



Q4

Quarterly Investment Review
Fourth Quarter 2011

Quarterly Investment Review

Fourth Quarter 2011

This report discusses world capital market performance 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:

Market Summary

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate (REITs)

Fixed Income

Global Diversification

Quarterly Topic

Market Summary

Fourth Quarter 2011

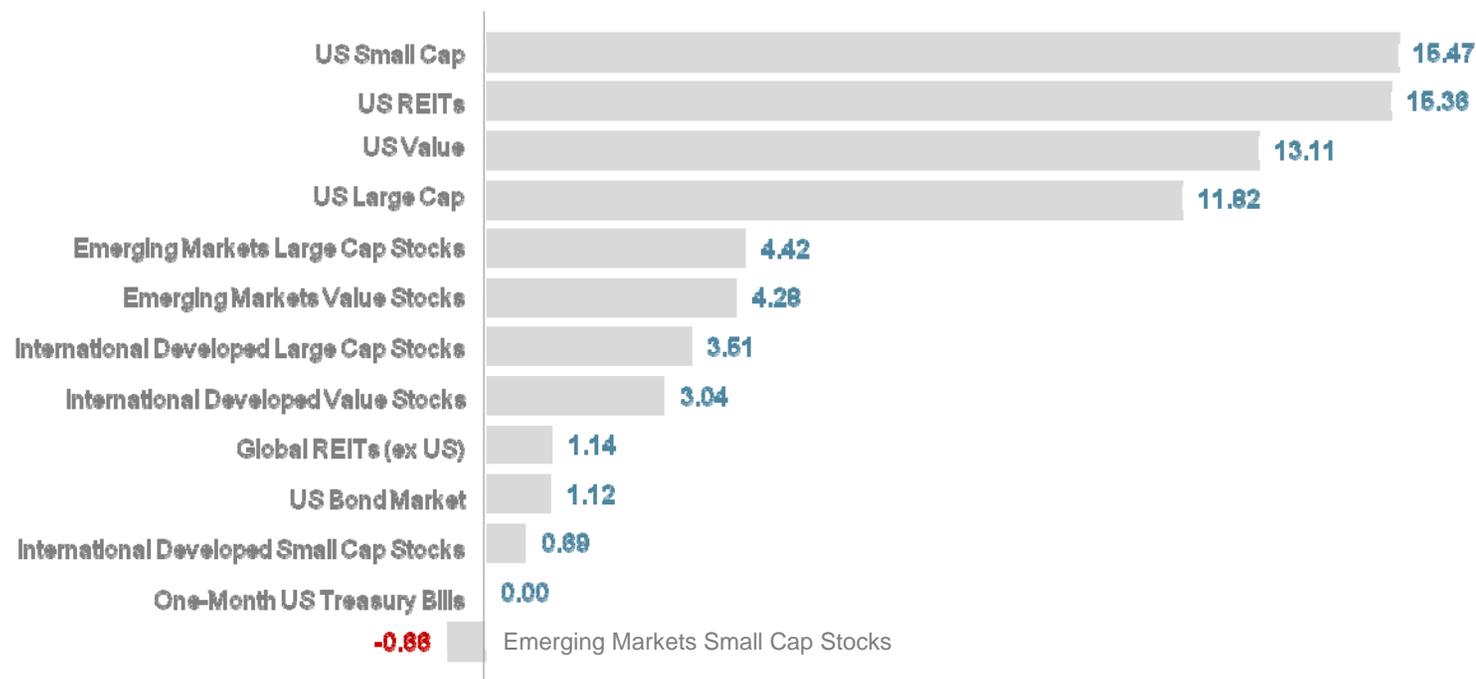


Market segment (index representation) as follows: US Stock Market (Russell 3000 Index); International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays Capital US Aggregate 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 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, 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. 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.

World Asset Classes

Fourth Quarter 2011

Led by the excellent performance of US stocks, global equity markets posted strong returns in the quarter. Those returns, however, were not sufficient to overcome a dismal third quarter and most markets had negative returns for the year.



Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Small Cap (Russell 2000 Index), US Value (Russell 1000 Value Index), US Real Estate (Dow Jones US Select REIT Index), Global Real Estate (S&P Global ex US REIT Index), International Developed Large, Small, and Value (MSCI World ex USA, ex USA Small, and ex USA Value Indexes [net div.]), Emerging Markets—Large, Small, and Value (MSCI Emerging Markets, Emerging Markets Small, and Emerging Markets Value Indexes), 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.

