



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

1ST QUARTER 2017
Investment Landscape
Conference Call

Call instructions

Verus⁷⁷⁷

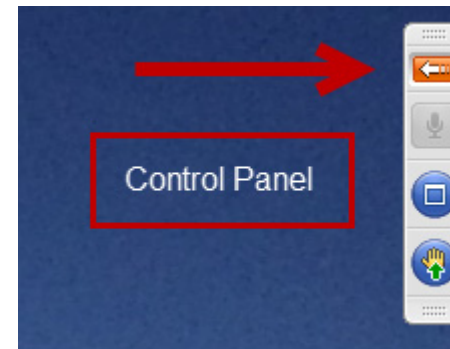
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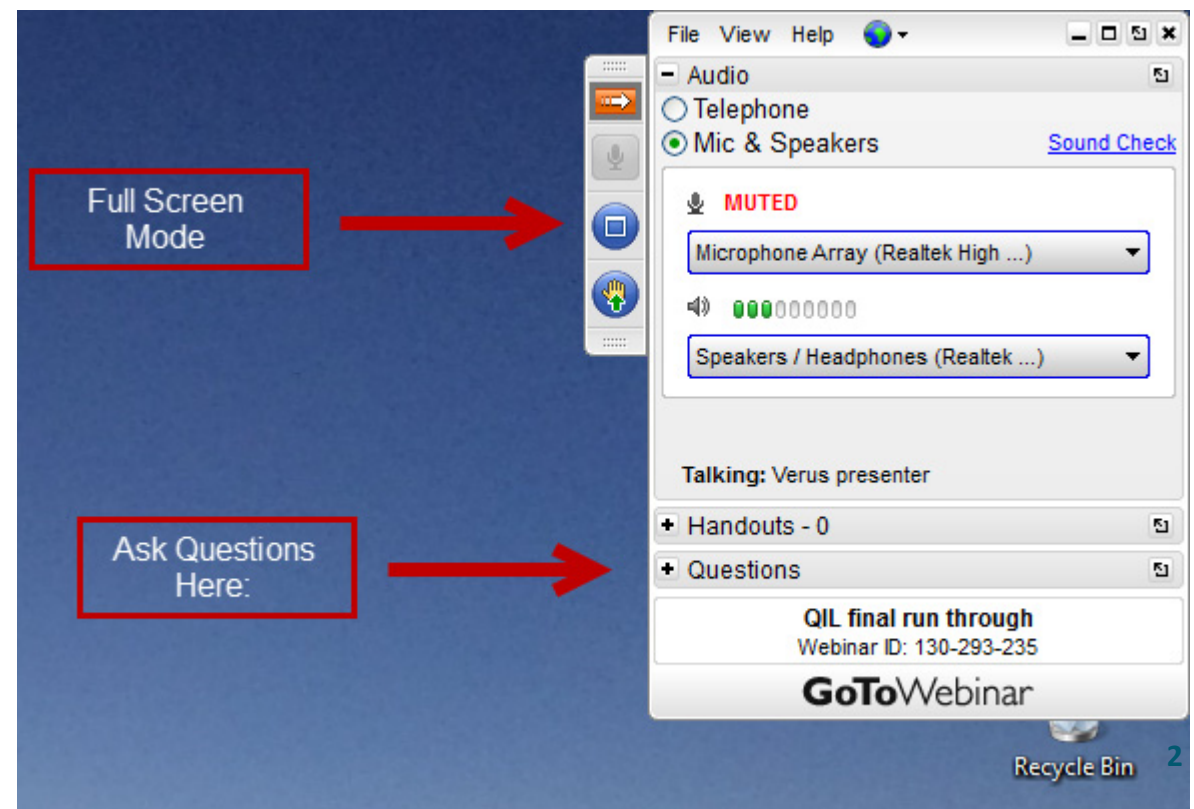
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Ask questions for the Q&A session in the Questions window.



1st quarter conference call

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IMPORTANT INFORMATION

Dial in: 1 (877) 309-2071 U.S. & Canada

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Playback Info: Will be available on the website after the call
www.verusinvestments.com

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

Introduction by: Jeffrey MacLean, Chief Executive Officer

Presented by: Ian Toner, CFA, Managing Director | Research



Jeffrey J. MacLean
Chief Executive Officer



Ian Toner, CFA
Managing Director

4th quarter summary

THE ECONOMIC CLIMATE

- Economies around the globe experienced higher inflation as the effects of lower energy prices fall out of year-over-year inflation figures. U.S. headline inflation rose to 1.7% YoY and the market's inflation expectations increased sharply, as indicated by TIPS breakeven rates.
- U.S. consumer and business sentiment indicators improved markedly in the fourth quarter based on positive expectations of future economic growth.

MARKET PORTFOLIO IMPACTS

- U.S. interest rates moved higher in Q4, returning the yield curve to levels experienced one year ago. The Federal Reserve is not likely to increase rates drastically because of lower yields and economic growth around the globe, and due to an already strong U.S. dollar.
- The U.S. dollar rose 6.4% in Q4 on a trade-weighted basis. Currency movement continues to contribute to higher volatility for investors with unhedged currency exposure.

THE INVESTMENT CLIMATE

- The U.S. presidential election results took many investors by surprise. After an initial overnight plunge in the futures market, U.S. equities rallied on expectations of a more pro-business regulatory environment and the possibility of large-scale fiscal stimulus. U.S. equities may possess greater upside potential post-election.
- Fourth quarter earnings for the S&P 500 are estimated to grow 3.2% YoY, according to FactSet. If this positive growth comes to fruition it will mark the second quarter of positive growth and may indicate that the recent oil-driven earnings slump is behind us.

ASSET ALLOCATION ISSUES

- Global inflation rises in Q4 may mark a change in trend from disinflation seen in recent years. Investors should work to understand the degree of inflation protection in their portfolio.

A neutral risk stance seems warranted

Global reflation trends should be watched, and investors should understand the degree of inflation protection in their portfolio

What drove the market in Q4?

“World Markets Plunge, Then Steady, On Trump Victory”

POST-ELECTION ASSET PRICE MOVEMENTS

S&P 500		10-Yr Treasury		Bloomberg USD Spot	
Nov 9 th	Dec 30 th	Nov 9 th	Dec 30 th	Nov 9 th	Dec 30 th
2163	2239	2.06%	2.44%	1237	1267

Source: Fortune, November 9th 2016

“U.S. Consumer Sentiment Rises To Highest Level Since 2004”

U OF MICHIGAN CONSUMER SENTIMENT SURVEY

Jul 31st	Aug 31st	Sep 30th	Oct 31st	Nov 30th	Dec 31st
90.0	89.8	91.2	87.2	93.8	98.2

Source: WSJ, December 23rd 2016

“OPEC Reaches Deal To Limit Production, Sending Prices Soaring”

WTI OIL (\$/BARREL)

Jul 29 th	Aug 31 st	Sep 30 th	Oct 31 st	Nov 30 th	Dec 30 th
\$41.60	\$44.70	\$48.24	\$46.86	\$49.44	\$53.72

Source: New York Times, November 30th 2016

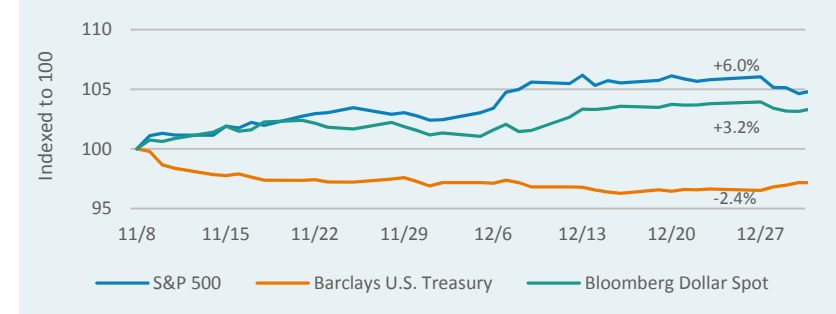
“Inflation Expectations Hit Highest Level In More Than A Decade”

10-YEAR U.S. TIPS BREAKEVEN RATE

Jul 29 th	Aug 31 st	Sep 30 th	Oct 31 st	Nov 30 th	Dec 30 th
1.49%	1.47%	1.60%	1.73%	1.94%	1.95%

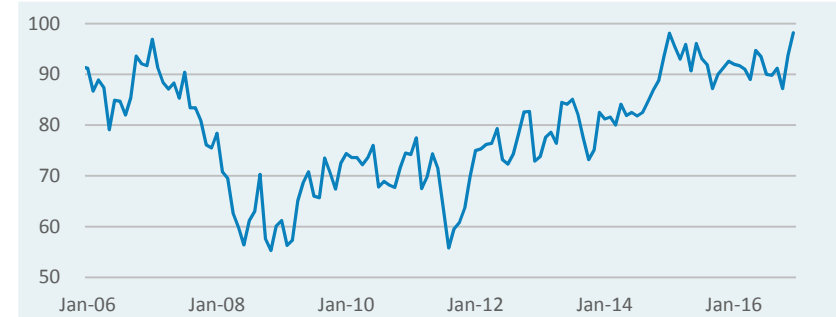
Source: Financial Times, November 16th 2016

