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Quarterly Investment Review
First Quarter 2012

Quarterly Market Review

First 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:

Market Summary

Timeline of Events

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Fixed Income

Global Diversification

Quarterly Topic: Dividend-Paying Stocks

Market Summary

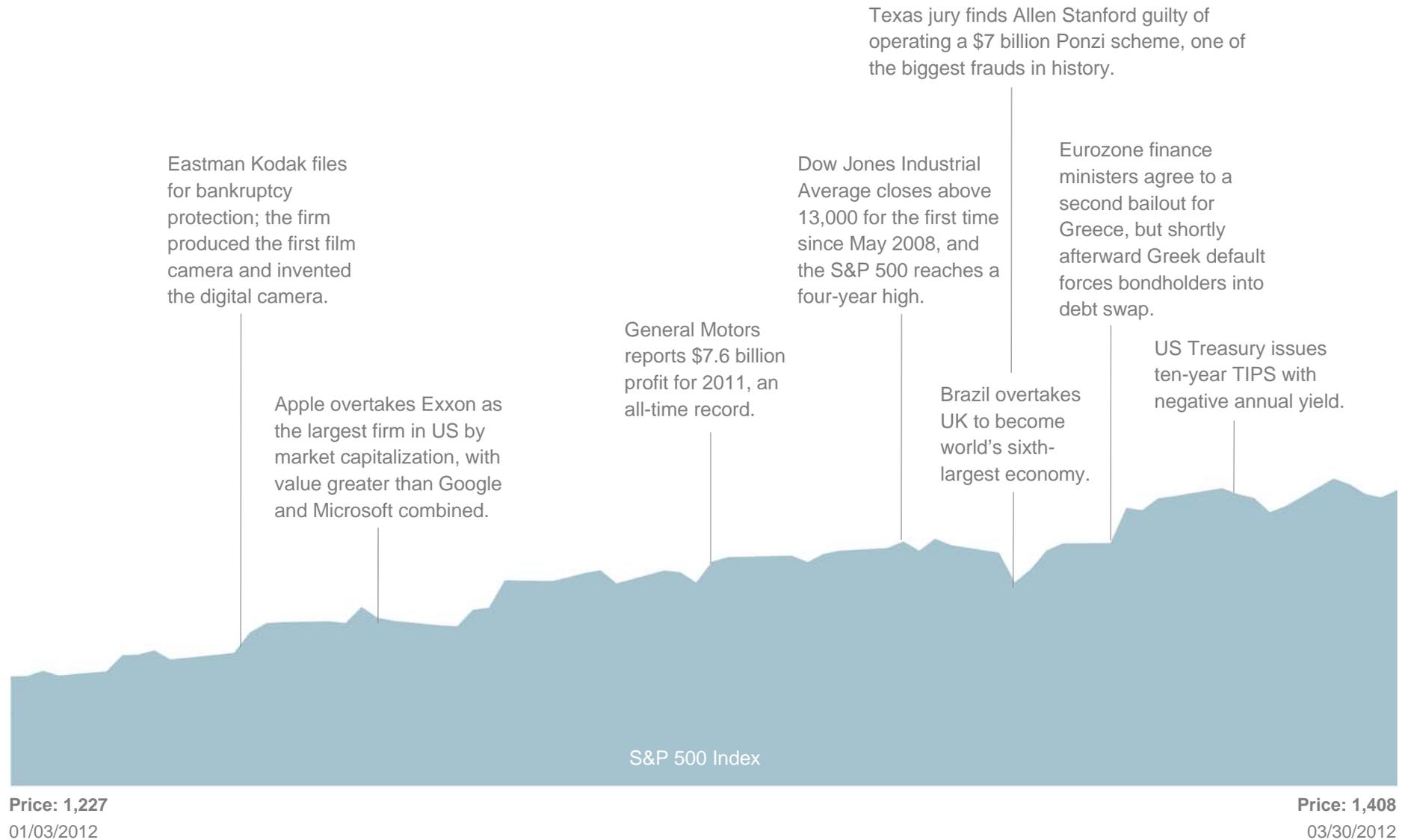
First Quarter 2012 Index Returns



Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. 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. Sinquefeld).

