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Quarterly Review

Global Equity Market Update

June 30, 2014

GLOBAL EQUITY MARKET UPDATE
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GLOBAL EQUITY MARKETS – CALENDAR YEAR RETURNS

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 2014
Emerging Markets -6.17%	EAFE Small 61.35%	EAFE Small 30.78%	Emerging Markets 34.00%	Emerging Markets 32.17%	Emerging Markets 39.39%	Small Value -28.92%	Emerging Markets 78.51%	Small Growth 29.09%	Large Growth 2.64%	EAFE Small 20.00%	Small Growth 43.30%	Mid Value 11.14%
EAFE Small -7.82%	Emerging Markets 55.82%	Emerging Markets 25.55%	EAFE Small 26.19%	EAFE 26.34%	Large Growth 11.81%	Large Value -36.85%	EAFE Small 46.78%	Mid Growth 26.38%	S&P 500 2.11%	Mid Value 18.51%	Mid Growth 35.74%	Large Value 8.28%
Mid Value -9.64%	Small Growth 48.54%	Mid Value 23.71%	EAFE 13.54%	Small Value 23.48%	ACWI 11.66%	S&P 500 -37.00%	Mid Growth 46.29%	Mid Value 24.75%	Large Value 0.39%	Emerging Markets 18.22%	Small Value 34.52%	S&P 500 7.14%
Small Value -11.42%	Small Value 46.03%	Small Value 22.25%	Mid Value 12.65%	Large Value 22.25%	Mid Growth 11.43%	Large Growth -38.44%	Large Growth 37.21%	Small Value 24.50%	Mid Value -1.38%	Small Value 18.05%	Large Growth 33.48%	Large Growth 7.14%
Large Value -15.52%	Mid Growth 42.71%	EAFE 20.25%	Mid Growth 12.10%	ACWI 20.95%	EAFE 11.17%	Mid Value -38.44%	ACWI 34.63%	EAFE Small 22.04%	Mid Growth -1.65%	Large Value 17.51%	Mid Value 33.46%	Mid Growth 6.51%
EAFE -15.94%	EAFE 38.59%	Large Value 16.49%	ACWI 10.84%	Mid Value 20.22%	Small Growth 7.05%	Small Growth -38.54%	Small Growth 34.47%	Emerging Markets 18.88%	Small Growth -2.91%	EAFE 17.32%	Large Value 32.53%	EAFE Small 6.43%
ACWI -19.32%	Mid Value 38.07%	Mid Growth 15.48%	Large Value 7.05%	EAFE Small 19.31%	S&P 500 5.49%	ACWI -42.20%	Mid Value 34.21%	Large Growth 16.71%	Small Value -5.50%	ACWI 16.13%	S&P 500 32.39%	ACWI 6.18%
S&P 500 -22.10%	ACWI 33.99%	ACWI 15.23%	Large Growth 5.26%	S&P 500 15.79%	EAFE Small 1.45%	EAFE -43.38%	EAFE 31.78%	Large Value 15.51%	ACWI -7.35%	S&P 500 16.00%	EAFE Small 29.30%	Emerging Markets 6.14%
Mid Growth -27.41%	Large Value 30.03%	Small Growth 14.31%	S&P 500 4.91%	Small Growth 13.35%	Large Value -0.17%	Mid Growth -44.32%	S&P 500 26.46%	S&P 500 15.06%	EAFE -12.14%	Mid Growth 15.81%	ACWI 22.80%	EAFE 4.78%
Large Growth -27.88%	Large Growth 29.75%	S&P 500 10.88%	Small Value 4.71%	Mid Growth 10.66%	Mid Value -1.42%	EAFE Small -47.01%	Small Value 20.58%	ACWI 12.67%	EAFE Small -15.94%	Large Growth 15.26%	EAFE 22.78%	Small Value 4.20%
Small Growth -30.26%	S&P 500 28.68%	Large Growth 6.30%	Small Growth 4.15%	Large Growth 9.07%	Small Value -9.78%	Emerging Markets -53.33%	Large Value 19.69%	EAFE 7.75%	Emerging Markets -18.42%	Small Growth 14.59%	Emerging Markets -2.60%	Small Growth 2.22%

