ALTMAN
INVESTMENT MANAGEMENT

EQUITY STRATEGY FOCUS

JULY, 2015

IN FOCUS:

While we recognize there is still geopolitical risk associated with the Middle East, Russia and Greece, the outlook for the U.S. economy is still improving and our markets should reflect this underlying strength. Although valuations remain high for individual issues, the broader market of stocks appears to us reasonably priced especially given recent individual stock corrections. In a benign interest rate environment, we conclude that any further decline in stock prices at this juncture remains a buying opportunity - and we await a yearend stock market rally that could carry us to a new high, following the next meeting of the FOMC.

The Equity Market Outlook

As the third quarter unfolds, investors have been faced with a turbulent stock market coupled with significant drops in leadership groups such as media stocks. The Master Limited Partnerships (MLPs) and many energy stocks also dropped precipitously, coincident with the significant weakness in oil prices against a continued strong dollar. Apple shares have been weak as well coupled with other tech companies and bio-tech darlings. Does this portend that the bull market's leadership is fading, leaving it with increasingly bad breadth and vulnerable to a fall?

From a technical perspective, the S&P 500 is holding above its 200-day moving average - confirming a technical barrier that maintains a bull market bias. Although range-bound between 2040 and 2130 since the start of March, many technicians are concerned that a falling 50-day moving average and a rising 200-day moving average is forcing a directional shift outside the trading band. These repeated warnings in the past have been followed by great buying opportunities - especially since 2013.

On the other hand, the S&P 500 Transportation Index, often referenced as a proxy for the overall market, has demonstrated significant declines of 16% or more and nearing a bear market signal in the group that is now trading 8.0% below its 200-day moving average. The fundamental drivers pushing the group negative have been the result of analyst revisions in the industry's forward earnings, down on average 11%. However, the renewed drop in oil prices should provide a fuel-cost savings windfall to the railroads and other transportation industries. The price of a barrel of Brent crude oil is back down to $42, below the January 13 cyclical low of $46.59.

In our July issue of *Market Perspective*, we commented on the weakness of the global economy and the potential end of the commodity super-cycle. In brief, our view is that borrowers have borrowed too much over the past few decades, so easy money has lost its effectiveness in boosting demand. On the other hand, easy money has led to too much supply. The result has been subpar global economic growth with near-zero inflation.

Japan resorted to massive currency depreciation starting at the end of 2012, when Abenomics was introduced. The Eurozone joined in when ECB President Mario Draghi started to talk the euro down during the summer of 2014, and implemented a QE program in March of this year. The markets were clearly spooked to see China start playing the currency depreciation game this month. So far the Shanghai Index has responded positively and has taken its toll on the stock prices of U.S. export-driven companies.

Although the yuan was recently devalued, there is mounting evidence and concern that Chinese officials are frantically trying to manage their economy. We are confident in China's ability to manage a soft landing and avoid an all out recession.

Lead Indicators of the Broad Markets

Let's consider the following bearish possibilities: Railcar loadings are at levels experienced in the summer of 2013, led by a drop in coal shipments. In addition railcar loadings of petroleum and chemical products seem to be peaking. None of this necessarily suggests that the economy is in trouble. Power plants are using more natural gas and less coal to produce electricity. Shipments of petroleum and chemicals account for just 8.2% of total rail car loadings. However this begs the question of whether the commodity bubble is bursting. The plunge in commodity prices is unsettling stock investors. It's certainly been doing so for the S&P 500 Energy, Materials, and Industrials sectors' price indices, which are down between 5 and 15% year to date. Investors may be concluding that the commodity implosion of the commodity super-cycle implies the end of a bull market.

Bubbles occur when lots of debt fuels rising prices of assets or commodities. This tends to increase their supplies until prices start to fall and then plummet as debtors are forced to liquidate their holdings. Currently, lower commodity prices should benefit consumers, but producers may still have to sharply curtail their capital spending and reduce their payrolls. Investors may be starting to worry that such actions will continue to weaken an already slow-growing global economy.

Since quarter end, markets have been characterized by a decline in interest rates, a weakened S&P 500 Index combined with poor breadth, and a steep decline in many commodity prices. While the 3-month Treasury Bill actually rose modestly to 0.03% from 0.005%, the 10-year Treasury Bond yield fell below 2.10 intraday from 2.36% - and long-term high-quality corporate bond yields declined 25 basis points as well. Long-term municipal bond yields were under pressure, as investors fled to less risky financial instruments. The S&P 500 Index has been volatile over the recent weeks, with more stocks declining than increasing in value. Over the past year, the S&P has gained whereas foreign stocks have fallen.

We reviewed relative industry market performance to gain a better understanding of the depth and breadth of the leadership. On closer examination, we observed that there is such broad disparity among sector performance that one could conclude is inconsistent with an extended bull market. According to the data released by the Capital IQ on the Standard and Poor's 500, examples of these diverse results are exemplified by the Healthcare sector advancing 8.7%, followed by Consumer Discretionary increasing 6.0%, only to find Technology and Financials essentially flat. The decline of the bottom performers on the other hand was significantly weak, such as Energy declining in aggregate 6.0% and demonstrative weakness in the Materials Sector (i.e.: Steel -10.7% and Aluminum -29.4%). Within the high yielding segments of the market, with investors concerned of a rising rate environment, we were not surprised to see significant weakness in the healthcare, hotel & resort, and industrial REITS down between 14 and 17%. Utilities actually fared worse than the Energy sector, falling in aggregate 12.3%, closing the six months as the worst performing sector of the market.

We saw the same divergent phenomenon confirmed in the forward price earnings ratio of the aggregate S&P 500, trading at 16.9 times our estimate of $123 versus the individual sector profit expectations for next year. While the overall market is trading relatively flat for the year through June 30th, we have seen that many stocks have already fallen between 10 and 20% from their highs and are now into negative technical corrections. In the past, we have indicated that it would not be unusual to experience at least a technical pause (a 10% decline) in aggregate at this stage in the bull cycle.

The Global Landscape

Despite the fact that the CRB raw industrial spot prices are declining, a reliable global economic indicator, other global economic indicators show that there is growth, and no reason to conclude that a recession is imminent or looming on the horizon. Germany's factory orders recorded one of the best readings since April 2008 according to our sources. The JP Morgan Global Composite PMI also shows an expanding economy as well.

