

HEALTH WEALTH CAREER

**MERCER INVESTMENTS / TAG RESOURCES
US EQUITY MARKET ENVIRONMENT REVIEW**

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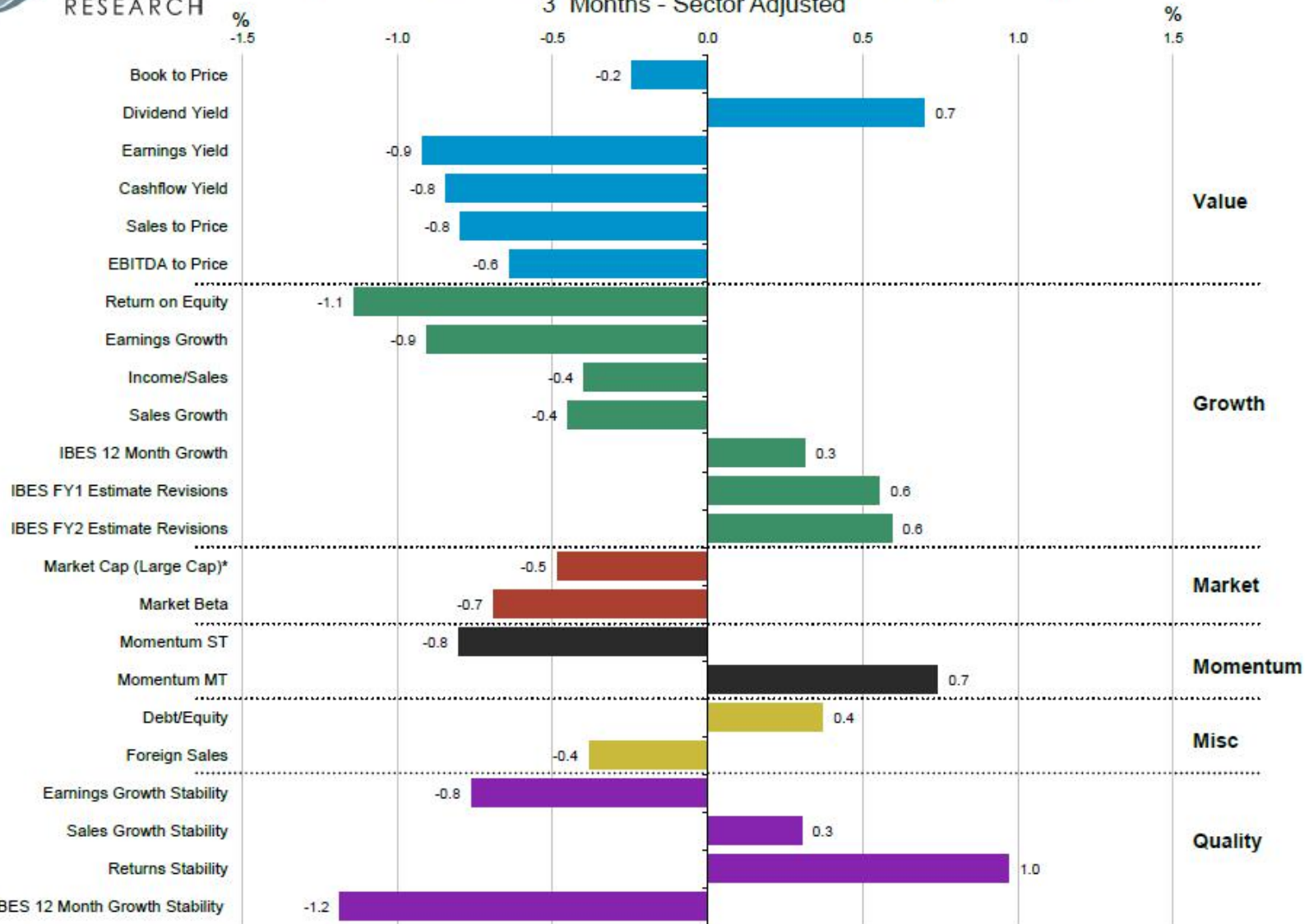
GLOBAL EQUITY MARKETS

