

# Investment Market Review

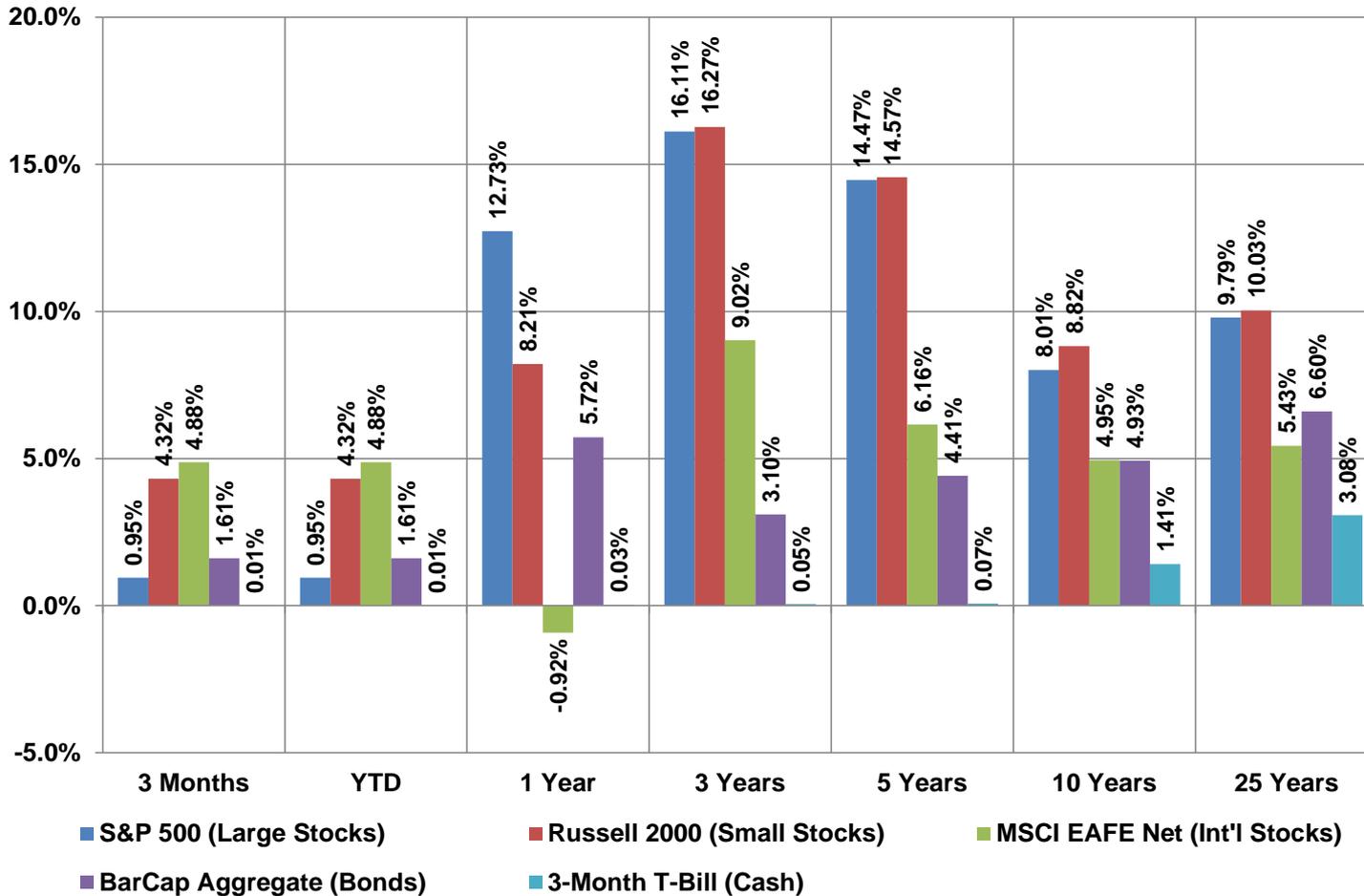
## First Quarter 2015

# Capital Market Highlights

- U.S. stocks produced positive returns during the first quarter with the S&P 500 index up 0.95%. U.S. bonds also produced positive returns during the first quarter with the Barclay's Capital US Aggregate index up 1.61%.
- Returns on emerging markets stocks were positive during the first quarter with the MSCI Emerging Markets index returning 2.24%. Emerging markets debt also posted positive returns during the first quarter with the JP Morgan Emerging Markets Bond index returning 2.06%. Investment managers and plans with emerging markets stock and emerging markets debt exposure tended to outperform peers with smaller allocations during the most recent quarter.
- The Federal Reserve dropped the word "patient" from its statements during the March meeting, which opens the door to begin normalizing rates. The consensus view for short-term interest rate increases points to the second half of 2015. Inflation has moved closer to the Fed's threshold, although it dropped sharply in the fourth quarter, and unemployment has steadily been decreasing closer to the natural rate.

