Clearbrook Research: Investment Outlook Mid-year2015

July 21, 2015

CONFIDENTIAL – DO NOT DISTRIBUTE

Table of Contents

Investment Outlook for 2015: Mid-Year Update

1. Thematic Price Inefficiencies and Reversions

- **Effect of Institutional Fund Flows:**
  - Institutional funds continue to flow into passive and value-driven investments, such as index funds, ETFs, "Smart Beta", "Low Volatility", and Dividend focused funds, as well as GTAA As a result, defensive, value-based equity sectors are highly overvalued (i.e. REITs, MLPs, Utilities, which are currently trading at 18.9x PE)

  Update: avoided (iShares Sel Dividend -3.2% ytd) (SPDR DJ REIT -4.3%, JPM Alerian MLP -8.5%, iShares US Utilities -8.2%)*

  - Sector weightings should normalize away from defensive equity themes, providing opportunities in growth sectors such as technology, consumer discretionary, and healthcare.

  Update: (SPDR Tech Select Sector +2.6%, Consumer Discretionary Select Sector +5.9%, Health Care Select Sector +9.2%)*

- **Effect of Lower Energy Prices, Technological Efficiencies, and Continued Economic Growth in the U.S.:**
  - Lower energy prices, which are an effective tax break for middle class workers, act as an increase in disposable income. Moreover, technological efficiencies and a growing economy will result in increased spending in consumer staples and consumer discretionary
  - Reversion from growth in the luxury good sector in favor of retailers of basic consumer goods
  - Resurgence in Housing construction and sales

  Update: (SPDR S&P Homebuilders +6.7%)

- **Liquidity Provider Strategies:**
  - Liquidity is lower than in the past for small cap equity and debt because of diminished market-making by banks
  - Strategies that provide liquidity, such as selling in rising markets and buying in declining markets will benefit.

  Update: (Direct Lending fund +4.5% net)**

* as of June 16, 2015 ** as of May 31, 2015

Investment Outlook for 2015: Mid-Year Update

2. Currency – US Dollar

- The end of tapering in Q4 moves Treasury rates higher, the same way that 1995 rate hikes moved global rates higher and drove the US Dollar
- Energy independence has reduced foreign oil demand and led to energy exports, thus lowering demand for foreign currency
- Accelerating GDP growth, prompted by increased demand for capital goods, will increase consumer spending and CAPEX
- Stronger US equity markets attract foreign investors relative to international/emerging markets –

Update: (PowerShares DB US Dollar Bullish index +4.0% vs 1.7% for the S&P 500)

3. Global Healthcare

- Global spending in the healthcare sector will continue to increase as populations grow and lifespans extend
- Growth in the sector will be driven by emerging markets, as the spend rate per capita will increase most quickly in these countries – **Update: (iShares Global Healthcare +10.5%, Vanguard Healthcare Index +10.8%)**

4. Regional Opportunities - ASEAN (Association of Southeast Asian Nations) Countries (Only idea that hasn't worked yet)

- Higher growth rates and positive demographics are tailwinds relative to the rest of the world
- Ability to grow consumer spending still in early stages of development
- Secular strength relative to rest of world is more persistent than in the past because of economic policies
- Moreover, lower oil prices will tend to favor oil importing countries in ASEAN

Update: (iShares MSCI Emerging Markets Asia +9.1%, HFN Asia Index +11.8% , HFRX Asia Equally Weighted Index +10.5%)**Global X South East Asia Index -3.5%***

5. Alternative Investments – Favored Strategies

- Long/Short Equities HFRI – **Update: (HFRI Hedged Equity +5.0%)****
- Event Driven/Distressed Europe/Distressed EM/Long Short EM – **Update: (HFRI ED +4.0%)****
- Global Macro – **Update: (HFRI Macro (Total) index +2.0%)****
- Liquidity/Financing Funds – **Update: (HFN Fixed Income (non-arbitrage) 3.0%)****
- Long/Short Credit - **Update: (HFRI RV Fixed Income-Corporate + 3.1%)****

