



# Cleveland Public Library

January 15, 2015

## Review for the Period Ending December 31, 2014

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## Market Review

# Economic and Market Review

## Fourth Quarter 2014

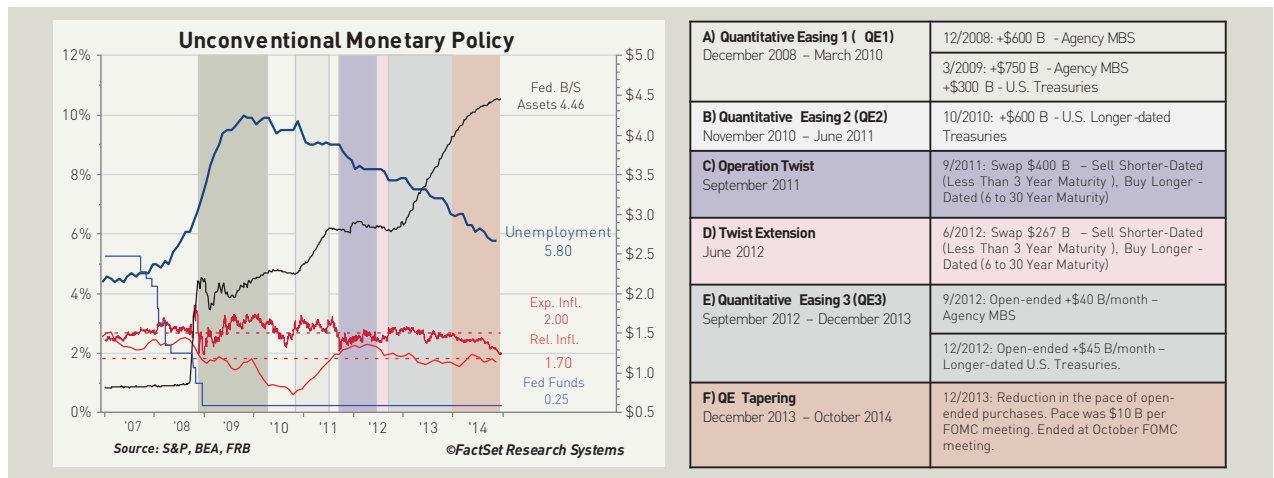
### Economic Review

During the fourth quarter of 2014, three major themes impacted the capital markets and set the stage for calendar year 2015:

- Diverging monetary policies among major developed nations
- Strengthening of the U.S. dollar vs. other nations
- Sharp declines in oil prices

With the U.S. unemployment rate below 6%, and monthly payroll additions averaging over 240,000 throughout 2014, the Federal Open Market Committee (FOMC) felt comfortable enough with improvements in the labor markets to conclude the Federal Reserve's asset purchase program. At each FOMC meeting throughout 2014, the original \$85 billion in U.S. Treasury and agency mortgage backed security (MBS) purchases was reduced or "tapered" by \$10 billion.

The final stages of QE added \$1.7 trillion to the Fed's balance sheet assets between September 2012 and October 2014, where assets peaked at \$4.4 trillion. The size of the balance sheet should remain at current levels as the Fed continues to reinvest principal payments from agency debt and MBS into agency MBS, as well as roll-over maturing Treasury securities.

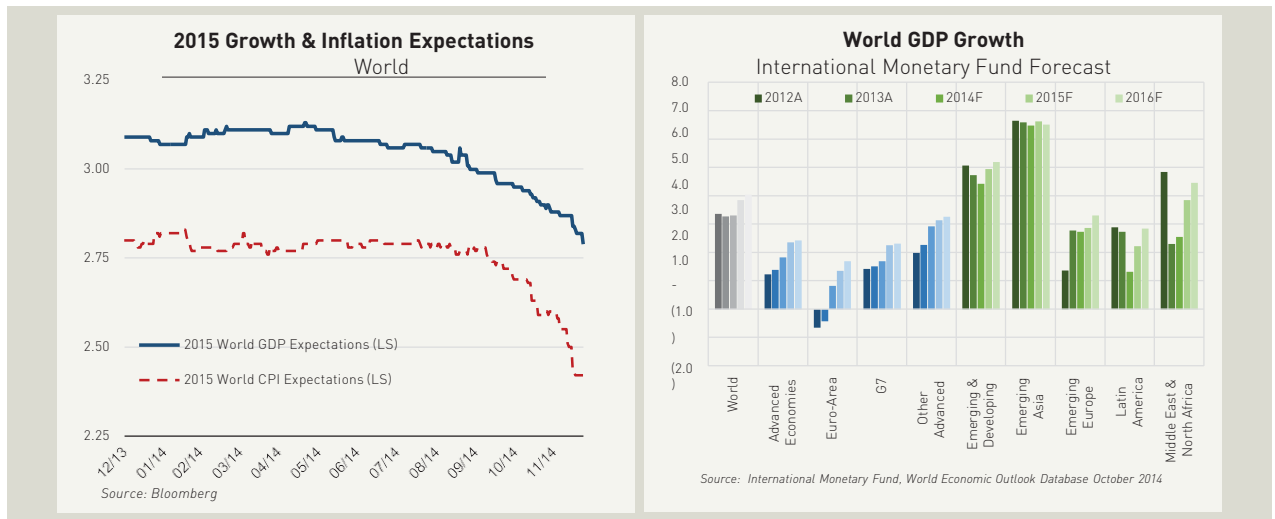


The next steps for the Fed will be removing the zero interest rate policy (ZIRP) that has been in place for six years, and begin to normalize interest rates. The current "lift-off" date is expected to occur during the second half 2015. However, relatively benign realized inflation readings and recent declines in inflation expectations gives the Fed cover should they decide to delay the policy change in an attempt to allow the domestic expansion to gain further momentum. The indicators the Fed will be keeping an eye on are: a) the ongoing improvements in the labor markets, b) different measures of inflations both realized and expected, and c) the global economic outlook.

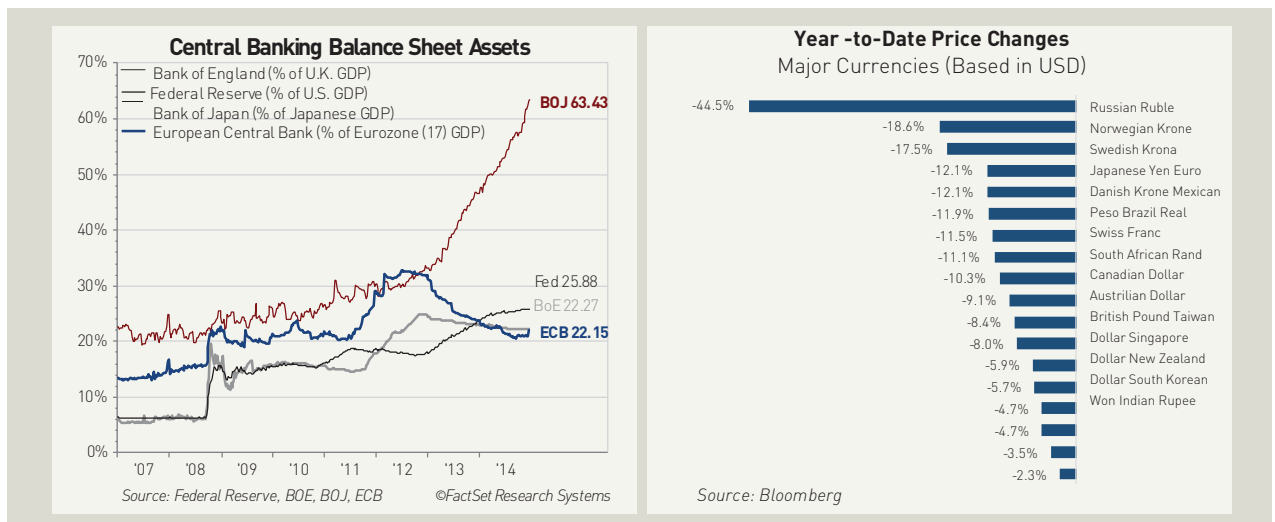
Outside the U.S., the global economic outlook downshifted during the fourth quarter. Global growth expectations for CY 2015 during the first half of 2014 started above 3.0%, but have steadily declined during the second half of the year. Inflation expectations have also plunged as a result of a lower energy prices and lower growth expectations. Central banks outside the U.S. continued to have substantial cover for further monetary policy accommodation. ECB President Mario Draghi stated there were "significant and increasing differences in the monetary policy cycle between major advanced economies." In Europe, lower inflation, accompanied by weaker real GDP growth have opened the door for additional monetary policy accommodation. Expectations are the ECB will re-expand their balance sheet over the next two years.

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In Japan, the expansion of the balance sheet has been unsuccessful at generating real growth and has led to significant devaluation of the Japanese yen. Since the end of 2012 the yen was valued at ¥87 JPN/USD and has since depreciated to ¥118. Balance sheet assets at the Bank of Japan have doubled during that time period from 30% to over 60% of GDP. With deflation risks still entrenched, Japan will continue to increase the size of its balance sheet and it is highly likely the yen will continue to depreciate against the U.S. dollar.

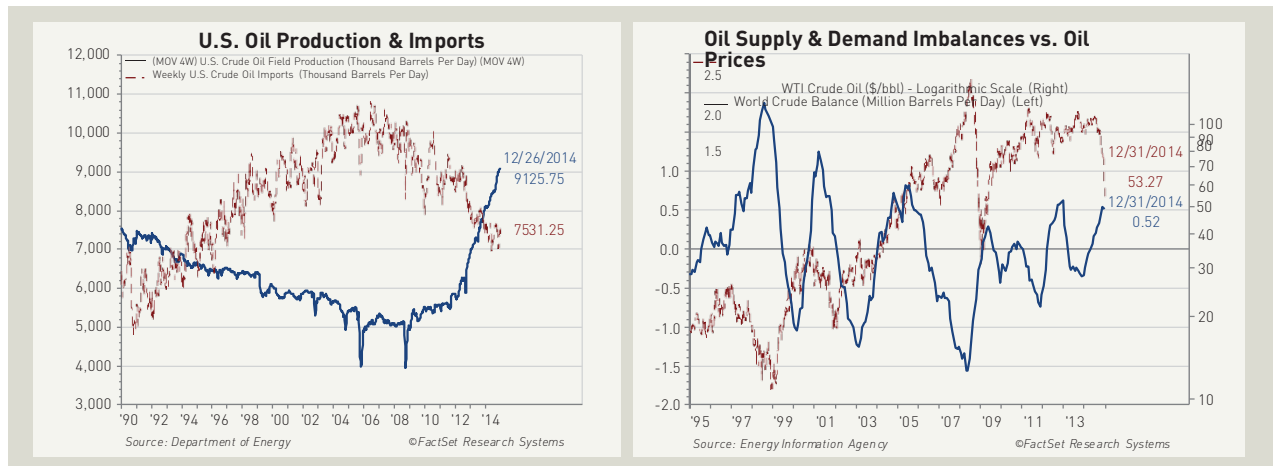


During the year, the trade-weighted USD appreciated near 9% against major currencies. Most of this appreciation occurred during the last quarter of the year, coinciding with the drop in oil prices. Outside of the yen, some of the steeper currency declines occurred in developed nations that export oil. The most dramatic drop was endured by the Russian ruble which suffered under the combination of an already slowing economy, U.S. and European economic sanctions related to Ukraine and Crimea, and the steep fall in the price of their prime export, oil. Other developing countries that export oil (such as Venezuela), face increasing debt burdens as their export revenues decline while their currency depreciates vis-à-vis the U.S. dollar.

