Sonen Capital

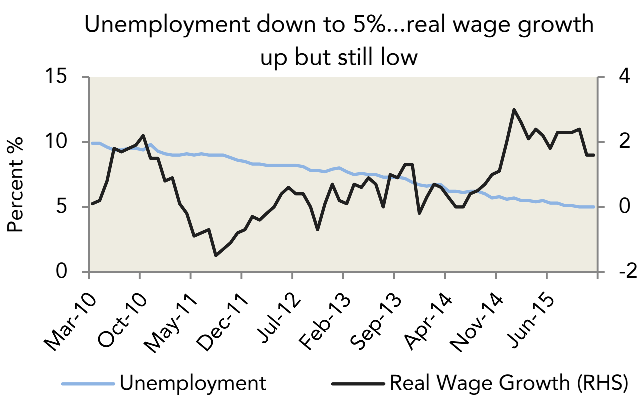
Social & Environmental impact investment management

Market Commentary

Fourth Quarter 2015 Report

GLOBAL ECONOMIC REVIEW

- In the fourth quarter markets digested the Fed's first rate hike in almost ten years, worsening economic data from China, as well as further falls and severe volatility in energy markets.
- US economic growth remained robust compared to the rest of the developed world, however, certain segments of the US economy have been under pressure. Most notably, the energy sector slowed dramatically as the price of oil continued to fall to new lows. In contrast, the healthcare sector showed strong growth in 2015, accounting for approximately 18% of new jobs. This divergence highlights the challenges facing the US manufacturing and industrial sectors, and the strength in US services.
- US consumer confidence fell in Q4, but remains near the highest levels since the financial crisis. Consumers are benefiting from low gasoline prices and low inflation, although many continue to be concerned about their future economic situations.



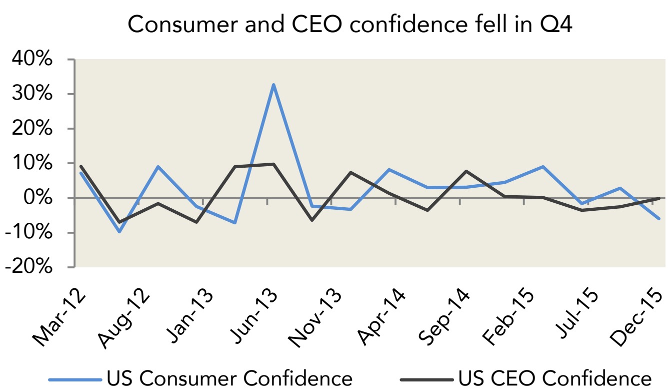
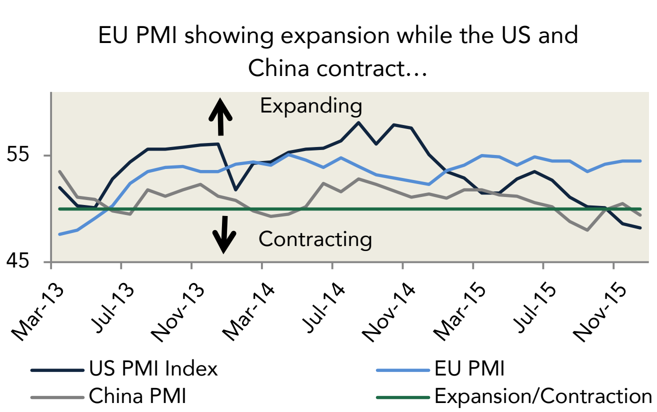


Chart Data Source: Bloomberg.

- In contrast to previous quarters, the news from Europe is relatively positive going into 2016. Still, given the lack of inflation in the Eurozone, it is possible that the European Central Bank (ECB) will introduce additional quantitative easing (QE) in 2016, which we believe will be supportive of financial asset prices and stimulate economic growth.
- Additionally, while China's deceleration has negatively impacted markets, the country's shift to a middle-class, consumptive economy should ultimately stimulate Chinese demand for US and European products.
- Meanwhile, WTI crude oil fell 17.21% in the fourth quarter and has already fallen a *further* 27.77% in the first three weeks of 2016. Although major OPEC (and many non-OPEC) producers are not curtailing production, US oil production has declined as a result of these steep price falls. Volatility in energy prices has been a destabilizing force in financial markets for the past 18 months, and uncertainty about oil prices is expected to continue at least through 2016.