* as of June 16, 2015 ** as of May 31, 2015

Strategic Overview for 2015

Global Economy

On target with Strategic overview at mid-year

- Global growth should slowly accelerate, with a firmer expansion taking hold due to the continuation of accommodative policies from the central banks, and the bonus of falling oil prices that will result in an effective increase in real incomes
- The US economy will lead Developed Markets growth as domestic demand should benefit from improving consumer confidence, diminishing labor market slack, supportive credit conditions and solid household and corporate balance sheets
- The Eurozone's moribund economy and low inflation environment leads us to believe the ECB will need to increase its balance sheet to supplement the Targeted Longer Term Refinancing Operations (TLTROs). To jump start the Eurozone economy, we believe the ECB will probably initiate sovereign QE sometime in Q1 2015
- In Japan, the surprising economic contraction in Q3 should support Prime Minister Shinzo Abe's case to delay the implementation of the round two of the consumption tax hikes slated for 2015, and prompt the Bank of Japan to increase QE, accelerating the pace of asset purchases
- In the developing markets, China's economic growth engine is stalling, and as such, there are few drivers for Emerging Markets growth which should remain subpar. China's central bank in an attempt to re-ignite growth, cut interest rates as growth hit a 24-year low. There is speculation that the official GDP target for 2015 will be lowered from 7.5% to 7.0%.
- Higher growth rates in Southeast Asia, business-friendly policies and relatively young demographics is a tailwind compared to the rest of the world. Moreover, the ability to grow consumer spending in the trade bloc is still in early stages of development.

THE SECOND HALF CALLS

BEGINNING OF YEAR IDEAS COME TO FRUITION AND MID-YEAR PREDICTIONS

TILTS TOWARDS BANKS, HOMES, NEW ISSUES, JAPAN EQUITY

1. **DELAYED REBOUNDS (ATTRACTIVE SECTORS)**
   - **FINANCIALS: (REGIONAL AND COMMUNITY BANKS, ASSET MANAGERS, INSURANCE):**
     - Loan growth increasing at a pace of 4 to 6% which includes "shadow banking" a pace faster than GDP
     - Sector weightings should normalize away from defensive equity themes, providing opportunities in growth sectors such as technology, consumer discretionary, and healthcare
   - **HOUSING RELATED STOCKS**
     - First time home builders now increasing as pent-up demand has taken down inventories of homes to less than 5 months
     - Revised mortgage rules for the GSEs FNMA, FHLMC, and FHA is helping ease mortgage originations
     - Resurgence in Housing construction and sales

2. **SPECIALIST (ACTIVE EQUITY)**
   - **OLD AND NEW EQUITY ISSUES – BACK TO THE MARKET: ACTIVE MANAGERS, ACTIVIST BENEFICIARIES**
     - Mid and Large cap names have been coming out as IPOs as a result of;
       - IPO window was limited for venture names until they reached considerable revenues
         - Record number of "Unicorns" , venture backed companies coming out with > $1bil capitalization
       - Last wave of Distressed and LBO companies from 5-8 years ago have come back as stronger companies
       - Spin-outs and spin-offs creating gains
       - Select a manager that will analyze these new names
   - **JAPAN: (MORE TO GO)**
     - Loan growth is picking up after declining for more than a decade
     - Potential for significant dividend and share buybacks
     - Activists are making a difference – corporate governance and record are earnings making a difference

WHO OWNS BONDS AND WHAT ABOUT LIQUIDITY?

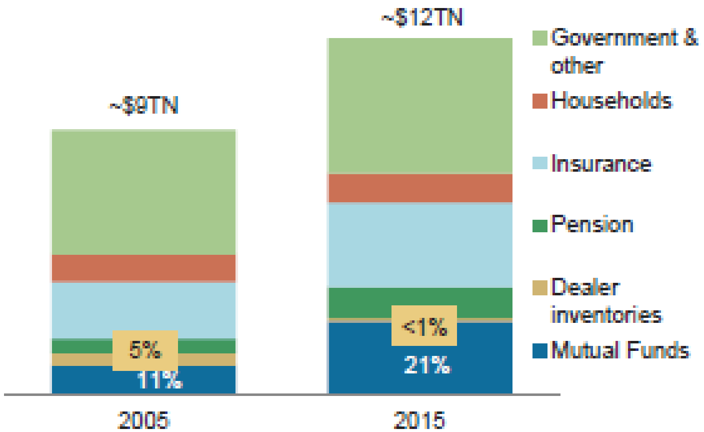
OPPORTUNITY TO BENEFIT FROM VOLATILITY - IF YOU HAVE DRY POWDER

MUTUAL FUNDS OWNERSHIP EXPANDED RELATIVE TO TRADITIONAL BUYERS

Exhibit 25

Ownership of credit assets has shifted towards mutual funds

US corporate credit asset ownership $TN



1 Includes government entities and other financial institutions

Source: Federal Reserve, Oliver Wyman

Our proprietary interviews with a dozen asset managers who collectively manage more than $10 trillion in assets suggest liquidity is turning into a major headache. All were increasingly concerned about secondary market liquidity not just in emerging market credit and high yield market liquidity, but also US and European corporate bonds. Some also expressed concerns around areas of rates markets and emerging market FX. Most interviewees cited liquidity risk in credit markets as their top concern. Interestingly, European asset managers are more worried than their US peers, which can be explained by the lower liquidity of European credit markets, the lack of a sticky 401k retirement savings market, and the even greater pressure on European wholesale banks to shrink.

