

Q1

Quarterly Market Review

First Quarter 2015



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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

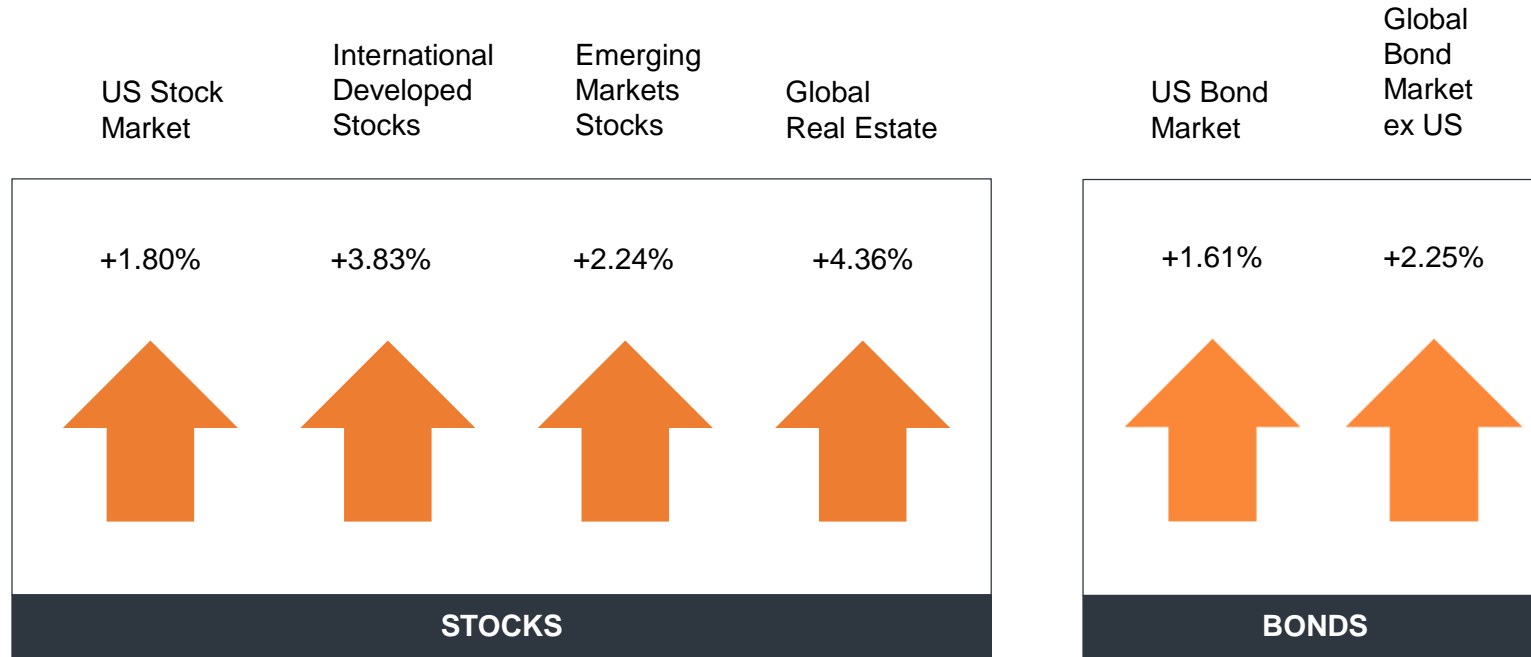
The report also illustrates the performance of globally diversified portfolios and features a quarterly topic.

Overview:

- Market Summary
- World Stock Market Performance
- World Asset Classes
- US Stocks
- International Developed Stocks
- Emerging Markets Stocks
- Select Country Performance
- Real Estate Investment Trusts (REITs)
- Commodities
- Fixed Income
- Global Diversification
- Quarterly Topic: MasterChef of Investing

