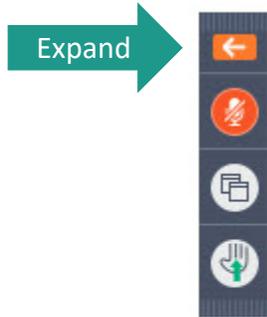




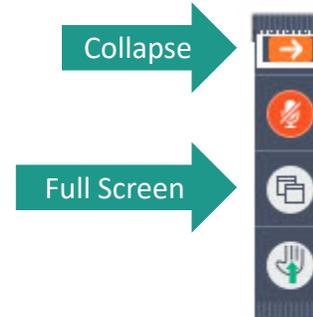
**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

2ND QUARTER 2020
Investment Landscape Webinar

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Ask questions here



A screenshot of the GoToWebinar interface. At the top, there's a menu bar with "File", "View", and "Help". Below it is a "Audio" section with "Sound Check" and a signal strength indicator. There are two radio buttons: "Computer audio" (selected) and "Phone call". A microphone icon is followed by the word "MUTED" in orange. Below that is a dropdown menu for "Microphone Array (Realtek High...)" and a volume slider. Another dropdown menu shows "Speakers / Headphones (Realtek...)". A "Talking:" section indicates "Verus presenter". Below that is a "Questions" section with a text box containing "Thank you for joining us for our quarterly Investment Landscape Call. Stay tuned, the call will begin shortly." Below the text box is a label "[Enter a question for staff]" and a "Send" button. At the bottom, the webinar title "Verus Quarterly Investment Landscape" is displayed, along with a red dot and the text "This session is being recorded." and the GoToWebinar logo.

2nd quarter conference call



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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

1st quarter summary

THE ECONOMIC CLIMATE

- Real GDP grew at a 0.3% rate year-over-year in the first quarter (-4.8% quarterly annualized rate). Personal consumption expenditures shrunk -7.6%, resulting in a -5.3% hit to headline growth. Forecasts of Q2 GDP growth have varied between -15% to -35%.
- The U.S. government quickly crafted and implemented historic stimulus measures to combat the economic impact of the virus. Support of this magnitude has not been seen since the Great Depression of the 1930s.

PORTFOLIO IMPACTS

- U.S. equities experienced an unusually sudden and significant sell-off in March as investors grew fearful of the health and economic impacts of COVID-19. During Q1 the S&P 500 fell -19.6%, international developed equities (MSCI EAFE) fell -22.8% and emerging markets (MSCI EM) fell -23.6%.
- U.S. core inflation increased 2.1% YoY in March. Headline inflation slowed to 1.5%, pushed lower by a sharp decline in energy prices which will likely have persistent effects in future months. Downward pressure could be compounded as households slow spending due to loss of income and a greater propensity to save rather than spend.

THE INVESTMENT CLIMATE

- In mid-March, the Federal Open Market Committee cut interest rates by a full 1.00% to a new range of 0 – 0.25%. This surprise action was taken on a Sunday with the intent to get out ahead of economic impacts of COVID-19.
- Implied volatility spiked in March to a record daily close of 82.7%, surpassing the high of 80.9% reached in November 2008 during the depths of the global financial crisis.
- Central banks are facing an economic slowdown and need for monetary policy support, but very little room to cut interest rates. This is a risk that has been discussed for years. We believe fiscal policies will play a much larger role in addressing the inevitable economic slowdown.

ASSET ALLOCATION ISSUES

- Risk markets experienced one of the most sudden corrections on record, amidst extreme volatility. The S&P 500 showed its largest one-day drop since 1987 (March 16 -11.98%) and its largest one-day gain since 2008 (March 24 +9.38%). Implied volatility reached global financial crisis levels, and high yield credit spreads temporarily expanded above 11%. Some of these losses were recovered toward the end of March as the market rebounded.
- The U.S. dollar appreciated significantly in the first quarter, rising 7.1% on a trade-weighted basis, resulting in losses for investors with unhedged currency exposure.

An underweight risk stance appears appropriate in today's environment

We remain watchful for investment opportunities

What drove the market in Q1?

“World Health Organization declares the coronavirus outbreak a global pandemic”

GLOBAL CONFIRMED COVID-19 CASES

1/31	2/15	2/29	3/15	3/31	4/15
11,374	69,267	86,351	164,403	857,778	2,077,469

Article Source: CNBC, March 11th, 2020

“Vix Hits Highest Level Since the Financial Crisis as Volatility Soars”

CBOE VIX INDEX

Oct	Nov	Dec	Jan	Feb	Mar
13.22	12.62	13.78	18.84	40.11	53.54

Article Source: Barron's, March 9th, 2020

“Fed announces unlimited QE and sets up several new lending programs”

FEDERAL RESERVE BALANCE SHEET (USD TRILLIONS)

3/4	3/11	3/18	3/25	4/1	4/8
4.3	4.4	4.7	5.3	5.9	6.1

Article Source: MarketWatch, March 23rd, 2020

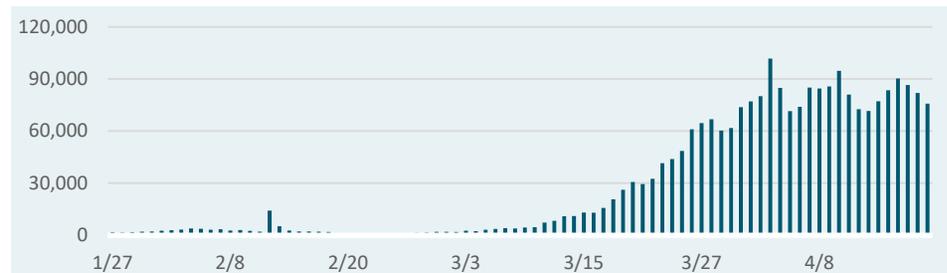
“Coronavirus job losses could total 47 million, unemployment rate may hit 32 percent, Fed estimates”

INITIAL WEEKLY JOBLESS CLAIMS

3/6	3/13	3/20	3/27	4/3	4/10
211,000	282,000	3,307,000	6,867,000	6,615,000	5,245,000

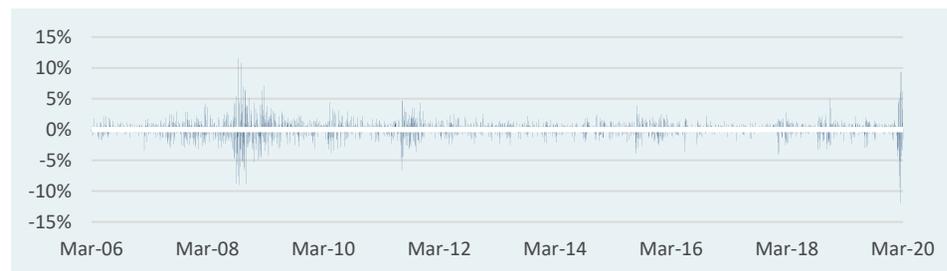
Article Source: NBC News, March 30th, 2020

DAILY NEW COVID-19 CASES (WORLDWIDE)



Source: Worldometer, as of 4/19/20

S&P 500 INDEX 1-DAY PERCENTAGE PRICE MOVE



Source: Standard & Poor's, Bloomberg, as of 3/31/20

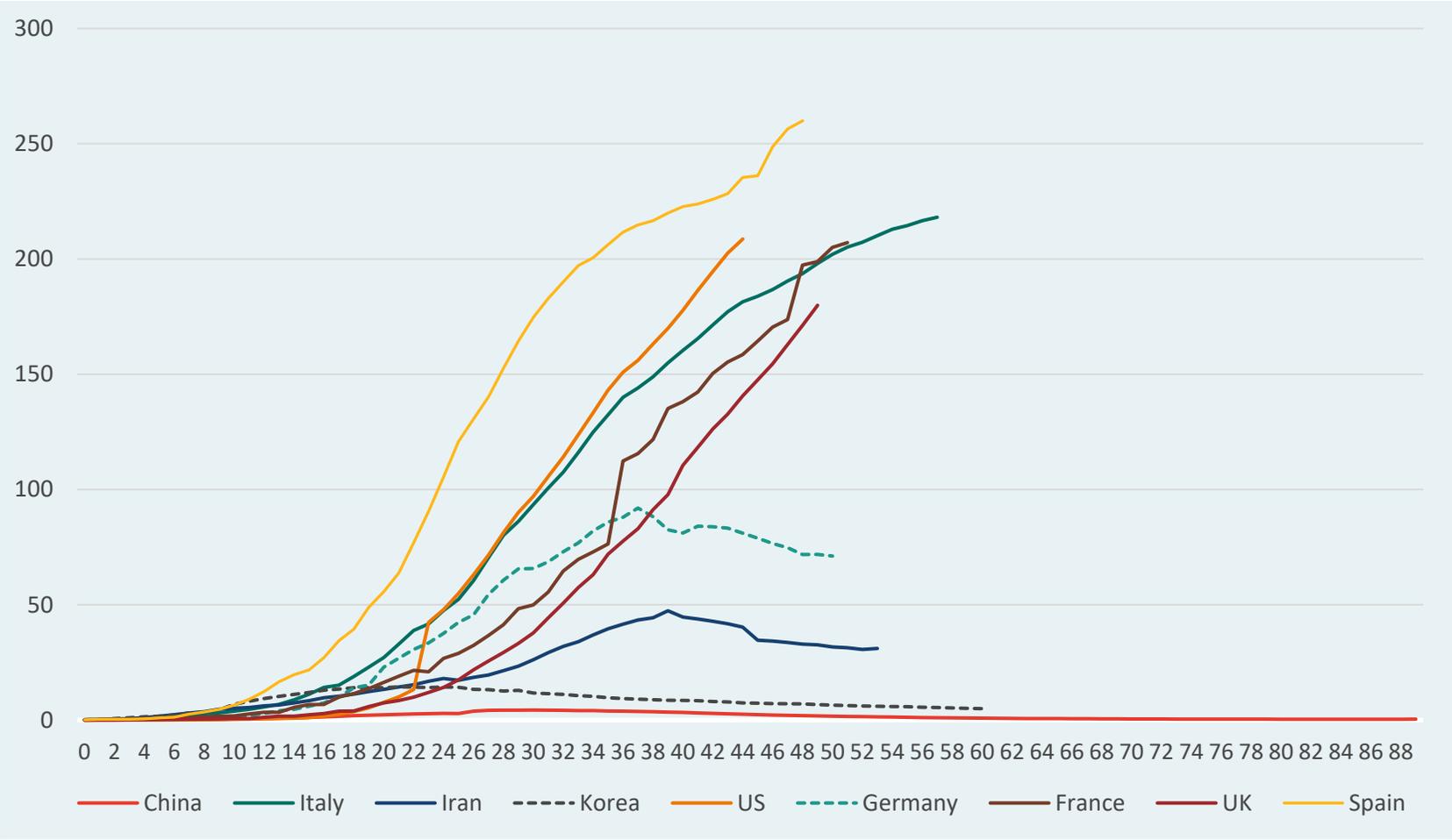
FEDERAL RESERVE BALANCE SHEET (USD TRILLIONS)



