RESEARCH REVIEW

FEBRUARY 2016

Fund Evaluation Group®
investment advisors

INSIDE THIS ISSUE

Emerging Markets & India

(Please excuse my language)

BRIAN A. HOOPER **Vice President / Global Equities**

As a kid, my parents always stressed to me not to use profanity. Being immature back then, I did not understand why. And what boy does not have a little bit of rebelliousness in him? There were more than a few instances where profanity was used over the years, which certainly did not please my parents. But as I matured and developed my own views on life, that old lesson surprisingly stuck with me: I rarely used profanity at work or home. However, I have no choice now because the subject of this piece has essentially become profanity to investors. Shhhh! do not say this too loudly, or my parents will not be happy… "emerging markets."

Recent emerging markets performance (it is not pretty)

Emerging markets were among the worst performers during the 2008 global recession, but they also bounced substantially off the lows. Subsequent to that initial bounce, emerging markets investors have suffered. The MSCI Emerging Markets Index posted negative returns in four of the last five years. The index lost 4.8% per annum from 2011–2015, while the Russell 3000 Index gained 12.2% per annum over that same period.[1] With that disparity, we are not surprised that emerging markets are the pariahs of equity investing, and saying "emerging markets" today, is akin to profanity. But how does this compare to prior periods of emerging markets underperformance?

The MSCI Emerging Markets Index has a 28-year track record. Interestingly, the record can be divided into nearly equal periods of time (6–8 years in length) to illustrate the most extreme discrepancies in returns between emerging markets and U.S. stocks.

Period of Time (years)	MSCI EM	Russell 3000
1988–1993	36.5%	15.3%
1994–2000	–4.8%	17.3%
2001–2007	23.6%	4.0%
2008–2015	–3.2%	6.6%

Data source: Lipper; Data as of December 31, 2015

The reason for the divergence in recent returns are well known: Accommodative policies from the Federal Reserve, depreciating emerging markets currencies, capital flight out of emerging markets, slowing growth (particularly in China), declining commodity prices (especially oil), and political instability, among others. One of the largest negative impacts on performance for U.S. investors in emerging markets was a strong U.S. dollar. Currency movements detracted more than five percentage points (500 basis points) per annum from 2011 through 2015. Some of these issues remain, and could continue to hamper emerging markets returns.[2]

We find it difficult, however, to view all emerging markets within the same context. This is the reason we, the analysts at FEG, think beyond broad asset class, and dig deeper into what influences regions and individual countries, and why we believe active management in emerging markets can be additive to an equity portfolio. In the last two years, we have traveled to Asia, Europe, and Latin America to better understand the dynamics of these regions and countries. We went to Brazil in early 2014 and then discussed the opportunities and headwinds within the Brazilian market in our April 2014, Research Review. We discussed Emerging Europe, most notably Russia, with managers based in Europe to better understand the fundamental impacts that the annexation of Crimea and the effect of plunging oil prices have, on the Russian economy and other Emerging Europe markets. Recently, I made yet another trip to Asia to discuss everything from India, China, and Southeast Asia, to frontier markets such as Vietnam and Bangladesh.

India: The Exception?

The most fascinating and thought-provoking part of my recent trip to Asia was the time I spent in India.

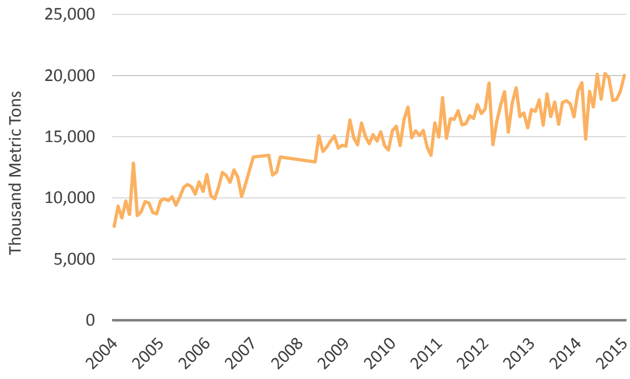
"So far as I am able to judge, nothing has been left undone, either by man or Nature, to make India the most extraordinary country that the sun visits on his round. Nothing seems to have been forgotten, nothing overlooked… Perhaps it will be simplest to throw away the tags and generalize her with one all-comprehensive name, as the Land of Wonders."

–Mark Twain, Following the Equator (1897)

Mark Twain's description is the most succinct and eloquent I could imagine for that land. India is an amazing place, where one can see both strong investment opportunities and extreme challenges, all while standing in one spot.

India is a country that illustrates exactly why we have to give some consideration to the characteristics of individual markets and avoid broad generalizations of emerging markets. As mentioned already, falling oil prices were a primary reason why emerging markets have been weak in recent years. According to the International Energy Agency, India is the fourth largest oil consumer and net importer.[3] Falling oil prices, therefore, have provided significant benefits for India. The government operates with a current account deficit, something that has long concerned investors. Precipitously falling oil prices, however, should help ease India's current account deficit.

INDIA TOTAL MONTHLY IMPORTS OF CRUDE AND PETROLEUM PRODUCTS

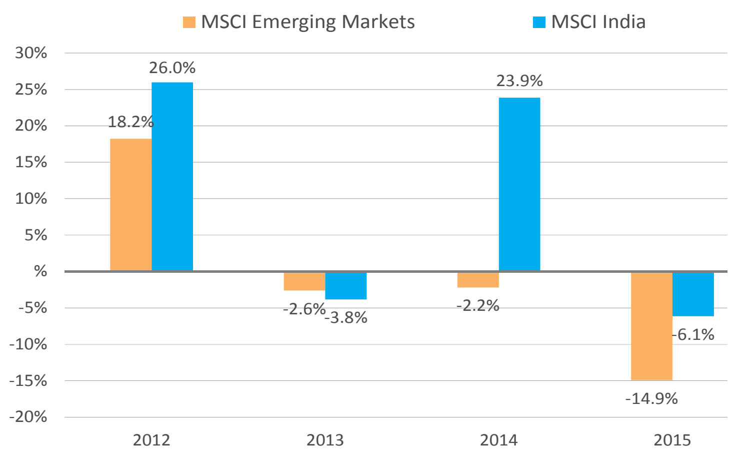


Data sources: Bloomberg, Ministry of Petroleum & Natural Gas, Government of India; data as of 12/31/2015

This benefit is reflected in the recent outperformance of India relative to other emerging markets. Not only did India limit losses in 2015 amid falling oil prices, it substantially outperformed the broad MSCI Emerging Markets Index in three out of the last four years. India has also proven to be a winner in long-term trailing returns.

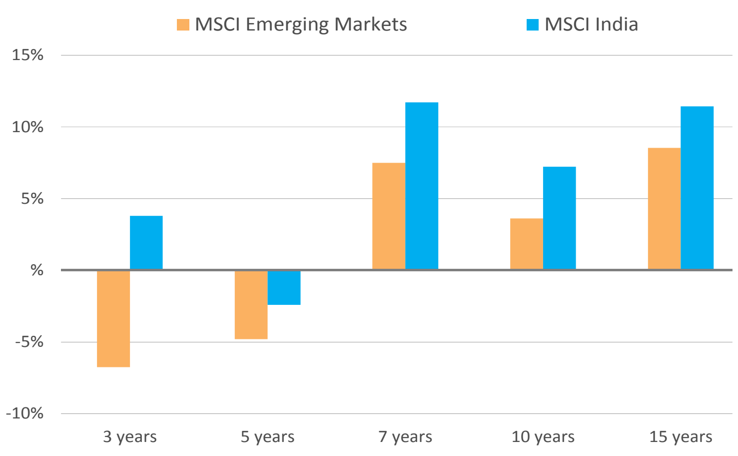
While oil's price decline was a short-term boost for India, there are more reasons why the country outperformed emerging markets broadly over longer periods. Many of these reasons still hold true, and present further opportunity for investors in India over the next 3–10 years.

