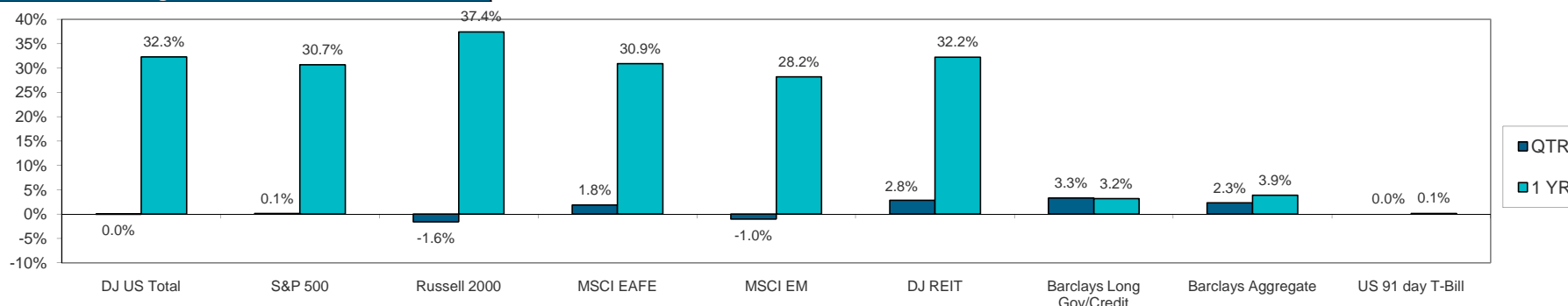


## Quarter and Trailing-Twelve Benchmark Returns



Source: Morningstar EnCorr

## U.S. Market

Equity markets in the second quarter were dominated by fears over European sovereign defaults and a domestic economic slowdown; jarringly similar to the second-quarter of 2010. The large cap S&P 500 Index was virtually flat at 0.10% for the quarter, while the broad market Index the Russell 3000 was actually down -0.03%. Corporate earnings came in largely better than expected, and the markets were saved from a true negative quarterly return by a sharp rally seen in the last week of June. The sharp equity rally was initiated by positive ISM and PMI numbers, which staved off for the moment fears of a double dip recession.

The Fixed Income market experienced volatility as optimism for continued global economic recovery in April, gave way to disappointing economic data and events including weaker U.S. economic data, the inability to resolve the U.S. debt ceiling debate, and renewed worries over the persistence of the European sovereign debt crisis. Fixed income saw returns driven by higher quality paper such as Treasuries and Investment Grade Corporates, while riskier assets such as High Yield lagged. The Barclays U.S. Aggregate Index gained 2.3% and the Barclays Capital Long Gov/Credit Index added 3.3%. Corporate indexes came in with respectable results in Q2, with the Barclays US Credit and Corporate High Yield Indices gained 2.5% and 1.05% respectively. The CSFB leveraged loan index squeaked out a small gain of 0.3%. The Barclays TIPS

## Non-U.S. Markets

As in the US, foreign stock markets affected by ever changing news that created "risk on" and "risk off" market moves. European equities were the focus last quarter, as investors grappled with the Greece situation and the specter of other down grades with the "PIIGS". The developed market MSCI EAFE Index climbed 1.8% and the MSCI Emerging Market Index due to negative capital flows was down -1.0%. Within Europe, as expected France was down -0.2% and Germany gained 4.8% due to solid economic growth and strong exports.

In looking at emerging markets, Russia backtracked losing -6.7% due to the fall in oil prices and increasing budget deficits. In Asia, Japan the Nikkei rose 0.63% as industrial production is beginning to recover from the effects of the tsunami. The Hang Seng Index was down -4.80% due to China's tightening fiscal policy, and Korean was

## Economic Developments

The same risk factors seen in 2010 were also front and center this year. Specifically, investor worries centered on the slowdown in the U.S. economy, the European sovereign debt issues, and the spike of inflation seen in EM and China. We believe investor's being familiar with these same concerns helped to mitigate some of the downside that could have affected the global financial markets. Consumer sentiment declined in May from 74.3 to 71.8 due to the negative outlook on unemployment. Specifically, non-farm payroll for May and June have come in at anemic levels of 53,000 and 18,000 after rising to 232,000 in April. The same risk factors seen in 2010 were also front and center this year. Specifically, investor worries centered on the slowdown in the U.S. economy, the European sovereign debt issues, and the spike of inflation seen in EM and China. We believe investor's being familiar with these same concerns helped to mitigate some of the downside that could have affected the global financial markets. Consumer sentiment declined in May from 74.3 to 71.8 due to the negative outlook on unemployment. Specifically, non-farm payroll for May and June have come in at anemic levels of 53,000 and 18,000 after rising to 232,000 in April.