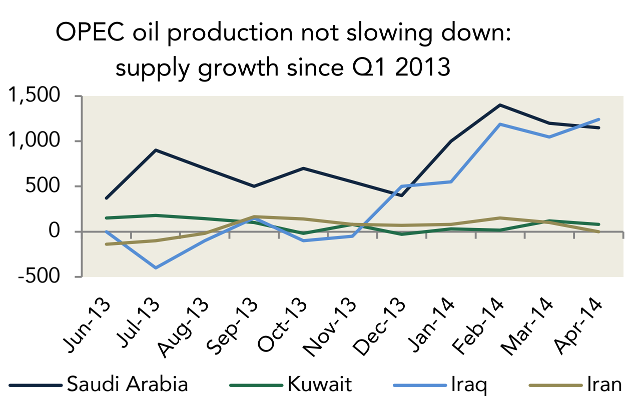


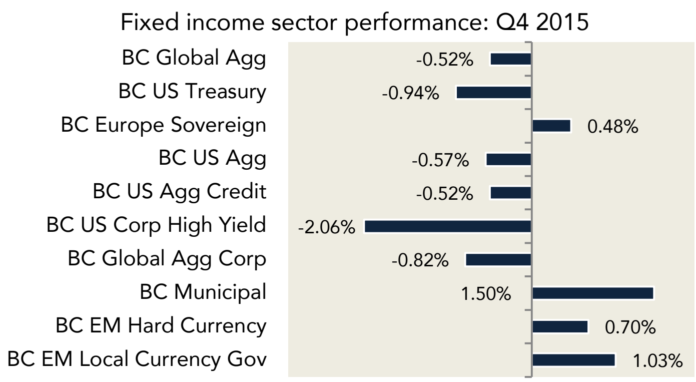
Chart Data Source: Bloomberg, Barclays.

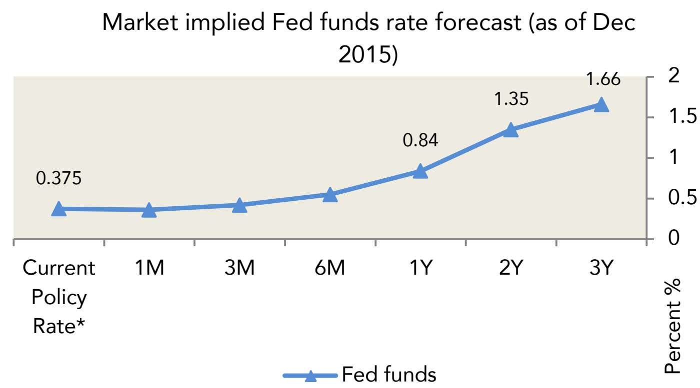
GLOBAL FIXED INCOME REVIEW

» The Barclays Global Aggregate bond index returned -0.52% in the fourth quarter. US Treasury yields rose, as did global corporate credit yields, the latter driven by the troubled energy and materials sectors.

» In December, the US Fed raised interest rates for the first time in almost ten years. The Fed is likely to increase rates slowly, so as not to disrupt US economic growth. Global macroeconomic developments will be of key importance to Fed decision-makers, who, despite following a dual mandate to control inflation and encourage employment in the US, will also need to be mindful of the risks posed by turbulence in other markets (e.g. China).

» European sovereign bonds returned 0.48% during the quarter. While economic conditions in the Eurozone have been improving (GDP growth was 1.6% as of the end of the third quarter, in line with the 20-year average), markets are still expecting additional stimulus from the European Central Bank. This served to drive down bond yields.



