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RPB

WELCOME

How to Stay Invested in Volatile Times

Quarterly Webinar

APRIL 26, 2018

GUEST SPEAKERS FOR TODAY'S WEBINAR

David Baskin, *President and Founder,*
Baskin Wealth Management (BWM)

Chris Moore, *Chief Investment Officer,*
Summit Strategies Group

AGENDA

- Opening Remarks
- Market Update
- RPB Plan Performance
- How Portfolios are Constructed
- Q&A

OPENING REMARKS

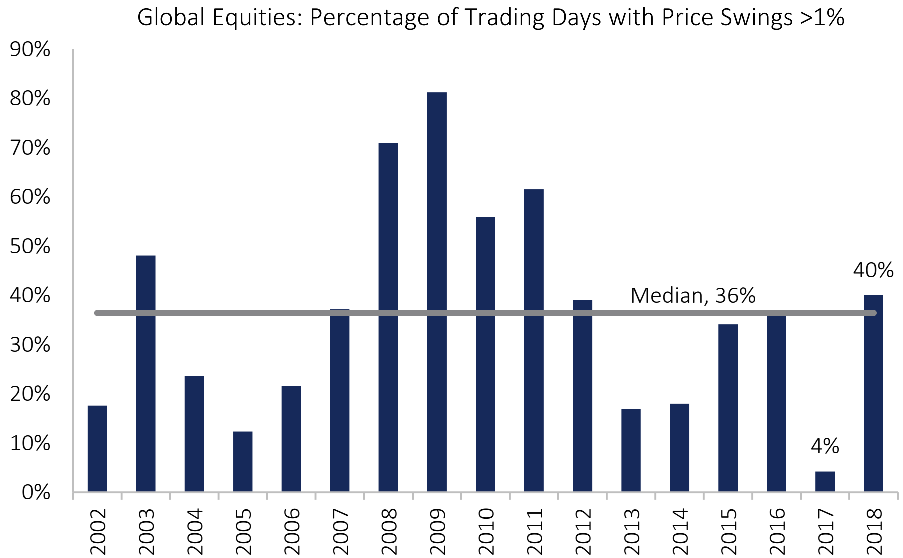
MARKET & PLAN UPDATE

2018 Q1 Key Themes

- **Return of volatility to markets**—equity market was choppy but ended relatively unchanged
- **Tariffs and trade war concerns** were a source for market volatility
- **Recent market trends** continued with Emerging Markets and Growth/Technology stocks outperforming on a more muted basis
- **Inflation concerns** caused rising yields and negative returns for fixed income
- **Central banks continued policy** interest rate hikes and exit of QE (quantitative easing)

The Return of (Normal) Market Volatility

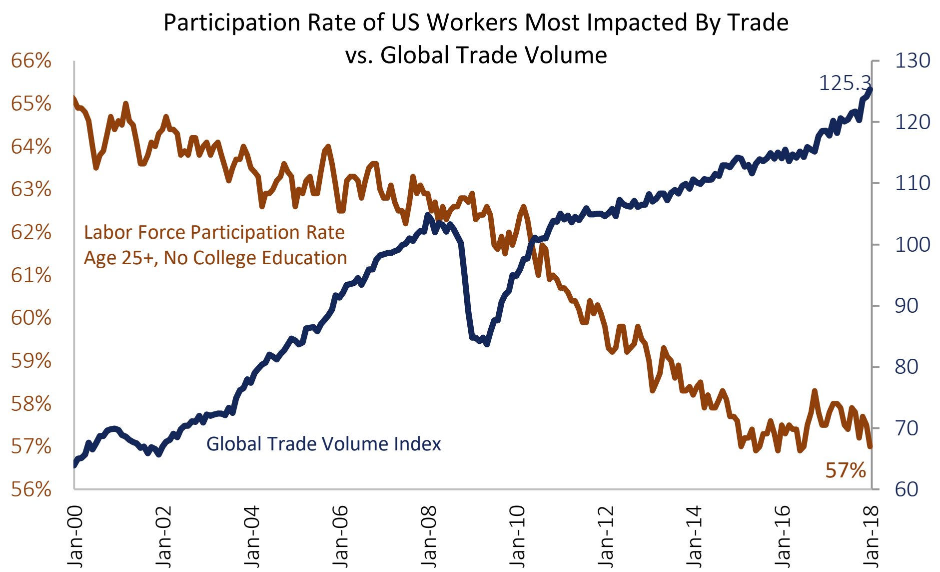
- Following a year of consistent gains and no monthly declines, markets have been relatively volatile in 2018.
- The main catalysts have been inflation fears and concerns surrounding trade.



