GRAY & COMPANY

CAPITAL MARKET REVIEW

Fourth Quarter 2010

CAPITAL MARKET HEADLINES

Beware of the Tail
An old adage is that the wagging tail of a dog is a sign of liveliness or happiness. The reality is that a wagging of a dog's tail may connote a variety of emotions, including an *aggressive, beware I may bite you* attitude. Misinterpreting or ignoring the tail has led many people to being bitten. As with the tail of a dog, not understanding the tail risk of a portfolio's return distribution has led to unintended big bites being taken out of a portfolio.

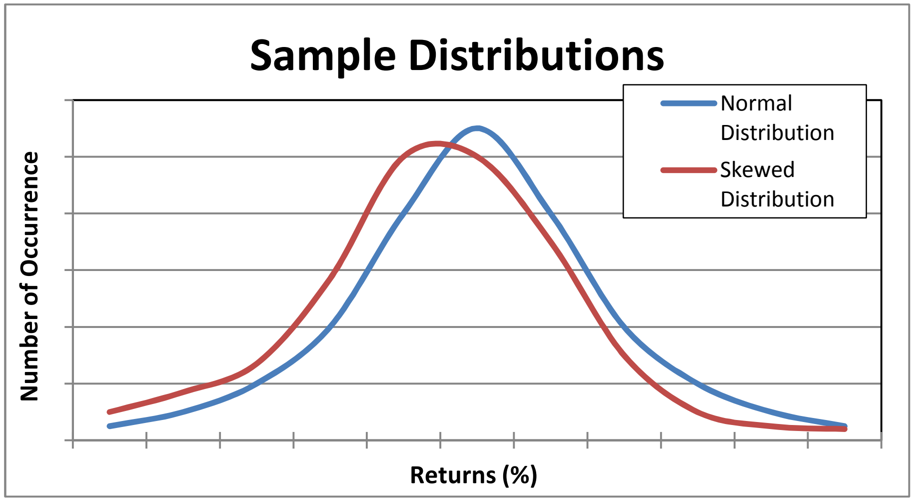
Tail risk measures the probability of an event that is three or more standard deviations from the mean. Under a normal distribution, a three standard deviation event will occur approximately 5% of the time, 2.5% to the upside and 2.5% to the downside (or less than three times in one hundred occurrences). These downside or left tail events are what cause major problems for investors. The performance of the equity markets in 2007 - 2009 and 2000 - 2002 were three plus standard deviation events. Based on a normal distribution the likelihood of the equity market would generate these types of returns (left tail events) this close together was very remote. However, these returns did occur and provide evidence that the return distribution for the equity market is not normal and large losses may occur more often than expected.

So what can be done to guard against these catastrophes? You could buy portfolio insurance or attempt to diversify the risk exposures. The issues with portfolio insurance is that it may be expensive and there is counterparty risk or the risk that the insurance provider will be solvent at the time you need to collect (remember Lehman Brothers). Asset allocation has been and continues to be the standard approach for diversifying portfolios. However, the results using a mean variance model may be less than optimal as correlation statistics approach one during financial shocks. To combat the dangers in the capital markets, investors have developed new and innovative risk management techniques - risk allocation (also known as risk budgeting).

Risk allocation (RA) focuses on targeting risk exposures prior to targeting returns. This approach to asset allocation generally leads to portfolios with higher allocations to asset classes with lower return volatilities and lower correlations to other asset class. To enhance the portfolio's performance, leverage and derivatives may be utilized.

The use of leverage is usually required to achieve target return expectations. Despite the strong risk-adjusted potential for the RA portfolio, the absolute return expectation tends to be insufficient. This is due to the higher allocations to lower risk, lower return asset classes. Leverage permits higher return expectations without allocation shifts. The use of derivatives, such as futures and options, has been shown to improve a portfolio's risk and return profile through reduced volatility and higher returns. The potential improvement is achieved from exposure to a greater opportunity set, including long and short investments in commodities, currencies, and interest rates. These investment opportunities are outside the traditional equity markets. Therefore, these additional exposures may significantly protect the portfolio on the downside in a turbulentequity market. Like most investment strategies or tools, the use of alternative investments, derivatives, and leverage is not without risks. Cost, market liquidity, counterparty risk, and oversight are some of the issues that need to be addressed before initiating this approach.

The frequency of financial shocks to the capital markets warrants analyzing the dangers of risk concentrations and portfolio allocation options. After carefully examining the different allocation strategies and the risk associated with their implementation, investors are able to make prudent decisions about the approach best suited to their needs.



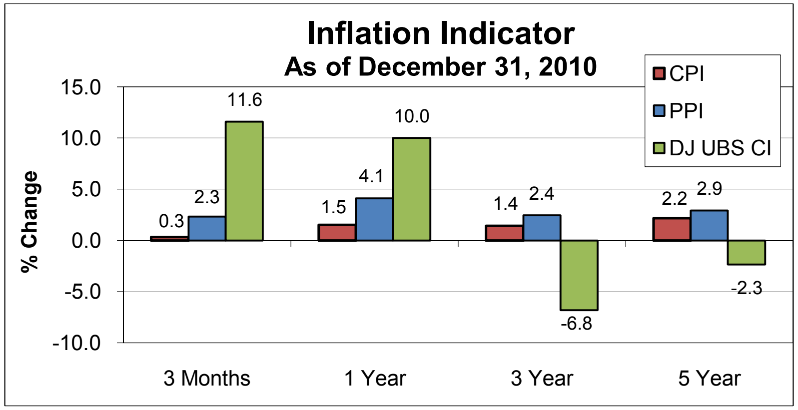
CAPITAL MARKET REVIEW

Guarded Optimism: Economic data improved during the fourth quarter - the Bureau of Labor Statistics reported an estimated 384,000 new jobs added and the U.S. economy ended 2010 with six consecutive quarters of GDP growth. And with the implementation of a second round of quantitative easing and the extension of the Bush-era tax cuts, many anticipate stronger economic growth (government assisted, of course) in the future. However, the sustainability of the recovery is subject to debate due to the high unemployment rates, low wage growth, limited access to credit, and other factors.