- US Equity markets rose in July but were mixed in August. Year-to-date gains have been strong across the broad market with the S&P 500 Index gaining 7.8% and the Russell 2000 Index gaining 10.2% through August.
- Q3 to date has seen more risk taking as the Federal Reserve was expected to keep rates unchanged, which they did as expected.
- Second quarter GDP growth was revised modestly lower in August to 1.1%. New home sales surged in July to the highest level since October 2007, aided by low interest rates.
- European equities proved resilient in the wake of the Brexit vote, aided by stimulus measures. The MSCI EAFE Index rose 5.1% and 0.1% in July & August respectively.
- Emerging Market equity returns were strong in Q2 led by Brazil and China.
- Bond yields remained fairly steady as investors await more information and direction from the US Federal Reserve

DURING Q2-2016 DIVIDEND YIELD WAS AMONG THE FEW FACTORS REWARDED



Style Factor Performance - Return Relative to US Market - (Top 50% of Style)
3 Months - Sector Adjusted



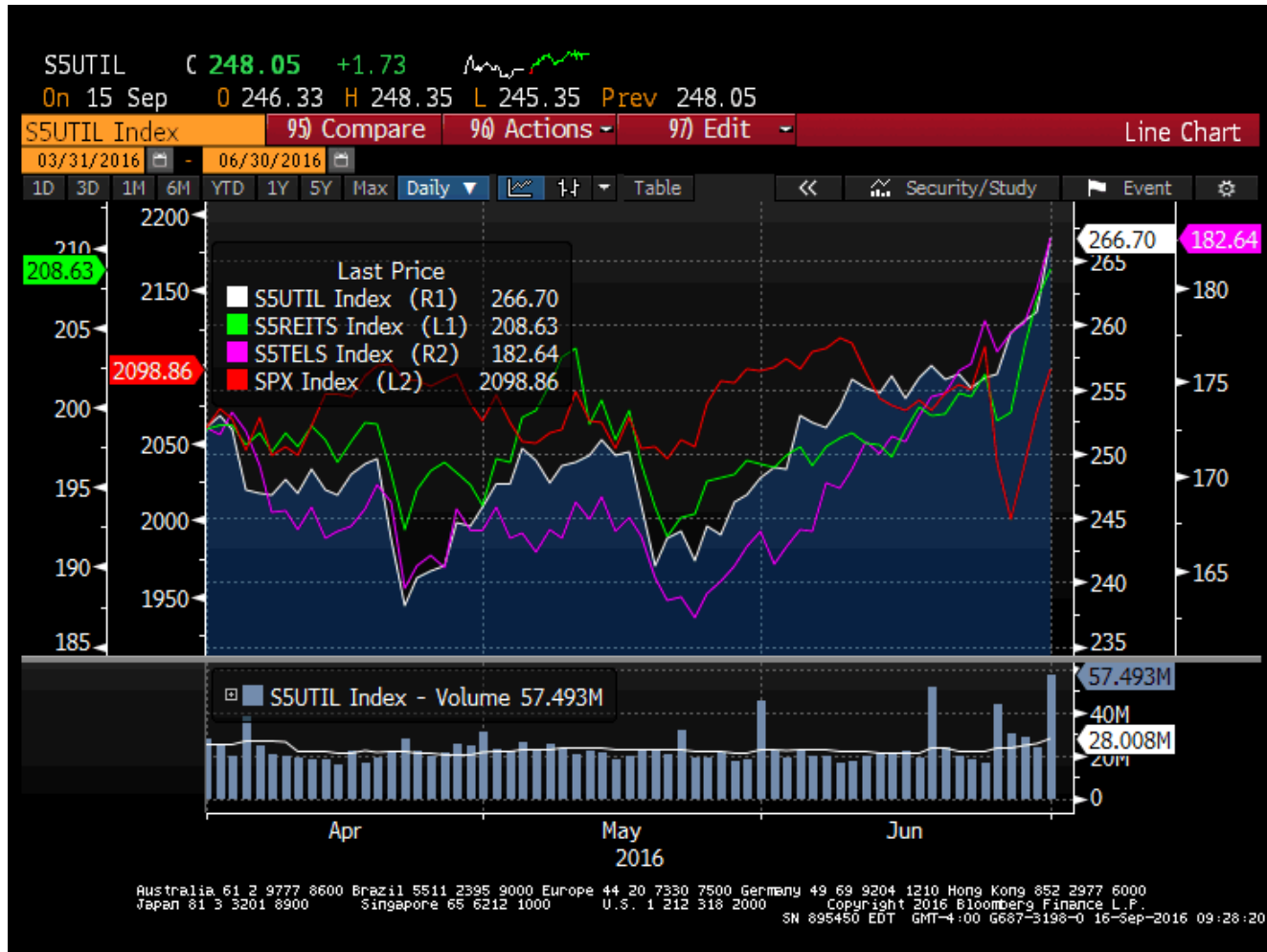
VALUE BENCHMARKS HAVE OUTPERFORMED GROWTH BENCHMARKS DESPITE GROWTH FACTORS BEING IN FAVOR



