BERMAN
CAPITAL ADVISORS

Q3 2015 Review and Outlook

October 27, 2015

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Q3 Performance Review

The S&P entered a correction, falling 12.4% from late May to August.

In the third quarter, the U.S. benchmark shed 6.9%, the largest decline since 2011. Yet large-cap U.S. equities were comparatively well off.

The carnage: every country in the main MSCI Index lost ground, every Russell "style box" is negative on the year, China's roller coaster markets plummeted, and commodity indices hit six-year lows.

Index Return (in USD)	QTD	YTD
S&P 500	-6.44	-5.29
Russell 1000	-6.83	-5.24
Russell 2000	-11.92	-7.73
Russell Midcap	-8.01	-5.84
MSCI EAFE	-10.23	-5.28
MSCI Europe	-8.69	-5.2
MSCI Emerging Markets	-17.9	-15.48
MSCI ACWI	-9.45	-7.04
Barclays US Aggregate Bond	1.23	1.13
Nikkei 225 (Japan)	-14.26	-1.4
Barcap Municipal Bond	1.65	1.77
Barclays US Treasury	1.76	1.8
Barclays High Yield	-4.86	-2.45
Gold	-4.87	-5.85
Oil	-22.99	-14.96
Alerian MLP	-22.1	-33.87

Source: Bloomberg, Ned Davis Research

Drivers of the Market Decline

Three factors in particular drove the quarter's decline:

- **Fear of a Chinese "hard landing",** worsened by an ill-considered and confused government policy response.

- **Policy Uncertainty** - Concern about the impact of the potential end of zero-interest rate policy and rising rates. This was followed by worry when the Fed did not raise rates, on the grounds they may see an even weaker environment than the data seems to show.

- **Significant earnings decline** as energy stocks and international market weakness drove lower guidance. Investors are worried that without revenue growth, companies have squeezed out all the costs they can, and that cheap financing will be less cheap.

Q4 Off to a Good Start

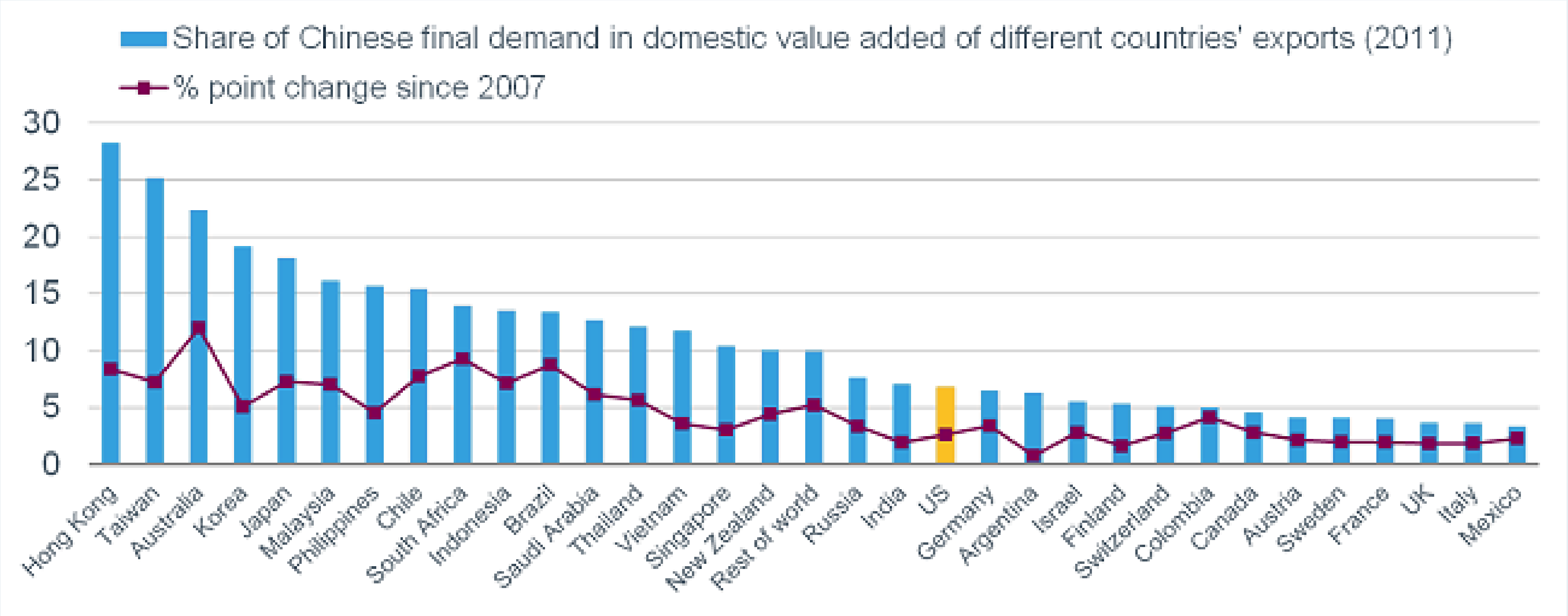
Equities have rebounded broadly in October

