January 2016

2016 GLOBAL ASSET ALLOCATION REVIEW

Introduction

The Aureus annual global asset allocation reviews the risks and opportunities available in global financial markets and their potential impact on the investment portfolios of our clients. Our views are expressed over two frameworks:

1. **Asset Allocation Policy** expresses a high-level asset allocation covering a longer, market-cycle view of investing.
2. **Tactical Asset Allocation** represents our position on investment opportunities for the coming year and may be adjusted as market conditions change.

In practice, Aureus develops customized investment policies for clients based on specific goals and objectives. Ranges for each asset class allow us to accommodate client-specific factors including income requirements, return objectives, risk tolerance, tax sensitivities and liquidity needs. In addition, these ranges provide flexibility to make tactical adjustments based on changes in opinion toward an asset class. Current views are summarized in this review and are refreshed as inputs to our model change.

Executive Summary

The Aureus 2016 global asset allocation review combines critical interpretations of global market factors with a particular focus on the following:

2016 Analysis			
Market Factors	▪ US Economy ▪ Global Economy ▪ Corporate Profitability ▪ Interest Rates & Inflation ▪ Geopolitics	**Asset Classes**	▪ Cash ▪ Fixed Income ▪ US Equities ▪ International Equities ▪ Alternative Assets

Each year we provide a tactical allocation to specific asset classes. A summary of the high-level changes is presented in the chart below with more detail available on page 11.

2016 Tactical Asset Allocation Summary

Asset Class	2016 Tactical Allocation	Δ vs. 2015	2015 Tactical Allocation
Cash	4%	=	4%
Fixed Income	14%	↑	12%
US Equities	42%	=	42%
International Equities	18%	↑	16%
Lower Risk Alternative Assets	10%	↓	14%
Higher Risk Alternative Assets	12%	=	12%

This year's asset allocation reflects only minor adjustments compared to 2015.

Fixed Income: December 2015 brought the first rate hike from the Federal Reserve – no surprise as interest rates moved slightly higher throughout the year in anticipation of the move. In 2016, we expect the Fed to continue with at least one additional rate hike. However, given tempered US GDP growth of 2-3% and anemic global growth, we believe rates will remain very low in 2016. We expect core fixed income returns will be flat, with modestly higher coupon returns in a gradually rising interest rate environment. Dislocation in the high yield bond market, affected by distressed energy prices, has created an opportunity with select high yield issuers. Our increased allocation to fixed income derives from a small addition to high yield bonds for 2016.

US Equities: The S&P 500 price level closed slightly lower in 2015 with dividends boosting the total return to 1.4%. Our opinion since 2014 has been that current valuations support equity returns in the mid to high single digits, which we have experienced with annualized S&P 500 returns of +7.6% over the last 2 years. We maintain our position and weighting for 2016, and expect the increased volatility experienced in the last half of 2015 to extend into 2016. Consistent economic progress and a lack of other compelling investment alternatives should keep supply/demand considerations positive for US equities.

International Equities: For 2016 we are slightly increasing our weighting to International equities, particularly developed nations. Continued stimulus from central banks should improve economic growth and valuations are favorable compared to the US. In addition to Europe, we like Japan because that country is a consumer rather than producer of commodities and has had some early success from recent fiscal and monetary policies. Because of the global drop in commodity prices and slowing growth in China, we are less inclined toward the developing markets.

Alternative Assets: Overall allocation to alternatives decreases for 2016. We maintain the weighting to directional assets which are primarily long/short hedge funds and should provide some protection in weak markets. We are reducing our allocation to absolute return assets as they have underperformed and have not provided the expected downside protection.

Review of 2015

US Equities again proved to be the best performing major asset class in a difficult year, with a return of 1.4% in 2015. Without the contribution of a handful of "headline" and mega cap stocks (Amazon, Alphabet/Google, Facebook, Netflix, Microsoft and GE) the S&P 500 would have been -2%. We remain positively inclined towards US Equities based on slow and steadily improving economic data.

