First Quarter Market Summary

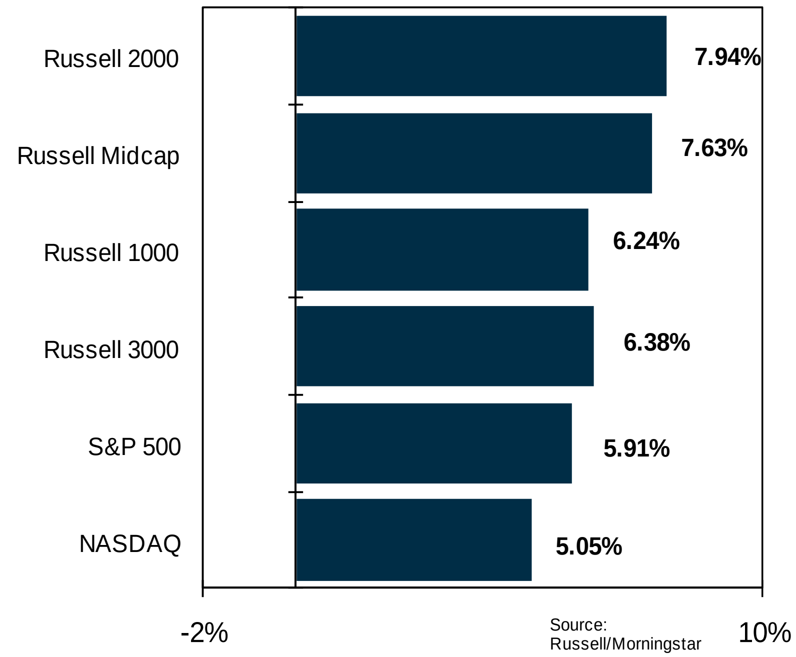
The Economy

The economy continued its positive trend of recovery toward self-sustaining growth in the first quarter of 2011. Economic data released during the quarter was generally more positive than the previous quarter, with the possible exception of housing, which is nevertheless displaying early signs of stabilizing. Both business and consumer spending are on the rise, and most economists believe they will continue to do so as consumer confidence recovers.

The quarter was not without issues that could potentially cause hiccups in the trajectory of economic growth. Political tensions throughout the Mideast percolated, with Egypt's president Hosni Mubarak succumbing to the will of opposition groups by stepping down. In addition, Libyan dictator Moammar Gadhafi brutally suppressed an opposition uprising until the U.N. stepped in to establish a no-fly zone, and Syria, Yemen, Bahrain, Jordan and even Saudi Arabia each experienced varying levels of threats to their current ruling regimes. All of this served to propel oil

Broad Market Index Returns

First Quarter 2011



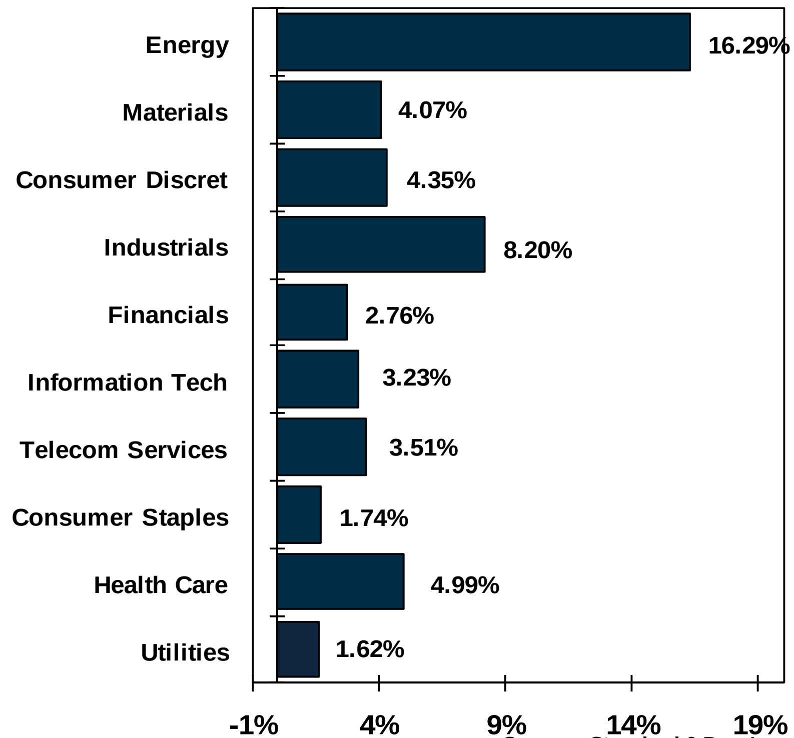
prices higher, while also dampening consumers' outlook. Many analysts believe that while the oil price rise will serve to slow global growth somewhat, the recovery should continue unabated unless a more significant shock occurs.

