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Performance Notes
First Quarter 2015

We'd like to introduce Kavar Capital Partner's Quarterly Performance Notes as a new, regular publication that dives into the previous quarter's economic, market and investment themes.

Every three months, the accompanying slides will take an analytical look at what drove portfolio returns, what major themes presented themselves or perpetuated and what may be coming down the road. The charts, graphs and tables will be complimented with concise commentary.

The first quarter of 2015 was characterized by the following:

- Signs of volatility in the equity markets
- Diligent observance of Fed policy
- Rising US dollar against world currencies
- Persistent low price levels for oil
- Accommodative policy changes in Europe
- Corporate activity in the US

Domestically, stocks were slightly higher overall for the quarter, continuing a bull market that has lasted for more than six years now. Growth stocks outpaced Value stocks and Small and Mid-sized stocks outpaced their Large cap counterparts. Healthcare, somewhat spurred by merger activity, led the way among industry sectors. The Energy sector continued to struggle as low oil prices affected earnings and activity levels. Last year's best performing sector, Utilities, fell to the bottom of the pack during the quarter.

After initiating further easing on the economy in Europe, their markets rallied and outperformed the US. Emerging Markets fell in between, outperforming the US but lagging behind other developed countries. International companies benefitted from the rise in the US dollar as it swayed consumers to purchase their home country products rather than US imports. The effect was very pronounced between the US dollar and the Euro where the exchange rate is as low as it's been since 2003. Allocations to international funds, which hindered returns last year have been a significant boost this year.

Most sectors of the bond market were also up as status quo was the main theme for interest rates. High yield saw some tightening to start 2015 after the sector blew out due to Energy industry exposure over the last half of 2014.

Looking forward, valuations are not extraordinarily high but have obviously recovered from their recession-induced lows. Europe remains a relatively attractive option for 2015, riding the tailwind of the stronger US dollar and easy money policies as sovereign fixed income rates in some countries are actually negative. Growth stocks are catching up to Value stocks from a valuation perspective but are still below their longer term averages.

Janet Yellen and the FOMC monthly statements provided a lot of material to analyze and digest amongst investors this quarter. Scrutiny was down to the individual words in the prepared statements – the Fed removed "patient" from the March statement, yet the markets held mostly dovish interpretations of the Fed's meetings for the quarter. Consensus expectations seemed to switch from June to September for an initial interest rate hike.

The data used in the Fed's decision making process is varied. Headline unemployment looks good at first blush but beneath that number is troubling data about wage growth and labor participation. Inflation is still below where they'd like to see it – exasperated by falling energy prices which allow some deflation scenarios to linger. These are questions that are making a rate hike decision complicated as the consequences of moving too soon and/or too fast are grave.

The overarching motif for markets today seems to be uncertainty. There's not only uncertainty about when the Fed will raise rates but uncertainty about how markets will react. Some equity market levels are at historical highs, so it's only natural to be looking for the top, especially with 2008 still fresh in investor's minds.   Uncertainty is abound in the currency and commodity markets.   The uncertain environment calls for all-weather portfolios, where there is downside protection but upside participation. Accepting the uncertainty and preparing for multiple market scenarios with reliable risk and return expectations can lead to success.

"Uncertainty is the only certainty there is, and knowing how to live with insecurity is the only security."

- *John Allen Paulos*

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First Quarter Performance Notes 2015

2015 Asset Class Performance

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2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	YTD	15-yrs '00 - '14 Ann.	15-yrs '00 - '14 Vol.
Comdty. 31.8%	REITs 13.9%	Comdty. 25.9%	EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	DM Equity 5.0%	REITs 12.7%	REITs 22.0%
REITs 26.4%	Fixed Income 8.4%	Fixed Income 10.3%	Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Small Cap 4.3%	High Yield 8.7%	Small Cap 21.6%
Fixed Income 11.6%	Cash 4.1%	High Yield 4.1%	DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	REITs 4.0%	Small Cap 7.4%	EM Equity 21.3%
Cash 6.1%	Small Cap 2.5%	REITs 3.8%	REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	EM Equity 2.3%	EM Equity 7.4%	Comdty. 19.2%
High Yield 1.0%	High Yield 2.3%	Cash 1.7%	High Yield 32.4%	High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	Asset Alloc. 1.9%	Fixed Income 5.7%	DM Equity 17.5%
Asset Alloc. 0.0%	EM Equity -2.4%	Asset Alloc. -5.9%	Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Fixed Income 1.6%	Asset Alloc. 5.3%	Large Cap 17.3%
Small Cap -3.0%	Asset Alloc. -3.9%	EM Equity -6.0%	Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	Large Cap 1.0%	Large Cap 4.2%	Asset Alloc. 13.7%
Large Cap -9.1%	Large Cap -11.9%	DM Equity -15.7%	Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	High Yield 0.6%	DM Equity 3.0%	High Yield 11.7%
DM Equity -14.0%	Comdty. -19.5%	Small Cap -20.5%	Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	Cash 0.0%	Comdty. 2.7%	Fixed Income 3.5%
EM Equity -30.6%	DM Equity -21.2%	Large Cap -22.1%	Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -5.9%	Cash 1.9%	Cash 1.0%

Source: Russell, MSCI, Bloomberg, Standard & Poor's, Barclays Capital, NAREIT, FactSet, J.P. Morgan Asset Management. Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Barclays HY Index, Fixed Income: Barclays Capital Aggregate, REITs: NAREIT Equity REIT Index.The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays Capital Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. All data represents total return for stated period. Past performance is not indicative of future returns. Data are as of 3/31/15."15-yrs" returns represent period of 12/31/99 – 12/31/14 showing both cumulative (Cum.) and annualized (Ann.) over the period. Please see disclosure page at end for index definitions.
Data are as of March 31, 2015.

J.P.Morgan Asset Management

Commodity price sensitive businesses continued to feel the effects of the decline in the price of oil.

REITs, after leading the way in 2014, remain near the top on the tailwind of continued low interest rates, despite being near peak valuations.

Small cap companies are outperforming large cap companies in a reversal of 2014 performance.

