

REVIEW OF MARKET PERFORMANCE

FISCAL YEAR 2019



Fixed income gained broadly, while equities and real assets were mixed

GLOBAL ASSET CLASS PERFORMANCE: FY 2019

Total Return (%) • US Dollar



Investors sought relative safety in bonds as heightened trade tensions between the United States and China raised fresh fears regarding the global growth outlook. Non-US equities were mixed, in contrast to double-digit returns for US stocks. Gold and real estate outperformed among real assets, spurred on by falling yields and risk-off sentiment, while commodities declined.

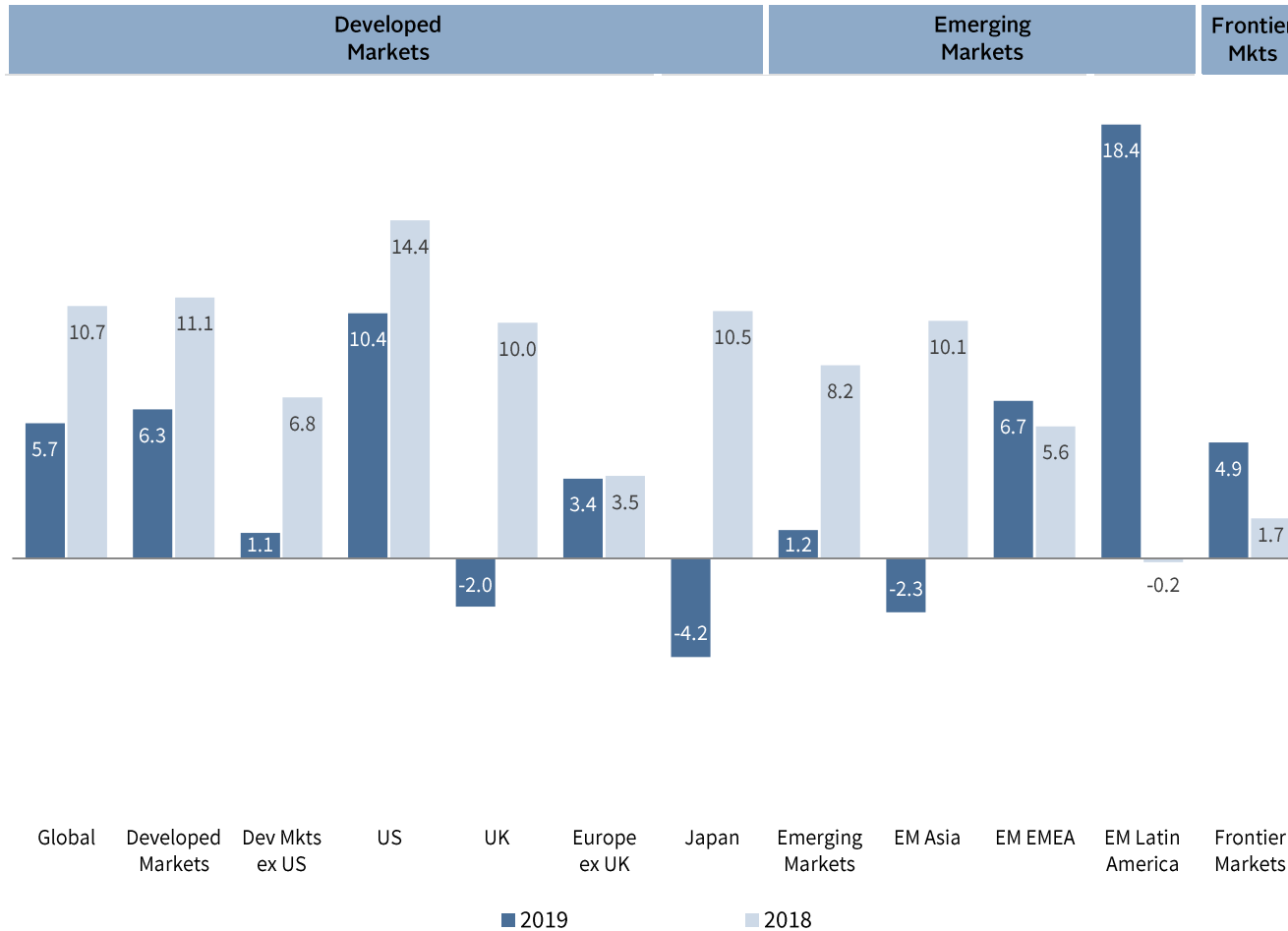
Sources: Alerian, Bloomberg Index Services Limited, Federal Reserve, FTSE International Limited, Hedge Fund Research, Inc., Intercontinental Exchange, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Asset classes represented by: MSCI World Index ("World"), S&P 500 Index ("US"), MSCI UK Index ("UK"), MSCI Europe ex UK Index ("Europe ex UK"), MSCI Japan Index ("Japan"), MSCI Emerging Markets Index ("Emerging Markets"), Alerian MLP Total Return Index ("MLP"), 80% Datastream World Oil & Gas Index and 20% Datastream World Mining Index ("NRE"), FTSE® EPRA/NAREIT Global Real Estate Index ("Global RE"), Bloomberg Commodity TR Index ("Cmnty"), LBMA Gold Price ("Gold"), Datastream 10-Year US Treasury Bond Index ("10-Yr US Treasury"), FTSE World Government Bond Index ("World Gvt"), Bloomberg Barclays US High Yield Bond Index ("US HY"), Bloomberg Barclays US Corporate Investment Grade Bond Index ("US IG Corp"), Hedge Fund Research Fund Weighted Composite Index ("Hedge Funds"), and Nominal Trade Weighted US Dollar Index: Broad ("USD"). Total return data for all MSCI indexes are net of dividend taxes. Hedge Fund Research data are preliminary for the preceding five months.

US stocks excelled but broader equity returns were more muted

GLOBAL EQUITY PERFORMANCE: FY 2019 VS FY 2018

Total Return (%) • US Dollar



US equities were among the top performers once again in FY 2019 and reached new all-time highs, whereas most other markets were mixed, hampered by falling economic activity and sentiment. Japan, EM Asia, and UK stocks sold off the most, buffeted by their relative exposure to global trade and ongoing Brexit uncertainty, respectively.

The US-China trade war intensified

S&P 500 CUMULATIVE WEALTH AND THE US-CHINA TRADE WAR

June 30, 2018 – June 30, 2019 • June 30, 2018 = 100



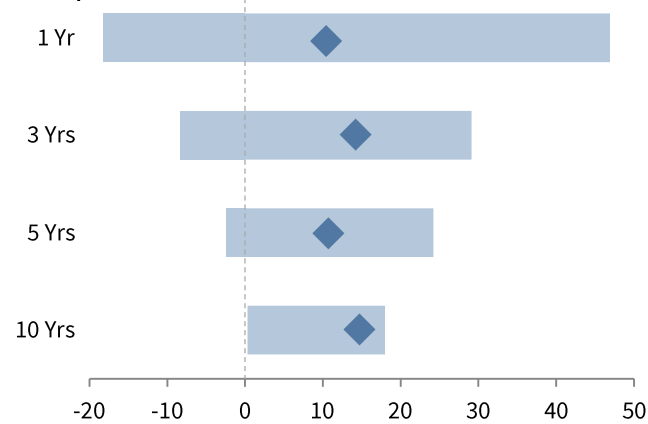
The trade war between the world's two largest economies exacerbated in FY 2019, as both sides implemented and increased tariffs on a combined roughly \$360B of goods. The conflict raised concerns of escalation toward a "tech war," as the United States hardened its stance on Chinese multinational technology company Huawei. These developments had a mixed impact on stock market performance, but an early May breakdown in trade talks derailed the market's post-December rally; US stocks later hit new all-time highs ahead of June's G20 meeting.

