



Quarterly Economic Update

June 3, 2011



MACROECONOMIC COMMENTARY

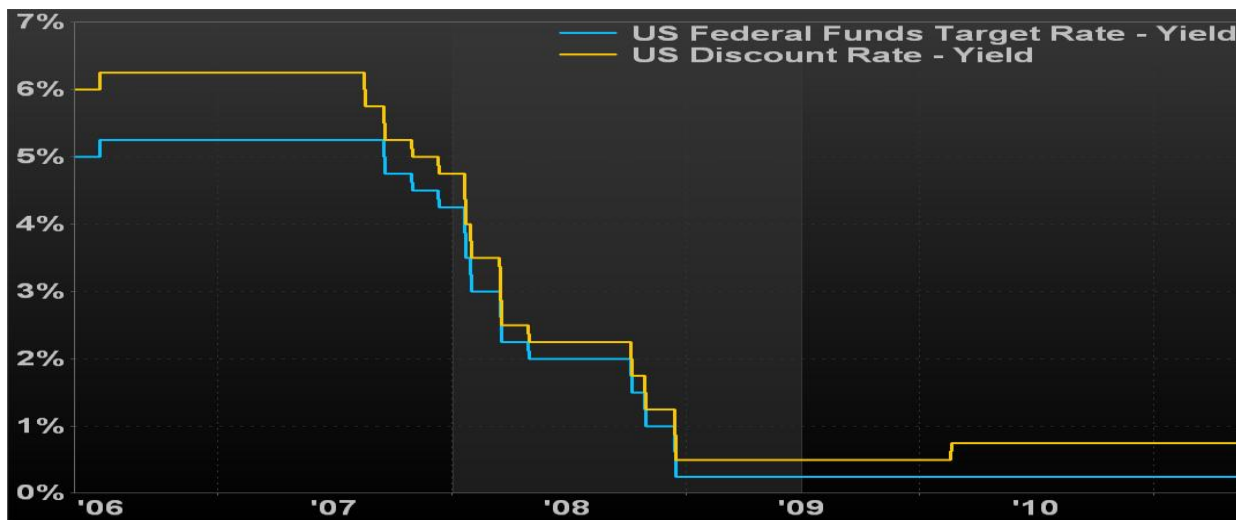
Monetary Policy

By Bobby Long

As investors, there are “Fed Watchers” and other market participants who watch every move by the Federal Open Market Committee (FOMC), dissecting every FOMC statement, FOMC minutes, and speeches by committee members for indication on the direction of future monetary policy action and how it may influence financial markets. On March 24th, the Federal Reserve announced they would give us something else to comb through in search for direction of policy actions. They announced that Federal Reserve Chairman Ben Bernanke would begin holding press briefings four times a year to present the FOMC’s current economic projections and to provide additional context for the FOMC’s policy decisions. The FOMC meets several times throughout the year holding one or two-day meetings to make policy decisions. Four of their scheduled meetings are held over a two-day period where committee members present their economic projections on GDP, unemployment, and inflation. In conjunction with the FOMC statement release after these two-day meetings, Chairman Bernanke will now hold a press conference where he will discuss the committee’s economic projections and provide some clarity on their discussions surrounding policy decisions. Chairman Bernanke will also field questions from the press during these briefings. Board of Governors Vice Chairman Janet Yellen has led a subcommittee charged with improving the Federal Reserve’s communication strategy and this press briefing is a result of the committee’s attempt to improve communications with the public. Until now, communications have been limited to the release of the FOMC statement, followed by a release of the FOMC minutes approximately three weeks after the meeting. Several committee members routinely comment on policy action in speeches that are made periodically to various groups, sometimes not providing a full context of these discussions that have been held in the FOMC meetings. It appears there may have been some concern that through these speeches a complete picture of policy discussions, sometimes prior to the release of FOMC minutes, was not always fully communicated leading to less complete information being disseminated to the public. The press briefings by Chairman Bernanke are an attempt to provide more timeliness and greater clarity to information surrounding FOMC discussions and policy decisions. Since committee members hold multiple views on economic projections and policy direction, this provides an opportunity for Chairman Bernanke to present more complete information on the views of the committee collectively. Following the April 27th meeting, the first of these press briefings was held as investors watched intently to discern what information could be gleaned from this new form of communication from the FOMC.

