ACM

AVOCET

CAPITAL MANAGEMENT

Q2

Quarterly Market Review

Second Quarter 2012

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Second Quarter 2012

This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a topic of the quarter.

Overview:

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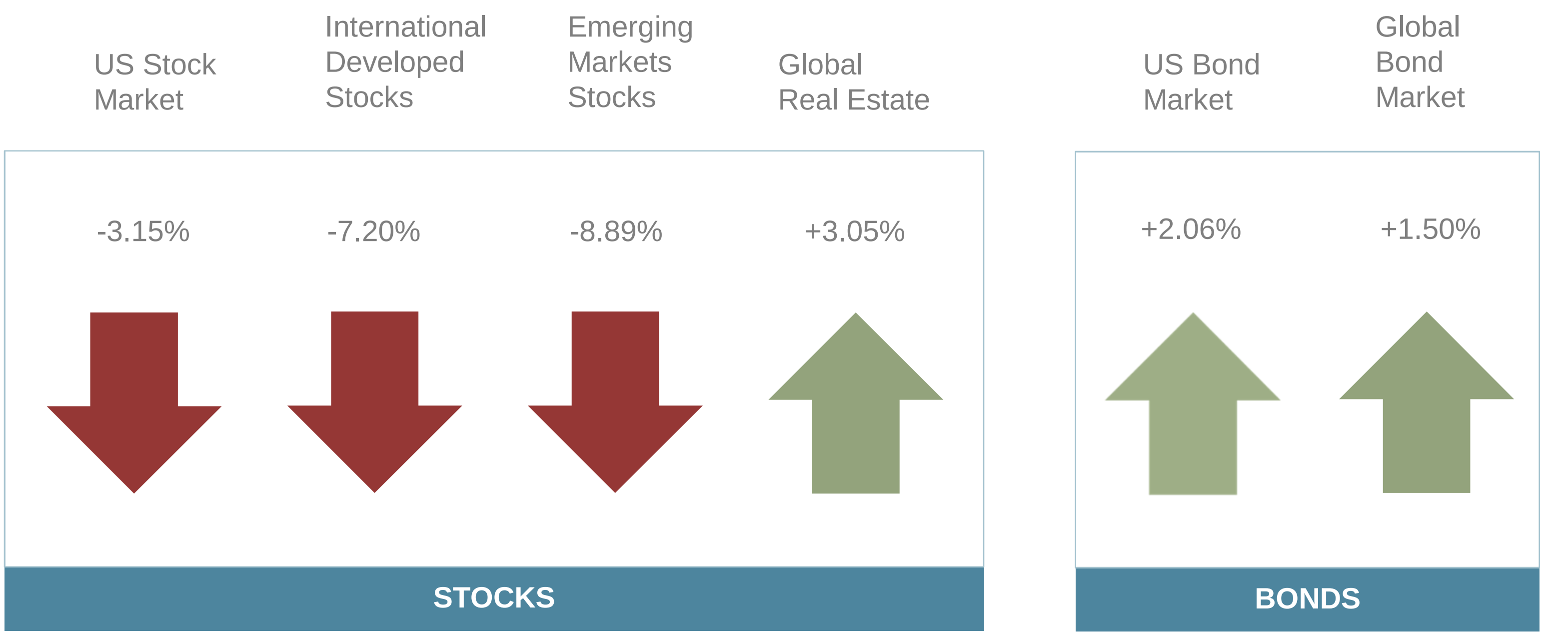
Market Summary

Second Quarter 2012 Index Returns



Past performance is not a guarantee of future results. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index); International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays Capital US Aggregate Bond Index), and Global Bond Market (Barclays Capital Global Aggregate Bond Index [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

Timeline of Events: A Quarter in Review

Second Quarter 2012

US stocks finish at multi-year highs. The S&P 500 Index has its highest close since May 2008.

Mitt Romney officially named Republican Party's presumptive nominee.

JPMorgan Chase reported losses in excess of $2 billion from trades made by a division that was supposed to manage risk. The CEO subsequently testified in front of Congress.