One-year equity and bond returns diverged

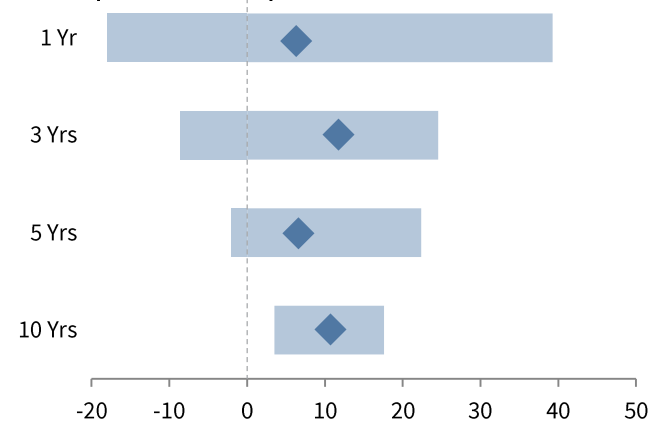
AVERAGE ANNUAL COMPOUND RETURN RANGE FOR VARIOUS TIME PERIODS

Periods Ended June 30, 2019 • Total Return (%) • US Dollar

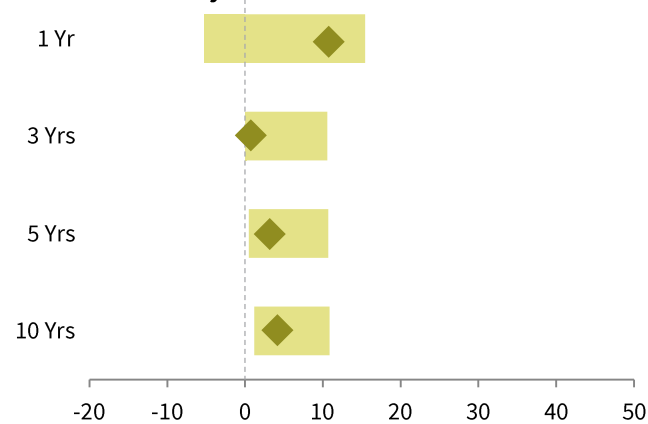
US Equities



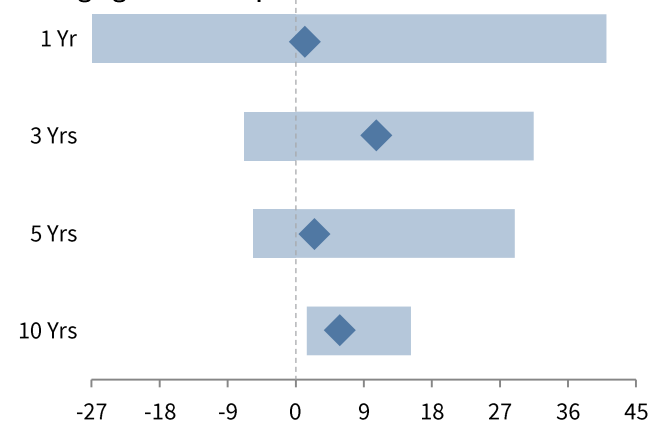
Developed Markets Equities



10-Yr US Treasury



Emerging Markets Equities



◆ Current Fiscal Year

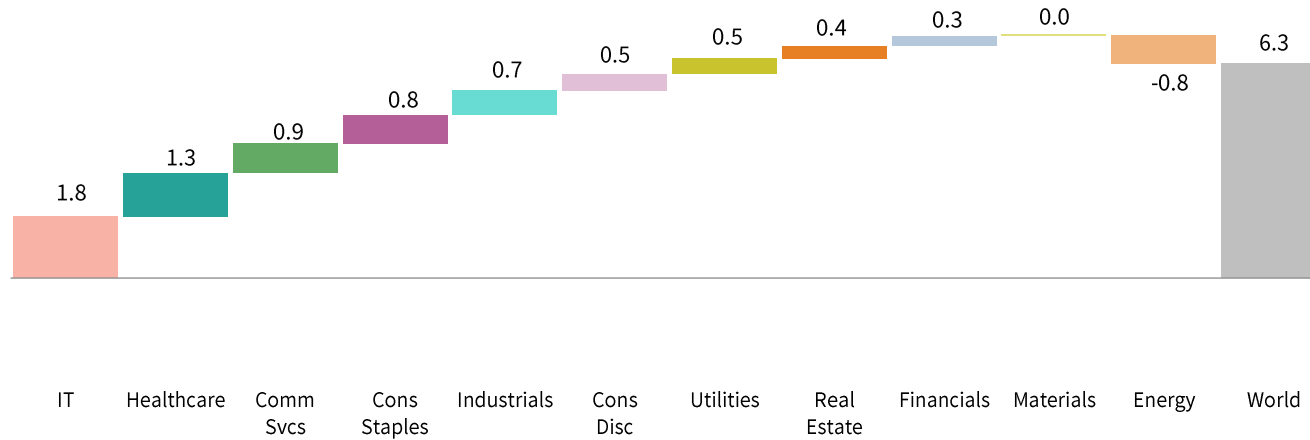
One-year equity returns were below their long-term medians in FY 2019, with non-US stocks posting returns near the bottom quartile of their respective one-year return distributions. In contrast, US Treasuries posted the strongest returns since FY 2012. Still, Treasuries have lagged in recent years, as the most recent trailing three-year US Treasury return ranks among the worst three-year performance periods dating back to 1900.

Sector performance varied among developed and emerging markets

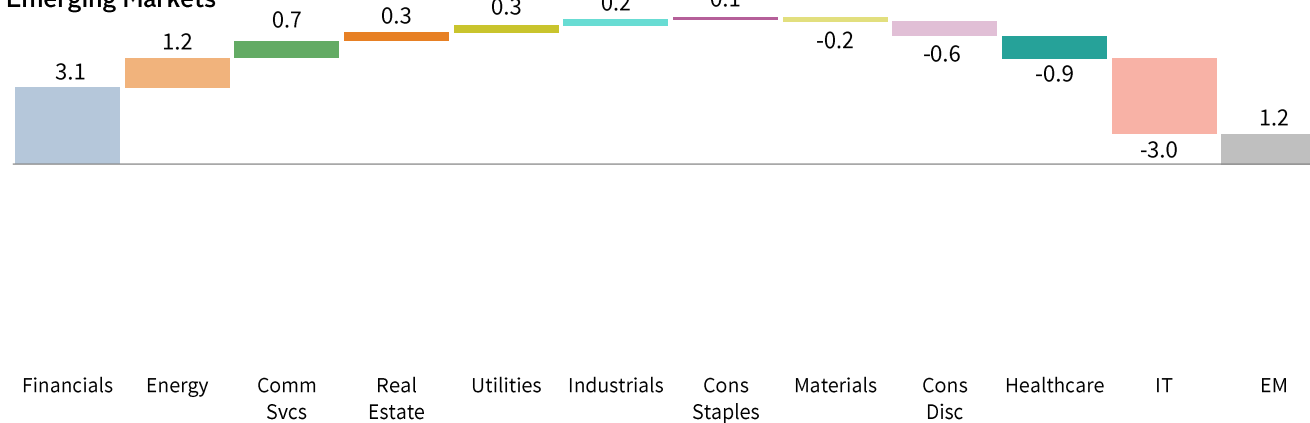
SECTOR CONTRIBUTIONS TO TOTAL RETURN: FY 2019

Percent (%) • US Dollar

Developed Markets



Emerging Markets

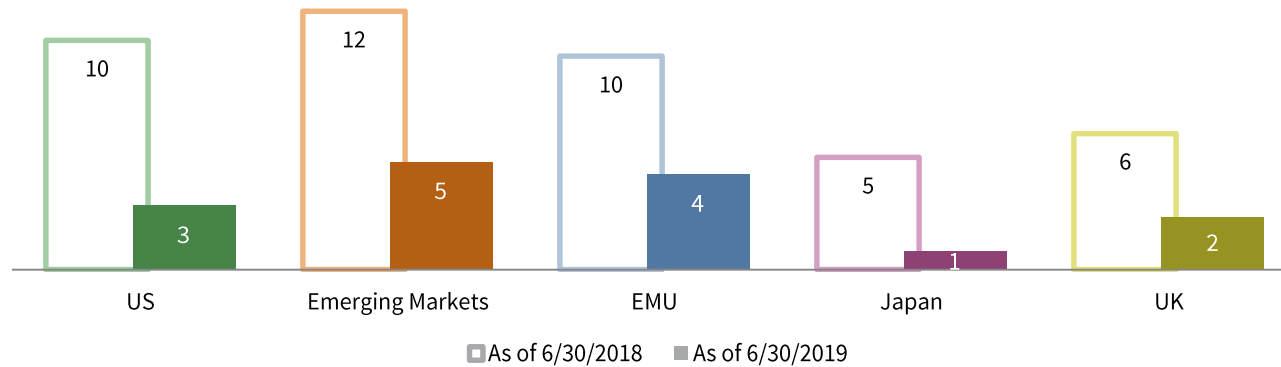


Information technology detracted the most from emerging markets performance, driven in large part by the trade-exposed semiconductor industry; in contrast, IT was the top contributor to developed markets performance. Energy and financials underperformed among developed markets sectors, but delivered top contributions for emerging markets.

Analysts downgraded CY 2019 earnings growth estimates; realized growth faltered

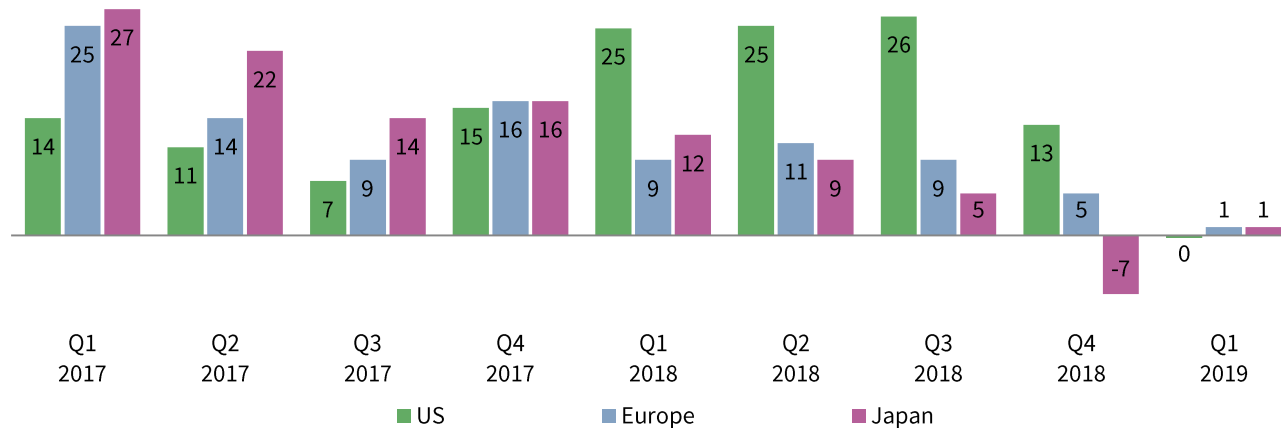
CHANGE IN CY 2019 EPS GROWTH ESTIMATES DURING THE FISCAL YEAR

As of June 30, 2019 • Percent (%)



QUARTERLY YEAR-OVER-YEAR EPS GROWTH

First Quarter 2017 – First Quarter 2019 • Percent (%)



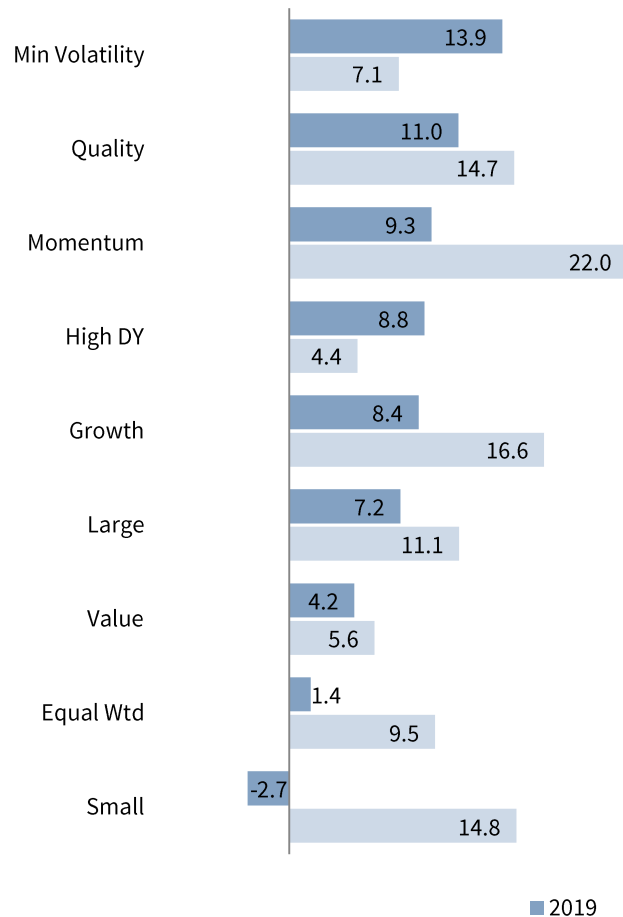
Analysts trimmed CY 2019 earnings per share (EPS) growth estimates across all major regions during FY 2019. Reductions in forward growth estimates are quite common, despite exceptions in CY 2017 and CY 2018 when EPS growth rapidly accelerated. US and EM EPS expectations were reduced the most, but EM forecasts were modestly higher than other major regions. Realized quarterly EPS growth rates fell to cycle lows, impacted by a fading of the one-time US tax cut boost and slowing economic growth.

