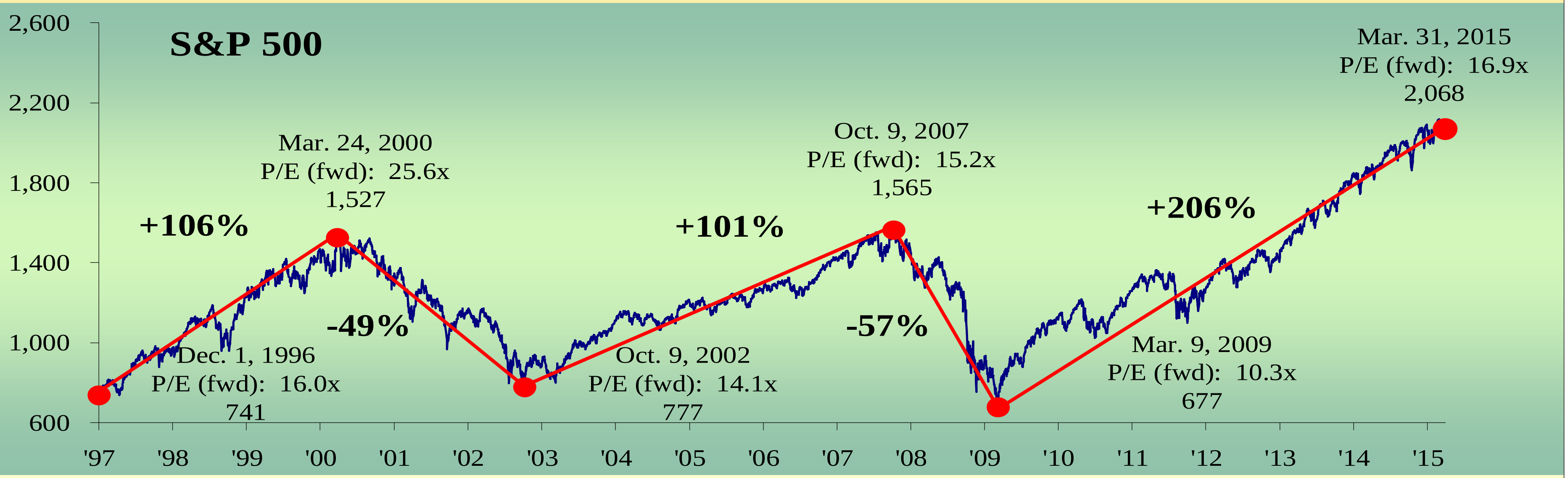
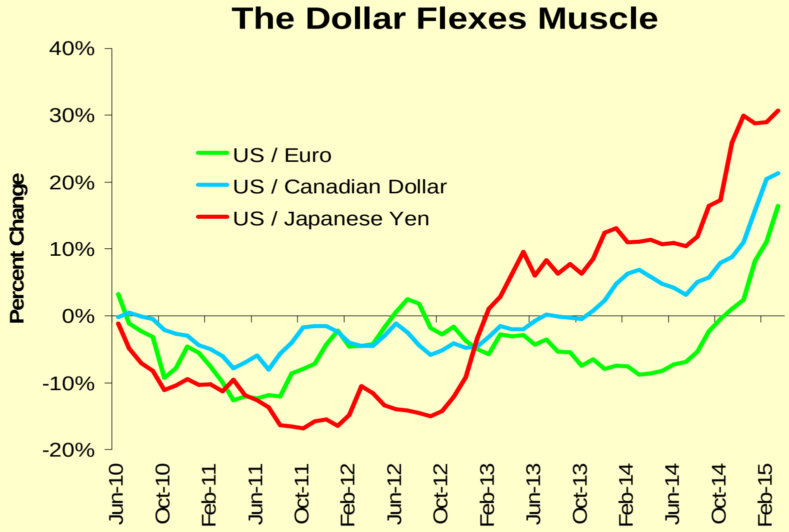
Capital Market Review