The April 27th FOMC statement again did not hold any surprises, as the FOMC held the federal funds target rate at 0 to ¼ percent where it has remained since December 2008. They repeated their statement that the committee “continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.” Most market participants continue to expect the FOMC to hold the rate at these levels through the remainder of 2011, with many not expecting a change in the federal funds target rate until the latter part of 2012. When

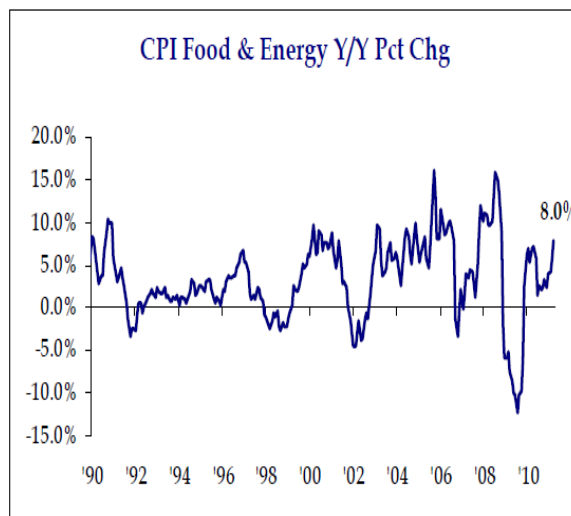
the FOMC does shift towards a tightening policy, they will communicate this prior to actually raising the target rate through the removal of the “exceptionally low levels . . . for an extended period” language. Chairman Bernanke explicitly stated in his April 27th press conference “*extended period*” suggests that there would be a couple of meetings probably before action.”



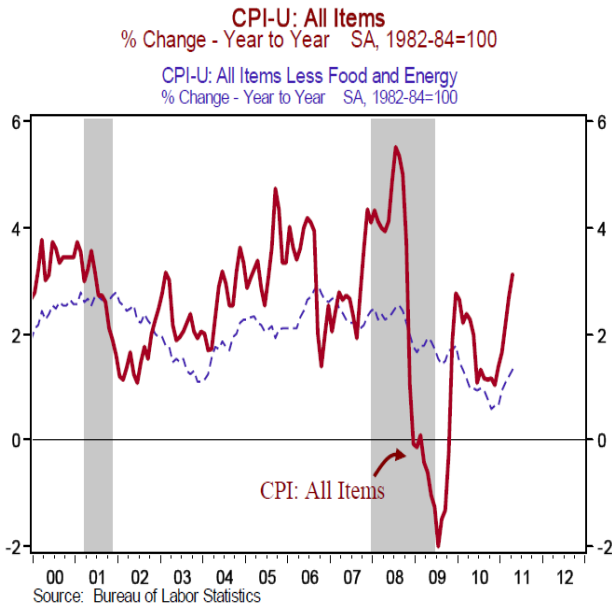
Source: FactSet Research Systems

The April 27th FOMC statement contained slightly weaker language on the economic recovery acknowledging that it is “proceeding at a moderate pace” versus the “on a firmer footing” it noted in the March 15th statement, reflecting a lower first quarter GDP. When questioned in his press conference, Chairman Bernanke replied that “the slowdown in the first quarter is viewed by the Committee as being transitory. That being said, we’ve taken our forecast down just a bit, taking into account factors like weaker construction and possibly just a bit less momentum in the economy.”

The statement acknowledged that inflation had increased recently, but that “longer-term inflation expectations have remained stable and measures of underlying inflation are still subdued.” The FOMC is aware and seems concerned about the recent uptick in inflation due to significant increases in energy and commodity prices, but believes these effects are short term in nature and are not a threat to long term inflation. The chart to the right illustrates the recent sharp uptick in food and energy inflation.

