

Investment Market Review Fourth Quarter 2015

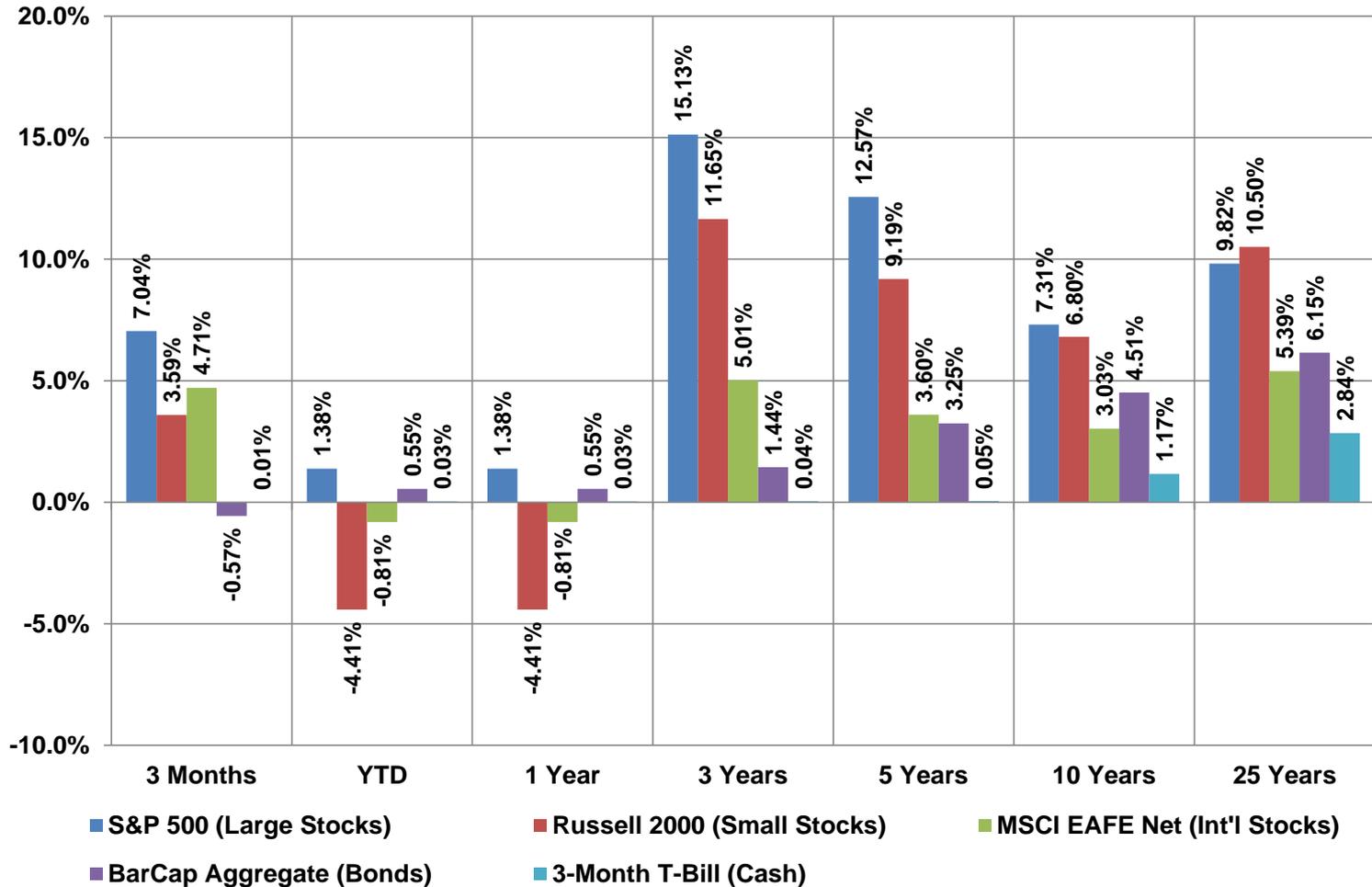
State of Montana

Capital Market Highlights

- U.S. stocks produced positive returns during the fourth quarter with the S&P 500 index returning 7.0% and turned positive YTD, through December 31, up +1.4%. U.S. bonds produced negative returns during the fourth quarter with the Barclay's Capital US Aggregate index down -0.6%, but produced a positive return of 0.6% for the year.
- Returns on emerging markets stocks turned positive during the fourth quarter with the MSCI Emerging Markets index returning +0.7% and ended the year down -14.9%. Emerging markets debt posted positive returns during the fourth quarter with the JP Morgan Emerging Markets Bond index returning +1.6% and +1.2% for the year
- For the first time in nearly ten years, The Federal Reserve elected to raise rates at the December meeting after being near zero for seven years. Unemployment has approached 5%, which is considered the "natural rate of unemployment" and inflation is projected to be near 2% in the coming quarters. Both of these