MANAGED ASSET PORTFOLIOS

FOCUSED · DISCIPLINED · TRANSPARENT

Fourth Quarter
Investment Outlook

Prepared

November 9, 2015

To Move or Not to Move

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- Stronger than expected October employment numbers have led to the increased likelihood of a Fed rate increase

- The result has been a move up in interest rates coupled with significant increases in the US dollar relative to other major currencies

- Should we see a strong November employment, we believe the Fed will view that as a green light to raise in December
  - Expect move upward to be modest and believe Fed will remain accommodative for quite some time

- To the contrary, should we see further signs of global economic weakness as a result of continued USD strength, we believe the Fed may forced to rethink its stance as it risks the US economy declining

USD Strength Weakens Other Major Currencies

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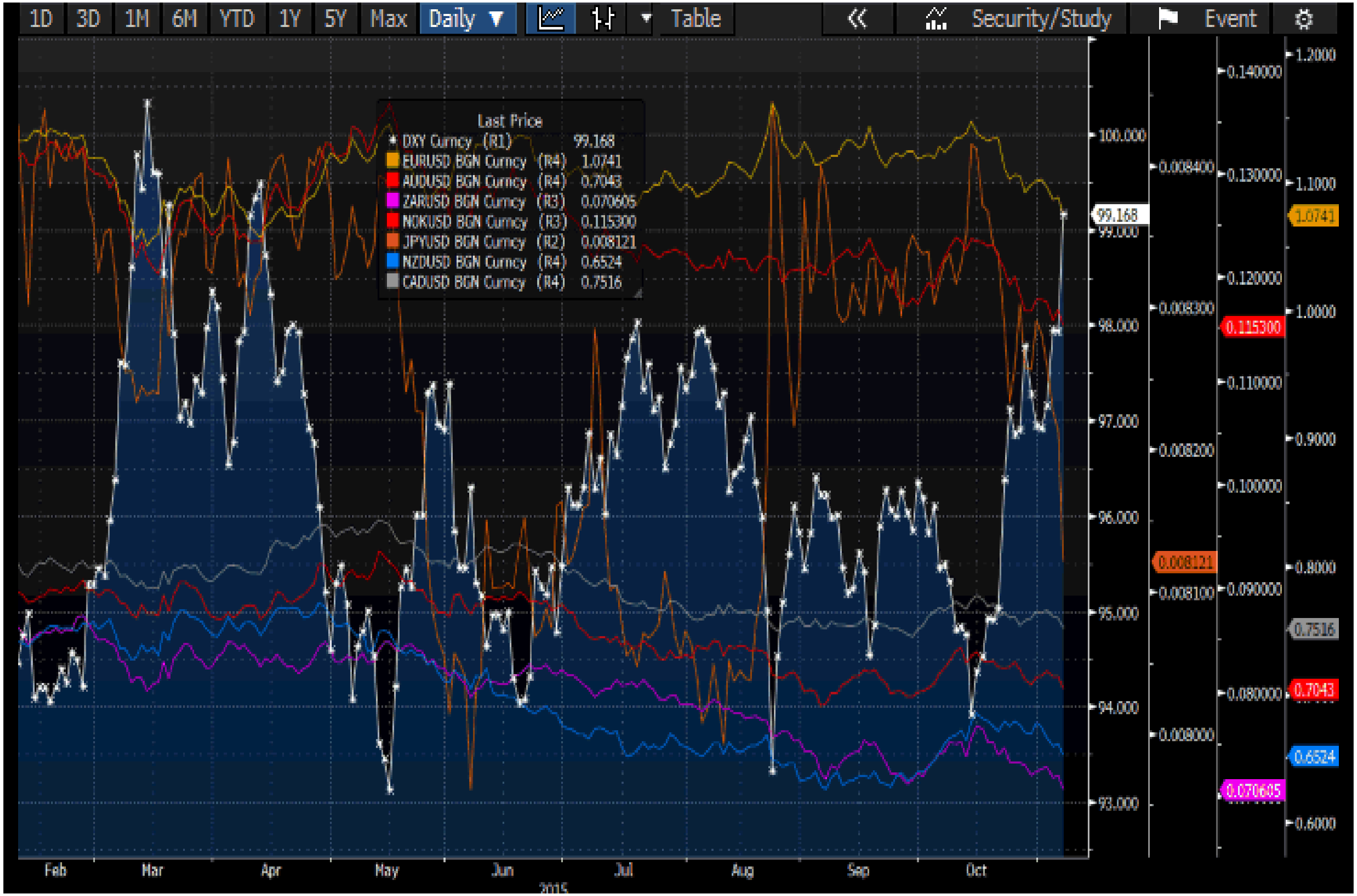

