



Bermuda



South Carolina



Vermont

# Monthly Market Perspective

July 7, 2015

Performa is an independent, employee-owned investment management firm, founded in 1992. We combine more than 20 years of experience in the captive industry with the institutional expertise of our investment team to provide our clients with tailored investment solutions.

## Monthly Spotlight: Under Armour - Champion of Champions

We are now at 2015's halfway mark and in a few weeks, second quarter corporate earnings season will begin. Trading desks across the globe will be ghost towns as traders' meticulously planned vacations will evolve into screaming matches and ice creams sales will spike. The big decision for many will be sugar or waffle cone? As you grab your ice cream, we explore one of the more curious and interesting company specific storylines of 2015.

Sports headlines this year in the U.S. included Tom Brady quarterbacking a Patriots Superbowl win that foiled the Seahawks bid for back-to-back Championships. In basketball, Stephen Curry captured the imagination of fans while winning the league's MVP award and helped the Golden State Warriors to their first title in 40 years. Meanwhile, Jordan Spieth is two for two in golf's major tournaments, winning both the Masters and U.S. Open.

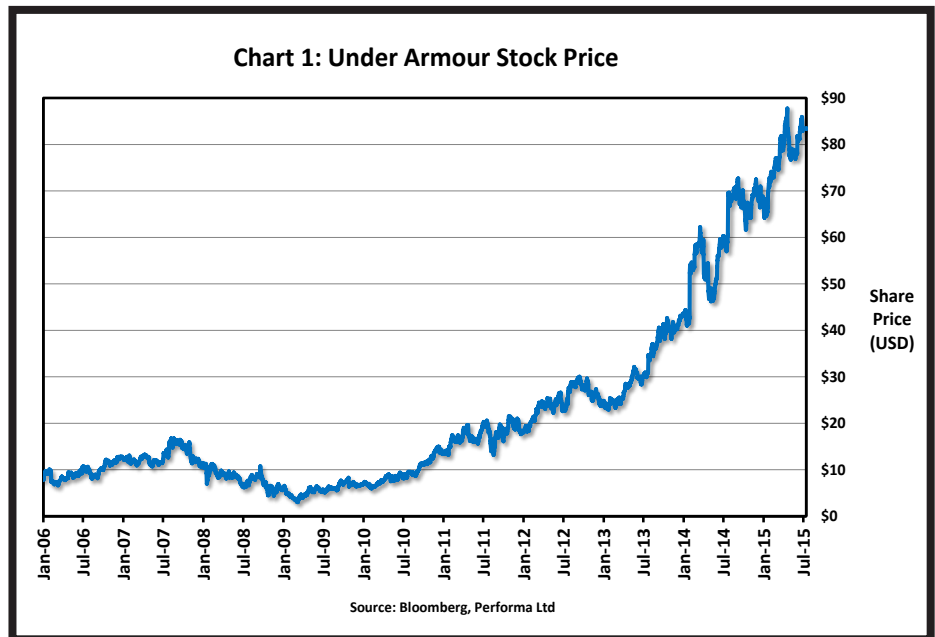
So who is the real winner at the halfway point of 2015? Under Armour (UA) stands at the top. The ubiquitous interlocking "U" and "A" logo are now impossible to miss, adorned all over athletes in every sport imaginable. UA's ability to sign young endorsers (Seth Curry, 27 and Jordan Spieth, 21) prior to their current success, coupled with a signature veteran in Patriots quarterback Tom Brady have proven an excellent value play.

The remarkable string of UA athletes' current success as well as their future potential has propelled UA stock up 25% YTD (See Chart 1). After doubling in 18 months, the company now trades at 79 times its estimated 2015 full year earnings. Robust to be sure.

- IN THIS ISSUE**
- Monthly Spotlight
  - The Macro View
  - Asset Class Overview
  - The Markets

Revenue continues to grow at UA, as the percent of mobile sales remains staggeringly high and additional retail outlets look to increase sales as they evolve from their role as marketing tools. Perhaps the most impressive financial metric is UA's 49% gross operating margin, the envy of the industry.

