

UPDATE AND OUTLOOK: GAVEKAL KL ALLOCATION FUND

Dear Shareholder,

We're pleased to present our quarterly commentary in a new format that we hope provides an improved level of transparency into our investment process. We are very data driven, relying on our data to help us find investment opportunities. We spend a significant amount of time working with data, from sourcing and scrubbing it to identify knowledge investments, to thinking of creative ways to present it in such a way as to improve our chances of identifying trends and successfully adapting. At its core, investment success is about adapting to trends rather than predicting them. I recently read an interview with behavioral economist Daniel Kahneman, author of acclaimed book *Thinking, Fast and Slow*, in which he said, "the most damaging of these (biases) is overconfidence.... It is the bias he says he would most like to eliminate if he had a magic wand." Data keeps us grounded, and when presented well, it calls out to us, illuminating the proper investment strategy.


We are pleased to announce that the net asset value of the Gavekal KL Allocation Fund for the quarter ending 6/30/2015 has increased +3.86% year-to-date and +5.90% over the last year. Our main benchmark, the MSCI All Country World Index (MSCI ACWI), returned +2.66% year-to-date and +0.71% over the last year. Since inception, the Gavekal KL Allocation Fund has generated a 5.85% annualized alpha compared to the MSCI ACWI, with a maximum drawdown of only 3.32%.

As we look at the current investment climate, the data suggests to us several important themes that are guiding our investment stance. First, global growth continues to muddle along, with higher frequency data actually declining in the US and UK recently—not what central bankers attempting lift-off were hoping for. The low growth environment puts a spotlight on companies that are able to buck the trend and generate growth. Second, inflation continues to stay low and contained. Commodity prices have been weak across the board, working against late cyclical stocks like energy, materials and industrials, with negative consequences for the countries heavily exposed to these areas. Third, the US Dollar is entering its fourth year of a bull market. Our historical studies and recent experience show periods of US Dollar strength to be good for knowledge intensive sectors like health care and technology. Countries such as the US and Japan are rich with knowledge intensity, and companies from these sectors and countries dominate our portfolio holdings currently.

Looking at the global equity markets in particular, our fourth theme is a preference for developed market stocks over emerging market stocks. Valuations in many emerging markets industry groups are much higher than for their developed world peers. Commodity and financial heavy countries have lower valuations, but the low growth environment, with weakening commodity prices is possibly not entirely reflected in valuations still.

From a sectoral standpoint, our fifth theme is to stick with a heavy emphasis on growth counter-cyclical sectors of health care and consumer staples. We have nearly half the fund's assets in these sectors, while they represent only around 15% of the MSCI ACWI companies. Our cyclical exposure comes from a sizeable overweight in the technology sector. Many "old tech" companies are selling for reasonable valuations given operating dynamics.

Lastly, our sixth theme is to maintain a very concentrated, overweight position in Japanese stocks. Our allocation to Japan is nearly four times that of the MSCI ACWI. Our overweight to Japan has contributed significantly to YTD results. All of our top ten best performing stocks year-to-date are Japanese. We still find many companies with sizeable troves of intellectual property with single digit intangible adjusted price to cash flow ratios.



We hope the data we've presented highlights the investment opportunities and risk we believe we see.

Best regards,

Steven C. Vannelli, CFA
Managing Director and Portfolio Manager
Gavekal Capital, LLC

Please consider the Fund's investment objectives, risks, charges and expenses before investing. The prospectus or summary prospectus that contains this and other information about the Fund, is available by calling 888.998.9890 and should be read carefully.

On March 31, 2015, the Fund's name changed from Gavekal Knowledge Leaders Fund, to the Gavekal KL Allocation Fund. The investment objective and principal investment strategies have also changed. Further information regarding these matters is provided in the Fund's revised Summary Prospectus, Prospectus and Statement of Additional Information dated March 31, 2015.

The value of the securities held by the Fund will change due to general market and economic conditions and industry perceptions. Investments in non-US issuers may involve unique risks. Currency fluctuation, adverse political, economic or social developments could undermine the value of the Fund's investments. The securities of mid-cap companies may be subject to more abrupt or erratic market movements and may have lower trading volumes. Many of the risks with respect to foreign investments are more pronounced for investments in issuers in developing or emerging market countries. An investment in a fund that is less diversified across countries or geographic regions is generally riskier than an investment in a more geographically diversified fund.

The Gavekal KL Allocation Fund is distributed by IMST Distributors, LLC.

Portfolio Commentary

For the quarter ending 6/30/2015, the Gavekal KL Allocation Fund is up +3.86% year-to-date and +5.90% over the last year. This performance exceeds our benchmarks by at least 3.59% over the last year. It should be noted that the Barclays US Treasury Bond Index is up 2.31% over the last year while the MSCI ACWI is up 0.71% over the same period. In other words, US bonds have outperformed the global equity market in US Dollars over the last year.

Our benchmark, the MSCI ACWI, is up 2.66% year-to-date and up only 0.71% over the last year. Our blended benchmark (60% MSCI All Country World Index, 40% Barclays US Treasury Index) is up 1.70% year-to-date and 1.47% over the last year.

Compared to Morningstar's Moderate Target Risk benchmark, we have outperformed across all time periods. Year-to-date the Morningstar benchmark is up 1.15% year-to-date and only 0.30% over the last year.

We have outperformed the Morningstar Aggressive Allocation fund category year-to-date and over the last year as well. Year-to-date our peer group is up 1.95% and over the last year Morningstar Aggressive Allocation funds are up only 1.71%.

Exhibit 1: Performance Compared to Benchmarks & Morningstar Peer Group

As of 6/30/2015					
Total Return USD	3 Mo. %	YTD	1 Yr. %	3 Yr. %	Since Inception
Fund					
Gavekal KL Allocation Fund (GAVIX)	-0.97	3.86	5.90	10.12	9.78
Benchmarks					
MSCI All Country World Index	0.35	2.66	0.71	13.01	9.46
Barclays US Treasury Bond Index	-1.58	0.03	2.31	0.89	2.31
Blended 60/40 Benchmark	-0.41	1.70	1.47	8.12	6.82
Morningstar Moderate Target Risk	-0.22	1.15	0.30	8.82	8.15
Morningstar Comparisons					
Aggressive Allocation Average	-0.40	1.95	1.71	11.91	9.98

The total annual operating expenses of the Fund are 1.48% and 1.23% and net expenses are 1.53% and 1.28% for the Advisor and Institutional Classes, respectively.

The performance data quoted here represents past performance. Past performance is no guarantee of future results. Investment return and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance information quoted. To obtain performance information current to the most recent month-end please call 888.998.9890 or visit our website at www.gavekalfunds.com. A redemption fee of 2.00% will be imposed on redemptions or exchanges of shares you have owned for 90 days or less. Please see the prospectus for more information. The inception date for the Gavekal KL Allocation Fund is 9/30/2010.

The Fund's advisor has contractually agreed to waive its fees and/or pay for operating expenses of the Fund to ensure that total annual fund operating expenses do not exceed 1.50% and 1.25% of the average daily net assets for Advisor Class and Institutional Class shares of the Fund, respectively. This agreement is in effect until March 31, 2016, and it may be terminated before that date only by the Trust's Board of Trustees. The Fund's advisor is permitted to seek reimbursement from the Fund, subject to limitations, of fees waived for payments made to the Fund for a period of three years from the date of the waiver or payment.

Effective March 31, 2015, the Advisor changed the Fund's primary benchmark from the MSCI World Index to the MSCI All Country World Index in connection with a change in the Fund's principal strategies. The Advisor believes the MSCI All Country World Index is a better measure of the Fund's performance.

The Gavekal KL Allocation Fund focuses on capital appreciation with a secondary objective of capital preservation. Since inception of the Fund on September 30, 2010, we have generated an annualized alpha of 5.85% compared to the MSCI ACWI. Our beta since inception is 0.37 relative to the MSCI ACWI as we pursue highly innovative companies. The standard deviation of the Fund is 6.43% since inception compared to 10.45% for the MSCI ACWI. Our Sharpe Ratio is 1.48 since inception, and our Treynor Ratio is 26.08. These compare to a Sharpe Ratio for the MSCI ACWI of 0.97 and a Treynor Ratio of 12.86. As a testament to our commitment to capital preservation, our maximum drawdown since inception is only 3.32% compared to a 16.99% drawdown for the MSCI ACWI.

Compared to the Morningstar Moderate Target Risk benchmark (an objective yardstick for performance comparison in the Aggressive Allocation category) we have generated an alpha twice as high, with a beta 40% lower for the quarter ending 6/30/2015. Our standard deviation is over 1% lower than the Morningstar benchmark and our Sharpe and Treynor Ratio exceed the benchmark. The Morningstar Moderate Target Risk benchmark, which is a 60% equity/40% bond benchmark, experienced a maximum drawdown of 10.78%, over 7.5% higher than the Gavekal KL Allocation Fund.

Exhibit 2: Risk Metrics Compared to Morningstar Peer Group & Benchmark

Risk Metrics	Since Inception		
	Gavekal KL Allocation Fund	Morningstar Aggressive Allocation Average	Morningstar Moderate Target Risk
Beta	0.37	0.79	0.57
Alpha	5.85	2.31	2.45
Standard Deviation	6.43	10.45	7.44
Sharpe Ratio	1.48	0.97	1.09
Treynor Ratio	26.08	12.86	14.11
Upside/Downside Capture Ratio	2.30	1.20	1.29
Max Drawdown	-3.32	-16.99	-10.78

As of 6/30/2015

Our attention to risk management is evident in our since inception peer rankings. Compared to the Morningstar Aggressive Allocation fund category, we are in the top 1% for Treynor Ratio and maximum drawdown. GAVIX is in the 3rd percentile for alpha since inception and the 99th percentile for beta. Similarly we are in the 99th percentile for standard deviation as well.

Over the last year, we are in the top 5th percentile for total return, while still in the 2nd percentile for Sharpe and Treynor Ratio. We are in the 98th percentile for beta, as we maintain a low beta portfolio. We are in the top 5th percentile for alpha and max drawdown over the last year.

Exhibit 3: Since Inception Peer Ranking Compared to Morningstar Aggressive Allocation Funds

Peer Rankings for GAVIX	1 Year	Since Inception
Compared to Morningstar Aggressive Allocations Funds		
Total Return	5%	60%
Beta	98%	99%
Alpha	5%	3%
Standard Deviation	99%	99%
Sharpe Ratio	2%	2%
Treynor Ratio	2%	1%
Max Drawdown	5%	1%

As of 6/30/2015

Past performance is no guarantee of future results. Morningstar Percentile Rankings are based on total return. Other share classes may have different performance characteristics. The Morningstar Percentile Ranking compares a Fund's Morningstar risk and return scores with all the Funds in the same Category, where 1% = Best and 100% = Worst. Fund performance used within the rankings, reflects certain fee waivers, without which, returns and Morningstar rankings would have been lower.

Equity allocation in the fund is 76.7%, with fixed income holdings representing 12.7% of the portfolio and cash holdings representing 10.6%.

Exhibit 4: Asset Allocation by Asset Class

Asset Allocation by Asset Class	Percent
Equities	76.7%
Fixed/ETFs	12.7%
Cash/ETFs	10.6%
Total	100.0%

As of 6/30/2015

Our fixed income allocation is extremely short duration currently. The fund has 5.06% of assets in fixed income securities that mature in less than 3 months. We also hold 7.66% of fund assets in fixed income securities with a negative duration that increase in value as interest rates rise.

Exhibit 5: Fixed Income Asset Allocation

Fixed Income Allocation	Percent
Proshares Short 20+ Year Treasury	5.11%
Proshares Ultrashort 7-10 Year Treasury	2.56%
iShares Short Treasury Bond	2.53%
SPDR Barclays 1-3 Month T-Bill	2.53%
Total	12.73%

As of 6/30/2015

Our cash is held mainly in US Dollars, representing 7.98% of fund assets. We hold a 2.59% position in a cash security that is short the Euro, expressing our negative outlook on the Euro and hedging our equity exposure.

Exhibit 6: Cash Asset Allocation

Cash Income Allocation	Percent
US Dollar	7.98%
Proshares Ultrashort Euro	2.59%
Total	10.57%

As of 6/30/2015

We are somewhat underweight North America relative to the MSCI ACWI, but continue to hold a heavy allocation in US equities. We are significantly overweight Asia and significantly underweight Europe in the portfolio.

Exhibit 7: Fund Equity Allocation by Region

Equity Asset Allocation by Region	Percent
North America	55.87%
Asia	36.78%
Europe	7.35%
Total	100.0%

As of 6/30/2015

The fund's largest concentration of holdings remains in the US. Japan is our second largest allocation, representing 36.8% of the fund's equity allocation. Exposure to Europe is negligible, with greater weight in non-Euro Europe countries such as Switzerland and the UK.

Exhibit 8: Fund Equity Allocation by Country

Equity Asset Allocation by Country	Percent
United States	55.9%
Japan	36.8%
Switzerland	3.7%
United Kingdom	2.5%
France	1.2%
Total	100.0%

As of 6/30/2015

Health care remains our largest sector allocation, representing 38.9% of our equity allocation. Combined with our 19.5% weight in consumer staples, our equity exposure is tilted toward growth counter-cyclicals stocks. Our largest cyclical exposure is information technology, representing 30.6% of our equity holdings. The late cyclical energy, materials and industrial sectors are our biggest underweight.

Exhibit 9: Equity Allocation by Sector

Equity Asset Allocation by Sector	Percent
Health Care	38.9%
Information Technology	30.6%
Consumer Staples	19.5%
Consumer Discretionary	7.1%
Materials	2.7%
Industrials	1.3%
Total	100.0%

As of 6/30/2015

Our largest single industry exposure is pharmaceuticals, representing 15.6% of the fund's assets. Health care equipment is a close second, accounting for 13.2% of fund assets. The application and system software industries combined represent 15.4% of fund assets.

Exhibit 10: Fund Equity Allocation by Subindustry

Equity Asset Allocation by Subindustry	Percent
Pharmaceuticals	15.6%
Health Care Equipment	13.2%
Packaged Foods & Meats	10.0%
Application Software	8.4%
Systems Software	7.0%
Personal Products	5.7%
Semiconductors	4.5%
Health Care Services	4.0%
Electronic Components	3.8%
Health Care Distributors	3.6%
Technology Hardware, Storage & Peripherals	3.0%
Communications Equipment	2.6%
Homefurnishing Retail	2.0%
Apparel Retail	2.0%
Department Stores	1.8%
Paper Packaging	1.5%
Internet Software & Services	1.3%
Health Care Supplies	1.3%
Tires & Rubber	1.3%
Industrial Machinery	1.3%
Household Products	1.3%
Soft Drinks	1.3%
Brewers	1.3%
Life Science Tools & Services	1.2%
Commodity Chemicals	1.2%
Total	100.0%

As of 6/30/2015

The portfolio is overweight companies above \$10 billion in market cap. Fifty-four percent of the fund's assets are in companies with a market cap above \$10 billion. Companies in the \$2 billion to \$7 billion market capitalization range represent 18.2% of fund assets.

Exhibit 11: Fund Allocation by Market Cap

Equity Asset Allocation by Market Cap	Percent
>\$50 Billion	18.84%
\$25 Billion - \$50 Billion	10.50%
\$15 Billion - \$25 Billion	8.82%
\$10 Billion - \$15 Billion	16.03%
\$7.5 Billion - \$10 Billion	15.08%
\$7 Billion - \$7.5 Billion	1.11%
\$5 billion - \$7 Billion	6.34%
\$2.5 Billion - \$5 Billion	9.04%
\$2 Billion - \$2.5 Billion	2.83%
\$1.5 Billion - \$2 Billion	0.00%
\$1 Billion - \$1.5 Billion	8.54%
\$750 Million - \$1 Billion	0.00%
\$0 - \$750 Million	2.86%
Total	100.0%

As of 6/30/2015

There are 62 holdings in the portfolio with the top 10 representing only 16.7% of assets.

Our US holdings have positively contributed to returns YTD, with the exception of several technology companies. Xerox and Applied Materials are both down 23% year to date, while Teradata is down 15% and Corning is down 14% year to date. Our seven best and worst performing securities have largely offset one another with the remainder of our holdings boosting performance positively for the fund. The health care sector, along with select names in the consumer staples (Estee Lauder) and industrial (Avery Dennison) sectors, have been our top performing holdings in the US.

Similar to overall trends in performance noted earlier, the greatest gain in the European portion of the portfolio is health care company Lonza. Solid performance in application software company The Sage Group, as well as positive performance from Reckitt Benckiser (household products) and Novartis (pharmaceuticals) have helped to mitigate the impact of relatively small year-to-date declines in a couple of other consumer staples holdings.

The Asian holdings have generally shined so far in 2015. Only one holding has incurred a loss and on average Asian holdings are up about 22%. Japanese health care and consumer staples plays have performed extremely well in 2015 thanks to the stabilization of the Yen, improving fundamentals and an overall slightly defensive tilt.

Exhibit 12: Fund Equity Holdings by Weight

COMPANY	WEIGHT	COUNTRY	SECTOR
Citrix Systems, Inc.	2.15	UNITED STATES	Information Technology
Shiseido Company, Limited	1.88	JAPAN	Consumer Staples
Eli Lilly and Company	1.74	UNITED STATES	Health Care
Meiji Holdings Co. Ltd.	1.67	JAPAN	Consumer Staples
Terumo Corporation	1.56	JAPAN	Health Care
Nitori Holdings Co., Ltd.	1.55	JAPAN	Consumer Discretionary
Laboratory Corporation of America Holdings	1.55	UNITED STATES	Health Care
TDK Corporation	1.54	JAPAN	Information Technology
Henry Schein, Inc.	1.53	UNITED STATES	Health Care
Abbott Laboratories	1.52	UNITED STATES	Health Care
Becton, Dickinson and Company	1.52	UNITED STATES	Health Care
SHIMAMURA Co., Ltd.	1.51	JAPAN	Consumer Discretionary
Quest Diagnostics Incorporated	1.51	UNITED STATES	Health Care
Kao Corp.	1.50	JAPAN	Consumer Staples
C. R. Bard, Inc.	1.49	UNITED STATES	Health Care
Intuit Inc.	1.49	UNITED STATES	Information Technology
Bristol-Myers Squibb Company	1.48	UNITED STATES	Health Care
Astellas Pharma Inc.	1.46	JAPAN	Health Care
Medtronic Plc	1.45	UNITED STATES	Health Care
Zimmer Biomet Holdings, Inc.	1.45	UNITED STATES	Health Care
Santen Pharmaceutical Co., Ltd.	1.44	JAPAN	Health Care
NVIDIA Corporation	1.43	UNITED STATES	Information Technology
Johnson & Johnson	1.43	UNITED STATES	Health Care
Takashimaya Company, Limited	1.41	JAPAN	Consumer Discretionary
Corning Incorporated	1.40	UNITED STATES	Information Technology
Microsoft Corporation	1.39	UNITED STATES	Information Technology
Fujifilm Holdings Corporation	1.39	JAPAN	Information Technology
Mitsubishi Tanabe Pharma Corporation	1.37	JAPAN	Health Care
Patterson Companies, Inc.	1.22	UNITED STATES	Health Care
Avery Dennison Corporation	1.18	UNITED STATES	Materials
Nisshin Seifun Group Inc.	1.14	JAPAN	Consumer Staples
St. Jude Medical, Inc.	1.13	UNITED STATES	Health Care
Trend Micro Incorporated	1.04	JAPAN	Information Technology
AbbVie, Inc.	1.04	UNITED STATES	Health Care
Adobe Systems Incorporated	1.03	UNITED STATES	Information Technology
Eisai Co., Ltd.	1.02	JAPAN	Health Care
Ajinomoto Co., Inc.	1.02	JAPAN	Consumer Staples
Maxim Integrated Products, Inc.	1.01	UNITED STATES	Information Technology
Yamazaki Baking Co., Ltd.	1.00	JAPAN	Consumer Staples
Google Inc. Class A	1.00	UNITED STATES	Information Technology
Oracle Corporation	1.00	UNITED STATES	Information Technology
DENTSPLY International Inc.	0.99	UNITED STATES	Health Care
Microchip Technology Incorporated	0.99	UNITED STATES	Information Technology
VMware, Inc. Class A	0.99	UNITED STATES	Information Technology
General Mills, Inc.	0.99	UNITED STATES	Consumer Staples
Yokohama Rubber Co. Ltd.	0.99	JAPAN	Consumer Discretionary
Cisco Systems, Inc.	0.98	UNITED STATES	Information Technology
Kurita Water Industries Ltd.	0.98	JAPAN	Industrials
Estee Lauder Companies Inc. Class A	0.98	UNITED STATES	Consumer Staples
Harris Corporation	0.98	UNITED STATES	Information Technology
Reckitt Benckiser Group plc	0.97	UNITED KINGDOM	Consumer Staples
PepsiCo, Inc.	0.96	UNITED STATES	Consumer Staples
Asahi Group Holdings, Ltd.	0.96	JAPAN	Consumer Staples
Novartis AG	0.95	SWITZERLAND	Health Care
Lonza Group AG	0.95	SWITZERLAND	Health Care
CA, Inc.	0.93	UNITED STATES	Information Technology
Nestle S.A.	0.93	SWITZERLAND	Consumer Staples
Sage Group plc	0.93	UNITED KINGDOM	Information Technology
Danone SA	0.92	FRANCE	Consumer Staples
Asahi Kasei Corporation	0.89	JAPAN	Materials
Konica Minolta, Inc.	0.88	JAPAN	Information Technology
Autodesk, Inc.	0.87	UNITED STATES	Information Technology

As of 6/30/2015



Fund Holdings Detail

Name: Abbott Labs

Sector, Subindustry, Country: Health Care, Health Care Services, US. **Intellectual Property:** IP is 25.8% of total assets, generated by substantial investments in R&D (6.6% of sales) and firm-specific resources (9.5% of sales). **Quality:** No net debt; balance sheet ranks in 100th percentile; 50% gross margins, OCF equivalent to more than 31% of sales. **Valuation:** 1.7x P/B, which is 20% below 10 year average *and* a 20% discount to relative to the MSCI World Index. **Technical:** Multi-year uptrend tested support of 45-degree bullish support line and subsequently powered through long-term overhead resistance, maintaining/confirming positive trend.

Name: Abbvie

Sector, Subindustry, Country: Health Care, Pharmaceuticals, US **Intellectual Property:** IP is 30% of total assets which is generated by investing in 16.5% of its sales R&D and 8.4% of its sales in firm specific resources. **Quality:** Net debt stands at just 9.1% of total capital; Cash flow and balance sheet rank in the 100th percentile; Gross margins are 78.4%. **Valuation:** Trades at 12.5x cash flow with a 2.9% dividend yield. **Technical:** Bounced strongly off a multi-year bullish support line and is at all-time highs.

Name: Adobe Systems

Sector, Subindustry, Country: Information Technology, Systems Software, US **Intellectual Property:** IP is 25.4% of total assets which is generated by investing 20.5% of its sales in R&D and 15.9% of its sales in firm specific resources. **Quality:** Net debt stands at -24.9% of total capital; Cash flow ranks in the 100th percentile; Gross margins are 83.7% and OCF margins are 67.5%. **Valuation:** Trades at 14.5x cash flow and 3.9x book value. **Technical:** Recently completed a triple top buy signal and is at all-time highs. A very bullish configuration for a stock that has been in a multi-year high performance uptrend.

Name: Ajinomoto Co., Inc.


Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meats, Japan. **Intellectual Property:** Invests 3.2% of sales in R&D and 7.4% of sales in advertising and firm-specific resources. IP is nearly 20% of total assets, in-line with sub-industry average for Japanese constituents of MSCI World Index. **Quality:** Balance sheet in the 89th percentile with strong cash balance and no net debt. **Valuation:** Valuations have expanded so far this year; P/B (1.7x) still represents a 20% discount to MSCI World Index. **Technical:** Upside breakout from multi-year trading range. No resistance nearby/ anticipate continued relative outperformance.

Name: Asahi Group Holdings, Ltd.