Timeline of Events: A Quarter in Review

First Quarter 2012

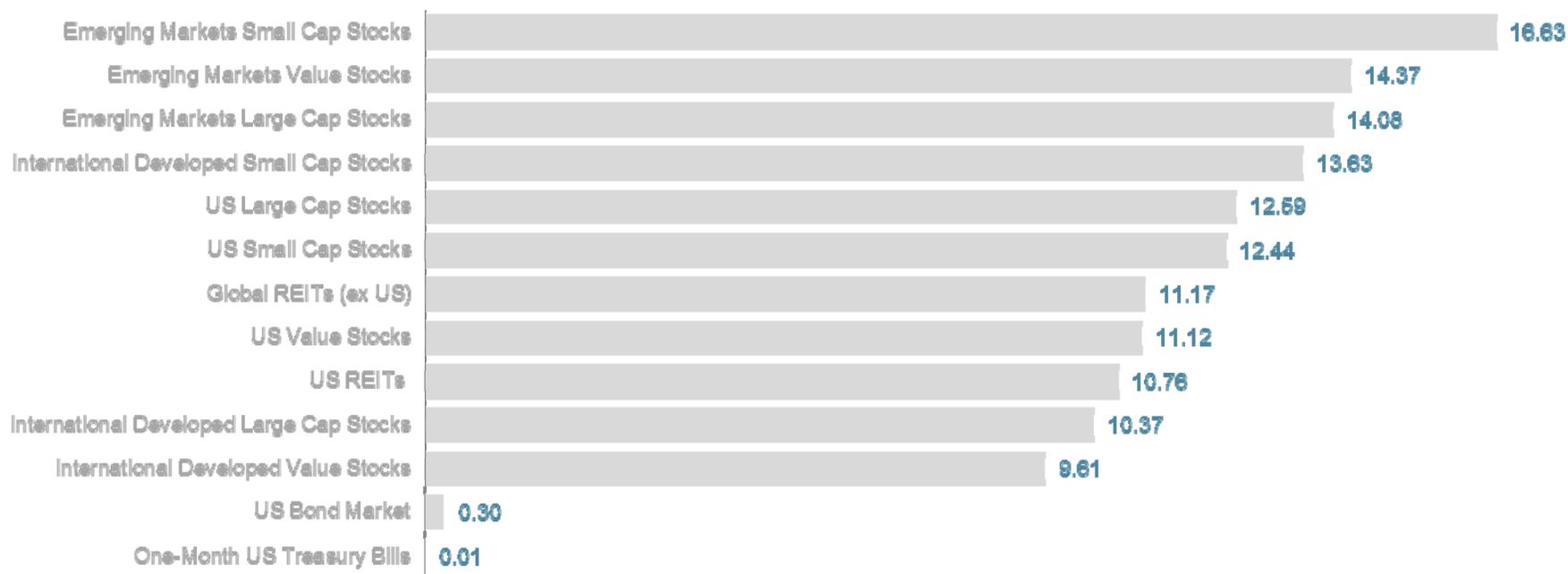


The graph illustrates the S&P 500 Index price changes over the quarter. The return of the price-only index is generally lower than the total return of the index that also includes the dividend returns. Source: The S&P data are provided by Standard & Poor's Index Services Group. The events highlighted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

World Asset Classes

First Quarter 2012 Index Returns

Led by the excellent performance of US stocks, global equity markets posted strong returns in the quarter. Emerging markets enjoyed their best quarter since the third quarter of 2010, with most experiencing double-digit positive returns.



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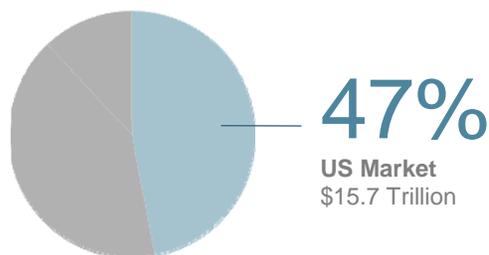
US Stocks

