

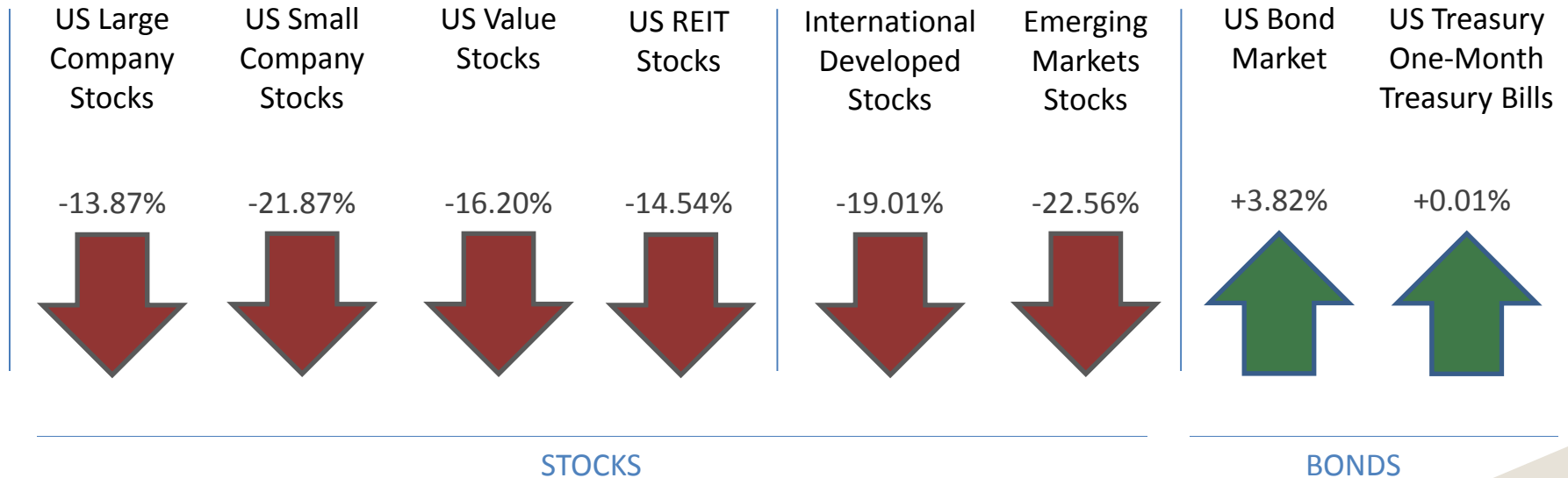
QUARTERLY INVESTMENT REVIEW

THIRD QUARTER 2011



Markets Update: A Quarter in Review

Third 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.

