

# The Lam Group

## Investment Management

This was a solid quarter across all asset classes. With global real estate leading the way and emerging markets equity and debt rebounding nicely, asset class contributions to aggregate portfolio performance came from all fronts in 2014 and is more broadly-based than in 2013. While 2013's top performing asset class (domestic small cap stocks) is this year's worst performer to date, all asset class returns are positive YTD 2014.

It is worth noting that contributions from our fixed income allocations in 2014 have been meaningful, despite the 2013 predictions of the "inevitable" increase in US interest rates. While the Federal Reserve tapered its bond buying program from \$85 billion/month (at the end of 2013) to the current \$45 billion/month, US interest rates have in fact declined. Anyone who shorted long-duration US Treasuries at the end of 2013 on the "certainty" of the bond market's demise is down over 12% in just six months. This year, the performance of the bond markets serve as a reminder that trying to predict the direction of markets (or interest rates) is a fool's errand.

With the performance and valuations of equity asset classes in developed domestic and international markets so strong (domestic large cap stocks are at nominal record levels), the valuations in the emerging markets continue to be attractive on both absolute and relative terms.

**Table 1: Periodic Asset Class Returns as of 6/30/14**

<b>EQUITY ASSET CLASSES</b>	<b>2Q 2014</b>	<b>2014 YTD</b>	<b>12 Months</b>	<b>3 Years*</b>	<b>5 Years*</b>	<b>10 Years*</b>	<b>10 Years</b>
S&P 500 Index - Domestic Large Cap Stocks	+ 5.23%	+ 7.14%	+24.61%	+16.58%	+18.83%	+ 7.78%	+111.59%
Russell 2000 Index - Domestic Small Cap Stocks	+ 2.05%	+ 3.19%	+23.64%	+14.57%	+20.21%	+ 8.70%	+130.34%
MSCI EAFE Index - International Large Cap Stocks	+ 4.09%	+ 4.78%	+23.57%	+ 8.10%	+11.77%	+ 6.93%	+ 95.49%
MSCI EAFE SC Index - International Small Cap Stocks	+ 2.08%	+ 5.50%	+29.08%	+ 9.84%	+15.21%	+ 8.73%	+130.86%
MSCI EM Index - Emerging Markets Stocks	+ 6.60%	+ 6.14%	+14.31%	- 0.39%	+ 9.24%	+11.94%	+209.01%
DJ US Select REIT Index - Domestic Real Estate	+ 7.15%	+18.24%	+13.27%	+11.38%	+23.76%	+ 9.41%	+145.73%
S&P Global (ex-US) REIT Index - International Real Estate	+ 9.83%	+13.42%	+17.86%	+ 8.67%	+16.43%	+ 7.28%	+101.94%
<b>FIXED INCOME ASSET CLASSES</b>	<b>2Q 2014</b>	<b>2014 YTD</b>	<b>12 Months</b>	<b>3 Years*</b>	<b>5 Years*</b>	<b>10 Years*</b>	<b>10 Years</b>
BarCap Aggregate Bond Index - US High-Grade Bonds	+ 2.04%	+ 3.93%	+ 4.37%	+ 3.66%	+ 4.85%	+ 4.93%	+ 61.89%
BarCap High-Yield Bond Index	+ 2.41%	+ 5.46%	+11.73%	+ 9.48%	+13.98%	+ 9.05%	+137.79%
BarCap TIPS Index - US TIPS	+ 3.81%	+ 5.83%	+ 4.44%	+ 3.55%	+ 5.55%	+ 5.25%	+ 66.88%
DJ UBS Commodities Index - Commodities	+ 0.08%	+ 7.08%	+ 8.21%	- 5.17%	+ 1.99%	+ 0.87%	+ 9.08%
Citigroup Non-\$ World Govt Bond Index - Non-\$ Bonds	+ 2.64%	+ 5.95%	+ 8.88%	+ 1.03%	+ 3.59%	+ 4.90%	+ 61.42%
JPM EMBI Global Diversified Bond Index - Emerging Markets Debt	+ 4.76%	+ 8.66%	+11.65%	+ 7.42%	+10.34%	+ 9.29%	+143.06%

Sources: Morningstar, JP Morgan, and Dimensional.

\* Annualized

We are pleased with our results this quarter. However, despite the market's overall positive tone and the continuation of the environment of low volatility, it is important that we not become complacent or overconfident. Currently, it seems the world's only concern is who wins the big soccer tournament in Brazil. Market swings can come quickly and without forewarning.

Nevertheless, we expect to stay disciplined and committed to our globally-diversified and balanced portfolio strategy, rebalancing the portfolio towards long-term asset allocation targets as necessary and with tax-efficiency in mind.