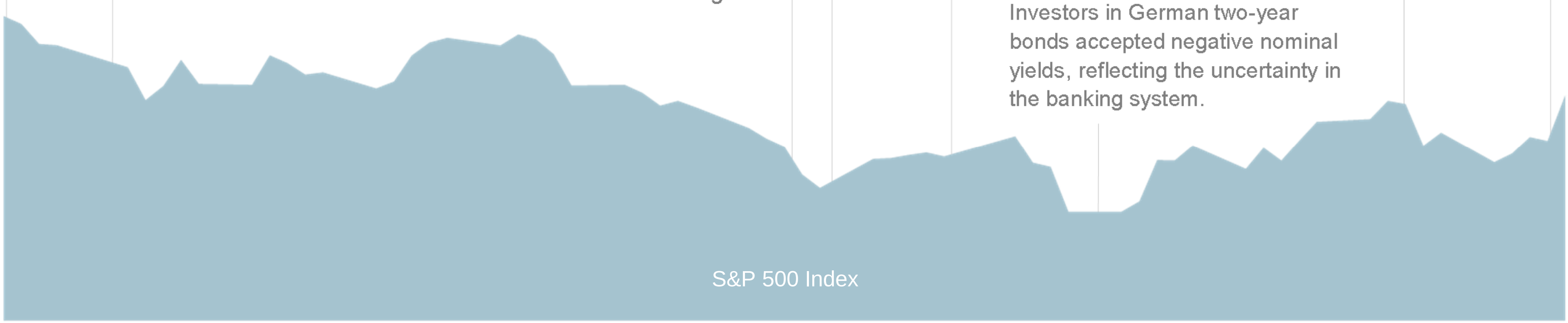
Facebook's long-awaited IPO valued the firm at over $100 billion, yet in the weeks following the listing, it lost almost a quarter of its market value.

Dalian Wanda agreed to buy the theater chain AMC Entertainment, in the largest US acquisition by a private Chinese firm.

Investors in German two-year bonds accepted negative nominal yields, reflecting the uncertainty in the banking system.

The European crisis continued, with Spanish banks receiving capital from other countries and Greece voting for a leadership determined to preserve the euro and adhering to austerity.

The Supreme Court ruled that many of the provisions of the healthcare law are constitutional, including the requirement that most Americans obtain insurance or pay a penalty "tax."



