The Lam Group

Investment Management

In 1Q 2013, the domestic equity markets have returned to record-breaking levels, however the strength in riskier assets was not felt uniformly across the globe. The rally in US equities was led by small cap and value-oriented strategies with the tailwind of a stronger US dollar. While non-US developed market stocks (large and small cap) made positive contributions in the 1st quarter, emerging markets stocks, despite their strong performance in 2012 (+18.22%), had negative return (-1.62%) for 2013 YTD.

Periodic Asset Class Returns as of 3/31/13

EQUITY ASSET CLASSES	***1Q 2013****	**12 Months**	**3 Years**	**5 Years**	**7 Years**	***10 Years***	***10 Years****
S&P 500 Index - Domestic Large Cap Stocks	***+10.61%***	+13.96%	+12.67%	+ 5.81%	+ 5.01%	*+ 8.53%*	*+126.67%*
Russell 2000 Index - Domestic Small Cap Stocks	***+12.39%***	+16.30%	+13.45%	+ 8.24%	+ 4.59%	*+11.52%*	*+197.44%*
MSCI EAFE Index - International Large Cap Stocks	***+ 5.13%***	+11.25%	+ 5.00%	- 0.89%	+ 1.61%	*+ 9.69%*	*+152.23%*
MSCI EAFE SC Index - International Small Cap Stocks	***+ 8.42%***	+13.28%	+ 8.41%	+ 2.06%	+ 1.84%	*+13.17%*	*+244.49%*
MSCI EM Index - Emerging Markets Stocks	***- 1.62%***	+ 1.96%	+ 3.27%	+ 1.09%	+ 6.42%	*+17.05%*	*+382.75%*
DJ US Select REIT Index - Domestic Real Estate	***+ 7.04%***	+13.19%	+16.94%	+ 6.07%	+ 4.13%	*+12.10%*	*+213.37%*
S&P Global (ex-US) REIT Index – International Real Estate	***+ 7.42%***	+27.46%	+14.93%	+ 1.31%	+ 3.50%	*+10.38%*	*+168.40%*
FIXED INCOME ASSET CLASSES	***1Q 2013****	**12 Months**	**3 Years**	**5 Years**	**7 Years**	***10 Years***	***10 Years****
BarCap Aggregate Bond Index - US High-Grade Bonds	***- 0.12%***	+ 3.78%	+ 5.52%	+ 5.47%	+ 5.94%	*+ 5.03%*	*+ 63.29%*
BarCap High-Yield Bond Index	***+ 2.89%***	+13.13%	+11.24%	+11.65%	+ 9.30%	*+10.12%*	*+162.28%*
BarCap TIPS Index - US TIPS	***- 0.36%***	+ 5.68%	+ 8.57%	+ 5.89%	+ 7.01%	*+ 6.32%*	*+ 84.64%*
DJ UBS Commodities Index - Commodities	***- 1.13%***	- 3.03%	+ 1.42%	- 7.11%	- 1.16%	*+ 3.67%*	*+ 43.45%*
Citigroup Non-$ World Govt Bond Index - Non-$ Bonds	***- 3.82%***	- 2.16%	+ 3.33%	+ 2.28%	+ 5.79%	*+ 5.58%*	*+ 72.15%*
JPM EMBI Global Div Bond Index - Emerging Markets Debt	***- 2.26%***	+10.12%	+ 9.87%	+ 9.44%	+ 8.86%	*+10.22%*	*+164.59%*

Sources: Morningstar, JP Morgan, and DFA. * cumulative, total return

Surging equity markets, especially in the presence of easy leverage (QE3+), can cause a form of “investor amnesia” that prevents many from remembering disruptive historical events, and why portfolio balance and global diversification are important. Portfolio rebalancing is an essential risk management discipline.

It is worth noting that the global equity markets have only recently regained the levels reached prior to the 2008-09 global financial crisis and the recovery over the last 5 years has been uneven, punctuated by the European debt crises in May 2011 and May 2012. Celebrations of record-breaking levels should be tempered with caution (rebalancing).

With the market behavior in 1Q 2013, many media pundits and financial experts now believe the domestic economy is recovering (buy stocks!) and are also certain (as they were at the end of 2010) that rising US interest rates are inevitable (sell bonds!). Historically, this type of popular advice is poorly-timed as market prices already reflect all available information.

It is important to remember that both 2011 and 2012 began strongly amid widespread investor optimism, yet unexpected difficulties in Europe during the 2nd quarter of both years brought many undiversified investors to their knees. Despite the recent gains in the equity markets, it is unlikely the world is now safe from all risks. It is for this reason that we remain dedicated to our balanced and globally-diversified investment strategy.

Having a properly-designed portfolio asset allocation plan allows our long-term asset class targets to define our rebalancing discipline during times of market exuberance (as well as market difficulty). We are mindful of the disparity in asset class results (US vs. non-US exposures and stocks vs. bonds) for 1Q 2013 and expect to rebalance the portfolio towards our long-term targets with the goal of managing overall risk and maximizing portfolio tax-efficiency.