First Quarter 2012 Index Returns

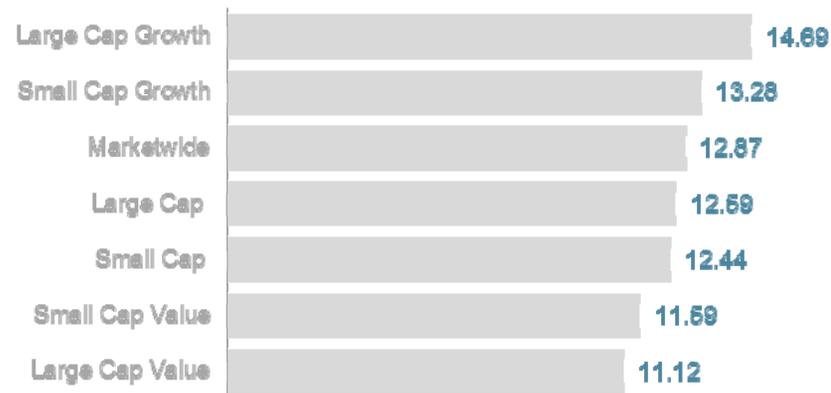
Quarterly returns for the broad US market, as measured by the Russell 3000 Index, were 12.87%. Asset class returns ranged from 14.69% for large cap growth stocks to 11.12% for large cap value stocks.

The strongest sectors were financials and information technology, while the laggard was highly regulated utilities. Value underperformed growth, and small caps underperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	7.18	24.26	2.18	4.67
Large Cap	8.54	23.42	2.01	4.12
Large Cap Value	4.79	22.82	-0.81	4.57
Large Cap Growth	11.02	25.28	5.10	4.29
Small Cap	-0.18	26.90	2.13	6.45
Small Cap Value	-1.07	25.36	0.01	6.60
Small Cap Growth	0.68	28.36	4.16	6.00

* Annualized

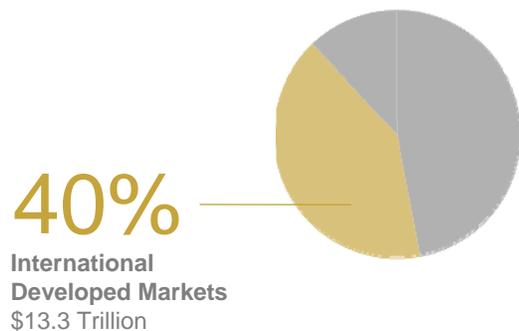
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International Developed Stocks

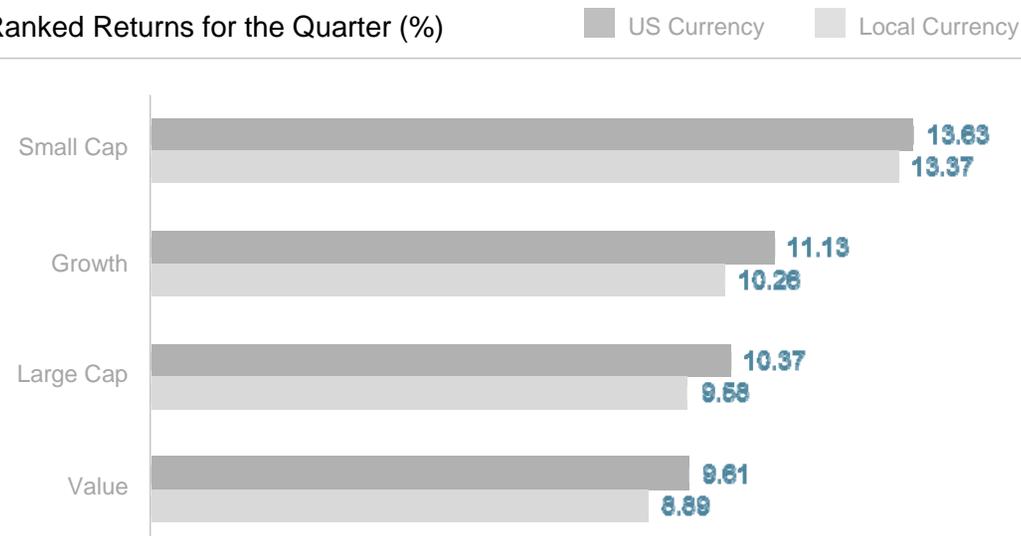
First Quarter 2012 Index Returns

The US dollar depreciated against all the major currencies except the yen, which had a positive impact on the dollar-denominated returns of developed market equities. The dispersion in performance at the individual country level was narrower than in previous quarters. Germany, whose export-led economy continues to grow amid Europe's financial turmoil, and other core European countries had excellent performance. At the other end of the spectrum, Spain was the only developed market with negative returns. Consumer discretionary was by far the best-performing sector in the quarter, while telecommunication services was the worst performer.

