

2016 THEMES AND OPPORTUNITIES FOR INVESTORS

As we enter 2016 investors are faced with many sources of uncertainty in the economic and political environment. But uncertainty does not just present risk – it also can create interesting opportunities.

Today's opportunities are largely a byproduct of the extended rally in asset prices since the financial crisis – we believe very few assets today are “cheap.” A major driver of this asset price inflation has been the ultra-stimulative monetary policy pursued by developed world central banks. Although policy is expected to remain supportive in 2016, we will likely see increased divergence between a gradual “normalization” in the US and the UK and further easing in Europe and Japan.

The long-term economic consequences of this experimental monetary policy are still unclear, but in the short term there are concerns around the monetary authorities' ability to offset any downturn in economic activity with rates hovering around (and in some cases below) zero. We believe that a global recession is unlikely – our central case is for the developed world recovery to remain broadly on track in 2016¹ – but investors must stay mindful of this risk.

The pace and impact of China's deceleration, heightened geopolitical risks, and increasingly nationalist politics in Europe and the US are other sources of uncertainty. So while we expect the global economy to continue to “muddle through” in the year ahead, there is no room for complacency.

KEY THEMES FOR 2016

We have raised four broad investment themes that we believe are important to reflect in portfolios in 2016²:

1

REDUCED
LIQUIDITY
IN “LIQUID”
MARKETS

2

A MATURING
CREDIT
CYCLE

3

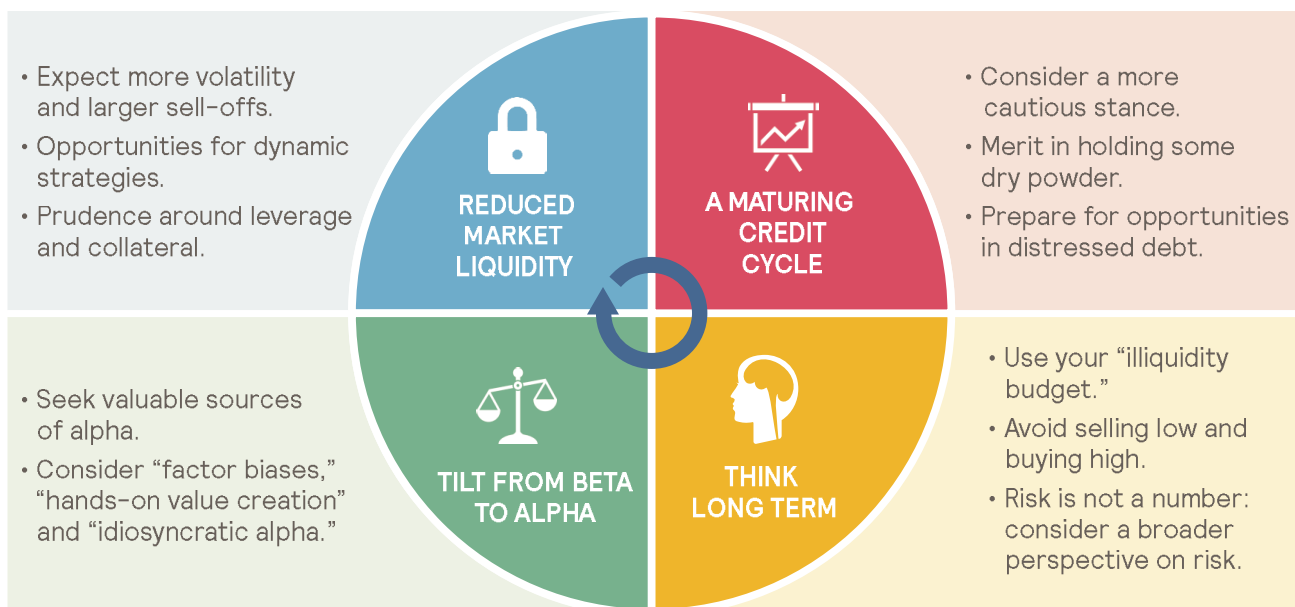
TILT FROM
“BETA”
TO “ALPHA”

4

THINK LONG
TERM

¹ Please read Mercer's “2016 Economic and Market Outlook” for further detail.

² Details about “2016 Themes and Opportunities” are available.



TAKING ACTION IN 2016

These themes represent our observations on the challenges and opportunities present in the current investment environment. We aim to provoke useful discussion, but keep in mind that the appropriate response at an investor level will be heavily influenced by the specific beliefs, objectives, and constraints of each investor. We look forward to helping investors adapt their strategies as new risks and opportunities arise over the course of 2016.

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