Source: Federal Reserve, as of 4/8/20

COVID-19 update

ACTIVE CASES PER 100,000 PEOPLE



The COVID-19 crisis has quickly become a global pandemic

Source: Bloomberg, aggregated official country statistics, x-axis indexed to when the country first reached 100 cases, as of 4/17/20

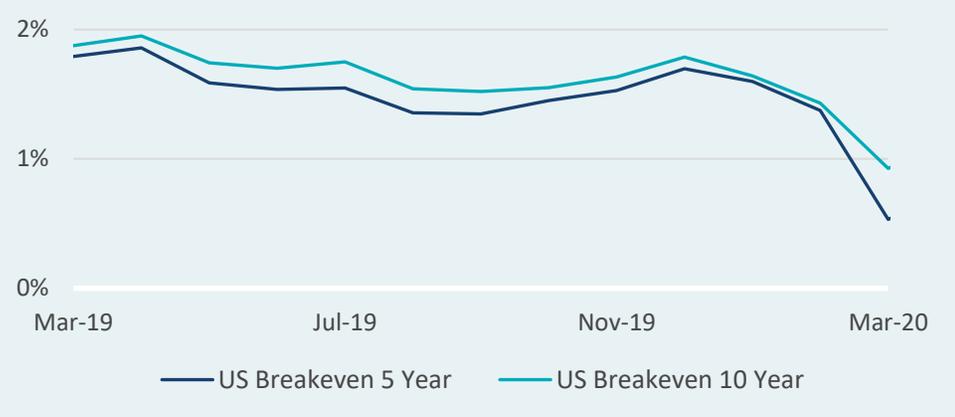
U.S. economics summary

	Most Recent	12 Months Prior
GDP (YoY)	0.3% 3/31/20	2.7% 3/31/19
Inflation (CPI YoY, Core)	2.1% 3/31/20	2.0% 3/31/19
Expected Inflation (5yr- 5yr forward)	1.3% 3/31/20	2.4% 3/31/19
Fed Funds Target Range	0% – 0.25% 3/31/20	2.25% – 2.50% 3/31/19
10 Year Rate	0.7% 3/31/20	2.4% 3/31/19
U-3 Unemployment	4.4% 3/31/20	3.8% 3/31/19
U-6 Unemployment	8.7% 3/31/20	7.4% 3/31/19

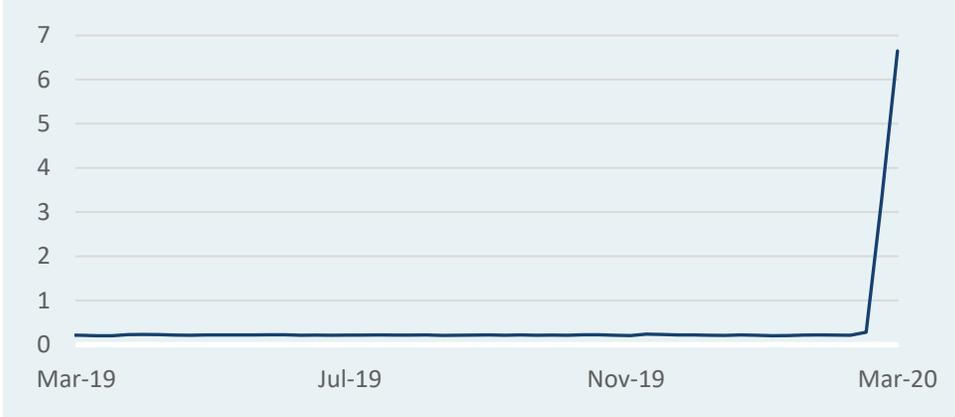
Source: Bloomberg

Ouch!

U.S. BREAKEVEN INFLATION RATES



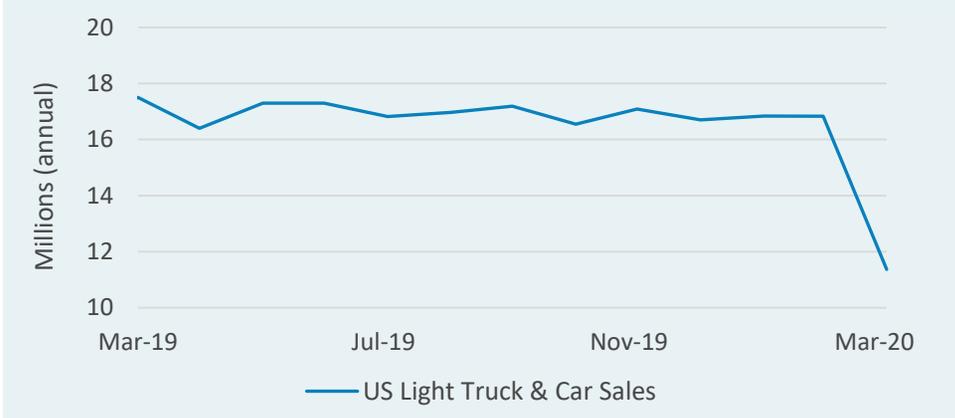
WEEKLY JOBLESS CLAIMS (MILLIONS)



SMALL BUSINESS OPTIMISM



AUTO SALES



Source: Bloomberg, Bureau of Labor Statistics, NFIB, as of 3/31/20

U.S. inflation

U.S. CPI (YOY)