Source: MSCI, PARis. Equity indices are MSCI World for daily price volatility.

Trade War Fears

- President Trump started to address trade by announcing tariffs on steel and aluminum and broad-based tariffs against China.
- With upcoming mid-term elections, these actions are politically-motivated.



Increased global trade has come at the expense of U.S. manufacturing jobs.

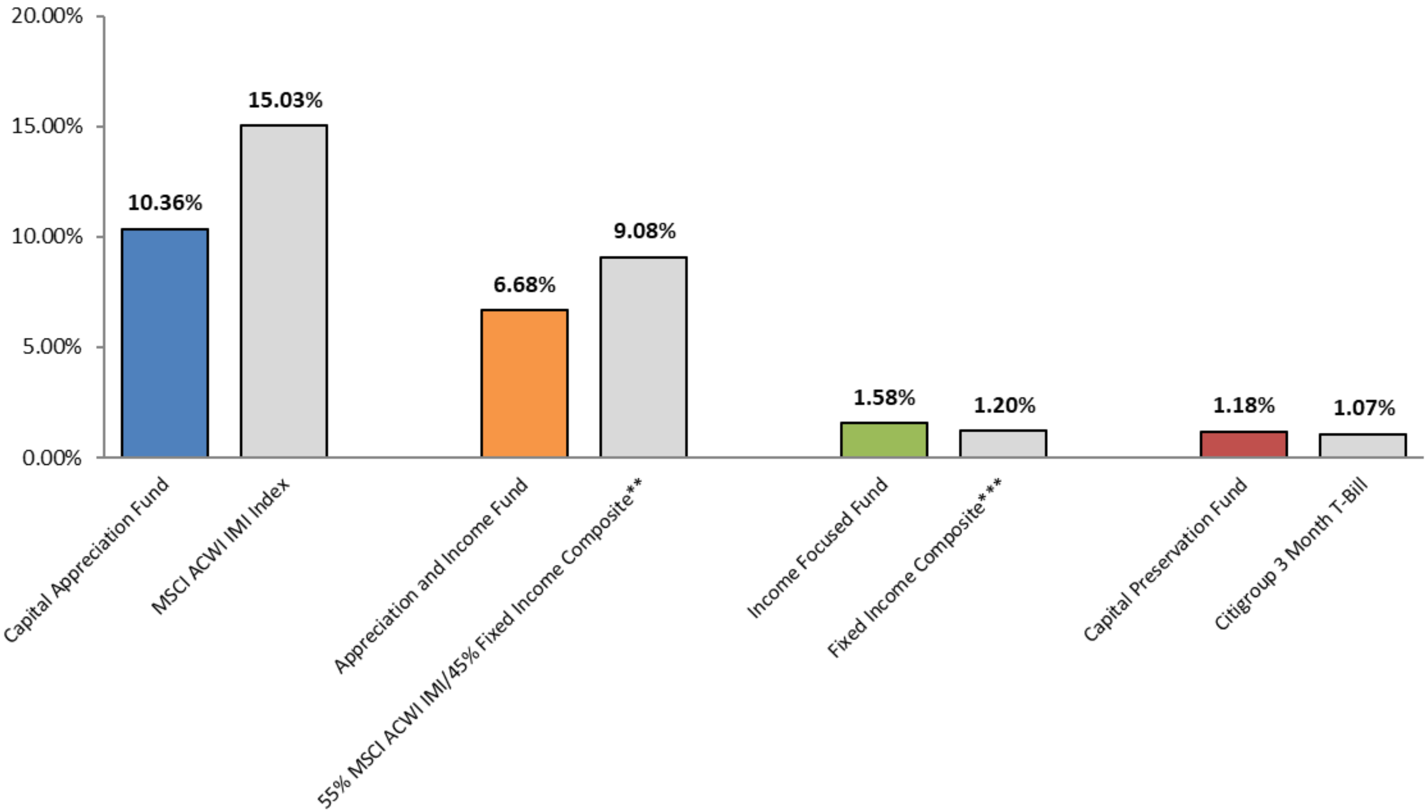
Source:Bureau of Labor Statistics for participation rate, CPB for trade volume.