International Equity is so far the best performer after European stimulus and with the rise of the US dollar affecting domestic stocks.

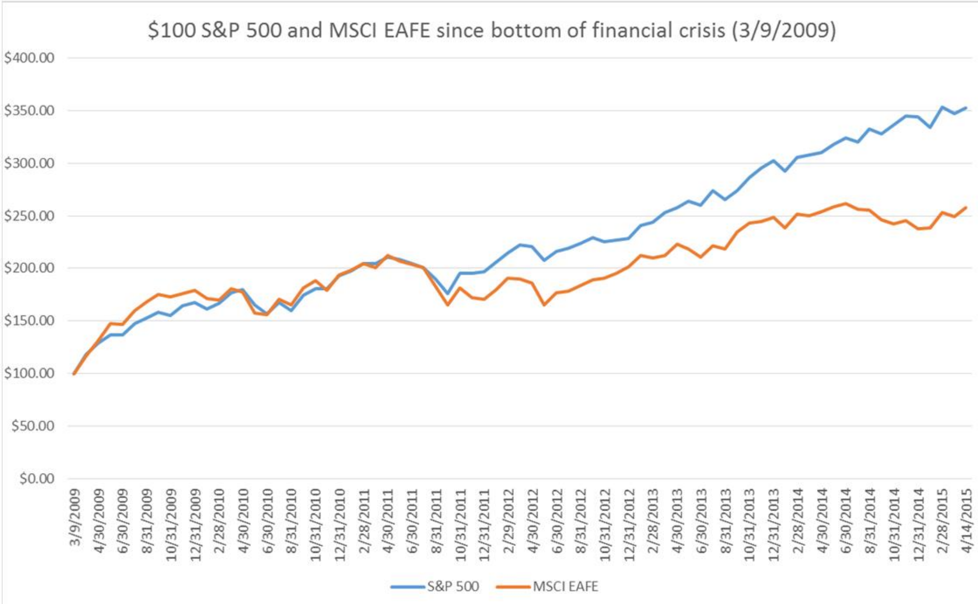
See Disclosure, Page 11

Equity Performance

The S&P 500 bottomed out on March 9, 2009 following the global financial crisis.

Since then it has returned 252.4% in total (22.95% annually) over the six plus years of the current bull market (through 4/14/15). International stocks haven't kept up, as the chart displays.

The S&P 500 has experienced this type of six year run only twice since 1970, with periods ending during 1987 and 1999-2000.



Source: Morningstar Direct

Equity Market Performance

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Some trends have reversed from the previous year so far in 2015.

In 2014, active managers struggled vs the S&P 500 mainly due to three headwinds:

1. Cash holdings – with continuing low interest rates, any allocation to cash was a drag on performance
2. International struggles – the US markets outpaced others significantly during 2014
3. Small vs Large cap – Large cap companies had a strong year, outperforming small and mid sized companies.

This year, we've seen two of these three reverse. International markets, especially the UK and Europe are outperforming domestic stocks. Small and mid cap companies are now beating large caps.

And with these headwinds turned to tailwinds, active managers are outpacing their benchmarks more so than in 2014.

Market Cap	***YTD Return***
Large Cap	0.95%
Mid Cap	5.31%
Small Cap	3.96%

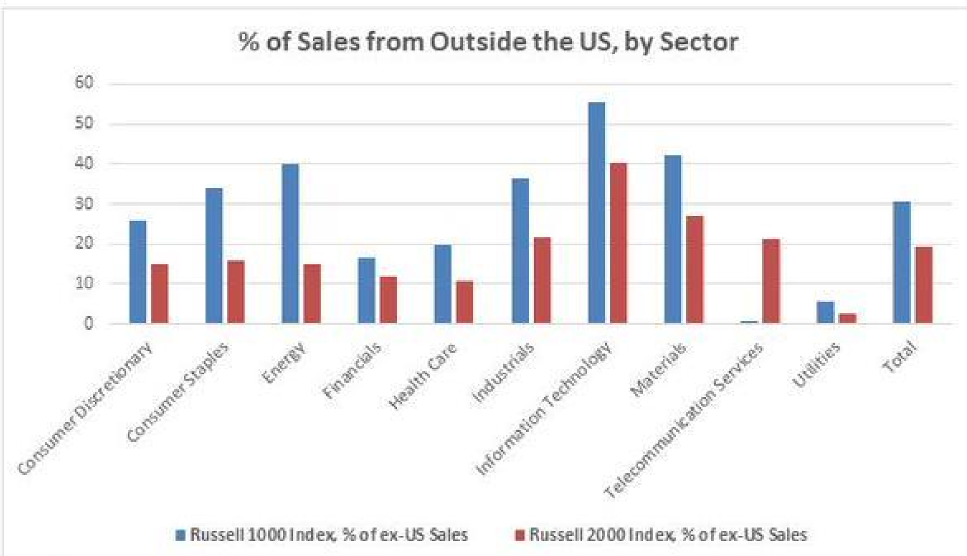
Market	***YTD Return***
US	1.80%
Emerging Markets	2.28%
EAFE	5.00%
World ex US	3.93%

Source: Morningstar Direct

Equity Market Performance

A large part of why US Large Cap companies are underperforming relative to Small/Mid Caps or companies based abroad is the continued strengthening of the US dollar.

Small and Mid size US companies generate less of their revenues outside the country and therefore are less sensitive to foreign currency exchange changes. The chart below shows large vs. small companies broken out by industry sector and the percentage of sales from outside the US.



Source: FactSet

Large cap companies are typically multinational and encounter currency translations of their revenues coming back to the US from abroad. As they translate these revenues back to a stronger dollar their profits are negatively impacted.

Equity Market Performance

In the US, Growth stocks have outperformed their value counterparts so far in 2015.

YTD as of 3/31/15	Value	Growth
Total Broad Market	-0.51%	4.05%
Large Cap	-0.69%	2.47%
Mid Cap	2.83%	7.55%
Small Cap	1.29%	6.60%

Source: Morningstar Direct

Growth stocks outperformed as the market moved forward with some momentum (Healthcare sector). On the flip side, Energy companies struggled.

