RESEARCH REVIEW

OCTOBER 2016

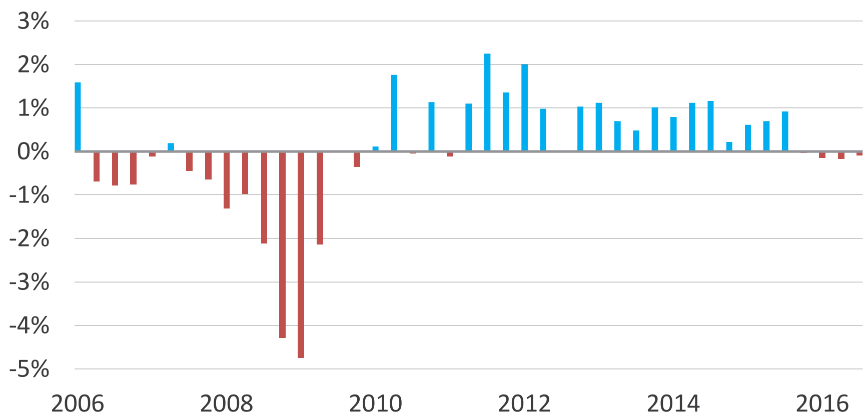
INSIDE THIS ISSUE

Economic Commentary

U.S. Economic Growth Rebounds in Third Quarter

U.S. economic growth witnessed a much-needed rebound during the third quarter, according to the Bureau of Economic Analysis (BEA) advance estimate of gross domestic product (GDP). During the quarter, the BEA estimates the U.S. economy grew at a seasonally-adjusted, quarter-over-quarter rate of 2.9%, compared to rates of 1.4% in the second quarter and 0.8% in the first quarter of 2016, respectively. As such, year-over-year (YoY) real GDP growth accelerated modestly to a 1.5% rate, slightly up from the conclusion of the second quarter (+1.3%). Personal consumption growth continued to be the key contributor to GDP, with a 1.5 percentage point contribution to the overall 2.9% quarterly print, followed by net exports (+0.8%), inventories (+0.6%), and government spending (+0.1%). The sole detractor from aggregate GDP growth was fixed investment—often seen as one of the higher "quality" components of economic growth—which detracted 0.1 percentage points during the quarter and represented the fourth consecutive quarterly detraction.

CONTRIBUTION TO REAL GDP
Fixed Investment



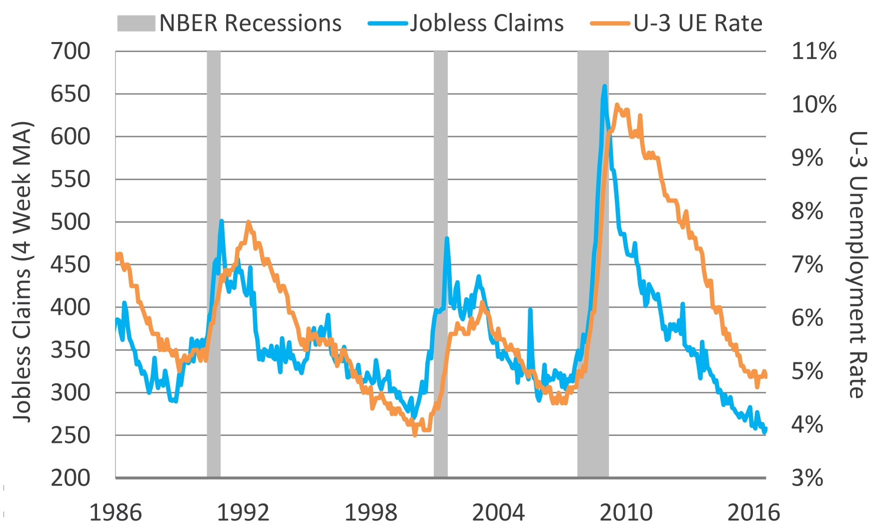
Data sources: BEA, Bloomberg, L.P.; Data as of September 30, 2016 (advance estimate)

The modest acceleration in YoY growth to 1.5% during the third quarter from 1.3% in the second quarter potentially serves as a bright spot for the U.S. economy, however, the rate is nearly one-third weaker than the rate witnessed entering the Federal Reserve's federal funds rate hike in mid-December 2015. When the Fed hiked interest rates on December 16, 2015, real GDP (YoY) growth was running at 2.2%, 0.7 percentage points above the current growth rate of 1.5%. While the Fed has made progress towards its inflation and employment goals, economic growth appears to be the missing link, potentially setting-up for renewed fears of a year-end Fed "policy error," the likes of which gripped the global capital markets in late 2015 to early 2016.

