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**Economic & Capital Market Review**

*September 30, 2014*

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## KEY HIGHLIGHTS

- In Q3 2014:
  - Economic growth prospects and the actions of central banks throughout the world continued to diverge. The US is on a path toward more normal monetary policy, as economic conditions improve and signs point to low but sustainable growth. Conversely, inflation and growth expectations in the Eurozone and other foreign economies remain lackluster, prompting central bankers outside the US to take further accommodative action in hopes of stimulating growth. This divergence has been reflected in the US Dollar, which strengthened 7.7% against major foreign currencies during the quarter.
- Growth assets were mixed:
  - Local currency performance for the broad global equity market was slightly positive (MSCI ACWI IMI Local, 0.2%) for the quarter, but the rising dollar detracted from returns (ACWI IMI USD, -3.3%).
  - Equity volatility increased as investors looked to balance ongoing geopolitical risks against a generally favorable US economic landscape.
  - Domestic equities, large cap specifically, continued to show strong performance (S&P 500, 1.1%) and have been the best performing market year-to-date, as Fed policy and a more optimistic economic outlook have acted as tailwinds. Smaller, more value-oriented indices in the US were negative for the quarter and have struggled year-to-date as valuations were elevated entering 2014.
  - International equities (MSCI EAFE Local, 0.4%) offered modest gains that were brought lower by the strengthening dollar (EAFE USD, -5.9%) and like the US markets, small cap and value stocks experienced the largest headwinds. Germany was the largest negative contributor from a country perspective as investors saw the lack of global growth contributing to a significant drop in exports. Emerging markets saw small losses that were also negatively impacted by the dollar.
  - Other growth assets were led by MLPs, which returned 2.7% during the quarter.
- Income assets were mostly positive:
  - Rates continued to rise on the short end of the yield curve, consistent with the view in fixed income markets that the Federal Reserve will likely raise short-term rates in 2015.
  - Core fixed income strategies saw mostly flat performance as yields in the middle of the curve ended the quarter unchanged.
  - Core real estate continues to produce solid returns, gaining 3.2% for the quarter, and relative value hedge fund strategies were also positive.
- Diversifying assets were mixed:
  - Long-term Treasury bonds gained 2.7% during the quarter and have been one of the best investments year-to-date. The BC Long Treasury Index has returned 15.1% this year, as the yield on 30-year Treasuries has fallen 61 basis points, from 3.97% to 3.36%.
  - Commodity prices were hit hard as the Bloomberg Commodity Index returned -11.8% in Q3. Global macro and managed futures strategies performed well, while TIPS fell as inflation came in lower than expected and inflation expectations continued to decline.

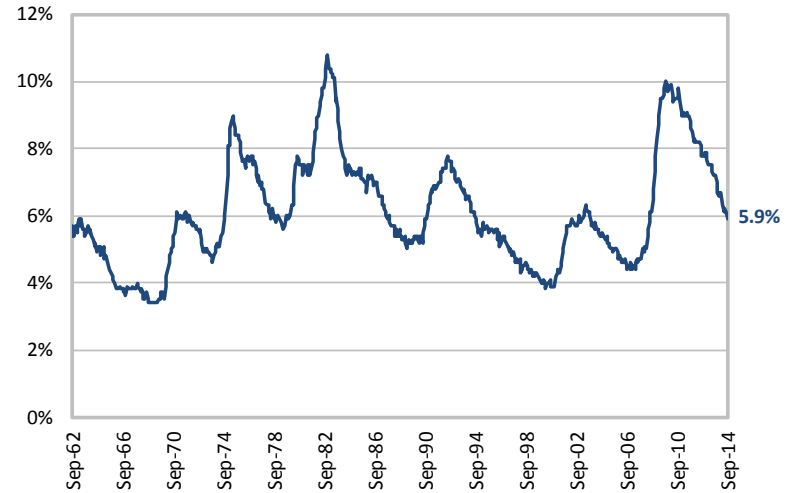
## Economy

- As expected, the Federal Reserve continued to wind down its asset purchase program, QE3, during the third quarter. FOMC Chairwoman Janet Yellen cited ongoing improvement in the labor market, but also mentioned that the Fed will rely on incoming data to determine the appropriate time to end QE3 and raise short-term interest rates to more normal levels.
- The unemployment rate fell to 5.9% in September, down 20 basis points from its June 2014 level. Unemployment is at its lowest level since July 2008, but many argue conditions in the labor market are overstated by the unemployment rate because of the decline in labor force participation, which remains at levels last seen in the 1970s. Baby boomers retiring and structural issues continue to weigh on the labor market, but the economy has seen slow, steady job growth during the recovery from the 2008-2009 downturn.
- Consumer prices continue to increase at a rate below the 2.0% long-run target set by the Fed. The Personal Consumption Expenditure (PCE) Index, the Fed's preferred measure of prices, increased 1.5% year-over-year in September. In addition to labor market measures, the Fed is taking price and wage inflation into consideration when determining the appropriate time to raise rates. Wage inflation remains muted and continues to come in around the level of price inflation. Americans have experienced minimal improvement in purchasing power, a headwind for rising consumer demand.
- Real GDP growth for Q2 2014 was 4.6% annualized, according to the BEA's third and final release, an upward revision of 40 basis points from the previous estimate. Exports and nonresidential fixed investment were higher than previously expected, leading to a final figure that was higher than the previous two estimates. Real GDP growth for Q1 2014 was -2.1% annualized.
- The ISM Manufacturing Index, a survey of purchasing managers that is a gauge of future manufacturing (and economic) activity, continues to indicate that growth will be strong for the remainder of 2014. In September the Index came in at 56.6; a figure over 50 implies expansion.

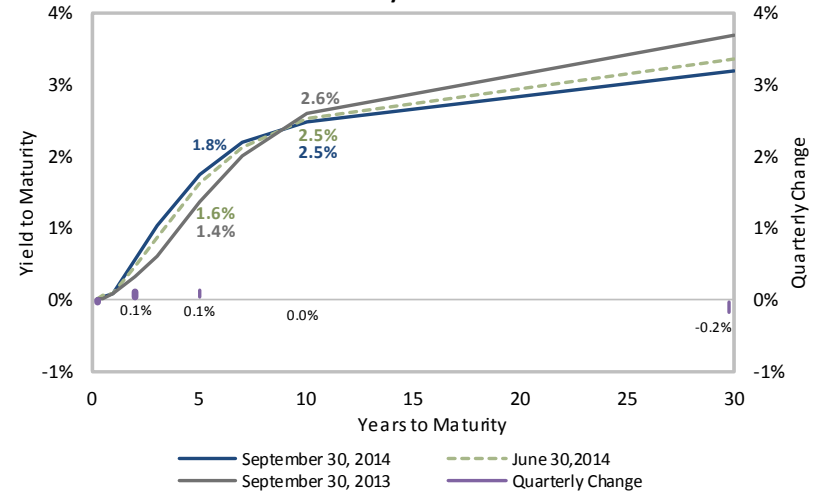
## Yield Curve

- Yields rose across the short end, held constant in the middle, and fell on the long end of the curve during the quarter, a continuation of the trend thus far in 2014. The spread between 2- and 30-year US Treasuries has tightened to 263 basis points as the curve continues to flatten; this spread has compressed 75 bps over the past year.

### Unemployment Rate



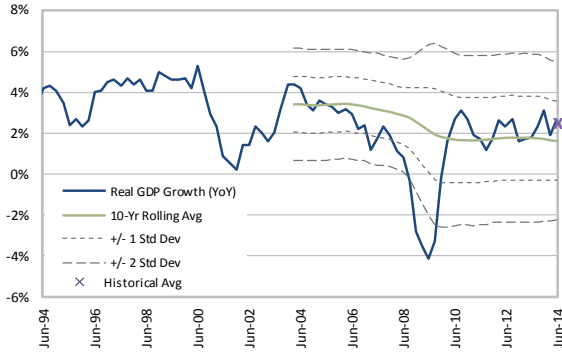
### Treasury Yield Curve



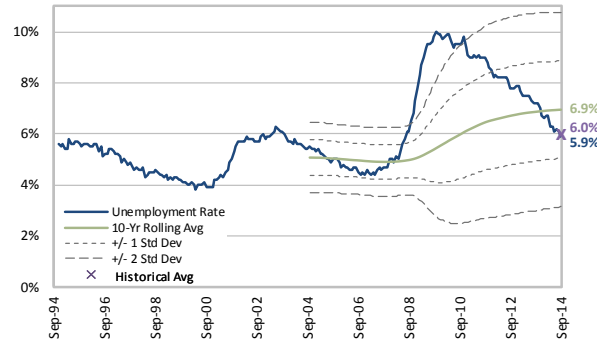
# Economic Perspective

September 30, 2014

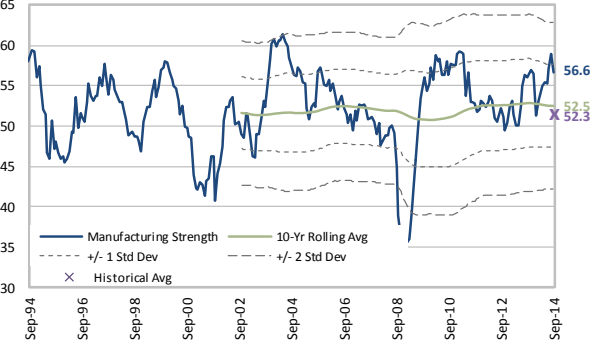
### Real GDP Growth (YoY)



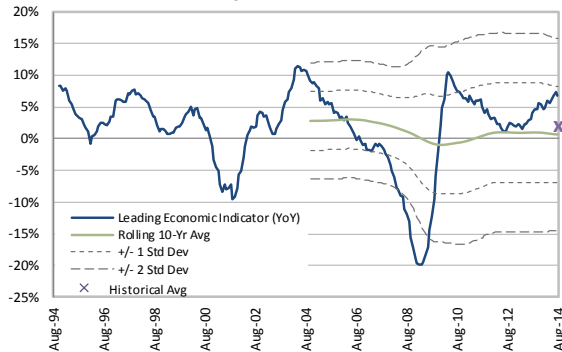
### Unemployment Rate



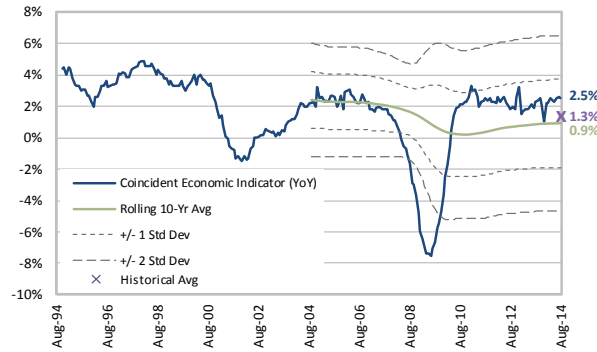
### Manufacturing Strength



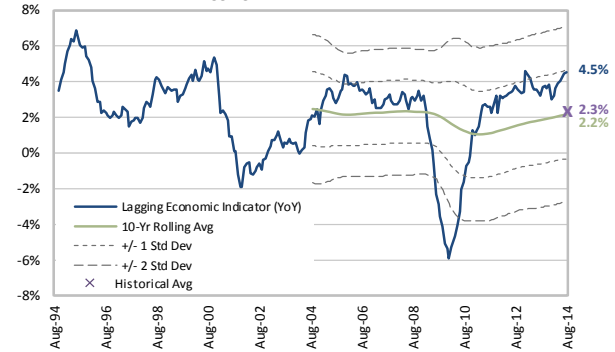
### Leading Economic Indicator (YoY)



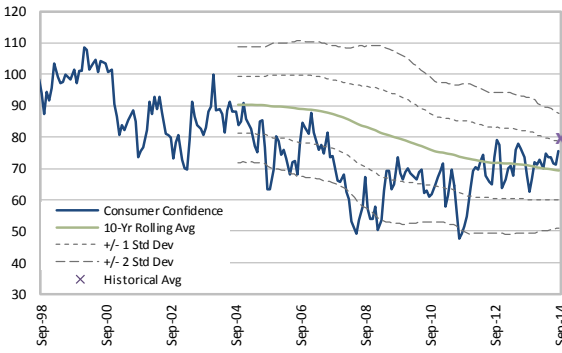
### Coincident Economic Indicator (YoY)



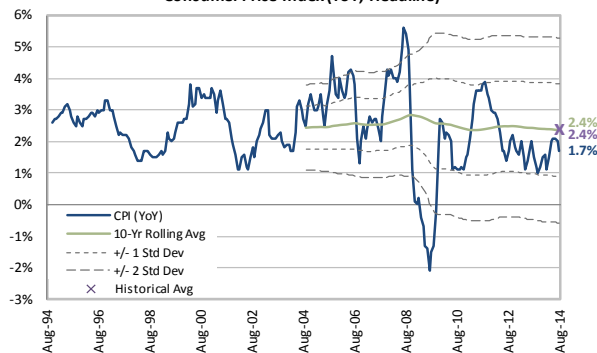
### Lagging Economic Indicator (YoY)



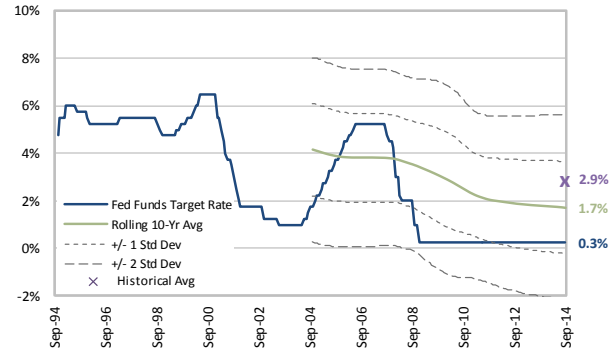
### Consumer Confidence

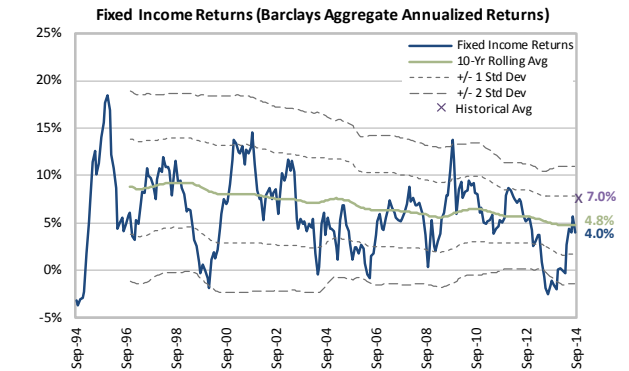
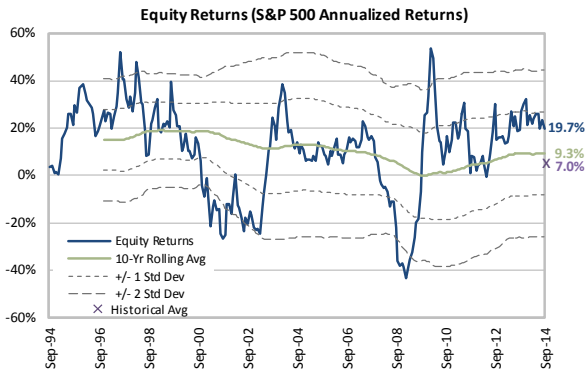
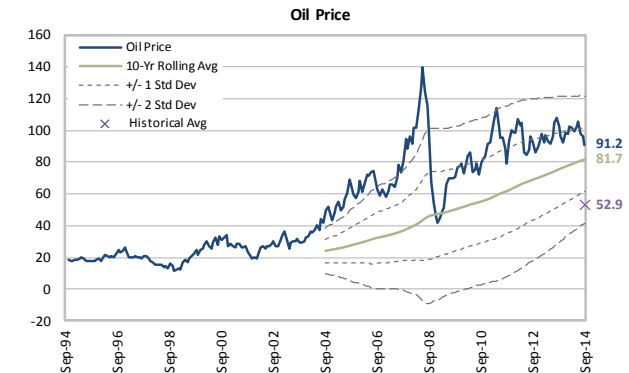
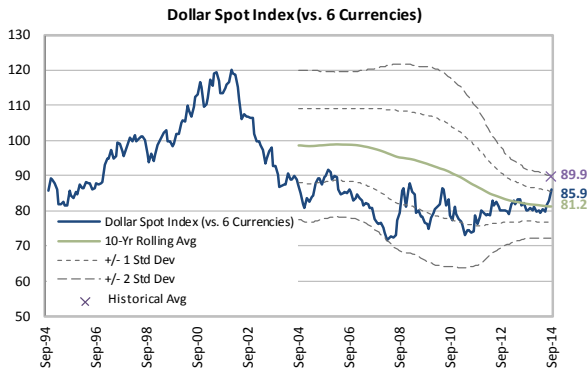
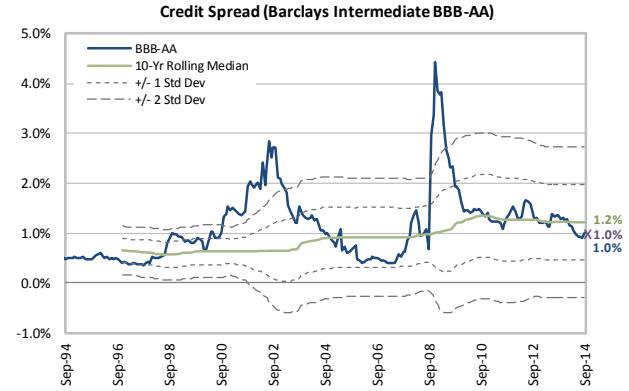
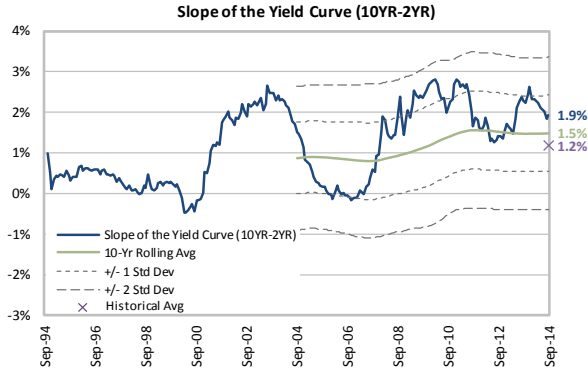


### Consumer Price Index (YoY, Headline)



### Federal Funds Target Rate





# Growth Assets

September 30, 2014

## Public Equities

- Domestic equities (S&P 500) outperformed international equities (MSCI EAFE) by 700 bps in the third quarter in US Dollar terms. Local currency returns were modestly positive for international equities. The year-to-date divergence between US large cap and small cap continued during the quarter, as investors have favored larger companies with more stable earnings over the smaller companies that outperformed in 2013.
- Master Limited Partnerships (MLPs) continued strong year-to-date gains in Q3. M&A continues to be a trend in the MLP asset class, highlighting slowing project backlogs among large cap MLPs.

## Public Debt

- High yield bonds earned a return of -1.9% as spreads widened 85 bps to 425 bps. High yield spreads remain well below their 20-year average of 525 bps.

## Private Equity

- Deal value has remained flat throughout 2014 as private equity managers compete against increasingly acquisitive strategic buyers. While competing with strategic buyers for new deals, managers have largely benefited from the same dynamic by selling portfolio companies to the same buyers. Exits via a strategic sale are 50% higher in 2014 than they were in each of 2011, 2012, and 2013. Fundraising continues to be very strong, and managers are taking advantage of the dynamic to raise larger pools of capital with shorter fundraising cycles than the period since 2007. Fundraising has persisted despite record high levels of uninvested capital. Accommodative debt markets and increasing levels of uninvested capital continue to sustain high deal prices with new LBOs pricing at >11x EBITDA in Q3 2014, an all-time high according to S&P LCD.

## Private Debt

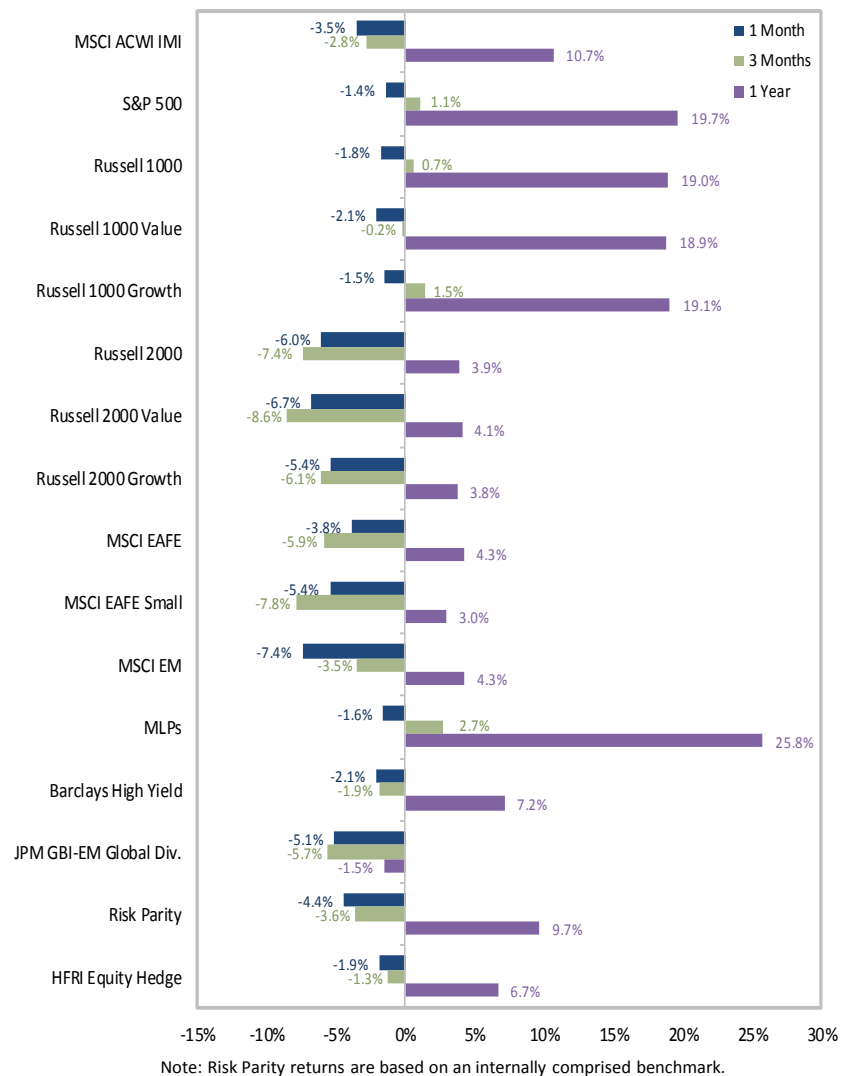
- The availability and aggressive terms from senior lenders has allowed debt levels in the larger end of the market to increase to another new cycle high of 5.9x EBITDA. This remains lower than the prior cycle high of 6.2x recorded in 2007. As the credit cycle has progressed, credit standards and spreads among lenders to private equity sponsors have decreased. Some managers have reported an improved pricing environment for senior lenders since May 2014 resulting in 25-50 bps of return premium. The opportunity for distressed buyers of corporate paper still appears to be a few years away as accommodative debt markets and economic momentum support low default rates.

## Risk Parity

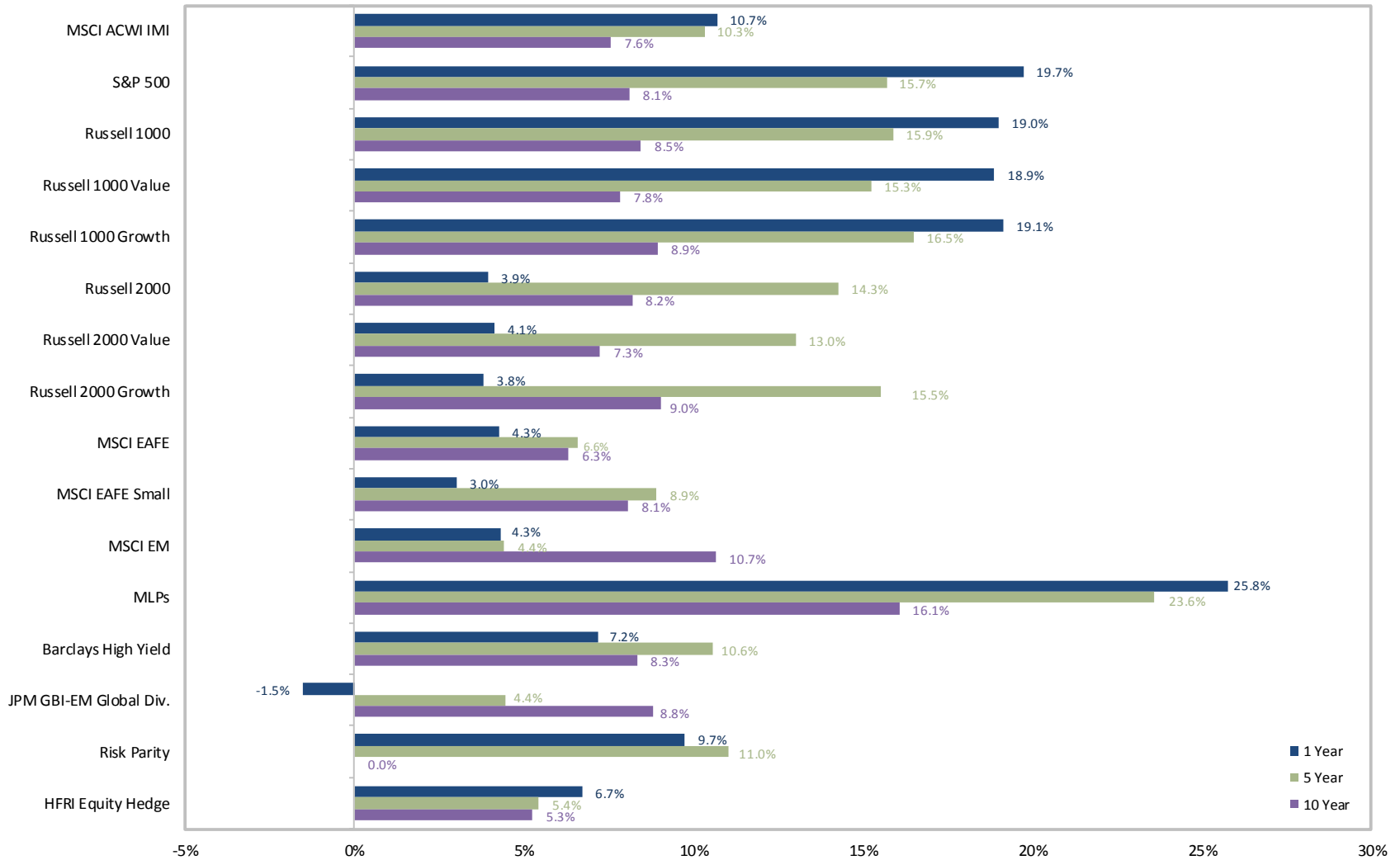
- Gains from interest rate exposures were not enough to offset losses from equities and commodities during the quarter. Risk parity-based strategies have outperformed global equities year-to-date.

## Growth Hedge Funds

- The HFRI Equity Hedge Index fell slightly, led lower by energy-related funds.



