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Monthly Market Perspective

May 25, 2016

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.

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Monthly Spotlight

Zombies seem to be all the rage these days. AMC's Walking Dead franchise is a moneymaker with its hit show, comic books, toys, and spinoff video games. Personally, we are not really fans of the zombie genre, but we know what they look like when it comes to investments and trends and try to avoid them religiously. The herd mentality amongst investors is common in times of extreme stress and complacency. Blindly following the consensus without much thought given to fundamentals, allows investors to hide and not risk relative losses versus their peers during periods of volatility. There is a common characterization that investors can behave like lemmings at times, but we prefer the zombie label in this environment.

Our focus this year has been on the current and future effects of over seven years of extraordinarily easy global monetary policy on both financial markets and business cycles. Of particular interest is the current transition phase as we move into the tightening side of the cycle. This transition phase began in the summer of 2015. Led by the U.S. Federal Reserve, we believe it could last for another year or even longer as other, lagging countries find their economic footing.

Transition phases are usually uncertain and volatile – basically an uncomfortable state. It would not surprise us to see more of the quick, mini meltdowns and recovery spasms we experienced last August to September and this January through February. These types of market gyrations are beyond the typical herd mentality and appear zombie-like. The beginning of indiscriminate selling is becoming less about a fundamental factor and more about general fear that reaches a crescendo purely from some small spark. The manic buying that ensues just weeks later also appears driven by fear: fear of missing out as the zombies chase the few rationale investors who dipped their toes back in the water.

Buying when others are panic selling can be rewarding. Unfortunately, in this zombie investor apocalypse, one needs to have a stash of cash at the ready to take advantage of these market spasms. The selloffs are too rapid and illiquid to attempt to raise money at the same time while the bottoms are but a blip on a screen.

Fear, like zombies, is destructive over time. The second component mentioned above argues for extended patience for those making economic or investing decisions. The effect of global easy money has stretched the current business cycle like an accordion. Our view is that this cycle could likely last closer to 10-12 years (out to 2020-2022). Many policymakers, economists, and investors have been impatient with the low, muted growth seen both domestically and abroad.

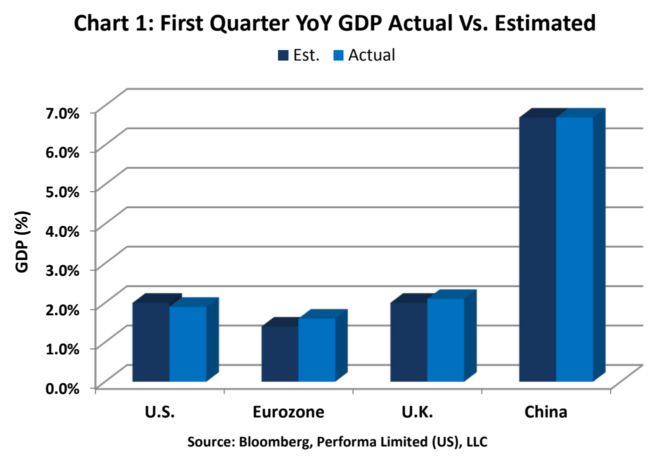
Year	GDP Growth Rate
2010	2.3%
2011	1.6%
2012	2.2%
2013	1.5%
2014	2.4%
2015	2.4%
Average	2.1%

Source: Bloomberg, Performa Limited (US), LLC

Many believe that "good" growth over a normal cycle is around 3.5% annually. For a five-year business cycle, that translates to compounded absolute growth of around 19%. Stretch the cycle to 10 years (but keep the absolute 19% growth rate constant) and it equates to +1.75% per year. That number is awfully close to the actual 2.1% annual rate the U.S. has gained from the end of 2009 through 2015.

