PARTNERVEST

STAR WEALTH PARTNERS

First Quarter 2016 Commentary

April 19, 2016

Dear Investor,

The first quarter of 2016 reminded me of my childhood….more specifically Mr. Toad's Wild Ride at Disneyland, which is one of the few remaining attractions that was operational on the park's opening day in 1955.

The unexpected dips, turns, dark spots and ascension brought new meaning to the colloquial caution "Please keep your arms and legs inside the car at all times and do not stand up."

The good news is while our investment portfolios were jostled and jolted, the constitutional design of our portfolios held fast and performed as designed.

And now we must thank you, our clients for your support as we navigated the wild ride and in the end were able, in most cases, to deliver modest positive returns on a net-of-fees composite level within our STAR Spectrum, VEGA and Alpha programs.

Currently, we are cautiously optimistic about the near term return prospects and invite you to read on as we lay out what happened, and how it affected your investment returns. And what we believe will happen and what we are doing to seek returns and avoid material losses where possible.

Sincerely,

David Young

David Young, CFA
Chief Investment Officer

Strategy Update

Early in the quarter in many of the STAR Spectrum strategies, we reduced our positions in assets that we considered likely to underperform amid prolonged instability. In so doing we created an enhanced cash cushion in the amount of 8% of funds under management. We are poised to redeploy and we have identified the following conditions as worthy trigger points:

- ***Widening credit spreads.*** Historically one of the most accurate indicators of stress on the financial markets: when the spreads on high-yield debt widen, prices decline and it's time to buy.

- ***The Fed raises interest rates***. Should hawks prevail at the Open Market Committee meeting late this month, we'll be ready.

- ***Britain exits the European Union***. Markets throughout Europe would rattle, potentially creating an abundance of cheap equity.

- ***Corporate buy-back fizzles.*** If buy-backs on Wall Street dwindle meaningfully ahead of earnings results, share prices could follow.

- ***Energy markets stabilize***. We'll consider a sustained, $40-a-barrel crude price as bullish for the energy sector in particular, and the economy as a whole.

- ***Summertime earnings inspire***. If Q2 corporate earnings hold firm, we plan to redeploy.

MARKET COMMENTARY

- We expect Q1 GDP to grow at an annualized rate of 2% or better, in line with the market consensus.
- S&P 500 Index ended in positive territory by 1.4% after sharp declines to start the year.
- The rate on the benchmark 10-year U.S. Treasury bond continued its choppy decline, to 1.8% at the quarter's end having entered the year at 2.2% percent, as investors sought shelter from turbulent markets.
- An uncertain credit environment continued jitters about the Chinese economy and soft source data from Washington made for volatile, data-driven markets. Case in point: a strong March jobs report kindled the prospect of higher interest rates days after stocks staged historic rallies in response to dovish signals from Fed-head Yellen.
- Inflation remains below target rates, hovering around 1% to 1.5%.
- Precious metals were big winners for the quarter while the dollar unexpectedly tumbled.
- Emerging markets did well for the quarter as the EM Index climbed 5.7 percent for the quarter thanks to a 13.2% gain in March. EAFE markets also enjoyed a strong March but ended the three-month period down 3.0%.
- Yellen's market-friendly speech last month chased share prices to a new peak for the year as bond yields tumbled. We fear that unless the Fed gets serious about the current global liquidity glut a new generation of asset bubbles is inevitable.

MARKET OUTLOOK

- We believe the global economy will avoid recession thanks to steady, if not inspiring U.S. growth.
- With interest rates languishing, bond yields will suffer alongside strong equity markets. We forecast the Fed will tighten credit at least once during 2016 and we hope it will continue to adjust its policy rate higher - from 0.50 to 0.75 basis points - to pre-empt asset inflation.
- Though we are confident energy prices will defy the historic lows of the last three quarters, price volatility is unavoidable given continued Middle East instability.
- Dollar's dominance was rendered uncertain by Yellen's speech and bullish job growth in March.
- We anticipate little more than single-digit returns from equity and fixed-income markets for the calendar year.