Sector, Subindustry, Country: Consumer Staples, Brewers, Japan. **Intellectual Property:** Spends nearly 10% of sales on investment in advertising and firm-specific resources. Intellectual property accounts for 15% of assets. **Quality:** Excels with respect to cash flow management; operating cash flow is nearly 18% of sales, increasing nearly 1.5x since its low in 2007. **Valuation:** Valuations have increased steadily since the financial crisis, but mostly trade at a discount relative to the MSCI World Index. **Technical:** This stock continues test of the upper bound of a multi-year trading range. If/when it breaks out, there is a solid base of support for an extended move up.

Name: Asahi Kasei Corporation

Sector, Subindustry, Country: Materials, Commodity Chemicals, Japan. **Intellectual Property:** Spending 4-5% of sales on both R&D and advertising and firm-specific resources has helped to generate a stock of IP equal to more than 16% of total assets. **Quality:** Very low debt levels, gross margins approaching 30%, OCF as a % of sales >20% **Valuation:** Trading at a 30% discount to 10-year average and a 40% discount to MSCI World with respect to P/E (11.1x); P/CF 3.4x represents a



60% discount to MSCI World and is in-line with 10-year average; P/B 1.1x is indicative of a 50% discount to MSCI World average and 20% lower than 10-year average. **Technical:** Recently broke out of multi-year trading range, but has since fallen back to test 45-degree bullish support line.

Name: Astellas Pharma Inc.

Sector, Subindustry, Country: Health Care, Pharmaceuticals, Japan. **Intellectual Property:** Invests almost 17% of sales in R&D, and an additional 9.5% of sales in advertising and firm specific resources. IP is 32.6% of total assets. **Quality:** Balance sheet ranks in the 100th percentile, with cash flow in the 89th percentile and income statement in the 83rd percentile. No net debt and gross margins in excess of 70%. **Valuation:** Currently trading at a 20% discount to MSCI World, on the basis of P/CF and P/B metrics. P/B of 1.9x represents a 10% discount to the company's 10-year average. **Technical:** High performance uptrend after breaking out above a two-year trading range. Former resistance now appears to be support.

Name: Autodesk

Sector, Subindustry, Country: Information Technology, Systems Software, US **Intellectual Property:** IP is 34.8% of total assets which is generated by investing 29% of its sales in R&D and 15.4% of its sales in firm specific resources. **Quality:** Net debt stands at -24.9% of total capital; Cash flow ranks in the 100th percentile; Gross margins are 84.7% and OCF margins are 72.7%. **Valuation:** Trades at 6.7x cash flow and a 16% OCF yield. **Technical:** Recently broke through the bullish support line but currently at a previous resistance line that is now looking like support.

Name: Avery Dennison

Sector, Subindustry, Country: Materials, Paper Packaging, US **Intellectual Property:** IP is 17.5% of total assets which is generated by investing 1.6% of its sales in R&D and 4.8% of its sales in firm specific resources. **Quality:** Net debt stands at 23.9% of total capital; Ranks in the 47th percentile overall for quality; Gross margins are 26.1% and OCF margins are 12.3%. **Valuation:** Trades at 7.1x cash flow and a 0.9x sales. It trades at a 40% discount to the MSCI World Index. **Technical:** Recently broke out strongly to news after hitting against the bullish support line. A bullish configuration for the stock.

Name: Becton, Dickinson and Company


Sector, Subindustry, Country: Health Care, Health Care Services, US **Intellectual Property:** IP is 17.9% of total assets which is generated by investing 6.2% of its sales in R&D and 7.4% of its sales in firm specific resources. **Quality:** Net debt stands at 8.9% of total capital; Income Statement, cash flow and profitability rank at least in the 83rd percentile; Gross margins are 51% and EBITDA margins are 40.3%; Return on invested capital stands at 14.8%. **Valuation:** Trades at 9.4x cash flow and 3.2x sales; P/CF is in line with developed world stocks. **Technical:** Recently pulled back from all-time highs but still squarely in a multi-year high performance uptrend.

Name: Bristol-Myers Squibb

Sector, Subindustry, Country: Health Care, Pharmaceuticals, US **Intellectual Property:** IP is 30.4% of total assets which is generated by investing 25.5% of its sales in R&D and 9.1% of its sales in firm specific resources. **Quality:** Net debt stands at -0.5% of total capital; Ranks in the 70th percentile overall for quality; Gross margins are 76.4% and EBITDA margins are 60.4%; Return on invested capital stands at 8.1%. **Valuation:** Trades at 9.4x cash flow and 3.2x sales; P/CF is in line with developed world stocks. **Technical:** Recently completely a triple-top buy signal at all-time highs which is a very bullish configuration.

Name: C.R. Bard

Sector, Subindustry, Country: Health Care, Health Care Equipment, US **Intellectual Property:** IP is 20.3% of total assets which is generated by investing 8.8% of its sales in R&D and 8.9% of its sales in firm specific resources. **Quality:** Net debt stands at 8.8% of total capital; Ranks in the 100th



percentile for cash flow and in the 83rd percentile overall for quality; Gross margins are 62.1% and EBITDA margins are 46.7%; Return on invested capital stands at 12.2%. **Valuation:** Trades at 10.3x cash flow and 3.8x sales. **Technical:** In a multi-year uptrend that confirmed a bullish support line in 2014. Near all-time highs

Name: CA Inc

Sector, Subindustry, Country: Information Technology, Systems Software, US **Intellectual Property:** IP is 17.5% of total assets which is generated by investing 13.8% of its sales in R&D and 10.9% of its sales in firm specific resources; Only spends 1.2% of its sales on traditional Capex **Quality:** Net debt stands at 16.5% of total capital; Ranks in the 100th percentile for cash flow and income statement; Ranks in the 90th percentile overall for quality; Gross margins are 76.4% and OCF margins are 48%; Return on invested capital stands at 14.2%. **Valuation:** Trades at 6.2x cash flow and 1.6x book value; Dividend yield is 3.3% **Technical:** Middle of a tight trading range.

Name: Cisco Systems

Sector, Subindustry, Country: Information Technology, Communication Equipment, US **Intellectual Property:** IP is 19% of total assets which is generated by investing 13.4% of its sales in R&D and 7.3% of its sales in firm specific resources **Quality:** Net debt stands at -31.1% of total capital; Over half of its capital base is cash; Ranks in the 100th percentile for cash flow, income statement, and balance sheet; Ranks in the 97th percentile overall for quality; Gross margins are 58.3% and OCF margins are 46.8%; Return on invested capital stands at 17.1%. **Valuation:** Trades at 6.4x cash flow and 1.7x book value; Dividend yield is 3% **Technical:** Has been in a bottoming formation for many years and is nearing a break-out to multi-year highs.

Name: Citrix Systems

Sector, Subindustry, Country: Information Technology, IT Consulting and Other Services, US **Intellectual Property:** IP is 29.8% of total assets which is generated by investing 17.6% of its sales in R&D and 15.1% of its sales in firm specific resources **Quality:** Net debt stands at 8.7% of total capital; Ranks in the 100th percentile for cash flow; Ranks in the 83rd percentile overall for quality; Gross margins are 80.7% and OCF margins are 59.6%; Return on invested capital stands at 10.1%. **Valuation:** Trades at 6x cash flow and 2.5x book value; OCF yield is 16.6% **Technical:** Has been in a bottoming formation and has recently broke through a bearish resistance line which is a positive sign for the stock.

Name: Corning

Sector, Subindustry, Country: Information Technology, Electronic Components, US **Intellectual Property:** IP is 8.5% of total assets which is generated by investing 7.2% of its sales in R&D and 4.2% of its sales in firm specific resources **Quality:** Net debt stands at 12.8% of total capital; Ranks in the 100th percentile for cash flow; Ranks in the 87th percentile overall for quality; Gross margins are 40.1% and OCF margins are 59.9%; Pays out 44% of its OCF to shareholders. **Valuation:** Trades at 4.3x cash flow and 1x book value; FCF yield is 14.5% **Technical:** Recently experienced a period of a loss of momentum but has fallen to the bullish support line and has not gone through it.

Name: Danone

Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meats, France. **Intellectual Property:** IP is 13.7% of total assets, generated in large part by substantial investments in firm-specific resources (9.9% of sales) in addition to R&D (1.3% of sales). **Quality:** Low net debt; nearly 50% gross margins, OCF equivalent to more than 21% of sales. **Valuation:** 2.1x P/B, which is 30% below 10 year average and a 10% discount to relative to the MSCI World Index. **Technical:** Multi-year downtrend has moderated. Early base formation has overcome resistance with the potential to move higher from here.



Name: Dentsply International

Sector, Subindustry, Country: Health Care, Health Care Supplies, US **Intellectual Property:** IP is 15.9% of total assets which is generated by investing 2.8% of its sales in R&D and 10.9% of its sales in firm specific resources **Quality:** Net debt stands at 21.7% of total capital; Ranks in the 83rd percentile overall for quality; Gross margins are 55% and OCF margins are 32.8%; **Valuation:** Trades at 7.6x cash flow and 2.3x book value; OCF yield is 13.2% **Technical:** Breaking out of a multi-year trading range and currently at the bullish support line.

Name: Eisai Co., Ltd.

Sector, Subindustry, Country: Health Care, Pharmaceuticals, Japan. **Intellectual Property:** Almost 36% of total assets is accounted for by investment in IP—the largest proportion of any Japanese pharma company. More than 22% of sales is invested in R&D while 11.5% is invested in advertising and firm-specific resources. **Quality:** The balance sheet ranks in the 89th percentile, with above average OCF as a % of sales (50.9%), gross margins in excess of 60%, and no net debt. **Valuation:** Currently trades at 0.9x P/CF and 1.0x P/B relative to the MSCI World Index. **Technical:** Very strong (and sudden) surge of relative outperformance, recovering to pre-downtrend levels and continuing above.

Name: Eli Lilly

Sector, Subindustry, Country: Health Care, Pharmaceuticals, US **Intellectual Property:** IP is 34.4% of total assets which is generated by investing 24.1% of its sales in R&D and 10.1% of its sales in firm specific resources **Quality:** Net debt stands at 1.3% of total capital; Ranks in the 100th percentile for cash flow; 77th percentile overall for quality; Gross margins are 74.9% and OCF margins are 56.5%; **Valuation:** Trades at 8.4x cash flow and 2.7x book value; Dividend Yield is 2.3% **Technical:** In a strong multi-year uptrend and near all-time highs

Name: Estee Lauder Companies

Sector, Subindustry, Country: Consumer Staples, Personal Products, US **Intellectual Property:** IP is 35.5% of total assets which is generated by investing 1.4% of its sales in R&D and 18.6% of its sales in firm specific resources **Quality:** Net debt stands at 3.2% of total capital with 47.8% of its assets long-term; Ranks in the 100th percentile for profitability; 90th percentile overall for quality; Gross margins are 80.3% and OCF margins are 34%; **Valuation:** Trades at 8.9x cash flow and 3x sales; Dividend Yield is 1.1% and OCF yield is 3.1% **Technical:** Recently broke out above old highs and bounced off a bullish support trend line.

Name: Fujifilm Holdings Corporation

Sector, Subindustry, Country: Information Technology, Electronic Equipment & Instruments, Japan. **Intellectual Property:** Invests 6.5% of sales in R&D while also spending 7.4% of sales on advertising and firm specific resources. IP is more than 21% of total assets. **Quality:** Nearly 40% gross margins, no net debt, OCF is more than 25% of sales and FCF is greater than 8% of sales, fairly low financial leverage (1.3x) with respect to other Japanese IT companies in MSCI World Index. **Valuation:** P/B of 0.7x represents a 10% discount relative to its 10 year average and a 70% discount compared to the current MSCI World Index average. **Technical:** Multi-year uptrend is encountering long-term resistance and testing viability of 45-degree bullish support line. Breakout appears likely.

Name: General Mills

Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meats, US **Intellectual Property:** IP is 10.4% of total assets which is generated by investing 1.3% of its sales in R&D and 5.5% of its sales in firm specific resources **Quality:** Net debt stands at 39.8 % of total capital; Ranks in the 60th percentile overall for quality; Gross margins are 33.6% and OCF margins are 21%; **Valuation:** Trades at 8.9x cash flow and 1.9x sales; Dividend Yield is 3.1% and OCF yield is 11.3% **Technical:** Near the top of a tight trading range.



Name: Google

Sector, Subindustry, Country: Information Technology, Internet Software & Services, US

Intellectual Property: IP is 18.9% of total assets which is generated by investing 14.9% of its sales in R&D and 6.4% of its sales in firm specific resources **Quality:** Net debt stands at -44.2% of total capital; Ranks in the 100th for income statement, profitability, and balance sheet; Ranks in the 93rd percentile overall for quality; Gross margins are 61.5 % and OCF margins are 55.3%; **Valuation:** Trades at 10.1x cash flow and 2.7x book value; OCF yield is 9.9% **Technical:** After forming a flag formation for over a year, the stock has strongly broken out to new highs.

Name: Harris Corporation

Sector, Subindustry, Country: Information Technology, Communication Equipment, US

Intellectual Property: IP is 28.6% of total assets which is generated by investing 5.3% of its sales in R&D and 3.3% of its sales in firm specific resources **Quality:** Net debt stands at 18.9% of total capital; Ranks in the 50th percentile overall for quality; Gross margins are 33.9% and OCF margins are 25.5%; **Valuation:** Trades at 6.3x cash flow and 1.6x sales; OCF yield is 15.8% **Technical:** At all-time highs and near bullish support line.

Name: Henry Schein

Sector, Subindustry, Country: Health Care, Health Care Distributors, US **Intellectual Property:** IP is 16.9% of total assets which is generated by investing 6.4% of its sales in firm specific resources **Quality:** Net debt stands at -44.2% of total capital; Ranks in the 89th percentile for balance sheet; Ranks in the 63rd percentile overall for quality; Gross margins are 28.1% and OCF margins are 12.1%; Return on invested capital is 11% **Valuation:** Trades at 9.5x cash flow and 1.2x sales; OCF yield is 10.5% **Technical:** Above old highs of a multi-year high performance uptrend.

Name: Intuit

Sector, Subindustry, Country: Information Technology, Application Software, US **Intellectual Property:** IP is 37.2% of total assets which is generated by investing 16.8% of its sales in R&D and 11.6% of its sales in firm specific resources **Quality:** Net debt stands at -25.6% of total capital; Ranks in the 100th percentile for income statement, cash flow, profitability and balance sheet; Ranks in the 100th percentile overall for quality; Gross margins are 84.7% and OCF margins are 60.5%; Return on invested capital is 23.7% **Valuation:** At all time-highs and clearly in a strong uptrend.

Name: Johnson and Johnson

Sector, Subindustry, Country: Health Care, Pharmaceuticals, US **Intellectual Property:** IP is 22.4% of total assets which is generated by investing 11.4% of its sales in R&D and 8.9% of its sales in firm specific resources **Quality:** Net debt stands at -14.6% of total capital; Ranks in the 89th percentile for balance sheet; Ranks in the 100th percentile overall for income statement, cash flow, profitability; Ranks in 97th percentile overall quality; Gross margins are 69.1% and EBITDA margins are 53.7%; Pays out 39.1% of its OCF to shareholders. **Valuation:** Trades at 8.1x cash flow and 2.5x book value; OCF yield is 12.4% and the dividend yield is 3% **Technical:** A very low volatile stock that is an uptrend and currently sitting on the bullish support line.

Name: Kao Corp.

Sector, Subindustry, Country: Consumer Staples, Personal Products, Japan. **Intellectual Property:** Spends nearly 4% of sales on research and development activities. **Quality:** Cash as a % of assets has quadrupled since 2006 (to nearly 16% from just 4.3%), while net debt has fallen from a 2007 high of 17.8% of capital to -12.2% today. **Valuation:** With the exception of P/E, valuations have expanded modestly over the course of the last several years. **Technical:** Moved up from lower bound of multi-year trading range and subsequently broke above significant resistance—all with good reinforcement from 45-degree bullish support line.



Name: Konica Minolta, Inc.

Sector, Subindustry, Country: Information Technology, Office Electronics, Japan. **Intellectual Property:** Stock of IP comparable to almost 30% of total assets, generated by spending more than 7% of sales on R&D and another 9% of sales on advertising and firm-specific resources.

Quality: Strong balance sheet with decent cash level and no debt; gross margins near 50%; sales and earnings growth rates steadily improving over last several years. **Valuation:** Relative to MSCI World averages, P/CF of 2.8x and P/B of 0.8x correspond to 70% and 60% discounts, respectively. **Technical:** Successful breakout above upper resistance in multi-year trading range; bullish support intact, in spite of multiple violations/ tests.

Name: Kurita Water Industries Ltd.

Sector, Subindustry, Country: Industrials, Industrial Machinery, Japan. **Intellectual Property:** With 5.7% of sales spent on advertising and firm-specific resources (and an additional 2.3% of sales devoted to R&D), has built a stock of intangibles equivalent to 11% of total assets. **Quality:** Balance sheet scores in the 89th percentile, supported by strong cash balance (nearly 22% of assets) and negative net debt. Gross margins exceed 30%; OCF margin approaching 25% with FCF 9.1%.

Valuation: Intangible-adjusted P/CF of 7.4x represents a 20% discount to MSCI World and is 10% lower than the 10-year average; intangible-adjusted P/B of 1.3x is a 40% discount to MSCI World and a 30% discount to 10-year average. **Technical:** Multi-year downtrend going back to 2011 has formed a solid base which successfully breached resistance and appears to be in the beginning stages of a potentially significant relative outperformance/ uptrend period.

Name: Laboratory Corporation of America

Sector, Subindustry, Country: Health Care, Health Care Services, US **Intellectual Property:** IP is 8.7% of total assets which is generated by investing 5.9% of its sales in firm specific resources

Quality: Net debt stands at 33.8% of total capital; Ranks in 53rd percentile overall quality; Gross margins are 37% and EBITDA margins are 25.8%; 9.3% ROIC. **Valuation:** Trades at 9.4x cash flow and 1.7x book value; OCF yield is 10.6%. **Technical:** At the top end of a tight trading range.

Name: Lonza Group AG

Sector, Subindustry, Country: Health Care, Life Sciences Tools & Services, Switzerland.

Intellectual Property: Spends 3.1% of sales on advertising and firm specific resources and 6.0% of sales on R&D. IP represents 11% of total assets. **Quality:** Gross margins of 28%; OCF as a percent of sales 23.8%; FCF as a percent of sales 8.9%. **Valuation:** With the exception of extended P/E valuation, multiples remain subdued (P/CF 6.8x; P/S 1.6x; P/B 2.0x)— especially when compared to the MSCI World Index and the stock's own 10-year averages. **Technical:** Strong, multi-year high performance uptrend. Currently well above historic resistance with no further technical obstacles to its continued relative outperformance.


Name: Maxim Integrated Products

Sector, Subindustry, Country: Information Technology, Semiconductors, US **Intellectual**

Property: IP is 29.1% of total assets which is generated by investing 22.7% of its sales in R&D and 4% of its sales in firm specific resources **Quality:** Net debt stands at -7.1% of total capital; Ranks in the 100th percentile for cash; Ranks in the 87th percentile overall for quality; Gross margins are 55.7% and OCF margins are 58.3%; **Valuation:** Trades at 6.9x cash flow and 2.3x book value; OCF yield is 14.6%; Dividend yield 3.6% **Technical:** In the middle of a tight trading range.

Name: Medtronic, Inc

Sector, Subindustry, Country: Health Care, Health Care Equipment, US **Intellectual Property:** IP is 18.5% of total assets which is generated by investing 8.7% of its sales in R&D and 10.1% of its sales in firm specific resources. **Quality:** Net debt stands at 0% of total capital; Ranks in the 100th percentile for income statement and balance sheet; Gross margins are 73% and OCF margins are



nearly 50%; **Valuation:** Trades at 8.9x cash flow and 10.1x normalized cash flow; 2.7x book value which is 30% below 10-year average. **Technical:** Nearing bullish support line of a multi-year uptrend. The trend looked to be turning sideways in 2014 but has subsequently restarted upwards.

Name: Meiji Holdings Co., Ltd.

Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meat, Japan. **Intellectual Property:** Investments in R&D (2.2% of sales) and firm-specific resources (8.6% of sales) have generated a stock of intangible assets equivalent to nearly 26% of total assets. **Quality:** No net debt; balance sheet ranks in 100th percentile; 50% gross margins, OCF equivalent to more than 31% of sales. **Valuation:** Valuations are somewhat extended relative to 10 year average, however continue to trade at a discount to MSCI World on both P/CF (30% lower) and P/B (10% lower). **Technical:** Uptrend since 2013, accelerated to high performance uptrend in 2014. No overhead resistance.

Name: Microchip Technology Inc

Sector, Subindustry, Country: Information Technology, Semiconductors, US **Intellectual Property:** IP is 17.5% of total assets which is generated by investing 16.3% of its sales in R&D and 3.7% of its sales in firm specific resources **Quality:** Net debt stands at -2.7% of total capital; Ranks in the 100th percentile for income statement and profitability; Ranks in the 83rd percentile overall for quality; Gross margins are 49% and OCF margins are 49.5%; Return on invested capital is 18.9% **Valuation:** Trades at 9x cash flow and 3.2x book value; OCF yield is 11%; Dividend yield 3.3% **Technical:** In the middle of a tight trading range.

Name: Microsoft

Sector, Subindustry, Country: Information Technology, Systems Software, US **Intellectual Property:** IP is 20% of total assets which is generated by investing 13.1% of its sales in R&D and 7.1% of its sales in firm specific resources **Quality:** Net debt stands at -42.4% of total capital; 55.8% of the total capital is in cash; Ranks in the 100th percentile for income statement, cash flow, and profitability; Ranks in the 97th percentile overall for quality; Gross margins are 68.9% and OCF margins are 87.4%; Return on invested capital is 36.2% **Valuation:** Trades at 7.3x cash flow and 2.7x book value; OCF yield is 13.7%; Dividend yield is 2.6% **Technical:** Recently strongly bounced off the bullish support line which confirms the uptrend is intact.

Name: Mitsubishi Tanabe Pharma Corporation

Sector, Subindustry, Country: Health Care, Pharmaceuticals, Japan. **Intellectual Property:** Nearly 17% of sales is invested in R&D activities, with another 7%+ devoted to advertising and firm-specific resources activities. **Quality:** Balance sheet ranks in the 100th percentile, helped by negative net debt and IP equivalent to almost ¼ of total assets. Gross margins 56%; operating cash flow margin >40%. **Valuation:** Currently trading at 6.0x intangible-adjusted cash flow, a 40% discount to the MSCI World. **Technical:** Recently, relative price performance has exhibit a strong surge to overcome downtrend that began in 2011 (after forming a base for the last 1+ year).

Name: Nestle S.A.

Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meats, Switzerland. **Intellectual Property:** Spends 1.8% of sales on R&D and another 9.1% on advertising and firm-specific resources, generating a stock of IP equal to nearly 14% of total assets. **Quality:** Scores in 83rd percentile overall, relative to knowledge leader peers. Strongest with respect to profitability (100th percentile), followed by income statement (83rd percentile), and cash flow/ balance sheet (both in the 78th percentile); low debt; nearly 50% gross margins (16% net margins); OCF 26.9% of sales and FCF >11%; ROIC 15.5%. **Valuation:** P/E (14.3x) and P/CF (8.7x) currently trading at 30% and 10% discount to MSCI World averages, respectively. **Technical:** Base forming after multi-year (shallow) downtrend. Has breached overhead resistance/ anticipating uptrend.



Name: Nisshin Seifun Group Inc.

Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meats, Japan.

Intellectual Property: Investments in intangibles account for more than 15% of total assets, driven primarily by spending equivalent to nearly 7% of sales on advertising and firm-specific resources. **Quality:** Strong cash balance (>12% of assets) and negative net debt contribute to generate a balance sheet score in the 100th percentile compared to every other knowledge leader.

Valuation: Currently trading at a discount to MSCI World (20%, based on P/CF; 50%, based on P/B) but at a relative premium (20-60%) to its 10-year valuation averages. **Technical:** Strong uptrend/ surge after brief basing period that ended multi-year downtrend in 2014.

Name: Nitori Holdings Co., Ltd.

Sector, Subindustry, Country: Consumer Discretionary, Home furnishing Retail, Japan.

Intellectual Property: Invests more than 9% of sales in advertising and firm-specific resources activities, resulting in a stock of intellectual property equal to almost 20% of total assets. **Quality:** Income statement and balance sheet in the 83rd percentile; profitability ranks in the 100th percentile. Negative net debt and 50% gross margins. **Valuation:** Valuations have expanded considerably in the first half of this year; currently trading at a premium to MSCI World and 10-year averages.