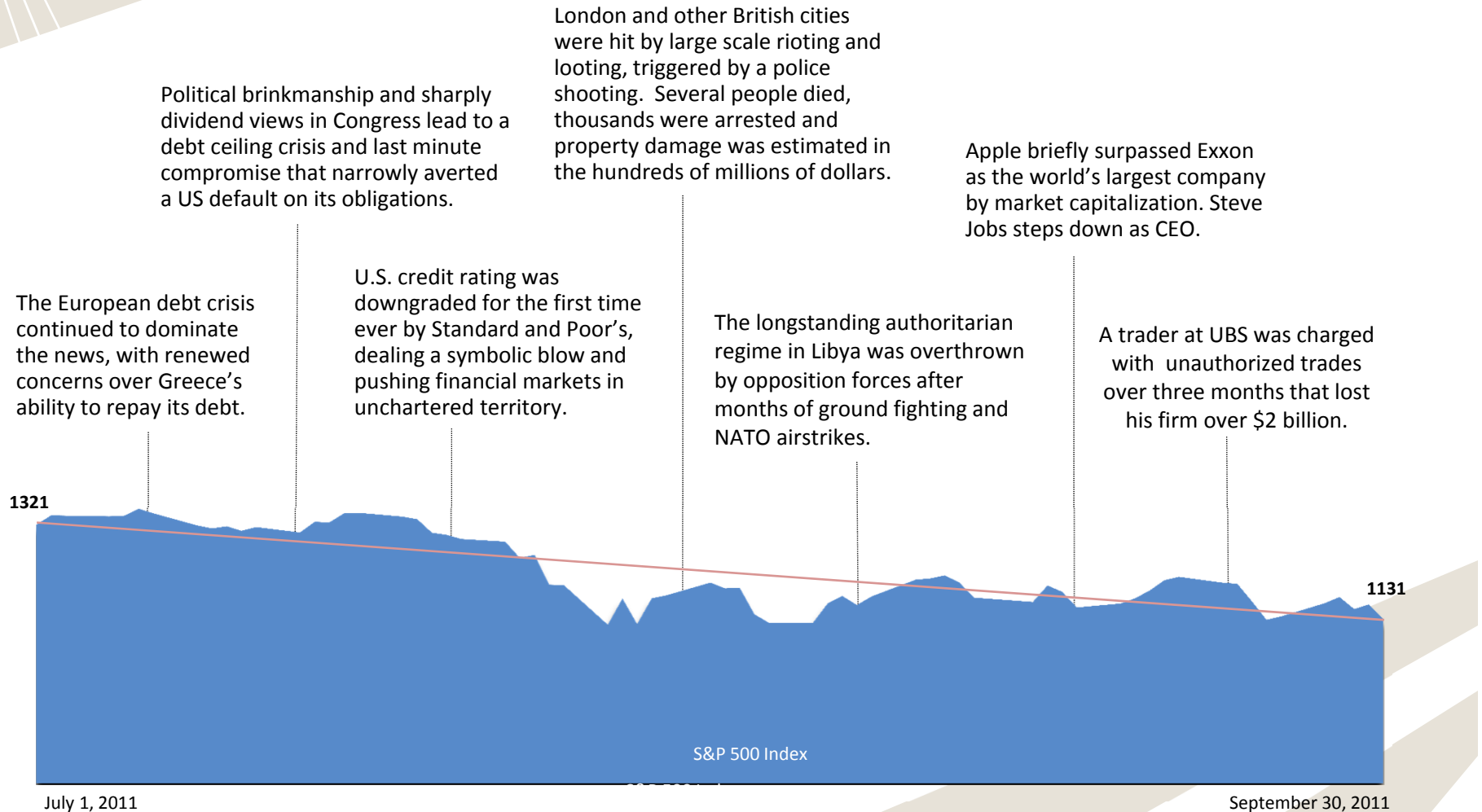
Markets Update: A Quarter in Review

Third Quarter 2011

- Equity markets around the world had their worst quarter since the end of 2008, as investors reacted negatively to the sovereign debt problems in Europe, the budget stalemate in the US, and poor economic data in most developed countries and in some large emerging countries such as China. The broad US market lost over 15%.
- In US dollar terms, the overall performance in other developed markets was even worse, but that performance differential with the US was entirely due to currency fluctuations. In local currency, developed markets as a whole performed on par with the US. As in most of the past few quarters, there was much dispersion in performance at the individual country level. Greece, which remains at the center of Europe's sovereign-debt woes, was by far the worst performer. At the other end of the spectrum, Japan, whose dollar-denominated returns greatly benefited from the strength of the yen, and New Zealand were the top performers. The US dollar gained ground against most major currencies except the yen, which hurt the dollar-denominated returns of developed market equities.
- In US dollar terms, emerging markets had sharply negative returns and trailed developed markets. In local currency, however, emerging markets as a whole had similar performance to developed markets. As in developed markets, there was much dispersion in the performance of different emerging markets. Peru and some of the smaller emerging markets in Asia did relatively well. On the other hand, Russia and other European markets were among the worst performers. The US dollar also gained ground against the main emerging market currencies, which contributed negatively to the dollar-denominated returns of emerging market equities.
- Value stocks had mixed performance relative to growth stocks. In the US, small value outperformed small growth, but large value greatly underperformed large growth. In other developed markets, value stocks trailed growth stocks across all market capitalization segments. In emerging markets, value outperformed growth across all market capitalization segments. Along the market capitalization dimension, small caps greatly underperformed large caps in the US and in emerging markets, but not in developed markets outside the US.
- Most fixed income securities benefited had excellent returns, especially short-term US government securities, which greatly benefited from the flight to quality, and inflation-protected securities.
- Real estate securities had poor returns but good performance relative to other equity asset classes.