The economy and markets also needed to digest the three-fold disaster in Japan consisting of a 9.0-magnitude earthquake, resulting tsunami and nuclear catastrophe. The human toll was significant, and the recovery process will take time. Economically, the supply chain effects of a slowdown in production in Japan are the biggest concern, but many analysts believe that the amount of reconstruction necessary in Japan may be an intermediate-term positive for the global economy.

The euro zone sovereign debt problem is another issue that the market continues to need to overcome. Portugal is the latest country to experience problems as rating services downgraded its government debt. In addition, Moody's downgraded the debt of several Spanish banks.

U.S. Equity Market Returns by Major Sector

(Securities in S&P 500, 1st Quarter 2011)



Source: Standard & Poor's

On the domestic front, how fiscal issues are dealt with at both the federal and state levels will certainly impact the outlook for economic growth and financial market performance going forward. Recently elected Republicans have sought to bring spending under control and make significant cuts, some of which have not been met with unanimous approval. Clashes with unions in states such as Wisconsin, Indiana and Ohio have received a great deal of attention, and many analysts believe such battles may be a necessary first step to restoring confidence in the financial stability at the state level. Similar such discussions are occurring in Congress, and fiscal issues are likely to continue to be key as candidates begin to position themselves for the 2012 elections.

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of fourth quarter 2010 GDP, an upward-revised 3.1%, up from the prior estimate of 2.8%, and above consensus expectations of 2.9%. In addition, real GDP rose 2.9% for the full year in 2010, the largest annual GDP increase since 2005. Many economists are forecasting continued robust growth for the remainder of 2011, driven by increased consumer spending resulting from the tax cut deal struck at the end of 2010 by President Obama and the Republicans. Also driving this improvement will be a strengthening labor market, stronger exports stemming from the ongoing global recovery and continued robust corporate profitability, which will in turn produce higher business investment. Moreover, inflation is not expected to be a hindrance for the near future. Analysts do see certain risks that might arise, including further increases in energy prices caused by continued political tension in the Mideast, and a greater-than-expected impact on global growth resulting from the disaster in Japan.

HOUSING

By almost any measure, the housing market remains in its slump, although with some signs that the worst may be over. Existing home sales fell more than 9% in February from month-earlier levels, but the three-month moving average seems to have stabilized. Median existing home sale prices also declined during the quarter, and may continue to be depressed as the market clears the overhang of distressed sales. New home sales also posted significant declines, with February data showing a 16.9% decline from January. The outlook may improve later in the year as increasing affordability combines with job growth improvement and heightened consumer confidence.

EMPLOYMENT

The employment situation showed marginal improvement in the first quarter of 2011, in what might be a precursor of things to come. Payrolls increased by 192,000 in February, after rising a less-than-expected 63,000 in January. The February data showed broad-based job growth, with jobs being added in most private sector industries. Additionally, the unemployment rate declined to 8.9% in February, which is the latest data available. The improvement in employment is a result of the continued economic recovery, with corporations increasing profitability, and smaller companies being able to gain access to credit more easily. Having pared back payrolls over the past couple of years, companies are now beginning to increase staff in order to meet demand. Despite the recent good news, many analysts expect that the employment situation will not return to pre-recession levels until approximately mid-2013.

