



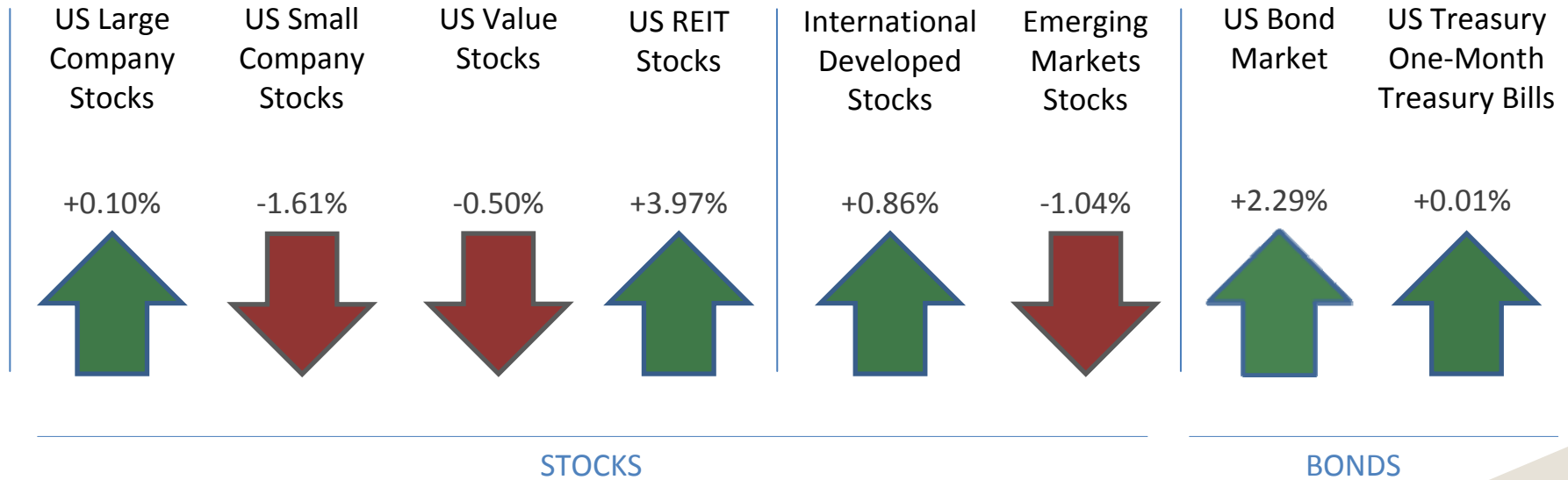
QUARTERLY INVESTMENT REVIEW

SECOND QUARTER 2011



Markets Update: A Quarter in Review

Second Quarter 2011



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

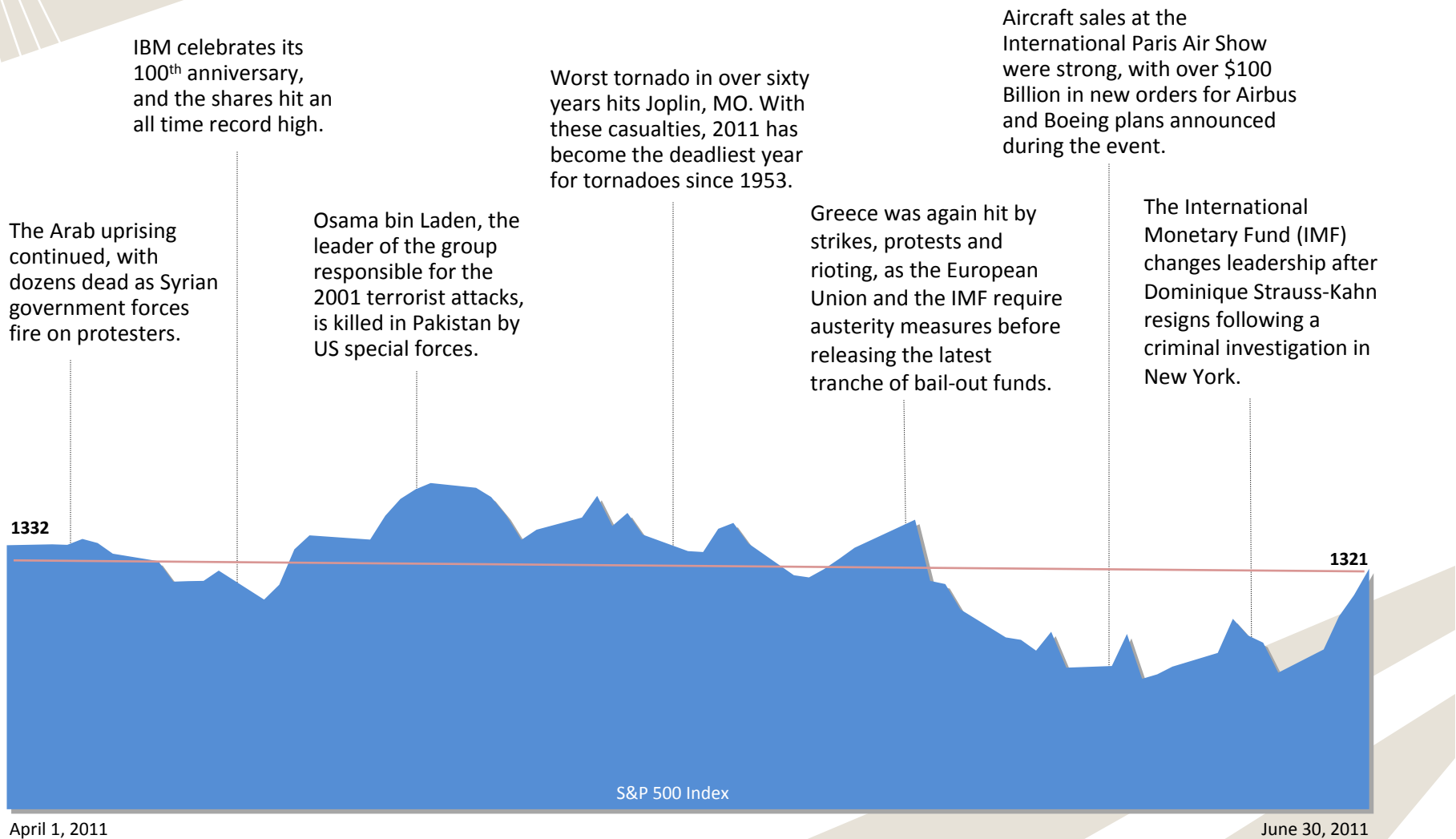
Markets Update: A Quarter in Review

Second Quarter 2011

- Despite weaker-than-expected economic data in the US and Europe's sovereign-debt crisis, equity markets around the world were little changed in the second quarter. The broad US market was flat for the quarter.
- In US dollar terms, the overall performance in other developed markets was slightly positive, but that positive performance was entirely due to currency fluctuations. As in most of the past few quarters, there was much dispersion in performance at the individual country level. Greece, which once again had to be bailed out by the European Union and the International Monetary Fund to avoid defaulting on its sovereign debt, had sharply negative returns for the quarter. At the other end of the spectrum, New Zealand and core European countries such as Germany and France had strong positive returns. The US dollar lost ground against all major currencies, which helped the dollar-denominated returns of developed market equities.
