# QUARTERLY CONSIDERATIONS

## General

- ***Bull & Bear*** – The S&P 500 gained 23% in just 13 trading days after hitting a new low on March 9th and the Dow had its best 4-week performance since 1933. Stocks experienced a bull and bear market within one quarter, highlighting the risks of market timing.

- ***Diversification Relocation*** – Diversification didn't help much in 2008. So far this year, the value of diversification is reemerging. Growth stocks are significantly outperforming value. High yield, emerging markets and commodities are well ahead of U.S. and international equities.

- ***Snake Oil*** – Market meltdowns open doors for "get rich" or "no risk" propositions. Whether it's someone touting successful market timing, "guaranteed" investments or risk-free products, be skeptical. Ask us to help you evaluate the pros and cons.

- ***Bank Rank*** – Some leading banks surprised investors by reporting a profitable start to '09. In 2008, 25 banks failed across the U.S. compared to 216 per month (7 banks per day) in the 3 ½ years following the October 1929 market crash.

## Plan Sponsors

- ***Are They Really Stable Value?*** – The credit crisis raises structural concerns for stable value funds, including wrap provider instability, higher wrap fees and lower future crediting rates. We can share insights to help you assess your stable value investment and alternative approaches.

- ***Change May Be Near*** – Retirement security is high on Congress's priority list. The regulators are considering fee disclosure rules, lifecycle fund guidelines and mandates for index funds and annuity offerings. We will keep you updated on any major regulatory developments.

- ***DB Support*** – The IRS issued favorable guidance on March 31st allowing employers to use the full yield curve to determine plan liabilities for 2008 and 2009. This can help the funding of U.S. plans which went from 100% to 74% funded in less than five quarters (*source: Milliman*). We suggest you consult your actuary to discuss your Plan's optimal approach.

## Non-Profit Organizations

- ***More with Less*** – In PSCA's first annual survey of 403(b) plans, 30% of 403(b) plans reported offering participants 26 or more funds compared to 11% for 401(k) plans. Meanwhile, only 46% of 403(b) plans have an investment policy statement compared to 84% of 401(k) plans. Ask us how to improve your offerings and oversight.

- ***A True Commitment*** – Foundations lost nearly $150 billion last year, or almost as much as they have given away over the last four years. Despite the drop, giving held steady, falling by just 1% on an inflation-adjusted basis in 2008 (*source: Foundation Center*).

## The Wealth Office™

- ***Gaining Certainty in Uncertain Times*** – The Wealth Office™ has developed new "what if" tools to help clients evaluate retirement, cash flow and wealth transfer planning. Please ask how we can help you gain further clarity in your planning.

- ***Economic Stimulus Bill*** – The new bill has created a number of incentives for which you may be eligible:

  - ***Home Sweet Home*** – A provision for a refundable tax-credit of up to $8,000 for first time homebuyers.

  - ***It Pays to be Green*** – Tax credits for those who improve the energy efficiency of their existing homes, including tax credits of up to $1,500 between 2009 and 2010 for energy efficient home improvements such as installing new windows or a more efficient water heater.

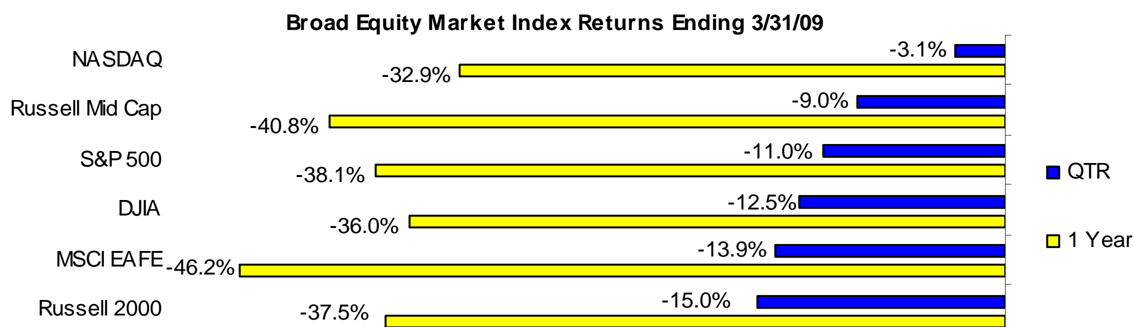
  - ***Depreciation Deduction*** – Expedited depreciation schedule including up to 50% immediate write-off for qualified capital expenditures for small businesses.

- ***Reaching for Yield?*** – Municipal bonds continue to offer attractive yields, however this market is not without risk. Rising state deficits, falling tax revenues, and credit downgrades can negatively impact municipal bonds and make it difficult for do-it-yourself investors. Contact The Wealth Office™ for information regarding municipal bond investment options.

