



Market Environment Third Quarter 2014

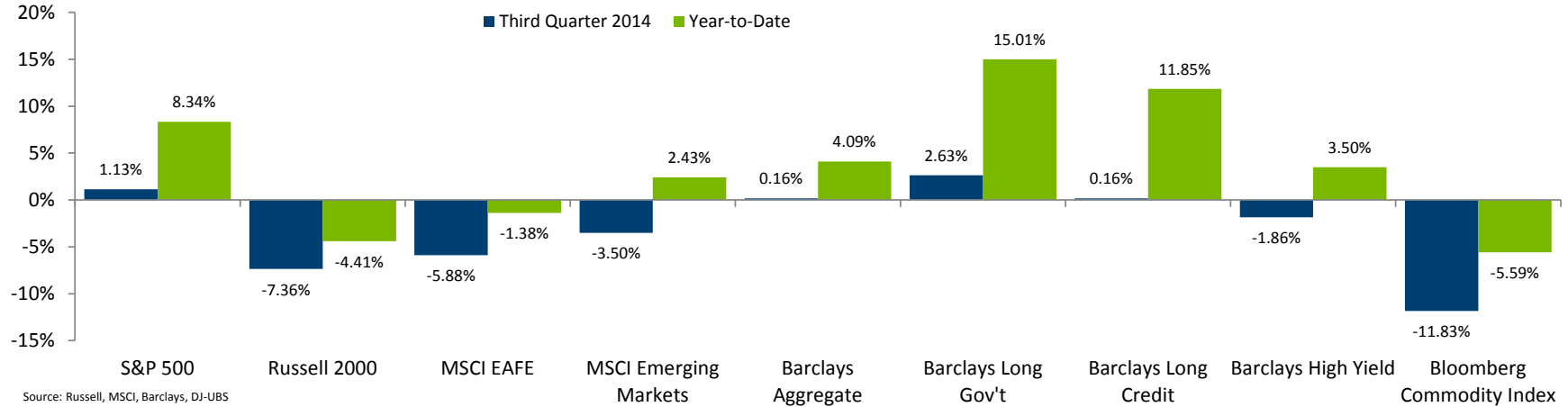
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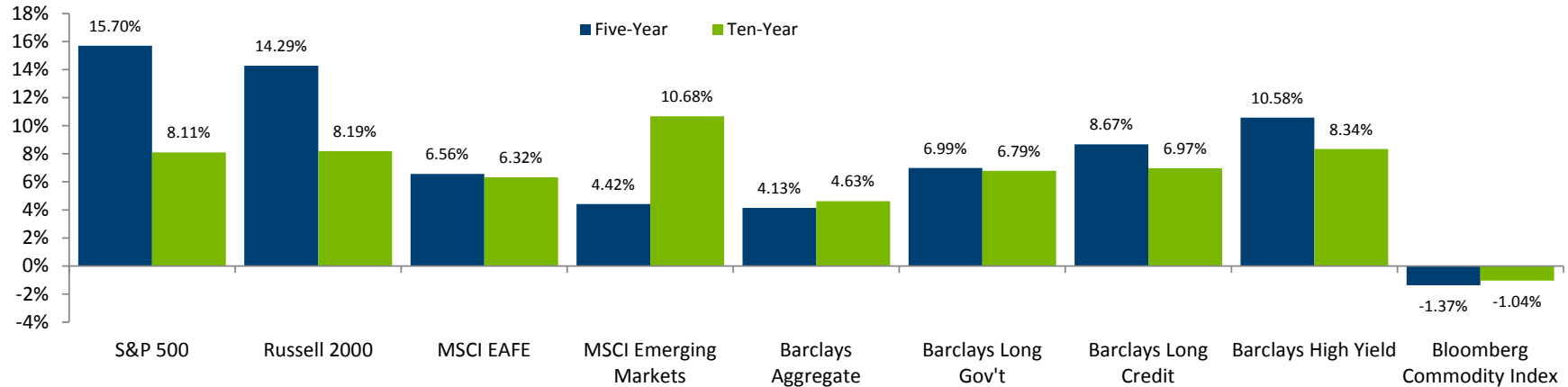
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Market Highlights

