

March 31, 2014

Dynamic Allocation Strategies Team

Investment Expectations

William Blair

		Value (V)	Price (P)	V/P	8-Year Expected Returns (Annualized)				Risk
					Hedged		Unhedged	Local	
					Equilibrium Return ²	Expected Return ³	Expected Return ³	Expected Return ³	
Cash¹	US				4.8%	2.8%	2.8%	2.8%	
Equity									
Developed	World (ACWI)	447.2	411.02	9%	8.5%	7.5%	6.8%	7.4%	14.6%
	US (S&P 500)	1741.4	1872.3	-7%	8.4%	5.2%	5.2%	5.2%	15.3%
	Ex-US (EAFE)	2471.1	1915.7	29%	8.5%	10.0%	8.1%	9.5%	14.9%
	UK	2858.8	1943.8	47%	8.1%	11.8%	10.8%	11.9%	16.0%
	Japan	763.2	739.0	3%	8.8%	7.2%	7.3%	5.8%	20.0%
	EMU	275.3	187.2	48%	8.7%	12.1%	9.2%	11.5%	16.4%
	Canada	1729.0	1810.3	-4%	8.2%	5.4%	5.1%	5.7%	17.0%
	Australia	1268.5	1104.7	15%	8.2%	8.2%	4.9%	9.3%	17.0%
	Sweden	11505.3	10387.8	11%	8.8%	8.3%	6.5%	8.3%	22.0%
	Switzerland	1028.0	1105.7	-7%	8.1%	4.9%	1.5%	4.3%	17.0%
Emerging	Emerging Equity	57817.9	46733.2	24%	9.6%	10.9%	14.1%	14.1%	19.4%

Bond									
Developed	World	5.0%	2.4%	-17%	5.6%	1.8%	1.1%	1.2%	5.7%
	Ex-US Sovereign	4.1%	1.5%	-18%	5.6%	1.7%	0.7%	0.8%	6.4%
10-Year	US	4.5%	2.7%	-14%	6.3%	2.1%	2.1%	2.1%	8.8%
	Germany	4.0%	1.6%	-20%	6.3%	2.1%	-1.3%	0.8%	8.9%
	UK	4.8%	2.7%	-16%	6.4%	2.0%	1.0%	2.0%	9.4%
	Sweden	4.3%	2.1%	-19%	6.2%	1.5%	-0.2%	1.5%	8.8%
	Japan	3.0%	0.6%	-20%	6.0%	1.1%	1.2%	-0.2%	9.4%
	Canada	4.7%	2.5%	-18%	6.3%	1.6%	1.3%	1.9%	9.7%
	Australia	5.5%	4.1%	-11%	6.3%	2.7%	-0.5%	3.8%	9.5%
Credit	BarCap Aggregate	3.9%	2.3%	-9%	5.7%	2.2%	2.2%	2.2%	5.1%
	US Investment Grade	4.0%	3.2%	-6%	6.4%	3.3%	3.3%	3.3%	7.3%
	US High Yield	6.4%	5.6%	-2%	6.2%	4.2%	4.2%	4.2%	6.9%
Emerging	Emerging Debt	6.4%	5.9%	-5%	6.6%	1.9%	4.3%	4.3%	9.8%

Currency, versus US dollar		Value (V)	Price (P)	V/P	Expected 8-Yr Currency Return (Annualized) ⁴	Risk
	EUR	1.1190	1.3782	-19%	-2.6%	11.0%
	JPY	0.0098	0.0097	1%	0.1%	11.0%
	AUD	0.7240	0.9269	-22%	-3.0%	11.5%
	SGD	0.7049	0.7952	-11%	-1.5%	6.0%
	BRL	0.5492	0.4432	24%	2.7%	18.1%
	GBP	1.5432	1.6671	-7%	-1.0%	10.0%
	CHF	0.8705	1.1321	-23%	-3.2%	11.2%
	SEK	0.1348	0.1542	-13%	-1.7%	12.3%
	CAD	0.8835	0.9060	-2%	-0.3%	7.5%
	MXN	0.0962	0.0766	26%	2.9%	12.2%
	CNY	0.2151	0.1608	34%	3.7%	9.7%
	RUB	0.0321	0.0285	13%	1.5%	15.2%
	INR	0.0273	0.0167	63%	6.3%	8.2%

US Balanced (60%/40%)	-8%	7.6%	4.2%	4.2%	4.2%	10.0%
Global Balanced (60%/40%)	-1%	7.6%	5.5%	4.8%	5.5%	9.7%

US Equity 8-Year Expected Returns Breakdown:

	Core	Value	Growth
Large Cap	5.2%	6.7%	3.6%
Mid Cap	1.1%	2.7%	-0.4%
Small Cap	-3.1%	-1.6%	-4.6%
Total (All Cap)	4.5%	6.0%	3.0%

Information is intended to illustrate capital market expectations and does not reflect past/expected return or risk for any William Blair investment strategy.