World Market Capitalization—International Developed



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-6.67	17.55	-2.95	6.12
Small Cap	-7.37	25.41	-2.11	10.15
Value	-7.91	17.58	-4.34	6.32
Growth	-5.44	17.52	-1.62	5.83

* Annualized

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Emerging Markets Stocks

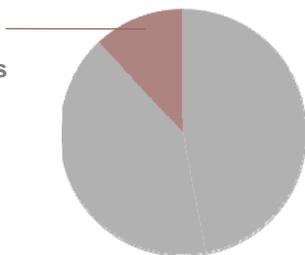
First Quarter 2012 Index Returns

In US dollar terms, emerging markets gained almost 15% in the quarter, a large turnaround from the negative performance of 2011 and the best quarter since the third quarter of 2010. The US dollar depreciated against the main emerging market currencies, which boosted dollar-denominated returns of emerging markets equities by approximately 3.3%. Emerging Europe, led by Turkey, one of the world's fastest growing economies in 2011, was the top performer, while emerging Far East was the weakest region, with a quarterly return of 12.6%.

World Market Capitalization—Emerging Markets

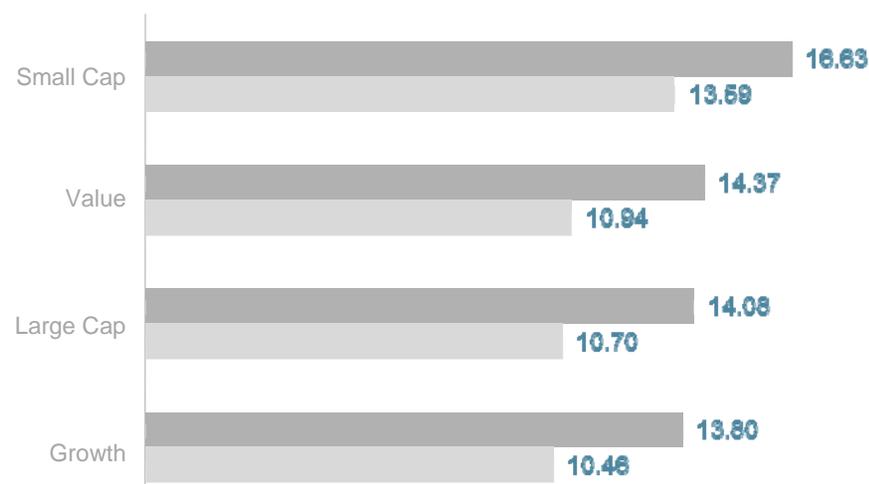
13%

Emerging Markets
\$4.2 Trillion



Ranked Returns for the Quarter (%)

■ US Currency ■ Local Currency



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-8.80	25.07	4.67	14.13
Small Cap	-12.70	30.88	4.98	15.01
Value	-8.66	25.96	6.48	16.00
Growth	-8.92	24.18	2.84	12.25

* Annualized

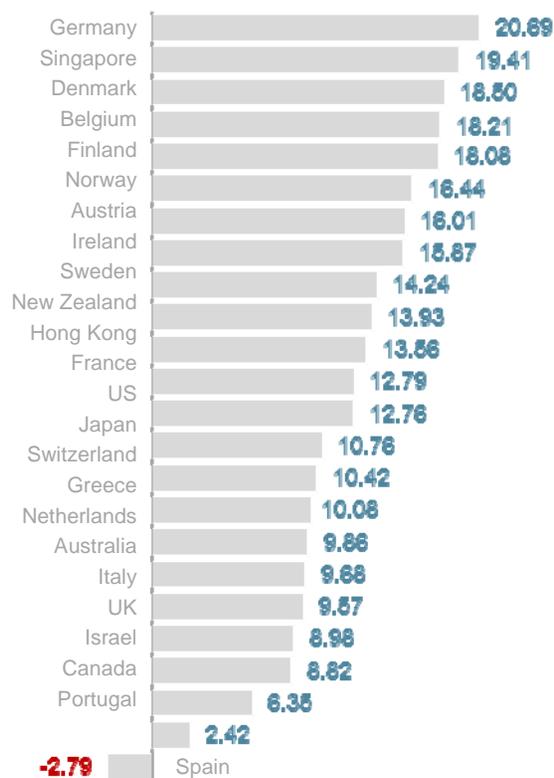
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Select Country Performance