Small caps declined amid mixed factor performance across developed and emerging stocks

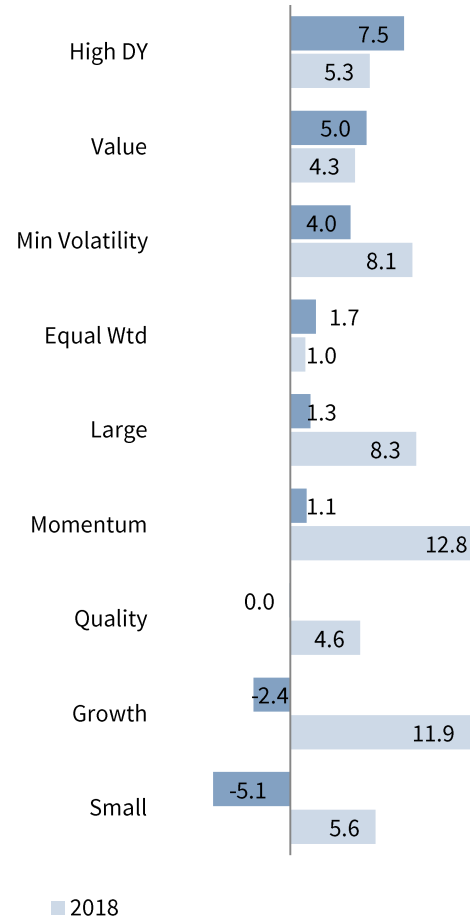
EQUITY PERFORMANCE BY FACTOR AND STYLE: FY 2019 VS FY 2018

As of June 30, 2019 • US Dollar • Percent (%)

Developed Markets



Emerging Markets

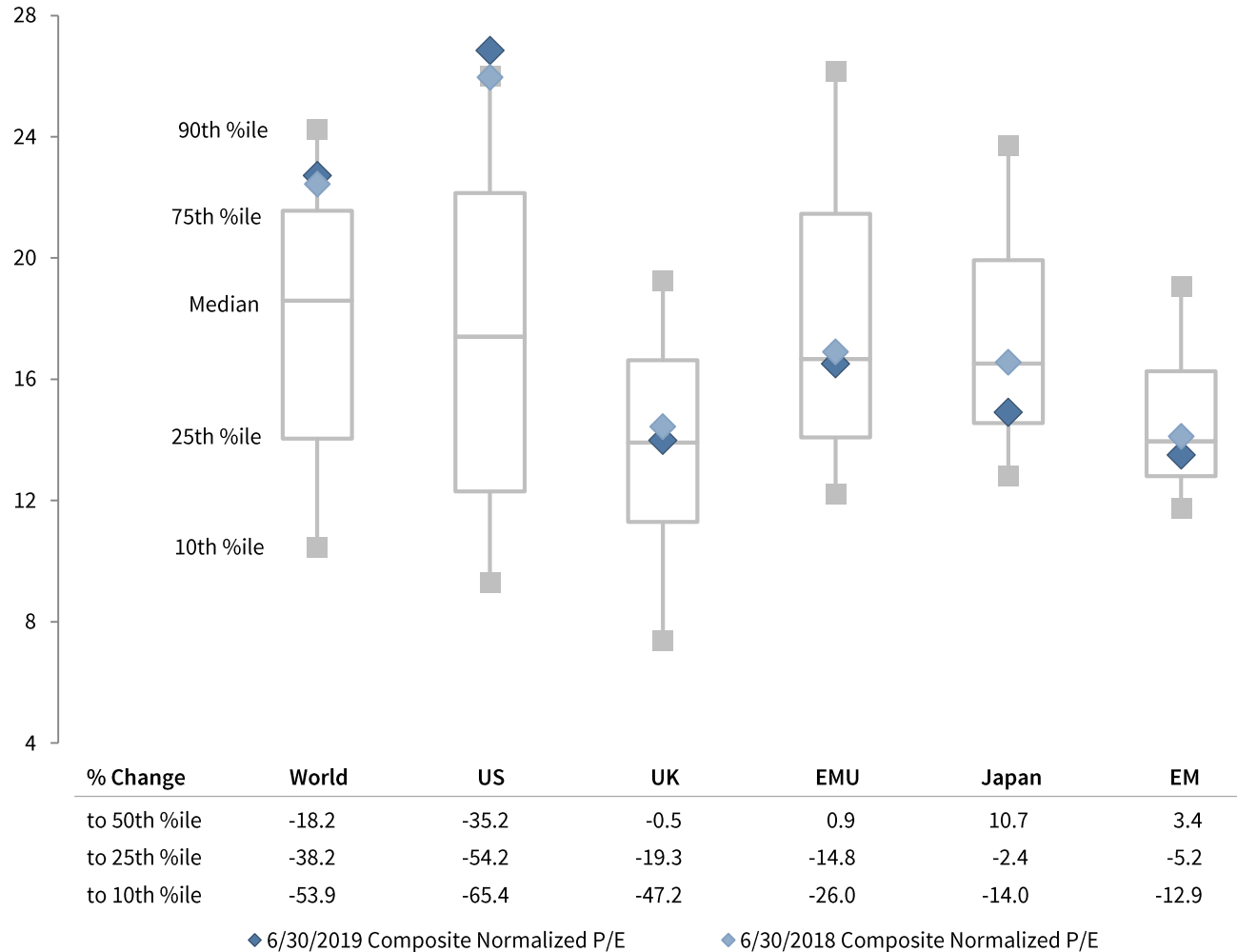


Minimum volatility performed well across both DM and EM. DM large caps outperformed small caps for just the third time in the past ten years, while growth outperformed value for the eighth time in the same time span. EM large caps outgained small caps for the fourth consecutive year, while EM value outperformed EM growth for the first time since FY 2014.

Valuations fell in most markets, but rose in the United States

NORMALIZED PRICE-EARNINGS RATIOS BY REGION: FY 2019 VS FY 2018

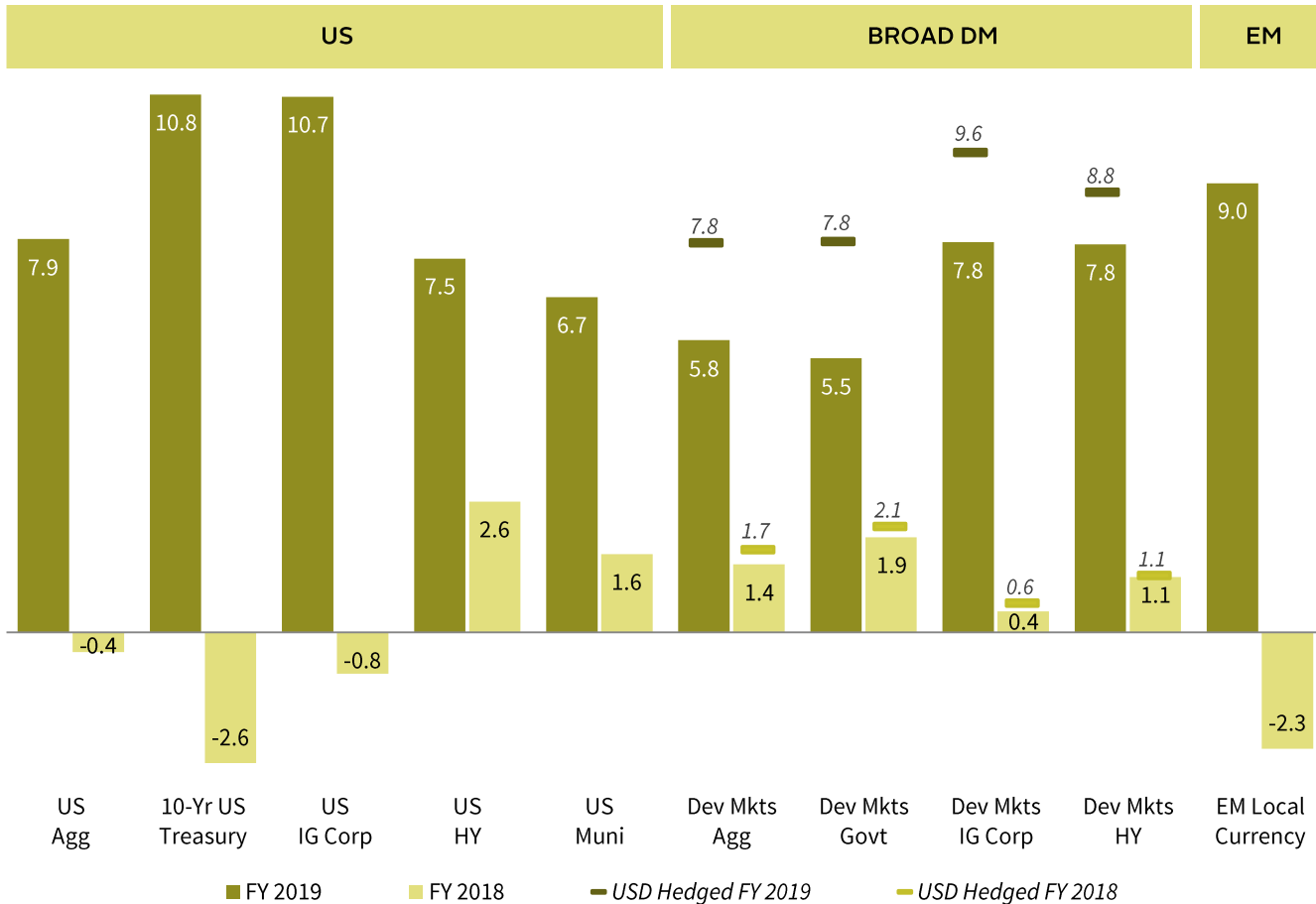
As of June 30, 2019



Aggregate global equity valuations increased moderately in FY 2019, due to the significant allocation to US stocks. US equity valuations ended in the 91st percentile of historical observations, whereas valuations in other major regions were undemanding, either at or below historical median levels.

