2016 ANNUAL REVIEW AND 2017 OUTLOOK

SUMMARY

Global equities rallied in 2016 as continued Central Bank accommodations supported a cyclical recovery. Surprise election results in the UK and US seemed to herald a shift toward fiscal stimulus in coming years, leading markets higher. After an initial rally, global bond markets declined substantially as investors pursued higher returns in stocks. Oil staged a powerful rally throughout the year as investment cuts and production declines reduced oversupply.

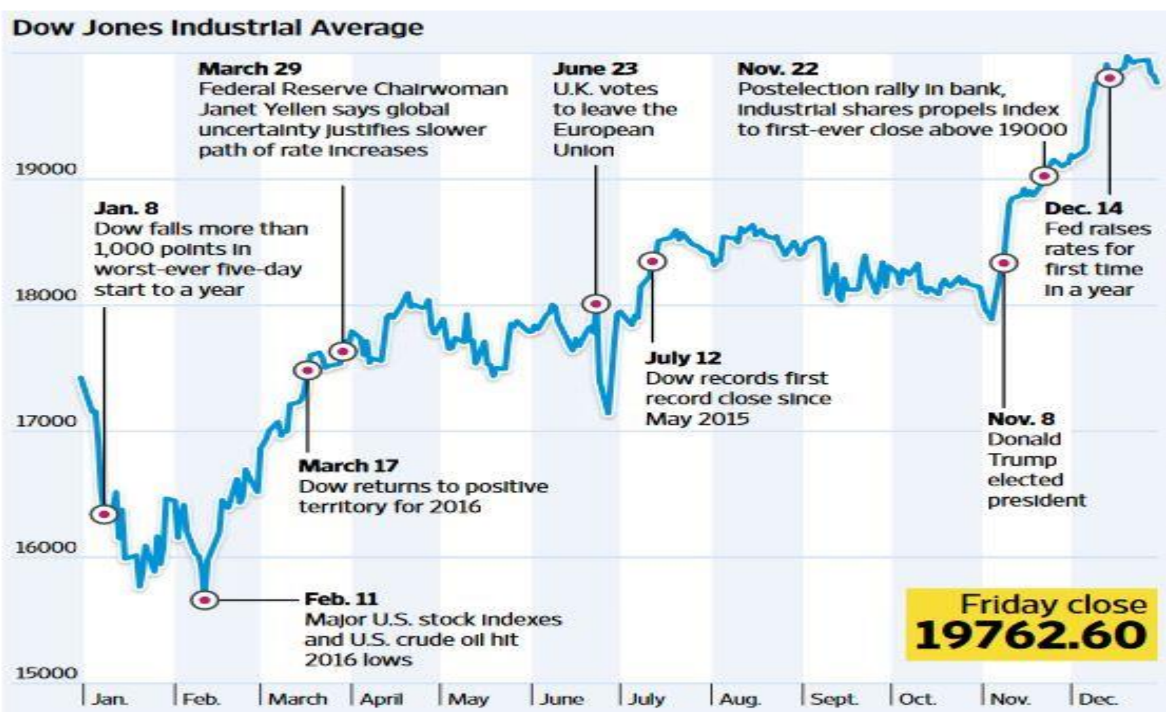
REVIEW OF 2016

Fears of a slowing Chinese economy, negative interest rate policies in Europe and Japan, and an initially hawkish Fed in the US, caused a market correction early in the year, but a recovering oil market, Fed accommodation and the anticipation of stimulus and reforms following US elections, led markets to rebound strongly by year-end (see chart below).

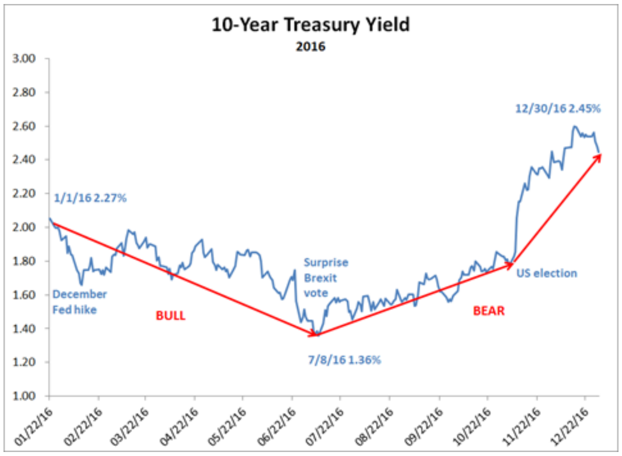
A first inflection point during the year came as the UK shocked the world in June by voting to leave the European Union. An initial flight to safety was followed by a rally in stocks and the first signs of an inflection point in the bond market, as investors came to anticipate stimulus measures to soften the impact.

The outcome of the US presidential election surprised markets further as Republicans swept control of Congress, as well the White House. Investors reacted by assuming substantial tax reform, fiscal stimulus and reduced regulations, and abandoned the safety (and low yields) of government bonds.