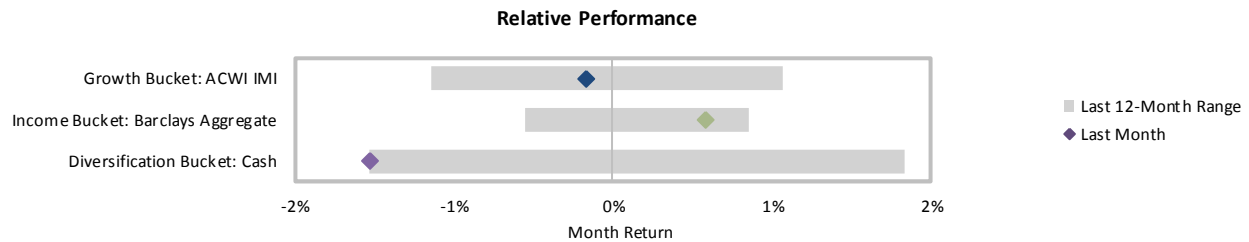
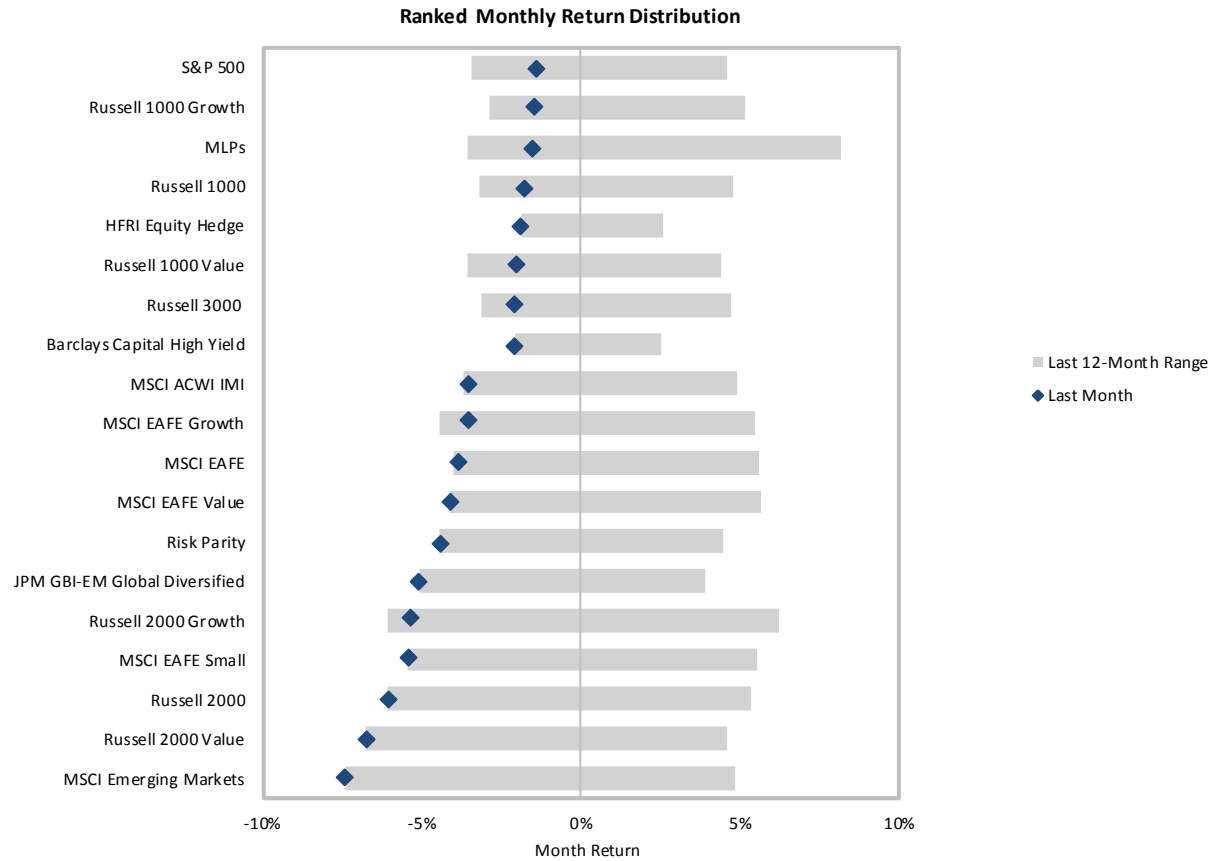
## ANNUALIZED ONE-, FIVE-, AND TEN-YEAR RETURNS



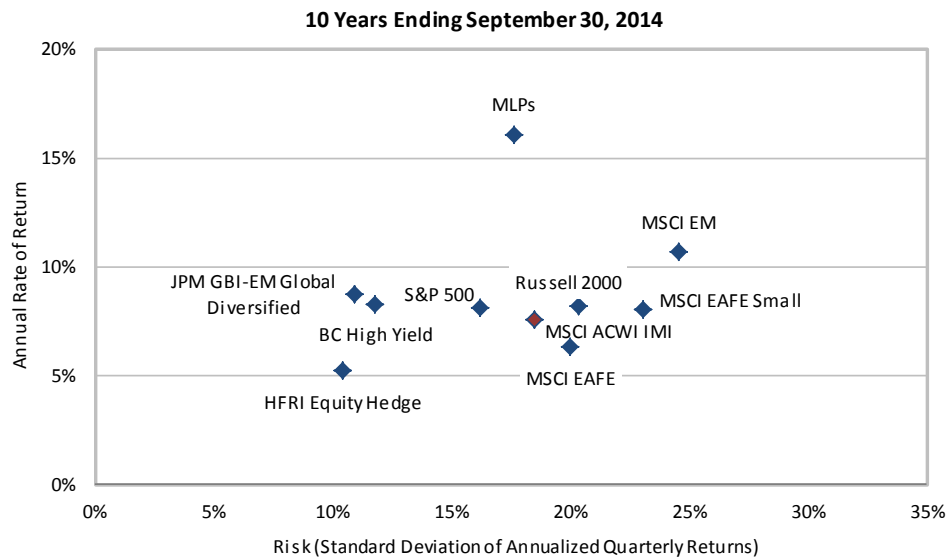
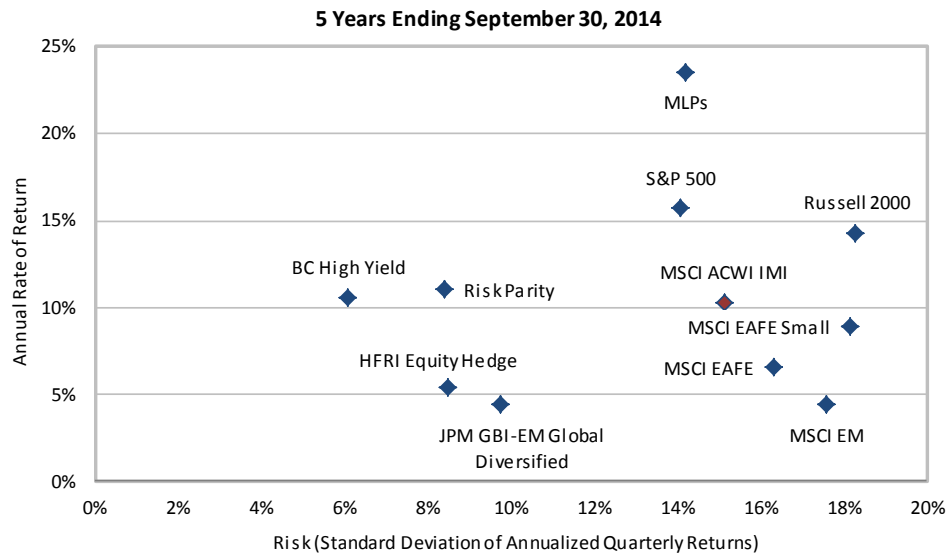
Note: Risk Parity returns are based on an internally comprised benchmark.



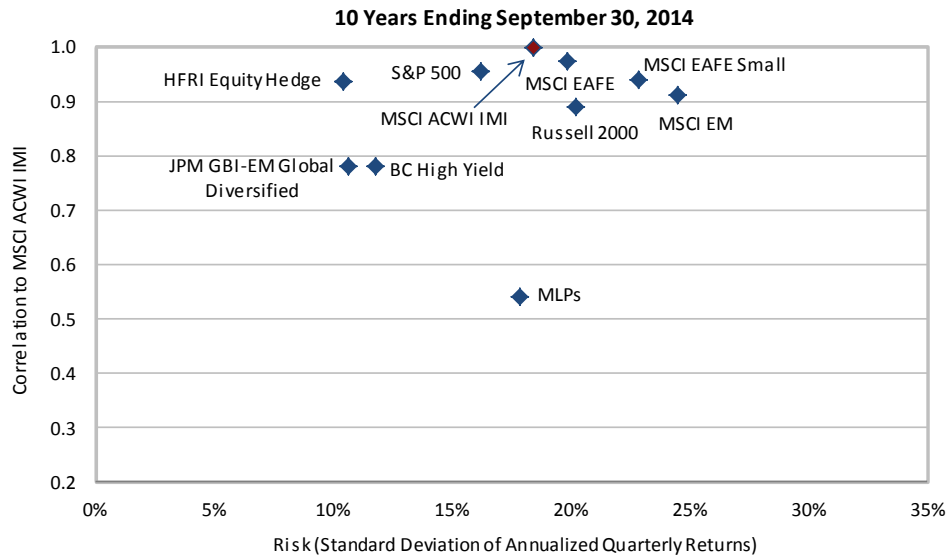
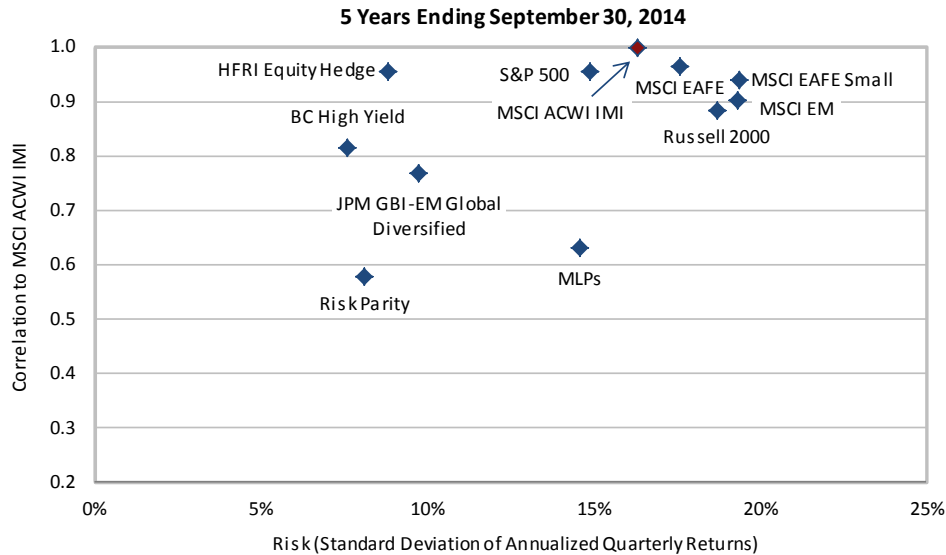
## HISTORICAL RELATIVE PERFORMANCE



ASSET CLASS RISK/RETURN PERFORMANCE



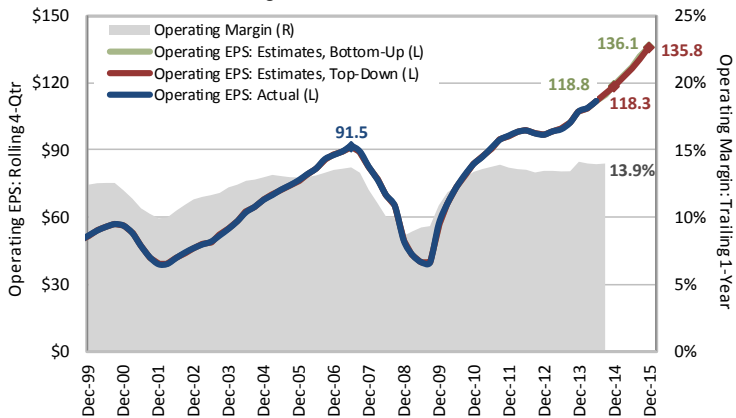
ASSET CLASS CORRELATION TO MSCI ACWI IMI



MARKET CHARTS

S&P 500 Operating Earnings

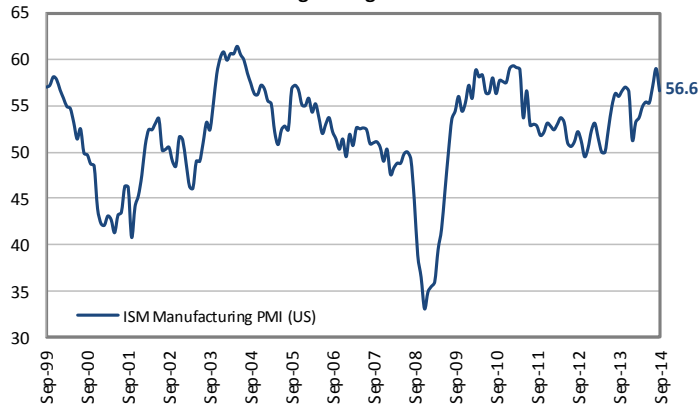
Rolling 4-Quarter, Actual and Estimated



Source: Standard & Poor's

Both earnings growth expectations and operating margins remain high.

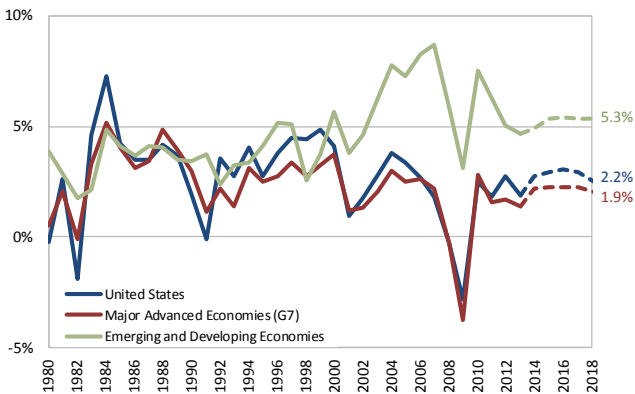
Purchasing Managers' Index



Source: Institute for Supply Management

US manufacturing remains strong; a reading over 50 implies expansion.

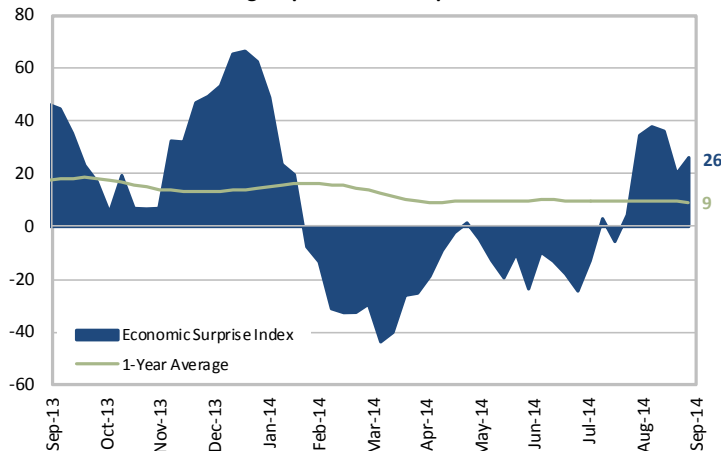
GDP Growth (YoY)



Source: International Monetary Fund

Economic growth expectations remain positive. In the developed world, growth is below long-term averages going forward. In the emerging world, growth is below the averages of the last 10 years.

Citigroup Economic Surprise Index



Source: Citigroup

The third quarter of 2014 included generally strong economic data releases.

# Income Assets

September 30, 2014

## Public Debt

- The Barclays Capital Aggregate returned 0.2% in the third quarter as interest rates were mostly unchanged across the middle of the yield curve.
- Government bonds produced small gains, returning 0.2%.
- Corporate bonds saw returns of -0.1% during the quarter as investment grade spreads widened 10 bps to 110 bps. Over the past 20 years, corporate bond spreads have averaged 145 bps.
- Mortgage-backed securities returned 0.2% for the quarter as agency MBS spreads widened 5 bps to 30 bps, well below the 20-year average of 60 bps.
- International bonds suffered as the dollar strengthened against major foreign currencies. US bonds (BC Agg) outperformed international fixed income (BC Global Agg ex US) by 560 bps.

## Private Debt

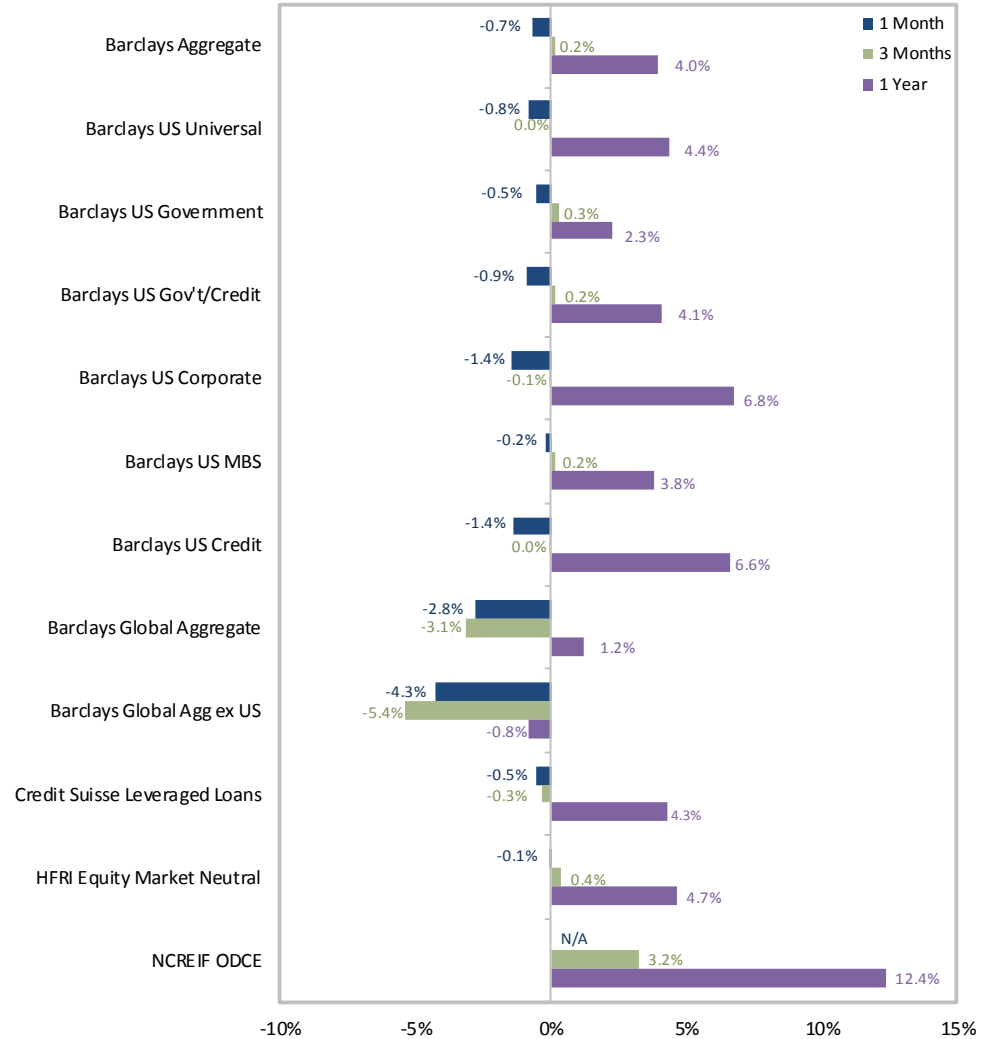
- Leveraged loans returned -0.3% for the quarter and are up 4.3% for the 12 months ending September.

## Relative Value Hedge Funds

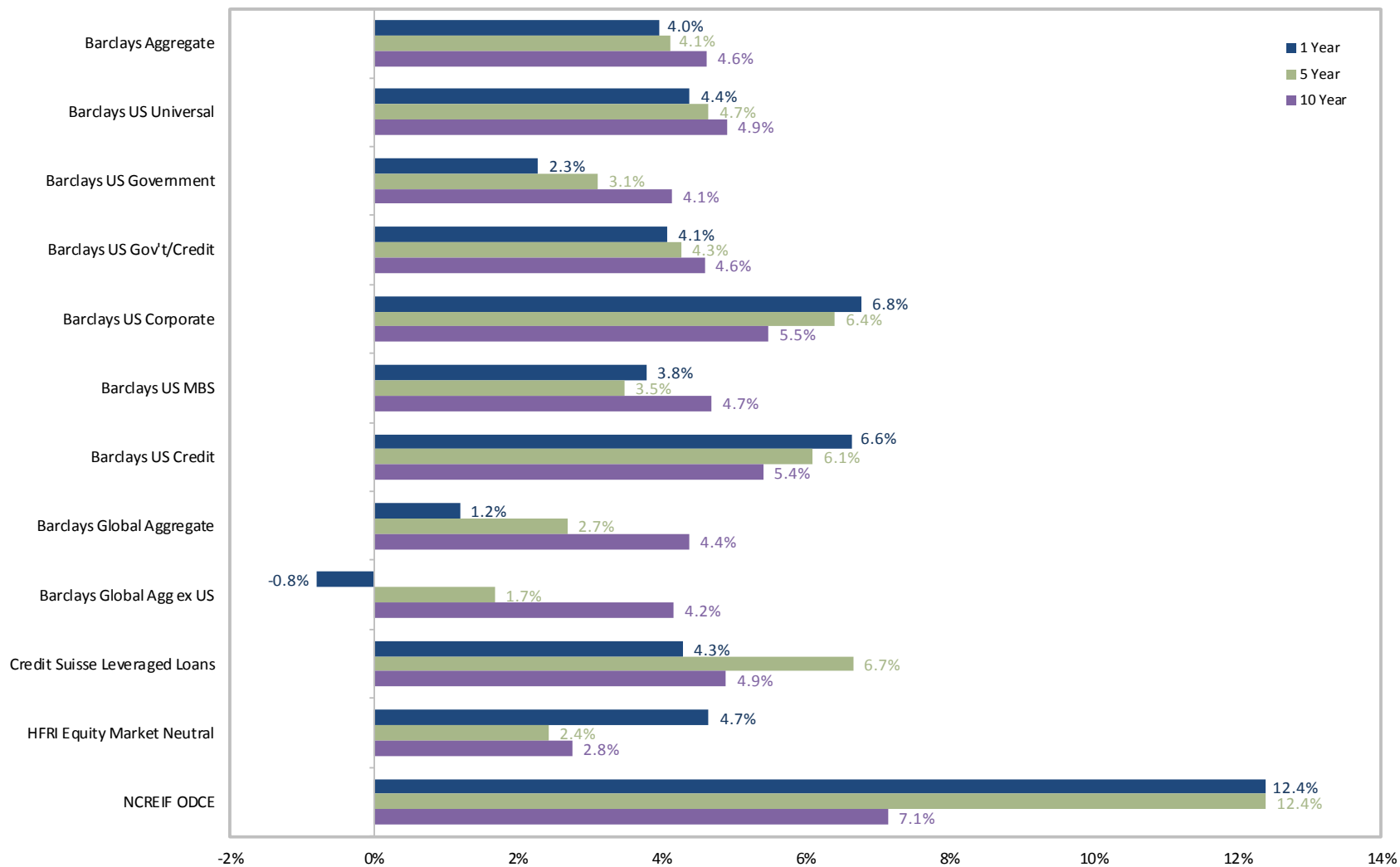
- The HFRI Equity Market Neutral Index produced modest gains for the quarter. Volatility and relative value arbitrage strategies were among leading strategies.

## Core Real Estate

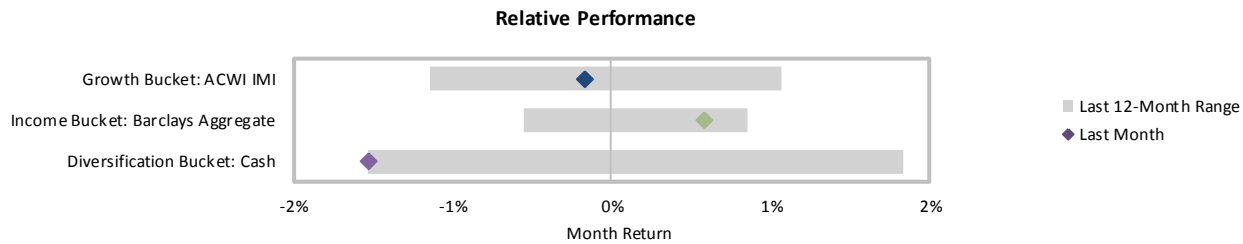
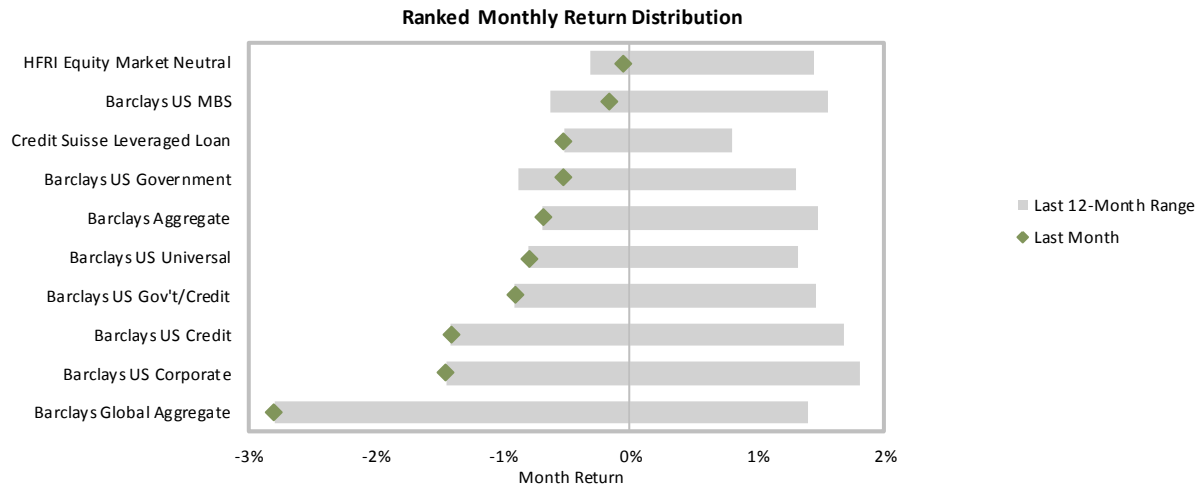
- The preliminary third quarter return for core real estate is 3.2%, the best quarter for the NCREIF ODCE Index since the third quarter of 2013. The strong performance was fueled by an increase in occupancy rates, which created higher income levels for most properties throughout the U.S. Appreciation returns for office and industrial properties have also shown a steady increase over the last year and a half. Finally, new construction projects have maintained at a modest volume, creating favorable supply-demand metrics in several key markets.



