



The markets comprise several segments... growth, value, blend, domestic, international, stocks, bonds, small-cap, mid-cap, large-cap, etc. "Every dog has its day," and every market segment has its year. The trouble is, no one knows which segment is going to shine in any given year.

Which brings us to diversification, and the Callan Periodic Table on the preceding pages. The chart illustrates the difficulty in predicting the success of any particular market segment in any given year, and thus the importance of the long-term investor diversifying across a wide spectrum of investment segments and risk classes.

Case in point... last year the Barclay Capital Aggregate bond index was the best performing segment, at 7.84%. Perhaps ironically, it was the worst performer in 2010. For a surprising five consecutive years spanning 2003 – 2007, the MSCI Emerging Markets Index sat atop the rankings, followed by a drop to the cellar in 2008, followed by a jump back to the top in 2009, then back in the cellar last year. This highlights both the recent challenge of international investments, and the volatility of the ranked index performance over time.

Because your portfolio is invested across several market segments, beginning with this report we have moved away from comparing your performance to the S&P 500 alone, and created a composite index including an appropriate blend of various indices against which to measure your account performance. We believe this will be a more meaningful comparison going forward.

The Callan Periodic Table of Investment Returns

Annual Returns for Key Indices (1992-2011) Ranked in Order of Performance

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Russell 2000 Value 29.14%	MSCI Emerging Markets 74.84%	MSCI EAFE 7.78%	S&P/Citi 500 Growth 36.13%	S&P/Citi 500 Value 23.97%	S&P/Citi 500 Growth 36.52%	S&P/Citi 500 Value 42.16%	MSCI Emerging Markets 66.42%	Russell 2000 Value 22.83%	Russell 2000 Value 14.02%	BC Agg 10.26%	MSCI Emerging Markets 56.26%	MSCI Emerging Markets 25.95%	MSCI Emerging Markets 34.94%	MSCI Emerging Markets 32.59%	MSCI Emerging Markets 79.02%	BC Agg 5.24%	MSCI Emerging Markets 79.02%	Russell 2000 Growth 29.09%	BC Agg 7.84%
Russell 2000 Value 18.41%	MSCI EAFE 32.57%	S&P/Citi 500 Growth 3.13%	S&P 500 37.58%	S&P 500 22.96%	S&P 500 33.36%	S&P 500 28.58%	S&P/Citi 500 Growth 43.09%	BC Agg 11.63%	BC Agg 8.43%	MSCI Emerging Markets -6.00%	Russell 2000 Value 48.54%	Russell 2000 Value 22.25%	MSCI EAFE 13.54%	MSCI EAFE 26.34%	MSCI EAFE 11.17%	Russell 2000 Value -28.92%	Russell 2000 Growth 34.47%	Russell 2000 Value 26.85%	S&P/Citi 500 Growth 4.65%
MSCI Emerging Markets 11.40%	Russell 2000 Value 23.77%	S&P/Citi 500 Value 1.32%	S&P/Citi 500 Value 36.99%	S&P/Citi 500 Value 22.00%	Russell 2000 Value 31.78%	MSCI EAFE 20.00%	S&P/Citi 500 Growth 28.24%	Russell 2000 Value 6.08%	Russell 2000 Value 2.49%	Russell 2000 Value -11.43%	Russell 2000 Value 47.25%	MSCI EAFE 20.25%	S&P/Citi 500 Value 5.82%	Russell 2000 Value 23.48%	S&P/Citi 500 Growth 9.13%	Russell 2000 Value -33.79%	MSCI EAFE 31.78%	Russell 2000 Value 24.50%	S&P 500 2.11%
S&P/Citi 500 Value 10.52%	Russell 2000 Value 18.88%	S&P/Citi 500 Value -0.64%	Russell 2000 Value 31.04%	Russell 2000 Value 21.37%	S&P/Citi 500 Value 29.88%	S&P/Citi 500 Value 14.69%	MSCI EAFE 26.96%	Russell 2000 Value -3.02%	MSCI Emerging Markets -2.37%	MSCI EAFE -15.94%	Russell 2000 Value 46.03%	Russell 2000 Value 18.33%	S&P 500 Value 4.91%	S&P/Citi 500 Value 20.81%	Russell 2000 Growth 7.05%	S&P/Citi 500 Value -34.92%	S&P/Citi 500 Growth 31.57%	MSCI Emerging Markets 19.20%	S&P/Citi 500 Value -0.48%
Russell 2000 Growth 7.77%	S&P/Citi 500 Value 18.61%	Russell 2000 Value -1.54%	Russell 2000 Value 28.45%	Russell 2000 Value 16.49%	Russell 2000 Value 22.36%	BC Agg 8.70%	Russell 2000 Value 21.26%	S&P 500 Value -9.11%	Russell 2000 Value -9.23%	Russell 2000 Value -20.48%	MSCI EAFE 38.59%	S&P/Citi 500 Value 15.71%	Russell 2000 Value 4.71%	Russell 2000 Value 18.37%	BC Agg 6.97%	S&P 500 Value -37.00%	Russell 2000 Value 27.17%	S&P/Citi 500 Value 15.10%	Russell 2000 Growth -2.91%