# QUARTERLY CONSIDERATIONS

## Economy

- The Federal Reserve left interest rates at a target range of 0% to 0.25%. An unprecedented supply of Treasuries are expected to hit the market in 2009 as the Fed and Treasury fund an alphabet soup of programs, including the inception of quantitative easing, TALF and PPIP. The next policy meeting is scheduled for April 28th-29th.
- U.S. GDP contracted by 6.3% in the fourth quarter, following a 0.5% decline in the third quarter. The decline primarily reflected negative contributions from personal consumption expenditures, residential fixed investment, and equipment and software that were partly offset by a positive contribution from federal government spending. Analysts estimate GDP for the first quarter declined at a similarly weak pace. The first quarter GDP advance estimate is due out on April 29th.
- The unemployment rate rose to 8.5% in March from 8.1% in February. Since the recession began in December 2007, 5.1 million jobs have been lost, with almost two-thirds (3.3 million) of the losses occurring in the last 5 months. Companies such as Caterpillar, Boeing and General Electric cut tens of thousands of jobs. Circuit City, the nation's second-largest electronics retailer, began liquidation proceedings putting up to 30,000 out of work.
- The Obama Administration has responded to the current financial crisis with a number of new policy initiatives to help spur economic growth including passing a $787 billion stimulus package intended to help lift the country's economy out of a recession. The plan is an ambitious package of federal spending and tax cuts designed to revive the economy and save millions of jobs.
- Hit by both falling home prices and declining financial markets, the wealth of American families plunged nearly 18% in 2008, down almost $11 trillion. This marked the largest decline since the Federal Reserve began tracking data after World War II. In the fourth quarter alone, household net worth fell by $5.1 trillion, an astounding annualized decline of 31%.



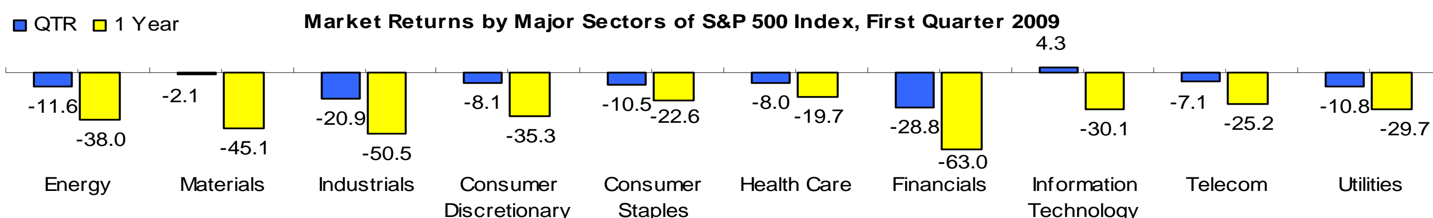

## U.S. Equity Markets

- The U.S. equity markets remained highly volatile in the first quarter plunging to fresh lows on March 9th amid worsening economic data and investor disappointment over the administration's plans to rescue the banking system. Sentiment improved noticeably in the latter half of March as governments globally stepped up efforts to stabilize the banking system. The markets rallied sharply to finish the quarter in strong fashion, though not nearly enough to undo the damage inflicted earlier in the year. Risk appetites crept back into the markets as fears of a global economic collapse eased. However, with the outlook for growth and corporate profits clouded in uncertainty, investor confidence remains fragile.
- The **S&P 500 Index** suffered its second consecutive double-digit decline and sixth consecutive quarterly drop, losing 11% in the quarter, to close at 798. At its trough on March 9th, the S&P 500 had fallen 57% from its peak on October 9, 2007, erasing nearly $37 trillion of equity value globally. A strong rally at quarter-end was sparked by positive revenue news from Citigroup and other financial institutions sending the Index 18% higher from its low. Additionally, investors began to take hope in the Fed's programs to drive lending rates lower by buying longer term Treasuries and to reduce toxic assets clogging banks' balance sheets.
- The **DJIA** finished the quarter down 13%, to finish at 7,609, marking its sixth consecutive quarterly decline, which is the longest losing streak since 1970, and only the second such occurrence since 1900. Only three companies, IBM (15%), Intel (3%) and Home Depot (2%) posted gains. IBM benefited from a positive earnings outlook and well-received talks with Sun Microsystems. Citigroup (-62%), Bank of America (-52%) and General Motors (-39%) posted the heaviest losses. Citigroup fell to an 18-year low after announcing the government could take ownership of more than a third of the company. Fears of nationalization and an uproar surrounding bonuses at Merrill Lynch drove Bank of America's stock price below $3.
- The **NASDAQ** fared better, thanks to stronger performance in the technology sector, losing a relatively modest 3% to close at 1,529.
- Growth significantly outperformed value during the quarter as investors sought out companies with less perceived economic cyclicality. The hefty gap in outperformance was further boosted by growth indices' much smaller exposure in financials, the worst performing sector and larger weighting in the better performing technology sector.
- Larger-sized companies fared better than their smaller siblings for the quarter. Historically, larger companies tend to be more diversified from a product and geographical end-market perspective, which generally helps them better weather difficult economic times. Further, federal bailouts tend to focus most of their attention on their "too big to fail" counterparts.
- Hedge funds, on average, gained nearly 1% for the quarter as risk appetites trickled back into the markets in March, with credit strategies leading the rebound. During the quarter, deleveraging slowed, cash balances grew and many hedge funds began to relax restrictions on liquidations. MLPs rallied strongly on solid fundamentals and technical factors abating.