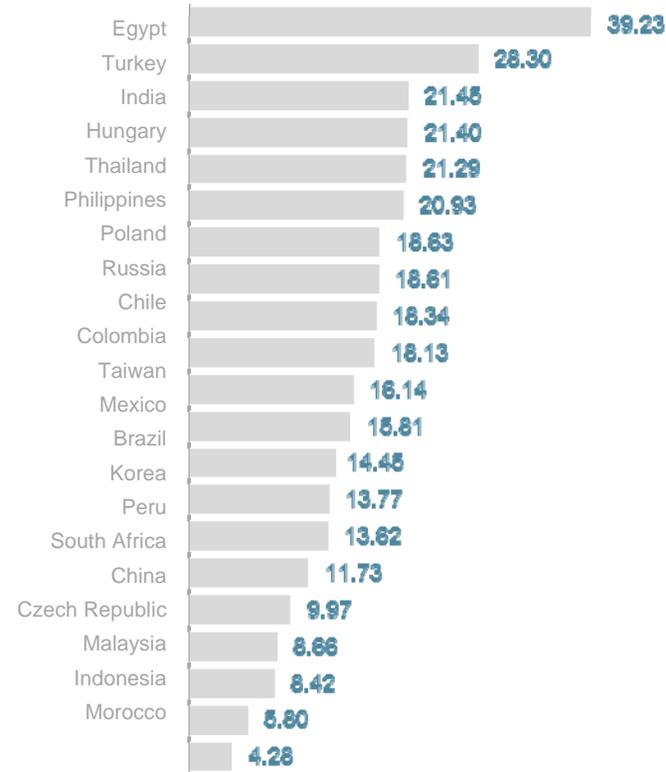
First Quarter 2012 Index Returns

Individual country market performance varied considerably in both developed and emerging markets. The difference between the best-performing developed market, Germany, and the worst-performing market, Spain, was 23.48% (20.69% vs. -2.79%). In emerging markets, the difference between the best performer (Egypt) and worst performer (Morocco) was almost 35% (39.23% vs. 4.28%).

Developed Markets (% returns)



Emerging Markets (% returns)

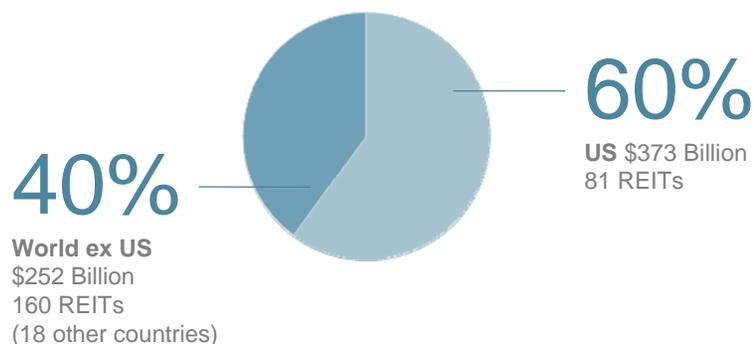


Real Estate Investment Trusts (REITs)

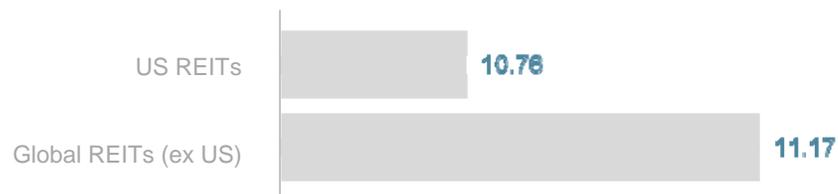
First Quarter 2012 Index Returns

Real estate securities had strong positive returns in the quarter but mixed performance relative to other asset classes. In the US, they trailed most asset classes with the exception of fixed income. In other developed countries, they outperformed the broad equity market by about 1%.