SHORT TERM RETURNS AS OF 09/30/2014



LONG TERM ANNUALIZED RETURNS AS OF 09/30/2014



Market Highlights

Returns of the Major Capital Markets						
	Periods Ending 09/30/2014					
	Third Quarter	Year-to-Date	1-Year	3-Year ¹	5-Year ¹	10-Year ¹
Equity						
MSCI All Country World IMI	-2.83%	3.22%	10.70%	16.74%	10.32%	7.57%
MSCI All Country World	-2.31%	3.73%	11.32%	16.61%	10.07%	7.28%
Dow Jones U.S. Total Stock Market	-0.06%	6.89%	17.69%	23.01%	15.85%	8.59%
Russell 3000	0.01%	6.95%	17.76%	23.08%	15.78%	8.44%
S&P 500	1.13%	8.34%	19.73%	22.99%	15.70%	8.11%
Russell 2000	-7.36%	-4.41%	3.93%	21.26%	14.29%	8.19%
MSCI All Country World ex-U.S. IMI	-5.47%	-0.01%	4.74%	11.88%	6.30%	7.32%
MSCI All Country World ex-U.S.	-5.27%	0.00%	4.77%	11.79%	6.03%	7.06%
MSCI EAFE	-5.88%	-1.38%	4.25%	13.65%	6.56%	6.32%
MSCI EAFE (Local Currency)	0.93%	4.08%	10.70%	17.27%	8.08%	5.85%
MSCI Emerging Markets	-3.50%	2.43%	4.30%	7.19%	4.42%	10.68%
Fixed Income						
Barclays Global Aggregate	-3.14%	1.64%	1.19%	1.16%	2.69%	4.39%
Barclays Aggregate	0.16%	4.09%	3.95%	2.44%	4.13%	4.63%
Barclays Long Gov't	2.63%	15.01%	11.60%	2.07%	6.99%	6.79%
Barclays Long Credit	0.16%	11.85%	13.58%	6.71%	8.67%	6.97%
Barclays Long Gov't/Credit	1.04%	12.98%	12.86%	4.74%	8.04%	7.01%
Barclays US TIPS	-2.04%	3.68%	1.60%	1.35%	4.48%	4.64%
Barclays High Yield	-1.86%	3.50%	7.22%	11.10%	10.58%	8.34%
Citi Group Non-U.S. WGBI	-5.38%	0.25%	-0.99%	-1.13%	1.01%	3.99%
JP Morgan EMBI Global (Emerging Markets)	-1.65%	7.30%	8.28%	7.69%	7.95%	8.38%
Commodities						
Bloomberg Commodity Index	-11.83%	-5.59%	-6.58%	-5.34%	-1.37%	-1.04%
Goldman Sachs Commodity Index	-12.46%	-7.46%	-7.76%	-0.11%	1.34%	-2.77%
Hedge Funds						
HFR1 Fund-Weighted Composite ²	0.26%	3.43%	7.03%	6.58%	5.17%	5.71%
HFR1 Fund of Funds ²	0.55%	2.68%	6.45%	5.28%	3.46%	3.46%
Real Estate						
NAREIT U.S. Equity REITS	-3.15%	13.96%	13.14%	16.68%	15.88%	8.40%
NCREIF NFI - ODCE ³	3.24%	8.94%	12.40%	12.34%	12.40%	7.14%
Private Equity						
Thomson Reuters Thompson ONE ⁴	3.18%	3.18%	19.70%	12.67%	16.82%	20.66%
Infrastructure						
Macquarie Global Infrastructure - North America	-3.69%	13.77%	17.59%	14.24%	14.30%	10.89%

MSCI Indices show net returns.

All other indices show total returns.

¹ Periods are annualized.