Market Summary

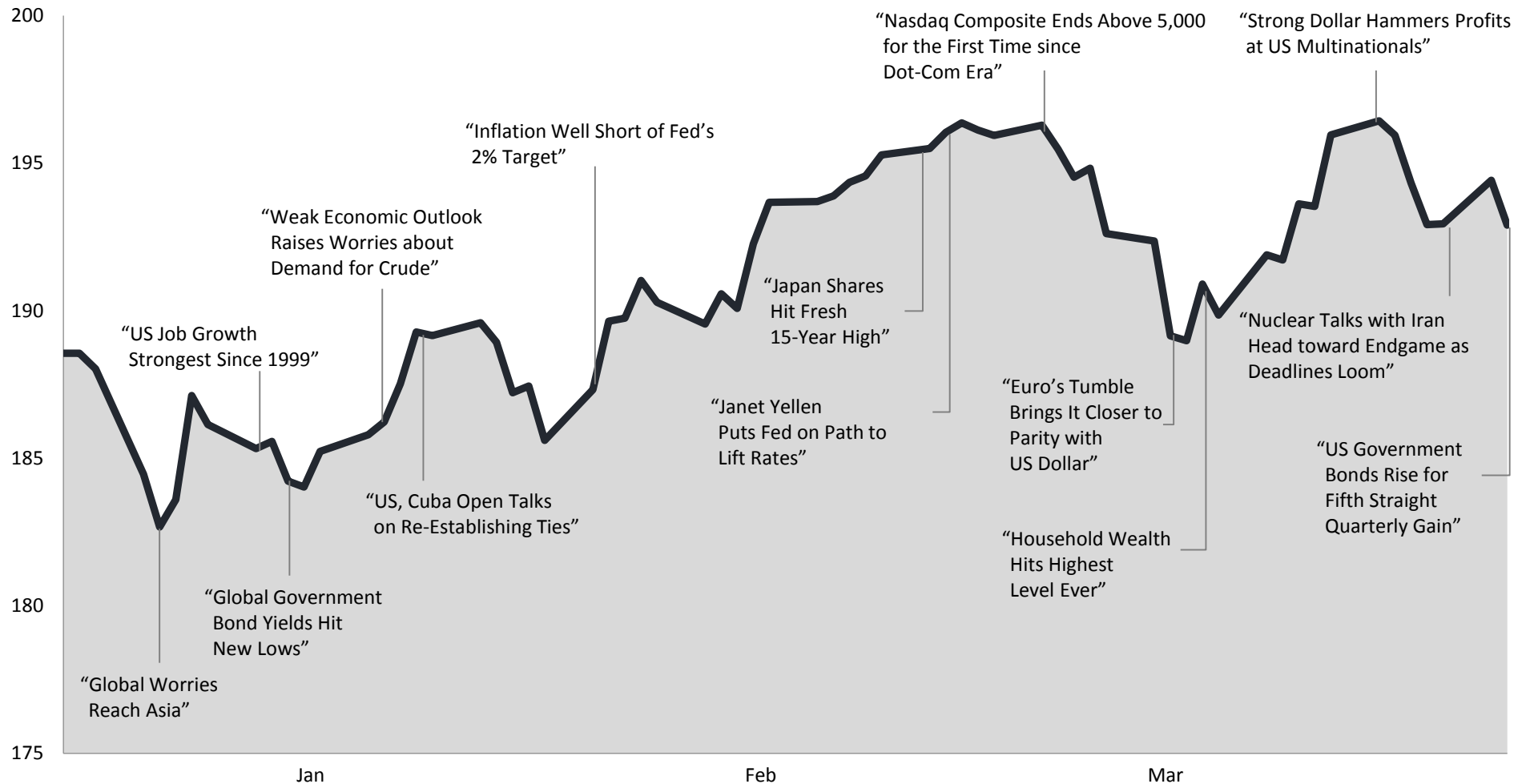
First Quarter 2015 Index Returns



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
 Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1–30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995–2015, all rights reserved. MSCI data © MSCI 2015, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2014 by Citigroup.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2015