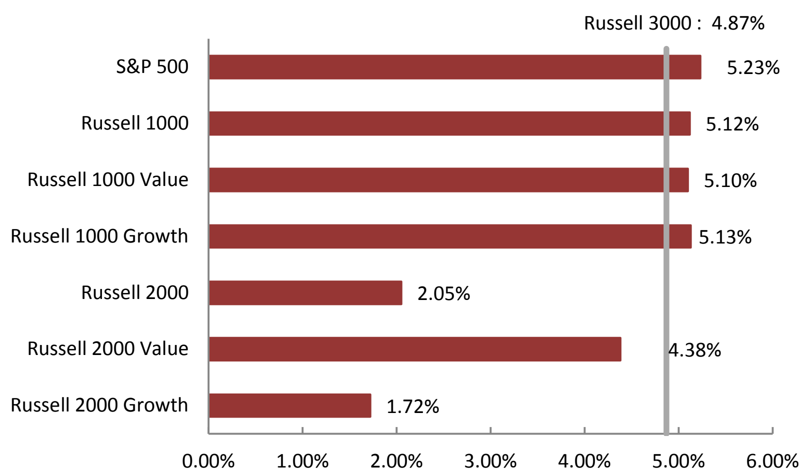
Source: Zephyr

DOMESTIC EQUITY MARKET

Domestic Equity Market Highlights

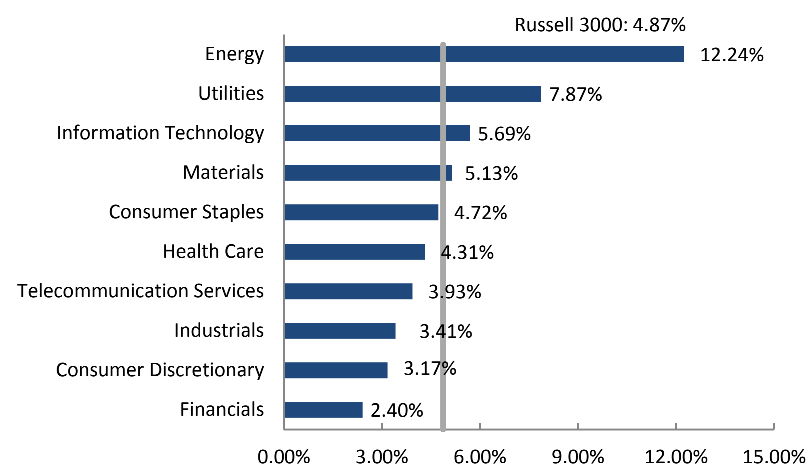
- The S&P 500 ended the second quarter up 5.23%, making it the sixth consecutive quarterly increase – its longest streak since 1998. Strong performance was primarily driven by a recovery in economic data versus the first quarter which was negatively impacted by weather. The Fed continued its paring back of bond purchases but reaffirmed its view that accommodative monetary policy remains appropriate due to labor market and inflation conditions. Merger and acquisition activity doubled during the first half of the year to $750 billion, implying that corporations are growing more confident about economic conditions.
- Large cap stocks significantly outperformed small cap stocks during the quarter as new capital continued to flow into stocks. In the large cap segment of the market, value and growth performed basically in line with each other. However, in the small cap segment of the market, value significantly outperformed growth as investors took gains in smaller biotech and technology companies.

Second Quarter Domestic Index Returns



- Volatility, as measured by daily price movement of the Russell 3000 Index, decreased during the quarter and remained historically low. Illustrating this, 11.1% of trading days experienced a ±1% move in the market, compared to 18.0% during the first quarter of 2014 and 26.1% since 1987. Daily standard deviation of returns was 0.6% versus the long-term standard deviation of 1.2% since 1987.
- All US equity sectors posted positive performance during the quarter. The energy sector was by far the strongest segment of the market during the quarter. Oil prices have increased 5.7% in 2014, which was a positive surprise versus expectations for flat prices. Geopolitical instability in the Middle East and Ukraine contributed to the higher oil prices. Utilities continued to outperform the broader index during the quarter as investors hunted for income-producing securities in this low interest rate environment.
- The S&P 500 Index is currently trading at a 9.4% premium to its historical average PE ratio (monthly since 1954).

