Graystone Consulting

# QUARTERLY PERFORMANCE SUMMARY

Prepared for:

## Town of Longboat Key
## Police Officers' Retirement System

As of March 31, 2016


**Graystone Consulting Tampa**

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| U.S. Equity Market % Returns for the Period Ending March 31, 2016 | | | | | |
|---|---|---|---|---|---|
| | Quarter | 12 Months | Three Years (annualized) | Five Years (annualized) | Seven Years (annualized) |
| S&P 500 Index | 1.34 | 1.80 | 11.83 | 11.59 | 16.97 |
| Dow Jones Industrial Average | 2.20 | 2.08 | 9.29 | 10.27 | 15.79 |
| Russell 1000 Index | 1.17 | 0.50 | 11.52 | 11.35 | 17.15 |
| Russell 1000 Growth Index | 0.74 | 2.53 | 13.62 | 12.38 | 17.94 |
| Russell 1000 Value Index | 1.64 | (1.55) | 9.38 | 10.25 | 16.31 |
| Russell 2000 Index | (1.52) | (9.76) | 6.84 | 7.20 | 16.42 |
| Russell 2000 Growth Index | (4.68) | (11.86) | 7.91 | 7.70 | 17.23 |
| Russell 2000 Value Index | 1.70 | (7.72) | 5.73 | 6.66 | 15.54 |
| Russell 3000 Index | 0.97 | (0.35) | 11.15 | 11.02 | 17.10 |
| Russell 3000 Growth Index | 0.34 | 1.35 | 13.17 | 12.01 | 17.88 |
| Russell 3000 Value Index | 1.64 | (2.05) | 9.08 | 9.95 | 16.25 |
| Russell Midcap Index | 2.24 | (4.05) | 10.45 | 10.30 | 19.12 |
| Russell Midcap Growth Index | 0.58 | (4.74) | 11.00 | 10.00 | 18.72 |
| Russell Midcap Value Index | 3.92 | (3.40) | 9.88 | 10.51 | 19.47 |

Past Performance is not a guarantee of future results. Indices are not available for direct investment.
Source: MAX

| S&P 500 Sector % Returns for the Period Ending March 31, 2016 | |
|---|---|
| | Quarter |
| Telecommunication Services | 16.60 |
| Utilities | 15.60 |
| Industrials | 5.00 |
| Consumer Staples | 5.60 |
| Energy | 4.00 |
| Materials | 3.60 |
| Information Technology | 2.60 |
| Consumer Discretionary | 1.60 |
| Financials | (5.10) |
| Health Care | (5.50) |

Past Performance is not a guarantee of future results. Indices are not available for direct investment.
Source: MAX

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| Developed Markets Equity % Returns for the Period Ending March 31, 2016 | U.S. Dollar | | Local Currency | |
|---|---|---|---|---|
| | Quarter | 12 Months | Quarter | 12 Months |
| *Regional and Other Multi Country Indices* | | | | |
| MSCI EAFE | (3.00) | (8.27) | (6.40) | (10.78) |
| MSCI Europe | (2.50) | (8.44) | (4.79) | (10.15) |
| MSCI Far East | (5.19) | (6.99) | (10.68) | (12.09) |
| MSCI Pacific ex. Japan | 1.80 | (9.65) | (2.08) | (10.11) |
| MSCI The World | (0.19) | (2.90) | (1.81) | (4.01) |
| MSCI World ex. U.S. | (1.95) | (8.43) | (5.66) | (10.56) |
| *National Indices* | | | | |
| MSCI Hong Kong | (0.55) | (6.69) | (0.47) | (6.64) |
| MSCI Ireland | (3.92) | 8.14 | (8.41) | 1.92 |
| MSCI Japan | (6.38) | (6.75) | (12.52) | (12.61) |
| MSCI Singapore | 5.06 | (11.84) | (0.19) | (13.43) |

Past Performance is not a guarantee of future results. Indices are not available for direct investment.
Source: MAX

| Emerging Markets Equity % Returns for the Period Ending March 31, 2016 | U.S. Dollar | | Local Currency | |
|---|---|---|---|---|
| | Quarter | 12 Months | Quarter | 12 Months |
| *Regional and Other Multi Country Indices* | | | | |
| MSCI EM | 5.75 | (11.70) | 2.78 | (7.36) |
| *National Indices* | | | | |
| MSCI China | (4.80) | (18.66) | (4.73) | (18.61) |
| MSCI Malaysia | 13.25 | (7.99) | (4.73) | (18.61) |
| MSCI Taiwan | 7.72 | (7.74) | 5.54 | (5.10) |
| MSCI Thailand | 17.04 | (12.40) | 14.42 | (5.30) |