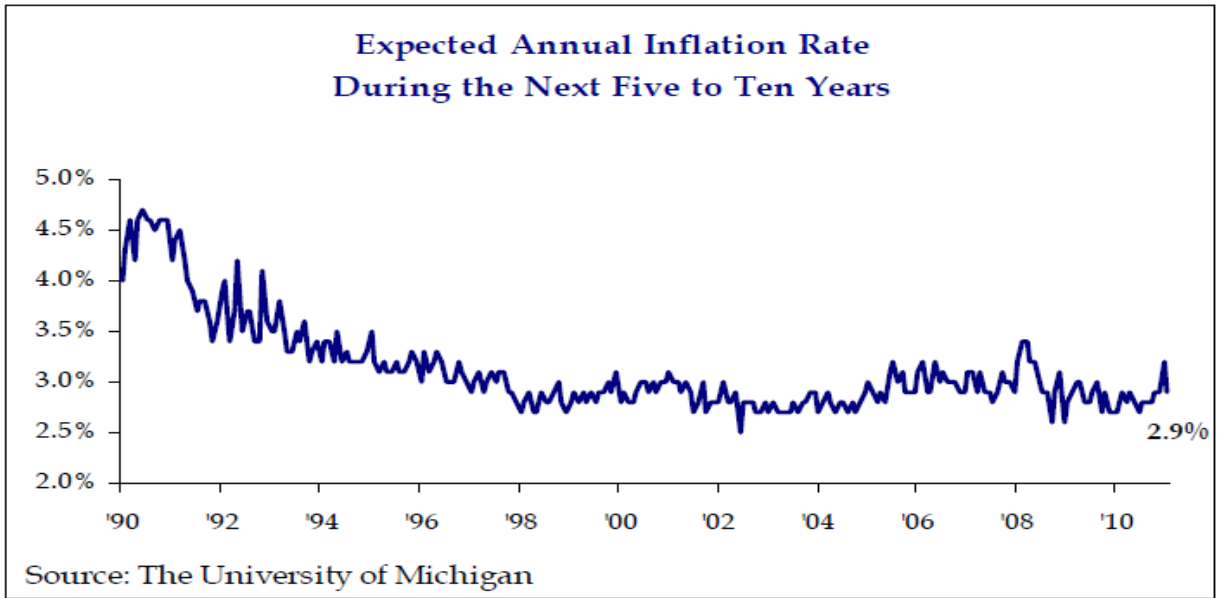


Source: Strategas Research Partners, LLC

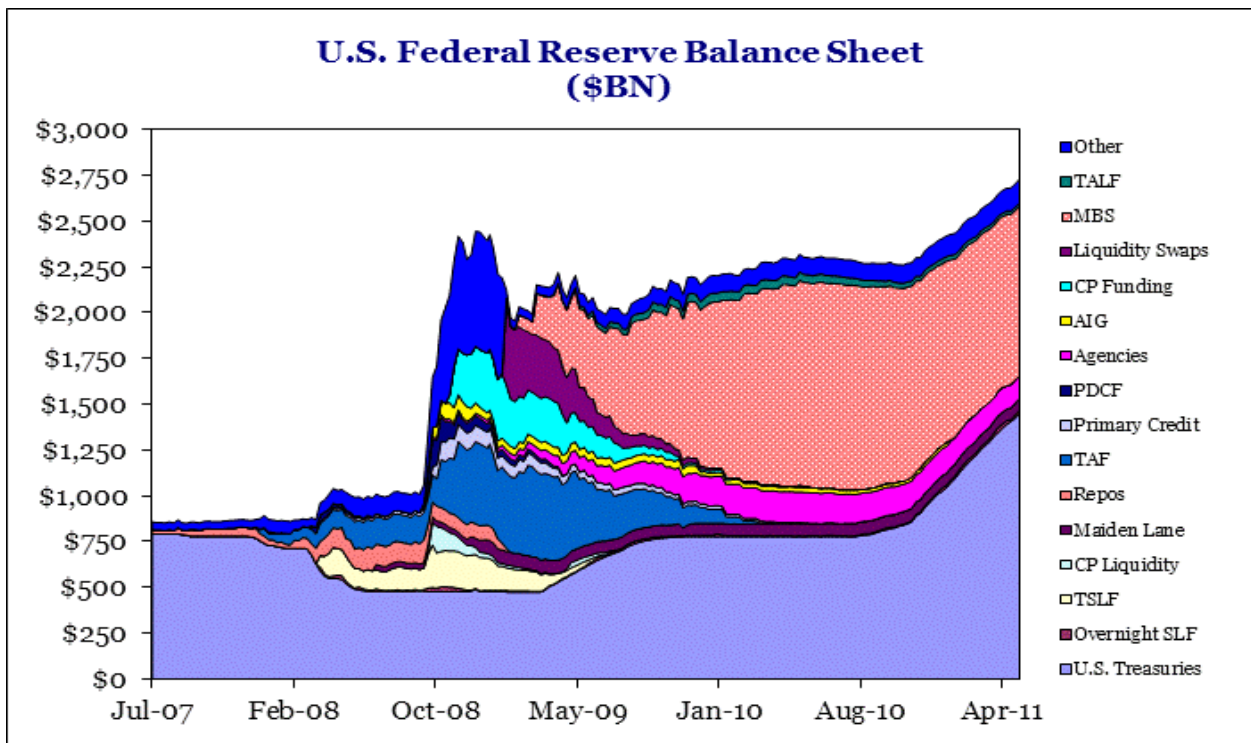


While food and energy prices are historically more volatile, recent CPI numbers show a clear uptick in both CPI and Core CPI (ex food and energy). In the most recent economic projections released from Federal Reserve Board Members and Bank Presidents, they increased their inflation projections over the next three years. Overall inflation projections for 2011 increased significantly to 2.1%-2.8% from previous projections of 1.3%-1.7%. Projections more modestly increased to 1.2%-2.0% from 1.0%-1.9% for 2012 and to 1.4%-2.0% from 1.2%-2.0% for 2013.

The FOMC maintains that the near-term increase in inflation from higher commodity prices is “transitory” and as commodity prices moderate inflation will decline towards its underlying level. Chairman Bernanke expressed that the FOMC is “concerned about medium-term inflation expectations” and acknowledged that while “we’ve seen near-term inflation expectations rise fairly significantly . . . medium-term inflation expectations have not really moved very much.” He went on to say that “if inflation persists or if inflation expectations begin to move, then there’s no substitute for action . . . we would have to respond.” Until then, the FOMC seems focused on increasing employment and reducing slack in the economy while keeping inflation concerns in the back of their minds. The chart below shows that although there has been an increase in medium-term inflation expectations, they remain relatively in line and are not cause for immediate concern or action.



The FOMC stated they would continue with their planned purchase of \$600 billion of Treasury securities that will be completed by the end of the second quarter. They will also continue to reinvest principal payments in Treasury securities, allowing the Federal Reserve's balance sheet to continue expanding in size. As the chart below illustrates, the balance sheet has now approached \$2.75 trillion and is expected to climb towards \$3 trillion as the large scale asset purchase program draws to a close at the end of June.