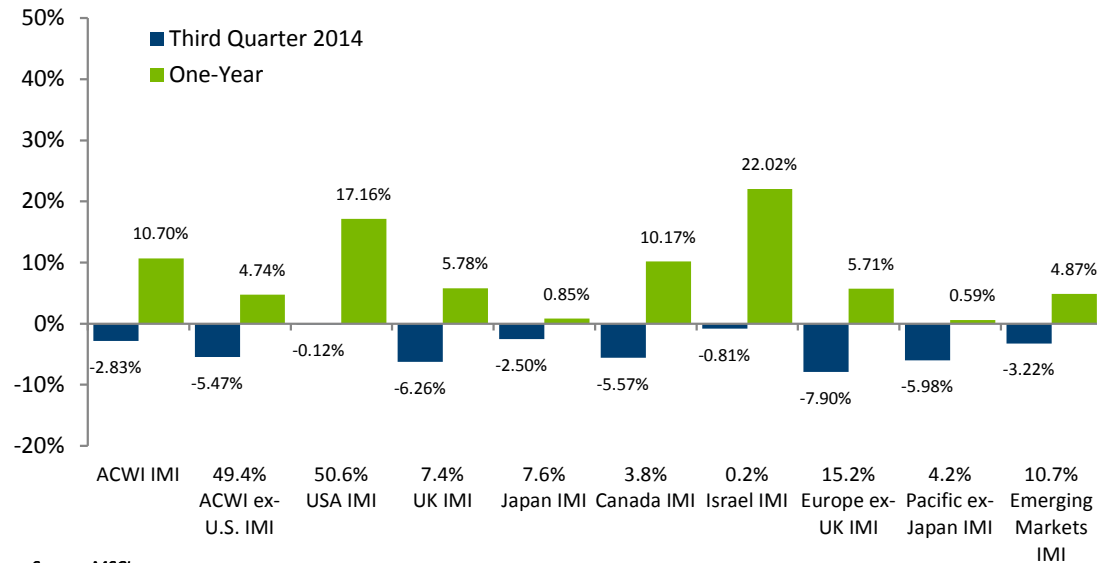
² Latest 5 months of HFR data are estimated by HFR and may change in the future.

³ Third quarter results are preliminary.

⁴ Benchmark is as of 01/31/2014.

Global Equity Markets

**GLOBAL MSCI IMI INDEX RETURNS
AS OF 09/30/2014**

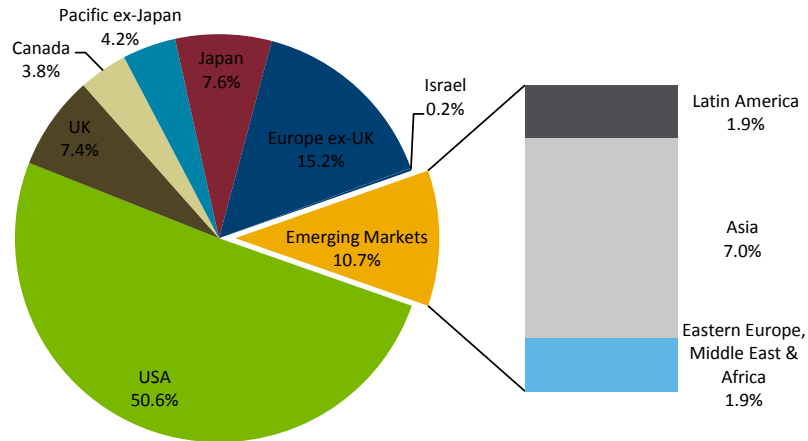


Source: MSCI

- Global equity markets fell in value through the third quarter 2014.
- Equities fell from post crisis highs through the third quarter. Much of the move was driven by the renewed concern in global growth, especially outside of the U.S. and continuing geopolitical risks.
- During the quarter, the US market fell the least out of all equity markets.