ANNUAL INDEX RETURNS



Data Source: Lipper; Data as of December 31, 2015

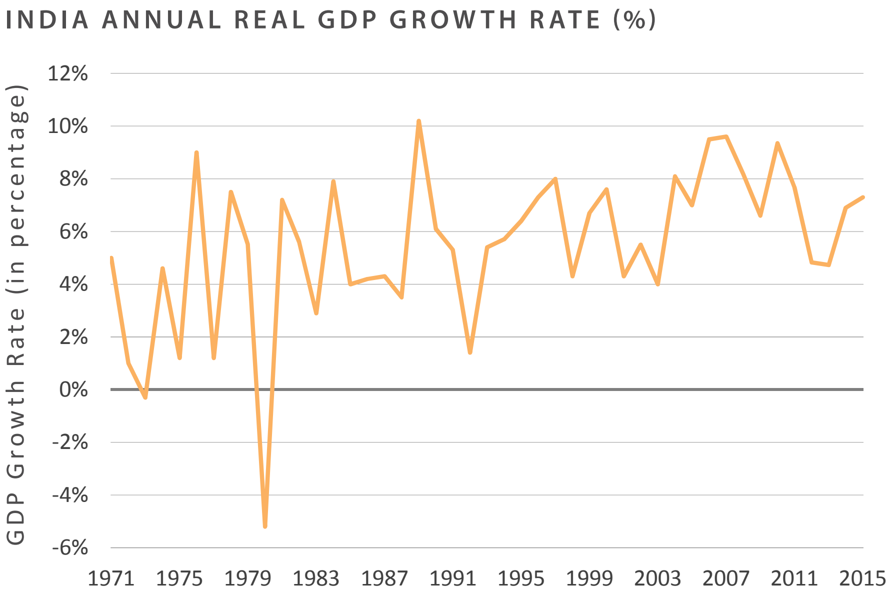
TRAILING INDEX RETURNS



Data Source: Lipper; Data as of December 31, 2015

Economic Growth

Real gross domestic product (GDP) growth is a good place to start. Prior to 1991, India had minimal private and foreign investment. Since 1992, real GDP growth has consistently been above 4% every year. During that time, growth has frequently ranged between 6–10%. China dominated global economic growth as their government helped engineer a spectacular economic expansion over a similar period, but India was able to achieve impressive economic growth under the largest democracy in the world, and a stronger base for rule of law regarding property rights and contracts. Even with significant growth, India's share of global GDP is only approximately 2.5%[4] and the country's weight in the MSCI ACWI, a representative global equity benchmark, is 0.8% as of February 29, 2016.[5] Economic liberalization in India took place only 25 years ago, suggesting that India is early in its development, and there are many areas of the economy that could present future growth opportunities.



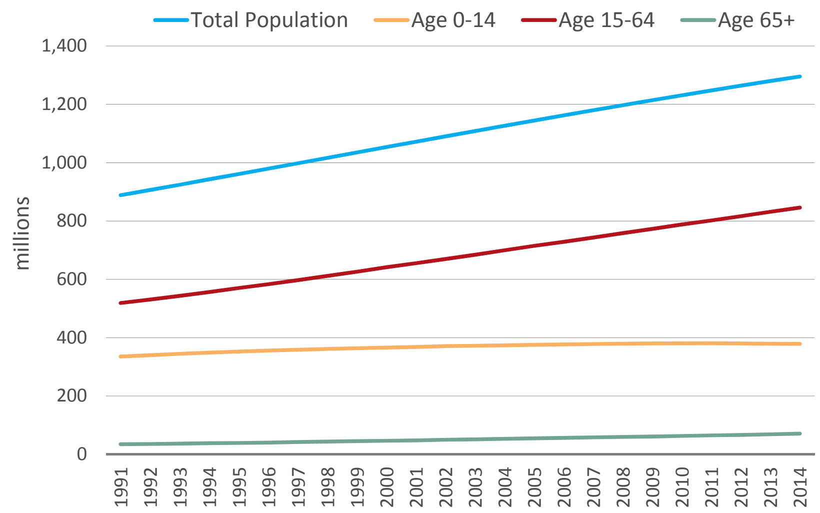
Data source: Bloomberg

Demographics & Consumption

Demographics should provide further support for the Indian economy. Unlike the aging population in Japan and many developed European countries, India has a large population—nearly 1.3 billion people—and approximately two-thirds of them are under age 35.[6] This segment should support economic growth in the coming years. With the favorable population demographics and economic development, should come a strong positive trend in consumer spending.

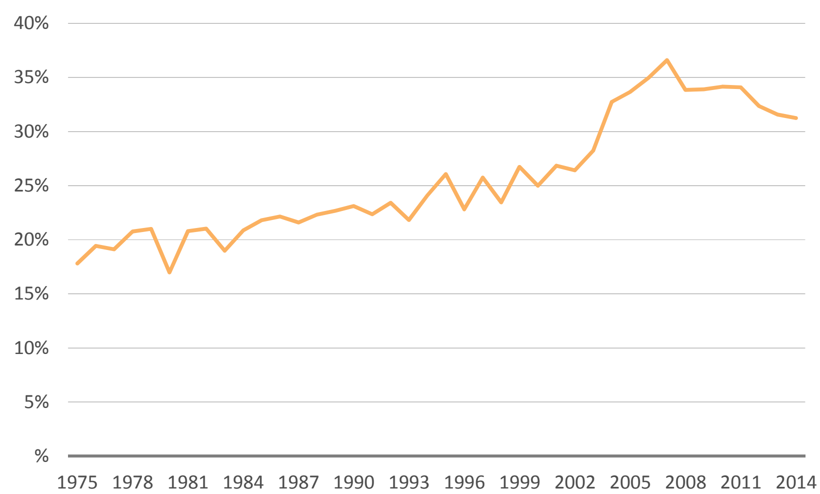
The Indian people have among the highest savings rates globally. A high savings rate translates to a greater opportunity for increased consumption, and it appears India is on that path. Annual household consumption expenditure growth has averaged approximately 8% over the last 10 years, compared to a long-term average of 4–5% growth, annually.[7] At the same time, the savings rate has declined. This may indicate that the growing consumer class feels more secure and, thus, more willing to spend a portion of their improving wealth. Additionally, domestic equity ownership is low, so high savings rates could also translate into future domestic investment in equities. Foreign capital flows can matter in the short term and often will be substantial drivers of performance in emerging markets, but India has a strong backdrop of savers, to weather the short-term impacts from foreign capital outflows.

INDIA POPULATION



Data source: World Bank - World Development Indicators

INDIA GROSS SAVINGS (%OF GDP)



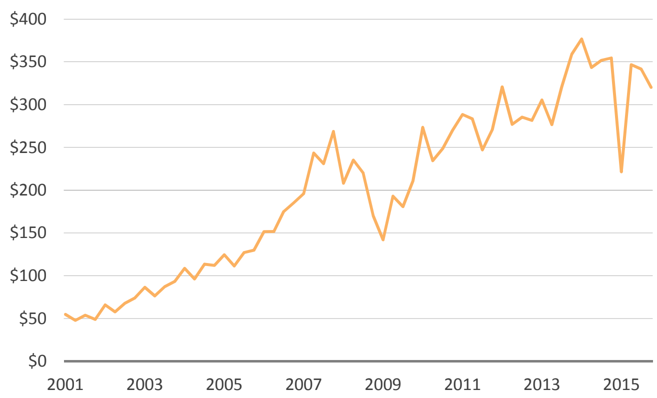
Data source: World Bank - World Development Indicators

Fundamentals

Economic fundamentals appear supportive of the economic strength in India. Some of these fundamentals have markedly improved over long periods, while others are more recent advances in the business cycle. Combined, these fundamentals demonstrate strong aspects of the Indian economy:

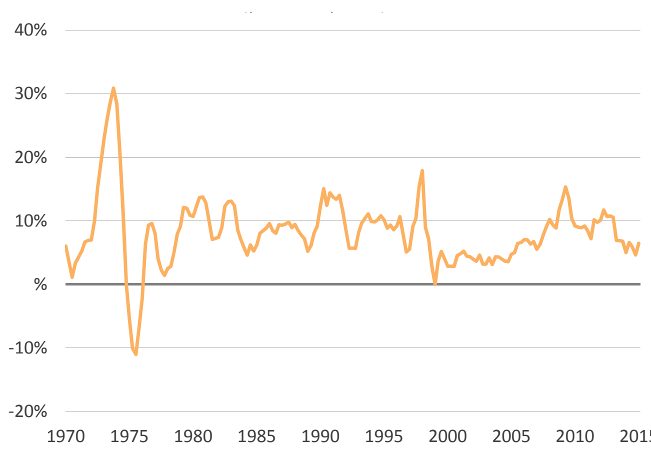
- Corporate earnings are more than six times the size they were just 15 years ago.
- The Nikkei India Composite PMI, which measures business activity in India, has risen from contraction territory (46.1 as of September 30, 2013) back into expansion territory (51.6 as of December 31, 2015).[8]
- Historically, the Indian government's ability to control inflation has been a significant concern for investors. Inflation, as measured by the consumer price index (CPI), has often exceeded 10%. Recently, however, the government has effectively managed a reduction in inflation; at the same time manufacturing has improved.
- Debt-to-equity levels are high relative to some developed and emerging markets, but companies have managed the leverage to fairly steady levels over the past 10 years, unlike in the U.S. (historically higher but has significantly declined) and China (significant increase to approximately 50% higher level than India).[9]
- Dissimilar from many developed markets, including the U.S., profit margins are not at peak levels, and possibly are turning higher from cyclical lows.