Bonds delivered strong performance

GLOBAL BOND PERFORMANCE: FY 2019 VS FY 2018
Total Return (%) • US Dollar

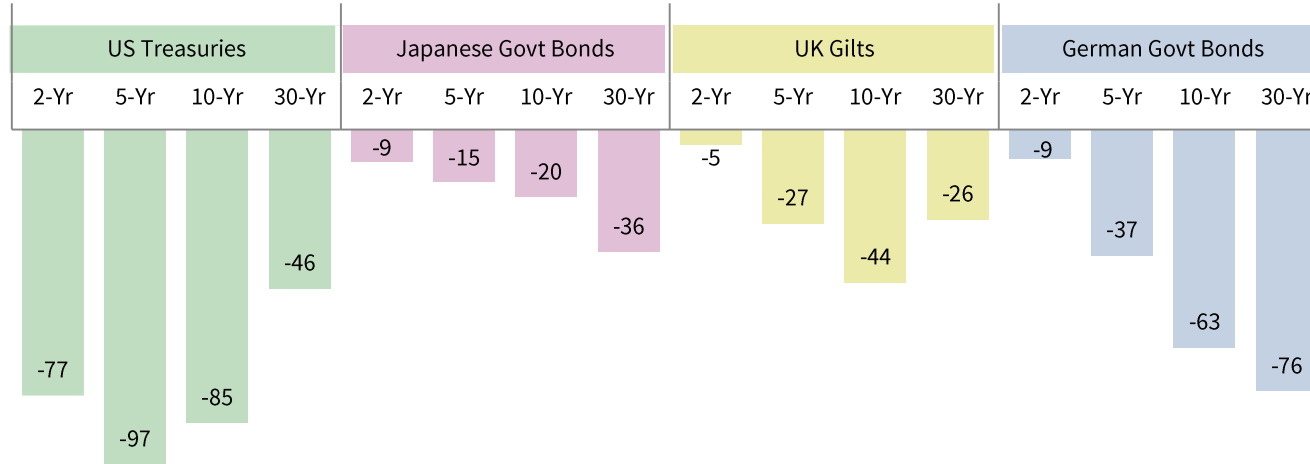


Major central banks pivoted to a more dovish stance, inflation expectations plummeted, and the escalating US-China trade war diminished the market's global growth outlook. US bonds generally outperformed global counterparts as Treasuries outgained corporate and tax-exempt equivalents. Hedging programs improved results vis-à-vis unhedged exposures as the dollar strengthened.

Global sovereign yields fell and the US Treasury yield curve inverted

CHANGE IN YIELD VS 12 MONTHS AGO FOR VARIOUS GOVERNMENT BOND MATURITIES

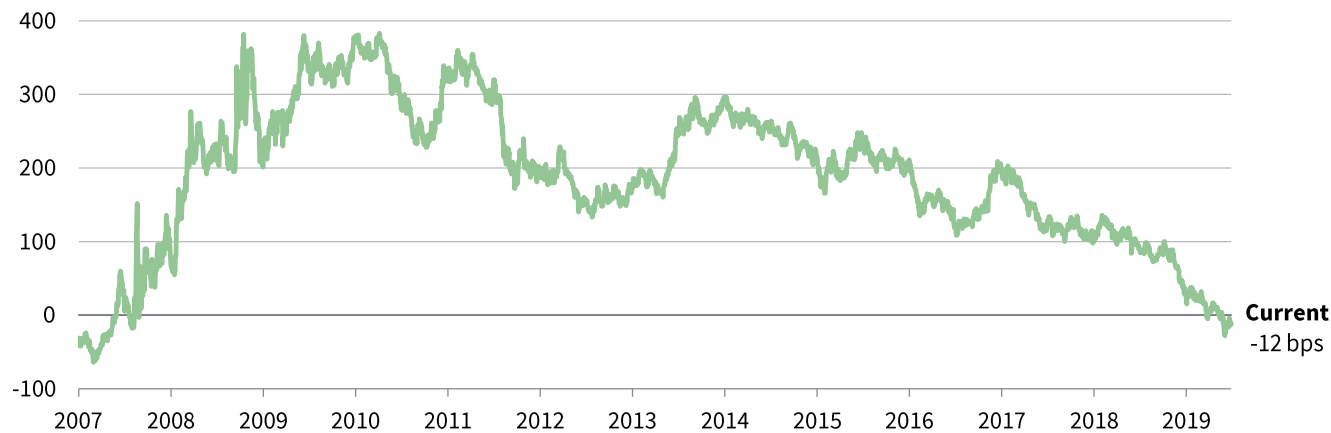
As of June 30, 2019 • Basis Points (bps)



Bond yields fell across the globe and yield curves flattened as mid- to long-term yields declined more than their shorter-term counterparts. Notably, Japanese and German sovereign yields fell to the most negative levels on record. Bond markets appeared to price expectations for poor economic growth; the US ten-year/three-month yield spread inverted for the first time since 2007.

10-YR/3-MO US TREASURY YIELD SPREAD

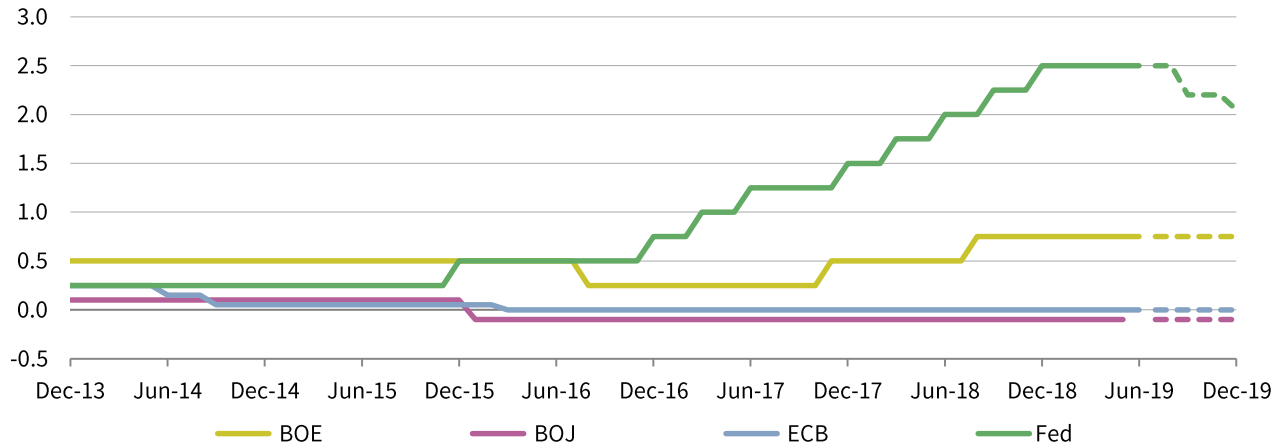
January 1, 2007 – June 30, 2019 • Basis Points (bps)



The Federal Reserve paused its tightening cycle after several years of rate hikes

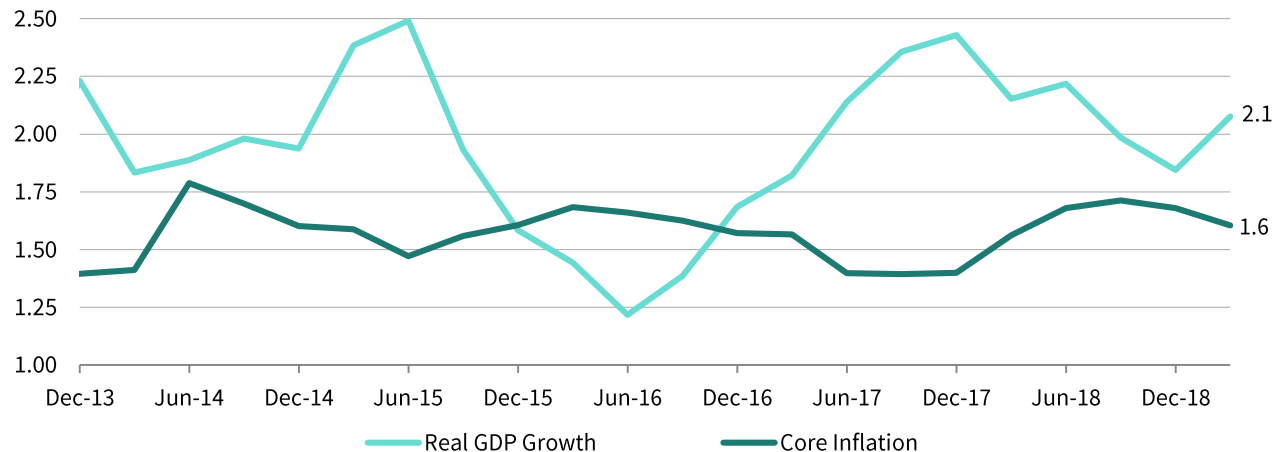
CENTRAL BANK POLICY RATES

December 31, 2013 – December 31, 2019 • Percent (%)



G7 CORE INFLATION AND GDP GROWTH

Fourth Quarter 2013 – First Quarter 2019 • Year-Over-Year Percent Change (%)

