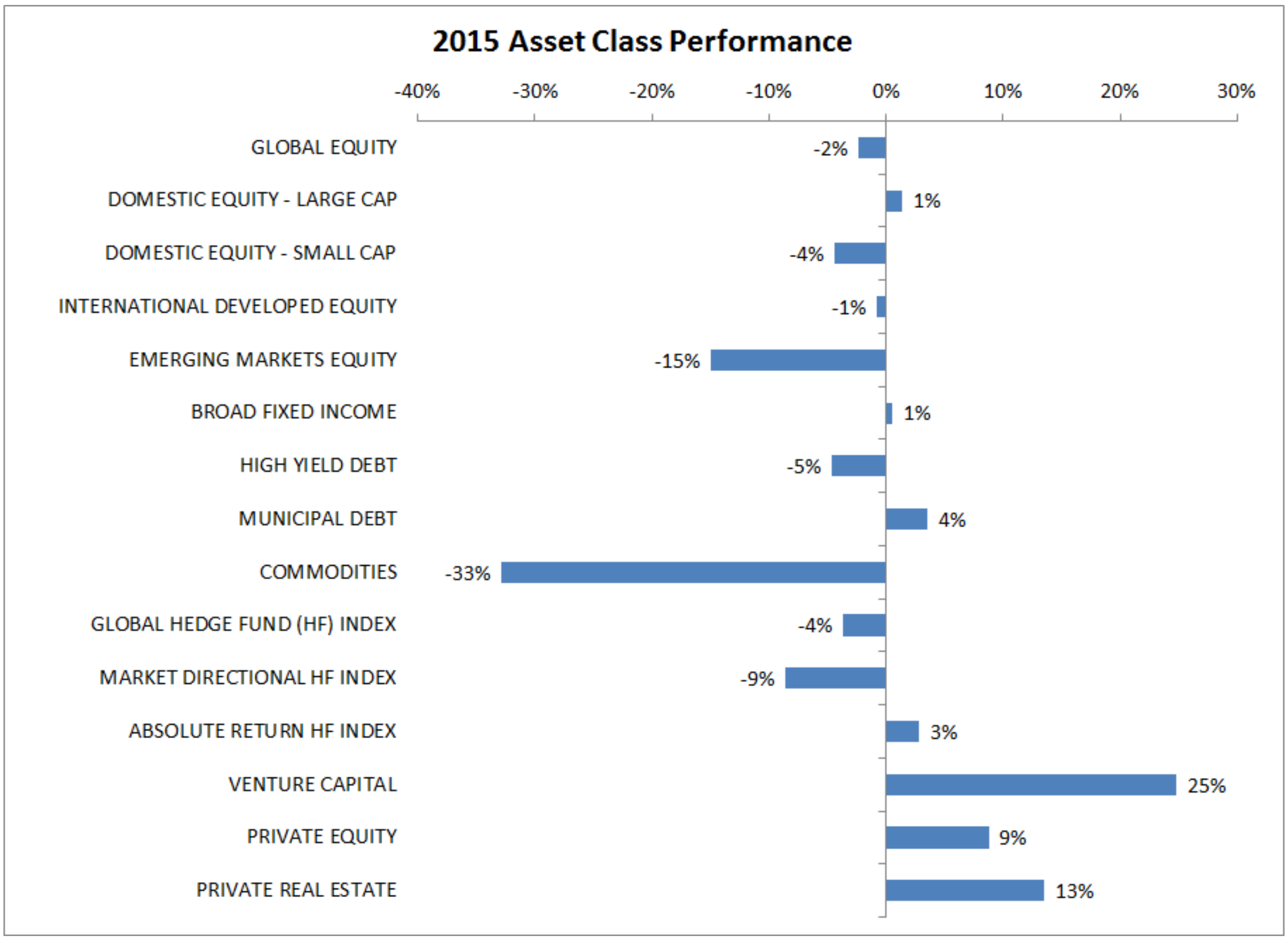
2015 YEAR IN REVIEW AND 2016 OUTLOOK

SUMMARY

Global equities ended 2015 with a whimper as investors grappled with the implications of the first interest rate hike in the U.S. since the Great Financial Crisis of 2008. Over the course of the year, markets contended with a divergence between a normalizing U.S. economy and weak growth overseas, a continuing collapse in commodity prices and volatility stemming from China as the country undergoes a painful transition to a consumption-led economy. The U.S. dollar continued a trend of appreciating against most major currencies and the credit cycle entered a late stage as signs of distress started to spread from energy to other sectors of the economy.