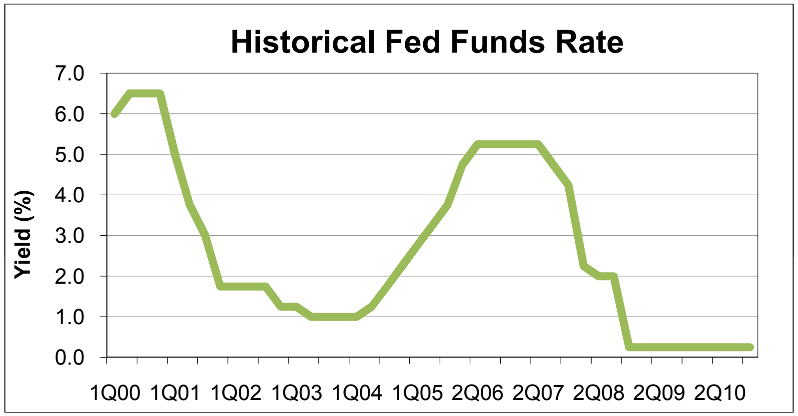
Commodities, led by Cotton, Silver, and Sugar, surged again this quarter as farmers, miners, and drillers are unable to keep pace with the increase in global demands. The gains in commodity prices pushed the Producer Price Index higher, though at a much slower rate. These higher inputs trickled down to the consumer level, as CPI ticked up during the quarter.

With persistently high unemployment and an unexpectedly slower pace of recovery, the Federal Reserve Open Market Committee continues to maintain the federal funds target rate between 0.0% and 0.25%. Consensus estimates look for no movement in the target rate until possibly the second half of 2011.

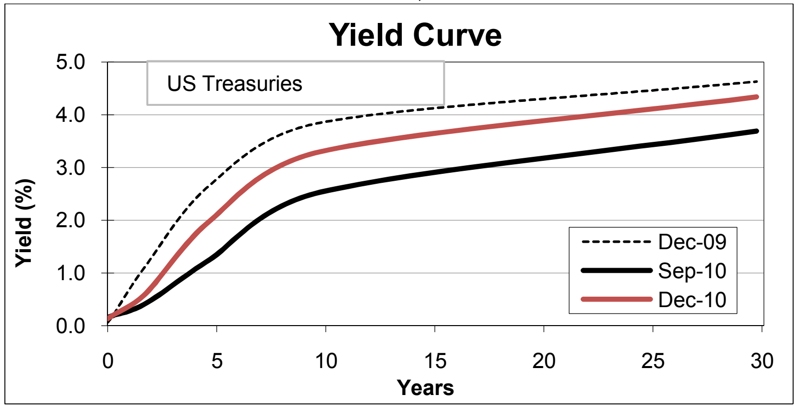
The yield curve reversed course during the quarter, shifting up on the heels of the $600 billion purchase of Treasuries by the Federal Reserve. Some market participants claim that the second round of quantitative easing has failed, as indicated by rising rates. Others, in contrast, have said the increased rates are a signal that the Fed is achieving its goal of inflating asset prices and enticing investors' appetite for risk. Regardless, yields remain historically low and the curve ended 2010 flatter than it was in 2009.



