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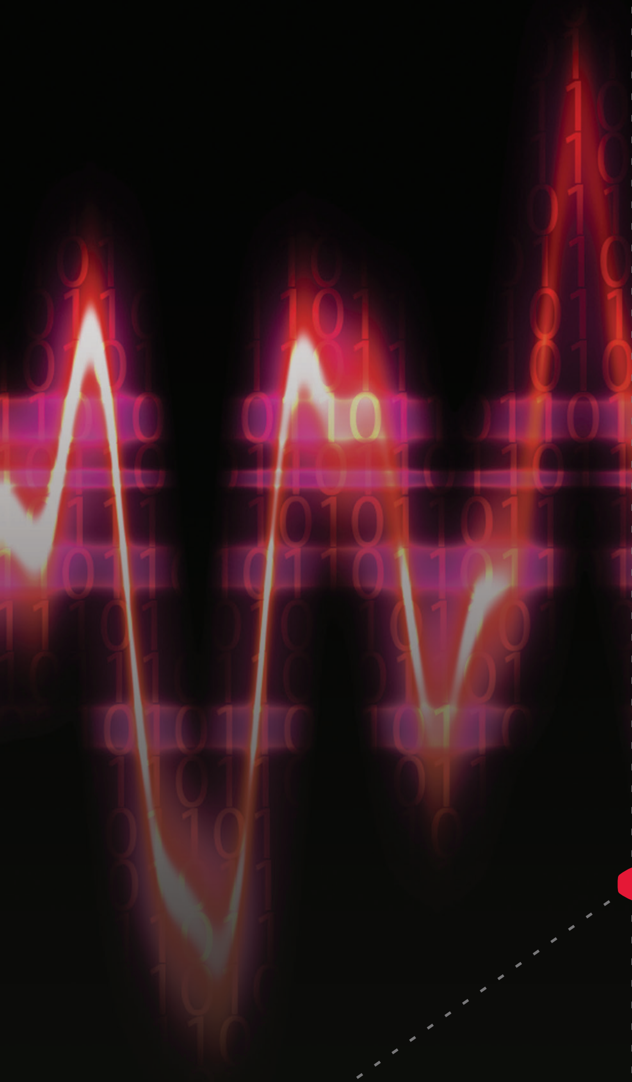

Equity Market Pulse

Quantamental Research

- *SPOTLIGHT: Asia*
- *Global Growth Estimates*
- *Global Valuation Analysis*
- *Global Operating Analysis*
- *Risk and Return by Region*
- *Investment Strategy Performance*

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Equity Market Pulse

Introduction

Equity Market Pulse provides professional investors with insights into global equity market fundamentals and performance at a glance. Spanning developed and emerging markets, it provides perspective on growth, valuations, operating efficiency and investment strategy. Our global analysis is broken into five themes:

Growth—Bottom-up analyst growth estimates by region using S&P Capital IQ consensus estimates.

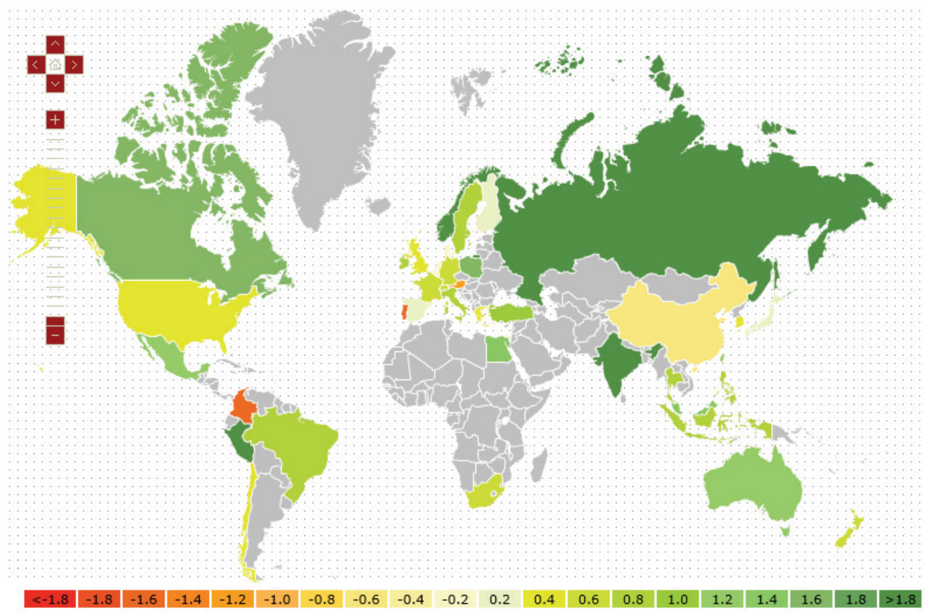
Valuation—Analysis of earnings, sales, and cash flow-based valuations metrics.

