



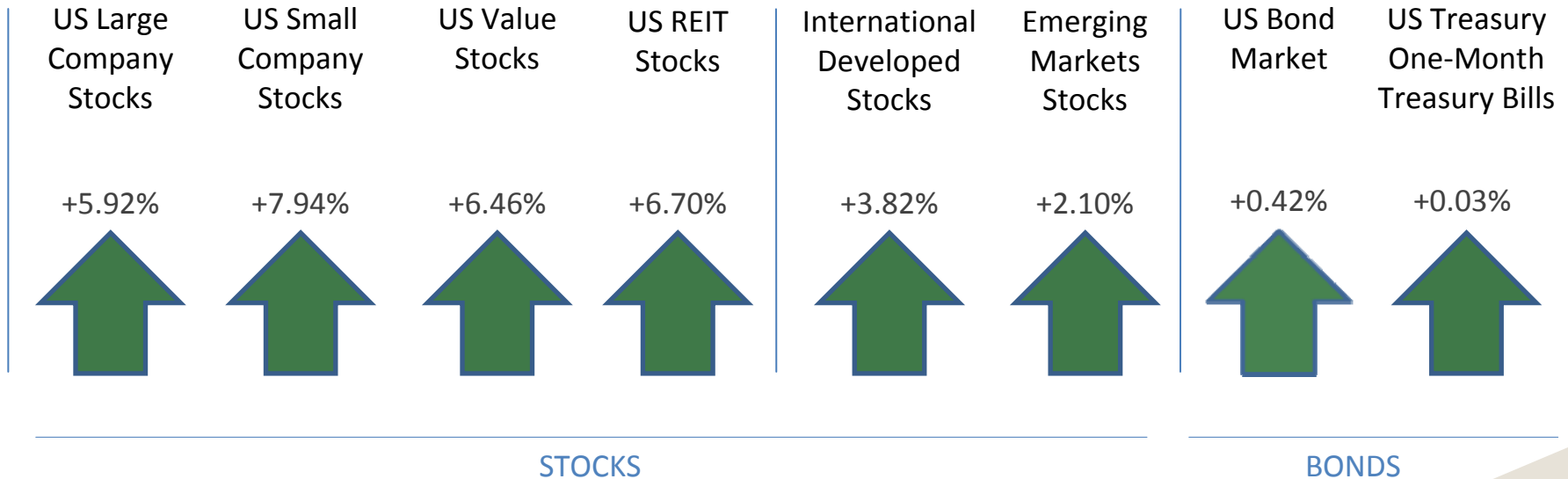
# QUARTERLY INVESTMENT REVIEW

FIRST QUARTER 2011



# Markets Update: A Quarter in Review

First Quarter 2011



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 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, 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.