Timeline of Events: A Quarter in Review

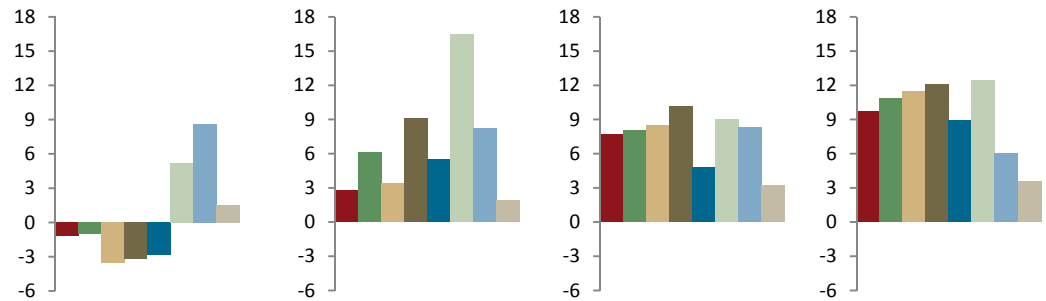
Third Quarter 2011



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 September 30, 2011

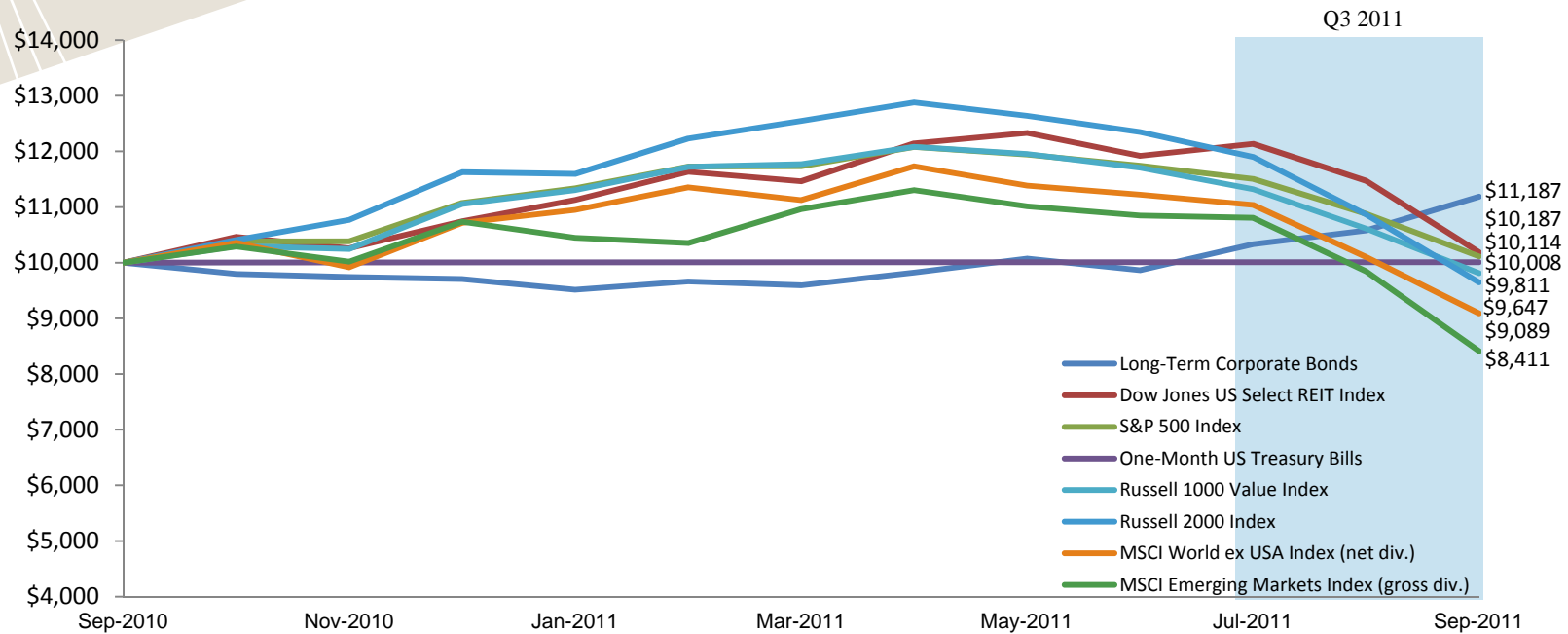


Index	5 Years Ending 9/30/2011	10 Years Ending 9/30/2011	20 Years Ending 9/30/2011	Since Inception (inception date)
US Large Company Stocks				
S&P 500 Index	-1.18	2.82	7.64	9.66 (1/1926)
US Small Cap Stocks				
Russell 2000 Index	-1.02	6.12	8.05	10.80 (1/1979)
US Value Stocks				
Russell 1000 Value Index	-3.53	3.35	8.48	11.48 (1/1979)
US Real Estate Investment Trust Stocks				
Dow Jones US Select REIT Index	-3.17	9.07	10.19	12.06 (1/1978)
International Stocks				
MSCI World ex USA Index	-2.90	5.50	4.78	8.92 (1/1970)
MSCI Emerging Markets Index (gross div.)	5.17	16.41	8.96	12.43 (1/1988)
Bonds				
SBBI Long-Term Corporate Bonds	8.59	8.21	8.27	6.02 (1/1926)
SBBI One-Month US Treasury Bills	1.55	1.87	3.24	3.59 (1/1926)

