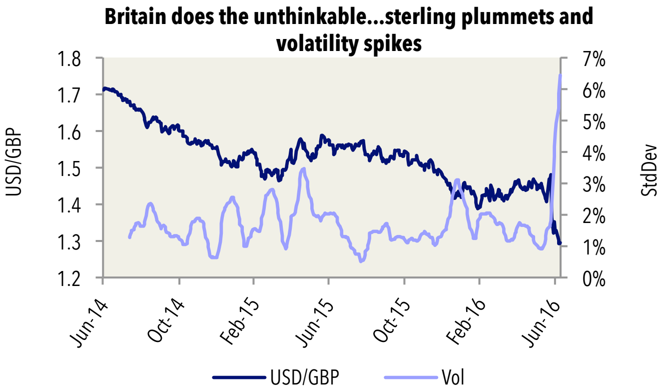
GLOBAL ECONOMIC REVIEW

» Q2 2016 will be remembered as the quarter that Britain stunned the world by voting to exit the European Union. The weeks up to Brexit were volatile, but in the days prior to the event Sterling and risk assets rallied on the belief that Britain would stay in the Union. In the wake of the exit vote, however, risk assets fell sharply. The British pound lost almost 15% in value relative to the USD over the course of a few days. GBP has recovered slightly, but this still constitutes a massive devaluation and a significant shock to the UK economy. Global markets have also recovered, but we expect periodic volatility as the European Union irons out the details of the exit over the coming years.

» US GDP growth seems largely on track despite slow global growth and inflation. Core consumer price inflation, which strips out the more volatile food and energy price fluctuations, has been consistently positive in the US for several years. While inflation has not reached the Federal reserve`s target, the Central Bank has not ruled out a modest rate hike at one of its next several meetings. However, even if the Fed raises rates slightly, financial conditions in the US are likely to remain quite loose relative to the historical average.



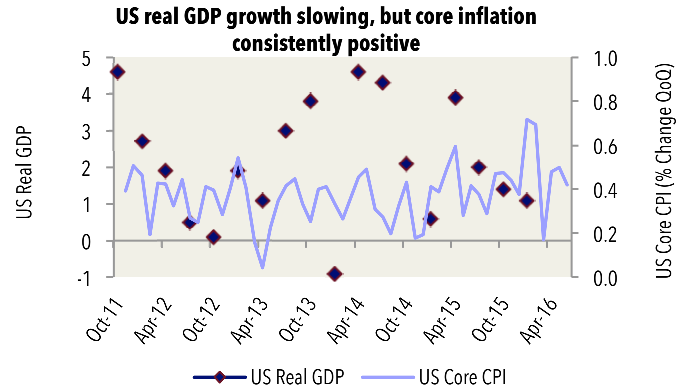


Chart Data Source: FRED, Sonen Calculations

» Meanwhile, other central banks – particularly Japan and Europe – continue with aggressive monetary easing policies. These measures have had dramatic effects on global bond markets, pushing yields down and forcing many yield-seeking investors into increasingly risky sectors. According to some estimates, there are now approximately $13 trillion in negative-yielding bonds outstanding worldwide. Until a few years ago, few investors would have thought such a scenario possible. Extremely low yields put bond investors at risk to potentially steep losses when sovereign bonds sell off.

» While not at the top of investors' minds currently, we believe it is important to keep a close eye on how China manages its ongoing transition from an investment- and export-led economy to a services- and import-led economy. Over the course of the last nine months, the Chinese government has allowed a slow and orderly depreciation of the Yuan. The currency has depreciated almost 8% relative to the USD over the past year, more than double the amount of the shock devaluation last August. We expect the Chinese government to continue managing the currency closely as they navigate these fundamental macroeconomic shifts.

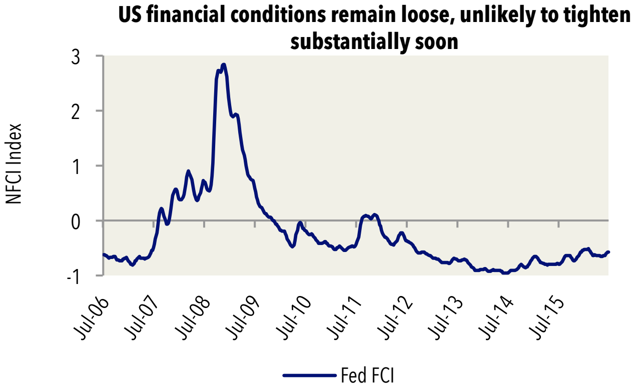


Chart Data Source: FRED.