¹ Cash Return: Equilibrium Return comprises a 2.3% real rate & 2.6% U.S. inflation premium. Expected comprises a 0.4% real rate & 2.4% U.S. inflation premium.

² Equilibrium Return: Return assuming an equilibrium environment where markets and currencies start and remain at fair value, and cash returns are at normal levels over the investment horizon.

³ Expected Return: Return accounting for the reversion of current prices to value and expected actual cash rates over the investment horizon.

⁴ Expected 8-Year Currency Return: The gain or loss associated with hedging all currency exposure back to the USD, including exchange rate changes and interest rate differentials.

Note: All value, return and risks are William Blair Dynamic Allocation Strategies calculations.

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Sources of Equity Returns

8-Year Horizon (Annualized)

	Income		+	Earnings Growth				+	PE Change	=	Return	
	Current Dividend Yield	Yield Change & Net New Issuance		Real Trend Growth		Inflation		Earnings Recovery		Multiple Expansion/ (Contraction)		Expected Return (Local)
US (All Cap)	1.9%	2.0%		2.5%		2.4%		-1.9%		-1.1%		4.5%
US Large Cap	2.0%	0.8%		2.4%		2.4%		-1.8%		-0.6%		5.2%
US Value	2.7%	0.9%		1.5%		2.4%		-1.5%		0.5%		6.7%
US Growth	1.3%	0.7%		3.5%		2.4%		-0.4%		-3.8%		3.7%
US MidCap	1.4%	0.5%		3.3%		2.4%		-2.2%		-4.1%		1.1%
US Small	1.2%	0.5%		4.0%		2.4%		-4.9%		-5.9%		-3.1%
EMU	3.1%	0.4%		1.9%		2.1%		5.3%		-1.6%		11.5%
Germany	2.9%	0.6%		1.9%		2.1%		-0.5%		0.5%		7.7%
France	3.1%	0.4%		1.9%		2.1%		5.1%		-1.8%		11.1%
Italy	3.2%	0.7%		1.7%		2.1%		19.0%		-8.3%		17.7%
Spain	4.6%	-0.7%		1.9%		2.1%		11.5%		-1.9%		18.4%
Netherlands	2.4%	1.0%		2.0%		2.1%		4.6%		-1.3%		11.2%
Emerging Markets	2.7%	-0.5%		4.2%		4.1%		2.5%		0.5%		14.1%
Brazil	4.4%	-2.6%		3.8%		5.4%		9.6%		-2.7%		18.8%
China	3.2%	-1.9%		6.2%		3.5%		0.7%		4.5%		17.2%
India	1.5%	-2.0%		5.3%		6.9%		2.5%		-3.0%		11.3%
Indonesia	2.4%	-1.5%		5.0%		5.0%		1.5%		-2.3%		10.4%
Korea	1.1%	2.5%		3.6%		3.1%		1.5%		3.9%		16.6%
Malaysia	3.0%	-0.2%		4.2%		2.6%		1.1%		-2.0%		8.9%
Mexico	1.6%	0.4%		3.9%		4.0%		2.6%		-5.8%		6.7%
Russia	3.7%	-1.3%		3.2%		6.1%		0.8%		11.6%		26.1%
South Africa	2.9%	-0.7%		2.3%		5.9%		1.0%		-5.4%		5.7%
Taiwan	2.8%	0.7%		3.5%		2.1%		2.4%		-2.5%		9.2%
Turkey	2.9%	-1.8%		3.6%		6.5%		1.8%		2.9%		16.8%
Switzerland	2.8%	0.5%		2.2%		1.4%		-1.6%		-1.0%		4.3%
UK	3.5%	-0.1%		2.1%		2.5%		1.4%		2.1%		11.9%
Sweden	3.5%	-0.2%		2.5%		1.8%		0.1%		0.4%		8.3%
Japan	1.8%	2.7%		1.3%		0.9%		-3.0%		2.1%		5.8%
Hong Kong	2.7%	-0.3%		2.5%		3.3%		-0.8%		0.4%		8.0%
Singapore	3.4%	-0.8%		2.9%		2.8%		0.9%		2.3%		12.0%
Australia	4.3%	-1.7%		2.6%		2.6%		1.4%		-0.3%		9.3%
Canada	2.9%	0.1%		2.2%		2.0%		1.6%		-3.1%		5.7%
US Energy	2.2%	0.9%		2.4%		2.4%		1.9%		0.7%		10.8%
US Materials	2.1%	0.7%		2.4%		2.4%		-1.6%		-1.5%		4.4%
US Industrials	2.0%	0.6%		2.5%		2.4%		-0.8%		-2.0%		4.7%
US Consumer Discretionary	1.3%	1.1%		2.5%		2.4%		-4.9%		-3.0%		-0.9%
US Consumer Staples	2.8%	-0.1%		2.4%		2.4%		-0.6%		-1.6%		5.3%
US Health Care	1.7%	0.6%		2.6%		2.4%		-0.2%		-4.1%		2.9%
US Financials	1.9%	1.3%		2.1%		2.4%		0.6%		0.4%		9.0%
US IT	1.6%	0.8%		2.8%		2.4%		-2.8%		-2.0%		2.8%
US Telecom	4.6%	-1.3%		2.0%		2.4%		-8.4%		2.7%		1.5%
US Utilities	3.7%	-0.6%		1.8%		2.4%		1.2%		-1.6%		7.2%
Non-US Energy ¹	4.0%	-0.3%		2.1%		2.4%		4.5%		2.8%		16.6%
Non-US Materials ¹	2.7%	0.6%		2.1%		2.4%		5.3%		-1.8%		11.6%
Non-US Industrials ¹	2.4%	0.6%		2.3%		2.4%		1.0%		-1.5%		7.3%
Non-US Consumer Discretionary ¹	2.3%	0.8%		2.2%		2.4%		-1.9%		0.4%		6.2%
Non-US Consumer Staples ¹	2.9%	0.0%		2.1%		2.4%		-1.3%		-1.2%		4.9%
Non-US Health Care ¹	2.7%	0.0%		2.3%		2.4%		2.1%		-4.0%		5.4%
Non-US Financials ¹	3.3%	0.3%		1.7%		2.4%		1.4%		1.0%		10.5%
Non-US IT ¹	1.5%	1.0%		2.4%		2.4%		6.7%		-8.0%		5.6%
Non-US Telecom ¹	3.9%	-0.2%		1.9%		2.4%		2.2%		1.3%		12.0%
Non-US Utilities ¹	4.8%	-1.1%		1.6%		2.4%		5.5%		-1.2%		12.3%

