

# Global Economic and Investment Environment and Equity Strategy

**Roger J. Sit**  
CEO and Global Chief Investment Officer  
Sit Investment Associates, Inc.

Presentation For  
**Sit Mutual Fund Shareholder Luncheon**  
Edina Country Club  
Edina, Minnesota

October 23, 2017



This presentation is intended for use at Sit Mutual Fund shareholder meetings. It must be preceded or accompanied by a prospectus. Carefully consider a Fund's investment objectives, risks, changes, and expenses before investing. The prospectus contains this and other important Fund information and may be obtained by calling 1-800-332-5580 or at [www.sitfunds.com](http://www.sitfunds.com).

---

## **KEY ISSUES:**

- 1. GLOBAL ECONOMIC GROWTH**
- 2. IMPROVEMENT IN PORTFOLIO COMPANY FUNDAMENTALS**
- 3. A SHIFT IN IMPORTANCE BACK TO ACTIVE MANAGEMENT FROM PASSIVE MANAGEMENT**

## **INVESTMENT STRATEGY:**

**A DIVERSIFIED, BARBELL PORTFOLIO OF HIGH-QUALITY GROWTH STOCKS. ONE SIDE OF THE BARBELL FOCUSES ON VISIBLE, TRADITIONAL GROWTH STOCKS, WITH MATERIAL EXPOSURE IN THE U.S. AND DEVELOPED INTERNATIONAL MARKETS, AND THE OTHER SIDE OF THE BARBELL IS POTENTIAL BENEFICIARIES FROM PRESIDENT TRUMP'S THEMES.**

---

## **1. GLOBAL ECONOMIC GROWTH**

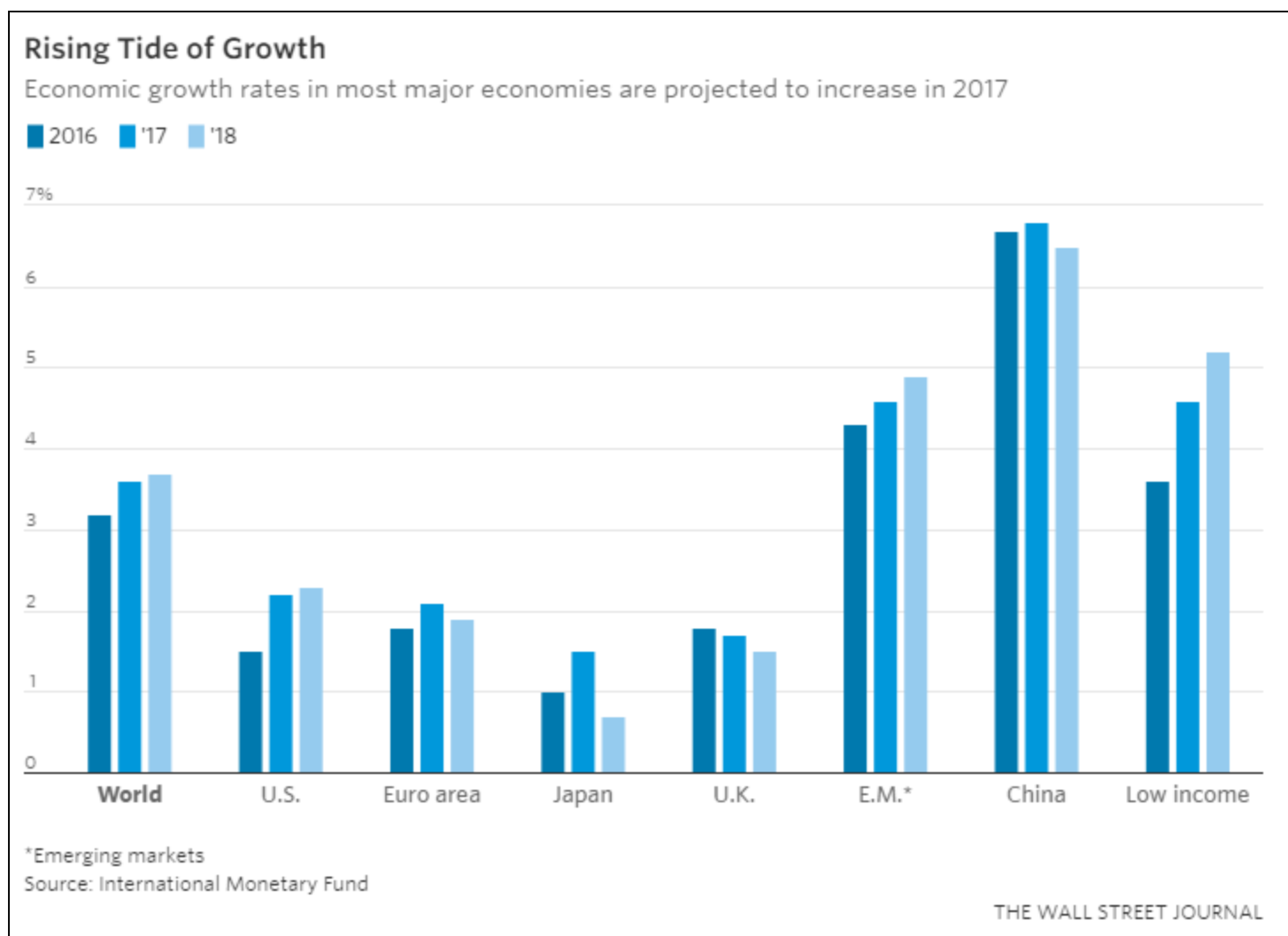
- A. CURRENT FUNDAMENTALS AND MONETARY POLICIES SUPPORT AT LEAST MODEST 2% - 2.5% ECONOMIC GROWTH IN THE U.S. AND 2.5% - 3.0% GLOBALLY OVER THE NEXT COUPLE OF YEARS.**
- I. THE U.S. HAS BEEN GROWING IN A MODEST AND SUBDUED MANNER.**
  - II. EUROLAND AND JAPAN ARE EXPERIENCING SLIGHT, CHOPPY GROWTH HELPED MATERIALLY BY WEAK CURRENCIES.**
  - III. CHINA'S GROWTH APPEARS TO HAVE STABILIZED WITH MUCH GOVERNMENT ASSISTANCE.**
  - IV. U.K. GROWTH IS UNCERTAIN DUE TO BREXIT.**
- B. A STRONGER U.S. GROWTH "GLIDE PATH" IN THE 3% - 4% RANGE MAY BE DOABLE IF THE RIGHT PRO - GROWTH PRESIDENTIAL ACTIONS AND EXECUTION OCCUR. POLITICAL HEADWINDS AND PRESIDENTIAL MISSTEPS ARE LIMITING POLICY CHANGES AND REFORMS.**
- I. TRUMP ADMINISTRATION AGENDA ITEMS THAT COULD PROVIDE "TAILWINDS" INCLUDE: DEREGULATION, REPATRIATION OF FOREIGN CORPORATE CASH, DECREASE IN CORPORATE TAX RATES, REFORM OF PERSONAL INCOME TAX RATES, AND INFRASTRUCTURE SPENDING.**
  - II. NEW "HEADWINDS" INCLUDE POTENTIAL TRADE WARS, STRENGTHENING U.S. DOLLAR, IMMIGRATION, AND HIGHER INTEREST RATES. PRESIDENT TRUMP IS ALSO FACING ROADBLOCKS FROM BIPARTISANSHIP AND GOVERNMENT BUREAUCRACY.**
- C. ECONOMIC GROWTH WILL IMPACT COMPANY FUNDAMENTALS AND INVESTOR PSYCHOLOGY.**

## GLOBAL ECONOMIC ASSUMPTIONS

	GDP GROWTH				INFLATION			
	2016A	2017E	2018E	2016-2020 (5 Yr CAGR)	2016A	2017E	2018E	2016-2020 (5 Yr AVG)
<b>Global Economy</b>	<b>2.6%</b>	<b>2.9%</b>	<b>3.0%</b>	<b>2.9%</b>	<b>1.9%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>2.4%</b>
United States	1.5	2.2	2.5	2.2	1.3	2.2	2.8	2.5
Euro Area	1.8	2.1	2.0	2.0	0.2	1.6	1.8	1.4
United Kingdom	1.8	1.6	1.4	1.5	0.7	2.6	2.5	2.2
Japan	1.0	1.0	0.5	0.7	(0.1)	0.5	0.5	0.4
Asia Ex Japan	6.0	5.9	5.8	5.9	2.3	2.1	2.4	2.3
Latin America	(1.2)	1.1	2.5	1.5	10.5	8.5	8.0	8.6

SOURCES: BLOOMBERG, THE WORLD BANK, AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 5, 2017

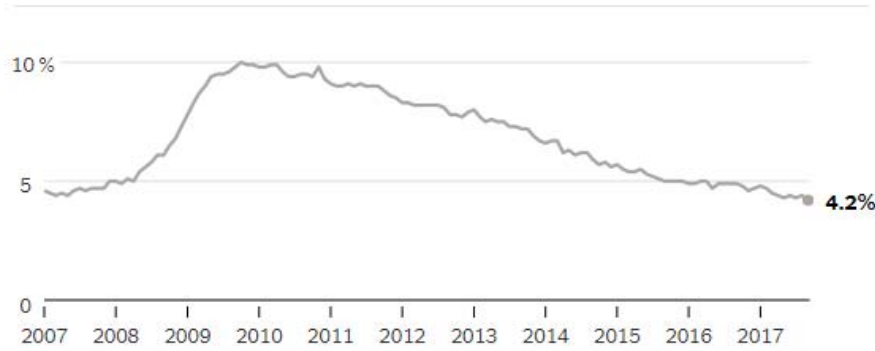
## INTERNATIONAL MONETARY FUND PROJECTIONS



SOURCE: THE WALL STREET JOURNAL, OCTOBER 11, 2017

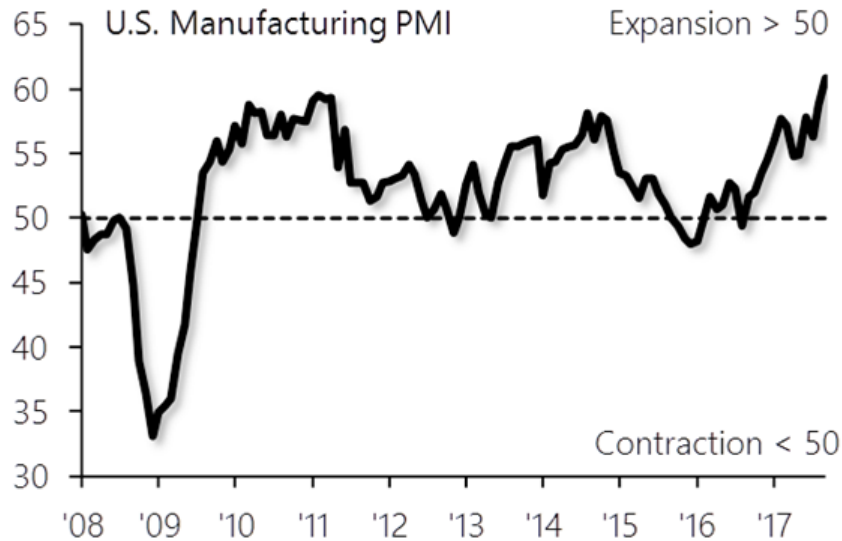
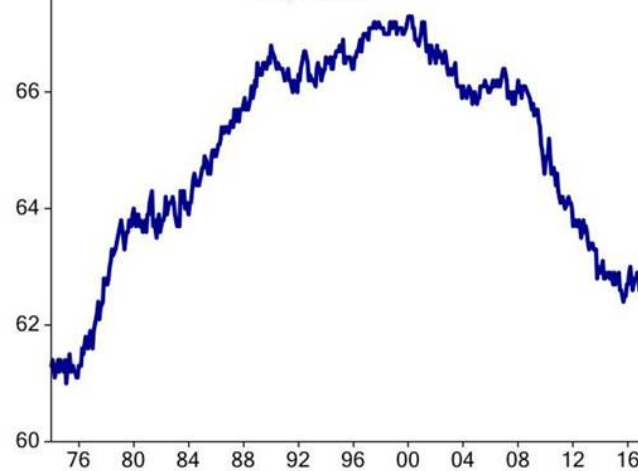
# U.S. ECONOMY CONTINUES TO IMPROVE

U.S. Unemployment Rate

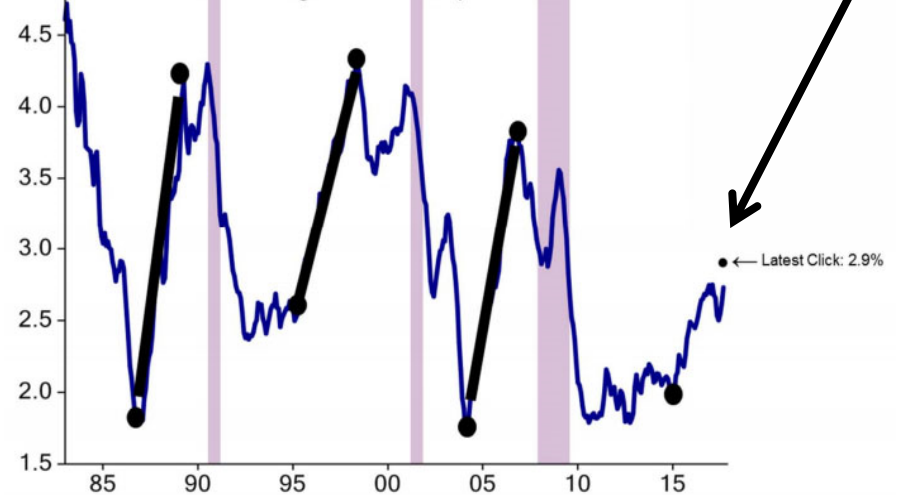


Source: Bureau of Labor Statistics

U.S. LABOR FORCE PARTICIPATION RATE  
Sep: 63.1%

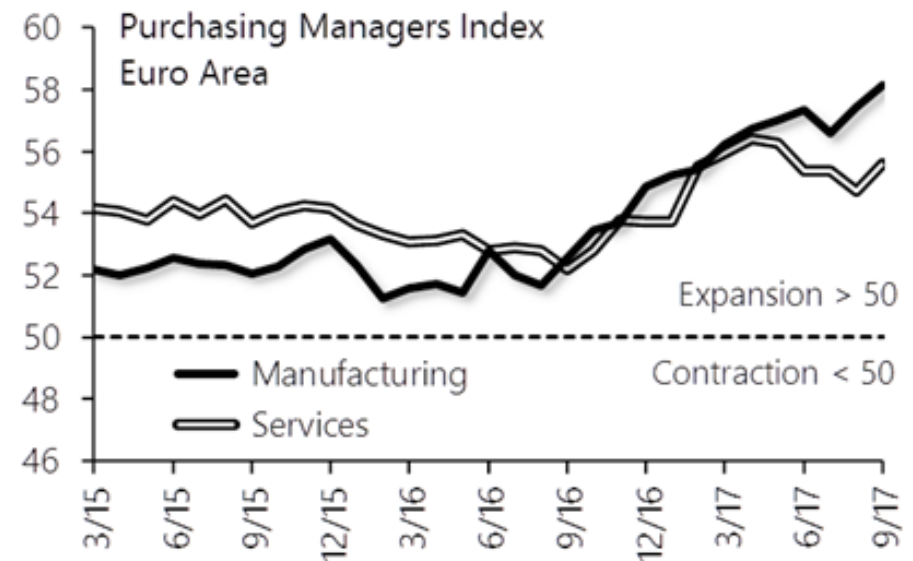
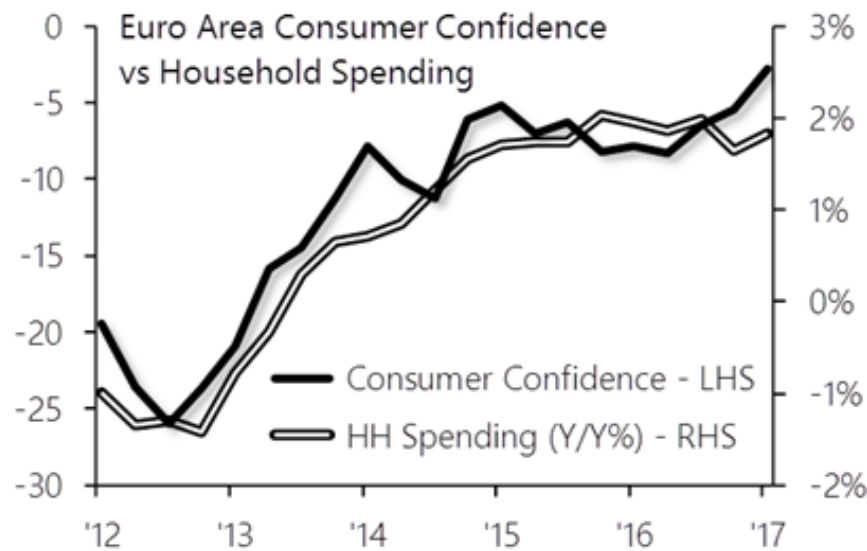


U.S. AVERAGE HOURLY EARNINGS  
3 Mo. Avg. Y/Y % Sep: 2.7%



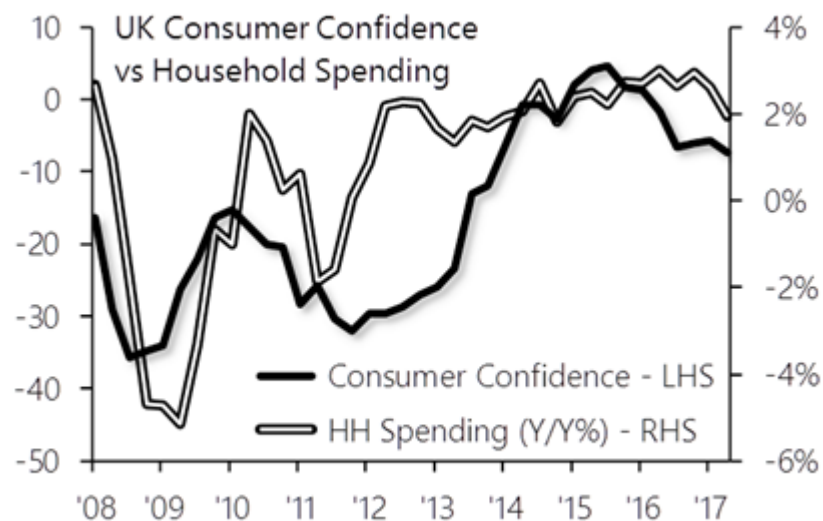
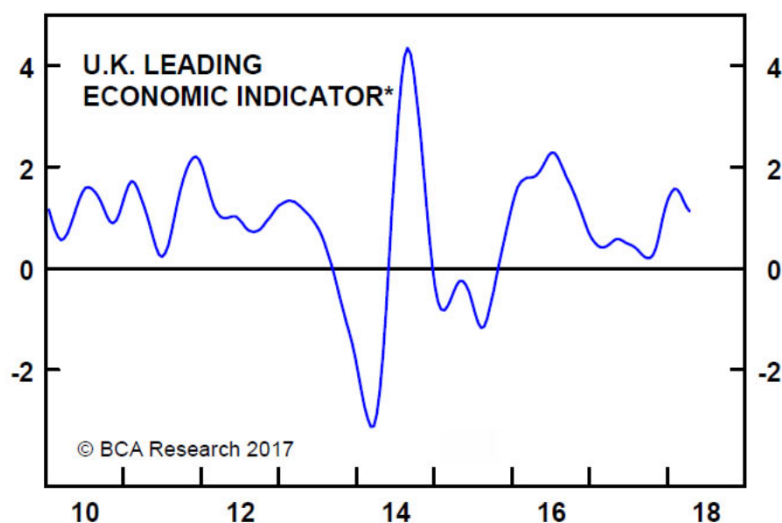
SOURCES: EVERCORE ISI, OCTOBER 6, 2017; THE NEW YORK TIMES, OCTOBER 7, 2017; ISM AND SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