Underlying the moves in broad market indices were substantial investor rotations. Low volatility bond proxy stocks, such as Utilities, were very much in favor earlier in the year as fears were rampant, yet cheap cyclical stocks, such as Energy and Financials, eventually wrestled market leadership as investors became increasingly optimistic about growth prospects.

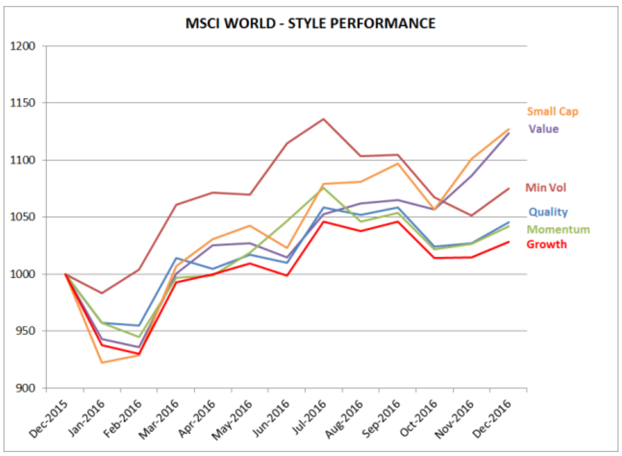


Source: Wall Street Journal



Source: Bloomberg

US smaller capitalization stocks were a prime beneficiary, benefiting from their domestic orientation and the perceived stability of the US, as well as from an improved fundamental outlook.



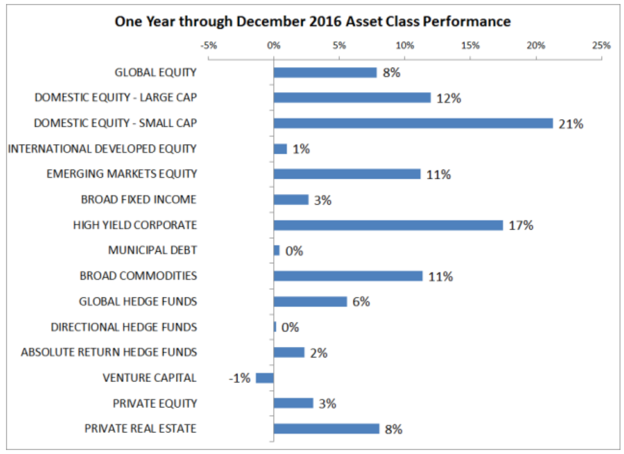
Source: MSCI, Bloomberg

For the year, Small Cap and Value were the leading factor tilts, while Quality, Growth and Momentum were out of favor.

INDEX	2016
MSCI World Small Cap	12.7%
MSCI World Value	12.3%
MSCI World	7.5%
MSCI World Minimum Volatility	7.5%
MSCI World Quality	4.6%
MSCI World Momentum	4.2%
MSCI World Growth	2.8%

Source: MSCI, Bloomberg

All major asset classes were up for the year. The more cyclical assets, such as US Small Caps, US High Yield, Emerging Markets Equities and Commodities recorded some of the strongest gains. Investment Grade fixed income and Municipal Debt reversed earlier gains to end the year about flat.



See page 7 for index key.

On the other hand, foreign developed equities struggled as negative interest rate policies in Europe and Japan and political uncertainty following the Brexit vote in Europe weighed on equity returns. Hedge funds lagged public markets for the year, but Directional hedge funds recovered from earlier losses as the market environment became more conducive to active managers. The returns for private assets are reported with a lag and shown above only through March.

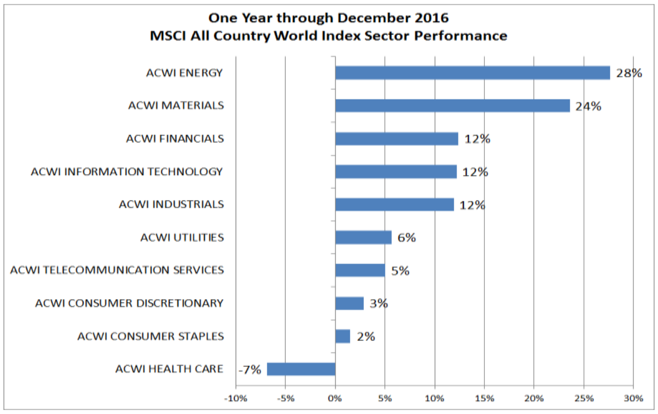
GROWTH ASSETS

Growth assets include investments that generally benefit from favorable economic conditions such as sustained growth and controlled inflation. Our definition includes equity and equity-like (credit) assets across public and private markets in long only, hedged or draw-down structures. The following discussion considers these various components in turn.

LONG ONLY EQUITIES

Global equities, as represented by the MSCI All Country World Index (ACWI), gained 7.9% in U.S. currency for the year. Within regions US Equities were the best performers returning 12.0% (S&P500) compared to 1.0% for international developed markets (MSCI EAFE) and 11.8% for emerging markets (MSCI EM) in U.S. dollar terms. Globally, small caps outperformed large and mid-caps. The best performing sectors included Energy (+27.7%) and

Materials (+23.6%) as commodities rallied, and Financials (+12.4%) on the prospect of rising rates and reduced regulations. The worst performing sectors included Health Care (-6.8%), due to policy uncertainty linked to the US presidential election, and



Source: MSCI, Bloomberg

defensive sectors such as Consumer Staples (+1.5%).