Returns are geometric and therefore differ from the arithmetic sum of income, growth and PE change components.

¹ Returns are unhedged in USD (not local).

Yield Change and Net New Issuance: Yield change is the change in dividend yield as price changes through time towards fair value. The change in price is determined by the reversion to fair value over the horizon. Net new issuance (either buybacks or dilution) represents the difference between the modeled payout ratio times the earnings and the observed dividends. The model determines cash flows (not just dividends) and doesn't distinguish how it is returned to the investors in aggregate.

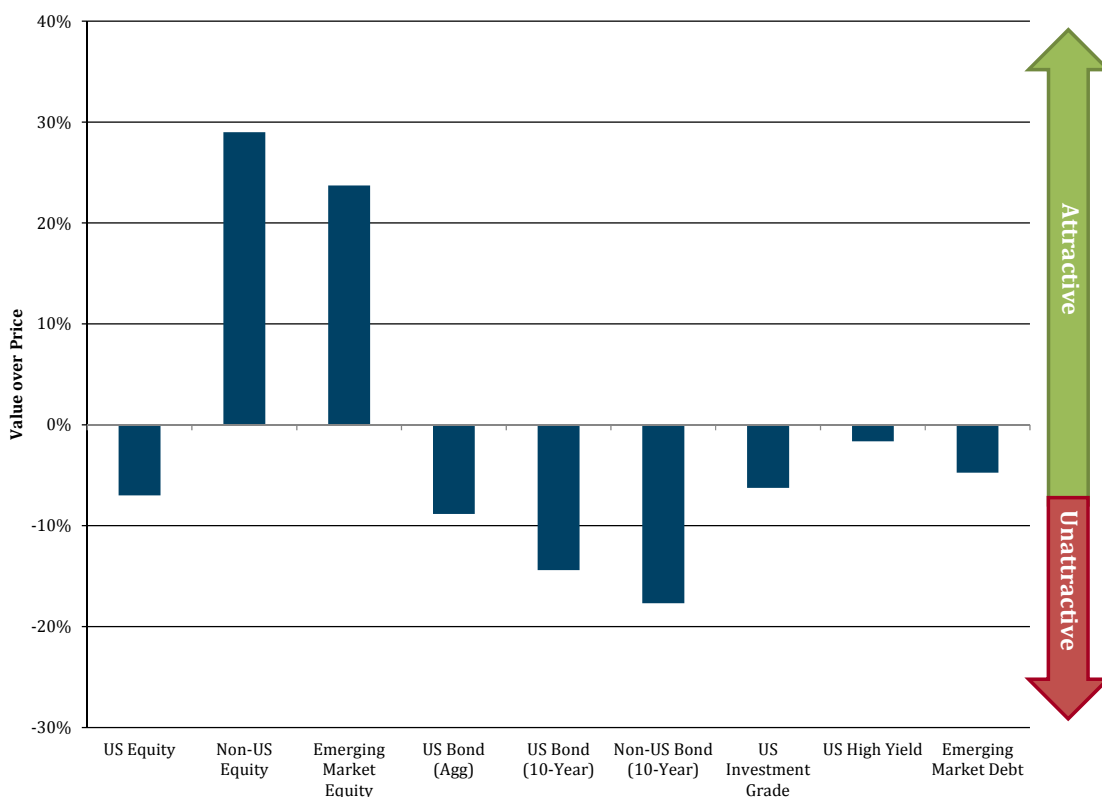
Real Trend Growth: Real trend growth is the cycle-adjusted earnings growth rate over the next 10 years, representing a mid-cycle growth rate. Real economic growth is a function of labor productivity growth and labor force growth and earnings growth is a function of some share of exposure to the domestic economy as well as the economies outside of the home country.