However, looking back to the beginning of the year we can see that Growth was undervalued whereas Value was overvalued relative to the 20-year avg. P/E.

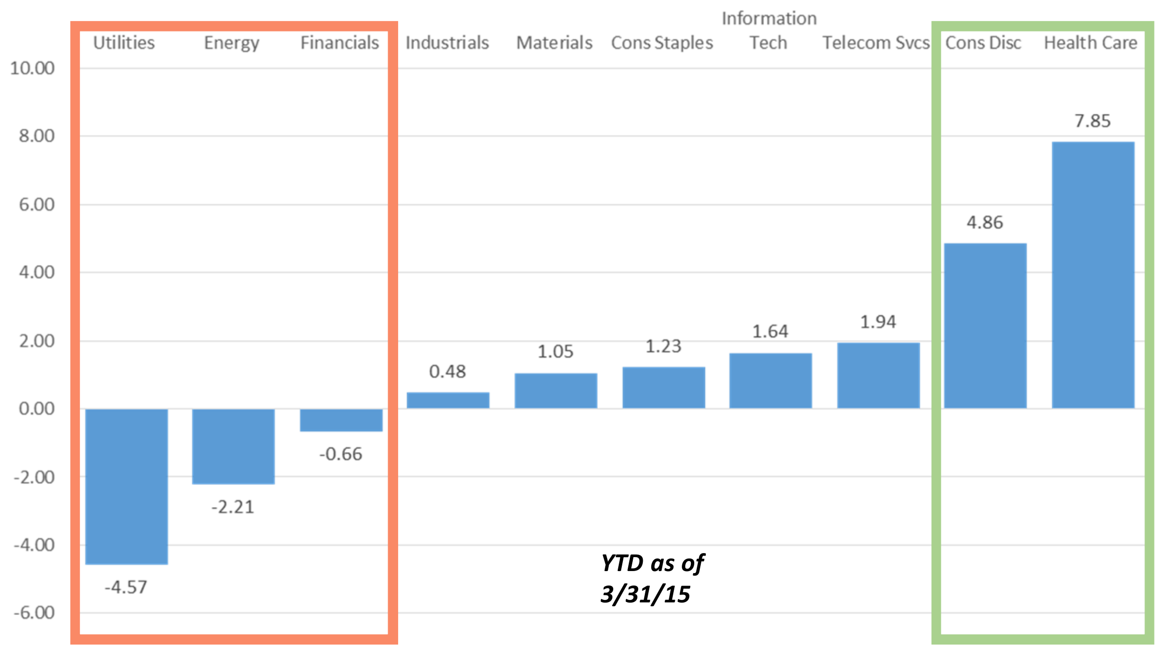
Current P/E as % of 20-year avg. P/E — **12/31/14**

E.g.: Large Cap Blend stocks are fairly valued compared to historical average.

	Value	Blend	Growth
Large	110.1%	100.6%	89.0%
Mid	118.1%	112.7%	94.5%
Small	113.1%	104.4%	93.3%

Source: Russell, Standard & Poor's, Factset, JP Morgan Asset Management

Equity Sector Performance



Source: Morningstar Direct

The various sectors' returns for the quarter further tell the story of growth over value during 2015. Growth intensive sectors, Healthcare and Consumer Discretionary led the way while the more mature, Value-oriented sectors of Utilities, Energy and Financials were the worst performers.

Equity Valuations

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U.S. Equity: Valuation Measures | **Historical Averages**

Valuation Measure	Description	Latest	1-year ago	5-year avg.	10-year avg.	25-year avg.*
P/E	Price to Earnings	16.9x	15.5x	13.6x	13.8x	15.7x
CAPE	Shiller's P/E	27.8	25.9	22.7	22.9	25.4
Div. Yield	Dividend Yield	1.9%	1.9%	2.0%	2.0%	2.1%
REY	Real Earnings Yield	3.9%	4.2%	5.0%	4.5%	2.9%
P/B	Price to Book	2.8	2.7	2.3	2.4	2.9
P/CF	Price to Cash Flow	11.8	11.1	9.4	9.7	11.3
EY Spread	EY Minus Baa Yield	1.4%	1.7%	2.2%	1.3%	-0.6%

Despite a bull market in its sixth year, the broad market doesn't appear significantly overvalued based on most metrics. Some sectors come to mind that look more so overvalued (Biotech, REITs, etc.) but as whole there are still pockets of value amongst stocks. Every risky asset should be considered relative to US Treasuries and when you compare stocks valuations to historically low fixed income yields, stocks seem even less overvalued, and perhaps still undervalued.

Source: Standard & Poor's, FactSet, Robert Shiller, FRB, J.P. Morgan Asset Management. Price to Earnings is price divided by consensus analyst estimates of earnings per share for the next 12 months. Shiller's P/E uses trailing 10-years of inflation adjusted earnings as reported by companies. Dividend Yield is calculated as the trailing 12-month average dividend divided by price. Real Earnings Yield is defined as (trailing four quarters of reported earnings/price) - year over year core CPI inflation. Price to Book Ratio is the price divided by book value per share. Price to Cash Flow is price divided by NTM cash flow. EY Minus Baa Yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) minus the Moody's Baa seasoned corporate bond yield. *P/CF is a 20-year avg. due to cash flow data availability.
Data are as of March 31, 2015.

Equity Valuations

The valuation level of the market is not necessarily a predictor of a turn to a bear market. Most historical market corrections were the result of economic recessions.

