



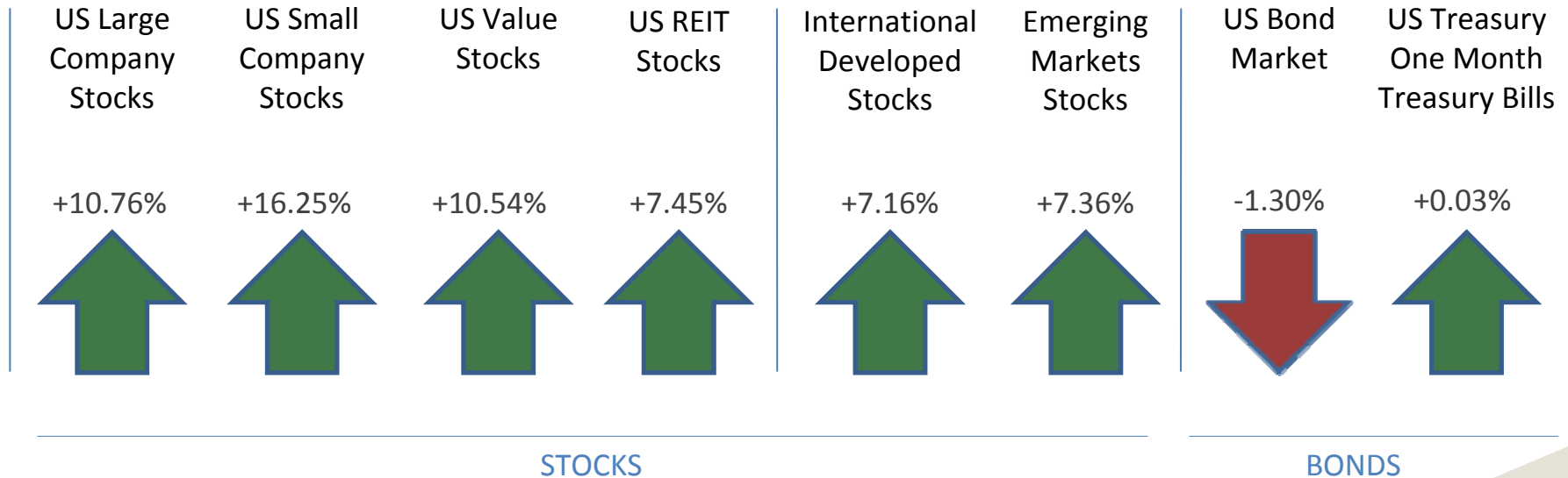
# QUARTERLY INVESTMENT REVIEW

*Fourth Quarter 2010*



# Markets Update: A Quarter in Review

Fourth Quarter 2010



Market segment (index representation) as follows: US Large Company (S&P 500 Index); US Small Company (Russell 2000 Index), US Value (Russell 1000 Value Index). US Real Estate Market (Dow Jones US Select REIT Index), International Developed (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [gross div.]), US Bond Market (Barclays Capital US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2010, all rights reserved. MSCI data copyright MSCI 2010, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. 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. Sinquefeld). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