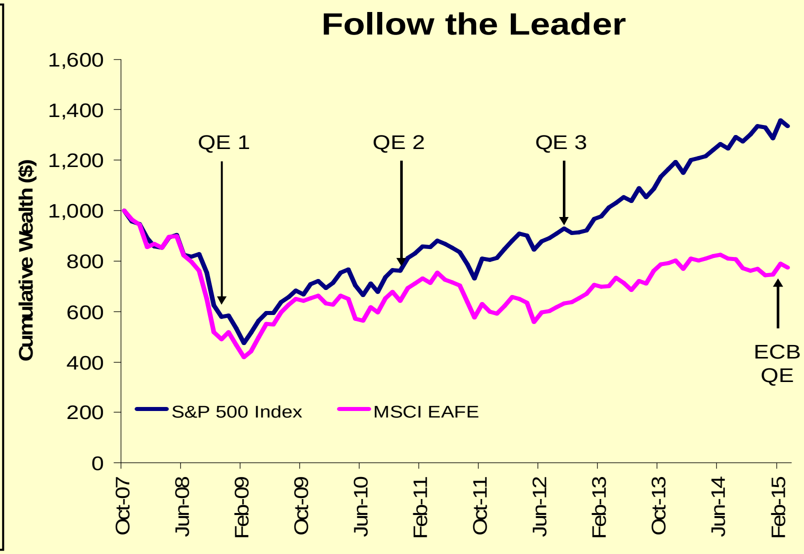
March 31, 2015

Stocks Rise from East to West





The S&P 500 has been the world leader for years as stocks have been fueled by low interest rates. Now the Fed is removing quantitative easing while Japan and Europe ramp up programs. A stronger dollar and zero to negative rates are the result in Japan and Europe. The MSCI EAFE had its best quarterly return in over a year.



BROAD MARKET OVERVIEW

DEMARCHE ASSOCIATES, INC.

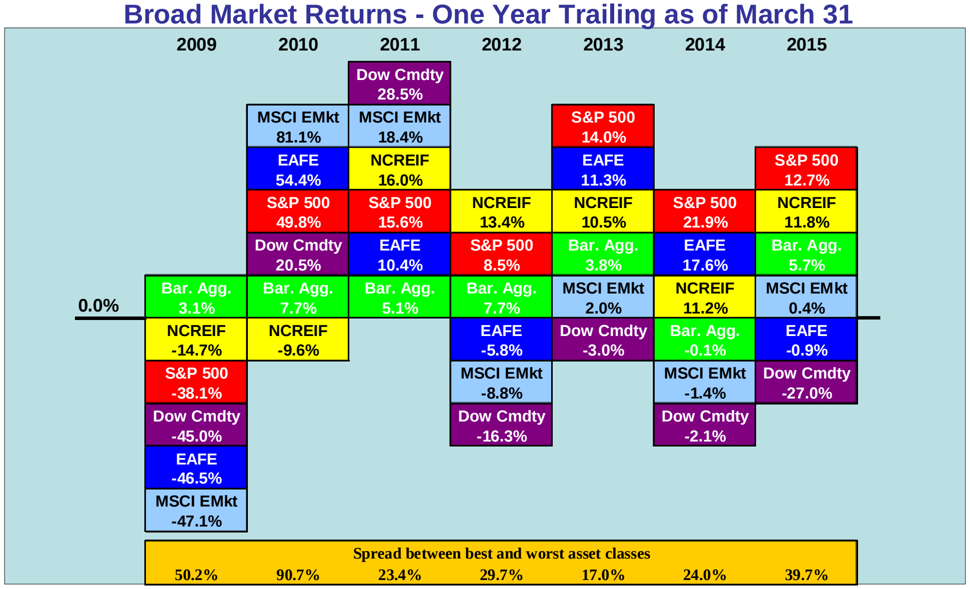
Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	2.3	6.0	12.2	10.0	6.4
DeMarche World*	3.4	5.1	11.1	8.9	6.8
DeMarche 3000	1.8	7.8	13.0	11.1	7.6
Russell 3000	1.8	12.4	16.4	14.7	8.4
S&P 500	1.0	12.7	16.1	14.5	8.0
DeMarche International	5.5	1.8	8.8	6.1	5.9
MSCI EAFE	4.9	-0.9	9.0	6.2	4.9
DeMarche Bond	1.9	5.9	2.9	4.4	4.6
Barclays Aggregate	1.6	5.7	3.1	4.4	4.9
Citigroup Non-U.S. Gov't Bond	-4.4	-9.8	-3.3	0.4	2.5
NCREIF (Private RE)	3.6	12.7	11.5	12.8	8.4
Bloomberg Commodity	-5.9	-27.0	-11.5	-5.7	-3.6

Notes: All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.