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Regarding oil prices, the price declines started mid-year when WTI crude prices were near \$105 per barrel, then dropped to around \$90 at the end of the third quarter. Price declines accelerated during the fourth quarter to the mid \$50s.



The cause of the decreases in oil can be traced back to supply and demand. Capital market investment into energy producers over the past few years has led to significant increases in oil production capacity domestically resulting in decreases in oil imports. During the fourth quarter, OPEC decided not to cut oil production, likely to force out the marginal high cost producer and triggered the significant declines in oil prices during December.

The decline in oil prices had several effects that have spilled into the capital markets and broad economy. In the capital markets, currencies of oil producers have been negatively impacted, equity returns of energy companies have significantly underperformed other sectors, and credit spreads of energy-related companies have drastically widened, especially in the high yield markets.

Conversely, on the economic front, consumers of energy are the clear beneficiaries, both households and companies. Households receive a tax-cut effect from the lower costs, especially lower-income households where energy prices represent a higher percentage of disposable income. Households may spend this windfall, driving consumption higher, or save the proceeds – it was not too long ago that gas prices were near \$4.00.

Depending on whether they are a producer or consumer of oil, U.S. corporations have both headwinds and tailwinds from the energy and stronger dollar scenario. Lower energy prices will likely have an impact on other input prices. This could lead to further profit margin expansion from already elevated levels. The industries that will most likely benefit from the drop in oil prices include those where transportation fees are a significant part of expenses such as airlines, trucking, freight, and railroads. Consumer discretionary related industries such as restaurants, hotels, apparel, and other consumer goods will benefit from lower gasoline prices. Construction will also benefit from lower input costs of raw and building materials made from oil and oil-related products.

Multinational corporations with end markets in countries where currencies have depreciated versus the U.S. dollar may see slight headwinds in sales growth. Additional negative impacts to corporate profitability could come from lower capital spending activities from energy-specific companies or derivate sectors such as industrials, utilities, and materials.

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## Fourth Quarter 2014

### Market Review

During the fourth quarter, some non-traditional assets stood out on both the positive and negative ends of asset class return spectrum. Real Estate Investment Trusts (REITs) returned a staggering 12.4% for the quarter, bringing the one-year return to 27.2%. On the opposite end of the return spectrum, the S&P GSCI fell 27.7% during the quarter and ended the year down -33.1%. Within the commodity complex, energy-related indices led the declines, while livestock commodities posted low double-digit gains for the year. Both precious and industrial metals ended the year lower.

Within the traditional asset classes, domestic equities outperformed international equities during the quarter and year. The MSCI EAFE index fell 3.5% during the quarter and lost 4.5% for the year. The MSCI Emerging Market index lost 4.4% during the fourth quarter, but lost 1.8% during the year. Domestically, the Russell 2000 small cap index returned 9.7% during the fourth quarter and outperformed the S&P 500 large cap index which returned a respectable 4.9%. At the end of the third quarter, the small cap index had lost nearly 5%, and with the gains during the fourth quarter the index finished the year up 4.9%.

| Total Returns<br>Asset Allocation/ Balanced | Trailing 1<br>Month | Trailing 3<br>Months | Trailing 1<br>Year | Trailing 3<br>Year* | Trailing 5<br>Year* | Trailing 10<br>Year* | Trailing 15<br>Year* |
|---|---------------------|----------------------|--------------------|---------------------|---------------------|----------------------|----------------------|
| <i>Index Benchmarks:</i>                    |                     |                      |                    |                     |                     |                      |                      |
| S&P 500                                     | -0.25%              | 4.93%                | 13.69%             | 20.41%              | 15.45%              | 7.67%                | 4.24%                |
| Russell 2000                                | 2.85%               | 9.73%                | 4.89%              | 19.21%              | 15.55%              | 7.77%                | 7.38%                |
| MSCI EAFE (USD)                             | -3.44%              | -3.53%               | -4.48%             | 11.56%              | 5.81%               | 4.91%                | 2.97%                |
| MSCI Emerging Market (USD)                  | -4.56%              | -4.44%               | -1.82%             | 4.41%               | 2.11%               | 8.78%                | 7.38%                |
| Barclays Aggregate                          | 0.09%               | 1.79%                | 5.97%              | 2.66%               | 4.45%               | 4.71%                | 5.70%                |
| Barclays High Yield                         | -1.45%              | -1.00%               | 2.45%              | 8.43%               | 9.03%               | 7.74%                | 7.49%                |
| Barclays 3M Treasury Bill                   | 0.00%               | 0.00%                | 0.05%              | 0.09%               | 0.11%               | 1.59%                | 2.04%                |
| S&P GSCCommodity Index                      | -13.63%             | -27.67%              | -33.06%            | -12.86%             | -6.54%              | -4.79%               | 1.04%                |
| FTSE NAREIT Index                           | 1.09%               | 12.44%               | 27.15%             | 16.39%              | 16.63%              | 7.50%                | 12.29%               |
| S&P Municipal Bond Short                    | -0.13%              | 0.02%                | 1.02%              | 1.17%               | 1.59%               | n/a                  | n/a                  |
| S&P Municipal Bond Short Int.               | -0.08%              | 0.25%                | 3.03%              | 2.15%               | 3.03%               | n/a                  | n/a                  |
| S&P Municipal Bond Intermediate             | 0.34%               | 0.93%                | 6.99%              | 3.73%               | 4.96%               | n/a                  | n/a                  |

Source: S&P, Russell, MSCI, Barclays Capital, FTSE \* Annualized

As of: 12/31/2014

Large cap equities saw two corrections during the second half of the year. The first correction began prior to the end of the third quarter when the S&P 500 price index broke 2,000 then fell 7.4% bottoming in the middle of October at the 1,860 level. The index then rallied over 11% into early December, before the second correction occurred. Despite the near 5% pullback, the S&P 500 reached an all-time high of 2,090 at the end of the year returning 13.7% for 2014.

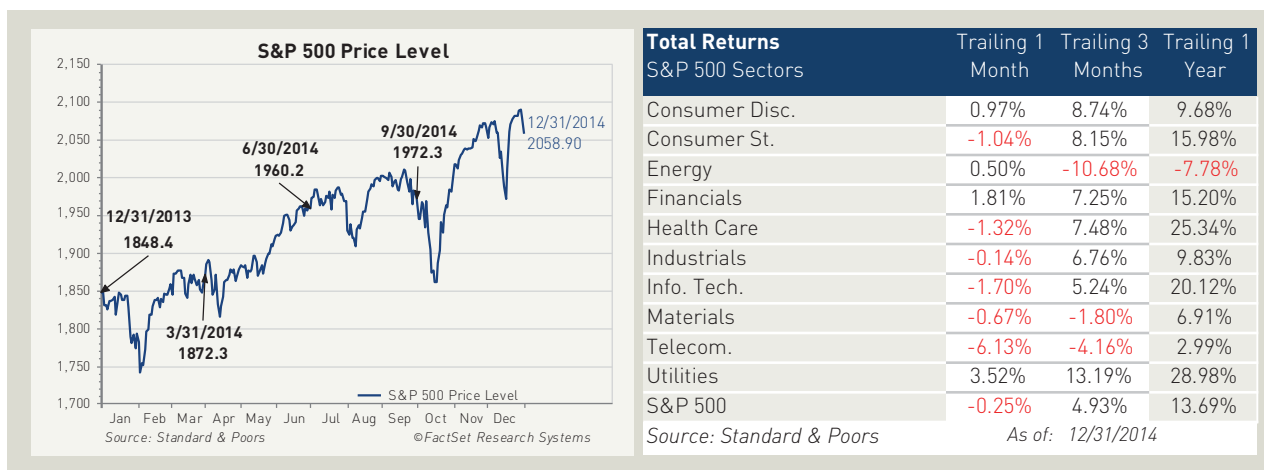
Within large cap equities, several defensive sectors performed well during the year while several cyclical sectors underperformed. Utilities and Health Care sectors were the best two performers during the year and nearly outperformed the S&P 500 by two fold. Information Technology, Consumer Staples, and Financials also were notably outperforming sectors. On the other side, the Energy sector stood out as a significant underperformer as oil producers were punished. Telecom and Materials were two other underperformers during the year.

Fixed income instruments largely produced gains during 2014. The Barclays Aggregate index rose 1.8% during the quarter and 6.0% during the year. The Barclays Treasury index returned 5.1% during the year, but there was a large return differential

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between long duration issues and short issues as the yield curve flattened during the year. The Intermediate Treasury index returned 2.6% during the year and significantly underperformed the Long Treasury index which returned 25.1% as global deflation concerns set in.

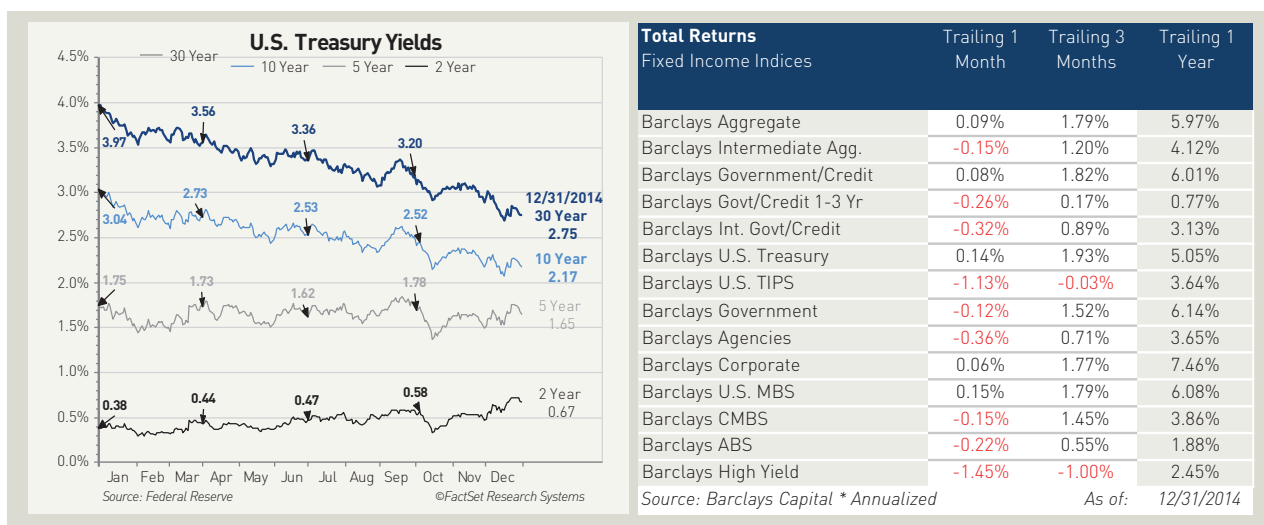


| S&P 500 Sectors | Trailing 1 Month | Trailing 3 Months | Trailing 1 Year |
|-----------------|------------------|-------------------|-----------------|
| Consumer Disc.  | 0.97%            | 8.74%             | 9.68%           |
| Consumer St.    | -1.04%           | 8.15%             | 15.98%          |
| Energy          | 0.50%            | -10.68%           | -7.78%          |
| Financials      | 1.81%            | 7.25%             | 15.20%          |
| Health Care     | -1.32%           | 7.48%             | 25.34%          |
| Industrials     | -0.14%           | 6.76%             | 9.83%           |
| Info. Tech.     | -1.70%           | 5.24%             | 20.12%          |
| Materials       | -0.67%           | -1.80%            | 6.91%           |
| Telecom.        | -6.13%           | -4.16%            | 2.99%           |
| Utilities       | 3.52%            | 13.19%            | 28.98%          |
| S&P 500         | -0.25%           | 4.93%             | 13.69%          |