As shown below, the best returns for the year were found in private strategies, particularly venture, as a thirst for growth among investors led to peak valuations of start-up companies. The worst returns were linked to emerging markets and the commodity complex, particularly energy-related assets. See more details on page 2.



See page 4 for index key.

As we head into 2016, we are most concerned with the hawkish rhetoric of the U.S. Federal Reserve in the face of low inflation and an appreciating currency. Combined with ongoing monetary stimulus in Europe and Japan, and heavy-handed government intervention in China, the risk of policy mistakes around the world appears to be rising, leading us to consider defensive moves in order to preserve portfolios. See our outlook on page 5.

GROWTH ASSETS – LONG ONLY EQUITIES

Global equities, as represented by the MSCI All Country World Index (ACWI), shed 2.4% in U.S. currency during the year. Within regions, the U.S. was the best performing market, returning 1.4% (S&P500), compared to -0.8% for international developed markets (MSCI EAFE) and -14.9% for emerging markets (MSCI EM), in U.S. dollar terms. Globally, defensive sectors performed best in 2015, including Health Care and Consumer Staples. Commodity-related sectors performed worst, including Energy and Materials. Utilities did poorly, caught between upheaval in energy markets and the prospect of rising interest rates competing with their dividends.

As shown in the table below, foreign currency translation played a larger than usual role as the U.S. dollar continued a strong appreciation trend, leading to worse than anticipated returns for U.S. investors.

1 Yr Return	USD	Local
S&P500	1.38%	
MSCI EAFE	-0.81%	2.69%
MSCI EM	-14.92%	-8.02%
MSCI ACWI	-2.36%	-0.70%

During the year, Windrose Advisors favored foreign developed equities in Europe because of cheaper valuations, support from monetary stimulation, and a view that U.S. dollar appreciation would moderate. We anticipated headwinds in the U.S. linked to monetary tightening, and decided early on to curtail emerging markets exposure to a neutral stance to control overall portfolio risk. Redemptions out of emerging markets funded a new global equity allocation (including U.S., foreign developed and emerging markets). The global equity index represents the broadest opportunity set. In addition, allocating to global managers will let us delegate some of the allocation decision to active managers, allowing portfolios to react more quickly to changing market conditions.

While we were proven right by the local performance of international developed markets, currency movements more than offset these returns. Like most market participants, we were surprised by the decision of the Chinese government to weaken their currency and the resulting market volatility, and our decision to reduce exposure to emerging markets proved fortuitous.

Within the U.S., we rotated assets away from passive core exposure toward large cap growth equity, which proved to be the most resilient corner of the market, outperforming the S&P500 by over 4%.

1 Yr Return	Growth	Value
S&P500	5.52%	-3.13%
Russell 2000	-1.38%	-7.47%

GROWTH ASSETS - DIRECTIONAL HEDGE FUNDS

Hedge funds struggled to deliver positive returns in 2015, with the HFRX Global Hedge Fund index losing 3.6%. Returns were dragged down by Distressed and Event-Driven strategies, both significant components of the Market Directional index, which lost 8.6%.

DIRECTIONAL HEDGE FUNDS	1 Yr Return
HFRX GLOBAL HEDGE FUND INDEX	-3.64%
HFRX MARKET DIRECTIONAL INDEX	-8.58%
HFRX EQUITY HEDGE INDEX	-2.33%
HFRX EVENT DRIVEN	-6.94%
HFRX DISTRESSED SECURITIES	-11.14%

Performance in our directional hedge fund portfolio was mixed. Besides the poor environment for distressed debt investing, a number of our equity and event-driven funds were hampered by their value based investment style in a market dominated by growth and momentum investing. Sector concentration also played a role in performance as managers focused on technology (in tune with markets) and Finance (anticipating higher rates) tended to do better for the year. On the other hand, the U.S. Health Care sector which had been performing strongly earlier in the year reversed course as politicians questioned the pricing strategy of some companies, hurting the returns of some managers. We were active in the directional hedge fund space, adding four new managers and exiting one.

GROWTH ASSETS - PRIVATE EQUITY

Private equity and venture capital offered the best returns in 2015, easily justifying their illiquidity premium. Venture Capital offered the best returns, as investors placed a high multiple on late stage internet-related technology companies[1].

PRIVATE EQUITY	1 Yr Return
VENTURE CAPITAL	24.85%
PRIVATE EQUITY	8.78%

The strong performance of private assets relative to public markets serves as a useful reminder that diversification across asset major classes, including alternative assets, helps ensure consistent portfolio performance over time.