Asset Quilt – Diversification Matters

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	QTD 2018	Description
Best Performing	MLP 45.7%	MLP 43.7%	Core Bonds 10.3%	EM 55.8%	REITs 31.5%	EM 34.0%	REITs 35.9%	EM 39.4%	Core Bonds 5.2%	EM 78.5%	MLP 35.9%	MLP 13.9%	EM 18.2%	US Equities 33.6%	REITs 30.4%	REITs 2.5%	MLP 18.3%	EM 37.3%	EM 1.4%	Emerging Market Stock Index
	REITs 26.8%	REITs 12.8%	REITs 3.7%	MLP 44.5%	EM 25.6%	EAFE 13.5%	EM 32.2%	MLP 12.7%	High Yield -26.2%	MLP 76.4%	REITs 28.5%	REITs 8.7%	REITs 17.8%	MLP 27.6%	US Equities 12.6%	Core Bonds 0.6%	High Yield 17.1%	EAFE 25.0%	US Equities -0.6%	US Large and Small Stock Index
	Core Bonds 11.6%	Core Bonds 8.4%	High Yield -1.4%	EAFE 38.6%	EAFE 20.3%	REITs 12.1%	EAFE 26.3%	EAFE 11.2%	MLP -36.9%	High Yield 58.2%	EM 18.9%	Core Bonds 7.8%	EAFE 17.3%	EAFE 22.8%	Core Bonds 6.0%	US Equities 0.5%	US Equities 12.7%	US Equities 21.1%	High Yield -0.9%	High Yield Bonds (Non-Investment Grade Bonds) Index
	High Yield -5.9%	High Yield 5.3%	MLP -3.4%	REITs 36.8%	MLP 16.7%	MLP 6.3%	MLP 26.1%	Core Bonds 7.0%	US Equities -37.3%	EAFE 31.8%	US Equities 16.9%	High Yield 5.0%	US Equities 16.4%	High Yield 7.4%	MLP 4.8%	EAFE -0.8%	EM 11.2%	High Yield 7.5%	Core Bonds -1.5%	Diversified US Investment Grade Bond Index
	US Equities -7.5%	EM -2.6%	EM -6.2%	US Equities 31.1%	US Equities 12.0%	US Equities 6.1%	US Equities 15.7%	US Equities 5.1%	REITs -38.0%	REITs 28.6%	High Yield 15.1%	US Equities 1.0%	High Yield 15.8%	REITs 2.5%	High Yield 2.5%	High Yield -4.5%	REITs 8.6%	REITs 5.1%	EAFE -1.5%	Developed Market International Stock Index
	EAFE -14.2%	US Equities -11.5%	EAFE -15.9%	High Yield 29.0%	High Yield 11.1%	High Yield 2.7%	High Yield 11.9%	High Yield 1.9%	EAFE -43.4%	US Equities 28.3%	EAFE 7.8%	EAFE -12.1%	MLP 4.8%	Core Bonds -2.0%	EM -2.2%	EM -14.9%	Core Bonds 2.7%	Core Bonds 3.5%	REITs -8.1%	Real Estate Investment Trust Index
Worst Performing	EM -30.8%	EAFE -21.4%	US Equities -21.5%	Core Bonds 4.1%	Core Bonds 4.3%	Core Bonds 2.4%	Core Bonds 4.3%	REITs -16.8%	EM -53.3%	Core Bonds 5.9%	Core Bonds 6.5%	EM -18.4%	Core Bonds 4.2%	EM -2.6%	EAFE -4.9%	MLP -32.6%	EAFE 1.0%	MLP -6.5%	MLP -11.1%	Master Limited Partnerships (Pipelines) Index