INDIA S&P BSE SENSEX TRAILING 12-MONTHS EARNINGS PER SHARE



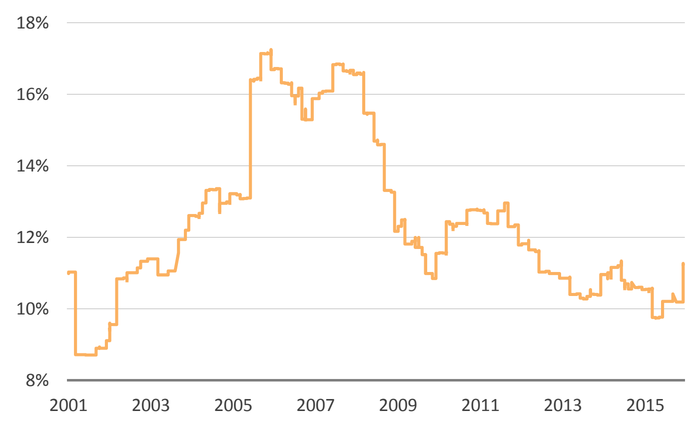
Data source: Bloomberg; data as of 12/31/2015

INDIA CPI (YEAR-OVER-YEAR %)



Data source: Bloomberg; data as of 12/31/2015

INDIA S&P BSE SENSEX PROFIT MARGIN



Data source: Bloomberg; data as of 12/31/2015

Politics

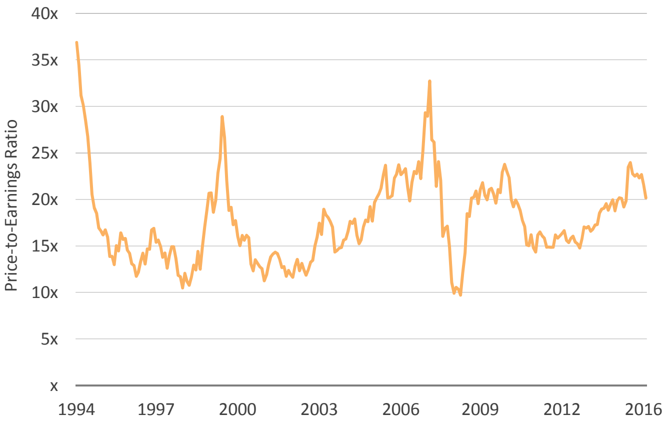
Political change has been supportive and is a key driver of the relative attractiveness of India versus other emerging markets. Narendra Modi was sworn in as the new Indian Prime Minister in 2014, having won the election with a pro-business and economic reform campaign. Nearly two years have passed, and there is some uncertainty regarding support for the Prime Minister's agenda. The Bihar state elections occurred while I was in India, and Prime Minister Modi's Bharatiya Janata Party, lost. Local press and commentary seemed to dismiss concerns that this was a sea change and support for Modi was waning. If Modi can focus the agenda on pro-business initiatives and reforms that he touted in his campaign, he and his party may regain some support lost post-election and further fuel growth in the Indian economy. The political landscape is a key area upon which the investing world will likely be watching. A movement away from pro-business initiatives and reforms will present challenges for investors, who believe those are key to ongoing development and growth in India.

The less rosy aspects of India

Without a doubt, I knew I was in a different place when I stepped foot in India. I knew I was in an emerging market. India hits all five of your senses—some good and some that tested my strength to not use profanity. The sights can be amazing (the Taj Mahal), or they can be disturbing (take my word for it) for the unprepared and insulated American. The sounds are different: tuk tuks (small motorized rickshaws) everywhere, more than 20 official languages, and activity like almost nowhere else on the planet. The smells and flavors of Indian food were intoxicating, but the odor and even taste of pollution were overwhelming at times. Simply put, India felt different.

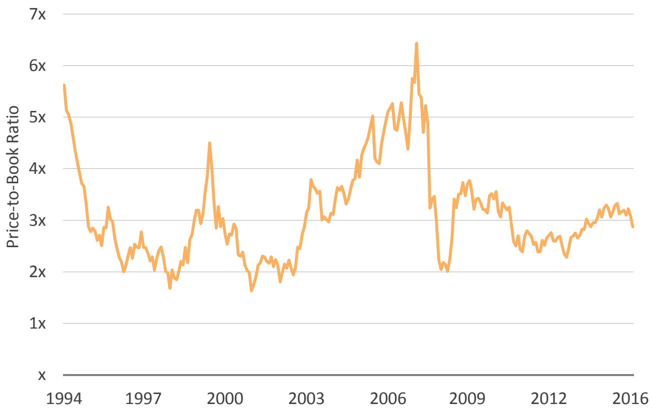
India feels different from an investment perspective, too. FEG and others have expressed interest in emerging markets partially due to the attractive valuations relative to other markets globally. India, however, does not exactly fit that mold. Valuations are elevated when measuring Indian equities on a price-to-earnings ratio, illustrative of India's equity market performance. Multiple expansion has been significant over the last three years, moving from 15x to more than 20x.[10] Valuations appear more favorable, however, when measuring on a price-to-book ratio and dividend yield basis.

MSCI INDIA PRICE-TO-EARNINGS RATIO



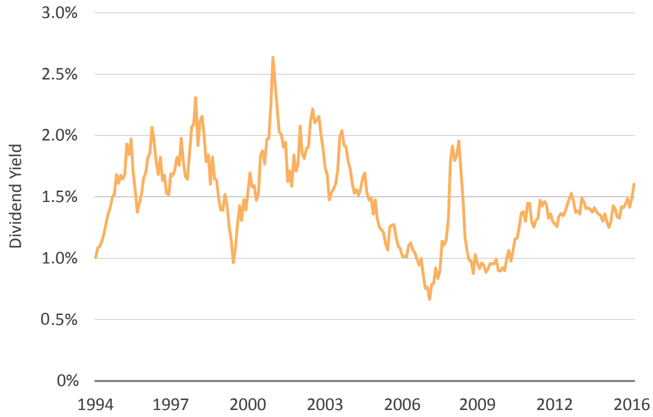
Data source: MSCI; data as of 2/29/2016

MSCI INDIA PRICE-TO-BOOK RATIO



Data source: MSCI; data as of 2/29/2016

MSCI INDIA DIVIDEND YIELD



Data source: MSCI; data as of 2/29/2016

It is no secret that India desperately needs infrastructure investment. And until significant strides are made in this arena, infrastructure will continue to be highlighted as a problem. There have been material achievements in the last 10 years, though, with the construction of the Sea Link bridge in Mumbai, and the expressway connecting Noida, a city southeast of Delhi, to Agra—a heavily trafficked tourist destination with the Taj Mahal and Agra Fort. What appeared to be a brief taxi ride on Google Maps, could easily turn into a painstakingly long journey of sitting in traffic. Luckily, I received good advice from a number of my contacts in India to build in plenty of time between meetings.

Improving the country's infrastructure is a daunting task. Making it even more challenging is bureaucracy, which has often been noted as the reason for infrastructure project delays. This highlights the importance of the political momentum for reforms with the election of Prime Minister Modi.

What appears to be a brief taxi ride can become a painstakingly long journey of sitting in traffic.

The ugliest problem in India is pollution. Millions of cars idling in endless traffic, industrial production, and fewer regulations on emissions and pollution have created an extremely unhealthy and unpleasant environment. The World Health Organization released data in 2014, that ranked Delhi as the most polluted city in the world. With a strong push from the global community to tackle pollution and environmental issues, India could encounter problems that may inhibit or even derail their growth trajectory. Conversely, with improved economic growth, the nation will develop the resources to deal with the environment. As the U.S. developed, we addressed many severe pollution issues and continue to do so.

An example of India's pollution, this photograph is a sunrise on the drive from Delhi to Agra. The dot in the middle is the sun, and, no, it was not a cloudy or rainy day.

Outside of the city, the pollution is not as noticeable. Taken the same day as the image above, FEG's Brian Hooper sits in front of the Taj Mahal in Agra, India.

Indian Equity Markets

The Indian equity market is surprisingly deep, with 3,000-4,000 publicly traded equities. Only 100-150 of those stocks, however, are actively covered by sell-side analysts, but this thin coverage appears somewhat robust when one considers the size of Indian equity indices. The S&P BSE SENSEX (SENSEX) is one of the most referenced benchmarks for the Indian equity market, but is represented only by "the 30 largest, most liquid and financially sound companies across key sectors of the Indian economy."[11] Even MSCI, perhaps the most recognized non-U.S. index provider, only has 72 constituents in the MSCI India Index.

With so few constituents in both indexes, the 10 largest stocks account for approximately two-thirds of the SENSEX and one-half and MSCI India Index. Additionally, the total market capitalization of the SENSEX is only $620 billion, and free float market capitalization is roughly half of the total market capitalization.[12] Similarly, the total market capitalization of the MSCI India Index is approximately $800 billion with a free float market cap of $350 billion.[13] For contrast, Apple's market cap alone is approximately $560 billion.[14] This presents an interesting opportunity for active management. There are many high quality businesses of various sizes that are not followed by analysts or in indices, which provides active managers ample opportunity to identify unique opportunities and undervalued equities.

Mark Twain sums up India best

Perhaps the profanity-laced tirades when discussing emerging markets will come to an end soon. Emerging markets, as measured by the MSCI Emerging Markets Index, are modestly negative year-to-date (-0.6%) as of March 8, 2016, while U.S. equities, as measured by the Russell 3000 Index, are down more than 3%.[15] One of the headwinds for emerging markets investors in the U.S., a strong U.S. dollar, has subsided and allowed for better relative returns. Even so, FEG believes there are select investment opportunities that can be identified within the diverse universe of emerging markets. India appears to be poised for continued growth and could be one of those investment opportunities, but the road is likely to be volatile.