Source: Yahoo! Finance

Volatility Perspective

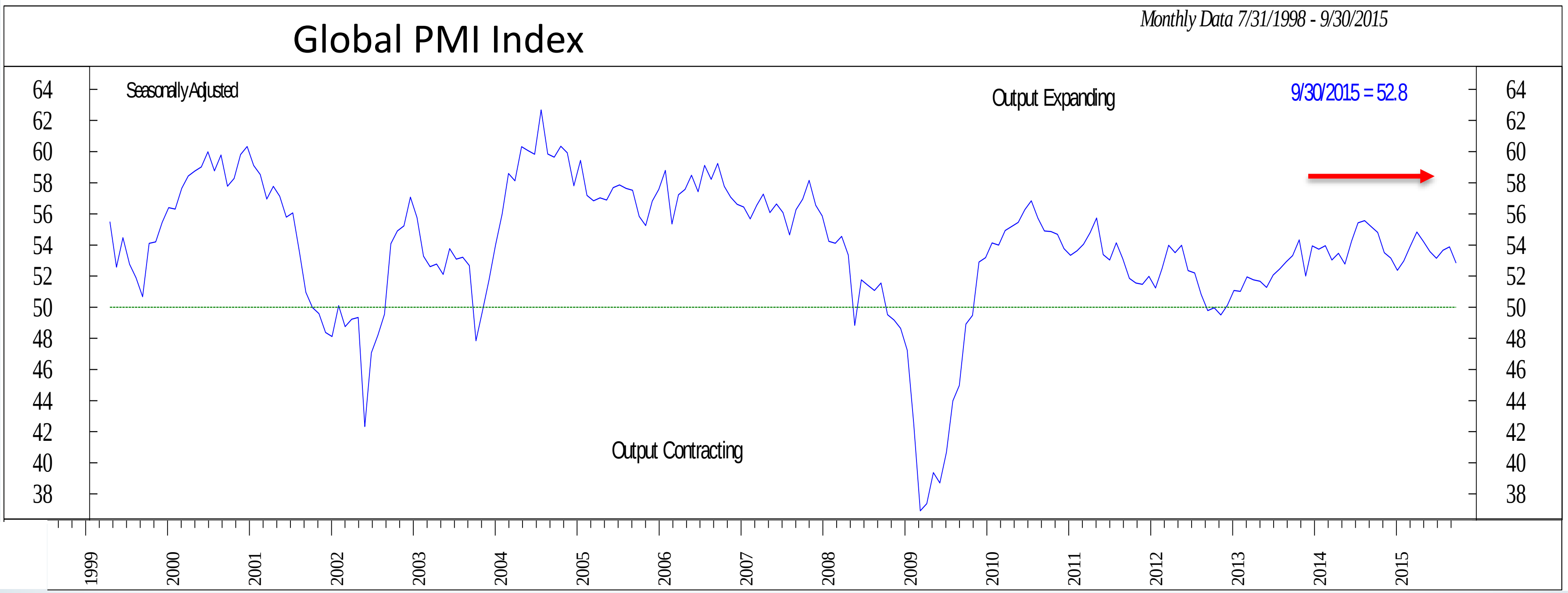
Source: Chicago Board Options Exchange