figures are considered to be optimal and any further delays in a rate increase may have damaged the Federal Reserve's credibility as markets appear to have priced in a 25bps increase. The rate increase also allows some flexibility in the event of another recession. Long-term rates should increase gradually over time, but the Fed has less influence over long-term rates. Savers should not expect to see an immediate increase on the rate of return earned on their deposits. The Fed has been clear that they do not expect a rapid increase in rates, but rather a gradual increase over the next few years depending on market and economic conditions. Some projections point to a rate of 1.0% to 1.5% by the end of 2016, 2.4% in 2017, and 3.3% in 2018.

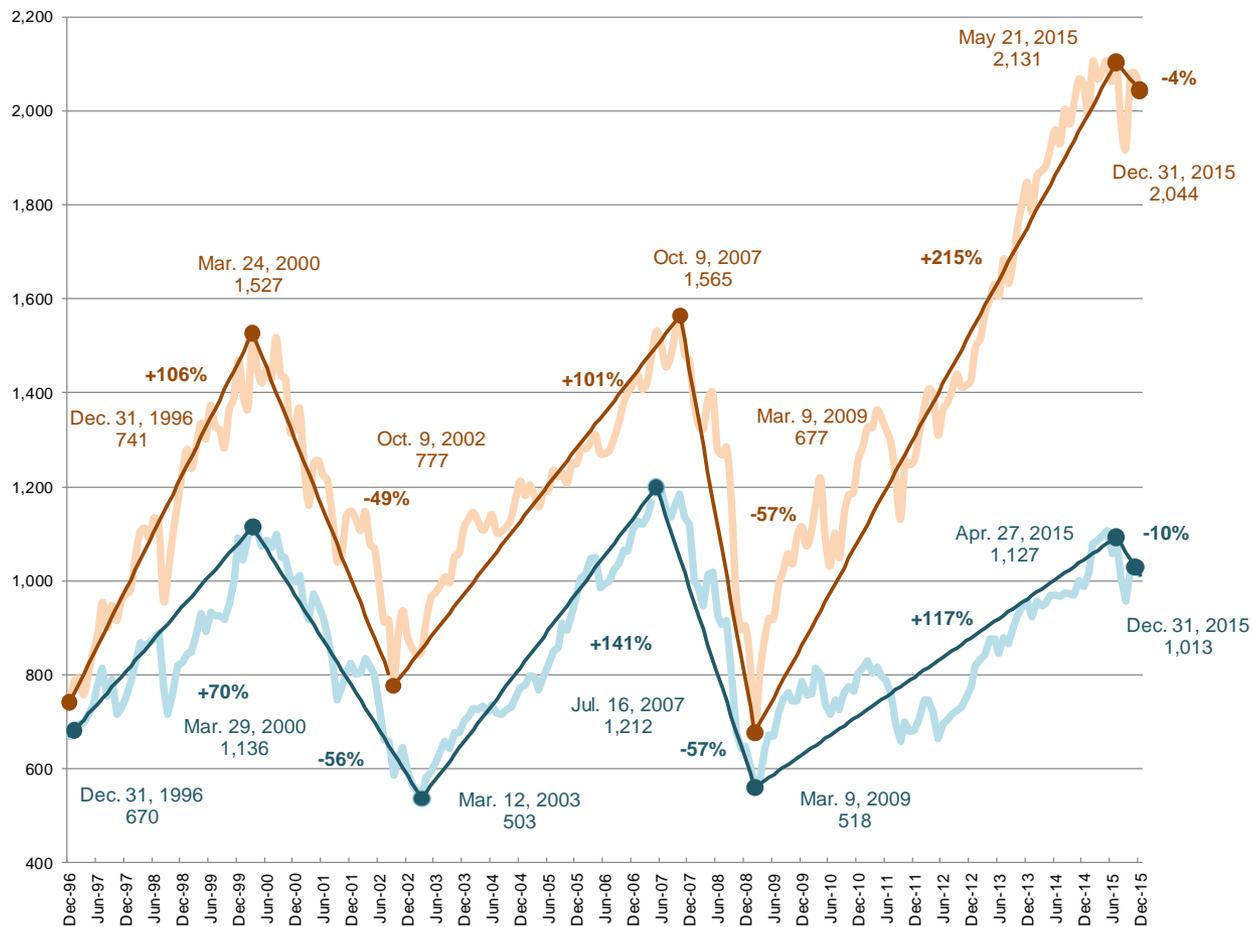
Capital Market Highlights

Capital Market Performance as of December 31, 2015



Capital Market Highlights

S&P 500 and MSCI EAFE at Inflection Points



S&P 500	P/E (fwd)
Dec. 31, 1996	16.0
Mar. 24, 2000	25.6
Oct. 9, 2002	14.1
Oct. 9, 2007	15.2
Mar. 9, 2009	10.3
May 21, 2015	19.4
Sept. 30, 2015	18.0
Dec. 31, 2015	19.0