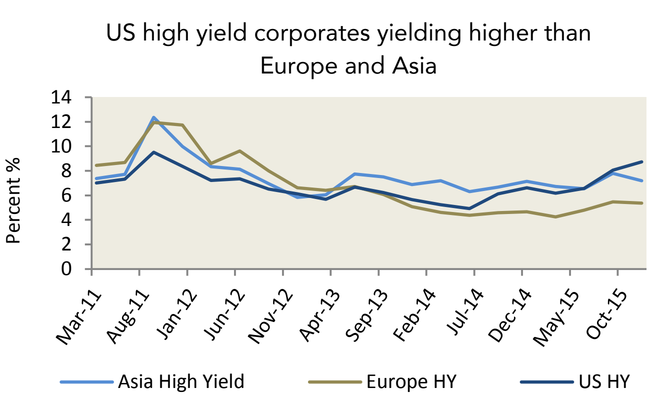


*Current policy rate: fed funds target midpoint of range

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 include the reinvestment of dividends or interest and do not reflect management fees, transaction costs or expenses. You cannot invest directly in an index.

» Corporate bonds performed relatively poorly in Q4, particularly in the high yield market. Markets grew increasingly nervous about the sustainability of debt burdens in the energy sector as oil prices continued to tumble throughout the quarter. At current oil price levels, many companies, especially those in the US tight (shale) oil sector, may be unable to recover their costs. Those without the ability to refinance debt or issue equity may be forced to declare bankruptcy or potentially accept takeover offers.

» The US dollar remained strong during the quarter. The path (strength) of the USD will depend in part on what the Fed decides to do next – hike again or stand pat. Regardless, we believe it is likely that the dollar will remain strong in 2016, especially relative to Emerging Markets and commodity-currencies, as well as countries and regions with loose monetary and fiscal policies (e.g. Europe and Japan).



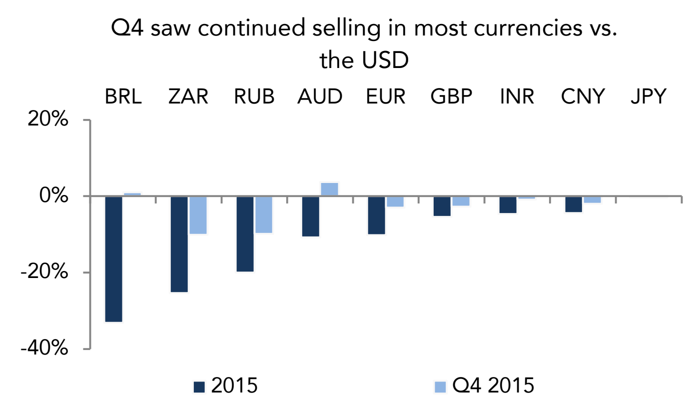
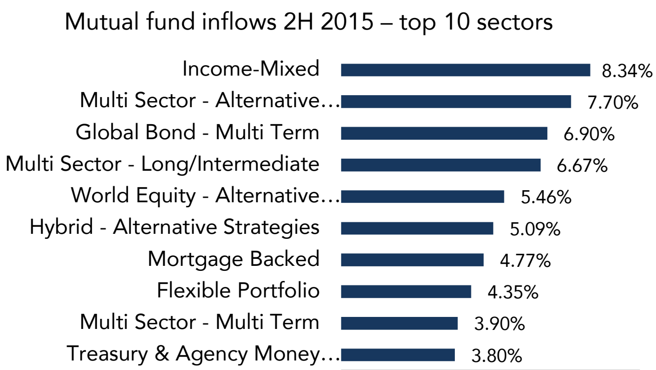


Chart Data Source: Barclays, Bloomberg.

GLOBAL FIXED INCOME REVIEW

» In the second half of 2015, mutual fund investors sought yield-producing assets and multi-sector or multi-term mandates globally. The potential to earn higher returns (through income or capital appreciation) offered by these solutions remains attractive to investors. This explains in part the positive returns earned by many Emerging Markets (EM) assets in Q4. In contrast, investors pulled money out of money markets, short-term paper, and government bonds.

» In our view, the reward for holding global developed government bonds has become so low as to be unattractive to many investors. Extremely low yields can lead to sharp price moves (as in the case of German bunds in 2015), and investors with short- or medium-term investment horizons may be unable to recover from losses. Higher yields can help to cushion price moves, and explain (in part) investors' continued appetite for income-producing assets.



