



ECONOMY:
STILL WAITING FOR SPRING SNAPBACK
Economic Data

May 2015's economic reports (which largely reflect economic activity in April 2015) extended the recent theme of a slower than expected snapback from the first quarter economic weakness, which was due largely to temporary factors (unusually harsh winter weather in areas of the country, a major West Coast port strike, the strong dollar's impact on trade, and a sharp reduction of oil-related capital expenditures). March data had improved in last month's economic reports but had largely missed economists' raised expectations. May reports have also had their share of disappointments, but some upside surprises have begun to appear, especially toward the latter half of the month.

Job creation stabilized in April according to the May release of the Department of Labor's Employment Situation report (released May 8, 2015). Nonfarm payrolls increased by 233,000 in April after a lackluster increase of only 85,000 new jobs in March. A large increase in construction sector jobs may foreshadow

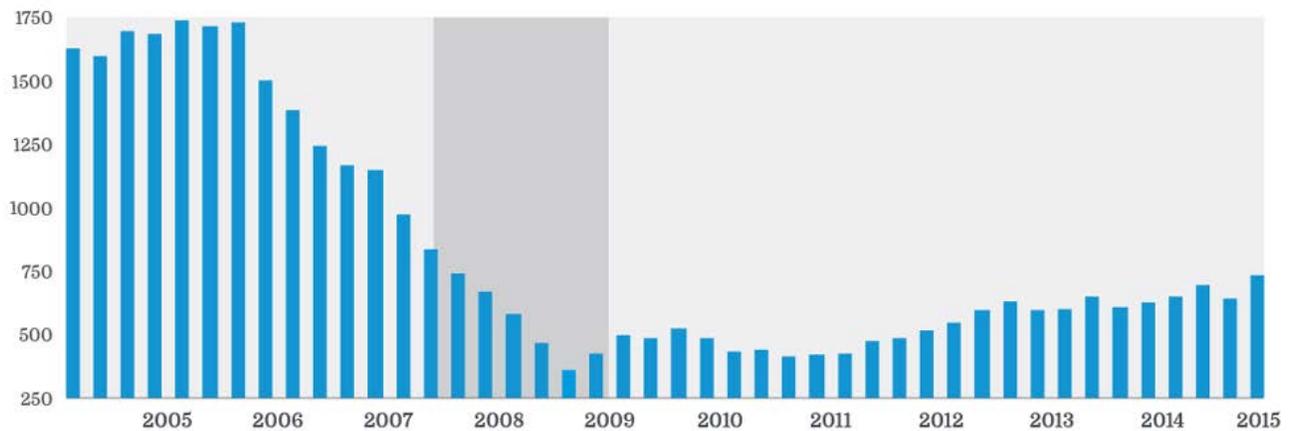
possible increased housing activity following winter-delayed projects. The participation rate, which had fallen to multi-decade lows, ticked 0.1% higher and appears to be stabilizing.

Overall retail sales were unchanged between March and April, defying expectations of a 0.5% gain. However, the March reading was revised higher, from +0.9% to +1.1%. Despite the weaker than expected April reading, core retail sales in Q2 are running 2% ahead of Q1's level after just a 0.5% gain in Q1. Consumers continue to divert income gains and money saved from lower gas prices toward savings and paying down debt, which can have long-term benefits, but is currently acting as a drag on short-term economic growth.

Manufacturing activity has continued to expand but growth remains weak, held back by the strong dollar and oil-related declines in capital investment. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index for April came in at 51.5, well below its August 2014 peak of 58.1 (above 50 indicates expansion).