Past Performance is not a guarantee of future results. Indices are not available for direct investment.
Source: MAX

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| Fixed Income % Returns for the Period Ending March 31, 2016 | | | | | |
|---|---|---|---|---|---|
| | Quarter | 12 Months | Three Years (annualized) | Five Years (annualized) | 10 Years (annualized) |
| *U.S. Fixed Income* | | | | | |
| 90-Day Treasury Bill | 0.06 | 0.08 | 0.05 | 0.06 | 0.99 |
| Barclays Capital Aggregate | 3.03 | 1.96 | 2.50 | 3.78 | 4.89 |
| Barclays Capital Credit | 3.92 | 0.93 | 2.86 | 5.00 | 5.71 |
| Barclays Capital Govt/Credit | 3.47 | 1.75 | 2.42 | 4.04 | 4.93 |
| Barclays Capital Government | 3.12 | 2.37 | 2.10 | 3.42 | 4.52 |
| Barclays Capital High Yield | 3.35 | (3.70) | 1.85 | 4.93 | 7.01 |
| Barclays Capital Intermediate Govt/Credit | 2.45 | 2.07 | 1.83 | 3.01 | 4.34 |
| Barclays Capital Long Govt/Credit | 7.30 | 0.38 | 4.79 | 8.49 | 7.57 |
| Barclays Capital Mortgage Backed | 1.98 | 2.43 | 2.70 | 3.24 | 4.85 |
| Barclays Capital Municipal | 1.67 | 3.98 | 3.63 | 5.59 | 4.86 |
| *Global Fixed Income* | | | | | |
| Merrill Lynch Global High Yield | 3.92 | (0.75) | 1.27 | 4.65 | 6.92 |
| Barclays Global Treasury ex. U.S. | 8.91 | 7.62 | (0.08) | 0.33 | 3.99 |
| Barclays Capital Majors ex. U.S. | 9.12 | 8.46 | (0.06) | 0.19 | 4.12 |

Past Performance is not a guarantee of future results. Indices are not available for direct investment.
Source: MAX

# SUMMARY OF RELEVANT FACTS
## Town of Longboat Key Police Officers' Retirement System
## As of March 31, 2016

| Distribution of Assets: | | |
|---|---|---|
| Equity | | |
| -Large Cap. Value | $1,404,098.05 | |
| -Large Cap. Growth | $1,628,695.07 | |
| -Small/Mid Cap. Value | $289,405.69 | |
| -Small/Mid Cap. Growth | $326,989.53 | |
| -International Value | $311,837.71 | |
| -International Growth | $311,806.93 | |
| Total Equity | | $4,272,832.98 |
| Fixed | | $2,077,209.50 |
| Cash (Deposit & Disburse. Acc't) | | $243,579.15 |
| Total Portfolio | | $6,593,621.63 |

| Distribution by Percentages: | Policy | Current |
|---|---|---|
| Equity Breakdown | | |
| -Large Cap. Value | 22.50% | 21.29% |
| -Large Cap. Growth | 22.50% | 24.70% |
| -Small/Mid Cap. Value | 5.00% | 4.39% |
| -Small/Mid Cap. Growth | 5.00% | 4.96% |
| -International Value | 5.00% | 4.73% |
| -International Growth | 5.00% | 4.73% |
| Total Equity | 65.00% | 64.80% |
| Fixed | 35.00% | 31.50% |
| Cash (Deposit & Disburse. Acc't) | 0.00% | 3.69% |
| Total Portfolio | 100.00% | 100.00% |