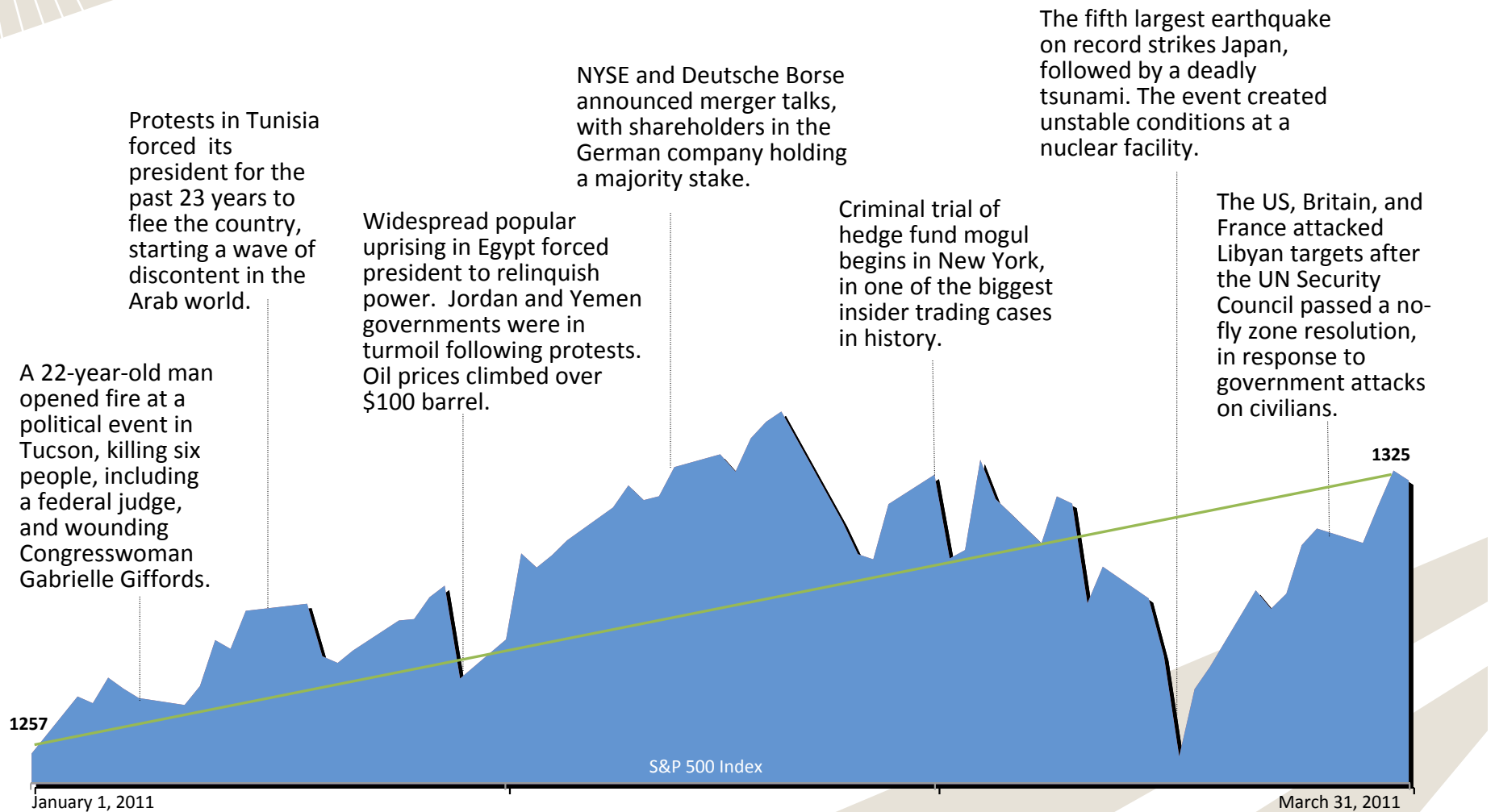
# Markets Update: A Quarter in Review

First Quarter 2011

- Despite natural disasters in Japan and other countries, increased political turmoil in the Middle East and North Africa, and rising commodities prices, which could hamper the economic recovery in developed countries, equity markets around the world had good performance in the first quarter. The broad US market gained over 6%, with all asset classes delivering positive returns.
- The overall performance in other developed markets was also above average, although it was not nearly as good. As in most of the past few quarters, there was much dispersion in performance at the individual country level. Japan, which suffered the worst earthquake ever recorded there, a subsequent tsunami and nuclear crisis, had sharply negative returns for the quarter. At the other end of the spectrum, some of the worst performers from last year, such as Spain and Italy, were the top performers in the quarter. The US dollar lost ground against most major currencies except the yen, which helped the dollar-denominated returns of developed market equities.
- Emerging markets had subpar but positive returns and trailed developed markets in the quarter. As in developed markets, there was much dispersion in the performance of different emerging markets. Russia and other eastern European countries performed exceptionally well in the quarter. The US dollar also lost ground against the main emerging market currencies in the first quarter, which contributed positively to the dollar-denominated returns of emerging market equities.
- With the exception of small cap value stocks in the US, which underperformed small cap growth stocks, value stocks outperformed growth stocks across all market capitalization segments in the US, in other developed markets, and in emerging markets. Along the market capitalization dimension, small caps outperformed large caps in the US. Outside the US, small caps trailed large caps in other developed markets and greatly underperformed large caps in emerging markets.
- Most fixed income securities had flat or slightly negative returns in the quarter. Inflation-protected securities, which had very strong returns, were the main exception.
- Real estate securities had strong returns in the first quarter and good performance relative to other asset classes.

