

an excerpt from

the 9:05

Bailard's Quarterly Review of Economic and Market Developments*

Q1 2017

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Q & A

with our

REAL ESTATE TEAM

Risks and Opportunities in Today's Real Estate Market



Executive Vice President of Real Estate Preston Sargent is joined by fellow investment managers Tess Gruenstein and James Pinkerton in a chat about some issues investors are grappling with as concern rises that real estate is in the late expansion stage of its cycle.

James, do you believe history repeats itself and that investors' "late-in-the-cycle" concerns are warranted?

History does not repeat itself, but it does "echo". Real estate fundamentals ebb and flow with the economy and react to capital flows as investors reallocate across asset classes based upon various economic, social and political stimuli. While numerous lessons are learned (and re-learned) each real estate cycle, the market tends to have "short-term memory" problems that cause investors to repeat some of the same mistakes, such as expecting boom times to continue unimpeded into the future. We know, based upon experience and intuition, that trees do not grow to the sky and that prudent investors must exercise ever greater caution and discipline the longer the cycle persists. It is inevitable there will be a downturn, but the timing and depth are impossible to predict. Navigating the later stages of a

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cycle requires diligence and a focus on building “shock absorbers” into portfolios via robust and thoughtful geographic, property type, economic-driver, tenancy and life-cycle diversification, coupled with the measured and careful use of leverage.

Preston, what impact do you think President Trump is having so far? What are the mid to longer term implications of some of his policy prescriptions?

Although the stock market hit all-time highs during the first quarter of 2017 and then retreated a bit before quarter-end based upon a variety of quantitative and qualitative factors, to date the real estate market has been relatively unaffected by the change in administrations. Investor confidence has remained strong, and both domestic and foreign capital has continued to pour into U.S. real estate. If implemented thoughtfully, some of President Trump’s policies relating to tax reform, regulatory roll-back and infrastructure investment/spending could have a profound stimulative effect and lead to a further strengthening of the U.S. economy which, in turn, would fuel job growth, tenant demand, business investment, consumer activity, investor confidence, rising rents, and increasing occupancies and property values. That said, there is still a lot of uncertainty about President Trump’s ability to effectively govern and implement his pro-business agenda. It is still too early to tell. For the time being, we believe it is “steady as she goes”.

James, are there any property types and/or geographic niches that offer better relative value today given where we are in the cycle?

Definitely. Steering clear of the “herd” presents opportunity. With large institutional investors continuing to chase “trophy” assets in a small handful of “global gateway” markets, there are a number of other metropolitan areas with sound fundamentals, strong pro-business cultures, excellent economic and job growth drivers (tech, education, health care), and high qualities of life where interesting opportunities provide prospects for solid/durable income and growth. These markets, many of which are over-looked and/or “under-loved”, offer outstanding relative value ... including, but not limited to, the following: Atlanta, Raleigh-Durham, Charlotte, Philadelphia, Pittsburgh, Kansas City, Minneapolis, St. Louis, Milwaukee, Salt Lake City, Dallas, San Antonio, Phoenix and Portland.

Tess, are there any markets that are particularly vulnerable given where we are in the cycle?

Markets that have enjoyed unprecedented attention from the largest institutional investors with the biggest appetites for product, least tolerance for risk and lowest cost of capital, as well as markets that are in the

midst of office and multifamily building booms (i.e., the Central Business Districts (CBD’s) of Seattle, Chicago, New York, Boston, Washington, D.C., San Francisco, Denver and the west side of Los Angeles) are certainly vulnerable in the event of an economic downturn. Why? Because since about 2013, frenzied buyers in those markets have bid up pricing to historical highs and yields down to historical lows. In the abstract, those data points don’t portend vulnerability, except that the prices at which most of the large core properties have traded (and/or are being valued) are substantial premiums (30% to 50%) to replacement cost. Replacement cost is an important barometer because it is the price which “invites” or even encourages new supply/competition. When the economy is growing and producing jobs, generating new households, fueling optimism and putting more money in consumer’s pockets, new supply is necessary to satisfy demand and keep rents affordable. However, when the economy slows, stops or even goes in reverse, as it inevitably does, those markets that are still adding space will suffer supply “overhangs” that can have a devastating impact on property owners and lenders.