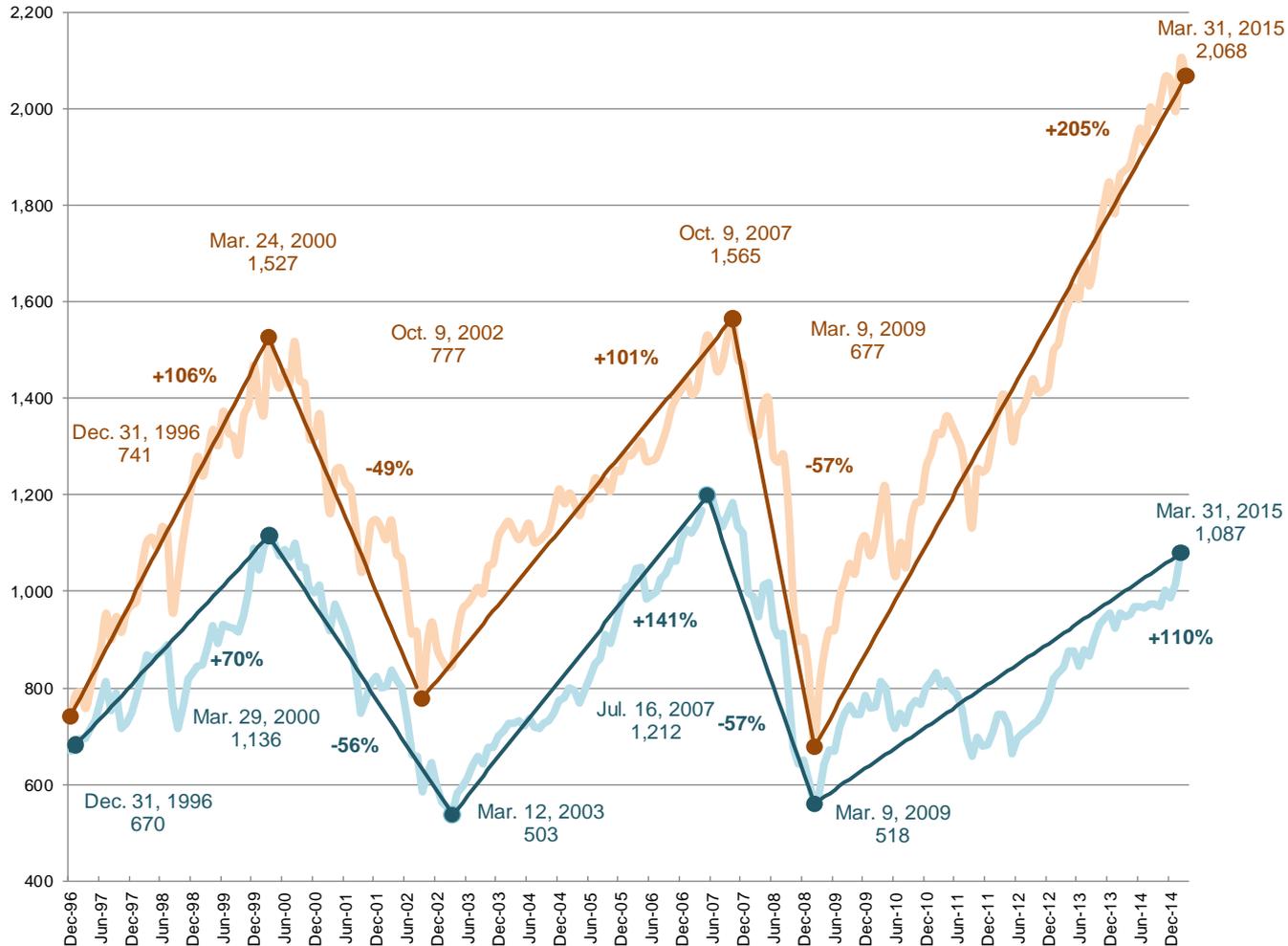
# Capital Market Highlights

## Capital Market Performance as of March 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
Mar. 31, 2015	16.9

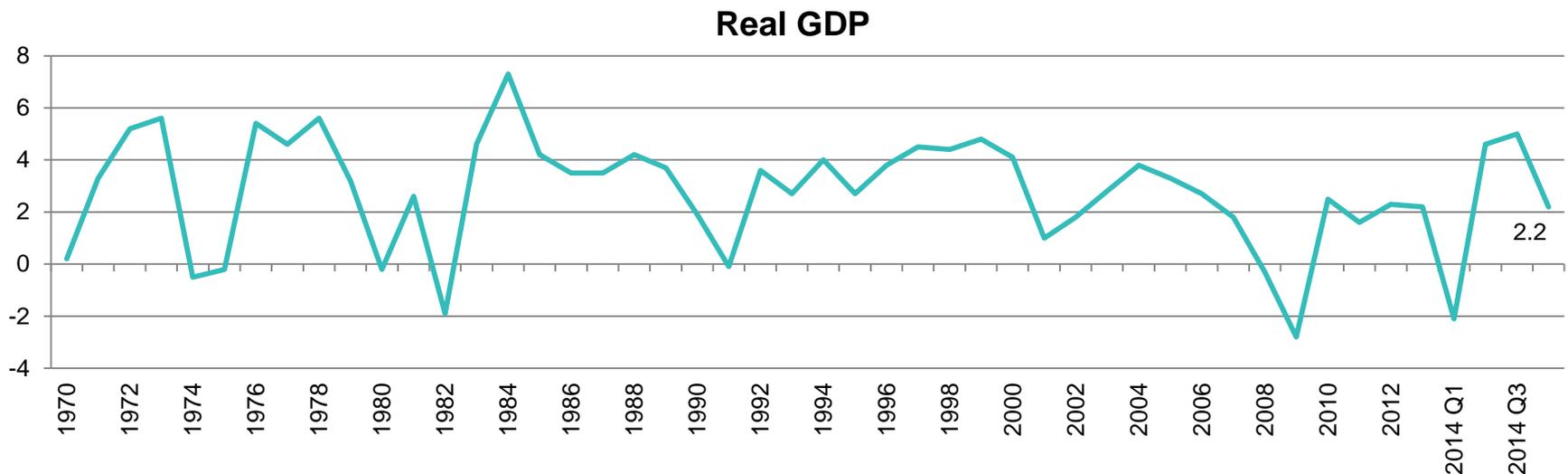
MSCI EAFE	P/E (fwd)
Dec. 31, 1996	19.5
Mar. 29, 2000	28.7
Mar. 12, 2003	13.2
Jul. 16, 2007	14.5
Mar. 9, 2009	10.2
Mar. 31, 2015	16.0

