



Review of Market Performance Calendar Year 2014

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- ◆ The S&P 500 Index returned 13.7% in 2014, ranking 59th in 115 calendar years of data. Five sectors posted double-digit returns; the energy sector was the only one to end the year in the red. In local currency terms, all but three developed markets ended the calendar year in the black; unhedged US\$ investors saw far more red, with 14 of 23 equity markets posting negative returns in US\$ terms. All major regions (Europe ex UK, Japan, Pacific ex Japan, and UK equities) were in the red in US\$ terms; Israel was the only developed market outside the United States to post a double-digit return.
- ◆ Emerging markets had a poor fourth quarter, dragging down their calendar year return, which went into negative territory for unhedged US\$ investors. Emerging markets underperformed developed markets by 420 bps in local currency terms, and 670 bps in US\$ terms. Save Peru, countries in Latin America saw universally negative returns for the year in US\$ terms. Greece, which was reclassified to emerging markets status at the end of 2013, posted the worst return of any developed or emerging market in local currency terms; in US\$ terms that title went to Russia, whose currency fell hard against the US dollar in the final quarter of the year. Frontier markets, by contrast, posted a return of 12.9% in local currency terms and a still strong 7.2% in US\$ terms.
- ◆ Global bond markets, by contrast, had a more positive calendar year, with the major global indexes we track all in the black save emerging markets local currency debt. The benchmark Barclays US Agg returned 6.0% while US high-yield bonds returned 2.5%. High-yield issuance has soared in the past three years, though 2014 issuance was below both 2012 and 2013. Issuance in 2015 may be constrained by increasing distress within the energy sector (roughly one-seventh of the high-yield market). Ten-year Treasury yields ended the year at 2.17%, down 87 bps from year end 2013.

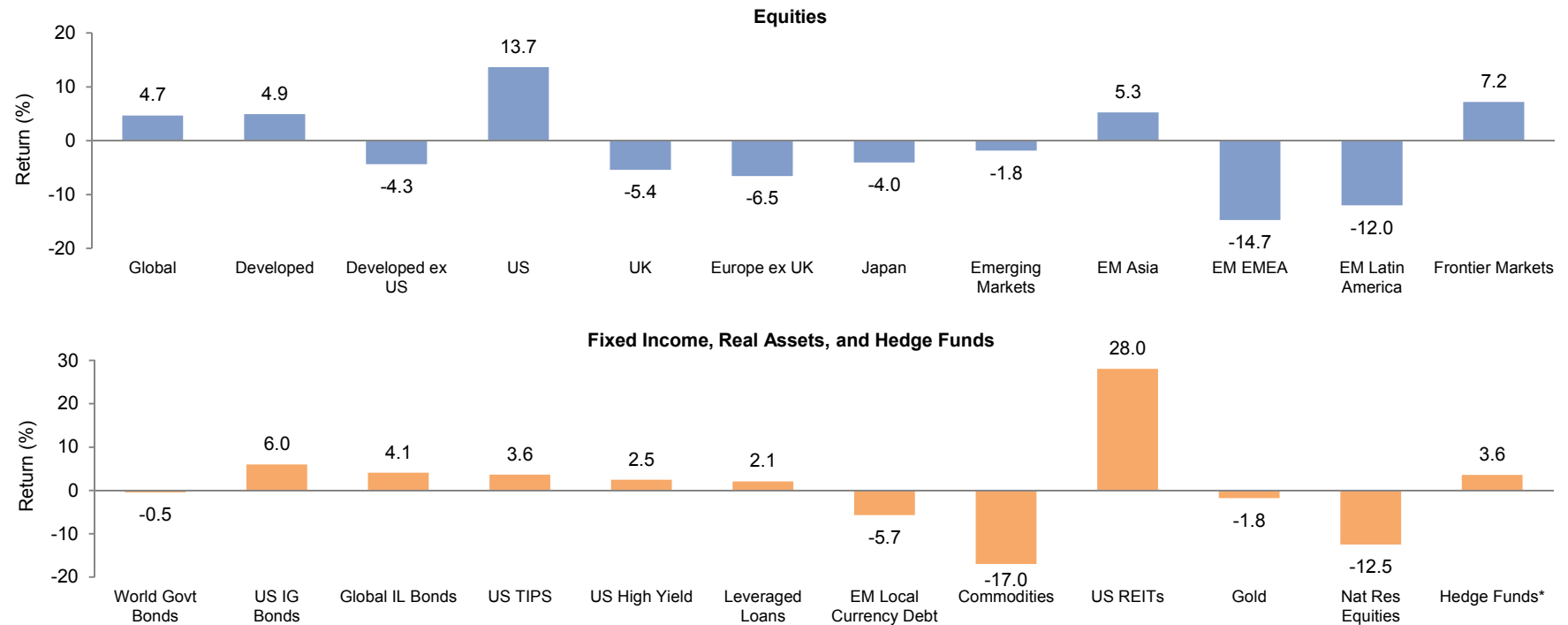
- ◆ Commodities started suffering in second quarter and never recovered, ending the year down 17.0% for the broad-based Bloomberg Commodity Index and down 33.1% for the energy-heavy S&P GSCI™ Index. Natural resources equities were dragged down with collapsing oil prices, returning -12.5% in US\$ terms for the year. US REITs were one of the strongest-performing assets in the year, due in part to yield-chasing, with returns of 28.0%. Gold prices ended the year at \$1,186/troy ounce, down 1.8%.
- ◆ Preliminary data from Hedge Fund Research, Inc. show most hedge fund strategies returning low single digits on either side of zero. The widely followed HFRI Fund Weighted Composite Index returned 3.6% and the HFRI Equity Hedge Index, 2.3%. Through third quarter 2014 estimated hedge fund assets were \$2.8 trillion, a new record.
- ◆ For the one-year period ended September 30, 2014, the Cambridge Associates LLC US Private Equity Index shows a preliminary return of 18.7% while the Cambridge Associates LLC US Venture Capital Index shows a preliminary return of 23.5%. Preliminary five-year returns through September 30 were 17.0% and 15.7%, respectively.
- ◆ In 2014, the amount raised for private equity– and venture-backed initial public offerings exceeded the year 2000. The number of transactions is still below its 2000 level, though 2014 saw the largest number in the years since then. Merger & acquisition activity was also robust in 2014, with disclosed deal value the highest in the past 15 years, excluding the 2006–07 peak.
- ◆ The US dollar began consistently rising against the other major currencies in July and finished the year up strongly against all, particularly the Japanese yen, the euro, the Swiss franc, and our basket of emerging markets currencies. Over the past five years, the yen is down 22% versus the dollar and the euro, 8%.

Fixed Income Saw Positive Returns in 2014; Risk Assets Were More Mixed

US\$ strength weighed on many returns and dragged a number of equities into the red

Asset Class Performance: Calendar Year 2014

January 31, 2014 – December 31, 2014 • US Dollar



Sources: Barclays, Bloomberg L.P., Citigroup Global Markets, Credit Suisse, FTSE International Limited, Hedge Fund Research, Inc., J.P. Morgan Securities, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: All returns are total returns in US\$ terms, except gold, for which returns are based on changes in the spot price. Asset classes represented by the following: MSCI All Country World Index ("Global"), MSCI World Index ("Developed"), MSCI World ex US Index ("Developed ex US"), S&P 500 Index ("US"), MSCI UK Index ("UK"), MSCI Europe ex UK Index ("Europe ex UK"), MSCI Japan Index ("Japan"), MSCI Emerging Markets Index ("Emerging Markets"), MSCI Emerging Markets Asia Index ("EM Asia"), MSCI Emerging Markets Europe, Middle East, Africa Index ("EM EMEA"), MSCI Emerging Markets Latin America ("EM Latin America"), MSCI Frontier Markets ("Frontier Markets"), Citigroup World Government Bond Index ("World Govt Bonds"), Barclays Aggregate Bond Index ("US IG Bonds"), Barclays World Government Inflation-Linked Index ("Global IL Bonds"), Barclays US TIPS Index ("US TIPS"), Barclays High-Yield Composite ("US High Yield"), Credit Suisse Leveraged Loan ("Leveraged Loans"), J.P. Morgan GBI-EM Global Diversified Index ("EM Local Currency Debt"), Bloomberg Commodity Index ("Commodities"), FTSE® NAREIT All Equity REITs ("US REITs"), gold bullion prices ("Gold"), MSCI World Natural Resources Index ("Nat Res Equities"), and HFRI Fund Weighted Composite Index ("Hedge Funds"). Total returns for MSCI developed markets indexes are net of dividend taxes. Total returns for MSCI Emerging Markets indexes are gross of dividend taxes. Hedge Fund Research data are preliminary for the preceding five months.

