

# **3Q2015 IAC Meeting Materials**

**IAC Meeting – November 17, 2015**

**Public Markets Program Presentation**

# Public Markets: Economic and Market Overview

November 17, 2015

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# Public Market Recap-3Q15

- “Risk-Off” Market Environment:
  - Overhang Of The Euro Crisis
  - Slowing Global Economy
  - Volatile Currency Policies
  - Ongoing Debate Of When Will The Fed Raise Rates

SBI Public Markets Performance	Periods Ended 9/30/15	
	Last Quarter	Last Year
<b>SBI Domestic Stock Portfolio</b>	<b>-7.5%</b>	<b>-0.4%</b>
Russell 3000 Index	-7.2%	-0.5%
<b>SBI International Stock Portfolio</b>	<b>-11.1%</b>	<b>-9.6%</b>
MSCI ACWI Free ex USA (net) Index	-12.2%	-12.2%
<b>SBI Fixed Income Portfolio</b>	<b>0.8%</b>	<b>2.8%</b>
Barclays Aggregate Bond Index	1.2%	2.9%

# Domestic Equity Market Environment

- No Place To Hide During the Third Quarter:
  - Worst Quarterly Performance In 4 Years
  - All Sectors Declined Except Utilities
  - Large Cap Stocks Retreated, Small Cap Fared Even Worse
  - Growth Stocks Held Up Better Relative To Value Stocks In The Large Cap Universe, But Value Stocks Were More Resilient in the Small Cap Universe

Domestic Indices Performance	Periods Ended 9/30/15	
	Last Quarter	Last Year
<b>Market Capitalization:</b>		
Russell 3000 Index (Broad Market)	-7.2%	-0.5%
Russell 1000 Index (Large Cap)	-6.8%	-0.6%
Russell 2000 Index (Small Cap)	-11.9%	1.2%
<b>Style:</b>		
Russell 1000 Growth Index	-5.3%	3.2%
Russell 1000 Value Index	-8.4%	-4.4%
Russell 2000 Growth Index	-13.1%	4.0%
Russell 2000 Value Index	-10.7%	-1.6%

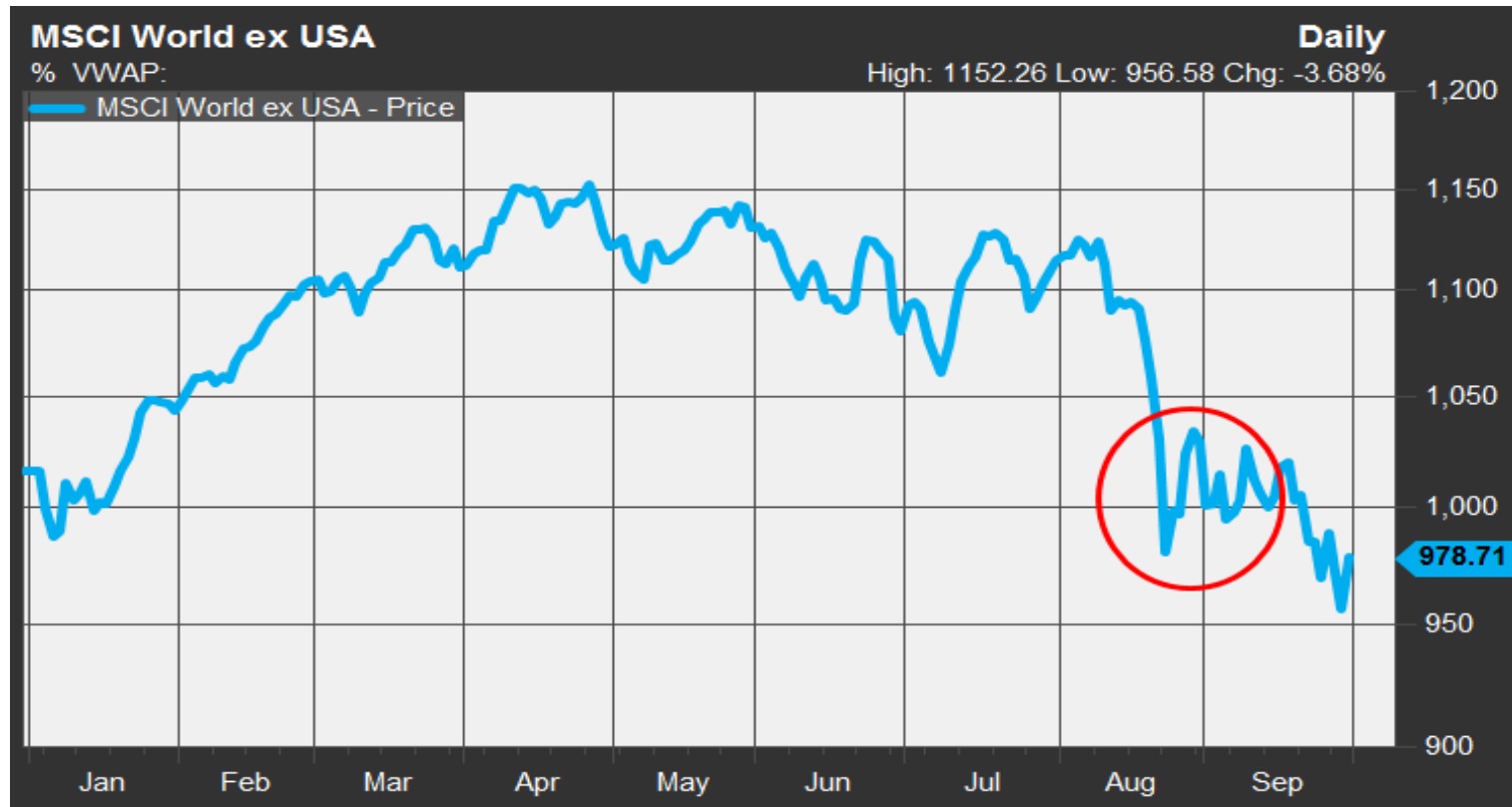
# SBI Domestic Equity Quarterly Performance