Chart Courtesy of Bloomberg

Global Government Action

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- The Bank of Japan has nearly tripled its monetary base from ¥100 trillion in the beginning of 2011, to over ¥300 trillion as of October 2015

- The US Federal Reserve has more than doubled the size of its balance sheet to nearly $4.5 trillion since 2008

- Like the US, the ECB's balance sheet has nearly doubled since 2008, to roughly €2.5 trillion

- The Bank of England has expanded their monetary base from nearly £0 in 2007, to over £400 billion

The Fed's Balance Sheet: Tough to Take Away

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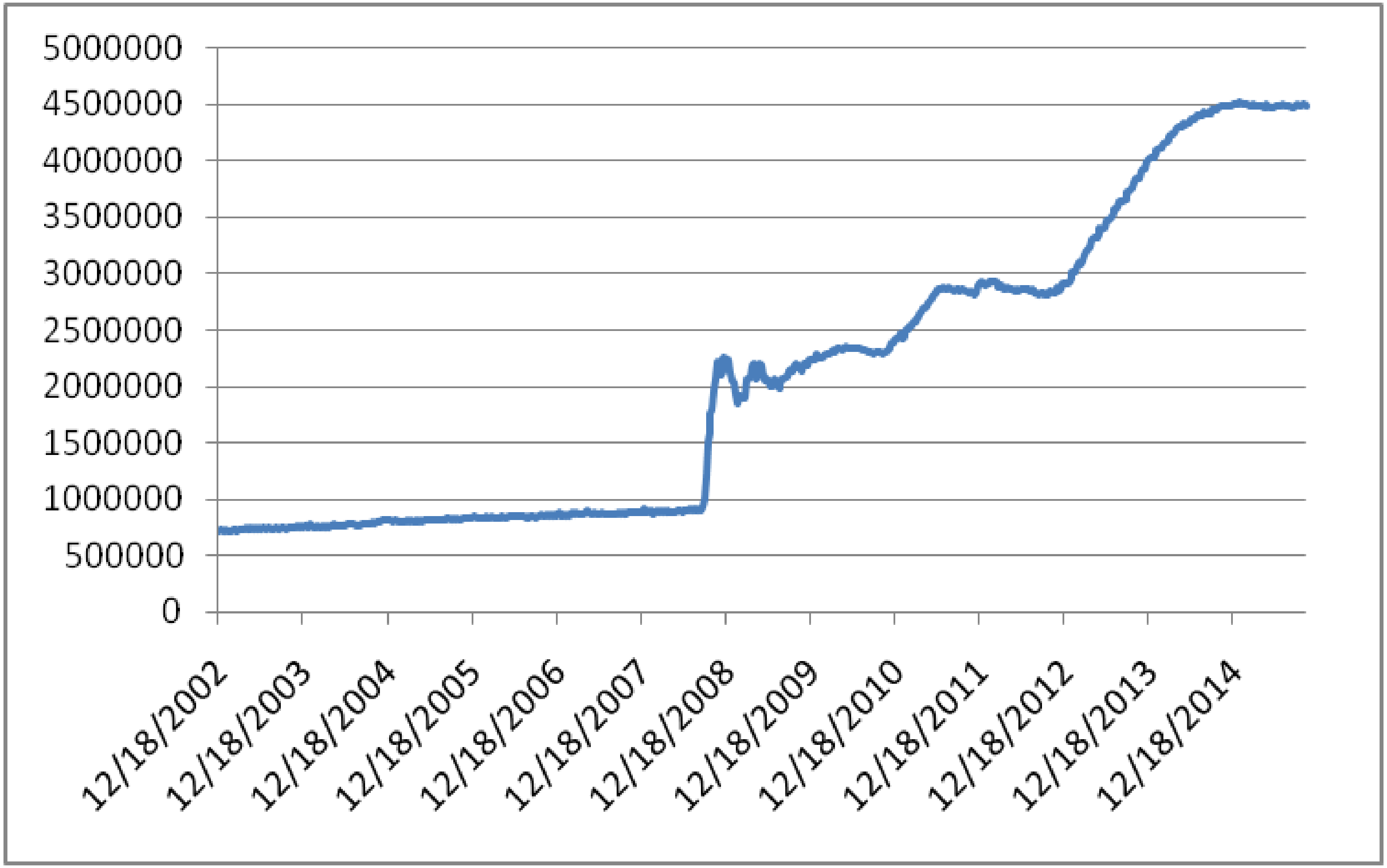

