

February 2012 Market and Economic Flash Report

Equities rose sharply in January, Emerging Markets led the way

- U.S. equities delivered the strongest January returns in 15 years on positive economic data that included better than anticipated readings on new unemployment claims and manufacturing activity
- Emerging Markets equities were the strongest performing asset class in the month as investors reacted positively to central bank cuts intended to boost slowing economic growth
- Commodities rebounded from a poor December with base metals (+10.9%) and precious metals (+12.7%) being the top performers within the asset class

Our View

We believe that equities provide attractive valuations as corporations continue generating strong earnings with record amounts of cash on their balance sheets. However, as long as the European debt crisis persists there is likely to be continued volatility in the equity markets.

Treasuries lagged in January, Municipal bonds performed well

- Treasuries (+0.4%) underperformed both corporate bonds (+2.2%) and high yield bonds (+3.0%) as a result of investors seeking yield over the perceived safety of U.S. government securities
- Municipal bonds (+2.3%) also performed well during the month on both limited supply and large mutual fund inflows
- European sovereign debt yields generally remained flat for the month, with the exception of struggling Portugal that saw borrowing costs increase 1.9%

Our View

The Federal Reserve announced in January that it will keep its target interest rate low until the end of 2014, which reinforces our belief that taxable rates will remain low in the short-term. Nevertheless, our duration positioning remains slightly short as the risk factors of total U.S. debt and government spending have not dissipated.

U.S. GDP maintains slow climb, job growth remains muted

- The advance estimate for 2012 U.S. gross domestic product indicated an annual growth rate of 2.8%
- The U.S. non-farm payroll data for January shows that employers added 243,000 jobs while new claims for U.S. jobless benefits (367,000) continued to fall
- Consumer confidence for January declined from 64.8 to 61.1 on limited income growth and high gasoline prices

Our View

We continue to call for slow and choppy growth in the U.S. economy with persistently weak employment providing headwinds to stronger expansion. The incorporation of alternative strategies at the expense of equities in our portfolios reflects our efforts to more tightly manage downside risk in a choppy economic environment.

Equity	January	3 Months	YTD	1 Year
S&P 500 Index	4.48%	5.32%	4.48%	4.22%
Russell 1000 Index	4.87%	5.49%	4.87%	3.98%
Russell 2000 Index	7.06%	7.38%	7.06%	2.86%
Russell 2500 Index	6.65%	6.54%	6.65%	2.37%
Russell 3000 Index	5.05%	5.62%	5.05%	3.86%
Russell 3000 Growth Index	6.09%	5.72%	6.09%	6.02%
Russell 3000 Value Index	4.01%	5.57%	4.01%	1.82%
MSCI EAFE Index	5.35%	(0.67%)	5.35%	(9.16%)
MSCI EAFE Small Cap Index	8.28%	0.48%	8.28%	(9.40%)
MSCI Emerging Markets Index	11.36%	2.70%	11.36%	(6.35%)

Fixed Income	January	3 Months	YTD	1 Year
Merrill Lynch Municipals, 3-7 Yrs Index	0.95%	3.02%	0.95%	8.21%
Merrill Lynch Municipal Master Index	2.55%	5.15%	2.55%	15.20%
Barclays Capital Aggregate Bond Index	0.88%	1.90%	0.88%	8.66%
ishares Barclays TIPS Bond Fund	2.29%	2.99%	2.29%	15.85%
Merrill Lynch High Yield Master II Index	2.90%	3.12%	2.90%	5.20%

Non-Traditional	January	3 Months	YTD	1 Year
FTSE NAREIT US Equity REIT Index	6.36%	7.27%	6.36%	10.61%
Dow Jones UBS Commodity Index	2.47%	(3.56%)	2.47%	(12.06%)
HFRX Absolute Return Index	0.56%	(0.18%)	0.56%	(3.48%)
HFRX Market Directional Index	1.88%	(0.97%)	1.88%	(17.86%)

Actual Month-End Value/Yield	January	October	July	Jan-11
10 Yr TIPS Implied Inflation	2.10%	2.09%	2.44%	2.32%
CBOE VIX	19.44	29.96	25.25	19.53
Gold Spot \$/OZ	\$1,737.60	\$1,714.85	\$1,627.88	\$1,332.80
WTI Crude Oil Spot Price \$/BL	\$96.83	\$92.64	\$95.30	\$91.59
Trade-Weighted US Dollar Index	73.44	71.61	69.12	72.93

S&P 500 Index - Includes a representative sample of 500 leading companies in leading industries of the U.S. economy.

