LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

August 2015

An Allocation to Hedge Funds – Essential!

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Co-Chief Investment Officer, Principal

Late last year, we wrote about our projected lower returns from the traditional asset classes in stocks and bonds. As this year progresses, our view is becoming more and more a consensus one – mid single digits from stocks and super low single digit returns from bonds over the next 5-10 years.

So what's an investor to do? With over 30 years of investment experience including investing in private placements, real estate, venture capital, private equity and more, my answer to the question on your mind and mine is to have a healthy allocation to hedge funds.

My investment buddies – Wall Streeters, professors, institutional managers as well as family wealth advisors – mostly concur. The critics, who cite access to the best and brightest as a prohibitor, are correct. At Lanier, why we can be so bullish on the inefficient market space of hedge funds is we indeed do have access to the stars in the class!

We recently performed an institutional-like due diligence with our favorite hedge fund manager, Infinity. Having been the recipient of such grillings for decades (I previously referred to them as the "quarterly medical exam" – not fun!), we indeed confirmed our 5 star rating of Infinity. Some highlights include:

- Diversified by strategies (10) and managers (9) which results in a very low correlation of returns relative to the stock market (.4).
- All managers have 10 year+ track records and a substantial investment in their funds ("eat your own cooking").
- Track record that betters the S&P 500 with less than 1/3 risk.
    - Specifically, 9% annual rate of return with a 4 standard deviation versus the S&P 500's 8% return and a 14 standard deviation.

One of my skeptical fellow nerds recently quizzed me on the predictive power of past performance. As we have written before, there is very little predictive power in the efficient asset classes of stocks and bonds. Vanguard gets the prize for the best thorough and accurate study[1] – proving indexing is best for these investment classes.

But for the inefficient classes including hedge funds, the predictive power of past performance is very high! The Commonfund Institute best illustrates in their research[2] that talent is key and access to the top-tier of hedge fund managers grossly enhances portfolio returns while substantially reducing one's risk posture.

So what does an investor typically get by diversifying into alternatives like hedge funds? Over the cycle, one should expect 2-3% additional net return versus the standard 60% stock/40% bond return while taking a substantially lower risk. We call it our "better mousetrap."

[1] Vanguard – The Case for Index-Fund Investing, March 2015
[2] Commonfund Institute – Alternatives Reality: What to Expect from Future Allocations, January 2014

Our Firm

- Independent, employee-owned Registered Investment Advisory firm
- Open architecture investment structure
- Mission: To build confidence and security in our clients' financial future
- Custodian: The Bank of New York Mellon

Mark R. Hoffman
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Chief Compliance Officer

