The August Newsletter 2016

Grow your firm with the Cambium Advantage

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Dear Readers,

Thank you for taking an interest in Cambium Partners.

Cambium Partners was founded to directly focus on the distribution and growth needs of money managers.

The "**Cambium Advantage**" is an integrated 3 step approach driving Strategy, Execution and Reporting into the fund distribution process.

The Advantage is a customizable program that enhances and drives AUM aggregation – developed by a team of executives experienced in growing asset management firms.

- We will enhance your brand along with greater monetization of your resources
- We provide executable and confirmed action steps to raise your AUM
- All supported with transparency to measure success at every level of your distribution process

The Cambium Advantage builds benefits into any stage of a Fund's Lifecycle – Mature established funds, Growth stage focused or Start-up alike. These are meaningful next steps to a mutual funds success. Taking those steps to evaluate and keep healthy the main pillars of a fund's foundation is Cambium's strength.

Contact us today and learn how your firm can grow with the **Cambium Advantage**.

We hope you enjoy this edition of "**The Advantage**".

Sincerely,

Cambium Partners

About Cambium

Cambium Partners is an exclusive and experienced Independent firm focused on the Distribution and Growth needs of Money Managers. Whether you are evaluating your Distribution Efficiency, Platform exposure choices or Performance Attribution – Cambium has the expertise to enhance and strengthen that experience.

At Cambium – we can drive benefits into any stage of your Fund's Lifecycle, making meaningful next steps to your success – Mature established fund, Growth stage focused or Start-Up alike.

Taking those steps to evaluate and keep healthy the Main Pillars of your Fund's Foundation is our strength. The integration of the Cambium Advantage – Marketing Services, Distribution Plans, CFA Peer2Peer, Wholesaling and Technology -delivers a unique set of solutions for your fund.

Our capabilities and focus to assist in Growing your Assets is our commitment to you as a Partner.

- ***The Cambium Advantage***

Market Trends (Q3 and Q2 2016)

(www.Fidelity.com)

Market Summary: Choppy global market surprised by Brexit

The late June U.K. vote to leave the European Union unleashed more political and economic uncertainty on the markets, leading to a rise in volatility and a further drop in bond yields. An expectation of even easier monetary postures by the world's central banks added fuel to the global sovereign-bond rally and pushed trillions of dollars of government bonds into negative-yield territory. A gradually steadying global economy helped beaten-down commodities bounce back during Q2, and most assets posted decent gains for the first half of 2016. We expect the Brexit aftermath to prolong the process of gradual global economic stabilization. While we believe stabilization will ultimately provide support for equities, heightened volatility is likely to continue.

Peak globalization presents rising risks

Brexit is the most visible and tangible sign so far that globalization is under heavy political pressure, and the U.K. may be an example of the negative impact that anti-globalization measures could have on economic growth. On a cyclical basis, political uncertainty is likely to weigh heavily on business sentiment in the U.K., given its reliance on Europe as an export market. Over the long term, the potential for dramatically limiting immigration and losing its status as Europe's financial center would substantially reduce the U.K.'s secular growth outlook.

After two decades of rapid integration spurred by technological advances and more countries joining the rules-based multilateral system, economic openness has stalled in recent years. With free trade and cross-border flows of capital and labor coming under political fire in many advanced economies— including the U.S.—future policy decisions will affect risks to the market-oriented global order. In the U.S. and Europe, policymakers may shift toward more accommodative fiscal policies to help assuage rising populist sentiment, and anti-globalization policies may boost labor costs, spur inflation, and put pressure on profit margins.

Economy/macro: More gradual shift to U.S. late cycle, higher economic risk abroad

Global stabilization remains the most likely underlying trend, albeit a more prolonged process with greater downside risks following Brexit. The U.K. may be headed toward recession, and Japan slipped into a mild contraction as a stronger yen pressured exports. Political uncertainty unleashed by Brexit is likely to dampen sentiment and provide a stiff headwind for business investment in the rest of Europe, but reasonably healthy household sectors should help support activity.

The Cambium Advantage

- ***Marketing Enhancement Services***
- ***Platform Channel Access***
- ***CFA Services***
- ***Internal Wholesaling***
- ***External Wholesaling***
- ***Cambium Distribution Technology***

Upcoming Events

- ***The Cambium Launch Party (9/13/2016) For more information please contact:***

  David Sandrew 631-629-5445

Relatively steady expansions in the world's two largest economies—the U.S. and China—are supportive of global growth. China's economy still faces massive industrial overcapacity and an overleveraged corporate sector, but the policy emphasis on stability and fiscal stimulus makes a near-term stabilization the most likely scenario.

The U.S. economy continues to face low odds of a recession in 2016, largely due to a healthy household sector. Wage growth may be low and job gains may be slowing, but wage inflation is picking up cyclically and labor-market slack continues to fade. The current U.S. expansion is a mix of mid- and late-cycle dynamics, with tighter bank credit for businesses and profit-margin pressures evidence of late-cycle indicators.