Characteristics of Past Bear Markets

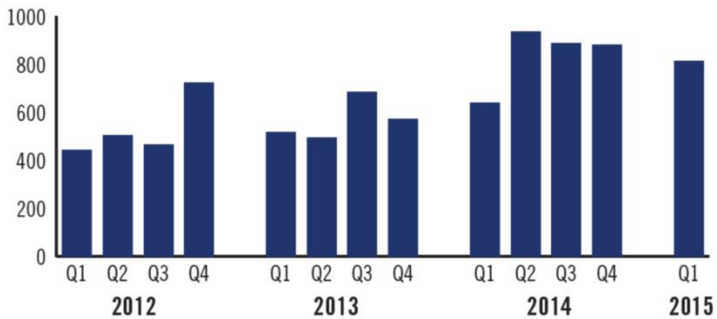
◆	Market Corrections	Cycle Peak	Bull Market Duration (Months)	Decline from All-time High	Recession	Commodity Shock	Fed Tightening	Extreme Valuations	Commentary
1	Crash of 1929	Aug 1929	37	-84%	●			●	Excessive leverage, irrational exuberance
2	1937 Fed Tightening	Feb 1937	22	-74%	●		●		Premature monetary tightening
3	Post WWII Crash	May 1946	48	-54%	●			●	Post-war demobilization, recession fears
4	Flash Crash of 1962	Dec 1961	14	-22%				●	Flash crash, Cuban Missile Crisis
5	Tech Crash of 1970	Dec 1968	73	-29%	●	●	●		Economic overheating, civil unrest
6	Stagflation	Dec 1972	29	-43%	●	●			OPEC oil embargo
7	Volcker Tightening	Nov 1980	31	-19%	●	●	●		Extremely high rates to reign in inflation
8	1987 Crash	Aug 1987	59	-27%					Program trading, overheated market
9	Tech Bubble	Aug 2000	118	-42%	●			●	Extreme valuations, mostly in tech stocks
10	Global Financial Crisis	Oct 2007	55	-51%	●	●	●		Leverage, housing, Lehman collapse

Source: Standard & Poor's, NBER, FactSet, Robert Shiller, J.P. Morgan Asset Management.
*A bear market represents a 20% or more decline from the previous market high.
Data are as of March 31, 2015.

Market Driver: Corporate Events

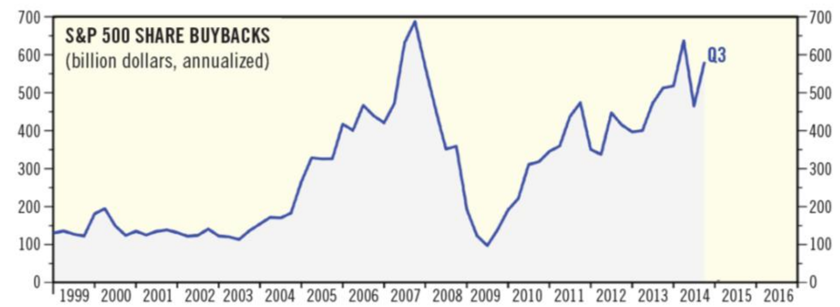
Mergers, acquisitions, divestitures, splits, spinoffs, stocks buybacks, dividend increases have all picked up further this quarter after ending 2014 on an uptick. A string of healthcare mergers fueled an end of the quarter kick for the markets.

Exhibit 1. GLOBAL M&A $ VALUE (2012 – 2014)



Source: Bloomberg, Driehaus Capital Management

Exhibit 2. S&P 500 ANNUALIZED SHARE REPURCHASE VALUE (1999 – 2014)



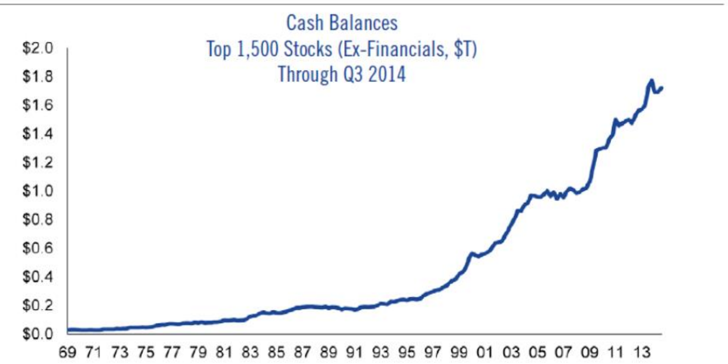
Source: Yardeni Research

Market Driver: Corporate Events

Why are we seeing this activity?

- High cash levels sitting on corporate balance sheets
- Partially due to reason #1, an increase in shareholder activism has occurred. Shareholders are urging corporate boards to do something with the these high cash levels – whether it's pay a dividend, buy back shares, or make an acquisition.
- Limited top line growth opportunities. Corporate management teams have a propensity for "empire building" and with cash on hand and exhausted revenue sources, they may seek to grow their organizations from the outside, rather than organically.
- An underappreciated angle is low interest rates. The market values these acquisitions and synergies using a discount rate and the discount rate is historically low because the US treasury rate is its foundation. This leads to higher valuations for these events.

Exhibit 7. CASH ON CORPORATE BALANCE SHEETS



Source: ClariFi, Thomson Reuters, Morgan Stanley Research

Market Driver: Corporate Events

A big change in activity during this cycle has seen the Acquirer's stock price also increasing and in some cases by a significant amount when a deal is announced and until the deal is executed.

History typically shows selling pressure on the Acquirer's stock as investors doubted synergies, thought of other growth opportunities besides the announced deal or feared a loss of focus on core business. This hasn't been the case recently as investors have cheered acquirers spending the high cash levels on their balance sheets in some way.