- Emerging markets had negative returns and trailed developed markets in the quarter. As in developed markets, there was much dispersion in the performance of different emerging markets. Indonesia and other small emerging markets in Asia did well. On the other hand, some of the largest emerging countries such as China, Brazil, India, and Russia had sharply negative returns and were among the worst performers. The US dollar also lost ground against the main emerging market currencies, which contributed positively to the dollar-denominated returns of emerging market equities.
- Value stocks underperformed growth stocks across all market capitalization segments in the US and in other developed markets. In emerging markets, however, value stocks had mixed performance relative to growth stocks: small cap value outperformed small cap growth, while large cap value underperformed large cap growth. Along the market capitalization dimension, small caps underperformed large caps in the US and in other developed markets, but not in emerging markets.
- Most fixed income securities had excellent returns, especially inflation-protected securities
- Real estate securities had strong returns and excellent performance relative to other asset classes.

Timeline of Events: A Quarter in Review

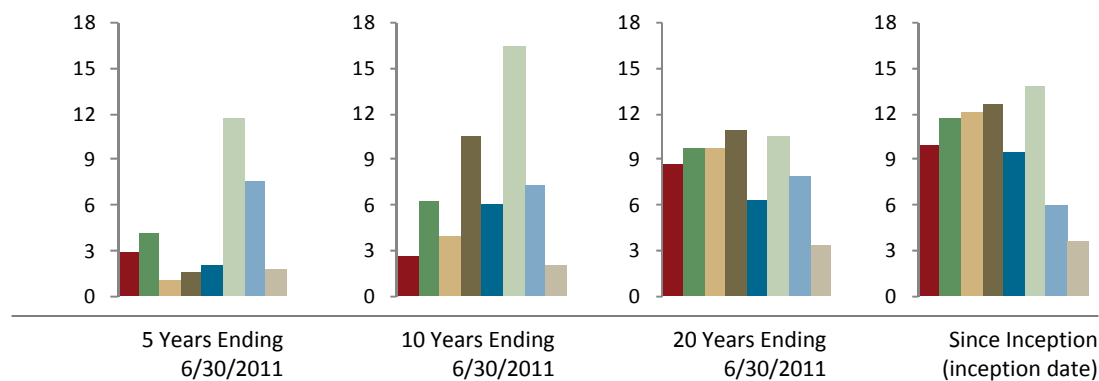
Second Quarter 2011



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.

