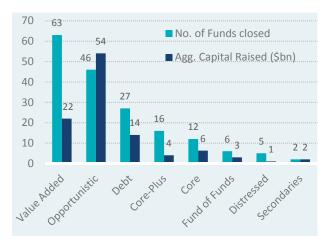
Real estate fundraising

- Closed-end fundraising has remained high with \$107 billion raised in 2015, a similar level to that seen in 2013-2014.
- The number of funds closed is down significantly from prior years, with the average fund raised reaching a new high of \$600 million.
- There were more funds raised in the value-added space; however, more capital was raised in the opportunistic fund space, led by several mega funds.
- North America has attracted the most total capital, while dry powder in the rest of the world has leveled off.
- Core open-ended funds in the U.S. are also sitting on a large pool of capital to deploy, currently estimated at around \$10 billion.

HISTORICAL PRIVATE REAL ESTATE CLOSED END FUNDRAISING



2015 PRIVATE REAL ESTATE CLOSED END FUNDRAISING BY STRATEGY IN 2015



Source: Pregin

DRY POWDER BY REGION - CLOSED END FUNDS



Source: Pregin



Source: Pregin

REITs

- Fundamentals continue to improve, with declining vacancies and improving NOI growth. The slow and steady economic growth
 environment continues to help real estate through job growth, additional consumer spending, and low interest rates, while tight
 lending standards have led to moderate new supply coming online.
- REITs started out the year down more than 4% through February, but rebounded by over 10% in March, moving along with broader equity markets.
- REITs appear to be fairly valued according to most key metrics, including price to NAV, implied cap rate spreads to Treasuries, and
 Adjusted Funds From Operations (AFFO) multiples vs. equities.
- We believe opportunities exist in this space, though selection is important. Active management continues to appear attractive.

PERFORMANCE VS S&P 500 (1-YEAR ROLLING)



YIELDS (VS TREASURIES)



Source: JPMorgan, as of March 2016

VALUATION (VS EQUITIES)



Source: JPMorgan, as of March 2016



Source: MPI

Real estate summary

Strategy	Current environment	Potential risks	Outlook / Implementation	
Core	Cap rates have continued a slow and steady decline. Income is low relative to history, but with relatively attractive spreads to Treasuries. Prices seem expensive in primary and gateway markets; however, these have been areas with higher demand and growth.	Rising interest rates could hurt property prices and push cap rates higher. Increases in new supply (which is moderate now) could lead to frothiness.	Primary markets have attracted the most capital as investors flock to perceived high quality. The ability of active managers to choose the best locations in fast growing markets will be key. Be careful stretching for yield and quality and leverage during the later stages of the cycle.	Neutral/ Positive
Value Added	The amount of dry powder on the sidelines for non-core real estate has exceeded pre-crisis levels, creating large amounts of competition for deal flow, and putting pressure on entry points.	Steady economic growth, reducing the risks to non-core properties must be weighed against the negative implications of potentially rising interest rates. Compared to the last real estate cycle, the use of leverage appears less pervasive, mitigating risks to ownership of owning non-core assets.	With large amounts of capital on the sidelines supporting high quality stable assets, an opportunity still exists to "create core" through renovation, repositioning and releasing strategies. Favorable strategies are those that will look to execute quickly with modest leverage. The ability to source deals off-market or with limited marketing will be key to avoid competitive bidding wars.	Neutral/ Positive
Opportunistic	The amount of dry powder on the sidelines for non-core real estate has exceeded pre-crisis levels, creating large amounts of competition for deal flow, and putting pressure on entry points.	Steady economic growth, reducing the risks to non-core properties must be weighed against the negative implications of potentially rising interest rates. Compared to the last real estate cycle, the use of leverage appears less pervasive, mitigating risks to ownership of owning non-core assets.	The recovery in real estate has reduced much of the broad-based distress in the system, creating fewer opportunities for opportunistic or distressed buyers to simply buy cheap. Selective opportunities still exist as refinancings from the height of the CMBS market seek out new capital. Longer time frames to execute complex distressed assets, and development or turnaround opportunities add to the uncertainty.	Neutral/ Negative
REITs	REITs appear to be pretty fairly valued by most metrics, including Premium to NAV. They are slightly expensive relative to equities on a P/E premium to the S&P 500. REITs' implied cap rate relative to Treasuries is trading slightly cheaply, but also near historical averages.	Returns have benefitted from cheap access to equity and debt capital. This is a highly volatile asset class that is very sensitive to interest rates, and discounting economic expectations.	Active management in the REIT space has historically added value over the long run on a risk-adjusted basis.	Neutral