The Eurozone's recovery should continue, though it requires a magnifying glass to see it. Industrial production fell 0.4% m/m during June, and is up just 1.2% y/y. Spain's economy continues to surprise on the upside and the July PMI showed strength in Italian manufacturing. Lastly, despite their inept handling of their stock and currency markets recently, we believe that Chinese officials will do whatever it takes to avoid a recession. They will manage a soft landing, i.e., a slowdown in growth, in our opinion. Keep in mind that industrial production is still rising up 6.0% y/y, while inflation-adjusted retail sales are also advancing 8.9%. Nevertheless, we remain concerned about China's excess capacity. For the past couple of years, we have seen significant declines in China's PPI. China will either have to shut down lots of excess capacity, which will increase unemployment and social instability, or find infrastructure projects at home and abroad to keep their factories busy. Odds are they'll opt for the latter option.

However, China's July trade figures remained on the soft side. On a seasonally adjusted basis, imports fell 2.1% m/m and 8.1% y/y. Some of that weakness reflected the drop in oil prices. However, imports excluding petroleum still fell 3.4% y/y during June, suggesting weak domestic demand. Exports declined 4.9% m/m last month and 8.3% y/y, likewise suggesting weak global demand. Exports have been essentially flat now since early 2013. In the U.S., the labor market continues to improve, as discussed below. The Citigroup Economic Surprise Index has rebounded from the year's low in March of this year.

IN BRIEF: The U.S. Economic Backdrop

The Bureau of Economic Analysis released the second Quarter GDP growing 2.3% compared to the first quarter revised increase of .6%. For the second half of the year we continue to expect a 2.5-3.0% resumption in GDP growth. Similar to the experience in 2014, we expect the rebound in the second and third quarters will resume the below trend normalized rate. The pace of financial engineering such as buy backs and M&A activity has taken center stage with corporate management, and less time has been spent on more conventional capital investment. The latter tends to create sustainable profitability and increasing value for the shareholder.

As we enter the seventh year of recovery, it is unprecedented to experience outright collapse in many commodity prices while at the same time see a continued expansion in the U.S. economy. The primary explanation for the end of what Goldman Sachs referenced as the commodity super cycle that peaked in 2008 is that the global capacity expansion is coincident with a weakness in these emerging market economies. To reiterate, too many companies borrowed too much money to build too much excess capacity. They were extrapolating that consumers' debt-financed spending binges would continue for decades, led of course by the Chinese. That certainly explains why the commodity super-cycle that lasted about a decade from 2001-2011 subsequently turned into a bust, particularly this year.

This decline in global final demand has had the effect of weakening the currency markets, and hindering both U.S. export growth and international profit contribution for the multinational corporations. In the case of China, which represents an ever increasing portion of global GDP, a drop in GDP from 11.0% growth rates to a 4-7% level is a dramatic change in underlying demand and is the probable cause of these dramatic price disruptions. The U.S. dollar strength has aggravated this effect since global commodities are typically priced in U.S. dollars.

The U.S. economy should continue to grow and benefit, on balance, from any further decline in commodity prices. The prices of gasoline and heating oil are down 39% and 46% y/y. The average household is spending roughly $1,000 less, at an annual rate, now than a year ago on gasoline.

Bloomberg recently reported: "while the collapse in oil and gas prices since the middle of last year caused energy companies to slash investment in oil wells, the second-quarter GDP showed an interesting dynamic taking shape - investment in factories has been running at full force. It may be surprising on the surface, given that manufacturing has simmered down this year on the heels of a weaker global economy, but spending on all types of production facilities increased at a 65 percent annualized pace in the second quarter. That was almost enough to offset a 68% plunge in investment in wells and mines that marked the biggest drop in 29 years." Construction spending on manufacturing facilities in the U.S. jumped again during June and there have been solid gains as well in recreation, lodging, and transportation. Commercial construction is also a positive up 7% y/y.

In our opinion, secular disinflation is a bullish scenario for both stocks and bonds. Neither a boom nor a bust suggests that inflation should remain subdued while deflationary pressures remain contained. In this scenario, central banks continue to provide plenty of easy money. Bond yields remain low. Stock prices should follow the path of earnings, which continue to grow albeit at a slower pace than in the past when inflation and growth rates were higher. Valuation multiples could stay relatively high given low inflation and interest rates. We conclude that the U.S. economy, albeit growing at a below average rate as compared to historical standards, has in effect extended the normal business cycle expansion. That's the way it's been during most of the current bull market in stocks. However, we recognize that many investors will from time to time fear the risk of secular stagnation and shift portfolios defensively.

Our current forecast remains at 2.5% growth in real GDP, with corporate profits advancing 5.0%. We believe that CPI inflation could reach 2.0% by year-end and that commodities are presently forming a base with the U.S. dollar probably nearing peak levels.

The Fed's Interest Rate Normalization Policy Shift

Another explanation for the recent technical weakness in the stock market is that investors are now convinced that the FOMC will vote to start raising the federal funds rate at the next meeting of the committee in mid-September. We would expect if the Fed Chair Janet Yellen does move rates up in September, the quarterly press conference that follows will give her an opportunity to reiterate that the pace of rate hikes will be very gradual. She will likely stress that while the employment situation continues to improve, she is still disappointed by the pace of wage increases.

We are still expecting a one-and-done Fed rate hike in September. However, given international developments, we are starting to think that none-and-done is still a possibility this year, and also possible next year. The members of the FOMC continue to talk about raising rates, even as commodity prices plummet and global economic activity slows. The Fed has repeatedly commented on their willingness to make a move this year depending on the domestic data on unemployment and inflation. The Fed's objectives include reasonable signs of a decrease in the headline unemployment rate near 5% and an increase in inflation near a target of 2%. The latest unemployment rate of 5.3% is nearly there, while inflation, as measured by the core personal consumption expenditures deflator, has remained subdued at 1.3% y/y through June. The latest drop in commodity prices suggests that inflation may remain subdued well into next year.

Investors may be worrying about what follows this Fed move. Questions like: How will financial markets around the world respond to a small increase in the federal funds rate, which has been near zero since December 2008? Given that it has been so widely expected, the reaction should be minimal. However, given that rates have been so close to zero for so long, we can't dismiss the possibility of an overreaction. That would mean another surge in the trade-weighted dollar and plunge in commodity prices, with adverse impacts on the U.S. and global economies, which could depress stock prices.

In our opinion, Yellen will soften the blow at her press conference by suggesting that the next rate hike may be months away and not inevitable. If so, then the dollar could weaken, while commodity prices could firm. Stock prices could melt up.

CLOSE-UP: Equity Investment Overview

In the spirit of emphasizing U.S. equities at this time, we reviewed some industry groups and specific stocks based on revenue exposure and our "quantitative" discipline. For Financials in particular, our thesis is that defensive attributes like the successful implementation of adequate capital adjustments during periods of financial stress should drive strong growth in shareholder returns - and the lack of currency exposures should fuel above-average estimates for the sector. Moreover, this is an economically-sensitive sector that does not discount much of a recovery in terms of today's relative valuation. We also see sentiment continuing to improve as the timing signal from the Fed on the first rate hike becomes more apparent. And although recent survey results showed investors think Financials will be the best performing sector in the coming months, our conclusion was that investors were not yet positioned there.

