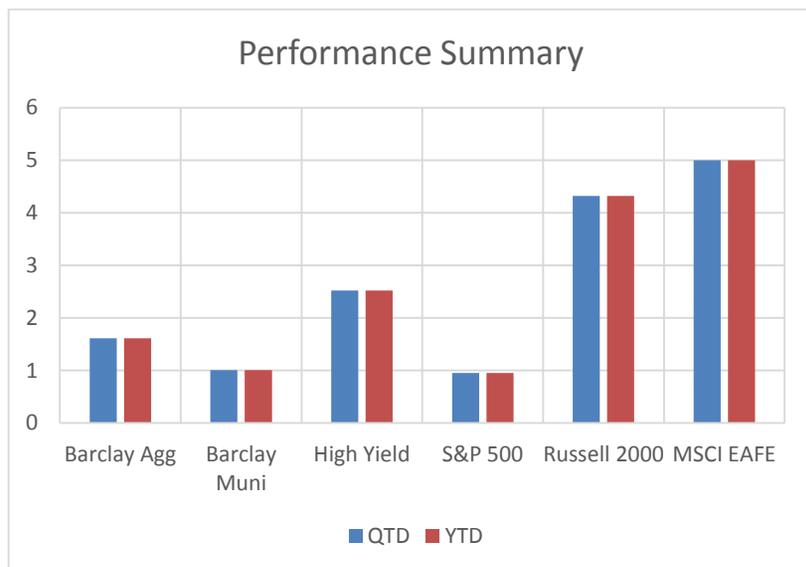


Q1 Investment Commentary

By the AWM Team

U.S. stocks started the year with mixed returns. Large-cap stocks were relatively flat with a 0.95% return, while small and mid-cap returns were up a robust 4.32% and 3.95% for the quarter. As often happens in latter stages of the market cycle, growth stocks outperformed value by a wide margin. The Russell 1000 growth index was up 3.84% vs. -0.72% for the value index. Investors also rotated assets into foreign markets in search of better valuations and returns. The MSCI EAFE was up 5.0% for the quarter and emerging market stocks finished up 2.28%. Core taxable bonds and tax-free bonds were up 1.61% and 1.01% respectively. Lower quality bonds bounced back strongly with high yield up 2.52%, however emerging market bonds continued their weak performance, down -3.96%.



Economic growth slowed in the first quarter and expectations for GDP growth were revised to below 1%. The consensus belief is that harsh winter weather conditions deferred consumer and business spending, and economic activity should bounce back strongly in the second quarter.

We are skeptical that the economy will come roaring back this year. Rather, we expect that “New Normal” economic conditions will persist, leading to decent but below potential economic growth. Upcoming earnings should provide good insight on the economic outlook.

Most of the 2015 themes we identified last quarter are still intact, see below:

Investment Themes:

1. Currency Impacts: a strong U.S. dollar will continue to weigh on energy, commodities and the economy. A weak Euro and Yen should improve competitiveness and economic growth in those markets.

2. Rotation into foreign assets: we increased allocations in Jan.

based on relatively attractive valuations. Weakening foreign currencies should improve the economy and business performance in those markets.

3. Monetary policy: global policy should remain loose, though divergent. We expect the U.S. and BoE to begin tightening (slowly) this year, while the Euro area will continue QE and Japan will stay accommodative.

4. Geo-political: the global distribution of power is becoming more fragmented, and thus multi-polar, leading to a likely increase in conflicts and volatility longer-term.

5. The USD, oil/commodities and emerging markets: the dollar increase is pressuring oil and commodities, which is a net positive for the global economy. Although, this will pressure producing countries it will benefit energy importers, particularly Asia.

6. Dependable income to stay in favor: with inflation staying low and accommodative monetary policy the search for dependable income will continue.

Asset Class Views

Asset Class	View*	Comments
Equities		
U.S. Large Cap	↔	Markets have reached an overvalued level that should lead to relatively low long-term returns; however, near-term momentum and cycle analysis continue to be favorable. Volatility should increase as the Fed raising rates.
U.S. Small/Mid Cap	↓	We believe this segment of the market is overvalued and should be underweighted, expected returns over the next five years look sub-par.
International Developed	↑	Valuations are more attractive than U.S. stocks and we increased exposure in the first quarter. Markets will be volatile but should outperform US stocks over the next five years.
Emerging Markets	↔	We think valuations are reasonable and long-term potential is good; however we are concerned near-term about currency and liquidity risk. Favor Asian markets.
Fixed Income		
Investment Grade	↓	Valuations look rich; keep exposure for risk management and diversification.
High-Yield Bonds	↓	Valuations are full, however they may outperform until the economy slows down or we enter another recession. At that point, we expect substantial downside risk.
Municipal Bonds	↔	Valuations are fair, however they look attractive for high tax-bracket investors.
TIPS	↔	Valuations are improved; TIPS make sense in tax-deferred accounts as a hedge against inflation.
Floating-Rate Loans	↑	We view FLRs as a reasonably attractive opportunity for investment as rates should gradually increase over the next few years.
Emerging Markets	↔	Valuations are reasonable, however we are concerned about currency and liquidity risks. We would favor Asian markets as the biggest beneficiaries of lower energy prices.
Alternatives		
Absolute-Return/Alternatives	↑	We like this asset class and believe it can improve the risk/reward profile of portfolios that hold traditional asset classes; investors need to maintain a long-term perspective.
REITs	↔	Valuations for the general asset class look full; selectively we see opportunities in individual health-care related REITs.
Commodities/Gold	↔	We view gold as an “insurance” asset and recommend holding small positions, if the dollar continues to appreciate and gold breaks support we would suggest a stop/loss.