# Timeline of Events: A Quarter in Review

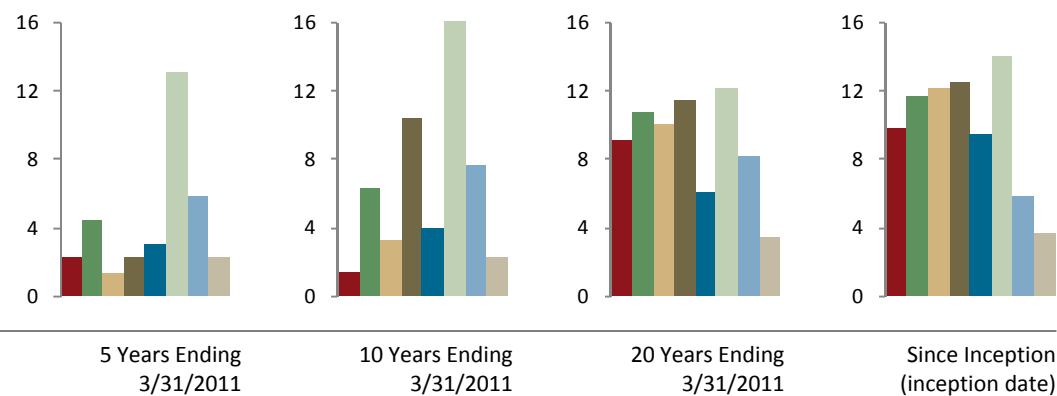
First Quarter 2011



The graph illustrates the S&P 500 index price changes over the quarter. The events highlighted are not intended to explain market movements.  
Source: The S&P data are provided by Standard & Poor's Index Services Group.