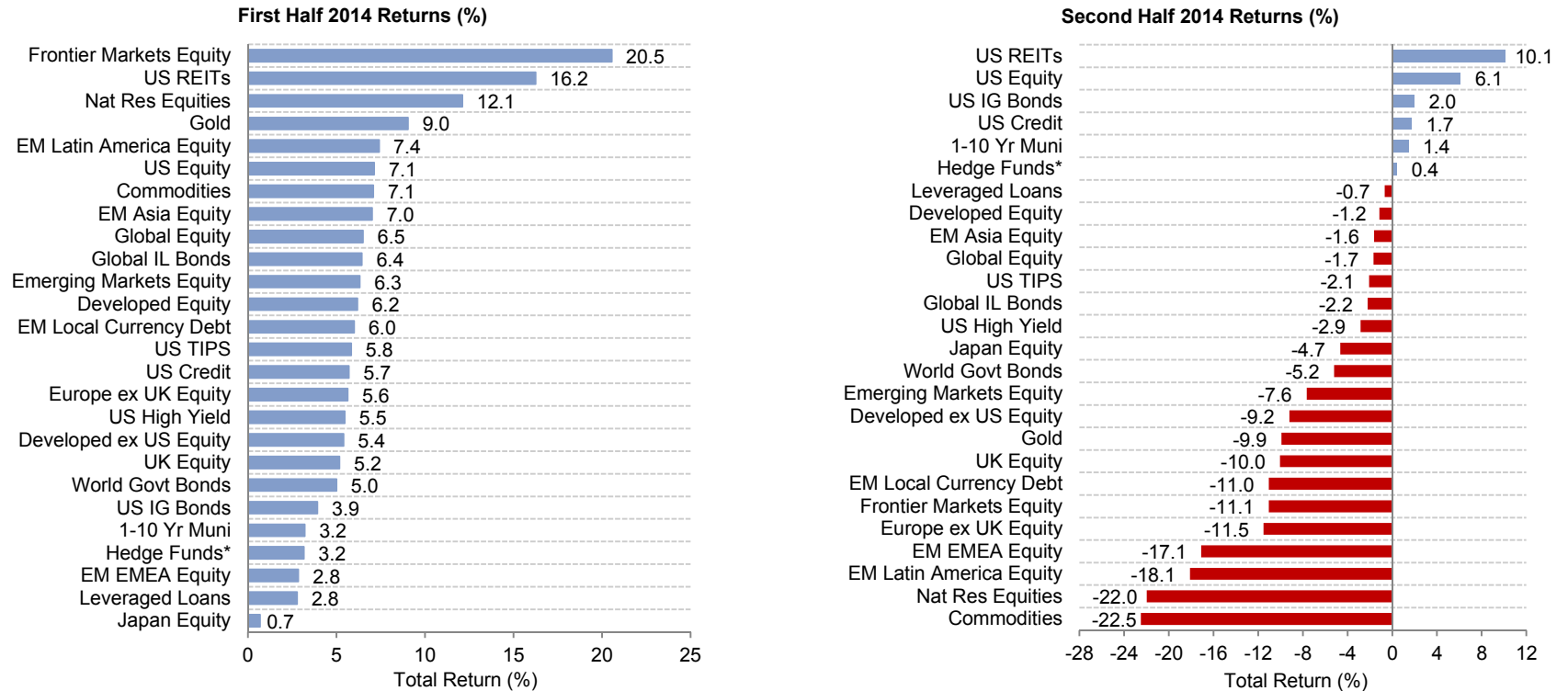
* Based on preliminary data.

In Many Ways, 2014 Was a Tale of Two Halves as Returns Reversed in the Second Half

Renewed US\$ strength and falling commodity prices were key contributors to the reversal

Performance of Various Asset Classes

US Dollar



Sources: Barclays, Bloomberg L.P., Citigroup Global Markets, Credit Suisse, FTSE International Limited, Hedge Fund Research, Inc., J.P. Morgan Securities, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

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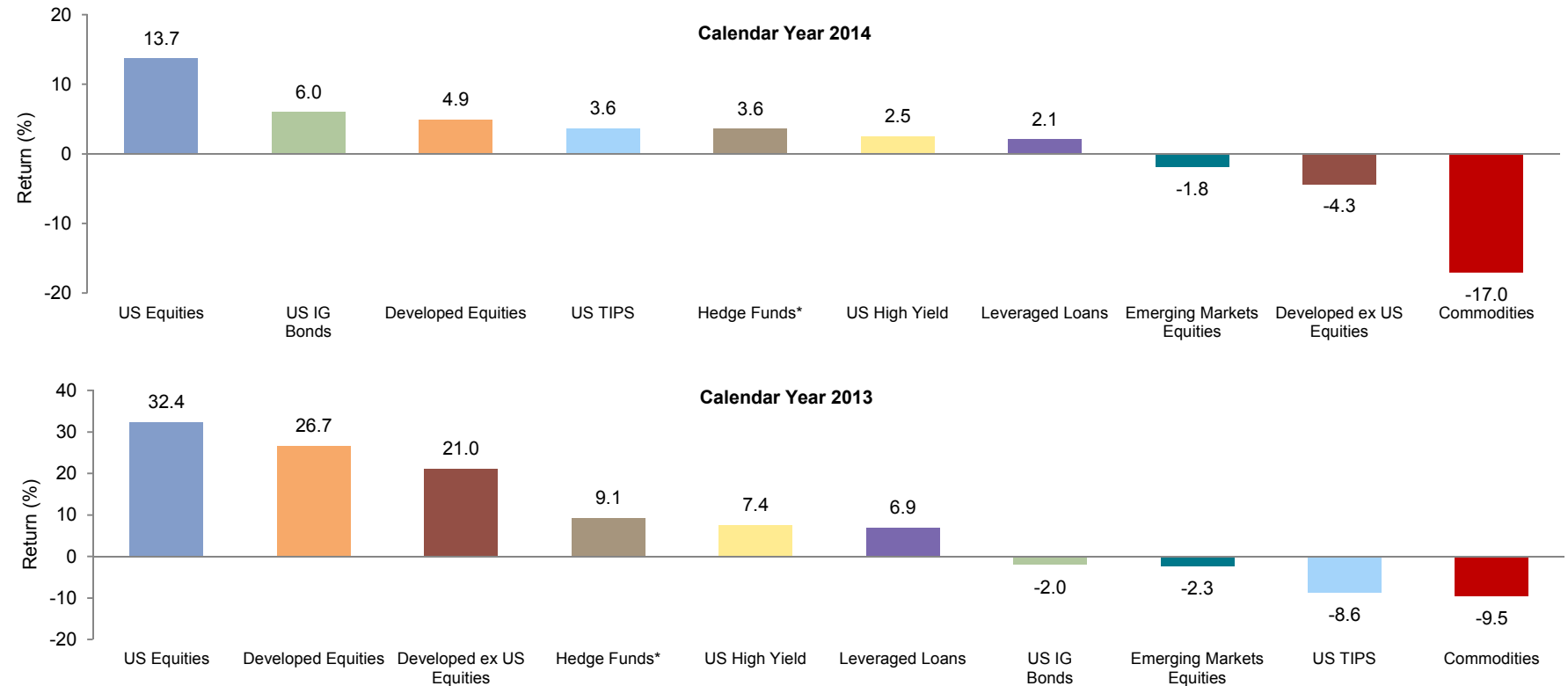
* Based on preliminary data.