GLOBAL FIXED INCOME REVIEW

- Yet another surprise in financial markets in 2016 has been the robust performance across fixed income markets. With yields already compressed at the beginning of the year (and even lower at the beginning of Q2), markets were relatively bearish on prospects for fixed income, especially in developed markets. Nevertheless, low-yielding sovereigns, such as long-term Japanese Government Bonds, have performed very well so far this year. We have also seen strong returns across most other fixed income sectors.
- Macroeconomic concerns, such as Brexit, and the easing policies of major central banks, sent bond yields tumbling in Q2. Given the current stance of global central banks and sluggish global growth, we believe that there is little on the horizon to pull yields higher, other than the potential for a US rate hike later in 2016 or early 2017.

Fixed income sector performance: Q2 2016

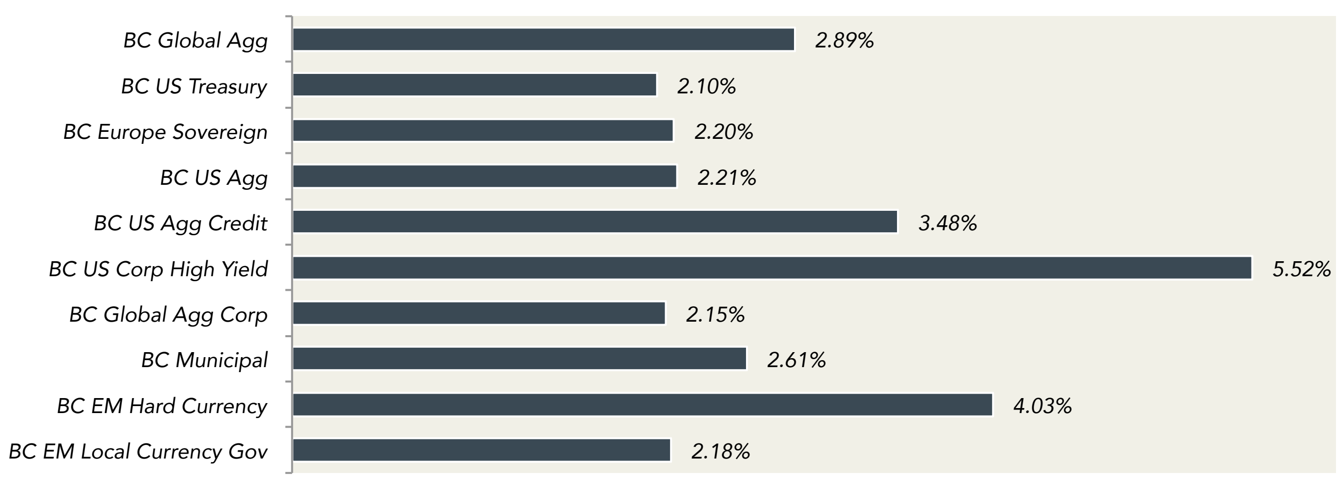
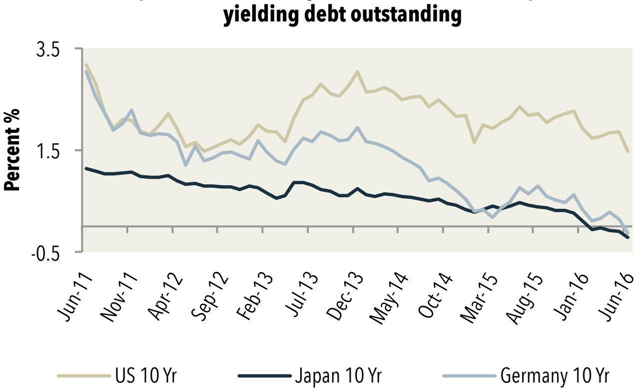


