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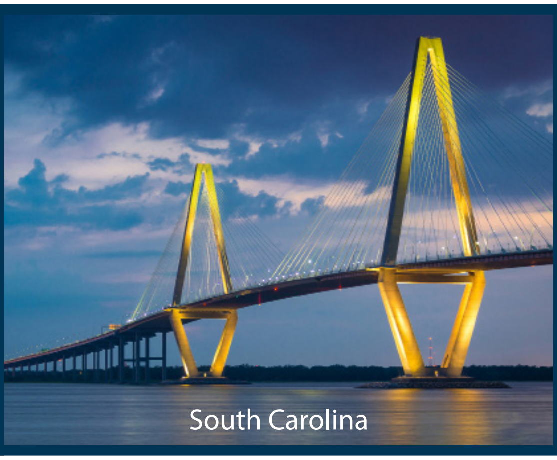


Monthly Market Perspective

November 5, 2015

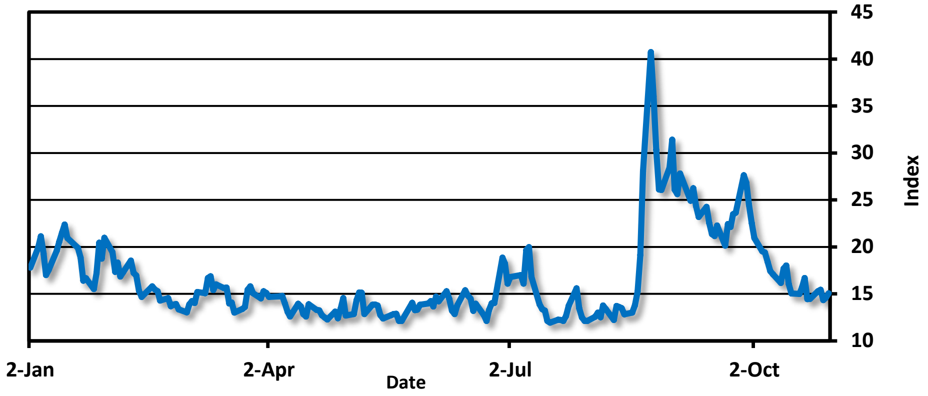
Performa is an independent, employee-owned investment management firm, founded in 1992. We combine more than 20 years of experience in the captive industry with the institutional expertise of our investment team to provide our clients with tailored investment solutions.

Monthly Spotlight: October - A Sweet One for Markets

After a couple of volatile months, global central bankers sounded the all clear and investors came running. Risk appetite was insatiable as market participants legged back into positions they feverishly sold just a few short weeks ago. October's rally soothed the markets with investors acting like the late summer sell-off was but a distant memory.

During late October, a combination of complacency, central bank induced false security and general market fatigue brought an eerie calm over financial markets. While this suggests less investor angst heading into November (see Chart 1), it is not yet time to close the books on 2015. Below we highlight a few key themes in play for the remainder of the year that will likely set the tone for the start of 2016.

Chart 1: 2015 Equity Market Volatility



Source: Bloomberg, Performa Limited U.S.

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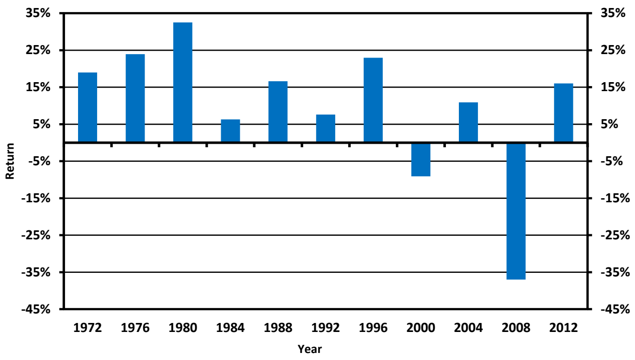
U.S. Budget and Debt Deal

Congressional leaders agreed on a 2-year budget and raised the debt ceiling with minimal drama. It seems the upcoming election year (historically positive for equity markets, see Chart 2) motivated lawmakers to reach a deal with relatively little collateral damage, unless of course you happened to be the speaker of the house.

Chart 2: Election Year S&P 500 Returns



Source: eVestment, Performa Limited U.S.

Congressional action effectively eliminates uncertainty surrounding fiscal deadlines and, we expect, should support economic growth over the next two years, while increasing the deficit.

Central Banks

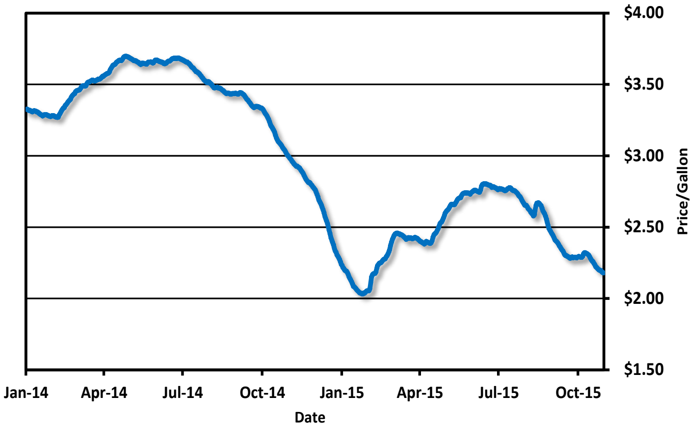
The European Central Bank (ECB) and Federal Reserve each have one meeting left in 2015 and both have the potential for fireworks. The Fed continues to botch their communication efforts, leaving us with little new to say (see prior Market Perspectives). The Fed's October policy statement (released last week) was a poor attempt to recover from their September debacle as it appeared to reverse course and indicate that December's meeting could involve a rate hike. While a dramatic sell-off in the Treasury market ensued, equity markets were unfazed - taking a "we'll believe it when we see it approach." A December rate hike is far from a done deal, but becomes increasingly likely if incoming domestic economic data is solid and financial markets remain calm.

