



## Investment Performance Review

Capital Markets Review  
Performance as of September 30, 2014

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### The Economy Continues to Demonstrate Modest Strength

- 2nd quarter 2014 GDP grew at a 4.6% pace, offsetting a weak 1st quarter
- GDP has averaged a 2.2% annual growth rate since the end of the recession which is below the historical 3% average growth rate in the U.S.
- The headline numbers in the job market show improvement with September unemployment at 5.9%
- Declining labor force participation and modest hourly earnings growth demonstrate more modest improvements in the labor markets
- Inflation remains benign with August CPI at 1.7%; food and housing are showing above average price growth while lower energy prices have helped offset higher prices in those areas

### Gains in Large Cap U.S. Stocks Masked Broader Weakness in the U.S. Stock Market

- The S&P 500 Index gained 1.13% during the 3rd quarter and is up 8.34% for the year
- The Russell Top 200 Index gained 1.71% during the quarter while the Russell Mid Cap Index lost -1.66% and the Russell 2000 Index lost -7.36%
- Momentum driven stocks underperformed during the quarter while low volatility stocks outperformed

### As the Fed Ends Its Quantitative Easing Interest Rates Remain Largely Unchanged

- The Fed has continued its tapering and has signaled its expectation to end its bond buying program by October 2014
- At the same time they have indicated that they will likely not look to raise short term interest rates until some time in 2015
- The benchmark 10 Year Treasury rate declined only 1 bps during the quarter to 2.52%
- Yields declined modestly during the quarter at the longer end of the yield curve
- Bonds were basically flat during the quarter with the Barclays Aggregate Bond Index gaining 0.17%; Treasuries outperformed slightly and the spread sectors of the bond market underperformed

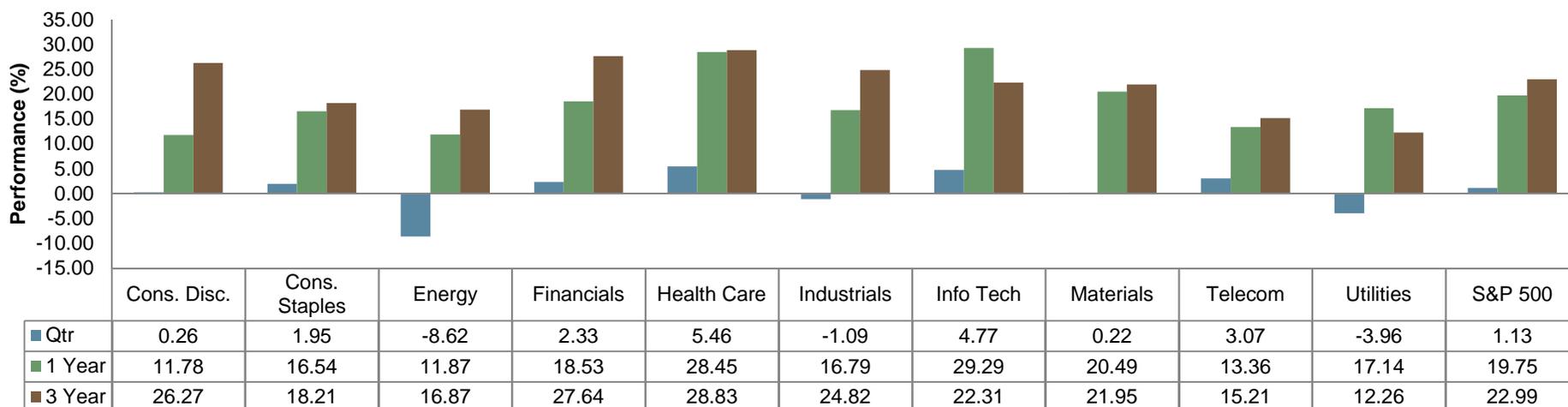
### International Markets Continued to Struggle with Fundamental Weakness and a Strengthening Dollar

