Benchmarking Your Investment Program
A Senior Living Industry Perspective

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President
NY CCRC Summer Summit
July, 2014

Agenda

- Market Outlook
- Institutional Investor Expectations
- Focusing on Senior Living
    - 2014 Study Results – New York CCRCs vs. Nation
- Reg 140 Workgroup Update
- Investment Strategies to Consider

Second Quarter, 2014

Market Observations and Evaluation

Small-Cap Stocks Underperforming

	Year-to-Date Total Return 1/1/2014-6/30/2014		
	Growth	Core	Value
Large-Cap	4.73%	6.40%	6.89%
Mid-Cap	4.01%	6.66%	7.82%
Small-Cap	0.90%	3.75%	4.65%

Source: Morningstar Direct

In early July, the Dow Jones Industrial Average broke through the 17,000 point mark before retracting.

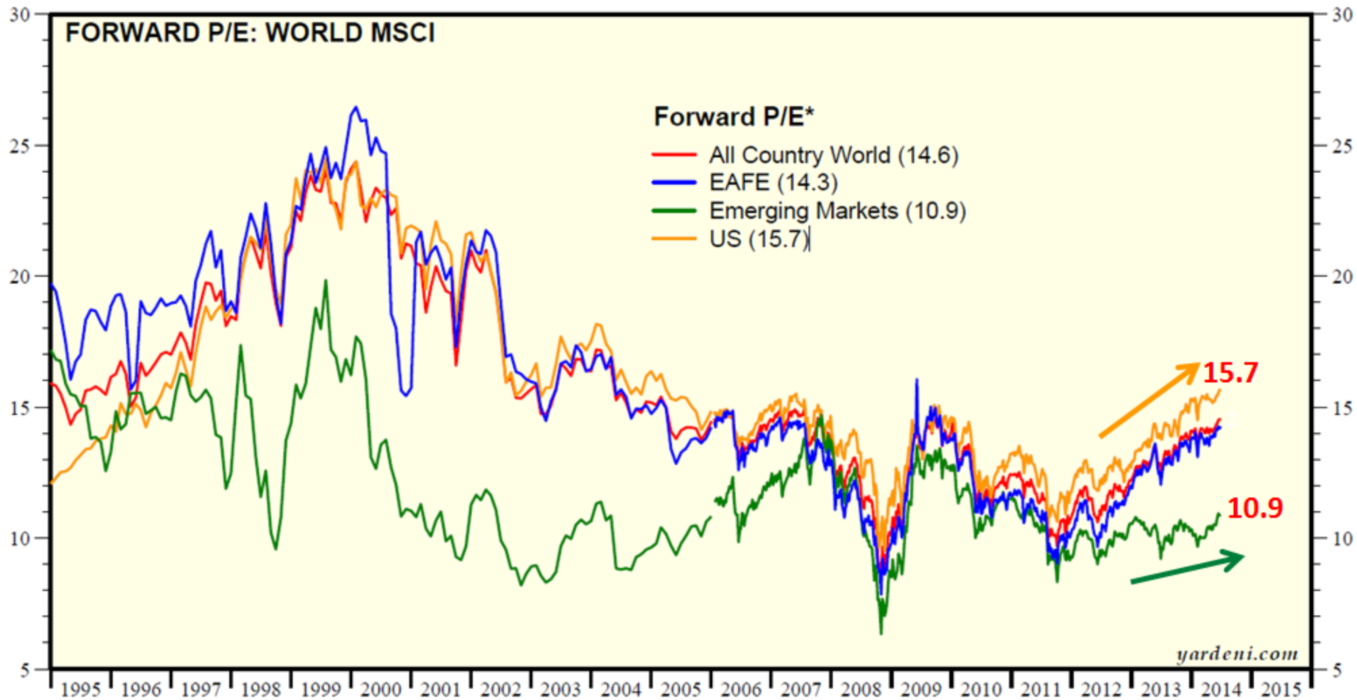
The 10-year treasury is yielding 2.537%.

Q2 GDP came in at 4%, jobs data was positive and real personal consumption expenditures came in at 2.5%

The Fed continues to slow their pace of bond buying ($25B/month) and the media is contemplating they will move to raise rates sooner and possibly faster than previously expected.

Returns shown were obtained from sources we believe to be reliable, but we cannot guarantee their accuracy. Past performance does not guarantee future results. You cannot invest directly in an index.

Better Valuation Abroad



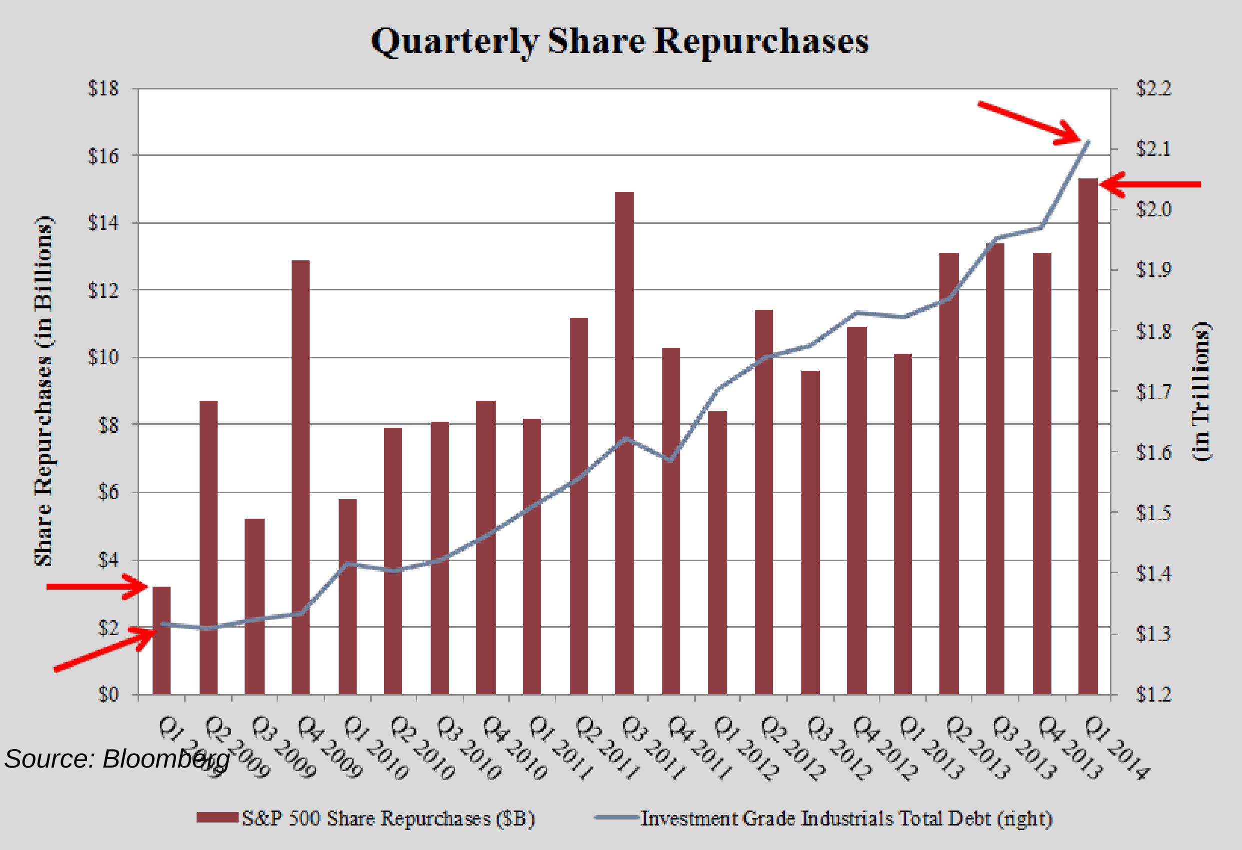
* Price divided by 12-month forward consensus expected operating earnings per share. Monthly through December 2005, weekly thereafter.

Stocks that are more attractively valued are those of international companies, especially in emerging markets.

This chart compares the forward Price/Earnings multiple of equity markets in the United States and abroad. U.S. stocks have experienced several years of strong appreciation and now trade at 15.7x forward earnings.

Currently, emerging markets have mostly trended sideways and are trading at 10.9x forward earnings.

