HEALTH WEALTH CAREER

US PERSPECTIVE ON MARKET ASSUMPTIONS AND DYNAMIC ASSET ALLOCATION OUTLOOK

SECOND QUARTER 2016

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MARKET ENVIRONMENT

After steep declines during the first half of the quarter, equities rebounded during the second half, with many markets finishing the quarter nearly flat. The dovish tilt from the Fed and further monetary policy easing by the ECB and the Bank of Japan resulted in a sharp decline in interest rates and sparked a bond rally.

We think the developed world will continue to grow at a moderate pace. However, the risks appear tilted toward the downside due to problems in China and the emerging world, and central banks have a limited ability to ease in response to downside surprises.

CAPITAL MARKET ASSUMPTIONS

Valuations on global equities were little changed, and return expectations for equity assets classes were mostly flat.

The yield on the 10Y Treasury and Barclays Aggregate fell 49 bps and 42 bps, respectively, during the quarter, and the yield on the Barclays Long Government/Credit index tumbled 45 bps. As a result of the decline in yields, returns on most US fixed income asset classes fell between 20 and 50 bps.

Credit spreads were essentially flat for the quarter, so the expected return differentials between credit and Treasuries was mostly unchanged.

20-YEAR ASSUMPTION GEOMETRIC RETURN			
Asset Class	Current 3/31/2016	Previous 12/31/2015	Equil Return[1] 3/31/2016
Global Developed Equities	7.4%	7.4%	7.5%
US Equities	6.9%	6.9%	7.2%
International Developed Equities	7.4%	7.4%	7.4%
Emerging Market Equities	9.1%	9.0%	8.6%
Global REITS	6.5%	6.5%	6.5%
US Treasuries	2.9%	3.2%	4.1%
US TIPS	3.1%	3.3%	4.0%
US I/G Corp	3.9%	4.2%	4.9%
US High Yield Bonds	5.8%	6.2%	6.0%
Non-US Gov't bonds	1.8%	2.5%	3.9%
Emerging Debt Hard Currency	5.4%	5.7%	6.1%
Emerging Debt Local Currency	6.5%	7.1%	5.1%

1) Equilibrium geometric nominal expected return; assumes inflation of 2.2%.

DYNAMIC ASSET ALLOCATION MARKET VIEWS

We have grown more concerned over the outlook for global equities due to downside risks to the economic and earnings outlook. Conversely, there is also a risk that the Fed will grow more hawkish later in 2016 if conditions continue to stabilize, which could also drive equities lower. As such, we downgraded the global equity/growth vs. defensive view from attractive to neutral. We maintained a neutral view on global equities. While equities and other risky assets offer reasonable risk premiums relative to high quality bonds, we do not suggest aggressive overweight positions.

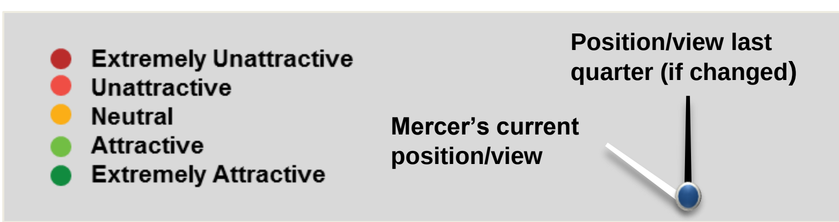
We maintained a neutral view on US equities, and we downgraded international developed equities from attractive to neutral due to increased global macro risks. We continue to prefer international developed equities to US equities because of better earnings growth prospects and lower valuations.

We maintained our neutral view on emerging market equities, but upgraded the view relative to developed equities from unattractive to neutral. Valuations are attractive and the stabilization in commodity prices and the US dollar should relieve downward pressure. However, it's too soon to call a relative bottom because EM economies still face structural challenges and earnings could continue to disappoint.

The dovish shift from the Fed and additional easing measures from the ECB and BOJ helped drive Treasury yields lower during the quarter. There is a risk that the bond market has grown too complacent on the outlook for Fed rate hikes in light of easing financial conditions and potential inflationary pressures. We maintained an unattractive view on US Treasuries. While the credit cycle is maturing, we continue to prefer investment-grade credit over Treasuries due to high spreads.

The rebound in the price of oil has improved the prospects of many high yield bond issuers in the energy sector, and credit spreads remain high relative to historical norms. We continue to rate high yield bonds as neutral, but find them attractive relative to Treasuries.

US DYNAMIC ASSET ALLOCATION DASHBOARD – SECOND QUARTER 2016



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This document summarizes our views on the market outlook and valuations over a medium-term horizon. We have included views for core asset classes relative to Mercer's equilibrium expectations. We also provide relative valuation views for a number of asset class pairs and styles. Except where otherwise noted, these views are based on conditions as of February 2016. We do not expect clients to make frequent tactical changes to their asset allocation based upon these views. They are provided for discussion purposes and do not provide any assurance or guarantee of future market returns.

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