PORTFOLIO RECAP

- Our exposure to equities hampered returns and led to fierce volatility during the quarter.
- Reducing non-U.S. equity, high-yield and emerging-market bonds mid-quarter mitigated the stress of market instability worldwide.
- One bright spot this quarter: U.S. large caps, our largest single allocation of asset class.
- Emphasizing yield from fixed-income assets stabilized returns, but came at the expense of full participation in the fixed income rally fueled by a further decline in interest rates.
- The alternatives allocation performed roughly in line with other risk assets for the quarter.

PORTFOLIO STRATEGY

- Reduce US equity overweight to neutral.
- Maintain lower allocations to Non-U.S. equity markets.
- Look for attractive macro-economic, fundamental, valuation and technical conditions to redeploy our significant cash cushion in applicable strategies.
- Short to intermediate fixed income maturity and interest rate exposure to minimize the impact of rising or volatile interest rates.
- Emphasize high quality yield enhancing corporate credit / MBS / ABS, fixed income allocations.
- Limited & reduced exposure to High Yield and Emerging Markets debt.

Market Commentary

ECONOMIC

- We stand by our projections of annualized U.S. economic growth of between 2-3% given the fourth quarter's adjusted 1.0% growth, signs of rising inflation and continued new job creation.
- Non-farm payrolls grew by 215,000 in March, thanks to growing demand in the construction, health care and retail sectors.
- The unemployment rate rose slightly to 5.0% from 4.9% because of an increase in the labor-force participation rate to its highest level since March 2014.
- Core inflation is forecast to reach 1.7% percent on the year, up by 1.5% the following year but still below 2.0%, which the Fed has identified as a trigger for the boosting of short-term interest rates. The gradual increase in prices suggested a waning of spare capacity as consumer spending rose in February by an inflation-adjusted 0.2%, up from a 0.4% decline in January.
- The household saving rate posted first-quarter growth to 5.4%, up from 5.0%, though we note that previous quarterly savings increases have eroded in revision.
- Manufacturing also rose in March despite the biggest drop in industrial jobs since 2009. Recent declines in the dollar can only be good news for industrials, if not for their diminished work force.
- Though oil prices have stabilized in the $30-to-$40 a barrel range after testing 11-year lows early this year, both Saudi Arabia and Russia refuse to cut production for fear of losing market share to American producers even as Iranian crude enters the market as part of the U.S.-Iran agreement to restrict Tehran's nuclear program.
- The energy sector continues to struggle with problems of oversupply, geopolitical tensions and infighting between OPEC and non-cartel producers.
- Gold, meanwhile, enjoyed its best quarterly gain in thirty years as it asserted itself as a safe haven.

