Tactical Asset Allocation Overview

Navigating Into Market Uncertainty and Increased Volatility

Changes Effective June 6, 2011

Summary

We continue to adhere to our 2011 forecast of modest single-digit gains for the stock market in 2011, though recent economic data has reintroduced more volatility. We believe the prudent course of action is to reduce some exposure to asset classes with greater market sensitivity to help protect against potential market weakness in the near-term. In general, we recommended the following:

- Reduce/Eliminate Real Estate Investment Trust (REIT) exposure
- Reduce exposure to High-Yield Bonds (HYB) in some portfolios
- 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 market sensitivity in our portfolios when financial markets approach the high end of their anticipated trading range, we anticipate market weakness, or indicators suggest that market volatility may further rise.

We do not envision a return to recession for several reasons, including:

- the economy has created about 200,000 new private sector jobs per month this year — the strongest pace since before the financial crisis,
- businesses are now increasing their spending and driving growth after a decade of under-investing,
- financing conditions for the consumer and business are improving rapidly; banks have lowered lending standards and junk bond yields are the lowest in history,
- the declining US dollar is boosting earnings and making U.S. products more competitive globally,
- inflation is likely near its peak in China — wholesale food prices have declined 10% from the recent peak—and in other nations suggesting rate hikes may soon abate, and
- U.S. businesses have plenty of cash to spend on hiring, capital, dividends, and mergers and acquisitions (M&A).

Nevertheless, we believe the recent spate of weaker-than-expected economic reports may continue in the near-term due to a combination of factors including supply chain disruptions stemming from the Japan earthquake and tsunami. In addition, the stock market is trading near the high-end of our forecast range heading into the second-quarter earnings pre-announcement season, creating an unfavorable risk-reward profile for stocks and related investments.

We do believe it is prudent to temporarily reduce market sensitivity in our portfolios. We have decided to reduce or eliminate the exposure to Real Estate Investment Trusts (REITs) in most investment objectives and reduce exposure to High-Yield Bonds (HYB) in the 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.

Eliminate REIT Exposure

- **Goal of this trade:** Take profits in an investment that has performed very well, while at the same time reducing exposure to an asset class that is highly market sensitive. Proceeds from this allocation shift are used to increase the cash allocation.
- **Timeframe:** Short-Term
- **Rationale:** We continue to expect modest single-digit returns for the S&P 500 this year. However, the catalysts for a near-term market positive move are uncertain due to an uneven pattern in the economic data. While we do not anticipate a double-dip recession, economic data may continue to disappoint. As a result, we believe the market risks outweigh the potential for rewards over the near-term. As such, we have decided to reduce exposure to riskier investments in favor of cash. 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.
- **Reasons we will reverse this trade:** We would reverse this trade if the global macroeconomic environment shows signs of improvement.
- **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 other highly market sensitive asset classes such as small cap equities or commodities.

Reduce High-Yield Bond Exposure in Conservative Investment Objectives

- **Goal of this trade:** In the more conservative investment objectives, Income with Moderate Growth and Income with Capital Preservation, we have also decided to reduce market sensitivity by reducing High-Yield Bonds (HYB) 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, its significant market sensitivity has led us to reduce its exposure in more conservative investment objectives. 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.
- **Reasons why individual portfolios should not follow this recommendation:** Portfolios already significantly underweight market exposure may not want to further reduce exposure.
- **Other ways to attain the goal:** Reducing risk by selling other highly market sensitive asset classes such as small cap equities, commodities or bank loans.

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.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit, and liquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Small Cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the Small Cap market may adversely affect the value of these investments.

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