U.S. Payrolls Growth Continues to Slow in October

The October Employment Situation Report released by the Bureau of Labor Statistics showed that nonfarm payrolls increased 161,000 during the month, missing the Bloomberg consensus estimate of 173,000 and driving the 12-month average lower to 196,000—the weakest level since March 2014, which was 192,000. Smoothed measures of payrolls growth highlight a general slowdown in hiring activity since mid-2015, a trend that is likely to complicate the Fed's task of normalizing interest rates. Conversely, while employers have been increasingly more reluctant to add new employees since mid-2015, the pace of firing has also slowed, as first-time claims for jobless benefits (i.e., "initial jobless claims") remained near secular lows through October. The growing divergence between stalled improvement in the unemployment rate and ongoing improvement in jobless claims likely points to a turn in the business cycle that remains safely off in the distance.

U.S. LABOR FUNDAMENTALS AND BUSINESS CYCLES



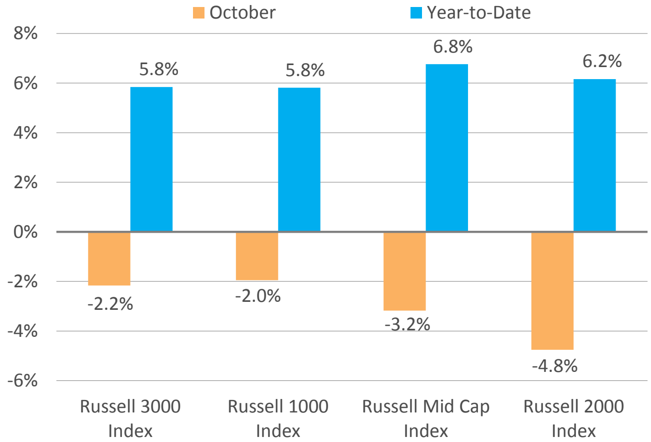
Data sources: Bloomberg, L.P., BLS, NBER; Data as of October 2016

Global Equity

U.S. Equity

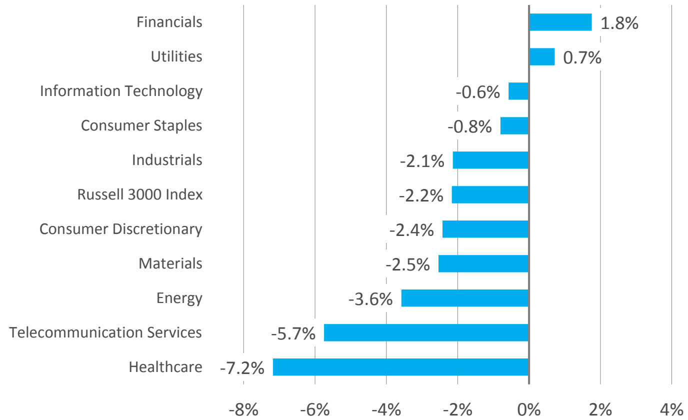
- The U.S. stock market, represented by the Russell 3000 Index, fell 2.2% in October.
- Small cap stocks (-4.8%) led the decline, followed by mid (-3.2%) and large (-2.0%) stocks. Mid cap stocks pulled ahead of small cap stocks year-to-date (YTD), gaining 6.8% and 6.2%, respectively. Large cap continued to trail smaller peers, returning only 5.8%.
- Of the 10 sectors, 2 posted gains in October. Financials stocks led performance (+1.8%) based on increasing expectations of higher interest rates while Utilities (+0.7%) benefitted from the demand for perceived safety.
- Healthcare (-7.2%) and Telecommunication Services (-5.7%) saw the largest decrease for the month. Telecommunication services, which has benefitted from investor yield appetite, continues to be one of the top performers YTD (+10.9%), while healthcare returns finished the month negative for the year (-6.2%) and the worst performing sector.
- Energy declined 3.6% in October as oil prices weakened when OPEC failed to cut production.
- Except for healthcare, all sectors continue to show positive YTD performance in spite of October losses.
- Value outperformed growth for the month, as financials was the best performing sector and one of two positive sectors. The sell-off in healthcare and energy were contributors to growth's underperformance.
- Value has outperformed growth across all market capitalizations YTD, with the gap continuing to be most pronounced in the small cap universe (+11.7% vs. +0.8%).