1,419
04/02/2012

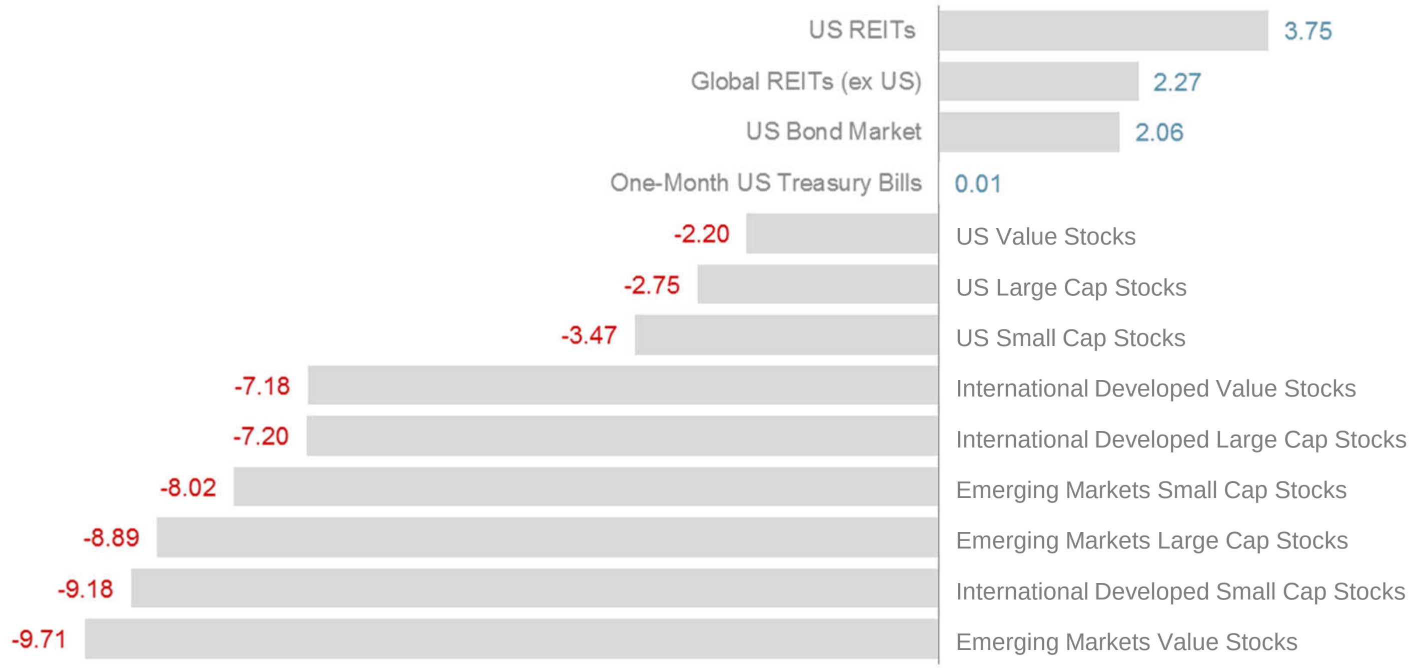
1,362
06/29/2012

The graph illustrates the S&P 500 Index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns.
Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted are not intended to explain market movements.

World Asset Classes

Second Quarter 2012 Index Returns

Global equity markets retreated in the second quarter, giving up much of their gains for the year. Fiscal and economic strain in Europe continued to capture headlines, weighing especially heavy on non-US markets. Investors continued to turn to US government bonds for safety, pushing yields lower.



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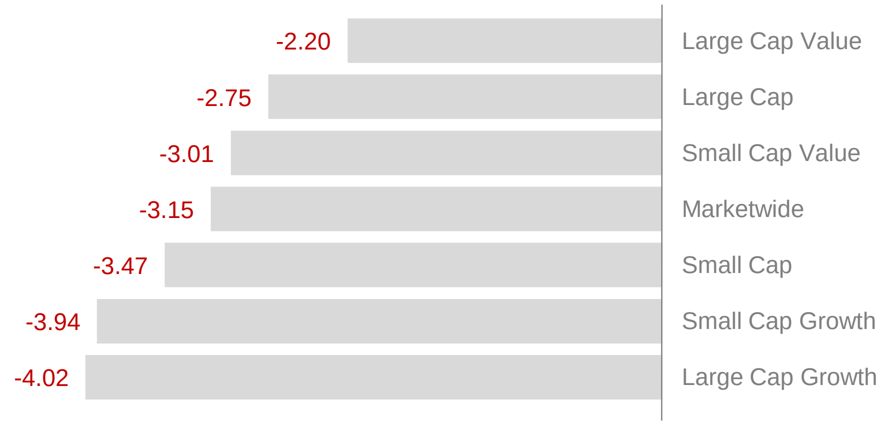
US Stocks

Second Quarter 2012 Index Returns

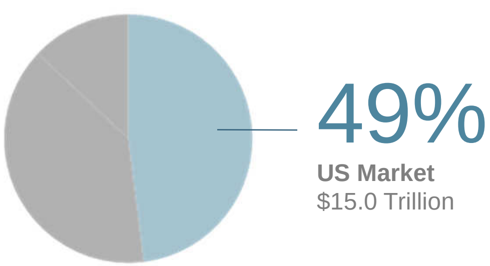
With all major asset classes logging negative quarterly performance, the US equity markets posted a -3.15% return for the quarter. Asset class returns ranged from -2.20% for large value stocks to -4.02% for large growth stocks.