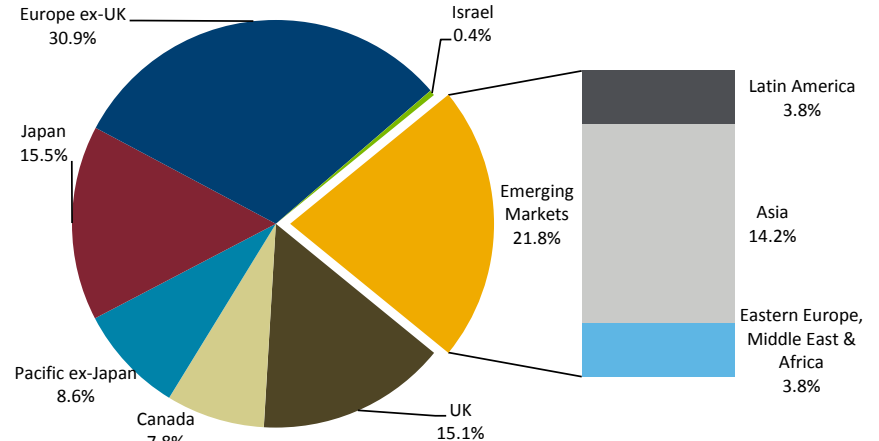
Global Equity Markets

**MSCI ALL COUNTRY WORLD IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2014**



Source: MSCI

**MSCI ALL COUNTRY WORLD EX-U.S. IMI INDEX
GEOGRAPHIC ALLOCATION AS OF 09/30/2014**

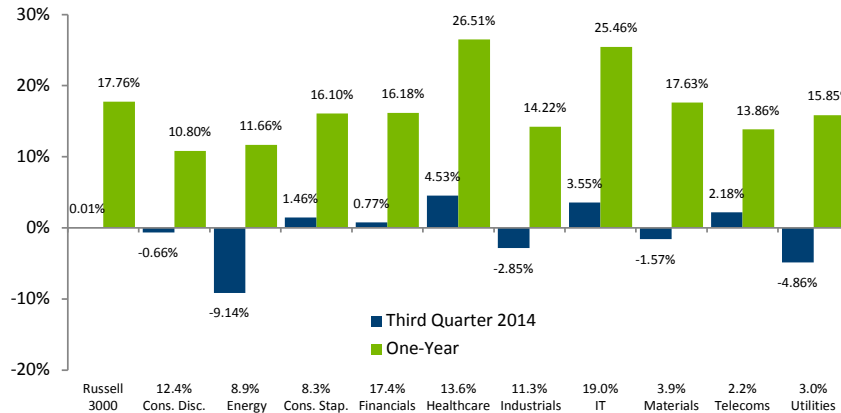


Source: MSCI

- The two exhibits on this slide illustrate the percentage that each country/region represents of the global equity market as measured by the MSCI All Country World IMI Index and the MSCI All Country World ex-U.S. IMI Index.