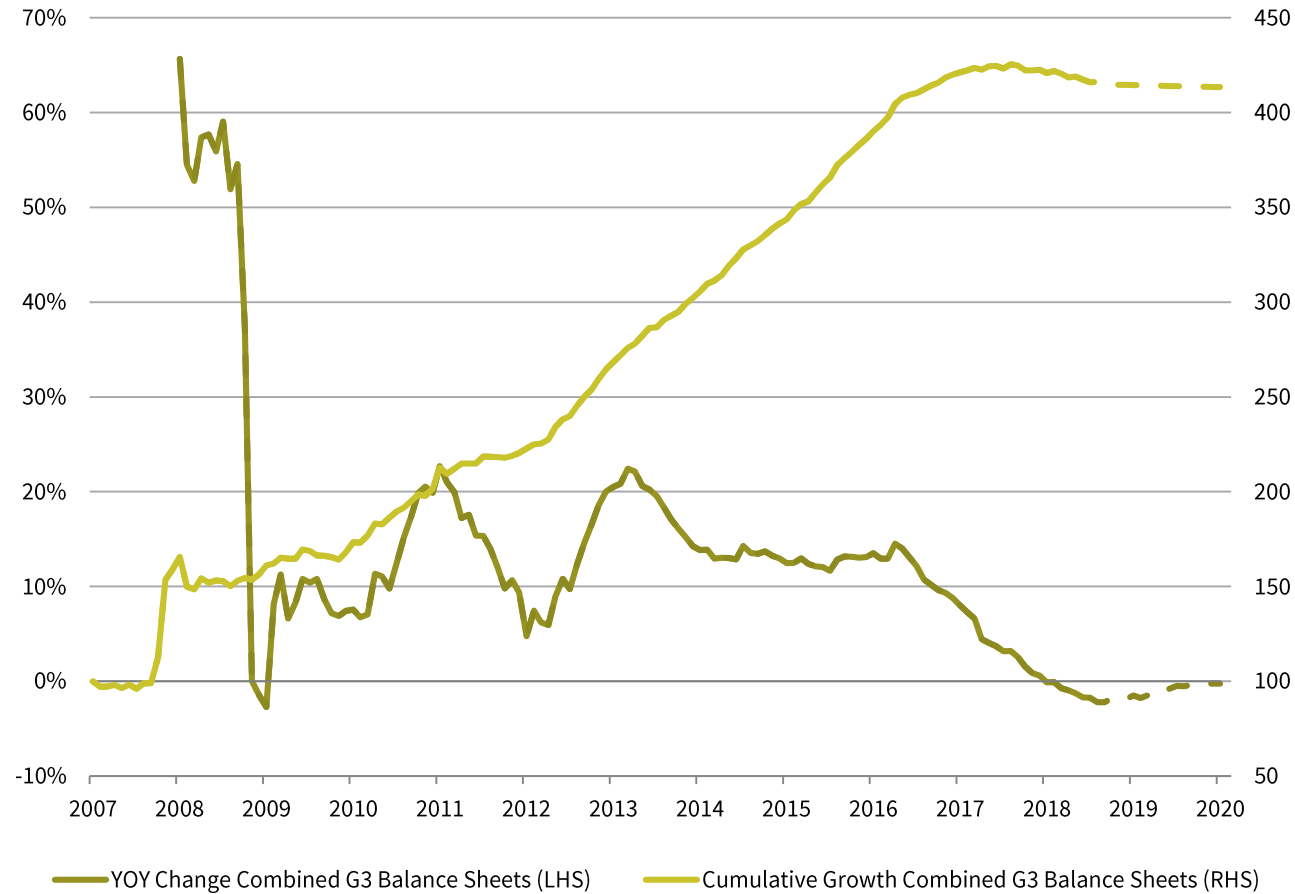


After hiking rates by 50 basis points at the beginning of FY 2019, the Fed shifted to a more dovish policy stance and indicated no further rate hikes for the remainder of 2019. On the other hand, bond and futures markets priced expectations for multiple rate cuts by the end of the year. Softening inflation and activity led other major central banks to signal a willingness to loosen policy.

Central bank balance sheet growth turned negative

G3 CENTRAL BANK BALANCE SHEET GROWTH

December 31, 2007 – December 31, 2020 • December 31, 2007 = 100 • Local Currency



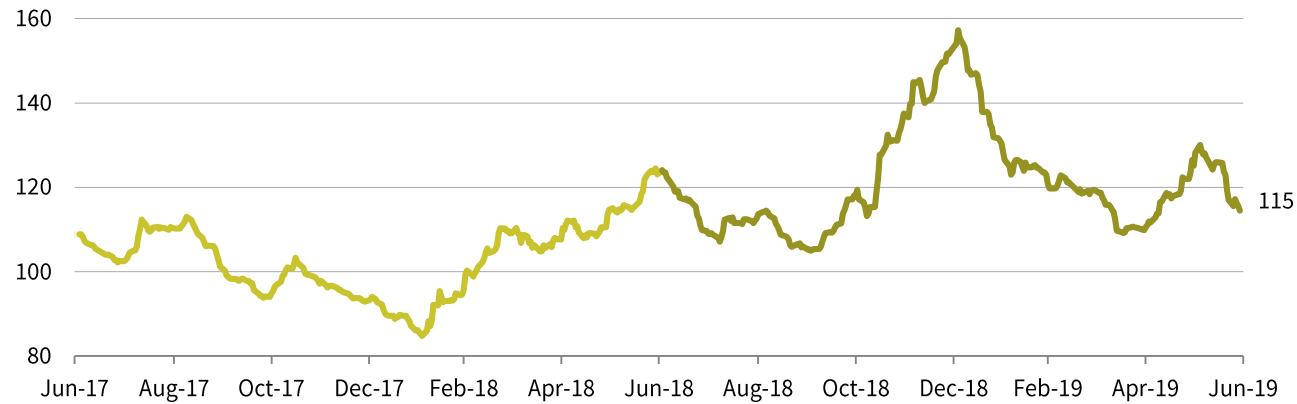
The Fed trimmed over \$475B worth of assets from its balance sheet, which led to the first combined balance sheet contraction across the Fed, ECB, and BOJ since 2009. Likewise, the ECB formally ended its Asset Purchase Program. However, central banks reversed their tightening course, as the Fed planned to end its runoff of Treasury securities by September 2019 and the ECB re-implemented its bank stimulus program.

Corporate bonds traded at elevated credit spreads relative to FY 2018

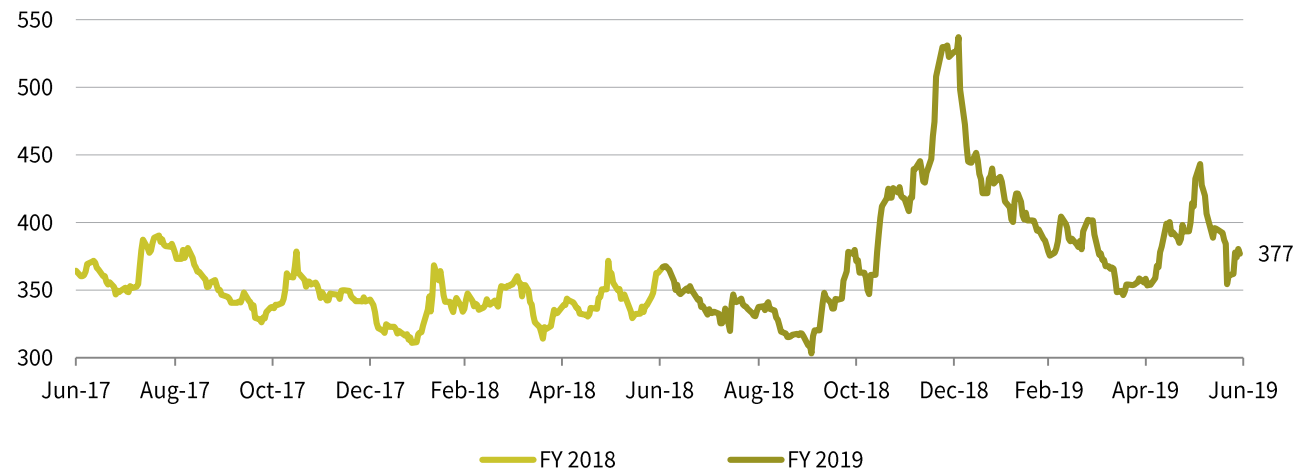
OPTION-ADJUSTED SPREADS ON US INVESTMENT-GRADE AND HIGH-YIELD BONDS: FY 2018 & FY 2019

June 30, 2017 – June 30, 2019 • Basis Points (bps)