Source: Bloomberg, as of 3/31/20

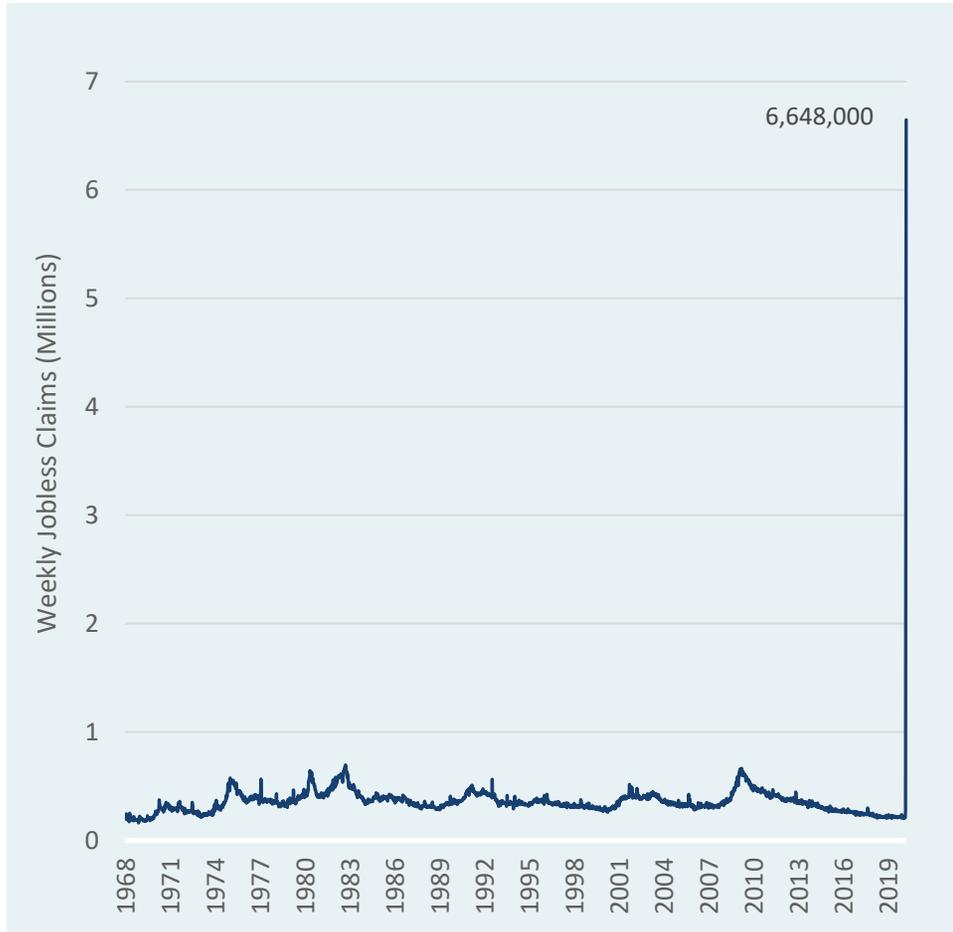
INFLATION EXPECTATIONS



Source: Bloomberg, as of 3/31/20

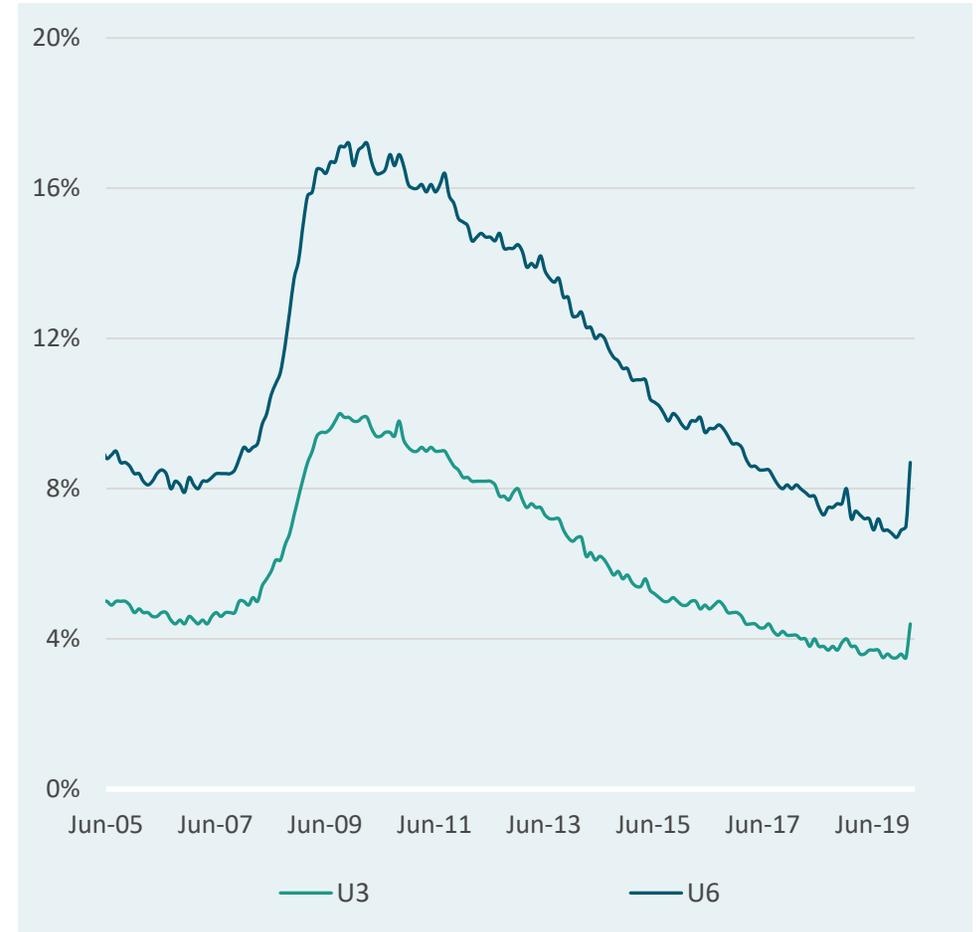
Labor market

WEEKLY INITIAL JOBLESS CLAIMS



Source: FRED, as of 3/31/20

U.S. UNEMPLOYMENT



Source: BLS, as of 3/31/20

U.S. sentiment

SMALL BUSINESS OPTIMISM



Source: NFIB, as of 3/31/20

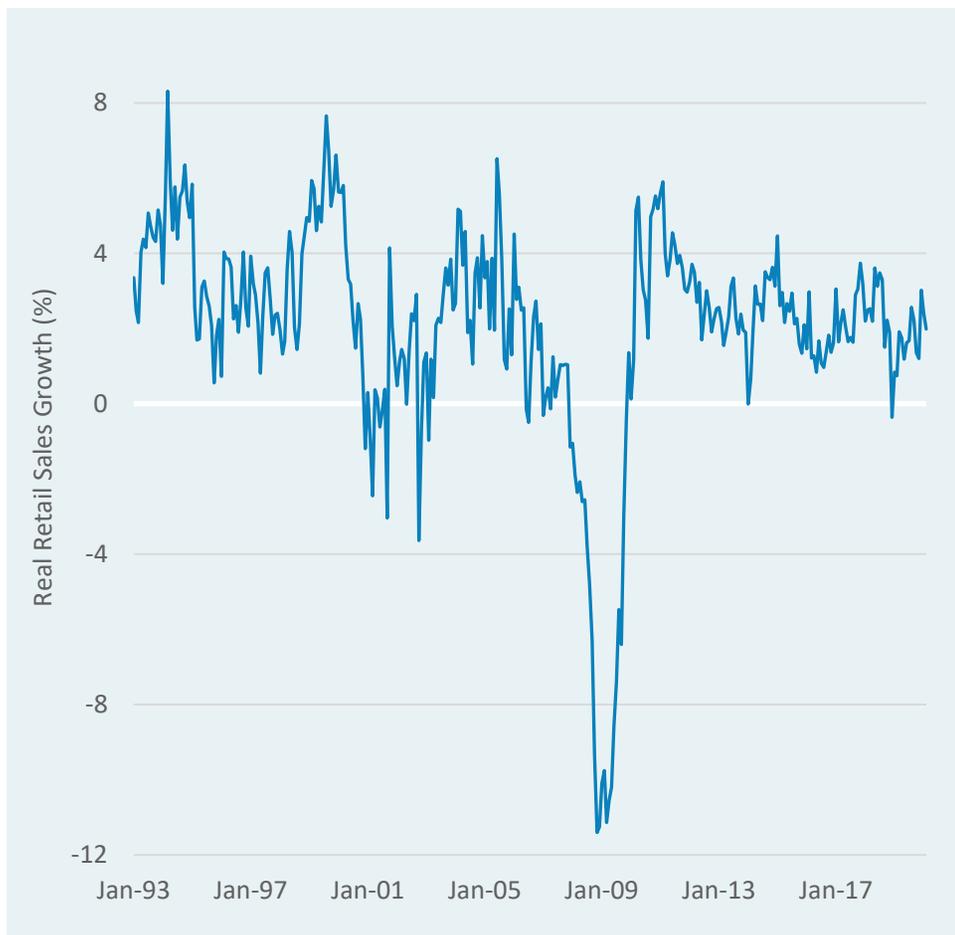
SMALL BUSINESS HIRING PLANS INDEX



Source: NFIB, as of 3/31/20

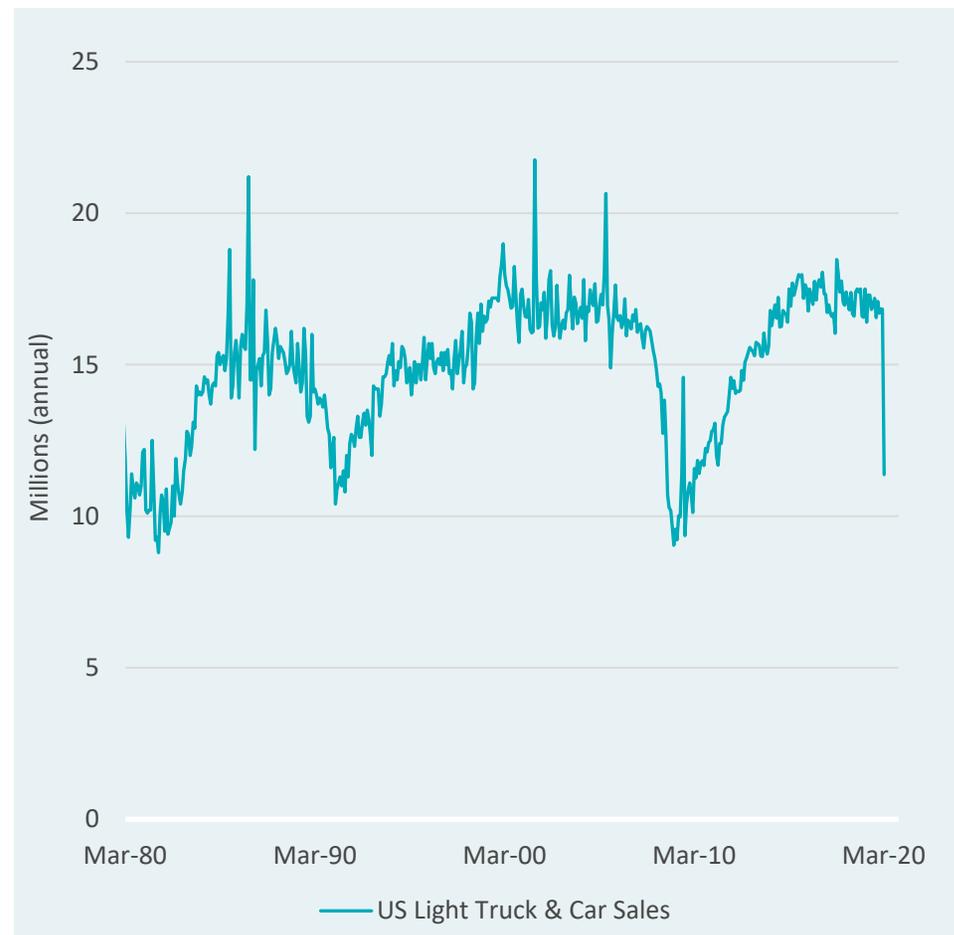
U.S. consumer

REAL RETAIL SALES GROWTH (YOY)



Source: FRED, as of 2/29/20

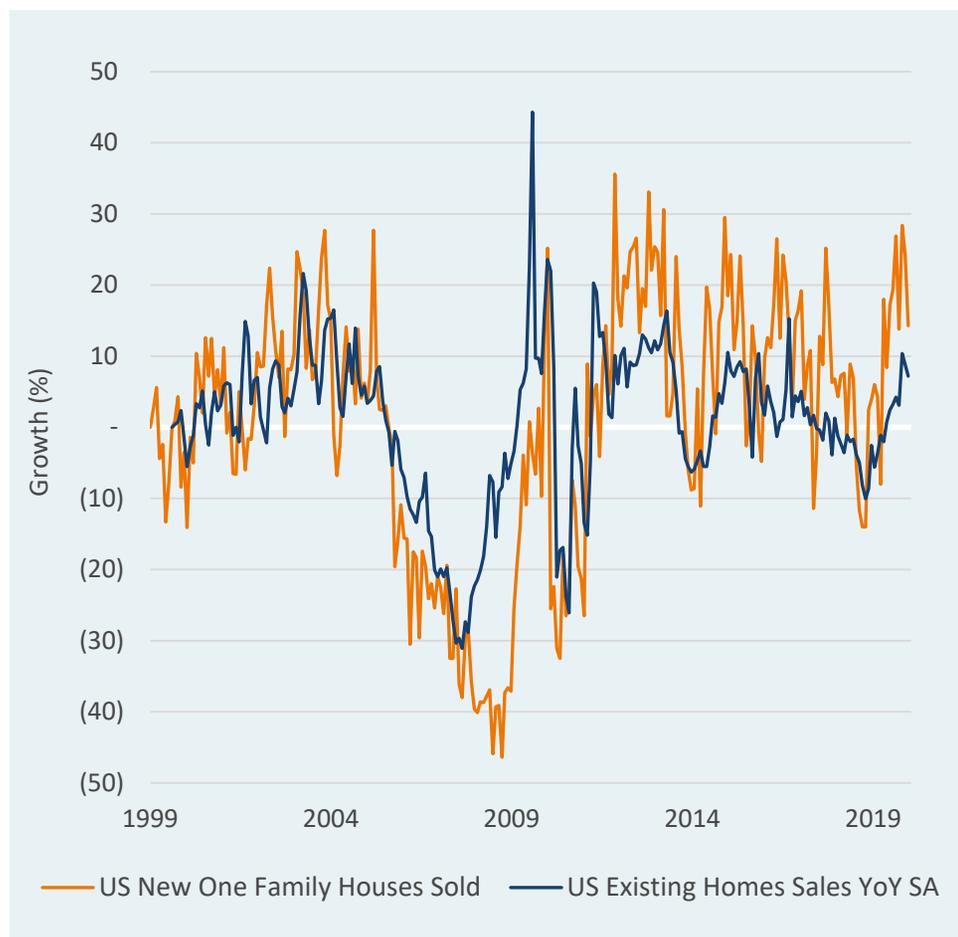
U.S. AUTO SALES



Source: Bloomberg, as of 3/31/20

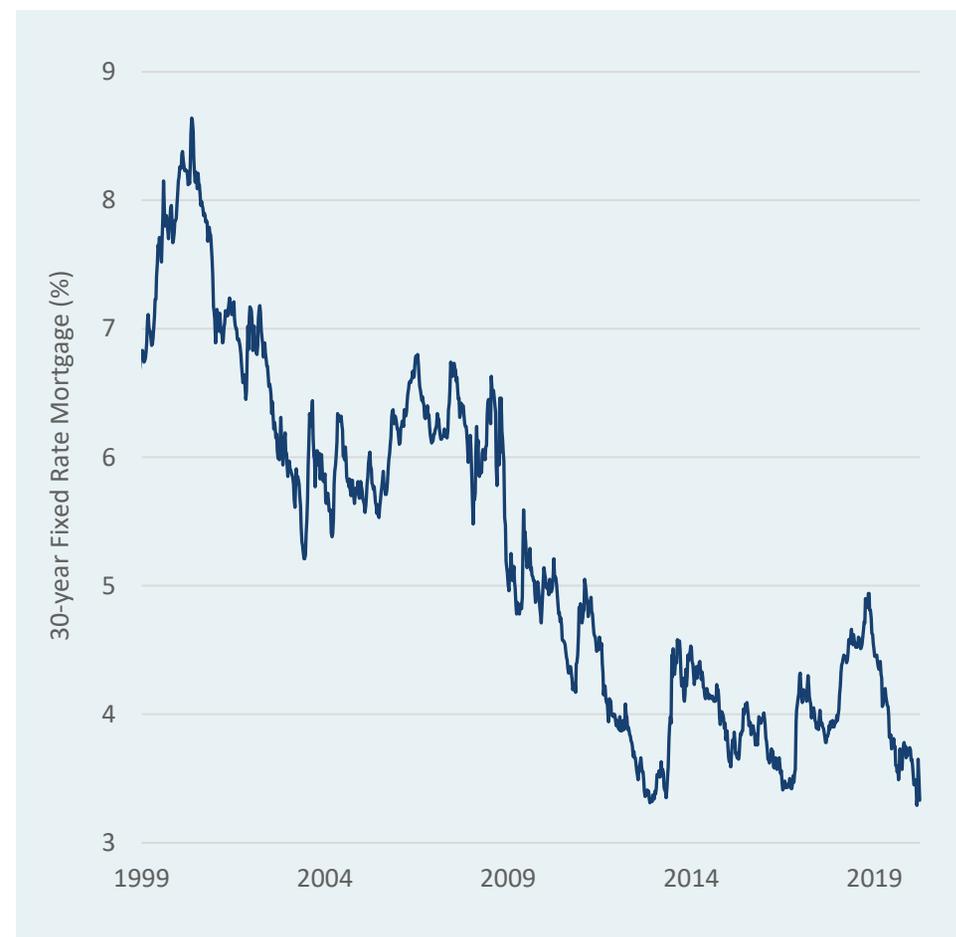
U.S. housing

U.S. HOME SALES (YOY)



