svb Asset Management

Q2 Quarterly Economic Report 2016

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Thoughts from the desk

Following the results of a historic referendum, market volatility reared its ugly head and sent treasury prices upward while riskier assets went on a downward price discovery. Conversely, the strong rebound in oil and energy prices ascended this sector to the top of the performance chart whereas investment grade rated bonds continue to benefit from healthy credit fundamentals. Moreover, positive fixed income returns rode on the backs of market uncertainty as interest rates closed approximately 40 bps lower across the yield curve from intra-quarter highs. Concerns about global growth, increased market volatility and a possible slowdown in the pace of U.S. labor growth have, thus far, limited the Fed's ability to restart the normalization process.

At the June Federal Open Market Committee meeting, the Fed maintained its forward looking guidance by remaining data dependent regarding any change in monetary policy. The Committee also tempered rate hike expectations for the remainder of the year as the 'dot plot' revealed that six out of seventeen officials now see only one rate increase this year. Meanwhile fed funds futures are not pricing in any rate hikes until 2017. Other central banks have also pulled out their dovish playbook. Following the "Leave" outcome, the Bank of England governor Mark Carney expects growth in the U.K. to slow and the summer months may produce QE and/or additional rate cuts. Interestingly, the BoE's 0.5 percent overnight rate has been stagnate since 2009, the longest stretch of rate inactivity of any major central bank. For now, policy makers such as the ECB and Fed have committed to providing additional market liquidity if needed.

Focusing back on U.S. fundamentals, Q1 GDP was revised higher to 1.1 percent while real personal consumption expenditures was revised higher for the month of April and May produced a solid 0.3 percent increase. Furthermore, personal income continues to expand during the quarter. With employment continuing to grow, albeit at a slower rate, consumer spending optimism should persist in the short run. Although global growth uncertainties could ultimately keep the Fed on the sidelines, the increase of 287k non-farm payrolls in June and consistent uptick in labor participation will give voice to hawkish Fed members. On the consumption front, future spending should be supported by the stronger purchasing power of the dollar, lower borrowing costs, increases in home prices, and still relatively low energy prices. With the recent pullback in interest rates, the 30-year mortgage rate is expected to test multi-year lows – there is another tailwind for the consumer to stretch their dollar.

For our clients and as we approach the implementation date of money market fund reform, we continue to stress the importance of a balanced portfolio with a discipline towards duration management and security type allocation. During uncertain times where market volatility is abundant, it is a disciplined investment approach that will help mitigate portfolio risk.

Overview

Domestic economy

- Q1 GDP rose by 1.1 percent. The third revision revealed stronger than originally estimated corporate profits, contributions from intellectual property and a narrower trade gap.
- Consumption expanded by 1.5 percent, the weakest pace in two years. The gain in healthcare was overshadowed by decreases in transportation, financial and recreational services.
- Despite the low May report, the unemployment rate is at a healthy level of 4.7 percent and could drop further prompting additional wage growth.
- Home prices have risen steadily propelled by low mortgage rates and limited housing inventory.
- Core PCE continues to trend closer to the Fed's two percent target, however the Fed has additional considerations before making a change to interest rates.

U.S. Federal Reserve and monetary policy

- Volatility continued in the second quarter as a confluence of factors in June brought rates back down to levels seen in the first half of 2015. At center stage was Brexit which sent investors towards safe havens such as U.S. Treasuries.
- At the recent FOMC meeting, the Fed kept its forward looking guidance consistent by reiterating it will be data dependent regarding any change to monetary policy. The Fed's "dot plot" reflected a downward shift in projections with six officials now seeing only one rate hike this year.
- Rate hike probabilities fell off a cliff in June as weak employment figures, dovish hints from Fed officials, and Brexit concerns took hold. Going forward, things may change as the Fed attempts to balance current economic data with market uncertainty.
- We have yet to see any reversal of monetary policies by other central banks. For now, central banks such as the ECB and Fed have voiced their commitment to provide additional market liquidity if needed.

Overview

Markets and performance

- Fixed income total returns remain firmly positive across the board as higher beta (lower rated names) outperformed lower beta. Non-financial sectors have rebounded from their previous quarter lows.
- Rebound in oil and gold, from recent historic lows, have out paced bond and equity returns.
- With predominantly Investment Grade rated, S&P 500 Corporate credit health remains resilient as leverage is still near historic lows.
- Credit metrics across S&P s500 sectors are largely holding steady, showing little change quarter-over-quarter despite being in later stage of credit cycle.
- Results from the Federal Reserve's Dodd Frank Act Stress Test (DFAST) in conjunction with Comprehensive Capital Analysis and Review (CCAR) of 33 large bank holding companies showed continued capital improvement in the sector. Specifically, the results showed the industry is better able to withstand external shocks such as severe economic slowdown; decline in the labor markets and adverse shocks to equity and real estate markets are among some of the severely adverse scenarios presented.

Global economy

- The world was unprepared for the United Kingdom's (UK) decision to depart the European Union (EU), as financial conditions deteriorated in the vote aftermath.
- In the first half of 2016, economic activity in major developed economies was largely positive, albeit with some economies growing close to zero.
- Emerging businesses continued to attract investment capital across the globe, though the pace was slower compared to the previous year.
- While the immediate impact of the UK decision is political in nature, the uncertainty surrounding the future terms between the UK and the EU could trickle into the real economy, and drive activity lower in the second half of 2016.
- Major central banks are skewed towards easing, while expected Federal Reserve rate hikes are now in doubt.

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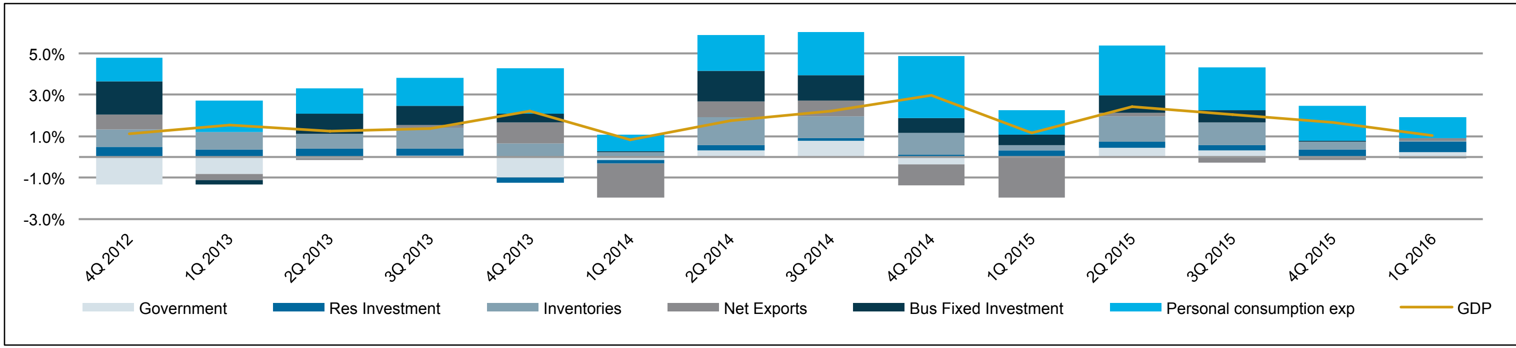
Domestic economy

GDP *Picking up*

- Q1 GDP rose by 1.1 percent. The third revision revealed stronger than originally estimated corporate profits, contributions from intellectual property and a narrower trade gap.
- Consumption expanded by 1.5 percent, the weakest pace in two years. The gain in healthcare was overshadowed by decreases in transportation, financial and recreational services.
- The U.K.'s decision to exit the E.U. surprised markets and may hamper future corporate profits.