Source: The Federal Reserve

Fed Likely to 'Take Their Time'

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Chart Courtesy of Bloomberg

- ➢ As depicted here, the Fed began lowering rates in 2007 from over 5%, to near zero in 2009
- ➢ Rates have remained steady since, marking nearly 8 years without a single rate increase
- ➢ During the Fed's last rate rise cycle, movements upward were quick and frequent
- ➢ We do not believe any upcoming rate rise cycle will follow a similar trajectory

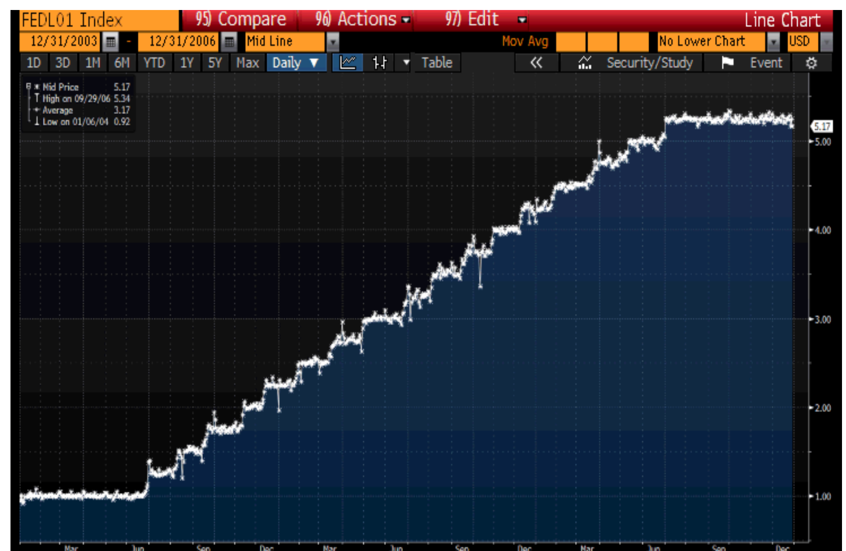

Chart Courtesy of Bloomberg

Europe Set To Take Further Action

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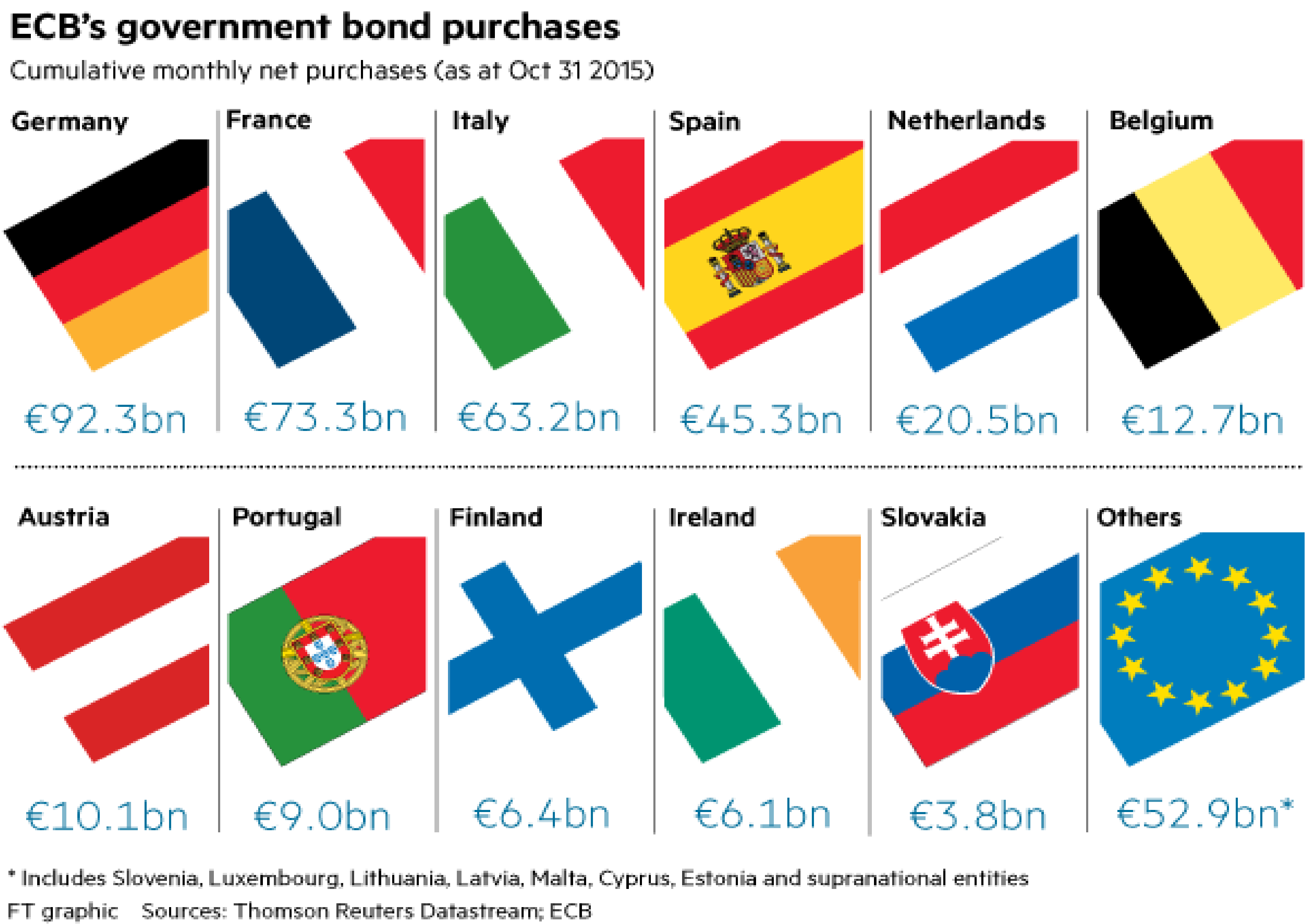
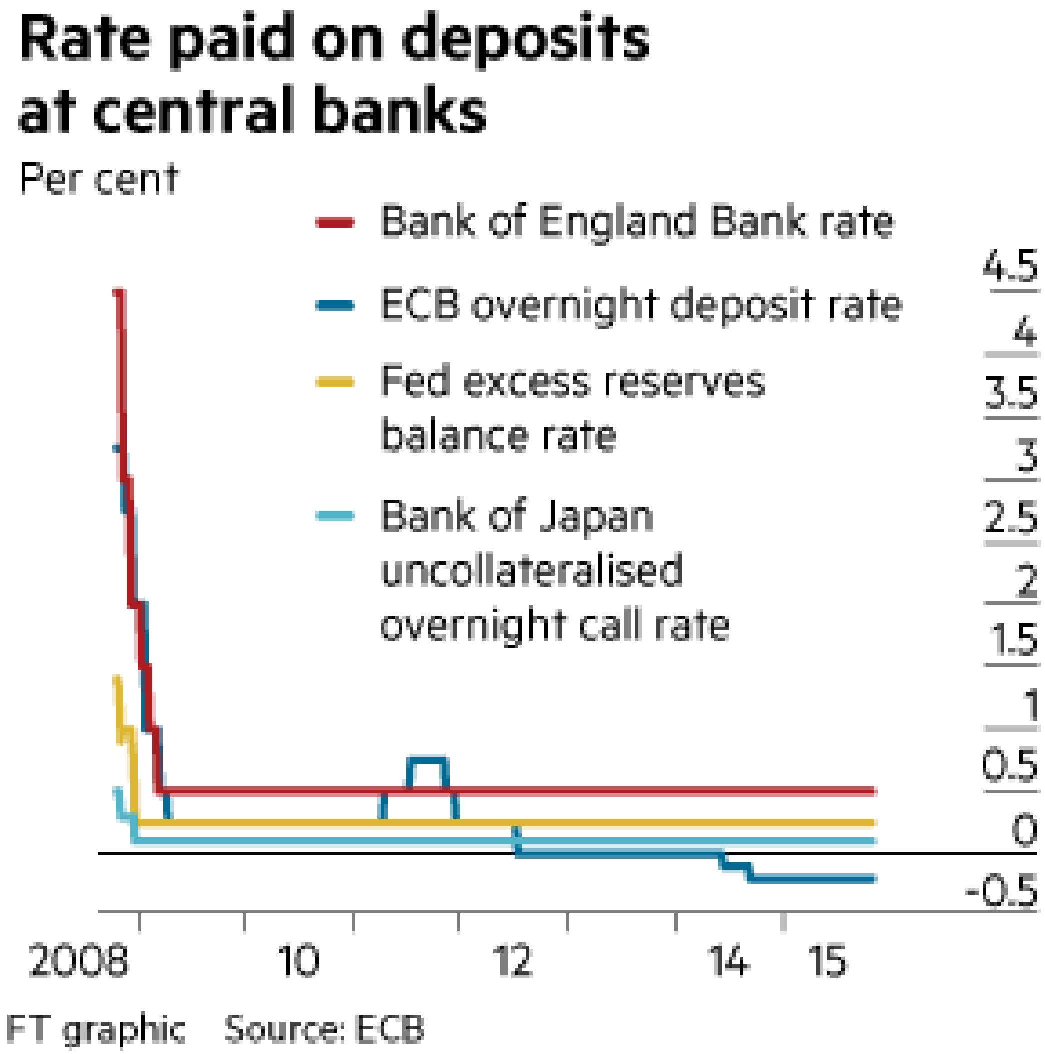