Second Quarter Russell 3000 Index Sector Returns



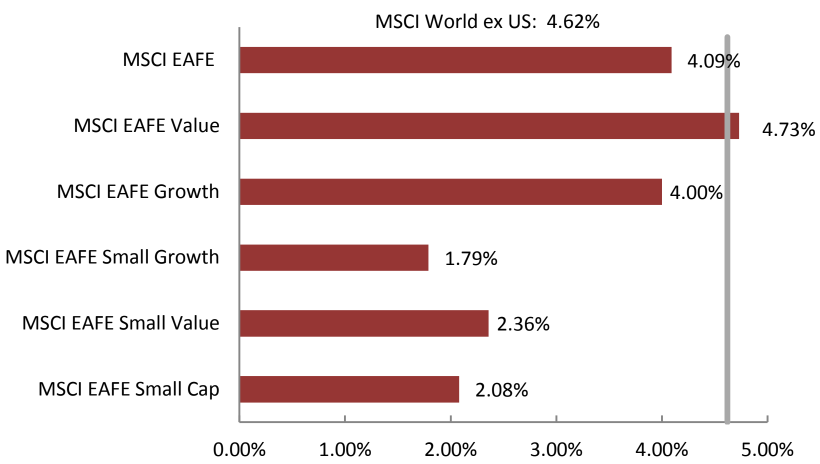
Source: Bloomberg LP, Lazard, MSCI, Russell, S&P, Zacks

INTERNATIONAL DEVELOPED EQUITY MARKETS

International Developed Equity Market Highlights

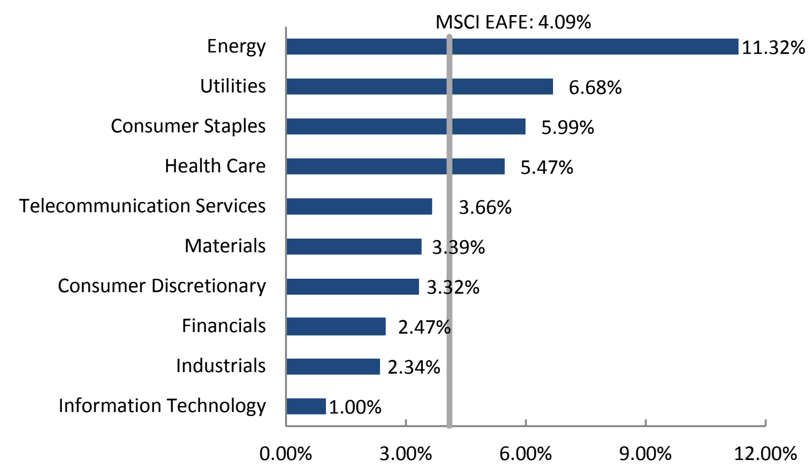
- International developed stocks increased 4.09% in US dollar terms for the quarter, as measured by the MSCI EAFE Index. Currency added 68 bps to the local return of 3.41%. Strong performance in Canadian markets, which were up 9.88% in dollar terms, caused the MSCI World ex US Index to outperform the MSCI EAFE Index.
- The majority of the currency contribution was a result of the 2.21% strengthening of the pound versus the US dollar and the 1.70% strengthening of the Australian dollar versus the US dollar. The pound appreciated as investors bet that the Bank of England would be the first major central bank to raise rates. The pound is currently at a six-year high versus the dollar. The Australian dollar moved upward due to higher than expected CPI.
- Small cap stocks underperformed large cap stocks during the period and value led growth across the cap spectrum.

Second Quarter Int. Developed Index Returns (USD)



- The Pacific Region was the best-performing segment of developed international markets during the quarter, with Hong Kong and Japan being the top-performing markets. Despite developed Europe lagging the broader MSCI EAFE Index, Spain and the UK outperformed. Asian markets were driven by strong economic data out of China, which boosted expectations for growth in the region. The UK economy completed its GDP recovery following the 2008 financial crisis, pushing output to new highs.
- All developed international sectors generated positive performance during the quarter. Energy was by far the best-performing segment of the market as oil price increases drove expectations for production companies. Utilities, consumer staples, and healthcare also outperformed the aggregate index as investors flocked toward stable earnings companies with high relative dividend yields.