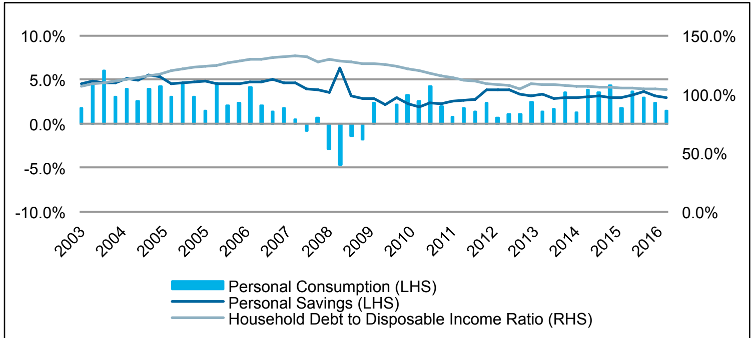
GDP and components



Source: Bureau of Economic Analysis (BEA), Congressional Budget Office (CBO) and SVB Asset Management. Data as of 6/30/2016.
Note: GDP values shown in legend are % change vs. prior quarter, on an annualized basis.

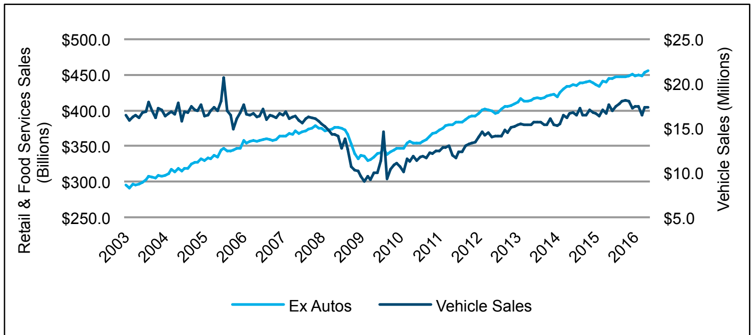
Consumption *Headwinds ahead*

Consumption overview

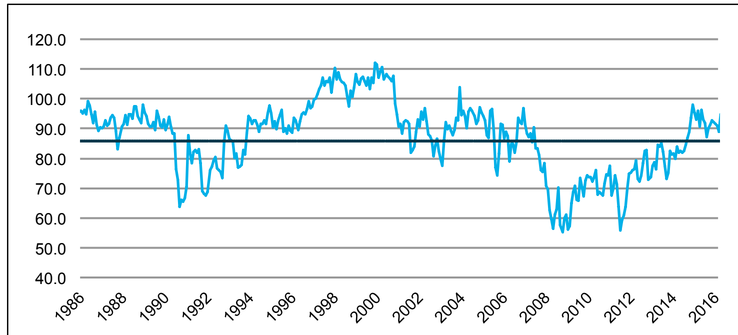


- The consumer pulled back in Q12016 for the first time in two years. However, continued improvements in income growth have helped support consumer spending.
- Personal savings climbed to 5.8 percent- the highest level since 2012-a sign that the consumer is slowing down in anticipation of weaker financial conditions.
- Retail sales were largely in line with expectations. Taking into consideration gasoline prices, retail sales increased.
- Consumer sentiment continues to maintain over 90.0, however it did slip in June as concerns about the national economy increased.

Retail and food service sales



Consumer sentiment — University of Michigan



Source: Bureau of Economic Analysis (BEA), Congressional Budget Office (CBO) and SVB Asset Management. Data as of 06/30/2016.
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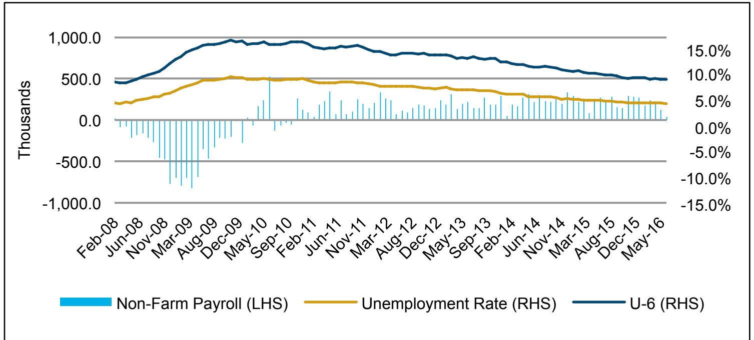
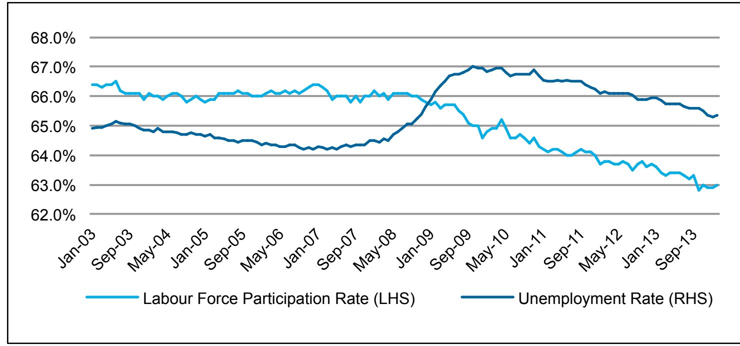
Employment *On the right track*

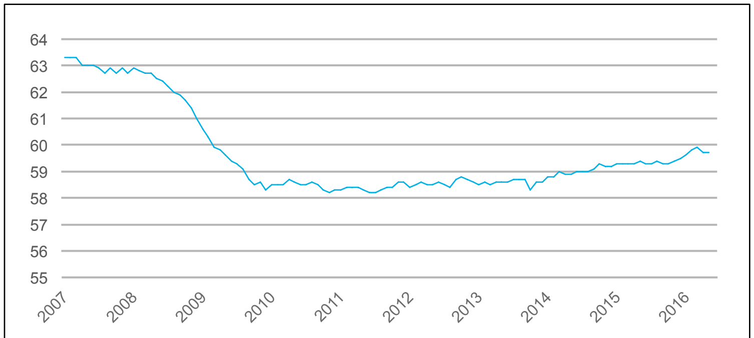
Employment landscape



Labor force participation rate



Employment to population ratio

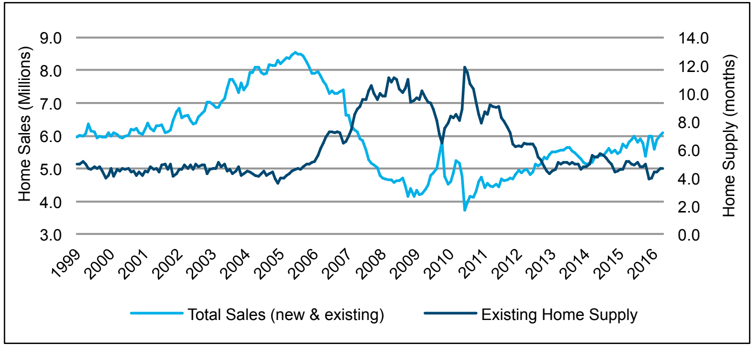


- The May payroll report of 38,000 prompted concern that the labor market could be slowing down. The surprisingly low report pushed the YTD average to 150,000.
- Despite the low May report, the unemployment rate is at a healthy level of 4.7 percent and could drop further prompting additional wage growth.
- The employment to population ratio has been rising over time, albeit remains below pre-crisis highs.

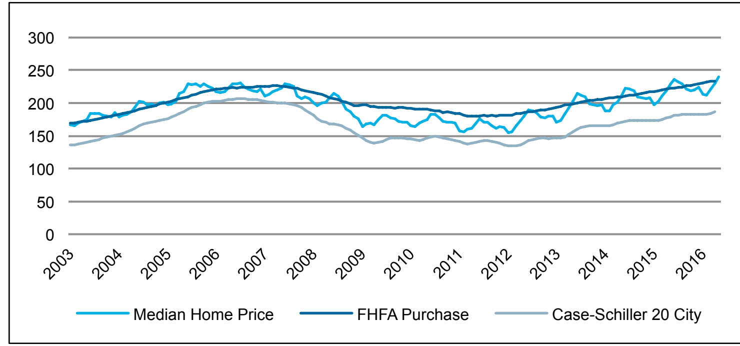
Source: U.S. Bureau of Labor and Statistics (BLS), SVB Asset Management, National Bureau of Economic Research (NBER). Data as of 06/30/2016.
Note: The underemployment rate U-6 defined as persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate they want and are available for a job and have looked for work in the past 12 months.

