

More Navigating Gorillas:
Are We Still in the Jungle?

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Agenda

- What concerns are keeping investors up at night?
- Four concerns that may exacerbate the next market **decline**
- Navigating the current environment and identifying opportunities
- Q&A

Primary Considerations

- **Real Cash Return**

- Rate is increasing
- Reverting back to historical norms?
- Foundational for total return portfolios

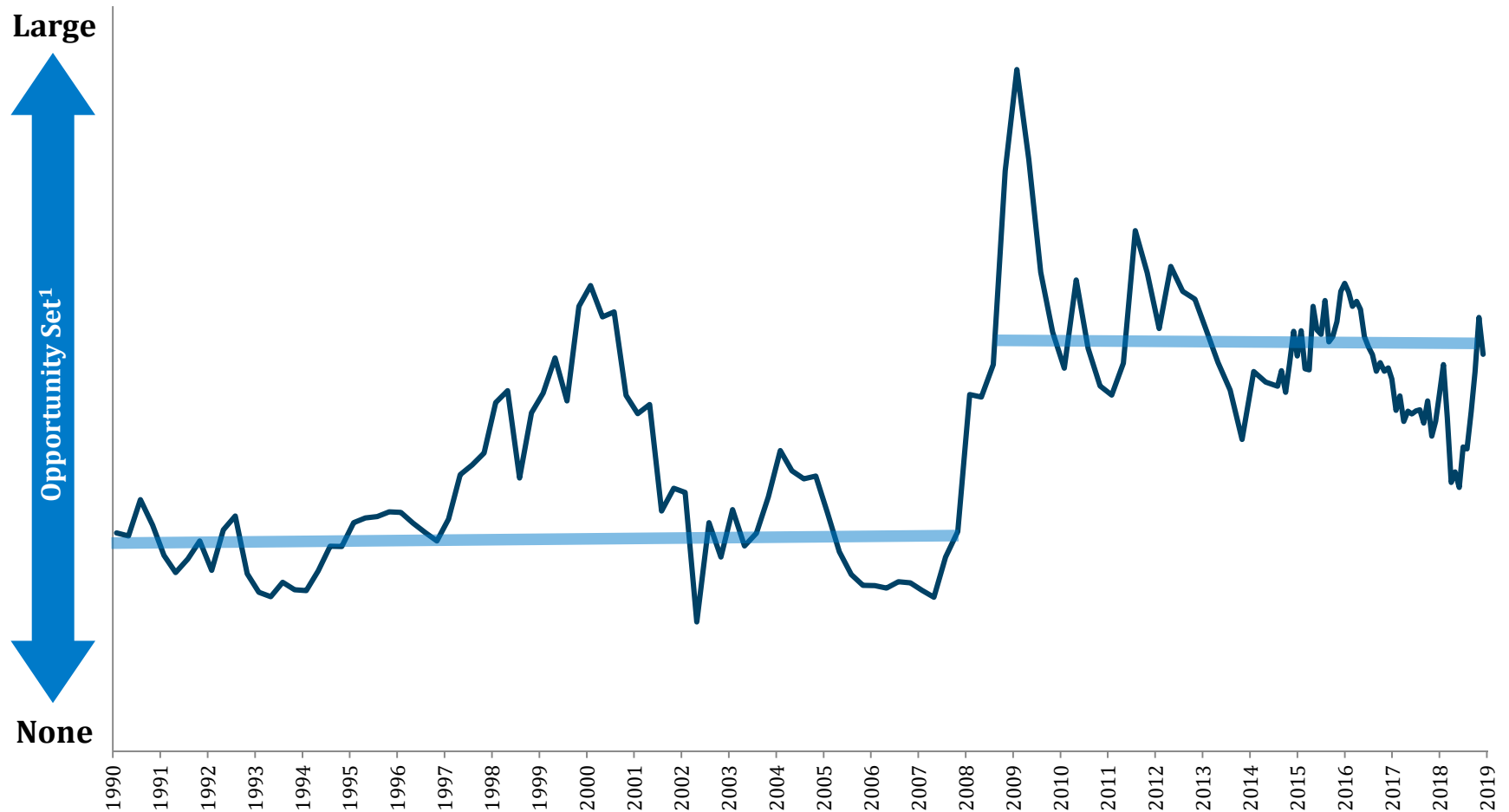
- **Monetary Policy**

- Influences on asset prices are on the verge of turning negative
- Risky asset returns will dwindle
- Low volatility environment will wane
- Fundamental Value will reassert its influence on price . . . slowly

