



PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS

3RD QUARTER 2016
Investment Landscape

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2nd quarter summary

THE ECONOMIC CLIMATE

- The U.K. vote to leave the European Union surprised markets and caused the beginning of a reassessment of associated risks. *p. 17, 30*
- Economic growth has been mixed across the developed markets. BRICS economies exhibited a slight improvement in growth. Brazil and Russia may be rounding the corner from severe recession. *p. 16, 31*
- Inflation around the world continued downward with the U.S. being an exception. *p. 15, 16*

MARKET PORTFOLIO IMPACTS

- The U.S. dollar rose 0.5% in Q2 on a trade-weighted basis. If we see stabilization of the dollar this may have a positive impact on U.S. earnings. Investors who have unhedged international equity exposure would also benefit. *p. 25, 38*
- The Bloomberg Commodity index exhibited a bounce in Q2 returning 12.8%, but is still down -13.3% over the past year. *p. 36*

THE INVESTMENT CLIMATE

- Government bond yields have reached all time lows in many developed countries around the globe and a third of government bonds as measured by market value are now characterized by negative yields. *p. 19*
- Following Britain's unexpected vote to leave the E.U., markets saw significant drawdowns. Most equity markets have now recovered losses and some have reached new highs. *p. 17, 25, 30*

ASSET ALLOCATION ISSUES

- We continue to remain underweight risk and believe that market risks are asymmetrically skewed to the downside. *p. 32, 33*
- U.S. inflation expectations decreased during the quarter although inflation has now begun to rise. Market pricing implies U.S. inflation will decline from the current level and stay lower for longer. *p. 14*

We remain underweight to risk

Further U.S. earnings weakness could cause an adjustment of risk appetite amongst investors

What drove the market in Q2?

“LAID-OFF AMERICANS ARE FINALLY RETURNING TO THE LABOR MARKET: WILL THEY FIND JOBS?”

U.S. Labor Participation Rate

Jan 31st	Feb 29th	Mar 31st	April 30th	May 31st	June 30th
62.70%	62.90%	63.00%	62.80%	62.60%	62.70%

Source: LA Times, April 1st 2016

“OIL PRICES POISED TO HIT SWEET SPOT FOR GLOBAL ECONOMY”

WTI Crude Oil

Jan 29th	Feb 29th	Mar 31st	April 29th	May 31st	June 30th
\$40.91	\$37.89	\$41.33	\$47.49	\$50.56	\$49.13

Source: WSJ, May 26th 2016

“TREASURY YIELDS PLUMMET TO 3-YEAR LOW AMID GLOBAL BOND RALLY”

U.S. 10 Year Treasury Yield

Jan 29th	Feb 29th	Mar 31st	April 29th	May 31st	June 30th
1.92%	1.73%	1.77%	1.83%	1.85%	1.47%

Source: WSJ, June 10th 2016

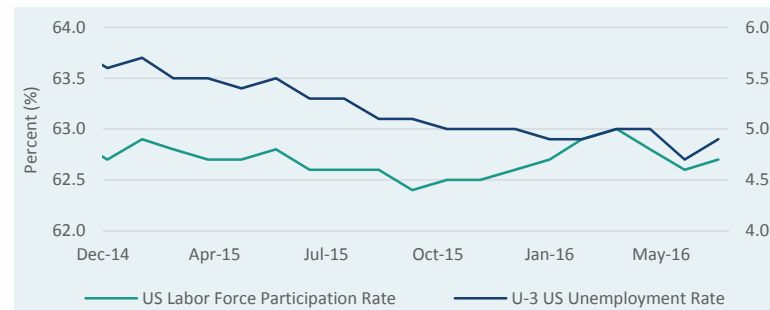
“BRITISH EU VOTE UNNERVES WORLD LEADERS AND MARKETS”

VIX

Jan 29th	Feb 29th	Mar 31st	April 29th	May 31st	June 24th
20.20	20.55	13.95	15.70	14.19	25.76

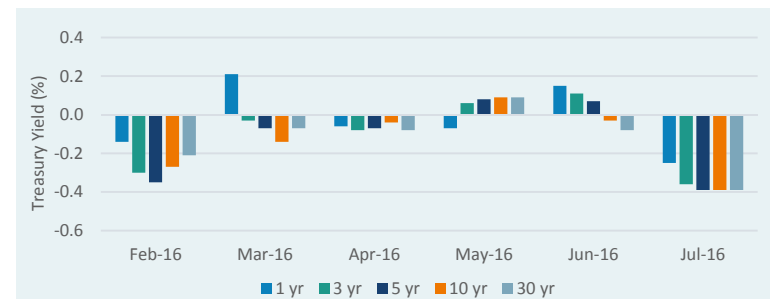
Source: Reuters, June 27th 2016

UNEMPLOYMENT VS PARTICIPATION



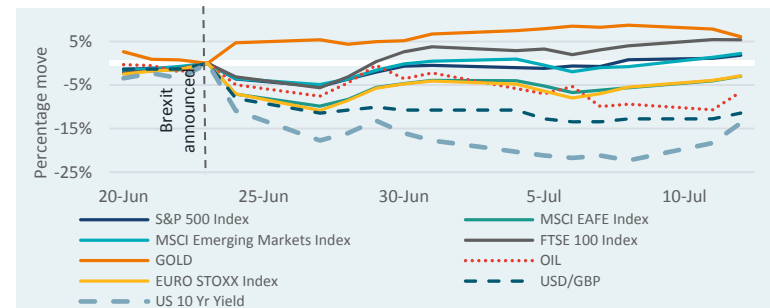
Source: FRED, as of 6/30/16

U.S. TREASURY MONTHLY YIELD CHANGE



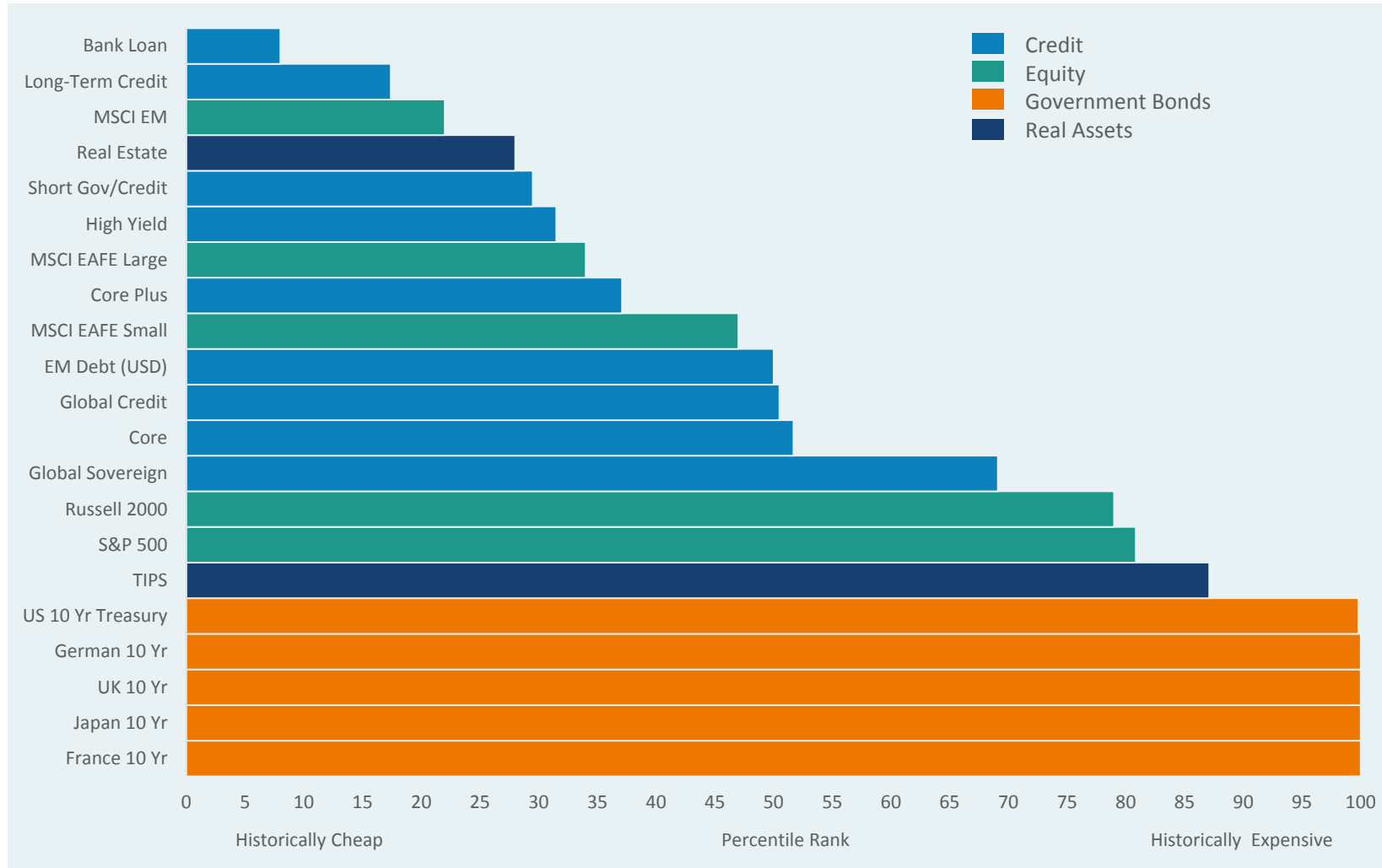
Source: Federal Reserve, as of 7/1/16

BREXIT PRICE IMPACT



Source: Bloomberg, as of 7/11/16

Not everything is expensive



Government bonds are priced exceptionally rich relative to history

Some credit and equity markets are priced near or below historical average levels

Note: The bars show current value of each asset class relative to itself based on percentile rank as of June 29, 2016. Equity valuations take into account both Shiller P/E and Regular P/E. Credit valuations are based on nominal credit spreads. Government Bonds reflect the current yield on the 10 Year. Bank Loans represent Bank Loan Spread to LIBOR. Real Estate is valued based on the current annual Cap Rate Spread. Treasury Inflation Protected Securities (TIPS) reflect the current 10 year real yield. Historical data varies, ranging from 1962 (10 Yr Treasury) to 2005 (MSCI EM).

Economic environment

U.S. economics summary

- U.S. real GDP grew at a 2.1% pace YoY (and 1.1% QoQ) in Q1, driven by consumption. The Atlanta Fed GDPNow indicator forecasts 2.4% QoQ real GDP growth in Q2, as of July 19th. High inventory levels in the U.S., causing little further inventory growth, have been a drag on growth over recent quarters.
- Robust economic expansion would be needed in the second half of the year to reach the Fed's 2.0% YoY expected real GDP growth target.
- U.S. CPI sits at 1.0% YoY while Core CPI (CPI excluding energy and food prices) sits at 2.2% YoY, as of May. The difference between Headline CPI and Core CPI is driven by swings in energy and food prices. If we see a stabilization in these two contributors, then Core inflation should begin to revert towards Headline inflation levels.
- The Fed left interest rates unchanged at the June policy meeting prior to the Brexit vote. Following the U.K.'s surprising decision to leave the E.U., Fed fund futures suggest that the market is no longer pricing in a rate hike this year.
- Nonfarm payrolls added 287,000 jobs in June, beating the consensus estimate of 180,000, according to Econoday. The unemployment rate ticked up 0.2% to 4.9% and the labor force participation rate increased 0.1% to 62.7% as people re-entered the labor force.

	Most Recent	12 Months Prior
GDP (<i>annual YoY</i>)	2.1% 3/31/2016	2.9% 3/31/15
Inflation (CPI YoY, Headline)	1.0% 6/30/16	0.1% 6/30/15
Expected Inflation (5yr-5yr forward)	1.5% 6/30/16	2.2% 6/30/15
Fed Funds Rate	0.25% 6/30/16	0.12% 6/30/15
10 Year Rate	1.5% 6/30/16	2.4% 6/30/15
U-3 Unemployment	4.9% 6/30/16	5.3% 6/30/15
U-6 Unemployment	9.6% 6/30/16	10.5% 6/30/15

U.S. economics – GDP growth

U.S. real GDP grew at a 2.1% pace YoY (and 1.1% QoQ) in Q1, driven by consumption. The Atlanta Fed GDPNow indicator forecasts 2.4% QoQ real GDP growth in Q2, as of July 19th. Robust economic growth would be needed in the second half of the year to reach the Fed's 2.0% YoY expected annual growth.

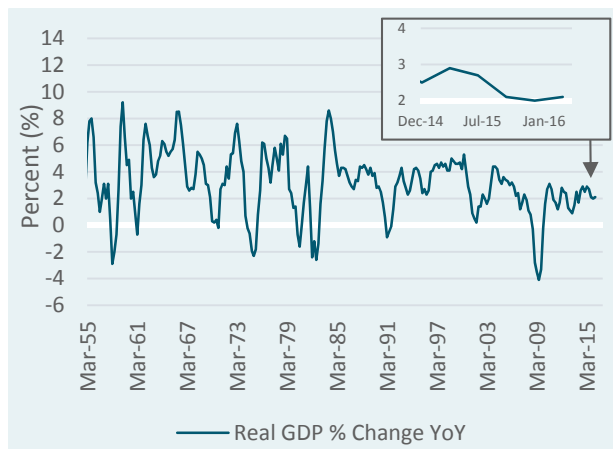
Overbuilt inventories in the U.S. have been a material drag on growth over recent quarters, as demonstrated in the far right chart, and a rebalancing would improve future prospects.

Forecasts for medium-term U.S. GDP growth have fallen to around 2%, and Fed expectations were further revised downward in Q2.

Expectations for economic growth should be naturally lower in this environment due to weak population increases (0.77% growth over the past 5 years relative to the long term average of 1.26%) and anemic productivity gains relative to past decades. (0.52% growth over the past 5 years relative to the long term average of 1.97%) Productivity effects have generally been attributed to lower corporate capital investment.