Source: Bureau of Labor Statistics, Wilshire and Dow Jones



Source: Federal Reserve Bank of St. Louis, MO



Source: Federal Reserve Bank of St. Louis, MO

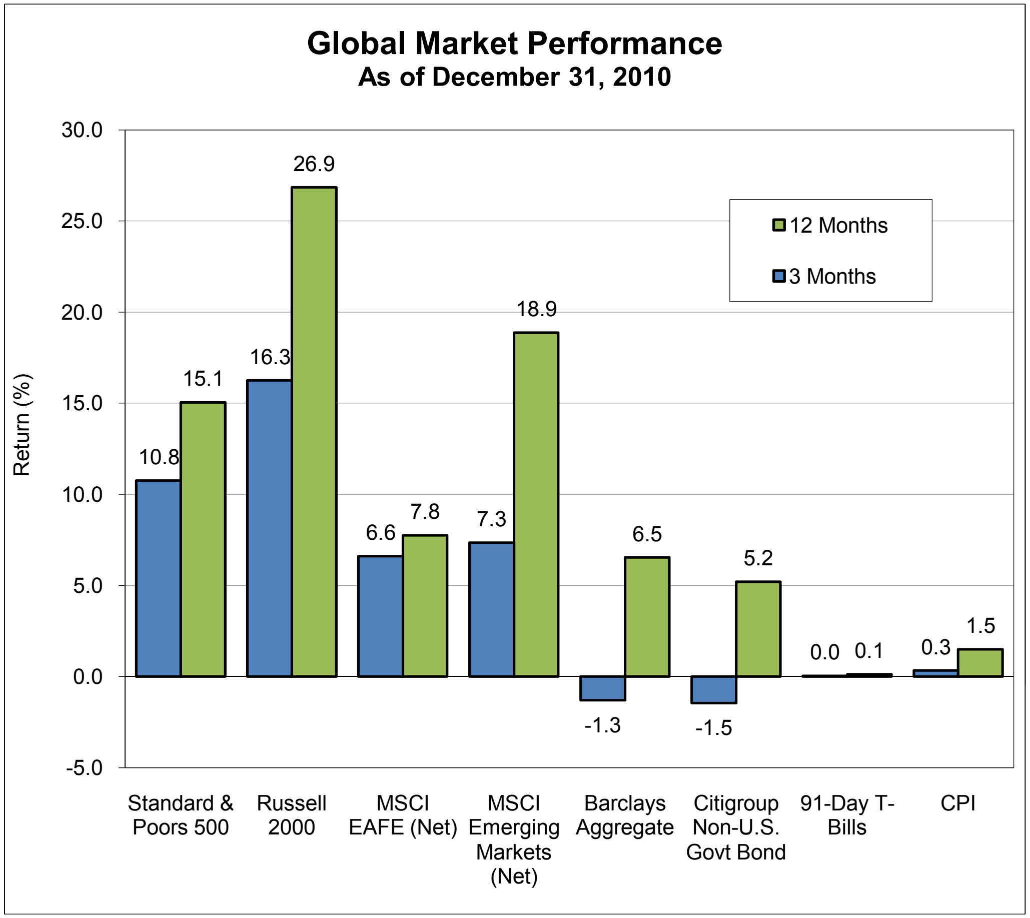
CAPITAL MARKET REVIEW

Q E 2 = EQ Up: Investors responded to additional central bank and government intervention with a greater appetite for risk. Market participants appeared to be interpreting current market data as a signal of a strengthening recovery and minimizing the risk of a second recession. This favored equity investors at the expense of fixed income investors. However, tangible evidence of a sustainable recovery remained scarce.

Equity markets continued their momentum from the third quarter. The leadership role however, transferred from the Emerging Markets to domestic Small Cap. European markets experienced more moderate returns due to sovereign debt issues and weaker economic expectations.

The rally in the fixed income markets ended after two quarters. The yield curve shifted upwards despite the quantitative easing efforts of the Federal Reserve. International fixed income markets experienced similar upward yield shifts in anticipation of the global economic recovery. The fixed income markets finally moved against the accommodative policies of the central banks and pushed yields higher.

Governments have been successful at improving liquidity and repairing the balance sheets of financial institutions. Consumer confidence is slowly improving, but housing and unemployment continue to be issues. The question remains - Can the recovery survive without governmental support?



Source: Wilshire

Indexes are not investments, are not managed, and do not incur fees or expenses. It is not possible to invest in an index. Please see additional disclosures at the end of this review.

U.S. EQUITY MARKET

Total Returns (%) - Periods Ending December 31, 2010	3 Months	1 Year	3 Years	5 Years
Standard & Poors 500	10.76	15.05	(2.86)	2.30
S&P MidCap 400	13.50	26.65	3.53	5.74
S&P SmallCap 600	16.24	26.29	3.01	4.64
Russell 1000	11.20	16.10	(2.38)	2.59
Russell 1000 Growth	11.84	16.72	(0.47)	3.76
Russell 1000 Value	10.54	15.51	(4.42)	1.27
Russell 2000	16.25	26.85	2.22	4.47
Russell 2000 Growth	17.11	29.08	2.18	5.30
Russell 2000 Value	15.36	24.51	2.18	3.52

S&P 500 Sector Performance	3 Months	1 Year	3 Years	5 Years
Energy	21.47	20.48	(3.63)	8.40
Materials	19.12	22.39	(1.19)	6.81
Industrials	11.76	26.89	(2.54)	3.22
Con. Discretionary	12.68	27.69	6.24	4.32
Con. Staples	6.13	14.13	3.15	7.47
Health Care	3.68	2.94	(1.76)	1.68
Financials	11.58	12.99	(15.94)	(10.43)
Info Technology	10.27	10.14	0.65	5.22
Telecommunications	7.33	19.23	(2.61)	6.92
Utilities	1.09	6.05	(5.54)	4.03

Returns are annualized for periods greater than one year. Source: Wilshire

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Solid: U.S. equity markets delivered solid double digit returns in the fourth quarter across all capitalization ranges and styles. Small Cap led the market cap segments (S&P 600 returned 16.24%, Russell 2000 returned 16.25%). From a style perspective, Growth once again out performed Value across market caps as the Russell 1000 Growth and Russell 2000 Growth Indexes returned 11.84% and 17.11%, respectively.

In 2010, Small and Mid Cap handily out performed Large Cap, helped by the recovering economy and merger and acquisition activity.

All 10 sectors of the S&P generated positive returns for the fourth quarter. Energy, which benefited from rising oil prices, was the top performing sector with a return of 21.47%. Utilities, a more defensive sector, was the weakest performing sector with a return of 1.09%. In addition to Energy, the cyclical sectors of Materials, Consumer Discretionary, Industrials, and Technology performed well during the quarter. The performance of these economically sensitive sectors influenced the relative out performance of Growth over Value. For the year, the Consumer Discretionary sector led the way with a return of 27.69% - the ever resilient U.S. consumer was down but certainly not out. The Healthcare sector continues to be a laggard as the impact of healthcare reform remains uncertain. The sector returned 2.94% for the year.

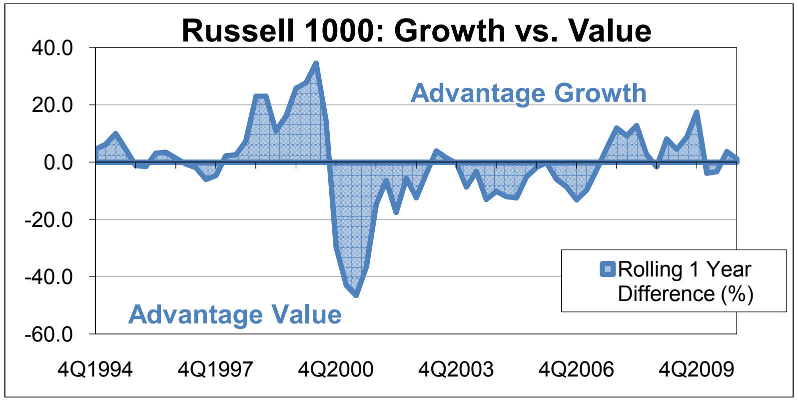
U.S. EQUITY MARKET

On The Cheap: The Growth style of investing continues to lead Value over the rolling one-year period. Growth's performance has been driven by the cyclical sectors, benefiting from the economic recovery and upward trend in corporate profits. Value has not been far behind, led by the higher dividend yielding stocks in the Telecom sector and a rebound in oil related stocks in the Energy sector. Looking at historical ratio of the Growth and Value price-to-earnings ratios, Growth currently appears relatively cheap as the 1.23x ratio, is below the 20-year average of 1.47x (*Source: J.P. Morgan*).