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

October 1, 2010–September 30, 2011



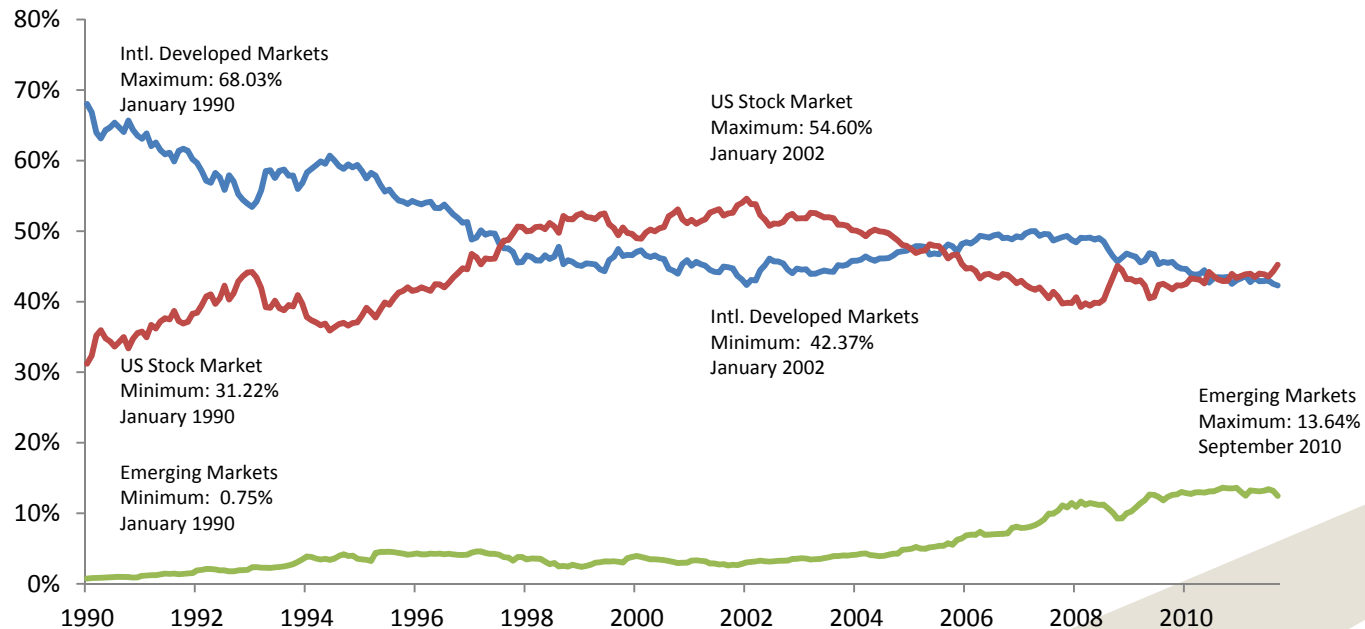
Asset Class	Index	CHANGE IN VALUE OF \$1			
		1 Year	5 Years	10 Years	20 Years
US Large Company Stocks	S&P 500	\$1.01	\$0.94	\$1.32	\$4.36
US Small Cap Stocks	Russell 2000	\$0.96	\$0.95	\$1.81	\$4.70
US Value Stocks	Russell 1000 Value	\$0.98	\$0.84	\$1.39	\$5.09
US Real Estate Investment Trust Stocks	Dow Jones US Select REIT	\$1.02	\$0.85	\$2.38	\$6.96
International Developed Stocks	MSCI World ex USA	\$0.91	\$0.86	\$1.71	\$2.54
Emerging Market Stocks	MSCI Emerging Markets (gross div.)	\$0.84	\$1.29	\$4.57	\$5.56
Fixed Income Corporate Bonds	Long-Term Corporate Bonds	\$1.12	\$1.51	\$2.20	\$4.90
Short-Term Government Bonds	One-Month US Treasury Bills	\$1.00	\$1.08	\$1.20	\$1.89

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Value of Stock Markets around the World

January 1990–September 2011

	Number of Countries	Number of Stocks	Total Value	Weights		
				September 30, 2011	Change from Previous Quarter	01/90–9/11 Average
United States	1	2,937	12.64 Trillion	45.23%	▲ 1.34%	44.62%
Developed Markets	23	3,694	11.82 Trillion	42.30%	▼ -0.61%	50.12%
Emerging Markets	21	2,785	3.48 Trillion	12.47%	▼ -0.73%	5.26%
Total	45	9,499	27.94 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.