S&P 500 7.62%	Russell 2000 Growth 13.37%	Russell 2000 Growth -1.82%	Russell 2000 Growth 25.75%	Russell 2000 Growth 11.26%	Russell 2000 Growth 12.95%	Russell 2000 Growth 1.23%	S&P/Citi 500 Value 21.04%	MSCI EAFE -14.17%	S&P/Citi 500 Value -11.71%	S&P/Citi 500 Value -20.85%	S&P/Citi 500 Value 31.79%	Russell 2000 Growth 14.31%	Russell 2000 Growth 4.55%	Russell 2000 Growth 15.79%	S&P/Citi 500 Value 5.49%	Russell 2000 Growth -38.54%	S&P/Citi 500 Value 26.47%	Russell 2000 Value 15.06%	S&P 500 -4.18%
BC Agg 7.40%	S&P 500 10.08%	BC Agg 9.75%	BC Agg 18.46%	MSCI EAFE 6.05%	BC Agg 9.64%	Russell 2000 Growth -2.55%	S&P/Citi 500 Value 12.73%	S&P/Citi 500 Value -22.08%	S&P 500 Value -11.89%	S&P 500 Value -22.10%	S&P/Citi 500 Value 28.66%	S&P 500 Value 10.88%	Russell 2000 Growth 4.15%	Russell 2000 Growth 13.35%	S&P/Citi 500 Value 1.99%	S&P/Citi 500 Value -39.22%	Russell 2000 Value 21.17%	S&P/Citi 500 Value 15.05%	MSCI EAFE -5.50%
S&P/Citi 500 Growth 5.06%	BC Agg 10.08%	BC Agg -2.92%	MSCI EAFE 11.21%	MSCI Emerging Markets 6.03%	MSCI EAFE 1.78%	Russell 2000 Value -6.45%	BC Agg -0.82%	Russell 2000 Growth -22.43%	S&P/Citi 500 Growth -12.73%	S&P/Citi 500 Growth -23.59%	S&P/Citi 500 Growth 25.66%	S&P/Citi 500 Growth 6.13%	S&P/Citi 500 Growth 4.00%	S&P/Citi 500 Growth 11.01%	Russell 2000 Value -1.57%	MSCI EAFE -43.38%	Russell 2000 Value 20.58%	MSCI EAFE 7.75%	MSCI EAFE -12.14%
MSCI EAFE -12.18%	S&P/Citi 500 Growth 1.68%	MSCI Emerging Markets -7.32%	MSCI Emerging Markets -5.21%	BC Agg 3.64%	MSCI Emerging Markets -11.59%	MSCI Emerging Markets -25.34%	Russell 2000 Value -1.49%	MSCI Emerging Markets -30.61%	MSCI EAFE -21.44%	Russell 2000 Growth -30.25%	BC Agg 4.10%	BC Agg 4.34%	BC Agg 2.43%	BC Agg 4.33%	Russell 2000 Value -9.78%	MSCI Emerging Markets -53.18%	BC Agg 5.93%	BC Agg 6.54%	MSCI Emerging Markets -18.17%

- **S&P 500** measures the performance of large capitalization U.S. stocks. The S&P 500 is a market-value-weighted index of 500 stocks that are traded on the NYSE, AMEX and NASDAQ. The weightings make each company's influence on the index performance directly proportional to that company's market value.
- **S&P/Citigroup 500 Growth** and **S&P/Citigroup 500 Value** measure the performance of the growth and value styles of investing in large cap U.S. stocks. The indices are constructed by dividing the market capitalization of the S&P 500 index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those S&P 500 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **Russell 2000** measures the performance of small capitalization U.S. stocks. The Russell 2000 is a market-value-weighted index of the 2,000 smallest stocks in the broad-market Russell 3000 Index. These securities are traded on the NYSE, AMEX and NASDAQ.
- **Russell 2000 Value** and **Russell 2000 Growth** measure the performance of the growth and value styles of investing in small cap U.S. stocks. The indices are constructed by dividing the market capitalization of the Russell 2000 index into Growth and Value indices, using style "factors" to make the assignment. The Value Index contains those Russell 2000 securities with a greater-than-average value orientation, while the Growth Index contains those securities with a greater-than-average growth orientation. Securities in the Value Index generally have lower price-to-book and price-earnings ratios than those in the Growth Index. The indices are market-capitalization-weighted. The constituent securities are not mutually exclusive.
- **MSCI EAFE** is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia and the Far East.
- **MSCI Emerging Markets** is a Morgan Stanley Capital International Index that is designed to measure the performance of equity markets in 21 emerging countries around the world.
- **BC Agg** is the Barclays Capital Aggregate Bond Index (formerly the Lehman Brothers Aggregate Bond Index). This index includes U.S. government, corporate and mortgage-backed securities with maturities of at least one year.