Earnings Recovery: Earnings recovery is the annualized gap between the current actual earnings level and the current cycle-adjusted earnings level.

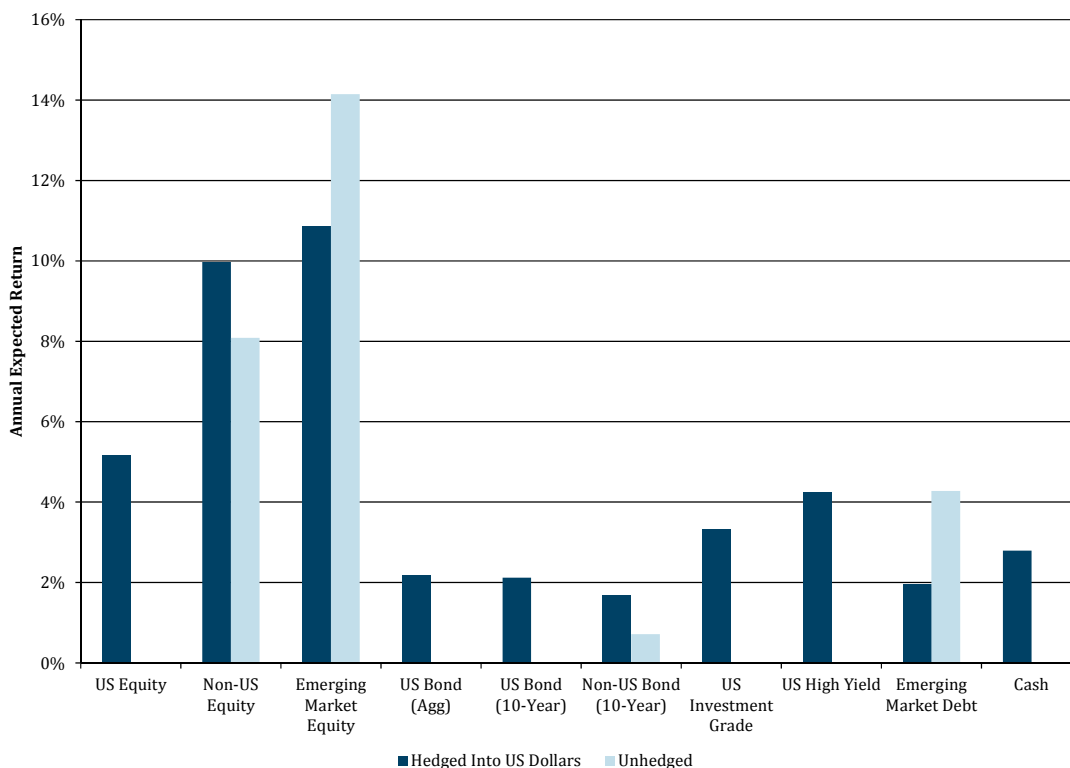
The cycle-adjusted earnings (similar to the trend growth) are mid-cycle estimates.