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

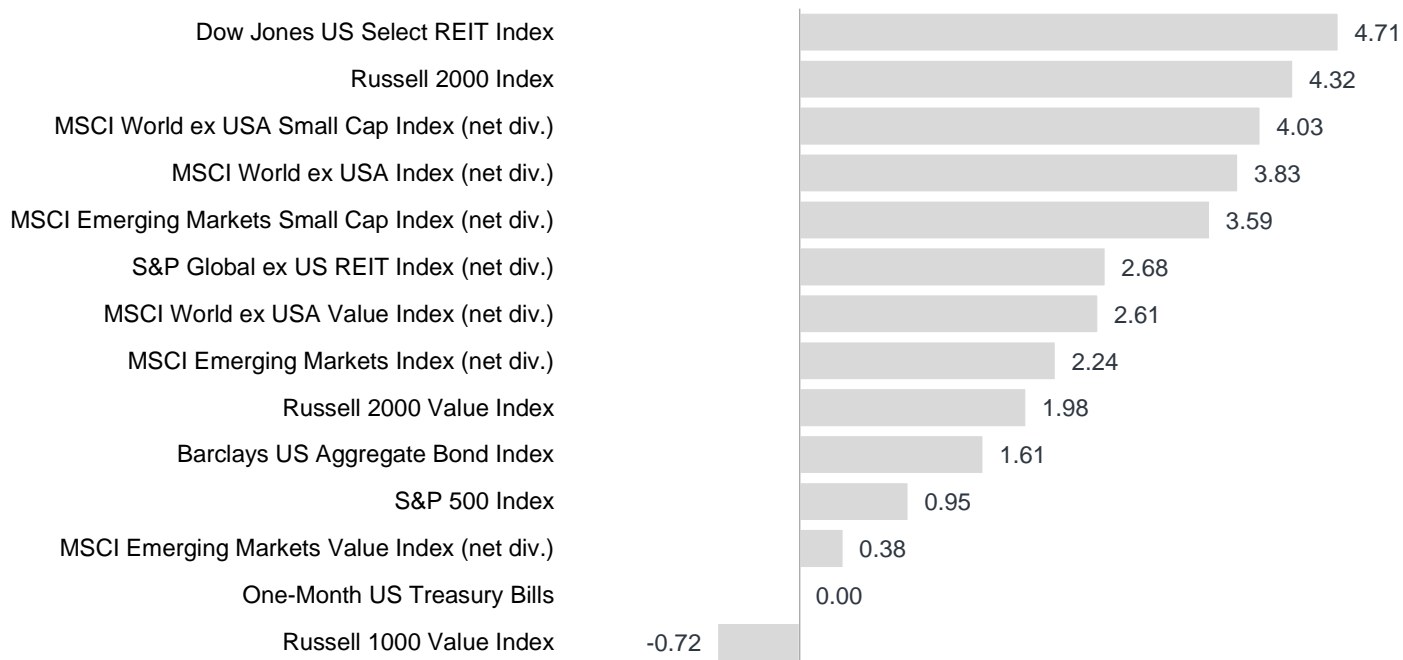
Graph Source: MSCI ACWI Index. MSCI data © MSCI 2015, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

First Quarter 2015 Index Returns

Looking at broad market indices, developed markets outside the US outperformed both the US and emerging markets during the quarter. US REITs outperformed US broad equity market indices. Growth indices outperformed value indices across all size ranges in the US and in non-US and emerging markets. Small cap indices outperformed large cap indices in all regions, particularly in the US.



US Stocks

First Quarter 2015 Index Returns

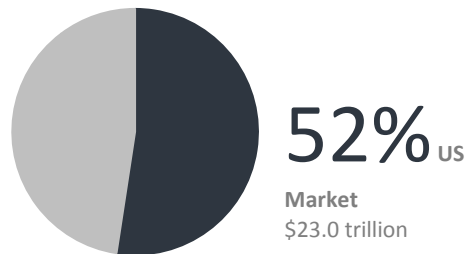
The US equity market recorded positive performance for the quarter.

Small caps outperformed large caps, helped by the strong performance of small cap growth stocks.

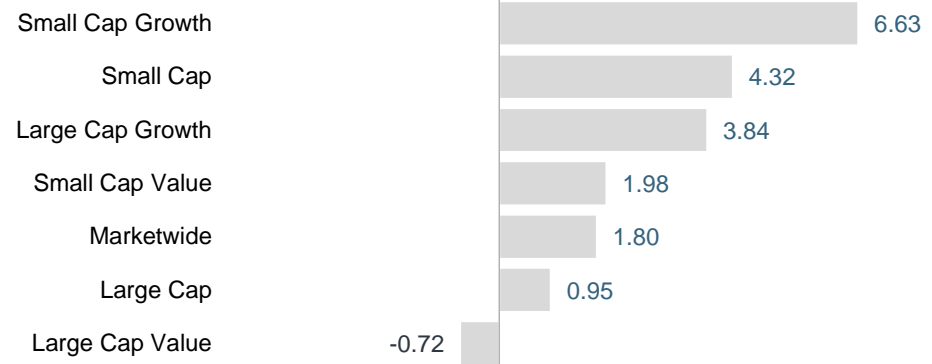
Value indices underperformed across all size ranges.