The performance of emerging market equities was enhanced by currency translation effects as their currencies generally appreciated against the US Dollar along with the rise in commodities (the Brazilian Real and Russian Ruble were strong performers).

Within the U.S., value dominated growth particularly in smaller capitalization stocks.

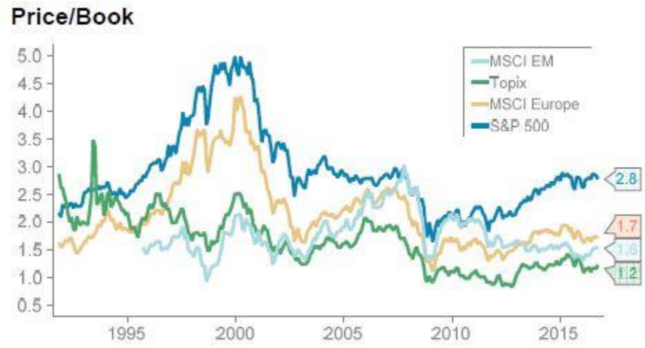
2016 Return	USD	Local
S&P500	12.0%	
MSCI EAFE	1.0%	2.3%
MSCI EM	11.2%	7.1%
MSCI ACWI	7.9%	6.8%
2016 Return	**Growth**	**Value**
S&P500	6.9%	17.4%
Russell 2000	11.3%	31.7%

Source: MSCI, Russell, S&P, Bloomberg

On July 1st, Windrose Advisors launched the WA Global Equity investment sleeve, which combines our long only equity allocations across global, domestic, international and emerging markets mandates. We trimmed low volatility US bond proxies over the summer, favoring value plays in foreign and emerging markets.

We continue to see better long term opportunities in developed market equities where negative sentiment is high, valuations lower, and which continue to benefit from accommodative Central Bank policies.

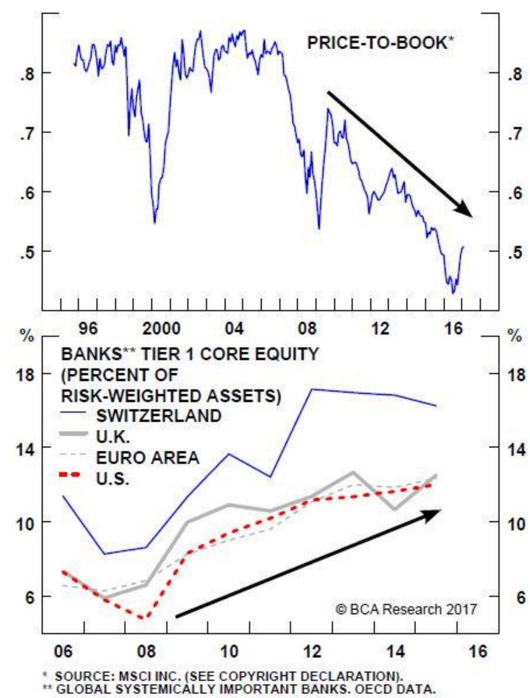
As shown in the chart below, the valuations of US stocks (using Price to Book) are much higher than their foreign counterparts.



Source: Bloomberg, Macrobond, Morgan Stanley Research

We are increasingly interested in Japanese equities, which in addition to the lowest valuations among developed markets, also stand to benefit from a global recovery. They are undergoing significant corporate reform, and currently enjoy significant political stability.

From a sector standpoint, global banks look attractive. The sector is still widely unloved and under-owned, resulting in cheap valuations. This is despite clear improvements in balance sheet strength and tier one core equity ratios (see following charts).



Source: BCA Research

The prospect of reduced regulations and rising rates increased interest in US banks by year-end, but we think opportunities remain for the sector to outperform.

DIRECTIONAL HEDGE FUNDS

Directional hedge funds include strategies that typically show high correlation to equities, such as long short equity, event-driven and distressed credit.

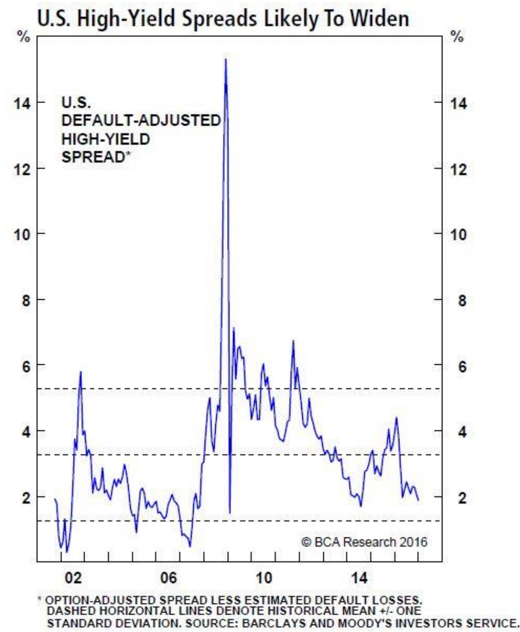
Directional funds of hedge funds (HFRI Fund of Funds Strategic, +0.1%) were essentially flat for the year. Within specific strategies, Distressed/ Restructuring led performance for the year as energy credits rebounded sharply with gains in oil prices. Event-Driven and Equity Hedge strategies also delivered positive performance. Low dispersion of returns among stocks hindered active strategies such as Equity Hedge. In addition, the performance of the health care sector, a hedge fund favorite, lagged for the year, creating performance headwinds. Following the US election and OPEC announcement, some notable portfolio changes appeared to take place as managers increased exposure to financials and energy, while reducing health care and technology.