INFLATION PROTECTION

One of the most notable trends of 2015 was the collapse in commodity prices. This was true across all commodity sectors but most notable in energy as the oversupply situation which developed in 2014 did not improve, leading prices lower.

Private real estate, on the other hand, continued to benefit from a recovering U.S. economy, lifting demand for both residential and commercial properties.

INFLATION PROTECTION	1 Yr Return
COMMODITIES	-32.86%
COMMODITIES - ENERGY	-41.54%
COMMODITIES - INDUSTRIAL METALS	-24.53%
COMMODITIES - PRECIOUS METALS	-11.08%
COMMODITIES - AGRICULTURE &	-17.31%
ENERGY EQUITY	-22.20%
PRIVATE REAL ESTATE	13.47%

Given the large pullback in energy at the end of 2014, Windrose Advisors initiated an exposure through a three-pronged approach which included equity, distressed debt and private funds. Our approach sought to hedge multiple possible outcomes over different investment horizons. An initial rebound in energy prices soon gave way to sustained declines following the Chinese devaluation and fears of slowing global growth. The appreciating U.S. dollar further magnified declines in commodities through the end of the year. However, the short-lived rebound early in the year had the effect of delaying production cuts required to rebalance the markets. It also opened the door for some energy companies to obtain additional financing and delay needed restructuring, which limited opportunities for distressed debt strategies to establish positions in the near term. We suspect that we will look back at these investments years from now and count this period as an attractive entry point to increase an allocation to energy.

[1] Due to the reporting lag inherent in private strategies, the indices above represent performance through June 2015.

RECESSION PROTECTION

Taxable fixed income markets, as represented by the Barclays Aggregate Index, posted slightly positive returns for the year (+0.6%). Within the major components of the Aggregate, securitized assets (+0.8%) and government securities (+0.7%) were positive, while corporate bonds posted negative returns (-0.6%). Fixed income markets most exposed to credit risk, such as high yield (-4.6%), or to emerging market currencies, such as local emerging market bonds (-14.9%) experienced the worst returns. Municipal markets posted the best returns in 2015 (+3.6%), benefiting from a recovering U.S. economy.

The yield on the benchmark 10-year Treasury initially fell in January 2015 from 2.17% to 1.64% due to fears of a slowdown, before rising to close the year at 2.27% as the Fed signaled its intention to raise interest rates. An anticipated rate increase in September was eventually delayed to December as the Fed assessed the impact of China-induced market volatility on the strength of the U.S. recovery. The move by monetary authorities was by then fully discounted by markets, and the focus shifted to the planned pace of future rate increases.

The worst returns in fixed income were found in local currency emerging market bonds, as they suffered from significant depreciation against the U.S. dollar. Emerging economies most exposed to commodity prices, such as Brazil, Venezuela, Mexico or Russia, all large issuers in the index, took the brunt of the adjustment. By comparison, emerging market bonds denominated in hard currencies eked out a positive return (+1.2%).

Municipal bonds were the best performers in fixed income. Despite headlines on some distressed credits, municipalities generally benefited from improving credit quality through a recovering economy and strong demand from investors. Within individual managers, our longer duration mandate was able to capture more yield in spite of headwinds from rising rates.

ABSOLUTE RETURN HEDGE FUNDS

While the HFRX Global Hedge Fund index lost 3.6% in 2015, the Absolute Return index gained 2.9%, supported by positive returns in Merger Arbitrage and Equity Market Neutral strategies.

ABSOLUTE RETURN HEDGE FUNDS	1 Yr Return
HFRX GLOBAL HEDGE FUND INDEX	-3.64%
HFRX ABSOLUTE RETURN INDEX	2.86%
HFRX EQUITY MARKET NEUTRAL	5.45%
HFRX GLOBAL MACRO/CTA	-1.96%
HFRX MERGER ARBITRAGE	8.40%

Performance in our absolute return hedge fund portfolio was good. Low net exposure equity strategies, and fixed income arbitrage delivered some of the best returns for the year. Returns were lower in our multi-strategy managers due to some exposure to distressed debt. However the diversified nature of these funds mitigated losses.

