LANIER
ASSET MANAGEMENT LLC

Building Confidence and Security in Your Financial Future

Monthly Update

March 2015

To Fee or Not to Fee?

Junius V. Beaver III
Managing Director, CIO, Principal

Nobody likes paying fees. Not you…not me. But when should an investor be OK with paying a fee? At Lanier, we believe there are asset classes that are worth paying a higher fee for if they provide value for the investor. When we invest our own money, we use active management (that charges fees) in inefficient equity asset classes, hedge funds, managed futures and commodities. Why do we do that? Because all asset classes are not created equal! We refer to our approach as “a better mousetrap.”

- Emerging market stocks can provide higher returns but they are far less liquid to trade, are less researched and are quite volatile. A good manager here can make a big difference. There is a significant disparity between top tier and lower tier managers – this difference provides a greater potential to outperform.
- Hedge funds show a significantly larger gap between the top tier managers and the rest. The difference is 18% from top to bottom! The argument is often made that if you can’t access top tier managers, there is no reason to invest. We agree! At Lanier, we have access to the biggest and brightest managers. Historically we have experienced with our hedge fund investments an additional 4-5% per year added to the typical 4-5% return from the hedge fund category. An 8%+ annual return over 3-5 year periods with a very low (if any) correlation to the S&P 500 is incredible! The key has and will always be access…
- Managed Futures provide low to negative correlations to the equity markets. We view this space as an insurance policy for one’s portfolio. Yes, the investment is expensive but when your house catches on fire, you are glad you have it. During periods of significant equity market decline like we have all witnessed twice over the last 15 years, managed futures have not only helped to preserve wealth but have made money on an absolute basis.
- Commodities as an asset class need active management. They experience significant cyclical movements in price, but over long periods of time are essentially flat. A passive buy-and-hold strategy will get you nowhere long-term. But a quality commodities manager can generate returns for your portfolio whether prices are going up or down…and those returns have no correlation to the equity markets.

If that is when you SHOULD pay a fee, when should you NOT pay a fee? Study after study shows that investors using active fund management in efficient asset classes **underperform** the respective benchmark index the vast majority of the time over full market cycles! What asset classes are considered efficient by the most educated?

Large, mid and most small cap domestic equities are extremely efficient, which means active management typically underperforms. Developed foreign equities and most fixed income classes are also very efficient. Sadly, whether someone has $100,000 or $10 million dollars, we see essentially the same thing: a portfolio comprised of 60% equities, 35% bonds and 5% cash with an extremely high allocation to actively managed equities and fixed income. There is insurmountable evidence that passively managed index funds across equites and fixed income outperform their actively managed comparable funds by 1.5-2% annually. Index funds, which cost .05-.10% for efficient market classes, always win because most pay the active mutual fund manager 1.3% fee for equities and 0.7% to 1.0% for fixed income. On top of that, most investors are paying a 1-1.5% annual fee to the advisor. How can you expect to win?

You probably haven't thought much about fees in recent years as domestic equities and fixed income have gone straight up. But do you believe exceptional returns will continue at this pace going forward? At Lanier, we look out the front window at forward looking returns, not the rear view window at historical returns. We have contacts with the largest financial institutions, endowments and institutional consulting firms that provide realistic expectations for all different types of assets. Projected returns for domestic equities and fixed income over the next ten years is significantly less than what we have experienced historically. Equities are projected to provide 7% and fixed income 2% - both about 4% less than historic norms. We believe even these projected returns may be ambitious. If we now revisit the 60%/35%/5% blend, what gross return is projected? The blended projected return is approximately 5% before fees of any kind! Subtract the 1.5% to 2.5% fees described above, you get 2.5% to 3.5%. Furthermore, studies show that active managers do not add value versus the asset class benchmark, thereby reducing your net return even further. Ugh!

At Lanier, we use low cost passive index investment vehicles in the efficient market classes, earning a higher net return for our clients versus most investors. We also are fortunate to have access to the biggest and best managers in the inefficient asset classes. This includes hedge funds and real assets, thereby allowing our overall projected returns from our customized strategies to be 2-3% higher versus the traditional asset mix. Importantly, we can obtain these returns with a much lower correlation to the stock market – and that's why we sleep so well at night! Indeed a better mousetrap for our families, clients and ourselves.

Key Points From Our Investment Meeting – 3/15/15

Macro Viewpoint

- European QE officially commenced.
- "Patience" being removed from FED's stance.
- Markets remain volatile and have gone virtually nowhere in 2015 YTD.