Technical: Uptrend that began in 2014 overcame significant historical/ overhead resistance earlier this year, is above old highs, and has no major technical obstacles to impede further relative outperformance.

Name: Novartis

Sector, Subindustry, Country: Health Care, Pharmaceuticals, Switzerland. **Intellectual**

Property: Intellectual Property accounts for almost 22% of total assets as a result of consistent investments in R&D (17.3% of sales) and firm-specific resources (8.6% of sales). **Quality:** No debt, 67% gross margins, nearly 20% net margins, OCF is more than 52% of sales, below average financial leverage compared to peers. **Valuation:** P/CF 8.8x (8.5x normalized cash flow), which represents a 10% discount to MSCI World Index. 2.1x P/B is 20% below 10 year average.

Technical: Recent breakout above long-term resistance/ after considerable consolidation. Solid 45-degree bullish support line. Consolidating up move.

Name: NVIDIA

Sector, Subindustry, Country: Information Technology, Semiconductors, US **Intellectual**

Property: IP is 35.4% of total assets which is generated by investing 29% of its sales in R&D and 2.8% of its sales in firm specific resources **Quality:** Net debt stands at -33% of total capital; Ranks in the 100th percentile for income statement, cash flow, profitability and balance sheet; Ranks in the 100th percentile overall for quality; Gross margins are 55.5%% and EBITDA margins are 53.6%; Return on invested capital is 18.5% **Valuation:** Trades at 4.6x cash flow and 1.3x book value; OCF yield is 21.9%; Dividend yield is 2% **Technical:** Has fallen back to the bullish support line. It is unclear at this point if the stock at the high end of a trading range or on the cusp of a breakout.

Name: Oracle

Sector, Subindustry, Country: Information Technology, Systems Software, US **Intellectual**

Property: IP is 17.6% of total assets which is generated by investing 14.5% of its sales in R&D and 6.8% of its sales in firm specific resources. **Quality:** Net debt stands at -33% of total capital; Ranks in the 100th percentile for income statement, cash flow, profitability; Ranks in the 93rd percentile overall for quality; Gross margins are 74.7% and EBITDA margins are 66.9%; Return on invested capital is 23.5% **Valuation:** Trades at 7.7x cash flow and 2.6x book value; Trades at a 20% discount to the MSCI World Index cash flow basis; Dividend yield is 1.5% **Technical:** Recently failed after making a new high but has fallen to the bullish support line.



Name: Patterson

Sector, Subindustry, Country: Health Care, Health Care Distributors, US **Intellectual Property:** IP is 14.9% of total assets which is generated by investing 6.4% of its sales in firm specific resources. **Quality:** Net debt stands at 12% of total capital; Ranks in the 53rd percentile overall for quality; Gross margins are 28.3% and EBITDA margins are 15.2%; Return on invested capital is 9.2% **Valuation:** Trades at 11.2x cash flow and 1.1x sales; Dividend yield is 1.8% **Technical:** Has been in a slow and steady multi-year uptrend and has recently bounced off of a bullish support line

Name: Pepsi

Sector, Subindustry, Country: Consumer Staples, Soft Drinks, US **Intellectual Property:** IP is 19.2% of total assets which is generated by investing 1.1% of its sales in R&D and 11.2% of its sales in firm specific resources. **Quality:** Net debt stands at 26% of total capital; Ranks in the 83rd percentile for income statement; Ranks in the 73rd percentile overall for quality; Gross margins are 53.5% and OCF margins are 28%; Return on invested capital is 14% **Valuation:** Trades at 7.4x cash flow and 2.1x sales; Trades at a 20% discount to the MSCI World Index on a cash flow basis; Dividend yield is 2.9% **Technical:** Slowly breaking out of a multi-year trading range. Near old highs

Name: Quest Diagnostics

Sector, Subindustry, Country: Health Care, Health Care Services, US **Intellectual Property:** IP is 9.1% of total assets which is generated by investing 6.6% of its sales in firm specific resources. **Quality:** Net debt stands at 35.6% of total capital; Ranks in the 50th percentile overall for quality; Gross margins are 37% and OCF margins are 19.2%; Return on equity is 10%. **Valuation:** Trades at 7.3x cash flow and 1.4x sales; Trades at a 20% discount to the MSCI World Index on a cash flow basis; Dividend yield is 2.1% **Technical:** Recently failed at the top end of a trading range but has not fallen through the bullish support line.

Name: Reckitt Benckiser Group plc


Sector, Subindustry, Country: Consumer Staples, Household Products, United Kingdom. **Intellectual Property:** Invests 9.4% of sales in advertising and firm specific resources, in addition to committing another ~2% of sales to R&D. IP is more than 12% of total assets. **Quality:** 57.7% gross margins (18% net margins), no net debt, operating cash flow amounts to 34.8% of sales while free cash flow is equivalent to almost 22% of sales, ROIC >18%. **Valuation:** While higher than valuations of most European peers in the sub-industry, they have remained fairly steady/ have not expanded rapidly with respect to historical averages over the last 10 years. **Technical:** Low volatility, sustained uptrend from solid base.

Name: Sage Group plc

Sector, Subindustry, Country: Information Technology, Application Software, United Kingdom. **Intellectual Property:** Stock of IP approaching 30% of total assets, driven by investments of 10% of sales in R&D and another 16%+ in advertising and firm-specific resources. **Quality:** Cash flow in the 100th percentile with OCF margin 46%, FCF margin almost 18%; gross margins 91%. **Valuation:** Currently trading at a slight premium relative to MSCI World and 10-year averages. **Technical:** High performance uptrend following multi-year consolidation/ base. Recently broke above last significant overhead resistance/ has no imminent impediment to further relative outperformance.

Name: Santen Pharmaceutical Co., Ltd.

Sector, Subindustry, Country: Health Care, Pharmaceuticals, Japan. **Intellectual Property:** IP accounts for almost a quarter of total assets, as a result of nearly 11% of sales being invested in R&D, with another 8.2% of sales devoted to advertising and firm specific resources activities. **Quality:** Cash flow statement ranks in the 83rd percentile while balance sheet ranks in the 89th percentile. Negative net debt; cash level equivalent to more than 20% of assets. Net margins in



excess of 14% and gross margins >60%. **Valuation:** 12.3x intangible-adjusted cash flow. Valuations have expanded considerably; currently trading at 20-60% premium to MSCI World. **Technical:** Successful move out of long-term trading range/ base with solid support from 45-degree bullish support line.

Name: Shimamura Co., Ltd.

Sector, Subindustry, Country: Consumer Discretionary, Apparel Retail, Japan. **Intellectual Property:** More than 7% of sales is invested in advertising and firm specific resources. IP represents more than 18% of total assets. **Quality:** Balance sheet in the 100th percentile as a result of strong cash balance as a % assets (>30%), negative net debt, and IP equivalent to 18.6% of total assets. **Valuation:** All valuation metrics currently at a discount (20-40%) to MSCI World. **Technical:** Relatively new uptrend following a breakout above multi-year downtrend line earlier this year. Bullish support line intact, with a fair amount of room for relative outperformance before next technical challenge.

Name: Shiseido Company, Limited

Sector, Subindustry, Country: Consumer Staples, Personal Products, Japan. **Intellectual Property:** IP is nearly 30% of total assets, primarily as a result of investments in firm-specific resources (almost 20% of sales). **Quality:** Negative net debt and cash level equivalent to more than 10% of assets; nearly 75% gross margins, OCF equivalent to more than 30% of sales. **Valuation:** 1.6x P/B, which is 20% below 10 year average *and* a 30% discount to relative to the MSCI World Index. **Technical:** Base began forming in 2013, overcoming downtrend line in 2014. High performance uptrend recently broke out of resistance, with good potential for continued relative outperformance.

Name: St Jude

Sector, Subindustry, Country: Health Care, Health Care Services, US **Intellectual Property:** IP is 23.7% of total assets which is generated by investing 12.3% of its sales in R&D and 9.6% of its sales in firm specific resources. **Quality:** Net debt stands at 8.6% of total capital; Ranks in the 100th percentile for income statement and cash flow; Ranks in the 87th percentile overall for quality; Gross margins are 70% and OCF margins are 45.1%; Return on invested capital is 12.1%. **Valuation:** Trades at 8.3x cash flow and 2.8x book value; Trades at a 10% discount to the MSCI World Index on a cash flow basis; Dividend yield is 1.5% **Technical:** Has broken through a major top to new all-time highs which has confirmed the uptrend.

Name: Takashimaya Company, Limited

Sector, Subindustry, Country: Consumer Discretionary, Department Stores, Japan. **Intellectual Property:** Stock of IP equivalent to 13% of total assets, with more than 7% of sales invested in advertising and firm specific resources. **Quality:** Balance sheet in the 78th percentile when compared to all knowledge leaders. Very low debt relative to total capital. **Valuation:** At 3.7x intangible-adjusted cash flow, currently trades at a 60% discount to MSCI World. **Technical:** Following a decline that began in 2013, the stock's relative performance recently tested long term support and has breached the downtrend line. While a pullback/re-test is possible, short-term bullish support remains in place.

Name: TDK Corporation

Sector, Subindustry, Country: Information Technology, Electronic Components, Japan. **Intellectual Property:** Invests 6.5% and 3.2% of sales, respectively, in R&D and in advertising and firm specific resources. IP is 16% of total assets. **Quality:** No net debt, OCF as a percent of sales and gross margins are both in excess of 20%. **Valuation:** 5.2x cash flow and 6.4x normalized cash flow, which is 40% discount to MSCI World Index. **Technical:** High performance uptrend from multi-year base; recently powered above historic overhead resistance to achieve new highs.



Name: Terumo Corporation

Sector, Subindustry, Country: Health Care, Health Care Equipment, Japan. **Intellectual Property:** Investments in R&D (6% of sales) and firm-specific resources (9% of sales) have generated a stock of intangible assets equivalent to nearly 16% of total assets. **Quality:** Very low debt levels; balance sheet ranks in 89th percentile; gross margins in excess of 50%, OCF equivalent to almost 35% of sales. **Valuation:** P/E, P/CF, P/S, and P/B are all trading at 10-40% discounts relative to the company's ten year average valuations. Also trading at discount to MSCI World with respect to P/CF (30% less) and P/B (20% less). **Technical:** Uptrend since 2013, accelerated to high performance uptrend in 2014. No overhead resistance.

Name: Trend Micro Incorporated

Sector, Subindustry, Country: Information Technology, Systems Software, Japan. **Intellectual Property:** Spends more than 15% of sales on advertising and firm-specific resources (with another 2.5% of sales on R&D activities). IP represents nearly 14% of total assets. **Quality:** Ranks in 83rd percentile or higher in every quality category (100th percentile in income statement); cash is 40%+ of assets; 82.3% gross margins. **Valuations:** P/B of 2.9x represents a 30% discount to company's 10-year average. Currently slightly elevated relative to MSCI World average valuations. **Technical:** Moving up from lower end of long-term trading range, with ample room for sustained relative outperformance before encountering any technical obstacles.

Name: VMware

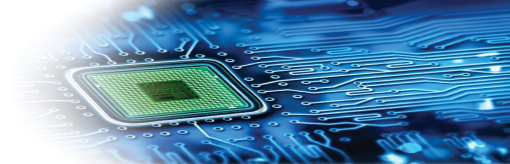
Sector, Subindustry, Country: Information Technology, IT Consulting & Other Services, US **Intellectual Property:** IP is 23.2% of total assets which is generated by investing 20.5% of its sales in R&D and 13.4% of its sales in firm specific resources. **Quality:** Net debt stands at -40.7% of total capital; 51.7% of its capital is in cash; Ranks in the 100th percentile for income statement, cash flow and profitability; Ranks in the 97th percentile overall for quality; Gross margins are 84.8% and OCF margins are 70%; Return on invested capital is 23.4%. **Valuation:** Trades at 8.7x cash flow and 3x book value; Trades at a 10% discount to the MSCI World Index on a cash flow basis. **Technical:** Has been in a basing formation for several years and recently broke through the bearish resistance line which is a positive sign.

Name: Yamazaki Baking Co., Ltd.

Sector, Subindustry, Country: Consumer Staples, Packaged Foods & Meats, Japan. **Intellectual Property:** Stock of IP equivalent to nearly 23% of total assets; spends almost 10% of sales on advertising and firm-specific resources. **Quality:** Solid cash position (nearly 13% of total assets) and negative net debt; gross margins approaching 35%. **Valuation:** P/CF of 2.7x represents a 70% discount to MSCI World; P/B of 0.9x represents 60% discount to MSCI World average and a 10% discount to the company's 10-year average. **Technical:** Abrupt reversal of downtrend in late 2013/early 2014 has proven to be a sustained uptrend. Currently testing bullish support line/ consolidating in uptrend.

Name: Yokohama Rubber Co. Ltd.

Sector, Subindustry, Country: Consumer Discretionary, Tires & Rubber, Japan. **Intellectual Property:** 2.1% of sales spent on R&D and another 6.8% of sales spent on advertising and firm-specific resources has generated a stock of IP equivalent to more than 13% of total assets. **Quality:** Balance sheet scores in the 78th percentile versus other companies in the knowledge leaders universe, helped by low debt levels. Gross margins approach 35%, with net margins almost 10%. OCF represents almost 20% of sales. **Valuation:** P/E of .5x represents a 70% discount to MSCI World Index and 30% discount to 10-year average. P/CF of 3.5x and P/B of 0.9x are both indicative of 60% discounts relative to the MSCI World, in spite of being above the company's long-term averages. **Technical:** Uptrend that began in 2014 has recently lost momentum and violated bullish support/ appears likely to return to long-term support from which uptrend initiated.



Name: Zimmer Biomet Holdings

Sector, Subindustry, Country: Health Care, Health Care Equipment, US **Intellectual Property:**

IP is 14.8% of total assets which is generated by investing 4% of its sales in R&D and 11.1% of its sales in firm specific resources. **Quality:** Net debt stands at -2.8% of total capital; Ranks in the 100th percentile for cash flow; Ranks in the 87th percentile overall for quality; Gross margins are 70.2% and OCF margins are 37.7%; Return on invested capital is 8.6%. **Valuation:** Trades at 10.5x cash flow and 2.3x book value; 0.8% Dividend Yield. **Technical:** Has been in a steady uptrend riding along with the bullish support line. It recently tested the support line and once again, it confirmed the uptrend.

Equity Markets Commentary

Over the last four years, health care has been the best performing sector in the MSCI All Country World Index, up 130% on average, compared to the second best performer, consumer discretionary, up 84% on average. Energy has been the worst performing sector, down 9% over the last four years. Current performance trends are consistent with these well-established long-term trends. Our investment strategy has been tilted toward the growth counter-cyclical health care sector over the last few years.

On average, sectors in the MSCI ACWI have gained 3.40% this year. Year-to-date, the health care sector is far and away the best performer—up almost three times more than the next best sector, consumer discretionary. Unsurprisingly, the utilities sector has fallen the most so far in 2015 as interest rates have begun slowly creeping higher. (Charts are conditionally formatted. Green indicates highest values and red represents lowest values.)

Exhibit 13: Performance of MSCI All Country World Index by Sector, Equal Weight in USD

SECTOR	YTD
Health Care	14.09
Consumer Discretionary	4.91
Information Technology	4.81
Consumer Staples	4.74
Materials	3.84
Industrials	3.03
Financials	1.88
Telecommunication Services	0.68
Energy	-0.51
Utilities	-4.72
Region Average	3.40

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Developed world sectors have increased an average of 3.6% year-to-date, with health care in the lead once again (though by a slightly less impressive margin than in the ACWI). In the developed region, energy companies have fallen 4.6% since the beginning of the year—second only to the 6.30% decline in the utilities sector.

Exhibit 14: Performance of MSCI Developed World Index by Sector, Equal Weight in USD

SECTOR	YTD
Health Care	12.74
Consumer Discretionary	5.78
Information Technology	5.53
Consumer Staples	4.82
Materials	4.25
Telecommunication Services	3.78
Financials	2.67
Industrials	2.62
Energy	-4.65
Utilities	-6.30
Region Average	3.62

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Emerging markets have underperformed developed markets year-to-date. Among emerging market sectors, health care stands out again with an even more impressive gain so far this year—almost 20%. Unlike in the developed market and the ACWI, emerging market energy sector companies have performed more positively, gaining more than 8% year-to-date. The only two sectors underperforming in the MSCI EM Index since the beginning of the year are telecommunications services (-2.15%) and utilities (-2.20%).

Exhibit 15: Performance of MSCI Emerging Markets Index by Sector, Equal Weight in USD

SECTOR	YTD
Health Care	19.65
Energy	8.02
Consumer Staples	4.62
Industrials	3.95
Materials	3.18
Information Technology	3.17
Consumer Discretionary	2.40
Financials	0.58
Telecommunication Services	-2.15
Utilities	-2.20
Region Average	2.97

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Japan leads developed market countries in performance year-to-date, with Portugal, Israel, Ireland, and Italy rounding out the top five—all of which are up more than 10% so far this year. The majority of developed market countries are in positive territory since the beginning of the year, up an average of about 3.6%. While Canadian constituents have had a rough first half of 2015 (falling more than 8%), New Zealand companies have performed the worst, down more than 16%.

Exhibit 16: Performance of MSCI Developed World Countries, Equal Weight in USD

COUNTRY	YTD
Japan	13.12
Portugal	12.17
Israel	11.38
Ireland	10.48
Italy	10.01
Denmark	8.58
Netherlands	6.63
Austria	5.19
France	4.15
Belgium	3.73
United Kingdom	3.47
Finland	2.81
Switzerland	2.80
Germany	2.66
United States	1.94
Norway	1.39
Sweden	1.39
Hong Kong	0.62
Australia	-1.90
Spain	-3.47
Singapore	-5.54
Canada	-8.45
New Zealand	-16.69
Region Average	3.62

As of 6/30/2015

Sources: MSCI, Gavekal Capital

There is an even wider dispersion in performance year-to-date among emerging market companies. In the MSCI Emerging Markets Index, the average Russian and Hungarian company is up over 20% so far this year while Greek companies, in aggregate, are firmly in a bear market (-24%). About half of the countries in emerging markets have gained so far this year, helping keep the overall average slightly positive (~3%).

Exhibit 17: Performance of MSCI Emerging Markets Countries, Equal Weight in USD

COUNTRY	YTD
Russia	28.19
Hungary	20.68
China	17.37
Korea	14.56
Philippines	5.31
United Arab Emirates	2.86
Taiwan	2.74
India	2.54
Qatar	0.95
Thailand	0.90
Peru	-0.13
South Africa	-1.02
Czech Republic	-1.46
Poland	-2.97
Chile	-3.21
Mexico	-3.59
Malaysia	-10.29
Brazil	-12.13
Turkey	-14.30
Indonesia	-15.93
Egypt	-16.41
Colombia	-17.46
Greece	-24.27
Region Average	2.97

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Relative to the MSCI World Index, more than 80% of companies in the automobiles and components industry as well as the pharmaceutical, biotechnology and life sciences industry are outperforming YTD. Medical equipment and software have also broadly outperformed. At the other end of the spectrum, the utilities industry has just 23% of companies that are outperforming the benchmark year-to-date. Energy and real estate have been broadly hit with interest rates rising.

Exhibit 18: Percent Outperforming MSCI World Index YTD, MSCI Developed World by Industry Group, Equal Weight in USD

INDUSTRY GROUP	YTD
Automobiles & Components	82%
Pharmaceuticals Biotechnology & Life Sciences	81%
Health Care Equipment & Services	70%
Software & Services	66%
Retailing	65%
Commercial & Professional Services	63%
Diversified Financials	63%
Household & Personal Products	63%
Banks	62%
Food Beverage & Tobacco	62%
Consumer Durables & Apparel	61%
Semiconductors & Semiconductor Equipment	61%
Materials	55%
Food & Staples Retailing	53%
Telecommunication Services	52%
Media	52%
Capital Goods	52%
Insurance	46%
Transportation	45%
Technology Hardware & Equipment	44%
Consumer Services	33%
Real Estate	33%
Energy	31%
Utilities	23%
Region Average	53%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

According to the MSCI Emerging Markets Index and the MSCI World Index, every single company in the emerging markets' commercial and professional services industry is outperforming the MSCI

World Index so far this year—a significant difference from the 9% of consumer services companies that are outperforming the benchmark. On average, 45% of companies in the emerging markets have outperformed the MSCI World in the first half of 2015. There are numerous industry groups where less than 50% of the members have outperformed the MSCI World Index YTD, speaking to the difficulty of picking stocks in the emerging markets this year.

Exhibit 19: Percent Outperforming MSCI World Index YTD, MSCI Emerging Markets by Industry Group, Equal Weight in USD

INDUSTRY GROUP	YTD
Commercial & Professional Services	100%
Household & Personal Products	85%
Consumer Durables & Apparel	68%
Pharmaceuticals Biotechnology & Life Sciences	68%
Insurance	60%
Real Estate	60%
Energy	58%
Retailing	55%
Diversified Financials	50%
Technology Hardware & Equipment	50%
Health Care Equipment & Services	50%
Materials	49%
Capital Goods	48%
Semiconductors & Semiconductor Equipment	45%
Food & Staples Retailing	42%
Software & Services	40%
Utilities	38%
Transportation	38%
Food Beverage & Tobacco	37%
Telecommunication Services	33%
Banks	31%
Automobiles & Components	31%
Media	27%
Consumer Services	9%
Region Average	45%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Leadership trends have been pretty stable in the developed world over the last 200 days, with health care, consumer discretionary and technology related industry groups holding above moving averages. Energy and utility related industry groups have consistently held below moving averages.

Exhibit 20: Price Relative to Moving Average MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	5 Day	20 Day	50 Day	100 Day	200 Day
Retailing	0.99	0.99	1.00	1.01	1.07
Health Care Equipment & Services	0.99	1.00	1.00	1.01	1.07
Pharmaceuticals Biotechnology & Life Sciences	0.99	0.99	0.99	1.00	1.06
Automobiles & Components	0.98	0.97	0.97	0.99	1.05
Diversified Financials	0.98	0.98	0.98	1.00	1.04
Software & Services	0.98	0.98	0.97	0.99	1.04
Semiconductors & Semiconductor Equipment	0.98	0.96	0.97	0.97	1.03
Banks	0.98	0.99	0.99	1.01	1.03
Consumer Durables & Apparel	0.98	0.99	0.98	0.99	1.03
Media	0.98	0.98	0.98	0.98	1.02
Household & Personal Products	0.98	0.98	0.98	0.98	1.02
Commercial & Professional Services	0.99	0.98	0.97	0.98	1.02
Food Beverage & Tobacco	0.99	0.99	0.98	0.99	1.01
Insurance	0.99	0.98	0.98	0.99	1.01
Food & Staples Retailing	0.98	0.98	0.97	0.97	1.00
Capital Goods	0.98	0.97	0.97	0.98	1.00
Telecommunication Services	0.98	0.99	0.98	0.98	1.00
Materials	0.98	0.97	0.96	0.97	1.00
Technology Hardware & Equipment	0.98	0.97	0.96	0.96	0.99
Transportation	0.99	0.98	0.96	0.95	0.98
Consumer Services	0.98	0.97	0.95	0.94	0.96
Real Estate	0.99	0.98	0.95	0.94	0.96
Utilities	0.99	0.97	0.95	0.96	0.95
Energy	0.98	0.97	0.93	0.95	0.91
Region Average	0.98	0.98	0.97	0.98	1.01

As of 6/30/2015

Sources: MSCI, Gavekal Capital

In the emerging markets, consumer and health care related industry groups have been, and remain, the strongest performers, holding above moving averages.