US REITs outperformed broad US equity indices.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
Marketwide	1.80	12.37	16.43	14.71	8.38
Large Cap	0.95	12.73	16.11	14.47	8.01
Large Cap Value	-0.72	9.33	16.44	13.75	7.21
Large Cap Growth	3.84	16.09	16.34	15.63	9.36
Small Cap	4.32	8.21	16.27	14.57	8.82
Small Cap Value	1.98	4.43	14.79	12.54	7.53
Small Cap Growth	6.63	12.06	17.74	16.58	10.02

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International Developed Stocks

First Quarter 2015 Index Returns

Developed markets outside the US outperformed both the US and emerging markets indices in US dollar terms.

Small caps slightly outperformed large caps.

Value indices underperformed growth indices, particularly in large caps.

The Swiss franc was the only major developed markets currency to outperform the US dollar. The Swiss central bank removed the three-year currency cap to the euro.

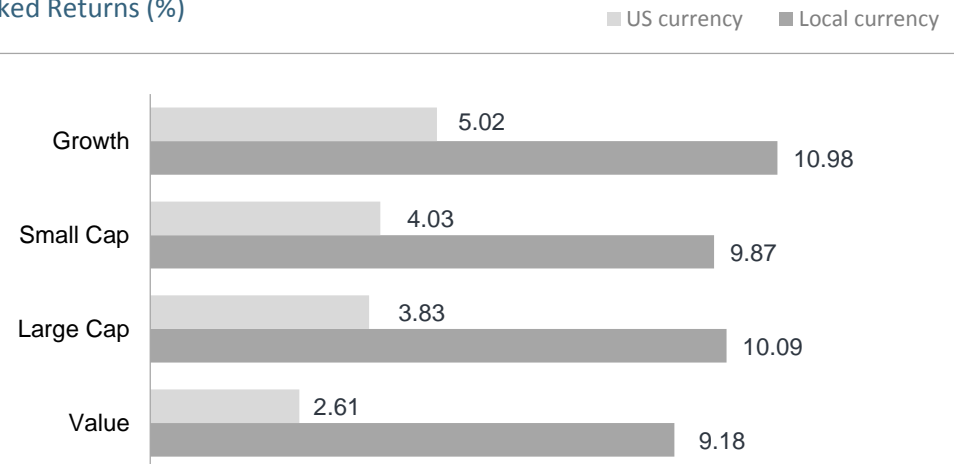
World Market Capitalization—International Developed

37%

International
Developed
Market
\$16.3 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	3.83	-1.39	8.24	5.72	5.03
Small Cap	4.03	-4.82	8.52	7.63	5.86
Value	2.61	-3.99	8.06	4.90	4.38
Growth	5.02	1.20	8.36	6.49	5.61

* Annualized

Emerging Markets Stocks

First Quarter 2015 Index Returns

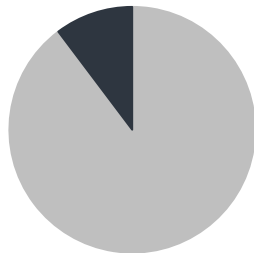
As a group, emerging markets earned positive returns in US dollar terms, despite the US dollar appreciating vs. most emerging markets currencies during the quarter.

Small cap indices outperformed large cap indices. Value indices underperformed growth indices across all size ranges.

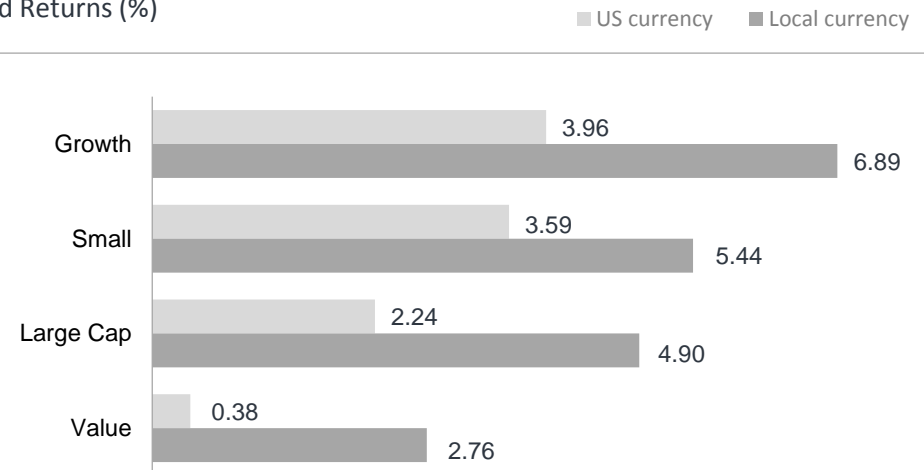
World Market Capitalization—Emerging Markets