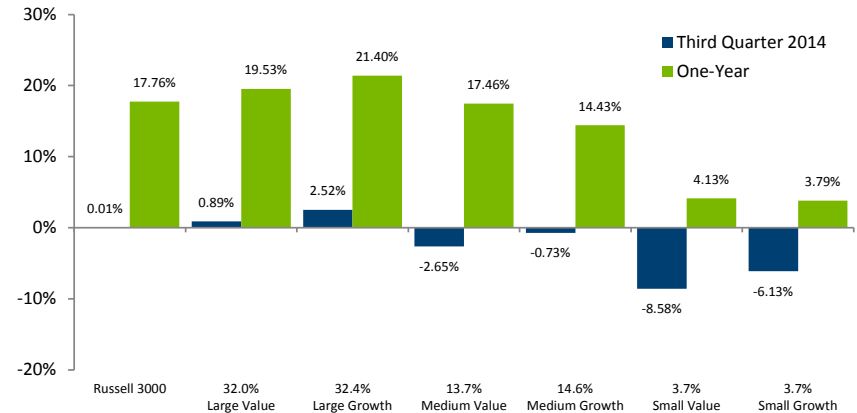
U.S. Equity Markets

**RUSSELL GICS SECTOR RETURNS
AS OF 09/30/2014**



Source: Russell Indexes

**RUSSELL STYLE RETURNS
AS OF 09/30/2014**

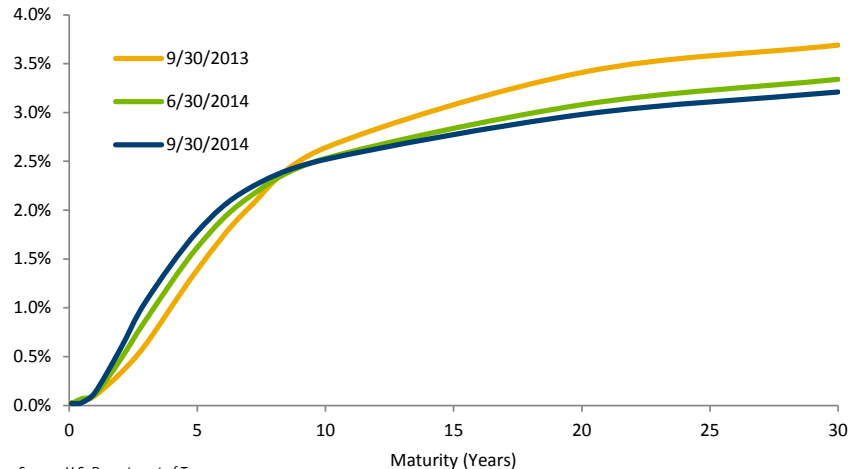


Source: Russell Indexes

- The Russell 3000 Index returned 0.01% during the quarter and returned 17.76% over the one-year period.
- During the third quarter, the healthcare and IT sectors were the strongest performers, posting returns of 4.53% and 3.55%, respectively. The energy and utilities sectors were the weakest performers, producing returns of -9.14% and -4.86%, respectively.
- Performance across the market capitalization spectrum was mixed over the quarter. Small cap stocks trailed the larger segments of the markets and growth outperformed value across the capitalizations.

U.S. Fixed Income Markets

U.S. TREASURY YIELD CURVE



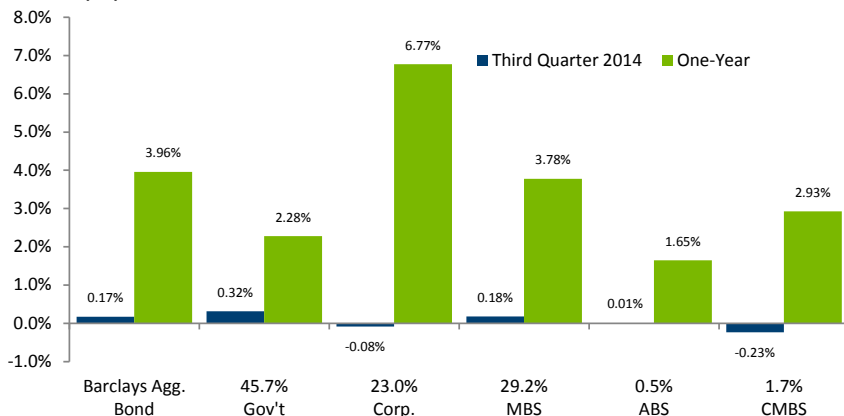
U.S. 10-YEAR TREASURY AND TIPS YIELDS



- The Treasury yield curve flattened during the third quarter, driven by long bond yields falling and short rates moving higher..
- The 10-year U.S. Treasury yield ended the quarter at 2.52%, 1 basis points lower than its level at the beginning of the quarter.
- The 10-year TIPS yield rose by 28 basis points over the quarter and ended the period at 0.55%.

U.S. Fixed Income Markets

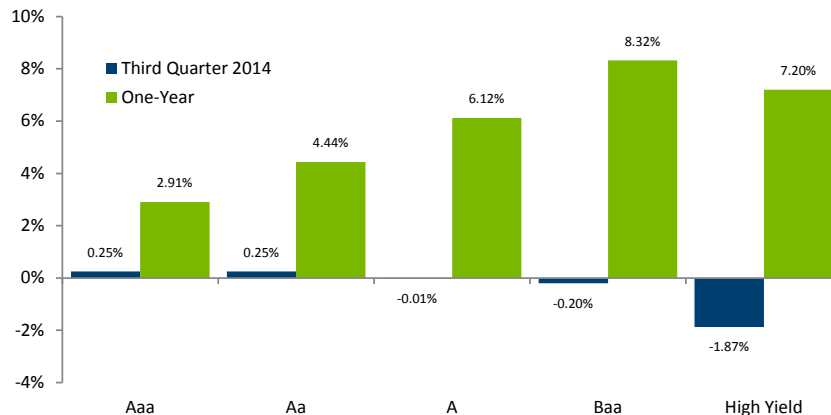
BARCLAYS AGGREGATE RETURNS BY SECTOR
AS OF 09/30/2014