China's Direct Impact is Limited



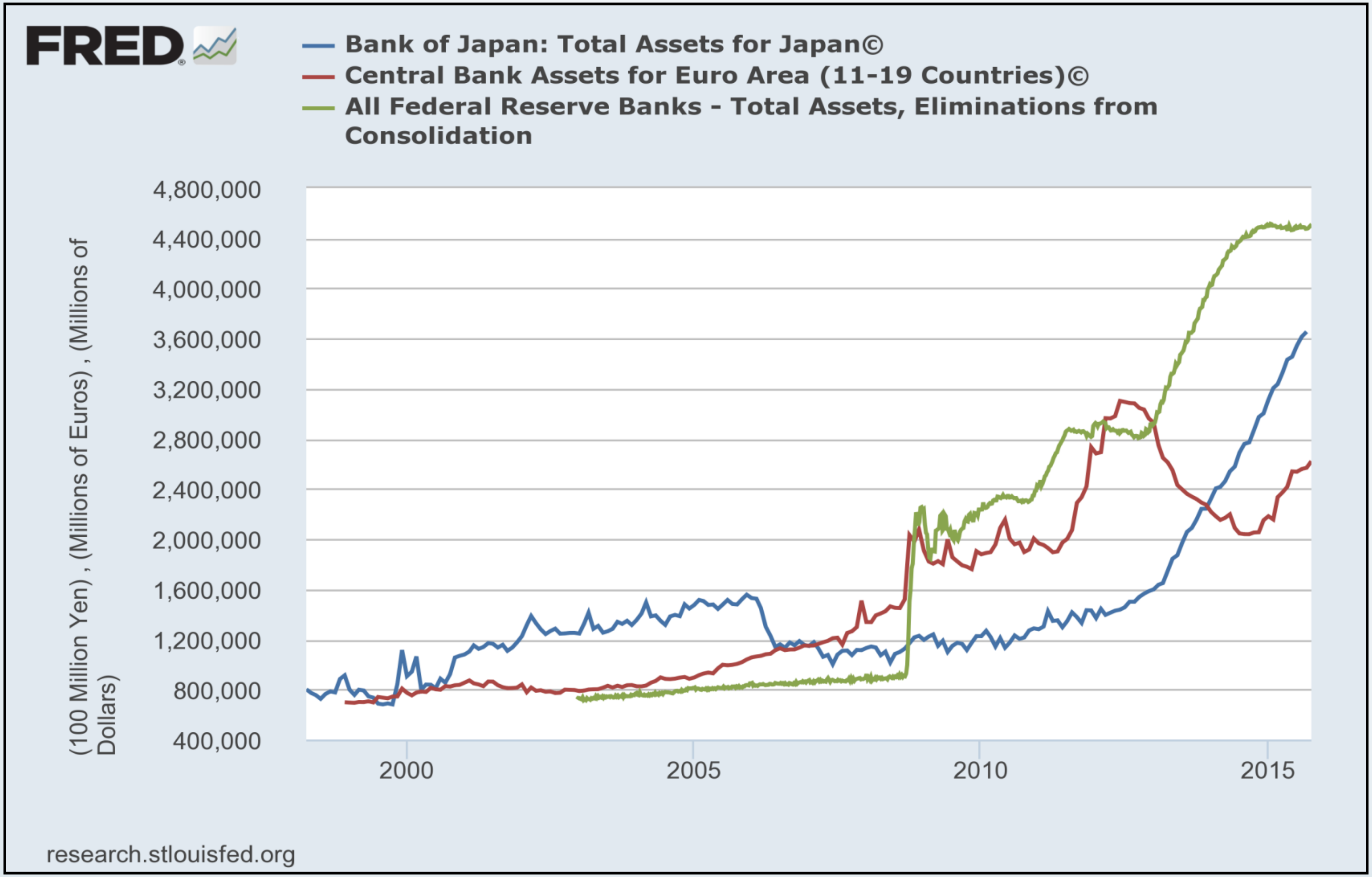
Source: Gavekal Data/Macrobond, as of December 31, 2011.