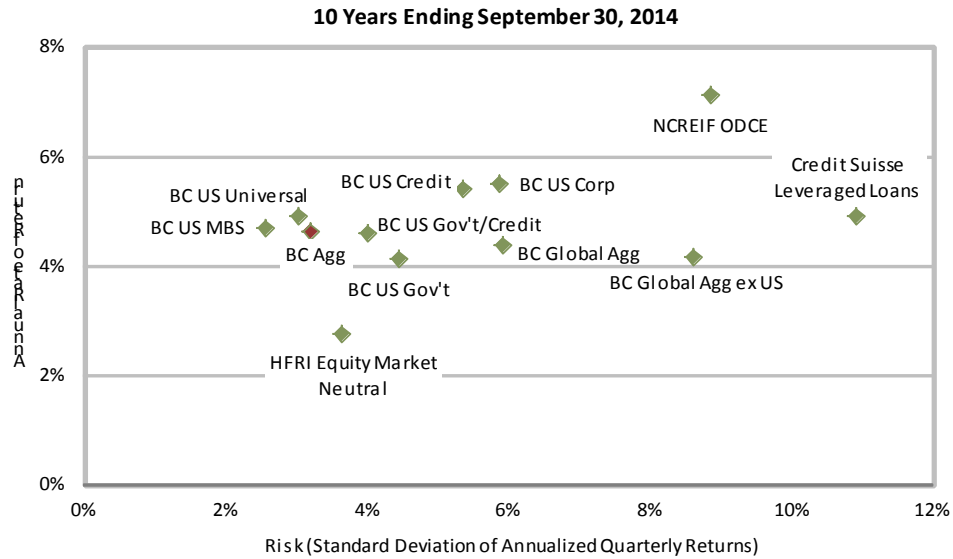
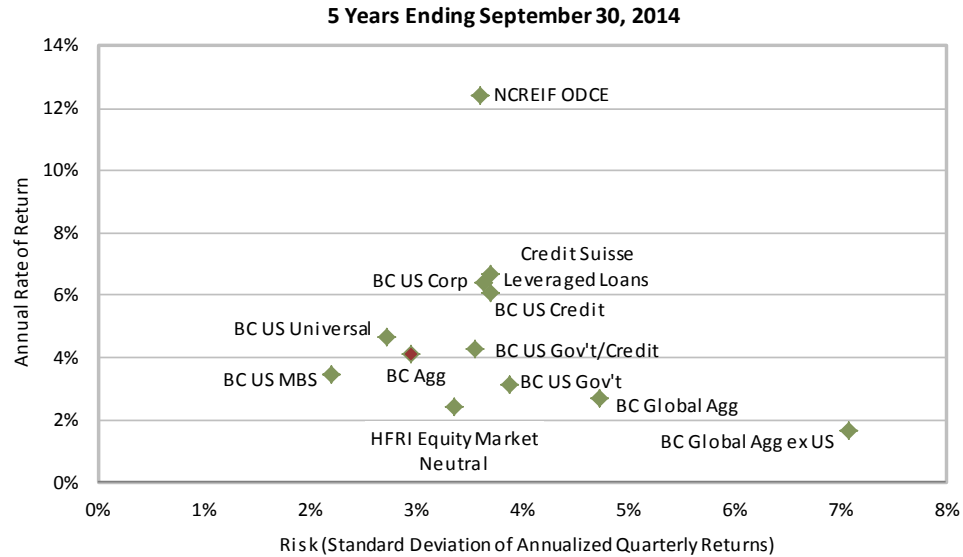
ANNUALIZED ONE-, FIVE-, AND TEN-YEAR RETURNS



## HISTORICAL RELATIVE PERFORMANCE

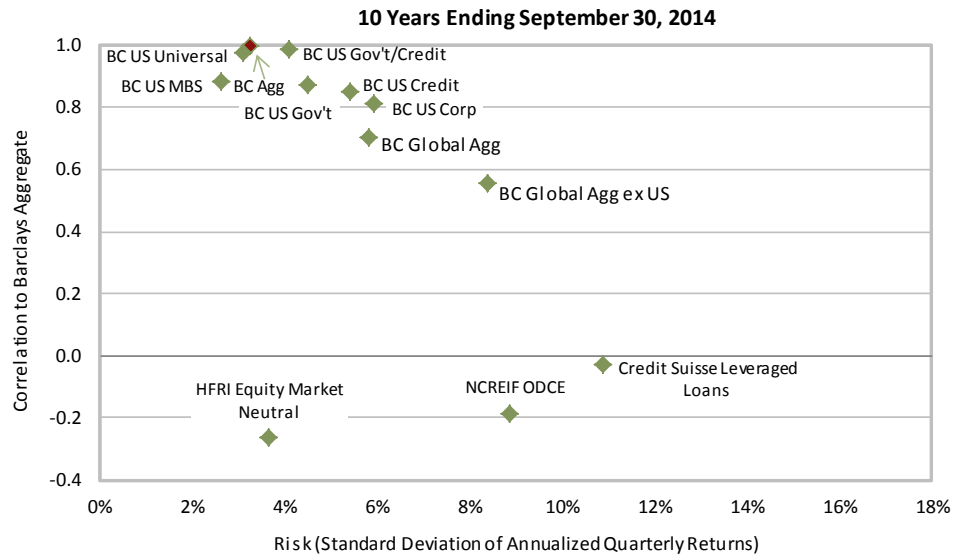
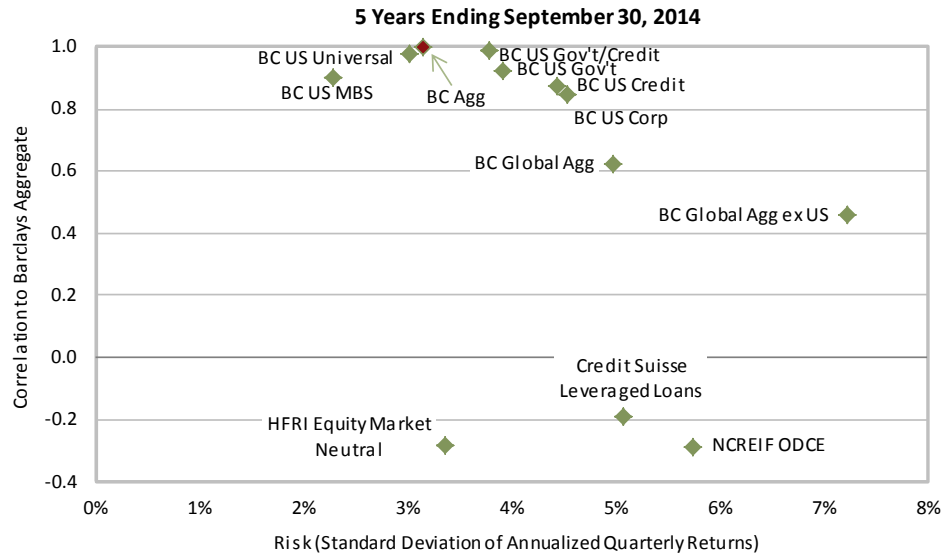


**ASSET CLASS RISK/RETURN PERFORMANCE**



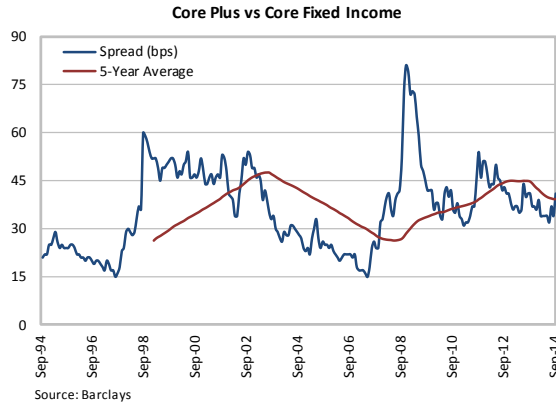


## ASSET CLASS CORRELATION TO BARCLAYS AGGREGATE

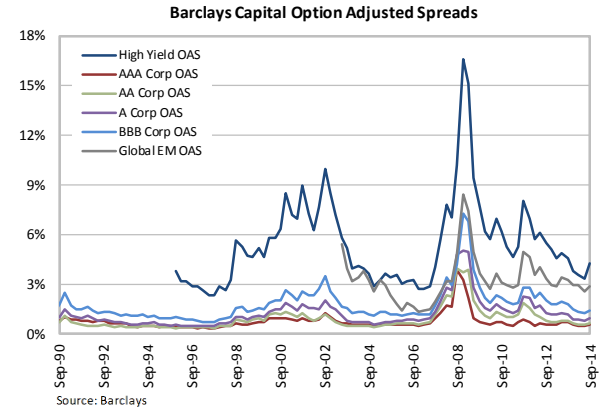


MARKET CHARTS

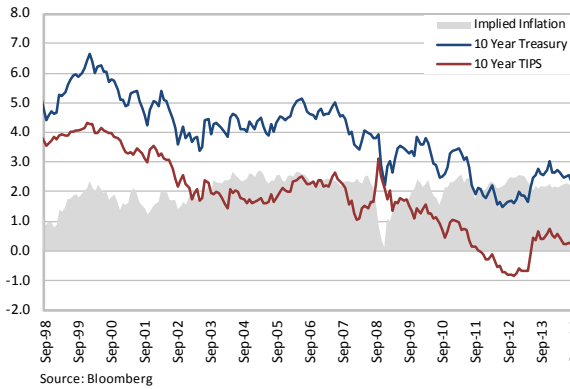
The spread between core and core plus increased during the quarter, but has been trending downward since 2011.



Spreads widened in Q3; generally, they are at fair levels but offer limited room for compression.



Implied Inflation



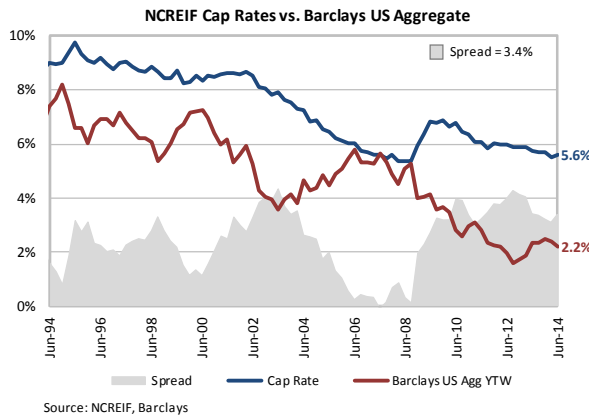
Long-term implied inflation is near its historical average of 2.1%.

Employment Cost Index YoY % Change

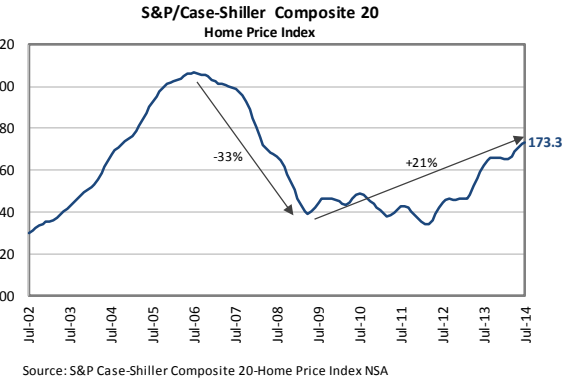


Wage growth has increased since the recession and is barely keeping pace with inflation.

Post-2008, commercial real estate cap rates have remained relatively stable, with spreads to Treasuries remaining elevated relative to historical levels.



Home prices continue to rise but remain well below the highs of 2006.



# Diversification Assets

September 30, 2014

## Inflation

- TIPS returned -2.0% in the third quarter as real yields increased. The asset class has gained 1.6% for the 12 months ending September.

## Deflation

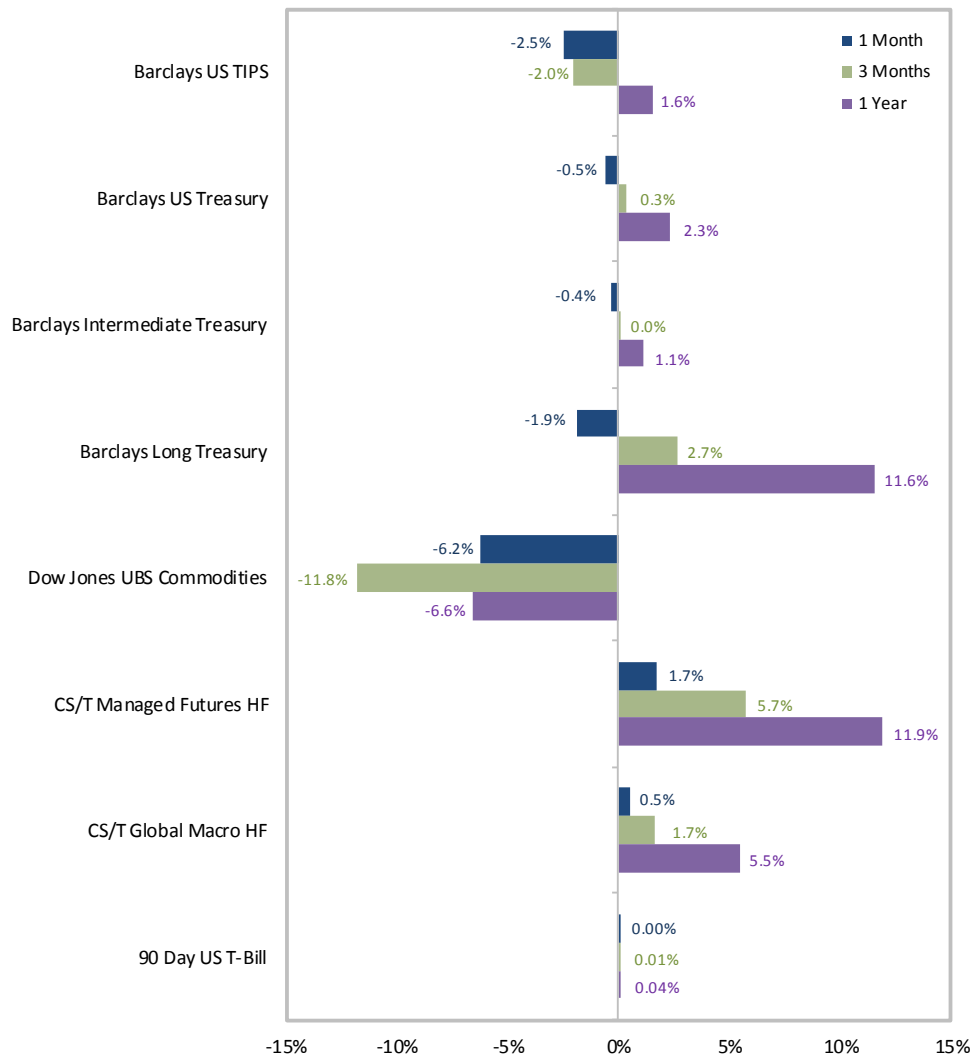
- The Barclays US Treasury Index returned 0.3% during the quarter.
- Intermediate Treasuries were unchanged and long duration Treasuries returned 2.7% as yields held constant across the middle of the curve and fell on the long end. Intermediate and long Treasuries have earned 1.1% and 11.6%, respectively, over the past year.
- Cash continues to offer virtually no return, as 90-day T-Bills have gained just 4 bps over the past year.

## Commodities

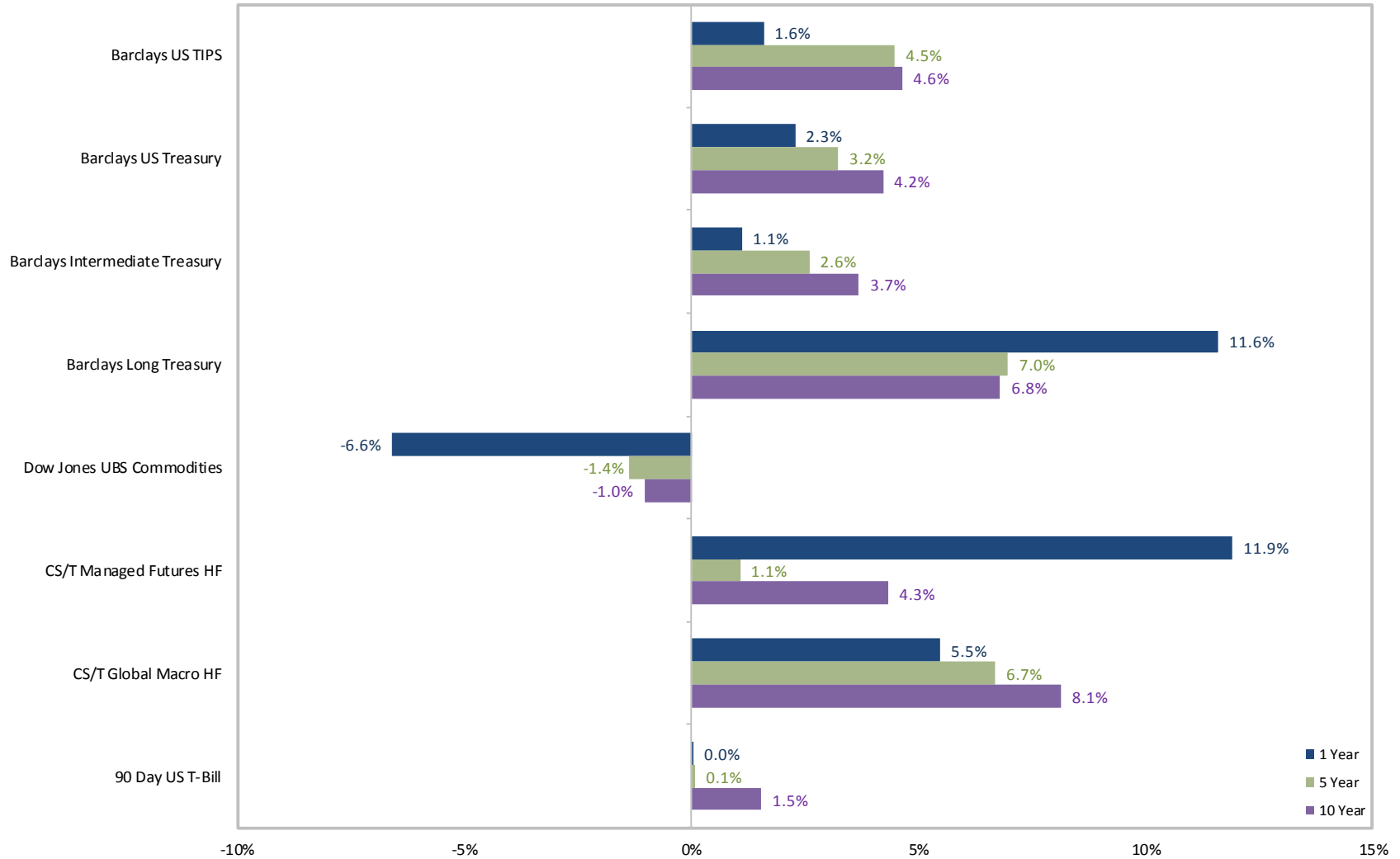
- With the current negative year-to-date return for the asset class, this would mark the fourth consecutive year of decline, something that has never occurred over the BCI return history, which dates back to 1991. Agricultural commodities outside of soybean oil declined during the quarter due to continued expectations of high production levels, and energy commodities fell in line with declining oil and gas prices.

## Tactical Trading

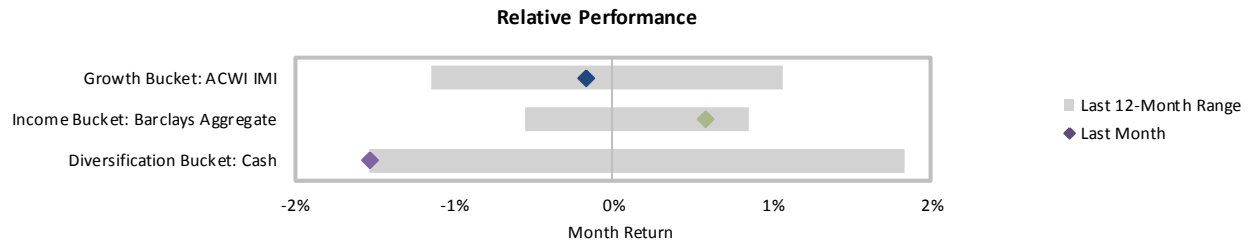
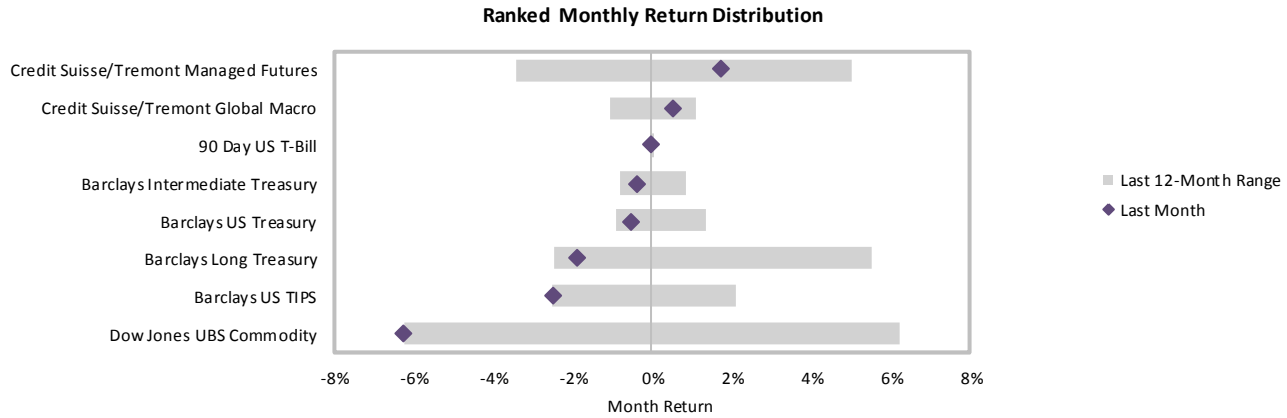
- Diversification hedge funds performed well during the quarter. Managed futures posted strong returns, concentrated in trend-following strategies. Global macro hedge funds also solidly contributed.



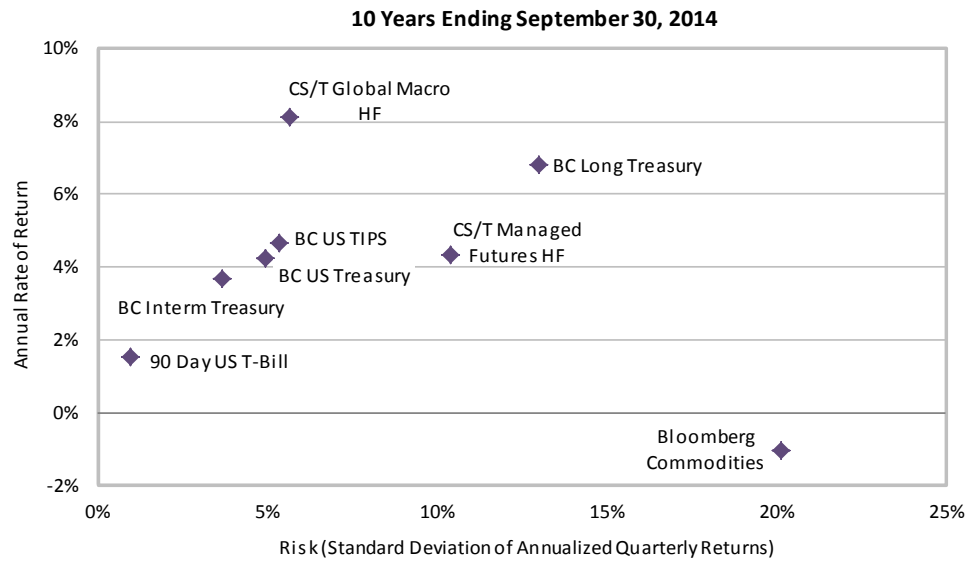
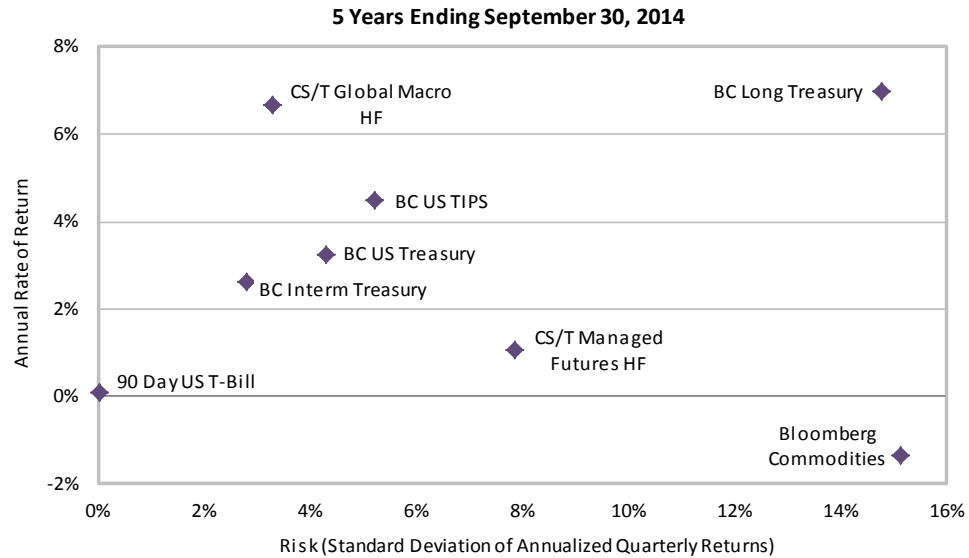
ANNUALIZED ONE-, FIVE-, AND TEN-YEAR RETURNS



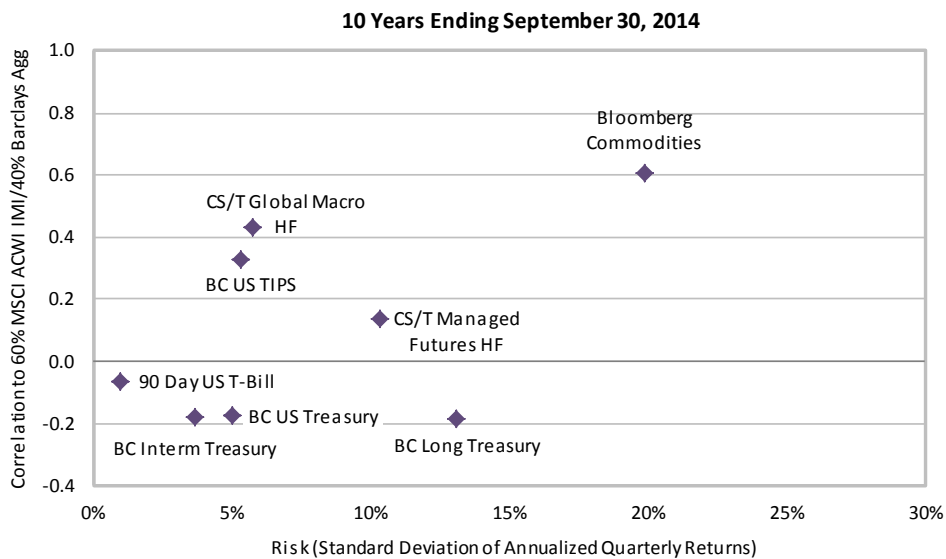
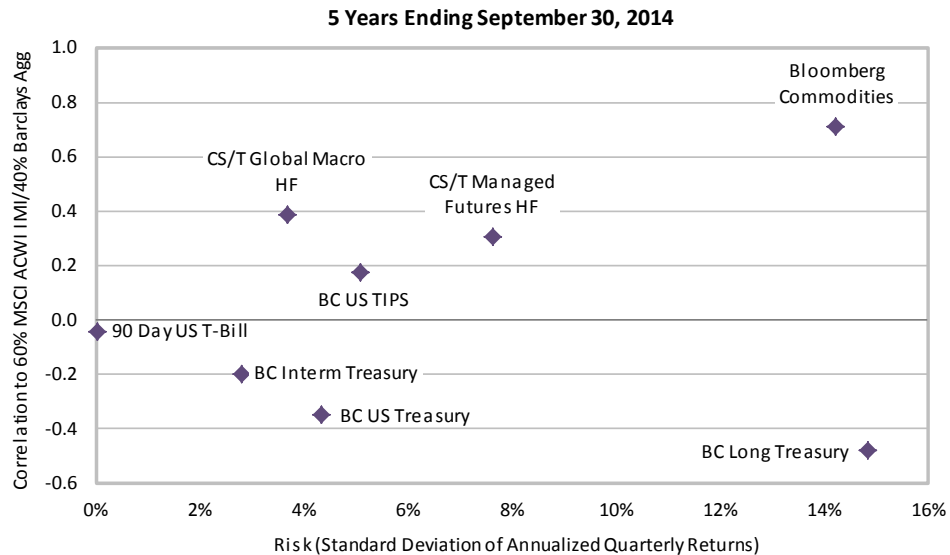
HISTORICAL RELATIVE PERFORMANCE



ASSET CLASS RISK/RETURN PERFORMANCE



ASSET CLASS CORRELATION TO 60% MSCI ACWI IMI/40% BARCLAYS AGGREGATE



MARKET CHARTS

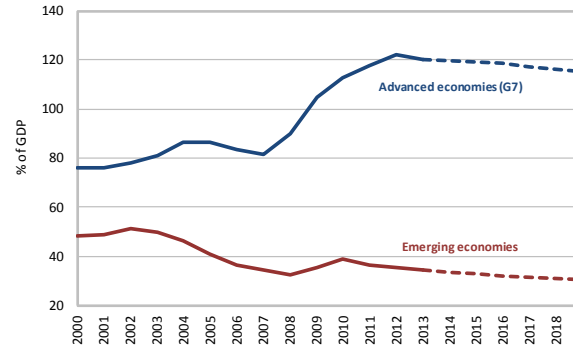
S&P 500 Member Average Correlation



Source: Summit Strategies Analysis

The correlation between individual stocks is slightly down from one year ago.