## EURO AREA GRADUALLY EXPANDING



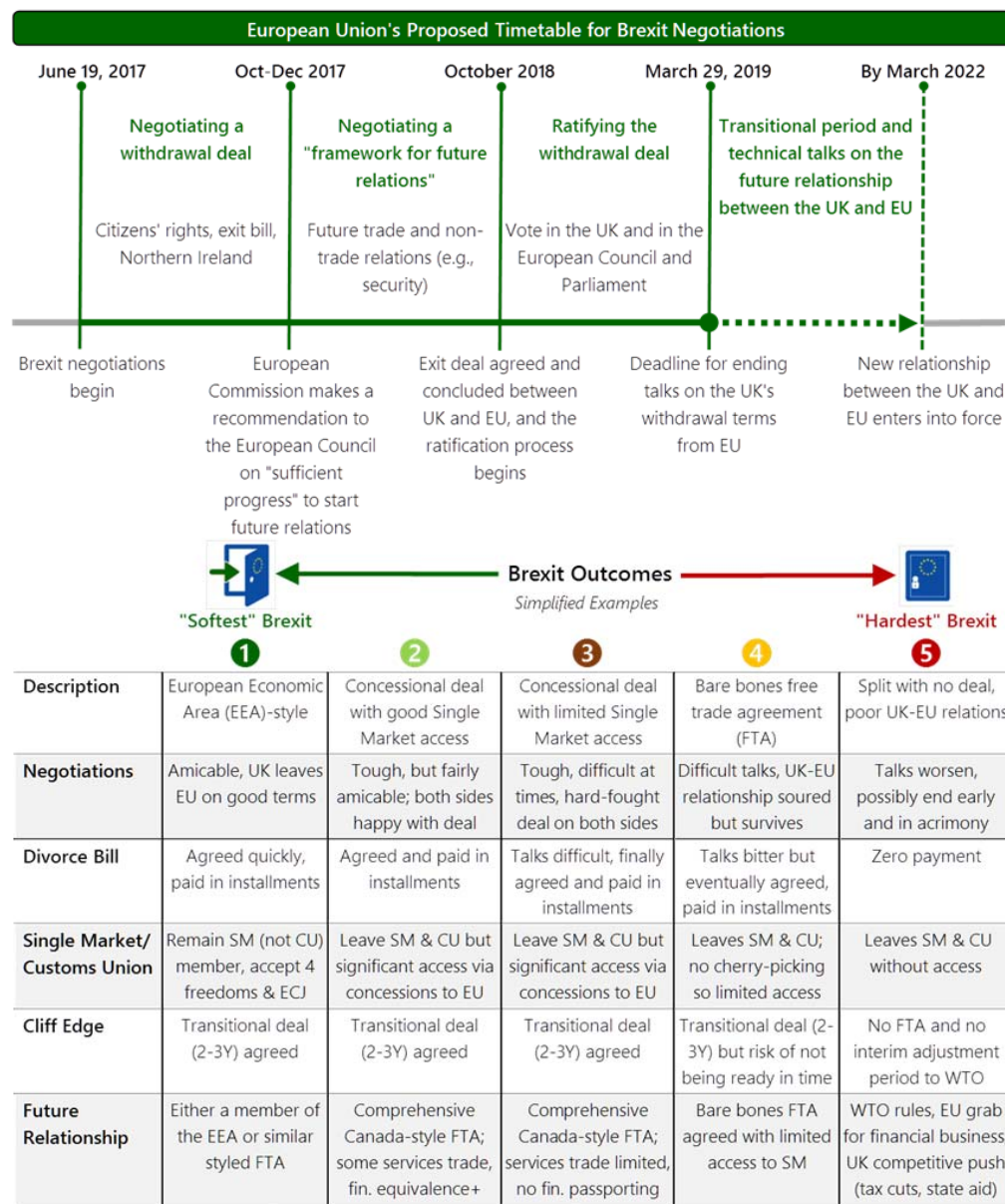
SOURCES: EUROSTAT AND SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017, AND IHS MARKIT AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 2, 2017

## U.K. GROWTH IS SLOWING

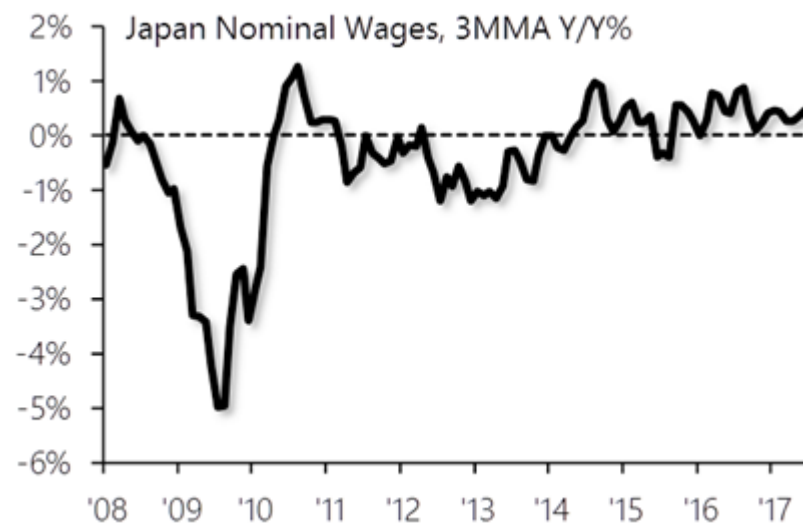
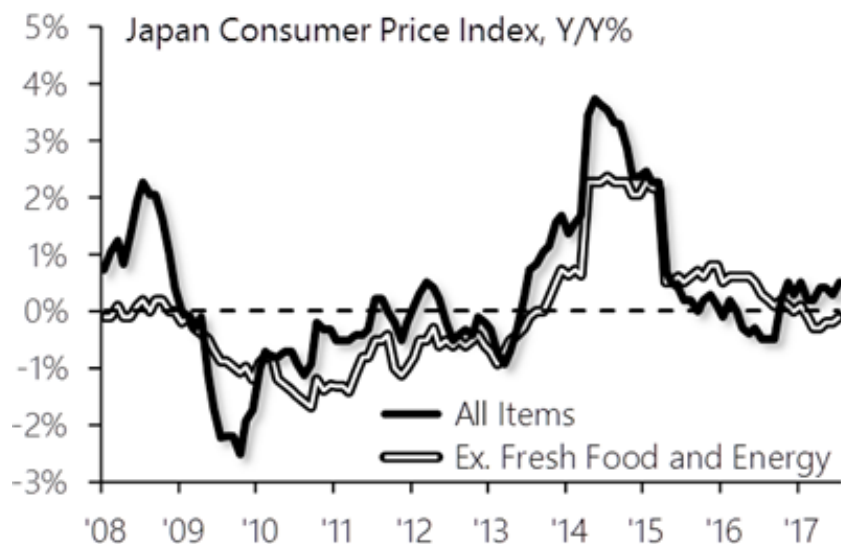
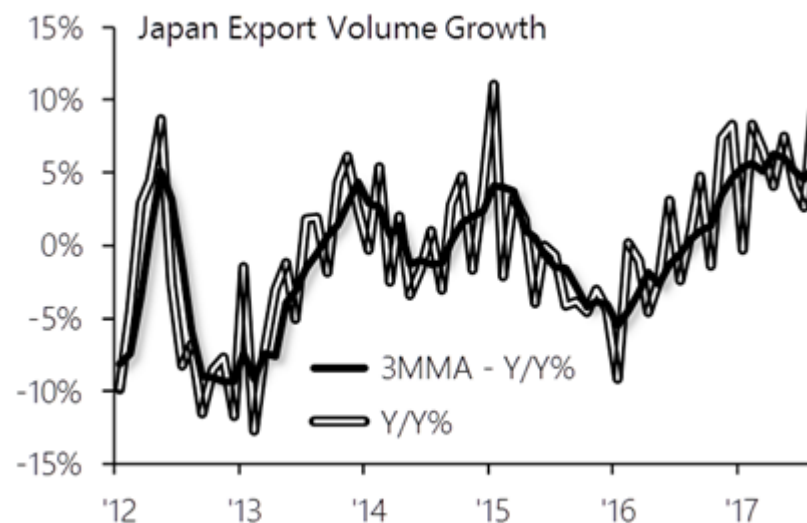
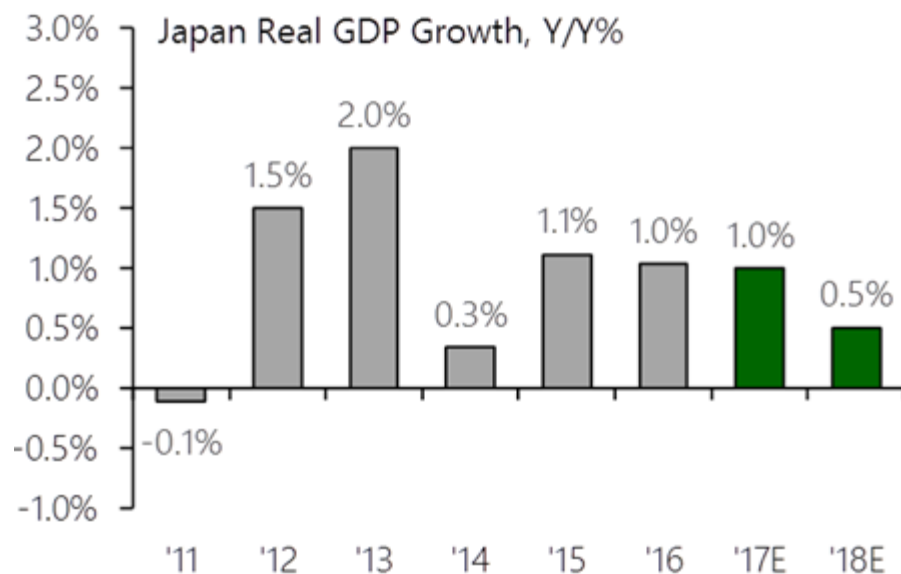


SOURCES: BCA RESEARCH INC., OCTOBER 4, 2017, EUROSTAT AND SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

# BREXIT CREATING UNCERTAINTY

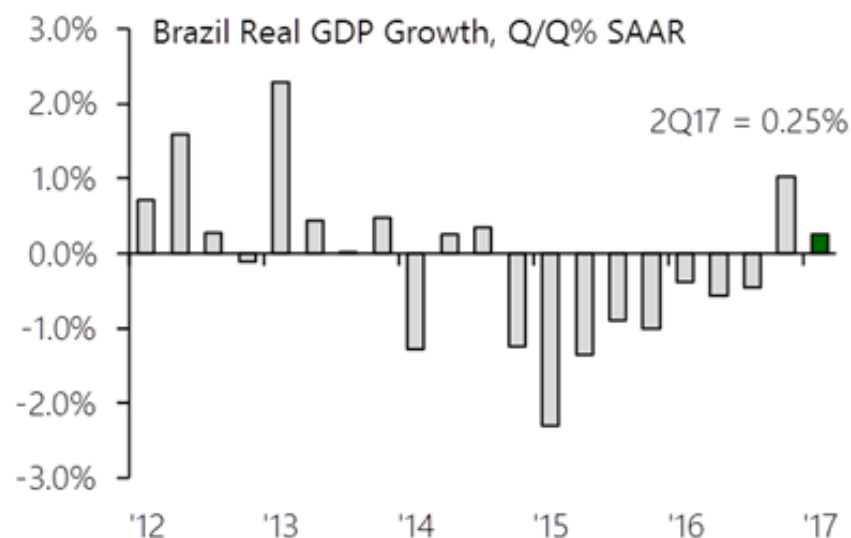
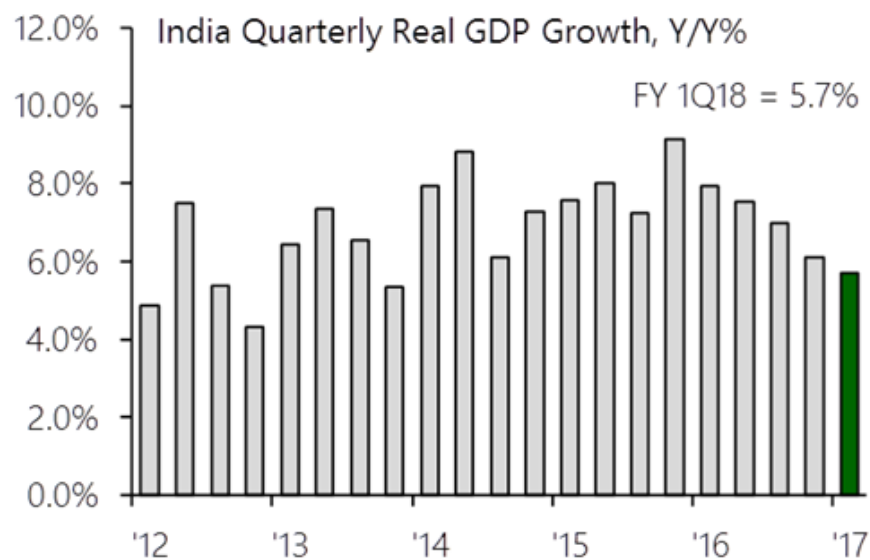
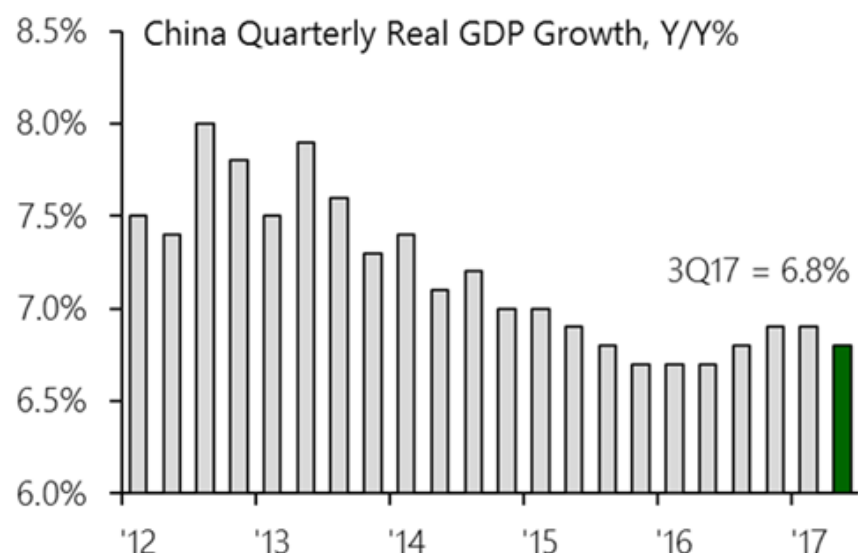


## JAPAN ECONOMY STILL TRYING TO GAIN TRACTION



SOURCES: JAPAN CUSTOMS, JAPAN MHLW, JAPANESE CABINET OFFICE, AND SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

## EMERGING ECONOMIES STABLE AND GROWING



SOURCES: EVERCORE ISI, NATIONAL BUREAU OF STATISTICS OF CHINA, MINISTRY OF STATISTICS & PROGRAMME IMPLEMENTATION, IBGE, BANK OF KOREA, AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 19, 2017

# PRESIDENT TRUMP'S INDICATED GROWTH BOOSTING POLICIES

## Growth Boosting Policies By Trump

Infrastructure	<input type="checkbox"/> Massive stimulus-'at least double' Clinton's 5-year \$275 billion infrastructure plan <input type="checkbox"/> Create jobs in construction & other sectors with special focus on transportation, water, telecom & energy
Trade	<input type="checkbox"/> Protectionist stance: introduce tariffs <input type="checkbox"/> Tough on China: 45% tariffs, label as FX manipulator, bring trade cases against China <input type="checkbox"/> Renegotiate NAFTA, reject TPP, unlikely to support T-TIP
Tax	<input type="checkbox"/> Corp.: slash tax rate from 35% to 15%, one-off offer to repatriate foreign profits at 10%, move from worldwide to territorial tax <input type="checkbox"/> Personal: collapse current seven tax brackets to three tax cut top rate repeal estate
Regulation	<input type="checkbox"/> Reduce regulatory burden, repeal parts of Dodd-Frank <input type="checkbox"/> Eliminate most intrusive regulations, like the Waters of The U.S. Rule, scrap the EPA's Clean Power Plan
Immigration	<input type="checkbox"/> Tough stance on immigration: build Mexico wall end birthright citizenship <input type="checkbox"/> Protect economic well-being of lawful immigrants by curbing uncontrolled foreign worker admissions
Healthcare	<input type="checkbox"/> Repeal and replace Obamacare with Health Savings Accounts (HSAs) <input type="checkbox"/> Establish high-risk pools to ensure access to coverage for individuals unable to maintain continuous coverage <input type="checkbox"/> Allow people to purchase insurance across state lines, in all 50 states <input type="checkbox"/> Maximize flexibility for states via block grants to design innovative Medicaid programs for low-income citizens
Economy	<input type="checkbox"/> Create a dynamic booming economy that will create 25 million new jobs over the next decade <input type="checkbox"/> Accelerate growth to average 3.5 % per year with potential to reach 4 % growth
Energy	<input type="checkbox"/> Make the U.S energy independent. Unleash \$50 trillion in untapped shale, oil, and natural gas reserves <input type="checkbox"/> Eliminate barriers to energy production, creating at least a half million jobs a year
Other	<input type="checkbox"/> An additional federal investment of \$20 billion towards school choice, provide low-income households an Expanded Earned. Income Tax Credit in the form a Childcare rebate and a matching \$500 contribution for their savings accounts. <input type="checkbox"/> Minimum wage determined at state / local level