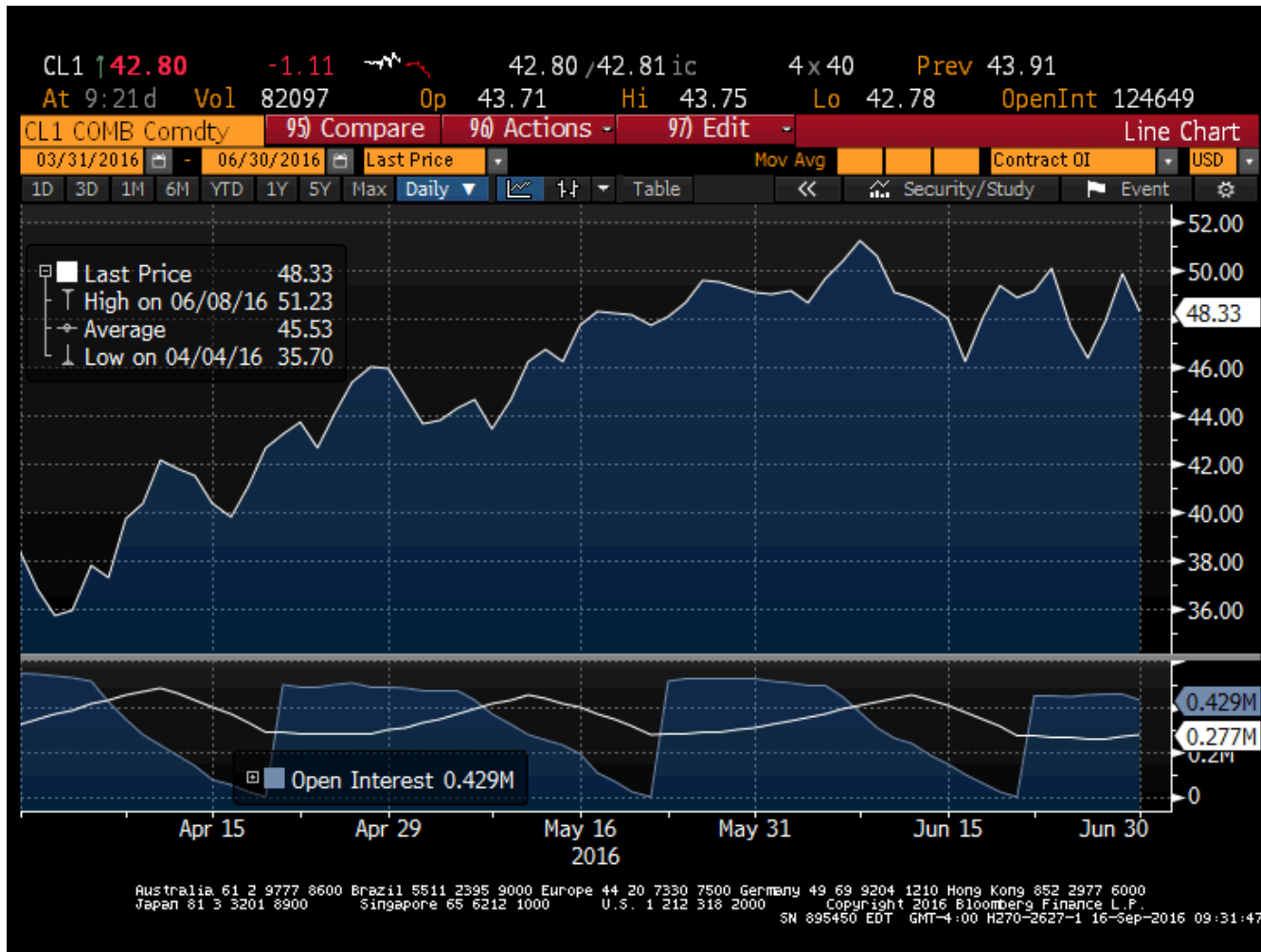
INTEREST RATES CONTINUED TO DROP DURING THE SECOND QUARTER