Similarly, Tess, are there any property types that are particularly vulnerable given where we are in the cycle?

In general, multifamily properties in a variety of CBD’s, urban in-fill nodes and some dense/connected suburban locales; close-in industrial warehouse/distribution properties; core*/uber-core CBD office; and, finally, medical office properties have all been very much “in favor” this cycle. As a result, prices for these types of properties have been bid-up to historic highs. These assets are all currently priced (valued) “to perfection”. This is all well and good as long as the economy continues to grow. When it slows or stops, the foregoing property types will likely suffer the largest declines simply because they are currently held at the loftiest values. As they say, “the higher something flies, the further it has to fall.”

Preston, in light of where we are at this point of the cycle, could you discuss some of the pros and cons of closed-end fund structures vis-à-vis open-end fund structures?

To answer this question, let’s start with some definitions. In a closed-end fund structure, the pooled fund is intended to last a fixed number of years and investors are generally not allowed to make withdrawals or additional capital contributions during the life of the fund. Open-end fund structures, by contrast, do not have fixed terms and generally offer investors the potential

“The higher something flies, the further it has to fall.”

(subject to liquidity and other constraints) of making withdrawals or additional capital contributions at regular intervals.

As long as an open-end fund is prudently managed and assets are not over-leveraged, the fund potentially has the ability to hang on to each and every asset until “the time is right”. Every investment has a business plan, and an estimated time frame to complete the plan and corresponding “hold period” to seek to maximize returns and minimize risks for the fund. However, all sorts of macro and micro economic and political factors can intervene to upset the plan and fund management’s expectations. An open-end fund generally can stay the course and continue to hold through a down cycle an asset which it believes requires more time to reach optimization in order to maximize cash flow and/or exit valuations. This is strongly to an investor’s benefit. Closed-end funds do not necessarily have the ability to wait for the economy to rebound or debt markets to settle down or lease-up strategies to come to fruition because of myriad unforeseeable events that conspire to take an investment off course. As a result, open-end fund managers have substantially more flexibility than closed-end fund operators who have to get both the real estate and the timing “just right”.

Another important factor/differentiator relates to investor control. As noted above, in a closed-end fund, the investor's equity is “trapped” within the fund structure without any potential for withdrawal. An open-end structure provides an opportunity for an investor to continually reassess his/her risk tolerance and asset allocation strategy in conjunction with the fund manager’s performance, with the potential to increase or decrease his or her exposure to the open-end fund on a periodic basis. This kind of flexibility, transparency and potential liquidity is unique to the open-end fund structure in the real estate world, especially given the cyclicity of the asset class.

Finally, Tess, given the extended recovery and where prices are today, is it possible that core strategies could have more downside risk than other real estate strategies over the next three to five years? Why? Why not?

We have beaten this drum repeatedly over the past eighteen months or so as the large institutional investors (pension fund advisors, sovereign wealth funds, ultra-high net worth families and individuals and real estate investment trusts) have sought to acquire the largest and highest profile “uber-core” assets in a small number of global gateway markets. They are purchasing these assets at record prices (high price per square foot and low yield). Their investment thesis is simple: because these assets are leased to high-quality credit-worthy tenants, are exceptionally well located and are of the highest quality (design, construction,

We remain cautious and vigilant about the need to prudently evaluate risk.

amenitization), they are safe stores of wealth, offering stability, a reasonable yield and, because of their attributes, reasonable liquidity in the event of a downturn. All correct.