# Beyond the Quarter: Survey of Long-Term Performance

As of March 31, 2011

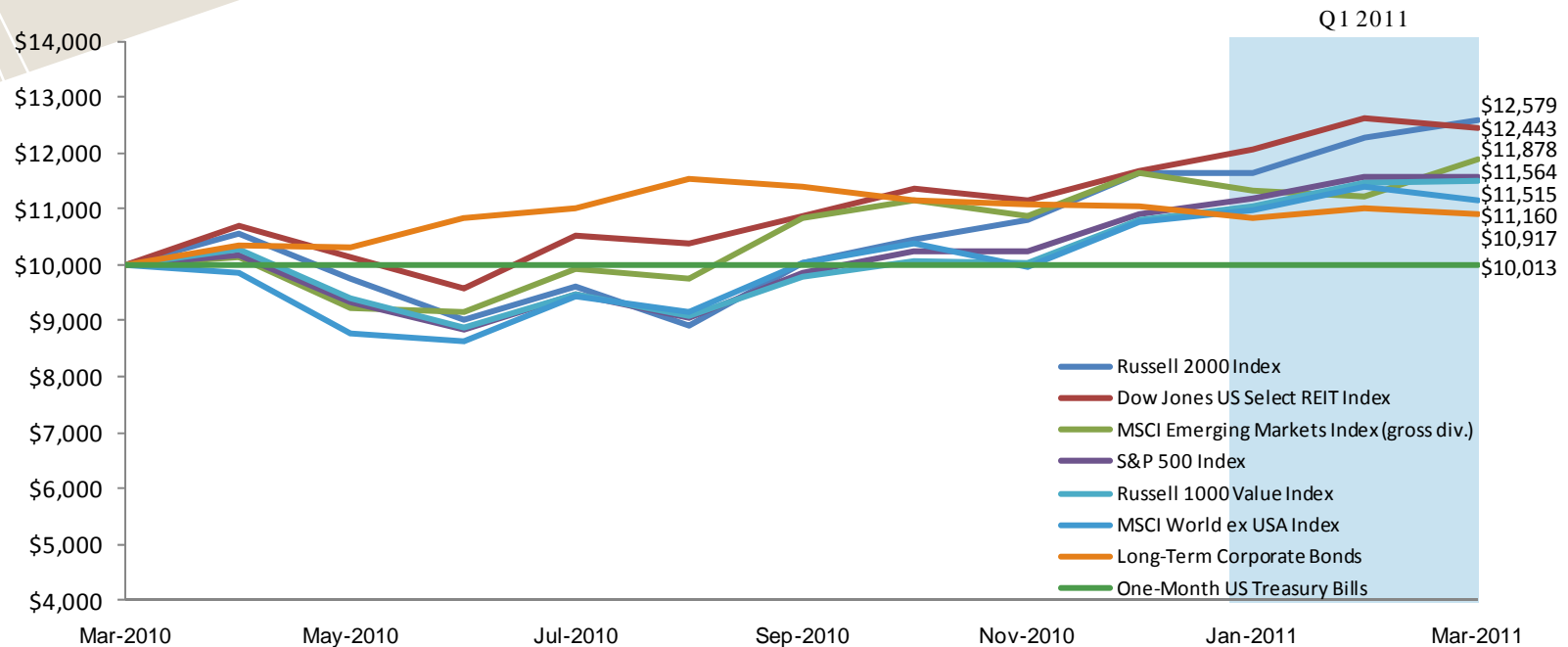


Index	5 Years Ending 3/31/2011	10 Years Ending 3/31/2011	20 Years Ending 3/31/2011	Since Inception (inception date)
<b>US Large Company Stocks</b>				
S&P 500 Index	2.62	3.29	8.72	9.91 (1/1926)
<b>US Small Cap Stocks</b>				
Russell 2000 Index	3.35	7.87	9.82	11.89 (1/1979)
<b>US Value Stocks</b>				
Russell 1000 Value Index	1.38	4.53	9.76	12.30 (1/1979)
<b>US Real Estate Investment Trust Stocks</b>				
Dow Jones US Select REIT Index	0.66	11.25	10.68	12.65 (1/1978)
<b>International Stocks</b>				
MSCI World ex USA Index	1.99	5.96	5.98	9.56 (1/1970)
MSCI Emerging Markets Index (gross div.)	11.01	17.12	10.86	14.00 (1/1988)
<b>Bonds</b>				
SBBI Long-Term Corporate Bonds	6.50	7.00	7.90	5.87 (1/1926)
SBBI One-Month US Treasury Bills	2.04	2.06	3.38	3.61 (1/1926)

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

April 1, 2010–March 31, 2011



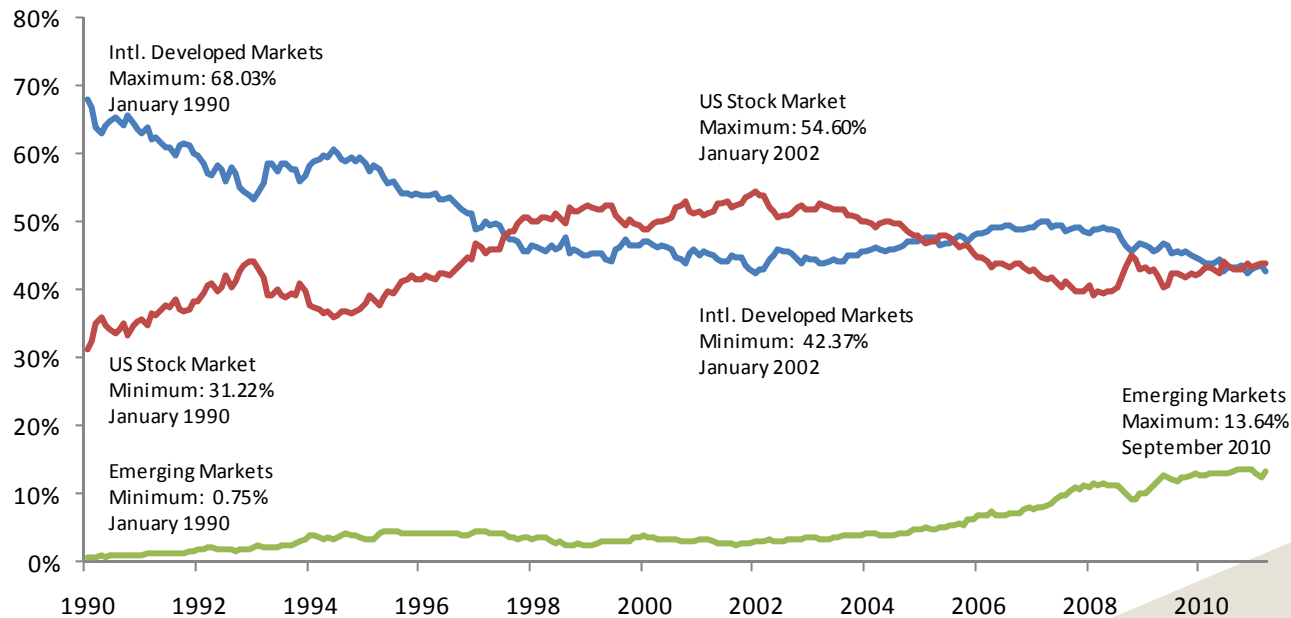
Asset Class	Index	CHANGE IN VALUE OF \$1			
		1 Year	5 Years	10 Years	20 Years
US Large Company Stocks	S&P 500	\$1.16	\$1.14	\$1.38	\$5.32
US Small Cap Stocks	Russell 2000	\$1.26	\$1.18	\$2.13	\$6.51
US Value Stocks	Russell 1000 Value	\$1.15	\$1.07	\$1.56	\$6.43
US Real Estate Investment Trust Stocks	Dow Jones US Select REIT	\$1.24	\$1.03	\$2.90	\$7.62
International Developed Stocks	MSCI World ex USA	\$1.12	\$1.10	\$1.78	\$3.20
Emerging Market Stocks	MSCI Emerging Markets (gross div.)	\$1.19	\$1.69	\$4.86	\$7.87
Fixed Income Corporate Bonds	Long-Term Corporate Bonds	\$1.09	\$1.37	\$1.97	\$4.58
Short-Term Government Bonds	One-Month US Treasury Bills	\$1.00	\$1.11	\$1.23	\$1.94