Total Value of REIT Stocks



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	13.53	44.48	-0.75	10.36
Global REITs (ex US)	-2.57	25.34	-7.09	10.38

* Annualized

Fixed Income

First Quarter 2012 Index Returns

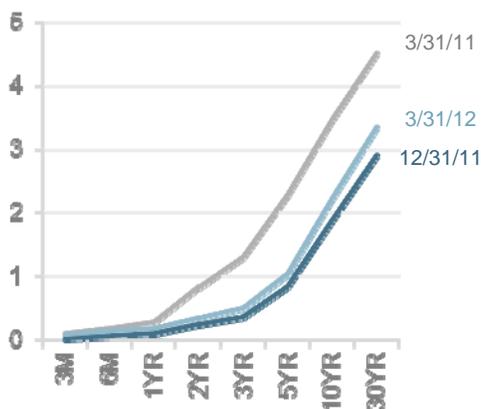
The Federal Open Market Committee (FOMC) maintained its target range for the federal funds rate between zero and 0.25% in the first quarter, and reaffirmed its goal to maintain that target at very low levels now until at least late 2014.

Most fixed income securities had positive returns in the quarter, although some longer term securities had negative returns.

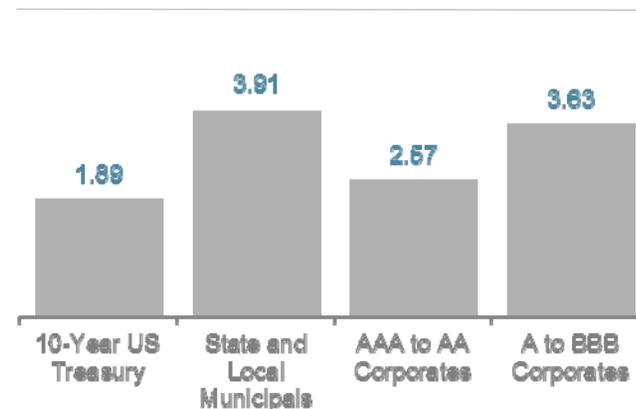
Yields on Treasury securities across the whole maturity spectrum rose, with longer-term securities rising more sharply than shorter-term ones. As a result, the yield curve steepened, but relative to the first quarter of 2011, the yield curve flattened.

Spreads between more- and less-risky fixed income securities generally became narrower as conditions in global financial markets eased substantially.

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)	0.02	0.08	1.05	1.77
Bank of America Merrill Lynch Three-Month T-Bills	0.06	0.13	1.23	1.91
Bank of America Merrill Lynch One-Year US Treasury Note	0.41	0.74	2.29	2.48
Citigroup World Government Bond 1-5 Years (hedged)	3.07	2.11	3.71	3.68
US Long-Term Government Bonds (SBBI)	23.27	6.82	9.44	8.61
Barclays Capital Corporate High Yield	6.45	23.87	8.10	9.24
Barclays Capital Municipal Bonds	12.07	7.70	5.42	5.46
Barclays Capital US TIPS Index	12.20	8.74	7.60	7.51

* Annualized

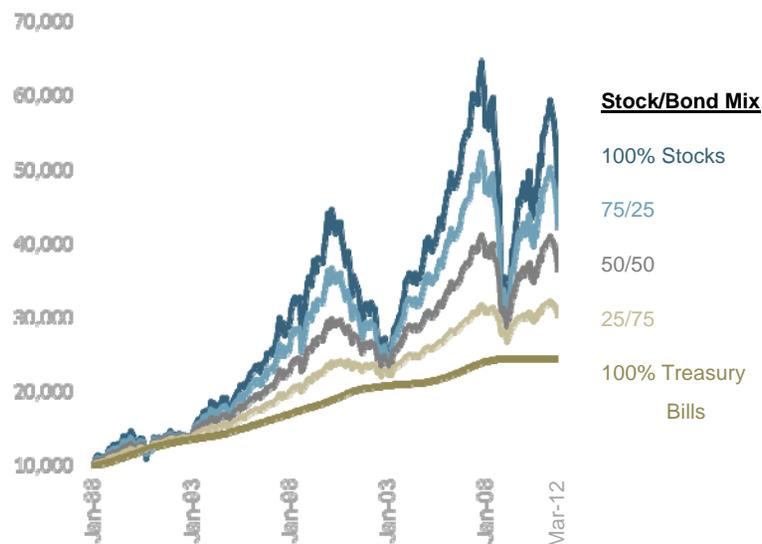
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Global Diversification