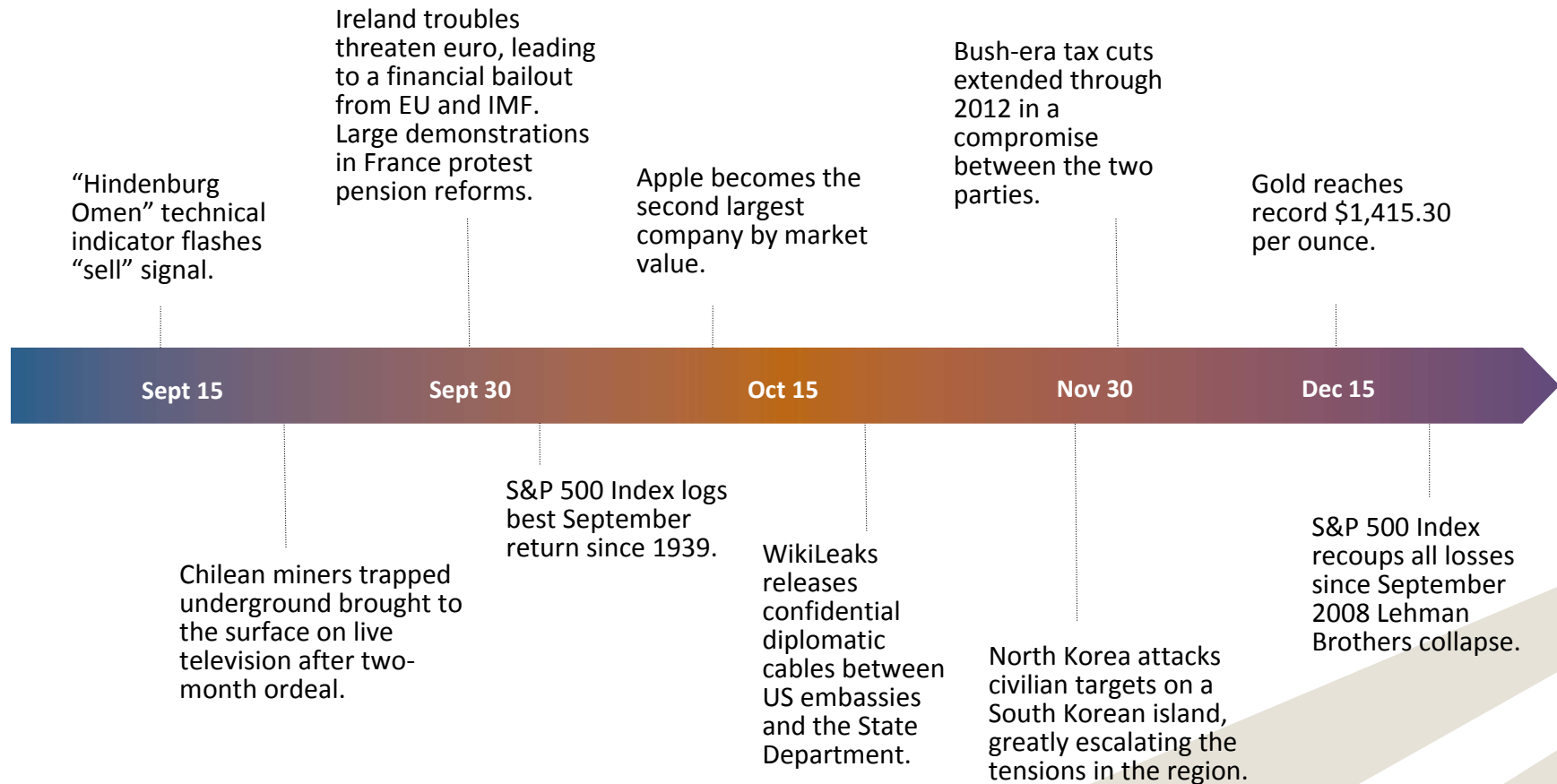
# Markets Update: A Quarter in Review

Fourth Quarter 2010

- With few exceptions, equity markets around the world continued their strong performance in the fourth quarter, and had a second consecutive year of outstanding gains. In the US, the fourth quarter saw much improved economic and financial data; renewed efforts to stimulate economic activity by policymakers in the form of additional monetary and fiscal measures; and the midterm congressional elections, the outcome of which removed some uncertainty from the investment landscape. The broad US market gained over 11%, with all asset classes delivering double-digit positive returns.
- The overall performance in other developed markets was not nearly as good in the quarter, or in the year. As has been the case for most of the past few quarters, there was much dispersion in performance at the individual country level. Spain and Greece, which continue to face severe fiscal problems, had sharply negative returns for the quarter and the year. At the other end of the spectrum, resource-rich countries such as Canada and Norway were the top performers in the quarter, and had excellent returns for the year as well. The US dollar lost ground against most major currencies except the euro, which helped the dollar-denominated returns of developed market equities.
- Emerging markets had similar performance to that of developed markets in the quarter, and once again ended the year as the top-performing region. As in the case of developed markets, there was much dispersion in the performance of different emerging markets, with resource-rich countries such as Russia and Mexico performing exceptionally well in the quarter. The US dollar also lost ground against the main emerging market currencies in the fourth quarter, which contributed positively to the dollar-denominated returns of emerging market equities.
- Although deep value stocks had very strong performance, value stocks in general underperformed growth stocks across all market capitalization segments in the US and in other developed markets. In emerging markets, on the other hand, value stocks had mixed performance relative to growth stocks. Small cap value outperformed small cap growth, while large cap value underperformed large cap growth. Along the market capitalization dimension, small caps greatly outperformed large caps in the US and in other developed markets, and narrowly edged large caps in emerging markets.
- Fixed income securities had poor returns in the fourth quarter. Rising long-term rates hurt investors who were exposed to term risk. Long-term securities did more poorly than short-term securities.
- Real estate securities had solid returns but underperformed relative to most other asset classes.