We do not see easy solutions to this as policy-makers face a trade-off between three conflicting goals. There is an unresolved conflict among regulators' desires to reduce the riskiness and interconnectedness between banks, to ensure that asset managers have sufficient liquidity to deliver on promises to their investors, and to preserve companies' flexibility to issue in a wide range of markets and tenors. Yet resolution of this conundrum is critical to ensure capital markets remain effective channels of funding to support the global recovery.

.

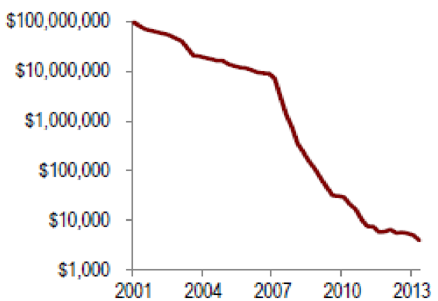
Health Care – Life Sciences – Medicine

Extended Play

Factors Driving Fundamental Growth in Life Sciences

Continuous Technological Advances

Genome Sequencing: In 14 years, the cost of decoding one patient's DNA has fallen from $95 million to less than $4,000.

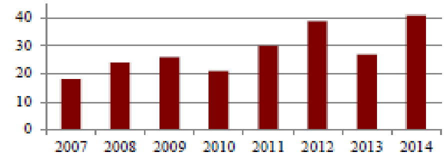


Companion Diagnostics: New tests that pinpoint which patients will respond to a drug, saving time and money for drug developers, insurers and patients:

Mekinist (trametinib) 0.5 mg, 1 mg, 2 mg tablets
Zykadia (ceritinib) capsules
GILOTRIF (afatinib) tablets
kalydeco (ivacaftor) tablets
XALKORI CRIZOTINIB

Improving Regulatory Environment

New FDA Leadership: After years of frustration, in 2009 FDA gets a new commissioner and approvals increase:

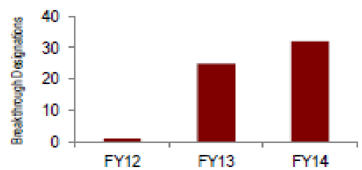


As of 12/31/14

Better Oversight: The 5th version of FDA's drug review legislation became law in 2012, making important changes:

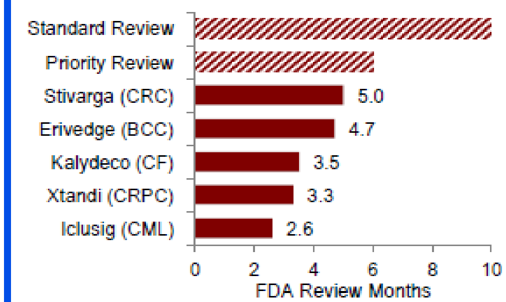
- > 100 new FDA drug reviewers to accelerate the approval process
- Enhanced disclosure to the public and drug sponsors for FDA decisions

Special Status: Highly effective drugs are now labeled "Breakthrough Therapy," enabling faster FDA review times:

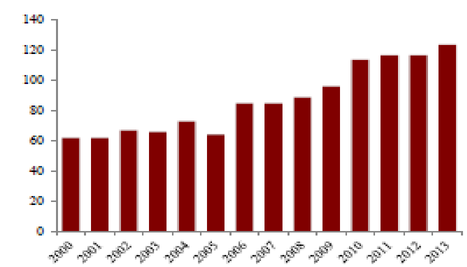


Tangible Results for Companies

Faster Answers: Unquestionably better drugs are being approved well ahead of typical 10- and 6-month review times:



Profit: The number of profitable biopharma companies has grown consistently

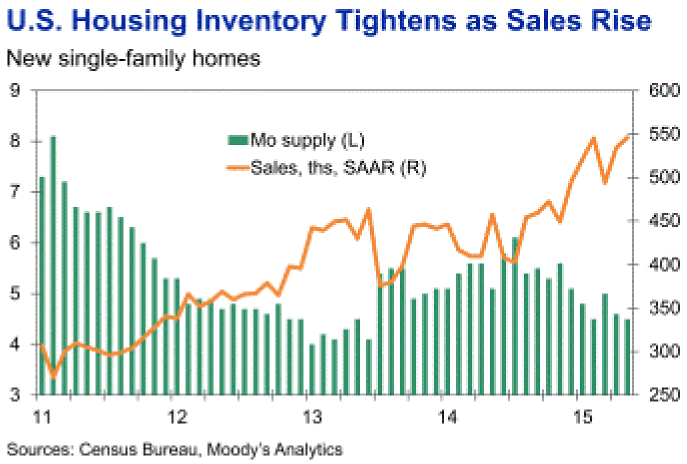


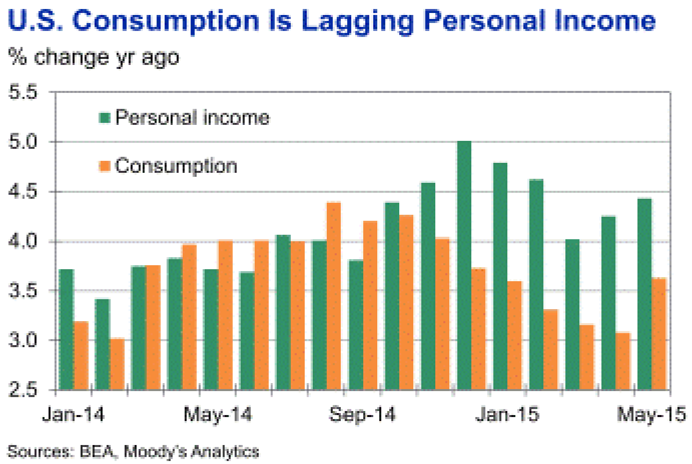
Sources: National Institute of Health, FDA, Bloomberg

14

An increase in global demand for healthcare, increased pace of innovation, and a leap in efficiency is producing profits better outcomes. The more effective FDA and rapid growth in "orphan drugs" has also been supportive.

HOUSING – NOW DRIVING THE ECONOMY



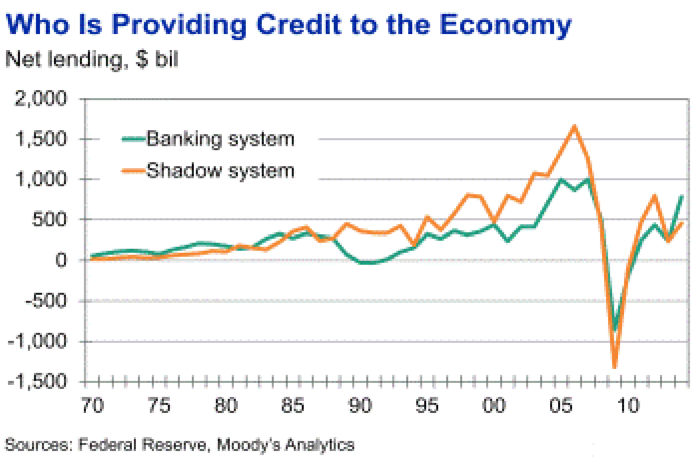


Direct Lending 2.2

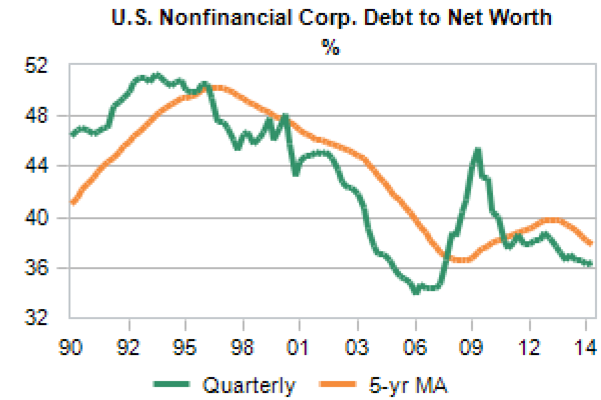
Shadow Banking becomes Mainstream

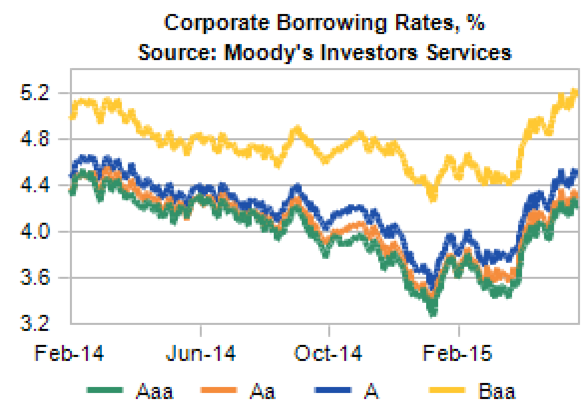
Velocity of money governed by more smaller players

The trend towards non-bank lending continues to increase and evolve changing the transfer mechanism that affect the velocity of money. As the velocity of money has been stuck at low levels, this has somewhat restricted the acceleration of the economy. There has been a disintermediation of a corporate lending due to new banking regulations and oversight.