Unfortunately, there’s a catch. As with any investment, there’s a price at which that asset is a good value and a price at which the return doesn’t compensate for the risk. An equities market analogy is apt: recall the “nifty fifty” stocks of the 1960s and early 1970s? These were all great companies with excellent leadership, strong franchises and outstanding prospects for growth. The problem was that later-stage investors in those stocks “bought into” the thesis without regard to price. And they got crushed. It’s a similar phenomenon with core properties. It’s all good as long as the economy is rumbling along ... until it stops. We are beginning to see the early signs of the bloom coming off the “core rose” ... and, because of the prices that late cycle investors paid for those assets, they potentially have a long way to fall if the market regresses to the mean.

The current recovery (92 months old!), in its eighth year, is already 34 months longer than the post-WWII average of 58 months and may end up being the longest expansion in U.S. history. We remain cautious and vigilant about the need to prudently evaluate risk even more carefully this late in the cycle.

*Core refers to high quality, well-located properties that are leased to high quality tenants. These properties tend to be popular with investors who favor income over appreciation.

U.S. ECONOMY

Slow Growth Will Likely Continue Despite Initial Enthusiasm for Proposed Policy Changes

After expanding at a 3.5% rate in the third quarter of 2016, the U.S. economy, as expected, settled back on the slow growth path for the remainder of last year. GDP rose an upwardly revised 2.1% in the fourth quarter of 2016. Since 2010, growth has averaged only 1.9% per year.

Hard Data Still Pointing to Slower Growth

According to the Atlanta Fed GDPNow Model, U.S. economic growth has decelerated further since the end of 2016. As of April 4th, the model was projecting only 1.2% GDP growth for the first quarter of this year. Since real personal income has been growing at a 2% rate, real consumption is likely to remain muted unless consumers finance additional spending by incurring more debt or by reducing savings. Housing has held up relatively well given the back up in mortgage rates. Typically, the housing market's initial reaction to rising rates is a flurry of activity to avoid even higher interest rates in the future. We saw such a flurry in the fourth quarter, but now sales appear to have topped out. New home sales, existing home sales and pending home sales were all relatively flat over the last year. Capital spending has also been relatively flat, as corporations have continued to buy back shares and increase dividends at the expense of capital expansion and future growth. The trade deficit has been deteriorating due to soft global growth and the impact of dollar strength on exports and imports. An expanding trade deficit is a drag on growth. Although inventories remain relatively high compared to sales, this ratio has improved as the inventory overhang has been reduced. Nevertheless, inventories will likely need to be reduced further before the inventory-to-sales ratio returns to more normal levels.

In contrast to the lackluster "hard" economic data, post-election surveys have shown a significant uptick in consumer and corporate confidence. This "soft" data has reflected optimism that Trump's pro-business policies may lead to improved economic growth. Up until Congress's recent failure to pass an Obamacare "repeal and replace" program, the U.S. financial markets had been betting on a Trump growth/reflation scenario

with higher equity and lower bond prices. When the "repeal and replace" bill died, U.S. stocks initially sold off and bonds rallied.

The bill's failure shows how difficult it will be for the Trump administration to shepherd legislation past a fractious Republican Party and a virulent opposition Democrat party. It also reveals a basic truth: once an entitlement is created with millions of beneficiaries, it becomes extremely difficult to repeal. As Ronald Reagan once quipped, "A government bureau is the nearest thing to eternal life we'll see on this earth." Although it is easy for politicians to hand out benefits financed by increasing debt, it is politically difficult to take entitlements away.

Impact of Failure to Repeal Obamacare

In the aftermath of the failed Obamacare repeal, Congress is pivoting to other fiscal policy measures, including tax reductions, other tax reforms, regulatory reform, more infrastructure spending, incentives to repatriate foreign capital and measures to rebalance trade. Each of these policy proposals faces its own challenges.

Comprehensive tax reform will very likely face a number of significant obstacles. The Republican leadership in Congress was counting on reduced Obamacare expenditures in the out years to help fund infrastructure spending and tax cuts. The failure to repeal Obamacare put a big hole in these plans. Tax cuts are usually a reliable way to get stronger underlying growth. However, due to the extremely high debt level and historically low interest rates, unless tax cuts are offset by expenditure cuts, we believe higher debt levels will have a deleterious impact on growth.