- The dollar strengthened during the quarter against the major currencies including the euro, pound, and yen
- Europe posted the largest losses in developed markets with the MSCI Europe ex U.K. Index losing -7.4% during the quarter
- Japan posted strong gains in local currency but a weakening yen resulted in a -2.19% loss
- Emerging markets posted mixed results on a country basis although MSCI Emerging Markets Index lost -3.36%

### Real Assets Posted Losses for the Quarter

- Real estate experienced a pullback as the FTSE NAREIT All Equity REITs Index lost -2.63% during the 3rd quarter
- REIT yields and cap. rates have continued to decline as prices have increased and investors seek out yield opportunities in the low rate environment
- Commodities continued to underperform with Bloomberg Commodity Index losing -11.83% for the quarter and -5.59% for the year.

## Returns by Sector



## Returns by Style

### Last Quarter

	Value	Blend	Growth
Large	-0.19	0.65	1.49
Mid	-2.65	-1.66	-0.73
Small	-8.58	-7.36	-6.13

### Last 12 Months

	Value	Blend	Growth
Large	18.90	19.02	19.16
Mid	17.47	15.84	14.44
Small	4.13	3.93	3.80

### Last 3 Years

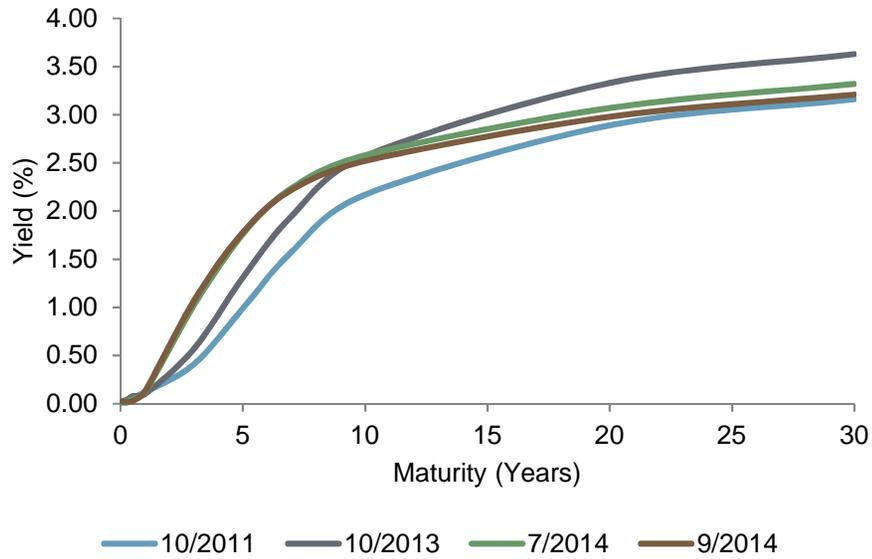
	Value	Blend	Growth
Large	23.93	23.23	22.44
Mid	24.71	23.78	22.73
Small	20.60	21.25	21.90

### Last 5 Years

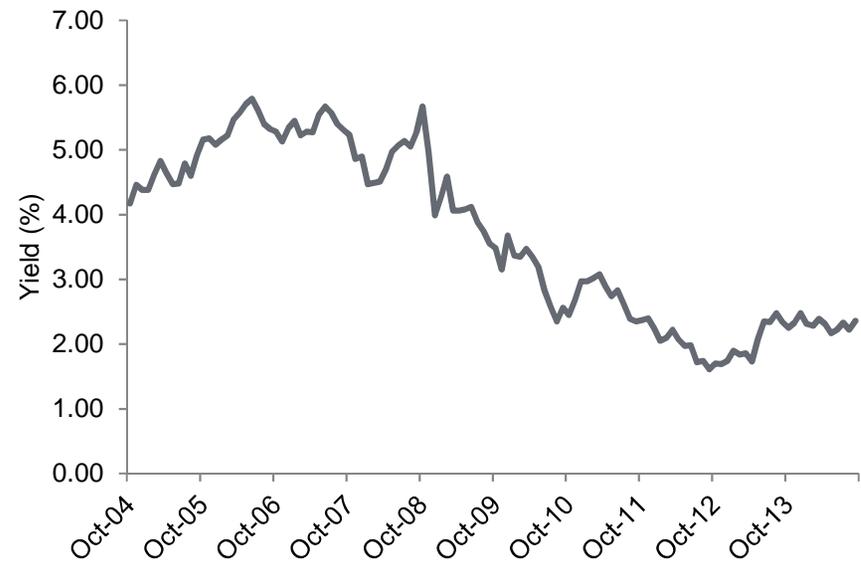
	Value	Blend	Growth
Large	15.26	15.90	16.51
Mid	17.24	17.19	17.13
Small	13.03	14.29	15.51