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# Value of Stock Markets around the World

January 1990–March 2011

	Number of Countries	Number of Stocks	Total Value	Weights		
				March 31, 2011	Change from Previous Quarter	01/90–3/11 Average
United States	1	2,920	15.02 Trillion	43.97%	▲ 0.59%	44.63%
Developed Markets	23	3,649	14.61 Trillion	42.77%	▼ -0.25%	50.30%
Emerging Markets	21	2,758	4.53 Trillion	13.25%	▼ -0.35%	5.07%
Total	45	9,327	34.16 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.

	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	Q2 2011
Highest Return	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	7.94	?
	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	6.70	?
	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	6.46	?
	-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	5.92	?
	-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	3.82	?
	-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	2.10	?
	-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	0.03	?
Lowest Return	-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	-1.15	?

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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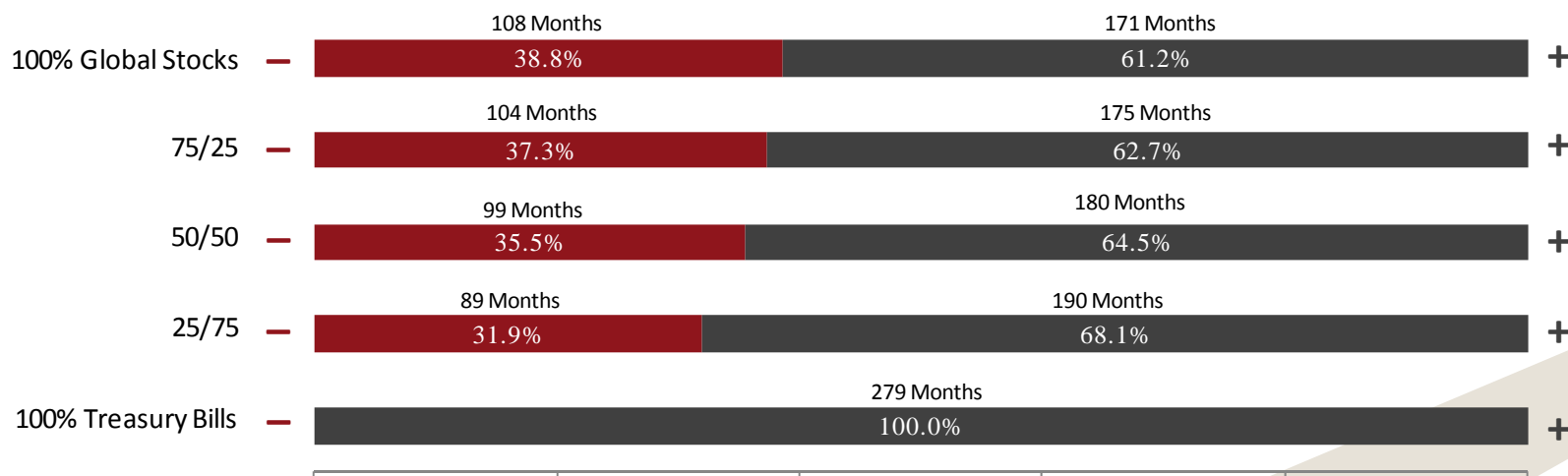


# Returns of Balanced Portfolios

As of March 31, 2011

	Q1 2011	1 Year	3 Years	5 Years	10 Years	20 Years
100% Global Stocks	4.53	14.63	0.86	3.48	5.55	7.50
75/25	3.40	11.18	1.35	3.52	4.97	6.70
50/50	2.27	7.59	1.44	3.29	4.18	5.74
25/75	1.14	3.91	1.14	2.79	3.21	4.63
100% Treasury Bills	0.03	0.13	0.47	2.04	2.06	3.38

