

NEPC 2018 MARKET OUTLOOK

THEMES AND OPPORTUNITIES

January 30, 2018



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

SPEAKERS



**MIKE MANNING,
CFA, CAIA**

MANAGING PARTNER



**PHILLIP R.
NELSON, CFA**

PARTNER, DIRECTOR OF
ASSET ALLOCATION



ANDREW COUPE

SENIOR CONSULTANT,
INSURANCE

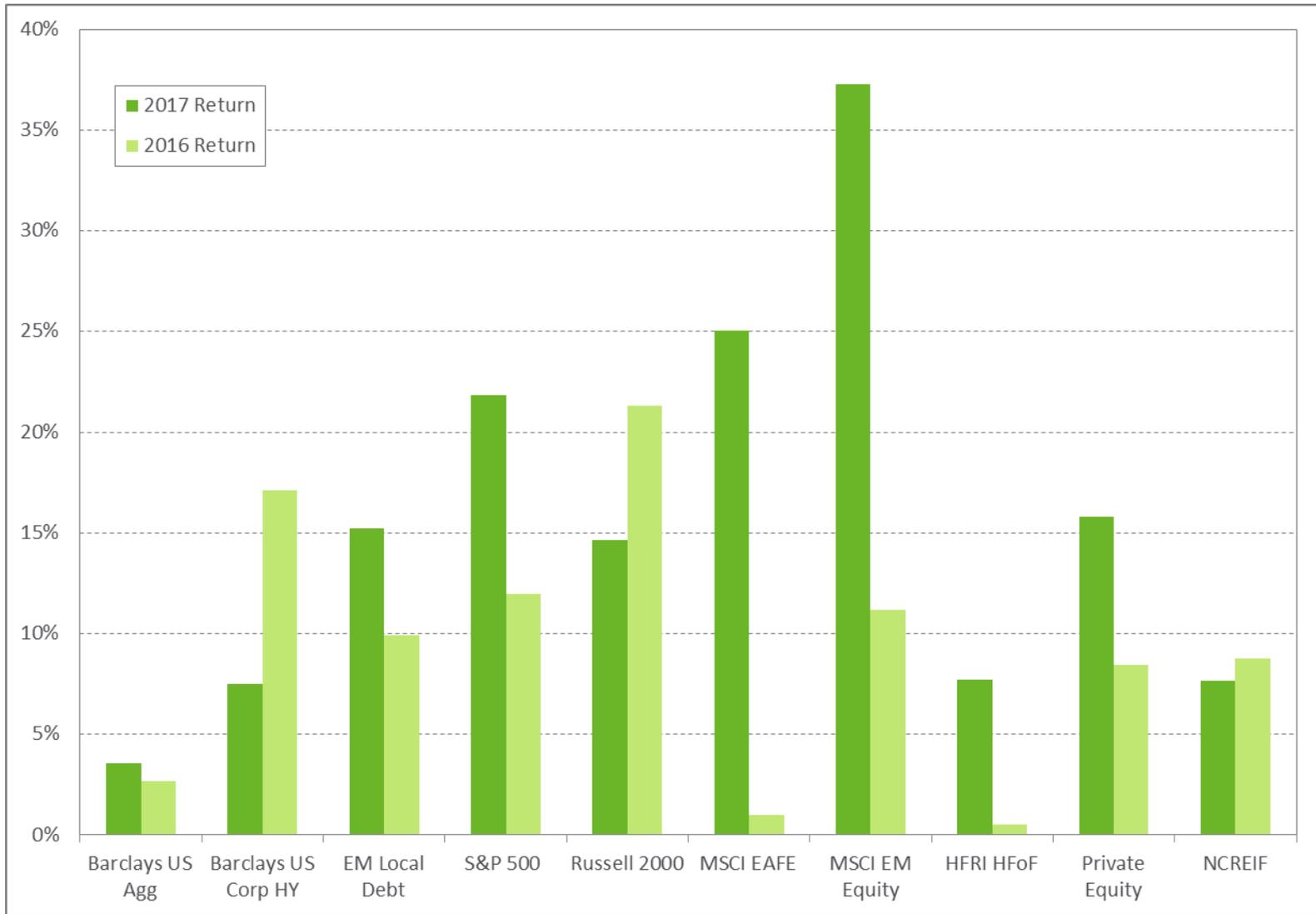
AGENDA

- **2017 Review**
- **NEPC Update**
- **Key Market Themes**
- **Current Opportunities**
- **Insurance Market**
- **Your Questions**

2017 REVIEW

NEPC, LLC

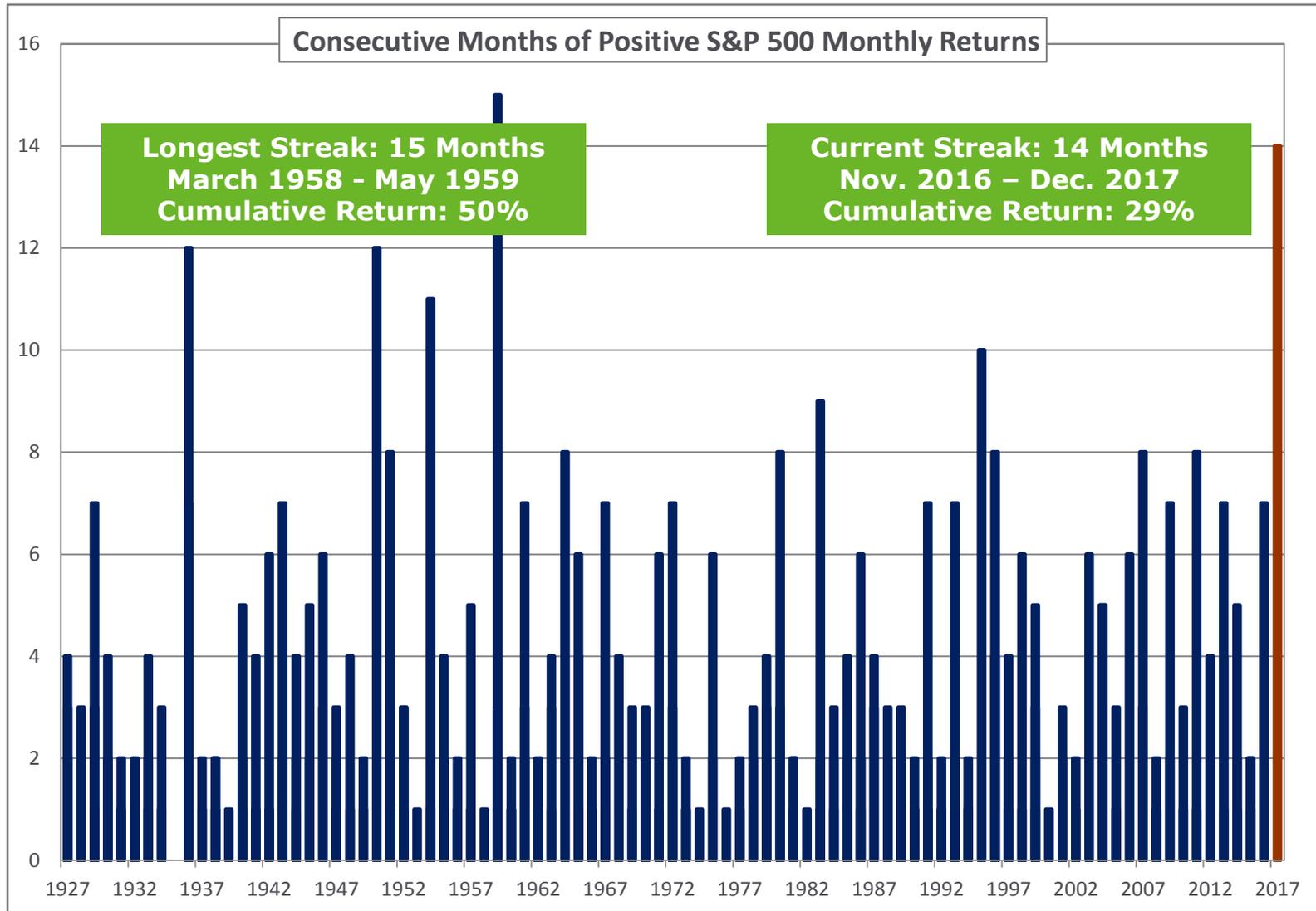
2017: IT WAS A VERY GOOD YEAR



**Private Equity and NCREIF Real Estate lagged one quarter
Source: NEPC, Barclays, S&P, Bloomberg, JPM, Russell, MSCI, HFRI, InvestorForce*