**Other Important Facts:**

| | |
|---|---|
| Total Portfolio | $6,593,621.63 |
| Total Gain or (Loss) - Gross-of-Fees | $40,801.65 |
| Total Gain or (Loss) - Net-of-Fees | $29,139.51 |
| Total Fees | ($11,662.14) |

| Vanguard Value ETF (Formerly HGK) | | | Oak Ridge | |
|---|---|---|---|---|
| Total Assets | 100.00% | $1,404,098.05 | 100.00% | $326,989.53 |
| Equity | 98.95% | $1,389,402.07 | 91.81% | $300,199.93 |
| Cash | 1.05% | $14,695.98 | 8.19% | $26,789.60 |
| Fees | | ($1,365.08) | | ($583.84) |
| Gain or (Loss) - Gross-of-Fees | | ($6,418.22) | | ($11,693.54) |
| Gain or (Loss) - Net-of-Fees | | ($7,783.30) | | ($12,277.38) |

| Congress | | | Delaware | |
|---|---|---|---|---|
| Total Assets | 100.00% | $1,628,695.07 | 100.00% | $311,837.71 |
| Equity | 97.32% | $1,585,039.43 | 98.74% | $307,901.70 |
| Cash | 2.68% | $43,655.64 | 1.26% | $3,936.01 |
| Fees | | ($3,968.19) | | ($1,170.21) |
| Gain or (Loss) - Gross-of-Fees | | $25,158.79 | | $1,026.20 |
| Gain or (Loss) - Net-of-Fees | | $21,190.60 | | ($144.01) |

| Vanguard S/M Value ETFs (Formerly GW) | | | Renaissance | |
|---|---|---|---|---|
| Total Assets | 100.00% | $289,405.69 | 100.00% | $311,806.93 |
| Mid-Cap Value | 49.67% | $143,748.00 | 99.03% | $308,787.40 |
| Small-Cap Value | 50.20% | $145,280.88 | 0.97% | $3,019.53 |
| Cash | 0.26% | $376.81 | | ($1,020.26) |
| Fees | | ($451.18) | | ($4,707.48) |
| Gain or (Loss) - Gross-of-Fees | | $875.42 | | ($5,727.74) |
| Gain or (Loss) - Net-of-Fees | | $424.24 | | |

| Madison | | | Deposit & Disbursement | |
|---|---|---|---|---|
| | | | 100.00% | $243,579.15 |
| Total Assets | 100.00% | $2,077,209.50 | 0.00% | $0.00 |
| Fixed | 97.60% | $2,027,304.68 | 100.00% | $243,579.15 |
| Cash | 2.40% | $49,904.82 | | $0.00 |
| Fees | | ($3,103.38) | | $1.39 |
| Gain or (Loss) - Gross-of-Fees | | $36,559.09 | | $1.39 |
| Gain or (Loss) - Net-of-Fees | | $33,455.71 | | |

The prices, quotes, or statistics contained herein have been obtained from sources believed to be reliable, however, its accuracy cannot be guaranteed. Past performance is not a guarantee of future results.

# Breakdown of Returns
## Town of Longboat Key Police Officers' Retirement System
## As of March 31, 2016

| EQUITY<br>Vanguard Value ETF (21.29%)<br>Large Cap. Value | Your Returns Gross-of-Fees | Your Returns Net-of-Fees | Russ 1000 Value | PSN Money Managers | S&P 500 |
|---|---|---|---|---|---|
| Vanguard/HGK - Quarter | (0.32) | (0.42) | 1.64 | 1.58 | 1.34 |
| Vanguard/HGK - 1 Year | (9.67) | (10.02) | (1.55) | (1.65) | 1.80 |
| Vanguard/HGK - 3 Year | 5.10 | 4.70 | 9.38 | 9.62 | 11.83 |
| Vanguard/HGK - Since 9/30/2011 | 12.32 | 11.92 | 16.04 | 15.24 | 16.74 |
| **Congress (24.7%)<br>Large Cap. Growth** | | | Russ 1000 Growth | PSN Money Managers | |
| Quarter | 1.66 | 1.41 | 0.74 | (1.04) | |
| 1 Year | (0.60) | (1.22) | 2.53 | (1.01) | |
| 3 Year | 11.45 | 10.90 | 13.62 | 12.11 | |
| 5 Year | 10.28 | 9.73 | 12.38 | 11.06 | |
| Since 4/30/2010 | 11.20 | 10.63 | 13.33 | NA | |
| **Vanguard Value ETF (4.39%)<br>Small/Mid Cap. Value** | | | Russ 2500 Value | PSN Money Managers | |
| Vanguard/GW - Quarter | 0.44 | 0.28 | 3.33 | 3.15 | |
| Vanguard/GW - 1 Year | (10.20) | (10.90) | (5.20) | (4.48) | |
| Vanguard/GW - 3 Year | 2.24 | 1.45 | 7.16 | 9.15 | |
| Vanguard/GW - 5 Year | 5.72 | 4.96 | 8.33 | 9.50 | |
| Vanguard/GW - Since 4/30/2010 | 8.22 | 7.43 | 9.71 | NA | |
| **Oak Ridge (4.96%)<br>Small/Mid Cap. Growth** | | | Russ 2500 Growth | PSN Money Managers | |
| Quarter | (3.27) | (3.44) | (2.66) | (3.79) | |
| 1 Year | (11.99) | (12.61) | (9.58) | (10.03) | |
| 3 Year | 7.95 | 7.26 | 9.23 | 8.65 | |
| 5 Year | 7.80 | 7.09 | 8.76 | 8.49 | |
| Since 4/30/2010 | 10.90 | 10.19 | 11.58 | NA | |

