EQUITY MARKET DOWNTURN WEIGHS ON INSTITUTIONAL ASSET OWNERS

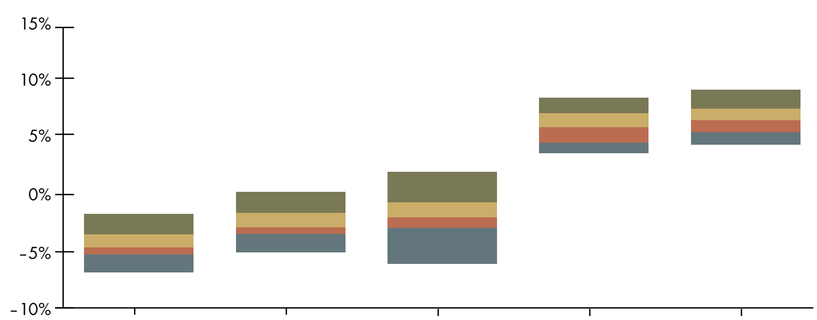
Amy Garrigues
Senior Vice President
Investment Risk &
Analytical Services
(312) 444-5755
AEC2@ntrs.com

The median Global Family Office (GFO) plan was down 4.82% for the third quarter of 2015, which brings its year-to-date return to –2.61%. The 60% equity (S&P 500)/40% bond (B.C. U.S. Agg.) benchmark returned –3.39% during the third quarter, outperforming the GFO plan median by approximately 143 basis points. Year-to-date, the median GFO plan is outperforming the benchmark by one basis point. The GFO median still trails the 60/40 benchmark by 2.91% for the one-year period (–1.96% vs. 0.95%). The GFO benchmark has historically lagged the 60/40 benchmark – underperforming during the two-, three- and five-year periods.

During the third quarter, a –3.67% return represented the barrier needed to break into the top quartile of GFO portfolios. This trailed the benchmark return of –3.39%. To break into the top decile, funds needed a return of –1.87%. Returns of less than –5.48% represented the bottom third quartile and returns under –7.06% fell into the bottom decile. Comparing the one-year standard deviation of the GFO median plan (5.54%) to the 60/40 benchmark (6.20%) reveals the benchmark has increased the amount of risk taken relative to the GFO median to 66 basis points, but the spread has remained relatively constant compared to last quarter. The gap between the risk-adjusted returns of GFO median and the benchmark over the one-year period increased this quarter, with the GFO median having a Sharpe Ratio of –0.36% vs. 0.15% for the benchmark.

Domestic equity comprised 26% of the GFO composite in the third quarter and

GLOBAL FAMILY OFFICE PLANS – TOTAL RETURNS SEPTEMBER 30, 2015



	CURRENT QUARTER	YTD	1 YEAR	3 YEARS	5 YEARS
10th Percentile	–1.9%	0.6%	2.1%	8.5%	8.9%
1st Quartile	–3.7%	–1.3%	–0.6%	7.1%	7.3%
Median	–4.8%	–2.6%	–2.0%	5.9%	6.2%
3rd Quartile	–5.5%	–3.6%	–2.9%	4.5%	5.2%
90th Percentile	–7.1%	–5.3%	–6.1%	3.6%	4.1%

performed poorly compared to fixed income. However, it fared better compared to international equity: with the S&P 500 and Russell 3000 posted –6.44% & –7.25% respectively. Within domestic equity, small caps posted a –11.92% return and underperformed both the mid cap (–8.01%) and large cap (–6.83%) segments. Large cap growth (–5.29%) outperformed large cap value (–8.39%) by more than 300 basis points, while in the small cap sector, growth (–13.06%) underperformed value (–10.73%).

International equity accounted for 14% of the GFO composite this quarter, and significantly underperformed both the S&P 500 and Russell 3000 indices. The selloff in Chinese equities led to an overall decline in global markets but hit the emerging markets especially hard, as evidenced by the –12.10% return in the MSCI ACWI ex USA GD index.

Domestic fixed income comprised 16% of the GFO composite in the third quarter. The B.C. U.S. Aggregate index posted a return of 1.23%, outperforming all other fixed income indices and equity indices for the quarter. The yield curve flattened this quarter as the volatility in global equity markets caused a flight to safety. The difference between the 10-year and two-year spread contracted to 1.42%, from 1.71% at the end of the second quarter.

International fixed income made up 3% of the GFO composite this quarter. The BC Global Aggregate ex US increased slightly from last quarter with a return of 0.64%. The combination of the dissipation of fears of a Greek default along with volatility in global equity markets supported the index as international investors sought relative safety of bonds vs. equity.

COMPOSITE ASSET ALLOCATION – GLOBAL FAMILY OFFICE

	Current	1 Year Ago	3 Years Ago	5 Years Ago
U.S. Equity	26%	25%	22%	
Global/Non-U.S. Equity	14%	15%	12%	
U.S. Fixed Income	15%	16%	21%	
Global/Non-U.S. Bonds	3%	3%	6%	
Private Equity/Hedge Funds	31%	31%	26%	
Cash & Other	10%	9%	14%	

ABOUT NORTHERN TRUST UNIVERSES

Northern Trust Universes represent the performance results of about 300 large institutional investment plans that subscribe to Northern Trust performance measurement services. These plans, with a combined asset value of approximately $899 billion, represent a broad snapshot of overall institutional investment plan performance within the U.S. market.

Northern Trust's Investment Risk and Analytical Services give you a comprehensive array of risk management capabilities, supported by powerful technology and delivered by experienced professionals. We can help you bring all the details to focus – so you can address strategic program management issues. If you would like to participate in our universe analysis and receive more in-depth information, please contact your relationship manager.

Returns are shown gross of fees. Index returns assume reinvestment of dividends and earnings and do not reflect the deduction of any trading costs or other expenses. It is not possible to invest directly in an index. Periods greater than one year are annualized. Past performance does not indicate future results.