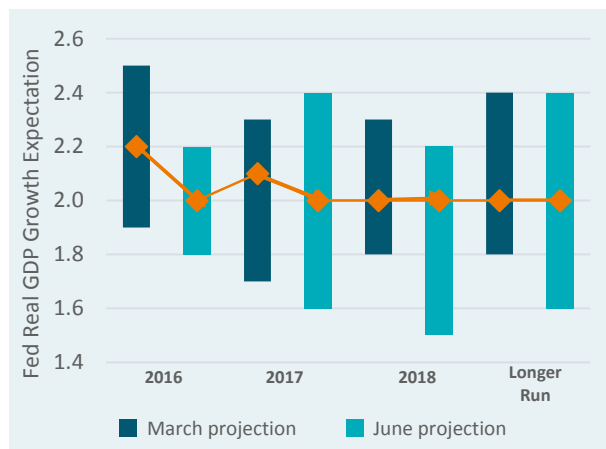
Consumer expenditures remain the sole contributor to real GDP growth

U.S. REAL GDP GROWTH



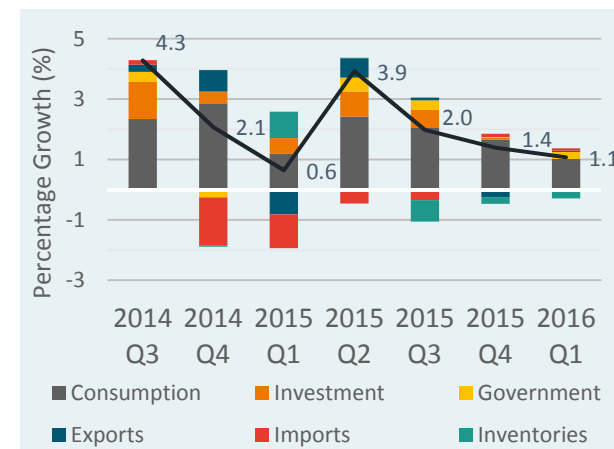
Source: FRED, as of 3/31/16

CHANGING FED GROWTH EXPECTATIONS



Source: Federal Reserve, as of 6/15/16
Range of expectations - Fed Board members and presidents

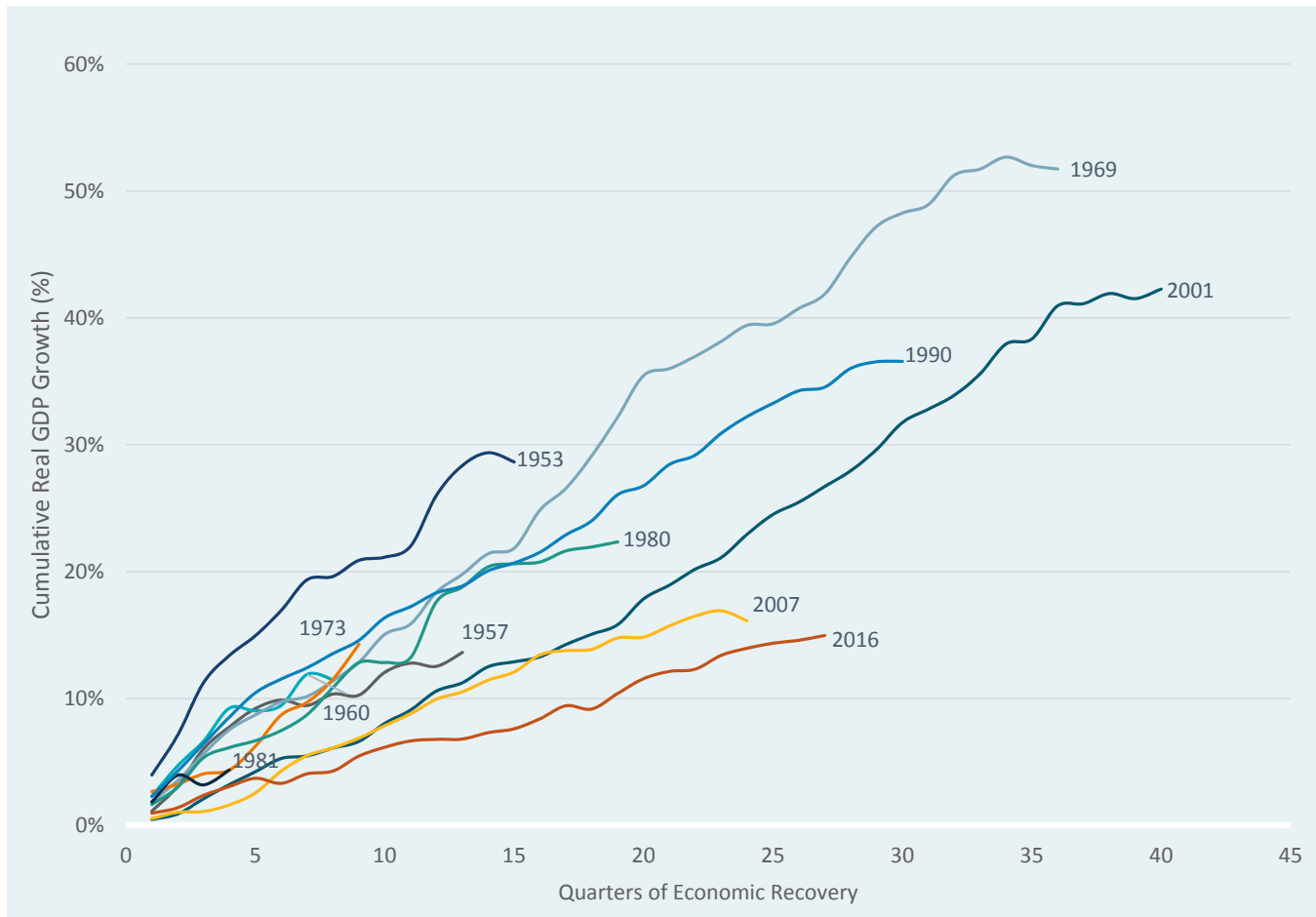
GDP COMPONENTS



Source: FRED

U.S. economics – Cyclical comparisons

REAL ECONOMIC GROWTH - ECONOMIC RECOVERIES DURING THE PAST 60 YEARS



Source: Verus, as of Q1 2016

NOTE: X-axis value of "0" represents the beginning of an economic expansion. "Expansion" is defined by the National Bureau of Economic Research (NBER) as a period between an economic trough and peak.

Economic cycles are characterized by a growth "boom" and "bust"

Though long in tenure, this "boom" has been of lesser magnitude than some of the past

U.S. economics – Unemployment

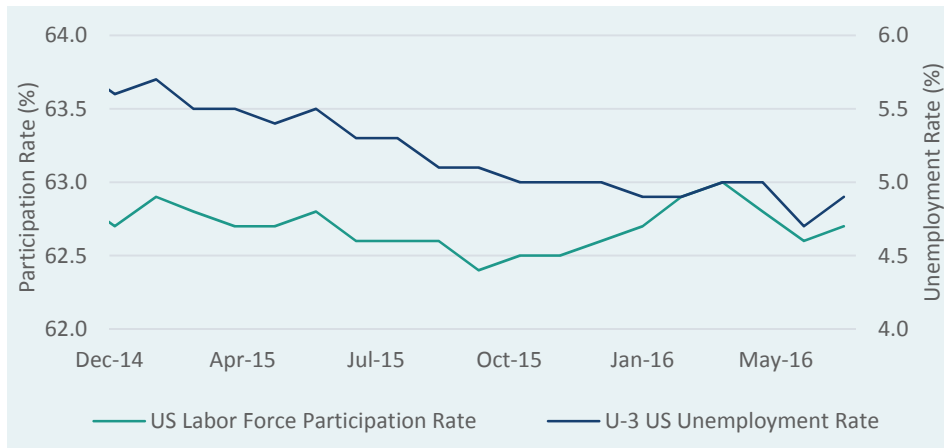
Job growth within the U.S showed signs of slowing during the quarter with nonfarm payrolls increasing only 38,000 in May. June's report subdued fears however, as 287,000 nonfarm payrolls were added vs an expected 180,000. The unemployment rate ticked up to 4.9%, from 4.7% in May corresponding with an increase in the participation rate. Growth in average hourly wages remains steady with a recent print of 2.6% YoY.

As the job market tightens (by the U-3 unemployment definition) we have seen structurally unemployed workers (those that are not looking for work or have given up on their search for work) begin to return to the workforce.

An increasingly tight labor market can have both positive and negative effects. Rising wages are paid from corporate earnings, and in an environment of lower corporate earnings an increase in wage pressure could be unwelcome for shareholders.

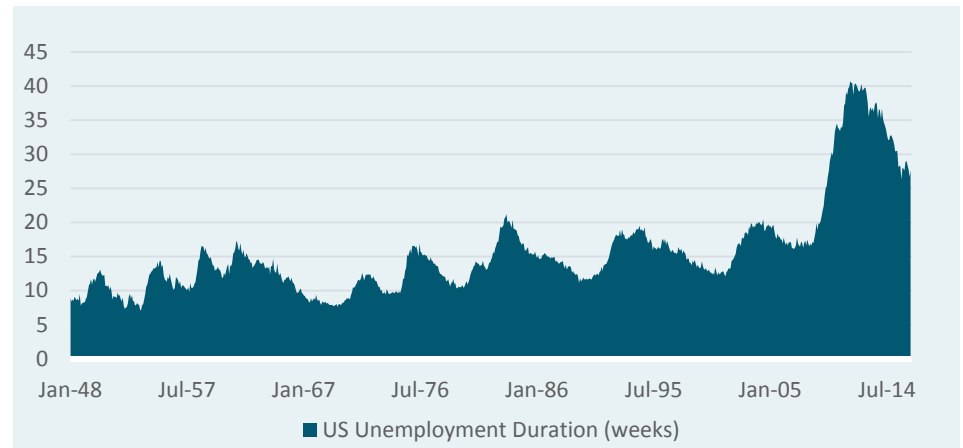
Discouraged workers reentering the workforce increased both unemployment & participation rates

U.S. UNEMPLOYMENT & PARTICIPATION



Source: FRED, as of 6/30/16

UNEMPLOYMENT DURATION



Source: FRED, as of 5/31/16

U.S. economics – The consumer

Consumption continues to be the primary driver of GDP growth, while other contributors remain stagnant. A strong labor market has helped push real wages up. Greater discretionary income, appreciating real estate values, lower debt service burdens (through lower interest rates) and greater job security have created a healthy environment for the consumer and may lead to further spending growth and credit expansion.

Consumer health is still uneven across demographics

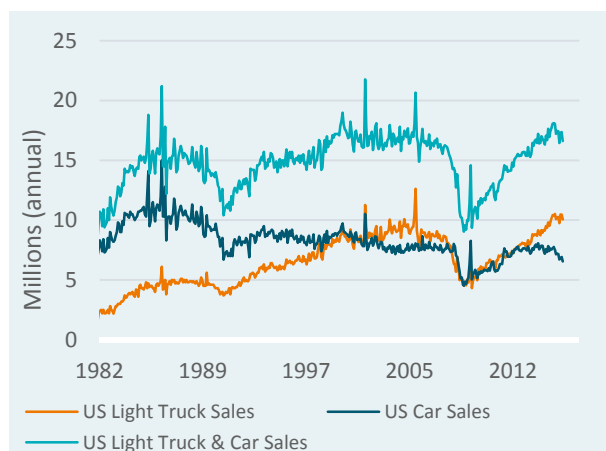
and worker skillset cohorts. Shifts in the U.S. economy have led to mismatches between available workers and job openings as these workers do not have the skills needed for these roles. This contributes to structural unemployment and remains a concern. It has been suggested that recent job gains were 'lopsided' because these jobs may have benefited older and less skilled workers. This may actually be a positive sign that some structurally unemployed workers are successfully moving back into the job market.

CONSUMER LOAN GROWTH



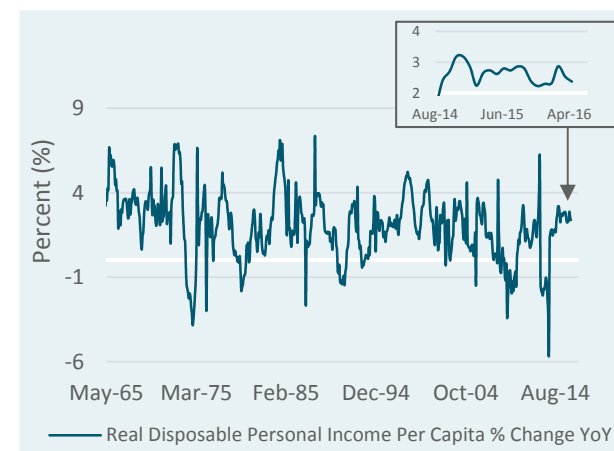
Source: FRED, as of 5/1/16

AUTO SALES



Source: FRED, as of 5/31/16

GROWTH OF DISPOSABLE INCOME



Source: FRED, as of 5/1/16

U.S. economics – Sentiment

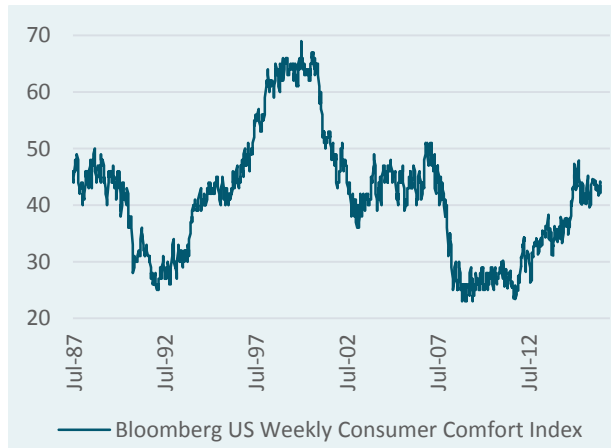
Consumer sentiment has been relatively stable through recent quarters, as indicated by the Bloomberg and University of Michigan surveys. The Citi Economic Surprise index experienced a large positive swing after being in negative territory for the first half of 2016.

It is worth noting that these sentiment indicators suggest consumers have recovered psychologically from the global financial crisis. The University of Michigan survey has moved above its long-term average level – a

point not reached since January 2007. Stronger positive consumer sentiment is of great importance to the future path of the U.S. economy.

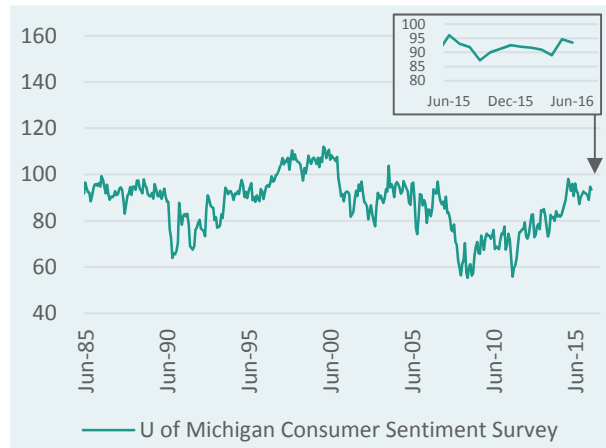
The large positive move in the Citi Economic Surprise index was driven by a strong U.S. jobs number which we discussed in slide 10. This positive news had a notable risk-on effect across markets.