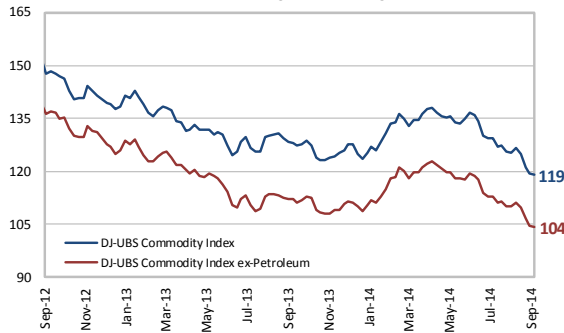
Government Debt/GDP



Source: International Monetary Fund

Debt burdens in advanced economies are well over 100% of GDP, whereas the emerging economies are more reasonable at about 35% of GDP.

Commodities: Including and Excluding Petroleum

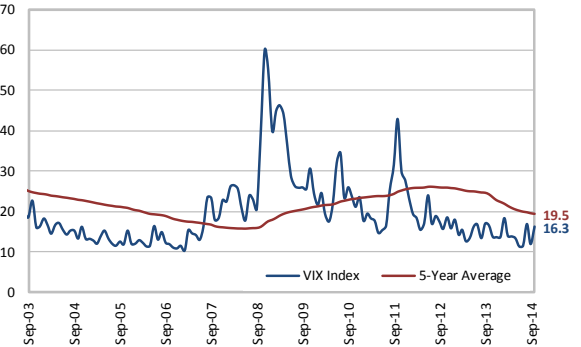


Source: Dow Jones-UBS

Commodity prices were hit hard during the quarter, erasing gains from earlier in the year.

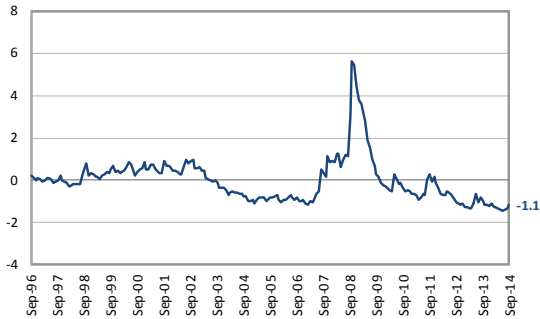
Equity volatility has traded in a narrow range after spiking during the market turmoil of 2011.

Equity Volatility (VIX)



Source: Chicago Board Options Exchange

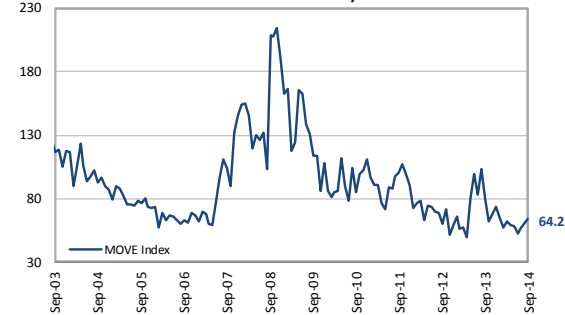
St. Louis Federal Reserve Financial Stress Index



Source: St. Louis Federal Reserve

According to the STLFSI, financial market stress is currently below-average; a reading of 0 indicates average market stress.

Fixed Income Volatility



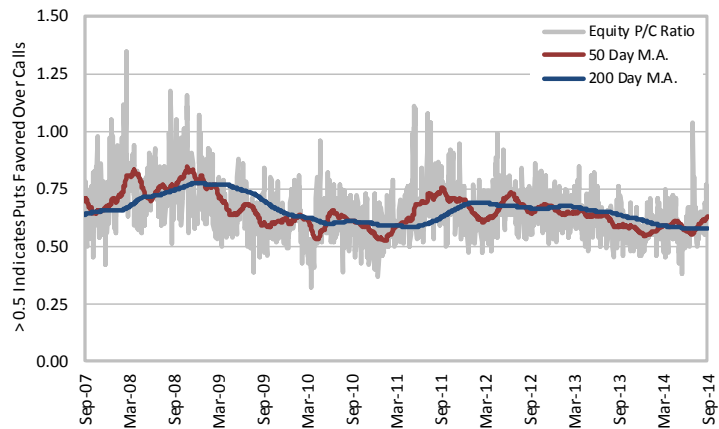
Source: Merrill Lynch, Barclays

Bond market volatility increased during the quarter, but remains at low levels.



MARKET SKEW

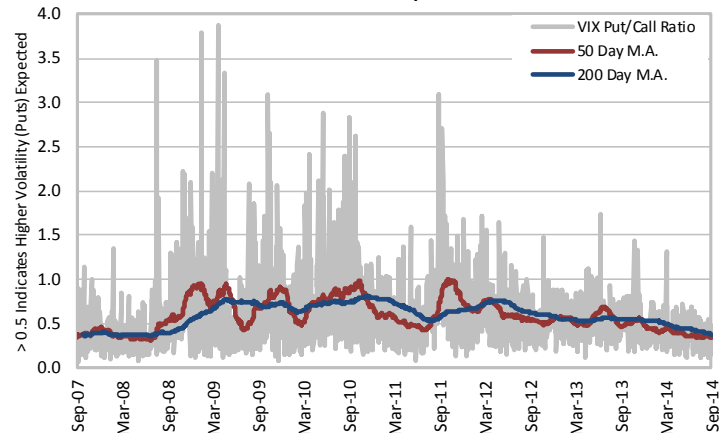
CBOE Put/Call Ratio



Source: Chicago Board Options Exchange

0.5 is neutral; investors are slightly less inclined to buy downside protection than they were at the beginning of the quarter – the ratio continues to drift lower.

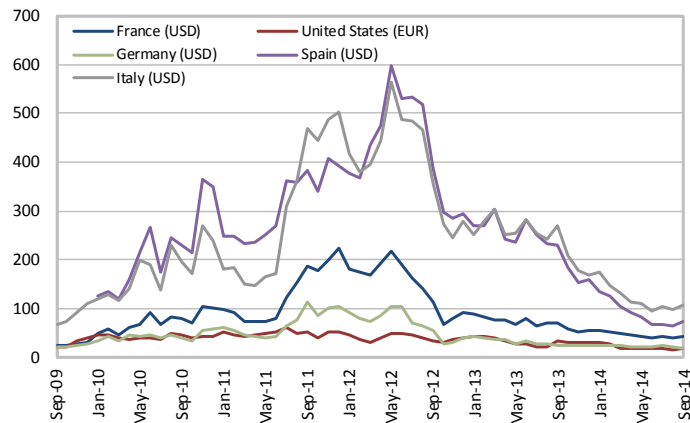
CBOE VIX Put/Call Ratio



Source: Chicago Board Options Exchange

0.5 is neutral; investors expect equity volatility to be slightly elevated, as volume for VIX call options has increased relative to put options.

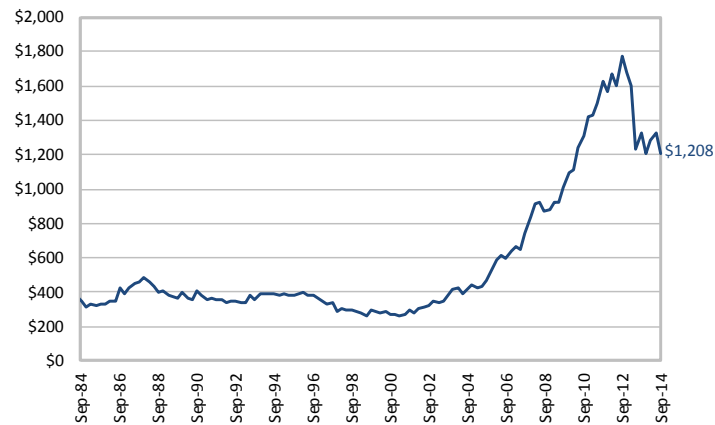
5-Year Credit Default Swaps Spreads



Source: Bloomberg

Sovereign spreads have flattened after decreasing for much of the past few years.

Gold Spot \$/oz.



Source: Bloomberg

Although the major price decline appears to have stalled, gold remains well off its recent high.

## INVESTMENT THEMES: LOOKING FORWARD

### *What We Believe*

#### **Growth**

- Muted global growth.
  - Deleveraging/deflationary pressures continue.
  - Growth potential continues to decline.
- Increasing divergence in global economies.
  - More varied policy maker responses.
  - Potential source for market volatility.
- Major economies at different stages of central bank intervention.
- Valuation differences between domestic equities and other growth assets remain elevated, presenting opportunities.
- Strengthening US Dollar versus foreign currencies.

#### **Income**

- Muted returns for most fixed income assets.
  - Yields are low and credit spreads are compressed.

#### **Diversification**

- The cost of explicit insurance versus non-correlated assets has declined.

### *What Investors Should Do*

- Conservatively position Growth portfolio.
  - Move equity allocations near lower end of range.
  - Decrease return expectations.
- Focus on active management and quality.
- Emphasize broad diversification.
- Overweight emerging market equities and debt.
- In developed markets, favor US Dollar exposure.
- Selectively overweight spread products relative to Treasuries.
- Revisit dedicated tail hedging strategies versus inflation hedging needs.

SUMMARY

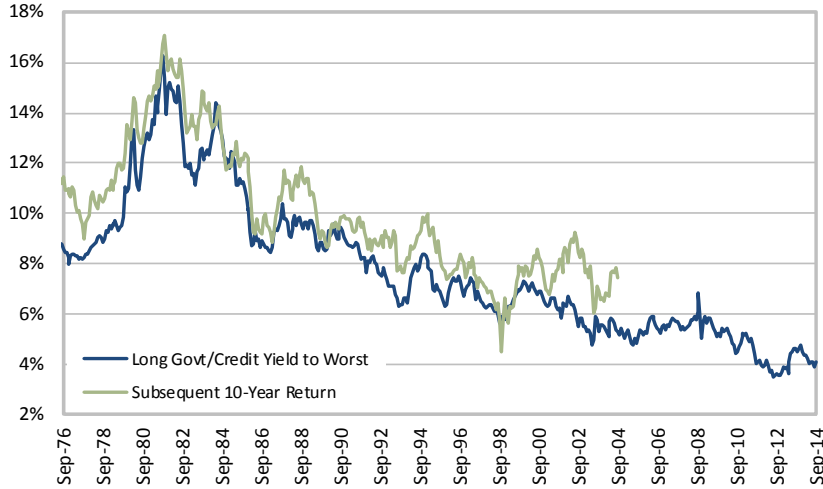
- The capital market assumptions section summarizes changes to Summit’s long-term strategic capital market assumptions that have occurred since the beginning of the calendar year (Summit’s full assumptions document is updated annually).
- While these assumptions are long-term by definition (one would not expect them to change frequently), there are times throughout the year when market fundamentals move dramatically, thereby altering the long-term expected performance for certain asset classes.
- The pages that follow provide brief supporting documentation for each of the asset classes in the table. For a complete rationale (for all assumptions) please refer to Summit’s annual “Capital Market Assumption” publication (available at [www.summitstrategies.com](http://www.summitstrategies.com)).

Asset Class Returns and Standard Deviations					
Asset Class	Current Estimates		Previous Quarter		Alpha Assumptions
	Expected Return	Standard Deviation	Expected Return	Standard Deviation	
Inflation (CPI)	2.25%	1.75%	2.25%	1.75%	
<b>GROWTH:</b>					
Large Cap	5.50%	16.75%	5.50%	16.75%	0.50%
Small Cap	5.25%	20.50%	5.25%	20.50%	0.75%
International Large Cap	6.75%	20.00%	6.75%	20.00%	0.75%
International Small Cap	6.75%	23.25%	6.75%	23.25%	1.00%
Emerging Markets	8.50%	25.25%	8.50%	25.25%	1.00%
Master Limited Partnerships (MLP)	7.50%	18.00%	7.50%	18.00%	
Private Equity	9.25%	21.00%	9.25%	21.00%	
Growth Hedge Funds	6.25%	10.00%	6.25%	10.00%	
High Yield Bonds	4.25%	12.00%	3.75%	12.00%	0.50%
Emerging Market Debt	6.75%	11.00%	6.75%	11.00%	0.75%
Convertibles	4.50%	13.75%	4.25%	13.75%	0.50%
Private Debt	7.25%	15.00%	6.75%	15.00%	
Non-Core Real Estate	8.50%	23.00%	8.50%	23.00%	
Public Real Estate (REITs)	5.50%	15.00%	5.50%	15.00%	
Risk Parity	7.25%	10.00%	7.25%	10.00%	
<b>INCOME:</b>					
<i>Public Debt</i>					
Governments	2.75%	4.75%	2.75%	4.75%	
Corporates	3.75%	6.25%	3.75%	6.25%	0.50%
Mortgages (Agency)	3.00%	3.25%	3.00%	3.25%	0.25%
Intermediate Fixed Income	3.00%	3.50%	3.00%	3.50%	0.25%
Core Fixed Income	3.25%	3.50%	3.25%	3.50%	0.25%
Core Plus Fixed Income	3.75%	4.00%	3.75%	4.00%	0.50%
Long Gov/Credit Fixed Income	3.75%	9.75%	3.75%	9.75%	0.25%
International Fixed Income	3.25%	8.50%	3.25%	8.50%	0.50%
Public Bank Loans	4.25%	11.00%	4.25%	11.00%	
Private Bank Loans	5.50%	13.00%	5.50%	13.00%	
Relative Value Hedge Funds	5.25%	5.00%	5.25%	5.00%	
Core Real Estate	6.50%	12.00%	6.50%	12.00%	
<b>DIVERSIFICATION:</b>					
Cash	2.75%	1.75%	2.75%	1.75%	
TIPS	3.00%	5.50%	3.00%	5.50%	
Long Treasuries	3.00%	13.25%	3.00%	13.25%	
Commodities	5.00%	20.50%	5.00%	20.50%	
Tactical Trading	6.75%	10.00%	6.75%	10.00%	
Diversified Hedge Funds	5.75%	6.00%	5.75%	6.00%	

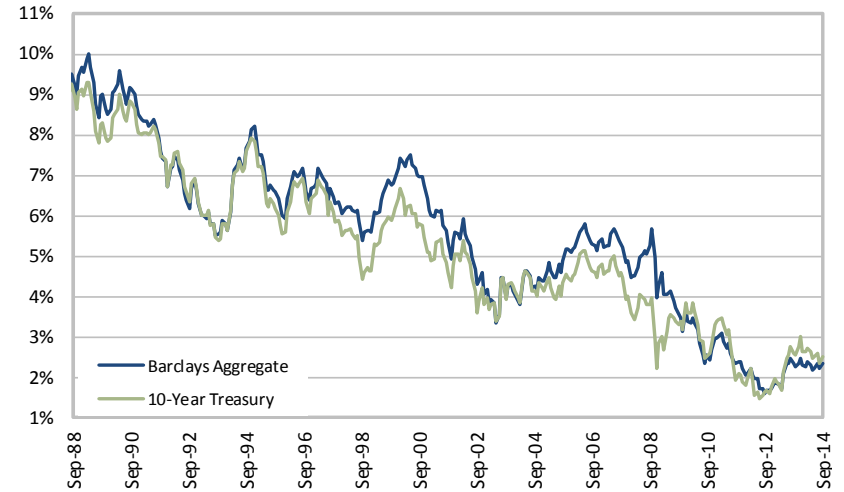
Change from previous quarter.

**FIXED INCOME**

**Yield as an Estimate of Fixed Income Returns**

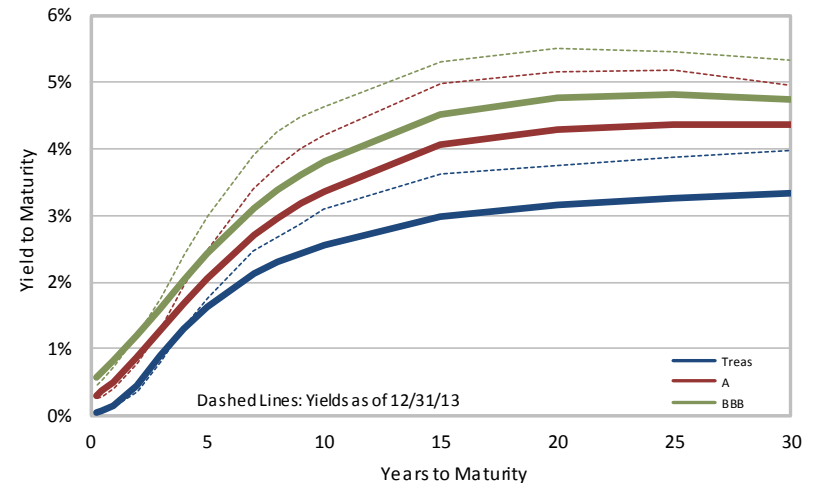


**Historical Yields**



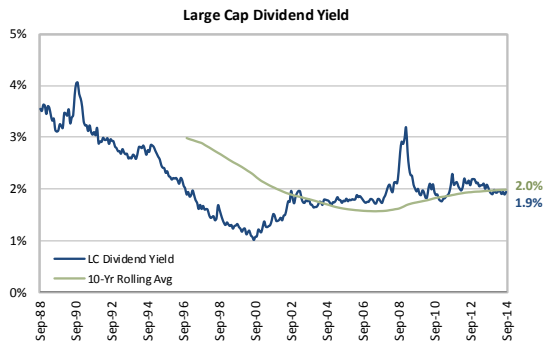
Asset Class	Assumptions		Option-Adjusted Spread	
	Current	BOY 2014	Current	BOY 2014
CPI	2.25%	2.25%	n/a	n/a
High Yield Bonds	4.25%	4.25%	424	382
Emerging Market Debt	6.75%	6.75%	n/a	n/a
Convertibles	4.50%	4.50%	n/a	n/a
Governments	2.75%	3.00%	2	3
Corporates	3.75%	4.25%	112	114
Mortgages (Agency)	3.00%	3.25%	30	35
Intermediate Fixed Income	3.00%	3.25%	32	35
Core Fixed Income	3.25%	3.50%	43	45
Core Plus Fixed Income	3.75%	4.00%	87	85
Long Govt/Credit Fixed Income	3.75%	4.00%	106	105
International Fixed Income	3.25%	3.50%	33	45
Cash	2.75%	3.00%	n/a	n/a
TIPS	3.00%	3.25%	n/a	n/a

**Yield Curves**

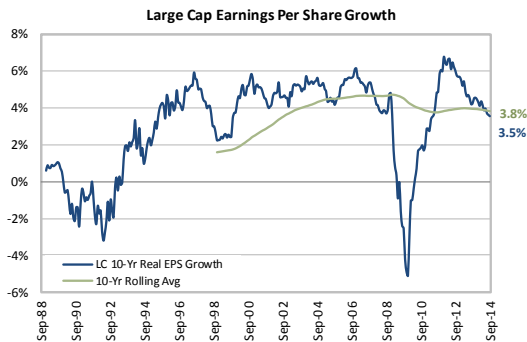


DOMESTIC EQUITY

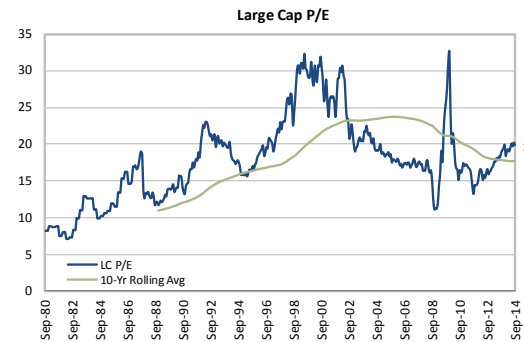
Large Cap Equity



Dividend Yield: 2.00%



EPS Growth: 1.75%

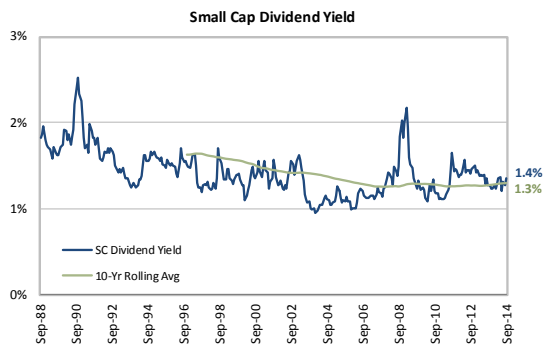


Change in P/E: -0.50%

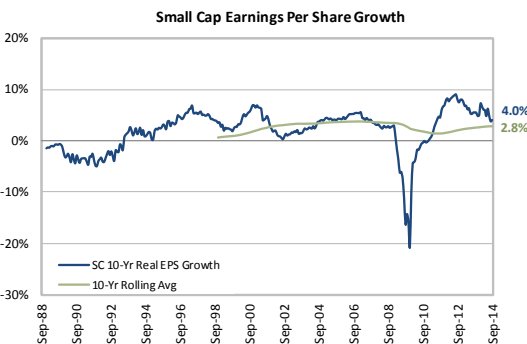
Inflation

2.25%  
5.50%

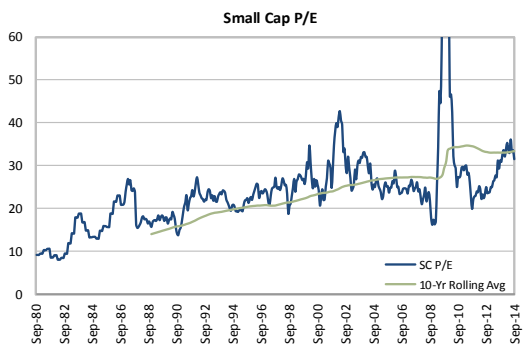
Small Cap Equity



Dividend Yield: 1.25%



EPS Growth: 2.25%



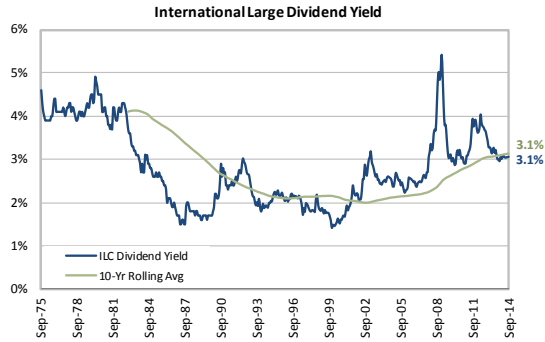
Change in P/E: -0.50%

Inflation

2.25%  
5.25%

## INTERNATIONAL DEVELOPED EQUITY

### International Large Cap Equity



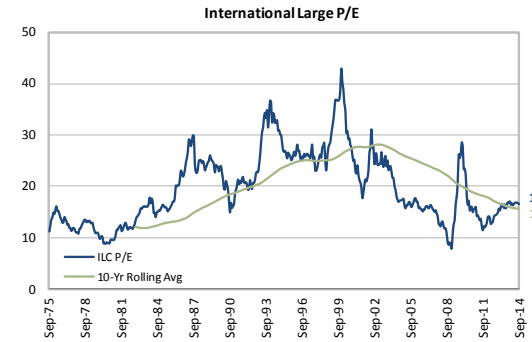
Dividend Yield: 3.00%

+



EPS Growth: 1.50%

+



Change in P/E: 0.00%

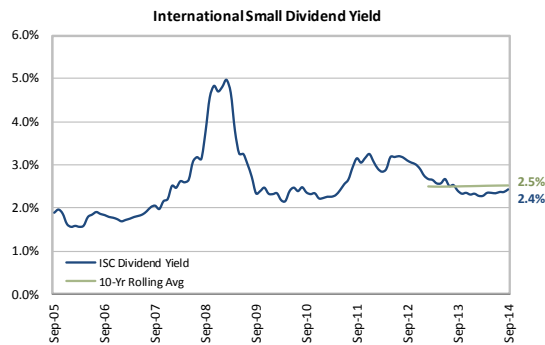
+

2.25%

6.75%

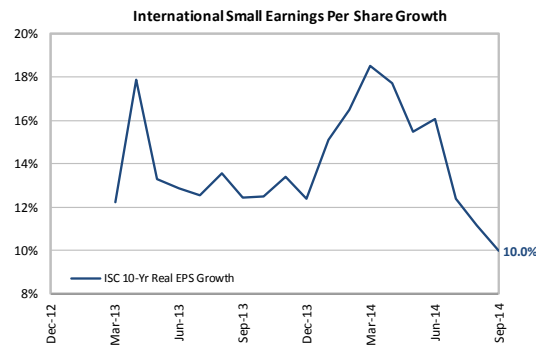
Inflation

### International Small Cap Equity



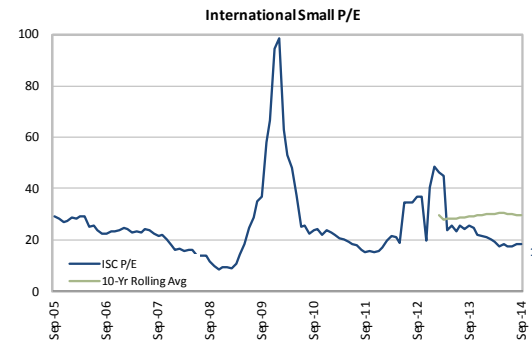
Dividend Yield: 2.50%

+



EPS Growth: 2.00%

+



Change in P/E: 0.00%

+

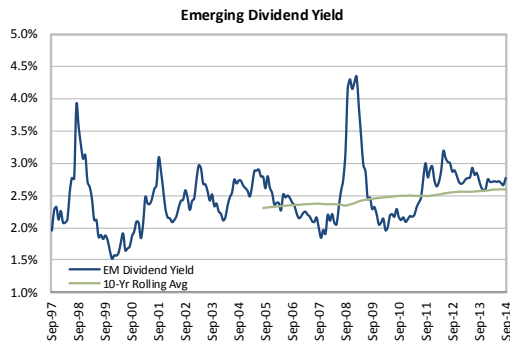
2.25%

6.75%

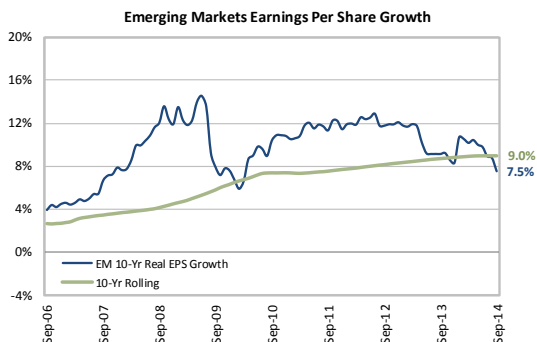
Inflation

# INTERNATIONAL EMERGING EQUITY

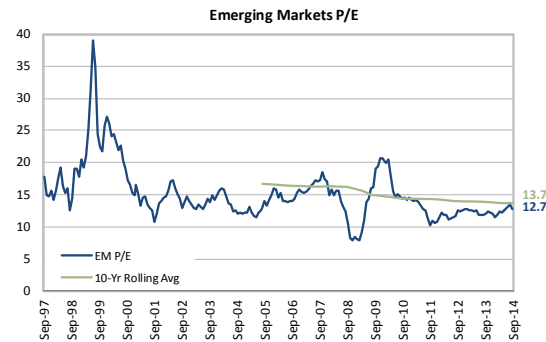
## Emerging Markets Equity



Dividend Yield: 2.50%



EPS Growth: 3.25%

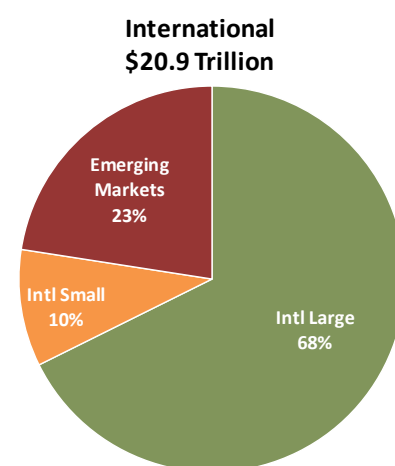
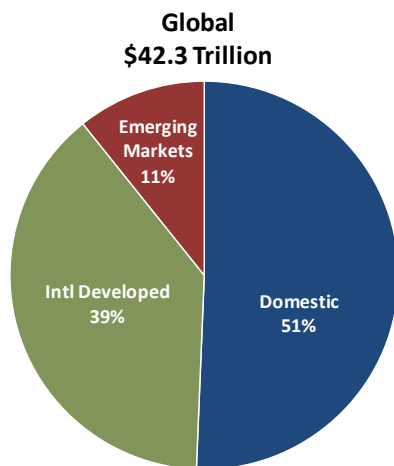
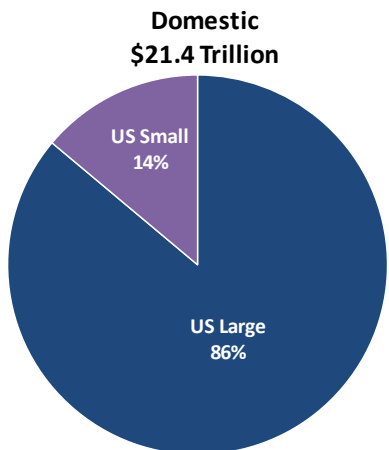


