sonen capital
Social & Environmental impact investment management

Market Commentary
Third Quarter 2015 Report

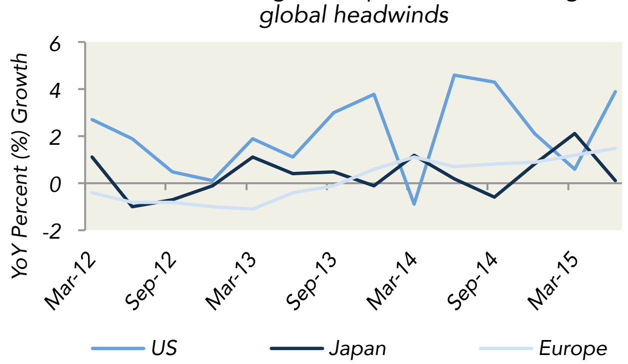
GLOBAL ECONOMIC REVIEW

» The third quarter was volatile across markets, as investors tried to anticipate the next move from the US Federal Reserve, and to interpret data coming from China in an effort to determine the health of the world's second largest economy.

» It has become clear that the US economy, while fundamentally strong, is feeling the negative effects of persistent global disinflationary pressures and slow growth. As a result, the Fed again balked at raising rates during its September meeting. Still, unemployment in the US has declined to 5.1% (down from 10% six years ago) and second quarter GDP was revised upward to a respectable 3.9% growth rate.

» Meanwhile, the Bank of Japan's inflation target of 2% remains highly elusive despite enormous monetary stimulus. Japan must balance the competing desires of the consumer (who wants a stronger Japanese yen to buy foreign goods), and the Bank of Japan (which wants a weaker yen that can reflate the economy and make exports more competitive).

US GDP leading developed markets through global headwinds



Japanese inflation still below BOJ target of 2% even as central bank buys ¥12 trillion per month

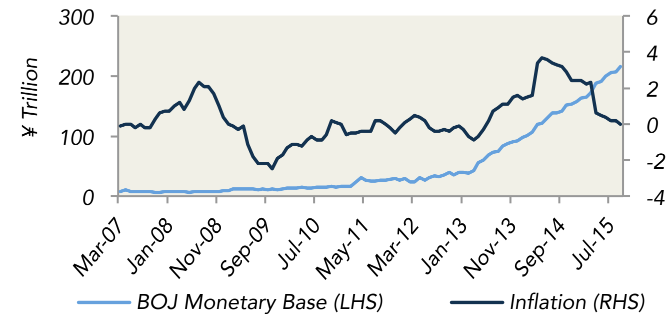


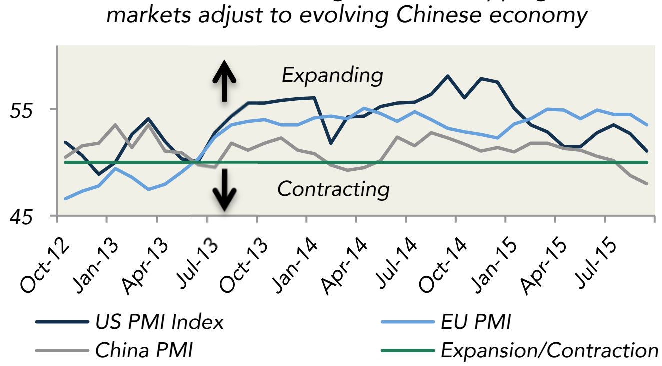
Chart Data Source: Bloomberg.

» As the Chinese government seeks to manage an orderly transition from an investment-led economy to a consumer-driven one, a slowing Chinese economy is at the top of many investors' minds. However, the Chinese economy suffers from significant overcapacity in the industrial and materials sectors. It will take time for this investment overhang to move back into equilibrium.

» The Chinese government took a number of steps over the summer to calm investors after its stock market bubble popped in June. These steps, including limiting short selling, halting trading on many stocks, and encouraging individuals to buy stocks, likely limited some of the damage to the market, but investors remain unsettled by the government's actions.

» Additionally, the People's Bank of China spooked investors in August when it "devalued" the yuan. Although the devaluation was only a very modest 3%, and the currency has since clawed back some of its losses, markets are scrutinizing the data coming out of China and are concerned that this devaluation will be followed by other, more destabilizing devaluations in China and across emerging markets.