# QUARTERLY CONSIDERATIONS

## U.S. Equity Sectors

- Technology rebounded as investors, lured by clean balance sheets with little debt, finally began discounting a recovery in end markets.
- Big pharmaceutical and biotechnology firms took advantage of improving credit markets and cash on their balance sheets to finance sweeping industry consolidation, including Pfizer's agreement with Wyeth, Merck's purchase of Schering-Plough, and Roche's deal with Genentech.
- Among financials, investors worried about the viability of several of the largest banks, increased credit burdens from commercial real estate and private equity players, and whether the government efforts to help would be effective. Political furor ensued over AIG bonuses, which kept uncertainty about punitive regulatory interventions in the sector as a whole exceptionally high. Bank stocks got a boost late in the quarter after FASB decided to relax so-called "mark to market" accounting rules. Insurance stocks fell significantly on concerns over the companies' investment portfolios and their exposure to annuity products given the equity market decline.
- Slowing global economic activity and high commodity prices continued to strain sales and profitability among materials and industrials. Additionally, many companies were unable to access credit to fund capital investments. General Electric was a top detractor, falling 38% as its credit rating was cut amid sluggish demand, as well as concerns over its commercial loan portfolio and need to raise external capital.
- With crude off its highs, energy continued to falter with companies slashing reserves estimates and capital spending plans for 2009. Additional concerns surfaced when the White House revealed tax incentives to U.S. energy producers may be repealed in the proposed Federal budget.
- Consumer staples faced a challenging pricing environment as many consumers are switching to store brands to save pennies. Many companies have not yet cut prices on branded goods on concerns it would weaken their products over the long term.
- Fundamentals within the consumer discretionary sector remained challenging, though much of the bad news is well known and presumably discounted in stock prices. While retailers continued to face the headwinds of rising unemployment and consumer debt loads, retail sales did see improvement in March when, in an effort to lure shoppers and reduce inventories, many retailers offered deep discounts. Autos posted mixed results. Ford rose sharply as they refused government aid, while GM and Daimler Chrysler sold off as the White House took on automotive industry reform, including rejecting their restructuring plans and ousting GM's chief executive.

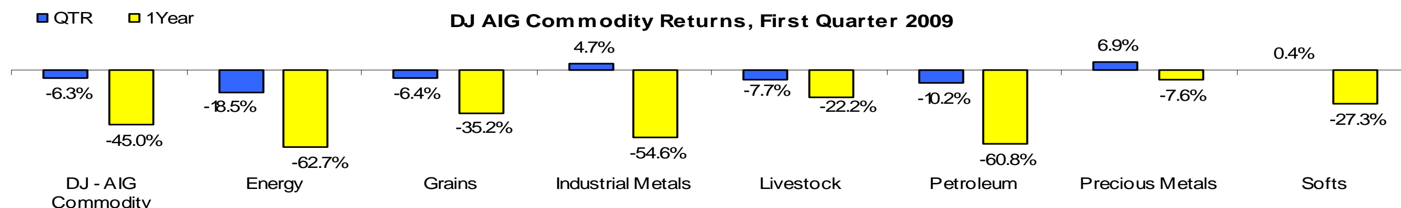



## Real Estate

- Globally, REITs posted heavy losses in the first quarter, though they staged a modest rally along with the broader markets in late March. Although weakening economic conditions continue to weigh on fundamentals, the frozen credit markets remain the primary concern for REITs. Companies with weaker balance sheets suffered the greatest declines as investors assessed their solvency. Capital markets began to unlock during the quarter and companies globally employed a variety of strategies for raising new capital. The U.S. saw five high profile deals completed to strengthen balance sheets and create liquidity to take advantage of buying opportunities. Most property sectors are struggling with declining occupancy and market rents, though limited new supply has somewhat tempered the impact of weakening tenant demand.

## Commodities

- Commodity prices were mixed as global economic concerns sapped expectations for near-term demand. Additionally, a strong U.S. dollar undercut the ability of some countries to pay for commodity imports, further hampering demand. The energy sector was hardest hit due to a steep decline in natural gas prices as storage amounts continued to increase. Crude oil, which hit a low of $33/ barrel, rallied sharply late in the period as disciplined production cuts by OPEC drove prices up 11%, to finish the quarter at $49/barrel. Industrial metals posted gains on the surge in copper prices, which rose nearly 40% on anticipation of increased demand from China and other global infrastructure spending. Precious metals gained from a flight to safety trade of gold coupled with a long-term negative outlook for the dollar. Gold topped the elusive $1,000 an ounce mark before settling at $922 an ounce, a gain of over 4% for the quarter. Wheat prices led the grains sector lower as inventory estimates were revised upwards, while soybeans were hurt by canceled imports to China and expectations for increased plantings this year.