CONSUMER COMFORT INDEX



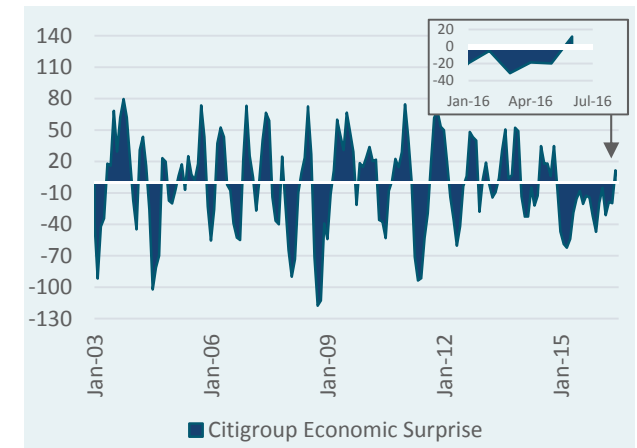
Source: Bloomberg, as of 6/26/16 (see Appendix)

CONSUMER SENTIMENT



Source: University of Michigan, as of 6/30/16 (see Appendix)

ECONOMIC SURPRISE



Source: Bloomberg, as of 7/12/16 (see Appendix)

U.S. economics – Housing

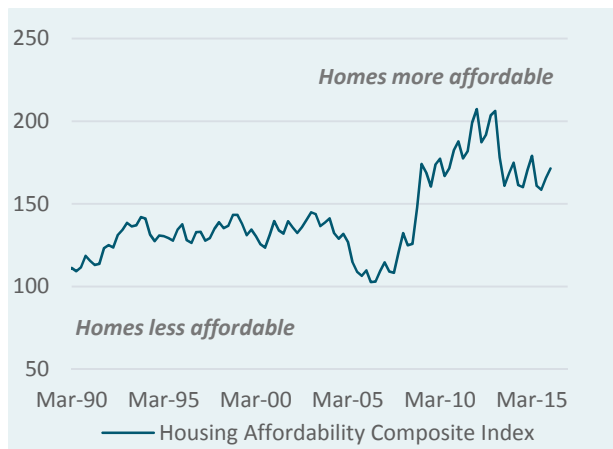
In the first three months of the year, U.S. homeownership moved down to a rate of 63.5%, which is the lowest rate of homeownership since 1967.

Sales of existing homes rose substantially over the second quarter, climbing to a nine-year high. A tightening labor market and low interest rates have fueled growth. If the Fed increases rates and median home prices continue to increase, lower home

affordability could be a headwind for future demand. However, new single-family home sales remain lackluster, potentially because of weaker employment among residential builders and contractors.

Although housing starts seem to be gaining momentum, they still remain below the 30-year average. This limited supply has contributed to positive price pressure.

HOME AFFORDABILITY



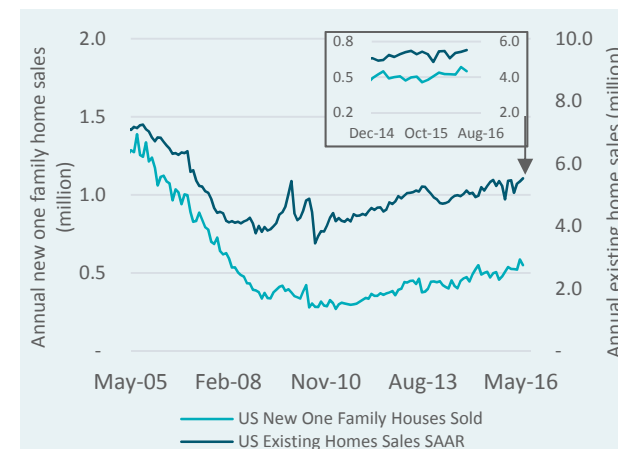
Source: National Association of Realtors, as of 3/31/16

HOMEOWNERSHIP RATE



Source: FRED, as of 4/1/2016

NEW & EXISTING HOME SALES



Source: Bloomberg, as of 5/31/16

U.S. economics – Inflation

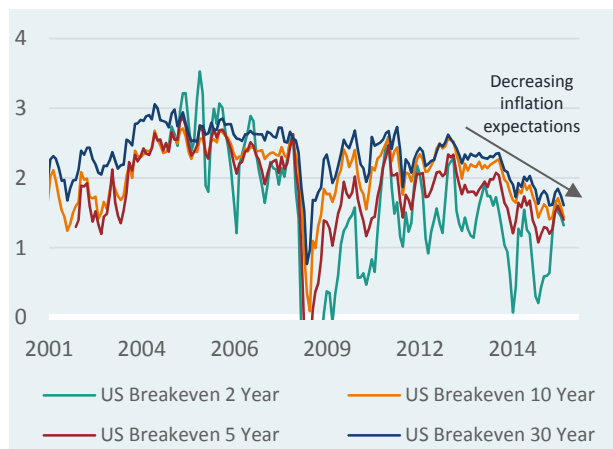
Inflation expectations decreased during the quarter as indicated by the 10yr TIPS Breakeven Rate and the University of Michigan Inflation Expectations Survey.

U.S. CPI rose 1.0% YoY while Core CPI (CPI excluding energy and food prices) sits at 2.2% YoY, as of May. Since differences between CPI and Core CPI are driven by swings in energy and food prices, we can expect CPI and Core CPI to converge once these price effects “roll off” of the CPI calculation.

It is interesting to note that the market is pricing future inflation to be less than the current Core CPI number, which implies investors expect inflation levels to fall from the already below-average level.

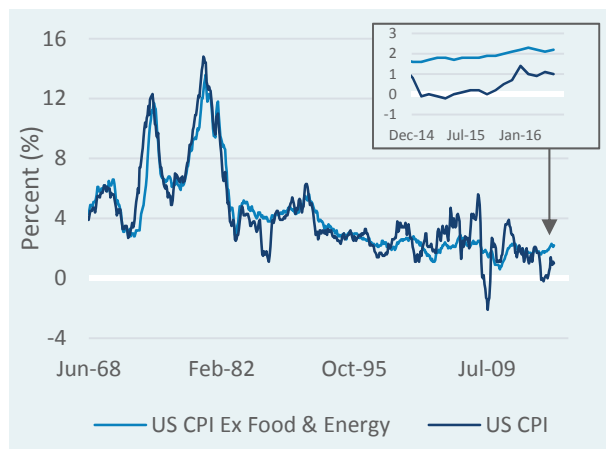
The current environment of very low inflation expectations and cheaper inflation-related assets (priced for inflation to fall further in the future) may offer investors with an underweight to inflation-protecting assets an opportunity to rebalance these assets back to equal-weight.

US TIPS BREAKEVEN INFLATION



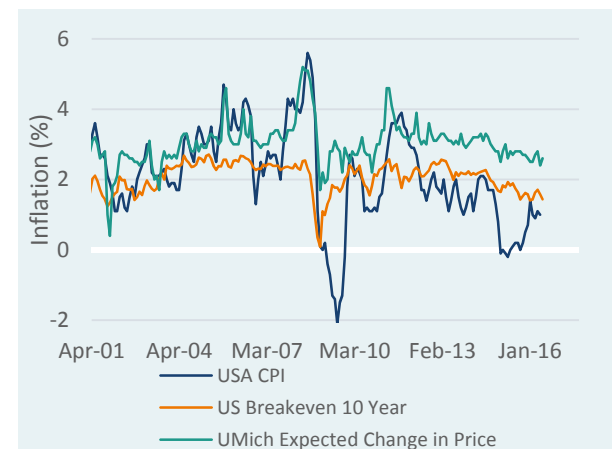
Source: FRED, as of 6/30/16

U.S. CPI (YOY)



Source: FRED, as of 5/31/16

MARKET EXPECTATIONS OF INFLATION



Source: Bloomberg, as of 6/30/16

International economics summary

- Inflation around the world continued downward, with the U.S. and the Eurozone being an exception. Inflation in the BRICS nations has decreased slightly but remains positive overall at 3.4% YoY.
- The ECB continued aggressive monetary easing. Expanding eligible assets for purchase to include corporate bonds in Europe has further suppressed yields both in sovereign debt and investment grade credit.
- The BOJ maintained existing monetary policy and emphasized their commitment to reach the 2% inflation target despite the disappointing CPI figures printed in the second quarter.
- Western Europe saw inflation rise in June, from just slightly negative to slightly positive. This figure is still far below the ECB's inflation target of just under 2% which could be a catalyst for further more dramatic monetary policy. Some investors are fearful that Brexit could be an additional headwind for inflation going forward.
- Capital continues to flow out of China in record quantities and fixed asset investment growth has decelerated and is below 10% for the first time since year 2000.
- Brazil's annual inflation fell to a new low and the Brazilian economy continues to suffer from political pressures and negative growth.

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	2.1% 3/31/16	1.0% 6/30/16	4.9% 6/30/16
Western Europe	1.7% 3/31/16	0.1% 6/30/16	8.6% 3/31/16
Japan	0.1% 3/31/16	(0.4%) 5/31/16	3.2% 3/31/16
BRIC Nations	4.9% 3/31/16	4.0% 3/31/16	5.1% 3/31/16
Brazil	(5.4%) 3/31/16	8.8% 6/30/16	11.2% 6/30/16
Russia	(3.7%) 12/31/15	7.5% 6/30/16	5.6% 6/30/16
India	7.9% 3/31/16	5.8% 5/31/16	7.1% 12/31/15
China	6.7% 6/30/16	1.9% 6/30/16	4.0% 3/31/16

International economics

As inflation continues to show signs of slowing and growth estimates are revised further downwards, the ECB and BOJ maintained aggressive expansionary monetary policy. The ECB expanded their asset purchasing program to include investment grade credit, further suppressing yields.

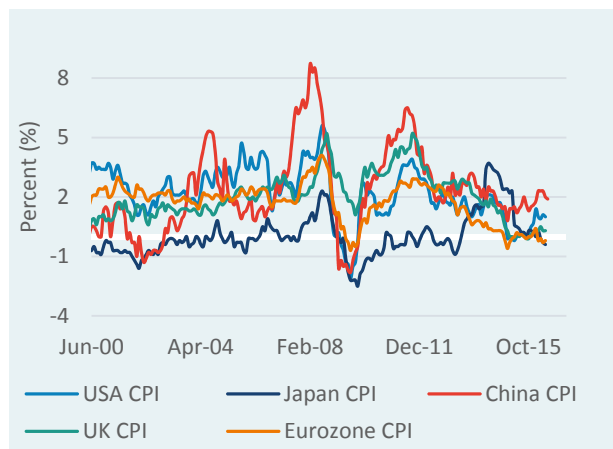
Western Europe has exhibited signs of growth, inflation (rather than deflation), improving manufacturing data, and continuing employment gains. However, with the instability introduced from Brexit, the future outlook is less clear.

China remains a source of uncertainty as capital continues to

flow out of the country. Additionally, fixed asset investment has fallen to a 15 year low. Brazil's annual inflation fell to a new low and the Brazilian economy continues to suffer from lackluster growth and political turmoil.

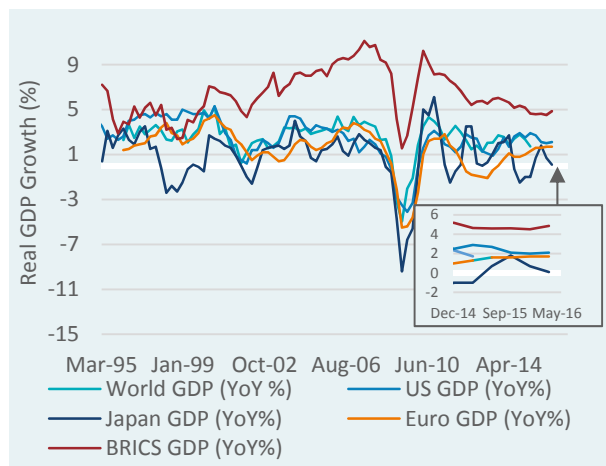
Japan has continued to struggle to generate inflation, though volatile food and energy prices continue to be a headwind to Headline CPI. This has caused Headline CPI to be at the -0.4% YoY level, while CPI Ex Food & Energy is 0.6%. This significant difference makes the failure to achieve inflation more understandable.

INTERNATIONAL INFLATION



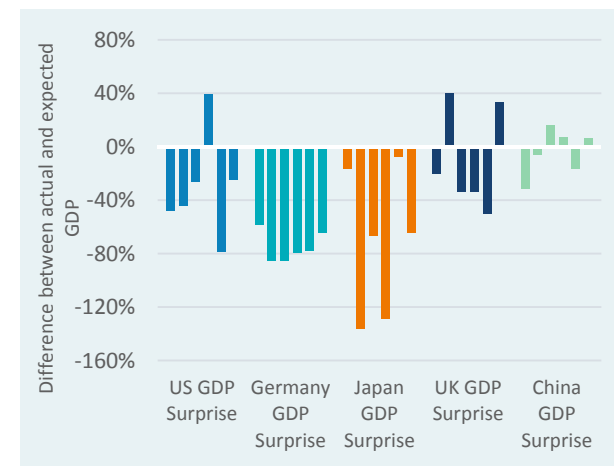
Source: Bloomberg, as of 6/30/16

REAL GDP GROWTH



Source: Bloomberg, as of 3/31/16

GDP VS EXPECTATIONS

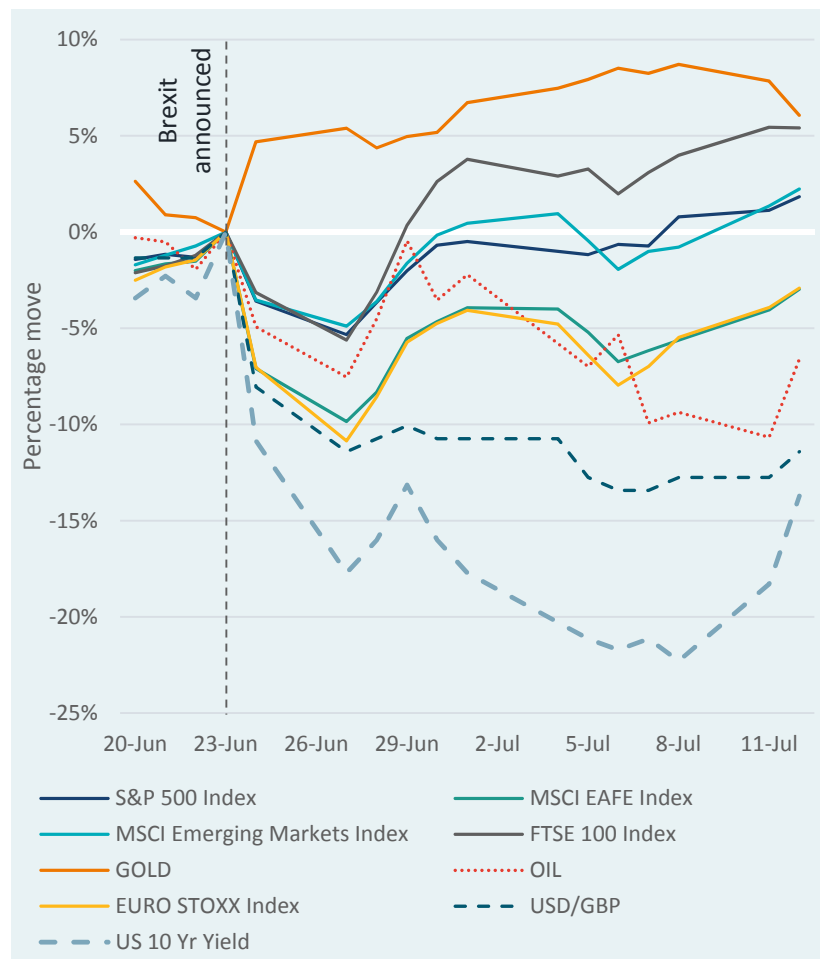


Source: Bloomberg, quarterly Q4 2014 through Q1 2016

Price reaction following Brexit

Market expectations before the Brexit vote were for a remain vote, and for the markets to react positively to this decision. The actual result was a significant vote for withdrawal. Importantly this vote was not partisan – the heartlands of both major parties voted for leave. There have been immediate and significant impacts including a wholesale change in government. Long term consequences remain to be seen. However, it is interesting to note that most of the predicted bad consequences of a leave vote failed to materialize, with a range of countries already reaching out to create new trade deals, and with companies which had initially threatened they might move from the U.K. backing off those suggestions.