Operating Performance—Trends in return on equity (ROE) and its components.

Risk/Return—Tracks the dynamics of equity market returns and volatility.

Strategy Returns—Tracks the performance of eight common global investment strategies.

Return on Equity—
Excess Returns of Top 20% of Stocks over Past 12 Months by Country



Source: S&P Capital IQ Alpha Factor Library. Data as of August 31, 2015. Scale shows color code for percentage average monthly excess returns LTM for the strategy.

Executive Summary

- We begin with a spotlight on Asia, where growth and valuations in Korea stand out as attractive relative to other Asian economies.
- **Globally, earnings estimates for 2016 are high relative to 2015, which may signal large downward revisions to 2016 estimates are coming.**
- Stock price volatility has risen across the globe and 12-month returns have fallen significantly from a year earlier.
- A tale of two markets is unfolding as emerging and commodity-focused markets see weak EPS growth projections and downward revisions, while developed markets, particularly the U.S., Europe, and Japan, see stable revision trends and good 2015 growth (ex-U.S.).
- Valuations tell a similar story, with multiples becoming more attractive over the past month in developed markets, particularly Japan and developed Europe (ex UK). Cash flow yields (free cash flow to price) in developed markets have likewise strengthened.
- Cash flow yields in emerging and commodity-related markets, however, have declined to low levels, despite falling stock prices, indicating that cash-based fundamentals are declining faster than share prices.
- **Developed Europe (ex UK) and Japan appear relatively attractive based on earnings growth, stable revisions, and valuation multiples.**
- "Risk off" strategies such as return on equity and profit margins have outperformed over the past 12 months, while "risk on" strategies including high volatility and small market cap size have underperformed.

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SPOTLIGHT

Asia: Opportunity Amid the Ruins?

Earnings Growth Forecasts (As Of September 15, 2015)

Asia ex Japan	CY 2015E(%)	CY 2016E(%)
China (CNY)	4.2	12.0
India (INR)	8.0	17.9
South Korea (KRW)	15.8	17.3
Taiwan (TWD)	3.9	7.2
Singapore (SGD)	2.8	2.8
Hong Kong (HKD)	(4.7)	9.1

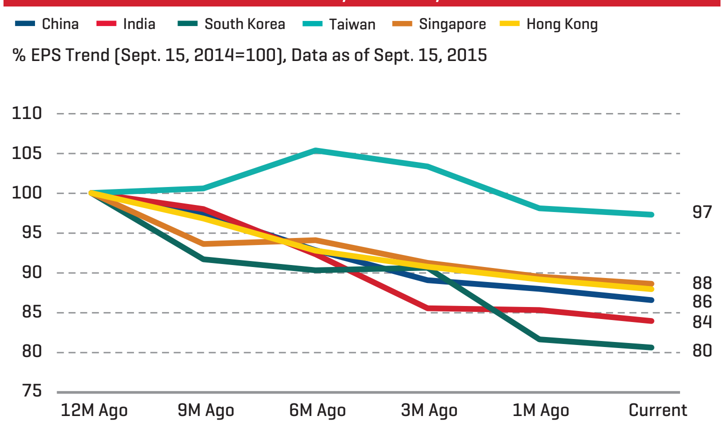
Revenue Growth Forecasts

Asia ex Japan	CY 2015E(%)	CY 2016E(%)
China (CNY)	1.2	10.4
India (INR)	(0.2)	11.0
South Korea (KRW)	(2.3)	5.8
Taiwan (TWD)	1.0	6.2
Singapore (SGD)	(2.1)	5.8
Hong Kong (HKD)	(1.5)	9.9

Source: S&P Capital IQ Estimates and S&P Quantamental Research. Countries are sorted in descending order by nominal GDP.

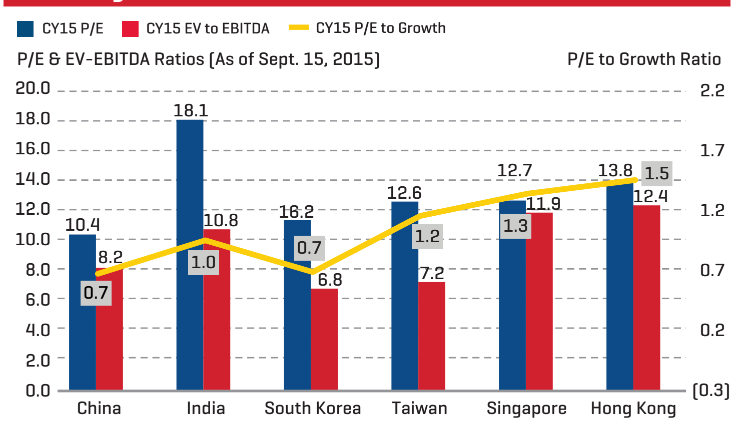
- **The 2015 forecasted growth picture in Asia has deteriorated significantly over the course of the year.** In January analysts projected aggregate 2015 EPS growth of 10% for China,[1] on 7% revenue growth. By September (see table above) this had dropped to 4% EPS growth on 1% growth in revenues, with estimates continuing to decline as of the date of this publication.
- **While overall growth rates for Asia appear quite weak for 2015, South Korea stands out as having above average forecasted 2015 growth (currently 16%).** Korea is a diversified economy, with anticipated growth for 2015 in industrials, consumer staples, financials, healthcare, materials, and telecomm. (Technology and consumer discretionary are forecast to show modest declines, with Korea's small energy industry expected to show a large decline.)
- **Although estimate trends have been falling in Korea (see chart below), much of this decline is due to Korea's large shipbuilding industry,** where estimates have been revised down sharply. Excluding the shipbuilding-related conglomerates, overall Korean estimates have declined just 6% over the past 12 months, versus the 20% decline shown below.