Issuing Debt to Buy Stock



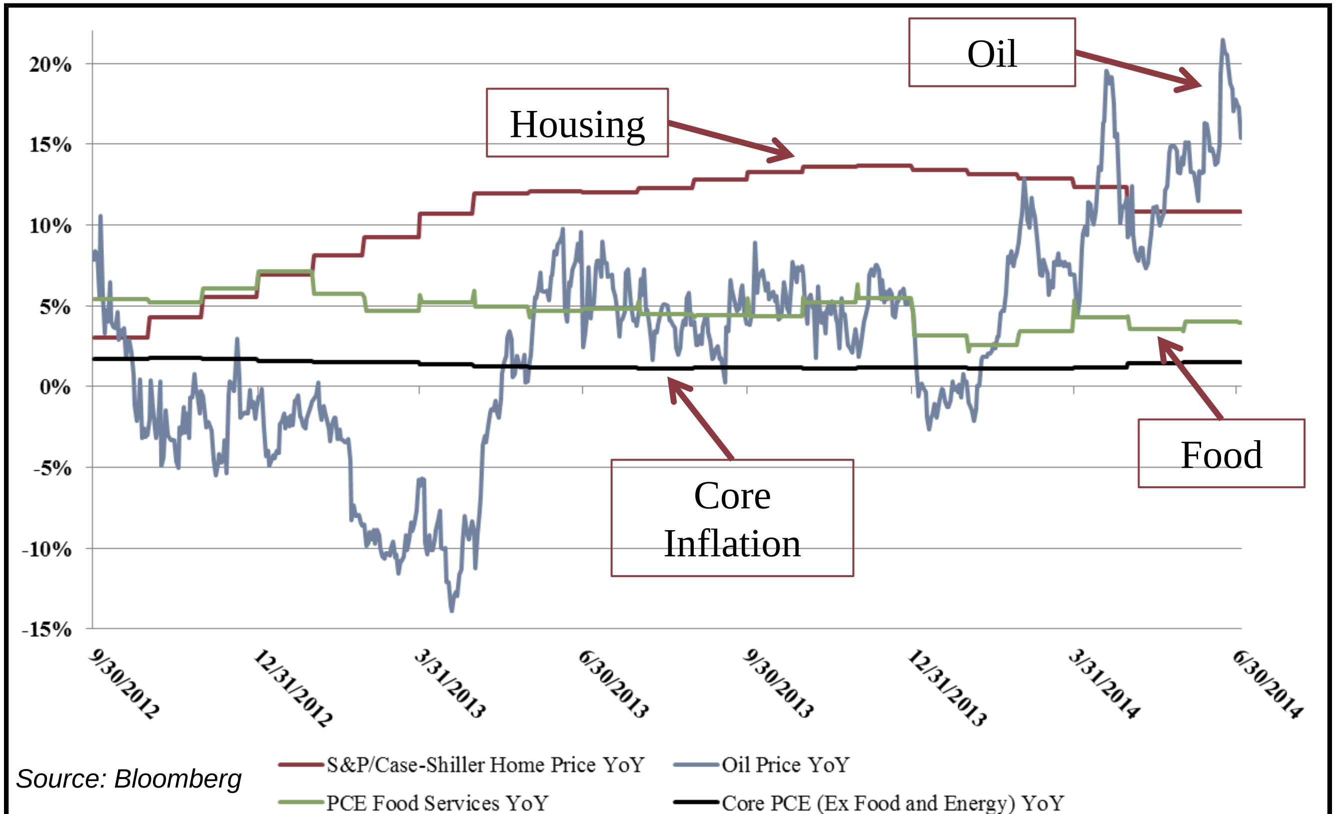
Source: Bloomberg

Low interest rates have allowed corporations to issue substantial amounts of low coupon debt in order to repurchase their outstanding shares, among other things.

The rate of share repurchases per quarter has accelerated from $35 billion five years ago to over $150 billion last quarter. Some of these repurchases were funded from excess cash flow but the climbing total debt line shows that they were also funded by issuing debt.

In the first quarter, share repurchases boosted S&P 500 per share earnings by 3.3%. This may not last. The amount of announced share repurchases in the second quarter slid to nearly a two-year low.

Inflation – Ours or the Fed's?



Source: Bloomberg

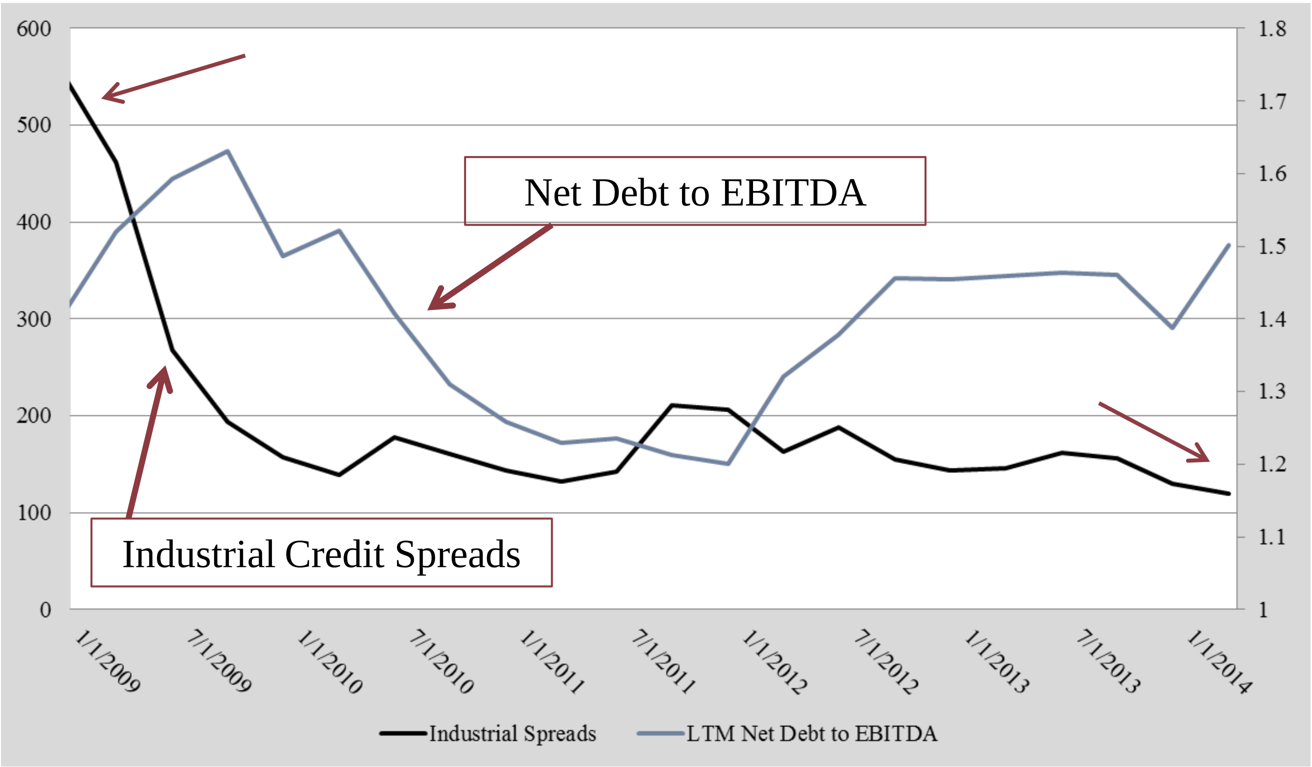
The colored lines on the chart show that food prices have been rising at about a 4% clip, housing has been rising at a double-digit pace and oil prices have been moving higher by over 15% recently.

There is some inflation, yet rates are still low. Food and energy prices tend to be more volatile so the Federal Reserve prefers to hinge policy based on core inflation indices that **exclude** these items.

The recent core price inflation, as represented by the black line on the chart, has been much lower; in the 1.2% to 1.4% range. Core prices are expected to rise too but remain below the Federal Reserve's target rate of 2%.

Low inflation has been an important factor in the Federal Reserve's decision making. With their dual mandate of stable inflation and employment, low inflation provides some cushion for them to move slowly in unwinding easy monetary policy and maintaining lower rates for a longer period in order to boost employment.

More Debt and Less Yield



The black line on the chart represents industrial credit spreads which have tightened from the extremely wide 500 basis points we saw in 2009 to a more normal range of just over 100 basis points today.

This spread level is justified as long as credit fundamentals remain healthy, but because of the low level of growth, we are starting to see companies use their balance sheets to make their stocks more attractive.

Some companies are issuing debt to buy higher growth companies, some are using debt to fund share buy-backs that improves earnings per share and others are using it to increase dividends.

The blue line on the chart reflects the increase in debt that industrial companies are taking on relative to their earnings before interest, taxes and depreciation or EBITDA.

As this measure of leverage rises, spreads are likely to widen. At this point in the cycle, it is important to reduce exposure to corporate credit issuers that are likely to re-leverage their balance sheets and diversify into other sectors.

Institutional Investor Expectations

Commonfund Forum Investor Outlook

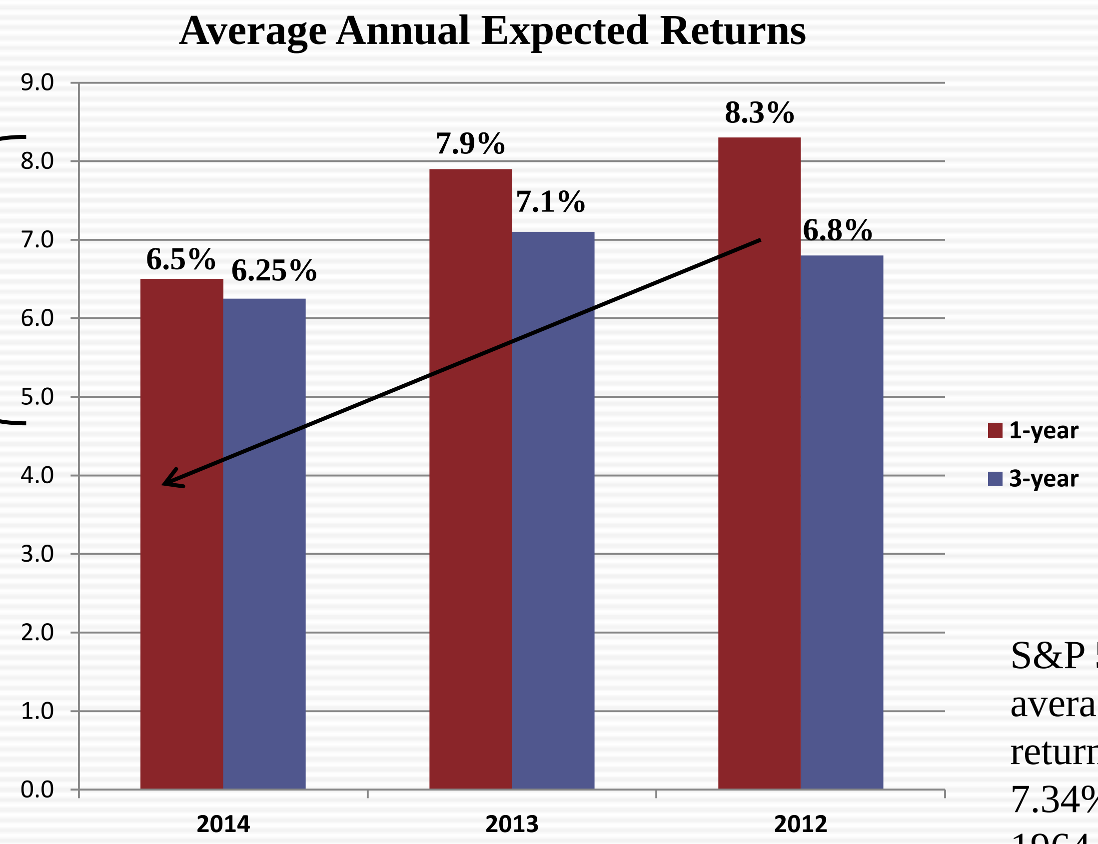
March, 2014

Performance Return Expectations - S&P 500

One-Year and Three-Year Outlook

60% of respondents expect returns in the 5%-8% range for the 2014 period

Coming off a 32% return in 2013, returns below long-term averages are to be expected



