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Quarterly Review

Global Equity Market Update

September 30, 2014

GLOBAL EQUITY MARKETS – CALENDAR YEAR RETURNS

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	YTD 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%	S&P 500 8.34%
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%	Mid Value 8.2%
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 8.07%
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 7.89%
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 5.73%
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%	ACWI 3.73%
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%	Emerging Markets 2.43%
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%	EAFE -1.38%
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%	EAFE Small -2.74%
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%	Small Value -4.74%
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%	Small Growth -4.05%

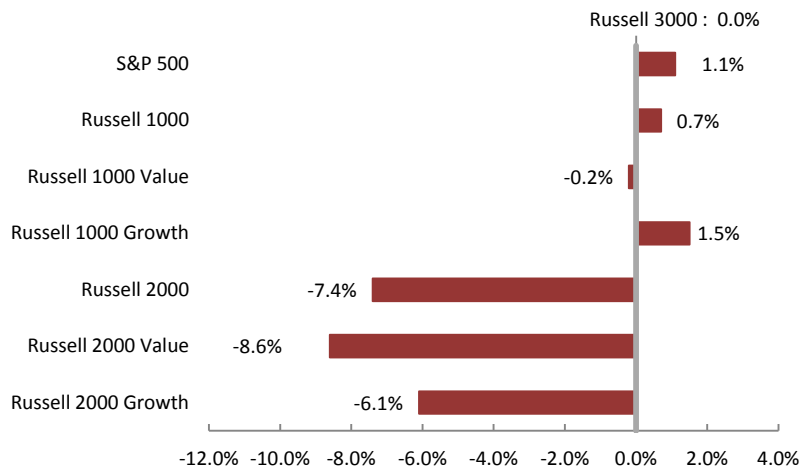
DOMESTIC EQUITY MARKET

Domestic Equity Market Highlights

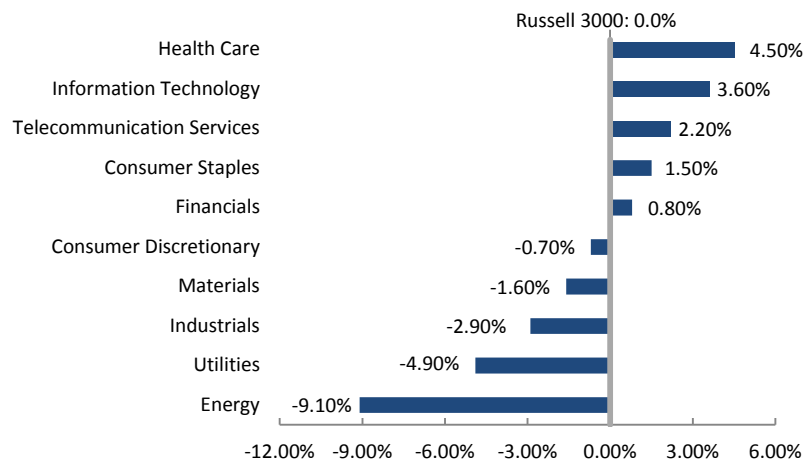
- The S&P 500 ended the third quarter up 1.1%, making it the seventh consecutive quarterly increase; its longest streak since 1998. In contrast to foreign economies, the US economy appears to be on a path toward more normalized monetary policy. While foreign central bankers have taken additional accommodative action in hopes of stimulating growth, the US Federal Reserve continued to wind down its asset purchase program in the third quarter. The decision to do so was driven by improvements in the labor market and GDP growth.
- Global growth uncertainty and US tapering speculation led to a strong risk-off environment in the third quarter. As a result, market preference shifted toward higher quality, lower beta, and more stable growth companies. This preference drove strong relative performance in growth stocks versus value. Additionally, large cap stocks outperformed small caps by an 8.5% margin, the highest in 15 years.

- Volatility, as measured by daily price movement of the Russell 3000 Index, decreased during the quarter and remained historically low. Illustrating this, 7.8% of trading days experienced a $\pm 1\%$ move in the market, compared to 11.1% during the second quarter of 2014 and 25.8% since 1987. Daily standard deviation of returns was 0.6% versus the long-term standard deviation of 1.2% since 1987.
- US companies continued to exceed growth expectations during the quarter, with 56% of S&P 500 companies beating EPS estimates.
- The WTI Crude Oil Index was down 13.5% during the third quarter putting pressure on the energy sector, which currently represents an 8.4% weight in the Russell 3000 Index. Exxon Mobile, which is the second-largest company by market capitalization in the US, declined 7.2% during the quarter.
- The best-performing areas of the market were the non-cyclical health care, telecom, technology, and consumer sectors.