Beyond the Quarter: Survey of Long-Term Performance

As of June 30, 2011

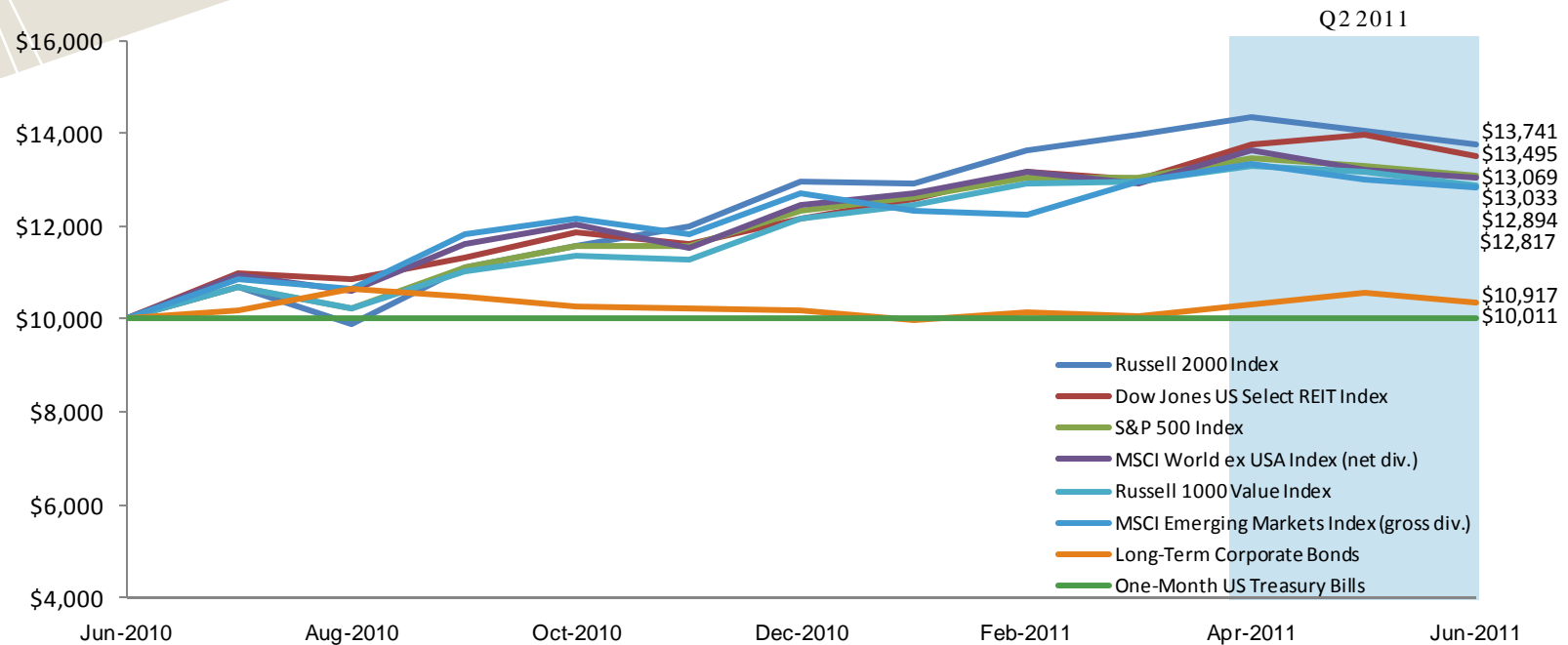


Index	5 Years Ending 6/30/2011	10 Years Ending 6/30/2011	20 Years Ending 6/30/2011	Since Inception (inception date)
US Large Company Stocks				
S&P 500 Index	2.94	2.72	8.73	9.88 (1/1926)
US Small Cap Stocks				
Russell 2000 Index	4.08	6.27	9.82	11.74 (1/1979)
US Value Stocks				
Russell 1000 Value Index	1.15	3.98	9.72	12.18 (1/1979)
US Real Estate Investment Trust Stocks				
Dow Jones US Select REIT Index	1.67	10.53	11.01	12.68 (1/1978)
International Stocks				
MSCI World ex USA Index	2.02	6.13	6.30	9.53 (1/1970)
MSCI Emerging Markets Index (gross div.)	11.75	16.54	10.53	13.79 (1/1988)
Bonds				
SBBI Long-Term Corporate Bonds	7.54	7.24	7.97	5.89 (1/1926)
SBBI One-Month US Treasury Bills	1.80	1.96	3.31	3.60 (1/1926)

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Change in Value of \$10,000 Invested in Various Markets