	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	Q4 2011
Highest Return	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	13.40	?
	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	0.01	?
	-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	-13.87	?
	-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	-14.54	?
	-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	-16.20	?
	-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	-19.01	?
	-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	-21.87	?
Lowest Return	-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	-22.56	?

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 Q1 2011, for example, the Russell 2000 Index was the best-performing asset class. A quarter later, it was the worst-performing asset class.

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

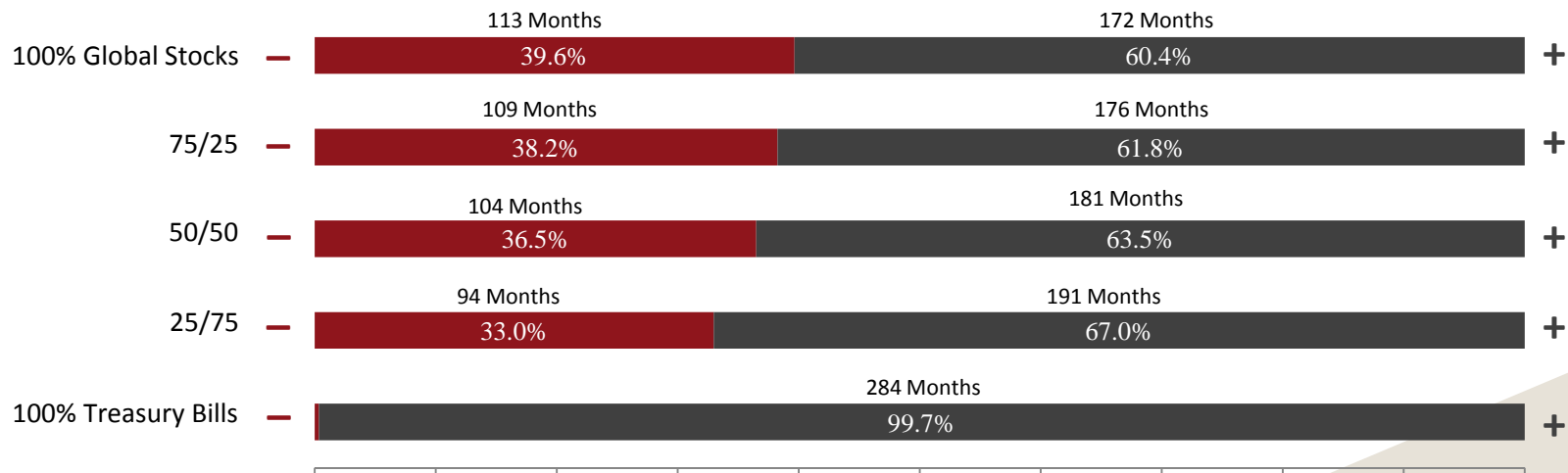
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Returns of Balanced Portfolios

As of September 30, 2011

	Q3 2011	1 Year	3 Years	5 Years	10 Years	20 Years
100% Global Stocks	-17.33	-5.54	1.14	-1.07	4.96	6.30
75/25	-13.17	-3.93	1.44	0.00	4.48	5.77
50/50	-8.89	-2.46	1.37	0.79	3.80	5.08
25/75	-4.50	-1.12	0.93	1.31	2.92	4.24
100% Treasury Bills	0.01	0.08	0.15	1.55	1.87	3.24