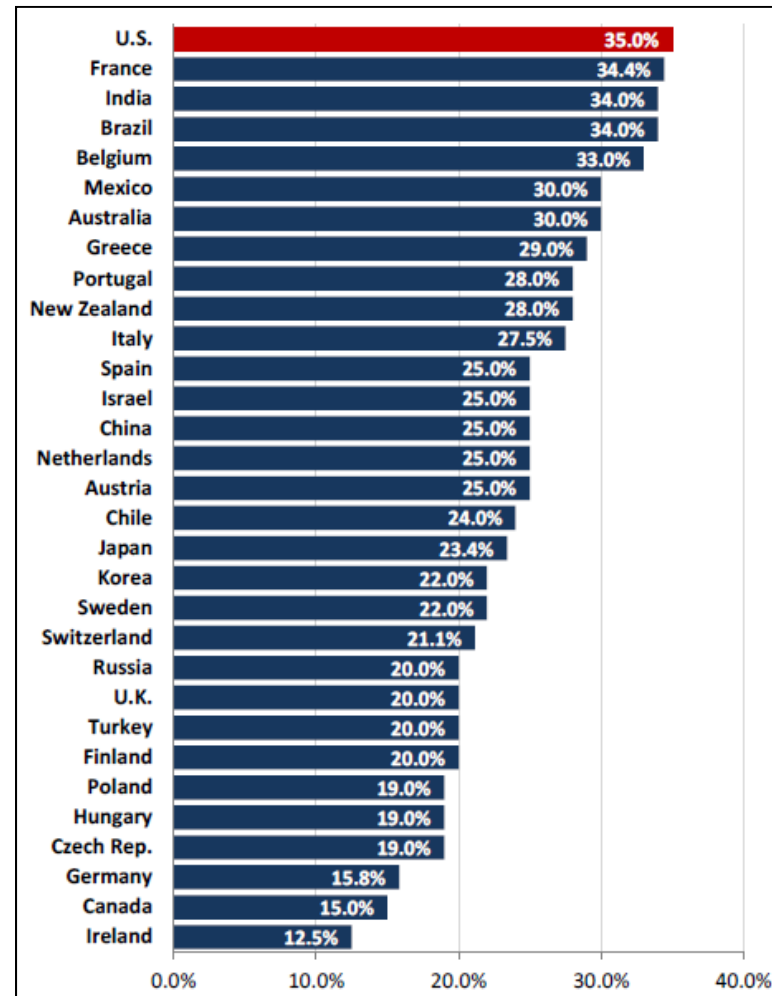
SOURCE: DEUTSCHE BANK, JANUARY 4, 2017

# U.S. CORPORATE AND INDIVIDUAL TAX PLAN DEBATE

Debate Kicks Off			
Republicans' tax plan includes big changes and many unknowns			
	What we know	What we don't know	
Individual taxes	<ul style="list-style-type: none"> <li>◆ Collapses seven brackets (10%, 15%, 25%, 28%, 33%, 35% and 39.6%) into three: 12%, 25% and 35%</li> <li>◆ Nearly doubles standard deduction for most households</li> <li>◆ Eliminates state and local deductions</li> </ul>	<ul style="list-style-type: none"> <li>◆ Retains mortgage-interest and charitable deductions</li> <li>◆ Increases child tax credit</li> <li>◆ Repeals personal exemption</li> </ul>	<ul style="list-style-type: none"> <li>◆ Income levels for each tax bracket</li> <li>◆ Possible additional top rate above 35%</li> <li>◆ Details of child tax credit changes</li> <li>◆ Specific changes to the earned-income tax credit</li> </ul>
Business taxes	<ul style="list-style-type: none"> <li>◆ Cuts corporate rate to 20% from 35%</li> <li>◆ Taxes business reported on individual returns at 25%</li> <li>◆ Limits deductions for interest for corporations</li> </ul>	<ul style="list-style-type: none"> <li>◆ Allows immediate write-offs of business investment</li> <li>◆ Preserves tax breaks for research and low-income housing</li> <li>◆ Repeals deduction for domestic manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>◆ Rules to prevent business owners from reclassifying wages as business income</li> <li>◆ Details of interest-deduction limits</li> <li>◆ What happens to investment write-offs after five years</li> <li>◆ Which other tax breaks survive</li> </ul>
Corporate foreign income	<ul style="list-style-type: none"> <li>◆ Provides one-time tax on stockpiled foreign profits</li> <li>◆ Imposes higher one-time tax on cash than on illiquid foreign assets</li> </ul>	<ul style="list-style-type: none"> <li>◆ Allows tax-free repatriation of future foreign profits</li> </ul>	<ul style="list-style-type: none"> <li>◆ Rules to prevent companies from shifting profits abroad</li> </ul>
Other changes	<ul style="list-style-type: none"> <li>◆ Repeals estate tax</li> </ul>	<ul style="list-style-type: none"> <li>◆ Repeals alternative minimum tax</li> </ul>	<ul style="list-style-type: none"> <li>◆ Which households pay more and which pay less</li> <li>◆ How much the tax plan would add to the deficit</li> </ul>

Richard Rubin/THE WALL STREET JOURNAL

## CORPORATE INCOME TAX RATE



SOURCES: THE WALL STREET JOURNAL, SEPTEMBER 28, 2017, AND WOLFE RESEARCH, DECEMBER 2, 2016

## TAX REFORM RELATIVE POTENTIAL IMPACTS

	Avg. US Sales Exposure	Corporate Tax Rate Reduction	Loss of Interest Deductibility	Offshore Cash
Telecommunication Services	99%	▲▲▲	▼▼▼	—
Utilities	95%	▲▲	▼▼▼	—
Real Estate	87%	▲▲	▼▼▼	▲▲▲
Financials	83%	▲▲	▼▼	▲▲▲
Energy	76%	▲	▼▼▼	▲▲▲
Consumer Discretionary	74%	▲▲	▼	▲▲
Consumer Staples	73%	▲▲▲	▼	▲
Industrials	69%	▲▲▲	▼▼	▲▲
Health Care	67%	▲	▼	▲▲▲
Materials	54%	▲	▼▼	▲▲
Information Technology	46%	▲	▼	▲▲▲

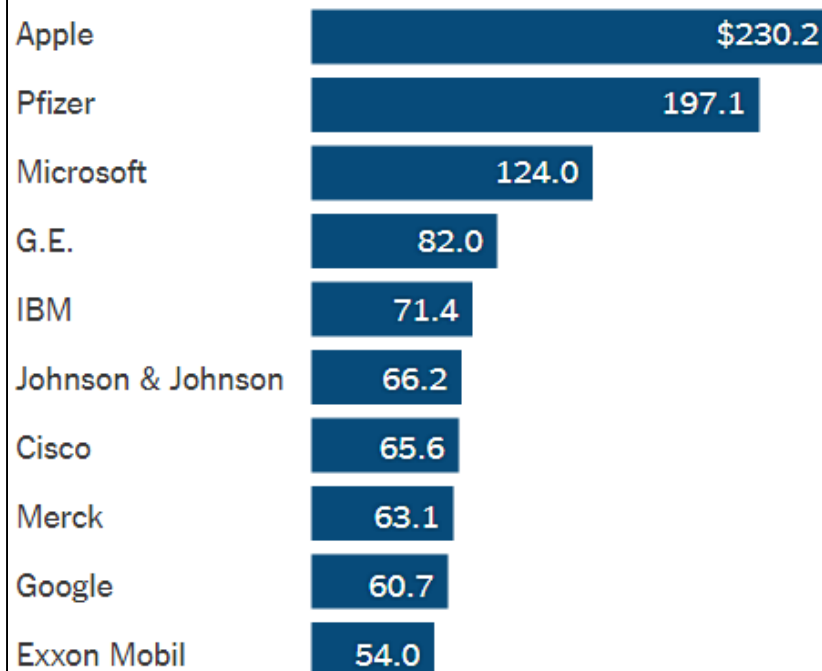
Source: Factset, Bloomberg, Bernstein analysis and estimates

SOURCE: SANFORD C. BERNSTEIN & CO., LLC, SEPTEMBER 29, 2017

## BRINGING CASH HOME TO THE U.S.

### Profits Held Outside the U.S.

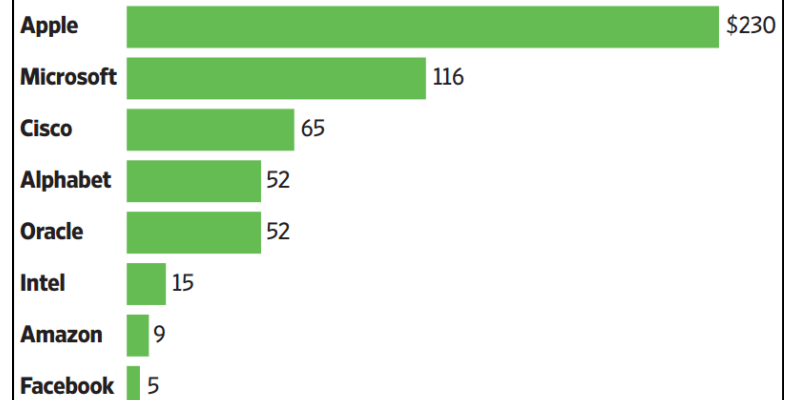
The 10 companies with the most profit held outside the United States last year, in billions.



Source: Institute on Taxation and Economic Policy | By The New York Times

### Offshore Stash

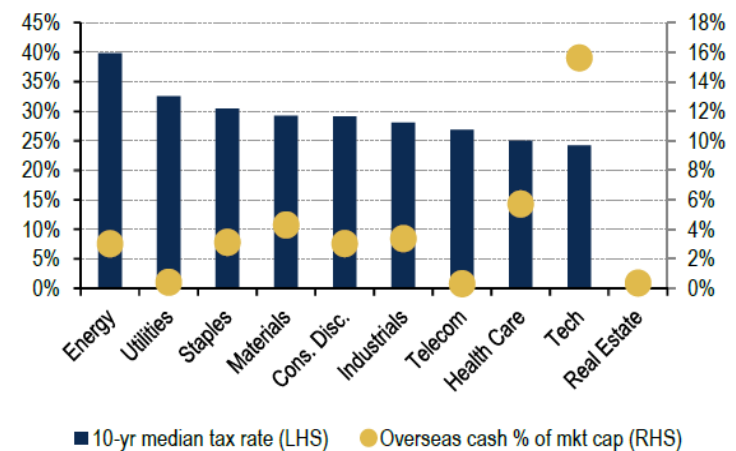
Cash and equivalents held by foreign subsidiaries, in billions



Source: the companies

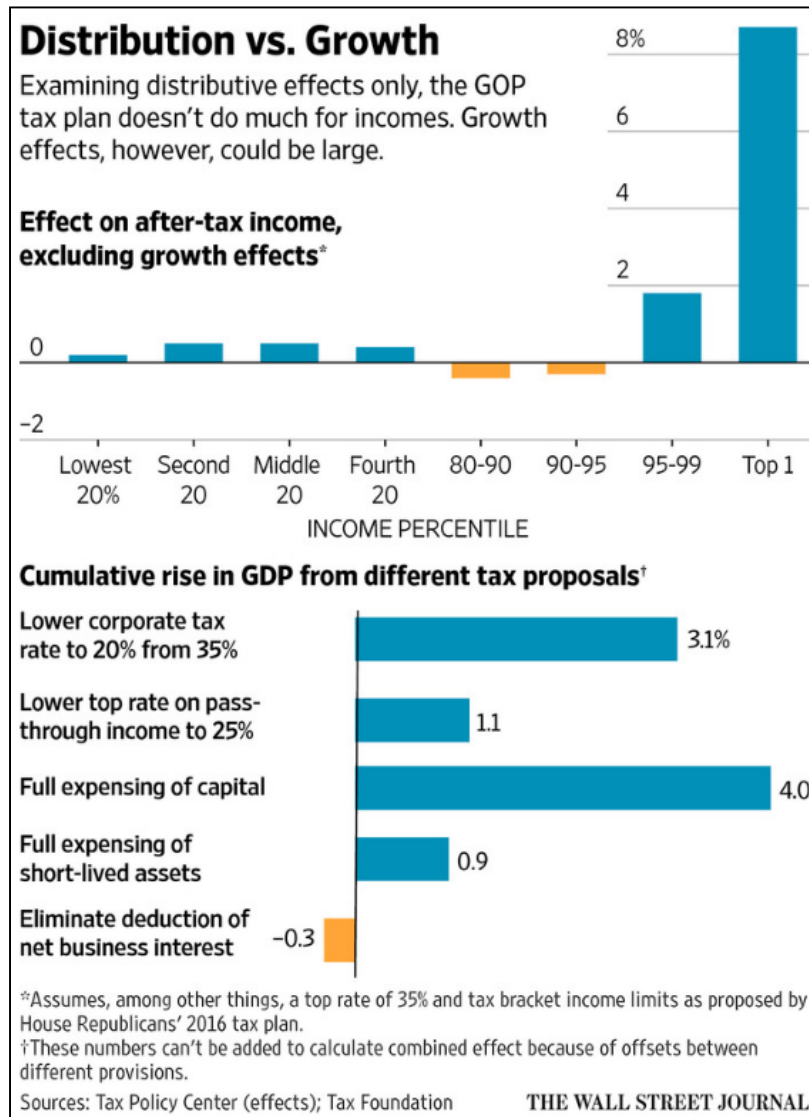
THE WALL STREET JOURNAL.

### Median tax rate vs cash as a % of market cap overseas



SOURCES: THE NEW YORK TIMES, SEPTEMBER 27, 2017; THE WALL STREET JOURNAL, MAY 22, 2017; AND BANK OF AMERICA/MERRILL LYNCH, NOVEMBER 22, 2016

# U.S. TAX REFORM POTENTIAL IMPACTS



SOURCE: THE WALL STREET JOURNAL, OCTOBER 12, 2017

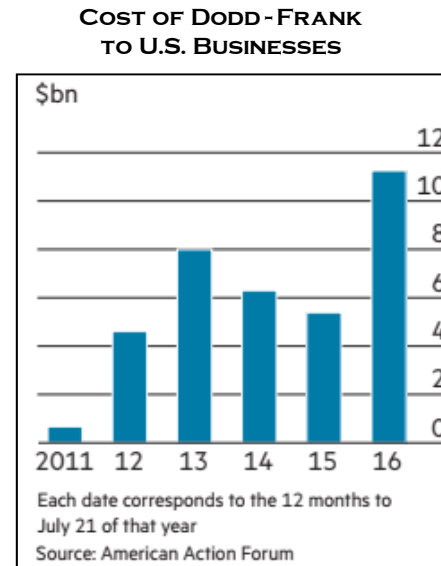
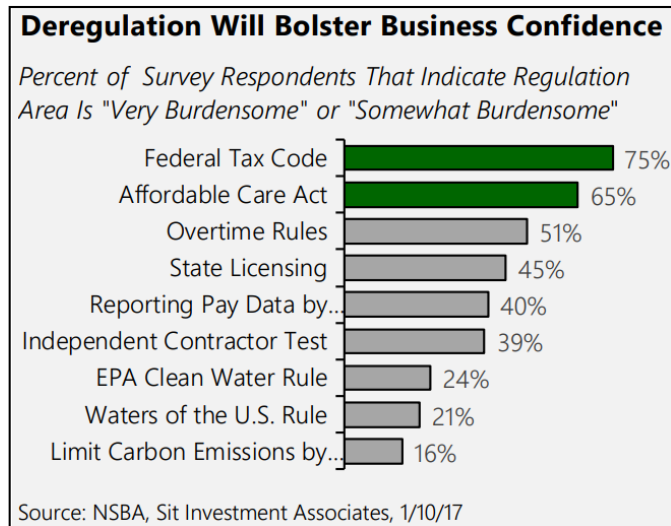
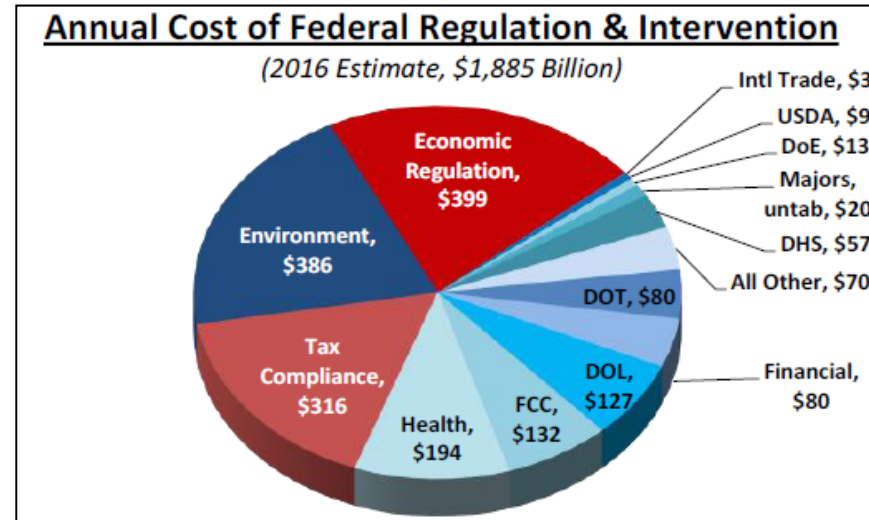
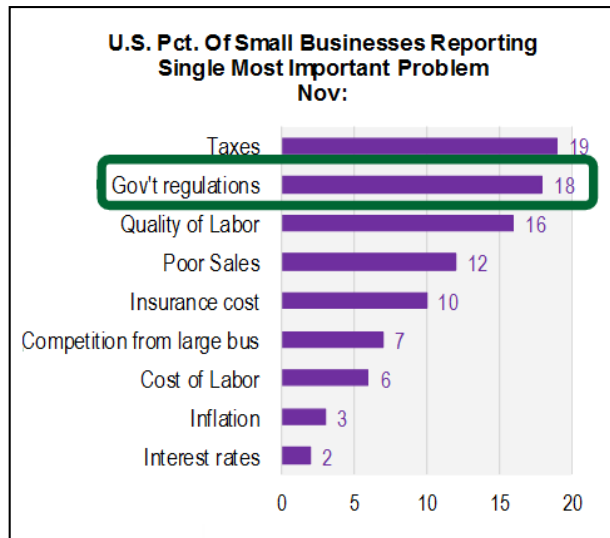
# UNITED STATES' CURRENT PLANS FOR DEREGULATION

OUTLOOK FOR TOP TEN OBAMA LAWS, RULES OR EXECUTIVE ACTIONS

Policy	How It Took Effect	Where It Stands	How It Might Change
Dodd-Frank	Signed into law	Mostly implemented	Very little of Dodd-Frank will be substantively changed without new legislation, which will need 60 votes in the Senate, so most of the key provisions are not going to change.
ACA	Signed into law	Mostly implemented.	GOP will likely repeal much of it through reconciliation bill. Executive actions and new regulations are likely, too.
Iran Sanctions Lifted	Executive order	Took effect Jan 16, 2016.	Obama used the authority in statute to waive the sanctions. All Trump has to do is decline to continue to the waive sanctions.
Paris Climate Agreement	Executive order	Came into force on Nov 4, 2016 after enough countries ratified it.	Trump can back out or not enforce accord. Congress never voted on it, so Trump can drop it as easily as Obama embraced it.
DAPA and Expanded DACA (Immigration Policy)	Executive order	Supreme Court tie means lower court ruling stands. Orders are blocked.	Obama's controversial executive action is essentially dead. Trump does not need to do anything.
Clean Power Plan	EPA rule	Before federal appeals court. Supreme Court put it on hold until litigation is over.	Republicans may try to make legislative changes and if those don't succeed the administration may change the rules or enforce them more leniently.
Joint Employer	NLRB ruling	Issued Aug 27, 2015. Under appeal.	It will take a while to change the joint employer rule, but a return to the old standard looks highly likely.
Overtime Pay	DOL rule	Temporarily suspended by judge before it took effect Dec 1, 2016	It's possible but not likely Congress could overturn using Congressional Review Act.
Fiduciary Duty	DOL rule	Effective Apr 2017.	New DOL will probably delay the rule, and Congress could pass legislation to overturn.
Fracking	Interior Dept. rule	Court ruled BLM doesn't have authority to regulate. Obama Administration appealed.	Trump could drop appeal, leaving lower court decision in place.