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

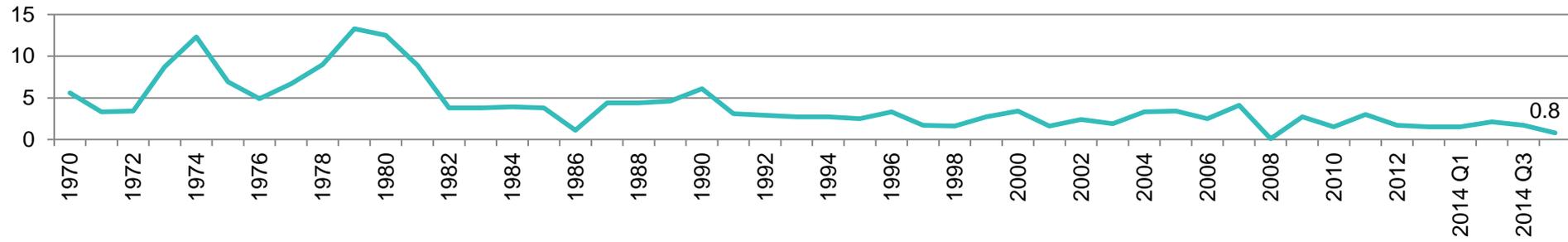
- The U.S. economy continues to grow. Annualized GDP growth was 2.2% during the fourth quarter of 2014, down from 5.0% in the third quarter. It is interesting to note that quarterly contractions in GDP greater than -1.5%, which occurred in the first quarter of 2014, have historically been associated with a recession. Personal consumption expenditures, state and local government spending, and exports were among the largest contributors to fourth quarter GDP. Detractors included increased imports and federal government spending.
- First quarter estimates point to GDP growth of 1.4%, before normalizing closer to 3% for the remainder of 2015. First quarter GDP numbers have not been released.