Demand and credit quality is good, while rates have moved back up.





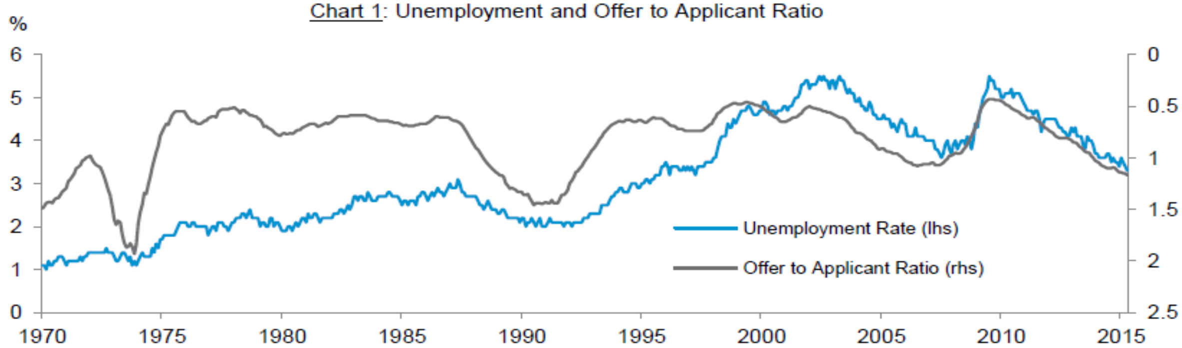
Strategic Overview for Mid-Year 2015

Asset Class Outlook Beginning Year – Still on track – and Mid-year

- Investors continue favor risk assets, in particular equities over fixed income, in an environment where central banks pursue monetary expansion to support economies, fight deflationary pressures and provide an abundance of market liquidity
- Continued divergence in central bank policy, as well as divergent asset performance on a regional and country perspective
- The preference is Developed Markets versus Emerging Markets, which faces structural, political and falling commodity price issues
- In the US, the leader in global growth, equities should perform well based on improving revenue and EPS growth
- Investors may wish to be underweight US fixed income, including credit, as the Fed's policy will be less supportive, fundamentals and market technicals are weakening while valuations are becoming more extended
- The lack of bond market liquidity could create mark-to-market risk yet also create buying opportunities therefore maintain shorter duration portfolios that can run-off
- European equities should benefit from the wash of liquidity in the system as the ECB attempts to reflate the Eurozone, as well as attractive valuations based on year-over-year EPS growth and dividend yields.
- Risk assets in Japan should prove to be attractive as the BOJ continue to provide accommodative monetary policies needed to support asset prices along with rising corporate earnings.
- The price growth of commodities should be capped with further downside risk due to the slow pace of the global recovery, reduction in Chinese consumption, the transition of EM economies and particular supply/demand issues across the commodities spectrum

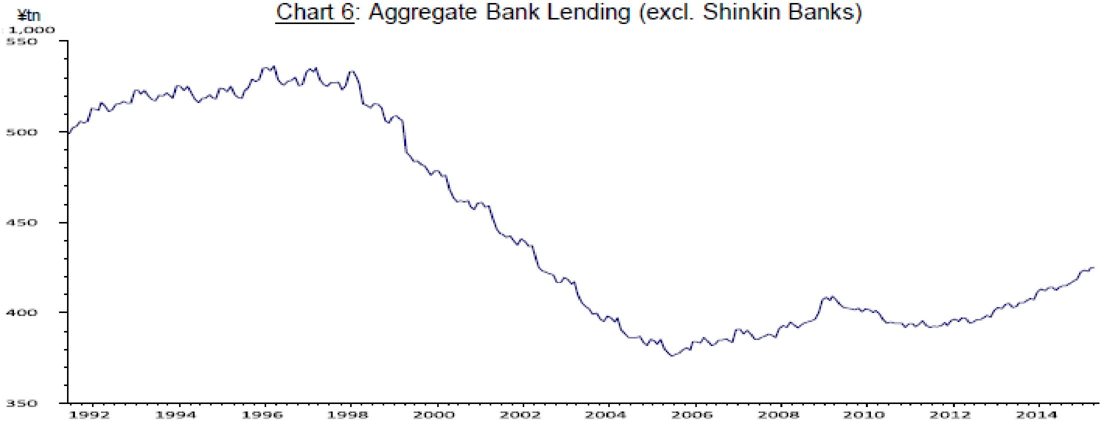
JAPAN LOOKS BETTER

Chart 1: Unemployment and Offer to Applicant Ratio



Source: Mizuho. As at 30th April 2015.

