May 2016: Portfolio Review & Outlook

Global markets were relatively flat in May. In the U.S., markets continued to stabilize, sustaining the trend witnessed in March and April. Foreign markets were mixed during the month as growth continued to slow in China and investors became increasingly concerned with Britain's potential exit from the European Union ("Brexit"). Commodities were mostly flat for the month as measured by the Bloomberg Commodity Index (-0.2%). Positive returns from energy offset negative returns from other subsectors within the index. Within energy, oil prices continued to rise as forest fires in British Columbia prompted the shutdown of nearly 40% of the regions oil sands production, leading to a significant decrease in oil production. Oil returned (+5.2%) as measured by West Texas Intermediate Crude. Noteworthy domestic asset class performance during the month included equities and real estate which outperformed their foreign counterparts. The measurements used for comparison were: the S&P 500 Index (+1.8%), MSCI ACWI ex U.S. (-1.7%), the Dow Jones U.S. Select REIT Index (+2.0%) and the S&P Global ex-U.S. Property Index (-2.5%). Within fixed income, U.S. Government bonds outperformed foreign developed and emerging market bonds. Also in the U.S., high-yield bonds performed in line with their investment grade counterparts. Despite weak performance for the month of May, year-to-date commodities and foreign bonds have outperformed U.S. stocks, U.S. REITs, and U.S. investment grade bonds.

Performance Summary

- Our Risk Regime portfolios maintained a growth-oriented neutral stance for most of May while our measures confirmed that market conditions were in fact improving. As it became clear that conditions had improved, we reduced our allocation to global bonds and increased our allocation to growth assets. In our view the near-term risk of a significant market downturn is minimal.
- Strong performance during the month was largely due to our allocation to U.S. equities. Although the threat of a rate hike loomed over U.S. markets, strong economic data and growth pushed equities higher. Other contributors during the month included allocations to developed market foreign equities, commodities, and REITs.
- Our allocation to international treasury bonds detracted from returns during the month.

Positioning & Outlook

Global uncertainty will cause volatility levels to remain at their long-term average as we move into the summer months. After a weaker-than-expected jobs report was issued early in June, the probability of a rate hike in the U.S. has been drastically reduced. Uncertainty surrounding the outcome of the Brexit vote on June 23rd has already begun to weigh on foreign markets and a vote to exit, in our view, would have negative effects on the European Union. Despite the current level of volatility, we are seeing fundamentals continue to drive asset prices which bodes well for undervalued growth assets. Currently, we see the most opportunity for growth outside the U.S. and favor emerging market assets relative to their developed market counterparts. Within fixed income, we favor U.S. short-duration debt over intermediate and long-duration debt. We maintain an allocation to short-term U.S. bonds and foreign government bonds to provide stability to our portfolios. This capital can be reallocated to growth assets in the event market conditions continue to improve. Consequentially, we expect to remain slightly overweight growth assets relative to our benchmark throughout June, with a slight chance of increasing allocations to risky assets later in the month.

Disclosures

The information contained in this presentation (the "Presentation") is highly confidential and is not to be reproduced or distributed to any other persons (other than professional advisors of the investors receiving these materials). The Presentation is intended solely for the use of the persons to whom it has been delivered. This Presentation has been prepared solely for informational purposes. The Presentation is not intended to provide professional or investment advice, and you are advised to seek independent professional advice prior to investing in any products or strategies described in the Presentation or recommended by Windham Capital Management, LLC. In addition, this Presentation is neither an offer to buy or sell any securities, nor a solicitation of an offer to buy or sell interests or shares in any fund or strategy.

Opinions expressed are current opinions as of the date appearing in this material only.

Windham Capital Management, LLC owns trademark and other intellectual property rights contained in this Presentation. You are prohibited from copying, reproducing, modifying, or distributing in any way the contents or any part of this Presentation for any purpose without our prior written consent.

Windham Capital Management, LLC does not intend for the information contained in this Presentation to be distributed to, or used by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or would subject Windham to any registration requirement within such jurisdiction or country.

Additional information is available upon request. Windham Capital Management, LLC and its owners disclaim any and all liability relating to this Presentation, including without limitation any express or implied representations or warranties for statements contained in, and omissions from, this information. Windham's Investment products are offered exclusively by Windham.