Returns Were Lower in 2014 Than 2013

US equities again outperformed other major asset classes, and commodities trailed

Asset Class Performance: Calendar Years 2014 & 2013

US Dollar



Sources: Barclays, Bloomberg L.P., Citigroup Global Markets, Credit Suisse, FTSE International Limited, Hedge Fund Research, Inc., J.P. Morgan Securities, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: All returns are total returns in US\$ terms. Asset classes represented by the following: S&P 500 Index ("US Equities"), MSCI World Index ("Developed Equities"), MSCI World ex US Index ("Developed ex US Equities"), MSCI Emerging Markets Index ("Emerging Markets Equities"), Barclays High-Yield Composite ("US High Yield"), HFRI Fund Weighted Composite Index ("Hedge Funds"), Bloomberg Commodity Index ("Commodities"), Credit Suisse Leveraged Loan ("Leveraged Loans"), Barclays US TIPS Index ("US TIPS"), and Barclays Aggregate Bond Index ("US IG Bonds"). Total returns for MSCI developed markets indexes are net of dividend taxes. Total returns for MSCI Emerging Markets indexes are gross of dividend taxes. Hedge Fund Research data are preliminary for the preceding five months.

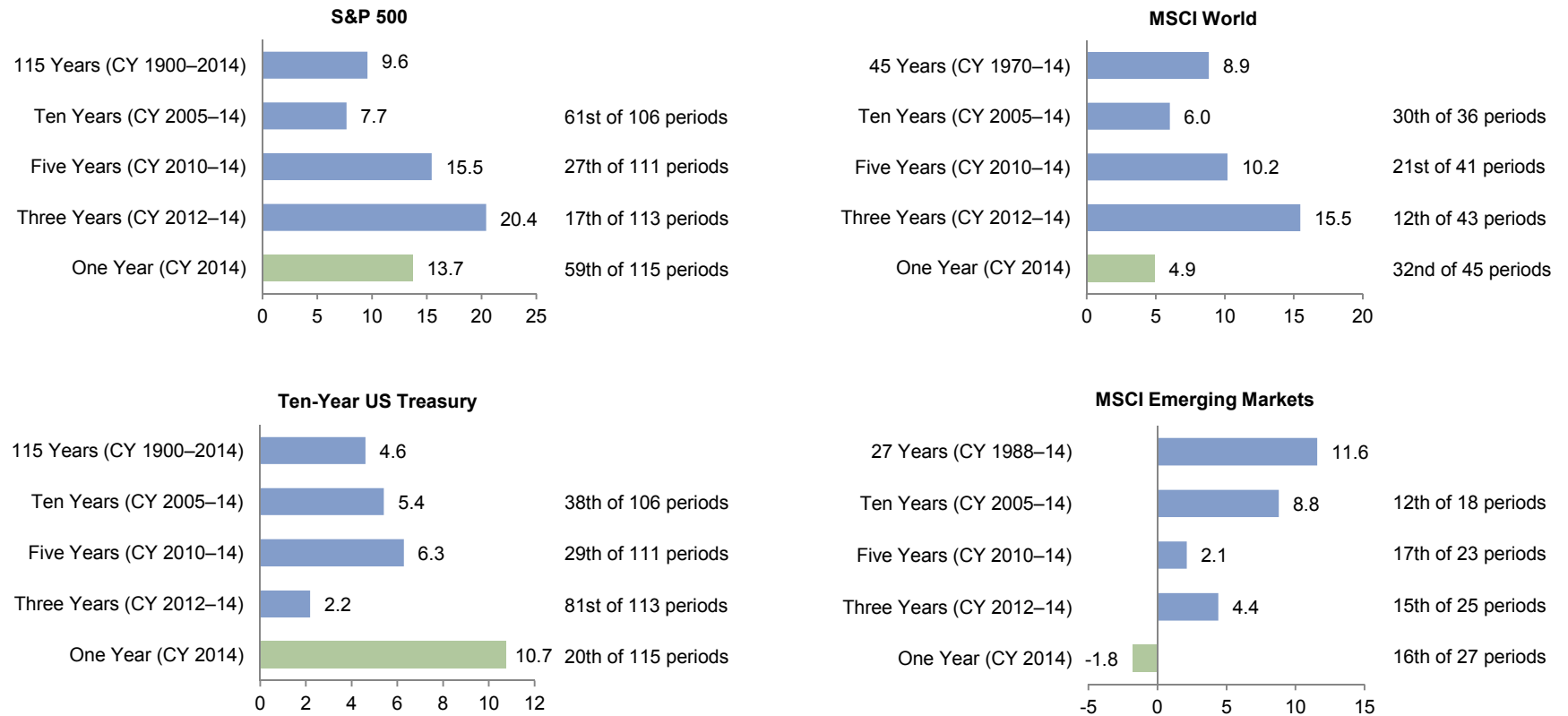
* Returns for calendar year 2014 based on preliminary data.

The 2014 US Treasury Return Was in the Top 20% of Historical Periods

The emerging markets equity return ranked in the bottom half of annual returns since 1988