Exhibit 21: Price Relative to Moving Average MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	5 Day	20 Day	50 Day	100 Day	200 Day
Household & Personal Products	1.01	1.03	1.02	1.06	1.13
Commercial & Professional Services	1.02	1.02	1.01	1.06	1.12
Pharmaceuticals Biotechnology & Life Sciences	1.00	1.02	0.99	1.03	1.11
Consumer Durables & Apparel	1.01	1.01	0.98	1.01	1.07
Insurance	1.00	1.01	0.98	1.01	1.06
Diversified Financials	0.99	0.99	0.96	0.98	1.01
Real Estate	1.00	0.99	0.94	0.97	1.01
Food & Staples Retailing	1.00	1.01	0.99	1.01	1.00
Capital Goods	0.99	0.99	0.95	0.97	0.99
Software & Services	0.99	1.00	0.98	0.98	0.99
Technology Hardware & Equipment	0.99	0.99	0.95	0.95	0.98
Health Care Equipment & Services	1.01	1.00	0.95	0.95	0.98
Energy	0.99	0.99	0.96	0.98	0.97
Retailing	1.00	1.00	0.95	0.97	0.97
Materials	0.99	0.98	0.94	0.96	0.97
Semiconductors & Semiconductor Equipment	0.98	0.98	0.94	0.94	0.97
Food Beverage & Tobacco	1.00	1.00	0.97	0.97	0.96
Transportation	1.00	0.98	0.93	0.94	0.96
Utilities	1.00	0.98	0.95	0.98	0.96
Banks	1.00	1.00	0.96	0.97	0.94
Telecommunication Services	1.00	1.00	0.96	0.95	0.93
Media	1.00	1.00	0.95	0.92	0.93
Automobiles & Components	1.00	1.00	0.95	0.93	0.93
Consumer Services	1.00	0.98	0.95	0.95	0.89
Region Average	1.00	0.99	0.96	0.97	0.98

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Overall, price breadth in developed world stocks is on the decline. While half of all developed world stocks are trading above the 200-day moving average, only 24% are trading above the 50-day moving average. In 15 out of the 24 industry groups, a majority of stocks are trading above the 200-day moving average with retailing leading the way with 76% of the stocks trading above the 200-day moving average. Health care equipment and services currently has 52% of stocks trading above the 50-day moving average.

Exhibit 22: Percent Above Moving Average MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	5 Day	20 Day	50 Day	100 Day	200 Day
Automobiles & Components	8%	10%	16%	37%	59%
Banks	5%	23%	41%	55%	64%
Capital Goods	11%	12%	20%	34%	48%
Commercial & Professional Services	11%	14%	20%	40%	57%
Consumer Durables & Apparel	8%	39%	41%	47%	59%
Consumer Services	10%	17%	19%	19%	45%
Diversified Financials	10%	15%	28%	49%	64%
Energy	8%	9%	7%	15%	18%
Food & Staples Retailing	16%	31%	25%	25%	53%
Food Beverage & Tobacco	14%	32%	24%	42%	59%
Health Care Equipment & Services	30%	50%	52%	52%	70%
Household & Personal Products	13%	13%	13%	19%	50%
Insurance	9%	17%	23%	35%	54%
Materials	8%	19%	22%	32%	52%
Media	12%	29%	29%	33%	48%
Pharmaceuticals Biotechnology & Life Sciences	16%	30%	37%	48%	73%
Real Estate	14%	10%	5%	11%	22%
Retailing	14%	37%	46%	51%	76%
Semiconductors & Semiconductor Equipment	0%	7%	32%	39%	57%
Software & Services	4%	19%	25%	45%	64%
Technology Hardware & Equipment	10%	14%	10%	22%	40%
Telecommunication Services	14%	29%	29%	40%	45%
Transportation	15%	17%	14%	18%	38%
Utilities	23%	8%	9%	24%	20%
Region Average	12%	20%	24%	34%	50%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Longer term breadth in emerging market stocks is worse than it is in the developed world. Only 40% of emerging market equities are trading above the 200-day moving average and 24% are trading above the 50-day moving average. The household and personal product industry really stands out in the emerging market with 85% of its stocks trading above the 200-day moving average and 62% trading above the 50-day moving average. This is by far the industry with the most stocks trading above the 50-day moving average.

Exhibit 23: Percent Above Moving Average MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	5 Day	20 Day	50 Day	100 Day	200 Day
Automobiles & Components	59%	62%	24%	24%	31%
Banks	38%	50%	18%	28%	31%
Capital Goods	38%	42%	29%	38%	43%
Commercial & Professional Services	100%	100%	33%	67%	67%
Consumer Durables & Apparel	58%	63%	37%	37%	58%
Consumer Services	45%	27%	0%	18%	9%
Diversified Financials	38%	48%	18%	43%	45%
Energy	23%	38%	25%	40%	44%
Food & Staples Retailing	53%	58%	37%	42%	47%
Food Beverage & Tobacco	51%	47%	22%	37%	35%
Health Care Equipment & Services	67%	50%	17%	25%	33%
Household & Personal Products	62%	77%	62%	69%	85%
Insurance	36%	48%	24%	60%	68%
Materials	30%	36%	19%	31%	37%
Media	45%	36%	27%	27%	36%
Pharmaceuticals Biotechnology & Life Sciences	53%	74%	32%	53%	63%
Real Estate	43%	43%	19%	48%	55%
Retailing	41%	68%	27%	36%	36%
Semiconductors & Semiconductor Equipment	10%	35%	20%	30%	45%
Software & Services	40%	40%	40%	47%	40%
Technology Hardware & Equipment	38%	47%	24%	29%	35%
Telecommunication Services	35%	48%	37%	33%	22%
Transportation	35%	35%	13%	28%	43%
Utilities	46%	34%	16%	28%	30%
Region Average	40%	46%	24%	36%	40%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Even in the developed world industry group with the most 200-day net new highs, retailing, only 3% of stocks are making net new 200-day highs. There are, on average, -5% net new highs over the last 200 days. This weak reading is symptomatic of a tired stock market that lacks vigor. New highs have been deteriorating at an accelerating rate recently.

Exhibit 24: Net New Highs MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	5 Day	20 Day	50 Day	100 Day	200 Day
Retailing	-33%	-14%	-5%	-3%	3%
Software & Services	-41%	-29%	-13%	-8%	0%
Media	-50%	-27%	-17%	-15%	0%
Banks	-45%	-17%	-9%	0%	0%
Semiconductors & Semiconductor Equipment	-29%	-25%	-18%	-11%	0%
Commercial & Professional Services	-43%	-37%	-29%	-23%	0%
Automobiles & Components	-53%	-35%	-22%	-10%	0%
Household & Personal Products	-63%	-50%	-44%	-25%	0%
Pharmaceuticals Biotechnology & Life Sciences	-25%	-16%	-13%	-6%	-1%
Health Care Equipment & Services	-28%	-13%	-12%	-5%	-2%
Diversified Financials	-40%	-22%	-15%	-6%	-3%
Food & Staples Retailing	-50%	-31%	-22%	-13%	-3%
Capital Goods	-48%	-35%	-26%	-14%	-3%
Materials	-58%	-39%	-27%	-13%	-4%
Insurance	-42%	-28%	-18%	-10%	-4%
Telecommunication Services	-43%	-17%	-14%	-7%	-5%
Transportation	-42%	-24%	-20%	-12%	-6%
Energy	-38%	-21%	-23%	-11%	-7%
Consumer Durables & Apparel	-64%	-25%	-19%	-14%	-7%
Food Beverage & Tobacco	-41%	-13%	-10%	-11%	-7%
Consumer Services	-40%	-33%	-29%	-21%	-10%
Real Estate	-32%	-25%	-24%	-22%	-10%
Technology Hardware & Equipment	-42%	-36%	-30%	-20%	-14%
Utilities	-46%	-41%	-38%	-29%	-21%
Region Average	-43%	-27%	-20%	-12%	-5%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

The internal dynamics of the emerging markets look somewhat more constructive. While -2% are making net new highs over the last 200 days, over the last 50 days, the reading is -0.4%. This compares with -20% in the developed markets.

Exhibit 25: Net New Highs MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	5 Day	20 Day	50 Day	100 Day	200 Day
Consumer Durables & Apparel	32%	21%	11%	11%	11%
Pharmaceuticals Biotechnology & Life Sciences	26%	26%	16%	5%	5%
Insurance	4%	8%	4%	4%	4%
Capital Goods	1%	3%	-3%	3%	3%
Diversified Financials	3%	3%	3%	3%	3%
Utilities	4%	-2%	-2%	2%	2%
Energy	-10%	2%	-2%	2%	2%
Food & Staples Retailing	26%	11%	-5%	0%	0%
Real Estate	10%	7%	0%	0%	0%
Consumer Services	0%	0%	0%	0%	0%
Health Care Equipment & Services	33%	17%	8%	0%	0%
Technology Hardware & Equipment	6%	-3%	-6%	-6%	0%
Commercial & Professional Services	67%	0%	0%	0%	0%
Media	-18%	0%	0%	0%	0%
Household & Personal Products	15%	15%	8%	0%	0%
Food Beverage & Tobacco	8%	8%	-4%	-4%	-4%
Retailing	-9%	-9%	-9%	-5%	-5%
Transportation	-3%	-3%	-5%	-5%	-5%
Semiconductors & Semiconductor Equipment	-20%	-15%	-10%	-5%	-5%
Banks	-6%	-6%	-8%	-7%	-6%
Software & Services	-20%	7%	0%	-7%	-7%
Automobiles & Components	21%	3%	-7%	-10%	-7%
Materials	-15%	-19%	-16%	-9%	-8%
Telecommunication Services	-7%	-4%	-11%	-9%	-9%
Region Average	1%	0%	-4%	-3%	-2%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Over half of stocks in the developed world are down less than 10% from 6 month highs, while only 2% are down over 30%. Thirty-eight percent of stocks are down in between a correction (-10%) and a bear market (-20%).

Exhibit 26: Distance from 6 Month Highs MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	0-10%	10-20%	20-30%	>30%
Health Care Equipment & Services	75%	18%	5%	2%
Retailing	75%	19%	6%	0%
Food Beverage & Tobacco	70%	23%	4%	3%
Diversified Financials	69%	28%	3%	0%
Banks	69%	29%	1%	1%
Household & Personal Products	69%	31%	0%	0%
Telecommunication Services	67%	26%	5%	2%
Software & Services	64%	24%	8%	5%
Insurance	60%	36%	4%	0%
Pharmaceuticals Biotechnology & Life Sciences	60%	37%	1%	1%
Commercial & Professional Services	57%	37%	6%	0%
Automobiles & Components	53%	45%	2%	0%
Consumer Durables & Apparel	53%	36%	8%	3%
Media	52%	44%	4%	0%
Capital Goods	50%	43%	5%	1%
Food & Staples Retailing	50%	34%	13%	3%
Materials	47%	35%	12%	6%
Semiconductors & Semiconductor Equipment	43%	39%	14%	4%
Consumer Services	40%	33%	12%	14%
Technology Hardware & Equipment	36%	44%	14%	6%
Utilities	31%	40%	26%	3%
Transportation	29%	56%	15%	0%
Real Estate	26%	61%	13%	0%
Energy	18%	58%	19%	6%
Region Average	51%	38%	9%	2%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

The damage has been more extensive in the emerging markets over the last 6 months. Fully 73% of stocks in the emerging markets are in a technical correction, with 33% in a technical bear market.

Exhibit 27: Distance From 6 Month Highs MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	0-10%	10-20%	20-30%	>30%
Household & Personal Products	69%	23%	0%	8%
Food & Staples Retailing	42%	37%	16%	5%
Insurance	40%	56%	4%	0%
Pharmaceuticals Biotechnology & Life Sciences	37%	37%	26%	0%
Consumer Durables & Apparel	37%	42%	16%	5%
Commercial & Professional Services	33%	67%	0%	0%
Technology Hardware & Equipment	32%	32%	24%	12%
Food Beverage & Tobacco	31%	47%	14%	8%
Materials	30%	23%	28%	19%
Transportation	30%	25%	15%	30%
Capital Goods	29%	36%	25%	10%
Media	27%	18%	9%	45%
Energy	27%	40%	21%	12%
Software & Services	27%	33%	33%	7%
Telecommunication Services	26%	33%	26%	15%
Banks	26%	50%	15%	10%
Utilities	22%	54%	22%	2%
Semiconductors & Semiconductor Equipment	20%	45%	15%	20%
Diversified Financials	20%	53%	23%	5%
Real Estate	19%	43%	31%	7%
Automobiles & Components	17%	24%	52%	7%
Retailing	14%	55%	14%	18%
Health Care Equipment & Services	8%	50%	33%	8%
Consumer Services	0%	55%	27%	18%
Region Average	27%	40%	22%	11%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Valuation multiples have expanded over the previous several years. No industry has a single digit average P/E, and few have a single digit price to cash flow multiple. This generalization holds across the emerging and developed worlds. Some value can still be found in the consumer non-cyclical, health care, technology and energy areas, but we feel the easy money from multiple expansion has more or less been made. As the tables below show, only 20% of DM companies and 27% of EM companies have a low single digit price to cash flow multiple. Bucking this trend are semiconductors, food and staples retailing and technology hardware, which may be areas of interest for new buys. In general, though, the level of valuations at this stage in the cycle complicates stock selection. Put another way, it's becoming more and more difficult to find strong operating companies with a built-in margin of safety.

Exhibit 28: Intangible Adjusted Valuations of MSCI Developed World Industry Groups, Equal Weight

INDUSTRY GROUP	P/E	P/CF	P/S	P/B
Automobiles & Components	17.6	8.1	1.1	1.8
Banks	18.7	13.6	2.5	1.2
Capital Goods	22.0	10.8	1.6	2.4
Commercial & Professional Services	26.5	10.5	2.3	4.1
Consumer Durables & Apparel	20.5	10.1	2.0	2.7
Consumer Services	24.7	13.7	2.6	4.4
Diversified Financials	19.0	13.9	4.7	3.2
Energy	23.5	8.1	2.9	2.1
Food & Staples Retailing	19.0	5.9	0.6	2.1
Food Beverage & Tobacco	26.5	11.3	2.3	3.7
Health Care Equipment & Services	28.6	12.3	3.1	3.4
Household & Personal Products	24.7	9.8	2.6	4.2
Insurance	14.3	6.3	1.2	1.3
Materials	26.6	8.6	1.9	2.8
Media	27.2	12.7	3.0	5.9
Pharmaceuticals Biotechnology & Life Sciences	35.2	16.6	9.0	4.6
Real Estate	26.9	20.6	7.4	1.8
Retailing	22.6	10.6	2.1	5.5
Semiconductors & Semiconductor Equipment	26.7	10.4	4.6	3.0
Software & Services	32.2	13.9	6.1	4.3
Technology Hardware & Equipment	18.5	8.2	2.4	2.0
Telecommunication Services	26.8	7.0	2.2	3.6
Transportation	29.3	9.7	2.2	2.9
Utilities	21.0	7.1	2.8	1.6
Region Average	24.0	11.1	3.1	2.9

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Exhibit 29: Intangible Adjusted Valuations of MSCI Emerging Markets Industry Groups, Equal Weight

INDUSTRY GROUP	P/E	P/CF	P/S	P/B
Automobiles & Components	19.3	13.0	1.8	2.8
Banks	11.8	10.5	2.5	1.6
Capital Goods	24.7	16.1	1.9	2.0
Commercial & Professional Services	32.3	16.5	5.4	4.6
Consumer Durables & Apparel	21.1	14.1	2.5	4.0
Consumer Services	18.8	10.9	2.7	2.7
Diversified Financials	23.5	27.6	6.7	2.1
Energy	15.3	6.9	1.4	1.6
Food & Staples Retailing	21.0	8.3	0.8	3.4
Food Beverage & Tobacco	25.3	13.9	2.6	4.1
Health Care Equipment & Services	36.9	19.0	3.8	4.3
Household & Personal Products	35.0	20.1	4.7	10.3
Insurance	14.7	5.0	2.3	2.1
Materials	27.3	11.0	1.5	1.7
Media	38.2	22.8	13.6	8.5
Pharmaceuticals Biotechnology & Life Sciences	30.9	26.0	6.5	5.0
Real Estate	13.2	30.3	6.2	1.5
Retailing	19.8	13.0	1.9	4.5
Semiconductors & Semiconductor Equipment	18.2	7.8	3.5	2.6
Software & Services	32.3	21.9	6.0	6.2
Technology Hardware & Equipment	18.2	7.5	1.3	1.9
Telecommunication Services	22.0	8.0	4.5	4.6
Transportation	24.6	17.5	3.9	2.2
Utilities	18.4	7.5	2.6	1.9
Region Average	21.0	13.2	3.1	2.7

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Roughly 59% of stocks sell for less than 10x intangible adjusted cash flow. There are pockets of value in the technology and consumer staples sectors.

Exhibit 30: Intangible Adjusted Valuation Profile of MSCI Developed World Industry Groups, Equal Weight

INDUSTRY GROUP	0-5x	5-10x	10-15x	15-20x	20-25x	25x+
Automobiles & Components	47%	39%	10%	0%	0%	4%
Banks	23%	24%	19%	7%	2%	11%
Capital Goods	19%	46%	20%	6%	3%	4%
Commercial & Professional Services	9%	46%	31%	11%	3%	0%
Consumer Durables & Apparel	19%	42%	17%	7%	5%	5%
Consumer Services	7%	43%	24%	14%	2%	5%
Diversified Financials	18%	17%	19%	14%	8%	10%
Energy	37%	43%	7%	8%	2%	1%
Food & Staples Retailing	47%	41%	13%	0%	0%	0%
Food Beverage & Tobacco	6%	37%	34%	15%	6%	1%
Health Care Equipment & Services	2%	44%	37%	7%	3%	5%
Household & Personal Products	6%	44%	50%	0%	0%	0%
Insurance	47%	37%	9%	1%	0%	1%
Materials	20%	49%	20%	7%	1%	1%
Media	6%	54%	19%	10%	2%	8%
Pharmaceuticals Biotechnology & Life Sciences	5%	42%	16%	18%	3%	15%
Real Estate	2%	13%	25%	27%	15%	14%
Retailing	23%	35%	19%	14%	3%	3%
Semiconductors & Semiconductor Equipment	18%	46%	14%	11%	4%	4%
Software & Services	8%	33%	30%	11%	8%	10%
Technology Hardware & Equipment	48%	32%	6%	8%	0%	6%
Telecommunication Services	33%	50%	10%	0%	5%	0%
Transportation	21%	42%	22%	9%	2%	5%
Utilities	27%	58%	8%	5%	1%	0%
Region Average	20%	39%	19%	9%	4%	5%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

In the emerging markets, fewer stocks are trading for less than 10x intangible adjusted cash flow. Roughly 52% of stocks are trading for less than 10x cash flow. Eleven percent of EM stocks sell for more than 25x intangible adjusted cash flow, more than twice the amount in the developed world.

Exhibit 31: Intangible Adjusted Price/Cash Flow Profile of MSCI Emerging Markets Industry Groups, Equal Weight

INDUSTRY GROUP	0-5x	5-10x	10-15x	15-20x	20-25x	25x+
Automobiles & Components	18%	38%	10%	10%	0%	14%
Banks	24%	28%	10%	7%	4%	6%
Capital Goods	23%	19%	22%	4%	4%	15%
Commercial & Professional Services	0%	33%	0%	0%	0%	33%
Consumer Durables & Apparel	16%	32%	21%	5%	11%	16%
Consumer Services	0%	55%	36%	9%	0%	0%
Diversified Financials	11%	5%	18%	3%	10%	15%
Energy	51%	31%	12%	2%	2%	2%
Food & Staples Retailing	21%	47%	26%	5%	0%	0%
Food Beverage & Tobacco	8%	37%	22%	10%	8%	12%
Health Care Equipment & Services	0%	17%	42%	8%	8%	25%
Household & Personal Products	8%	17%	15%	0%	15%	38%
Insurance	68%	20%	4%	0%	8%	0%
Materials	26%	40%	17%	3%	6%	5%
Media	0%	27%	27%	9%	0%	27%
Pharmaceuticals Biotechnology & Life Sciences	5%	0%	16%	5%	16%	47%
Real Estate	10%	17%	7%	5%	5%	26%
Retailing	14%	18%	32%	14%	9%	5%
Semiconductors & Semiconductor Equipment	40%	40%	10%	0%	0%	5%
Software & Services	0%	13%	20%	33%	0%	33%
Technology Hardware & Equipment	45%	26%	18%	3%	0%	3%
Telecommunication Services	46%	37%	4%	4%	2%	4%
Transportation	26%	15%	13%	20%	5%	15%
Utilities	40%	30%	18%	6%	0%	2%
Region Average	25%	27%	16%	6%	5%	11%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Normalized valuations, looking at price relative to trailing 5-year fundamentals, are somewhat lofty across the board. Biotech and internet related industry groups are the most expensive areas of the market. No industry group is less than 1x book value, but banks are the cheapest at 1.3x.

Exhibit 32: 5 Year Normalized Intangible Adjusted Valuations of MSCI Developed World Industry Groups, Equal Weight

INDUSTRY GROUP	P/E	P/CF	P/S	P/B
Automobiles & Components	18.6	10.3	1.5	2.3
Banks	20.5	13.6	2.5	1.3
Capital Goods	25.9	11.3	1.8	2.9
Commercial & Professional Services	32.5	11.8	2.7	4.7
Consumer Durables & Apparel	28.4	12.8	2.5	3.4
Consumer Services	31.9	13.7	2.9	5.4
Diversified Financials	27.6	15.3	5.3	3.8
Energy	24.7	9.8	3.4	2.4
Food & Staples Retailing	20.9	6.8	0.7	2.4
Food Beverage & Tobacco	27.8	12.0	2.6	5.0
Health Care Equipment & Services	32.9	13.8	3.9	4.1
Household & Personal Products	29.7	10.7	2.8	4.3
Insurance	17.3	7.8	1.3	1.5
Materials	28.0	9.5	2.1	3.0
Media	29.2	12.3	3.2	6.4
Pharmaceuticals Biotechnology & Life Sciences	40.0	20.9	10.8	6.0
Real Estate	33.5	22.2	7.7	2.0
Retailing	28.7	12.4	2.7	6.4
Semiconductors & Semiconductor Equipment	33.4	11.3	5.2	3.4
Software & Services	42.6	19.7	9.0	6.7
Technology Hardware & Equipment	31.2	9.7	3.2	2.5
Telecommunication Services	22.8	7.1	2.3	5.2
Transportation	33.7	11.1	2.4	4.5
Utilities	22.7	7.1	2.3	1.6
Region Average	28.3	12.5	3.6	3.5

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Normalized valuations aren't any more favorable, on average, in the emerging markets. Several industry groups are selling for more than 25x intangible adjusted normalized cash flow...a very rich level.

Exhibit 33: 5 Year Normalized Intangible Adjusted Valuations of MSCI Emerging Markets Industry Groups, Equal Weight

INDUSTRY GROUP	P/E	P/CF	P/S	P/B
Automobiles & Components	20.9	17.7	2.0	3.9
Banks	14.5	14.3	2.9	1.9
Capital Goods	24.6	19.0	2.0	2.4
Commercial & Professional Services	40.4	23.2	6.9	5.9
Consumer Durables & Apparel	27.0	18.7	2.8	5.1
Consumer Services	21.8	13.5	3.3	3.4
Diversified Financials	22.9	26.7	8.4	2.6
Energy	14.8	8.6	1.7	2.2
Food & Staples Retailing	23.3	10.8	1.0	4.3
Food Beverage & Tobacco	24.1	17.3	3.1	4.8
Health Care Equipment & Services	44.3	24.8	5.4	5.6
Household & Personal Products	42.1	26.0	6.0	12.2
Insurance	18.5	7.6	2.7	2.6
Materials	19.5	10.8	1.7	2.0
Media	39.4	24.8	10.0	8.5
Pharmaceuticals Biotechnology & Life Sciences	37.7	34.0	9.4	6.5
Real Estate	17.8	29.7	7.4	2.2
Retailing	24.2	14.6	2.3	8.8
Semiconductors & Semiconductor Equipment	26.0	14.5	4.5	3.1
Software & Services	32.8	24.0	7.3	8.5
Technology Hardware & Equipment	15.4	10.7	1.7	2.4
Telecommunication Services	17.5	10.0	4.6	4.7
Transportation	24.5	15.3	4.4	2.5
Utilities	22.8	11.5	3.0	2.1
Region Average	21.8	15.6	3.6	3.4

As of 6/30/2015

Sources: MSCI, Gavekal Capital

The energy industry has the highest expected sales growth rate of the 24 industries in the table below for FY2-FY4 by several hundred basis points. Of course, part of this high expectation can be explained by the fact that the energy industry has had a collapse in growth expectations for FY1.

Only two industries (software and services, and pharmaceuticals, biotechnology and life sciences) are expected to grow sales by 10% per year over the next four years.