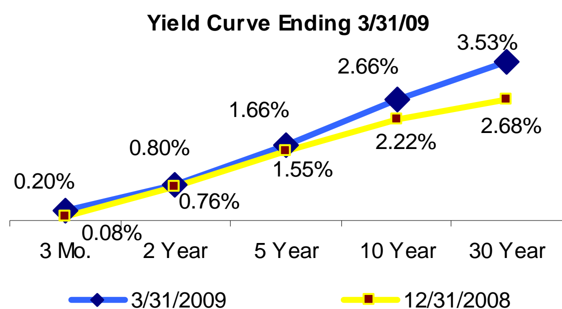


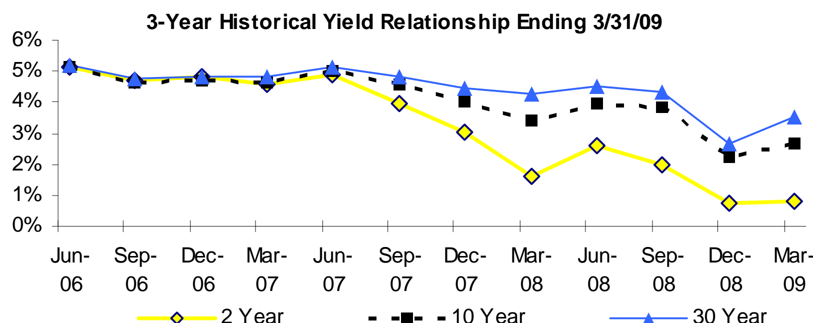

## Fixed Income Markets

- Interest rates rose during the quarter, led by the long end, resulting in a significantly steepened yield curve. The flight-to-quality prevalent the past 18-months began to reverse course amid extremely low yields and a discomfort over the cost of government actions, in terms of supply and potential inflation. In an effort to lower private borrowing rates and stimulate the economy, the Fed announced a program of quantitative easing on March 18th to purchase up to $300 billion in longer Treasuries and up to $750 billion of Agency MBS over the next six months. The market's initial response was a sharp rally and flatter yield curve, though in the weeks that followed, rates backed up and the curve steepened.