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Asset Class Fundamental Value Discrepancies from Current Prices



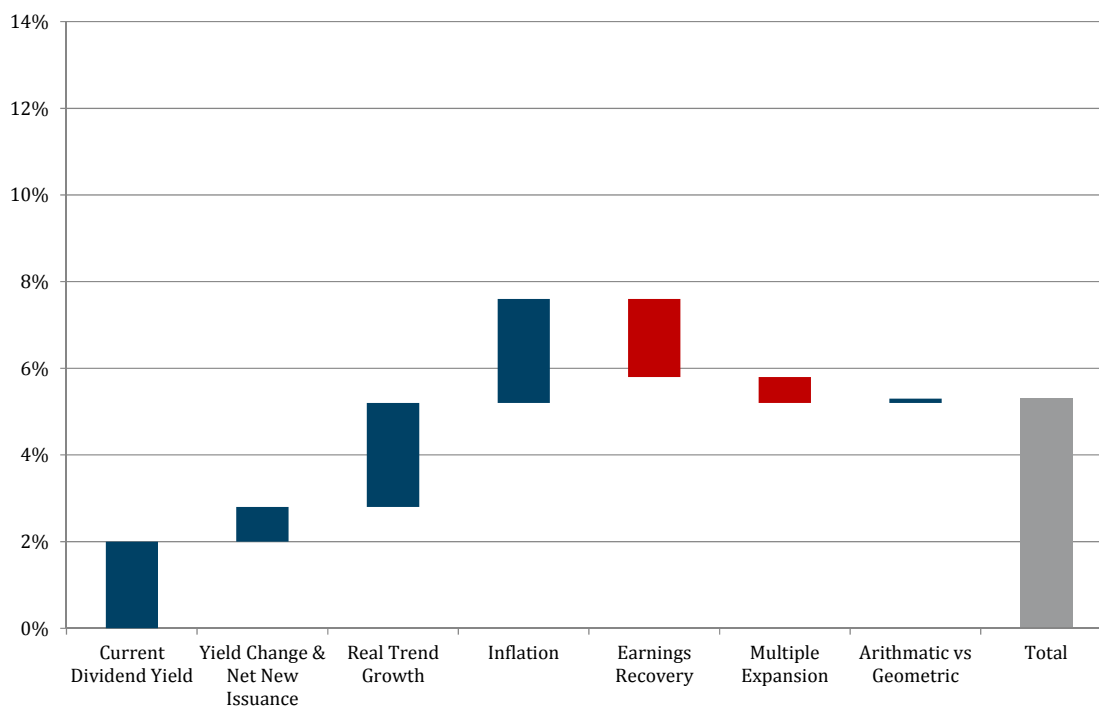
Asset Class 8-Year Expected Returns



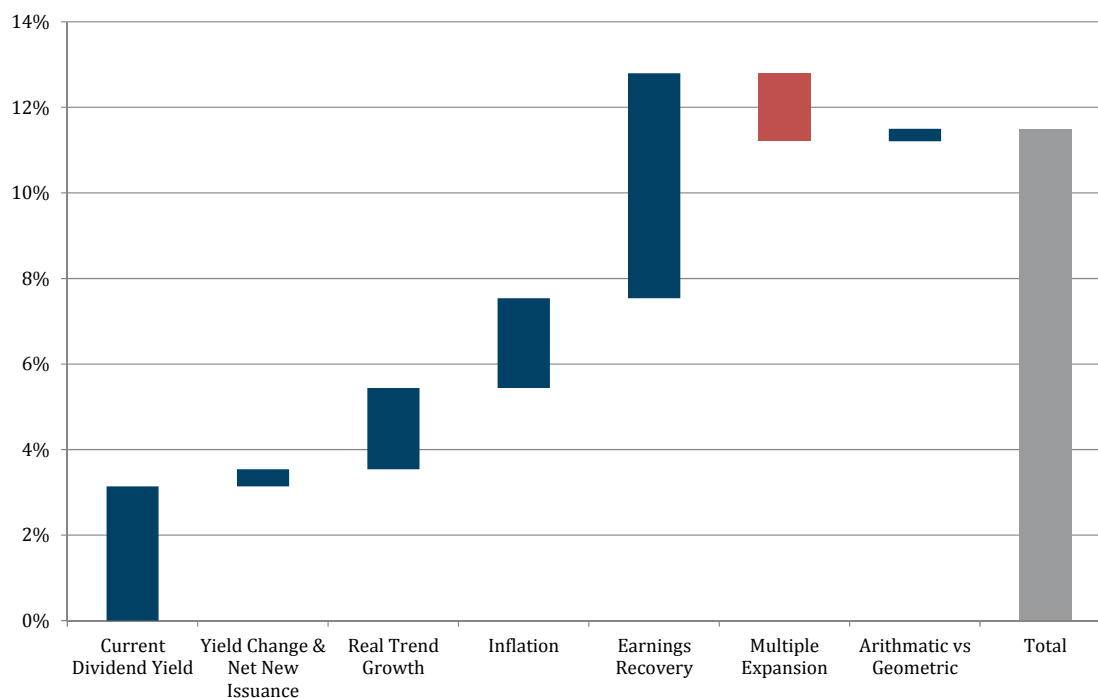
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Sources of Equity Returns

