EDGE

QUARTERLY OUTLOOK – Q1 2015

Edge Capital Research

Q1 2015 Outlook

Confidential

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Engine is Still Running Under the Hood

- ✔ Oil prices falling
- ✔ Inflation falling
- ✔ US Dollar rising
- ✔ Long-term US rates falling

If you were to hand an investor this fact pattern with no indication of a time period and ask for their guess as to the market environment, it is likely you would get a dour answer. It is stereotypical of a “risk off" environment - economies are slowing down, unemployment is rising, consumer and industrial activity is falling off, etc. Now add the date: January 2015. This does not exactly match up. Q3 US GDP growth is 5% on an annualized basis and expected to continue. Employment and wages are growing in the US. Globally, government is becoming less of a drag. Japan has taken stimulus to warp speed. Europe kept out of recession (no thanks to the ECB) as the austerity march reversed. China hard landing has not materialized the way some pundits expected despite further liberalization of their economy.

You have to look under the hood to see what is going on. Oil prices are falling because of technology-driven supply growth lowering the cost of an economic input. Inflation is falling mostly because of energy (in the developed world). The US Dollar is rising because the Fed is likely to raise rates when the rest of the world is still lowering them. Long-term rates in the US are falling because inflation expectations are coming down, and the US is the new “carry trade” for international capital flows. Generally speaking, this is a world where economic growth marches forward.

This is not to say that we are dismissive of these major trends heading into 2015. Quite the contrary; we have evaluated each and warn investors that volatility will rev in the year ahead. We are prepared to revisit the roadmap as needed but feel confident that the “vehicle” by which we achieve our individual investment goals remains in running shape.

A 1965 Ford GT40 Roadster Prototype sold for $6.9mm at auction in 2014. The prototype was one of six built and was driven by racing and design legend Carroll Shelby.

The GT40 was a high performance American-British endurance race car with an American-built engine that won the 24 Hours of Le Mans four consecutive times from 1966 to 1969 yielding the first victory for an American manufacturer.

Source: Jalopnik, Wikipedia

Performance Review - 2014

Large-cap US equities performed well again in 2014, but these gains were not shared across most other asset classes. Mid-single digit gains were more common, though international equities and commodities generated losses in many instances.

Another headwind to performance was that active equity fund managers struggled – 80% of US equity funds trailed their benchmarks.

Recommendations that benefited 2014 performance

- Overweight US/underweight developed international equity
- Minimum small-cap exposure
- Asia ex-Japan over broad-based emerging markets
- Actively managed real asset exposure including MLPs

Recommendations that negatively impacted performance

- Short-duration fixed income
- Active equity management
- Long-short/event-driven equity
- Energy

Asset Class/Category	2014 Total Return
S&P 500	13.7%
Large Cap US Equity Funds (Morningstar)	11.0%
Dow Jones Indus. Avg.	10.0%
European Equity (Bloomberg 500- EUR)	7.8%
US Bonds (Barclays Aggregate)	6.0%
US Small Cap Equity (Russell 2000)	4.9%
MLPs (Alerian)	4.8%
Asia ex-Japan (MSCI)	4.8%
Small Cap US Equity Funds (Morningstar)	3.8%
Long-Short Equity Funds (Morningstar)	2.9%
World Stock Funds (Morningstar)	2.8%
US High Yield Bonds (Barclays High Yield)	2.5%
Long-Short Equity (HFRX Equity Hedge)	1.4%
Gold	-1.9%
Emerging Markets (MSCI)	-2.1%
Emerging Markets Funds (Morningstar)	-3.0%
International Equity (MSCI ACWI ex-US)	-3.3%
Japan Equity (Nikkei)	-4.0%
Developed International Equity (MSCI EAFE)	-4.2%
European Equity (Bloomberg 500- USD)	-5.4%
European Equity Funds (Morningstar)	-7.3%
Latin American Equity (MSCI)	-12.0%
Commodities (Thompson Reuters CRB)	-17.9%
Crude Oil (WTI)	-45.9%

Source: Bloomberg, Morningstar

Checking the Oil

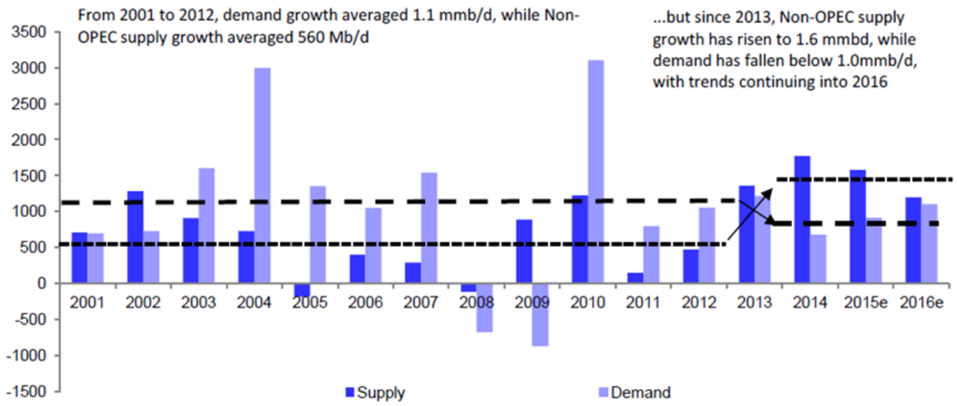
We spend a great deal of this Outlook detailing our thoughts on the recent collapse in energy prices and the associated impact on asset classes and individual regions of the world. A shock of this magnitude will create knock-on effects across financial markets and has created the potential for a global transfer of wealth from producers to consumers.

Analyzing the root cause of the problem is not that difficult; it is simple supply and demand. Global oil production was on pace to increase by 2mm barrels per day while global demand could only absorb 900k barrels. The harder analysis was determining oil's reaction to this imbalance and simultaneously predicting what Saudi decision makers were going to do about it. Investors were wrong on both fronts this time.

The decision by Saudi Arabia to not cut production was a surprise – to say the least. OPEC has always been a "loosely defined" cartel with Saudi sitting on the throne and generally setting quotas and acting as the balancer of global production. Until recently, OPEC members enjoyed the benefits of setting global supply. With technology advancement, however, this changed and shifted the power of supply closer towards non-OPEC producers like the US. There is evidence suggesting that their decision is as much about a turf war with the US as it is a reminder to its fellow OPEC members who is in control.