HOUSING STARTS

● Seasonally Adjusted Annual Rate, Thousands



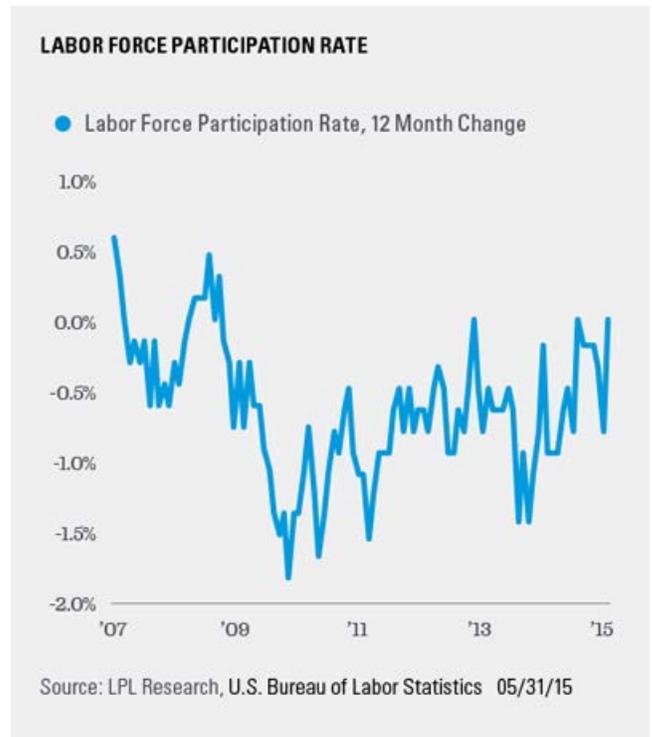
Source: LPL Research, Census Bureau, Haver Analytics 05/31/15
 Shaded area indicates recession.

Housing data provided one of the largest upside surprises this month. Housing starts jumped 20%, the largest move in over 20 years. New permits also provided a large upside surprise, rising 10%, suggesting that the April jump in starts was not simply due to winter weather delays. Housing prices (the S&P/Case-Shiller Home Price Index) and new home sales also both topped economist consensus expectations. New housing permits is a component of the Conference Board's Leading Economic Index (LEI), and the rebound in permits helped the index rise 0.7% month over month in the May report, easily topping expectations and posting its largest gain since July 2014.

Market indicators of improved economic expectations have included a sharp reversal higher for the dollar in the second half of the month following an approximately two-month decline and the highest monthly 10-year Treasury yield (average value) since November 2014.

Central Banks

Central bank activity has been quieter in May after a flurry of rate cuts and other supportive measures over the first third of the year. The most notable move was a May 10 rate cut by China's central bank, its third since last November, as it tries to meet growth targets while making a difficult transition to a more consumer-led economy. In the U.S., the Fed remains on track to raise rates later this year. In the minutes of its April 28-29 policy meeting, released on May 20, the Fed emphasized that a rate hike decision remained data dependent and that members believed first quarter economic weakness was due to temporary factors, although there was a small increase in concern about downside risk to the economy. The European Central Bank (ECB) briefly sparked a rally in European equities (and a sharp decline in the euro) after it announced it would frontload some of its quantitative easing (QE) purchases ahead of lower volume summer months. Japan's economy has been showing strength lately and in the minutes to its April 30 meeting, released May 27, the Bank of Japan (BOJ) confirmed that most of its members were satisfied with the current impact of its QE program. The market, which had expected the BOJ to revisit and possibly increase QE later this summer, now expects it to wait until late 2015



before deciding whether or not to add to its program.