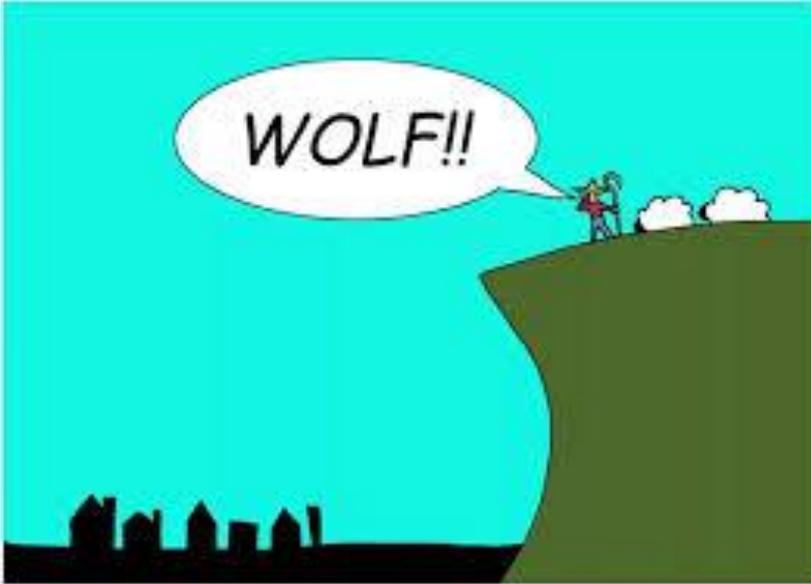
2017: A YEAR OF RECORDS FOR US STOCKS



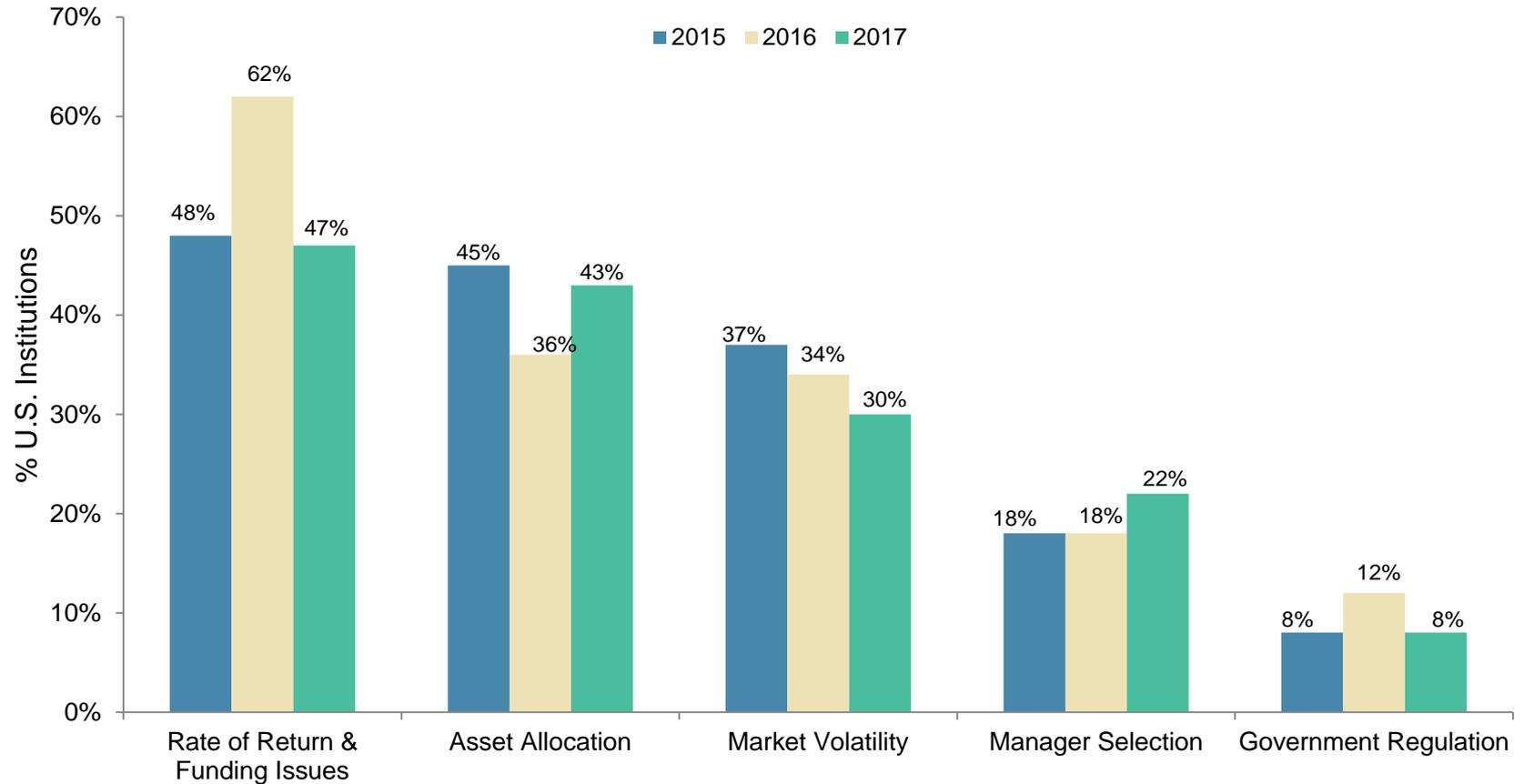
Source: Bloomberg, NEPC



NEPC INVESTMENT OUTLOOK



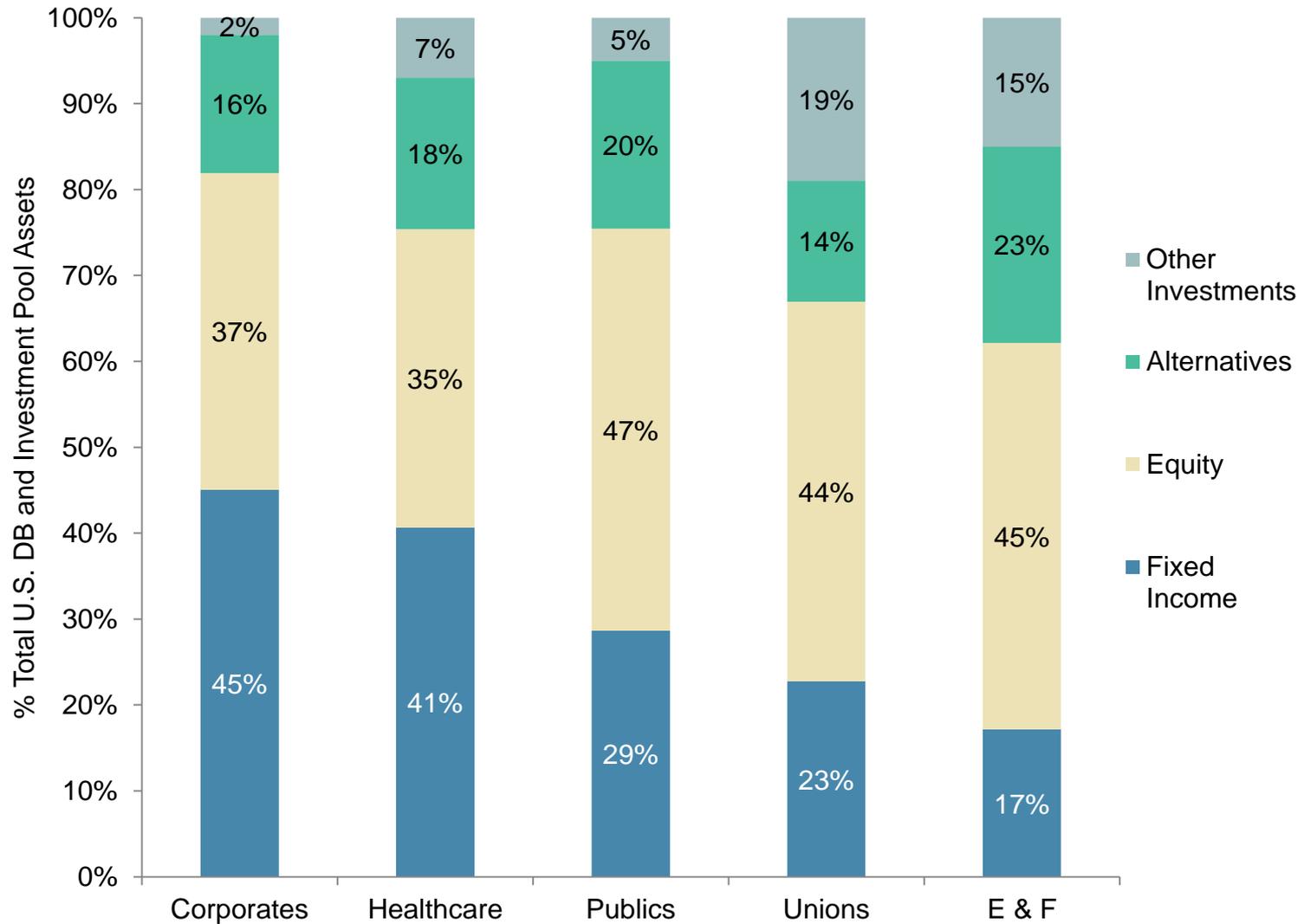
KEY CHALLENGES FOR INVESTORS



Source: Greenwich Associates 2017 U.S. Institutional Investors Study



ASSET ALLOCATION BY CLIENT TYPE



NEPC UPDATE

NEPC, LLC

ABOUT NEPC

OUR GOAL IS TO BE THE CONSULTANT OF CHOICE

278 Employees

8 Regional Offices

Employees-owned

38 Partners

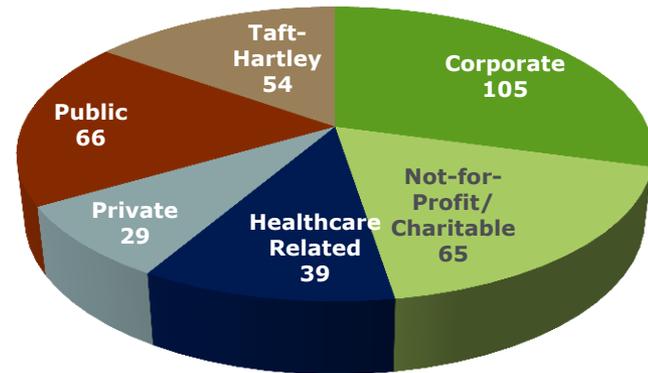
**100% of Revenue
advisory and discretionary
consulting services**