Source: Standard & Poors

As of: 12/31/2014

Credit issues largely outperformed comparable to Treasury issues. The U.S. credit index and corporate investment grade indices each returned near 1.75% during the fourth quarter and 7.5% during the year. Like equities, the Utility sectors outperformed both Industrial and Financial sectors. The U.S. securitized index slightly outperformed corporates during the quarter returning 1.7%, but underperformed during the year returning 5.9%. U.S. MBS outperformed CMBS and ABS.



| Fixed Income Indices        | Trailing 1 Month | Trailing 3 Months | Trailing 1 Year |
|-----------------------------|------------------|-------------------|-----------------|
| Barclays Aggregate          | 0.09%            | 1.79%             | 5.97%           |
| Barclays Intermediate Agg.  | -0.15%           | 1.20%             | 4.12%           |
| Barclays Government/Credit  | 0.08%            | 1.82%             | 6.01%           |
| Barclays Govt/Credit 1-3 Yr | -0.26%           | 0.17%             | 0.77%           |
| Barclays Int. Govt/Credit   | -0.32%           | 0.89%             | 3.13%           |
| Barclays U.S. Treasury      | 0.14%            | 1.93%             | 5.05%           |
| Barclays U.S. TIPS          | -1.13%           | -0.03%            | 3.64%           |
| Barclays Government         | -0.12%           | 1.52%             | 6.14%           |
| Barclays Agencies           | -0.36%           | 0.71%             | 3.65%           |
| Barclays Corporate          | 0.06%            | 1.77%             | 7.46%           |
| Barclays U.S. MBS           | 0.15%            | 1.79%             | 6.08%           |
| Barclays CMBS               | -0.15%           | 1.45%             | 3.86%           |
| Barclays ABS                | -0.22%           | 0.55%             | 1.88%           |
| Barclays High Yield         | -1.45%           | -1.00%            | 2.45%           |

Source: Barclays Capital \* Annualized

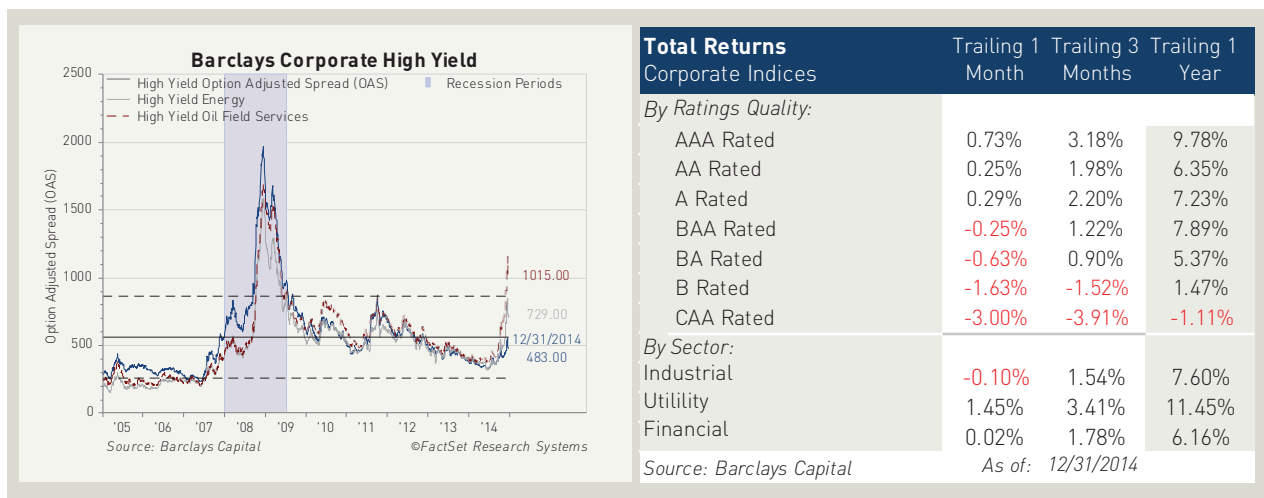
As of: 12/31/2014

High yield bonds faced a tough quarter falling 1.0%, but managed to produce positive gains of 2.5% during the year. High yield energy companies were largely responsible for the losses and fell 10.6% during the fourth quarter and 8.0% during the year. Much of the pressure in high yield came from lower-quality rated issues. The BA-credit rated index produced positive returns of 0.9% during the quarter and 5.4% during the year.



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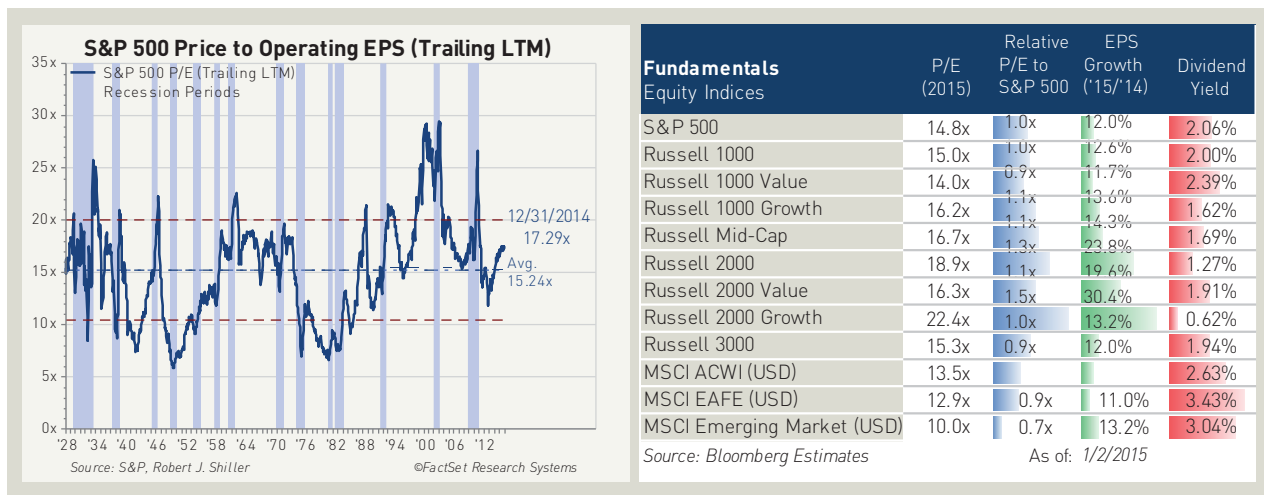


| Total Returns Corporate Indices | Trailing 1 Month | Trailing 3 Months | Trailing 1 Year |
|---------------------------------|------------------|-------------------|-----------------|
| <b>By Ratings Quality:</b>      |                  |                   |                 |
| AAA Rated                       | 0.73%            | 3.18%             | 9.78%           |
| AA Rated                        | 0.25%            | 1.98%             | 6.35%           |
| A Rated                         | 0.29%            | 2.20%             | 7.23%           |
| BAA Rated                       | -0.25%           | 1.22%             | 7.89%           |
| BA Rated                        | -0.63%           | 0.90%             | 5.37%           |
| B Rated                         | -1.63%           | -1.52%            | 1.47%           |
| CAA Rated                       | -3.00%           | -3.91%            | -1.11%          |
| <b>By Sector:</b>               |                  |                   |                 |
| Industrial                      | -0.10%           | 1.54%             | 7.60%           |
| Utility                         | 1.45%            | 3.41%             | 11.45%          |
| Financial                       | 0.02%            | 1.78%             | 6.16%           |

Source: Barclays Capital As of: 12/31/2014

### Outlook for 2015

U.S. economic growth is expected to continue to outpace our developed peers, with real GDP buoyed by further employment increases, modest wage gains and stimulus from lower energy prices. Real consumption is expected to grow in the 2.5 to 3.0% range. Business investment is expected to be additive although there are some real concerns about energy sector cutbacks. Government is expected to modestly grow after years of slight retrenchment. The export sector could face headwinds due to the stronger U.S. currency and weaker growth abroad.



| Fundamentals Equity Indices | P/E (2015) | Relative P/E to S&P 500 | EPS Growth ('15/'14) | Dividend Yield |
|-----------------------------|------------|-------------------------|----------------------|----------------|
| S&P 500                     | 14.8x      | 1.0x                    | 12.0%                | 2.06%          |
| Russell 1000                | 15.0x      | 1.0x                    | 12.6%                | 2.00%          |
| Russell 1000 Value          | 14.0x      | 0.9x                    | 11.7%                | 2.39%          |
| Russell 1000 Growth         | 16.2x      | 1.1x                    | 13.6%                | 1.62%          |
| Russell Mid-Cap             | 16.7x      | 1.1x                    | 14.3%                | 1.69%          |
| Russell 2000                | 18.9x      | 1.3x                    | 23.8%                | 1.27%          |
| Russell 2000 Value          | 16.3x      | 1.1x                    | 19.6%                | 1.91%          |
| Russell 2000 Growth         | 22.4x      | 1.5x                    | 30.4%                | 0.62%          |
| Russell 3000                | 22.4x      | 1.5x                    | 13.2%                | 0.62%          |
| MSCI ACWI (USD)             | 15.3x      | 1.0x                    | 12.0%                | 1.94%          |
| MSCI EAFE (USD)             | 13.5x      | 0.9x                    | 11.0%                | 2.63%          |
| MSCI Emerging Market (USD)  | 12.9x      | 0.9x                    | 13.2%                | 3.43%          |
| MSCI Emerging Market (USD)  | 10.0x      | 0.7x                    | 13.2%                | 3.04%          |

Source: Bloomberg Estimates As of: 1/2/2015

Valuations for domestic large cap indices are not stretched, but are above long-term averages. Revenue growth year-over-year has been in the low-single digits for the past few years, consistent with nominal GDP growth. EPS growth year-over-year has achieved low-double digit growth as operating margins continue to expand. Our belief is that continued operating margin expansion is limited and that year-over-year EPS growth expectations for CY 2015 will be revised downward as company management guides analysts lower.