Source: FRED, as of 2/29/20

30YR FIXED RATE MORTGAGE



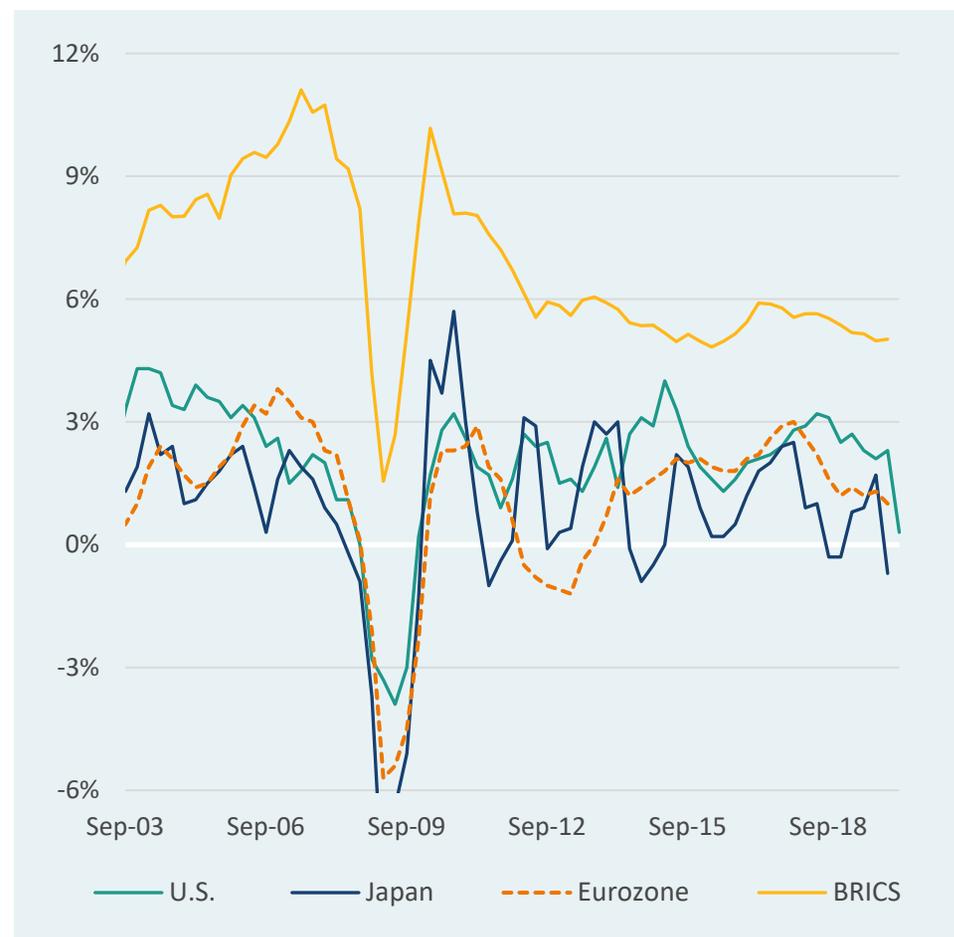
Source: FRED, as of 3/31/20

International economics summary

Area	GDP (Real, YoY)	Inflation (CPI, YoY)	Unemployment
United States	0.3% 3/31/20	1.5% 3/31/20	4.4% 3/31/20
Eurozone	1.0% 12/31/19	0.7% 3/31/20	7.3% 2/29/20
Japan	(0.7%) 12/31/19	0.4% 3/31/20	2.3% 2/29/20
BRICS Nations	5.0% 12/31/19	4.9% 3/31/20	5.0% 12/31/19
Brazil	1.7% 12/31/19	3.3% 3/31/20	11.6% 2/29/20
Russia	2.1% 12/31/19	2.6% 3/31/20	4.6% 2/29/20
India	4.7% 12/31/19	5.9% 3/31/20	8.5% 12/31/17
China	6.0% 12/31/19	4.3% 3/31/20	3.6% 12/31/19

Source: Bloomberg

REAL GDP GROWTH (YOY)

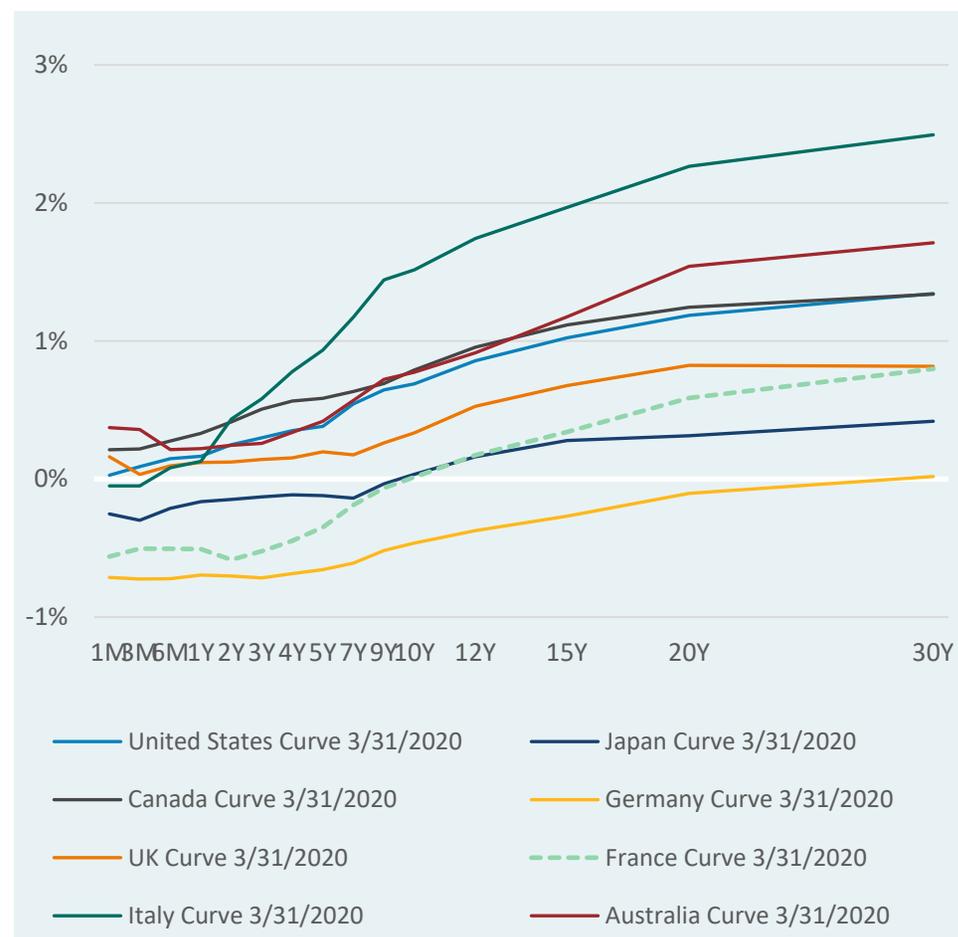


Source: Bloomberg, as of 3/31/20 or most recent release

Interest rate environment

Area	Short Term (3M)	10-Year
United States	0.09%	0.67%
Germany	(0.71%)	(0.47%)
France	(0.50%)	(0.02%)
Spain	(0.23%)	0.67%
Italy	(0.05%)	1.52%
Greece	0.16%	1.63%
U.K.	0.03%	0.36%
Japan	(0.30%)	0.01%
Australia	0.37%	0.76%
China	1.34%	2.58%
Brazil	3.37%	7.77%
Russia	5.47%	6.70%