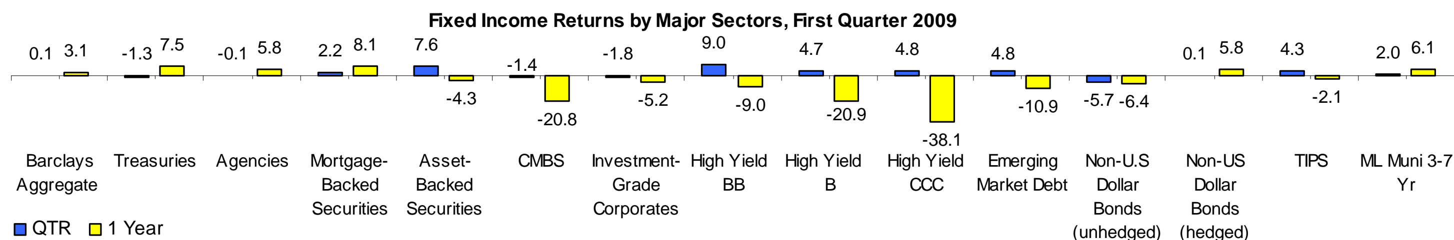
## QUARTERLY CONSIDERATIONS

## Fixed Income Markets (continued)



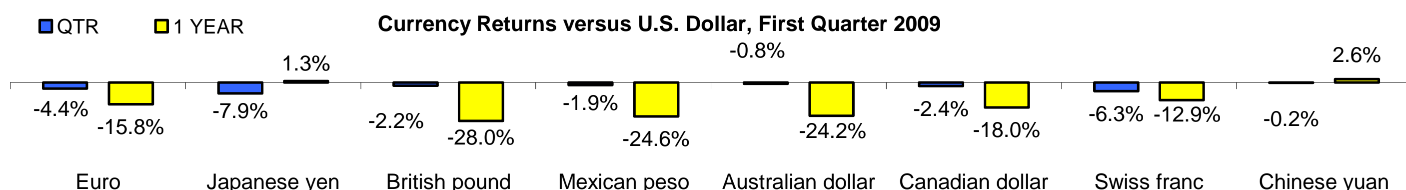




- TIPS' breakevens recovered strongly, led by the front end, as investors sought protection from the Fed's quantitative easing program. One-year breakeven rates at the end of March implied deflation of approximately 16 bps versus 566 bps of implied deflation at year-end.
- Overall, investment-grade credit spreads remained virtually unchanged, masking an emerging divergence among industries. In an intra-sector flight-to-quality, strong income return from industrials and utilities was offset by continuing investor concerns over the solvency of major financial institutions. Ratings agencies continued to question the financial strengths of various banks and lowered their senior debt ratings to, on average, BBB. On the plus side, increased issuance was met with strong demand as new bonds were sold at very attractive yields.
- Agency MBS posted gains as volatility declined and demand from the Treasury purchase programs outweighed supply. TALF, which essentially loans money to issuers of asset-backed securities to facilitate specific consumer and business loans, restored liquidity in the consumer ABS markets. A late-quarter rally among CMBS was sparked by optimism surrounding the yet-to-be launched PPIP program, which extends the TALF umbrella to CMBS, non-Agency MBS and other distressed loan pools.
- While credit fundamentals were not markedly improved during the quarter, the high yield market snapped back as relatively attractive yields and distressed valuations captured investor's attention. The higher quality BB-rated issues, where default risk is lower, fared best. Spreads narrowed by 375 bps in the quarter, but still stood at 1,525 bps over Treasuries. The default rate jumped to a five-year high of 5.7%. While Moody's forecasts a 13.8% default rate for year-end 2009, market yields near 18% appear to have priced in much of this deterioration in credit.
- Municipal bonds rebounded sharply as investors sought their attractive rates. Longer maturity and lower-rated munis posted the best results, benefiting from the slowing of forced selling. Retail interest was strong as investors took advantage of a steep yield curve, elevated ratios and enticing concessions on new issue deals. The yield ratios on 10-year municipals over Treasuries corrected substantially from 201% at the end of 2008 to 154% at quarter-end. The muni market may benefit as the Federal program Build America Bond, a legislation allowing municipal issuers to potentially take advantage of lower costs for infrastructure projects, is launched.
- Sovereign debt came under pressure amid deteriorating economic fundamentals. Central banks continued to expand "non-traditional" measures in an attempt to support growth and counter the effects of debt deflation as policy rates near zero. Bond performance among countries varied as investors reduced exposure to those sovereign issuers perceived to be less credit worthy. Emerging market debt rose on improved liquidity as risk appetites crept back into the global markets, despite deteriorating fundamental economic conditions.




## International Developed Markets

- International developed markets declined in the first quarter, with the **MSCI EAFE Index** losing 14%. Sectors such as materials, energy and consumer discretionary were among the top performers, while financials, telecommunications services and utilities underperformed.
- International growth stocks outperformed international value stocks with the **MSCI EAFE Growth Index** ending down 12% and the **MSCI EAFE Value Index** falling 15%. Across market capitalizations, international small caps outperformed international large caps.
- During the quarter, the U.S. dollar held relatively steady against the Chinese yuan, while appreciating against the Euro, Japanese yen, British pound, Mexican peso, Australian dollar, Canadian dollar and Swiss franc.



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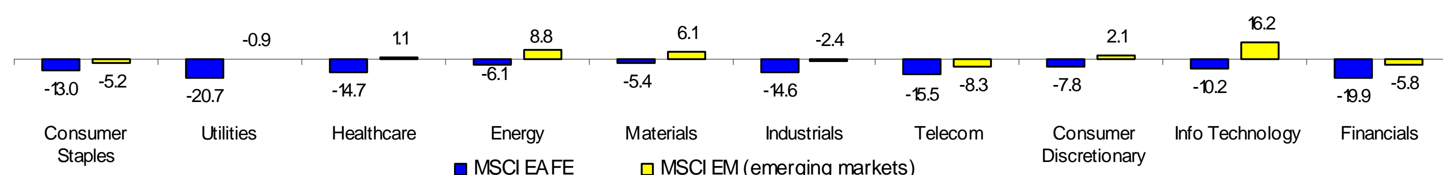
## International Developed Markets (continued)