Source: Barclays Live

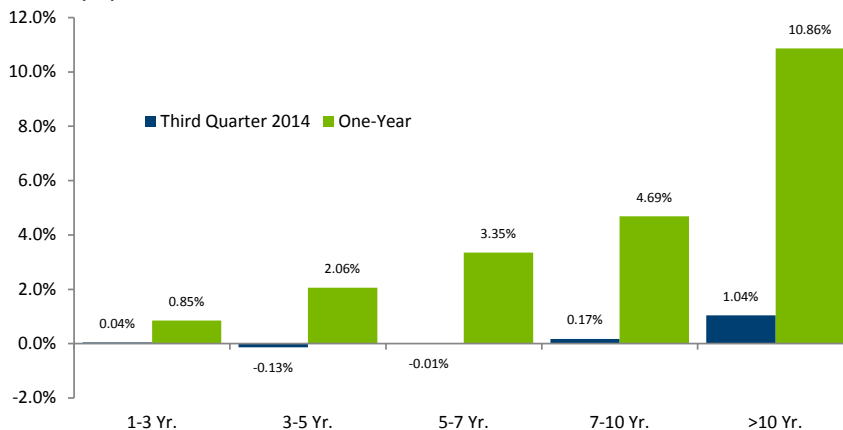
- The Barclays Aggregate Bond Index returned 0.17% in the third quarter. Government bonds were the strongest performing index segment, returning 0.32%.
- In the investment grade market, higher quality bonds outperformed lower quality bonds.
- High yield bonds underperformed aggregate investment grade corporate bonds.
- Long duration bonds continued to outperform shorter duration bonds.

BARCLAYS AGGREGATE RETURNS BY QUALITY AND HIGH YIELD RETURNS
AS OF 09/30/2014



Source: Barclays Live

BARCLAYS AGGREGATE RETURNS BY MATURITY
AS OF 09/30/2014



Source: Barclays Live

Credit Spreads

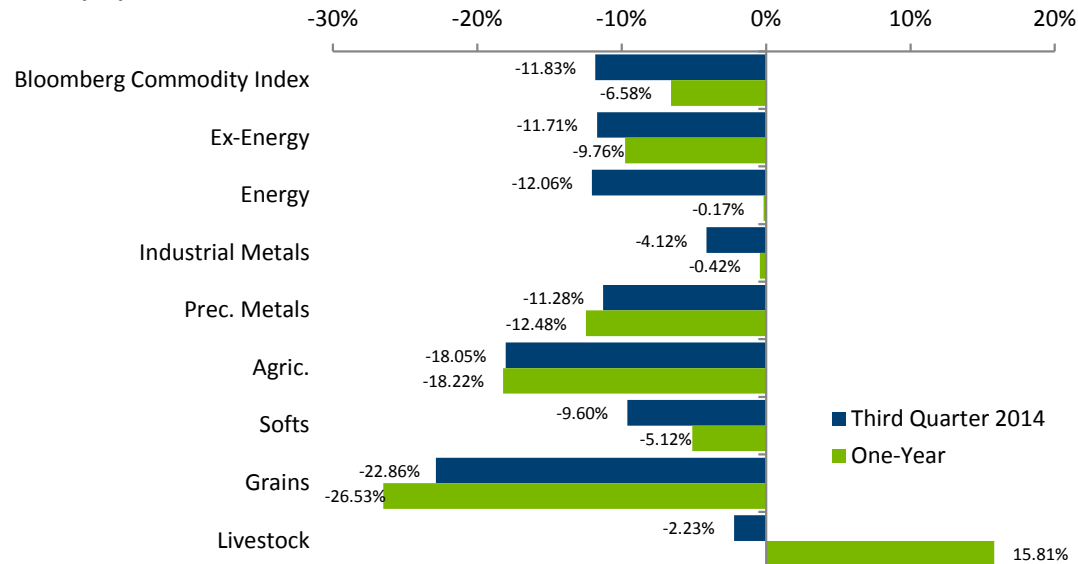
Spread (bps)	9/30/2014	6/30/2014	9/30/2013	Quarterly Change (bps)	1-Year Change (bps)
U.S. Aggregate	43	38	54	5	-11
Long Gov't	4	4	6	0	-2
Long Credit	164	148	189	16	-25
Long Gov't/Credit	106	97	123	9	-17
MBS	30	24	43	6	-13
CMBS	99	86	141	13	-42
ABS	56	48	64	8	-8
Corporate	112	99	141	13	-29
High Yield	424	337	461	87	-37
Global Emerging Markets	288	260	330	28	-42

Source: Barclays Live

- During the third quarter, credit spreads rose across most areas of the bond market.
- High yield spreads (+87 basis points) rose by the most over the quarter, followed by emerging market spreads (+28 basis points).