Benchmark Performance Highlights

EXHIBIT I
S&P 500 Index – 2nd QTR Performance

	Sector Wgt. As % of S&P as of 06/30/2015	2nd QTR Total Return	2nd QTR Sector Contribution of S&P 500	YTD Total Return	YTD Sector Contribution of S&P 500
S&P Index		0.3		1.25	
Consumer Discretionary	12.8	1.9	0.2	6.78	0.81
Consumer Staples	9.4	-1.7	-0.2	-0.75	-0.06
Energy	7.9	-1.9	-0.1	-4.68	-0.38
Financials	16.6	1.9	0.3	-0.24	-0.06
Health Care	15.4	2.9	0.4	9.5	1.31
Industrials	10.1	-2.2	-0.2	-3.07	-0.32
Information Technology	19.6	0.2	0.0	0.72	0.13
Materials	3.1	-0.5	0.0	0.48	0.02
Telecommunication Services	2.3	1.6	0.0	3.14	0.07
Utilities	2.8	-5.8	-0.2	-10.66	-0.33

Source: Bloomberg

S&P 500 Index – Sector Performance Summary

- The S&P 500 index came in at 1.25% for the first half of the year, despite flat returns during Q2.
- Value stocks lagged growth stocks by over 300 bps for the first half. But it was small caps that were the clear leaders. Up over 4.5%, carried by strong performance in Q1.
- Overall the market was mixed with Healthcare, Consumer Discretionary and Telecom outpacing the index. Financials and Consumer Staples traded down slightly, while Utilities and Energy shares significantly under-performed.
- For Q2, airlines which were down over 20%, led Industrials in the decline. In Consumer Staples, losses were attributable mostly to Foods and Staples Retailing (more specifically, Whole Foods and Walmart).
- Media stocks within the Consumer Discretionary sector were up 4.9% in Q2, led by Time Warner Cable (TWC) and Cablevision. The industry is undergoing a consolidation phase as evident by TWC's announcement to merge with Charter Communications. Recent talk surrounding Cablevision is focused on its being a prime acquisition target.

AIM's Attribution Highlights

EXHIBIT II
AIM Composite – Q2 2015

	Sector Wgt. as % of Portfolio	Relative Wgt. versus S&P 500 Index	2nd QTR Total Return of AIM Composite	2nd QTR Total Attribution of AIM Composite	YTD Total Return of AIM Composite	YTD Total Attribution of AIM Composite
AIM Composite			0.6	0.3	0.1	-1.19
Consumer Discretionary	9.2	-3.6	-5.6	-0.7	-0.8	-0.78
Consumer Staples	12.4	3.0	8.5	1.1	16.3	1.81
Energy	10.8	2.9	0.8	0.2	-2.9	0.04
Financials	19.4	2.8	6.0	0.8	0.8	0.16
Health Care	14.0	-1.4	-2.2	-0.7	1.4	-1.12
Industrials	8.8	-1.3	-1.2	0.1	2.1	0.44
Information Technology	17.5	-2.1	-1.5	-0.3	-7.0	-1.47
Materials	2.4	-0.7	-9.9	-0.3	-12.7	-0.36
Telecommunication Services	2.3	0.0	10.2	0.2	8.7	0.04
Utilities	1.9	-0.9	-11.0	-0.1	-14.5	0.11

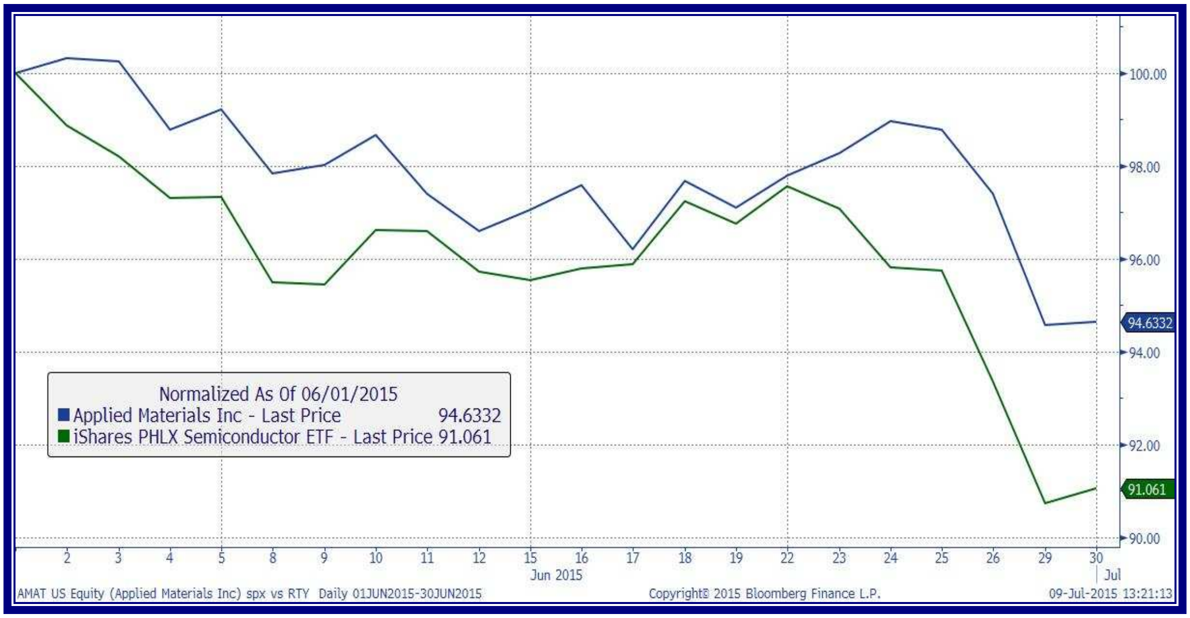
Source: Bloomberg and Altman Research

AIM Composite Attribution Analysis

- The AIM composite pulled ahead of the benchmark index in Q2, but ended the first half behind the index by 119 bps.
- Contributing positively to first half performance was Kraft, Conagra, Northrop Grumman and Mondelez.
- The stocks contracting from performance were Applied Materials, Intel, DuPont, Oracle and Baxter. Apple, making up nearly 4% of the benchmark index, was up over 14% ytd. Its performance added 46 bps to the benchmark performance.
- During the most recent quarter, Regions Financial and MetLife were up over 10% and 11% respectively contributing to relative out-performance by 40 bps. The Financial sector as a whole added 80 bps.
- Due to M&A activity in Consumer Staples, the sector added 110 bps to relative performance for the quarter.
- Offsetting positive quarterly attribution were Consumer Discretionary (particularly Lowes) and Healthcare (particularly Cardinal Health).
- We lost 67 bps of relative performance due to our position in Applied Materials (AMAT) during the first half of the year. The overall semi conductor index (SOXX) was down -4%, in response to cuts in capital spending by the industries major customers. However, AMAT deviated from the SOXX and underperformed its peers due to the cancelation of its highly anticipated merger with Tokyo Electron.

