Fourth Quarter 2014 Market Environment

With the oil shale boom, the energy sector has gained increased focus as it has become one of the most important components to economic growth in the U.S.. Since July 2011, the U.S. economy has grown an average of 2.2%. The consensus among Wall St. economists is 0.5-1.0% of the growth has come from the energy sector. Others have it as high as 1.25% (Bridgewater) while the Financial Times recently pegged it at 0.7%. Restated, about 1/3 of the growth in the U.S. economy has come from the energy sector. The energy sector has impacted GDP in two primary ways: jobs (wages) and capital expenditures (capex).

While market pundits like to discuss forecasts (trying to pick a bottom for oil), they miss the larger issue. Is the price decline a technical issue due to an excess supply of oil or is the decline due to more fundamental demand concerns? Some analysts attribute the decline in oil prices to simple Econ 101, an increase in supply with the same demand results in lower prices. Under such a thesis, lower oil prices results in lower gas prices and the consumer benefits by spending less at the pump. These savings translate into consumption that will drive GDP. Conversely, those that believe the price decline is a result of lower demand cite comments from the International Energy Agency (IEA), noting global oil demand slowed at a "remarkable" pace in Q2 due to weaker economic growth. The U.S. job market has averaged payroll gains between +100k to +300k since 2010. A bright spot among these gains has been the oil and gas sector where payroll growth has been tremendous with significant increases in wages. One impact of lower oil will be reducing the gains in both payroll and wages in the oil and gas sector. A second impact will be felt in capex. The energy sector share of total capex has grown from 13% in 2003 to nearly 33% in 2014.

As oil prices have declined and the dollar has rallied, Q4 2014 earnings expectations have declined. The energy sector weight in the S&P 500 has ranged from 8% to 13% over the last decade, and while the financial and technology sectors still dominated as the largest sectors, the decline in earnings expectations for the energy sectors are so significantly negative they have brought down overall expectations. Those believing in the supply side argument assert these to be short-term impacts and expect lower oil to be a benefit to corporate earnings over the long-term as lower input costs increase overall corporate earnings. Meanwhile, those believing the demand side argument contend that lower oil is a warning for slowing consumption and corporate earnings will certainly be negatively impacted by reduced sales volume. The strong dollar is beginning to hurt earnings as 45% of the revenues of the S&P 500 companies come from overseas. Recent economic weakness in Europe, Asia, and EM has been a drag on earnings. The answer to the supply or demand question is a key consideration on how the macro economy and capital markets are likely to perform in 2015.

Fiscal Year to Date Performance

With respect to the fiscal year, the Endowment portfolio experienced a decline in the first quarter ending September 30, 2014. Modest declines were experienced in the domestic equity investments and more meaningful declines within international equity. Partially offsetting loses in the fiscal first quarter were gains experienced in the fiscal second quarter ending December 31, 2014. All portfolios advanced during the period due to a rebound in domestic equity performance, although international equities still lagged. Portfolios with allocations to REIT investments as opposed to direct real estate benefited during the period, as we expect REITs will be more highly correlated to the domestic equities and will benefit in strong markets.

Investment Pools	Three months ended 12/31/14	Year to Date	Fiscal Year to Date	One (1) Year Return	Three (3) Year Return	Five (5) Year Return
Cash Equivalent 100% Cash Equivalents	*0.0*	*0.4*	*0.4*	*0.4*	*0.5*	*0.6*
Global Constrained Income & Growth 22% Equity, 61% Fixed Income, 7% Real Estate, 10% Alternative Investments	*1.2*	*5.7*	*-0.3*	*5.7*	*7.4*	*7.3*
Global Constrained Balanced 43% Equity, 39% Fixed Income, 8% Real Estate, 10% Alternative Investments	*1.4*	*5.9*	*-0.5*	*5.9*	*10.5*	*8.9*
Global Growth & Income 56% Equity, 22% Fixed Income, 10% Real Estate, 12% Alternative Investments	*1.0*	*5.6*	*-1.3*	*5.6*	*11.4*	*9.2*
Endowment	*0.2*	*4.4*	*-1.5*	*4.4*	*10.9*	*8.5*
Market Benchmarks						
Cash - *90-Day Treasury Bills*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.1*
Bonds - *Barclays Capital Aggregate*	*1.8*	*6.0*	*2.0*	*6.0*	*2.7*	*4.4*
International Stocks - *MSCI ACWI ex U.S. Gross*	*-3.8*	*-3.4*	*-8.8*	*-3.4*	*9.5*	*4.9*
Domestic Stocks - *S&P 500*	*4.9*	*13.7*	*6.1*	*13.7*	*20.4*	*15.5*
Blended Benchmark - Endowment[1]	*0.5*	*4.7*	*-1.3*	*4.7*	*10.0*	*8.5*

1. 30% Russell 3000, 26% MSCI ACWI ex US, 22% BC Aggregate, 10% NCREIF Property Index, 5% DJ UBS Commodity Index, 7% CPI +6.5% Index.

