

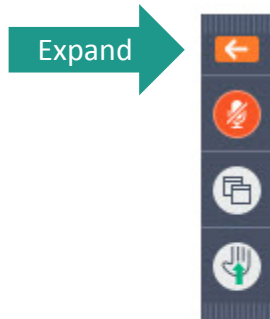


**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

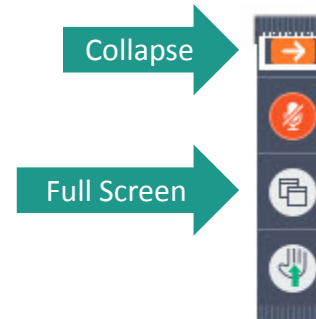
1ST QUARTER 2019  
Investment Landscape Call



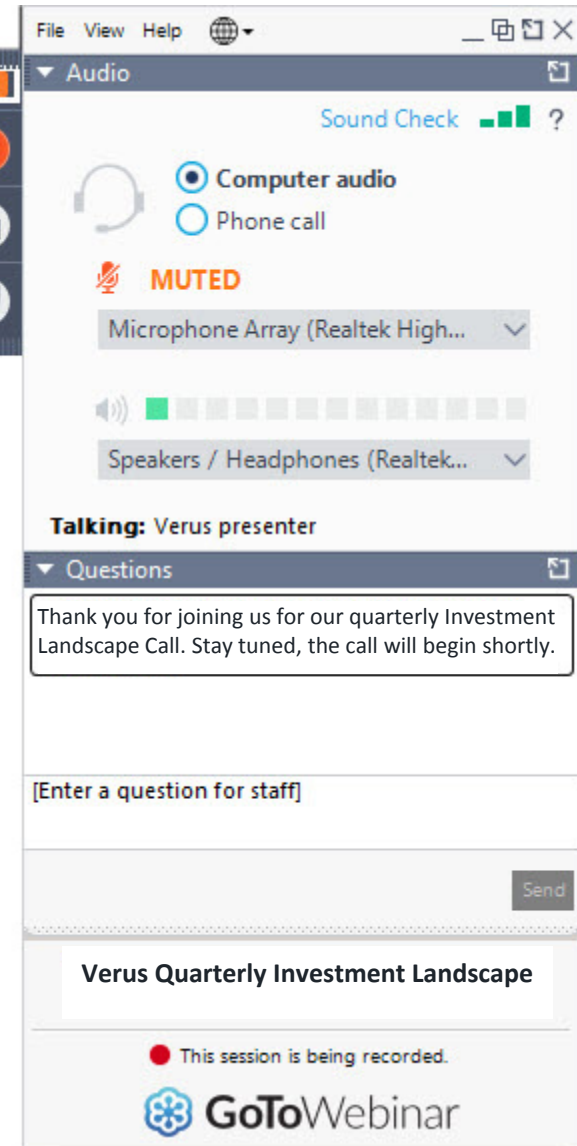
# Call instructions



Use the orange arrow to expand or collapse the control panel



Ask questions here



# 1<sup>st</sup> quarter conference call

Verus<sup>777</sup>

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## IMPORTANT INFORMATION

**Dial in:** 1 (866) 901-6455 U.S. & Canada

**Access Code:** 163-866-646

**Playback Info:** Will be available on the website after the call [www.verusinvestments.com](http://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, Chief Investment Officer



**Jeffrey J. MacLean**  
Chief Executive Officer



**Ian Toner, CFA**  
Chief Investment Officer

# 4<sup>th</sup> quarter summary

## THE ECONOMIC CLIMATE

- U.S. real GDP growth reached 3.0% in Q3, supported by fiscal stimulus which is more or less expected to fade in 2019. Growth is forecast to moderate in the U.S., in-line with the rest of the developed world.
- The U.S. and China ended their most recent round of trade negotiations during the first week of January. China indicated willingness to purchase more American agricultural goods, energy, and other manufactured goods, but little progress is evident overall.

## PORTFOLIO IMPACTS

- The Federal Reserve raised the fed funds rate by 0.25% to a range of 2.25%-2.50%. Market expectations for future rate hikes changed dramatically in December. As of year-end, the fed funds futures market is pricing in zero hikes for 2019, and a rate cut for 2020.
- Emerging markets were the top equity performer in Q4, as these markets (MSCI EM -7.5%) experienced much less pain than developed markets (S&P 500 -13.5%, MSCI EAFE -12.5%) during the equity sell-off. Currencies stabilized in Q4 (JPMorgan EM Currency Index +0.2%) and emerging market crises concerns faded from the news headlines.

## THE INVESTMENT CLIMATE

- The U.S. equity market experienced a fairly significant peak-to-trough drawdown in Q4 (S&P 500 -19.8%, Russell 1000 -20.1%), along with global equity markets. Equity corrections of this size have historically occurred roughly once per cycle.
- After reaching a cyclical high of 3.2% in November, the 10-year U.S. Treasury yield fell sharply to end the year at 2.7%. Much of this drop was due to falling inflation expectations as energy prices trended down.
- The House of Commons in British Parliament overwhelmingly rejected Theresa May's Brexit deal that had been approved by the European Union. The details surrounding the terms of Great Britain's exit remain uncertain ahead of the March 30<sup>th</sup> deadline.

## ASSET ALLOCATION ISSUES

- Diversification has been particularly painful in recent years as most asset classes failed to keep up with a domestic 60/40 portfolio. U.S. performance exceptionalism reversed in Q4 as U.S. equities underperformed.
- Economic conditions around the world have weakened. This trend has been broad-based, from industrial production, to business sentiment, to corporate earnings expectations.

Economic conditions displayed a weaker trend in Q4

A neutral risk stance may be appropriate in today's environment

# What drove the market in Q4?

**"Stocks continue to fall on global growth concerns"**

## GLOBAL MANUFACTURING PMI

Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
53.2	54.5	53.3	53.0	52.2	51.5

Article Source: Yahoo Finance, December 14<sup>th</sup>, 2018

**"Fed seen slowing, or even stopping, rate hikes next year"**

## YEAR-END 2020 MARKET IMPLIED FED FUNDS RATE

Jul	Aug	Sep	Oct	Nov	Dec
2.72%	2.62%	2.82%	2.86%	2.71%	2.38%

Article Source: Reuters, December 10<sup>th</sup>, 2018

**"The great cheapening of 2018: global stock valuations now at five-year lows"**

## MSCI ACWI FORWARD P/E RATIO

Jul	Aug	Sep	Oct	Nov	Dec
14.9x	14.9x	14.8x	13.7x	13.9x	13.0x

Article Source: Wall Street Journal, December 10<sup>th</sup>, 2018

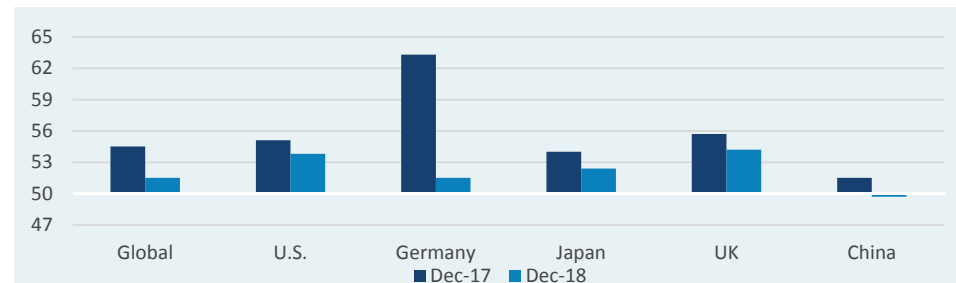
**"Market volatility is surging"**

## DAILY AVERAGE OF S&P 500 INDEX IMPLIED VOLATILITY (VIX)

Jul	Aug	Sep	Oct	Nov	Dec
13.1	12.5	12.9	19.4	19.4	25.0

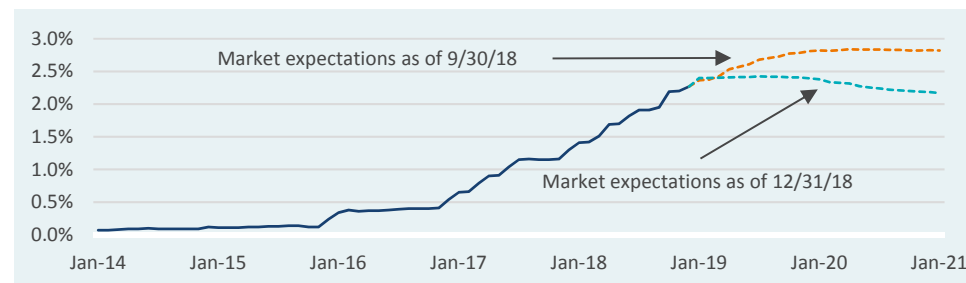
Article Source: Forbes, October 11<sup>th</sup>, 2018

## GLOBAL MANUFACTURING PMIs



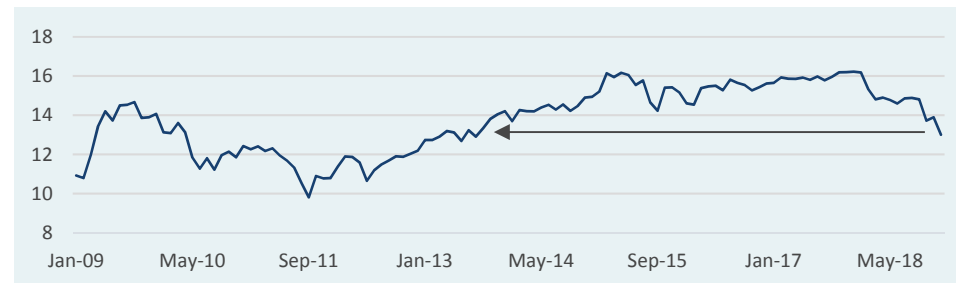
Source: Bloomberg, JPMorgan, Market, as of 12/31/18, 50 indicates a neutral level

## MARKET PRICING OF FUTURE FED FUNDS RATE



Source: Bloomberg, as of 12/31/18

## MSCI ACWI FORWARD P/E RATIO



Source: Bloomberg, as of 12/31/18, blended 12-month forward earnings

# Tough years for diversification

## Individual asset classes relative to a domestic 60/40

RELATIVE TO DOMESTIC 60/40	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
US Large	8.6	(7.8)	(8.0)	(12.1)	9.5	2.3	0.8	4.4	(0.5)	(14.0)	6.9	2.7	(2.4)	4.1	14.5	3.3	0.2	3.2	7.4	(1.9)
US Small	8.9	(1.7)	6.4	(10.5)	28.1	9.7	0.5	7.0	(7.6)	(10.8)	7.6	14.5	(8.7)	4.4	20.9	(5.5)	(5.6)	12.5	0.2	(8.5)
International Developed	14.6	(12.9)	(17.5)	(5.9)	19.4	11.6	9.4	14.9	5.2	(20.4)	12.2	(4.6)	(16.6)	5.4	4.9	(15.3)	(2.0)	(7.8)	10.6	(11.3)
Emerging Markets	(12.4)	1.3	1.3	3.8	36.6	17.0	29.9	20.7	33.4	(30.3)	58.9	6.5	(22.9)	6.3	(20.5)	(12.6)	(16.1)	2.4	22.9	(12.1)
US TIPS	(10.0)	14.5	11.8	26.6	(10.8)	(0.1)	(1.3)	(11.0)	5.6	20.6	(8.2)	(6.1)	9.1	(4.9)	(26.5)	(6.8)	(2.6)	(4.1)	(11.4)	1.2
US Treasury	(17.7)	16.0	10.7	24.5	(17.3)	(4.2)	(1.7)	(8.7)	4.2	41.0	(25.6)	(3.0)	11.1	(7.7)	(23.9)	(1.4)	0.4	(7.7)	(11.8)	3.4
Global Sovereign ex-US	(18.9)	(1.5)	-	31.9	(1.0)	3.5	(12.9)	(4.1)	4.9	32.4	(15.3)	(6.3)	0.7	(10.1)	(22.8)	(13.2)	(6.0)	(6.9)	(5.1)	1.6
Core Fixed Income	(13.2)	12.9	12.3	20.3	(15.1)	(4.3)	(1.7)	(7.1)	1.0	28.2	(13.7)	(5.9)	3.3	(7.7)	(19.9)	(4.4)	(0.7)	(6.2)	(10.9)	2.5
High Yield Corp. Credit	(10.0)	(4.6)	9.2	8.6	9.8	2.5	(1.4)	0.4	(4.1)	(3.2)	38.6	2.7	0.5	3.9	(10.5)	(7.9)	(5.7)	8.3	(6.9)	0.4
Bank Loans	(12.4)	1.3	3.9	10.0	(19.2)	(3.4)	1.0	(4.7)	(3.9)	(6.1)	32.0	(2.3)	(3.0)	(2.2)	(12.6)	(8.8)	(1.9)	1.4	(10.3)	3.6
Global Credit	(12.4)	1.3	7.1	23.6	(2.8)	1.4	(6.1)	(3.1)	0.6	13.5	1.4	(5.7)	(0.1)	0.2	(16.8)	(8.0)	(4.6)	(3.4)	(5.2)	(0.8)
Emerging Market Debt (Hard)	7.2	14.0	13.6	23.7	3.0	3.0	6.1	(1.5)	0.2	11.0	10.2	(0.2)	2.8	5.5	(23.2)	(3.0)	-	1.4	(4.1)	(1.8)
Emerging Market Debt (Local)	(12.4)	1.3	3.9	10.0	(19.2)	(8.6)	2.2	3.8	12.1	17.8	2.4	3.3	(6.3)	4.9	(26.9)	(16.1)	(16.1)	1.1	0.8	(3.7)
Commodities	11.9	33.1	(15.6)	35.9	4.7	0.5	17.3	(9.3)	10.2	(12.6)	(0.7)	4.4	(17.8)	(13.0)	(27.4)	(27.4)	(25.9)	3.0	(12.7)	(8.8)
Hedge Fund	14.1	5.4	6.7	11.0	(7.6)	(1.7)	3.4	(1.0)	4.3	1.6	(8.1)	(6.7)	(10.2)	(7.1)	(8.9)	(7.0)	(1.5)	(8.3)	(6.6)	(1.0)
REITs	(15.0)	32.3	16.2	13.6	17.0	24.6	9.7	24.6	(23.6)	(16.2)	9.0	16.2	4.7	5.7	(16.0)	21.4	3.0	(1.6)	(10.2)	(2.3)
Risk Parity (HFR Vol 10)	(12.4)	1.3	3.9	10.0	(19.2)	9.1	11.4	(9.1)	4.7	6.6	(3.6)	5.7	4.7	1.1	(18.4)	(2.3)	(6.3)	1.2	(0.9)	6.4
Core Real Estate (NCREIF ODCE)	0.8	15.6	9.5	15.5	(9.9)	4.5	17.3	4.9	10.0	13.0	(49.4)	4.0	11.5	(1.0)	(4.0)	2.1	13.8	-	(6.8)	7.8
Domestic 60/40 (S&P 500, BC Universal)	12.4	(1.3)	(3.9)	(10.0)	19.2	8.6	4.1	11.4	6.0	(23.0)	19.6	12.4	4.5	11.9	17.9	10.4	1.2	8.8	14.4	(2.5)
% of Assets Outperforming Domestic 60/40	39%	72%	78%	83%	44%	67%	67%	44%	72%	56%	56%	50%	50%	56%	17%	17%	22%	50%	28%	44%