- **Illiquidity**

- Systematic, rules-based strategies
- Volcker Rule
- Circuit breakers

Monetary Policy – Hampers Fundamental Influence

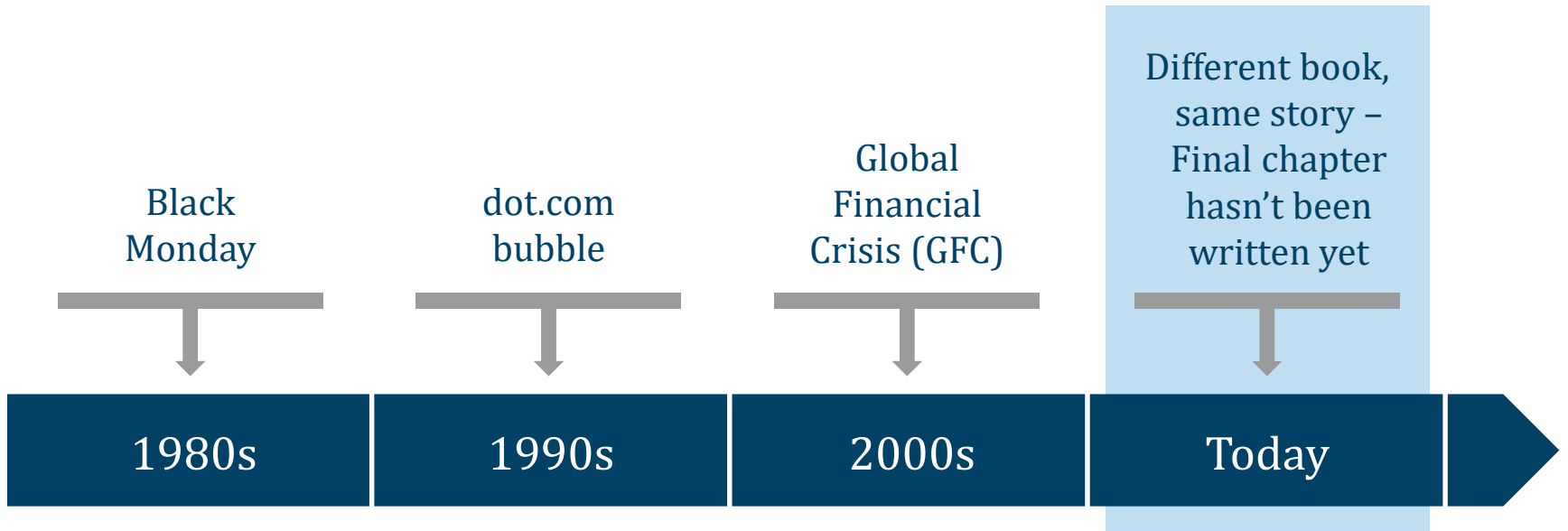


¹The Opportunity Set represents the aggregate discrepancy between fundamental value and price for a subset of equity and bond markets and currencies included in the team's investment universe. The further prices are from value the larger the Opportunity Set and the closer prices are to value the smaller the Opportunity Set.

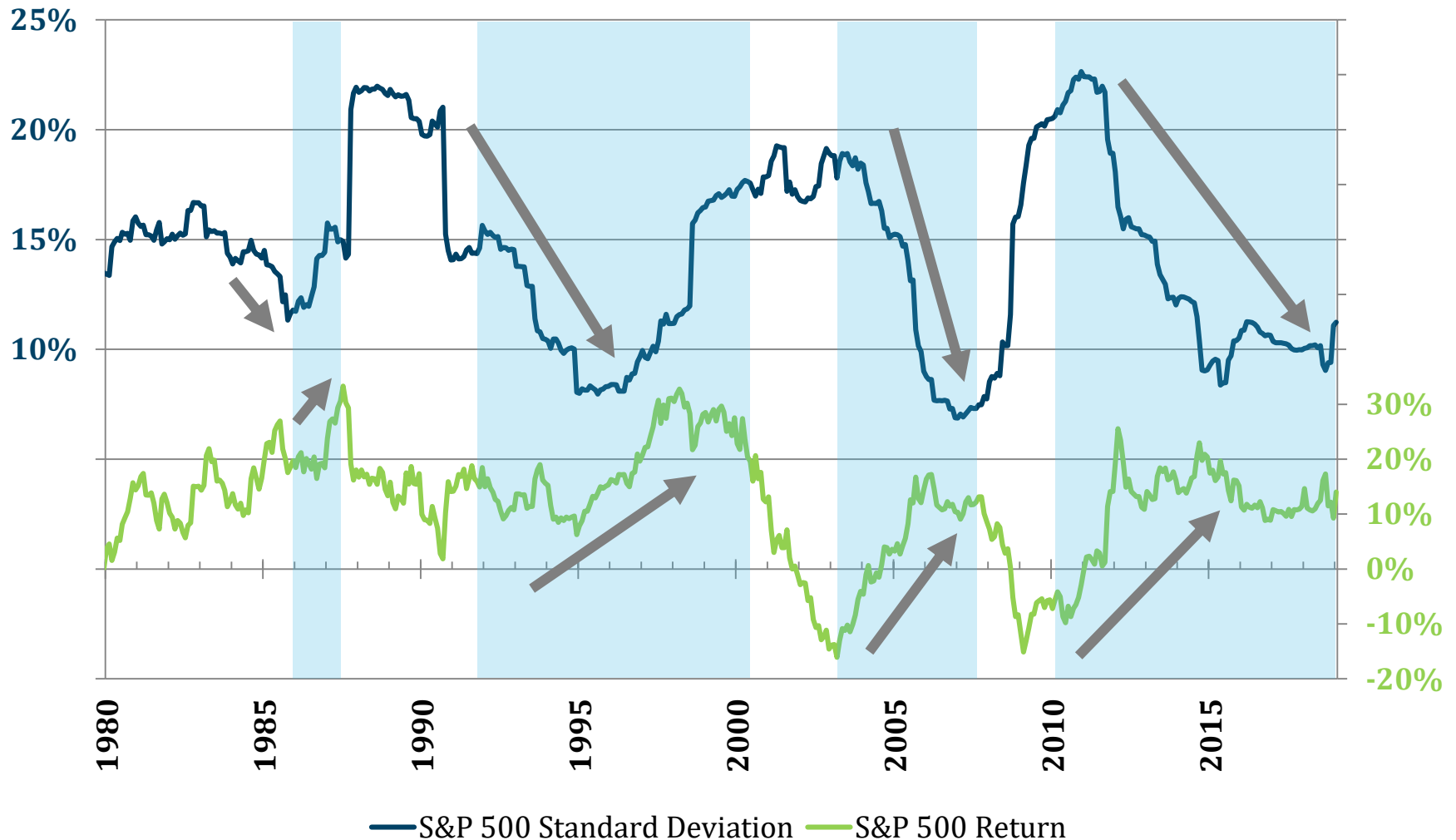
As of January 31, 2019. Source: MSCI, Bloomberg, Datastream, William Blair.