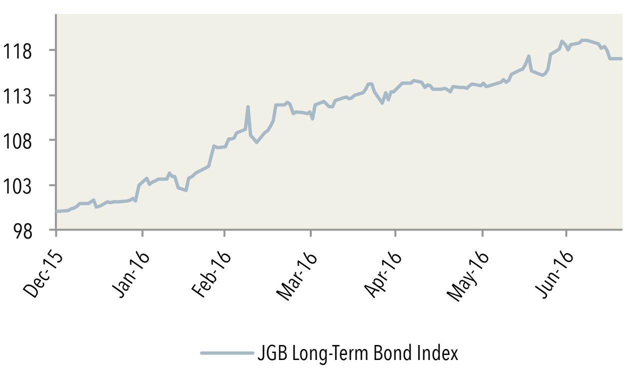
Chart Data Source: Barclays, Bloomberg.
Past performance is no indication of future results. Index returns and sector returns are for illustrative purposes only and do not represent the return of any particular investment. Indices are unmanaged. Index performance returns include the reinvestment of dividends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

- Major developed markets are now seeing their 10-year bond yields dip below 0% yield, and even the 30-year bond in Japan is very close to reaching a negative yield. The Bank of Japan is finding it extremely difficult to stoke inflation and get the Japanese economy growing at a healthy pace.
- By contrast, US long-term bonds offer significantly higher yields and, in our opinion, much more attractive risk/reward characteristics, both of which continue to create a strong bid for US Treasuries.

Long-term bonds now part of $13 trillion in negative yielding debt outstanding



Defying expectations, 10+ year JGBs have returned 17% in 2016



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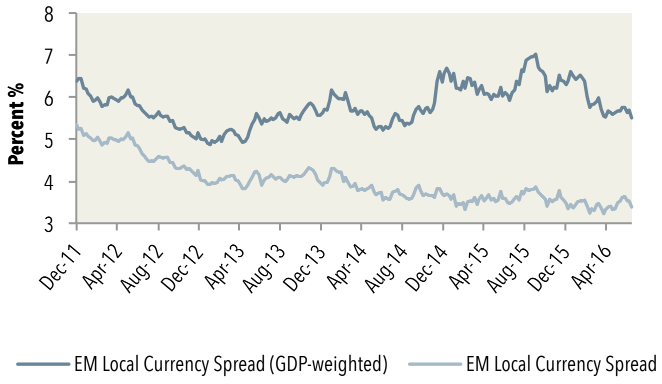
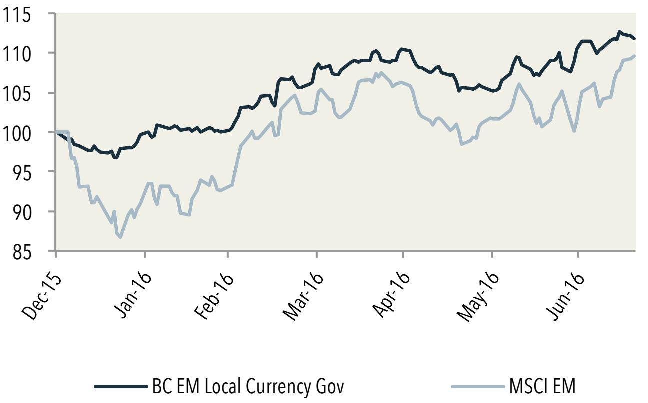
GLOBAL FIXED INCOME REVIEW

- 2016 has been a solid year for emerging markets, notwithstanding periodic macroeconomic headwinds. Extremely low (negative) yields in developed markets, along with highly accommodative monetary policy from major central banks, have continued to push investors into assets with yield.
- After several years of wretched performance, EM assets have come back into favor recently and have rallied strongly since their lows in early 2016. Spreads continue to fall across many emerging markets, and EM bonds have actually outperformed EM equities so far this year. In the second quarter, EM bonds returned 2.18%. EM equities returned -1.46% in Q2 but are up more than 26% since the low in January.