Average Annual Compound Returns for Various Time Periods

Periods Ended December 31, 2014 • US Dollar



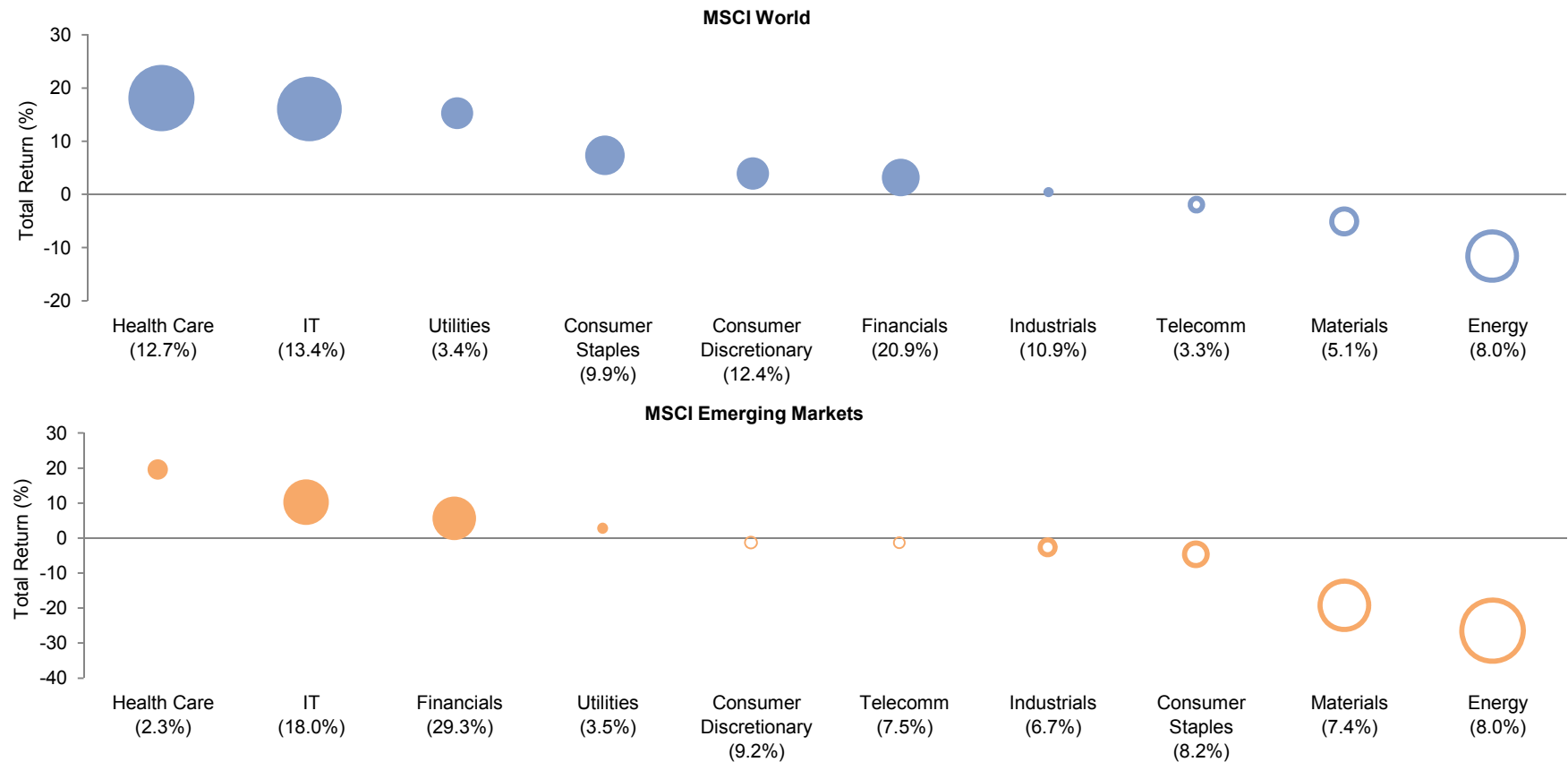
Sources: Global Financial Data, Inc., MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: A ranking of first indicates the best performance among all periods.

Energy Posted Strongly Negative Returns in Both Developed and Emerging Markets

Global Equity Sector Performance: Calendar Year 2014

US Dollar



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Total returns for MSCI developed market indexes are net of dividend taxes. Total returns for MSCI Emerging Markets indexes are gross of dividend taxes.

Bubble size determined by that sector's impact on the total return (its contribution to return). Bubbles with outlines were negative contributors to the overall index return.

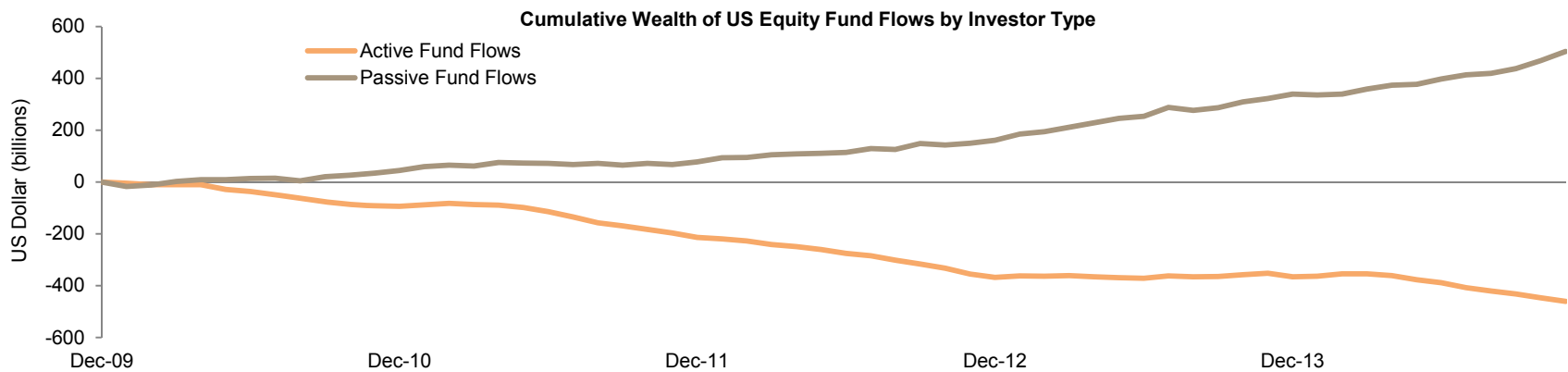
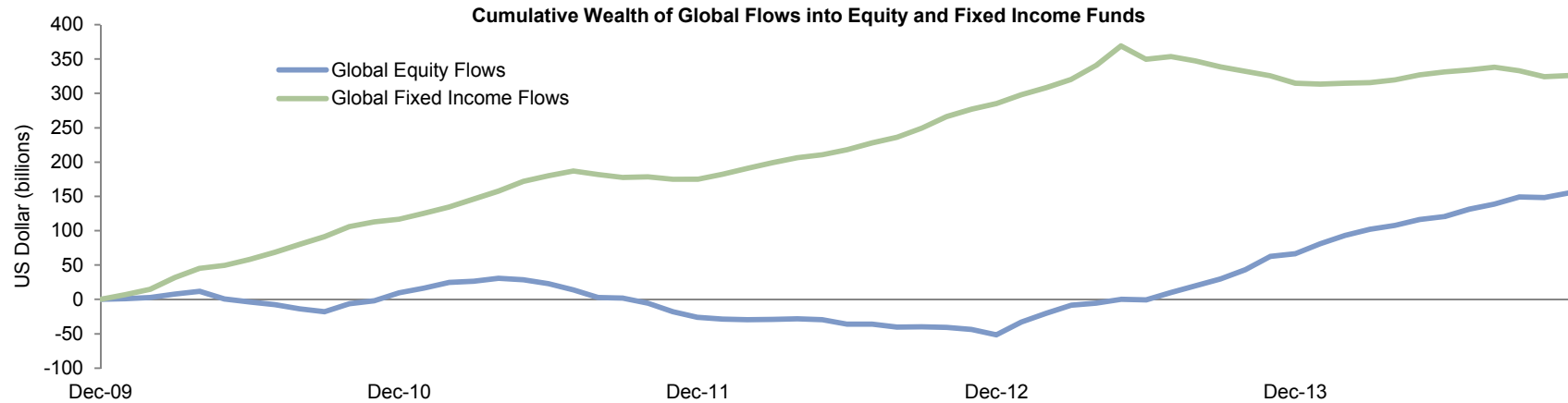
Sector weight below index name as of calendar year-end 2014.