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Current Environment Interesting But Not Unique



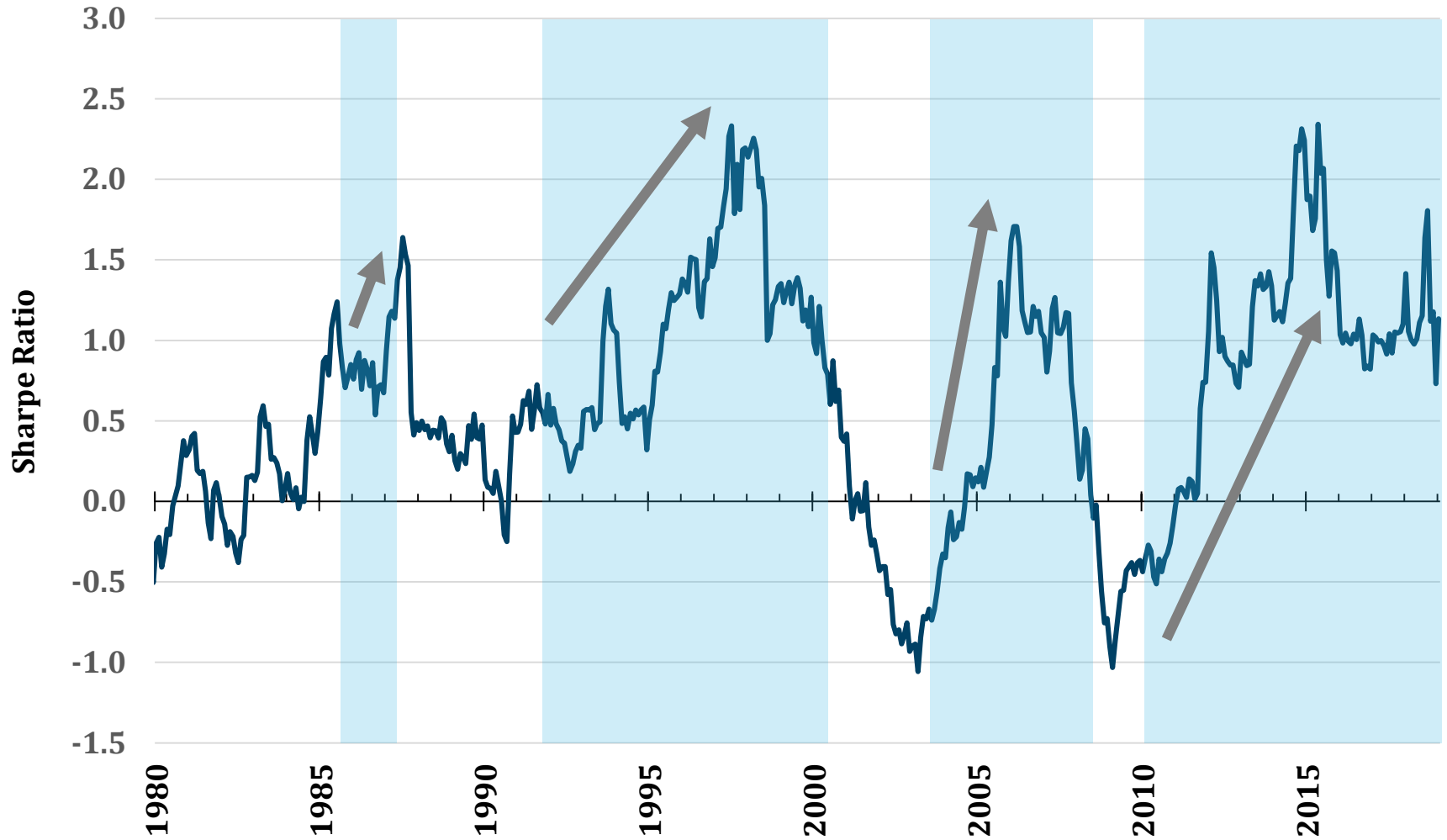
Rolling 36-Month Annualized S&P 500 Return & Volatility



As of January 31, 2019. Source: William Blair.

Past performance is not indicative of future returns. The S&P 500 Index measures the performance of the large capitalization segment of the U.S. equity market. A direct investment in an unmanaged index is not possible. Standard deviation is a statistical measurement of variations from the average.