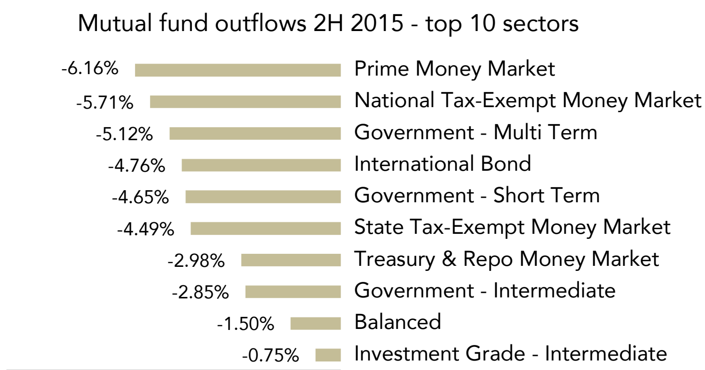
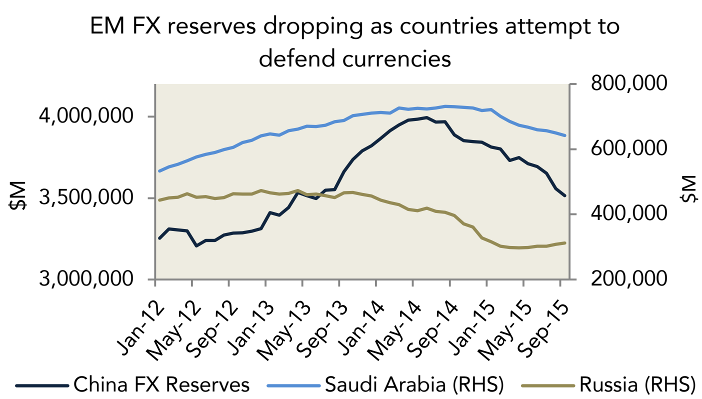


Chart Data Source: Bloomberg.

» Several of the largest EM countries (as measured by foreign exchange reserves) have spent a significant portion of their FX reserves over the past two years attempting to defend their currencies from depreciation.

» While reserves remain substantial for China ($3.5T) and Saudi Arabia ($650B), these countries will need to balance monetary policy and exchange rate goals with the need to maintain strong fiscal budgets over the next several years. In Russia's case, for example, FX reserves have evaporated relatively quickly and investor capital has fled, leading to severe instability in the economy.

» EM bonds produced positive returns in Q4 as investors continued to seek high-yielding assets, but many emerging markets are facing their most difficult economic conditions since the Asian financial crisis. The two indices in the right-hand chart below show EM country spreads to duration-matched Treasuries. Across the standard EM benchmark, spreads have declined, but when GDP-weighted, the negative effect of Brazil and other large, stressed EM countries becomes evident.



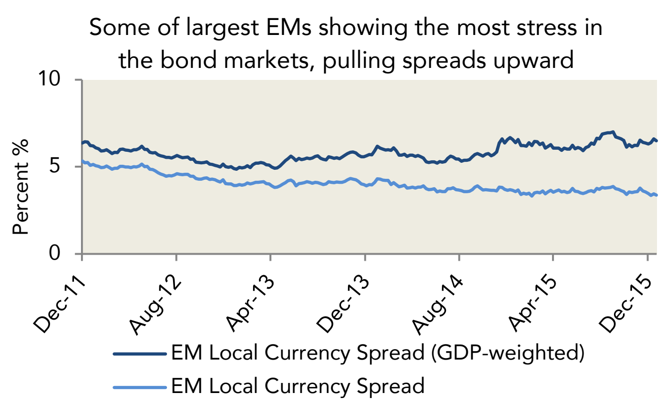


Chart Data Source: Bloomberg.

GLOBAL EQUITY REVIEW

- Global equities returned 4.53% in Q4, as measured by the MSCI ACWI, registering solid performance after a dismal Q3. Generally speaking, developed economies led performance across equity markets.
- The MSCI USA IMI returned 5.76%, while the Eurozone returned 3.7%. Japan returned 9.1%, while the broader developed Asia-Pacific region generated strong performance of 8.62%.
- Emerging Asia returned 3.41%, driven by strong stock market performance in Indonesia and Malaysia. Latin America, on the other hand, returned -3.23% as low commodity prices continued to weigh on the region. Emerging market equities in Europe struggled as well, despite 3.4% year-over-year GDP growth in Central and Eastern Europe.

