2016 ECONOMIC LUNCHEON SEMINAR

The Keys to SurThrival:
Learn to not only survive, but thrive in Alaska’s dynamic economy
ALASKA’S MAJOR ECONOMIC ISSUES

- Sharp drop in oil prices has created uncertainty
- State and Federal budget issues create drag on government jobs and related construction.
- Department of Labor predicts -2,500 jobs, -0.7%
- Private sector growth in tourism, retail, native corporations and health care help offset.
- Summer tourism +7% last year, 2 million total
• Per capita income +3.8% 2015, $55,940, 6th in US
• Inflation 2015, -0.1% Anchorage, +0.7% US
• Flat population 737,625. 0% growth for 2 years.
• 339,300 payroll jobs +0.5% in 2015, +1,700 jobs
• Real estate stable, aided by low interest rates. Anchorage average home price +2.3% last year
30 YEAR CONVENTIONAL MORTGAGE

16.6% In 1981

3.69% March 2016
ALASKA BUILDING PERMITS

Number of new, privately owned housing, 1-5 units authorized

- 1980
- 1982
- 1984
- 1986
- 1988
- 1990
- 1992
- 1994
- 1996
- 1998
- 2000
- 2002
- 2004
- 2006
- 2008
- 2010
- 2012
- 2014

11,248
1291
## FORECLOSURE AND DELINQUENCY RATES
### 1-4 UNIT RESIDENTIAL PROPERTIES

<table>
<thead>
<tr>
<th></th>
<th>National Rank</th>
<th>Alaska</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delinquencies, total 4Q 2015</td>
<td>2nd best</td>
<td>2.7%</td>
<td>5%</td>
</tr>
<tr>
<td>Foreclosures, total in progress</td>
<td>4th best</td>
<td>0.7%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Subprime delinquencies</td>
<td>Best in Nation</td>
<td>6.3%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Subprime foreclosures</td>
<td>Best in Nation</td>
<td>1.7%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>
DON’T PANIC!
PREPARE
A FEW TIPS TO SURTHRIVE

- Cash is King. Slow dividends to conserve cash.

- Take advantage of historically low interest rates. Consolidate or refinance debt, and reset amortization.

- Consider selling underutilized or non-performing assets

- If sales slow you may need cash to service debt and rent

- Be careful of more fraud and slow A/R turn in a recession
A FEW TIPS TO SURTHRIVE

• Track economic variables that most affect your industry

• Are any of your key customers or suppliers impacted?

• Any business segment that could benefit from outsourcing?

• Shift employee focus from past problems to future opportunities to help morale and productivity.

• The future is not determined by external events, but rather how we respond to them.
ALASKA CRUDE PRICES 2004 - 2016

Dollars per Barrel

High $134 June 2008

Prices over $100
April 2011 to July 2014

$37 December 2008

$38 March 2016
ALASKA IS RICH WITH ASSETS. WHY DO WE HAVE A CASH FLOW PROBLEM?

Traditional Correct Answer:
- Too much spending, oil prices are volatile and oil production continues to decline.

Real Deeper Reason:
- Many of the main revenue sources are off limits to spend.
ALASKA IS RICH WITH ASSETS. WHY DO WE HAVE A CASH FLOW PROBLEM?

Principle assets of the State of Alaska

- **Energy wealth** – heavily taxed and paying a lion’s share of State services
- 104 million acres of State land – only ½% is privately owned, no tax base for municipal services to reduce burden of State
- **Investment Accounts** - $53 billion Permanent Fund mostly off limits, other accounts not invested aggressively because liquidity needed for current deficits.
- **State taxing authority** – lowest use of taxes in all 50 states
Everything must be on the table for negotiations, it will take “all of the above” to close this large of a gap.

State government must diversify its revenue stream

We will likely have to accept less government services and spending and pay more personally for it.