Source: Morningstar Direct, Sector returns are for the S&P 500 Index Sector Indices. Style returns are for the Russell 1000, Mid Cap and 2000 indices as well as the related Value and Growth indices.

U.S. Treasury Yield Curve



Barclays US Aggregate Yield



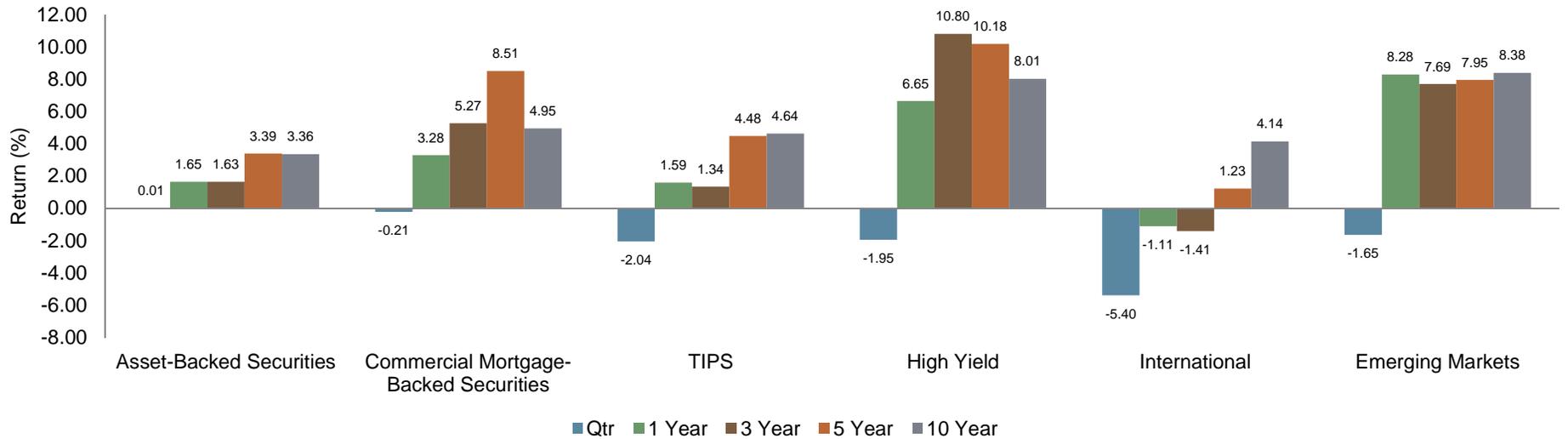
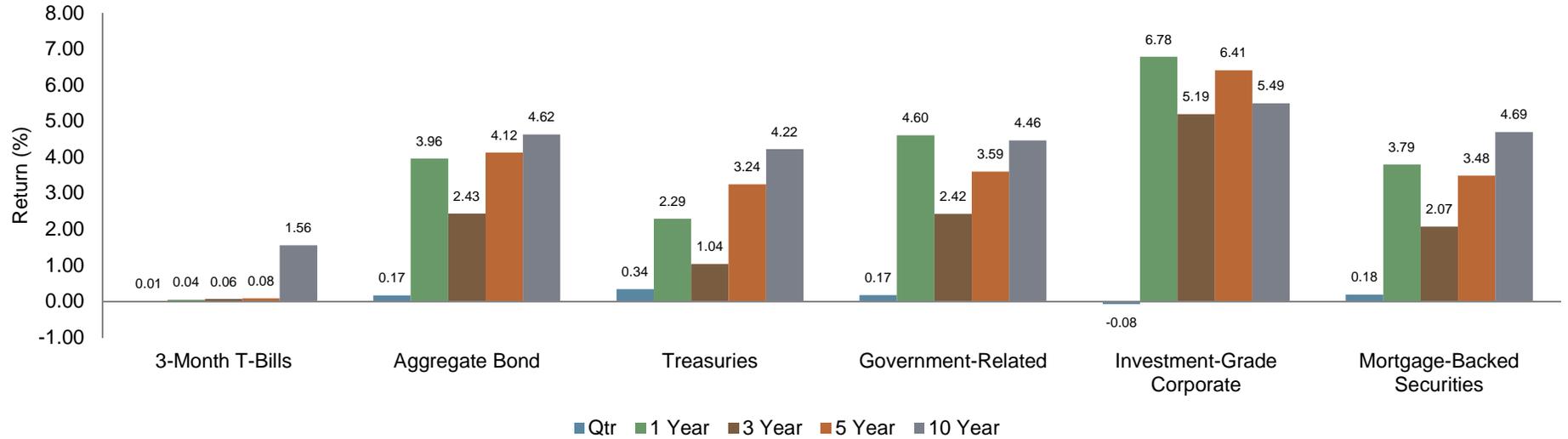
10 Year Treasury Yield