US Investment-Grade Bonds



US High-Yield Bonds

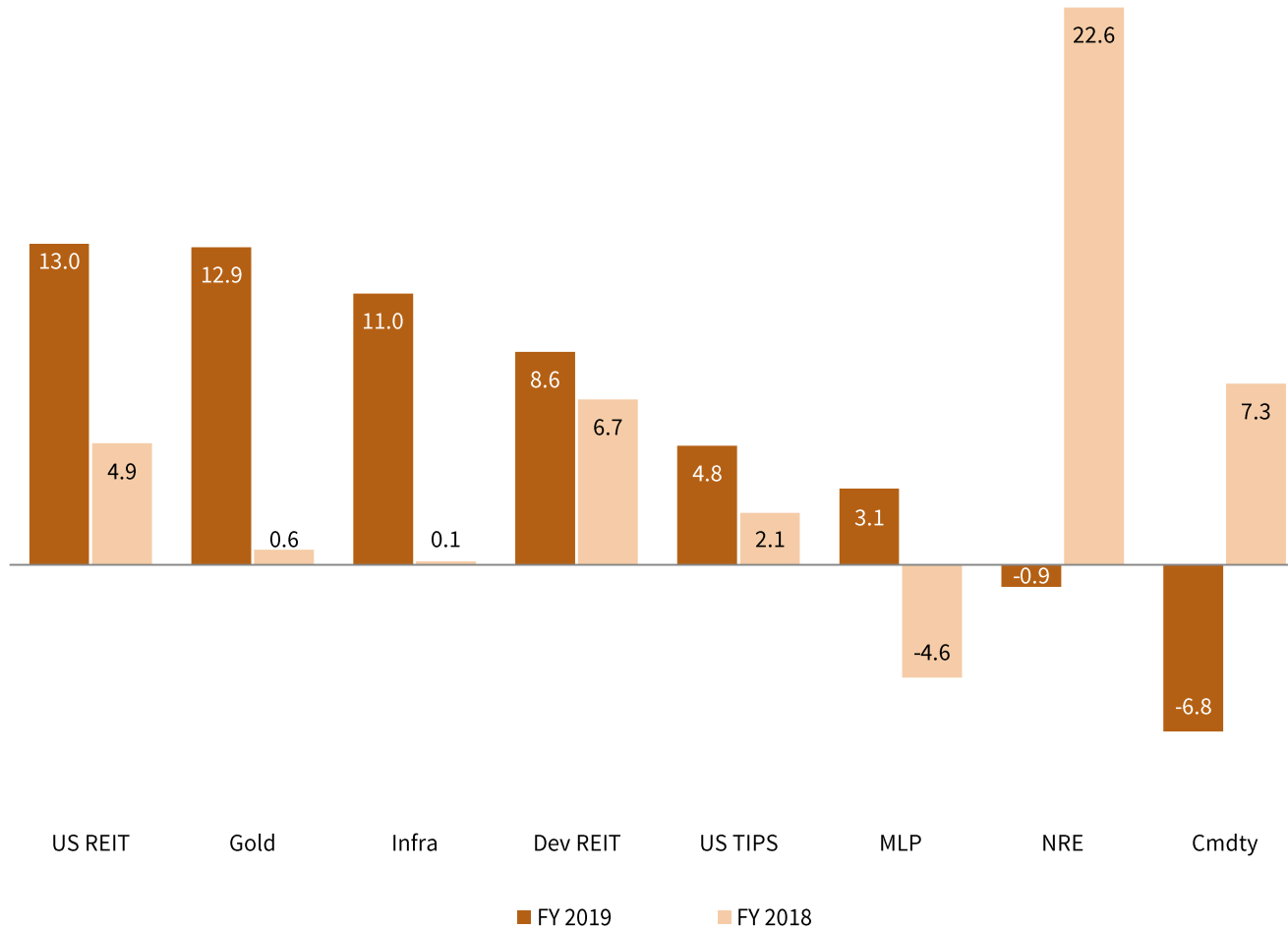


High-yield credit spreads compressed to their lowest levels since 2007, but surged in December as market liquidity dried up amid tightening financial conditions and new high-yield issuance fell to zero. Corporate bond spreads tightened during the second half of the fiscal year, and despite some moderate widening from April to June, remain low by historical standards.

US REITs and gold outperformed among real assets; commodities lagged

REAL ASSET AND INFLATION SENSITIVE PERFORMANCE: FY 2019 VS FY 2018

Total Return (%) • US Dollar

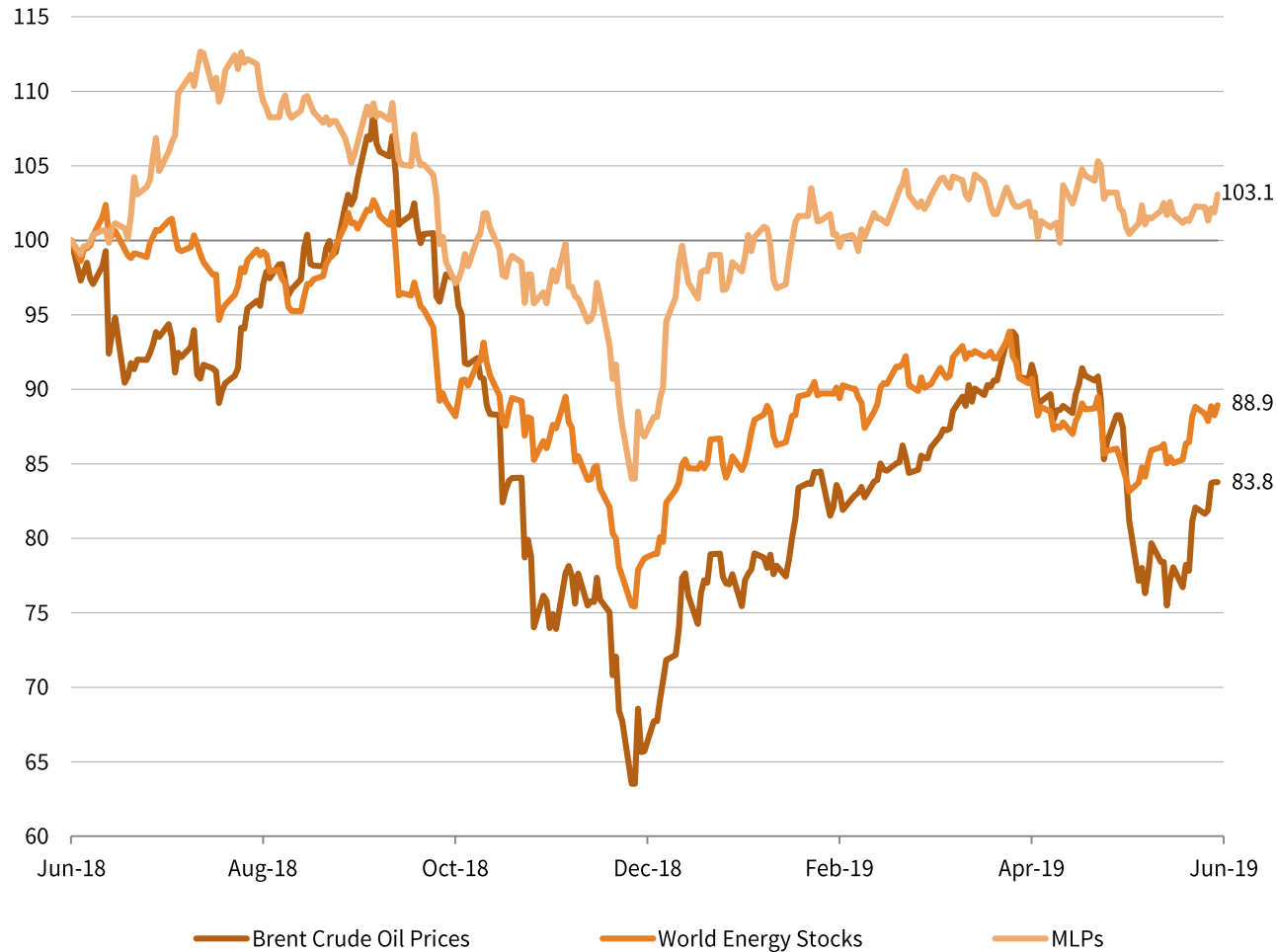


US REITs delivered strong performance as plummeting interest rates reignited investors' search for yield. Commodities sold off, dragging down returns for natural resource equities. Gold prices climbed to six-year highs amid heightened uncertainty stemming from rising geopolitical tensions.

Weaker oil prices weighed on energy-related equities, whereas MLPs were insulated

PERFORMANCE OF SELECT ENERGY ASSETS

June 30, 2018 – June 30, 2019 • June 30, 2018 = 100 • US Dollar

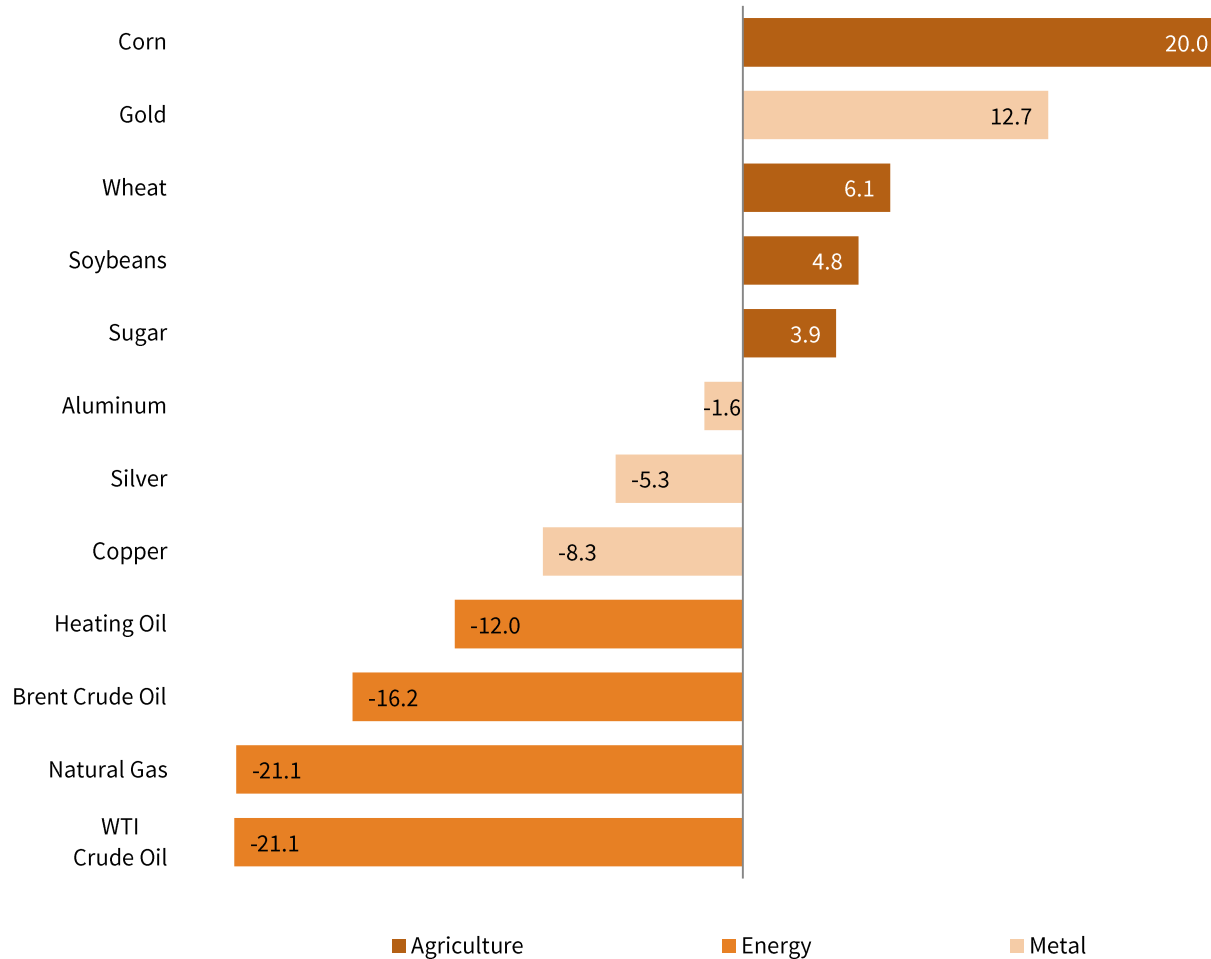


Oil prices rebounded after falling 42% peak-to-trough through December, but failed to retake prior peaks. Multiple factors supported the recovery: the United States unexpectedly allowed waivers on Iranian oil imports to expire, OPEC stood pat on any production increases, and tensions in the Middle East—highlighted by recent attacks on oil pipelines and tankers—continued to escalate. Record US oil production helped MLPs rebound from December troughs.