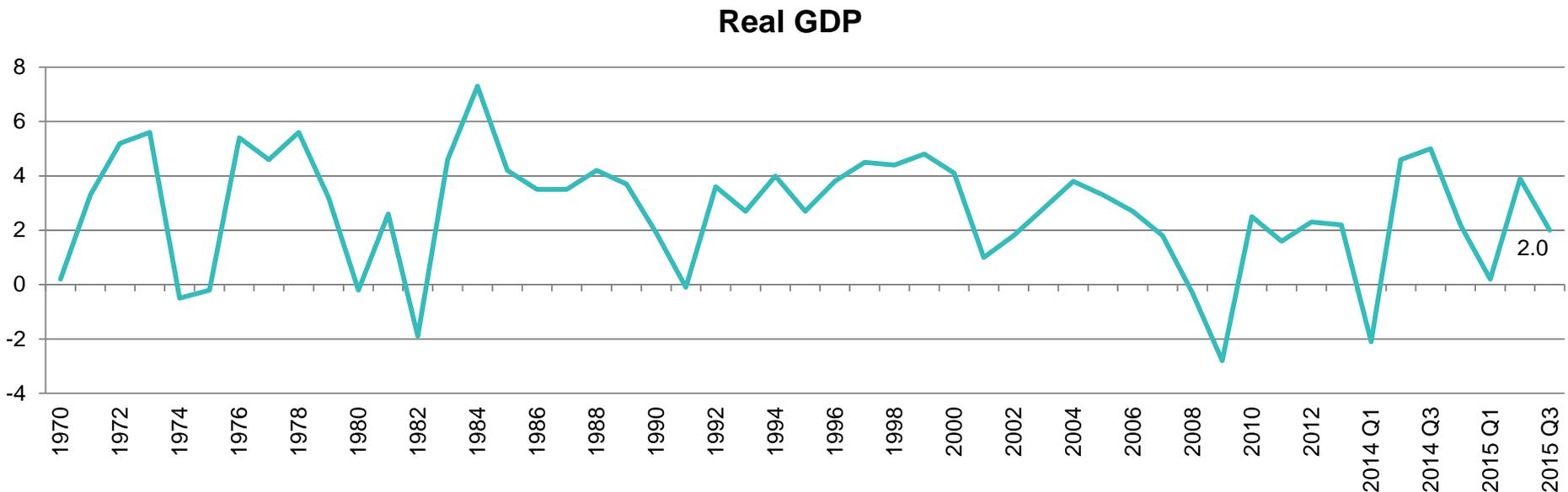
MSCI EAFE	P/E (fwd)
Dec. 31, 1996	19.5
Mar. 29, 2000	28.7
Mar. 12, 2003	13.2
Jul. 16, 2007	14.5
Mar. 9, 2009	10.2
Apr. 27, 2015	18.1
Sept. 30, 2015	15.2
Dec. 31, 2015	15.1

Source: Standard & Poor's,
Morgan Stanley Capital International,
J.P. Morgan Asset Management

Returns based on S&P 500 Index Price Movement and
MSCI EAFE Local Currency Index Price Movement

US Economy

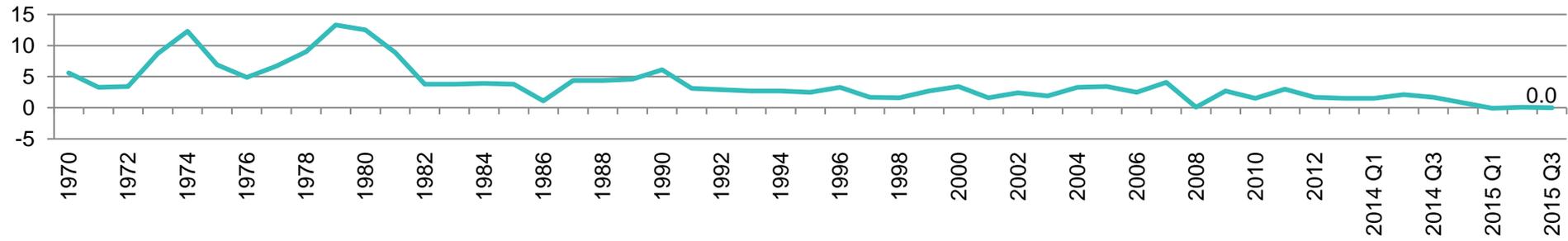
- The U.S. economy continues to progress, although annualized GDP slowed from 3.9% in the second quarter to 2.0% in the third quarter. Personal consumption expenditures, state and local government spending, fixed investment, and exports were among the largest contributors to third quarter GDP. Inventory investment was a detractor during the quarter.
- GDP estimates put 2015 annual growth around 2.5% with slightly higher expectations for 2016. Fourth quarter GDP numbers have not been released.