Market reactions were also different than initial expectations. While the pound fell and has remained weak, many other markets have rebounded, and the U.K. has been one of the strongest performers since the vote. As Brexit moves closer, attention is likely to shift to the remaining EU countries. In particular, markets will watch the effect on periphery economies of the removal of U.K. funding and the U.K. voice against centralization.



Markets fell suddenly on the Brexit surprise, but have since recovered losses

Source: Bloomberg, as of 7/11/16

Fixed income rates & credit

Interest rate environment

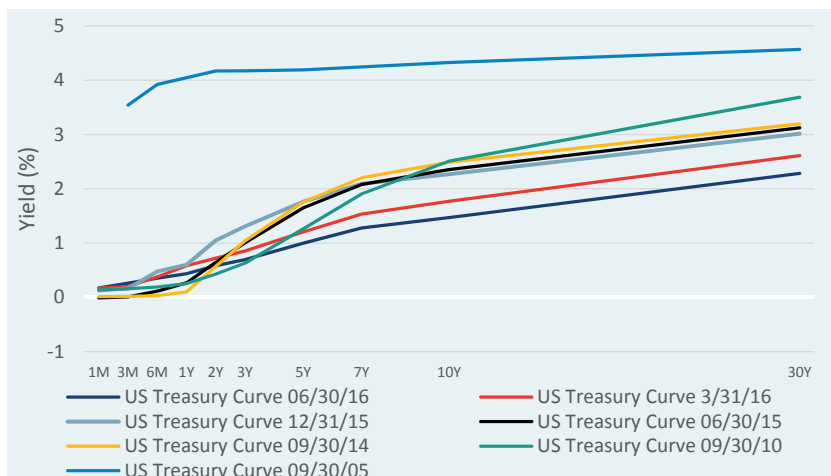
- The U.S. 10 year treasury note traded in a 50 basis point range over the course of the second quarter, touching a record low 1.36% in the first week of July. Risk-off market sentiment following Brexit as well as relatively higher yields compared to European counterparts has substantially increased demand for U.S. bonds.
- Fear following the British referendum encouraged speculation that the ECB and BOJ would further expand existing monetary policy. Investors continue to demand safe haven assets.
- The German and Japanese yield curves both have negative yields out to the 15 year tenor. Additionally, Germany became the second G-7 nation, after Japan, to issue negative yielding instruments, highlighting the willingness of investors to hold high quality instruments with negative yield.
- A third of global government bonds are now trading with a negative yield, accounting for more than \$10 trillion in market value.
- The United States yield curve continues to flatten as economic data stabilizes the fears of rate cuts, pushing the front end higher. Inflation is struggling to gain significant momentum, keeping the back end of the curve relatively low.

Area	Short Term (3M)	10 Year
United States	0.26%	1.47%
Germany	(0.68%)	(0.13%)
France	(0.57%)	0.18%
Spain	(0.30%)	1.16%
Italy	(0.28%)	1.26%
Greece	3.38%	8.29%
U.K.	0.46%	0.87%
Japan	(0.27%)	(0.22%)
Australia	1.69%	1.98%
China	2.63%	2.86%
Brazil	14.05%	12.06%
Russia	10.21%	8.29%

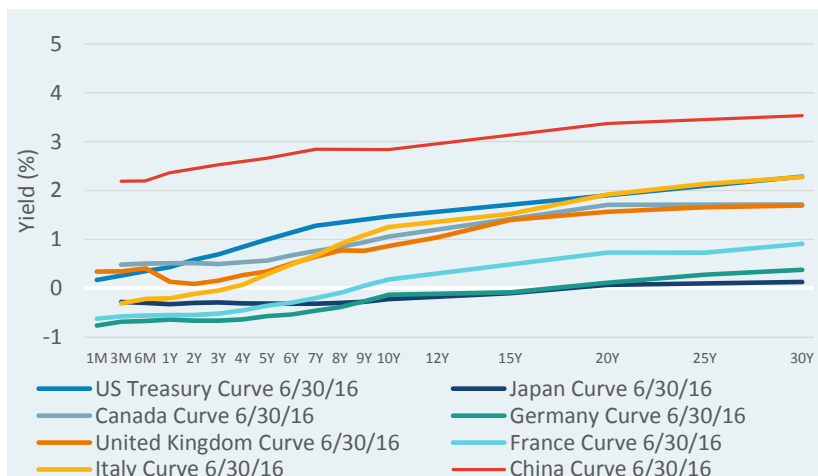
Source: Bloomberg, as of 6/30/16

Yield environment

U.S. YIELD CURVE

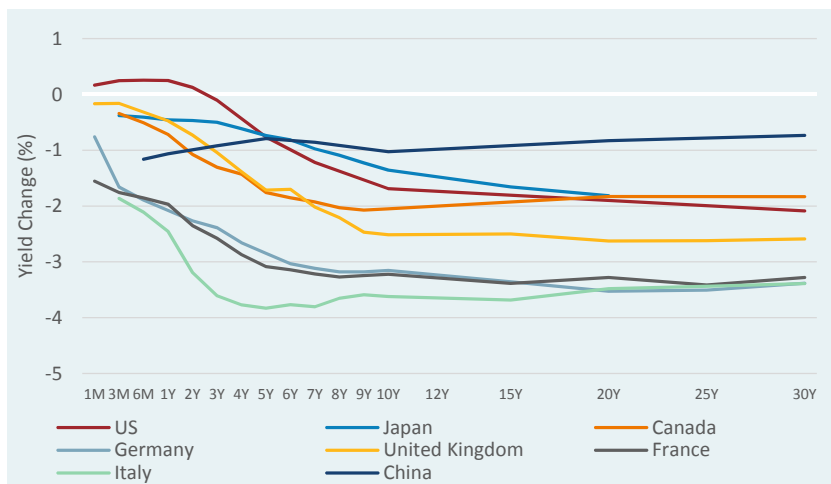


GLOBAL GOVERNMENT YIELD CURVES

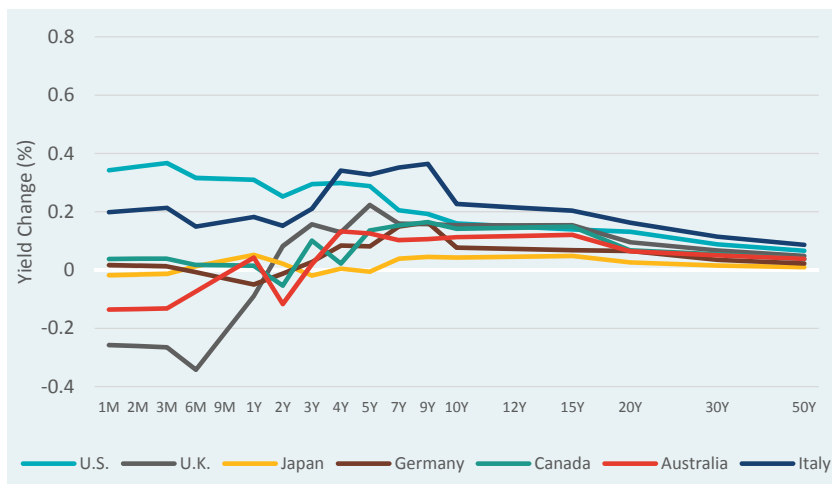


The U.S. yield curve has come down across all major tenors since the end of the fourth quarter

YIELD CURVE CHANGES OVER LAST FIVE YEARS



IMPLIED CHANGES OVER NEXT YEAR



Source: Bloomberg, as of 6/30/16

Examining the credit cycle

Forecasting turning points in the credit cycle is extremely challenging. However, after examining current characteristics relative to history, data suggests we may be later in the expansion phase. In examining the fundamentals underlying the current cycle, it seems possible that the economy may continue to muddle along for some time. We must be careful when interpreting recent credit market shifts due to oil price-specific fallout in the energy sector.

We do not see traditional credit cycle risks as particularly apparent today, but new economic influences such as

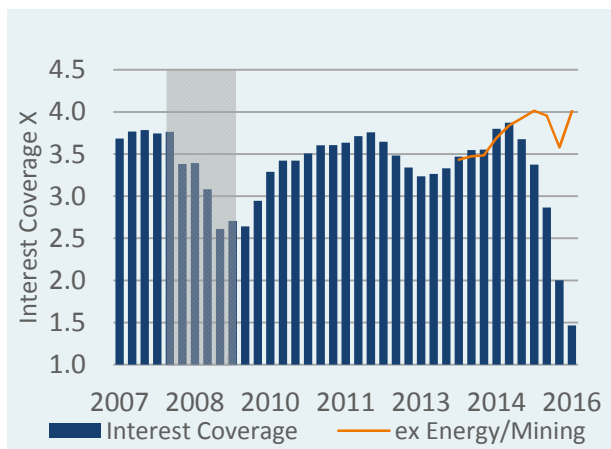
extreme liquidity injections into the markets have led to unique risks. Greater economic leverage has occurred as consumers and businesses exploit record-low interest rates. This environment may be particularly susceptible to a further deceleration in economic growth.

In the current environment we believe it is wise to keep higher on the credit quality spectrum and to maintain liquidity. We will continue to watch the health of the credit markets, as a downturn may present opportunities to pick up attractive yield.

Credit cycle appears to be maturing

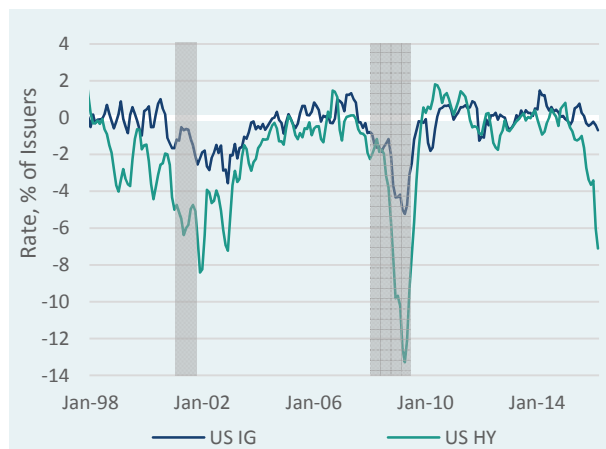
We favor investment grade over higher risk issues

HIGH YIELD INTEREST COVERAGE



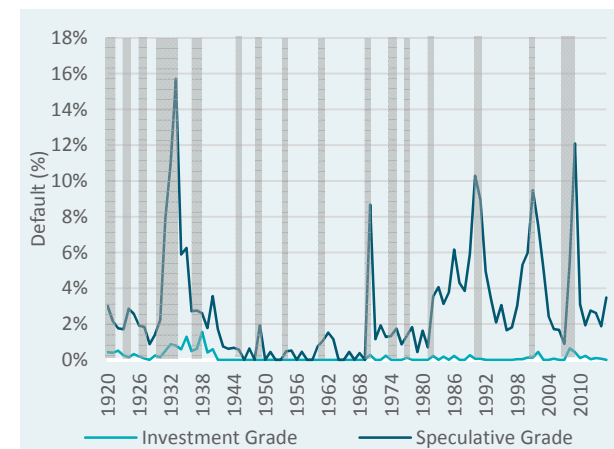
Source: Deutsche Bank, as of 3/31/16
NOTE: Grey bars represent economic recessions

CREDIT RATING MIGRATION



Source: BofAML, as of 3/31/16

ANNUAL DEFAULT RATES



Source: Moody's, as of 2015 year-end

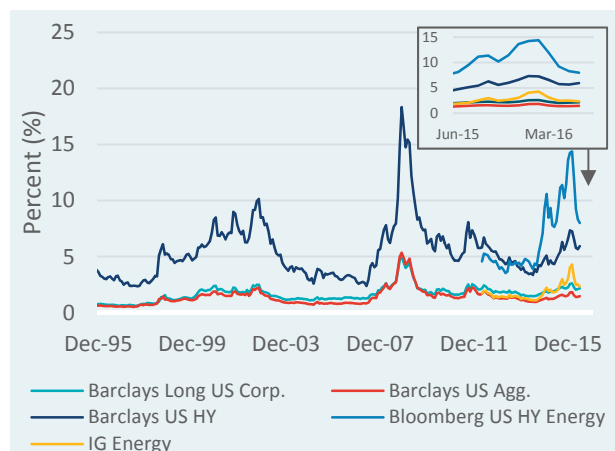
Credit environment

High yield spreads, and high yield energy spreads in particular, peaked in Q1 but have rallied substantially since that time. High yield spreads have compressed to below 5.5% as of mid-July from a high of 8.9% earlier in the year. High yield energy spreads are now below 8%, from a high of around 15%. The price of oil, along with market risk-on/risk-off sentiment, seems to be guiding the price of riskier credit instruments. We show the oil/high yield relationship below.

Spreads are an important indicator of health across the credit market. Spread levels represent investors' expectations for future borrower defaults and general risk appetite in the markets. Credit market liquidity is also reflected in levels, and since high yield liquidity is very low we should expect additional spread as compensation.

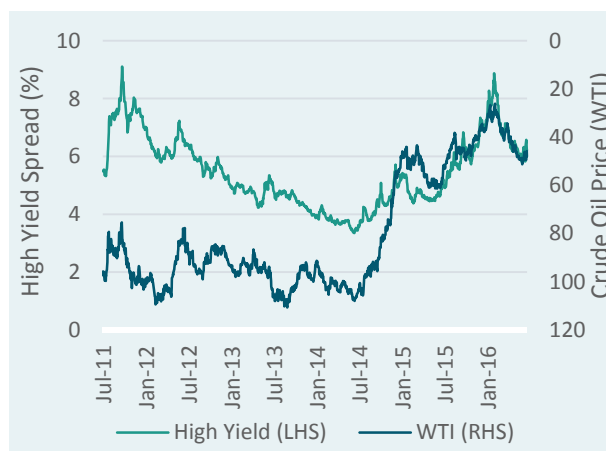
Sensitivity of high yield spreads to oil is much higher in a low oil price environment

CREDIT SPREADS



Source: Barclays Capital Indices, Bloomberg, as of 6/30/16

HIGH YIELD SPREADS & OIL



Source: Bloomberg, as of 6/30/16

SPREADS

Market	Credit Spread (6/30/16)	Credit Spread (1 Year Ago)
Long US Corporate	2.0%	1.9%
US Aggregate	1.0%	1.1%
US High Yield	6.3%	5.3%
US High Yield Energy	8.0%	8.1%
US Bank Loans	3.9%	3.9%

Source: Barclays, Credit Suisse, Bloomberg, as of 6/30/16

Issuance and default

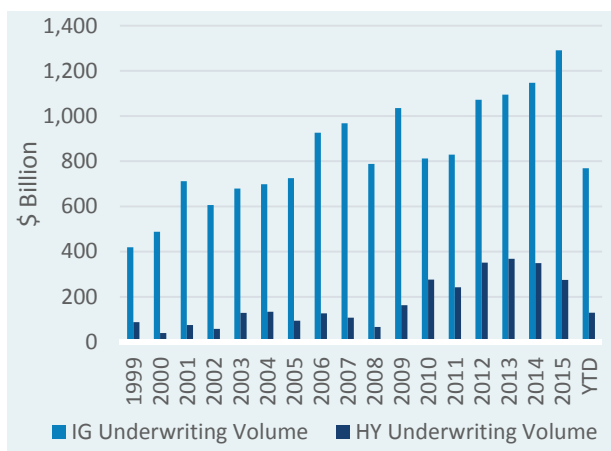
Investment grade debt issuance has trended higher each year since the global financial crisis. The first half of 2016 put the year on track for another record high. Issuance of higher-risk debt seems to have peaked in recent years and is somewhat flat year-to-date.