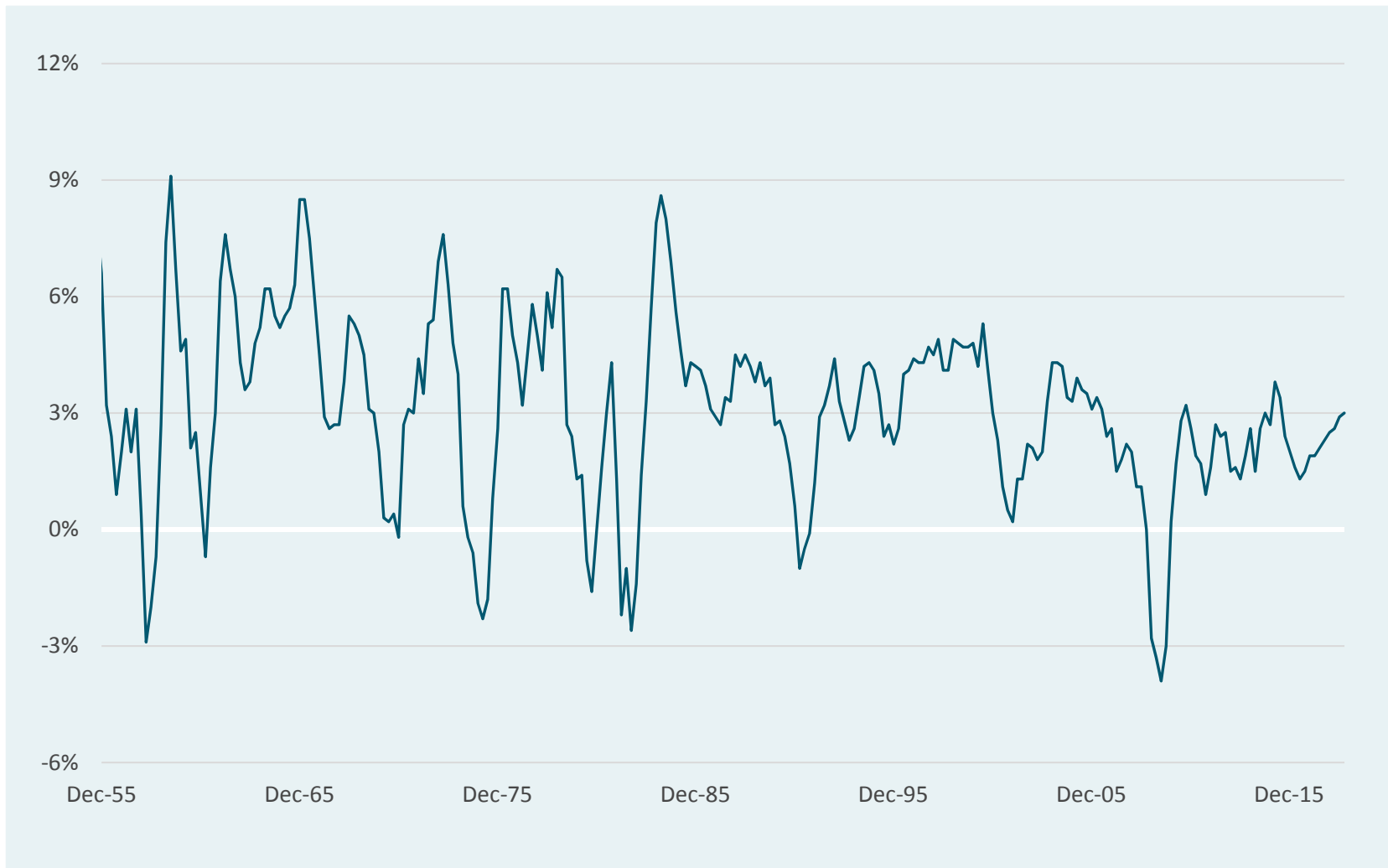
Performance as of 12/31/18, NCREIF Property Index performance data as of 9/30/18

# U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	3.0% <i>9/30/18</i>	2.3% <i>9/30/17</i>
Inflation (CPI YoY, Core)	2.2% <i>12/31/18</i>	1.8% <i>12/31/17</i>
Expected Inflation (5yr-5yr forward)	1.8% <i>12/31/18</i>	2.0% <i>12/31/17</i>
Fed Funds Target Range	2.25 – 2.50% <i>12/31/18</i>	1.25 – 1.50% <i>12/31/17</i>
10 Year Rate	2.7% <i>12/31/18</i>	2.4% <i>12/31/17</i>
U-3 Unemployment	3.9% <i>12/31/18</i>	4.1% <i>12/31/17</i>
U-6 Unemployment	7.6% <i>12/31/18</i>	8.1% <i>12/31/17</i>

Source: Bloomberg

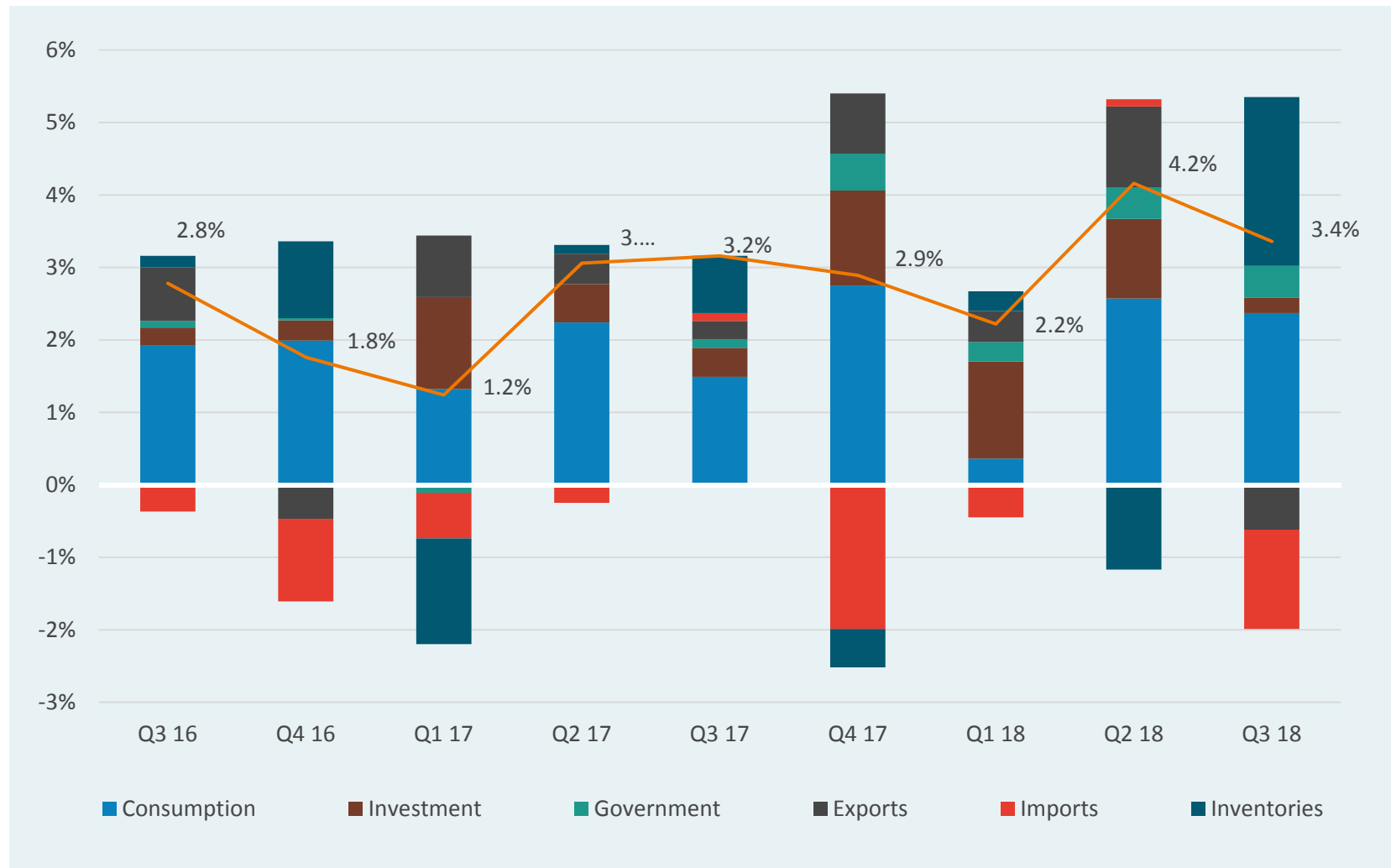
# U.S. GDP growth



Source: FRED, year-over-year, as of 9/30/18



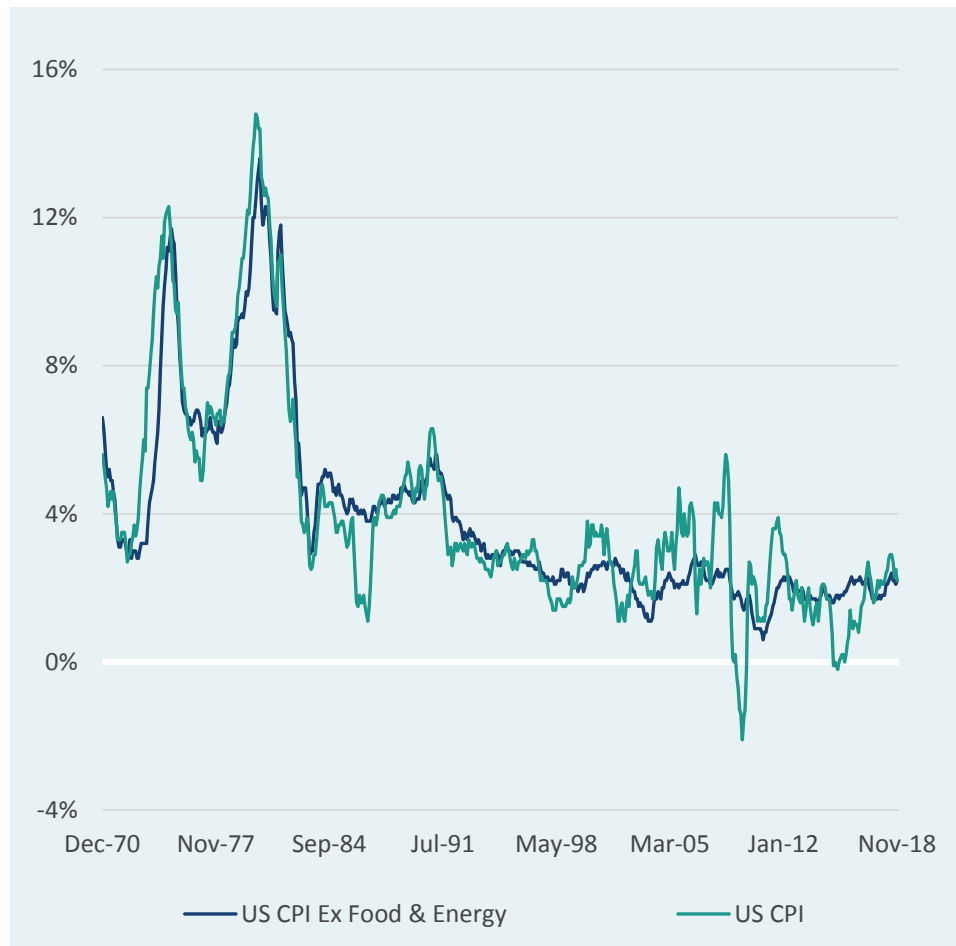
# Sources of GDP growth



Source: BEA, annualized quarterly rate, as of 9/30/18

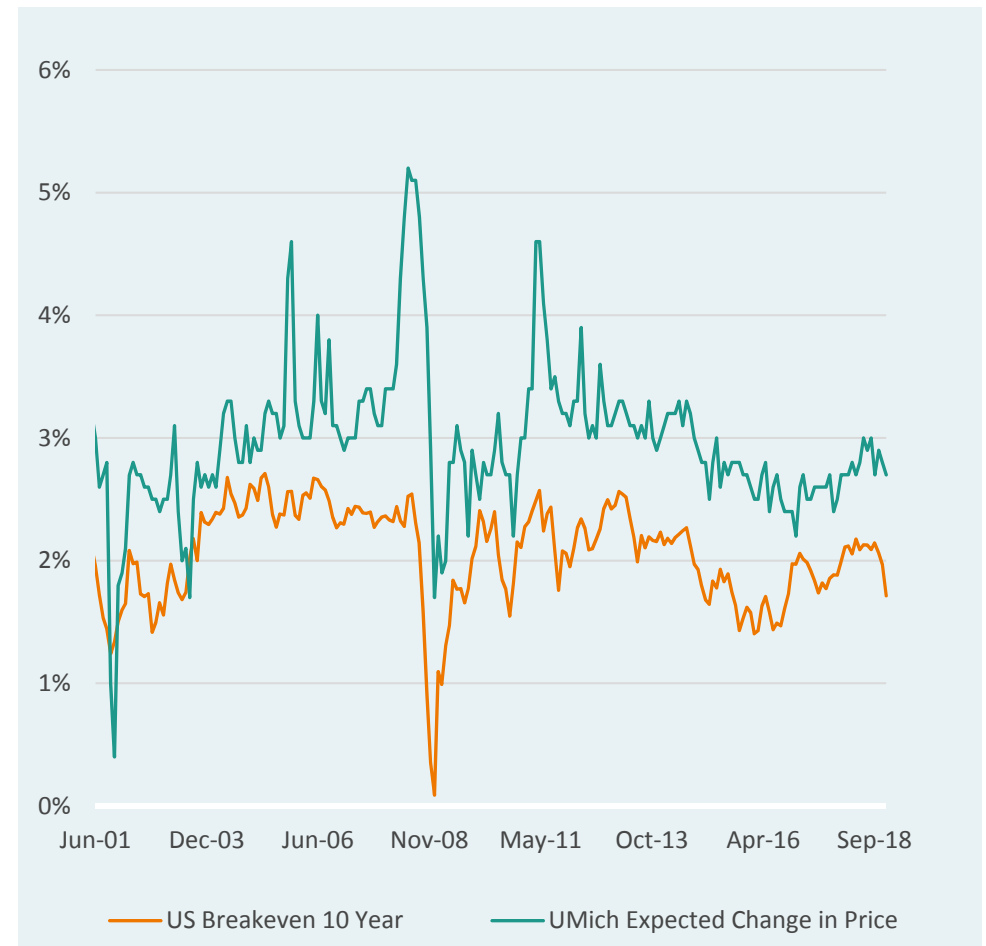
# U.S. inflation

U.S. CPI (YOY)