July 1, 2010–June 30, 2011



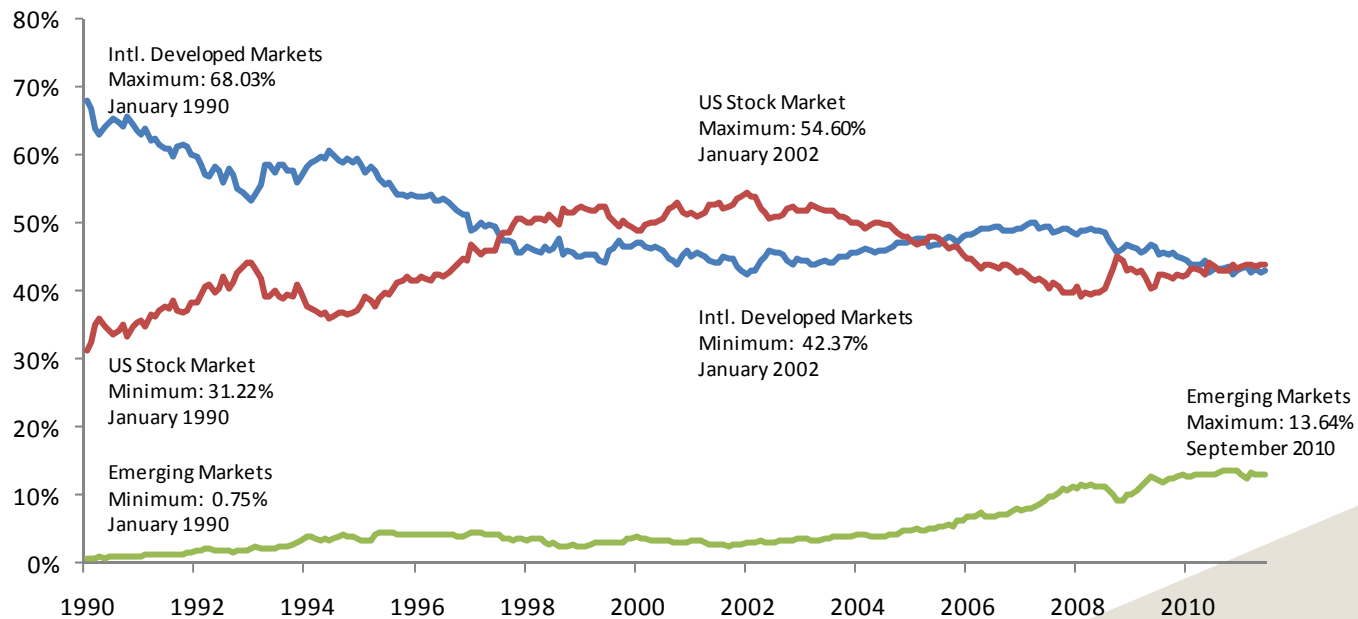
Asset Class	Index	CHANGE IN VALUE OF \$1			
		1 Year	5 Years	10 Years	20 Years
US Large Company Stocks	S&P 500	\$1.31	\$1.16	\$1.31	\$5.34
US Small Cap Stocks	Russell 2000	\$1.37	\$1.22	\$1.84	\$6.51
US Value Stocks	Russell 1000 Value	\$1.29	\$1.06	\$1.48	\$6.40
US Real Estate Investment Trust Stocks	Dow Jones US Select REIT	\$1.35	\$1.09	\$2.72	\$8.07
International Developed Stocks	MSCI World ex USA	\$1.30	\$1.11	\$1.81	\$3.39
Emerging Market Stocks	MSCI Emerging Markets (gross div.)	\$1.28	\$1.74	\$4.62	\$7.41
Fixed Income Corporate Bonds	Long-Term Corporate Bonds	\$1.04	\$1.44	\$2.01	\$4.63
Short-Term Government Bonds	One-Month US Treasury Bills	\$1.00	\$1.09	\$1.21	\$1.92

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Value of Stock Markets around the World

January 1990–June 2011

	Number of Countries	Number of Stocks	Total Value	Weights		
				June 30, 2011	Change from Previous Quarter	01/90–6/11 Average
United States	1	2,969	15.05 Trillion	43.89%	▼ -0.09%	44.62%
Developed Markets	23	3,719	14.71 Trillion	42.91%	▲ 0.14%	50.21%
Emerging Markets	21	2,811	4.52 Trillion	13.20%	▼ -0.05%	5.17%
Total	45	9,499	34.28 Trillion	100.00%		



- Global market capitalization weights are not static; they vary across time.

Developed markets' securities and commodities data provided by Bloomberg. Emerging markets' data provided by International Finance Corporation. The Russell 3000 Index is used as the proxy for the US market. The proxies for the non-US developed and emerging markets are the respective developed country and emerging country portions from the MSCI All Country World IMI ex USA Index. The proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy.

The Randomness of Quarterly Returns

This table shows from top to bottom the highest returning asset classes each quarter over the last 14 quarters. Each asset class is color coded based on the legend below.

