



Investment Performance Review

Capital Markets Review
Performance as of December 31, 2015

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The U.S. Economy Continues to Improve Although the Recovery Continues to Appear Fragile

- Real GDP increased at an annual rate of 2.0% in the 3rd quarter, versus a 2nd quarter increase of 3.9%
- Unemployment continues to improve with the civilian unemployment rate at 5.0% in November
- Wage growth continues to be modest with November wage growth at 2.0% versus 4.3% annually over the past 50 years
- Consumer spending rose at a 3.2% annual pace following an even larger gain in the 2nd quarter
- Energy sector woes and the strong dollar continue to plague corporate profit margins

China, Oil, and the Dollar were the Major Culprits for a Challenging 2015

- The slowdown in China, weakness in commodity prices, and the surge of the dollar created a difficult scenario for worldwide stock markets in 2015
- Macroeconomic worries pushed volatility higher while correlations among stocks increased
- U.S. stocks rebounded in Q4 with all sectors having positive returns for the quarter. The energy and materials sectors were hurt the most in 2015, declining 21.13% and 8.39%, respectively, for the year
- The consumer discretionary sector reported the strongest returns in 2015 with a 10.12% gain
- Valuations are getting more expensive; the forward P/E for the S&P 500 Index is 16.1x versus a 25-year average of 15.8x

Short-Term Interest Rates Have Finally Started to Rise

- After much anticipation, the Fed finally raised short-term rates by 25 basis points in December
- Consensus expectations are for short-term rates to rise modestly each quarter in 2016
- The yield on 10-Year U.S. Treasury Bonds increased 10% during the quarter to 2.27%
- Widening spreads hurt credit sectors; high yield bonds declined 2.06% during the quarter and 4.52% for the year

International Equities Were a Mixed Bag for the 4th Quarter

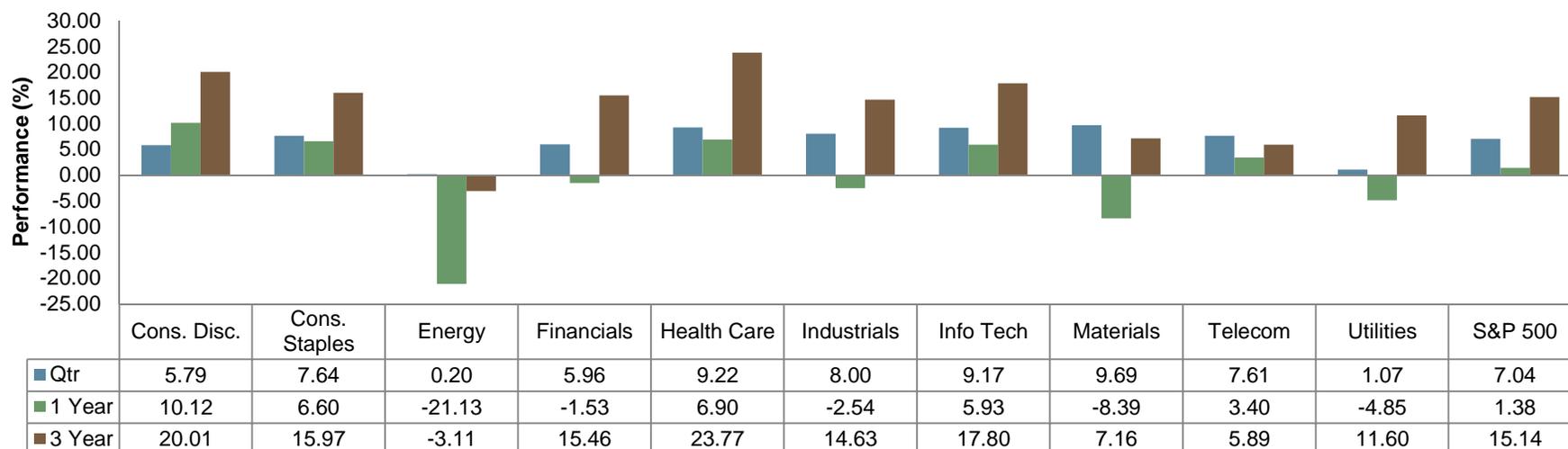
- European, Chinese, and Japanese equity markets rebounded in Q4 after significant declines the prior quarter
- Greece, Columbia, Brazil, Turkey, and Thailand continued to decline for the quarter
- Emerging market rebounded modestly in Q4, ending a difficult year down 14.61%
- In China, manufacturing activity continues to contract and the yuan is still declining in Q4