Indicator Year Ending 3/31	2015	2014	2013	2012	Long Term Average
GDP Annual Growth Rate	3.0	1.9	1.7	2.6	3.1
Unemployment	5.5	6.6	7.6	8.2	6.0
Inflation (CPI)	-0.1	1.5	1.5	2.7	3.8
10-Year Interest Rates	1.9	2.7	2.0	2.2	6.0

Broad Market Returns - One Year Trailing as of March 31



Source: DeMarche Associates, Inc.

- International stocks outperformed domestic stocks in the quarter, but lag in longer time periods. The chart on the bottom left shows domestic stocks leading the last three years and ahead of international stocks for the last six out of seven years. Quantitative easing programs in Japan and Europe have pushed up stock prices, despite slow economic growth this quarter.
- Conversely, in the US, the Federal Reserve has begun to remove the stimulus of quantitative easing and the impact is being felt on returns. Domestic stocks, as measured by the S&P 500, returned 1.0% for the quarter.
- Bond returns were positively influenced by slightly lower interest rates in the quarter. This is the first quarter that bonds, as measured by the Barclays Aggregate, outperformed the S&P 500 in over two years.
- The influence of the dollar's strength relative to other currencies is evident in the returns of Non-US Government Bonds. When the dollar is strong, it takes more units of local currency to purchase one dollar, which negatively impacts returns. Translating foreign currency into dollars lowers the total return from 2.5% to -4.4%, a total of 6.8%.
- Commodity prices continue on a free-fall, down 5.9% for the quarter and 27% over the past year. As the chart to the left shows, commodity prices have lagged in the past four years. While lower energy prices remain the single largest impact on the negative return over the past year, all the commodity sectors experienced negative returns.
- The chart on the bottom left shows domestic stocks leading the last three years and ahead of international stocks for the last six out of seven years.

DeFact

The strong US Dollar is sharply reducing earnings growth forecasts. For instance, eBay expects the stronger dollar to negatively impact revenue by $600 million this year. Amazon has already seen an $895 million revenue hit and projects that the dollar will shave about 5% off its sales this quarter. Lastly, Proctor and Gamble said that currency headwinds will knock more than $1 billion off earnings this year. --*Forbes, WSJ*

DOMESTIC EQUITIES

DEMARCHE ASSOCIATES, INC.

Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	3.3	13.3	15.0	12.8	8.6
DeMarche Value	-0.4	1.0	10.7	8.7	6.3
DeMarche Aggressive	3.9	4.1	15.8	10.9	7.5
DeMarche Defensive	1.6	8.2	12.6	11.1	7.5
DeMarche Large Cap	1.2	7.8	12.3	10.1	6.9
Large Cap Growth	2.8	14.1	14.7	12.1	8.0
Large Cap Value	-0.9	0.7	9.7	7.7	5.3
DeMarche Small Cap	1.5	-0.2	15.1	13.7	8.3
Small Cap Growth	3.4	2.0	14.2	14.2	7.3
Small Cap Value	0.2	-1.7	15.6	13.3	8.9
S&P 500	1.0	12.7	16.1	14.5	8.0
S&P Mid-Cap 400	5.3	12.2	17.0	15.7	10.3
S&P Small-Cap 600	4.0	8.7	17.3	16.3	9.7
Russell 1000	1.6	12.7	16.4	14.7	8.3
Russell 1000 Growth	3.8	16.1	16.3	15.6	9.4
Russell 1000 Value	-0.7	9.3	16.4	13.8	7.2
Russell 2000	4.3	8.2	16.3	14.6	8.8
Russell 2000 Growth	6.6	12.1	17.7	16.6	10.0
Russell 2000 Value	2.0	4.4	14.8	12.5	7.5

Are Attitudes Changing?