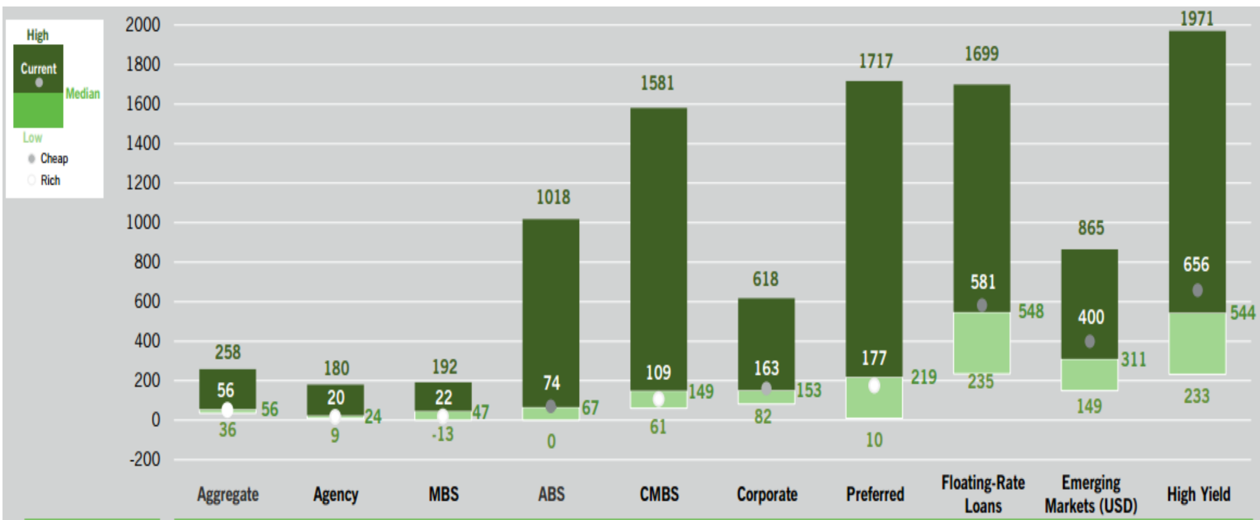
FIXED INCOME

- The yield on the 10-yr Treasury note decreased from 2.2% to 1.8%, the steepest quarterly decline in three years.
- Yields remained stubbornly low despite the strong job report unveiled last week, suggesting traders are not convinced a tighter job market will impel the Fed to lift borrowing costs anytime soon.

FIXED INCOME continued

- The Barclays Aggregate Bond Index returned 2.8 % in the first quarter. Investment-grade corporate bond spreads tightened in the month of March.
- The average spread of the Morningstar Corporate Bond Index began the year at +168, peaked on Feb. 12 at +215, and then narrowed to +166 by March 22.
- Credit spreads on asset-backed securities traded within their widest bands in recent years, drawing investors into that market in search of yield.

Fixed Income Spread Analysis



Source: Barclays, JPMorgan, BofA, Merrill Lynch, US Dept of Treasuries
Data as of 03/31/16

EQUITY

- Share prices finished strong for the quarter after an apocalyptic start that bottomed out in early February. The S&P 500 crawled back to eke out a quarterly gain of 1.4% while smaller-cap stocks finished 1.5%in the black. Even the S&P energy sector finished 4.0% ahead owing to a mild rebound in crude prices.
- The Russell 200, meanwhile, shed 1.5% for the quarter but finished strong in March, gaining 8.0%.
- By itself the March job report is unlikely to place renewed selling pressure on shares.
- Fun Fact: The second quarter of election years has the worst average historical return of the four-year Presidential Cycle.

Market Commentary

INTERNATIONAL & EMERGING MARKETS

- The MSCI Emerging Markets index jumped 5.7% for the quarter. Despite this, the outlook for emerging market investment remains clouded by depressed commodities prices and sluggish growth in Europe and Japan, to say nothing of geopolitical concerns.
- The dollar posted its biggest quarterly percentage loss in over five years - more than 4.0% in the first quarter - after months of dominance.
- The European Central Bank (ECB) cut projections for the 19 member euro-zone economies - to 1.4% this year - and reduced its deposit rate to minus 0.4%.
- Global equity in developed markets, as measured by the MSCI EAFE Index, posted a 3.0% loss in the first quarter.
- China's central banker declared an exchange-rate "return to normalcy" after months of uncertainty over the Chinese economy prompted sharp selling of its currency, the yuan. The specter of deflation continues to haunt the economy, however.
- This month, Standard & Poor's lowered the outlook on China's double A minus rating from stable to negative, in line with a similar move by Moody's in March.

	Q1 2016		Q4 2015	
CASH	↑	0.01%	↑	0.01%
US BONDS	↑	3.04%	↓	-0.56%
US HIGH YIELD BONDS	↑	3.25%	↓	-2.17%
US STOCKS	↑	1.35%	↑	7.05%
US SMALL CAP STOCKS	↓	-1.52%	↑	3.59%
GLOBAL BONDS	↑	6.74%	↓	-1.15%
GLOBAL STOCKS	↓	-3.01%	↑	4.71%
EMERGING MARKETS BONDS	↑	5.22%	↑	1.55%
EMERGING MARKETS STOCKS	↑	5.70%	↑	0.66%

Market returns

Market Outlook

ECONOMIC

- We expect earnings growth to erode despite high multiples of an overly optimistic market.
- Companies have gradually converted debt into equity in their capital structures while still paying out dividends. Cash balances are also very strong suggesting corporates are running lean operations and are thus suited for expansion.
- Continued low energy costs and rising incomes due to a tightening labor market should offset eroded buying power as a result of dollar weakness.
- Though commodities prices, led by crude oil, have recovered from their winter lows and valuations remain cheap; we continue to underweight the energy sector.