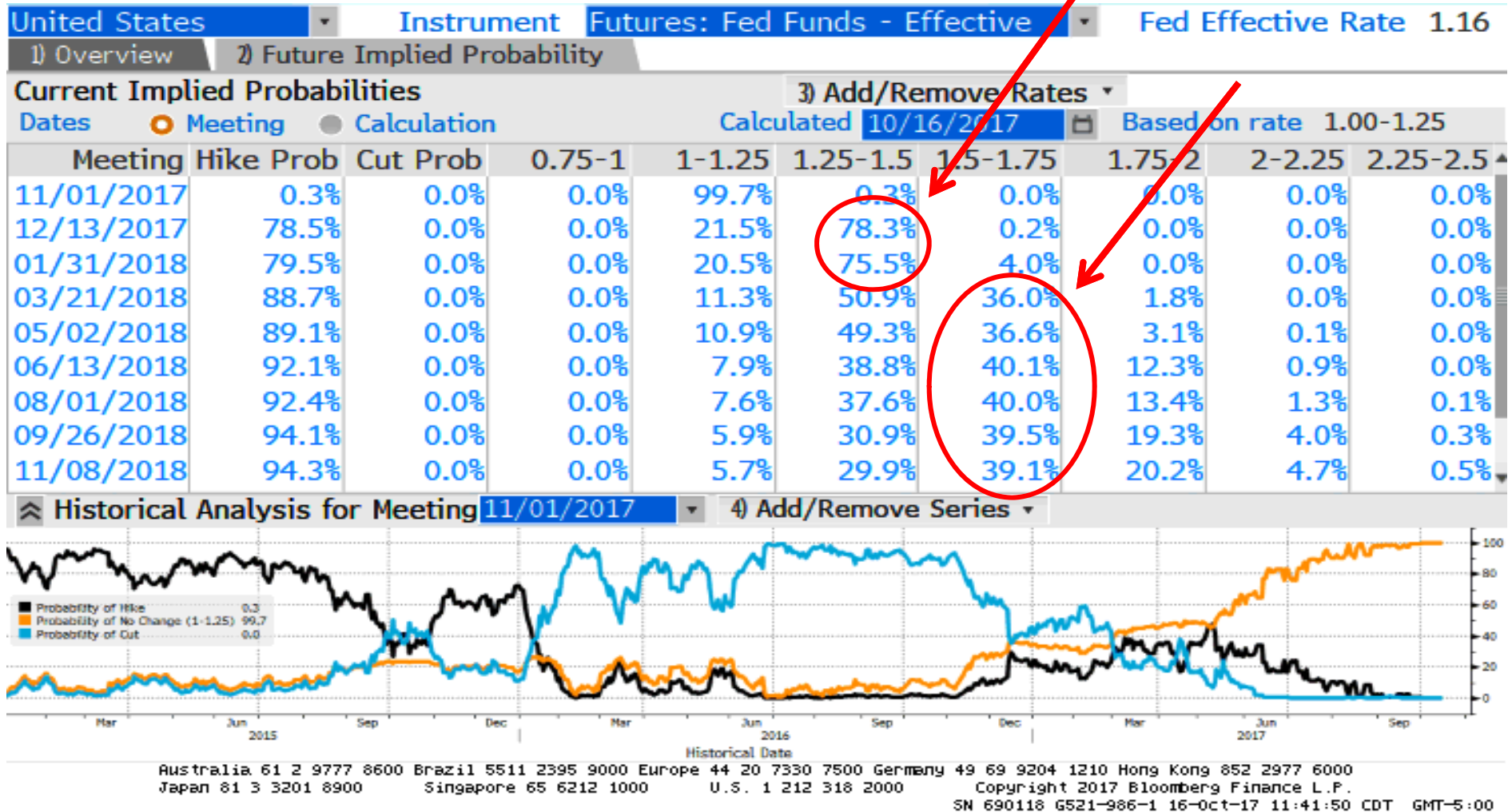
SOURCE: CORNERSTONE MACRO, DECEMBER 7, 2016

# U.S. FEDERAL REGULATIONS HAVE INCREASED DRAMATICALLY



SOURCES: THE WALL STREET JOURNAL, FEBRUARY 2, 2017; WOLFE RESEARCH, DECEMBER 13, 2016; AND THE FINANCIAL TIMES, FEBRUARY 4, 2017

## U.S. RATE HIKE PROBABILITY



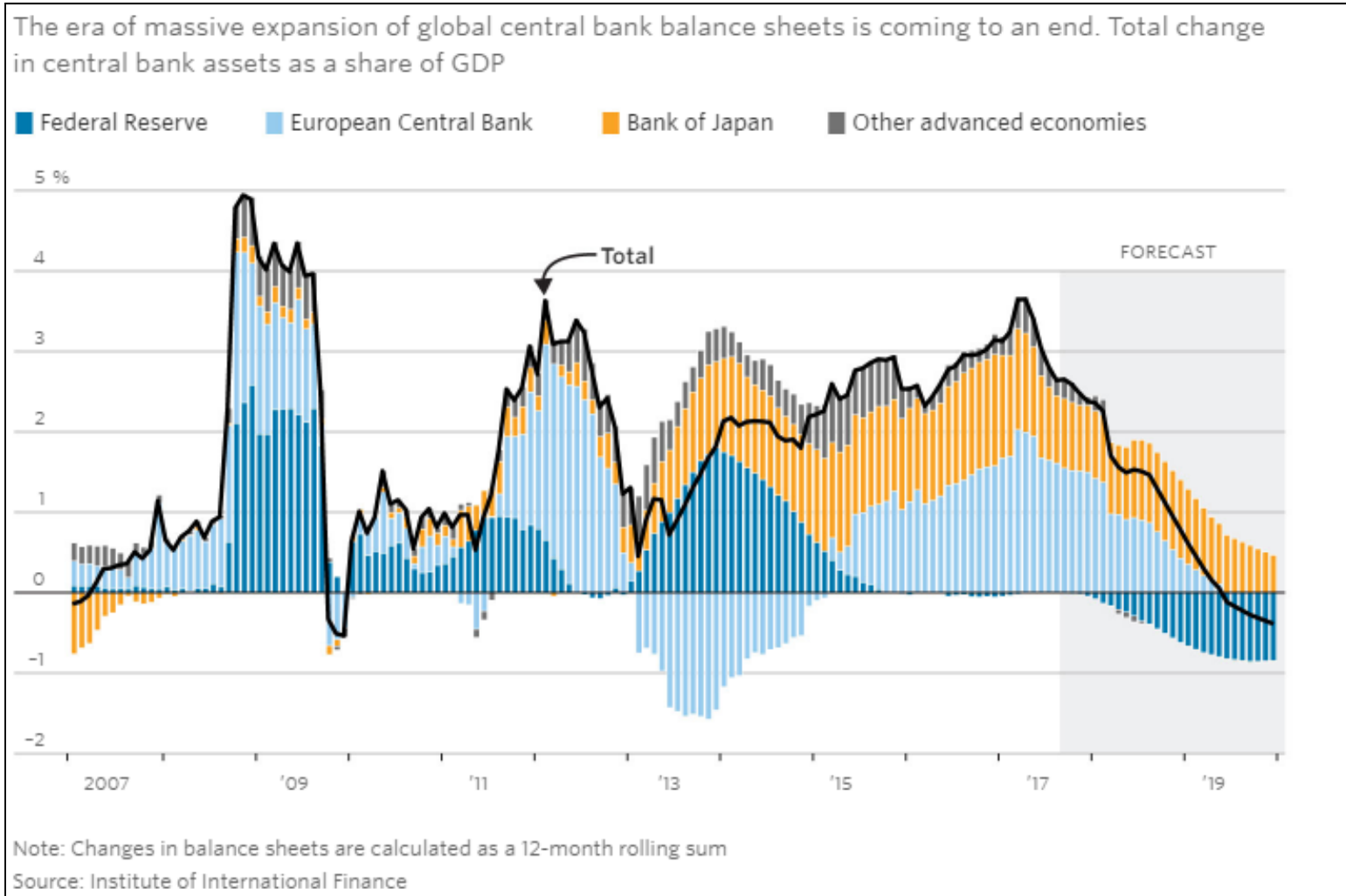
SOURCE: BLOOMBERG, OCTOBER 16, 2017

## EXPECTED RANGE OF FUTURE FIXED INCOME RETURNS

Risk Level/ Representative Issue		Interest Rate Forecast	Time Horizon					
			6 Months		1 Year		3 Yrs (Ann. Return)	
			Terminal Yield	Total Return	Terminal Yield	Total Return	Terminal Yield	Total Return
Low Risk								
2 yr. Constant Mat. Tsy.	Pessimistic	2.25%	-0.8%	2.50%	-0.5%	4.00%	-0.1%	
Present YTM 1.48%	Most Likely	2.00	-0.3	2.25	-0.0	3.00	0.5	
	Optimistic	0.75	2.2	0.50	3.4	2.00	1.2	
Intermediate Risk								
5 yr. Constant Mat. Tsy.	Pessimistic	2.75	-2.8	3.50	-5.1	5.00	-2.5	
Present YTM 1.94%	Most Likely	2.50	-1.6	2.75	-1.8	4.00	-1.1	
	Optimistic	1.00	5.5	1.00	6.5	3.00	0.4	
Medium Risk								
10 yr. Constant Mat. Tsy.	Pessimistic	3.75	-10.6	4.00	-11.3	5.50	-6.0	
Present YTM 2.33%	Most Likely	2.75	-2.5	3.25	-5.5	4.50	-3.5	
	Optimistic	2.00	4.1	2.00	5.3	3.50	-0.9	
High Risk								
30 yr. Constant Mat. Tsy.	Pessimistic	4.50	-25.4	4.75	-27.2	6.00	-13.2	
Present YTM 2.86%	Most Likely	3.50	-10.4	3.50	-8.9	5.00	-8.8	
	Optimistic	2.25	14.7	2.25	16.1	4.00	-3.8	

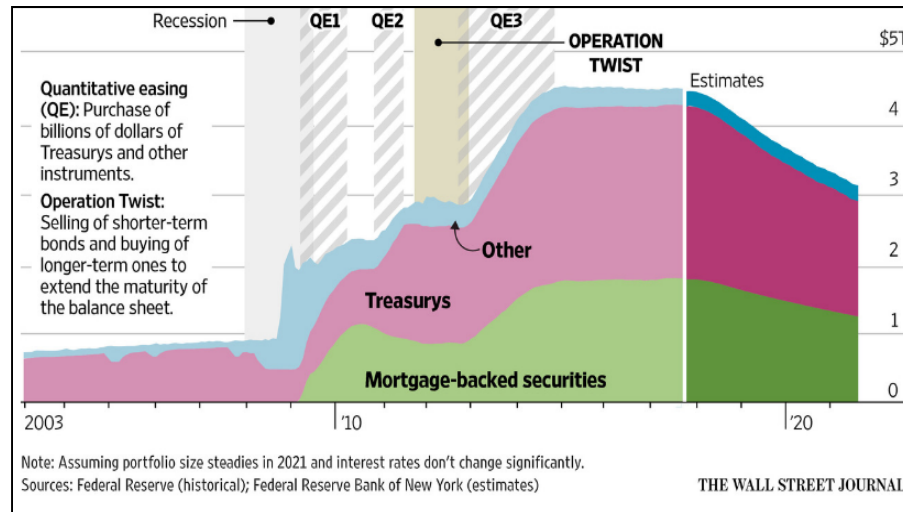
SOURCE: SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

## THE GREAT UNWIND OF QUANTITATIVE EASING



SOURCE: THE WALL STREET JOURNAL, OCTOBER 9, 2017

# ASSETS HELD BY THE FEDERAL RESERVE



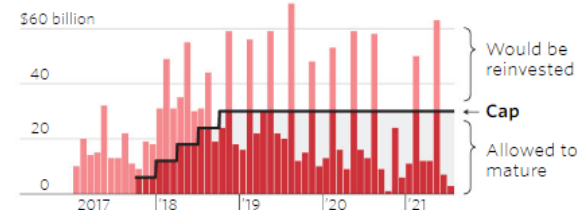
## Maturing Assets

The Fed's plan to shrink its balance sheet will allow increasing amounts of securities to mature without being replaced with new securities.

### Treasuries

Currently, the Fed reinvests maturing Treasuries to keep its asset portfolio steady. Now, it plans to allow some—up to a monthly cap—to mature without reinvestment.

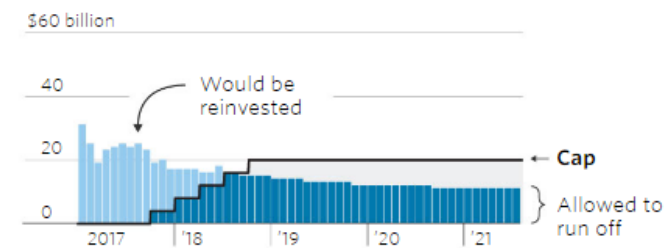
Value, by month, of maturing Treasuries held by the Fed



### Mortgage-backed securities

At present, the Fed also reinvests the payments it receives on its vast mortgage holdings. The cap on reinvestments is set so that by late 2019, under current rate forecasts, all repayments will run off each month.

Value, by month, of principal paid down on Fed's MBS holdings\*



---

## **2. IMPROVEMENT IN PORTFOLIO COMPANY FUNDAMENTALS**

- A. THE EQUITY MARKETS ARE SHIFTING FROM A MONETARY POLICY DRIVEN MARKET TO A COMPANY FUNDAMENTALS DRIVEN MARKET.**
- B. WE CANNOT EXPECT STOCK MULTIPLES TO EXPAND FURTHER. THE GLOBAL EQUITY MARKETS ARE ANTICIPATING STRONGER ECONOMIC GROWTH, BUT THERE COULD BE MATERIALLY MORE UPSIDE.**
  - I. THE GLOBAL EQUITY MARKETS HAVE RALLIED SINCE THE ELECTION ON "HOPE" THAT SOME OF THE PRO-GROWTH INITIATIVES THAT PRESIDENT TRUMP CAMPAIGNED ON WILL OCCUR. THIS HAS RESULTED IN STOCK MULTIPLES EXPANDING IN ANTICIPATION.**
  - II. YEAR-TO-DATE CORPORATE EARNINGS HAVE BEEN RELATIVELY SOLID, WHICH HAS LED TO FURTHER MARKET APPRECIATION BASED ON FUNDAMENTALS AND EXPECTATIONS THAT GROWTH WILL CONTINUE.**
  - III. TRUMP POLICY BENEFITS ARE STILL VERY HARD TO DETERMINE DUE TO LIMITED TIME IN OFFICE AND LACK OF INFORMATION. IF INITIATIVES ARE IMPLEMENTED, CORPORATE EARNINGS GROWTH COULD BE CONSIDERABLY STRONGER.**
- C. STRONG COMPANY FUNDAMENTALS TO INCLUDE SALES, OPERATING MARGINS, AND EARNINGS MUST "MATERIALIZER". WE MUST FIND THE SECTORS AND COMPANIES THAT CAN IMPROVE FUNDAMENTALS. STRONG FUNDAMENTALS AND QUALITY EARNINGS ARE NEEDED FOR STOCK PRICE APPRECIATION AND SUSTAINING PRICE APPRECIATION.**
- D. WE ARE IN A STOCK PICKER'S MARKET.**

## STOCK MARKET CONTINUES TO MARCH HIGHER, LARGELY UNINTERRUPTED

The S&P 500 stock index has gone about 200 days without a total 3% drop, its longest period of calm since 1995-1996. Longest streaks without a 3% pullback since 1950:

Start date	End	
11/26/63	6/3/64	131 days
12/17/64	6/1/65	114
9/2/65	2/23/66	120
1/27/83	6/27/83	105
7/7/93	2/23/94	162
1/26/95	1/9/96	241
11/7/16	10/18/17	240

SOURCE USA TODAY research  
Frank Pompa, USA TODAY

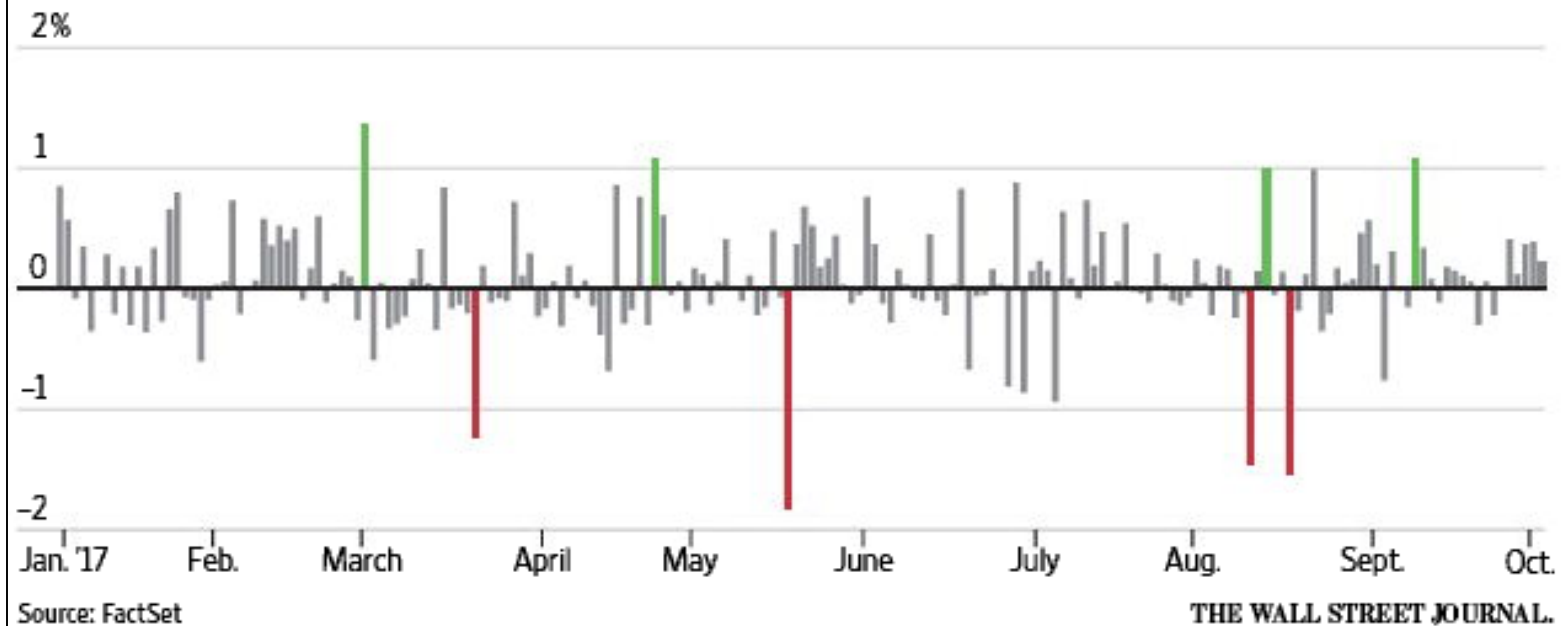


SOURCES: USA TODAY AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 18, 2017