After passing Adidas as the world's second largest sportswear company, UA's CEO and founder, Kevin Plank has shifted his target onto world #1, Nike. With Nike's market capitalization 5 times larger than UA, Mr. Plank certainly has his work cut out for him. While the goal seems lofty, perhaps it is his vision of the future of athletic apparel that is harder for people to grasp.



Is it real or psychology? Don't like your blue workout shirt today? How would you like to make it red at the click of a button? Too cold? Instead of turning up the temperature in the room or adding a layer, try modifying the fibers of your shirt to make it warmer. These are the types of ideas that compose Plank's vision for the future of sports gear. He is convinced that future of exercise clothing is grounded in technology and that advances will come much more quickly than most expect. Thus far, his track record is impressive, and the perceived improvement in performance associated with wearing UA gear is nothing short of magical, or at least impressive.

The future of sportswear is less and less clear, nonetheless, watching the evolution of UA will surely be interesting. Perhaps we should put down our ice creams, and go work on our beach bodies. However, we are not quite sure that whether we hit the weights or go out for a run, that wearing UA, Nike, or an old raggedy t-shirt is going to make too much of a difference. We remember when we were kids and every pair of new sneakers made us run faster and jump higher. It never lasted long and the shoes quickly became dirty and worn out in 3 months. Maybe UA has found a way to capture that magic, but most likely it just makes people feel better and that, in and of itself is not bad.

*\* This month's Monthly Spotlight is purely informational and is intended to be an entertaining case study. Performa does not recommend a purchase or sale of Under Armour and the firm does not currently own the stock.*

## The Macro View

U.S. economic activity generally accelerated in the second quarter after a rough start to 2015. Household formations have accelerated, fueling the housing sector. Job creation and consumer demand have rebounded, and workers are experiencing modest wage gains. Meanwhile, manufacturing activity continues to lag and oil prices in the \$60/barrel range keep headline inflation numbers below the 2% Fed target.

Trends in data out of the United Kingdom remain encouraging. Consumer demand was solid in June; household incomes increased; and, the unemployment rate remained at cycle lows. However, it feels that the Bank of

England (BOE) wants to see further improvements before raising interest rates. Meanwhile, in the Eurozone, ongoing drama in Greece has overshadowed improving economic data. Better than expected inflation and retail sales data, coupled with an improving labor market suggest continued slow and steady improvement in Eurozone economy.

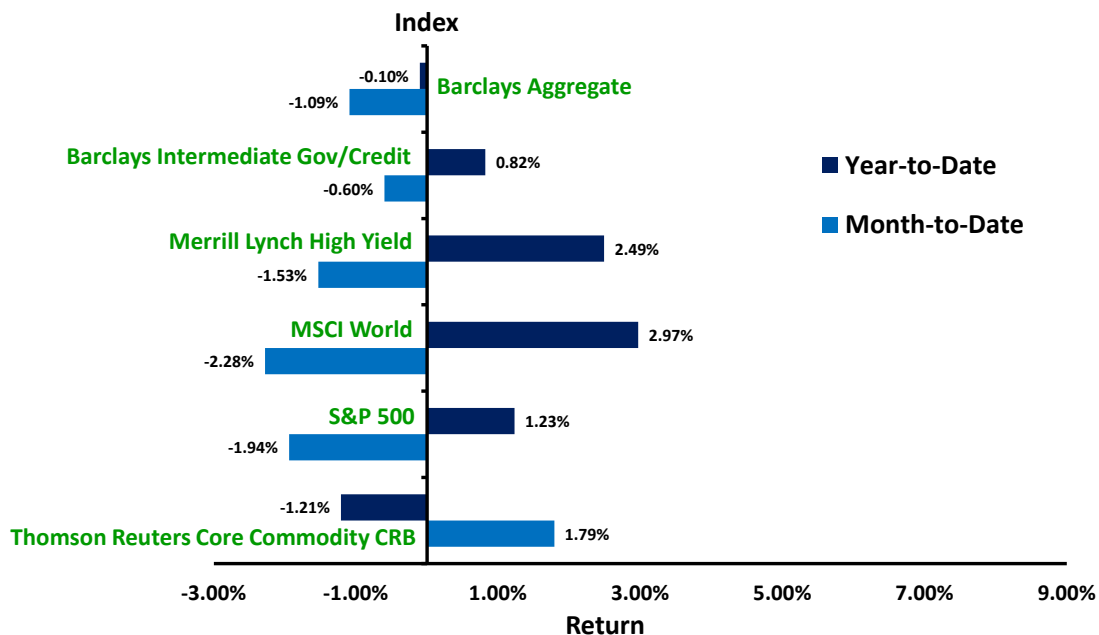
Chinese economic fundamentals remain somewhat unsettled, further amplifying global equity market volatility throughout June. As promised, Chinese officials provided stimulus to a faltering economy, but investors are now more skeptical. China remains a wild card for investors, as officials look to transition the economy to one supported by domestic demand, while the run up in local equity markets in 2015 seems to defy gravity.