10%

Emerging
Markets
\$4.5 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	2.24	0.44	0.31	1.75	8.48
Small Cap	3.59	1.06	3.48	2.64	9.78
Value	0.38	-2.91	-2.54	0.12	8.44
Growth	3.96	3.65	3.09	3.30	8.44

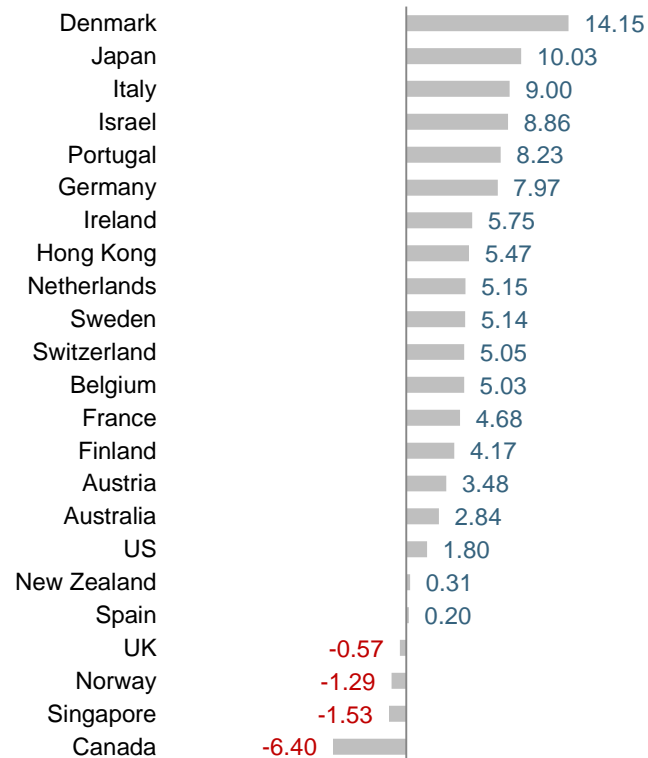
* Annualized

Select Country Performance

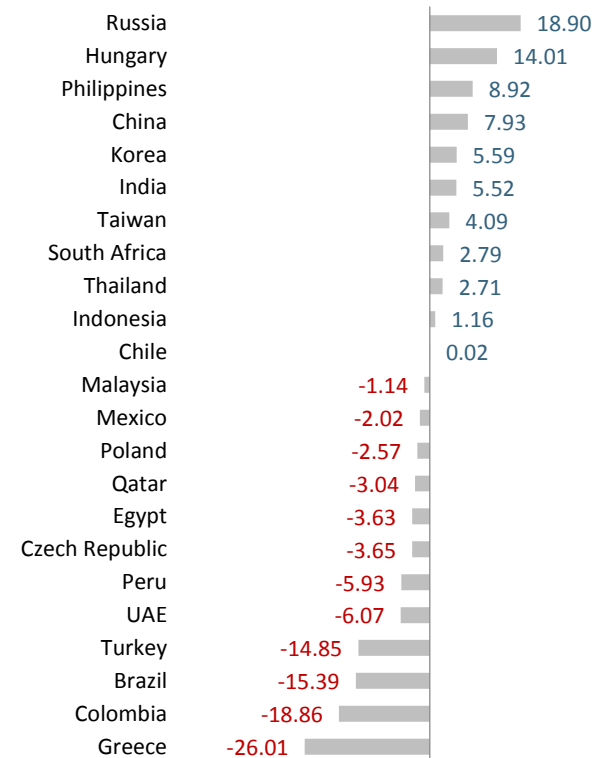
First Quarter 2015 Index Returns

Russia rebounded from its double-digit negative returns in the fourth quarter, recording the highest emerging markets return as the ruble climbed against the dollar and Russian energy stocks posted strong performance. Greek financial stocks influenced the performance of the local market, which recorded the lowest return among emerging markets countries. Despite the fall in the Danish krone, Denmark produced the highest return among developed markets countries.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)