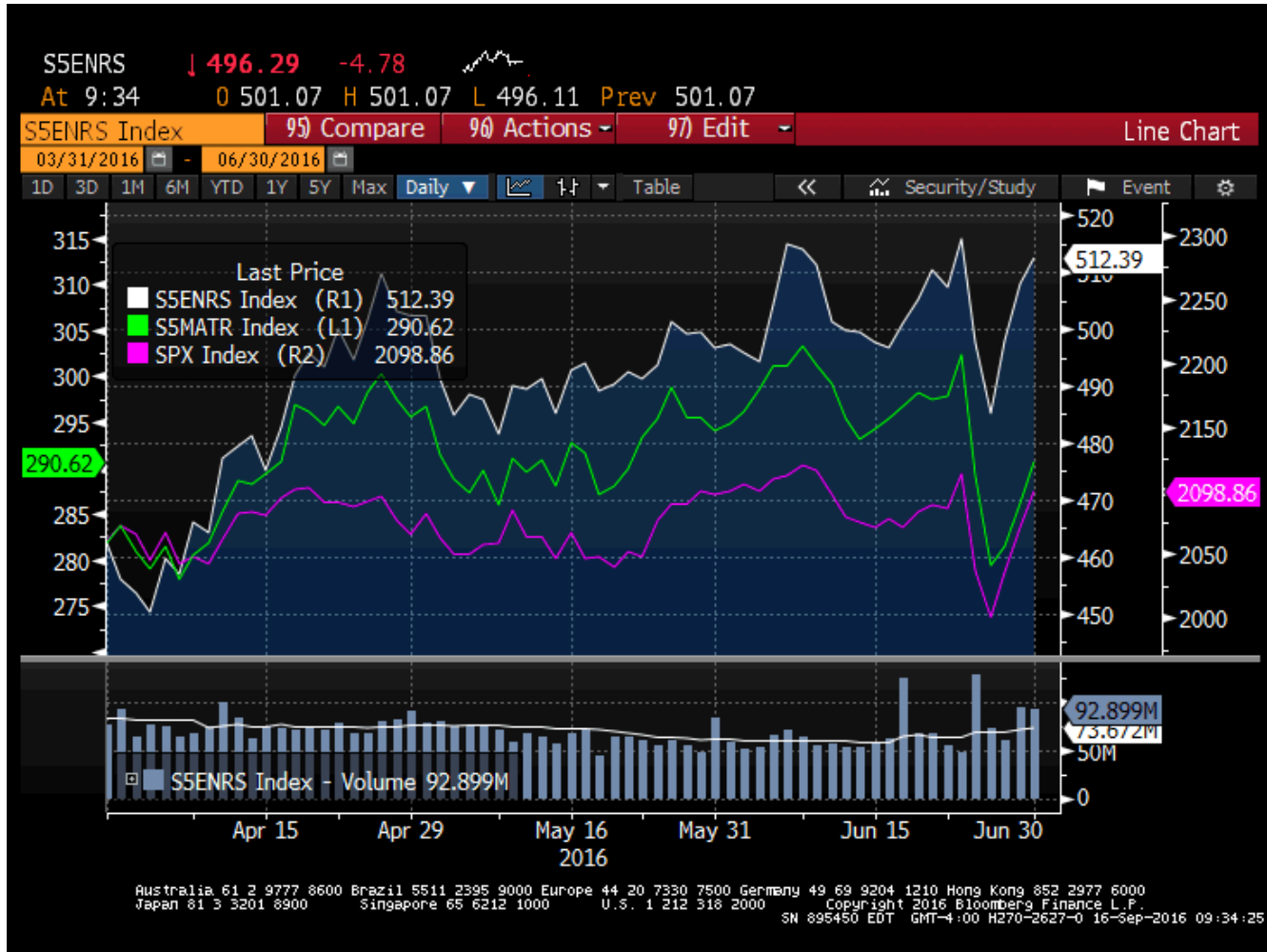
HIGH DIVIDEND PAYING SECTORS WERE THE BEST PERFORMERS