CY 15 EPS Estimate—Trend by Country



Source: S&P Capital IQ Estimates and S&P Quantamental Research. Chart shows calendar year 2015 estimates from September 15, 2014 through September 15, 2015.

Asian Regional Valuations—CY 2015 Estimates



Source: S&P Capital IQ Quantamental Research.

Geographic Revenue Breakdown by Region

	% of Revenue from the U.S. and Canada	% of Revenue from Developed Europe
China BMI Index	23.0	1.7
S&P Hong Kong BMI Index	31.5	3.0
S&P India BMI Index	19.2	10.5
S&P Korea BMI Index	18.9	0.1
S&P Singapore BMI Index	9.6	9.5

Source: S&P Capital IQ Quantamental Research. Data as of September 15, 2015.

- **Korea also has the second lowest P/E ratio and the lowest P/E to growth ratio in the region.**[2] The country also appears relatively attractive on an enterprise value to EBITDA basis.[3]
- **From a geographic sales point of view, Korea has significant exposure to North America, where economic trends remain positive, with 19% of revenues from the U.S. and Canada,** about equal to India's exposure. However, Korea's exposure to developed Europe, where analysts also expect economic growth, is relatively low.

[1] We use the S&P Broad Market Indices (BMI) to aggregate data for each country shown in this section.

[2] Japan, which is covered later in this paper, has a CY 15 P/E ratio of 14.5X, a P/E to growth ratio of 1.6X, and an enterprise value to EBITDA ratio of 8.0X.

[3] Note: The enterprise value to EBITDA ratio excludes banks.

[4] The geographic revenue breakdown, above, is based on 314 companies that have reported their latest annual revenue by either geographic region or country. We then group the numbers for those companies into the specific regions reported above.

Global Growth Estimates—EPS and Sales Growth

Earnings Growth Forecasts (As Of Sept. 15, 2015)

Americas	CY 2014A(%)	CY 2015E(%)	CY 2016E(%)
S&P 1500 Index (USD)	6.4	(1.5)	11.1
S&P/TSX Composite Index (CAD)	12.5	(10.2)	18.5
S&P Latin America BMI (BRL)	(10.9)	6.4	33.0
Europe	CY 2014A	CY 2015E	CY 2016E
S&P United Kingdom BMI (GBP)	3.2	(10.1)	10.1
S&P Europe ex UK BMI (EUR)	1.3	13.2	10.6
S&P Europe Emerging BMI (EUR)	(31.5)	8.2	12.1
Asia	CY 2014A	CY 2015E	CY 2016E
S&P Japan BMI (JPY)	7.2	13.7	13.9
S&P Asia Pacific Ex-Japan BMI (USD)	0.2	(5.5)	7.4
S&P Asia Pacific Emerging BMI (CNY)	3.7	3.4	12.6