Lower global GDP growth expectations may put additional pressure on high yield issuance. However, strong flows into the space from investors seeking yield may put a cap on borrowing costs which could allow issuers to more easily restructure balance sheets. Year-

over-year high yield default rates have accelerated, driven by pain in the energy sector. It remains to be seen whether this trend will be halted by the rebound in oil price.

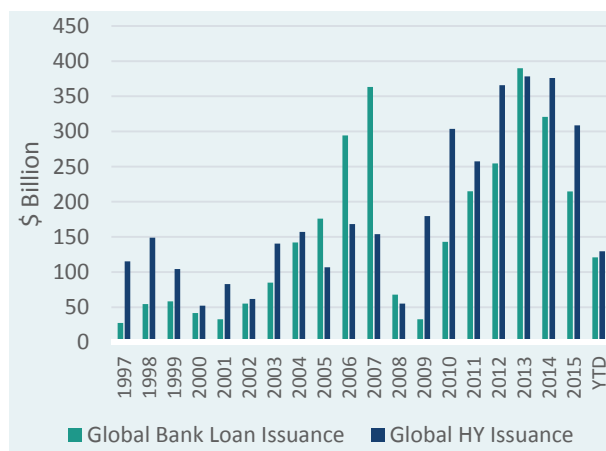
Reduced CLO demand has adversely affected bank loan issuance, which has also tapered off in recent years.

IG & HIGH YIELD ISSUANCE



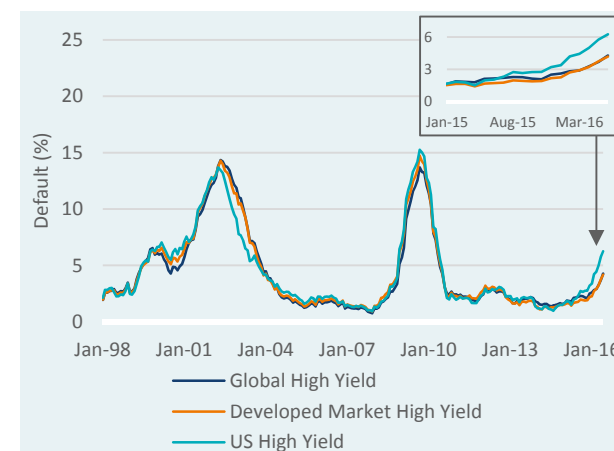
Source: Bloomberg, as of 6/30/16

BANK LOAN & GLOBAL HY ISSUANCE



Source: BofA Merrill Lynch Global Research, as of 6/30/16

HY DEFAULT TRENDS (ROLLING 1 YEAR)



Source: Credit Suisse, BofA, as of 6/30/16

Equity

Equity environment

- Equity market risks continue to appear asymmetrical to the downside.
- U.S. equities fell after the Brexit vote. The S&P 500 dropped by over 100 points in the two trading days following the vote, but managed to recoup its losses by month end. Implied volatility spiked while investors digested the Brexit news. The VIX jumped to 25.8, but fell back to 15.6 to close the month.
- Another quarter of negative earnings is forecast for Q2. According to FactSet, the estimated earnings decline for the S&P 500 is -5.3%.
- Financials (-3.2%) were the worst performing sector in the S&P 500, likely affected by lower interest rate expectations. Telecom services (9.3%) and utilities (7.8%) were the best performing sectors in the index.
- Value stocks delivered strong outperformance relative to growth stocks year-to-date. Russell 1000 Value provided a 6.3% return while Russell 1000 Growth provided 1.4%.
- The U.S. dollar rose 0.5% in Q2 on a trade-weighted basis. Stabilization of the dollar (or at least less appreciation) should have a positive impact on domestic equities in future quarters.

	QTD Total Return (unhedged)	QTD Total Return (hedged)	YTD Total Return (unhedged)	YTD Total Return (hedged)	1 Year Total Return (unhedged)	1 Year Total Return (hedged)
US Large Cap (Russell 1000)	2.5%		3.7%		2.9%	
US Small Cap (Russell 2000)	3.8%		2.2%		(6.7%)	
US Large Value (Russell 1000 Value)	4.6%		6.3%		2.9%	
US Large Growth (Russell 1000 Growth)	0.6%		1.4%		3.0%	
International Large (MSCI EAFE)	(1.5%)	(0.7%)	(4.4%)	(6.9%)	(10.2%)	(9.9%)
Eurozone (Euro Stoxx 50)	(5.1%)	(1.1%)	(8.2%)	(8.5%)	(14.1%)	(13.3%)
U.K. (FTSE 100)	(1.8%)	5.9%	(4.0%)	6.4%	(12.3%)	3.8%
Japan (NIKKEI 225)	1.4%	(7.7%)	(3.4%)	(19.0%)	(7.2%)	(24.0%)
Emerging Markets (MSCI Emerging Markets)	0.7%	0.1%	6.4%	2.6%	(12.1%)	(9.5%)

Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 6/30/16

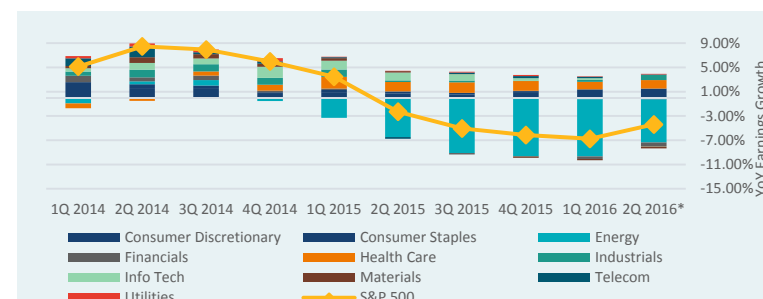
U.S. earnings recession?

- Corporate earnings typically underpin the value of equities.
- Recent U.S. earnings deterioration can be attributed to the energy sector, though other sectors are also not growing as quickly as in previous quarters.
- A long-term negative relationship can be observed between U.S. dollar appreciation and U.S. corporate earnings.
- We might therefore be careful with the phrase U.S. earnings “recession”, which has cyclical implications. The recent earnings downturn may not, in fact, be cyclical.
- It is important to ask how earnings would react to stability in the U.S. dollar and stability across the energy sector. There may be potential for upside surprise in U.S. earnings over the next year. However, the affects of a stronger dollar will likely be felt for awhile as domestic companies are in a tougher position to compete.

EARNINGS & PRICE LEVEL



EARNINGS RECESSION, OR OIL RECESSION?



EARNINGS TRENDS & USD MOVES



(Top) Source: Standard & Poor's, as of 6/30/16

(Middle) Source: Standard & Poor's, Verus, as of 6/30/16

(Bottom) Source: Standard & Poor's, US Trade Weighted Major Currency, as of 6/30/16

Domestic equity

U.S equity markets were range-bound throughout Q2 leading up to Brexit. Following the referendum results, the S&P 500 dropped more than 100 points over two trading days before recouping these losses by quarter-end. The Brexit vote prompted more risk-off sentiment and further reinforced dovish commentary from the Fed amid sharp volatility increases.

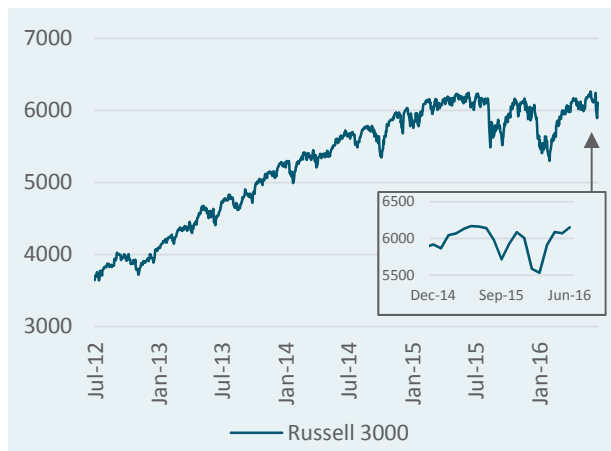
Earnings growth is expected to remain negative for Q2,

which along with flat equity prices has resulted in a rise in valuations. According to Factset, the estimated earnings decline for the S&P 500 is -5.3%. This would mark the fifth consecutive quarter of year-over-year earnings contraction. Stability in the U.S. dollar and the energy sector may provide a solid platform for earnings improvement.

Equity markets shrugged off Brexit

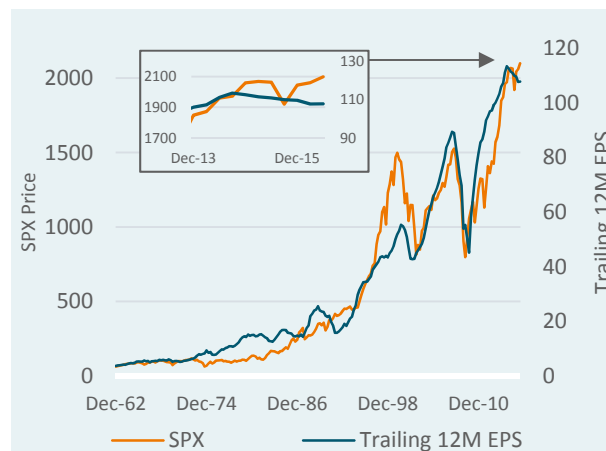
U.S. earnings results will likely dictate the path of equities

U.S. EQUITIES



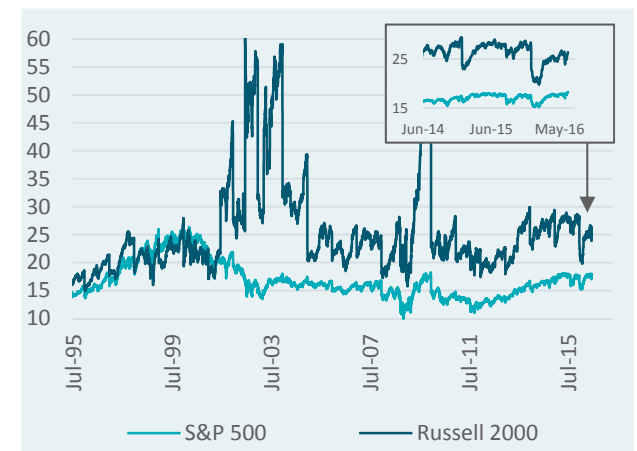
Source: Russell Investments, as of 6/29/16

S&P 500 EARNINGS



Source: Standard & Poor's, as of 6/30/16

FORWARD P/E



Source: Standard & Poor's, Russell Investments, as of 6/30/16

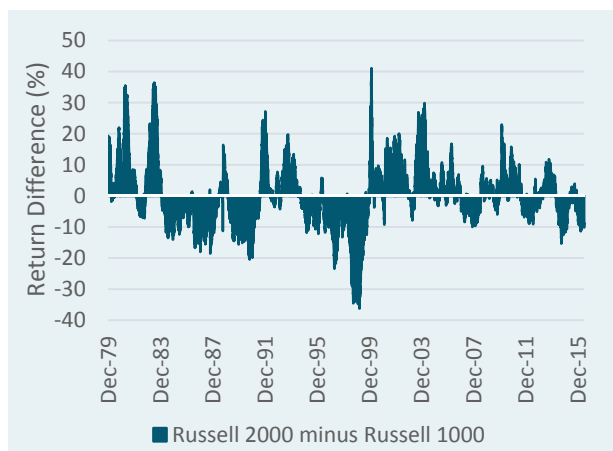
Domestic equity size and style

Value stocks delivered strong outperformance relative to growth stocks year-to-date. Russell 1000 Value provided a 6.3% return while Russell 1000 Growth provided 1.4%.

Large cap equities outperformed small cap for the first time in four months as the Russell 1000 Index and Russell 2000 Index returned 0.2% and -0.1%, respectively. Besides the current quarter, the Russell

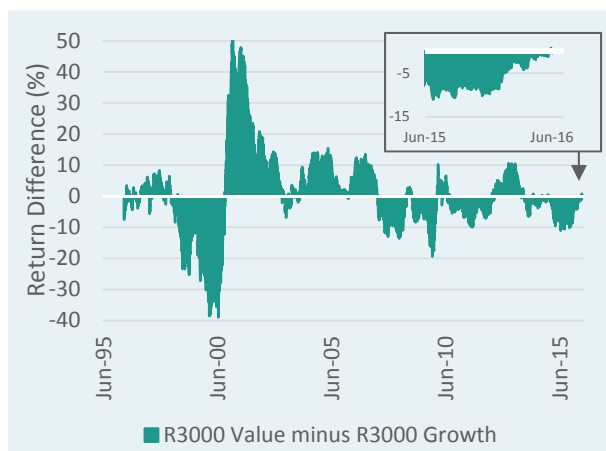
1000 Index has outperformed the Russell 2000 Index on an absolute and risk-adjusted basis in every time period examined over the last 20 years. The relative P/E ratio of small to large cap equities at the end of June was 2.01, well above its long-term average of 1.38, suggesting that despite weak recent performance small cap stocks remain relatively overvalued.

SMALL CAP VS LARGE CAP (YOY)



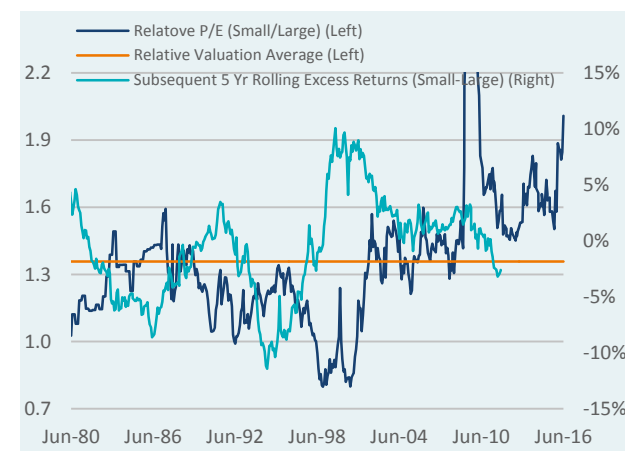
Source: Russell Investments, as of 6/29/16

VALUE VS GROWTH (YOY)



Source: Russell Investments, as of 6/29/16

RELATIVE P/E RATIO (SMALL VS LARGE)



Source: Russell, Bloomberg, as of 6/30/16

Death of the value premium?