S&P 500 10-year average annual return 2004-2013 7.34%, 50-year 1964-2013 9.89%

Source: Commonfund Forum Investor Outlook Survey – March 2014

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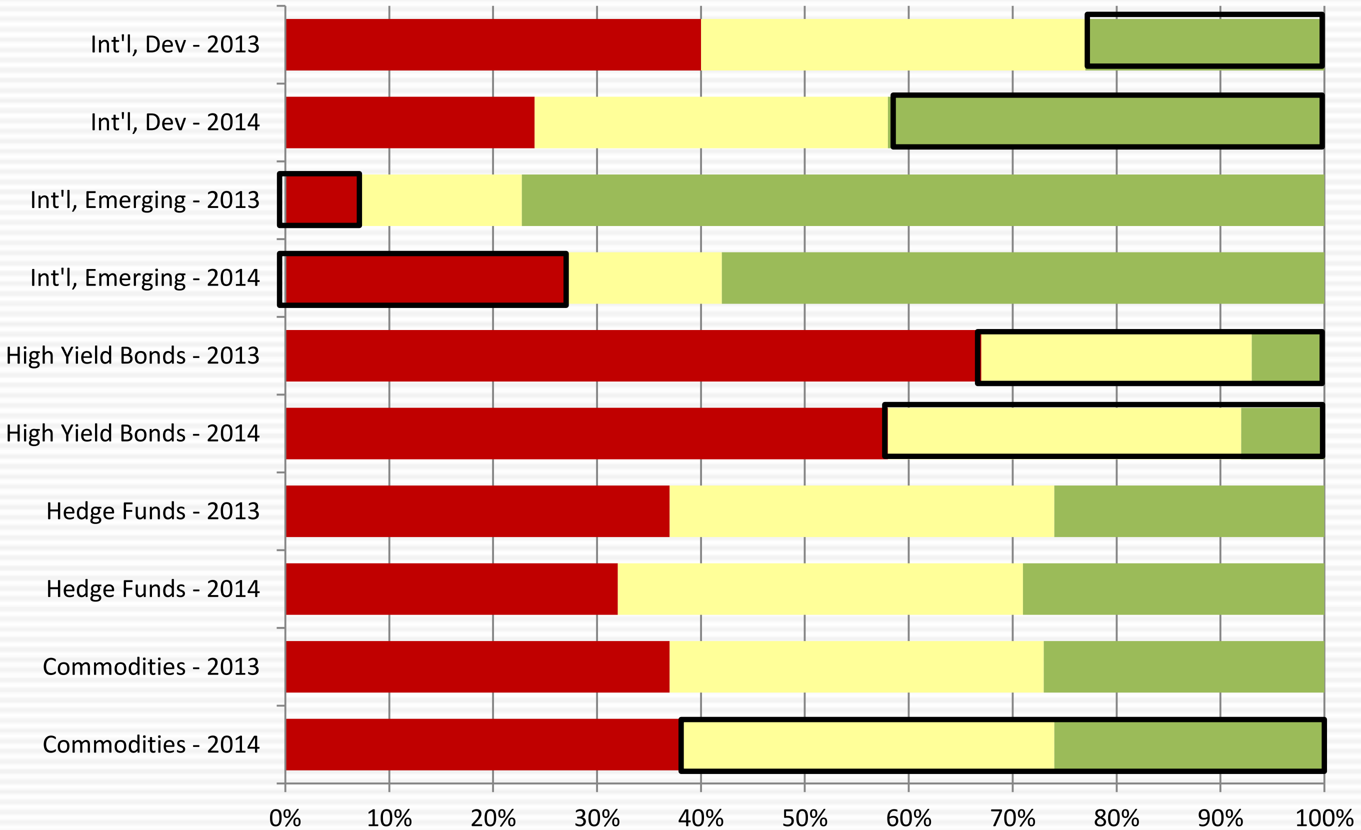
Asset Class Performance vs. S&P 500

Three-Year Outlook for S&P 2013 7.10%, 2014 6.25%



International equities expected to outperform – developed countries gain over emerging

Expectations for equity-like or better returns from HY has increased

Important to assess risks vs. equity in the hedge fund class

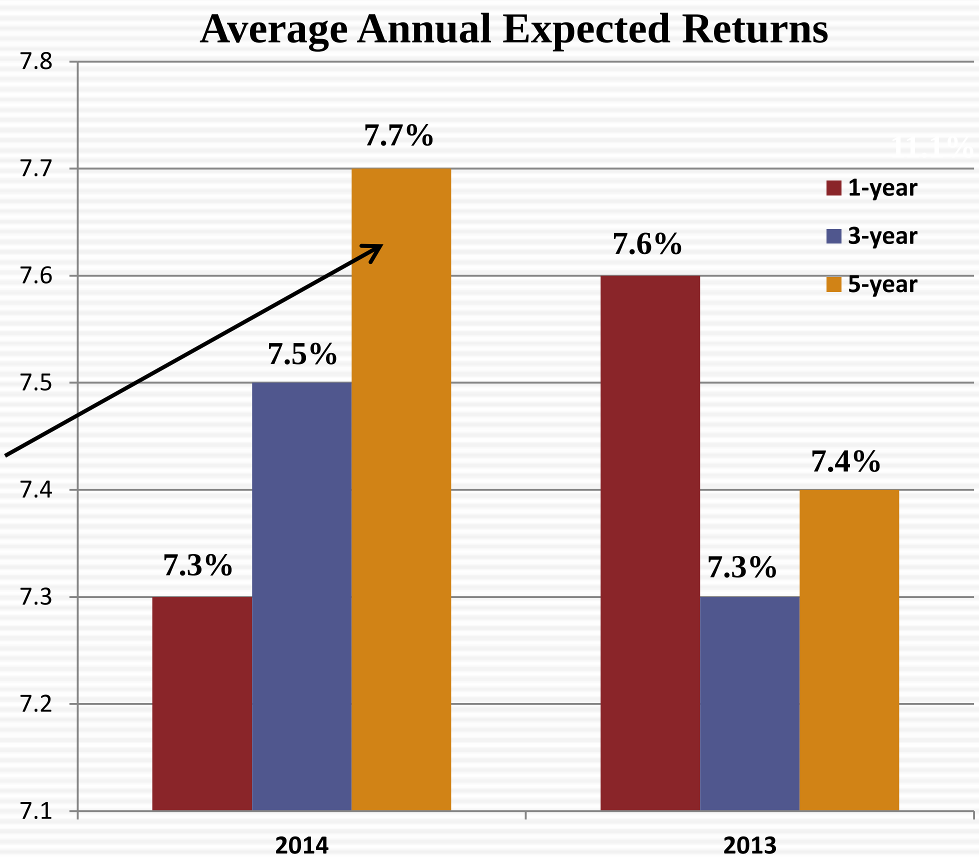
High expectations for commodities following 3-years of negative returns

Underperform **Match** **Outperform**

Yield on the 10-Year Treasury expected to reach 3.0%-3.5% by YE 2014

Source: Commonfund Forum Investor Outlook Survey – March 2014

Portfolio Performance Return Expectations



Median return expectations for the 5-year outlook went up to 8.0% in 2014 from 7.0% in 2013

With expectations for equity returns below historical averages, improved longer-term returns are expected to come from international markets and improving fixed income yields.