Across the size and style spectrum, large outperformed small while value bested growth.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	3.84	16.73	0.39	5.81
Large Cap	5.45	16.40	0.22	5.33
Large Cap Value	3.01	15.80	-2.19	5.27
Large Cap Growth	5.76	17.50	2.87	6.03
Small Cap	-2.08	17.80	0.54	7.00
Small Cap Value	-1.44	17.43	-1.05	6.50
Small Cap Growth	-2.71	18.09	1.99	7.39

** Annualized*

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International Developed Stocks

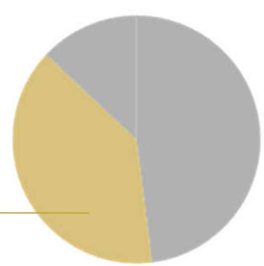
Second Quarter 2012 Index Returns

Developed international markets (as measured by the MSCI World ex USA Index) were -7.20% in the quarter, marking the index's third worst quarter since March 2009. The US dollar appreciated against all major foreign currencies, which reduced returns on dollar-denominated foreign investments.

All developed countries posted negative returns in the quarter, with country dispersion ranging from -1.40% to -20.99% for Belgium and Finland, respectively.

Across the size and style spectrum, large beat small with value slightly outperforming growth.

World Market Capitalization—International Developed



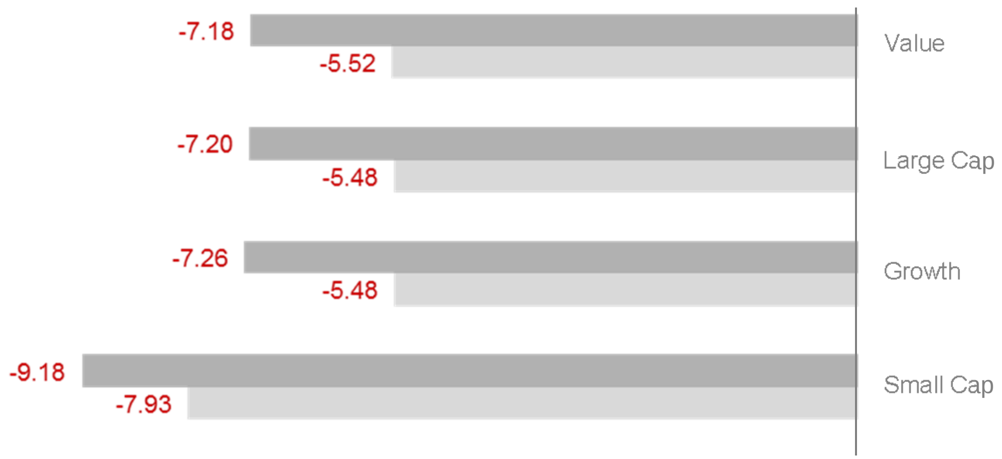
39%

International Developed Markets

$12.2 Trillion

Ranked Returns for the Quarter (%)

US Currency   Local Currency



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-14.13	6.20	-5.67	5.57
Small Cap	-15.75	10.14	-4.94	8.70
Value	-14.93	5.04	-6.97	5.80
Growth	-13.36	7.30	-4.44	5.25

** Annualized*

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Emerging Markets Stocks

Second Quarter 2012 Index Returns

In US dollar terms, emerging markets logged a -8.89% return in their second-worst quarter since December 2008. The dollar appreciated against all the main emerging market currencies, negatively affecting dollar-denominated returns of emerging markets equities by 3.63%.

All country markets posted negative returns, with the exception of the Philippines and Turkey. The Philippines had the best return of the quarter at 4.71%, while Brazil fared the worst at -18.64%.

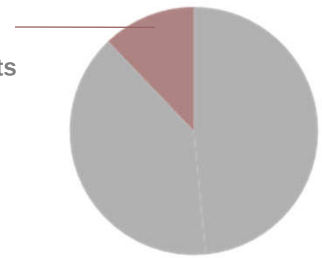
Performance of the size and style dimensions was mixed in the quarter, with small beating large and growth besting value.