U.S. housing *Stable*

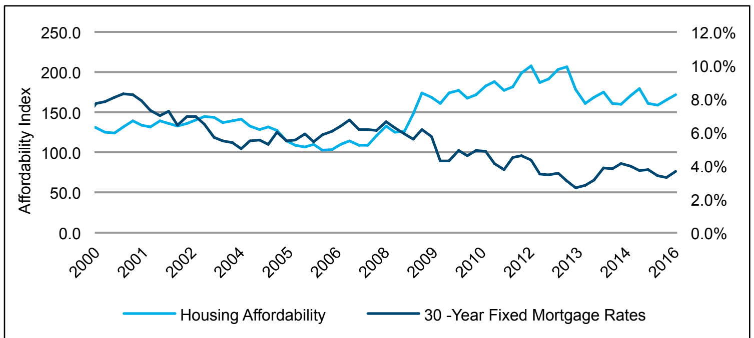
Home sales and supply



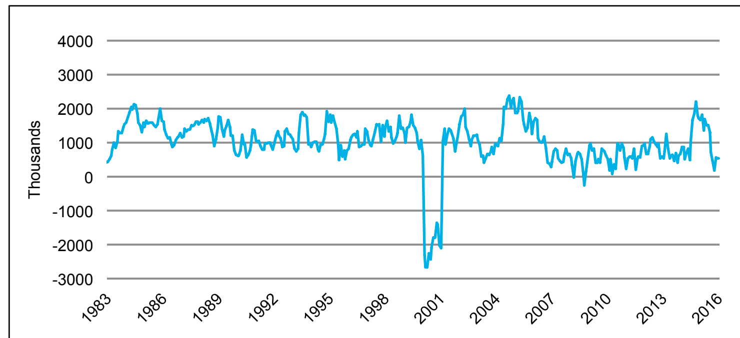
Home prices — indexed to 100



Housing affordability



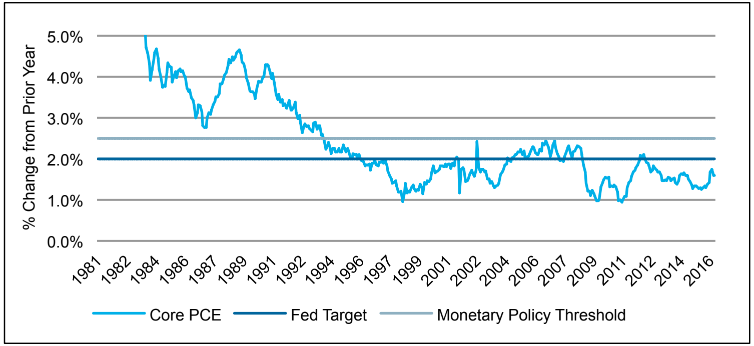
Household formation



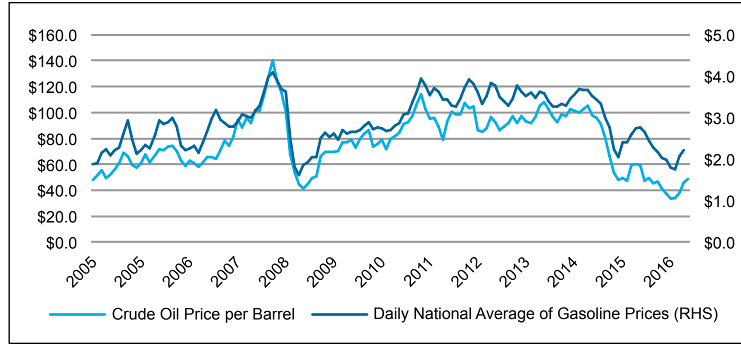
Source: Bloomberg and SVB Asset Management. Data as of 06/30/2016.

Inflation *Pressure building*

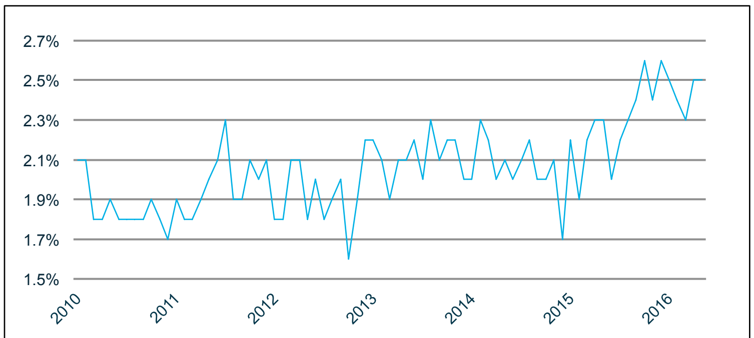
Core PCE — % change from prior year



Crude oil and gasoline prices



Wage growth

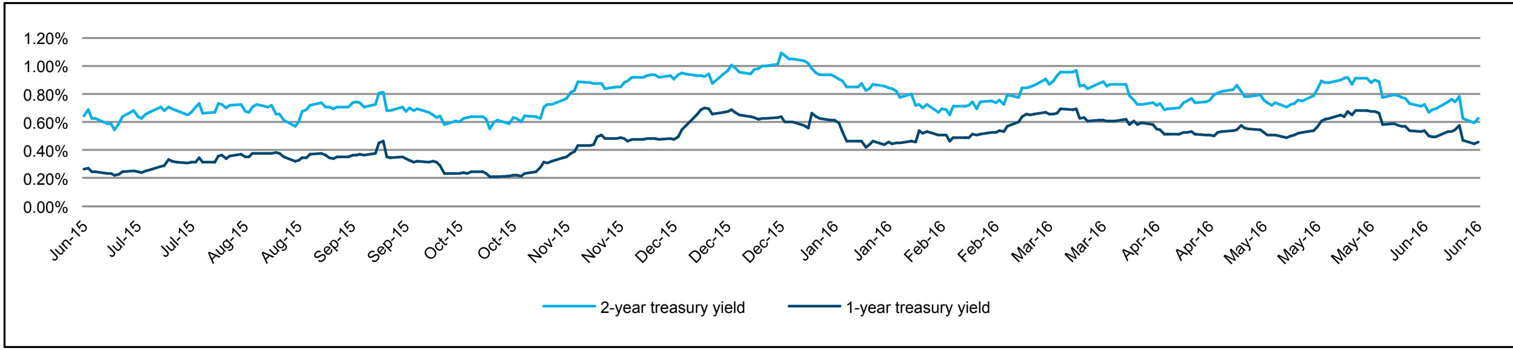


- Core PCE continues to trend closer to the Fed's two percent target, however the Fed has additional considerations before making a change to interest rates.
- Oil prices have rebounded from the low in February and appear to be holding steady
- Wage growth shows improvement over the last year and could add to inflation pressures.

Source: Bloomberg and SVB Asset Management. Data as of 06/30/2016.
Note: The underemployment rate U-6 defined as persons marginally attached to the labor force are those who currently are neither working nor looking for work but indicate they want and are available for a job and have looked for work in the past 12 months.