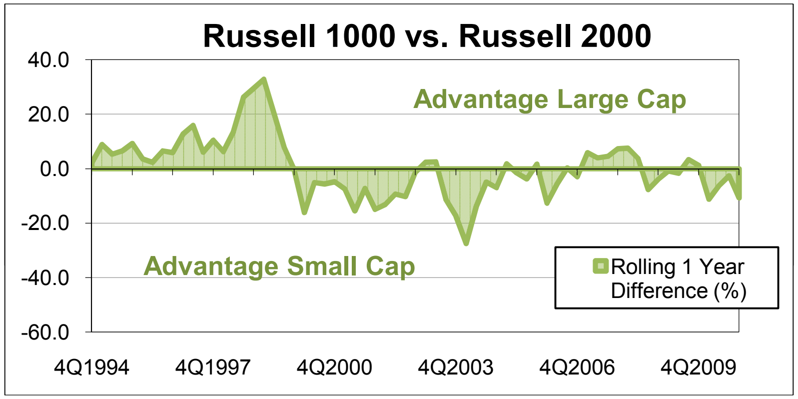
Small Cap continued to out perform Large Cap over the rolling one-year period; merger and acquisition activity as been one of the drivers of the current out performance. The performance of Large Cap has been more directly influenced by the credit crisis and the resulting impact on the large financial companies in the segment; Small Cap has followed the typical recession/recovery cycle with the credit crisis impacting these companies less. Due to this recent relative under performance, Large Cap appears under valued in relation to Small Cap.

Implied market volatility, represented by the VIX, continued to decline during the quarter and resides below historical averages. For now the "investor fear gauge" points to a smooth ride in the current low interest, low inflation market environment. However, many market pundits are calling for multiple market corrections within the next three to five years.

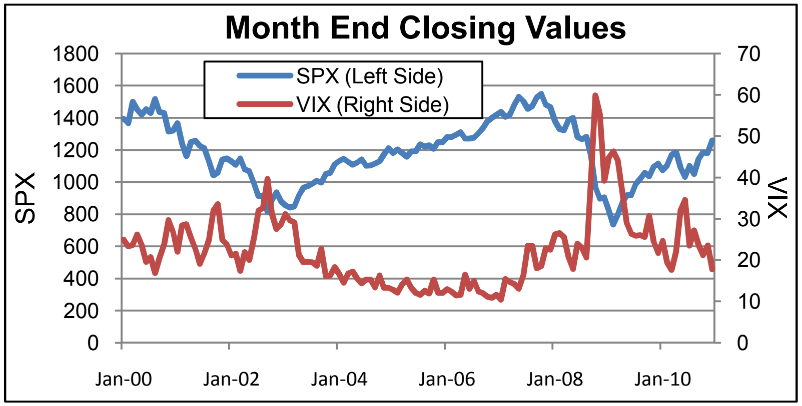
As the sustainability of the recovery appears to gather momentum, investors are beginning to focus more on stronger balance sheets, consistent and growing revenues, and dividends. This focus on the fundamentals of individual companies and not merely macroeconomic factors has reduced the correlations in the market.



Source: Wilshire



Source: Wilshire



Source: Chicago Board Option Exchange (CBOE)
VIX is the registered trademark of the CBOE.

U.S. FIXED INCOME MARKET

Is the Bear Awakening? The yield curve shifted upwards during the fourth quarter despite the Federal Reserve's intervention with their second round of quantitative easing. At year end, the 2-Year Treasury Notes yielded 0.61% (up 19 basis points from 9/30/10), the 10-Year Treasury Bonds yielded 3.30% (up 77 basis points from 9/30/10), and the 30-Year Treasury Bonds yielded 4.34% (up 63 basis points from 9/30/10).

Only two segments of the fixed income market provided positive returns, Mortgages and High Yield. The higher interest rates benefit Mortgages, as borrowers are less likely to refinance and cash flows become more predictable for these securities. High Yield advanced due to the continued contraction in spreads; investors favored higher yields and riskier investments. Credit out performed Government, but both segments were down for the quarter. Longer-dated securities suffered the worst losses.

In 2010 the fixed income markets generally provided single digit results (high yield slightly better); however, the fourth quarter may be the beginning of an extended bear market for fixed income. In the future, the fixed income market faces historically low yields, the withdrawal of the Government's intervention, and an increase in Treasury issuance. The market will also be influenced by the Federal Reserve's actions, as it manages the difficult task of balancing expansionary policies (and preventing deflation) with inflation control.

Total Returns (%) - Periods Ending December 31, 2010

	3 Months	1 Year	3 Years	5 Years
Barclays Aggregate	(1.30)	6.54	5.91	5.80
Barclays Intm G/C	(1.44)	5.89	5.40	5.53
Barclays G/C	(2.17)	6.59	5.60	5.56
Barclays Govt	(2.34)	5.52	5.07	5.45
Barclays Credit	(1.86)	8.46	6.85	5.98
Barclays Mortgage	0.24	5.36	6.52	6.31
Barclays High Yield	3.22	15.11	10.38	8.92
Barclays U.S TIPS	(0.65)	6.31	4.97	5.35
Barclays 1-3 Yr Govt	(0.13)	2.39	3.46	4.31
Barclays Long Govt	(7.94)	9.44	5.60	5.71

Returns are annualized for periods greater than one year. Source: Barclays Capital.

Credit Spreads (in basis points)

	Sep-10	Dec-10	Change	10-Yr Avg.
Aaa	69	69	0	75
Aa	116	106	(10)	103
A	160	148	(12)	133
Baa	221	198	(23)	208
Ba	459	435	(24)	408
B	598	563	(35)	658
Caa	950	853	(97)	1242

Source: Barclays Capital.