POST-ELECTION ASSET PRICE MOVEMENTS



Source: Bloomberg, 11/8/16-12/31/16

U.S. CONSUMER SENTIMENT



Source: Bloomberg, as of 12/31/16

WTI CRUDE OIL

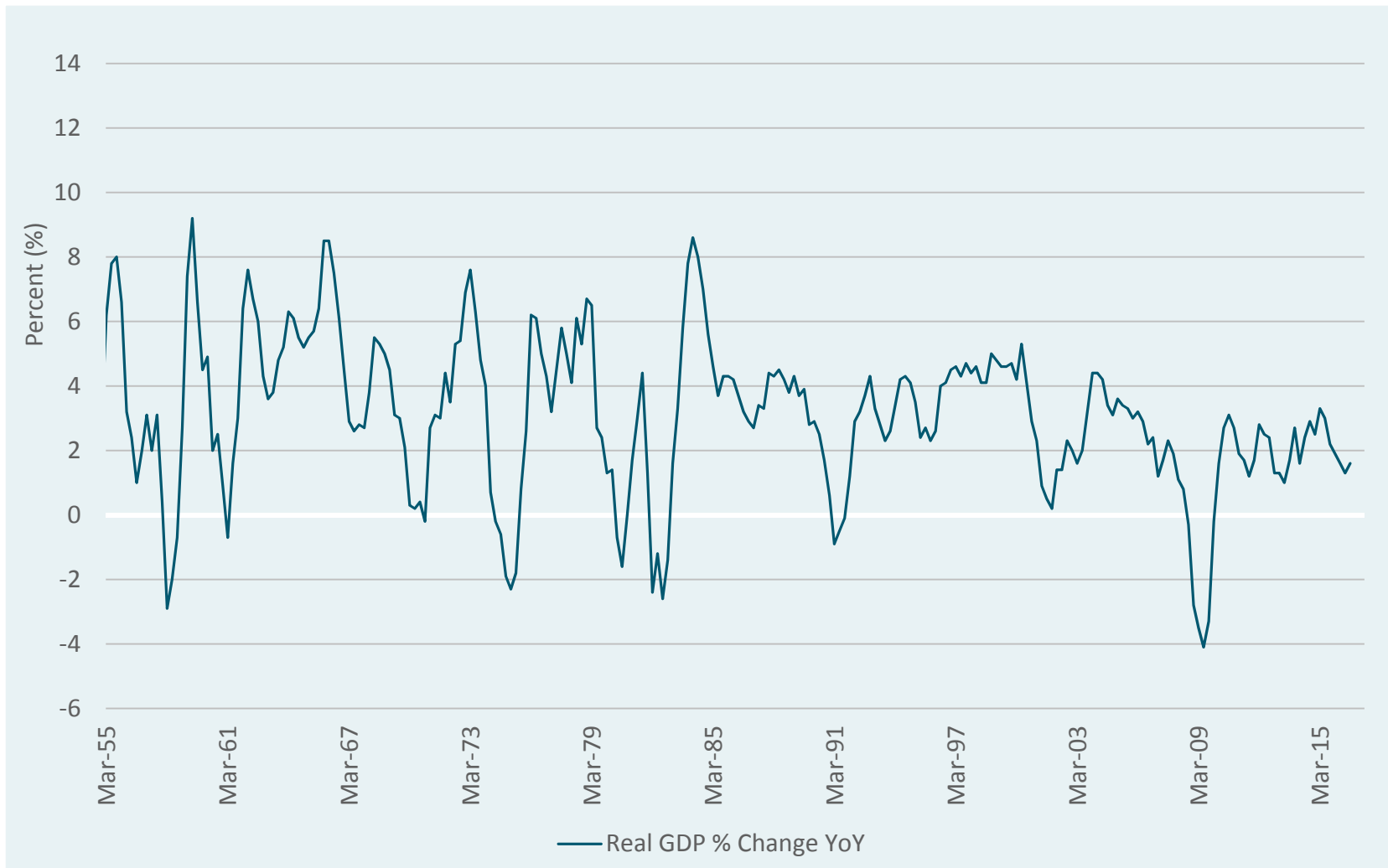


Source: Bloomberg, as of 12/31/16

U.S. economics summary

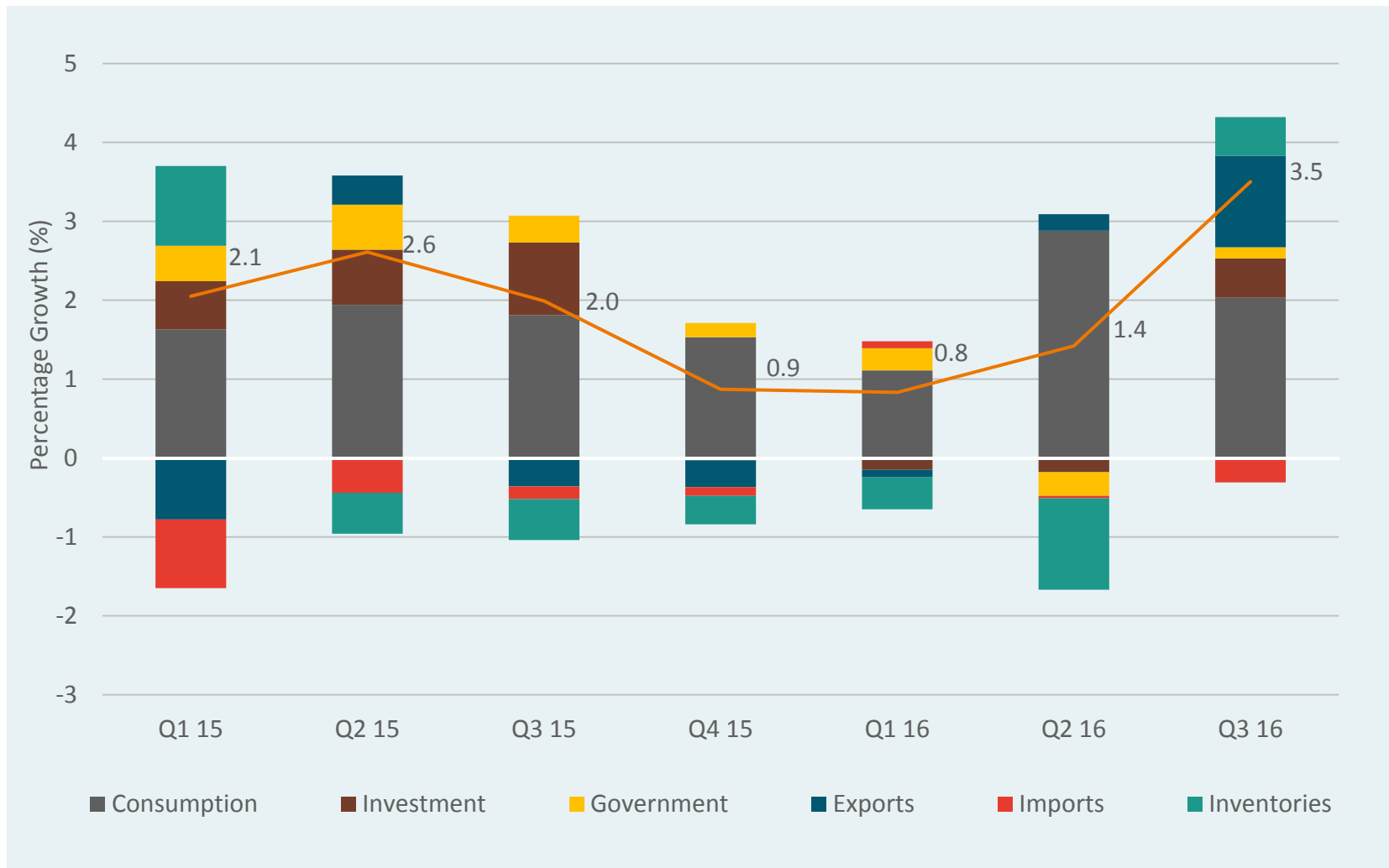
	Most Recent	12 Months Prior
GDP (<i>annual YoY</i>)	1.7% 9/30/16	2.2% 9/30/15
Inflation (<i>CPI YoY, Headline</i>)	1.7% 11/30/16	0.4% 11/30/15
Expected Inflation (<i>5yr-5yr forward</i>)	2.1% 12/31/16	1.8% 12/31/15
Fed Funds Rate	0.50% 12/31/16	0.25% 12/31/15
10 Year Rate	2.5% 12/31/16	2.3% 12/31/15
U-3 Unemployment	4.7% 12/31/16	5.0% 12/31/15
U-6 Unemployment	9.2% 12/31/16	9.9% 12/31/15