EXHIBIT III

Applied Materials began to outperform the SOXX (semi Index) in June

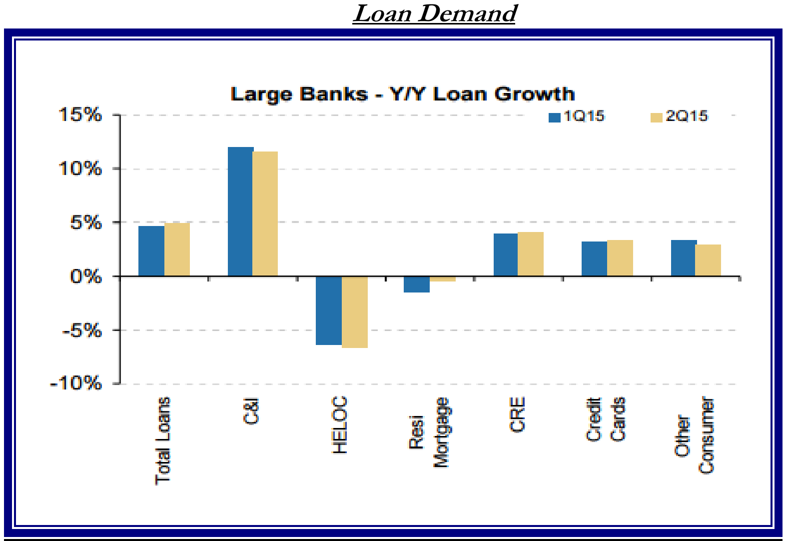


Source: Bloomberg and Altman Research

- With prospects of a merger now dissolved, AMAT is free to focus more specifically on internal operations and strive towards improving margins and cash returns. Margins of late have been under pressure as the company increased product development in order to gain market share. Looking ahead, optimism remains within prospects for the wafer fab equipment market, and we continue to believe that management is properly focused on profitable growth via continued market share gain, margin improvement, and core product focus.
- Bank stocks have reported second quarter results with the average for the universe, beating earnings estimates by 6.22% and sales estimates by .64%. The beat was due mainly to expense management and the acceleration in y/y loan growth. Bank of America was one of the leaders in both areas and it was reflected in the stock price shortly after announcement. As we have discussed in prior commentaries, we believe banks to be beneficiaries of higher interest rates that contribute to higher net interest incomes. We are currently overweight the Financial sector, with positions diversified through regional banks and money centers.

EXHIBIT IV

Loan Demand



Source: Morgan Stanley and Fed H8 Data

S&P 500 – Sector Valuation Characteristics

EXHIBIT V
S&P Aggregate Valuation Characteristics

	AIM LLC Composite	S&P Index	S&P Barra Value Index	Russell 1000 Value Index
# holdings	39	500		
Beta	1.03	1.00	0.99	1.00
P/B	2.12	2.86	2.39	2.12
P/E cur	16.63	17.34	16.24	16.36
P/E FY1	15.10	15.68	14.80	14.91
P/S TTM	1.43	1.79	1.45	1.50
Div yield	2.63%	2.10%	2.43%	2.36%
P/CF	9.38	11.25	10.02	9.71
Market Cap Wgt	98,619	132,812	105,560	101,544
EQ wgt	95,160	39,368	35,598	21,159
Top 10 holdings	32.88%	16.69%	19.68%	17.53%

Source: Bloomberg and Altman Research

We strive to maintain the integrity of the portfolios by keeping the weighted average of fundamentals at an appropriate discount relative to our benchmark index, the S&P 500. We are able to achieve above average yield through a diversified portfolio of large cap stocks with below average price to book, price to cash flow, and price to earnings. We also draw comparisons to the various Value benchmark indices, the S&P Barra Value and Russell 1000 Value, being sure to stay inline with overall fundamentals.

It is a common misunderstanding that by investing in a market index an investor can reach adequate diversification. For example, someone investing in the SPX index (500 companies) through a market ETF may tend to believe they are more diversified than a portfolio equally weighted among 30-40 stocks. Would you be surprised to find out that of the S&P 500 index, only 26 companies (or 5%) make up 30% of the market weighted benchmark. Numbers are similar for the S&P Barra and Russell 1000 Value. In comparison, our AIM composite which holds an average of 35 companies all at equal weights, 9 companies or 25% of our holdings account for 30% of our portfolio. This just goes to show that investors in broad market ETF's may not be as diversified as they think they are.

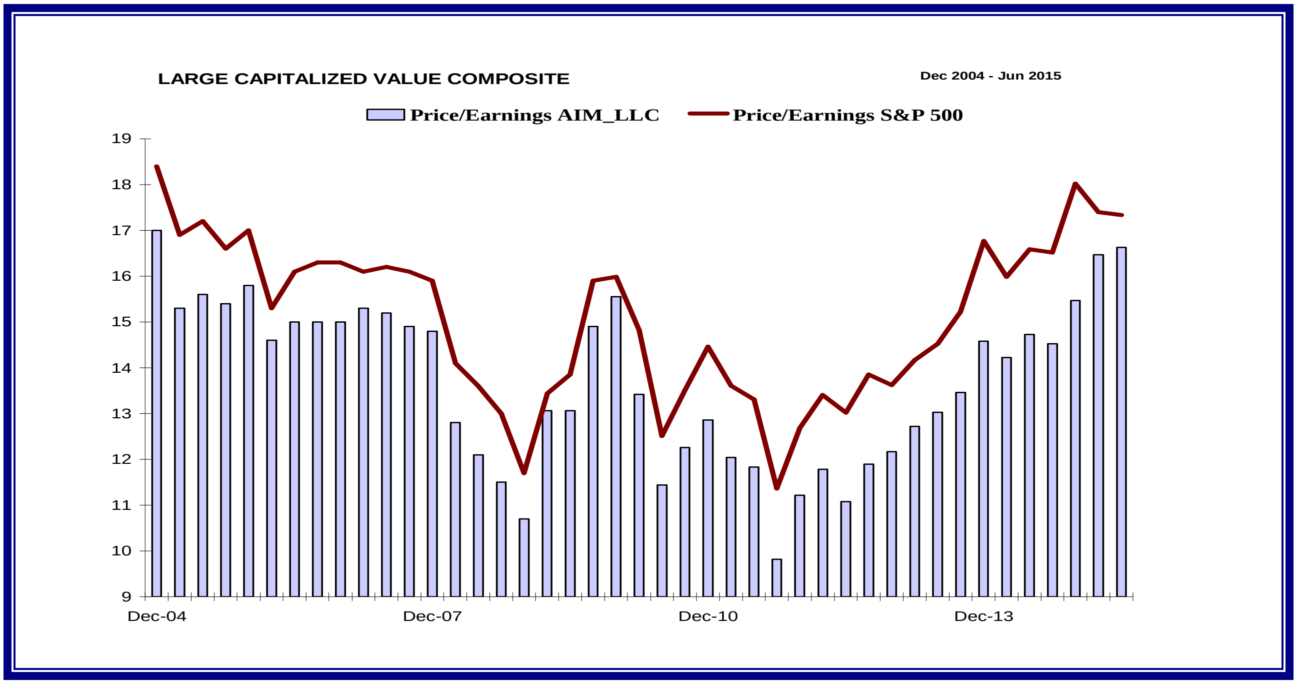
EXHIBIT VI
S&P Sector Valuation Characteristics