Trailing 12-Months Tier 1 Investment Returns

April 1, 2017 through March 31, 2018



*Net of investment management fees.

**50/50 MSCI ACWI (IMI)/Bloomberg Barclays Global Agg through March 31, 2015; 60/40 MSCI ACWI (IMI)/Bloomberg Barclays Global Agg through September 30, 2016; 60/40 MSCI ACWI (IMI)/Bloomberg Barclays U.S. Agg through September 30, 2017; 55/45 MSCI ACWI (IMI)/Bloomberg Barclays U.S. Agg thereafter.

***Barclays Global Aggregate January 1, 2013 through September 30, 2016, Barclays US Aggregate thereafter.

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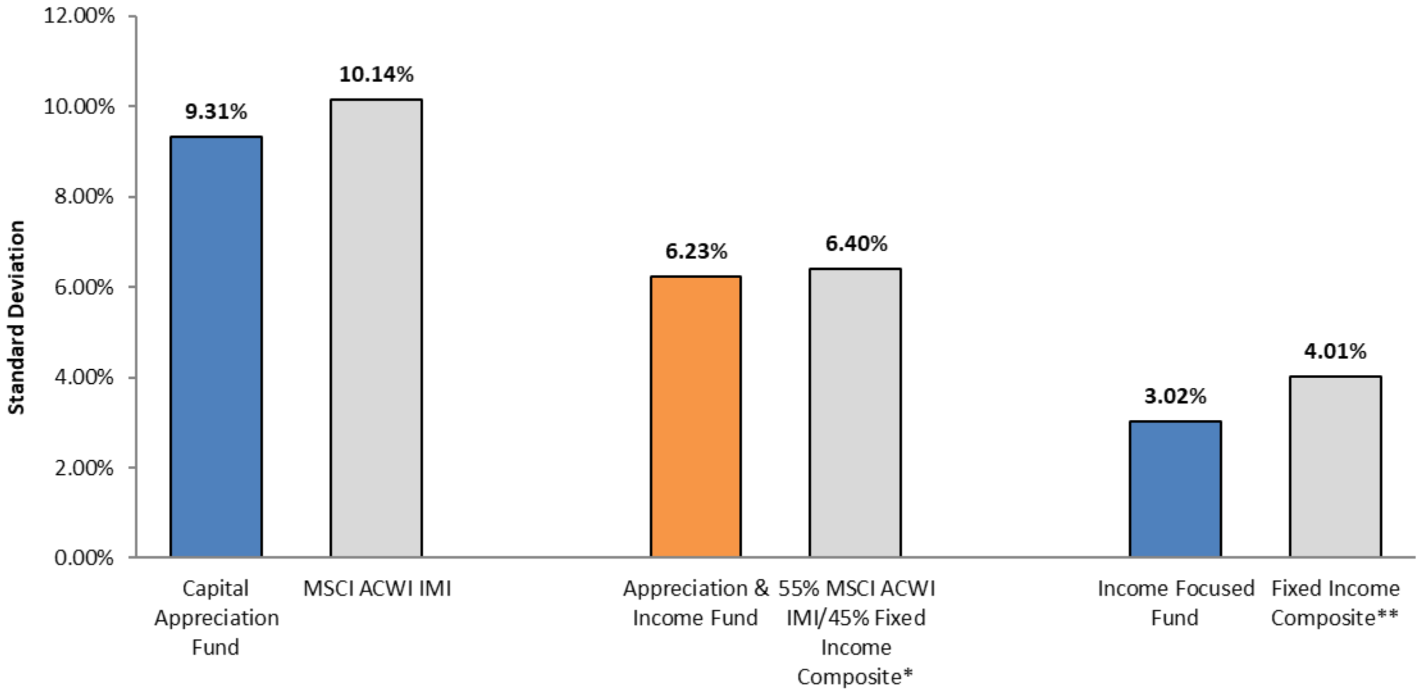
Since Inception Volatility – Lower is Less Risky