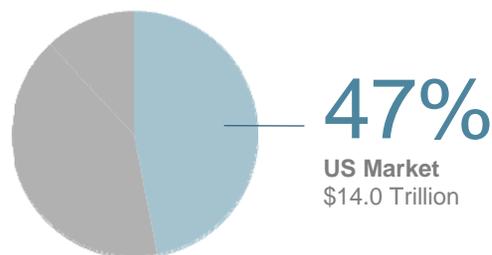
US Stocks

Fourth Quarter 2011

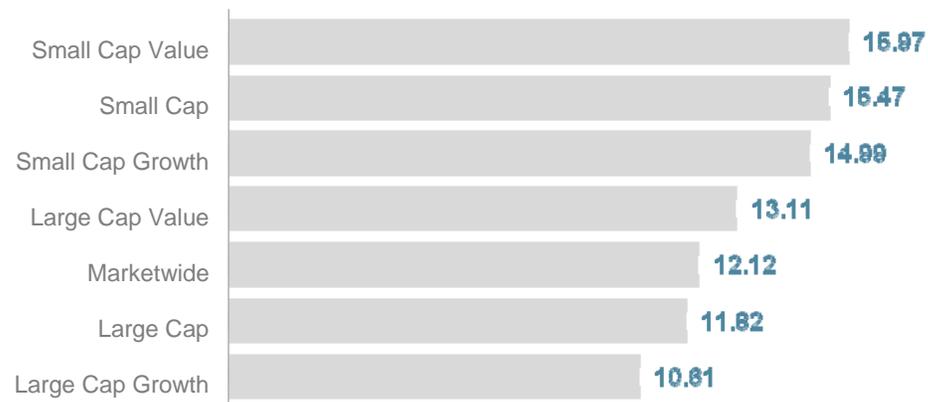
Quarterly returns for the broad US market, as measured by the Russell 3000 Index, were 12.12%. Asset class returns ranged from 15.97% for small cap value stocks to 10.61% for large cap growth stocks.

The strongest sectors in the quarter were energy and industrials, while the weakest one was telecommunication services. For 2011, the strongest sectors were utilities and consumer staples, while the weakest ones were financials and materials. Value outperformed growth in the quarter, but not in 2011.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Year*	5 Year*	10 Year*
Marketwide	1.03	14.88	-0.01	3.51
Large Cap	2.11	14.11	-0.25	2.92
Large Cap Value	0.39	11.55	-2.64	3.89
Large Cap Growth	2.64	18.02	2.50	2.60
Small Cap	-4.18	15.63	0.15	5.62
Small Cap Value	-5.50	12.36	-1.87	6.40
Small Cap Growth	-2.91	19.00	2.09	4.48

* Annualized

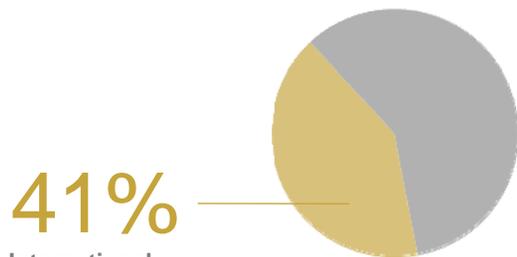
Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap: Russell 3000 Index is used as the proxy for the US market. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. 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.