Source: FRED, as of 12/31/18

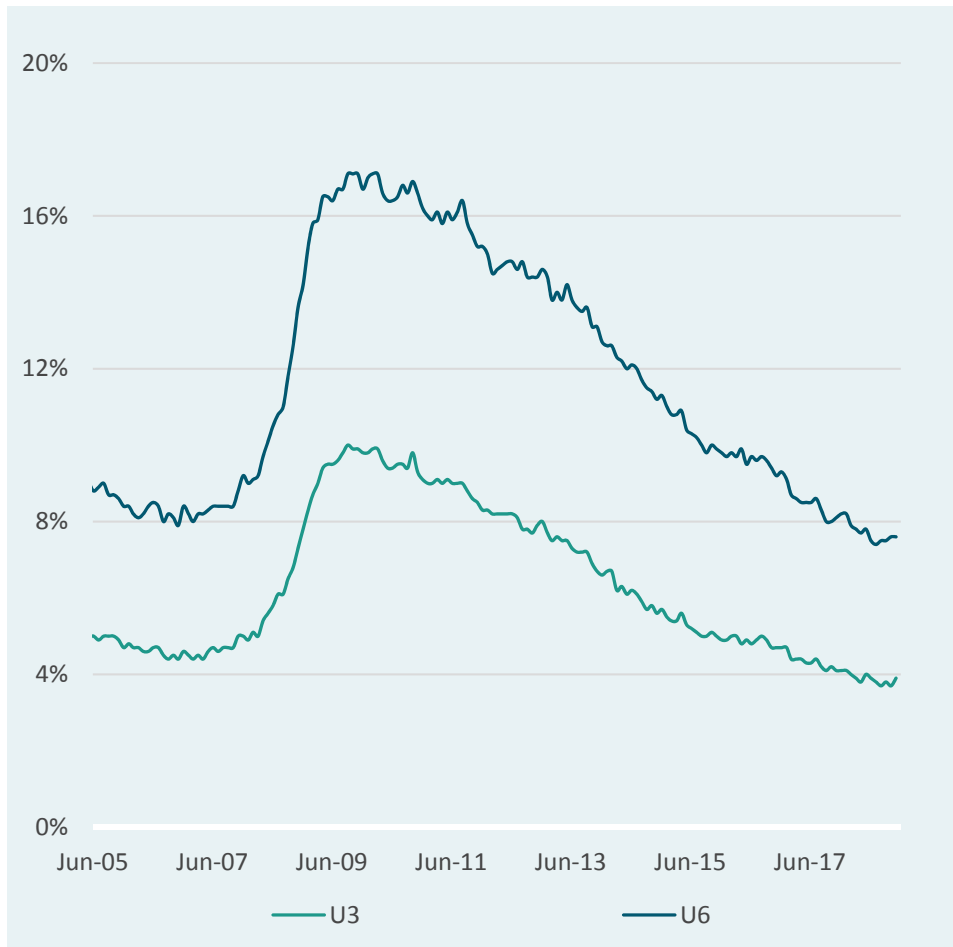
U.S. INFLATION EXPECTATIONS



Source: Bloomberg, as of 12/31/18

# U.S. labor market

UNEMPLOYMENT RATE



Source: FRED, as of 12/31/18

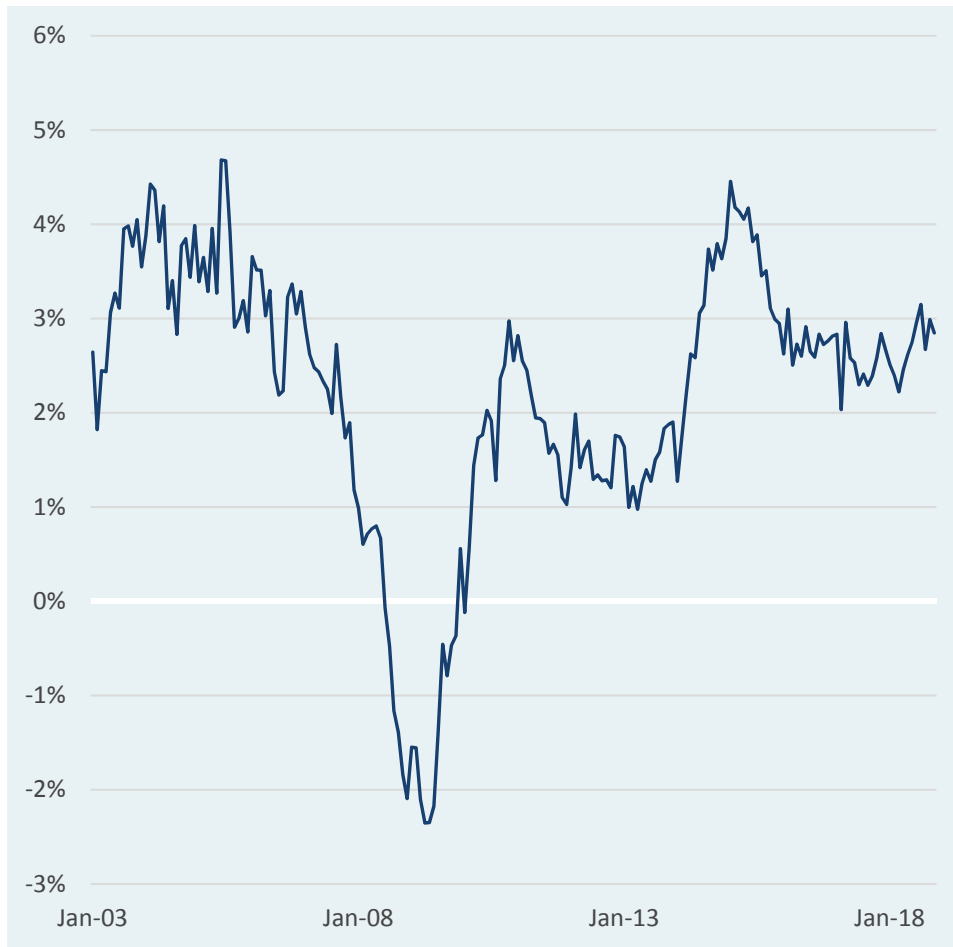
WAGE GROWTH (YOY)



Source: Bloomberg, as of 12/31/18

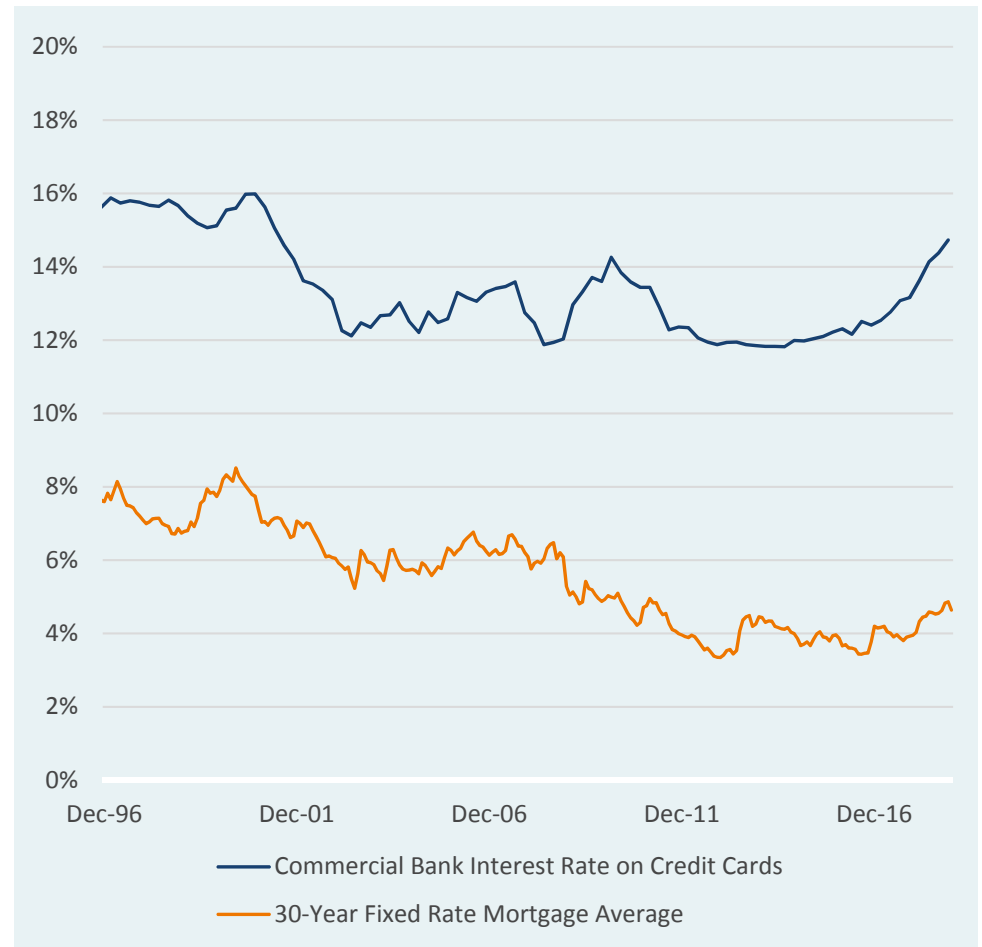
# U.S. consumers

REAL CONSUMER SPENDING (YOY GROWTH)