Exhibit 34: Sales Growth Estimates MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Pharmaceuticals Biotechnology & Life Sciences	9.3	9.0	9.6	10.1	10.5
Software & Services	11.0	10.2	10.3	11.6	10.5
Semiconductors & Semiconductor Equipment	7.9	8.5	6.9	6.5	7.5
Health Care Equipment & Services	7.2	7.3	6.5	6.7	6.9
Retailing	5.9	6.7	6.2	9.6	6.9
Consumer Durables & Apparel	5.8	6.8	5.9	6.8	6.1
Consumer Services	-1.3	7.6	7.8	9.9	5.7
Diversified Financials	2.8	6.7	5.6	7.3	5.3
Automobiles & Components	2.6	6.4	5.8	6.5	5.2
Commercial & Professional Services	4.1	5.8	5.7	5.2	5.2
Media	5.6	5.3	3.7	4.8	4.8
Energy	-19.1	13.9	12.5	12.8	4.6
Real Estate	1.9	6.5	4.9	5.0	4.4
Technology Hardware & Equipment	3.5	4.6	3.8	2.5	3.8
Food Beverage & Tobacco	1.6	4.2	3.8	5.9	3.8
Food & Staples Retailing	1.6	4.9	4.3	5.0	3.8
Household & Personal Products	1.2	4.8	4.6	3.4	3.7
Materials	0.1	5.3	4.7	4.9	3.5
Capital Goods	1.3	4.1	4.0	4.6	3.3
Telecommunication Services	1.2	2.8	2.4	5.9	3.1
Transportation	-0.7	4.1	3.9	4.0	2.7
Banks	-3.1	4.3	4.9	5.8	2.6
Insurance	1.8	3.3	2.8	-3.1	2.3
Utilities	-3.9	2.4	3.4	4.2	1.3
Region Average	1.1	6.1	5.7	6.6	4.7

As of 6/30/2015

Sources: MSCI, Gavekal Capital

For the 24 industries, only seven industries are expected to grow earnings, on average, less than 10% a year for the next four years. There are incredibly high growth expectations in the next several years for the energy industry in the developed world. Analysts expect the energy industry to increase earnings by 22.7% in Fiscal Year (FY) 2, 40% in FY3, and 33.5% FY4.

Exhibit 35: Earnings Growth Estimates MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Energy	-27.4	22.7	40.0	33.5	16.4
Software & Services	8.9	17.8	18.3	21.8	16.0
Materials	7.9	20.9	14.7	14.3	14.4
Retailing	9.8	15.5	14.9	18.1	14.1
Media	7.2	16.2	16.2	16.9	13.9
Consumer Services	2.5	15.6	18.4	19.3	13.8
Transportation	21.1	13.4	9.1	8.4	13.3
Diversified Financials	13.5	10.7	13.8	12.0	12.6
Pharmaceuticals Biotechnology & Life Sciences	6.5	12.7	15.9	14.0	12.3
Semiconductors & Semiconductor Equipment	7.8	18.4	9.7	15.3	12.1
Consumer Durables & Apparel	11.0	14.7	12.5	8.4	12.1
Health Care Equipment & Services	9.2	12.7	11.8	12.3	11.5
Automobiles & Components	10.8	13.7	11.6	9.5	11.4
Telecommunication Services	4.8	14.3	11.5	15.9	11.2
Capital Goods	9.8	12.4	9.2	11.3	10.6
Technology Hardware & Equipment	8.1	14.7	9.7	6.5	10.4
Banks	10.0	13.2	11.5	5.4	10.2
Food Beverage & Tobacco	6.5	10.5	9.5	9.8	9.2
Household & Personal Products	0.9	15.6	9.0	9.7	9.0
Commercial & Professional Services	7.1	10.3	10.0	5.5	8.7
Food & Staples Retailing	-2.7	12.5	10.9	12.1	7.7
Insurance	3.7	7.0	8.0	6.8	6.1
Real Estate	-2.1	9.1	7.6	11.0	5.3
Utilities	-1.9	5.1	7.0	7.2	4.0
Region Average	5.1	13.8	13.6	13.9	11.2

As of 6/30/2015

Sources: MSCI, Gavekal Capital

In the emerging markets, growth expectations are much higher. Many of the 24 industry groups are expected to see sales grow by 10% per year, on average, over the next four years. Sales estimates across the 24 industries are expected to grow by 8% on average over the next four years with growth in FY2, at 10.1%, expected to be the highest growing year.

Exhibit 36: Sales Growth Estimates MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Commercial & Professional Services	25.7	16.2	12.3	12.4	18.3
Pharmaceuticals Biotechnology & Life Sciences	14.6	16.2	15.3	7.0	15.1
Software & Services	14.8	16.3	14.0	9.4	14.4
Diversified Financials	17.5	12.4	10.1	16.0	13.7
Health Care Equipment & Services	10.0	13.6	12.8	13.9	12.7
Household & Personal Products	10.0	13.4	12.5	14.1	12.3
Media	15.5	10.8	11.0	10.0	11.7
Real Estate	9.1	14.9	10.7	10.3	11.3
Consumer Durables & Apparel	9.1	12.6	11.6	13.2	11.3
Consumer Services	9.2	14.5	11.3	9.0	10.9
Retailing	7.6	12.1	12.6	6.8	10.2
Automobiles & Components	9.1	11.5	9.6	9.0	9.8
Semiconductors & Semiconductor Equipment	9.9	11.6	7.5	10.7	9.3
Insurance	10.5	10.6	4.5	6.3	8.6
Food & Staples Retailing	4.4	9.9	9.2	10.8	8.3
Capital Goods	6.7	9.6	7.9	6.4	8.0
Technology Hardware & Equipment	10.4	7.2	6.1	7.1	7.8
Banks	3.0	9.5	9.5	5.1	7.4
Food Beverage & Tobacco	3.1	9.4	9.0	9.3	7.4
Transportation	4.9	8.6	8.2	5.0	7.1
Materials	-1.4	9.2	7.6	7.7	5.4
Utilities	-0.1	5.1	7.1	5.0	4.6
Telecommunication Services	0.1	5.1	4.8	5.8	3.8
Energy	-10.4	10.5	7.7	3.9	2.7
Region Average	4.9	10.1	8.8	7.8	8.0

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Four industries, media, pharmaceuticals, biotechnology and life sciences, materials, and commercial and professional services, are expected to average 20% earnings growth rates annually over the next four years.

Exhibit 37: Earnings Growth Estimates MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Media	29.3	21.5	19.4	33.1	23.2
Pharmaceuticals Biotechnology & Life Sciences	24.4	23.1	20.2	24.8	22.6
Materials	18.2	26.3	19.9	25.7	21.7
Commercial & Professional Services	25.6	20.9	13.4		20.0
Household & Personal Products	20.8	19.8	16.8	21.6	19.8
Software & Services	17.6	22.8	18.1	13.1	19.2
Capital Goods	20.8	22.5	15.7	4.6	18.9
Retailing	11.0	17.2	20.3	26.1	17.6
Food & Staples Retailing	8.0	21.7	18.5	20.5	17.2
Health Care Equipment & Services	10.8	18.2	16.4	28.9	16.8
Transportation	13.5	21.5	12.0	13.8	16.0
Diversified Financials	23.1	12.7	10.5	3.0	15.3
Consumer Durables & Apparel	12.0	19.0	14.9	6.9	15.2
Food Beverage & Tobacco	10.0	19.4	14.9	12.2	14.7
Technology Hardware & Equipment	19.7	13.6	9.5	12.8	14.5
Telecommunication Services	9.1	15.4	17.1	15.5	14.0
Automobiles & Components	16.3	15.5	13.5	2.3	13.7
Energy	3.2	17.1	14.8	7.9	11.2
Insurance	14.2	8.6	10.7	8.7	11.2
Utilities	8.1	11.5	13.4	8.9	10.7
Consumer Services	8.6	12.0	11.8	9.1	10.5
Real Estate	-2.7	19.2	14.5	16.4	10.3
Banks	1.7	12.9	14.8	14.9	10.0
Semiconductors & Semiconductor Equipment	4.6	16.2	8.0		9.8
Region Average	11.8	17.8	15.1	14.5	14.9

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Overall, changes in sales growth estimates over the past three months have been relatively subdued as growth expectations have only declined by about 10-20 bps.

Exhibit 38: 3 Month Revisions to Sales Growth MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Telecommunication Services	1.0	0.3	0.2	1.7	0.8
Commercial & Professional Services	1.8	0.3	0.3	-0.2	0.7
Automobiles & Components	-0.2	0.3	0.7	2.2	0.6
Food & Staples Retailing	1.7	0.1	-0.5	0.5	0.5
Capital Goods	0.6	0.3	0.3	0.8	0.5
Health Care Equipment & Services	0.6	0.4	-0.2	0.6	0.4
Diversified Financials	1.7	0.3	-1.2	-0.5	0.3
Food Beverage & Tobacco	0.6	0.4	-0.6	0.4	0.2
Transportation	-0.2	0.0	-0.3	2.6	0.2
Insurance	0.6	-0.1	-0.3	0.2	0.2
Household & Personal Products	1.3	-0.2	-0.4	-0.4	0.0
Retailing	-2.2	0.3	0.0	3.0	0.0
Real Estate	-0.1	1.0	0.4	-2.6	0.0
Utilities	0.1	-0.3	0.0	0.5	-0.1
Software & Services	-0.7	-0.1	0.0	0.8	-0.2
Consumer Services	-1.4	-0.3	0.7	0.3	-0.2
Consumer Durables & Apparel	0.3	0.1	-0.6	-0.7	-0.3
Technology Hardware & Equipment	-1.1	0.3	-0.5	-1.5	-0.3
Banks	1.6	-0.3	-2.7	0.9	-0.4
Materials	-0.9	-0.4	-0.2	-0.5	-0.5
Semiconductors & Semiconductor Equipment	-2.4	0.5	0.6	1.7	-0.6
Media	-5.1	0.4	0.6	0.4	-1.0
Energy	-1.5	-3.2	0.5	-1.9	-1.8
Pharmaceuticals Biotechnology & Life Sciences	0.7	-1.2	-0.3	-2.2	-1.9
Region Average	-0.1	-0.1	-0.2	0.2	-0.2

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Earnings growth estimates have declined at a greater rate as FY1 estimates have declined by 130 basis points and FY2 estimates have declined by 180 basis points over the past three months. Transportation, materials, and telecommunication services have dragged down FY1 earnings growth estimates while energy is almost entirely to blame for the large drop in FY2 estimates. Household and personal products is a bright spot for FY2 as earnings growth expectations have increased by over 5% over the past three months.

Exhibit 39: 3 Month Revisions to Earnings Growth MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Household & Personal Products	-1.6	5.1	0.7	2.6	1.9
Commercial & Professional Services	0.9	-0.3	0.8	0.2	0.5
Consumer Services	-2.4	0.7	0.6	6.2	0.4
Food Beverage & Tobacco	0.6	0.3	0.3	0.3	0.3
Food & Staples Retailing	-0.9	0.0	0.6	2.3	0.2
Technology Hardware & Equipment	-1.9	2.5	-1.2	3.8	0.2
Semiconductors & Semiconductor Equipment	-4.1	1.8	2.8	5.8	0.1
Health Care Equipment & Services	-0.9	-0.1	0.2	0.9	-0.3
Utilities	-1.5	0.4	0.3	-0.4	-0.3
Retailing	-0.5	-1.1	-1.0	2.0	-0.4
Pharmaceuticals Biotechnology & Life Sciences	1.6	0.3	-2.1	-1.3	-0.4
Software & Services	-3.0	-1.5	1.1	4.2	-0.4
Real Estate	1.7	-2.6	-0.3	-1.2	-0.4
Insurance	-0.1	0.2	-0.6	-4.4	-0.5
Consumer Durables & Apparel	-1.0	-0.1	1.1	-2.8	-0.7
Banks	-0.4	-3.2	1.3	-2.7	-0.9
Media	0.1	-6.5	-1.0	3.7	-0.9
Capital Goods	-3.2	0.7	-1.2	1.4	-0.9
Automobiles & Components	-3.3	-1.3	1.9	-2.0	-1.1
Diversified Financials	1.6	-2.8	-2.1	-0.9	-1.4
Transportation	-5.1	-0.3	-1.4	2.5	-1.6
Materials	-5.8	-0.8	-1.5	0.3	-2.1
Telecommunication Services	-6.0	-1.1	0.8	-3.4	-2.3
Energy	3.8	-17.2	-6.6	-5.9	-6.1
Region Average	-1.3	-1.8	-0.7	-0.3	-1.1

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Sales growth estimates in the emerging markets have been hit a bit harder on average, especially for FY1 estimates, over the past three months. However, the drop is disproportionately due to the drop in media sales growth estimates. This has been partially offset by the large increase in FY1 sales growth estimates for diversified financials.

Exhibit 40: 3 Month Revisions to Sales Growth MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Insurance	-0.3	1.1	3.3		1.2
Diversified Financials	8.3	-1.1	-7.0	3.6	0.9
Pharmaceuticals Biotechnology & Life Sciences	0.2	1.4	-1.5	2.5	0.6
Automobiles & Components	-1.3	0.8	0.0	5.4	0.4
Consumer Durables & Apparel	1.0	-1.5	1.0	2.7	0.2
Commercial & Professional Services	0.3	0.0	-4.3	3.1	0.2
Utilities	-0.1	0.5	-0.1	1.8	0.1
Materials	-2.0	0.7	1.0	0.4	-0.1
Technology Hardware & Equipment	-2.4	0.5	1.4	3.5	-0.2
Household & Personal Products	0.3	0.7	-1.3	1.0	-0.3
Semiconductors & Semiconductor Equipment	-3.0	1.8	0.8	-0.2	-0.3
Transportation	-1.4	0.1	1.6	-2.0	-0.3
Consumer Services	-0.3	0.1	0.4	-3.0	-0.4
Capital Goods	-0.4	-0.2	-0.2	-2.8	-0.4
Banks	-0.9	-0.4	-0.6	0.1	-0.6
Food & Staples Retailing	-0.6	-0.4	-0.3	-1.7	-0.6
Telecommunication Services	-1.6	0.4	-0.7	-0.4	-0.7
Software & Services	-1.3	0.0	-0.3	-2.2	-0.9
Health Care Equipment & Services	-0.4	0.0	-1.5	-4.0	-0.9
Real Estate	-1.6	-0.3	0.2	-2.2	-0.9
Energy	-1.8	-0.7	0.6	-2.0	-0.9
Food Beverage & Tobacco	-2.6	0.0	-0.2	0.5	-0.9
Retailing	1.1	0.2	-2.3	-5.3	-1.0
Media	-14.1	-0.4	-0.6	3.8	-4.0
Region Average	-0.9	0.1	-0.1	-0.2	-0.4

As of 6/30/2015

Sources: MSCI, Gavekal Capital

The decline in FY1 earnings estimates over the past three months has had much greater breadth. On average, FY1 earnings estimates have decreased by -6.9% with 21 out of the 24 industries experiencing declining FY1 estimates and six industries experiencing double-digit percentage declines in just three months.

Exhibit 41: 3 Month Revisions to Earnings Growth MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	FY1	FY2	FY3	FY4	Average
Diversified Financials	7.5	-0.8	-1.4	7.2	2.1
Household & Personal Products	1.2	2.5	-0.9	14.9	2.0
Pharmaceuticals Biotechnology & Life Sciences	-1.2	1.0	2.3	5.6	1.4
Technology Hardware & Equipment	-6.5	1.3	8.1	-8.3	0.2
Semiconductors & Semiconductor Equipment	-6.3	3.3	2.3		-0.1
Insurance	7.0	-3.6	-4.2	-2.0	-0.4
Consumer Durables & Apparel	-2.1	-0.4	1.0	0.3	-0.6
Food & Staples Retailing	-1.4	-1.8	-1.6	1.3	-1.2
Health Care Equipment & Services	-3.3	-0.5	0.5	-2.1	-1.5
Retailing	-1.9	-2.9	-5.3	5.9	-1.5
Real Estate	-3.0	-2.0	0.0	0.7	-1.8
Banks	-4.8	-1.9	1.1	4.1	-1.9
Commercial & Professional Services	-4.9	2.3	-5.0		-1.9
Consumer Services	-0.5	-1.3	1.1	-17.0	-2.1
Telecommunication Services	-7.4	3.9	-0.6	-7.1	-2.2
Food Beverage & Tobacco	-9.9	2.7	1.9	-3.1	-2.3
Utilities	-7.5	1.7	0.2	-5.7	-2.7
Automobiles & Components	-11.9	1.6	0.7	-1.3	-3.5
Transportation	-16.7	5.7	2.0	-0.8	-3.6
Materials	-10.1	-1.2	-0.8	-6.7	-4.0
Capital Goods	-14.2	0.6	5.3	-1.1	-4.2
Software & Services	-15.5	2.3	-1.1	0.6	-4.3
Energy	-9.4	-7.0	3.4	1.6	-4.6
Media	-22.0	1.6	2.4	4.6	-6.9
Region Average	-6.9	-0.1	0.9	-1.2	-2.3

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Sales revision breadth has generally been improving recently after being battered down six months ago. Only 25% of developed world stocks have had positive sales revisions over the past six months, however, 62% of developed world stocks have had positive sales revisions over the past one month.

Exhibit 42: Sales Revision Breadth MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	1 Month	3 Months	6 Months
Semiconductors & Semiconductor Equipment	46%	36%	50%
Health Care Equipment & Services	58%	50%	43%
Insurance	60%	72%	39%
Real Estate	63%	54%	39%
Diversified Financials	62%	57%	37%
Retailing	57%	44%	32%
Utilities	61%	59%	31%
Pharmaceuticals Biotechnology & Life Sciences	57%	43%	30%
Commercial & Professional Services	71%	63%	29%
Capital Goods	76%	53%	28%
Consumer Durables & Apparel	75%	51%	27%
Software & Services	51%	41%	25%
Media	63%	52%	25%
Automobiles & Components	82%	49%	24%
Consumer Services	55%	38%	24%
Technology Hardware & Equipment	60%	26%	22%
Food Beverage & Tobacco	62%	49%	21%
Telecommunication Services	71%	60%	19%
Food & Staples Retailing	72%	75%	19%
Banks	71%	68%	18%
Materials	57%	36%	16%
Transportation	65%	48%	13%
Household & Personal Products	69%	63%	6%
Energy	42%	41%	1%
Average	62%	50%	25%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

A similar story has played out with earnings revisions. Only 30% of world stocks have had positive earnings revisions over the past six months, however, 60% of world stocks have had positive earnings revisions over the past month.

Exhibit 43: Earnings Revision Breadth MSCI Developed World by Industry Group, Equal Weight

INDUSTRY GROUP	1 Month	3 Months	6 Months
Semiconductors & Semiconductor Equipment	50%	39%	50%
Diversified Financials	61%	73%	49%
Health Care Equipment & Services	60%	57%	43%
Technology Hardware & Equipment	60%	42%	42%
Transportation	63%	52%	38%
Retailing	65%	54%	37%
Consumer Durables & Apparel	66%	49%	36%
Real Estate	58%	62%	35%
Insurance	56%	60%	33%
Software & Services	50%	51%	33%
Materials	56%	44%	31%
Capital Goods	59%	49%	29%
Utilities	52%	53%	29%
Media	65%	52%	29%
Commercial & Professional Services	66%	63%	29%
Automobiles & Components	73%	41%	29%
Banks	74%	72%	28%
Pharmaceuticals Biotechnology & Life Sciences	58%	51%	27%
Consumer Services	48%	52%	26%
Food & Staples Retailing	56%	47%	22%
Food Beverage & Tobacco	69%	56%	20%
Telecommunication Services	50%	48%	14%
Energy	54%	47%	11%
Household & Personal Products	63%	44%	6%
Average	60%	53%	30%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Sales and earnings breadth is much weaker in the emerging markets. Less than 40% of all emerging markets stocks have experienced positive sales revisions over the past 1, 3, and 6 months.

Exhibit 44: Sales Revision Breadth MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	1 Month	3 Months	6 Months
Technology Hardware & Equipment	12%	26%	53%
Consumer Durables & Apparel	42%	68%	53%
Diversified Financials	55%	55%	52%
Semiconductors & Semiconductor Equipment	5%	32%	47%
Software & Services	47%	27%	40%
Insurance	43%	39%	39%
Commercial & Professional Services	0%	33%	33%
Transportation	33%	40%	33%
Automobiles & Components	38%	24%	31%
Household & Personal Products	31%	46%	31%
Pharmaceuticals Biotechnology & Life Sciences	44%	39%	28%
Real Estate	51%	44%	26%
Capital Goods	21%	31%	24%
Consumer Services	40%	40%	20%
Banks	31%	34%	17%
Health Care Equipment & Services	58%	33%	17%
Materials	44%	32%	14%
Telecommunication Services	27%	32%	14%
Utilities	45%	51%	10%
Media	20%	20%	10%
Retailing	59%	55%	9%
Food Beverage & Tobacco	22%	22%	8%
Energy	37%	33%	4%
Food & Staples Retailing	47%	37%	0%
Average	35%	36%	22%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

The same story is true for earnings revisions during these time frames, with less than 40% of all emerging market stocks having experienced positive sales revisions over the past 1, 3, and 6 months.

Exhibit 45: Earnings Revision Breadth MSCI Emerging Markets by Industry Group, Equal Weight

INDUSTRY GROUP	1 Month	3 Months	6 Months
Household & Personal Products	54%	38%	69%
Commercial & Professional Services	33%	0%	67%
Insurance	72%	80%	56%
Technology Hardware & Equipment	9%	44%	56%
Consumer Durables & Apparel	47%	58%	44%
Diversified Financials	64%	53%	44%
Transportation	30%	43%	43%
Semiconductors & Semiconductor Equipment	16%	32%	42%
Health Care Equipment & Services	33%	42%	25%
Energy	52%	48%	25%
Utilities	47%	51%	24%
Materials	42%	32%	22%
Pharmaceuticals Biotechnology & Life Sciences	39%	39%	22%
Capital Goods	29%	39%	21%
Automobiles & Components	31%	14%	21%
Telecommunication Services	30%	27%	20%
Media	20%	30%	20%
Consumer Services	27%	60%	18%
Real Estate	44%	31%	18%
Food Beverage & Tobacco	24%	24%	16%
Banks	31%	29%	15%
Food & Staples Retailing	37%	37%	11%
Software & Services	60%	27%	7%
Retailing	32%	41%	5%
Average	37%	38%	26%

As of 6/30/2015

Sources: MSCI, Gavekal Capital

Economic, Fixed Income, Currency, Commodity Commentary

Measuring the 1 year % change in nominal GDP growth, in USD, around the world, it is apparent how impactful the strong USD has been. Over the last couple quarters, as the USD has surged, global nominal USD-based economic growth has dropped precipitously. Partially explaining the strength of US equities is the relative strength of US nominal GDP growth.