RUSSELL INDICES PERFORMANCE



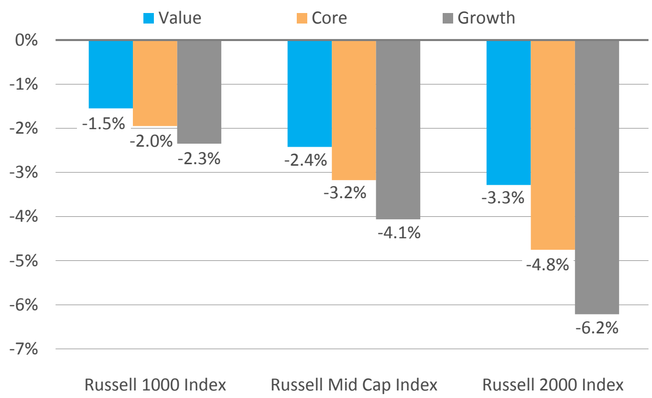
Data source: Russell

OCTOBER RUSSELL 3000 SECTOR PERFORMANCE



Data source: Russell

OCTOBER QUARTER RUSSELL INDICES PERFORMANCE



Data source: Russell

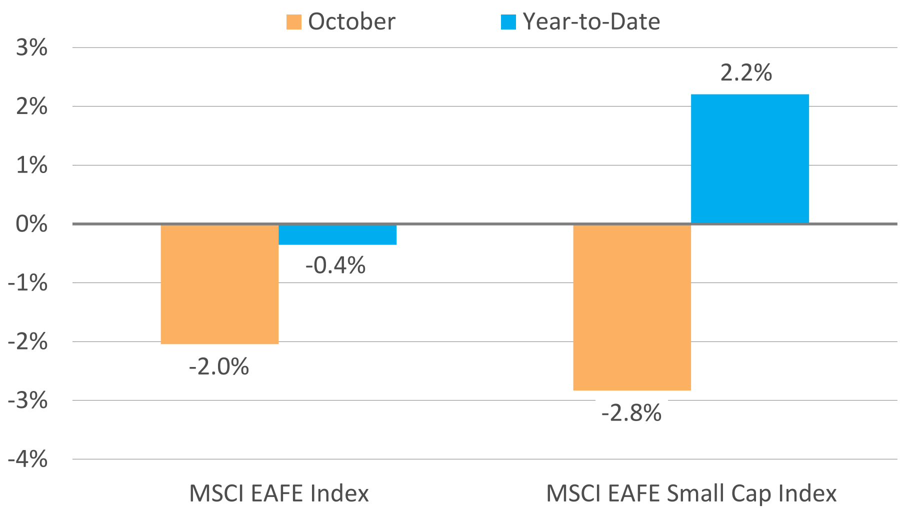
International Equity

All returns in local currency unless otherwise indicated.

INTERNATIONAL DEVELOPED MARKETS

- International developed equity markets gained in October (+1.2%) on a local currency basis. Currency fluctuations were a headwind for U.S. investors in the month, as returns in U.S. dollars (USD) were -2.0% after adjusting for currency changes.
- International developed markets had mixed results YTD, returning -0.4% in USD, trailing U.S. and emerging market indices. Currency movements reversed from the first half of the year and have had little impact on U.S. investors YTD.
- Pacific markets rose 2.8% (0.2% in USD), led by Japan (+5.1%). Japan benefitted from stabilizing economic indicators, including unemployment data. New Zealand (-4.2%) and Australia (-1.6%) were key detractors in the region.
- European stocks gained 0.3% (-3.3% in USD), continuing to recoup some of the losses suffered in June after the Brexit vote. Markets were mixed, as Austria (+6.7%) and Spain (+5.8%) saw strong performance, while Finland (-4.3%), Denmark (-4.0%), and Switzerland (-3.5%) led declines.
- Small cap stocks, as measured by the MSCI EAFE Small Cap Index, gained 0.6% (-2.8% in USD) in October, outperforming large cap stocks and maintaining the lead in performance YTD.

MSCI INDICES PERFORMANCE
Returns in U.S. Dollars

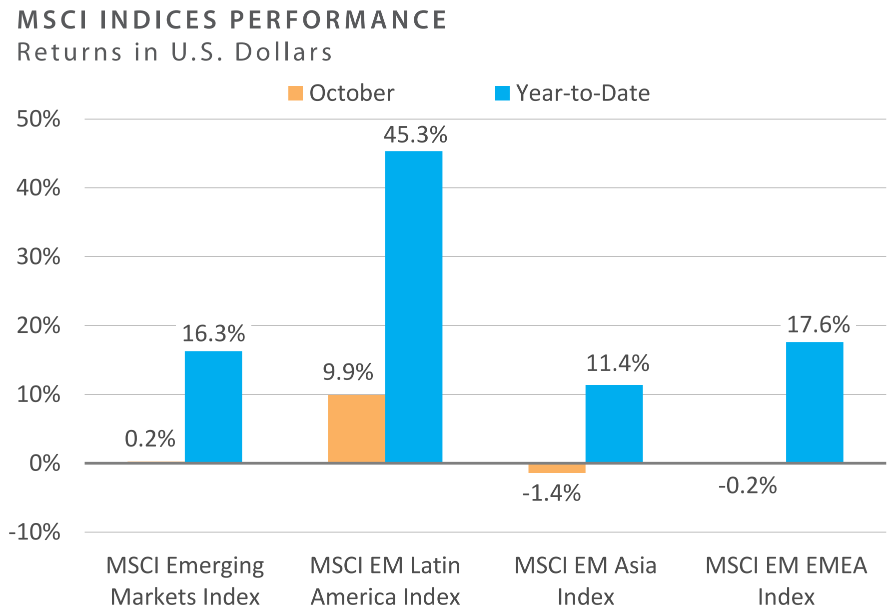


Data source: MSCI

EMERGING MARKETS

- Emerging markets, as measured by the MSCI Emerging Markets Index, underperformed developed international markets by gaining 0.6% in October (+0.2% in USD). Emerging markets have gained 12.0% YTD (+16.3% in USD), outperforming international developed markets and U.S. stocks.
- The Latin American region surged in October (+7.5%), continuing strong YTD performance (+32.0%). Brazil (+11.1%) drove performance, as the market rallied on slowing inflation and central bank interest rate cuts.