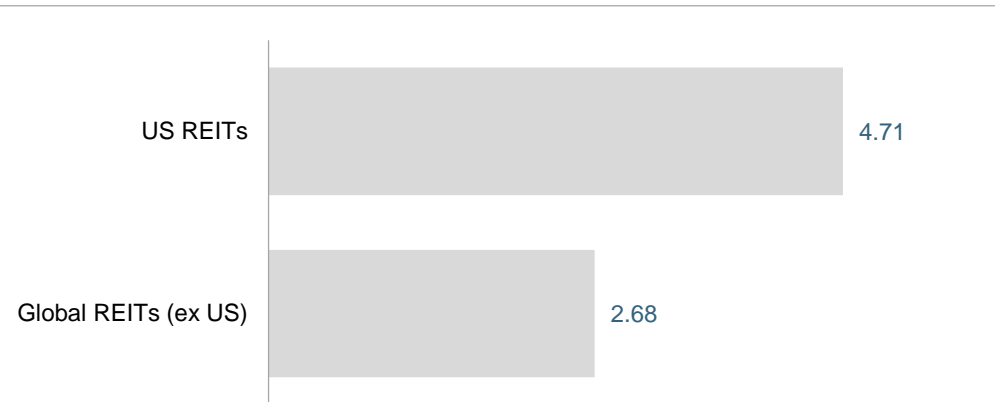


Real Estate Investment Trusts (REITs)

First Quarter 2015 Index Returns

US REITs outperformed the broad US equity market during the quarter. In contrast, REIT indices outside the US underperformed broad market non-US equity indices.

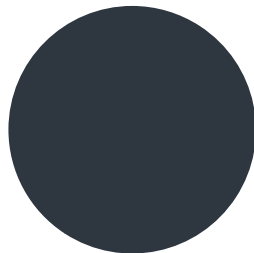
Ranked Returns (%)



Total Value of REIT Stocks

41%

World ex US \$421 billion
240 REITs
(22 other countries)



59%

US \$610 billion
91 REITs

Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	4.71	25.26	13.95	15.89	9.45
Global REITs (ex US)	2.68	10.31	11.43	10.51	4.86

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2014.

Commodities

First Quarter 2015 Index Returns

Commodities were broadly negative during the first quarter. The Bloomberg Commodity Index fell 5.94%. Lean hogs led the decline, shedding 23.73%, while coffee and nickel followed by losing 21.59% and 18.55%, respectively.

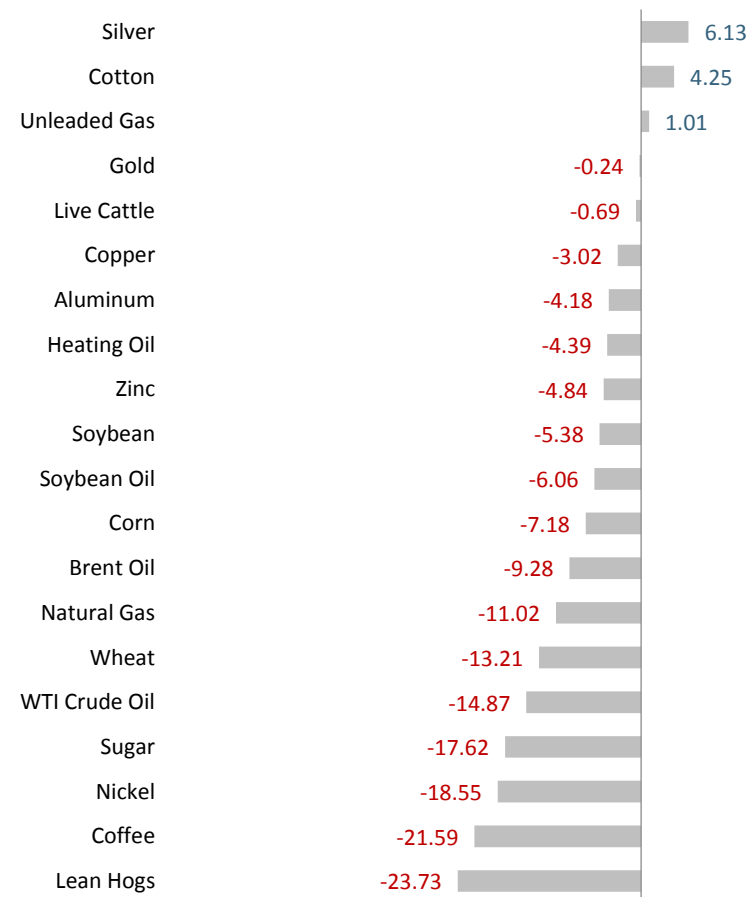
Within the energy complex, WTI crude oil fell 14.87% and natural gas declined 11.02%.