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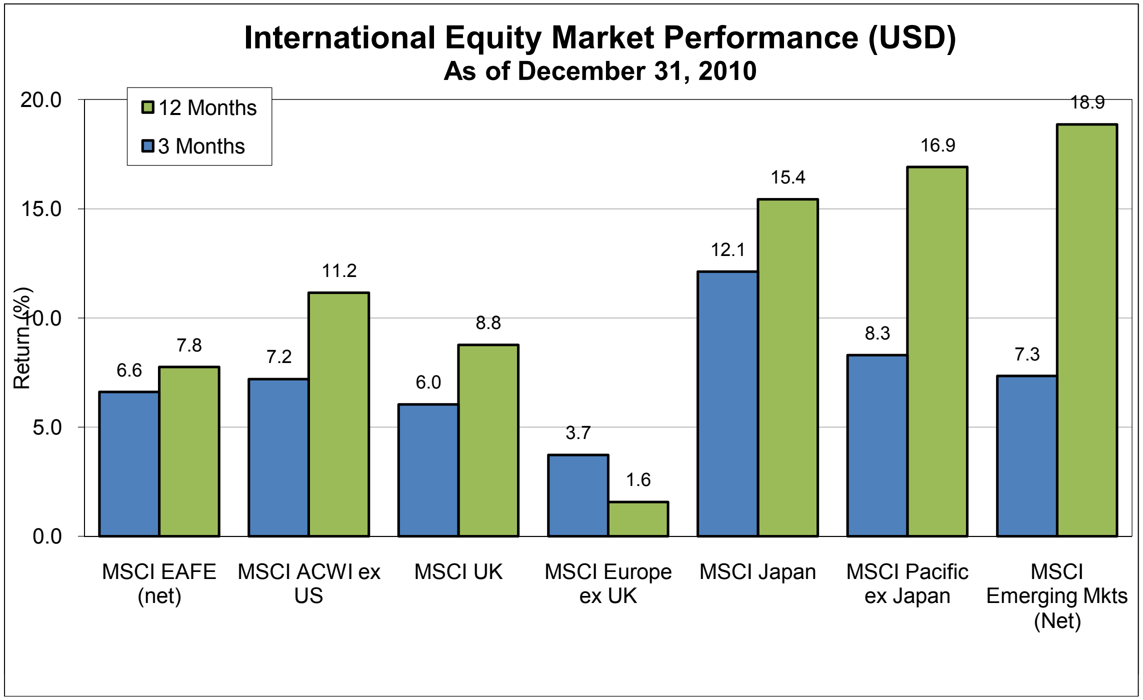
INTERNATIONAL EQUITY MARKET



MSCI Country Indexes (Net)
Three Months Ending December 31, 2010

	Return USD (%)	Return Local Currency (%)	Currency Effect (%)
France	1.7	3.5	-1.8
Germany	9.5	11.4	-1.9
Italy	-2.4	-0.7	-1.7
Spain	-8.7	-7.1	-1.6
Switzerland	7.5	2.6	4.9
UK	6.0	6.7	-0.7
Europe Total	**4.5**	**5.0**	**-0.5**
Australia	9.8	3.7	6.1
Hong Kong	4.8	4.9	-0.1
Japan	12.1	8.9	3.3
Pacific Total	**10.6**	**6.9**	**3.7**
China	0.7	0.8	-0.1
India	2.2	1.7	0.5
Brazil	3.4	1.4	2.1
Russia	16.5	16.4	0.1
Emerging Total	**7.3**	**5.7**	**1.6**

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Source: MSCI

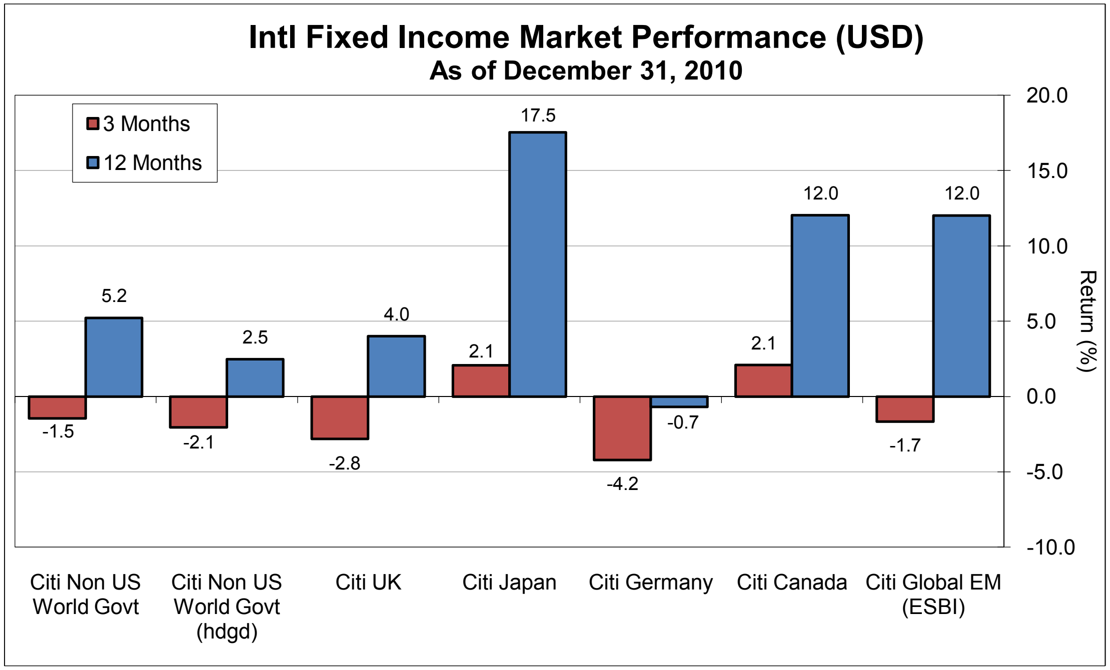
Generally Speaking: Global equity markets generally exhibited positive returns for the quarter and most regions finished 2010 with double digit returns; Europe was the exception (not a big surprise). Japan and Pacific ex Japan posted strong returns, followed by the Emerging Markets and Europe.