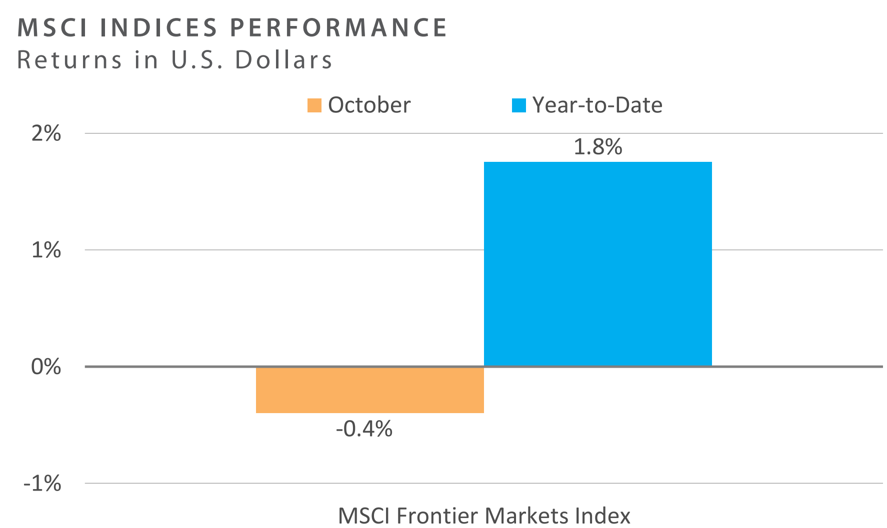
- Asian emerging market stocks were negative for the month (-0.4%) as Chinese stocks (-2.0%) weighed on the region's returns. Taiwan (+2.1%) and Malaysia (+1.3%) helped mitigate losses.
- European emerging markets posted gains in October (+2.8%), with Hungary (+8.8%), the Czech Republic (+7.2%), and Poland (+6.3%) as the leading markets. All countries contributed to gains in October.



Data source: MSCI

FRONTIER MARKETS

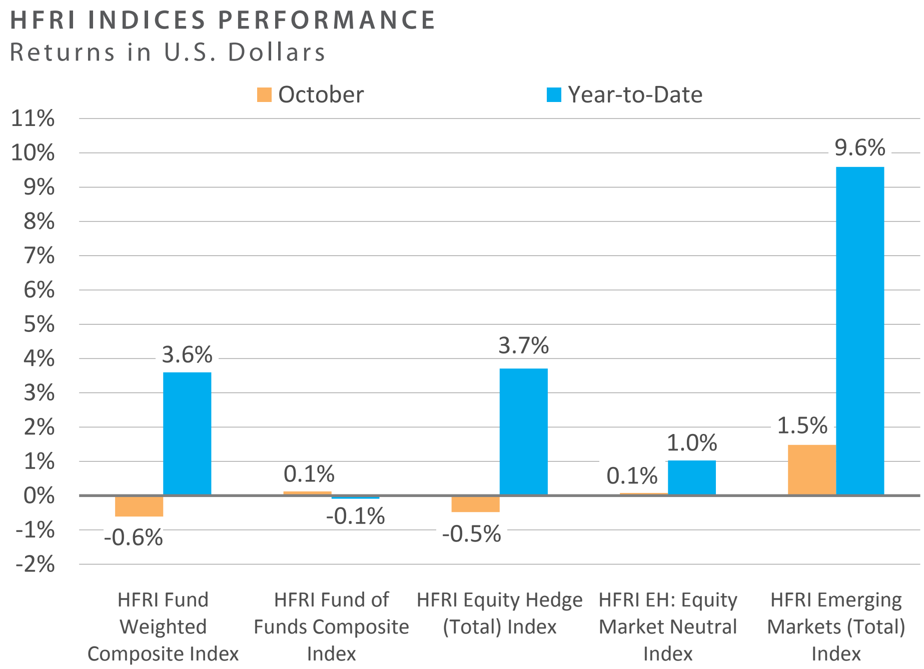
- Frontier markets returned +0.2% in October (-0.4% in USD), bringing the YTD performance to 6.4%. Currency fluctuations have impacted U.S. investors negatively in 2016, lessening the YTD gain in local currency to 1.8% in USD.
- GCC countries were the drivers of returns for the month (+1.0%), led by Saudi Arabia (+7.9%) and Kuwait (+2.4%). The African region (+0.5%) was also a contributor, largely due to Morocco (+6.0%). Asian frontier markets sold off (-1.8%), with Vietnam (-2.6%) showing the largest decline. YTD, however, Asia (+9.2%) is one of the leading regions in frontier markets.



