Investment Update

January, 2013

2012 Fourth Quarter Update and 2013 Outlook

Review: Equity returns around the world were generally positive in the quarter, as fears about a collapse in Europe eased and the new leadership in China pledged to support continued economic growth. The S&P 500 however, fell a modest 0.4%, ending the year up a healthy 16.0%, as signs of an improving economy outweighed concerns about the "fiscal cliff," Bonds ended up a marginal 0.2% for the quarter. The Barclays Aggregate U.S. Bond Index was up 4.2% for the year.

Periods	4Q2012	3Q2012	2012	2011
S&P 500	-0.4%	6.4%	16.0%	2.1%
EAFE*	6.6%	7.0%	17.9%	-11.7%
Emerging Markets	5.2%	7.7%	15.2%	-18.0%
Barclays U.S. Aggregate Bond	0.2%	1.6%	4.2%	7.8%

*Europe, Australia, Far East

Domestic Economy: Despite the disruption of "super storm Sandy" and the uncertainties surrounding the elections and the looming "fiscal cliff," the economy showed resilience. Housing continued its broad-based improvement: Housing starts were at the highest level since 2008 and prices have started to rise. Auto sales for the year were the best result since 2007, up 13% from 2011.

At the peak of the boom in 2005, housing accounted for 6.4% of GDP. At the bottom in 2011, the contribution was 2.3%. While we do not expect (or want) a return to boom conditions, a moderate recovery in housing could add two or three percentage points to GDP growth over the next several years. In addition, because a house is the single biggest asset owned by most individuals, an improvement in prices has a positive effect on household balance sheets, and therefore, on consumer confidence, benefiting consumer spending.

As we entered the fourth quarter, there were three major uncertainties weighing on businesses: the election, the Eurozone, and the "fiscal cliff." The election outcome essentially maintained the status quo. As the quarter progressed, investors became convinced that the ECB would supply necessary liquidity to forestall a major disruption in the Eurozone. Although the U.S. debt ceiling and need for spending cuts were not addressed, a last-minute deal on taxes was well received by the markets.

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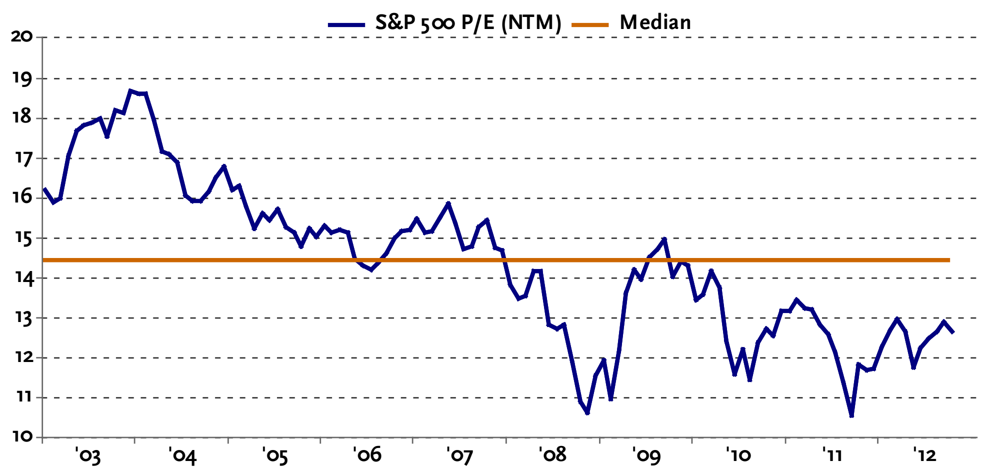
With some of the uncertainties resolved, we expect economic growth to continue. As a result, business confidence should improve, leading to better job growth.

International Economies: Estimates of world GDP growth have fallen from about 4.8% in late 2007, just prior to the financial crisis, to about 3.3% in late 2012. With the recovery in the U.S. better established and signs of stabilization in Europe, we believe that world economic growth will begin to gradually improve in 2013. Recent data from China are encouraging, pointing to better growth ahead in Asia.

Strategy: We still believe that the U.S. recovery has several years to run and could be surprisingly resilient. As the graph below shows, U.S. stocks are attractively valued, selling at about 12.7 times estimated earnings for 2013, which is below the long term average of 14.4. Economically sensitive stocks that will benefit from continued economic recovery are attractive to us.



With an improving outlook for global growth, emerging markets stocks should do well. We will look for opportunities to increase our emerging markets exposure.

The potential for adverse outcomes for world economies has diminished. The attractiveness of bonds, seen as a hedge against economic disruption, has correspondingly decreased. The multi-year flight to the perceived safety of bonds has driven valuations to historically unattractive levels. We will maintain allocations toward the lower end of policy ranges with a relatively short maturity.