With the completion of QE2 in sight, investors are now searching for what the next move will be by the Federal Reserve. An immediate tightening of monetary policy does not seem to be likely in the near-term as we are still struggling with high unemployment. The economic recovery appears to be moving forward, but significant areas of weakness still exist. With the economic recovery progressing and inflation concerns lingering, further easing in the near-term seems unlikely as well. Most likely we will see a pause in policy action, continuing to hold the federal funds target rate low and the balance sheet elevated until employment levels begin to rise more significantly. General consensus seems to be that the next move will indeed be to tighten policy barring any significant unforeseen weakness or setbacks in the recovery, although how soon it would begin and how quickly it would proceed remains much debated. Chairman Bernanke acknowledged that “it’s very likely that an early step would be to stop reinvesting all or part of the securities which are maturing.” This would passively begin reducing the size of the Federal Reserve’s balance sheet and tightening monetary policy. Given the discussions held by FOMC members regarding the early termination or completion of their planned Treasury purchases, it seems this would likely be a first step. The FOMC has spent a significant amount of time discussing policy tools that can be used to tighten monetary policy and how they should be implemented when the time arises. While they have not agreed on what the exit strategy should look like, they agreed at the April 27th meeting on the following four principles that would guide the FOMC’s strategy for normalizing monetary policy:

- 1) The pace and sequencing of the policy steps would be driven by the Committee’s monetary policy objectives for maximum employment and price stability.
- 2) The size of the System Open Market Account’s (SOMA) securities portfolio would be reduced over the intermediate term to a level consistent with the implementation of monetary policy through the management of the federal funds rate rather than through variation in the size or composition of the Federal Reserve’s balance sheet.
- 3) The exit strategy would involve returning the SOMA to holding essentially only Treasury securities in order to minimize the extent to which the Federal Reserve portfolio might affect the allocation of credit across sectors of the economy.
- 4) Asset sales would be implemented within a framework that had been communicated to the public in advance, and at a pace that potentially could be adjusted in response to changes in economic or financial conditions.

