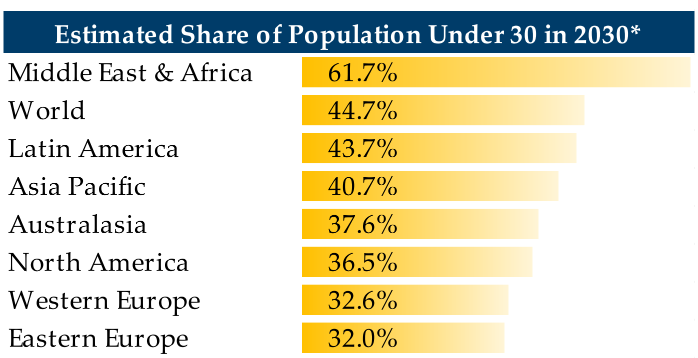
"Democracy cannot succeed unless those who express their choice are prepared to choose wisely. The real safeguard of democracy, therefore, is education."
-Franklin D. Roosevelt

Third Quarter 2016 Update

Clearly, the year of 2016 will not go down as a high point in the history of American democracy with voters compelled to choose between two candidates with undeniable blemishes. Given the current state of affairs in the U.S., we have decided to look abroad this quarter. Specifically, we examine emerging markets as an asset class and highlight where it may fit in an investor's long term asset allocation.

While emerging markets are further out on the risk spectrum, they are definitely an area where a skilled manager can add value to a portfolio when the risk is sized appropriately. From a macro perspective, emerging markets have an advantage over developed economies that will not change for the foreseeable future: Demographics.

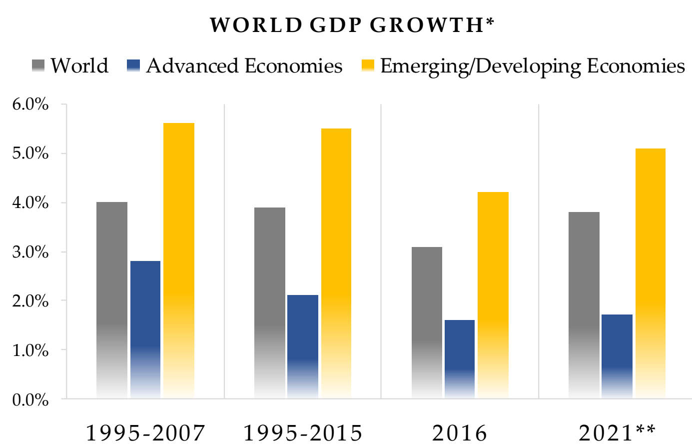


*Euromonitor International

Much has been made about developed markets' low growth environment since the financial crisis. While economic weakness, aggressive regulation and other factors have been headwinds, the fact is that developed markets are aging. This challenges productivity growth, which is the fuel an economy needs to get into high gear. For instance, an aging population consumes less, saves more and reduces the workforce. The key barrier to economic expansion is a shrinking working age population supporting and expanding pool of retirees. In countries with generous public retirement benefits and declining birth rates (aka Europe), achieving any significant growth will be very difficult.

On the flip side, many emerging market economies have fairly young labor forces and relatively manageable structural reforms that can be implemented to unlock their hidden potential.

This demographic advantage leads to a meaningful growth differential relative to developed market economies. Since these trends are not going to reverse anytime soon, we would expect this differential to persist and even expand in the years to come.



* IMF, October 2016 World Economic Outlook ** Projected

Valuations for emerging market equities have traded at a persistent discount relative to the U.S. and other developed market equities. To be fair, there are a

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number of reasons for an emerging market stock to trade at a discount to a developed market peer (enforceability of contracts, political risk, regulation, etc.). However, given the current state of affairs in the U.S., one could argue for this difference to narrow given the political discord here and aggressive regulatory environment post the financial crisis. Furthermore, each country varies across the continuum of these factors. Thus, emerging markets should not be generalized, but assessed on a country/regional basis.

Another factor that could lead to a narrowing of valuations is that emerging markets are a much more credit worthy universe than they were 10-15 years ago and developed markets have become less credit worthy. While weakness in the commodity markets has caused credit quality to dip recently, the average credit rating for JP Morgan's Emerging Market Bond index has improved significantly over the last 10-15 years. This is partially attributable to structural reforms put in place to make emerging economies more market driven, which includes moving to a free floating currency. Dating to the Asian credit crisis in the late 1990's, many emerging market countries have learned that a long term peg to the U.S. dollar is untenable.

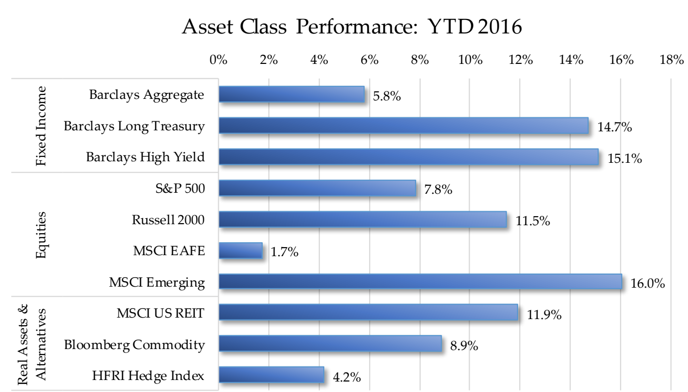
Disciplina's Emerging Markets Approach

Disciplina's investment team has developed relationships and allocated capital to emerging and frontier market investment managers for many years. Given the varied nature of these markets, governments, local cultures and respective economies, Disciplina primarily invests with research and portfolio management teams located in their respective countries or regions. These managers focus on domestic opportunities such as consumer focused retail, finance, healthcare, education and tourism. This is preferred to local multi-national companies that are more subject to global macro pressures. We also believe local managers are better equipped to take advantage of local trends, opportunities and informational asymmetries.