### Global Monetary Policy

Global monetary policy was little changed in the month of June. The U.S. Federal Reserve wants to see more economic growth follow through before raising interest rates. Look to the September Fed meeting for the first increase. Meanwhile, the European Central Bank (ECB) remains firmly committed to easy money policies even though better economic data continues to come out. In reality, the ECB is quite hamstrung this summer as the decision whether to keep Greece in the Euro will dominate the short-term. The Bank of England is taking its time while the Public Bank of China offered up some stimulus.

### Asset Class Overview

There was no place to hide during the month of June as both equity and fixed income markets suffered losses. Throughout the month investors were skittish, as negotiations between Greece and its creditors devolved, increasing uncertainty around whether Greece will stay in the Euro. For the month both domestic and international equity markets suffered declines as investors shed risk assets. Investment grade fixed income markets suffered heavy losses early in the month, but clawed back some of the negative performance in the second half of June. The Barclays Aggregate index, a measure of the broad investment grade bond market, returned negative 1.09% for the month, as year-to-date returns are now negative.



Source: Barclays, Bloomberg, Performa Limited U.S., Gross Index Returns

## The Markets

### Credit

Volatility in interest rates, combined with fears about defaults in Greece and Puerto Rico weighed on risk assets during June. The Barclays Corporate Credit Index closed the month 11 basis points wider, to 1.37% over government bonds. The front-end of the credit curve has outperformed, while intermediate and longer maturity bonds have produced negative excess returns year-to-date.

- Weakness in spread product resulted in a slower than expected primary market. For the month, new issue totals amounted to \$96.7 billion, representing only the second month this year below \$100 billion and down from the \$105 billion posted in June of 2014.
- We continue to see heavy activity in the M&A market, both rumored and real, and we expect that to continue or even accelerate. More specifically, we are expecting increased activity in healthcare, energy and metals and mining. An accommodative environment for corporate activity including solid balance sheets, slow revenue growth and open and relatively cheap funding markets continues to be in place.
- Second quarter earnings season kicks off on July 8th with Alcoa and begins in earnest the following week with a host of benchmark financials among others reporting the week of July 13th. We continue to keep an eye on the same themes: slow revenue growth, M&A, shareholder friendly behavior and general financial policy.
- We remain focused on floating rate bonds while adding securities out the curve where we see value, adding yield to the portfolios. Markets continue to be at an inflection point between higher rates and an improving economy. Ultimately, an improving economic backdrop along with higher overall yields will be supportive of corporate spreads.

### Structured Products

The Structured Product market was unable to escape the selloff that dominated the bond market. Macro volatility, quarter-end sales pressure, and lack of liquidity kept buyers largely on the sidelines. The sector underperformed duration matched Treasuries by 22 basis points for the month of June according to the Barclays Aggregate Index.

**ABS** - The Asset Backed Security market was the lone star in the Barclays Aggregate Index, outperforming Treasuries for the month and year to date. Supply was generally muted for the month and investors favored high quality, shorter duration offerings. We continue to favor the shorter high quality bonds as a cash proxy and are monitoring the student loan market for possible attractive entry point, as that sector has seen considerable selling in recent months.

