NEPC, LLC

Dear Client:

Global markets continued to rebound in 2014 from their March 2009 lows, as the Fed's quantitative easing programs maintained an investor-friendly, low-interest rate environment. However, pronounced divergence developed during the year between domestic and international economies and their markets, prompting monetary authorities in the Euro Zone and Japan to initiate their own stimulus programs, hoping to keep their economies from slipping into disinflation, or even deflation.

As the Fed's bond purchase program tapered to an uneventful end, "data-driven" became the catch phrase of nervous Fed watchers, looking for signs of gradual monetary tightening and the onset of a more normal interest rate environment. Volatility returned during the first quarter of 2015 as debate intensified over the strength of the market recovery and its ability to weather rising rates.

NEPC's client returns were mixed during 2014, with our alternative asset, liability-driven asset allocation and risk parity programs performing well. However, our preference to broadly diversify client investment programs took a modest toll, as domestic equity markets continued to outperform other asset classes, particularly international and emerging markets. Collectively, our focus on long-term diversification has allowed NEPC's clients to outperform the InvestorForce/ICC median[1] in 25 of the 29 years since our founding in 1986, producing strong absolute returns with lower levels of risk. We believe that future return expectations are muted, and that a return to a market-driven interest rate environment will reward diversification and risk-balanced investment programs.

We are exceptionally proud of the favorable ratings that you accorded NEPC in 2014, ranking our service commitment and investment advice #1 among the industry's 10 largest firms, according to the annual Greenwich Survey's General Quality Index (GQI).[2] We are committed to maintaining and improving the high level of confidence you have expressed in us and we collectively thank you for your strong support.

Global Markets and Economy: The continuing economic recovery in the United States took center stage for the better part of 2014. Going into the year, a multi-year rally in US equities and a GDP contraction in the first quarter were reason enough to be cautious on domestic markets. However, successive quarters of stronger-than-expected growth eased fears, allowing US equities to continue their winning streak. Within fixed income, investors generally anticipated lower returns amid expectations that rates would rise as the Fed wound down its quantitative easing program; instead, Treasury yields declined throughout 2014 as the bond market expressed reservations over the strength of the recovery, spurring robust returns throughout the markets, and strong returns in LDI hedging programs in particular.

Moving beyond the US, other key economic developments included the slowing growth in emerging markets, lingering uncertainty in Europe, broad-based stimulation of the Japanese economy, geopolitical unrest in the Middle East and Ukraine, and the steep fall in oil prices towards the end of the year. These moves not only serve as a timely reminder for investors to recognize the presence of market divergence, but also as a cue to balance these discrepancies with long-term objectives so as to not get tripped up by short-lived trends or fickle market expectations.

Looking ahead in 2015: NEPC's outlook focuses on a five-to-seven-year horizon. We expect a low-return environment during this time, given the current level of interest rates and muted growth prospects globally. The ongoing rally in US equities dominated the last three years and may continue to do so in the coming year or two. That said, investors should guard against the natural instinct to project those returns into the future. In particular, over-allocating to investments that have recently soared, such as domestic equities, is likely to disappoint over the long term. These assets have experienced meaningful price appreciation, pulling returns forward, while deflating future expectations. We think moderation—within reason—is in order. At the same time, we also acknowledge the need for robust returns that require taking risk when opportunities present themselves.

We see potential in select risk assets amid an accommodative monetary policy abroad and a moderately easy monetary policy in the US. It stands to reason that investors should continue to embrace central bank stimulus where it appears, given that quantitative easing has fueled investment gains. Monetary stimulus in Europe and Japan suggests investors may want to tilt their portfolios towards these markets. At the same time, we recommend US investors consider strategically hedging developed currency exposure to reduce the added volatility provided by non-US exposures.

Although still early, we believe opportunities in various areas of the energy market will be compelling. Additionally, emerging economies and private market strategies continue to look appealing, and can help to achieve return targets while mitigating the challenge of high valuations elsewhere. We have observed that the economic divergences of 2014 have created an improved environment for alpha opportunities for dynamic unconstrained strategies and macro managers. While we urge you to remain diversified and allocate risk capital efficiently, the time for moderation may pass, and those investors who are ready and able to seize opportunities as they develop will benefit.

