RBA Richard Bernstein Advisors

UNCERTAINTY = OPPORTUNITY®

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Richard Bernstein, Chief Executive and Chief Investment Officer

Richard Bernstein Advisors

Richard Bernstein Advisors LLC (RBA) is an independent investment adviser focusing on longer-term investment strategies that combine top-down, macroeconomic analysis and quantitatively-driven portfolio construction. We strive to be the leading provider of innovative investment solutions for investors, and our competitive edge is our research-driven macro style of investing.

Our top-down macro approach differentiates our firm from the more common, traditional bottom-up approach of most asset managers. Our extensive array of macro indicators allows us to construct portfolios for clients that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

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No one ever grew wealth being scared

Investors currently seem scared of everything. Stock market volatility, earnings, Fed policy, energy prices, China's economy, terrorism, politics, Britain leaving the EU, and inflation are just a few of the many issues keeping investors fearful. This short-term market myopia seems like an opportune time for longer-term investors to take more risk.

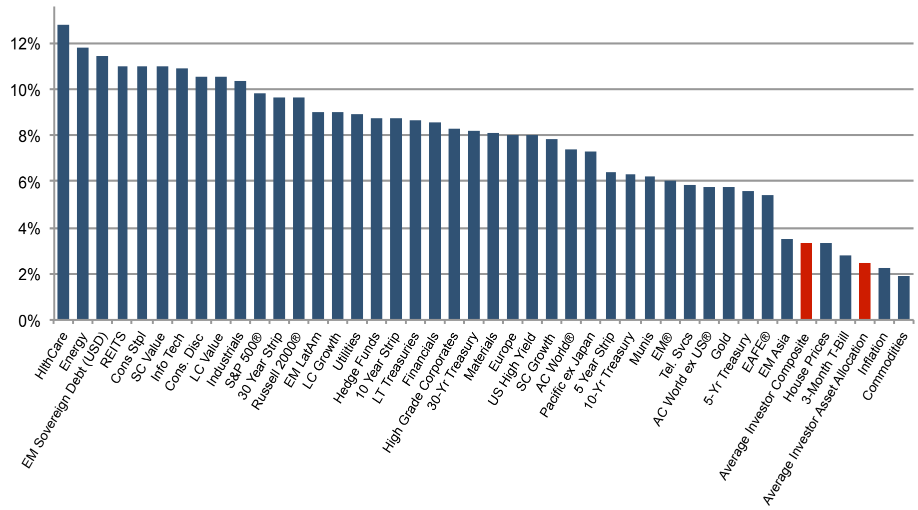
Over longer periods of time, returns compensate investors for taking risk. Although everyone is schooled on the concepts of risk and return, investors rarely take advantage of opportunities that might enhance long-term returns because they are too scared to do so. Instead, they cling to past performance believing historical outperformance will continue indefinitely.

Investors tend to be most bullish at the peak of a cycle when they are most confident. Chart 1 shows that investing with such confidence has historically led to significantly inferior returns. The chart compares the 20-year performance of various assets classes to results of the Dalbar study of individual investor returns. Dalbar estimates individual investor returns based on the timing and magnitude of mutual fund flows. Their data suggest that individual investors perform poorly over longer periods of time because they tend to buy when they are most convinced in an investment's merit and asset prices are elevated, and sell when they are least confident and asset prices are depressed. In other words, individual investors tend to buy high and sell low.

Individual investors perform poorly over longer periods of time because they tend to buy when they are most convinced in an investment's merit and asset prices are elevated, and sell when they are least confident and asset prices are depressed

CHART 1:

Asset Class Returns vs. The "Average Investor"
(20-year annualized total returns, 12/31/1994-12/31/2014)



Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA ,FRB, FTSE. Total Returns in USD. Average Investor returns are represented by Dalbar's investor returns which represent the change in total mutual fund assets after excluding sales, redemptions and exchanges.

The search for income: demographics or fear?

Since 2008, there has been a considerable shift within investor portfolios toward income and away from capital appreciation. Many observers believe demographics and the need for retirement income have caused this shift. We don't doubt that some of the shift from capital appreciation is attributable to aging demographics, but a broad range of data indicates that fear may be the instigator. Today's investors generally believe that investing for income is safe whereas investing for capital appreciation is risky.