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Performance Update

	Investment Vehicle	Total Return (%)							
						Annualized			
		JULY	QTD	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
TRADITIONAL ASSETS									
Cash									
Vanguard Reserve Prime Money Market		0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.3%	1.5%
Fixed Income									
Domestic (Barclays US Agg)		0.7%	0.7%	0.6%	2.8%	1.6%	3.3%	4.7%	4.6%
Eaton Vance Floating Rate	EIBLX	0.1%	0.1%	2.4%	1.7%	3.7%	4.7%	4.6%	4.0%
High Yield (Barclays US Corp HY)		-0.7%	-0.7%	2.1%	0.2%	5.7%	7.6%	9.4%	7.6%
Short Term High Yield	SJNK	-1.3%	-1.3%	0.8%	-1.5%	-	-	-	-
Equities									
Domestic Large Cap (S&P 500 TR)		2.1%	2.1%	3.4%	11.2%	17.6%	16.2%	9.9%	7.7%
S&P Equal Weight	RSP	1.0%	1.0%	1.4%	9.2%	19.4%	16.5%	11.7%	8.6%
Domestic Mid Cap (S&P 400 TR)		0.1%	0.1%	4.3%	11.3%	18.7%	16.3%	11.1%	9.2%
Vanguard Mid-Cap ETF	VO	1.2%	1.2%	4.4%	12.8%	20.2%	17.0%	11.3%	8.9%
Domestic Small Cap (S&P 600 TR)		-0.9%	-0.9%	3.3%	12.0%	18.8%	16.8%	11.1%	8.5%
Vanguard Small-Cap ETF	VB	-0.3%	-0.3%	3.9%	10.5%	19.0%	16.5%	11.3%	8.8%
Developed Intl. (MSCI EAFE)		2.1%	2.1%	7.7%	-0.3%	12.3%	8.0%	2.8%	5.0%
MSCI EAFE	EFA	2.0%	2.0%	8.3%	8.3%	12.3%	7.8%	2.7%	4.9%
Emerging Intl. (MSCI EM)		-6.9%	-6.9%	-4.2%	-13.4%	0.6%	0.6%	0.4%	6.6%
Vanguard FTSE Emerging Markets ETF	VWO	-6.3%	-6.3%	-3.1%	-10.0%	1.6%	0.9%	0.6%	6.5%
Real Assets									
Real Estate (FTSE NAREIT US REIT)		4.9%	4.9%	-0.6%	9.0%	9.9%	13.3%	8.4%	6.2%
Mortgage Real Estate	REM	2.6%	2.6%	-2.3%	-0.3%	3.0%	6.4%	3.8%	-
REIT ETF	VNQ	5.8%	5.8%	-0.9%	9.6%	10.0%	13.4%	8.6%	7.0%
Commodities (Thomson Reuters/Jefferies CRB Index)		-14.6%	-14.6%	-19.1%	-36.8%	-14.7%	-7.5%	-10.9%	-5.0%
AVENTIS*	AVENTIS	-0.6%	-0.6%	-1.8%	-5.3%	-5.7%	1.2%	-2.4%	-
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		0.0%	0.0%	2.7%	3.1%	6.1%	4.8%	3.7%	5.0%
INFINITY*	OCEAN	1.0%	1.0%	5.3%	9.0%	10.7%	9.2%	7.4%	8.9%
Robeco Long/Short Equity	BPLEX	-3.2%	-3.2%	-3.2%	-6.2%	0.0%	3.5%	8.1%	12.6%
Lanier All Asset Strategy**	AAS	0.3%	0.3%	-2.5%	1.4%	9.4%	7.7%	12.2%	13.1%
Managed Futures									
Barclays CTA Index		0.8%	0.8%	-0.3%	6.5%	0.7%	1.7%	2.0%	3.5%
WINTON*	WINTON	3.6%	3.6%	-1.1%	9.1%	1.2%	1.8%	1.0%	4.3%
AQR Managed Futures Strategy	AQMNX	2.2%	2.2%	2.2%	1.6%	0.0%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	-3.6%	-3.6%	-3.6%	-5.5%	0.0%	-	-	-

= Benchmarks

= Lanier Selections

* For Accredited Investors Only

** Based upon since inception (Jan 2006). Prior data uses 60/40 Blend

Key Points From Our Investment Meeting – 8/12/2015

Macro Viewpoint

- Global fears – Chinese currency devaluation, Greece "kick the can down the road," domestic interest rate hikes – all threatening to derail the 6+ year bull market
- Bond market total return – we still project 0-1% next five years
- Volatility to increase – favors alternatives' relative performance

Asset Class Comments

- Bonds long term bearish
- Small cap stocks – reduce as bear lurking with macro concerns, high relative valuations
- Overweight hedge funds in such an environment!