World Market Capitalization—Emerging Markets

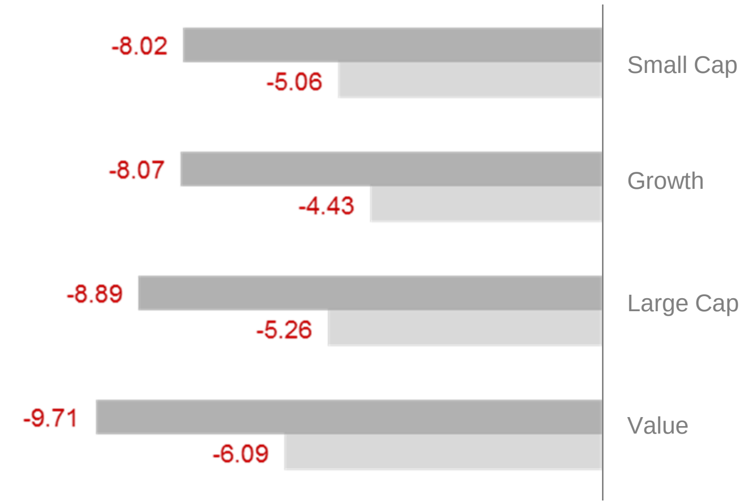
12%

Emerging Markets

$4.2 Trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-15.95	9.77	-0.09	14.08
Small Cap	-18.90	11.13	-0.72	15.06
Value	-15.79	9.64	1.39	15.73
Growth	-16.11	9.90	-1.59	12.40

** Annualized*

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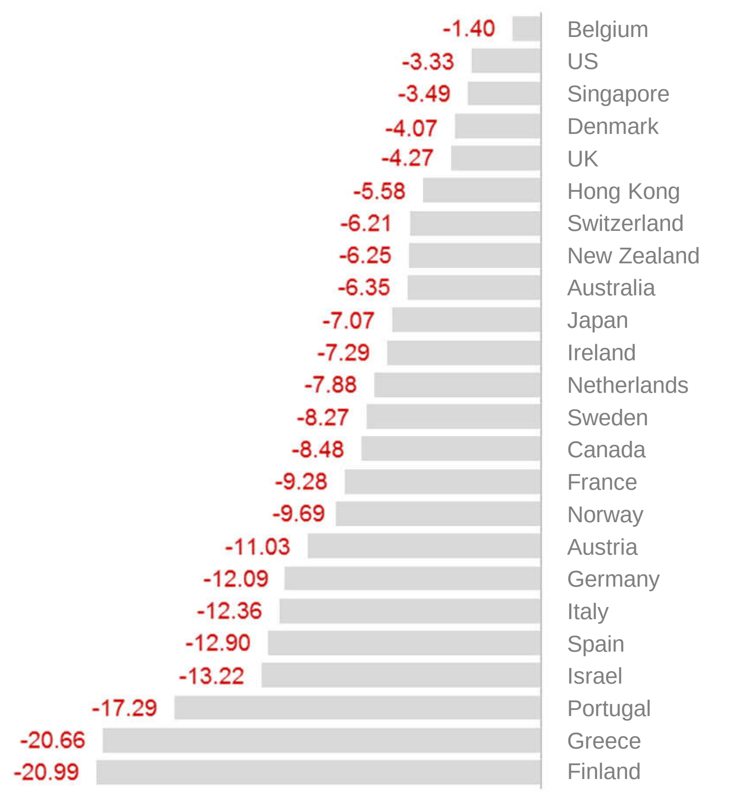
Select Country Performance

Second Quarter 2012 Index Returns

With equities under pressure as European debt concerns intensified, developed market countries were unable to avoid negative performance in the second quarter. Emerging markets faced a similar outcome with a few exceptions. On a year-to-date basis, many developed and emerging country returns were still flat to positive due to strong first quarter performance.

Developed Markets (% Returns)



Emerging Markets (% Returns)

Country performance based on respective indices in the MSCI All Country World IMI Index (for developed markets) and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends.