| Delaware (4.73%)<br>International Value | | | MSCI EAFE (Net) | MSCI EAFE Value | |
|---|---|---|---|---|---|
| Quarter | 0.41 | 0.03 | (3.00) | (3.96) | |
| 1 Year | (4.89) | (5.61) | (8.27) | (12.82) | |
| 3 Year | 5.24 | 4.51 | 2.24 | 0.60 | |
| 5 Year | 4.65 | 3.91 | 2.30 | 0.82 | |
| Since 9/30/2009 | 4.98 | 4.33 | 3.81 | 1.87 | |
| Since 9/30/2005 | 4.07 | | 2.98 | 1.84 | |
| **Renaissance (4.73%)<br>International Growth** | | | **MSCI AC World Ex US** | | |
| Quarter | (1.33) | (1.65) | (0.37) | | |
| 1 Year | (6.13) | (6.77) | (9.18) | | |
| 3 Year | 5.76 | 5.06 | 0.32 | | |
| 5 Year | 3.59 | 2.92 | 0.31 | | |
| Since 4/30/2010 | 5.66 | 4.99 | 2.53 | | |
| **FIXED INCOME<br>Madison (31.5%)** | | | **BC Int. Gov/Credit** | **BC Gov/Credit** | **90-Day T-Bill** |
| Quarter | 1.77 | 1.61 | 2.45 | 3.47 | 0.06 |
| 1 Year | 2.01 | 1.70 | 2.07 | 1.75 | 0.08 |
| 3 Year | 1.53 | 1.22 | 1.83 | 2.42 | 0.05 |
| 5 Year | 2.25 | 1.95 | 3.01 | 4.04 | 0.06 |
| Since 4/30/2010 | 2.41 | 2.09 | 3.17 | 4.09 | 0.07 |
| **TOTAL RETURN<br>Time-Weighted Return (TWR)** | | | **Policy Index** | **Composite Index** | |
| Quarter | 0.66 | 0.47 | 1.36 | 1.22 | |
| 1 Year | (3.61) | (4.07) | (0.47) | (0.65) | |
| 3 Year | 5.60 | 5.12 | 6.88 | 7.23 | |
| 5 Year | 6.06 | 5.59 | 7.32 | 7.55 | |
| Since 9/30/2009 | 7.75 | 7.22 | 8.74 | 9.09 | |
| Since 12/31/1999 | 3.70 | | 4.38 | | |

| TOTAL RETURN<br>Dollar-Weighted Net (IRR) | | Actuarial Rate | CPI +5 |
|---|---|---|---|
| Quarter | 0.45 | 1.82 | 1.30 |
| 1 Year | (4.06) | 7.50 | 6.25 |
| 3 Year | 5.48 | 7.50 | 5.90 |
| 5 Year | 5.88 | 7.50 | 6.33 |
| Since 9/30/2009 | 7.45 | 7.50 | 6.53 |

Policy Index Compostion

*- 22.5% Russ 1000 Value / 22.5% Russ 1000 Growth / 5% Russ 2500 Value / 5% Russ 2500 Growth / 5% MSCI EAFE (net) / 5% MSCI AC Wd x US (net) / 35% BC Int G/C for periods since 04/30/2010*