Third Quarter Domestic Index Returns



Third Quarter Russell 3000 Index Sector Returns



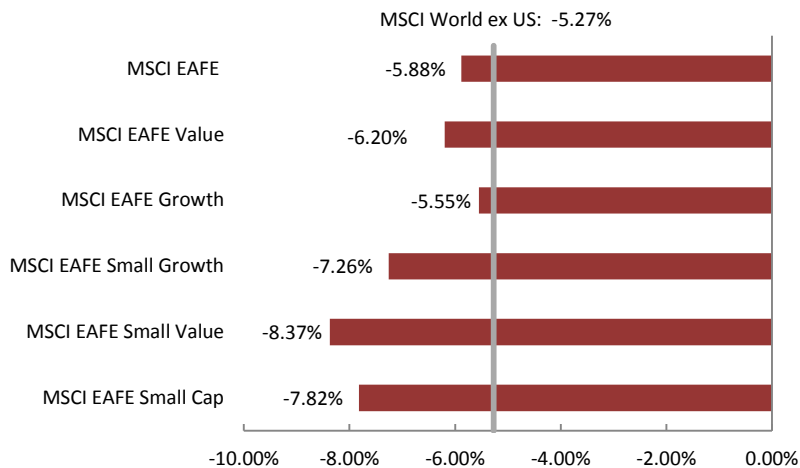
INTERNATIONAL DEVELOPED EQUITY MARKET

International Developed Equity Market Highlights

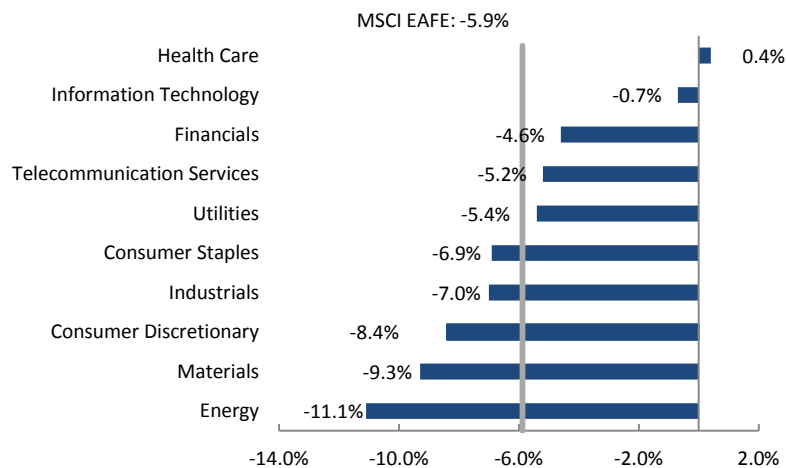
- International developed stocks decreased -5.9% in US dollar terms for the quarter, as measured by the MSCI EAFE Index. Currency detracted 681 bps from the positive local return of 0.9%.
- The US dollar broadly strengthened against all major global currencies during the quarter, as US economic growth and corresponding weakness in Europe and China have made the dollar attractive to foreign investors. The euro and the yen were both down relative to the US dollar in excess of 7.5%, largely as a result of continued improvement in the US economy, the winding down of the Federal Reserve’s stimulus program, concerns about deflation in Europe, and the possibility that more tension between and Ukraine and Russia could dampen growth in the region.
- Small caps underperformed large cap stocks during the period. Growth outperformed value across the cap spectrum.

- Japan (+5.8% in local currency/-2.3% in USD) was the best-performing region of the market, while Europe (-0.2% in local currency/-7.0% in USD) was the weakest. Eurozone manufacturing continued to slow and economic sentiment declined, as new orders decreased with rising tensions over Russia’s involvement with Ukraine. Germany was the largest negative contributor from a country perspective as investors saw the lack of global growth contributing to a significant drop in exports.
- Except for health care, all developed international sectors contracted during the quarter in dollar terms. After a strong second quarter, energy was the poorest-performing sector in the index for the third quarter as oil prices decreased. Cyclical sectors generally underperformed defensive areas of the market as investors sought to reduce risk by moving to what they perceived as higher quality companies.