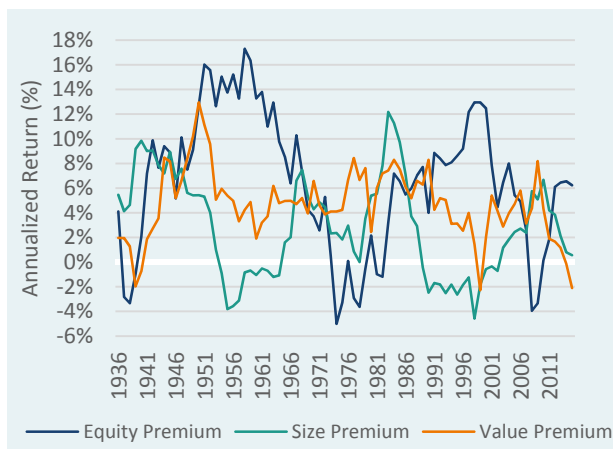
U.S. value equities have underperformed U.S. growth equities over the past 1-, 3-, 5-, 7-, and 10-year periods. Longer-term underperformance in the U.S. occurred two other times in the past 89 years, but value bounced back shortly thereafter. This topic of interest paper may be found on our website verusinvestments.com.

In recent research, we tested the value premium from three angles: First, how dependable has the value premium been through time, and how does this compare to other recognized risk premia? Second, have

unique macro forces contributed to value performance in recent years, and if so do we believe those macro forces affect the long-term efficacy of value? Third, what are the philosophical underpinnings of value and has anything changed?

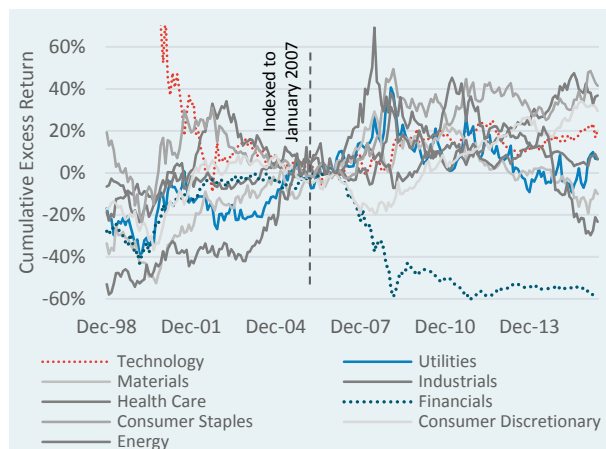
The results of these tests suggest value investors should stay on course. For those investors comfortable with more tactical timing decisions, now may be a good time to begin tilting towards a value allocation.

20YR ROLLING PERFORMANCE



Source: Kenneth French's Data Library, as of 12/31/15

FINANCIAL SECTOR PERFORMANCE*



Source: Standard & Poor's, as of 5/31/16

*Sector returns net of market return (S&P 500 TR)

FINANCIAL SECTOR EXPLANATORY POWER



Source: Standard & Poor's, 2015 year-end, annual data since 1974

International equity

The U.K.'s unexpected decision to leave the European Union in its June 23rd referendum caused a wave of volatility throughout the global financial markets. Brexit resulted in \$3 trillion in global equity market losses in two days as investors reacted to the surprise; however, most markets recouped these losses by the end of the quarter.

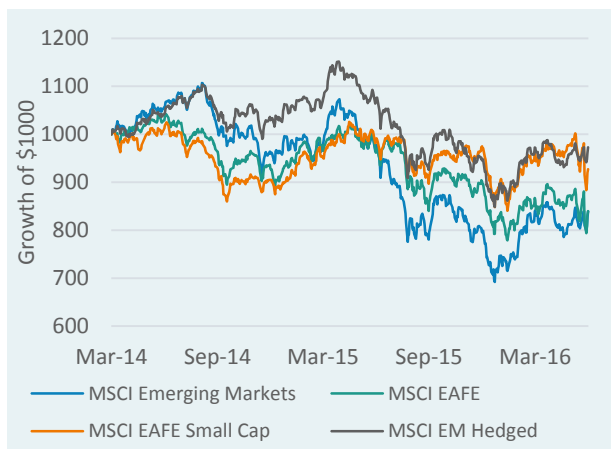
European banks also felt pain following Brexit, illuminating concerns of a disruption to the European

financial sector. The Euro Stoxx 600 Bank Index is yet to recover, trading over 10% below pre-Brexit levels.

International developed markets (MSCI EAFE, -1.5%) underperformed emerging markets (MSCI EM, 0.7%) in the second quarter. Comparatively the S&P 500 returned 2.5% during the quarter.

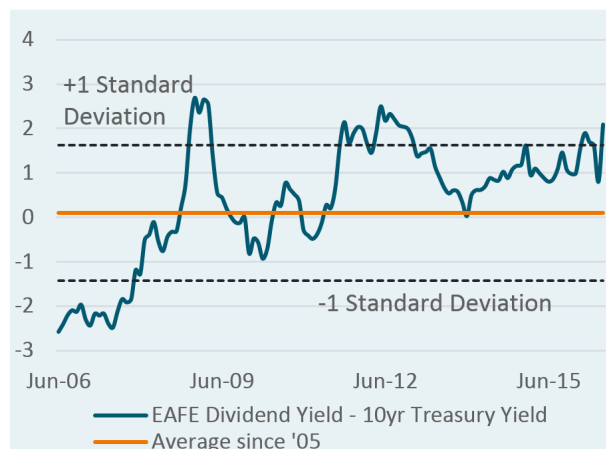
Currency movement continues to have severe impacts on unhedged international equity exposure.

GLOBAL EQUITY PERFORMANCE



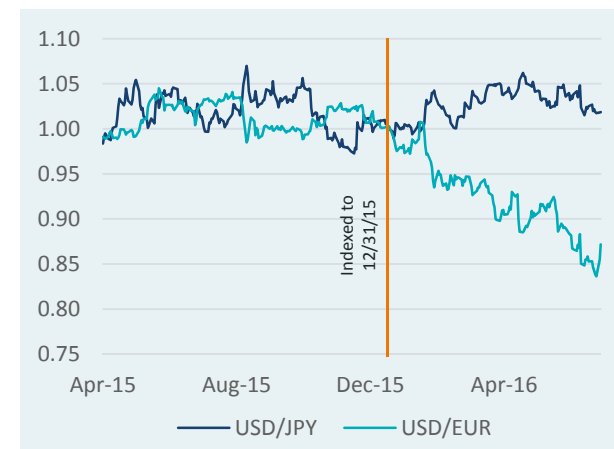
Source: MSCI, as of 6/30/16

EQUITY YIELD LESS BOND YIELD



Source: MSCI, as of 6/30/16

USD/EUR, USD/YEN



Source: MSCI, as of 7/12/16

Emerging market equity

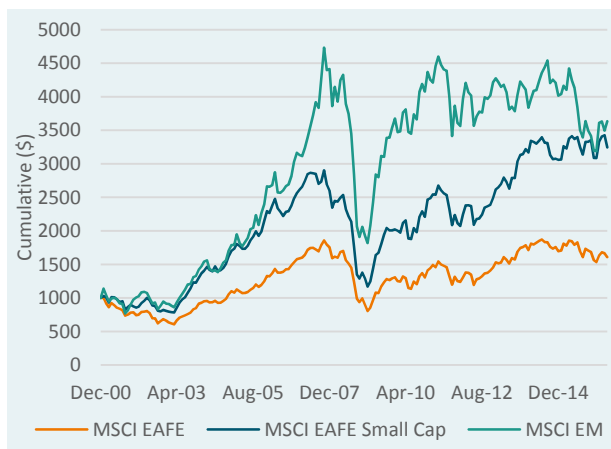
Higher commodity prices provided a tailwind for emerging market equities, which outperformed international developed markets during the quarter. Latin America was the best performing region driven by strong returns in Brazil and Peru equity markets. The hope of political reform in Brazil due to the impending impeachment of president Dilma Rousseff has provided a boost to Brazilian equities.

MSCI denied the inclusion of China's domestic A Shares in its global benchmarks for a third straight year. The

index provider said that although China has made positive steps in opening up its markets, significant obstacles to free fund movement remain.

Expectations of further accommodative central bank policies following Brexit and continued low yields in developed markets should help emerging market fund flows as higher yielding investment options remain limited. Furthermore, expectations for a more gradual pace of Fed rate hikes should help keep borrowing costs lower in emerging markets.

LONG TERM PERFORMANCE



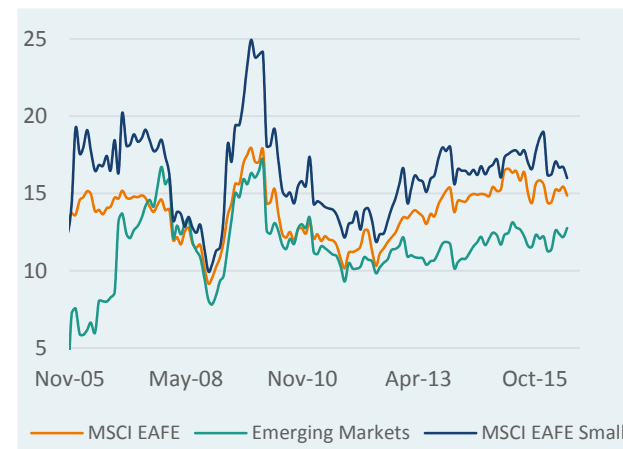
Source: MSCI, as of 6/30/16

ROLLING 3 YEAR RETURN



Source: MSCI, as of 6/30/16

FORWARD P/E



Source: MSCI, as of 6/30/16

Equity valuations

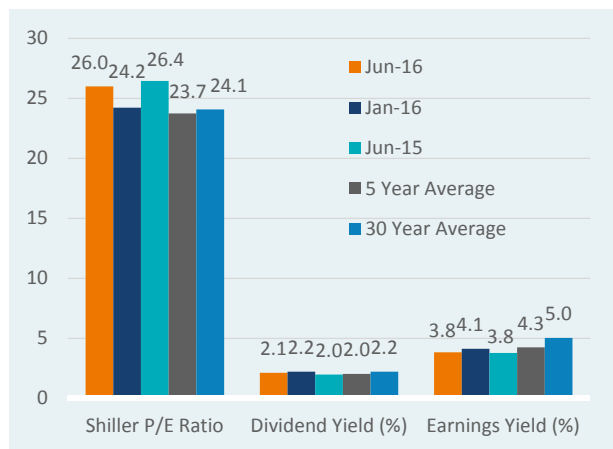
Domestic equity valuations remain above average. Large cap U.S. equity trailing P/E is modestly above the long-term average (18.8 vs. 16.4 over 62 years), while small cap U.S. equities are substantially above the long-term average (33.3 vs. 26.3 over 38 years).

International developed market valuations (MSCI EAFE) in aggregate remain roughly normal relative to history on a trailing P/E basis, but very cheap (9th percentile) on a Shiller P/E basis. Emerging market equities (MSCI EM)

are cheap, but as we have discussed recently this may be due to widely acknowledged fundamental problems. An active management approach is recommended.

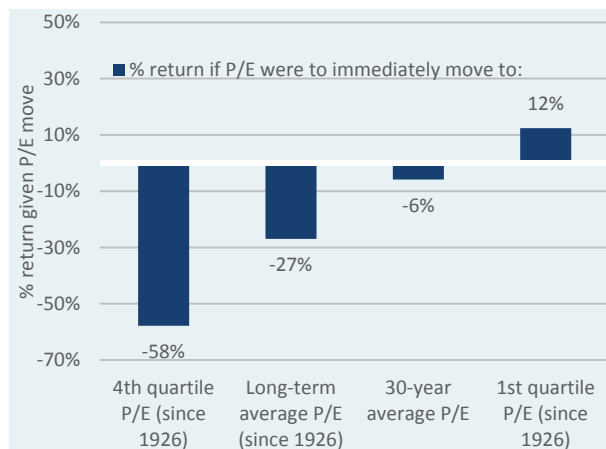
In the current low interest rate environment we should likely expect equity valuations to be above the long-term average. As yields across asset classes fall, the price investors are willing (or forced) to pay for risk assets is higher. This causes complications in understanding whether equities are truly overvalued.

US LARGE CAP (S&P 500) VALUATION SNAPSHOT



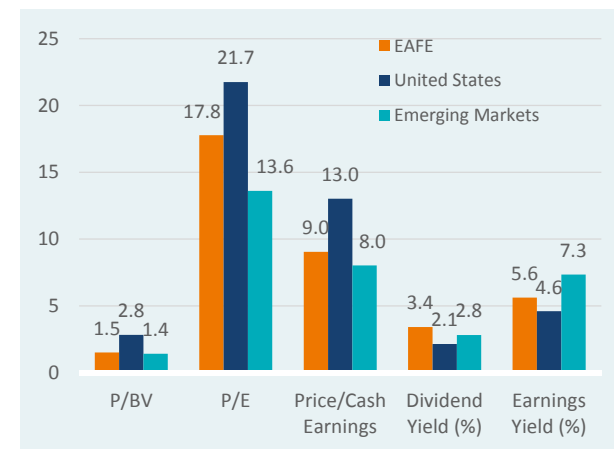
Source: Yale/Shiller, as of 6/30/16

RETURNS IF P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus

MSCI VALUATION METRICS (3 MONTH AVERAGE)



Source: MSCI, as of 6/30/16

Equity volatility

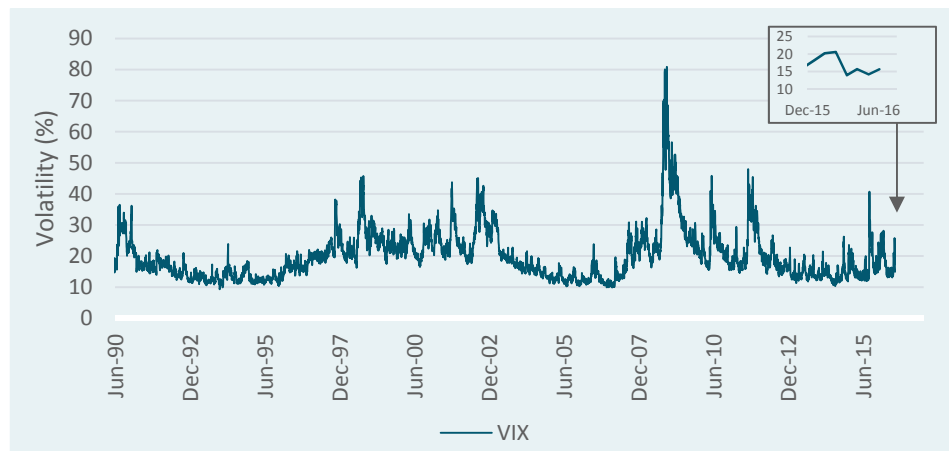
Despite muted volatility levels for much of the second quarter, the end of June brought significant turmoil, particularly in European stock markets. In the weeks leading up to the Brexit referendum, poll results were extremely close and the outcome was unpredictable. This gave investors concern, not only for the implications it would have for the U.K. and Europe, but also for peripheral countries.

Implied volatility spiked while investors digested the

Brexit news. The VIX jumped to 25.8, but fell back to 15.6 to close the month. With quantity and timing of Federal Reserve rate hikes in question, the instability catalyzed by Brexit helped reduce the possibility of a rate hike, calming domestic investors.