Global manufacturing indicators slipping as markets adjust to evolving Chinese economy



China spending FX reserves as PBoC supports currency

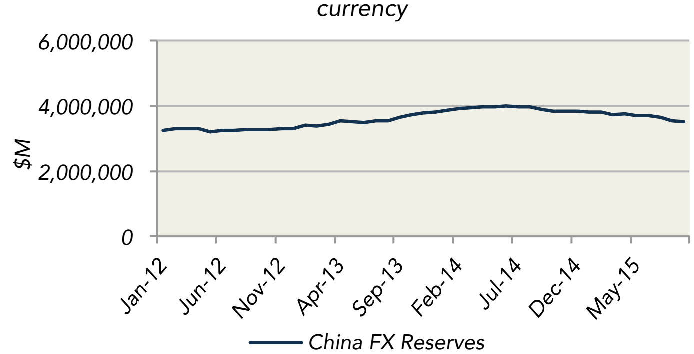
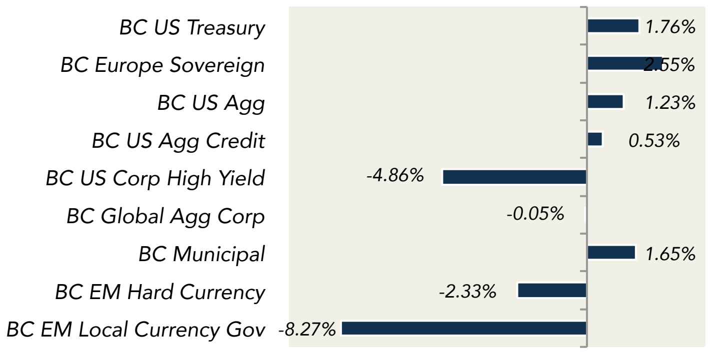


Chart Data Source: Bloomberg.

GLOBAL FIXED INCOME REVIEW

- In what was generally a "risk-off" quarter, many fixed income spread sectors performed poorly. High yield and emerging market bonds fell substantially amidst concerns about the US energy sector, uncertainty around the timing of a US Federal Reserve interest rate hike, and worsening data out of China.
- US Treasuries performed well as yields fell across the curve. The Barclays Long Treasury index returned 5.08%. This behavior was a reflection of both the Federal Reserve's decision not to raise rates, and the market's expectations that growth and inflation are likely to remain low in the US for some time.
- European sovereign bonds performed well (see chart below) as the economic outlook there continues to improve. While the Greece debt crisis is still unresolved, the Barclays Greek Government index leapt up 49% in the third quarter.

Fixed income sector performance: Q3 2015



Long-term US Treasury rates remain suppressed as growth prospects are uncertain

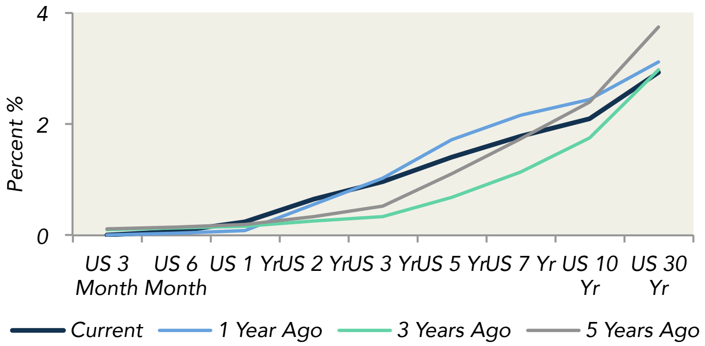
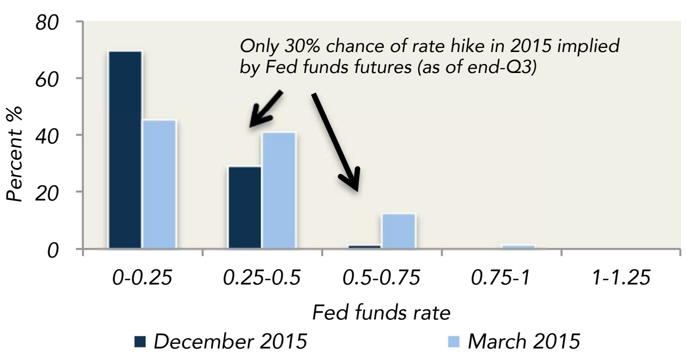


Chart Data Source: Barclays, Bloomberg.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

- Markets are now pricing a December, 2015 rate hike at only a 30% probability, suggesting the likely date for a hike – according to market expectations – is March, 2016. The date remains a moving target for investors, as the Fed is highly data- and information-dependent at this juncture.
- Still, the expectation of a rate hike has contributed to continued dollar strength (although the rally slowed in Q3). The strong dollar has helped US importers and hurt exporters.