Revenue Growth Forecasts

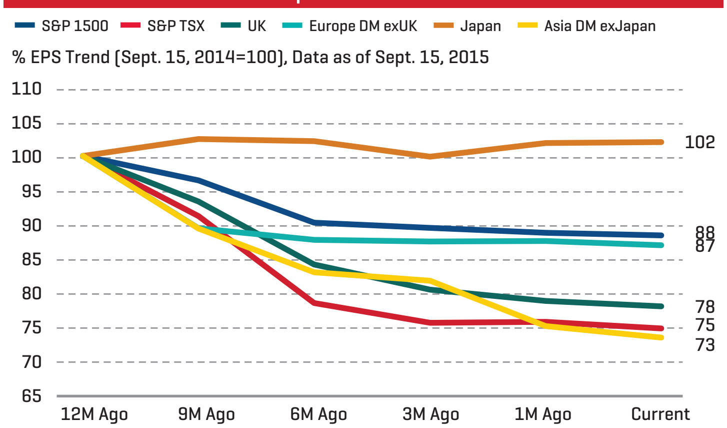
Americas	CY 2014A(%)	CY 2015E(%)	CY 2016E(%)
S&P 1500 Index (USD)	4.1	(1.8)	5.8
S&P/TSX Composite Index (CAD)	19.3	(2.3)	7.4
S&P Latin America BMI (BRL)	9.2	19.0	7.9
Europe	CY 2014A	CY 2015E	CY 2016E
S&P United Kingdom BMI (GBP)	0.1	(9.6)	6.4
S&P Europe ex UK BMI (EUR)	0.7	4.2	3.9
S&P Europe Emerging BMI (EUR)	(6.7)	(7.9)	10.8
Asia	CY 2014A	CY 2015E	CY 2016E
S&P Japan BMI (JPY)	1.1	2.4	3.4
S&P Asia Pacific Ex-Japan BMI (USD)	(3.0)	(7.7)	5.9
S&P Asia Pacific Emerging BMI (CNY)	6.3	(0.7)	9.8

Source: S&P Capital IQ Estimates and S&P Quantamental Research. Green highlighted cells represent forecast areas of strength discussed in text; red highlighted cells represent forecast areas of weakness discussed in text.

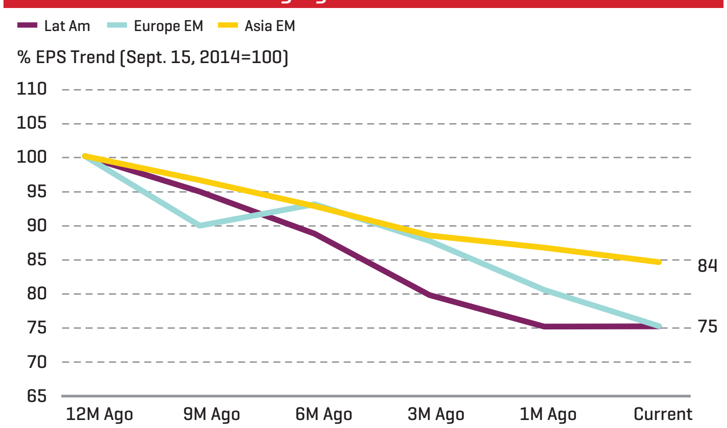
- **Earnings estimates for 2016 appear high relative to 2015, which may indicate significant downward revisions to 2016 estimates are coming.** For example, the S&P Global 1200 Index® (not shown) has forecast 2015 EPS growth in USD of -3.1% followed by 10.8% for 2016. Much of the improved growth is expected to come from the energy, materials, info tech, and industrials sectors – in other words an anticipated significant global rebound.
- **Japan and developed Europe (ex UK), highlighted in our previous issue, continue to have strong 2015 sales and EPS growth trends, along with stable revisions** (see below).
- **Falling energy sector estimates continue to mask a 2015 trend toward global growth.** EPS growth estimates, excluding energy, for the S&P Composite 1500®, the S&P United Kingdom BMI, and the S&P/TSX Composite for 2015 are positive 5.1%, 3.6%, and 7.7%, respectively.[5]
- **Large energy and materials companies are also significantly constraining growth in emerging markets.** Excluding Vale S.A. and Petrobras, Latin America would have estimated 2015 EPS growth in Reais of 25%, while excluding PetroChina and CNOOC, China would have growth of 7%.

Global Growth Estimates—EPS Estimate Revisions

CY 15 EPS Trend—Developed Markets



CY 15 EPS Trend—Emerging Markets



Source: S&P Capital IQ Estimates and S&P Quantamental Research. Chart shows calendar year 2015 estimates from September 15, 2014 through September 15, 2015.

- **Developed market revision trends for 2015 are stabilizing.** Over the past six months 2015 EPS estimates for Japan, the S&P 1500, and developed Europe (ex UK) have remained stable. Six-month estimate trends for these regions are S&P 1500 -2% (USD), Japan +2% (JPY), and developed Europe -1% (EUR).
- **However, emerging and commodity-dependent developed markets continue to see declining revision trends.** Emerging Europe has seen 2015 EPS estimates decline 18% over the past six months (in EUR), Latin America is down 13% (BRL), developed Asia ex Japan is down 10% (USD),[6] and emerging Asia is down 9% (CNY).

[5] The UK estimate also excludes materials sector stocks. We also note that UK EPS estimates for 2015, ex-energy/materials, have declined significantly from 8.4% growth estimated in June. Estimates for the U.S. have declined from 6.3% in June.

[6] Developed Asia ex Japan includes Australia, which has heavy exposure to commodities. Another factor, however, is that we calculate earnings in USD, since the index also covers South Korea, Hong Kong, and Singapore. The decline in these currencies versus the USD over the past year plays a part in the severity of the EPS downtrend.