January 1, 2013 through March 31, 2018



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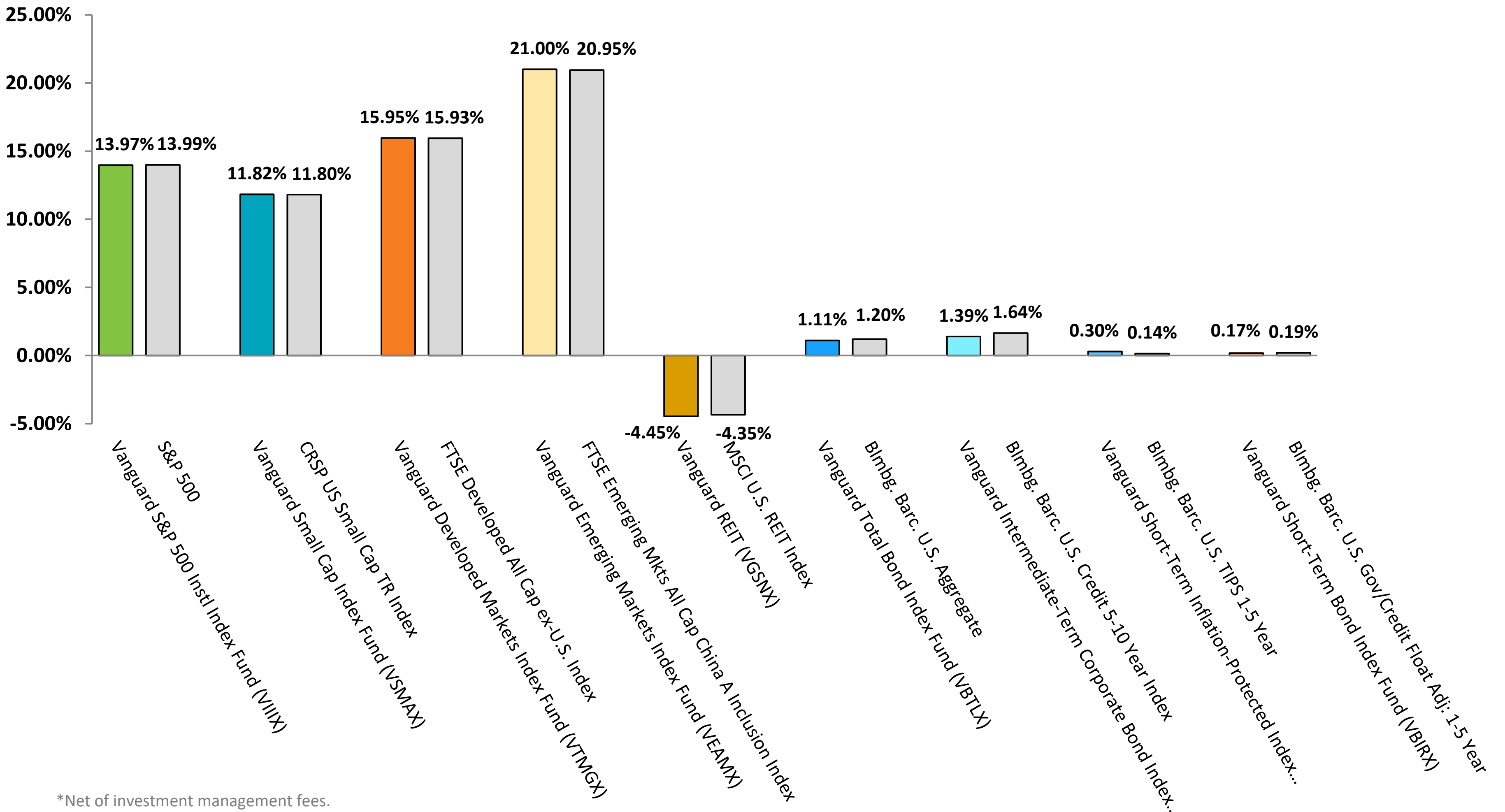
**Barclays Global Aggregate January 1, 2013 through September 30, 2016, Barclays US Aggregate thereafter.