On July 1st, Windrose Advisors launched the WA Market Directional investment sleeve, which combines our more aggressive return-seeking hedge fund strategies. For the year, some of the best performers were focused on distressed investments as credit markets proved resilient. Equity long/short strategies were challenged by the market downturn earlier in the year, particularly due to exposure to Financials, but rebounded strongly in the second half.

Year to date, we have made no changes to our manager line-up, however, we plan to rebalance the portfolio in the New Year toward newer, smaller and/or more focused strategies, as we strive to enhance return potential and portfolio diversification.

OPPORTUNISTIC CREDIT

Equity-like fixed income markets exposed to credit risk rallied, particularly US high yield (Bank of America Merrill Lynch High Yield, +17.5%). After a substantial rally this year, we think there is little value left in high yield and would eschew the asset class.



Source: BCA Research

Emerging debt also rallied thanks to improved fundamentals (JP Morgan Global Bond Index Emerging Markets +10.0%).

Finally, our favored sub-sector for high net worth investors, high yield municipals, yielded positive returns for the year (Bank of America Merrill Lynch High Yield Municipals, +6.3%, or +14.6% on a taxable-equivalent basis for the highest tax bracket) but experienced a substantial correction following the US election as investors anticipated tax cuts, reducing the appeal of municipal debt. Significant redemptions at mutual fund complexes offering daily liquidity caused some forced selling, impacting prices despite no particular change in fundamentals. We think that lower prices now provide a good entry point to this asset class.

PRIVATE EQUITY

Private equity (Cambridge Associates US Private Equity +3.01%) and venture capital (Cambridge Associates US Venture -1.39%) offered lower returns than public markets over the past twelve months through June 2016. These figures reflect the valuation write-down that took place in the first quarter as investors sought safety and liquidity. The subsequent rally in risk assets likely implies improving performance in private equity.

So far this year, our funds have realized significant liquidity events, including Dollar Shave Club, sold to Unilever for $1bn (14x return) and Steelbrick who sold to Salesforce.com for $360mm (2.6x).

INFLATION PROTECTION

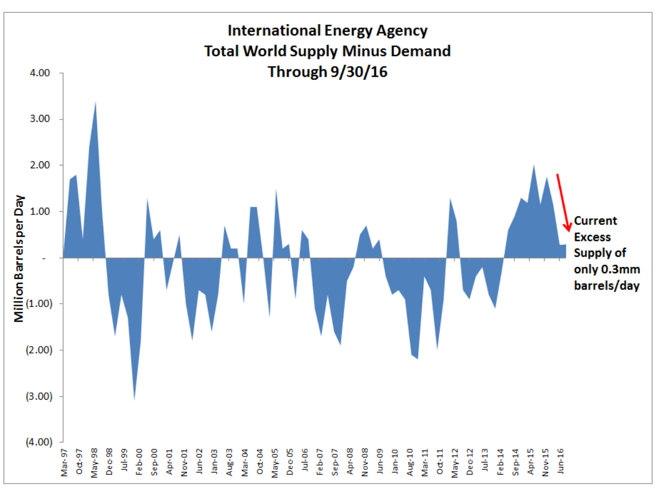
Commodity prices rallied for the year with the more notable gains in energy and industrial metals.

INFLATION PROTECTION	2016 Return
BROAD COMMODITIES	11.4%
COMMODITIES - ENERGY	18.1%
COMMODITIES - INDUSTRIAL METALS	17.6%
COMMODITIES - PRECIOUS METALS	8.4%
COMMODITIES - AGRICULTURE &	-5.4%
ENERGY EQUITY	27.7%
PUBLIC REAL ESTATE	7.1%
PRIVATE REAL ESTATE	2.2%

Sources: Bloomberg, MSCI, Cambridge Associates

Oil prices bottomed in February around $36 a barrel and rebounded to $54 by year-end. While supply disruptions in Canada and Nigeria ignited the rally earlier in the year, a drop in US production and large scale cancellation of new projects accelerated the process of rebalancing supply and demand. In November, a decision by OPEC members to initiate production cuts seemed to imply that a new floor has been set for oil prices and we continue to be bullish.