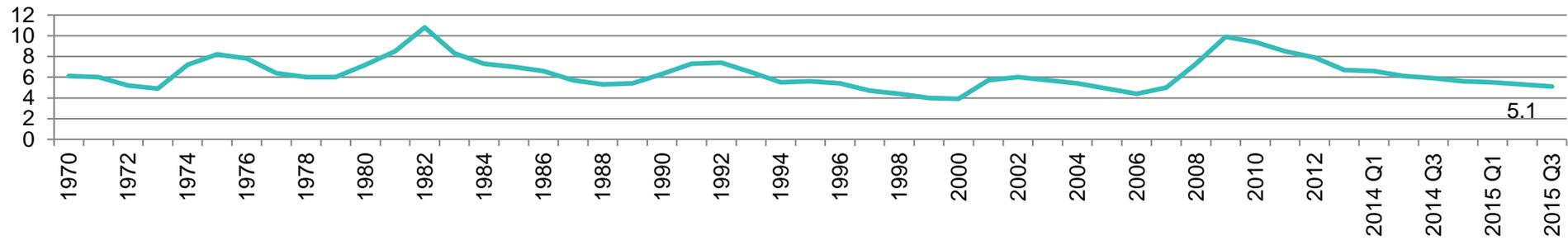
Source: BEA

US Economy

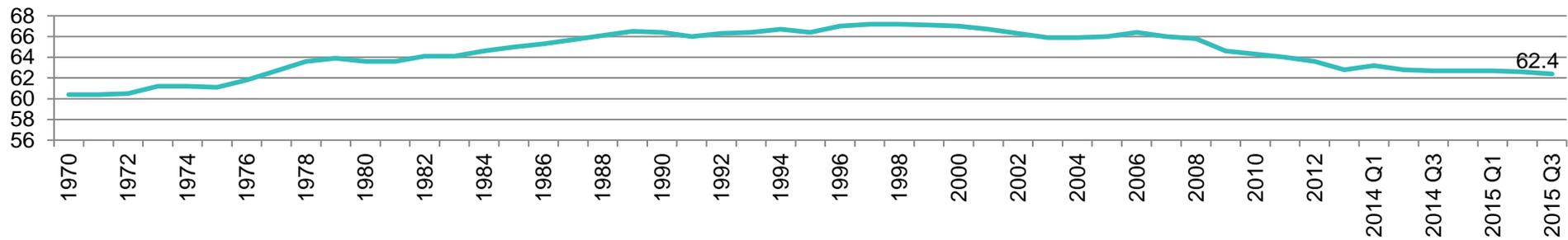
Headline CPI



Unemployment



Labor Force Participation Rate

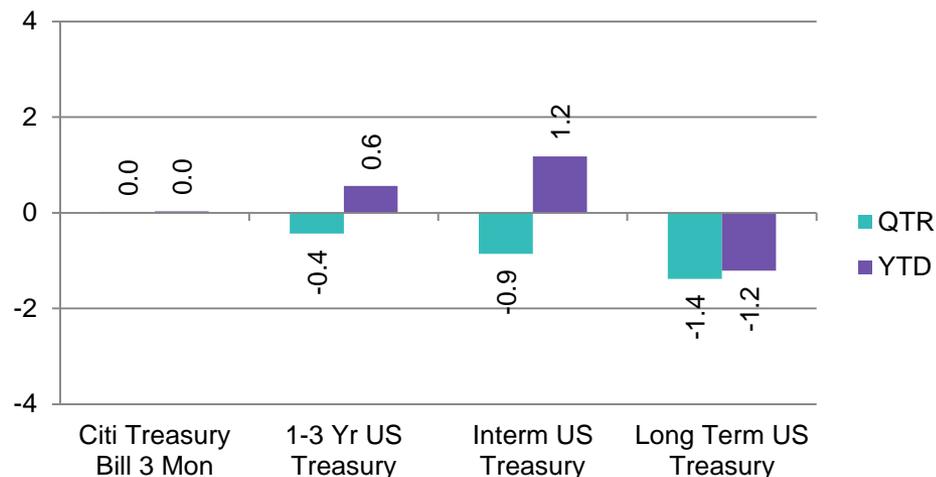


Source: BLS, St. Louis Federal Reserve

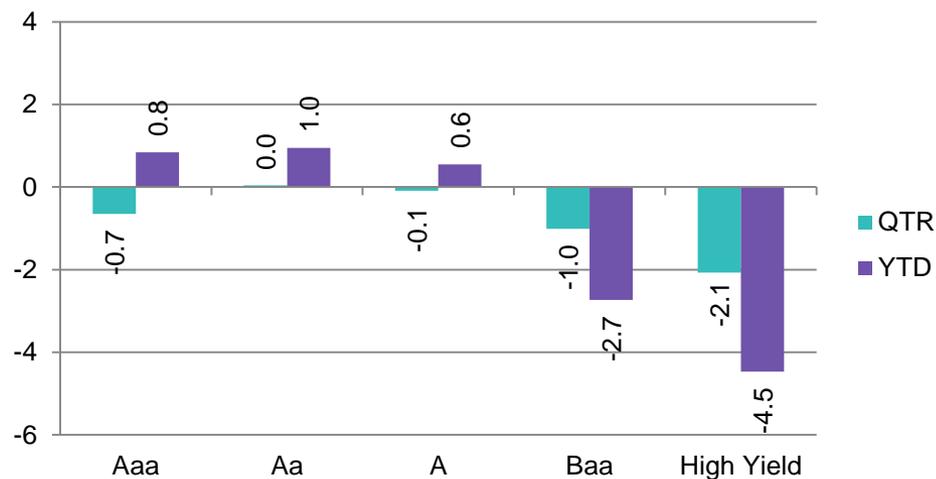
Fixed Income

- The interest rate hike by the Fed, uncertain global growth outlook, China's continued economic slowdown, ongoing price declines in commodities, and overall lack of investor confidence are major factors contributing to a decrease in yields and a widening of credit spreads.