Emerging markets continue to weather macroeconomic storms...with declining spreads



EM bonds have outpaced EM equities in 2016



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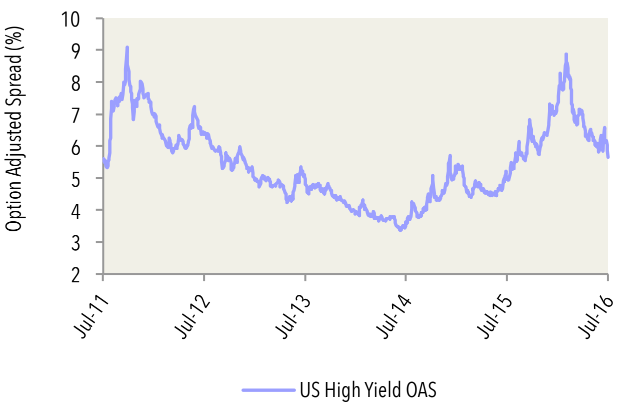
- High yield bonds also performed well again in the second quarter, bringing the Barclays US High Yield index returns to about 9% for the year, despite the negative, risk-off environment and energy sector volatility at the beginning of 2016.
- Both HY and EM have been buoyed by crude oil's 75% rally and stability in the US dollar. However, there are still large risks to the downside for oil, EM, and corporate credit, particularly if oil prices slide again, or if the dollar strengthens substantially.
- In the meantime, higher oil prices have acted to stabilize some of the riskier high yield companies, and have reduced immediate concerns over the ability of oil-exporting emerging market countries to pay their USD-denominated debts.

HY spreads still dropping despite Brexit uncertainty...



Crude up 75% since bottom...helping to stabilize EM and credit

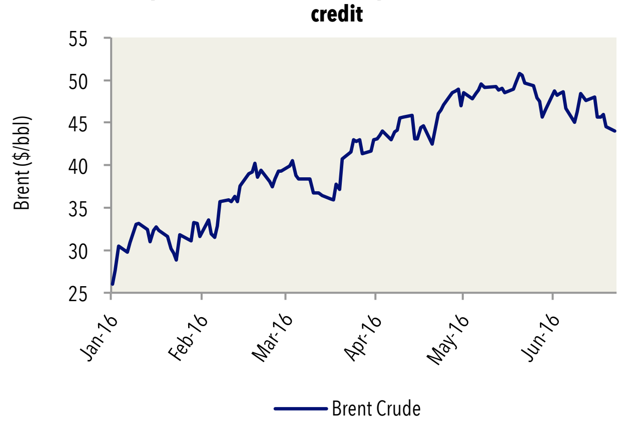


Chart Data Source: FRED.
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GLOBAL EQUITY REVIEW

» Global equities were positive for the quarter, with the MSCI ACWI IMI index returning 1.06%, although investors were treated to a peak-to-trough drawdown of more than 7% in the wake of the UK's vote to leave the European Union.

» The MSCI Europe index fell again in Q2, returning -1.76%. The index fell more than 10% following the Brexit vote, only to bounce back almost 7% before the end of the quarter. We believe European markets will see periodic volatility as the EU determines the conditions under which Britain will leave the Union, and as the region determines the extent to which Brexit will negatively impact GDP growth.

» Japanese equities dropped again, with the MSCI Japan index losing -7.92% over the quarter. Valuations have dropped significantly in Japan over the past year as the market has lost more than 20% in value.

» The MSCI EM index, however, rallied over the quarter, returning 21.54% since its bottom in January. The index returned 5.36% overall for the quarter as investor appetite for EM risk increased. Markets generally seem to view Emerging Markets as much more economically stable now, compared with their financial condition in previous periods of uncertainty.

Global Equity: Valuation Measures (as of 6/30/16)

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	19.99	2.70	2.01	8.23	16.80	2.65	1.97	9.19
MSCI Europe	26.34	3.86	1.64	6.44	18.70	3.67	1.75	8.51
Nikkei 225	18.30	2.05	1.44	7.63	21.66	1.69	1.51	9.27
Shanghai Composite	16.12	2.07	1.62	4.45	19.14	1.83	2.44	49.65
MSCI Emerging Markets	14.59	2.78	1.45	5.64	13.33	2.65	1.77	8.02

Data Source: Bloomberg.