2015 Relative Investment Performance

Asset Class	2015 Investment Returns	
	Positive (Relative)	Negative (Relative)
Fixed Income	▪ Intermediate Treasury Bonds	▪ High Yield Bonds ▪ Long Treasury Bonds
Global Equities	▪ US Large Cap ▪ Japan	▪ US Mid Cap & Small Cap ▪ Developed Markets (ex US & Japan) ▪ Emerging Markets
Alternatives	▪ None	▪ Most hedge funds ▪ Commodities

Investment Return Summary

Asset Class/Index	Asset	% Return 2015	2014	2013	2012	2011	5 Year *
Cash							
BofA Merrill Lynch U.S. Treasury Bills	Treasury Bills	0.1	0.1	0.1	0.1	0.1	0.1
Fixed Income							
Barclays US Aggregate	US Fixed Income	0.6	6.0	-2.0	4.2	7.8	3.3
Barclays US Treasuries - Intermediate	US Fixed Income	1.2	2.6	-1.3	1.7	6.6	2.1
Barclays US Treasuries - Long	US Fixed Income	-1.2	25.1	-12.6	3.6	29.9	7.8
BofA Merrill Lynch High Yield	US High Yield Bonds	-4.6	2.5	7.4	15.6	4.4	4.8
Global Equities							
S&P 500	US Large Cap	1.4	13.7	32.4	16.0	2.1	12.6
Russell 2000	US Small Cap	-4.4	4.9	38.8	16.4	-4.2	9.2
MSCI EAFE	Developed International	-0.4	-4.5	23.3	17.9	-11.7	4.1
MSCI EMF	Emerging International	-14.6	-1.8	-2.3	18.6	-18.2	-4.5
Alternatives							
HFRI Equity Hedge	Equity Hedge Funds	-2.3	2.3	14.3	7.4	-8.4	
HFRI Fund of Funds Composite	Hedge Funds	0.2	3.2	9.0	4.8	-5.7	
S&P GSCI	Commodities	-32.9	-33.1	-1.2	0.1	-1.2	-18.7
S&P GSCI Gold	Gold	-10.9	-1.8	-28.7	6.1	9.6	-6.2
Inflation							
CPI-U All Items Less Food And Energy	Inflation		1.8	1.7	1.9	2.2	

* *Annualized Return*

Best performing   Worst performing

On a trailing five year basis, US Equities have been the clear market leader with large caps outperforming small caps. On the International equity side: Developed Markets, while essentially flat for the year (-0.4%), finished well ahead of Emerging Markets (-14.6%) which continue to suffer from the prolonged drop in commodity prices and Chinese economic uncertainty.

Intermediate Treasury bonds returned 1.2%, while longer bonds returned -1.2%. High yield bonds, impacted by credit concerns in the energy space and limited market liquidity, underperformed at -4.6% as spreads widened throughout 2015.

The alternative asset class returns were unimpressive for 2015. Most equity hedge funds were down slightly for the year (-2.3%), reflecting general market conditions. Strategies such as merger arbitrage and market neutral posted gains for the year, while any strategy associated with energy, commodities or distressed situations were down materially for the year.

The following sections review fundamental, valuation and geopolitical conditions for 2016.

Section A: 2016 Model Factors

Model Factor 1 - Fundamentals

Key considerations include prospects for growth, chances of inflation or deflation, and potential for further earnings gains.

Economic Overview

The US continued its slow growth pattern with GDP increasing 2.5% in 2015. Developed International economies also experienced slow, but positive, growth led by the United Kingdom (2.5%), followed by Germany (1.5%), France (1.2%), Italy (0.8%) and Japan (0.8%). The headline among emerging economies remains the slowing growth of China and its impact on the global landscape.