Commodities

- Commodity indices have been on a downward trend over the past four years. Inflation has been lower than anticipated globally
 due in part to a decrease in demand in Europe and China, and increased capacity around the world. Most recently, a significant
 drop in energy prices has added deflationary pressure.
- Relative strength in the U.S. economy has strengthened the U.S. dollar, weighing on commodity returns as many commodities are
 U.S. dollar denominated. A recent reversal of this trend has provided a boost to commodity prices.
- Commodities have often historically provided diversification versus stocks and bonds and inflation protection. Commodity indices
 are relatively inefficient, suggesting an active approach to this asset class is generally most appropriate.

CUMULATIVE PERFORMANCE – COMMODITIES



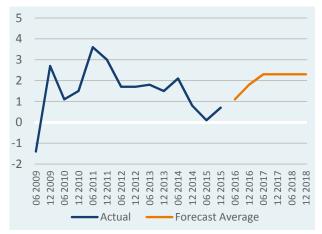
Source: MPI, as of 5/3/16



Commodities – return sensitivity

- Commodities have tended to perform best in rising inflation environments.
- Current inflation has been low and trending downward over the last five years, creating a headwind for commodity-based futures strategies.
- While acknowledging that inflation is difficult to predict, current economic forecasts are calling for modest inflation over the near and intermediate term.
- Commodity futures have faced additional headwinds over the past decade, with spot returns outpacing futures returns by a substantial margin.
 This indicates that investors partially anticipated higher prices, translating to a negative roll yield (a cost to investors in futures-based strategies).
- Holding physical commodities is not always a feasible investment strategy, as there can be a high cost of carry (storage, insurance, etc.).
- Commodity producers, such as companies in the oil & gas and metals & mining spaces, may provide exposure to commodities while delivering higher rates of return. This type of exposure does increase a Plan's equity exposure and potential illiquidity, if accessed through private vehicles.

ECONOMIST INFLATION FORECASTS



Source: Wall Street Journal

ASSET CLASS RETURNS DURING INFLATION SHOCK REGIMES: 1960-2015 (1-YEAR PERIODS)



Source: Summerhaven

COMMODITY FUTURES AND SPOT RETURNS FOR SELECTED PERIODS

	<u>Nominal</u> <u>Infli</u>		Inflation A	Adjusted
Period	Futures	Spot	Futures	Spot
1/2005 to 12/2014	5.1%	9.4%	2.9%	7.3%
1/1995 to 12/2004	8.6%	8.2%	6.1%	5.8%
1/1985 to 12/1994	9.7%	6.7%	6.2%	3.1%
1/1975 to 12/1984	9.0%	7.1%	1.9%	0.0%
1/1965 to 12/1974	19.2%	13.2%	14.1%	8.1%
1/1959 to 12/1964	3.9%	3.0%	2.6%	1.7%

Source: Summerhaven; Facts and Fantasies about Commodity Futures, Yale

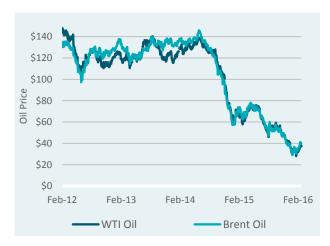
Commodities – energy

Oil prices fell off sharply after June 2014 with highs near \$140/bbl, bottoming in January 2016 below \$30/bbl. Since January, the prices have risen from their lows, now trading at around \$40/bbl. The decline in prices was due to a combination of forces, including a supply glut of U.S. shale oil, continued production from OPEC / Saudi Arabia, and slowing growth around the globe.

Persistently low oil prices may:

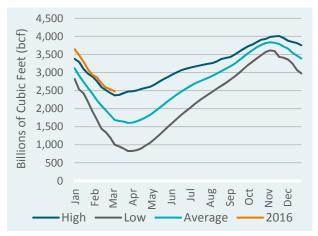
- Prove to be a catalyst for the growth of major oil importing countries.
- Allow central banks to expand balance sheets and continue to pursue accommodative policies.
- Increase geopolitical risks as oil exporting countries are negatively affected.
- Cause changes in oil production behaviors as unprofitable wells are taken offline.