Russell 1000 Index - Measures the performance of the large cap segment of the U.S. equity universe and represents approximately 92% of the U.S. market.

Russell 2000 Index - Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, representative of the U.S. small capitalization securities market.

Russell 2500 Index - Measures the performance of the 2,500 smallest companies in the Russell 3000 Index, representative of the U.S. small and mid capitalization securities market.

Russell 3000 Index - Measures the performance of the broad U.S. equity universe representing approximately 98% of the U.S. market.

Russell 3000 Growth Index - Measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 3000 Value Index - Measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

MSCI EAFE Index - A free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. Consists of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Small Cap Index - A free float-adjusted market capitalization index that is designed to measure the small capitalization segment of developed market equity performance, excluding the U.S. and Canada.

MSCI Emerging Markets Index - A free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. Consists of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Merrill Lynch Municipals, 3-7 Yrs Index - A subset of The Merrill Lynch U.S. Municipal Securities Index including all securities with a remaining term to final maturity greater than or equal to 3 years and less than 7 years.

Merrill Lynch Municipal Master Index - Tracks the performance of U.S. Dollar denominated investment grade tax-exempt debt publicly issued by U.S. states and territories, and their political subdivisions, in the U.S. domestic market.

Barclays Capital Aggregate Bond Index - Covers the U.S. Dollar denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The index includes bonds from the Treasury, Government-Related, Corporate, MBS, ABS, and CMBS sectors.

ishares Barclays TIPS Bond Fund - An exchange traded fund that seeks results that correspond generally to the price and yield performance of the inflation-protected sector of the United States Treasury market as defined by the Barclays Capital U.S. TIPS index.

Merrill Lynch High Yield Master II Index - Tracks the performance of U.S. Dollar denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

FTSE NAREIT US Equity REIT Index - A measure of U.S. publically traded real estate performance. Includes all real estate investment trusts that trade on the New York Stock Exchange, American Stock Exchange and NASDAQ National Market list, and is considered representative of the equity REIT market.

Dow Jones UBS Commodity Index - A broadly diversified index of futures contracts intended to be representative of the commodities market. It currently includes 19 commodity futures in seven sectors.

HFrx Absolute Return Index - Tracks the performance of hedge funds likely to provide stable performance regardless of market conditions which are characteristically less volatile and less correlated to market benchmarks. Performance data is based on estimates for the most recent months may not include performance for the last business day of the indicated month, and is subject to change.

HFrx Market Directional Index - Tracks the performance of hedge funds which add value by participating in the direction of various financial markets and characteristically have higher expected volatility than Absolute Return strategies. Performance data is based on estimates for the most recent months may not include performance for the last business day of the indicated month, and is subject to change.

10 Yr TIPS Implied Inflation - Intends to estimate investor expectations for inflation by subtracting the yield of a generic U.S. 10-year Treasury Inflation Protected Security from the yield of a generic U.S. 10-year Treasury.

CBOE VIX - Intends to measure market expectations of near-term volatility conveyed by S&P 500 stock index option prices with a constant maturity of 30 days.

Gold Spot \$/OZ - An index intended to measure the current price of gold for futures contracts deliverable in the following month priced in dollars per Troy ounce.

WTI Crude Oil Spot Price \$/BL - An index intended to measure the current price of West Texas Intermediate Midland Crude Oil in dollars per barrel.

Trade-Weighted US Dollar Index - A Federal reserve measure of the valuation of the Dollar relative to a composite of major trading partners.