



Market Review - Q4 2010

Domestic Equity Markets

A strong fourth quarter rally in U.S. stocks helped generate double-digit returns for the calendar year across all major domestic equity indices. A second round of quantitative easing by the Fed combined with an extension of the Bush-era tax cuts helped fuel the rally. Domestically, the S&P 500 Index increased 10.8% for the fourth quarter and up 15.1% for the year. Mid cap [+13.1%] and small cap [+16.3%] stocks were ahead of their large cap brethren for the quarter, and remained significantly ahead for the year (up 25.5% and 26.9%, respectively).

Stylistically, over all capitalization ranges growth stocks outpaced value stocks during the fourth quarter and year-to-date periods. Within the Technology sector (a traditional growth sector), industry giants like Apple [+14%], Microsoft [+15%] and Google [+13%] all posted strong returns for the quarter. Meanwhile, helping to push up the overall performance of value stocks was the strong performance from the Energy [+21.9%] sector, which included companies such as ExxonMobil [+19%], ConocoPhillips [+20%] and Apache [+22%].

All sectors were positive for the quarter and six of the ten sectors posted double-digit returns. A rise in commodity prices helped to boost the performance of the Materials [+19.2] sector for the quarter. The next highest performing areas were the Consumer Discretionary [+13.3%] and Industrials [+11.0%] sectors. Conversely, the Utility [+1.9%] and Healthcare [+4.4%] sectors (traditionally 'defensive' sectors) were the two weakest performers, both for the quarter and the year.

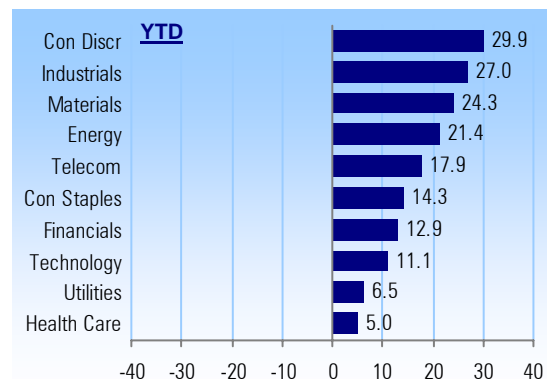
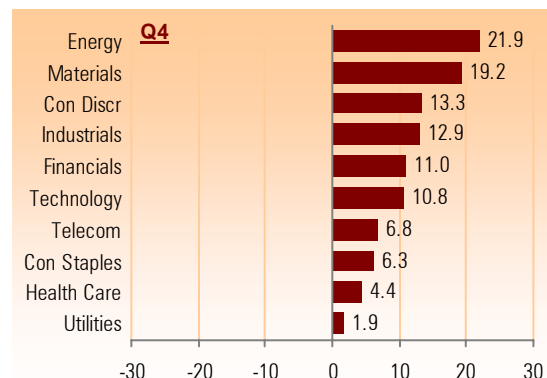
International Equity Markets

In spite of continuing sovereign debt concerns across Europe, developed international markets ultimately moved higher in the fourth quarter, returning 6.6%. For the year, developed international markets gained a relatively anemic 7.7% versus the double-digit returns seen in both the US and emerging markets. The effect of the dollar was mixed for the year as it gained versus the euro and British pound, but lost ground in Asia and elsewhere. The debt-laden PIIGS acted as a major drag in 2010, with each finishing in negative territory. However, Eurozone performance was not all bleak, with both Germany and the UK providing better than benchmark returns for the year. On a regional basis, it was Asia which experienced the most impressive gains in the fourth quarter and in 2010. Hong Kong (23.2%) and Singapore (22.1%) were among the year's top performers followed by Japan (15.4%) and Australia (14.5%).

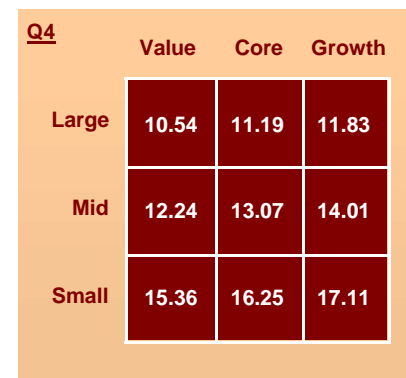
Emerging markets edged out developed international markets in the fourth quarter with a gain of 7.3%, and returned more than twice that of developed international markets in 2010. The annual return of nearly 19% comes on the heels of a particularly strong rebound in 2009. For the quarter, Russia posted the best results among the BRIC countries with a return of 16.5%, helped by rising commodities prices. For the year, the BRIC countries were split in terms of performance with China and Brazil posting gains in the mid-single digits, while India and Russia rose 21% and 19% respectively. China in particular was hampered by policy measures to slow the pace of inflation. The top performers in 2010 were varied across regions and included Thailand (56%), Peru (53%), Chile (44%) and Malaysia (37%).

