Executive Summary

Heading into Q4 and year end, we continue to remain very cautious on equities and in particular U.S. equities as valuations and earnings growth assumptions implied in prices continue to diverge from our business cycle perspective. Within fixed income we are beginning to see some value in developed market investment grade and are looking for opportunities in Q4 to increase our exposures and achieve our strategic targets. We continue to favor emerging markets equity, high yield and sovereign debt over their counterparts within the developed markets. Although Emerging Market prices have run up in the third quarter, we anticipate increased volatility in the coming months which we hope to take advantage of and raise exposure to our targets.

Q3 Review and Actions

The third quarter started off with a bang. The Brexit vote and its devastating aftermath for the British Pound reverberated in much of the global financial markets, though most recovered and more than made up for the initial losses in the subsequent weeks. Long-term sovereign interest rates that had entered into negative yield territory in Q2 remained entrenched in the negative zone and for the most part remain over-valued from our perspective. We lowered our targets within that sub-asset class and are looking for a deeper correction in those markets in the coming months before we begin to find value.

Equities	Level	Q3	YTD	1 Year
MSCI ACWI Net (USD)	418.43	5.3	6.6	12.0
MSCI EAFE (USD)	1,702	6.5	2.2	7.1
MSCI EM (USD)	903.46	9.1	16.4	17.2
S&P 500	2,168	3.9	7.8	15.4
NASDAQ Composite	6,424.87	10.0	7.1	16.5
Russell 2000	1,251.65	9.0	11.5	15.5
Russell 3000 Growth	853.40	4.9	6.1	13.6
Russell 3000 Value	1,370.91	3.9	10.3	16.3

Fixed Income	Yield	Q3	YTD	TTM
Barclays Global Aggregate	485.68	0.8	9.9	8.8
Barclays US Aggregate	2,036.98	0.5	5.8	5.2
Barclays US Investment Grade	151.56	1.7	10.8	10.3
Barclays US High Yield	1,782.60	5.6	15.1	12.7
Barclays Global ex-USD	474.63	1.0	13.1	11.7
Barclays Global EM (LC)	379.38	3.4	9.1	10.0
Barclays Municipal	1,148.77	-0.3	4.0	5.6

Rates (%) & Commodities ($)	9/30/2016	12/31/2015	9/30/2015
1 Month LIBOR	0.53	0.43	0.19
3 Month LIBOR	0.85	0.61	0.33
Prime	3.50	3.50	3.25
2-Year US Treasuries	0.76	1.05	0.63
10-Year US Treasuries	1.60	2.27	2.04
30-Year US Treasuries	2.32	3.02	2.85
Gold (Futures)	$1,313.30	$1,060.20	$1,115.50
Crude Oil (WTI)	$48.24	$37.04	$45.09

Sources: Bloomberg, FT Interactive, Black Diamond

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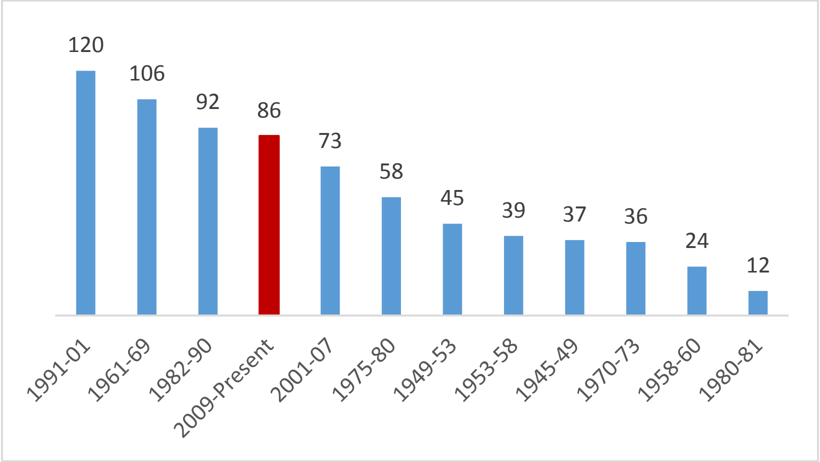
Equities

The MSCI ACWI (non-GDP weighted) index rallied slightly over 5% during the quarter largely on the strength of emerging market equities with Latin America and parts of Asia leading the way. As of the end of Q3 that index generated a year-to-date total return of 6.2%. Our cautious stance for developed market equities (ex-commodity centric economies and Japan) remains in place and our conviction has only increased given the lapsed time and slightly higher prices. With the U.S. expansion only months away from its third longest cycle since the end of WWII, we are facing an ever-tighter labor market, excessively high confidence levels, and overly optimistic assessments for corporate earnings in 2017 and 2018.

Post WWII Length of U.S. Business Cycles (Months)



Source: NBER

Fixed Income

Early in Q3 we observed 10-year government bond yields of 1.36%, -0.20%, -0.30%, and -0.63% in the U.S., Germany, Japan, and Switzerland respectively. Even providing a more liberal allowance for the "deflationary" nature in place in much of the developed world, we believe these markets are increasingly at risk of lower prices in the coming months. We reduced our target allocation to much of the developed sovereigns significantly during the quarter and will remain patiently on the side-lines.

Looking Ahead

The U.S. economy enters Q4 in its 86th month of expansion, while Germany, France, and the Netherlands, are not far behind. The U.K. is now very early in its recessionary environment caused by the uncertainty surrounding Brexit whose risks from our perspective remain under appreciated. Canada, Japan, Brazil, and China are now leaders of global growth followed closely by Russia, Australia, South Africa and other global commodity producers.

As we head into the year-end and the U.S. elections, we remain quite wary of the direction of the developed economies of the North Atlantic (ex-Canada) and are steadfast in our cautious approach towards their equities and high yield markets. Outside of the North Atlantic, we are quite optimistic that new governments, new faces, new policies and perspectives are moving individual and regional economies out of the malaise of the past 24 months into appreciably stronger economic profiles into 2017 and beyond. Our optimism is reflective in our continued strategic over-weight recommendation for those equity markets. We are similarly optimistic on the high yield and sovereign segments and tactically remain patient for more optimal entry points to achieve our overall strategic targets.

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ACIMA Current Outlook (As of 9/30/2016)

Asset Class	Opportunity	Change	Positive			Neutral	Negative		
Fixed Income			○	○	○	●	○	○	○
U.S. Fixed Income	Government / Agency		○	○	○	○	●	●	●
	Investment Grade Corporate		○	○	●	○	○	○	○
	High Yield		○	○	○	○	●	●	●
International	Government / Agency		○	○	○	●	○	○	○
	Investment Grade Corporate		○	○	○	●	○	○	○
	High Yield		○	○	○	●	○	○	○
Equities			○	○	○	○	●	○	○
	U.S.		○	○	○	○	●	●	○
	North America (Ex-U.S.)		○	●	●	○	○	○	○
	Europe		○	○	○	○	●	●	○
	Asia		○	●	●	○	○	○	○
	Latin America		○	●	●	○	○	○	○
	Eastern Europe/Mid-East Africa		○	○	●	○	○	○	○
Cash	Cash and Cash Equivalents		○	○	●	○	○	○	○

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