Exhibit 5. TOP 10 M&A TRANSACTIONS WITH PUBLIC ACQUIRERS (2015 VS. 2005)

2015 YTD				
Announce Date	Target	Acquirer	Anncd Deal Value	Acquirer Anncd Date Price Change
3/9/2015	Macerich	Simon Property Group	20.7	-0.1%
3/4/2015	Pharmacyclics	AbbVie	19.8	-5.7%
1/26/2015	Regency Energy	Energy Transfer	17.2	-6.4%
2/5/2015	Hospira	Pfizer	16.8	2.9%
3/2/2015	Freescale Semi	NXP Semi	15.8	17.3%
3/30/2015	Catamaran	United Health	13.2	2.5%
2/22/2015	Salix Pharma	Valeant Pharma	12.5	14.7%
3/31/2015	Bright House	Charter	10.4	8.0%
1/26/2015	MeadWestvaco	Rock-Tenn	9.7	6.1%
2/4/2015	Office Depot	Staples	5.9	-2.4%
			2015 AVERAGE	3.7%

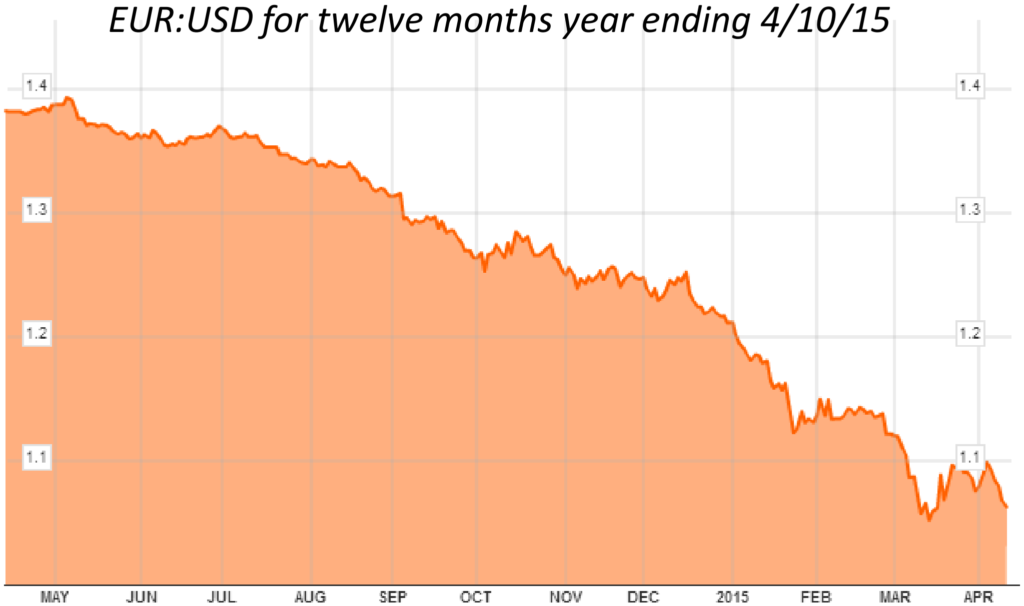
2005				
Announce Date	Target	Acquirer	Anncd Deal Value	Acquirer Anncd Date Price Change
1/28/2005	Gillette	Proctor & Gamble	57.3	-2.1%
12/12/2005	Burlington Resources	ConocoPhillips	36.1	-5.0%
6/30/2005	MBNA	Bank of America	35.4	-2.8%
12/5/2005	Guidant	Boston Scientific	25.2	-3.6%
4/4/2005	Unocal	Chevron	20	-3.9%
2/28/2005	May Dept	Macy's	16.6	-0.6%
5/9/2005	Cinergy	Duke Energy	13.7	-1.9%
10/31/2005	Place Dome	Barrick Gold	10.2	-7.2%
10/3/2005	Dex Media	RH Donnelley	9.7	-2.4%
4/25/2005	Premcor	Valero	7.8	1.1%
			2005 AVERAGE	-2.8%

Source: Bloomberg, Driehaus Capital Management,

Market Driver: US Dollar

A major tailwind for international investing has been the appreciation of the US dollar and the depreciation of the Euro, particularly during 2015 as stimulus was rolled out by the European Central Bank.

EUR:USD for twelve months year ending 4/10/15



Source: Bloomberg

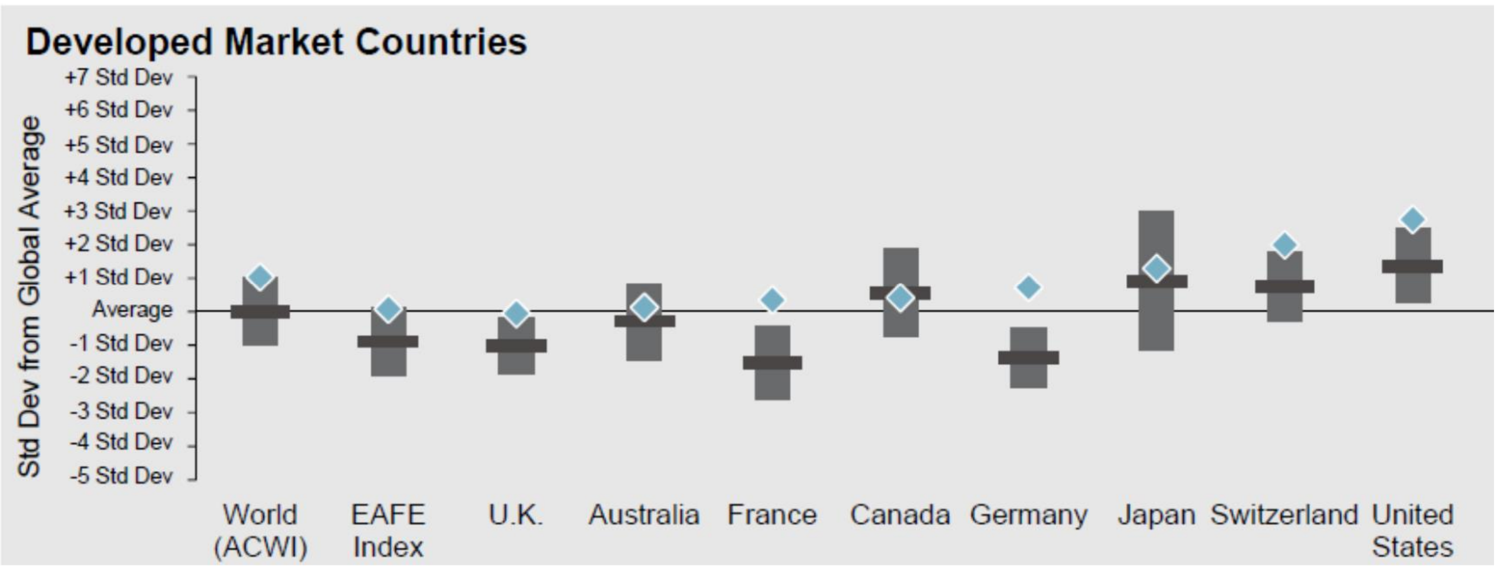
YTD as of 3/31/15	***Return***
MSCI EAFE Local Currency	10.97
S&P 500 in US Dollar	0.95