2.1%
fourth quarter
real GDP growth.

The bill's failure shows how difficult it will be to shepherd legislation past a fractious Republican Party and a virulent opposition Democratic Party.

Deficit hawks are also likely to push for revenue neutrality. This could be another point of conflict within the Republican Party that impedes the passage of tax reform measures.

Obstacles Facing Other Proposed Policy Changes

Infrastructure spending, like all spending, should be easier to get through Congress due to its popularity with establishment politicians on both sides of the aisle. There may not be enough deficit hawks in Congress or enough reductions in discretionary spending to ensure revenue neutrality. Without offsets to the increased spending, history suggests it may not lead to higher growth rates. As an example, look to Japan's lost decades of growth, when that government's debt exploded from 69% of GDP in 1997 to 198% in the third quarter of 2016. Over that time, nominal GDP in Japan has remained roughly unchanged.

Tax repatriation may not have the hoped for impact of returning capital to the U.S. and boosting capital spending. Approximately \$2.5 to \$3 trillion in foreign held profits potentially could be returned to the U.S. The current plan is to tax all foreign-held profits at 10%, even if only a small portion is repatriated. This all or none provision could make corporations reluctant to repatriate. Even if funds are repatriated, it is not clear whether they will be used for capital expenditures. When this was last tried, albeit on a smaller scale, in 2005 to 2006, repatriated funds were used to finance dividends and share buybacks, with little impact on capital spending. This helped the financial markets but not economic growth. Moreover, since corporations have plenty of liquidity and are doing little capital spending, it may be that there is currently little need for more capital expenditures. Another possible negative to growth from repatriation is that the conversion of cash to dollars could strengthen the U.S.'s currency and make American producers less competitive.

International trade actions are fraught with risk. Proposals to cut the trade deficit by tariffs or a border adjustment tax would likely result in higher prices and lower real GDP growth. Reducing the corporate tax on U.S. producers could also address the trade deficit problem by improving the competitive position of American businesses. However, if a heavy handed approach to foreign producers is taken global, there is a big risk of retaliation and a further slowing in world trade.

Regulatory reform could create increased energy production, which could help economic activity. The same would be true in other sectors of the economy where bureaucracy and regulations are rolled back. Regulatory reform acts to increase supply, which lowers inflation and boosts economic activity. We believe regulatory

reform is unambiguously the most positive aspect of the proposed future policy changes, but any reform will likely hit up against a firmly entrenched bureaucracy, as well as potential lawsuits and other opposition from the Democratic party.

Other Drags on Growth

Bullish market participants who are relying on these measures to spark economic growth are likely to be disappointed, even assuming the proposals get adopted. Since 2008, the U.S. financial markets have had initially highly favorable market reactions to several major policy initiatives that were designed to rekindle growth. Yet, the 2009 fiscal stimulus package, Quantitative Easing 1 and Quantitative Easing 2 all failed to trigger the above-trend growth characteristic of typical recoveries.

As we have pointed out consistently throughout this recovery, a number of underlying long-term trends are working against growth. From a demographic perspective, the aging of the American workforce is likely to lead to lower wage growth and productivity. Moreover, the U.S.'s debt problem has not gone away. The federal government's debt has doubled to \$20 trillion over the last eight years. There is too much debt and we are getting less "bang for the buck" from this debt. In the 1950s a dollar of debt created \$0.80 of GDP growth; by year-end 2016, a dollar of debt generated only \$0.40 of growth. The debt is also borrowing from future demand and future growth. Finally, the present value of unfunded federal government entitlement liabilities is estimated at between \$100 and \$200 trillion. Without entitlement reform, eventually these liabilities will come due. Since only about 15% of the federal budget is allocated to discretionary spending, there is little spending left to cut to cover any entitlement program shortfalls. Unfortunately, outside of the Obamacare reform debate, politicians on both sides of the aisle have shown little interest in dealing with entitlement reform.