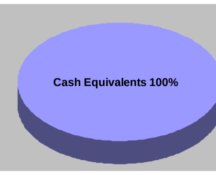
Notes: *The above are the historical returns for each of the five investment pools.* ***Investment performance of individual funds may vary from the total pool return due to the timing of contributions and grants. Historical returns are not a predictor of future returns. The returns above are net of fees paid to investment managers. This fee represents the plans' blended expense ratio and is between 50 and 60 basis points annually. The fee for our investment consultant, Wurts & Associates, is not reflected in the returns.***

Underlying Investment Managers

Domestic Equity: Vanguard 500 Index, T. Rowe Price Large Cap Growth, Barrow Hanley Large Cap Value, Vanguard Extended Market ETF
International Equity: Dodge & Cox International Stock, EuroPacific Growth, DFA International Small Cap, DFA Emerging Market Core
Fixed Income: Dodge & Cox Income, Met West Total Return, JP Morgan High Yield, Vanguard Inflation Protected Securities
Real Assets: Gresham Commodity, TownSquare Real Estate, Penn Square, UBS Trumbull, Vanguard REITs
Liquid Alternatives: PIMCO All Asset All Authority

CASH EQUIVALENT

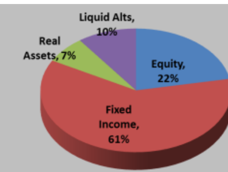
A cash-equivalent pool designed for donors or nonprofits that wish to make grants immediately or for funds that cannot sustain any loss of principal over any time horizon.



During the quarter, the Short Term Pool returned 0.0% given the tepid yields available across the CD and money market universes. Over the past year, the Short-Term Pool has returned 0.4% as the Federal Reserve continues to keep rates near historic lows. When the Fed starts raising short-term interest rates, the yield for the Short-Term Pool should improve.

GLOBAL CONSTRAINED INCOME & GROWTH

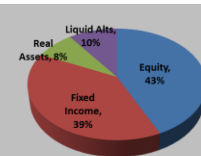
Designed for donors or nonprofits with medium-term objectives (3-5 years). While moderately conservative, this pool will have a risk of loss. A moderate portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.



The Global Constrained Income & Growth Pool was up 1.2% during the quarter and is up 5.7% over the past year. There was bifurcation in the equity markets during the quarter, with domestic equity providing a positive contribution and international detracting, total equities account for 22% of the portfolio. The Pool's Fixed Income securities, which comprises 61% of its total assets, posted a modest gain for the quarter. The allocation to REITs during the fourth quarter was a strong contributor on an absolute basis but is a small percentage of the overall portfolio at 7%.

GLOBAL CONSTRAINED BALANCED

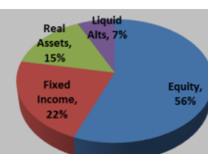
Designed for donors or nonprofits with longer-term objectives (7+ years) and spending rates of less than 4% of assets per year. A portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.



The Global Constrained Balanced pool was up 1.4% during the quarter and is up 5.9% over the past year. There was bifurcation in the equity markets during the quarter, with domestic equity providing a positive contribution and international equities detracting, total equities account for 41% of the portfolio. The allocation to Fixed Income which represents 39% of assets had modest contribution during the period. The allocation to REITs during the fourth quarter was the strongest performer on an absolute basis and was modestly accretive to overall gains with a small percentage of the overall portfolio at 8%.

GLOBAL GROWTH & INCOME

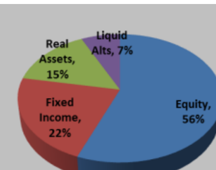
Designed for donors or nonprofits with long-term objectives (10+ years) yet with liquidity requirements and with spending objectives of approximately 4% of assets per year. A large portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool will not include an allocation to illiquid alternative investments.



The Global Growth & Income pool was up 1.0% during the quarter and is up 5.6% over the past year. Most asset classes within the portfolio were overall detractors to performance during the quarter. There was bifurcation in the equity markets during the quarter, with domestic equity providing a positive contribution and international equities detracting, total equities account for 56% of the portfolio. Over the 1 year period the portfolio benefited from an overweight in domestic equity, returning 10.9% versus a decline of -1.8% in international equity markets. Fixed Income, provided diversification against more volatile asset classes, providing a modest contribution during the quarter and accounted for 23% of plan assets. Within alternatives, commodities was the worst performing investment during the period on an absolute basis and modestly detracted from the overall given the small percentage of the overall portfolio at 4%. The REITs allocation helped offset losses in commodities and provided a modest contribution to the overall gain at 10% of the overall portfolio.

ENDOWMENT POOL

Designed for donors or nonprofits with endowment-like objectives (20+ years), willing to accept moderate illiquidity and with spending objectives of approximately 4% of assets per year. A large portion may be invested in capital appreciation oriented investments. The income allocation may include an allocation to fixed income instruments. The pool may include an allocation to illiquid alternative investments. The management of this pool will be consistent with endowment best practices.



The Endowment pool gained 0.2% during the quarter which ranked in the 71st percentile. For the year the Endowment gained 4.4%. Results were mixed during the period with domestic equities advancing and international equities declining, total equities represented 56% of the overall portfolio. The direct real estate composite although positive during the quarter and for the trailing year did not keep pace with the REIT allocation in the other asset pools which tends to be correlated with domestic equity markets. Within Fixed Income, high yield provided the weakest returns. Within alternative asset classes, commodities posted the weakest returns driven by weakness in the energy sector but was small detractor at 4% of the portfolio.