# Timeline of Events: A Quarter in Review

Fourth Quarter 2010



# Beyond the Quarter: Survey of Long-Term Performance

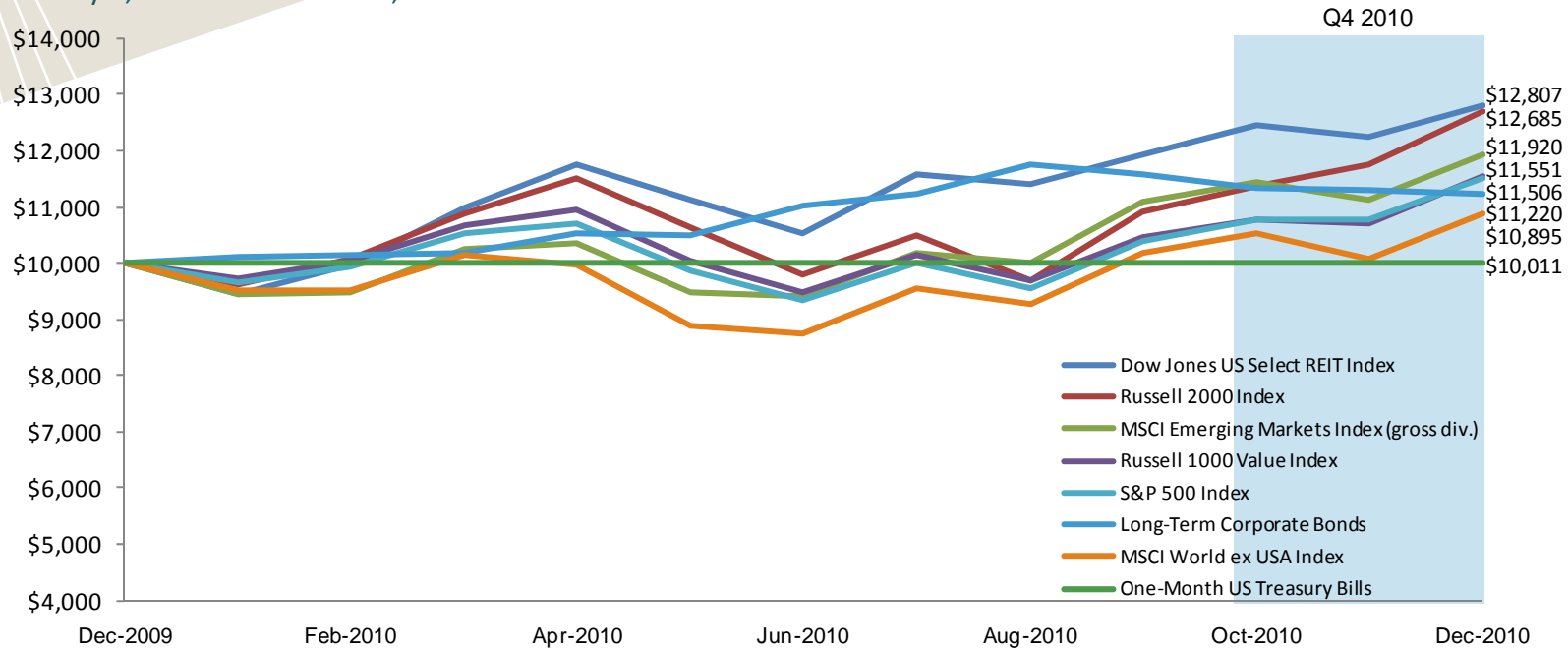
As of December 31, 2010

Index	Annualized (%)					
	1 Year Ending 12/31/2010	3 Years Ending 12/31/2010	5 Years Ending 12/31/2010	10 Years Ending 12/31/2010	20 Years Ending 12/31/2010	Since Inception (inception date)
<b>US Large Company Stocks</b>						
S&P 500 Index	15.06	-2.85	2.29	1.41	9.14	9.87 (01/1926)
<b>US Small Cap Stocks</b>						
Russell 2000 Index	26.85	2.22	4.47	6.33	10.84	11.72 (01/1979)
<b>US Value Stocks</b>						
Russell 1000 Value Index	15.51	-4.42	1.28	3.25	10.09	12.18 (01/1979)
<b>US Real Estate Investment Trust Stocks</b>						
Dow Jones US Select REIT Index	28.07	0.01	2.32	10.42	11.52	12.53 (01/1978)
<b>International Stocks</b>						
MSCI World ex USA Index	8.95	-6.33	3.05	3.98	6.16	9.53 (01/1970)
MSCI Emerging Markets Index (gross div.)	19.20	-0.03	13.11	16.23	12.17	14.06 (01/1988)
<b>Bonds</b>						
SBBI Long-Term Corporate Bonds	12.20	7.93	5.90	7.58	8.16	5.90 (01/1926)
SBBI One-Month US Treasury Bills	0.11	0.63	2.25	2.19	3.45	3.62 (01/1926)

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# Change in Value of \$10,000 Invested in Various Markets