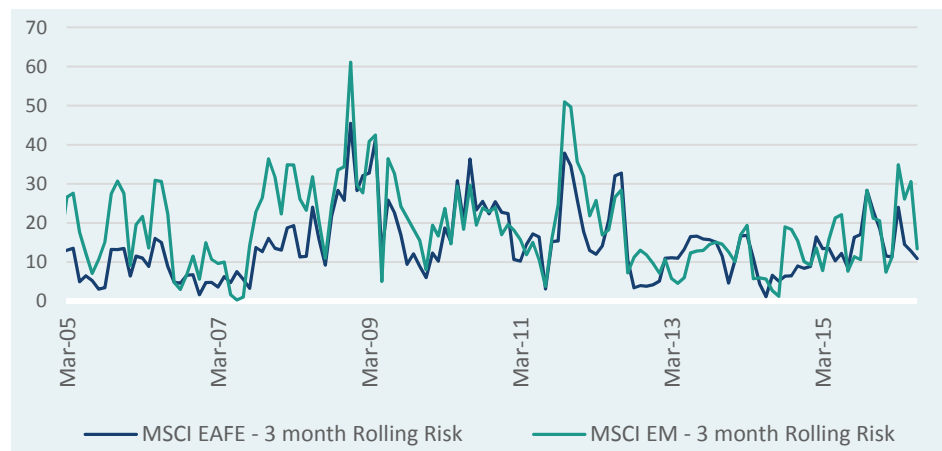
Markets may experience higher than normal levels of volatility as political uncertainty remains high both internationally and within the U.S.

U.S. EQUITY VOLATILITY



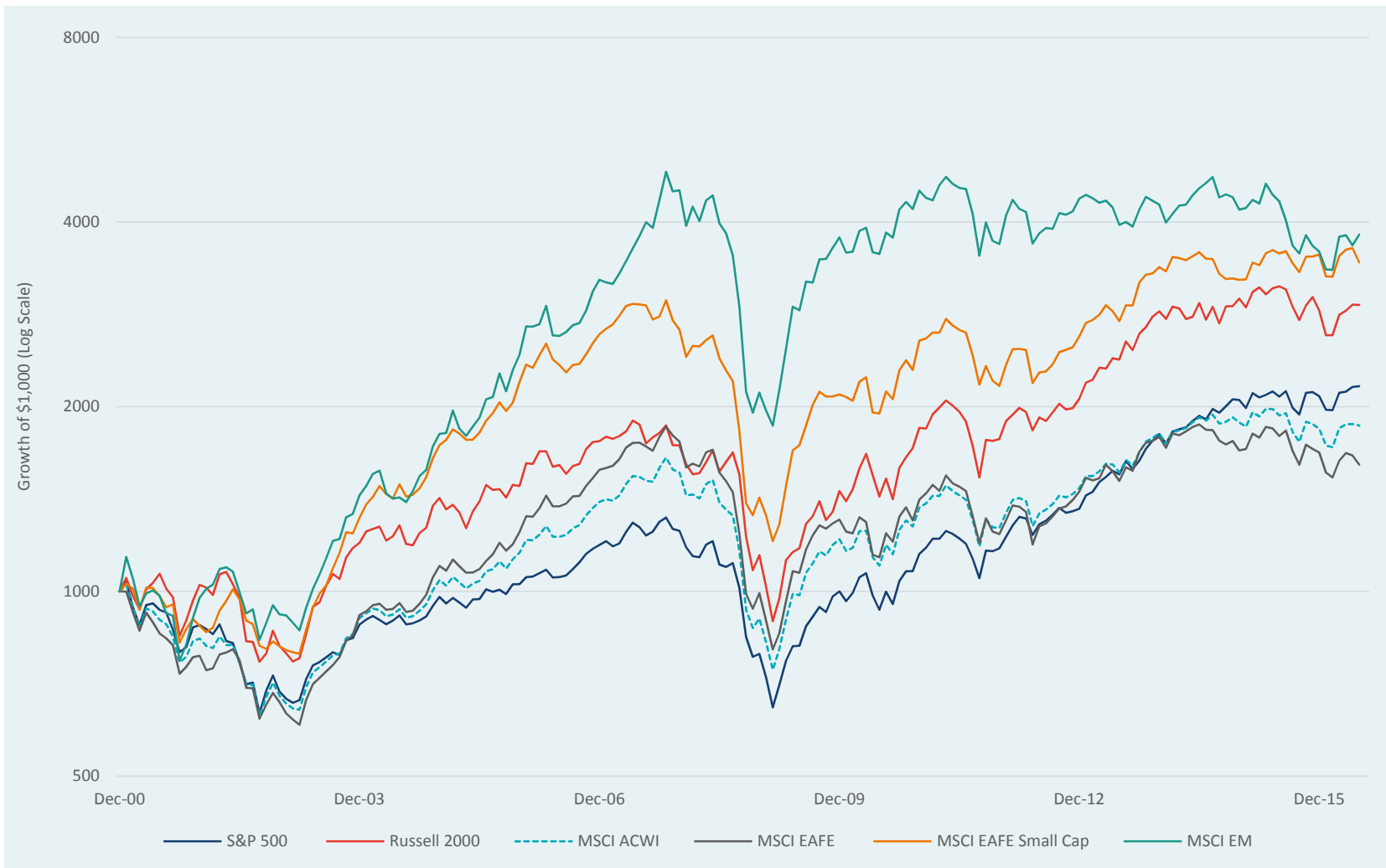
Source: CBOE, as of 6/30/16

INTERNATIONAL EQUITY VOLATILITY



Source: MSCI, as of 6/30/16

Long-term equity performance



U.S. equities have remained flat for nearly two years

Intl. developed and emerging market equities are down materially over the same period

Source: MPI, as of 6/30/16

Other assets

Other asset volatility

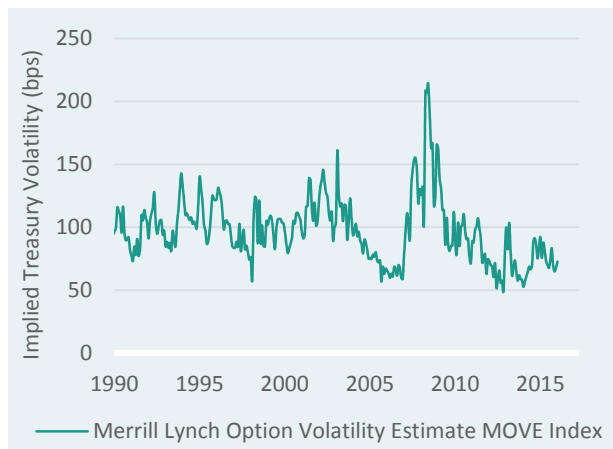
Volatility was relatively low throughout most of the quarter. However, speculation leading up to the June Brexit vote and the surprising outcome generated higher market volatility, especially in the currency markets. Demand for safe haven assets helped strengthen the yen and dollar against the pound and caused a spike in gold prices.

Oil volatility rose slightly during the quarter as prices continued higher. U.S. oil production and inventories have declined steadily over recent weeks, but overall

inventory levels remain very high. Rig counts have recently increased, suggesting production may be coming back on line.

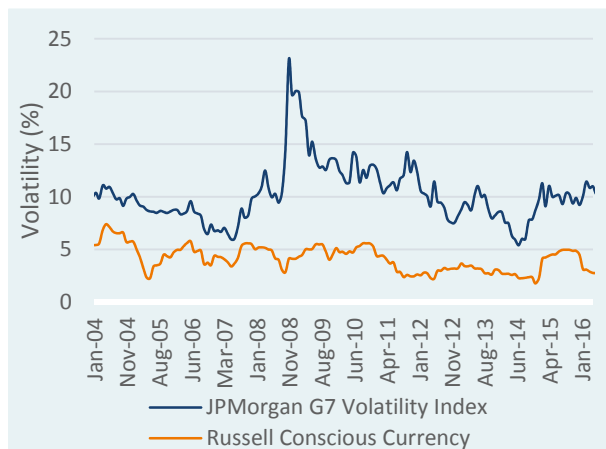
Fixed income implied volatility rose during the quarter but remains below average. Brexit caused sovereign yields to plunge due to demand for safety and increased expectations of accommodative monetary policies. Market expectations of a more gradual pace of interest rate hikes has helped keep short term fixed income risk low.

FIXED INCOME VOLATILITY



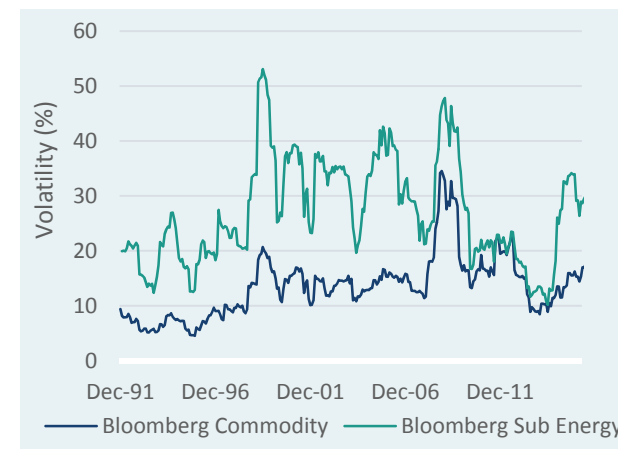
Source: Merrill Lynch, as of 6/30/16 (see Appendix)

FX VOLATILITY



Source: JP Morgan, Russell Investments, as of 6/30/16

COMMODITY VOLATILITY



Source: Bloomberg, as of 6/30/16

Hedge funds

Hedge fund performance has been underwhelming, which has led to much debate regarding the continued role of these strategies in portfolios.

The demise of hedge funds may be exaggerated. Four problems often persist:

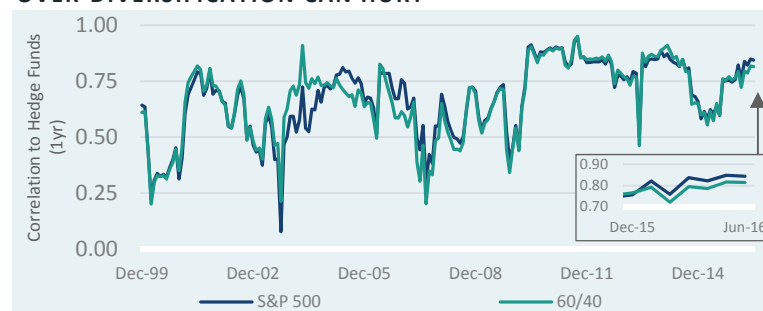
- **What ARE hedge funds?** – Hedge fund strategies typically involve trading public market assets in a proprietary manner. This means that when underlying public markets are performing poorly hedge funds should be expected to perform less well.
- **Misaligned expectations** – Hedge funds can generally be thought of to *diversify* the portfolio or *enhance returns*.
- **Improper attribution** – Investors should understand what types of hedge funds they hold, and what these hedge funds should be expected to deliver. Evaluate performance accordingly, and over a longer horizon.
- **Over-diversification** – Overly diversified/complicated hedge fund portfolios should be expected to take on more “market-like” performance profiles.

An appropriately designed hedge fund exposure can be a useful component of an investment portfolio, but investors should be careful to ensure that they know why they have the exposures that they do.

DIVERSIFICATION VALUE VARIES DRASTICALLY BY STRATEGY



OVER-DIVERSIFICATION CAN HURT



YOU GET (RETURN) WHAT YOU GIVE (RISK)



(Top) Source: MPI, HFRI FoF Composite Index, 3-year correlation, as of 6/30/16 (Middle) Source: MPI, 60/40 portfolio is S&P 500/BC Agg, HFRI FoF Composite, as of 6/30/16
(Bottom) Source: MPI, HFRI FoF Composite Index, as of 6/30/16

Currency

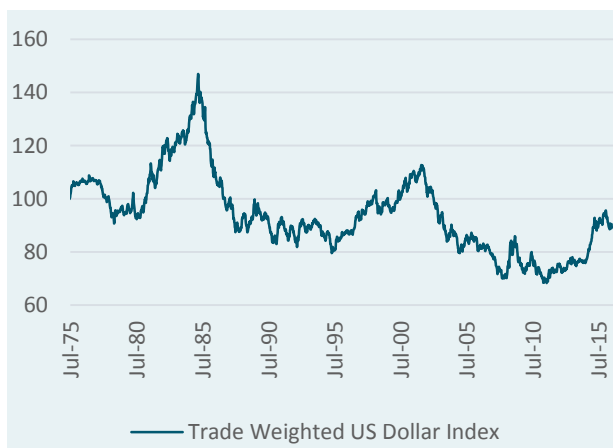
The U.S. dollar rose 0.5% in Q2 on a trade-weighted basis. Stabilization of the dollar should have a positive impact on corporate earnings in future quarters.

While U.S. investors have been harshly penalized in recent years for holding unhedged international equity exposure, these effects have moderated on a one-year basis. Though forecasting currency movements in an incredibly complex and difficult task, differences in interest rates and currency exchange prices indicate that U.S. investors might expect a positive return from

foreign currency exposure over the longer-term (interest rate parity). As discussed in recent quarters U.S. dollar moves can be somewhat arbitrarily driven by central bank actions which impact interest rates and exchange rate movement.

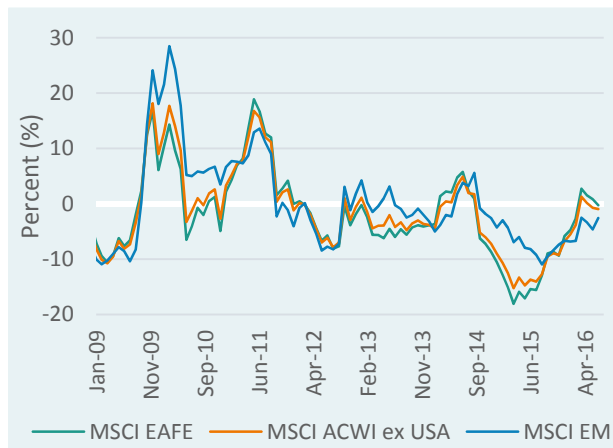
Currency indices are available which provide more accurate representations of true currency market investment. One such index, the Russell Conscious Currency Index, showed sharply positive currency returns in recent months.