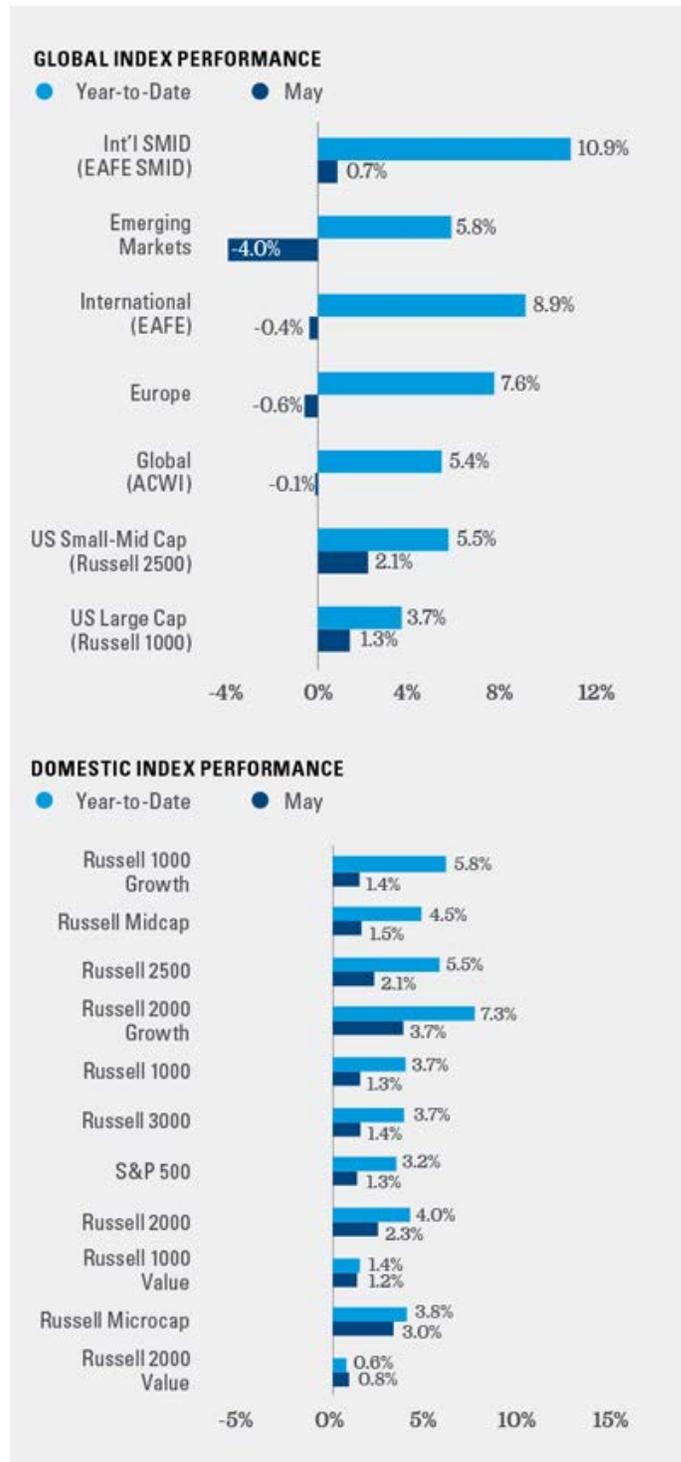
GLOBAL EQUITIES: U.S. STOCKS CONTINUE TO GRIND HIGHER

U.S.

Domestic equities continued to climb higher in May, the S&P 500 Index posting a total return of 1.3%. Despite pockets of resistance that caused modest volatility, the index did not post a one-day move of more than 1.5% (up or down) during the month. Stock prices were buoyed by a still supportive Fed, continued expectations of an economic snapback once the impact of temporary factors fully rolls off, greater stability in international developed markets, and an expected acceleration in earnings growth over the back half of the year. The total return of the S&P 500 year to date stands at 3.2%.

With the earnings season for the first quarter of 2015 all but complete, the broad verdict is that results were much better than feared but hardly robust. According to Thomson data, with 98% of S&P 500 companies having reported as of May 29, 2015, year-over-year operating earnings for the first quarter is estimated at +2.2% versus expectations of -2.9% as of March 31, 2015. Expected revenue for Q1 has declined to -2.9%, versus -2.6% as of March 31, reflecting the impact of a stronger dollar and the drop in oil prices.

Gains for the quarter were broad based with 8 of 10 equity sectors advancing. Healthcare topped the sector leaderboard, supported by the strongest first quarter earnings and revenue growth among all sectors, powered by the biotechnology industry. Strong earnings season performance also helped financials, although an easy year-over-year comparison from Bank of America after a large litigation charge in Q1 2014 mars the appearance of the strength of the sector. Technology rounded out the top of the leaderboard. Energy was the sector laggard in May after oil prices stabilized following strong gains in April. While first quarter energy earnings came in much stronger than expected, they still fell over 50% year over year and investors remain uncertain how long it will take the industry's cost structure to adjust to the new oil price environment. Telecom also fell in May, with some headwinds from rising rates, but idiosyncratic business risk plays a large role in performance for the smallest sector in the index. There was no clear preference for cyclical or defensive sectors in May, with the four defensive sectors

