

NEPC 2019 MARKET OUTLOOK

THEMES AND OPPORTUNITIES

January 24, 2019



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

SPEAKERS

	<p>Phillip Nelson, CFA Partner</p>
	<p>Christopher Levell, ASA, CFA, CAIA Partner</p>
	<p>KC Connors, CFA, CAIA Partner</p>

AGENDA

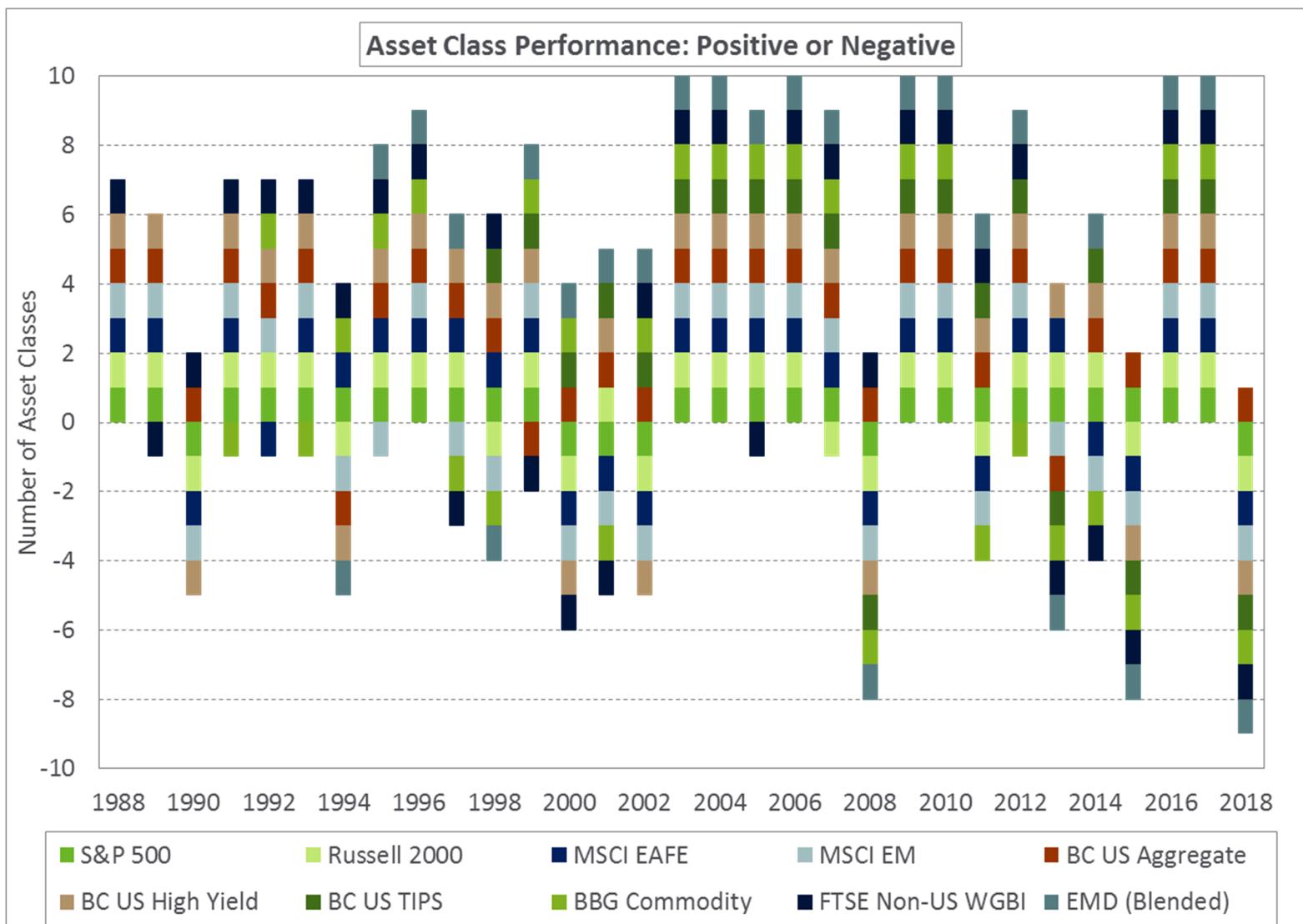
- **2018 Review**
- **NEPC Update**
- **Key Market Themes**
- **Current Opportunities**
- **Meeting Clients Where They Are**
- **Your Questions**