Core CPI is beginning to pick up due to the price acceleration for apparel, shelter, new vehicles and recreation. In the real estate sector the S&P/Case Shiller Home Price Index remains in the doldrums as it is down 3.1% on a year over year basis. Non-farm payroll for May and June have come in at anemic levels of 53,000 and 18,000 after rising to 232,000 in April. The hope is this is a seasonal trend going into the summer and will improve in the coming months.

# US Equity Markets Overview

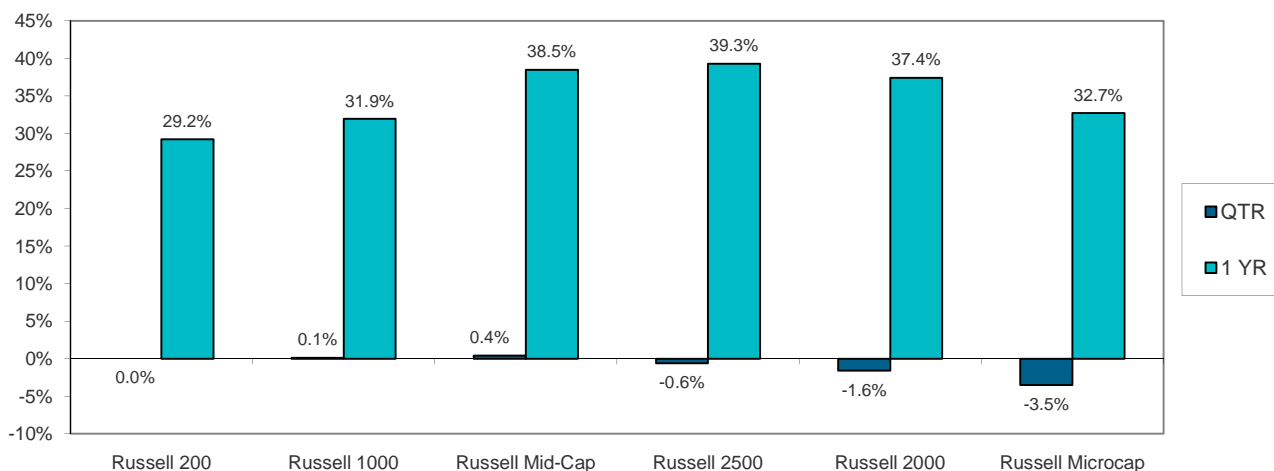
June 30, 2011

## Capitalization Analysis

- Stock performance was mixed during the second quarter as the "de-risking" market sentiment favored the defensive sectors and names that were considered larger cap.

- Smid underperformed losing -0.6% while mid caps posted a slight gain of 0.4%. The broader market Russell 3000 index actually was flat for the quarter. Over the past 12 months, small and mid cap are up over 38% versus the large cap Russell 200 an also impressive 29.2%.

- Earnings for the quarter have come in better than expected, and has given hope that corporate margins will increase in 2011 by 12% to 14% year over year. Solid earnings, high cash levels and strong balance sheets have helped stocks to remain resilient and positive for the year.