Global Valuations Analysis

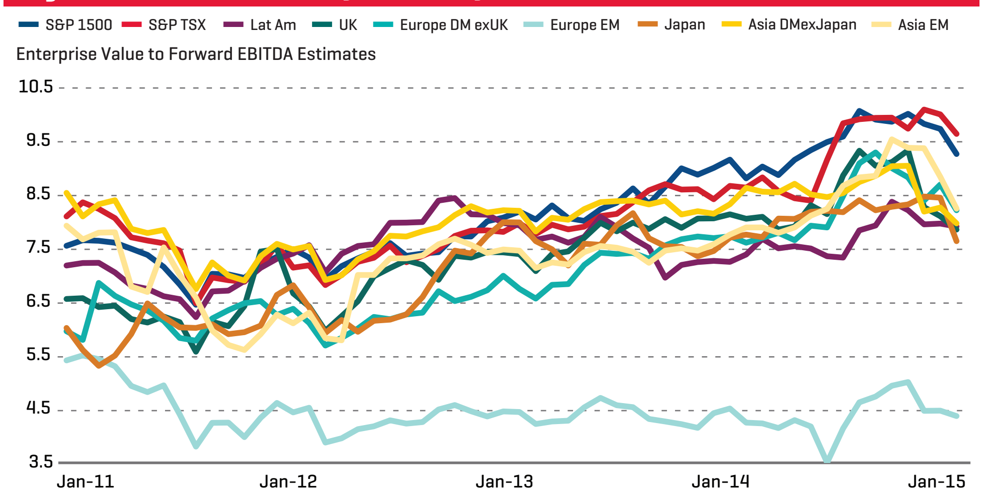
Regional Market Metrics (As Of September 15, 2015)

Americas	S&P 1500	S&P TSX	Latin America
CY 2015 P/E	17.1	16.8	16.0
CY 2016 P/E	15.4	14.2	12.0
Proj LT Growth Rate (Median)	11.3%	8.0%	12.1%
CY 2015 P/E to Growth Ratio	1.5	2.1	1.3
CY 2015 EV/EBITDA	10.3	10.1	8.1
CY 2015 Free Cash Flow Yield	4.6%	2.1%	1.0%
Europe	**United Kingdom**	**Europe DM exUK**	**Europe EM**
CY 2015 P/E	15.6	15.5	7.2
CY 2016 P/E	14.3	14.0	6.6
Proj LT Growth Rate (Median)	9.0%	12.4%	12.0%
CY 2015 P/E to Growth Ratio	1.7	1.3	0.6
CY 2015 EV/EBITDA	8.9	8.9	4.3
CY 2015 Free Cash Flow Yield	4.6%	4.4%	8.2%
Asia	**Japan**	**Asia DM exJapan**	**Asia EM**
CY 2015 P/E	14.5	13.2	12.1
CY 2016 P/E	13.3	12.3	10.8
Proj LT Growth Rate (Median)	9.0%	9.8%	15.5%
CY 2015 P/E to Growth Ratio	1.6	1.3	0.8
CY 2015 EV/EBITDA	8.0	9.0	8.7
CY 2015 Free Cash Flow Yield	4.3%	4.4%	2.9%

Source: S&P Capital IQ Quantamental Research. Green highlighted cells represent forecast areas of strength discussed in text; red highlighted cells represent forecast areas of weakness discussed in text.

- **Canada, Latin America, and emerging Asia are experiencing significant declines in cash flow yields.** These declines may signal that despite falling P/E ratios, these regions may still be expensive.
- **Japan's valuation multiples are among the lowest of any developed region, despite strong forecast EPS growth.** It's CY 2015 P/E has fallen to 15x from 18x in June, and its EV/EBITDA[7] ratio has fallen to 8x from 8.5x.
- **Developed Europe (ex UK) also has attractive valuation multiples.** Its CY 2015 P/E has fallen to 16x, from 17x in June, with a free cash flow yield of 4.4%. Its P/E to growth ratio, at 1.3x, is the lowest of any developed market (tied with developed Asia).
- **S&P Composite 1500® multiples still appear expensive.** The S&P 1500 CY 2015 P/E contracted to 17x, from 18x in June, and is the highest of any region. A free cash flow yield of 4.6%, tied for first with the UK, provides evidence of good cash generation among S&P 1500 companies.

Regional Market Valuation, August 2010—August 2015



Source: S&P Capital IQ Quantamental Research. Data as of August 31, 2015.

- **A global uptrend in valuations is still in effect globally, despite weakening growth trends in 2015**

[7]Enterprise value to EBITDA ratios exclude banks.