Exhibit 46: MSCI Developed World Nominal GDP 1 Year % Change, 20 quarters, in USD

Country	Economic Data: Quarterly Frequency																			
	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q
Australia	26.14	19.51	18.86	20.24	29.12	24.55	8.51	10.65	-1.25	0.99	4.73	0.77	0.64	-8.89	-6.51	-9.48	-2.51	3.61	-6.30	-11.44
Belgium	-1.70	-5.41	-3.52	4.50	17.86	12.79	1.99	-1.48	-9.22	-9.87	-1.60	1.63	4.00	8.28	7.03	6.17	6.32	1.90	-6.93	-16.85
Canada	21.36	12.09	9.90	11.51	12.75	13.75	5.52	3.06	-0.34	1.46	5.53	2.35	1.78	-0.69	-1.95	-4.86	-1.73	-0.28	-4.12	-9.90
Denmark	-1.10	-4.40	-3.00	2.90	16.14	9.33	0.33	-2.73	-9.19	-8.73	-2.59	1.99	1.80	6.73	6.45	4.39	6.99	2.02	-5.34	-14.68
France	-3.96	-6.00	-4.71	3.14	16.90	11.94	1.64	-2.81	-9.68	-10.05	-2.63	1.89	3.93	7.45	6.39	4.98	5.25	0.64	-7.34	-16.48
Germany	-1.98	-4.87	-3.32	5.51	18.88	13.93	2.87	-2.05	-8.93	-9.54	-1.97	2.10	4.23	8.35	8.17	8.25	8.43	2.84	-5.45	-15.71
Iceland	1.47	5.43	9.30	11.87	16.08	12.67	1.80	0.75	-7.04	-2.69	-2.90	2.88	11.05	7.64	11.70	12.59	12.51	12.20	6.20	-3.66
Ireland	-8.66	-8.66	-10.05	0.08	16.97	11.87	7.42	-4.06	-12.79	-11.25	1.81	2.63	4.80	8.87	2.27	9.33	11.20	5.83	-1.61	
Israel	13.71	7.92	13.39	9.41	16.49	13.74	3.77	1.94	-3.24	-3.29	2.91	7.97	13.02	16.48	14.61	11.55	6.92	3.66	-2.42	-6.42
Italy	-4.52	-7.89	-5.63	2.46	16.30	11.46	-0.17	-5.05	-12.23	-13.06	-5.40	-0.66	1.14	6.01	5.52	5.03	5.51	0.15	-8.08	-17.82
Japan	7.98	13.13	10.70	8.37	8.71	7.78	5.43	5.73	4.29	-1.75	-5.41	-14.49	-18.27	-18.95	-17.55	-8.38	-1.56	-4.31	-10.96	-11.70
Netherlands	-4.07	-6.86	-5.10	2.35	15.32	10.89	0.12	-4.36	-11.08	-12.12	-3.99	0.80	1.73	6.72	5.73	6.34	8.01	3.47	-4.81	-16.54
New Zealand	22.64	11.10	9.60	10.17	19.28	21.95	6.57	12.08	2.68	-1.17	7.06	5.11	6.34	4.97	10.33	8.90	12.78	10.23	-3.62	-8.39
Norway	10.64	3.79	4.47	9.32	24.04	23.30	10.28	8.42	-1.56	-3.41	4.61	3.09	3.34	6.59	0.81	-1.07	3.17	-2.69	-11.39	-21.78
Portugal	-4.23	-7.17	-6.54	-0.95	11.78	6.23	-5.02	-8.20	-15.21	-15.65	-7.41	-2.01	1.90	7.63	8.61	7.02	7.55	2.00	-7.19	-16.26
Singapore	24.83	18.88	18.79	20.16	18.90	18.87	6.08	4.72	3.16	1.08	9.79	6.79	5.95	4.42	4.13	1.92	3.08	4.76	-2.18	-4.22
Spain	-6.62	-8.97	-7.35	-0.70	13.16	8.06	-1.98	-5.76	-12.81	-12.77	-5.79	-0.74	1.14	5.26	5.46	3.88	5.82	1.33	-6.98	-15.40
Sweden	11.06	8.29	13.16	18.38	26.69	16.78	0.97	-3.01	-8.63	-4.25	2.47	6.88	7.26	5.84	6.12	2.60	3.17	-1.96	-9.03	-18.79
Switzerland	3.82	6.31	8.66	16.05	30.64	27.00	7.93	2.79	-6.86	-12.99	-0.75	0.23	1.40	5.27	5.24	6.91	7.86	3.61	-4.76	-6.17
United Kingdom	2.36	-0.68	0.99	7.85	12.41	7.81	3.21	0.17	-0.72	0.91	4.35	0.50	1.13	1.44	5.32	11.85	14.37	12.69	2.30	-4.67
United States	3.82	4.68	4.56	3.80	3.84	3.52	3.64	4.71	4.10	4.37	3.47	3.42	3.26	3.71	4.57	3.28	4.27	4.31	3.66	3.81
Average	4.62	1.63	2.85	7.74	17.44	13.82	3.29	0.54	-5.86	-6.23	0.12	1.56	2.98	4.74	4.63	4.48	6.13	3.01	-4.81	-12.16

As of 6/30/2015. A blank space indicates historic data not available.

On a quarterly, annualized basis, real GDP growth (in local currency) in the developed world remains subdued, with an average of just 1.63%. Though growth has improved for the most part, it shows no sign of an acceleration. In local terms, the US and UK are the fastest growing economies in the developed world. Compared to Germany or France, Spain's growth looks much more constructive.

Exhibit 47: MSCI Developed World Real GDP 1 Year % Change, in Local Currency

Country	Economic Data: Quarterly Frequency																			
	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q
Australia	2.15	2.25	2.61	1.84	2.58	3.27	3.15	4.64	3.84	3.23	2.74	1.95	2.14	1.94	2.24	2.95	2.77	2.71	2.36	2.31
Belgium	3.14	2.55	2.11	2.58	1.74	1.36	0.93	0.46	-0.05	-0.10	0.04	-0.33	0.24	0.55	0.62	1.20	1.05	0.97	1.02	0.95
Canada	3.85	3.80	3.60	3.01	2.33	3.49	3.00	2.44	2.87	1.42	0.99	1.56	1.64	2.13	2.68	2.14	2.50	2.64	2.47	2.06
Denmark	1.91	2.81	2.76	2.18	2.38	-0.33	0.42	0.10	-1.28	-0.18	-1.25	-0.88	-1.26	-0.25	0.46	0.43	1.33	1.22	1.37	1.68
France	1.86	2.33	2.18	2.91	2.20	1.79	1.49	0.39	0.19	0.26	0.02	0.11	1.15	0.75	0.97	0.67	-0.17	0.16	0.03	0.82
Germany	4.36	4.59	4.44	5.55	3.56	3.18	2.42	0.89	0.83	0.52	0.11	-0.61	0.06	0.27	1.14	2.33	1.43	1.20	1.45	0.95
Iceland	-4.02	-4.08	-1.18	0.71	0.34	4.58	3.96	3.12	0.87	2.27	-0.92	3.17	3.26	2.85	4.96	1.71	1.79	2.10	1.87	2.29
Ireland	-1.38	1.37	1.00	1.69	2.92	4.54	0.28	-1.74	-0.79	1.04	0.02	0.19	1.74	-1.14	4.97	6.05	4.13	4.05		
Israel	4.12	4.60	5.08	5.18	4.31	4.49	3.85	3.35	3.00	2.61	2.91	2.77	3.74	3.42	3.20	3.49	2.50	2.06	2.90	2.68
Italy	1.93	1.86	2.14	1.98	1.44	0.40	-0.98	-2.34	-3.14	-3.14	-2.65	-2.56	-1.97	-1.37	-0.90	-0.20	-0.31	-0.49	-0.44	0.08
Japan	4.44	5.91	3.57	0.10	-1.61	-0.44	0.29	3.27	3.46	0.32	-0.03	0.24	1.41	2.37	2.29	2.09	-0.40	-1.38	-0.86	-0.98
Netherlands	1.44	1.09	1.45	2.83	2.21	1.92	0.05	-1.36	-1.45	-1.88	-1.74	-1.34	-1.47	-0.62	0.77	0.84	1.86	2.05	2.34	2.53
New Zealand	3.55	0.99	-0.92	-0.69	-0.32	2.36	4.06	2.87	3.07	2.83	2.77	3.08	2.34	2.64	1.88	2.88	2.90	3.23	4.21	2.95
Norway	0.91	-1.66	1.05	-0.77	-0.13	4.05	1.31	3.38	4.02	1.01	1.66	-0.60	0.32	2.32	1.27	2.04	1.98	1.77	2.95	2.59
Portugal	2.47	1.69	1.40	-0.31	-1.32	-2.22	-3.46	-3.14	-4.07	-4.43	-4.49	-4.11	-2.26	-1.28	1.35	0.85	0.87	1.22	0.62	1.52
Singapore	18.45	10.96	14.55	9.52	3.76	6.92	4.27	3.52	4.43	2.27	4.02	2.55	4.10	5.57	5.41	6.00	1.88	4.77	5.91	1.17
Spain	0.11	0.47	0.53	0.10	-0.39	-0.91	-1.27	-1.74	-2.06	-2.09	-2.47	-2.20	-1.66	-1.04	0.00	0.63	1.25	1.64	2.03	2.66
Sweden	5.24	6.59	7.97	5.18	3.29	3.04	-0.47	-0.09	0.32	-0.68	0.60	1.22	0.34	1.06	2.45	1.61	2.45	2.35	2.61	2.72
Switzerland	3.30	2.88	3.13	2.52	2.22	1.68	1.16	0.93	0.61	1.39	1.45	1.48	2.21	1.99	2.05	2.50	1.67	1.85	1.89	1.13
United Kingdom	2.09	2.54	2.17	2.20	1.44	1.49	1.45	0.98	0.57	0.71	0.38	0.91	1.74	1.62	2.38	2.68	2.95	3.38	3.38	2.86
United States	2.72	3.08	2.73	1.89	1.65	1.18	1.68	2.65	2.32	2.73	1.60	1.72	1.76	2.26	3.13	1.89	2.59	2.70	2.38	2.88
Average	3.00	2.69	3.02	2.64	1.75	2.11	1.47	1.13	0.70	0.31	0.24	0.21	0.73	1.25	1.65	1.92	1.71	1.72	1.91	1.63

As of 6/30/2015. A blank space indicates historic data not available.

The stronger USD has led to contracting USD-based nominal growth in the emerging markets. Nominal GDP growth in the emerging markets has been contracting for two quarters. China's nominal growth in USD has slowed from 25+% to under 4%. Brazil has experienced the most pronounced drop in economic growth in USD terms, slowing from a 30+% growth rate as recently as 2011 to now contracting by almost 12.5%.

Exhibit 48: MSCI Emerging World GDP Nominal GDP 1 Year % Change, in USD

Country	Economic Data: Quarterly Frequency																
	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q
Brazil	36.28	25.09	18.14	24.53	29.68	19.02	2.82	3.02	-13.47	-12.86	-6.24	-4.15	5.00	-3.45	-0.52	-7.18	-2.08
China	18.66	19.48	21.35	23.18	24.70	25.39	23.92	16.57	13.87	11.40	12.34	11.73	12.51	14.09	12.87	10.04	7.16
Colombia	22.57	17.45	16.15	16.01	22.82	17.60	11.06	16.62	8.64	5.31	10.65	4.53	2.19	2.92	1.71	-2.94	3.69
Czech Republic	-0.89	-5.44	-2.87	7.27	20.71	12.96	-0.28	-4.76	-13.86	-13.95	-3.81	-2.60	-0.52	4.58	2.06	0.98	3.76
Greece	-10.83	-14.78	-16.83	-10.63	4.91	1.83	-9.51	-10.49	-17.44	-16.78	-9.63	-5.62	-4.02	0.22	-2.25	-0.19	0.88
Hong Kong	3.67	8.16	6.86	9.29	10.64	8.13	6.99	4.72	4.02	6.22	7.49	5.44	3.94	5.30	5.21	5.18	6.87
Hungary	-0.54	-8.63	-6.63	1.72	21.11	16.95	-6.30	-9.26	-17.18	-11.73	2.87	3.80	6.64	5.25	4.87	6.80	7.63
India	30.23	24.28	25.10	21.22	21.33	16.79	-2.68	-0.27	-7.02	-4.66	6.07	4.07	9.24	2.00	0.27	-1.59	5.80
Indonesia	32.60	27.08	22.66	20.78	21.66	20.87	13.96	10.67	4.04	-0.66	1.89	1.72	2.47	-0.43	-6.60	-8.84	-5.71
Malaysia	28.59	26.65	22.12	22.71	20.69	16.46	8.00	7.21	3.67	2.55	8.89	2.21	3.78	1.50	3.62	2.80	5.38
Mexico	18.04	14.23	15.38	15.25	16.24	13.26	1.29	2.11	-5.61	0.61	9.36	6.58	10.63	5.26	2.79	-0.07	3.51
Peru	24.13	22.65	17.39	18.17	13.27	14.97	13.48	12.12	12.36	12.70	14.72	10.40	7.61	0.78	0.61	-0.37	0.56
Philippines	19.94	18.69	18.06	14.75	13.71	12.83	7.79	9.65	9.22	12.20	15.47	15.44	11.40	5.09	3.47	-0.95	4.38
Poland	9.30	-0.15	3.09	9.98	25.30	14.66	-1.45	-5.31	-13.10	-6.99	4.98	4.80	5.15	6.74	7.09	8.05	10.70
Russia	25.98	18.83	17.63	22.08	32.07	27.74	18.15	11.06	0.78	0.95	8.93	5.52	3.80	4.49	1.52	-8.09	-1.07
South Africa	26.08	18.84	23.77	24.78	24.18	15.39	-5.98	-2.95	-8.99	-6.38	-0.33	-6.04	-7.58	-10.12	-7.21	-10.42	-3.85
South Korea	21.94	13.86	13.32	9.18	12.60	14.12	3.96	3.73	-2.30	-1.46	7.02	6.82	6.55	6.90	6.93	6.65	13.09
Taiwan	15.99	13.63	10.37	13.65	10.06	10.79	0.36	-0.95	-0.55	0.66	8.99	3.62	3.52	2.26	3.78	2.04	4.71
Thailand	21.44	19.31	19.10	15.71	13.56	12.85	-5.92	1.57	3.40	2.92	22.32	12.29	9.83	4.13	-2.42	-7.43	-5.53
Turkey	18.66	12.03	18.28	15.21	17.26	3.20	-8.54	-1.50	-4.26	3.61	9.99	10.08	8.57	1.47	-1.10	-6.80	-3.65
Average	18.20	14.16	13.52	14.65	18.55	14.30	3.72	3.83	-1.36	-0.12	7.03	4.61	4.80	2.86	1.61	-0.52	2.74

As of 6/30/2015. A blank space indicates historic data not available.

Average real local currency GDP growth in the emerging markets countries has slowed from an average rate of 4% a year ago to under 3% now. Growth in China and India continues to power ahead at 7%, while Russia and Brazil are showing steady contraction. Broadly, growth trends in manufacturing-centric Asia are far better than trends in resource-centric Latin America.

Exhibit 49: MSCI Emerging World GDP Real GDP 1 Year % Change, in Local Currency

Country	Economic Data: Quarterly Frequency																
	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q
Brazil	8.57	6.96	5.76	5.20	4.65	3.44	2.48	1.59	0.85	2.31	2.29	2.56	3.94	2.39	2.09	2.71	-1.20
China	11.20	10.70	10.40	9.80	9.70	9.50	9.30	7.90	7.70	7.56	7.75	7.76	7.61	7.72	7.69	7.37	7.42
Colombia	3.50	3.46	5.33	5.70	6.45	7.91	6.29	5.88	5.01	2.52	2.86	2.88	4.71	6.11	6.03	6.49	4.09
Czech Republic	2.51	2.60	2.87	3.12	2.17	1.45	1.18	0.05	-0.62	-1.07	-1.65	-2.08	-1.20	-0.26	1.44	2.16	2.14
Greece	-4.58	-7.54	-9.56	-10.37	-8.47	-6.68	-10.02	-7.83	-7.72	-6.28	-4.40	-5.80	-4.18	-2.62	-3.11	-0.51	0.34
Hong Kong	6.38	6.52	6.34	7.61	5.10	3.92	2.96	0.81	0.99	1.78	3.09	3.37	3.08	3.11	2.76	2.68	2.02
Hungary	0.72	1.23	1.42	2.31	1.66	1.46	1.83	-1.09	-1.31	-1.42	-2.24	0.30	1.15	2.00	3.24	3.55	3.85
India									4.52	6.25	4.98	4.65	7.02	7.49	6.41	6.73	6.66
Indonesia				6.48	6.27	6.01	5.94	6.11	6.21	5.94	5.87	5.61	5.59	5.50	5.61	5.14	5.03
Malaysia				5.00	4.63	6.00	5.50	5.08	5.25	5.01	6.50	4.34	4.58	4.94	4.96	6.26	6.49
Mexico	6.58	5.39	4.44	4.19	3.64	4.19	4.15	3.83	4.52	3.29	3.42	3.28	0.73	1.61	1.03	0.88	2.86
Peru	9.57	9.78	8.79	8.67	5.46	6.05	5.97	5.66	6.84	5.35	4.39	6.19	5.16	7.19	5.04	1.82	1.80
Philippines	8.91	7.27	6.11	4.58	3.23	3.06	3.81	6.20	6.13	7.02	7.33	7.53	7.86	6.78	6.14	5.62	6.68
Poland	3.64	4.43	3.84	4.70	5.04	4.54	4.97	3.80	2.28	1.49	0.29	0.46	1.30	2.16	2.82	3.56	3.39
Russia	4.68	4.84	4.88	3.57	3.88	4.77	4.91	4.95	4.18	3.06	1.61	1.28	1.01	1.08	1.58	1.18	1.21
South Africa	2.72	3.63	4.07	3.81	3.72	2.84	2.51	1.99	2.38	2.42	2.08	2.01	2.01	2.01	2.82	2.08	1.27
South Korea	7.40	5.48	6.07	4.80	3.65	3.37	2.95	2.56	2.42	2.07	2.14	2.18	2.72	3.23	3.44	3.91	3.38
Taiwan	12.76	12.20	6.62	7.04	4.61	3.53	0.21	0.70	0.76	2.48	4.35	1.68	2.51	1.57	3.17	3.57	3.79
Thailand	8.80	6.66	4.15	2.98	2.64	3.89	-9.02	0.34	4.29	3.27	19.27	5.48	2.91	2.75	0.40	-0.35	0.44
Turkey	10.32	5.24	9.18	13.06	9.40	8.78	5.42	3.09	2.75	1.50	1.34	3.13	4.68	4.30	4.57	4.87	2.32
Average	6.12	5.35	4.84	5.08	4.14	4.35	3.44	3.65	3.49	3.32	4.03	3.30	3.62	4.00	3.96	4.03	3.56

As of 6/30/2015. A blank space indicates historic data not available.

Inflation has fallen by over 50% in the last 2 years in the developed world, falling below 1% on average. Inflation remains below the 2% goal of the Federal Reserve and Bank of England.

Exhibit 50: MSCI Developed World Consumer Price Index (CPI) 1 Year % Change, Yearly

Economic Data: Yearly Frequency										
Country	-10Y	-9Y	-8Y	-7Y	-6Y	-5Y	-4Y	-3Y	-1Y	0Y
Australia	2.69	3.56	2.33	4.35	1.77	2.92	3.30	1.76	2.45	2.49
Austria	2.30	1.45	2.17	3.22	0.51	1.81	3.26	2.49	2.00	1.61
Belgium	2.78	1.79	1.82	4.49	-0.05	2.19	3.53	2.84	1.11	0.34
Canada	2.23	2.02	2.13	2.39	0.30	1.77	2.89	1.53	0.95	1.90
Denmark	1.81	1.89	1.71	3.40	1.33	2.30	2.76	2.41	0.78	0.56
Finland	0.86	1.76	2.51	4.06	0.01	1.22	3.41	2.81	1.47	1.05
France	1.74	1.67	1.50	2.78	0.11	1.55	2.12	1.95	0.86	0.51
Germany	1.46	1.58	2.30	2.64	0.31	1.17	2.08	1.98	1.54	0.87
Iceland	3.99	6.69	5.05	32.86	12.01	5.39	3.99	5.20	3.88	2.04
Ireland	2.41	3.94	4.92	4.05	-4.48	-0.95	2.59	1.70	0.49	0.20
Israel		2.11	0.52	4.59	3.32	2.69	3.45	1.71	1.53	0.48
Italy	1.96	2.11	1.82	3.35	0.79	1.51	2.78	3.05	1.22	0.23
Japan	-0.23	0.23	0.07	1.37	-1.35	-0.73	-0.28	-0.04	0.36	2.75
Netherlands	1.67	1.17	1.61	2.49	1.19	1.27	2.34	2.45	2.51	0.98
New Zealand	3.04	3.37	2.38	3.96	2.12	2.30	4.03	1.06	1.13	1.23
Norway	1.54	2.35	0.74	3.76	2.18	2.39	1.30	0.70	2.11	2.05
Portugal	2.28	3.11	2.45	2.59	-0.84	1.40	3.65	2.77	0.27	-0.28
Singapore	0.47	0.97	2.10	6.63	0.59	2.83	5.24	4.58	2.36	1.03
Spain	3.37	3.52	2.79	4.08	-0.29	1.80	3.20	2.45	1.41	-0.15
Sweden	0.45	1.36	2.21	3.48	-0.32	1.27	2.63	0.89	-0.04	-0.18
Switzerland	1.17	1.06	0.73	2.43	-0.48	0.69	0.23	-0.69	-0.22	-0.01
United Kingdom	2.04	2.30	2.35	3.63	2.12	3.34	4.45	2.84	2.52	1.51
United States	3.37	3.22	2.87	3.81	-0.32	1.64	3.14	2.08	1.46	1.61
Average	1.97	2.31	2.13	4.80	0.89	1.82	2.87	2.11	1.40	0.99

As of 6/30/2015. A blank space indicates historic data not available.

Price trends in the Developed World continue to show no indication of rising and are, on a two quarter basis, lower than at any time in the last five years. An average of only 0.21% (one quarter ago) for the 23 countries included is well below the targets of most central banks of around 2%. Due to currency depreciation, inflation is rebounding strongly in Japan. Despite the strongest growth in the developed world, inflation in the US and UK has fallen recently, driven by oil price declines.

Exhibit 51: MSCI Developed World CPI 1 Year % Change, Quarterly

Economic Data: Quarterly Frequency																		
Country	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q
Australia	3.12	2.88	2.76	3.26	3.55	3.42	2.99	1.63	1.21	2.00	2.20	2.50	2.39	2.16	2.75	2.93	3.02	2.31
Austria	1.95	1.80	2.10	2.85	3.29	3.51	3.39	2.59	2.22	2.35	2.78	2.49	2.14	1.82	1.56	1.59	1.76	1.41
Belgium	2.18	2.60	2.99	3.37	3.48	3.63	3.63	3.56	2.75	2.64	2.42	1.25	1.26	1.14	0.80	1.00	0.42	0.08
Canada	1.37	1.86	2.23	2.45	3.43	3.03	2.66	2.42	1.50	1.22	0.99	0.93	0.74	1.18	0.96	1.33	2.29	2.09
Denmark	2.11	2.39	2.64	2.69	3.02	2.69	2.62	2.75	2.22	2.49	2.19	1.12	0.85	0.49	0.67	0.64	0.59	0.62
Finland	0.97	1.11	2.59	3.22	3.35	3.83	3.27	3.08	3.00	2.78	2.38	1.68	1.50	1.34	1.39	1.32	0.92	1.10
France	1.63	1.54	1.65	1.69	2.03	2.23	2.52	2.25	1.96	2.10	1.52	1.04	0.82	0.95	0.63	0.72	0.63	0.40
Germany	1.32	1.15	1.34	1.81	2.03	2.27	2.22	2.17	1.80	1.99	1.95	1.51	1.70	1.66	1.27	1.24	0.88	0.82
Iceland	7.17	4.34	2.83	2.01	3.43	5.27	5.22	6.43	5.77	4.32	4.33	4.33	3.35	4.05	3.82	2.49	2.31	2.11
Ireland	-1.37	0.20	0.86	2.29	2.84	2.46	2.75	2.21	1.83	1.73	1.05	0.92	0.50	0.31	0.22	0.09	0.34	0.35
Israel	2.82	2.01	2.47	4.00	4.09	3.25	2.49	1.83	1.58	1.80	1.63	1.39	1.23	1.62	1.85	1.30	0.82	0.00
Italy	1.42	1.59	1.79	2.35	2.64	2.83	3.32	3.25	3.28	3.17	2.50	1.91	1.20	1.13	0.66	0.50	0.40	-0.06
Japan	-0.76	-0.99	-0.27	-0.60	-0.40	0.20	-0.30	0.27	0.20	-0.40	-0.23	-0.60	-0.27	0.87	1.44	1.51	3.61	3.33
Netherlands	0.96	1.57	1.69	1.86	2.12	2.87	2.51	2.48	2.21	2.29	2.84	2.96	2.75	2.78	1.57	1.10	0.99	0.92
New Zealand	1.67	1.46	4.03	4.47	5.28	4.59	1.85	1.57	0.95	0.77	0.95	0.86	0.68	1.37	1.63	1.53	1.62	1.01
Norway	2.55	1.85	2.24	1.38	1.40	1.50	0.93	0.90	0.41	0.36	1.15	1.25	2.01	2.90	2.27	2.18	1.92	2.08
Portugal	0.99	1.95	2.38	3.73	3.76	3.20	3.91	3.42	2.80	2.91	1.98	0.20	0.62	0.34	-0.07	-0.13	-0.33	-0.54
Singapore	2.97	3.39	4.02	5.09	4.88	5.49	5.49	5.01	5.03	4.31	3.99	3.87	1.71	1.85	2.02	0.99	2.16	1.01
Spain	1.59	1.95	2.55	3.49	3.49	3.07	2.75	1.96	1.97	2.76	3.09	2.62	1.72	1.21	0.13	0.01	0.22	-0.33
Sweden	1.04	1.13	1.89	2.28	2.92	2.98	2.33	1.76	1.12	0.62	0.07	-0.06	-0.28	0.09	0.07	-0.35	0.01	-0.17
Switzerland	0.99	0.33	0.32	0.60	0.40	0.38	-0.45	-0.88	-1.02	-0.53	-0.34	-0.37	-0.42	-0.03	-0.04	-0.03	0.10	0.01
United Kingdom	3.44	3.05	3.39	4.16	4.37	4.71	4.66	3.49	2.76	2.41	2.64	2.79	2.69	2.76	2.09	1.68	1.67	1.42
United States	1.78	1.20	1.23	2.14	3.36	3.73	3.34	2.82	1.90	1.68	1.91	1.69	1.41	1.53	1.23	1.40	2.05	1.78
Average	1.82	1.75	2.16	2.63	2.99	3.09	2.79	2.48	2.06	1.99	1.91	1.58	1.32	1.46	1.26	1.09	1.23	0.96

As of 6/30/2015. A blank space indicates historic data not available.

