

The Lam Group

Investment Management

Post-Brexit, but pre-US Presidential election, 3Q 2016 was a solid quarter with emerging markets (equities and debt), global small cap stocks, and high-yield bonds making meaningful contributions to portfolio performance. Recovering from a very weak start to the year, the returns of riskier assets have led the way, supported by continued accommodative monetary policies from the ECB and the BOJ, whose largesse has led to the strong recovery in non-US equities.

With lower rates abroad (rates are negative in some markets), fears of rising US interest rates have proved to be unwarranted to date. The Fed is not likely to take any sort of action before the election. While 3Q and 2016 YTD results overall (Columns A&B) have been welcome, the uncertainty and potential volatility of November's presidential election lie ahead.

The choice of candidates has many voters frustrated (the devil you know vs the devil you don't), however, as investors it is important to remain focused on the long-term. Nevertheless, given the current level of riskier asset classes, we expect to rebalance the portfolio towards long-term asset allocations targets in advance of the election. As a famous market historian once said,

"If you don't know what is going to happen, don't manage your investments as though you do"

Table 1: Periodic Asset Class Returns as of 9/30/16

	A	B	C	D	E	F	G
EQUITY ASSET CLASSES	3Q 2016	YTD 2016	12 Months	3Q 2015	5 Years*	10 Years*	15 Years*
S&P 500 Index - <i>Domestic Large Cap Stocks</i>	+ 3.85%	+ 7.84%	+15.43%	- 6.44%	+16.37%	+ 7.24%	+ 7.15%
Russell 2000 Index - <i>Domestic Small Cap Stocks</i>	+ 9.05%	+11.46%	+15.47%	-11.92%	+15.82%	+ 7.07%	+ 9.26%
MSCI EAFE Index - <i>International Large Cap Stocks</i>	+ 6.43%	+ 1.73%	+ 6.52%	-10.23%	+ 7.39%	+ 1.82%	+ 5.81%
MSCI EAFE SC Index - <i>International Small Cap Stocks</i>	+ 8.64%	+ 5.19%	+12.33%	- 6.83%	+11.07%	+ 4.39%	+10.20%
MSCI EM Index - <i>Emerging Markets Stocks</i>	+ 9.03%	+16.02%	+16.78%	-17.90%	+ 3.03%	+ 3.95%	+11.55%
DJ US Select REIT Index - <i>Domestic Real Estate</i>	- 1.24%	+ 9.45%	+17.70%	+ 3.09%	+15.60%	+ 5.80%	+11.21%
S&P Global (ex-US) REIT Index - <i>International Real Estate</i>	+ 2.27%	+12.52%	+14.61%	- 4.29%	+10.46%	+ 2.55%	+10.30%
FIXED INCOME ASSET CLASSES	3Q 2016	YTD 2016	12 Months	3Q 2015	5 Years*	10 Years*	15 Years*
BarCap Aggregate Bond Index - <i>US High-Grade Bonds</i>	+ 0.46%	+ 5.80%	+ 5.19%	+ 1.23%	+ 3.08%	+ 4.79%	+ 4.80%
BarCap High-Yield Bond Index - <i>US High-Yield Bonds</i>	+ 5.55%	+15.11%	+12.73%	- 4.86%	+ 8.34%	+ 7.71%	+ 8.63%
BarCap TIPS Index - <i>US TIPS</i>	+ 0.96%	+ 7.27%	+ 6.58%	- 1.15%	+ 1.93%	+ 4.48%	+ 5.39%
Bloomberg Commodities Index - <i>Commodities</i>	- 3.86%	+ 8.87%	- 2.58%	-14.47%	- 9.37%	- 5.33%	+ 0.57%
Citigroup Non-\$ World Govt Bond Index - <i>Non-\$ Bonds</i>	+ 0.60%	+14.18%	+12.61%	+ 1.71%	+ 0.24%	+ 3.94%	+ 5.33%
JPM EMBI Global Diversified Bond Index - <i>Emerging Markets Debt</i>	+ 4.04%	+14.77%	+16.20%	- 1.71%	+ 7.75%	+ 7.73%	+ 9.56%

Sources: Morningstar, JP Morgan & Dimensional.

*annualized

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It is worth noting that only a year ago the global equity markets experienced their worst quarter (Column D) since 2011 due to a surprise currency devaluation in China. While all markets have recovered nicely since then (Column C), it is important to remember how quickly things can change.

Regardless of who is elected President in November, our focus remains on the long-term. Overall, 3Q 2016 was a strong quarter and we are pleased with our YTD results. Global diversification and portfolio balance continue to be the cornerstones of our investment strategy.