GLOBAL GOVERNMENT YIELD CURVES



Source: Bloomberg, as of 3/31/20

Yield environment

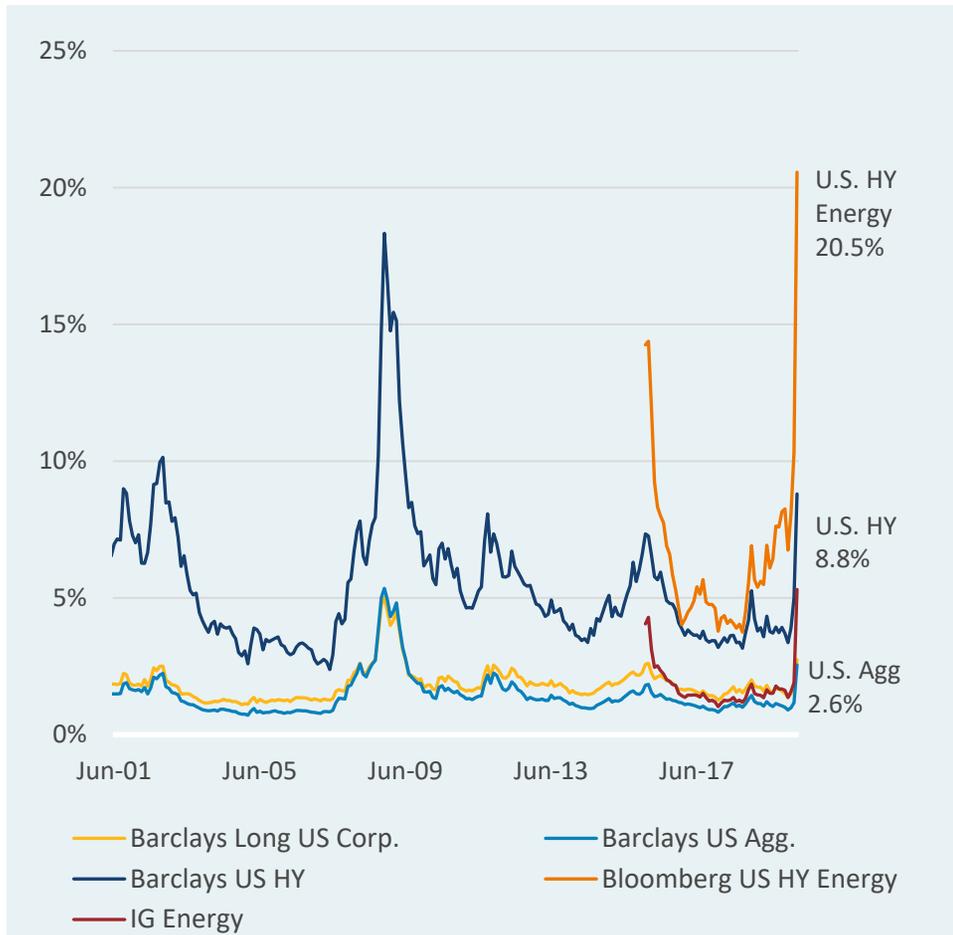
U.S. YIELD CURVE



Source: Bloomberg, as of 12/31/19

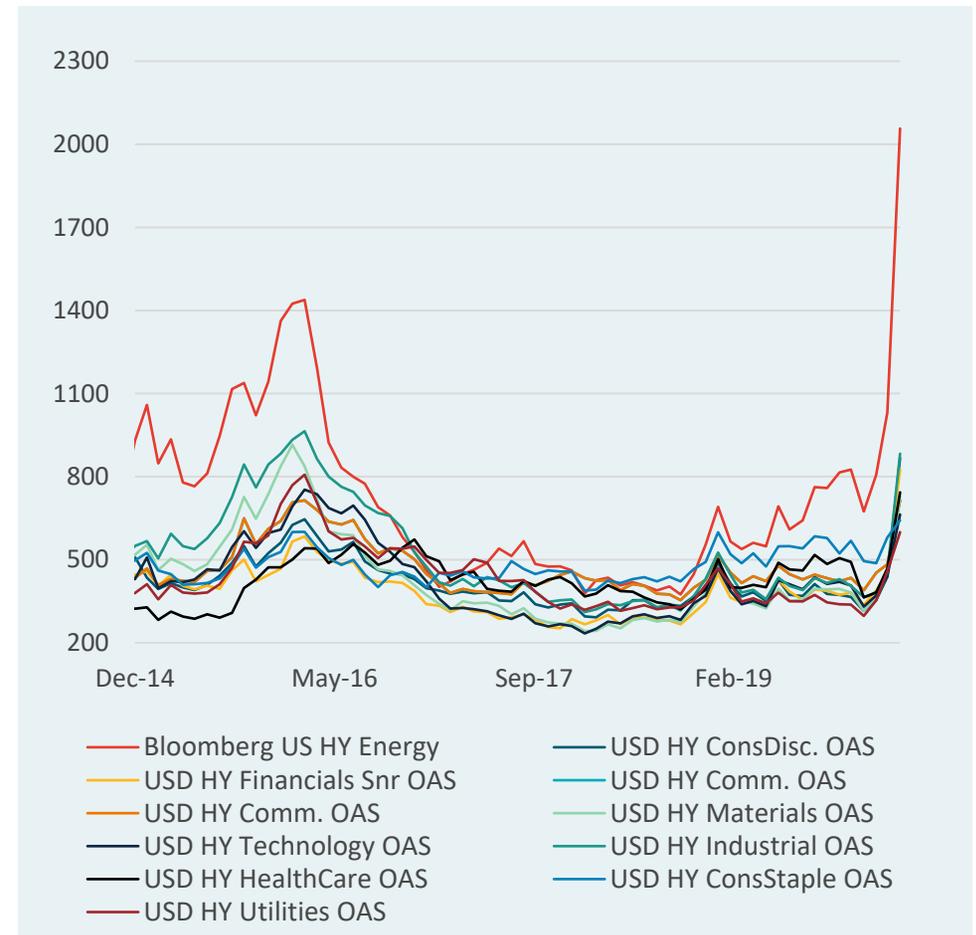
Credit environment

SPREADS



Source: Barclays, Bloomberg, as of 3/31/20

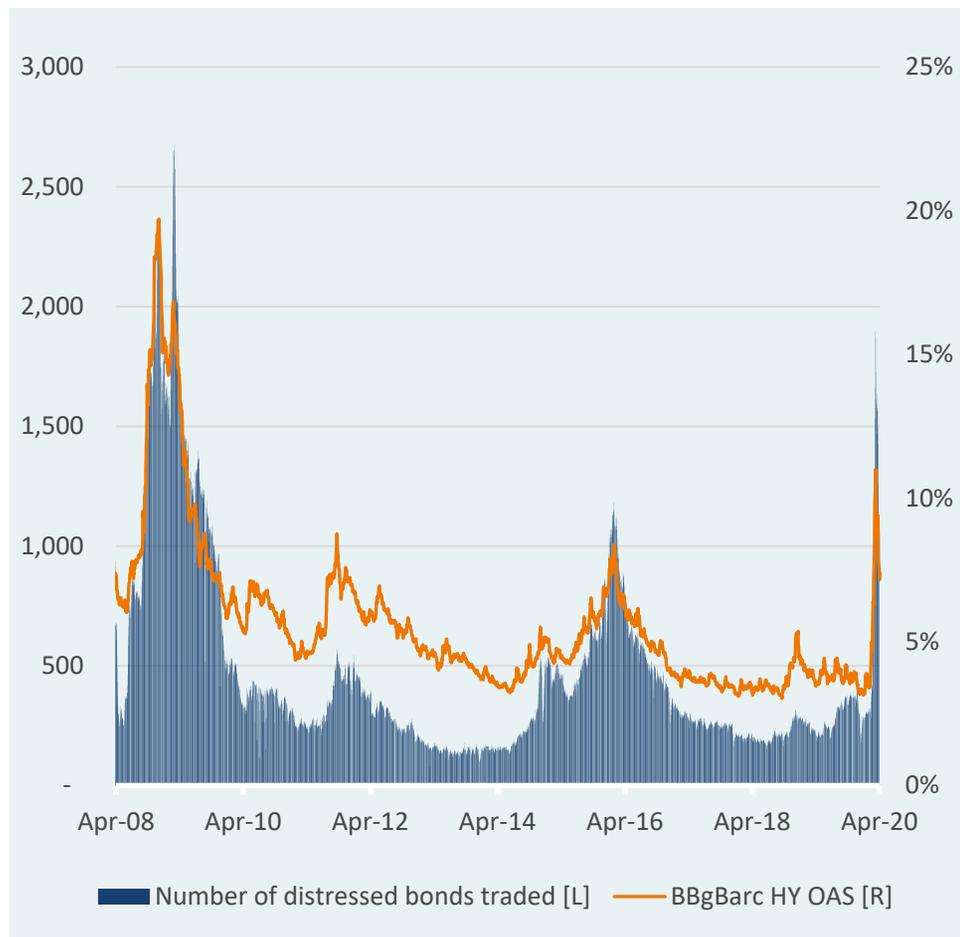
HIGH YIELD SECTOR SPREADS (BPS)



Source: Bloomberg, as of 3/31/20

High yield – what’s happened?