INDEX KEY

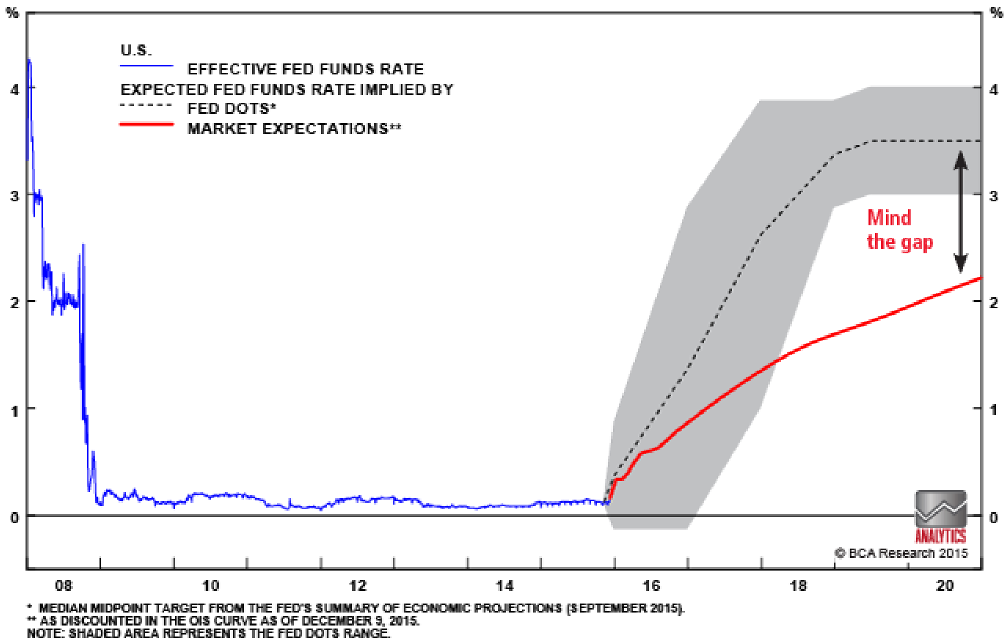
Global Equity (MSCI All Country World-USD), Domestic Equity Large Cap (S&P500), Domestic Equity Small Cap (Russell 2000), International Developed Equity (MSCI EAFE), Emerging Market Equity (MSCI EM), Energy Equity (MSCI ACWI Energy) Broad Fixed Income (Barclays Aggregate), US Government Debt (Bank of America Merrill Lynch US Government), US Inflation-linked (Bank of America Merrill Lynch US Inflation-linked), US Corporate Debt (Bank of America Merrill Lynch US Corporate), US Securitized Debt (Bank of America Merrill Lynch US ABS & CMBS), Emerging Debt US Dollar (JP Morgan Emerging Market Bond Index Global), Emerging Debt local currency (JP Morgan Global Bond Index Emerging Markets), High Yield Debt (Bank of America Merrill Lynch US High Yield), Municipal Debt (Bank of America Merrill Lynch US Municipal), Commodities (S&P/Goldman Sachs Commodity Index), Global Hedge Funds (HFRX Global Hedge Fund Index), Market Directional HF Index (HFRX Market Directional Index), Absolute Return HF Index (HFRX Absolute Return HF Index), Venture Capital (Cambridge Associates Venture Capital Index), Private Equity (Cambridge Associates Private Equity Index), Real Estate (NCREIF Real Estate).

OUTLOOK 2016

The same major issues will continue to dominate markets in 2016, although uncertainty seems higher.

1. Central Bank Actions

As shown below, a significant discrepancy remains between the pace of rate increases advertised by the Fed (Fed "dots" shown in the gray band) and expectations from more skeptical bond investors (red line). While the Fed anticipates four additional rate increases next year, investors only discount one or two.