Source: Bloomberg, as of 11/30/18

CONSUMER INTEREST RATES

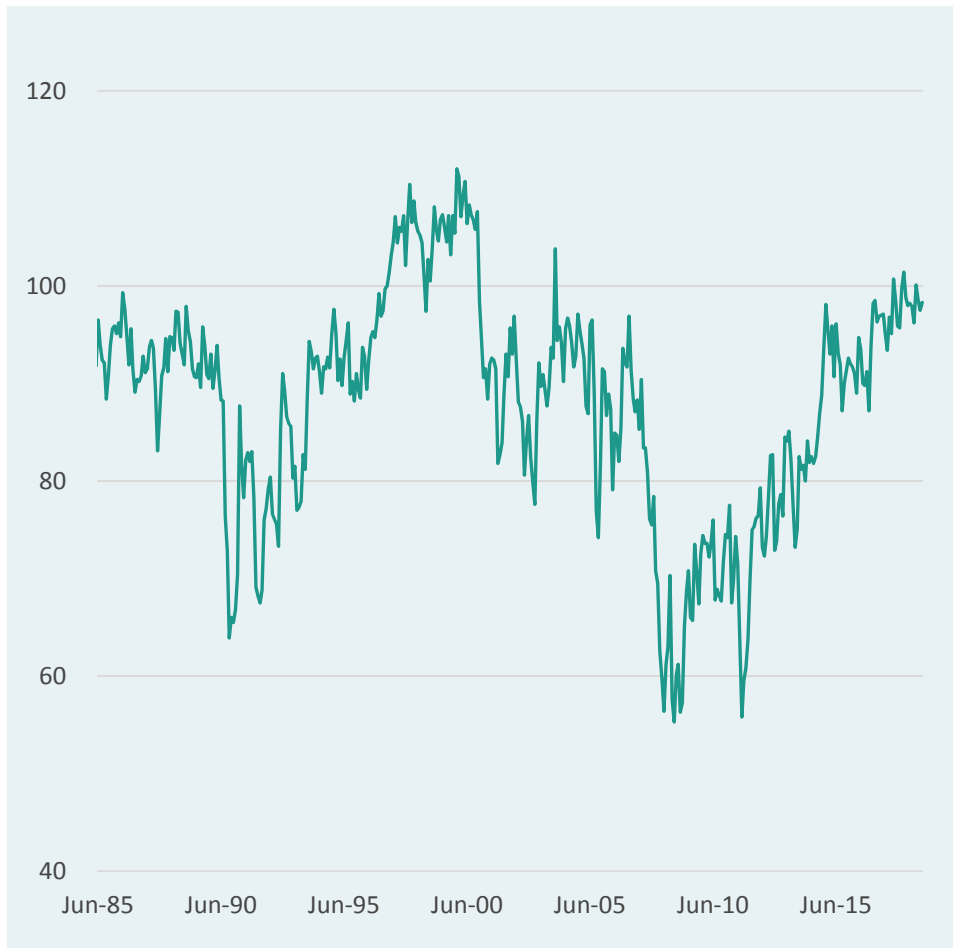


Source: FRED, as of 12/31/18



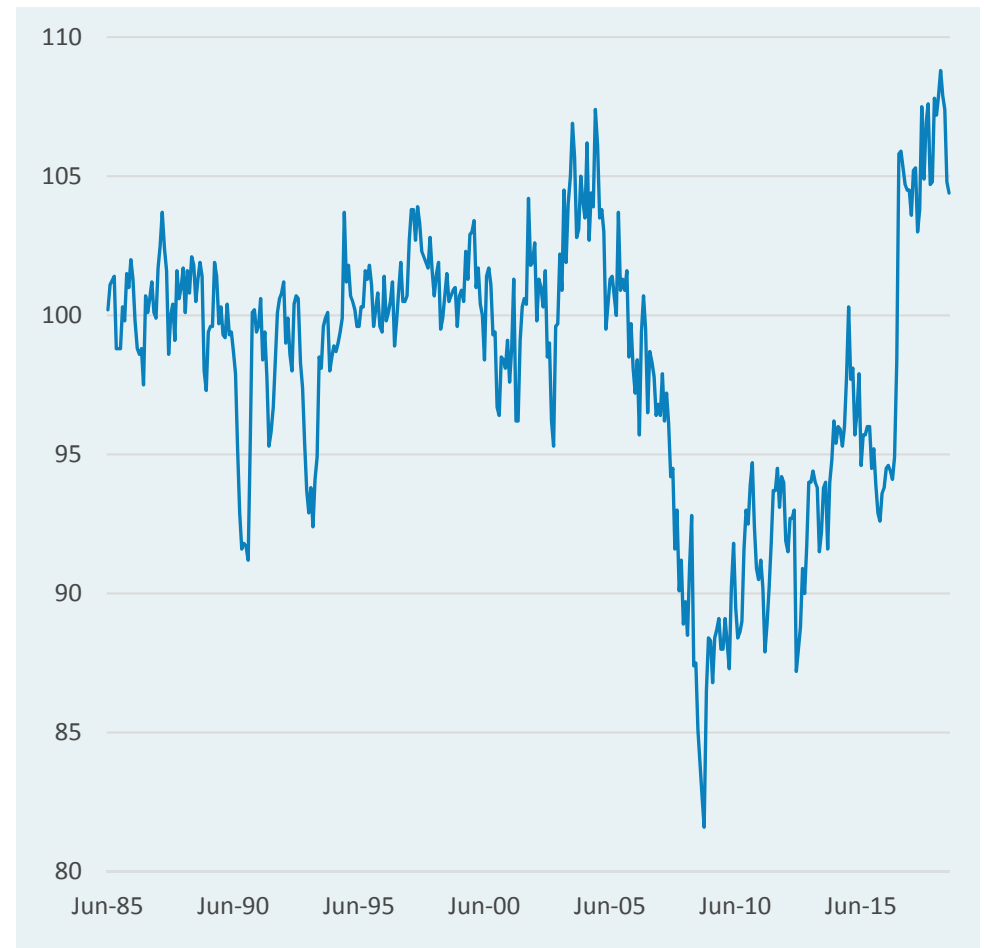
# U.S. sentiment

UNIVERSITY OF MICHIGAN CONSUMER SENTIMENT



Source: University of Michigan, as of 12/31/18

NFIB SMALL BUSINESS OPTIMISM INDEX



Source: NFIB, as of 12/31/18

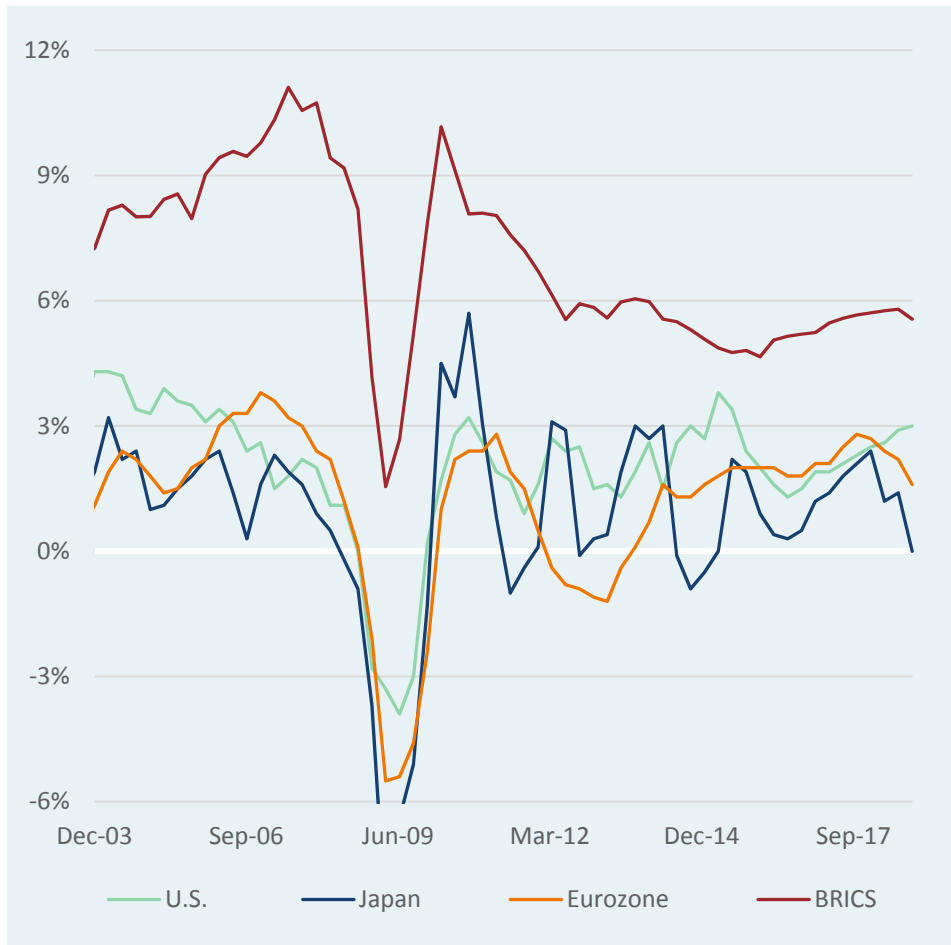
# International economics

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	3.0% 9/30/18	2.2% 11/30/18	3.9% 12/31/18
Eurozone	1.6% 9/30/18	1.8% 11/30/18	8.1% 10/31/18
Japan	0.0% 9/30/18	0.8% 11/30/18	2.5% 11/30/18
BRICS Nations	5.6% 9/30/18	2.4% 12/31/18	5.4% 9/30/18
Brazil	1.3% 9/30/18	4.1% 11/30/18	11.7% 12/31/18
Russia	1.5% 9/30/18	4.3% 12/31/18	4.8% 11/30/18
India	7.1% 9/30/18	2.3% 11/30/18	8.8% 12/31/17
China	6.5% 9/30/18	2.2% 11/30/18	3.8% 9/30/18

Source: Bloomberg

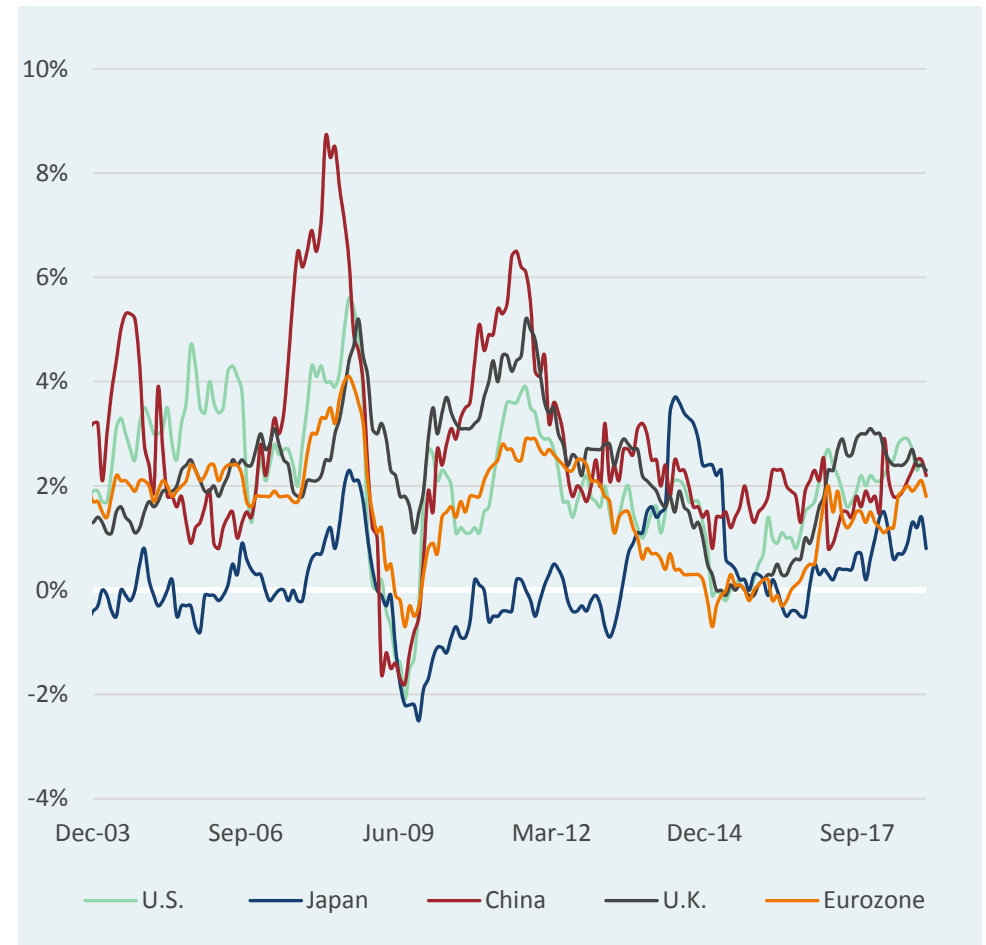
# Global GDP and inflation

REAL GDP GROWTH (YOY)



Source: Bloomberg, as of 9/30/18

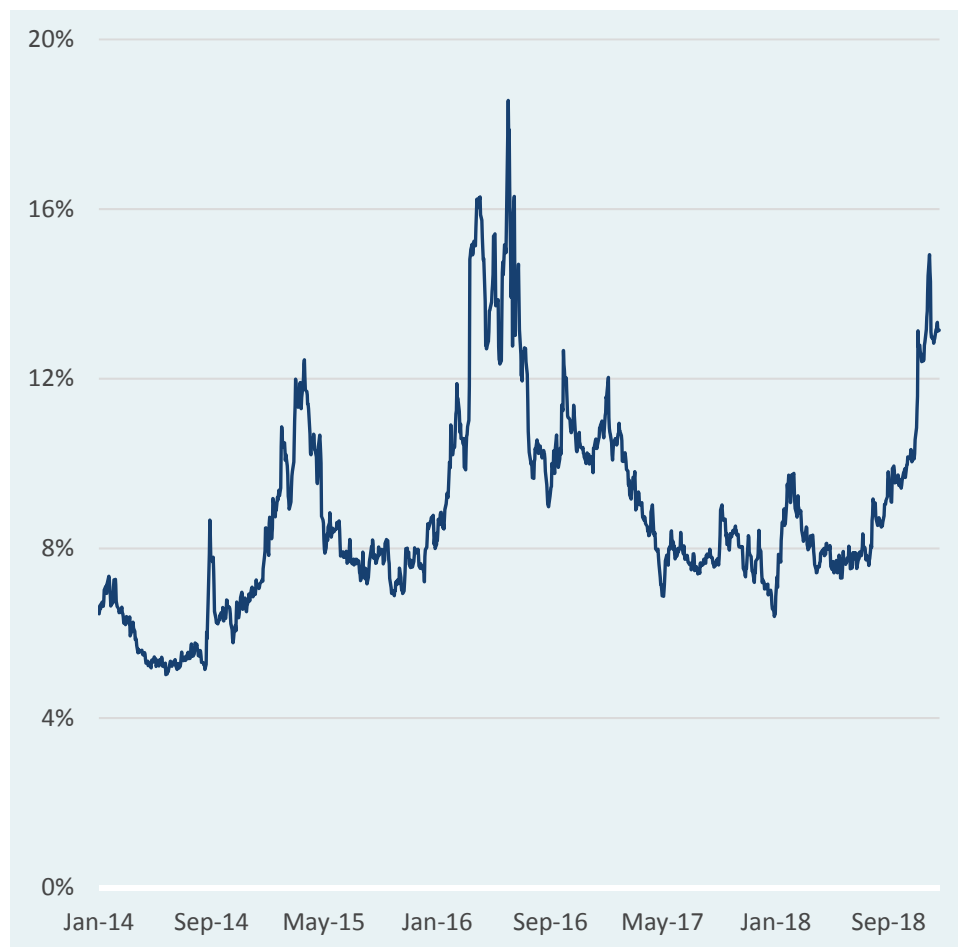
INFLATION (CPI, YOY)



Source: Bloomberg, as of 11/30/18

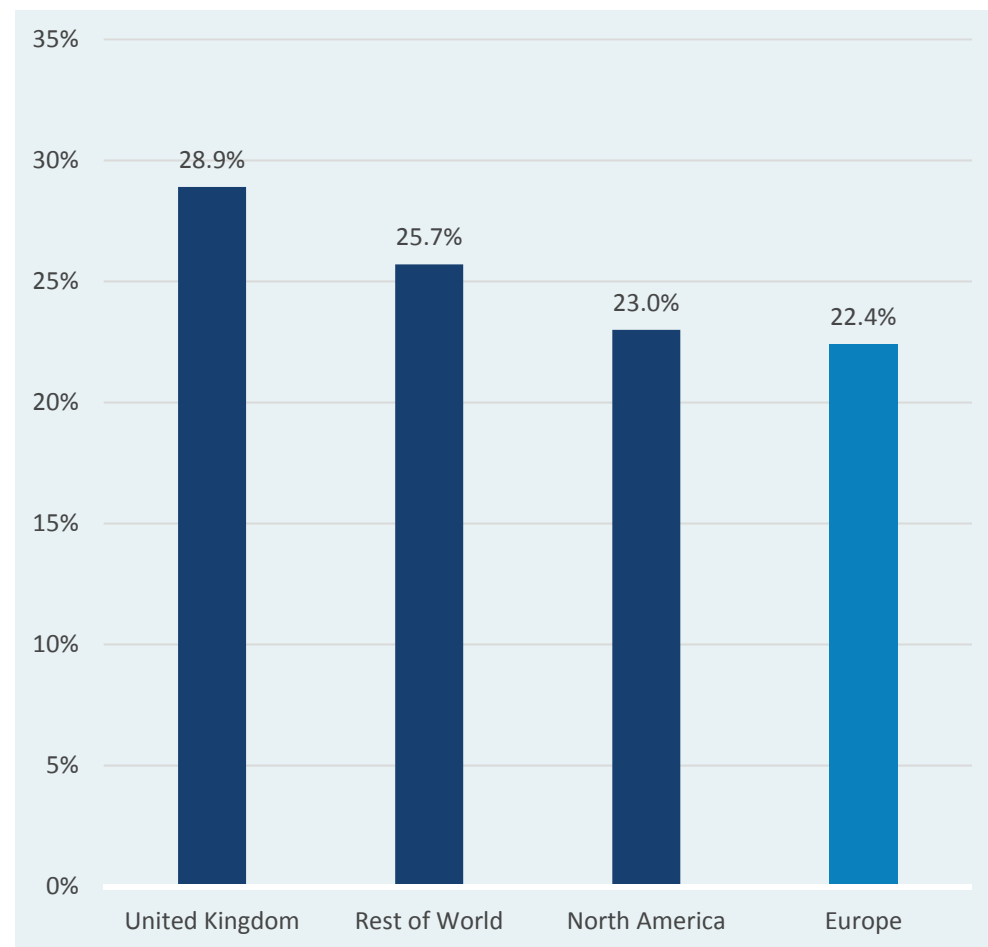
# Brexit

3-MONTH IMPLIED VOLATILITY OF GBP/USD



Source: Bloomberg, as of 12/31/18

FTSE 100 COMPANY REVENUES BY REGION (2017)