**CMBS** - The Commercial Real Estate market came under considerable pressure as quarter-end approached. Steady new issue supply was not easily digested, and considerable selling of downgraded securities added more supply in secondary. Broker/Dealers were reluctant to provide much in the way of liquidity and retail buyers were more than happy to wait on the sidelines for better entry points. We have not found value in the longer duration conduit deals coming to market, but have found pockets of value in the floating rate space which provides some protection from interest rate shocks.



**MBS** - The Mortgage Backed Security market was volatile again in June. Typically a selloff in interest rates brings yield buyers to the table but a steady supply of paper, low liquidity, and macro concerns worked against this trend leading mortgages to underperform Treasuries for the month. While we will look for opportunities in the sector the volatility makes it a difficult place to find consistent value.

### High Yield

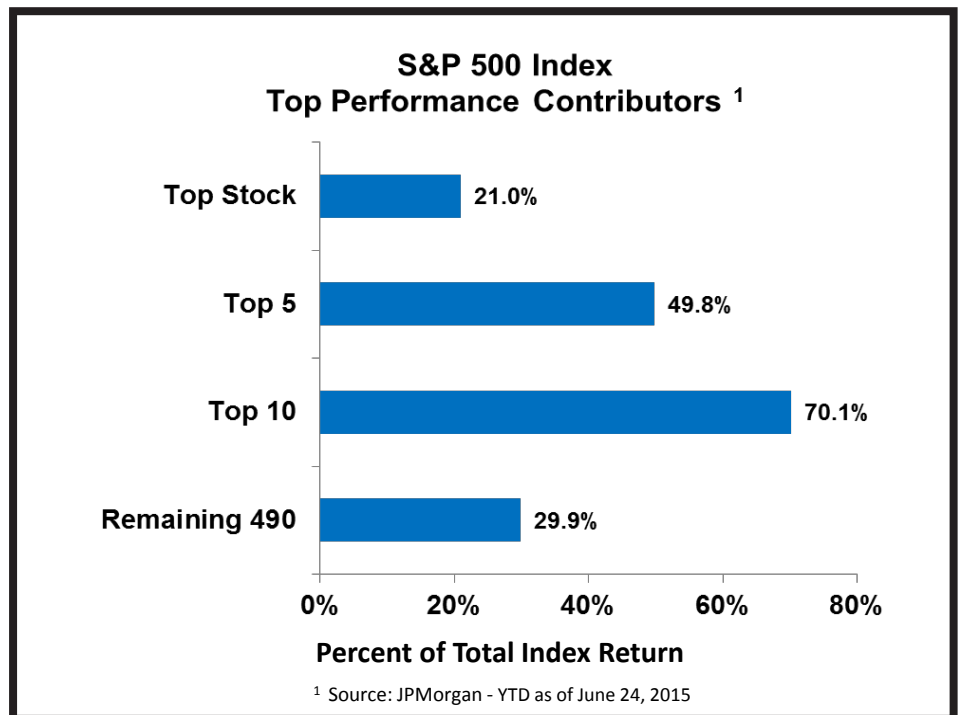
Like most markets during the month June, the High Yield sector suffered from broader macro volatility leaving most investors better sellers of risk assets. The ongoing Greek drama weighed on risk appetite, layer in further uncertainty surrounding a Puerto Rico default and investors started selling into what was already a fairly illiquid market.

The Merrill Lynch U.S. High Yield Cash Pay Index returned negative 1.53% for the month, leaving year-to-date returns at positive 2.49%. We continue to favor single B's, which outperformed during May, as they provide a yield advantage over double B's, while having less interest rate risk. In addition to a core allocation to B's we are maintaining a cash position to take advantage of volatility and more attractive valuations.