January 1, 2010–December 31, 2010



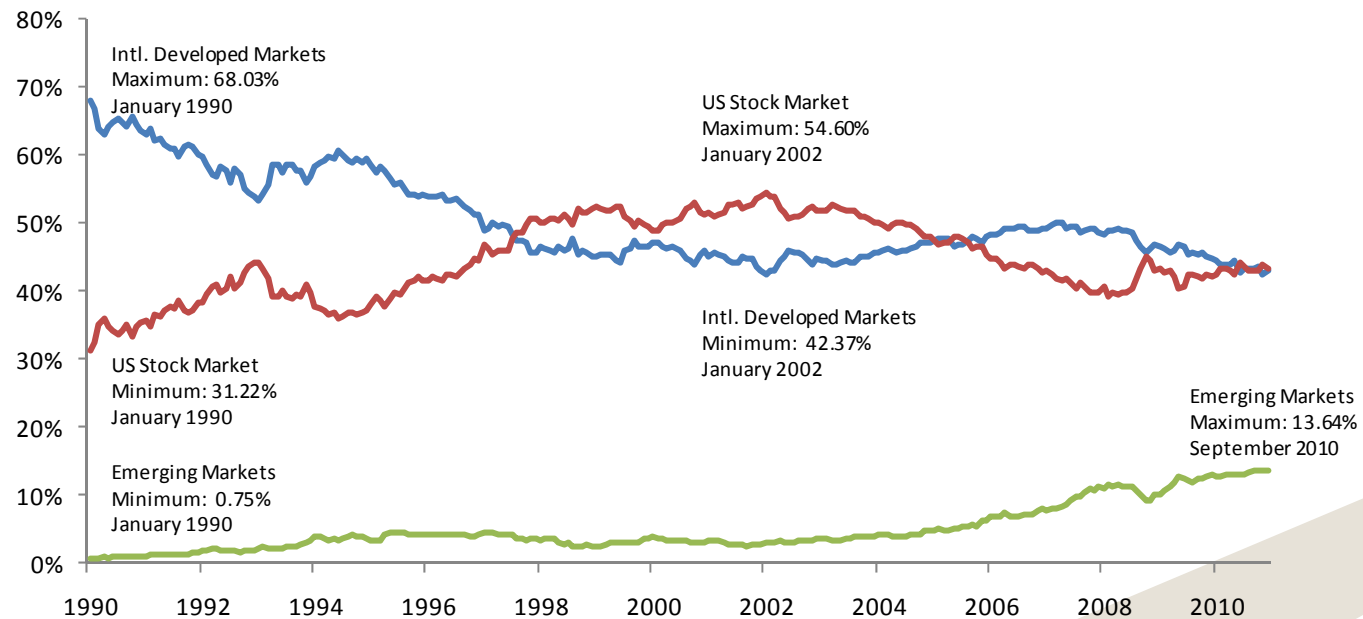
Asset Class	Index	CHANGE IN VALUE OF \$1			
		1 Year	5 Years	10 Years	20 Years
US Large Company Stocks	S&P 500	\$1.15	\$1.12	\$1.15	\$5.75
US Small Cap Stocks	Russell 2000	\$1.27	\$1.24	\$1.85	\$7.83
US Value Stocks	Russell 1000 Value	\$1.16	\$1.07	\$1.38	\$6.84
US Real Estate Investment Trust Stocks	Dow Jones US Select REIT	\$1.28	\$1.12	\$2.69	\$8.85
International Developed Stocks	MSCI World ex USA	\$1.09	\$1.16	\$1.48	\$3.30
Emerging Market Stocks	MSCI Emerging Markets (gross div.)	\$1.19	\$1.85	\$4.50	\$9.95
Fixed Income Corporate Bonds	Long-Term Corporate Bonds	\$1.12	\$1.33	\$2.08	\$4.80
Short-Term Government Bonds	One-Month US Treasury Bills	\$1.00	\$1.12	\$1.24	\$1.97

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# Value of Stock Markets around the World

January 1990–December 2010

	Number of Countries	Number of Stocks	Total Value	Weights		
				December 31, 2010	Change from Previous Quarter	01/90–12/10 Average
United States	1	2,951	14.22 Trillion	43.38%	▲ 0.47%	44.64%
Developed Markets	23	3,680	14.10 Trillion	43.02%	▼ -0.43%	50.38%
Emerging Markets	21	2,782	4.46 Trillion	13.60%	▼ -0.04%	4.98%
Total	45	9,413	32.77 Trillion	100.00%		



- Global market capitalization weights are not static; they vary across time.

Developed markets' securities and commodities data provided by Bloomberg. Emerging markets' data provided by International Finance Corporation. The Russell 3000 Index is used as the proxy for the US market. The proxies for the non-US developed and emerging markets are the respective developed country and emerging country portions from the MSCI All Country World IMI ex USA Index. The proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy.

# The Randomness of Quarterly Returns

This table shows from top to bottom the highest returning asset classes each year over the last 14 quarters. Each asset class is color coded based on the legend below.