	Energy	Materials	Industrials	Con Desc	Staples	Healthcare	Fincl	Tech	Telecom	Utilities
# holdings	41	28	67	85	37	56	86	67	5	29
Beta	1.19	1.03	1.10	1.00	0.70	0.97	1.05	1.05	0.79	0.49
P/B	1.76	3.74	3.74	5.12	5.26	4.00	1.40	4.04	3.43	1.57
TTM P/E	15.42	18.24	16.92	20.14	19.71	23.31	14.87	18.50	14.57	15.21
P/E cur	24.15	17.50	16.46	20.14	19.67	18.31	14.43	16.46	13.49	15.31
P/E FY1	20.78	14.81	15.10	17.41	18.07	16.37	13.14	15.07	12.99	14.74
P/S TTM	1.16	1.58	1.55	1.51	1.26	1.99	2.28	3.27	1.43	1.49
Div yield	3.07%	2.03%	2.28%	1.51%	2.73%	1.56%	2.01%	1.61%	4.92%	3.98%
P/CF	7.59	11.18	11.55	13.11	14.59	17.55	9.17	12.24	5.88	6.29

Source: Bloomberg and Altman Research

EXHIBIT VII

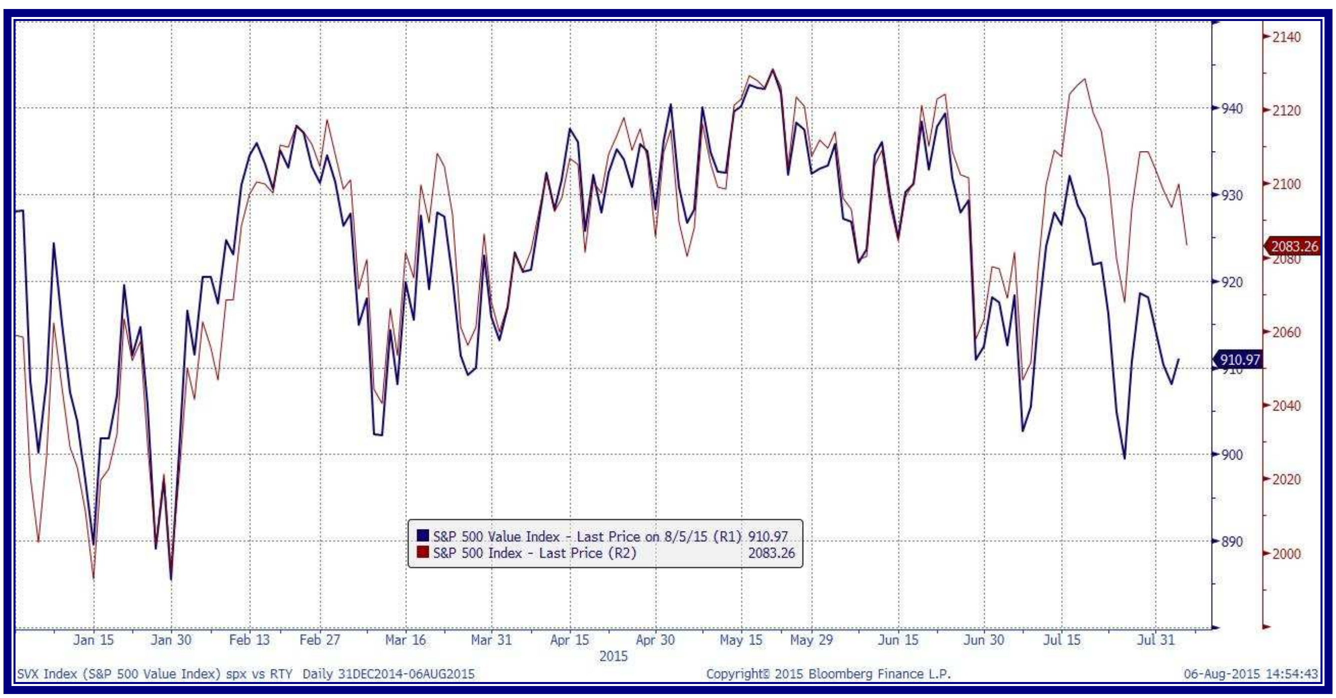
A look at S&P vs. AIM Price/Earnings



Source: Bloomberg, Factset and Altman Research

EXHIBIT VIII

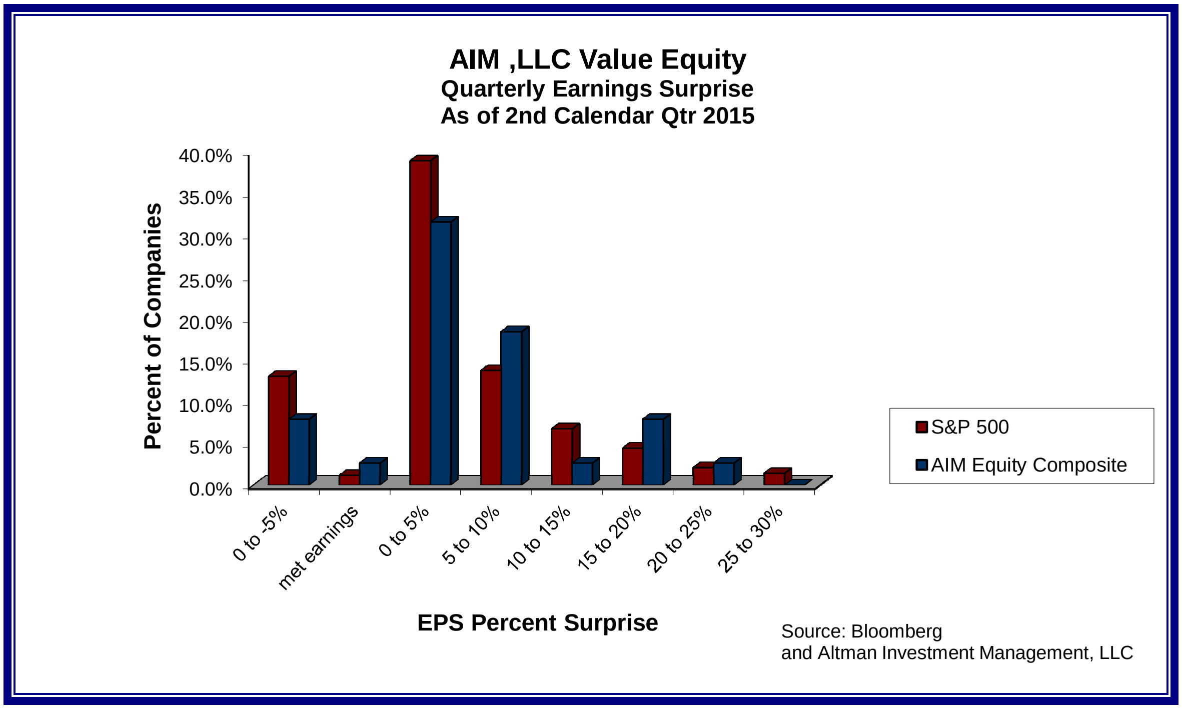
S&P 500 vs. S&P Value Index



Source: Bloomberg and Altman Research

EXHIBIT IX

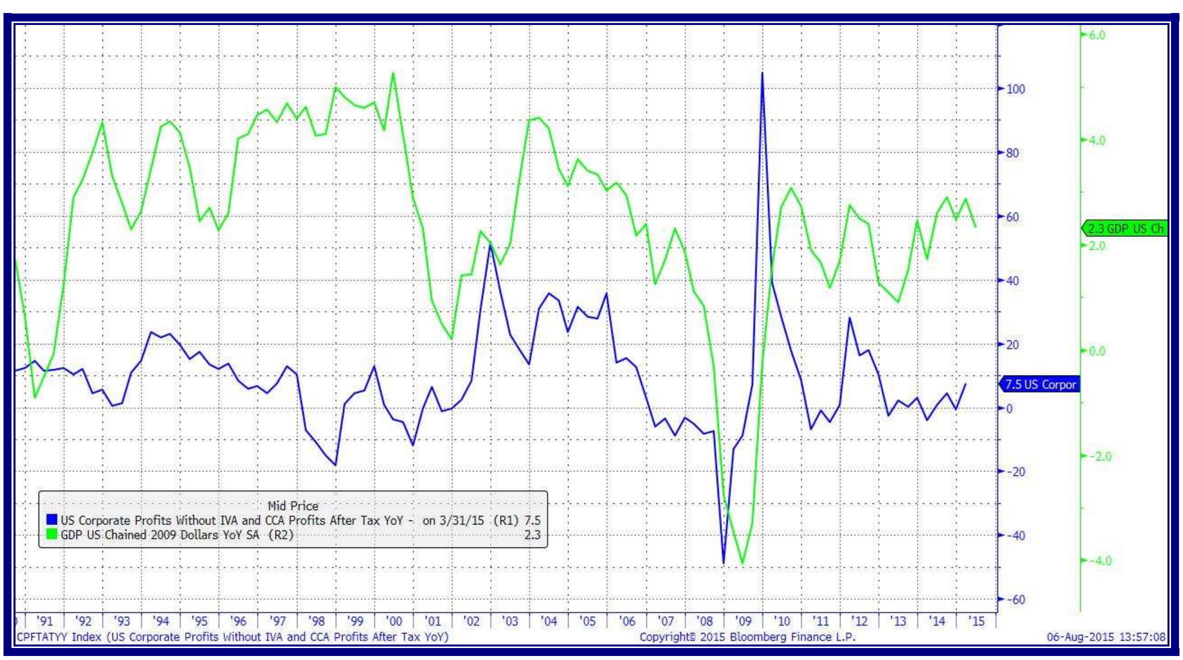