Inflation trends are firmer in the emerging markets, with the average CPI just under 4%. Inflation has been particularly low in China, offering hope for stimulus, while in Brazil it has been chronically higher, suggesting less scope for stimulus.

Exhibit 52: MSCI Emerging Markets CPI 1 Year % Change, Year End

Economic Data: Yearly Frequency												
Country	-10Y	-9Y	-8Y	-7Y	-6Y	-5Y	-4Y	-3Y	-1Y	0Y		
Brazil	6.12	2.49	4.11	5.61	4.76	5.10	6.25	4.56	4.93	5.05		
China	1.88	1.39	4.78	5.98	-0.72	3.31	5.50	2.56	2.68	1.98		
Colombia	5.05	4.30	5.54	7.00	4.20	2.27	3.42	3.17	2.02	2.90		
Czech Republic	1.84	2.54	2.86	6.34	1.03	1.46	1.93	3.29	1.42	0.35		
Egypt	13.32	7.65	9.52	18.32	11.76	11.14	9.34	7.83	9.48	10.04		
Greece	3.55	3.20	2.90	4.15	1.21	4.71	3.33	1.50	-0.92	-1.31		
Hong Kong	0.90	2.02	2.02	4.27	0.59	2.31	5.28	4.07	4.33	4.42		
Hungary	3.56	3.93	7.97	6.05	4.21	4.86	3.92	5.67	1.72	-0.22		
India	4.25	4.95	6.37	8.35	10.88	11.99	8.86	9.31	10.91	6.35		
Indonesia	10.46	13.11	6.41	11.13	4.96	5.14	5.34	4.27	7.06	6.39		
Malaysia	3.03	3.62	2.03	5.43	0.59	1.73	3.17	1.66	2.11	3.14		
Mexico	3.99	3.63	3.97	5.12	5.30	4.16	3.41	4.11	3.81	4.02		
Peru	1.62	2.00	1.78	5.79	2.94	1.53	3.37	3.66	2.81	3.25		
Philippines	7.64	6.25	2.95	8.18	4.19	3.79	4.75	3.15	2.95	4.17		
Poland	2.11	1.11	2.39	4.35	3.83	2.71	4.22	3.75	1.17	0.17		
Russia	12.68	9.68	9.01	14.11	11.65	6.86	8.44	5.07	6.76	7.83		
South Africa	2.06	3.24	6.18	10.08	7.22	4.08	5.02	5.75	5.77	6.13		
South Korea	2.75	2.24	2.54	4.67	2.76	2.94	4.03	2.19	1.30	1.27		
Taiwan	2.30	0.60	1.80	3.52	-0.86	0.96	1.42	1.93	0.79	1.20		
Thailand	4.54	4.64	2.24	5.47	-0.85	3.28	3.79	3.02	2.19	1.90		
Turkey	8.18	9.60	8.76	10.44	6.25	8.57	6.47	8.89	7.49	8.85		
Average	4.85	4.39	4.58	7.35	4.09	4.29	4.76	4.20	3.75	3.74		

As of 6/30/2015

Emerging markets consumer prices have also trended downward over the last several quarters as well, with a current average of just under 3.5%. Greece has experienced significant deflation while Russia has experienced a surge in consumer prices. Despite sputtering GDP growth, Brazil is seeing inflation increase. Inflation in China is very tame and has moderated some in recent quarters in India.

Exhibit 53: MSCI Emerging Markets CPI 1 Year % Change, Quarterly

Economic Data: Quarterly Frequency																								
Country	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	0Q			
Brazil	4.94	4.59	5.99	6.10	6.44	6.66	5.80	4.76	4.25	4.25	4.96	5.70	5.23	4.79	4.04	4.19	5.21	5.44	5.37	6.39	7.62			
Chile	1.19	2.25	2.47	2.92	3.30	3.12	4.01	4.15	3.10	2.64	2.18	1.39	1.53	2.03	2.20	3.19	4.46	4.65	5.26	4.37	4.18			
China	2.69	3.21	4.62	5.14	5.85	6.53	4.72	3.84	2.86	1.79	1.97	2.40	2.32	2.69	2.94	2.16	2.26	2.16	1.61	1.41				
Colombia	2.10	2.28	2.70	3.25	3.03	3.47	3.90	3.50	3.35	3.07	2.75	1.91	2.06	2.25	1.85	2.32	2.81	2.92	3.54	4.25	4.49			
Czech Republic	1.20	1.92	2.07	1.75	1.80	1.77	2.41	3.67	3.39	3.30	2.83	1.77	1.54	1.24	1.13	0.19	0.16	0.60	0.46	0.11	0.68			
Egypt	10.28	11.27	10.36	11.00	8.93	9.01	8.54	8.95	11.11	6.34	5.23	7.39	8.67	10.07	11.68	10.28	8.45	11.07	10.34	10.60	11.83			
Greece	5.16	5.53	5.10	4.69	3.52	2.38	2.78	2.03	1.53	1.32	1.13	0.02	-0.48	-1.03	-2.18	-1.32	-1.47	-0.61	-1.84	-2.38	-2.14			
Hong Kong	2.78	1.61	2.74	3.81	5.15	6.44	5.73	5.21	4.21	3.11	3.79	3.67	4.04	5.35	4.27	4.16	3.62	4.84	5.06	4.42				
Hungary	5.32	3.80	4.35	4.19	4.02	3.42	4.06	5.62	5.52	6.13	5.40	2.90	1.78	1.48	0.74	0.04	-0.18	-0.06	-0.69	-1.04	0.25			
India	13.66	10.31	9.16	8.98	8.91	9.16	8.39	7.17	10.14	9.76	10.10	11.71	10.66	10.76	10.55	6.89	6.86	6.76	4.98	6.58				
Indonesia	4.38	6.16	6.32	6.83	5.88	4.65	4.10	3.72	4.49	4.48	4.40	5.37	5.87	8.53	8.42	7.76	7.09	4.35	6.48	6.54	7.07			
Malaysia	1.65	1.90	1.97	2.78	3.35	3.36	3.21	2.28	1.72	1.35	1.31	1.50	1.78	2.16	2.97	3.46	3.29	3.01	2.82	0.67	2.15			
Mexico	3.96	3.67	4.25	3.46	3.30	3.37	3.50	3.88	3.87	4.59	4.11	3.69	4.46	3.44	3.65	4.16	3.59	4.15	4.18	3.07	2.94			
Peru	1.15	2.17	2.13	2.36	3.10	3.47	4.53	4.21	4.07	3.51	2.85	2.64	2.51	3.12	2.95	3.41	3.51	2.92	3.16	2.95	3.31			
Philippines	3.81	3.87	3.54	4.51	5.00	4.80	4.71	3.11	2.91	3.58	3.00	3.22	2.70	2.41	3.45	4.08	4.36	4.71	3.56	2.42	1.66			
Poland	2.34	2.23	3.01	4.02	4.45	4.02	4.40	4.15	3.97	3.86	3.00	1.60	0.81	1.37	0.93	0.88	0.47	-0.12	-0.55	-1.25				
Russia	5.92	6.18	8.12	9.50	9.53	8.11	6.69	3.86	3.83	6.03	6.51	7.12	7.17	6.37	6.42	6.40	7.58	7.68	9.58	16.20				
South Africa	4.24	3.35	3.42	3.72	4.64	5.43	6.27	6.29	5.85	5.22	5.65	5.78	5.63	6.29	5.38	5.92	6.63	6.30	5.68	4.13				
South Korea	2.66	2.87	3.23	3.84	3.98	4.32	3.96	3.01	2.43	1.61	1.72	1.56	1.22	1.37	1.07	1.13	1.61	1.38	0.98	0.56	0.53			
Taiwan	1.63	1.53	1.64	1.14	1.48	1.13	1.71	0.91	1.23	2.02	1.78	1.47	0.86	0.05	-0.09	0.80	1.64	1.85	1.16	-0.59	-0.86			
Thailand	3.25	3.27	2.90	3.01	4.06	4.13	3.97	3.39	2.51	2.93	3.23	3.10	2.32	1.67	1.67	2.00	2.47	2.00	1.11	-0.50	-1.13			
Turkey	9.22	8.38	7.43	4.34	5.89	6.37	9.20	10.49	9.42	9.04	6.77	7.21	6.98	8.31	7.48	8.01	9.40	9.24	8.76	7.47	7.74			
Average	4.25	4.20	4.43	4.61	4.80	4.78	4.84	4.46	4.35	4.09	3.85	3.78	3.62	3.85	3.71	3.64	3.81	3.88	3.68	3.47	3.14			

As of 6/30/2015. A blank space indicates historic data not available.

Higher frequency data has slowed recently in the US, UK and Japan. While still above 50, the manufacturing purchasing managers index (PMI) has slowed steadily for the last three months in the US and UK, not what central bankers were hoping to see as they began raising interest rates. Our diffusion index of countries experiencing monthly increases in the level of PMI has fallen back below 50%.

Exhibit 54: Developed World PMI Survey Levels, Monthly

Market Manufacturing	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15
USA	57.3	55.8	57.9	57.5	55.9	54.8	53.9	53.9	55.1	55.7	54.1	54.0	53.6
Canada	53.5	54.3	54.8	53.5	55.3	55.3	53.9	51.0	48.7	48.9	49.0	49.8	51.3
Australia	48.9	50.7	47.3	46.5	49.4	50.1	46.9	49.0	45.4	46.3	48.0	52.3	44.2
Japan	51.5	50.5	52.2	51.7	52.4	52.0	52.0	52.2	51.6	50.3	49.9	50.9	50.1
New Zealand	53.6	53.9	56.7	58.3	58.5	54.7	57.1	51.3	56.4	54.6	51.7	51.5	
Singapore	50.5	51.5	49.7	50.5	51.9	51.8	49.6	49.9	49.7	49.6	49.4	50.2	50.4
Austria	50.4	50.9	50.9	47.9	46.9	47.4	49.2	48.5	48.7	47.7	50.1	50.3	51.2
Denmark	51.7	50.1	48.8	52.1	52.1	52.8	54.4	56.2	56.4	58.0	52.7	52.5	54.0
France	48.2	47.8	46.9	48.8	48.5	48.4	47.5	49.2	47.6	48.8	48.0	49.4	50.7
Germany	52.0	52.4	51.4	49.9	51.4	49.5	51.2	50.9	51.1	52.8	52.1	51.1	51.9
Greece	49.4	48.7	50.1	48.4	48.8	49.1	49.4	48.3	48.4	48.9	46.5	48.0	46.9
Ireland	55.3	55.4	57.3	55.7	56.6	56.2	56.9	55.1	57.5	56.8	55.8	57.1	54.6
Israel	48.9	46.8	42.6	49.9	48.3	48.7	45.8	53.3	48.7	50.2	49.2	47.6	
Italy	52.6	51.9	49.8	50.7	49.0	49.0	48.4	49.9	51.9	53.3	53.8	54.8	54.1
Netherlands	52.3	53.5	51.7	52.2	53.0	54.6	53.5	54.1	52.2	52.5	54.0	55.5	56.2
Spain	54.6	53.9	52.8	52.6	52.6	54.7	53.8	54.7	54.2	54.3	54.2	55.8	54.5
Switzerland	54.5	53.6	53.8	51.5	54.3	52.5	53.6	48.2	47.3	47.9	47.9	49.4	50.0
United Kingdom	56.8	54.9	53.0	51.5	53.4	53.3	52.7	52.9	53.9	54.3	51.8	51.9	51.4
Diffusion Index %		44%	39%	39%	67%	44%	39%	61%	50%	72%	28%	72%	44%

As of 6/30/2015. A blank space indicates historic data not available.

The emerging markets have been stuck in low gear also according to higher frequency data. All the BRICS (Brazil, Russia, India, China and South Africa) have experienced slumping PMI readings in the last few months. Indonesia and South Korea have also been slowing, likely related to the slowdown in China. Mexico has been holding strong, but recently started slipping (similar to Canada) likely due to the slowdown in the US.

Exhibit 55: Emerging Markets PMI Survey Levels, Monthly

Market Manufacturing	Jun 14	Jul 14	Aug 14	Sep 14	Oct 14	Nov 14	Dec 14	Jan 15	Feb 15	Mar 15	Apr 15	May 15	Jun 15
Brazil	48.7	49.1	50.2	49.3	49.1	48.7	50.2	50.7	49.6	46.2	46.0	45.9	46.5
Russia	49.1	51.0	51.0	50.4	50.3	51.7	48.9	47.6	49.7	48.1	48.9	47.6	48.7
India	51.5	53.0	52.4	51.0	51.6	53.3	54.5	52.9	51.2	52.1	51.3	52.6	51.3
China	50.7	51.7	50.2	50.2	50.4	50.0	49.6	49.7	50.7	49.6	48.9	49.2	49.4
BRIC Average	50.0	51.2	50.9	50.2	50.4	50.9	50.8	50.3	50.3	49.0	48.8	48.9	49.0
Indonesia	52.7	52.7	49.5	50.7	49.2	48.0	47.6	48.5	47.5	46.4	46.7	47.1	47.8
South Korea	48.4	49.3	50.3	48.8	48.7	49.0	49.9	51.1	51.1	49.2	48.8	47.8	46.1
Taiwan	54.0	55.8	56.1	53.3	52.0	51.4	50.0	51.7	52.1	51.0	49.2	49.3	46.3
Vietnam	52.3	51.7	50.3	51.7	51.0	52.1	52.7	51.5	51.7	50.7	53.5	54.8	52.2
Mexico	51.8	51.5	52.1	52.6	53.3	54.3	55.3	56.6	54.4	53.8	53.8	53.3	52.0
Czech Republic	54.7	56.5	54.3	55.6	54.4	55.6	53.3	56.1	55.6	56.1	54.7	55.5	56.9
Poland	50.3	49.4	49.0	49.5	51.2	53.2	52.8	55.2	55.1	54.8	54.0	52.4	54.3
Turkey	48.8	48.5	50.3	50.4	51.5	52.2	51.4	49.8	49.6	48.0	48.5	50.2	49.0
South Africa	47.4	46.2	47.9	49.5	50.1	53.3	50.2	54.2	47.6	47.9	45.4	50.8	51.4
Diffusion Index %		62%	54%	54%	46%	69%	38%	69%	38%	23%	31%	62%	54%

As of 6/30/2015

Short-term rates in the developed world countries have declined from recent highs of about 2.5% reached in 2011 to an average of just 0.62% in the most recent quarter. A number of developed economies have negative short-term interest rates, including Belgium, Denmark, France, Germany, Netherlands, and Sweden. Iceland has the highest short-term rates at around 5.5%. Short-term real rates are negative in most countries and below the rate of real GDP growth.

Exhibit 56: Developed World Short-term Interest Rates, Quarterly

Economic Data: Quarterly Frequency																					
Country	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	0Q
Australia	5.22	4.73	5.12	5.20	5.02	4.01	3.45	3.49	2.68	2.54	2.60	2.80	2.60	2.49	2.56	2.51	2.54	2.49	2.46	2.28	2.23
Austria	0.18	0.35	0.69	0.84	1.20	0.50	0.39	0.21	0.14	0.08	0.10	0.09	0.09	0.07	0.11	0.10	0.09	0.09	0.08	0.06	0.05
Belgium	0.14	0.16	0.56	0.91	1.23	1.00	1.06	0.27	0.17	0.12	0.07	0.13	0.09	0.06	0.11	0.24	0.43	0.18	0.08	0.05	-0.04
Canada	0.41	0.74	0.98	1.02	0.97	0.90	0.87	0.88	0.97	0.97	0.97	0.94	1.00	1.00	0.93	0.87	0.93	0.94	0.90	0.63	0.63
Denmark	0.47	0.29	0.31	0.24	0.68	0.62	0.31	0.08	0.15	0.18	0.08	0.06	0.11	0.14	0.09	0.05	0.04	0.11	0.18	0.09	-0.15
Finland	0.17	0.32	0.59	0.87	1.20	0.75	0.26	0.11	0.10	0.09	0.09	0.10	0.09	0.10	0.11	0.10	0.11	0.09	0.08	0.04	0.07
France	0.25	0.38	0.61	0.68	1.04	0.78	0.39	0.13	0.09	0.02	0.01	0.03	0.04	0.06	0.10	0.17	0.14	0.00	-0.02	-0.12	-0.18
Germany	0.11	0.16	0.21	0.36	0.60	0.43	0.15	0.04	0.03	0.02	0.04	0.03	0.02	0.03	0.05	0.11	0.06	0.00	0.00	0.00	-0.06
Iceland	7.62	6.45	4.81	4.04	4.00	4.28	4.71	4.82	5.40	5.75	6.09	6.15	6.20	6.20	6.20	6.19	6.06	6.10	5.87	5.37	5.51
Ireland	0.92	1.37	3.50	4.97	8.68	11.65	7.76	4.55	5.41	2.17	1.58	0.24	0.22	0.21	0.13	0.16	0.11	0.09	0.09	0.08	0.09
Israel	1.55	1.75	1.99	2.37	3.15	3.04	2.67	2.47	2.46	2.09	1.97	1.69	1.47	1.19	0.92	0.83	0.67	0.45	0.23	0.18	0.10
Italy	0.87	0.99	1.24	1.45	1.71	2.47	3.94	2.03	1.93	1.13	0.59	0.49	0.36	0.42	0.44	0.35	0.36	0.09	0.11	0.05	0.01
Japan	0.37	0.27	0.25	0.25	0.36	0.29	0.21	0.27	0.34	0.28	0.29	0.36	0.43	0.30	0.25	0.27	0.31	0.31	0.24	0.28	0.36
Netherlands	0.19	0.14	0.23	0.37	0.54	0.28	0.13	0.15	0.14	0.02	0.02	0.07	0.06	0.11	0.11	0.25	0.40	0.17	0.08	0.05	-0.05
New Zealand	2.88	3.22	3.18	2.98	2.65	2.83	2.71	2.74	2.64	2.65	2.64	2.65	2.64	2.64	2.69	2.96	3.38	3.69	3.67	3.64	3.50
Norway	2.23	2.28	2.20	2.25	2.33	1.76	1.31	1.50	1.49	1.65	1.49	1.63	1.48	1.53	1.30	1.32	1.18	1.28	1.03	0.92	0.89
Portugal	2.01	2.65	3.27	3.29	8.24	13.62	16.53	9.76	2.02	2.41	3.13	2.29	2.00	3.02	2.43	0.73	0.27	0.15	0.33	0.14	0.09
Singapore	0.32	0.29	0.32	0.32	0.29	0.21	0.30	0.33	0.28	0.25	0.24	0.25	0.24	0.25	0.24	0.24	0.24	0.24	0.46	0.77	0.87
Spain	1.59	1.61	2.16	2.15	2.57	3.51	4.22	2.47	3.74	3.75	2.75	2.13	1.72	1.44	1.14	0.68	0.54	0.18	0.32	0.19	0.04
Sweden	0.61	1.01	1.61	2.21	2.44	2.56	2.61	2.45	2.16	1.94	1.45	1.22	1.22	1.21	1.13	0.94	0.89	0.51	0.32	0.07	-0.19
Switzerland	0.17	0.14	0.16	0.32	0.14	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.04	0.00	0.00
United Kingdom	0.50	0.50	0.50	0.53	0.54	0.47	0.40	0.38	0.37	0.26	0.24	0.31	0.32	0.29	0.29	0.36	0.34	0.42	0.41	0.38	0.45
United States	0.14	0.15	0.13	0.12	0.04	0.02	0.01	0.07	0.08	0.09	0.08	0.08	0.05	0.03	0.05	0.04	0.03	0.02	0.02	0.02	0.01
Average	1.26	1.30	1.50	1.64	2.16	2.43	2.36	1.70	1.42	1.24	1.15	1.03	0.98	0.99	0.93	0.85	0.83	0.77	0.74	0.66	0.62

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In the emerging markets, short-term rates range from 0.53% in Chile to more than 10% in countries like Russia and Turkey. On average, rates have been fairly steady around 4% for the last five years. China's short-rates are well below the rate of real GDP growth while they are more appropriately calibrated in India. Rates have spiked in Russia in response to the drop in the Ruble.

Exhibit 57: Emerging Markets Short-term Interest Rates

	Economic Data: Quarterly Frequency																				
Country	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	0Q
Brazil	11.43	11.00	11.66	12.50	12.49	11.68	9.85	8.97	7.86	7.03	6.96	7.22	8.28	8.23	9.82	10.65	11.06	11.25	12.44	13.38	14.13
Chile	0.42	0.77	1.58	1.87	1.97	2.47	2.40	2.11	2.42	2.77	2.57	2.88	2.66	2.00	2.24	1.39	1.23	0.92	1.37	0.66	0.53
China	1.54	1.87	3.12	3.13	3.37	3.46	2.59	2.76	2.27	2.51	2.77	2.66	2.81	3.41	4.26	2.90	3.05	3.80	3.23	3.14	1.31
Colombia	2.55	2.85	3.25	4.16	3.80	4.86	5.25	5.22	5.35	4.72	4.53	3.95	3.78	3.51	3.35	4.04	4.33	4.31	4.62	4.52	4.29
Czech Republic	0.35	0.77	0.83	1.04	1.02	0.77	0.97	0.74	0.60	0.32	0.15	0.17	0.26	0.14	0.08	0.09	0.08	0.09	0.08	0.06	0.06
Egypt	6.07	6.33	6.60	6.50	6.63	6.73	7.10	7.57	7.63	7.70	7.67	7.73	7.97	7.83	7.20	7.00	6.73	6.87	7.07	7.17	6.90
Hong Kong	0.20	0.18	0.22	0.14	0.12	0.08	0.08	0.14	0.11	0.16	0.13	0.12	0.11	0.14	0.13	0.08	0.12	0.11	0.11	0.11	0.11
Hungary	4.64	4.90	5.80	5.76	5.74	5.69	7.22	7.58	6.98	6.74	5.71	4.80	3.93	3.77	2.87	2.66	2.04	1.51	0.99	0.81	0.90
India	4.57	5.89	6.82	7.18	7.82	8.31	8.64	8.81	8.45	8.20	8.15	8.04	7.56	10.04	8.88	8.97	8.75	8.60	8.37	8.30	7.88
Indonesia	6.15	5.59	4.89	6.28	5.43	4.14	4.41	3.87	3.94	4.60	4.32	3.92	4.49	6.57	6.62	7.02	6.30	7.02	7.07	6.51	6.77
Malaysia	2.29	2.65	2.82	2.40	2.42	2.78	2.64	2.73	3.01	2.89	2.92	2.77	2.98	2.95	2.98	2.88	2.91	3.12	3.30	3.14	2.78
Mexico	4.86	4.63	4.40	4.35	4.41	4.26	4.39	4.43	4.40	4.33	4.34	4.17	3.81	3.82	3.45	3.36	3.28	2.89	2.93	2.99	3.10
Peru	3.15	4.12	3.56	3.92	5.07	4.32	3.64	3.72	3.38	3.44	2.76	0.92	1.49	3.76	3.63	3.80	3.18	2.89	2.94	3.03	3.12
Philippines	3.95	4.10	1.20	1.04	2.85	2.75	1.38	2.30	2.20	0.63	0.30	0.25	1.75	0.48	0.33	1.50	1.15	1.50	2.38	2.30	2.08
Poland	3.69	4.10	4.04	4.09	4.48	4.55	4.49	4.35	4.65	4.34	3.58	3.26	2.55	2.61	2.39	2.44	2.38	2.14	1.78	1.57	1.55
Russia	4.00	3.59	4.05	4.95	4.61	5.11	6.23	5.67	6.56	6.14	6.25	5.64	5.61	5.75	5.70	6.26	7.40	8.42	9.41	12.54	10.46
South Africa	6.57	6.33	5.74	5.52	5.46	5.49	5.48	5.51	5.57	5.13	4.95	5.05	5.09	5.09	5.08	5.51	5.75	6.01	5.92	5.89	5.76
South Korea	2.42	2.88	2.52	3.19	3.39	3.44	3.49	3.45	3.34	2.90	2.77	2.67	2.56	2.55	2.58	2.58	2.58	2.34	2.03	1.91	1.65
Taiwan	0.56	0.61	0.66	0.73	0.81	0.89	0.89	0.89	0.89	0.89	0.89	0.88	0.88	0.88	0.88	0.88	0.87	0.87	0.88	0.88	0.88
Thailand	1.20	1.56	1.79	2.20	2.71	3.32	3.33	3.04	3.04	3.01	2.82	2.72	2.63	2.51	2.46	2.19	2.04	2.02	2.04	1.94	1.58
Turkey	7.87	7.31	6.97	7.30	8.35	7.98	9.70	9.62	9.76	7.50	6.30	5.71	5.74	8.71	8.30	10.75	9.11	8.78	8.54	8.40	10.22
Average	3.96	4.10	4.14	4.52	5.50	7.03	10.09	4.45	4.40	4.09	3.85	3.60	3.66	4.03	3.96	4.14	4.02	4.07	4.17	4.25	4.10

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Average long-term rates in developed market economies have declined from around 3.5% in 2010 to 1.0-1.5% in the most recent quarters. Switzerland stands out with long-term rates that have fallen to near zero, even entering negative territory recently. Long-term interest rates in the US and UK are well below the rate of real GDP growth, suggesting still very accommodative monetary policy. Long rates in the US are above most other developed countries.