* ↔ Neutral weight ↓ Underweight ↑ Overweight

U.S. Stocks**Market Performance, First Quarter 2015**

Index	Q1 2015	YTD
S&P 500	0.95%	0.95%
Russell 1000	1.59%	1.95%
Russell 1000 Value	(0.72%)	(0.72%)
Russell 1000 Growth	3.84%	3.84%
Russell Midcap	3.95%	3.95%
Russell 2000	4.32%	4.32%

Source: Morningstar

- Stocks performance was mixed. The S&P 500 was up 0.95%, while small-cap stocks were up a robust 4.32%.
- Investors favored small-cap stocks with the belief that an appreciating U.S. currency would hamper sales of large global multinationals. We continue to believe small-cap stocks are richly valued and will likely underperform over the long-term.
- Growth outperformed value by a wide margin. As the economy slowed and interest rates stayed low investors prefer faster growing or longer duration assets.

International Stocks**Market Performance, First Quarter 2015**

Index	Q1 2015	YTD
MSCI EAFE	5.00%	5.00%
MCSI EME	2.28%	2.28%
MSCI BRIC	3.57%	3.57%

Source: Morningstar

- International developed stocks turned a corner in the first quarter and finished with solid gains. The strengthening U.S. dollar weighed on non-hedged performance, long-term the currency effects will tend to even out. Valuations look attractive relative to the U.S., and longer-term we expect them to outperform.
- Emerging markets were up 2.28% for the quarter. Near-term we remain concerned about the impacts slower economic growth, currency and liquidity risks will have on performance. We favor Asian markets.

Fixed Income**Market Performance, First Quarter 2015**

Index	Q1 2015	YTD
Vanguard Total Bond Index	1.62%	1.62%
Barclays Muni Bond	1.01%	1.01%
Barclays US Corp High-Yield	2.25%	2.25%
JPM GBI- EM Global Diversified	(3.96%)	(3.96%)
iShares TIPS Bond	1.41%	1.41%
BofA Merrill Lynch 3 month Treasury Note	0.01%	0.01%

Source: Morningstar

- Fixed income posted decent returns with Muni and core bonds up 1.01% and 1.61%, respectively. Lower quality high yield bonds were up 2.52% and more volatile emerging market bonds were down (3.96%).
- The Federal Reserve is expected to begin increasing rates in September of this year. We believe slow economic growth, low oil prices and inflation will give them the flexibility to maintain an accommodative policy, even if they begin to increase this year.
- We own bonds mostly for diversification and we have low expectations for returns in the coming years. We are selectively using absolute return and flexible bond managers to add value.

Alternative Assets**Market Performance, First Quarter 2015**

Index	Q1 2015	YTD
PIMCO All Asset All Authority	(0.32%)	(0.32%)
AQR Diversified Arbitrage	0.10%	0.10%
Gateway	1.15%	1.15%

Source: Morningstar

- Alternative asset performance was mixed for the quarter. The All Asset All Authority fund was hurt by its exposure to emerging market and inflation protection asset classes.
- AQR performance was flat and Gateway was up 1.15%. Longer-term we expect these strategies to deliver mid-single digit returns and to maintain a low correlation with traditional assets.
- We continue to recommend moderate allocations and believe they will improve the risk-adjusted returns of portfolios.

Appendix:

Benchmark Definitions

U.S. Equity		Description
S&P 500	Index	The index includes 500 leading US companies and captures approximately 80% coverage of available market capitalization.
Russell 1000	Index	The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe and includes approximately 1000 of the largest securities. The Russell 1000 represents approximately 92% of the U.S. market.
Russell 1000 Value	Index	The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth values.
Russell 1000 Growth	Index	The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.
Russell Midcap	Index	The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.
Russell 2000	Index	The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
International Equity		Description
MSCI EAFE	Index	The EAFE (Europe, Australasia, Far East) index consists of 21 developed market country indexes, excluding the US & Canada. It is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets.
MCSI EME	Index	The index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets and includes 23 emerging market countries in the index.
MSCI BRIC	Index	The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the following four emerging market country indexes: Brazil, Russia, India and China.

Fixed Income		Description
Vanguard Total Bond Index	Index Fund	This index measures a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities, all with maturities of more than 1 year.
Barclays Aggregate Bond	Index	The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass-through bonds), ABS, and CMBS sectors.
Barclays Muni Bond	Index	The U.S. Municipal Indices cover the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.
Barclays US Corp High-Yield	Index	The index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market and excludes Emerging Markets debt.
JPM GBI- EM Global Divers	Index	The index tracks returns for actively traded external debt instruments in emerging markets. Included in the index are US-dollar denominated Brady bonds, Eurobonds, and traded loans issued by sovereign entities.
iShares TIPS Bond	ETF	The iShares TIPS Bond ETF seeks to track the investment results of an index composed of inflation-protected U.S. Treasury bonds.
BofA Merrill Lynch 3 month Treasury Note	Index	The 3-month US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month, that issue is sold and rolled into a newly selected issue.
Alternative Assets		Description
PIMCO All Asset All Authority	Mutual Fund	The investment seeks maximum real return, consistent with preservation of real capital and prudent investment management. The primary benchmark for the fund is the S&P 500, with a secondary objective of Consumer Price Index +650 basis points.
AQR Diversified Arbitrage	Mutual Fund	The investment seeks long-term absolute (positive) returns. It invests in a diversified portfolio of instruments, including equities, convertible securities, debt securities, loans, warrants, options, other types of derivative instruments.
Gateway	Mutual Fund	The investment seeks to capture the majority of the returns associated with equity market investments, while exposing investors to less risk than other equity investments. The fund invests in a broadly diversified portfolio of common stocks, while also selling index call options and purchasing index put options.