Quarterly Earnings Surprise – AIM/S&P 500 Comparison



The chart above illustrates the percentage of investment holdings within our Value portfolio that exceeded street estimates during the 2nd calendar quarter of 2015. Most notably, 76% of our investments exceeded street estimates while only 65% of the companies in the S&P 500 exceeded street estimates. Looking at top line sales, 56% of our investments exceeded street estimates as compared to 43% for the S&P. As of August 8, 2015, 90% of the AIM composite and 87% of S&P 500 companies have reported.

EXHIBIT X

Corporate Earnings Growth vs. GDP



Source: Bloomberg and Altman Research

IN PERSPECTIVE: Current Market Themes

❖ The Interest Rate Impact on Stocks and Market Sectors

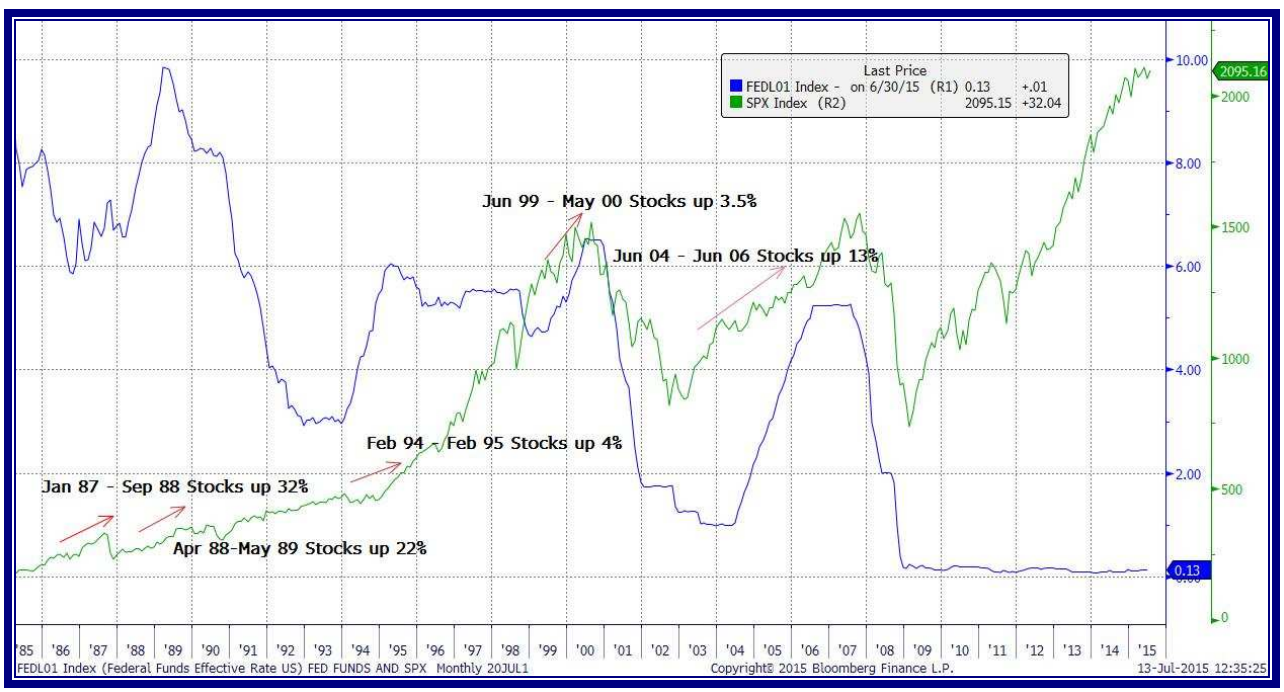
Raising the Fed fund's rate is a tool used by the Fed to tighten the supply of money available to investors. The current expectation is for the first rate hike to begin in the 3rd quarter and if not, by early 2016.