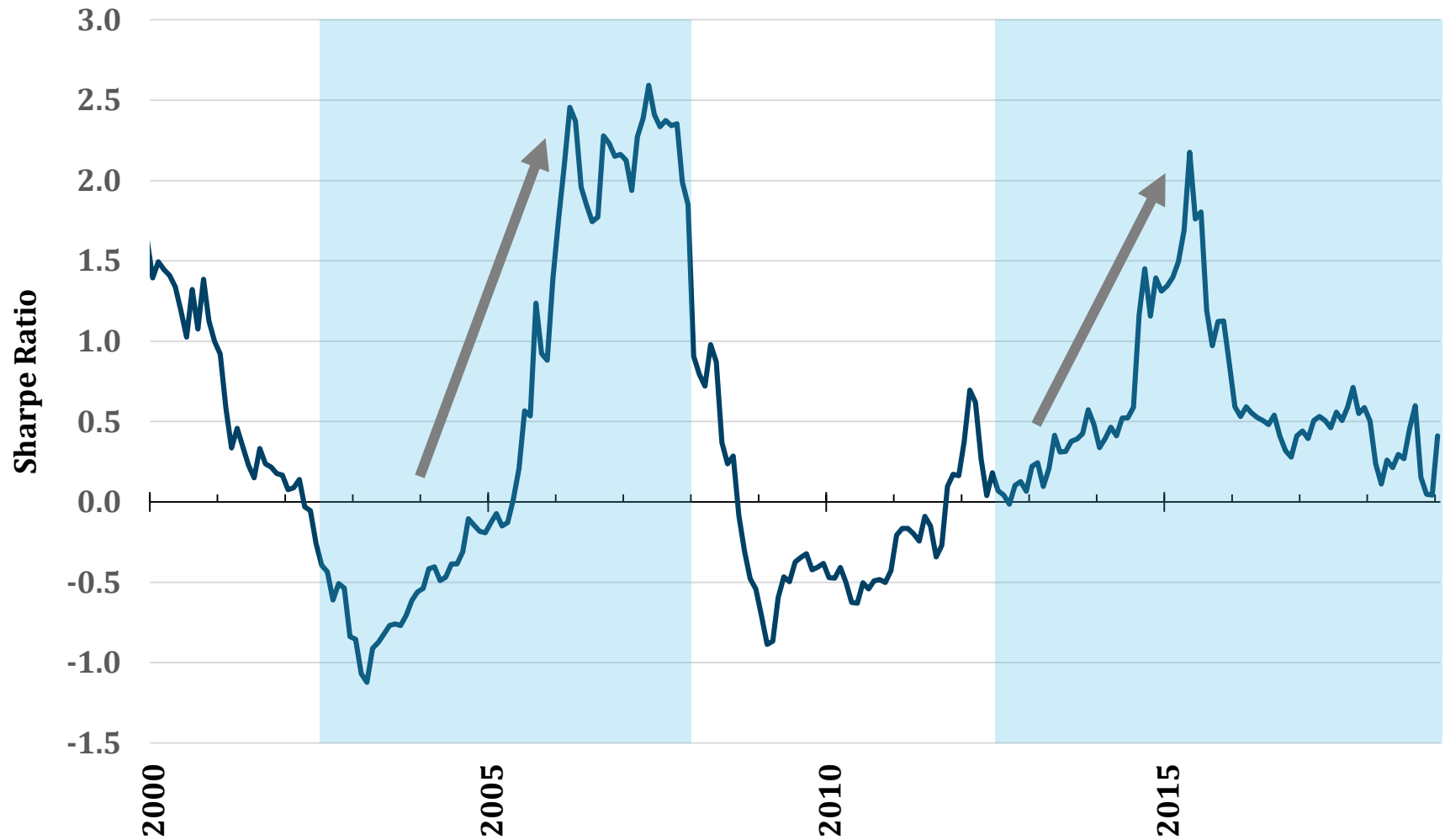
S&P 500 Rolling 36-Month Sharpe Ratio



As of January 31, 2019. Source: William Blair.

Past performance is not indicative of future returns. The S&P 500 Index measures the performance of the large capitalization segment of the U.S. equity market. A direct investment in an unmanaged index is not possible. Sharpe ratio is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk.

MSCI EMU Rolling 36-Month Sharpe Ratio



As of January 31, 2019. Source: William Blair.