In 2014, Global Flows into Equities Continued to Outpace Those into Bonds

Based on US data, flows into passive equity funds in 2014 were the strongest in the past five years

Changes in Fund Flows

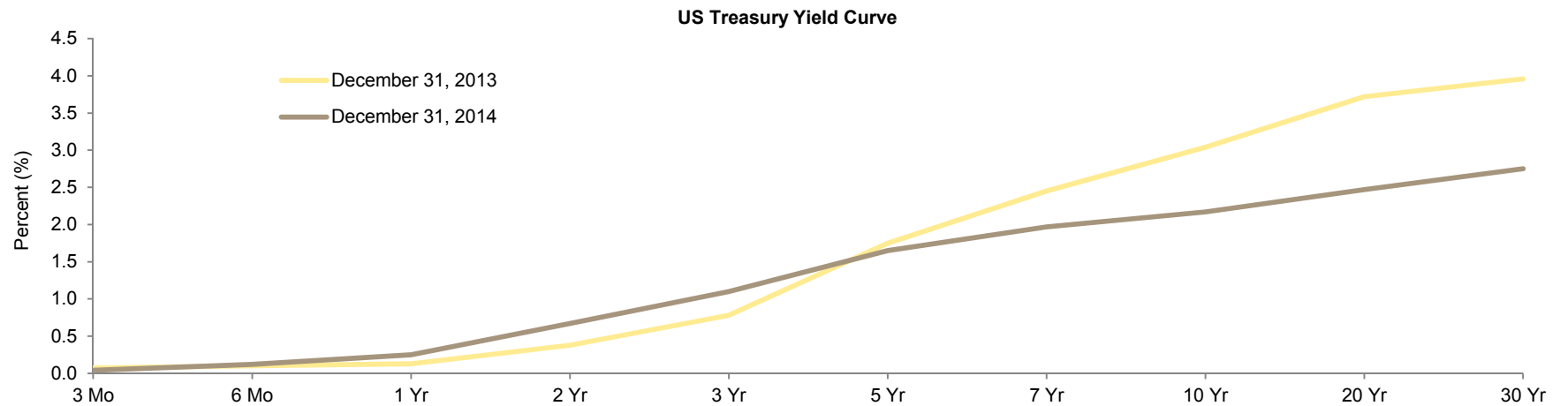
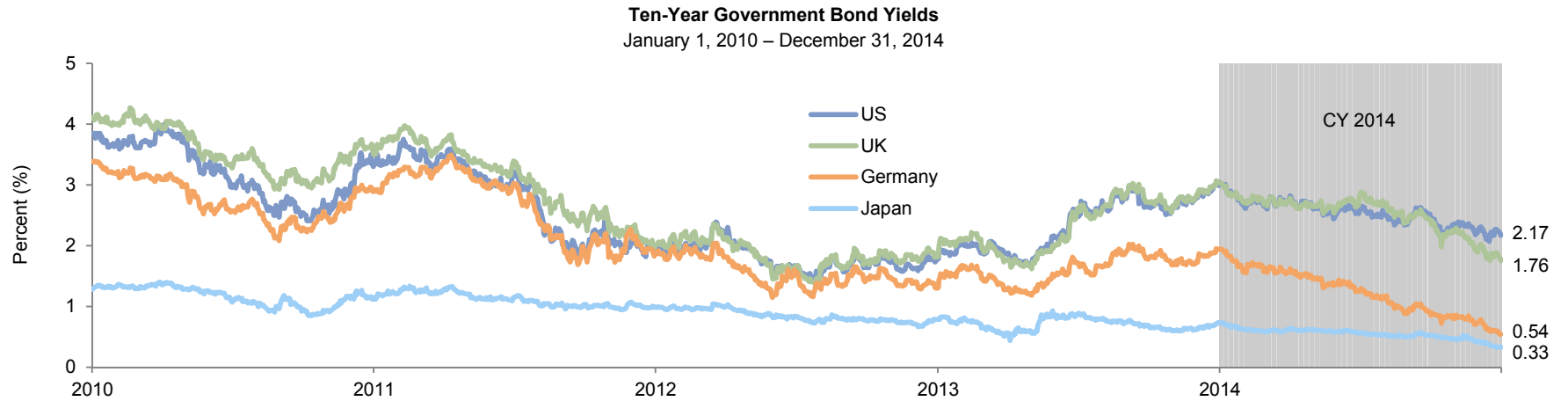
January 1, 2010 – November 30, 2014 • December 31, 2009 = \$0.0



Source: EPFR Global.

10-Yr US Treasury Yields Compressed ~90 bps Over the Year as the Curve Flattened

Ten-Year Government Bond Yields and US Treasury Yield Curve

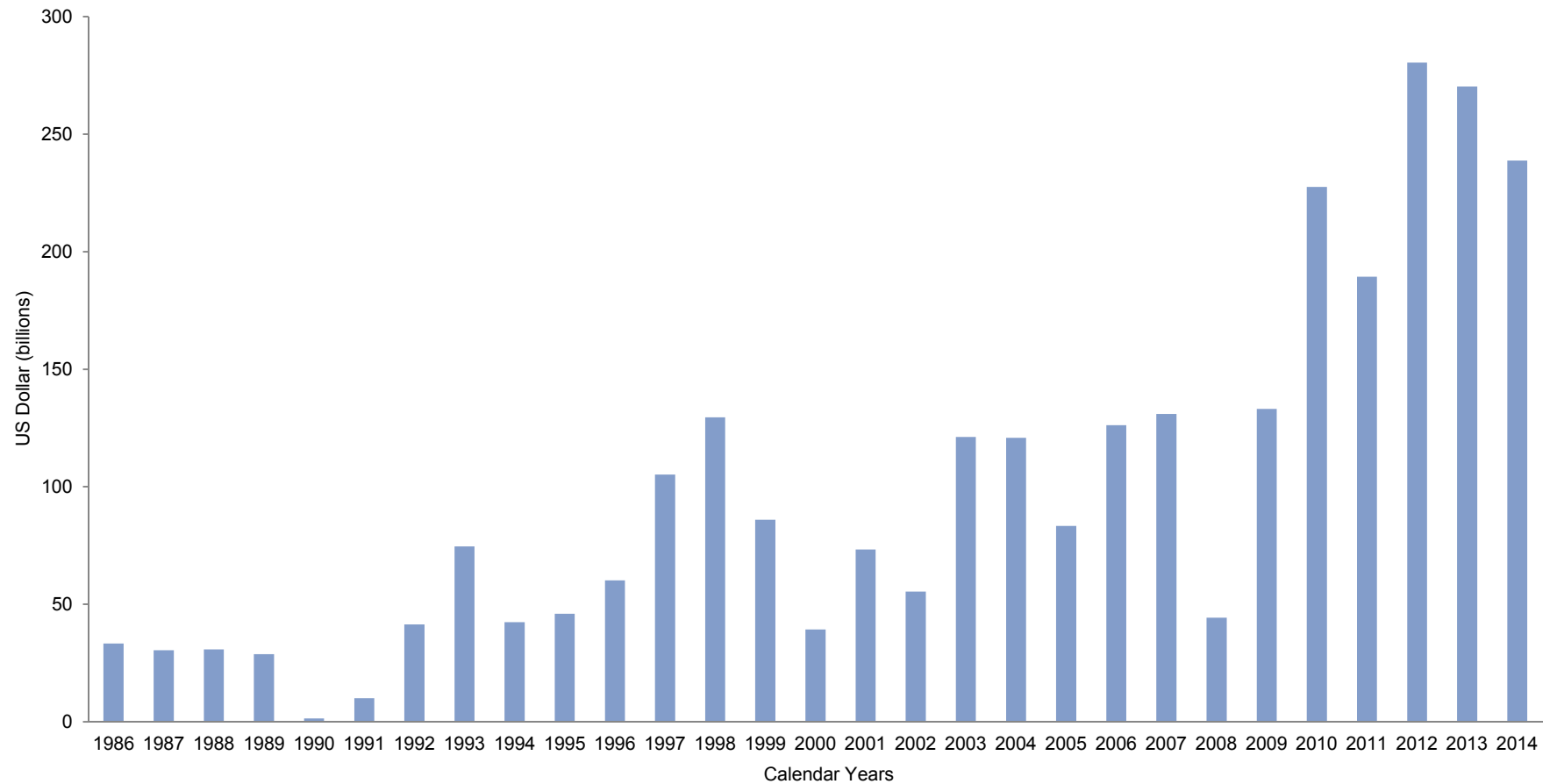


Sources: Federal Reserve and Thomson Reuters Datastream.