Second Quarter MSCI EAFE Sector Returns



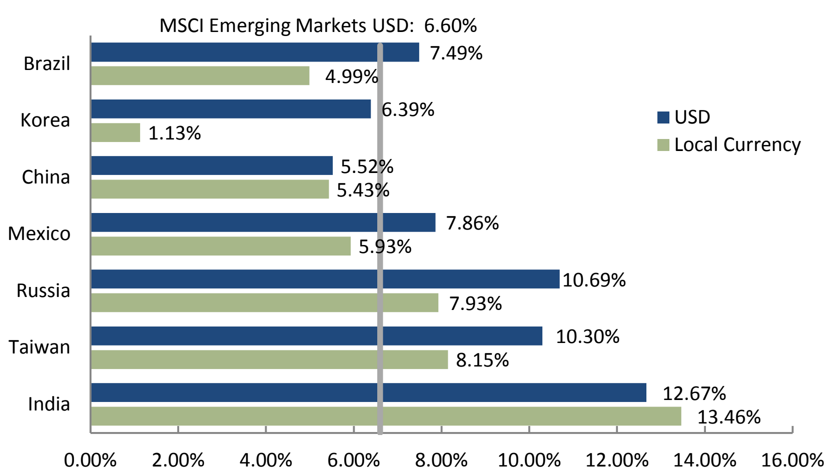
Source: Bloomberg LP, Lazard, MSCI, Russell, S&P

EMERGING MARKETS EQUITY

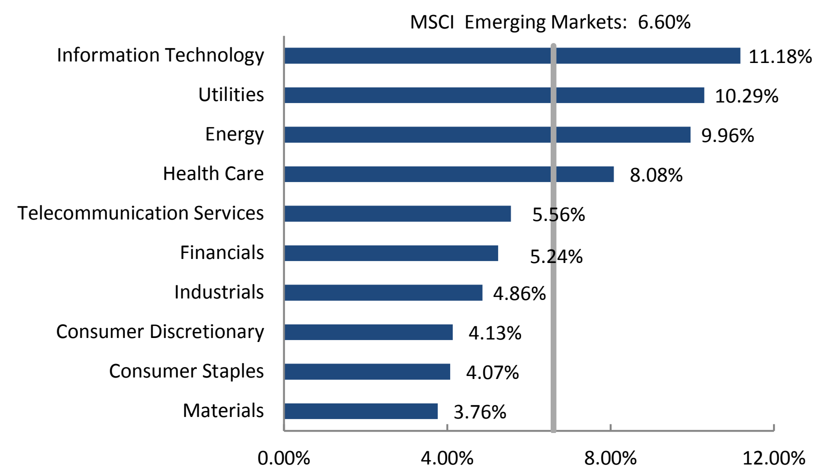
Emerging Markets Equity Highlights

- The MSCI Emerging Markets Index increased by 6.60% in US dollars during the quarter. Currency proved to be a tailwind to US investors, contributing 146 bps, as the US dollar weakened against emerging markets currencies, in aggregate. Second quarter performance in emerging markets outperformed developed markets by 174 bps in US dollar terms.
- India was one of the best-performing markets during the quarter, increasing 12.67% in US dollars and 13.46% in local terms. YTD the Indian market is up 21.86% with much of the increase attributed to excitement surrounding the new Prime Minister, Narendra Modi. His election platform called for higher government spending to support private sector manufacturing, which could make the country more globally competitive.
- During the quarter all of the BRIC markets outperformed the aggregate EM Index in local currency terms.
- Despite continued military action in Ukraine, the Russian market recovered from losses during the first quarter as the country secured a landmark 30-year $400 billion gas agreement with China. Despite the strong recovery in equity markets, the political situation in the region remains troubling. The Brazilian market was driven by strong performance in energy stocks.
- Investors continued to favor secular growth companies, which drove much of the relative excess return in technology stocks; some investors speculate many of these stocks have seemingly endless growth potential. Utilities, energy, and healthcare outperformed the aggregate index due to investor preference for yield and demand for low volatility earnings companies.
- During the period value outperformed growth and large cap stocks outperformed small cap stocks.