	Q3 2007	Q4 2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Highest Return	14.52	3.66	2.14	0.58	4.78	23.36	1.02	34.84	35.44	9.18	9.81	8.40	18.16	16.25	?
	2.71	1.97	0.52	0.53	0.43	0.20	0.03	31.46	21.04	8.58	8.85	0.02	16.14	10.76	?
	2.56	0.93	-1.13	-0.80	-1.12	-21.15	-11.01	25.86	19.36	6.04	6.79	-4.13	13.22	10.54	?
	2.03	-1.62	-8.69	-1.17	-6.11	-21.94	-12.43	20.68	19.28	4.22	5.39	-8.29	11.29	7.45	?
	1.42	-3.33	-8.72	-2.49	-8.37	-22.18	-13.14	16.69	18.24	3.88	2.45	-9.93	11.29	7.36	?
	1.14	-4.58	-9.45	-2.72	-8.54	-26.12	-14.95	15.93	15.61	2.44	1.53	-11.14	10.13	7.16	?
	-0.24	-5.80	-9.90	-5.32	-20.67	-27.56	-16.77	8.24	11.09	0.01	1.35	-11.43	4.98	0.03	?
Lowest Return	-3.09	-13.54	-10.92	-5.39	-26.86	-39.95	-33.92	0.02	0.03	-2.17	0.01	-13.63	0.04	-3.15	?

US Large Cap Stocks (S&P 500)
US Small Cap Stocks (Russell 2000)
US Large Value Stocks (Russell 1000 Value)
International Developed Stocks (MSCI World ex USA)
Emerging Markets Stocks (MSCI Emerging Markets)
Real Estate (Dow Jones US Select REIT)
One-Month US Treasury Bills
Long-Term Corporate Bonds

The lack of a pattern indicates that picking which asset classes will be the best or worst performers is virtually impossible.

In Q4 2008, for example, the MSCI Emerging Markets Index was the second worst performing asset class. A quarter later, it was the best performing asset class.

Portfolios combining these various investments will avoid extreme returns.

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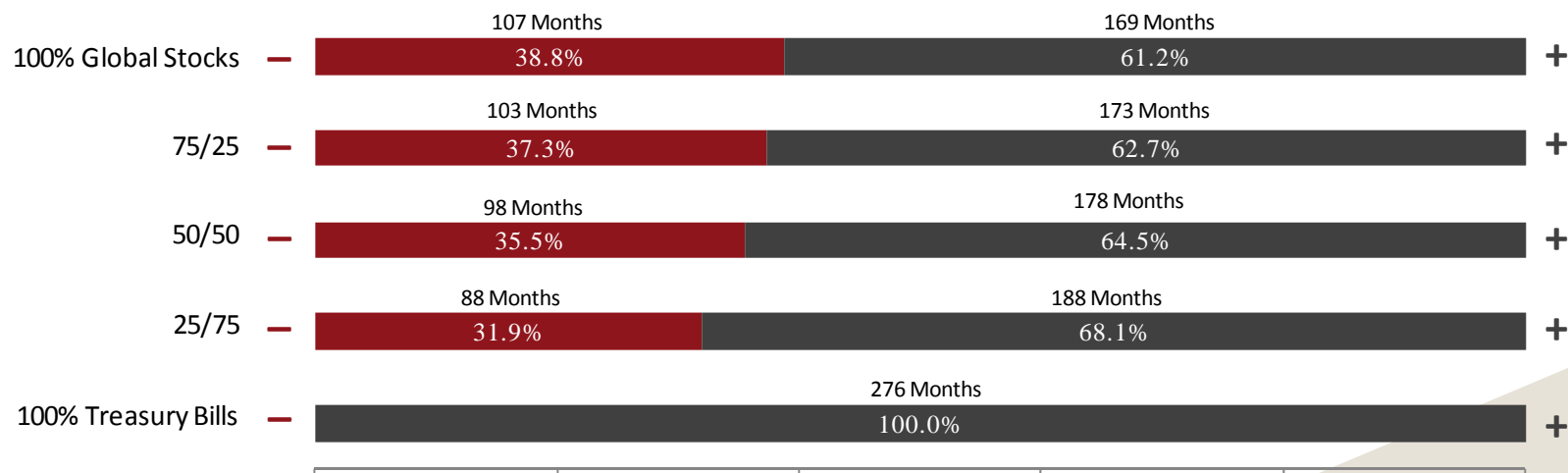


# Returns of Globally Diversified Portfolios

As of December 31, 2010

	Q4 2010	1 Year	Annualized (%)			
			3 Years	5 Years	10 Years	20 Years
100% Global Stocks	8.82	13.21	-3.76	3.98	3.69	7.79
75/25	6.62	10.19	-2.09	3.95	3.63	6.94
50/50	4.43	6.98	-0.80	3.65	3.35	5.93
25/75	2.23	3.62	0.11	3.08	2.87	4.76
100% Treasury Bills	0.03	0.11	0.63	2.25	2.19	3.45