Market pricing first Fed rate hike in March, 2016



Strong USD affecting exporters as imports rise

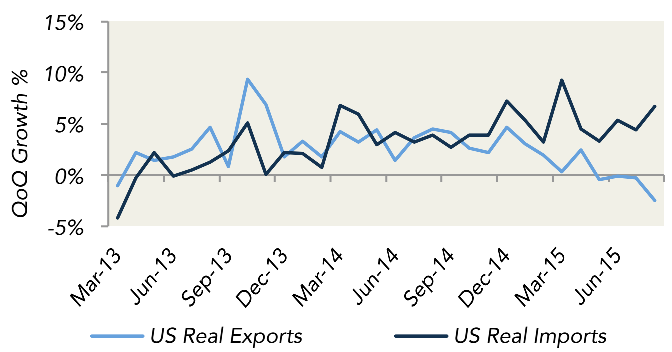
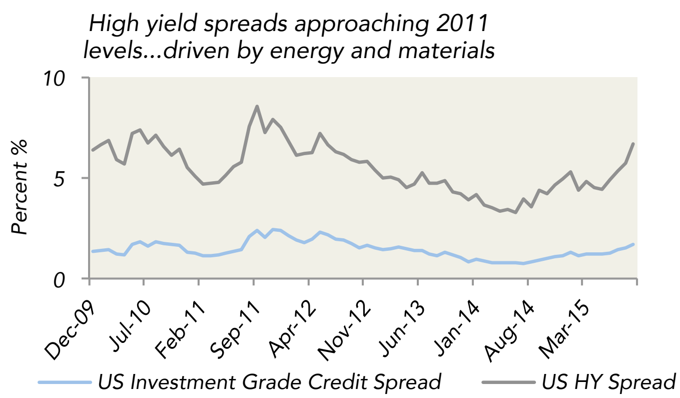


Chart Data Source: Barclays, Bloomberg.

GLOBAL FIXED INCOME REVIEW

- Aside from certain emerging market countries, no other spread sector suffered quite as badly as US high yield bonds. Spreads gapped wider in Q3 as energy commodity markets showed no sign of a genuine recovery. With no clear catalyst for rising oil prices in sight, the market is beginning to price in a much higher level of junk bond defaults, particularly in the energy and basic industry sectors. Energy represents almost 13% of the Barclays US Corporate High Yield index, and basic industry almost 8%.
- Emerging market bonds sold off sharply as investors began to fear a worsening Chinese economic situation might compound deteriorating credit conditions in several emerging markets. Among the worst affected, Brazil is facing a confluence of political, economic, and environmental crises. The Barclays Brazil Government bond index returned -14.50%. The Barclays EM Europe index, on the other hand, was supported by relatively strong economic news across the Eurozone, and returned 2.13%.



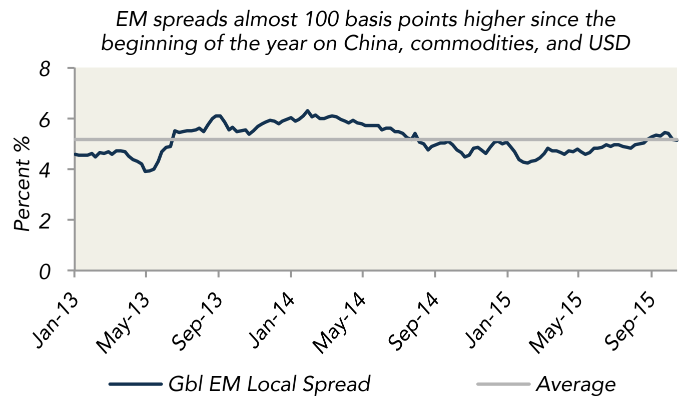


Chart Data Source: Barclays, Bloomberg.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

- The Barclays Global Aggregate bond index returned 0.85% in Q3, buoyed by US and European Treasuries. The corporate component of the index returned -0.05%.
- Of the main risk factors in the Barclays Global Aggregate bond index, the factor that dominated in Q2 – currency – has begun to subside. Emerging market currencies remained volatile, but those represent a small portion of the index. The developed market currencies that comprise the majority of Global Agg currency exposure were largely steady during the quarter.