Trailing 12-Months Tier 2 Investment Returns

April 1, 2017 through March 31, 2018



*Net of investment management fees.

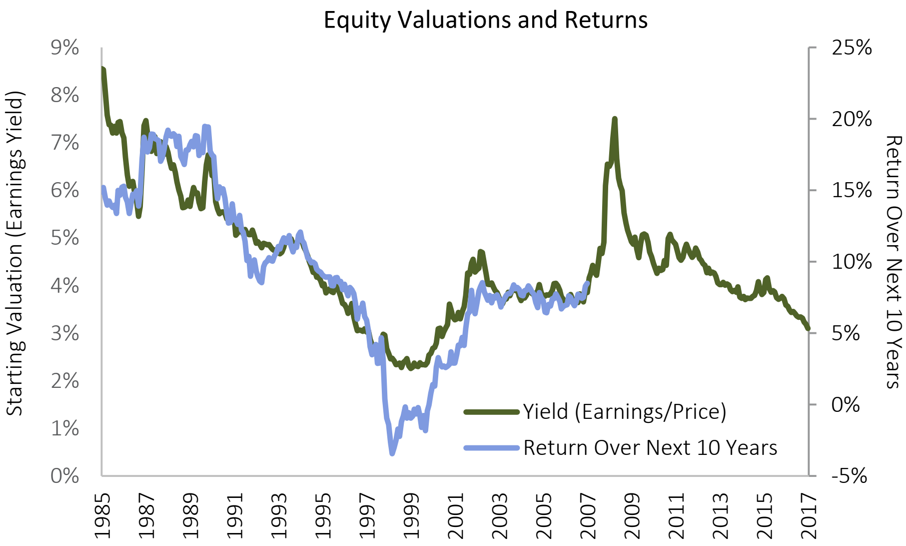
Looking Forward: Key Themes

- Rising Interest Rates
  - Repricing of inflation risk
- Trade War rhetoric (negotiation tactics versus actual implementation)
- Valuations remain high suggesting lower long term returns

PORTFOLIO CONSTRUCTION

Current Valuations: Equities

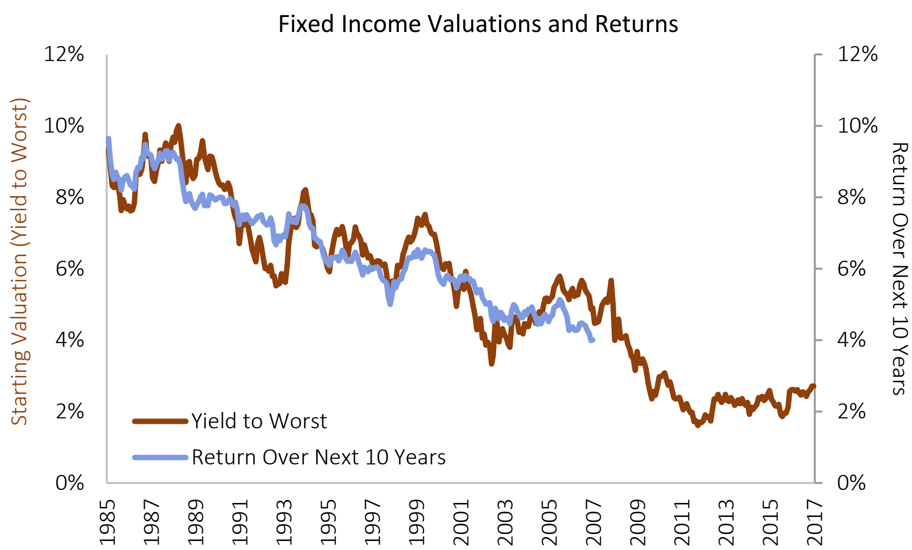
- Driven by increased valuations, current equity return expectations are relatively muted.