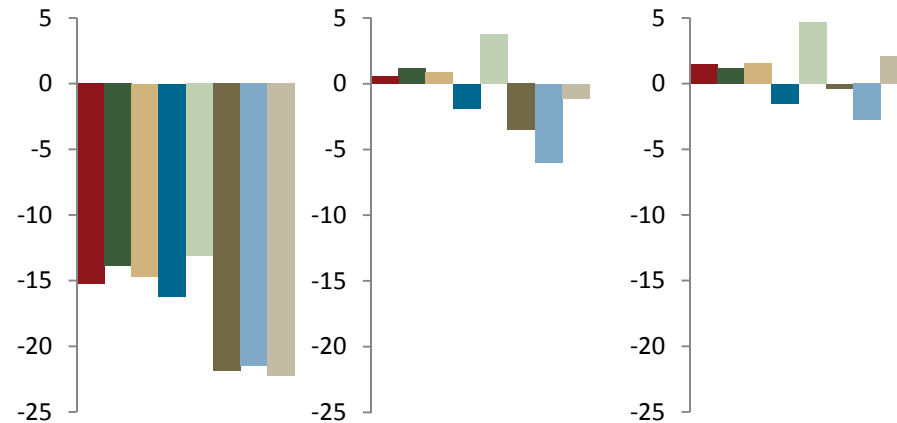
Positive vs. Negative Returns: January 1988–September 2011



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 September 30, 2011



Asset Class	Index	Q3 2011	1 Year	3 Years Annualized
Marketwide	Russell 3000	-15.28	0.55	1.45
Large Cap	S&P 500	-13.87	1.14	1.23
Large Cap	Russell 1000	-14.68	0.91	1.61
Large Cap Value	Russell 1000 Value	-16.20	-1.89	-1.52
Large Cap Growth	Russell 1000 Growth	-13.14	3.78	4.69
Small Cap	Russell 2000	-21.87	-3.53	-0.37
Small Cap Value	Russell 2000 Value	-21.47	-5.99	-2.78
Small Cap Growth	Russell 2000 Growth	-22.25	-1.12	2.07

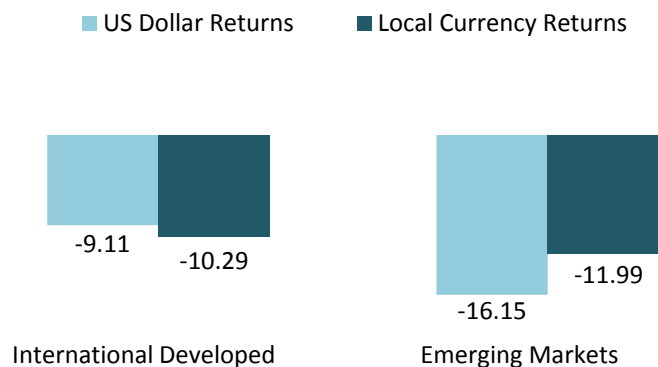
International Stock Returns

As of September 30, 2011

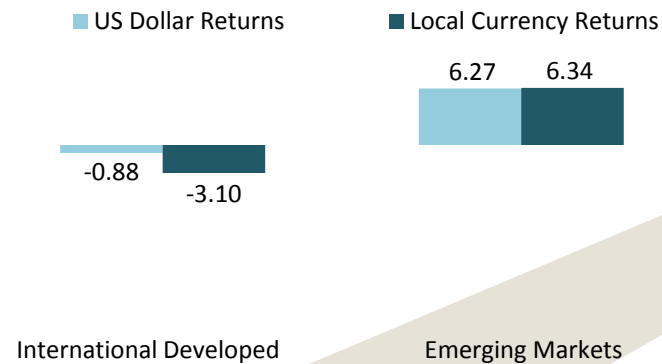
Asset Class	Index	Q3 2011	1 Year	3 Years Annualized
Marketwide	MSCI All Country World ex USA	-19.85	-10.81	0.52
Developed Large Cap	MSCI World ex USA	-19.01	-9.11	-0.88
Developed Small Cap	MSCI World ex USA Small Cap	-18.92	-5.63	6.28
Developed Value	MSCI World ex USA Value	-18.85	-9.36	-1.14
Developed Growth	MSCI World ex USA Growth	-19.16	-8.93	-0.67
Emerging Markets Large Cap	MSCI Emerging Markets	-22.56	-16.15	6.27
Emerging Markets Small Cap	MSCI Emerging Markets Small	-23.89	-20.89	13.90
Emerging Markets Value	MSCI Emerging Markets Value	-21.79	-15.27	7.29
Emerging Markets Growth	MSCI Emerging Markets Growth	-23.32	-17.03	5.23

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 September 30, 2011

3rd Quarter 2011 Returns

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. Peru	-4.70%	-3.34%	-1.36%
 2. Japan	-6.44%	-10.70%	4.26%
.			
 9. United States	-14.17%	-14.17%	-
.			
.			
.			
 44. Hungary	-44.42%	-33.64%	-10.78%
 45. Greece	-46.61%	-42.30%	-4.31%