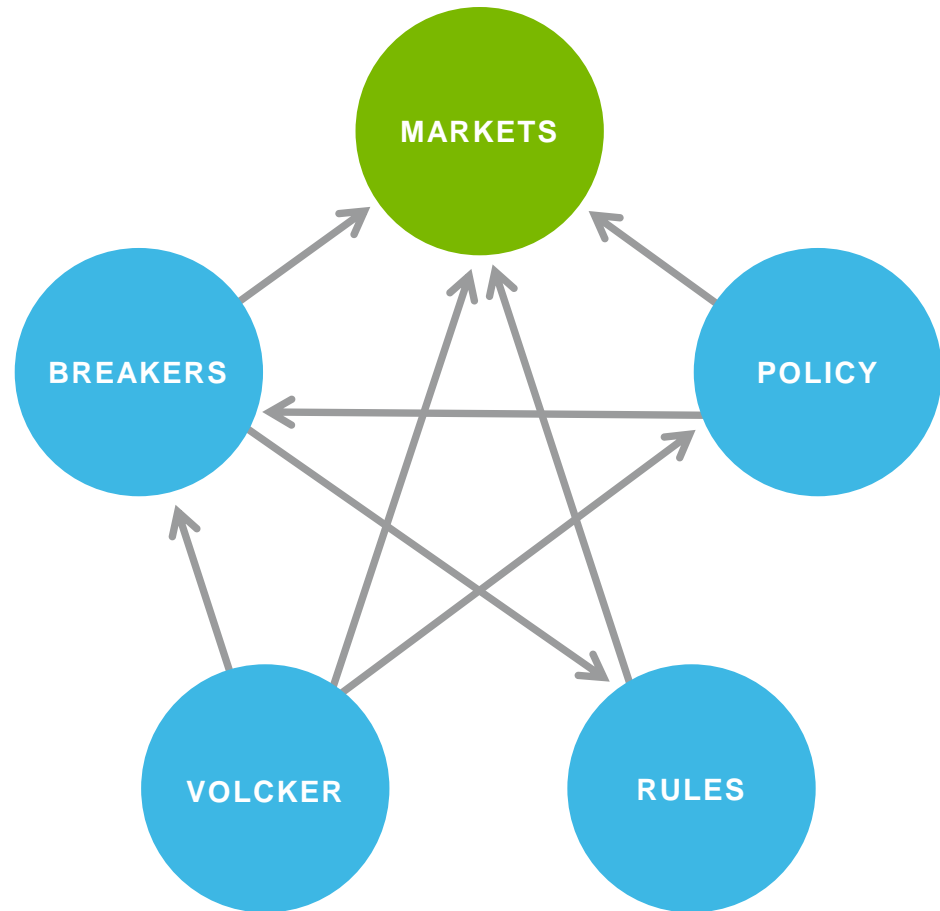
Past performance is not indicative of future returns. The MSCI EMU Index measures the performance of the large capitalization segment of the MSCI EMU equity market. A direct investment in an unmanaged index is not possible. Sharpe ratio is a risk-adjusted measure calculated using standard deviation and excess return to determine reward per unit of risk.

Repeat Story

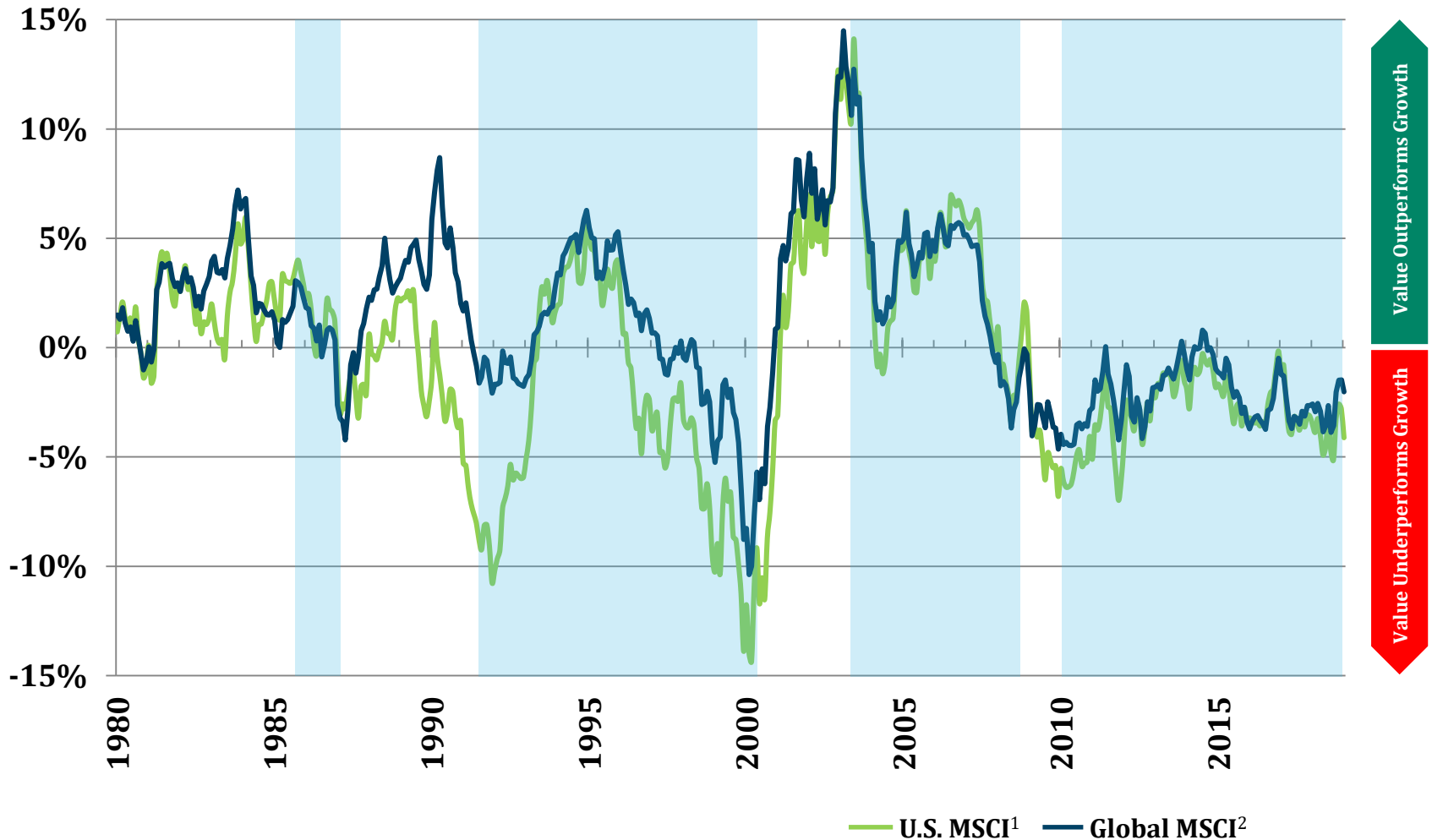
- Monetary stimulus
- High risky asset prices
- Low volatility
- Systematic > Fundamental
- Reckoning at the end

