NEPC, LLC

RICHARD M. CHARLTON
CHAIRMAN

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Dear Client:

Investor confidence, the economy and the market environment continued to improve in 2013, buoyed by the Fed's stimulus program and its correspondingly low interest rates, fueling asset class returns that represented a virtual book-end to the patterns of 2008. Fear, greed, short memories and Fed intervention have all contributed to this reversal in investment markets, leading to the inevitable question of what lies ahead for institutional investors as the Fed's stimulus program wanes.

NEPC's clients performed respectably well during 2013, generally earning returns above targeted levels and seeing improvements in funded status, particularly corporate pension programs. In the robust bull market environment, however, collective returns will trail competitive averages for the first year since 2001 and only the fourth year since our inception in January 1986. Our preference to broadly diversify client portfolios to achieve good performance over complete market cycles lends both comfort and stability to client returns. That said, we expect to lag when one asset class enjoys a breakout year, just as we expect to defend well in times of adversity.

Favorable industry and client support of that philosophy were reinforced during the year, through another set of standout client ratings in the annual Greenwich Associates' Consultant Client Survey, and also through gratifying recognition of NEPC and key members of our professional staff as global consulting industry leaders.

Our service and financial margins remain strong, and we enjoyed another year of professional staff stability and solid growth. Together, with our entire professional staff, I thank you for your continued confidence in NEPC, and reassure you of our ongoing commitment to provide you with objective and sound investment advice.

Global Markets and the Economy

In the extremely low interest rate environment fostered by the Fed's ongoing stimulus programs, investors moved aggressively into risk-bearing investments in 2013, common stocks in particular. US equities across all styles and capitalization bands enjoyed a breakout year, with gains ranging from 32% to 43%, followed by non-US developed market returns in the 23% range. Only the emerging markets trailed, posting aggregate losses in the -3% range as the threat of higher US interest rates sparked capital outflows from these countries. Conversely, investment grade bonds suffered single digit losses across the board as the Fed telegraphed its tapering program and the prospect of higher interest rates. Long-dated Treasury STRIPS, a highly rate-sensitive derivative, declined more than 20%.

Thus, we enter 2014 on the heels of an impressive rally in US equities, making stocks more expensive and relatively less attractive, and with higher interest rates which will make bonds relatively more attractive, all other things being equal. In the overall investment landscape, the Fed has commenced its tapering program, while committing to a low interest rate environment at least into 2015; Congress has yet to enact any meaningful fiscal stimulus programs; and, the domestic and international developed market economies continue to de-lever and restore their balance sheets, which should moderately dampen consumer spending and corporate profits.

Politically, considerable unrest remains in the Middle East and, in particular, the Ukraine, injecting additional uncertainty into a global marketplace already dealing with a slowdown in China and the inability, thus far, of Japan to jump start its economy.

As we enter 2014, there are growing signs of divergence across the global markets: the Fed has begun its tapering program; European monetary authorities continue to emphasize credit restraint; and Japan is pursuing aggressive monetary stimulation. A pattern of divergence is also developing within the emerging markets, as increased political uncertainty and the prospect of higher interest rates have triggered selective capital outflows, raising concerns over the stability of local currencies for those countries with negative payment balances and dwindling reserves. However, NEPC continues to find attractive debt and equity investments overseas, particularly in direct lending in both Europe and Asia resulting from bank disintermediation. There also exists the ability to earn a liquidity premium in the private markets for investors who can lock up capital. As always, patience is vital, and we encourage clients to lock in profits through rebalancing and resist the urge to chase the markets of 2013.

NEPC Highlights in 2013

Our Internal Business Activity

Growth across all of our client segments remained strong in 2013, with notable initiatives in several areas. We continue to expand our research platform into foreign markets, with regular visits to Europe and Asia. We have also entered into a research partnership with GFIA, a Singapore-based consultancy specializing in Asian alternative investment manager research. We have further capitalized on the depth and capabilities of our research platform by launching discretionary COLI and BOLI products (which will be managed by others), important to those seeking attractive tax-deferred returns. Our Philanthropic Practice Group has now implemented its TEM (Total Enterprise Management) program across our healthcare, and endowment and foundation markets to very strong demand, and our Discretionary Consulting business continues to enjoy excellent reception in the marketplace.

Technology initiatives also continue, as we are rolling out our total portfolio risk platform, encompassing both traditional and alternative assets, in two beta test sites. Also, we now have over 4,000 manager meeting notes up and available through our Intranet to all of our clients. Our internal infrastructure and disaster support systems have been upgraded, and we will have rolled out new networking technology to five offices (Boston, Atlanta and Las Vegas completed; Detroit and Chicago on tap) by mid-year. By June, over 90% of our workforce will have relocated to new office space in the past two years.

Industry Recognition
Most are aware of the importance we place on your opinions of our service commitment and the quality of our investment advice, as measured in the annual Greenwich Associates Client Surveys. Last year, you again ranked NEPC second among our top 10 competitors, and we remain one of only two firms among the 10 largest consultancies to have stood in the top three for nine of the past 10 years.