1-Year Returns in US Dollars and Local Currency

	Return in US Dollars	Return in Local Currency	Impact of Currency
 1. New Zealand	20.25%	15.72%	4.53%
 2. United States	0.74%	0.74%	-
.			
.			
.			
.			
 44. Hungary	-38.42%	-33.52%	-4.90%
 45. Greece	-53.88%	-53.07%	-0.81%

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

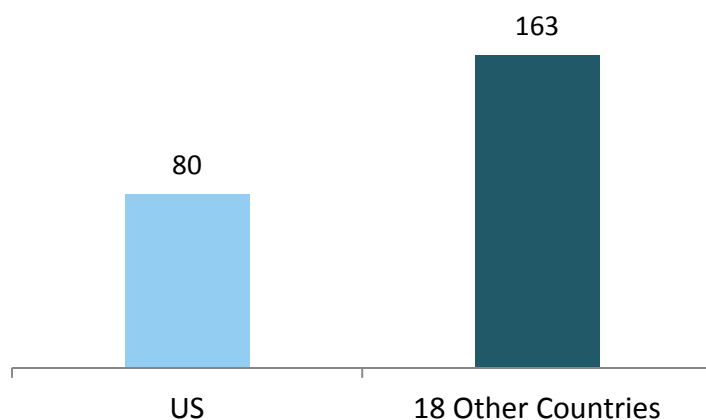
1. Colombia 2. Indonesia 3. Peru 4. Czech Republic 5. Brazil 6. Egypt 7. Thailand 8. Turkey 9. India 10. South Africa 11. Korea 12. Chile 13. Russia 14. Mexico 15. China 16. Morocco 17. Australia 18. Malaysia 19. Singapore 20. Norway 21. Philippines 22. Poland 23. New Zealand 24. Hungary 25. Canada 26.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

Real Estate Investment Trusts (REIT) Stocks

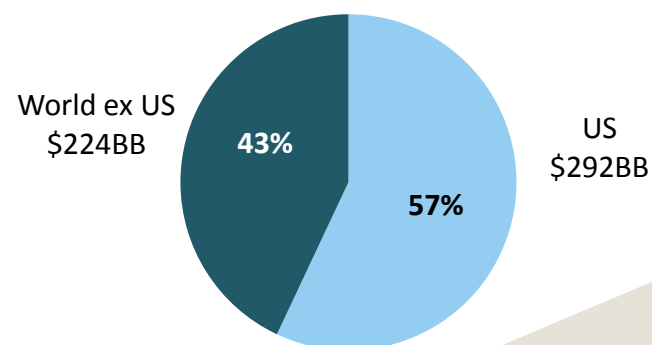
As of September 30, 2011

Index	Q3 2011	1 Year	3 Years Annualized
Dow Jones US Select REIT Index	-14.54	1.87	-2.16
S&P Global ex US REIT Index	-17.15	-3.87	-0.01

Number of REIT Stocks



Total Value of REIT Stocks



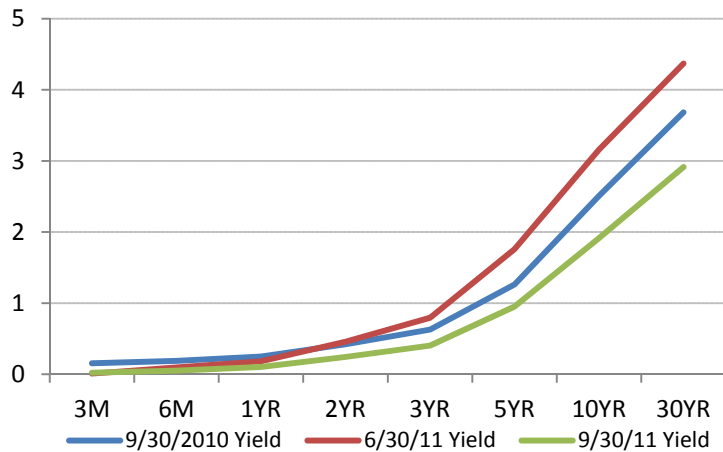
Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's ©. Indices are not available for direct investment. 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