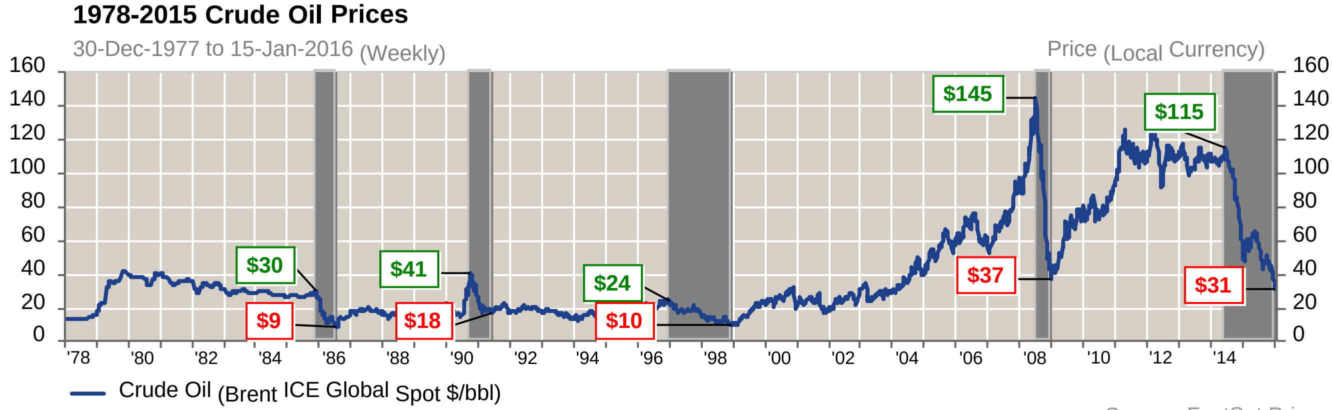
Oil and Commodity Prices

The ongoing decline in the price of oil and its impact on global economies was a major story during the last year. After declining 40% in 2014, oil declined another 35% in 2015, reflecting both weak global demand and excess supply. As of this writing oil has declined another 20% in 2016 and trades below $30/barrel. Overall, commodities have retraced all of the gains realized during the "super-cycle" which began around 1999-2000.

When the price of oil changes rapidly, the normal cause is an imbalance between supply and demand. In three of the four price declines prior to 2014, the principal catalyst was a greater than anticipated drop in global demand precipitated by world economic slowdowns. The decline in the mid 1980's was driven by a sharp increase in supply from the Middle East and muted demand stemming from effects of the Arab oil embargo in 1970's. In 2014, we also experienced a similar sharp supply increase, this time powered by US shale oil production.

When a price drop is demand driven, an eventual increase in global growth generally restores prices to previous levels within 1-3 years. We have far less historical experience dealing with the effects on prices due to supply gluts. Suppliers such as Russia, Saudi Arabia, Venezuela and Iran show no willingness to limit supplies and global economic growth does not support increasing demand. Because of excess inventories and global supply expectations, we see no obvious reason for crude prices to recover in the next year. Consumers, oil using industries and oil importing countries will benefit. Losers are oil exploration and service companies, and oil exporting countries.

1978-2015 Crude Oil Prices



Source: FactSet Prices

Interest Rates and Inflation

We believe that global inflation will remain low in 2016, reflecting global oversupply of oil, commodities and slow economic growth. However, there will be divergences between the policies of the Federal Reserve in the US and other central banks around the globe. Here, the Fed has started a program of gradual increases in short-term rates, while in Europe and Japan, central bank policies will remain very accommodative. We expect the yield curve to flatten, with short-term rates rising more than long-term rates.

Corporate Earnings

Corporate profit margins in the US remain at record highs and balance sheets are relatively healthy. Companies are using excess cash to raise dividends, repurchase shares, or make acquisitions. Capital spending has trailed profit growth, but as demand continues to rise and unemployment declines, we anticipate a lift in capital expenditures. International corporations, with the exception of those in commodity and related industries, are in solid financial condition.

Economic Growth

United States:

We expect that US real growth, for the third year in a row, will approximate 2.5%. While this pace is far from exciting, it has allowed unemployment to steadily decrease, has created on average of over 200,000 jobs per month, and has been just fast enough to enable wages to rise at roughly a 2.5% rate. With improved consumer balance sheets, we expect an increase in consumer spending in 2016. Earnings growth should improve as strong US dollar headwinds subside over the course of the year. On the negative side, capital spending may continue to be weak, which will hurt technology and industrial companies.