Source: FTSE, 2017

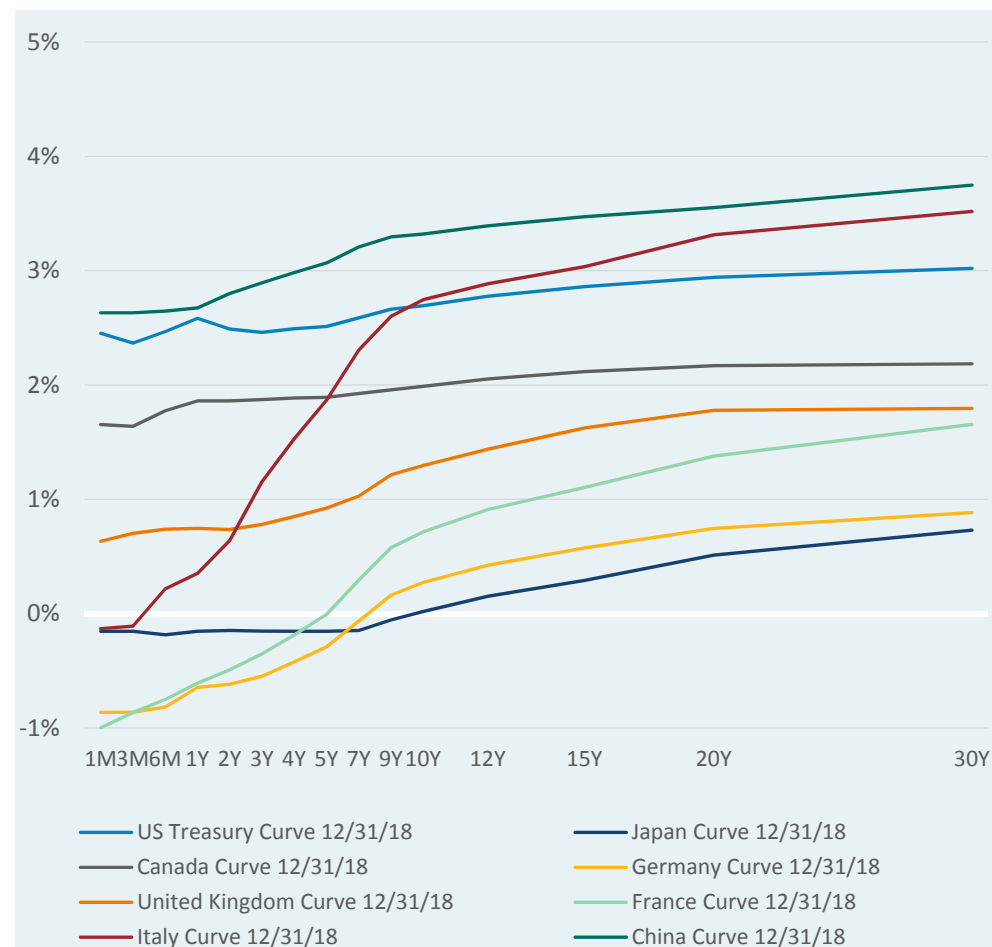


# Interest rate environment

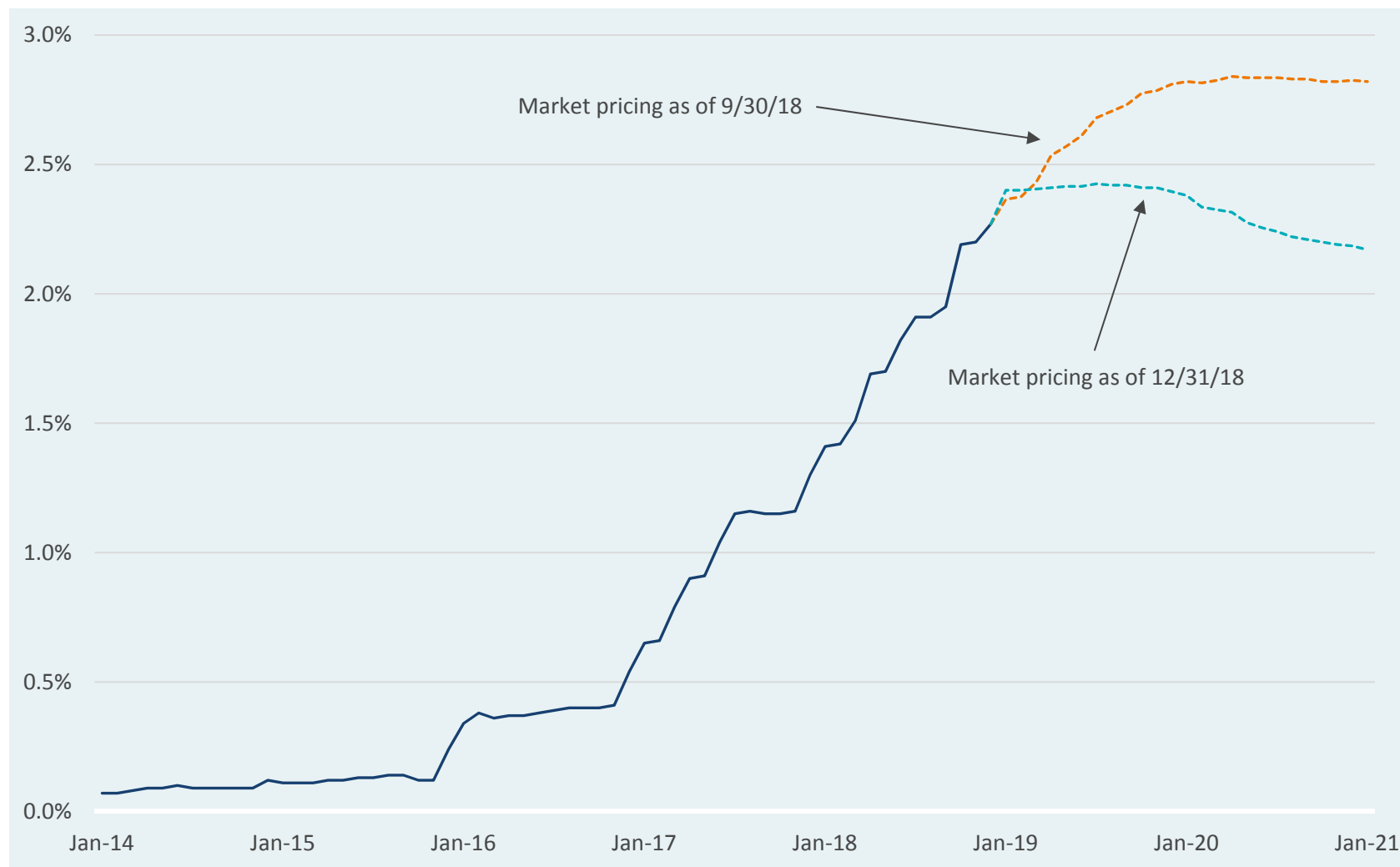
Area	Short Term (3M)	10 Year
United States	2.36%	2.69%
Germany	(0.77%)	0.24%
France	(0.86%)	0.71%
Spain	(0.42%)	1.42%
Italy	(0.06%)	2.74%
Greece	1.30%	4.40%
U.K.	0.73%	1.28%
Japan	(0.15%)	0.00%
Australia	2.01%	2.32%
China	2.83%	3.31%
Brazil	6.48%	9.24%
Russia	7.12%	8.78%

Source: Bloomberg, as of 12/31/18

GLOBAL GOVERNMENT YIELD CURVES



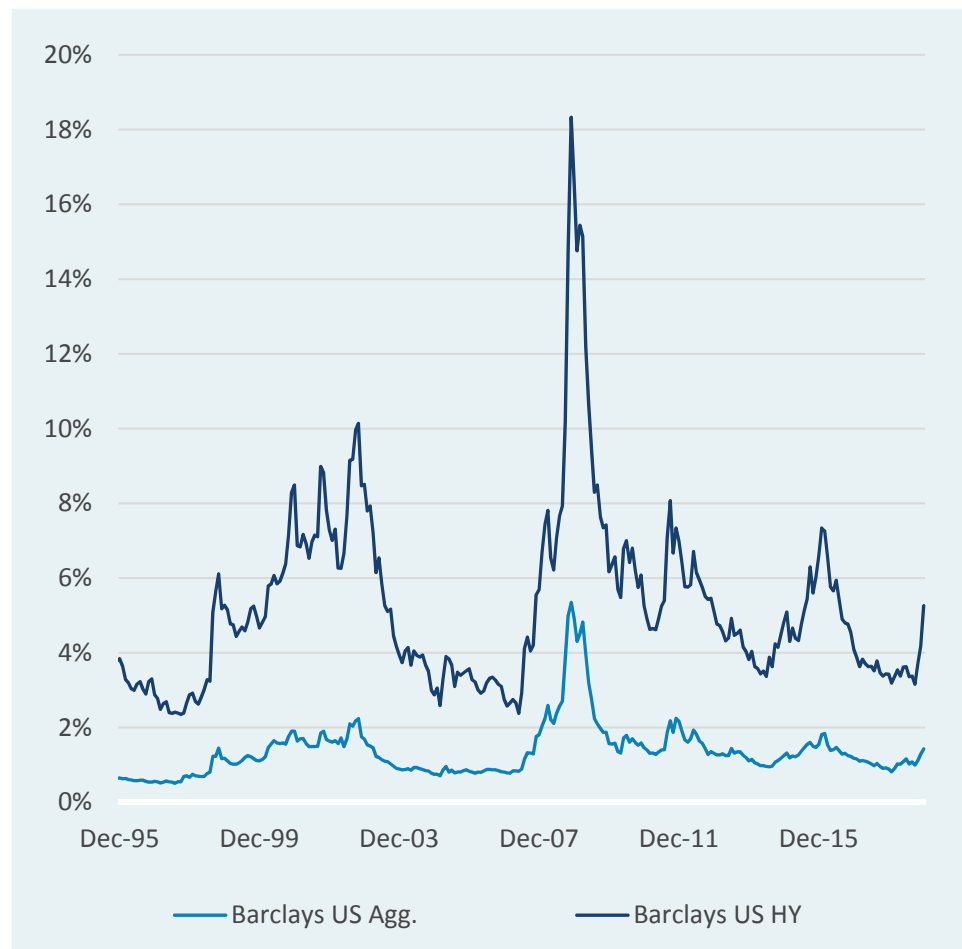
# Market pricing of the fed funds rate



Source: Bloomberg, as of 12/31/18, dotted lines are forward pricing based on fed fund futures