International Developed Stocks

Fourth Quarter 2011

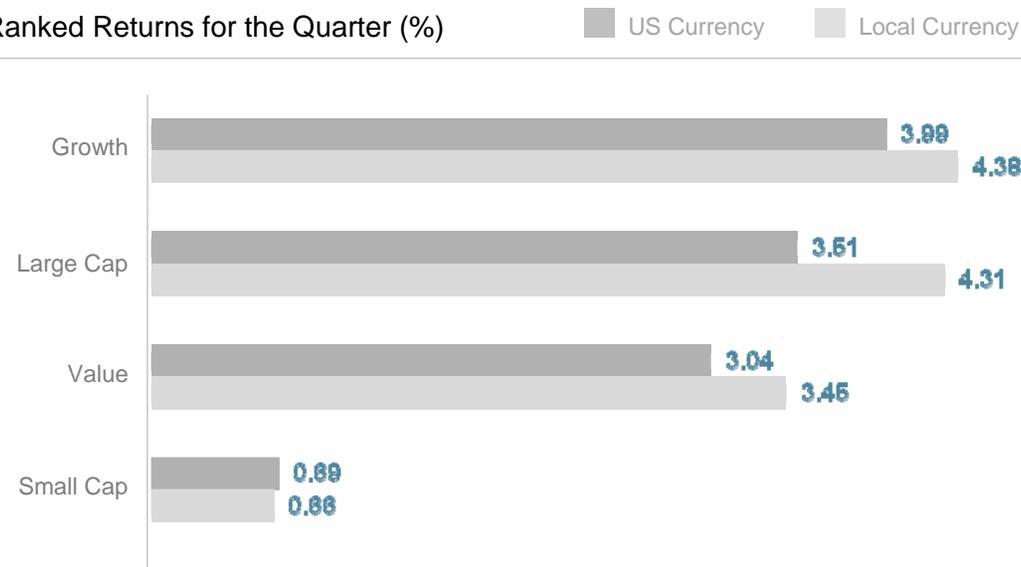
In US dollar terms, the quarterly returns for developed non-US markets were over 3%, above the historical average but far behind the US. For 2011, however, developed markets as a whole lost over 12%. As in most of the past few quarters, there was much dispersion in performance at the individual country level. Greece, which remains at the center of Europe's sovereign-debt woes, was by far the worst performer in the quarter and the year. At the other end of the spectrum, Ireland, the Scandinavian countries, and Australia were the top performers for the quarter.

World Market Capitalization—International Developed



41%
International
Developed Markets
\$12.1 Trillion

Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Year*	5 Year*	10 Year*
Large Cap	-12.21	8.53	-4.09	5.14
Small Cap	-15.81	16.50	-3.23	9.41
Value	-11.69	8.17	-5.48	5.49
Growth	-12.71	8.84	-2.76	4.70

* Annualized

Market segment (index representation) as follows: Marketwide (MSCI All Country World ex USA Index), Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap: Non-US developed market proxies are the respective developed country portions of the MSCI All Country World IMI ex USA Index. Proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy. MSCI data copyright MSCI 2011, 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.

Emerging Markets Stocks

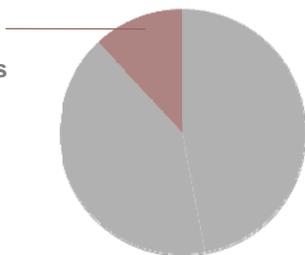
Fourth Quarter 2011

In US dollar terms, emerging markets gained about 4% in the quarter, in line with the historical average, but not enough to overcome their very poor performance of the third quarter. As a result, emerging markets lost almost 20% in 2011. Malaysia and other smaller emerging markets in Asia and Latin America such as Thailand and Peru posted double-digit returns in the quarter. At the other end of the spectrum, India, Turkey, and Egypt had double-digit negative returns in the quarter.

World Market Capitalization—Emerging Markets

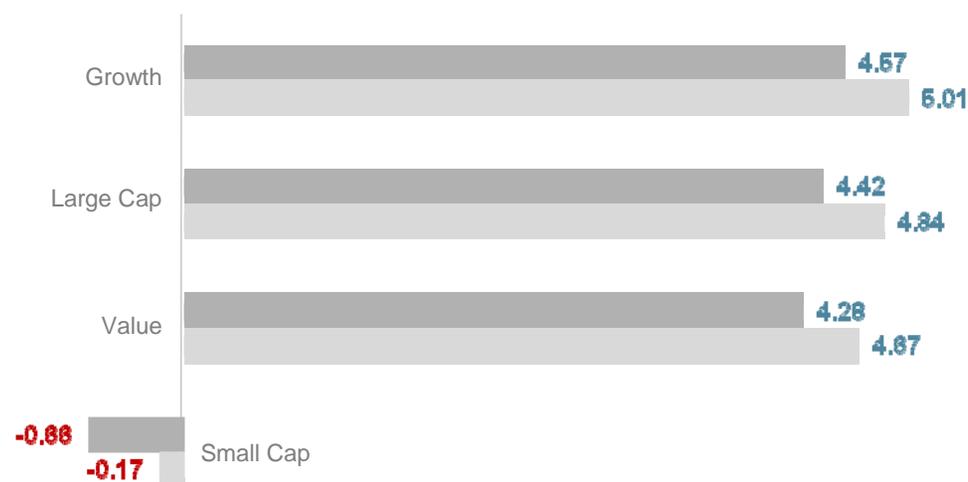
12%

Emerging Markets
\$3.6 Trillion



Ranked Returns for the Quarter (%)