Source: Commonfund Forum Investor Outlook Survey – March 2014

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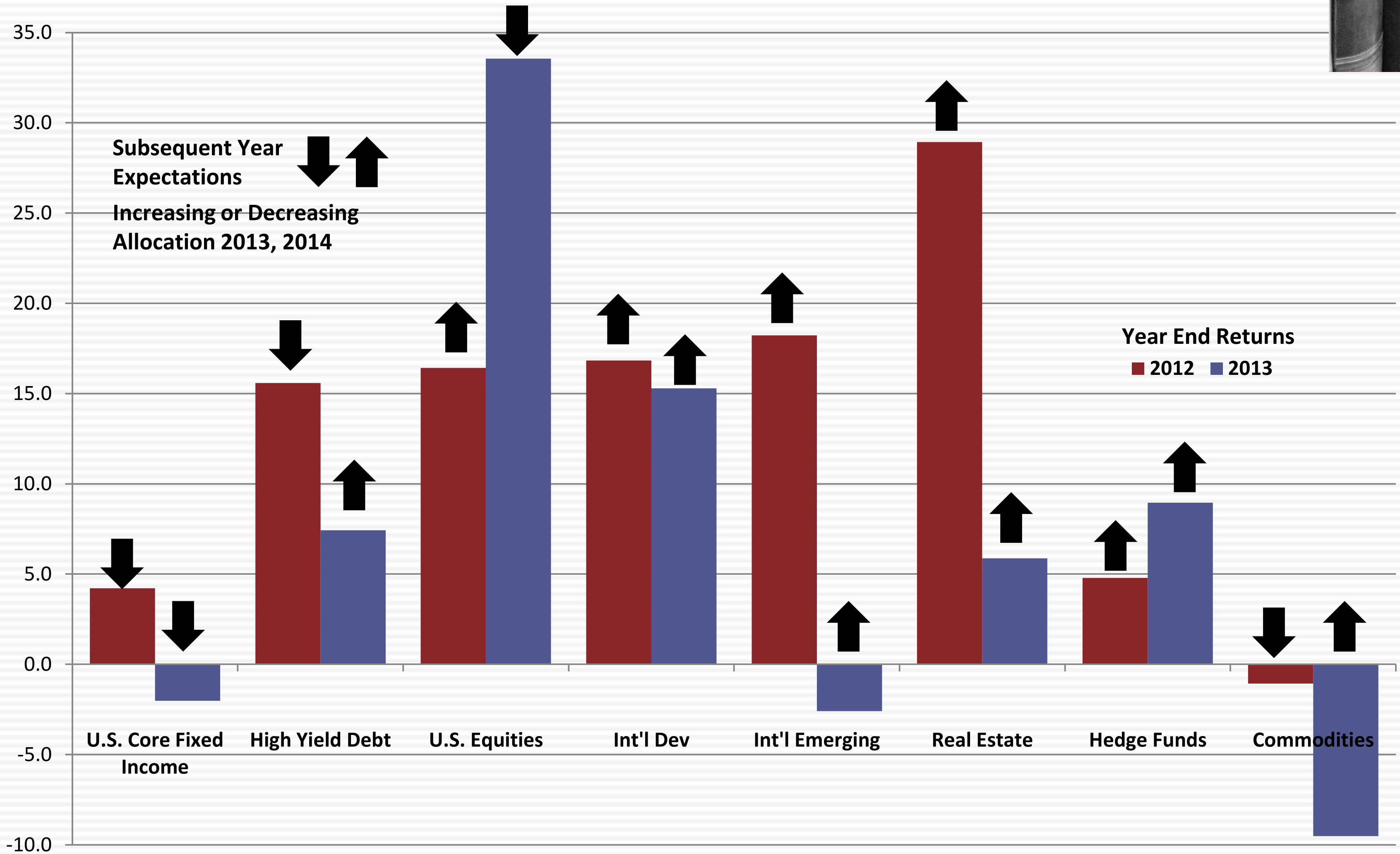
Prior Year's Returns Influence Future Actions

Asset Allocation Expectations Next 12-18 Months



Source: Commonfund Forum Investor Outlook Survey – March 2014 Returns are from publically available sources and information we believe reliable.

Institutional Investor Outlook

Concerns Over the Next Three Years

Greatest Concerns

- Market (investment) Volatility - 54% were concerned to extremely concerned vs. 56% 2013
- Shortfall in Meeting Return (expectations) – 42% were concerned to extremely concerned vs. 48% 2013
- Risk Management – Remains a concern with for 79%
  - Known unknows heading our way
    - End of Fed bon buying program
    - Raising interest rates
    - Cost of ACA and entitlement programs

Least Concerning

- Inflation – 84% reported modest to no concern about inflation vs 73% in 2013
- Portfolio Tail Risks – Extreme concern for a tail risk event fell, but 42% report modest concerns vs. 35% in 2013
  - 58% point to Geopolitical Crisis as the biggest concern for a tail risk event
  - 55% were concerned with Mideast Turmoil
  - 46% indicated concern with China and a slowdown in Emerging Markets

Source: Commonfund Forum Investor Outlook Survey – March 2014

Institutional Investor Outlook

Return outlook for U.S equities is moderating to below historical averages

Global exposure continues to be a preferred source of returns and risk diversifier

- Access to markets
- Ease of global trade
- World is more intertwined than in the past – good and bad

Alternative sources of income are attractive and improve diversification from U.S. markets, inflation rates and economic conditions (REITs, Commodities)

Active portfolio management (asset class structuring) is necessary to navigate the opportunities and challenges of our “smaller” global economy

2014 Senior Living Study

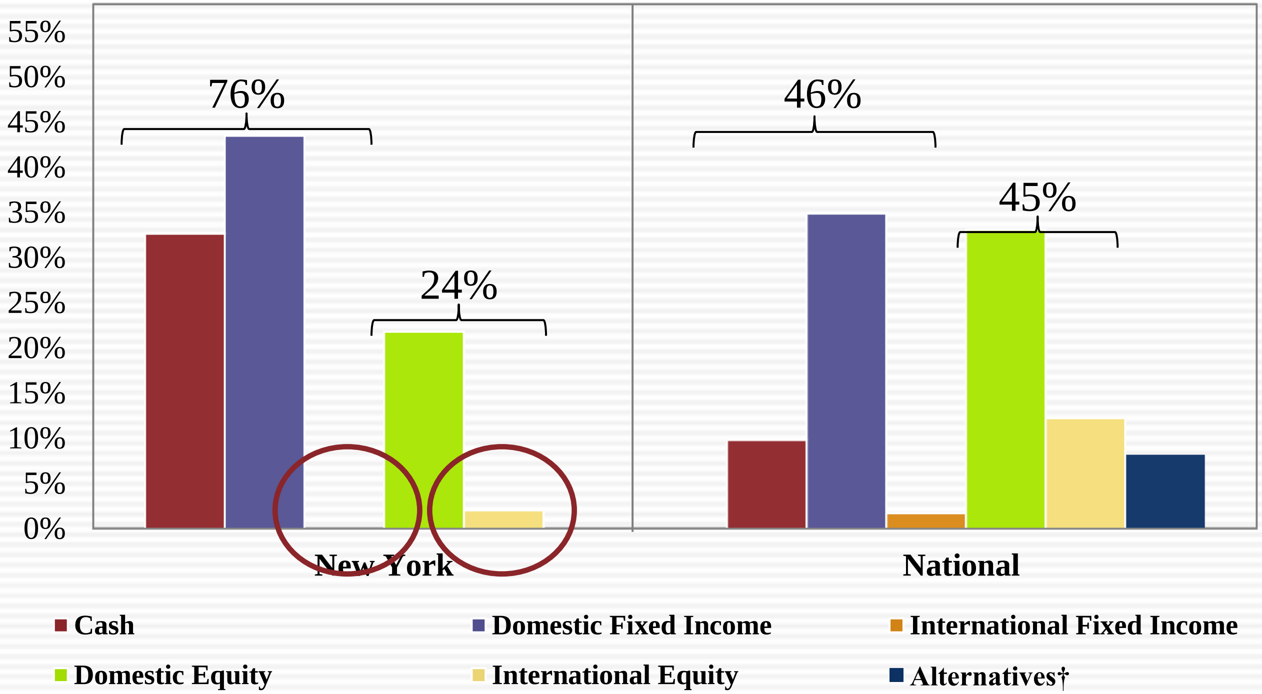
Comparative Data

Asset Allocation – Significant Differences Persist

NY CCRCs reported holding 30% more fixed income and cash than communities across the nation, down from 2013.

Nationally, communities hold 21% more in equities and 8% more in alternatives than NY CCRCs.

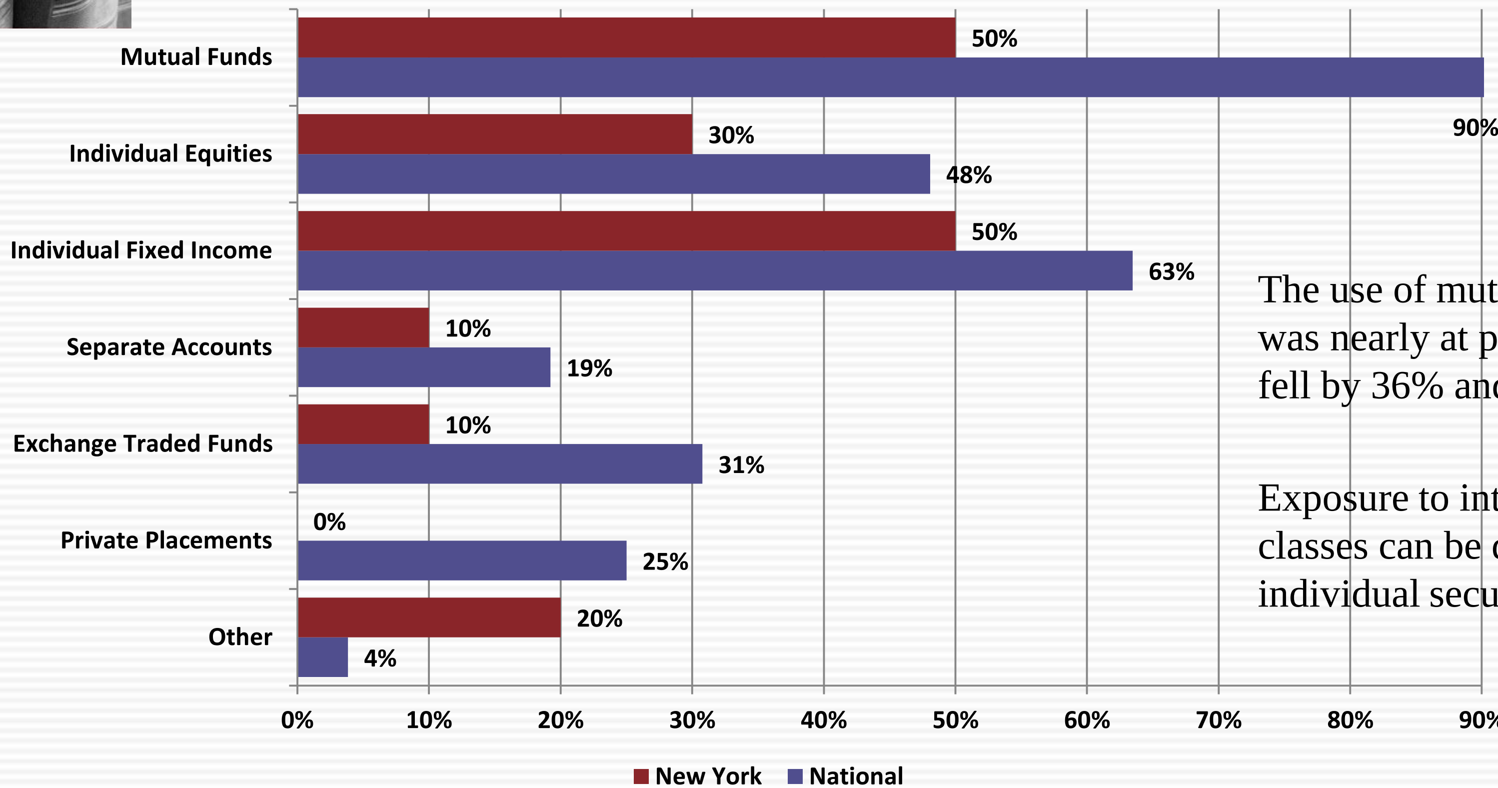
Global exposure offers an important source of returns and risk management. Low allocation among NY CCRCs will likely hamper future returns



† Alternative asset classes include Hedge Funds, Hedge Fund of Funds, Real Estate, Private Equity, Commodities and Hard Assets.