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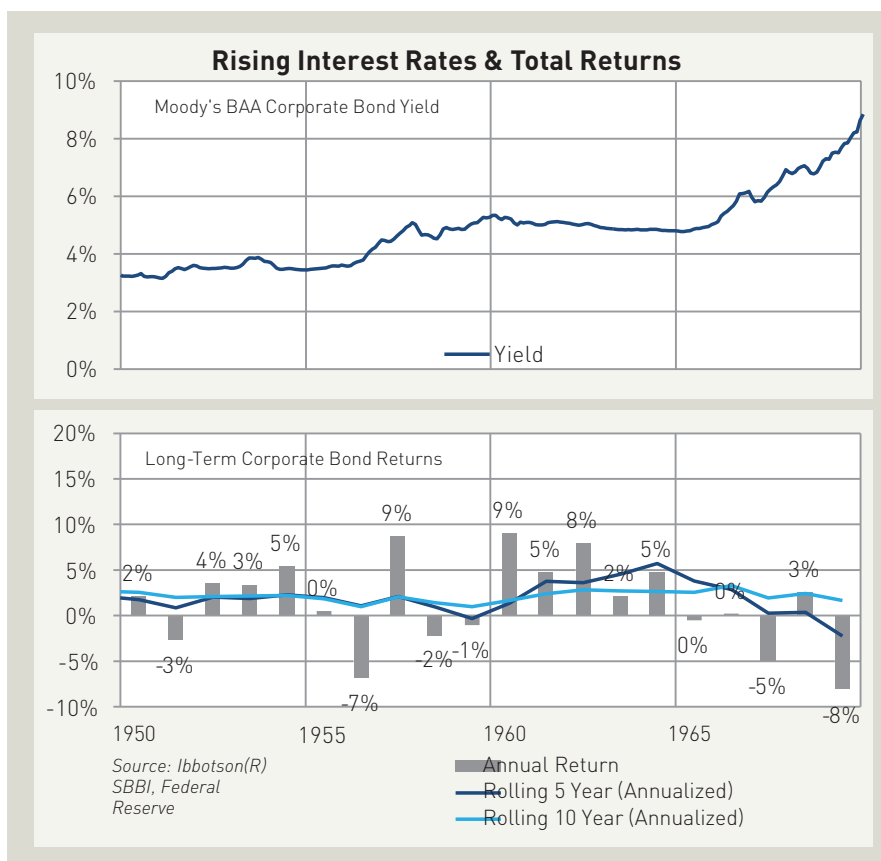
## Fourth Quarter 2014

For 2015 we expect volatility to continue to be a primary theme underscoring the importance of income as it relates to total return. For our base case we expect large cap equities to produce low to mid single digit gains predicated on consensus 3% real GDP, benign inflation of 1.5%, a 2% dividend yield, stable valuations, and slight profit margin compression. In an upside scenario, albeit less likely in our view, large cap equities could produce low double digit returns resulting from positive surprises in the economy coupled with P/E ratios expanding. The clear risk to our base case comes from continued global deflation concerns. In our downside case, large cap equities could see single digit losses, if economic growth falls, global deflation fears persist, margins continue to fall and P/E ratios compress nominally.

In aggregate, below average equity returns are likely the prudent call for 2015 given the run up in equities against an anemic economic backdrop as well as an inability to drive further earnings gains through expanding profit margins.

Small cap index valuations continue to trade at a premium relative to large caps and continue to trade above longer-term averages. We favor actively managed small-cap portfolios where our experienced investment teams select companies with relatively more attractive valuations than the index and more favorable return prospects.

Outside the U.S., international equity indices are relatively inexpensive versus domestic equities, but earnings may not have bottomed. As with small-cap, we favor actively managed portfolios where our international equity team can assess the economic environments where they are selecting portfolio candidates.



Market-based indicators suggest short-term interest rates in the U.S. will increase during the second-half of the year. Over the next few years, fixed-income returns may look similar to the 1950-1960 period when interest rates increased from the low-single digits. Total returns over that time period were low to negative as rates increased. During certain years, rates increased more sharply than other years and this generated several years of losses in the fixed income markets. Investors should understand both credit and duration exposure within their fixed-income portfolios as risks in both areas have increased as long-term risk-free interest-rates fell during the year and credit spreads widened.

## Investment Guidelines

### **III. The Endowment**

#### **A. Investment Objectives**

The Library seeks to maximize the long-term total return of its Endowments. As a result, the maintenance and growth of the funds are the primary objectives. The Library's ability to achieve these returns will depend upon the acceptance of moderate risk, recognizing that a reasonable degree of volatility in market value is necessary to achieve long-term capital appreciation.

#### **B. Authorized Investments**

In recognition of the expected returns and volatility from financial assets, the Library will be invested in the following ranges with the target allocation noted:

|                  | <u>Range</u> | <u>Target</u> |
|------------------|--------------|---------------|
| Equities         | 50%-70%      | 60%           |
| Fixed Income     | 30%-50%      | 40%           |
| Cash Equivalents | 0%-10%       |               |

The midpoints of the above ranges will be considered the long-term or policy allocation. Any deviations beyond this mix of securities must have prior approval by the Board of Library Trustees. Allocations to cash equivalents are to be considered a subset of the Fixed Income allocation. Likewise, Convertible Assets and Real Estate allocations will be considered a part of the Fixed Income allocation.

Within the above ranges, the Library's Endowment Fund Manager will make all tactical asset allocation decisions (over-and-under-weights). Deviations outside of the above ranges require prior approval from the Library.

#### **C. Equity Guidelines**

**Objective** – Achieve long term returns which exceed those of the overall equity market. Specialty equities (styles differing from the S&P 500) have been incorporated into this policy with the intention of delivering superior long-term performance and improved diversification.

In evaluating long term (full market cycle) performance, overall equity returns will be compared to the indices noted below.

In recognition of the expected returns and volatility provided by different segments of the equity market, equity assets will be invested in the following ranges with the policy allocation noted:

|                        | <u>Range</u> | <u>% Allocation</u> |
|------------------------|--------------|---------------------|
| Large-Cap Stocks       | 50-100%      | 60%                 |
| Mid-Cap Stocks         | 0-30%        | 15%                 |
| Small-Cap Stocks       | 0-30%        | 15%                 |
| International Equities | 0-20%        | 10%                 |

Equity assets will be managed in accordance with the following:

- Equity investments should be broadly diversified. The equity investment in any single company should not exceed 5 percent of the equity portfolio, based on market value. Investments in mutual funds would not be subject to this limit. Short sales, private securities, letter stock, commodities, and put and call contracts are expressly prohibited.
- Investments in Small Cap and International Equities may be made through the use of mutual funds. Mutual funds selected will be diversified and generally conform to the above-mentioned company and industry guidelines.
- The equity benchmark is the S&P 500.

#### **D. Fixed Income Guidelines**

**Objective** – Achieve returns that exceed those of the investment grade aggregate bond market and to provide additional long-term performance. The Fixed Income Investment style returns will be compared to the Barclays Intermediate Government/Credit Bond Index.

Fixed income assets will be managed in accordance with the following:

- Minimum criteria for direct investment in a bond:
 

|                    |  |
|--------------------|--|
| Par Value of issue | \$100 million outstanding at time of purchase                  |
| Quality of issue   | A or better by Standard & Poor's<br>Or A2 or better by Moody's |
- The Market value of the aggregate holdings of an individual corporate debtor should not exceed 5% of the organization's debt related assets.
- The average maturity of the bond portfolio should be within the range of the Barclays Intermediate Government/Credit Bond Index. The investment manager will have full discretion to determine the average maturity within this range.

- The maximum maturity for individual U.S. Treasuries, Agencies, and corporate bonds will be 20 years.
- Individual mortgage-backed securities (MBS) and asset-backed securities (ABS) may have maturities of greater than 20 years but the duration should not exceed 12 years.
- Fixed Income mutual funds may be used to further enhance diversification, provide better coverage of the yield curve, and/or improve liquidity.
- Real Estate investment will be implemented through REIT investments or through the use of a REIT-based mutual fund.

#### **E. Liquidity Guidelines**

**Objective** – Cash equivalents will be invested in an appropriate cash-equivalent fund. Returns should be equal to or better than the 90-day Merrill-Lynch Treasury Bill Index.

Investments in cash equivalents must be made in high quality obligations of the U.S. Government and its Agencies. Money market mutual funds may be used, so long as these mutual funds meet the high standards suitable for the funds of this nature.

#### **F. Prohibited Investments**

The investment manager is prohibited from investments in the followings:

- Fixed Income securities not denominated in U.S. Dollars or Eurodollars
- Venture Capital
- Guaranteed Insurance Contracts
- Commodities
- Precious Metals or Gems
- Options, futures, or any contract whose value is derived from the price of an underlying asset or index (Derivatives)
- Short-selling and other hedging strategies
- Private Placements or “restricted” stock
- No investments in securities deemed to be in violation of prohibited transaction standard of ERISA.

#### **G. Investment Review**

**Objective** – Achieve financial returns for the Library which preserve the principal asset value and are competitive relative to those offered by the financial markets.

**Review** – The Investment Committee will compare the investment performance of the Investment Manager to the following benchmarks:

- The blended performance of 60% S&P500/40% Barclays Intermediate Government/Credit policy benchmark over a full market cycle.

In addition, the Investment Committee will compare the various asset classes to the following benchmarks:

1. The annual total return of U.S. equity securities will be compared to the S&P 500 measured over a three to five year time period.
2. Within each equity allocation/style, performance will be compared to the aforementioned benchmarks.
3. The annual total return of fixed income securities will be compared to the Barclays Intermediate Government/Credit Bond Index over a three to five year time period.
4. Real Estate investment will be compared to the NAREIT Index; Convertible Assets will be compared to Merrill Lynch Investment Grade Convertible Securities index.
5. The annual total return of cash equivalents will be compared to the Merrill Lynch 90 day T-Bill Index.

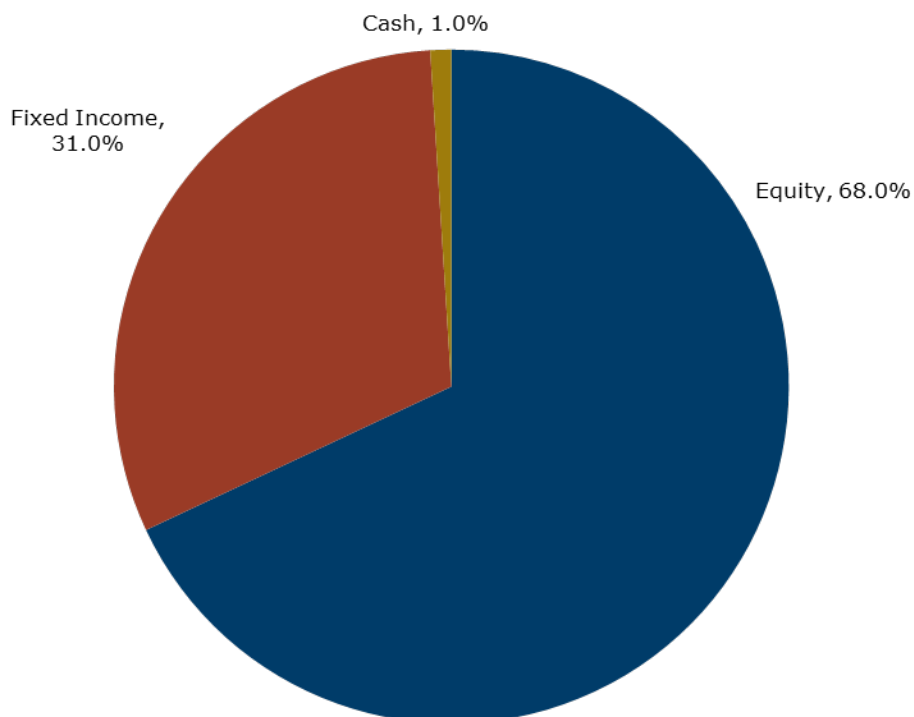
#### **H. Endowment Fund Manager**

The Board of Library Trustees shall select an endowment fund manager and custodian for the Library's Endowments by authorizing Board resolution. The Board of Library Trustees shall approve a separate written agreement with its selected endowment fund manager governing terms of service, compensation, and related issues.