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

358 Clients

**\$954 billion
assets under advisement**

Total Clients



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**

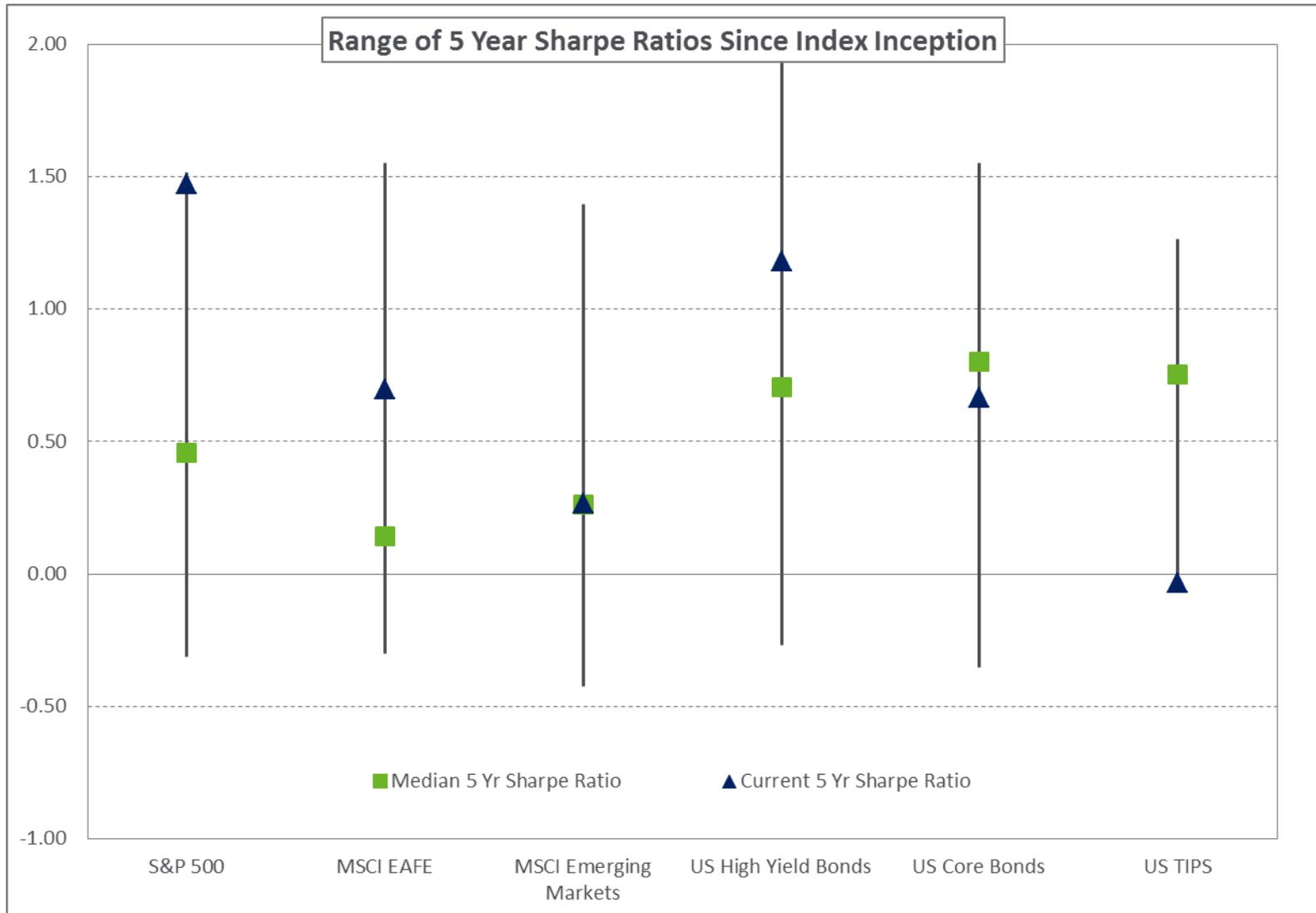
BE BIG

- **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**

KEY MARKET THEMES

NEPC, LLC

MARKET OUTLOOK



Index Inception: S&P 500 - 1926, MSCI EAFE - 1970, MSCI EM - 1988, US High Yield - 1983, US Core Bonds - 1976, US TIPS - 1997

Source: Ibbotson-Morningstar, eVestment, Sharpe Ratio range spans 5th to 95th percentile