Global Growth Slow but Positive

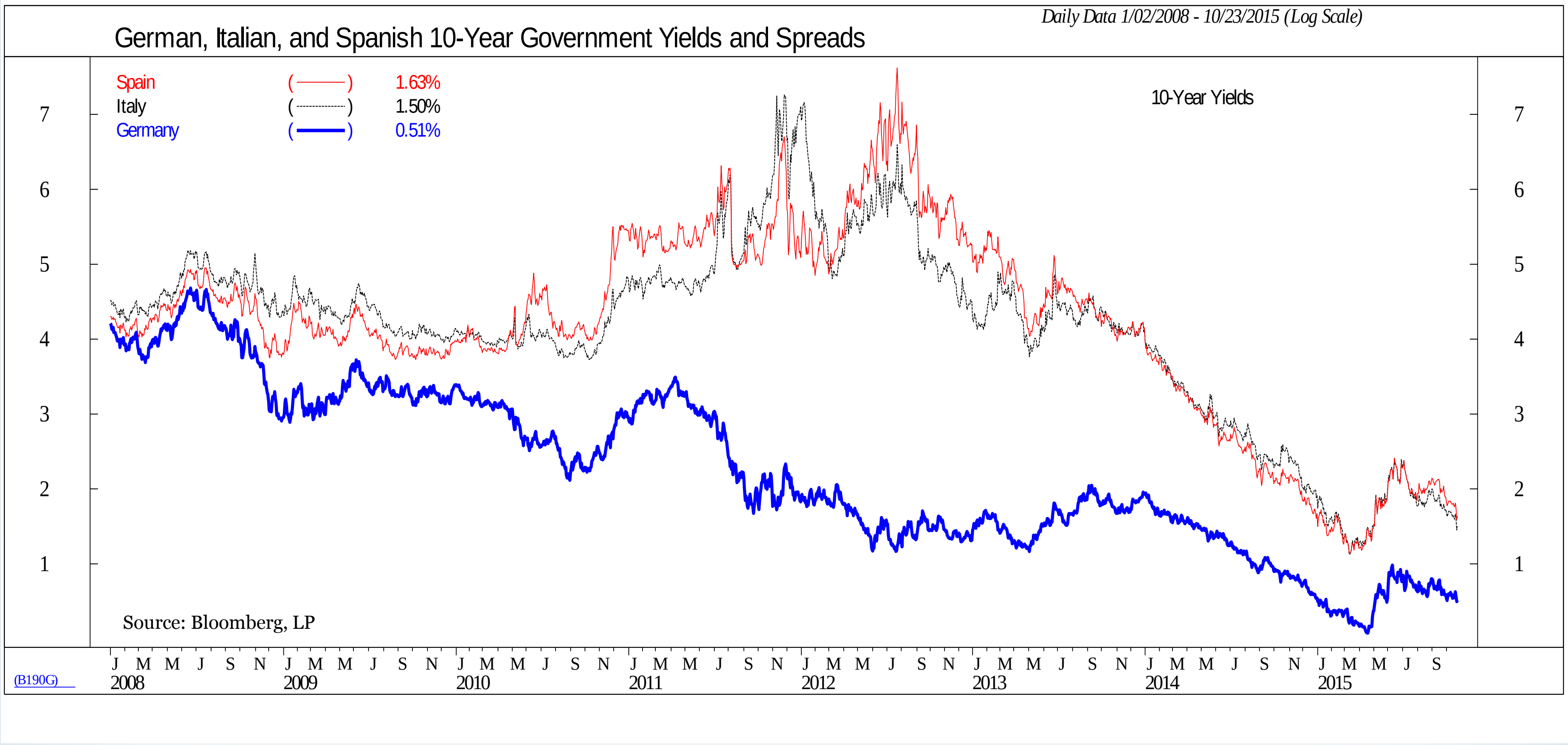


Source: J.P. Morgan, Ned Davis Research

QE Continues Abroad

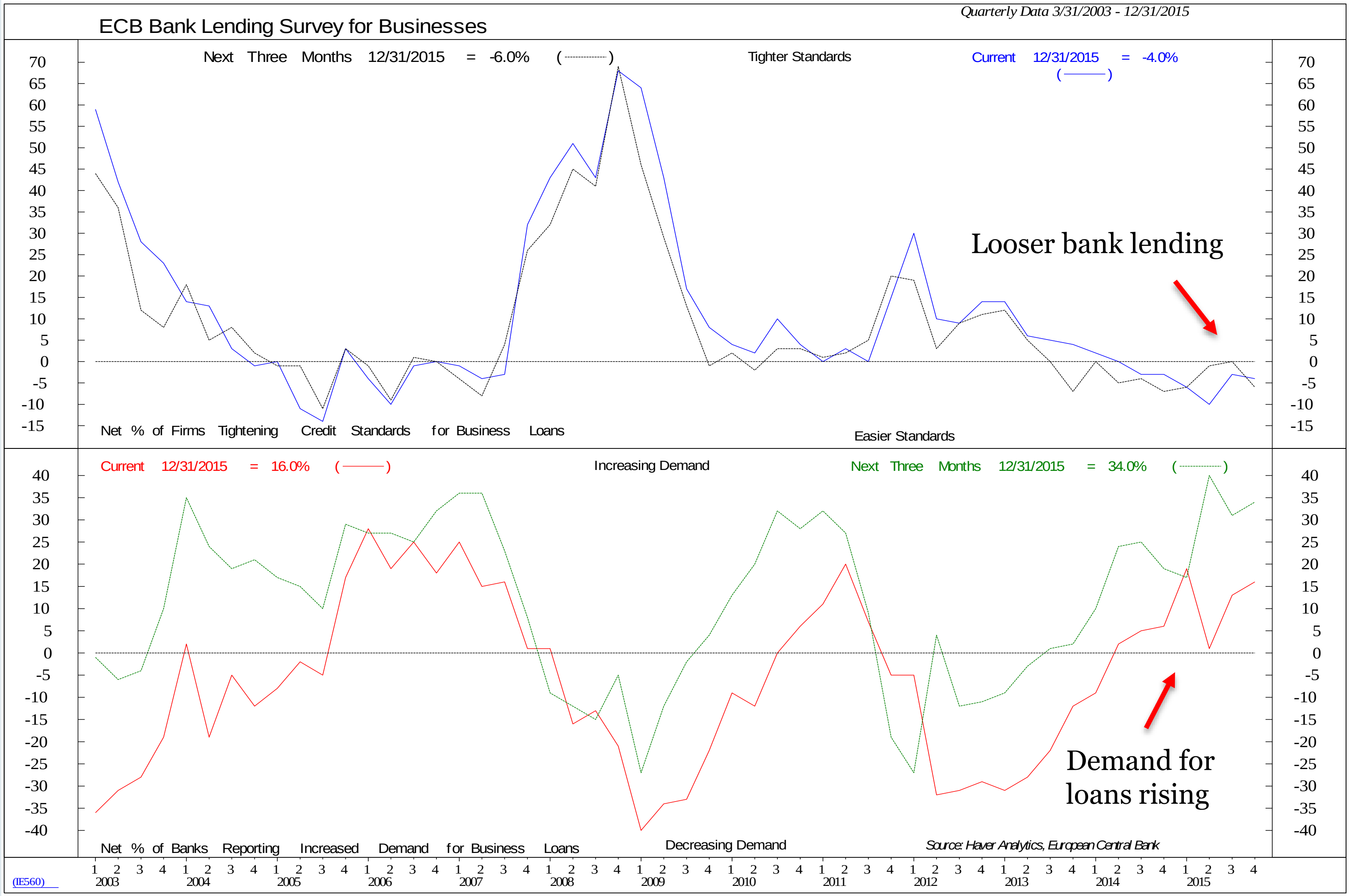


No Sign of Sovereign Distress



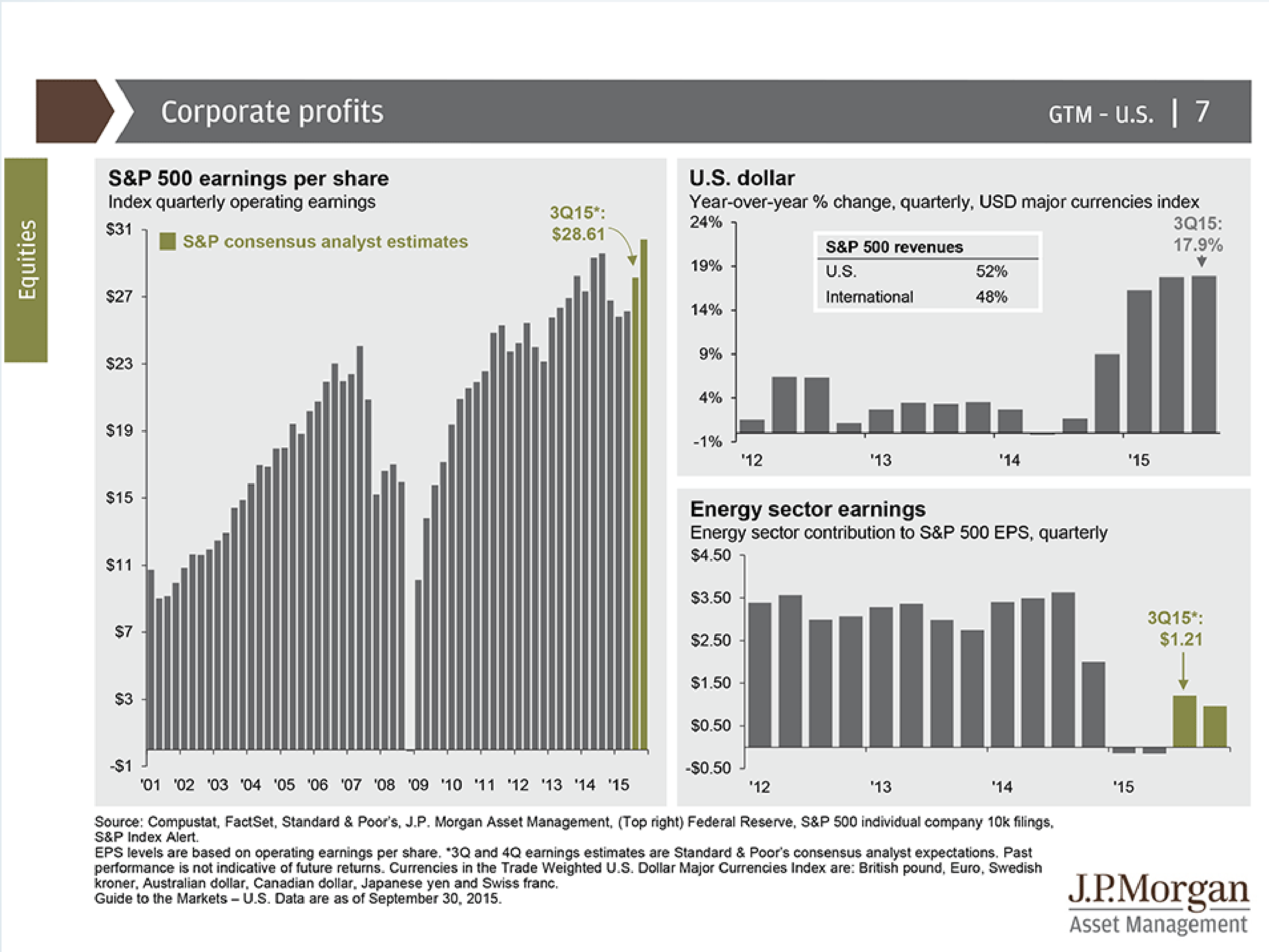
Source: Ned Davis Research

European Lending Recovering



Source: J.P. Morgan, Ned Davis Research

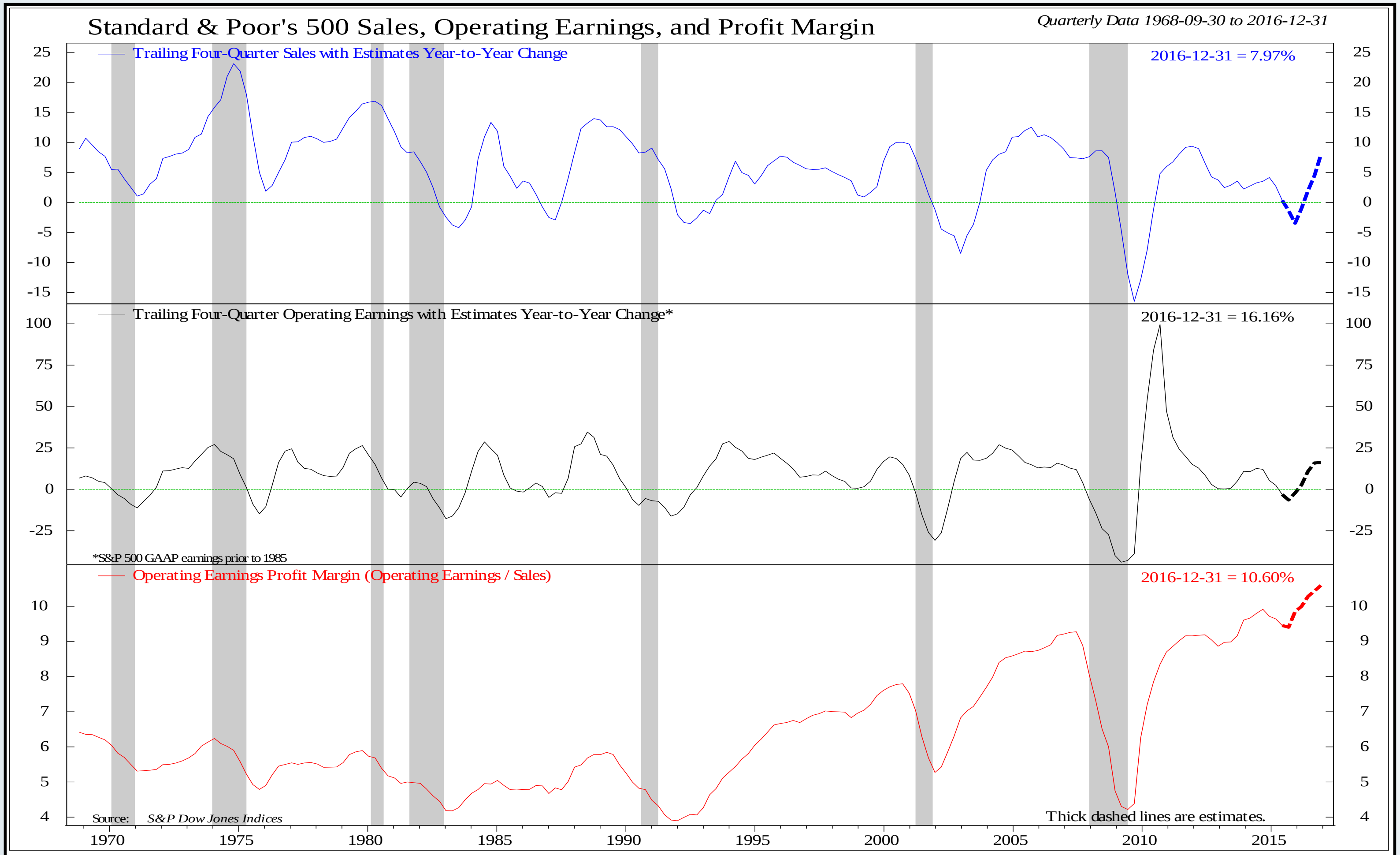
Near-term Earnings Headwinds



Earnings hit from strong dollar

Earnings hit from Energy sector

Sales and Profits Expected to Recover



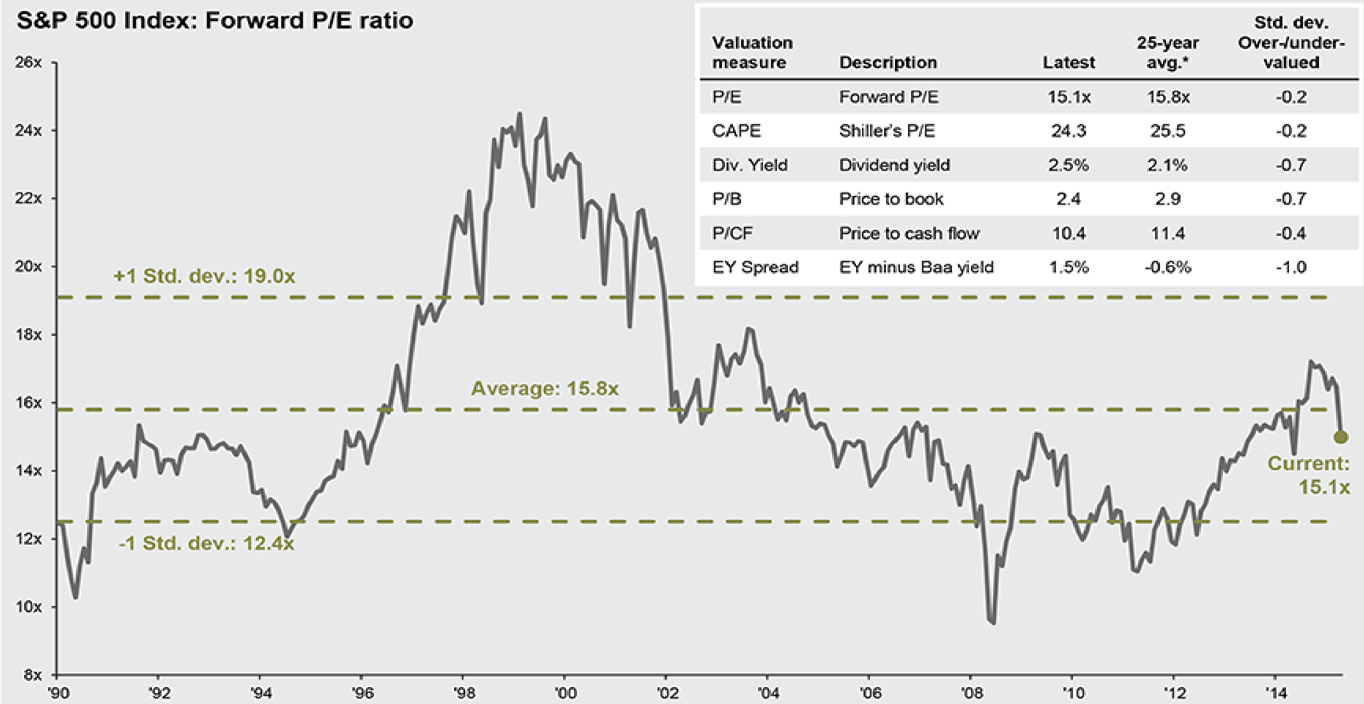
Source: Ned Davis Research

Valuation Perspective

S&P 500 valuation measures

GTM – U.S. | 5

Equities

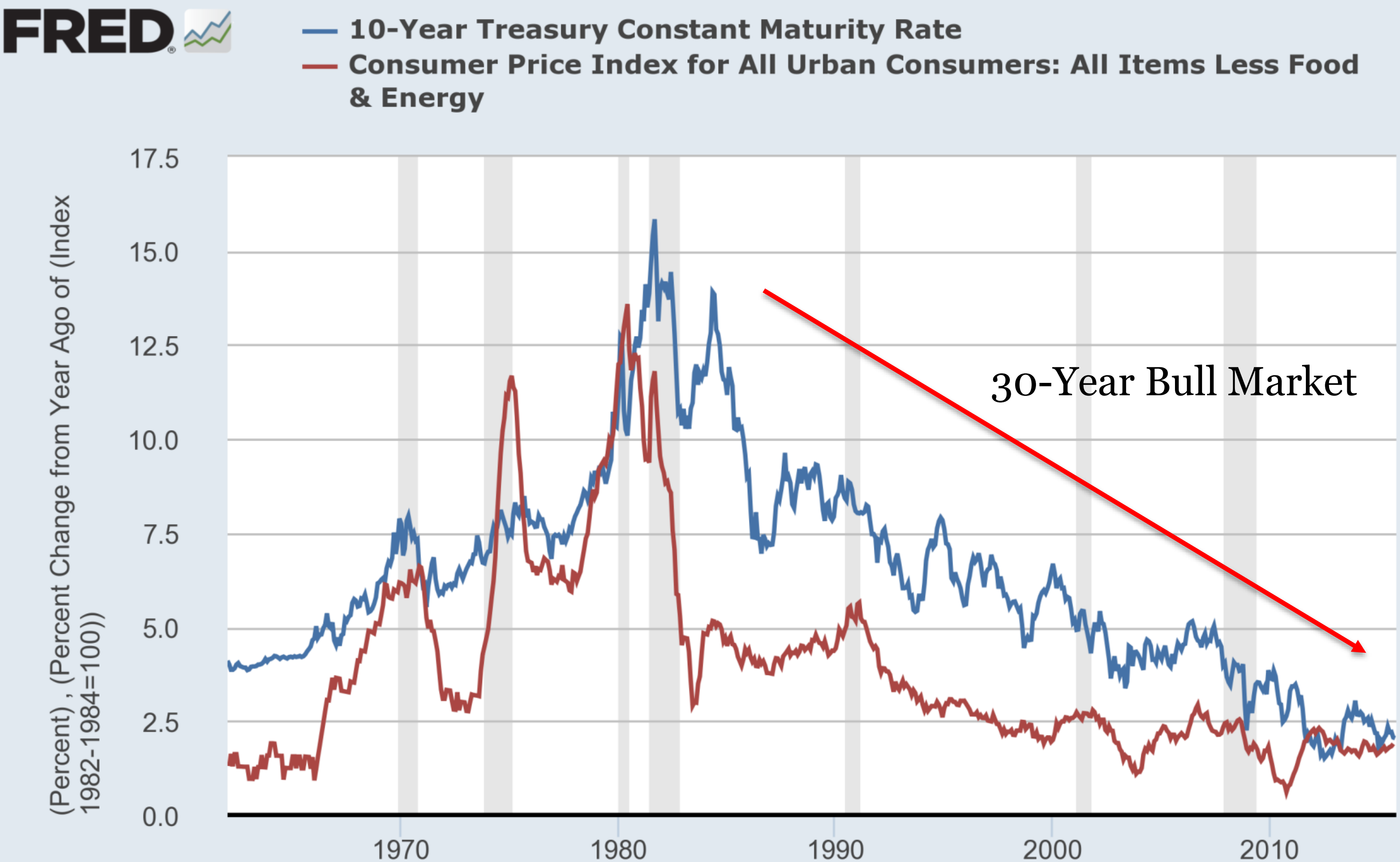


