The Lam Group
Investment Management

While the first quarter of 2015 began (and ended) with a high degree of volatility, the majority of asset class exposures have made positive contributions. Led by **non-US equity** asset classes, large and small cap international stocks (MSCI EAFE: +4.88%, EAFE SC: +5.56%) and emerging market stocks (MSCI EM: +2.24%) delivered strong returns both in absolute terms and relative to their 2014 results.

It is worth noting that this strong performance of non-US equites occurred despite the continued strengthening of the US dollar (+8.97% as measured by the DXY currency index). In local currency terms, non-US equity markets were up even more (MSCI EAFE: +10.85%, EAFE SC: +11.03%, and EM: +4.90%). The stimulus playbook (lowering interest rates/massive quantitative easing) recently implemented by central banks around the world is working as well for foreign markets as it did for US markets.

With foreign monetary policy stimulus programs in their nascent stages and our domestic program coming to an end, the weakness in foreign currencies relative to the US dollar may set the stage for non-US companies to become more globally competitive. It is possible the positive implications for foreign equity markets are only beginning to become apparent. A stronger US dollar may provide a tailwind for foreign equities while serving as a headwind to US markets.

Table 1: Periodic Asset Class Returns as of 3/31/15

EQUITY ASSET CLASSES	1Q 2015	2014	12 Mos	3 Years*	5 Years*	10 Years*	15 Years*
S&P 500 Index - Domestic Large Cap Stocks	0.95%	13.70%	12.73%	16.11%	14.47%	8.01%	4.15%
Russell 2000 Index - Domestic Small Cap Stocks	4.32%	4.89%	8.21%	16.27%	14.57%	8.82%	7.19%
MSCI EAFE Index - International Large Cap Stocks	4.88%	-4.90%	-0.92%	9.02%	6.16%	4.95%	2.88%
MSCI EAFE SC Index - International Small Cap Stocks	5.56%	-4.95%	-2.92%	10.67%	8.80%	6.17%	7.18%
MSCI EM Index -Emerging Markets Stocks	2.24%	-2.19%	0.44%	0.31%	1.75%	8.48%	7.03%
DJ US Select REIT Index - Domestic Real Esate	4.71%	32.00%	25.26%	13.95%	15.89%	9.45%	12.86%
S&P Global (ex-US) REIT Index - International Real Estate	2.68%	10.94%	10.31%	11.43%	10.51%	4.86%	N/A
FIXED INCOME ASSET CLASSES	**1Q 2015**	**2014**	**12 Mos**	**3 Years***	**5 Years***	**10 Years***	**15 Years***
BarCap Aggregate Bond Index - US High-Grade Bonds	1.61%	5.97%	5.72%	3.10%	4.41%	4.93%	5.66%
BarCap High-Yield Bond Index - US High-Grade Bonds	2.52%	2.45%	2.00%	7.46%	8.59%	8.18%	7.83%
BarCap TIPS Index - US TIPS	1.42%	3.64%	3.11%	0.63%	4.29%	4.55%	6.29%
Bloomberg Commodities Index - Commodities	-5.94%	-17.01%	-27.04%	-11.52%	-5.71%	-3.56%	1.77%
Citigroup Non-$ World Govt Bond Index - Non-$ Bonds	-4.36%	-2.68%	-9.82%	-3.32%	0.38%	2.51%	4.42%
JPM EMBI Global Diversified Bond Index - Emerging Markets Debt	2.01%	7.43%	5.65%	5.37%	7.10%	8.11%	9.56%

Sources: Morningstar, JP Morgan & Dimensional. *annualized

Interest rate differentials between domestic and foreign markets can drive the direction of currencies. While many expect the US to raise domestic interest rates (which could strengthen the US dollar), as foreign central banks lower/maintain low interest rates, it will take some pressure off the Fed to raise interest rates.

The Fed will have to be careful with its interest rate policy as it pertains to the overall strength of the US dollar. While it may seem counter-intuitive, a US dollar that is too strong may ***not*** be good for the US economy (or the domestic stock market). It is important to remember that it was the low interest rate/QE/weak dollar strategy that propelled the US stock markets to its recovery after the 2000-2009 "lost decade". A US dollar that is too strong may make US goods and services less competitive on the global stage.

Because of the negative consequences that a strong dollar can bring, we are as concerned about rising domestic interest rates in 2015 as we were in 2014 and 2013 when consensus was similarly strong for rising rates (and the inevitable doom to the US bond markets has still not happened).

We are pleased with our results this quarter. Given the continued uncertainty with currencies, global interest rates and other geopolitical matters, we continue to believe in our globally-diversified and balanced investment strategy and expect to rebalance the portfolio along investment policy guidelines as warranted.

Nelson J. Lam
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