FIXED INCOME & EQUITY

- We continue to bake myriad global risks - from jihadi violence to divergent monetary policies - into the outlook.
- We expect high volatility to prevail at least until mid-year and in turn we have increased our exposure to short-term, high-quality debt in sectors with strong cash positions and enhanced fundamentals.
- We favor exposure to shorter-dated credit with sensible credit ratings in sectors with strong cash positions and improving fundamentals.
- We have reduced our holdings in Europe and Japan and increased weightings in large-cap U.S. stocks in search of value over growth.
- We expect value investing is expected to outperform growth beginning in 2016.

		2016
Real GDP Growth	FLAT/DOWN	2% -3%
Unemployment Rate	FLAT/DOWN	4% - 6%
Inflation	FLAT	1-2%
10 Year Note yield	UP	2.50%+
S&P 500	UP	5% +/-

Key annualized forecasts

Market Outlook

INTERNATIONAL & EMERGING MARKETS

- The political and economic challenges facing the global economy "Ex-U.S" are forbidding.
- Despite assurances from Beijing, we believe the Chinese economy is in the early stage of an epic, long-delayed retrenchment that may well elude the grasp of the leadership. Deflation, diminished growth and political instability are distinct possibilities. The euro bloc and Japan have been pushing on negative interest rates with little to show for it. Europe is grappling with a refugee crisis and the not-unrelated scourge of terrorist violence.
- We anticipate more weakness in emerging markets as economies and companies adapt to China's "new normal" of slower growth. To complicate matters, commodities-giant Brazil is embroiled in an executive-level political crisis even as it struggles to beat a recession.

U.S. Interest Rate Scorecard

The following fundamental and technical factors point to yields on 10-year US Treasuries fluctuating between 1.5% and 2.5% in 2016. We expect one to two more policy rate hikes in 2016.

	Comment	Explanatory Power	Impact on Rates	Assessment
Fundamental Factors – Help to establish long-term fair value				
GDP Growth	GDP is expected to grow at a 2% -3% rate in 2016, approaching the long-term average	High	↓	
Inflation	Core measures of inflation stable at or below 1.5%	High	→	Economic fundamentals point to continued low yields, but not necessarily "historic" low yields. Though the US debt load is on investors' radar, it is not currently weighing on rates.
Demographics	Retiring boomers switching from equities to bonds	Medium	↓	
Required Risk Premium	Budget deficits a potential concern	Low	↑	
Bank Lending and Private Debt Issuance	Banks are buying Treasuries instead of making loans	Medium	↓	
Technical Factors – Influence near-term volatility				
Market Sentiment	Concern for higher rates	Medium/Low	→	
Investor Demand for Treasuries	Record high global demand for a safe-haven investment	Medium	↓	
Treasury Auctions	Record funding requirements	Medium	↑	Technical factors point to rates staying low.
Federal Reserve	Retracement of QE is a delicate balance and presents the risk of a policy mistake	Medium	↑	

Current Strategy Summary

Fixed Income

U.S.	
DURATION	1 - 3 YRS
CURVE POSITIONING	Short/Int.
U.S TREASURIES	-10 - 0%
MORTGAGES	20 - 30%
INVESTMENT GRADE CREDIT	20 - 30%
HIGH YIELD	10 - 20%
MUNICIPALS	0 - 5%

Non-U.S.	
NON-U.S. DEVELOPED	0 - 10%
EMERGING MARKETS	0 - 10%
CURRENCY	0 - 5%

Equity

U.S.	
OVERWEIGHT STOCKS	0 - 5%
DIVIDEND YIELD	5 - 10%
MEGA CAP	10 -15%
LARGE CAP	25 - 35%
SMALL CAP	5 - 10%

Non-U.S./Alts	
NON-U.S. DEVELOPED	5 - 10%
EMERGING MARKETS	0 - 5%
ALTERNATIVES	10 - 15%

Red = zero to negative exposure Yellow = modest allocation Green = attractive exposure, material allocation

DISCLOSURES

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