Energy commodities fell the most, whereas agriculture gained

SELECT COMMODITY SPOT PERFORMANCE: FY 2019

As of June 30, 2019 • Percent (%) • US Dollar

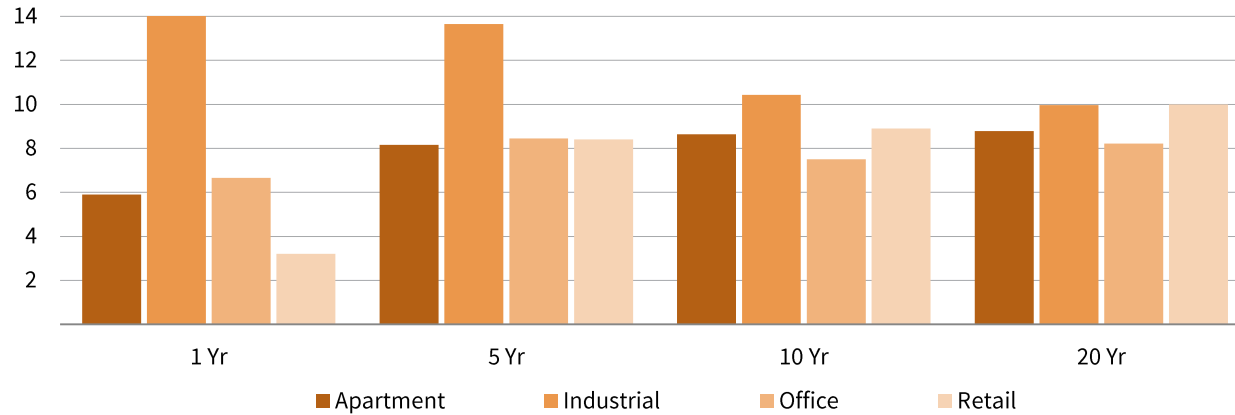


Market expectations for softening economic activity and the ongoing US-China trade spat generally weighed on energy and metal commodity prices. Copper, widely viewed as a barometer of global economic health, declined the most among metals. Devastating flooding across the US Midwest helped push up crop prices on expectations for diminished supply.

Industrial properties more than doubled returns from other property types

RETURNS BY PROPERTY TYPE

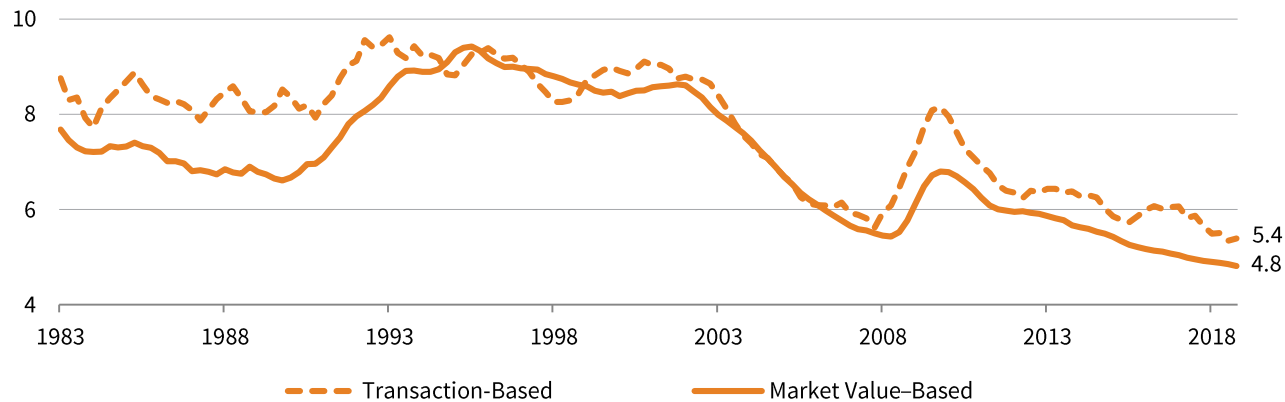
As of First Quarter 2019



Continued e-commerce expansion meant industrial properties enjoyed some of the strongest net operating income growth on record, largely at the expense of retail properties. Falling cap rates provided an additional tailwind across property types, except for retail, which saw cap rates increase over the past four quarters.

ALL PROPERTY CAP RATES

Second Quarter 1983 – First Quarter 2019

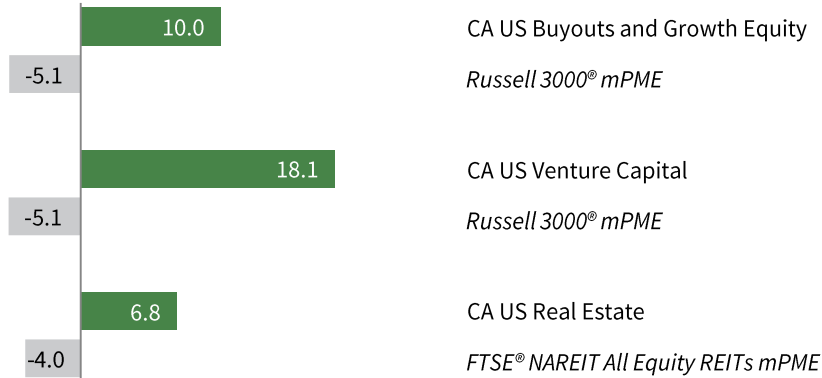


Private investments outperformed public equivalents in recent years

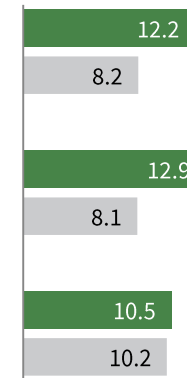
PERFORMANCE OF SELECT CAMBRIDGE ASSOCIATES PRIVATE INVESTMENT INDEXES VS PUBLIC EQUIVALENTS

As of Fourth Quarter 2018 • Percent (%)

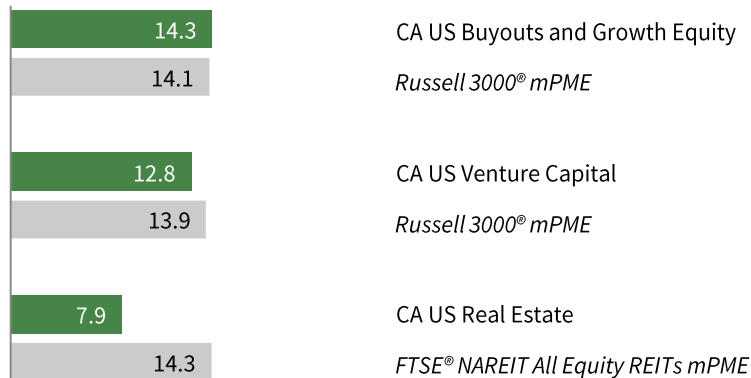
1-Yr Return



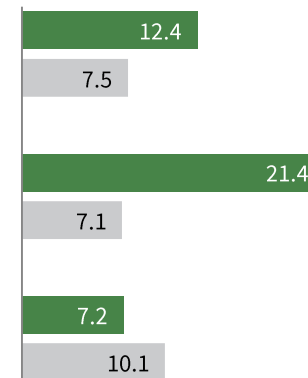
5-Yr Return



10-Yr Return



20-Yr Return



US buyouts and growth equity outperformed public markets over all trailing periods. US venture capital delivered the greatest degree of outperformance over the most recent one- and five-year periods, while also significantly outperforming over the long term. US real estate outperformed recently, but underperformed public REITs over the trailing 10- and 20-year periods.

Merger arbitrage outshone other hedge fund strategies

HEDGE FUND PERFORMANCE: FY 2019

Total Return (%)

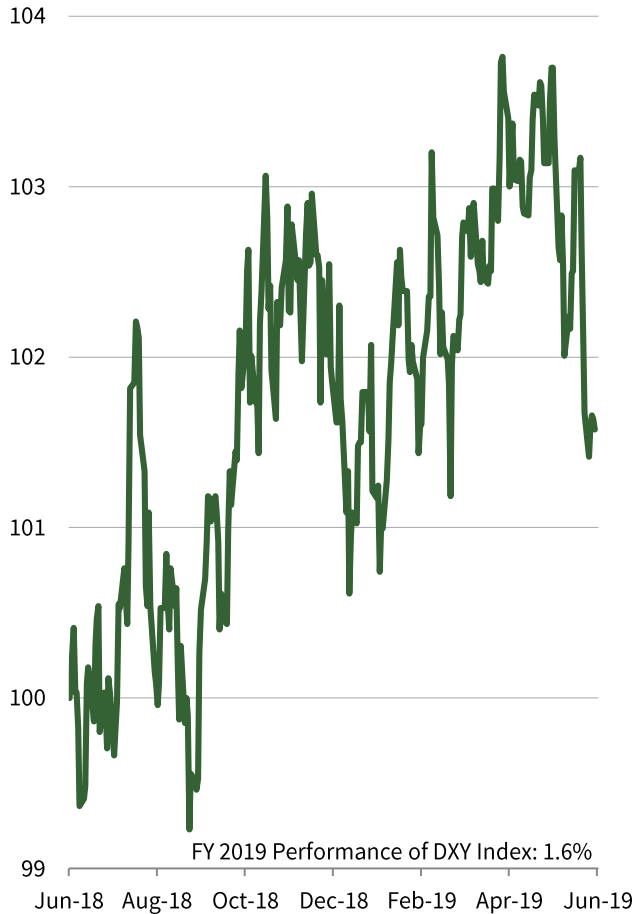


Preliminary data from Hedge Fund Research, Inc., suggest equity hedge funds trailed other strategies in FY 2019. Merger arbitrage performance stood out, while relative value and macro fared relatively well. Hedge fund returns were muted at a broad industry level, with the widely followed HFRI Fund Weighted Composite up a preliminary 1.5%, and the HFRI Equity Hedge returning just 0.5% versus 5.7% for global equities.