Global Operating Performance—Return on Equity Analysis

Dupont Analysis: Return On Equity = Net Profit Margin * Asset Turnover * Leverage (Excludes Banks)

Americas		S&P 1500 (USD)		S&P TSX (CAD)		Latin America (BRL)	
		2014	2015E	2014	2015E	2014	2015E
Return on Equity	(Profit/Equity)	17.0%	15.1%	11.1%	8.6%	8.5%	8.2%
Net Profit Margin	(Profit/Sales)	9.0%	9.0%	8.0%	6.6%	6.0%	5.1%
Turnover	(Sales/Assets)	0.54	0.52	4.01	0.35	0.54	0.58
Leverage	(Assets/Equity)	3.5	3.2	4.0	3.7	2.6	2.8
Europe		**United Kingdom (GBP)**		**Europe DM ex UK (EUR)**		**Europe EM (EUR)**	
		2014	2015E	2014	2015E	2014	2015E
Return on Equity	(Profit/Equity)	15.0%	12.4%	11.4%	11.9%	10.4%	11.5%
Net Profit Margin	(Profit/Sales)	7.2%	7.1%	5.9%	6.3%	7.1%	9.4%
Turnover	(Sales/Assets)	0.43	0.37	0.37	0.37	0.66	0.63
Leverage	(Assets/Equity)	4.9	4.7	5.3	5.2	2.2	1.9
Asia		**Japan (JPY)**		**Asia DM ex Japan (USD)**		**Asia EM (CNY)**	
		2014	2015E	2014	2015E	2014	2015E
Return on Equity	(Profit/Equity)	7.8%	8.6%	9.0%	8.1%	11.6%	11.1%
Net Profit Margin	(Profit/Sales)	3.9%	4.4%	6.9%	7.1%	6.8%	7.1%
Turnover	(Sales/Assets)	0.65	0.64	0.50	0.45	0.51	0.47
Leverage	(Assets/Equity)	3.1	3.1	2.6	2.6	3.4	3.4

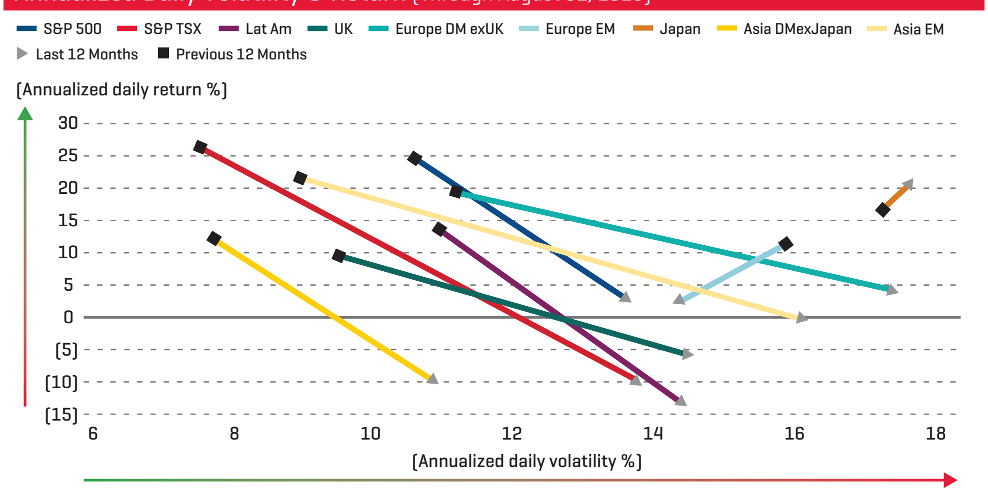
Source: S&P Capital IQ Quantamental Research. Data as of September 15, 2015. Green highlights represent significant forecast increases in ROE or profit margins; red highlight represent significant forecast decreases in ROE or profit margins.

Note: For consistency with other charts/tables in this publication, we use analyst estimates to construct the DuPont analysis. Values for 2014 are based on analyst-adjusted ("normalized") actual EPS and revenues, while values for 2015 are based on estimates. "Forward" common equity is estimated by adding estimated earnings to prior-year equity and subtracting estimated dividends, while total assets are estimated by applying estimated revenue growth rates to prior-year assets.

- ROE is declining in several regions globally in 2015, on lower profit margins and rising equity, signaling a maturing of the economic cycle.
- The U.S. remains the global leader in terms of profitability. Although ROE is projected to decline in the U..S. in 2015, it remains the highest of any region. Also, profit margins, estimated at 9.0% for 2015, are second only to emerging Europe (where estimate data is volatile).
- Developed Europe (ex UK) and Japan are the two primary regions forecast to see rising ROE and profit margins in 2015. These two regions also had relatively strong growth profiles, stable estimate trends, and attractive valuations.
- Commodity related markets continue to see significant forecast drops in ROE, and with estimates still declining in these regions ROE may fall further.