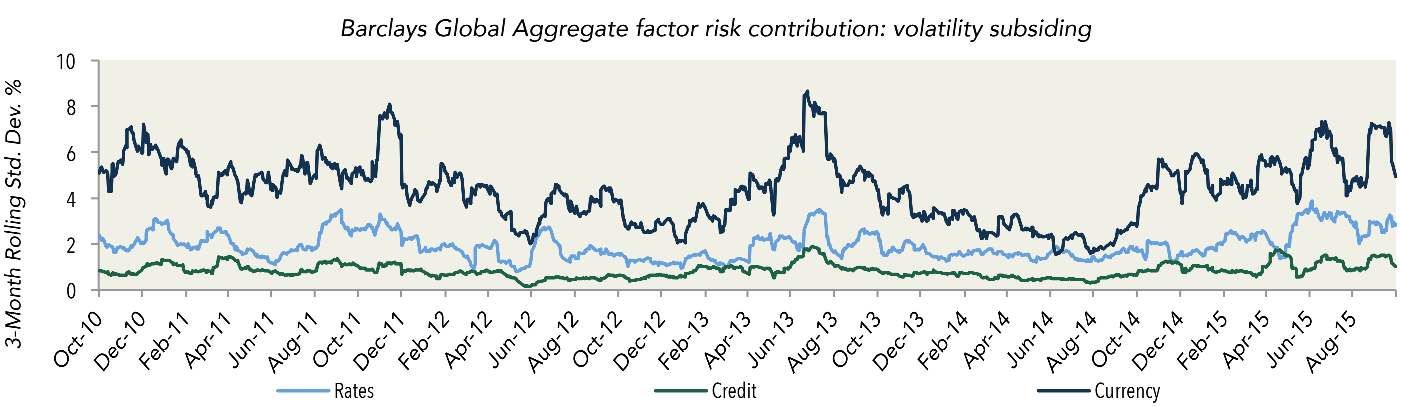


Chart Data Source: Sonen Calculation, MPI

GLOBAL EQUITY REVIEW

» Global equities were battered in the third quarter, with the MSCI ACWI index falling 9.59% over the period. The Asia Pacific region felt the brunt, returning -14.66% as the equity markets of China's main trading partners responded to the collapse in Chinese equities and concerns over Chinese growth.

» The Eurozone fared slightly better, returning -7.96%, while the US performed best, with a return of -7.21% for the MSCI USA index.

» As expected given the turmoil there, Brazilian equities cratered, returning -34.05%. The world's seventh largest economy is trying to maintain some semblance of economic order amidst extremely high levels of inflation, as well as collapsing exports and investment. It is quite possible that President Dilma Rousseff will be impeached.

Global Equity: Valuation Measures (as of 9/30/15)								
Period	*Latest*				*10-yr average*			
Valuation Measure	*P/E*	*Dividend Yield*	*P/B*	*P/CF*	*P/E*	*Dividend Yield*	*P/B*	*P/CF*
MSCI ACWI	16.33	2.75	1.90	9.48	16.58	2.60	2.00	9.60
MSCI Europe	19.77	3.79	1.66	8.34	17.77	3.59	1.80	8.84
Nikkei 225	19.92	1.70	1.53	9.97	21.30	1.61	1.55	9.55
Shanghai Composite	15.25	2.01	1.79	12.37	19.33	1.86	2.43	31.01
MSCI Emerging Markets	11.61	3.14	1.25	7.42	13.31	2.62	1.82	8.43

