

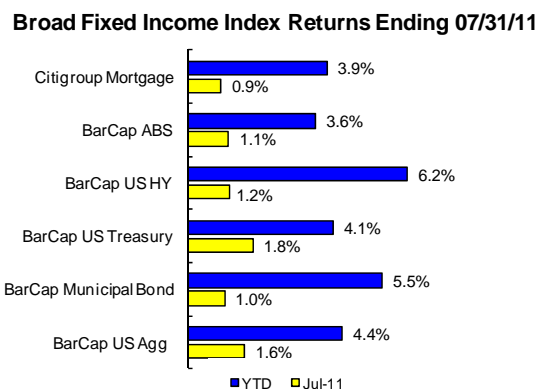
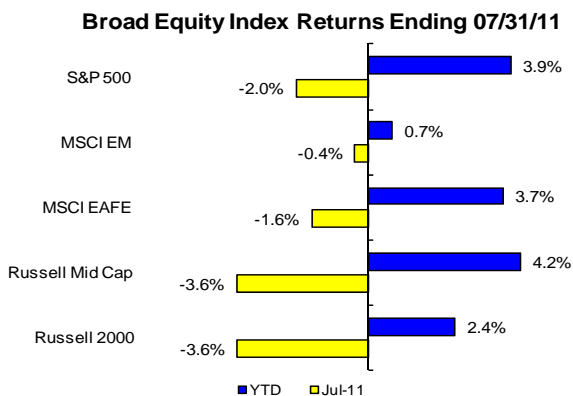
July 2011 Market Commentary

U.S. and international developed and emerging markets ended the month of July mostly lower amid ongoing sovereign debt fears and waning global economic growth. Meanwhile, the U.S. government raised the debt ceiling and avoided default in a last minute effort. However, the potential for a rating downgrade still looms.

For the month, the Russell 2000 Index of smaller companies ended down 4%, while the S&P 500 Index declined 2%. Information technology and energy were among the top performing areas, while sectors such as financial services and industrials underperformed. Across market capitalizations, larger companies generally outperformed smaller companies. No investment style emerged as a favorite as growth fared best among large-caps, but trailed among mid- and small-caps.

U.S. fixed income markets posted positive results as the yield curve flattened. Investment grade corporate securities were strong performers during the month and outperformed lower quality, higher yielding corporates for the fourth month in a row. U.S. Treasuries moved higher with longer maturities outperforming intermediate issues. Other sectors, including asset-backed securities (ABS), mortgage-backed securities (MBS) and municipals, also advanced.

International markets posted mixed results, with the MSCI EAFE declining 2%. Among the largest European markets, France and Germany fell 8% and 4%, respectively. Within the Pacific region, Japan ended up 4%. Meanwhile, Singapore rose 5%, while New Zealand rallied 6%. In the emerging markets, the MSCI EM ended marginally lower on weakness from select Emerging Asian, Latin American and EMEA (Eastern Europe, Middle East and Africa) countries.



World Market Recap

Economy

- Second quarter GDP rose 1.3% according to the advance estimate. The increase primarily reflected positive contributions from federal government spending, private inventory investment, nonresidential fixed investment and exports that were partly offset by negative contributions from state and local government spending.
- The Federal Reserve continues to keep rates on hold at the 0% to 0.25% range, the same level since 2008. The next FOMC meeting is scheduled for August 9th, 2011 at which Fed Chair Ben Bernanke is not expected to announce another round of quantitative easing despite disappointing U.S. growth, weak manufacturing numbers and stubbornly high unemployment.