- High Yield** continued its decline for the quarter, and underperformed investment grade fixed income. After bottoming in early February at 1.7%, the yield on 10 Year Treasury Notes has since rebounded, reaching 2.5% in June, and closing out 2015 at 2.3%.

Bond Performance by Maturity



Bond Performance by Quality

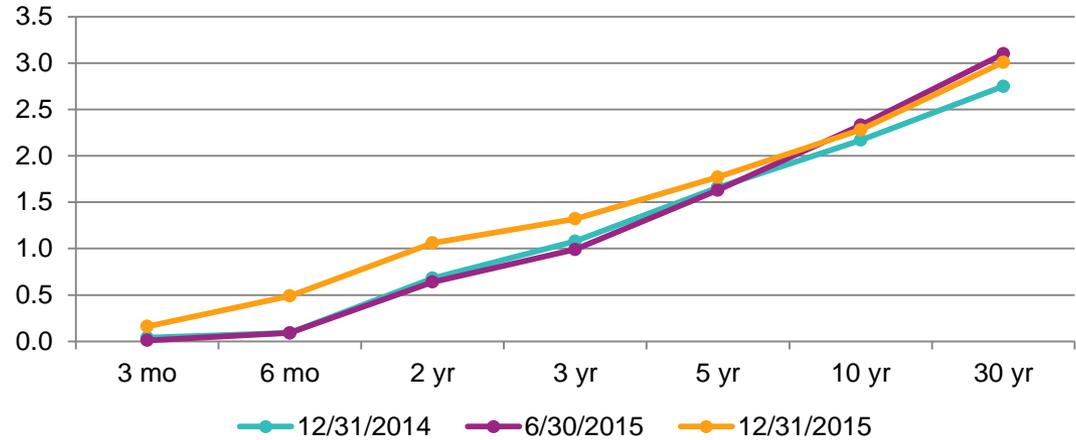


Source: Morningstar, Barclays Capital US Credit Indices

Fixed Income

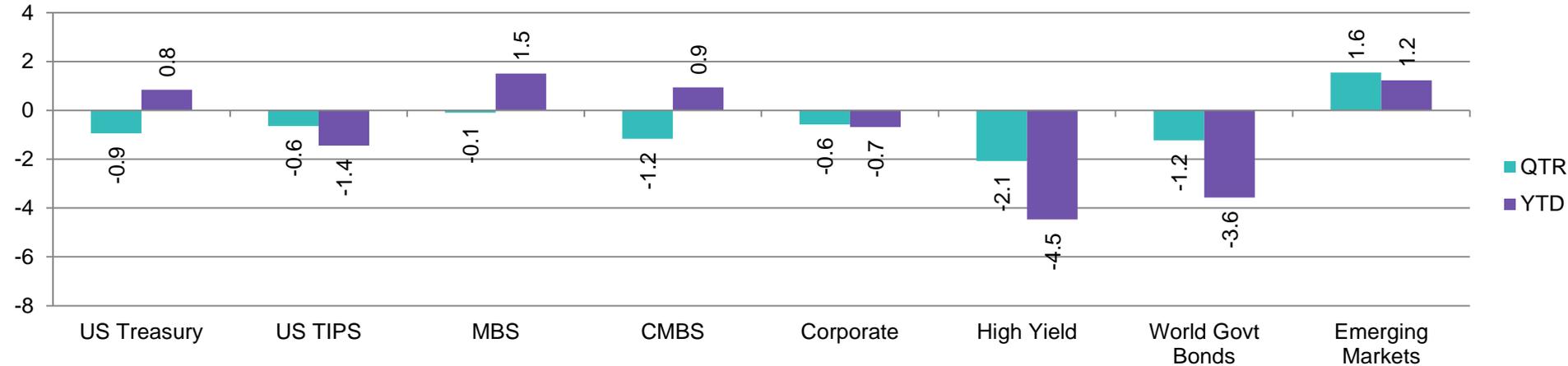
- The **Barclays Aggregate Index** returned -0.6% for the quarter.
- **Long Gov/Credit** and **Long Treasuries** returned -0.9% and -1.4% for the quarter, respectively.