Third Quarter Int. Developed Index Returns (USD)



Third Quarter MSCI EAFE Sector Returns



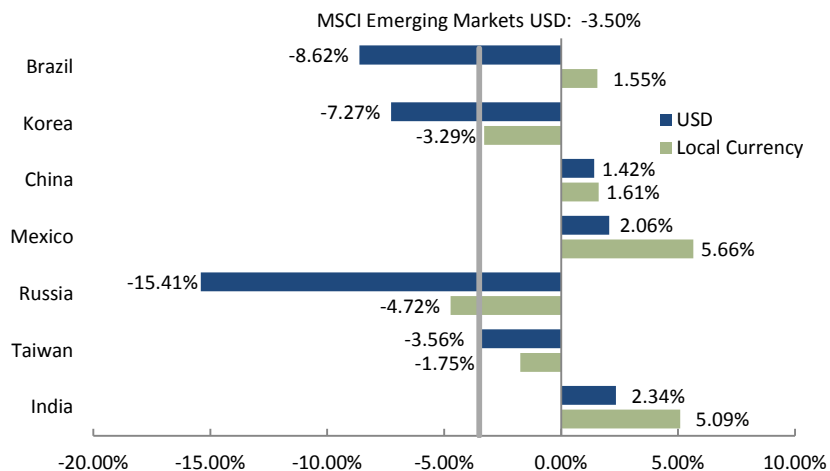
EMERGING MARKETS EQUITY

Emerging Markets Equity Highlights

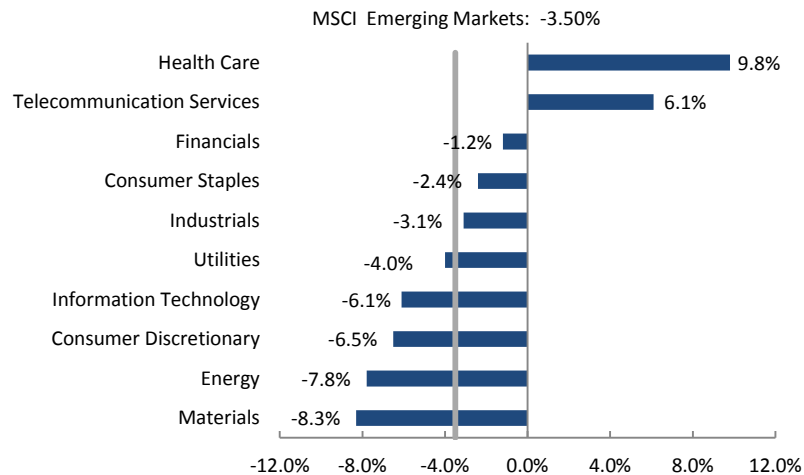
- The MSCI Emerging Markets Index decreased by 3.5% in US dollars during the quarter. Currency proved to be a headwind to US investors, detracting 406 bps, as the US dollar strengthened against emerging markets currencies, in aggregate. Third quarter performance in emerging markets underperformed developed global markets by 134 bps in US dollar terms.
- India continued to deliver strong performance following elections. The country was the best-performing major emerging market during the quarter, increasing 2.3% in US dollars and 5.1% in local terms. Russia was the worst performing market, down 15.4% in US dollar terms and 4.7% in local terms, as the Ruble has lost half of its value versus the dollar this year. Much of the equity market and currency move has been attributed to Western sanctions leveled against Russian banks and the country's very high reliance on the energy sector.

- Brazil was another trouble area as polls for the November presidential election continued to point toward a victory for the less business friendly Workers Party. Brazilian markets were down 7.3% in US dollar terms and 3.3% in local terms.
- Investors favored healthcare and telecommunication services sectors during the quarter. Healthcare only represents a 2.11% weight in the MSCI EM Index, so the sector's strong performance only marginally added to overall market performance. The materials and energy sectors were the worst-performing sectors, as lower oil and metals prices negatively impacted earnings power for raw material production companies.
- During the quarter, value outperformed growth and small cap outperformed large cap. YTD, small cap stocks have generated 505 bps of excess return vs. the standard benchmark.