Real Assets Continue to Suffer from Modest Inflation and Weak Global Growth

- Inflation remains low; Headline CPI was 0.4% in November while Core CPI was 2.0%
- REITs were the best performing asset class for the quarter; the FTSE NAREIT All Equity REITs Index gained 7.13% during the 4th quarter, outperforming equities while maintaining a gain of 2.29% for 2015
- Commodities continued to struggle as a result of weakening global demand from China and low energy prices; the Bloomberg Commodity Index has lost 10.52% for the quarter and 24.66% for the year

U.S. Equity Market Returns

Returns by Sector



Returns by Style

	Last Quarter		
	Value	Blend	Growth
Large	5.64	6.50	7.32
Mid	3.12	3.62	4.12
Small	2.88	3.59	4.32

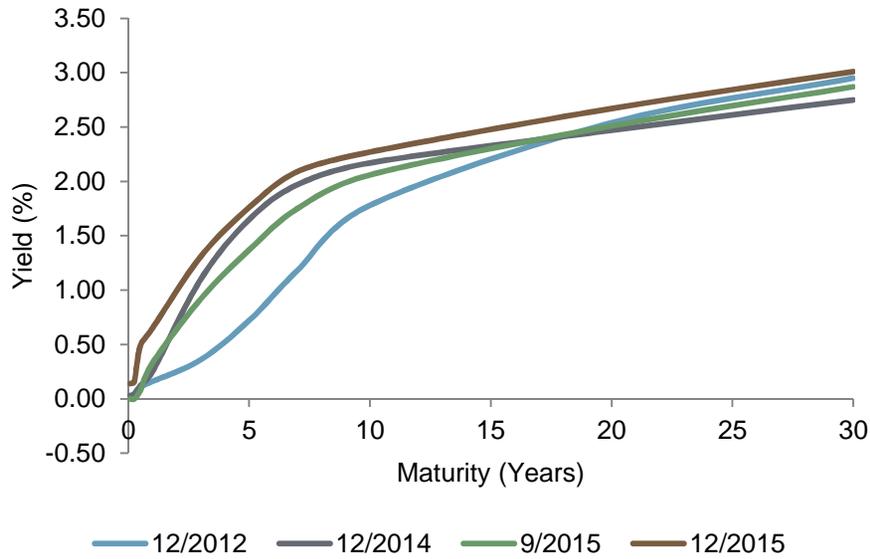
	Last Year		
	Value	Blend	Growth
Large	-3.83	0.92	5.67
Mid	-4.78	-2.44	-0.20
Small	-7.47	-4.42	-1.38

	Last 3 Years		
	Value	Blend	Growth
Large	13.09	15.02	16.84
Mid	13.41	14.19	14.89
Small	9.07	11.66	14.29

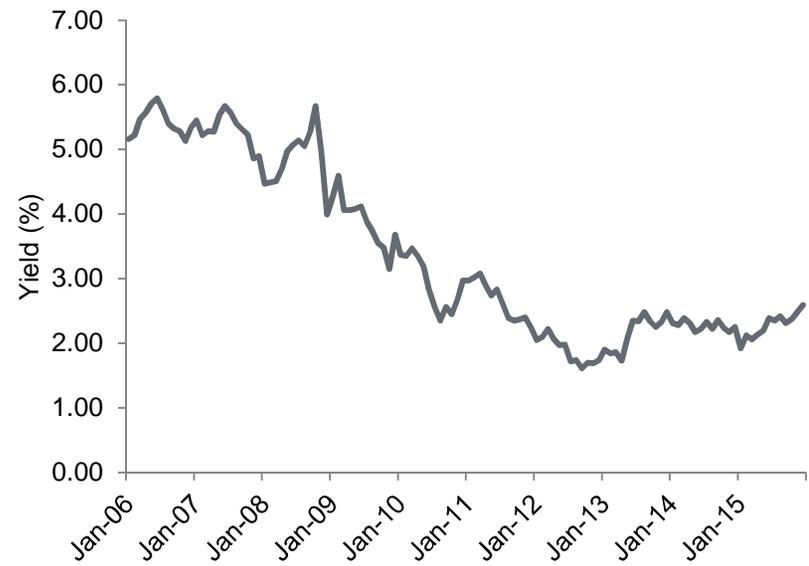
	Last 5 Years		
	Value	Blend	Growth
Large	11.27	12.45	13.54
Mid	11.25	11.44	11.54
Small	7.67	9.19	10.67

