



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

FEBRUARY 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- Headline CPI increased by 2.5% year-over-year in January, up 45 bps from the prior month, mainly driven by rising energy prices. Core CPI increased 2.3% over the previous year, up 4 bps from the prior month.
- Consumer spending increased in January by 0.4% month-over-month, above the consensus estimate of 0.1%. Furthermore, December's retail sales growth rate was revised upwards from 0.6% to 1.0%.
- The Conference Board Consumer Confidence Index rose 3.2 points to a 15-year high of 114.8 in February. The increase was attributed to optimistic expectations of employment and wage growth.
- The ISM manufacturing index increased 1.7% in February to a 2-year high of 57.7, above the consensus estimate of 56.4. Readings above 50 indicate a general expansion in manufacturing activity.

DOMESTIC EQUITIES

- Domestic equities provided a positive return for the fourth consecutive month, as the S&P 500 returned 4.0% in February.
- The Dow Jones Industrial Average tied its longest streak of consecutive record high closes at 12 sessions, and briefly topped 21,000 points before ending the month at 20,812.
- With 98% of companies in the index reporting results for the fourth quarter thus far, the blended earnings growth rate for the S&P 500 was 4.9% as of March 2nd.

DOMESTIC FIXED INCOME

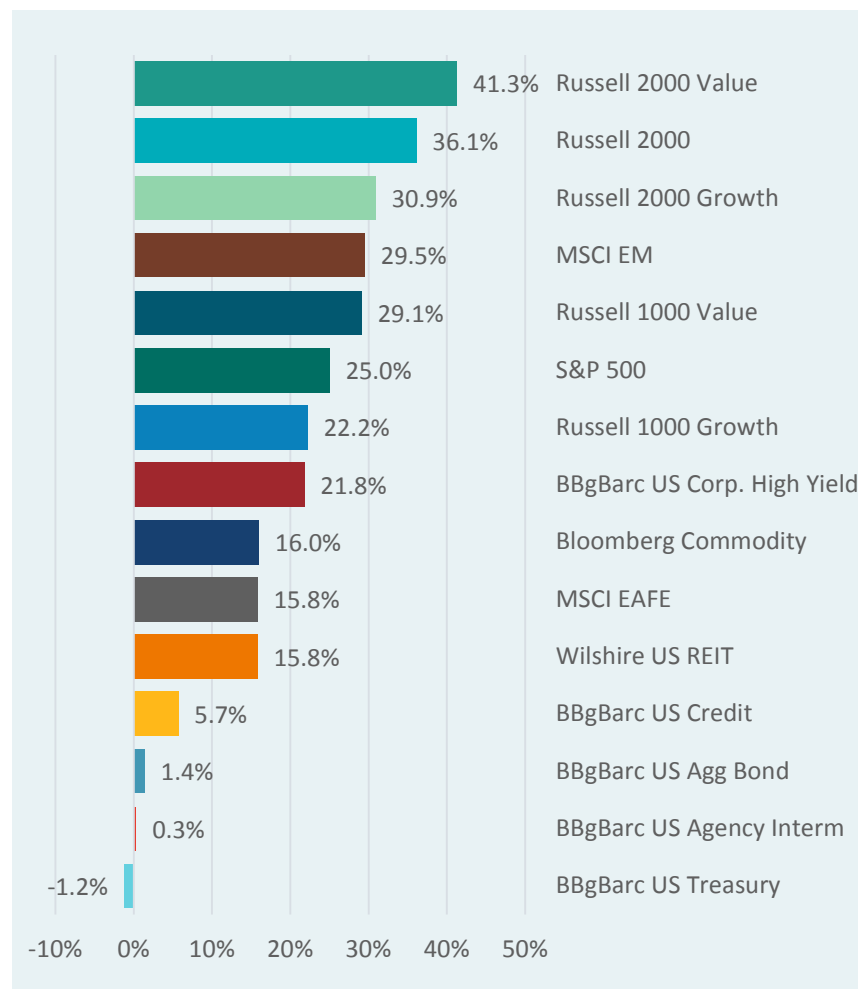
- Domestic fixed income returns were positive in February, as the Bloomberg Barclays U.S. Aggregate returned 0.7%.
- U.S. interest rates fell modestly as the 10-year Treasury yield dropped 9 bps and ended the month at 2.36%.
- The U.S. Treasury curve flattened slightly in February, with the 10-year minus 2-year Treasury yield spread contracting from 1.26% to 1.14%.

INTERNATIONAL MARKETS

- International equities underperformed domestic equities (S&P 500 4.0%) as the unhedged MSCI ACWI ex US returned 1.6% (1.9% hedged).
- Inflation in the U.K. approached the Bank of England's annual target of 2.0% for the first time since 2013, as CPI grew at 1.8% year-over-year in January, influenced by increased energy and food prices.
- Japanese headline inflation was 0.4% year-over-year in January, well below the Bank of Japan's annual target of 2.0%. Core inflation increased 0.1% year-over-year, the first positive change since December of 2015.
- According to Bloomberg, emerging market debt and equity ETFs have received inflows of more than \$7 billion year-to-date. Russia, Brazil and Turkey were the largest beneficiaries of the investment flows.