*- 55% S&P 500 / 10 MSCI EAFE (net) / 35 BC Int. G/C for periods from 8/31/2005 to 4/30/2010*

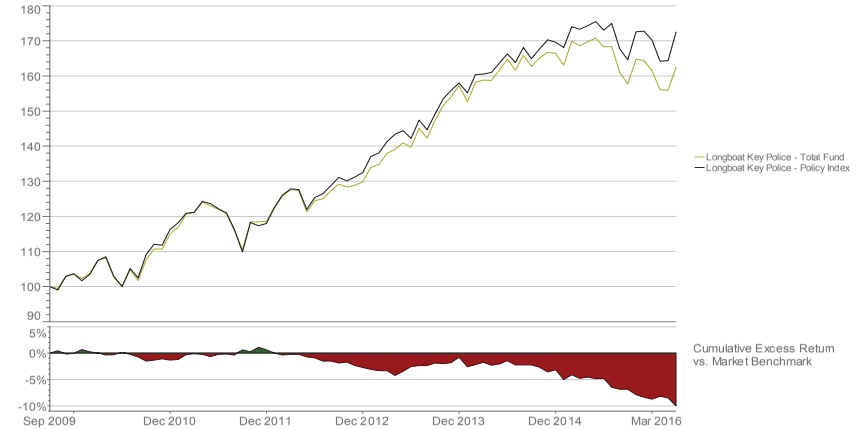
*- 65% S&P 500 / 35 BC int. G/C for periods prior to 8/31/2005*

# Risk/Return Analysis - Since Inception

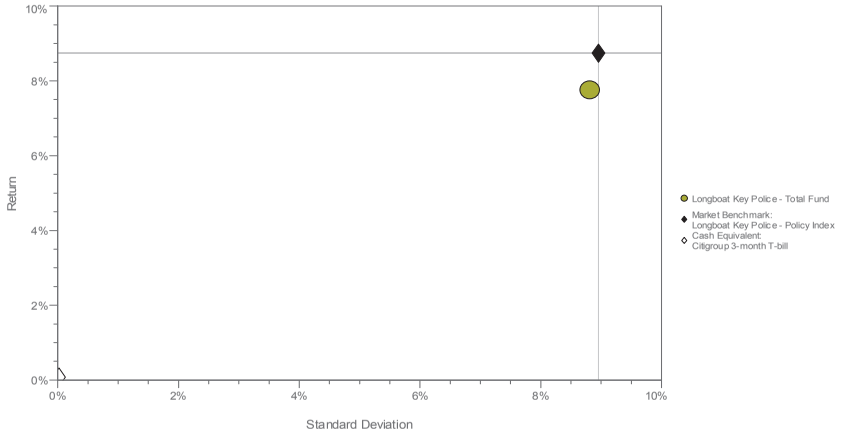
## Zephyr StyleADVISOR

Zephyr StyleADVISOR: Graystone Consulting

Manager Performance
October 2009 - March 2016 (Single Computation)




Risk / Return
October 2009 - March 2016 (Single Computation)




## Return & Risk Analysis

October 2009 - March 2016: Summary Statistics

| | Return | Excess Return vs. Market | Standard Deviation | Beta vs. Market | Maximum Drawdown | Up Capture vs. Market | Down Capture vs. Market | Alpha vs. Market | Sharpe Ratio | R-Squared vs. Market |
|---|---|---|---|---|---|---|---|---|---|---|
| Longboat Key Police - Total Fund | 7.75% | -1.00% | 8.80% | 0.97 | -10.93% | 94.35% | 100.77% | -0.67% | 0.87 | 97.24% |
| Longboat Key Police - Policy Index | 8.75% | 0.00% | 8.96% | 1.00 | -11.63% | 100.00% | 100.00% | 0.00% | 0.97 | 100.00% |

# COMPLIANCE CHECKLIST

***Town of Longboat Key Police Officers' Retirement System*** ***As of March 31, 2016***

| GUIDELINES | In Compliance |
|---|---|
| **Equity Portfolio** | |
| Listed on recognized exchange | Yes |
| Single issue not to exceed 10% at market value for each equity in each separately managed portfolio | Yes |
| Single issue not to exceed 5% at market value for the total portfolio | Yes |
| Total equity portfolio < 70% & > 60% of total fund at market value | Yes |
| Foreign equities < 25% of total portfolio at market value | Yes |
| No scrutinized companies (Sudan/Iran) held per Protecting Florida's Investments Act requirement | Yes |

| OBJECTIVES | In Compliance | | |
|---|---|---|---|
| **Total Portfolio** | 3 Years | Since Inception 9/30/09 | Since Inception 12/31/1999 |
| Exceed Target Index | No | No | No |
| Exceed actuarial assumption (7.5%)* | No | No | N/A |
| Exceed CPI + 5%* | No | Yes | N/A |

*Performance based on dollar-weighted net returns.