Global Equity: Valuation Measures (as of 12/31/15)

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	17.95	2.61	2.02	9.08	16.58	2.62	1.99	9.41
MSCI Europe	23.23	3.55	1.57	8.06	18.05	3.61	1.76	8.71
Nikkei 225	22.16	1.68	1.70	10.33	21.47	1.63	1.54	9.53
Shanghai Composite	18.64	1.75	2.05	9.78	19.34	1.85	2.44	31.04
MSCI Emerging Markets	12.22	2.92	1.36	6.59	13.24	2.62	1.80	8.22

Data Source: Bloomberg.
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Global Equity Indices - 36 Month Rolling Annualized Return, %

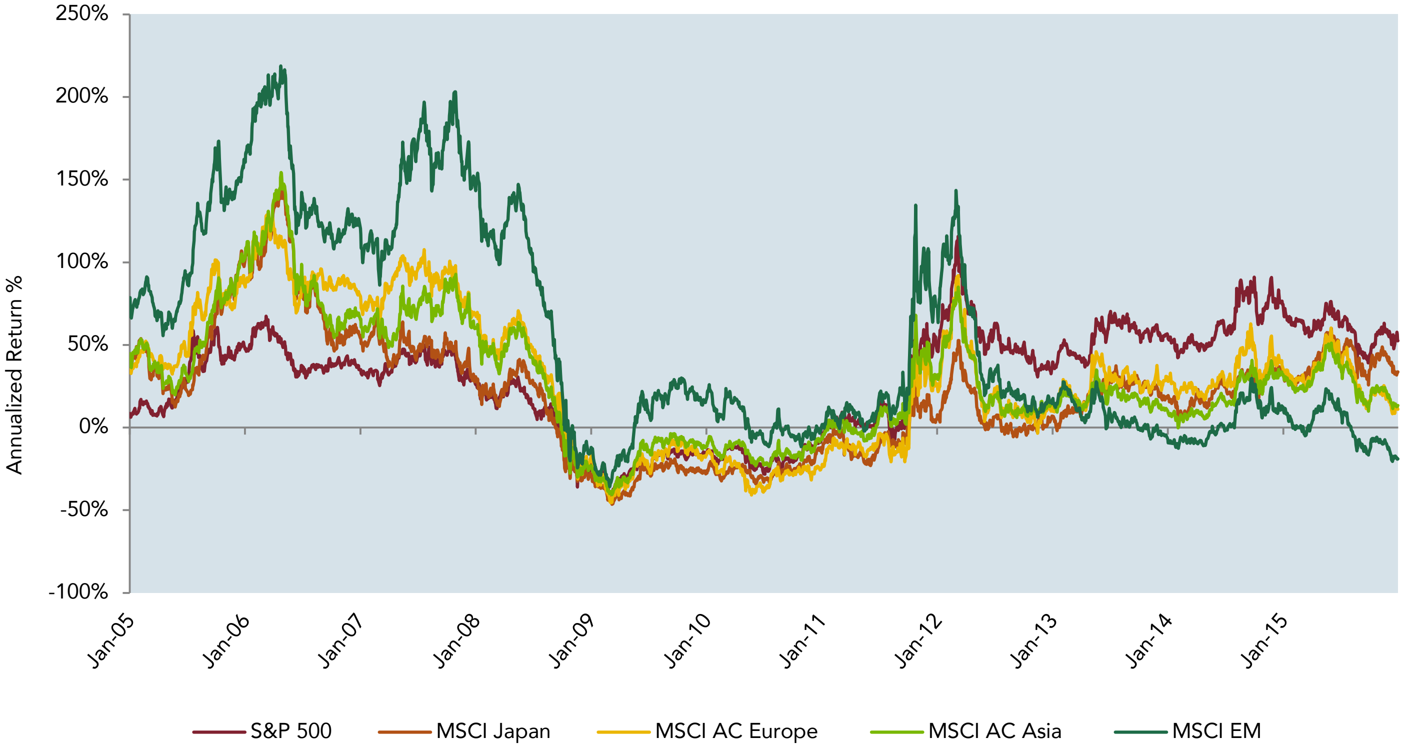

Chart Data Sources: Bloomberg, Morningstar, MPI.
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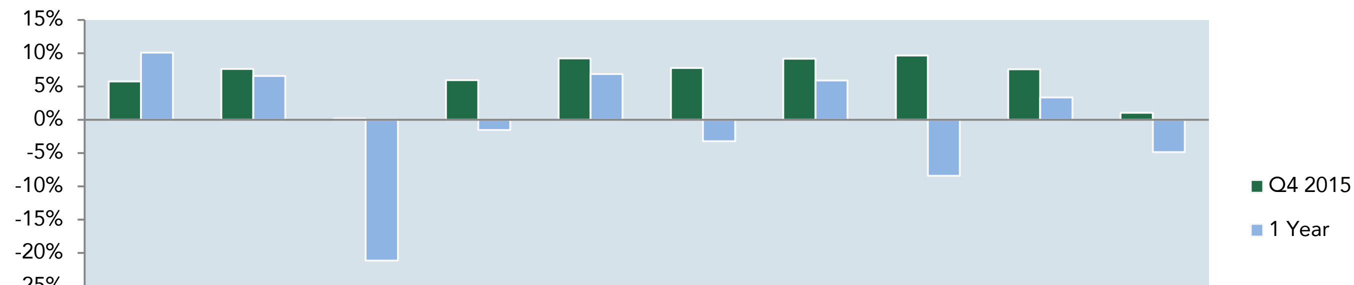
GLOBAL EQUITY REVIEW

- The S&P 500 returned 6.81% in Q4 2015 and 1.37% for the year. Returns this quarter were driven once again by Health Care and Information Technology sectors, but also by Consumer Staples and Industrials sectors. The Materials sector, which struggled throughout the year as commodity prices fell, put in the strongest performance of any sector, returning 9.69%. All sectors were positive for the quarter, although the Energy sector remained down over 21% for the year.
- Growth stocks outperformed value in Q4, although only by a small margin. For the calendar year 2015, growth outperformed value. In contrast to many investors' expectations, small cap stocks fared worse than large caps in both Q4 and 2015. The strong USD has not hurt US multinational corporate profits to the extent that some had feared.
- Global clean energy and clean tech stocks bounced back in Q4, although many have not made up for their third quarter losses. The S&P Global Clean Energy index returned 8.95% (-19.95% in Q3), while the AMEX Cleantech index returned 11.57% (-12.98% in Q3). The MAC Global Solar index returned 16.71% in Q4 after losing more than a third of its value in Q3. Importantly, the US federal government extended the Investment Tax Credit (ITC) for solar by five years and for wind by three years.