The Current State of Play: *Four Compounding Concerns*

- Monetary policy
- Rules-based strategies
- Volcker Rule
- Circuit breakers



Value vs. Growth Rolling 36-Month Annualized Relative Returns



¹MSCI USA Net Total Return Index (Value and Growth)

²MSCI World Net Total Return Index (Value and Growth)

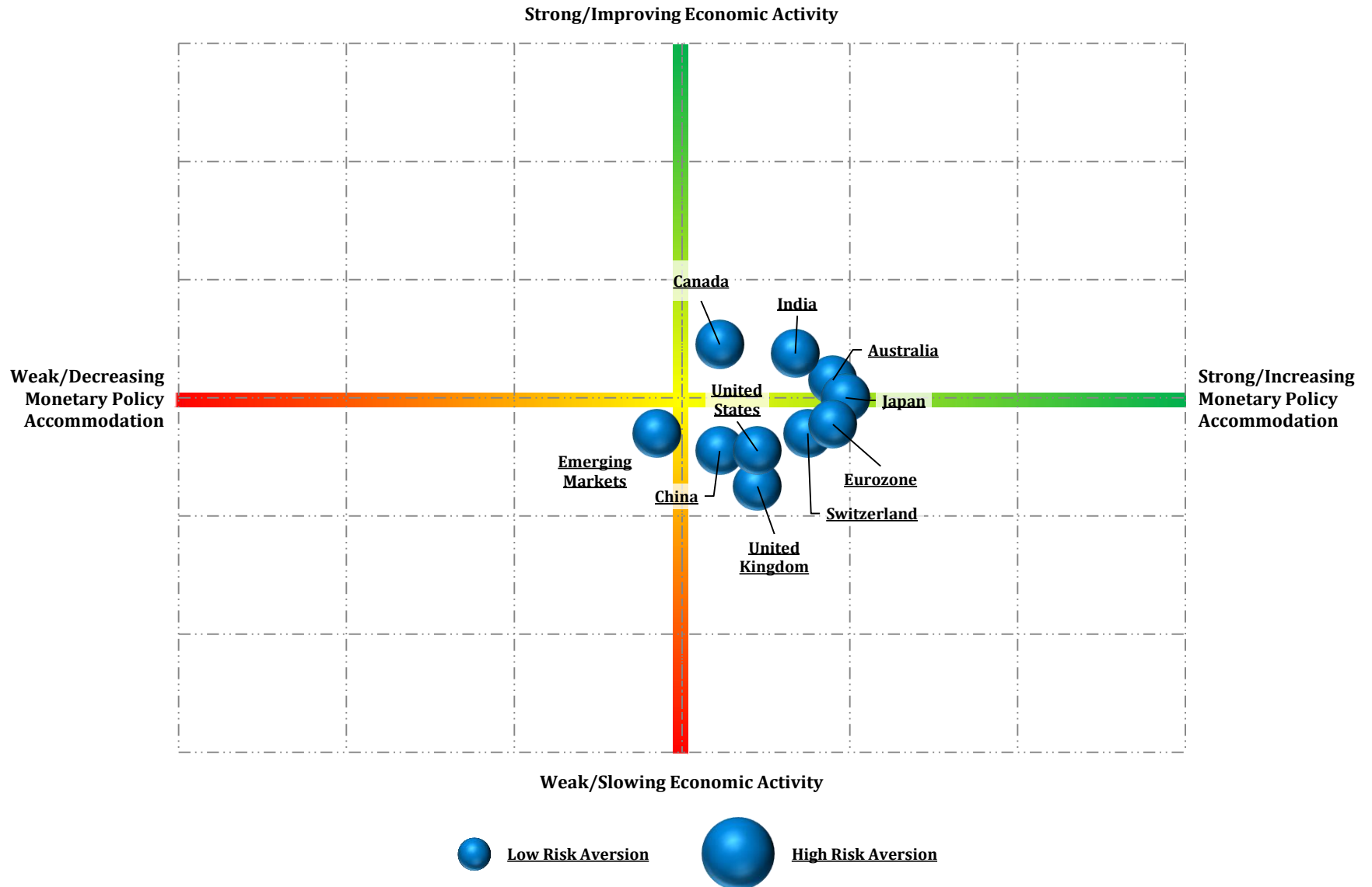
As of January 31, 2019. Source: William Blair.

Past performance is not indicative of future returns. The MSCI World Index is designed to measure the equity market performance of developed markets. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the U.S. equity market. Value and Growth style characteristics are defined by MSCI's index construction methodology. A direct investment in an unmanaged index is not possible.

