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Quarterly Review

Global Equity Market Update

December 31, 2014

GLOBAL EQUITY MARKETS – CALENDAR YEAR RETURNS

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	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 14.75%
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%	S&P 500 13.69%
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%	Large Value 13.45%
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 13.05%
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 11.90%
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%	Small Growth 5.60%
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%	Small Value 4.22%
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%	ACWI 4.16%
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%	Emerging Markets -2.19%
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%	EAFE -4.90%
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%	EAFE Small -4.95%

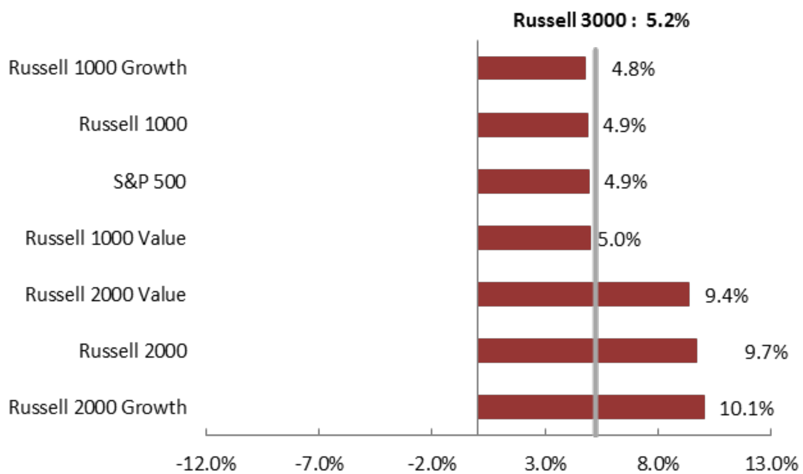
Source: Zephyr

DOMESTIC EQUITY MARKET

Domestic Equity Market Highlights

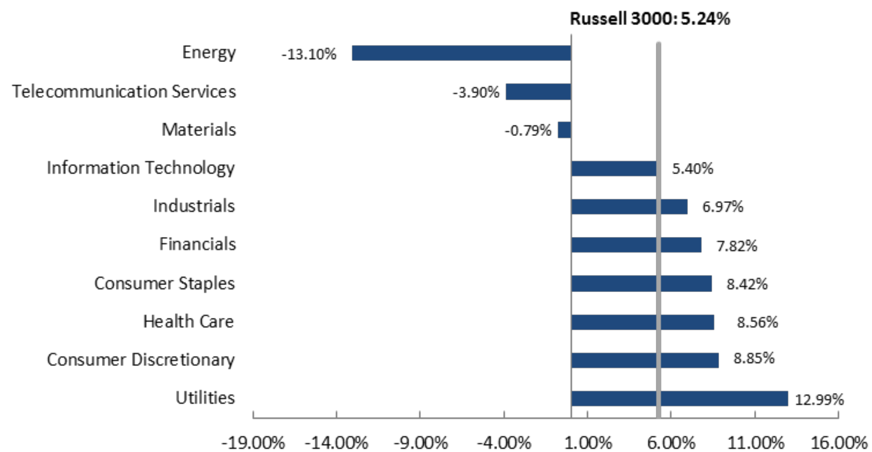
- The S&P 500 ended the fourth quarter up 4.9%, making it the eighth consecutive quarterly increase and the longest streak since 1998. Large caps (S&P 500) outperformed small caps (Russell 2000) by approximately 8.8% during 2014, the widest margin in 16 years.
- Against a backdrop of concerns over global growth, falling oil prices, and a strong dollar, volatility (as measured by the VIX) jumped approximately 40% during 2014. As a result, there was a flight to higher quality and larger-cap stocks in 2014.
- Small cap stocks rallied in the fourth quarter, driven largely by the domestic-focus of the asset class and relative strength of the US economy. Within small cap, growth has outperformed value in six of the past eight calendar years.
- US companies continued to exceed earnings growth expectations. During the fourth quarter reporting period, 76% of S&P 500 companies and 57% of Russell 2000 companies beat their EPS estimates.

Fourth Quarter Domestic Index Returns



- Despite remaining near historical lows, volatility rose during 2014 which shifted market preference from beta to quality. Dividend yield, market capitalization, and earnings stability were three of the strongest performing factors of the market in 2014.
- REITS and utilities, two of the highest yielding equity sectors, were the strongest relative performers for the fourth quarter and for the year as investors searched for yield.
- Within energy, supply growth outpaced demand growth which translated into lower oil prices and significant relative underperformance in the space particularly during the second half of 2014.
- Higher beta stocks significantly underperformed lower beta stocks for the fourth quarter and for the full year. In 2014, stocks within the lowest quintile of beta outperformed stocks within the highest quintile of beta by approximately 14.5%.