The Eurozone continues to be hampered by sovereign debt issues as Ireland experienced instability brought on by a property bubble. Following in Greece's footsteps, Ireland's need for a dose of stimulus has markets wondering who's next. While the other two members of the PIGS moniker (Portugal and Spain) were mentioned as potential candidates, Italy has also been thrown in the mix amidst fears about their national debt level. Germany has assumed the leadership role of the European economy and stability of the European Union, as they are the strongest nation in the Eurozone; Germany generated just below double digits returns for the quarter.

The Asian markets led the way for the quarter and Japan was one of the primary drivers. Japan's fiscal stimulus policies and continued efforts to spur growth appear to have helped in the fourth quarter; the Japanese market posted double digit returns for the quarter and year. However, deflationary fears still persist as the country faces a strengthening currency, an aging population, and a shrinking labor force.

The Emerging Markets posted respectable returns for the quarter. As usual, China was the focus of the group and inflation fears led to the speculation of downward revisions for economic growth. India's growth is led by the manufacturing and service industries; Brazil's growth, and most of Latin America, is driven by commodity exports. Despite the lackluster fourth quarter, the Emerging Markets posted a 19% return for 2010 and topped the other regions.

INTERNATIONAL BOND MARKET



Citigroup World Government Bond Indexes Three Months Ending December 31, 2010

	Return USD (%)	Return Local Currency (%)	Currency Effect (%)
Austria	-4.1	-2.4	-1.7
Denmark	-4.8	-3.1	-1.7
France	-4.6	-3.0	-1.7
Germany	-4.2	-2.5	-1.7
Ireland	-10.1	-8.6	-1.6
Italy	-5.7	-4.1	-1.7
Netherlands	-4.2	-2.5	-1.7
Spain	-7.3	-5.7	-1.6
Sweden	-3.5	-3.6	0.1
Switzerland	3.6	-1.1	4.8
UK	-2.8	-2.2	-0.6
Europe Total	-5.2	-3.5	-1.7
Japan	2.1	-0.9	3.0
Australia	5.0	-0.9	5.8
Canada	2.1	-1.1	3.2

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Source: The Yield Book

Up, Up, and Away: Yield curves shifted upward around the world during the quarter as the rally in fixed income ended. The driving force for higher rates was improved economic growth trends.

The European Central Bank (ECB) continued their attempts to manage the sovereign debt crisis in several countries. Ireland drew the majority of their attention this quarter, accepting €85 billion to support the banking system and general government budget. The European Union drafted plans for a permanent solution to sovereign debt issues. Performance was weak across the continent as rates rose; spreads widened between the securities of perceived stable countries and the securities of the trouble countries. The rally in the Euro ended with the currency declining versus the dollar.

Economic conditions in the U.K. improved during the fourth quarter. However, major obstacles remain, including unemployment holding steady at 7.8%, inflation above the Bank of England's (BoE) limit of 3%, a higher value added tax (VAT) rate in 2011, and tight credit conditions. The BoE held rates at 0.5% and yields rose across the curve, leading to losses. The Pound Sterling depreciated versus the dollar this quarter.

The Japanese market declined by 0.9% during the quarter, one of the best performing fixed income markets in the world. The minor loss is partly attributed to the relatively flat yield curve in Japan (0.1% at 3 months, just over 2% at 30 years). Despite the domestic issues (weak demand within the country, deflation, strong currency), market participants are optimistic about a global recovery that will help Japan's exports.

Emerging markets generated mixed results with most countries suffering declines of their sovereign debt. The emerging markets have captured investors' attention in recent years; these countries tend to have growing economies, low debt ratios, and improving ratings (many are now investment grade). This asset class had strong asset inflows and the market continues to become more institutionalized. The Citi ESBI was up 12.0% during 2010.

SELECTED INDEX RETURNS - PERIODS ENDING DECEMBER 31, 2010

	Quarter	One Year	Three Years	Five Years	Ten Years
US EQUITIES					
Dow Jones Industrial Average	8.1 %	14.1	(1.6)	4.3	3.2
Standard & Poors 500	10.8	15.1	(2.9)	2.3	1.4
Russell 3000	11.6	16.9	(2.0)	2.7	2.2
S&P MidCap 400	13.5	26.7	3.5	5.7	7.1
Russell Mid-Cap	13.1	25.5	1.1	4.7	6.5
S&P SmallCap 600	16.2	26.3	3.0	4.6	7.7
Russell 2000	16.3	26.9	2.2	4.5	6.3
Growth Stocks - Russell 3000 Growth	12.3	17.7	(0.3)	3.9	0.3
Value Stocks - Russell 3000 Value	10.9	16.2	(3.9)	1.5	3.6
US FIXED INCOME					
Barclays Aggregate	(1.3) %	6.5	5.9	5.8	5.8
Barclays Intm Govt/Credit	(1.4)	5.9	5.4	5.5	5.5
Barclays Govt/Credit	(2.2)	6.6	5.6	5.6	5.8
Barclays Government	(2.3)	5.5	5.1	5.5	5.4
Barclays Credit	(1.9)	8.5	6.9	6.0	6.6
Barclays Mortgage	0.2	5.4	6.5	6.3	5.9
Barclays High Yield	3.2	15.1	10.4	8.9	8.9
Barclays U.S TIPS	(0.7)	6.3	5.0	5.4	7.0
Barclays 1-3 Yr Government	(0.1)	2.4	3.5	4.3	4.1
Barclays Long Government	(7.9)	9.4	5.6	5.7	6.6
INTERNATIONAL (Measured in US Dollars)					
MSCI EAFE (Net)	6.6 %	7.8	(7.0)	2.5	3.5
MSCI ACWI ex U.S. (Net)	7.2	11.2	(5.0)	4.8	5.5
MSCI Europe (Net)	4.5	3.9	(8.9)	2.9	3.3
MSCI Pacific (Net)	10.6	15.9	(2.9)	1.6	4.0
MSCI Emerging Markets (Net)	7.3	18.9	(0.3)	12.8	15.9
Citigroup Non-U.S. Govt Bond	(1.5)	5.2	6.5	7.6	7.4
REAL ESTATE					
NAREIT Index	7.7 %	27.6	0.6	2.4	10.3
NCREIF Property Index	4.6	13.1	(4.2)	3.5	7.4
OTHER					
91-Day T-Bills	0.0 %	0.1	0.8	2.4	2.4
Consumer Price Index (percent change)	0.3	1.5	1.4	2.2	2.3
Producer Price Index (percent change)	2.3	4.1	2.4	2.9	2.8

Note: Returns for periods longer than 12 months are annualized. Indicies are not investments, are unmanaged and do not incur fees or expenses. It is not possible to invest in an index.