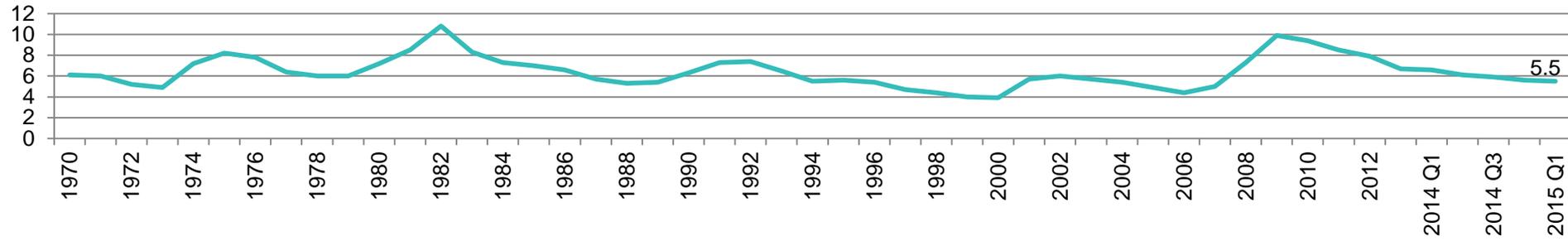
Source: BEA

# US Economy

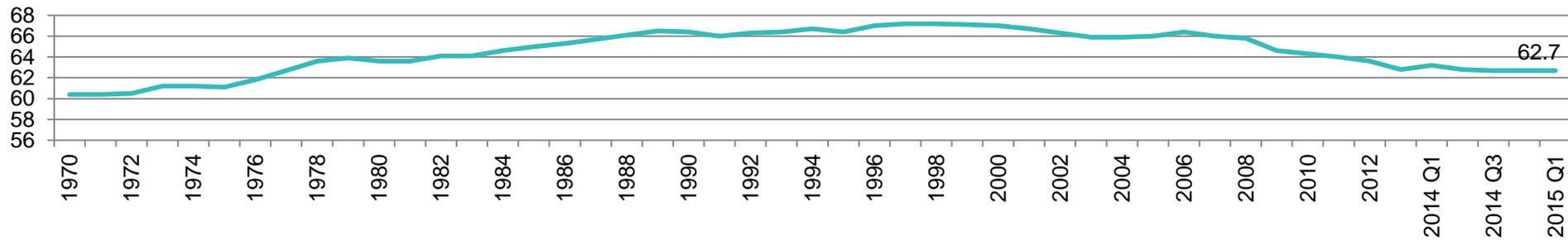
## Headline CPI



## Unemployment



## Labor Force Participation Rate

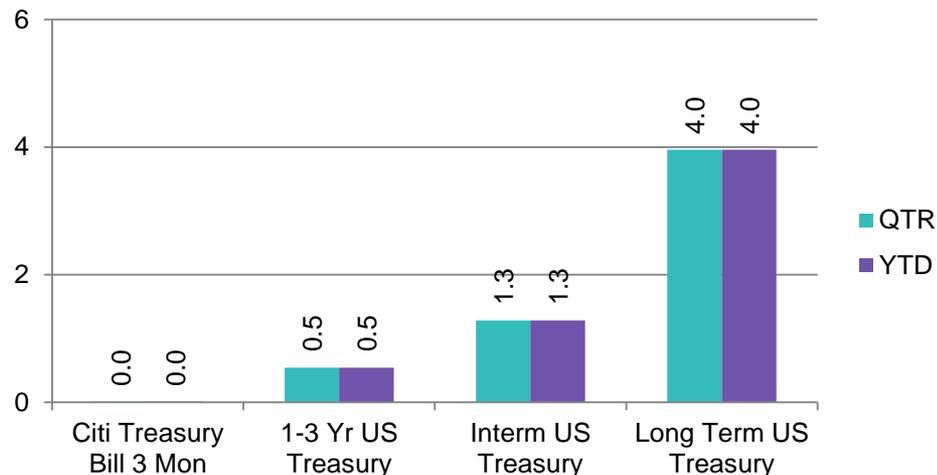


Source: BLS, St. Louis Federal Reserve

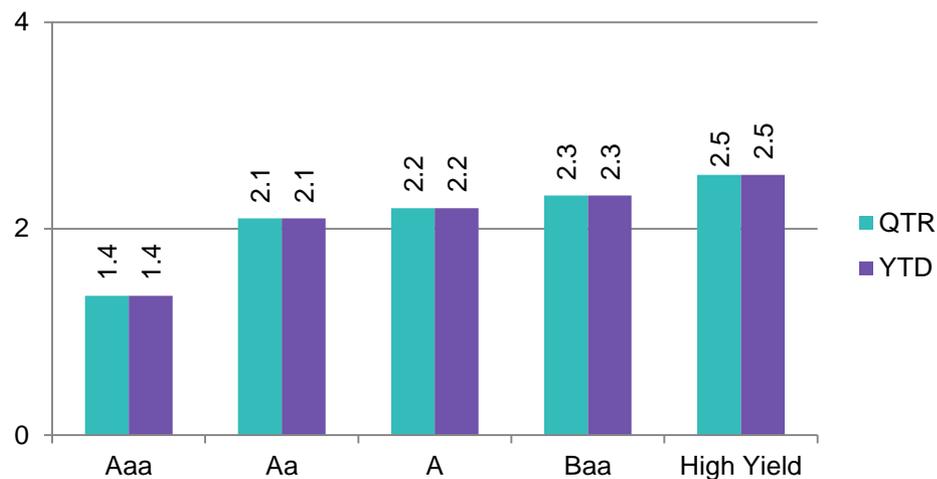
# Fixed Income

- The Federal Reserve dropped the word “patient” from its statements during the March meeting, which opens the door to begin normalizing rates. Since 2009 the Federal Reserve has added more than \$3.5 trillion to its balance sheet. Yellen has gone to great lengths to assure markets rates will stay near zero for some time following the end of QE. With inflationary pressure low, foreign economies slowing, and lower than expected GDP growth, the Fed may not feel pressure to raise rates as early as they anticipated. The previous consensus for rate increases was June 2015, but weak data now points to September or later.
- **High Yield** reversed course from the fourth quarter, outperforming investment grade fixed income. The pick up in employment and the potential for the Fed to end its near zero rates may put pressure on rates. However, the yield on 10 Year Treasury Notes has been sliding closer to 2% since the end of the third quarter 2014, with much of the first quarter under 2%.