Lower for longer is now the most echoed catch phrase among investors. But for how long? Absent new information, consensus is that the market is oversupplied by 1.5-2mm barrels per day and that for prices to move sustainably higher this imbalance must be addressed. We are already beginning to witness a reaction from US drillers as rigs are being laid down and budgets are being cut. Global producers are alluding to similar behavior although timing is likely longer than US peers. In other words, the adjustment has already begun but we remind investors that this is likely not a quick fix. Until then, we continue to look for opportunities not only within Real Assets but in other areas of financial markets that are positioned to benefit from lower for longer prices.

Source: Bloomberg



Source: Deutsche Bank, IEA

Inflation Is Hard to Come By

We were surprised, as were many investors, by the fall in long-term rates in the United States. From the very start of 2014, well before the Federal Reserve's quantitative easing (QE) program came to an end in October, the 10-year maturity US government bond yield began a steady decline to finish the year 0.86% lower. Anticipating the eventual interest rate increase by the Fed, the shorter 2-year maturity rose by 0.28% to flatten the yield curve – typically a cautionary sign. The bond market is conveying that inflation will be hard to come by despite the massive increase in money supply combined with a quickening of economic activity in the US as seen by the Q3 annualized GDP growth over 5%.

In fact, the "disinflation" theme (falling, but positive inflation) is a generally global phenomenon. As can be seen in the chart, most of the world's major economies and regions faced a significant decrease in the price of consumer goods in the past year. This contributed to the seemingly odd circumstance of a Spanish or Italian government bond having a lower yield than a US bond (1.6% and 1.4%, respectively, versus the US 2%, essentially the "real yield" in the US is higher due to deflation in those economies). No wonder the European Central Bank (ECB) is under tremendous pressure to put forth a sizable QE program since the December flash estimate showed the Eurozone as a whole falling into deflation. Falling energy prices will keep the pressure on.

The issue is no less relevant for Asia. Japan aside, where consumer prices shot up to 2.9% (estimated) YoY in 2014 versus 0.4% in 2013 and 0.9%e in 2015, emerging Asia has seen inflation fall below targeted levels. Policy response will be forthcoming. Fiscal stimulus in China is already ramping up to combat the 1% gap between the actual and desired. Many emerging central banks that were quick to raise rates in the early recovery (2009/2010) will likely start to reduce rates, causing the cost of locally sourced capital to fall while also creating further currency weakness versus the US Dollar.

Forecasting specific interest rate calls over a defined period is a fool's game, as can be seen by the littering of failed rate forecasts since the Great Monetary Experiment ensued. However, it would only seem logical to say that we will see a policy response from the world's central banks to this disinflationary trap since they have spent so much money and political power to avoid deflation and may not have the bullets to do it again.

Most of the World Disinflates

CPI YoY

	Dec-13	Last	Change	As of
US	**1.5%**	**1.3%**	**-0.2%**	**Nov**
Europe				
UK	2.0%	1.0%	-1.0%	Nov
Eurozone	0.8%	-0.2%	-1.0%	Dec
Germany	1.4%	0.2%	-1.2%	Dec
France	0.7%	0.3%	-0.4%	Nov
Spain	0.3%	-1.1%	-1.4%	Dec
Italy	0.7%	-0.1%	-0.8%	Dec
Asia				
Japan	1.3%	2.7%	1.4%	Nov
China	2.5%	1.5%	-1.0%	Dec
India	9.9%	4.4%	-5.5%	Nov
Singapore	1.5%	0.3%	-1.2%	Nov
Korea	2.0%	1.0%	-1.0%	Nov
Indonesia	8.1%	8.4%	0.3%	Nov
Latin America				
Brazil	5.9%	6.4%	0.5%	Dec
Mexico	4.0%	4.1%	0.1%	Dec

Source: Bloomberg

USD Flies Higher than Safety

US Dollar-based investors may realize that their non-US investments did not fare as well in 2014, but the explanation of currency is likely unknown by many. Looking at the major markets (Europe, Japan, and the Emerging Markets), local currency returns of +5 to 9% turned negative (2 to 6%) based upon the movement in the exchange rate alone.

The recurring theme of surprising pace and magnitude in 2014 is no different when looking at the US Dollar (USD). Starting near the middle of 2014, the USD began a relentless climb that, on a trade-weighted basis, led to a level above the "flight to safety" rallies of the 2008 financial crisis or the 2010 European sovereign crisis. Clearly, the divergence of economic strength between the US and most of the rest of the world is a key factor, as is the expectation for the Fed to start raising rates. A trend of USD strength and rising rates is likely to attract capital flows – especially from Europe and Japan. The trend of central banks going their separate ways (US tighter, Eurozone/Japan easier) is going to continue in 2015.

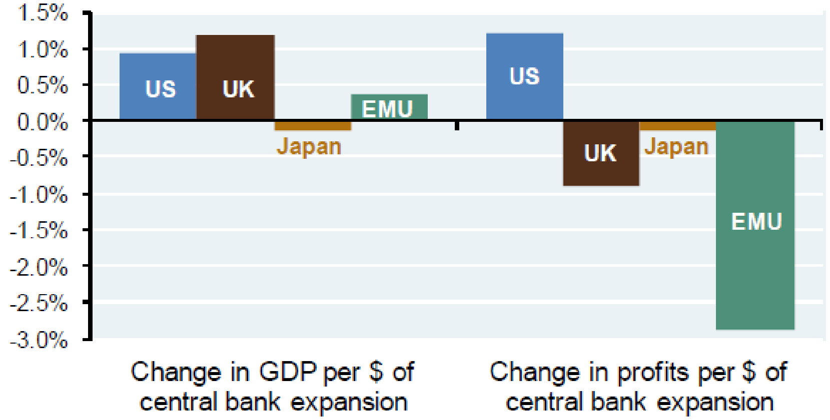
Where the US has seen returns on its central bank policy over time (as measured by GDP and corporate profits), other places have not. We do not expect them to stop trying. In late October, the Bank of Japan (BoJ) and Japanese government pensions made surprise announcements to increase the buying of assets including equities and real estate funds. The balance sheet at the BoJ is almost 60% of GDP, well above the mid-20s% seen in either the US or Europe. With all that firepower, inflation (adjusted for the sales tax increase) still fails to reach convincing stable levels, and structural reforms to fix employment (wages and participation) still flounder. After nearly 20 years of general deflation, this exercise might show that size cannot overcome the delay.

