Upcoming Events

Fireside Chat:

A View from the Investment Policy Committee

A discussion led by Thomas Twombly

September 17, 2015

6:30 – 8:00 pm

RSVP: 512-458-2517 or by email to info@lsggroup.com

General Market Results

	2nd Quarter	YTD	One Year	Three Year	Five Year	Ten Year
CPI	0.71%	1.27%	-0.23%	1.20%	1.76%	2.03%
Barclays Agg Bond	-1.68%	-0.10%	1.86%	1.83%	3.35%	4.44%
S&P 500	0.28%	1.23%	7.42%	17.31%	17.34%	7.89%
DJI	-0.29%	0.03%	7.21%	13.77%	15.41%	8.32%
S&P 400	-1.06%	4.20%	6.40%	18.60%	17.82%	9.74%
Russell 2000	0.42%	4.75%	6.49%	17.81%	17.08%	8.40%
NASDAQ	1.75%	5.30%	13.13%	19.33%	18.78%	9.26%
MSCI EAFE	0.84%	5.88%	-3.82%	12.45%	10.03%	5.60%
MSCI EM	0.09%	2.95%	-5.12%	3.71%	3.68%	8.11%

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SECOND QUARTER REPORT 2015

July 2015

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A MESSAGE FROM THE PRESIDENT

Thomas G. Twombly

We are pleased to provide you with our report for the period ending June 30, 2015.

I'd like to revisit a familiar theme here. And that's the notion that in order to function effectively, successful allocators of long-term investment capital must have the emotional maturity to embrace simultaneously two completely disparate truths. In the near term we're called on to recognize and acknowledge multiple risks, and we must exercise the patience and discipline to control the anxiety that forever accompanies "not knowing" exactly how those risks will play out. And yet if we're true *investors*, in the long run we must concurrently hold fast to a sense of anticipation, excitement and faith that despite our lack of absolute clarity, the future holds all kinds of promise.

The only way I know to do that is to look back with a long-term perspective, and to study our history, and human ventures, progress and innovation. We must remind ourselves what it means truly to invest, and appreciate the patience, discipline and belief that great achievements have required. We must recognize appropriate historical time frames for measuring those achievements. And we must use that knowledge and understanding to inform long-term, forward-looking investment policies.

So amidst the real (but surely over-hyped) near-term risks that somehow always seem to overshadow great innovations and historic achievements; like the worries about Greece and ISIS that dominate headlines today, plunging stock markets in China, and whether or not the Fed will finally raise interest rates in September, let me call attention to an interesting, and I hope thought-provoking coincidence.

"We must remind ourselves what it means truly to invest, and appreciate the patience, discipline and belief that great achievements have required."

As I write this on July 17th, 2015, NASA's New Horizons spacecraft is right now reaching its culminating glory – a fly-by of Pluto after a 9 ½ year, three billion-mile journey of scientific exploration and discovery to the outer reaches of our solar system. Only 2% of the data it has collected has been transmitted back to earth so far, but already the scientific community is abuzz at the overwhelming results of this venture. Eventually, 50 billion bits of never-before-seen data will be beamed back to us over the vast expanse of our galactic neighborhood, and human knowledge, scientific understanding and history will have taken yet another giant leap forward - forever.

Today also marks the 40th anniversary of the linkup between the American Apollo and the Soviet Soyuz space programs that took place on July 17, 1975 – two months after my fourteenth birthday. This event, the first ever international human space flight, was also a milestone of exploration, discovery and political cooperation the likes of which world had never before seen. The mission itself lasted only nine days, but beginning in

1970 it required more than five years in the planning stages – amidst a backdrop of anxiety and fear that included the Vietnam War, the fall of Saigon, Watergate, the Arab Oil Embargo, and the worst recession and stock market collapse America had experienced since the Great Depression.

Then, just as in the past decade as the New Horizons spacecraft has been silently and steadfastly traversing our solar system, a majority focused on the immediate fear and anxiety they perceived around them. They failed to appreciate the significance of the both the accomplishment *and the undertaking*. They lost sight of the indomitable drive to be, to do, and to create that these space ventures reveal about human nature. They acted accordingly, deserting in huge numbers the long-term ownership of the great businesses of the U.S. and the world (in effect, the "investable" part of human ingenuity) for fear of the short-term "risk" such investments entail.

So what did the great companies of the U.S. and the world do for their stalwart shareholders in that timeframe? How effective has owning this asset class been for the long-term accretion of wealth and purchasing power? What's been the value of maintaining true long-term faith in human ingenuity?

Our best proxy for that - The S&P 500 - closed at 2128 today, more than 21 times higher than the July 17, 1975 close of 93.63. Importantly, this does not include the compounding power of reinvested dividends, which have been significant. During that time, earnings have increased from around $8 dollars in mid 1975 to an estimated $125 dollars this year, and the resulting dividends paid this year will probably end up pretty close to $44 dollars – an increase of about 11 times in forty years.

Without a doubt, there have been numerous challenging periods along the way, and all kinds of excuses to lose faith. It's equally certain there will be plenty of future excuses to do the same, for the future is never certain, and fear is a powerful and debilitating force. So when those periods come along, as they surely will, step back and appreciate New Horizons, and what a successful *three billion-mile journey* into outer space suggests about mankind's long-term capacity to overcome just about any challenge.