Chart 6: Aggregate Bank Lending (excl. Shinkin Banks)



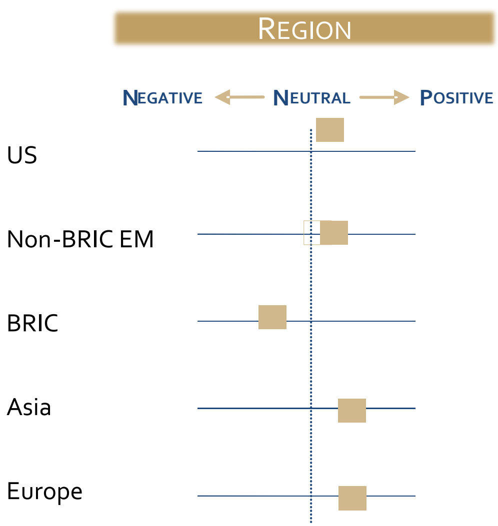
Source: Bank of Japan. As at May 2015.

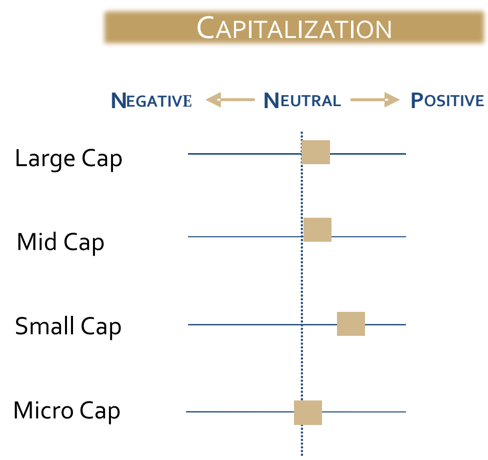
Japanese corporate earnings are building momentum across sectors, continually beating estimates. “Japan is the only developed market to have delivered improvements in both return on equity and profitability, while maintaining an attractive market valuation.” Barings Economics and Market Analysis june 2015

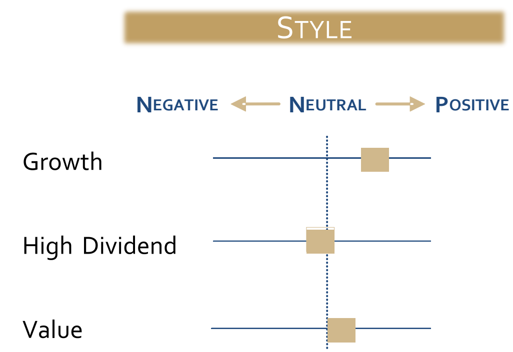
CLEARBROOK **CONFIDENTIAL – DO NOT DISTRIBUTE**

OUTLOOK BY ASSET CLASS FOR MID-YEAR 2015 - EQUITIES

POSITIVE OUTLOOK FOR DEVELOPED MARKETS AND GROWTH EQUITY; SELECT EMERGING MARKETS FACE HEADWINDS.







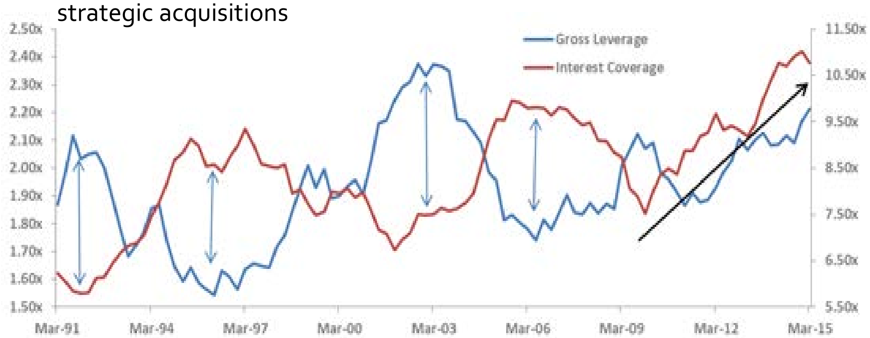
ASSET CLASS OUTLOOK

- Selecting amongst risk assets by country, industry, company is key to returns (Active Management) especially knowing where to use Growth stocks and where to focus on Value
- Improving economic growth favors equities over fixed income, as the US continues to "taper" causing a rise in real rates as well as inflation expectations
- Europe and Japan equity markets should perform strongly with broad market participation and a pick-up in M&A activity, stock buybacks
- In the US Small Cap should outperform versus Large Cap due to the strong USD and lower foreign exposure
- Emerging Markets are expected to underperform due to structural issues, US "tapering", a strong USD, and restructuring in China