	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011	Q3 2011
Highest Return	2.14	0.58	4.78	23.36	1.02	34.84	35.44	9.18	9.81	8.40	18.16	16.25	7.94	3.97	?
	0.52	0.53	0.43	0.20	0.03	31.46	21.04	8.58	8.85	0.02	16.14	10.76	6.70	2.82	?
	-1.13	-0.80	-1.12	-21.15	-11.01	25.86	19.36	6.04	6.79	-4.13	13.22	10.54	6.46	0.86	?
	-8.69	-1.17	-6.11	-21.94	-12.43	20.68	19.28	4.22	5.39	-8.29	11.29	7.45	5.92	0.10	?
	-8.72	-2.49	-8.37	-22.18	-13.14	16.69	18.24	3.88	2.45	-9.93	11.29	7.36	3.82	0.01	?
	-9.45	-2.72	-8.54	-26.12	-14.95	15.93	15.61	2.44	1.53	-11.14	10.13	7.16	2.10	-0.50	?
	-9.90	-5.32	-20.67	-27.56	-16.77	8.24	11.09	0.01	1.35	-11.43	4.98	0.03	0.03	-1.04	?
Lowest Return	-10.92	-5.39	-26.86	-39.95	-33.92	0.02	0.03	-2.17	0.01	-13.63	0.04	-3.15	-1.15	-1.61	?

US Large Cap Stocks (S&P 500)
US Small Cap Stocks (Russell 2000)
US Large Value Stocks (Russell 1000 Value)
International Developed Stocks (MSCI World ex USA)
Emerging Markets Stocks (MSCI Emerging Markets)
Real Estate (Dow Jones US Select REIT)
One-Month US Treasury Bills
Long-Term Corporate Bonds

The lack of a pattern indicates that picking which asset classes will be the best or worst performers is virtually impossible.

In Q4 2008, for example, the MSCI Emerging Markets Index was the second worst-performing asset class. A quarter later, it was the best-performing asset class.

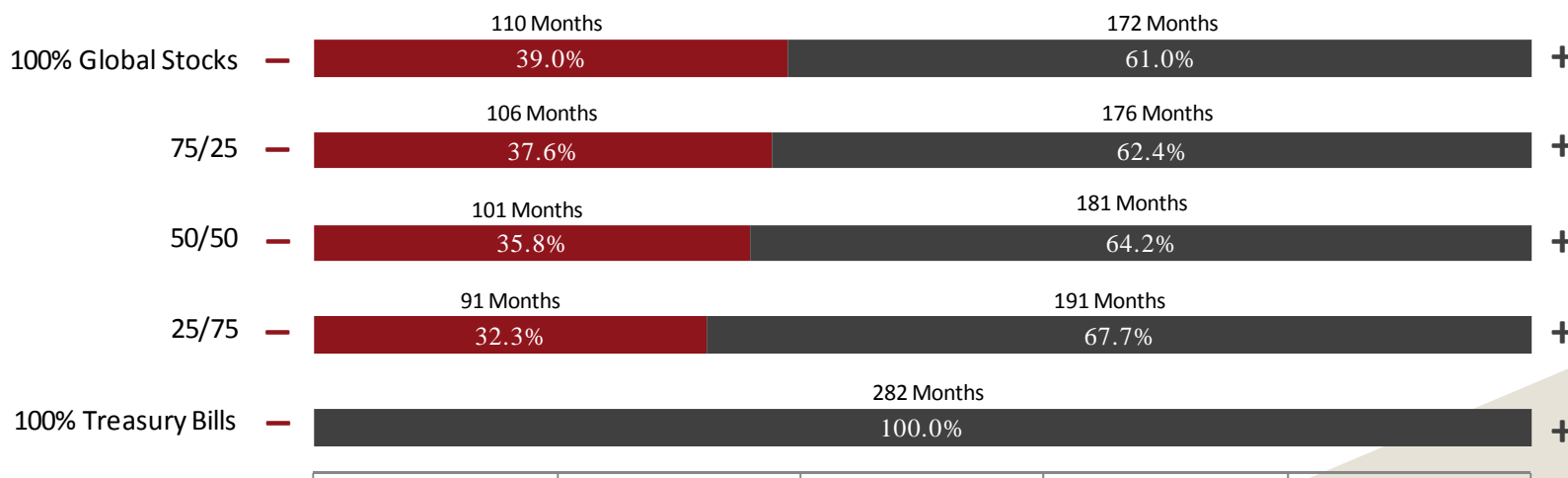
Portfolios combining these various investments will attempt to avoid extreme returns.