- The strongest market performers came from the wind sector. The NYSE Bloomberg Wind index returned 18.37% in Q4. The wind sector had a banner year, returning 29.02% as demand for wind assets remained strong.

S&P 500 Sector Performance as of 12/31/15



	Consumer Discret.	Consumer Staples	Energy	Financials	Health Care	Industrials	Information Technology	Materials	Telecom Services	Utilities
Q4 2015	5.79%	7.64%	0.20%	5.96%	9.22%	7.80%	9.17%	9.69%	7.61%	1.07%
1 Year	10.11%	6.60%	-21.12%	-1.53%	6.89%	-3.19%	5.92%	-8.38%	3.40%	-4.85%

Chart Data Source: Morningstar MPI.
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US Equity: Valuation Measures (as of 12/31/15)			Historical Averages			
Valuation Measure	Description	Latest	1 yr ago	5-yr avg.	10-yr avg.	25-yr avg.
P/E	Price to Earnings	18.25	18.25	16.12	16.51	19.60
CAPE	Shiller P/E	25.93	26.79	23.59	22.95	25.64
Div. Yield	Dividend Yield	2.15	1.95	2.04	2.11	2.05
P/B	Price to Book	2.83	2.60	2.31	2.41	2.83
P/CF	Price to Cash Flow	11.39	9.26	8.73	10.39	10.84
EY Spread	EY-Baa Yield	2.13	2.20	2.19	0.93	-1.25
Index: S&P 500						

Data Source: Bloomberg, Robert Shiller's website. Please see Appendix for definitions.
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THEMATIC IMPACT REVIEW

» For the past several decades temperature anomalies have consistently been to the upside (warmer) and in recent years have grown in magnitude. 2015 was the warmest year on record according to the National Oceanic and Atmospheric Administration (NOAA) and the National Aeronautics and Space Administration (NASA). Global temperatures were 1.62 degrees Fahrenheit above the 20th Century average.