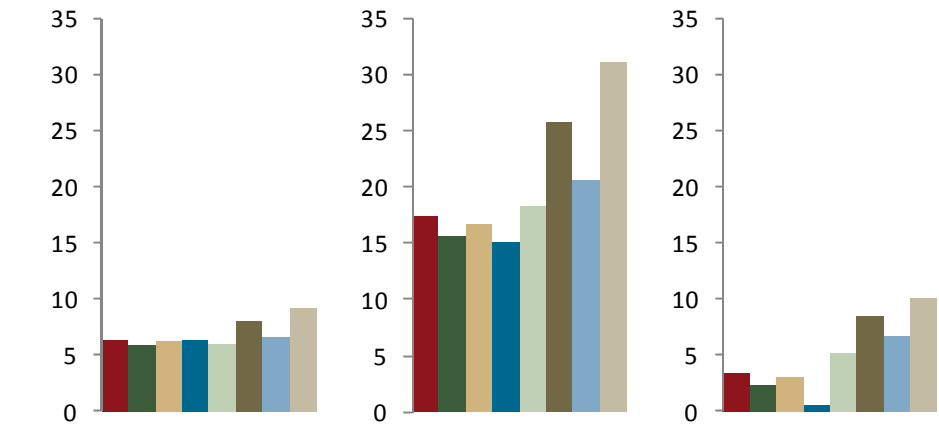
## Positive vs. Negative Returns: January 1988–March 2011



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 monthly. Data copyright MSCI 2011, 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 March 31, 2011



Asset Class	Index	Q1 2011	1 Year	3 Years Annualized
Marketwide	Russell 3000	6.38	17.41	3.42
Large Cap	S&P 500	5.92	15.64	2.36
Large Cap	Russell 1000	6.24	16.69	2.98
Large Cap Value	Russell 1000 Value	6.46	15.15	0.60
Large Cap Growth	Russell 1000 Growth	6.03	18.26	5.19
Small Cap	Russell 2000	7.94	25.79	8.56
Small Cap Value	Russell 2000 Value	6.60	20.63	6.76
Small Cap Growth	Russell 2000 Growth	9.24	31.04	10.16

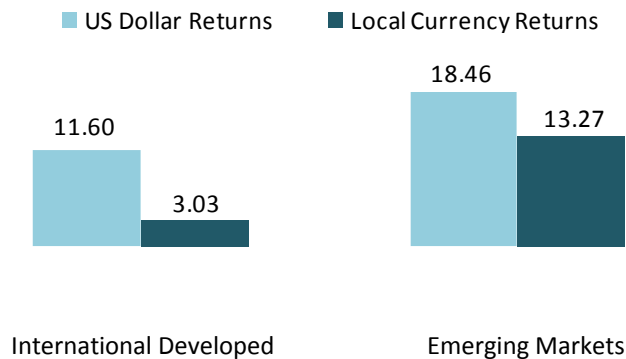
# International Stock Returns

As of March 31, 2011

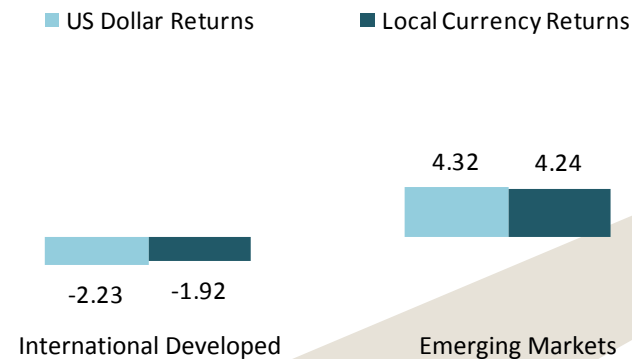
Asset Class	Index	Q1 2011	1 Year	3 Years Annualized
Marketwide	MSCI All Country World ex USA	3.41	13.15	-0.85
Developed Large Cap	MSCI World ex USA	3.82	11.60	-2.23
Developed Small Cap	MSCI World ex USA Small Cap	3.29	22.00	2.52
Developed Value	MSCI World ex USA Value	5.10	9.32	-2.46
Developed Growth	MSCI World ex USA Growth	2.59	13.81	-2.07
Emerging Markets Large Cap	MSCI Emerging Markets	2.05	18.46	4.32
Emerging Markets Small Cap	MSCI Emerging Markets Small	-2.72	17.74	8.69
Emerging Markets Value	MSCI Emerging Markets Value	2.84	18.98	6.19
Emerging Markets Growth	MSCI Emerging Markets Growth	1.23	17.91	2.41

## 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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# Country Returns in US Dollars and Local Currency