FED POLICY

In March, the Federal Open Market Committee (FOMC) announced that it will leave monetary policy unchanged, and that the quantitative easing program ("QE2") begun in the fourth quarter of 2010 will continue until its scheduled conclusion at the end of June of 2011. The QE2 program is an expansion of the Fed's balance sheet by $600 billion in an effort to reduce long-term interest rates and increase inflation expectations. The ultimate goal of the QE2 program is to help fulfill the Fed's dual mandate of promoting price stability and full employment. The program was initiated because of the deflationary environment and high unemployment.

In its statement, the FOMC retained language saying that it will maintain a fed funds rate 0% to 0.25% range "for an extended period," the 14^{th} time in a row that phrase has been used. The FOMC also signaled that it believes progress is being made in terms of economic growth, but that such progress has been "at a rate that has been insufficient to bring about a significant improvement in labor market conditions." In a nod to those factions of the market that have begun to be concerned about the prospect of inflation, the FOMC also stated that even though it believes the impact of higher inflation will likely be transitory, it will "pay close attention to the evolution of inflation and inflation expectations."

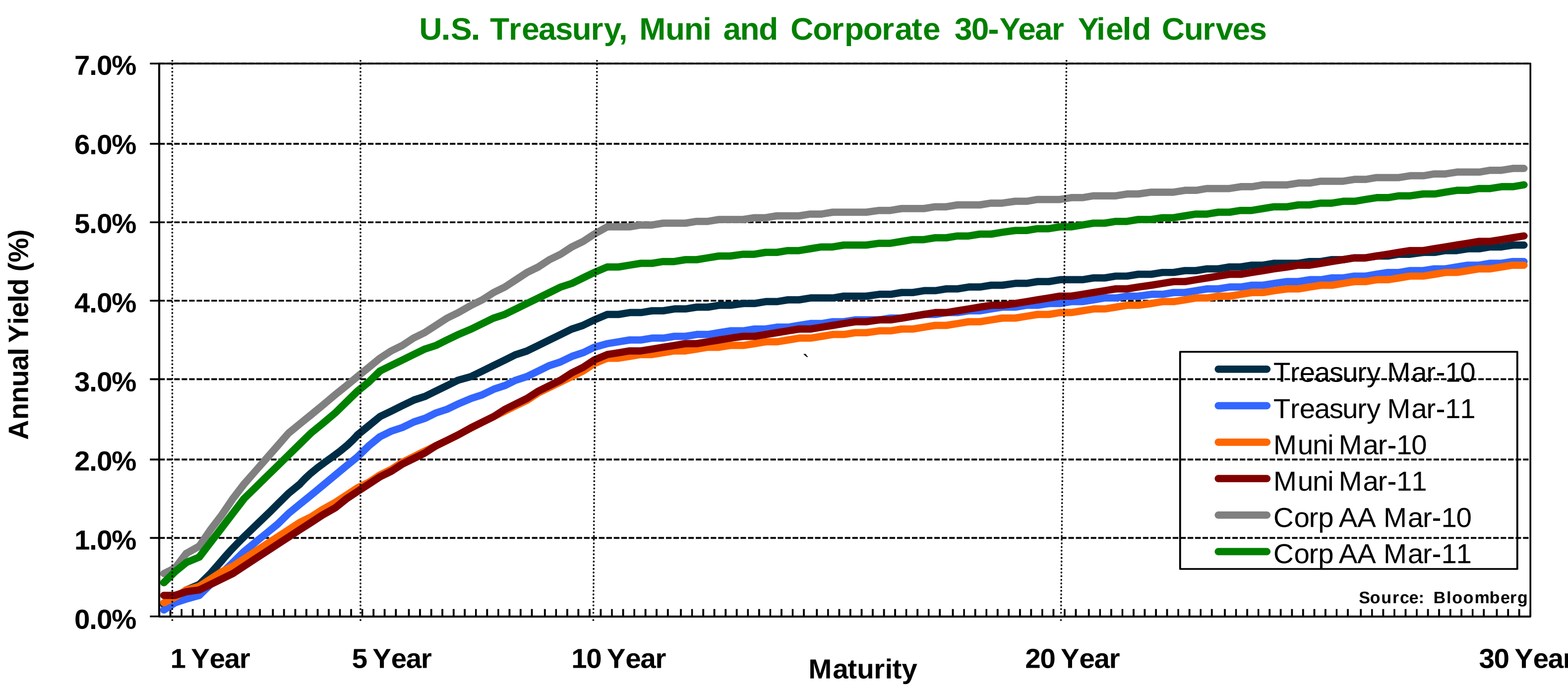
Most economists continue to believe that even with a pickup in economic growth and improvement on the employment front the Fed is not likely to raise interest rates until sometime in 2012.