U.S. Federal Reserve and monetary policy

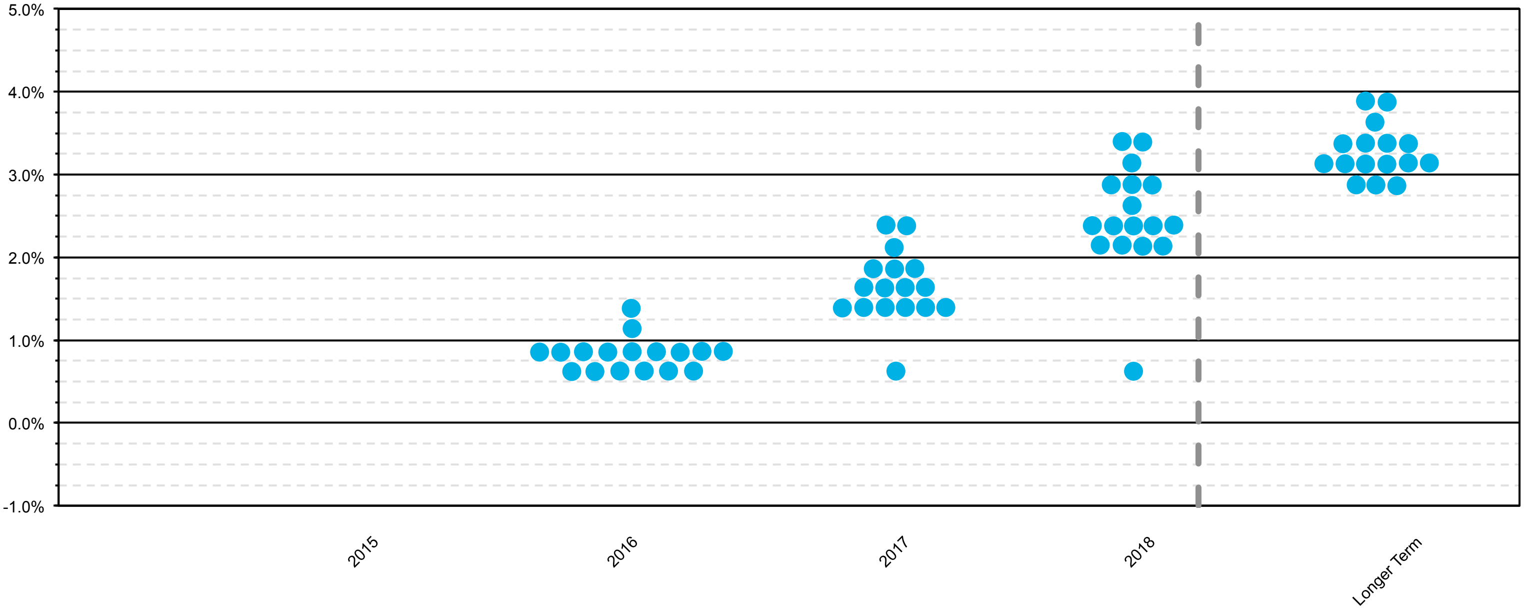
Historical interest rates *Volatility continues*



Q3 2015	Q4 2015	Q1 2016	Q2 2016
Anxieties over Greece dissipate early in the quarter, but then concerns over China's growth and currency devaluation take the spotlight.	The Fed's tone shifts at the October FOMC meeting, and markets refocus their attention on a December rate hike.	Despite strengthening employment and inflation in the U.S., the Fed refrains from a second rate hike during the quarter as global conditions continue to pose risks.	A recovery in oil and hawkish Fed speak earlier in the quarter drives interest rates temporarily higher. The yield on the 2-year Treasury note hits 92 bps in May.
The U.S. economic landscape continues to improve: Unemployment drops to 5.1 percent, Q2 GDP expands 3.9 percent and inflation holds at 1.3 percent.	Employment and inflation readings head in the right direction. October's report was the strongest of the year, and the unemployment rate fell to 5 percent. Core CPI reaches the important 2 percent level. Core PCE stands at 1.3 percent.	Central banks around the world implement additional easing measures with the BOJ adopting a negative interest rate policy, China cutting reserve requirements and the ECB expanding their asset purchase program into the corporate bond market.	A confluence of factors in June brings rates back down to H12015 levels.. At center stage is Brexit which sent investors towards safe havens such as U.S. Treasuries. A disappointing employment report and a dovish tilt from the FOMC meeting also lowers probabilities for future rate hikes.
The Fed delayed rate liftoff, citing "recent global economic and financial developments."	Continued weakness in China and depressed oil prices make headlines throughout the quarter.	After hitting recent lows, oil prices see some stabilization towards quarter-end as world leaders discuss a production freeze.	Markets are focused on broader implications of Brexit, while central banks such as the ECB and Fed stand ready to provide liquidity if needed.

Source: Bloomberg and SVB Asset Management. Data as of June 28, 2016.

Federal Reserve rate projections *Dovish tilt*

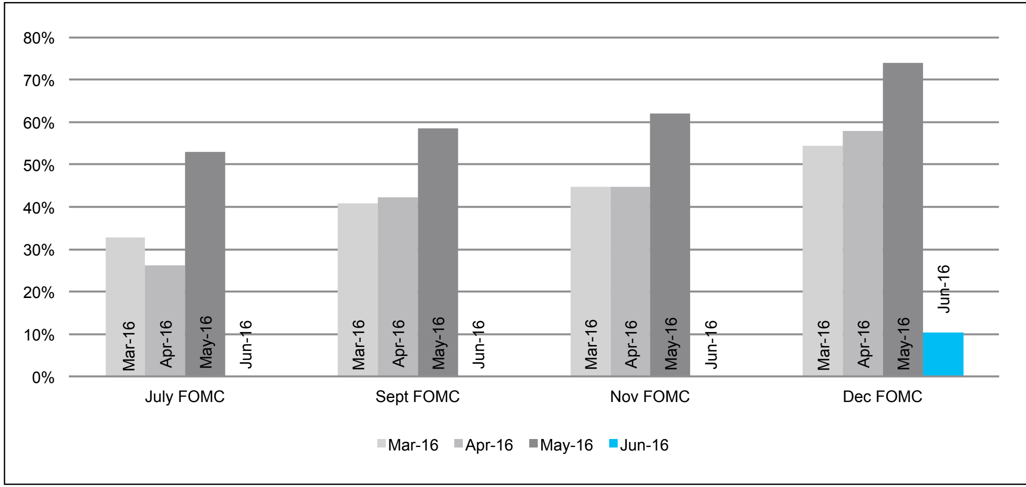


June 2016 median	**0.375%**	0.875%	1.625%	2.375%	3.00%
March 2016 median	**0.375%**	0.875%	1.875%	3.000%	3.25%
December 2015 median	0.375%	1.375%	2.375%	3.250%	3.50%

Source: Bloomberg and Federal Reserve
Data as of June 15, 2016. Percentages below the chart reference the median forecasted rate at the end of each period.

Predicting the Fed *Striking the right balance*

Probability of a Fed rate hike



Subsequent to "Brexit", markets essentially discounted a potential rate hike.

As of the end of June, markets are pricing in a zero percent probability of a rate hike in the July, September, and November FOMC meetings. There is only a 10% probability that the Fed will raise in December.

Case for a rate hike

- Inflation nearing target of 2% *(Core PCE +1.6%)*
- Unemployment rate at 4.7%
- Forward guidance calls for "gradual" increases
- Healthy consumer activity

Case against a rate hike

- Potential weakening in labor market *(NFP +38K)*
- Uncertainty driven by presidential election
- USD strength may hamper economic growth
- Global uncertainties/central bank policies

Source: SVB Asset Management and Bloomberg. Data as of June 28, 2016.