Data source: MSCI

Hedged Equity

- October presented a challenging environment for most long-only equity markets as the HFRI Equity Hedge (Total) Index returned -0.5%, capturing less than 20% of the downside of the long-only indices.
- Hedged equity sub-indices generated mixed performance, with the HFRI EH: Fundamental Growth Index and the HFRI EH: Equity Market Neutral Index returning +0.6% and +0.1%, respectively. Sector specific indices, the HFRI EH: Sector – Technology/Healthcare Index (-3.4%) and HFRI EH: Sector – Energy/Basic Materials Index (-2.9%), were materially lower as the underlying sectors sold off toward the end of the month.
- Fundamental equity strategies continued to outperform quantitative strategies YTD, but performance was mixed for the month as the HFRI EH: Fundamental Growth Index (+0.6%) outperformed the HFRI EH: Quantitative Directional Index (-0.3%) and the HFRI EH: Fundamental Value Index (-0.6%) underperformed.
- Sector specialists tended to outperform long-only indices despite negative absolute performance. Energy and materials specialists were hurt by the late-month sell-off in crude oil after OPEC failed to agree on output cuts. The HFRI EH: Sector – Energy/Basic Materials Index was down -2.9%, but still positive YTD (+16.6%). The HFRI EH: Sector – Technology/Healthcare Index returned -3.4% as the biotechnology sector was down double digits.
- The broad HFRI Emerging Markets (Total) Index returned +1.5%. Commodity-exporting regions generated strong performance as evidenced by the HFRI Emerging Markets: Latin America Index (+6.4%) and HFRI Emerging Markets: MENA Index (+2.5%). The HFRI Emerging Markets: China Index returned -0.5% due to mixed economic data, while the HFRI Emerging Markets: India Index returned +1.3%, as inflation continues to ease, potentially clearing the way for central bank rate cuts.



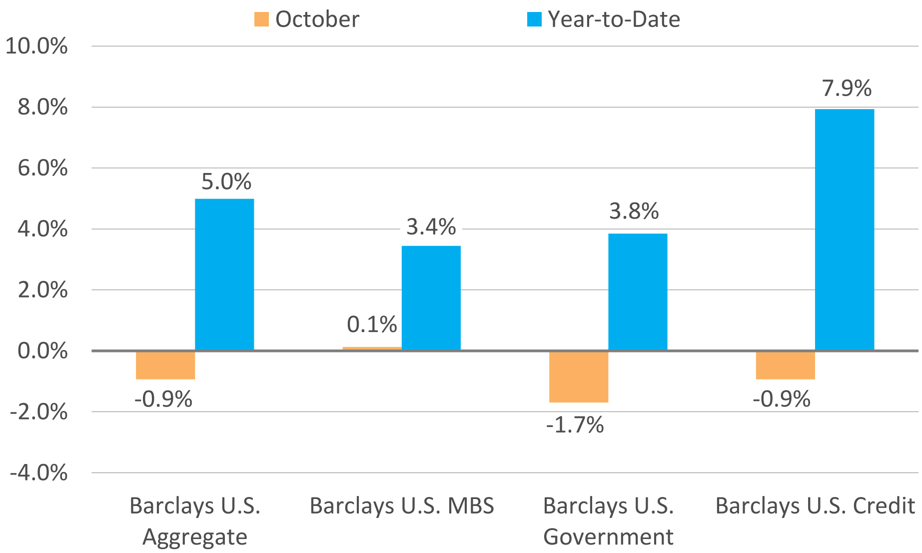
Data source: HedgeFund Research

Fixed Income

OVERVIEW

- The Barclays U.S. Aggregate Bond Index (BAGG) declined 0.9% in October. Agency mortgage-backed securities were essentially flat, returning 0.1%. Investment-grade securities fell 0.9%, and U.S. government securities decreased 1.7% during the month.
- Investment-grade commercial mortgage-backed securities (CMBS), a smaller component of the BAGG, decreased 0.8% during the month.
- Emerging market debt (EMD) local currency posted a loss of 0.8% and dollar-denominated EMD returned -2.0%.

BARCLAYS BOND INDICES PERFORMANCE



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

RATES

- The 2-year note yield increased 8 basis points to 0.84%, the 10-year note yield increased 24 basis points to 1.83%, and the 30-year bond yield increased 26 basis points to 2.58%.
- Inflation expectations increased during the month. The 10-year break-even rate of inflation increased 13 basis points to 1.73% and concluded the month 27 basis points below the Fed's 2.0% target. The yield on the benchmark 10-year Treasury Inflation-Protected Securities (TIPS) moved 7 basis point higher to 0.09%, and the Barclays U.S. TIPS Index posted a slight loss of 0.4% during the month.