Slow Growth Still Most Likely Path

To summarize, while the financial markets and soft data have been discounting a growth resurgence, so far there has been little follow through in the hard data. This divergence cannot continue indefinitely. We believe the U.S. is most likely to stay on the slow growth path due to the obstacles facing the proposed policy changes and to the long-term drags on the economy.

Infrastructure spending should be easier to get through Congress.

FIXED INCOME

Bond Markets Stabilized During the First Quarter

Interest rates churned in a narrow range over the first quarter of 2017 as investors re-evaluated how successful President Trump might be in implementing his promised campaign policies. After Trump's Presidential victory at the end of last year, interest rates rose dramatically. Investors were reacting to the belief that most of Trump's proposed policies would likely stimulate economic growth and inflation. After starting 2017 at levels not seen since 2014, ten-year U.S. Treasury yields fluctuated between 2.3% and 2.6% over the first quarter. Interest rates on bonds with short-dated maturities rose slightly more than longer-dated rates as investors anticipated a rising Federal Funds rate.

The Barclay's U.S. Aggregate Bond index (a broadly diversified index which includes Treasuries, agencies, corporates and mortgage-backed securities) increased 0.82% over the first quarter. The BofA Merrill Lynch 1-10 Year U.S. Corporate index returned 1.26% for the quarter as corporate yields continued to trade at narrow spreads over Treasuries. Municipal bonds started the year at attractive levels relative to taxable bonds, as investors focused on possible future tax cuts and heavier municipal supply due to Trump's infrastructure plans. Municipal bonds richened over the quarter; the Barclay's 1-15 Year Municipal Blend index gained 1.55% for the three months.

Federal Reserve Monetary Policy

In March, the Fed raised the Federal Funds rate for the third time since 2006. The 0.25% rate increase was widely anticipated by the market. Interest rates actually declined when the rate increase was announced, as the Fed notes showed that the central bank remained cautious about raising rates too quickly. Two additional Funds rate hikes are expected this year, with more to come in 2018. With real GDP growing at a slow pace and unemployment remaining below 5%, the Fed would prefer to move the Funds rate up further from zero. The critical variable which might cause the Fed to pause is inflation. The Core Personal Consumption Expenditure index remains below the Fed's desired 2% goal.

Bond Market Recap

Many of Trump's espoused policies have the potential to increase economic growth at the cost of potentially

reducing government revenues by staggering amounts. The Committee for a Responsible Federal Budget has estimated that Trump's tax plan would add over \$5 trillion to the national debt over ten years. This would lead to higher federal deficits and the need for increased debt issuance at a time when the U.S. is already in Emergency Spending Measures due to breaching the \$20.1 trillion Federal debt ceiling. It is currently estimated that the Treasury can use these extraordinary measures to prevent the U.S. from defaulting on its debt through October or November. However, Congress and the White House will need to work together to determine how to resolve this very large problem.

Municipal issuance may increase under Trump's plans. New types of municipal bonds may be created to fund his huge infrastructure programs. Trump's policies may have the opposite impact on corporate debt issuance, as his tax reform may either: 1) eliminate the tax deduction from debt financing; or 2) give companies the option of keeping the deduction or choosing immediate expensing of investments. Trump's plan to reduce taxes on cash that companies hold overseas and repatriate to the U.S. may further reduce the need of some companies to borrow funds. Some analysts are estimating that these changes could reduce corporate debt issuance by as much as one third.

Puerto Rico is still struggling to deal with its debt issues. Municipal investors and insurance companies have stated that they believe the Puerto Rico Oversight Board's fiscal plan breaks the law by ignoring creditors' rights. The current fiscal plan maintains some services while simultaneously limiting debt and interest payments to less than 25% of that owed over the next ten years. Creditors have argued that the plan is giving preference to providing non-essential services over paying back the debt.