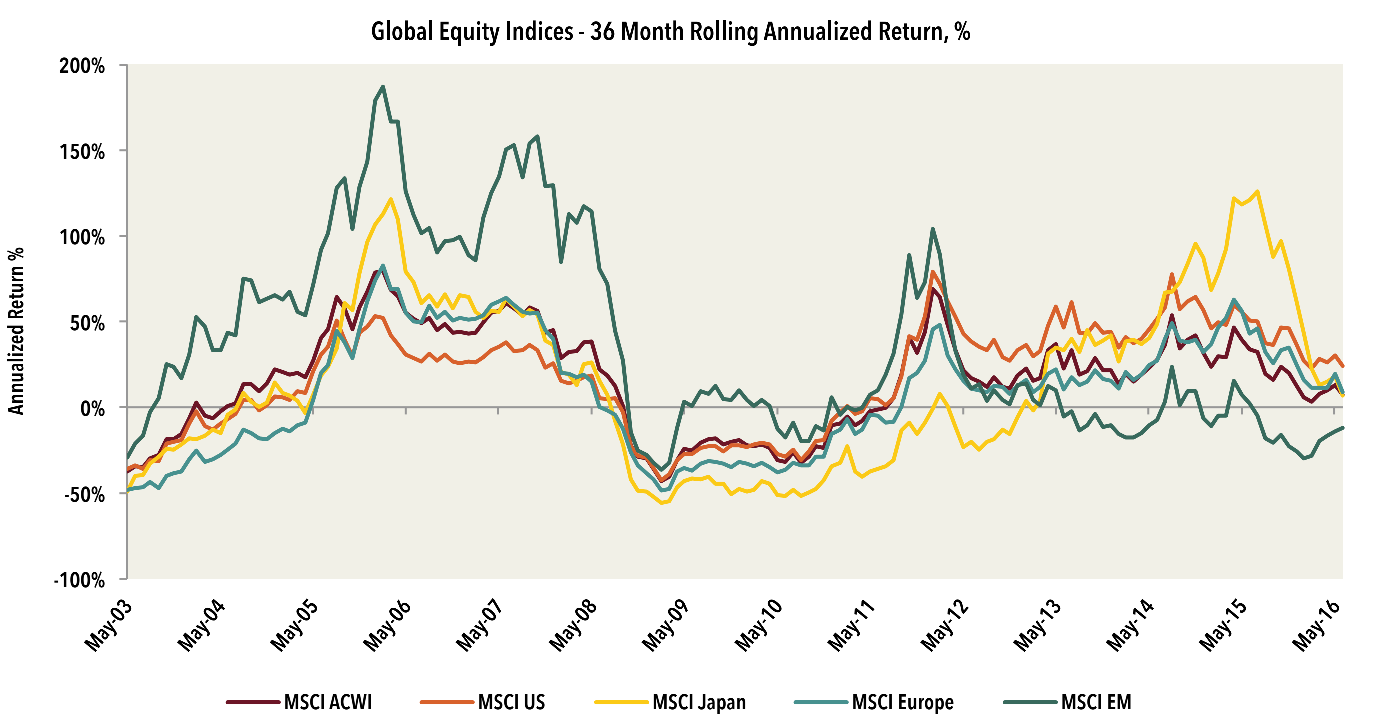

Chart Data Sources: Bloomberg
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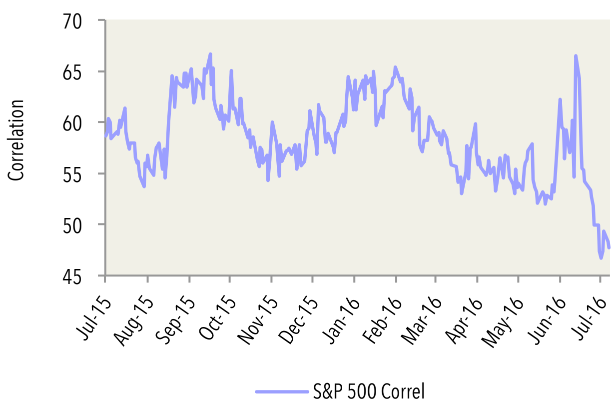
GLOBAL EQUITY REVIEW

- The MSCI US index appreciated 2.05% in Q2, once again outperforming other global markets. European banks, already under pressure since the beginning of the year, saw extreme weakness following Brexit. The MSCI Europe Banks index lost 21% immediately following the vote and was down -11.61% for the quarter. The MSCI US Banks index, much less exposed to issues in Europe, lost *only* 10% after the vote, and actually gained 1.32% for the quarter.
- Active managers will be pleased that the correlation between stocks in at least one of the major benchmarks appears to be falling. A lower correlation means that stocks in the index are less likely to move in lockstep, and can create opportunities for active managers to add value through stock selection.
- Across the globe, the MSCI Growth index returned 0.74%, while the MSCI Value returned 1.24%. It is far too early to determine whether we are witnessing a shift from growth to value, but it is certainly notable that value stocks outperformed growth in a volatile quarter.