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



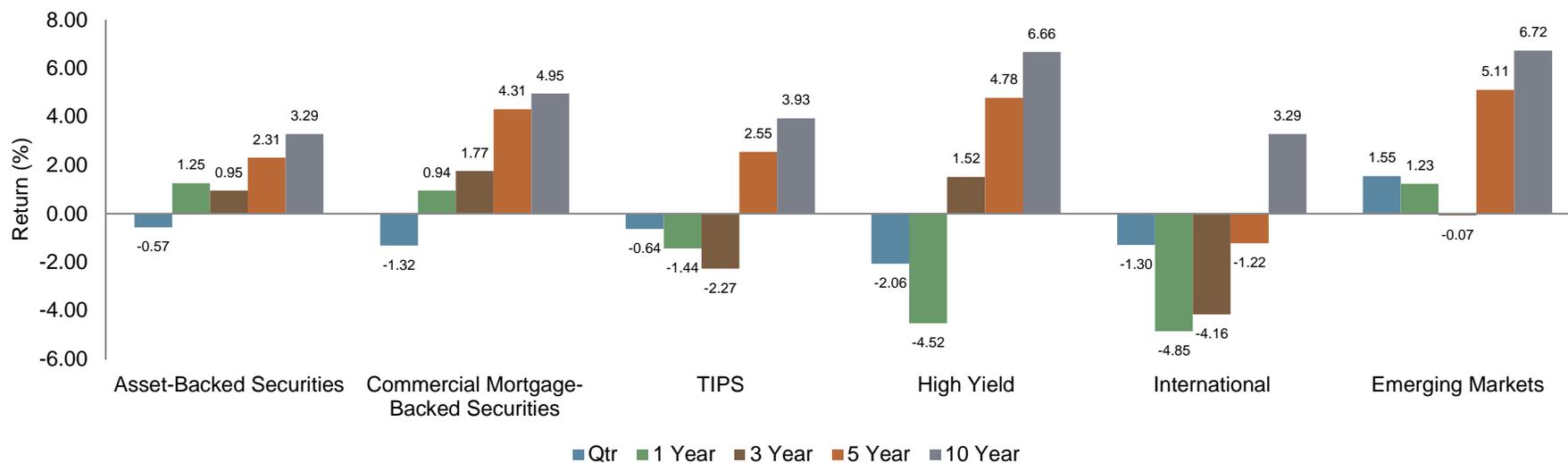
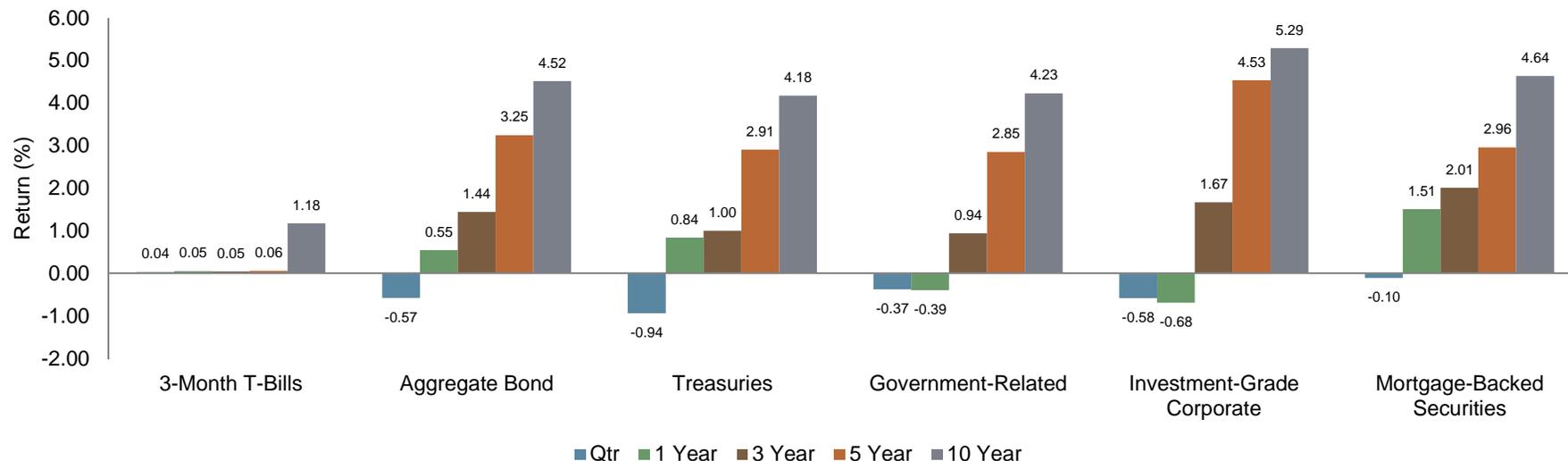
10 Year Treasury Yield