» Fortunately, the global community is increasingly motivated to address climate change. The 21st Conference of the Parties (COP) in Paris saw almost 200 countries come together and agree to stem greenhouse gas emissions. The Paris Agreement states that countries will seek to keep average global temperatures from rising more than 2 degrees Celsius (3.6 degrees Fahrenheit) by 2100, and ideally ensuring that temperatures rise no more than 1.5 degrees Celsius.

Global Land and Ocean Temperature Anomalies, January-December

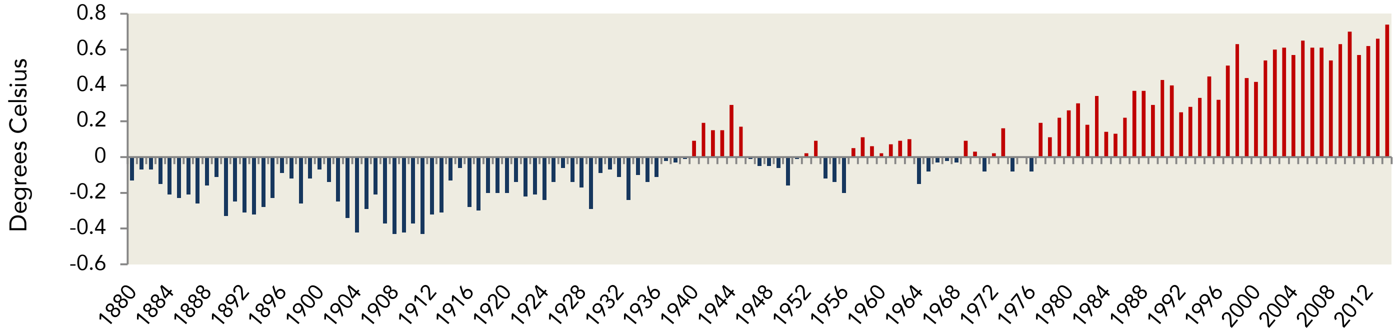


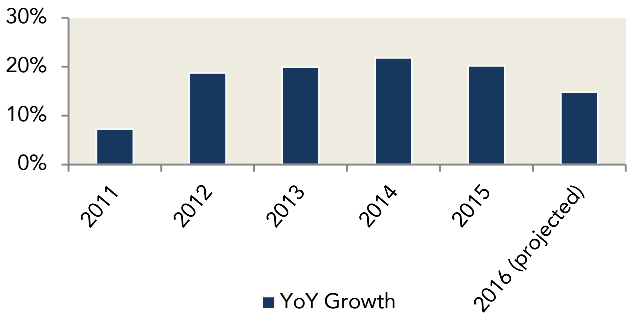
Chart Data Source: NOAA

» While clean energy has experienced a rough ride over the past year, the sector has managed to outperform traditional energy. The Mac Global Solar Index was down -12.98% in 2015 and the S&P Global Clean Energy Index returned -2.16%. In contrast, the Russell 3000 Energy sector and MSCI ACWI Energy sector returned -21.43% and -20.45%, respectively.

» Meanwhile, job growth in the solar sector has been strong over the past 5 years, and is expected to remain robust in 2016. The US solar industry now employs almost 210,000 people. 2015 saw job growth in the solar sector of 20%, compared with 1.7% across the broader economy (Renewable Energy World).

» The solar workforce is now larger than the US oil and gas extraction workforce, which employs approximately 187,000 people, and larger than the oil and gas pipeline construction industry, which employs 129,000 people. Solar employs more than three times the coal industry workforce, which stands at about 68,000 (Renewable Energy World).