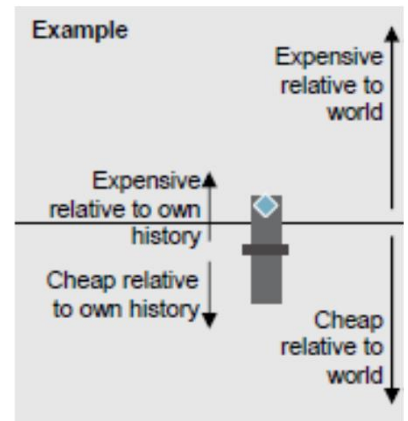
Considering international markets in their local currencies, for the first quarter of 2015 they outpaced the S&P 500 by over 10%. The depreciation of their currencies vs the US dollar is a big reason why.

Source: Morningstar Direct

Market Driver: US Dollar

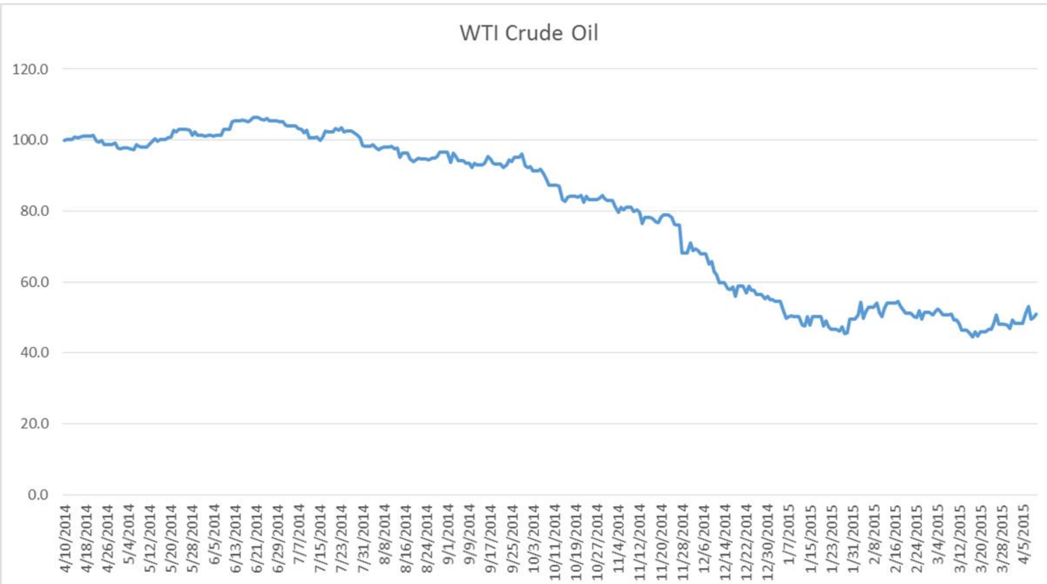
Valuations in the UK and spots of Europe remain at or below their historical averages and are cheap relative to the US and other developed markets like Japan.





Source: MSCI, FactSet, J.P. Morgan Asset Management.
Note: Each valuation index shows an equally weighted composite of four metrics: price to forward earnings (Fwd. P/E), price to current book (P/B), price to last 12 months' cash flow (P/CF) and price to last 12 months' dividends (Div. Yld.). Results are then normalized using means and average variability over the last 10 years.
The grey bars represent one standard deviation in variability relative to that of the MSCI All Country World Index (ACWI).
See disclosures page at the end for metric definitions.
Data are as of March 31, 2015.

Market Driver: Oil



Source: Morningstar Direct

While oil has stabilized somewhat during the year, the effects of last year's steep drop in prices will be felt by the aggregate market during this quarter and going forward as long as oil prices remain low.

According to Capital IQ, analysts are expecting earnings to be down 3% year over year for the quarter, most of that is attributed to the energy sector, in which earnings are expected to be down almost 63%. A decline in year over year earnings would be the market's first since the third quarter of 2012.

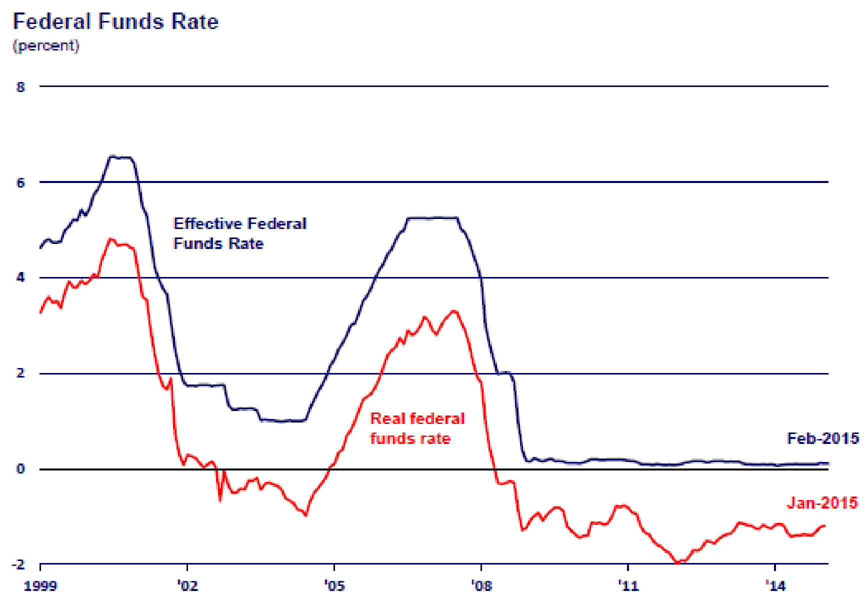
The Energy sector is 8.4% of the S&P 500, so that large drop is significant to the overall stock market's earnings outlook.