Quintiled by Heading	Market Cap	Return on Equity	Debt to Assets	Beta
Since the Bottom of the Market 3/1/2009 - 3/31/2015				
Q1 (Highest)	6.51	7.79	8.01	**8.83**
Q2	7.57	7.21	**8.56**	8.19
Q3	7.74	7.15	7.62	7.47
Q4	7.76	**7.90**	7.28	7.02
Q5 (Lowest)	**8.19**	7.36	6.40	6.09
Year 2015 4/1/2014 - 3/31/2015				
Q1 (Highest)	**8.84**	**10.88**	3.53	-6.75
Q2	8.38	9.51	**7.65**	3.24
Q3	5.93	6.57	2.93	6.20
Q4	-1.46	3.58	1.53	**7.77**
Q5 (Lowest)	-6.65	-14.11	-1.06	4.79

Source: DeMarche 3000

- Small cap companies continued their rebound in the 1st quarter. Larger cap companies were impacted by the slowing growth in earnings brought about by a strong dollar. Longer term returns of small cap stocks are now in-line with large cap stocks across all time periods.
- Growth stocks outperformed value stocks in the quarter and the year. Financial stocks, due to concerns over higher interest rates, replaced energy stocks as the primary drivers of negative returns for the value index this quarter. Biotech stocks continued strong performance in the quarter and led growth stocks.
- Aggressive stocks rebounded in the first quarter after trailing much of the past year. Aggressive stocks are characterized by being smaller cap with more debt and cyclical with less consistent earnings. For example, the largest weights in the Aggressive index are airlines, such as Delta and American, while the largest weights in the Defensive index are cash flow generating companies, like Apple, Exxon, and Berkshire Hathaway.
- On the bottom left, the table on top shows that low quality stocks have outperformed higher quality stocks since 2009. The table also shows how the highest beta stocks with the smallest market cap, lower return on equity, and higher debt-to-assets ratio have led in market returns. The lower table shows that a shift toward higher quality stocks may be beginning to appear, as higher ROE and larger market cap stocks have been leading for the past year.

DeFact

Biotech stocks have driven outsized returns for large and small cap growth indexes. Over the past 12 months, large cap biotech and small cap biotech companies have returned over 47% and 64%, respectively. However, in the last two weeks of the quarter, large cap biotech corrected over 9%, and small cap corrected 10%; otherwise, returns would have been even higher. Biotech stocks make up about 20% of the healthcare sectors of the growth indexes.

-Yahoo Finance, DeMarche Associates

INTERNATIONAL EQUITIES

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Intl	5.5	1.8	8.8	6.1	5.9
Growth	7.3	6.0	9.0	7.2	6.6
Value	4.4	-1.0	9.0	5.1	5.5
DeMarche Intl Small Cap	10.4	5.8	11.6	6.7	5.9
DeMarche EM	5.7	14.9	5.4	4.2	8.3
MSCI EAFE Local	10.8	17.7	16.6	9.1	6.1
MSCI EAFE USD	4.9	-0.9	9.0	6.2	4.9
Growth	5.8	1.0	9.0	7.0	5.6
Value	3.9	-2.9	9.0	5.3	4.2
MSCI Japan	10.2	12.1	9.4	5.9	3.5
MSCI AC Asia-ex Japan	4.9	10.7	6.8	6.2	9.8
MSCI Germany	8.3	-2.6	11.3	8.8	7.6
MSCI France	4.7	-8.4	8.8	3.7	3.5
MSCI UK	-1.0	-5.5	6.6	6.8	4.4
MSCI EAFE Small Cap	5.6	-2.9	10.7	8.8	6.2
MSCI EM	2.2	0.4	0.3	1.7	8.5
MSCI All Country-ex US	3.5	-1.0	6.4	4.8	5.5