Bond Market Outlook

Despite higher hoped-for U.S. economic growth under the Trump Presidency, we believe weak global growth and inflation should keep a lid on the absolute level of rates. With so many foreign sovereign bonds trading at negative yield levels, demand for U.S. bonds should remain high. This should help keep absolute U.S. interest rates close to current levels.

DOMESTIC EQUITIES

U.S. Stocks Posted Robust Gains Despite Stretched Valuations

The first quarter of 2017 was another strong one for much of the U.S. stock market, as the S&P 500 index returned 6.1% and the S&P North American Tech index gained an impressive 12.1%. Small cap equities in general and small value in particular couldn't keep up: the Morningstar U.S. Small Value index returned only 1.5%. We believe this quarter's smaller company underperformance can be largely attributed to small cap's massive outperformance in 2016. Just as technology stocks took a breather in the fourth quarter of 2016 after an impressive run, it appears that many small cap investors decided to sit out the first quarter and consolidate recent gains.

U.S. equity valuations have become quite stretched as the market has continued to rise. Few would dispute that the stock market is in a riskier than normal position, but does that mean that a correction is imminent? To answer that question, a look at history and human nature may provide some perspective.

The Importance of Emotions in Explaining Investor Behavior

The first known appearance of the observation “omnia vincit amor” was by the Roman poet Virgil over 2,000 years ago in his work, *The Eclogues*. Other than the Latin scholars among us, few are familiar with the phrase, but most know its English translation, “love conquers all”. The sentiment conveyed is both timeless and appealing, because it helps to explain the otherwise inexplicable. As long as opposites have attracted, people close to them have wondered, “What do they see in each other? They appear to have nothing in common.”

Recent surveys of long-married spouses suggest that love in fact does conquer all, at least for a while. Although love may last a lifetime for the fortunate, the initial swell of romantic love tends to taper off with time. In the long run, research indicates that what keeps couples together is compatibility driven in large part by similarity in values, tastes, emotional stability and outlooks.

What does love conquering all have to do with the stock market? When it comes to stocks, emotions conquer all, at least in the short run. Sentiment often drives stock prices far above or below the best available estimates of their intrinsic value.

Analyzing Past Periods of Overvaluations

Looking at S&P 500 price to earnings (P/E) ratio data from Bloomberg over the past 27 years, we found that the market index's March 31, 2017 P/E was two standard deviations (2 sigma) above its trailing ten-year average. This rare, extremely overvalued situation has occurred only two other times since 1990. Although past performance is no indication of future results, what might surprise those worried about the market now is how long the S&P 500 historically remained in past overvalued conditions and, perhaps more importantly, how it performed once valuations fell below those extreme levels.

From September of 1991 through November of 1992, the S&P 500 spent fifteen months trading at 2 sigma above its ten-year average P/E. Once valuations finally dropped below the 2 sigma level, the S&P 500 rose an additional 10% over the subsequent twelve months. From January of 1999 through June of 1999, the S&P 500 spent six months trading at 2 sigma above its ten-year average P/E. Once valuations finally dropped below the 2 sigma level, the S&P 500 rose an additional 7% over the subsequent twelve months.

At the beginning of February this year, the S&P 500 once again reached the lofty 2 sigma overvaluation level. It has persisted there for two months so far. In both cases prior to the current period, the stock market spent months in extreme overvalued territory, and the subsequent one year performance once the gap between current and ten-year average P/Es contracted was positive. None of this means that extreme valuations are a good thing. While stocks continued to climb for many years after November of 1992, a major bear market began fourteen months after June 1999 and the lofty valuations preceding it may have contributed to its severity.

What Happens if Investor Enthusiasm Subsides?

Just as love might keep a couple with nothing in common together for longer than their friends initially

Emotions conquer all, at least in the short run.

predicted, so too can emotions inflate or depress stock prices for far longer than a rational analysis of the available facts would suggest is possible. While the current valuation levels do not seem to have much in common with stock market fundamentals, it is not clear when investors' passions will eventually subside, nor what condition the economy will be in when they finally do.