- Active SBI Aggregate: Trailed Benchmark
  - Underweight Allocation To The Relatively Safe Consumer Staples Sector
  - Subpar Stock Selection In Information Technology And Financials Sectors
- Semi-Passive and Passive: In-line with Benchmark
  - Solid Stock Selection In Energy
  - Subpar Stock Selection In Consumer Staples
- Total Domestic Equity Portfolio: Trailed Benchmark
  - Underweight Allocation And Subpar Stock Selection In The Relatively Safe Consumer Staples Sector
  - Subpar Stock Selection In The Financials Sector

## International Markets Recap - 3Q15

International Indices Performance (As of 09/30/2015)	Last Quarter	Last Year
MSCI World ex US Index	-10.56%	-10.14%
MSCI Emerging Markets Index	-17.90%	-19.28%

# International Markets Recap - 3Q15



# International Markets Recap - 3Q15





## International Market Environment

- All Countries Declined
- All Sectors Declined
- Growth Performed Better Than Value
- Small Cap Performed Better Than Large Cap
- Local Returns Were Higher Than USD returns

# International Market Environment

- Global Impact Of China's Economic Slowdown
- Volatility Increased Across All Asset Classes
- Political Turmoil: Russia, Brazil And Greece
- Commodity Cycle Weakness

# SBI International Equity Quarterly Performance

- SBI Active Developed Markets: Outperformed Benchmark
  - Strong Stock Selection In Japan, An Idiosyncratic And Challenging Market
  - Positive Stock Selection In All Sectors, Including Materials, Energy And Financials
- SBI Active Emerging Markets: Outperformed Benchmark
  - Strong Stock Selection In Hong Kong and Financials
  - Underweight To Brazil And Overweight To India Helped Performance
- SBI Semi-Passive Developed Markets: Outperformed Benchmark
- SBI Passive Developed and Emerging Markets: In-line with Benchmark
- Total International Equity Portfolio: Outperformed Benchmark