Meanwhile across the pond, during his last press conference ECB president, Mario Draghi, mentioned that the ECB is no longer in "wait and see mode" and is actively exploring further easing measures. With the easing door wide open we expect the ECB will, at a minimum, consider cutting interest rates (which are already negative) and increasing the size and duration of its current bond buying program.

Oil

Low energy prices continue to weigh on inflation measures, which is one reason why the Federal Reserve has yet to increase rates. While low energy prices are problematic for central bankers' inflation targets, the benefits to consumers include higher real disposable income and lower gas prices (see Chart 3). Add in the improving labor market and we are bullish on the U.S. consumer heading into the holiday season.

Chart 3: Average Price of a Gallon of Gas



Source: Bloomberg, Performa Limited U.S.

China

Last week, China's Communist Party approved the countries next 5-year plan, that included a toned down, "moderately high growth" economic target. The full details of the plan won't be released until March, but in addition to targeting a more modest 6.5% growth rate we suspect the plan will support urbanization and consumption as well as address environmental issues.

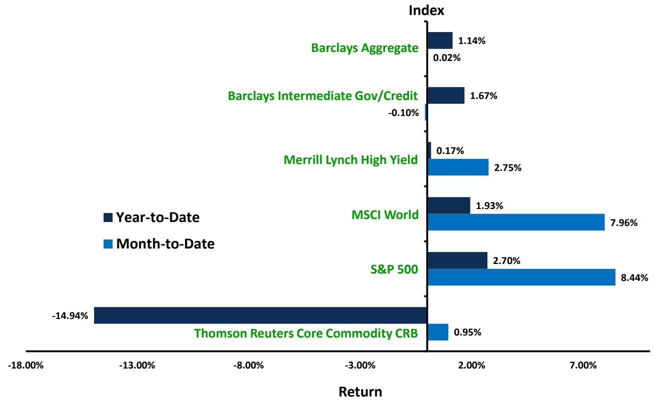
Just as Saudi Arabia is thought of as the swing producer of oil, China is today's swing producer of market volatility. During October, uncertainty stemming from China's currency devaluation dissipated as investors grew more comfortable with the challenges facing the Chinese economy. Market participants will be watching Chinese officials closely and will punish any misplayed hand as they attempt to guide the country down a path towards modernization.

The Unknown Unknowns

A high level look for potential market catalysts is both prudent and necessary, but not all future catalysts are visible. In today's low liquidity world, any uncertainty tends to produce outsized market reactions. With the holidays quickly approaching, it is easy to look ahead to 2016, potentially neglecting the rest of this year's business. For example, last Wednesday, the German Vice Chancellor and Economy Minister, Sigmar Gabrial, made a quick trip to Russia. The meeting with Russian President Putin is perhaps a signal that Germany is beginning to explore the possibility of removing, or at least weakening, some of the current punitive trade sanctions. If true there are not only economic implications through trade channels, but also political ones as Germany continues to push its weight around within the European Union.

Asset Class Overview

Comforted by increased stimulus, investors piled back into riskier asset classes. The MSCI World Index, a measure of developed world equity markets, returned a handsome 7.96% for the month (1.93% year-to-date). U.S. equity markets faired even better with the S&P 500 returning 8.44% for the month (2.70% year-to-date). The high yield bond market also saw a reversal of fortune, experiencing inflows that help stabilize performance. After returning 2.75% in October, the Merrill Lynch US Cash Pay High Yield Index return is now slightly positive for the year. On the flip side, high quality bond returns were rather stagnant. The Barclays Aggregate Index, a measure of the broad investment grade bond universe, returned a de minimis 0.02% for the month (1.14% year-to-date).



Source: Barclays, Bloomberg, Performa Limited U.S., Gross Index Returns

CONTRIBUTORS

Editor: **Scott Mildrum, MS, Economic & Macro Strategist**

Contributors: **Spotlight & Asset Class Overview:** David Kilborn, CFA, CIO, Scott Mildrum, MS

ABOUT PERFORMA

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Our capabilities include asset allocation, active fixed income and equity management through diversified mutual funds or separate account portfolios. With offices in the world's largest captive domiciles, including Bermuda, Vermont and South Carolina, we are focused on delivering customized solutions to meet the unique investment objectives and liquidity requirements of our investors.

We are 100% employee-owned and currently manage $2.8 billion in assets worldwide representing more than 50 clients. Our investment philosophy is value driven and long-term in nature. Whether approaching asset allocation, fixed income or equities, our ability to be nimble, contrarian and decisive sets us apart from our peers and promotes capital preservation.

CONTACT US

Relationship Management
Hugh Barit
Chairman & CEO
(441) 295-6754
hbarit@performa.bm
25 Church Street, 2nd Floor
Hamilton HM12, Bermuda

Portfolio Management
David T. Kilborn, CFA
CIO & President
(843) 297-4130
dkilborn@performausa.com
14 North Adgers Wharf
Charleston, SC 29401

Relationship Management
John James
Captive and Consultant Relations Mngr.
(802) 540-1752
jjames@performausa.com
3 Main Street Suite 215
Burlington, VT 05401

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