Other than raising the federal funds target rate and allowing securities held to mature or prepay without reinvestment, they have discussed actively selling securities from their portfolio and using reverse repurchase agreements to shrink the size of the Federal Reserve’s balance sheet. Another tool that has been widely

discussed is paying interest on excess reserves. Moving forward upon the completion of the Federal Reserve's Treasury purchases in June, investors will become increasingly focused on the Federal Reserve's exit strategy and how they will implement these policy tools to remove accommodative monetary policy. Inflationary pressures will continue to be watched closely by investors with concern whether the FOMC can effectively use their policy tools to maintain pressures at healthy levels. The FOMC maintains they are confident in the policy tools they have in place to meet their dual mandate to foster maximum employment and price stability as they cautiously navigate the way through economic recovery.

Fiscal Policy

By Michael McNair

Federal Government Fiscal Policy

On April 18th, 2011, S&P cut their outlook on US government debt to negative. With government debt ballooning over the past decade, many believed this action was long overdue. S&P stated that, “there is a material risk that US policymakers might not reach an agreement in how to address medium and long-term budgetary challenges by 2013.”

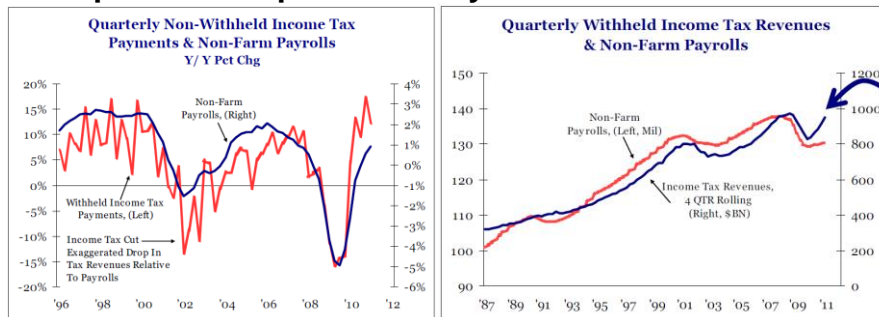
Recent federal tax revenue has been very strong but it is highly concerning that the budget deficit is actually deteriorating despite this increase in tax revenue.

The Deficit is Getting Worse...



Source: Bloomberg, US Treasury

Despite a V-Shaped Recovery in Federal Tax Revenue:



Source: Strategas

Because of natural stabilizers (e.g. unemployment benefits, lower tax revenue) the budget deficit will grow during economic contractions; nevertheless, at this point in the economic recovery the budget should have improved significantly. However, policy makers have been reluctant to tighten the most accommodative fiscal policy in our country’s history due to the magnitude of the recession and for fear of destabilizing a fragile recovery. As you can see below, the degree of monetary and

fiscal policy stimulus, undertaken since December of 2007, is without precedent in our nation's history:

What Government Did, and Didn't Do

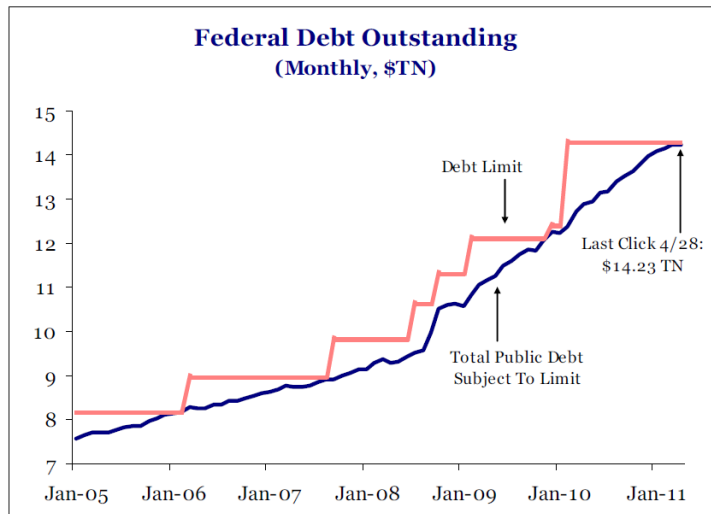
(From *Grant's Interest Rate Observer*)