2018 REVIEW

NEPC, LLC

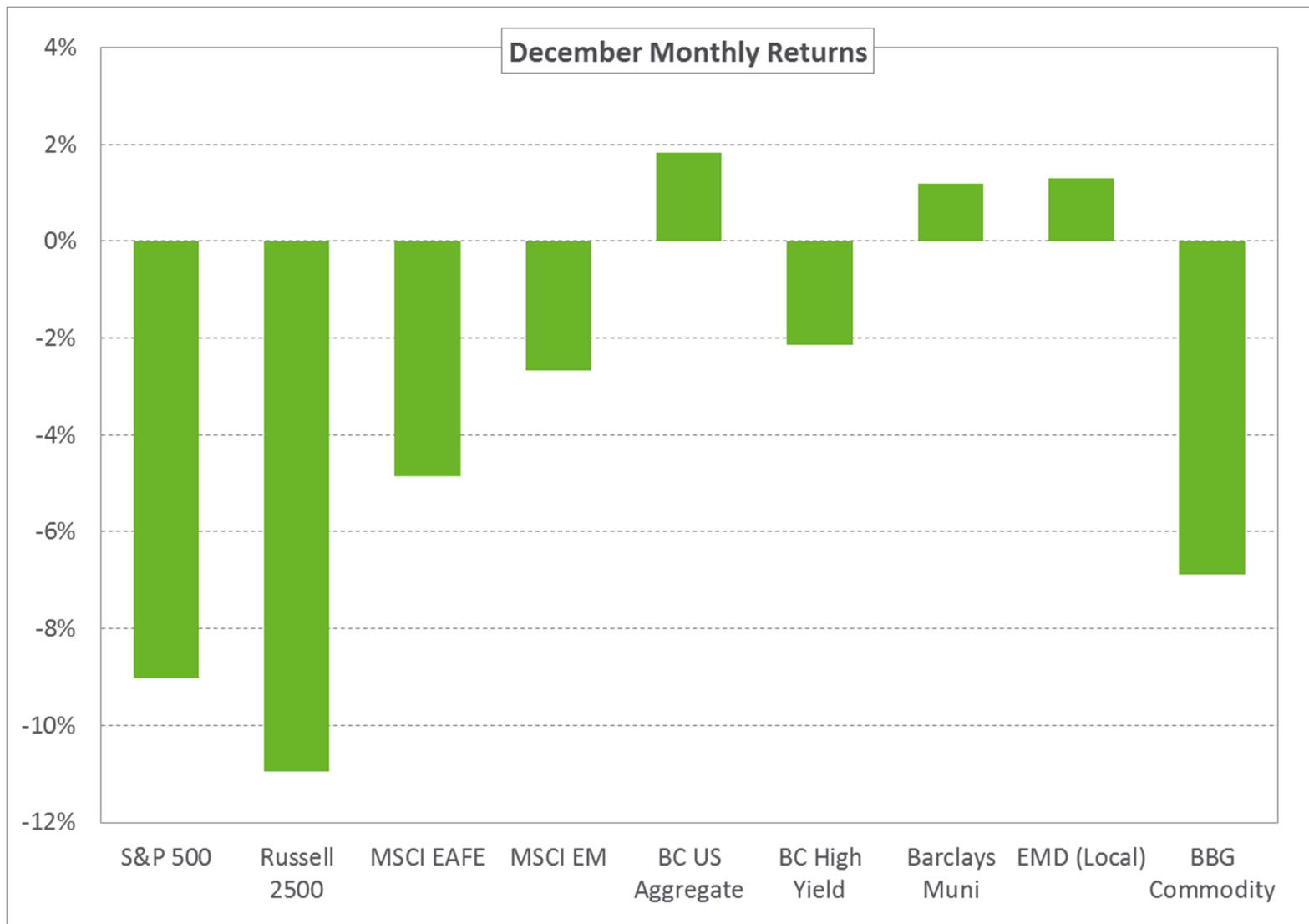
CALENDAR YEAR PERFORMANCE ACROSS ASSETS



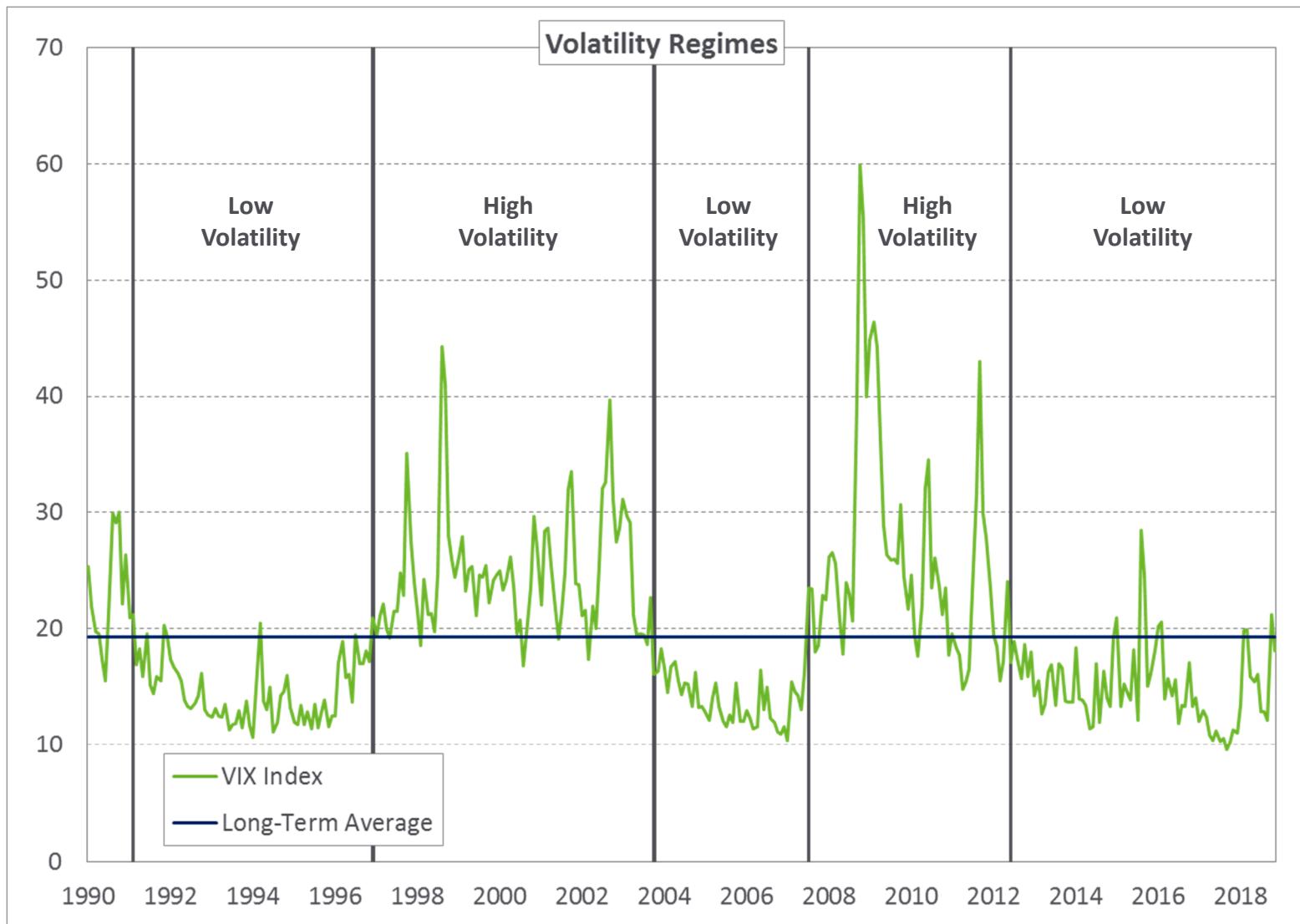
Source: S&P, Russell, MSCI, Barclays, Bloomberg, JP Morgan, FTSE