■ US Currency ■ Local Currency



Period Returns (%)

Asset Class	1 Year	3 Year*	5 Year*	10 Year*
Large Cap	-18.42	20.07	2.40	13.86
Small Cap	-27.18	25.57	3.30	14.77
Value	-17.86	20.32	4.26	15.90
Growth	-18.97	19.82	0.54	11.81

* Annualized

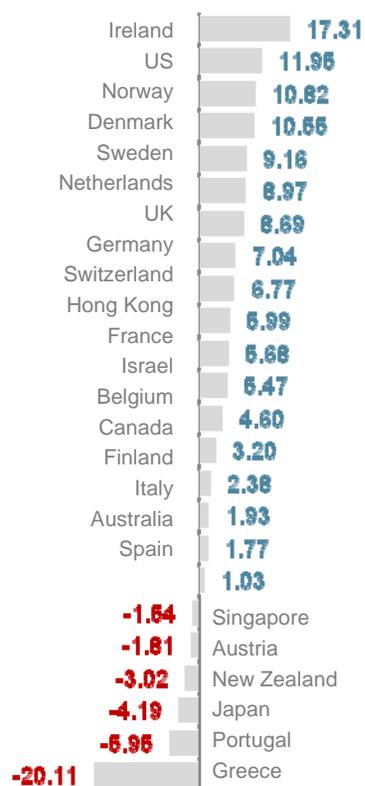
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap: Emerging markets proxies are the respective emerging country portions of the MSCI All Country World IMI ex USA Index. MSCI data copyright MSCI 2011, 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.

Select Country Performance

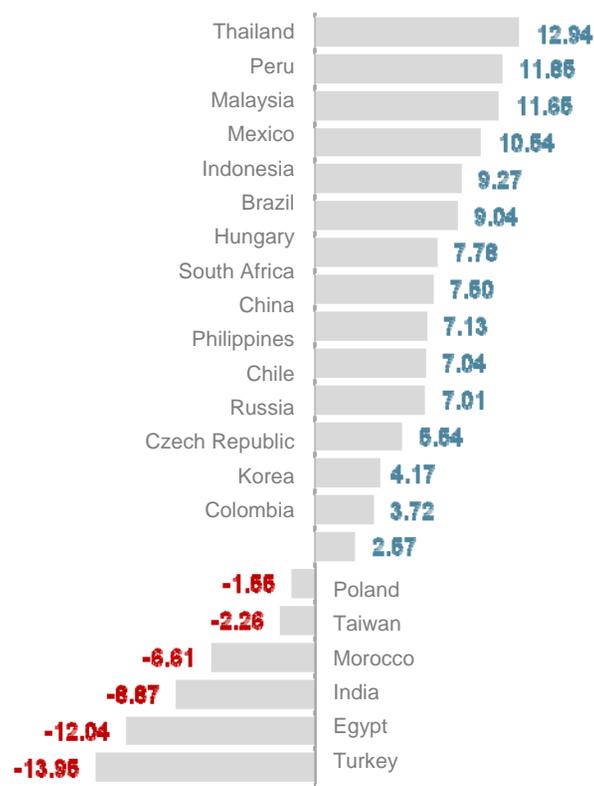
Fourth Quarter 2011

Individual country market performance varied considerably in both developed and emerging markets. The difference between the best-performing developed market, Ireland, and the worst-performing market, Greece, was close to 40% (-20.11% vs. 17.31%). In emerging markets, the difference between the best performer (Thailand) and worst performer (Turkey) was almost 30% (12.94% vs. -13.95%).

Developed Markets (% Returns)



Emerging Markets (% Returns)

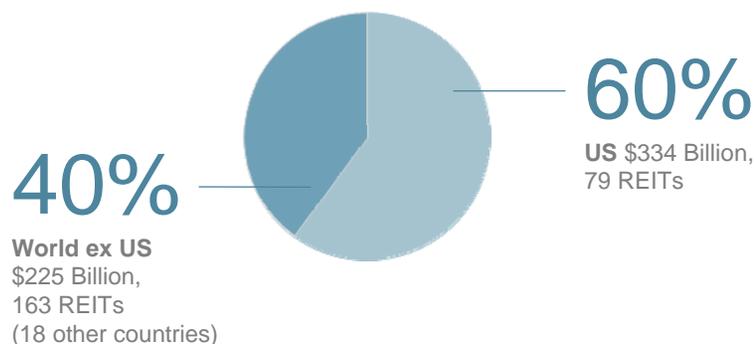


Real Estate Investment Trusts (REITs)

Fourth Quarter 2011

Real estate securities had positive returns in the quarter but mixed performance relative to other asset classes. In the US, they were among the top performers, while in other developed markets they trailed most other asset classes.