What I am describing, however, has not really changed in 120 years; only the specific issues have changed. I conclude by, once again, deferring to Mark Twain:

> *"This is indeed India! the land of dreams and romance, of fabulous wealth and fabulous poverty, of splendor and rags, of palaces and hovels, of famine and pestilence, of genii and giants and Aladdin lamps, of tigers and elephants, the cobra and the jungle, the country of a hundred nations and a hundred tongues, of a thousand religions and two million gods, cradle of the human race, birthplace of human speech, mother of history, grandmother of legend, great-grandmother of tradition, whose yesterdays bear date with the mouldering antiquities of the rest of the nations—the one sole country under the sun that is endowed with an imperishable interest for alien prince and alien peasant, for lettered and ignorant, wise and fool, rich and poor, bond and free, the one land that all men desire to see, and having seen once, by even a glimpse, would not give that glimpse for the shows of all the rest of the globe combined."*
>
> *–Mark Twain, Following the Equator (1897)*

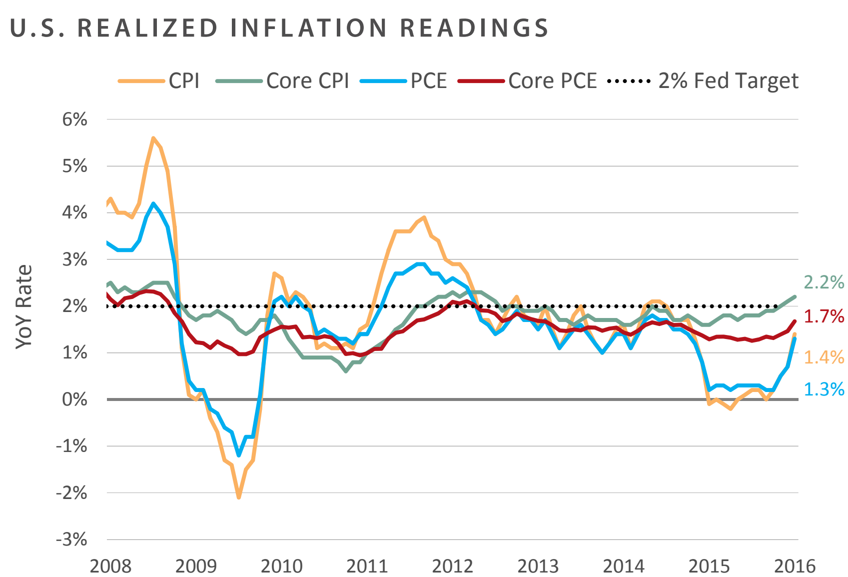
FOCUS TOPIC FOOTNOTES

1 MSCI and Standard & Poor's
2 MSCI
3 http://energyatlas.iea.org/
4 International Monetary Fund – October 2015 World Economic Outlook database
5 MSCI
6 Government of India Ministry of Home Affairs – 2014 census
7 World Bank – World Development Indicators
8 Bloomberg, Markit
9 Bloomberg
10 MSCI
11 S&P BSE
12-14 Bloomberg as of March 9, 2016
15 MSCI

Economic Update

Tightening Labor Market and Increasing Inflation Put Fed in Hot Seat

The U.S. Federal Reserve's dual mandate of promoting price stability and maximum employment, which serves as a guide to the Federal Open Market Committee's (FOMC) monetary policy initiatives, is flashing a green light for further interest rate hikes over the near-term horizon. The headline unemployment rate at 4.9% (as of the end of February), steady growth rates in nonfarm payrolls, a more recent uptick in labor force participation, and a bottoming-out process in first time claims for jobless benefits all point to a U.S. labor market that should satisfy the employment half of the Fed's dual mandate. On the inflation front, core CPI, at 2.2% as of January 2016, is now above the Fed's 2.0% inflation target and trending higher. Admittedly, the Fed's preferred gauge of realized inflation, the personal consumption expenditure (core), concluded January 2016 at 1.7%, 30 basis points below the Fed's 2% inflation target.



Data sources: BLS, BEA, Bloomberg, L.P.; Data as of January 31,2016

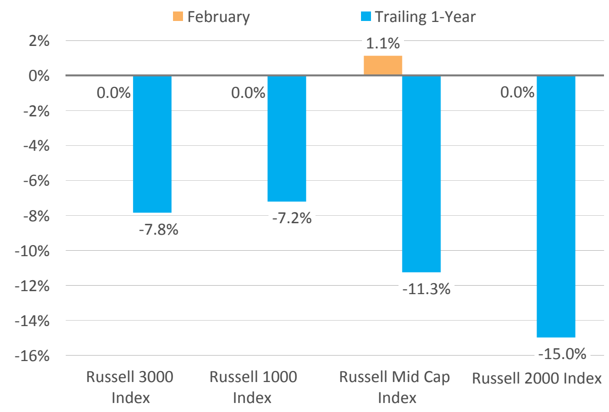
With full-year 2015 real GDP printing at a paltry 1.9%, and, as it currently stands, a Federal Reserve on pace to hike interest rates four times in 2016 (according to the Federal Open Market Committee's "Dot Plot" from their December 15-16, 2015 meeting), the Fed has potentially found itself in a precarious quagmire. With the U.S. bond market currently positioned for only one interest rate hike in 2016 (according to pricing on federal funds futures contracts), the Federal Reserve telegraphing to market participants that four rate hikes are on the table for 2016, and no indication that exuberant economic growth or inflation is on the horizon, one would have difficulty making the case that the Fed can indeed move forward with their anticipated path of monetary tightening without a substantial repricing of risky asset return potential over the cyclical horizon. On the contrary, should the Fed abandon their rate-hike plans or, awkwardly enough, reverse course and drop the federal funds rate back down to the zero bound, it goes without saying—but we'll say it anyway—that a serious crisis of confidence would be at the Fed's doorstep, the consequences of which are frightening to fathom.

Global Equity

U.S. Equity

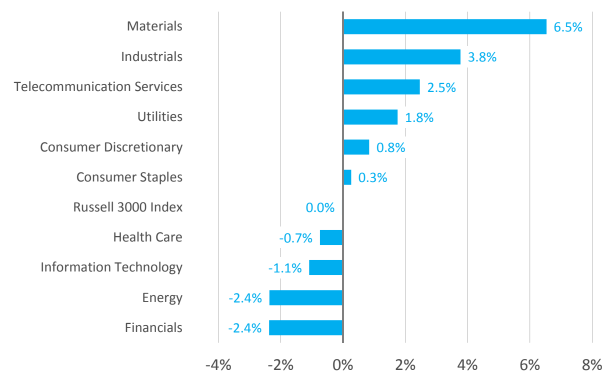
- The U.S. stock market, represented by the Russell 3000 Index, was flat in February. Investor pessimism appeared to moderate in the month following one of the largest declines to start a year. A lackluster February was partially influenced by mixed U.S. economic activity reports. The labor market continued to improve, but there appeared to be further growth in the consensus that the Federal Reserve will not be able to continue their projected path of interest rate increases because of weaker economic data.
- Large cap and small cap stocks were flat, underperforming mid cap stocks in February. Over the trailing one-year period, the higher quality and more resilient businesses of large cap companies limited losses in large cap stocks and outperformed mid and small cap stocks.
- The energy sector continued to have a negative impact on broad U.S. equity performance. Oil prices appeared to have potentially bottomed in mid-February, and finished down for the month (-2.4%), pressuring energy stocks.
- Financials stocks also declined 2.4% in February due in part to the same reason: falling oil prices. Banks have significant loans in place with many energy companies, and the negative impact from falling oil prices on energy companies in turn raised questions regarding the energy companies' ability to service debt.
- Six of the ten sectors did post positive returns, however, with cyclical oriented sectors leading the U.S. market. Materials stocks were the best performers, as commodity price changes other than oil were largely positive. Precious metals, including gold and copper, were higher in the month. The industrials sector also benefited, with the sector gaining 3.8%.
- The more defensive sectors of telecommunications and utilities benefited from continued volatility and uncertainty surrounding equities and the economy.
- Performance among value and growth stocks was mixed, with value outperforming growth stocks in small cap, but growth stocks outperforming value

RUSSELL INDICES PERFORMANCE



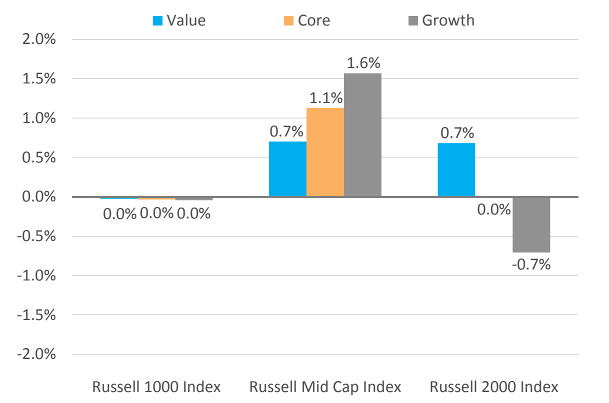
Data source: Russell

FEBRUARY 2016 RUSSELL 3000 SECTOR PERFORMANCE



Data source: Russell

FEBRUARY 2016 RUSSELL INDICES PERFORMANCE



Data source: Russell

stocks in mid cap. This led to negligible differences among value and growth stocks across all capitalizations. Those sectors that tend to have greater weight in large cap value indices, such as energy and financials, were the worst performing sectors, but were offset by better performance in telecommunications and utilities stocks. Over the trailing one year, growth stocks significantly outperformed value stocks.