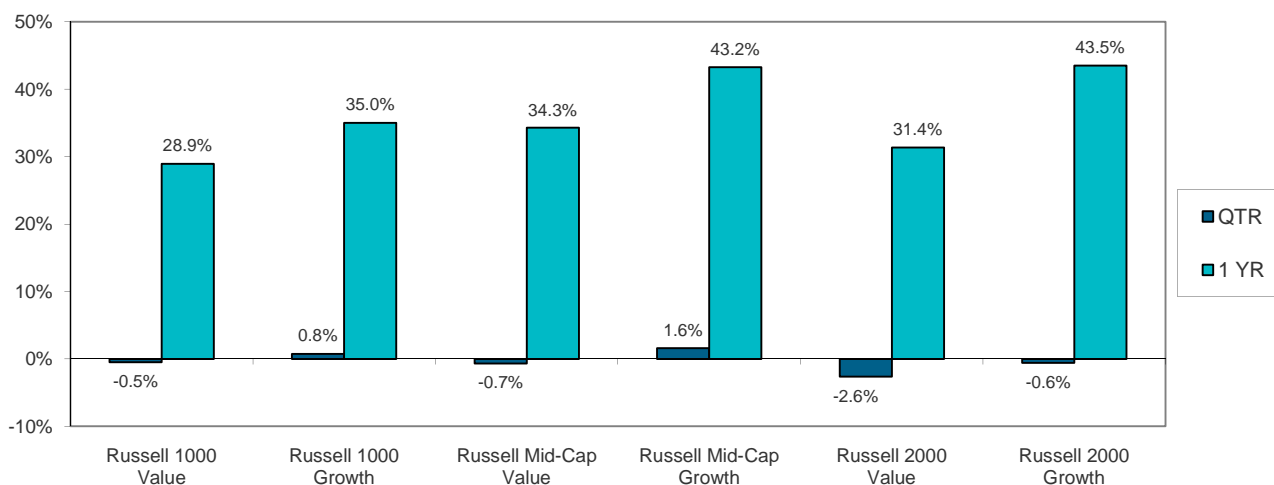
Source: Morningstar EnCorr

## Style Analysis

- Growth indices outperformed during the second quarter as economic growth expectations would remain high enough to support growth companies. Value indexes were behind in performance for the quarter.

- Over the past several quarters, smaller cap growth companies have clearly outperformed versus their large cap counterparts. Over the last twelve months the Russell 2000 Growth has provided a stellar return of 43.5% versus an also solid return of 28.9% for the large cap Russell 1000 Value.

- Health Care, Consumer Staples and Consumer Discretionary led the way posting solid returns. The sectors detracting from returns included Energy due to the drop in oil prices and Financials due to the uncertainty over debt issues seen in most developed markets.