Meanwhile, Europe needs to act to prevent the same problem from occurring. In the early recovery years, Europe focused on austerity. A statistical exercise by KKR showed that for every 1% of fiscal contraction, there was a 1.4% decrease in real GDP growth. Combine that with a 33% contraction in the ECB balance sheet, and no wonder Europe had a double-dip recession (Sept-2011 until June-2013) and just crossed the border to deflation. The next ECB meeting on January 22nd is critical to maintaining the credibility to keep the Eurozone intact and to avoid the Japan trap. Action with fiscal support follow-through is needed to take advantage of improving competitiveness (through falling currency and unit labor costs) to get people back to work, nominal growth up, and revenue flowing through corporate profit statements.

USD Trade-weighted Basket (DXY)

Source: Bloomberg

Emergency monetary stimulus: better returns in US/UK
Percent, measured from December 2007 to June 2014

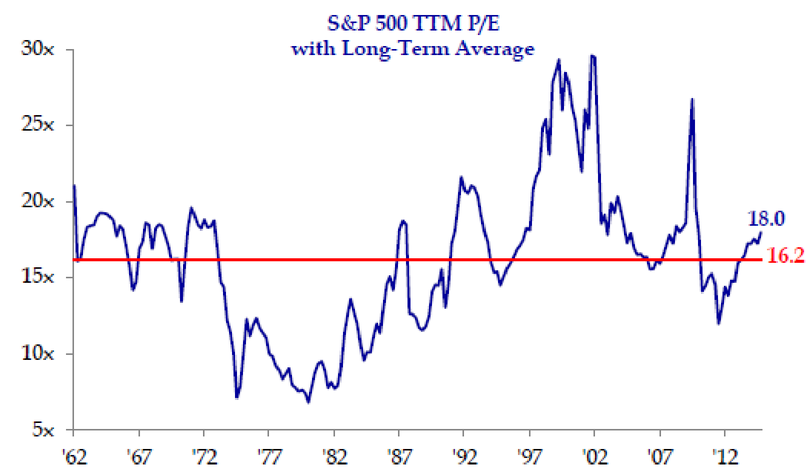


Source: Haver Analytics, JPMAM. EMU = European Monetary Union.

US Equities Continue to Thrive

The S&P 500 produced another terrific year of earnings growth in 2014. The estimated 8.8% earnings growth exceeded its long-term earnings growth rate of 6.5%; the main drivers include 4.4% in revenue growth, continued margin expansion (which are at all-time highs), and strong stock buybacks (nearly approaching the historic high last seen in 2007). The total return of the index (including dividends reinvested) was 13.7% as the earnings multiple and dividend payout increased.

It is worth noting that the mega caps, particularly in Technology, Healthcare, Financials, and Consumer Staples, were the primary drivers of return for the S&P 500 in 2014. Small-cap stocks dramatically underperformed the mega caps (4.9% return versus 13.7%) as multiples paid for small caps declined. While the market cap weighted P/E for the S&P 500 is 17x (slightly above the long-term 16x multiple), the median P/E of the S&P 500 constituents is at 20x, which is at its historical high. Putting it all together, mega caps are trading at 16x, mid caps at 18x, and small caps at 22x 2015 earnings estimates.



Source: Strategas

Price to earnings ratio slightly elevated versus historical average – leaving less room for multiple expansion in 2015

Predicting forward S&P 500 earnings is always challenging and made more difficult this year due to the impact of the strong dollar. The US Dollar index, for example, appreciated 15% in 2014, primarily during the second half of the year. Foreign revenues represent 46% of the S&P 500, however, as we will later highlight may not have as drastic an impact to financials as the headline would suggest. According to Standards & Poors, consensus expectations are for 12% EPS growth in 2015. The consensus target is lofty by our estimates, but we still believe 6-8% EPS growth in 2015 is achievable.

Earnings Growth Likely Driver for 2015

Let's break down the drivers for our earnings outlook based on four factors. First, mega caps within sectors that should produce solid earnings in 2015, namely Technology, Health Care, Consumer Discretionary, and Consumer Staples, represent 56% of the index. Second, large S&P 500 companies are flush with cash, have relatively low debt service, and continue to offer low dividend payout ratios with room for upside. This should lead to another big year for stock buybacks and dividend payments (despite potential dividend cuts from energy companies). Third, we take a contrarian view on the impact of a strengthening dollar to US corporations. Sales to Europe represent only 6.5% of S&P 500 revenue while many US multinationals have offsetting European expenses. We concede some dampening of earnings growth due to FX headwinds but believe reality will be better than expectations. Last, we view lower energy prices as a negative for the energy sector but a positive for several others. In other words, we view this as a transfer of profits from one sector to another.

Sector	12/31/2014 Market Cap Weighting	2014 Earnings/Share Contribution	2014 % of Earnings
Tech	19.7%	$21.85	18.7%
Financials	16.7%	$23.10	19.8%
Health Care	14.2%	$13.92	11.9%
Consumer Discretionary	12.1%	$11.92	10.2%
Industrials	10.4%	$12.15	10.4%
Consumer Staples	9.8%	$10.05	8.6%
Energy	8.4%	$13.17	11.3%
Utilities	3.2%	$3.68	3.2%
Materials	3.2%	$3.67	3.1%
Telecom	2.3%	$3.27	2.8%
TOTAL	**100.0%**	**$116.78**	**100.0%**

Source: Standard and Poors, Strategas

Our expectations for earnings growth in 2015 are below consensus; however, we expect 6-8% growth supported by key sectors like Technology, Health Care, and the Consumer. Expect headwinds for Energy, Utilities and Telecom.

We see the S&P 500 earnings growing at a similar rate to its long-term average of 6.5%, but the total return for the index will more likely depend on investor appetite for the price paid for those earnings (P/E multiples). As mentioned, we would be surprised if multiples expanded in 2015 given the current level of valuations and potential slowing of earnings growth year over year. Since 1926, the S&P 500 total return by calendar year has produced a positive single-digit return just 14% of the time – so it is unusual to produce an "average" return but 2015 may be the exception.