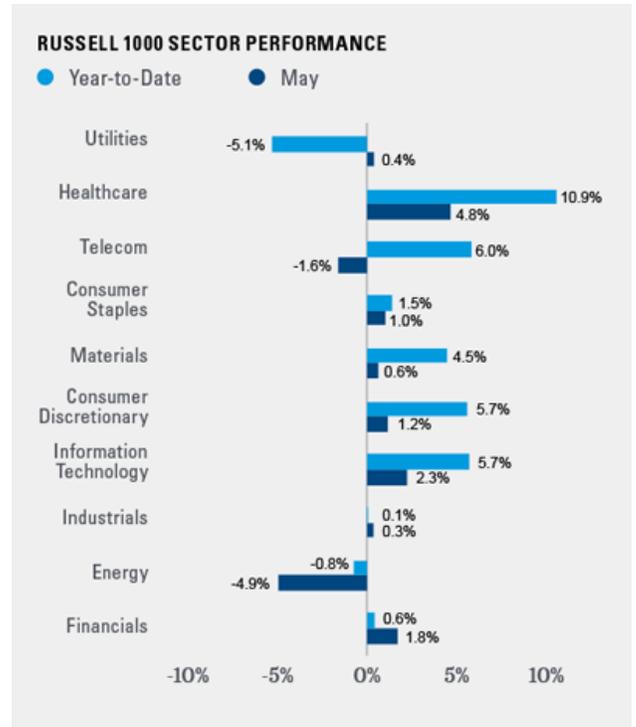


(healthcare, staples, utilities, and telecom) split evenly between the top and bottom five in the monthly sector rankings.

Small caps had a strong month, the Russell 2000 outperforming the S&P 500 by almost 1%, buoyed by its growth segment as investors search for growth opportunities in a low growth environment, although value outperformed growth among mid caps, according to Russell indexes.

International Developed/Emerging Markets

After starting the year strong, both international developed markets, as measured by the MSCI EAFE Index, and emerging markets, as measured by the MSCI Emerging Markets Index, stalled in May, with both indexes posting losses. A series of upside economic surprises earlier in the year had raised expectations about European data, leading to May's economic data falling back in-line with economists' raised consensus forecasts. European shares were also weighed down by ongoing uncertainty around Greece's efforts to renegotiate terms with its creditors. Japan was more resilient among international developed markets with improved earnings results and a series of positive economic surprises. Emerging markets performance was significantly weaker than international developed markets in May, falling over 4%. China's Shanghai extended its recent run but ran into a bout of high volatility as the month wound down, while India's Sensex also posted gains, but Latin America, emerging Europe, and South Africa all struggled.



FIXED INCOME:

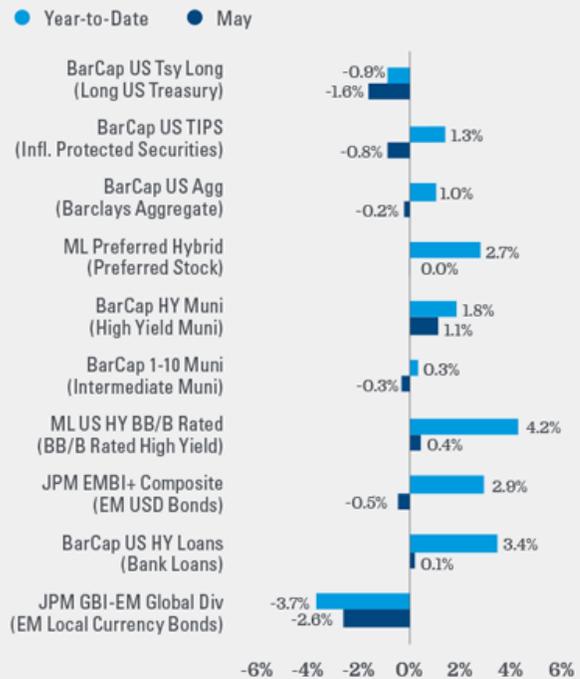
HIGH-QUALITY BOND SELL-OFF CONTINUED IN MAY

Bond prices weakened for most of May, continuing the price declines witnessed at the end of April, before stabilizing late in the month. The sell-off that extended into May was not primarily driven by fundamentals, nor increased fear of Fed action, but by position imbalances in fixed income markets. Low trading volume and limited liquidity exacerbated selling pressures, further weighing on bond prices during the month.