US Treasury Yield Curve



Source: Barclays

Bond Performance by Sectors

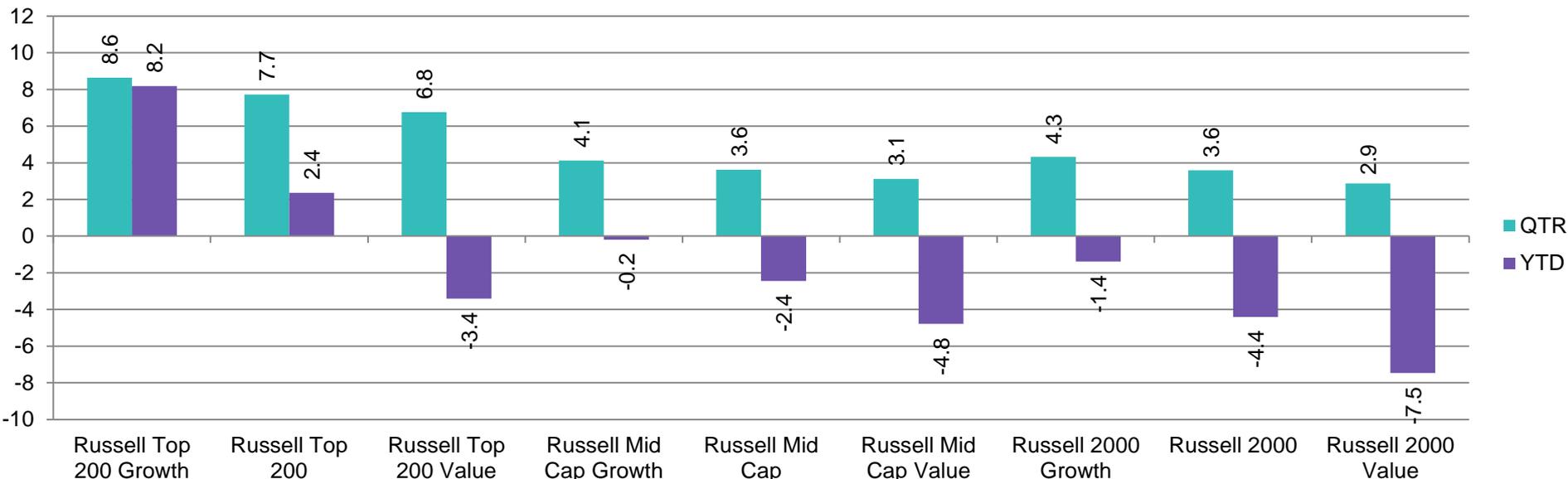


Source: Morningstar

Equities

- US Equities were up for the quarter, with the **S&P 500** returning +7.0%.
- In terms of market capitalization, large stocks (**Russell Top 200**) performed the best, returning +7.7% for the quarter. In comparison, mid- and small-cap returned +3.6% and +3.6%, respectively, as measured by the **Russell Mid Cap** and the **Russell 2000**.
- Stocks carried the volatility they experienced in the second quarter into the third quarter, although this time it was with upward momentum. Second quarter losses were lessened with positive third quarter returns. October produced strong results with returns close to zero in November and turning slightly negative in December.