Silver was the biggest gainer, returning 6.13%, and cotton followed with a gain of 4.25%.

Period Returns (%) * Annualized

Asset Class	YTD	Q1	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-5.94	-5.94	-27.04	-11.52	-5.71	-3.56

Ranked Returns for Individual Commodities (%)

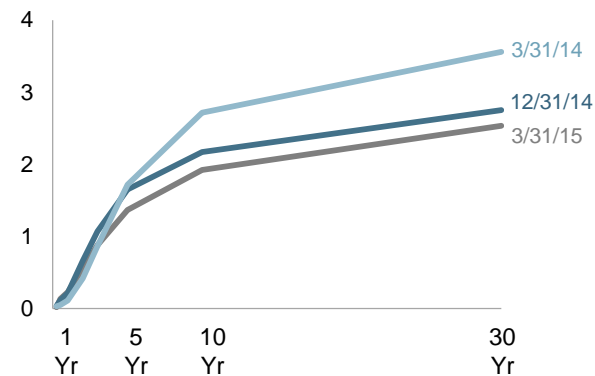


Fixed Income

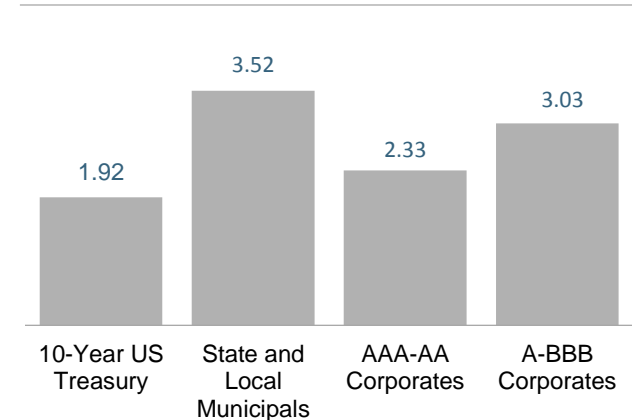
First Quarter 2015 Index Returns

- Interest rates across the US fixed income markets generally declined in the first quarter. The 5-year Treasury note dropped 28 basis points to end the period yielding 1.38%. The 10-year Treasury note declined 24 basis points to finish at 1.93%. The 30-year Treasury bond fell 21 basis points to finish with a yield of 2.54%.
- On the short end of the curve, the 2-year Treasury note shed 12 basis points to finish at 0.66%. Securities within one year to maturity were relatively unchanged.
- Long-term corporate bonds returned 3.29% for the quarter. Intermediate-term corporate bonds followed by adding 1.89%.
- Municipal revenue bonds (1.13%) slightly outpaced municipal general obligation bonds (0.87%). Long-term muni bonds outgained all other areas of the muni curve, returning 1.58%.

US Treasury Yield Curve



Bond Yields across Issuers



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.00	0.03	0.07	0.09	1.49
BofA Merrill Lynch 1-Year US Treasury Note Index	0.11	0.21	0.26	0.39	1.99
Citigroup WGBI 1-5 Years (hedged to USD)	0.62	1.97	1.57	1.75	3.12
Barclays Long US Government Bond Index	3.89	21.03	7.60	10.49	7.83
Barclays US Aggregate Bond Index	1.61	5.72	3.11	4.41	4.93
Barclays US Corporate High Yield Index	2.52	2.00	7.46	8.59	8.18
Barclays Municipal Bond Index	1.01	6.62	4.05	5.11	4.85
Barclays US TIPS Index	1.42	3.11	0.63	4.29	4.56

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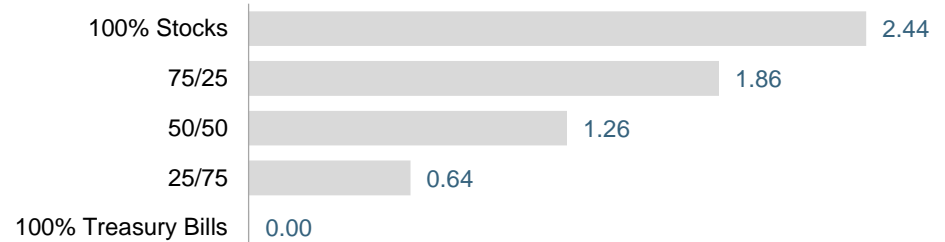
Global Diversification