### Bond Performance by Maturity



### Bond Performance by Quality

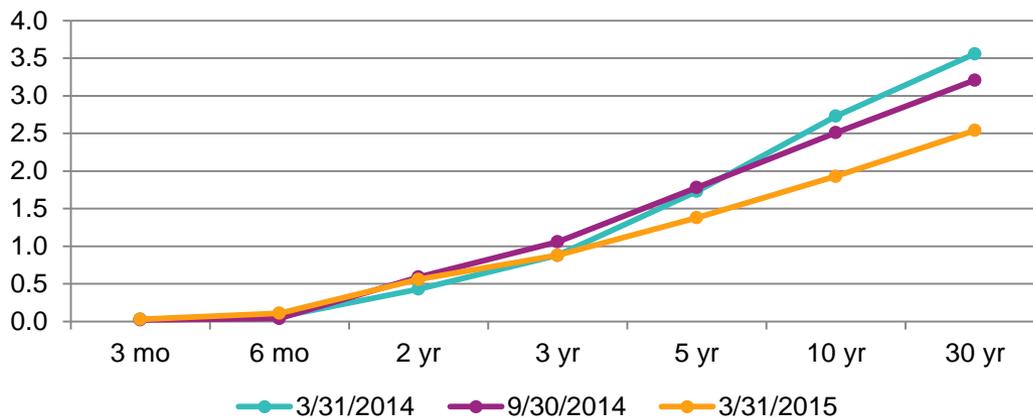


Source: Morningstar, Barclays Capital US Credit Indices

# Fixed Income

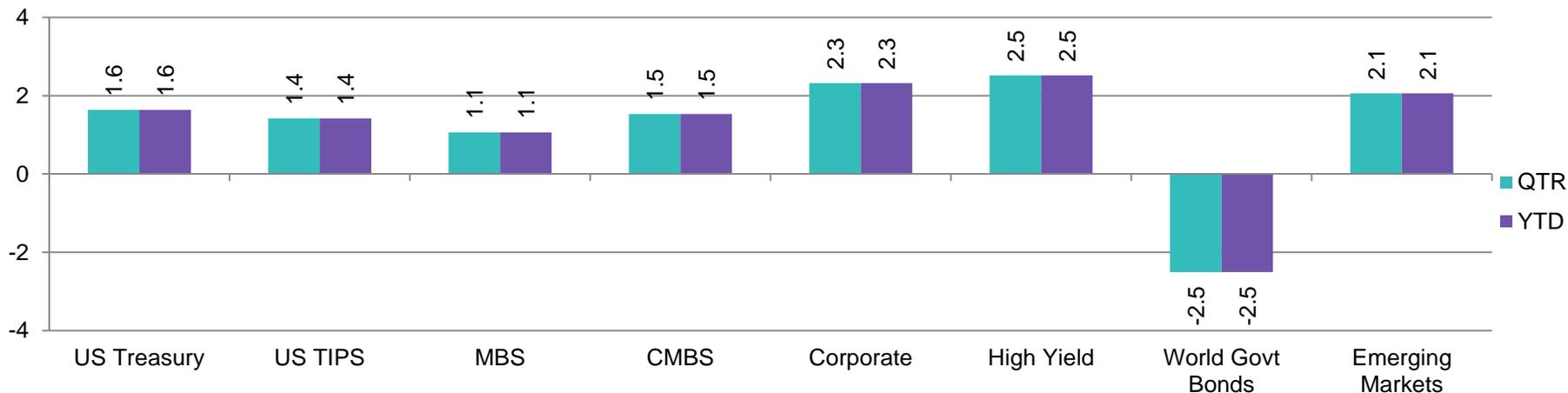
- The **Barclays Aggregate Index** returned 1.61% for the quarter. Treasuries decreased through January, rose in February, and fell again through March.
- Long duration sectors generated the strongest returns, bolstered by lower rates and a flattening yield curve. **Long Gov/Credit** and **Long Treasuries** returned 3.36% and 3.96% for the quarter, respectively.

## US Treasury Yield Curve



Source: Barclays

## Bond Performance by Sectors

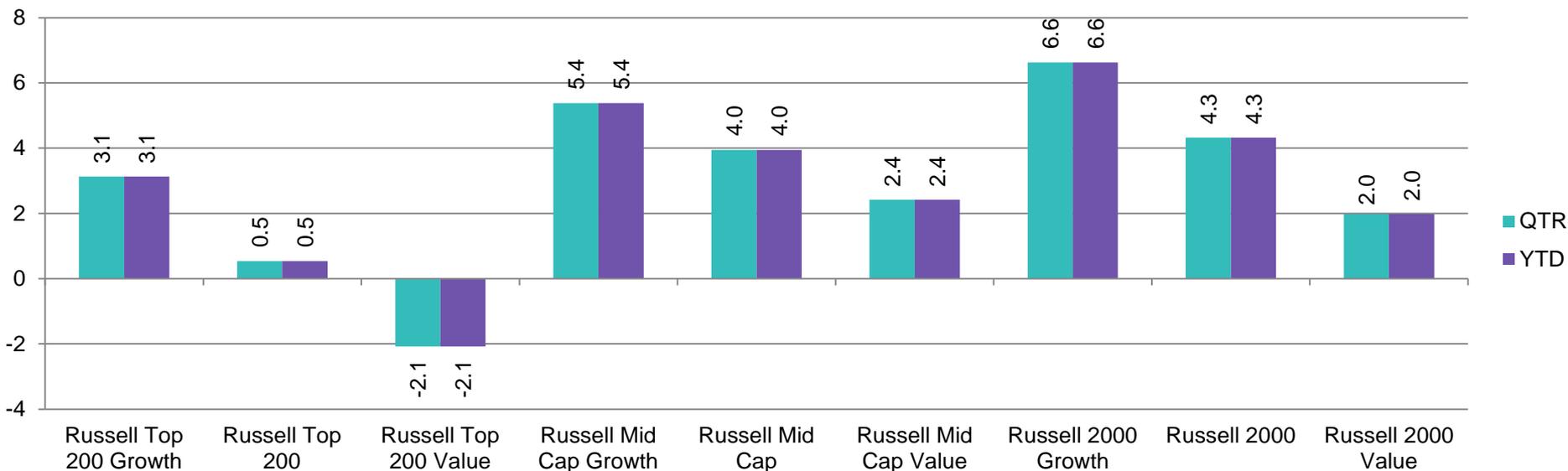


Source: Morningstar

# Equities

- US Equities were up for the quarter, with the **S&P 500** returning 0.95%.
- In terms of market capitalization, large stocks (**Russell Top 200**) performed the worst, returning 0.54% for the quarter. In comparison, mid- and small-cap returned 3.95% and 4.32%, respectively, as measured by the **Russell Mid Cap** and the **Russell 2000**.
- The ongoing easy money policies have helped US equities, and inflation concerns remain low allowing for continued aggressive monetary policies. Although inflation has increased slightly in the first half of 2014, it remains near the Fed's target rate of 2%. Fourth quarter inflation came in at 0.8% down from 1.7% in the third quarter.