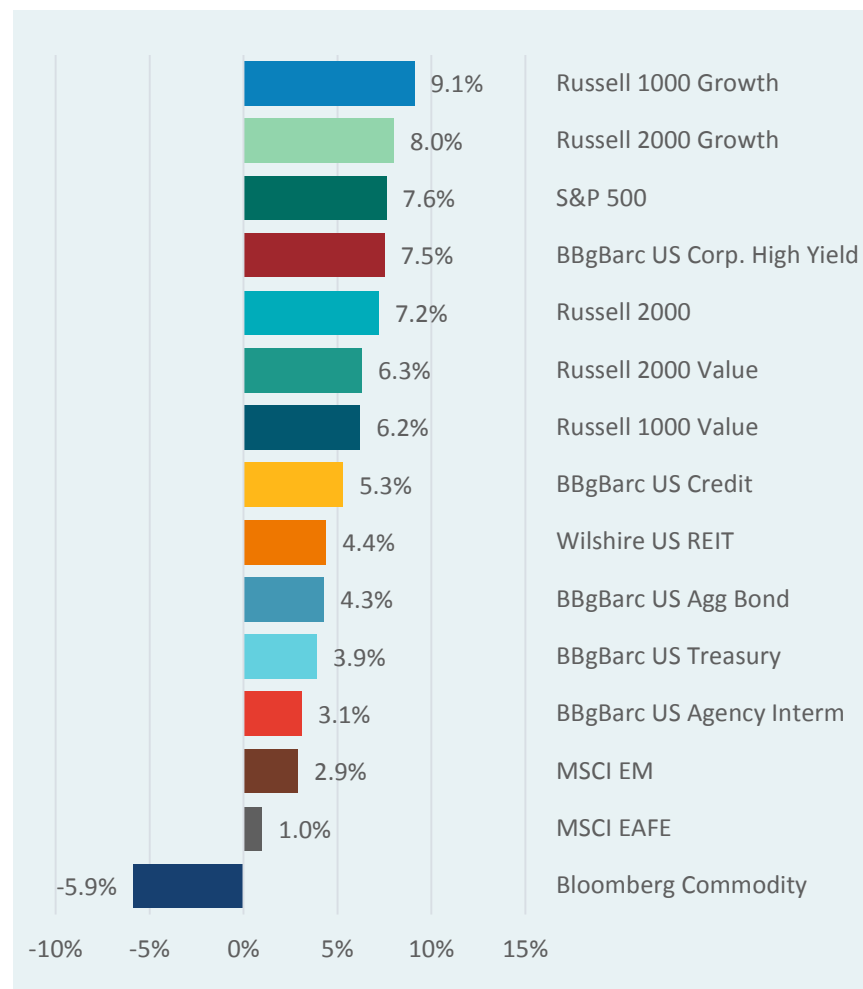
Major asset class returns

ONE YEAR ENDING FEBRUARY



Source: Morningstar, as of 2/28/17

TEN YEARS ENDING FEBRUARY

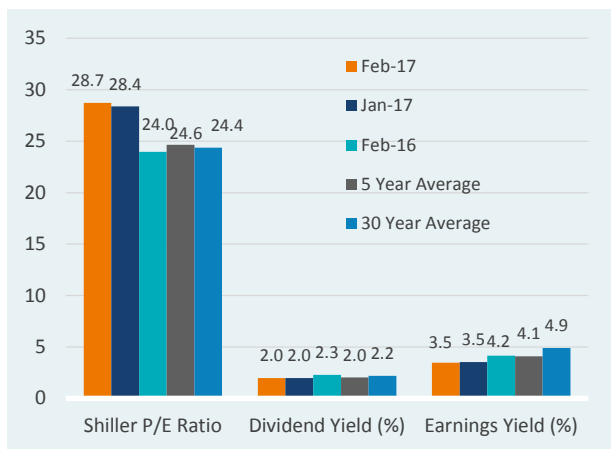


Source: Morningstar, as of 2/28/17

U.S. large cap equities

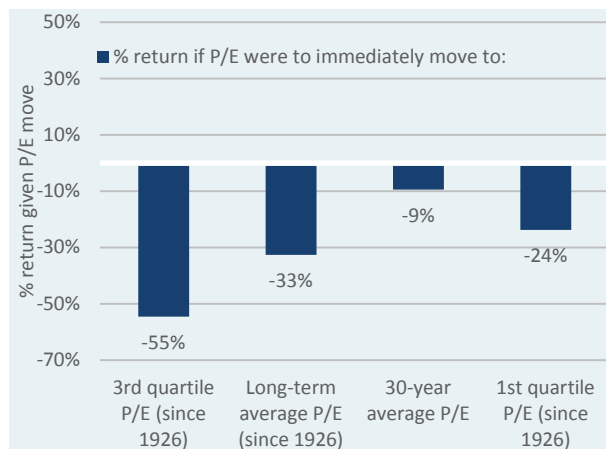
- The S&P 500 returned 4.0% in February and reached a new intraday high on February 27th of 2,372.
- Minutes from the FOMC meeting in January revealed members were monitoring the low levels of implied volatility given the uncertainty of potential changes in fiscal, regulatory, and other government policies. The VIX, a measure of 30-day implied volatility for the S&P 500, ended February at 12.92, below the 3-year average of 15.39.
- The 1-year trailing P/E ratio of the S&P 500 increased to 21.9 in February, as Q4 earnings were revised down and the index rose.
- Health Care outperformed the S&P 500 index (4.0%) in February, as the sub-index returned 6.4%. The two worst performing sectors were Energy and Telecom Services, returning -2.2% and -0.4%, respectively.

