Investment Update

July, 2014

2014 Second Quarter Update

Review: Stocks rose by 5.2% in the quarter, as the weather improved and economic growth resumed. Bonds also performed well, up 2.0%, driven by concern for the unrest in Ukraine and the spread of violence in Iraq.

Period	2Q14	1Q14	4Q13	2013
S&P 500	5.2%	1.8%	*10.5%*	*32.4%*
EAFE*	4.1%	0.7%	*5.7%*	*22.8%*
Emerging Markets	6.6%	-0.4%	*1.8%*	*-2.6%*
Barclays U.S. Aggregate Bond	2.0%	1.8%	*-0.1%*	*-2.0%*

*Europe, Australia, Far East

Domestic Economy: Economic activity, while mixed, rebounded from the weather-induced dip of the first quarter. Among the pluses: auto sales rebounded strongly and are running 5-6% ahead of good year-ago numbers; more than 200,000 new jobs have been created each month of the quarter; the unemployment rate has fallen to 6.1%, the lowest level since July of 2008. On the minus side: the housing recovery seems to have leveled off, especially single-family housing, and retail sales growth in the quarter, ex autos, has been tepid.

After eleven quarters of growth, first quarter GDP decreased 2.9%, mostly due to harsh weather. The second quarter is rebounding, but at a slower rate than expected, largely due to sluggish retail sales trends and a moderation in the housing market. However, the recent strength of the job market should translate into more vigorous growth in the second half of the year. Energy prices have been stable, as increasing domestic production of both oil and gas has acted as a buffer against turmoil in the Middle East, which benefits both businesses and consumers.

As the recovery matures, we are watching for inflationary pressures, which could cause the Fed to tighten monetary policy sooner than expected. With the possible exception of drought-related price increases in fresh produce, price trends appear to be relatively benign in the major categories of food, energy, and wages. These trends will bear watching, particularly wages, as the labor market improves. The recovery in the job market has been slower than in other periods because employers have been very cautious in hiring due to the severity of the recession. That

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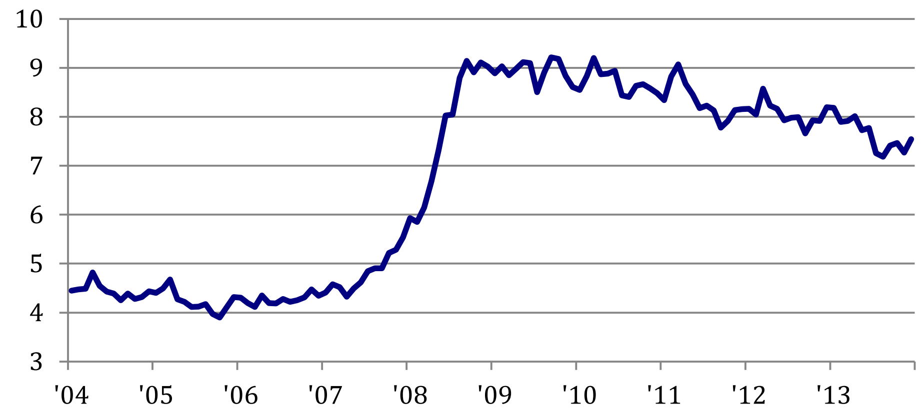
caution is evident in the high number of part time employees. While the number employed in part time jobs who would like full time jobs has decreased from the peak of 9.2 million to 7.5 million, the number is still above the pre-recession level of 4.5 million, as shown in the nearby chart. Wages are not likely to accelerate until the number approaches 4.5 million.

Part Time Employed for Economic Reasons (Millions)



International Economies: While developed markets are attractive, the recoveries are uneven. European GDP forecasts have come down due to concern about the conflicts in Ukraine and Iraq. Likewise, the improvement in Japan has slowed as exports, which are key to growth, have moderated due to subdued growth in emerging economies. We believe that these developments are a normal part of the ebb and flow of economic activity and that growth will resume later this year.

Strategy: The U.S. economy has moved from the early rebound segment of the recovery to a period of moderate, but sustainable, growth. Stable growth should allow corporate earnings to increase, rewarding equity investors.

Accordingly, we continue to emphasize the economically sensitive stocks, such as consumer discretionary that will benefit most from an improving economy. We are also emphasizing healthcare. As employment improves and more people are covered by insurance, we expect utilization to increase. Innovation in healthcare continues at a high rate. We expect new medicines and devices to increase the effectiveness of our healthcare system, creating new investment opportunities.

While we expect much more modest returns than last year's 32% gain, stocks should still outperform bonds. Our international exposure has been decreased for the reasons noted above, but also because we believe the prospects for the U.S. economy are superior.