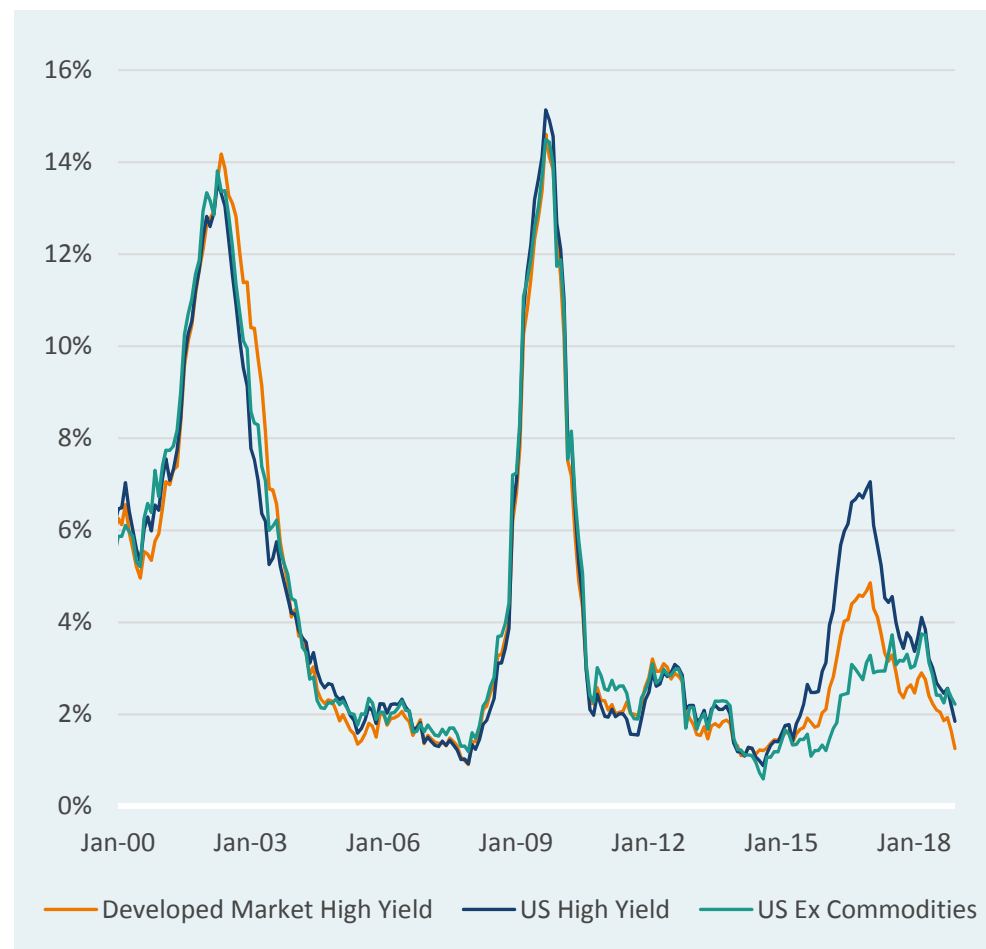
# Credit environment

U.S. CREDIT SPREADS



Source: Bloomberg, as of 12/31/18

HIGH YIELD DEFAULT RATES



Source: BofA Merrill Lynch, as of 12/31/18

# Equity environment

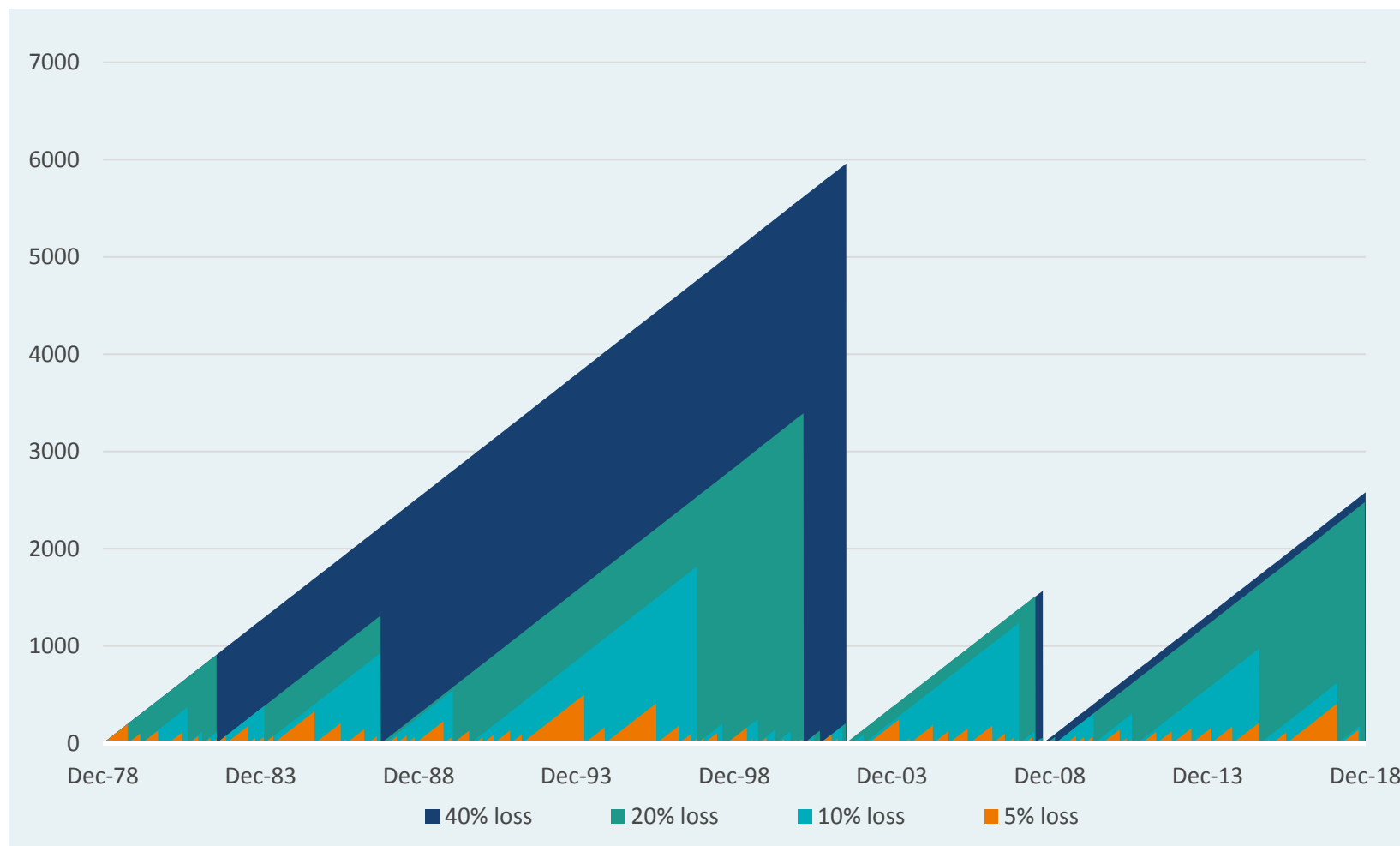
	QTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (Russell 1000)	(13.8%)		(4.8%)	
US Small Cap (Russell 2000)	(20.2%)		(11.0%)	
US Large Value (Russell 1000 Value)	(11.7%)		(8.3%)	
US Large Growth (Russell 1000 Growth)	(15.9%)		(1.5%)	
International Large (MSCI EAFE)	(12.5%)	(11.6%)	(13.8%)	(9.0%)
Eurozone (Euro Stoxx 50)	(14.1%)	(10.7%)	(16.2%)	(9.3%)
U.K. (FTSE 100)	(11.7%)	(9.1%)	(14.0%)	(7.3%)
Japan (NIKKEI 225)	(14.6%)	(16.6%)	(8.6%)	(9.6%)
Emerging Markets (MSCI Emerging Markets)	(7.5%)	(7.4%)	(14.6%)	(10.3%)

Source: Russell Investments, MSCI, Stoxx, FTSE, Nikkei, as of 12/31/18



# Corrections are normal

RUSSELL 1000 INDEX – CUMULATIVE TRADING DAYS SINCE LOSS OF GIVEN MAGNITUDE



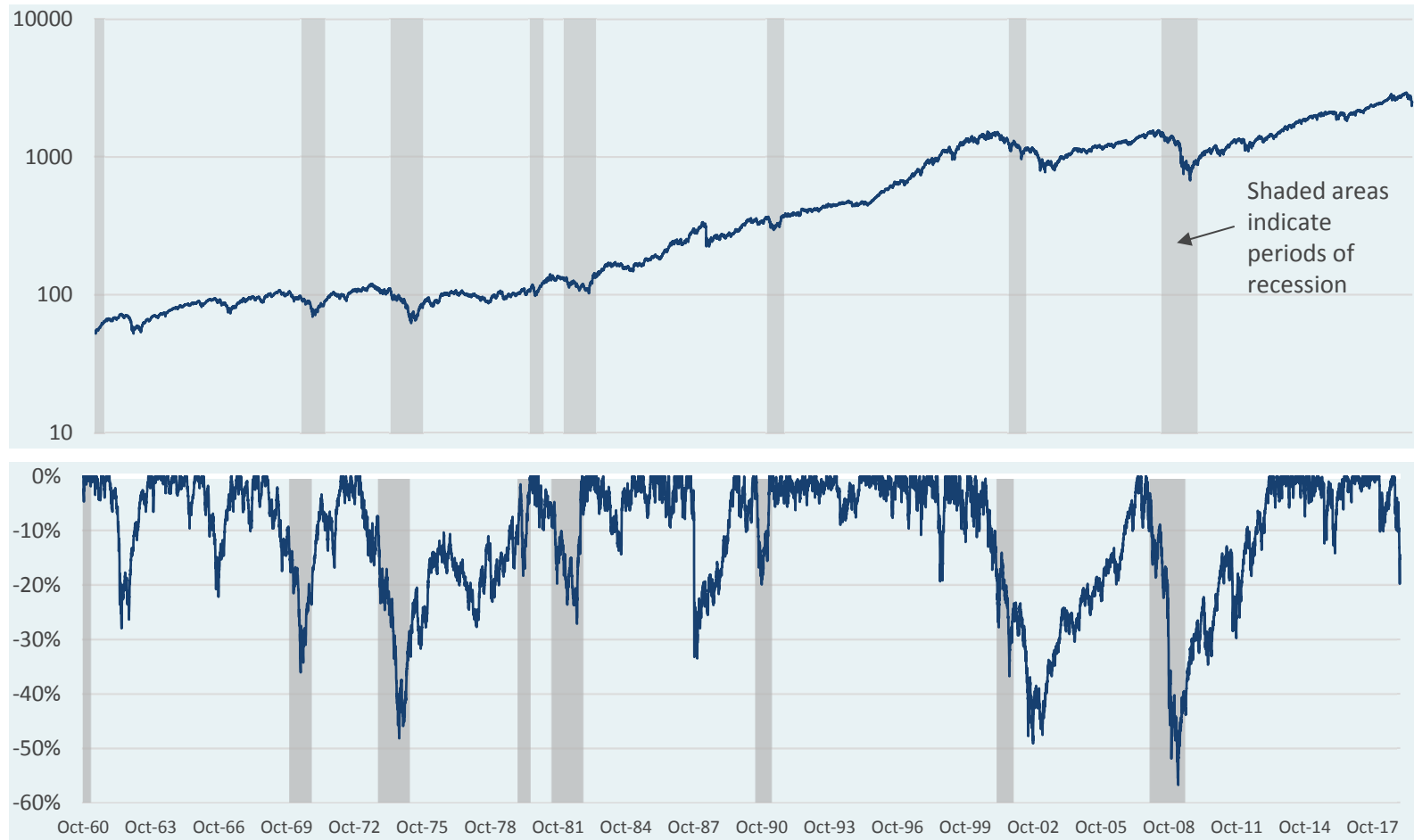
5% and 10% corrections occur regularly

The recent 20% drawdown is more notable, as equity drops of this size have happened once per cycle, on average

Source: Verus, FTSE Russell, as of 12/31/18

# Drawdowns of greater than 20% occur less frequently

S&P 500 INDEX (UPPER PANEL) AND DRAWDOWN FROM PEAK (LOWER PANEL)



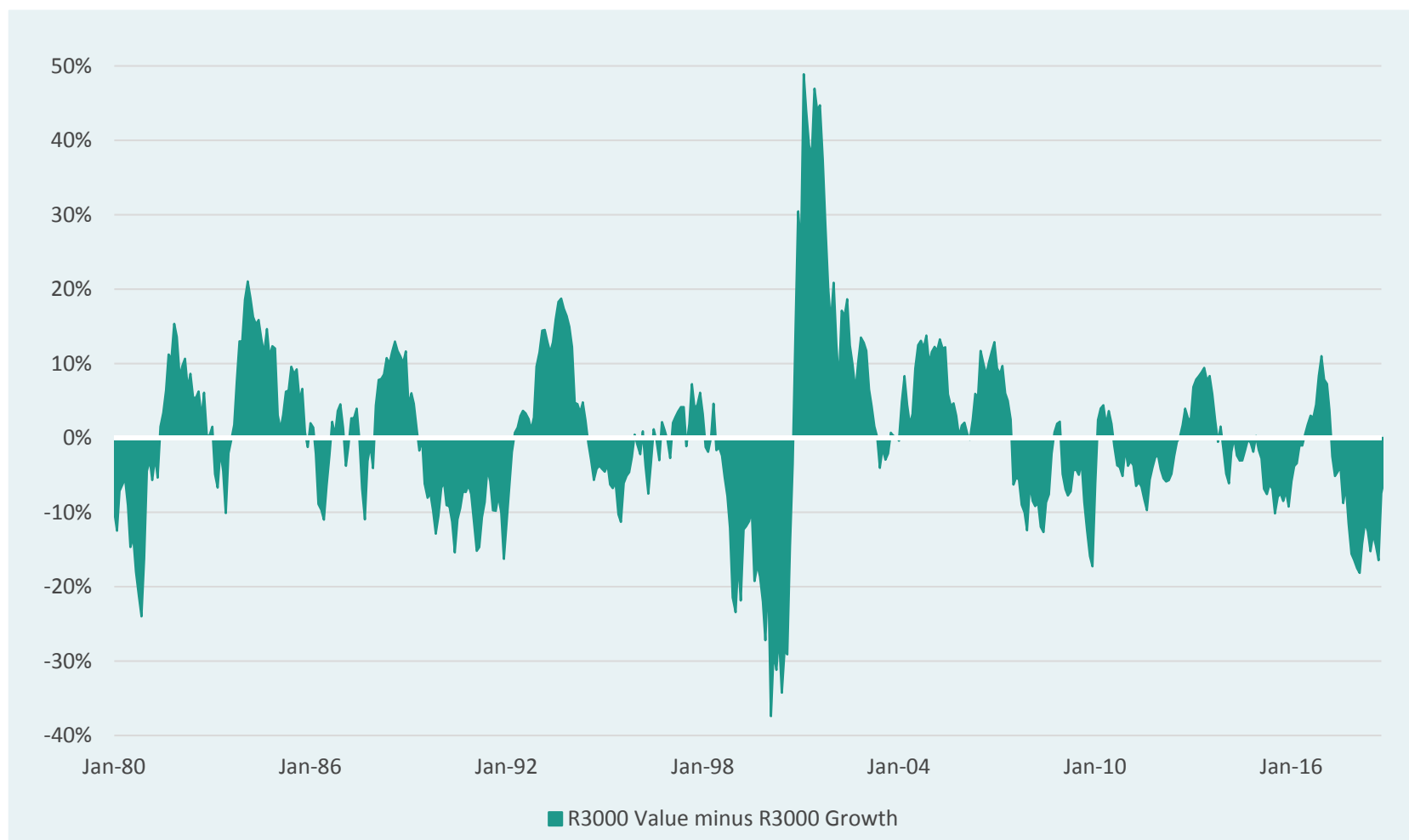
Drawdowns of greater than 20% have typically been associated with economic recessions

The recent drawdown appears overdone based on economic conditions

Source: Bloomberg, Verus, as of 12/31/18, recession start and end dates are from the NBER