OUTLOOK BY ASSET CLASS FOR MID-YEAR 2015 – M&A UPSWING

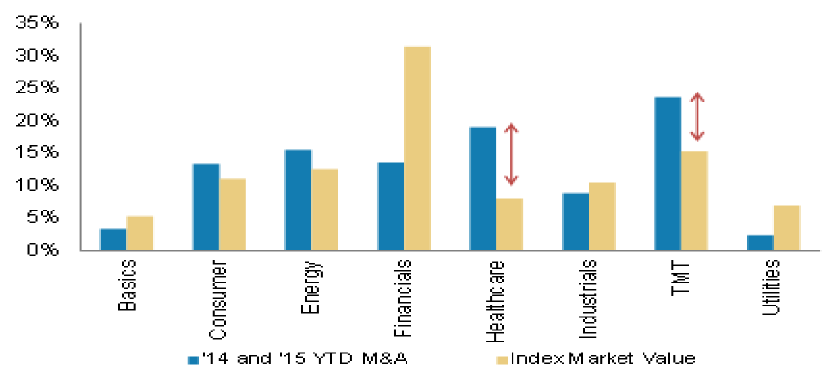
A DRIVER FOR MANY ASSET CLASS AND STRATEGY PERFORMANCE FOR THE REST OF THE YEAR

Stronger companies this cycle with a lot of flexibility to make strategic acquisitions



Source: Morgan Stanley

Healthcare and TMT picking up in strategic acquisitions



Source: Morgan Stanley

M&A CYCLE

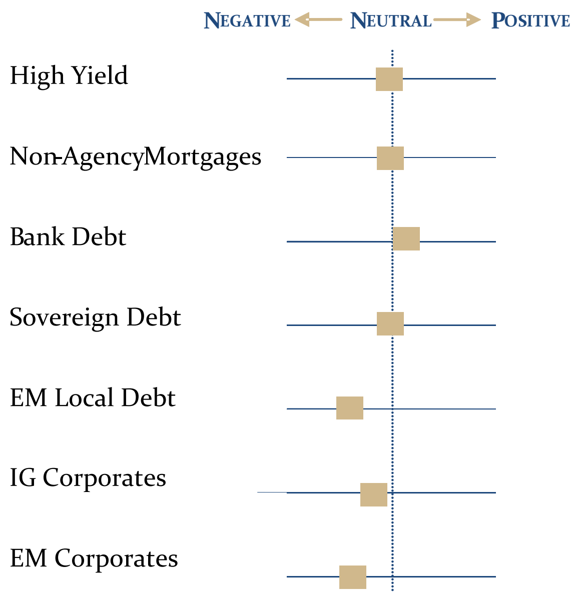
- The long awaited pick up in M&A often coincides with the pick-up in economic growth as credit becomes more abundant and future prospects improve.
- Investment grade spreads have begun to widen as deals and talk of deals increase. Also, more deals provide Merger Arb, Special Situations more return potential.