Returns of Balanced Portfolios

As of June 30, 2011

	Q2 2011	1 Year	3 Years	5 Years	10 Years	20 Years
100% Global Stocks	0.44	30.77	1.47	3.70	5.30	7.69
75/25	0.35	22.62	1.74	3.62	4.75	6.82
50/50	0.25	14.79	1.62	3.28	4.01	5.80
25/75	0.14	7.29	1.13	2.67	3.07	4.62
100% Treasury Bills	0.01	0.11	0.29	1.80	1.96	3.31

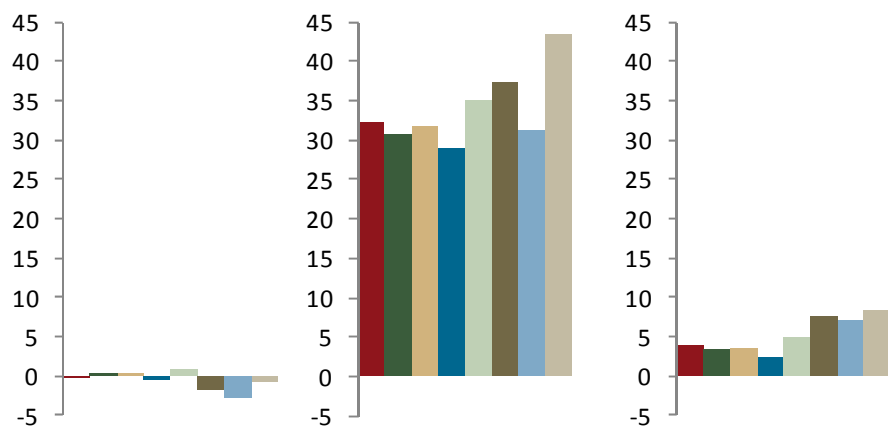
Positive vs. Negative Returns: January 1988–June 2011



January 1988 start date based on the earliest common index inception. 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.

US Stock Returns

As of June 30, 2011



Asset Class	Index	Q2 2011	1 Year	3 Years Annualized
Marketwide	Russell 3000	-0.03	32.37	4.00
Large Cap	S&P 500	0.10	30.69	3.34
Large Cap	Russell 1000	0.12	31.93	3.68
Large Cap Value	Russell 1000 Value	-0.50	28.94	2.28
Large Cap Growth	Russell 1000 Growth	0.76	35.01	5.02
Small Cap	Russell 2000	-1.61	37.41	7.77
Small Cap Value	Russell 2000 Value	-2.65	31.35	7.09
Small Cap Growth	Russell 2000 Growth	-0.59	43.50	8.35

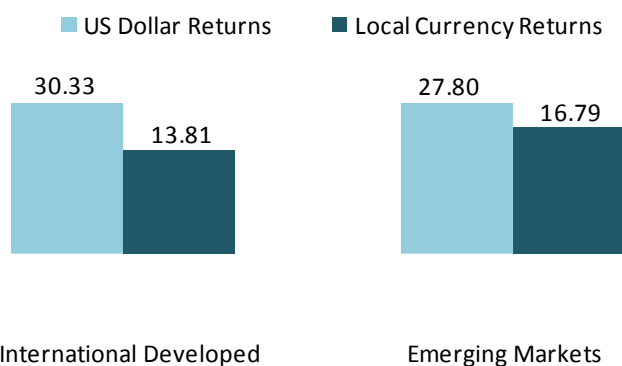
International Stock Returns

As of June 30, 2011

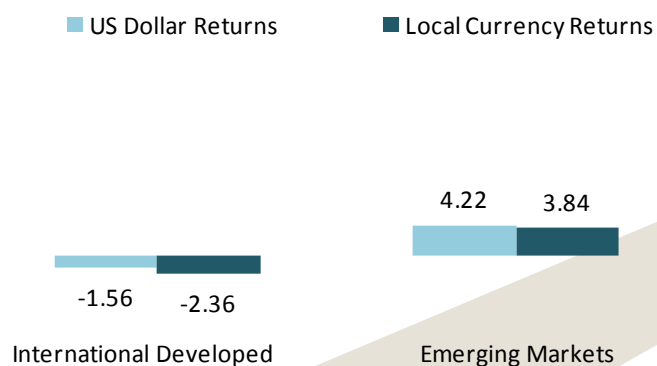
Asset Class	Index	Q2 2011	1 Year	3 Years Annualized
Marketwide	MSCI All Country World ex USA	0.38	29.73	-0.35
Developed Large Cap	MSCI World ex USA	0.86	30.33	-1.56
Developed Small Cap	MSCI World ex USA Small Cap	-0.16	37.05	3.72
Developed Value	MSCI World ex USA Value	0.49	29.38	-0.96
Developed Growth	MSCI World ex USA Growth	0.89	30.69	-1.12
Emerging Markets Large Cap	MSCI Emerging Markets	-1.15	27.80	4.22
Emerging Markets Small Cap	MSCI Emerging Markets Small	-1.00	25.22	11.93
Emerging Markets Value	MSCI Emerging Markets Value	-2.08	26.50	5.50
Emerging Markets Growth	MSCI Emerging Markets Growth	-0.18	29.10	2.89