LONG-TERM TRADE WEIGHTED USD



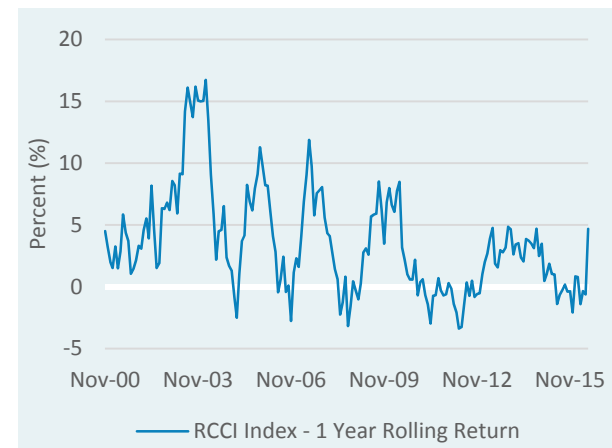
Source: FRED, as of 7/01/16

EFFECT OF CURRENCY (1YR ROLLING)



Source: MSCI, as of 6/30/16

CURRENCY MARKET BEHAVIOR



Source: Russell Investments, as of 6/30/16

Appendix

Periodic table of returns – June 2016

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD	5-Year	10-Year
Commodities	74.8	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	10.1	13.3	12.3	8.8
Emerging Markets Equity	32.9	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	6.4	11.9	7.6
Large Cap Value	26.3	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	6.3	11.9	7.5
Small Cap Value	23.8	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	6.1	11.4	7.1
US Bonds	19.3	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	5.3	8.5	6.2
60/40 Global Portfolio	18.9	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	4.4	8.4	6.1
Large Cap Equity	18.1	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	3.7	8.1	5.2
Small Cap Equity	13.4	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	2.2	4.1	5.1
Real Estate	10.2	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	2.2	3.8	4.6
Large Cap Growth	9.7	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	1.4	1.7	3.5
Cash	3.1	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	0.1	1.7	1.6
Small Cap Growth	2.9	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	-1.6	0.1	1.6
Hedge Funds of Funds	1.4	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	-2.4	-3.8	0.9
International Equity	-1.1	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	-4.4	-10.8	-5.6

Large Cap Equity	Small Cap Growth	Commodities
Large Cap Value	International Equity	Real Estate
Large Cap Growth	Emerging Markets Equity	Hedge Funds of Funds
Small Cap Equity	US Bonds	60% MSCI ACWI/40% BC Global Bond
Small Cap Value	Cash	

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BC Agg, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BC Global Bond. NCREIF Property performance data as of 3/31/16.

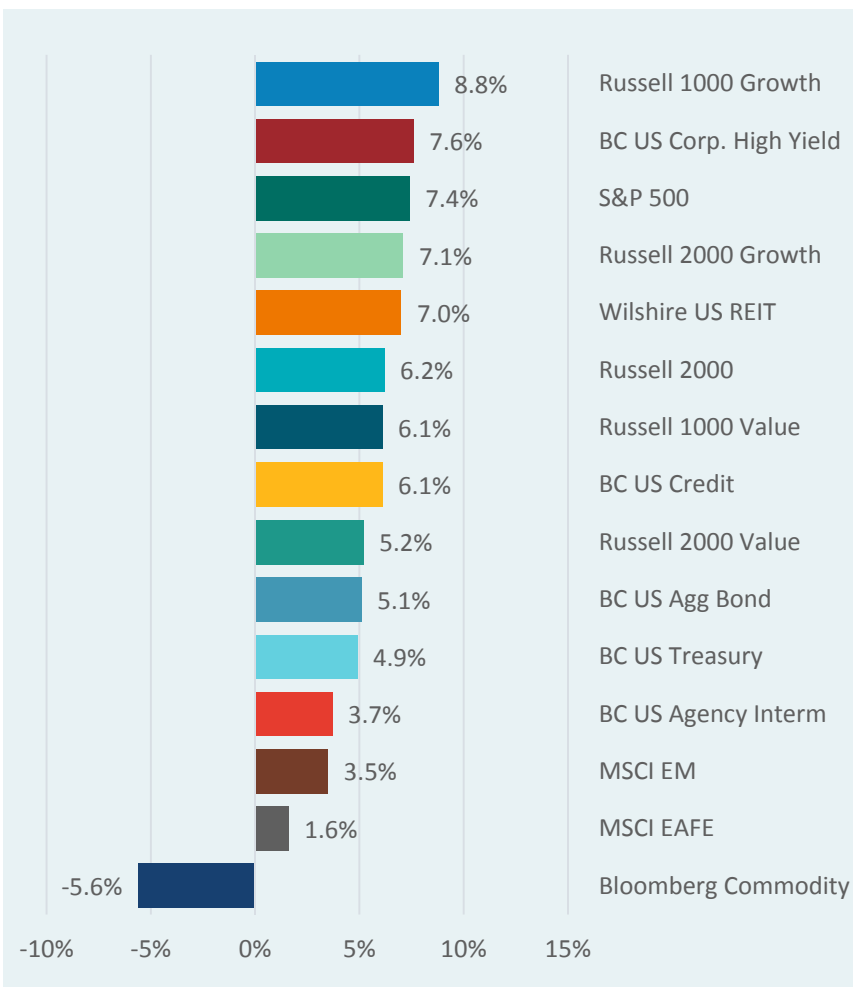
Major asset class returns

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/16

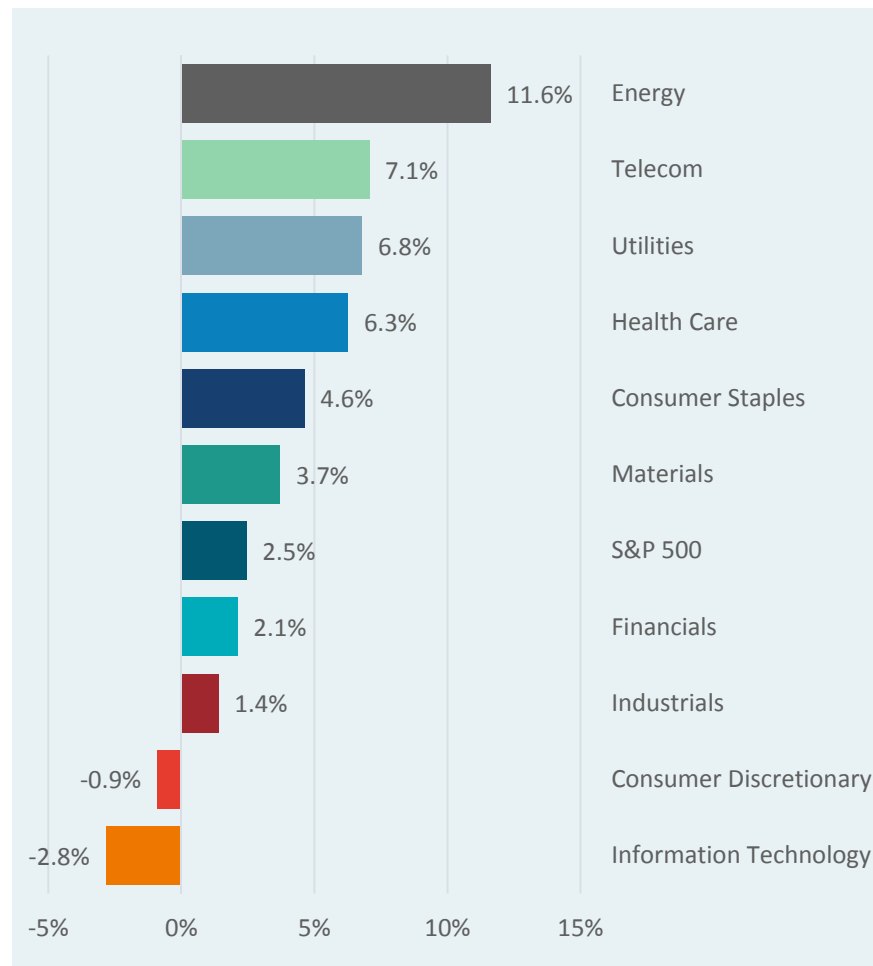
TEN YEARS ENDING JUNE



Source: Morningstar, as of 6/30/16

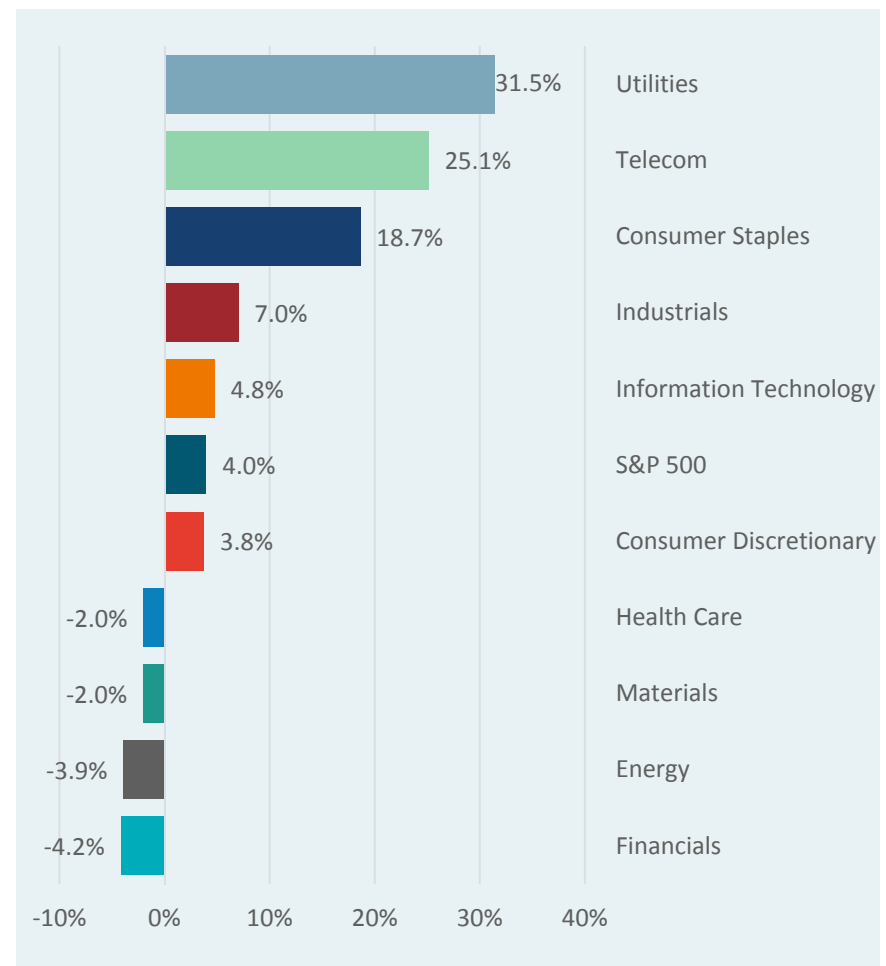
S&P 500 and S&P 500 sector returns

QTD



Source: Morningstar, as of 6/30/16

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/16

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.3	2.5	3.8	4.0	11.7	12.1	7.4
S&P 500 Equal Weighted	(0.1)	2.7	5.8	2.7	11.6	11.9	8.7
DJ Industrial Average	0.9	2.1	4.3	4.5	9.0	10.4	7.7
Russell Top 200	0.1	2.3	3.0	4.0	11.8	12.3	7.3
Russell 1000	0.2	2.5	3.7	2.9	11.5	11.9	7.5
Russell 2000	(0.1)	3.8	2.2	(6.7)	7.1	8.4	6.2
Russell 3000	0.2	2.6	3.6	2.1	11.1	11.6	7.4
Russell Mid Cap	0.5	3.2	5.5	0.6	10.8	10.9	8.1
Style Index							
Russell 1000 Growth	(0.4)	0.6	1.4	3.0	13.1	12.3	8.8
Russell 1000 Value	0.9	4.6	6.3	2.9	9.9	11.4	6.1
Russell 2000 Growth	(0.5)	3.2	(1.6)	(10.8)	7.7	8.5	7.1
Russell 2000 Value	0.3	4.3	6.1	(2.6)	6.4	8.1	5.2

INTERNATIONAL EQUITY

Broad Index							
MSCI EAFE	(3.4)	(1.5)	(4.4)	(10.2)	2.1	1.7	1.6
MSCI AC World ex US	(1.5)	(0.6)	(1.0)	(10.2)	1.2	0.1	1.9
MSCI EM	4.0	0.7	6.4	(12.1)	(1.6)	(3.8)	3.5
MSCI EAFE Small Cap	(5.3)	(2.6)	(3.2)	(3.7)	7.3	4.8	3.6
Style Index							
MSCI EAFE Growth	(1.8)	(0.1)	(2.2)	(4.8)	4.2	3.2	2.9
MSCI EAFE Value	(5.0)	(2.8)	(6.6)	(15.4)	(0.1)	0.1	0.2
Regional Index							
MSCI UK	(3.6)	(0.7)	(3.1)	(12.1)	0.7	1.7	1.4
MSCI Japan	(2.5)	1.0	(5.6)	(8.9)	2.7	4.2	0.1
MSCI Euro	(6.3)	(5.0)	(7.4)	(12.8)	1.7	(1.0)	0.1
MSCI EM Asia	2.8	0.3	2.2	(12.2)	1.8	(0.6)	5.3
MSCI EM Latin American	11.4	5.3	25.5	(7.6)	(8.3)	(10.1)	2.3

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BC US Treasury US TIPS	2.1	1.7	6.2	4.4	2.3	2.6	4.7
BC US Treasury Bills	0.1	0.1	0.2	0.3	0.1	0.1	1.1
BC US Agg Bond	1.8	2.2	5.3	6.0	4.1	3.8	5.1
Duration							
BC US Treasury 1-3 Yr	0.6	0.5	1.4	1.3	1.0	0.8	2.5
BC US Treasury Long	6.1	6.4	15.1	19.3	10.5	10.3	8.8
BC US Treasury	2.2	2.1	5.4	6.2	3.5	3.5	4.9
Issuer							
BC US MBS	0.8	1.1	3.1	4.3	3.8	3.0	5.0
BC US Corp. High Yield	0.9	5.5	9.1	1.6	4.2	5.8	7.6
BC US Agency Interm	0.8	0.7	2.3	2.5	2.0	1.8	3.7
BC US Credit	2.3	3.5	7.5	7.6	5.3	5.2	6.1

OTHER

Index							
Bloomberg Commodity	4.1	12.8	13.3	(13.3)	(10.6)	(10.8)	(5.6)
Wilshire US REIT	6.5	5.6	11.1	22.8	13.6	12.5	7.0
Regional Index							
JPM EMBI Global Div	3.4	5.0	10.3	9.8	7.2	6.5	8.0
JPM GBI-EM Global Div	5.9	2.7	14.0	2.0	(3.6)	(2.2)	5.7

Source: Morningstar, as of 6/30/16

Definitions

Bloomberg US Weekly Consumer Comfort Index - tracks the public's economic attitudes each week, providing a high-frequency read on consumer sentiment. The index, based on cell and landline telephone interviews with a random, representative national sample of U.S. adults, tracks Americans' ratings of the national economy, their personal finances and the buying climate on a weekly basis, with views of the economy's direction measured separately each month. (www.langerresearch.com)

University of Michigan Consumer Sentiment Index - A survey of consumer attitudes concerning both the present situation as well as expectations regarding economic conditions conducted by the University of Michigan. For the preliminary release approximately three hundred consumers are surveyed while five hundred are interviewed for the final figure. The level of consumer sentiment is related to the strength of consumer spending. (www.Bloomberg.com)

Citi Economic Surprise Index - objective and quantitative measures of economic news. Defined as weighted historical standard deviations of data surprises (actual releases vs Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance been beating consensus. The indices are calculated daily in a rolling three-month window. The weights of economic indicators are derived from relative high-frequency spot FX impacts of 1 standard deviation data surprises. The indices also employ a time decay function to replicate the limited memory of markets. (www.Bloomberg.com)

Merrill Lynch Option Volatility Estimate (MOVE) Index – a yield curve weighted index comprised of a weighted set of 1-month Treasury options, including 2.5.10 and 30 year tenor contracts. This index is an indicator of the expected (implied) future volatility in the rate markets.

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