Total Value of REIT Stocks



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Year*	5 Year*	10 Year*
US REITs	9.37	21.63	-2.04	10.12
Global REITs (ex US)	-8.61	13.86	-7.66	9.75

* Annualized

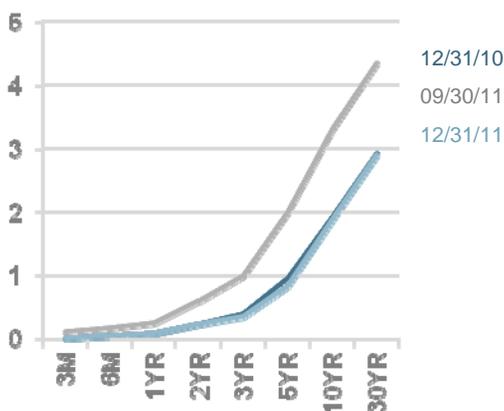
Fixed Income

Fourth Quarter 2011

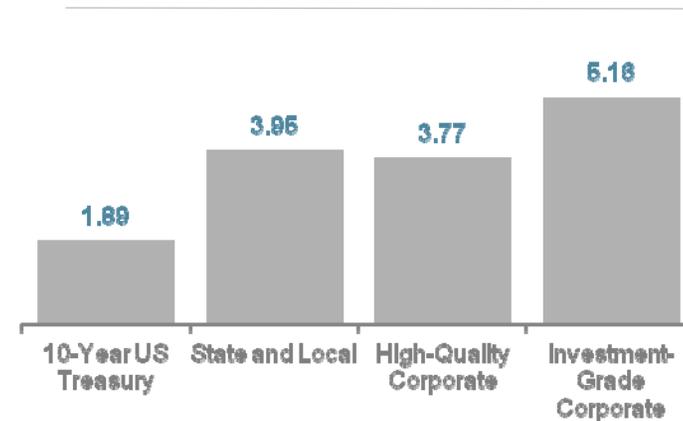
The Federal Open Market Committee maintained its target range for the federal funds rate between zero and 0.25% in the fourth quarter, and reaffirmed its goal to maintain that target at very low levels until at least mid-2013.

With the exception of inflation-protected securities, which had another outstanding quarter, fixed income securities had mediocre returns in the quarter. For 2011, however, fixed income securities had outstanding performance, especially intermediate-term US government securities, which greatly benefited from a flight to quality, and inflation-protected securities.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	1 Year	3 Year*	5 Year*	10 Year*
One-Month US Treasury Bills (SBBI)	0.04	0.08	1.31	1.81
Bank of America Merrill Lynch Three-Month T-Bills	0.10	0.14	1.48	1.95
Bank of America Merrill Lynch One-Year US Treasury Note	0.57	0.73	2.55	2.51
Citigroup World Government Bond 1-5 Years (hedged)	2.31	2.20	3.88	3.62
US Long-Term Government Bonds (SBBI)	28.23	6.32	10.69	8.92
Barclays Capital Corporate High Yield	4.98	24.12	7.54	8.86
Barclays Capital Municipal Bonds	10.70	8.57	5.22	5.38
Barclays Capital US TIPS Index	13.56	10.38	7.95	7.58

