MARKET REVIEW 2015 AND

INVESTMENT OUTLOOK 2016

LEXINTA GROUP

TABLE OF CONTENTS

LETTER FROM THE PRESIDENT, CEO & FOUNDER

To write the forward for the 2015 Market Review and 2016 Investment Outlook provides be with a great opportunity to communicate with everybody in the Lexinta community, including staff and clients alike. To our staff I would like to thank them for their commitment to the project and to our clients I would like to thank them for their continued support.

We have reached that time of year again where we reflect back on the year passed but more importantly focus our sights on the year to come. 2015 was a year beset with many investment challenges and as money managers we at Lexinta have to remain vigilant to spot the market opportunities on behalf of our client's.

We expect 2016 to be yet another year of money managers remaining on their toes, with diversification opportunities likely to be the key strategy as they look to mitigate loss and reap profits, to ensure they chose the right investment outcomes for their clients.

Please rest assured that everybody at Lexinta is committed to providing our clients the best service, we can, to meet with their investment expectations.

Wishing you a prosperous 2016.

Bismark Badilla
President, CEO & Founder of the Lexinta Group

FORWARD

We are delighted to present to you the Lexinta 2015 Market Review and 2016 Investment Outlook. This has been a collaborative effort between our staff in various world locations and between various teams.

This document has been developed to provide the reader with spotlights of information and therefore should not be considered as a comprehensive report. However, that said, the document has been written to provide the main themes from which the reader can extract key information.

Obviously markets change and as such the information contained herein can never cover every aspect of what awaits in the future but we hope you find the information of interest in relation to both strategic and tactical asset allocation.

Sincerely

Chris Frauenknecht
Senior Trader

Kevin Faehndrich
Trader

2015 MARKET REVIEW

2015 WILL BE REMEMBERED FOR BEING THE HARDEST YEAR TO MAKE MONEY.

Not since 1937 have we witnessed the markets, across all asset classes, returning such disappointing minimal gains. The reported best-performing asset class for 2015 was that of stocks, producing only 2% in total return (including dividends). This still surpasses the performances of long-term bonds, short-term Treasury bills and commodities.

The lack of a headlining asset class for 2015 can be best demonstrated when we compare the equity markets of 2015 with those of 2008, the year of the international banking crisis resulting in a global stock market crash. However in that year the bond market was up at 22 per cent. This prospective clearly shows why the past year was very difficult to create positive performances - not one major asset class had a good year.

The year has been beset by one event after another causing great market volatility and frustration as the markets dust themselves off before picking up again where they left of. This is brought into sharp focus when we reflect back on the major market events of 2015.

– First US Fed hike rate in 9.5 years
– Crude oil prices in free fall
– The crashes on the Shanghai Composite Index
– Swiss National Bank allows EUR/CHF to collapse
– ECB bailout
– Greek exit of the Eurozone
– British announcement of EU exit referendum
– Economic crisis in Russia
– Continued conflict: Middle East & Ukraine

Falling oil prices, a shrinking global growth outlook and flat interest rates marked the year 2015. The most remarkable event was the first rate hike after 9.5 years from the US Fed in mid December. The U.S. dollar rallied as central banks around the world loosened monetary policy.

The global growth disappointed as all the commodity exporters in the emerging markets struggled. The second largest economy in the world China did not help investor confidence, as economic results were mixed throughout the whole year.

The economic dynamics of 2015 will continue to drive the world economy in 2016 and therefore global growth is likely to remain frustratingly fragile.

2016 INVESTMENT OUTLOOK

HAVING A FALSE START DOESN'T NECESSITATE A BAD YEAR.

The US and European economies are performing relatively well. The US economy will have a seasonally weak 1st quarter in 2016 but will keep its growth. The US GDP is forecasted to expand by 3.4%. The Fed will handle the newly started interest rate increase cycle very gently, which will be well supported from the job market and consumer.

The European economy should improve more in 2016 driven by the weakness in the Euro – (albeit with a slow recovery in the job markets). Not forgetting to factor in the support of the European Central Bank (ECB) and the promise from its president Mario Draghi, to do whatever it takes.

Most emerging markets (EM's) are under pressure due to the weakness in the global commodities market and the strong move in the US dollar. In addition to that they have to deal with many structural problems. Global commodities must rebound in order for global markets to stabilize and investors to return to emerging markets.

Softer than expected Chinese Purchasing Managers Index (PMI) figures coupled with a weaker Renminbi and a sell-off of Chinese equities created a similar situation as witnessed in August 2015. The 1st week of January was the worst opening week ever leaving investors confronted with all the problems from the previous year, with the added conflict tensions of Iran and Saudi Arabia. The major indices have lost between 4.50 % and 14 % since the start of 2016.