Real Estate Investment Trusts (REITs)

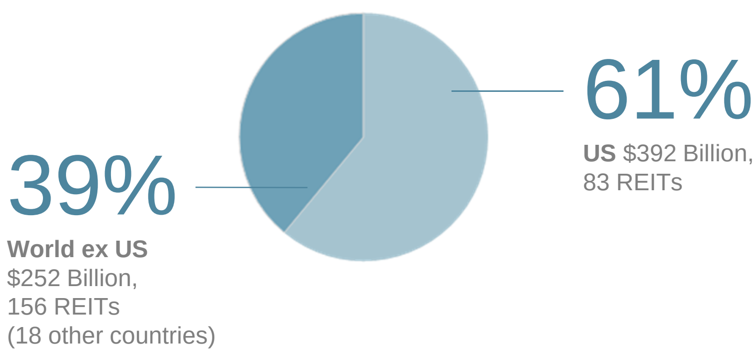
Second Quarter 2012 Index Returns

Real estate securities appreciated in the second quarter to outperform stocks and bonds. US REITs outpaced international REITs in the quarter, extending a five-year trend.

The dispersion between ten-year and five-year trailing returns was wide. REITs maintained strong annualized ten-year returns, while sharp declines in 2007 and 2008 continued to weigh heavily on five-year figures.

Ranked Returns for the Quarter (%)

Total Value of REIT Stocks



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	13.29	33.52	1.97	10.27
Global REITs (ex US)	-4.72	16.68	-6.03	9.48

** Annualized*

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Commodities

Second Quarter 2012 Index Returns

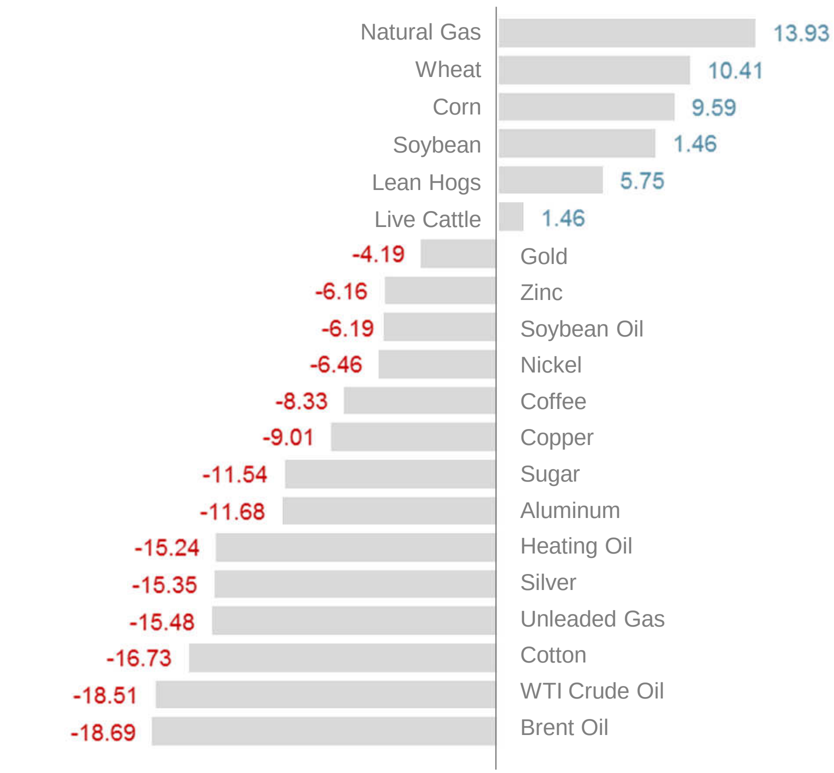
Commodities declined in the second quarter, extending a year-long drop in prices across a broad basket of individual raw goods. Leading the negative decline were petroleum-based commodities, with West Texas Intermediate (WTI) Crude and Brent Oil falling by 18.51% and 18.69%, respectively.