Risk & Return in Regional Equity Markets

Annualized Daily Volatility & Return (Through August 31, 2015)



Source: S&P Capital IQ Quantamental Research. Indices are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

- Global returns and volatility have reversed course over the past three months, with returns now down and volatility up. In the June issue of EMP, five of nine regions had rising 12-month returns and four regions had declining volatility.
- As of August 31, all regions except Japan had declining 12-month returns, and all regions except emerging Europe had rising annualized volatility. Increased volatility was driven by June-August returns (and particularly August), when volatility surged across regions. Generally, increased volatility is associated with higher risk.
- Japan remains notable, with the highest local-currency returns over the last 12 months, at 21%, although volatility among Japanese stocks is also high. We note that Japan also has high forecast 2015 EPS growth, stable EPS revision trends, and attractive valuations.
- Also notable is developed Europe (ex UK), with the second highest 12-month returns, at 5%.

HOW TO READ THE CHART: Each point on the chart represents a combination of annualized total returns (left scale) and annualized price volatility (bottom scale). The lines show the change in return/volatility between the 12 months ended August 2014 and the 12 months ended August 2015. The arrow heads on the lines show the direction of travel chronologically.

Global Investment Strategy Performance

Equal-Weighted Excess Monthly Returns of Top 20% of Stocks (September 1, 2014 to August 31, 2015)

Representative Factor:	Return on Equity	12M minus 1M Return	Net Profit Margin	Trailing 1Y EPS Growth	Forward E/P	Forecast EPS Revisions	Market Cap	12M Return Volatility
Style	**Capital Efficiency**	**Price Momentum**	**Earnings Quality**	**Growth**	**Valuation**	**Analyst Expectations**	**Small Size**	**High Volatility**
S&P 1500	0.3	0.2	(0.3)	(0.2)	0.1	(0.1)	(0.0)	(1.1)
S&P TSX	1.8	0.1	(0.2)	(0.7)	0.6	(1.2)	(0.6)	(2.9)
Latin America	0.5	0.9	1.1	0.7	(1.2)	(0.1)	(1.4)	(2.2)
United Kingdom	0.2	0.6	0.2	0.5	0.3	0.2	(0.0)	(0.4)
Europe Developed exUK	0.7	0.6	0.5	0.3	(0.3)	0.1	(0.9)	(1.5)
Europe Emerging	0.9	0.1	(0.8)	0.9	1.1	0.4	(0.2)	(0.5)
Japan	0.2	(0.4)	0.4	(0.5)	0.0	0.2	(0.7)	(1.0)
Asia Developed exJapan	0.3	0.5	0.2	0.1	(1.2)	(0.1)	(0.4)	(1.3)
Asia Emerging	0.8	(0.0)	0.4	(0.3)	0.8	0.9	(1.7)	(1.0)
# Regions Outperforming	9 of 9	7 of 9	6 of 9	5 of 9	6 of 9	5 of 9	0 of 9	0 of 9

OUTPERFORMING STRATEGIES ← → UNDERPERFORMING STRATEGIES

Source: S&P Capital IQ Quantamental Research. Indices are unmanaged, statistical composites and their returns do not include payment of any sales charges or fees an investor would pay to purchase the securities they represent. Such costs would lower performance. It is not possible to invest directly in an index. Past performance is not a guarantee of future results. Green highlights indicate areas of particular strength; red highlights indicate areas of particular weakness.

- **Our eight "style-based" alpha factors clearly show that there has been a shift away from risky assets and toward higher-quality assets over the past 12-months.** While quality-related factors such as return on equity (ROE) and net profit margin have outperformed across regions, risk-related factors such as high volatility and small size have significantly underperformed.
- **Underperformance of risk-related factors was particularly pronounced in emerging and commodity-related markets (e.g., Canada),** reflecting a capital flight from these regions in our view. Among large countries, Australia had the worst performance for high volatility stocks, with 3.2% average monthly underperformance over the past 12 months.
- **Return on equity (ROE) has been the strongest of our eight "style-based" factors over the past 12-months.** ROE has worked particularly well in commodity-related countries, such as Canada, Brazil, and Australia (see heat map on page two). However, ROE also generated positive excess returns in the U.S. and Europe.

Our Recent Research

JUNE 2015

Equity Market Pulse – Quarterly Equity Market Insights Issue 4

MARCH 2015

Equity Market Pulse – Quarterly Equity Market Insights Issue 3

NOVEMBER 2014

Equity Market Pulse – Quarterly Equity Market Insights Issue 2

SEPTEMBER 2015

Research Brief: Building Smart Beta Portfolios

Why is smart beta important? We believe that smart beta is continuing to gain momentum among a variety of constituencies, including ETF providers, asset managers and asset owners.