U.S. GDP growth



Source: FRED, as of 9/30/16

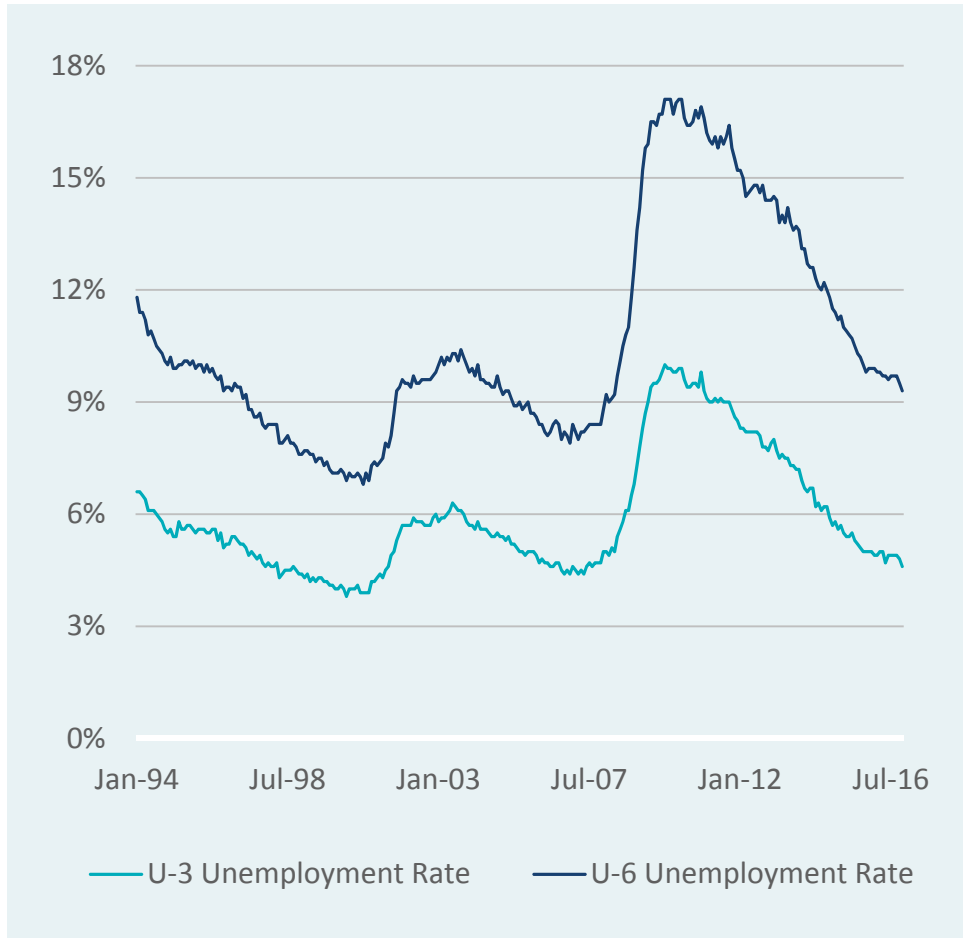
Sources of GDP growth



Source: BEA, annualized quarterly rate, as of 9/30/16

U.S. employment

U.S. UNEMPLOYMENT



Source: FRED, as of 11/30/16

REAL AVERAGE HOURLY EARNINGS



Source: FRED, as of 11/30/16

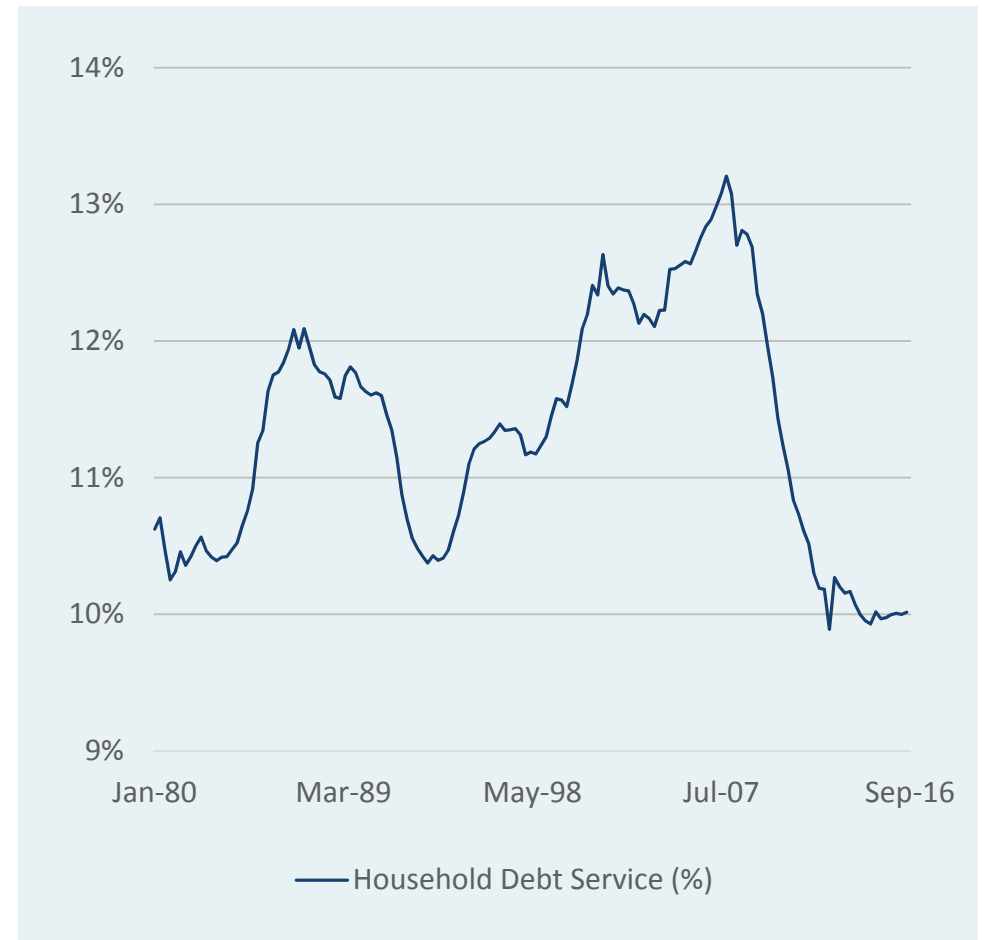
Consumer borrowing

CONSUMER LOAN GROWTH



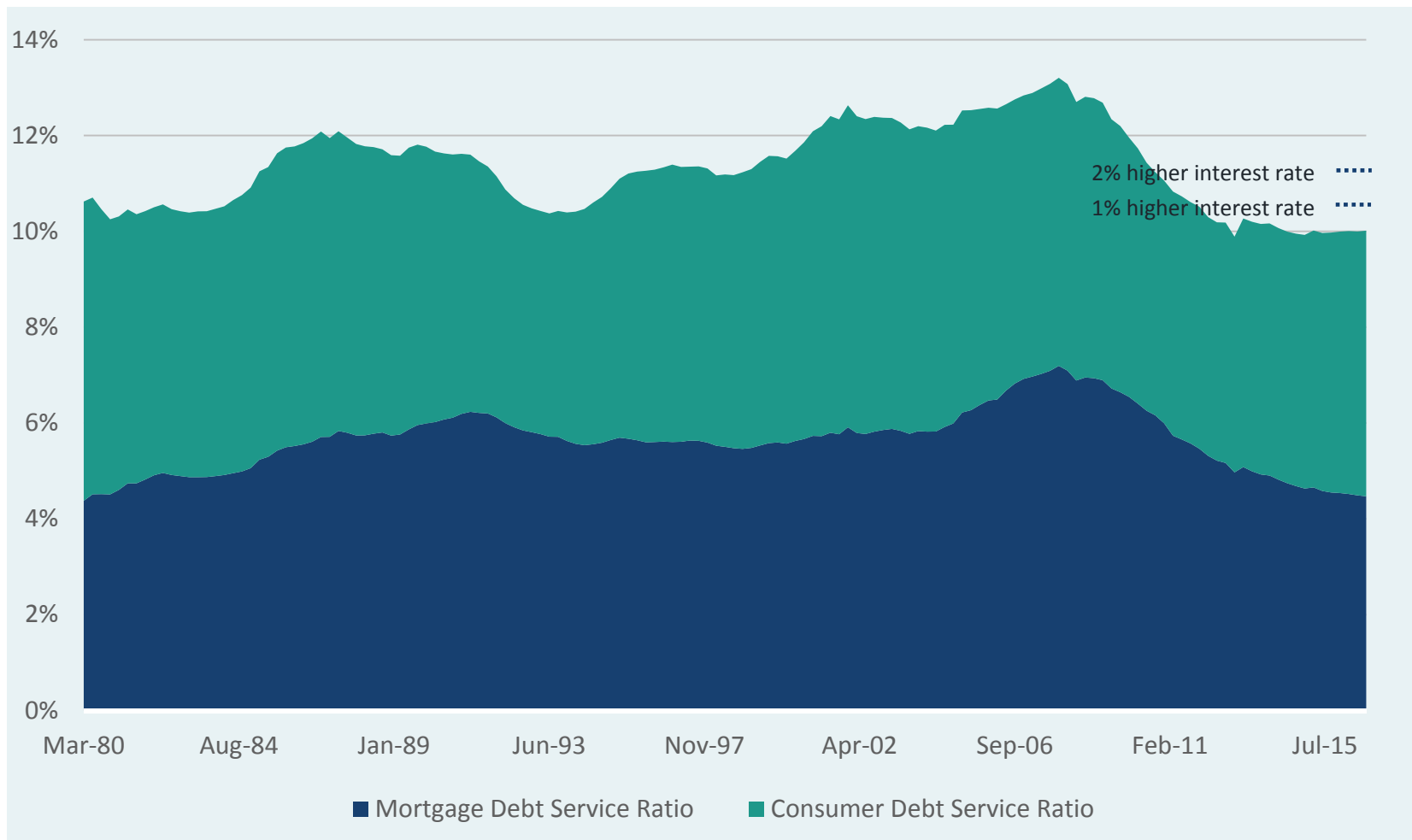
Source: FRED, as of 11/30/16

HOUSEHOLD DEBT SERVICE



Source: FRED, as of 11/30/16

A closer look at household debt burden



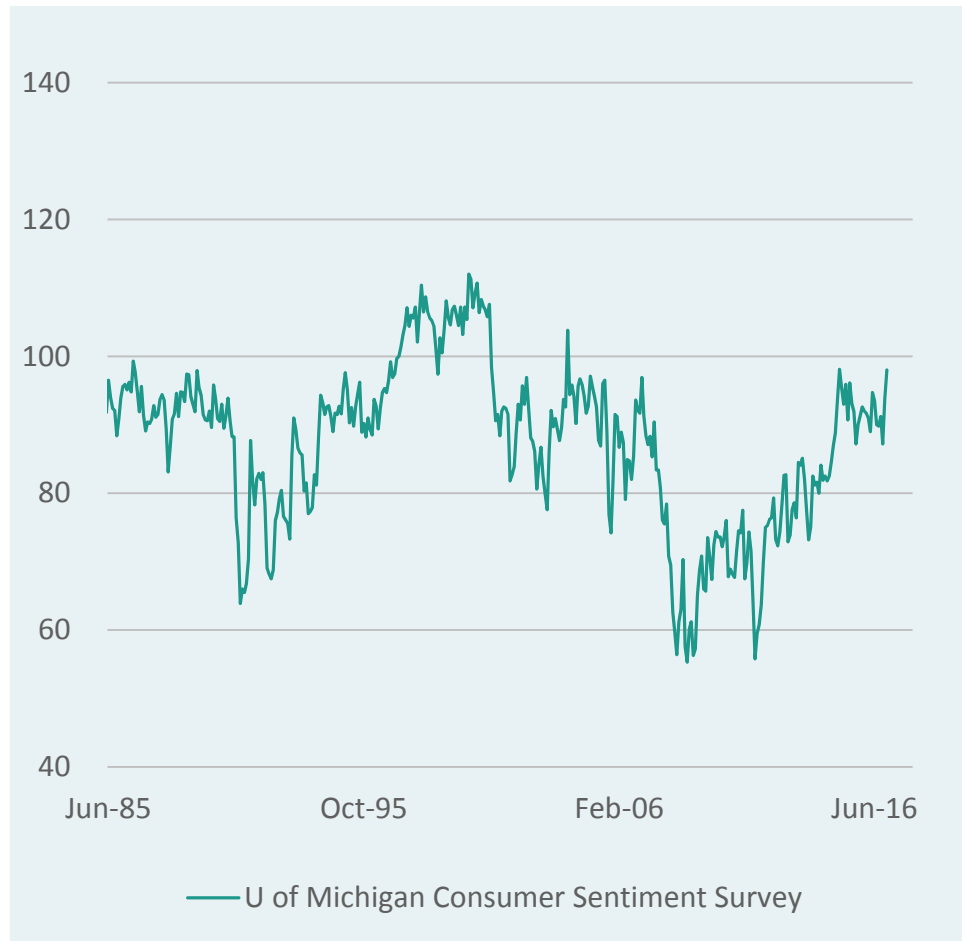
Low interest rates have helped decrease household debt burden

If interest rates continue to rise, concurrent gains in income will be important

Source: Federal Reserve Bank, as of 9/30/16. Household debt service payments are composed of mortgage payments and other consumer payments. This analysis assumes an equal weight of debt burden between mortgage and consumer debt. It is also assumed that interest rates on consumer debt move 1:1 with market rates and effective mortgage rates have only a 5% sensitivity to changes in market rates given the preference for fixed mortgages.

U.S. economics – Sentiment

CONSUMER SENTIMENT



Source: University of Michigan, as of 12/9/16 (see Appendix)

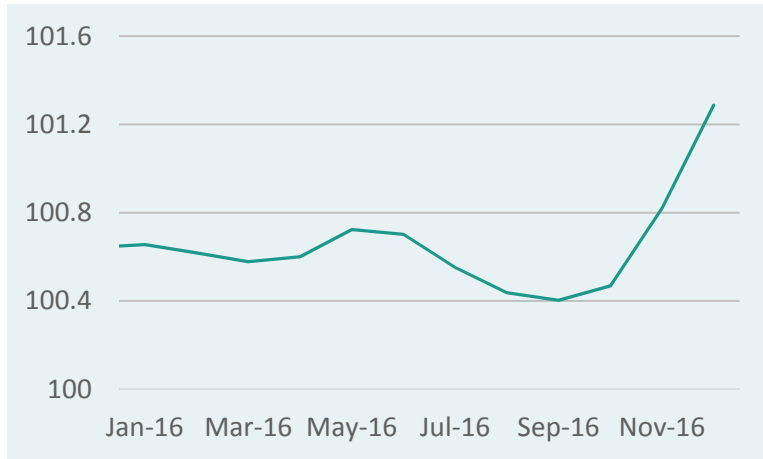
ECONOMIC SURPRISE



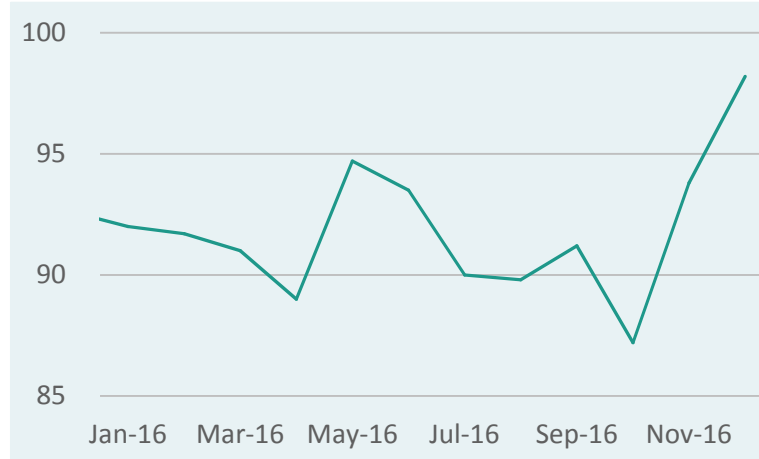
Source: Bloomberg, as of 11/30/16

A broad rise in confidence

OECD U.S. CONSUMER CONFIDENCE

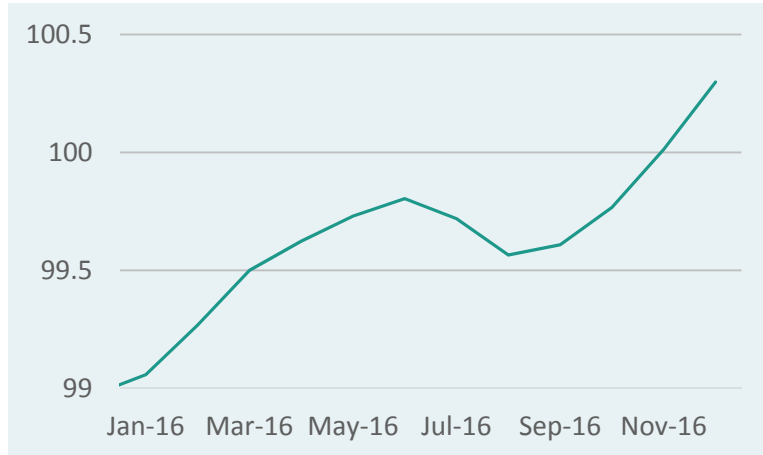


U OF MICHIGAN CONSUMER SENTIMENT

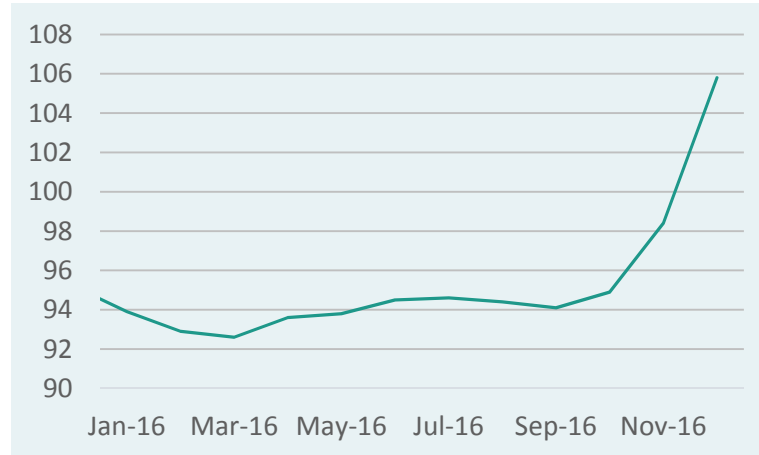


The U.S. has experienced a rise in confidence in nearly all areas of the economy

OECD U.S. BUSINESS CONFIDENCE



NFIB SMALL BUSINESS OUTLOOK



Sources: OECD, University of Michigan, NFIB, as of 12/31/16 See Appendix for details regarding the surveys shown above