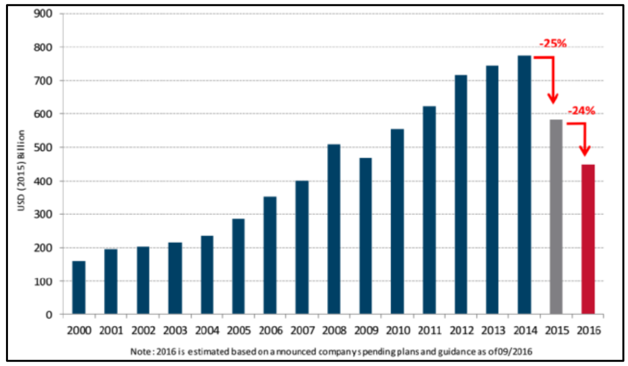
As shown below, official data through mid-2016 already pointed to a rebalancing of supply and demand in oil markets. The OPEC decision will accelerate this rebalancing and help reduce inventories going into 2017.



Sources: Bloomberg, IEA

We are most interested in unconventional US oil producers, which we believe are still misunderstood and offer the potential for significant upside in a stabilized commodity environment, as they profitably increase production.

Despite the argument that increased shale production could offset OPEC supply cuts, the fact is that global capital expenditures on new oil field development plummeted in the past two years. Lack of investment and the natural decline rate of existing wells will drastically reduce supply in coming years.



Sources: IEA, Simmons, GRT Capital

Gold is worth mentioning as it followed a path similar to the bond market, rallying earlier in the year until fears of a slowdown dissipated over the summer, and declined through year-end. Despite the round trip, gold prices still ended up for the year.

RECESSION PROTECTION

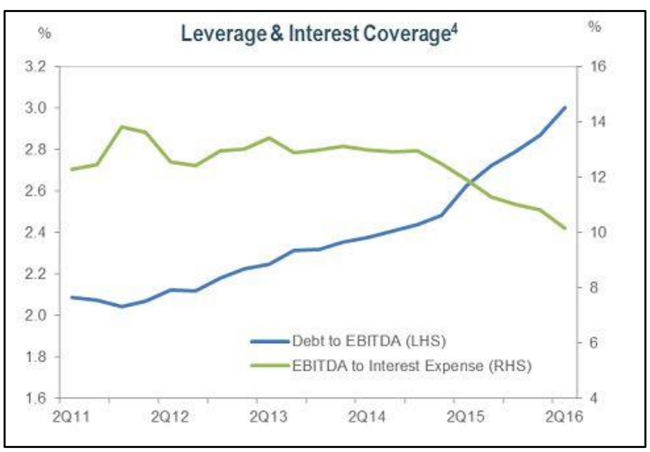
The yield on the benchmark 10-year Treasury initially fell from 2.27% at the end of December 2015 to 1.36% at the beginning of July 2016 as investors sought safety in an uncertain world. A more optimistic outlook based on anticipated fiscal stimulus and improving fundamentals then developed in the second half, with yields skyrocketing back up to 2.45% at year-end following the outcome of the US presidential election. We have commented in the past on the likely end of the 35-year bull market in bonds (see our Fixed Income Commentary, 10/28/16) and 2016 may have been the inflection point. We anticipate that yields will continue to slowly rise from here as inflationary pressure builds up in the US and a below market duration stance remains sensible; however, weak economic conditions in the rest of the world will likely contain sharp increases in rates.

OPPORTUNISTIC CREDIT	2016 Return
BROAD FIXED INCOME	2.6%
US GOVERNMENT DEBT	1.0%
US INFLATION LINKED	4.6%
US CORPORATE DEBT	6.0%
US SECURITIZED DEBT	2.7%
MUNICIPAL DEBT	0.4%

Sources: Bloomberg, Barclays, Bank of America Merrill Lynch

Taxable fixed income markets, as represented by the Barclays Aggregate Index, posted positive returns for the year (+2.6%). Within the major components of the Aggregate, corporate debt (+6.0%) outperformed both government securities (+1.0%) and securitized debt (+2.7%). Municipal debt was hurt by sudden outflows in seasonally weak markets following the US presidential election, reversing earlier gains (+0.4% for the year). Inflation linked debt (+4.6%) outperformed nominal government debt as investors re-priced inflation risk later in the year.

Investment grade corporate debt looks less appealing to us today given solid recent performance and more expensive valuations. At the same time, fundamentals are weakening as corporations took advantage of low rates to re-lever their balance sheets (see below).



Source: Income Research & Management

On the other hand, municipal debt's recent weakness seems to fully reflect expectations of still uncertain tax cuts and looks more attractive from here. As of December month-end, the yield on the municipal debt index (Bank of America Merrill Lynch US Municipals, 2.60%) was similar to that of the taxable debt index (Barclays Aggregate, 2.61%), not accounting for any tax advantage.

ABSOLUTE RETURN HEDGE FUNDS

Absolute Return hedge funds include strategies that typically show low correlation to equities, such as low net long/short equity, global macro and multi-strategy.

Absolute Return funds of hedge funds (HFRI Fund of Funds Conservative, +2.3%) yielded small but positive performance for the year. Within specific strategies, Equity Market Neutral and Macro lagged while Relative Value outperformed.