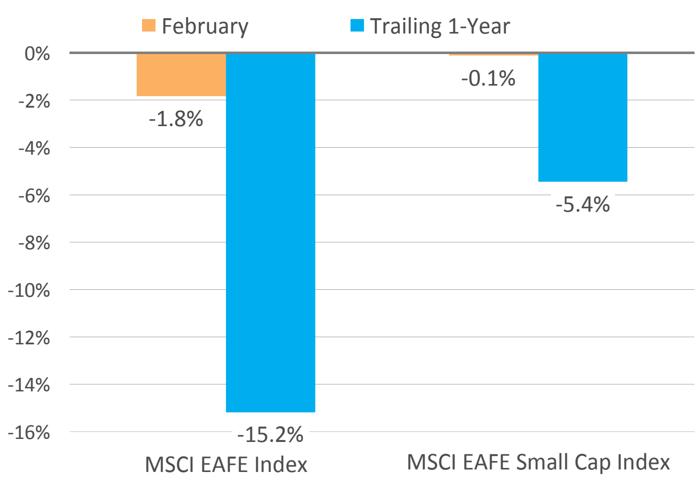
International Equity

All returns in local currency unless otherwise indicated.

INTERNATIONAL DEVELOPED MARKETS

- International developed equity markets posted losses, down 3.6% for the month, but U.S. investors were aided when adjusting for currency fluctuations (-1.8% in U.S. dollar terms).
- The Pacific region led non-U.S. developed markets lower due primarily to significantly poor performance in Japan (-9.3%). The majority of these losses were minimized for U.S. investors by a strengthening Japanese yen, equities were down 2.7% in U.S. dollars. European equity returns were also negative due primarily to weakening economic conditions and European banking concerns. Portugal (-7.8%) and Italy (-5.6%) were the worst performers, but were offset by the largest European country, the United Kingdom (+0.9%).
- Financial stocks were especially weak across non-U.S. developed markets, down 6.0%. Japanese and European financials were notably poor, with Japanese financials down 13.6%, Portuguese financials down 11.6%, and Swiss financials down 9.5%.
- Currency had a significant positive impact on U.S. investors due to U.S. dollar depreciation against most major developed market currencies, including the Japanese yen (-6.6%) the euro (-0.3%), Swiss franc (-2.5%), and the Australian dollar (-1.0%). The U.S. dollar appreciated 2.2%, however, against the British pound.
- Small cap stocks, as measured by the MSCI EAFE Small Cap Index, were down 2.3% (-0.1% in U.S. dollars), underperforming large cap stocks in February. Performance was mixed across non-U.S. developed small cap stocks, with most countries and regions returning between -3% and 3%. Japanese small cap stocks were the notable poor performers, down 7.7%.

MSCI INDICES PERFORMANCE
Returns in U.S. Dollars

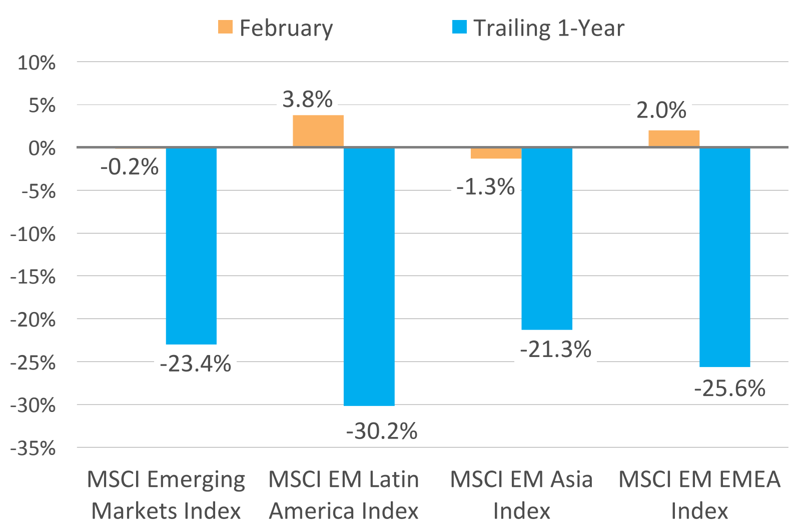


Data sources: MSCI

EMERGING MARKETS

- Emerging markets, as measured by the MSCI Emerging Markets Index, were essentially flat, gaining 0.1% (-0.2% in U.S. dollars), outperforming developed international markets.
- Following a period of poor performance, Latin America posted positive returns, up 2.9%, as Brazil (+5.2%), Peru (+8.5%), and Colombia (+5.8%) were strong during the month. Petrobras, which was embroiled in a scandal and had dominated headlines in Brazil, obtained a $10 billion loan from China Development Bank and stemmed the negative momentum in the market. The Brazilian energy sector posted a 6.7% gain.
- Asia was down 0.7%, as China fell 2.6% and India declined 6.7%. Financials and consumer stocks were the primary drivers of negative returns in China, while eight of the ten sectors in India lost more than 3%. Indian telecommunications stocks were the only sector to post positive returns in February. Taiwan (+3.8%), Thailand (+4.2%), and Indonesia (+3.0%) offset most of the declines.
- The Eastern European region gained 1.0%, with Russia up 1.6%, Turkey up 3.3%, and Poland up 2.2%. Russia's energy sector, which accounts for nearly 60% of the nation's equity market capitalization, benefited from a bottoming in oil prices, whereas gains in financials stocks drove positive returns in Turkey and Poland.
- The impact of currency fluctuations was slightly negative for U.S.-based investors. The U.S. dollar appreciated most notably against the South Korean won (+2.2%) and Indian rupee (+0.5%).

MSCI INDICES PERFORMANCE
Returns in U.S. Dollars



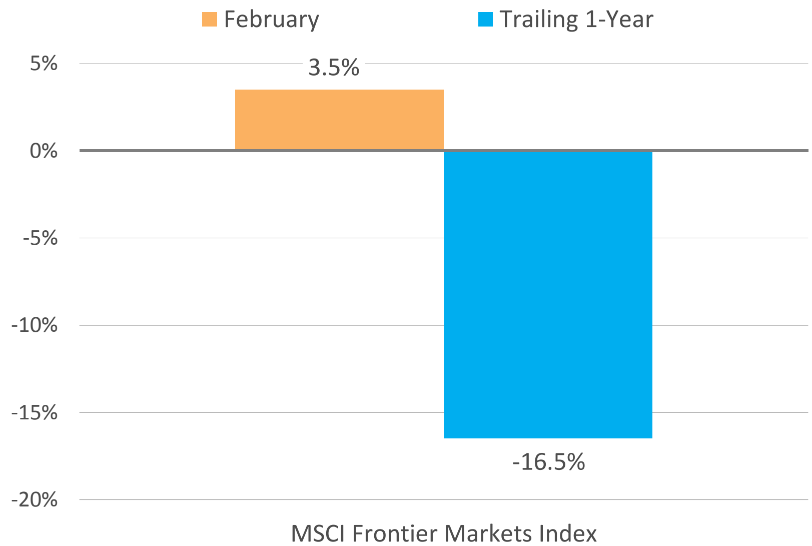
Data sources: MSCI

FRONTIER MARKETS

- Frontier markets bucked the negative trend and outperformed developed and emerging markets in February by posting a +3.1% return (+3.5% in U.S. dollars). Over the last 12 months, however, frontier markets are down 14.7% (-16.5% in U.S. dollars).

- Argentina continued positive momentum into February from the recent election of a market-friendly government, and gained 8.3%. Argentina is the second-largest frontier market within the MSCI Frontier Markets Index; therefore, the market's gains were the primary driver of positive returns.
- Large oil-producing countries were strong performers despite the near-term weakness in oil prices. Kuwait, the largest country in the MSCI Frontier Markets Index, was up 3.7%. Nigeria was among the worst performing frontier markets over the last 12 months, but posted a 1.8% gain in February as oil prices showed signs of stabilization.
- The Asian region was mixed, with Pakistan (+2.1%), Sri Lanka (+2.0%), and Bangladesh (+1.7%) posting positive returns but offset by a decline in Vietnam (-4.2%).