## STEADY STOCK MARKET PERFORMANCE

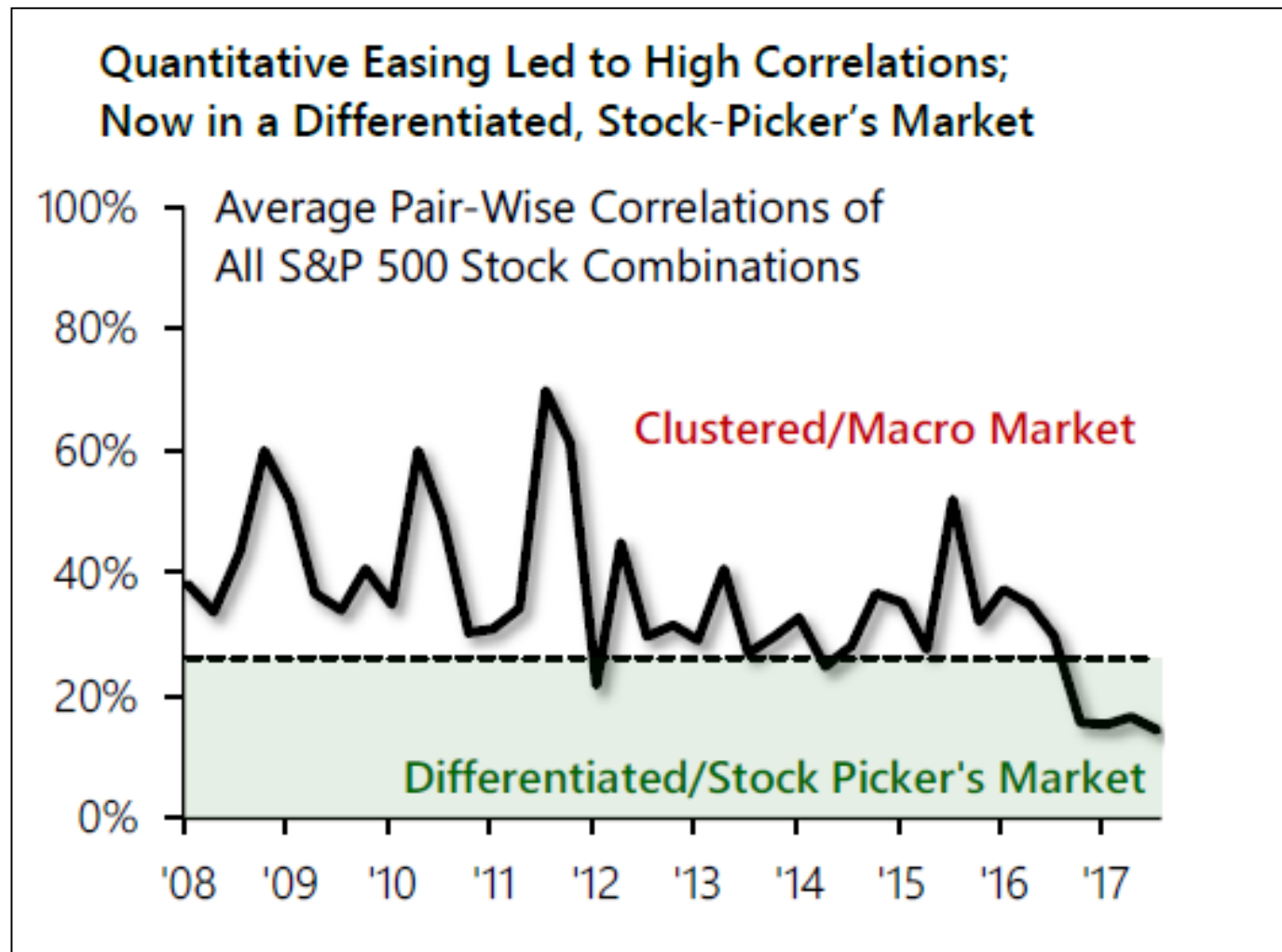
### Small Moves

The S&P 500 has had only eight moves of 1% in either direction this year, the fewest for a comparable period in more than four decades.



SOURCE: THE WALL STREET JOURNAL, OCTOBER 4, 2017

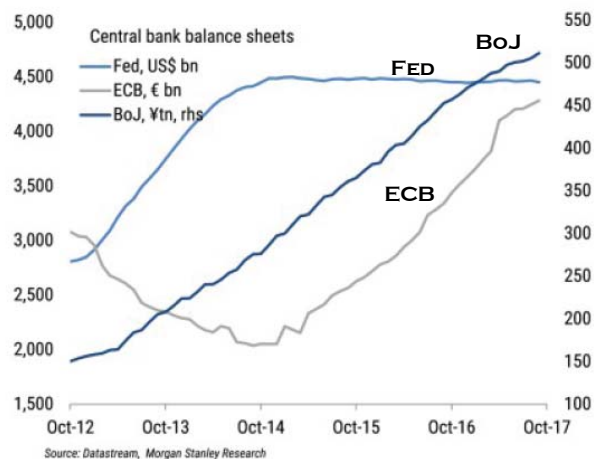
## STOCK CORRELATION DECLINING AS QUANTITATIVE EASING COMES TO AN END



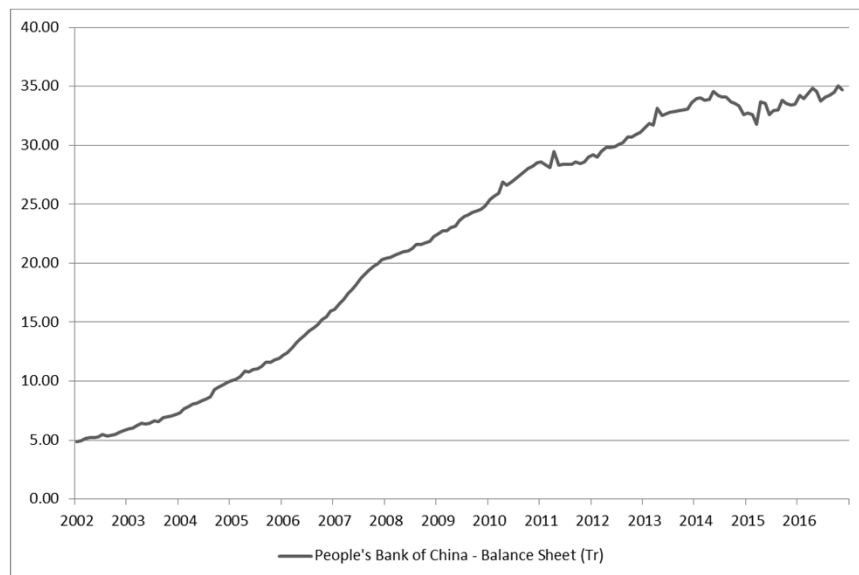
SOURCES: FACTSET, U.S. FEDERAL RESERVE, MERRILL LYNCH, AND SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

# EASY MONETARY POLICIES IN PLACE TO SPUR GROWTH

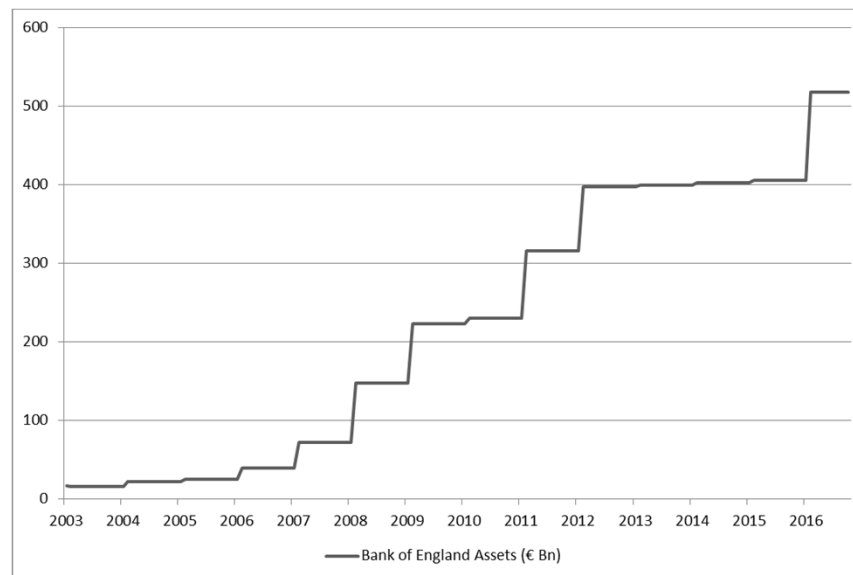
GLOBAL CENTRAL BANK BALANCE SHEETS



PEOPLE'S BANK OF CHINA BALANCE SHEET

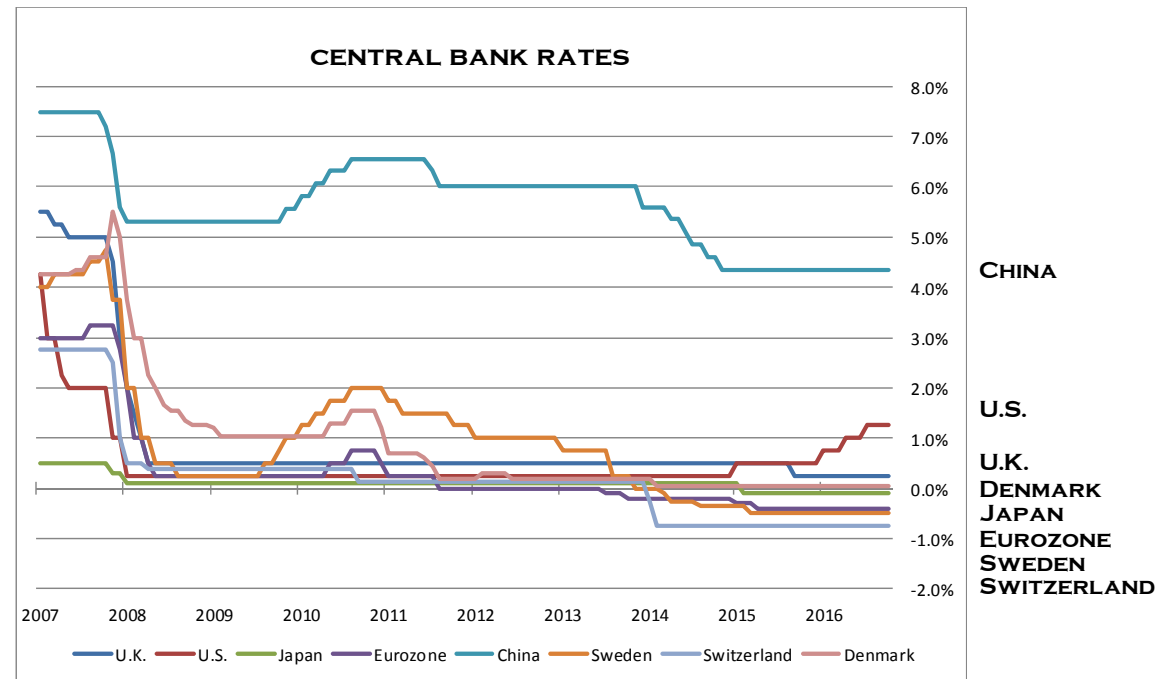


PEOPLE'S BANK OF ENGLAND BALANCE SHEET



SOURCES: MORGAN STANLEY RESEARCH, OCTOBER 6, 2017, AND FACTSET RESEARCH SYSTEMS, OCTOBER 11, 2017

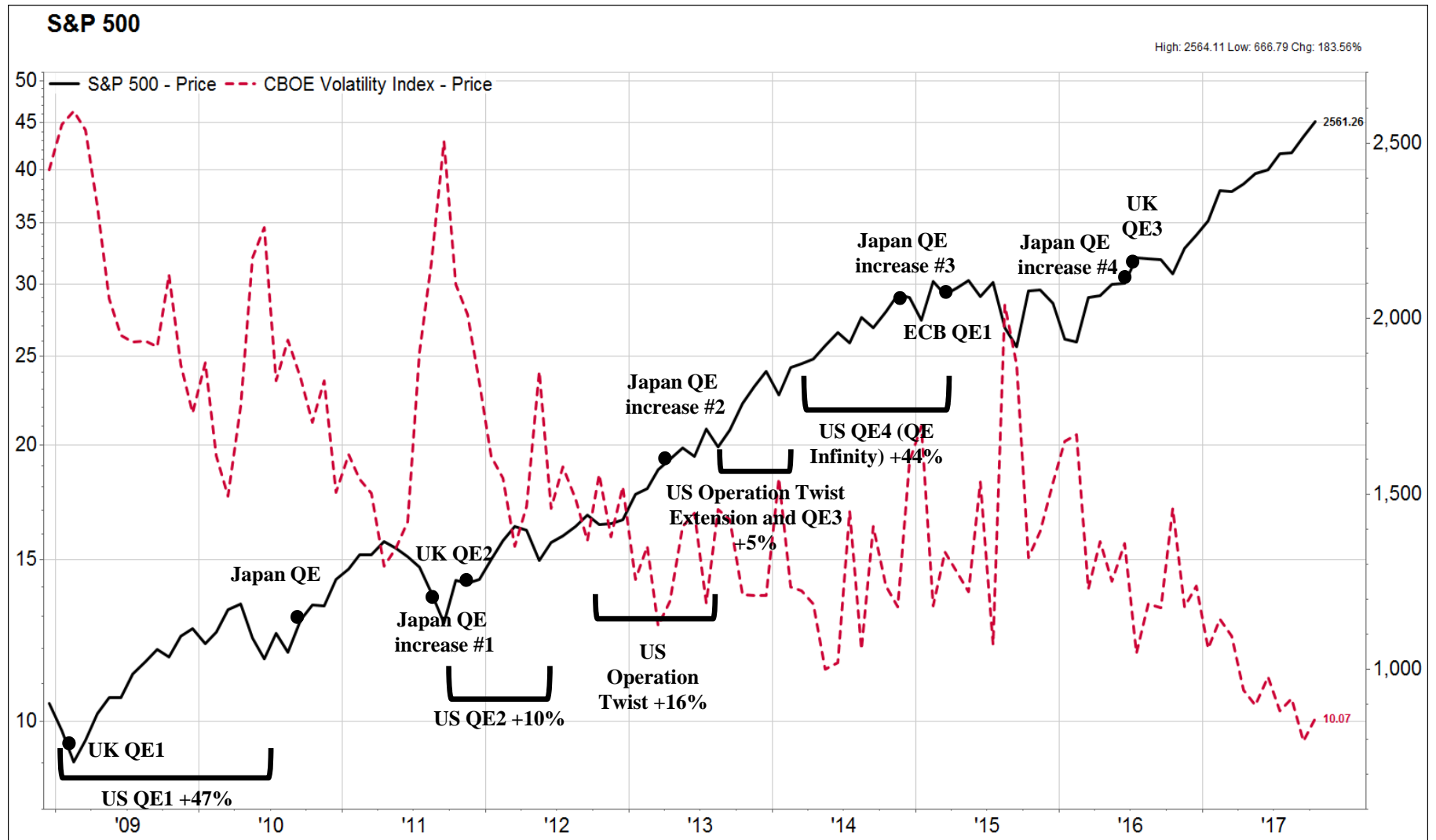
## CENTRAL BANKS REMAIN ACCOMMODATIVE



**APPROXIMATELY 24% OF GLOBAL GDP  
HAS A NEGATIVE CENTRAL BANK  
INTEREST RATE.  
(EUROZONE, JAPAN, SWITZERLAND, AND  
SWEDEN)**

SOURCES: FACTSET RESEARCH SYSTEMS AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 18, 2017

# QUANTITATIVE EASING HAS STIMULATED THE MARKET AND KEPT VOLATILITY LOW



SOURCES: FACTSET RESEARCH SYSTEMS AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 18, 2017

---

## FORMULA FOR STOCKS OR MARKET

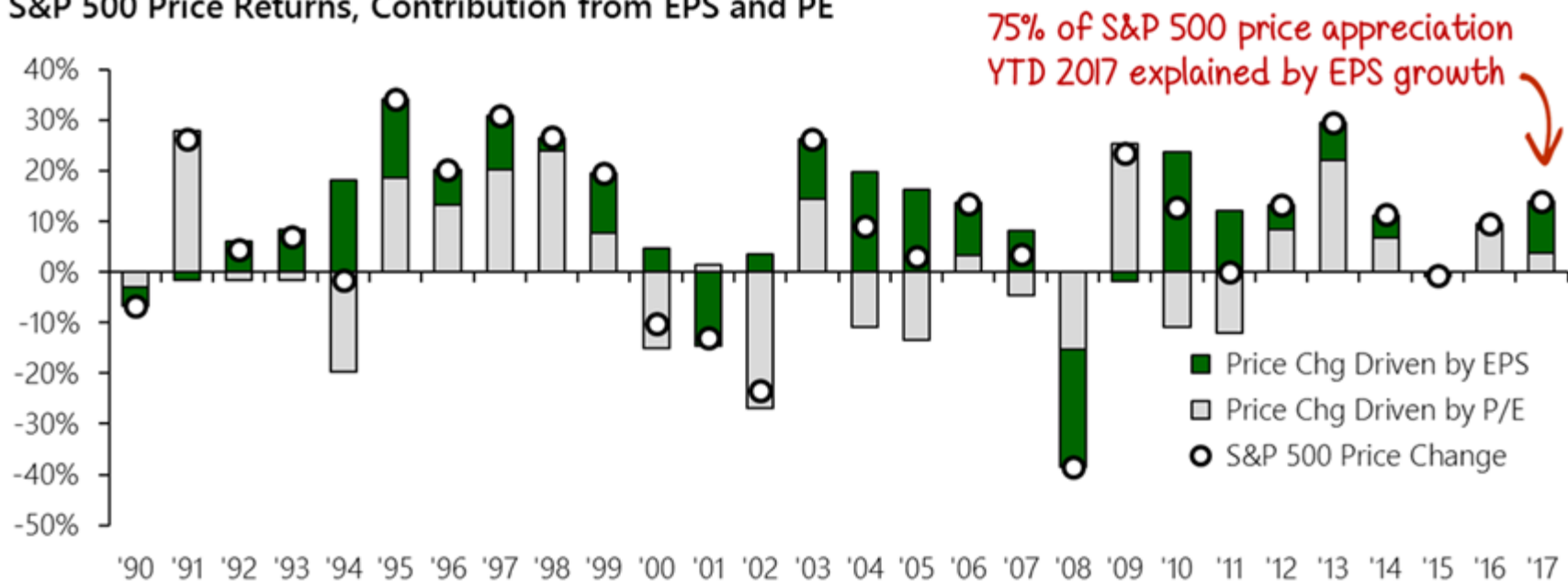
$$\text{PRICE/EARNINGS RATIO} \times \text{EARNINGS} = \text{PRICE}$$

THEREFORE, FOR PRICE TO INCREASE:

- PRICE/EARNINGS RATIO HAS TO EXPAND AND/OR
- EARNINGS HAS TO INCREASE

## EPS GROWTH DRIVING MARKET APPRECIATION THIS YEAR

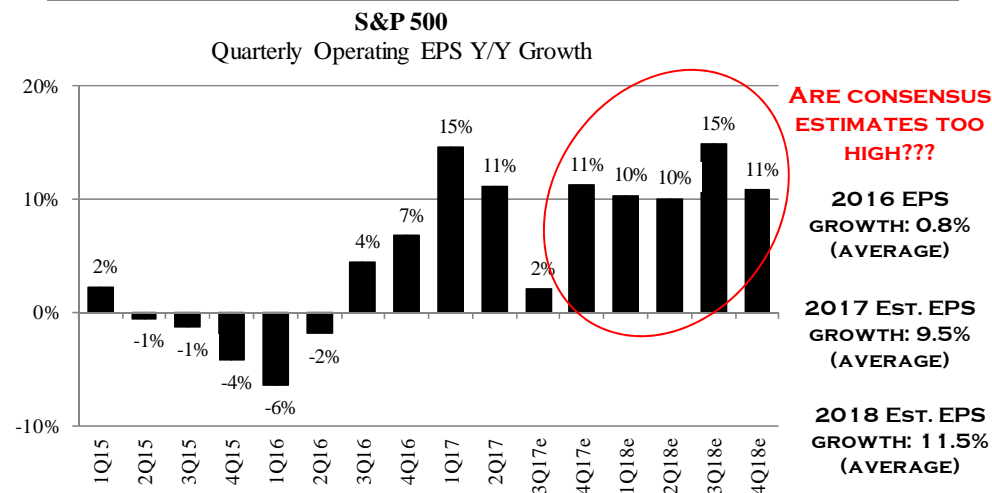
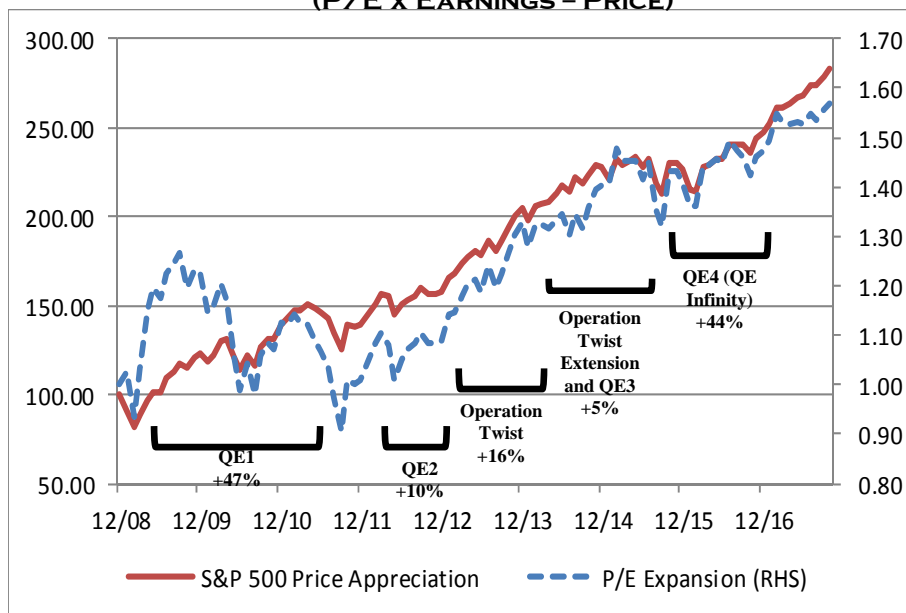
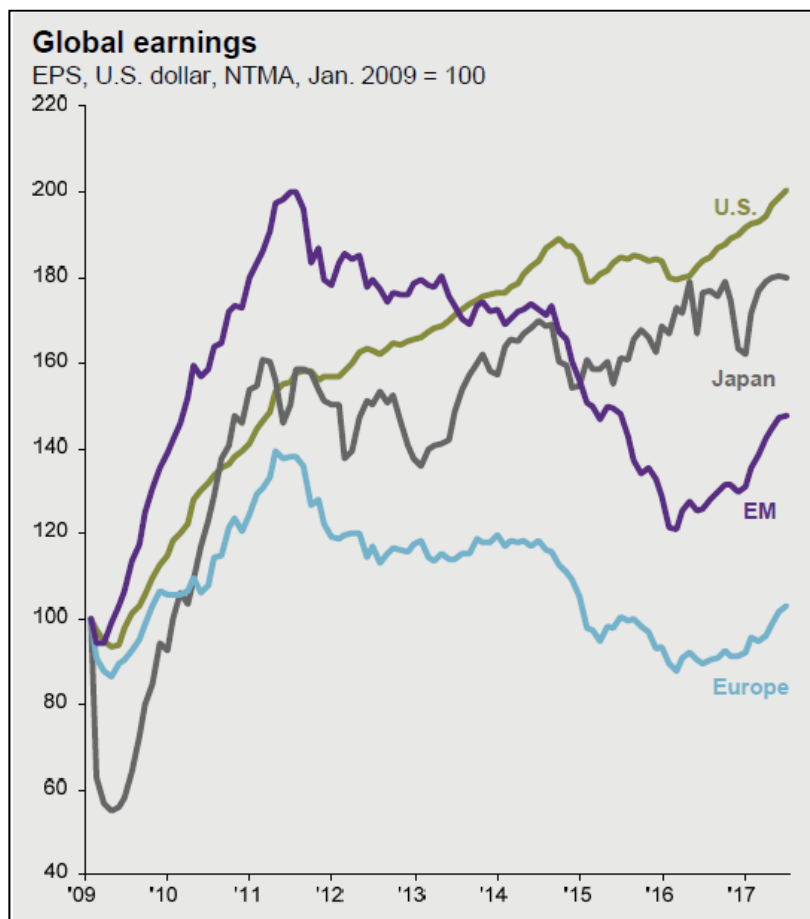
S&P 500 Price Returns, Contribution from EPS and PE



SOURCES: CORNERSTONE MACRO AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 18, 2017

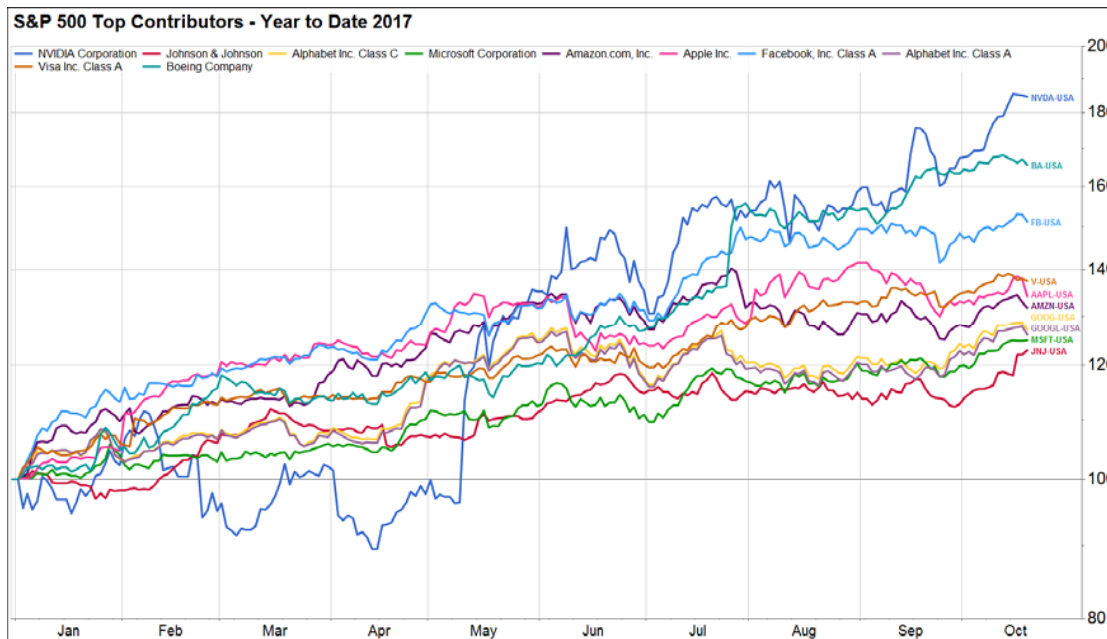
# P/E EXPANSION DROVE MARKET HIGHER, NOW NEEDS EARNINGS

(P/E x EARNINGS = PRICE)



SOURCES: J.P. MORGAN, JUNE 30, 2017, AND FACTSET RESEARCH SYSTEMS, OCTOBER 17, 2017

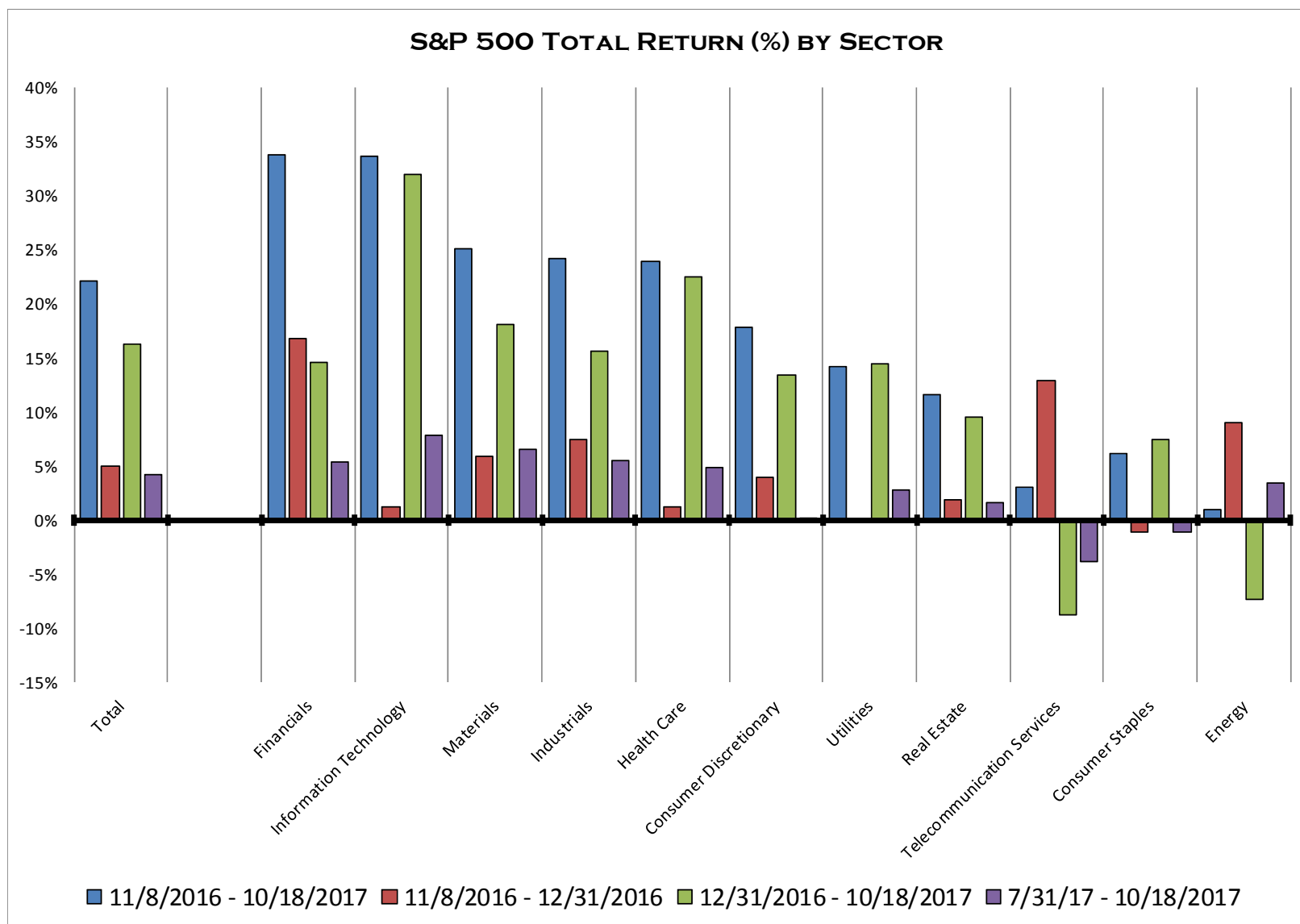
# MARKET RALLY BREADTH HAS BEEN NARROW



Ticker		Total Return	Contribution To Return
	<b>Total</b>	<b>16.22</b>	<b>16.22</b>
	<b>10 Highest</b>	<b>36.04</b>	<b>5.25</b>
AAPL	Apple Inc.	39.66	1.31
FB	Facebook, Inc. Class A	53.00	0.76
MSFT	Microsoft Corporation	27.03	0.67
AMZN	Amazon.com, Inc.	32.96	0.53
JNJ	Johnson & Johnson	24.50	0.38
GOOG	Alphabet Inc. Class C	28.63	0.35
GOOGL	Alphabet Inc. Class A	27.80	0.35
BA	Boeing Company	70.82	0.31
V	Visa Inc. Class A	38.90	0.30
ABBV	AbbVie, Inc.	59.02	0.28

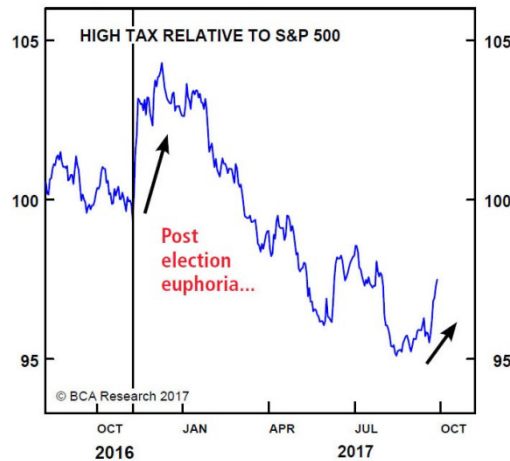
SOURCES: FACTSET RESEARCH SYSTEMS AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 18, 2017

## IS THE “TRUMP TRADE” OVER?

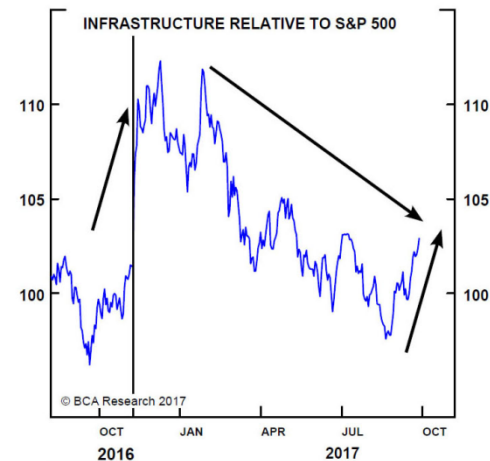


SOURCES: FACTSET RESEARCH SYSTEMS AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 18, 2017

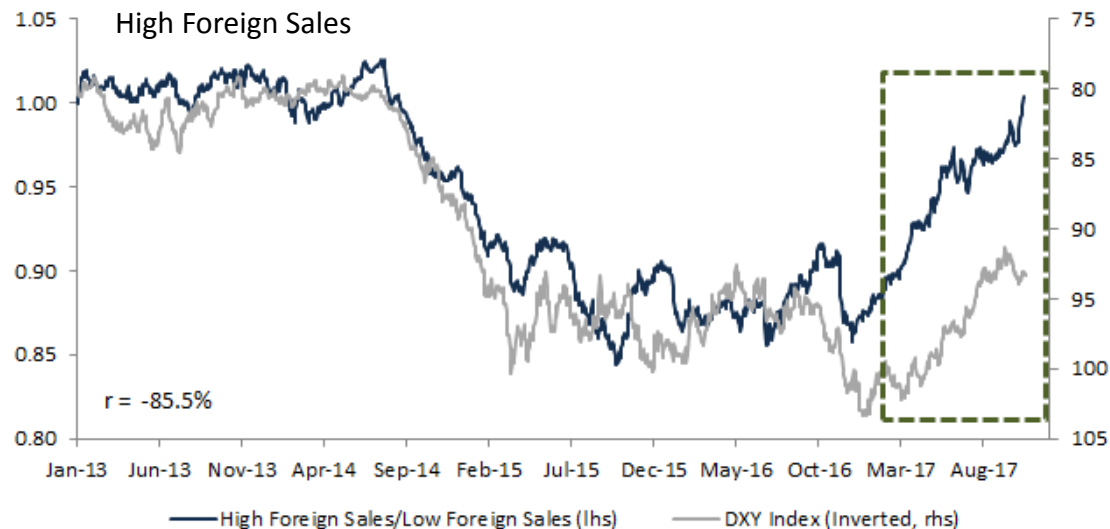
# TRUMP TRADES MAKING A COMEBACK



NOTE: VERTICAL LINE DENOTES U.S. PRESIDENTIAL ELECTION DATE.



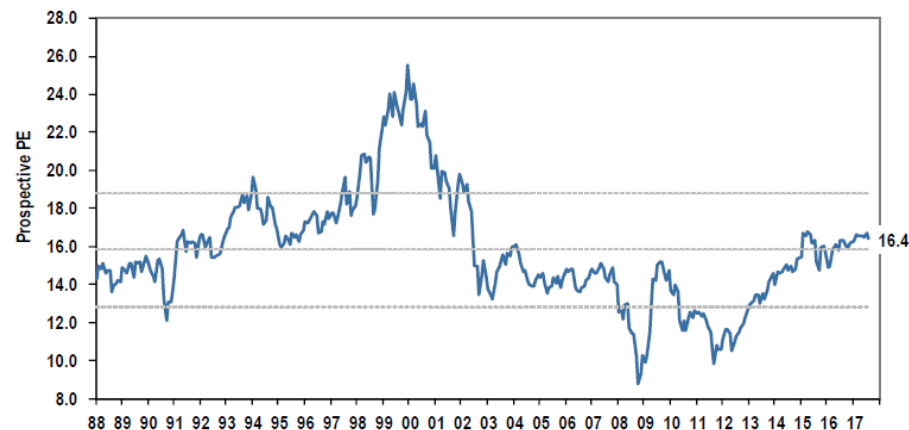
NOTE: VERTICAL LINE DENOTES U.S. PRESIDENTIAL ELECTION DATE.