DECEMBER MARKET SELL-OFF



BRACE FOR HIGHER VOLATILITY IN 2019



Source: S&P, CBOE, Bloomberg, NEPC



NEPC UPDATE

NEPC, LLC

ABOUT NEPC

OUR GOAL IS TO BE THE “CONSULTANT OF CHOICE”

288 Employees

8 Regional Offices

**Employees-owned
41 Partners**

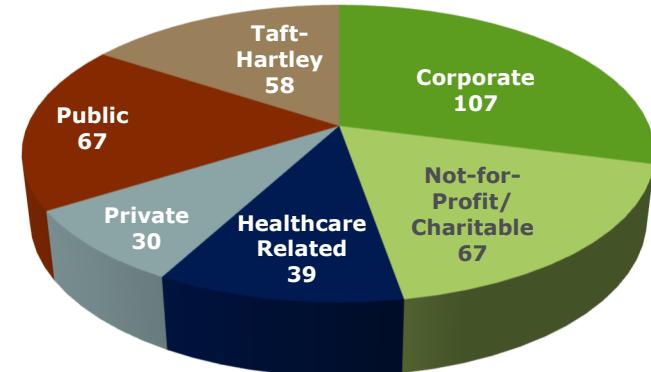
**100% of Revenue
advisory and discretionary
consulting services**

**7 Practice Groups
deliver expertise by client type**

362 Clients

**\$1.0 trillion
assets under advisement**

Total Clients



As of 9/30/2018, includes 51 clients with discretionary assets of \$17.7 billion.



BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | PORTLAND | SAN FRANCISCO

OUR FOCUS

FEEL SMALL BUT BE BIG

FEEL SMALL

- Be flexible and customized in our partnership with you
- Dedicated segment experts to anticipate your needs
- Identify niche managers and investment ideas

BE BIG

- Have deep resources at your disposal
- Benefit you by using our size for manager fees and access
- Share learnings and insights from all client segments



GROWTH IN LEADERSHIP

New Partners

	Kristen Colvin, CAIA Defined Contribution
	Kristine Pelletier Endowments & Foundations
	Lenia Ascenso Director of Discretionary Services
	Sarah Samuels, CFA, CAIA Director of Traditional Research

New Principals

	Andrew Brett, CAIA Director of Real Assets
	Stacey Flier, CFA Private Wealth
	Matthew Rowell Insurance
	Gary Wyniemko, CFA Healthcare



Welcome, Intelligent Investor

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[Admin](#)

[My Profile](#)

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WELCOME TO CLIENTHUB

[Client Deliverables](#)

[NEPC Published](#)

[My Research Write-Ups](#)

[Focused Placement Lists](#)

Global Equity Strategies

List Name: Global Equity

Asset Class: Global Equity

Capitalization: All Cap

Beta Group: Equity

Investment Firm	Investment Strategy	Due Diligence Rating	Due Diligence Status
Manager 1	Strategy Manager 1	1	1. No Action
Manager 2	Strategy Manager 2	1	1. No Action
Manager 3	Strategy Manager 3	1	1. No Action

Global Equity Opportunities Strategy

Strategy Information

Strategy Name: Global Equity Opportunities

Investment Firm: Manager ABC, LLC

Asset Class: Global Equity

Current DD Status: 1. No Action ([what is this?](#))

Current DD Rating: 1 ([what is this?](#))

Beta Group: Equity

[NEPC Opinion](#)

[Research Write-Ups](#)

[DD Events](#)

[eVestment Narratives](#)

Manager ABC Global Update

[Download PDF](#)

This manager meeting note reflects our best effort to summarize a meeting between NEPC and representatives from an outside investment organization. This meeting note is not a full due diligence profile of the investment management firm, strategy or strategies described in the note. This note was prepared by and is the property of NEPC. It is provided for informational purposes only, and may not be re-distributed. The opinions expressed in the note should not in any way be considered a recommendation. It should not be construed as an offer to sell or the solicitation of an offer to buy the securities or instruments mentioned. Any information contained herein is subject to change at any time. For more information or a full profile of the investment manager or strategy (if available), please contact your NEPC consultant.