CREDIT

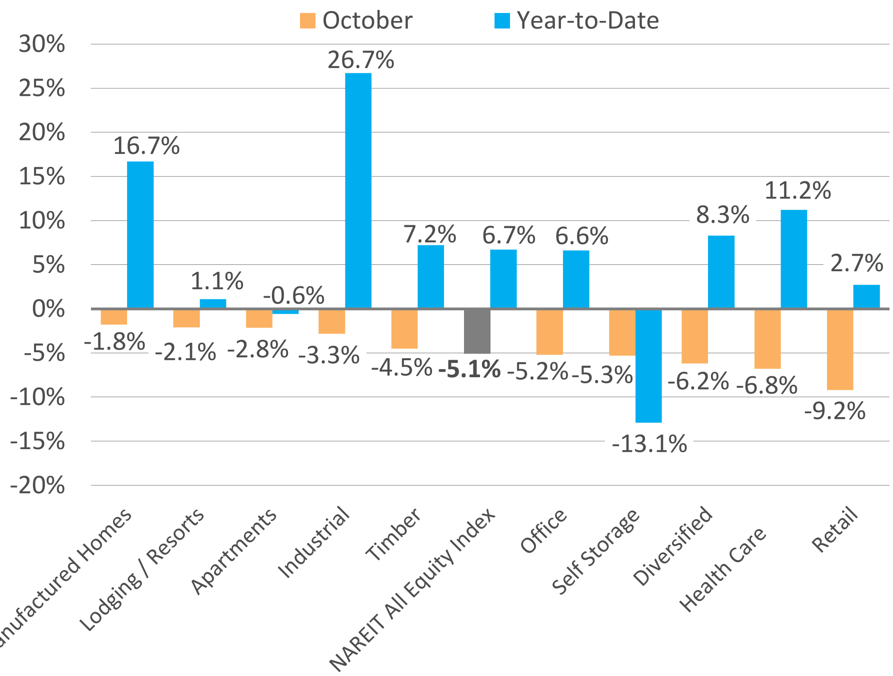
- Investment-grade corporate bonds decreased 0.9% for the month. Utilities were the worst sector, down 1.3%. Financials were down 0.3%, and industrials were down 1.0%.
- Both fixed income risk sectors gained, with a 0.4% return for the Barclays U.S. Corporate High Yield Index and a 0.5% return for bank loans.

Real Assets

DOMESTIC REITs

- Real estate investment trusts (REITs), as measured by the FTSE NAREIT All Equity Index, declined 5.1% in October. REITs were negatively impacted by heightened fears that the Fed would raise rates at the December FOMC meeting, given current employment and GDP growth. New supply also weighed against the sector.
- At the end of October, the REIT dividend yield stood at 3.9%, versus a yield of 1.8% for the 10-year Treasury.[1]
- Retail REITs were dragged down by the 10% decline in Regional Malls. The retail sector—tenants as well as owners—continue to wade through the structural dynamics brought on by eCommerce. Macy's, Aeropostale, and Express Inc. have all come under fire—as evidenced by revenue and earnings growth in 2016—and are still key tenants in the malls space. Simon Property Group and General Growth Properties declined 10.4% and 9.5%, respectively.
- Conversely, the Manufactured Homes sector declined the least for October, falling 1.8%. UMH gained on solid earnings results, while large capitalization constituents Equity Lifestyle and Sun Communities both declined roughly 3%.