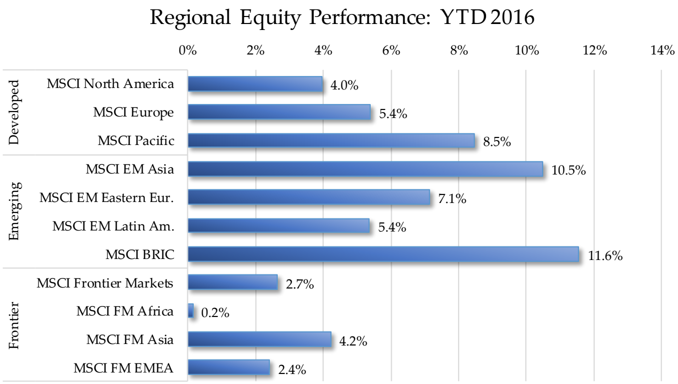
Admittedly, emerging markets are not for the faint of heart given their history of boom and bust; however, long-term demographic tailwinds should not be ignored. Therefore, a portfolio that includes moderate allocations to local emerging market managers, managed with a keen understanding of the underlying risk exposure of these managers may provide the answer for enhancing overall portfolio returns.

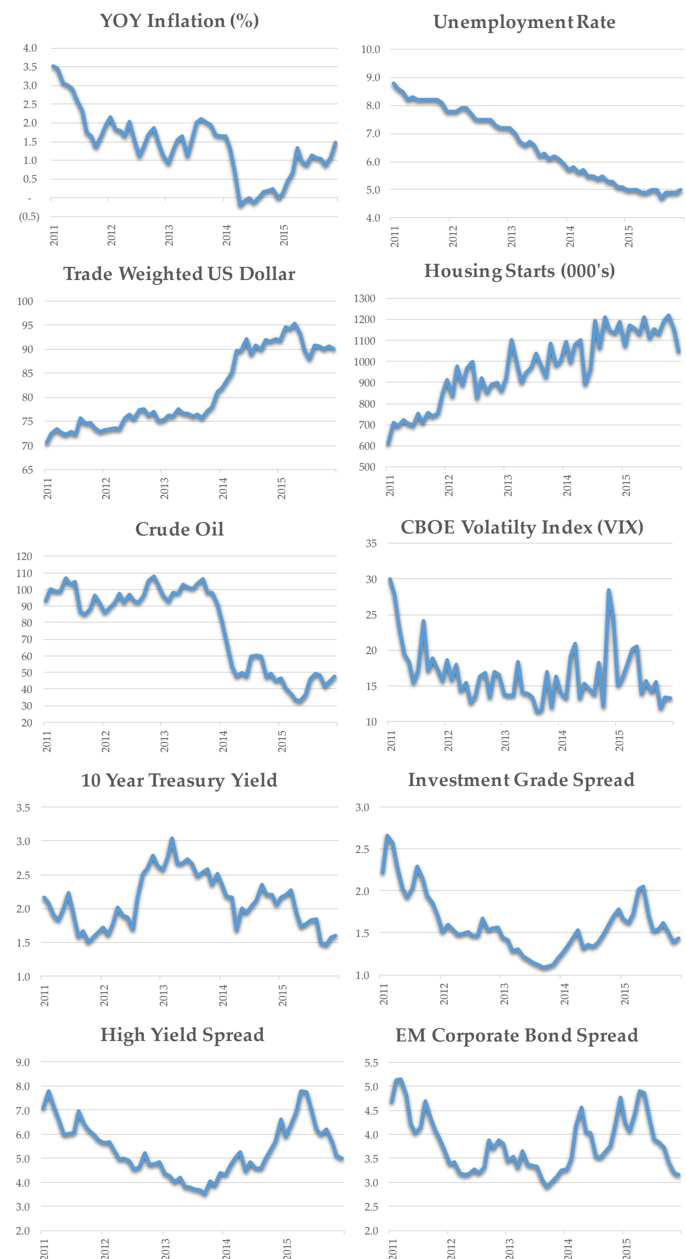
Market Update

Through September 2016, all major market indices are positive year to date with emerging market equities outperforming developed market equities. Despite turbulence at the start of the year, high yield fixed income and commodities have performed well, gaining 15.1% and 8.9%, respectively. Hedge funds have gained 4.2% year to date, already outperforming their prior two full calendar year returns.



Regionally, U.S. equity markets have underperformed Pacific and European markets. Most emerging market countries have experienced double digit gains, particularly Brazil (+63%) and Russia (+31%). Frontier markets have gained value (+2.7%), but have been held in check by Nigeria thus far.





* Sources: BofA Merrill Lynch; US Departments of Labor, Commerce & Energy; CBOE; Federal Reserve Bank of St. Louis, Board of Governors of the Federal Reserve System

Firm Update

2016 has proven to be a very busy and fortuitous year for Disciplina. We are proud to report that the median return for our endowment clients was +1.6% for the fiscal year ending June 30, 2016. Based upon preliminary results, this places our clients in the top 5th percentile of college and university endowments for the period.

After extensive planning and development, the commercial launch of the IRIS (Investment Risk Information System) technology solution was initiated last quarter. Developed by Disciplina Group, in strategic partnership with Vanderbilt University, IRIS provides an integrated portfolio management solution for multi-asset and multi-manager portfolios, delivering extensive accounting, reporting and risk mitigation functionality. Please contact Rigved Joshi (rpjoshi@disciplina.com) if you would like additional information on the system.

Finally, we recently moved offices. Please note our new address at the bottom of the page.

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