Sources: Cleary Gull Advisors 2014 Senior Living Study. * Commonfund Forum Investor Outlook Survey – March 2014

Use of Pooled Products Declined Among NY CCRCs



The use of mutual fund and ETFs was nearly at parity in 2013 but fell by 36% and 19% in 2014.

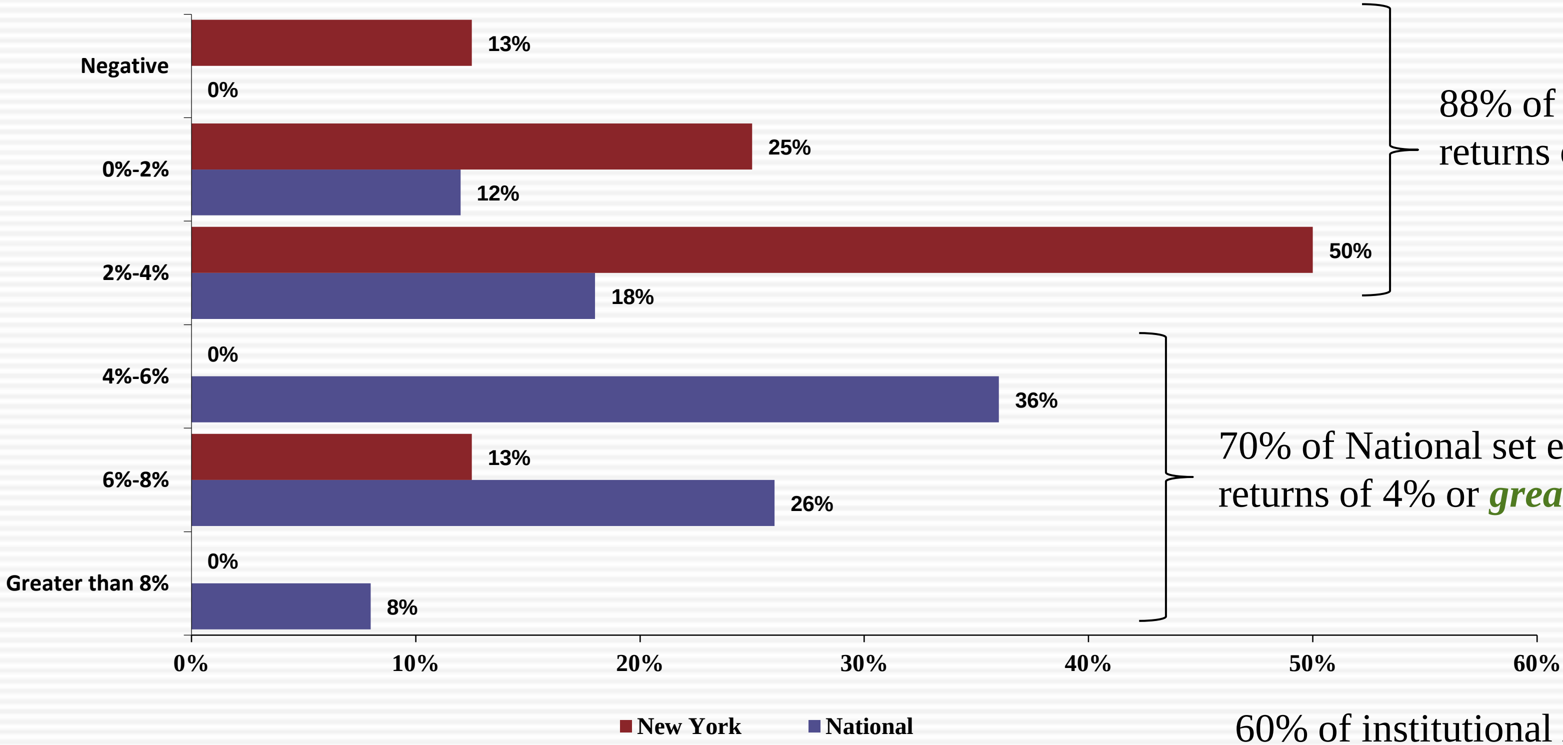
Exposure to international asset classes can be difficult through individual securities/SMAs.

Allowing access to mutual funds and ETFs is imperative for access to the opportunities found in these and other asset classes.

Source: Cleary Gull Advisors 2014 Senior Living Study.

Return Expectations are Significantly Lower for NY CCRCs

Expected Return for 2014



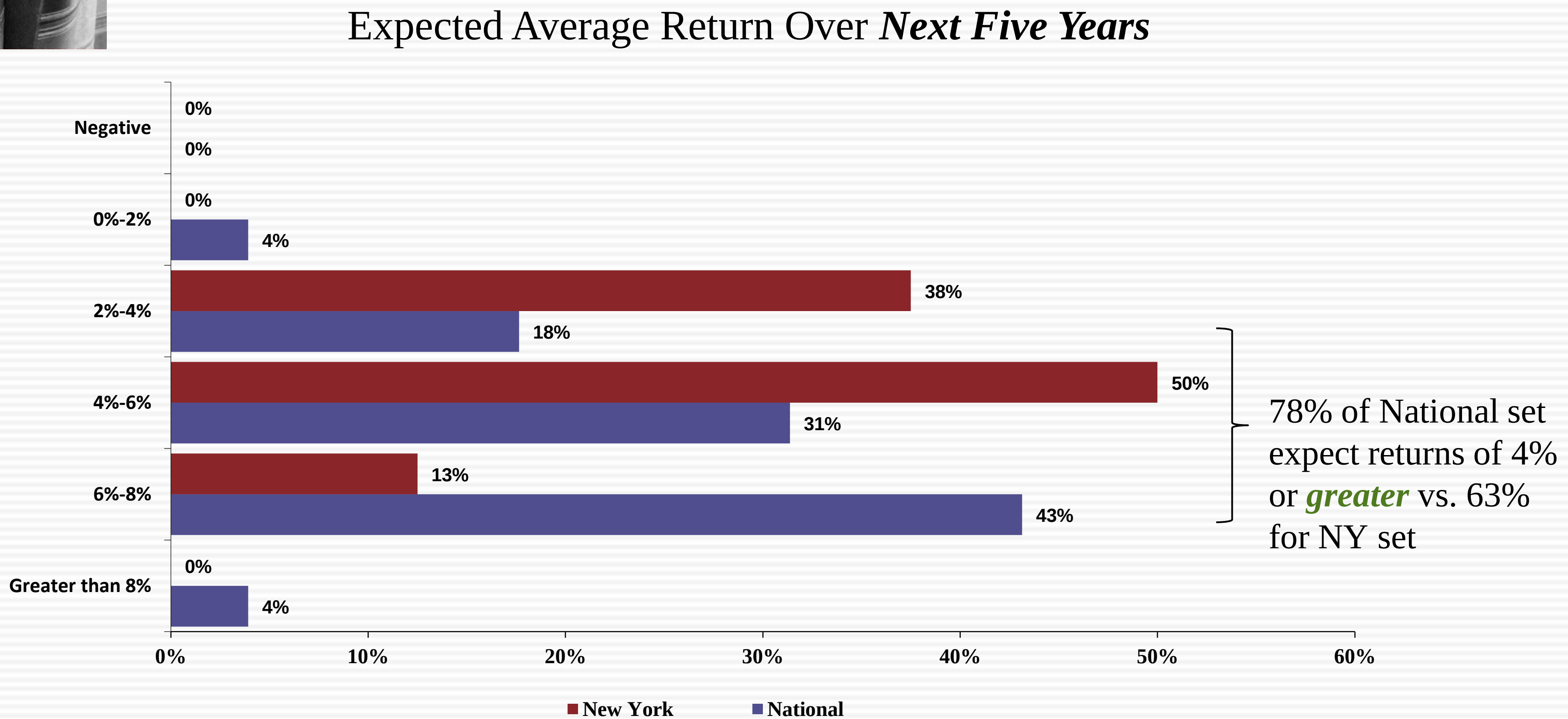
88% of NY set expect returns of 4% or ***less***