# Value vs. growth

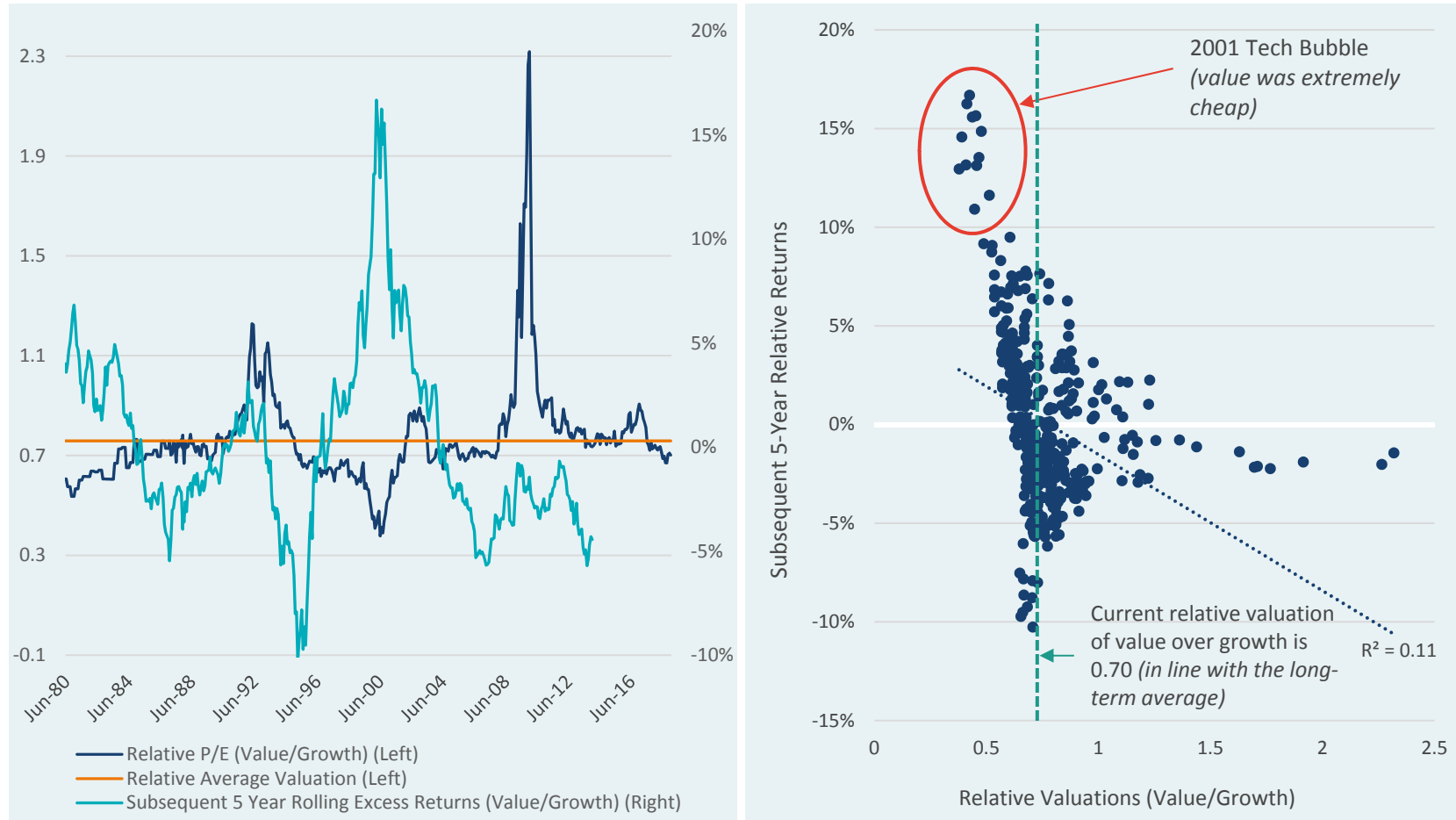
YEAR-OVER-YEAR RETURN DIFFERENCES BETWEEN U.S. VALUE AND GROWTH EQUITIES



Source: FTSE, as of 12/31/18

# Value – extreme prices indicate opportunity

But the price of value stocks is in-line with the long-term average



Although value has delivered an extended period of poor performance, value stocks are not cheap

Source: Verus, FTSE Russell, as of 12/31/18

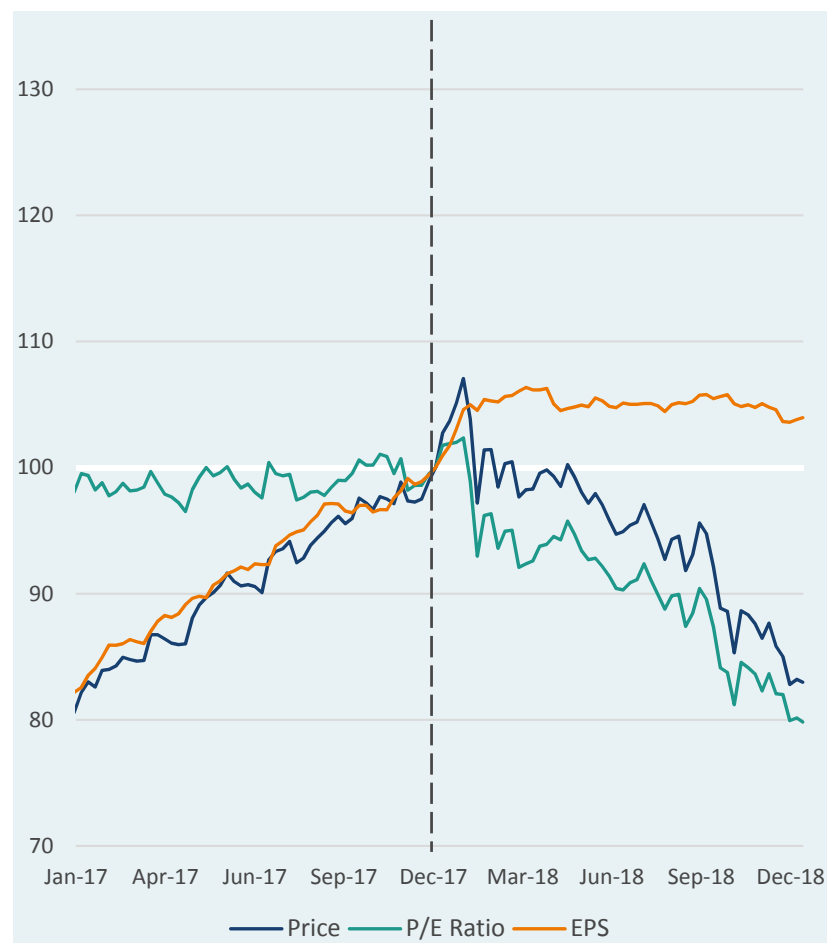


# Equity return behavior

U.S. (INDEXED TO START OF 2018)



EX U.S. (INDEXED TO START OF 2018)



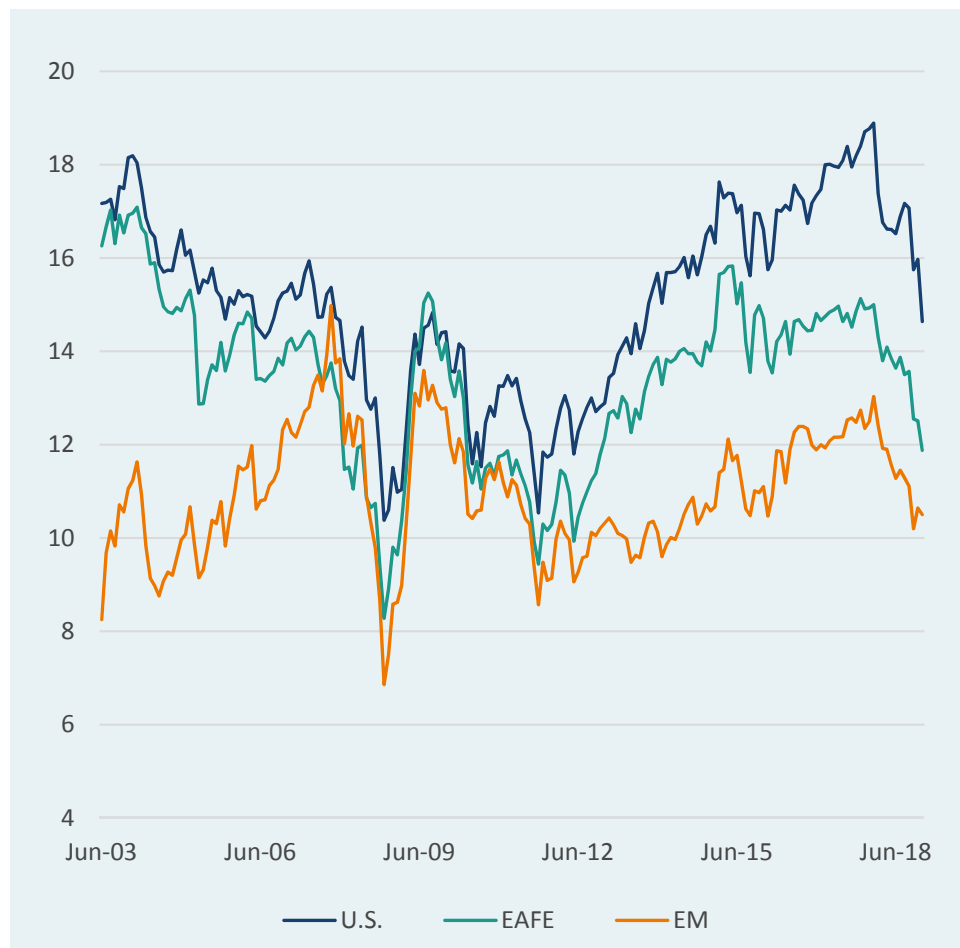
U.S. and international equity prices failed to keep up with earnings growth during 2018

This has resulted in much cheaper equity valuations

Source: Bloomberg, as of 12/31/18, the U.S. and ex-U.S. equity markets are represented by the S&P 500 Index and MSCI ACWI ex U.S. Index, respectively

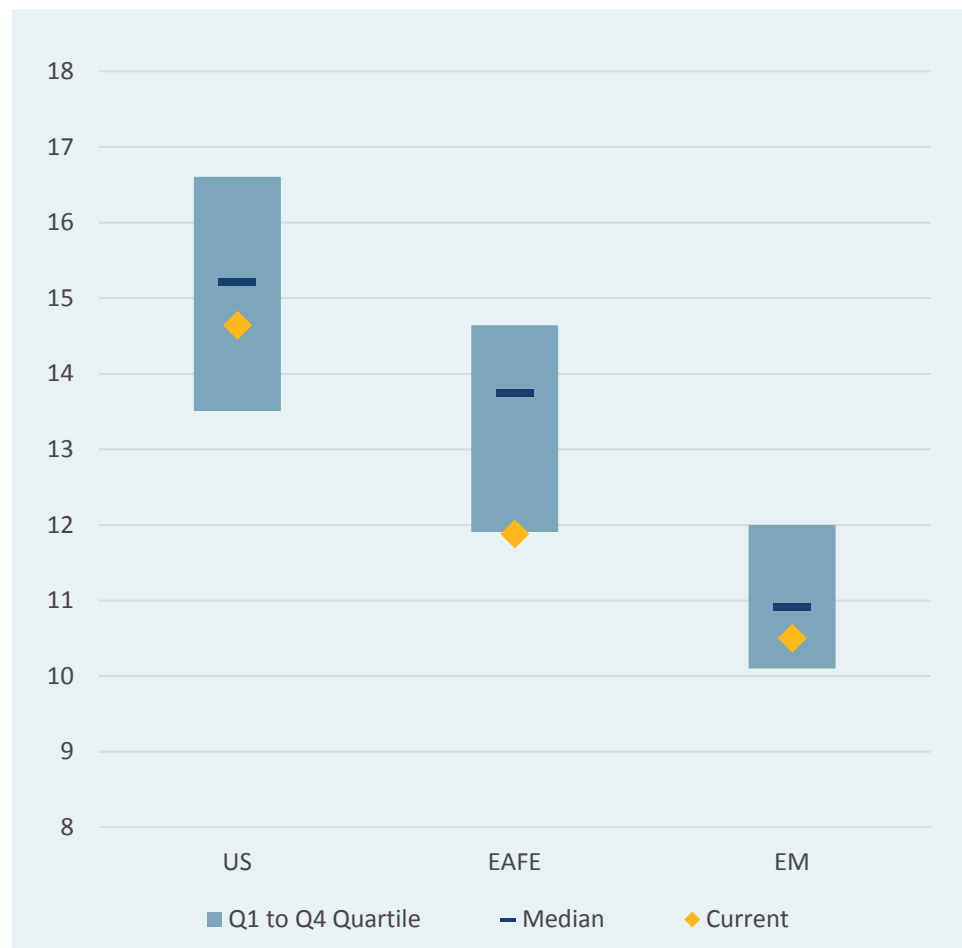
# Equity valuations

FORWARD P/E RATIOS



Source: Bloomberg, as of 12/31/18

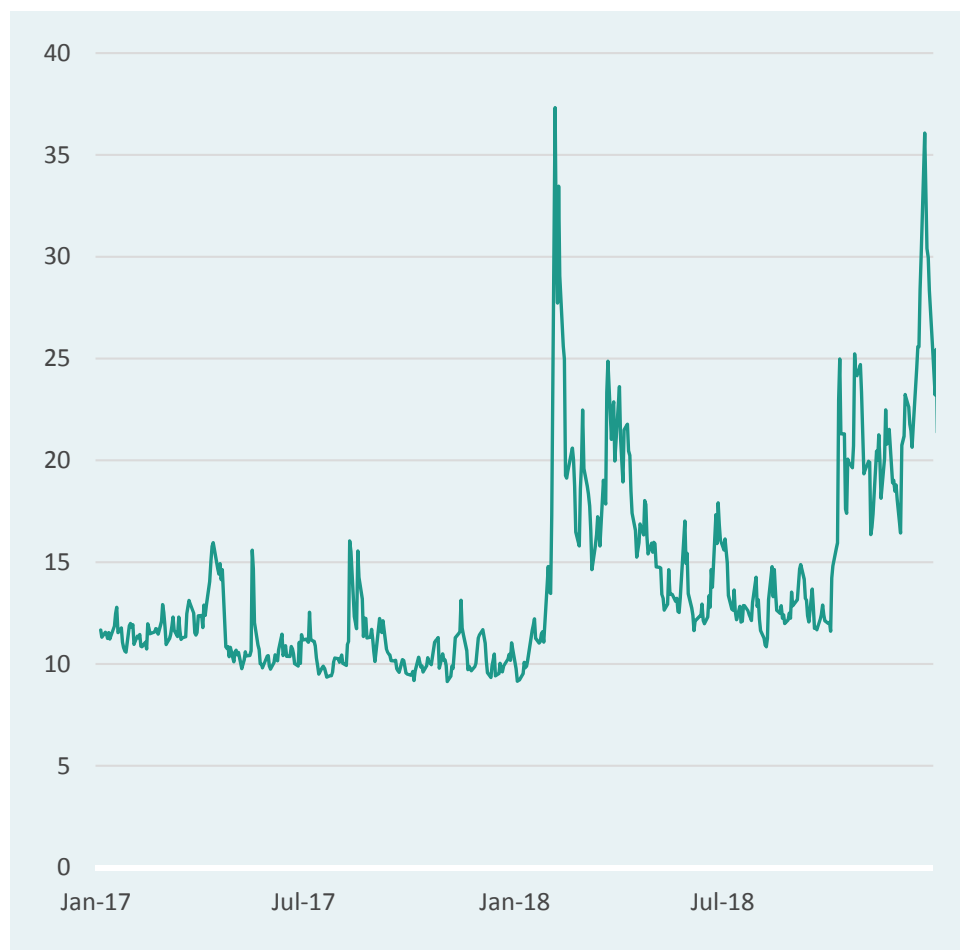
FORWARD P/E RATIO DISTRIBUTION (15-YR)