A quick look back at historical market performance shows us that stocks don't necessarily sell off at the start of a rate tightening cycle. Current rate levels, the magnitude and speed at which rates rise, and other economic factors all come into consideration. Taking a brief look at the past 5 tightening cycles, they have not only been positive but have produced double digit returns in 3 out of 5 cycles. The average of returns through all 5 cycles was approximately 15%.

In addition to their dual mandate focused on employment and inflation, the Fed will also be taking into consideration "financial and international developments". Therefore, it is our opinion that as the Fed raises rates, they will continue to use caution as to the timing and magnitude of hikes.

The exhibit below illustrates stocks outperforming in rising rate environments.

EXHIBIT XI
Fed Funds Rate vs. S&P Returns



Source: Bloomberg and Altman Research

Our overweight position in the Financials sector is supported by our expectations for increased loan demand that generally accompanies higher economic growth. Additionally, in a rising rate environment, banks have the ability to earn more on their loan books than what they are paying out to depositors. This improved margin cycle will prove to be the second leg up for bank stocks that have already rallied off lows as a result of strengthened balance sheets after the latest financial crisis. Insurance companies are also beneficiaries because they can earn more from the premiums they charge policy holders.

Throughout this cycle, Technology share growth should continue to experience tailwinds from the capital spending cycle. We reviewed a report by Merrill Lynch mapping the correlation of market sectors to changes in interest rates and found that Technology shares have the highest positive correlation to changes in real interest rates, while at the same time they are negatively correlated to inflation. As a reminder, we are in an environment with benign inflation and rate hikes could begin as early as September - both circumstances support a rise in Technology shares. Consumer Staples and Utilities are the most negatively correlated sectors to changes in real rates, while for most other sectors the impact is somewhat muted.

❖ Merger and Acquisition Activity Continues

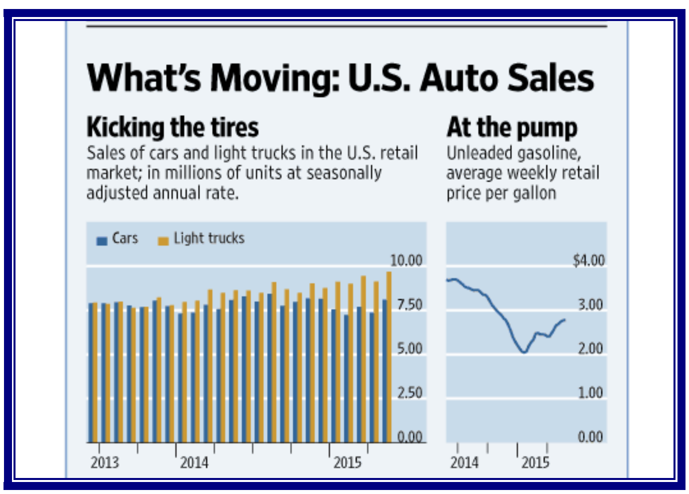
According to Thomson Reuters, mergers and acquisitions activity (M&A) within the United States this year is up over 50%, as compared to the first half of last year. Additionally, companies that are not prepared for full-on mergers are seeking to streamline their businesses, thus sell/restructure assets, in order to focus on the most profitable businesses. Despite heavy cost-cutting efforts already, revenue growth across the board remains weak. M&A activity and asset restructurings are simply additional strategies for companies to improve growth prospects, albeit inorganically.

In Q1, Kraft announced a merger with Heinz creating a global food giant. Although the combined company will reach annual sales of close to $28 billion, the announcement emphasized cost savings and margin improvement as the main benefit to the merger, rather than painting a picture around anticipated revenue growth. Kraft jumped 35% on the initial announcement.

Similarly, the merger announcement between Time Warner Cable and Charter Communications was absent any revenue growth forecasts, citing improved subscriber services such as faster broadband and greater access.

More recently, Johnson Controls (JCI) announced it will consider the sale of its automotive business to "drive more profitable growth". The first major reason cited by management is that the cyclicality of the auto market creates too much volatility in corporate cash flows and impedes high level decision making. Second, the seating business requires a sizable capital investment during a time in which most companies are trying to cut costs. JCI believes it will receive top dollar for the deal as the auto market continues to strengthen. Expectations are for auto sales to top 17 million vehicles by 2016. See chart below.

<u>**EXHIBIT XII**</u>



The Wall Street Journal, June 9, 2015

Though it is difficult to confirm that the heightened M&A activity is indicative of improved business sentiment, historically this has been the case. True, anticipated synergies may indeed take time to be realized, but we believe the long-term implications resulting from constructive M&A activity are positive for the markets.

❖ Impact of a Stronger U.S. Dollar

It is widely understood that 40% of profits of the S&P 500 come from foreign sources, but more importantly only 25% of the profits are paid in foreign currencies and are thus directly impacted by a stronger dollar, according to Jeremy Siegel, Professor of Finance at the Wharton School of University of Pennsylvania, and David Bianco, Chief U.S. Equity Strategist at Deutsche Bank. The dollar index which has rallied to 96 from the mid to low 80s one year ago is reflected in earnings revision ratios among the S&P 500 multinationals which were cut more severely than pure domestic plays. Earnings growth estimates among Bloomberg analysts for 2015 have contracted to 5% growth from low double digits nearly one year ago.

We're seeing rapidly weakening market-based measures of inflation expectations, plummeting commodity prices, accelerating weakness in U.S. import prices from China in recent months even before the currency regime shift, and a resulting new 12-year high in the trade weighted dollar. This global devaluation phenomenon implies that the Fed will see little risk of rising wage pressures in the months ahead. This low and deteriorating inflation has resurfaced - as China implements its new currency policy - and may delay a rake hike in September.