Change in P/E: 0.50%

+ 2.25%  
**8.50%**

Inflation

## Global Market Capitalization



ALTERNATIVES

GROWTH							
Private Equity	<i>Small Cap</i> 5.25%	+	<i>Liquidity Premium</i> 2.00%	+	<i>Leverage Adjustment</i> 1.00%	+	<i>Net Alpha</i> 1.00% = <i>Expected</i> 9.25%
Growth Hedge Funds	<i>Expected Sharpe Ratio</i> 0.35				<i>Cash</i> 2.75%	+	<i>Vol-Adj Excess Returns</i> 3.50% = 6.25%
Private Debt			<i>High Yield</i> 4.25%	+	<i>Liquidity Premium</i> 2.00%	+	<i>Net Alpha</i> 1.00% = 7.25%
Master Limited Partnerships			<i>Distribution Yield</i> 5.25%	+	<i>Growth</i> 2.25%	+	<i>Valuation</i> 0.00% = 7.50%
Non-Core Real Estate	<i>Current Cap Rate</i> 5.50%	+	<i>Growth</i> 1.00%	+	<i>Liquidity Premium</i> 2.00%	+	<i>Leverage Adjustment</i> 0.00% = 8.50%
Public Real Estate (REITS)	<i>Current Yield</i> 3.75%	+	<i>Growth</i> 1.00%	+	<i>Valuation</i> 0.00%	+	<i>Leverage Adjustment</i> 0.75% = 5.50%
Risk Parity	<i>Expected Sharpe Ratio</i> 0.45				<i>Cash</i> 2.75%	+	<i>Risk-Adj Beta Exposure</i> 4.50% = 7.25%
INCOME							
Private Bank Loans			<i>Public Bank Loans</i> 4.25%	+	<i>Private Spread</i> 0.75%	+	<i>Net Alpha</i> 0.50% = 5.50%
Relative Value Hedge Funds	<i>Expected Sharpe Ratio</i> 0.50				<i>Cash</i> 2.75%	+	<i>Vol-Adj Excess Returns</i> 2.50% = 5.25%
Core Real Estate	<i>Current Cap Rate</i> 5.50%	+	<i>Growth</i> 1.00%	+	<i>Valuation</i> 0.00%	+	<i>Leverage Adjustment</i> 0.00% = 6.50%
DIVERSIFICATION							
Commodities			<i>Cash</i> 2.75%	+	<i>Inflation</i> 2.25%	+	<i>Inflation Utility</i> 0.00% = 5.00%
Tactical Trading	<i>Expected Sharpe Ratio</i> 0.40				<i>Cash</i> 2.75%	+	<i>Vol-Adj Excess Returns</i> 4.00% = 6.75%
Diversified Hedge Funds	<i>Expected Sharpe Ratio</i> 0.50				<i>Cash</i> 2.75%	+	<i>Vol-Adj Excess Returns</i> 3.00% = 5.75%

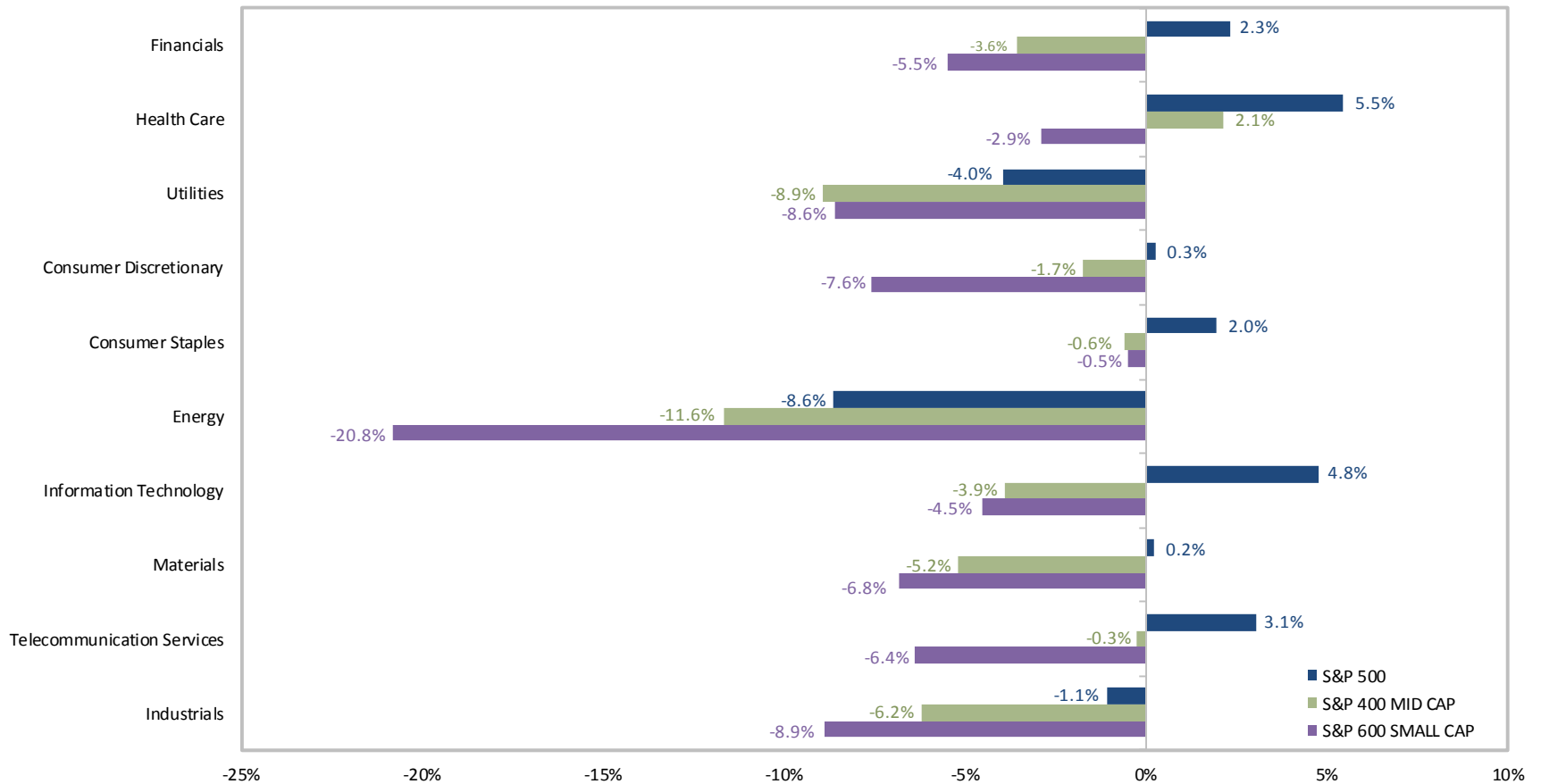
Change from previous quarter.



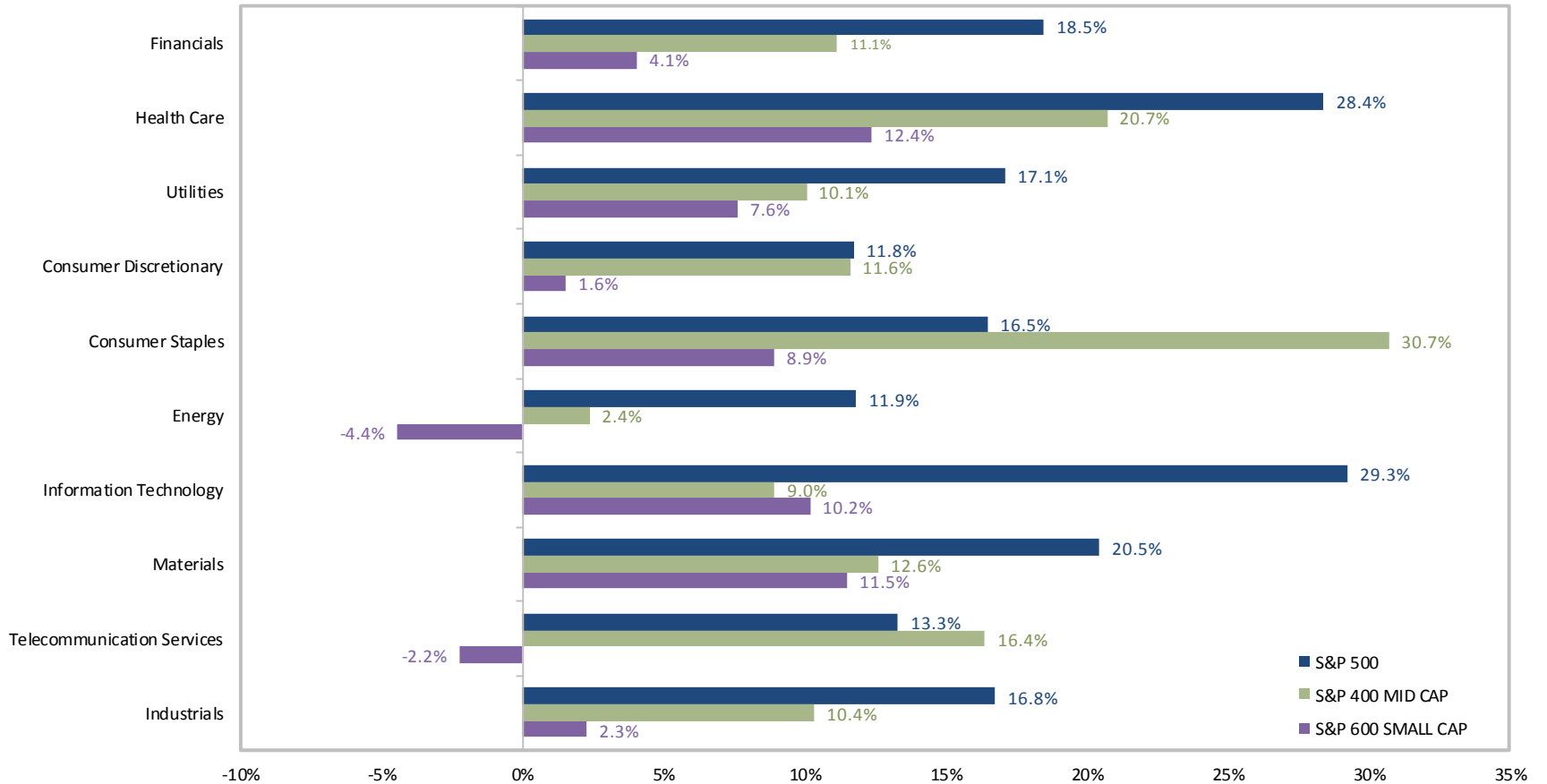
STYLE PERFORMANCE RANKING: ONE-YEAR TIME PERIODS

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Q3 2014	10 Yr ROR	20 Yr ROR
Best Performing	Small Value 29.1%	EM 74.8%	EAFE 8.1%	Large Value 38.4%	Large Growth 23.1%	Large Value 35.2%	Large Growth 38.7%	EM 66.4%	Small Value 22.8%	Small Value 14.0%	Core Bonds 10.3%	EM 55.8%	EM 25.6%	EM 34.1%	EM 32.2%	EM 39.4%	BC Int Treas 11.4%	EM 78.5%	Small Growth 29.1%	Core Bonds 7.8%	EM 18.2%	Small Growth 43.3%	S&P 500 8.3%	Large Growth 1.5%	EM 10.7%	Small Value 10.3%
	Small Cap 18.4%	EAFE 32.9%	Large Growth 2.7%	S&P 500 37.6%	S&P 500 23.0%	S&P 500 33.4%	S&P 500 28.6%	Small Growth 43.1%	Core Bonds 11.6%	Core Bonds 8.4%	BC Int Treas 9.6%	Small Growth 48.5%	Small Value 22.3%	EAFE 14.0%	EAFE 26.9%	Large Growth 11.8%	Core Bonds 5.2%	HY Bonds 58.2%	Small Cap 26.9%	BC Int Treas 6.6%	Small Value 18.1%	Small Cap 38.8%	Large Value 8.1%	S&P 500 1.1%	Small Growth 9.0%	Large Value 10.2%
	HY Bonds 15.8%	Small Value 23.8%	S&P 500 1.3%	Large Growth 37.2%	Large Value 21.6%	Small Value 31.8%	EAFE 20.3%	Large Growth 33.2%	BC Int Treas 10.3%	BC Int Treas 8.2%	HY Bonds -1.4%	Small Cap 47.3%	EAFE 20.7%	Large Value 7.1%	Small Value 23.5%	EAFE 11.6%	HY Bonds -26.2%	Large Growth 37.2%	Small Value 24.5%	HY Bonds 5.0%	Large Value 17.5%	Small Value 34.5%	Large Growth 7.9%	Core Bonds 0.2%	Large Growth 8.9%	S&P 500 9.6%
	Large Value 13.8%	Small Cap 18.9%	HY Bonds -1.0%	Small Growth 31.0%	Small Value 21.4%	Large Growth 30.5%	Large Value 15.6%	EAFE 27.3%	Large Value 7.0%	HY Bonds 5.3%	EM -6.0%	Small Value 46.0%	Small Cap 18.3%	Large Growth 5.3%	Large Value 22.2%	BC Int Treas 8.8%	Small Value -28.9%	Small Growth 34.5%	EM 18.9%	Large Growth 2.6%	EAFE 17.3%	Large Growth 33.5%	Core Bonds 4.1%	BC Int Treas 0.0%	BC HY 8.3%	Small Cap 9.0%
	EM 11.4%	Large Value 18.1%	Small Value -1.5%	Small Cap 28.4%	Small Cap 16.5%	Small Cap 22.4%	Core Bonds 8.7%	Small Cap 21.3%	Small Cap -3.0%	Small Cap 2.5%	Small Value -11.4%	EAFE 39.2%	Large Value 16.5%	S&P 500 4.9%	Small Cap 18.4%	Small Growth 7.1%	Small Cap -33.8%	EAFE 31.9%	Large Growth 16.7%	S&P 500 2.1%	Small Cap 16.3%	Large Value 32.5%	BC HY 3.5%	Large Value -0.2%	Small Cap 8.2%	Large Growth 8.8%
	Small Growth 7.8%	HY Bonds 17.1%	Small Cap -1.8%	Small Value 25.8%	HY Bonds 11.4%	Small Growth 12.9%	BC Int Treas 8.6%	S&P 500 21.0%	HY Bonds -5.9%	EM -2.4%	Large Value -15.5%	Large Value 30.0%	Small Growth 14.3%	Small Value 4.7%	S&P 500 15.8%	Core Bonds 7.0%	Large Value -36.9%	Small Cap 27.2%	Large Value 15.5%	Large Value 0.4%	S&P 500 16.0%	S&P 500 32.4%	EM 2.4%	BC HY -1.9%	S&P 500 8.1%	BC HY 8.0%
	S&P 500 7.6%	Small Growth 13.4%	BC Int Treas -1.8%	HY Bonds 19.2%	Small Growth 11.3%	HY Bonds 12.7%	HY Bonds 1.9%	Large Value 7.4%	S&P 500 -9.1%	Large Value -5.6%	EAFE -15.7%	Large Growth 29.8%	HY Bonds 11.1%	Small Cap 4.6%	Small Growth 13.4%	S&P 500 5.5%	S&P 500 -37.0%	S&P 500 26.5%	HY Bonds 15.1%	Small Growth -2.9%	HY Bonds 15.8%	EAFE 22.8%	BC Int Treas 1.6%	EM -3.5%	Large Value 7.8%	Small Growth 7.3%
	Core Bonds 7.4%	S&P 500 10.1%	Large Value -2.0%	Core Bonds 18.5%	EAFE 6.4%	Core Bonds 9.7%	Small Growth 1.2%	HY Bonds 2.4%	EAFE -14.0%	Small Growth -9.2%	Small Cap -20.5%	HY Bonds 29.0%	S&P 500 10.9%	Small Growth 4.1%	HY Bonds 11.9%	HY Bonds 1.9%	Large Growth -38.4%	Small Value 20.6%	S&P 500 15.1%	Small Cap -4.2%	Large Growth 15.3%	HY Bonds 7.4%	EAFE -1.4%	EAFE -5.9%	Small Value 7.3%	Core Bonds 6.1%
	BC Int Treas 7.0%	Core Bonds 9.8%	Small Growth -2.4%	BC Int Treas 14.4%	EM 6.0%	BC Int Treas 7.7%	Small Cap -2.5%	BC Int Treas 0.4%	Large Growth -22.4%	S&P 500 -11.9%	S&P 500 -22.1%	S&P 500 28.7%	Large Growth 6.3%	HY Bonds 2.7%	Large Growth 9.1%	Large Value -0.2%	Small Growth -38.5%	Large Value 19.7%	EAFE 7.8%	Small Value -5.5%	Small Growth 14.6%	BC Int Treas -1.3%	Small Growth -4.1%	Small Growth -6.1%	EAFE 6.3%	EM 5.2%
	Large Growth 5.0%	BC Int Treas 8.2%	Core Bonds -2.9%	EAFE 11.6%	BC Int Treas 4.0%	EAFE 2.1%	Small Value -6.5%	Core Bonds -0.8%	Small Growth -22.4%	Large Growth -20.4%	Large Growth -27.9%	Core Bonds 4.1%	Core Bonds 4.3%	Core Bonds 2.4%	Core Bonds 4.3%	Small Cap -1.6%	EAFE -43.4%	Core Bonds 5.9%	Core Bonds 6.5%	EAFE -12.1%	Core Bonds 4.2%	Core Bonds -2.0%	Small Cap -4.4%	Small Cap -7.4%	Core Bonds 4.6%	EAFE 5.2%
EAFE -11.8%	Large Growth 2.9%	EM -7.3%	EM -5.2%	Core Bonds 3.6%	EM -11.6%	EM -25.3%	Small Value -1.5%	EM -30.6%	EAFE -21.2%	Small Growth -30.3%	BC Int Treas 2.1%	BC Int Treas 2.0%	BC Int Treas 1.6%	BC Int Treas 3.5%	Small Value -9.8%	EM -53.3%	BC Int Treas -1.4%	BC Int Treas 5.3%	EM -18.4%	BC Int Treas 1.7%	EM -2.6%	Small Value -4.7%	Small Value -8.6%	BC Int Treas 3.7%	BC Int Treas 5.1%	
Worst Performing																										

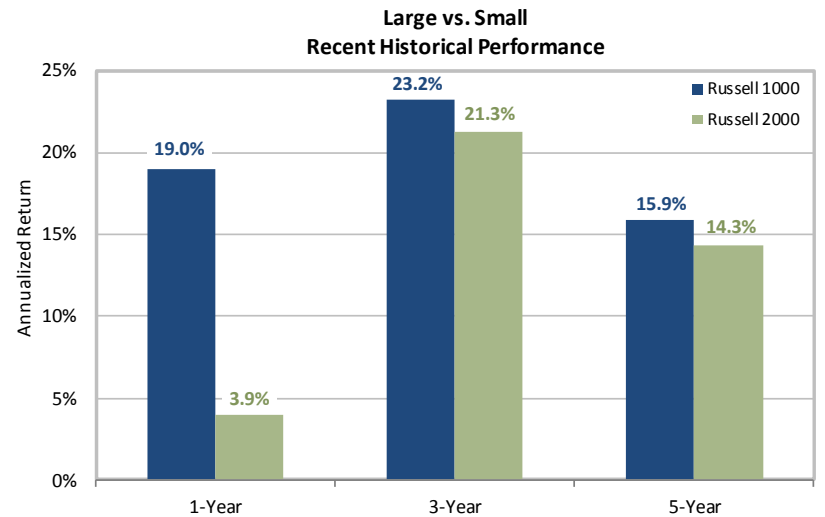
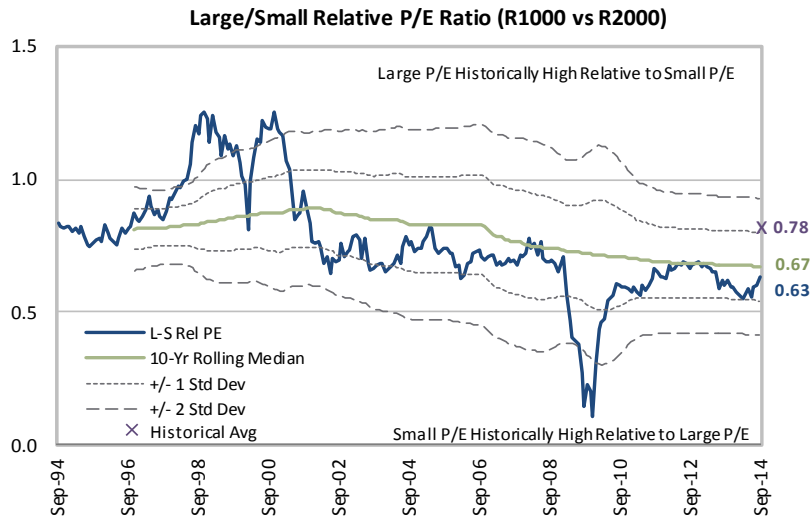
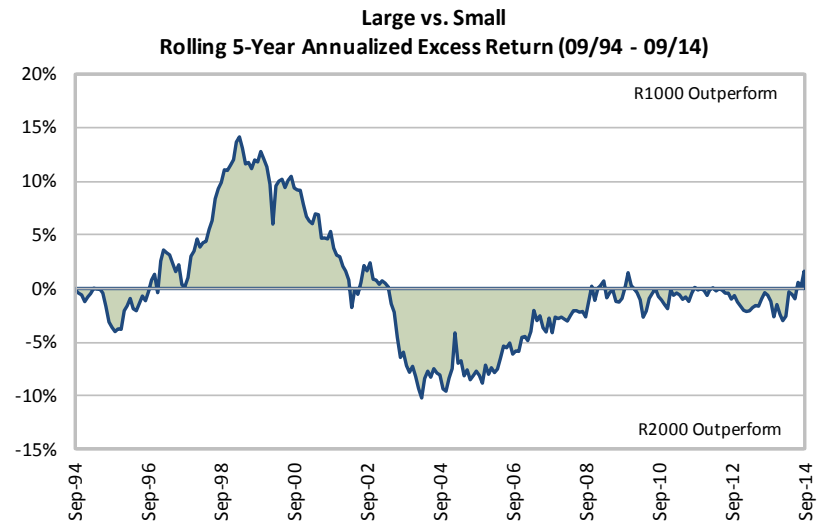
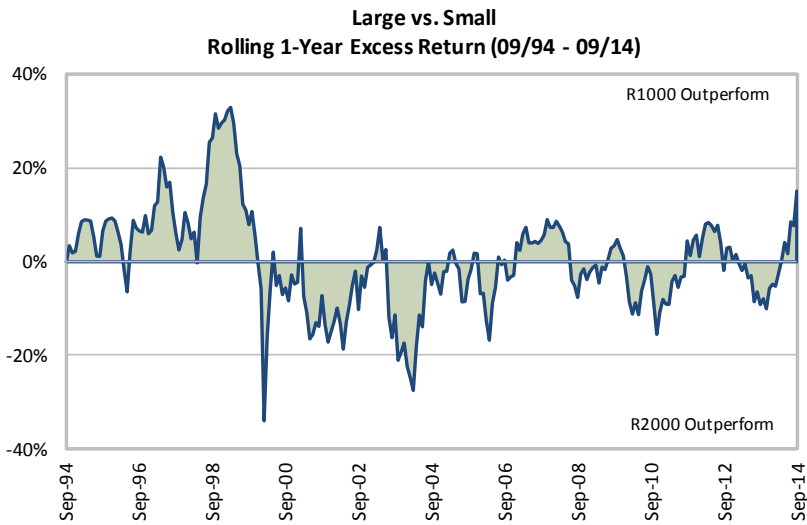
**EQUITY STYLE SECTOR PERFORMANCE COMPARISON: CURRENT QUARTER**  
**SMALL, MID, AND LARGE CAP**