70% of National set expect returns of 4% or ***greater***

60% of institutional investors expect returns in the **5%-8% range for 2014**

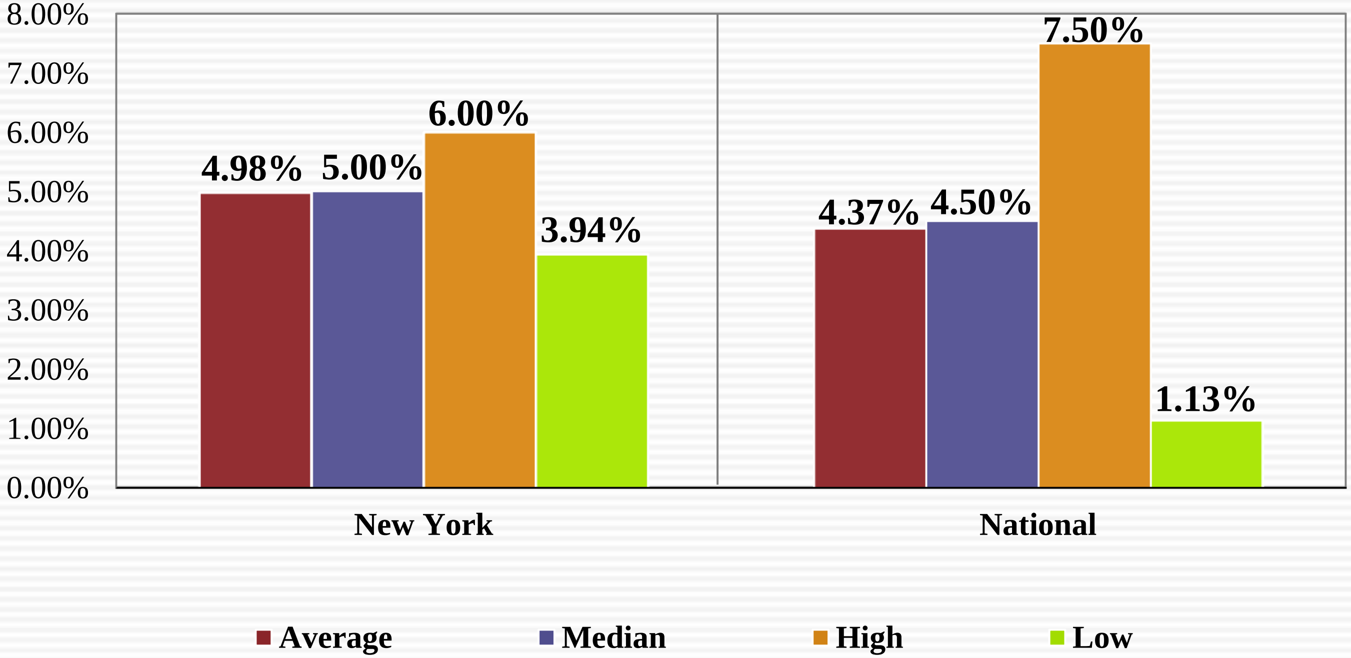
Source: Cleary Gull Advisors 2014 Senior Living Study. Commonfund Forum Investor Outlook Survey – March 2014

Expectations Returns Improve for NY CCRCs Over Time



Source: Cleary Gull Advisors 2014 Senior Living Study.

Outpacing Your Cost of Capital Shouldn't Be Unreasonable



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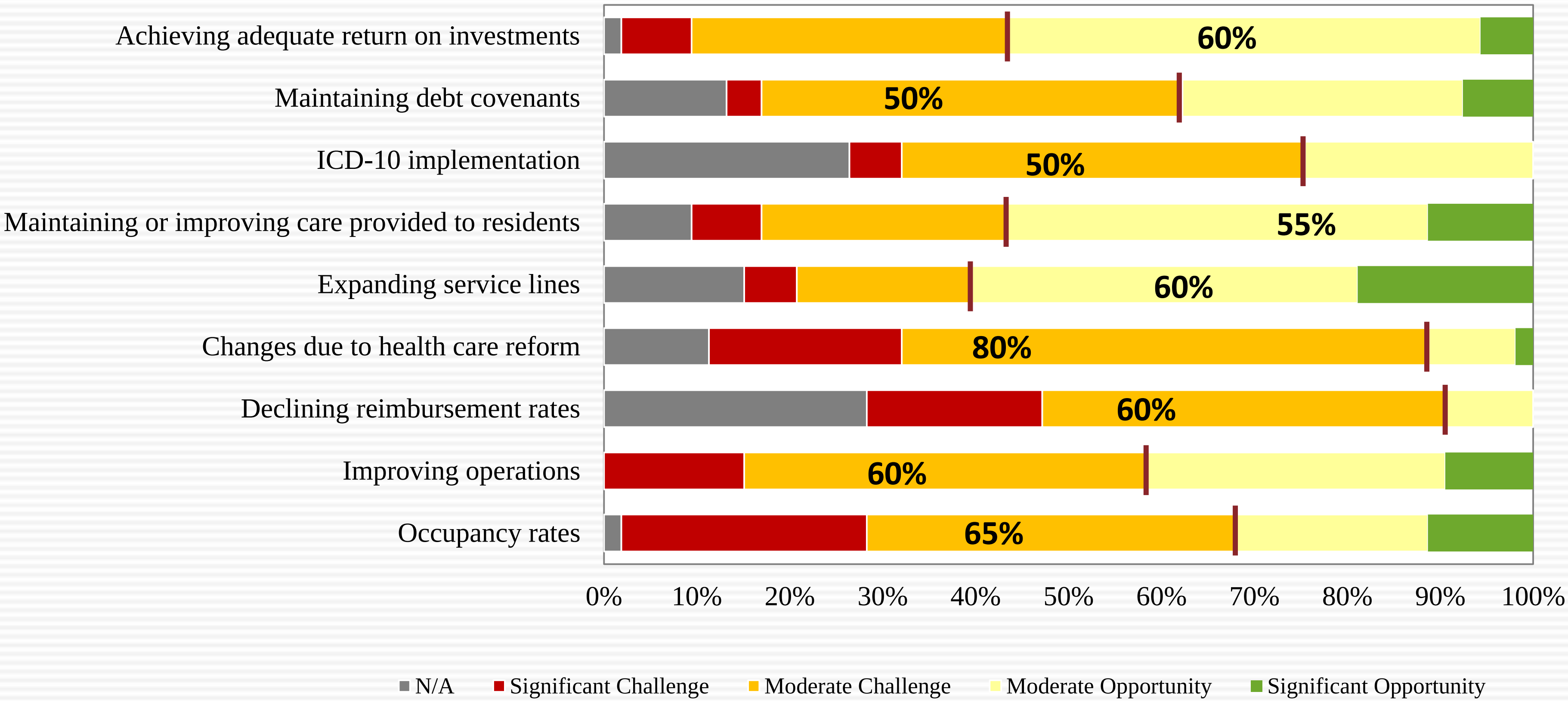
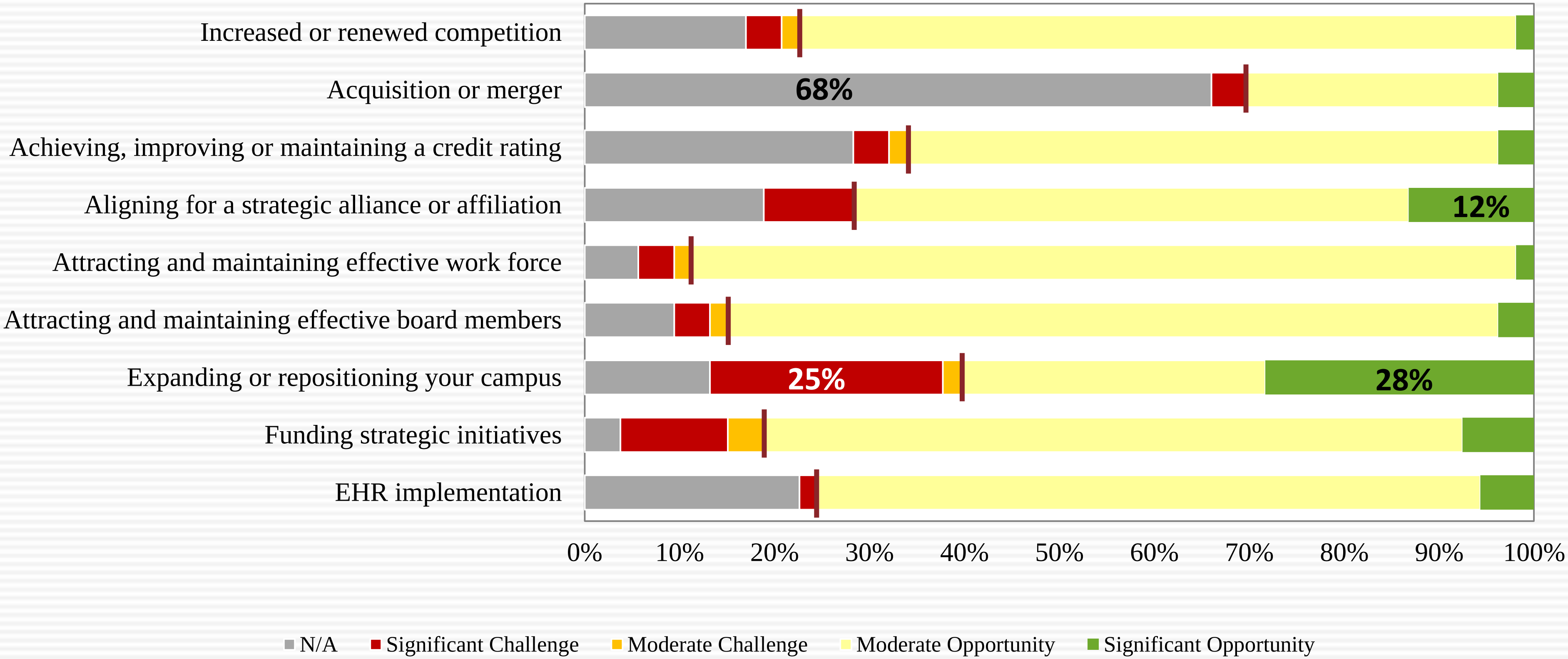
Source: Cleary Gull Advisors 2014 Senior Living Study. Commonfund Forum Investor Outlook Survey – March 2014