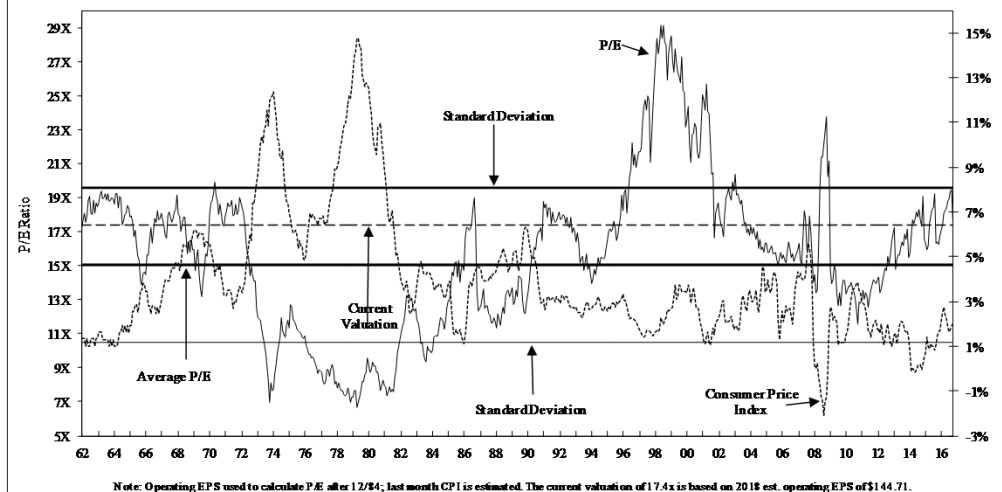
SOURCES: BCA RESEARCH INC., OCTOBER 2, 2017, AND EVERCORE ISI, OCTOBER 13, 2017

# EQUITY VALUATIONS ARE REASONABLE

GLOBAL PROSPECTIVE PE

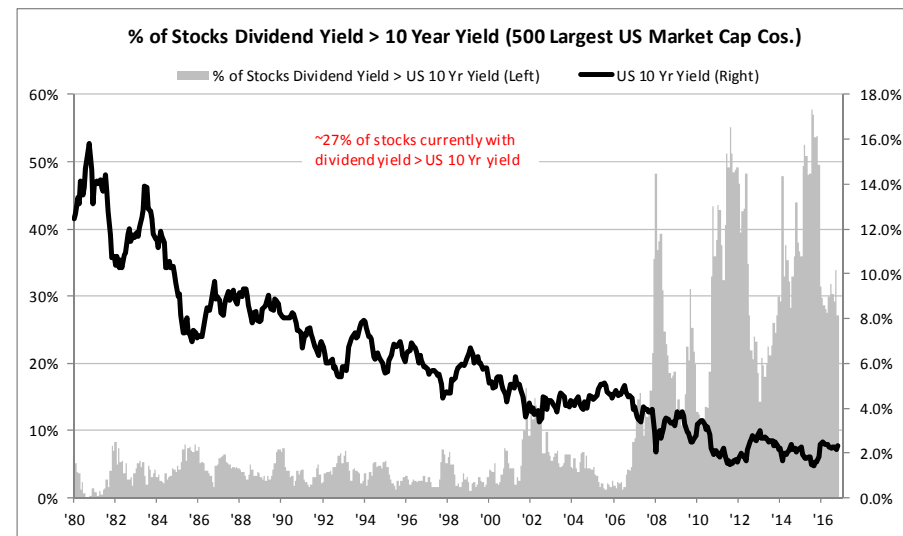
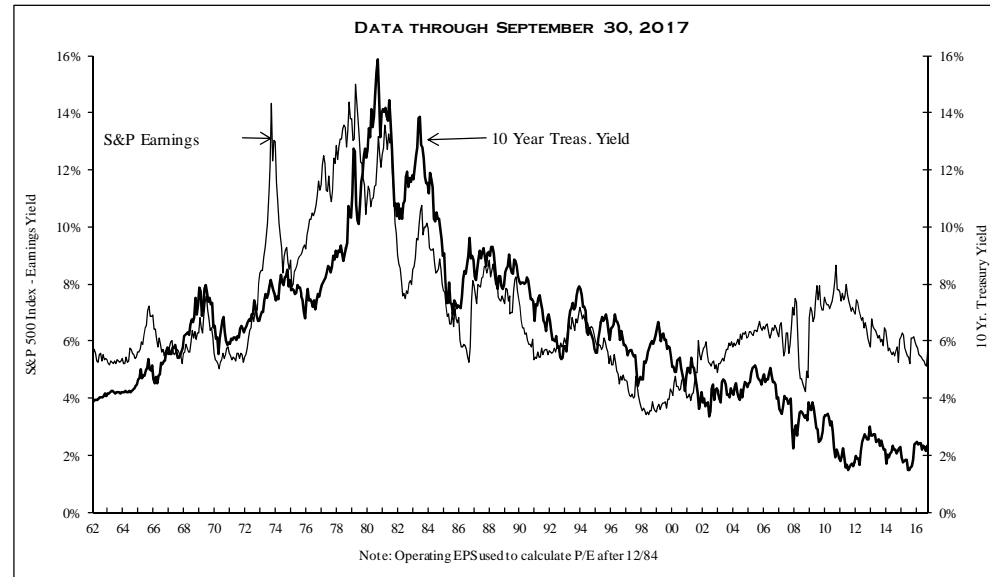


S&P 500 FORWARD P/E  
DATA THROUGH SEPTEMBER 30, 2017



SOURCES: BANK OF AMERICA/MERRILL LYNCH, SEPTEMBER 15, 2017, AND SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

# DIVIDEND YIELDS ARE ATTRACTIVE RELATIVE TO BOND YIELDS



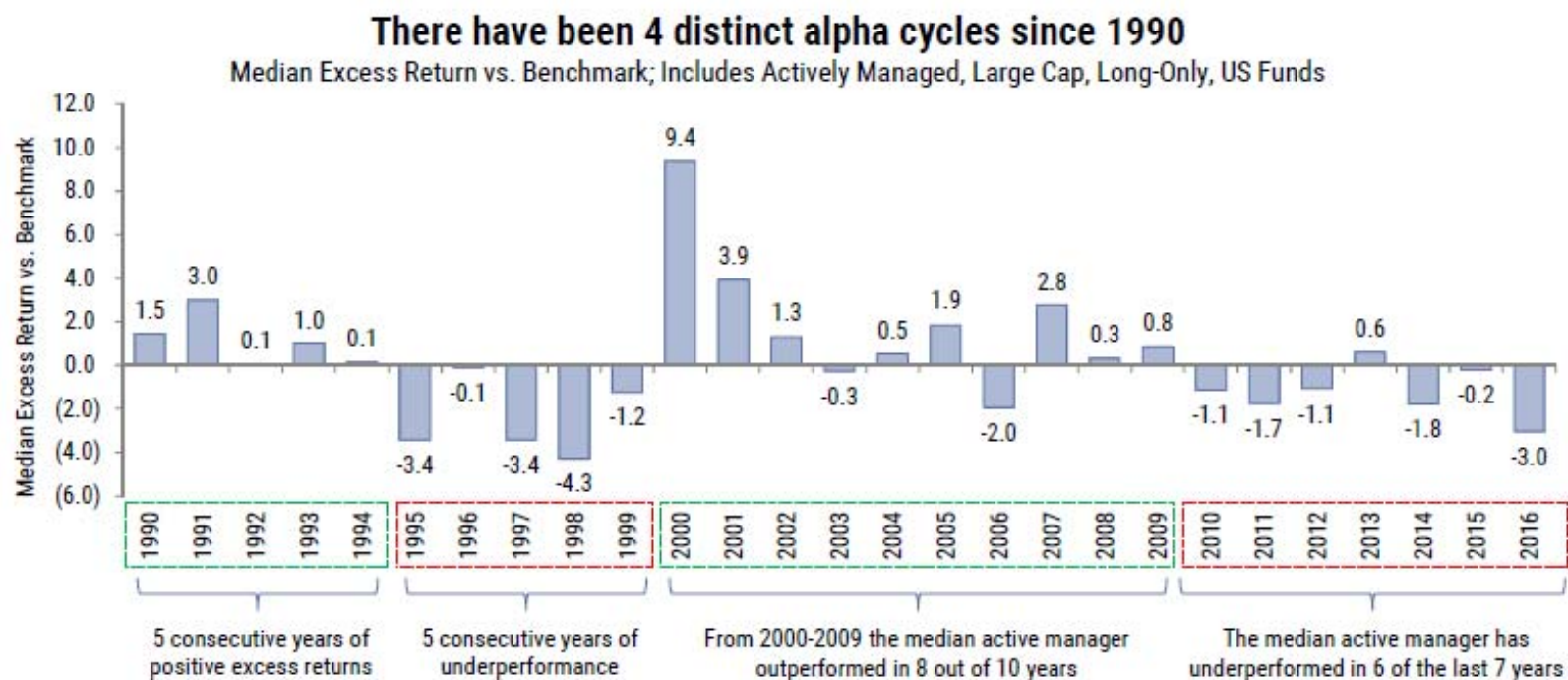
SOURCES: S&P; BLS; SANFORD C. BERNSTEIN & CO., LLC; FACTSET RESEARCH SYSTEMS; AND SIT INVESTMENT ASSOCIATES, INC.,  
SEPTEMBER 30, 2017

---

### **3. PASSIVE MANAGEMENT INVESTING HAS BEEN THE STYLE OF “CHOICE” FOR THE LAST NINE YEARS. A SHIFT BACK TO ACTIVE MANAGEMENT IS VERY LIKELY.**

- A. PASSIVE INVESTING HAS BENEFITED FROM SIGNIFICANT QUANTITATIVE EASING, LOW INTEREST RATES, AND LACK OF MARKET VOLATILITY WORLDWIDE.**
- B. HIGH SECTOR AND STOCK CORRELATION, “RISING TIDE LIFTS ALL BOATS”, NOT LIKELY TO CONTINUE.**
- C. MARKET VOLATILITY SHOULD INCREASE WITH THE REDUCTION OF QUANTITATIVE EASING AND RATE INCREASES.**
- D. ACTIVE VERSUS PASSIVE INVESTING HISTORICALLY HAS BEEN CYCLICAL.**
- E. ACTIVE MANAGEMENT HISTORICALLY HELPS PROTECT/LIMIT EXPOSURE IN MORE VOLATILE/DOWN MARKETS.**
- F. IMPORTANT TO HAVE A DIVERSIFIED PORTFOLIO OF BOTH STYLES.**

## ACTIVE/PASSIVE PERFORMANCE TRENDS ARE CYCLICAL

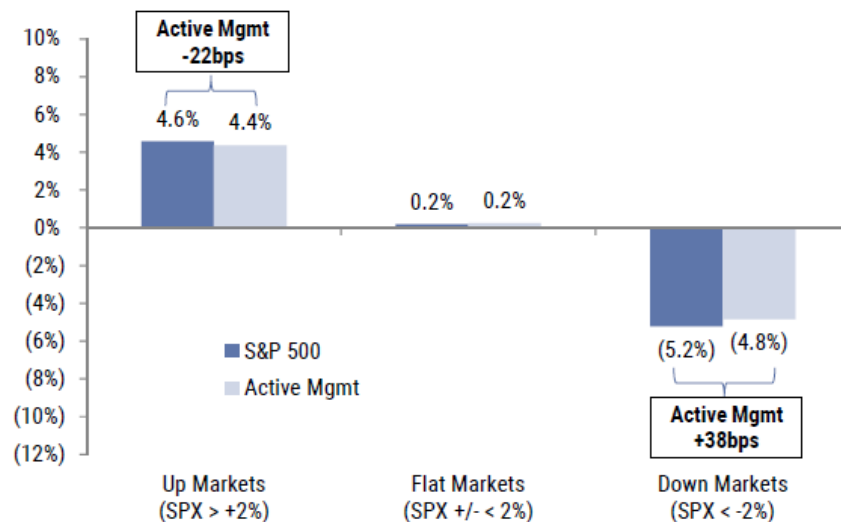


SOURCE: GOLDMAN SACHS RESEARCH, APRIL 2017

# ACTIVE MANAGEMENT OUTPERFORMS IN DOWN MARKETS

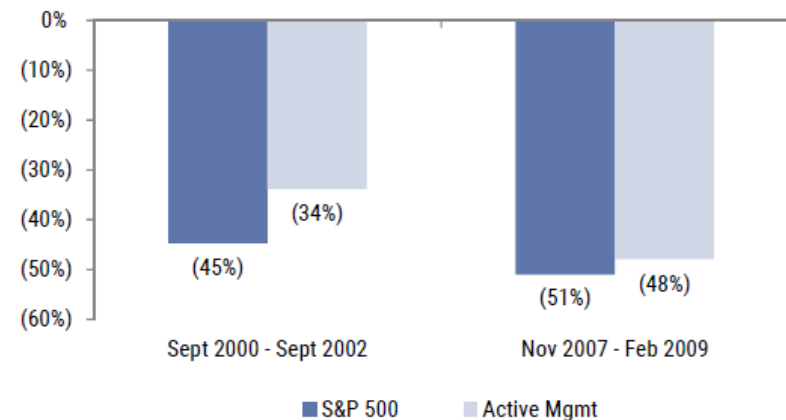
## Actively managed funds, on average, lag benchmarks in up markets and outperform in down markets

Average Benchmark (SPX) & Fund Performance in Up, Flat and Down Markets



## Active managers outperformed through the two largest market drawdowns

Cumulative performance during the 2000-2002 and 2007-2009 market drawdowns; S&P 500 Total Returns vs. Median Active Long-Only



SOURCE: GOLDMAN SACHS RESEARCH, APRIL 2017

---

## **OUR GLOBAL EQUITY INVESTMENT STRATEGY IS A DIVERSIFIED, BARBELL PORTFOLIO OF HIGH-QUALITY GROWTH STOCKS**

- A. ONE SIDE OF THE BARBELL FOCUSES ON POTENTIAL BENEFICIARIES FROM PRESIDENT TRUMP’S THEMES.:**
  - I. DEREGULATION,**
  - II. REPATRIATION OF FOREIGN CORPORATE CASH,**
  - III. DECREASE IN CORPORATE TAX RATES,**
  - IV. REFORM OF PERSONAL INCOME TAX RATES, AND**
  - V. INFRASTRUCTURE SPENDING.**
- B. THE OTHER SIDE OF THE BARBELL FOCUSES ON MORE VISIBLE, TRADITIONAL GROWTH STOCKS WITH MATERIAL EXPOSURE IN THE U.S. AND DEVELOPED INTERNATIONAL MARKETS. SECTORS OF FOCUS INCLUDE: TELECOM, TECHNOLOGY, DEFENSE, AND SELECTIVE HEALTHCARE.**
- C. THE “BARBELL” STRATEGY IS APPROPRIATE DUE TO GREATER “TAIL” RISKS (BOTH UP AND DOWN) AND THE LIKELY “FITS AND STARTS” IN RESPONSE TO BOTH PROGRESS AND DELAYS IN WASHINGTON AND GLOBAL MACROECONOMIC CONDITIONS. QUALITY STOCKS SHOULD PARTICIPATE IN A RISING MARKET AND RETAIN THEIR VALUE BETTER IN A FALLING MARKET.**

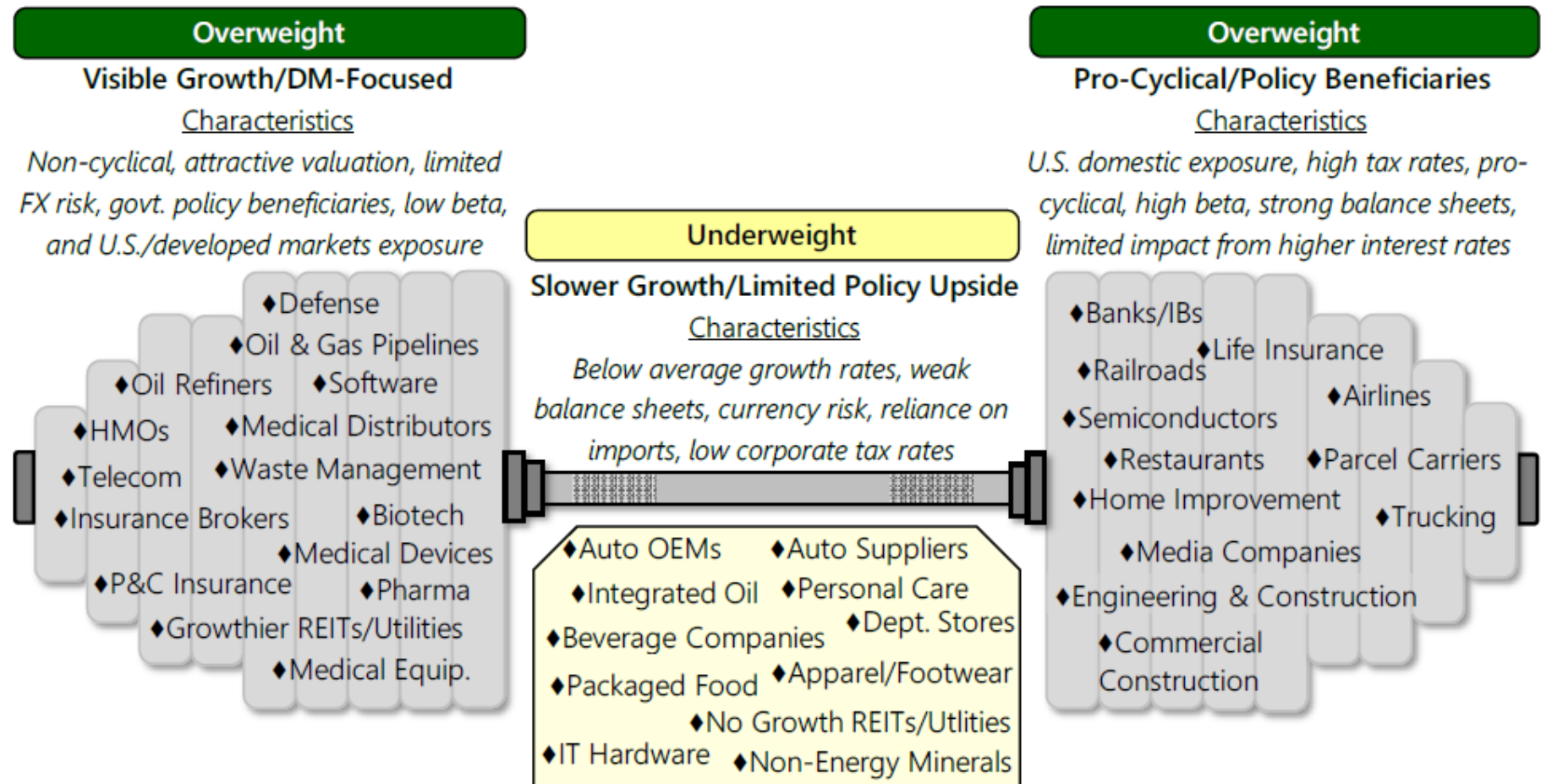
# WHAT STYLES WORK THROUGHOUT AN ECONOMIC CYCLE



Phase 1: Rising & Accelerating; Phase 2: Rising & Decelerating; Phase 3: Falling & Decelerating; Phase 4: Falling & Accelerating