S&P 500



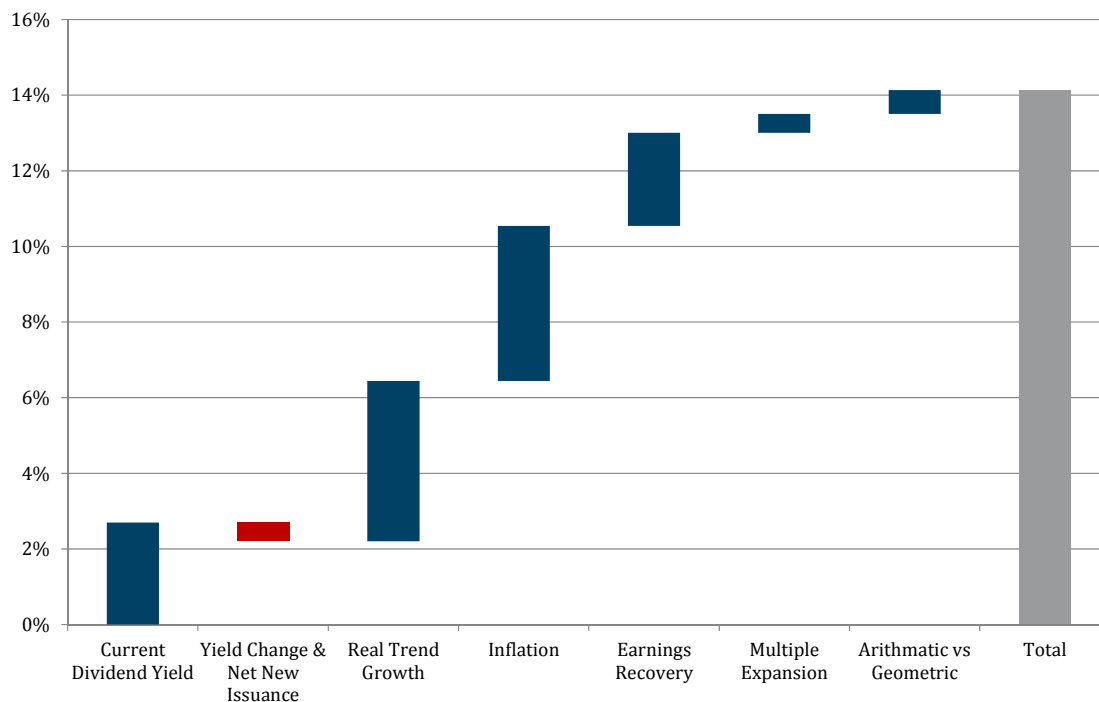
EMU



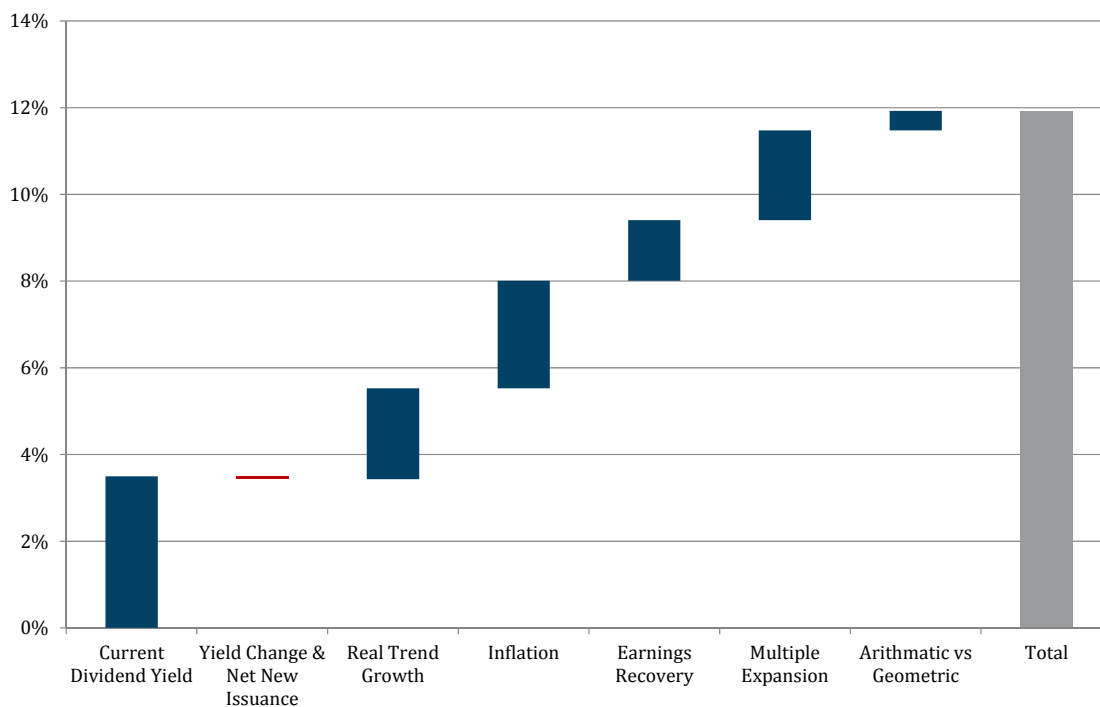
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Sources