OIL PRICES - WTI AND BRENT



Source: Bloomberg, as of 3/15/16

NATURAL GAS INVENTORIES



Source: U.S. Energy Information Administration. Inventories shown are all crude oil stocks within the US excluding Strategic Petroleum Reserves. High, low and averages are from 2011 – current through 3/4/16.

US CRUDE OIL INVENTORIES

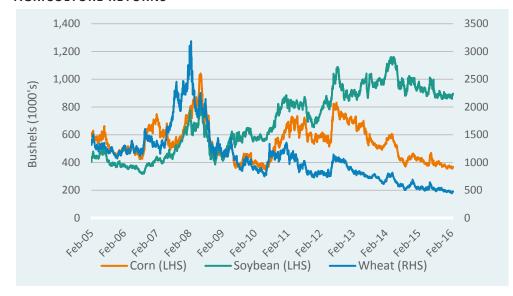


Source: U.S. Energy Information Administration. Inventories shown are all crude oil stocks within the US excluding Strategic Petroleum Reserves. High, low and averages are from 2011 – current through 3/4/16.

Commodities – agriculture and metals

- Metal prices have generally been declining over the last several years. Slowing growth, especially in the emerging markets, has led
 to a decrease in demand.
- Precious metals have also been in a downward trend over the last three to five years as the strengthening of the U.S. dollar has been a headwind to prices, as the commodity is U.S. dollar denominated. There has been a slight uptick in performance in gold and silver over the last year as prices may have found a bottom and the strength of the U.S. dollar eased marginally.
- Grain prices have also been on a steady decline, but have flattened out recently. Heavy inventories due to positive weather conditions and higher than expected harvests have been key drivers.

AGRICULTURE RETURNS



Source: Bloomberg, through 3/26/2016

Precious Metal Returns (Annualized)

Precious Metals	1 Year	3 Year	5 Year
Palladium	-23.9%	-5.0%	-4.4%
Gold	7.2%	-4.7%	-3.4%
Platinum	-8.5%	-11.2%	-10.4%
Silver	5.3%	-10.5%	-15.2%

Industrial Metal Returns (Annualized)

Industrial Metals	1 Year	3 Year	5 Year
Nickel	-31.7%	-15.8%	-20.2%
Aluminum	-18.1%	-9.7%	-14.8%
Zinc	-21.7%	-2.4%	-6.4%
Copper	-25.4%	-12.4%	-12.1%

Source: MPI, period ending 5/4/2016



TIPS

- Recent inflation has remained below the long-term historical average, pushed lower by declining energy costs. Interest rates have also continued to decline.
- Inflation has been below the current Fed target of 2%, as economic growth in the U.S. has remained slow.
- Institutional investors typically hold TIPS in one of two areas in their portfolios in a fixed income allocation or in an inflation protection / real assets portfolio.
- Over the intermediate term, we believe TIPS appear less attractive relative to other real assets from a total return perspective.
- There may be periods in which TIPS breakevens become more attractive relative to nominal bonds as we saw recently during the first quarter, however these periods tend to be short in nature.
- TIPS retain a place in the long-term strategic allocation to inflation protecting assets to protect against unexpected inflation shocks.

U.S. TREASURY BOND RATES



Source: Bloomberg, as of 5/6/16

CURRENT INFLATION VS. FED TARGET



Source: Bloomberg, as of 3/31/16



Infrastructure

- Total deal activity slowed about 35% in 2015 compared to the prior four-year average.
- Transaction sizes continue to increase. The average infrastructure transaction size was estimated to be \$528 million in 2015, up 57% from the \$336 million average in 2010. This is creating a more challenging environment for managers to deploy new capital effectively with meaningful internal diversification.
- Dry powder among infrastructure funds remains very high, creating a competitive environment to put capital to work. Finding attractive investment opportunities was listed as the biggest challenge by infrastructure managers with 52% selecting that as the number one challenge in the current environment, according to a recent Preqin survey.
- Overall returns in the asset class have come down from the early years. As the asset class has matured, competition has increased.
- Core infrastructure may play a role as part of investors' real assets portfolios due to its greater sensitivity to inflation. Open-ended funds offer
 a good alignment of interests and the ability to gain exposure to the asset class without having to compete for new transactions in a
 competitive market. Taking a global approach is important because the opportunity set is much larger outside the U.S.