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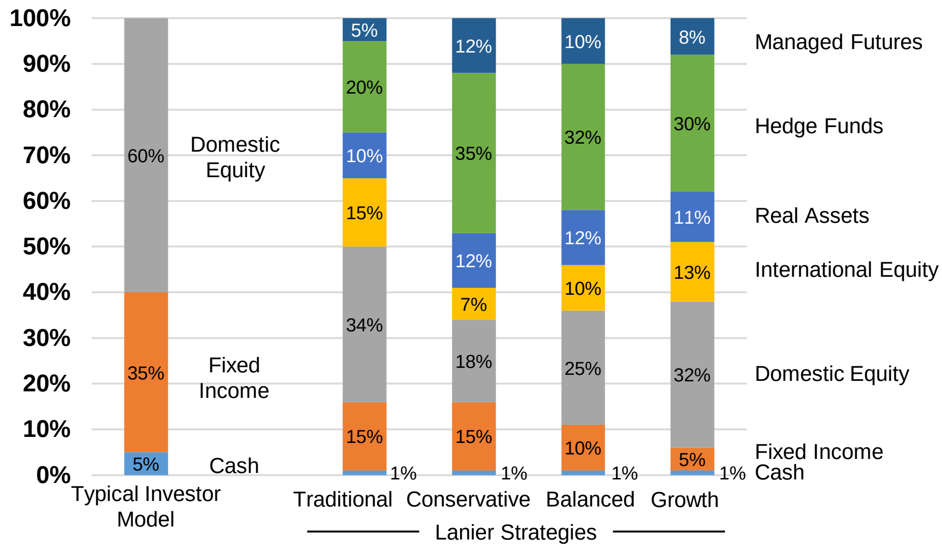
Our Approach

The Lanier Approach complements typical equity and fixed income investments with non-correlated assets including hedge funds, real assets and managed futures. This investment process improves long-term performance while simultaneously reducing risk.

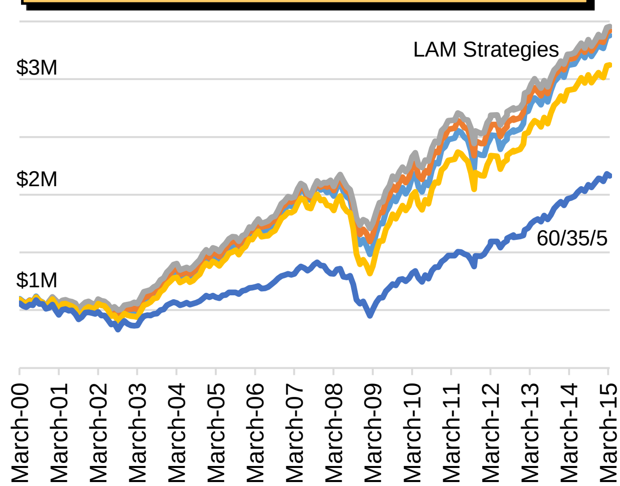


Our approach seeks to both A) limit losses in periods of market correction and B) participate in gains during periods of market appreciation. Across the last two economic cycles, our strategies have outperformed the typical investor model by 3%/year with 10-15% lower correlation to the overall market. The long-term result has been significant value creation versus the stock/bond/cash model.

Historic Performance: Economic Cycles

		Annualized Period Return			
		Down Market 4/00-9/02	Up Market 10/02-9/07	Full Cycle 4/00-9/07	Correlation To S&P 500
Cycle 1: April 2000 – September 2007	Lanier Balanced	-4.9%	+16.3%	+8.8%	.62
	60/35/5	-9.1%	+10.9%	+3.8%	.74
	Difference	+4.2%	+5.4%	+5.0%	
		Down Market 10/07-2/09	Up Market 3/09-12/14	Full Cycle 10/07-12/14	Correlation To S&P 500
Cycle 2: October 2007 – March 2015	Lanier Balanced	-16.1%	+13.4%	+6.9%	.66
	60/35/5	-23.6%	+14.9%	+6.1%	.71
	Difference	+7.5%	-1.4%	+0.8%	
				Two Cycles 4/00-12/14	Correlation To S&P 500
Two full cycles: April 2000 – March 2015	Lanier Balanced			+7.9%	.65
	60/35/5			+4.9%	.73
	Difference			+3.0%	

Value Added: $1M over two cycles/15 years



Past performance is no guarantee of future results. Investing entails risk, including possible loss of some or all principal. Historical performance results for investment indices and/or categories have been provided for general comparison purposes only, and generally do not reflect the deduction of transaction and/or custodial charges. It should not be assumed that your account holdings correspond directly to any comparative indices.

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