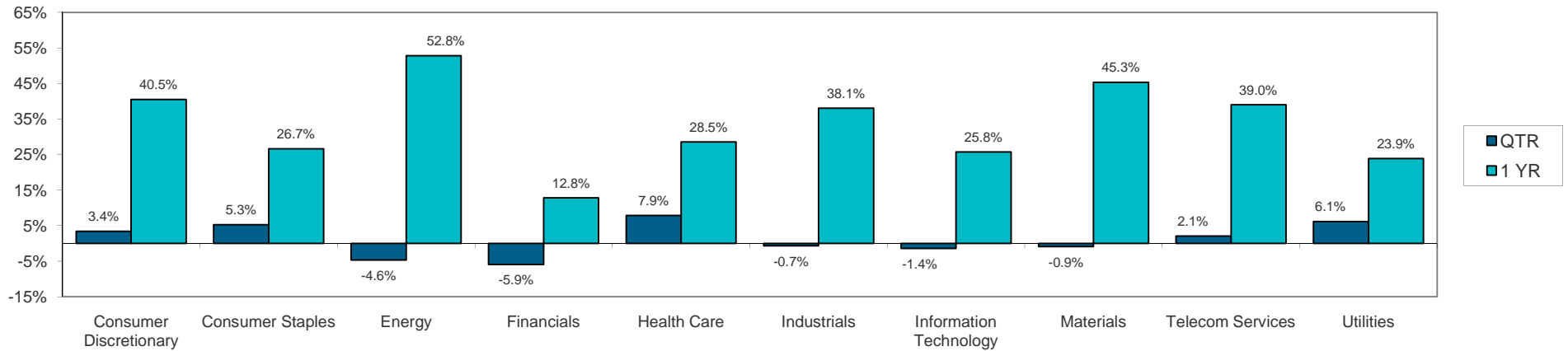


Source: Morningstar EnCorr

# U.S. Equity Sector Returns / Country Returns

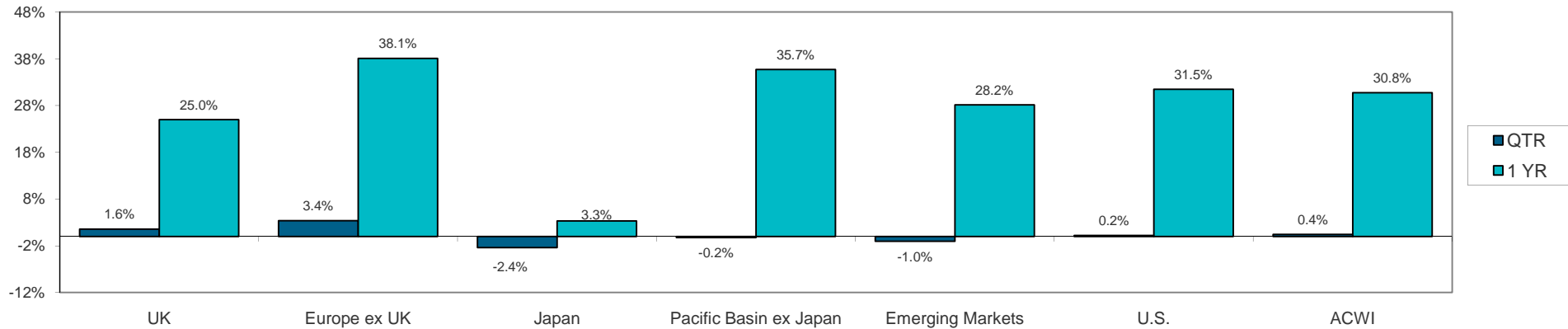
June 30, 2011

## US Equity Sector Returns



Source: Morningstar EnCorr

## Country Returns

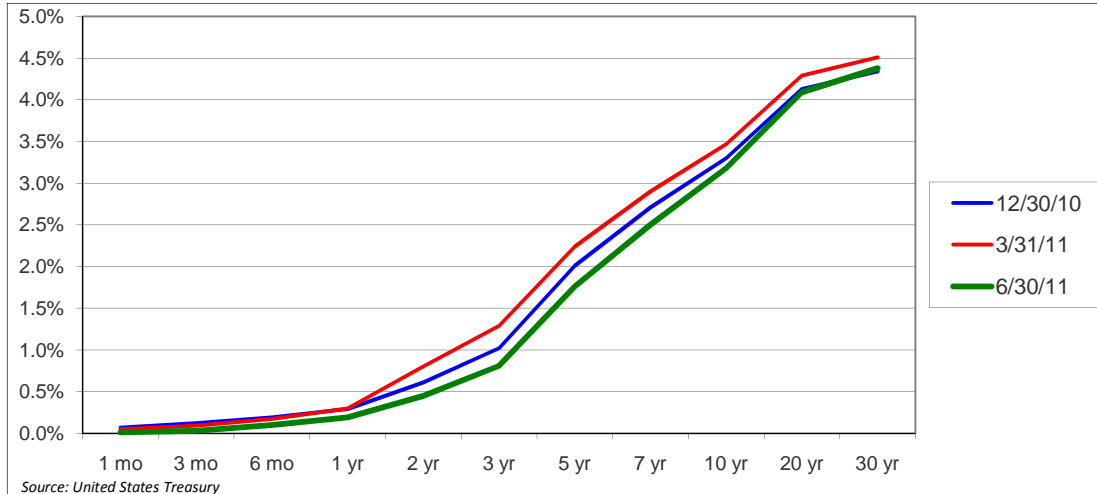


Source: Morningstar EnCorr

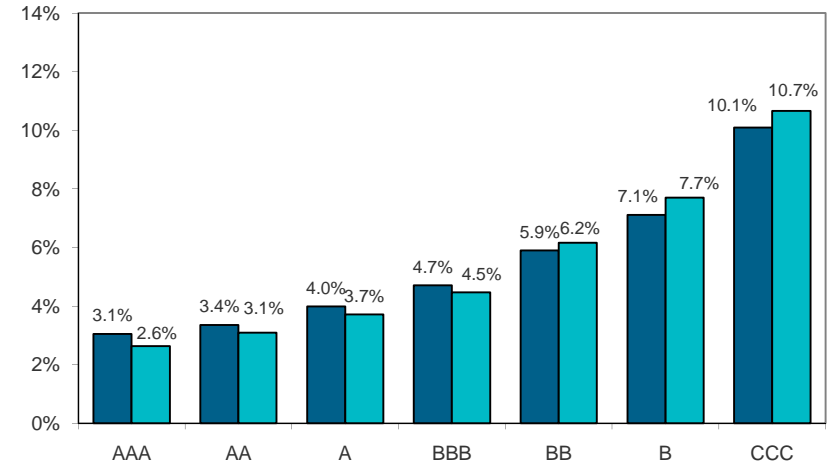
# Fixed-Income Markets Overview

June 30, 2011

## Yield Curve

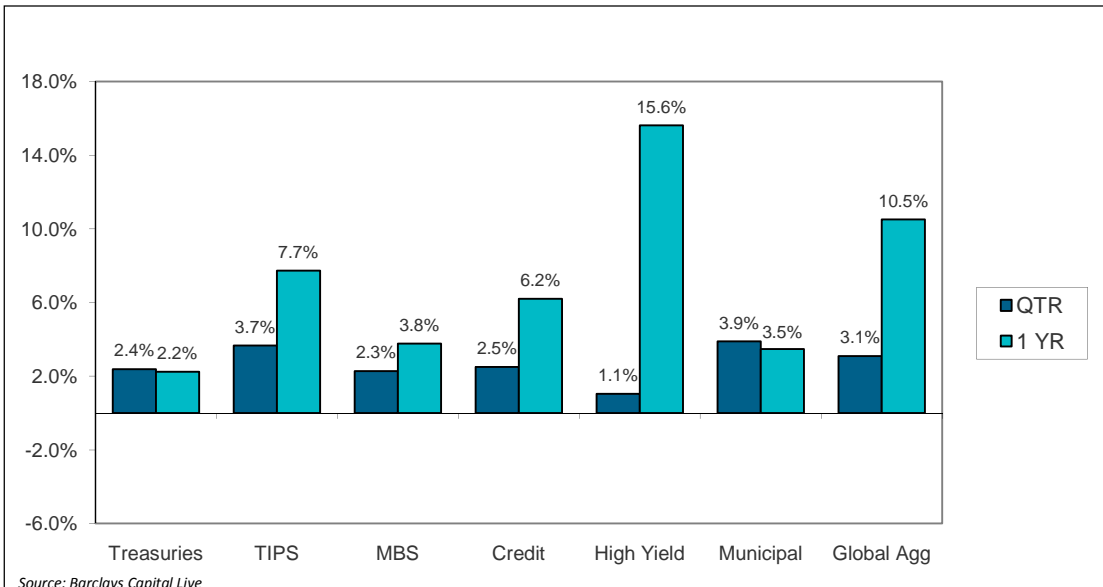


## Yield by Credit Rating



Source: Bank of America Merrill Lynch U.S. Corporate and High Yield indexes

## Sector Returns



## Commentary

- Interest rates declined and the yield curve flattened as weakness in U.S. macroeconomic data, concern about the financial crisis in Europe and volatility in equity markets caused continued flight-to-quality flows into fixed income markets.
- Spread sectors performed well across the board on rate declines with lower quality credit (high yield) lagging higher quality investment grade segments by a considerable margin. Securitized segments such as Agency MBS performed quite well on investor demand for high quality yield with other factors such as a low level of rate volatility and a subdued level of prepayments also buoying the sector. CMBS and ABS performed reasonably well but underperformed comparable duration Treasury securities.
- Interest rate sensitive segments such as TIPS and municipal bonds also did exceptionally well for the quarter. The lower level of municipal bond supply and lack of new negative headlines helped. Going forward, we are cautious on the fixed income segments given the low level of interest rates and yield spreads. While we expect the Fed keep monetary policy on hold for most of the rest of 2011, a favorable outcome on Capitol Hill over dealing with the U.S. deficit and progress in Europe on their sovereign debt difficulties could conceivably cause rates to increase.