The Lam Group

Investment Management

The first quarter of 2016 ended positively (Column C), belying an incredibly volatile period.

With the uncertainty that a directional change in Fed policy can bring, the continued weakness in energy prices, and the possibility of slowing global growth, 2016 began with great difficulty (Column B) with all risky assets trading down substantially. The balance provided by the portfolio's less risky investments offset some of this volatility. However, with more clarity on the Fed's interest rate intentions, the recovery in energy prices, and a rebound in emerging markets (both equity and debt), March (Column A) provided a strong finish to the quarter with all asset classes (both risky and non-risky) making positive contributions. As March has demonstrated, recoveries can occur as quickly as downturns, so it is important to stay disciplined.

It is worth noting that the potential for the recovery in emerging market equities was discussed in our last (4Q 2015) Portfolio Review. While the March and YTD performance in emerging markets equities (+13.23% and +5.71% respectively) does not fully offset 2015's decline (- 14.92%), it is a meaningful start to this asset class reconciling its currently inexpensive valuation relative to other equity markets.

The moderation of the Fed's interest rate intentions has reversed the ascent of the US dollar (DXY was down -4.1% for 1Q 2016) which has been favorable for commodities, particularly energy. At the same time, foreign central banks, led by Europe, Japan and China, continue to provide the markets with significant monetary stimulus which may address deflationary pressures globally.

Table 1: Periodic Asset Class Returns as of 3/31/16	A	B	C	D	E	F	G
EQUITY ASSET CLASSES	**March 2016**	**Jan 2016**	**1Q 2016**	**12 Months**	**5 Years***	**10 Years***	**15 Years***
S&P 500 Index - *Domestic Large Cap Stocks*	+ 6.78%	- 4.96%	+ 1.35%	+ 1.78%	+ 11.58%	+ 7.01%	+ 5.99%
Russell 2000 Index - *Domestic Small Cap Stocks*	+ 7.98%	- 8.79%	- 1.52%	- 9.76%	+ 7.20%	+ 5.26%	+ 7.65%
MSCI EAFE Index - *International Large Cap Stocks*	+ 6.51%	- 7.23%	- 3.01%	- 8.27%	+ 2.29%	+ 1.80%	+ 4.35%
MSCI EAFE SC Index - *International Small Cap Stocks*	+ 8.02%	- 7.86%	- 0.60%	+ 3.20%	+ 5.58%	+ 3.44%	+ 8.86%
MSCI EM Index - *Emerging Markets Stocks*	+13.23%	- 6.49%	+ 5.71%	-12.03%	- 4.13%	+ 3.02%	+ 9.35%
DJ US Select REIT Index - *Domestic Real Estate*	+10.43%	- 3.95%	+ 5.12%	+ 4.88%	+11.99%	+ 6.17%	+11.50%
S&P Global (ex-US) REIT Index - *International Real Estate*	+ 8.10%	- 2.71%	+ 8.60%	+ 2.53%	+ 6.58%	+ 3.49%	+10.66%
FIXED INCOME ASSET CLASSES	**March 2016**	**Jan 2016**	**1Q 2016**	**12 Months**	**5 Years***	**10 Years***	**15 Years***
BarCap Aggregate Bond Index - *US High-Grade Bonds*	+ 0.92%	+ 1.38%	+ 3.03%	+ 1.96%	+ 3.78%	+ 4.90%	+ 4.97%
BarCap High-Yield Bond Index - *US High-Yield Bonds*	+ 4.44%	- 1.61%	+ 3.35%	- 3.69%	+ 4.93%	+ 7.01%	+ 7.38%
BarCap TIPS Index - *US TIPS*	+ 1.80%	+ 1.48%	+ 4.46%	+ 1.51%	+ 3.02%	+ 4.63%	+ 5.49%
Bloomberg Commodities Index - *Commodities*	+ 3.82%	- 1.68%	+ 0.42%	-19.56%	-14.15%	- 6.16%	- 0.53%
Citigroup Non-$ World Govt Bond Index - *Non-$ Bonds*	+ 3.91%	+ 1.00%	+ 9.10%	- 0.16%	+ 0.24%	+ 3.97%	+ 5.39%
JPM EMBI Global Diversified Bond Index - *Emerging Markets Debt*	+ 3.27%	- 0.18%	+ 5.04%	+ 4.19%	+ 6.22%	+ 7.20%	+ 9.11%

Sources: Morningstar, JP Morgan & Dimensional. *annualized

The Lam Group
Investment Management

The US Presidential Primaries have been entertaining to say the least, but to-date has not had any apparent effect on the markets. However, given the prominence of two unconventional candidates, the election may present additional uncertainty, and perhaps challenges, for the markets globally. The geopolitical unrest that unsettles the markets may be our own.

The greater the uncertainty, the more important it is for investors to stay disciplined

The portfolio rebalancing and tax-loss harvesting we performed in February benefited the portfolio when the markets rebounded in March. As a consequence, the portfolio has become overweighted in riskier (equity) assets. Given that our last rebalancing was in February, we do not expect to rebalance the portfolio back towards our long-term asset allocation targets until later this year.

Overall, 1Q 2016 (Column C) was not a bad quarter, however it was highly volatile (Columns A & B). Contributions in March from emerging markets (equity and debt), real estate (globally), and all aspects of our bond exposures (despite the Fed's interest rate increase in December) were central to this quarter's results.

As always, focusing too much on short-term results can be stressful and distracting. A long-term focus (Column G) and the belief that all asset classes can/will make contributions to portfolio performance at different, and often unexpected times, is a cornerstone of our investment approach.

We continue to believe that patience, and dedication to our globally-diversified and balanced strategy is the best long-term solution to an uncertain investment environment.