2014 High-Yield Issuance Was Down From 2012 & 2013, But Higher Than Historically

High-Yield New Issuance by Calendar Year

Calendar Years 1986–2014



Source: BofA Merrill Lynch.

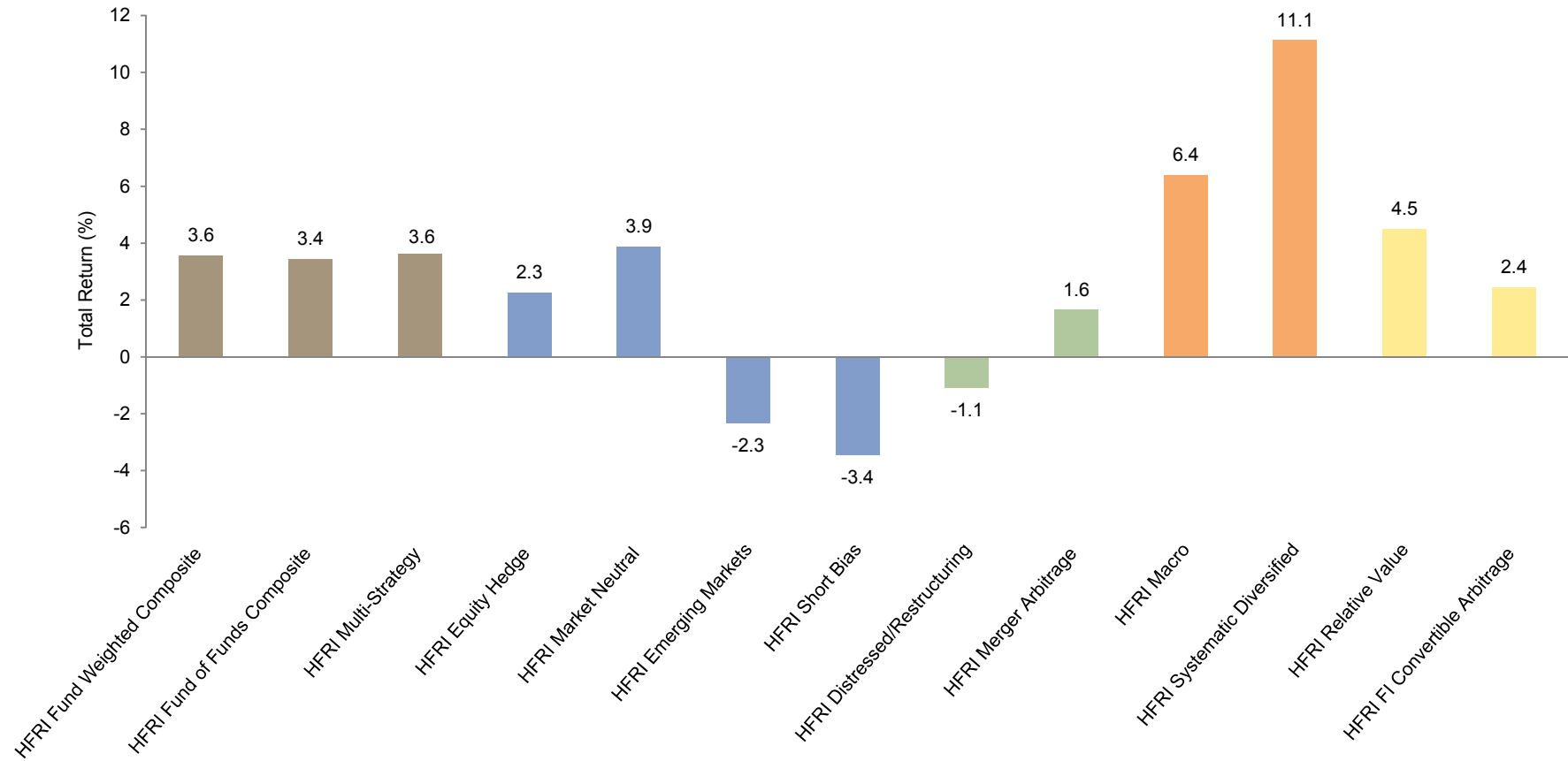
Note: Data are quarterly.

Hedge Fund Strategies Posted Low Single-Digit Returns, on Either Side of Zero

Global macro strategies were the exception, with systematic diversified in particular posting strong returns

Preliminary Calendar Year 2014 Hedge Fund Performance: HFRI Indexes

January 31, 2014 – December 31, 2014



Source: Hedge Fund Research, Inc.

Note: Hedge Fund Research data are preliminary for the preceding five months.

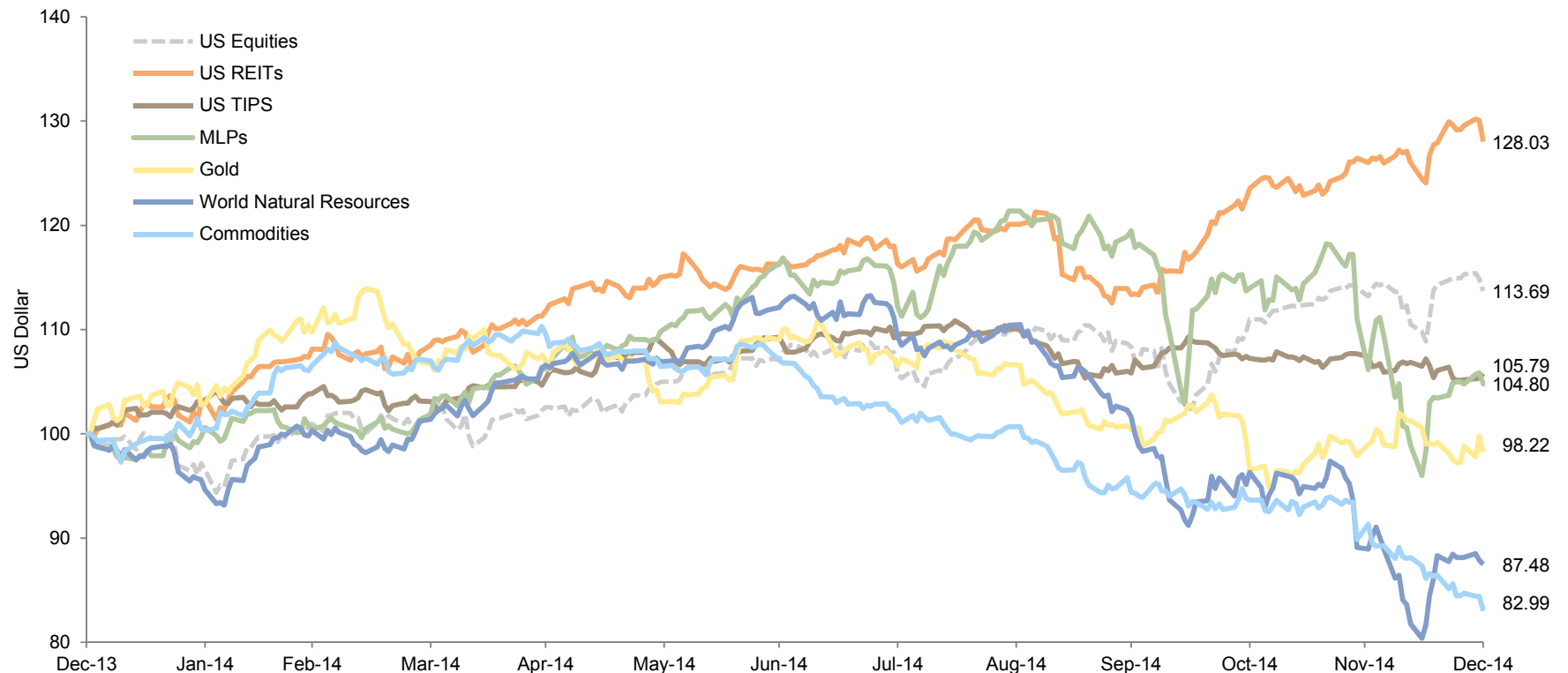
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1H2014 Saw Commodities in Positive Territory; 2H2014 Was Another Story