US LARGE CAP (S&P 500) VALUATION SNAPSHOT



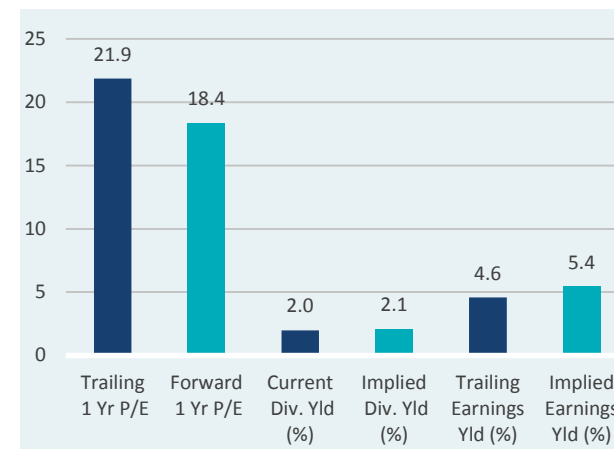
Source: Yale/Shiller, as of 2/28/17

RETURNS IF P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 2/28/17

S&P 500 VALUATION SNAPSHOT

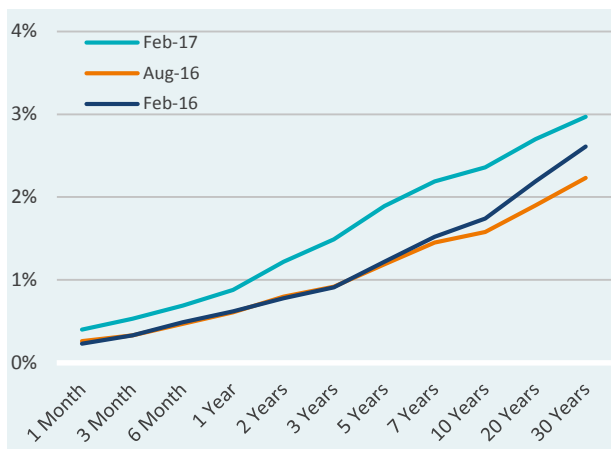


Source: Bloomberg, as of 2/28/17

Fixed income

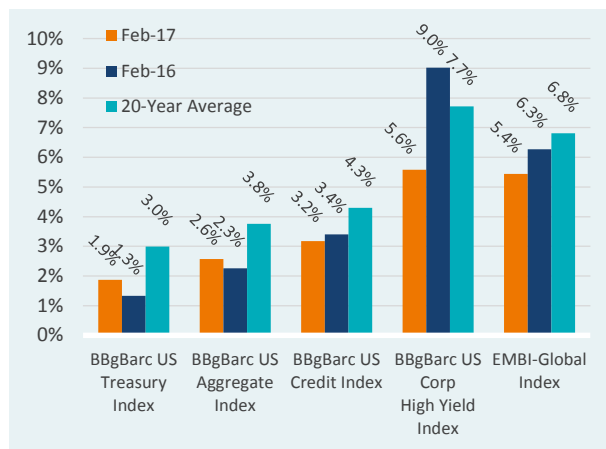
- The U.S. Treasury curve flattened slightly in February, as yields with shorter maturities between 3-months and 3-years increased, and longer maturities decreased. The 10-year minus 2-year Treasury yield spread contracted from 1.26% to 1.14%.
- The yield of the Bloomberg Barclays U.S. Aggregate ended the month at 2.6% (annualized), above 2.3% from 1-year prior, but well below the 20-year average of 3.8%.
- U.S. high yield option-adjusted spreads continued their downward trend to the lowest point since June of 2014, as they fell 26 bps and ended the month at 3.7%.
- U.S. outstanding student loan debt reached \$1.4 trillion in Q4 2016. According to the New York Fed, 11.2% of outstanding debt was delinquent by 90+ days or in default, above the average delinquency rate of 8.7% since 2003.