On July 1st, Windrose Advisors launched the WA Absolute Return investment sleeve, which combines our more conservative or risk-diversifying strategies. Performance in our absolute return hedge fund portfolio has been excellent across most sub-strategies. In particular, multi-strategy funds benefited from exposure to distressed credit and arbitrage, while our global macro managers successfully navigated the recent choppy markets. Low net exposure long/short equity, however, struggled as short exposure detracted. Looking forward, we expect to expand our fund line-up by adding complementary strategies such as trend following/managed futures.

OUTLOOK FOR 2017

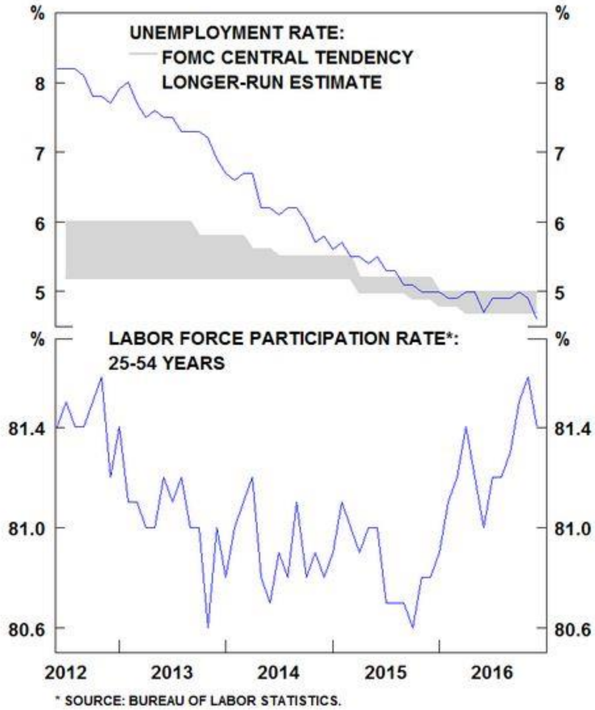
Markets have embraced the implications of a Republican sweep of Congress and the White house by assuming that a number of significant reforms will be implemented, with the likely effect of boosting economic growth.

Proposal	Growth	Inflation
Repeal of Affordable Care Act	**Higher?** Possibly lower health insurance premiums	**Neutral?** Shifting the cost of health care for uninsured
Lower Taxes	**Higher?** Different impact on domestic and multinational companies	**Higher**
Infrastructure Spending	**Higher?** Limited scope for public/private partnerships	**Higher**
Trade Protectionism	**Neutral?** Different impact on exporters and domestic companies	**Higher** Cost of imported goods
Reduced Immigration	**Neutral?** May affect the margins of industries employing unskilled immigrants	**Higher** Cost of labor
Reduced Regulations	**Higher** Fewer limits on food, energy, mining, financial companies	**Neutral?**

Generally speaking, the salient proposals of fiscal stimulus (lower taxes and increased infrastructure spending), protectionism (threat of tariffs and reduced immigration) and reduced regulation (including a repeal of the Affordable Care Act) would seem to support growth but would also promote inflation. We remain skeptical on the aggregate effect of these proposals on US economic growth, particularly given the paucity of details so far; however, we envision that implementation of these various policies will create new winners and losers. For example, lowering the nominal corporate tax rates could disproportionately benefit domestically focused companies that couldn't take advantage of tax arbitrage strategies available to multinationals.

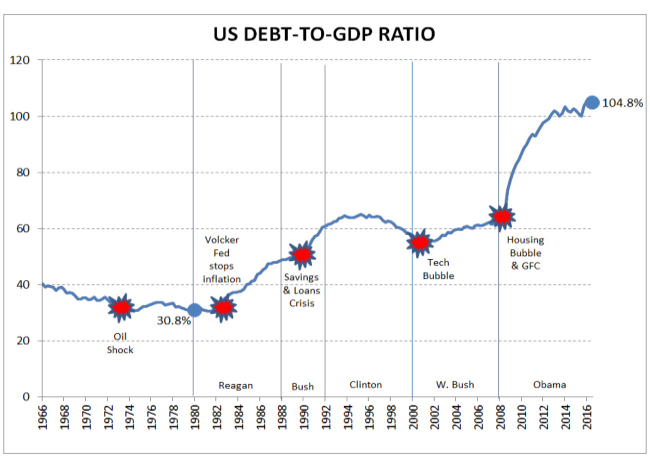
Proposal	Winners	Losers
Lower Taxes	**Domestic Stocks** Lower effective tax rate	**Municipal Debt** Reduced appeal of tax advantage
Infrastructure Spending	**Materials, Industrials, Capital Equipment**	**Treasuries?** Depends on source of funding
Trade Protectionism	**Domestic Stocks** Small caps more insulated vs. large caps	**US Exporters (Tech), Foreign Equity**
Reduced Immigration	-	**Technology, Agriculture** Reduced access to highly skilled or unskilled labor
Reduced Regulations	**Financials, Energy, Mining, Food** EPA, FDA, Dodd Frank	**Technology** Changing stance on net neutrality

Unlike the early 80's, fiscal stimulus would come at a time when the US economy has already reached full employment (refer to graph below), implying rising inflation as businesses compete more aggressively for labor to sustain their expansion.