Central bank economic projections *Wait and see*

	2015	2016	2017	2018
Economic projections: United States				
Change in real GDP	**2.4%**	2.0%	2.0%	2.0%
Unemployment rate	**5.3%**	4.7%	4.6%	4.6%
Core PCE inflation	**1.3%**	1.7%	1.9%	2.0%
Economic projections: Eurozone				
Change in real GDP	**1.7%**	1.6%	1.7%	1.7%
CPI inflation	**0.0%**	0.2%	1.3%	1.6%
Unemployment rate	**10.9%**	10.2%	9.9%	9.5%
Economic projections: China				
Change in real GDP	**6.9%**			
CPI inflation	**1.4%**			
Unemployment rate	**4.1%**			
Economic projects: Japan				
Change in real GDP	**0.6%**	1.2%	0.1%	
CPI inflation	**0.8%**	0.5%	1.7%	

Source: Federal Reserve, European Central Bank, National People's Congress of China, Bank of Japan. Data as of June 28, 2016. Forecasts are not available for all periods.

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Markets and performance

Fixed income returns *Overview*

	Basic statistics			Spread change		Total return %		Excess return %	
	Spread	Yield	Duration	QTD	YTD	QTD	YTD	QTD	YTD
1-3yr Treasuries	0.00	0.60	1.90	0.00	0.00	0.53	1.43	0.00	0.00
1-3yr Agencies	14.00	0.79	1.85	5.00	5.00	0.41	1.28	-0.04	-0.05
0-3yr MBS	25.00	1.29	2.46	-9.00	7.00	0.55	1.12	0.06	-0.46
1-3yr ABS	88.00	1.40	1.27	-9.00	4.00	0.72	1.43	0.37	0.41
1-3yr IG Corporates	97.00	1.59	1.94	-11.00	-11.00	1.04	2.27	0.50	0.75
3-5yr IG Corporates	128.00	2.21	3.76	-9.00	-8.00	1.89	4.40	0.73	0.96
5-10yr IG Corporates	168.00	3.03	6.46	-9.00	-17.00	3.37	7.65	1.09	1.28
1-5yr High Yield	728.00	8.39	2.92	-121.00	-113.00	6.29	8.62	5.54	6.37
1-3yr Corporates By Rating									
AAA	36.00	0.98	2.14	3.00	14.00	0.55	1.62	-0.04	-0.10
AA	58.00	1.19	2.02	0.00	2.00	0.75	1.87	0.18	0.30
A	82.00	1.42	1.91	-4.00	1.00	0.87	1.95	0.33	0.43
BBB	139.00	2.02	1.95	-24.00	-33.00	1.43	2.91	0.91	1.44
1-3yr Corporates By Sector									
Financial	102.00	1.61	1.91	-8.00	6.00	0.96	1.92	0.43	0.43
Industrials	94.00	1.54	1.97	-10.00	-22.00	1.07	2.49	0.53	0.96
Utility/Energy	100.00	1.60	1.90	-26.00	-18.00	1.30	2.50	0.79	0.99

Spread is based on Option Adjusted Spread. Duration is based on Modified Duration. Data as of June 30, 2016.
Source: Bloomberg, BofA Merrill Lynch and SVB Asset Management.

Total return comparisons *Positive quarter end*

Asset class returns ↑

2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD 2016
WTI 57.68%	**US Treasury 6.67%**	WTI 78.00%	Gold 29.67%	Gold 10.23%	REIT 16.47%	Wilshire 33.06%	REIT 28.24%	S&P 500 1.40%	WTI 30.00%
Gold 31.35%	Gold 5.53%	Wilshire 28.29%	REIT 26.97%	WTI 8.15%	Wilshire 16.05%	S&P 500 32.39%	S&P 500 13.69%	REIT 1.30%	Gold 24.60%
US Treasury 7.31%	**FI Credit 0.30%**	S&P 500 26.46%	Wilshire 17.18%	REIT 7.48%	S&P 500 16.00%	WTI 7.32%	Wilshire 12.70%	**FI Credit 0.85%**	REIT 12.80%
FI Credit 5.96%	S&P 500 -37.00%	REIT 26.27%	WTI 15.10%	S&P 500 2.11%	Gold 6.96%	**FI Credit 1.45%**	**FI Credit 1.12%**	Wilshire 0.70%	Wilshire 4.00%
Wilshire 5.61%	Wilshire -37.23%	Gold 23.96%	S&P 500 15.06%	**FI Credit 1.75%**	**FI Credit 3.69%**	REIT 1.26%	**US Treasury 0.63%**	**US Treasury 0.56%**	S&P 500 3.80%
S&P 500 5.49%	REIT -39.05%	**FI Credit 11.59%**	**FI Credit 4.15%**	**US Treasury 1.55%**	**US Treasury 0.43%**	**US Treasury 0.36%**	Gold -1.51%	US Gold -10.50%	**FI Credit 2.13%**
REIT -17.84%	WTI -53.52%	**US Treasury 0.80%**	**US Treasury 2.40%**	Wilshire 0.98%	WTI -7.08%	Gold -28.26%	WTI -45.76%	WTI -30.50%	**US Treasury 1.4%**

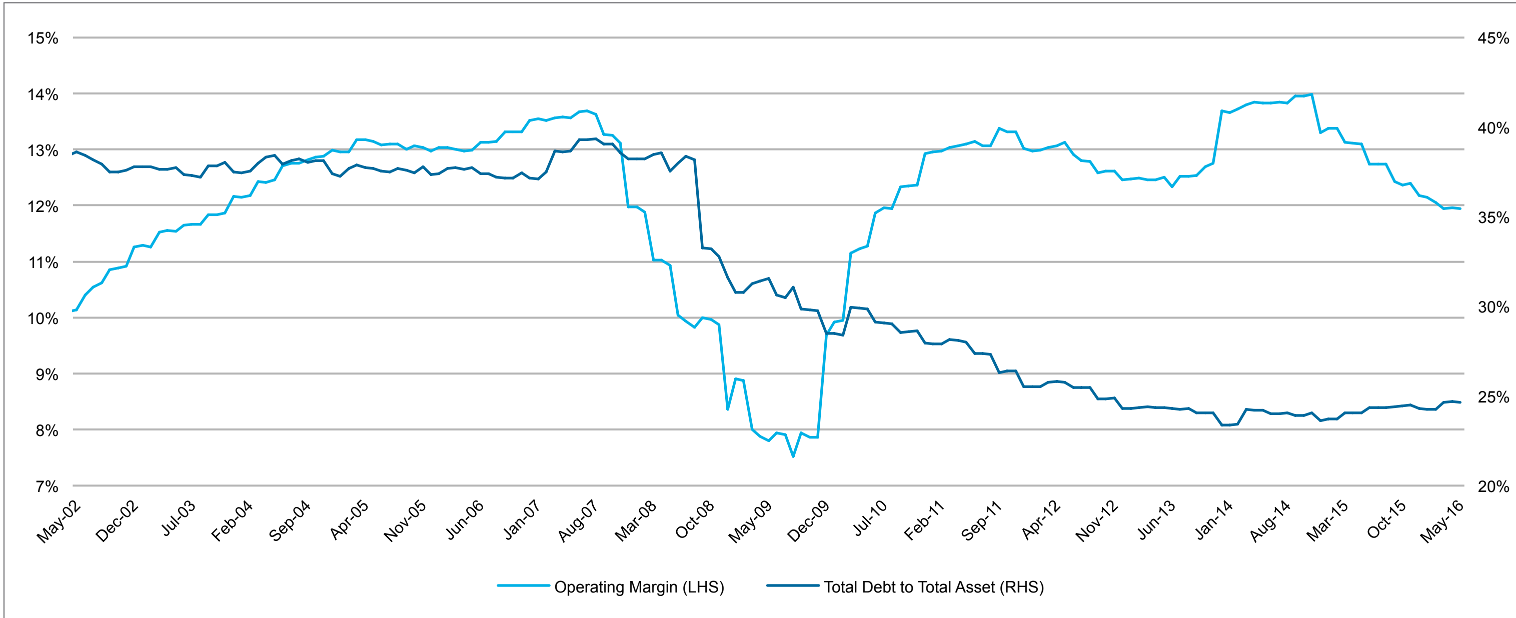
All returns above are on Total Return basis. YTD 2016 returns are on an annualized basis up to June 30, 2016. FI Credit refers to Barclays 1-3 year US Investment Grade Fixed Income portfolio; Treasury refers to Barclays 1-3 year US Treasury portfolio; Gold refers to S&P GSCI Gold Spot; WTI refers to Spot West Texas Intermediate Crude Oil; Wilshire refers to Wilshire 5000 Total Market Index; REIT refers to MSCI US REIT Index; S&P 500 refers to S&P 500 Index.

