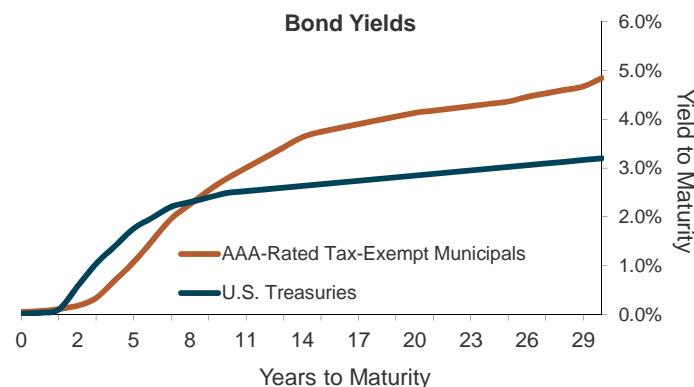
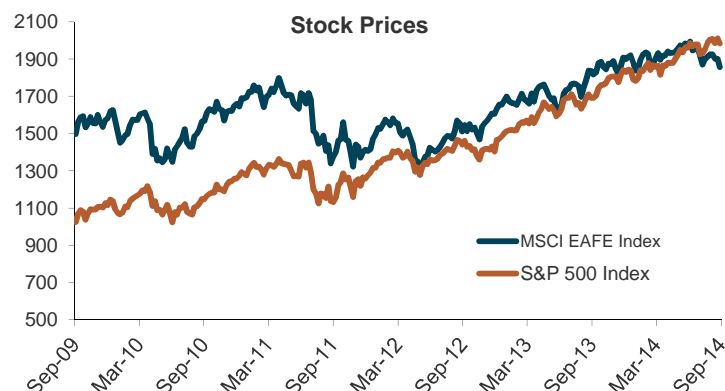


# QUARTERLY INVESTMENT UPDATE

## WORTH KNOWING™

For the Quarter Ending September 30, 2014



### Stock Market Commentary

The S&P 500 has tallied 34 new highs year-to-date but it became a much bumpier ride in the third quarter. The S&P 500 ended the quarter up a mere 1.1%, though it was the leader among global equity markets. Investor attention alternated from strong economic news to the strengthening U.S. dollar to world events including the continuing conflict in Ukraine and the threat of ISIS. Stocks of smaller companies fell into negative territory during the quarter with the S&P Midcap 400 retreating 4% and the Russell 2000 Index sinking 7.4%. Stretched valuations of smaller companies have come into question because impending higher interest rates will have a more immediate impact on their profit margins versus larger companies. International markets struggled as well, with the MSCI EAFE dropping 5.7%, as European economies weakened amid geopolitical events. The MSCI Emerging Markets Index fell by 3.5%, disrupted by pro-democracy protests in Hong Kong. Market sectors that performed well during the quarter were Healthcare and Technology, up 5.5% and 4.8%, respectively. The Energy sector, down 8.6%, has come under pressure as worldwide demand is not keeping up with the ramped-up production coming out of the United States and Canada.

### STOCK MARKETS 3 Months 1 Year 3 Years\*

#### Large Stocks

S&P 500	1.1%	19.7%	23.0%
Russell 1000	0.7%	19.0%	23.2%
Russell 1000 Growth	1.5%	19.1%	22.4%
Russell 1000 Value	-0.2%	18.9%	23.9%

#### Medium and Small Stocks

S&P 400 Midcap	-4.0%	11.8%	22.4%
Russell 2000	-7.4%	3.9%	21.3%
Russell 2000 Growth	-6.1%	3.8%	21.9%
Russell 2000 Value	-8.6%	4.1%	20.6%

#### International Stocks

MSCI Developed (EAFE)	-5.8%	4.9%	14.4%
MSCI Emerging Markets	-3.5%	4.3%	7.2%

#### Real Estate

DJ Wilshire REIT Index	-3.0%	13.4%	16.2%
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### Bond Market Commentary

The third quarter was difficult for bond funds with exposure to credit sensitive sectors such as corporate and high-yield debt. Investors withdrew cash from investment grade and high-yield bond funds during the quarter, while corporate debt issuance hit historic highs. High-Yield bonds lost 1.9% for the quarter but still enjoy big gains year-to-date. Conditions for sustained underperformance in the corporate bond sector such as weakening balance sheets, rising real interest rates, and tighter credit conditions, have not yet settled into place. Municipal bonds have been strong performers this year, bouncing back as headline news about issuers such as Puerto Rico and Detroit have become less prominent. Average maturity has played a big part this year in determining total return. The 10-year municipal bond index, for example, is up 7.1% year-over-year, while the 3-year index is up a relatively modest 1.9%. The short/intermediate part of the yield curve, including bonds with two and five year maturities, has started to shift upward as the market began to anticipate rate hikes by the Federal Reserve.