This is not lost on the Federal Reserve, which is likely to continue raising rates at a moderate pace to contain future inflation. This would work to offset any particular benefit from fiscal stimulus.

In addition, the ratio of debt-to-GDP in the US is already at a high of almost 105%. By comparison, it stood at 31% in 1980. Bond investors may recoil at the prospect of further indebtedness, with higher rates limiting the scope of fiscal stimulus measures.



Sources: Bloomberg, OMB

In short, we now face an uncertain environment where reflationary policies from the Federal government may be checked by tightening financial conditions, while markets assess the impact of various policy moves on particular industries and companies.

In addition, markets don't seem to reflect the increased risks brought about by proposed policies, chief among them the potential impact of increased protectionism.

The incoming administration is considering renegotiating trade deals such as the North America Free Trade Agreement (NAFTA) and the imposition of a border adjustment tax, which would represent a blanket import tariff and export subsidy. Such a change could disrupt trade flows, likely impacting China and Mexico the most.

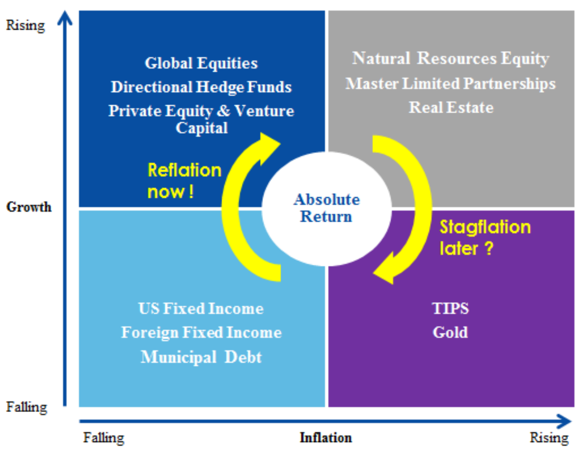
This could prove particularly destabilizing to China. China has fought off a recession in its industrial sector (e.g. steel) with renewed stimulus measures and credit creation. While supportive of their economy, it has also further increased imbalances as debt creation ballooned. And tightening financial conditions in the US are making it difficult to keep the currency in a tight trading band relative to the US Dollar. This has led to currency depreciation and capital flight. As shown below, China's foreign exchange reserves dropped from $4 trillion to about $3 trillion over the past two years.

Source: Bloomberg

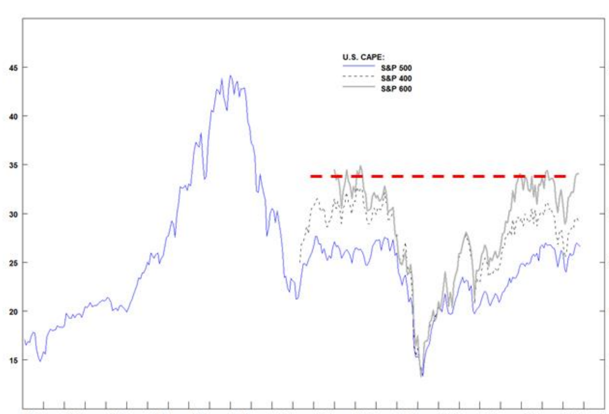
The imposition of tariffs could create a catalyst for a sharp devaluation of the Chinese currency, impacting global growth and possibly triggering a market correction.

Our base case in the near term involves a reflationary environment of continued modest growth and rising but still contained inflation. Growth could surprise on the upside, but we think this is balanced by high uncertainty in the actual implementation of proposed policies and the risk of risk of policy mistakes, such as a potential trade war or unanticipated consequence, as we described with China.

Longer term, we worry any boost to growth would prove temporary while higher levels of inflation set in, resulting in stagflation.



Near term, this benign scenario should be supportive of equities in general. Unfortunately, US equity valuations are already high and thus exposed to any disappointments, as shown on the following chart.



Source: BCA Research

The silver lining, however, is that increased uncertainty at the industry/company level, coupled with normalizing interest rates and a renewed focus on valuations, should lead to increasing differentiation of returns between companies. While a big story in 2016 was the flood of money pouring into passive strategies, we think active managers are now primed to outperform in coming years.

In conclusion, our key take-away includes:

1. Seek exposure to active strategies in equities and fixed income. Markets at an inflection point provide fertile ground for active outperformance.
2. Maintain target exposure to growth assets. Prefer directional hedge funds to public equities.
3. Lower exposure to recession protection below target, and seek below-market duration and high quality within that portfolio. Prefer municipal to taxable debt.
4. Increase exposure to inflation protection and natural resources in particular, including Master Limited Partnerships.
5. Maintain high cash balances as dry powder in the event of a market correction.