Markets shifted to expecting an even softer monetary stance amid global weakness, as expectations for additional Fed tightening were eliminated during Q2. Negative policy-rate moves in Europe and Japan preceded sharp declines in the prices of their banking shares, highlighting that negative rates may run counter to their intended goals and that ultra accommodative monetary policies may be hitting limits of effectiveness. However, any stabilization in the global economy may support risk assets. Rising oil prices, the low base effect of inflation, and record-low bond yields may indicate that the potential for upside inflation surprises is not priced in. Due to the more mature U.S. business cycle and the expectation of continued political and policy uncertainty, we maintain an expectation of elevated market volatility.

Four Key Themes

1: U.S. stocks: Modest gains across most categories, dividend-yielding sectors led

Energy was the strongest sector in Q2, rebounding amid a rally in oil prices. Falling rates boosted dividend-yielding sectors—such as telecom, utilities, REITs, and consumer staples, while more cyclical areas of the market—such as technology and consumer discretionary—lagged. Amid record-low bond yields, investors have bid up the valuations of higher-dividend-paying stocks, placing a premium on companies with high payout ratios. In particular, utilities and consumer staples are expensive relative to their own histories and to the broader market.

Despite a few consecutive quarters of weak earnings, profit margins (outside of the energy sector) have held up and remain close to all-time highs. While earnings expectations have trended downward this year, company guidance and ex-energy expectations stabilized during Q2. With oil prices rebounding and the dollar stabilizing, lower expectations may provide an opportunity for earnings to surprise to the upside. Energy stocks have traditionally outperformed during the late-cycle phase and dispersion between companies in the sector provides for active security selection opportunities.

2: International stocks and global assets: Commodities and commodity stocks outperform

Commodities and commodity-producer equities continued their rallies in Q2. The strong dollar was once again a headwind for equity returns in most foreign markets for U.S.-based investors. As a quasi-currency, gold may be benefiting from global policy easing and falling real interest rates, and gold mining equities provide portfolio diversification. Earnings expectations for most regions appear to have stabilized at low levels. Relative to U.S. equity income, global equity-income markets can offer higher dividend yields, as well as diversification through breadth in sector and regional-income sources. Despite cyclical challenges, emerging markets have favorable long-term growth prospects and historically attractive valuations, which should provide a favorable secular backdrop for EM assets. Non-U.S. equities can also provide ample opportunities for active managers. Fidelity's research shows that funds in Morningstar's foreign large category outperformed their prospectus benchmarks by an annualized average of 0.85 basis points from 1992-2014.

3: Fixed bonds: Easier monetary policy stokes broad-based bond rally

Bonds posted positive returns for the second quarter in a row, as interest rates fell and credit spreads tightened. Long-duration and lower-credit-quality categories led, with some categories registering double-digit returns year to date. Bond yields fell near their all-time lows, but credit spreads remain near their historic averages. The low-rate environment continues to support corporate balance sheets as debt-servicing costs remain low relative to cash-flow receipts. High-yield bonds have benefited from higher oil prices and more favorable liquidity conditions, but rising late-cycle signals may present headwinds. In the muni market, technical and fundamental factors continued to show strength, as the supply of new issuance remains below demand and tax revenue growth remains broad based.

Relative to cash and longer-duration bonds, short-duration bonds have historically generated better returns during the late phase of the business cycle, but longer-duration bonds generally provide better diversification of portfolio equity risk.

4: Asset allocation: The late cycle typically favors inflation-resistant investments

Late cycles have the most mixed performance of any business cycle phase. Stocks have typically outperformed bonds, and inflation-resistant assets such as commodities, energy stocks, short-duration bonds, and Treasury inflation-protected securities (TIPS) have typically performed relatively well in the late cycle. Combining inflation-resistant assets has increased the frequency of outpacing inflation, a difficult task for cash in today’s low-rate environment. Loss aversion and excessive emphasis on short-term market volatility may tempt investors to make asset allocation changes that deviate from their long-term plans. Investors should create an appropriate mix of investments based on their time horizon, financial situation, and tolerance for risk, and when markets get choppy have a plan for their investments and stick to it.

Investor Bulletin: Performance Claims

(Niel Armstrong, President and Chief Compliance Officer Gordian Compliance Solutions LLC)

On April 15, 2016, the United States Securities and Exchange Commission's (SEC) Office of Investor Education and Advocacy issued an Investor Bulletin to educate investors about performance claims.

While the Investors Bulletin serves to educate potential investors, its substance serves investment advisers as well—particularly in the creation of marketing materials. Advisers should understand the components of their own performance calculations to ensure marketing materials are not misleading and do not run afoul of the Investment Adviser's Act of 1940. Understanding the variables that affect performance figures will also assist in crafting appropriate disclaimers and disclosures to provide investors with the information they need to make an appropriate investment decision.