U.S. TREASURY YIELD CURVE



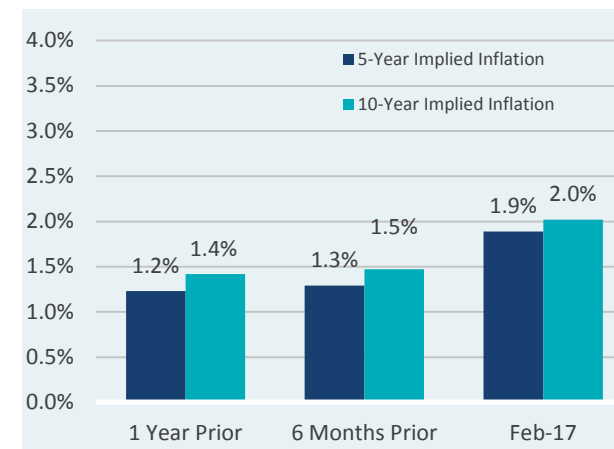
Source: Federal Reserve, as of 2/28/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 2/28/17

IMPLIED INFLATION (TIPS BREAK-EVEN)

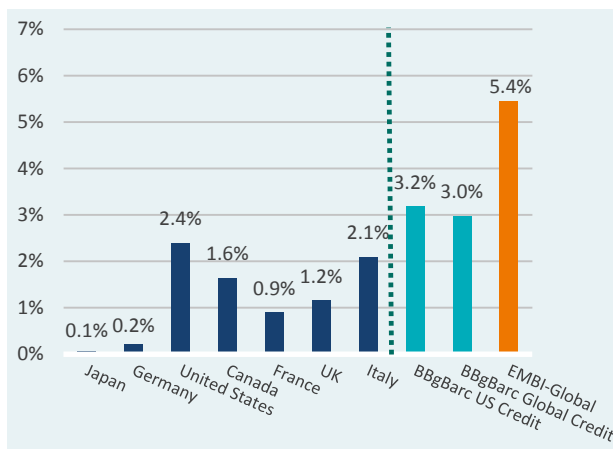


Source: Federal Reserve, as of 2/28/17

Global markets

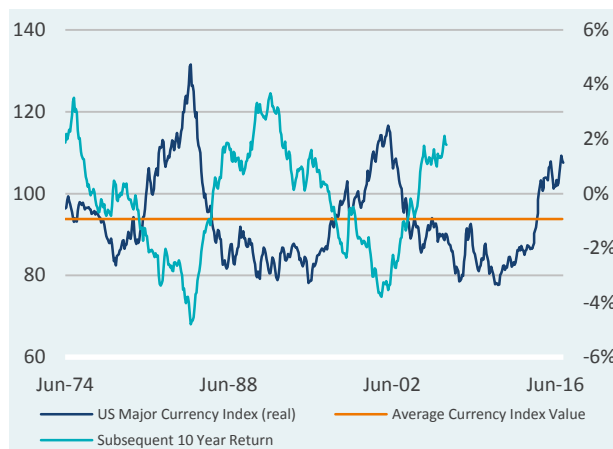
- Global sovereign bond yields decreased in February. U.K. and German 10-year yields experienced the largest change, falling by 27 and 23 bps, respectively.
- The U.S. major currency index decreased -0.5% to 107.6 in February against a trade weighted basket of currencies. The index remained well above the long-term average of 93.8.
- Real GDP in Greece decreased at a -4.7% annualized rate in the fourth quarter of 2016 (-1.1% year-over-year), further complicating bailout discussions with the country's international creditors.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



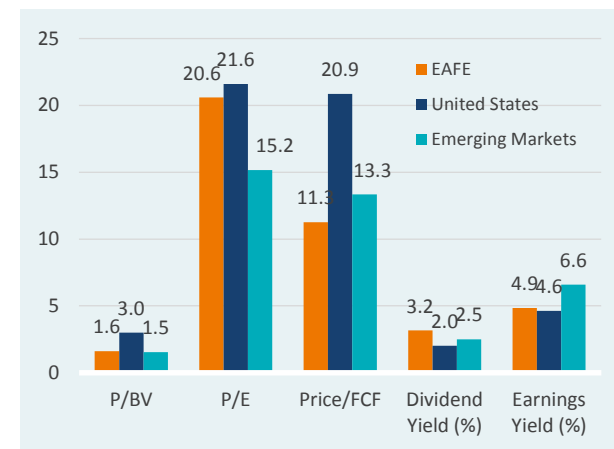
Source: Morningstar, as of 2/28/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 2/28/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

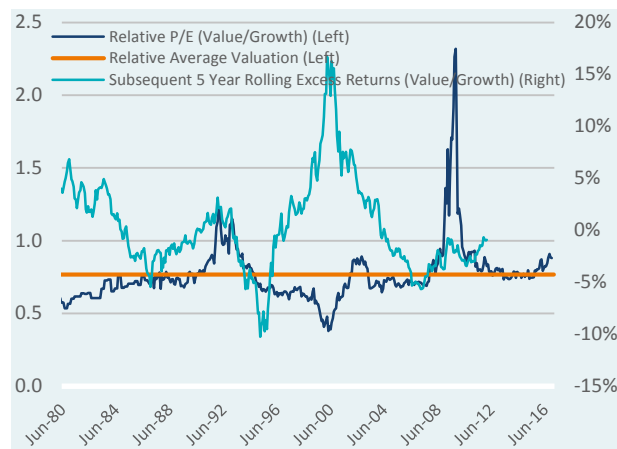


Source: Bloomberg, as of 2/28/17

Style tilts: U.S. large value vs. growth

- Growth equities narrowly outperformed value equities in February, as the Russell 1000 Growth Index and Russell 1000 Value Index returned 4.2% and 3.6%, respectively.
- The underperformance of value equities in February was partially attributable to a higher concentration of Energy companies in the Russell 1000 Value relative to the Russell 1000 Growth. The Russell 1000 Energy sub-index returned -2.3% in February.
- The P/E ratio of both growth and value equities increased in February but the relative P/E ratio remained materially unchanged at 0.88. This metric remains slightly above its long-term average of 0.77.