Source: Morningstar Direct

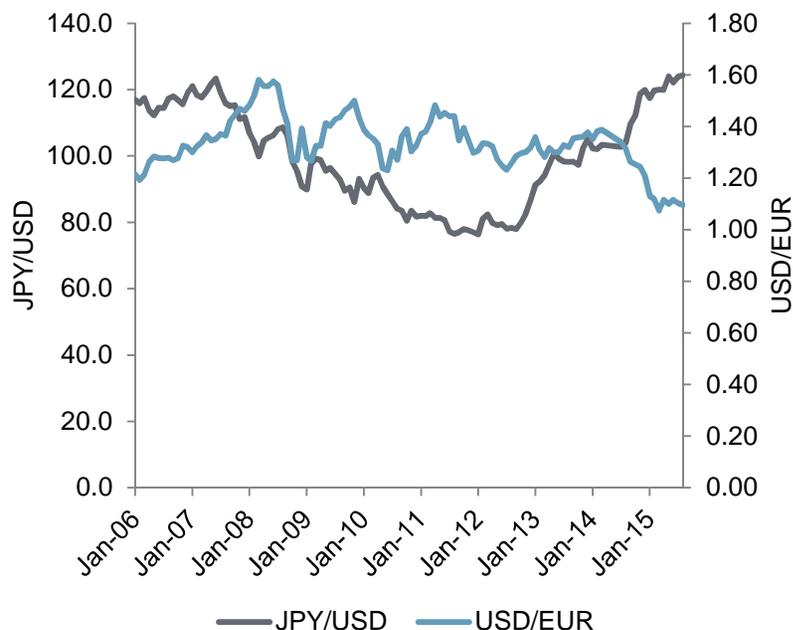
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Fixed Income Returns



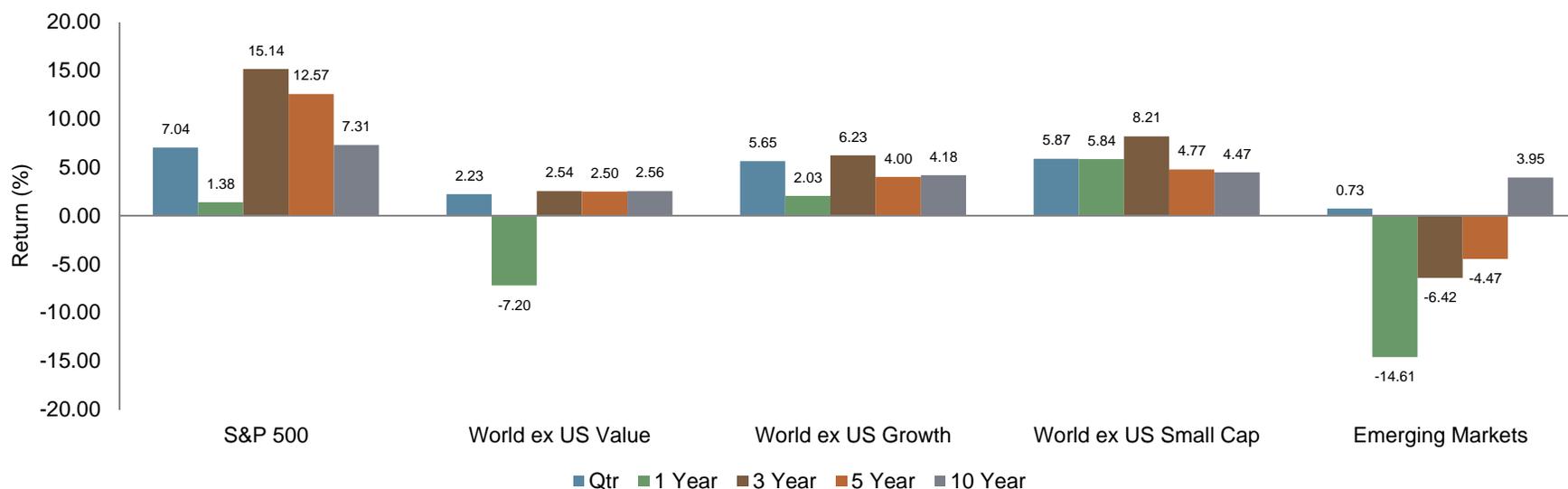
Source: Morningstar Direct. Performance is annualized for periods greater than 12 months. The returns shown above are represented by the following indices: 3-Month T-Bills - USTREAS T-Bill Auction Ave 3 Mon; Aggregate Bond - Barclays US Agg Bond TR USD; Treasuries - Barclays US Treasury TR USD; Government-Related - 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)