2016 Growth

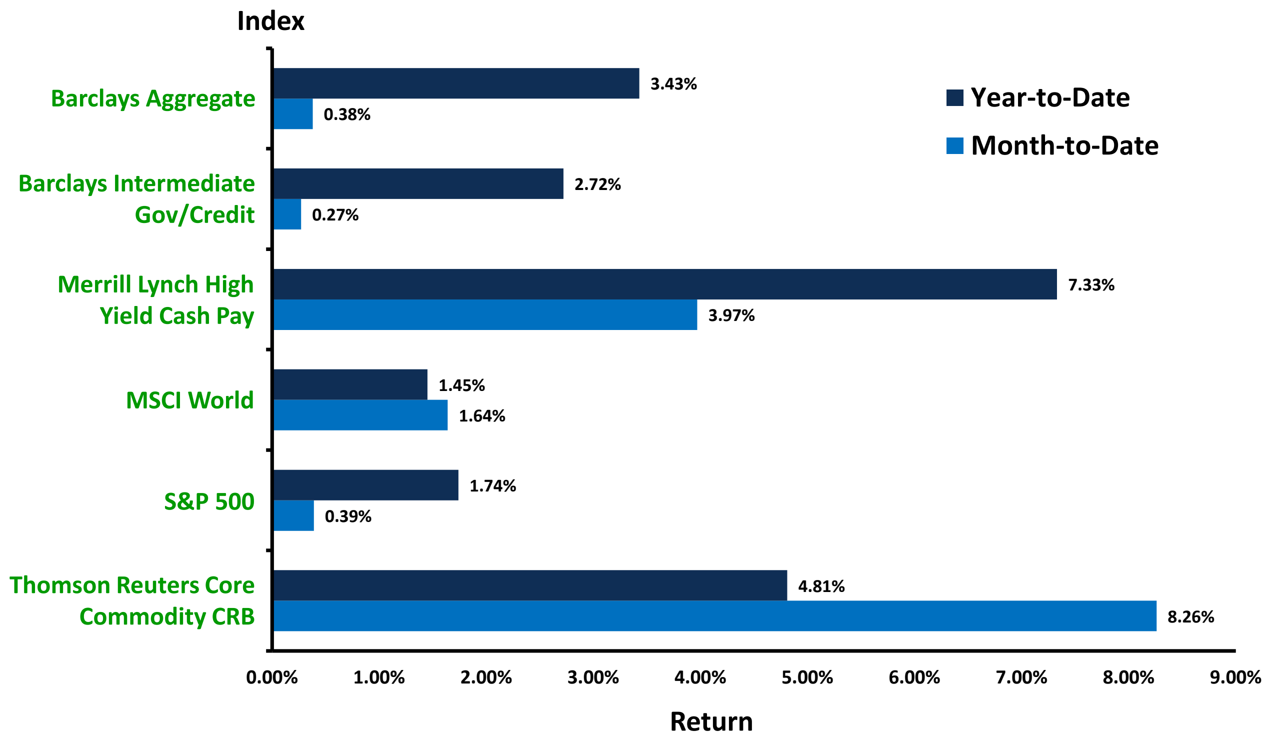
Initial estimates of first quarter economic growth have filtered in and one thing is clear, global growth is off to yet another sluggish start in 2016 (Chart 1).



Forecasts have been modestly downgraded, leaving full-year outlooks for global economic growth slightly lower. While a listless first quarter doesn't spell doom and gloom for full-year growth prospects, it does raise the almost yearly questioning of underlying momentum in the global economy. Looking ahead, as edgy market participants begin to re-engage with economic fundamentals, incoming data will be analyzed with intense rigor attempting to extract clues as to what the rest of the year holds. So far, second quarter economic data is indicating a healthy bounce in activity as we head into the back half of 2016.

Asset Class Overview

As unconventional as it is, stock and bond prices moved higher in April as dovish global monetary policy supported both markets. The bond market continued to benefit from easy central bank policies as well as lingering global growth concerns that provided an additional bid for safe haven bonds. The Barclays Aggregate Index, a measure of the broad investment grade bond universe, returned a positive 0.38% for the month (positive 3.43% year-to-date). Commodity prices enjoyed their best month of the year, with the Thomson Reuters Core Commodity Index returning a positive 8.26% for the month (positive 4.81% year-to-date). Global equities played catchup during April, outperforming domestic markets by more than one percent. Meanwhile, the high yield bond market continued its impressive streak returning almost 4.0% for the month, according to the Merrill Lynch US Cash Pay High Yield Index, pushing year-to-date returns north of 7.0%.



Source: Barclays, Bloomberg, Performa Limited (US), LLC, Gross Index Returns

CONTRIBUTORS

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

Contributors: **Spotlight & Asset Class Overview:** David Kilborn, CFA, CIO, Scott Mildrum, MS

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, active fixed income and equity 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 over $3 billion in assets worldwide representing more than 65 captive client relationships as of April 30, 2016. 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 Mngr.
(802) 540-1752
jjames@performausa.com
3 Main Street Suite 215
Burlington, VT 05401