Source: Thomson Reuters, Barclays Live and SVB Asset Management.

Credit cycle *Corporate credit health remains resilient*

- While operating margins continue to decline gradually from the peak in 2014, they remain well elevated and leverage is still near historic lows.

S&P 500 Index fundamentals

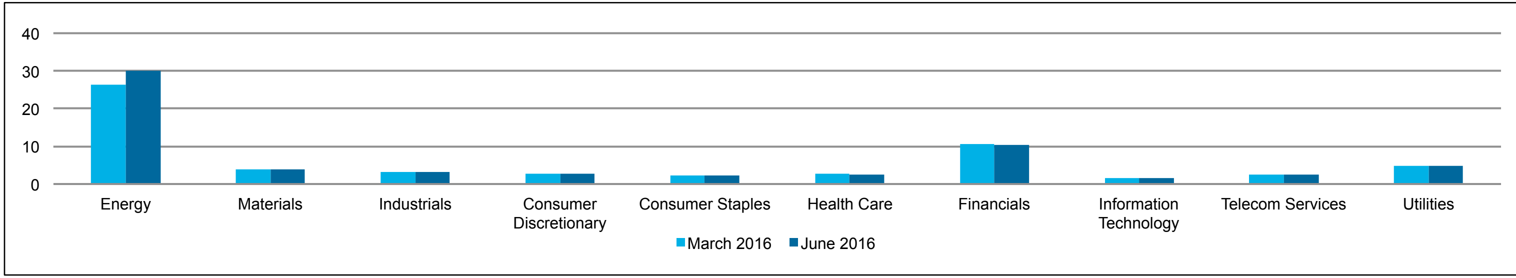


Source: Bloomberg.

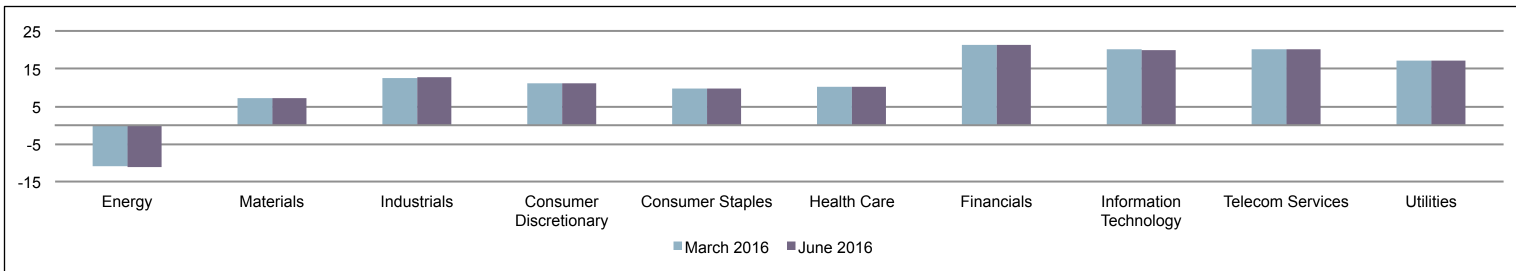
Credit cycle *Corporate credit fundamentals hold steady*

- With the exception of energy, all corporate sectors showed credit metrics that showed little change sequentially over the previous quarter.

S&P 500 debt to EBITDA by sector



S&P 500 operating margin by sector



Source: Bloomberg, trailing 12-month.

Credit Cycle *Well provided for*

Banks now hold sufficient levels of provisions which exceed the level of charge-offs incurred. Enabling banks to cover losses without eating into their current profits.

Solid credit health

- Improving labor and housing markets, solid capital and liquidity position underpinned "Financial Institutions (FI's)" stable outlook, so does our confidence in these issuers.

DFAST

- All 33 banks passed the Federal Reserve Banks' adverse scenario stress test, highlighting the improving readiness these banks have for external financial and economic shocks.

Regulation

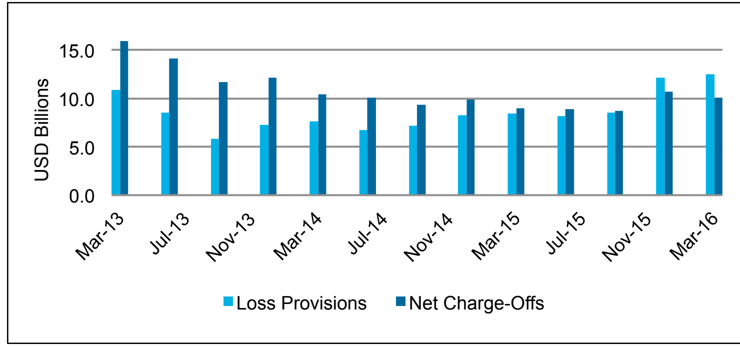
- FI's remain focused on complying with the more stringent regulatory environment – enhancing their financial stability.

FDIC Bank Highlights

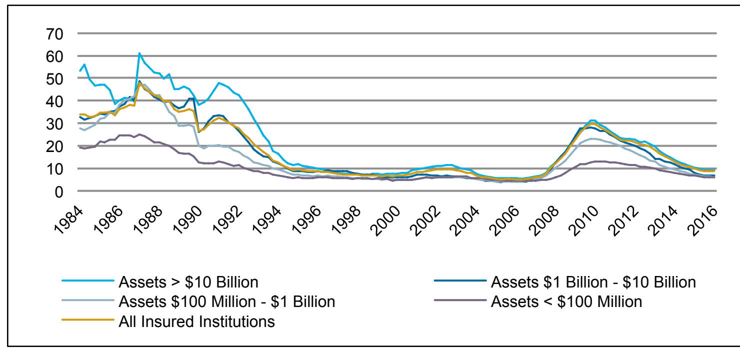
- Positive quarter for 1Q16 as improving economic environment enabling loan growth, despite narrowed margins.
- Unprofitable banks fell to an 18 year low.

Noncurrent loans & leases are diminishing to historic lows and are sufficiently covered by reserves and tier one capital.

Quarterly net charge-offs vs loan loss provisions



Noncurrent loans & leases as a percent of tier one capital plus reserves



Source: FDIC, Federal Reserve Bank.

Global economy

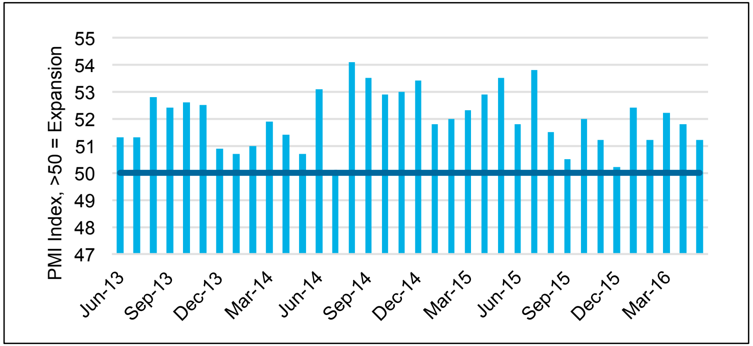
Central banks *Taking it easy*

	United States	United Kingdom	Eurozone	China	Japan
Central bank	Federal Reserve	Bank of England	European Central Bank	People's Bank of China	Bank of Japan
Benchmark rate	0.25-0.50%	0.5%	0.0%	4.35%	-0.1%
Current policy	Stable Considering rate hikes, as inflation rises toward 2% target with stable employment.	Easing Pledged liquidity to banks after vote to depart EU; positioned for rate cut.	Easing Maintained previous cuts on refinancing rate & deposit rate with no change to its expanded QE program.	Easing No additional action since February's 50 bps reserve ratio cut; lending and deposit rates steady.	Easing No change to benchmark rate of -0.1%; reiterated quantitative and qualitative easing.
Inflation	1.1% 0.0% 0.5% 1.0% 1.5% 2.0%	1.2% 0.0% 0.5% 1.0% 1.5% 2.0%	-0.10% -0.20% 0.30% 0.80% 1.30% 1.80%	2.0% 0.0% 1.0% 2.0% 3.0%	0.70% 0.00% 1.00% 2.00%
Unemployment	4.7%	5.0%	10.2%	4.0%	3.2%
Analysis	Window for Fed monetary policy normalization may have passed, though one rate hike possible by year end.	Faces possible stagflation, as a weaker currency induces inflation while economic growth slows from uncertainties around EU exit.	No additional rate cuts or new policies expected, but skewed towards more easing in case UK exit is disruptive.	Further rate and reserve ratio cuts ahead to meet 6.5% annual growth target.	Skewed towards further easing in the second half of 2016 as inflation remains near zero.