## Account Review

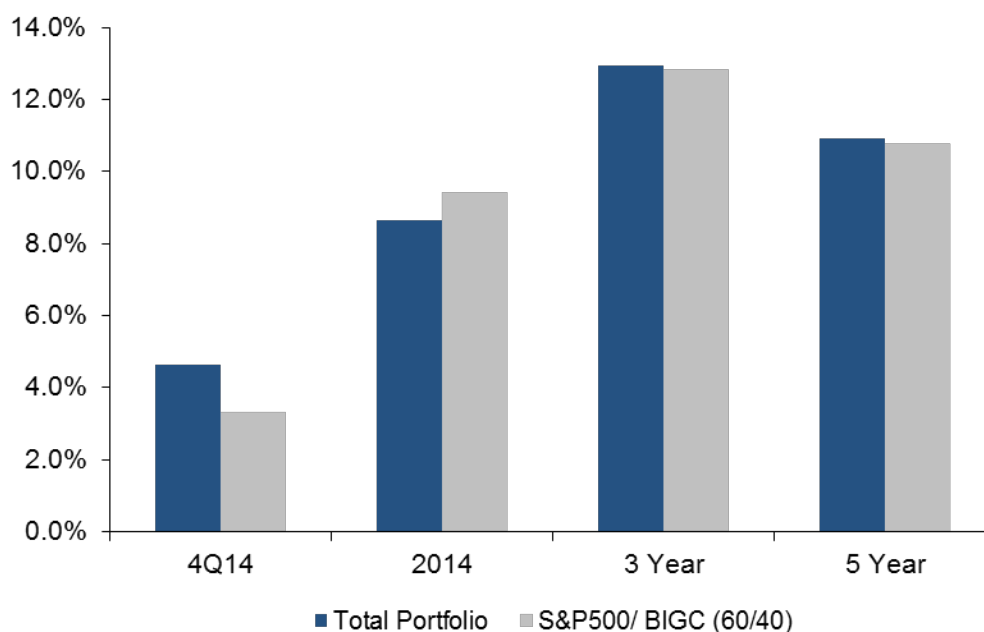


## Asset Allocation Summary (as of 12/31/2014)



|                        | Market Value        | Current Weight | Target Range     | Normal Position | Difference |
|------------------------|---------------------|----------------|------------------|-----------------|------------|
| <b>Equity</b>          | <b>\$14,390,210</b> | <b>68%</b>     | <b>50% - 70%</b> | <b>60%</b>      | <b>+8%</b> |
| <b>Fixed Income</b>    | <b>\$6,511,021</b>  | <b>31%</b>     | <b>30% - 50%</b> | <b>40%</b>      | <b>-9%</b> |
| <b>Cash</b>            | <b>\$269,673</b>    | <b>1%</b>      | <b>0% - 5%</b>   | <b>0%</b>       | <b>+1%</b> |
| <b>Total Portfolio</b> | <b>\$21,170,904</b> | <b>100%</b>    | <b>100%</b>      |                 |            |

## Portfolio Performance (as of 12/31/2014)



|   | 4Q14         | 2014         | 3 Year        | 5 Year        |
|---|--------------|--------------|---------------|---------------|
| <b>Total Portfolio Performance - Gross</b>            | <b>4.62%</b> | <b>8.65%</b> | <b>12.93%</b> | <b>10.91%</b> |
| <b>Total Portfolio Performance - NET</b>              | <b>4.55%</b> | <b>8.35%</b> | <b>12.62%</b> | <b>10.61%</b> |
| <i>S&amp;P 500 / Barclays Int Govt/Credit (60/40)</i> | <i>3.31%</i> | <i>9.43%</i> | <i>12.83%</i> | <i>10.78%</i> |

|                                 |               |               |               |               |
|---------------------------------|---------------|---------------|---------------|---------------|
| <b>Total Equities</b>           | <b>6.48%</b>  | <b>11.62%</b> | <b>18.74%</b> | <b>14.91%</b> |
| <i>S&amp;P 500 Index</i>        | <i>4.93%</i>  | <i>13.69%</i> | <i>20.41%</i> | <i>15.45%</i> |
| <i>MSCI EAFE Index (Net)</i>    | <i>-3.57%</i> | <i>-4.90%</i> | <i>11.06%</i> | <i>5.33%</i>  |
| <i>MSCI Emerging Market Net</i> | <i>-4.50%</i> | <i>-2.19%</i> | <i>4.04%</i>  | <i>1.78%</i>  |
| <i>Russell 2000 Index</i>       | <i>9.73%</i>  | <i>4.89%</i>  | <i>19.21%</i> | <i>15.55%</i> |

|  |              |              |              |              |
|--|--------------|--------------|--------------|--------------|
| <b>Total Fixed Income</b>                      | <b>0.83%</b> | <b>2.68%</b> | <b>1.89%</b> | <b>3.32%</b> |
| <i>Barclays Intermediate Govt/Credit Index</i> | <i>0.89%</i> | <i>3.13%</i> | <i>2.03%</i> | <i>3.54%</i> |

## Manager Performance (as of 12/31/2014)

|   | 4Q14                           | 2014                           | 3 Yr                           | 5 Yr                           | Equity Allocation |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|-------------------|
| PCA Advantage Portfolio Large Cap*<br><i>S&amp;P 500</i>              | <b>6.60%</b><br><b>4.93%</b>   | <b>17.75%</b><br><b>13.69%</b> | <b>18.99%</b><br><b>20.41%</b> | <b>N/A%</b><br><b>15.45%</b>   | 56.0%             |
| iShares Russell Midcap ETF**<br><i>Russell Midcap</i>                 | <b>6.01%</b><br><b>5.94%</b>   | <b>13.06%</b><br><b>13.22%</b> | <b>21.20%</b><br><b>21.40%</b> | <b>17.00%</b><br><b>17.19%</b> | 14.3%             |
| PNC Small Cap Fund Core Fund<br><i>Russell 2000</i>                   | <b>10.41%</b><br><b>9.73%</b>  | <b>3.56%</b><br><b>4.89%</b>   | <b>21.61%</b><br><b>19.21%</b> | <b>18.66%</b><br><b>15.55%</b> | 13.1%             |
| PNC International Equity Fund<br><i>MSCI EAFE Net</i>                 | <b>-1.79%</b><br><b>-3.57%</b> | <b>-5.12%</b><br><b>-4.90%</b> | <b>15.02%</b><br><b>11.06%</b> | <b>8.11%</b><br><b>5.33%</b>   | 10.5%             |
| T Rowe Price Real Estate Fund<br><i>NAREIT All Equity Reits Index</i> | <b>14.24%</b><br><b>12.75%</b> | <b>29.75%</b><br><b>27.82%</b> | <b>16.18%</b><br><b>16.32%</b> | <b>16.93%</b><br><b>16.87%</b> | 6.10%             |

Performance data is presented on a fiscal year basis. Returns for periods greater than one year have been annualized. The mutual fund performance reflects the performance of the Fund and may not be representative of actual holding periods or portfolio returns.

\*Returns for PCA Large Cap are preliminary

\*\*iShares Russell Midcap ETF Inception 1/15/2013

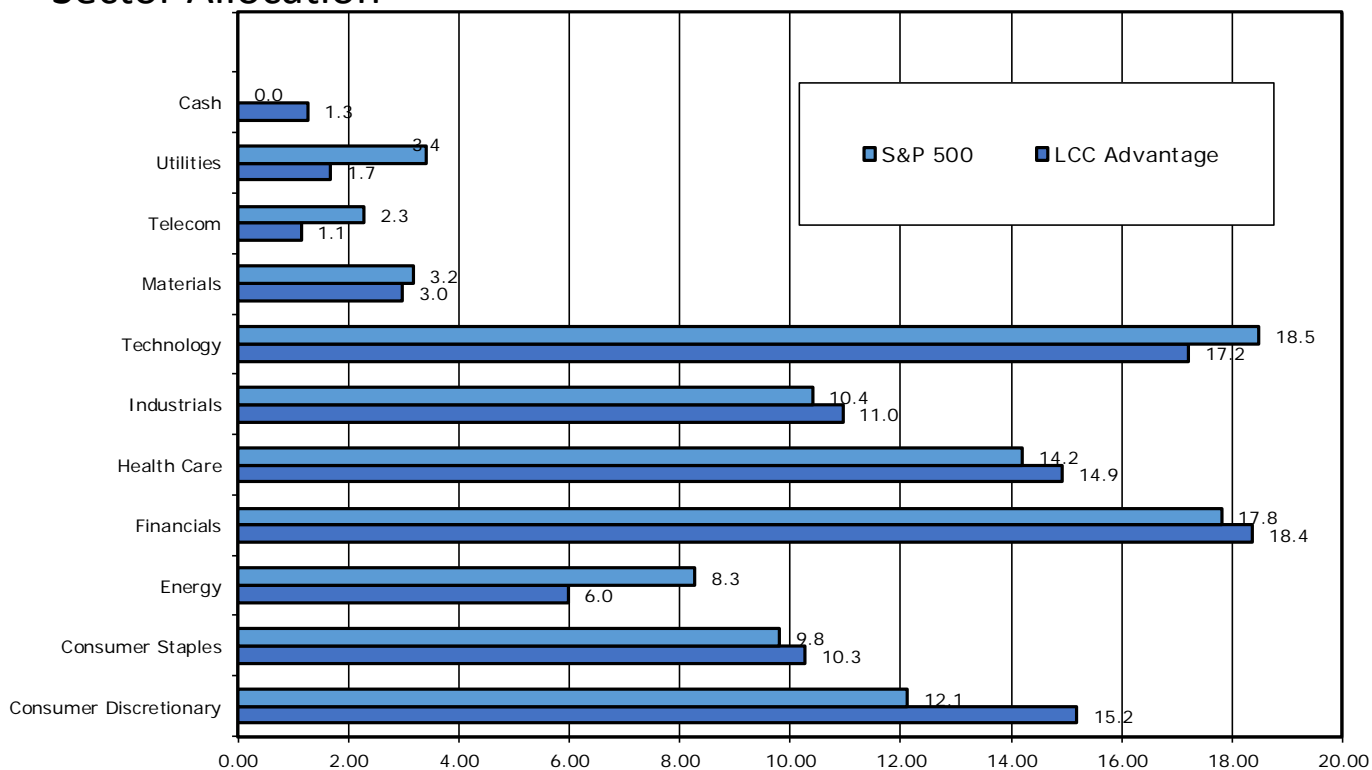
# Large Cap Core Advantage Portfolio

## Portfolio Statistics (as of 12/31/2014)

### Portfolio Valuation

|                              | Number of Holdings | Dividend Yield |
|------------------------------|--------------------|----------------|
| PNC Large Cap Core Advantage | 65                 | 1.66%          |
| S&P 500                      | 502                | 1.91%          |