US Stocks by Capitalization/Style

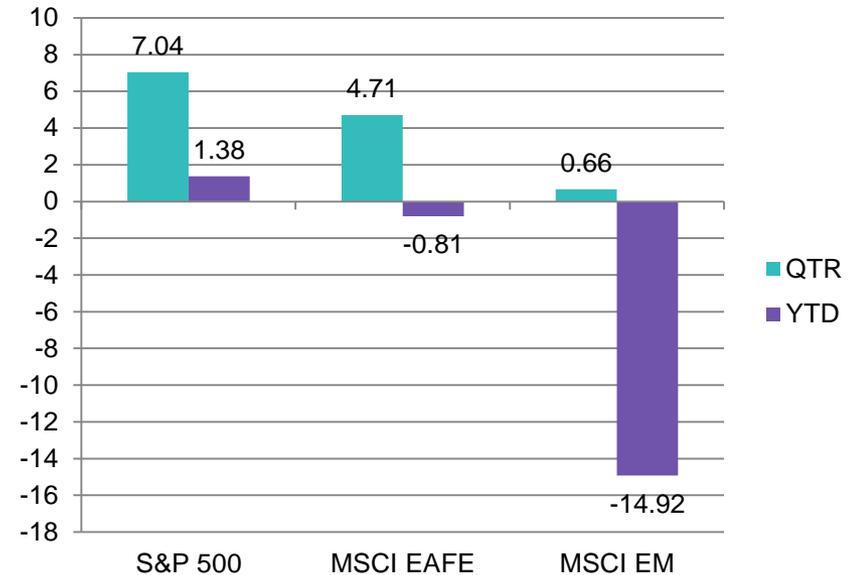


Source: Morningstar

Equities

- Returns in **International Equities** were positive over the quarter with developed market equities returning 4.7% for the fourth quarter.
- **Emerging Market Equities** were slightly in positive territory with a return of +0.7% in the fourth quarter.
- In the fourth quarter, European equities were positive. German equities gained +7.7%, Portugal gained +4.2%, and French equities gained +1.7%. Japan was one of the top performing developed markets with a +9.3% return for the quarter.

Global Stocks by Region



Source: Morningstar

Market Indices

For Periods Ended December 31, 2015

	3 Months Return	6 Months Return	9 Months Return	1 Year Return	2 Years *Return	3 Years *Return	4 Years *Return	5 Years *Return	10 Years *Return
S&P 500 Index	7.04	0.15	0.43	1.38	7.36	15.13	15.35	12.57	7.31
NASDAQ	8.71	1.01	3.06	6.96	10.79	19.81	19.21	14.91	9.61
MSCI EAFE Index	4.75	-5.92	-5.13	-0.39	-2.46	5.46	8.44	4.07	3.50
MSCI Emerging Markets Index	0.73	-17.18	-16.50	-14.60	-8.43	-6.42	-0.70	-4.47	3.95
MSCI All Country World ex USA	3.30	-9.20	-8.54	-5.25	-4.35	1.94	5.60	1.51	3.38
Russell 1000 Index	6.50	-0.78	-0.66	0.92	6.90	15.01	15.36	12.44	7.40
Russell Midcap Index	3.62	-4.68	-6.15	-2.44	5.10	14.18	14.95	11.44	8.00
Russell 2000 Index	3.59	-8.75	-8.37	-4.41	0.13	11.65	12.81	9.19	6.80
Russell 3000 Index	6.27	-1.43	-1.30	0.48	6.35	14.74	15.15	12.18	7.35
Russell 1000 Growth Index	7.32	1.64	1.76	5.67	9.30	16.83	16.43	13.53	8.53
Russell 1000 Value Index	5.64	-3.23	-3.13	-3.83	4.46	13.08	14.17	11.27	6.16
Russell Midcap Growth Index	4.12	-4.20	-5.29	-0.20	5.68	14.88	15.11	11.54	8.16
Russell Midcap Value Index	3.12	-5.17	-7.03	-4.78	4.53	13.40	14.65	11.25	7.61
Russell 2000 Growth Index	4.32	-9.31	-7.51	-1.38	2.05	14.28	14.36	10.67	7.95
Russell 2000 Value Index	2.88	-8.17	-9.27	-7.47	-1.80	9.06	11.24	7.67	5.57
NAREIT Equity REITs	7.26	9.40	-1.49	3.20	15.89	11.23	12.90	11.96	7.41
Barclays Capital Intermediate G/C Bond Index	-0.69	0.25	-0.37	1.07	2.09	1.10	1.79	2.58	4.04
Barclays Capital Long Term G/C Bond Index	-0.94	1.22	-6.45	-3.30	7.41	1.70	3.43	6.98	6.45
Barclays Capital Aggregate Bond Index	-0.57	0.65	-1.04	0.55	3.22	1.44	2.13	3.25	4.51
Barclays Capital U.S. TIPS	-0.64	-1.78	-2.82	-1.44	1.07	-2.27	-0.03	2.55	3.93
Barclays Capital U.S. Government	-0.91	0.78	-0.73	0.86	2.87	1.01	1.26	2.77	4.10
Barclays Capital U.S. Corporate Inv Grade	-0.58	0.24	-2.93	-0.68	3.31	1.67	3.65	4.53	5.29
Barclays Capital U.S. Corporate High Yield	-2.07	-6.82	-6.82	-4.47	-1.07	1.69	5.05	5.04	6.96
Citigroup Non-US WGBI USD	-1.38	0.30	-1.24	-5.54	-4.12	-4.27	-2.86	-1.30	3.05
JP Morgan EMBI Global Diversified USD	1.25	-0.47	-0.81	1.18	4.26	0.99	4.87	5.36	6.86
JP Morgan GBI EM Global Diversified USD	-0.01	-10.55	-11.41	-14.92	-10.44	-9.95	-3.91	-3.48	4.31
Citigroup 90-Day Treasury Bills	0.01	0.02	0.02	0.03	0.03	0.04	0.05	0.05	1.17
Citigroup Pension Liability Index	0.77	4.02	-7.50	-3.04	10.29	2.85	4.99	9.29	7.82