Projected 5-Year Stock Returns As of 3/31/15

S&P 500 — Current Yield 1.97%; Current P/E 18.4

MSCI EAFE — Current Yield 2.89%; Current P/E 17.9

Earnings Growth Rate	S&P 500 16.0	S&P 500 18.0	S&P 500 20.0	MSCI EAFE 16.0	MSCI EAFE 18.0	MSCI EAFE 20.0
8.0%	7.2	9.6	11.7	8.7	11.0	13.1
4.0%	3.2	5.6	7.7	4.7	7.0	9.1
0.0%	-0.8	1.6	3.7	0.7	3.0	5.1
-4.0%	-4.8	-2.4	-0.3	-3.3	-1.0	1.1
-8.0%	-8.8	-6.4	-4.3	-7.3	-5.0	-2.9

Ending P/E (Annualized Values)

Source: S&P and Morgan Stanley

- Asian stocks continue to lead stock markets from other regions for the year. Japanese stocks continue to lead other developed markets in the quarter and in the year. Asian stocks (ex Japan) also led emerging market stocks. This quarter, as with last quarter, China and Hong Kong shares led stock markets.
- Last quarter, international returns were negative, due to a strong US dollar. This quarter, they were strong enough, due to international monetary easing, that even against a dollar headwind, international returns beat domestic stocks. In the quarter, MSCI EAFE USD returned 4.9%, beating the S&P 500's return of 1.0%.
- Emerging market stocks returned 2.2% for the quarter. Asian Countries – China, South Korea, and Taiwan – followed by South Africa, all posted positive returns. Latin American countries with smaller weights – Brazil and Mexico – each posted negative returns. Brazil seems to be headed for a recession in 2015, and the stock market is reflecting the prognosis.
- The chart at the bottom left shows that international stocks are priced for a higher return relative to domestic stocks over the next five years because of higher dividends, lower valuations, and by quantitative easing programs in Europe and Japan.

DeFact

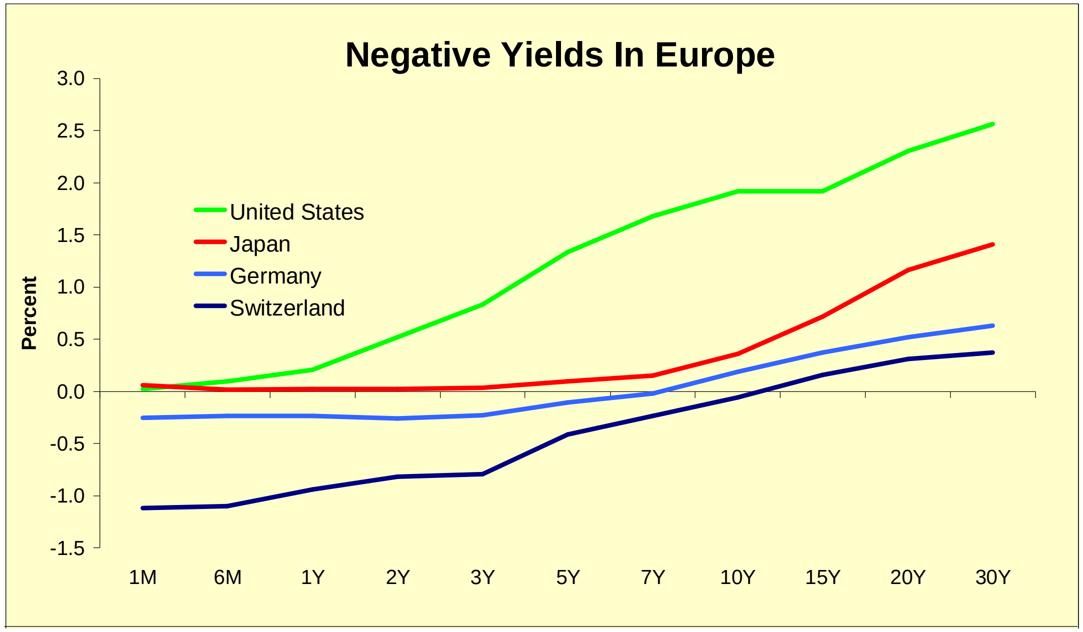
At least 17 stock indexes set fresh highs during the first quarter, as easy-money policies from major central banks and signs of stability in some troubled economies boosted returns in the U.K., Germany, and India. Other markets in Japan, France, and Spain hit new 52 week highs. Investors say that low interest rates are the key reason they expect bull markets to continue in many countries.