US REITs had a banner year, beating other public real assets and US equities

Cumulative Wealth of Public Real Assets: Calendar Year 2014

January 1, 2014 – December 31, 2014 • December 31, 2013 = \$100



Sources: Alerian, Barclays, Bloomberg L.P., FTSE International Limited, MSCI Inc., Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

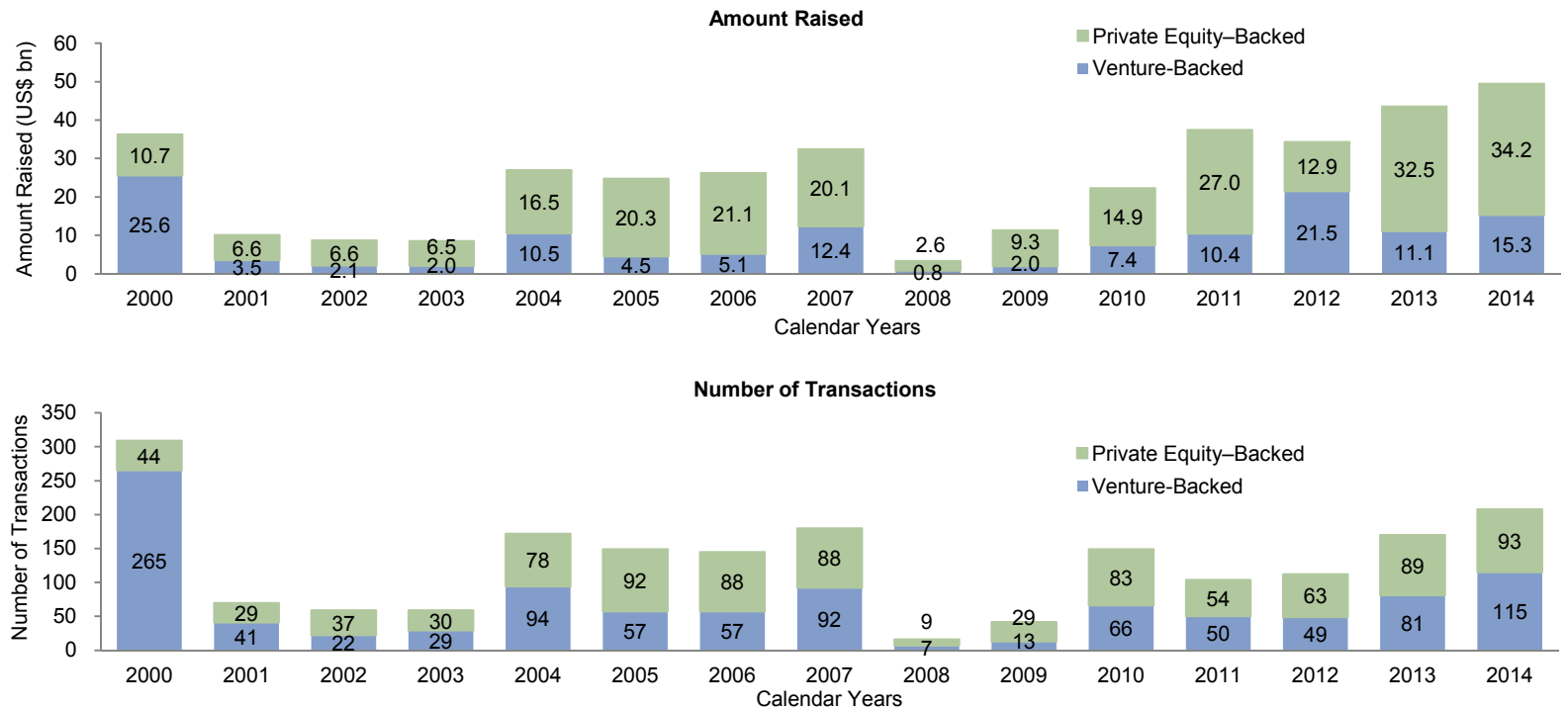
Notes: Data are daily. "US Equities" represented by the S&P 500 Index, "World Natural Resources" by the MSCI World Natural Resources Index, "MLPs" by the Alerian MLP Index, "US REITs" by the FTSE® NAREIT All Equity REITs Index, "Gold" by the gold bullion spot price, "Commodities" by the Bloomberg Commodity Index, and "US TIPS" by the Barclays US TIPS Index.

Amount Raised for PE- & VC-Backed IPOs Was the Highest in the Past 15 Years

Number of transactions is the highest in the past 14 years

US Private Equity- and Venture-Backed Initial Public Offerings by Calendar Year

Calendar Years 2000-14



Average Amount Raised Venture-Backed IPOs

(US\$ millions)	96.7	85.1	95.9	69.8	111.5	78.6	89.8	134.4	109.3	152.3	112.3	208.8	438.0	136.6	133.0
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Average Amount Raised Private Equity-Backed IPOs

(US\$ millions)	243.3	227.6	177.8	216.9	212.2	220.7	240.1	227.9	284.3	321.2	178.9	500.9	204.1	365.2	367.2
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Sources: Dealogic, National Venture Capital Association, and Thomson Reuters.

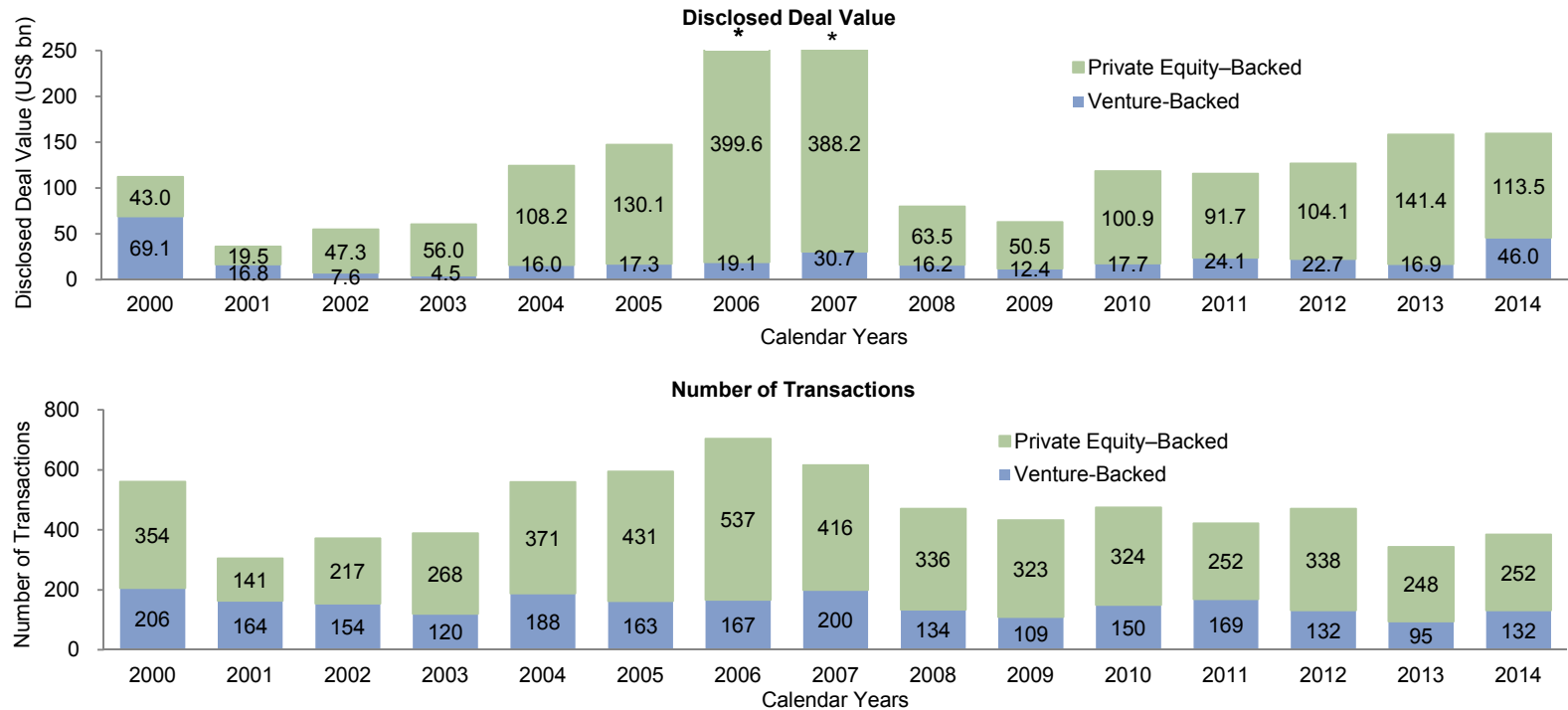
Notes: Data are annual. Dealogic updates its database on a regular basis, therefore historical data may change.