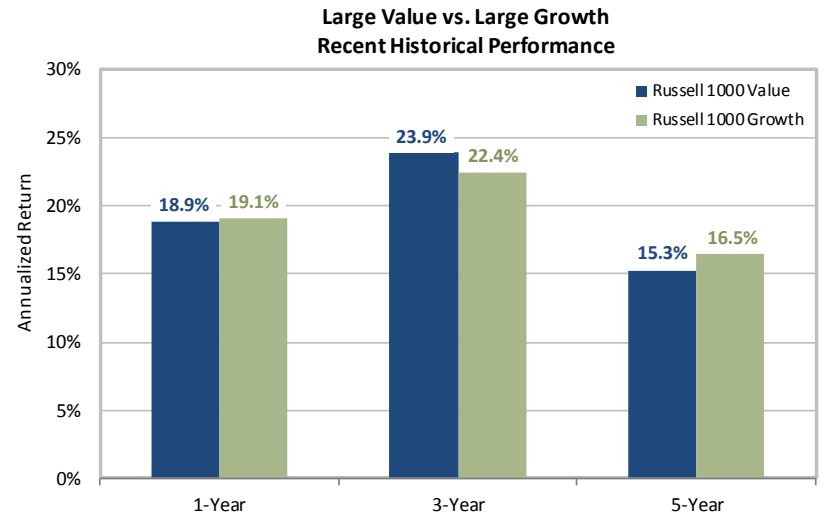
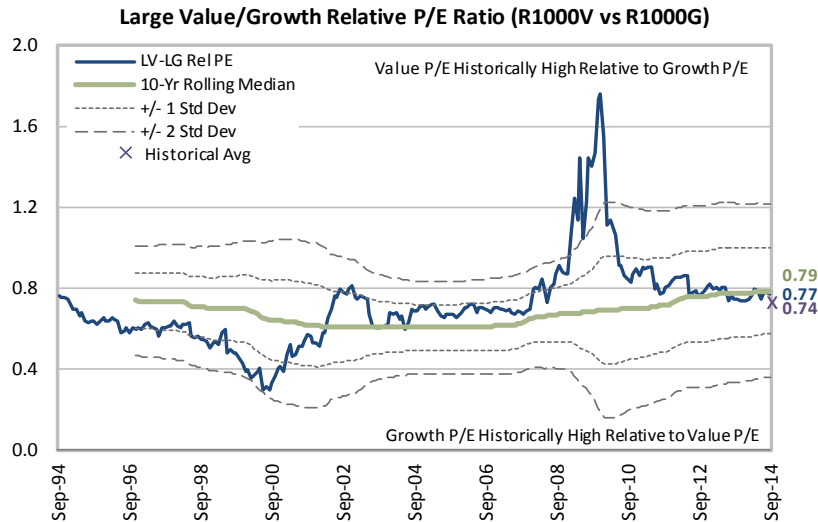
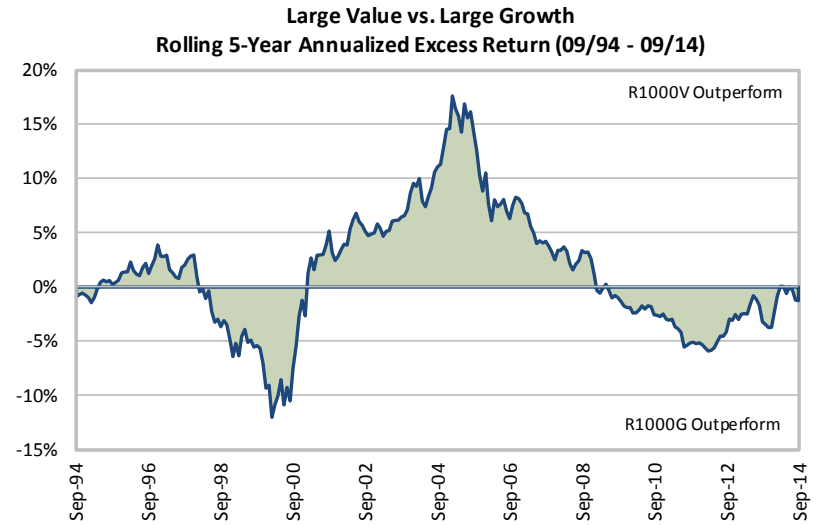
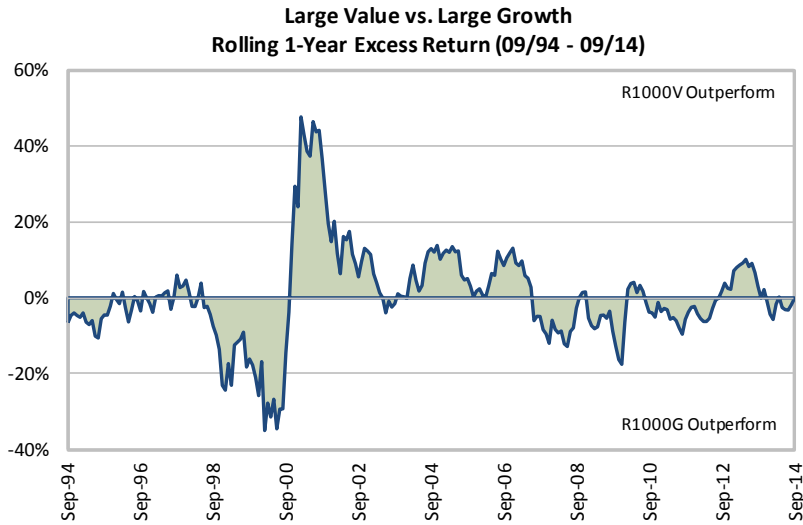
**EQUITY STYLE SECTOR PERFORMANCE COMPARISON: 1-YEAR  
SMALL, MID, AND LARGE CAP**



HISTORICAL RELATIVE PERFORMANCE: LARGE CAP CORE TO SMALL CAP CORE



# HISTORICAL RELATIVE PERFORMANCE: LARGE CAP VALUE TO LARGE CAP GROWTH



## HISTORICAL RELATIVE PERFORMANCE: SMALL CAP VALUE TO SMALL CAP GROWTH

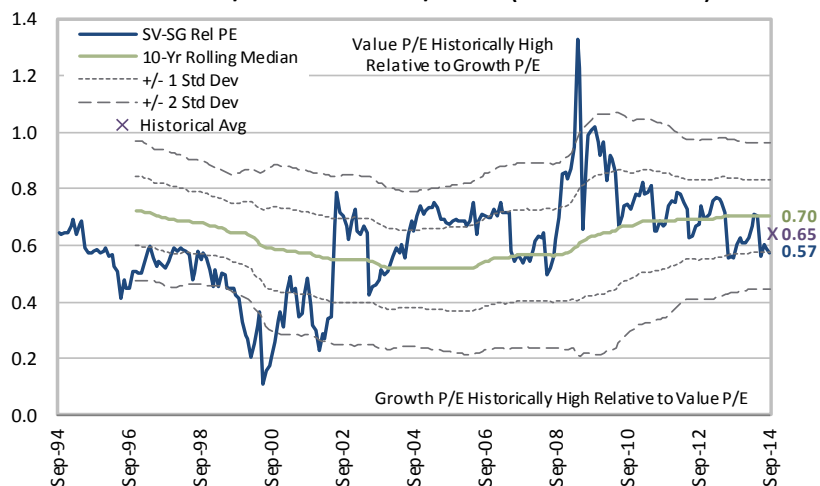
**Small Value vs. Small Growth**  
Rolling 1-Year Excess Return (09/94 - 09/14)



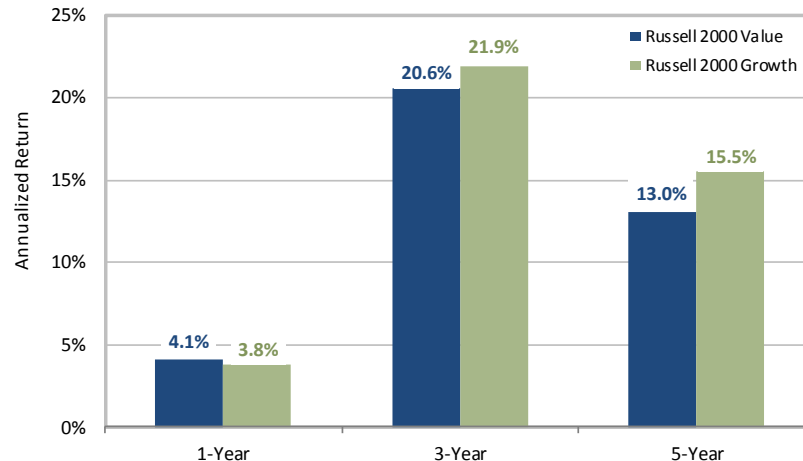
**Small Value vs. Small Growth**  
Rolling 5-Year Annualized Excess Return (09/94 - 09/14)



**Small Value/Growth Relative P/E Ratio (R2000V vs R2000G)**

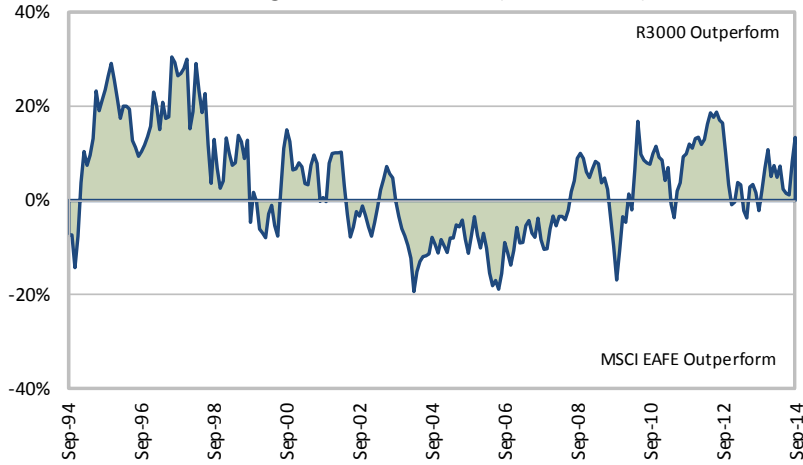


**Small Cap Value vs. Small Cap Growth**  
Recent Historical Performance



# HISTORICAL RELATIVE PERFORMANCE: DOMESTIC EQUITY TO DEVELOPED INTERNATIONAL EQUITY

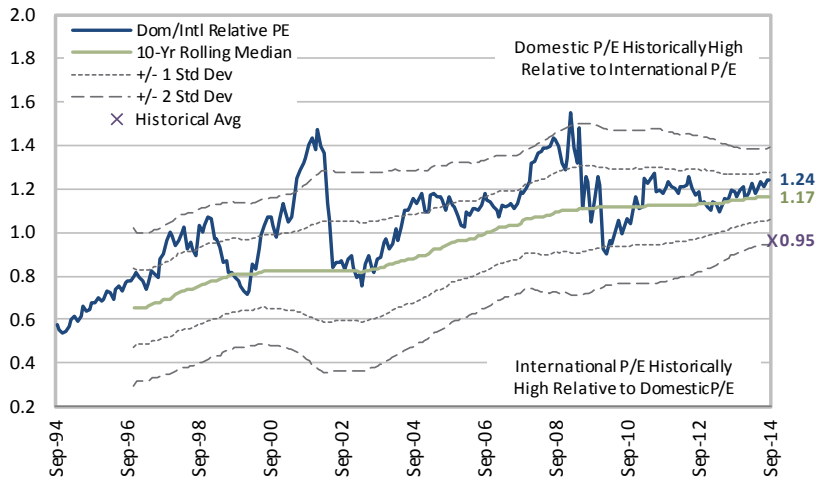
**Domestic Equity vs. Developed International Equity**  
Rolling 1-Year Excess Return (09/94 - 09/14)



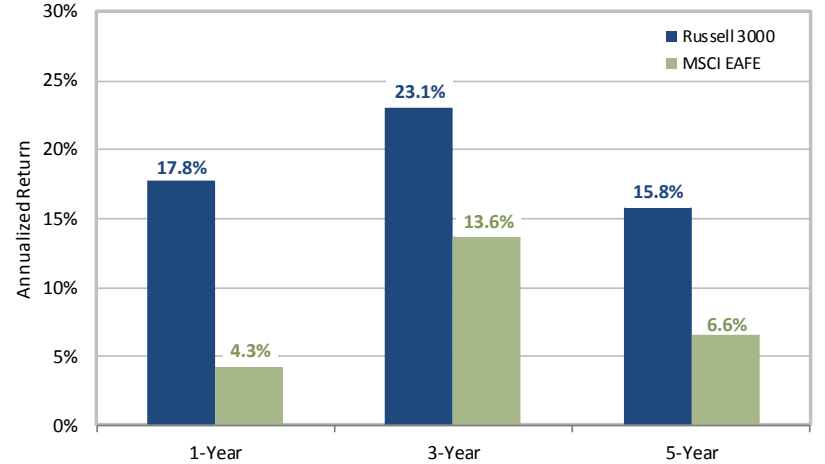
**Domestic Equity vs. Developed International Equity**  
Rolling 5-Year Annualized Excess Return (09/94 - 09/14)



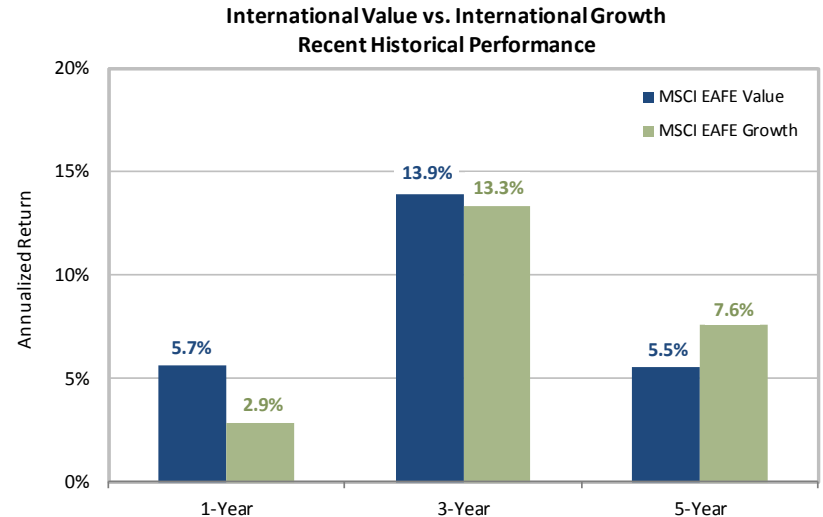
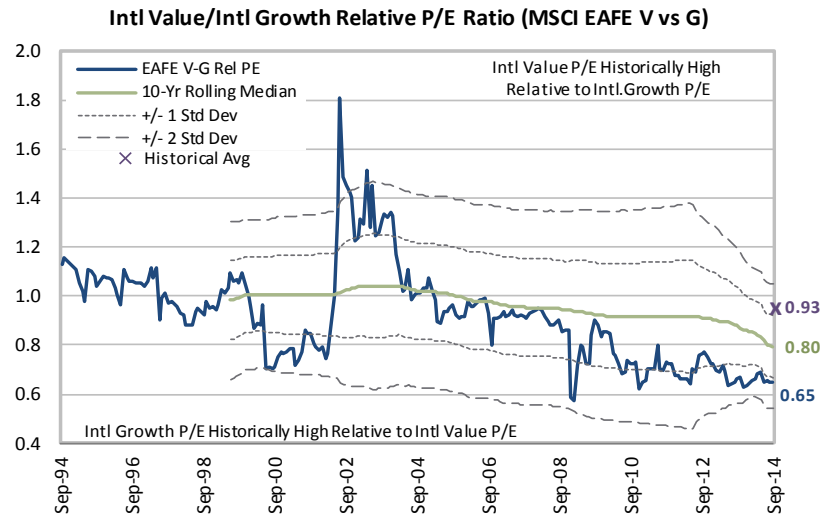
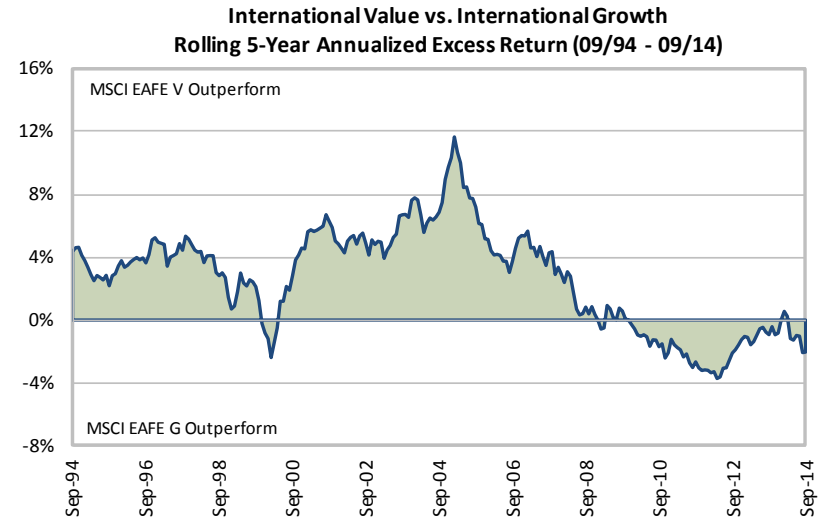
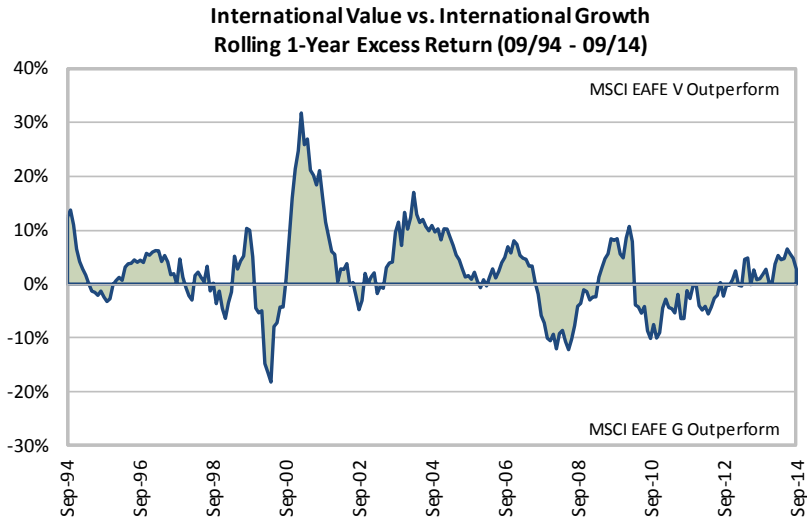
**Domestic/International Relative P/E Ratio (R3000 vs MSCI EAFE)**



**Domestic Equity vs. Developed International Equity**  
Recent Historical Performance

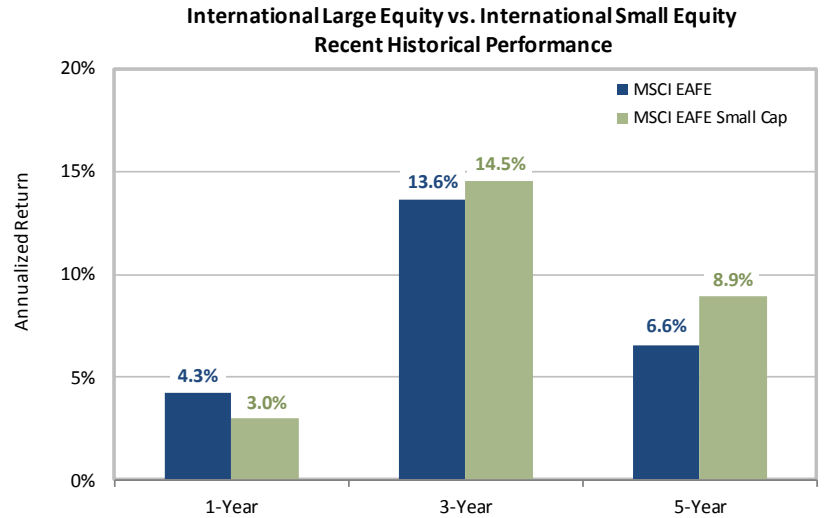
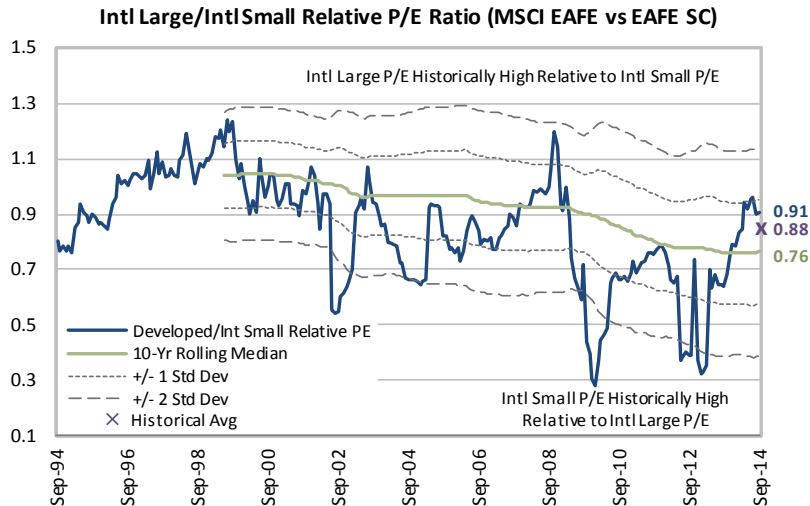
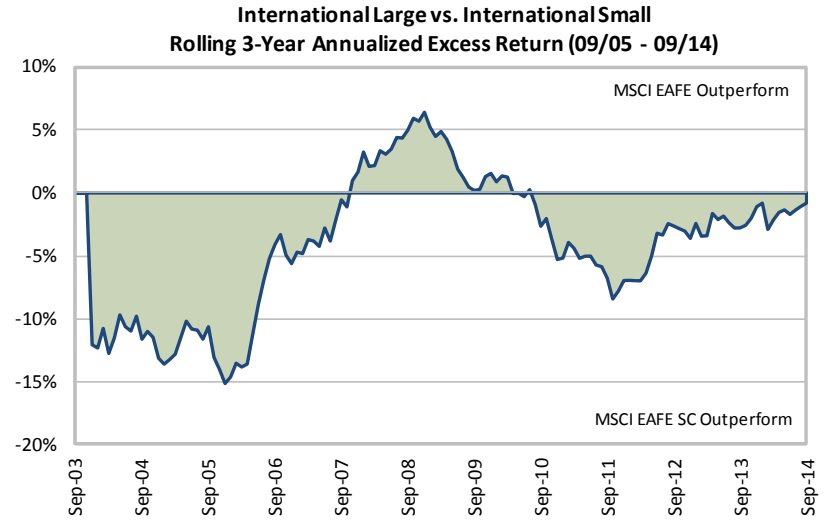
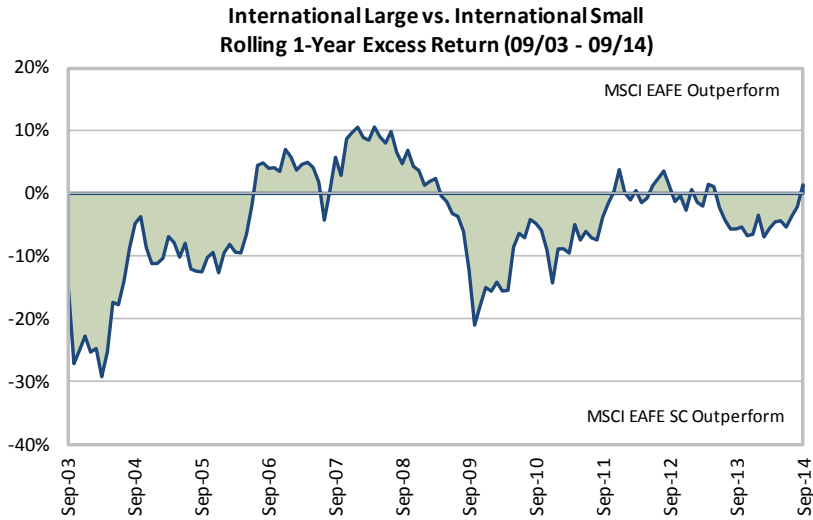


## HISTORICAL RELATIVE PERFORMANCE: INTERNATIONAL VALUE TO INTERNATIONAL GROWTH

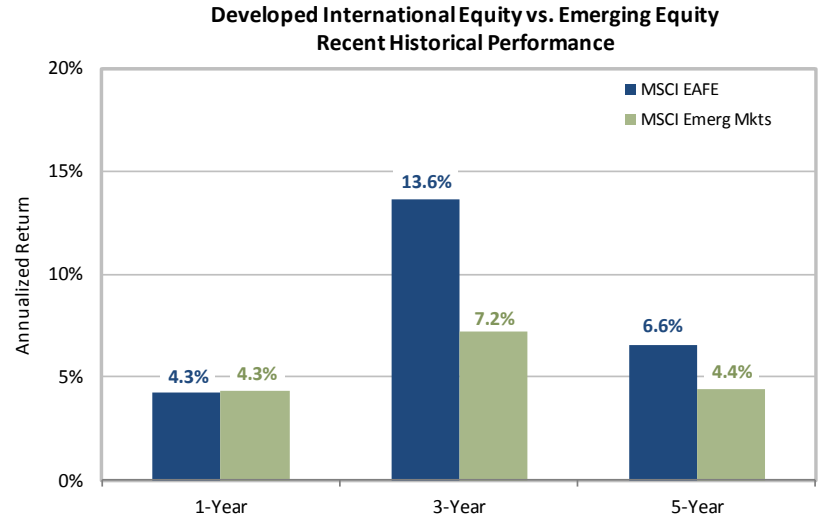
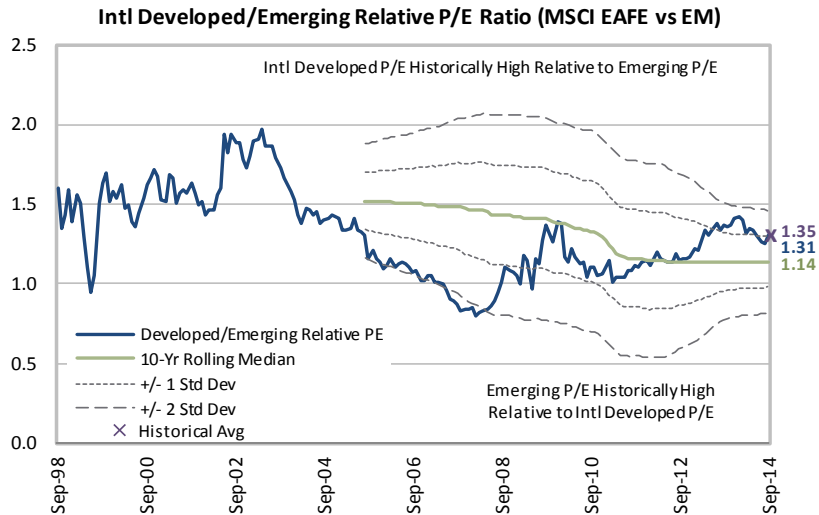
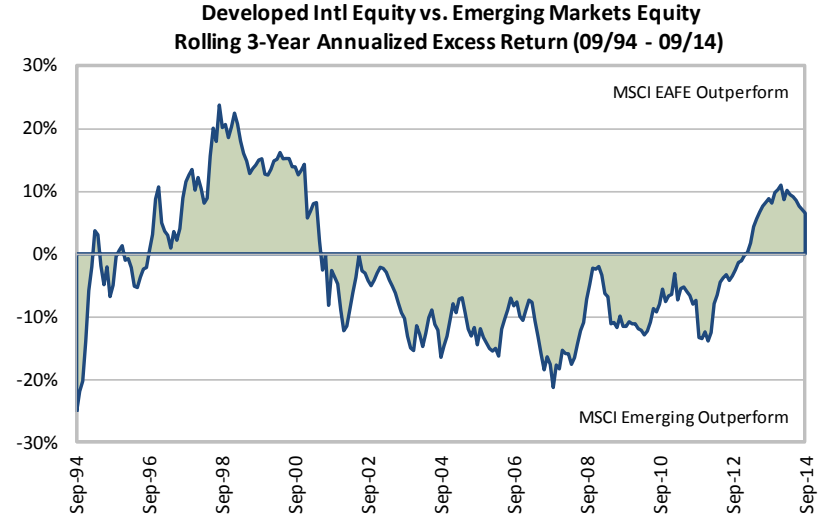
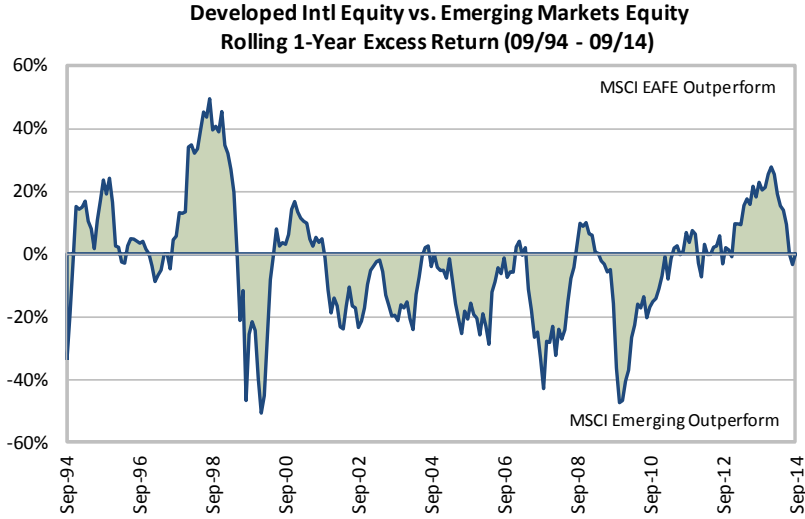