Equity Valuations and Returns shown are for S&P 500 and Cyclically Adjusted Price –to-Earnings Ratio (CAPE) .

Current Valuations: Fixed Income

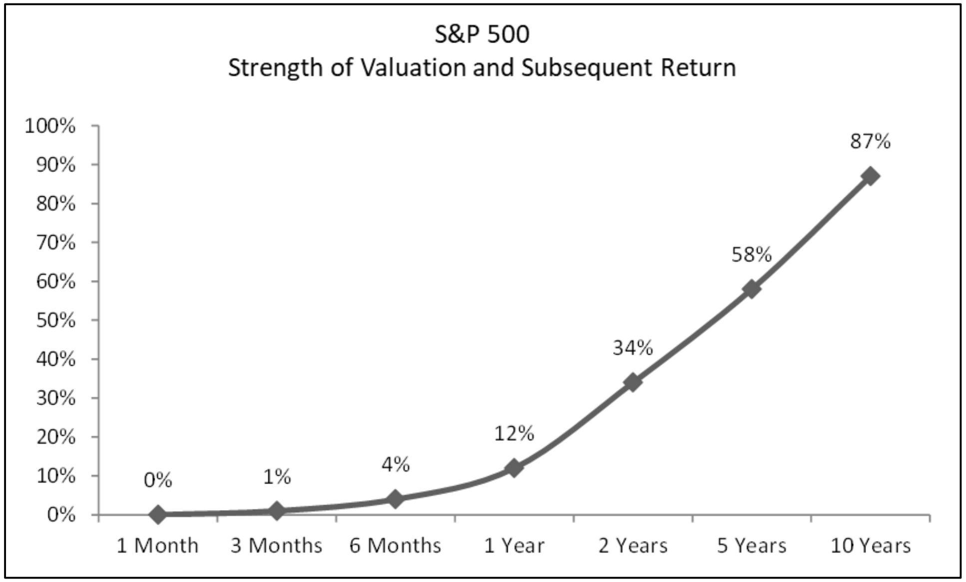
- Despite a recent pickup in yields, current fixed income return expectations are much lower than historical norms.



Fixed Income benchmark is Bloomberg Barclays Aggregate.

Value Investing

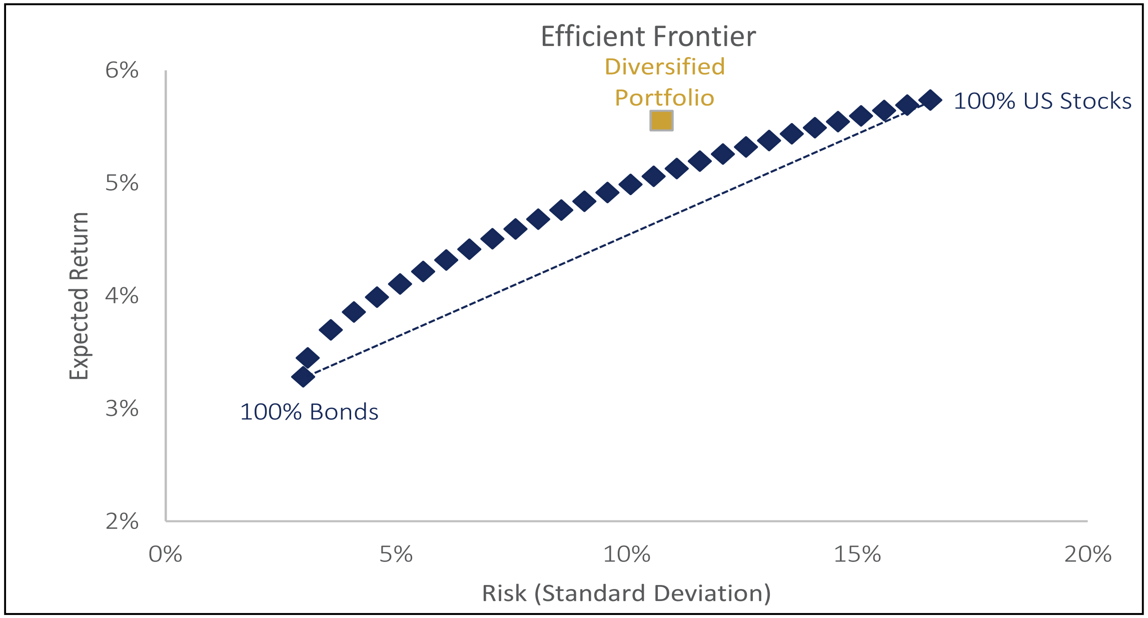
- Over the long term, valuation matters a lot: Almost 90% of long-term return (10 years) is the price initially paid
- Over the short term, valuation is just noise: Short-term return driven by sentiment



