


**INVESTMENT COMMENT**  
**1<sup>st</sup> Quarter Review and Strategy Update**

April 8, 2014

1<sup>st</sup> Quarter returns were positive across virtually all investment segments – Emerging Markets (-1.9%) was the only exception. Compared with strong 2013 returns, 1<sup>st</sup> Quarter Risk (stock market) segment returns look modest, although the best-performing segment, US Real Estate Investment Trusts (REITs) returned a solid +10.1%. US REITs returns lagged in 2013, but likely benefitted from lower bond market interest-rates in the 1<sup>st</sup> Quarter.

**FIRST QUARTER CAPITAL MARKETS UPDATE**

Although global Risk markets dipped approximately 5% during the quarter, overall global Risk returns were +1.2%. US returns were stronger than International and Emerging markets – a theme that has been in place for the past two years<sup>1</sup>. These return differences give rise to rebalancing opportunities where we periodically return our global exposures back to targeted levels.

Low Risk segment returns were positive and buoyed by lower bond yields. *Lower bond yields?* Yes, following last year's "worst return in 19 years"<sup>2</sup>, bonds generated *positive* returns. Bonds with the most interest-rate sensitivity (fixed-rate bonds with longer maturities) generated excellent returns (US Treasury 20-30yr Bonds +7.6%, Inv Grade Long Duration +6.3%).

By design, the Low Risk portion of our client portfolios have less interest-rate sensitivity than these long-maturity bond segments – an approach that provides important capital-preserving balance to each portfolio's Risk exposure.

Selected Asset Classes March 31, 2014	1 <sup>st</sup> Quarter	2013
<b>SELECTED RISK ASSET CLASS SEGMENTS</b>		
US Large Cap	+2.0%	+32.8%
US Large Cap Value	+3.0%	+32.1%
US Small Cap	+1.1%	+38.7%
US Small Cap Value	+1.7%	+34.3%
International Large Cap	+0.2%	+21.4%
Emerging Markets	-1.9%	-3.7%
International Real Estate	+0.6%	+4.4%
US Real Estate Investment Trusts	<b>+10.1%</b>	+2.3%
<b>SELECTED LOW RISK ASSET CLASS SEGMENTS</b>		
US Treasury 1-3yr Notes	+0.1%	+0.2%
US Treasury 7-10yr Notes	+2.9%	-6.1%
US Treasury 20-30yr Bonds	<b>+7.6%</b>	-13.4%
US Treasury Inflation-Protected	+2.0%	-8.9%
Inv Grade Short Duration	+0.8%	+1.0%
Inv Grade Intermediate Duration	+2.4%	-1.4%
Inv Grade Long Duration	<b>+6.3%</b>	-5.9%
Mortgage-Backed Securities	+2.0%	-2.2%
International Bonds (Non-Dollar)	+2.7%	-3.8%
<b>EQUITY INDICES</b>		
MSCI All-Country World Index	+1.2%	+23.5%
S&P 500 Index	+1.8%	+32.4%
<b>BALANCED PORTFOLIOS</b>		
Vanguard 60/40 Fund	+1.9%	+18.0%
DFA 60/40 Fund	+1.9%	+16.0%
DFA 25/75 Fund	+1.1%	+5.9%
<b>OTHER NOTABLE MARKET DATA</b>		
Gold (ETF)	+6.5%	-28.3%
Emerging Markets Bonds (ETF)	+2.9%	-7.8%
Exchange value of Euro vs US\$	-0.2%	+4.2%
Exchange value of Yen vs US\$	-2.0%	-17.6%

Source: Bloomberg Professional

Note: Returns include reinvested dividends.

<sup>1</sup> For a reminder on the rationale for a global exposure, rather than US-only, see "Why hold non-US investments?" in our July 8, 2013 Investment Comment or "Maintain a Global, Diverse Risk Exposure" in our January 6, 2014 Investment Comment (LIBRARY Tab, [marylandcap.com](http://marylandcap.com))

<sup>2</sup> See "2013 Capital Markets Review" in our January 6, 2014 Investment Comment (LIBRARY tab, [maryland.com](http://maryland.com))

**STRATEGY UPDATE**

Portfolios are generally in-line with overall Risk exposure targets, following 1<sup>st</sup> Quarter performance. We are monitoring each portfolio for prudent, cost-effective rebalancing opportunities between segments of Risk (ex. Emerging Markets *purchases*, US Real Estate Investment Trust *sales*) as return variations can create over- or under- target exposures within Risk over time.

Overall, 2014 is off to a reasonable start and our globally-balanced investment discipline has performed well.

A handwritten signature in black ink, appearing to be 'A. N.', with a long horizontal flourish extending to the right.

*The helpful comments of Paul Cucchissi and Shelley Quade are greatly appreciated*