- The **MSCI Canada Index** ended down 3% as the Bank of Canada cut rates in two separate moves by a total of 100 basis points to 0.5%, the lowest level since the central bank was established in 1934. The bank has now reduced rates by four percentage points since it commenced the latest cycle of easing in December 2007. On the economic front, fourth quarter GDP growth declined more than expected as retrenchment among U.S. consumers continued to weigh on Canadian exports and unemployment rose to nearly 8%.
- The **MSCI Europe Index** ended down 15%. Germany plunged 19% as a collapse in foreign manufacturing orders has weighed heavily on the export dependent economy. France declined 16% amid record low business sentiment. Spain fell 18% as the country officially entered its first recession in 15 years. Italy plummeted 21% on declining export growth and suggests the recession is deepening. The European Central Bank (ECB) trimmed rates by a total of 100 basis points to 1.5%, the lowest since the ECB took control of monetary policy in January 1999.
- For the quarter, the **MSCI United Kingdom Index** declined 11% on weak consumer spending, rising unemployment, declining business investment and tight credit conditions as the recession in the country deepened. The Bank of England trimmed rates by a total of 150 basis points to a historic low of 0.5%. The central bank also introduced a quantitative easing program that effectively creates new money and uses it to purchase a range of government bonds, known as gilts, and corporate paper to help lower borrowing rates and boost spending.
- The **MSCI Japan Index** lost 17% on plunging exports, falling corporate profits and a deteriorating labor market. Japan's fourth quarter GDP growth fell at its steepest rate since 1974. On the political front, Prime Minister Taro Aso's approval ratings have fallen into the single digits, as he has been unable to effectively respond to the economic crisis and help prevent the economy from falling into a recession. Meanwhile, Japan's Finance Minister Shoichi Nakagawa resigned after appearing intoxicated at a G7 finance meeting in Rome.
- The **MSCI Pacific ex-Japan Index** declined 2%. Australia ended down 2% as GDP growth turned negative, the first contraction in eight years. The Reserve Bank of Australia cut rates by 100 basis points to a 45-year low of 3.25%. New Zealand declined 3% as GDP growth declined 0.9%, its biggest quarterly detraction in nearly two decades. The Reserve Bank of New Zealand cut rates in two separate moves by 200 basis points to 3%. Singapore fell 9% as the economy is suffering its deepest recession since gaining independence as its own city-state in 1965.

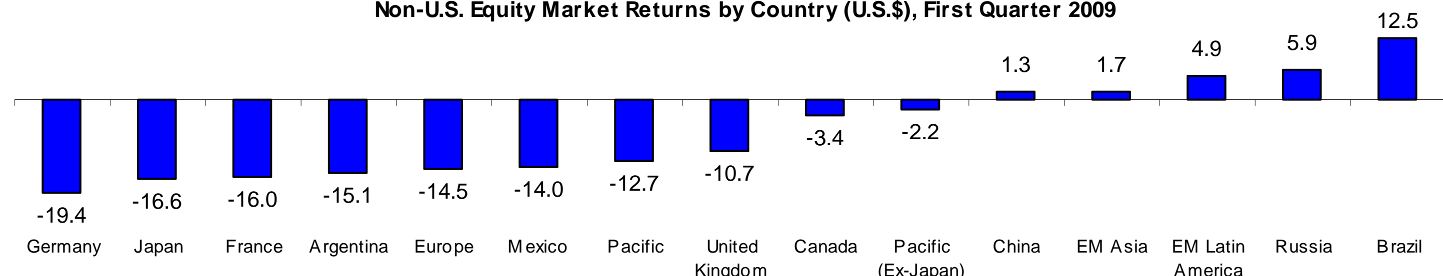
**International Equity Market Returns by Major Sectors, First Quarter 2009**




## International Emerging Markets

- The **MSCI EM Index** advanced 1% as monetary authorities throughout the emerging markets continued to cut interest rates. Information technology, energy and materials were among the top performing sectors while telecommunications services, financials and consumer staples underperformed.
- The **MSCI EM Latin America Index** gained 5%. Brazil soared 13%, benefiting from rising oil prices and a strengthening currency. Mexico declined 14% on deepening concerns about exports to the U.S. In an effort to navigate the global economic crisis, Mexico's central bank requested a $47 billion credit line from the IMF to hold in reserve. Argentina plunged 15% as MSCI announced the reclassification of the market from the MSCI EM Index to the MSCI Frontier Markets Index effective May 2009. This is an index that tracks smaller, more undeveloped and riskier markets than emerging markets. Chile rallied 14% as the world's largest copper producer benefited from a surge in demand for the metal.
- The **MSCI EM Asia Index** ended up 2%. China advanced 1% despite news that fourth quarter GDP slowed sharply, as concerns were tempered by expectations that a massive stimulus package would bolster economic growth. India declined 2% amid political uncertainty as general elections are set to begin in the largest democratic election in the world. Taiwan gained 8% on strength in technology stocks. Stocks in South Korea ended unchanged as officials laid out plans for a record $13 billion stimulus package, which is more than double the spending during the 1997-1998 Asian financial crisis.
- The **EMEA (Eastern Europe, Middle East and Africa) Index** declined 4%. Russia gained 6% on higher commodity prices. Concerns about debt default and currency devaluation sent Hungary and Poland down 29% and 32%, respectively. In the Middle East, Turkey declined 13% as a pending IMF loan was delayed. The delay was a blow to investors who believed that an agreement was imminent and key to boosting market sentiment and helping Turkey revive its economy. South Africa fell 4% ahead of the country's upcoming presidential election.