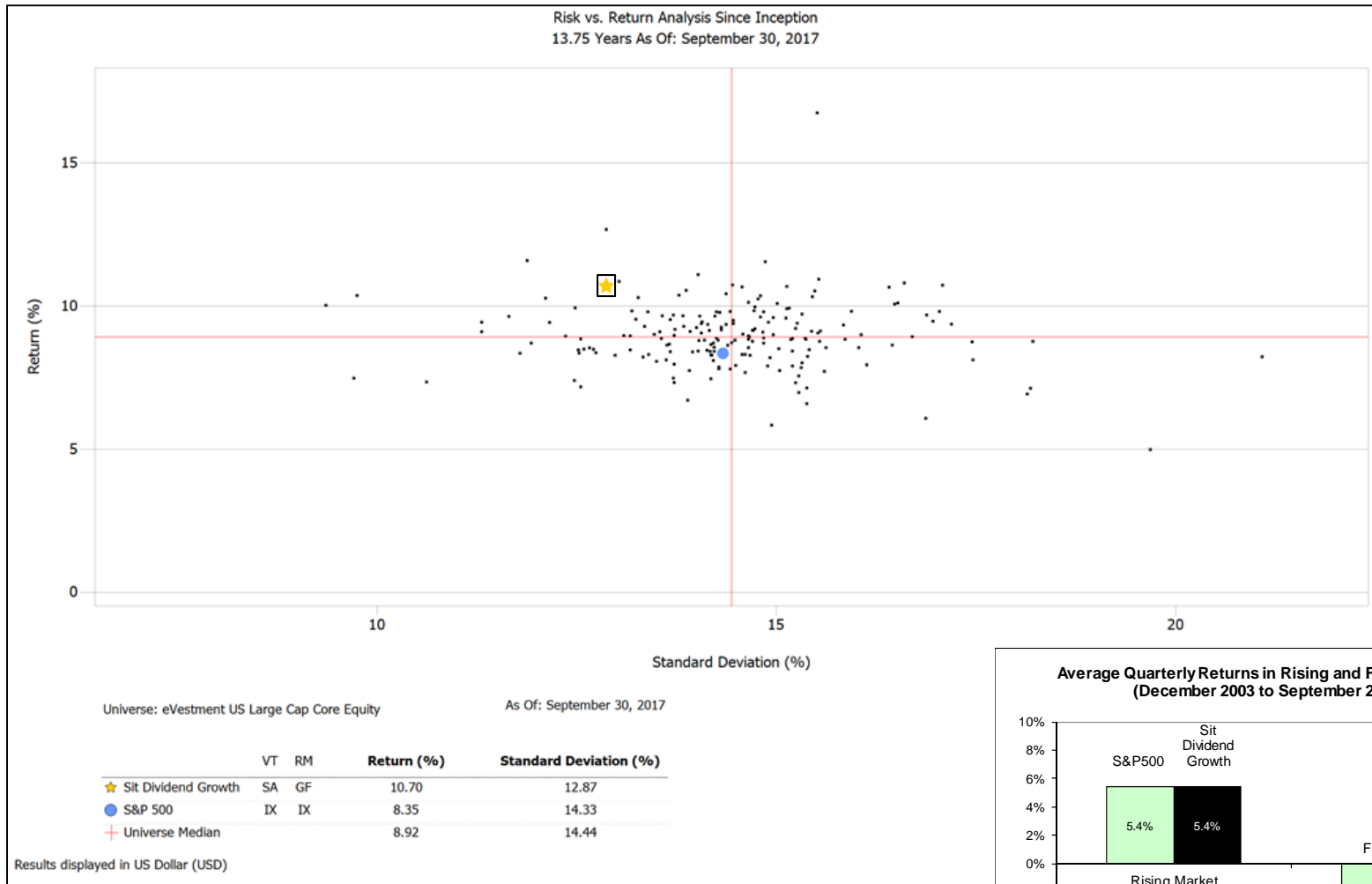
SOURCES: BANK OF AMERICA/MERRILL LYNCH AND SIT INVESTMENT ASSOCIATES, INC., OCTOBER 12, 2017

# BARBELL INVESTMENT STRATEGY

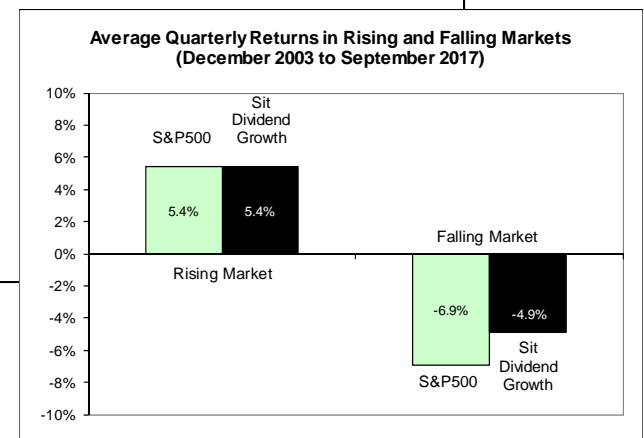


SOURCE: SIT INVESTMENT ASSOCIATES, INC., SEPTEMBER 30, 2017

# SIT DIVIDEND GROWTH STRATEGY

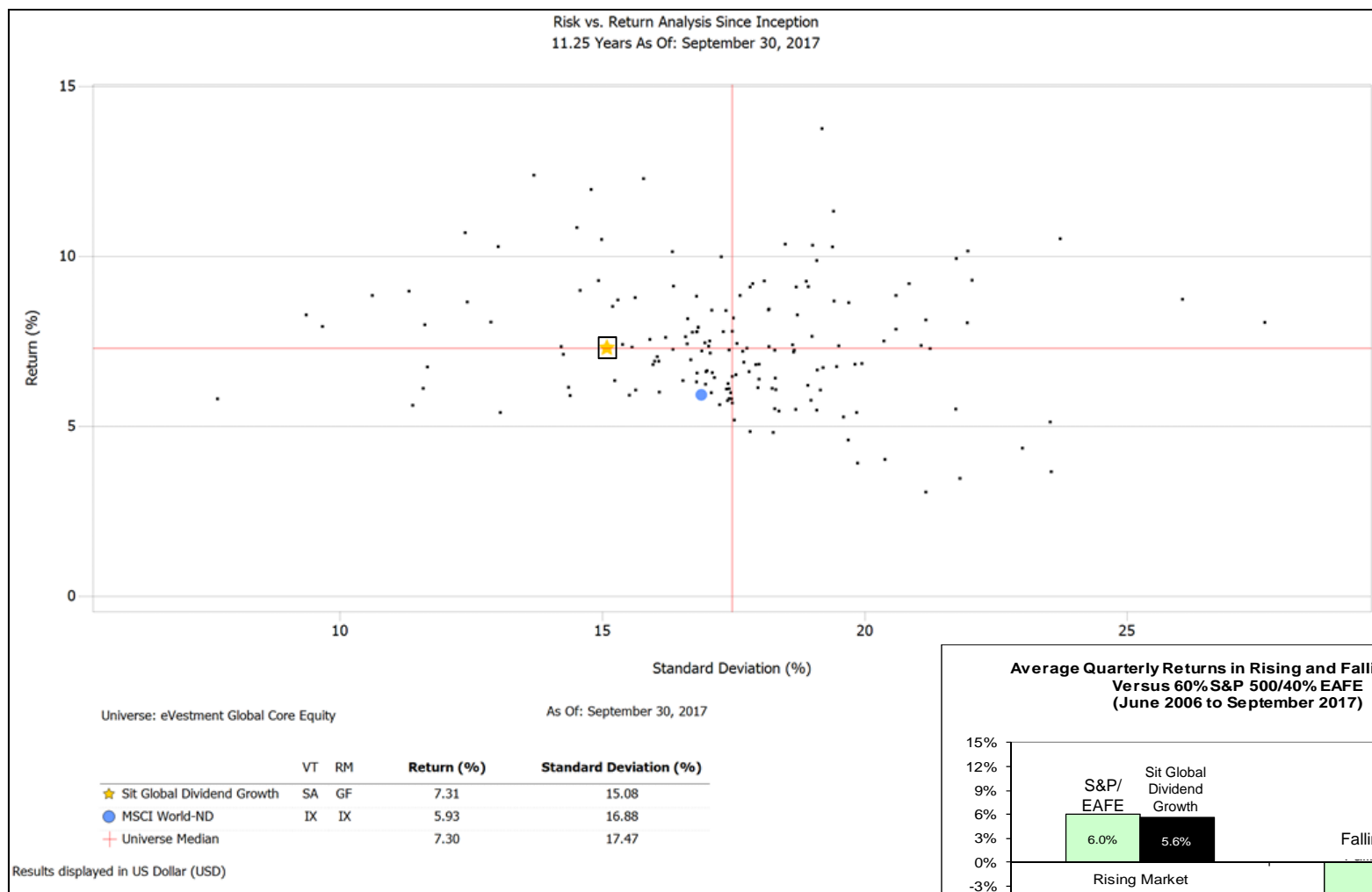


eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. \* All categories not necessarily included. Totals may not equal 100%. Copyright 2012-2017 eVestment Alliance, LLC. All Rights Reserved.



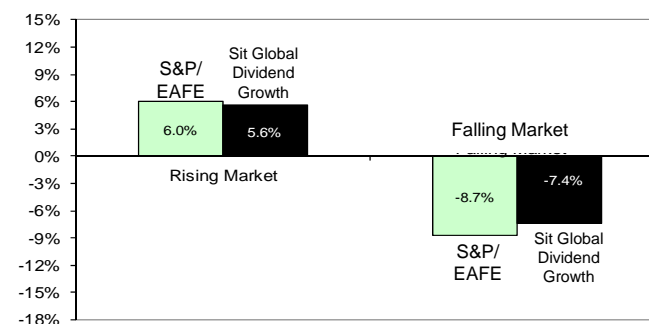
SOURCE: EVESTMENT OCTOBER 17, 2017

# SIT GLOBAL DIVIDEND GROWTH STRATEGY



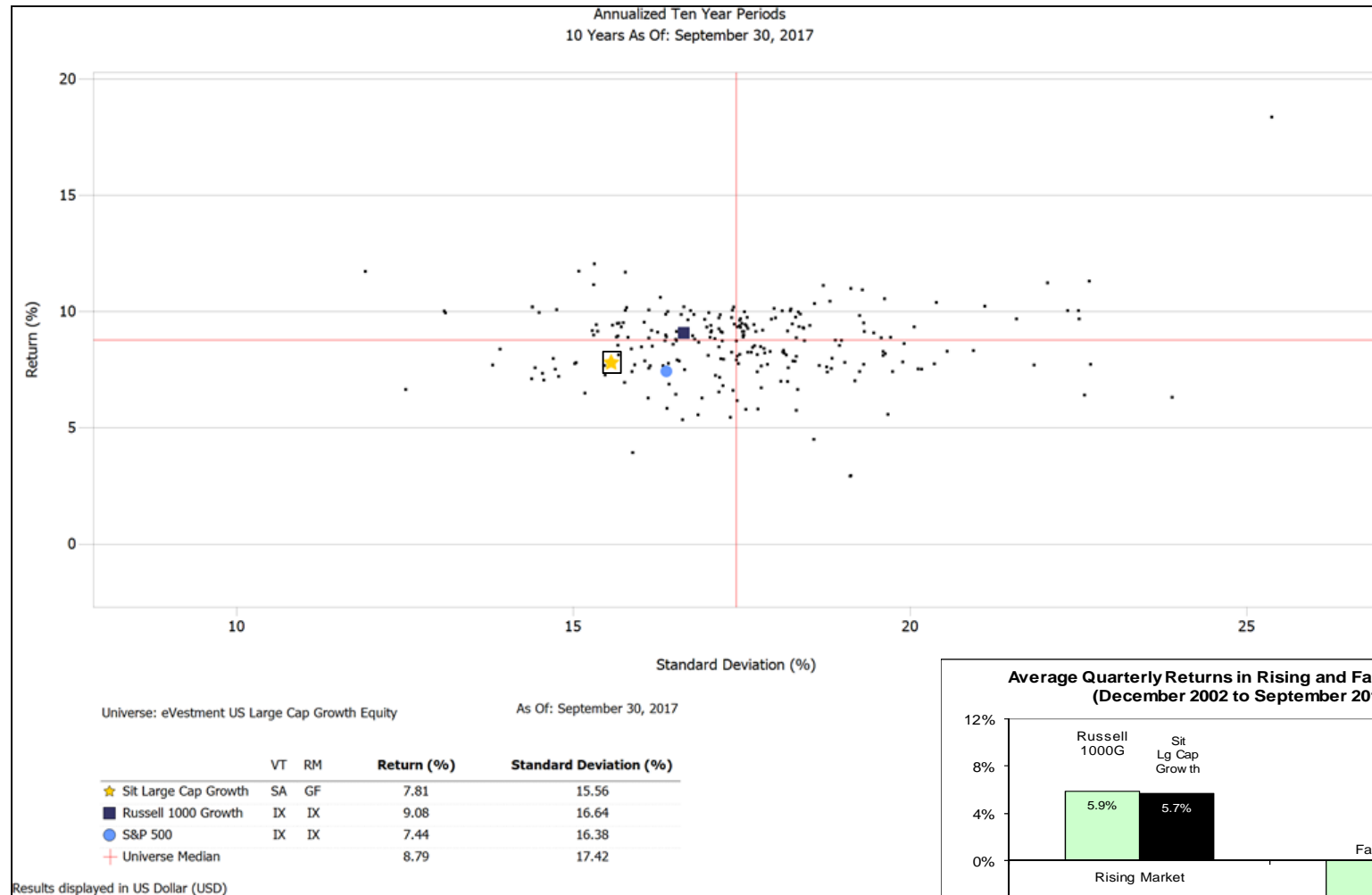
eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. \* All categories not necessarily included. Totals may not equal 100%. Copyright 2012-2017 eVestment Alliance, LLC. All Rights Reserved.

Average Quarterly Returns in Rising and Falling Markets  
Versus 60% S&P 500/40% EAFE  
(June 2006 to September 2017)

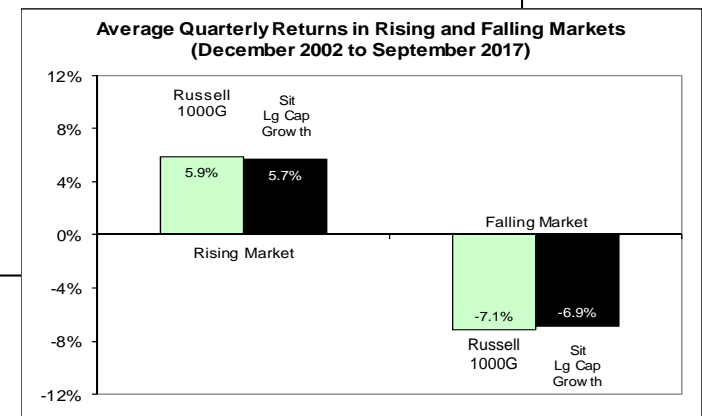


SOURCE: EVESTMENT OCTOBER 17, 2017

# SIT LARGE CAP GROWTH STRATEGY

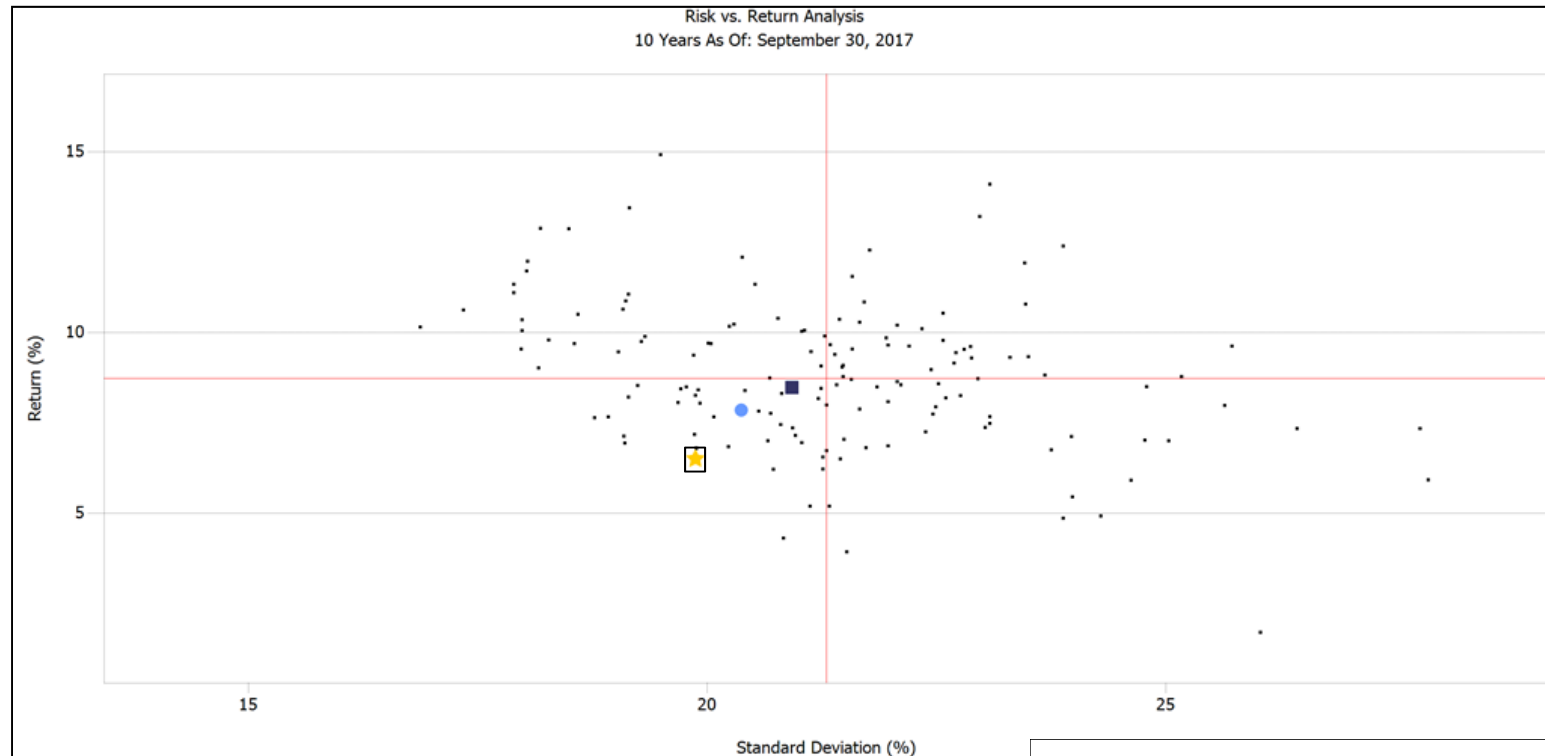


eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. \* All categories not necessarily included. Totals may not equal 100%. Copyright 2012-2017 eVestment Alliance, LLC. All Rights Reserved.



SOURCE: EVESTMENT OCTOBER 17, 2017

# SIT SMALL CAP GROWTH STRATEGY



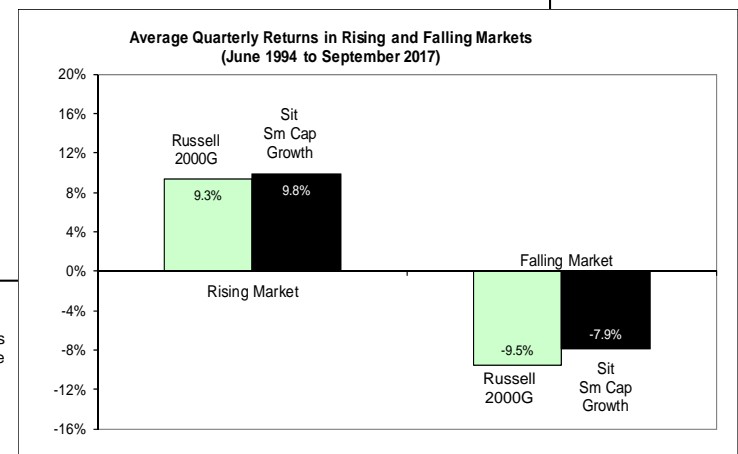
Universe: eVestment US Small Cap Growth Equity

As Of: September 30, 2017

	VT	RM	Return (%)	Standard Deviation (%)
★ Sit Small Cap Growth	SA	GF	6.50	19.87
● Russell 2000	IX	IX	7.85	20.37
■ Russell 2000 Growth	IX	IX	8.47	20.92
+ Universe Median			8.72	21.30

Results displayed in US Dollar (USD)

eVestment Alliance, LLC and its affiliated entities (collectively, "eVestment") collect information directly from investment management firms and other sources believed to be reliable, however, eVestment does not guarantee or warrant the accuracy, timeliness, or completeness of the information provided and is not responsible for any errors or omissions. Performance results may be provided with additional disclosures available on eVestment's systems and other important considerations such as fees that may be applicable. Not for general distribution and limited distribution may only be made pursuant to client's agreement terms. \* All categories not necessarily included. Totals may not equal 100%. Copyright 2012-2017 eVestment Alliance, LLC. All Rights Reserved.



SOURCE: EVESTMENT OCTOBER 17, 2017