Source: Morningstar Direct

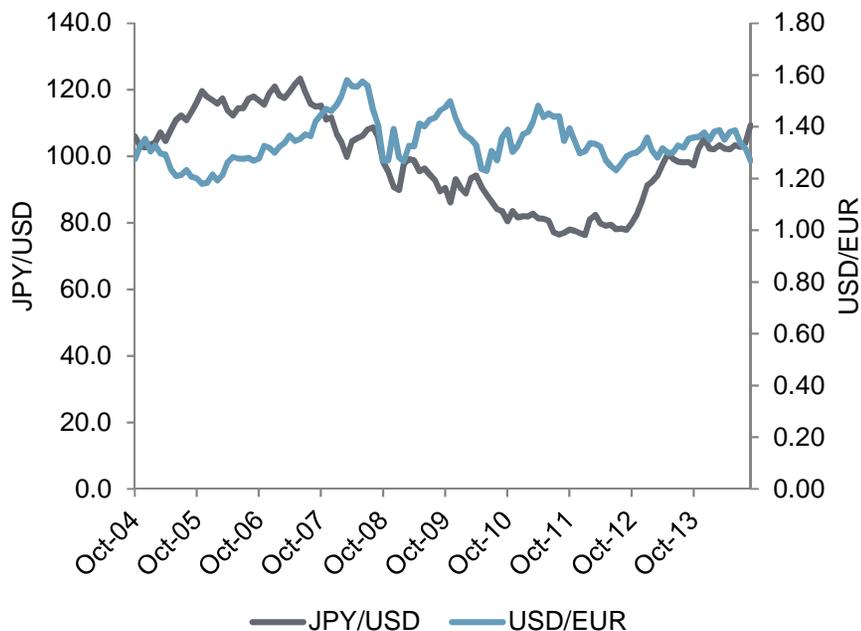
As of September 30, 2014

## Fixed Income Returns



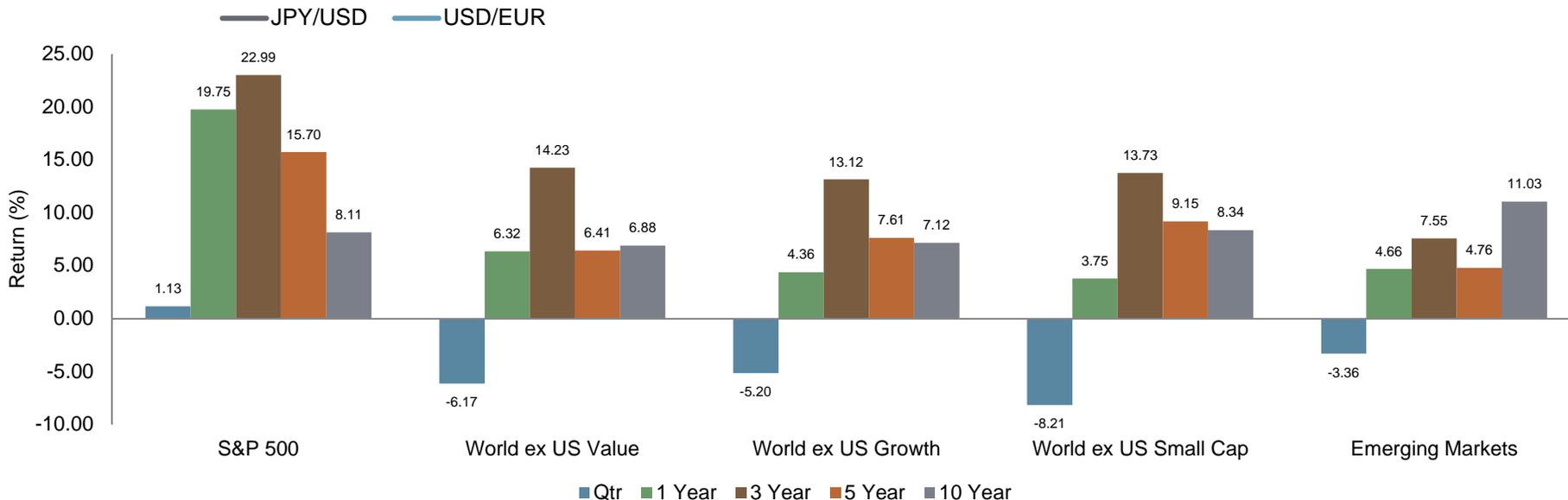
Source: Morningstar Direct. Performance is annualized for periods greater than 12 months. The returns shown above are represented by the following indices: 3-Month T-Bills - USTREAS T-Bill Auction Ave 3 Mon; Aggregate Bond - Barclays US Agg Bond TR USD; Treasuries - Barclays US Treasury TR USD; Government-Related - Barclays US Agg Govt Reltd TR USD; Investment-Grade Corporate - Barclays US Corp IG TR USD; Mortgage-Backed Securities - Barclays US MBS TR USD; Asset-Backed Securities - Barclays ABS TR USD; Commercial Mortgage-Backed Securities - Barclays CMBS IG TR USD; TIPS - Barclays US Treasury US TIPS TR USD; High Yield - Barclays US HY Intern TR USD; International - JPM GBI Global Ex US TR USD; and Emerging Markets - JPM EMBI Global TR USD

U.S. Dollar Exchange Rates



Regional Returns (Local Currency vs. U.S. Dollar)