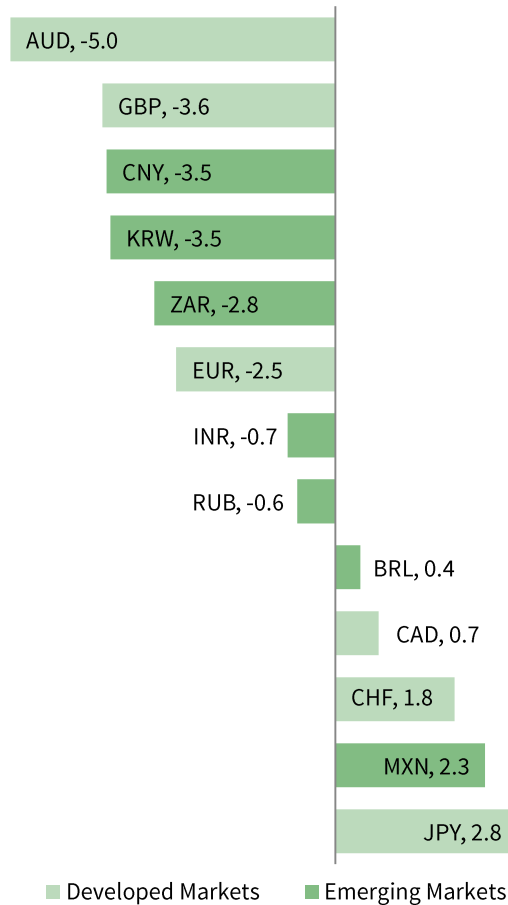
The US dollar generally appreciated

US DOLLAR INDEX

June 30, 2018 – June 30, 2019 • June 30, 2018 = 100



SELECT CURRENCY APPRECIATION VS USD: FY 2019

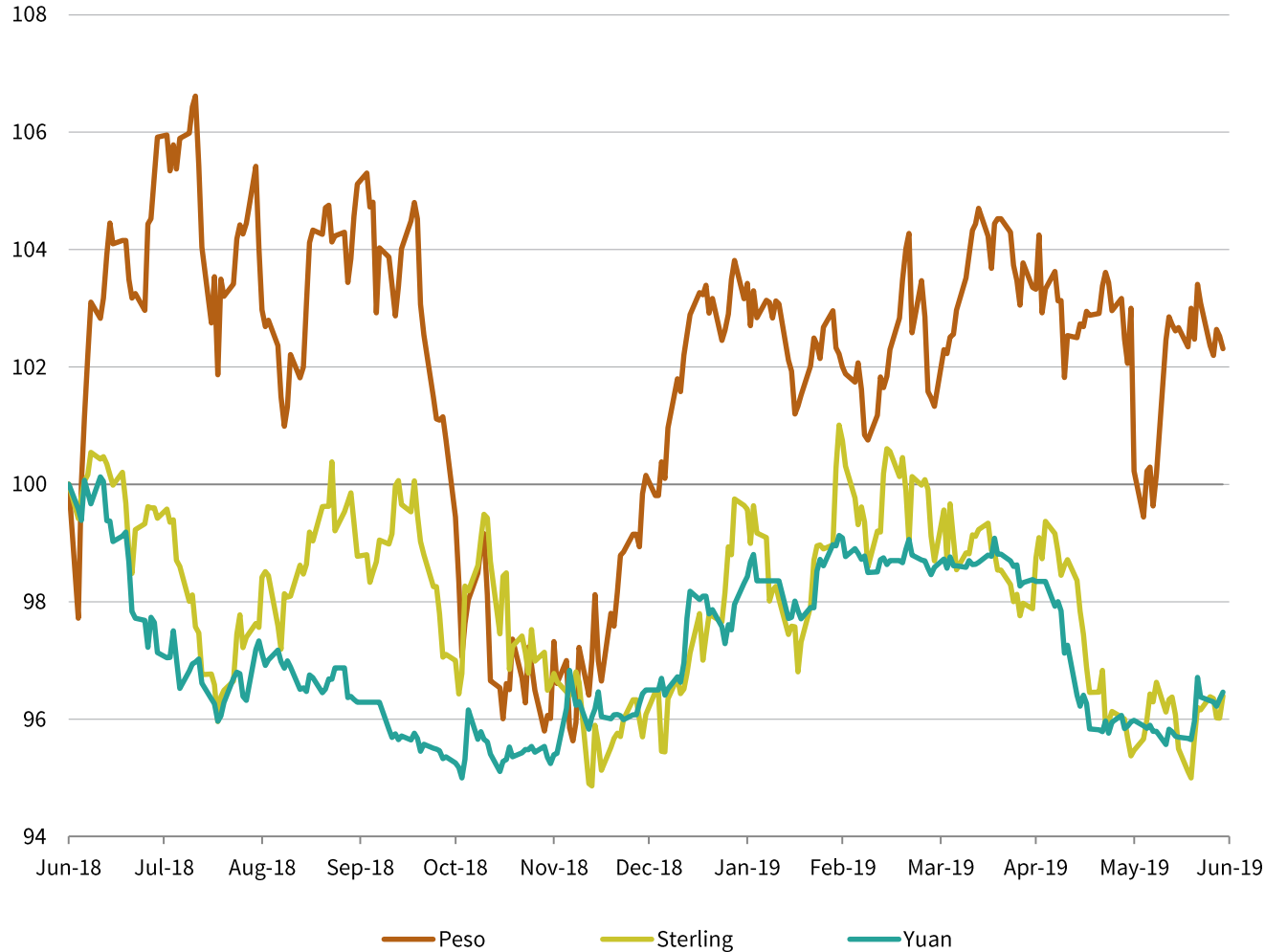


The US dollar gained more than 1% versus a basket of major developed markets currencies, but declined vis-à-vis the safe-haven Japanese yen and Swiss franc. Most emerging markets currencies weakened against the greenback, particularly the Chinese yuan and the Korean won.

Topical geopolitical developments influenced currency performance

SELECT NOMINAL CURRENCY MOVEMENTS VS THE US DOLLAR

June 30, 2018 – June 30, 2019 • June 30, 2018 = 100

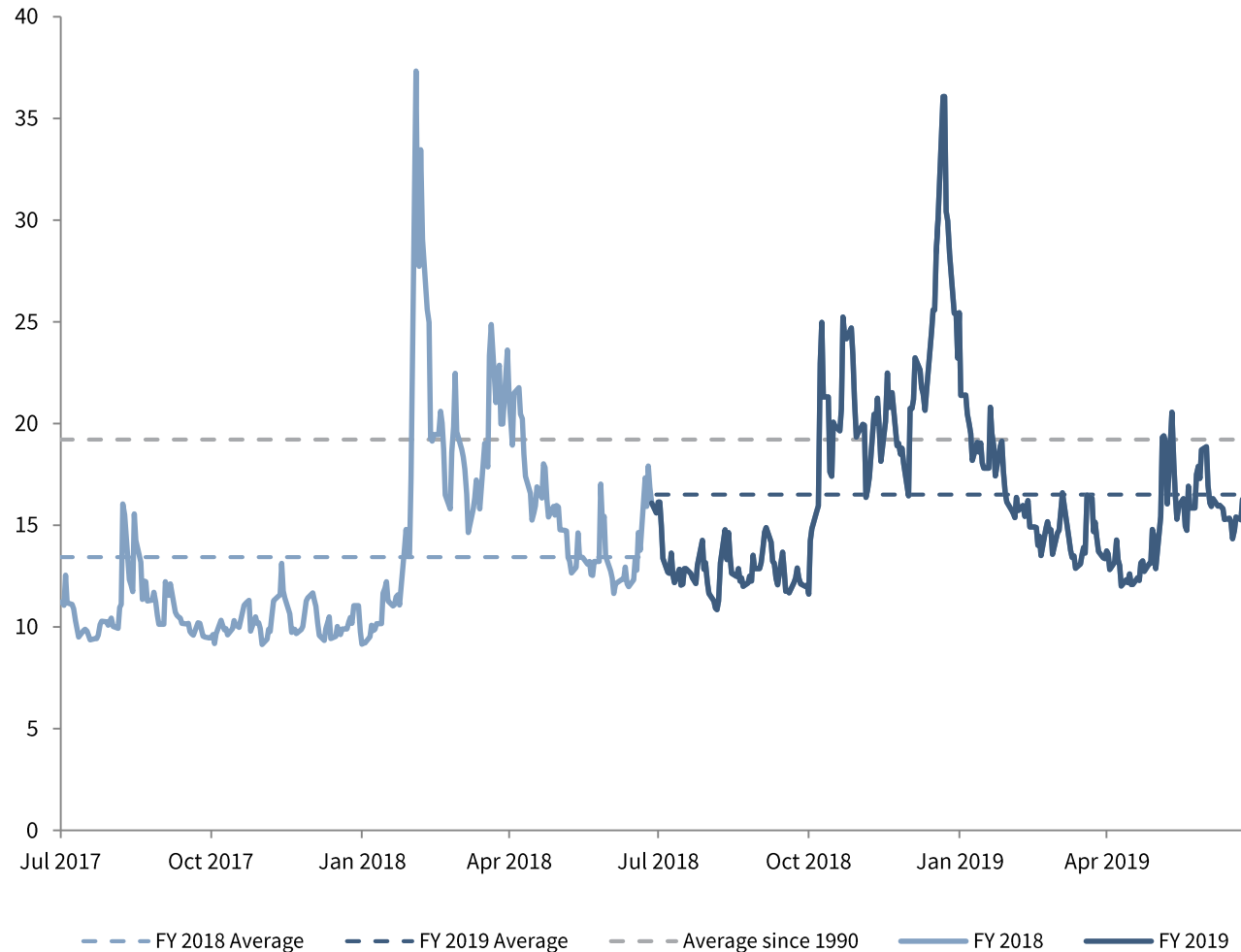


Brexit and the US-China trade spat were top of mind for investors in FY 2019, as reflected in sterling and renminbi performance against the US dollar. The Mexican peso's value was highly volatile, appreciating on positive developments regarding a new North American trade deal and depreciating over threats of increased tariffs related to immigration concerns.

Equity volatility rose but remained below historical average levels

S&P 500 IMPLIED VOLATILITY: FY 2018 & FY 2019

July 1, 2017 – June 30, 2019 • Index Level



Elevated VIX levels during the market sell-off in fourth quarter 2018 resulted in an uptick in average volatility compared to FY 2018. Volatility later subsided below long-term averages as markets rebounded to new record highs, but ticked up in May and June as trade tensions mounted.



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