MSCI INDICES PERFORMANCE
Returns in U.S. Dollars

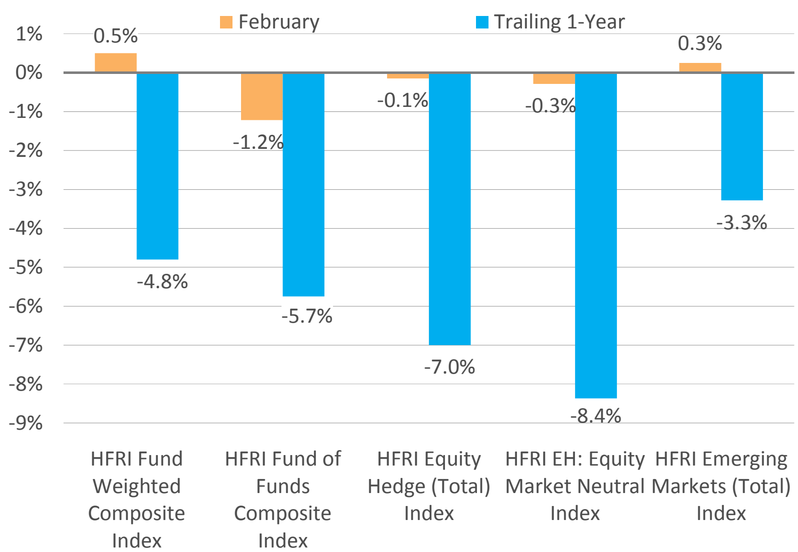


Data sources: MSCI

Hedged Equity

- Hedged equity managers generated mixed results amid considerable volatility in financials, energy, technology, and healthcare sectors. The HFRI Equity Hedge (Total) Index returned -0.2%. The long-only S&P 500 Index and the MSCI ACWI Index returned -0.1% and -0.6%, respectively. Managers that maintained exposure despite the broad market sell-off during the first half of February generally outperformed, as they avoided crystallizing losses and more fully captured the market rebound to end the month.
- Short-biased strategies delivered another strong month of performance with the HFRI EH: Short Bias Index returning 5.4%, the top performing HFRI sub-index. Conversely, the HFRI EH: Equity Market Neutral Index returned -0.3%.
- Quantitatively driven strategies outperformed fundamental-oriented counterparts. The HFRI EH: Quantitative Directional Index returned 0.9% while the HFRI EH: Fundamental Growth Index and the HFRI EH: Fundamental Value Index returned -0.4% and -0.2%, respectively.
- Sector specialists generated mixed performance. The HFRI EH: Sector – Energy/Basic Materials Index returned 2.3% despite continued declines in the energy complex. The HFRI EH: Sector – Technology/Healthcare Index returned -1.8% as certain widely held companies suffered substantial losses.
- The broad HFRI Emerging Markets (Total) Index returned 0.3%, posting only its second positive month in the previous 10. The HFRI Emerging Markets: Latin America Index returned 4.5%, driven by strong performance in Brazilian markets and the settlement between the Argentinian government and its creditors. The HFRI Emerging Markets: India Index returned -10.2%, as managers had difficulty navigating a volatile Indian equity market.

HFRI INDICES PERFORMANCE
Returns in U.S. Dollars



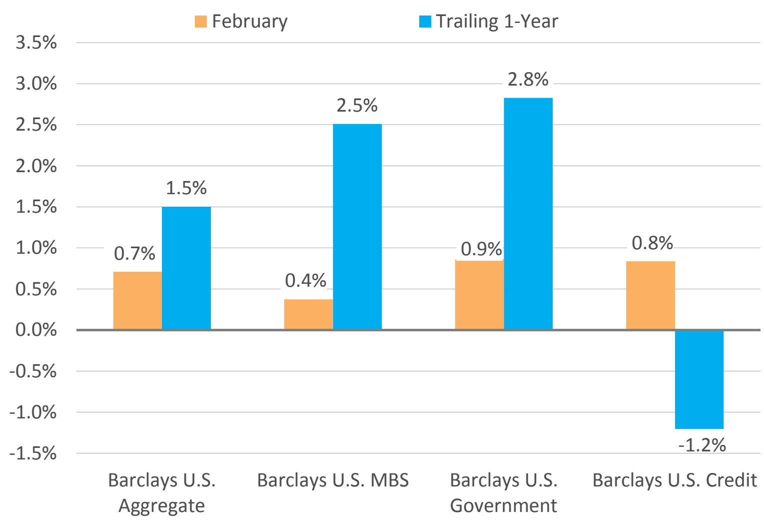
Data source: HedgeFund Research

Fixed Income

OVERVIEW

- The Barclays U.S. Aggregate Bond Index (BAGG) returned 0.7% in February. Agency mortgage-backed securities returned 0.4%. Investment-grade credit returned 0.8%, and U.S. government securities returned 0.9%.
- Investment-grade commercial mortgage-backed securities (CMBS), a smaller component of the BAGG, increased 0.7% during the month.
- Emerging market debt (EMD) local currency posted a gain of 4.2%, and dollar-denominated EMD increased 1.5%.

BARCLAYS BOND INDICES PERFORMANCE



Data sources: Bloomberg Finance, L.P., Barclays

RATES

- The 2-year note yield increased 4 basis points (bps) to 0.82%, the 10-year note yield decreased 9 bps to 1.74%, and the 30-year bond yield decreased 13 bps to 2.62%.
- Inflation expectations were largely unchanged. The 10-year break-even rate of inflation increased 1 bps to 1.42% and concluded the month 58 bps below the Fed's 2.0% target. The yield on the benchmark 10-year Treasury Inflation-Protected Securities (TIPS) moved 21 bps lower to 0.31% and the Barclays U.S. TIPS Index posted a gain of 1.1% in February.

CREDIT

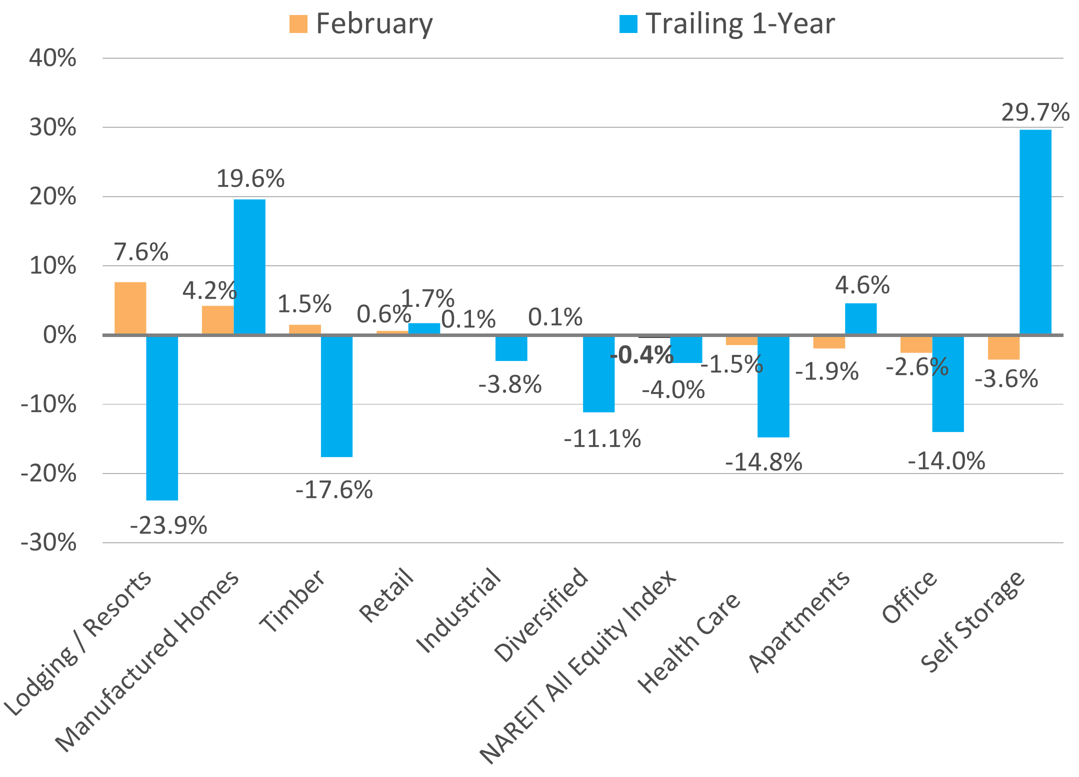
- Investment-grade corporate bonds increased 0.8%, with utilities being the best sector, up 1.4%. The industrials were up 1.2% and financials were down 0.2%.
- Fixed income risk sectors were mixed, with a 0.6% gain for the Barclays U.S. Corporate High Yield Index. Bank loans were down -0.2%.

Real Assets

DOMESTIC REITs

- Real estate investment trusts (REITs), as measured by the FTSE NAREIT All Equity Index, declined 0.4% in February. Given the equity market sell-off to begin the year, REITs have held up relatively well, but heightened volatility within the broader market has negatively impacted the asset class.
- At the end of February, REITs' dividend yield stood at 4.1%, versus a yield of 1.7% for the 10-year Treasury.[1]
- The Lodging and Resort sector posted the strongest return, gaining 7.6%. Hilton Worldwide announced plans to spin off a 35,000-room portfolio of their high quality and luxury assets into a REIT. This new entity would represent one of the largest and most geographically diversified publicly traded lodging REITs.
- Conversely, Self-Storage REITs declined 3.6%; however, the sector remained the top performer over the past 12 months, gaining 29.7%. Net rents were up 8.3% year-over-year, which should position the sector well for the upcoming spring leasing season.