Stripping out the Energy sector, earnings could achieve 5% growth for the year.

Source: CNBC, Capital IQ

Interest Rates

The FOMC is theoretically moving closer to moving the Fed Funds rate for the first time since December 2008. The FOMC removing "patient" from the prepared statement at the last meeting was met with further consensus of a rate movement sometime during 2015, *if the data they receive and interpret allows them to.* The Fed Funds rate is the final instrument of monetary policy left at their disposal after ending the Quantitative Easing phases.



Real federal funds rate is the effective rate minus 12-month core PCE inflation.
Source: Haver Analytics.

Chicago Fed

Interest Rates

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The Fed has three objectives for monetary policy according to congress:

1. Maximum Employment (roughly 5.2% to 5.5% unemployment)
2. Stable Prices (roughly 2% inflation)
3. Moderate Long-Term Interest Rates

The first two objectives are known as the Fed's *Dual Mandate* and drive their monetary policy decisions.

They rely on data and forecasts to determine whether these objectives are being met and which policy tools (interest rates mainly) can be used to accomplish these. The question right before a rate hike or drop is whether the data backs up the decision to move rates. It isn't as simple as one unemployment or CPI number. There is a mosaic of data that goes into determining the state of the employment and inflation situation.

Source: federalreserve.org

Maximum Employment

The Bureau of Labor Statistics produces the headline Unemployment figure monthly. As of February 2015 it is at 5.5%.

"Unemployed" according to the BLS means that a person doesn't have a job and that they are actively seeking employment.

Those without jobs and not actively searching are not considered in the labor force – they are considered "marginally attached to the labor force." For instance - discouraged workers who have given up looking for a job.

It also doesn't account for part-time workers that desire full-time work.

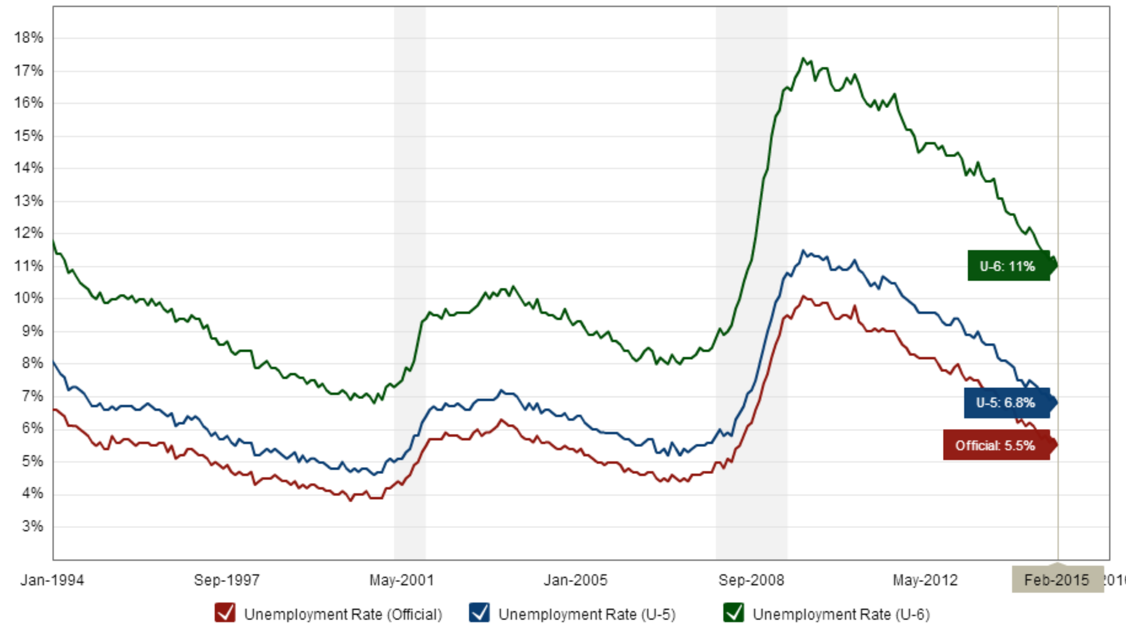
Maximum Employment

There are other measures of unemployment. The red line is the official rate from the previous slide.

The blue line represents total unemployed plus discouraged works plus all other persons marginally attached to the labor force.

The green line represents total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons.

As all of these Unemployment rate calculations have fallen over the past year. The headline unemployment number (red) has slid more quickly, down 18% vs. 13% for the green line.



Source: macrotrends.net

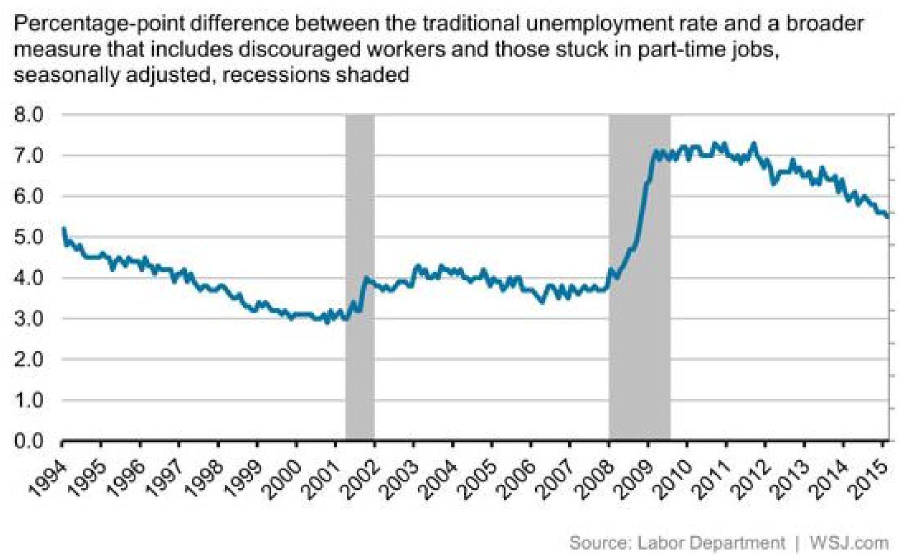
Maximum Employment

As a result of this, the spread between the two measures has narrowed only modestly.