Ensure a stable business climate for future investment

Support leaders faced with these though decisions.
THANK YOU

Mark Edwards
Senior Vice President
Senior Credit Underwriter
Bank Economist
Pacific Portfolio Consulting, LLC

Economic & Capital Market Outlook

Northrim Bank Economic Luncheon Seminar
April, 2016

601 Union Street, Suite 4343
Seattle, WA 98101
206-623-6641
Key Points of Today’s Presentation

Global Economy:
• Slow & steady, no recession this year
• Developed economies: U.S. > Europe > Japan
• EMs stabilizing, China poised for near-term up-tick
• All major central banks increasingly biased towards easier policy

Capital Markets:
• Risk assets have run far & fast, be prepared for consolidation or even pullback
• Tone of market swinging in favor of “risk-on” factors
• Prior leaders out-of-favor, beaten down areas moving to forefront (small-caps, EM)
• Still looking for modestly positive 2016 stock market overall as:
  • Oil recovery, weak US Dollar set stage for earnings beat vs. lowered target
  • P/E’s get a boost from lower volatility
• Credit spreads have eased (a good thing), but still offer reasonably attractive risk-reward

Primary Risks:
• China hard landing or major Yuan devaluation (neither is part of our base case)
• Policy mistake by the Fed (looks unlikely to us; if anything, we think Fed will err on the dovish side)
Market-based Recession Flags Receding

- MSCI ACWI YoY % Chg
- Barclays HY Spread to 10Y Tsy
  LT Avg Spread = 527bps

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Economic Data Continue To Reject Recession Claims

The yield curve has typically inverted prior to recession

Albeit at a slow pace, leading indicators continue to advance

U.S. has never gone into recession with this much slack

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Global Economy Poised For Improvement

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Signs Of A Turn In Manufacturing?

Source: Bloomberg

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Consumer Remains The Key For Now

Even with a 20% rise since mid-Feb, lower gas prices still driving consumer savings of $100b-$200b per year

Wage growth is finally perking up and expected to continue

Source: Bloomberg

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Employment Remains A Highlight

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Global Feedback Loops Drive Major Fed Policy Shift

- Fed consensus down from 4 ¼-point hikes in 2016 to 2, expects to play catch-up in later years.
- Market pricing in roughly 1 hike/year; could be more of an issue next year.
- Policy risk reduced as Fed poised to err on side of more inflation/fewer rate hikes near-term.

Futures market prices show investor expectations narrowing:
- Fed guidance moved sharply lower in Q1.
- Fed Funds Futures.

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Europe: All The Right Moves, None Of The Results

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Japan: Is Abenomics Missing The Target?

Source: Bloomberg

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
China Outcomes Will Be Critical

- Hard-landing risk reduced as China backtracks to make growth top priority
- Better growth benefits oil, commodities, reduces temptation for a big Yuan deval, to benefit of EMs & risk assets in general
- Near-term cyclical upturn potentially coming at cost of greater long-term risk

---

China's Official GDP Growth Numbers

- 2016 Official Target: 6.5%-7.0%

Estimate based on observable data (shipping, energy, lending)

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Pause In Dollar’s Advance A Key Driver

- After strong multi-year run, US$ currently flat year-over-year
- Beneficiaries:
  - EM economies
  - Commodities
  - Corporate earnings
  - Risk Assets in general

Average of ‘80s & ‘90s bull markets:
+8.5%/year appreciation, 5.75 year duration

US Trade-Weighted Dollar

+31%
4.6 years

+19%
1.76 years

Source: Bloomberg

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Oil Appears To Be Forming A Bottom

- Supply glut has resisted massive declines in price and the rig count
- Bottoming process appears to be unfolding; this won’t be a V-shaped recovery

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Just In Case You Blinked…

Source: Bloomberg

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
# 1Q’16 Capital Market Performance

