

2010 FOURTH QUARTER MARKET REVIEW

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Equities around the world rose sharply in the closing quarter of 2010, bringing full year results well into double-digit advances across nearly all equity categories. In the U.S., the S&P 500 rose 10.8% for the quarter to close out the year with a 15.1% gain. Driving part of the rally was a recovery in consumer confidence. Another aspect of the equity recovery was the trend for companies to begin deploying some of their massive cash reserves. In fixed income markets, the anticipation of QE2 drove yields down sharply with the 10-year US Treasury hitting a low of 2.38% in mid-October and dropping to 2.48% just after the official Fed announcement of its 6-month \$600 billion Treasury purchase plans in early November. By year end, the yield had risen to 3.30%. The spike in rates post-QE2 sent the Barclays Aggregate Bond Index down 1.3% for the full quarter.

	Q4 2010 Return	YTD 2010 Return
S&P 500	10.8%	15.1%
Russell 2000 (Small Cap)	16.3%	26.9%
MSCI EAFE (US\$)	6.6%	7.8%
MSCI Emerging Markets	7.4%	19.2%
Barclays Capital Aggregate	-1.3%	6.5%
BC 1-10yr Muni Bond	-1.9%	3.1%
BofA Merrill Lynch US High Yd BB-B 2% Constr	2.4%	14.3%
BC Global Agg ex-US Unhedged	-1.3%	5.0%
JPM GBI-EM Global Diversified Unhedged	-0.4%	15.7%

Equity index returns represent total returns with dividends reinvested.

Within the U.S. equity markets, results were strong across the board. Growth eclipsed value across the capitalization range. From a capitalization perspective, performance was inversely related to size, as microcaps led the way while the largest stocks trailed. Energy and Materials stocks performed best with a rise of 20.9% and 18.5% respectively, while defensive sectors Utilities and Health Care were laggards at 0% and 3.1% respectively.

SMALL CAP AND GROWTH LEAD FOR QUARTER AND YEAR

FOURTH QUARTER 2010 RETURNS (Oct 1-Dec 31, 2010)

	VALUE	GROWTH
Large Cap	10.5%	11.8%
Small Cap	15.4%	17.1%

2010 RETURNS (Jan 1-Dec 31, 2010)

	VALUE	GROWTH
Large Cap	15.5%	16.7%
Small Cap	24.5%	29.1%

Russell 1000 Value and Growth indices used for Large Cap returns.

Russell 2000 Value and Growth indices used for Small Cap returns.

Foreign equity markets also rose to add gains to their third quarter advance, but results lagged U.S. returns. Mid single-digit results were posted in local currency and U.S. dollar (MSCI EAFE US\$: +6.6%, MSCI EAFE Local: +5.6%). Japan (+12.1%) and Canada (+12.2%) logged the strongest performance within the developed world while Greece (-10.2%) recaptured the bottom rung from Ireland as both countries continued to struggle under the weight of their debt woes. International style indices were slightly tilted toward growth, and foreign small caps added significant value over their larger siblings (MSCI EAFE Growth: +7.9%, Value: +5.3%, Small Cap: +11.8%). Emerging markets eked out a small advantage over developed markets but fell well short of U.S. results (MSCI Emerging Markets Local USD: +7.4%).

Foreign fixed income gave up ground this quarter on both a hedged and unhedged basis. The BC Global Agg ex-US Unhedged lost 1.3%. Further down the credit quality spectrum, High Yield bonds (BofA Merrill Lynch US High Yd BB-B 2% Constrained: +2.4%) enjoyed their equity market correlation and rallied to a 14.3% advance for the full year. Emerging markets bonds could not overcome the rising rate environment and posted a 0.4% loss (JP Morgan GBI-Emerging Markets Diversified Index UH).

Strong results across asset classes since the beginning of 2009 show the benefit of adherence to a well-developed investment policy that includes a widely diversified strategic asset allocation and disciplined rebalancing to that target allocation.

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