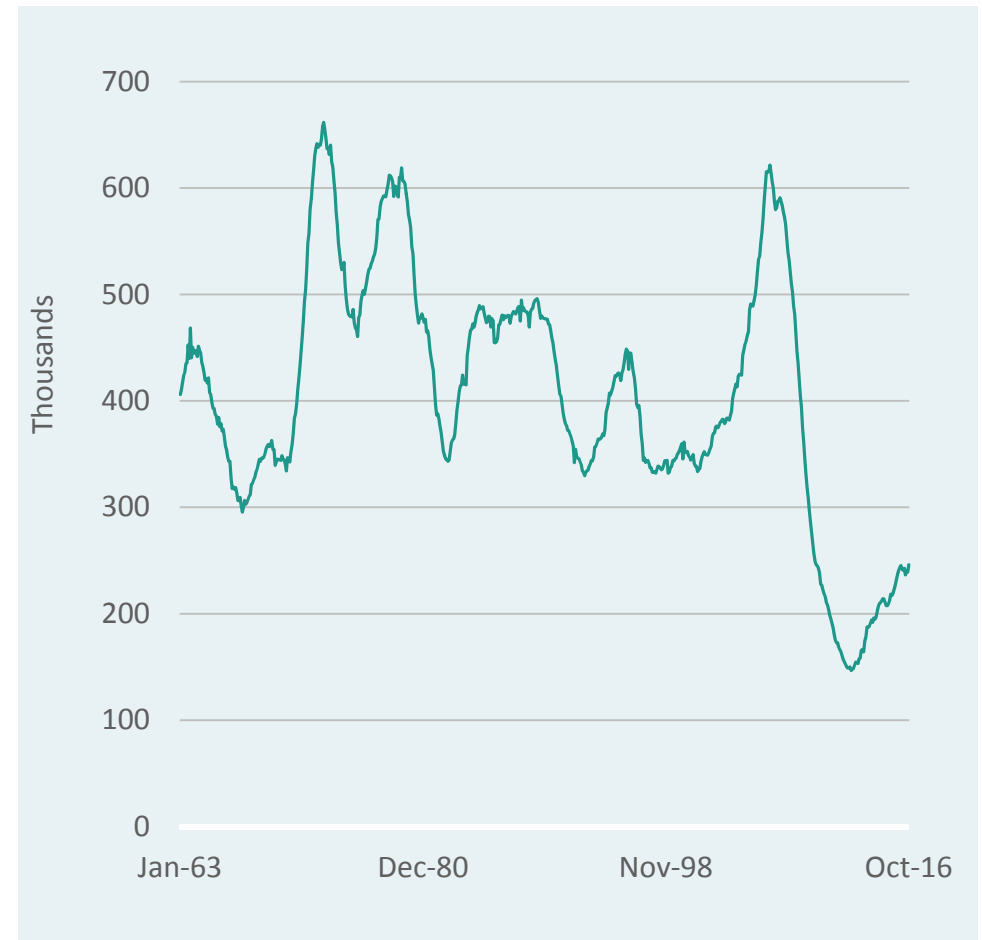
Housing market

30 YEAR FIXED MORTGAGE RATE



Source: FRED, as of 12/29/16

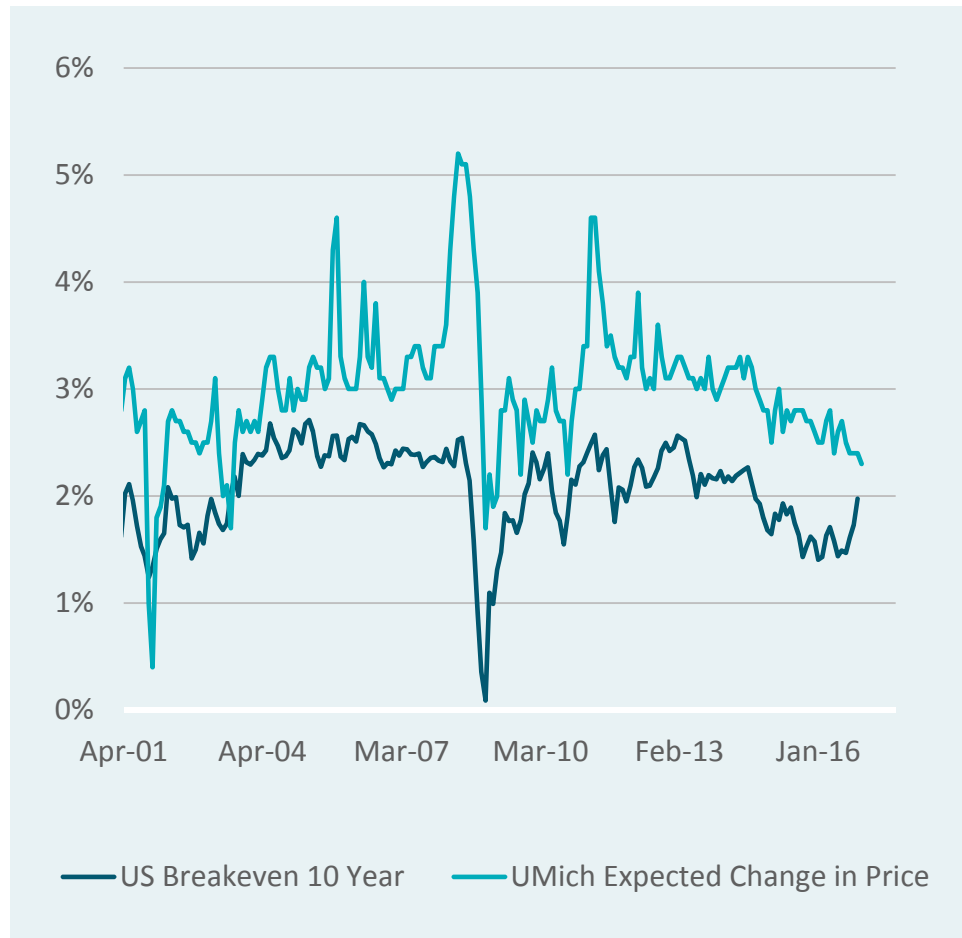
SINGLE FAMILY HOUSES FOR SALE



Source: U.S. Census Bureau, as of 10/31/16, adj. for pop. growth

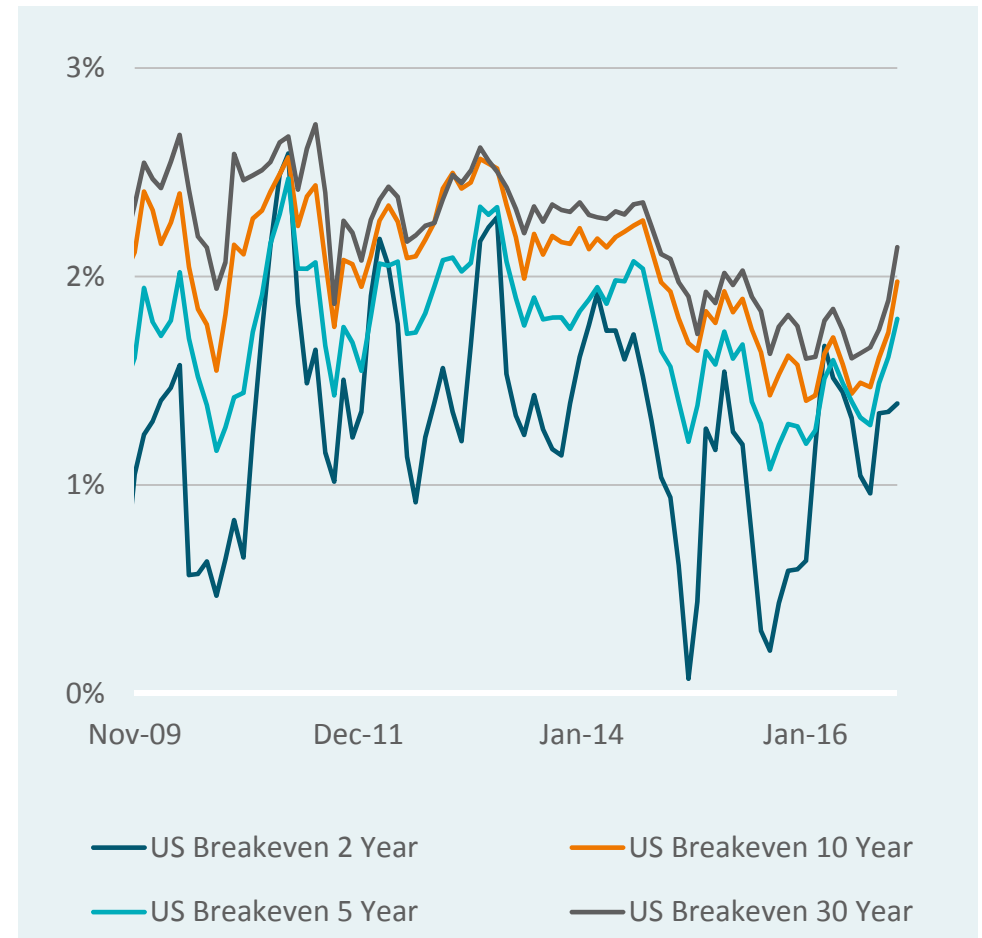
U.S. inflation

INFLATION EXPECTATIONS



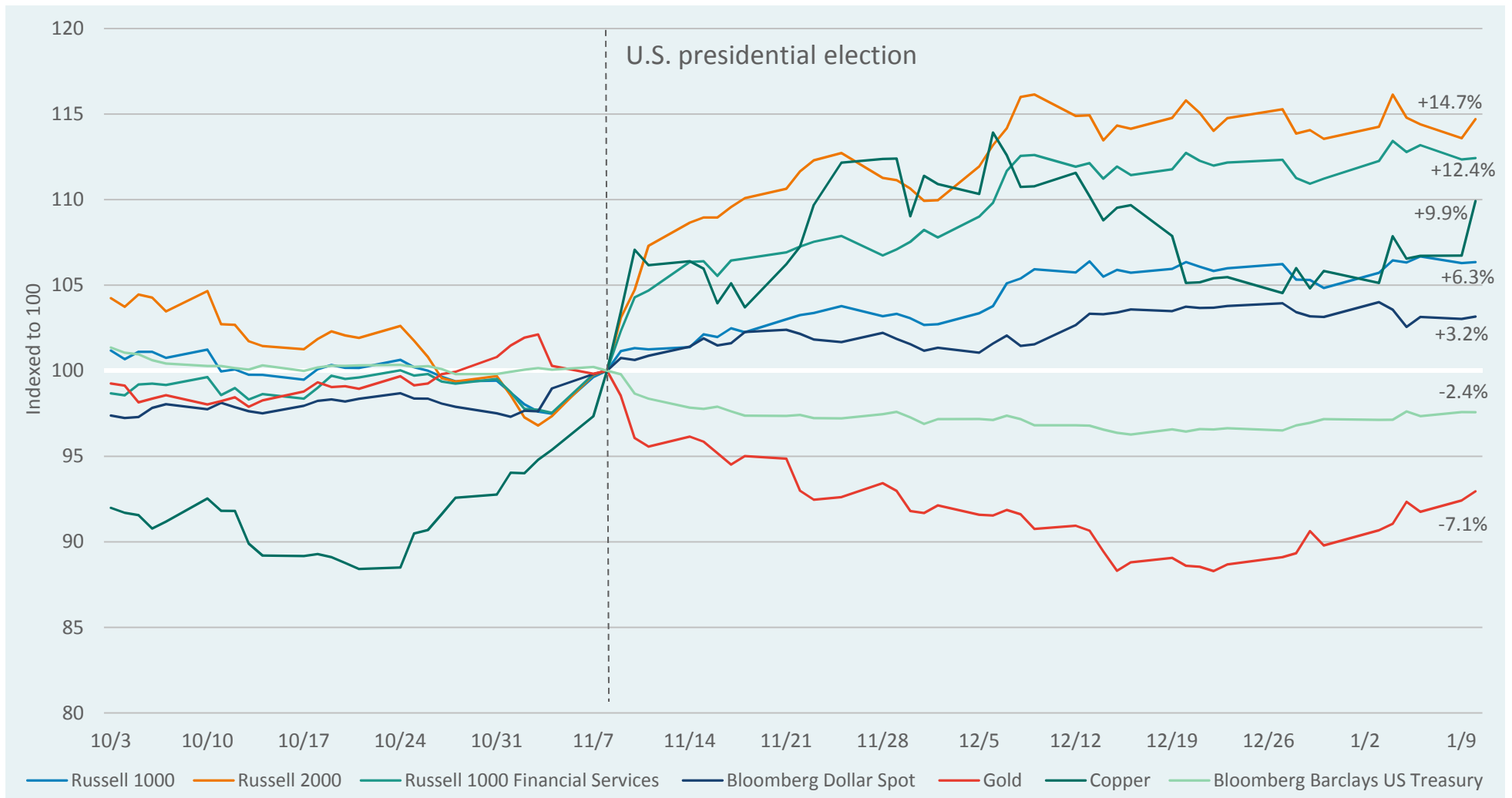
Source: Bloomberg, as of 12/31/16

U.S. TIPS BREAK-EVEN RATES



Source: FRED, as of 11/30/16

Post-election price movements

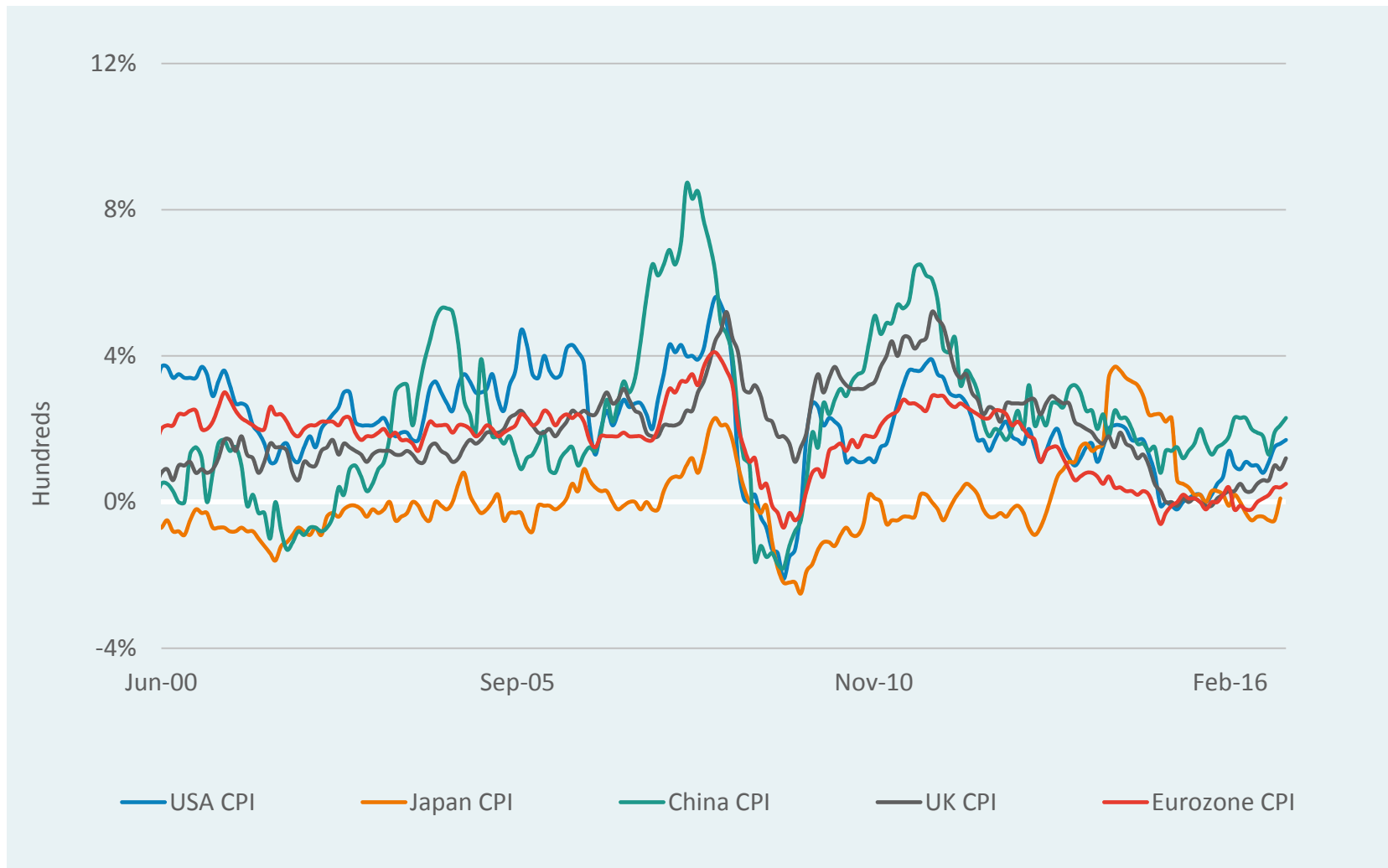