### BOND MARKETS 3 Months 1 Year 3 Years\*

#### Taxable Bonds

Aggregate	0.2%	4.0%	2.4%
Intermediate Govt./Credit	0.0%	2.2%	2.0%
U.S. Government	0.3%	2.3%	1.1%
U.S. Credit	0.0%	6.6%	4.8%
High-Yield Bonds	-1.9%	7.2%	11.1%

#### Tax-Free Bonds

3-Year Municipal	0.3%	1.9%	1.6%
5-Year Municipal	0.8%	4.0%	2.8%
10-Year Municipal	1.5%	7.1%	4.6%

Sources: Bloomberg, Municipal Market Data, Vanguard, Lipper.

The bond indexes above are produced by Barclays Capital.

Returns include the reinvestment of interest and dividends.

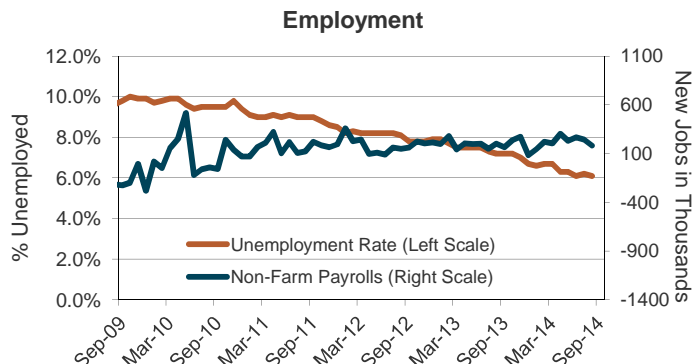
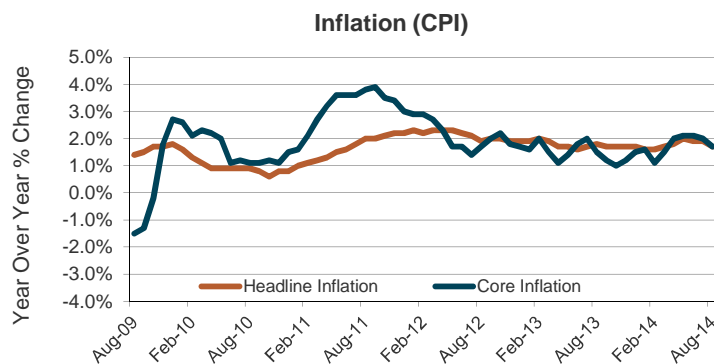
\*Returns are annualized.

To receive this Quarterly Investment Update by email, request our composite performance history, or request descriptions of the indexes and other information included in this report, please contact us at [investmentnewsletters@perkinscoie.com](mailto:investmentnewsletters@perkinscoie.com).

# QUARTERLY INVESTMENT UPDATE

## WORTH KNOWING™

For the Quarter Ending September 30, 2014



### Economic Commentary

The unemployment rate in the United States fell below 6% in September, the lowest level since July 2008. Despite recent strength in the labor market, the Federal Reserve still has enough slack to avoid immediately raising short-term interest rates. For example, average hourly earnings, adjusted for inflation, are virtually unchanged from 2007, before the recession started. Also, while the unemployment rate has steadily declined, the number of Americans who are either unemployed or underemployed has risen to over 16 million, and another 7 million have dropped out of the workforce altogether since 2007. Slow wage growth has been linked with low inflation. The Consumer Price Index unexpectedly fell 0.2% in August and is up only 1.7% year-over-year. Falling energy prices, including a big drop in gas prices, contributed to the decline.

The most recent home price survey showed that home prices in the 20 major U.S. markets rose by 6.8% year-over-year in July. Home prices are rising at a lower rate after peaking at 10.8% in April, but still remain strong, boosting consumer sentiment and encouraging the economic recovery.

### Key Economic Releases

EMPLOYMENT	As of	Expected	Actual	Prior
Unit Labor Costs (2Q)	SEP	0.5%	-0.1%	11.8%
Unemployment Rate	SEP	6.10%	5.90%	6.10%
Average Hourly Earnings (YoY)	SEP	2.2%	2.0%	2.1%
Change in Manufact. Payrolls	SEP	15K	4K	-4K
Change in Non-Farm Payrolls	SEP	215K	248K	180K

INFLATION (year over year)	As of	Expected	Actual	Prior
Consumer Price Index	AUG	1.9%	1.7%	2.0%
CPI Ex Food & Energy	AUG	1.9%	1.7%	1.9%
Producer Price Index	AUG	1.8%	1.8%	1.7%
PPI Ex Food & Energy	AUG	1.8%	1.8%	1.6%

HOME PRICES (year over year)	As of	Expected	Actual	Prior
S&P/Case Shiller Top 20 Mkts.	JULY	7.4%	6.8%	8.1%

MANUFACTURING ACTIVITY	As of	Expected	Actual	Prior
Capacity Utilization	AUG	79.3%	78.8%	79.1%
Leading Indicators	AUG	0.4%	0.2%	1.1%
GDP Annualized (2Q)	SEP	4.6%	4.6%	-2.1%

PRODUCTIVITY	As of	Expected	Actual	Prior
Non-Farm Productivity (2Q)	SEP	2.4%	2.3%	-4.5%
Industrial Production	AUG	0.3%	-0.1%	0.2%

Source: Bloomberg.

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