SEPTEMBER 2015

Research Brief: Airline Industry Factors

This brief examines S&P Capital IQ's industry-specific factors for the global airline industry. The seven airline industry factors contained in S&P Capital IQ's Alpha Factor Library address airline profitability in terms of growth, capacity utilization, and operating efficiency and consist of industry-specific financial ratios widely used by financial analysts.

AUGUST 2015

Point-In-Time vs. Lagged Fundamentals – This time i(t')s different?

The common starting point for alpha discovery and risk analysis is the backtesting of historical company financials using a research database. Whether internally constructed or licensed, research databases can be distinguished by two primary formats – Point in Time and Non-Point in Time. This paper focuses on the major practical differences between Point in Time (PIT) and Non-Point in Time (Non PIT) data for both backtesting and historical research. PIT data is defined by its ability to answer two questions: When was the information known? and What information was known at the time?.

AUGUST 2015

Introducing S&P Capital IQ Stock Selection Model for the Japanese Market

S&P Capital IQ® provides professional investors with high quality data, stock selection models (signals), and value-added research, helping its clients achieve superior results. Since the launch S&P Capital IQ's four U.S. stock selection models ("US Stock Selection Models Introduction") in January 2011, we released a suite of global stock selection models targeting both developed ("Introducing S&P Capital IQ Global Stock Selection Models for Developed Markets") and emerging markets ("Obtaining an Edge in Emerging Markets"). In this report, we introduce a stock selection model for the Japanese equity market that completes our global model offering.

JULY 2015

Research Brief: Liquidity Fragility

In this brief, we examine liquidity in arguably one of the most liquid equity markets in the world: The Standard & Poor's 500 (S&P 500). Whereas the overall index is highly liquid, not all issues within the index are equally liquid. We examine where in the S&P 500 liquidity exists and where it is constrained.

MAY 2015

Investing in a World with Increasing Investor Activism

Investor activism has gained mainstream acceptance as activists with larger-than-life personas have waged a string of successful campaigns. Activist hedge funds' assets under management (AUM) have swelled to $120 billion, an increase of $30 billion in 2014 alone. It was among the best performing hedge fund strategies in 2014 as well as over the last three- and five-year periods. In this report, we explore an investment strategy that looks to ride the momentum surrounding the announcement of investor activism. We further explore what, if any, changes to targeted companies activists are able to influence.

APRIL 2015

Drilling for Alpha in the Oil and Gas Industry – Insights from Industry Specific Data & Company Financials

During the recent slide in oil prices, clients frequently asked us which strategies have historically been effective in selecting stocks in declining energy markets. This report answers this question, along with its corollary: which strategies work in rising energy markets? We also explore the value of oil & gas reserve data used by fundamental analysts/investors, but not used in a majority of systematic investment strategies. The analysis in this report should help both fundamental and quantitatively-oriented investors determine how to best use industry-specific metrics when selecting securities from a pool of global oil & gas companies.

FEBRUARY 2015

U.S. Stock Selection Model Performance Review

Since the launch of the four S&P Capital IQ™ U.S. stock selection models in January 2011, the performance of all four models (Growth Benchmark Model, Value Benchmark Model, Quality Model, and Price Momentum Model) has been positive and 2014 was no exception. Our models' key differentiators - distinct formulation for large cap and small cap stocks, special treatment for the financial sector, sector neutrality to target stock specific alpha, and factor diversity - enabled the models to outperform across various market environments.

In this report, we review the underlying drivers of each model's performance over the 12 months ended December 31, 2014, document performance from January 2011 when the models went live, and provide full model performance history from January 1987.

JANUARY 2015

Global Pension Plans: Are Fully Funded Plans a Relic of the Past?

Despite global stock and bond market improvement, pension underfunding remains a significant problem for both retirees and investors. While U.S. companies are the best funded of the three developed regions we examine, only 38% of S&P 500 companies with pension obligations have a funding status (pension assets to liabilities) of 90% or better. We see trends that may keep pressure on global pension funding: the continued fall in interest rates in 2014, which will likely result in lower discount rates and corresponding higher pension obligations; a global decrease in employer contributions to pension plans over the past five years; and the potential for decreased investing returns following a six-year global equities bull market.

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Profitability: Growth-Like Strategy, Value-Like Returns Profiting from Companies with Large Economic Moats

Value-based strategies have been the favorite weapons in many investors' arsenals, historically yielding large returns and consistently outperforming. Most value investors focus on the price side of the equation – i.e., buying assets that are priced below their intrinsic values. Yet, there's another dimension to the value equation that has been complementary to value and just as critical in generating excess returns. Enter profitability. Profitability has historically worked as an investment strategy because instead of focusing on the cheapness of an asset it focuses on the productiveness of an asset - i.e., its ability to generate earnings for the investor. Our results from January 1996 to August 2014 show:The S&P 500® continues to be the preeminent regional performer in terms of both financial results and price appreciation Risk and Return: Tracks the dynamics of equity market returns and volatility.