Source: Bloomberg, 10/3/16-1/10/17

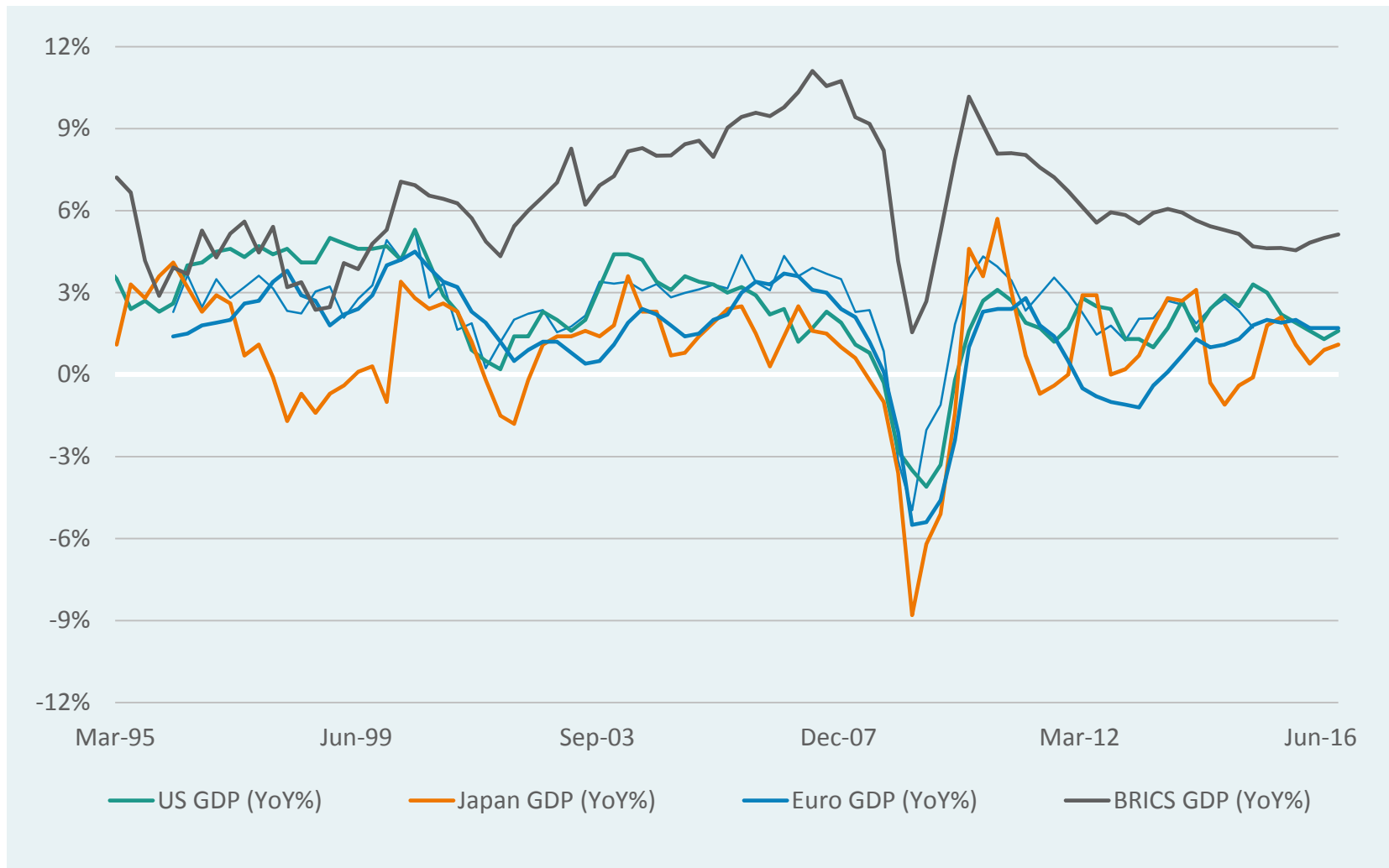
International economics

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	1.7% 9/30/16	1.7% 11/30/16	4.7% 12/31/16
Western Europe	1.8% 9/30/16	0.9% 12/31/16	8.4% 9/30/16
Japan	1.1% 9/30/16	0.5% 11/30/16	3.1% 11/30/16
BRIC Nations	5.1% 9/30/16	3.4% 6/30/16	5.5% 9/30/16
Brazil	(2.9%) 9/30/16	6.3% 12/31/16	11.9% 12/31/16
Russia	(0.4%) 9/30/16	5.4% 12/31/16	5.2% 9/30/16
India	7.3% 9/30/16	3.6% 11/30/16	7.1% 12/31/15
China	6.7% 9/30/16	2.1% 12/31/16	4.0% 12/30/16