IMPACT OF CURRENCY FLUCTUATIONS ON RETURNS FOR INVESTORS IN US DOLLARS

1-Year Returns in US Dollars and Local Currency



3-Year Annualized Returns in US Dollars and Local Currency








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Country Returns in US Dollars and Local Currency

As of June 30, 2011

2st Quarter 2011 Returns

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. New Zealand	11.29%	2.78%	8.51%
 2. Chile	8.53%	6.13%	2.40%
.			
.			
 23. United States	0.07%	0.07%	–
.			
.			
 44. Peru	-15.17%	-15.17%	–
 45. Greece	-16.48%	-18.25%	1.77%

1-Year Returns in US Dollars and Local Currency

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. Poland	57.04%	27.66%	29.38%
 2. Austria	54.11%	30.20%	23.91%
.			
.			
 23. United States	30.71%	30.71%	–
.			
.			
 44. Greece	2.62%	-13.30%	15.92%
 45. Egypt	-11.95%	-7.99%	-3.96%

10-YEAR PERFORMANCE RANKING OF MARKETS AROUND THE WORLD IN US DOLLARS AS OF JUNE 30, 2011

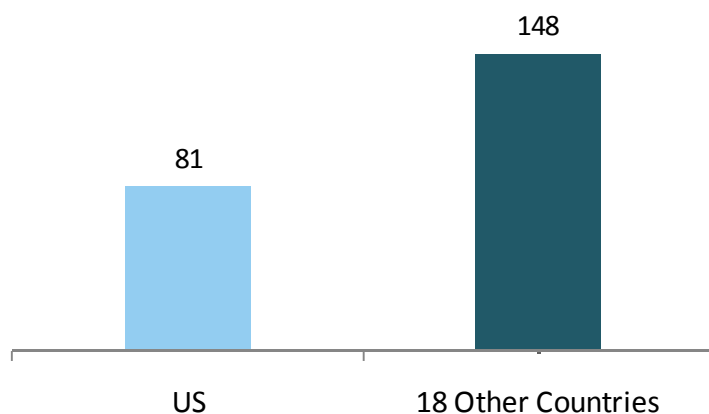
1. Colombia 2. Indonesia 3. Peru 4. Czech Republic 5. Egypt 6. Brazil 7. Thailand 8. India 9. Chile 10. Russia 11. Korea 12. Hungary 13. South Africa 14. Malaysia 15. Morocco 16. Mexico 17. Turkey 18. Australia 19. Poland 20. China 21. Norway 22. Singapore 23. Canada 24. Denmark 25. New Zealand 26. Philippines 27. Sweden 28. Austria 29. Hong Kong 30. Spain 31. Switzerland 32. Israel 33. Taiwan 34. Germany 35. Portugal 36. France 37. United Kingdom 38. Netherlands 39. Belgium 40. Italy **41. USA** 42. Finland 43. Japan 44. Greece 45. Ireland

Real Estate Investment Trusts (REIT) Stocks

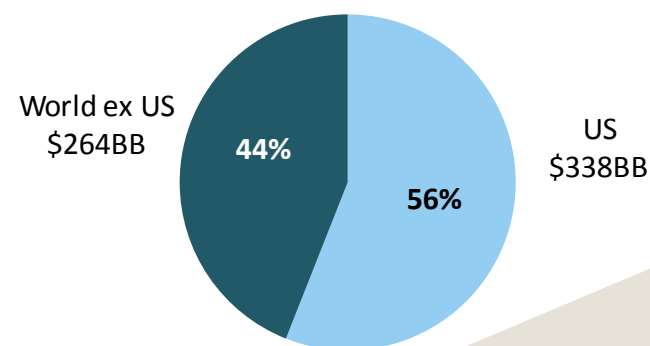
As of June 30, 2011

Index	Q2 2011	1 Year	3 Years Annualized
Dow Jones US Select REIT Index	3.97	34.95	4.71
S&P Global ex US REIT Index	4.59	41.41	0.79

Number of REIT Stocks



Total Value of REIT Stocks



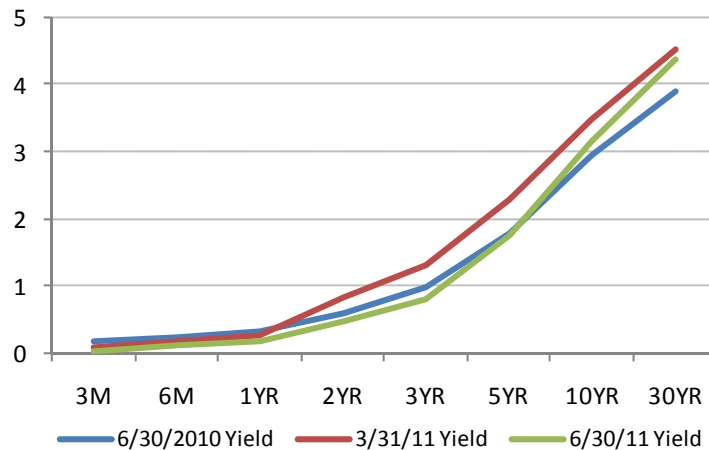
Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's ©. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Bond Returns