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 High Yield (Bank of America Merrill Lynch US Municipal High Yield), Municipal Debt (Bank of America Merrill Lynch US Municipal), Commodities (S&P/Goldman Sachs Commodity Index), Public Real Estate (MSCI US REIT), Global Hedge Funds (HFRI Fund Weighted Composite), Directional Hedge Funds (HFRI Fund of Funds Strategic), Absolute Return Hedge Funds (HFRI Fund of Funds Conservative), Venture Capital (Cambridge Associates Venture Capital Index), Private Equity (Cambridge Associates Private Equity Index), Private Real Estate (Cambridge Associates Private Real Estate).

RESEARCH/COMMENTARY DISCLAIMER

Last Updated: September 2016

solicitation of an offer to buy any securities or commodities, or investment advice relating to securities or commodities, or a representation that any security or commodity is a suitable or appropriate investment for any person. All information herein is written and prepared for large and experienced institutional investors with the highest degree of financial sophistication and knowledge and the capacity to withstand and assess any financial losses. Opinions expressed herein are current opinions as of the date appearing in this material only and are subject to change without notice. In the event any of the assumptions used herein do not prove to be true, results could vary substantially. All investments entail risks. There is no guarantee that investment strategies will achieve the desired results under all market conditions. No representation is being made that any account, product, or strategy will or is likely to achieve profits, losses, or results similar to those discussed, if any. No part of this document may be reproduced in any manner, in whole or in part, without the prior written permission of Windrose Advisors, LLC. You may not rely on the statements contained herein. Windrose Advisors, LLC shall not have any liability for any damages of any kind whatsoever relating to this material. You should consult your advisors with respect to these areas. By accepting this material, you acknowledge, understand and accept the foregoing.

2016 ANNUAL REVIEW AND 2017 OUTLOOK

■ Current view □ Previous view

Global Asset Allocation	-				+	
Equities		■				Rebounding world growth, but fair to high valuations and multiple risks
Hedge Fund Strategies			□	■		Prefer directional strategies
Private Strategies			■			Illiquidity premium available in select opportunities
Credit		■				Worsening fundamentals, expensive valuations
Government Bonds	■					Low yields, rising rates but safe haven asset
Commodities			■			Oil market rebalancing, prefer natural resources equities
Foreign Currencies		■				Expect renewed US Dollar appreciation
Cash			■			Benefits from rising rates and increasing option value in a market correction

Equities	-				+	
US		■				High valuations, monetary tightening, upside risk to growth but policy uncertainty
Europe			■			Lower valuations, monetary easing, risk of Euro area breakdown
Japan			□	■		Lower valuations, monetary easing, structural reforms, stable government
Emerging Asia		■				China struggling with rising debt and slowing domestic growth
Emerging Other		□	■			Low valuations, negative sentiment, benefit from recovery in commodity prices

Government Bonds	-				+	
US Treasuries		■				Safe haven asset, higher yield relative to DM peers, but expensive valuations
US Inflation-Linked		■	□			Relative value opportunity vs. nominals has diminished. Long term stagflation hedge
Developed Market Bonds	■					Low real yields, exposed to reflationary policies in Europe/Japan
EM Debt Local Currency			■			Attractive spreads, cheap currencies but exposed to rising rates & US Dollar
EM Debt Hard Currency			■			Lower return potential but less volatile due to reduced currency risk

Credit	-				+	
IG Corporates		■				Tighter spreads, rising shareholder friendly activity
IG Securitized			■			Strong collateral values, lower pre-payments
High Yield Corporates	■	□				Late cycle, high valuations
High Yield Loans		■				Some interest rate protection from floating rates
IG Municipals			□	■		Attractive yield relative to taxable alternatives
High Yield Municipals			□	■		Liquidity premium offers good entry point

Commodities	-				+	
Energy				■		OPEC deal, reduced investment will limit oversupply
Industrial Metals	■					Chinese stimulus efforts near term, but increasingly at risk of correcting
Precious Metals			■			Long term hedge against uncertainty/stagflation, wait for dollar strength to abate
Agriculture	■	□				Farming down cycle, oversupply

Currencies (vs. US Dollar)	-				+	
Euro	■	□				Ongoing monetary stimulation
Yen	■	□				Global reflation should lead to weaker Yen
British Pound		□	■			Similar dynamics to US, peaking economy may prevent tightening
Emerging Markets		■				Cheap currencies but potential volatility later in the year due to China
Commodity currencies		□	■			Prefer countries exposed to stronger oil prices

Hedge Fund Strategies	-				+	
Long-Biased L/S Equity		□		■		Stand to benefit from rising dispersion of returns
Event-Driven			■	□		Prefer long/short equity near term
Distressed			■			Poised for next distressed cycle
Arbitrage			■			Good spreads but mergers at higher risk of failure
Low Net L/S Equity				■		Higher short exposure a valuable hedge against possible equity downturn
Global Macro				■		Able to capitalize on rate uncertainty, currency volatility
CTA/Trend Following				■	□	Best alternative to long term bonds for market insurance

Private Strategies	-				+	
Venture		■				IPO market cooling down, high valuations
Buy-Out			■			Prefer mid-market deals
Distressed				■		Benign conditions short term but deteriorating fundamentals improve opportunity set
Natural Resources				■		Recovering industry with improving pricing environment
Real Estate		■	□			High cap rates. Focus on value add strategies and co-investment deals