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Source: Bloomberg, Morningstar

Catalysts Warrant Attention in Europe

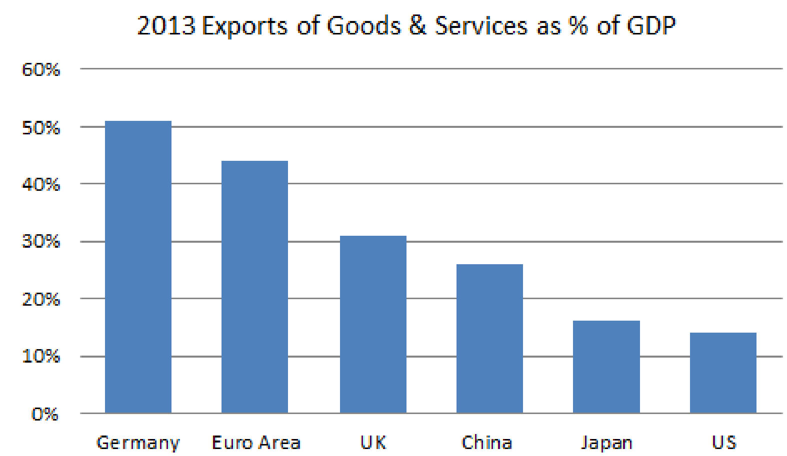
Although not yet extinct, European bulls could be considered, at a minimum, "endangered" as Europe's local equity markets have generated half of the return of its US counterpart over the past four years. There is hope, however, for those who have weathered the storm and maintained that exposure. The Euro exchange rate has declined from $1.38 to $1.17 (versus the Dollar) over the trailing 10 months and should serve as a shot in the arm to the competitiveness of the region. The Euro has not been at this level since 2005. Typically a country takes pride in the strength of its currency, but this should be a time for the region to celebrate the continued decline of the 16-year-old currency. The most recent move has been substantial; however, we believe there is more to come especially if the ECB follows its long-standing rhetoric with real substantive action, both in terms of stimulus and other policy measures. Many economists are calling for parity versus the US-dollar, a forecast that is likely to come to fruition should the US tighten monetary policy and the ECB follow through.

The 15% slide in the Euro will benefit European large-cap multinationals, many of which derive a substantial percentage of revenue from the US and other counterparts. Euro-exposed companies are positioned to benefit from overseas revenue and locally generated expenses (for some), the combination of which could result in a nice uplift to margins and earnings growth. We expect large caps to be the prime benefactor of recent trends.

In addition to the weakening Euro and the potential for significant ECB action, another catalyst for European equities in 2015 is the impact of lower oil prices on both the government and local consumer. Germany, France, Spain, and Italy are net importers of oil and fiscally stand to benefit. Europeans generally spend less of their personal budgets on gasoline than their US counterparts but the gasoline decline is material enough to increase purchasing power.

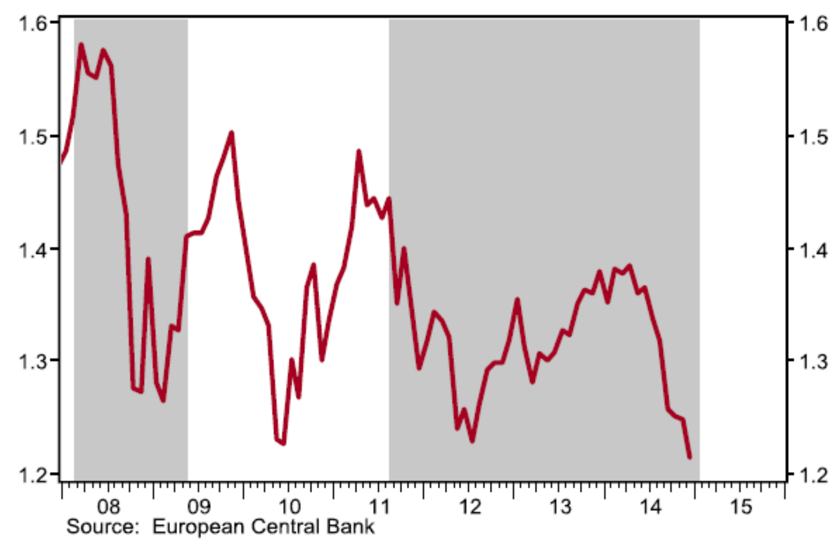
Weaker energy favors all but is specifically helpful to small-cap domestic companies in Europe, which we would urge investors to consider later in the cycle, should the ECB step-up. There is also a trickle-down impact to smaller companies should Euro weakness persist and large-cap fundamentals improve.

Eurozone more dependent on exports than others



Source: Strategas

Euro falls to 10-year lows versus USD



Source: Strategas

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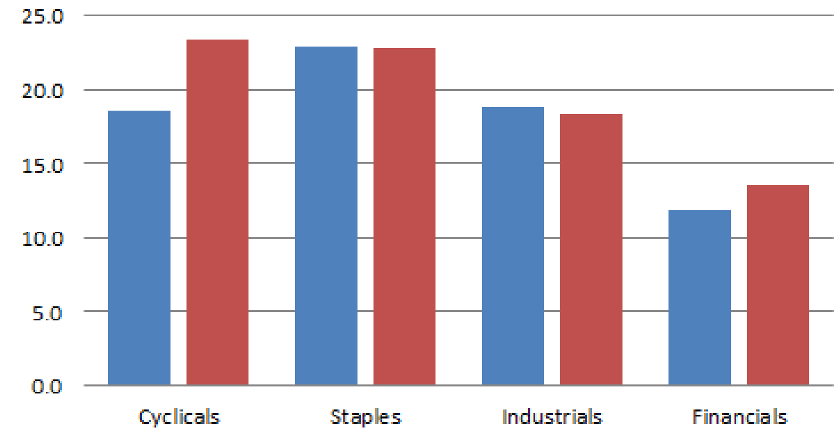
Finding Value in Europe