DISCLOSURE

This Capital Market Review represents the opinions, investment strategies and views of Gray & Company and is based on current market conditions. The view expressed in the Capital Market Review is subject to change without notice. This Capital Market Review commentary is provided for informational purposes only and should not be construed as investment advice nor is it meant to be a solicitation or offer to purchase any product or service. Readers are encouraged to consult with their investment, legal or tax professional before making any investment decisions. We believe the information contained in this material to be reliable but do not warrant its accuracy or completeness.

Definitions:
BC (Barclays Capital) Treasury provides a measure of riskless return.
The **Dow Jones Industrial Averages** contains the stocks of 30 companies that are all major factors in their industries, and their stocks are widely held by individuals and institutional investors. As of December 31, 2008, The Dow® represented 27% of the float-adjusted market capitalization of the Dow Jones U.S. TSM Index, which provides near complete coverage of the U.S. stock market. The DJIA serves the same purpose today for which it was created in 1896 – to provide a clear, straightforward view of the stock market and, by extension, the U.S. economy.
The **S&P 500 Index** is a capitalization weighted index of the 500 largest publicly traded companies in the US and is widely accepted as the overall market proxy. It consists of 400 industrials, 40 utilities, 20 transportation stocks and 40 financial institutions issues when totaled covers approximately 75% of the US equities market.
The **Russell 3000 Index** measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.
The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 8% of the total market capitalization of that index. It includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.
The **Russell 1000 Index** is composed of the 1000 largest companies in the Russell 3000 Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. The average capitalization was approximately $12.1 billion; the median market capitalizationwas approximately $3.8 billion. The smallest company in the index had an approxaimate market capitalization of $1350.8 million.
The **S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index covers over 7% of the U.S. equity market, and seeks to remain an accurate measure of mid-sized companies, reflecting the risk and return characteristics of the broader mid-cap universe on an on-going basis
The **S&P SmallCap 600** covers approximately 3% of the domestic equities market. Measuring the small cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable.
The **Russell 3000 Growth Index** measures the performance of the broad growth segment of the U.S. equity universe. It includes those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values.
The **Russell 3000 Value Index** measures the performance of the broad value segment of the U.S. equity universe. It includes those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.
The **Russell 2000 Growth Index** measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values.
The **Russell 2000 Value Index** measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.
The **Russell1000 Growth Index** is composed of those stocks in the Russell 1000 Index with greater than average growth orientation. The Russell Growth Index represents the universe of stocks from which most growth style money managers typically select.
The **Russell 1000 Value Index** is composed of those stocks in the Russell 1000 Index with less than average growth orientation. The Russell Value Index represents the universe of stocks from which most value style money managers typically select.
The **Barclays U.S. Aggregate Bond Index** is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS. The U.S. Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976.
The **Barclays Govt/Credit Index** is the non-securitized component of the U.S. Aggregate Index and was the first macro index launched by Barclays Capital. The U.S. Government/Credit Index includes Treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year), government-related issues (i.e., agency, sovereign, supranational, and local authority debt), and corporates. The U.S. Government/Credit Index was launched on January 1, 1979, with index history backfilled to 1973, and is a subset of the U.S. Aggregate Index.
The **Barclays U.S. Government Index** is comprised of the U.S. Treasury and U.S. Agency Indices. The U.S. Government Index includes Treasuries (public obligations of the U.S. Treasury that have remaining maturities of more than one year) and U.S. agency debentures (publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The U.S. Government Index is a component of the U.S. Government/Credit Index and the U.S. Aggregate Index.
The **Barclays US Credit Index** comprises the US Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities. The US Credit Index was called the US Corporate Investment Grade Index until July 2000, when it was renamed to reflect its inclusion of both corporate and non-corporate issuers. Index history is available back to 1973. The US Credit Index is a subset of the US Government/Credit Index and the US Aggregate Index.