**Vanguard Value ETF (21.29%)**

*Large Capitalization Value Equity Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 25% & > 20% of total fund | Yes | | |
| Performance (Inception 3/2016) | | | |
| Rank in the Top 50% of manager universe (3-5 years) | | N/A | N/A |
| Return > Russell 1000 Value (3-5 years) | | N/A | N/A |

**Congress (24.7%)**

*Large Capitalization Growth Equity Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 25% & > 20% of total fund | Yes | | |
| Performance (Inception 4/30/2010) | | | |
| Rank in the Top 50% of manager universe (3-5 years) | | No | No |
| Return > Russell 1000 Growth (3-5 years) | | No | No |

**Vanguard Value ETF (4.39%)**

*Small/Mid Capitalization Value Equity Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 7.5% & > 2.5% of total fund | Yes | | |
| Performance (Inception 3/2016) | | | |
| Rank in the Top 50% of manager universe (3-5 years) | | N/A | N/A |
| Return > Russell 2500 Value (3-5 years) | | N/A | N/A |

**Oak Ridge (4.96%)**

*Small/Mid Capitalization Growth Equity Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 7.5% & > 2.5% of total fund | Yes | | |
| Performance (Inception 4/30/2010) | | | |
| Rank in the Top 50% of manager universe (3-5 years) | | No | No |
| Performance > Russell 2500 Growth (3-5 years) | | No | No |

**Delaware (4.73%)**

*International Value Equity Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 7.5% & > 2.5% of total fund | Yes | | |
| Performance (Inception 9/30/2005) | | | |
| Return > MSCI EAFE (Net) (3-5 years) | | Yes | Yes |

**Renaissance (4.73%)**

*International Growth Equity Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 7.5% & > 2.5% of total fund | Yes | | |
| Performance (Inception 4/30/2010) | | | |
| Return > MSCI AC World Ex US | | Yes | Yes |

**Madison (31.5%)**

*Fixed Income Portfolio*

| | | 3 years | Since Inception |
|---|---|---|---|
| Market Value < 40.0% & > 30.0% of total fund | Yes | | |
| Performance (Inception 4/30/2010) | | | |
| Return > BC Interm. Gov't/Credit (3-5 years) | | No | No |
| U.S. Government / Agency or U.S. Corporations | Yes | | |
| Bonds rated "A" or better | Yes | | |
| Single corporate issuer not exceed 10% of bond portfolio (except U.S. Government/Agency) | Yes | | |

The information contained herein has been compiled from sources believed to be reliable, however, the accuracy or completeness cannot be guaranteed.

## MANAGER'S SHARPE & ALPHA
## Town of Longboat Key Police Officers' Retirement System
## As of March 31, 2016

| Vanguard ETF | Manager | Index |
|---|---|---|
| Since 9/30/11 - Sharpe | N/A | N/A |
| Since 9/30/11 - Alpha | N/A | |

| Vanguard ETF | Manager | Index |
|---|---|---|
| Since 4/30/10 - Sharpe | N/A | N/A |
| Since 4/30/10 - Alpha | N/A | |

| Delaware | Manager | Index |
|---|---|---|
| Since 9/30/05 - Sharpe | 0.18 | 0.09 |
| Since 9/30/05 - Alpha | 1.40 | |

| Madison | Manager | Index |
|---|---|---|
| Since 4/30/10 - Sharpe | 1.56 | 1.41 |
| Since 4/30/10 - Alpha | 0.32 | |

| Congress | Manager | Index |
|---|---|---|
| Since 4/30/10 - Sharpe | 0.85 | 0.96 |
| Since 4/30/10 - Alpha | (1.01) | |

| Oak Ridge | Manager | Index |
|---|---|---|
| Since 4/30/10 - Sharpe | 0.74 | 0.74 |
| Since 4/30/10 - Alpha | 0.64 | |

| Renaissance | Manager | Index |
|---|---|---|
| Since 4/30/10 - Sharpe | 0.34 | 0.14 |
| Since 4/30/10 - Alpha | 3.26 | |