Commodities

**COMMODITY RETURNS
AS OF 09/30/2014**

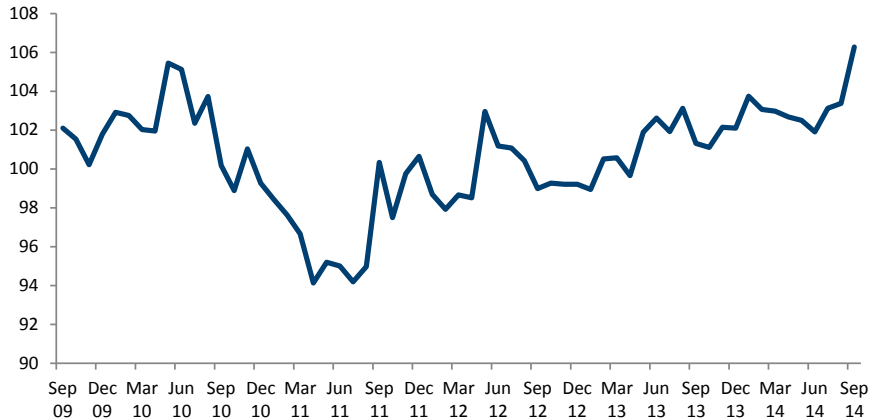


Source: Dow Jones-UBS

- The Bloomberg Commodity Index fell during the third quarter with a return of -11.83%.
- Over the quarter, the best performing segments of the market were Industrial Metals and Livestock, returning -4.12% and -2.23%, respectively.
- Agriculture and Grains were the worst performing sectors of the market during the quarter with returns of -18.05% and -22.86%, respectively.

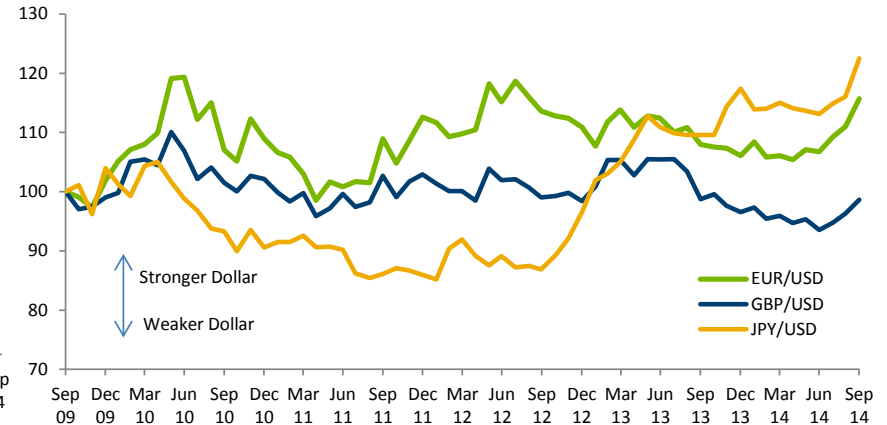
Currency

TRADE WEIGHTED U.S. DOLLAR INDEX
(1997 = 100)