2018 THEMES AND OPPORTUNITIES

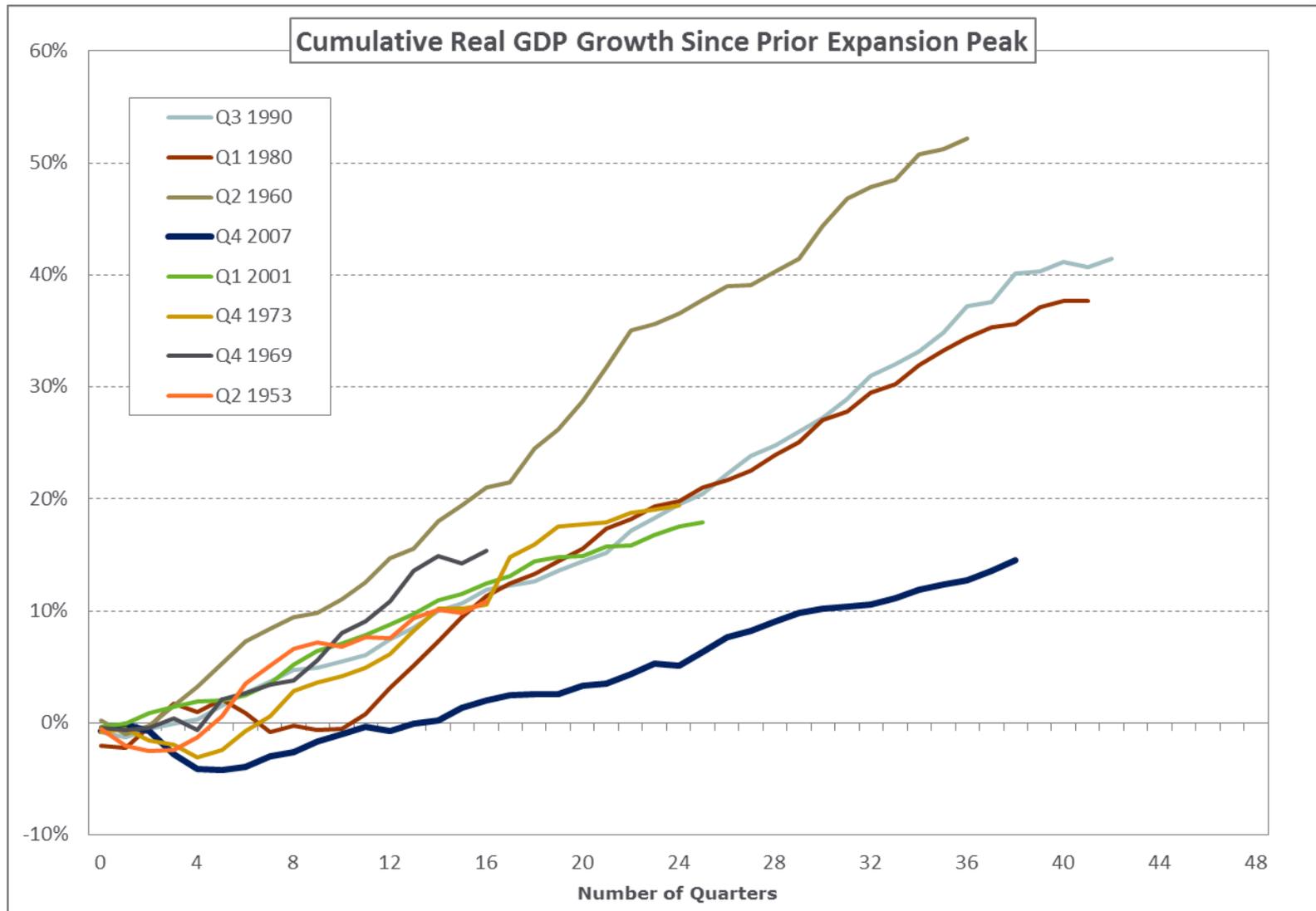
Key Market Themes

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

Current Opportunities

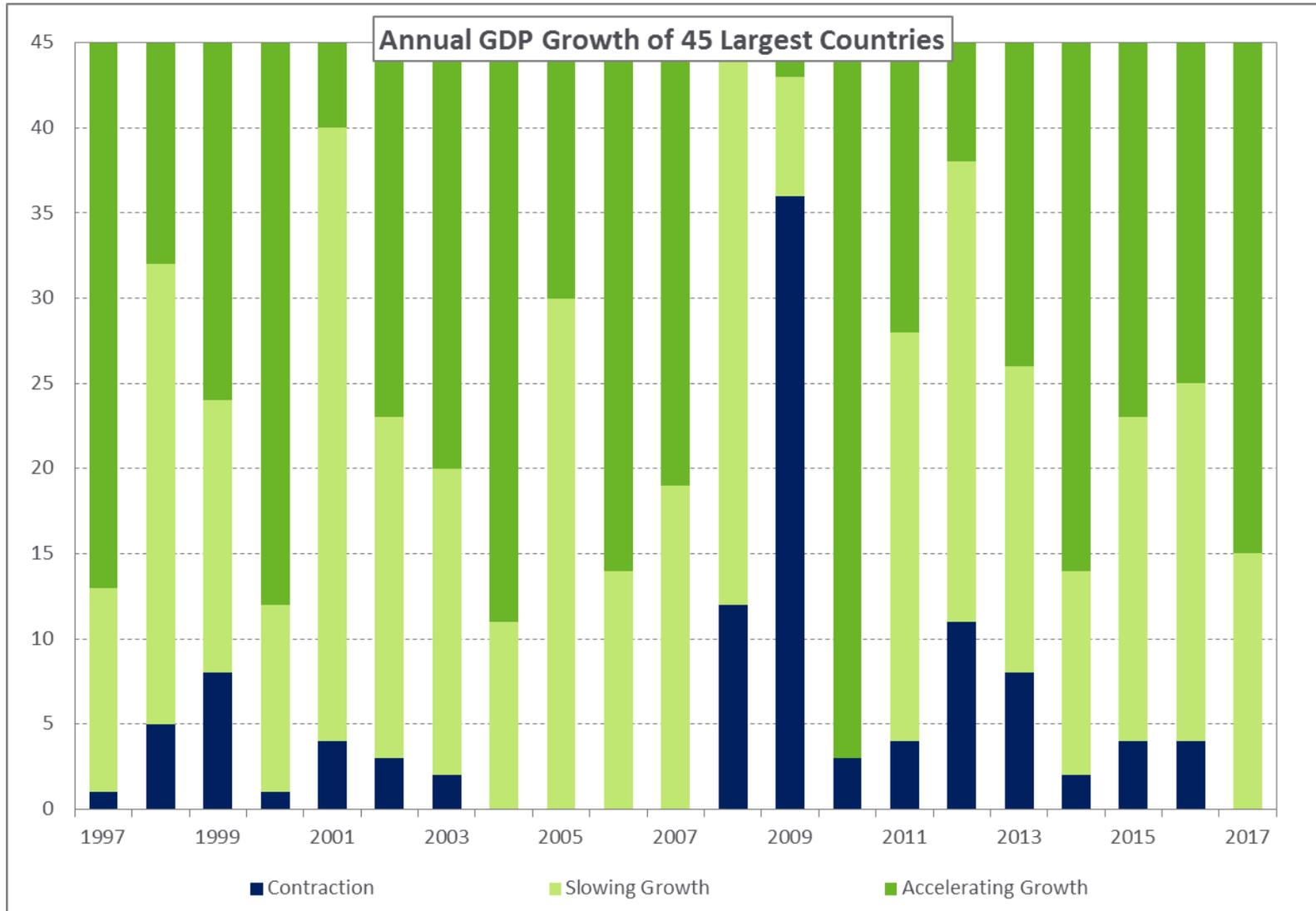
- Trim US Equity Gains**
- Overweight Non-US Developed Market Equities**
- Maintain a Market Overweight to Emerging Market Equities**
- Allocate to TIPS from Core Bonds**
- Reduce Return Seeking Credit Exposure**
- Fund Emerging Local Debt**
- Add Macro Hedge Funds**
- Add Long Volatility Exposure**