Chart 2 shows cumulative mutual fund flows over the past several years. There have been positive flows into income-oriented funds like utility funds, REIT funds, and preferred stock funds. However, there have been significant outflows from capital appreciate-oriented funds like small, mid, and large growth funds. Investors believe that income-oriented funds are safer.

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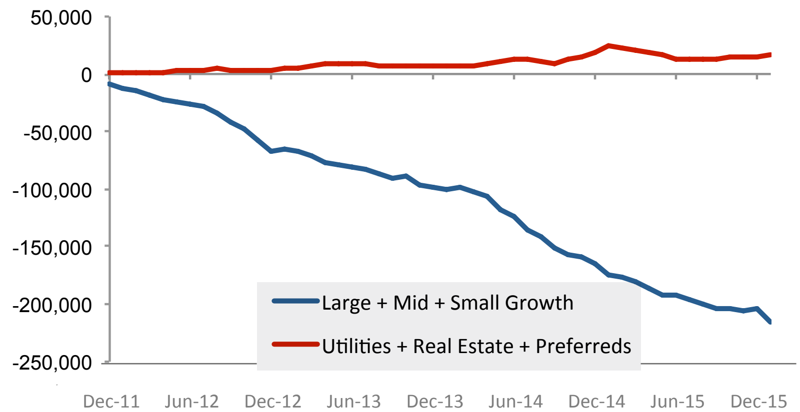
CHART 2:

Cumulative Fund Flows
December 2011 – January 2016

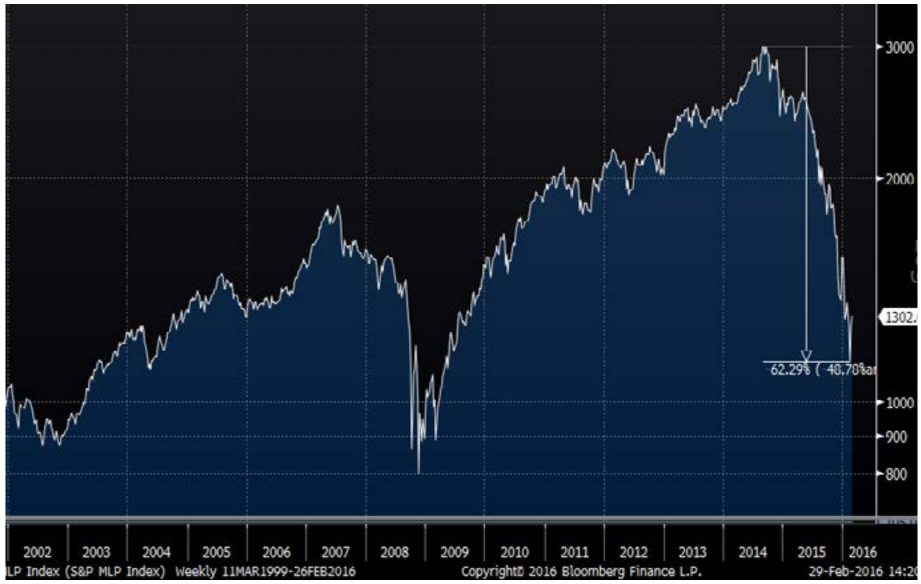


Source: Richard Bernstein Advisors LLC, Morningstar

Unfortunately, the idea that income-oriented investment strategies are safer than capital appreciation strategies isn't quite true. Any strategy taken to an extreme can become very risky. 2015's debacle in MLPs (See Chart 3) starkly demonstrated this point. Income-hungry investors were so convinced that MLPs were infallible that they ignored that the industry had become free cash flow negative, which is never a good sign for companies underlying an income stream.

CHART 3:

S&P MLP Index



Source: Bloomberg Finance L.P. For Index descriptors, see "Index Descriptions" at end of document.