RELATIVE PE RATIO OF U.S. VALUE VS. GROWTH



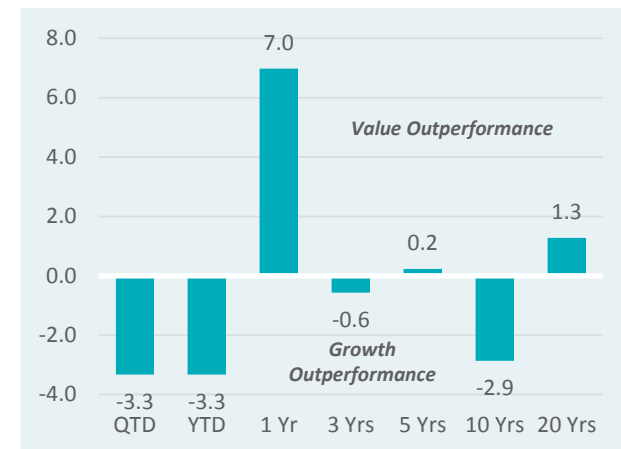
Source: Russell, Bloomberg, as of 2/28/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %
QTD	7.7	4.3
YTD	7.7	4.3
1 YEAR	22.2	29.1
3 YEARS	10.5	9.9
5 YEARS	13.8	14.0
10 YEARS	9.1	6.2
20 YEARS	6.9	8.2
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.94	0.94
5 YEARS	1.26	1.29
10 YEARS	0.60	0.42
20 YEARS	0.35	0.46

Source: Morningstar, as of 2/28/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE



Source: Morningstar, as of 2/28/17

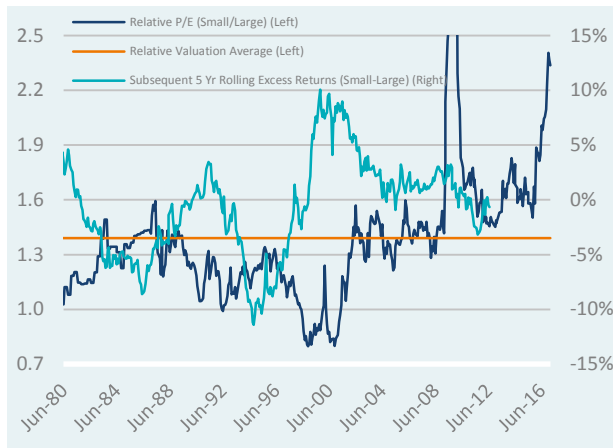
Style tilts: U.S. large vs. small

— U.S. large cap equities outperformed small cap equities in February, as the Russell 1000 index and Russell 2000 index returned 3.9% and 1.9%, respectively.

— Quarter-to-date, large cap equities have outperformed small cap equities by 3.6%, a short-term reversal from the trend in 2016, when small caps equities outperformed large by 9.3% over a 1-year period.

— The relative P/E ratio of small to large equities remained elevated at 2.34, well above the long-term average of 1.39, mainly due to recent increases in small cap valuations.

RELATIVE PE RATIO OF U.S. SMALL VS. LARGE



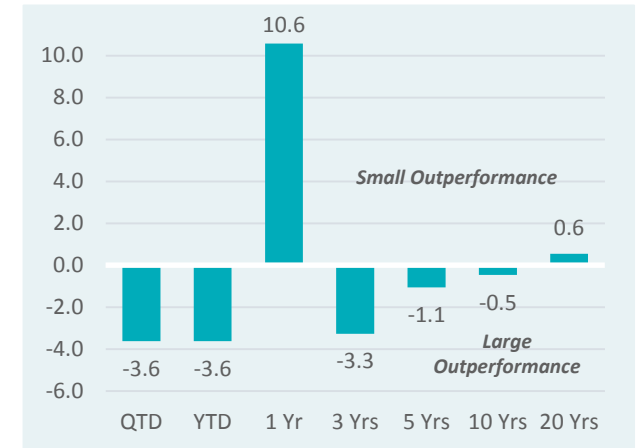
Source: Russell, Bloomberg, as of 2/28/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX ANNUALIZED RETURN TO DATE %	RUSSELL 2000 INDEX ANNUALIZED RETURN TO DATE %
QTD	6.0	2.3
YTD	6.0	2.3
1 YEAR	25.5	36.1
3 YEARS	10.2	6.9
5 YEARS	13.9	12.9
10 YEARS	7.7	7.2
20 YEARS	7.8	8.4
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.96	0.49
5 YEARS	1.31	0.91
10 YEARS	0.51	0.42
20 YEARS	0.43	0.40

Source: Morningstar, as of 2/28/17

U.S. SMALL VS. LARGE RELATIVE PERFORMANCE



Source: Morningstar, as of 2/28/17

Commodities

- The Bloomberg Precious Metals sub-index outperformed the overall Bloomberg Commodity Index (0.2%) in February and returned 3.9%. Gold increased 2.3% and ended the month at \$1,252 per ounce. Silver rose 5.3% and finished the month at \$18.47 per ounce.
- The Bloomberg Industrial Metals sub-index also outperformed as it returned 2.2% in the month. Aluminum and Nickel were positive contributors as

they increased by 5.8% and 10.2%, respectively.