ECONOMIC CYCLES DON'T DIE OF OLD AGE



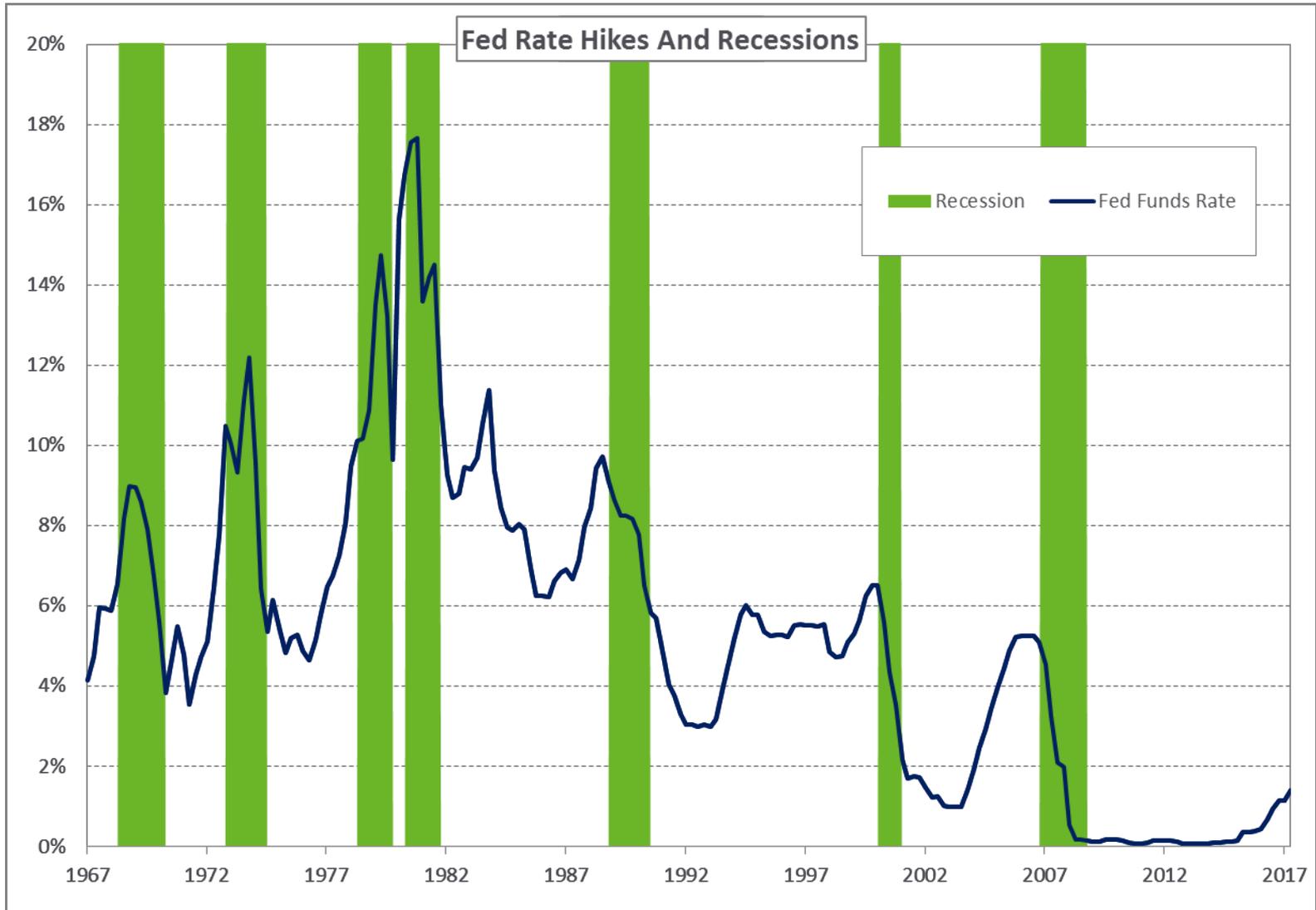
Source: St. Louis Federal Reserve

SYNCHRONIZED ECONOMIC RESURGENCE



Source: OECD

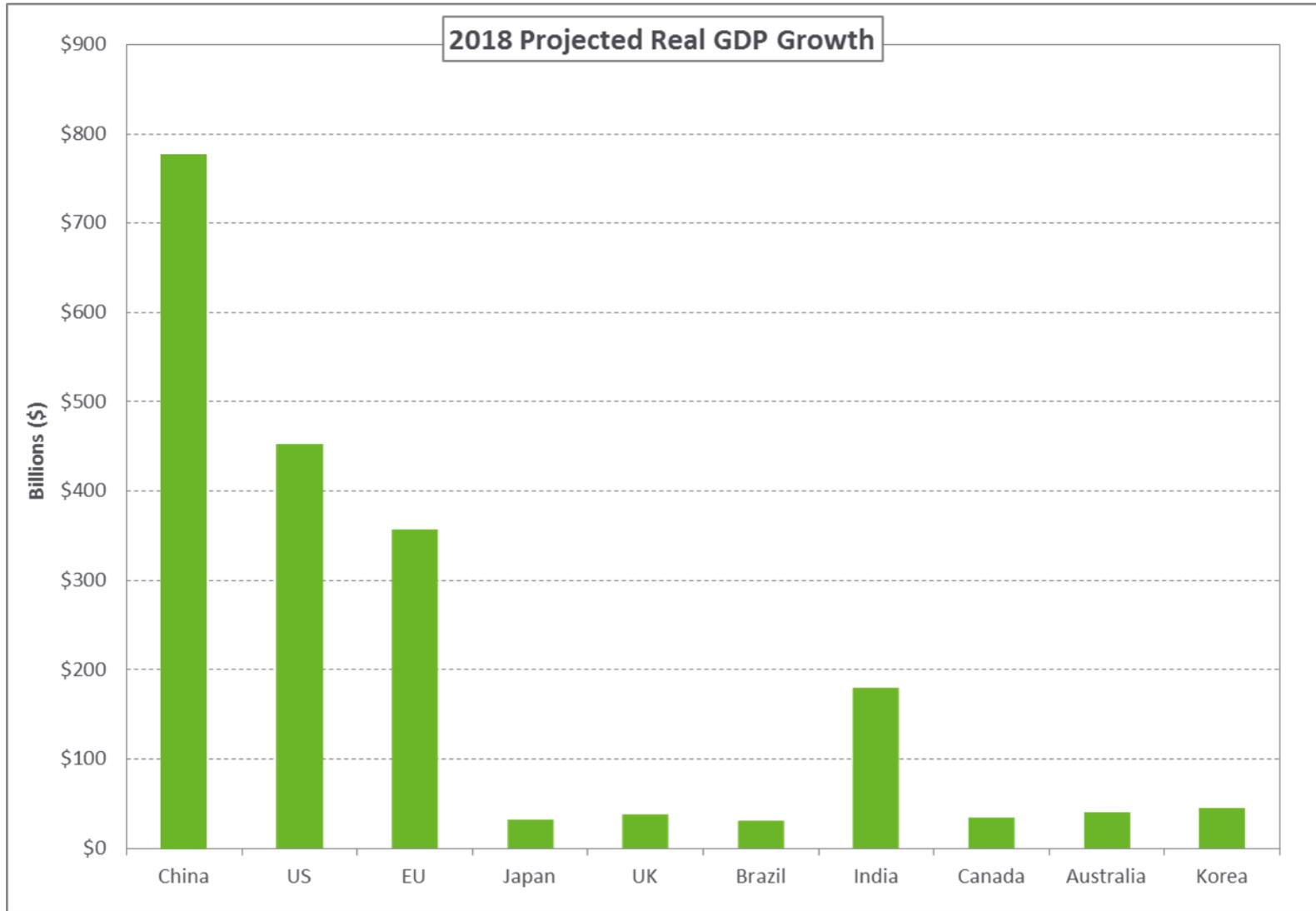
PATH OF FEDERAL RESERVE POLICY IS KEY



Source: Federal Reserve



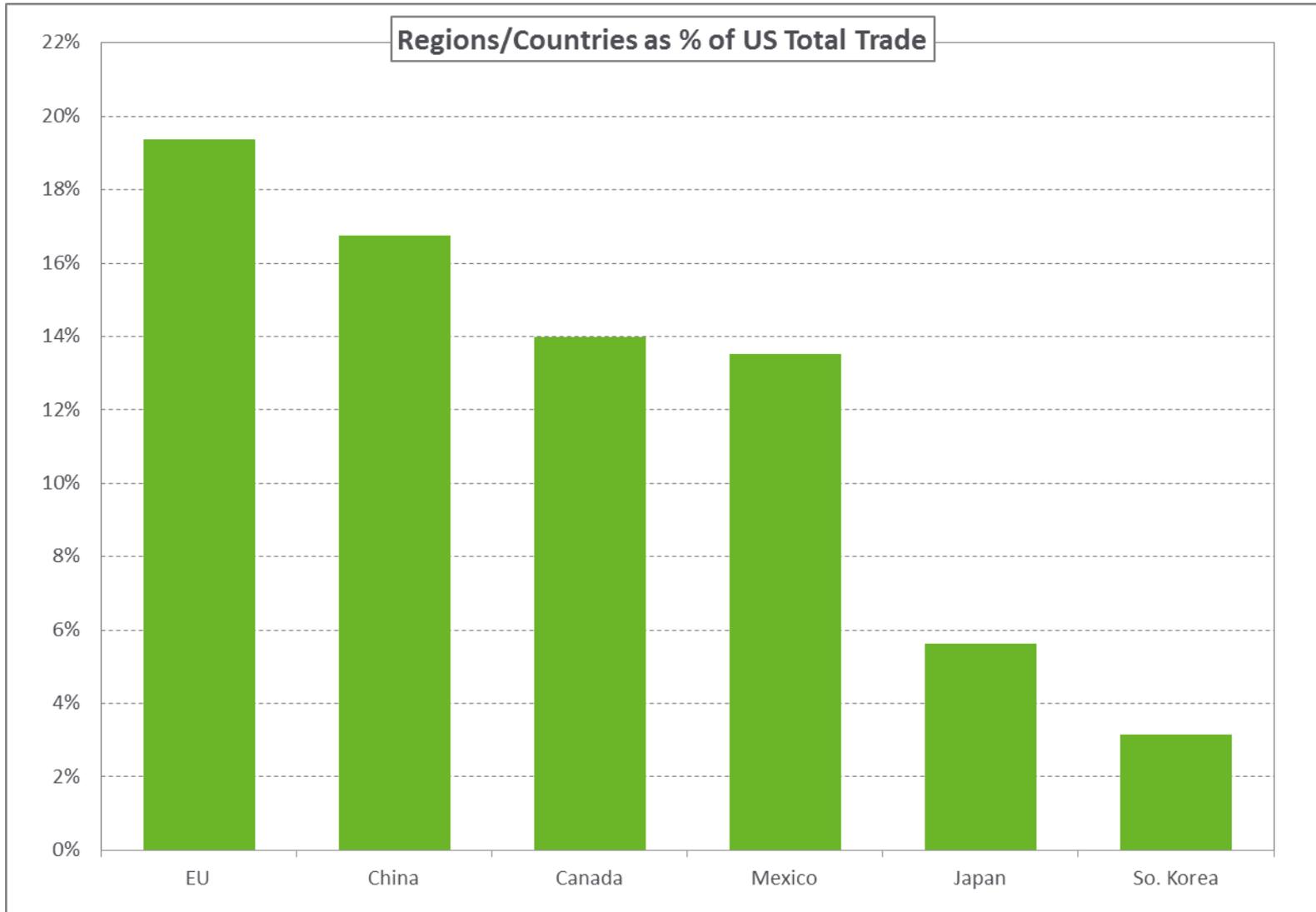