The idea that income-oriented investment strategies are safer than capital appreciation strategies isn't quite true. Any strategy taken to extreme can become very risky. As seen in the 2015's debacle in MLPs

The search for yield has become expensive (see Chart 4), and the current S&P 500® P/D ratio (the inverse of yield) is in only the 25th percentile based on eighty years of data. In other words, dividend investing has been more attractive during 75% of the quarters over the last 80 years. The current high P/D ratio indicates that investors are paying a high valuation for dividends. The stock market's volatility during the past year, however, puts the stock market's 12-month price performance in the 81st percentile, meaning that 12-month returns have been worse than that of the last 12 months only 19% of the time (see Chart 5). **With dividends expensive and price appreciation well below the norm, we think it might favor investors to change tactics and lean toward capital appreciation.**

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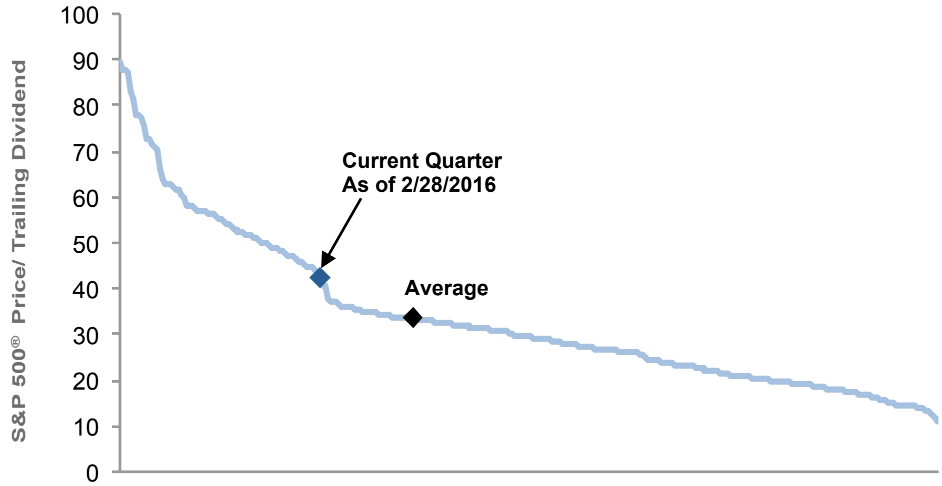
Current S&P 500® P/D ratio is in only the 25th percentile based on eighty years of data. Dividend investing has been more attractive during 75% of the quarters over the last 80 years

CHART 4:

S&P 500® Price/Trailing 4 Qtr. Dividends
(1936 - 2015, qtrly)

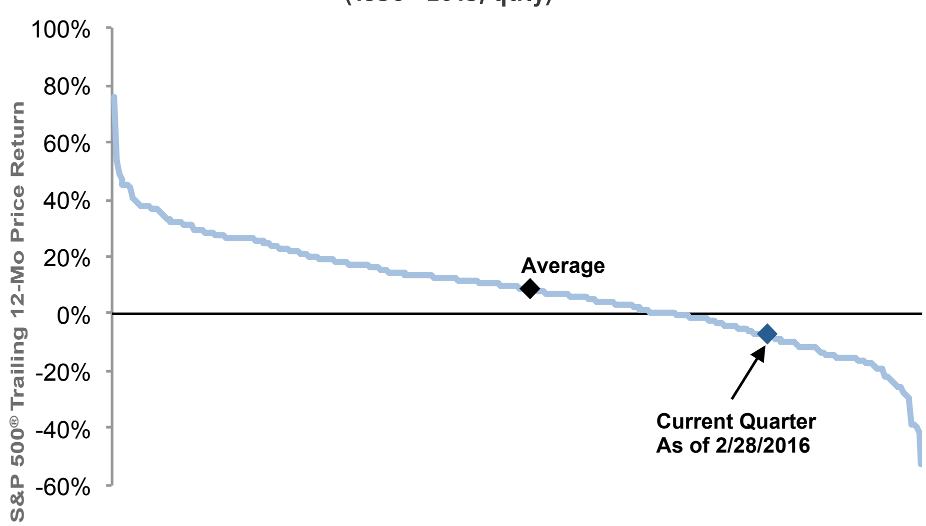


Source: Richard Bernstein Advisors LLC, Standard & Poor's

The stock market's volatility puts the stock market's 12-month price performance in the 81st percentile. 12-month returns have been worse than that of the last 12 months only 19% of the time. appreciation

CHART 5:

S&P 500® Trailing 12-Mo. Return
(1936 - 2015, qtrly)



Source: Richard Bernstein Advisors LLC, Standard & Poor's, Bloomberg L.P.