The Investor Bulletin highlighted several factors that affect performance calculations:

Fees: Fees reduce investment returns and can inflate gross figures. Performance should be presented net of fees in nearly all circumstances. If gross performance figures are included, be sure to display net performance metrics with equal prominence.

Market and Economic Conditions: "Performance calculations should be considered in light of material market and economic conditions."

Methodology: Include information on how the performance "calculation accounts for dividends and its assumptions about taxes, market, and economic conditions."

No Performance Guarantees: It is virtually impossible to guarantee future returns on investments. Do not include any promises or guarantees.

Backward Looking Performance: Historical performance presentations are often called "backward looking." Adequately disclaim backward looking performance as back-tested (applying an investment strategy, algorithm, or model to past market conditions to show how that strategy may have performed in the past), as many investors may not understand the past application of an existing strategy cannot predict how the model will perform in future market conditions.

Do Not "Cherry-Pick" Past Performance: Advisers should avoid displaying past returns that were positive while excluding periods of poor performance.

Benchmark Disclosures: When performance is compared to a benchmark (e.g., market index like S&P 500), advisers should adequately disclose the inherent limitations in a one-to-one comparison. "Performance on a benchmark may not reflect the deduction of the fees you pay, which would reduce returns." Benchmarks should also represent the same market segment as an adviser's strategy to provide investors the closest comparison.

Adapting the DOL Fiduciary Rule Requirements

(Bibb Strench, Partner, Thompson Hine LLP)

This article kicks off our [monthly/quarterly] series on how your firm can best adapt to and take advantage of the DOL fiduciary rule. We start with the financial firms that you target to use your fund products.

A crucial first step to take to prepare for offering products in the DOL fiduciary rule landscape is to determine which target users of your products will be subject to the rule. Potentially these are financial firms that deal directly with retirement plans, beneficiaries in such plans and IRA accountholders as potential fiduciaries. The DOL's definition of "fiduciary" is complex and requires consideration of a number inputs. For each firm you target, you need to understand if, how and why the firm is subject to the DOL fiduciary rule by:

Determining the target firm's clients - Are their clients any of the following:

- Retirement plan
- Representative acting as a fiduciary for a retirement plan
- Retirement fiduciary plan participant
- Retirement plan beneficiary
- Individual retirement account (IRA) owner

Examining the target firm's services - Are they providing the type of investment advice covered by the Rule?

Reviewing the target firm's compensation arrangements - Do any of the target firm's methods of compensation arrangement cause it to fall within the rule?

Checking if exceptions to the Rule are available - Are any of the myriad of exceptions to the application of the fiduciary rule available?

This exercise will equip you to take the next step, which is to understand those DOL fiduciary rule obligations and restrictions that your target firms must cope with. Ultimately, armed with this knowledge, you will be in the position to make your product a more attractive fit on such firm's 401(k) plan investment menu.

The Robo Advisor's Real Value Proposition

(Nico R. Willis, founding President and CEO, NetWorth Services Inc.)

Once every few decades or so, a new technology comes along that disrupts the conventional way business is done within a specific industry. Over the years, there have been various technological advancements in the investment industry that have enhanced the effectiveness of the management of a client's portfolio, but they are nothing like what is currently permeating Wall Street. The business of managing millions of investors' funds is no longer solely in the hands of the financial advisor, but now gives way to computer algorithms, creating a whole new paradigm shift in the wealth management landscape.

The revolution of the online wealth manager or robo-advisor, is being driven by statistics from research groups such as A.T. Kearney reporting AUM growth from zero to $300 million in 48 months; a 68% annual growth rate; and a projection of $2 trillion AUM by 2020. The timing is also ripe for robo-advising to take a firm hold of the investment advisory industry within the next few decades. According to a Deloitte study, the wealthiest generation in U.S. history will transfer roughly $30 trillion to their GenX and Millennial children and they are moving away from the idea of staying with their parents high-fee advisors as quickly as they are embracing the idea of an automated system that can allocate, deploy and rebalance their investments.

On the surface, current robo-advisor platforms appear to be pretty much identical, with differences that only relate to cost, investment types, custody and tax functionalities, but the most exciting, innovative and truly disruptive vision of robo-advising must require a closer look. Deep learn-based robo-advising technology that incorporates cognitive computing will be the key component to uncovering its real industry value proposition. Investors will soon evolve their expectations and require robo-advisors to learn market trends with global economic events and apply that data intelligence into a tailored predictive risk and return model for a given portfolio. Robo-advisor 3.0 will be able to quickly analyze massive amounts of data in seconds, and arrive at reasoned, descriptive evidence-based set of recommendations.

The new world of wealth management with robo-advisor 3.0 will interface cybernetically with professionals to improve the advice and experience they provide to their clients. For clients, this will mean a bespoke experience that recognizes their personal financial situation, history, individual risk profile and goals. The possibilities of cognitive computing are limitless and wealth managers that embrace this technology will have the ability to gain the competitive edge over their competitors in the very near future.

Advantage Access

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