Where Opportunities May Emerge

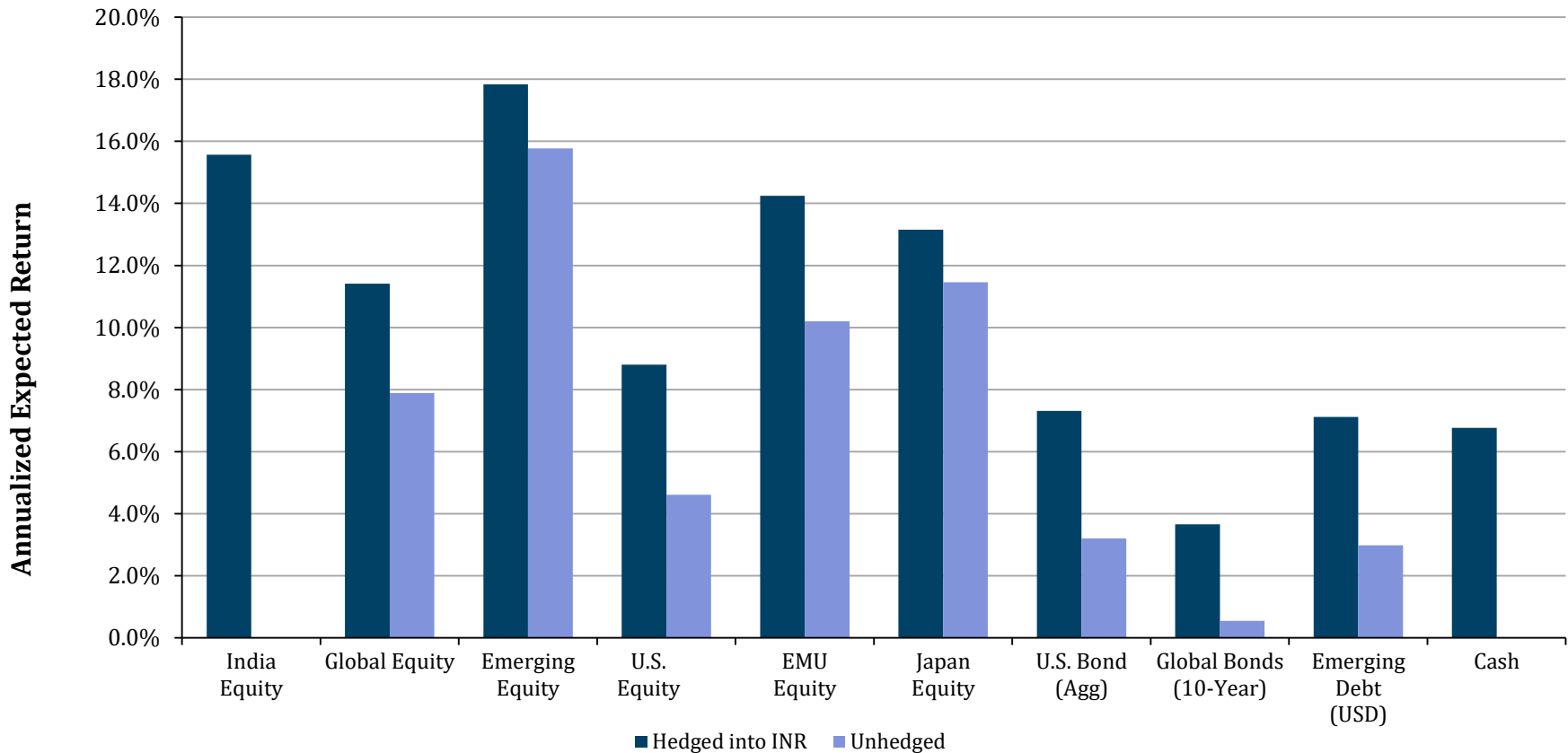
- **Attractive equity markets**
 - Navigating waves
 - More cautious than average when pursuing these opportunities
- **Emerging markets**
 - Step into markets during emerging market panic-herding
 - Seek to avoid or short institutional laggards
- **Active currency**
 - Uncorrelated source of return
 - More opportunities, take more risk
- **Value-oriented sectors**
 - Reversal of underperformance
 - Financials, Utilities, Energy
- **Navigation**
 - *Dynamic* risk capital allocation
 - Only take risks when and where compensated

Conventional Wisdom



Capital Market Return Expectations

Selected markets, hedged (5-year horizon, annualized)