FTSE NAREIT ALL EQUITY INDEX
Sector Returns - February 2016

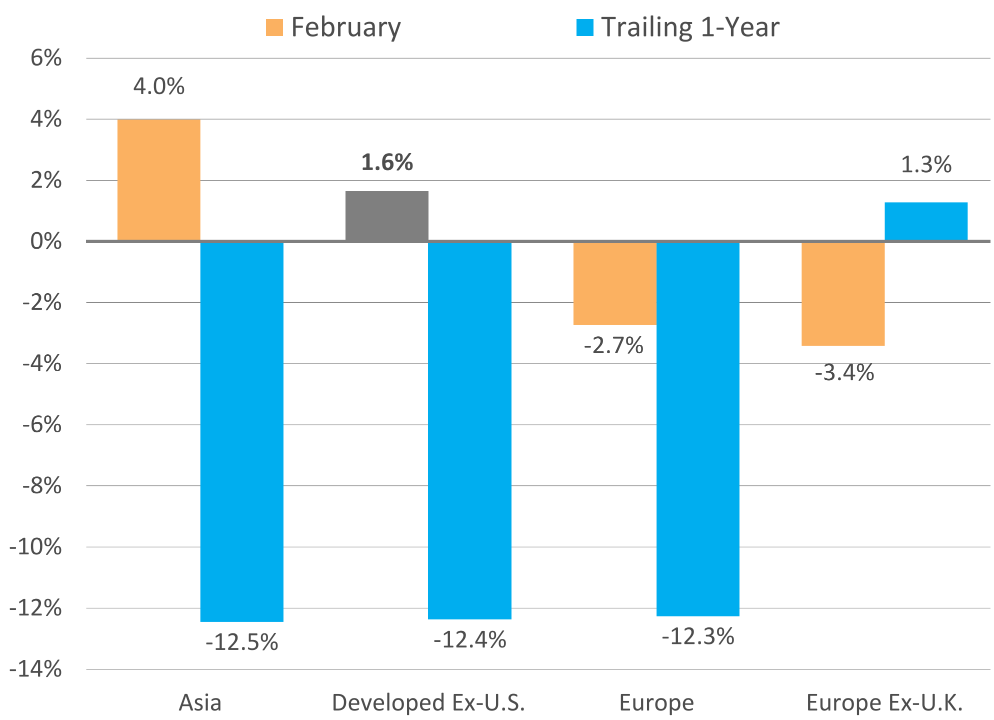


Data source: NAREIT

INTERNATIONAL REAL ESTATE SECURITIES

- International real estate securities, as measured by the FTSE EPRA/NAREIT Developed Ex-U.S. Total Return Index, increased 1.6% in U.S. dollar terms in February, outperforming domestic REITs.[2]
- Asia-Pacific property markets increased 4.0% but were still down 12.5% over the last year. The economic slowdown in China has negatively affected the region's property markets. The overall slowdown coupled with near-term difficulties in the commodity sector, have been cited as headwinds to the region's growth.
- Conversely, Europe Ex. U.K. property markets declined 3.4%, but returns were still positive over the past year (+1.3%). Many European economies are poised for relatively strong performance, benefiting from the continuation of the ECB's quantitative easing program. The overall economic growth has boosted job growth and rental recovery, positively impacting the region's property markets.

FTSE EPRA / NAREIT DEVELOPED MARKET INDICES
Regional Returns (U.S. dollars)



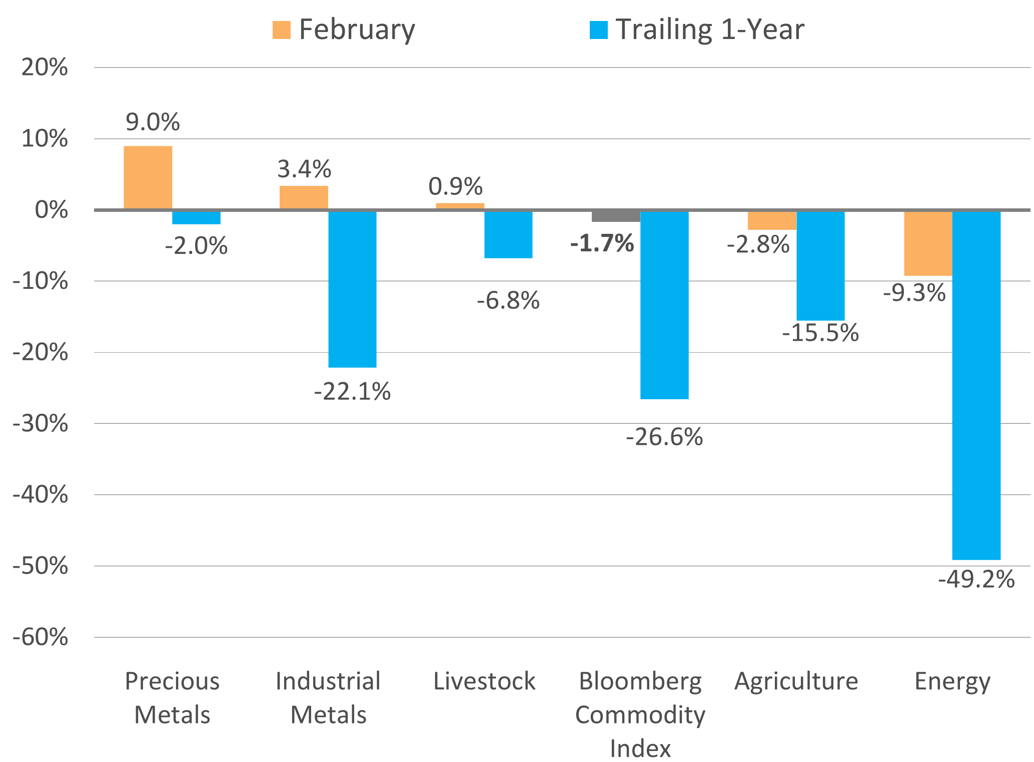
Data source: Bloomberg, L.P.

COMMODITIES

- Commodities, as measured by the Bloomberg Commodity Index (BCOM), declined 1.7% during February. The index fell for the eighth straight month and is down 26.6% over the past 12 months.[3]

- The precious metal sector gained 9.0%, propelled by the 10.6% rally in gold futures, the biggest monthly gain in a year. Gold has been the best performing major asset of 2016, as investors shifted into a flight-to-quality amid the bear market in global stocks, positively impacting prices. Furthermore, rising expectations that the Federal Reserve may not raise interest rates soon, increased gold's appeal as a store of value.
- Conversely, the energy sector declined 9.3%, as U.S. natural gas futures, due to an unseasonably warm winter, plummeted 25.8% in February. The decline pushed the futures curve to its lowest level for March delivery since 1991, as inventories are 29% above their five-year average. WTI crude was not spared from the rout, declining 6.8%. Inventories, already at record highs, continued to grow, and put further downward pressure on prices.[4]

BLOOMBERG COMMODITY INDEX
Sector Returns



Data source: Bloomberg, L.P.

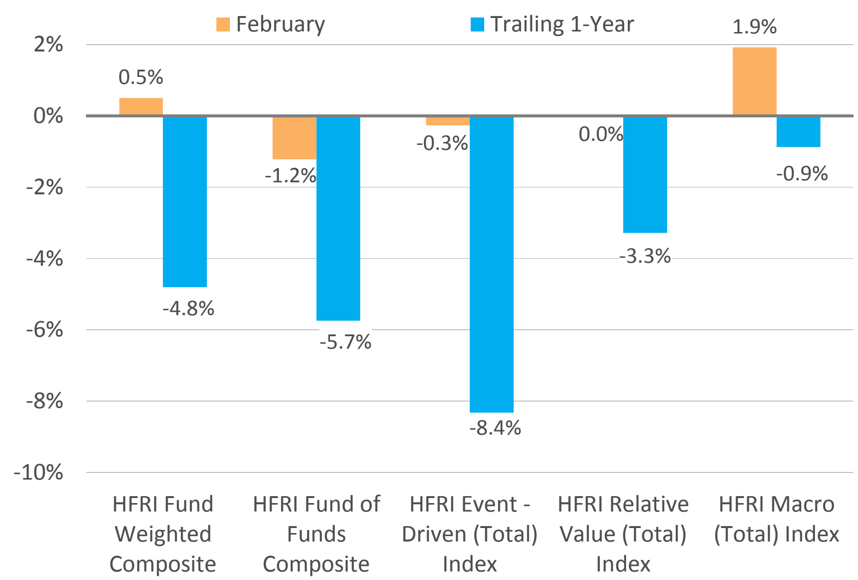
REAL ASSETS FOOTNOTES

1 All performance data from www.nareit.com. Accessed on March 7, 2016.
2 All performance data from FTSE EPRA/NAREIT Indexes, Bloomberg L.P. Accessed on March 7, 2016.
3 All performance data from Bloomberg L.P. Accessed on March 7, 2016.
4 Bloomberg Commodity Index (BCOM) Tables & Charts – February 2016.