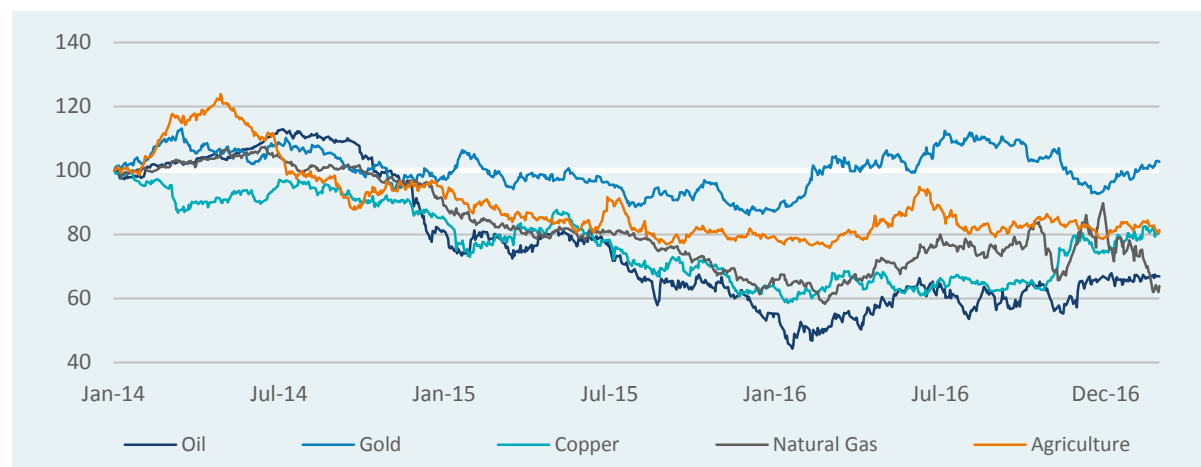
- WTI Crude Oil ended the month up 2.3% at \$54.01 per barrel and continued to trade within a narrow \$3 range. U.S. Crude Oil inventory rose by 34 million barrels in February to a record high of 528 million barrels. OPEC is set to review its current production cut plan at their next official meeting in June.

INDEX AND SECTOR PERFORMANCE

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	0.3	0.3	16.0	(13.0)	(9.8)	(5.9)
Bloomberg Agriculture	3.0	3.0	9.1	(10.1)	(6.9)	(1.1)
Bloomberg Energy	(10.1)	(10.1)	24.3	(28.5)	(18.3)	(16.8)
Bloomberg Grains	4.0	4.0	0.0	(12.6)	(7.6)	(2.7)
Bloomberg Industrial Metals	9.9	9.9	29.3	(2.6)	(6.9)	(5.5)
Bloomberg Livestock	(0.1)	(0.1)	(7.8)	(8.5)	(5.1)	(7.8)
Bloomberg Petroleum	(4.1)	(4.1)	28.3	(27.5)	(18.1)	(9.8)
Bloomberg Precious Metals	10.5	10.5	5.9	(3.1)	(8.1)	4.9
Bloomberg Softs	1.5	1.5	24.6	(8.2)	(9.8)	(1.2)

Source: Morningstar, as of 2/28/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 2/28/17