Data Source: Bloomberg.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

Global Equity Indices - 36 Month Rolling Annualized Return, %

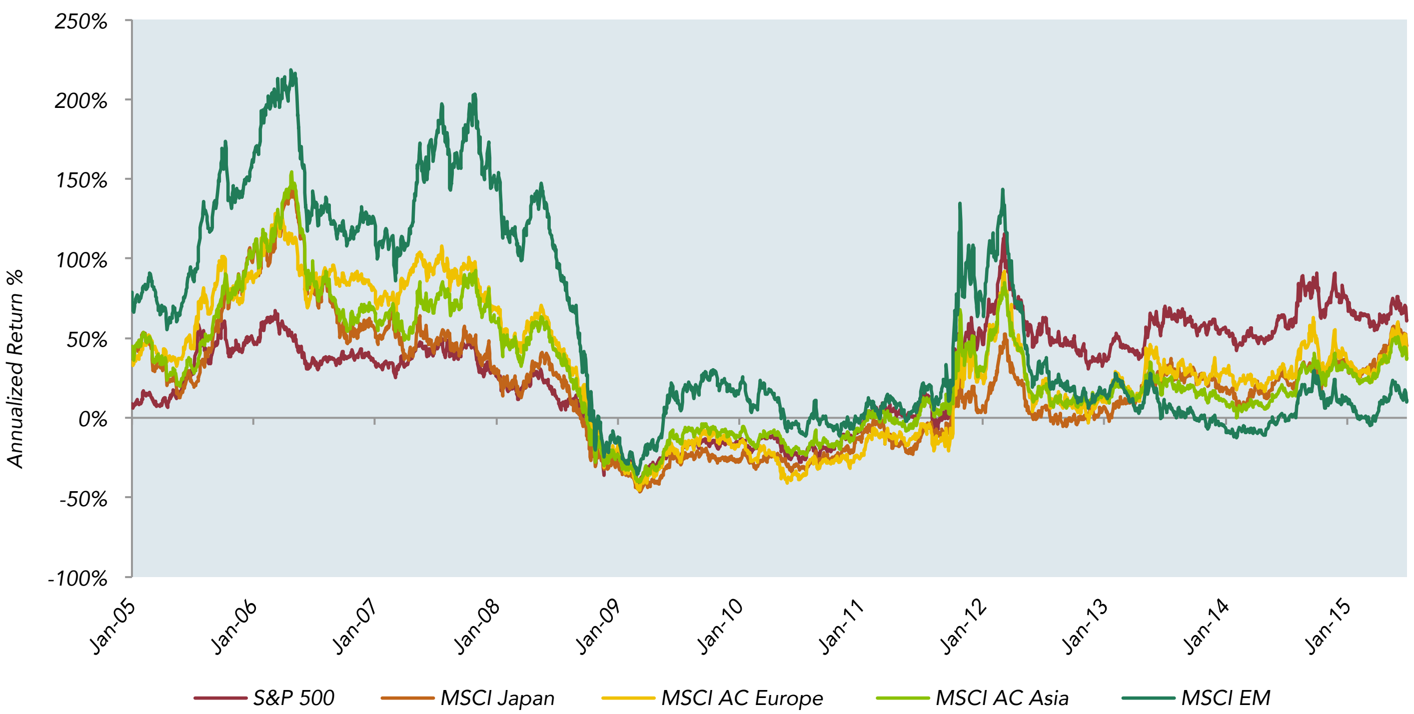
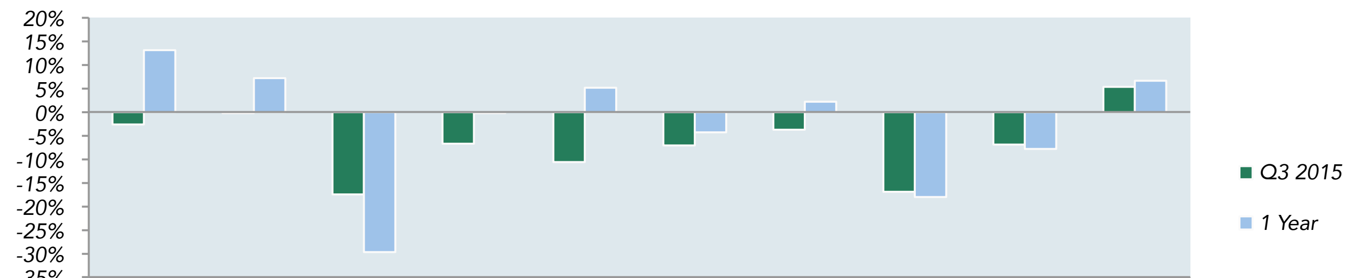


Chart Data Sources: Bloomberg, Morningstar, MPI.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

GLOBAL EQUITY REVIEW

- US equities outperformed global markets in Q3, but still had their worst quarter in four years as the S&P 500 index returned -6.4%. Large caps generally outperformed small caps, and growth outperformed value.
- The only sector with positive returns during the quarter was Utilities, which performed well as the US Federal Reserve decided not to raise interest rates.
- The Energy and Materials sectors plunged again, returning -17.41% and -16.90%, respectively. Markets remain uncertain about when supply in the commodity markets will begin to tighten. Until then, volatility in these sectors should continue to be high.
- Notably, the Healthcare sector finally saw a meaningful drawdown after what has been an extended rally. Poor performance began in the Biotech sector, but spilled over into other portions of the Healthcare markets.
- The Consumer sectors are now the best performing sectors of 2015.