Diversifying Strategies

- The HFRI Fund Weighted Composite Index returned 0.5%. Global macro funds continued to outperform their hedge fund brethren, besting event-driven and relative value strategies for the second consecutive month.
- The HFRI Event-Driven (Total) Index returned -0.3%. Only two event-driven sub-indices generated positive results as the HFRI ED: Merger Arbitrage Index and the HFRI ED: Special Situations Index returned 0.6% and 0.3%, respectively. Merger arbitrage managers benefited from spread tightening on a number of widely held deals as well as sustained deal activity. The event-driven laggards included the HFRI ED: Multi-Strategy Index and the HFRI ED: Activist Index, which each returned -1.3%.
- The HFRI Relative Value (Total) Index returned 0.0%. Sub-strategy performance was mixed, with four of the seven sub-indices generating negative performance. The HFRI RV: Volatility Index returned 1.1%, as managers took advantage of large movements in market volatility throughout the month. The HFRI RV: Fixed Income – Sovereign Index also generated gains of 0.3%, largely driven by the settlement reached between the Argentinian government and bondholders, which included several hedge funds. The HFRI RV: Fixed Income – Asset Backed Index was the worst performing relative value sub-index, returning -1.2%.
- The HFRI Macro (Total) Index returned 1.9%. Systematic managers drove performance, capitalizing on persistent trends in fixed income and energy. The HFRI Macro: Systematic Diversified Index and the HFRI Macro: Active Trading Index returned 3.0% and 2.8%, respectively. Commodity strategies and discretionary managers were the only macro categories to generate negative performance. The HFRI Macro: Commodity Index and the HFRI Macro: Discretionary Thematic Index returned -0.6% and -0.2%, respectively.

HFRI INDICES PERFORMANCE
Returns in U.S. Dollars



Data source: HedgeFund Research

DISCLOSURES

This report was prepared by Fund Evaluation Group, LLC (FEG), a federally registered investment adviser under the Investment Advisers Act of 1940, as amended, providing non-discretionary and discretionary investment advice to its clients on an individual basis. Registration as an investment adviser does not imply a certain level of skill or training. The oral and written communications of an adviser provide you with information about which you determine to hire or retain an adviser. Fund Evaluation Group, LLC, Form ADV Part 2A & 2B can be obtained by written request directly to: Fund Evaluation Group, LLC, 201 East Fifth Street, Suite 1600, Cincinnati, OH 45202, Attention: Compliance Department.

The information herein was obtained from various sources. FEG does not guarantee the accuracy or completeness of such information provided by third parties. The information in this report is given as of the date indicated and believed to be reliable. FEG assumes no obligation to update this information, or to advise on further developments relating to it. FEG, its affiliates, directors, officers, employees, employee benefit programs and client accounts may have a long position in any securities of issuers discussed in this report.

Index performance results do not represent any managed portfolio returns. An investor cannot invest directly in a presented index, as an investment vehicle replicating an index would be required. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

Neither the information nor any opinion expressed in this report constitutes an offer, or an invitation to make an offer, to buy or sell any securities.

Any return expectations provided are not intended as, and must not be regarded as, a representation, warranty or predication that the investment will achieve any particular rate of return over any particular time period or that investors will not incur losses.

Past performance is not indicative of future results.

Investments in private funds are speculative, involve a high degree of risk, and are designed for sophisticated investors.

This report is prepared for informational purposes only. It does not address specific investment objectives, or the financial situation and the particular needs of any person who may receive this report.

All data is as of February 29, 2016 unless otherwise noted.

INDICES

Barclays Capital Fixed Income Indices is an index family comprised of the Barclays Capital Aggregate Index, Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, Municipal Index, High-Yield Index, and others designed to represent the broad fixed income markets and sectors within constraints of maturity and minimum outstanding par value. See https://ecommerce.barcap.com/indices/index.dxml for more information.

FTSE Real Estate Indices (NAREIT Index and EPRA/NAREIT Index) includes only those companies that meet minimum size, liquidity and free float criteria as set forth by FTSE and is meant as a broad representation of publicly traded real estate securities. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate. See www.ftse.com/Indices for more information.

HFRI Monthly Indices (HFRI) are equally weighted performance indexes, compiled by Hedge Fund Research Inc. (HFX), and are used by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 37 different categories by strategy, including the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database. The HFRI Fund of Funds Composite Index is an equal weighted, net of fee, index composed of approximately 800 fund- of- funds which report to HFR. See www.hedgefundresearch.com for more information on index construction.

J.P. Morgan's Global Index Research group produces proprietary index products that track emerging markets, government debt, and corporate debt asset classes. Some of these indices include the JPMorgan Emerging Market Bond Plus Index, JPMorgan Emerging Market Local Plus Index, JPMorgan Global Bond Non-US Index and JPMorgan Global Bond Non-US Index. See www.jpmorgan.com for more information.

Merrill Lynch high yield indices measure the performance of securities that pay interest in cash and have a credit rating of below investment grade. Merrill Lynch uses a composite of Fitch Ratings, Moody's and Standard and Poor's credit ratings in selecting bonds for these indices. These ratings measure the risk that the bond issuer will fail to pay interest or to repay principal in full. See www.ml.com for more information.

Morgan Stanley Capital International – MSCI is a series of indices constructed by Morgan Stanley to help institutional investors benchmark their returns. There are a wide range of indices created by Morgan Stanley covering a multitude of developed and emerging economies and economic sectors. See www.morganstanley.com for more information.

Russell Investments rank U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period (May 31). The primary Russell Indices are defined as follows: 1) the top 3,000 stocks become the Russell 3000 Index, 2) the largest 1,000 stocks become the Russell 1000 Index, 3) the smallest 800 stocks in the Russell 1000 Index become the Russell Midcap index, 4) the next 2,000 stocks become the Russell 2000 Index, 5) the smallest 1,000 in the Russell 2000 Index plus the next smallest 1,000 comprise the Russell Microcap Index. See www.russell.com for more information.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation, among other factors by the S&P Index Committee, which is a team of analysts and economists at Standard and Poor's. The S&P 500 is a market-value weighted index, which means each stock's weight in the index is proportionate to its market value and is designed to be a leading indicator of U.S. equities, and meant to reflect the risk/return characteristics of the large cap universe. See www.standardandpoors.com for more information.

Information on any indices mentioned can be obtained either through your consultant or by written request to information@feg.com.

RES-2054 3-29-2016 EXP. 09-30-2016

Research Team

JEREMY M. ALBERS, CFA / Research Analyst / Global Fixed Income and Credit

CHERYL A. BARKER / Senior Research Analyst / Global Equities

SKYE BARRY / Research Analyst / Private Capital

NOLAN M. BEAN, CFA, CAIA / Managing Principal / Head of Institutional Investments

KEITH M. BERLIN / Senior Vice President / Director of Global Fixed Income and Credit

CHRISTIAN S. BUSKEN / Senior Vice President / Director of Real Assets

KEVIN J. CONROY, CFA, CAIA / Vice President / Hedged Strategies

KEVIN C. DEE / Research Analyst / Global Fixed Income and Credit

GREGORY M. DOWLING, CFA, CAIA / Managing Principal / Deputy CIO and Head of Research

SUSAN MAHAN FASIG, CFA / Managing Principal / Director of Private Capital

MICHAEL B. FRANKE / Research Analyst / Hedged Strategies

JEFFREY D. FURST, CFA, CAIA / Vice President / Hedged Strategies

BRIAN A. HOOPER / Vice President / Global Equities

GREGORY D. HOUSER, CFA, CAIA / Senior Vice President / Capital Markets

ZACHARY R. JANSEN / Research Analyst / Real Assets

JAY R. JOHNSTON / Senior Research Analyst / Real Assets

MARK A. KOENIG, CFA / Senior Vice President / Director of Quantitative Analysis

J. ALAN LENAHAN, CFA, CAIA / Managing Principal / Deputy CIO and Head of Research Services

MICHAEL J. OYSTER, CFA / Managing Principal / Portfolio Strategist

WILLIAM B. PHELPS, CAIA / Senior Analyst / Investment Strategies

GARY R. PRICE / Managing Principal / Head of FEG Managed Solutions

SAMUEL A. RAGAN / Research Analyst / Global Equities

G. SCOTT TABOR, CAIA / Vice President / Private Capital

NATHAN C. WERNER, CFA, CAIA / Senior Vice President / Private Capital

The CFA designation is a professional certification issued by the CFA Institute to qualified financial analysts who: (i) have a bachelor's degree and four years of professional experience involving investment decision making or four years of qualified work experience[full time, but not necessarily investment related]; (ii) complete a self-study program (250 hours of study for each of the three levels); (iii) successfully complete a series of three six-hour exams; and (iv) pledge to adhere to the CFA Institute Code of Ethics and Standards of Professional Conduct.

The Chartered Alternative Investment Analyst Association® is an independent, not-for-profit global organization committed to education and professionalism in the field of alternative investments. Founded in 2002, the CAIA Association is the sponsoring body for the CAIA designation. Recognized globally, the designation certifies one's mastery of the concepts, tools and practices essential for understanding alternative investments and promotes adherence to high standards of professional conduct.

Research Team as of date of publication.