Period Returns (%)

Asset Class	Q2	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-4.55	-14.32	3.49	-3.65	4.96

** Annualized*

Individual Commodity (% Returns)



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Fixed Income

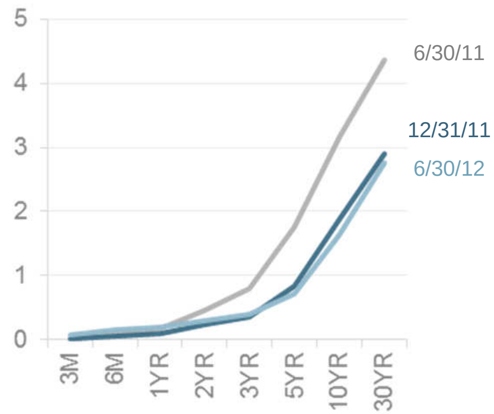
Second Quarter 2012 Index Returns

Strong investor demand for high-quality bonds continued in the second quarter, driving yields lower and prices higher. US Long-Term Government bonds extended their strong performance streak with a gain of 9.52% for the quarter. The ten-year US Treasury note rallied in early June to hit an all-time low yield of 1.47%.

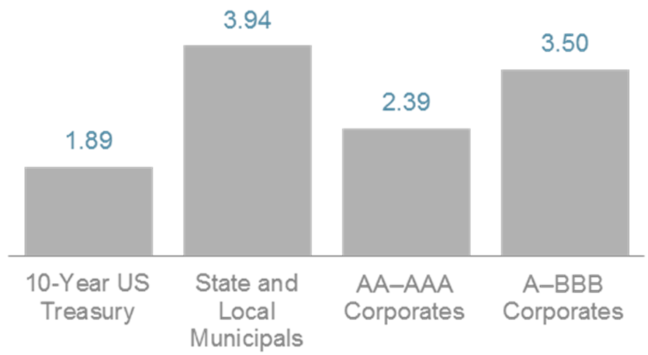
Investors' appetite for safety was so prevalent that many sovereign bond yields dipped into negative territory, indicating investors were willing to pay a steep price for the perceived safety.

US credit spreads increased through the quarter with most of the change (15 basis points) occurring during the third week of May as investors responded to news of a weakening economy and required extra yield to hold credit over government.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
One-Month US Treasury Bills (SBBI)	0.03	0.07	0.81	1.73
Bank of America Merrill Lynch Three-Month T-Bills	0.05	0.12	0.98	1.87
Bank of America Merrill Lynch One-Year US Treasury Note	0.26	0.64	2.07	2.33
Citigroup World Government Bond 1-5 Years (hedged)	2.62	2.17	3.69	3.54
US Long-Term Government Bonds (SBBI)	29.48	13.24	11.92	8.94
Barclays Capital Corporate High Yield	7.27	16.29	8.45	10.16
Barclays Capital Municipal Bonds	9.90	7.62	5.95	5.28
Barclays Capital US TIPS Index	11.66	9.63	8.44	7.24

** Annualized*

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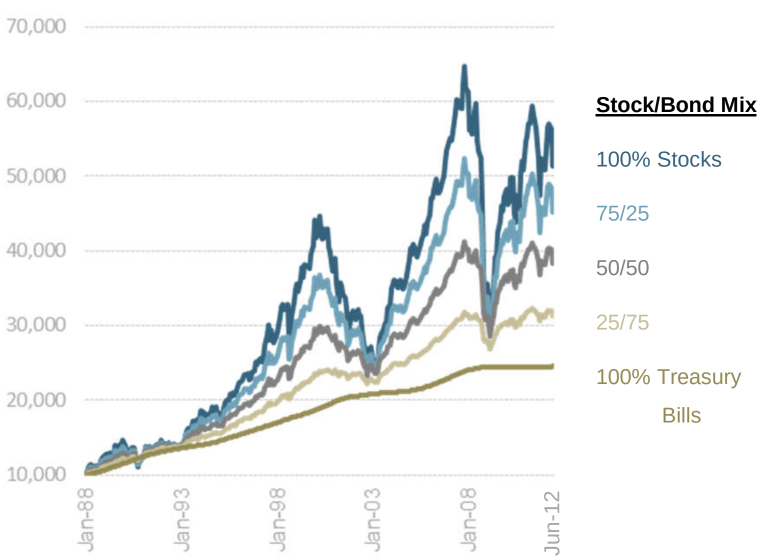
Global Diversification