Source: Bloomberg and GSAM. Valuation refers to Cyclically Adjusted Price –to-Earnings Ratio (CAPE) and Strength of Valuation refers to the R-squared statistic.

Portfolio Diversification

- The efficient frontier* shows returns and risk for various combinations of stock and bonds
- The curve of the efficient frontier highlights the benefits of diversifying allocations



*The efficient frontier is the set of optimal portfolios that offers the highest expected return for a defined level of risk or the lowest risk for a given level of expected return.

Business Cycle

	Early Cycle	Mid Cycle	Late/End of Cycle
Economy	▪ Fast growth off low base ▪ Accommodative monetary policy and significant slack	▪ Moderate growth ▪ Monetary policy neutral ▪ Lending standards ease	▪ Accelerating growth and inflation, defaults from speculative lending cause monetary tightening
Inflation	▪ Significant slack in the economy	▪ Inflation increases but not enough to cause monetary tightening	▪ Capacity fully utilized and prices increase; often causes central bank to raise interest rates
Stocks	▪ Low valuations and profit margins ▪ Earnings beat very low expectations	▪ Valuations and profit margins near average ▪ Earnings more mixed versus expectations	▪ Elevated valuations and margins weigh on prices ▪ Expectations become too high at the same time central bank is tightening
Fixed Income	▪ Steep yield curve ▪ Wide credit spreads	▪ Mostly stable yields ▪ Moderate and compressing credit spreads	▪ Flat or inverted yield curve ▪ Tight and widening credit spreads from rising defaults
Traditional Portfolio	▪ Risk taking rewarded ▪ Positive contributions across most assets	▪ Risk taking rewarded ▪ Positive but smaller contributions across most assets	▪ Cash outperforms financial assets as sentiment declines due to recession or unforeseen event

Diversification: Assets and the Economic Cycle

- Different asset classes perform well in different parts of the cycle
- True diversification includes diversifying across economic environments

Historical Real Returns by Economic Environment
(1976-2016)

	Rising Inflation	Falling Inflation
Rising Growth	1 (15% of observations) Stocks 1% Bonds 2% Real Assets 8%	2 (38% of observations) Stocks 13% Bonds 4% Real Assets -2%
Falling Growth	3 (25% of observations) Stocks -8% Bonds 3% Real Assets 6%	4 (22% of observations) Stocks 15% Bonds 11% Real Assets 0%

What Does This Mean For You?

- Lower expectation of stock market appreciation going forward
- Long and low global interest rate environment
- Upside surprise is possible – requires change in status quo
- Focus on your time horizon, risk tolerance, and lifestyle
  - May be time to rebalance based on moves in the market
  - Reassess holistic financial plan as you age
- The markets cannot correct for low contribution rates or living beyond one’s means

Q&A