Interest Rates

Following a steep selloff in the fourth quarter of 2010, the fixed income market experienced a much more stable environment during the first quarter of 2011. Early in the quarter interest rates continued the rise that began in the previous quarter with the announcement of the second round of quantitative easing. Fixed income investors were nervous that with the economy showing signs of a self-sustaining recovery inflation may become more of a serious issue. The rate rise eased somewhat – and bond prices rose – as investors sought the safe haven of U.S. Treasury securities in the aftermath of the Japan earthquake and renewed sovereign debt problems in the euro zone. Once fears eased, however, investors returned to an investment posture favoring more risky assets, and by the end of March rates had risen to the highest levels of the quarter.

The yields on the five- and 10-year Treasurys remained relatively flat on a quarter-over-quarter basis, although the yield curve steepened slightly. The yield on the five-year Treasury rose 23 basis points from 2.01% on December 31st to 2.24% on March 31st, while the yield on the 10-year Treasury rose 17 basis points from 3.30% to 3.47% over the same period. The yield on the 30-year Treasury increased by 17 basis points from 4.34% to 4.51% during the quarter. The yield on the 3-month T-bill declined three basis points from 0.12% to 0.09%.

The credit segment of the market also witnessed a rise in rates, but not quite to the extent of the Treasury market. The yield on the Barclays Capital U.S. 1-3 Government Credit Index rose only seven basis points, from 1.61% on December 31st to 1.68% on March 31st. Intermediate credit yields did not rise much more, with the Barclays Capital U.S. 7-10 Year Credit Index increasing from 4.52% to 4.62% during the quarter. Similar to the fourth quarter of 2010, the high yield segment of the market bucked the trend towards higher yields. The Barclays Capital U.S. Corporate High Yield Index yield fell to 7.49% from 7.90% at the end of the last quarter. Municipal bonds also experienced a decline in yield, albeit a very small one. The Barclays Capital Municipal Bond Index yield declined four basis points to 3.86% from 3.90% at December 31st.



Equities

For the first three months of 2011, stocks extended the rally begun late in the third quarter of 2010, shaking off continued euro zone sovereign debt concerns, political tension in the Mideast and a catastrophic earthquake and resulting nuclear disaster in Japan. The Russell 1000 Index of large capitalization stocks advanced 6.24% during the quarter. Small capitalization stocks, as represented by the Russell 2000 Index, also advanced during the quarter, posting a gain of 7.94%. In a continuation of a trend begun in December, value stocks slightly outperformed growth stocks.

International stocks, while posting gains for the quarter, somewhat underperformed U.S. domestic equities. The MSCI EAFE Index of developed markets stocks advanced 3.45% during the three months. In a change of pace from recent quarters, emerging markets stocks underperformed those of developed markets, as concerns of overheating economic growth in emerging markets economies prompted speculation of tighter policies in those countries. The MSCI Emerging Markets index generated a return of 2.10% in the quarter.

Many market analysts continue to expect 2011 to be a positive one for stock prices, citing a continued economic recovery that should turn self-sustaining as QE2 winds down, and the relative attractiveness of equities to bonds from a valuation perspective. Potential risks to this outlook would include a greater-than-expected dent in global growth due to a sustained oil price rise or an unexpected spike in interest rates as the market digests the completion of the QE2 program.