VOLUME AND SPREADS



Source: J.P. Morgan, Bloomberg as of 3/31/20

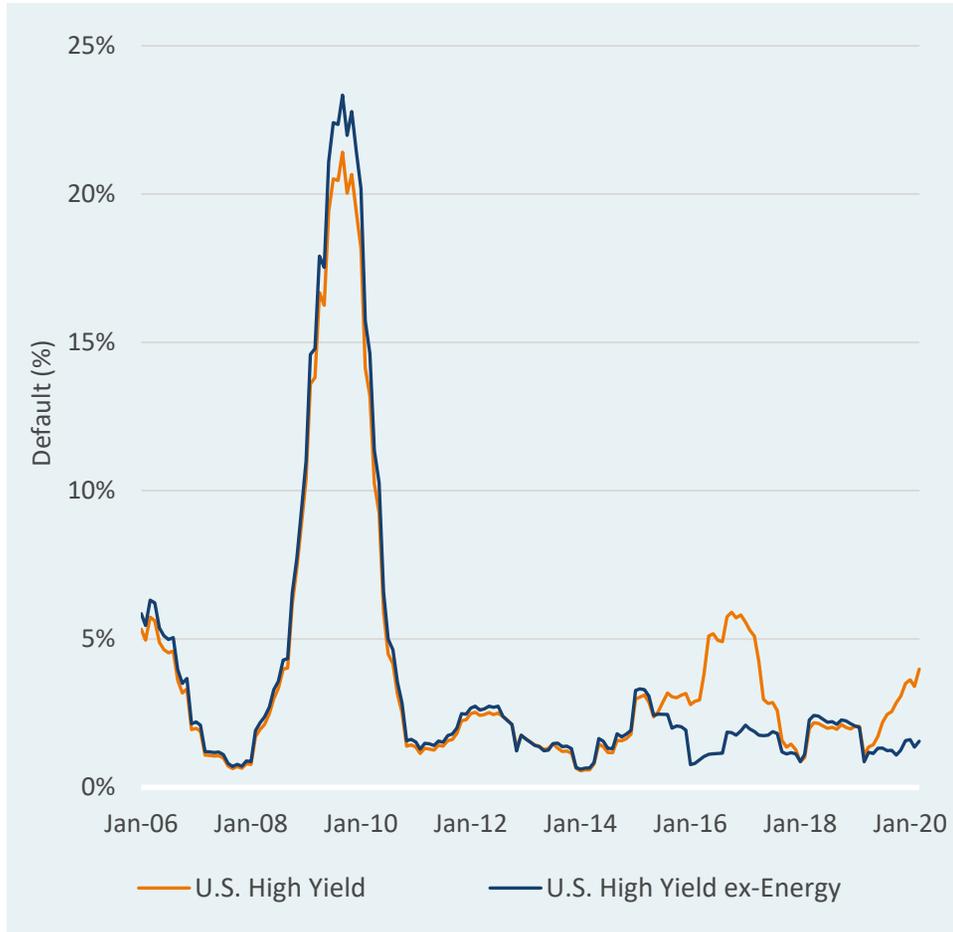
FALLEN ANGELS



Source: J.P. Morgan, as of 3/31/20

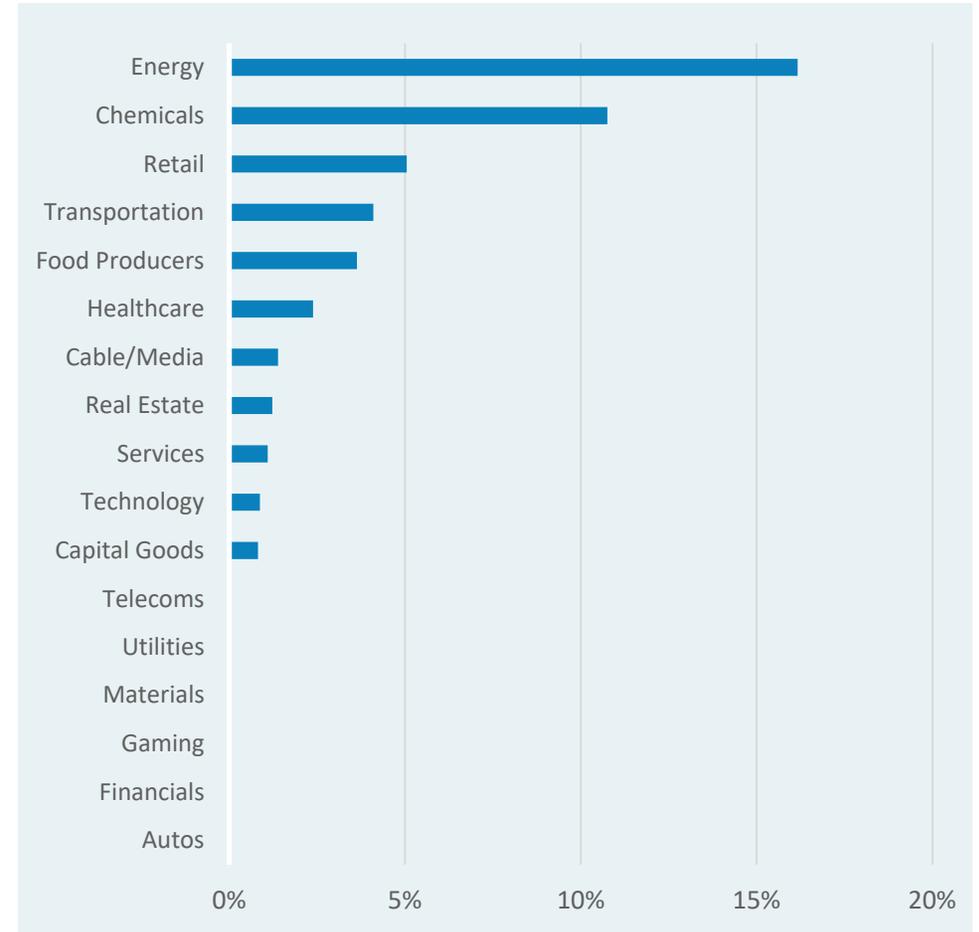
High yield defaults

HY DEFAULT RATE (ROLLING 1-YEAR)



Source: BofA Merrill Lynch, as of 3/31/20

U.S. HY SECTOR DEFAULTS (LAST 12 MONTHS)



Source: BofA Merrill Lynch, as of 3/31/20 – par weighted

Equity environment

	QTD TOTAL RETURN		1 YEAR TOTAL RETURN	
	(unhedged)	(hedged)	(unhedged)	(hedged)
US Large Cap (S&P 500)	(19.6%)		(7.0%)	
US Small Cap (Russell 2000)	(30.6%)		(24.0%)	
US Large Value (Russell 1000 Value)	(26.7%)		(17.2%)	
US Large Growth (Russell 1000 Growth)	(14.1%)		(0.9%)	
International Large (MSCI EAFE)	(22.8%)	(19.9%)	(14.4%)	(10.3%)
Eurozone (Euro Stoxx 50)	(27.0%)	(24.8%)	(16.6%)	(12.0%)
U.K. (FTSE 100)	(28.8%)	(23.0%)	(22.0%)	(16.4%)
Japan (NIKKEI 225)	(18.6%)	(18.8%)	(6.7%)	(6.8%)
Emerging Markets (MSCI Emerging Markets)	(23.6%)	(18.5%)	(17.7%)	(12.7%)

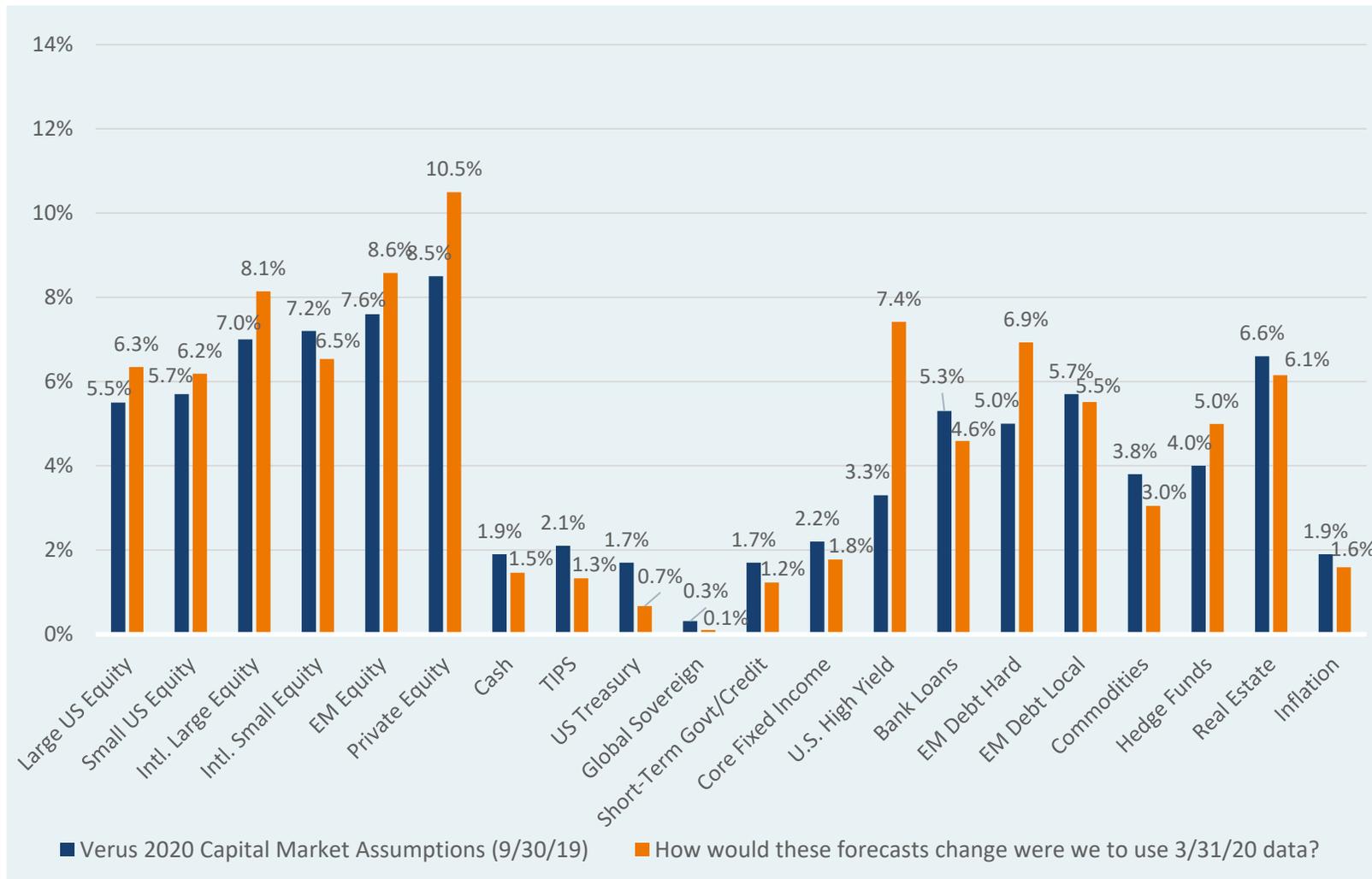
Source: Russell Investments, MSCI, STOXX, FTSE, Nikkei, as of 3/31/20

Q1 performance



Source: Verus, as of 3/31/20 – Volatility is based on our forward looking 10-year Capital Market Assumptions

How have return expectations changed?

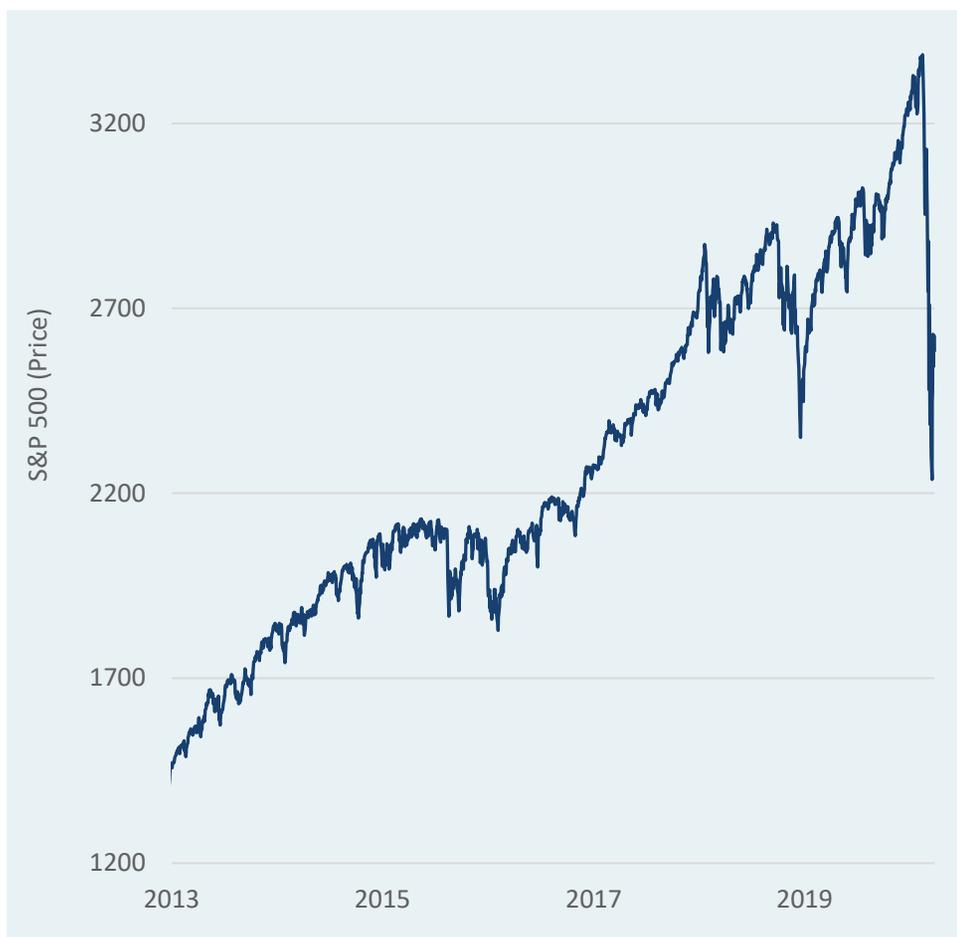


The overall portfolio's expected return may have risen or fallen during Q1, depending on the asset allocation & risk level