No guts, no glory

Capitalism is based on taking risk and being compensated for taking that risk. Within that context, investors who are always afraid and structure portfolios conservatively because of that fear should expect sub-par returns. Investors are herding because of fear, and not because of greed. Accordingly, income strategies are much more popular than are strategies based on capital appreciation.

We strongly doubt that investing with the income herd will prove fruitful. Rather, we think investors should be looking to step away from the crowd, and better balance portfolios between income and capital appreciation. There is nothing wrong with income investing, but the opportunity cost of investing in fear and giving up potential capital appreciation might be substantial.

No one ever grew wealth being scared.

If you'd like a deeper understanding about how RBA incorporates these ideas into our portfolios, please contact your RBA product specialist. rbadvisors.com/images/pdfs/PortfolioSpecialistMap.pdf

INDEX DESCRIPTIONS:

The following descriptions, while believed to be accurate, are in some cases abbreviated versions of more detailed or comprehensive definitions available from the sponsors or originators of the respective indices. Anyone interested in such further details is free to consult each such sponsor's or originator's website.

The past performance of an index is not a guarantee of future results.

Each index reflects an unmanaged universe of securities without any deduction for advisory fees or other expenses that would reduce actual returns, as well as the reinvestment of all income and dividends. An actual investment in the securities included in the index would require an investor to incur transaction costs, which would lower the performance results. Indices are not actively managed and investors cannot invest directly in the indices.

MSCI All Country World Index (ACWI®): The MSCI ACWI® Index is a widely recognized, free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of developed markets.

S&P 500®: Standard & Poor's (S&P) 500® Index. The S&P 500® Index is an unmanaged, capitalization-weighted index designed to measure the performance of the broad US economy through changes in the aggregate market value of 500 stocks representing all major industries.

U.S. Small Caps: Russell 2000 Index. The Russell 2000 Index is an unmanaged, capitalization-weighted index designed to measure the performance of the small-cap segment of the US equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index.

Europe: MSCI Europe Index. The MSCI Europe Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom

EM Equity: MSCI Emerging Markets (EM) Index. The MSCI EM Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of emerging markets.

MSCI BRICs. THE MSCI EM BRIC Index: The MSCI EM BRIC Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Brazil, Russia, China and India.

Latam: MSCI EM (Emerging Markets) Latin America Index. The MSCI EM Latin America Index s a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of emerging markets in Latin America. The MSCI EM Latin America Index consists of the following 5 emerging market country indices: Brazil, Chile, Colombia, Mexico, and Peru.

Europe: MSCI Europe Index. The MSCI Europe index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

Brazil: MSCI Brazil Index. The MSCI Brazil Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Brazil.

Russia: MSCI Russia Index. The MSCI Russia Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of Russia.

India: MSCI India Index. The MSCI India Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of India.

China: MSCI China Index. The MSCI China Index is a free-float-adjusted, market-capitalization-weighted index designed to measure the equity-market performance of China.

Gold: Gold Spot USD/oz Bloomberg GOLDS Commodity. The Gold Spot price is quoted as US Dollars per Troy Ounce.

Commodities: S&P GSCI® Index. The S&P GSCI® seeks to provide investors with a reliable and publicly available benchmark for investment performance in the commodity markets, and is designed to be a "tradable" index. The index is calculated primarily on a world production-weighted basis and is comprised of the principal physical commodities that are the subject of active, liquid futures markets.

RBA Investment Process:

- Quantitative indicators and macro-economic analysis are used to establish views on major secular and cyclical trends in the market.
- Investment themes focus on disparities between fundamentals and sentiment.
- Market mis-pricings are identified relative to changes in the global economy, geopolitics and corporate profits.

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Hedge Fund Index: HFRI Fund Weighted Composite Index. The HFRI Fund Weighted Composite Index is a global, equal-weighted index of over 2,000 single-manager funds that report to the HFR (Hedge Fund Research) database. Constituent funds report monthly net-of-all-fees performance in USD and have a minimum of $50 million under management or a twelve (12)-month track record of active performance. The Index includes both domestic (US) and offshore funds, and does not include any funds of funds.

REITS: THE FTSE NAREIT Composite Index. The FTSE NAREIT Composite Index is a free-float-adjusted, market-capitalization-weighted index that includes all tax qualified REITs listed in the NYSE, AMEX, and NASDAQ National Market.

3-Mo T-Bills: BofA Merrill Lynch 3-Month US Treasury Bill Index. The BofA Merrill Lynch 3-Month US Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. The Index is rebalanced monthly and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date.