Factors	Influence
Strong consumer and corporate balance sheets	++
Low interest rates and inflation	+
US GDP growth continues to lead the developed world	+
New job growth creation	+
Low commodity prices	+
Record high profit margins	+
Better corporate profit comparisons (2nd half)	+
Federal Reserve raising short term rates	-
Financial stress in the energy industry	--

Europe and Japan:

Europe finally began to show some improvement in 2015, particularly helped by the ECB's policy of negative short-term rates (a bank in Europe has to pay the ECB to store funds there, whereas if that bank borrows from the ECB, it actually earns a little money). This unprecedented easy money policy has encouraged both banks and borrowers to fund more loans and assist that region's growth potential. Europe's major long-term problem is its dysfunctional policies of one central bank and one currency, vs. each nation's individual and uncoordinated fiscal policies. Given the political realities of today, we should not anticipate any progress in Europe this year in resolving this inherent contradiction. In Japan, with both the central bank and the government on the same page, and with corporations now able to take advantage of a somewhat weaker currency, the picture looks brighter than it has for some time.

Factors	Influence
Determination of central banks to assist growth	+
Low oil prices	+
Equity markets valuations below average	+
Japanese alignment of fiscal and monetary policies	+
Lack of coordinated monetary policies across European Union	-

Emerging Markets:

Everybody is focused on China, the world's second largest economy. China is attempting to switch its growth model from infrastructure and heavy industry to one that favors consumer and services. This is a long-term transition and one that has been uneven of late. The Chinese have over expanded their roads, housing, and commodity inventories, all of which need to rebalance. This is causing the growth rate to slow

Factors	Influence
Oil importing countries significantly helped	++
Low inflation, except for a few economies	+
Low equity valuations	+
Political turmoil remains a major uncertainty	-
China economic transition and debt issues	-
Slow global economic growth	-
Oil exporting countries significantly hurt	--

internally and with their suppliers. However, it still appears that the Chinese consumer and services economy is growing at an 8% annual rate which is critical for maintaining the overall strength of that country.

There is a clear bifurcation between countries which emphasize services, technology, and consumer products vs. those which must export commodities in order to raise living standards. Selectivity will be very important, in both country allocation and stock selection, in all emerging markets.

Model Factor 2 - Valuation

Key considerations are valuation and yields, viewed historically, in absolute and relative terms.

Equities

The flat stock market performance and flat earnings during 2015 left equity valuations unchanged vs. year ago. However, as of this writing, equity markets have corrected over 8% in early January, improving the valuations listed in the chart below. US equities, while not cheap, appear more attractive than last year and there remains little competition from bonds.

Valuations in some European markets and Japan, using price/earnings ratios, have remained below their long-term averages, and are considerably lower than in the US. Japan in particular looks attractive from a valuation perspective. Emerging market valuations seem inexpensive, but lack of economic growth supports these lower valuation levels.