CLEARBROOK

Outlook by Asset Class For Mid-Year 2015 – Fixed Income

Fixed income Opportunities Differ across regions, credits and rates

Fixed Income

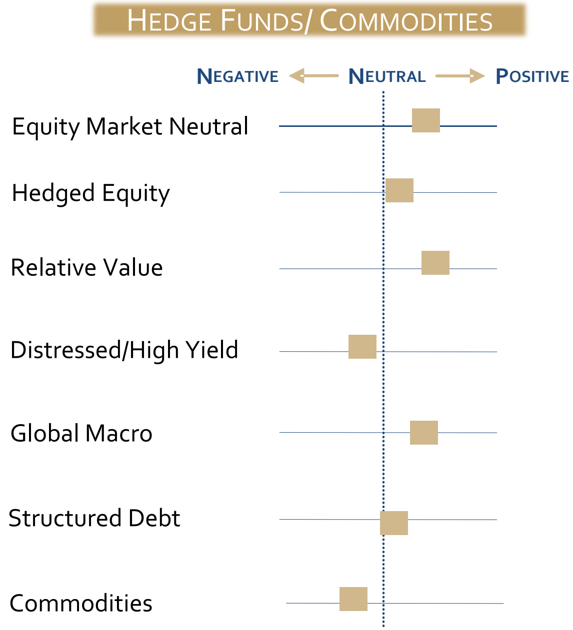


Asset Class Outlook

- In the US Treasuries are vulnerable to an edging up in rates and overvaluation. Corporate credits should continue to offer coupon and low volatility as corporate balance sheets remain strong and default rates should stay low. High Yield should provide investors with moderate return expectations of yield plus slight appreciation, as spreads tend to historically compress as rates increase at a moderate pace
- The Eurozone sovereign debt though fairly priced at best does have a supportive ECB keeping a lid on long term interest rates, thus the outlook is neutral. In addition, German bunds though expensive relative to US Treasuries, do serve as downside risk protection to growth or geopolitical risks. In Japan, expectations are for further monetary easing for several more years keeping yields low
- In Developing/Emerging markets, higher rates of inflation, slow progress on reforms, slowing economic growth, and vulnerable currencies has these bonds rated as an underweight

Outlook by Asset Class For Mid-Year 2015 – Hedge Funds/Commodities

ISOLATE HEDGE FUNDS THAT BENEFIT FROM INCREASES IN VOLATILITY AND DIVERGENT CENTRAL BANK POLICIES

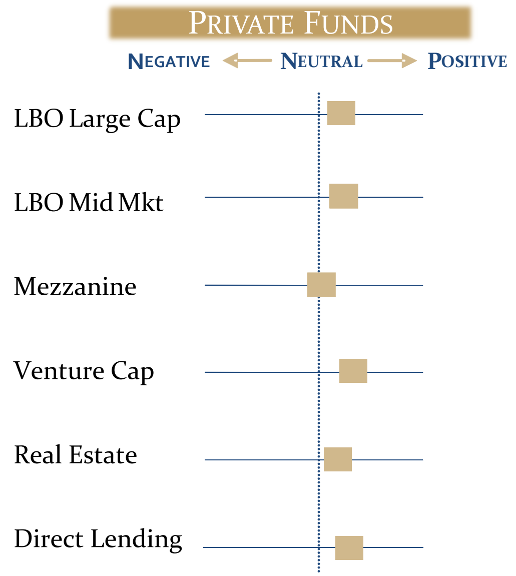


Asset Class Outlook

- Periodic volatility spikes caused by geopolitical events and technical market conditions (lack of liquidity) creates buying opportunities favoring relative value strategies and quant market neutral. Bottom up fundamental in the US and opportunistic long biases in Japan and Europe can be profitable.
- Corporate restructuring, merger & acquisition activity and selective distressed opportunities will benefit Event Driven investments
- Divergence central bank policy and relative regional momentum/growth favors Global Macro and Relative Value strategies
- Commodities returns should remain lackluster as a strong USD is negative for the asset class, and supply/demand factors should be more prevalent in determining sector performance. Industrial metals should see firmer pricing as economic growth improves, but excess supply can cap the upside.

Outlook by Asset Class For Mid-Year 2015 – Private Equity/Real Estate/Direct Lending

Structured Credit and Real Estate Opportunities Attractive versus Private Equity



Asset Class Outlook

- Below normal levels of traditional bank lending presents opportunities in private credit such as direct lending, shipping and CLOs
- Private equity has headwinds from size of cash that needs to be deployed, stretching valuations. According to S&P Capital IQ, current EV/EBITDA (enterprise value versus earnings before interest, tax, depreciation and amortization) is 9.1, levels last seen in 2008.
- Real estate remains attractive as operating incomes are strong and new supply is coming on line at a reasonable level that is being absorbed. Investor demand for yield and stable asset prices is robust, as it is estimated that an unlevered absolute return for core assets is 6.0% according to JP Morgan

DISCLAIMER

This paper discusses general market activity, industry or sector trends, and other broad-based economic, market or political conditions and should not be construed as research or investment advice. This paper is for informational purposes only and does not constitute, and is not to be construed as, an offer, solicitation or recommendation to buy or sell any securities or related financial instruments. Opinions expressed in this paper reflect current opinions of Clearbrook as of the date appearing in this material only. This paper is based on information obtained from sources believed to be reliable, but no independent verification has been made and Clearbrook does not guarantee its accuracy or completeness. Clearbrook does not make any representations in this material regarding the suitability of any security for a particular investor or the tax exempt nature or taxability of payments made in respect to any security. Investors are urged to consult with their financial advisors before buying or selling any securities. The information in this paper may not be current and Clearbrook has no obligation to provide any updates or changes.