Investment Firm: JENNISON ASSOCIATES LLC

Meeting Date: 02/16/2018

NEPC Author: Kiersten Christensen

Location: At Manager/Vendor

Primary Topic: Various Assets

Meeting Type: Update

Manager Representatives: Mark Baribeau, CFA, PM; Tom Davis, MD, PM; Owuraka Koney, CFA, MD, Analyst; Natasha Kulkin, CFA, MD, LCG PM; Kathleen McCarragher, MD, LCG PM; Kerry Shanley, CFA, Client Relations; Doug Richardson,

Analyst Opinion

Summary Opinion: Both LCG and Global Opps are on our FPLs - LCG since 2009 and Global Opps since 2014. Nothing changes on their FPL statuses but I do see LCG getting long in the tooth, now up to \$60bn in assets. They vehemently feel nothing has changed in their ability to find strong LCG investment ideas. They have been diligently working to allay succession concerns by having a large PM team for LCG (7 vs the normal 4 - 6 range) and a strong set of younger, but experienced analysts. Putting aside that Sig Segalas (now 84!) will leave at some point, it seems likely that some of the senior seasoned PMs will as well. With a large PM team in place, they feel confident the LCG process will remain business as usual.

In Global Opps (GO) you are getting the stock picking success and experience of Mr. Baribeau and Mr. Davis who brought over their product and expertise from Loomis. They have been successfully working together for a long time and know what they do and don't like and are able to go against market assumptions getting into good ideas early. They spend most of their time in New York but are also in Boston. Their two EM analysts are in Boston as well.

Positives:

1. Experienced team of analysts and PMs that have driven long term performance with a high IR, thus investors are getting paid for the risk. New analyst hires are always very experienced; not junior people that need to be trained.
2. Both products have done their best to have clear succession paths should anything happen to head PMs.

KEY MARKET THEMES

NEPC, LLC

THEMES AND OPPORTUNITIES

Key Market Themes

Key Market Themes are factors that define global markets and can be expected to both evolve and remain relevant without a clear timeline of conclusion. **At times, themes may be challenged or disrupted and generate market volatility. The conclusion of a theme likely alters both market dynamics and our market outlook.** Our intent is for clients to be aware of these themes and understand their implications for asset allocation and portfolio implementation.

Current Opportunities

Current Opportunities are investment ideas that represent an action with the goal of improving investment outcomes relative to an investor's strategic asset allocation. It is not our intent that the full list of opportunities be implemented. Rather, we encourage a focus on the actions that offer a material benefit to each client's strategic allocation relative to their unique objectives and constraints. These investment ideas are likely to change more frequently as market dynamics and valuations shift over time.



2018 THEMES AND OPPORTUNITIES

Key Market Themes

- ~~Extended US Economic Cycle~~
- ~~Synchronized Economic Resurgence~~
- ~~Federal Reserve Gradualism~~
- China Transitions
- Globalization Backlash

Current Opportunities

- ~~Trim US Equity Gains~~
- ~~Overweight Non-US Developed Market Equities~~
- Maintain a Market Overweight to Emerging Market Equities
- ~~Allocate to TIPS from Core Bonds~~
- ~~Reduce Return Seeking Credit Exposure~~
- Fund Emerging Local Debt
- ~~Add Macro Hedge Funds~~
- Add Long Volatility Exposure