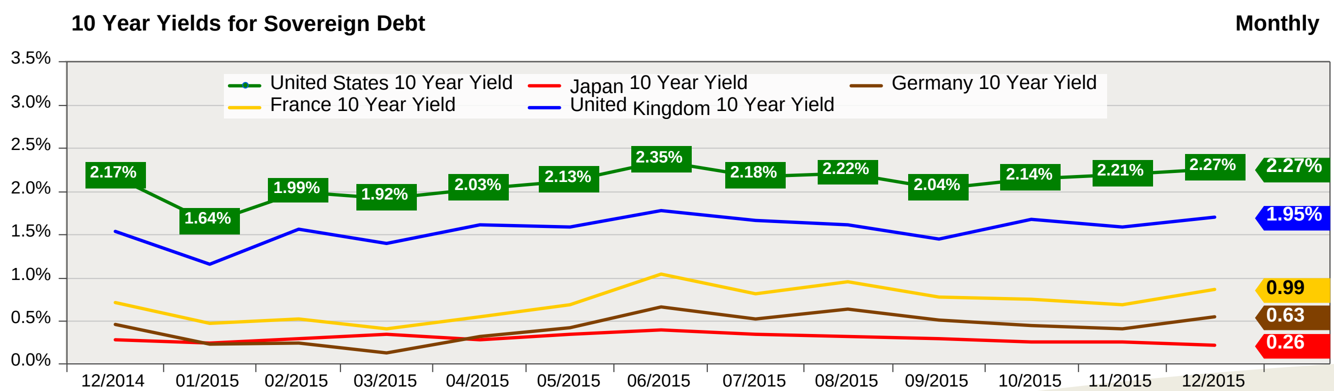
Global Equity Valuation Comparison

	10 Year P/E Ratio			Jan.	Jan.	10 Year Price/Book Ratio			Jan.	Jan.
Country/Region	High	Low	Avg.	2016	2015	High	Low	Avg.	2016	2015
US	17.4	9.9	14.9	15.8	17.1	2.6	1.6	2.2	2.3	2.4
Europe	15.6	7.4	12.7	14.0	15.0	2.6	1.2	1.7	1.5	1.6
Japan	19.2	11.7	14.8	13.8	15.5	1.9	0.9	1.3	1.2	1.2
Asia ex Japan	23.3	9.5	15.4	12.5	13.8	3.4	1.4	2.0	1.4	1.5
Latin America	15.5	7.8	12.9	11.7	14.7	2.4	1.3	1.8	1.2	1.3
Middle East & Africa	14.5	7.1	12.6	11.1	12.7	2.6	1.5	2.0	1.4	1.6

Source: Factset, January 12, 2016. Forward P/E and P/B ratios.

Bonds

With the exception of the US, global interest rates are still in decline. Even in the US, the Fed's slow and measured pace of short-term rate increases should not have that much of an impact on medium to long-term rates. Inflation should stay very low, particularly with the drop in oil prices. In the US, the major impact of the Fed's actions was felt in the high yield, low quality bond market, where spreads to Treasuries widened significantly. We see an opportunity now in the "better" quality issuers in this specialized market and would allocate some funds there. Bonds outside the US do not appear to offer sufficiently attractive valuations, especially in relation to those countries' equity markets.



Model Factor 3 - Geopolitical

Key considerations are government and political conditions in specific geographies that may impact economies and investment markets.

United States

On the positive side there was agreement on funding the government and passing a budget, temporarily removing an issue that has disturbed past markets. The intensifying 2016 Presidential race could elevate partisan rancor, but for now Washington seems to be functioning. Global terrorism also continues to be a threat to the stability of financial markets.

Europe

The most relevant geopolitical question today in Europe relates to the solidarity of the European Union regarding the refugee crisis. In addition, there continues to be high unemployment in many countries and intractable structural impediments that require reforms. Political unrest with the status quo such as with the Scottish separatists' referendum, the recurring dialogue around expelling Greece from the EU, and even questions such as a possible British vote to exit the EU, are adding to the pressure. Yet extraordinary measures taken by the key leaders of the EU seem to be working through these problems.

Japan

Prime Minister Abe has maintained a policy of bundling reforms with very easy money and a more nationalistic foreign policy. Japan is a country which does not change easily or rapidly. Therefore, Abe's reforms to date have been less impressive than initially expected. Nevertheless, the Prime Minister does represent a meaningful and progressive approach. The weakness in oil and the soft economy in China are generally considered positives for Japan.

Emerging Markets

China is by far the biggest question for 2016. Having achieved its goal of having the IMF add the Chinese currency to its approved list of reserve currencies, China then surprised many in early January by devaluing its currency versus the dollar. The Chinese leadership is attempting to walk a fine line between strict controls over such things as population growth, and partial freedoms such as more capitalistic tendencies toward corporations, markets, and investors. The Chinese consumer certainly is demanding more goods and services, transitioning the economy from its construction and infrastructure focus.

Other emerging countries which remain far too dependent on commodities will be hurt by the lack of Chinese orders.