The Callan Periodic Table of Investment Returns 1992–2011

The Callan Periodic Table of Investment Returns conveys that the **case for diversification** across asset classes (stocks vs. bonds), investment styles (growth vs. value), capitalization (large vs. small) and equity markets (U.S. vs. international) is strong.

While past performance is no indication of the future, consider the following observations:

- The Table highlights the uncertainty inherent in all capital markets. Rankings change every year. Also noteworthy is the difference between absolute and relative performance. For example, witness the variability of returns for large cap growth, when it ranked second from last for the six years from 2001 to 2006, or the scattered fixed income rankings over the last nine years while returns remained bound in a very narrow range.
 - Stock markets around the world suffered through a year of incredible volatility, as fear gripped investors faced with uncertainty in the European debt markets, negative prospects for Japan following the tsunami and nuclear disaster, the U.S. budget fiasco and Treasury debt downgrade, and seeming unraveling of growth in the global economy. The **U.S. stock market** generated a meek 2.11% return, a surprisingly “good” result that not only masked the volatility suffered during the year, but turned out to be superior to that of the **developed markets overseas** (-12.14%) and particularly the **emerging markets**, which suffered a 18.17% drop. **Large cap growth** (+4.65%) led the way in the U.S. market, outperforming value (-0.48%) by more than 5% and outranking all other equity asset categories. After two consecutive years of strong results, most equity categories suffered negative returns in 2011.
 - For only the third time in 13 years, **small cap** (-4.18%) trailed large cap (+2.11%) stocks in 2011. **Small cap growth** (-2.91%) outperformed **small cap value** (-5.50%) for the third year in a row.
 - **Fixed income** (+7.84%) generated the highest return among asset classes in 2011. Fixed income performance surprised on the upside, as it did in 2010. At the start of the 2011, yields were exceptionally low and economic growth was expected to lead to inevitably higher interest rates, and therefore weak performance for fixed income. However, investor confidence in the economic recovery wavered, held back by uncertain economic news, the tsunami in Japan, the unfolding debt crisis in Europe and the U.S. budget fiasco. Interest rates declined as investors flew to quality, driving up bond prices and total returns. Ironically, one of the major “flight to quality” events of 2011 was the downgrade of the very instrument (U.S. Treasury bonds) that investors use to effect this flight to quality; S&P downgraded Treasuries, citing budget impasses, yet investors spoke with their feet, fleeing the uncertainty of equity for the safe haven of Treasuries, thereby driving their prices up and yields down.
 - The Table illustrates several sharply distinct periods for the capital markets over the past 20 years. First, note the unique experience of the 1995–1999 period, when large cap growth significantly outperformed all other asset classes and the U.S. stock market in general enjoyed one of its strongest five-year runs.
 - The subsequent three years (2000–2002) saw consecutive declines in large cap stocks for the first time since 1929–1932. The S&P 500 suffered its largest loss since 1974, declining 40% from the market peak in March 2000 through the end of 2002.
 - Stocks recorded five years of gains from 2003–2007, led by particularly strong growth in emerging markets. Then the bottom fell out in 2008, and the U.S. stock market sustained its worst drubbing since the 1930s. Large cap stocks suffered the second-worst annual decline (-37.00%) since 1926. The strong performance of the S&P 500 in 2009 and 2010 was not quite enough to overcome the loss sustained in 2008, and the weak performance in 2011 means the previous peak has yet to be reached.
- This analysis assumes that market indices are reasonable representations of the asset classes and depict the returns an investor could expect from exposure to these styles of investment. In fact, investment manager performance relative to the different asset class indices has varied widely across the asset classes during the past 20 years.

Callan

Callan Associates Inc.

Founded in 1973, Callan Associates Inc. is one of the largest independently owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support and advice to a broad array of institutional investors through four distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group and the Trust Advisory Group. Callan employs more than 150 people and maintains four regional offices located in Denver, Chicago, Atlanta and Florham Park, N.J.

Corporate Headquarters

San Francisco 415.974.5060

Regional Consulting Offices

Atlanta 770.618.2140

Chicago 312.346.3536

Denver 303.861.1900

Florham Park 973.593.8050

Note: A printable copy of The Callan Periodic Table of Investment Returns is available on our website at www.callan.com.