* Annualized

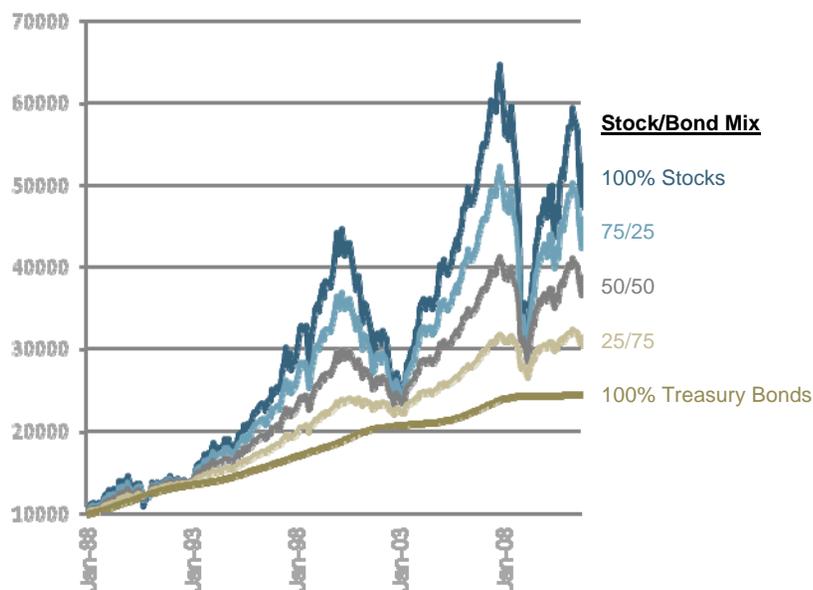
Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. High-quality corporate bonds represent the Moody's seasoned Aaa Corporate Yield. Investment Grade Corporate Bonds represent the Moody's seasoned Baa Corporate 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.

Global Diversification

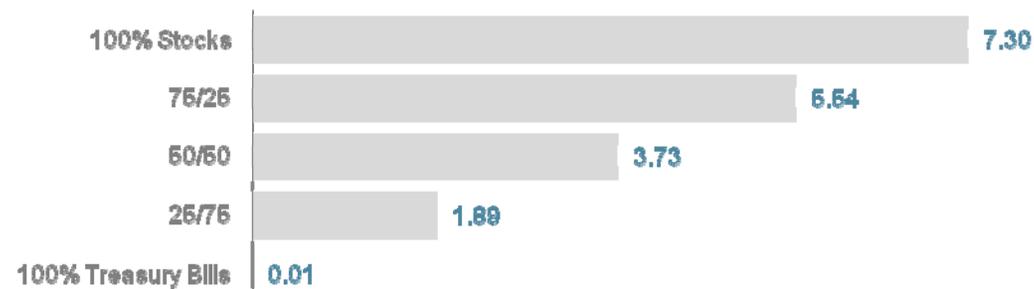
Fourth Quarter 2011

These portfolios illustrate performance of different global stock-bond mixes. 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 Year*	5 Year*	10 Year*
100% Stocks	-6.86	12.60	-1.41	4.76
75/25	-4.91	9.77	-0.30	4.32
50/50	-3.10	6.73	0.52	3.68
25/75	-1.45	3.49	1.05	2.84
100% Treasury Bills	0.04	0.08	1.31	1.81

* Annualized

Hypothetical allocations are for illustrative purposes only.

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.

Living with Volatility

Fourth Quarter 2011

As the year winds down financial markets are gripped by uncertainty over developments in the Eurozone crisis. While not seeking to downplay the anxiety generated by these events, particularly in relation to their effects on investment portfolios, it's worth reflecting critically on the 20th century, and putting current events in perspective:

- Nearly 100 years ago, Europe was engulfed by World War I. The economic effects were significant, with widespread rationing, labor shortages, and massive government borrowing.
- A little over a decade later, the Great Depression cut a swath through the global economy. In the meantime, resentment was growing in Germany over its Great War reparations to the Allied powers. Berlin resorted to printing money to pay its debts, which in turn led to hyperinflation.
- More than 50 million died in the Second World War. In economic terms, the war's impact was profound. Most of Europe's infrastructure was destroyed, millions of people were left homeless, labor shortages were rife, and rationing was prevalent.
- In the mid-1970s, the depreciation of the US dollar, the breakdown of the monetary system, and war in the Middle East encouraged major oil producers to quadruple oil prices. Stock markets collapsed and stagflation—a combination of rising inflation alongside rising unemployment—gripped many countries.
- In the past decade, there have been the tragedies of 9/11; the 2004 Asian tsunami; the 2011 Japanese earthquake, tsunami, and nuclear crisis; and now, the financial crisis sparked by irresponsible lending, complex derivatives, and excessive leverage.

Today, while the US and Europe are gripped by tough economic times, much of the developing world is thriving. Rising levels of education, health, and workforce participation also mean that the foundations are being built for a healthier and peaceful global economy .

Anxiety over recent market developments is completely understandable, and it is quite human to feel concerned about events in Europe. But amid all the bad news, it is also clear that the world is changing in positive ways that provide plenty of cause for hope and, at the very least, gratitude for what we *already* have.