Source: Financial Times 11/04/2015

Rates Turn Negative:
Can They Decline Further?



Source: Financial Times 11/04/2015

US Hints at Rate Increase: Central Banks Diverge

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99) Export Data — World Interest Rate Probability

United States | Instrument: Futures: Fed Funds | FED Effective Rate 0.12

1) Overview | 2) Future Implied Probability

Current Implied Probabilities — 3) Add/Remove

Dates: Meeting / Calculation — Calculated 11/06/2015

Meeting	Prob Of Move	0-0.25	0.25-0.5	0.5-0.75	0.75-1	1-1.25	1.25-1.5	1.5-1.75
12/16/2015	68.0%	32.0%	68.0%	--	--	--	--	--
01/27/2016	71.2%	28.8%	64.4%	6.8%	--	--	--	--
03/16/2016	85.0%	15.0%	47.3%	34.4%	3.3%	--	--	--
04/27/2016	87.7%	12.3%	41.5%	36.8%	8.9%	0.6%	--	--
06/15/2016	92.9%	7.1%	29.2%	38.7%	20.6%	4.1%	0.2%	--
07/27/2016	94.4%	5.6%	24.4%	36.7%	24.6%	7.7%	1.1%	0.1%
09/21/2016	96.6%	3.4%	17.2%	32.0%	29.2%	14.1%	3.6%	0.4%
11/02/2016	97.5%	2.5%	13.5%	28.0%	29.9%	18.2%	6.4%	1.3%
12/14/2016	98.5%	1.5%	9.2%	22.3%	29.2%	22.8%	11.0%	3.3%
02/01/2017	98.9%	1.1%	6.9%	18.4%	27.1%	24.7%	14.5%	5.6%