# HISTORICAL RELATIVE PERFORMANCE: INTERNATIONAL LARGE CAP TO INTERNATIONAL SMALL CAP

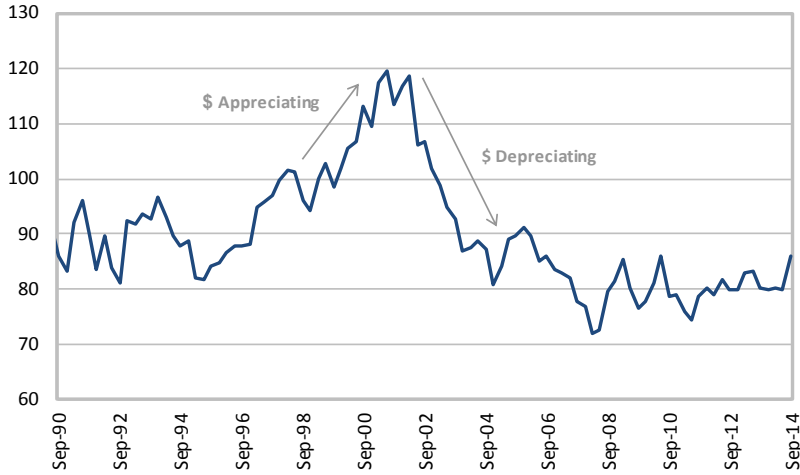


**HISTORICAL RELATIVE PERFORMANCE: DEVELOPED INTERNATIONAL TO EMERGING MARKETS**



CURRENCY OVERVIEW

US Dollar Index: Weighted Avg of 6 Currencies vs US Dollar



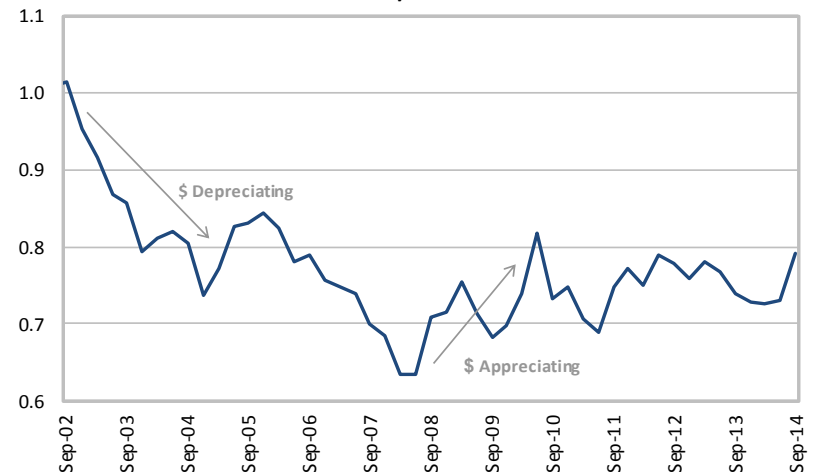
British Pound/US Dollar



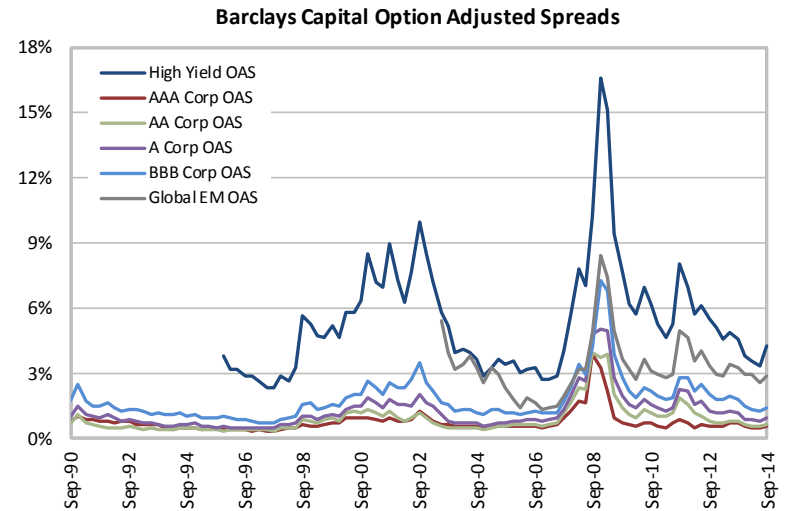
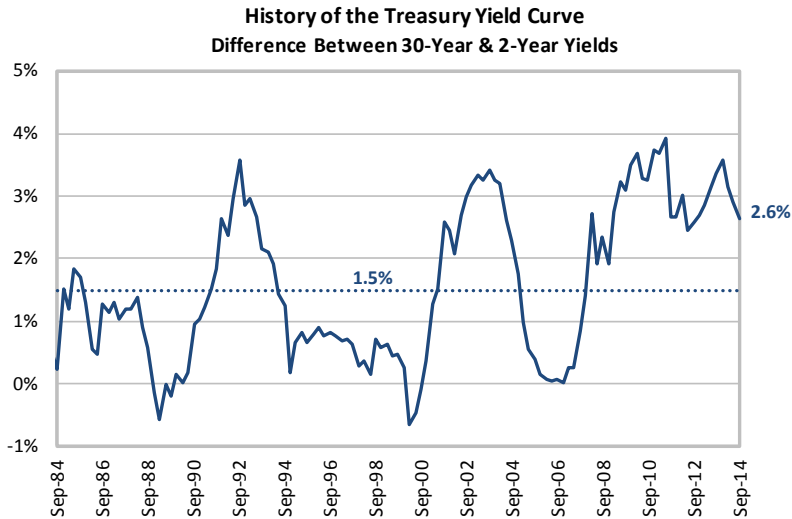
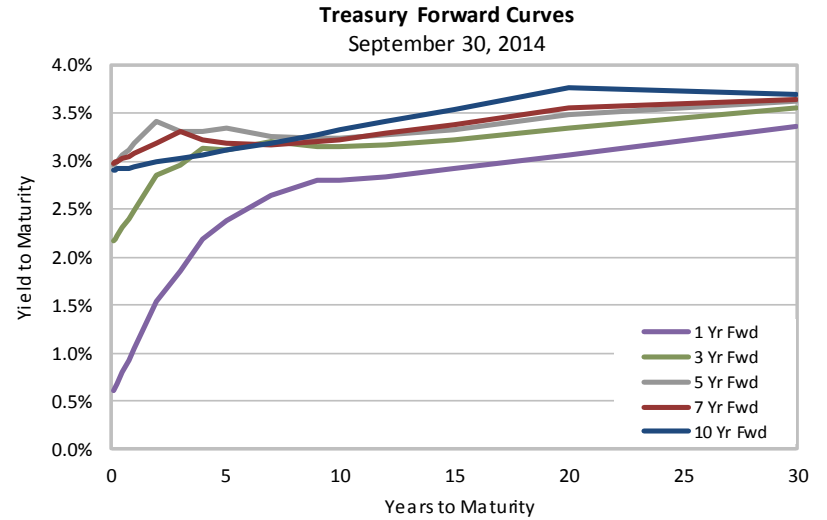
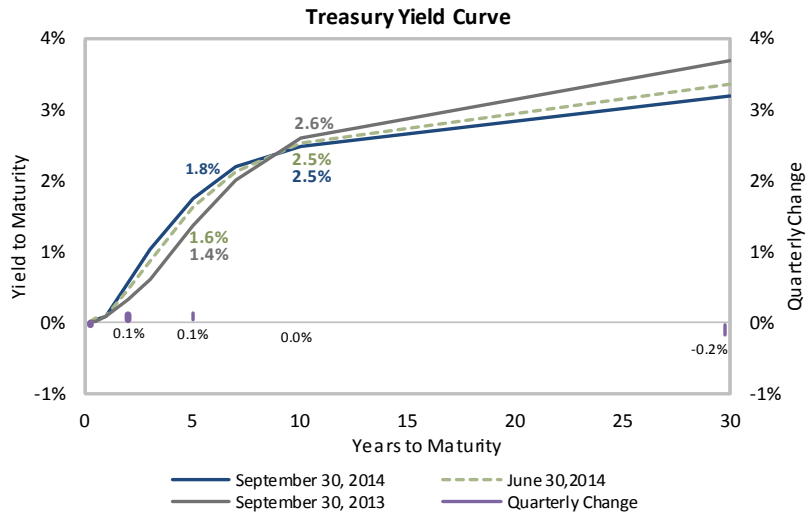
Japanese Yen/US Dollar



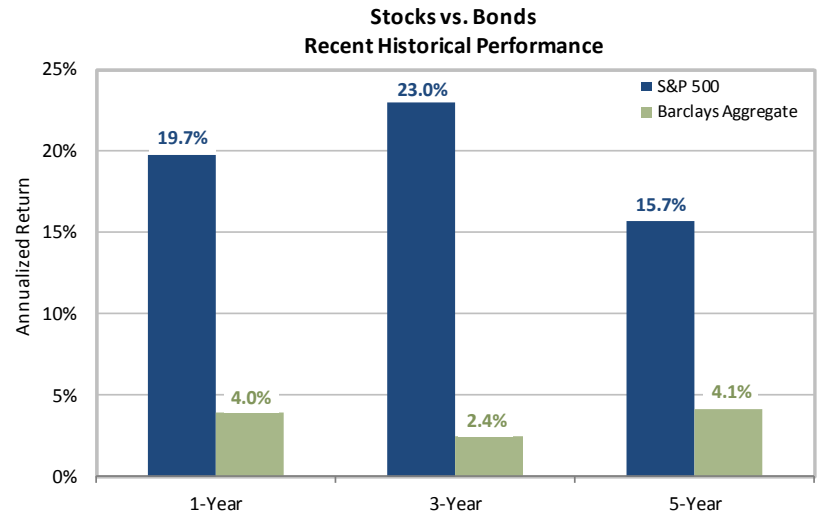
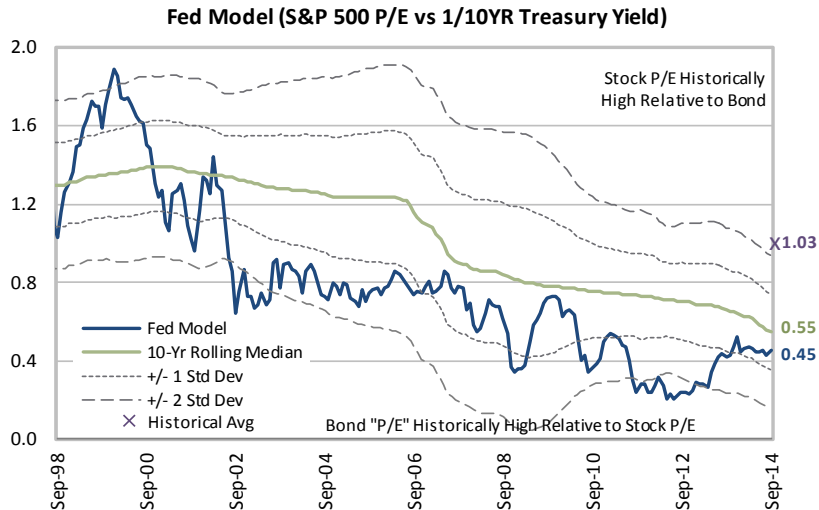
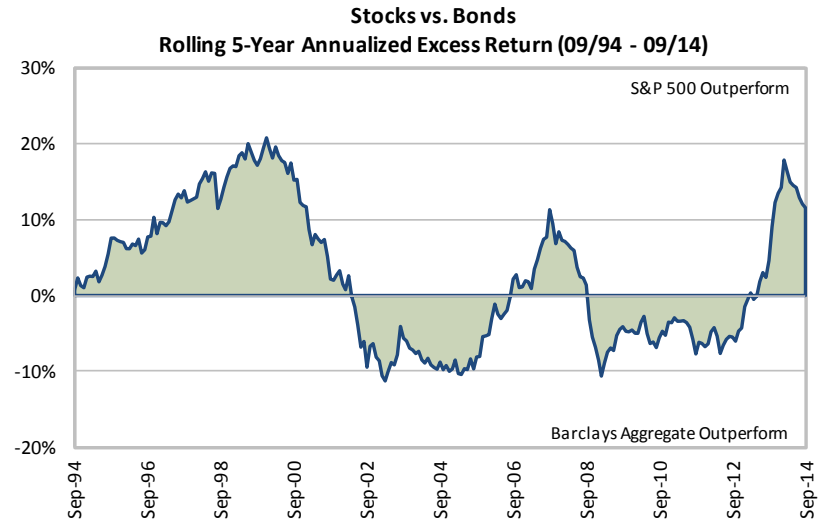
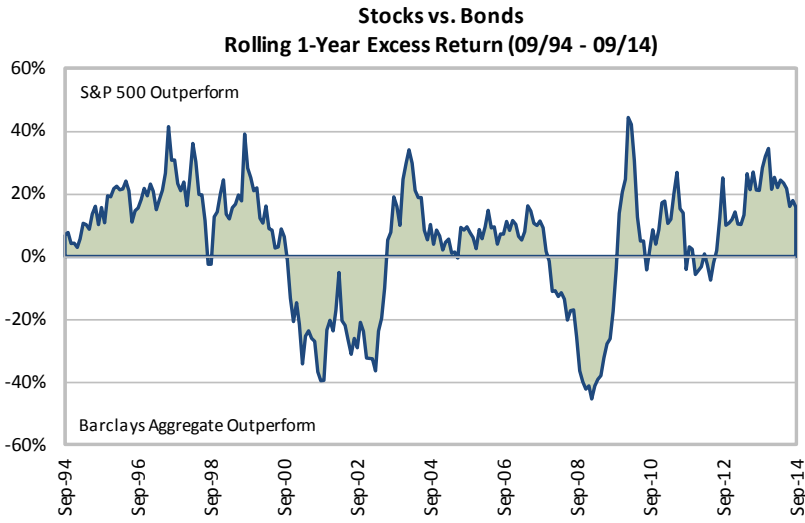
Euro/US Dollar



# YIELD CURVE AND SPREAD ANALYSIS

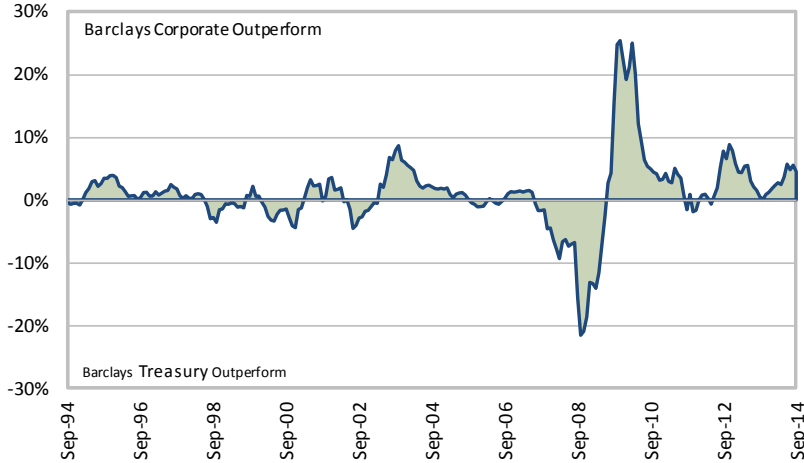


# HISTORICAL RELATIVE PERFORMANCE: STOCKS VS. BONDS

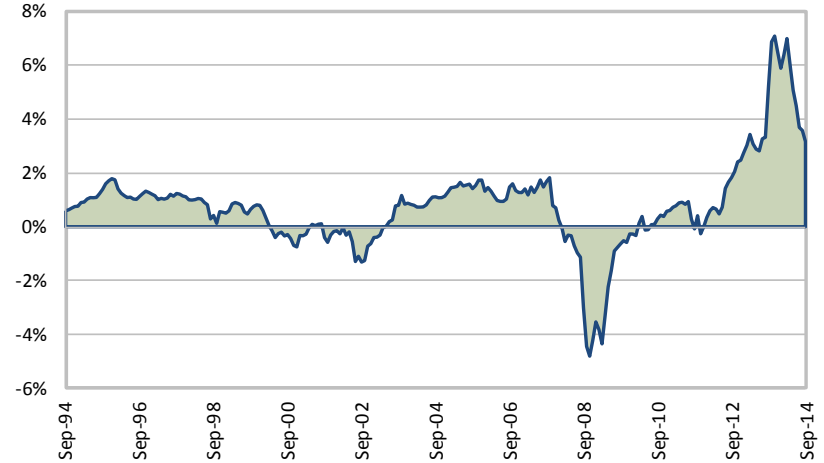


HISTORICAL RELATIVE PERFORMANCE: CORPORATE BONDS VS. TREASURIES

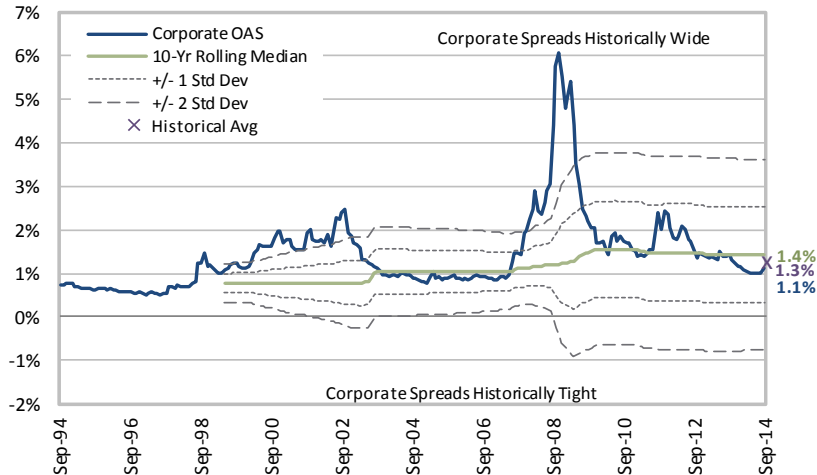
Corporates vs. Treasuries  
Rolling 1-Year Excess Return (09/94 - 09/14)



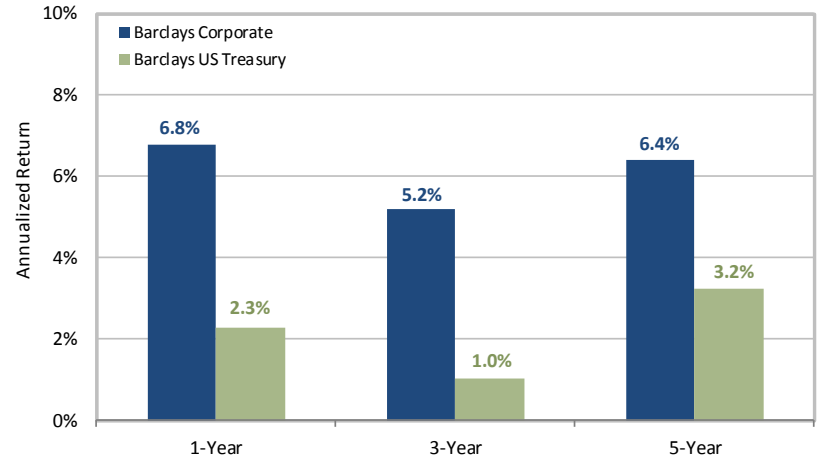
Corporates vs. Treasuries  
Rolling 5-Year Annualized Excess Return (09/94 - 09/14)



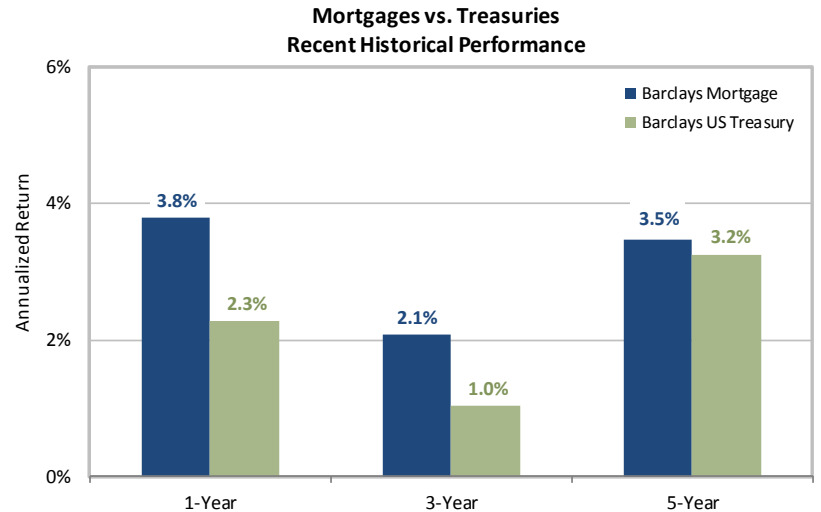
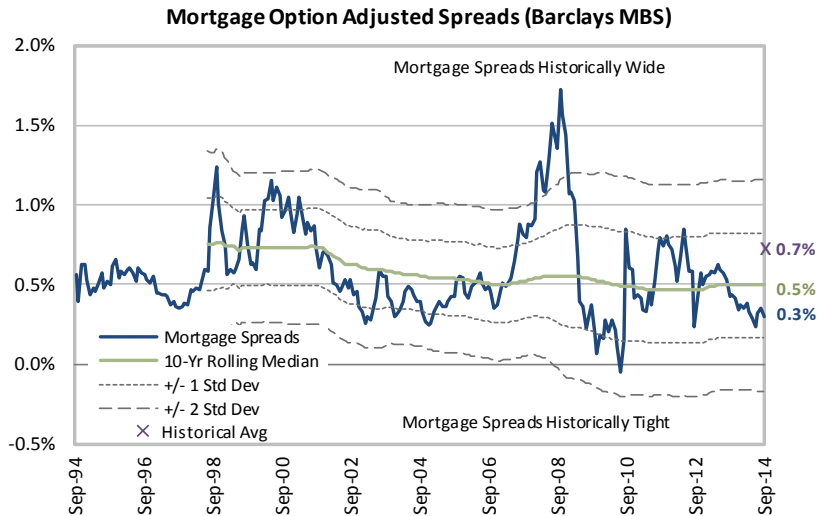
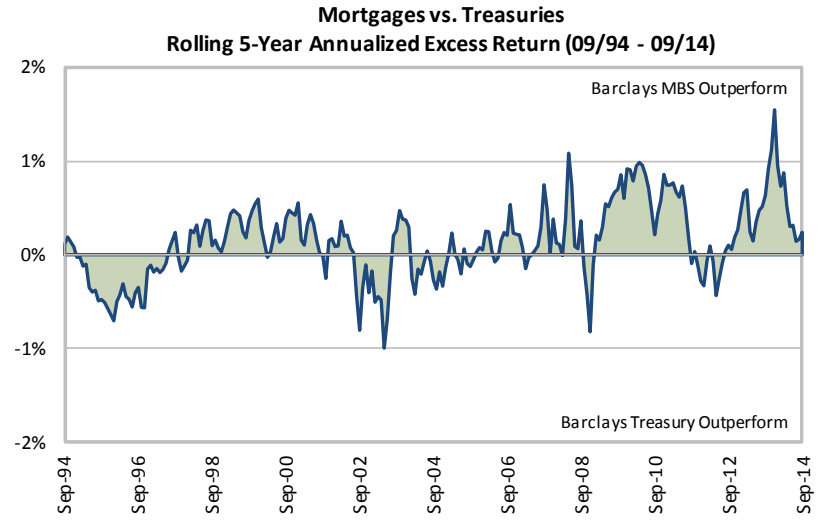
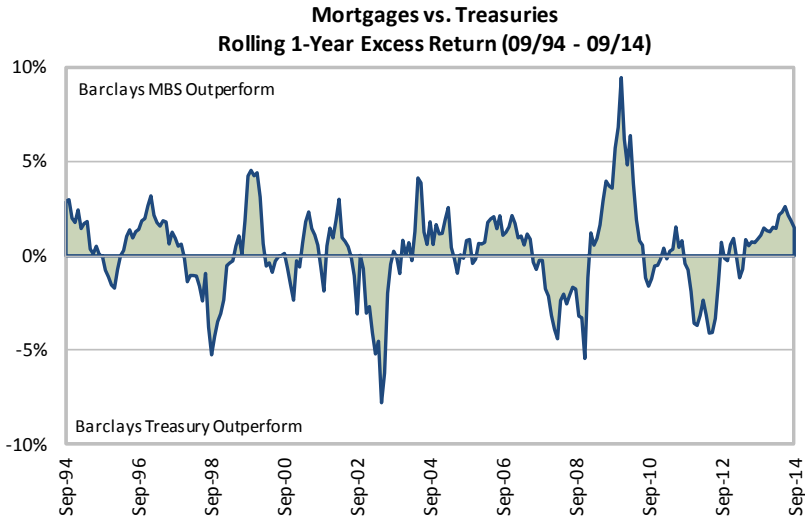
Corporate Option Adjusted Spreads (Barclays Corp)



Corporates vs. Treasuries  
Recent Historical Performance

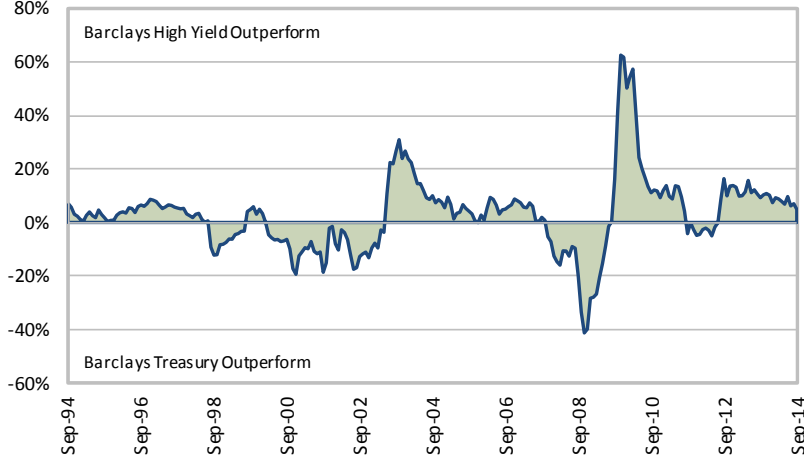


# HISTORICAL RELATIVE PERFORMANCE: MORTGAGES VS. TREASURIES

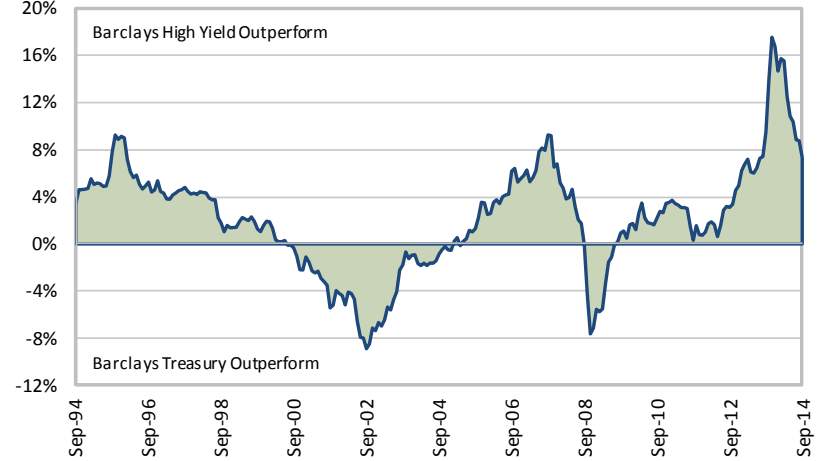


**HISTORICAL RELATIVE PERFORMANCE: HIGH YIELD BONDS VS. TREASURIES**

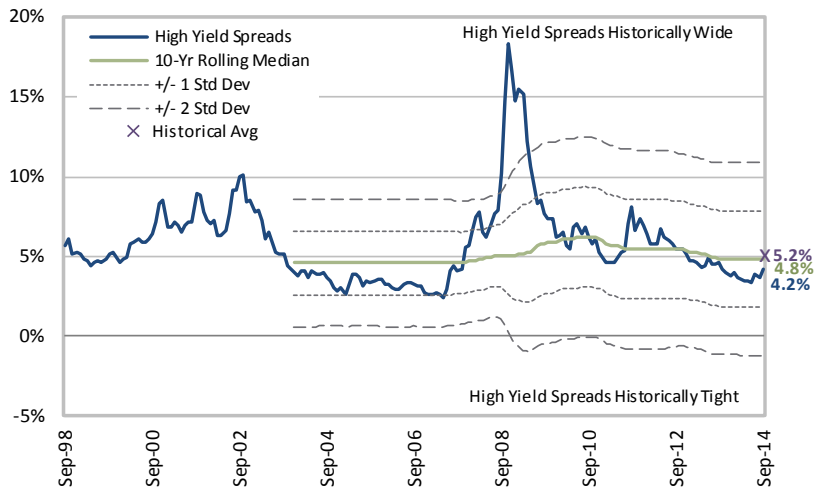
**High Yield vs. Treasuries**  
Rolling 1-Year Excess Return (09/94 - 09/14)