## Tactical Asset Allocation Reasoning

| Global Equities | Relative Weights | |
|---|---|---|
| US | Overweight | While US equities have done exceptionally well since the global financial crisis, they are now in the latter stages of a cyclical bull market. This bull market is currently being challenged by fears of recession. We believe the US will avoid recession in 2016, making it premature to abandon our overweight rating for US equities. |
| International Equities (Developed Markets) | Overweight | We maintain a positive bias for Japanese and European equity markets given the political and structural changes taking place in Japan and our expectation for an improving economic outlook in Europe. European and Japanese central banks are now engaged in much more aggressive monetary policy than the US, while also moving away from fiscal austerity. Both of these markets are earlier in their recovery from the financial crisis than the US. |
| Emerging Markets | Equal Weight | Emerging market (EM) equities have been big underperformers for the past few years. However, the region now offers better value and, with the severe currency depreciation during the past year, there is a greater likelihood EM equities will perform better in 2016. Still, we expect volatility to remain high, so we give it an equal weight. Several EM countries are likely to exit recession this year, which argues for a broader rebound in the region, especially if China continues its stimulative fiscal and monetary policies. |
| **Global Fixed Income** | | |
| US Investment Grade | Overweight | We have recommended shorter-duration* (maturities) since March 2013 given the extremely low yields and potential capital losses associated with rising interest rates from such low levels. We have subsequently reduced the size of our overweight in short duration, with short-term interest rates now expected to move higher this year along with the Fed's tightening cycle. Within investment grade, we prefer BBB-rated corporates and A-rated municipals to US Treasuries. |
| International Investment Grade | Underweight | Yields are even lower outside the US, leaving very little value in international fixed income, particularly as the global economy begins to recover more broadly. While interest rates are likely to stay low, the offsetting diversification benefits do not warrant much, if any, position, in our view. |
| Inflation-Linked Securities | Overweight | With deflationary fears having become extreme in 2015, we believe these securities now offer relative value in the context of our forecasted acceleration in global growth and expectations for oil prices and the US-dollar year-over-year rate of change to revert back toward 0%. |
| High Yield | Overweight | The sharp decline in oil prices has created significant dislocations in the US high yield market. Broadly speaking, we believe default rates are likely to remain contained as the economy avoids recession, while corporate and consumer behavior continue to be conservative. This should lead to better performance over the next six to 12 months along with lower volatility than equities. |
| Emerging Markets Bonds | Underweight | The Fed's rate-hike cycle will likely be a disproportionate headwind for emerging market (EM) debt. Much like EM equities, EM debt exposure should be selective. For investors who want to own EM debt, the GIC recommends US-dollar-denominated debt with a focus on China, India and Mexico. |
| **Alternative Investments** | | |
| REITS | Underweight | With our expectation for rising interest rates and an increasing risk of economic slowdown, we believe REITs are now fairly to slightly overvalued, especially relative to other high-yielding asset categories. Therefore, we are underweight REITs in our tactical asset allocation. Non-US REITs should be favored relative to domestic REITs. |
| Commodities | Equal Weight | Most commodities have underperformed in the past few years, with energy leading the charge lower. We believe commodities are likely to perform better in 2016 as global growth reaccelerates and the oil market comes into better supply/demand balance. |
| Master Limited Partnerships | Equal Weight | Master limited partnerships (MLPs) were devastated during 2015 due to collapsing oil prices and a less hospitable financing market. Tax-loss selling and window dressing hit MLPs excessively in the fourth quarter and, while we expect MLPs to rebound, it will likely be a rally to sell. |
| Hedged Strategies (Hedge Funds and Managed Futures) | Equal Weight | This asset category can provide uncorrelated exposure to traditional risk-asset markets. It tends to outperform when traditional asset categories are challenged by growth scares and/or interest rate volatility spikes. Within this asset category, we favor event-driven strategies, given our expectation for increased mergers-and-acquisitions activity. |