### Equities

The equity markets were volatile in June, a theme that has been seen regularly throughout this year. For the year the S&P 500 is up just 1.23%, suffering a 1.94% loss during June. While the S&P 500 Index has been stuck in a tight trading range so far in 2015, it has not prevented trading volatility, evidenced by big market moves in both directions. The global issues impacting the equity markets have generally remained the same throughout the year: Greece, Russia/ Ukraine, the Middle East, oil price volatility, sluggish first quarter earnings, and slow economic growth.

The U.S. stock market is not always what it seems. Returns this year, and for much of 2014 have been led by a small contingent of stocks. So far this year, 10 stocks have comprised over 70% of the total return of the S&P 500 Index. There are many companies whose shares' possess compelling valuations and strong growth rates that have just not appreciated in value. These are the opportunities that we search for when we perform our fundamental analysis and seek to identify companies worthy of buying for our Equity Fund. We are patient investors and believe that by investing in good quality companies that are reasonably valued, we will eventually be rewarded.



## CONTRIBUTORS

**Editor:** **Scott Mildrum, MS, Economic & Macro Strategist**

**Contributors:** **Spotlight & Macro View:** David Kilborn, CFA, CIO, Scott Mildrum, MS

**Sectors:** Jason Golder—Structured Products (ABS, CMBS, RMBS)  
 Scott McIntyre, CFA—Investment Grade Corporate Bonds  
 David Kilborn, CFA — High Yield  
 Scott Shubert — Equities  
 Scott Mildrum, MS — Asset Class Overview

## ABOUT PERFORMA

Combining our extensive knowledge of the insurance industry with the institutional expertise of our investment team, Performa has been managing assets on behalf of captive and other insurance clients for over 20 years.

Our capabilities include asset allocation and active fixed income management through diversified mutual funds or separate account portfolios. With offices in the world’s largest captive domiciles, including Bermuda, Vermont and South Carolina, we are focused on delivering customized solutions to meet the unique investment objectives and liquidity requirements of our investors.

We are 100% employee-owned and currently manage \$2.8 billion in assets worldwide. Our Investment Philosophy is value driven and long-term in nature. Whether approaching asset allocation, fixed income or equities, our ability to be nimble, contrarian and decisive sets us apart from our peers and promotes capital preservation.

## CONTACT US

### Relationship Management

Hugh Barit  
 Chairman & CEO  
 (441) 295-6754  
 hbarit@performa.bm  
 25 Church Street, 2nd Floor  
 Hamilton HM12, Bermuda

### Portfolio Management

David T. Kilborn, CFA  
 CIO & President  
 (843) 297-4130  
 dkilborn@performausa.com  
 14 North Adgers Wharf  
 Charleston, SC 29401

### Relationship Management

John James  
 Captive and Consultant Relations Mgr  
 (802) 540-1752  
 jjames@performausa.com  
 3 Main Street Suite 215  
 Burlington, VT 05401

This article is provided for general informational purposes only. The information compiled is from sources deemed to be reliable but Performa does not warrant its completeness or accuracy. Opinions, estimates and assumptions expressed herein reflect our judgment as of the date of publication and are subject to change without notice. This material should not be construed as formal investment or financial planning advice nor as a solicitation to purchase or sell specific securities or investment strategies. Investors should always seek professional financial advice regarding the appropriateness of investing in any investment strategy or security, whether discussed here, or otherwise. This material must not be distributed to any third party without prior written consent.

Any statements regarding performance may not be realized and past performance is not indicative of future results. Investors should note that the value of any investment strategy or security may fluctuate and underlying principal values may rise or fall.

Performa includes P.R.P. Performa Ltd and its US affiliate, Performa Limited (US), LLC. P.R.P. Performa Ltd. is licensed to conduct investment business by the Bermuda Monetary Authority. Performa Limited (US), LLC is an SEC registered investment advisor. This registration does not imply that the SEC or BMA has approved or disapproved of Performa’s services, products or strategies.

P.R.P. Performa is the Fund manager of the Performa High Yield Fund with Performa Limited (US), LLC and Seix Investment Advisors LLC acting as the Fund’s sub-advisors. High Yield bonds are not risk free and investment returns can vary. © 2014 Performa