-WSJ

FIXED INCOME

DEMARCHE ASSOCIATES, INC. Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	1.9	5.9	2.9	4.4	4.6
Quality					
AAA/Aaa	1.9	5.7	2.3	3.8	4.3
BBB/Baa	2.0	7.0	5.7	7.5	6.7
Duration					
1-5 Years	1.0	2.1	1.5	2.3	3.6
5-10 Years	2.5	6.8	3.3	5.7	5.6
10-20 Years	3.4	16.7	7.1	9.7	6.6
Sector					
U.S. Treasuries	1.9	5.9	2.3	4.0	4.4
U.S. Agencies	1.2	3.4	1.8	2.5	3.8
Corporates	1.9	6.6	5.4	7.1	6.3
Barclays U.S. TIPS	1.4	3.1	0.6	4.3	4.6
Barclays Aggregate	1.6	5.7	3.1	4.4	4.9
Barclays Gov Credit Long	3.4	15.7	7.7	10.2	7.7
Merrill Lynch High Yield	2.5	2.0	7.4	8.4	8.0
CSFB Leveraged Loan	2.1	2.8	5.4	5.4	4.7
JPM Emerging Mkt Debt Global	2.1	4.1	4.4	6.8	8.0



- High yield bonds posted a positive return for the 1st quarter, as compared to a negative return last quarter. High yield spreads that widened in sympathy with bonds of energy companies reversed course and tightened. Tightening spreads have a positive impact on returns.

- Unlike high yield bonds, the spreads on investment grade corporate bonds stayed constant. The return on corporate bonds reflects the coupon earned. Over the past year, the return of corporates is marginally higher than Treasuries, reflecting the credit spread.

- Long bonds performed well in the quarter, as long term interest rates fell. Global investors moved capital into the US as a safe haven, resulting in a stronger dollar and lower interest rates.

- The ECB first cut its rate on deposits to zero in June 2014 and to (0.20%) in September 2014. The effects have rippled across financial markets. European governments, including Austria, Finland, Germany, and Switzerland, have all issued new bonds at negative yields in 2015. In fact, some banks are charging customers to hold their deposits.

DeFact

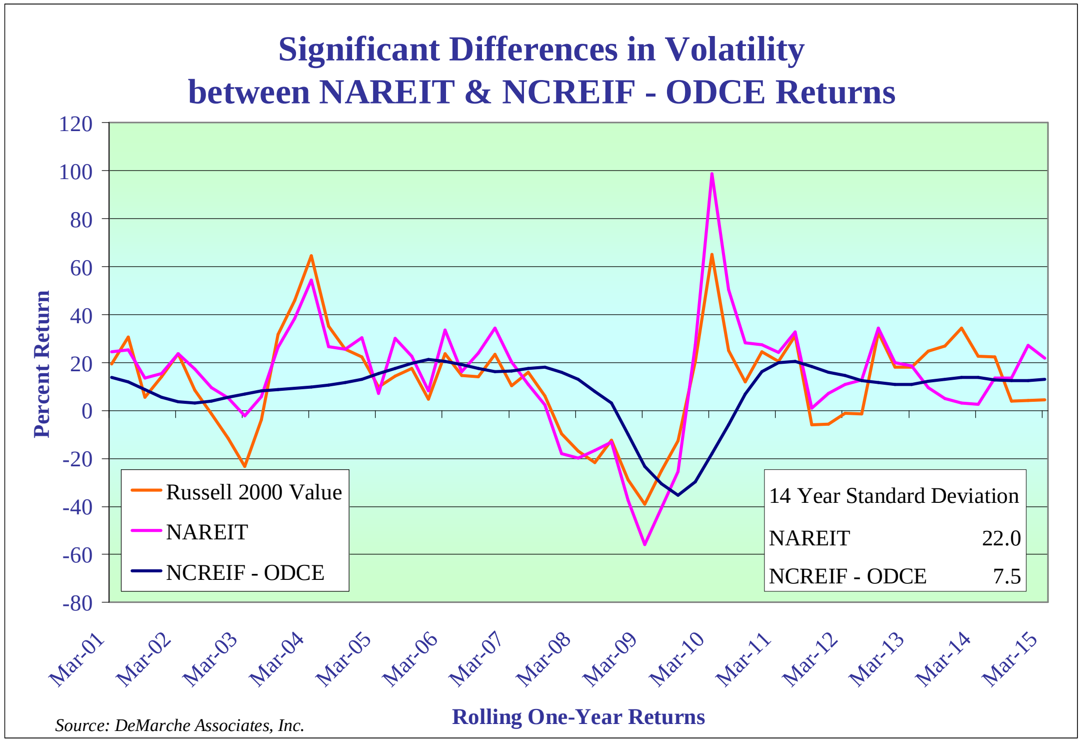
Between December 2014 and March 2015, the FOMC members became less aggressive in their predictions of imminent interest rate increases. In December 2014, the FOMC predicted that the Fed Funds rate at the end of 2015 would be 1.13%. Now the prediction is 0.77%, 36 basis points lower.