2019 THEMES AND OPPORTUNITIES

Key Market Themes

Late Cycle Dynamics

Tightening Global Liquidity

China Transitions

Globalization Backlash

Current Opportunities

Rebalance Developed Market Equities

Raise Safe-Haven Fixed Income Exposure

Reduce Lower Quality Credit Exposure

Maintain Overweight to Emerging Market Equities

Add Long Volatility Exposure

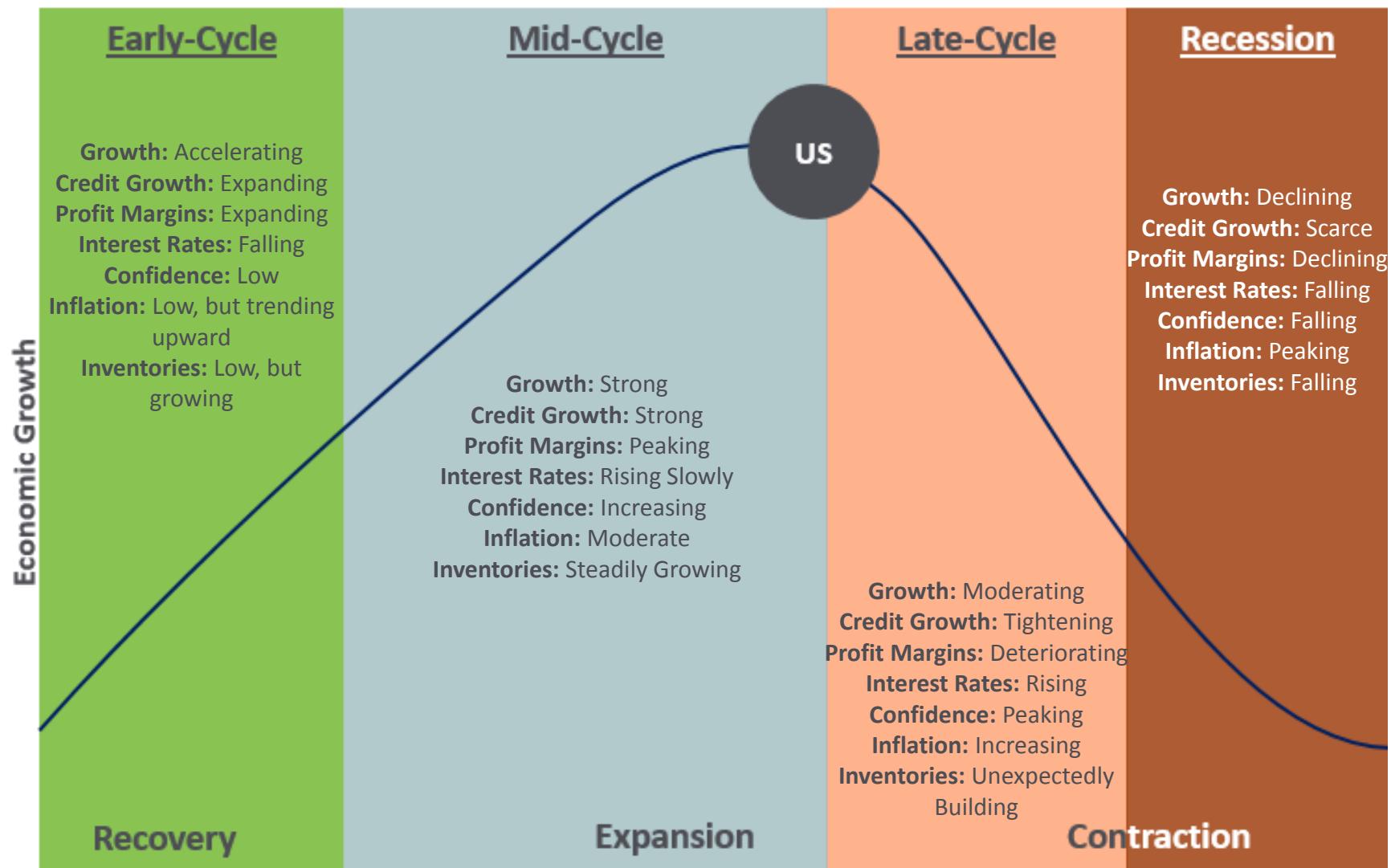
Fund Public Midstream Energy Exposure

Fund Emerging Local Debt

Note: Not all opportunities are suitable for all clients



ECONOMIC CYCLES

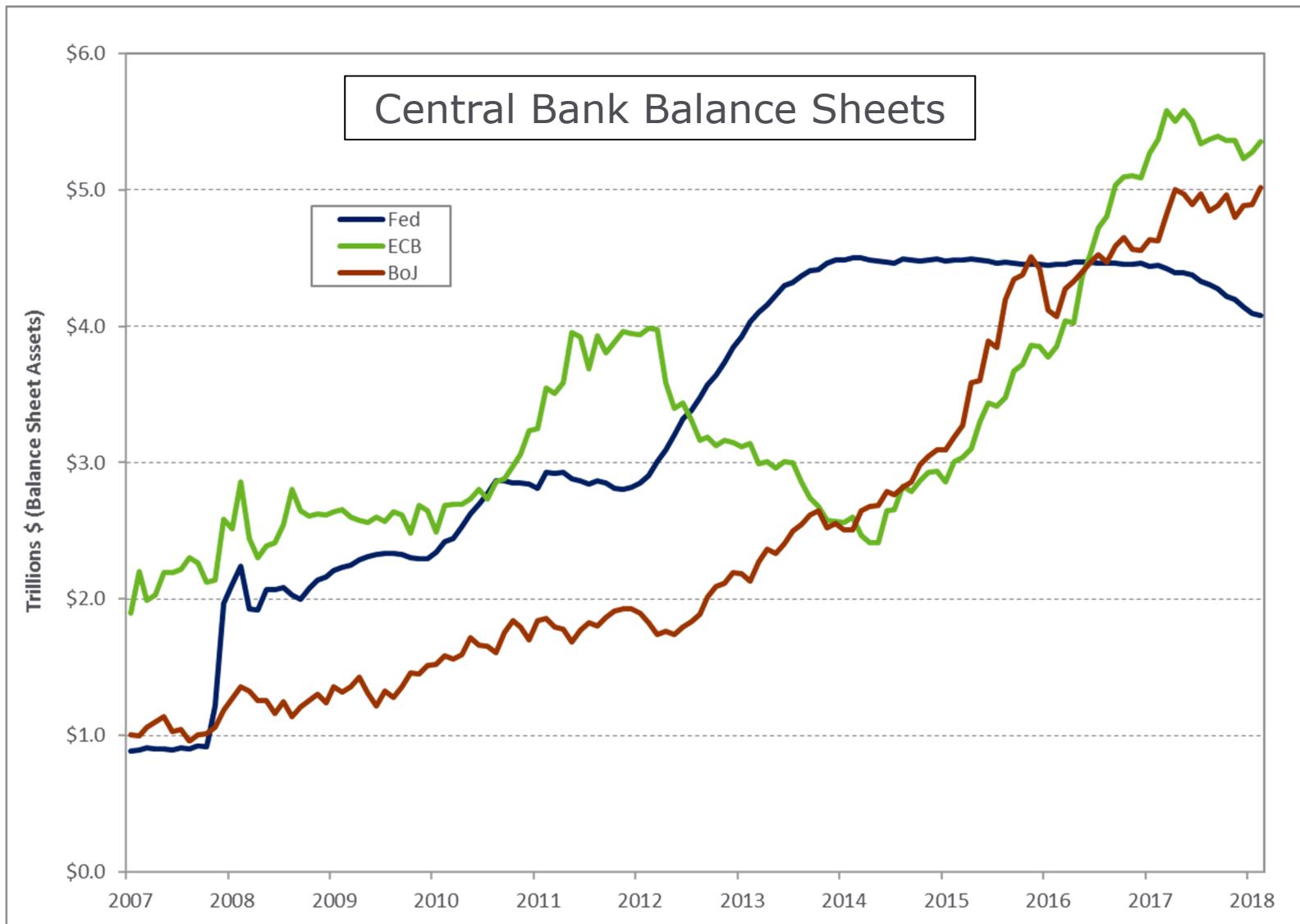


CURRENT INDICATORS SUMMARY

Key Indicator	Expected Late Cycle Behavior	Late Cycle Conditions?
Interest Rates	Rising	Yes
The Yield Curve	Flattening	Yes
Economic Growth	Moderating	<i>Uncertain</i>
Output Gap	Near/Above Potential	Yes
Inflation	Rising	Yes
Unemployment	Falling/Bottoming	<i>Uncertain</i>
Equities	Peaking	<i>Uncertain</i>
Credit Spreads	Stable/Rising	Yes