S&P 500 Sector Performance as of 9/30/15



	Consumer Discretionay	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecom Services	Utilities
Q3 2015	-2.56%	-0.20%	-17.41%	-6.72%	-10.67%	-7.05%	-3.70%	-16.90%	-6.85%	5.40%
1 Year	13.18%	7.10%	-29.68%	-0.33%	5.19%	-4.28%	2.12%	-17.98%	-7.91%	6.57%

Chart Data Source: Morningstar MPI.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

US Equity: Valuation Measures (as of 9/30/15)			*Historical Averages*			
Valuation Measure	*Description*	*Latest*	*1 yr ago*	*5-yr avg.*	*10-yr avg.*	*25-yr avg.*
P/E	*Price to Earnings*	*17.01*	*17.53*	*15.96*	*16.49*	*19.56*
CAPE	*Shiller P/E*	*24.70*	*25.91*	*23.37*	*22.95*	*25.54*
Div. Yield	*Dividend Yield*	*2.25*	*1.96*	*2.03*	*2.10*	*2.07*
P/B	*Price to Book*	*2.82*	*2.58*	*2.28*	*2.42*	*2.83*
P/CF	*Price to Cash Flow*	*10.92*	*9.21*	*8.57*	*10.59*	*10.90*
EY Spread	*EY-Baa Yield*	*1.79*	*1.82*	*2.32*	*0.96*	*-1.20*
Index: S&P 500						

Data Source: Bloomberg, Robert Shiller's website. Please see Appendix for definitions.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

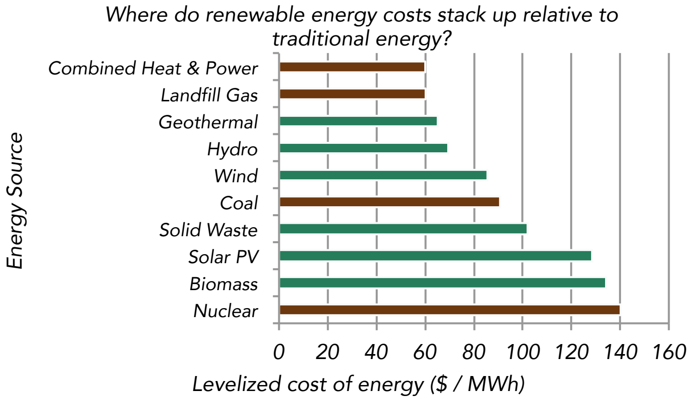
THEMATIC IMPACT REVIEW

» Cost competitiveness is critical for large-scale renewable energy adoption. The levelized cost of energy shown below represents a convenient way to compare the cost per megawatt-hour of various generating sources over the financial life of those assets.

» Historically wind has been cheaper relative to solar, but solar is catching up (see chart below at bottom right).

» Green corporates and supranationals fell more than their traditional counterparts during the quarter. In green corporates, turmoil in the solar markets contributed to losses.

» 2015 green bond issuance reached $27.2B as of end-Q3, and in Q3 almost half the issuance was allocated to renewable energy.



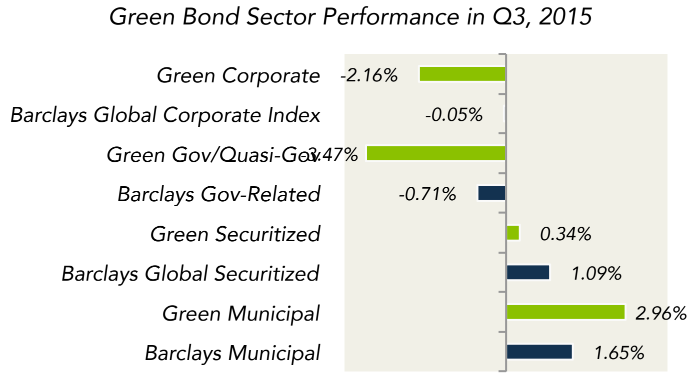
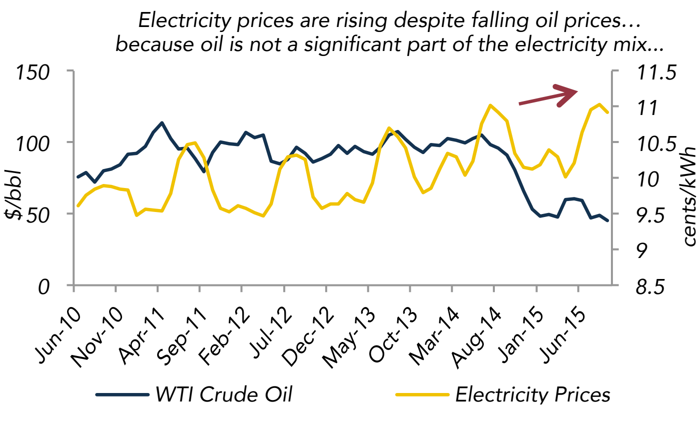