EQUITY MARKETS

USA: The S&P 500 could reach the 2150-2200 mark by year-end of 2016. We expect EPS of $123-125 or an earnings increase of 9-10 %. For this target to be achieved we will need to see a rebound in the energy markets. The energy sector had to make substantial write-offs in 2015. Crude oil prices have fallen a further 20 % in the last 3 months and this will only increase the pressure on this beleaguered sector. The S&P 500 P/E of 15.5 provides some upside potential coupled with the S&P 500 Dividend yield of 2.3%, which has rarely yielded more than the 10-year Treasury notes in the past 60 years.

Europe: Europe is earmarked for a moderate growth of 1.9 %. The competitive export market benefiting from the weaker EUR and the continuous monetary policy of the ECB will be the main driver for European equities. The European economy lags much behind that of the US and therefore any moderate growth will create an appealing earnings growth. The Stoxx Europe 600 Index trades at an estimated 2016 P/E of 14.25 and with a dividend yield of 3.90 %. We expect further recovery and progress in the European economy, with anticipated markets gains of 9-11 %.

BRIC / EM: Emerging Market shares hovered near four year lows due to investor concerns over China's economic growth and the continuing weakness in commodities plunged many of the EM's into bear territory. The commodity dependent countries in much of Latin America, Africa and parts of Asia are facing difficult times. Indices like the Shanghai Shenzhen CSI 300 and the Ibovespa have lost 30-40 % from their 2015 highs. The valuations on most of the EM's are still too high and many of them need a lot of time to fix their structural problems. We believe investment in the majority of the EM's will be a side-line waiting game, until uncertainty has eased and commodity prices start to rebound.

FIXED INCOME

The high yield market is still under pressure because of the continued downward trend in the oil and mining industries, which both posted losses of 25 % last year. The US oil industry has issued $300 bln of high yield bonds and many of them need to be restructured, especially if the oil price stays at current levels. Credit markets are expected to perform well in 2016. The credit spreads will tighten again, after they widened last year to a three year high and created many valuation opportunities. We believe these opportunities will present themselves across the credit spectrum. It is very important to have a wide sector and rating diversification. We remain underweighted in the high-yield sector because of the large weighting of the commodity sector. However we will continue to buy investment grade bonds in energy companies.

CURRENCIES

USD: The US Dollar Index will again outperform this year, based on further policy divergence over the medium term, as the markets expect fewer interest rate hikes than initially expected (2-3 vs. 4). The USD was one of the only profitable investments from 2015 and is now one of the most held asset positions among investors. Therefore we don't expect large swings in the USD in the 1st quarter. The continued improvement of the labour and real estate markets will be a factor in supporting the USD.

AUD/CAD/NOK: The oil price collapse had a big impact on all commodity currencies. The central banks have changed their policies in the last months and won't lower their interest rate unless absolutely essential. The labour markets are stable and the economies are expanding. These currencies should see a nice turnaround as soon as the crude oil price bottoms and starts to rebound as anticipated for the 2nd quarter 2016.

CHF/EUR: The CHF is still overvalued against the EUR and USD. The Swiss National Bank (SNB) is likely to maintain a stable rate spread between the EUR and CHF. The ECB is contented with a weakened EUR. The EUR is expected to stay in USD 1.00 to 1.10 band. There is a realistic chance that the EUR will lose further ground in 2016.

COMMODITIES

Oil: The WTI crude oil index is expected to average a price of $50 for 2016. This is slightly lower than 2015 but 35 % higher than the end of year closing price (55 % higher than the actual price of $32). The oil price has been hampered by oversupply, a strong USD and a raft of short positions built up by Hedge Funds. The oil demand trend is one of growth but couldn't keep up with the huge production increases of recent years. The energy sector is expected to reduce its capex by another 25 % this year. The U.S. crude oil production reached its peak in the summer of 2015, with 9.6 mln b/d and has stagnated at 9.2 mln b/d. A further fall in production down to 8.5 mln b/d, is anticipated for 2016. The significant capex reductions will create project delays over the next years. Projects worth over $500 bln have been shelved or cancelled and won't see the light of day until the oil price has recovered. An industry that couldn't function at $50 bbl can't function at prices below $40 bbl.

Coal: The mining industry wasn't as flexible as the oil sector by adjusting its production to real demand, therefore it might take even longer until we see a recovery in the this sector.

Gold: Gold has rallied this year as investors seek safer asset havens amid gyrations in the Chinese financial markets. Also the increased geopolitical tensions in the Middle East and North Korea have contributed to the gold rally. The gold support rests on a possible return to growth of the emerging markets. We expect gold to trade between $950 and $1'150. A drift back down to $950 is not unlikely, as investors regain confidence and start to look at other asset classes.

Metals: No other commodities sector is more closely tied to the fate of China than that of metals. The slowdown in China, which imports about 45 % of red metals, is partly because Beijing attempts to shift its economy away from its decade-long infrastructure projects to a consumer nation.

IMPORTANT INFORMATION

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