UNLISTED INFRASTRUCTURE ASSETS UNDER MANAGEMENT

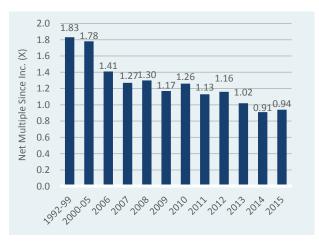


INFRASTRUCTURE DEAL FLOW



Source: Prequin

MEDIAN NET MULTIPLE RETURNS FOR INFRASTRUCTURE BY VINTAGE YEAR



Source: Morgan Stanley, Westwood



Source: Prequin

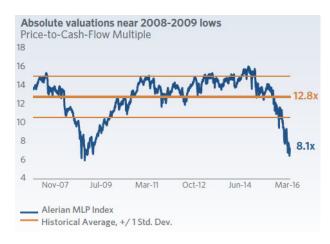
Master limited partnerships (MLPs)

- MLP values have fallen dramatically along with the price of oil. Volatility has also increased with changes in sentiment in the markets, and correlation to the price of oil has increased.
- Valuation metrics appear cheap historically, along with distribution yields of 7.7% as of April. Yields reached as high as 10-12% in February as MLPs and oil may have found a bottom.
- Currently the market is pricing in zero distribution growth, as fears that sustained low oil prices will cause cuts in new projects and contract defaults. Many contracts are structured as "take-or-pay" which means the MLPs are obliged to get paid whether or not the pipelines get used or not. These contracts should provide some protection unless times get dire enough to create defaults.
- MLP revenues from crude oil transport and storage represent less than half of total revenues. MLPs may offer value if investors believe the price of oil will moderate further. However, if oil remains low or falls once again MLPs may face significant challenges given the complexity of these vehicles. Furthermore, stress in the credit markets may impact the viability of MLPs as these vehicles typically depend on access to the capital markets.

PERFORMANCE VS OIL

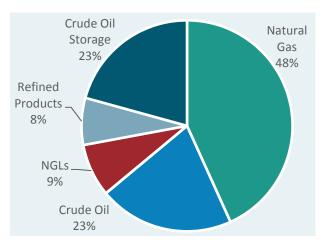


VALUATIONS



Source: Brookfield

MLP CASH FLOW BY PRODUCT TYPE



Source: Brookfield



Source: EIA, Alerian

Private natural resources

- While the natural resource asset class remains relatively small compared to other markets such as private equity and real estate,
 2015 was a year of continued growth in the sector.
- Low commodity prices have provided a challenge for managers over recent time periods, especially in the metals & mining and energy sectors.
- Even with the decline in energy prices, fundraising was up in the energy sector in 2015 with 59 funds closing on \$62 billion as managers are looking to take advantage of deal flow in the current low price environment.
- Metals & mining only closed two funds in 2015 for a total of \$400 million; however, there are now 13 funds in the market looking to raise \$3.8 billion as investor demand is starting to increase. Managers with long-term investment horizons are targeting companies being offloaded by mining companies under financial pressure.