<table>
<thead>
<tr>
<th>Index (as of 3/31/2016)</th>
<th>1Q16</th>
<th>1Yr</th>
<th>(Annualized)</th>
<th>PPC Long-term Risk Premia Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Last 3 Yrs</td>
<td>Last 5 Yrs</td>
</tr>
<tr>
<td>Citi 3-month T-Bills</td>
<td>0.05%</td>
<td>0.08%</td>
<td>0.05%</td>
<td>0.06%</td>
</tr>
<tr>
<td>Barclays Int. Govt/Credit</td>
<td>2.45%</td>
<td>2.06%</td>
<td>1.83%</td>
<td>3.01%</td>
</tr>
<tr>
<td>Opportunistic Bonds*</td>
<td>5.04%</td>
<td>2.88%</td>
<td>1.54%</td>
<td>3.26%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>1.35%</td>
<td>1.78%</td>
<td>11.82%</td>
<td>11.58%</td>
</tr>
<tr>
<td>Russell Mid Cap</td>
<td>2.24%</td>
<td>-4.04%</td>
<td>10.45%</td>
<td>10.30%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>-1.52%</td>
<td>-9.76%</td>
<td>6.84%</td>
<td>7.20%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>-2.88%</td>
<td>-7.87%</td>
<td>2.68%</td>
<td>2.76%</td>
</tr>
<tr>
<td>MSCI EAFE Small Cap</td>
<td>-0.52%</td>
<td>3.53%</td>
<td>7.63%</td>
<td>5.93%</td>
</tr>
<tr>
<td>MSCI Emerging Markets</td>
<td>5.75%</td>
<td>-11.70%</td>
<td>-4.15%</td>
<td>-3.80%</td>
</tr>
<tr>
<td>Wilshire REIT</td>
<td>5.20%</td>
<td>4.76%</td>
<td>11.07%</td>
<td>12.11%</td>
</tr>
<tr>
<td>Bloomberg Commodity</td>
<td>0.42%</td>
<td>-19.56%</td>
<td>-16.87%</td>
<td>-14.15%</td>
</tr>
<tr>
<td>Credit Suisse Liquid Alts</td>
<td>-0.12%</td>
<td>-3.43%</td>
<td>2.56%</td>
<td>1.98%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct  60% Merrill Lynch Global Broad/ 40% Merrill Lynch Global HY & Emerging
Should We Be Bracing For A Bear Market?

Bear markets don’t usually just “happen” but instead are typically driven by one or more of the “usual suspects”

<table>
<thead>
<tr>
<th>Bear Markets</th>
<th>Macro environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Peak</td>
<td>Bear Return*</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Sep 1929</td>
<td>-86%</td>
</tr>
<tr>
<td>Mar 1937</td>
<td>-60%</td>
</tr>
<tr>
<td>May 1946</td>
<td>-30%</td>
</tr>
<tr>
<td>Dec 1961</td>
<td>-28%</td>
</tr>
<tr>
<td>Nov 1968</td>
<td>-36%</td>
</tr>
<tr>
<td>Jan 1973</td>
<td>-48%</td>
</tr>
<tr>
<td>Nov 1980</td>
<td>-27%</td>
</tr>
<tr>
<td>Aug 1987</td>
<td>-34%</td>
</tr>
<tr>
<td>Mar 2000</td>
<td>-49%</td>
</tr>
<tr>
<td>Oct 2007</td>
<td>-57%</td>
</tr>
<tr>
<td><strong>Current Cycle</strong></td>
<td>![ ]</td>
</tr>
</tbody>
</table>

Source: JP Morgan Asset Management; * Bear Return and Duration defined based on peak-to-trough periods

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Don’t Be Surprised By A Pullback

• Bounce off Feb 11 low retracing most of YTD loss
• Sentiment a key driver as recession fears have receded
• Unsustainable pace; consolidation or pullback likely within ongoing correction

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Tone Of The Market Has Started To Turn

- Narrow 2015/early-2016 market favored defensive and momentum factors
- Post-2/11, sentiment has flipped to favor risk-on factors
- If sustained, this would add credence to the recent rally

Source: Bloomberg

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Few Signs of Exuberance

Source: Bloomberg (Top), ICI, Morningstar Direct (Bottom)
Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Outlook For Corporate Profits Remains Mixed

- Profit cycle has peaked, given rising wages and lack of top-line growth
- Near-term, bar is low; firmer oil prices & US $ pullback could make for upside surprises