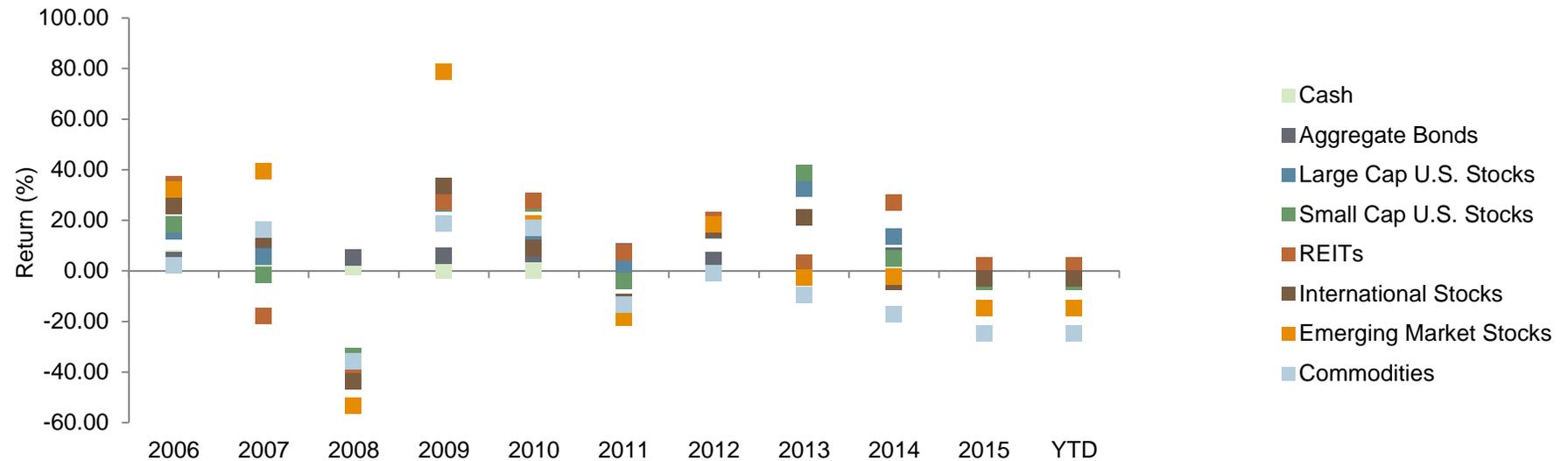
Region	Qtr		1 Year	
	Local	USD	Local	USD
USA	n/a	7.04	n/a	1.38
Europe ex-U.K	5.97	3.32	9.10	0.07
France	4.61	1.80	12.27	0.78
Germany	10.67	7.70	9.98	-1.27
United Kingdom	3.53	0.74	-2.16	-7.52
Pacific ex-Japan	5.94	8.33	-0.85	-8.36
Japan	9.86	9.38	10.27	9.91
Emerging Markets	1.56	0.73	-5.41	-14.61
Brazil	-3.78	-3.16	-12.47	-41.20
China	4.03	4.03	-7.68	-7.63
India	-0.13	-0.91	-1.61	-6.13
Russia	4.72	-3.99	22.90	5.01



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

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD	
Best	34.35	39.42	5.24	78.51	27.58	7.84	20.14	38.82	27.15	2.29	2.29	Cash
	32.14	16.23	1.51	33.67	26.85	7.28	18.22	32.39	13.69	1.38	1.38	Aggregate Bonds
	25.71	12.44	-33.79	27.45	18.88	2.11	16.41	21.02	5.97	0.55	0.55	Large Cap U.S. Stocks
	18.37	6.97	-35.65	27.17	16.83	0.06	16.35	3.21	4.89	0.05	0.05	Small Cap U.S. Stocks
	15.79	5.49	-37.00	26.46	15.06	-4.18	16.00	0.06	0.03	-3.04	-3.04	REITs
	5.06	4.77	-37.34	18.91	8.95	-12.21	4.21	-2.02	-2.19	-4.41	-4.41	International Stocks
	4.33	-1.57	-43.56	5.93	6.54	-13.32	0.09	-2.60	-4.32	-14.92	-14.92	Emerging Market Stocks
Worst	2.07	-17.83	-53.33	0.16	0.14	-18.42	-1.06	-9.52	-17.01	-24.66	-24.66	Commodities



Source: Morningstar Direct

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