Tactical Asset Allocation Overview

Continuing to De-Risk Portfolios

Changes Effective June 23, 2011

Summary

We continue to adhere to our 2011 forecast of modest single-digit gains for the stock market. However, we believe the prudent course of action in the short term is to reduce portfolio volatility to protect against potential market weakness following gains over the past week. In general, we recommend the following:

- Reduce core equity exposure
- Reduce Natural Resources exposure in our most conservative investment objectives
- Increase cash allocation

For the balance of 2011, we continue to expect modest returns in the financial markets accompanied by elevated levels of volatility. In this environment, we expect to decrease exposure to market sensitivity when financial markets approach the high end of their anticipated trading range, we anticipate market weakness, or indicators that suggest that market volatility may further rise.

We remain defensive, but not bearish. The next several weeks may extend the modest 6% decline seen over the past seven weeks for several reasons, including:

- soft economic data may continue until mid-July when we expect the negative impact of the Japanese earthquake and tsunami and severe weather and natural disasters in the U.S. will begin to fade,
- the so-called earnings "pre-announcement season" is coming up in the next few weeks when corporate leaders often pre-announce any bad news ahead of their second quarter earnings reports that begin in mid-July,
- the end of QE2 at the end of June may heighten concerns about the US dollar, interest rates, and debt levels adding to the environment of uncertainty, and
- the debt ceiling debate may heat up in the coming weeks, and the concerns over European debt problems may linger until a rescue package for Greece is crafted and agreed upon.

Thus, we believe it is prudent to temporarily reduce market sensitivity in our portfolios. We have decided to reduce equity exposure in all investment objectives and eliminate exposure to Natural Resources in more conservative portfolios. Proceeds from these sales will be added to cash. We expect to reinvest these proceeds as the reward potential for taking risk increases. Because we expect this trade to be short-term in nature, by increasing the allocation to a liquid investment, cash, we believe we can redeploy these assets in a quick and timely manner when the opportunity arises.

More information regarding the allocation shift, including timeframe, factors to monitor, and implementation details are below.

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Reduce Core Equity Exposure

- **Goal of this trade:** To reduce portfolio volatility to protect against potential market weakness following gains over the past week. Proceeds from this allocation shift are used to increase the cash allocation.
- **Timeframe:** Short-Term
- **Rationale:** We see a number of potential headwinds for the market in coming weeks. Recent economic reports have missed expectations and we believe this trend could continue in the short term. Earnings season for the second quarter begins in mid-July and pre-announcement season is already one of the weaker experienced in the past few years. Both fiscal (debt ceiling) and monetary (Fed, QE2, interest rates) policy offer potential headline risk, and the Greece situation continues to linger. Overall, we expect continued volatility in the market, creating an unfavorable short-term risk-reward profile for stocks. With this in mind, we believe the prudent course of action is to reduce direct equity exposure and to increase cash as a defensive measure.
- **Reasons we will reverse this trade:** We would reverse this trade if the global macroeconomic environment shows signs of improvement and/or the headline risks subside.
- **Reasons why individual portfolios should not follow this recommendation:** Portfolios already significantly underweight stock market exposure may not want to further reduce exposure.
- **Other ways to attain the goal:** Reducing risk by selling highly market sensitive asset classes such as REITs or commodities.

Eliminate Natural Resources Exposure in Most Conservative Investment Objective

- **Goal of this trade:** In the most conservative investment objective, Income with Capital Preservation, we have also decided to reduce market sensitivity by eliminating Natural Resources exposure. Proceeds from this allocation shift are used to increase the cash allocation.
- **Timeframe:** Short-Term
- **Rationale:** While we continue to favor the longer-term outlook of this asset class, significant market sensitivity has led us to eliminate its exposure in the most conservative investment objective. Because we expect this trade to be short-term in nature, by using the proceeds to increase the allocation to a liquid investment, cash, we believe we can redeploy these assets in a quick and timely manner when the opportunity arises.
- **Reasons we will reverse this trade:** We would reverse this trade if the global macroeconomic environment shows signs of improvement and/or the headline risks subside.
- **Reasons why individual portfolios should not follow this recommendation:** Portfolios already significantly underweight stock market exposure may not want to further reduce exposure.

- **Other ways to attain the goal:** Reducing risk by selling core equities, or highly market sensitive fixed income assets classes such as high-yield bonds.

IMPORTANT DISCLOSURES

The opinions voiced in this material are for general information only and are not intended to provide or be construed as providing specific investment advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

Stock investing involves risk including loss of principal.

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