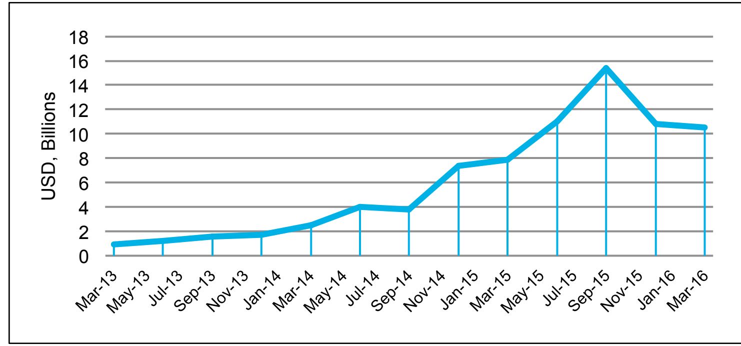
Source: Federal Reserve, European Central Bank, Bank of England, The People's Bank of China, Bank of Japan, Bloomberg, SVB Asset Management.

China *Services driving economic activity*

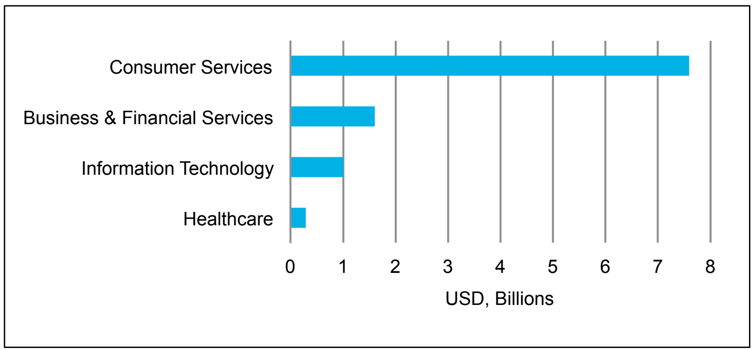
Services activity still expanding



Equity raised by VC-backed, China based companies



China's service sector firms receive equity investments

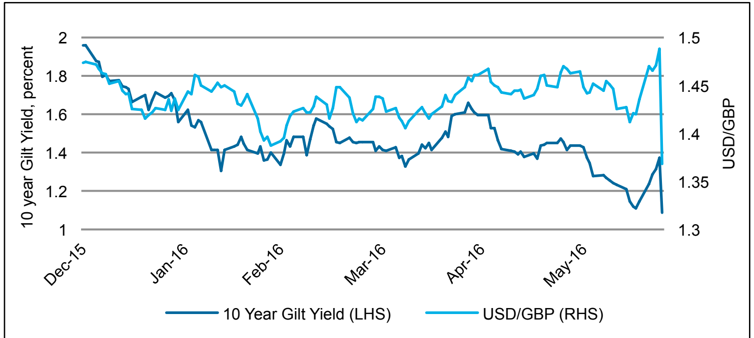


- Despite capital outflows and lower levels of investment during the first half of 2016, China's underlying transition to a consumption based economy continues.
- China's services sector continues to expand, albeit at a slower pace, as recent data shows a slowing in new orders, employment, and business expectations. Nonetheless, readings largely remain in expansionary mode.
- Equity raised by venture backed, China based companies remained healthy into the first quarter of 2016 based on data from Dow Jones VentureSource.
- For VC-backed companies, service oriented firms received all of the equity invested in the first quarter of 2016,with consumer services and business & financial services leading the way .

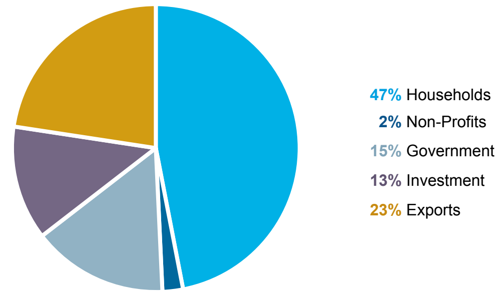
Source: MarkIt, Dow Jones VentureSource, Bloomberg, SVB Asset Management.

United Kingdom *Important trade*

Reaction to referendum result

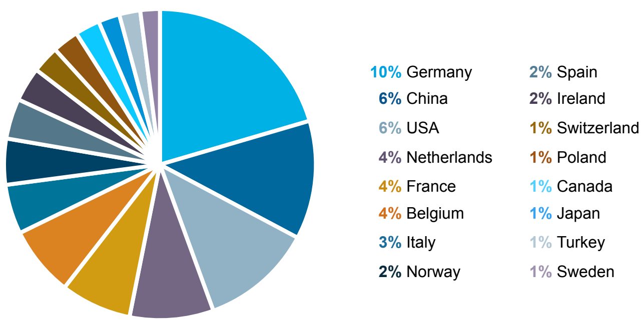


UK GDP* components



*Based on GDP final expenditures; excludes imports, which subtracts 26% from total final expenditures

Top UK goods export destinations

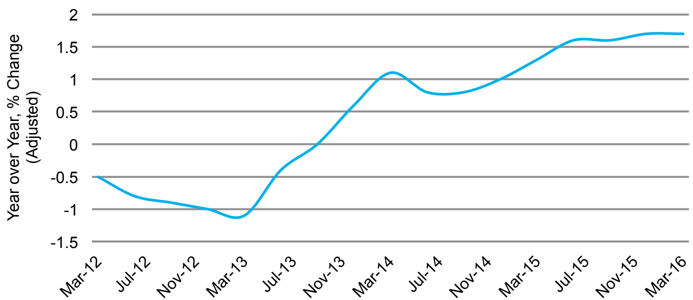


- The United Kingdom's vote to leave the European Union (EU) sharply impacted financial markets and left interest rates and the British Pound at the lowest levels in at least a quarter century.
- If lower interest rates are sustained, the real rate may turn negative, as the weaker Pound may provoke inflation.
- Any restrictive trade barriers with the EU would hurt the UK economy, as a material portion of exports are destined for EU countries.
- Exports are a significant portion of the UK economy. A weaker Pound would help exports and benefit the financial results of UK domiciled multinational corporations in the short term.

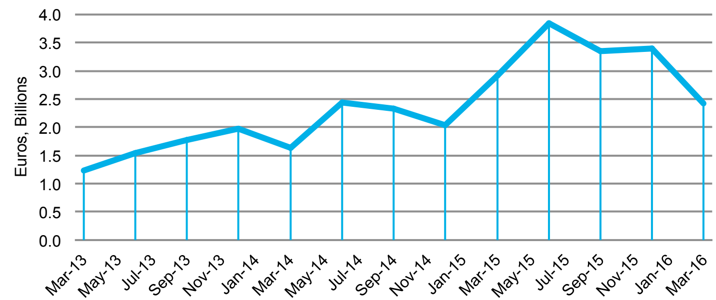
Source: UK Office For National Statistics, Statistics Sweden, European Central Bank, Bloomberg, SVB Asset Management.