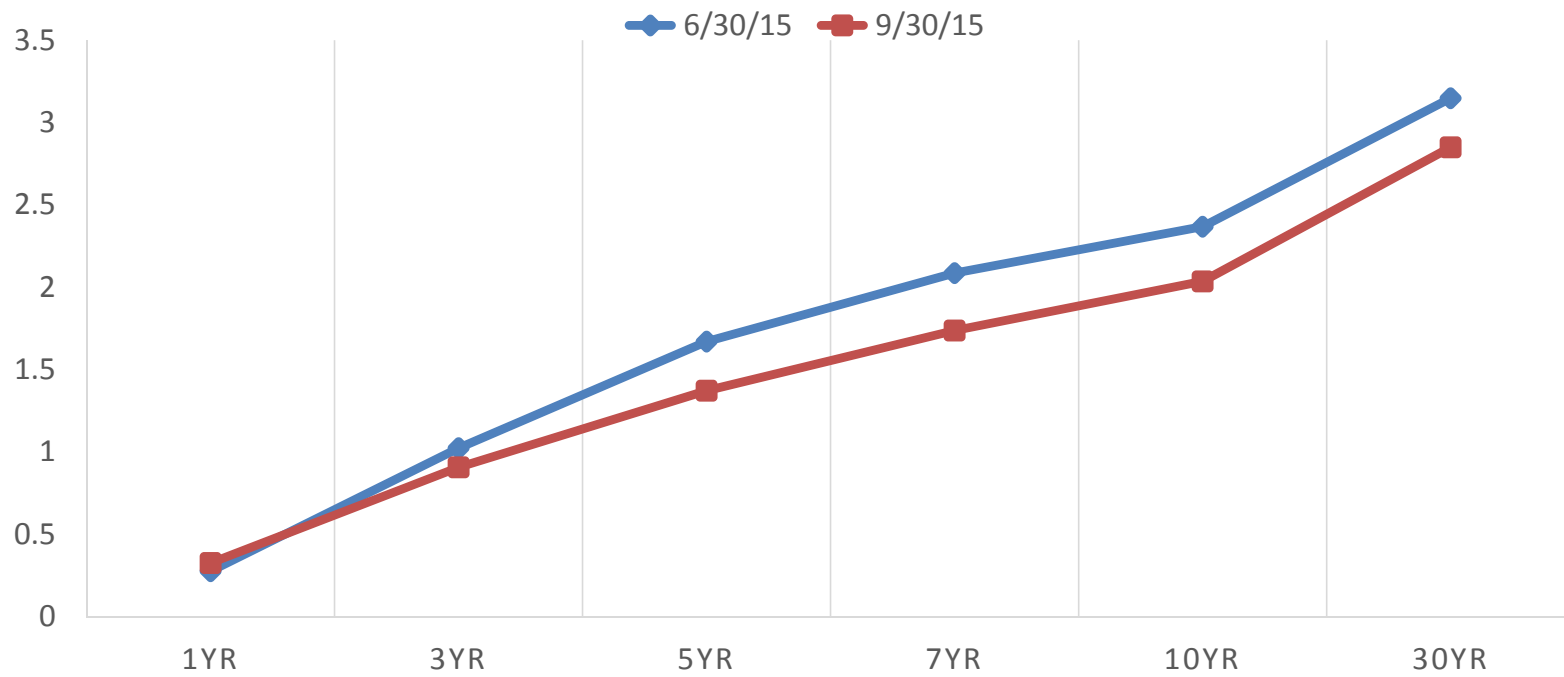
## Fixed Income Market Review – 3Q 2015

### Federal Reserve Rate Decision

- In September Federal Reserve voted to keep fed funds target range of 0% to 0.25% unchanged
- Statement reflected heightened concerns about global developments in world economy which may restrain economic activity and put further downward pressure on near term inflation
- Statement mentioned target range can be lifted upon further improvement in the labor market and members are reasonably confident that inflation will move back to its 2% objective over medium term
- Subsequent hawkish comments and surprise positive October private payroll announcement increased market implied probability of a December rate hike from 30% to 70%

# Fixed Income Market Review – 3Q 2015

## US TREASURY YIELD CURVE CHANGE



## Fixed Income Market Review – 3Q 2015

- Inflation negative for fixed rate bonds, as purchasing power is eroded
- Long end of Treasury curve sensitive to inflation expectations
- Treasuries rallied in the long end, caused flattening effect
- Duration, or sensitivity to interest rate risk, added value during the quarter
- Fixed Income portfolios exposed to duration, particularly on the long end, performed well

## Performance and Index Breakdown Ending 9/30/15

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	<u>Last 3 Mos.</u>	<u>1-Yr</u>
SBI Fixed Income	0.8	2.8
Barclays Aggregate Index	1.2	2.9
<b>Index Return by Quality</b>		
Aaa	1.5	3.6
A	1.5	2.9
Baa	-0.7	-0.5
High Yield	-4.9	-3.4
<b>Index Return by Sector</b>		
Treasury	1.8	3.8
Corporate	0.8	1.7
Agency MBS	1.3	3.4

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## SBI 3Q and 1yr Primary Drivers of Underperformance

- Defensive duration positioning against interest rate risk
- Underweight US Treasury securities, as risk-off mentality prevailed
- Overweight to Investment Grade corporate credit, as spreads widened due to increases in new debt issuance
- Exposure to High Yield corporate energy, as spreads widened due to excess supply in the oil market and general weakness in commodities
- In Q3, exposure to US TIPS as breakevens fell across the curve