S&P 500 implied correlation falling



US Banks struggle, but outperform European

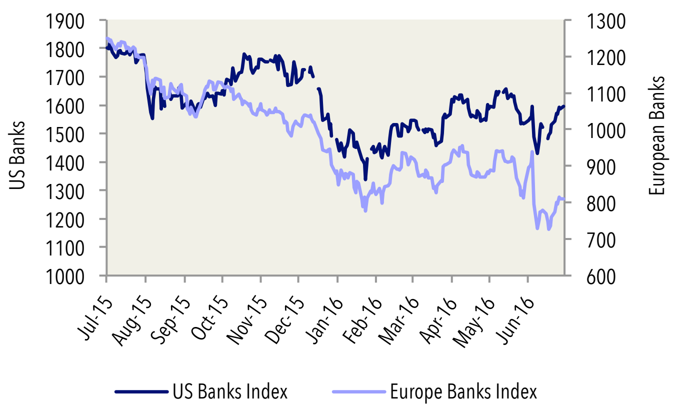


Chart Data Source: FRED, Quandl
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- Valuations in US markets continue to run high, as measured by P/E. Certain other indicators, however, indicate that valuations may not be as outrageous as some think.
- Cyclically adjusted PE has dropped since last year, albeit a small amount, and other ratios have fallen as well. The spread between the earnings yield on equities and the yield on Baa corporate bonds has also declined.

US Equity: Valuation Measures (as of 6/30/16)			Historical Averages			
Valuation Measure	Description	Latest	1 yr ago	5-yr avg.	10-yr avg.	25-yr avg.
P/E	Price to Earnings	19.51	18.60	16.54	16.69	19.69
CAPE	Shiller P/E	26.17	26.38	23.88	22.92	25.83
Div. Yield	Dividend Yield	2.18	2.05	2.07	2.13	2.03
P/B	Price to Book	2.58	2.67	2.37	2.41	2.85
P/CF	Price to Cash Flow	9.95	10.61	9.06	10.34	10.89
EY Spread	EY-Baa Yield	1.38	1.89	2.34	1.10	-0.96

Index: S&P 500

Data Source: Bloomberg, Multpl.com.

THEMATIC IMPACT REVIEW

» The costs for solar and wind energy generation continue to come down. Expectations are that costs for both will fall substantially further by 2025, increasing the competitiveness of these renewable energy sources relative to traditional energy.

» Furthermore, we expect solar and wind efficiency to improve significantly over the same period, meaning that these technologies will be cheaper, cleaner and more efficient than traditional energy sources.

Global weighted average solar and wind power investment costs, capacity factors and LCOEs, 2015 and 2025

	Global weighted average data								
	Investment costs (2015 USD/kW)		Percent change	Capacity factor		Percent change	LCOE (2015 USD/kWh)		Percent change
	2015	2025		2015	2025		2015	2025	
Solar PV	1810	790	-57%	18%	19%	8%	0.13	0.06	-59%
CSP (PTC: parabolic trough collector)	5550	3700	-33%	41%	45%	8%	0.15	0.09	-37%
CSP (ST: solar tower)	5700	3600	-37%	46%	49%	8%	0.15	0.08	-43%
Onshore wind	1560	1370	-12%	27%	30%	11%	0.07	0.05	-26%
Offshore wind	4650	3950	-15%	43%	45%	4%	0.18	0.12	-35%

[1] All financial data is quoted in real, 2015 USD values, unless expressly stated otherwise. Exchange rates used are taken from the World Bank or European Central Bank official statistics. A discussion of how IRENA calculates LCOEs can be found in IRENA (2015), Renewable Power Generation Costs in 2014. IRENA assumes a real weighted average cost of capital of 7.5% in OECD countries and China and 10% elsewhere.

[2] Changes to 2025 reflect technological drivers and changes in the share of deployment by region for solar PV and wind. 2025 figures and percent changes are estimated.