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-valued
P/E	Forward P/E	15.1x	15.8x	-0.2
CAPE	Shiller's P/E	24.3	25.5	-0.2
Div. Yield	Dividend yield	2.5%	2.1%	-0.7
P/B	Price to book	2.4	2.9	-0.7
P/CF	Price to cash flow	10.4	11.4	-0.4
EY Spread	EY minus Baa yield	1.5%	-0.6%	-1.0

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Shiller's P/E uses trailing 10-years of inflation-adjusted earnings as reported by companies. Dividend Yield is calculated as the trailing 12-month average dividend divided by price. Price to Book Ratio is the price divided by book value per share. Price to Cash Flow is price divided by NTM cash flow. EY Minus Baa Yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. Std. dev. Over-/under-valued is calculated using the average and standard deviation over 25 years for each measure. *P/CF is a 20-year average due to cash flow data availability.
Guide to the Markets – U.S. Data are as of September 30, 2015.

J.P.Morgan Asset Management

Bonds, Inflation and Interest Rates



Source: research.stlouisfed.org

Outlook Summary

- We believe equities are generally likely to rise in the near term as the global policy environment is easy and the risk of recession is low. The U.S. continues to grow and Europe shows more improvement than commonly appreciated.

- We think it makes sense to control interest rate risk even as the long-awaited rising rate environment remains delayed – the risk/return equation from traditional fixed income investments is generally poor.

- We expect dispersion and volatility to remain elevated, bolstering the case for good alternative managers. We believe you need a fundamentally advantaged market (a “theme”) as well as a manager with considerable skills to take advantage of such a scenario.

Current Investment Themes

Energy – following the huge decline in energy prices, we see opportunities being created in the MLP space. In essence, the baby has been thrown out with the bathwater for midstream companies with good balance sheets.

Japan & Europe – continued quantitative easing in Japan and Europe should mirror U.S. QE, help stimulate the economy, improve exports, and loosen credit; we see these as attractive areas on a currency hedged basis.

Niche Credit Opportunities–

- As banks focus on lending money to much larger corporations, a void has opened in lending in the middle market (company revenue 10MM - 50MM of EBITDA).
- Regulatory change has also created significant opportunities.
- In the next few years, companies will need to refinance many loans which were taken out pre-crisis. This may create a significant opportunity for distressed asset lending.

Select Active Managers – Following a very difficult period, returns for active management should improve as correlations amongst stocks have come down and dispersion of returns is higher.