Operational Outlook
Challenges and Opportunities 12-24 Months



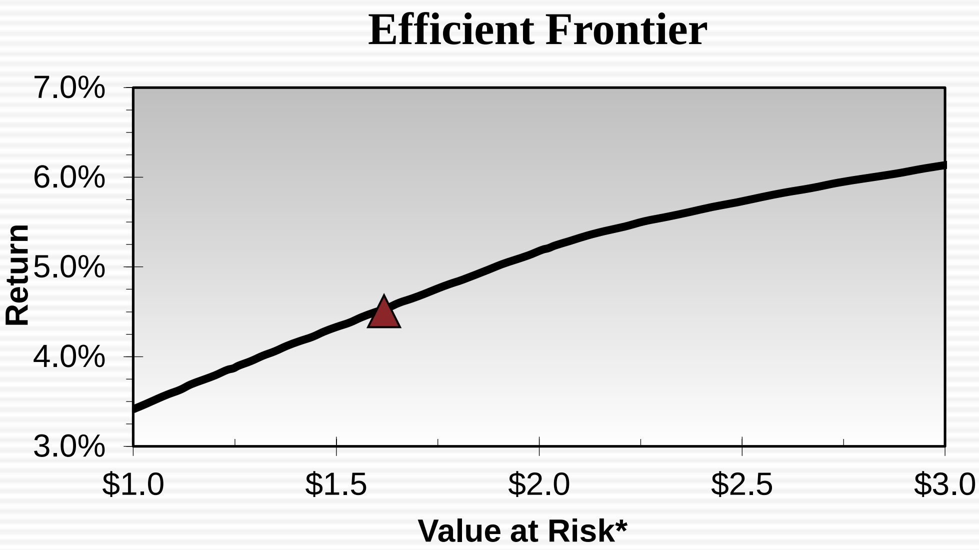
Source: Cleary Gull Advisors 2014 Senior Living Study.

Strategic Planning Outlook
Challenges and Opportunities 12-24 Months



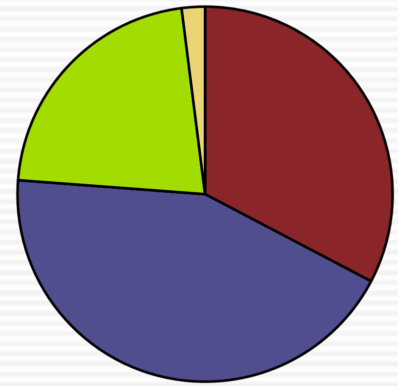
Source: Cleary Gull Advisors 2014 Senior Living Study.

NY CCRCs Average Allocation



		Annual Return	Standard Deviation	Value at Risk
NY Ave Allocation	▲	4.51%	4.85%	$ 1,595,508

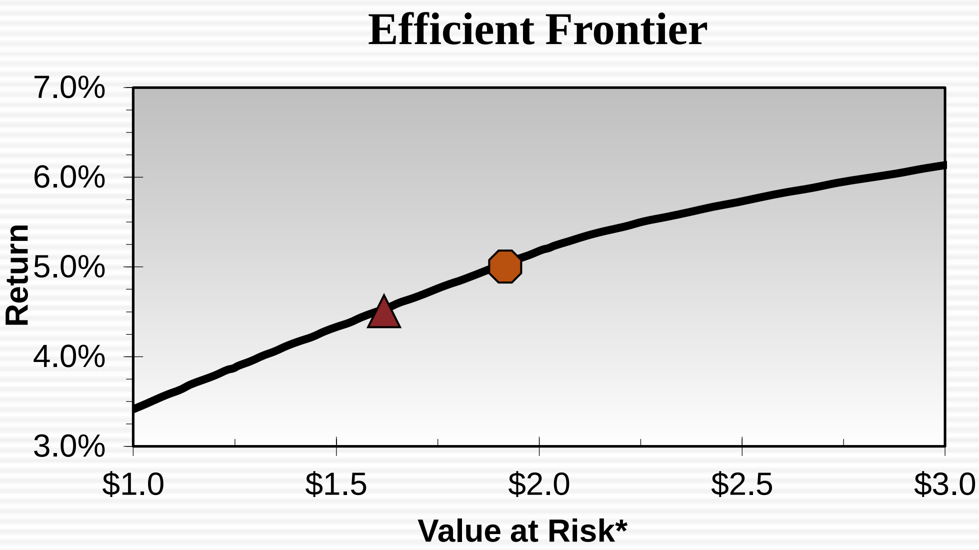
Source: Cleary Gull Advisors 2014 Senior Living Study



Cash Equivalents	32.69%	$	6,538,000
Domestic Fixed Income	43.50%	$	8,700,000
International Fixed Income	0.00%	$	-
Domestic Equity	21.81%	$	4,362,000
International Equity	2.00%	$	400,000
Alternatives	0.00%	$	-
Total	**100.00%**	**$**	**20,000,000**

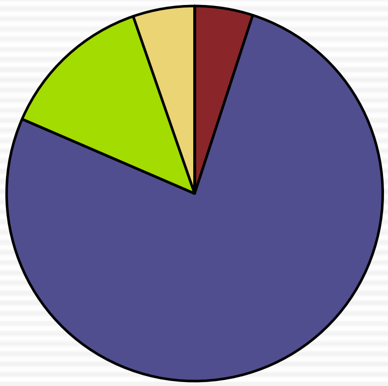
Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.

NY CCRCs Average Cost of Capital



		Annual Return	Standard Deviation	Value at Risk
NY Ave CoC		4.98%	5.57%	$ 1,832,367

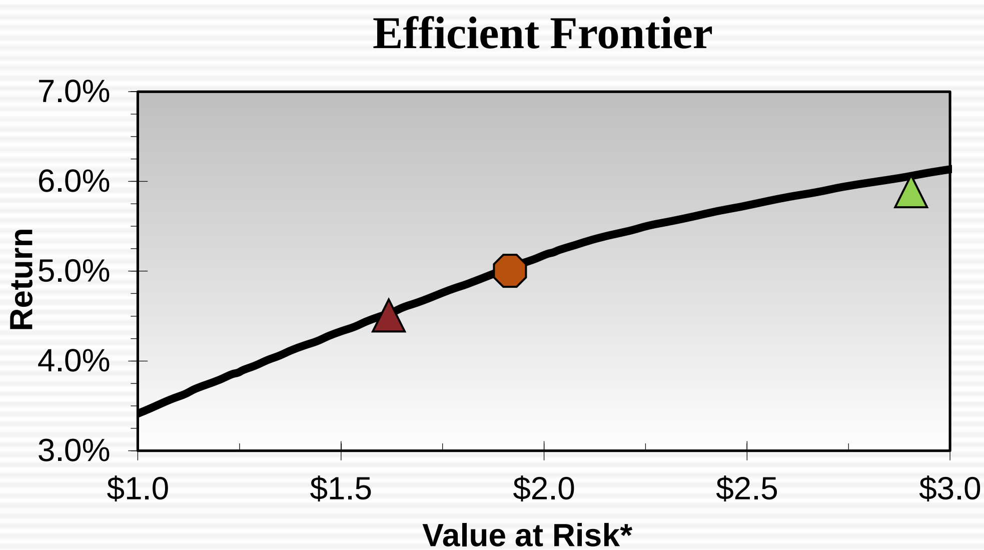
Source: Cleary Gull Advisors 2014 Senior Living Study



	Cash Equivalents	5.00%	$ 1,000,000
	Domestic Fixed Income	76.50%	$ 15,300,000
	International Fixed Income	0.00%	$ -
	Domestic Equity	13.20%	$ 2,640,000
	International Equity	5.30%	$ 1,060,000
	Alternatives	0.00%	$ -
	Total	100.00%	$ 20,000,000

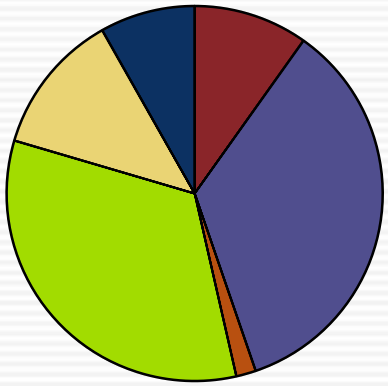
Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.