2015 NATURAL RESOURCE FUNDS CLOSED

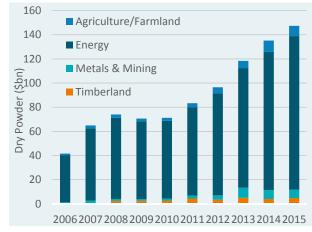


CURRENT NATURAL RESOURCE FUNDS IN MARKET



Source: Prequin

CURRENT DRY POWDER BY STRATEGY



Source: Prequin



Source: Prequin

Appendix



Sensitivity analysis

Strategy	GDP sensitivity	Correlation to GDP	Inflation sensitivity	Correlation to CPI	Income orientation	Return enhancing	Risk reducing	Correlation to 60/40	Liquidity
Private real estate core	High - Demand for real estate is highly correlated to growth. Especially office, industrial and retail demand.	0.66	Medium - There is a pass thru component in rents to increased costs. Timeframe varies as hotels can be changed daily, multifamily have yearly leases, office have 3-5 year leases and industrial have leases that are sometimes 10+ years.	0.26	High - A large percentage of the total return in core real estate comes from income, historically around 6-8%. Current cap rates are around 5%.	Medium - 8% average historically	Medium	0.24	Medium - Typically quarterly liquidity, although less liquid in times of distress
Private real estate value added	High - No return stream specific correlations, but similar to core real estate, given the exit is typically into that market.	-	Low - Operation and execution typically have greater influence on the returns than increased income pass-thru due to higher input costs.	-	Medium - Typically value-add real estate has a higher amount of total return from appreciation and less from core income component as properties are less stabilized.	High - Targeting 11- 14% returns	Low - High beta strategy, high returns, higher risk	-	Low - Typically 7- 10 year closed- end funds. Some open end funds exist, but still limited liquidity
Private real estate opportunistic	High - No return stream specific correlations, but similar to core real estate, given the exit is typically into that market.	-	Low - Operation and execution typically have greater influence on the returns than increased income pass-thru due to higher input costs.	-	Low - Opportunistic real estate may include some non-income producing properties such as land or development or bankruptcy/foreclosure assets with little or no income.	High - Targeting 15%+ returns	Low - High beta strategy, high returns, higher risk	-	Low - Typically 7- 10 year closed- end funds
Unlisted core infrastructure	Low - Privately traded core infrastructure is typically a regulated asset that is needs based.	-	High - Regulated or contracted rates typically have inflation kickers included to be able to raise rates at a set rate plus inflation.	-	High - Over half of the returns from this asset class come from income.	Medium - Targeting 8-11% returns	Medium	-	Low - Typically 10- 15 year closed- end funds. A few open end funds exist, but most of lock-up provisions
Timber	Low - Very long term asset, however demand in construction/housing has a large impact on exit prices.		Low - Timber prices move up and down with demand as an input cost into housing.	-0.08	Medium - Income yields typically between 1-4%. Currently around 3%.	Medium - 15 year returns have exceeded 7%	High - Very low correlation to 60/40, protected well in the global financial crisis	-0.25	Low - Typically 7- 10 year closed- end funds
Farmland / agriculture	Medium - Demand for food & agriculture steady, not heavily dependent on GDP.		Low – Negative correlation of -0.43	-0.43	High - Income has provided up to 50% of farmland returns.	High - 15 year returns have exceeded 14%	High - Very low correlation to 60/40, protected well in the global financial crisis	0.01	Low - Typically 7- 10 year closed- end funds

Note: 10-year trailing data as of 3/31/16



Sensitivity analysis (continued)

Strategy	GDP sensitivity	Correlation to GDP	Inflation sensitivity	Correlation to CPI	Income orientation	Return enhancing	Risk reducing	Correlation to 60/40	Liquidity
TIPS	Low - Securities tied to inflation and interest rates, uncorrelated to GDP.	0.02	Medium - Yields are tied to inflation, however interest rate movements affect the direct correlation.	0.35	Low - Typically low yields, but tied to inflation and interest rates.	Low - Overall returns are low, but spike in higher inflationary periods.	High – Very low correlation to 60/40	-0.01	High - Publically traded, daily valued
Commodity futures	Medium - Correlations exist within some commodity sectors such as energy and industrial metals that possess higher sensitivity to growth.	0.36	High	0.60	Low - Rolling futures contracts, not income oriented.	Low - Overall returns are low, but spike in higher inflationary periods	Medium	0.58	High - Liquid commingled funds (monthly liquidity) or daily mutual funds available
REITs	Medium - Growth leads to increased demand for office, industrial and retail.	0.14	Low - Low correlation of 0.21. Equity market sensitivity tends to dampen the direct correlation.	0.22	Medium - Dividend yields typically 3-5%.	High - 15 year returns have exceeded 12%	Low - Tend to have much higher correlation to equities	0.78	High - Publically traded, daily valued
MLPs	Medium- Most MLPs are midstream transmission assets that have long term contracts in place which are typically paid whether asset is used or not during shorter time periods.	0.33	Medium – Changes in energy prices have been impactful on MLP prices, especially recently.	0.43	High - Typically MLP yields are in the 5-7% range. Current yields are over 7%.	High - 15 year returns have exceeded 17%	Medium - MLPs offered good downside protection in the tech bubble. Not as much in 2008, but that was credit driven	0.65	High - Publically traded, daily valued
Listed infrastructure	Medium - Infrastructure assets are more necessity driven (pipelines, energy transmission, water treatment & sewage, etc.) Demand remains fairly consistent.	0.52	Medium - Low correlation of 0.34. Equity market sensitivity tends to dampen the direct correlation.	0.34	Medium - Dividend yields typically 3-4%	High - 10 year returns have exceeded 14%	Low - Tend to have much higher correlation to equities	0.89	High - Publically traded, daily valued
Natural resources equity	Medium	0.36	Medium - Exposure to metals and mining companies raises correlations, but equity market sensitivity also dampens it.	0.32	Low - Dividend yields typically 1-2%	High - 10 year returns have exceeded 12%	Low - Tend to have much higher correlation to equities	0.73	High - Publically traded, daily valued