Cycle Peak	Cycle Trough	Length (Months)	Decline in Real GDP	Stimulus as % of GDP		
				Monetary	Fiscal	Total
Aug. '29	Mar. '33	43	-27.0%	3.4%	4.9%	8.3%
May '37	Jun. '38	13	-3.4%	–	2.2%	2.2%
Nov. '48	Oct. '49	11	-1.7%	-2.2%	5.5%	3.3%
Jul. '53	May '54	10	-2.7%	–	-1.4%	-1.4%
Aug. '57	Apr. '58	8	-3.2%	–	3.2%	3.2%
Apr. '60	Feb. '61	10	-1.0%	0.7%	1.0%	1.7%
Dec. '69	Nov. '70	11	-0.2%	0.3%	2.4%	2.7%
Nov. '73	Mar. '75	16	-3.1%	0.9%	3.1%	4.0%
Jan. '80	Jul. '80	6	-2.2%	0.4%	1.1%	1.5%
Jul. '81	Nov. '82	16	-2.6%	0.3%	3.5%	3.8%
Jul. '90	Mar. '91	8	-1.3%	1.0%	1.8%	2.8%
Mar. '01	Nov. '01	8	-0.2%	1.3%	5.9%	7.2%
Dec. '07	–	–	-2.7%	18.0%	11.9%	29.9%

Source: Grant's Interest Rate Observer 2009, Federal Reserve & CBO Estimates, and Strategas Research Partners.

However, with inflation picking up and a quickly deteriorating government balance sheet threatening our global economic hegemony, fiscal tightening is becoming unavoidable.

Last week the U.S. government reached the legal debt limit. The Treasury department is now being forced to draw on the Social Security Trust Fund in order to meet government obligations until Congress passes a law raising the debt limit. Failure to raise the limit would technically bankrupt the US government and cause catastrophic damage to the global financial system. Because of these dire ramifications, we believe that an increase in the debt limit is a near certainty. It is our view that the biggest implication of the U.S. government reaching the debt limit is that it is likely to be a catalyst for fiscal policy reform. We anticipate that in return for voting to raise the debt limit, the Republicans will get support from the Democrats on austerity measures in the 2012 budget. This will likely include either freezing or phasing down discretionary spending and concessions on entitlement reforms.



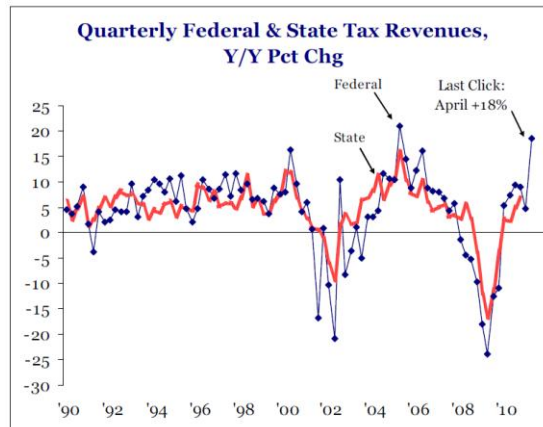
Source: Strategas

The political debate surrounding the federal budget has certainly become heated, but we believe that the tension will only grow as politicians are forced to make much more difficult decisions in order to bring the deficit under control over the next several years. Failure to make the needed changes to close the budget gap will likely increase borrowing costs for the US government and for individual US citizens as well. Nervous investors are watching the rapid increase in borrowing costs for the European periphery and wondering if the US is next. The US currently enjoys extremely low borrowing costs but it only takes a simple examination of historical sovereign defaults to see that the yields do not gradually move higher in a linear fashion as the country becomes less solvent. Instead, rates usually stay steady for long periods and then rapidly explode higher, sometimes just months before an eventual default. Typically an event triggers investors to require higher interest rates on a country's debt which creates a positive feedback loop in the over indebted countries. Higher interest rates force the country to spend more of their income on interest for their debt, increasing the likelihood of default and reinforcing the chain of higher interest rates. To avoid a situation similar to Europe, the US must be preemptive in taking steps to reduce budget deficits and put in place sustainable fiscal policy.