Fourth Quarter Russell 3000 Index Sector Returns



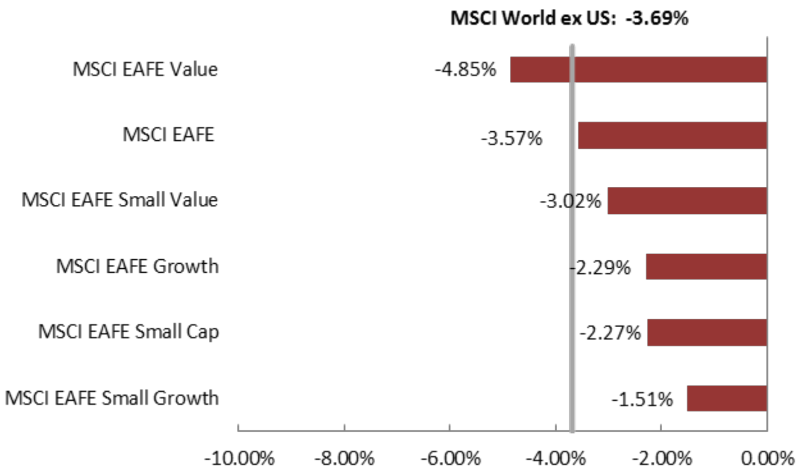
Source: Bloomberg LP, Lazard, MSCI, Russell, S&P, Zacks

INTERNATIONAL DEVELOPED EQUITY MARKET

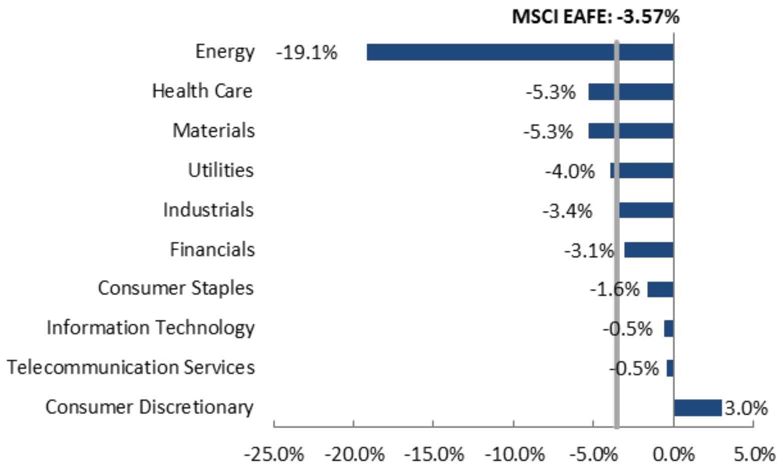
International Developed Equity Market Highlights

- International developed stocks decreased -3.6% in US dollar terms for the quarter, as measured by the MSCI EAFE Index. Currency detracted 540 bps from the positive local return of 1.8%.
- The US dollar continued to strengthen against all major global currencies during the quarter, as US economic growth and corresponding weakness in Europe and a slowdown in China continue to make the dollar attractive. For the quarter, the Euro and the Yen were down relative to the US dollar by 9.1% and 4.6%, respectively. For the full year 2014, the Euro fell 12.2%, the Yen fell 12.3%, the Swiss Franc fell 10.5%, the Pound Sterling fell 5.9%, and the Singapore Dollar fell 4.7%, against the U.S. Dollar. Given the potentially more accommodative monetary policy outside the US, there does not appear to be any pressure for the US Dollar to weaken in the near-term.
- Small caps outperformed large cap stocks during the period. Growth outperformed value across the cap spectrum.
- There were few bright spots among EAFE countries with only Belgium, Ireland, Hong Kong, and New Zealand posting positive returns in both US and local terms. Pacific ex-Japan was the best returning region, in USD terms, with a -1.5% return. Europe, in general was more challenging, with Europe ex-UK returning -4.4% for the quarter. After the Russia/Ukraine crisis held investors back in the third quarter, the unexpected announcement of elections in Greece and the continued collapse in oil prices drove sentiment further down in the fourth quarter.
- Except for consumer discretionary, all developed international sectors contracted during the quarter in dollar terms. Energy continued its decline from the third quarter and was again the worst performing sector in the index for the quarter as oil prices continued their decline. Much of the drop in energy prices and their related stocks appears have benefited the consumer.