Long-term Treasury Index: BofA Merrill Lynch 15+ Year US Treasury Index. The BofA Merrill Lynch 15+ Year US Treasury Index is an unmanaged index comprised of US Treasury securities, other than inflation-protected securities and STRIPS, with at least $1 billion in outstanding face value and a remaining term to final maturity of at least 15 years.

Intermediate Treasuries (5-7 Yrs): The BofA Merrill Lynch 5-7 Year US Treasury Index. The BofA Merrill Lynch 5-7 Year US Treasury Index is a subset of The BofA Merrill Lynch US Treasury Index (an unmanaged Index which tracks the performance of US dollar denominated sovereign debt publicly issued by the US government in its domestic market). Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule and a minimum amount outstanding of $1 billion. including all securities with a remaining term to final maturity greater than or equal to 5 years and less than 7 years.

Municipals: BofA Merrill Lynch US Municipal Securities Index. The BofA Merrill Lynch US Municipal Securities Index tracks the performance of USD-denominated, investment-grade rated, tax-exempt debt publicly issued by US states and territories (and their political subdivisions) in the US domestic market. Qualifying securities must have at least one year remaining term to final maturity, a fixed coupon schedule, and an investment-grade rating (based on an average of Moody's, S&P and Fitch). Minimum size requirements vary based on the initial term to final maturity at the time of issuance.

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rbadvisors.com/images/pdfs/PortfolioSpecialistMap.pdf

High Grade Corporates: BofA Merrill Lynch 15+ Year AAA-AA US Corporate Index. The BofA Merrill Lynch 15+ Year AAA-AA US Corporate Index is a subset of the BofA Merrill Lynch US Corporate Index (an unmanaged index comprised of USD-denominated, investment-grade, fixed-rate corporate debt securities publicly issued in the US domestic market with at least one year remaining term to final maturity and at least $250 million outstanding) including all securities with a remaining term to final maturity of at least15 years and rated AAA through AA3, inclusive.

U.S. High Yield: BofA Merrill Lynch US Cash Pay High Yield Index. The BofA Merrill Lynch US Cash Pay High Yield Index tracks the performance of USD-denominated, below-investment-grade-rated corporate debt, currently in a coupon-paying period, that is publicly issued in the US domestic market. Qualifying securities must have a below-investment-grade rating (based on an average of Moody's, S&P and Fitch) and an investment-grade-rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long-term sovereign debt ratings), at least one year remaining term to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $100 million.

EM Sovereign: The BofA Merrill Lynch US Dollar Emerging Markets Sovereign Plus Index. The BofA Merrill Lynch US Dollar Emerging Markets Sovereign Plus Index tracks the performance of US dollar denominated emerging market and cross-over sovereign debt publicly issued in the Eurobond or US domestic market. Qualifying countries must have a BBB1 or lower foreign currency long-term sovereign debt rating (based on an average of Moody's, S&P and Fitch). Countries that are not rated, or that are rated "D" or "SD" by one or several rating agencies qualify for inclusion in the index but individual non-performing securities are removed. Qualifying securities must have at least one year remaining term to final maturity, a fixed or floating coupon and a minimum amount outstanding of $250 million. Local currency debt is excluded from the Index.

MLPs: The S&P MLP Index. The S&P MLP index provides investors with exposure to the leading partnerships that trade on the NYSE and NASDAQ and includes both Master Limited Partnerships (MLPs) and publicly traded LLC's, which have similar legal structure to MLPs and share the same tax benefits.

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About Richard Bernstein Advisors

Richard Bernstein Advisors LLC is an independent investment adviser. RBA partners with several firms including Eaton Vance Management and First Trust Portfolios LP, and currently has $3.0 billion collectively under management and advisement as of January 31, 2016. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund, the Eaton Vance Richard Bernstein All-Asset Strategy Fund and the Eaton Vance Richard Bernstein Market Opportunities Strategy Fund and also offers income and unique theme-oriented unit trusts through First Trust. RBA is also the index provider for the First Trust RBA American Industrial Renaissance® ETF and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS, Merrill Lynch, Morgan Stanley Smith Barney and on select RIA platforms. RBA's investment insights as well as further information about the firm and products can be found at www.RBAdvisors.com.