WHY CHINA ALWAYS MATTERS



Source: Bloomberg, IMF



SHIFT IN US TRADE POLICY IS A GLOBAL RISK

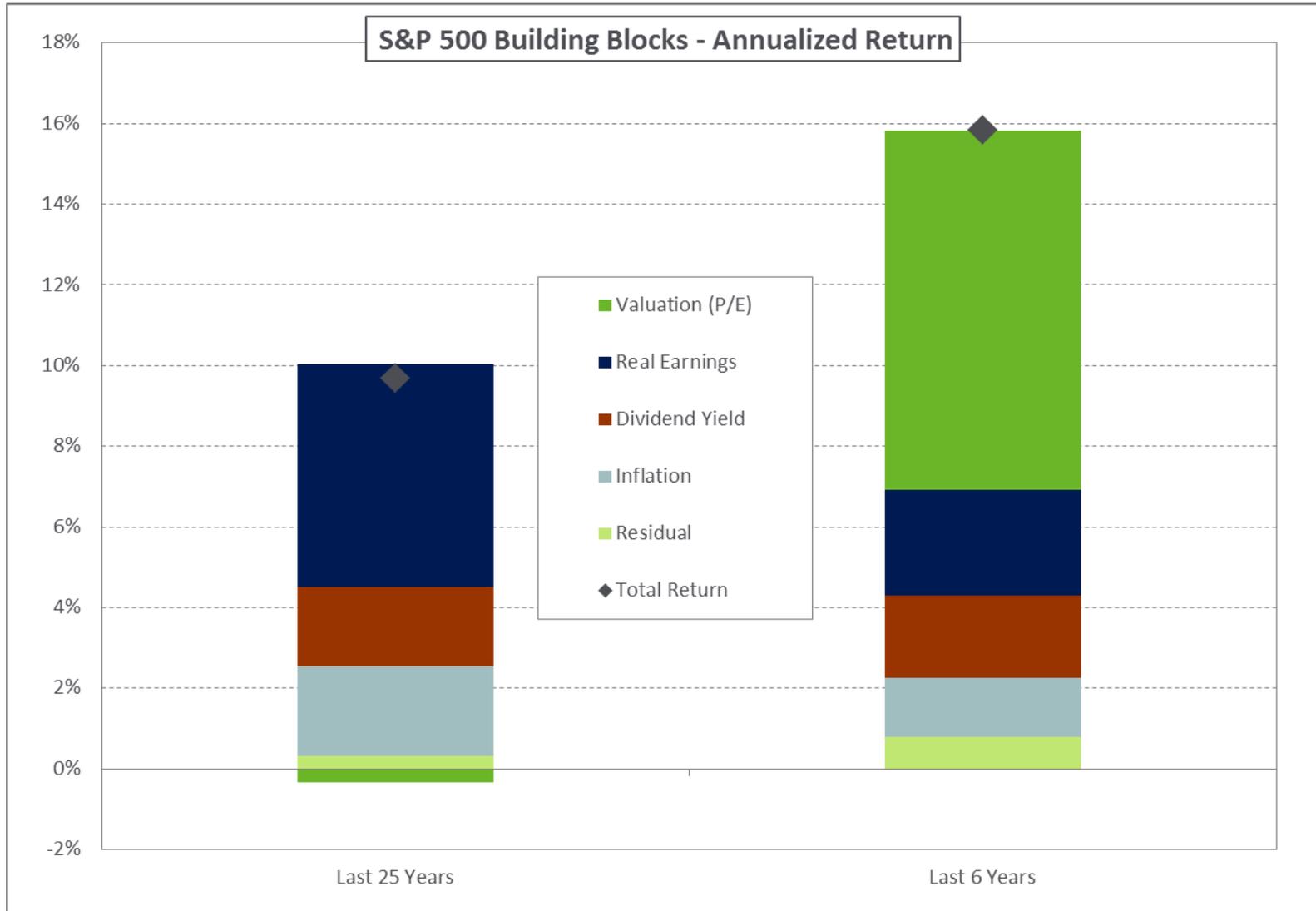


Source: Bloomberg

CURRENT OPPORTUNITIES

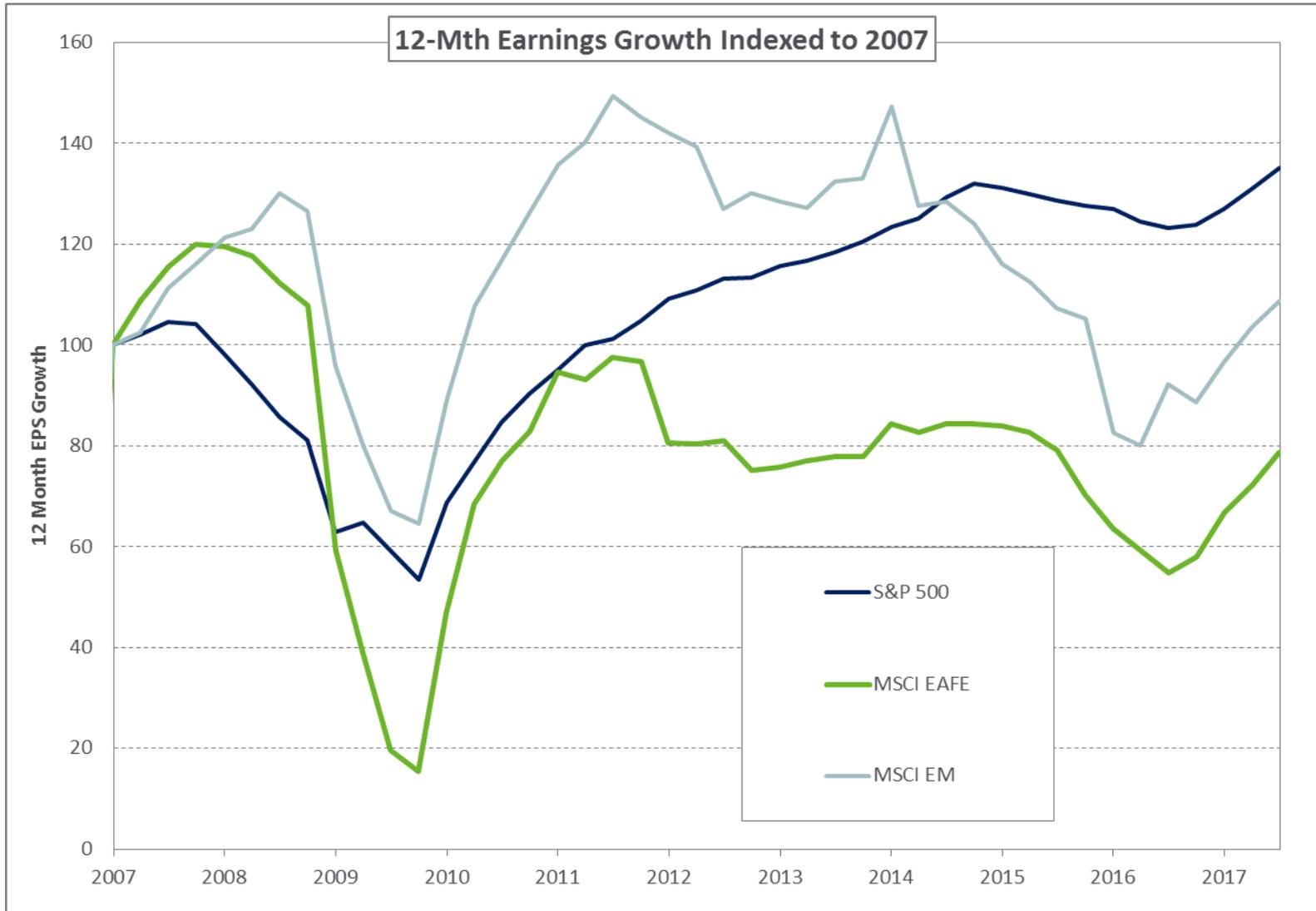
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TRIM US EQUITY GAINS