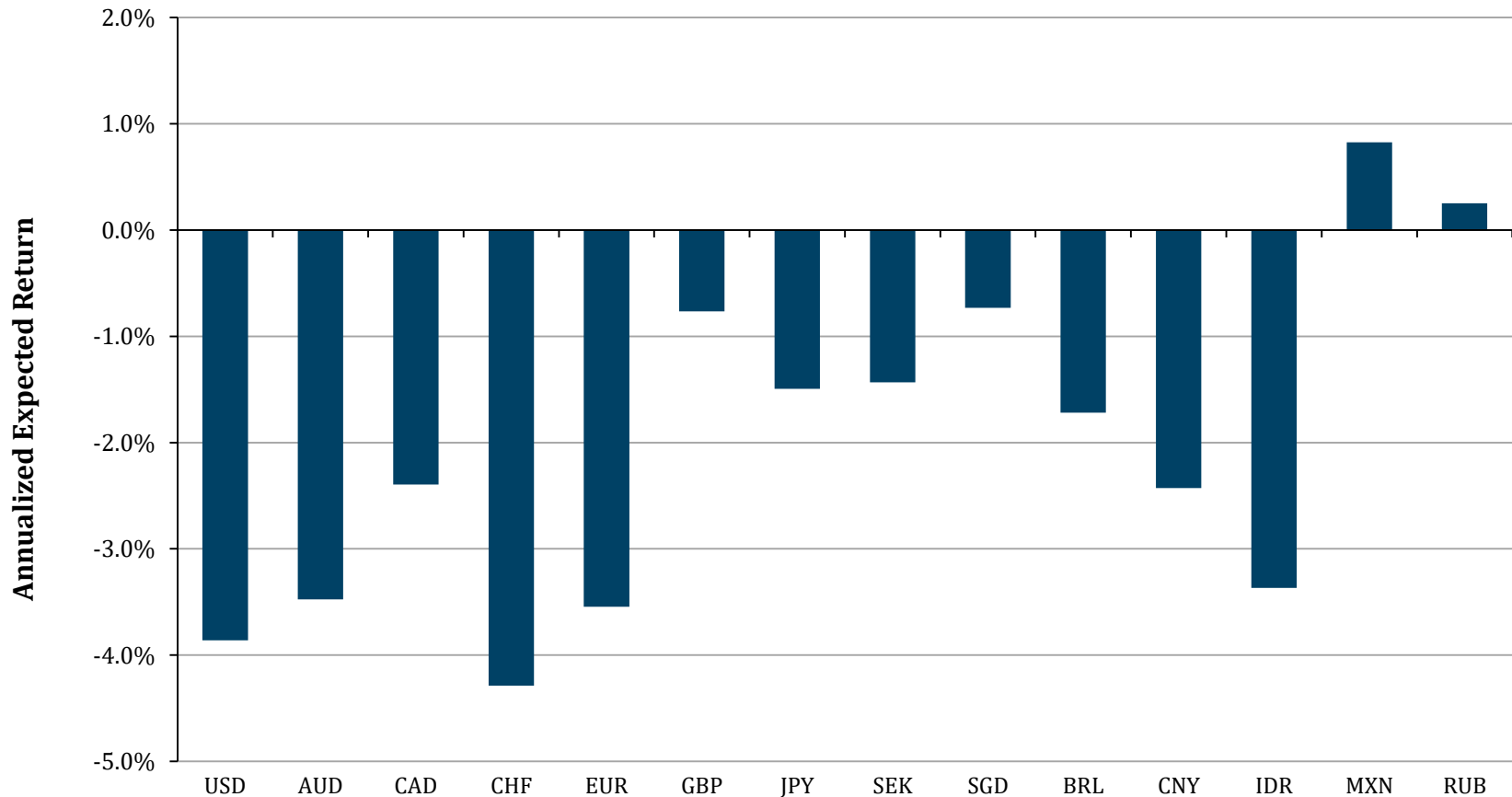
As of June 30, 2019. For illustrative purposes only and not intended as investment advice.

Source: William Blair, Investment Expectations, S&P, MSCI, Barclays, Bank of America Merrill Lynch, JP Morgan, 6-month LIBOR.

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Currency Return Expectations

Selected currencies (5-year horizon, annualized)



As of June 30, 2019. INR is the base currency. For illustrative purposes only and not intended as investment advice.

Source: William Blair, Investment Expectations, S&P, MSCI, Barclays, Bank of America Merrill Lynch, JP Morgan, 6-month LIBOR.

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The following leading indices are used as proxies for various capital markets. For equities: 1) World – MSCI World (ACWI) Index; 2) US – S&P 500 Index; 3) EAFE – MSCI EAFE Index; 4) UK – MSCI UK Index; 5) Japan – MSCI Japan Index; 6) European Economic Monetary Union (EMU) – MSCI EMU Index; 7) Canada – MSCI Canada Index; 8) Australia – MSCI Australia Index; 9) Switzerland – MSCI Switzerland Index; 10) Emerging Markets – MSCI Emerging Markets Index. For bonds: 1) World – JP Morgan Global Aggregate Bond Index; 2) Ex-US Sovereign – S&P/Citigroup International Treasury Bond Index Ex-US; 3) US – S&P/Citigroup International Treasury Bond Index (US 10-Year Bond); 4) Germany – S&P/Citigroup International Treasury Bond Index (Germany 10-Year Bond); 5) UK – S&P/Citigroup International Treasury Bond Index (UK 10 Year Bond); 6) Japan – S&P/Citigroup International Treasury Bond Index (Japan 10-Year Bond); 7) Canada – S&P/Citigroup International Treasury Bond Index (Canada 10-Year Bond); 8) Australia – S&P/Citigroup International Treasury Bond Index (Australia 10-Year Bond); 9) US Aggregate – Bloomberg Barclays US Aggregate Bond Index; 10) US Investment Grade – Bloomberg Barclays U.S. Corporate Investment Grade Index; 11) Bloomberg Barclays U.S. Corporate High Yield Index; 12) Bloomberg Barclays EM USD Sov + Quasi-Sov Index.

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- Are subject to other investment risks including those associated with high yield securities, emerging markets, non-U.S. securities, currency markets and fixed income securities;
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