In the graph on the right that spread is nowhere near the historical average.

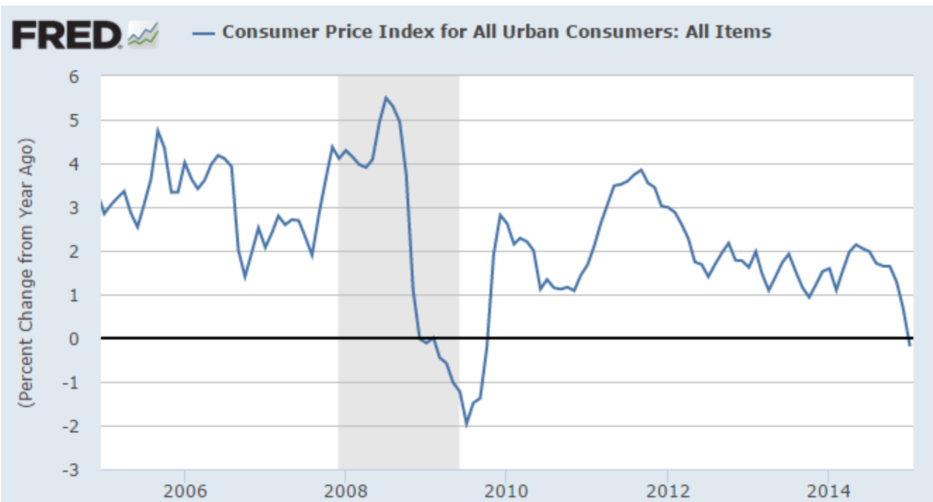
This suggests an unusually large number of Americans are underemployed or on the fringe of the labor market – a situation that exerts stronger downward pressure of wages than the 5.5% unemployment rate would suggest.

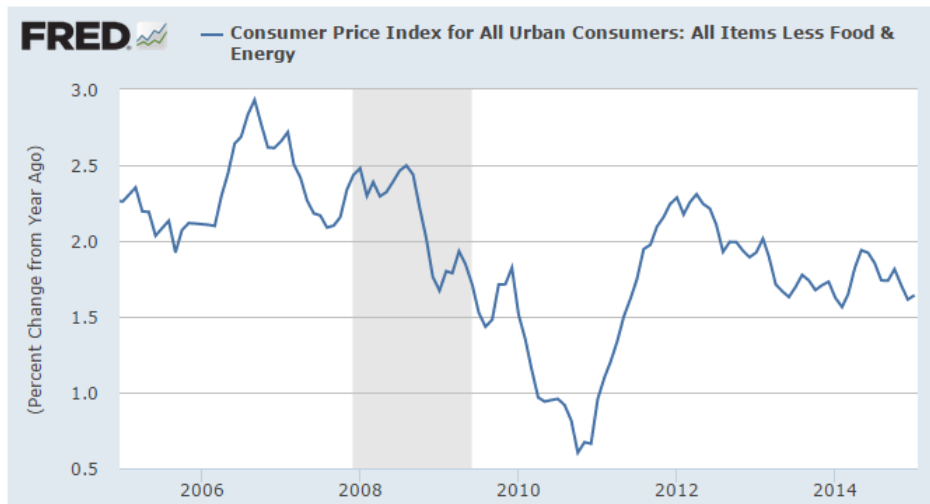
While the labor market is improving and has done so significantly since the recession ended during 2009, there is an argument to be made that the Fed isn't able to see *Maximum Employment* yet.



Stable Prices

According to the Consumer Price Index, inflation has not picked up as forecast by the FOMC and economists' consensus. The left graph shows the change in CPI from a year ago for all items – this has actually gone negative as of January 2015 and trending further downwards. A lot of this has to do with the drop in oil as Energy is a large component of the CPI. However, the right graph, which shows CPI excluding Food and Energy items is also displaying low inflation.



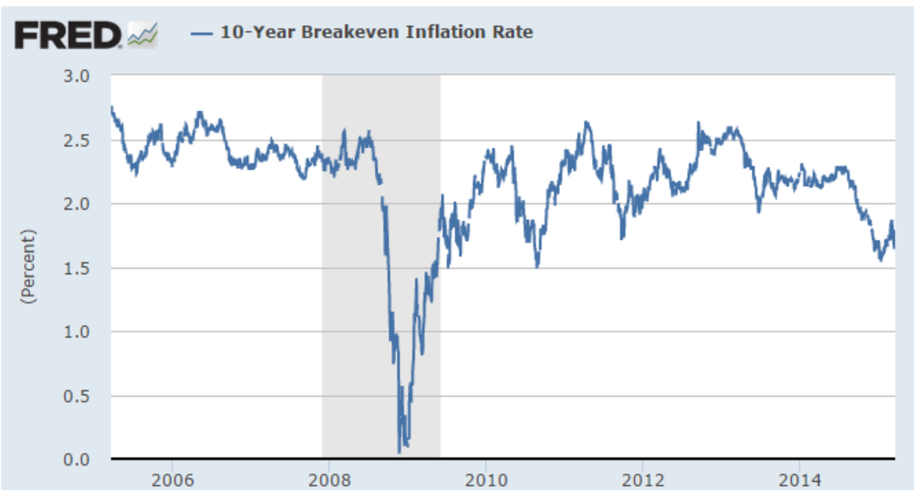


Stable Prices

Another way to gauge price levels is through the US Treasury Inflation Protected Securities and market. TIPS investors set a breakeven inflation rate they forecast through pricing TIPS bonds. Through an open market with real participants we can gather a consensus on inflation expectations down the road.

The 10-year breakeven rate is the inflation expectation for a 10-year inflation protected bond, it is at 1.72% as of February 2015.

The 5-year, 5-year forward Inflation rate shows the expectations of 5-year inflation in 2020, it is at 2.09% as of March 19.



Disclosure:

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