Import prices from China are an important driver of core consumer goods prices in the U.S. The worsening PPI deflation China has been experiencing this year has already been reflected in a recently increased pace of decline, even before the currency adjustment, which will likely add to medium-term increased downward pressure on core goods inflation in the U.S.

Even with a stable currency, U.S. import prices from China fell in six of the first seven months of this year. That likely contributed in a meaningful way to the PPI report showing a slowdown in core consumer goods prices in July. We anticipate another decline in core goods CPI in subsequent reports. These drags on our inflation forecast directly impact our overall core CPI and could likely defer Fed action. Translated to core PCE implications, there's a greater risk of being stuck longer at the current 1.3% lows instead of the gradual move up in the direction of 2% to 2.5%.

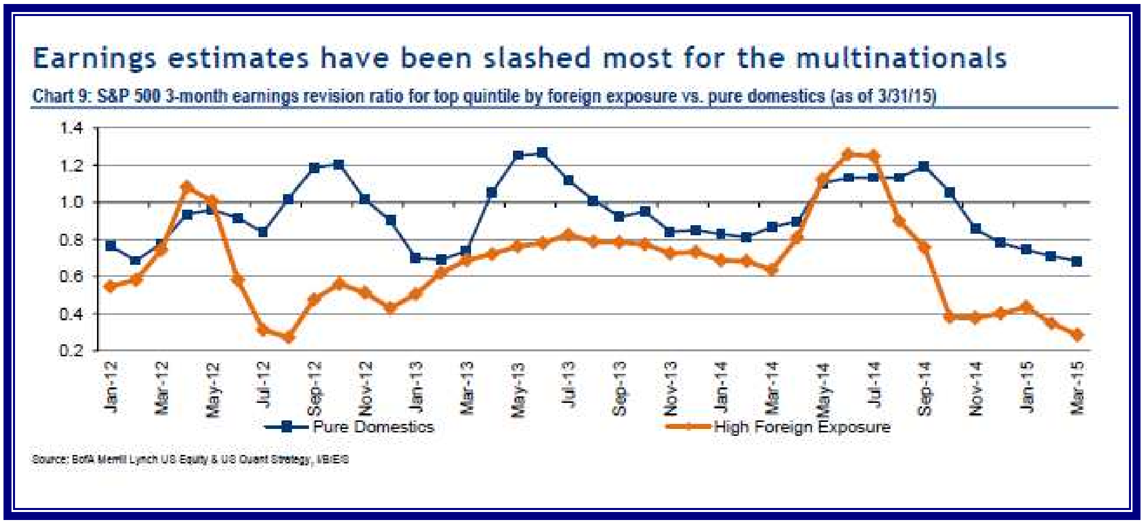
The key recent development has been the rising risks to the U.S. inflation outlook, which was of course aggravated by the transition to a new currency regime in China. China makes up 21% of the Fed's broad-trade weighted dollar index, easily the largest component, and had been providing some offsetting stability even as the index had already moved through the prior mid-March peak in late July. See the following exhibit below showing the breakout of the trade weighted dollar, confirming the altercation in inflationary expectations.

EXHIBIT XIII

U.S. Trade-Weighted Dollar

Source: Bloomberg and Altman Research

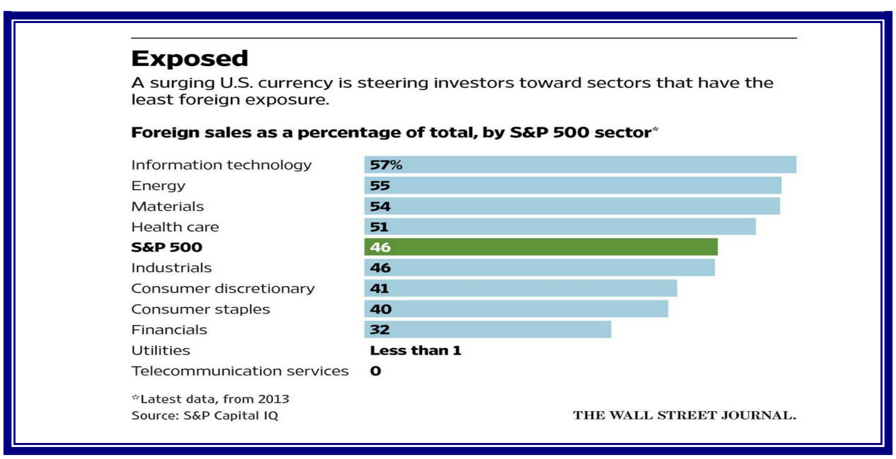
EXHIBIT XIV



The Russell 2000 index, a small cap equity index with less foreign exposure as compared to the large cap S&P 500, has out-performed by over 250 bps this year. During the first half, large cap companies such as Oracle, Honeywell, Accenture and Merck all sited negative foreign currency impacts to net revenues.

Although there is some degree of hedging against foreign currencies conducted to alleviate pressure, there is some downside risk that remains should the dollar continue to climb at an advanced speed and oil prices remain low. Despite having the highest foreign exposure, Technology shares are not highly correlated with the U.S. dollar but rather depend more upon the capital spending cycles and prospects for global growth. The poor performance among the Energy sector, the sector with the second highest foreign exposure, has been mostly a function of supply/demand imbalances and diminished drilling activity.

EXHIBIT XV
An Investment Bias Towards Sectors With Least Foreign Exposure



So although we recognize the pressure that dollar strength has and may continue to impose upon domestic multinational companies, we believe the impact will be short-lived. Looking ahead, we remain focused on prospects for global growth, improving economic conditions, and earnings revisions reaching an inflection point.

IN SUMMARY:

Bears, which base their analysis on either fundamentals or technicals or both, have been on the wrong side of this bull market to a large extent. They failed to appreciate the willingness of corporations to buy back their shares and now increasingly to engage in M&A. All this activity reduces the supply of equities. The reason corporations have been doing so is that the Fed has been keeping interest rates so low for so long. Previously, we have observed that as long as the forward earnings yield of the S&P 500 companies exceeds their bond borrowing costs, they are likely to buy back more shares of their own companies and acquire shares of other ones with borrowed money. So the Fed maintains its control of our bull market in equities.

While we recognize there is still geopolitical risk associated with the Middle East, Russia and Greece, the outlook for the U.S. economy is still improving and our markets should reflect this underlying strength. Although valuations remain high for individual issues, the broader market of stocks appears to us reasonably priced especially given recent individual stock corrections. In a benign interest rate environment, we conclude that any further decline in stock prices at this juncture remains a buying opportunity - and we await a yearend stock market rally that could carry us to new highs following the next meeting of the FOMC.