Source: Bloomberg

All data obtained from sources believed to be reliable.
Be Prepared For More Volatility

- Volatility is back near its lows on receding recession fears, oil price stability, and US $ weakness, helping to drive markets higher
- Further declines unlikely; need to see fundamentals improve or probably facing move back to higher levels

Source: Bloomberg

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Even Modest Rate Increase Expectations Challenging

Boxed years = periods of Fed tightening

Source: Morningstar Direct

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Stressed Credit Markets Rebound

**Bond Market Returns – 1\textsuperscript{st} Half vs. 2\textsuperscript{nd} Half Q1**

- **HY**: -4.1%
- **Lvgd Ln**: -1.0%
- **EM Debt**: -0.7%
- **TIPS**: 1.7%
- **Treas**: 2.8%
- **Agg**: 3.4%
- **1/1 thru 2/10/16**: 7.6%
- **2/11 thru 3/31/16**: 6.0%

Since 2/11 inflection, easing credit spreads and a weaker U.S. Dollar have driven a sharp recovery in the more credit-sensitive and non-US segments of the market.

Source: Morningstar Direct

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
# Be Prepared Not To Come In First (Or Last)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash</th>
<th>Bonds</th>
<th>Foreign Developed</th>
<th>Emerging Markets</th>
<th>Real Estate</th>
<th>Alternatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>66.4%</td>
<td>31.8%</td>
<td>12.4%</td>
<td>25.9%</td>
<td>56.3%</td>
<td>33.2%</td>
</tr>
<tr>
<td>2000</td>
<td>27.3%</td>
<td>31.0%</td>
<td>9.0%</td>
<td>26.0%</td>
<td>98.7%</td>
<td>32.6%</td>
</tr>
<tr>
<td>2001</td>
<td>24.4%</td>
<td>10.1%</td>
<td>6.9%</td>
<td>20.7%</td>
<td>39.2%</td>
<td>-12.1%</td>
</tr>
<tr>
<td>2002</td>
<td>21.3%</td>
<td>6.3%</td>
<td>4.4%</td>
<td>36.2%</td>
<td>18.3%</td>
<td>-31.1%</td>
</tr>
<tr>
<td>2003</td>
<td>21.0%</td>
<td>6.2%</td>
<td>2.5%</td>
<td>28.7%</td>
<td>12.6%</td>
<td>-33.8%</td>
</tr>
<tr>
<td>2004</td>
<td>19.8%</td>
<td>1.3%</td>
<td>-2.4%</td>
<td>27.2%</td>
<td>10.9%</td>
<td>-35.7%</td>
</tr>
<tr>
<td>2005</td>
<td>13.0%</td>
<td>-3.0%</td>
<td>-4.6%</td>
<td>23.9%</td>
<td>9.3%</td>
<td>-37.0%</td>
</tr>
<tr>
<td>2006</td>
<td>4.9%</td>
<td>-9.1%</td>
<td>-11.9%</td>
<td>12.8%</td>
<td>9.2%</td>
<td>-39.2%</td>
</tr>
<tr>
<td>2007</td>
<td>0.4%</td>
<td>-14.0%</td>
<td>-19.5%</td>
<td>4.3%</td>
<td>3.0%</td>
<td>-43.1%</td>
</tr>
<tr>
<td>2008</td>
<td>-2.6%</td>
<td>-30.6%</td>
<td>-21.2%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>-17.6%</td>
</tr>
<tr>
<td>2009</td>
<td>4.3%</td>
<td>-9.1%</td>
<td>-11.9%</td>
<td>12.8%</td>
<td>9.2%</td>
<td>-39.2%</td>
</tr>
<tr>
<td>2010</td>
<td>4.9%</td>
<td>-9.1%</td>
<td>-11.9%</td>
<td>12.8%</td>
<td>9.2%</td>
<td>-39.2%</td>
</tr>
<tr>
<td>2011</td>
<td>0.4%</td>
<td>-14.0%</td>
<td>-19.5%</td>
<td>4.3%</td>
<td>3.0%</td>
<td>-43.1%</td>
</tr>
<tr>
<td>2012</td>
<td>-2.6%</td>
<td>-30.6%</td>
<td>-21.2%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>-17.6%</td>
</tr>
<tr>
<td>2013</td>
<td>4.3%</td>
<td>-9.1%</td>
<td>-11.9%</td>
<td>12.8%</td>
<td>9.2%</td>
<td>-39.2%</td>
</tr>
<tr>
<td>2014</td>
<td>0.4%</td>
<td>-14.0%</td>
<td>-19.5%</td>
<td>4.3%</td>
<td>3.0%</td>
<td>-43.1%</td>
</tr>
<tr>
<td>2015</td>
<td>-2.6%</td>
<td>-30.6%</td>
<td>-21.2%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>-17.6%</td>
</tr>
<tr>
<td>2016</td>
<td>4.3%</td>
<td>-9.1%</td>
<td>-11.9%</td>
<td>12.8%</td>
<td>9.2%</td>
<td>-39.2%</td>
</tr>
</tbody>
</table>