NEPC was again recognized by *aiCIO* in 2013 through its Industry Innovation Consultant Award, and two of our clients--United Technologies in the Defined Contribution Plan category and San Bernardino County in the Public Pension Plan below $15 billion category--were winners of the Industry Innovation Awards. Additionally, Erik Knutzen, our CIO, and KC Connors, head of our Philanthropic Practice Group, were individually singled out as among the industry's most influential global consultants, with #1 and #18 rankings, respectively. Finally, the National Association of Securities Professionals (NASP) extended to me their Measure of Excellence Award for NEPC's commitment to the City of Detroit.

NEPC's External Staff Growth
NEPC continued to emphasize the development of our professional staff in 2013, focusing on existing resources and adding additional talent to the Firm. We added to our Private Wealth resources by hiring Dennis Miner and Norman LeBlanc, experienced professionals within the industry. Dennis brings over 25 years of concentration in the private wealth area, most recently with Delegate Advisors, LLC, and Morgan Creek Capital Management. He holds the position of Managing Director of Private Wealth, and is focused on reaching high-net worth individuals and family offices that are looking for broad, deep, independent investment advice. Norm has over 30 years of investment industry experience with firms that include Paine Webber, UBS Securities, Deutsche Asset Management, and Delegate Advisors, where he worked closely with Dennis.

As our Discretionary Services practice continues to grow, we are also strengthening its operational expertise and have added Lenia Ascenso as Director of Discretionary Operations. She brings over 16 years of broadly-based financial operations background to NEPC. She recently served as Vice President in the Fund Services area of J.P. Morgan Chase and, prior to that, led the Investment Administration and Hedge Fund Administration areas at Wellington Management Company.

On the Research front, we hired Chris Hill, CFA, as a Consultant to our Private Markets team. Chris was formerly the Director of Alternative Assets at the Louisiana State Employees Retirement System, and joined us after completing his MBA at the MIT Sloan School of Management. He will be relocating to our Redwood City office this summer and will work closely with Allan Martin and many of our Public Fund alternative investment programs.

NEPC's Internal Staff Development and Recognition
NEPC's Executive Committee and Management Group remained stable in 2013. Our five-person Executive Committee consists of Mike Manning, who continues as our Managing Partner, and four elected partners: Jay Roney, Christine Loughlin, Sean Gill and Allan Martin. All have served in prior years making this a strong, steady leadership team.

NEPC also has an ongoing commitment to succession planning and has implemented a formal process to identify future candidates for critical roles. In that regard, Rhett

Humphreys assumed the role of Practice Group Director for the Public Fund and Taft-Hartley teams as a successor to Allan Martin who made the decision to step down from that role to focus more on his client and Executive Committee responsibilities. Kevin Leonard moved into Rhett's role as Team Leader of our Public Fund group.

We remain strongly committed to identifying and mentoring talent within the Firm and continue to direct significant resources to our personnel. We have implemented a formal mentor program, aligning high-potential staff members with Senior Consultants and Partners. Mentees work on particular projects, often for specific clients, giving them an opportunity to gain exposure to clients under the direction and mentorship of our most accomplished professionals. We also have a formal Leadership Development program for Partners and are launching it for the third consecutive year in 2014.

We continue to recognize and promote those with demonstrated leadership and technical skills, welcoming Tim Bruce to our Partnership this year. Tim joined us in 2008 from Partners Health Care, and has over seven years of investment and professional experience in the healthcare field. Tim is a senior member of the Hedge Fund team with a focus on long-short equity and other value-add strategies. He has made a very favorable impact on our hedge fund research capability, and works with some of the most complex and challenging clients from every practice.

We also introduced a new designation of *Principal* to recognize a broader base of senior talent in the Firm. Five professionals were designated as Principals this year in recognition of their high impact contributions to NEPC: Rich Harper, Senior Consultant on our Endowments and Foundations team; Eric Harnish, Director of Private Markets; Dan Kelly, our Chief Operating Officer; Judy Murphy, Director of Organizational Development; and Sean Ruhmann, Team Leader for Real Estate and Real Assets.

In addition, Brian Roberts, Eric Vallo and Mike Valchine were promoted to Senior Consultant positions and Phil Nelson to Senior Research Consultant in recognition of the investment expertise and client service commitment they have demonstrated on behalf of NEPC.

Conclusion

There is an air of excitement and a bounce in our step within NEPC, as our new initiatives and traditional areas of expertise receive strong acceptance in the marketplace. I encourage you to spend time with us, our research personnel, and your client-facing teams at our annual Client Conference. It will be held this year on Tuesday and Wednesday, May 13 and 14, 2014, again at the Boston Convention & Exhibition Center, at 415 Summer Street in Boston. Featured speakers include David M. Rubenstein, Co-Founder and Co-Chief Executive Officer of the Carlyle Group; Marc Seidner, Head of Fixed Income at GMO; and Perry M. Traquina, CFA, Chairman, Chief Executive Officer and Managing Partner of Wellington Management Company. Additional information on our annual Client Conference can be found on our website. We look forward to hosting you and further exploring the challenges of our complex marketplace and the demands of your investment programs.

Regards,