THE PRICE OF OIL BEGAN TO RISE AND DRIVE COMMODITY SECTORS HIGHER



ENERGY AND MATERIALS WERE STRONG PERFORMERS DURING THE SECOND QUARTER



ACTIVE MANAGEMENT IN THE SECOND QUARTER WAS DIFFICULT FOR BOTH GROWTH AND VALUE MANAGERS

Value Strategies

- The only value characteristic that drove returns was dividend yield as interest rates dropped further
- High-yielding sectors had become quite expensive and as a result avoided by many value managers
- Energy and Materials were strong, but also quite expensive unless factoring in a continued rise in commodity prices

Growth Strategies

- While earnings revisions provided positive returns, most other growth factors failed to perform well
- Consumer Discretionary and Technology, two of the faster growing sectors, had negative returns
- These two sectors account for half the weight of the benchmark requiring extremely good stock selection and exposure to quality characteristics

RUSSELL 1000 VALUE INDEX

SECTOR PERFORMANCE DURING Q2

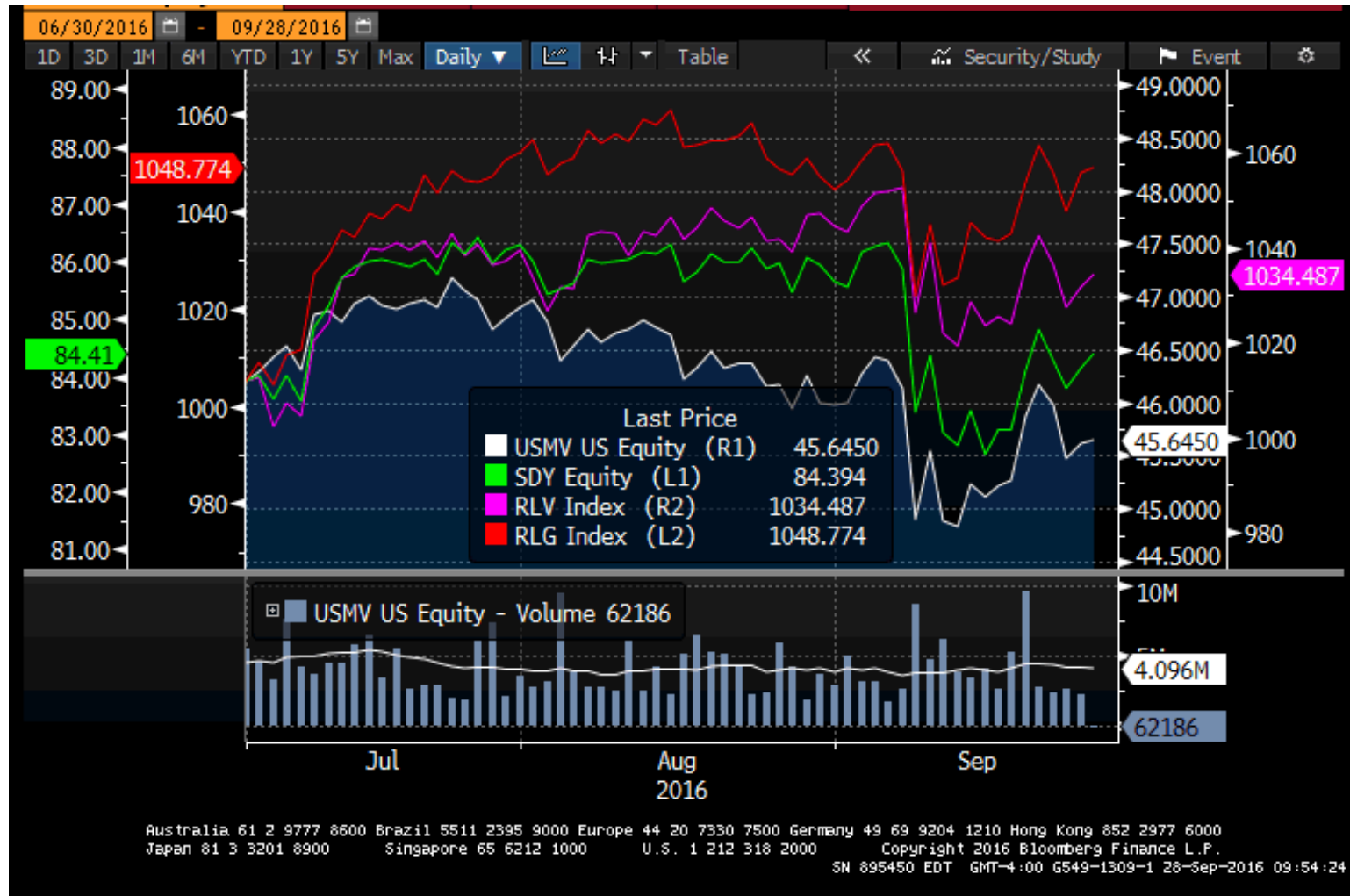
Name	Avg % Wgt (P)	CTR (P)	Tot Rtn (P)
> Energy	13.35	1.39	10.83
> Health Care	12.40	1.09	9.20
> Telecommunication Services	2.88	0.28	8.42
> Utilities	6.90	0.49	7.05
> Real Estate	4.77	0.34	6.66
> Materials	2.91	0.18	6.32
> Consumer Staples	7.44	0.52	6.32
> Industrials	9.87	0.21	2.32
> Financials	23.72	0.31	1.29
> Information Technology	11.05	0.09	1.22
> Consumer Discretionary	4.71	-0.32	-6.41