Source: Verus, as of 3/31/20

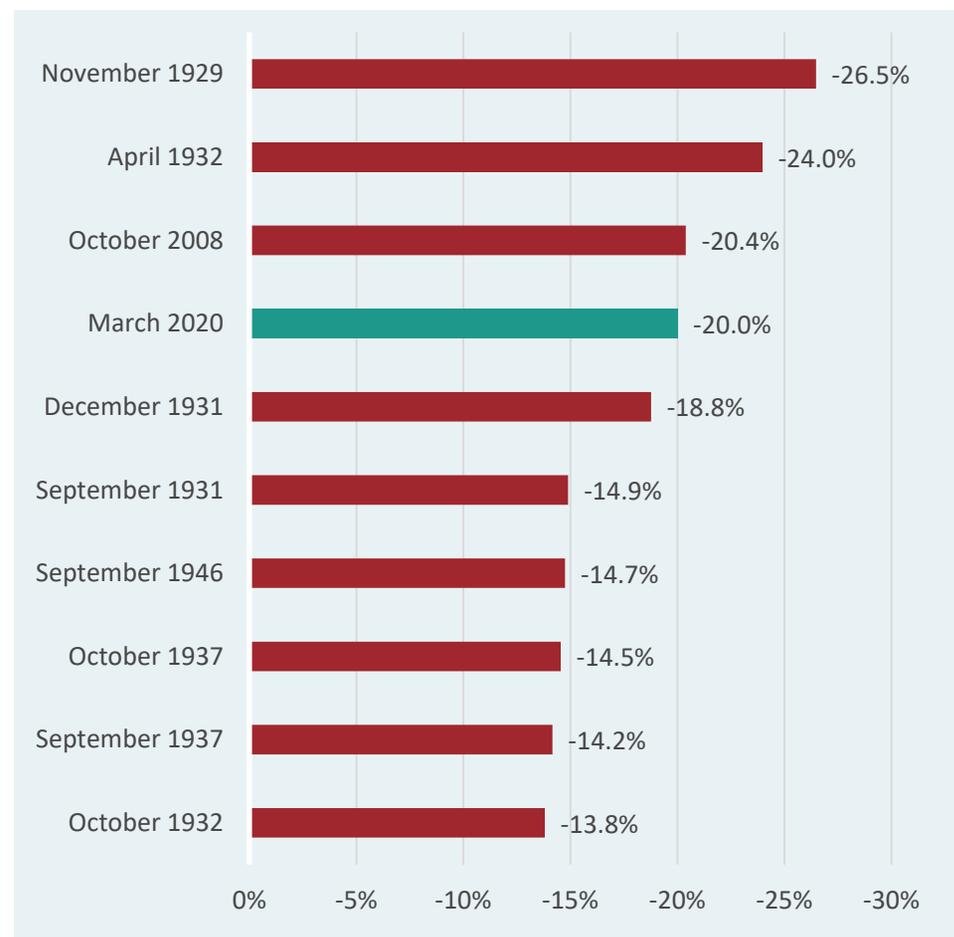
Domestic equity

S&P 500



Source: Standard & Poor's, as of 3/31/20

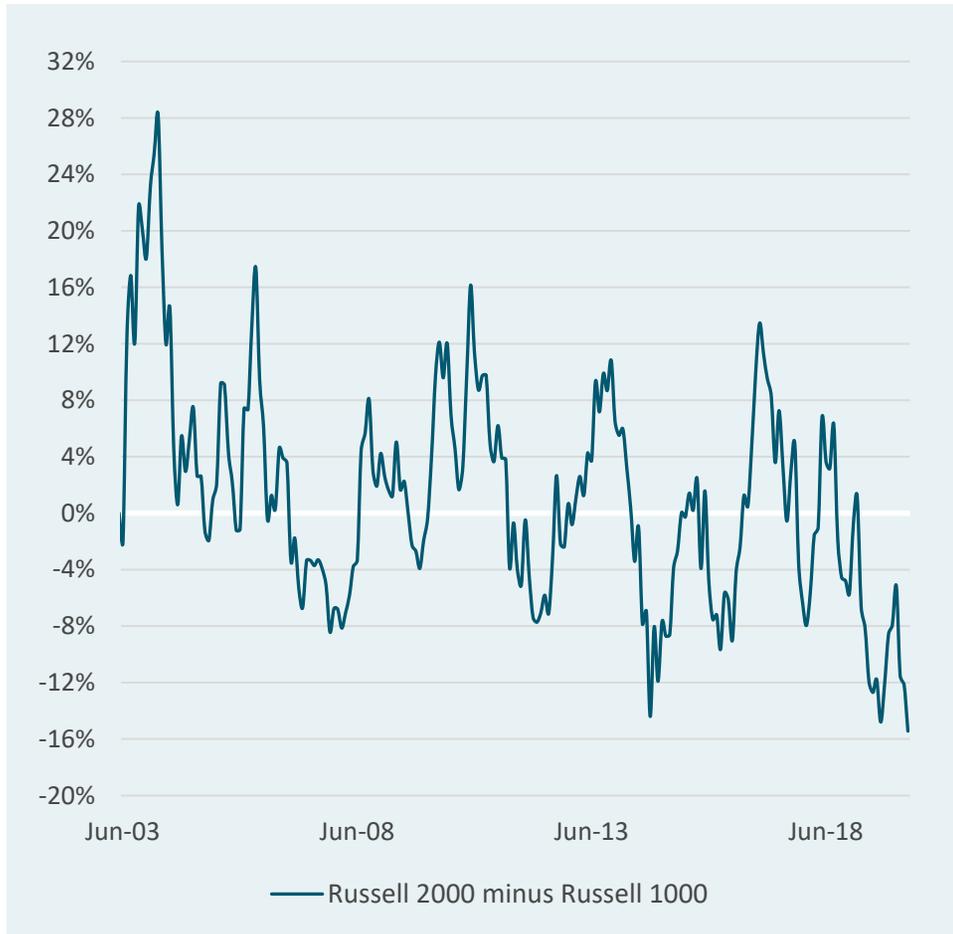
WORST S&P 500 MAX MONTHLY DRAWDOWNS



Source: Standard & Poor's, as of 3/31/20

Domestic equity size & style

SMALL CAP VS LARGE CAP (YOY)



Source: FTSE, Bloomberg as of 3/31/20

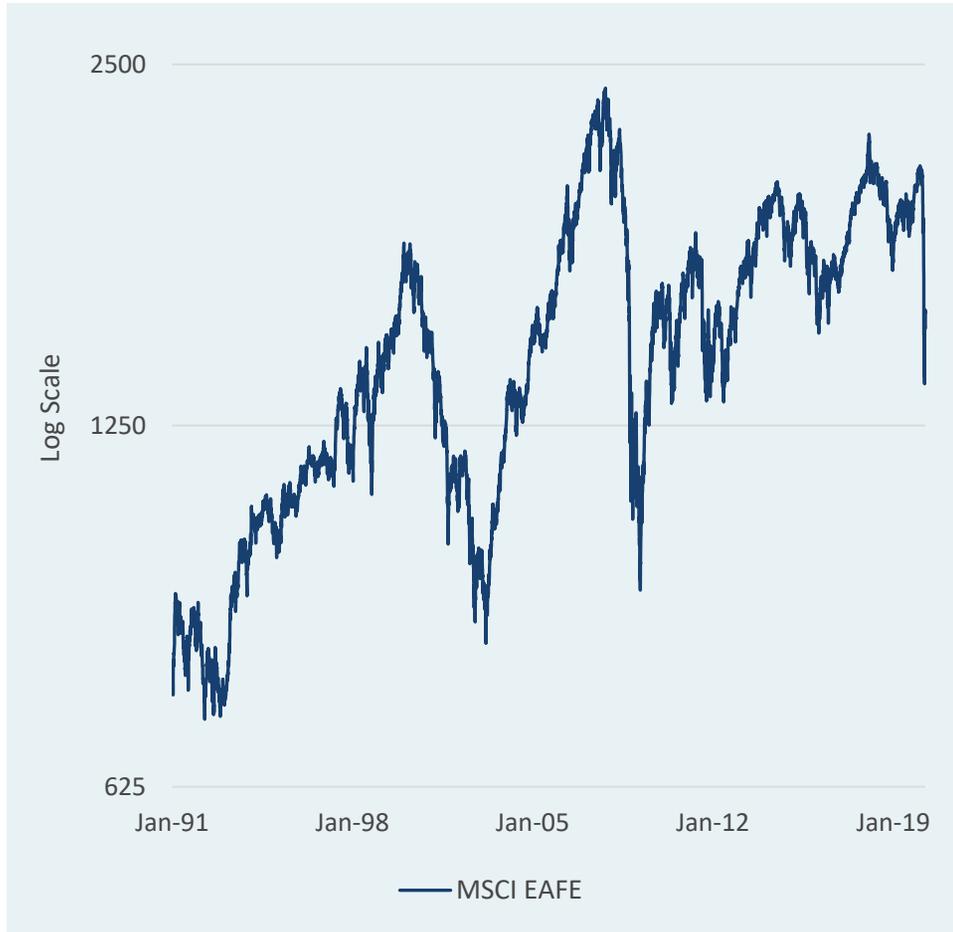
VALUE VS GROWTH (YOY)



Source: FTSE, Bloomberg, as of 3/31/20

Global equity

INTERNATIONAL DEVELOPED EQUITY



Source: MSCI, as of 3/31/20

EFFECT OF CURRENCY (1-YEAR ROLLING)