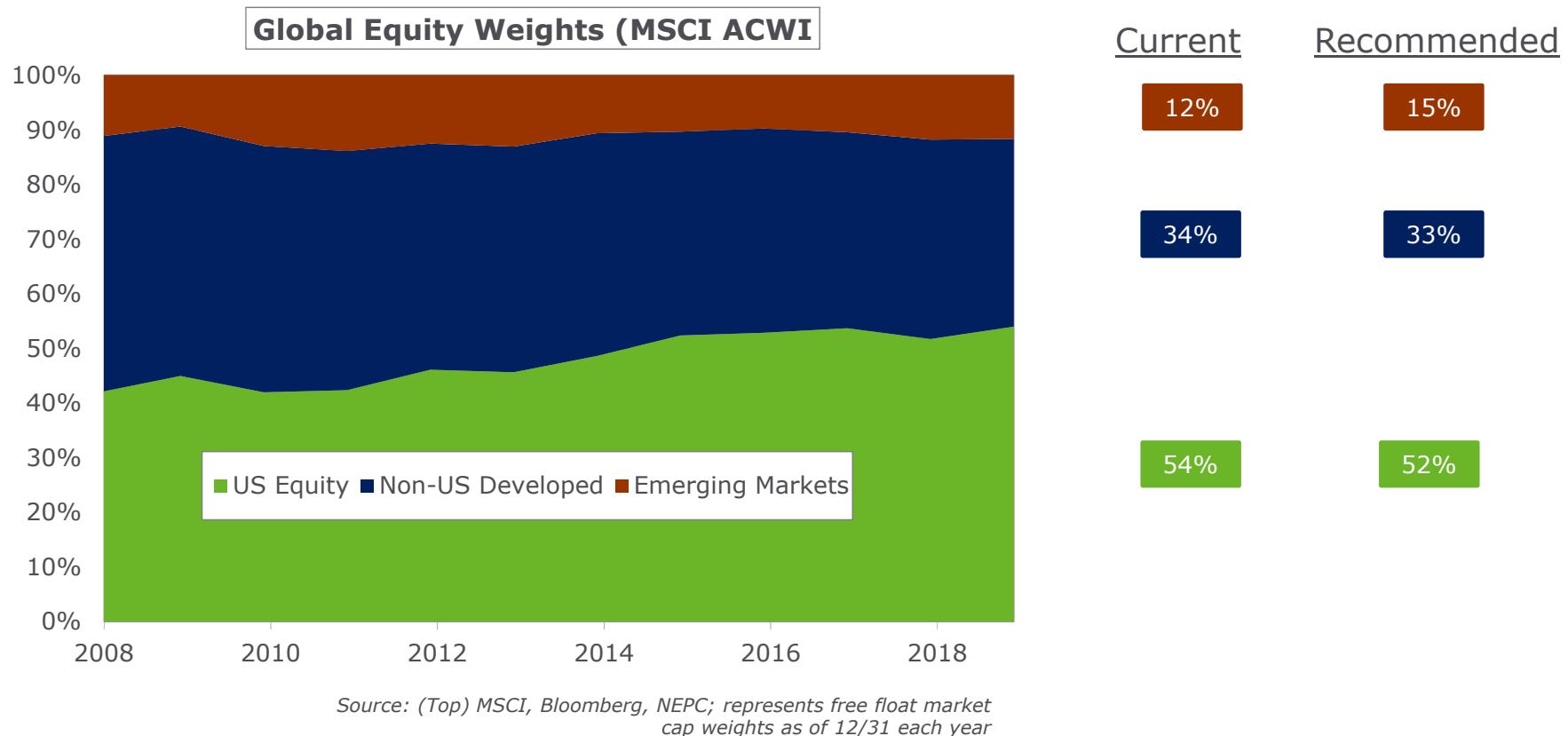
TIGHTENING GLOBAL LIQUIDITY



CURRENT OPPORTUNITIES

NEPC, LLC

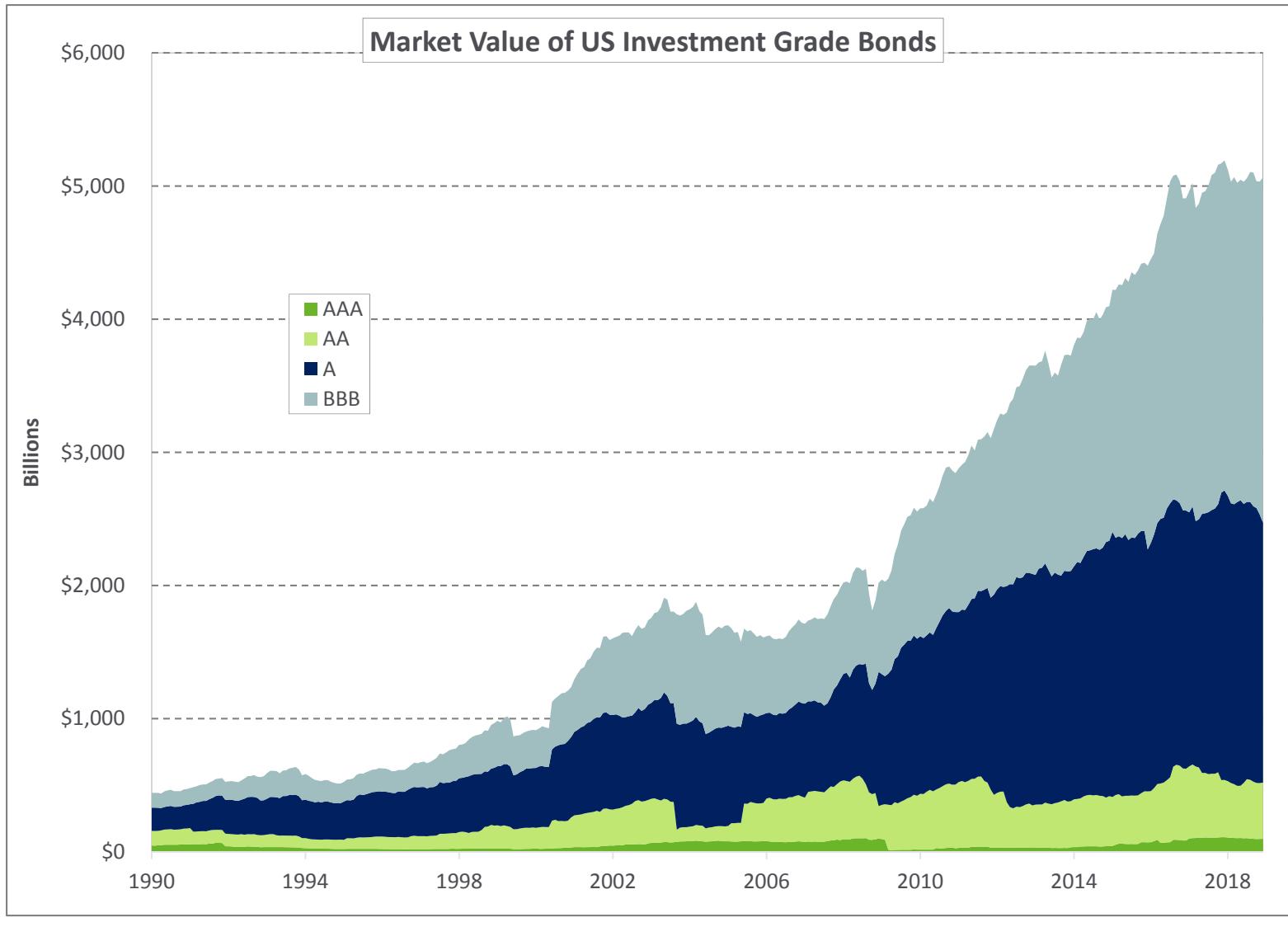
REBALANCE DEVELOPED MARKET EQUITIES



RAISE SAFE-HAVEN FIXED INCOME EXPOSURE



RAISE SAFE-HAVEN FIXED INCOME EXPOSURE



CORE RETURN ASSUMPTIONS

	Asset Class	5-7 Year Return	Change 2019-2018	Volatility
Equity	Cash	2.50%	+.50%	1.00%
	US Inflation	2.25%	-0.25%	-
Rates/ Credit	Large Cap Equities	6.00%	+0.75%	16.50%
	International Equities (Unhedged)	6.75%	-0.75%	20.50%
	Emerging International Equities	9.25%	+0.25%	28.00%
Real Assets	Treasuries	2.50%	+0.25%	5.50%
	Core Bonds*	3.04%	+0.29%	6.10%
	Municipal Bonds (1-10 Year)	3.00%	+0.50%	5.50%
Multi- Asset	High Yield Bonds	5.25%	+1.50%	12.50%
	Commodities	4.25%	-0.50%	19.00%
	REITs	6.75%	+0.25%	20.00%
	Core Real Estate	6.00%	+0.25%	13.00%
	US 60/40*	5.07%	+0.53%	10.45%
	Global 60/40*	5.08%	+0.17%	10.95%
	Hedge Funds*	5.74%	-0.09%	8.15%