Source: Federal Reserve

U.S. DOLLAR RELATIVE TO EUR, GBP AND JPY
REBASED TO 100 AT 09/30/2009

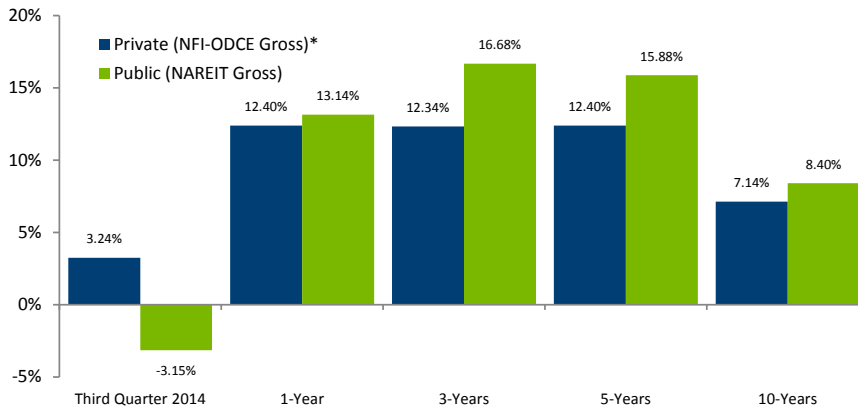


Source: DataStream

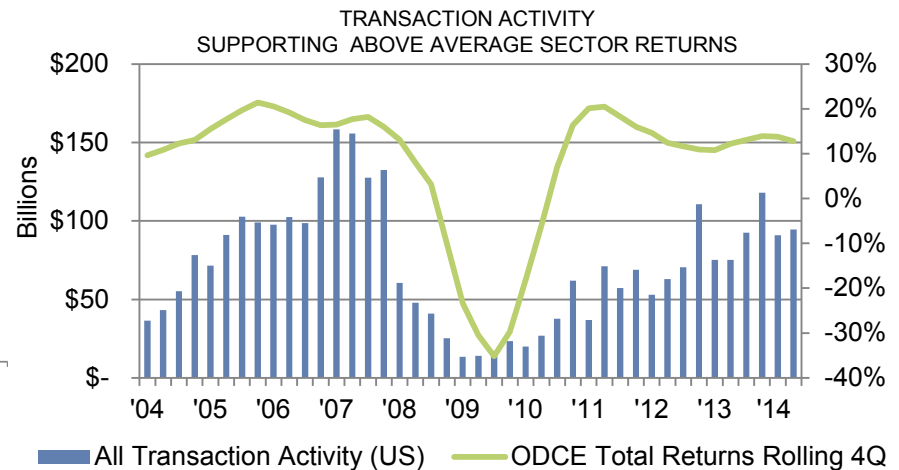
- As measured through the broad trade weighted U.S. dollar index, the U.S. dollar strengthened during the quarter.
- The dollar appreciated against the Euro, Yen and British Pound Sterling.

U.S. Commercial Real Estate Market

PRIVATE VS. PUBLIC REAL ESTATE RETURNS
AS OF 09/30/2014



*Third quarter returns are preliminary
Sources: NCREIF, NAREIT



- Return momentum in the private Core market is slowly waning as the cyclical recovery further matures. That said, the current pace is still well above the sector's long-term average driven by strong investor interest, low interest rates, and still improving market fundamentals.
- For the quarter, the NFI-ODCE* returned 3.2% (gross of fees), down slightly from 3.6% a year ago. For the trailing one year, the index returned 12.4% (5.1% income and 7.3% appreciation), versus 12.8% last quarter. For the trailing 5-year total return, the reverse is occurring as the impact of the GFC rolls over. As of 3Q, the trailing 5-year return was 12.4% (vs 10.0% last quarter and 7.3% in first quarter).
- For non Core investments, access to capital continues to deepen and legacy fund returns' generally continue to strengthen as strategies become fully executed and sold into the Core investment segment.
- U.S. REITs had a fairly volatile quarter, declining 3.1%, though still up 14.0% year to date. Concerns around interest rates as well as meaningful equity issuances in the latter part of the quarter placed downward pressure on pricing. Relative to private markets, the REIT market ended the quarter trading at around par based on estimated net asset values.
- Sector fundamentals continue to rebound beyond the primary markets, helping to support and expand current pricing. As new supply remains generally low, growth in rental rates, which has been modest to-date in all property types except apartments, have plenty of room for improvement. High expectations exist for improving net operating income supporting on-going attractive cash flow yields—even in the Core sector.
- Rising interest rates remain on investors' radar, though timing is highly uncertain. Improving fundamentals should help offset rising rates, though not completely. Portfolio structure and other long term risk mitigation measures are important to managing the maturing cycle, liquidity, and interest rate risks.

Source: HEK, NAREIT, NCREIF
*Preliminary