**Non-U.S. Equity Market Returns by Country (U.S.$), First Quarter 2009**



## QUARTERLY CONSIDERATIONS

### Financial Markets Performance Ending March 31, 2009

*Returns for Periods Exceeding One-Year are Annualized.*

| | QTR | YTD | 1YR | 2YR | 3YR | 4YR | 5YR | 10YR |
|---|---|---|---|---|---|---|---|---|
| **U.S. Equity** | | | | | | | | |
| S&P 500 Composite Index | -11.0 | -11.0 | -38.1 | -23.3 | -13.1 | -7.4 | -4.8 | -3.0 |
| Dow Jones Industrial Average | -12.5 | -12.5 | -36.0 | -19.4 | -9.5 | -5.4 | -3.7 | -0.4 |
| Russell 1000 Growth | -4.1 | -4.1 | -34.3 | -19.2 | -11.3 | -5.7 | -4.4 | -5.3 |
| Russell 1000 Value | -16.8 | -16.8 | -42.4 | -28.0 | -15.4 | -9.0 | -4.9 | -0.6 |
| Russell Mid Cap | -9.0 | -9.0 | -40.8 | -26.6 | -15.5 | -7.5 | -3.5 | 2.3 |
| Russell 2000 | -15.0 | -15.0 | -37.5 | -26.3 | -16.8 | -7.7 | -5.2 | 1.9 |
| Russell 2000 Growth | -9.7 | -9.7 | -36.4 | -23.9 | -16.2 | -6.9 | -5.4 | -1.6 |
| Russell 2000 Value | -19.6 | -19.6 | -38.9 | -28.7 | -17.5 | -8.7 | -5.3 | 4.9 |
| NASDAQ | -3.1 | -3.1 | -32.9 | -20.6 | -13.2 | -6.5 | -5.2 | -4.7 |
| Dow Jones Wilshire 5000 | -10.6 | -10.6 | -38.0 | -23.5 | -13.3 | -7.0 | -4.4 | -2.1 |
| NAREIT Equity REIT | -31.9 | -31.9 | -58.2 | -41.2 | -25.1 | -12.6 | -8.7 | 3.9 |
| **Fixed Income & Cash Equivalents** | | | | | | | | |
| Barclays Cap US Aggregate | 0.1 | 0.1 | 3.1 | 5.4 | 5.8 | 4.9 | 4.1 | 5.7 |
| Citigroup High Yield Market | 5.1 | 5.1 | -19.8 | -12.1 | -4.8 | -2.1 | -0.3 | 2.5 |
| Citigroup Inflation-Linked Securities | 4.3 | 4.3 | -2.1 | 6.0 | 5.7 | 4.5 | 4.1 | 7.3 |
| Merrill Lynch Muni 3-7 Years | 2.0 | 2.0 | 6.1 | 6.2 | 5.6 | 4.8 | 3.9 | 4.9 |
| Citigroup Hedged Non-U.S. Dollar Bond | 0.1 | 0.1 | 5.8 | 6.0 | 5.7 | 5.1 | 5.0 | 5.2 |
| Citigroup Unhedged Non-U.S. Dollar Bond | -5.7 | -5.7 | -6.4 | 7.0 | 7.4 | 3.8 | 4.4 | 5.5 |
| Citigroup Treasury Bill-3 Month | 0.1 | 0.1 | 1.1 | 2.7 | 3.4 | 3.4 | 3.1 | 3.2 |
| Ryan Labs 3 Yr GIC | 1.2 | 1.2 | 4.8 | 4.7 | 4.5 | 4.2 | 4.0 | 4.9 |
| **International Equity** | | | | | | | | |
| MSCI EAFE | -13.9 | -13.9 | -46.2 | -27.5 | -14.1 | -5.6 | -1.8 | -0.5 |
| S&P Large/Mid Value World x U.S. | -14.5 | -14.5 | -46.8 | -27.4 | -13.9 | -5.0 | -1.0 | 1.4 |
| S&P Large/Mid Growth World x U.S. | -10.6 | -10.6 | -44.5 | -25.1 | -13.2 | -4.9 | -1.3 | -1.1 |
| S&P Small Cap World x U.S. | -10.7 | -10.7 | -49.8 | -31.4 | -16.6 | -6.5 | -1.4 | 3.0 |
| MSCI Emerging Markets | 1.0 | 1.0 | -46.9 | -19.6 | -7.9 | 3.7 | 6.3 | 8.1 |
| S&P Global World Property x U.S. | -16.2 | -16.2 | -55.1 | -39.4 | -20.1 | -8.7 | -3.7 | 3.8 |
| **Miscellaneous** | | | | | | | | |
| Consumer Price Index | 1.1 | 1.1 | -0.4 | 1.8 | 2.2 | 2.5 | 2.6 | 2.6 |
| DJ AIG Commodity Index | -6.3 | -6.3 | -45.0 | -18.2 | -9.8 | -6.2 | -3.3 | 6.4 |
| HFN Fund of Funds- Multi Strategy Avg | 0.5 | 0.5 | -16.9 | -7.6 | -2.8 | 0.5 | 1.3 | 6.3 |
| Alerian MLP | 11.2 | 11.2 | -24.3 | -16.3 | -2.0 | 1.0 | 3.8 | 12.9 |

# QUARTERLY CONSIDERATIONS

*All indices are unmanaged. Investors can't actually invest directly into an index. Past performance is not indicative of future results.*

The S&P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

The Dow Jones Industrial Index is based on the average performance of the 30 blue-chip stocks monitored.