of Equity Returns

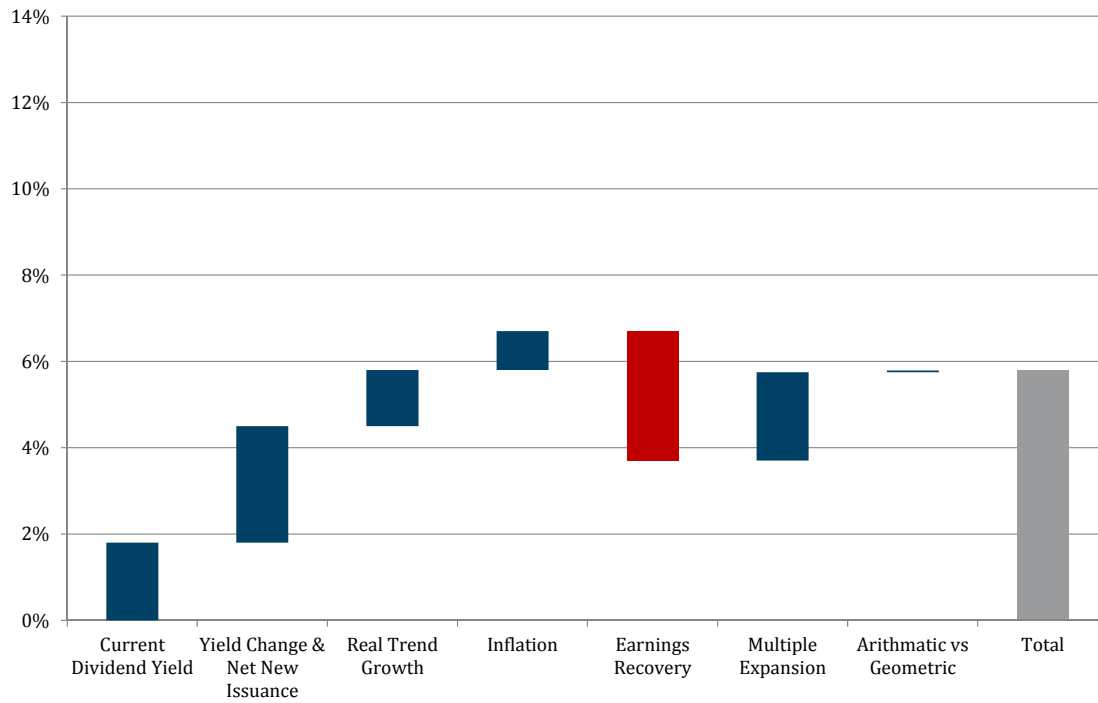
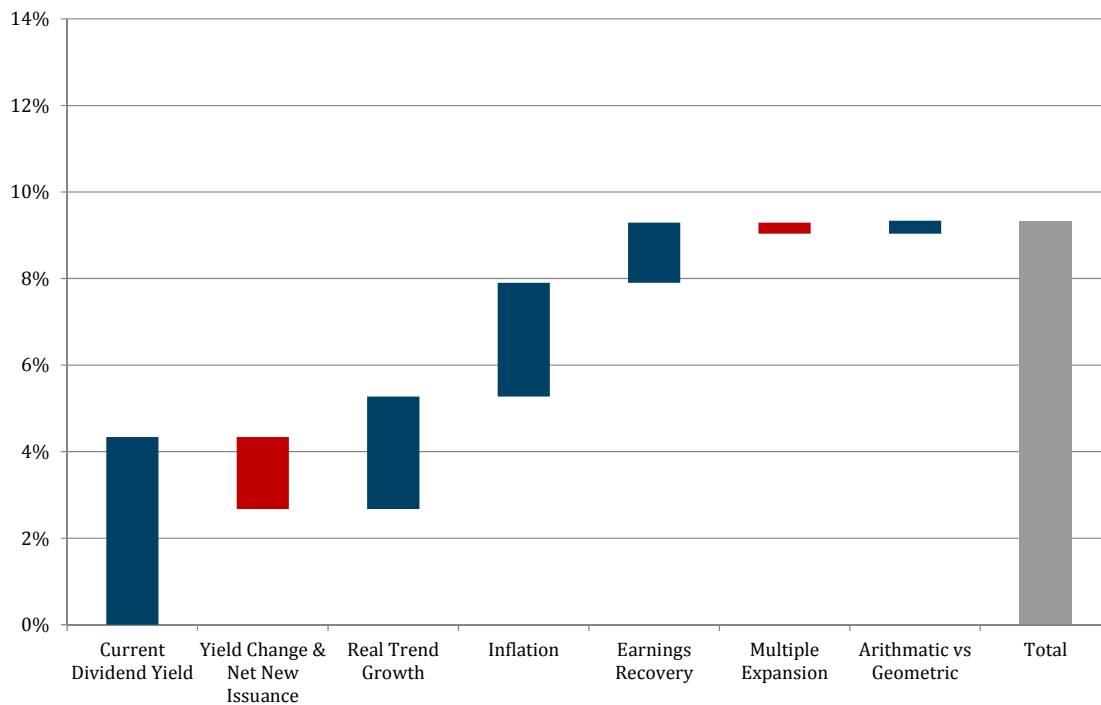
Emerging Markets