Fourth Quarter Int. Developed Index Returns (USD)



Fourth Quarter MSCI EAFE Sector Returns



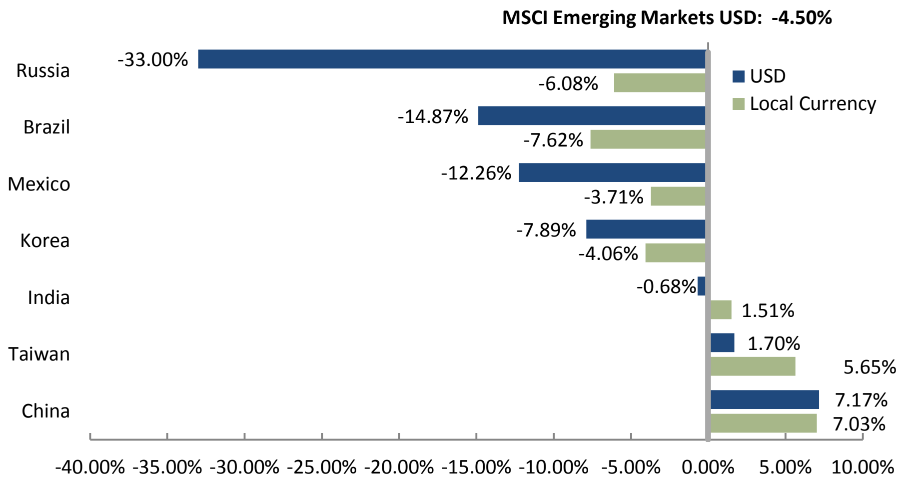
Source: Bloomberg LP, Lazard, MSCI, Russell, S&P

EMERGING MARKETS EQUITY

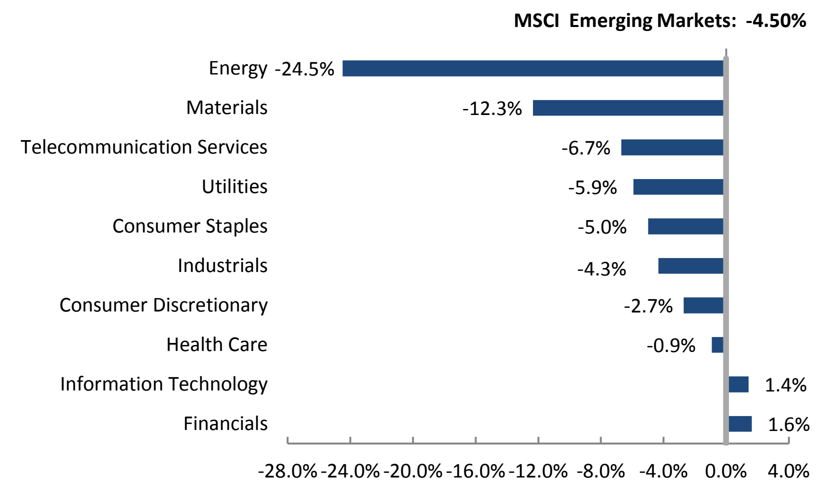
Emerging Markets Equity Highlights

- The MSCI Emerging Markets Index decreased by 4.5% in US dollars during the quarter. Currency proved to be a headwind to US investors, detracting 451 bps, as the US dollar strengthened against emerging markets currencies in aggregate. Fourth quarter performance in emerging markets underperformed developed global markets by 551 bps in US dollar terms.
- China was the best-performing major emerging markets country during the quarter. While China experienced a 24-year low in economic growth during the quarter, equity markets improved following a reduction in the country's central bank rate. Russia was again the worst-performing market, down 33% in US dollar terms and 6.08% in local terms. The ruble fell from 0.25 vs. the US dollar to 0.17 during the fourth quarter. Russia's currency move during the quarter was primarily driven by the rapid fall in oil prices, as the economy is heavily reliant on oil exports.
- Brazilian stocks detracted 14.9% in US dollar terms as the country's central bank hiked rates twice during the quarter in an attempt to dampen inflation. The Brazilian real hit a nine-year low versus the US dollar during the quarter.
- Mexico was the other major detractor to emerging markets during the quarter, falling 12.3% in US dollar terms. The primary driver of poor performance was the government's reduced growth forecast and lack of central bank action.
- Investors favored the financials and information technology sectors during the quarter. The materials and energy sectors were the worst-performing areas of the market, as lower oil and metals prices negatively impacted earnings power.
- During the quarter, growth outperformed value and large cap outperformed small cap.