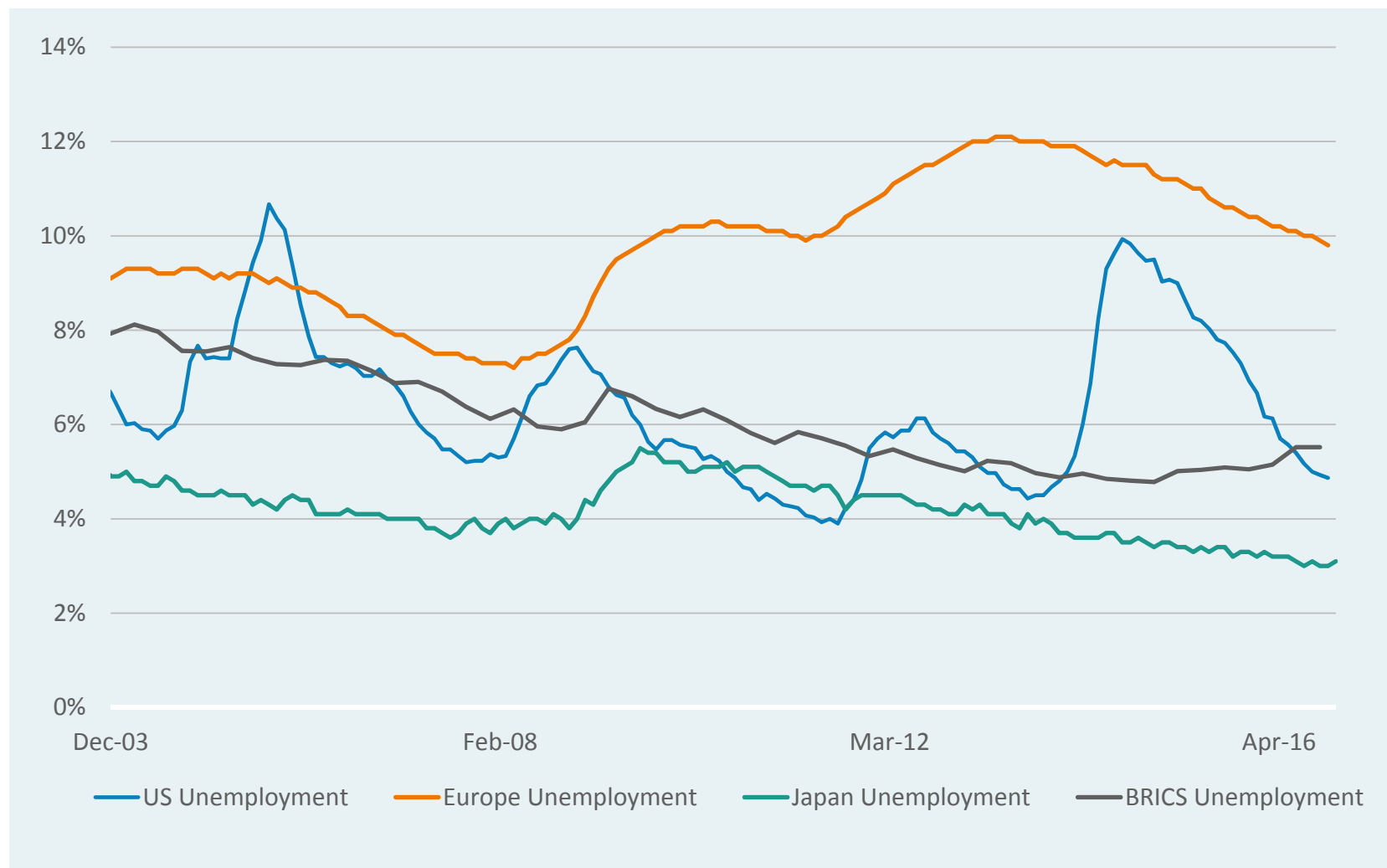
Global inflation



Global GDP

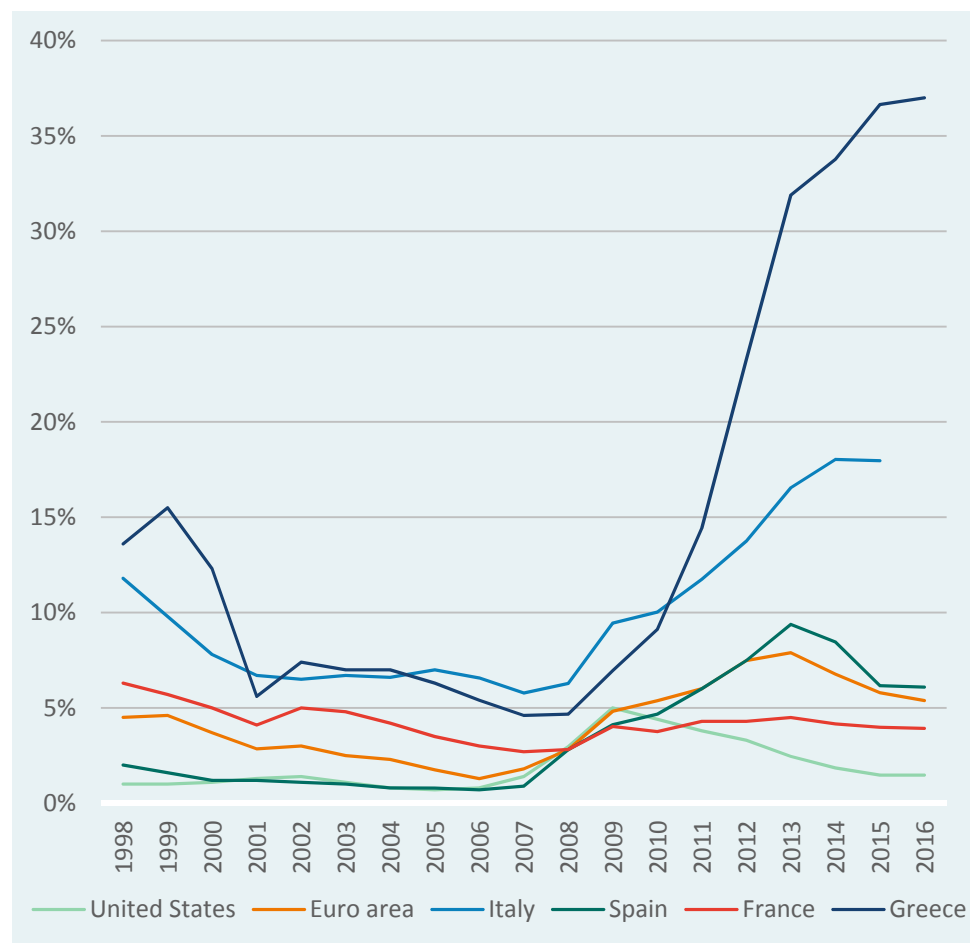


Global unemployment

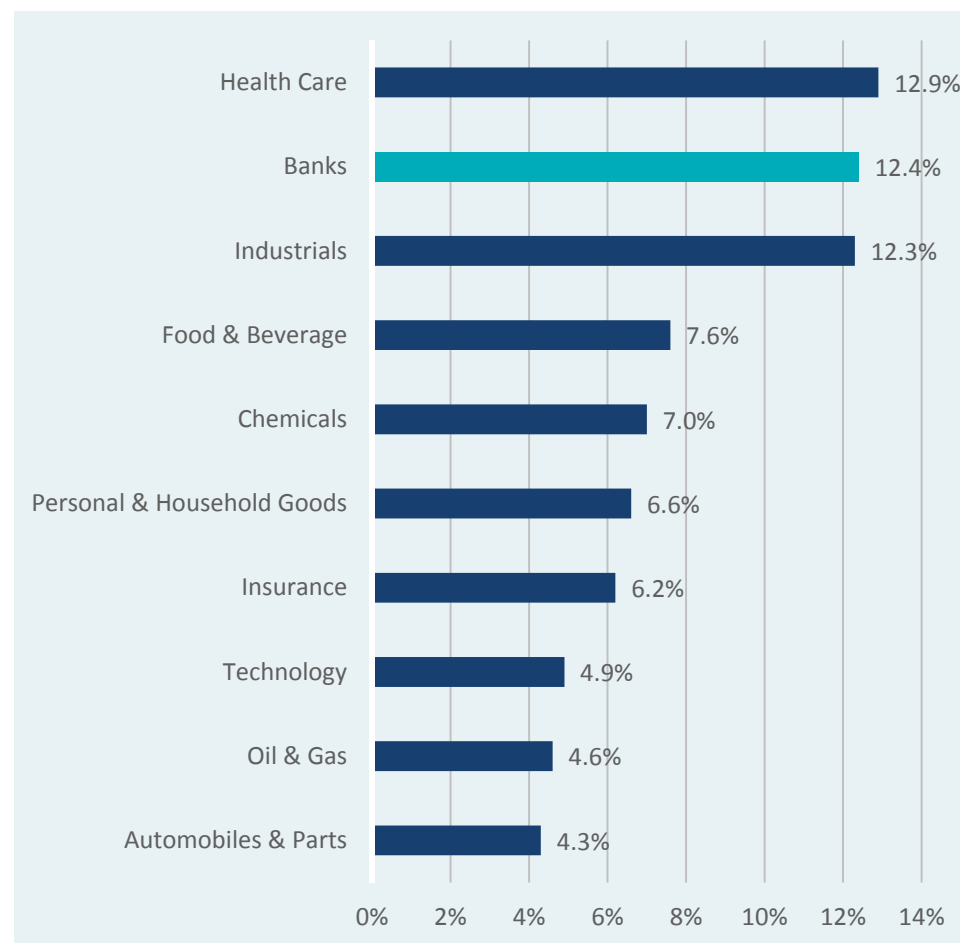


European banks

NON-PERFORMING LOANS TO TOTAL GROSS LOANS



EURO STOXX 600 EX U.K. SECTOR WEIGHTINGS (TOP 10)

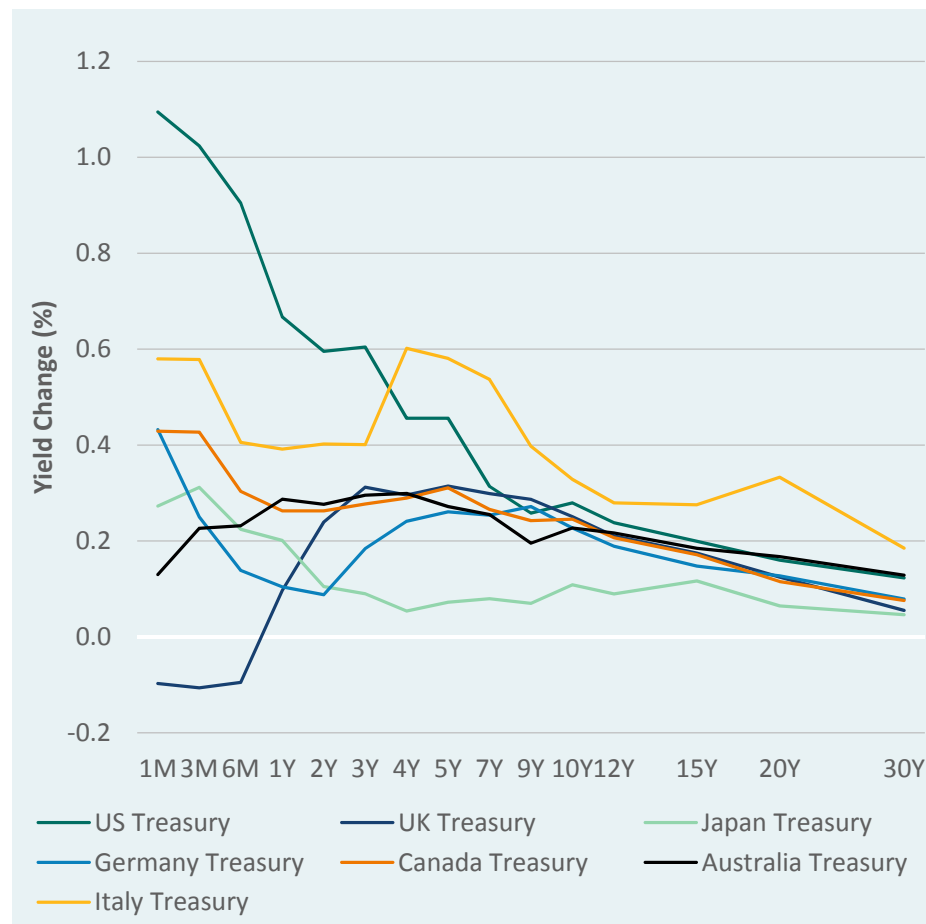


Fixed income

INTEREST RATE ENVIRONMENT

Area	Short Term (3M)	10 Year
United States	0.50%	2.45%
Germany	(0.99%)	0.20%
France	(0.90%)	0.68%
Spain	(0.49%)	1.38%
Italy	(0.50%)	1.81%
Greece	1.37%	7.02%
U.K.	0.51%	1.24%
Japan	(0.42%)	0.04%
Australia	1.70%	2.77%
China	2.35%	3.06%
Brazil	12.91%	10.55%
Russia	8.78%	8.29%