As of March 31, 2011

## 1<sup>st</sup> Quarter 2011 Returns

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. Hungary	20.19%	8.86%	11.33%
 2. Czech Republic	16.32%	7.63%	11.33%
.			
 18. United States	5.81%	5.81%	—
.			
.			
.			
 44. Peru	-13.57%	-13.57%	—
 45. Egypt	-23.23%	-21.30%	-1.93%

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

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. Thailand	43.20%	33.95%	9.25%
 2. Chile	32.37%	20.87%	11.50%
.			
.			
 23. United States	15.35%	15.35%	—
.			
.			
 44. Egypt	-22.86%	-16.93%	-5.93%
 45. Greece	-26.89%	-30.29%	3.40%

## 10-YEAR PERFORMANCE RANKING OF MARKETS AROUND THE WORLD IN US DOLLARS AS OF MARCH 31, 2011

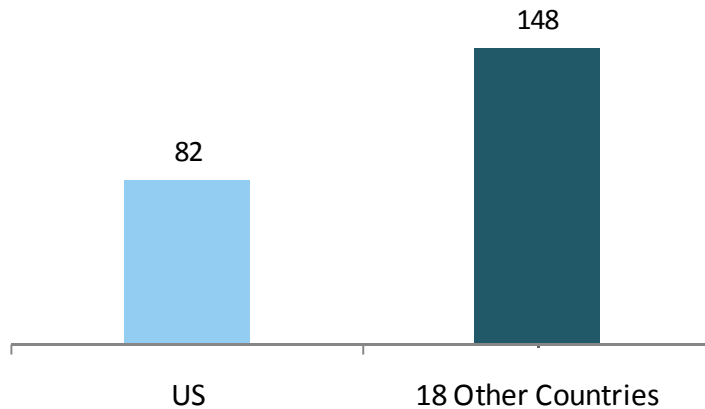
1. Colombia 2. Indonesia 3. Peru 4. Czech Republic 5. Egypt 6. Brazil 7. Thailand 8. Russia 9. India 10. Korea 11. South Africa 12. Chile 13. Hungary 14. Turkey 15. Mexico 16. Australia 17. China 18. Malaysia 19. Morocco 20. Norway 21. Canada 22. Poland 23. Denmark 24. Singapore 25. Sweden 26. Philippines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

# Real Estate Investment Trusts (REIT) Stocks

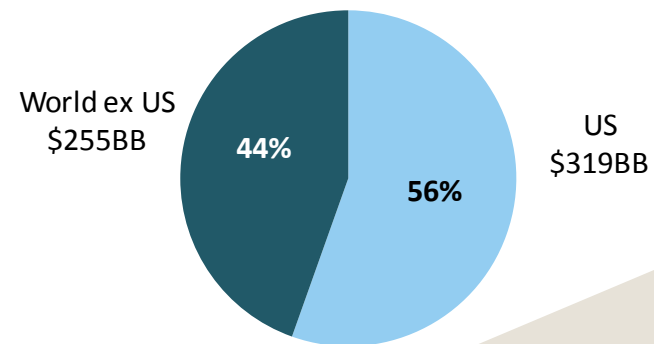
As of March 31, 2011

Index	Q1 2011	1 Year	3 Years Annualized
Dow Jones US Select REIT Index	6.70	24.44	1.48
S&P Global ex US REIT Index	4.28	22.24	-4.93

Number of REIT Stocks



Total Value of REIT Stocks



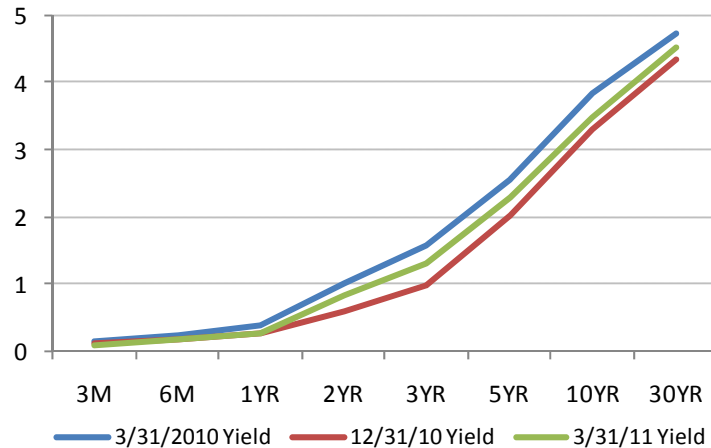
Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's ©. Indices are not available for direct investment. 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