Eurozone *Inching ahead*

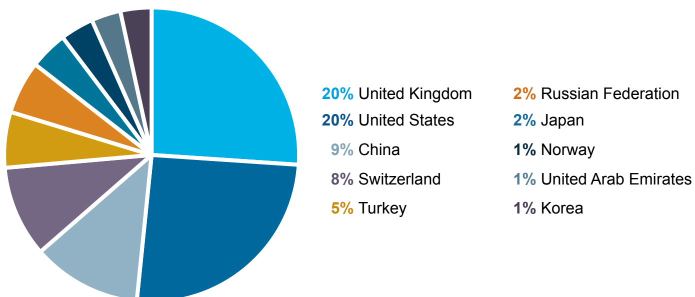
Euro Area GDP



Equity raised by VC-backed, EU based companies



Top EU export destinations*



*Estimated

- Growth in the Eurozone moved ahead at a slow pace, supported by continued monetary easing from the European Central Bank. Uncertainty created by the upcoming departure of the UK from the EU may push growth back towards zero.
- Exports to the UK will decline if trade barriers are erected. EU GDP would be hurt, particularly as the UK runs a trade deficit with EU members. Based on 2015 data, the UK is estimated to be the EU's largest export destination. Given the significant commerce between the UK and the EU, both entities have incentives to negotiate favorable trade, regulatory, and tax agreements.
- Emerging business activity slowed but remained decent, as EU-based venture backed companies raised €2.4 billion in the first quarter of 2016, according to Dow Jones VentureSource, a decline from the record amounts raised in 2015.

Source: Eurostat, European Central Bank, Dow Jones VentureSource, Bloomberg, SVB Asset Management.

svb Asset Management

Portfolio management strategy

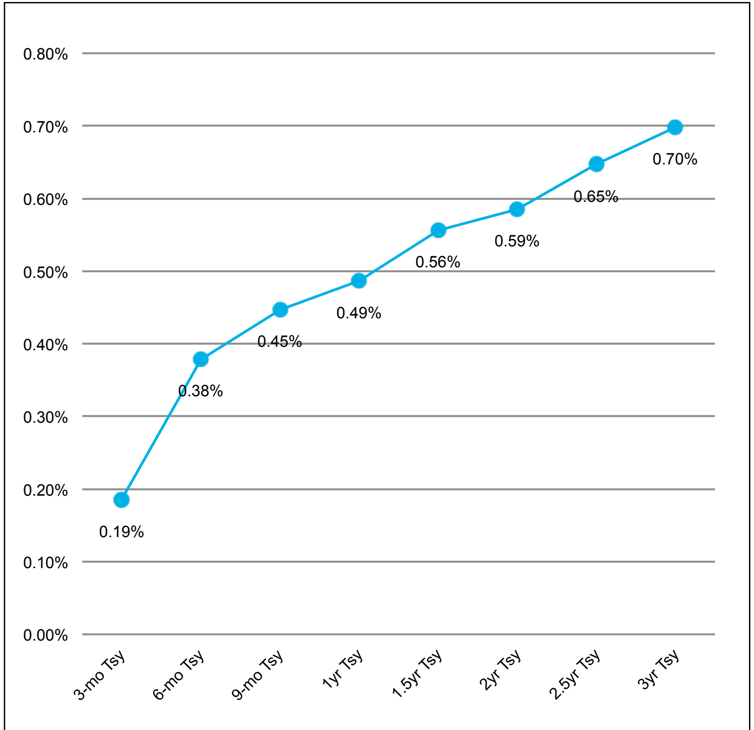
Portfolio strategy *Macro overview*

Economy	**Solid data**	• Q1 2016 GDP +1.1 percent. Year-over-year +2.1 percent. • Labor market averaged 150,000 new jobs in first 2 quarters of 2016. • Weekly jobless claims averaged 267,000 in Q2 - below 300,000 since March 2015. • Unemployment Rate fell to 4.7% - lowest since 2007. • Inflation rising towards Fed targeted level.
Rates	**Flat yield curve**	• 18-Month Treasuries yielding 0.56%, 24-Month Treasuries yielding 0.59%. • 2s10s Curve reached flattest level since 2008 in Q2 at +88.
Duration	**Defensive**	• Short & intermediate benchmarks: Long duration vs. benchmark as coupon income should offset price volatility. • Intermediate plus benchmarks: Stay neutral to benchmark. • Long benchmarks: Shorter to manage price fluctuations.
Sector	**Overweight spread product**	• Favor corporate bond, commercial paper and asset-backed securities. Diversify by security type, sector and issuer concentration. • As rates rise spread product will help protect bond prices due to higher income accruals.

Source: SVB Asset Management and Bloomberg. Data as of 6/30/2016.
Past performance is not a guarantee of future results. The above is not to be construed as a recommendation for your particular portfolio.

Portfolio Strategy *Relative value curve analysis*

Yield curve



Bond	Yield	Yield pickup from shorter tenure
3-month T-bill	0.19%	----
6-month T-bill	0.38%	0.19
9-month T-bill	0.45%	0.07
1-year Tsy	0.49%	0.04 Flat
1.5-year Tsy	0.56%	0.07
2-year Tsy	0.59%	0.03 Flat
2.5-year Tsy	0.65%	0.06
3-year Tsy	0.70%	0.05

Due to the flat yield curve, we are not purchasing past 18-months.

- 2yr yield pick up has averaged +3 to +9 basis points since end of January.
- 6-month part of the curve is the only tenure with double-digit yield pick up.
- With the Brexit vote and dovish Fed commentary from the Fed, we anticipate low yields and a continued flat curve in Q3.

Source: SVB Asset Management and Bloomberg. Data as of 6/30/2016.
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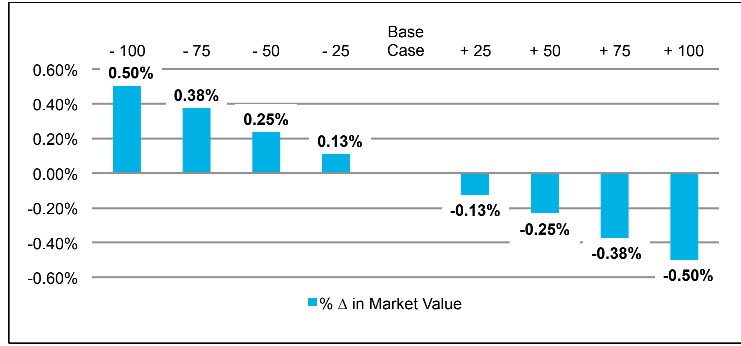
Portfolio strategy *Interest rate risk management*

Strategy	Duration target
Short duration benchmark 3-month	-30% Neutral **+30%**
Intermediate duration benchmark 6-month	-30% Neutral **+30%**
Intermediate plus duration benchmark 9-month	-30% **Neutral** +30%
Long duration benchmark 1 and 2+ years	**-30%** Neutral +30%

Duration (Price Sensitivity) Analysis



*Example of portfolio with duration of 0.5 years

- We exercise a disciplined benchmarking approach to manage portfolio duration where we position duration in a +/- 30% band around the appropriate benchmark.
- In a rising rate environment where a portfolio is more susceptible to unrealized losses, we mitigate this risk by managing average duration relative to the benchmark and by limiting exposure to longer-dated investments. This allows for greater investment opportunity to take advantage of higher anticipated rates.
- Sector selection is also integral to control price volatility. Proactively reducing corporate allocation allows us to be more selective:
  - Focus on carry to help offset negative price performance
  - Allocation to government securities to minimize bid-ask spread

Source: SVB Asset Management and Bloomberg
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