FTSE NAREIT ALL EQUITY INDEX SECTOR RETURNS
October 2016

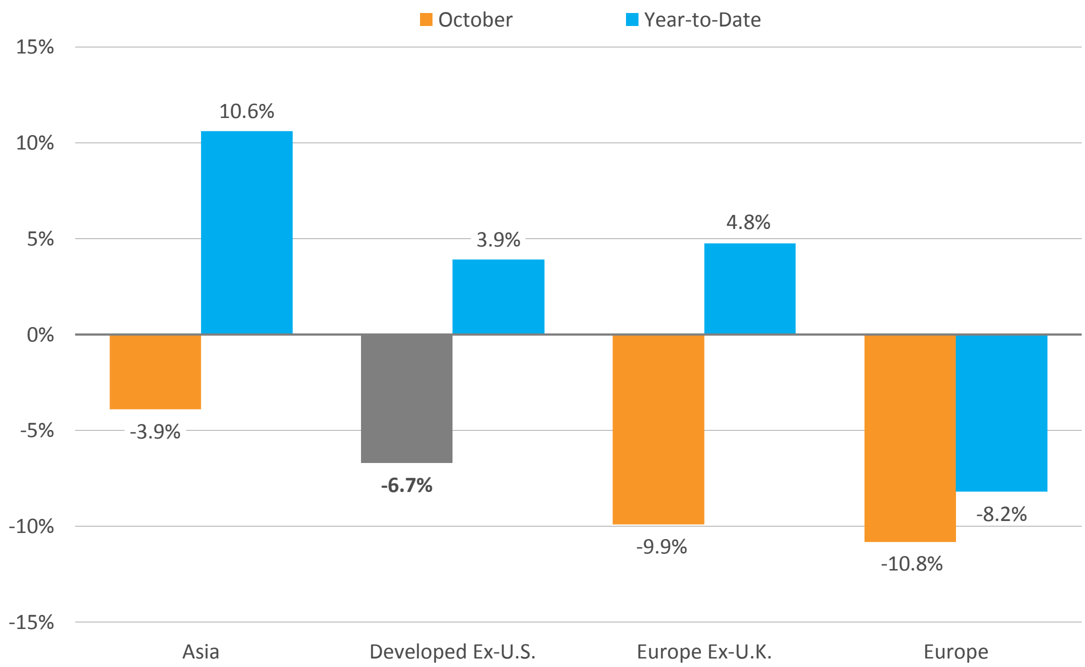


Data source: NAREIT

INTERNATIONAL REAL ESTATE SECURITIES

- International real estate securities, as measured by the FTSE EPRA/NAREIT Developed Ex-U.S. Total Return Index, declined 5.4% in USD terms for October.[2]
- European property values fell 9.2% due to a roughly 11% decline in the U.K. The U.K. was negatively impacted by ongoing uncertainty surrounding the country's future economic relationship with Continental Europe, causing investment volume to roll over. Elsewhere in the region, France and Germany both fell nearly 9%.
- Asian property markets declined 3.2% in October. Property markets in Hong Kong and Japan were more stable than much of the region, each declining approximately 1%. Singapore fell over 5% and Australia declined 8.2%. The Singapore property market has been negatively impacted by dismal GDP growth and weakening outlook in addition to a challenged manufacturing sector.

FTSE EPRA / NAREIT DEVELOPED MARKET INDICES REGIONAL RETURNS (U.S. DOLLARS)
October 2016



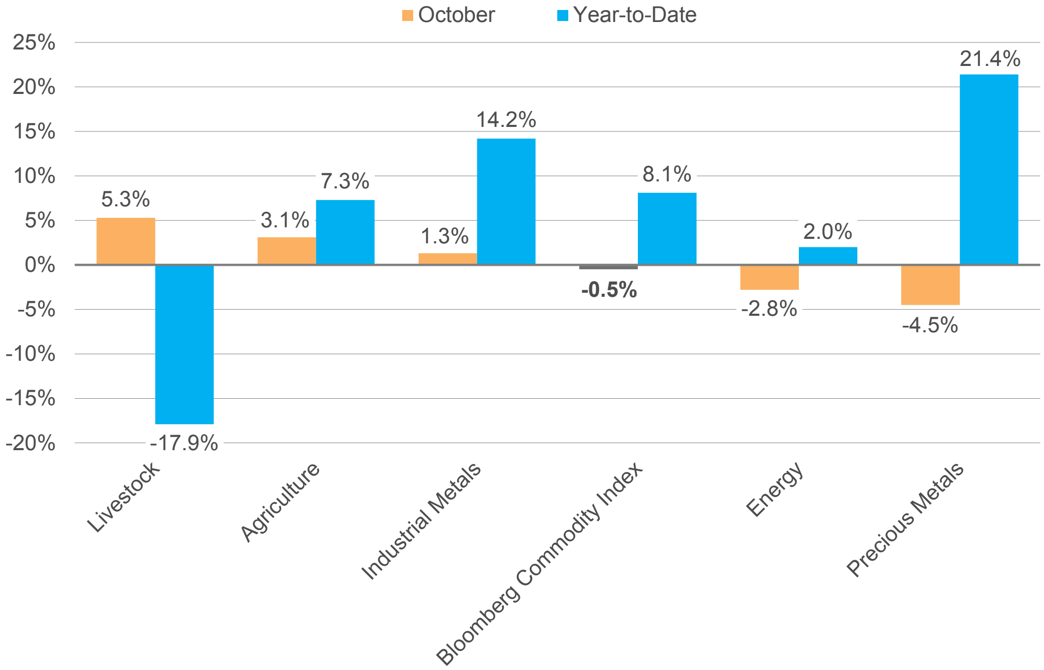
Data source: Bloomberg, L.P.

COMMODITIES

- Commodities, as measured by the Bloomberg Commodity Index (BCOM), declined 0.5% in October but gained 8.1% YTD.[3]
- The livestock sector posted the strongest sector return, gaining 5.3%. The complex was supported by strength in lean hogs (+9.1%) and live cattle (3.2%). Aiding the sector was a 3% positive roll yield in October, whereas livestock normally exhibits the most expensive roll costs due to the higher storage and carrying costs of a living commodity.[4]

- Conversely, precious metals declined 4.5% but remained in strong positive territory, having gained 21.4% YTD. Silver futures declined 7.4%, while gold declined 3.3% due largely to the strengthening USD.