Thank you for your confidence and trust.

Thomas G. Twombly

President

INVESTMENT COMMENTARY

Global equity markets provided mixed and generally tepid results for the second quarter of 2015 as worries about rising interest rates and a deepening debt crisis in Greece served to offset what were otherwise signs of improving economic growth in many parts of the world. Fixed income markets declined, and the U.S. dollar dropped by approximately 4% against the euro – finally giving back some of the sharp gains it had experienced over the previous three quarters.

In the United States, the S&P 500 rose by +0.3% for the quarter, bringing year-to-date gains to a fairly modest +1.2%. A slowdown in corporate earnings due in part to softening overseas sales and the decline in the price of oil weighed on overall expectations. The healthcare and consumer discretionary sectors continued to show relative strength, rising by +2.8% and +1.9% respectively, while the utilities, industrials and energy sectors experienced declines of between -5.8% and -2%. The NASDAQ composite index advanced by +2% for the quarter, finally passing its previous high set fifteen years ago during the so-called "dot com bubble" as investors sought growth-oriented technology stocks.

For the year so far, developed market international equities have been the top-performing asset class, aided in particular by Japan, where the Nikkei 225 index reached its highest level in more than 18 years. A weakening yen, which reached a 12-year low against the U.S. dollar during the quarter, has made Japanese exports much more attractive and has contributed to increasingly positive economic data coming from that country. With gains of +3.1% in dollar denominated results for the most recent quarter, the MSCI Japan index finished the first half of 2015 with overall gains of +13.6% for U.S.-based investors. These gains contributed handsomely to the overall U.S. dollar gain of +5.5% in the MSCI EAFE index through June 30th. Measured reallocations we made at the end of 2014 in favor of developed market international equities have proven beneficial to overall investment results for the year so far, and we believe they continue to offer attractive prospects looking forward.

Small-cap U.S. equities have also outdone many other asset classes for the year thus far, providing gains of +4.8% through June 30th. As has also been the case for both large-cap and mid-cap equities, growth companies in this capitalization range have enjoyed particularly impressive results, notching gains of +2.1% for the second quarter and +8.7% for the first

half of 2015. With all of our portfolios having solid small-cap exposure, and with many weighted towards the growth side of the spectrum in all capitalization ranges, our clients have enjoyed attractive risk-adjusted results from this asset class while remaining broadly diversified.

On the negative side, despite a late-quarter rally spurred by safe-haven buyers concerned about the resurgence of worries about a so-called "Grexit", bonds fell for the quarter. The Barclay's U.S. Aggregate Bond Index declined by -1.7% for the period, more than erasing all the gains from the first quarter. In turn, the Barclay's Global Aggregate Bond Index dropped by -1.2% during the recent quarter, bringing year-to-date declines to -3.1%. With bond allocations at their prescribed minimums in all our portfolios for quite some time now, and with each of our chosen fixed income managers paying particularly careful attention to duration and interest rate risk, the impact of these declines on our overall results has been modest. Nevertheless, we suspect that the challenges facing bond investors will be significant as we peer forward over the next 5 – 10 years. Many have no experience in a rising interest rate environment, and most are still clinging to definitions of "risk" that may prove to be outdated. As conditions change we expect increased volatility in this asset class. With that volatility will come both challenges and potential opportunities, so we remain vigilant.

Real Estate holdings and commodities have been the primary laggards in our portfolios for the first half of 2015. After leading the pack for four out of the previous five years, REITs as an asset class fell by -5.4% during the first half of 2015, and commodities have experienced on-going weakness worldwide due primarily to the slowdown in the Chinese economy. Though we continue to maintain modest allocations to these asset classes because of their long-term risk / reward characteristics, our clients may recall that we reduced overall holdings in Real Estate by several percentage points at the beginning of 2015 in favor of increased holdings in developed market equities, and we have limited commodity allocations overall to approximately 5% of assets.

Looking forward, we see positive signs for the global economy overall. While there are always reasons for short-term caution, we believe that the outlook for properly allocated long-term investors continues to be compelling. As always, please call us if you would like to discuss our perspective or your particular situation.

Conservative Growth Model

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-0.86%	1.69%	1.18%	8.04%	7.02%	4.86%

Inception Date 06/03/1999

Core Growth Model

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-0.34%	1.59%	0.34%	9.50%	8.47%	5.52%

Inception Date 05/31/2003

Growth Model

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
0.11%	3.36%	0.61%	10.50%	8.58%	6.40%

Inception Date 10/16/1992

Specialty Model

Diversified Growth Model

2nd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
0.59%	2.83%	3.70%	14.23%	12.57%	6.59%

Inception Date 10/31/00

Education Models

UT ORP

2nd Quarter	YTD	1Year	3 Year	5 Year	10 Year
-0.65%	1.28%	1.04%	10.45%	9.15%	5.38%

Inception 08/10/1999

Retirement Growth

2nd Quarter	YTD	1 Year	3 Year	5 Year	10 Year
-0.80%	1.57%	-0.18%	11.07%	10.27%	5.87%

Inception Date 06/03/1999