NEPC Highlights in 2014

Industry Recognition: Our goal at NEPC is to continue to provide impartial and rigorous investment advice alongside excellent service. Last year, you ranked NEPC #1 among the 10 largest firms in the investment consulting business, as measured by the Greenwich Quality Index (GQI).[3] We remain the only firm among the 10 largest investment consultancies with rankings in the top three in 10 of the last 11 years, according to Greenwich Associates' annual survey of over 1,000 large plan sponsors regarding their investment consulting relationships.[4]

In 2014, we were again recognized by CIO Magazine, an industry publication for large institutional investors. Two of our professionals appeared on its list last year of the world's 25 most influential institutional consultants. Tim McCusker, our Chief Investment Officer, was ranked 6th out of 25, and KC Connors, a fellow NEPC Partner and head of our Philanthropic Practice group, ranked 18th.

Additions: We further developed and enhanced our Firm's personnel in 2014. As in the past, we have taken a two-pronged approach, focusing on existing resources while adding external talent, as required. To this end, Adrienne Camire, Esquire, IAACP joined us as Internal Counsel, a newly created role. She came from Alcentra, NY LLC, where she served as Vice President and Deputy Chief Compliance Officer.

We also hired Matt Lombardi from Placemark Investments to serve as the Firm's Chief Financial Officer, another newly created role. We welcomed Daniel Hennessey, CFA, CAIA, from Alan Biller, as a Senior Consultant on our Taft-Hartley and Public Fund team. Last but not least, we also added new talent at the consultant- and analyst-levels within our Research and Consulting groups.

NEPC's Internal Staff Development and Progression: NEPC's five-person Executive Committee—comprising Managing Partner Mike Manning and four elected partners, Neil Sheth, Christine Loughlin, Sean Gill and Allan Martin—continues to develop policy for the Firm under the advisory guidance of our Board. NEPC's Management Group, made up of leaders of our practice groups and key corporate professionals, remained stable in 2014.

The Firm is committed to developing and maintaining the breadth and depth of our management. To this end, we have a formal process to identify future candidates for critical roles that may arise. In that regard, I am pleased to share with you Tim McCusker's appointment as NEPC's new CIO, replacing Erik Knutzen who accepted a very senior role at Neuberger Berman. Erik served NEPC and our clients well, materially enhancing our Research function, and we wish him the best.

We remain dedicated to recognizing and mentoring talent at NEPC. We direct significant resources to our personnel and have implemented formal mentor and employee development programs. We also have a formal Leadership Development program for Partners and Principals that we are renewing for the fourth consecutive year in 2015. In line with our tradition of encouraging and endorsing skilled and able leadership, we elected Sean Ruhmann, head of our Real Assets team, to the Partnership in 2014.

Conclusion

As always, we look forward to welcoming you to NEPC's ***Annual Investment Conference***. It will be held on May 19-20 (Tuesday-Wednesday) at the Boston Convention and Exhibition Center, at 415 Summer Street in Boston. I encourage you to use the meeting to spend time with us, our research professionals, and your peers. Featured speakers include Liz Ann Sonders, Senior Vice President and Chair of the Investment Committee at Windhaven Investment Management; Don Yaeger, a sports journalist and New York Times best-selling author and leadership speaker; and Rick Rieder, Chief Investment Officer, Fundamental Fixed Income at BlackRock.

We look forward to hosting you and further exploring the challenges of our complex marketplace and the demands of your investment programs.

Regards,

Richard M. Charlton
Chairman

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[1] The median fund in the $2.0 trillion InvestorForce Universe (or the ICC Universe through 2011) represents average performance among a nationwide sample of plan sponsor results. Past performance is no guarantee of future results.

[2, 3, 4] Source: Greenwich Associates, 2014 Evaluations by U.S. Institutional Investors. Full results available upon request. Greenwich Associates is an independent research firm. Its rankings do not represent an endorsement of NEPC. Past performance is no guarantee of future results.