Source: Bloomberg

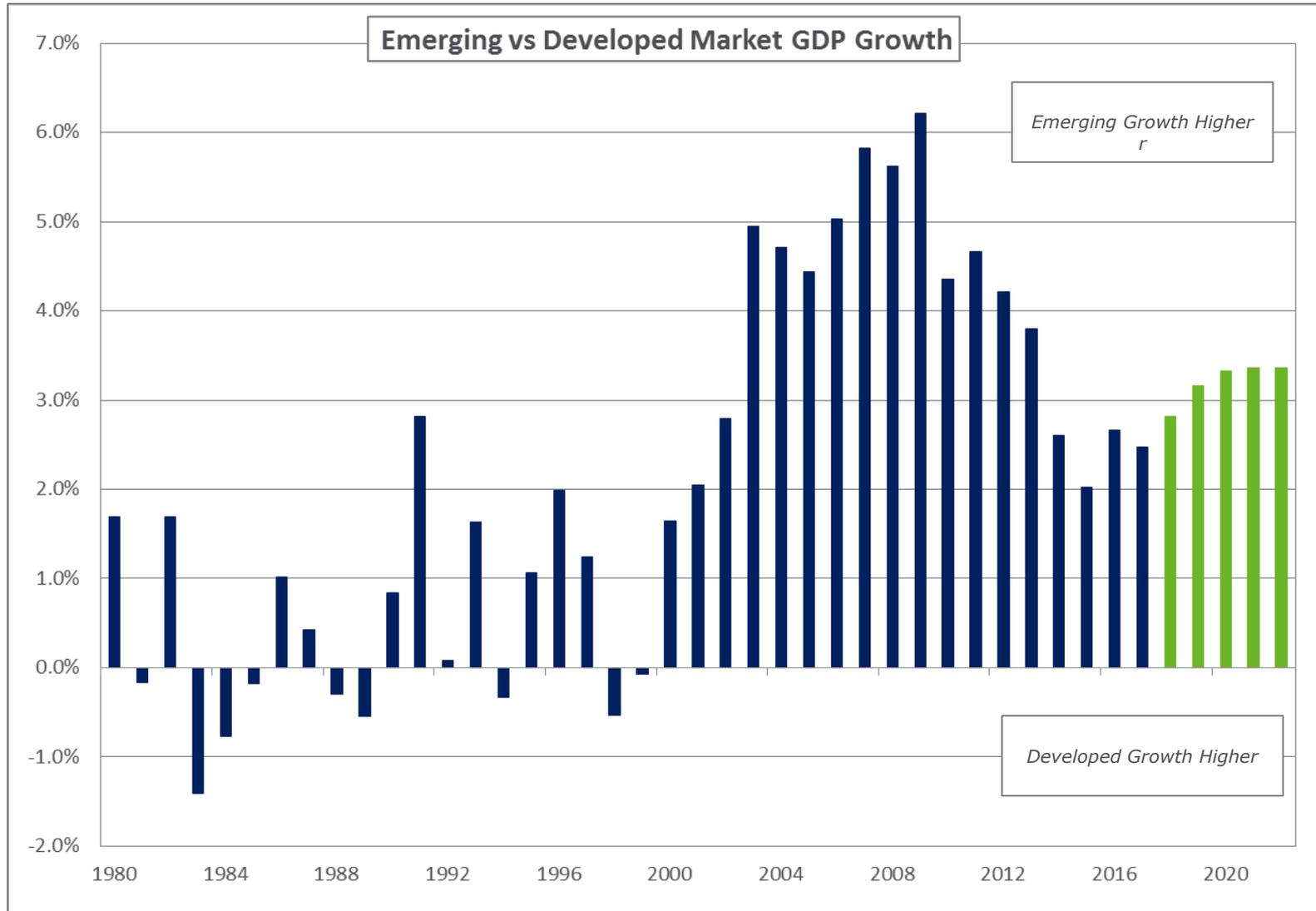
EAFE EARNINGS RECOVERY IS UNDERWAY



Source: Bloomberg

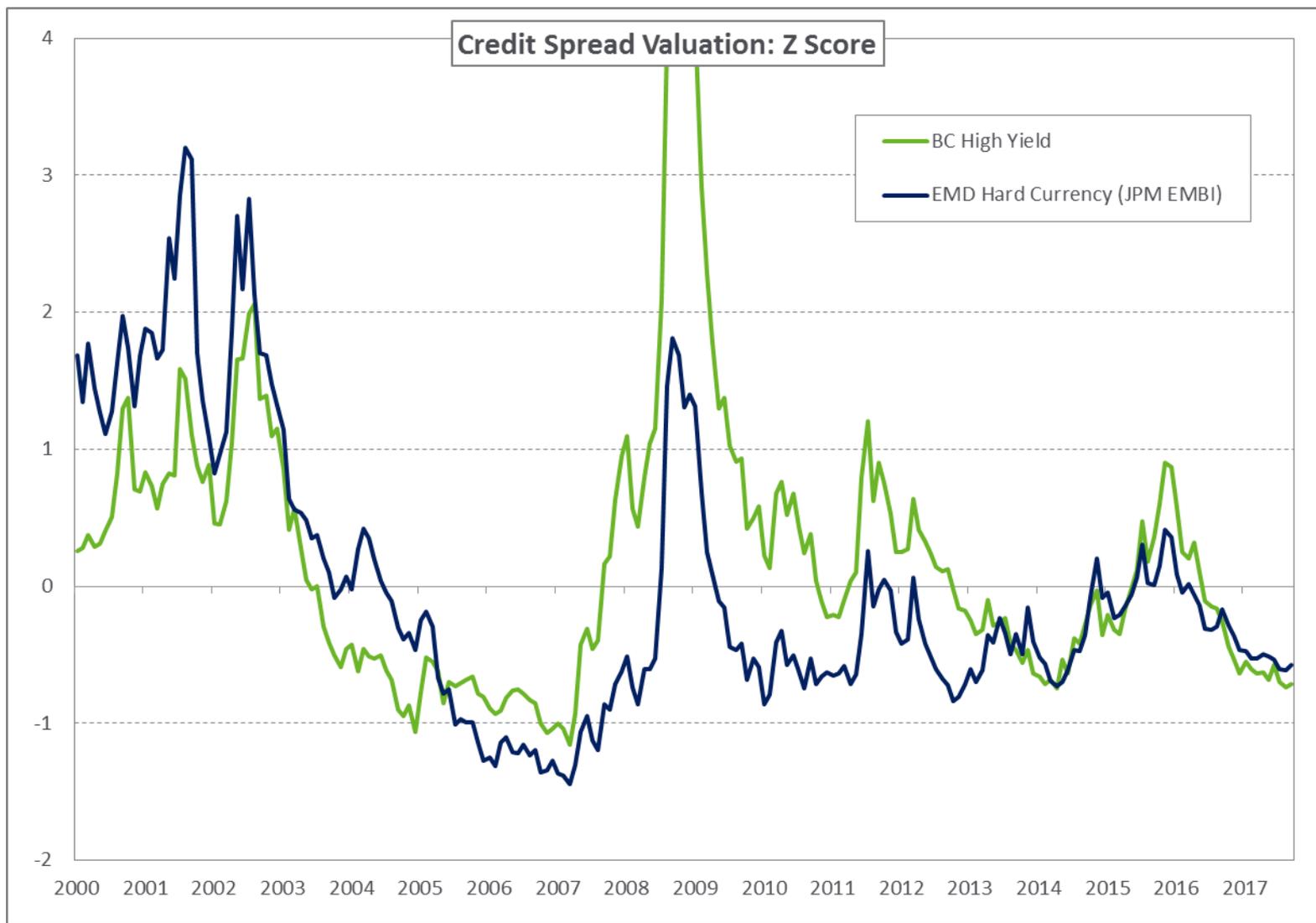


EMERGING EQUITIES REMAIN ATTRACTIVE



Source: Bloomberg, IMF

REDUCE RETURN SEEKING CREDIT EXPOSURE



Source: Bloomberg



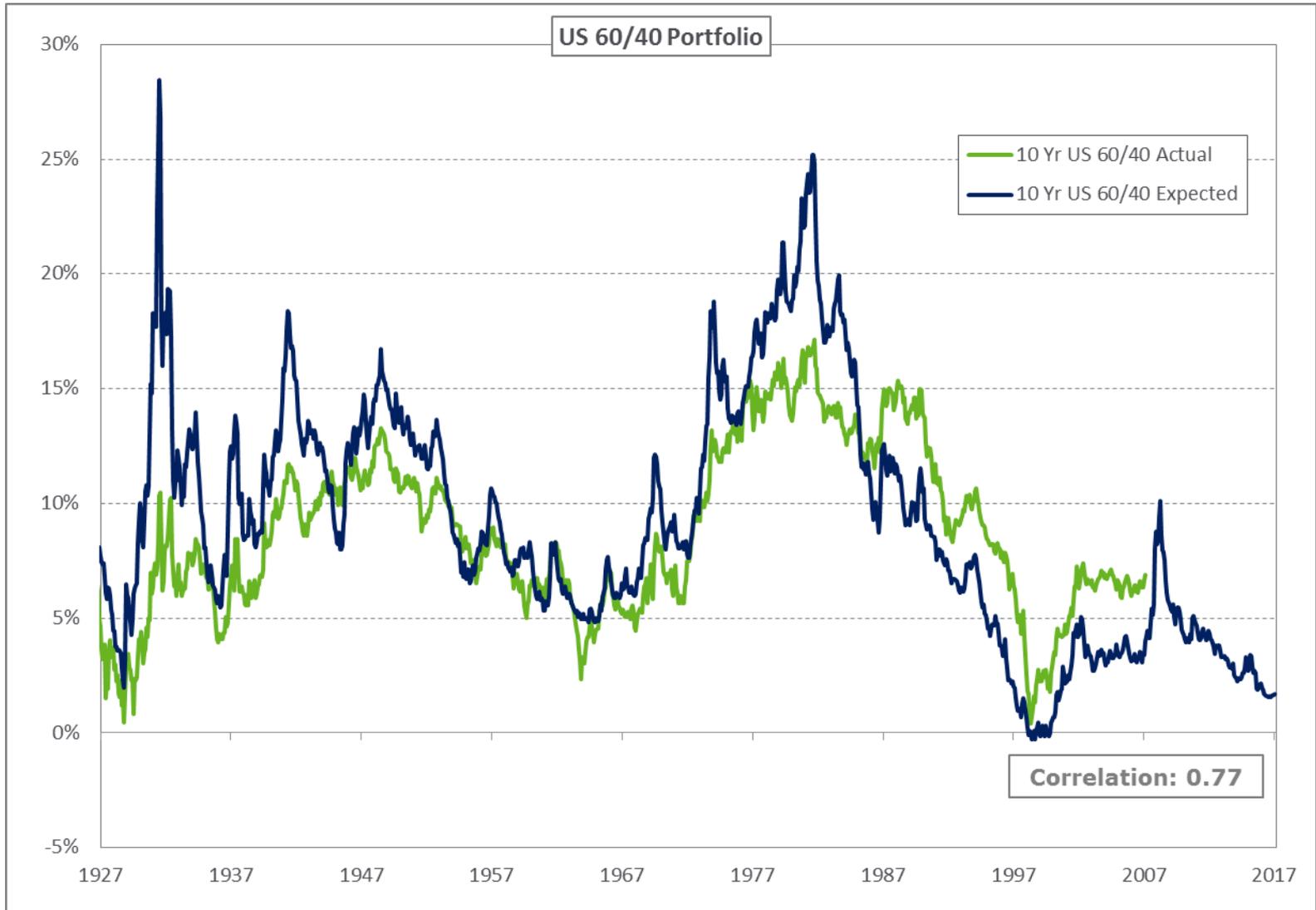
5-7 YEAR RETURN ASSUMPTIONS

	Asset Class	5-7 Year Return	Change 2018-2017	Volatility
	Cash	2.00%	+.25%	1.00%
	US Inflation	2.50%	-	-
Equity	Large Cap Equities	5.25%	-.50%	17.50%
	International Equities (Unhedged)	7.50%	+.25%	21.00%
	Emerging International Equities	9.00%	-.50%	28.00%
	Private Equity	8.00%	-.25%	23.00%
Rates/Credit	Treasuries	2.25%	+.25%	5.50%
	Core Bonds	2.75%	+.10%	5.99%
	Municipal Bonds 1-10 Year	2.50%	-	5.50%
	High Yield Bonds	3.75%	-1.00%	13.00%
	Private Debt	6.50%	-.75%	13.00%
Real Assets	Commodities	4.75%	-	19.00%
	REITs	6.50%	-	21.00%
	Core Real Estate	5.75%	-.25%	13.00%
Multi-Asset	US 60/40*	4.54%	-.24%	10.99%
	Global 60/40*	4.91%	-.13%	11.78%
	Hedge Funds*	5.83%	-.10%	9.07%

*Calculated as a blend of other asset classes



EVALUATE LONG-TERM OBJECTIVES



Source: Yale - Shiller Data, Bloomberg

NEPC OUTLOOK AND ACTIONS

The broad outlook for non-US equities remains attractive as a real earnings recovery has begun

US financial conditions remain loose and support steady economic gains

The outlook for US credit is subdued with limited return opportunities as credit spreads trade below long-term medians

We anticipate inflation will shift marginally higher in the coming years

An accommodative Fed is likely to continue, barring a dramatic uptick in inflation

Asset returns offer less support for investors to achieve objectives

Global growth conditions appear positive for equities in the near term, but valuations normalize over the long term

A mature private markets portfolio is a key contributor to meeting long-term portfolio objectives

Patience is warranted over the coming years as private markets have become crowded

We encourage investors to review management of portfolio risks

Define and implement a strategic rebalance policy to manage total risk

Avoid tail-risk management approaches that have a negative long term return outlook

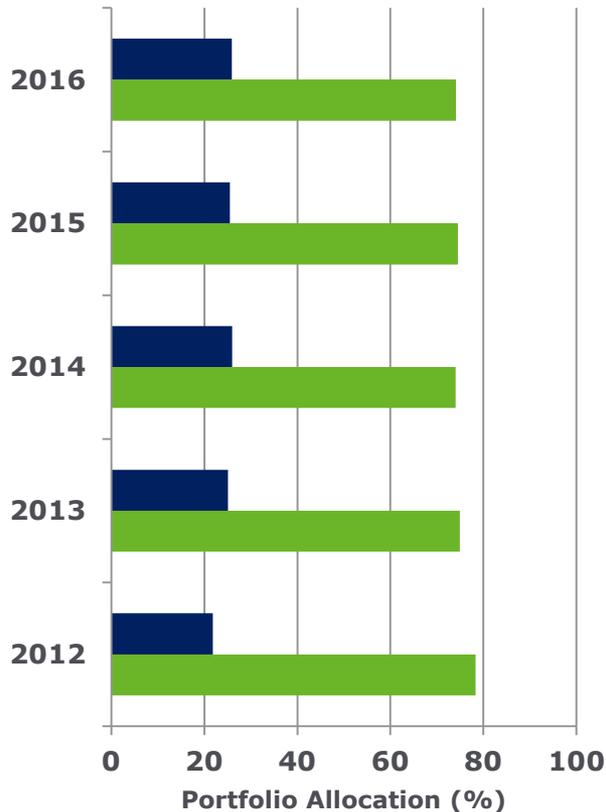
INSURANCE

NEPC, LLC

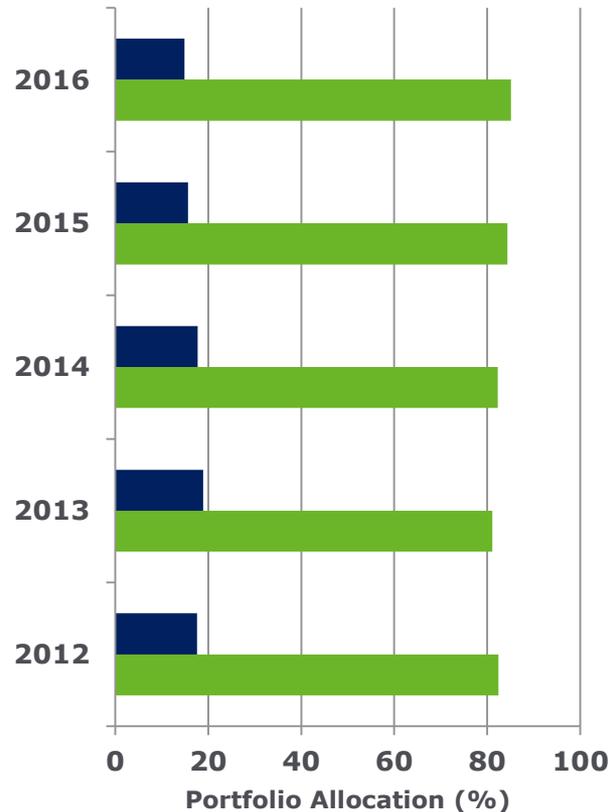
SAME PICTURE, DIFFERENT LENS

- Since 2012, the insurance industry has made marginal changes to portfolio allocations

