

The Lam Group

Investment Management

From an investment standpoint, 2012 was a great year, although this conclusion was not always obvious and often in doubt.

While the year started off strongly for all asset classes (especially global equities), the debt crisis in Europe in May sparked a flight-to-quality that caused the US dollar to rally and all non-US dollar equity asset classes to struggle.

After a difficult 2011 and during the darkest days of 2Q 2012, many investors began to question the viability of riskier asset classes as equity exposures to small cap, value-oriented strategies, and non-US (developed and emerging markets) asset classes suffered. In May 2012 alone, non-US dollar equity asset classes were down over 11%. Media pundits and market experts encouraged investors to avoid investing in Europe (equity and debt) and other “obviously” risky investments. Once again, this type of advice could not have been more poorly-timed.

While there is no doubt the last 12 months were highly volatile, patient investors with a disciplined asset allocation plan and a long-term investment horizon were rewarded handsomely in 2012. It is worth noting that non-US asset classes (equity and most debt) ultimately outperformed their US counterparts by the end of 2012 despite their difficulties earlier in the year. Value-oriented equity strategies, after struggling in the first half of the year, made significant contributions to aggregate portfolio performance relative to non-value strategies.

With the uncertainty of the US Presidential election behind us, the challenges of the debt ceiling, fiscal cliff, and the overall malaise of the global economies remain. We are mindful of our good fortune in 2012 and expect to rebalance the portfolio towards our long-term asset class targets, with the goal of managing overall risk and maximizing portfolio tax-efficiency. Happy New Year.

2012 Asset Class Returns – Quarterly Breakdown

EQUITY ASSET CLASSES	2012	4Q 2012	3Q 2012	2Q 2012	1Q 2012	2011	10 Years*
S&P 500 Index - Domestic Large Cap Stocks	+16.00%	- 0.38%	+ 6.35%	- 2.75%	+12.59%	+ 2.11%	+ 98.59%
Russell 2000 Index - Domestic Small Cap Stocks	+16.35%	+ 1.85%	+ 5.25%	- 3.47%	+12.44%	- 4.18%	+152.77%
MSCI EAFE Index - International Large Cap Stocks	+17.32%	+ 6.57%	+ 6.92%	- 7.13%	+10.86%	-12.14%	+120.21%
MSCI EAFE SC Index - International Small Cap Stocks	+20.00%	+ 6.01%	+ 7.89%	- 8.65%	+14.86%	-15.94%	+208.59%
MSCI EM Index - Emerging Markets Stocks	+18.22%	+ 5.58%	+ 7.74%	- 8.89%	+14.07%	-18.42%	+361.25%
DJ US Select REIT Index - Domestic Real Estate	+17.12%	+ 2.31%	- 0.38%	+ 3.75%	+10.76%	+ 9.37%	+196.47%
S&P Global (ex-US) REIT Index – International Real Estate	+31.92%	+ 6.19%	+ 9.26%	+ 2.27%	+11.17%	- 8.61%	+169.76%
FIXED INCOME ASSET CLASSES	2012	4Q 2012	3Q 2012	2Q 2012	1Q 2012	2011	10 Years*
BarCap Aggregate Bond Index - US High-Grade Bonds	+ 4.22%	+ 0.22%	+ 1.58%	+ 2.06%	+ 0.30%	+ 7.84%	+ 65.76%
BarCap High-Yield Bond Index	+15.81%	+ 3.29%	+ 4.53%	+ 1.83%	+ 5.34%	+ 4.98%	+174.32%
BarCap TIPS Index - US TIPS	+ 6.98%	+ 0.69%	+ 2.12%	+ 3.15%	+ 0.86%	+13.56%	+ 90.56%
DJ UBS Commodities Index - Commodities	- 1.06%	- 6.33%	+ 9.69%	- 4.55%	+ 0.89%	-13.32%	+ 49.32%
Citigroup Non-\$ World Govt Bond Index - Non-\$ Bonds	+ 1.51%	- 2.36%	+ 3.98%	+ 0.20%	- 0.22%	+ 5.17%	+ 85.93%
JPM EMBI Global Div Bond Index - Emerging Markets Debt	+17.44%	+ 2.81%	+ 6.64%	+ 2.76%	+ 4.25%	+ 7.35%	+183.54%

Source: Morningstar, JP Morgan, PIMCO and DFA.

* Cumulative 10-year return 1/2003 – 12/2012