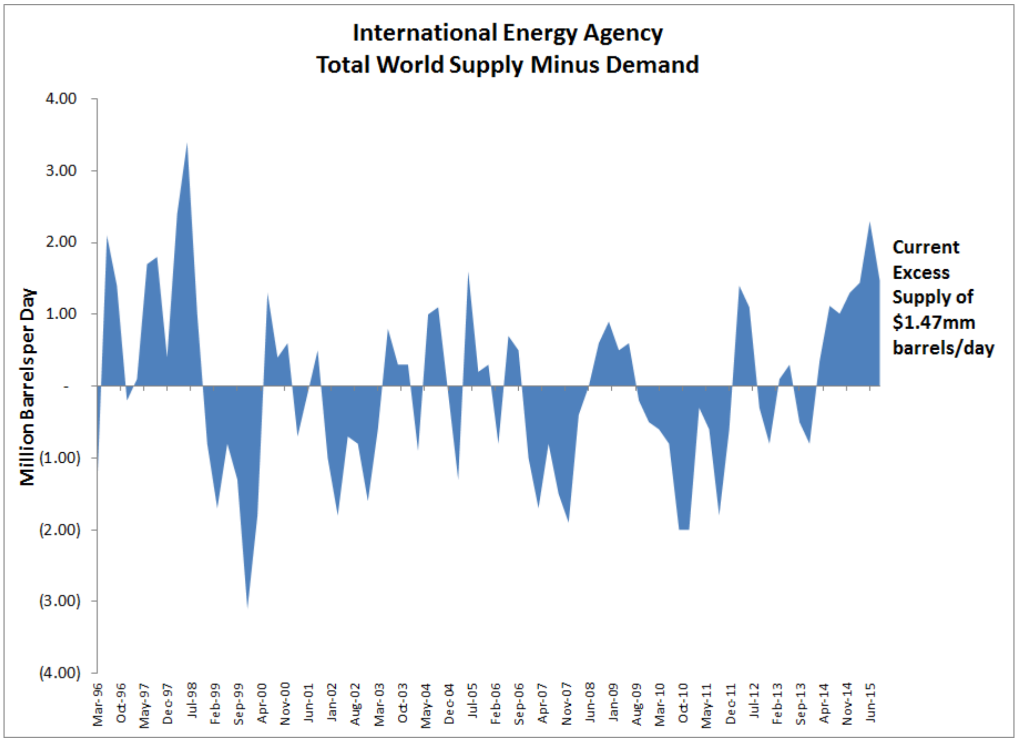
Source: BCA Research

The Fed will need to walk a fine line. Maintaining a hawkish tone could adversely surprise markets, possibly leading to a correction in both equities and bonds. Reversing course and siding with investors would be admitting a mistake, signaling economic weakness and possibly triggering a rally in bonds and a correction in equities. Much will depend on the path of inflation. The large appreciation of the U.S. dollar over the past two years is akin to importing deflation from weaker foreign economies and we think that core inflation will remain contained. Therefore we would side with other investors and expect a slower pace of rate increases than indicated by the Fed.

Should this materialize, we would expect the U.S. dollar to stabilize against major currencies and bonds to benefit. In any case, the odds of a policy error have increased and equity market volatility so far in January seems to indicate that investors are now demanding a higher risk premium to hold stocks. In this context we continue to prefer foreign developed equities, which benefit from ongoing accommodative monetary policies and exhibit lower valuations than U.S. stocks, along with low expectations.

2. Energy Markets

Energy markets have been in a state of oversupply since the middle of 2014, according to statistics from the International Energy Agency. As shown in the following chart, the oversupply has been the largest and longest lasting over the past 15 years, which explains the magnitude of the price adjustment. However, with world demand at 95.4 million barrels per day versus world production of 96.9 million barrels per day, production only exceeds supply by 1.5%.



The old adage in commodity markets is that the cure for low prices is low prices. As investments decline and resources are progressively depleted, markets will come back into balance. We think this process will occur fastest in energy markets, especially oil, where demand is inelastic and current low prices make new field development uneconomical. According to industry consultant Wood MacKenzie, $380 billion worth of major upstream projects have been put on hold, delaying production of about 2.9 million barrels per day until the next decade[2]. And while production cutbacks have been slow to materialize, demand has been stoked by low prices, which is starting to reduce the imbalance.

While the timing or rebalancing is still uncertain, we think that markets could reach that point toward the end of 2016. However, this timetable may be too late to prevent a wave of defaults and restructurings by some overleveraged energy companies. We have deployed contingent capital with distressed managers that will be well positioned to take advantage of this situation. At the same time, we continue to monitor the energy sector for opportunities to expand or modify our exposure as the situation evolves and are reviewing master limited partnerships (MLPs). MLPs are typically energy mid-stream companies that offer transportation and storage services. They combine the tax benefit of a limited partnership with the liquidity of a publicly traded company.

3. Emerging Markets

Emerging market equities still suffer from a confluence of negative factors including a strong U.S. dollar, low commodity prices, slowing global growth and high consumer leverage. The most desirable country exposures from a macro-economic standpoint include reform-minded economies such as India or Mexico, but equities in these markets remain expensive. China has been at the center of recent market turmoil as its leaders attempt to engineer a currency devaluation without triggering a hard landing in their economy. While markets reacted poorly to these actions, we think that ultimately, China is one of the few countries with the ability to employ fiscal stimulation, should the need arise. In addition, while their industrial sector is in recession, a burgeoning service sector catering to a wealthier population is still growing. Therefore security selection in specific markets is more critical than ever.