We will be watching how oil producing countries in the Middle East and Asia handle the dramatic decline in their revenues. Saudi Arabia, Kuwait, the UAE, Russia and Indonesia are all now more vulnerable to economic and political unrest. The Iranian treaty will also change the dynamics of that country, which could emerge as a stronger power in the region.

We anticipate many new governments in Africa and South America in 2016, but most of these countries are highly dependent on commodities for the strength of their economies and currently less attractive investments.

Terrorism remains a global threat which we cannot ignore as a potential market factor.

Model Factors – Summary Table:

Region	Economic Fundamentals	Valuation & Risk	Geopolitical
US	▪ Slow but relatively steady GDP growth, positive job creation. ▪ Federal Reserve begins gradual increase in short-term rates. Future raises dependent on economic strength. ▪ Corporate and consumer balance sheets remain relatively strong. ▪ Dollar impact expected to be less than 2015.	▪ Equity valuations essentially unchanged, but market corrections provide opportunity. ▪ Earnings growth key to equity performance as limited potential for multiple expansion. ▪ Cash yields rising slightly. High yield spreads look more attractive. ▪ Increased volatility during last half of 2015 will remain a factor.	▪ Negative sentiment associated with election year. ▪ Global terrorism has the potential to impact consumer and political behavior. ▪ Impact of European refugee crisis may impact global economies and stability. ▪ Oil prices increasingly dependent on global supply factors.
Developed Markets	▪ Material difference in strength of specific countries. ▪ Economic improvements in Europe uncertain despite central bank stimulus. ▪ Japan continues to make progress towards better growth and ridding country of deflation. ▪ Many European and Japanese corporations have strong balance sheets and export competitiveness.	▪ Equity valuations relatively low in Japan and fair in Europe. ▪ Interest rates remain low. European and Japanese bonds appear fully priced.	▪ Refugee crisis from Middle East and Northern Africa poses challenges to Europe. ▪ Expect continued nationalistic rhetoric and questions on European Union viability. ▪ Japanese confidence seems to be improving and economic growth has turned positive.
Emerging Markets	▪ China's economy is slowing. Diverging paths for manufacturing sector vs. service sector creates uncertainty. ▪ Commodity exporting nations continue to suffer with slow global growth and collapsed prices. ▪ Certain frontier countries growing rapidly.	▪ Equity valuations range generally cheap but deserved in many cases. ▪ Unpredictable flow of funds from the developed world will remain a source of volatility. ▪ Currencies may continue to fall vs. the dollar, leading to problems in areas where too much debt has been issued in dollars.	▪ China continues to be the lead story. Transition of domestic economy is a long-term project. ▪ Commodity prices are the primary driver of broad emerging market growth. ▪ Russia economic stability at risk due to low oil prices.

Section B: 2016 Global Asset Class Review

1. Cash

Returns on money market funds and Treasury bills remain just over 0.1% providing a negative real rate of return. However, cash provides important protection against market downturns as well as a source of liquid reserves for taking advantage of better price opportunities.

2. Equities

In the US, valuations are toward the high end of historical averages but are supported by improving growth and high profit margins. The strength of the dollar, which provided headwinds in 2015 for corporate profits, appears to be diminishing and may provide positive comparisons the latter half of the year. In Europe, valuations are reasonable by historical standards, but growth is uneven, and political challenges may depress investor confidence. Emerging markets trade mostly at the low end of historical averages, consistent with slow global growth.

We favor US and developed market equities for the visibility of economic and earnings growth. Emerging markets are a mixed picture, but with more positives than negatives.

3. Fixed Income

In the US interest rate have started a very gradual increase initiated by the Fed. While economic growth is muted compared to prior recovery periods, job growth has been positive and consistent, unemployment is low, inflation is not a near-term concern which supports the Fed action. We do not believe rates are going materially higher, especially at the longer end of the yield curve, and would expect the 10 year bond yield to trade slightly higher in 2016.

4. Alternatives

Alternatives include long-short equity funds, specialized credit, and absolute return vehicles. Within alternatives we are reducing our allocation to absolute return strategies as they have not worked as we anticipated. We believe they have a place in the portfolio to reduce volatility but returns are expected to be in line with bonds in 2016. Also, given that volatility seems to be increasing, long-short equity funds may finally provide satisfactory diversification to long-only equities. We remain positive regarding specialized credit, emphasizing distressed debt in both the US and Europe.