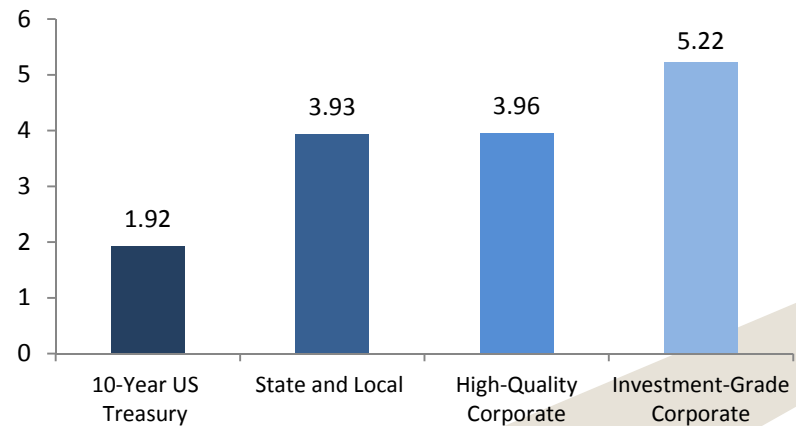
As of September 30, 2011

Index	Q3 2011	1 Year	3 Years Annualized
One-Month US Treasury Bills (SBBI)	0.01	0.08	0.15
Bank of America Merrill Lynch Three-Month T-Bills	0.02	0.14	0.22
Bank of America Merrill Lynch One-Year US Treasury Note	0.13	0.55	1.26
Citigroup World Government Bond 1-5 Years (hedged)	1.26	1.37	3.25
US Long-Term Government Bonds (SBBI)	20.56	14.33	12.11
Barclays Capital Corporate High Yield	-6.06	1.78	13.83
Barclays Capital Municipal Bonds	3.81	3.88	8.08
Barclays Capital US TIPS Index	4.51	9.87	8.13

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.

Living with Volatility

Third Quarter 2011

The current renewed volatility in financial markets is reviving unwelcome feelings among many investors—feelings of anxiety, fear, and a sense of powerlessness. These are completely natural responses. Acting on those emotions, though, can end up doing us more harm than good.

At base, the increase in market volatility is an expression of uncertainty. The sovereign debt strains in the US and Europe, together with renewed worries over financial institutions and fears of another recession, are leading market participants to apply a higher discount to risky assets. It is all reminiscent of the events of 2008, when the collapse of Lehman Brothers and the sub-prime mortgage crisis triggered a global market correction. This time, however, the focus of concern has turned from private-sector to public-sector balance sheets.

As for what happens next, no one knows for sure. That is the nature of risk. But there are a few points individual investors can keep in mind to make living with this volatility more bearable.

- Markets are unpredictable and do not always react the way the experts predict they will. The recent downgrade by Standard & Poor's of the US government's credit rating, following protracted and painful negotiations on extending its debt ceiling, actually led to a strengthening in Treasury bonds.
- Quitting the equity market at a time like this is like running away from a sale. While prices have been discounted to reflect higher risk, that's another way of saying expected returns are higher. And while the media headlines proclaim that "investors are dumping stocks," remember someone is buying them. Those people are often the long-term investors.
- Market recoveries can come just as quickly and just as violently as the prior correction. For instance, in March 2009—when market sentiment was last this bad—the S&P 500 turned and put in seven consecutive months of gains totaling almost 80%. This is not to predict that a similarly vertically shaped recovery is in the cards this time, but it is a reminder of the dangers for long-term investors of turning paper losses into real ones and paying for the risk without waiting around for the recovery.
- Never forget the power of diversification. While equity markets have had a rocky time in 2011, fixed income markets have flourished—making the overall losses to balanced fund investors a little more bearable. Diversification spreads risk and can lessen the bumps in the road.
- Markets and economies are different things. The world economy is forever changing, and new forces are replacing old ones. For example, the IMF noted in its April 2011 World Economic Outlook that while advanced economies seek to repair public and financial balance sheets, emerging market economies are thriving. A globally diversified portfolio takes account of these shifts.
- Nothing lasts forever. Just as smart investors temper their enthusiasm in booms, they keep a reserve of optimism during busts. And just as loading up on risk when prices are high can leave you exposed to a correction, dumping risk altogether when prices are low means you can miss the turn when it comes. As always in life, moderation is a good policy.

The market volatility is worrisome, no doubt. The feelings being generated are completely understandable. But through discipline, diversification, and understanding how markets work, the ride can be made bearable. At some point, value will re-emerge, risk appetites will re-awaken, and for those who acknowledged their emotions without acting on them, relief will replace anxiety.