Chart Data Source: Bloomberg.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

» Despite the sharp fall in oil prices that began in 2014, electricity prices have continued their steady march upward. When oil prices collapsed, investors assumed that growth in renewables would fall as a result. In fact, oil constitutes only a small portion of the global power generation mix and is largely unrelated to electricity prices. Although the market has lumped them together, a low oil price should have little influence on renewable energy company valuations or investment in renewables.

» Meanwhile, the price of solar components continues to fall, rendering it an increasingly attractive alternative to fossil fuel power sources, such as coal and natural gas.



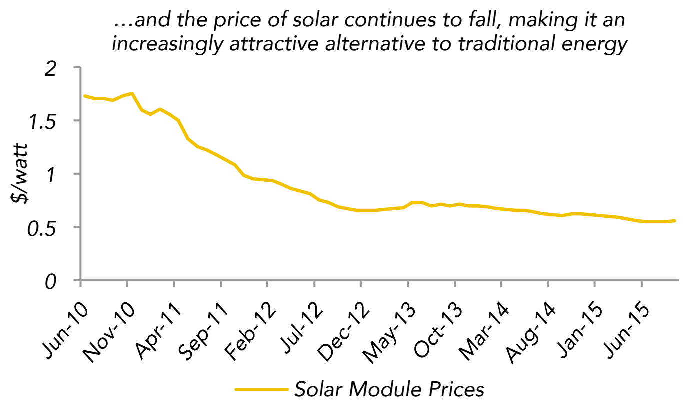


Chart Data Source: Bloomberg

sonen capital

Social & Environmental impact investment management

Market Commentary

Third Quarter 2015 Report

ASSET CLASS RETURNS

2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD	3Q15
MSCI EME 32.59	MSCI EME 39.78	BC Agg 5.24	MSCI EME 79.02	MSCI EME 19.20	BC Agg 7.84	MSCI EME 18.63	S&P 500 32.39	S&P 500 13.69	BC Agg 1.13	BC Agg 1.23
MSCI EAFE 26.86	EM Debt 18.11	EM Debt -5.22	High Yield 58.21	DJ UBS Cmdty 16.83	High Yield 4.98	MSCI EAFE 17.90	MSCI World ESG 27.56	BC Agg 5.97	Hedge FOF -0.78	Hedge FOF -3.13
MSCI ACWI IMI 20.91	DJ UBS Cmdty 16.23	Hedge FOF -20.85	MSCI ACWI IMI 36.41	EM Debt 15.68	S&P 500 2.11	EM Debt 16.76	MSCI World 26.68	MSCI World 4.94	High Yield -2.45	High Yield -4.86
MSCI World 20.07	MSCI EAFE 11.63	High Yield -26.16	MSCI EAFE 32.46	High Yield 15.12	EM Debt -1.75	MSCI ACWI IMI 16.38	MSCI ACWI IMI 23.55	MSCI World ESG 4.88	MSCI EAFE -4.91	S&P 500 -6.44
S&P 500 15.79	MSCI ACWI IMI 11.16	DJ UBS Cmdty -35.65	MSCI World ESG 32.42	S&P 500 15.06	Hedge FOF -5.00	S&P 500 16.00	MSCI EAFE 23.29	MSCI ACWI IMI 3.84	S&P 500 -5.29	MSCI World ESG -8.01
EM Debt 15.22	Hedge FOF 9.72	S&P 500 -37.00	MSCI World 29.99	MSCI ACWI IMI 14.35	MSCI World ESG -5.42	MSCI World 15.83	Hedge FOF 9.04	Hedge FOF 3.42	MSCI World -6.04	MSCI World -8.45
High Yield 11.84	MSCI World 9.04	MSCI World ESG -40.58	S&P 500 26.46	MSCI World 11.76	MSCI World -5.54	High Yield 15.81	High Yield 7.44	High Yield 2.45	MSCI World ESG -6.29	MSCI ACWI IMI -9.59
Hedge FOF 10.18	BC Agg 6.97	MSCI World -40.71	EM Debt 21.98	MSCI World ESG 10.67	MSCI ACWI IMI -7.89	MSCI World ESG 14.48	BC Agg -2.02	MSCI EME -1.82	MSCI ACWI IMI -6.76	MSCI EAFE -10.19
BC Agg 4.33	S&P 500 5.49	MSCI ACWI IMI -42.34	DJ UBS Cmdty 18.91	MSCI EAFE 8.21	MSCI EAFE -11.73	Hedge FOF 4.81	MSCI EME -2.27	MSCI EAFE -4.48	EM Debt -14.91	EM Debt -10.54
DJ UBS Cmdty 2.07	High Yield 1.87	MSCI EAFE -43.06	Hedge FOF 11.46	BC Agg 6.54	DJ UBS Cmdty -13.32	BC Agg 4.22	EM Debt -8.98	EM Debt -5.72	MSCI EME -15.22	DJ UBS Cmdty -14.47
MSCI World ESG NA	MSCI World ESG NA	MSCI EME -53.18	BC Agg 5.93	Hedge FOF 5.48	MSCI EME -18.17	DJ UBS Cmdty -1.06	DJ UBS Cmdty -9.52	DJ UBS Cmdty -17.01	DJ UBS Cmdty -15.80	MSCI EME -17.78