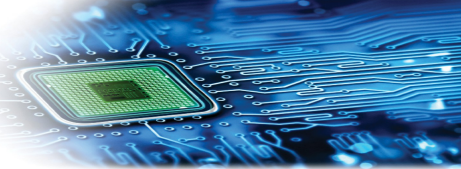


Exhibit 58: Developed World Long-term Interest Rates

Economic Data: Quarterly Frequency																					
Country	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	0Q
Australia	5.53	5.04	5.34	5.54	5.35	4.56	4.10	4.02	3.37	3.09	3.17	3.47	3.33	3.87	4.18	4.14	3.84	3.48	3.17	2.54	2.76
Austria	3.27	2.86	3.05	3.62	3.61	3.00	3.20	3.06	2.59	2.09	1.86	1.84	1.77	2.19	2.14	1.97	1.63	1.31	0.95	0.44	0.67
Belgium	3.43	3.14	3.56	4.18	4.20	4.06	4.43	3.67	3.21	2.56	2.28	2.32	2.17	2.65	2.48	2.34	1.98	1.44	1.05	0.52	0.81
Canada	3.47	3.01	3.00	3.31	3.15	2.52	2.14	2.04	1.91	1.77	1.77	1.92	1.95	2.58	2.58	2.48	2.35	2.15	1.95	1.44	1.64
Denmark	2.98	2.53	2.73	3.22	3.29	2.51	2.03	1.83	1.43	1.18	1.16	1.61	1.52	1.93	1.88	1.71	1.59	1.40	1.03	0.37	0.66
Finland	3.08	2.66	2.85	3.37	3.43	2.71	2.51	2.30	1.89	1.56	1.67	1.71	1.56	1.94	2.00	1.83	1.65	1.22	0.93	0.48	0.67
France	3.18	2.77	3.02	3.54	3.49	2.94	3.17	2.97	2.68	2.19	2.01	2.14	1.96	2.35	2.26	2.21	1.86	1.43	1.11	0.61	0.84
Germany	2.83	2.45	2.63	3.18	3.14	2.28	1.99	1.88	1.53	1.42	1.42	1.52	1.40	1.78	1.79	1.68	1.42	1.06	0.74	0.31	0.53
Iceland	3.59	3.26	3.34	3.10	3.04	3.12	2.53	2.17	2.38	2.25	2.31	2.36	2.63	2.43	2.79	3.16	3.16	3.30	3.18	2.81	
Ireland	5.09	5.70	7.72	9.10	10.43	10.00	8.22	7.04	6.76	5.77	4.68	3.93	3.74	3.92	3.54	3.15	2.68	2.02	1.54	0.91	1.16
Israel	2.30			2.29	2.59	2.37	2.17	1.97	2.21	1.94	1.56	1.44	1.55	1.72	1.49	1.32	0.97	0.66	0.52	0.29	
Italy	3.99	3.89	4.21	4.76	4.74	5.43	6.35	5.64	5.66	5.65	4.71	4.41	4.17	4.37	4.14	3.64	3.00	2.57	2.22	1.49	1.79
Japan	1.28	1.05	1.05	1.25	1.19	1.05	1.01	0.99	0.89	0.80	0.76	0.72	0.72	0.76	0.64	0.63	0.60	0.53	0.44	0.34	0.40
Netherlands	3.08	2.64	2.84	3.39	3.43	2.69	2.41	2.30	2.05	1.77	1.66	1.77	1.77	2.17	2.13	1.93	1.72	1.25	0.91	0.41	0.69
New Zealand	5.73	5.30	5.47	5.59	5.30	4.66	4.19	4.03	3.56	3.50	3.51	3.69	3.50	4.46	4.70	4.60	4.41	4.24	3.94	3.40	3.58
Norway	3.39	3.29	3.44	3.79	3.54	2.69	2.45	2.31	2.11	2.03	2.07	2.37	2.18	2.82	2.87	2.83	2.72	2.33	1.93	1.37	1.61
Portugal	5.02	5.52	6.36	7.23	10.08	12.24	12.33	12.87	11.02	9.43	7.77	6.17	5.96	6.95	6.22	4.89	3.65	3.44	3.03	2.15	2.39
Singapore	2.63	2.10	2.23	2.58	2.35	1.79	1.65	1.71	1.69	1.40	1.32	1.48	1.68	2.48	2.34	2.57	2.50	2.40	2.27	2.16	2.34
Spain	4.18	4.21	4.71	5.31	5.38	5.42	5.57	5.11	6.17	6.45	5.55	5.06	4.49	4.53	4.15	3.56	2.92	2.43	1.99	1.41	1.76
Sweden	2.82	2.55	2.90	3.34	3.05	2.23	1.75	1.84	1.58	1.42	1.50	1.88	1.71	2.33	2.37	2.25	1.91	1.58	1.14	0.65	0.68
Switzerland	1.69	1.35	1.53	1.85	1.87	1.19	0.91	0.78	0.65	0.55	0.54	0.71	0.71	1.05	1.13	1.04	0.79	0.52	0.39	-0.01	0.02
United Kingdom	3.70	3.15	3.22	3.63	3.32	2.64	2.17	2.11	1.88	1.57	1.81	2.02	1.92	2.55	2.65	2.77	2.66	2.50	2.08	1.64	1.88
United States	3.47	2.77	2.85	3.44	3.19	2.40	2.04	2.03	1.81	1.63	1.69	1.93	1.97	2.70	2.73	2.75	2.61	2.49	2.27	1.96	2.16
Average	3.47	3.24	3.55	3.94	4.05	3.67	3.45	3.25	3.00	2.70	2.47	2.45	2.36	2.81	2.75	2.58	2.29	1.99	1.69	1.20	1.38

As of 6/30/2015. A blank space indicates historic data not available.

Long-term rates in the 22 countries included in the emerging markets group have hovered pretty consistently around 5-6% over the last five years. The highest rates are in Greece (recently back above 10%) while the lowest are in the Czech Republic (<1%). Rates are moving higher in Brazil. The combination of a contracting economy and rising inflation are hurting long bonds in Brazil.

Exhibit 59: Emerging Markets Long-term Interest Rates

Economic Data: Quarterly Frequency																					
Country	-20Q	-19Q	-18Q	-17Q	-16Q	-15Q	-14Q	-13Q	-12Q	-11Q	-10Q	-9Q	-8Q	-7Q	-6Q	-5Q	-4Q	-3Q	-2Q	-1Q	0Q
Brazil	12.63	11.87	12.17	12.64	12.54	12.09	11.36	11.33	10.55	9.77	9.38	9.49	10.12	11.38	12.30	13.11	12.39	11.76	12.26	12.58	12.59
China	3.34	3.25	3.72	3.93	3.87	3.99	3.65	3.49	3.45	3.37	3.56	3.62	3.47	3.85	4.36	4.52	4.30	4.26	3.75	3.50	3.55
Colombia	8.16	7.34	7.33	8.09	8.01	7.38	7.52	7.43				4.84	5.52	6.78	6.68	6.96	6.33	6.58	6.73	6.75	6.91
Czech Republic	3.88	3.43	3.63	3.97	3.92	3.43	3.54	3.37	3.27	2.45	2.10	2.17	1.94	2.42	2.33	2.26	1.74	1.57	1.03	0.51	0.75
Greece	8.44	10.74	10.98	11.80	15.39	17.50	26.76	30.99	24.51	21.46	14.32	9.61	9.55	10.07	8.51	7.45	6.10	5.95	7.83	9.96	11.46
Hong Kong	2.61	2.11	2.36	2.76	2.43	1.83	1.34	1.36	1.07	0.75	0.62	1.10	1.21	2.28	2.07	2.25	2.10	1.97	1.82	1.52	1.61
Hungary	7.09	7.15	7.38	7.44	7.07	7.46	8.44	8.91	8.43	7.40	6.70	6.28	5.57	6.09	5.69	5.72	4.84	4.53	3.84	3.18	3.58
India	7.81	7.82	8.07	8.11	8.22	8.32	8.71	8.28	8.51	8.18	8.15	7.87	7.63	8.64	9.00	8.86	8.76	8.70	8.17	7.78	7.95
Indonesia	8.66	8.02	7.43	8.43	7.63	6.98	6.31	5.63	6.21	5.88	5.45	5.26	5.86	8.00	8.09	8.43	7.95	8.11	8.03	7.39	8.04
Malaysia	4.04	3.77	3.84	4.05	4.00	3.73	3.71	3.54	3.53	3.45	3.48	3.47	3.37	3.83	3.88	4.15	4.05	3.93	3.92	3.92	3.93
Mexico	7.29	6.39	6.49	7.42	7.12	6.40	6.37	6.23	6.02	5.33	5.39	5.08	4.97	5.97	6.12	6.37	5.96	5.78	5.92	5.66	5.96
Peru	6.16	5.78	5.70	6.09	6.71	5.92	5.69	5.66					5.12		5.98	6.56	5.74	5.23	5.46	5.61	6.06
Philippines	7.87	6.91	5.80	6.70	6.37	5.94	5.62	5.11	5.36	4.87	4.50	3.68	3.10	3.54	3.47	4.04	4.03	4.07	3.91	3.75	4.30
Poland	5.71	5.56	5.71	6.19	6.01	5.75	5.78	5.50	5.37	4.95	4.17	3.89	3.57	4.25	4.34	4.38	3.82	3.21	2.61	2.25	2.79
Russia	7.43	7.44	7.56	7.69	7.68	7.75	8.09	7.92	7.99	7.94	7.74	6.77	6.90	7.24	7.40	7.99	8.36	8.85	10.11	12.08	
South Africa	8.70	8.16	8.07	8.57	8.40	8.05	8.01	7.88	7.65	6.73	7.56	6.78	6.80	7.83	7.97	8.51	8.30	8.20	7.94	7.59	8.08
South Korea	4.91	4.61	4.35	4.65	4.36	3.97	3.82	3.86	3.76	3.14	3.03	3.00	3.00	3.53	3.55	3.57	3.42	3.05	2.73	2.35	2.39
Taiwan	1.41	1.28	1.35	1.41	1.43	1.39	1.29	1.28	1.24	1.18	1.14	1.22	1.30	1.63	1.68	1.62	1.54	1.64	1.62	1.56	1.56
Thailand	3.57	3.25	3.41	3.80	3.80	3.76	3.36	3.39	3.70	3.41	3.49	3.61	3.51	3.97	3.95	3.86	3.73	3.58	3.09	2.66	2.79
Turkey	10.46	9.00	8.62	9.33	9.32	9.58	9.70	9.34	9.11	8.25	7.56	6.92	6.95	9.22	9.25	10.07	9.27	9.12	8.48	7.61	8.89
Average	6.34	6.06	6.13	6.60	6.53	6.37	6.75	6.81	6.43	5.84	5.30	4.86	4.85	5.64	5.65	6.03	5.64	5.50	5.46	5.41	5.43

As of 6/30/2015. A blank space indicates historic data not available.

In the below two tables we show the JP Morgan Broad Nominal Trade Weighted currency series (an index of global currency values on a trade weighted basis) for each developed and emerging market country in our universe. The series are all indexed to 100 (base value set to 100) twelve quarters ago so we can see relative movements over that period. Among the DM countries, the obvious highlight is the 31% devaluation seen in the Japanese Yen over the period. By contrast, the Euro is basically flat point-to-point while the Swiss Franc, UK Pound and USD are all higher by around 13%. Commodity currencies such as the Canadian and Australian dollars have seen considerable

setbacks. In the EM, commodity currencies have also been hurt as can be seen in Latin America generally in addition to devaluations in the Ruble, Rand, and Rupiah. The most obvious and economically impactful area of currency strength has been seen in the Chinese Yuan, which is up about 18% over the previous four years on a trade weighted basis.

Exhibit 60: Developed World JP Morgan Nominal Broad Trade Weighted Currency Level

JP Morgan Trade Weighted Currency Series												
Developed Markets												
Country	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Australia	100.0	99.9	100.1	101.8	90.5	91.2	87.6	91.2	92.3	88.4	85.1	81.8
Canada	100.0	102.6	101.3	99.8	97.2	98.7	95.4	92.1	95.2	92.3	91.1	85.0
Denmark	100.0	99.2	100.1	99.8	101.6	102.5	103.6	103.9	103.8	101.9	102.6	98.2
Eurozone	100.0	99.7	101.8	101.3	104.2	106.5	108.6	109.5	108.2	104.2	104.6	96.1
Israel	100.0	98.1	102.5	106.9	107.8	109.5	111.3	110.9	112.5	109.4	106.8	110.1
Japan	100.0	101.0	90.1	83.5	79.8	79.9	74.4	76.7	77.6	73.3	68.9	70.6
New Zealand	100.0	101.8	101.8	104.5	99.2	105.3	105.1	110.8	111.0	102.5	106.5	106.0
Norway	100.0	101.9	103.7	101.0	97.3	95.7	94.2	95.8	93.7	94.7	85.0	84.8
Singapore	100.0	101.8	102.4	102.6	101.7	102.5	102.6	103.0	103.3	104.0	103.5	102.5
Sweden	100.0	103.5	102.8	105.4	102.3	104.4	103.3	102.8	99.7	98.1	94.9	93.0
Switzerland	100.0	99.4	100.9	99.7	100.1	102.1	103.0	104.1	103.7	101.8	102.0	112.1
United Kingdom	100.0	101.3	100.9	96.3	96.5	100.5	102.4	103.4	106.2	106.2	106.1	108.2
United States	100.0	97.9	98.1	99.4	101.3	100.0	100.5	101.3	100.4	104.5	109.4	114.2

As of 6/30/2015

Exhibit 61: Emerging Markets JP Morgan Nominal Broad Trade Weighted Currency Level

JP Morgan Trade Weighted Currency Series												
Emerging Markets												
Country	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15
Brazil	100.0	98.1	97.0	100.1	92.7	91.7	87.0	93.5	95.3	89.0	84.7	73.4
Chile	100.0	104.8	103.5	106.3	100.2	99.6	96.1	92.5	91.7	87.7	89.1	90.1
China	100.0	99.3	100.7	103.8	107.2	105.9	108.1	105.2	104.4	110.5	114.3	118.5
Colombia	100.0	97.8	99.6	97.6	93.7	94.1	93.3	92.0	96.1	92.0	80.5	76.9
Czech Republic	100.0	101.3	102.4	99.6	100.1	102.2	96.6	96.8	96.3	94.4	94.1	90.8
Egypt	100.0	98.0	93.1	88.7	86.5	86.7	85.9	86.8	84.5	88.6	92.4	92.5
Hong Kong	100.0	98.5	98.5	99.6	100.3	99.4	99.4	100.5	99.9	101.6	104.6	106.2
Hungary	100.0	100.2	99.0	94.6	98.8	98.9	99.9	97.3	96.0	94.2	93.2	94.9
India	100.0	103.6	99.4	102.2	93.8	87.9	88.9	92.3	91.8	92.3	94.0	98.8
Indonesia	100.0	96.4	96.5	97.6	97.4	82.6	79.4	85.3	81.1	81.5	83.5	81.0
Malaysia	100.0	102.1	102.6	103.2	102.6	98.8	99.0	99.6	100.7	101.5	98.4	95.1
Mexico	100.0	103.3	102.4	109.1	103.9	101.9	102.8	103.6	103.8	102.3	95.0	94.0
Peru	100.0	101.3	103.0	102.8	97.4	96.7	96.8	97.2	97.0	97.1	97.8	97.8
Philippines	100.0	98.8	101.7	104.4	100.4	98.5	97.9	97.1	98.8	99.2	103.3	106.0
Poland	100.0	102.4	104.2	101.5	99.3	103.0	105.8	106.3	106.0	103.5	101.8	103.0
Russia	100.0	102.3	103.7	104.4	99.0	98.3	96.5	91.9	95.3	86.0	61.0	66.0
South Africa	100.0	97.0	94.6	88.6	83.3	80.9	77.3	77.3	76.3	74.8	75.8	75.4
South Korea	100.0	101.0	106.7	103.9	102.2	108.0	110.7	110.3	115.6	114.3	114.6	115.9
Taiwan	100.0	100.2	101.8	100.9	101.5	101.9	101.5	100.1	101.3	102.2	101.7	105.2
Thailand	100.0	100.8	103.1	110.4	105.8	104.8	101.3	102.2	101.5	105.3	108.1	112.3
Turkey	100.0	99.1	98.4	99.3	93.3	87.2	81.1	82.2	83.0	81.6	84.0	80.8

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The table below shows the previous year's performance, indexed to 100, of a variety of commodities across the complex. Commodities in general have displayed poor performance over the period. The S&P Commodity Index is down 43% over the last year and the best performing commodity of all listed below (wheat) is only up 9%. Metals of all kind and energy commodities have fared the worst. The softs, while still down, are down much less than the more economically sensitive industrial metals and energy assets.

Exhibit 62: Commodity Prices

Commodity Performance															
Category	Commodity	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	
Precious Metals	Gold	100.0	96.9	97.3	91.6	88.6	88.9	89.6	96.7	91.7	89.5	89.5	90.0	88.6	
Precious Metals	Silver	100.0	99.1	93.3	82.0	77.6	76.5	76.5	81.1	79.2	79.5	79.2	79.9	75.2	
Industrial Metals	Copper	100.0	102.6	100.6	96.9	98.3	93.7	91.4	79.2	84.6	87.0	89.8	87.5	82.3	
Industrial Metals	Iron Ore	100.0	101.9	93.7	82.6	83.7	74.4	75.9	65.8	67.2	54.4	59.9	65.5	63.2	
Industrial Metals	Aluminum	100.0	99.4	103.7	105.2	105.0	101.2	90.9	94.7	90.6	88.6	91.1	86.9	89.9	
Energy	WTI	100.0	93.2	91.0	86.5	76.4	62.7	50.8	45.4	47.3	45.3	56.6	57.2	56.4	
Energy	Brent	100.0	94.4	91.8	84.3	76.4	62.4	51.0	47.2	55.7	49.0	59.4	58.3	56.6	
Energy	Natural Gas	100.0	84.6	91.0	93.7	86.0	89.9	67.9	60.6	62.7	60.0	58.1	62.9	63.3	
Energy	Coal	100.0	96.8	92.8	85.9	86.4	86.2	78.8	75.2	85.0	82.9	76.5	72.3	66.2	
Agriculture	Hogs	100.0	98.7	75.6	85.8	70.6	69.4	61.3	55.2	51.4	46.8	54.5	64.4	60.5	
Agriculture	Lumber	100.0	96.8	104.0	99.3	96.4	97.8	98.8	96.0	88.7	83.0	76.5	81.8	86.0	
Agriculture	Cotton	100.0	84.6	92.1	83.6	87.8	81.9	82.1	80.9	88.5	86.0	92.5	87.7	93.9	
Agriculture	Wheat	100.0	93.9	97.4	84.6	94.3	102.2	104.4	89.0	91.6	90.6	82.7	84.5	108.9	
Agriculture	Corn	100.0	84.1	84.6	75.6	88.8	88.6	93.6	87.2	90.6	88.7	85.4	82.9	97.6	
Indexes	S&P Commodity Index	100.0	94.4	92.8	87.2	81.9	73.2	63.5	59.2	64.0	60.2	67.7	66.7	66.9	
Indexes	Baltic Dry Index	100.0	88.8	134.9	125.1	168.0	135.6	92.0	71.5	63.5	70.8	69.5	69.3	94.1	

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Definitions

Alpha is a measure of the portfolio's risk adjusted performance. When compared to the portfolio's beta, a positive alpha indicates better-than-expected portfolio performance and a negative alpha worse than-expected portfolio performance.

The Barclays US Treasury Bond Index is a market capitalization weighted index that is often used to represent investment grade bonds being traded in the United States.

Basis Point is one hundredth of one percent.

Beta is a measure of the funds sensitivity to market movements. A portfolio with a beta greater than 1 is more volatile than the market and a portfolio with a beta less than 1 is less volatile than the market.

Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services.

Downside Capture is used to evaluate how well or poorly an investment manager performed relative to an index during periods when the index has dropped.

Max Drawdown is the maximum single period loss incurred over the interval being measured.

Morningstar Aggressive Allocation portfolios seek to provide both capital appreciation and income by investing in three major areas: stocks, bonds, and cash. These portfolios tend to hold larger positions in stocks than moderate-allocation portfolios. These portfolios typically have 70% to 90% of assets in equities and the remainder in fixed income and cash.

The Morningstar Target Risk Index series consists of five asset allocation indexes that span the risk spectrum from conservative to aggressive.

MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity performance of developed and emerging markets.

MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets.

P/B (Price-to-Book Ratio) is a ratio used to compare a stock's market value to its book value.

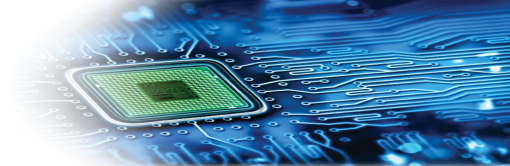
P/CF (Price-to-Cash-Flow Ratio) is the ratio of a stock's price to its cash flow per share.

P/E (Price-Earnings Ratio) is a valuation ratio of a company's current share price compared to its per-share earnings.

P/S (Price-to-Sales Ratio) is a valuation ratio that compares a company's stock price to its revenues.

Purchasing Managers Index (PMI) is an indicator of the economic health of the manufacturing sector based on five major indicators: new order, inventory levels, production, supplier deliveries and the employment environment.

Sharpe Ratio uses a fund's standard deviation and its excess return (the difference between the fund's return and the risk-free return of 90-day Treasury Bills) to determine reward per unit of risk.



Standard Deviation is a calculation used to measure variability of a portfolio's performance.

Treynor Ratio is a risk-adjusted measure of return based on systematic risk. It is similar to the Sharpe ratio, with the difference being that the Treynor ratio uses beta as the measurement of volatility.

Upside Capture is used to evaluate how well an investment manager performed relative to an index during periods when that index has risen.

An investor cannot invest directly in an index.