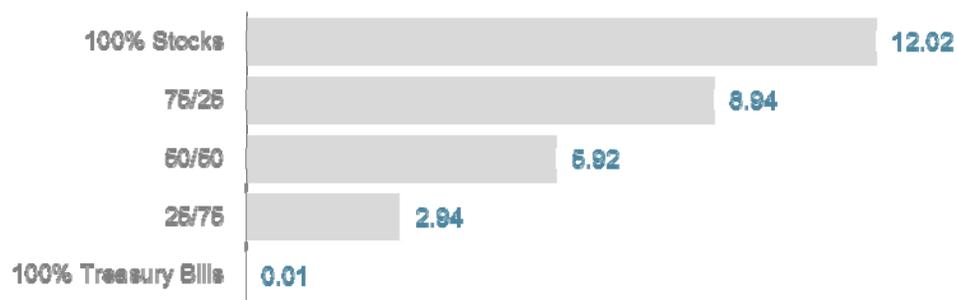
First Quarter 2012 Index Returns

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 Years*	5 Years*	10 Years*
100% Stocks	-0.19	21.38	0.34	5.86
75/25	0.19	16.06	0.97	5.14
50/50	0.35	10.72	1.29	4.21
25/75	0.30	5.39	1.32	3.08
100% Treasury Bills	0.02	0.08	1.05	1.77

* Annualized

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Should Investors Buy High-Dividend Stocks?

First Quarter 2012

With bond yields still hovering around historic lows, some investors may be tempted to consider dividend-paying stocks as a way of generating income from their portfolios, presumably with the benefit of not having to sell from their principal. But before embarking on this strategy, it is important to understand several considerations:

1.SIMPLE MATH: When firms make dividend payments, it is relatively common for the stock price to decrease on the ex-dividend date by an amount roughly equal to the dividend paid. For example, an investor holding 10 shares of a stock priced at \$100 per share has a total account value of \$1,000. If the stock pays a dividend of \$5 per share, the stock price would generally drop to \$95 on the ex-dividend date, so the investor's overall account value does not change due to dividend payments. If the investor takes the dividend in cash, he would have \$950 in the stock and \$50 in cash. Taking the dividend payment in cash for spending purposes actually reduces the principal value of the account. Fundamentally, it is no different from selling the stock without waiting for the dividend payment. The same principle applies to distributions in mutual funds.

2.TOTAL RETURN: The total return of holding a stock is the sum of its dividend payments and price appreciation, and that sum is what should really matter to investors, not just the dividend. Until this quarter, Apple chose to reinvest its profits rather than pay dividends, and over the past decade it has been one of the best-performing stocks in the US market. Should investors have stayed away from Apple just because it wasn't paying dividends? Many small cap stocks reinvest their earnings and don't pay dividends, yet as an asset class have higher expected returns than large cap stocks.

3.TAXES: Until a few years ago, many investors purposefully avoided dividend-paying stocks because of the high tax rates, which were lowered in 2003 to 15% for most qualified dividends. Unless Congress takes action, the top tax rate for the highest earners is set to jump to 43.4% next year, as reported in the *Wall Street Journal*. That is a maximum income tax rate of 39.6%—since dividends will once again be taxed as regular income—plus a 3.8% tax on investment income as part of the healthcare overhaul passed in 2009.

Dividend-paying stocks certainly have a place in a holistic portfolio, but such a strategy should not supersede other fundamental tenets of investing, such as diversification and focusing on the sources of risk and expected return. Generating lifetime income from an investment portfolio is too complex of an issue to be solved by simply chasing stocks with high dividend yields.