Third Quarter Emerging Markets Country Returns



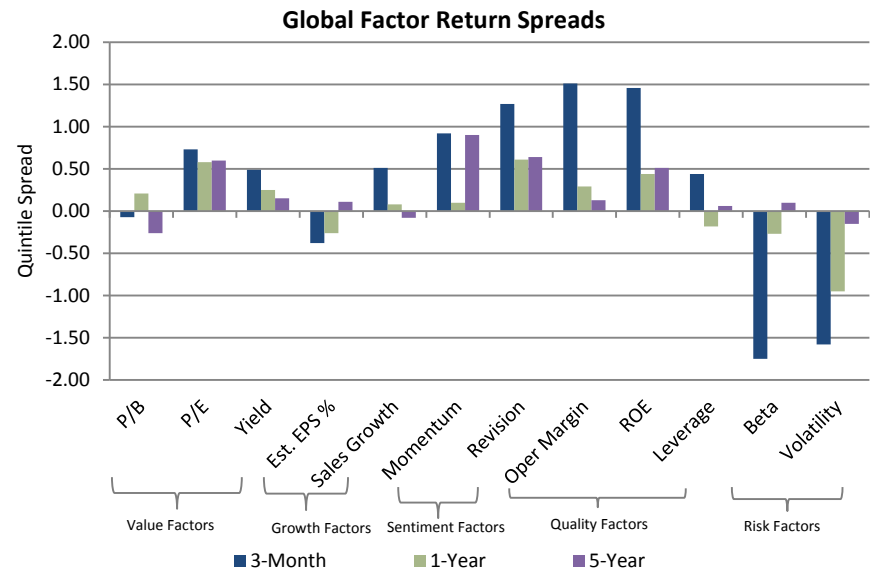
Third Quarter MSCI Emerging Markets Sector Returns



GLOBAL EQUITY MARKETS

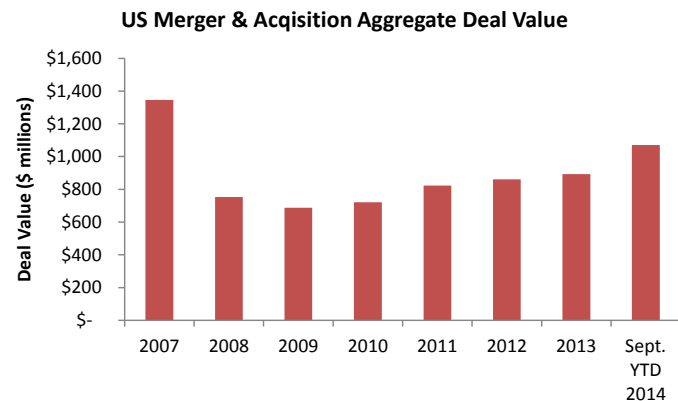
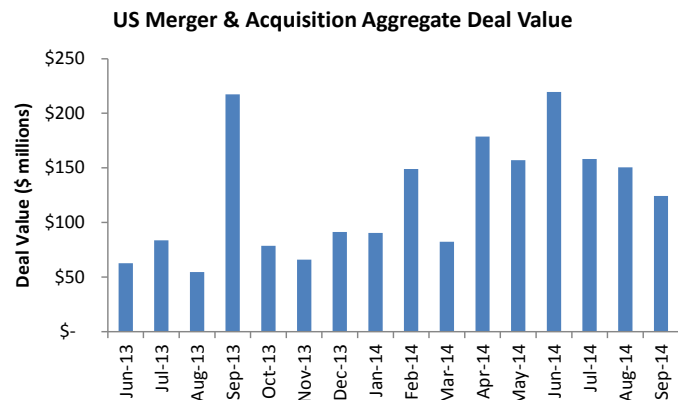
Global Factor Spreads

- Global equity markets were primarily driven by quality and risk factors during the quarter. Operating margin and ROE were strong contributors to performance and beta and volatility were significant detractors.
- Stock price and earnings revision positively contributed to returns during the most recent quarter.
- Growth factors were mixed as investors favored sales growth over expected EPS growth.
- Valuation factors continued to deliver positive contribution.
- Beta and volatility were major detractors as investors moved to a defensive posture.



Global Equity Highlights

- US merger and acquisition aggregate deal values are on track this year to reach their highest levels since the Global Financial Crisis. During the year, the most active sectors for new deals were consumer non-durables, industrial services, and consumer products. This differs from 2013, which was dominated by communications, electronic technology, and finance companies. The largest deals scheduled to close for the year are Valeant Pharmaceutical/Allergan, AT&T/DIRECTV, and Comcast/Time Warner Cable.



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