Asset Class Comments from our February 12th Investment Meeting

- Significant correction in March! Mid and Small Cap asset classes now attractive.
- Same with Real Estate - All long term trends very positive and no longer over extended.
- International developed not an attractive entry point despite European quantitative easing.
- Emerging Markets very volatile – currently avoid any additions.
- Most of our Hedge Funds doing very well YTD, as are managed futures.

Performance Update

February 28, 2015

	Investment Vehicle	Total Return (%)							
						Annualized			
		FEB	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%	0.1%	0.1%	0.4%	1.6%
Fixed Income									
Domestic (Barclays US Agg)		-0.9%	1.1%	1.1%	5.0%	2.8%	4.3%	4.7%	4.8%
Eaton Vance Floating Rate	EIBLX	1.3%	1.5%	1.5%	1.8%	4.2%	4.8%	5.1%	4.1%
High Yield (Barclays US Corp HY)		2.4%	3.1%	3.1%	2.5%	7.3%	9.2%	9.5%	7.8%
Short Term High Yield	SJNK	2.2%	2.4%	2.4%	0.0%	-	-	-	-
Equities									
Domestic (S&P 500 TR)		5.8%	2.6%	2.6%	15.5%	18.0%	16.2%	9.1%	8.0%
S&P Equal Weight	RSP	5.7%	2.6%	2.6%	14.5%	19.1%	17.3%	11.1%	9.4%
Developed Intl. (MSCI EAFE)		6.0%	6.5%	6.5%	0.0%	9.4%	7.8%	1.6%	4.8%
MSCI EAFE	EFA	6.3%	7.0%	7.0%	7.0%	9.5%	7.6%	1.7%	4.7%
Emerging Intl. (MSCI EM)		3.1%	3.7%	3.7%	5.0%	-0.3%	3.6%	0.1%	7.9%
Advisory Research Emer Mkts Opps	ADVMX	3.4%	1.7%	1.7%	1.0%	-	-	-	-
Real Assets									
Real Estate (FTSE NAREIT US REIT)		-2.6%	2.9%	2.9%	20.9%	15.3%	17.3%	9.2%	8.4%
Mortgage Real Estate	REM	1.8%	1.5%	1.5%	7.3%	8.8%	7.8%	-0.9%	-
REIT ETF	VNQ	-3.7%	2.9%	2.9%	22.5%	15.4%	17.7%	9.8%	9.5%
Commodities (Thomson Reuters/Jefferies CRB Index)		2.4%	-2.6%	-2.6%	-25.9%	-11.4%	-4.0%	-8.4%	-3.0%
AVENTIS*	AVENTIS	-0.3%	1.6%	1.6%	-1.8%	-4.3%	3.2%	0.0%	-
DIVERSIFYING STRATEGIES									
Hedge Funds									
HFRI WCI		1.9%	2.3%	2.3%	5.0%	5.6%	5.3%	3.5%	5.3%
INFINITY*	OCEAN	1.2%	2.0%	2.0%	8.1%	10.0%	8.3%	7.1%	9.1%
Robeco Long/Short Equity	BPLEX	-0.2%	-4.1%	-4.1%	3.6%	5.1%	9.4%	13.1%	11.0%
Lanier All Asset Strategy**	AAS	2.4%	1.5%	1.5%	9.1%	11.9%	8.8%	12.3%	13.9%
Managed Futures									
Barclays CTA Index		-0.2%	2.1%	2.1%	9.6%	1.7%	2.3%	2.3%	3.9%
WINTON*	WINTON	-0.3%	2.1%	2.1%	11.3%	1.5%	2.9%	1.3%	5.1%
AQR Managed Futures Strategy	AQMNX	-0.8%	4.0%	4.0%	18.8%	8.3%	-	-	-
WisdomTree Managed Futures Strategy	WDTI	-1.7%	-0.3%	-0.3%	6.7%	-0.1%	-	-	-

= Benchmarks
= Lanier Selections

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

Our Firm

Lanier Asset Management is an independent Registered Investment Advisory firm with a mission to build confidence and security in our clients' financial future. The firm uses an open architecture investment structure to combine the best of proprietary and independent investment strategies. At Lanier, we deliver superior service and performance to our clients as a result of four key elements:

1. **Our People**: we are an independent firm, providing objective advice from experienced investment professionals working in your best interests
2. **Our Investment Philosophy**: we seek to smooth investment returns, providing superior performance and lower correlation
   - Focus on projected returns rather than historic
   - "A Better Mouse Trap" – similar to the largest U.S. endowments
3. **Our Investment Process**: we combine active and passive management in traditional asset classes, and complement them with diversifying strategies/alternatives
4. **Our Conviction**: we believe in our approach – this is how we invest our own money