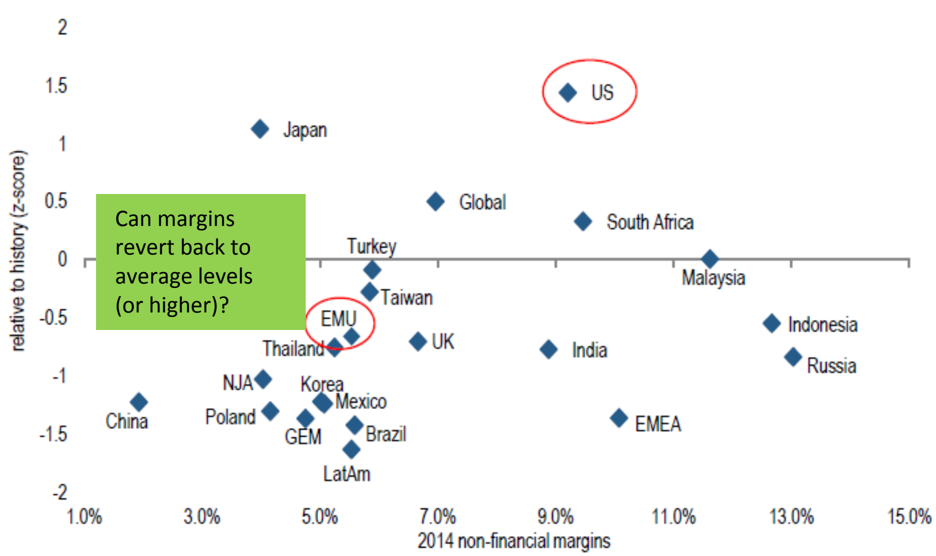
Refreshing our look at the valuations of large-cap, European multinationals versus comparable US peers, we examined the trailing Price to Earnings (PE) multiples of the 100 largest market capitalization companies in the FTSE Europe 100 and the S&P 500. We focused on the most comparable sectors that are broadly owned. Our analysis suggests equivalent valuation levels for Staples and Industrials; however, European Financials and Cyclicals trade at a discount to US peers. This is not too surprising given the recent trajectory of US growth versus Europe. In particular, European financials remain attractive but could stay in the penalty box in the near term – it took several years post-stimulus for US financials to perform. At face value, the information suggests limited opportunities within large caps; however, we contend that the valuation discussion is not complete without examining the margin differential. As indicated on the right, European large-cap margins remain below historical averages while US margins are at all-time highs. Normalizing the difference suggests a wider valuation discrepancy than initially suggested and makes a stronger case for large caps. Better top-line growth supported by a weaker Euro and what we hope is improving economic growth in the region should elevate margins closer to historical levels.

With two catalysts currently underway (weakening Euro and lower oil), our sights remain set on the January 22nd ECB meeting. Our two catalysts in isolation will improve the prospects for European large caps but ultimately we need ECB follow-through and localized policy initiative to sustain longer-term trends. While we wait, European large-caps, many of which pay handsome dividends, are positioned to benefit and potentially outperform US peers. We recommend investors focus on non-energy related names, as we believe the energy sector (broadly) is vulnerable to dividend cuts, and we believe other dividend-paying sectors will benefit from capital flows out of energy. Should the economic backdrop improve, investors should look to smaller-cap opportunities.

Trailing Price/Earnings of the largest European and US companies by sector



Source: Bloomberg



Source: Credit Suisse

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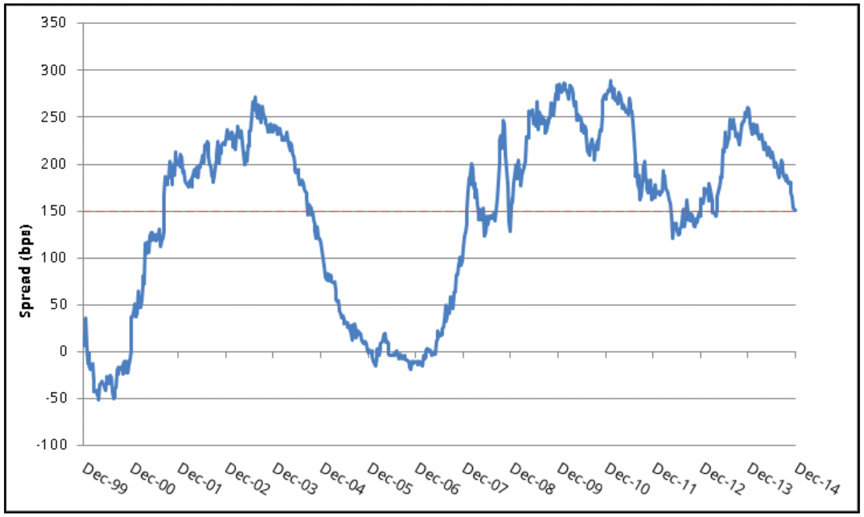
To Extend or Not to Extend, That Is the Question

2014 proved to be an interesting year to be a fixed income investor. Bond markets seemed to be more anxious over the thought of quantitative easing tapering than the actual event as the 10-year US Treasury shot up to 3% to start 2014. But global growth concerns along with the soothing voice of Fed Chair Janet Yellen calmed down the longer end of the Treasury curve as the 10-year ended 2014 at 2.1%.

To be certain, those global scares have not been removed from the marketplace, but absent a domestic growth hiccup, the FOMC in all likelihood will start to increase short-term rates this year. This flattening of the yield curve (short rates up, long rates down) can be graphically viewed at the top right as the yield spread between the 2- & 10-Year Treasuries. To some this might signal an opportunity in longer duration asset classes, but we would warn investors to be cautious and remember the place fixed income plays in a diversified portfolio.

Currently the Treasury Futures market is pricing in a 0.77% increase in the 10-year Treasury by year end (bottom right); this would equate to roughly a -4.8% total return on that bond. Interest rate changes are magnified at current yield levels as coupon payments are not enough to offset rising rates. Without a change in credit risk, investors should favor asset classes with low duration or a high yield to buffer against rate increases. Expect some rate volatility midyear as the Fed weighs increases.