With the headwind of rising interest rates, May proved to be a challenging month for the bond market, with the Barclays U.S. Aggregate Bond Index declining by 0.24% during May. This marks the first time since the end of 2013 that the Barclays Aggregate has posted consecutive monthly declines. The lower returns also reflect the low-yield environment where interest income is less able to buffer against price declines associated with rising interest rates.

Longer-term bonds underperformed within the bond market. Among sectors, Treasury Inflation-Protected Services (TIPS) fared worst, down 0.82% in May, not only due to their elevated duration relative to conventional Treasuries, but to the decline in inflation expectations, which fell from 2.0% on May 1 to 1.82% on May 29, based on the 10-year break-even spread implied between TIPS and conventional Treasuries. More economically sensitive sectors weathered the rise in rates better. High-yield corporate bonds, based on the Barclays High Yield Bond Index, posted a positive total return of 0.30%, outperforming the Barclays Aggregate Index by 0.54%. Foreign bonds underperformed domestic bonds, with hedged foreign bonds returning -0.84% during May. Unhedged foreign bonds fared worse, down -3.37% in May, due to renewed strength in the U.S. dollar.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	4/30/15	5/31/15	Change in Yield
3 Month	0.01	0.01	0.00
2 Year	0.58	0.61	0.03
5 Year	1.43	1.49	0.06
10 Year	2.05	2.12	0.07
30 Year	2.75	2.88	0.13

AAA MUNICIPAL YIELDS

Security	4/30/15	5/31/15	Change in Yield
2 Year	0.56	0.61	0.05
5 Year	1.33	1.41	0.08
10 Year	2.38	2.43	0.05
20 Year	3.77	3.87	0.10
30 Year	4.44	4.57	0.13

ALTERNATIVES:

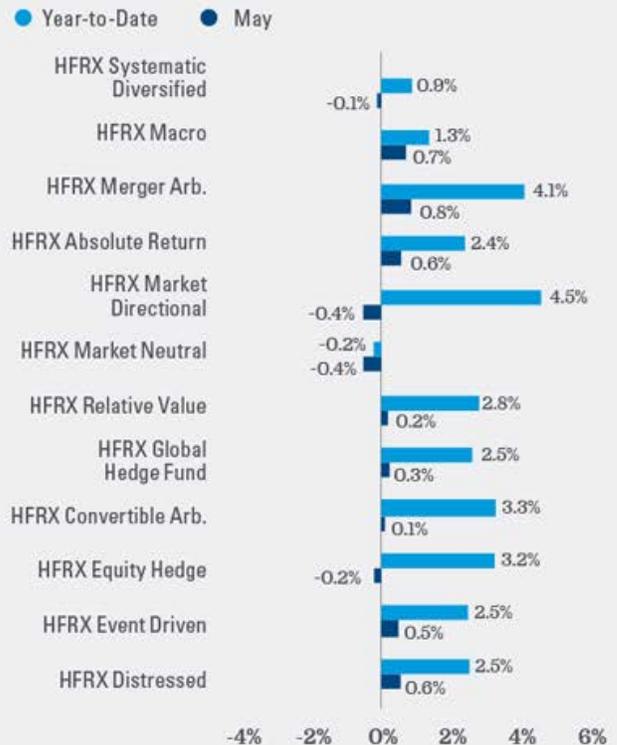
EVENT DRIVEN STRATEGIES CONTINUE STEADY CLIMB

The HFRX Event Driven Index gained 0.48%, the fourth straight month of gains, as subdued domestic market volatility and several large-scale merger and acquisition announcements contributed to a positive environment for the strategy. Per Bloomberg Research, global merger and acquisition volume has reached \$1.8 trillion, which is the best 5-month start to a year in 20 years, with 50% of the volume taking place in the United States. Within the macro space, May performance for both discretionary and systematic-related managers was mixed; however, this was still an overall improvement from a volatile April, when the reversal of several long-term asset trends prompted losses. Long exposure to the U.S. dollar proved beneficial, as the U.S. Dollar Index gained over 2.0%.