**US Stocks by Capitalization/Style**

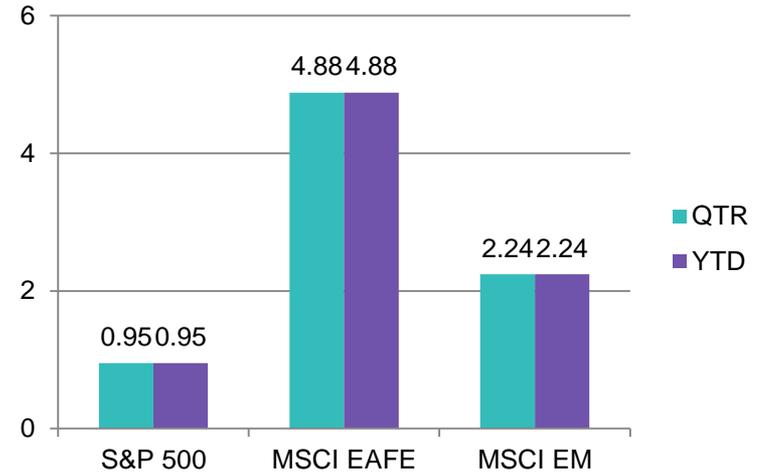


Source: Morningstar

# Equities

- Returns in **International Equities** were positive over the quarter with developed market equities returning 4.88% for the first quarter.
- **Emerging Market Equities** underperformed their developed counterparts. The asset class was up 2.24% in the first quarter.
- In the first quarter, European equities turned positive following disappointing 2014 performance. French equities gained 4.70% while German equities gained 8.28%. Portugal returned 7.27%. Japan was one of the better performing developed markets with a 10.21% return for the quarter.
- **European (ex UK) Equities** performed well as a region and returned 5.50% for the first quarter. The ECB continues to struggle with the threat of deflation.

## Global Stocks by Region



Source: Morningstar

# Annual Asset Class Returns - Best to Worst

2008	2009	2010	2011	2012	2013	2014	YTD 2015
Core Bond 5.24%	Emrg Mrkts 78.51%	REITs 26.97%	U.S. TIPS 13.56%	Emrg Mrkts 18.22%	U.S. Equity 33.55%	REITs 28.82%	Developed 4.88%
T-Bills 1.80%	High Yield 58.21%	Emrg Mrkts 18.88%	Core Bond 7.84%	Developed 17.32%	Developed 22.78%	U.S. Equity 12.56%	REITs 4.48%
U.S. TIPS -2.35%	Developed 31.78%	U.S. Equity 16.93%	REITs 7.48%	REITs 16.47%	High Yield 7.44%	Core Bond 5.97%	High Yield 2.52%
High Yield -26.16%	U.S. Equity 28.34%	High Yield 15.12%	High Yield 4.98%	U.S. Equity 16.43%	REITs 1.26%	U.S. TIPS 3.64%	Emrg Mrkts 2.24%
U.S. Equity -37.31%	REITs 26.27%	Developed 7.75%	U.S. Equity 1.03%	High Yield 15.81%	T-Bills 0.05%	High Yield 2.45%	U.S. Equity 1.80%
REITs -39.05%	U.S. TIPS 11.41%	Core Bond 6.54%	T-Bills 0.08%	U.S. TIPS 6.98%	Core Bond -2.02%	T-Bills 0.03%	Core Bond 1.61%
Developed -43.38%	Core Bond 5.93%	U.S. TIPS 6.31%	Developed -12.14%	Core Bond 4.21%	Emrg Mrkts -2.60%	Emrg Mrkts -2.19%	U.S. TIPS 1.42%
Emrg Mrkts -53.33%	T-Bills 0.16%	T-Bills 0.13%	Emrg Mrkts -18.42%	T-Bills 0.07%	U.S. TIPS -8.61%	Developed -4.90%	T-Bills 0.01%

# Annual Bond Returns - Best to Worst

2008	2009	2010	2011	2012	2013	2014	YTD 2015
Treasuries 13.74%	Corp High Yield 58.21%	CMBS 19.27%	TIPS 13.56%	Emerg Mkt Debt 18.54%	Corp High Yield 7.44%	Corp Inv Grade 7.46%	Corp High Yield 2.52%
Global Govt 10.89%	Emerg Mkt Debt 28.18%	Corp High Yield 15.12%	Treasuries 9.81%	Corp High Yield 15.81%	T-Bills 0.05%	MBS 6.08%	Corp Inv Grade 2.32%
MBS 8.34%	CMBS 26.10%	Emerg Mkt Debt 12.04%	Emerg Mkt Debt 8.46%	Corp Inv Grade 9.82%	CMBS -0.11%	Emerg Mkt Debt 5.53%	Emerg Mkt Debt 2.06%
T-Bills 1.80%	Corp Inv Grade 18.68%	Corp Inv Grade 9.00%	Corp Inv Grade 8.15%	CMBS 9.06%	MBS -1.41%	Treasuries 5.05%	Treasuries 1.64%
TIPS -2.35%	TIPS 11.41%	TIPS 6.31%	CMBS 6.68%	TIPS 6.98%	Corp Inv Grade -1.53%	TIPS 3.64%	CMBS 1.53%
Corp Inv Grade -4.94%	MBS 5.89%	Treasuries 5.87%	Global Govt 6.35%	MBS 2.59%	Treasuries -2.75%	CMBS 3.04%	TIPS 1.42%
Emerg Mkt Debt -10.91%	Global Govt 2.55%	MBS 5.37%	MBS 6.23%	Treasuries 1.99%	Global Govt -4.00%	Corp High Yield 2.45%	MBS 1.06%
CMBS -17.01%	T-Bills 0.16%	Global Govt 5.17%	Corp High Yield 4.98%	Global Govt 1.65%	Emerg Mkt Debt -6.58%	T-Bills 0.03%	T-Bills 0.01%
Corp High Yield -26.16%	Treasuries -3.57%	T-Bills 0.13%	T-Bills 0.08%	T-Bills 0.07%	TIPS -8.61%	Global Govt -0.48%	Global Govt -2.51%