Taking all these inputs together, we arrive at a set of conclusions summarized below, as compared to our long-term policy targets:

2016 Asset Class Summary Table

Region	Equities	Fixed Income	Alternatives
US	Overweight	Equal Weight	Equal Weight
	▪ Improved valuations, stable economic growth and more demand.	▪ Improving current yields in rising rate environment. ▪ High yield becoming more attractive.	▪ Emphasize specialized long/short hedge fund managers. ▪ Opportunities in select credit markets.
International	Overweight	Underweight	Equal Weight
	▪ Valuations favor select international markets. ▪ Growth more observable in developed vs. emerging markets.	▪ Overvalued as central banks maintain a low rate environment.	▪ Some attractive opportunities, especially in European credit markets.

Section C: 2016 Asset Allocation Model

1. Base Case Asset Allocation

Valuations and economic fundamentals combine to result in a base case asset allocation.

The base case has four principal asset categories: cash, fixed income, global equities and alternatives. In turn, equities are subdivided into US and International, while fixed income is subdivided by quality. Alternatives consist of two subcategories.

2016 Asset Allocation Model

Asset Class	Risk Level	2016 Bias	2016 Policy Range	2016 Tactical Allocation	Δ vs. 2015 Tactical
Cash	Low	=	**0% - 10%**	**4%**	=
Fixed Income		+	**10% - 25%**	**14%**	↑
High Quality Bonds	Moderate		10% - 20%	11%	↓
High Yield Bonds	High		0% - 10%	3%	↑
Global Equities		+	**45% - 65%**	**60%**	↑
US Equities	High		40% - 50%	42%	=
International Equities	High		10% - 20%	18%	↑
Alternatives		-	**15% - 30%**	**22%**	↓
Directional Strategies	High		5% - 15%	12%	=
Absolute Return	Lower		5% - 15%	10%	↓
Total				**100%**	

Notable changes from our 2015 model:
Policy ranges are unchanged for 2016.

From a tactical perspective changes to our model were modest. Equity exposure is slightly increased due to an increase in International equities. Fixed income is slightly higher, the result of an anticipated allocation to high yield during the year. Offsetting these increases is a reduction in alternative assets by decreasing the absolute return component.

2. Expected Returns

2016 Asset Allocation: Expected Returns

Asset Class	Expected Nominal Return	2016 Tactical Allocation	Expected Nominal Return Attribution
Cash	0.0% – 0.5%	4%	0.0% – 0.0%
Fixed Income	1.0% – 3.0%	14%	0.2% – 0.5%
US Equities	5.0% – 9.0%	42%	2.1% – 3.8%
International Equities	5.0% – 10.0%	18%	0.9% – 1.8%
Directional Alternatives	5.0% – 8.0%	12%	0.6% – 1.0%
Absolute Return Alternatives	3.0% – 6.0%	10%	0.3% – 0.6%
Total Portfolio Nominal Return		100%	**4.0% – 7.6%**
Less Expected Inflation			(2.0%)
Total Portfolio Real Return			**2.0% – 5.6%**

Calculating expected returns is mainly a quantitative exercise to establish a range of returns for both asset classes and an overall "average" portfolio. History has shown that rarely will these asset classes deliver these expected returns during any one calendar year given the cyclicality and volatility of individual asset classes. However, using these expected returns allows us to test our assumptions and their application to a client's portfolio.

For 2016, we expect better returns to come from US equities, International equities and directional alternative assets. When applied to a diversified portfolio, the expected returns are in the 4.0% to 7.6% range with the overweight to US equities providing the bulk of the returns.

As always, we remain diligent in our approach to the financial markets and the management of our clients' investment portfolios. As new information becomes available we update our models and, when market conditions warrant, will make adjustments to our tactical allocations.

We appreciate the opportunity to share our views and welcome your questions and comments.