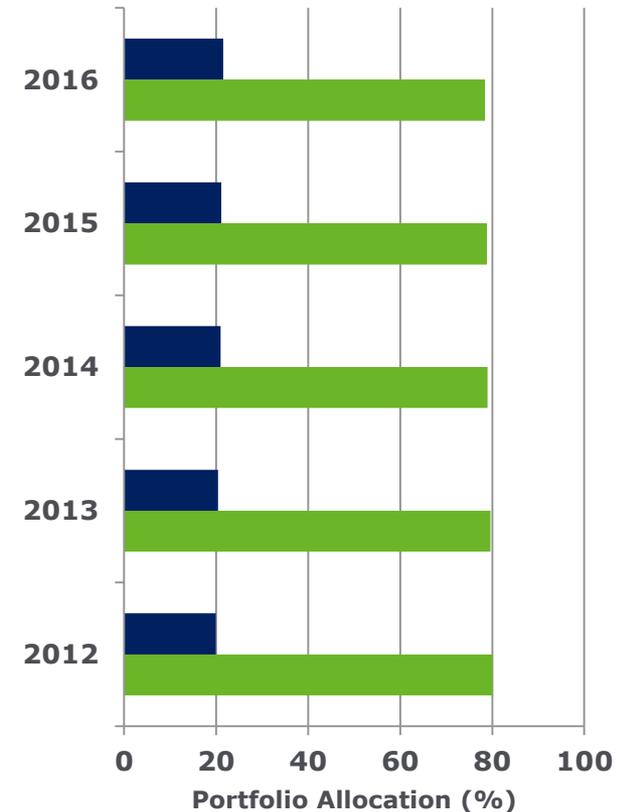
P&C Industry Allocations



Health Industry Allocations



Life Industry Allocations



■ Return Seeking ■ Bonds and Short Term

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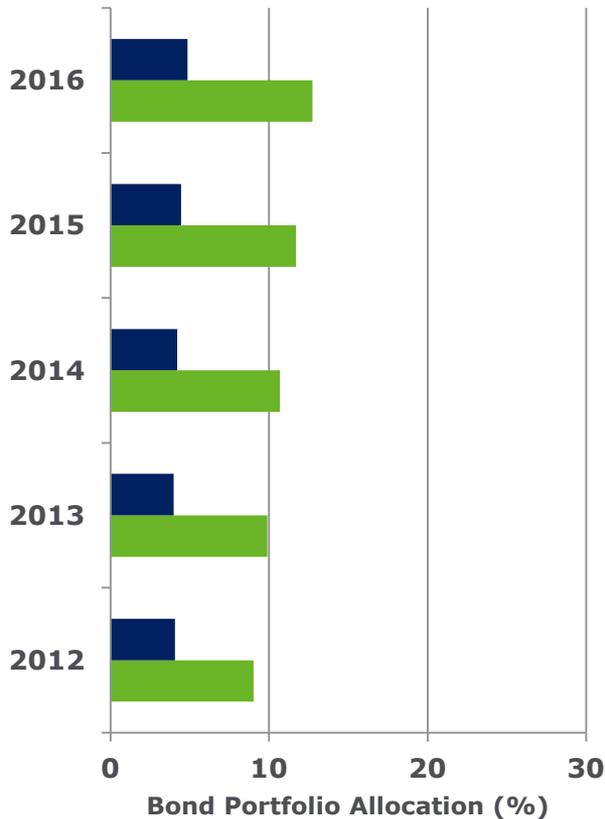
■ Return Seeking ■ Bonds and Short Term



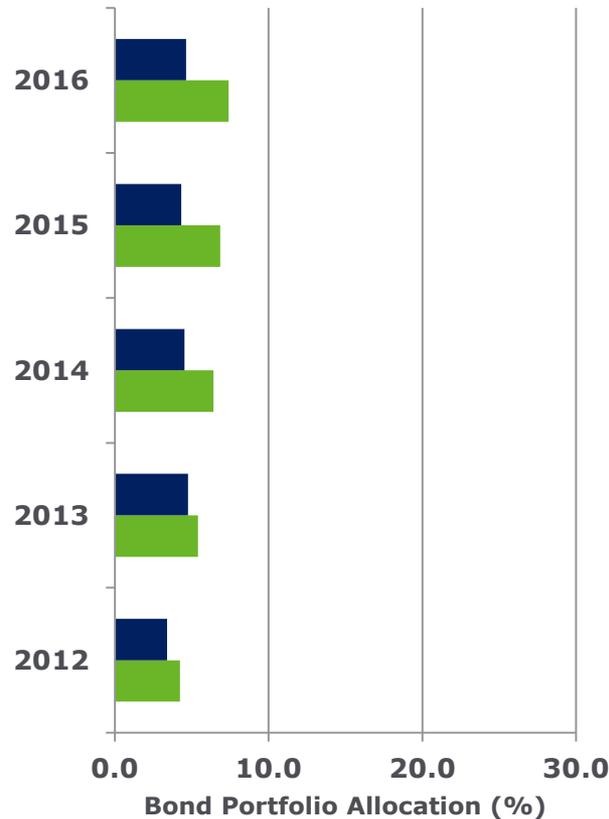
SAME PICTURE, DIFFERENT LENS

- Across bond portfolio allocations, insurers have been adding credit and illiquidity risk

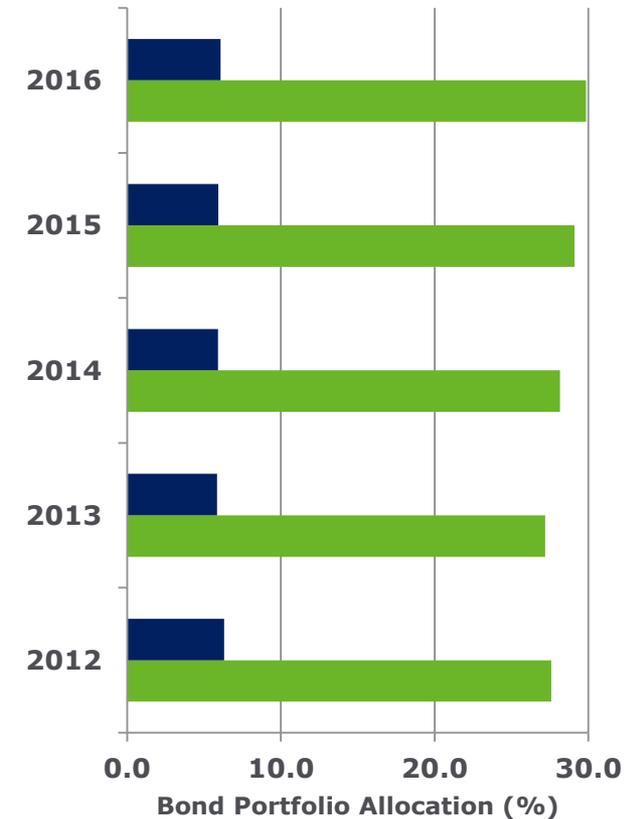
P&C Industry Allocations



Health Industry Allocations



Life Industry Allocations



■ High Yield ■ Private Placements

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2018 THEMES AND OPPORTUNITIES

Insurance Themes

- Tax uncertainty could contribute to muni market volatility
- Regulatory determinations could impact the attractiveness of credit for insurers
- Investment managers continue to lobby for “look through” treatment on pooled vehicles
- Continued active/passive discussion and the proliferation of ETFs

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

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How are these opportunities implemented for constrained investors?

INSURANCE PROJECTS FOR 2018

- **Pinpoint diversifying investment strategies that can be easily adapted to suit capital constrained investors**
- **Identify income generating opportunities that are attractive to investors with near-term liabilities**
- **Determine a quantitative and qualitative methodology that can acknowledge value added from specialist services provided by insurance focused asset managers**
- **Continue to develop financial statement based asset allocation models that will provide an enterprise focused risk assessment for insurance entities**

QUESTIONS?

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

SAVE THE DATE! NEPC's 23rd Annual Investment Conference

The conference will be held at the Renaissance Waterfront Hotel in Boston on May 14-15, 2018.

A promotional banner for NEPC's 23rd Annual Investment Conference. The left side features a hand pointing at a futuristic digital interface with various charts and data visualizations. The right side is a dark blue background with white text. The NEPC logo is in the top left corner. The main text reads "NEPC'S 23RD ANNUAL INVESTMENT CONFERENCE" and "DISRUPTION" in large, bold letters. Below that, it says "MAY 14 - MAY 15, 2018" and "RENAISSANCE WATERFRONT HOTEL BOSTON, MA". A green button with the text "SAVE THE DATE!" is located in the bottom right corner.

NEPC

**NEPC'S 23RD ANNUAL
INVESTMENT CONFERENCE**

DISRUPTION

MAY 14 - MAY 15, 2018
RENAISSANCE WATERFRONT HOTEL
BOSTON, MA

SAVE THE DATE!

More than any other generation, we're living in a time of rapid and dramatic change causing "disruption" at many levels. Join us to learn from industry experts about how to navigate markets and invest in these times of technological, demographic and political change. Stay tuned for additional details in the coming months. We look forward to seeing you in May!



*Stay up to date on our latest updates and publications at www.nepc.com/insights

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- **Information on market indices was provided by sources external to NEPC. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**
- **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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