RUSSELL 1000 GROWTH INDEX SECTOR PERFORMANCE DURING Q2

Name	Avg % Wgt (P)	CTR (P)	Tot Rtn (P)
> Energy	0.57	0.10	20.20
> Real Estate	2.89	0.21	7.04
> Telecommunication Services	2.25	0.10	5.54
> Utilities	0.05	0.00	4.70
> Health Care	16.21	0.66	3.97
> Consumer Staples	11.64	0.38	3.76
> Materials	3.62	0.09	2.52
> Financials	2.83	0.02	1.00
> Industrials	10.86	0.03	0.43
> Consumer Discretionary	21.20	-0.04	-0.15
> Information Technology	27.87	-0.95	-3.52

- The faster growing sectors in the index were the worst performers

LOW VOLATILITY & HIGH YIELD STOCKS REVERSED IN Q3 AMID STRETCHED VALUATIONS



THE RUSSELL 1000 VALUE INDEX EXPERIENCED A BIG REVERSAL IN STOCK LEADERSHIP DURING Q3 TO DATE (09/27/16)

	% Average Weight	Contribution to Return (%)	Total Return (%)
Information Technology	9.85	1.11	11.82
Financials	23.17	1.34	6.01
Consumer Discretionary	4.77	0.24	5.17
Industrials	9.44	0.36	3.87
Materials	2.88	0.09	3.07
Health Care	11.69	0.20	1.67
Real Estate	5.23	0.08	1.46
Consumer Staples	8.91	-0.02	-0.30
Telecommunication Services	4.06	-0.13	-3.27
Energy	13.11	-0.46	-3.36
Utilities	6.76	-0.25	-3.51

- Reversal in leadership from Q2 when yield was in favor

RUSSELL 1000 GROWTH SECTOR PERFORMANCE Q3 TO DATE (09/27/16)

	% Average Weight	Contribution to Return (%)	Total Return (%)
Information Technology	30.42	3.58	12.33
Financials	2.66	0.21	8.11
Energy	0.58	0.03	4.97
Health Care	17.21	0.58	3.31
Materials	3.59	0.10	2.90
Industrials	10.41	0.29	2.72
Consumer Discretionary	20.72	0.52	2.43
Utilities	0.06	0.00	-0.99
Telecommunication Services	1.25	-0.04	-3.33
Real Estate	2.95	-0.12	-3.85
Consumer Staples	10.07	-0.51	-4.96

- Higher growth sectors were rewarded while bond proxies lagged

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