### Sector Allocation

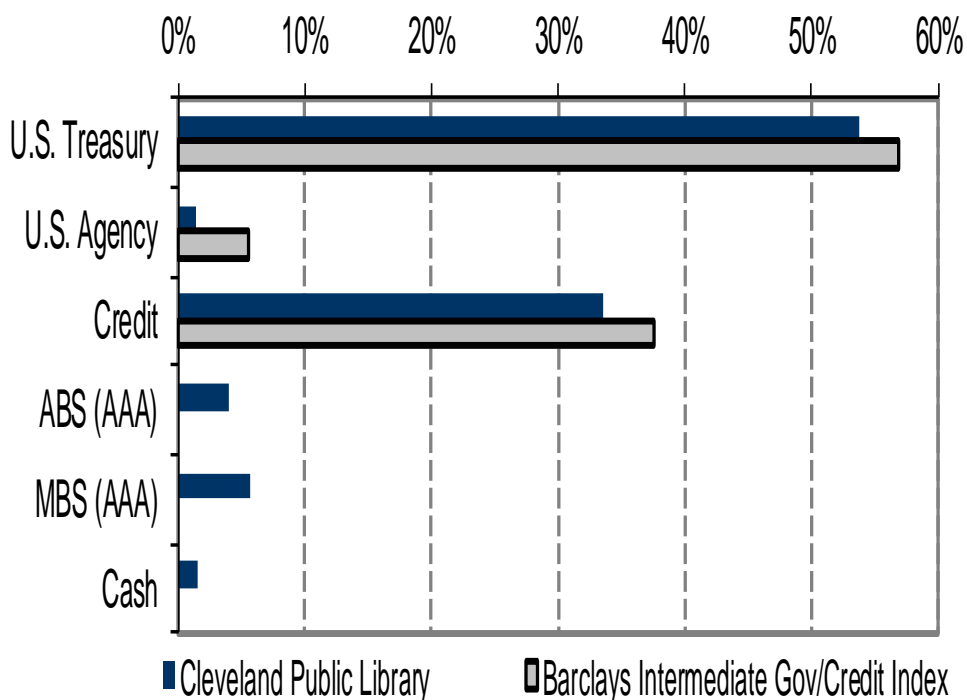


### Top 10 Holdings

|   | Security Name        | Wgt.  |
|---|----------------------|-------|
| 1 | Apple Inc            | 4.76% |
| 2 | JP Morgan Chase & Co | 2.43% |
| 3 | Walt Disney Co       | 2.34% |
| 4 | Wells Fargo & Co     | 2.34% |
| 5 | Skyworks Solutions   | 2.20% |

|    | Security Name     | Wgt.  |
|----|-------------------|-------|
| 6  | Amgen Inc         | 2.15% |
| 7  | General Electric  | 2.13% |
| 8  | Kroger Co         | 2.05% |
| 9  | Cisco Systems Inc | 1.98% |
| 10 | Johnson & Johnson | 1.98% |

## Fixed Income Allocation (as of 12/31/2014)



|                        | Market Value       | Current Weight | Index Weight* | Difference |
|------------------------|--------------------|----------------|---------------|------------|
| U.S. Treasury          | \$3,520,214        | 53.8%          | 56.9%         | 3.10%      |
| U.S. Agency            | \$91,604           | 1.4%           | 5.5%          | 4.10%      |
| Credit                 | \$2,198,498        | 33.6%          | 37.6%         | 4.00%      |
| ABS (AAA rated)        | \$261,725          | 4.0%           | 0.0%          | -4.00%     |
| MBS (AAA rated)        | \$372,959          | 5.7%           | 0.0%          | -5.70%     |
| Cash                   | \$98,147           | 1.5%           | 0.0%          | -1.50%     |
| <b>Total Portfolio</b> | <b>\$6,543,149</b> | <b>100.0%</b>  | <b>100.0%</b> | <b>-</b>   |

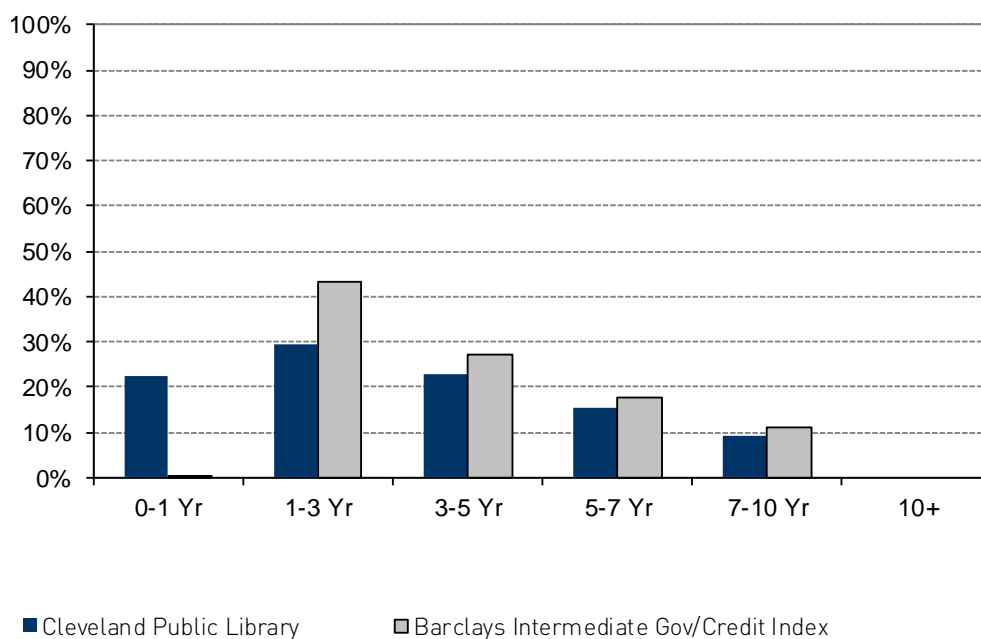
\*Barclays Intermediate Gov/Credit Index

# Fixed Income Structure (as of 12/31/2014)

## Portfolio Statistics

|  | Duration | YTM   | Avg. Life | Avg. Coupon |
|--|----------|-------|-----------|-------------|
| Cleveland Public Library               | 3.16 yrs | 1.39% | 3.51 yrs  | 2.06%       |
| Barclays Intermediate Gov/Credit Index | 3.89 yrs | 1.68% | 4.20 yrs  | 2.57%       |

## Weighted Average Life Buckets



## Quality Allocation

|  | AAA | AA | A   | BBB | Avg. |
|--|-----|----|-----|-----|------|
| Cleveland Public Library               | 71% | 9% | 20% | 0%  | AA1  |
| Barclays Intermediate Gov/Credit Index | 67% | 5% | 14% | 14% | AA1  |

# Endowment and Foundation Comparison

## Fiscal Year Ending 6/30/14

|   |               |
|---|---------------|
| <b>Cleveland Public Library (Net)</b>                     | <b>16.07%</b> |
| <b>Cornell University</b>                                 | 15.80%        |
| <b>Harvard University</b>                                 | 15.40%        |
| <b>Median Return of Large Endowments and Foundations:</b> | 16.70%        |

**Sources: Wall Street Journal, The Universities, and Wilshire Trust Universe Comparison Service**

## Cleveland Public Library Holdings (as of 12/31/2014)

|                                     | Units  | Total cost | Market value | Accrual | % of Mkt val | Unrealized gain loss |
|-------------------------------------|--------|------------|--------------|---------|--------------|----------------------|
| <b>Equity</b>                       |        |            |              |         |              |                      |
| ACE Limited Isin Ch0044328745 Sedol | 1,010  | 102,660    | 116,029      | 657     | .5           | 13,369               |
| Aetna Inc New                       | 1,730  | 107,336    | 153,676      | -       | .7           | 46,340               |
| Allstate Corp                       | 1,650  | 101,805    | 115,913      | 462     | .5           | 14,107               |
| Altria Group Inc                    | 2,530  | 93,562     | 124,653      | 1,316   | .6           | 31,091               |
| American Express Co                 | 1,140  | 50,691     | 106,066      | -       | .5           | 55,375               |
| Amgen Inc                           | 1,090  | 129,193    | 173,626      | -       | .8           | 44,433               |
| Apple Inc                           | 3,570  | 159,066    | 394,057      | -       | 1.9          | 234,990              |
| Becton Dickinson & Co               | 670    | 60,781     | 93,237       | -       | .4           | 32,456               |
| Boeing Co                           | 790    | 57,832     | 102,684      | -       | .5           | 44,853               |
| CVS Health Corporation              | 1,680  | 87,409     | 161,801      | -       | .8           | 74,391               |
| Check Point Software Tech Sedol 218 | 1,100  | 77,427     | 86,427       | -       | .4           | 9,000                |
| Cigna Corp                          | 1,410  | 133,223    | 145,103      | -       | .7           | 11,880               |
| Cisco Systems Inc                   | 5,810  | 125,194    | 161,605      | -       | .8           | 36,411               |
| Comcast Corporation Cl A            | 2,710  | 81,269     | 157,207      | -       | .7           | 75,938               |
| Conocophillips                      | 1,720  | 120,868    | 118,783      | -       | .6           | (2,085)              |
| Constellation Brands Inc Cl A       | 1,480  | 121,983    | 145,292      | -       | .7           | 23,308               |
| Delta Air Lines Inc                 | 1,930  | 41,422     | 94,937       | -       | .4           | 53,515               |
| Discover Financial W/I              | 1,730  | 69,817     | 113,298      | -       | .5           | 43,481               |
| Disney Walt Co                      | 2,080  | 124,043    | 195,915      | 2,392   | .9           | 71,872               |
| Dr Pepper Snapple Group Inc         | 1,440  | 92,629     | 103,219      | 590     | .5           | 10,590               |
| EOG Res Inc                         | 770    | 59,680     | 70,894       | -       | .3           | 11,214               |
| Eastman Chem Co                     | 790    | 71,059     | 59,929       | 316     | .3           | (11,129)             |
| Exxon Mobil Corp                    | 1,630  | 137,320    | 150,694      | -       | .7           | 13,373               |
| Foot Locker Inc                     | 1,690  | 81,094     | 94,944       | -       | .4           | 13,850               |
| General Electric Co                 | 7,110  | 139,479    | 179,670      | 1,635   | .8           | 40,191               |
| Gilead Sciences Inc                 | 1,440  | 117,982    | 135,734      | -       | .6           | 17,752               |
| Google Inc-Cl A                     | 140    | 46,151     | 74,292       | -       | .4           | 28,141               |
| HCA Holdings Inc                    | 1,870  | 119,244    | 137,239      | -       | .6           | 17,996               |
| Hanesbrands Inc - W/I               | 1,060  | 78,442     | 118,317      | -       | .6           | 39,875               |
| Home Depot Inc                      | 1,050  | 46,520     | 110,219      | -       | .5           | 63,699               |
| Invesco Ltd Isin Bmg491bt1088 Sedol | 3,150  | 110,875    | 124,488      | -       | .6           | 13,613               |
| JPMorgan Chase & Co                 | 3,205  | 124,827    | 200,569      | -       | .9           | 75,742               |
| Johnson & Johnson                   | 1,610  | 105,479    | 168,358      | -       | .8           | 62,878               |
| Kroger Co                           | 2,590  | 119,907    | 166,304      | -       | .8           | 46,397               |
| L Brands Inc                        | 1,140  | 77,392     | 98,667       | -       | .5           | 21,275               |
| Lincoln National Corp               | 2,350  | 119,007    | 135,525      | -       | .6           | 16,517               |
| Lockheed Martin Corp                | 530    | 74,939     | 102,062      | -       | .5           | 27,123               |
| Lyondellbasell Industries N.V. Isin | 700    | 79,367     | 55,573       | -       | .3           | (23,794)             |
| Magna International Isin Ca55922240 | 1,200  | 97,370     | 130,428      | -       | .6           | 33,058               |
| Mckesson Corporation                | 670    | 103,527    | 139,079      | 161     | .7           | 35,551               |
| Micron Technology Inc               | 2,180  | 75,052     | 76,322       | -       | .4           | 1,270                |
| Microsoft Corp                      | 1,665  | 53,267     | 77,339       | -       | .4           | 24,073               |
| NXP Semiconductors Isin NI000953878 | 1,690  | 71,822     | 129,116      | -       | .6           | 57,294               |
| PNC International Equity Fund Class | 80,326 | 1,021,050  | 1,506,912    | -       | 7.1          | 485,862              |
| PNC Small Cap Fund Class I Fund #42 | 89,321 | 780,486    | 1,882,897    | -       | 8.9          | 1,102,411            |
| Packging Corp Pkg                   | 1,620  | 115,992    | 126,441      | 648     | .6           | 10,449               |
| Polaris Inds Inc                    | 670    | 55,270     | 101,331      | -       | .5           | 46,061               |