*Calculated as a blend of other asset classes

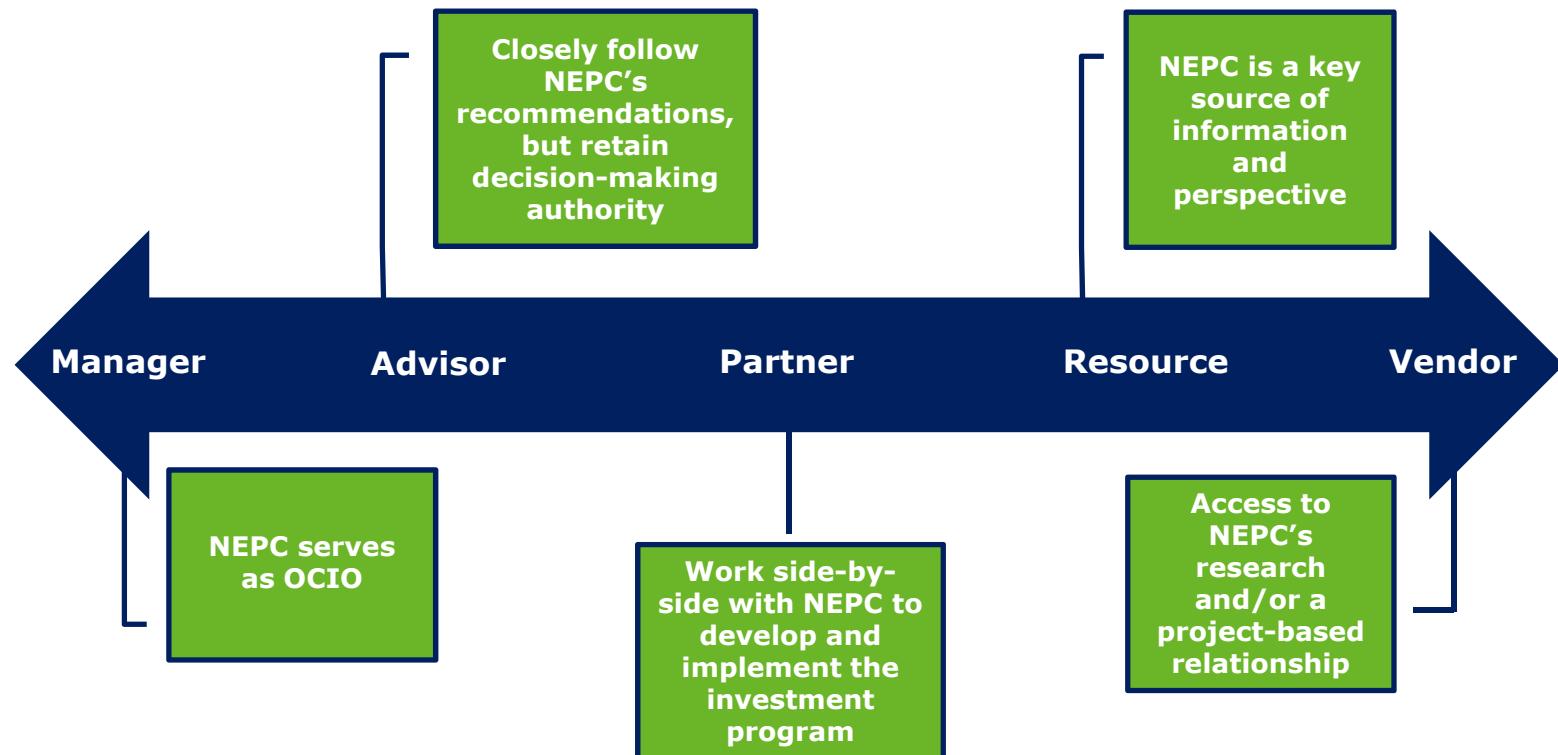


MEETING CLIENTS WHERE THEY ARE

NEPC, LLC

HOW DO WE WORK WITH CLIENTS?

At NEPC, we are committed to delivering customized investment advice based on your needs, goals, and objectives. You have the flexibility to work with us across the spectrum of service models, based on what is right for you and your investment program.



INDUSTRY LANDSCAPE



QUESTIONS?

NEPC, LLC

QUESTIONS?

While we answer your questions, we encourage you to read about our upcoming conference.

NEPC's 24th Annual Investment Conference



MAY 7-8, 2019 | BOSTON PARK PLAZA | #NEPC_CONFERENCE



Gradual or dramatic, the economic and political worlds around us are going through major transition. Whether it be global resources, climate, political power, technology, demographics or personal habits, adapting and advancing through these shifts has become a regularity. Most importantly, as we transition our daily processes, so do we transition our investment approaches. Please join us for **NEPC's 24th Annual Investment Conference on May 7-8, 2019** at the Boston Park Plaza Hotel, as we address the 'Transitions' we are experiencing and what lies ahead.

Please reach out to Sarah Winrow at swinrow@nepc.com if you have any questions.



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- **The goal of this report is to provide a basis for substantiating asset allocation recommendations.**
- **All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.**
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