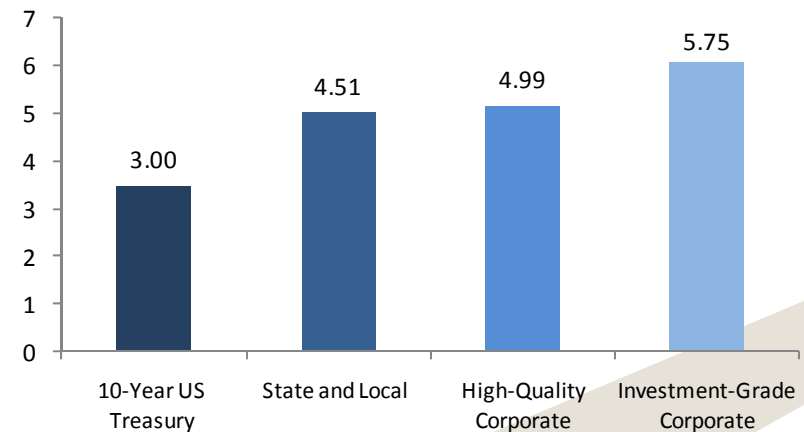
As of June 30, 2011

Index	Q2 2011	1 Year	3 Years Annualized
One-Month US Treasury Bills (SBBI)	0.01	0.11	0.29
Bank of America Merrill Lynch Three-Month T-Bills	0.04	0.16	0.42
Bank of America Merrill Lynch One-Year US Treasury Note	0.20	0.67	1.57
Citigroup World Government Bond 1-5 Years (hedged)	0.84	0.87	3.51
US Long-Term Government Bonds (SBBI)	4.26	0.18	6.48
Barclays Capital Corporate High Yield	1.05	15.63	12.68
Barclays Capital Municipal Bonds	3.89	3.48	5.58
Barclays Capital US TIPS Index	3.66	7.74	5.28

US Treasury Yield Curve



Bond Yields Across Different Issuers



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.

Is It Different This Time?

Second Quarter 2011

For the twelve-month period ending June 30, 2011, equity investors around the world enjoyed the equivalent of blue skies and bright sunshine while the economic news was partly cloudy at best. Among forty-five developed and emerging-country stock markets tracked by MSCI, **all but five had double-digit total returns (in US dollar terms), and twenty-five had returns of 30% or more.**

If someone had told us a year ago that global markets would stage such a broad-based rally, we would have been inclined to think that trends in employment, housing, and financial distress were about to take a pronounced turn for the better. It seems hard to argue they have done anything of the sort. Somehow, despite gloomy financial page news that keeps repeating itself, equity prices marched substantially higher. The moral of the story? Investors should be skeptical of their ability to predict future events and even more skeptical of their ability to predict how other investors will react to them.

Last Year's Headlines

"Europe Crisis Deepens as Chaos Grips Greece"

Moffett and Granitsas. Wall Street Journal, May 6, 2010

"Fearful Investors Are Pulling Out"

Adam Shell. USA Today, May 20, 2010

"Housing Prices Remain Weak"

Sara Murray. Wall Street Journal, May 26, 2010

"Fear Returns—How to Avoid a Double-Dip Recession"

Cover story. Economist, May 29, 2010

"Spill Tops Valdez Disaster—Deep Trouble"

Weisman, Chazan, Power. Wall Street Journal, May 28, 2010

"Discouraging Job Growth Batters Stocks"

Don Lee. Los Angeles Times, June 5, 2010

"Economic Outlook Darkens"

Cheng and Lahart. Wall Street Journal, June 2, 2010

"Bond Fund Managers See Signs of a Bubble"

Sam Mamudi. Wall Street Journal, June 8, 2010

This Year's Headlines

"Greek Woes Fuel Fresh Fears"

Walker and Benjamin. Wall Street Journal, May 10, 2011

"Fear Wins: Stocks Resume Long Slide"

Adam Shell. USA Today, June 16, 2011

"Home Market Takes a Tumble"

Timiraos and Wotapka. Wall Street Journal, May 9, 2011

"The World Economy—Sticky Patch or Meltdown?"

Cover story. Economist, June 18, 2011

"Japanese Nuclear Crisis Is Ranked at the Level of Chernobyl"

Mitsuru Obe. Wall Street Journal, April 12, 2011

"Jobs Data Stoke US Recovery Fears"

Harding, Bond and Mackenzie. Financial Times, June 4, 2011

"Stocks Plunge Amid Fears That Global Economy is Slowing"

Christina Hauser. New York Times, June 11, 2011

"Why Are Investors Still Lining Up for Bonds?"

Jeff Sommer. New York Times, May 29, 2011