Equity Market	Past Month	Past 3 Months	YTD	Past 12 Months
S&P 500	6.68%	10.76%	15.06%	15.06%
Russell 1000	6.68%	11.19%	16.09%	16.09%
Russell 1000 Growth	5.51%	11.83%	16.71%	16.71%
Russell 1000 Value	7.89%	10.54%	15.51%	15.51%
Russell MidCap	6.92%	13.07%	25.48%	25.48%
Russell MidCap Growth	6.24%	14.01%	26.38%	26.38%
Russell MidCap Value	7.55%	12.24%	24.75%	24.75%
Russell 2000	7.94%	16.25%	26.86%	26.86%
Russell 2000 Growth	7.59%	17.11%	29.10%	29.10%
Russell 2000 Value	8.31%	15.36%	24.51%	24.51%
MSCI World	7.35%	8.95%	11.76%	11.76%
MSCI EAFE	8.10%	6.61%	7.73%	7.73%
MSCI EM	7.14%	7.34%	18.87%	18.87%
MSCI REIT	4.62%	7.40%	28.47%	28.47%
ML Invest Grade Convertible	2.67%	4.09%	8.08%	8.08%

Equity Sector Returns (%)



Equity Style Returns (%)





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Fixed Income Markets

After posting strong results for the first three quarters of the year, the fixed income market witnessed a reversal as returns for most indices were negative for the quarter. U.S. Treasuries (30-Year and 10-Year) were the hardest hit as rates trended upward due to the economy showing some signs of strength. However, the high yield and CMBS sectors continued their strong showing as investors sought out higher yielding securities. Meanwhile, agencies, asset-backed and investment grade credits were for the most part negative, down roughly 1% - 2%.

U.S. Treasury yields rose across much of the yield curve as the long end of the curve (30-year Treasuries) increased by 65 basis points, while the short end (2-year Treasury) of the curve saw an increase of 17 basis points. For the most part, spreads were generally tighter as the strength of the economic recovery elevated investor confidence in risk assets.

While 2010 was a strong year for fixed income investors, 2011 will likely offer a challenging investment environment. Looking forward, some of the possible headwinds include the potential for higher interest rates, withdrawal of government support and European sovereign risk.

Economic Overview

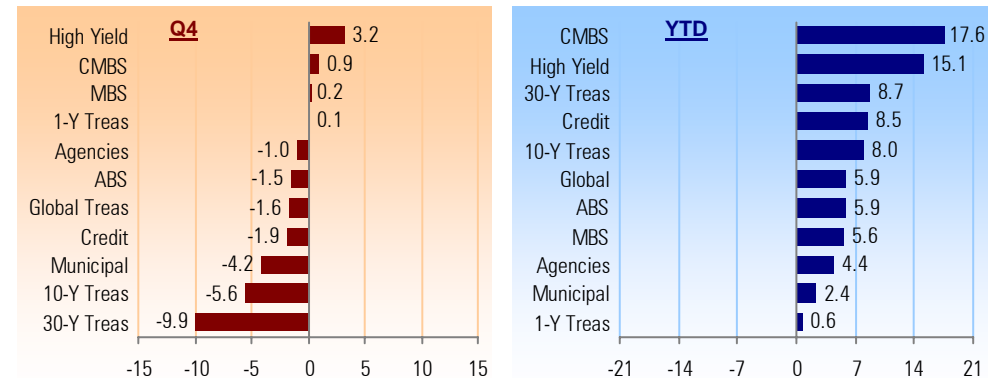
Economic forecasters have been revising their outlooks for U.S. GDP growth upward due to additional fiscal and monetary policies announced during the last several months of 2010. Affirming market expectations, the Federal Reserve announced on November 4th that they intended to initiate another round of quantitative easing (dubbed "QE2") by purchasing \$600 billion of U.S. government bonds over the course of eight months. Markets reacted negatively to this, based mainly on the run-up in asset prices prior to the announcement. In fact, from August 26th, when Fed Chairman Bernanke first hinted at the program, to November 4th, the S&P 500 actually gained 14%. From a fiscal policy standpoint, uncertainty over the fate of the Bush-era tax cuts was resolved in mid-December as Congress passed not only a two-year extension of the tax cuts for all earners, but also a two percentage point reduction to the payroll tax in 2011.

Despite concerns about monetary stimulus causing the U.S. dollar to weaken, the currency gained a modest 1.5% against a basket of currencies in 2010. The gain was primarily due to the dollar's 6.6% gain versus the euro, which struggled due to concerns about Greece, Ireland, Spain and Portugal. Conversely, the Dollar lost 13% versus the yen despite a weak Japanese economy. Investors continued to pile into commodities, as evidenced by the 17% increase in the Dow Jones-UBS Commodity Index for the year. Metals and agriculture markets were the primary drivers. Gold and copper finished the year at record levels, while corn and wheat prices both rose approximately 50%.

Fixed Income Market

	Past Month	Past 3 Months	YTD	Past 12 Months
Barclays Capital Aggregate	-1.08%	-1.29%	6.56%	6.56%
Barclays Capital Intermediate Aggregate	-0.95%	-0.75%	6.14%	6.14%
Barclays Capital Universal	-0.89%	-1.04%	7.16%	7.16%
Barclays Capital Government	-1.62%	-2.34%	5.53%	5.53%
Barclays Capital Credit	-1.01%	-1.86%	8.46%	8.46%
Barclays Capital Municipal	-1.94%	-4.17%	2.37%	2.37%
Barclays Capital High Yield	1.81%	3.22%	15.14%	15.14%
Barclays Capital Mortgage	-0.55%	0.24%	5.57%	5.57%
Citigroup 3-Month Treasury Bill	0.01%	0.03%	0.11%	0.11%
Citigroup Non-US WGBI Unhedged	3.16%	-1.45%	5.21%	5.21%
1-Month LIBOR	0.02%	0.06%	0.27%	0.27%
Barclays Capital U.S. TIPS	-1.55%	-0.65%	6.30%	6.30%
DJ-UBS Commodity	10.69%	15.79%	16.82%	16.82%

Fixed Income Sector Returns (%)



Treasury Yield Curve