# Annual Equity Returns - Best to Worst

2008	2009	2010	2011	2012	2013	2014	YTD 2015
Russell 2500 Value -31.99%	MSCI EM Small 113.79%	Russell 2500 Growth 28.86%	S&P 500 Growth 4.65%	MSCI EM Small 22.22%	Russell 2500 Growth 40.65%	S&P 500 Growth 14.89%	Russell 2500 Growth 7.44%
S&P 500 Growth -34.92%	MSCI EM Large 75.92%	MSCI Frontier EM 28.65%	S&P 500 2.11%	MSCI Frontier EM 20.87%	Russell 2500 36.80%	S&P 500 13.69%	MSCI EAFE Small 5.56%
Russell 2500 -36.79%	MSCI EAFE Small 46.78%	MSCI EM Small 27.17%	S&P 500 Value -0.48%	MSCI EAFE Small 20.00%	Russell 2500 Value 33.32%	S&P 500 Value 12.36%	Russell 2500 5.17%
S&P 500 -37.00%	Russell 2500 Growth 41.66%	Russell 2500 26.71%	Russell 2500 Growth -1.57%	Russell 2500 Value 19.21%	S&P 500 Growth 32.75%	MSCI Frontier EM 7.20%	MSCI EAFE Large 4.71%
S&P 500 Value -39.22%	Russell 2500 34.39%	Russell 2500 Value 24.82%	Russell 2500 -2.51%	Russell 2500 17.88%	S&P 500 32.39%	Russell 2500 Value 7.11%	MSCI EM Small 3.59%
Russell 2500 Growth -41.50%	S&P 500 Growth 31.57%	MSCI EAFE Small 22.04%	Russell 2500 Value -3.36%	MSCI EM Large 17.79%	S&P 500 Value 31.99%	Russell 2500 7.07%	Russell 2500 Value 3.02%
MSCI EAFE Large -43.10%	MSCI EAFE Large 31.36%	MSCI EM Large 18.34%	MSCI EAFE Large -11.75%	S&P 500 Value 17.68%	MSCI EAFE Small 29.30%	Russell 2500 Growth 7.05%	S&P 500 Growth 2.47%
MSCI EAFE Small -47.01%	Russell 2500 Value 27.68%	S&P 500 Value 15.10%	MSCI EAFE Small -15.94%	MSCI EAFE Large 17.17%	MSCI EAFE Large 22.44%	MSCI EM Small 1.01%	MSCI EM Large 2.14%
MSCI EM Large -52.75%	S&P 500 26.46%	S&P 500 15.06%	MSCI Frontier EM -17.55%	Russell 2500 Growth 16.13%	MSCI Frontier EM 4.28%	MSCI EM Large -2.11%	S&P 500 0.95%
MSCI Frontier EM -55.72%	MSCI Frontier EM 25.61%	S&P 500 Growth 15.05%	MSCI EM Large -17.65%	S&P 500 16.00%	MSCI EM Small 1.04%	MSCI EAFE Small -4.95%	S&P 500 Value -0.69%
MSCI EM Small -58.23%	S&P 500 Value 21.18%	MSCI EAFE Large 6.48%	MSCI EM Small -27.18%	S&P 500 Growth 14.61%	MSCI EM Large -2.55%	MSCI EAFE Large -5.54%	MSCI Frontier EM -2.42%

# Market Indices

## For Periods Ended March 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	0.95	5.93	7.12	12.73	17.21	16.11	14.17	14.47	8.01
NASDAQ	3.79	9.70	12.16	18.12	24.00	18.11	16.63	16.72	10.36
MSCI EAFE Index	5.00	1.29	-4.62	-0.48	8.40	9.52	5.61	6.64	5.43
MSCI Emerging Markets Index	2.28	-2.26	-5.54	0.79	-0.15	0.67	-1.72	2.08	8.82
MSCI All Country World ex USA	3.59	-0.36	-5.53	-0.57	5.91	6.89	3.30	5.29	5.93
Russell 1000 Index	1.59	6.55	7.25	12.73	17.47	16.45	14.24	14.73	8.34
Russell Midcap Index	3.95	10.13	8.30	13.68	18.50	18.10	14.21	16.16	10.02
Russell 2000 Index	4.32	14.46	6.04	8.21	16.26	16.27	11.92	14.57	8.82
Russell 3000 Index	1.80	7.13	7.15	12.37	17.38	16.43	14.05	14.71	8.38
Russell 1000 Growth Index	3.84	8.81	10.42	16.09	19.60	16.34	14.99	15.63	9.36
Russell 1000 Value Index	-0.72	4.22	4.02	9.33	15.29	16.44	13.41	13.75	7.21
Russell Midcap Growth Index	5.38	11.53	10.72	15.56	19.81	17.41	14.02	16.43	10.19
Russell Midcap Value Index	2.42	8.62	5.75	11.70	17.19	18.60	14.29	15.84	9.61
Russell 2000 Growth Index	6.63	17.36	10.16	12.06	19.39	17.74	13.22	16.58	10.02
Russell 2000 Value Index	1.98	11.56	2.00	4.43	13.17	14.79	10.60	12.54	7.53
NAREIT Equity REITs	4.75	19.63	15.87	23.95	13.63	14.18	13.84	15.74	9.61
Barclays Capital Intermediate G/C Bond Index	1.45	2.35	2.32	3.58	1.71	2.31	3.24	3.52	4.34
Barclays Capital Long Term G/C Bond Index	3.36	9.15	10.29	15.73	7.10	7.71	10.64	10.20	7.72
Barclays Capital Aggregate Bond Index	1.61	3.43	3.60	5.72	2.77	3.10	4.24	4.41	4.93
Barclays Capital U.S. TIPS	1.42	1.40	-0.67	3.11	-1.81	0.63	3.40	4.29	4.55
Barclays Capital U.S. Government	1.60	3.49	3.83	5.22	1.98	2.32	3.69	3.80	4.50
Barclays Capital U.S. Corporate Inv Grade	2.32	4.12	4.04	6.81	4.11	5.21	6.26	6.50	5.90
Barclays Capital U.S. Corporate High Yield	2.52	1.49	-0.40	2.00	4.73	7.46	7.20	8.59	8.18
Citigroup Non-US WGBI USD	-4.36	-7.14	-12.14	-9.82	-3.89	-3.32	-1.55	0.38	2.51
JP Morgan EMBI Global Diversified USD	2.01	1.45	0.85	5.65	3.07	5.37	6.73	7.10	8.11
JP Morgan GBI EM Global Diversified USD	-3.96	-9.44	-14.57	-11.14	-9.16	-3.86	-2.09	0.73	6.25
Citigroup 90-Day Treasury Bills	0.01	0.01	0.02	0.03	0.04	0.05	0.05	0.07	1.41
Citigroup Pension Liability Index	4.83	13.46	15.11	20.86	10.53	10.82	14.50	13.83	9.37