Second Quarter Emerging Markets Country Returns



Second Quarter MSCI Emerging Markets Sector Returns

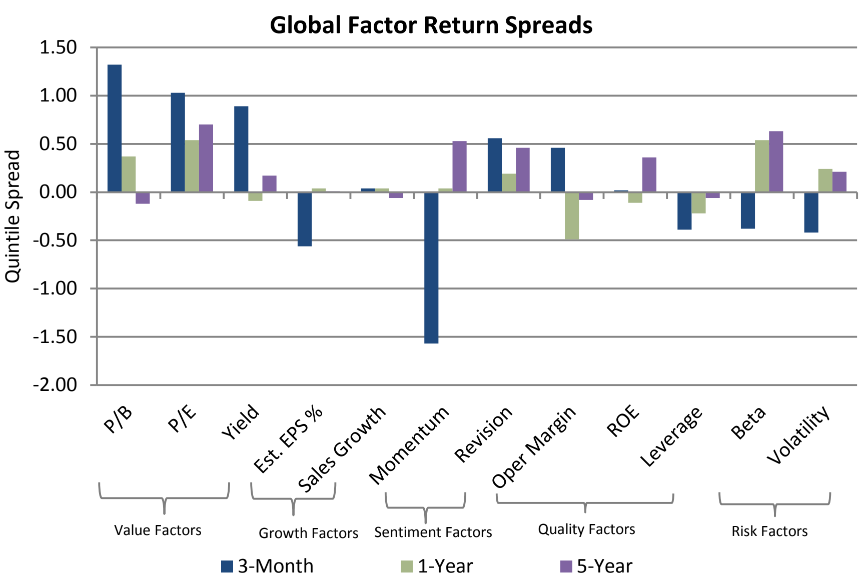


Source: Bloomberg LP, Lazard, MSCI, Russell, S&P

GLOBAL EQUITY MARKETS

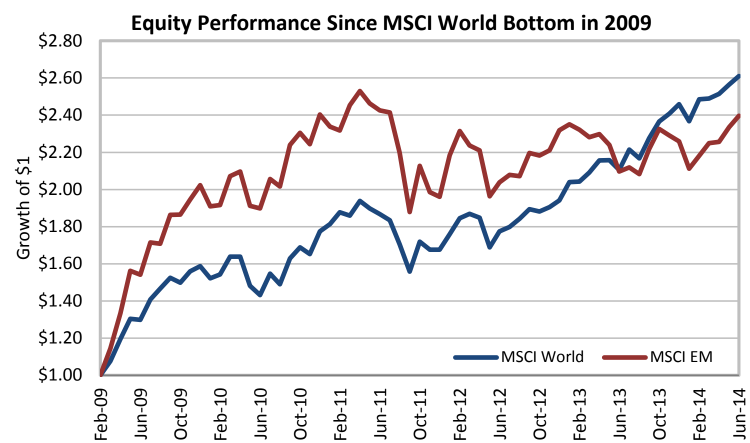
Global Factor Spreads

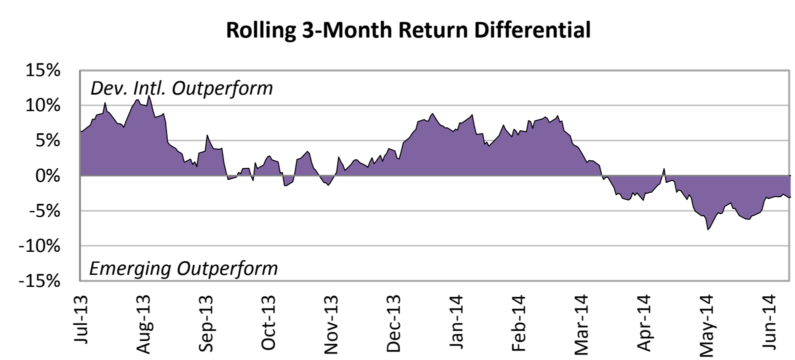
- Global equity markets were primarily driven by valuation factors during the quarter. Price-to-book ratio, price-to-earnings ratio, and yield all produced positive factor attribution.
- Earnings growth expectations negatively contributed to returns.
- Price momentum reversed violently during the period, however, earnings revisions continued to generate positive results.
- Quality, measured by operating margin, ROE, and leverage, contributed mixed results to returns.
- Beta and volatility were negative contributors, reversing the trailing five-year trend.



Global Equity Highlights

- Following the global financial crisis in 2008, emerging markets stocks significantly outperformed developed market stocks. The majority of the performance differential was driven by economic stimulus in China. This pattern did not repeat itself following the European debt crisis, as developed market stocks led due to massive economic stimulus programs. Beginning in 2014, emerging markets regained have short-term leadership.





Source: Bloomberg LP, Lazard, MSCI, Russell, S&P