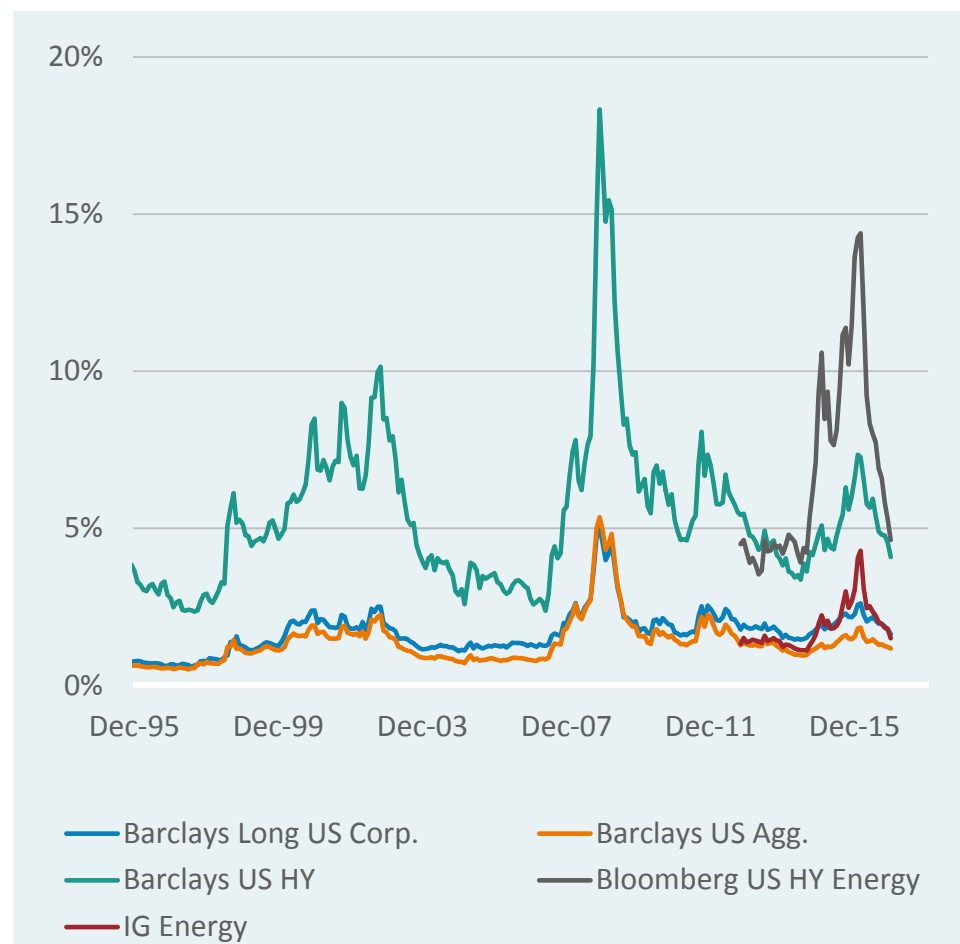
IMPLIED CHANGES OVER NEXT YEAR



Credit environment

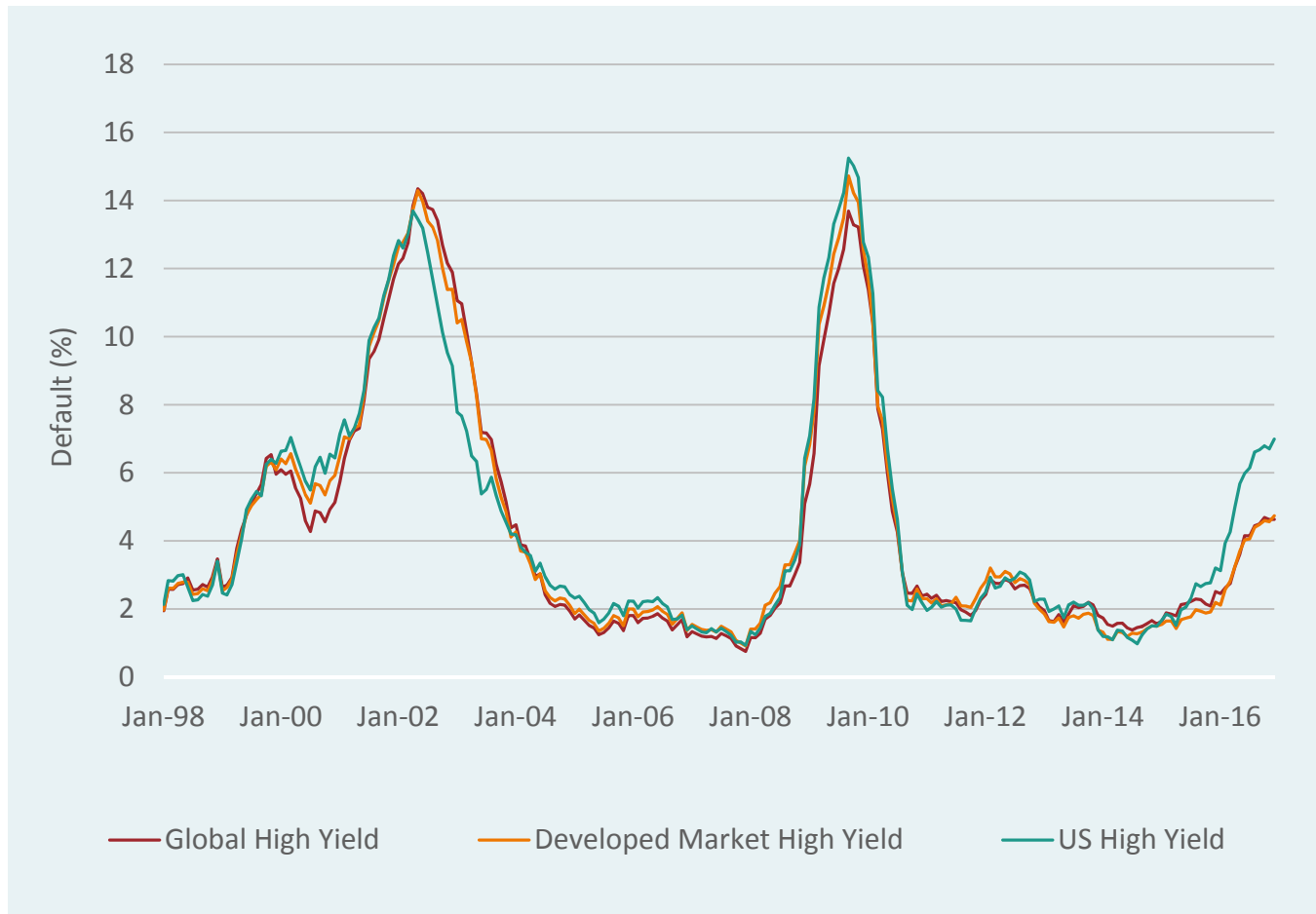
Market	Credit Spread (12/31/16)	Credit Spread (1 Year Ago)
Long US Corporate	1.5%	2.1%
US Aggregate	0.9%	1.1%
US High Yield	4.4%	7.1%
US High Yield Energy	4.6%	13.6%
US Bank Loans	3.9%	3.9%

CREDIT SPREADS



High yield defaults

HY DEFAULT TRENDS (ROLLING 1 YEAR)



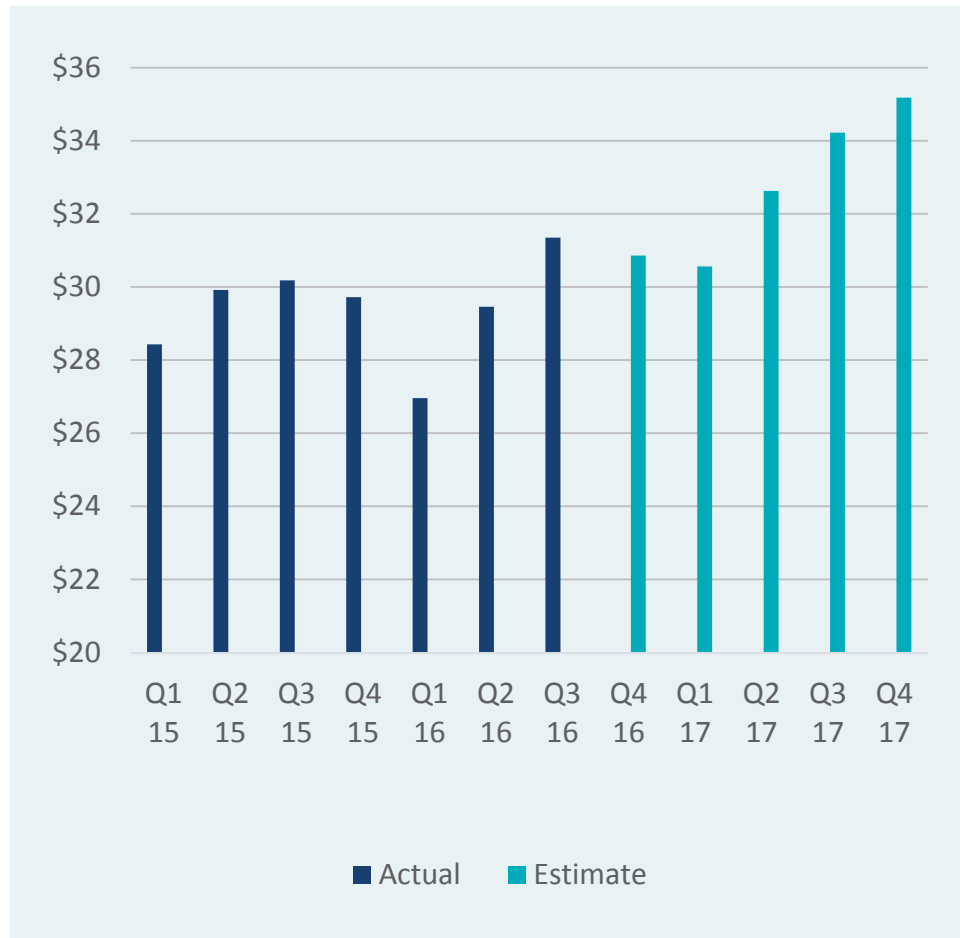
Equity markets

	QTD TOTAL RETURN		YTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	3.8%		12.1%		12.1%	
US Small Cap (Russell 2000)	8.8%		21.3%		21.3%	
US Large Value (Russell 1000 Value)	6.7%		17.3%		17.3%	
US Large Growth (Russell 1000 Growth)	1.0%		7.1%		7.1%	
International Large (MSCI EAFE)	(-0.7%)	7.3%	1.5%	6.2%	1.5%	6.2%
Eurozone (Euro Stoxx 50)	3.2%	10.3%	0.7%	5.1	0.7%	5.1%
U.K. (FTSE 100)	(0.8%)	4.4%	(0.2%)	19.0%	(0.2%)	19.0%
Japan (NIKKEI 225)	1.2%	16.1%	5.8%	1.3%	5.8%	1.3%
Emerging Markets (MSCI Emerging Markets)	(4.1%)	(2.0%)	11.6%	7.5%	11.6%	7.5%

Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 12/31/16

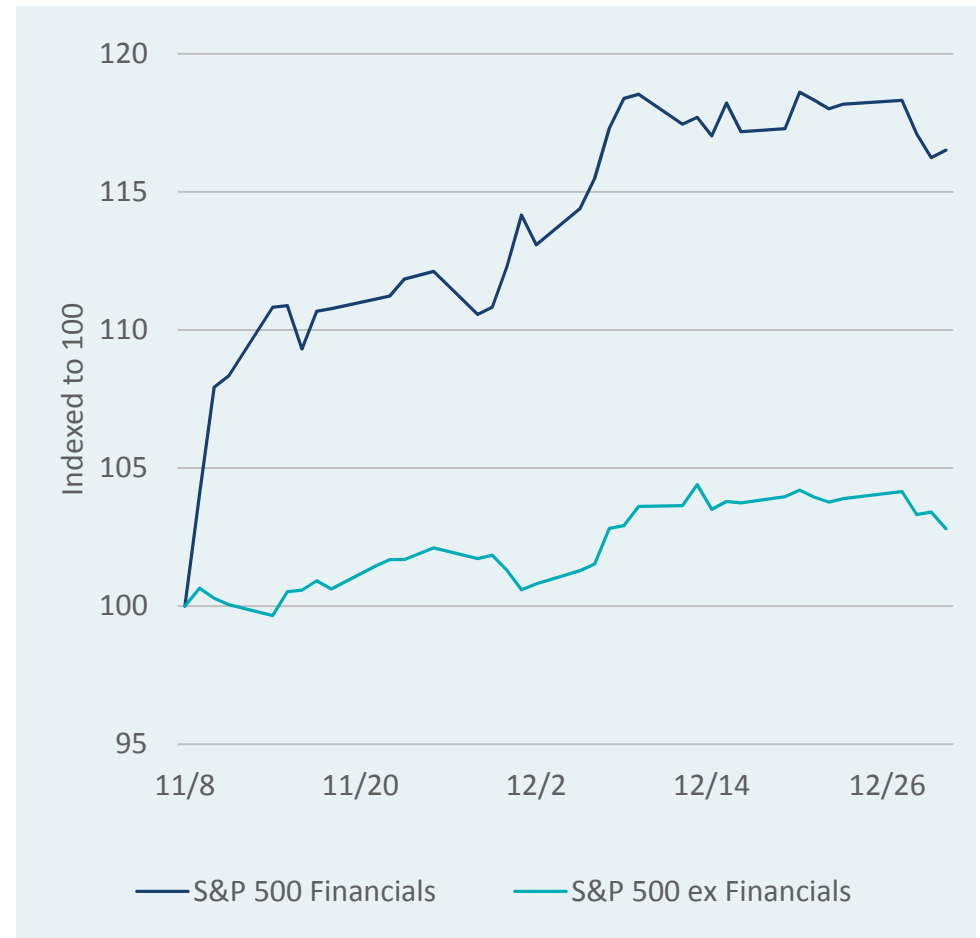
U.S. equity

S&P 500 EPS



Source: FactSet, as of 12/30/16

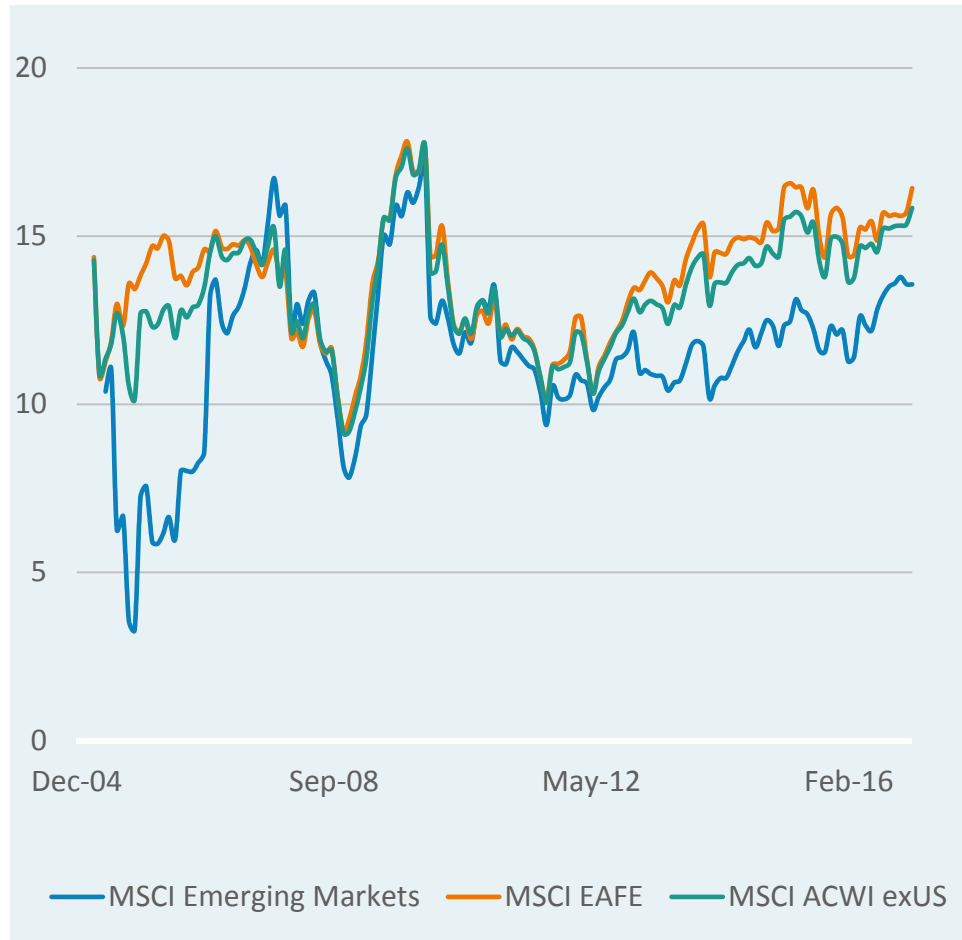
THE FINANCIALS EFFECT



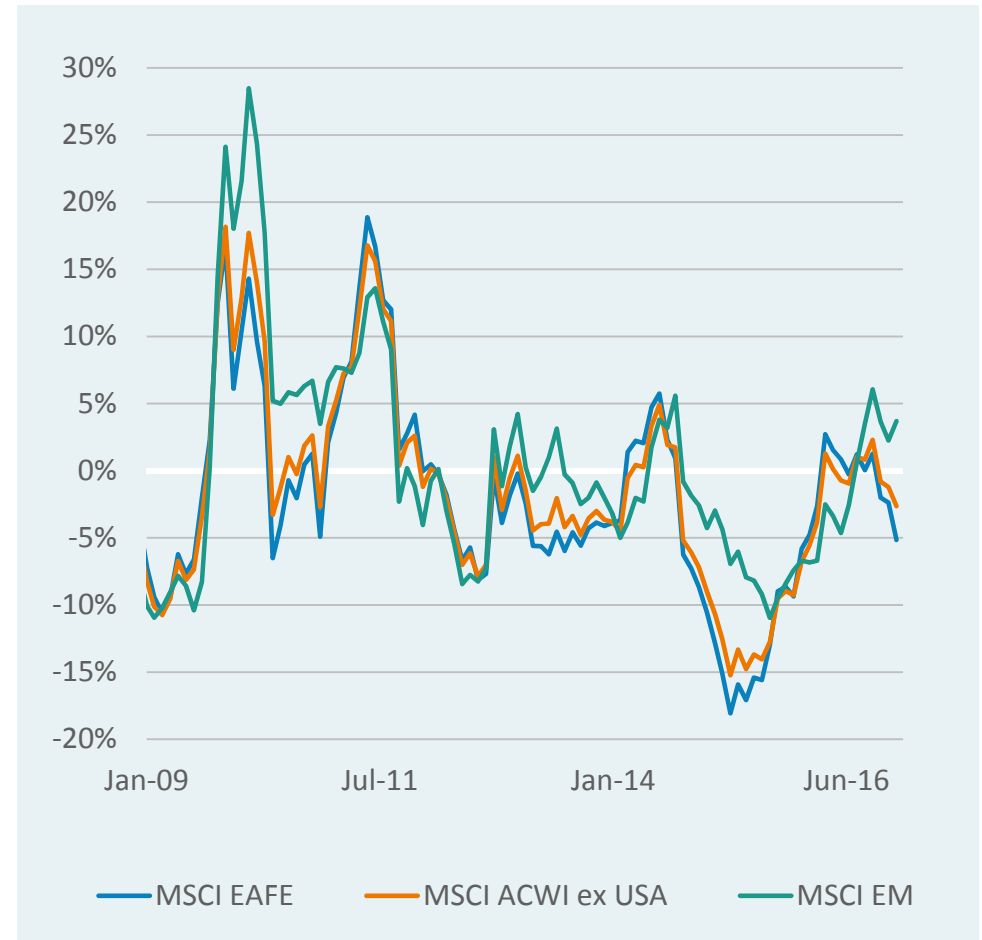
Source: Bloomberg, as of 12/30/16

International equity

INTERNATIONAL FORWARD P/E RATIOS

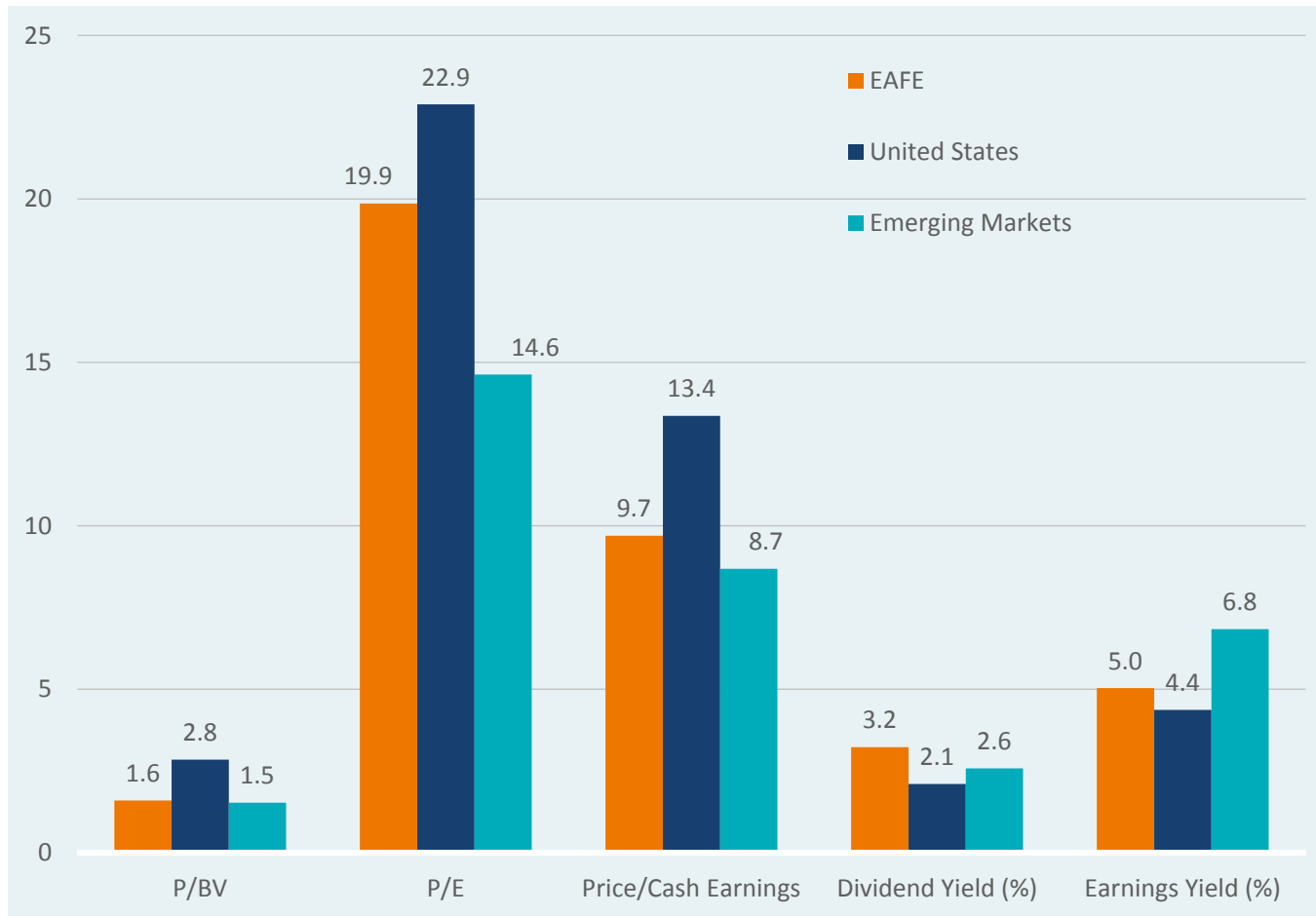


EFFECT OF CURRENCY (1 YEAR ROLLING)



International equity valuations

MSCI VALUATION METRICS (3 MONTH AVERAGE)



Source: MSCI, as of 12/31/16

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Q&A

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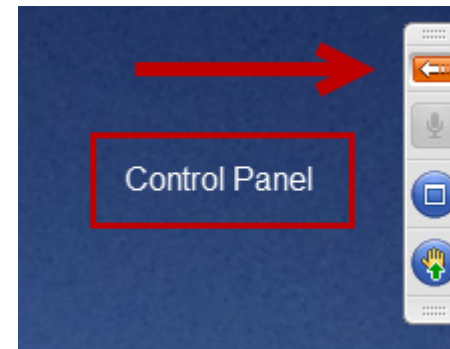
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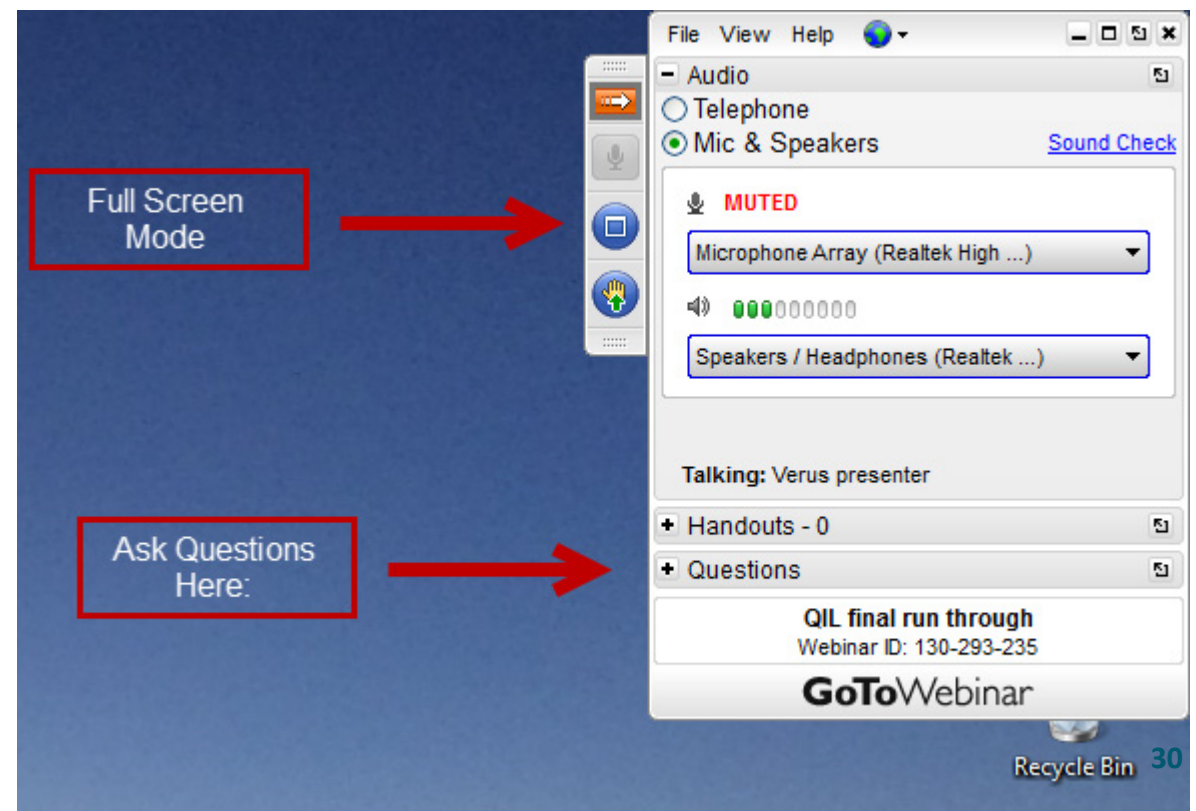
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