|                                     |        |           |           |     |     |          |
|-------------------------------------|--------|-----------|-----------|-----|-----|----------|
| Principal Financial Group           | 2,310  | 115,462   | 119,981   | -   | .6  | 4,520    |
| Procter & Gamble Co                 | 1,640  | 107,454   | 149,388   | -   | .7  | 41,934   |
| Qualcomm                            | 1,360  | 76,179    | 101,089   | -   | .5  | 24,910   |
| Regions Financial Corp              | 6,230  | 61,095    | 65,789    | 312 | .3  | 4,694    |
| Royal Caribbean Cruises Ltd Sedol 2 | 1,360  | 83,661    | 112,105   | 408 | .5  | 28,443   |
| Schlumberger Ltd Sedol 2779201 Isin | 1,630  | 144,828   | 139,218   | 652 | .7  | (5,610)  |
| Skyworks Solutions Inc              | 2,470  | 95,629    | 179,594   | -   | .8  | 83,965   |
| Snap ON Inc                         | 890    | 113,665   | 121,699   | -   | .6  | 8,033    |
| Southwest Airlines Co               | 2,840  | 77,573    | 120,189   | 170 | .6  | 42,615   |
| St Jude Medical Inc                 | 1,190  | 80,621    | 77,386    | 321 | .4  | (3,235)  |
| T Rowe Price Real Estate Fund Fd #1 | 32,753 | 790,000   | 879,743   | -   | 4.2 | 89,743   |
| Te Connectivity Ltd Sedol B62b7c3 I | 1,910  | 110,970   | 120,808   | -   | .6  | 9,838    |
| The Travelers Cos Inc               | 1,050  | 95,285    | 111,143   | -   | .5  | 15,858   |
| Union Pacific Corp                  | 852    | 31,686    | 101,499   | 426 | .5  | 69,813   |
| United Rentals Inc                  | 680    | 78,922    | 69,367    | -   | .3  | (9,555)  |
| Verizon Communications Inc          | 1,960  | 104,811   | 91,689    | -   | .4  | (13,122) |
| Visa Inc Class A Shares             | 340    | 53,571    | 89,148    | -   | .4  | 35,577   |
| Wells Fargo & Company               | 3,600  | 99,751    | 197,352   | -   | .9  | 97,601   |
| Wisconsin Energy Corp               | 2,700  | 62,361    | 142,398   | -   | .7  | 80,037   |
| Wyndham Worldwide Corp              | 1,430  | 92,735    | 122,637   | -   | .6  | 29,902   |
| iShares Russell Mid-Cap ETF         | 12,304 | 1,535,468 | 2,055,260 | -   | 9.7 | 519,792  |

#### Fixed

|                                     |        |        |        |     |    |         |
|-------------------------------------|--------|--------|--------|-----|----|---------|
| ACE Ina Holdings 02.600% 11/23/2015 | 15,000 | 14,986 | 15,234 | 41  | .1 | 248     |
| Abbey Natl Treasury Serv 03.050% 08 | 30,000 | 30,170 | 31,060 | 325 | .1 | 889     |
| American Express Credit VAR % 07/29 | 30,000 | 30,064 | 30,112 | 40  | .1 | 49      |
| American Honda Finance 02.250% 08/1 | 25,000 | 24,954 | 25,081 | 175 | .1 | 127     |
| American Honda Finance VAR % 10/07/ | 25,000 | 25,000 | 25,109 | 44  | .1 | 109     |
| Ameriprise Financial Inc 03.700% 10 | 35,000 | 34,880 | 35,795 | 371 | .2 | 915     |
| Anheuser-Busch Inbev Fin 03.700% 02 | 20,000 | 20,034 | 20,775 | 308 | .1 | 741     |
| Apple Inc 02.400% 05/03/2023        | 70,000 | 68,535 | 68,040 | 271 | .3 | (495)   |
| At & T Inc 04.450% 05/15/2021       | 40,000 | 44,586 | 42,976 | 227 | .2 | (1,610) |
| At&T Inc 03.900% 03/11/2024         | 5,000  | 5,129  | 5,138  | 60  | .0 | 10      |
| BNP Paribas 02.700% 08/20/2018      | 25,000 | 24,954 | 25,551 | 246 | .1 | 597     |
| BP Capital Markets Plc 03.245% 05/0 | 30,000 | 29,540 | 29,491 | 149 | .1 | (49)    |
| Bank Of Montreal VAR % 09/11/2015   | 30,000 | 30,000 | 30,084 | 13  | .1 | 84      |
| Bb&T Corporation 06.850% 04/30/2019 | 20,000 | 24,791 | 23,726 | 232 | .1 | (1,065) |
| Berkshire Hathaway Inc 03.750% 08/1 | 25,000 | 25,929 | 26,743 | 354 | .1 | 814     |
| Canadian Imperial Bank VAR % 07/18/ | 10,000 | 10,000 | 10,041 | 16  | .0 | 41      |
| Capital One Multi-Asset Execut 01.4 | 35,000 | 34,991 | 35,022 | 23  | .2 | 31      |
| Caterpillar Inc 03.900% 05/27/2021  | 25,000 | 26,025 | 27,072 | 92  | .1 | 1,047   |
| Catholic Health Initiati 01.600% 11 | 15,000 | 14,996 | 14,939 | 40  | .1 | (57)    |
| Chevron Corp 01.104% 12/05/2017     | 20,000 | 20,000 | 19,876 | 16  | .1 | (124)   |
| Chevron Corp 02.355% 12/05/2022     | 70,000 | 67,887 | 67,880 | 119 | .3 | (6)     |
| Cisco Systems Inc 04.450% 01/15/202 | 20,000 | 23,019 | 22,018 | 410 | .1 | (1,001) |
| Citigroup Inc 06.010% 01/15/2015    | 20,000 | 21,946 | 20,028 | 53  | .1 | (1,918) |
| Coca-Cola Co/The Var% 11/01/2016    | 30,000 | 30,038 | 30,011 | 44  | .1 | (27)    |
| Connecticut Light & Pwr 02.500% 01/ | 20,000 | 19,870 | 19,411 | 231 | .1 | (459)   |
| Conocophillips 06.000% 01/15/2020   | 25,000 | 29,794 | 29,049 | 692 | .1 | (745)   |
| Conocophillips Company 02.875% 11/1 | 20,000 | 20,012 | 20,199 | 78  | .1 | 187     |
| Deutsche Bank Ag London 01.400% 02/ | 15,000 | 15,031 | 14,969 | 81  | .1 | (62)    |
| Duke Energy Carolinas 05.250% 01/15 | 10,000 | 9,966  | 11,075 | 242 | .1 | 1,109   |

|                                     |         |        |         |       |    |         |
|-------------------------------------|---------|--------|---------|-------|----|---------|
| Duke Energy Indiana Inc 03.750% 07/ | 10,000  | 10,901 | 10,596  | 173   | .1 | (305)   |
| EMC Corp 02.650% 06/01/2020         | 25,000  | 24,909 | 24,880  | 55    | .1 | (29)    |
| Ebay Inc 02.600% 07/15/2022         | 35,000  | 33,965 | 33,213  | 420   | .2 | (752)   |
| Exxon Mobil Corporation 03.176% 03/ | 35,000  | 36,128 | 36,108  | 327   | .2 | (20)    |
| Exxon Mobil Corporation VAR % 03/15 | 90,000  | 90,000 | 89,936  | 12    | .4 | (64)    |
| Federal Home Ln Bank 04.125% 12/13/ | 25,000  | 27,620 | 27,706  | 52    | .1 | 86      |
| Federal Natl Mtg Assn 02.625% 09/06 | 65,000  | 64,407 | 65,827  | 536   | .3 | 1,420   |
| Federal Natl Mtg Assn 03.000% 10/01 | 55,575  | 58,911 | 57,915  | 144   | .3 | (996)   |
| Federal Natl Mtg Assn 03.500% 03/01 | 56,818  | 57,822 | 59,337  | 171   | .3 | 1,515   |
| Federal Natl Mtg Assn 03.500% 08/01 | 28,458  | 30,312 | 30,105  | 86    | .1 | (207)   |
| Federal Natl Mtg Assn 03.500% 11/01 | 38,549  | 41,055 | 40,251  | 116   | .2 | (804)   |
| Federal Natl Mtg Assn 04.000% 01/01 | 42,857  | 45,904 | 45,831  | 148   | .2 | (73)    |
| Federal Natl Mtg Assn 04.000% 01/01 | 98,866  | 97,607 | 106,535 | 341   | .5 | 8,928   |
| Federal Natl Mtg Assn 04.500% 02/01 | 27,551  | 28,210 | 30,161  | 107   | .1 | 1,951   |
| Florida Power & Light 02.750% 06/01 | 25,000  | 23,933 | 24,761  | 57    | .1 | 828     |
| Ford Credit Auto Owner Trust 01.060 | 30,000  | 29,996 | 29,913  | 14    | .1 | (82)    |
| GE Capital Credit Card Master 01.36 | 100,000 | 99,961 | 99,395  | 60    | .5 | (566)   |
| General Elec Cap Corp 03.150% 09/07 | 20,000  | 20,096 | 20,370  | 200   | .1 | 275     |
| General Elec Cap Corp 04.650% 10/17 | 35,000  | 38,517 | 39,450  | 335   | .2 | 932     |
| Georgia Power Company 05.400% 06/01 | 20,000  | 22,066 | 22,380  | 90    | .1 | 314     |
| Gilead Sciences Inc 04.400% 12/01/2 | 30,000  | 32,872 | 33,080  | 110   | .2 | 208     |
| Glaxosmithkline Capital 02.850% 05/ | 25,000  | 24,679 | 25,001  | 105   | .1 | 322     |
| Google Inc 03.625% 05/19/2021       | 30,000  | 33,118 | 32,188  | 127   | .2 | (930)   |
| Home Depot Inc 04.400% 04/01/2021   | 10,000  | 11,310 | 11,125  | 110   | .1 | (185)   |
| Honda Auto Receivables Owner T 00.7 | 10,000  | 9,998  | 10,009  | 3     | .0 | 10      |
| Honda Auto Receivables Owner T 00.8 | 25,000  | 24,995 | 24,916  | 10    | .1 | (79)    |
| Hsbc Holdings Plc Sr Unsec 05.100%  | 20,000  | 21,112 | 22,608  | 244   | .1 | 1,496   |
| Intel Corp 02.700% 12/15/2022       | 30,000  | 28,404 | 29,822  | 36    | .1 | 1,418   |
| JPMorgan Chase & Co 04.625% 05/10/2 | 40,000  | 45,437 | 44,024  | 262   | .2 | (1,413) |
| John Deere Capital Corp 05.350% 04/ | 25,000  | 24,924 | 27,893  | 327   | .1 | 2,970   |
| John Deere Capital Corp VAR % 02/25 | 25,000  | 25,000 | 25,008  | 8     | .1 | 8       |
| John Deere Owner Trust 01.070% 11/1 | 20,000  | 19,996 | 19,922  | 10    | .1 | (74)    |
| Johnson & Johnson 05.150% 07/15/201 | 45,000  | 51,646 | 50,510  | 1,069 | .2 | (1,136) |
| Mastercard Inc 03.375% 04/01/2024   | 15,000  | 15,024 | 15,397  | 127   | .1 | 373     |
| Medtronic Inc 01.375% 04/01/2018    | 25,000  | 24,803 | 24,740  | 86    | .1 | (63)    |
| Merrill Lynch & Co 06.875% 04/25/20 | 15,000  | 16,275 | 17,229  | 189   | .1 | 954     |
| Metlife Inc 04.368% 09/15/2023      | 20,000  | 20,802 | 21,808  | 39    | .1 | 1,006   |
| Microsoft Corp 03.000% 10/01/2020   | 35,000  | 34,698 | 36,489  | 263   | .2 | 1,792   |
| Nbcuniversal Media LLC 04.375% 04/0 | 25,000  | 26,913 | 27,495  | 273   | .1 | 583     |
| Nexen Inc 06.200% 07/30/2019        | 15,000  | 18,673 | 17,287  | 390   | .1 | (1,385) |
| Nissan Auto Lease Trust 00.610% 04/ | 25,000  | 25,000 | 24,991  | 7     | .1 | (9)     |
| Ontario (Province Of) 00.950% 05/26 | 15,000  | 14,997 | 15,037  | 14    | .1 | 40      |
| Ontario (Province Of) 03.000% 07/16 | 20,000  | 21,110 | 20,924  | 275   | .1 | (186)   |
| Oracle Corp 02.375% 01/15/2019      | 25,000  | 25,141 | 25,433  | 274   | .1 | 291     |
| Pacificorp 03.850% 06/15/2021       | 25,000  | 27,753 | 26,821  | 43    | .1 | (932)   |
| Peco Energy Co 05.350% 03/01/2018   | 10,000  | 9,983  | 11,135  | 178   | .1 | 1,152   |
| Pepsico Inc 02.750% 03/05/2022      | 35,000  | 34,820 | 34,945  | 310   | .2 | 126     |
| Procter & Gamble Co 04.850% 12/15/2 | 50,000  | 57,065 | 52,023  | 108   | .2 | (5,043) |
| Progress Energy Carolina 05.300% 01 | 20,000  | 19,982 | 22,409  | 489   | .1 | 2,427   |
| Rabobank Nederland Utrec 03.375% 01 | 15,000  | 15,645 | 15,648  | 228   | .1 | 3       |
| Royal Bank Of Canada 01.150% 03/13/ | 35,000  | 35,084 | 35,052  | 121   | .2 | (32)    |
| Royal Bank Of Canada 01.200% 09/19/ | 55,000  | 54,995 | 54,686  | 187   | .3 | (309)   |