Long/short equity and market neutral strategies saw muted performance, returning -0.18% and -0.45%, respectively. Once again, managers with exposure to Asian markets were able to deliver gains, as a spike in volatility provided opportunities to capitalize on the long and short side of their portfolios.

In aggregate and in comparison to the last several years, the year-to-date performance in the alternative investment space is indicative of an improved market environment for these strategies. The broad-based HFRX Absolute Return Index, which is designed to be representative of the overall hedge fund universe, has now returned 2.40% through the end of May, with an equity beta of only 0.02, as compared with the 3.23% return of the S&P. While a portion of these returns can be attributed to outsized strength in the macro space during the first quarter, the remaining strategies within the index have also positively contributed to returns.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 05/31/15

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

FEW BRIGHT SPOTS FOR LIQUID REAL ASSETS IN MAY

Liquid real assets (LRA) finished with mixed performance during May. Global infrastructure finished the month lower, although the S&P utilities sector produced a small gain even as interest rates ended the month slightly higher (10-year Treasury). Among other interest rate sensitive sectors, real estate investment trusts (REIT) were modestly lower while master limited partnerships (MLP) suffered a more than 3% loss. Hurt by a strong U.S. dollar, the broad commodities index fell in May, despite crude oil's modest gain.

MLPs & Global Listed Infrastructure

MLPs slipped 3.6% in May after a strong April, leaving the asset class down 3.0% year to date. A slight rise in interest rates — the 10-year Treasury yield increased by 4 basis points in May — certainly did not help this interest rate-sensitive sector. But the group's performance was disappointing given the slight rise in oil prices. Secondary securities offerings, some lower than expected distributions, and a pipeline rupture in California were among the factors weighing on the group.

Global infrastructure reversed April gains and lost 1.5% in May. Most of the tailwinds this asset class enjoyed in April — including strong performance in overseas markets and energy sector gains — were absent in May as both international developed and emerging markets fell and the energy sector suffered losses. The S&P 500 utilities sector index gained 0.7% despite an unfavorable environment for higher-yielding securities.

REITs

REITs suffered a second consecutive monthly loss in May, as the MSCI U.S. REIT Index lost 0.3% during the month. The two-month losing streak was the index's first such streak since November and December of 2013 and brings the sector's year-to-date loss to 1.7%. Weakness was due in part to rising interest rates, but likely also reflected continued valuation concerns and disappointment with the strength of the U.S. economy's bounce back after the slow start to the year. Healthcare and office REITs were among the hardest hit subsectors within the REIT universe.

Commodities

The Bloomberg Commodity Index fell 2.7% in May and is now down 3.2% year to date. May losses came despite crude oil's modest advance (West Texas Intermediate) and were at least partly influenced by the gains in the U.S. dollar. Crude oil seemed to run out of steam after April's 25% jump, but did manage a 1.1% increase for the month as the pace of U.S. production began to slow in response to the lower prices and evidence of a pickup in demand emerged. The strong dollar did not hurt precious metals, as ongoing Greece concerns, delayed expectations for Fed rate hikes, and mostly accommodative central banks globally helped push gold and silver prices higher.

The downdraft in agriculture commodities continued in May, with favorable weather contributing to oversupply and lower prices for corn and soybeans, while restrictions on Russian exports helped provide support for wheat, which eked out a small gain for the month. Copper prices fell 5.5% for the month as inventories remain elevated in China, while aluminum prices slid 10.7% due to growing Chinese exports, as weaker fundamentals offset any potential benefit from China's reform and monetary stimulus efforts.