* Returns greater than one year are annualized.

Market Indices

Annual Returns

	2006 Return	2007 Return	2008 Return	2009 Return	2010 Return	2011 Return	2012 Return	2013 Return	2014 Return	2015 Return
S&P 500 Index	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69	1.38
NASDAQ	9.90	10.55	-40.03	45.32	18.02	-0.83	17.45	40.12	14.75	6.96
MSCI EAFE Index	26.86	11.63	-43.06	32.46	8.21	-11.73	17.90	23.29	-4.48	-0.39
MSCI Emerging Markets Index	32.55	39.82	-53.18	79.02	19.20	-18.17	18.63	-2.27	-1.82	-14.60
MSCI All Country World ex USA	27.16	17.12	-45.24	42.14	11.60	-13.33	17.39	15.78	-3.44	-5.25
Russell 1000 Index	15.46	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	13.24	0.92
Russell Midcap Index	15.26	5.60	-41.46	40.48	25.48	-1.55	17.28	34.76	13.22	-2.44
Russell 2000 Index	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89	-4.41
Russell 3000 Index	15.72	5.14	-37.31	28.34	16.93	1.03	16.42	33.55	12.56	0.48
Russell 1000 Growth Index	9.07	11.81	-38.44	37.21	16.71	2.64	15.26	33.48	13.05	5.67
Russell 1000 Value Index	22.25	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	13.45	-3.83
Russell Midcap Growth Index	10.66	11.43	-44.32	46.29	26.38	-1.65	15.81	35.74	11.90	-0.20
Russell Midcap Value Index	20.22	-1.42	-38.44	34.21	24.75	-1.38	18.51	33.46	14.75	-4.78
Russell 2000 Growth Index	13.35	7.05	-38.54	34.47	29.09	-2.91	14.59	43.30	5.60	-1.38
Russell 2000 Value Index	23.48	-9.78	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22	-7.47
NAREIT Equity REITs	35.06	-15.69	-37.73	27.99	27.96	8.29	18.06	2.47	30.14	3.20
Barclays Capital Intermediate G/C Bond Index	4.08	7.39	5.08	5.24	5.89	5.80	3.89	-0.86	3.13	1.07
Barclays Capital Long Term G/C Bond Index	2.71	6.60	8.44	1.92	10.16	22.49	8.78	-8.83	19.31	-3.30
Barclays Capital Aggregate Bond Index	4.33	6.97	5.24	5.93	6.54	7.84	4.21	-2.02	5.97	0.55
Barclays Capital U.S. TIPS	0.41	11.64	-2.35	11.41	6.31	13.56	6.98	-8.61	3.64	-1.44
Barclays Capital U.S. Government	3.48	8.66	12.39	-2.20	5.52	9.02	2.02	-2.60	4.92	0.86
Barclays Capital U.S. Corporate Inv Grade	4.30	4.56	-4.94	18.68	9.00	8.15	9.82	-1.53	7.46	-0.68
Barclays Capital U.S. Corporate High Yield	11.85	1.87	-26.16	58.21	15.12	4.98	15.81	7.44	2.45	-4.47
Citigroup Non-US WGBI USD	6.94	11.45	10.11	4.39	5.21	5.17	1.51	-4.56	-2.68	-5.54
JP Morgan EMBI Global Diversified USD	9.86	6.16	-12.03	29.82	12.24	7.35	17.44	-5.25	7.43	1.18
JP Morgan GBI EM Global Diversified USD	15.22	18.11	-5.22	21.98	15.68	-1.75	16.76	-8.98	-5.72	-14.92
Citigroup 90-Day Treasury Bills	4.76	4.74	1.80	0.16	0.13	0.08	0.07	0.05	0.03	0.03
Citigroup Pension Liability Index	0.25	-2.89	17.57	4.61	13.76	28.33	11.66	-10.55	25.44	-3.04