|                                     |         |         |         |       |     |          |
|-------------------------------------|---------|---------|---------|-------|-----|----------|
| Sanofi-Aventis 04.000% 03/29/2021   | 10,000  | 10,068  | 10,865  | 102   | .1  | 797      |
| Simon Property Group LP 03.375% 10/ | 30,000  | 29,908  | 30,515  | 312   | .1  | 607      |
| Southern Cal Edison 03.500% 10/01/2 | 30,000  | 30,138  | 31,536  | 263   | .1  | 1,398    |
| Toronto-Dominion Bank 02.125% 07/02 | 25,000  | 24,969  | 24,883  | 264   | .1  | (87)     |
| Toyota Auto Receivables Owner 00.89 | 20,000  | 19,999  | 20,037  | 8     | .1  | 38       |
| Toyota Mtr Credit Corp 03.400% 09/1 | 20,000  | 20,082  | 21,035  | 200   | .1  | 953      |
| US Bancorp 02.950% 07/15/2022       | 15,000  | 14,666  | 14,787  | 204   | .1  | 121      |
| USA Treasury Note 01.500% 08/31/201 | 495,000 | 501,140 | 497,396 | 2,523 | 2.3 | (3,744)  |
| USA Treasury Notes 00.250% 01/31/20 | 450,000 | 450,000 | 450,054 | -     | 2.1 | 54       |
| USA Treasury Notes 00.375% 01/15/20 | 415,000 | 414,708 | 415,261 | 725   | 2.0 | 553      |
| USA Treasury Notes 00.875% 12/31/20 | 290,000 | 291,450 | 291,088 | 7     | 1.4 | (363)    |
| USA Treasury Notes 01.000% 03/31/20 | 145,000 | 145,723 | 145,612 | 373   | .7  | (111)    |
| USA Treasury Notes 01.250% 08/31/20 | 265,000 | 270,549 | 266,884 | 1,126 | 1.3 | (3,665)  |
| USA Treasury Notes 01.250% 10/31/20 | 140,000 | 141,574 | 141,127 | 300   | .7  | (447)    |
| USA Treasury Notes 01.375% 01/31/20 | 325,000 | 320,501 | 321,877 | 1,700 | 1.5 | 1,376    |
| USA Treasury Notes 02.125% 08/15/20 | 155,000 | 155,878 | 156,829 | 1,244 | .7  | 951      |
| USA Treasury Notes 02.250% 01/31/20 | 85,000  | 87,859  | 85,143  | 800   | .4  | (2,716)  |
| USA Treasury Notes 02.375% 08/15/20 | 85,000  | 85,103  | 86,574  | 769   | .4  | 1,471    |
| USA Treasury Notes 02.625% 11/15/20 | 190,000 | 198,205 | 198,328 | 648   | .9  | 122      |
| USA Treasury Notes 03.000% 09/30/20 | 430,000 | 462,797 | 448,008 | 3,296 | 2.1 | (14,788) |
| Unionbancal Corp 03.500% 06/18/2022 | 30,000  | 30,614  | 30,896  | 38    | .1  | 281      |
| United Parcell Service 05.500% 01/1 | 25,000  | 28,283  | 27,887  | 634   | .1  | (397)    |
| Virginia Elec & Power Co 05.400% 04 | 15,000  | 16,704  | 16,771  | 137   | .1  | 68       |
| Wal-Mart Stores Inc 03.625% 07/08/2 | 35,000  | 38,042  | 37,375  | 610   | .2  | (667)    |
| Walt Disney Company 05.875% 12/15/2 | 20,000  | 24,573  | 22,519  | 52    | .1  | (2,054)  |
| Wells Fargo & Company 03.300% 09/09 | 15,000  | 14,960  | 15,094  | 154   | .1  | 134      |
| Wells Fargo & Company 04.100% 06/03 | 5,000   | 4,995   | 5,110   | 16    | .0  | 115      |
| Wells Fargo & Company 04.125% 08/15 | 25,000  | 25,574  | 26,240  | 390   | .1  | 666      |
| Westpac Banking Corp 02.250% 07/30/ | 30,000  | 30,021  | 30,439  | 283   | .1  | 418      |
| Xilinx Inc 03.000% 03/15/2021       | 15,000  | 14,893  | 14,971  | 133   | .1  | 78       |
| <b>Cash &amp; Equiv</b>             |         |         |         |       |     |          |
| Cash                                | 374,593 | 374,577 | 374,593 | -     | 1.8 | 17       |

## Market Outlook

## Market Outlook

|                       |  |
|-----------------------|--|
| <b>Economy</b>        | <ul style="list-style-type: none"> <li>▪ U.S. economic growth is expected to continue to outpace our developed peers, with growth expectations outside the U.S. steadily declining.</li> <li>▪ Real GDP will be buoyed by further employment increases, modest wage gains and stimulus from lower energy prices.</li> <li>▪ Real consumption is expected to grow in the 2.5 to 3% range, with benign inflation of 1.5% expected for 2015.</li> </ul>   |
| <b>Interest Rates</b> | <ul style="list-style-type: none"> <li>▪ With the unemployment rate now below 6% and monthly payroll additions averaging over 240,000 through 2014, the next step for the Fed will be to raise interest rates.</li> <li>▪ Market based indicators suggest short interest rates in the U.S. will increase during the second half of 2015, but lower inflation pressures will allow the Fed to be patient in exact timing.</li> </ul>  |
| <b>Earnings</b>       | <ul style="list-style-type: none"> <li>▪ Revenue growth year over year has been in the low single digits for the past few years, consistent with nominal GDP growth.</li> <li>▪ We believe that continuing operating margin expansion is limited and that year over year EPS growth expectations will be revised downward.</li> </ul>  |
| <b>Valuation</b>      | <ul style="list-style-type: none"> <li>▪ While valuations for domestic large cap indices are not stretched, they are above long-term averages.</li> <li>▪ Small cap index valuations still continue to trade at a premium relative to large caps.</li> </ul>   |
| <b>Currency</b>       | <ul style="list-style-type: none"> <li>▪ During the year, with most of the movement in the 4<sup>th</sup> quarter, the trade weighted U.S. dollar appreciated by nearly 9% against major currencies.</li> <li>▪ Outside of the yen, some of the steeper currency declines occurred in nations that export oil due to significant increases in U.S. oil production.</li> <li>▪ Multinational companies with end markets in countries where currencies have depreciated versus the U.S. dollar, may see slight headwinds in sales growth.</li> </ul> |

# Summary Disclosure

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## **Investments: Not FDIC Insured. No Bank Guarantee. May Lose Value.**

Opinions, estimates, forecasts and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The views and strategies described may not be suitable for all investors. Indices do not include fees or operating expenses and are not available for actual investment. The information contained herein employs proprietary projections of expected returns, as well as estimates of their future volatility.

The relative relationships and forecasts contained herein are based upon proprietary research, developed through analysis of historical data and capital markets theory. These estimates have certain inherent limitations and, unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees or other costs. References to future net returns are not promises or even estimates of actual returns that a client portfolio may achieve. The forecasts contained herein are for illustrative purposes only and are not to be relied upon as advice or interpreted as a recommendation.

Performance results are gross of investment management fees and do not reflect the deduction of custody fees, where applicable. All returns are net of execution costs and exclude the effect of any income taxes. The deduction of an advisory fee reduces an investor's return. Actual account performance will vary depending on individual portfolio security selection and the applicable fee schedule. Performance results are shown based on time weighted rates of return calculated on a monthly basis. The monthly rate of return for an eligible account is the percentage change in the market value of the account during the month, taking into account the effect of any cash additions or withdrawals that occur during the month.

The value of investments and the income from them may fluctuate and your investment is not guaranteed. Past performance is no guarantee of future results. Please note current performance may be higher or lower than the performance data shown. Please note that investments in foreign markets are subject to special currency, political and economic risks. Exchange rates may cause the value of underlying overseas investments to go down or up. Investments in emerging markets may be more volatile than other markets and the risk to your capital is therefore greater. Also, the economic and political situations may be more volatile than in established economies and these may adversely influence the value of investments made.

Performance results reflect the reinvestment of interest, dividends and realized capitals gains, and include cash, cash equivalents, convertible securities, and preferred securities, if applicable. Trade-date accounting methods are used. The U.S. dollar is the currency used to calculate performance. Dividends and interest are recorded on an accrual basis, and are net of all applicable foreign withholding taxes, if any. Investments are priced using an independent pricing service.

When mutual fund performance is presented in this review, it is annualized performance data presented on a fiscal year basis. It is represented by the largest portfolio managed under the fund style, as of the stated date, and is for illustration purposes only. Returns for periods greater than one year have been annualized. The mutual fund performance reflects the performance of the Fund and may not be representative of actual holding periods or portfolio returns. Portfolio holdings are subject to change at any time.

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