-FOMC

LESS LIQUID STRATEGIES

DEMARCHE ASSOCIATES, INC. Putting Research To Work

INDEX	1st QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	3.6	12.7	11.5	12.8	8.4
Apartment	2.9	11.0	10.7	13.6	8.1
Industrial	3.5	14.2	12.4	12.7	8.3
Office	3.3	12.7	10.6	11.8	8.2
Retail	4.9	13.8	13.3	13.6	9.2
NAREIT (Public RE)	4.1	21.9	14.1	15.4	8.8
NCREIF Timberland	1.8	10.6	9.8	6.2	8.3
HFR FOF Composite	2.5	5.4	5.4	3.5	3.2
Conservative	1.7	3.5	4.7	3.2	2.5
Diversified	2.6	5.6	5.6	3.7	3.3
Strategic	2.8	5.2	5.8	3.8	3.6
Bloomberg Commodities	-5.9	-27.0	-11.5	-5.7	-3.6



- Real estate continues its recent positive performance. A strong demand for offices and apartments has tightened supply, and builders are responding with new construction.

- Hedge funds continue to have positive absolute performance. In fact, hedge funds posted their best quarterly performance in almost two years. Hedge fund returns were driven primarily by volatility in commodity and currency markets.

- Volatility in the commodity markets has driven prices lower in the quarter. In addition to lower energy prices, agricultural commodities contributed to the lower quarter. Industrial and precious metals also fell in price, but not to the same degree as energy and agriculture.

- As the chart on the left shows, the return on REITs is much more volatile than private real estate. The diversification potential of real estate is best achieved with private real estate exposure, instead of REITs, excluding any liquidity concerns and considering their correlation to small cap stocks.

DeFact

Over the past seven months, since oil began its precipitous decline, lean hogs was the one major benchmark commodity to fall even further, according to the CME Group. At one point during the quarter, the price of lean hogs sunk 51.3%, as compared to 50.9% for West Texas Intermediate Crude. Prices have fallen from 2014 record highs, as pigs made a strong comeback from a virus that drove up 2014 prices. Now the glut of pigs should keep prices low for a while.

-Fortune

Difficult Time for Active Management

- Just 19.9% of the US equity fund managers bested their benchmarks in 2014, according to Morningstar. When interest rates fall, managers tend to underperform benchmarks. Dispersion – the difference between the best and worst performing stocks – has been historically low. When interest rates increase, active managers tend to beat their benchmarks. (Barron's)
- Some managers using fundamental analysis struggle in highly correlated markets caused by macro events, such as falling energy prices, geopolitical unrest, and central bank quantitative policies.
- Some managers with a high quality bias underperform when the market embraces risk.
- While recent times have been difficult for active management, managers should be judged over a complete market cycle. Over the long term, our research has proven that active managers with a stable organization, qualified investment professionals, and solid investment processes add value for our client portfolios.
- We will explore this topic among many others in our fall client conference.

DeMarche Client Conference

Mark your calendars for our next Client Conference, **October 7-9, 2015** at **The InterContinental Hotel** in Kansas City, Missouri. Further information on registration will be mailed to clients in August. Questions may be directed to Debra Vanderwerf or Anna Bourdess at DeMarche at 913-384-4994.