Source: Verus, MSCI, as of 12/31/18

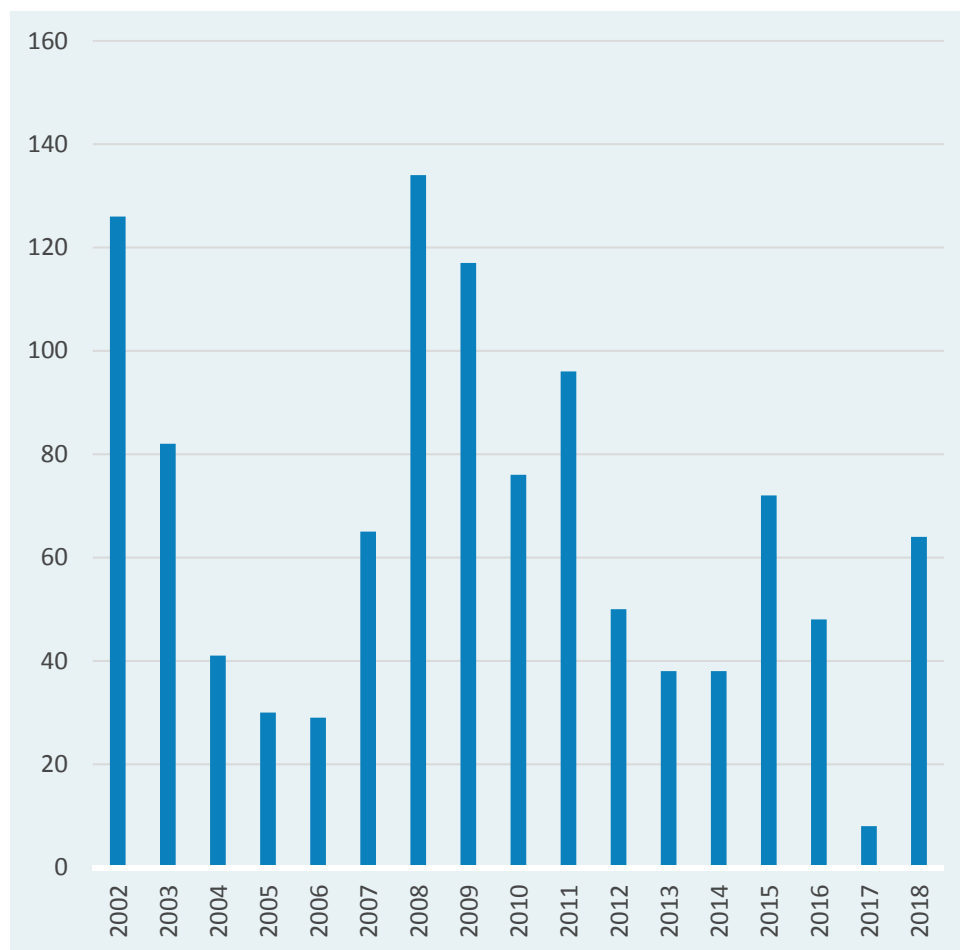
# Equity volatility

U.S. IMPLIED VOLATILITY



Source: CBOE, as of 12/31/18

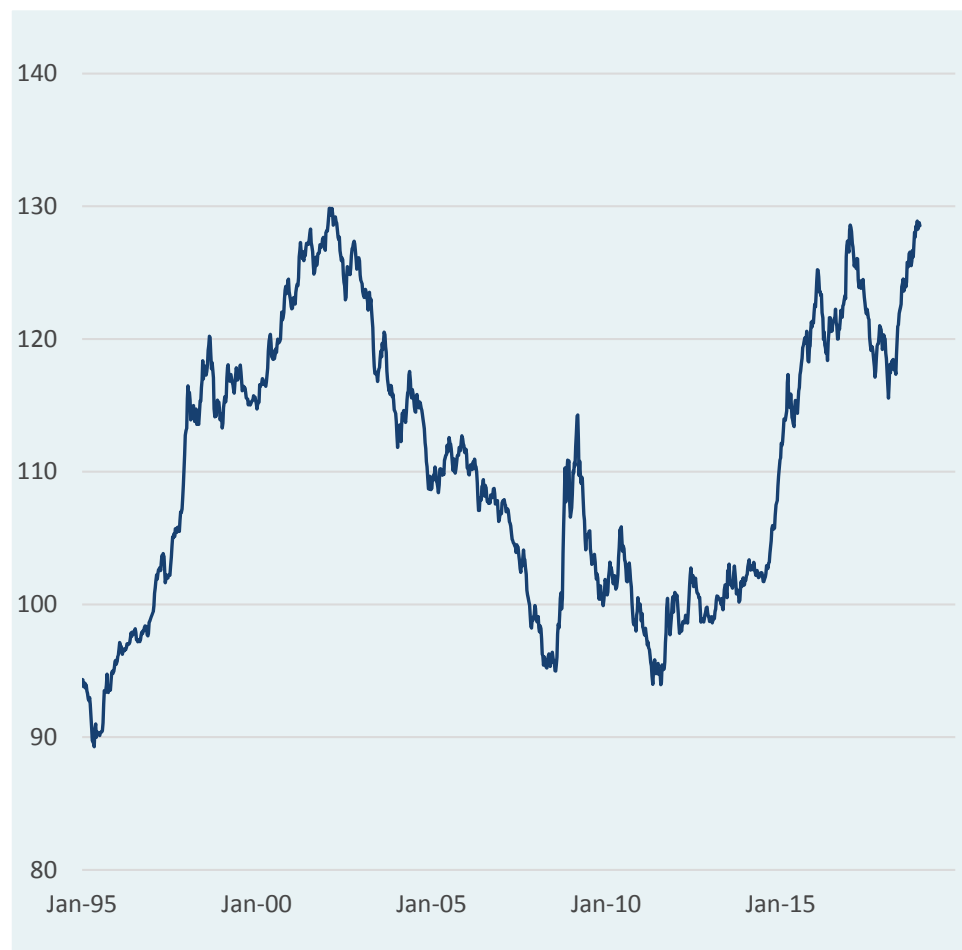
S&P 500 – NUMBER OF >1% DAILY MOVES



Source: Bloomberg, as of 12/31/18, includes up down and up moves

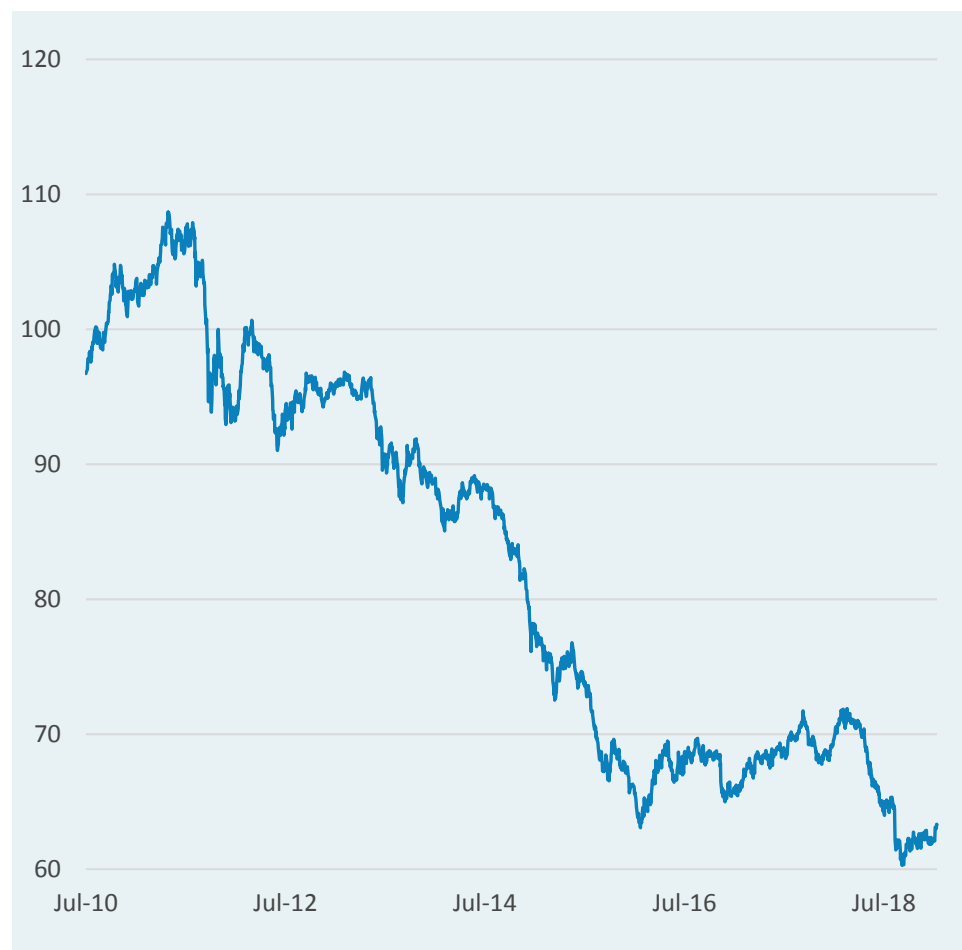
# Currency

U.S. DOLLAR TRADE WEIGHTED INDEX



Source: Federal Reserve, as of 12/26/18

JPM EMERGING MARKET CURRENCY INDEX



Source: Bloomberg, JPMorgan, as of 12/31/18

# 4<sup>th</sup> quarter summary

## THE ECONOMIC CLIMATE

- U.S. real GDP growth reached 3.0% in Q3, supported by fiscal stimulus which is more or less expected to fade in 2019. Growth is forecast to moderate in the U.S., in-line with the rest of the developed world.
- The U.S. and China ended their most recent round of trade negotiations during the first week of January. China indicated willingness to purchase more American agricultural goods, energy, and other manufactured goods, but little progress is evident overall.

## PORTFOLIO IMPACTS

- The Federal Reserve raised the Fed Funds rate by 0.25% to a range of 2.25%-2.50%. Market expectations for future rate hikes changed dramatically in December. As of year-end, the Fed Funds futures market is pricing in zero hikes for 2019, and a rate cut for 2020.
- Emerging markets were the top equity performer in Q4, as these markets (MSCI EM -7.5%) experienced much less pain than developed (S&P 500 -13.5%, MSCI EAFE -12.5%) during the equity sell-off. Currencies stabilized in Q4 (JP Morgan EM Currency Index +0.2%) and emerging market crises concerns faded from the news headlines.

## THE INVESTMENT CLIMATE

- The U.S. equity market experienced a fairly significant peak-to-trough drawdown in Q4 (S&P 500 -19.8%, Russell 1000 -20.1%), along with global equity markets. Equity corrections of this size have historically occurred roughly once per cycle.
- After reaching a cyclical high of 3.2% in November, the 10-year U.S. Treasury yield fell sharply to end the year at 2.7%. Much of this drop was due to falling inflation expectations as energy prices trended down.
- The House of Commons in British Parliament overwhelmingly rejected Theresa May's Brexit deal that had been approved by the European Union. The details surrounding the terms of Great Britain's exit remain uncertain ahead of the March 30<sup>th</sup> deadline.

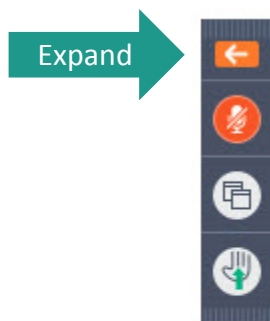
## ASSET ALLOCATION ISSUES

- Diversification has been particularly painful in recent years as most asset classes failed to keep up with a domestic 60/40 portfolio. U.S. performance exceptionalism reversed in Q4 as U.S. equities underperformed.
- Economic conditions around the world have weakened. This trend has been broad-based, from industrial production, to business sentiment, to corporate earnings expectations.

Economic conditions displayed a weaker trend in Q4

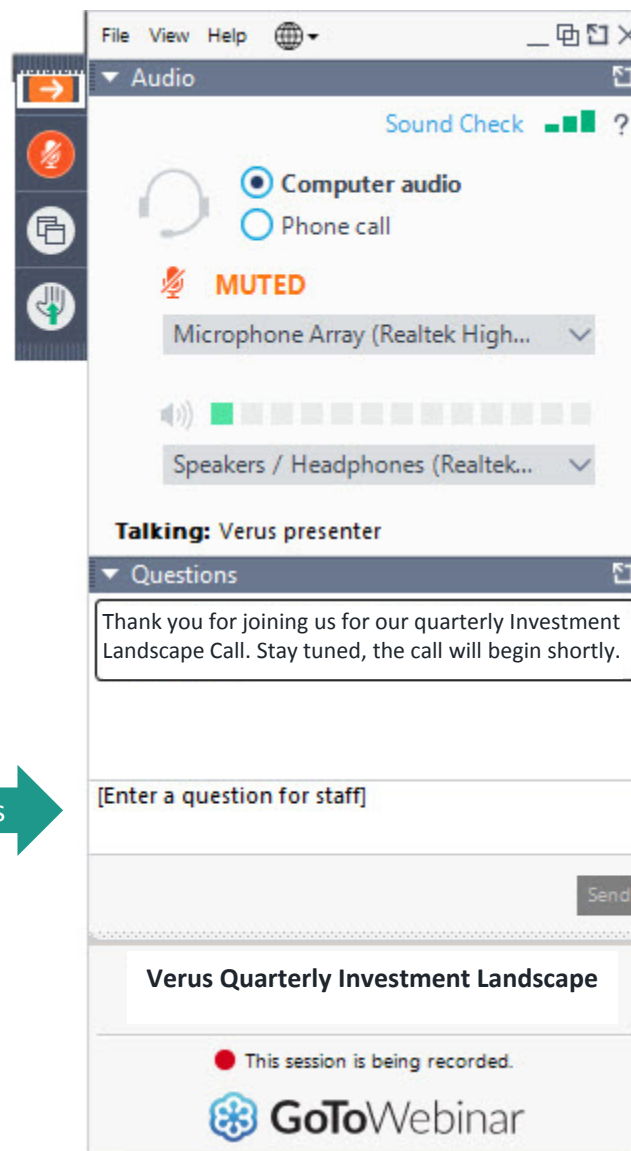
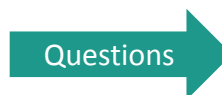
A neutral risk stance may be appropriate in today's environment

# Q&A



Use the orange arrow to expand the control panel

Ask questions here





# Thank you