We remain cautious in this asset class, anticipating more volatility, and prefer active strategies over passive. We have emphasized smaller capitalization stocks in emerging markets, which we think offer better growth prospects and less exposure to large fund outflows driven by popular index vehicles.

[2] "Oil Slump Seen Delaying $380 Billion Worth of Developments" – Bloomberg News - January 14, 2016.

ASSET ALLOCATION VIEWS – JANUARY 2016

Current view Previous view

Global Asset Allocation	-				+	
Equities		Current	Previous			Slowing world growth, fair to high valuations
Credit		Current	Previous			Slow growth favors income strategies but poor technicals and mixed valuations
Government Bonds	Previous	Current				Low yields but safe haven assets and attractive liquidity, favor US assets
Commodities		Current				Mixed fundamentals, negative technicals, prefer energy
Currencies		Current				Expect continued US Dollar appreciation
Hedge Fund Strategies			Previous	Current		Prefer absolute return strategies, rising opportunities in distressed credit
Private Strategies			Current			Illiquidity premium available in select opportunities
Cash		Previous	Current			Rising rates and increasing option value

Equities	-				+	
Global		Current	Previous			Mixed valuations, prefer international developed exposure
US		Current	Previous			Relatively high valuations, monetary tightening, peaking growth, favor quality
Europe			Current	Previous		Lower valuations, monetary easing, prefer domestic exposure over exporters
Japan			Current			Lower valuations, monetary easing, domestic strength but impacted by China
Emerging Asia		Current		Previous		China struggling with transition to consumption-led economy, weak global growth
Emerging Other		Current	Previous			Challenged by weak global growth, low commodity prices, high leverage

Government Bonds	-				+	
US Treasuries			Current			Safe haven, peaking US growth, higher yield relative to DM peers
US Inflation-Linked			Current			Lower than usual break-even rates offer attractive entry point
German Bunds	Current					Low real yields
Japanese GB	Current					Low real yields
EM Debt Local Currency		Current	Previous			Wider than usual spreads, but currency headwinds & low liquidity
EM Debt Hard Currency		Current		Previous		Rising liabilities due to US Dollar appreciation implies higher credit risk

Credit	-				+	
IG Corporates		Current				Median spreads, rising shareholder friendly activity
IG Securitized			Current			Rising collateral values, lower pre-payments
High Yield Corporates		Current	Previous			Widening spreads creating opportunities but negative momentum
High Yield Loans		Current		Previous		Wider spreads, some interest rate protection

Commodities	-				+	
Energy				Current		Low oil & gas prices unsustainable long term but highly volatile
Industrial Metals	Current	Previous				Slow growth, plentiful iron ore versus copper in short supply
Precious Metals		Current				Safe haven hedge but normalizing US rates is a headwind
Agriculture		Current				Farming down cycle, bumper crops versus recovering cattle herd

Currencies (vs. US Dollar)	-				+	
Euro		Current				Ongoing monetary stimulation
Yen		Previous	Current			Potential lull in monetary stimulation, safe haven currency
British Pound		Current				Similar dynamics to US, peaking economy may prevent tightening
Emerging Markets	Current	Previous				Stable against EUR, lower against USD
Commodity currencies	Current					Weak oil prices, slow global growth, end of commodity supercycle

Hedge Fund Strategies	-				+	
Long-Biased L/S Equity		Current				High equity valuations a risk, prefer sector specialists
Event-Driven				Current	Previous	Favorable environment for activist strategies
Distressed		Previous	Current			Improving opportunity set (energy, retail), poised for next cycle (US)
Arbitrage			Current	Previous		credit markets may render deals more difficult to complete
Low Net L/S Equity				Current		Increasingly valuable hedge against possible equity downturn
Global Macro				Current		Able to capitalize on rate uncertainty, currency volatility
CTA/Trend Following				Current		Able to capitalize on currency, commodity dislocations

Private Strategies	-				+	
Venture		Current	Previous			IPO market cooling down, high valuations
Buy-Out			Current			Tighter lending standards and market volatility increase appeal of private capital
Distressed			Previous	Current		Widening credit spreads expanding opportunity set
Natural Resources			Previous	Current		Depressed cyclical valuations increasing long term opportunities
Real Estate		Current	Previous			Low capitalization rates, large commitment overhang, prefer co-investment deals