National Average Allocation



	Annual Return	Standard Deviation	Value at Risk
National Ave Allocation	5.81%	8.82%	$ 2,901,522

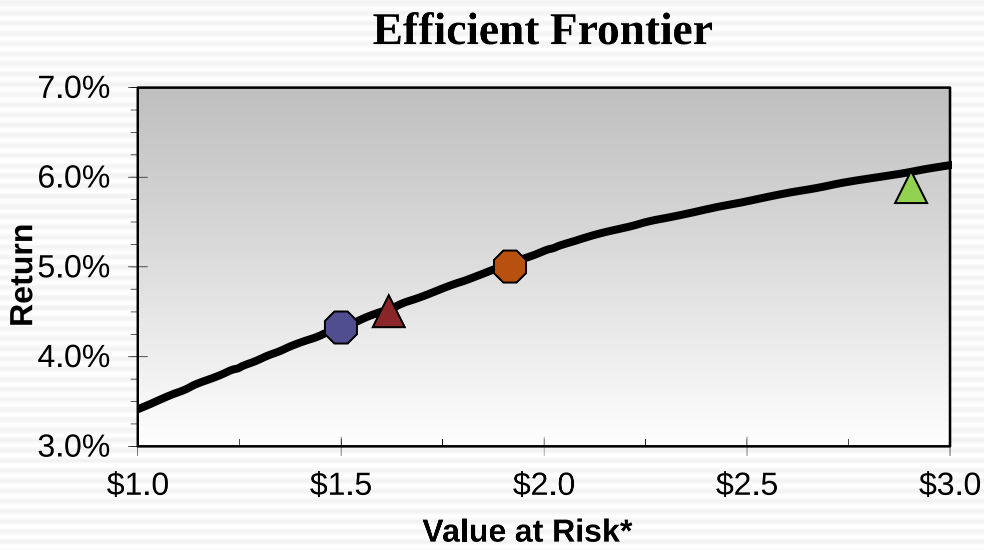
Source: Cleary Gull Advisors 2014 Senior Living Study



Cash Equivalents	9.83%	$ 1,966,000
Domestic Fixed Income	34.91%	$ 6,982,000
International Fixed Income	1.70%	$ 340,000
Domestic Equity	33.12%	$ 6,624,000
International Equity	12.26%	$ 2,452,000
Alternatives	8.18%	$ 1,636,000
Total	100.00%	$ 20,000,000

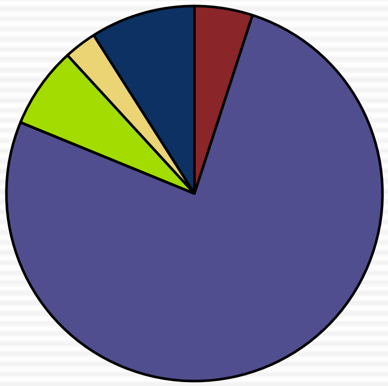
Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.

National Average Cost of Capital



	Annual Return	Standard Deviation	Value at Risk
National Ave CoC	4.37%	4.63%	$ 1,523,134

Source: Cleary Gull Advisors 2014 Senior Living Study



Cash Equivalents	5.00%	$ 1,000,000
Domestic Fixed Income	76.20%	$ 15,240,000
International Fixed Income	0.00%	$ -
Domestic Equity	7.00%	$ 1,400,000
International Equity	2.80%	$ 560,000
Alternatives	9.00%	$ 1,800,000
Total	100.00%	$ 20,000,000

Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.

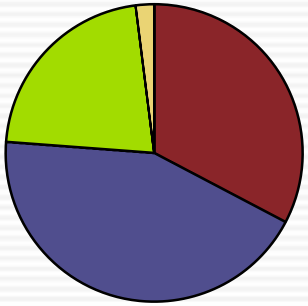
NY CCRCs versus the Nation

On $20,000,000 Portfolio*

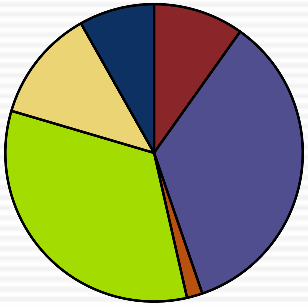
CCRC avg vs. Proposal

-$412,049 for 2013

NY CCRC Average



National Average



	NY CCRC Average %	NY CCRC Average $	National Average %	National Average $
Cash Equivalents	32.69%	$ 6,538,000	9.83%	$ 1,966,000
Domestic Fixed Income	43.50%	$ 8,700,000	34.91%	$ 6,982,000
International Fixed Income	0.00%	$ -	1.70%	$ 340,000
Domestic Equity	21.81%	$ 4,362,000	33.12%	$ 6,624,000
International Equity	2.00%	$ 400,000	12.26%	$ 2,452,000
Alternatives	0.00%	$ -	8.18%	$ 1,636,000
Total	**100.00%**	**$ 20,000,000**	**100.00%**	**$ 20,000,000**

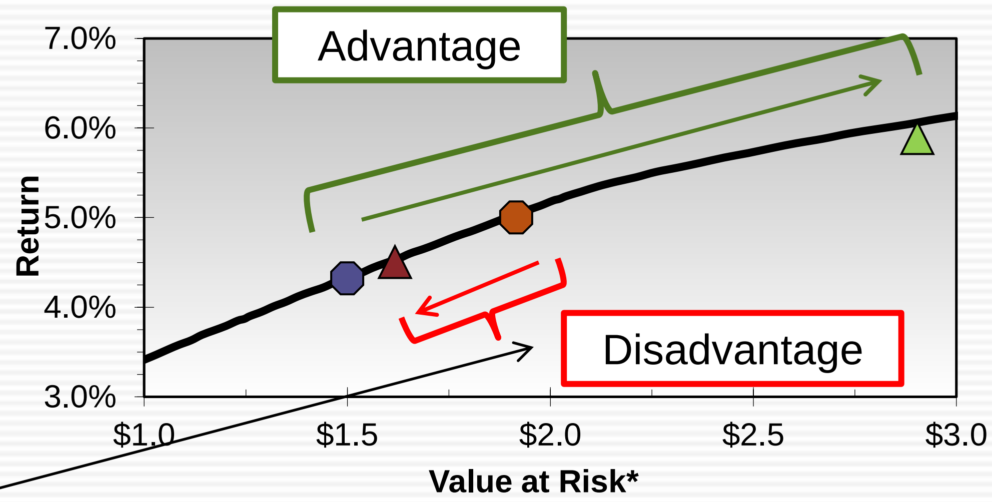
Annual Return	Standard Deviation	Value at Risk
4.51%	4.85%	$ 1,595,508

Annual Return	Standard Deviation	Value at Risk
5.81%	8.82%	$ 2,901,522

Source: Cleary Gull Advisors 2014 Senior Living Study * Based on 12/31/2013 index returns for asset class allocation, see appendix.

Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.

Summary – All Scenarios



*In millions

With a cost of capital that is higher than investment returns, a negative arbitrage situation exists for NY CCRCs

	Annual Return	Standard Deviation	Value at Risk
NY Ave Allocation	4.51%	4.85%	$ 1,595,508
NY Ave CoC	4.98%	5.72%	$ 1,881,713
National Ave Allocation	5.81%	8.82%	$ 2,901,522
National Ave CoC	4.37%	4.63%	$ 1,523,134

Advantage
NY CCRCs - 0.47%
National + 1.44%

Source: Cleary Gull Advisors 2014 Senior Living Study

Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.

Reg 140 Workgroup Update

Reg 140 Workgroup Update

- Original members have been at this for ____ years
- ______ amendment has been passed to date
- ______ proposals have been submitted in the recent years
- Since 2013 CCRC Summer Summit
  - Revised ________ proposal was submitted (select examples)
    - 35% equities
    - Access to mutual funds and ETFs without exemption requirement
    - Access to global fixed income
  - LA NY secured outside counsel to support our efforts
  - Met with DoFS representatives in December, 2013
  - Primary contact at DoFS announced his retirement
  - Second meeting with DoFS representatives July 23, 2014
  - Acknowledged they need to "clarify" the details
- DoFS' position
  - Recognize need to be more balanced – increase equity allocation
  - Acknowledge need to allow mutual funds and ETFs
  - We encouraged them to consider the provider's ability to easily manage the selection and reporting of mutual funds by using readily available data sources (i.e. Morningstar)
  - They anticipate providing clarification by September
  - Process from there?

What Can Organizations Do Today?

- Minimize cash holdings to average appx. 5%-10% – unless liquidity is needed or used to manage fixed income duration

- Use mutual funds and ETFs to increase diversification, access international markets and address fixed income opportunities/threats

- Submit fact sheets and prospectuses for exemption– look to sources like Morningstar for FI credit ratings

- Given extremely high allocation to fixed income consider the following to manage for Total Return:

  - **Duration Management** – Keep portfolio duration moderately short of your benchmark because rates have a bias upwards, use ETFs tactically

  - **Yield Curve Positioning** – Yield curve is flatter but still historically steep. The 7-year area of the credit curve and 7-10 year areas of the municipal curve are attractive

  - **Sector Rotation** – Spread sectors are likely to outperform over the intermediate term, securitized assets are relatively attractive (MBS, CMBS), local currency bonds are attractive, slowly average out of investment grade corporates as fundamentals weaken, increase diversification within spread sectors

  - **Security Selection** – Focus on companies that are less exposed to leveraging events, reduce exposure to investment grade industrials, BBB rated credits and financials are relatively attractive, use ETFs tactically as volatility increases, allocate to non-traditional, unconstrained bond mutual funds (probably no or limited opportunity for CCRCs)

Based on Cleary Gull's views as of July, 2014. Subject to change without notification. These statements to not constitute advice or the promise to provide advice. Individual decisions should be based your unique risk tolerance, time horizon and other relevant factors.

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Questions or Comments

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Copies of this presentation
Copies of the NY CCRC Special Issue study – Due out by late August

Actual Average NY CCRC Allocation vs Reg 140 Workgroup Proposed Allocation

	20000000		13/31/2013			
Proposed AA	weight	weight $	return		wtd return	wtd return $
Russell 3000	24.50%	4,900,000		33.55%	8.22%	1,643,950
MACI ACWI ex US	10.500%	2,100,000		15.29%	1.61%	321,090
Barclay Intd Gov credit	60.00%	12,000,000		-0.86%	-0.52%	-103,200
Cash	5.00%	1,000,000		0.00%	0.00%	0
					9.31%	1,861,840

	20000000		13/31/2013			
Actual in report	weight	weight $	return		wtd return	wtd return $
Russell 3000	21.81%	4,362,000		33.55%	7.32%	1,463,451
MACI ACWI ex US	2.00%	400,000		15.29%	0.31%	61,160
Barclay Intd Gov credit	43.50%	8,700,000		-0.86%	-0.37%	-74,820
Cash	32.69%	6,538,000		0.00%	0.00%	0
					7.25%	1,449,791
					Opportunity Cost due to current regulation versus proposal	**-412,049**

Source: Cleary Gull Advisors 2014 Senior Living Study

Portfolio performance and risk metrics are based on Cleary Gull's long -term capital market assumptions of the indexes representing the various assets classes.