Fourth Quarter Emerging Markets Country Returns



Fourth Quarter MSCI Emerging Markets Sector Returns

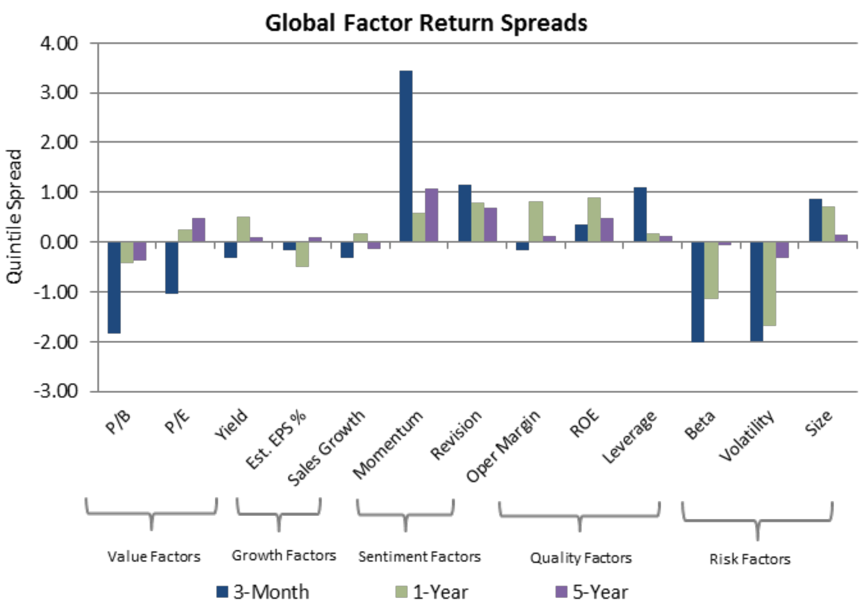


Source: Bloomberg LP, Lazard, MSCI, Russell, S&P

GLOBAL EQUITY MARKETS

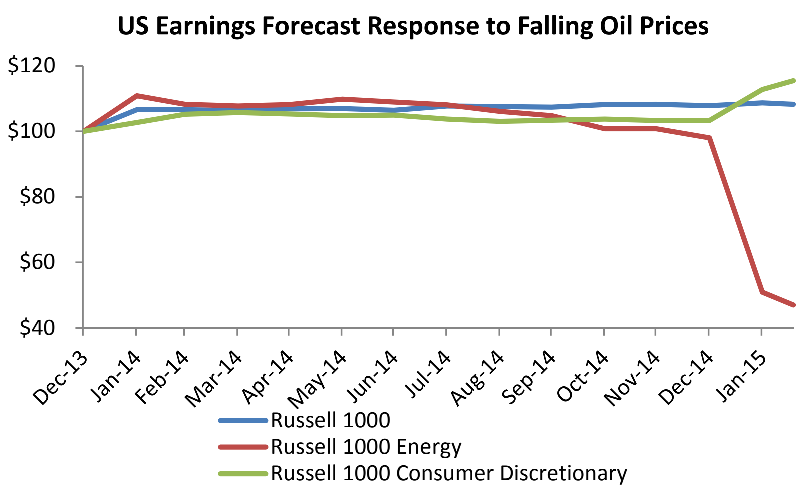
Global Factor Spreads

- Global equity markets were primarily driven by momentum during the quarter. Earnings revision, leverage, and size were also positive contributors to performance.
- Valuation factors were all negative during the quarter, with PB and PE delivering significant performance drag.
- Growth factors were all negative contributors at a very low level.
- Sentiment factors were the largest driver of returns.
- Quality factors were positive.
- Risk factors were mixed. Beta and volatility were significant detractors and size was also a contributor.



Global Equity Highlights

- During the fourth quarter, oil prices fell from $95 to $45. The rapid price depreciation followed the November 27th announcement that the Organization of Petroleum Exploration Countries (OPEC), which controls approximately 40% of the global oil market, failed to reach an agreement to reduce oil production.
- Part of the supply and demand imbalance was due to an increase in US oil production, which grew from 5 million barrels per day in 2008 to 7.5 million in 2013. With the United States consuming 19 million barrels per day in 2013, increased production levels have gone a long way toward reducing oil import needs.
- Following the oil price move, analyst estimates for Russell 1000 energy companies have been cut in half.
- The silver lining of lower oil prices is greater disposable income for consumers. Since the oil price move, consumer discretionary earnings expectations have increased 12%.



Source: Bloomberg LP, Lazard, MSCI, Russell, S&P, Factset, EIA US Energy Information Administration