Appendix

Periodic table of returns

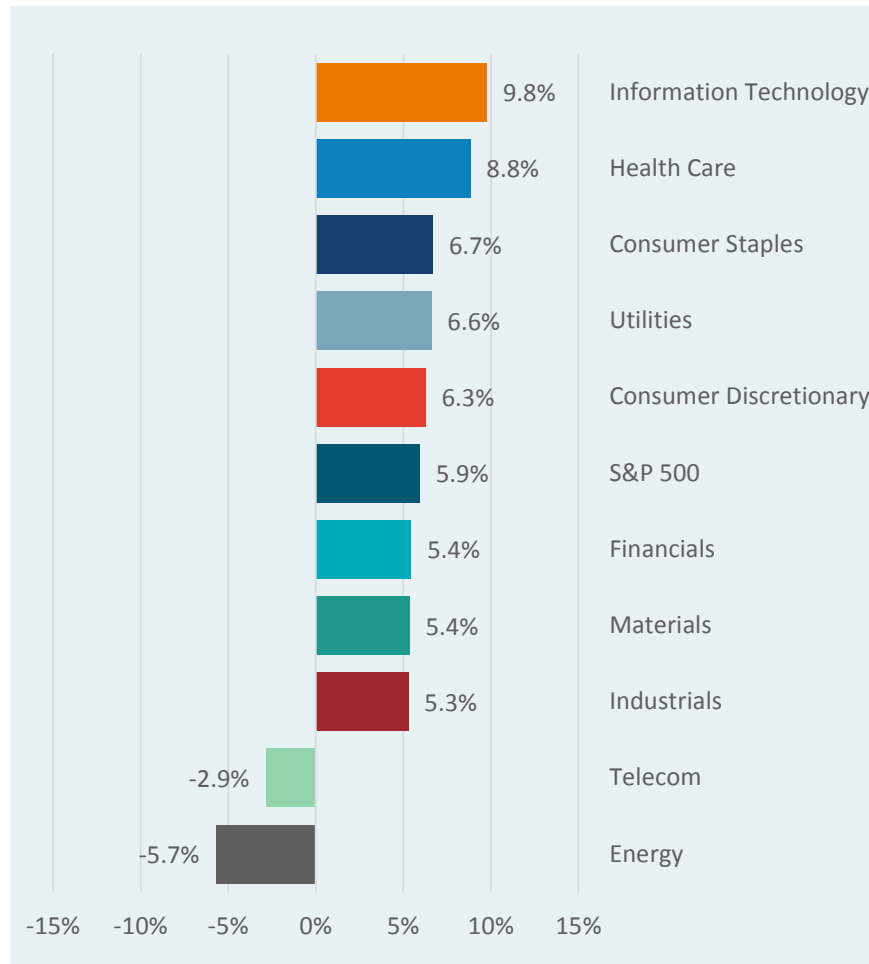
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year
Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	8.7	14.0	9.1
Large Cap Growth	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	21.3	7.7	13.9	8.0
Large Cap Equity	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	17.3	6.0	13.8	7.7
International Equity	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	12.1	4.4	13.4	7.2
Large Cap Value	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	11.8	4.3	12.9	6.9
Small Cap Growth	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	11.3	4.1	12.3	6.3
60/40 Global Portfolio	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	11.2	4.0	10.9	6.2
Small Cap Equity	-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	8.0	2.3	5.2	4.3
Hedge Funds of Funds	-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	7.1	1.9	5.1	4.1
US Bonds	-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	5.7	0.9	3.1	2.9
Small Cap Value	-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	2.6	0.7	2.2	1.3
Commodities	-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	1.0	0.3	0.1	1.0
Cash	-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	0.5	0.1	-0.4	0.6
Real Estate	-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	0.3	N/A	-9.8	-5.9

- Large Cap Equity
- Small Cap Growth
- Commodities
- Large Cap Value
- International Equity
- Real Estate
- Small Cap Value
- Emerging Markets Equity
- Hedge Funds of Funds
- 60% MSCI ACWI/40% BBgBarc Global Bond
- 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, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/16.