Russell 1000 Growth measures the performance of the Russell 1000 companies with higher P/B ratios and higher forecasted growth values.

Russell 1000 Value measures the performance of those Russell 1000 companies with lower P/B ratios and lower forecasted growth values.

Russell Mid Cap measures the performance of the 800 smallest companies in the Russell 1000 Index, which represents approximately 25% of the total market cap of the Russell 1000 Index.

Russell 2000 measures the performance of the small-cap stocks.

Russell 2000 Growth measures the performance of the Russell 2000 companies with higher P/B ratios and higher forecasted growth values.

Russell 2000 Value measures the performance of those Russell 2000 companies with lower P/B ratios and lower forecasted growth values.

The NASDAQ measures all domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

Dow Jones Wilshire 5000 is a capitalization weighted index from the dollar value of 5.000 highly diversified, commonly traded stocks for which daily pricing is available. It includes all stocks traded on the NYSE and AMEX and the most active OTC issues.

NAREIT Equity REITs measures equity REITs. The index contains health care REITs, but no mortgage and hybrid REITs.

The Barclays Aggregate Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed and mortgage-backed securities, with maturities of at least one year.

Citigroup High Yield Market is a market-cap weighted index, which measures the performance of below investment grade, Cash-Pay, Zero-to-Full, Pay-in-Kind, step-coupon bonds, and Rule 144A bonds issued by corporations domiciled in the United States or Canada, with remaining maturities of at least one year. All bonds must have a maximum quality rating of BB+/Ba1 by either S&P or Moody's and the minimum amount outstanding at entry/exit must be $100 million.

Citigroup Inflation-Linked Securities measures bonds with fixed rate coupon payments that adjust for inflation as measured by Consumer Price Index. All bonds must have a minimum maturity of one year and a minimum amount outstanding of $1 billion for both entry and exit. It currently comprises only Treasury securities.

Merrill Lynch Muni 3-7 Years measures municipal bonds with maturities between 3 and 6.99 year.

Citigroup Non-$US Government Bond is a market-cap weighted index, that measures the performance in U.S. dollar terms of major non-U.S. bond markets. The index includes all investment grade fixed-rate bonds with a remaining maturity of one-year or longer.

Citigroup Treasury Bill-3 Month represents the monthly return equivalents of yield averages which are not marked to market, this index is an average of the last three three-month Treasury bill issues.

Ryan Labs 3 Yr GIC is an arithmetic mean of the market rates of 3 year GIC contracts. All rates are held for the full term of the contract.

MSCI EAFE is a market-cap weighted index representing 21 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

S&P/Citigroup PMI Value World x U.S. and S&P/Citigroup PMI Growth World x US Indices measure the performance of the largest 80% of developed county's available market capitalization, adjusted for float. Three growth and four value variables are used to assign stocks to a specific style index. These include, 5-year historical EPS growth rate, 5-year historical sales per growth rate, 5-year average annual internal growth rate, book to value per share, sales per share price, cash flow per share price and dividend yield. Each style index constitutes 50% of the total float of the S&P/Citigroup PMI World x U.S. Index.

S&P/Citigroup EMI World x U.S. represents small cap companies across developed markets. Eligible companies' full market capitalization range from USD 200 ~1,500 million and free float adjusted the market capitalization of the index constituents.

MSCI Emerging Markets is a market-cap weighted index representing the major emerging countries in the world.

Consumer Price Index is the United States Consumer Price Index.

Dow Jones AIG Commodity Index is composed of futures contracts on 19 physical commodities. No related group of commodities (e.g., energy, precious metals, livestock, grains, etc.) may constitute more than 33% of the index. **Livestock** = live cattle and lean hogs. **Softs** = sugar, cotton and coffee. **Industrial Metals** = aluminum, copper, zinc and nickel. **Precious Metals** = gold and silver. **Grains** = wheat, corn, soybeans. **Energy** = natural gas, crude oil, unleaded gas and heating oil.

HFN Fund of Funds – Multi Strategy Average is the equal-weighted average performance of thousands of hedge fund of funds that are classified as multi-strategy, as reported by the managers to the HFN database.

The Alerian MLP Index is a composite of the 50 most prominent energy master limited partnerships and will be calculated by Standard & Poor's using a float-adjusted, market capitalization-weighted methodology.