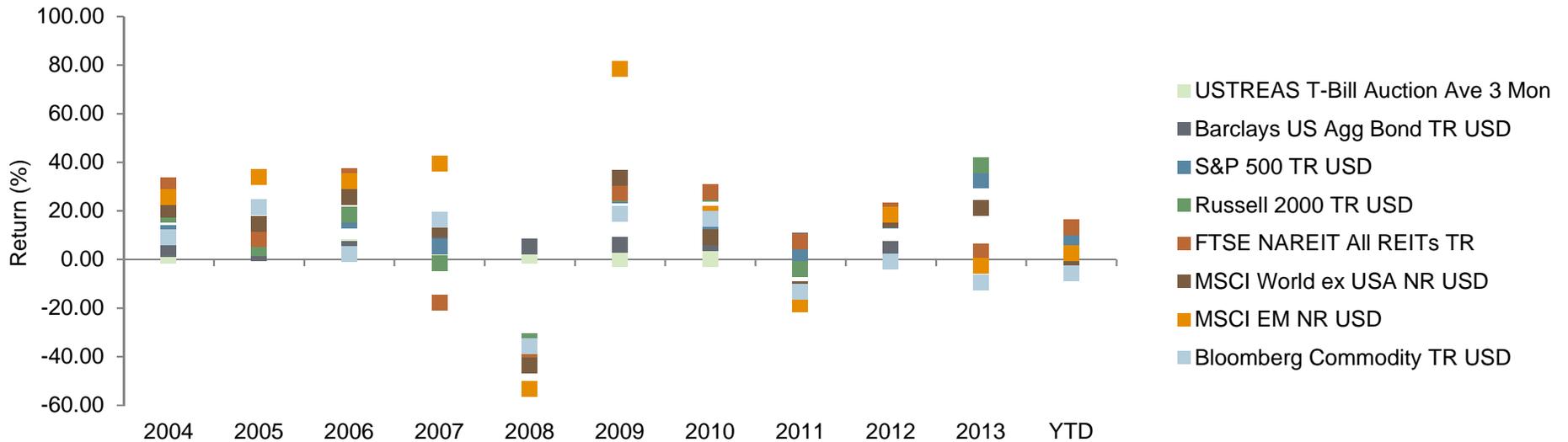
Region	Qtr		1 Year	
	Local	USD	Local	USD
USA	n/a	1.13	n/a	19.75
Europe ex-U.K	0.12	-7.41	14.14	6.48
France	-0.64	-8.33	9.95	2.60
Germany	-3.72	-11.17	9.98	2.63
United Kingdom	-0.91	-6.05	6.05	6.16
Pacific ex-Japan	-0.86	-5.88	6.03	1.48
Japan	5.91	-2.19	12.84	0.93
Emerging Markets	0.70	-3.36	8.64	4.66
Brazil	1.60	-8.58	5.31	-4.31
China	1.72	1.53	5.00	4.87
India	5.09	2.34	35.78	37.64
Russia	-4.33	-15.07	-5.20	-19.19



Source: Morningstar Direct. Regional returns are shown for the respective MSCI gross return indices for local and USD returns. Style returns are shown for the S&P 500 Index, MSCI World ex USA Value GR USD, MSCI World ex USA Growth GR USD, MSCI World ex USA Small Cap GR USD, and the MSCI Emerging Markets GR USD indices.

## Unpredictability of Asset Class Returns

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD	
<b>Best</b>	30.41	34.00	34.35	39.42	5.24	78.51	27.58	7.84	20.14	38.82	13.08	Cash
	25.55	21.36	32.14	16.23	1.51	33.67	26.85	7.28	18.22	32.39	8.34	Aggregate Bond
	20.38	14.47	25.71	12.44	-33.79	27.45	18.88	2.11	16.41	21.02	4.10	Large Cap U.S. Stocks
	18.33	8.29	18.37	6.97	-35.65	27.17	16.83	0.06	16.35	3.21	2.43	Small Cap U.S. Stocks
	10.88	4.91	15.79	5.49	-37.00	26.46	15.06	-4.18	16.00	0.06	0.03	Real Estate
	9.15	4.55	5.06	4.77	-37.34	18.91	8.95	-12.21	4.21	-2.02	-0.66	Developed International Stocks
	4.34	3.34	4.33	-1.57	-43.56	5.93	6.54	-13.32	0.09	-2.60	-4.41	Emerging Markets Stocks
<b>Worst</b>	1.43	2.43	2.07	-17.83	-53.33	0.16	0.14	-18.42	-1.06	-9.52	-5.59	Commodities



Source: Morningstar Direct

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