Source: MSCI, as of 3/31/20

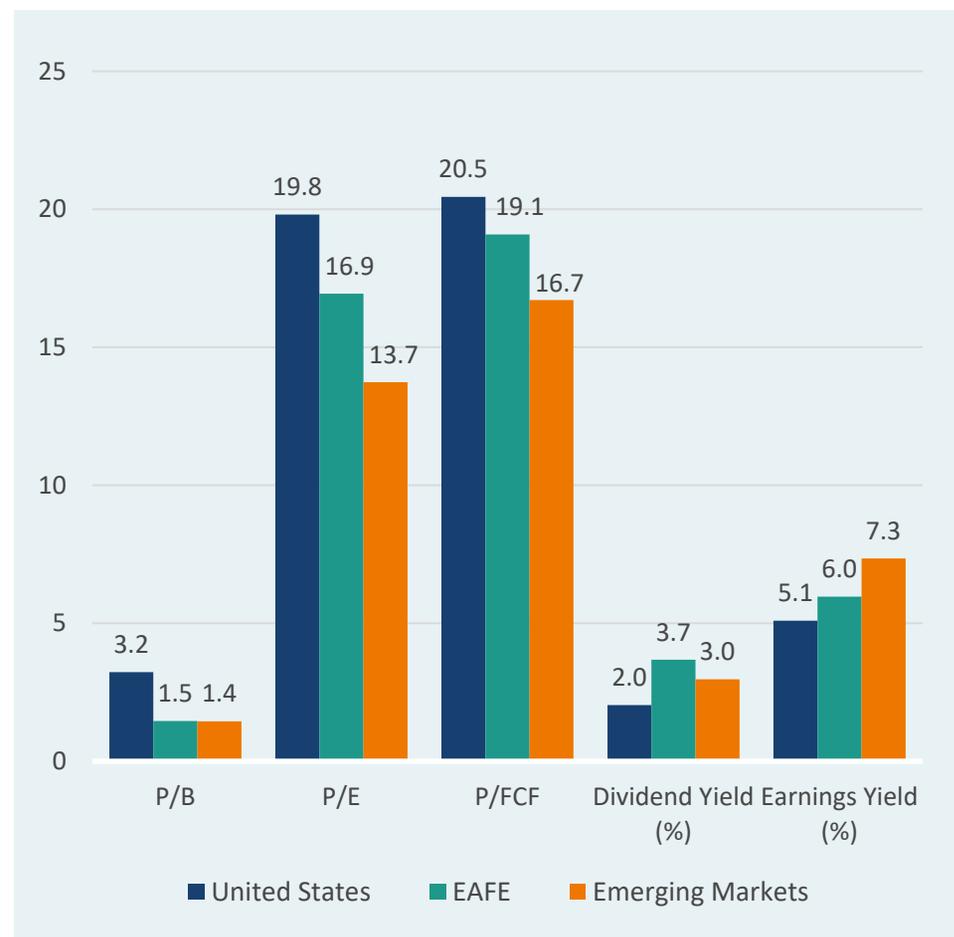
Equity valuations

FORWARD P/E RATIOS



Source: MSCI, 12m forward P/E, as of 3/31/20

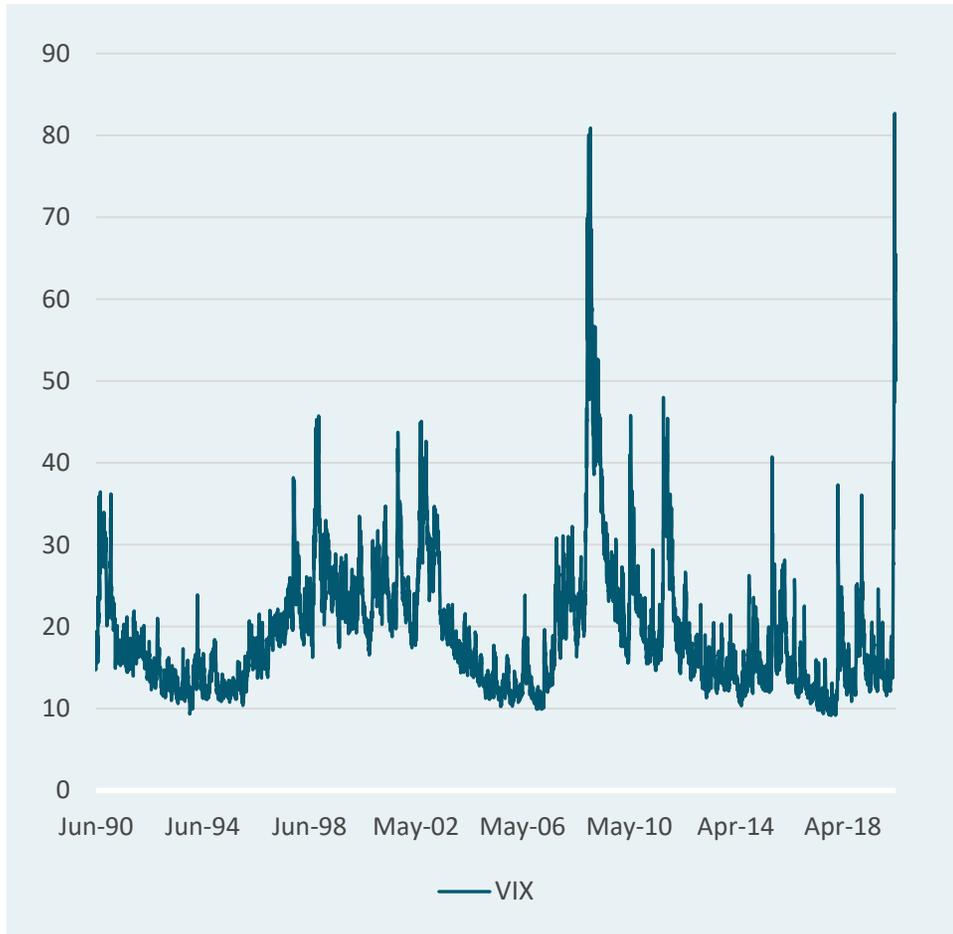
VALUATION METRICS (3-MONTH AVERAGE)



Source: Bloomberg, MSCI as of 3/31/20 - trailing P/E

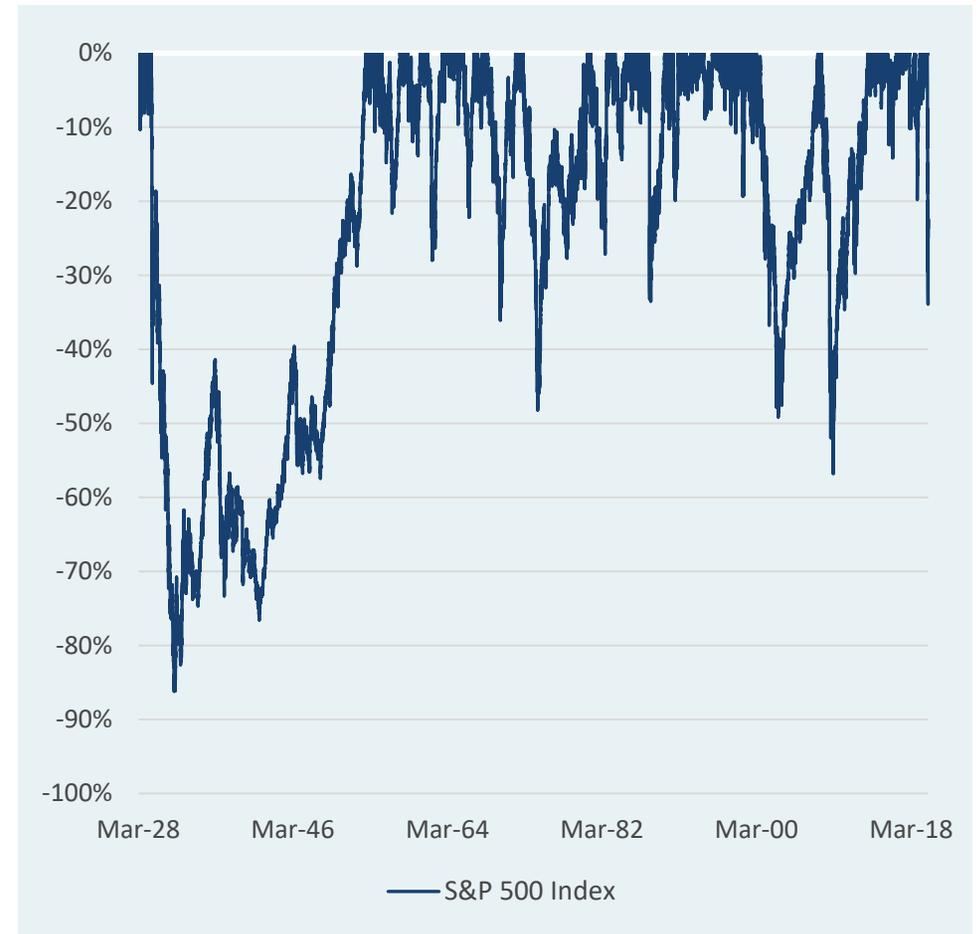
Equity volatility

U.S. IMPLIED VOLATILITY (VIX)



Source: CBOE, as of 3/31/20

MAX DRAWDOWN FROM PRIOR PEAKS



Source: Standard & Poor's, Bloomberg, as of 3/31/20

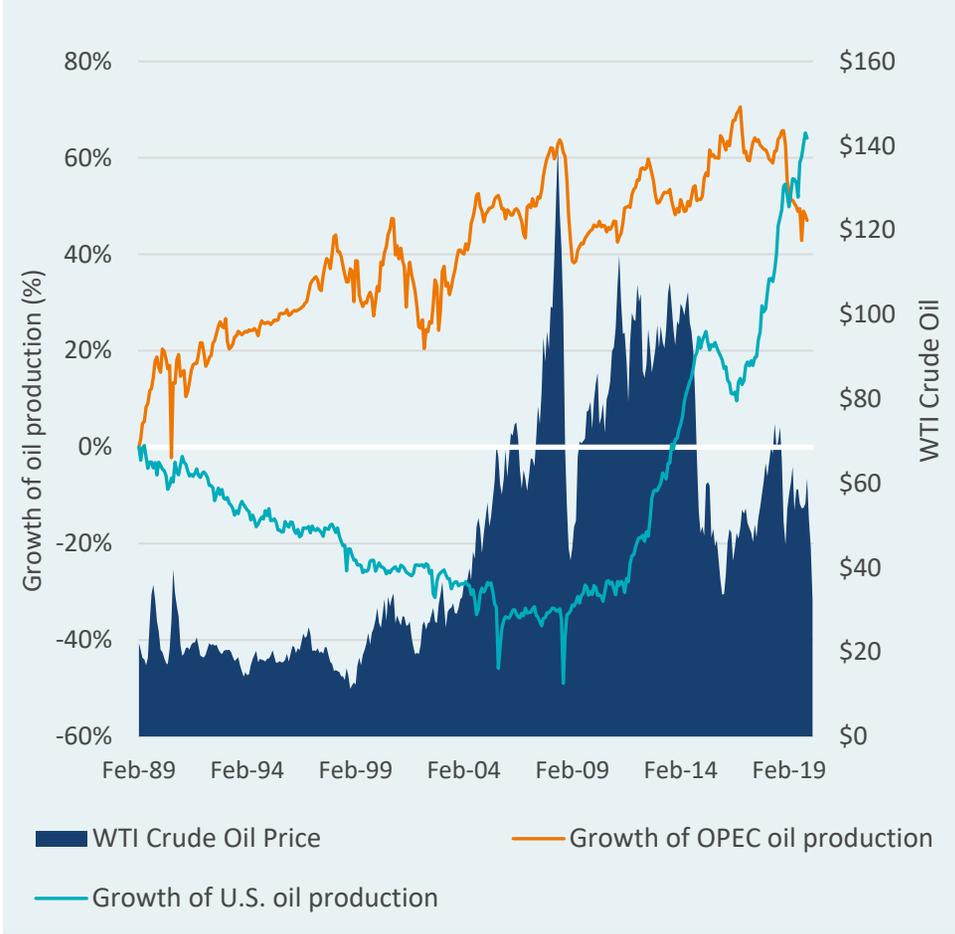
Oil crisis

WTI CRUDE OIL PRICE (\$/BARREL)



Source: FRED, as of 3/31/20

GLOBAL OIL PRODUCER CONFLICT



Source: Bloomberg, U.S. Energy Information Administration, as of 3/31/20

Currency

BLOOMBERG DOLLAR SPOT INDEX



Source: Bloomberg, as of 3/31/20

EMBEDDED CURRENCY VS CURRENCY BETA



Source: MSCI, Bloomberg, as of 3/31/20

Private markets

VENTURE DEAL VOLUME & FUNDRAISING



Source: PitchBook, 2020 figures through 3/31/20

BUYOUTS DEAL VOLUME & CAPITAL RAISED



Deals have plateaued in venture and buyouts

Buyout fundraising has slowed

Source: PitchBook, 2020 figures through 3/31/20

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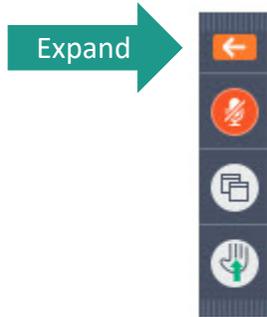
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Q&A



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Speakers / Headphones (Realtek...)

Talking: Verus presenter

Questions

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[Enter a question for staff]

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