Note: 10-year trailing data as of 3/31/16



Glossary of terms

Adjusted Funds From Operations (AFFO): A measurement which is helpful in analyzing real estate investment trusts (REITs). The AFFO typically equals the trust's funds from operations (FFO) but is adjusted for ongoing capital expenditures which are necessary for upkeep of the REIT's assets.

Capitalization Rates: The rate of return of a real estate investment, which is calculated by dividing the property's net operating income by the property's purchase price.

Core Real Estate: This category of real estate will include a preponderance of stabilized properties. Core real estate should achieve relatively high income returns and exhibit relatively low volatility. Core real estate funds tend to use less leverage.

Consumer Price Index (CPI): A measure of purchasing power and inflation that takes the average prices of a basket of consumer goods and services, such as food, medical care, and transportation, and compares the same basket of goods in terms of prices to the same period in a previous year. Changes in CPI are used to assess price changes associated with the cost of living.

Dry Powder: Investment reserves raised by investment funds to cover future obligations or to purchase assets in the future.

GDP: The total value of all services and goods produced within a country's borders, for a given time period. This calculation includes both private and public consumption, government expenditures, investments, along with total exports net of total imports.

Internal Rate of Return (IRR): the IRR is the discount rate that equates the present value of cash outflows (investment) with the present value of cash inflows (return of capital). IRR is often referred to as a dollar-weighted rate of return that accounts for the timing of cash inflows and outflows.

Master Limited Partnerships (MLPs): A limited partnership structure which is publicly traded on an exchange. MLPs combine the tax benefits of a limited partnership with the liquidity of publicly traded securities. To qualify as an MLP, the entity must generate 90% of its income from the production, processing and transportation of oil, natural gas and coal.

Net Operating Income (NOI): A calculation which is used to analyze real estate investments that generate income. NOI is the property's annual income generated by operations after deducting all expenses incurred from those operations. The growth rate in NOI is a common metric used in determining the health of a property.

Opportunistic Real Estate: An opportunistic fund is one that includes preponderantly non-core assets. The fund as a whole is expected to derive most of its return from property appreciation which may result in significantly volatile returns. These funds may employ a variety of tools such as development, significant leasing risk and potentially high leverage.

Real Estate Investment Trusts (REITs): A REIT is a company that owns and operates commercial real estate properties. REITs can be publicly traded or privately held. There are two main type of REITs: Equity REITs which generate income from the operation of properties, and Mortgage REITs, which invest in mortgages or mortgage securities.

Timber Investment Management Organizations (TIMOs): A management group that invests in timberland assets for institutional investors. TIMOs will purchase, manage and sell various timberland properties on behalf of investors.

Treasury Inflation Protected Securities (TIPS): A treasury bond that is adjusted to eliminate the effects of inflation on interest and principal payments, as measured by the Consumer Price Index (CPI). TIPS are issued in terms of five, ten and twenty years and are auctioned twice per year.

Value-Added Real Estate: A value-added real estate fund often holds a combination of core assets and other assets characterized by less dependable cash flows. These strategies are likely to have moderate lease exposure and employ moderate leverage. Consequentially, these strategies seek significant returns from property appreciation and typically exhibit moderate volatility.

Vacancy Rates: The vacancy rate is calculated as the total number of unoccupied units of a property divided by the total units of the property, at a particular point in time.

Vintage Year: Represents the year the first capital call or portfolio company investment was made.



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