There is much debate over if or how much people can change, but there is no dispute that economic conditions can and do change over time. The same sentiment that is buoying the stock market appears poised to boost

Current valuations are a valid reason for concern.

the economy as well. Consumer confidence, whether measured by the Conference Board or the University of Michigan, soared in March to seventeen-year highs. If this optimism combines with reduced regulation and/or lower corporate tax rates, it is not a huge stretch of the imagination to see rapidly rising earnings that lead to more reasonable valuations, even without a stock market correction.

There is always something to worry about with the stock market. Current valuations are a valid reason for concern, and there will certainly be a correction or bear market at some point in the future. All of this is the price of admission to one of the historically best performing liquid asset classes. Most long-term investors need some stock exposure to reach their financial goals, and this remains as true today as ever.

3/31/17

MARKET PERFORMANCE

U.S. Interest Rates	6/30/2016	9/30/2016	12/31/2016	3/31/2017
Cash Equivalents				
90-Day Treasury Bills	0.26%	0.28%	0.50%	0.75%
Federal Funds Target	0.50%	0.50%	0.75%	1.00%
Bank Prime Rate	3.50%	3.50%	3.75%	4.00%
Money Market Funds	0.45%	0.56%	0.73%	0.87%
Bonds				
30-Year U.S. Treasury	2.29%	2.32%	3.07%	3.01%
20-Year AA Municipal	2.77%	2.79%	3.62%	3.48%

Source: Bloomberg, L.P.

Global Bond Market Total Returns (US\$) through 3/31/17	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
U.S. Bonds				
BofA Merrill Lynch U.S. Treasury Index	0.68%	-3.30%	0.68%	-1.47%
BofA Merrill Lynch Agency Index	0.74%	-1.35%	0.74%	0.11%
BofA Merrill Lynch Corporate Index	1.42%	-1.50%	1.42%	3.41%
BofA Merrill Lynch Municipal Index	1.39%	-2.16%	1.39%	0.19%
International Bonds				
Citigroup non-US\$ World Government Bond Index, fully hedged	-0.35%	-2.56%	-0.35%	0.58%

Sources: Bloomberg, L.P. and Morningstar Direct

Global Stock Market Total Returns (US\$) through 3/31/17	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
U.S. Stocks				
Dow Jones Industrial Average Index	5.18%	14.28%	5.18%	19.88%
S&P 500 Index	6.07%	10.12%	6.07%	17.17%
NASDAQ 100 Index	12.09%	12.17%	12.09%	22.75%
Morningstar Small Value Index	1.46%	12.50%	1.46%	24.25%
International Stocks				
MSCI Japan Index, net dividends	4.49%	4.32%	4.49%	14.44%
MSCI Europe Index (includes UK), net dividends	7.44%	7.01%	7.44%	9.76%
MSCI EAFE (Europe, Australasia, Far East) Index, net dividends	7.25%	6.48%	7.25%	11.67%

Sources: Bloomberg, L.P. and Morningstar Direct

Real Estate Total Returns (US\$) through 3/31/17 (estimated)	QUARTER	SIX MONTHS	YEAR TO DATE	ONE YEAR
NFI-ODCE Index*	2.11%	4.26%	2.11%	8.69%

Source: The National Council of Real Estate Investment Fiduciaries

*Since the first quarter 2017 NFI-ODCE index return is not yet available, we have estimated it by using the previous quarter's return. This estimate is used for all time periods presented.

Past performance is no indication of future results. All investments have the risk of loss.

DISCLOSURES

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ABOUT THE 9:05

Since 1978, we've held a weekly company wide meeting during which we talk about the prior week's activities and those anticipated in the week to come. We refer to this meeting, which begins just after nine each Monday morning, as "the 9:05". Just as the 9:05 enables us to share our knowledge and insights with each other, this newsletter provides us with a valuable means of communicating with our clients. Hence its title: *the 9:05*.

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