Source: Morningstar Direct

Not for reproduction and/or distribution.

All data obtained from sources believed to be reliable.
Be Prepared To Keep A Long-term Perspective

A diversified long-term strategy may not be the top performer in any one period, but proves its merit over time.

Source: Morningstar Direct
Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Be Prepared To Stick To Your Long-term Plan

- Disciplined, long-term **Asset Allocation** process forms foundation for portfolio strategies
- **Diversification** through inclusion of assets with materially different characteristics will reduce overall portfolio risk in most environments
- Modest **Shifts in Allocation** made around longer-term strategic allocations can add value by taking advantage of market opportunities when appropriate
- Employ **Active, Passive, & Absolute Return** management styles within the overall portfolio strategy
- Careful **Selection, Monitoring, & Management** of investment managers will add value
- Remember that **Investment Discipline** always trumps emotion

Not for reproduction and/or distribution.
All data obtained from sources believed to be reliable.
Important Information

Views expressed are as of the date indicated; they are based on the information available at the time and are subject to change based on economic, capital market, and other conditions. Any investment decision should be based on an individual's own goals, time horizon, and tolerance for risk.

Past performance is no guarantee of future results. Investing involves risk, including the risk of loss of principal invested.

Diversification does not ensure a profit or guarantee against a loss. As with any type of portfolio structuring, attempting to reduce risk and increase return could, at certain times, unintentionally reduce returns.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, or economic developments. Investments in the securities of smaller, less well-known companies typically carry more risk than investing in larger, better-established companies since smaller companies generally have a higher risk of failure and, historically, have exhibited a greater degree of volatility.

Investing in non-U.S. markets entails a different set of risks than that typically associated with U.S. markets, including the possibility of currency fluctuations, political and economic instability, accounting changes, and foreign taxation, all of which can potentially have a material favorable or unfavorable impact on performance. Securities may be less liquid and more volatile. Investments in emerging or developing markets involve exposure to economic structures that are generally less diverse and mature, and to political systems which can be expected to have less stability than those of more developed countries. Securities may be less liquid and more volatile than U.S. and longer-established non-U.S. markets.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

Although bonds generally present less short-term risk and volatility than stocks, bonds are subject to interest rate risk (the risk that bond prices fall in response to an increase in interest rates) and default risk (the risk that an issuer will be unable to make timely payments of principal and interest due on the bond). In addition, bonds and many short-term investments entail great inflation risk (the risk that an investment's returns will fail to keep pace with increases in the prices of goods and services) than stocks. Lower-quality fixed income securities generally offer higher yields but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

The value of an investment in commodities and/or commodity-linked derivatives can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions. Investments in real estate and related securities can be significantly affected by changes in real estate market and economic conditions, property taxes, tax laws, and interest rates. Such investments can be volatile on their own and should generally form only a small portion of an investor's diversified portfolio to enhance diversification and act as a potential hedge against inflation. Real Assets may not be suitable for all investors.

Indexes are unmanaged and cannot be invested in directly. Returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment.
THANK YOU!