Richard Bernstein Advisors

Insights

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A short comment on Brexit

- Judging by today's volatility, most investors (including us) were incorrect that the UK would vote to stay in the EU. We find it very confusing why the UK voted against its own economic interests given there were other methods to potentially alleviate the EU's stifling bureaucracy and governance. However, we've always said it never matters what should be. The only thing that matters is what happens, and the UK has voted to leave the EU.

- With the stock markets' volatility, it is important to point out that the diversifying assets within our portfolios are indeed acting as diversifiers. They may appear somewhat impotent within the context of a rout in equities, but they are doing what we hoped they would do. As of this writing, Treasuries, gold, and high-yield munis are all up on the day. Investors should note that gold miners have been for some time the largest active position in our equity portfolios, and comprises between 2.5-5% of our all-asset portfolios.

- Our concerns regarding the Euro continue to prove correct, and our currency hedging is contributing positively to our performance. Similarly, our total avoidance of Japan looks prescient.

- Despite the near-term volatility, we continue to believe that investors (key word: investors) are too risk averse and too income myopic. An increasing universe of bonds carry negative interest rates and outflows from US equity investments are larger than those seen in 2008/9. These and other similar data suggest that investors were already extraordinarily, perhaps historically, risk averse even before Brexit. The Brexit vote seems likely to further exacerbate investors' fears.

- The extreme levels of fear suggest to us that true investors with multi-quarter time horizons are looking at a very attractive period in which to invest in equities, and our multi-asset portfolios continue to overweight equities. That positioning has, of course, hurt recent performance, but we continue to believe that an earnings-driven, PE compression bull market will ultimately be the story for 2016/17.

- Investors are scared, and probably want to hear portfolio managers echo their fears. It sounds quite smart right now to say one should be cautious, that the environment is unprecedented, and that taking risk is foolish given extreme uncertainty. However, we think joining that chorus may be a disservice to our clients. We prefer to dispassionately review and interpret the data, and invest using RBA's risk-averse, contrarian strategy that has been successful over many market cycles, many economic cycles, and many highly unusual macro events like Brexit.

ABOUT RBA:

Richard Bernstein Advisors LLC (RBA) is an independent investment adviser focusing on longer-term investment strategies that combine top-down, macroeconomic analysis and quantitatively-driven portfolio construction. We strive to be the leading provider of innovative investment solutions for investors, and our competitive edge is our research-driven macro style of investing. Our top-down macro approach differentiates our firm from the more common, traditional bottom-up approach of most asset managers. Our extensive array of macro indicators allows us to construct portfolios for clients that are innovative, risk-controlled, and focused on overall portfolio construction instead of individual stock selection.

RBA partners with several firms including Eaton Vance Corporation and First Trust Portfolios LP, and currently has $3.1 billion collectively under management and advisement as of May 31, 2016. RBA acts as sub-advisor for the Eaton Vance Richard Bernstein Equity Strategy Fund and the Eaton Vance Richard Bernstein All-Asset Strategy Fund. The firm also offers income and unique theme-oriented unit trusts through First Trust and is the index provider

for the First Trust RBA American Industrial Renaissance® ETF and the First Trust RBA Quality Income ETF. Additionally, RBA runs ETF asset allocation SMA portfolios at UBS Merrill Lynch, Morgan Stanley and on select RIA platforms. RBA's investment insights as well as further information about the firm and products can be found at http://www.rbadvisors.com/.