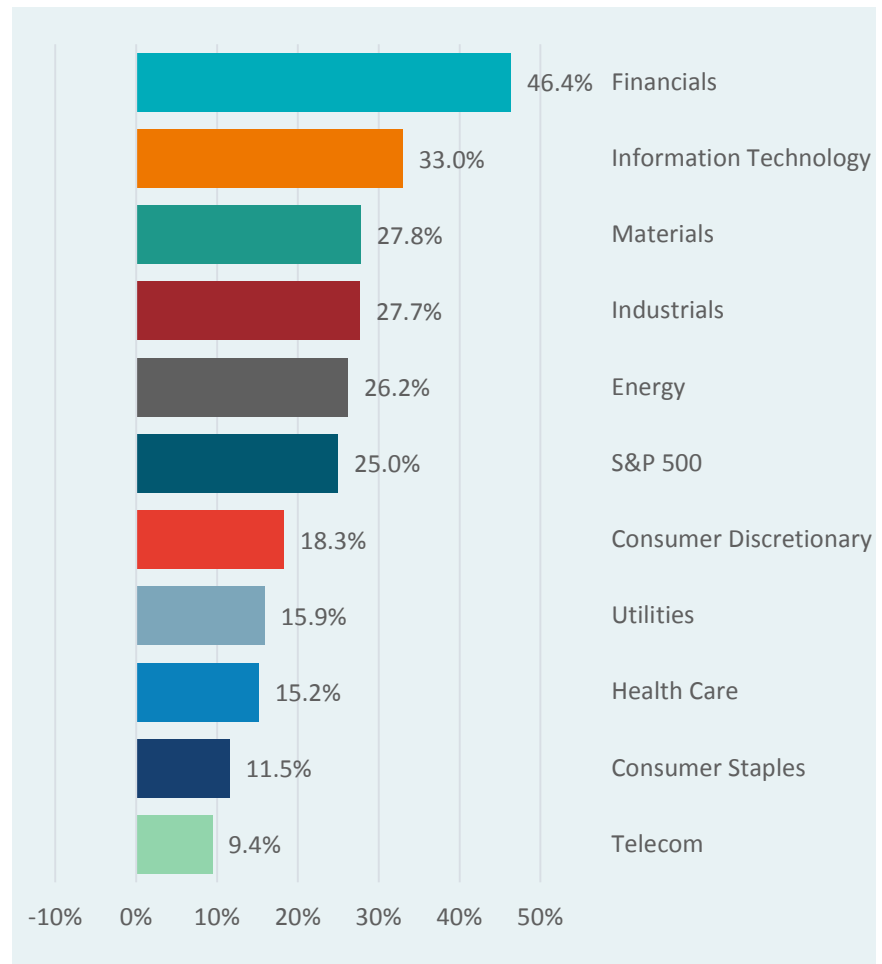
S&P 500 and S&P 500 sector returns

QTD



Source: Morningstar, as of 2/28/17

ONE YEAR ENDING FEBRUARY



Source: Morningstar, as of 2/28/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	4.0	5.9	5.9	25.0	10.6	14.0	7.6
S&P 500 Equal Weighted	3.2	5.4	5.4	26.7	9.8	14.6	8.8
DJ Industrial Average	5.2	5.8	5.8	29.3	11.2	12.8	8.3
Russell Top 200	4.3	6.2	6.2	25.0	11.0	14.1	7.6
Russell 1000	3.9	6.0	6.0	25.5	10.2	13.9	7.7
Russell 2000	1.9	2.3	2.3	36.1	6.9	12.9	7.2
Russell 3000	3.7	5.7	5.7	26.3	9.9	13.9	7.6
Russell Mid Cap	2.8	5.3	5.3	26.8	8.4	13.6	8.0
Style Index							
Russell 1000 Growth	4.2	7.7	7.7	22.2	10.5	13.8	9.1
Russell 1000 Value	3.6	4.3	4.3	29.1	9.9	14.0	6.2
Russell 2000 Growth	2.5	4.1	4.1	30.9	5.4	12.3	8.0
Russell 2000 Value	1.4	0.7	0.7	41.3	8.4	13.4	6.3

INTERNATIONAL EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
MSCI ACWI	2.8	5.6	5.6	22.1	4.8	8.3	4.1
MSCI ACWI ex US	1.6	5.2	5.2	19.3	(0.2)	3.5	1.4
MSCI EAFE	1.4	4.4	4.4	15.8	(0.6)	5.2	1.0
MSCI EM	3.1	8.7	8.7	29.5	1.4	(0.4)	2.9
MSCI EAFE Small Cap	2.2	5.9	5.9	17.5	2.7	8.8	3.1
Style Index							
MSCI EAFE Growth	2.2	5.7	5.7	11.3	0.4	5.5	2.0
MSCI EAFE Value	0.7	3.2	3.2	20.3	(1.7)	4.7	(0.1)
Regional Index							
MSCI UK	2.0	3.3	3.3	10.8	(4.1)	2.9	0.7
MSCI Japan	1.1	4.9	4.9	20.3	5.7	7.2	0.5
MSCI Euro	0.9	2.1	2.1	14.1	(3.3)	5.0	(0.5)
MSCI EM Asia	3.6	9.7	9.7	27.3	3.9	3.0	4.6
MSCI EM Latin American	3.6	11.4	11.4	47.5	(1.4)	(6.8)	1.5

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	0.5	1.3	1.3	3.4	1.9	0.8	4.3
BBgBarc US Treasury Bills	0.0	0.1	0.1	0.4	0.2	0.2	0.8
BBgBarc US Agg Bond	0.7	0.9	0.9	1.4	2.6	2.2	4.3
Duration							
BBgBarc US Treasury 1-3 Yr	0.1	0.2	0.2	0.4	0.7	0.6	2.0
BBgBarc US Treasury Long	1.6	2.0	2.0	(4.5)	6.3	3.4	6.7
BBgBarc US Treasury	0.5	0.7	0.7	(1.2)	2.0	1.4	3.9
Issuer							
BBgBarc US MBS	0.5	0.4	0.4	0.4	2.6	2.0	4.2
BBgBarc US Corp. High Yield	1.5	2.9	2.9	21.8	4.7	6.8	7.5
BBgBarc US Agency Interm	0.2	0.5	0.5	0.3	1.3	1.1	3.1
BBgBarc US Credit	1.1	1.5	1.5	5.7	3.6	3.6	5.3

OTHER

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Index							
Bloomberg Commodity	0.2	0.3	0.3	16.0	(13.0)	(9.8)	(5.9)
Wilshire US REIT	3.6	2.9	2.9	15.8	11.6	11.5	4.4
CS Leveraged Loans	0.6	1.1	1.1	12.6	3.8	5.0	4.3
Regional Index							
JPM EMBI Global Div	2.0	3.5	3.5	12.1	6.6	5.8	7.1
JPM GBI-EM Global Div	1.8	4.1	4.1	12.4	(2.5)	(2.5)	4.2
Hedge Funds							
HFRI Composite	1.0	2.2	2.2	10.7	2.7	4.0	3.4
HFRI FOF Composite	0.9	1.9	1.9	6.5	1.4	3.1	1.3
Currency (Spot)							
Euro	(1.7)	0.7	0.7	(2.2)	(8.4)	(4.5)	(2.2)
Pound	(1.1)	0.7	0.7	(10.7)	(9.4)	(4.9)	(4.4)
Yen	0.6	4.2	4.2	0.9	(3.0)	(6.3)	0.6

Source: Morningstar, as of 2/28/17

Definitions

Conference Board Consumer Confidence Index – a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. (www.conference-board.org)

ISM Manufacturing Index – based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. (www.instituteforsupplymanagement.org)

Notices & disclosures

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