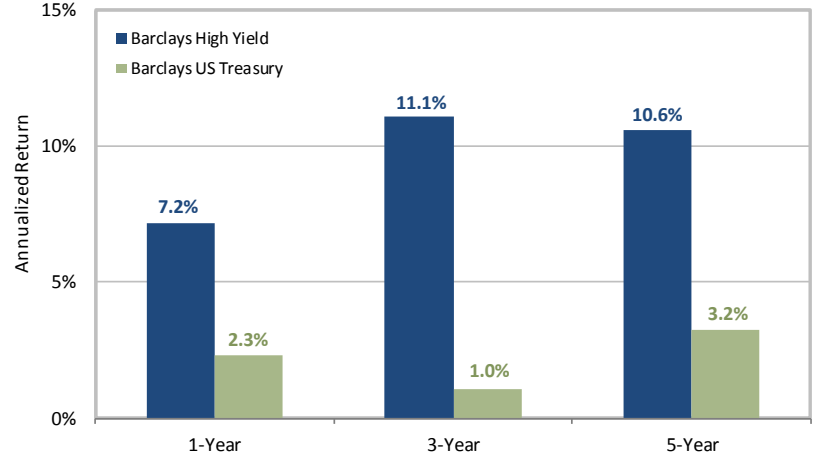
**High Yield vs. Treasuries**  
Rolling 5-Year Annualized Excess Return (09/94 - 09/14)



**High Yield Option Adjusted Spreads (Barclays HY)**

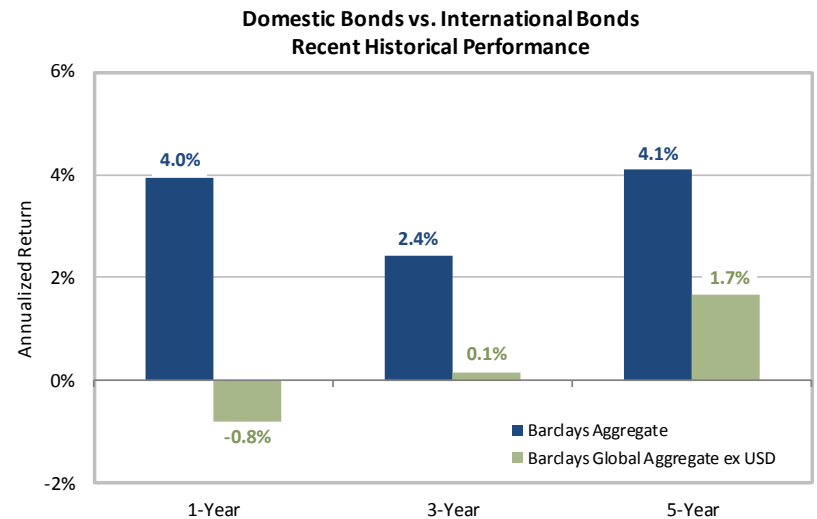
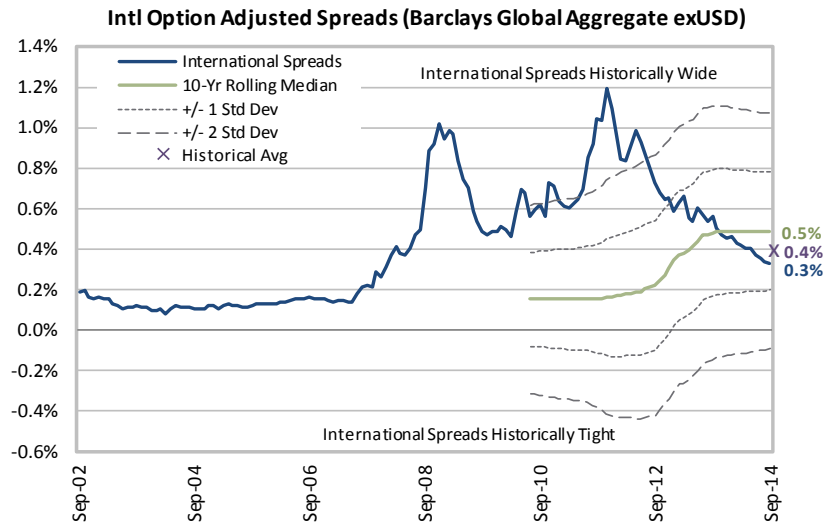
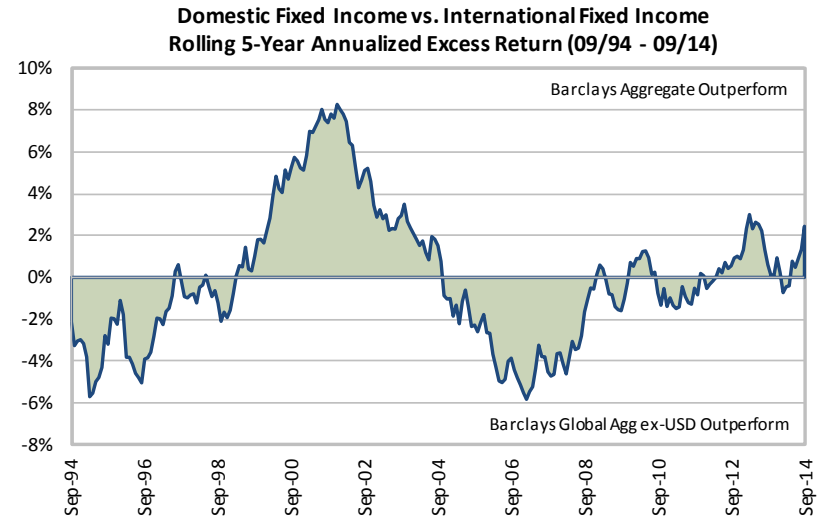
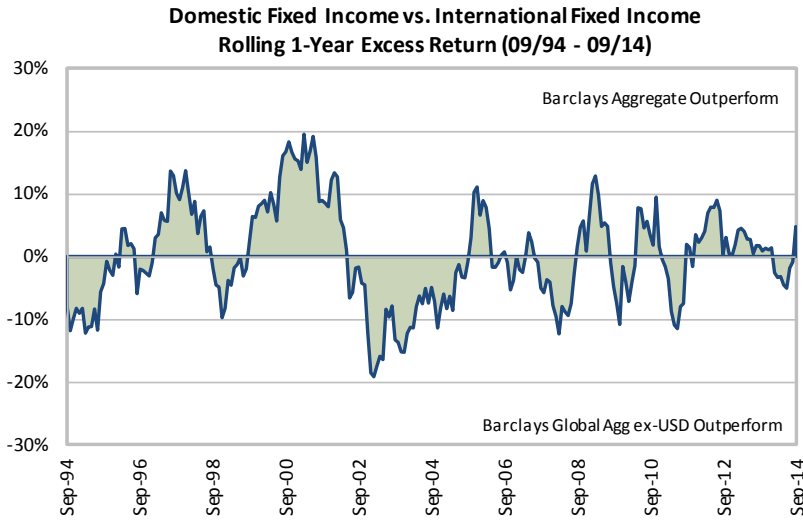


**High Yield vs. Treasuries**  
Recent Historical Performance



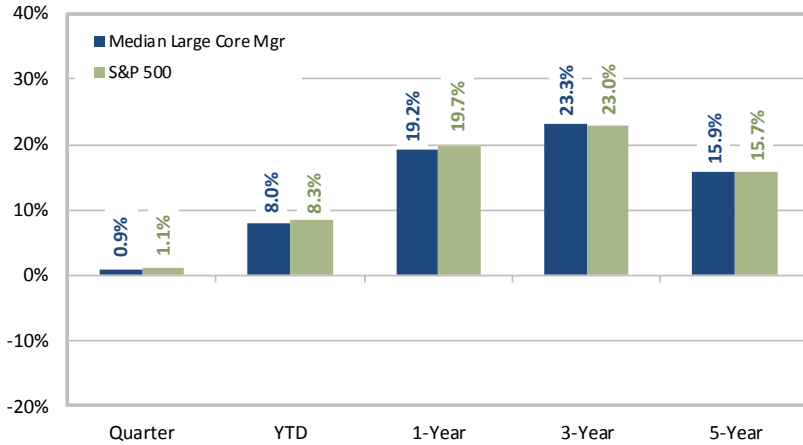


## HISTORICAL RELATIVE PERFORMANCE: DOMESTIC VS. INTERNATIONAL FIXED INCOME

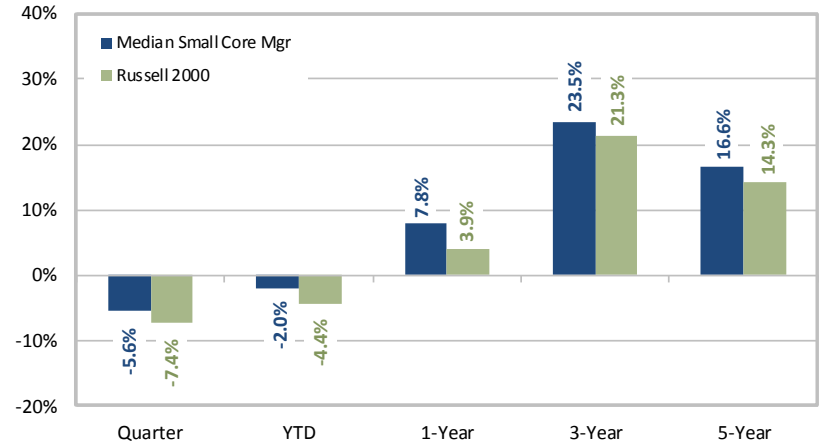


## MEDIAN UNIVERSE CORE MANAGER RETURNS VS. INDEX RETURNS

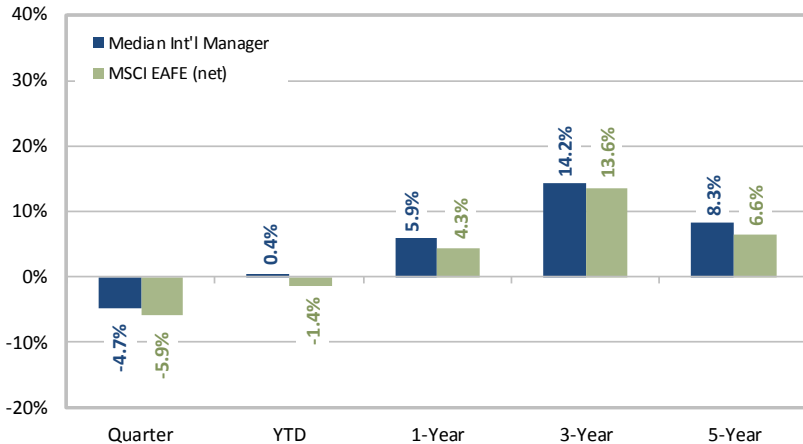
**Median Large Capitalization Core Equity Manager vs. S&P 500**



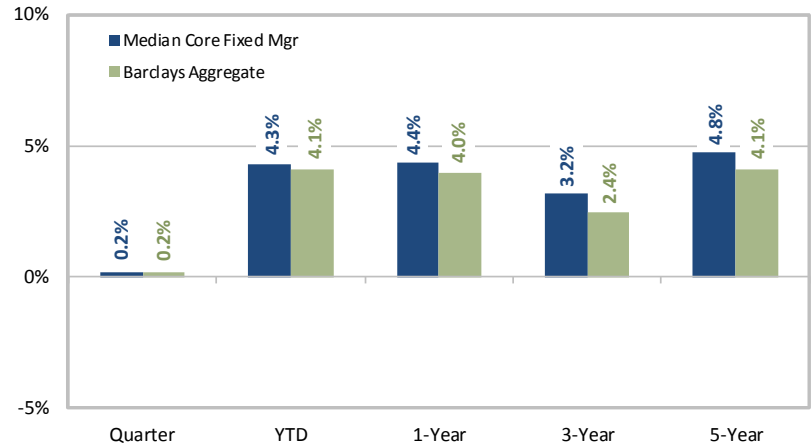
**Median Small Capitalization Core Equity Manager vs. Russell 2000**



**Median International Core Equity Manager vs. MSCI EAFE (net)**

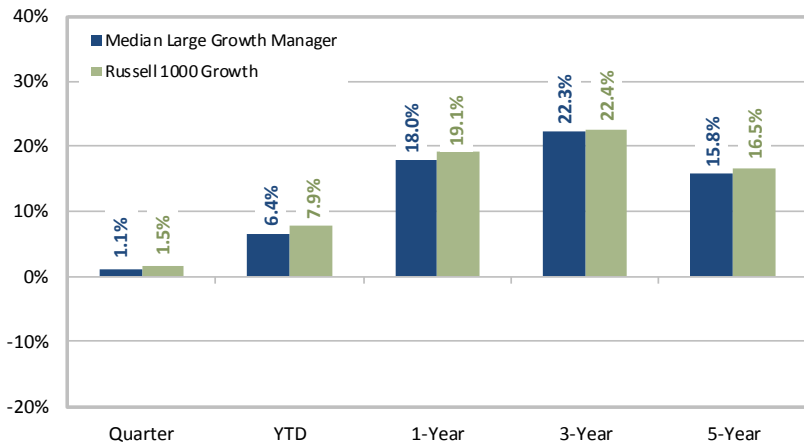


**Median Core Fixed Income Manager vs. Barclays Aggregate**

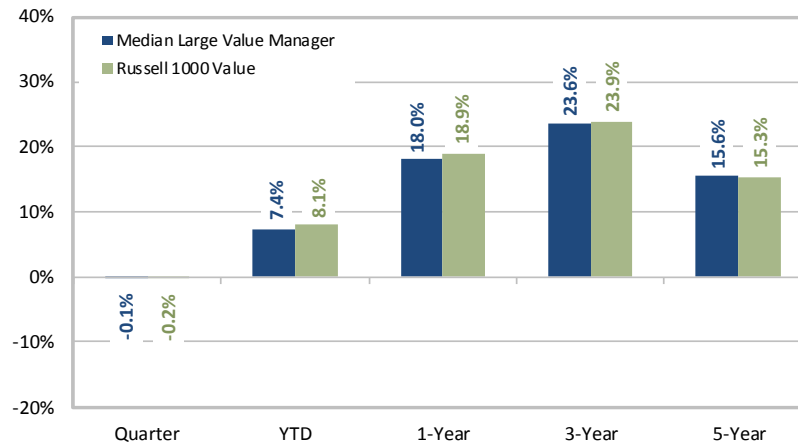


## MEDIAN UNIVERSE EQUITY STYLE MANAGER RETURNS VS. INDEX STYLE RETURNS

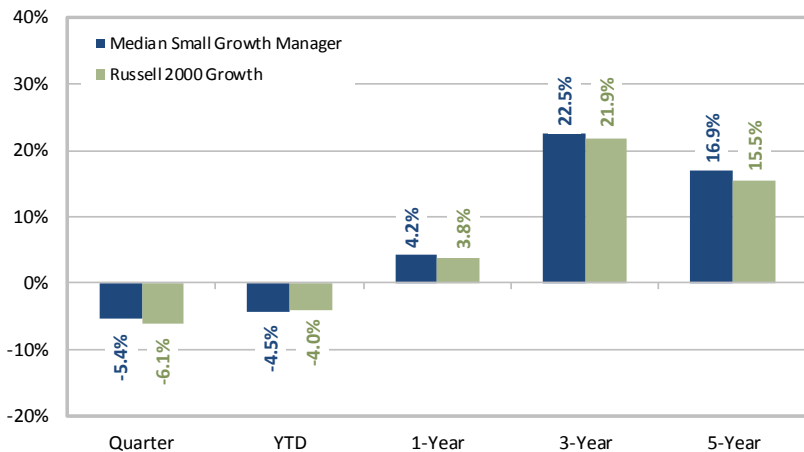
**Median Large Capitalization Growth Equity Manager vs. Russell 1000 Growth**



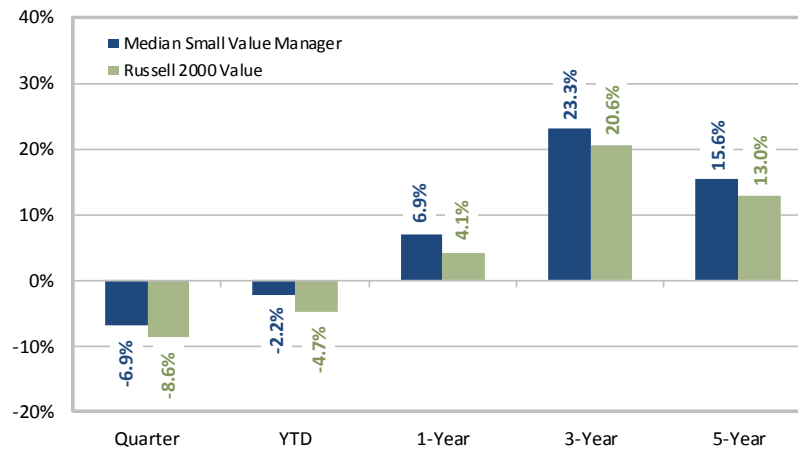
**Median Large Capitalization Value Equity Manager vs. Russell 1000 Value**



**Median Small Capitalization Growth Equity Manager vs. Russell 2000 Growth**

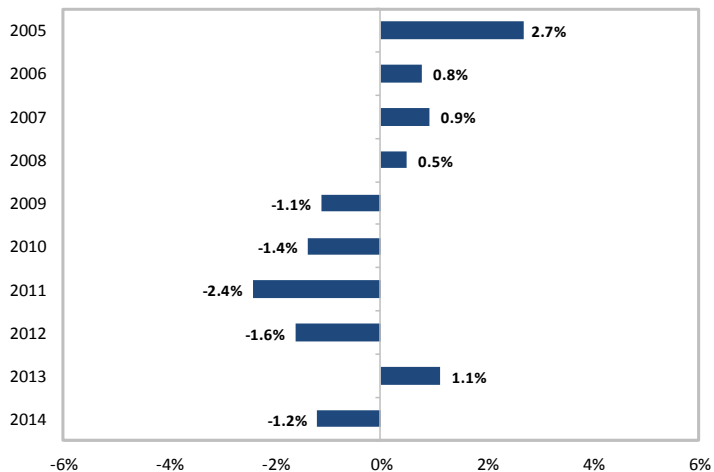


**Median Small Capitalization Value Equity Manager vs. Russell 2000 Value**

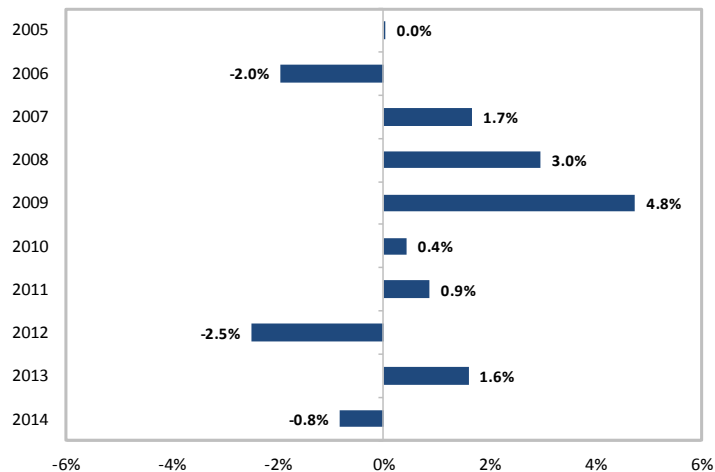


## MEDIAN UNIVERSE EQUITY STYLE MANAGER ONE-YEAR RETURN DIFFERENTIAL ENDING SEPTEMBER 30: 10 YEARS

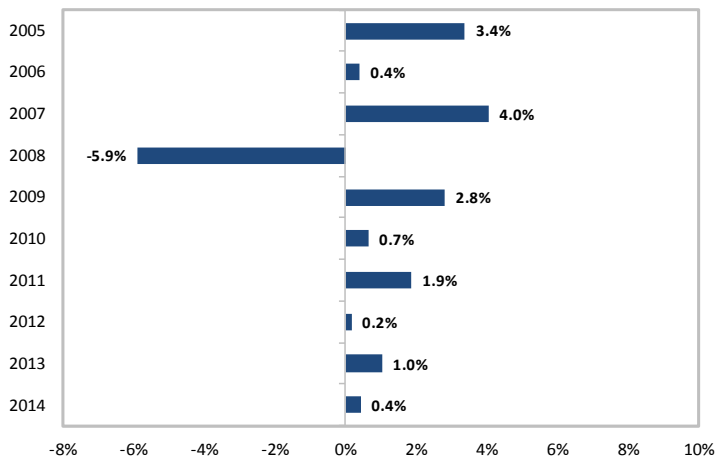
Median Large Capitalization Growth Equity Manager vs. Russell 1000 Growth



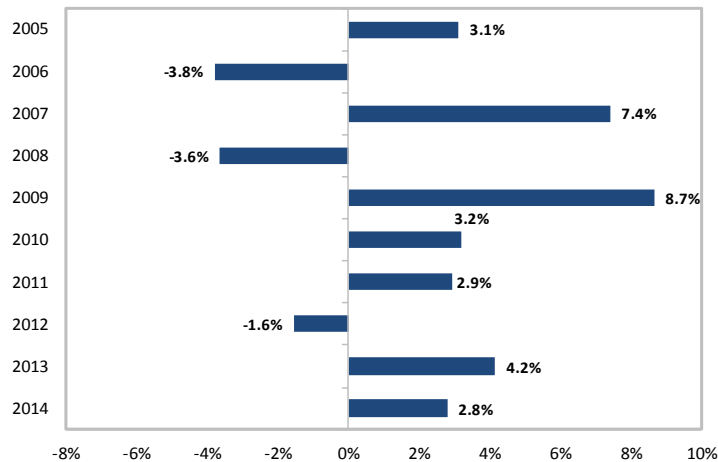
Median Large Capitalization Value Equity Manager vs. Russell 1000 Value



Median Small Capitalization Growth Equity Manager vs. Russell 2000 Growth

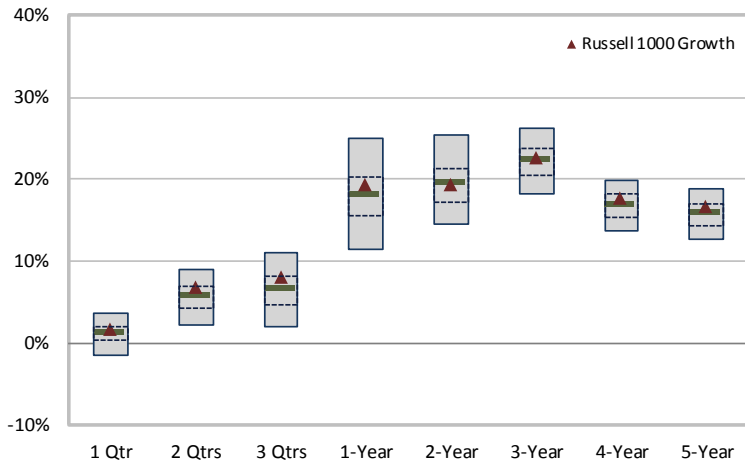


Median Small Capitalization Value Equity Manager vs. Russell 2000 Value

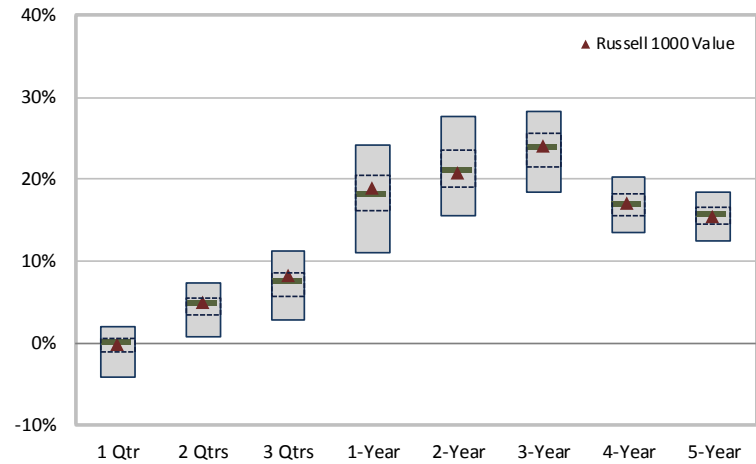


UNIVERSE EQUITY STYLE MANAGERS

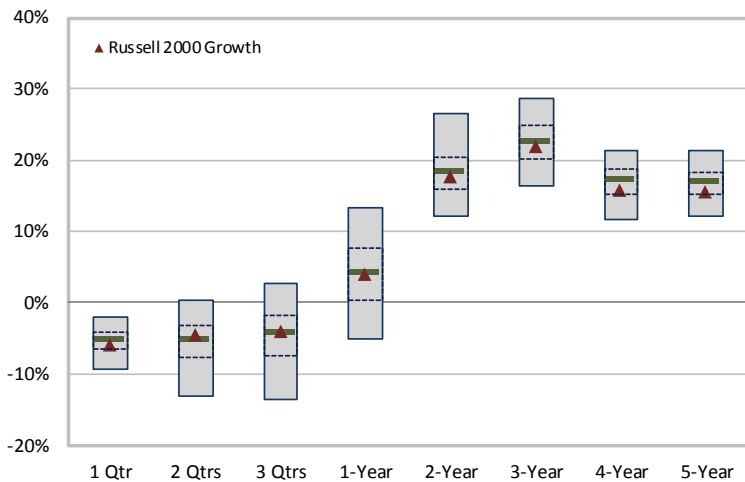
Large Cap Growth Equity Universe



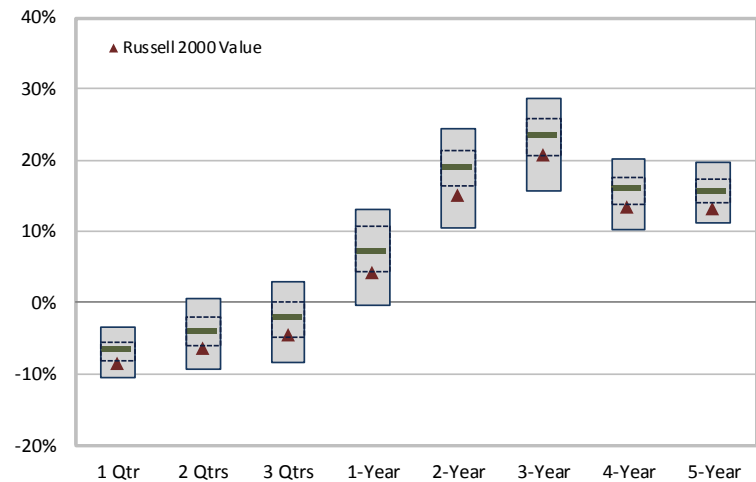
Large Cap Value Equity Universe



Small Cap Growth Equity Universe



Small Cap Value Equity Universe



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