PE- & VC-Backed M&A Activity Was Strong in 2014

Excluding 2006 and 2007, deal value in 2014 was the highest in the past 15 years

US Private Equity- and Venture-Backed Mergers & Acquisitions by Calendar Year

Calendar Years 2000–14



Average Deal Value Venture-Backed M&A (US\$ millions)	335.4	102.3	49.3	37.2	85.3	106.3	114.6	153.7	121.2	113.4	118.0	142.6	171.9	178.0	348.7
Average Deal Value Private Equity-Backed M&A (US\$ millions)	121.6	138.0	218.0	208.9	291.7	301.9	744.1	933.2	189.1	156.4	311.5	363.9	308.1	570.2	450.5

Sources: Dealogic, National Venture Capital Association, and Thomson Reuters.

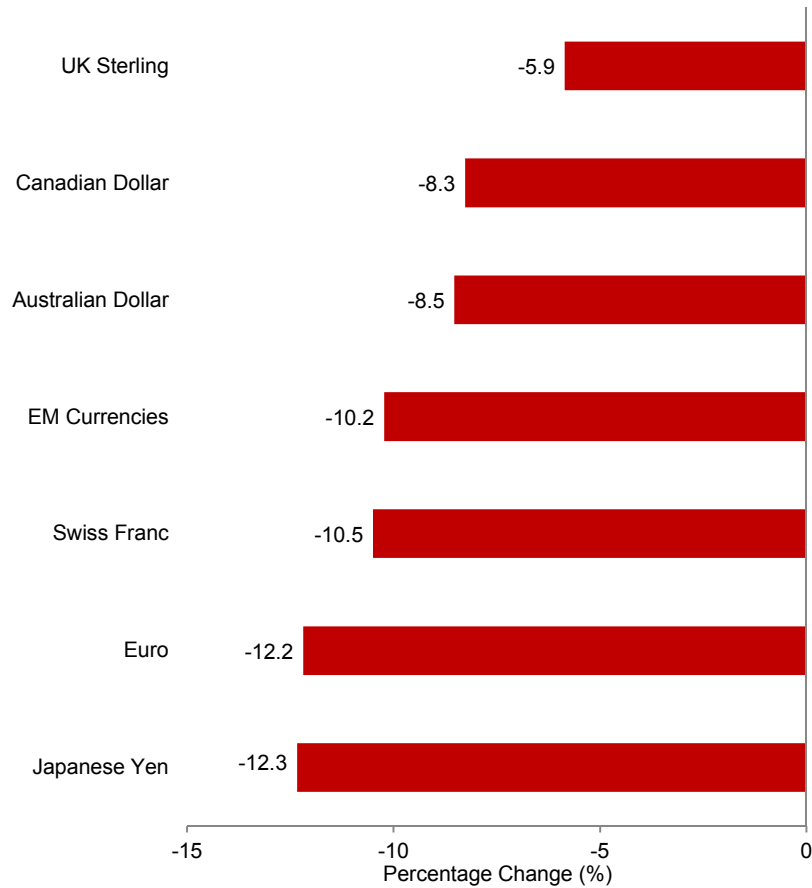
Notes: Data are annual. Dealogic updates its database on a regular basis, therefore historical data may change. Deal value data only include deals for which a deal value was reported.

* Scale capped for graphing purposes.

The US Dollar Rose Against All Major Currencies

Currency Performance vs the US Dollar: Calendar Year 2014

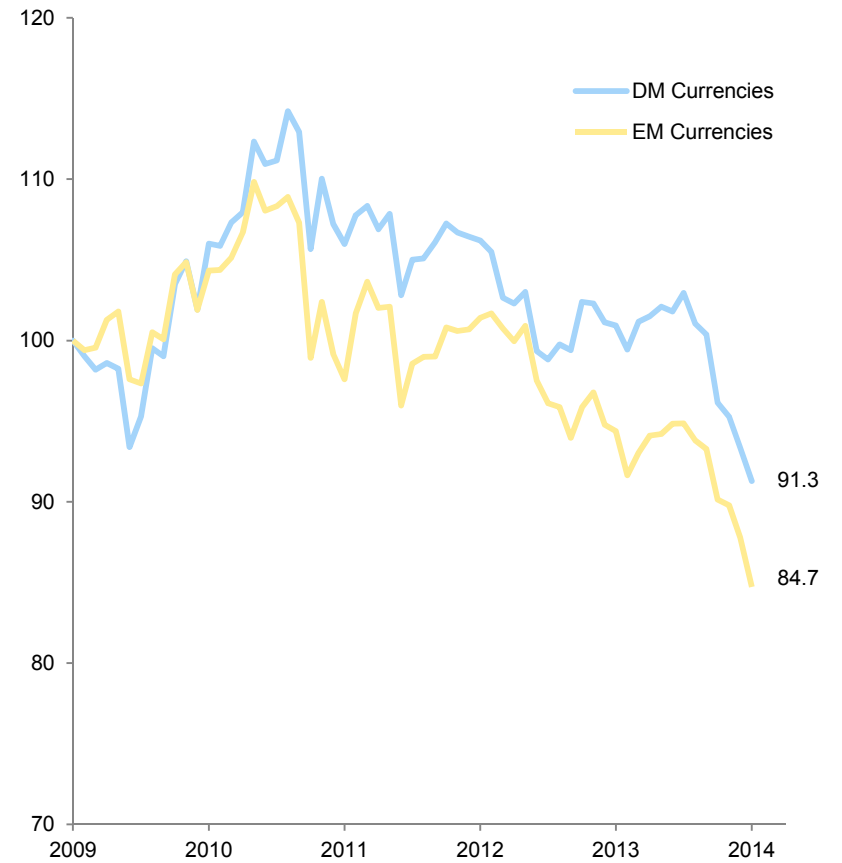
January 31, 2014 – December 31, 2014



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express
 Note: EM currencies is an equal-weighted basket of 20 currencies.

Cumulative Wealth for Various Currencies in US\$ Terms

December 31, 2009 – December 31, 2014 • December 31, 2009 = \$100



Sources: Thomson Reuters Datastream and WM/Reuters.
 Notes: DM currencies is an equal-weighted basket of six currencies. EM currencies is an equal-weighted basket of 20 currencies.

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