Historical Analysis for Meeting 12/16/2015 — 4) Add/Remove

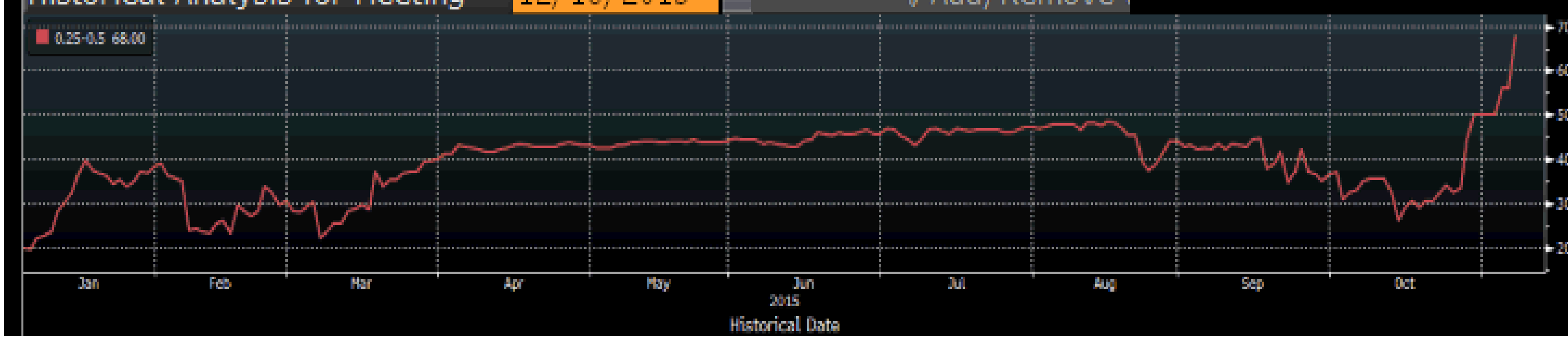

Chart Courtesy of Bloomberg

Will US Have to Reverse Course or Ultimately Lead the Pack?

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- We believe any rate increase by the Fed will be limited in scope and believe that overall rates will remain low for quite some time

- With that said, by raising rates, the US will see the value of the dollar rise further from already strong levels
  - Negatively impact large US multinationals
  - Negatively impact foreign currencies

- Result in weaker global economy overall – portends possible US recession

- With all other major Central Banks in stimulus mode and 11 European countries experiencing negative rates, we believe the US will ultimately be forced to reverse course

Risk of Recession Following US Rate Rise?

- The negative economic hangover from lower profits at US multinationals, coupled with divergent monetary policies among the Central Banks as well as weakening emerging market currencies poses significant risks to the global economy

- Could push US into a recession, following years of lackluster growth

- Could signal the Fed was premature in their rate rise and lead to a reversal in policy

The Negative Rate Scenario: What If?

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- Safe Haven ‘Tsunami’
- Broad-Based Bear Market
- Equities Replace Bonds as Global Safe Haven
- Gold and ‘Cryptocurrencies’ Seize the Moment

Safe Haven 'Tsunami'

- While interest rates remain low or negative in developed markets, they have risen most notably in emerging markets

- Should these trends continue, the flow of capital away from risk and toward safety could experience a 'tsunami' in that it will send yields in developed markets even lower - with the US dollar rising against all other currencies

- Does not bode well for other currencies or those countries borrowing in dollars

- Could result in investors buying perceived safe-haven debt regardless of the coupon in exchange for exposure to an appreciating currency

Broad Based Bear Market

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- As we have highlighted in past webinars, asset classes have become highly correlated

- Should the current bond bubble burst, however, then the multiple applied to stocks would logically fall
  - Resulting in both bonds and stocks delivering negative rates of return over time

- May also result in high-grade debt underperforming that of lower-grade debt

- Putting it another way – the highest flyers might have the farthest to fall

Equities Replace Bonds as the Global Safe Haven

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- A bursting bond bubble would send investors in search of a new home for their capital
- Could actually benefit shares of multinationals that can operate globally, raise prices sufficiently to cover their costs, and increase their dividends regularly
- This scenario could mean, at least for a period of time, that the prices of blue-chip equities could rise without regard for traditional valuation measures

Gold and ‘Cryptocurrencies’ Seize the Moment

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- Gold has traditionally been considered a safe-haven during trouble times

- It costs around 1% per year to store gold bullion – not an attractive proposition when bonds are yielding 6%; however, during periods of negative rates, holding gold becomes much more attractive

- Then of course there is the advent of the ‘cryptocurrency’ – for example BitCoin, which could also benefit from a continued negative rate environment

Our Take:
Equities Take Center Stage

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- Should rates continue on a negative track, we believe it could entice investors to purchase equities

- Let's Use Nestle as an example:
  - Large multinational
  - AAA S&P Credit Rating (a higher credit than the US government)
  - A nearly 3% dividend yield
  - Stable and broadly diversified product portfolio
  - Defensive characteristics

- While equities are prone to volatility, we believe equities like Nestle offer a better risk/reward opportunity as compared to paltry bond yields

Conclusion

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- Believe any rate increase by the Fed will be modest in scope
- Divergent monetary policy could result in a global recession in the next 12 to 18 months
- Volatility is likely to increase
- View our portfolios as well positioned in the current environment
- Continue to be selective

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