Spread between 2- & 10- year Treasury



Source: Bloomberg

Futures imply negative returns ahead

US Treasuries					
Security	Duration	Yield	Future Yield	Price Change	Total Return
2 Year	1.95	0.55%	1.16%	-1.19%	-0.64%
5 Year	4.75	1.40%	2.07%	-3.18%	-1.78%
10 Year	8.80	1.94%	2.71%	-6.78%	-4.84%
30 Year	20.00	2.53%	2.86%	-6.60%	-4.07%
1-10 Year Indicies					
Index	**Duration**	**Yield**	**OAS/Price**	**Price Change**	**Total Return**
Corporate	4.31	2.60%	1.20%	-3.00%	-0.40%
High Yield	4.09	6.86%	5.14%	-3.00%	3.86%
Floating Rate	0.00	3.90%	$97.90	0.00%	3.90%
Municipal	3.87	1.65%	0.17%	-3.00%	-1.35%

Source: Bloomberg & BofAML Indicies

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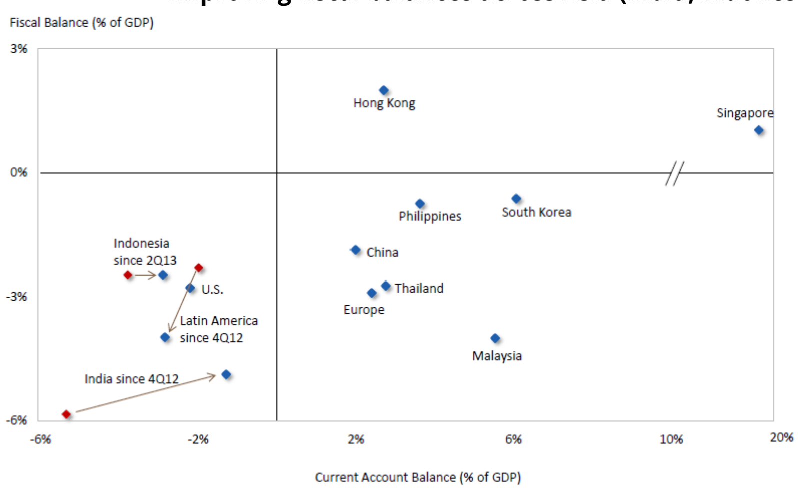
Recent Economic Reforms Set Stage for Growth in Asia ex-Japan

Edge continues to focus exposure within the emerging markets in Asia ex-Japan and on the emerging consumer. While valuation has looked attractive for some time, the relative gap compared with the developed world has only become more favorable. For example, China, Hong Kong and Asia ex-Japan have forward PE ratios of 11.2x, 12.5x, and 12.1x, respectively, while the US is trading at 16.7x. While some of the more significant valuation discounts remain within the state-run entities and industrial sectors, various consumer demand-driven sectors from retail and consumer durables are still trading at statistically significant historical discounts on a number of metrics. Coupled with favorable relative valuation metrics, the MSCI earnings growth estimates for the region are 40% higher than the S&P 500. Finally, the end of 2014 marked an upward trend in corporate fundamentals and margin growth for Asia. While still lower than pre-crisis levels, corporate profit margins are now trending 5% higher than the post -crisis average.

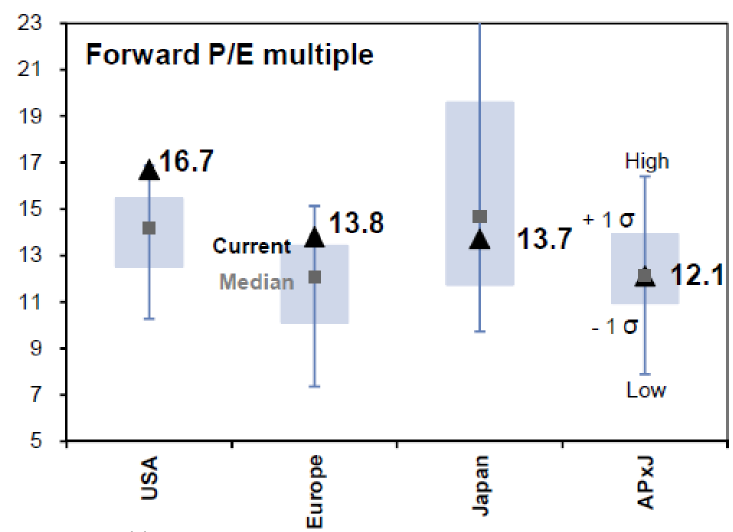
2014 was also a significant year for structural reform across Asia, thus setting the stage for future growth. From India to Indonesia, economic reforms have improved fiscal positions, further isolating Asia from potential monetary tightening in the US. Financial market reform in China, particularly in the A-share market, should reduce barriers for IPOs, lower funding cost for banks, and increase free trade and foreign capital investment. Further legal, anti-corruption, and social reforms should be beneficial to the emerging Asian consumer story. We have long talked about the changing demographics in the region, which could make up nearly two-thirds of the world's middle class by 2050 according to the IMF. Targeting reform now to improve middle class growth is critical. Valuation and reform set the stage for a longer term growth story in Asia ex-Japan.

Improving fiscal balances across Asia (India, Indonesia)