## Positive vs. Negative Months: January 1988–December 2010, Total 276 months



January 1988 start date based on the earliest common index inception. 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 on a monthly basis. Data copyright MSCI 2010, all rights reserved. © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# US Stock Returns

As of December 31, 2010

Asset Class	Index	Returns (%)		
		Q4 2010	1 Year	3 Years Annualized
Marketwide	Russell 3000	11.59	16.93	-2.01
Large Cap	S&P 500	10.76	15.06	-2.85
Large Cap	Russell 1000	11.19	16.10	-2.37
Large Cap Value	Russell 1000 Value	10.54	15.51	-4.42
Large Cap Growth	Russell 1000 Growth	11.83	16.71	-0.47
Small Cap	Russell 2000	16.25	26.85	2.22
Small Cap Value	Russell 2000 Value	15.36	24.50	2.19
Small Cap Growth	Russell 2000 Growth	17.11	29.09	2.18

- Historically, value stocks, as measured by the ratio of book-to-market equity (BtM), have outperformed growth stocks over the long term. During the fourth quarter, value stocks underperformed growth stocks.
- Historically, small stocks have experienced higher returns than large stocks over the long term. During the fourth quarter, small cap stocks generally outperformed large cap stocks.

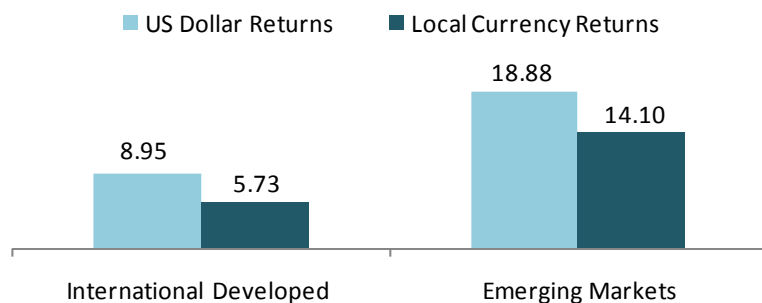
# International Stock Returns

As of December 31, 2010

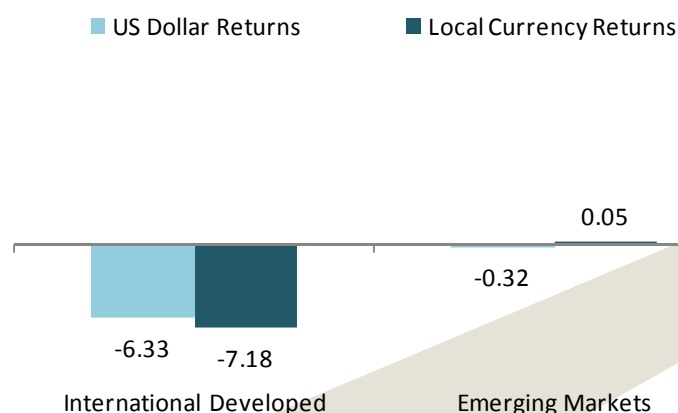
Asset Class	Index	Returns (%)		
		Q4 2010	1 Year	3 Years Annualized
Marketwide	MSCI All Country World ex USA	7.20	11.15	-5.03
Developed Large Cap	MSCI World ex USA	7.16	8.95	-6.33
Developed Small Cap	MSCI World ex USA Small Cap	12.86	24.51	-0.81
Developed Value	MSCI World ex USA Value	5.76	4.82	-7.22
Developed Growth	MSCI World ex USA Growth	8.16	14.45	-4.79
Emerging Markets Large Cap	MSCI Emerging Markets	7.34	18.88	-0.32
Emerging Markets Small Cap	MSCI Emerging Markets Small	7.92	27.17	4.33
Emerging Markets Value	MSCI Emerging Markets Value	7.58	18.41	1.79
Emerging Markets Growth	MSCI Emerging Markets Growth	7.09	19.33	-2.48

## IMPACT OF CURRENCY FLUCTUATIONS ON RETURNS FOR INVESTORS IN US DOLLARS

1-Year Returns in US Dollars and Local Currency



3-Year Annualized Returns in US Dollars and Local Currency








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# MSCI Country Returns in US Dollars and Local Currency

As of December 31, 2010

## 4<sup>th</sup> Quarter 2010 Returns

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. Taiwan	17.36%	9.53%	7.83%
 2. Peru	17.13%	17.13%	-
.			
 12. United States	10.85%	10.85%	-
.			
.			
.			
 44. Hungary	-9.39%	-7.19%	-2.20%
 45. Greece	-10.19%	-8.61%	-1.58%

## 1-Year Returns in US Dollars and Local Currency

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. Thailand	55.71%	40.79%	14.92%
 2. Peru	53.32%	53.32%	-
.			
.			
 23. United States	14.77%	14.77%	-
.			
.			
 44. Spain	-21.95%	-16.53%	-5.42%
 45. Greece	-44.87%	-41.04%	-3.83%