\* Returns greater than one year are annualized.

# Market Indices

## Annual Returns

	2005 Return	2006 Return	2007 Return	2008 Return	2009 Return	2010 Return	2011 Return	2012 Return	2013 Return	2014 Return
S&P 500 Index	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69
NASDAQ	1.37	9.90	10.55	-40.03	45.32	18.02	-0.83	17.45	40.12	14.75
MSCI EAFE Index	14.02	26.86	11.63	-43.06	32.46	8.21	-11.73	17.90	23.29	-4.48
MSCI Emerging Markets Index	34.54	32.55	39.82	-53.18	79.02	19.20	-18.17	18.63	-2.27	-1.82
MSCI All Country World ex USA	17.11	27.16	17.12	-45.24	42.14	11.60	-13.33	17.39	15.78	-3.44
Russell 1000 Index	6.27	15.46	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	13.24
Russell Midcap Index	12.65	15.26	5.60	-41.46	40.48	25.48	-1.55	17.28	34.76	13.22
Russell 2000 Index	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89
Russell 3000 Index	6.12	15.72	5.14	-37.31	28.34	16.93	1.03	16.42	33.55	12.56
Russell 1000 Growth Index	5.26	9.07	11.81	-38.44	37.21	16.71	2.64	15.26	33.48	13.05
Russell 1000 Value Index	7.05	22.25	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	13.45
Russell Midcap Growth Index	12.10	10.66	11.43	-44.32	46.29	26.38	-1.65	15.81	35.74	11.90
Russell Midcap Value Index	12.65	20.22	-1.42	-38.44	34.21	24.75	-1.38	18.51	33.46	14.75
Russell 2000 Growth Index	4.15	13.35	7.05	-38.54	34.47	29.09	-2.91	14.59	43.30	5.60
Russell 2000 Value Index	4.71	23.48	-9.78	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22
NAREIT Equity REITs	12.16	35.06	-15.69	-37.73	27.99	27.96	8.29	18.06	2.47	30.14
Barclays Capital Intermediate G/C Bond Index	1.58	4.08	7.39	5.08	5.24	5.89	5.80	3.89	-0.86	3.13
Barclays Capital Long Term G/C Bond Index	5.33	2.71	6.60	8.44	1.92	10.16	22.49	8.78	-8.83	19.31
Barclays Capital Aggregate Bond Index	2.43	4.33	6.97	5.24	5.93	6.54	7.84	4.21	-2.02	5.97
Barclays Capital U.S. TIPS	2.84	0.41	11.64	-2.35	11.41	6.31	13.56	6.98	-8.61	3.64
Barclays Capital U.S. Government	2.65	3.48	8.66	12.39	-2.20	5.52	9.02	2.02	-2.60	4.92
Barclays Capital U.S. Corporate Inv Grade	1.68	4.30	4.56	-4.94	18.68	9.00	8.15	9.82	-1.53	7.46
Barclays Capital U.S. Corporate High Yield	2.74	11.85	1.87	-26.16	58.21	15.12	4.98	15.81	7.44	2.45
Citigroup Non-US WGBI USD	-9.20	6.94	11.45	10.11	4.39	5.21	5.17	1.51	-4.56	-2.68
JP Morgan EMBI Global Diversified USD	10.25	9.86	6.16	-12.03	29.82	12.24	7.35	17.44	-5.25	7.43
JP Morgan GBI EM Global Diversified USD	6.27	15.22	18.11	-5.22	21.98	15.68	-1.75	16.76	-8.98	-5.72
Citigroup 90-Day Treasury Bills	3.00	4.76	4.74	1.80	0.16	0.13	0.08	0.07	0.05	0.03
Citigroup Pension Liability Index	7.86	0.25	-2.89	17.57	4.61	13.76	28.33	11.66	-10.55	25.44