High Yield = Barclays Capital US Corporate High Yield Index
DJ UBS Cmdty = Dow Jones-UBS Commodity Index
MSCI EAFE = MSCI EAFE Index
MSCI EME = MSCI EM Equity Index
MSCI ACWI IMI = MSCI All Country World Investible Market Index
MSCI World = MSCI World Index
S&P 500 = S&P 500 Index
EM Debt = JP Morgan GBI EM Global Diversified Unhedged
Hedge FOF = HFRI FoF Diversified Index
BC Agg = Barclays Capital US Aggregate Bond Index
MSCI World ESG = MSCI World ESG Index

Chart Data Source: Morningstar, MPI.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

APPENDIX

- Barclays Global Securitized: Barclays Capital Global Securitized Index
- Barclays Gov-Related: Barclays Capital Government-Related Index
- Barclays Municipal: Barclays Municipal Index
- Barclays Supranational: Barclays Multiverse – Supranational
- BC EM Hard Currency: Barclays Capital Emerging Markets Hard Currency Index
- BC EM Local Currency Gov: Barclays Capital Emerging Markets Local Currency Diversified Total Return Index
- BC Europe Sovereign: Barclays Capital Europe Sovereign Index
- BC Global Agg Corporate: Barclays Capital Global Aggregate Corporate Index
- BC US Agg Bond: Barclays Capital United States Aggregate Bond Total Return Index
- BC US Agg Credit: Barclays Capital United States Aggregate Credit Total Return Index
- BC US Corporate High Yield: Barclays Capital United States Corporate High Yield Total Return Index
- BC US Municipal: Barclays Capital United States Municipal Total Return Index
- BC US Treasury: Barclays Capital United States Treasury Total Return Index
- BOJ: Bank of Japan
- CAPE: Shiller P/E (Cyclically Adjusted PE) from Robert Shiller's website http://www.multpl.com/shiller-pe/
- EY Spread: EY-Baa Yield derived by subtracting the Barclays Capital Baa US Credit YTW from the S&P 500 (SPX) Earnings Yield (the inverse of the P/E ratio)
- GDP: Gross Domestic Product
- Green Corporate: Sonen corporate green bond universe performance
- Green Gov/Quasi-Gov: Sonen combined government and quasi-government (supranational, etc.) green bond universe performance
- Green Municipal: Sonen municipal green bond universe performance
- Green Securitized: Sonen securitized green bond universe performance
- IMI: Investable Market Index
- LCOE is the per megawatt-hour cost of building and operating a generating plant over an assumed financial and duty life
- MSCI ACWI: MSCI All Country World Index

APPENDIX CONTINUED

- MSCI AC Asia MSCI All Country Asia Index
- MSCI AC Europe: MSCI All Country Europe Index
- MSCI Emerging Markets (EM): MSCI Emerging Markets Index
- MSCI Europe: MSCI Europe Index
- MSCI Japan: MSCI Japan Index
- Nikkei 225: Nikkei 225 Stock Average
- PBoC: People's Bank of China
- P/E: Trailing 12 months price to earning ratio
- PMI: Purchasing Managers Index
- S&P 500: Standard and Poor's 500 Index
- Shanghai Composite: Shanghai Stock Exchange Composite Index

50 Osgood Place
Suite 320
San Francisco, CA 94133
USA

info@sonencapital.com
+1.415.534.4444

For more information, visit
www.sonencapital.com

IMPORTANT DISCLOSURE