## 10-YEAR PERFORMANCE RANKING OF MARKETS AROUND THE WORLD IN US DOLLARS AS OF DECEMBER 31, 2010

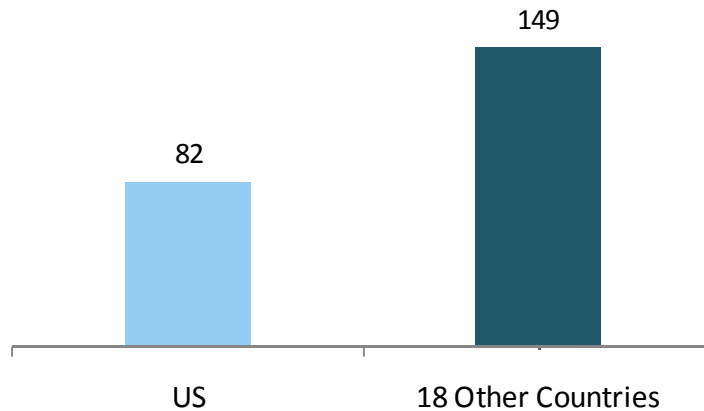
1. Colombia 2. Peru 3. Indonesia 4. Egypt 5. Czech Republic 6. Thailand 7. Brazil 8. Russia 9. Korea 10. Chile 11. India 12. Mexico 13. South Africa 14. Morocco 15. Malaysia 16. Australia 17. China 18. Hungary 19. Norway 20. Turkey 21. Philippines 22. Denmark 23. Singapore 24. New Zealand 25. Canada 26. Poland 27. Austria 28. Hong Kong 29. Taiwan 30. Sweden 31. Spain 32. Israel 33. Switzerland 34. Germany 35. United Kingdom 36. Portugal 37. France 38. Netherlands 39. Belgium 40. Japan **41. USA** 42. Italy 43. Finland 44. Greece 45. Ireland

# Real Estate Investment Trusts (REITs) Stocks

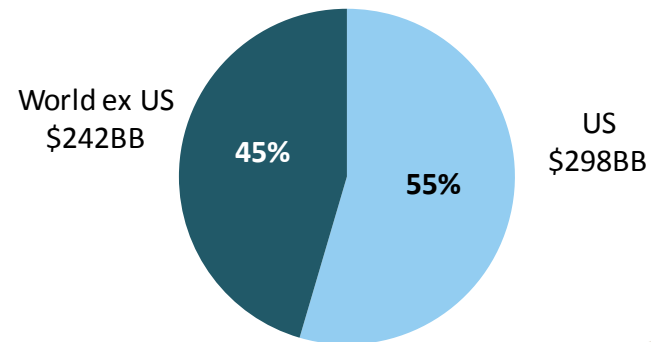
As of December 31, 2010

Index	Returns (%)		
	Q4 2010	1 Year	3 Years Annualized
Dow Jones US Select REIT Index	7.45	28.07	0.01
S&P Global ex US REIT Index	6.39	16.91	-8.04

Number of REIT Stocks



Total Value of REIT Stocks



Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's ©. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

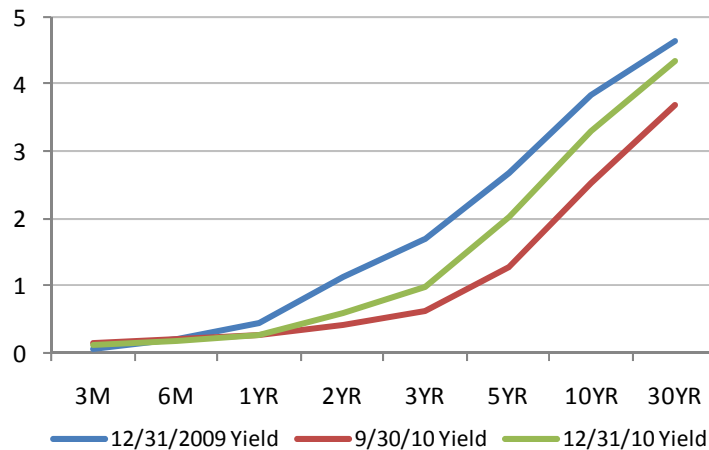
# Bond Returns

As of December 31, 2010

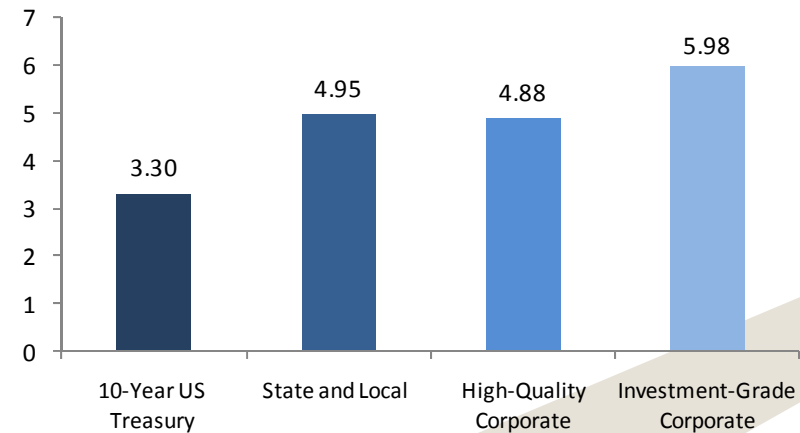
Returns (%)