Chart Data Source: IRENA (http://www.irena.org/DocumentDownloads/Publications/IRENA_Power_to_Change_2016.pdf)

» As a result of these cost reductions and efficiency improvements, renewables continue to grow globally, both in terms of capacity and production.

» Over the long run, we expect these trends to continue as renewables slowly displace traditional sources of energy. In the short run, however, low fossil fuel prices may negatively impact the uptake of renewable energy technologies.

Growth in total global renewable energy capacity and production

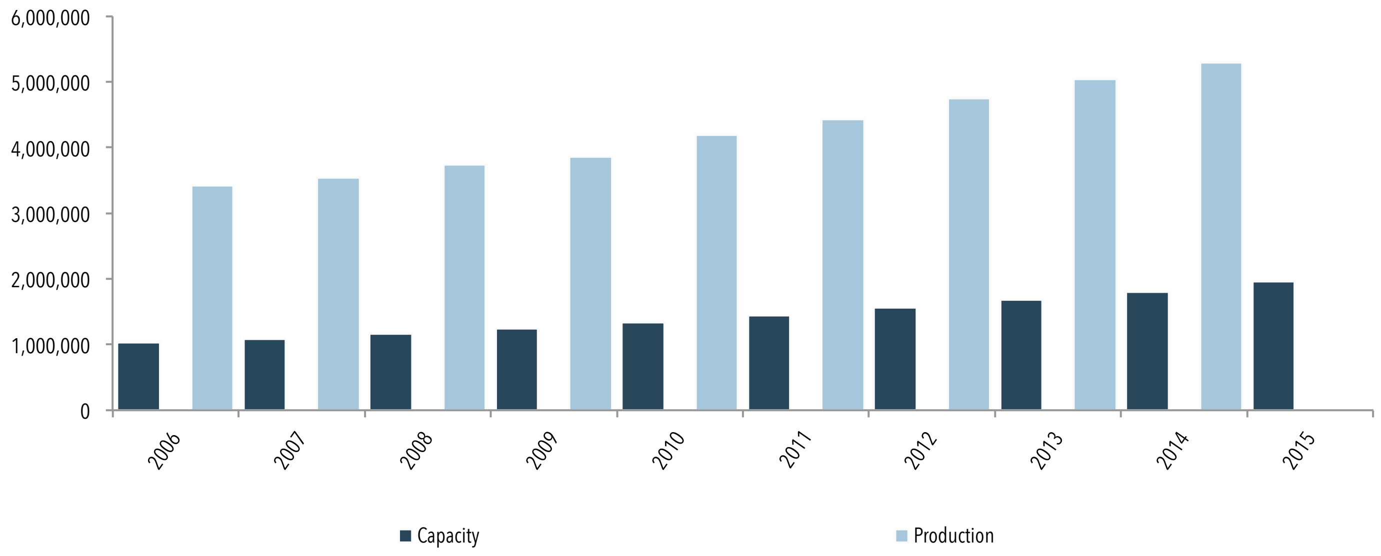

Chart Data Source: IRENA (http://www.irena.org/DocumentDownloads/Publications/IRENA_RE_Statistics_2016.pdf)