U.S. Equity

- U.S. equities moved lower during July as the political stalemate over raising the nation's debt ceiling weighed on investors. Meanwhile, weaker-than-expected U.S. GDP growth, slowing consumer spending and a persistently weak housing market continued to concern market participants.
- The information technology sector was among the top performing areas led higher by names such as Google and Apple. Google, the world's largest internet search engine, reported sales and profit that beat analysts' estimates, showing how the company is successfully expanding into mobile and display advertising.
- The energy-related sector also held up relatively well during the month of July as several oil and gas services companies rose after reporting a large jump in profits and gave optimistic forward outlooks.
- Meanwhile, the financial services sector came under significant pressure due to the ongoing Eurozone debt crisis, concerns over the U.S. debt ceiling and potential mortgage-related litigation. Stocks in the asset manager, specialty finance and mortgage finance sub-sectors performed particularly poorly.
- The industrials sectors also underperformed during the month on weakness from stocks in the industrial machinery, building materials/fixtures and aerospace & defense sub-sectors.

Fixed Income

- Investment grade corporates were among the top performers with investment grade utility and industrial-backed issuers outperforming financial-related bonds. Gains were limited in financials on concerns surrounding a restructuring of Greek debt and the U.S. government budget crisis.
- Lower quality, higher yielding corporate securities posted positive results but trailed their investment grade counterparts. Higher quality issued outperformed with BB-rated issues rising 1.44%, while CCC-rated issues gained 0.40%.
- U.S. Treasuries posted positive results during the month despite the sharp drop in Fed purchases and lingering threat of default. Long U.S. Treasuries outperformed intermediate issues as the curve flattened.
- Municipals posted solid results for the month, bringing their year-to-date results to nearly 6% as investors continue to regain confidence in the municipal market. In July, the medium quality sectors outperformed the higher quality sectors.
- Other sectors, including commercial mortgage-backed securities (CMBS), asset-backed securities (ABS) and mortgage-backed securities (MBS), also advanced.

International Developed Markets

- Canada fell 2%. The central bank left rates on hold at 1% as government officials said the influential U.S. economy has grown at a slower pace than expected. As a result, Canadian economic growth slowed in the second quarter, but the bank said it expects the economy to begin accelerating in the second half of the year.
- The United Kingdom ended unchanged as the Bank of England (BOE) kept interest rates on hold at 0.5% and left its quantitative easing program unchanged. The BOE has held interest rates at this level for 29 months amid weak economic growth in Britain and an ongoing debt crisis in the Eurozone.

- The European Central Bank (ECB) raised interest rates to 1.5% in July to counter firming inflation pressures in the 17-country Eurozone. A further hike later this year had been widely predicted but is now in doubt because of worries about the economic recovery and the debt crisis. Among the largest European markets, Germany, Spain, France and Italy declined 4%, 7%, 8% and 9%, respectively.
- Within the Pacific region, Japan ended up 4%. Meanwhile, Singapore rose 5%, while New Zealand rallied 6%. Australia was the lone decliner in the region, falling 2%. Following month end, Japanese officials intervened in the yen to curb its strength to support the country's export-led economy. The action marked the first time the government has intervened in the currency markets since the aftermath of the devastating earthquake and tsunami.

International Emerging Markets

- Within Asia, India declined 2% as the central bank unexpectedly raised rates by 50 basis points to 8%. This marked the eleventh interest rate hike since early last year. China ended down 1% as government officials continued to implement further monetary policy tightening measures. Meanwhile, the smaller markets of the Philippines and Indonesia each rallied 7%.
- In Latin America, Brazil declined 4%, while Mexico ended down 1%. Brazil's stock market came under pressure amid weakness from financials which fell in the wake of liquidity tightening measures. Meanwhile, the small market of Peru rallied 8% on renewed confidence in newly elected president Ollanta Humala following several cabinet appointments that were viewed favorably.
- Among EMEA countries, South Africa ended down 1%. In the Middle East, Turkey and Egypt declined 4% and 6%, respectively. Within Eastern Europe, Russia advanced 2%. Meanwhile, the Czech Republic, Poland and Hungary lost 2%, 3% and 7%, respectively.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

Russell 2000 Index measures the performance of the small-cap stocks.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.

Note: The information contained in this correspondence was taken from sources which we deem reliable. We do not represent that it is accurate nor complete and it should not be relied upon as such. Any opinions expressed herein reflect our judgment at this date and are subject to change.