Index	Returns (%)		
	Q4 2010	1 Year	3 Years Annualized
One-Month US Treasury Bills (SBBI)	0.03	0.11	0.63
Bank of America Merrill Lynch Three-Month T-Bills	0.04	0.13	0.79
Bank of America Merrill Lynch One-Year US Treasury Note	0.07	0.83	2.11
Citigroup World Government Bond 1-5 Years (hedged)	-0.50	1.99	3.60
US Long-Term Government Bonds (SBBI)	-5.81	13.02	6.56
Barclays Capital Corporate High Yield	3.22	15.12	10.38
Barclays Capital Municipal Bonds	-4.17	2.38	4.08
Barclays Capital US TIPS Index	-0.65	6.31	4.97

US Treasury Yield Curve



Bond Yields across Different Bond Issuers



Yield Curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. High quality corporate bonds represent the Moody's seasoned Aaa Corporate Yield. Investment Grade Corporate Bonds represent the Moody's seasoned Baa Corporate Yield. Barclays Capital data, formerly Lehman Brothers, provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices copyright 2010 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2010 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

# Achieving Market Returns in 2010

US stocks turned in pleasing results for the full year in 2010, with investors earning significant rewards for the equity, small cap, and value risk factors. But capturing the market rate of return required plenty of patience: eight months into the year, the S&P 500 Index was still down 5.8%, and the tepid economic recovery appeared to put a lid on any significant upturn in prices. Nevertheless, stock prices surged over the subsequent five months, and the S&P 500 ended the year at 1257.64, up 12.78% (price only), recouping all of its losses since the collapse of Lehman Brothers on September 15, 2008.

Results were generally similar in non-US markets, with 37 out of 45 countries tracked by MSCI achieving positive returns in both local and US dollar terms. The US ranked 22nd in dollar terms and 23rd when expressed in local currency. Peru and Thailand vied for the top spot (up 53% and 56%, respectively), while Greece and Spain landed in the cellar.

Throughout the year, investors had no trouble finding reasons to fret about the future and remain on the sidelines:

- A prominent researcher who had predicted the Great Recession was expecting the "biggest coordinated asset bust ever."
- An *Economist* cover story in January warning of asset price bubbles asserted that US stocks were "nearly 50% overvalued."
- The "January Indicator" signaled poor stock market performance for the remainder of the year.
- A tragic drilling rig explosion in April produced a disastrous and hugely expensive oil spill in the Gulf of Mexico.
- A bewildering "flash crash" on May 6 saw the Dow Jones Industrial Average plummet over 1,100 points in the course of a few frantic minutes.
- Hundreds of bank failures revealed continued weakness in the financial system.
- A divided Congress passed a complex and potentially expensive healthcare reform bill.
- Residential housing remained weak, with monthly sales of new homes falling at one point to the lowest level since tracking was initiated in 1963.
- An obscure technical indicator dubbed the "Hindenburg Omen" generated a "sell" signal in August.
- North Korea launched a deadly artillery barrage in November against South Korea's Yeonpyeong Island.
- A financial crisis with no clear solution gripped governments in Greece, Portugal, and Ireland.

Nouriel Roubini, "Mother of All Carry Trades Faces an Inevitable Bust," *Financial Times*, November 1, 2009; Peter A. McKay, "January's Chilling Effect on Stocks," *Wall Street Journal*, January 29, 2010; "Bubble Warning," *Economist*, January 7, 2010; Emma Moody, "Dow's Worst May Since 1940," *Wall Street Journal*, May 29, 2010, Weissman, Jonathan and Chazen, Guy, "Spill Tops Valdez Disaster," *Wall Street Journal*, May 28, 2010; Sara Murray, "New Home Sales Sag to '63 Levels," *Wall Street Journal*, February 25, 2010; Walker, Marcus and Forelle, Charles "Ailing Ireland Accepts Bailout" *Wall Street Journal*, November 22, 2010; Evan Ramstad, "North Sparks Korea Crisis," *Wall Street Journal*, November 24, 2010; Yahoo! Finance [www.yahoo.com](http://www.yahoo.com) accessed January 1, 2011.