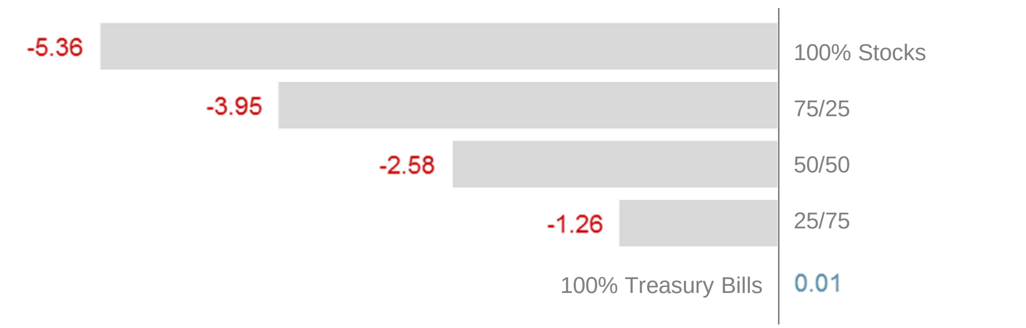
Second Quarter 2012 Index Returns

These portfolios illustrate performance of different global stock-bond mixes and highlight the benefits of diversification. Those with larger allocations to stocks are considered riskier but also have higher expected returns over time.

Growth of Wealth:
The Relationship between Risk and Return



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	-5.96	11.36	-2.17	6.27
75/25	-4.10	8.76	-0.98	5.44
50/50	-2.48	6.00	-0.08	4.39
25/75	-1.10	3.10	0.51	3.15
100% Treasury Bills	0.01	0.03	0.07	0.81

** Annualized*

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Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified portfolios rebalanced monthly.

The Cost of Caviar: Lower Expected Returns

Second Quarter 2012

Australia's champion racehorse Black Caviar is unbeaten over twenty-two races. Think of her as a growth stock with four legs. With a brilliant bloodline and a huge fan base—she even has her own Facebook page—Black Caviar is turning into the most popular racehorse since the legendary Phar Lap.

The five-year-old mare prevailed in Britain's premier racing event at Royal Ascot late last month. But unless you own part of Black Caviar, you're unlikely to make much money from placing a bet on her fortunes. "The Wonder from Downunder," as she is known, pays close to even odds with bookmakers.

That's the problem with (perceived) no-risk bets. The high probability of a win means your expected return is very low.

It's reminiscent of the equity market, where you can choose to buy highly priced growth stocks. Many investors are prepared to put a high price on these companies' expected cash flows. In other words, they are prepared to accept a lower expected return for the perceived lower risk of owning a stock that is growing faster than the wider market. This is similar to how gamblers in aggregate are prepared to accept a much lower return than the wider field for the perceived lower risk of putting their money on Black Caviar.

So why not back the favorite all day? Well, that could be a legitimate decision for some investors, if they are prepared to accept lower expected returns for lower risk. On the other hand, there is strong academic evidence that there is a long-term premium for tilting your portfolio to lower-priced "value" stocks. You could think of these as the unknown or unfancied horses—the ones with the wider odds.

Unlike the racetrack, however, there is more than one winner on the stock market. It is just a question of how much risk you wish to take. Backing past winners means you forgo the chance of earning a bigger dividend on the outsiders.

And keep in mind that even if you put it all on the stock market equivalent of Black Caviar, there is still no guarantee you will be rewarded. Even champion racehorses eventually lose. And by concentrating your bet, you leave yourself more exposed to specific risks related to that one entity.

With long-term investment, you are better to spread your risk through diversification. Backing the entire field—or sections of the field—leaves you less prone to the risk associated with individual runners.

Ultimately, a great company or champion racehorse is one thing. A great investment is another. Black Caviar comes at a cost.

Adapted from "The Cost of Caviar" by Jim Parker, *Outside the Flags* column on Dimensional's website, June 2012. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.