DISCLOSURE

The **Barclays Capital U.S. MBS (Mortgage) Index** measures the performance of investment grade fixed-rate mortgage-backed pass-through securities of GNMA, FNMA, and FHLMC.
The **Barclays U.S. Corporate High-Yield Index** measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt. It was created in 1986, with history backfilled to July 1, 1983. The U.S. Corporate High-Yield Index is part of the U.S. Universal and Global High-Yield Indices.
The **Barclays U.S. TIPS** is a part of the Barclays Capital family of global inflation linked bond indices, the Barclays Capital US Government Inflation-linked bond index (US TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more.
The **Barclays US Treasury 1-3yr term index™** measures the performance of short term government bonds issued the US Treasury. The index includes 2-Year and 3-Notes. Term Indices are a new concept in bond indexing developed by Barclays Capital. They have very similar yield, duration and risk/return characteristics to standard maturity based indices but are more compact and more liquid. Term indices use a standard market capitalisation weighting methodology but include only bonds near to their original term rather than selecting all bonds in a maturity range.
The **Barclays Capital Long Government/Credit Index** measures the investment return of all medium and larger public issues of U.S. Treasury, agency, investment-grade corporate, and investment-grade international dollar-denominated bonds with maturities longer than 10 years. The average maturity is approximately 20 years.
The **MSCI EAFE Index(net)** (Europe, Australasia, Far East) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. As of May 27, 2010 the MSCI EAFE Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.
The **MSCI ACWI ex U.S. (net)** (All Country World Index excluding the United States) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of May 27, 2010 the MSCI ACWI ex. US consisted of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
The **MSCI United Kingdom Index** is a free float adjusted market capitalization index that is designed to measure large and mid cap United Kingdom equity market performance. The MSCI United Kingdom Index is member of the MSCI international equity index series and represents the United Kingdom's equity portion of the global benchmark MSCI ACWI (All Country World Index) Index.
The **MSCI Europe Index (net)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. As of June 2007, the MSCI Europe Index consisted of the following 16 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.
MSCI Europe ex UK Index (net) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe excluding the Un ited Kingdom. As of June 2007, the MSCI Europe Index consisted of the following 15 developed market country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.
The **MSCI Pacific Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in the Pacific region. As of June 2007, the MSCI Pacific Index consisted of the following 5 Developed Market countries: Australia, Hong Kong, Japan, New Zealand, and Singapore
MSCI Pacific ex Japan Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the Far East, excluding Japan. As of March 2008 the MSCI Pacific ex Japan Index consisted of the following 9 developed and emerging market country indices: China, Hong Kong, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan, and Thailand.
The **MSCI Japan Index** is a free float adjusted market capitalization index that is designed to measure large and mid cap Japanese equity market performance. The MSCI Japan Index is member of the MSCI international equity index series and represents the Japanese equity portion of the global benchmark MSCI ACWI (All Country World Index) Index.
The **MSCI Emerging Markets Index (net)** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of May 27, 2010 the MSCI Emerging Markets Index consisted of the following 21 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.
The Citigroup World Government Bond Ex-US Index measures the performance of developed countries' global fixed-income markets invested in debt issues of non-US governmental entities. The World Government Bond Index (WGBI) includes the 23 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Malaysia, the Netherlands, Norway, Poland, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States prior to its exclusion.
Citigroup World Government Bond Ex-US Index hedged measures the performance of **The Citigroup World Government Bond Ex-US Index** and computing the monthly currency-hedged return by using a rolling one-month forward exchange contract as a hedging instrument.
Citigroup UK Bond Index includes the government bond markets of the United Kingdom and satisfies size, credit, and barriers-to-entry requirements.
Citigroup Japan Bond Index consists of the government bond market of Japan and satisfies size, credit, and barriers-to-entry requirements.
Citigroup Germany Bond Index consists of the government bond market of Germany and satisfies size, credit, and barriers-to-entry requirements.
Citigroup France Bond Index consists of the government bond market of France and satisfies size, credit, and barriers-to-entry requirements.
Citigroup Canada Bond Index consists of the government bond market of Canada and satisfies size, credit, and barriers-to-entry requirements.

DISCLOSURE

The **FTSE NAREIT US Real Estate Index** is calculated by FTSE International Limited (FTSE).
The **NCREIF Property Index** reports quarterly and annual returns consisting of income and appreciation components. The index is based on data collected from the voting members of NCREIF. Specific property-type indices include apartment, office, retail, R&D/Office and Warehouse.

Consumer Price Index is a government-issued index of the retail prices of basic household goods and services.
Producer Price Index is an index maintained by the U.S. Bureau of Labor Statistics that tracks the price of wholesale goods and commodities.
The **Dow Jones UBS Commodity Index** measures collateralized returns from a diversified basket of 19 commodity futures contracts from sectors spanning energy, precious metals, industrial metals, grains and livestock.

Moody's Long-Term Obligation Ratings:
Aaa Obligations rated **Aaa** are judged to be of the highest quality, with minimal credit risk.
Aa Obligations rated **Aa** are judged to be of high quality and are subject to very low credit risk.
A Obligations rated **A** are considered upper-medium grade and are subject to low credit risk.
Baa Obligations rated **Baa** are subject to moderate credit risk. They are considered medium grade and as such may possess certain speculative characteristics.
Ba Obligations rated **Ba** are judged to have speculative elements and are subject to substantial credit risk.
B Obligations rated **B** are considered speculative and are subject to high credit risk.
Caa Obligations rated **Caa** are judged to be of poor standing and are subject to very high credit risk.
Ca Obligations rated **Ca** are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C Obligations rated **C** are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Standard Deviation is often used by investors to measure the risk of a stock or a stock portfolio. The basic idea is that the standard deviation is a measure of volatility: the more a stock's returns vary from the stock's average return, the more volatile the stock.

Treasuries: Treasury Securities are debt financed securities issued by the U.S.government. There are three primary types of treasury securities. They are Treasury Bills, Treasury Notes and Treasury Bonds. Treasury Bills (a.k.a. T-bill) mature in one year or less. Treasury Bills are commonly issued with maturities dates of 91 days, 6 months, or 1 year. **91-Day T-Bills** provide a measure of riskless return. Treasury Notes (a.k.a. T-Note) mature between one and ten years. Treasury notes are commonly issued with maturities dates of 2, 3, 5 or 7 years. Treasury Bonds (a.k.a. T-Bond) are commonly issued with maturity dates of ten and thirty years.

The **federal funds target rate** is determined by a meeting of the members of the Federal Reserve Open Market Committe. The **federal funds rate** is the interest rateat which private depository institutions (mostly banks) lend balances (federal funds) at the Federal Reserve to other depository institutions, usually overnight. It is the interest rate banks charge each other for loans.

The **European Central Bank** (ECB) is the institution of the European Union (EU) which administers the monetary policy of the 17 EU Eurozone member states. It is thus one of the world's most important central banks. The bank was established by the Treaty of Amsterdam in 1998, and is headquartered in Frankfurt, Germany.

The **eurozone, o**fficially the **euro area**, is an economic and monetary union (EMU) of 17 European Union (EU) member states that have adopted the euro currency as their sole legal tender. It currently consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

The **euro** (sign: **€**) is the official currency of the eurozone.

The **pound sterling** (sign: £), commonly called the **pound**, is the official currency of the United Kingdom**.**

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