BLOOMBERG COMMODITY INDEX SECTOR RETURNS
October 2016



Data source: Bloomberg, L.P.

REAL ASSETS FOOTNOTES

[1] All performance data from www.nareit.com accessed on 8 November 2016

[2] All performance data from FTSE EPRA/NAREIT Indexes, Bloomberg L.P. accessed on 8 November 2016

[3] All performance data from Bloomberg L.P. accessed on 8 November 2016

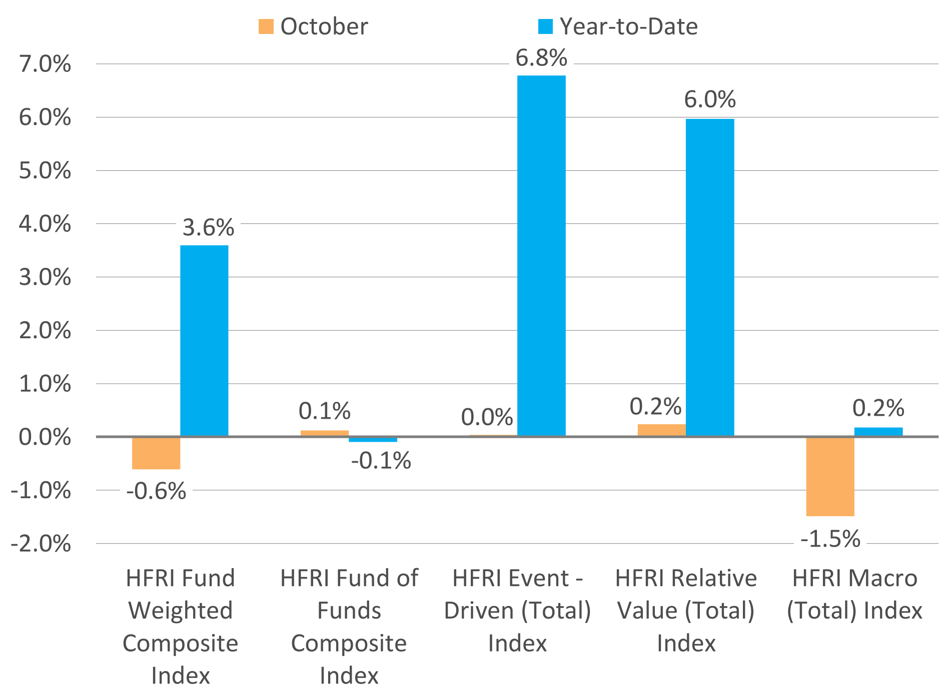
[4] Bloomberg Commodity Index (BCOM) tables and charts, October 2016

Diversifying Strategies

- The HFRI Fund Weighted Composite Index returned -0.6%. Performance was relatively muted across strategies, aside from global macro managers.
- The HFRI Event - Driven (Total) Index was flat for the month. Underlying sub-indices generated mixed results, with 3 of 7 delivering positive returns. Distressed managers continued their strong year as the HFRI ED: Distressed/Restructuring Index returned 2.4%, bringing YTD performance to 11.6%. Positive developments for certain widely-held distressed positions provided tailwinds for managers. Activists—which generally utilize more long exposure and exhibit higher equity beta than the broader hedge fund universe—endured a challenging environment, with the HFRI ED: Activist Index down 1.9%.
- The HFRI Relative Value (Total) Index returned 0.2%. Only 1 of 7 sub-indices generated negative performance. The HFRI RV: Yield Alternatives Index declined 3.2%, which was somewhat attributable to the sell-off across energy markets. The top-performing relative value sub-indices were the HFRI RV: Volatility Index and the HFRI RV: Fixed Income – Asset Backed Index, which returned 1.3% and 1.1%, respectively. The increase in volatility from historical lows helped volatility managers, while performance of mortgage-backed securities provided tailwinds for asset-backed managers.
- The HFRI Macro (Total) Index declined 1.5%. Losses from systematic managers were partially offset by gains from discretionary managers. The HFRI Macro: Discretionary Thematic Index and the HFRI Macro: Systematic Diversified Index returned 1.2% and -2.9%, respectively. Discretionary macro managers generated positive returns across asset classes, particularly fixed income and currencies. Conversely, systematic managers were negatively impacted by reversals of long-term trends in fixed income and certain commodities.

HFRI INDICES PERFORMANCE

Returns in U.S. Dollars



Data source: HedgeFund Research

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ISCLOSURES

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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.

All data is as of October 31, 2016 unless otherwise noted.

INDICES

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

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.

The CBOE Volatility Index (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index. 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.

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Research and Investments Team as of date of publication.