Mark R. Hoffman
Managing Director, CEO, Principal

Junius V. (Trip) Beaver, III
Managing Director, CIO, Principal

Carl W. Hafele, CFA, CPA
Managing Director, Principal

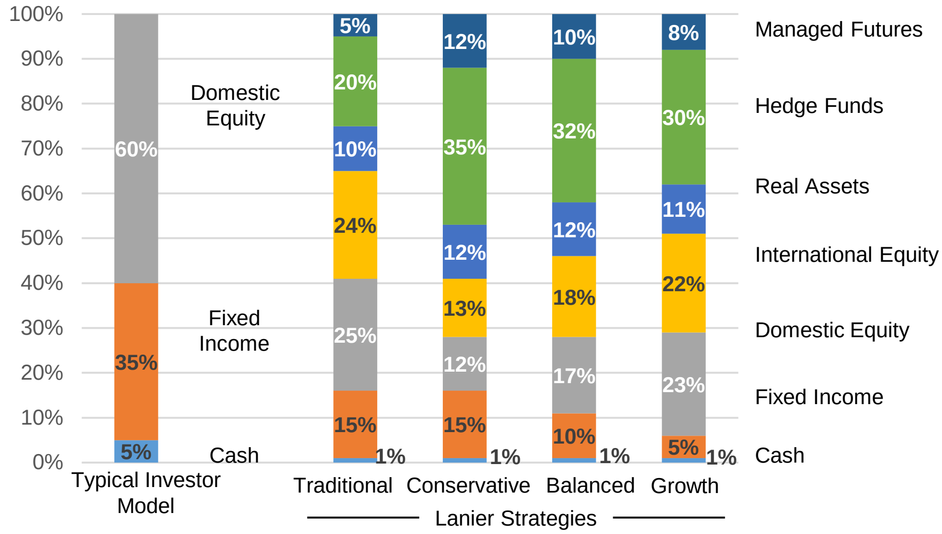
Deidre M. Durbin
Chief Compliance Officer

Emily A. Spendlove
Investment Associate

Building Confidence and Security in Your Financial Future

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.

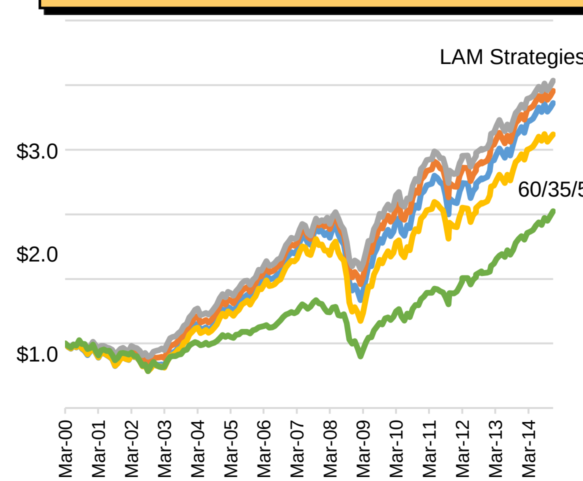


Our approach seeks to both A) limit losses in periods of market correction and B) participate in gains during periods of market appreciation. Across the last two economic cycles, our strategies have outperformed the typical investor model by 2-3%/year with 15-20% lower correlation to the overall market. 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
Cycle 1: April 2000 – September 2007	Lanier Balanced	-6.5%	+17.4%	+8.8%
	60/35/5	-9.1%	+10.9%	+3.8%
	Difference	+2.6%	+6.5%	+5.0%
		Down Market 10/07-2/09	Up Market 3/09-12/14	Full Cycle 10/07-12/14
Cycle 2: October 2007 – December 2014	Lanier Balanced	-16.5%	+13.0%	+6.5%
	60/35/5	-23.6%	+15.1%	+6.2%
	Difference	+7.1%	-2.1%	+0.3%
				Two Cycles 4/00-12/14
Two full cycles: April 2000 – December 2014	Lanier Balanced			+7.7%
	60/35/5			+4.9%
	Difference			+2.8%

Value Added: $500K-$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.

Lanier Asset Management, LLC ("Lanier") is a state registered investment adviser located in Louisville, Kentucky. The firm's CRD number is 150888. Certain Representatives of Lanier hold Series 7, 31, 63, and 65 Securities Licenses. Additionally, producing reps of Lanier are securities licensed in numerous U.S. States with Comprehensive Asset Management and Servicing, Inc., a registered broker/dealer. Member FINRA/SIPC.

Building Confidence and Security in Your Financial Future