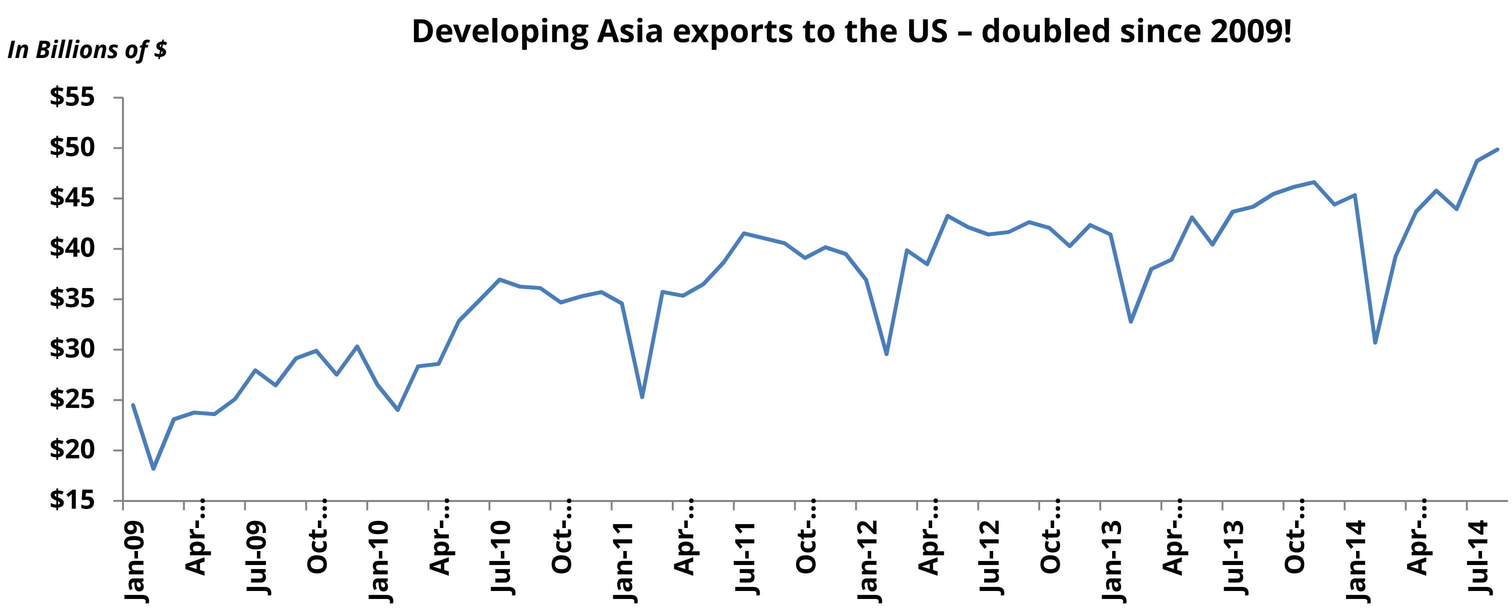


Source: Matthews Asia, Bloomberg

Relative and Absolute Valuation Provide a Cushion



Source: Goldman



Increase Exposure to Countries Tied to a Strengthening US Economy

Increasing US demand for Asian exports will be a near-term growth catalyst as we anticipate continued strong GDP growth in the US. In addition, Asian equities have historically rallied in past periods of US rate hike cycles due to the stronger economic growth environment.

Taiwan is one example of a country that is tied to a strengthening US economy. Sales of popular consumer items such as iPhones increases demand for electronic components made in Taiwan. Exports from Taiwan have soared to a three-year high, and we expect this trend to continue as the US economy picks up steam.

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Source: Bloomberg

Benefits of Lower Oil to Emerging Consumer

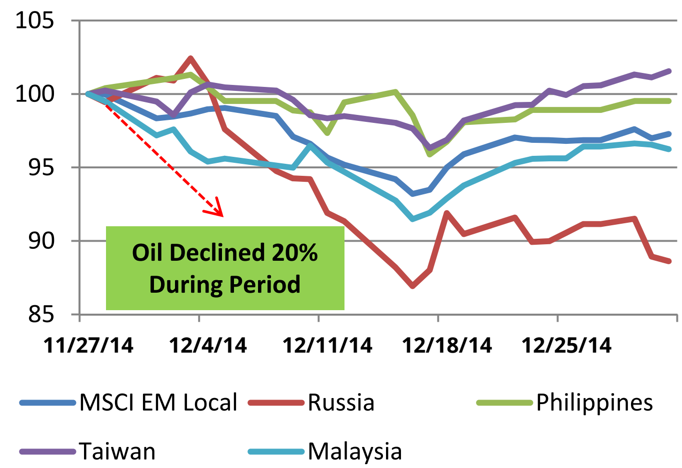
Emerging Asia markets have not been immune to the recent market turbulence caused by rapidly declining oil prices. This is despite the fact that lower oil prices are a tailwind for Emerging Asia, as most countries in the region are net oil importers. Oil imports account for 18% of total imports in the region, so lower oil prices will ultimately be the equivalent of a tax cut for consumers or goverments. Emerging Asia inflation has fallen from 3.1% to 2.1%, giving central banks considerable leeway in keeping monetary policy accommodative, and with the exception of Malaysia, lower oil prices have improved current accounts, making the region less susceptible to foreign capital outflows. Emerging economies with positive current accounts export more goods and services than they import, and therefore rely less on foreign capital.

Most recently, the Reserve Bank of India decided to lower interest rates by 25bps, the first rate cut in over two years. India has been struggling with slowing growth and high inflation, however, the slide in oil prices provides a "cushion" in inflation expectations and opened the door for lower rates to spur growth. According to Central Bank Governor, Raghuram Rajan, "these developments have provided headroom for a shift in monetary policy stance." Expectations are for several additional rates cuts in 2015 aided by not only lower oil prices but also the broader decline in global commodities.

Looking closer at individual country performance, countries with relatively high net oil imports relative to GDP are outperforming countries with high net oil exports relative to GDP. Specifically, equity markets such as the Philippines and Taiwan (net oil importers) have been outperforming countries such as Malaysia and Russia (net oil exporters), especially as oil prices began to fall more quickly following OPEC's decision not to cut production. Because Russia and Malaysia derive a substantial portion of their revenues from oil, their currency values have come under pressure as a result. It is therefore key for investors to factor in currency risk in selecting which emerging markets to invest.

	Impact of -10% in oil price		
	GDP (bp)	CPI (bp)	CA balance (% GDP)
Korea	+45	-25	+0.6
Thailand	+45	-25	+0.8
Philippines	+30	-45	+0.2
India	+25	-40	+0.4
Taiwan	+25	-25	+0.2
Hong Kong	+20	-15	+0.5
China	+15	-25	+0.2
Singapore	+15	-10	+0.4
Indonesia	+10	-40	+0.3
Malaysia	-20	-30	-0.1

Equity Market Performance Since OPEC Decision



Source: BofA Merrill Lynch (top); Bloomberg.

Crank Up the Engine…

Edge's preferred implementation within the Real Asset sector has been through midstream energy MLPs and the "Energy Renaissance". The common thread among these investments is the need for more infrastructure (transportation/storage/logistics) and the abundant supply of relatively inexpensive energy, especially natural gas.

These investments fared well on a relative basis in 2014 (WTI crude -46% versus Alerian MLP +5% and Cushing Renaissance -2%), and we expect "volume" investments to continue their outperformance versus "price" investments should oil continue its decline. Supporting our earlier comments, the US energy market (WTI) is and will continue to undergo a rebalancing of supply and demand. Drilling budgets and CAPEX are coming down which should begin to support pricing, however, the process is likely to be long. Our base case does not include a sudden snapback in prices (ex an OPEC supply shock). Despite the reductions, as indicated below supply will increase in 2015 – supporting "volume" investments.

With valuations coming down but fundamentals holding up, the most attractive risk-return investments remain in MLPs and companies whose input costs are commodity-sensitive (transportation, plastics, select chemicals, etc). A return of stability in oil and gas markets will allow investors to capitalize on their strong underlying fundamentals despite (or due to) lower oil and gas prices.