First Quarter 2015 Index Returns

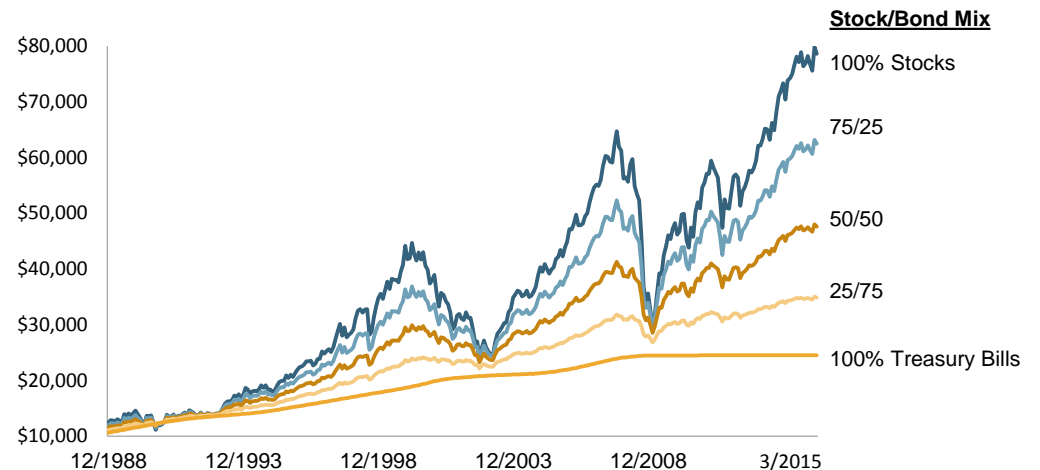
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)		* Annualized				
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	
100% Stocks	2.44	5.97	11.35	9.57	7.00	
75/25	1.86	4.52	8.53	7.32	5.85	
50/50	1.26	3.04	5.70	4.98	4.52	
25/75	0.64	1.53	2.86	2.55	3.02	
100% Treasury Bills	0.00	0.01	0.03	0.05	1.37	

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2015, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

MasterChef of Investing

First Quarter 2015

In the popular TV program *MasterChef*, contestants face a series of cooking challenges. From low quality ingredients to inadequate preparation and poor implementation, so many things can, and do, go wrong. It's a bit like investing.

In the world of investment, there customarily are two broad approaches. The first is a traditionally active one: Managers attempt to find mispriced securities or seek to time their entry and exit points from various parts of the market.

This first approach is akin to the *MasterChef* challenge, which requires inventing a new and distinctive dish within a set time frame. The apparent advantage for the chef is flexibility of concept.

Likewise, in the investment world, the traditionally active manager locks in on individual ideas. That results in little flexibility and creates time constraints. The manager tries to trade on information not believed to be reflected in prices. If it doesn't work out, there may not be a Plan B.

The second approach to investing is when the investment manager seeks to track as closely as

possible to a commercial index. The goal here is not to stand out, so the manager will be most conscious of "tracking error" (deviating from the benchmark).

This approach is more akin to the *MasterChef* challenge in which contestants must cook a standard, popular dish with set ingredients. The focus is not creativity but following an established process as dictated by an outside party.

But the drawback of this latter approach is the absence of flexibility. The contestants can't substitute one ingredient—or stock—for another. The recipe must be followed. What's more, it must be achieved in a designated timeframe.

But what if we had a system that combined the creativity of the first approach with the simplicity of the second?

In this third approach, our contestants do not face unnecessary constraints either in terms of time or ingredients. Instead, they assemble a broad selection of dishes from multiple ingredients appropriate for the season and at times of their choosing.

The difference under this third way is that the chefs can focus on what they can control and eliminate elements that might restrict their choices. After all, their ultimate goal is to efficiently and consistently provide meals that suit a range of palates.

In the world of investing, we believe this third way is the optimal approach. Picking stocks and timing the market, like making brilliant-off-the-cuff meals in any conditions and in an efficient and consistent manner, is a tough task—even for the masters. Cooking meals off a provided menu, like the index managers, can be inflexible and costly.

The third way of investing is akin to the Dimensional approach.

We can research the dimensions of expected returns, design highly diverse portfolios that pursue market premiums, and build flexibility into the system so that we efficiently and consistently serve up investment solutions for a wide range of needs.

Call it the *MasterChef* of investing.

The author would like to thank Marlena Lee for her inspiration for this article.