UK



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Sources of Equity Returns**Japan****Australia**

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The expected return of an asset reflects the average probability distribution of possible returns and is based on the convergence of price to value (over an 8-year period for equities and 5-year period for bonds) plus income accruing to an investor. The equilibrium return reflects the cash rate (i.e., real risk-free rate + inflation premium) plus a proprietary risk premium based on the DAS team's long-term risk model. Value reflects the present value of future expected cash flows. Discount rates and equilibrium risk estimates are based on the DAS team's proprietary long-term risk model. Price reflects current index or yield value and is based on historical daily prices of leading indices. Periods greater than one year are shown annualized.

The following leading indices are used as proxies for various capital markets. For equities: 1) World – MSCI World (ACWI) Index; 2) US – S&P 500 Index; 3) EAFE – MSCI EAFE Index; 4) UK – MSCI UK Index; 5) Japan – MSCI Japan Index; 6) European Economic Monetary Union (EMU) – MSCI EMU Index; 7) Canada – MSCI Canada Index; 8) Australia – MSCI Australia Index; 9) Switzerland – MSCI Switzerland Index; 10) Emerging Markets – MSCI Emerging Markets Index. For bonds: 1) World – JP Morgan Global Aggregate Bond Index; 2) Ex-US Sovereign – S&P/Citigroup International Treasury Bond Index Ex-US; 3) US – S&P/Citigroup International Treasury Bond Index (US 10-Year Bond); 4) Germany – S&P/Citigroup International Treasury Bond Index (Germany 10-Year Bond); 5) UK – S&P/Citigroup International Treasury Bond Index (UK 10-Year Bond); 6) Japan – S&P/Citigroup International Treasury Bond Index (Japan 10-Year Bond); 7) Canada – S&P/Citigroup International Treasury Bond Index (Canada 10-Year Bond); 8) Australia – S&P/Citigroup International Treasury Bond Index (Australia 10-Year Bond); 9) BarCap Aggregate – Barclays Capital US Aggregate Bond Index; 10) US Investment Grade – Bank of America/Merrill Lynch US Corporate Master Index; 11) US High Yield – Bank of America/Merrill Lynch US High Yield Cash Pay Index; 12) Emerging – JP Morgan Emerging Markets Bond Index Global. Currencies reflect daily exchange rate closing prices from Thomson Reuters. Indices are unmanaged, do not incur management fees, costs or expenses and cannot be invested in directly.

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