Company	2015 Capex Change	2015 Rig Count Change	2015 Production Est.
CLR	-41%	-38%	18%
REXX	-44%	n/a	n/a
CRK	-47%	-60%	-15%
MRO	-20%	n/a	n/a
ROSE	-38%	-43%	10%
AREX	-55%	-67%	4%
LPI	-52%	-64%	12%
ECA	10%	-28%	26%
AXAS	-72%	n/a	53%
EOX	-71%	-67%	30%
CHAPARRAL	-50%	-50%	0%
OAS	-44%	-63%	8%
GDP	-50%	-50%	36%
PDCE	-13%	-17%	36%
COP	-20%	n/a	n/a
Weighted Avg.	**-25%**	**-43%**	**18%**

MLPs: Valuations fell in 2014

Source: Bloomberg, GSAM, US Capital Advisors

Appendix

Market Performance

DOMESTIC EQUITY								
				Total Return				
Index	October	November	December	Q4 14	2014	2013	2012	2011
S&P 500	2.4%	2.7%	-0.3%	4.9%	13.7%	32.4%	16.0%	2.1%
DOW JONES INDUSTRIAL	2.2%	2.9%	0.1%	5.2%	10.0%	29.7%	10.2%	8.4%
NASDAQ	3.1%	3.7%	-1.1%	5.8%	14.8%	40.2%	17.7%	-0.8%
S&P 400 Midcap	3.6%	1.8%	0.8%	6.3%	9.7%	33.5%	17.8%	-1.7%
RUSSELL 2000 INDEX	6.6%	0.1%	2.8%	9.7%	4.9%	38.8%	16.4%	-4.2%
RUSSELL 3000 INDEX	2.8%	2.4%	0.0%	5.2%	12.6%	33.6%	16.4%	1.0%
ALERIAN INDEX	-4.6%	-2.6%	-5.6%	-12.3%	4.8%	27.6%	4.8%	13.9%
INTERNATIONAL EQUITY								
MSCI AC World (ACWI)	0.7%	1.7%	-1.9%	0.5%	4.8%	23.5%	17.0%	-6.8%
MSCI EAFE	-1.4%	1.4%	-3.4%	-3.5%	-4.2%	23.6%	18.1%	-11.6%
MSCI EM	1.2%	-1.0%	-4.7%	-4.6%	-2.1%	-2.3%	18.7%	-18.2%
MSCI EMEA	1.6%	-1.8%	-9.7%	-9.9%	-14.5%	-4.7%	22.5%	-20.2%
DJ Stoxx 50	-4.1%	3.8%	-5.6%	-6.1%	-7.9%	28.2%	21.8%	-15.7%
FTSE 100 INDEX	-2.4%	0.7%	-2.5%	-4.1%	-5.0%	21.4%	15.6%	-2.3%
NIKKEI 225	-0.8%	0.5%	-0.6%	-0.9%	-4.2%	30.6%	12.4%	-10.4%
HANG SENG INDEX	4.9%	0.0%	-1.6%	3.4%	5.3%	6.5%	27.7%	-17.3%
SHANGHAI SE COMPOSITE	2.8%	10.4%	19.3%	35.3%	54.0%	-1.0%	6.9%	-16.5%
BRAZIL BOVESPA INDEX	0.4%	-3.9%	-11.2%	-14.4%	-13.4%	-26.8%	-2.0%	-27.1%
MSCI BRAZIL SMALLCAP	-1.0%	-4.9%	-10.9%	-16.0%	-25.2%	-26.1%	29.5%	-24.0%
S&P SECTOR BREAKDOWN								
S&P 500 ENERGY INDEX	-2.9%	-8.5%	0.5%	-10.7%	-7.8%	25.0%	4.6%	4.7%
S&P 500 MATERIALS INDEX	-2.5%	1.4%	-0.7%	-1.8%	6.9%	25.6%	15.0%	-9.8%
S&P 500 INDUSTRIALS IDX	3.7%	3.1%	-0.2%	6.7%	9.8%	40.6%	15.3%	-0.6%
S&P 500 CONS DISCRET IDX	2.1%	5.4%	1.0%	8.7%	9.7%	43.1%	23.9%	6.1%
S&P 500 CONS STAPLES IDX	3.6%	5.5%	-1.0%	8.2%	16.0%	26.1%	10.8%	14.0%
S&P 500 FINANCIALS INDEX	3.0%	2.3%	1.8%	7.2%	15.2%	35.6%	28.7%	-17.1%
S&P 500 HEALTH CARE IDX	5.4%	3.4%	-1.3%	7.5%	25.3%	41.5%	17.9%	12.7%
S&P 500 INFO TECH INDEX	1.7%	5.3%	-1.7%	5.2%	20.1%	28.4%	14.8%	2.4%
S&P 500 TELECOMM SVCS IX	0.9%	1.2%	-6.1%	-4.2%	3.0%	11.5%	18.3%	6.3%
S&P 500 UTILITIES INDEX	8.0%	1.2%	3.5%	13.2%	29.0%	13.2%	1.3%	19.9%
FIXED INCOME								
US TREASURY BILLS	0.00%	0.00%	0.00%	0.03%	0.06%	0.09%	0.12%	0.14%
US TREASURY MASTER	1.08%	0.92%	0.26%	2.28%	6.02%	-3.35%	2.16%	9.79%
US MUNICIPAL 3-5 YEAR	0.18%	0.07%	-0.31%	-0.06%	1.98%	1.42%	2.38%	5.39%
US CORP, GOVT, MTG INDEX	1.01%	0.77%	0.08%	1.87%	6.37%	-2.34%	4.42%	7.89%
US CORP & GOVT A RATED	1.03%	0.87%	0.23%	2.13%	6.18%	-2.83%	3.89%	8.61%
US BROAD CORPORATE	0.93%	0.64%	-0.14%	1.43%	7.51%	-1.46%	10.37%	7.51%
GLOBAL BROAD MKT CORP	0.75%	0.73%	0.12%	1.60%	7.80%	0.05%	10.79%	5.16%
US HIGH YIELD	1.14%	-0.72%	-1.47%	-1.07%	2.50%	7.42%	15.58%	4.38%

All performance data quoted in USD and includes dividends

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