Solar sector job growth outpacing broader economy job growth



Solar sector job growth outpacing broader economy job growth

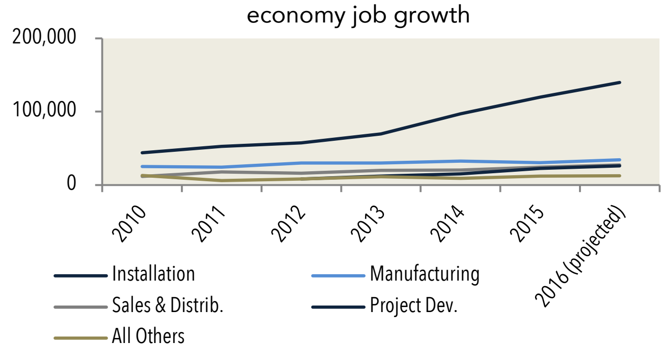


Chart Data Source: Bloomberg, Renewable Energy World

ASSET CLASS RETURNS

2007	2008	2009	2010	2011	2012	2013	2014	2015	4Q15
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	S&P 500 1.38	S&P 500 7.04
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	BC Agg 0.55	MSCI World ESG 5.53
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	Hedge FOF -0.05	MSCI World 5.50
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 -0.39	MSCI ACWI IMI 4.91
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	MSCI World -0.87	MSCI EAFE 4.75
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 ESG -1.11	MSCI EME 0.73
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 ACWI IMI -2.19	Hedge FOF 0.53
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	High Yield -4.47	EM Debt -0.01
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	MSCI EME -14.60	BC Agg -0.57
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	EM Debt -14.92	High Yield -2.07
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 -24.66	DJ UBS Cmdty -10.52

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

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APPENDIX

- Asia High Yield: Barclays Capital Asia USD High Yield Bond Index
- BC EM Hard Currency: Barclays Capital Emerging Markets Hard Currency Aggregate 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 Corp: Barclays Capital Global Aggregate Corporate Bond Index
- BC Global Agg: Barclays Capital Global Aggregate Bond Index
- BC Municipal: Barclays Capital US Municipal Bond Index
- BC US Agg Credit: Barclays Capital United States Aggregate Credit Total Return Index
- BC US Agg: Barclays Capital US Aggregate Bond Index
- BC US Corporate High Yield: Barclays Capital United States Corporate High Yield Total Return Index
- BC US Treasury: Barclays Capital United States Treasury Total Return Index
- CAPE: Shiller P/E (Cyclically Adjusted PE) from Robert Shiller's website http://www.multpl.com/shiller-pe/
- China PMI: Purchasing Manager's Index
- Div. Yield: Dividend Yield
- EM Local Currency Spread: Barclays EM Local Currency Government Index Yield To Worst minus US 5-yr Treasury Yield
- EU PMI: Europe Purchasing Manager's Index
- Europe HY: Barclays Capital Europe High Yield Bond index
- 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)
- Fed Funds: US Federal funds rate
- Japan Consumer Confidence: Values above 50 indicate more households think economic conditions are improving, andalues below 50, worsening. Sample Size: Approximately 8,400 households
- Japan Small Business Confidence: Target Audience: medium and small companies. Sample Size: 1,000 companies (450 from manufacturing industry, 550 from non-manufacturing)
- MSCI AC Europe: MSCI All Country Europe Index
- MSCI ACWI: MSCI All Country World Index

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APPENDIX CONTINUED

- MSCI Emerging Markets (EM): MSCI Emerging Markets Index
- Nikkei 225: Nikkei 225 Stock Average
- P/B: Trailing 12 months price to book ratio
- P/CF: Trailing 12 months price to cash flow ratio
- P/E: Trailing 12 months price to earning ratio
- Real Wage Growth: Tracks total weekly remuneration (in cash or in kind) paid to employees in return for work done (or paid leave)
- S&P 500: Standard and Poor's 500 Index
- Shanghai Composite: Shanghai Stock Exchange Composite Index
- US CEO Confidence: Tracks the general state of the economy as it relates to businesses. It can include broad economy-wide conditions or specific economic conditions of a particular industry
- US Consumer Confidence: Conference Board Consumer Confidence survey. Target Audience: random sample of U.S. households. Sample Size: approx. 3,000 households
- US HY: Barclays Capital US High Yield Bond index
- US PMI: US Purchasing Managers Index
- US unemployment: According to US Bureau of Labor Statistics, U-3 unemployment is the total unemployed, as a percentage of the civilian labor force. This is the definition used for the official unemployment rate

IMPORTANT DISCLOSURE