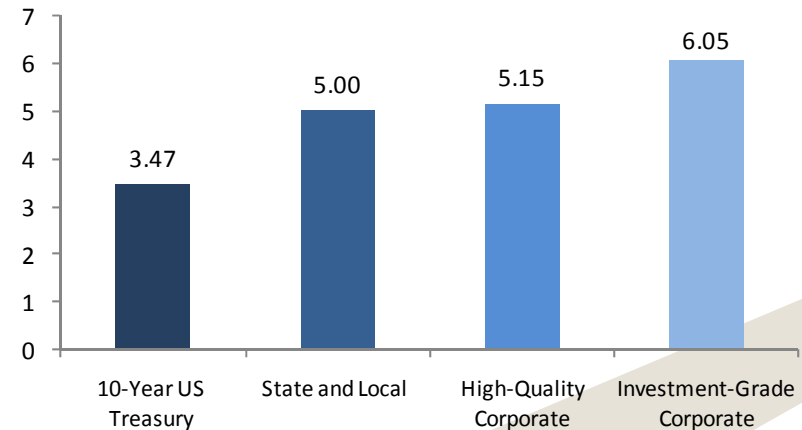
As of March 31, 2011

Index	Q1 2011	1 Year	3 Years Annualized
One-Month US Treasury Bills (SBBI)	0.03	0.13	0.47
Bank of America Merrill Lynch Three-Month T-Bills	0.05	0.16	0.51
Bank of America Merrill Lynch One-Year US Treasury Note	0.15	0.74	1.45
Citigroup World Government Bond 1-5 Years (hedged)	-0.23	0.99	2.80
US Long-Term Government Bonds (SBBI)	-0.91	7.93	4.18
Barclays Capital Corporate High Yield	3.88	14.31	12.94
Barclays Capital Municipal Bonds	0.51	1.63	4.47
Barclays Capital US TIPS Index	2.08	7.91	3.93

US Treasury Yield Curve



Bond Yields Across Different 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 2011 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2011 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.

# Is It Different This Time?

First Quarter 2011

The 2008 global market crisis and the struggling economy have left many investors fatigued. Despite two years of strong equity returns, some investors have been slow to regain market confidence. Many are accepting the talk about a “new normal” in which stocks offer lower returns in the future. The concept of a new normal is anything but new. In fact, throughout history, periods of economic upheaval and market volatility have led people to assume that life had somehow changed and that new economic rules or an expanding government would limit growth. Let’s look at a couple of periods when investors had strong reasons to give up on stocks, and consider the parallels to today.

**1932:** The US stock market had just experienced four consecutive years of negative returns. A 1929 dollar invested in stocks was worth only 31 cents by the end of 1932. Hopes were sinking during the Great Depression, and many people felt as though the economy had permanently changed. Many investors left the market, and some would not return for a generation. Amidst what is considered the roughest economic time in US history, the markets looked ahead to recovery.

## US Stock Market Performance after 1932\*

	5 Years	10 Years	20 Years
Annualized Return	15.35%	10.07%	13.19%
Growth of \$1	\$ 2.04	\$ 2.61	\$ 11.92

**1974:** Investors had just experienced the worst two-year market decline since the early 1930s, and the economy was entering its second year of recession. The Middle East war had triggered the Arab oil embargo in late 1973, which drove crude oil prices to record levels and resulted in price controls and gas lines. Consumers feared that other shortages would develop. President Nixon had resigned from office in August over the Watergate scandal. Annual inflation in 1974 averaged 11%, and with mortgage rates at 10%, the housing market was experiencing its worst slump in decades. With prices and unemployment rising, consumer confidence was weak and many economists were predicting another depression.

## US Stock Market Performance after 1974\*

	5 years	10 years	20 years
Annualized Return	17.29%	15.92%	14.89%
Growth of \$1	\$ 2.22	\$ 4.38	\$ 16.07

The market slide that began in 2008 reversed in February 2009—gaining 83.3% from March 2009 through 2010. Despite two years of strong stock market returns, memories of the 2008 bear market and talk of the “lost decade” have led many investors to question stocks as a long-term investment. But earlier generations of investors faced similar worries—and today’s headlines echo the past with stories about government spending, surging inflation, deflationary threats, rising oil prices, economic stagnation, high unemployment, and market volatility.

\* Returns for all periods of the CRSP 1-10 Index are annualized. Data provided by the Center for Research in Securities Prices, University of Chicago.