ASSET CLASS RETURNS

2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD	2016
S&P Gbl Clean Energy 78.36	BC Agg 5.24	MSCI EME 79.02	MSCI EME 19.20	BC US Corp IG 8.15	MSCI EME 18.63	S&P Gbl Clean Energy 48.42	S&P 500 13.69	S&P Gbl Clean Energy 1.85	EM Debt 14.02	DJ UBS Cmdty 12.78
MSCI EME 39.78	BC Global Agg 4.79	MSCI EAFE 32.46	DJ UBS Cmdty 16.83	BC Agg 7.84	MSCI ACWI ex Fsl Fuels 18.00	S&P 500 32.39	BC US Corp IG 7.46	S&P 500 1.38	DJ UBS Cmdty 13.25	BC US Corp IG 3.57
EM Debt 18.11	BC US Corp IG -4.94	S&P 500 26.46	EM Debt 15.68	BC Global Agg 5.64	MSCI EAFE 17.90	MSCI ACWI ex Fsl Fuels 24.36	MSCI ACWI ex Fsl Fuels 6.05	BC Agg 0.55	BC Global Agg 8.96	BC Global Agg 2.89
DJ UBS Cmdty 16.23	EM Debt -5.22	EM Debt 21.98	S&P 500 15.06	S&P 500 2.11	EM Debt 16.76	MSCI EAFE 23.29	BC Agg 5.97	MSCI EAFE -0.39	BC US Corp IG 7.68	EM Debt 2.71
MSCI EAFE 11.63	DJ UBS Cmdty -35.65	DJ UBS Cmdty 18.91	BC US Corp IG 9.00	EM Debt -1.75	S&P 500 16.00	BC US Corp IG -1.53	BC Global Agg 0.59	MSCI ACWI ex Fsl Fuels -0.49	MSCI EME 6.60	S&P 500 2.46
BC Global Agg 9.48	S&P 500 -37.00	BC US Corp IG 18.68	MSCI EAFE 8.21	MSCI ACWI ex Fsl Fuels -7.50	BC US Corp IG 9.82	BC Agg -2.02	MSCI EME -1.82	BC US Corp IG -0.68	BC Agg 5.31	BC Agg 2.21
BC Agg 6.97	MSCI EAFE -43.06	S&P Gbl Clean Energy 7.35	BC Agg 6.54	MSCI EAFE -11.73	BC Global Agg 4.32	MSCI EME -2.27	MSCI EAFE -4.48	BC Global Agg -3.15	S&P 500 3.84	MSCI EME 0.80
S&P 500 5.49	MSCI EME -53.18	BC Global Agg 6.93	BC Global Agg 5.54	DJ UBS Cmdty -13.32	BC Agg 4.22	BC Global Agg -2.60	S&P Gbl Clean Energy -4.63	MSCI EME -14.60	MSCI ACWI ex Fsl Fuels 0.26	MSCI ACWI ex Fsl Fuels 0.43
BC US Corp IG 4.56	S&P Gbl Clean Energy -65.28	BC Agg 5.93	S&P Gbl Clean Energy -27.63	MSCI EME -18.17	DJ UBS Cmdty -1.06	EM Debt -8.98	EM Debt -5.72	EM Debt -14.92	MSCI EAFE -4.04	MSCI EAFE -1.19
MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	S&P Gbl Clean Energy -44.47	S&P Gbl Clean Energy -16.15	DJ UBS Cmdty -9.52	DJ UBS Cmdty -17.01	DJ UBS Cmdty -24.66	S&P Gbl Clean Energy -9.46	S&P Gbl Clean Energy -4.28

DJ UBS Cmdty = Dow Jones-UBS Commodity Index
MSCI EAFE = MSCI EAFE Index
MSCI EME = MSCI EM Equity Index
S&P 500 = S&P 500 Index
S&P Gbl Clean Energy = S&P Global Clean Energy Index

EM Debt = JP Morgan GBI EM Global Diversified Unhdged
BC Agg = Barclays Capital US Aggregate Bond Index
MSCI ACWI ex Fsl Fuels = MSCI ACWI ex Fossil Fuels Index
BC Global Agg = Barclays Capital Global Aggregate Bond Index
BC US Corp IG = Barclays Capital US Corporate Bond Index

Chart Data Source: Morningstar, MPI.
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APPENDIX

- 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/
- CPI: US Consumer Price Index
- CSP: Concentrated Solar Power
- Div. Yield: Dividend Yield
- 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 FCI: Federal Reserve National Financial Conditions Index
- FRED: Federal Reserve Bank of St. Louis
- IRENA: International Renewable Energy Association
- JGB Long-Term Bond index: Barclays Capital Japanese Government 10+ Bond index
- MSCI ACWI: MSCI All Country World Index
- MSCI Emerging Markets (EM): MSCI Emerging Markets Index
- MSCI Europe: MSCI All Country Europe Index

APPENDIX CONTINUED

- MSCI Growth: MSCI World Growth Index
- MSCI Japan: MSCI Japan Index
- MSCI US: MSCI United States Index
- MSCI Value: MSCI World Value Index
- NCFI: Federal Reserve National Financial Conditions 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
- S&P 500 Implied Correlation: Option implied correlation between stocks in the S&P 500 Index
- Shanghai Composite: Shanghai Stock Exchange Composite Index
- Solar PV: Solar Photovoltaic
- US HY: Barclays Capital US High Yield Bond index

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