State Fiscal Policy

We have been relatively bullish on state fiscal policy. While many financial pundits have warned of "multiple defaults" and fiscal Armageddon for states, we continue to believe that the worst of the state budget crisis is behind us and the time to be bearish over the future of state spending was two years ago. The financial crisis caused state tax revenue to decrease 10.9% from fiscal 2008 to fiscal 2010. This was one of the most severe declines in tax revenue states have ever endured; yet, as a result of this drastic down turn states responded with equally unprecedented measures by cutting general fund spending by 10.9%. To put into context just how extraordinary these cuts have been, this was just the second and third time in history that general fund spending has ever been cut. As a result of these drastic spending cuts, state budget deficits did not deteriorate as badly as they did in the 2000 recession. With this lower spending base now in place, states should benefit

from the imminent surge in tax revenue. Federal and state tax revenue is tightly correlated; as such, the latest federal tax data indicates that states are likely to see a drastic rise in tax revenue.



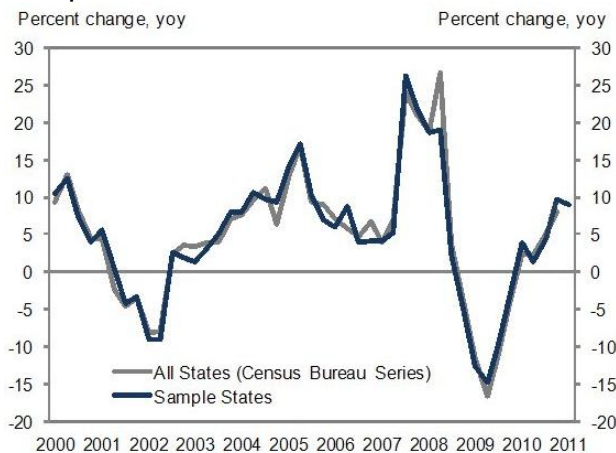
Source: Strategas

Arguably the most common source of fear surrounding state budgets has been the belief that the removal of emergency federal aid would create a massive revenue cliff for state budgets in 2012. However, we believed these fears were overblown. Six months ago we wrote that:

The removal of over \$40 billion in federal funding in fiscal 2012 has many politicians and investors worried that states will be forced to once again cut spending in 2012. However, a manageable 6% growth rate in state tax revenue for fiscal 2012 will fully compensate for the lost federal stimulus dollars. Therefore, we believe that states will avoid the draconian cuts to general fund expenditures that we saw in 2009 and 2010.

We are now highly confident that our prediction will be correct, as the recent data indicates that tax revenue is growing well above 6%. According to Goldman Sachs, recent reports show that for the first quarter of this year state tax revenue is up over 9%. The latest monthly report is even more impressive, indicating that April tax revenue is up 12% over last year.

Impressive State Tax Revenue Growth:



Source: Census. State budget agencies. Goldman Sachs

In fact, California, who loses \$6 billion in federal aid this year, just announced that tax revenue is already \$6.6 billion more than they projected, confirming our call that above consensus revenue growth will fully compensate for lost federal aid.

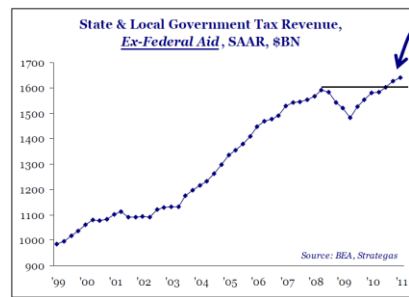
With state budgets projecting revenue gains of only 4-5% for the current fiscal year, the recent data is confirming the call we made six months ago that state budgets are wildly underestimating the growth in tax revenue. A few recent anecdotal reports confirming our relatively bullish call:

<p>NJ Rakes In More Money A new legislative projection says New Jersey will rake in \$914 million more than expected in taxes through June 2012, which will likely set off a fierce partisan fight over how to spend the money and could affect a high-stakes state Supreme Court decision. <i>WSJ, 5/17/2011</i></p>	<p>\$690 Million Of Extra Tax Revenue In Michigan Tax collections are exceeding expectations again, with analysts predicting Friday that the state will take in up to \$690 million more next year than had been forecast only four months ago. <i>Detroit Free Press, 5/13/2011</i></p>
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Brown Trims Tax Plan As Economy Rebounds
 ...An improving state economy produced a jump in projected revenue. The revenue windfall will help shrink the state's budget deficit, recently estimated at \$15.4 billion, to \$9.6 billion. But it could also hurt Mr. Brown's chances of persuading Republicans to extend the tax increases the governor says are necessary to resolve the state's budget crisis.
WSJ, 5/17/2011

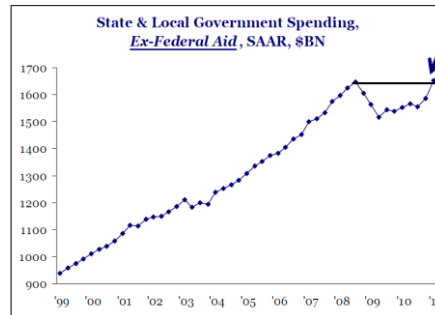
Source: Strategas

Due to the level of bearishness towards states among the media, it might be surprising to many that state tax revenue is at an all-time high:



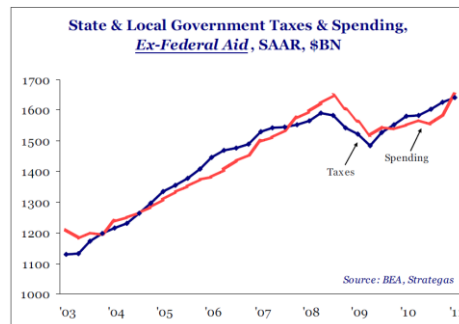
Source: Strategas

Six months ago we also predicted that the consensus was too bearish with their projection of state spending. Anticipating the jump in tax revenue, we believed that politicians would feel the pressure to spend the increased revenue after years of drastic cuts. On cue, spending has ratcheted up over the past six months, to near its all-time high:



Source: Strategas

While this increase in spending is good for the economy, it is tightening state budgets:



Source: Strategas

It should be noted that the surge in tax revenue is not a result of tax increases, as only \$4 billion of state tax increases were approved last year, which represents just 0.25% of total state tax revenue. Instead, increasing tax revenue is largely the result of rising corporate profits, spending, incomes, and net worth, which we believe will continue to grow and support the continued strong growth in state tax revenue.

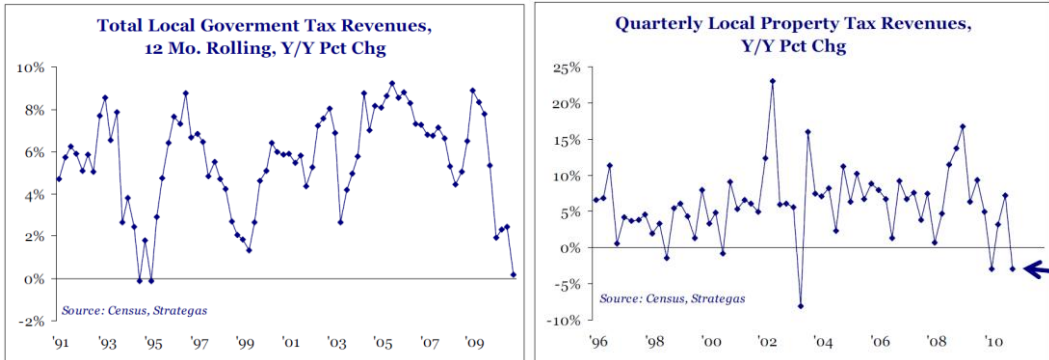
Local Fiscal Policy

In our economic report from November 2010, we also noted that,

While we are becoming more optimistic on state budgets, we believe that the finances of local municipalities will deteriorate significantly. States receive over 80% of their tax revenue from sales, personal income and corporate tax revenue that has already troughed. However, the vast majority of tax revenue for local municipalities comes from property tax. Property tax revenue is directly linked to property prices but with a typical lag of 4-5 years. In 2009 property tax revenue actually increased and has fallen only slightly over the past year. 2010 property tax revenue is still above 2005 levels despite property prices having

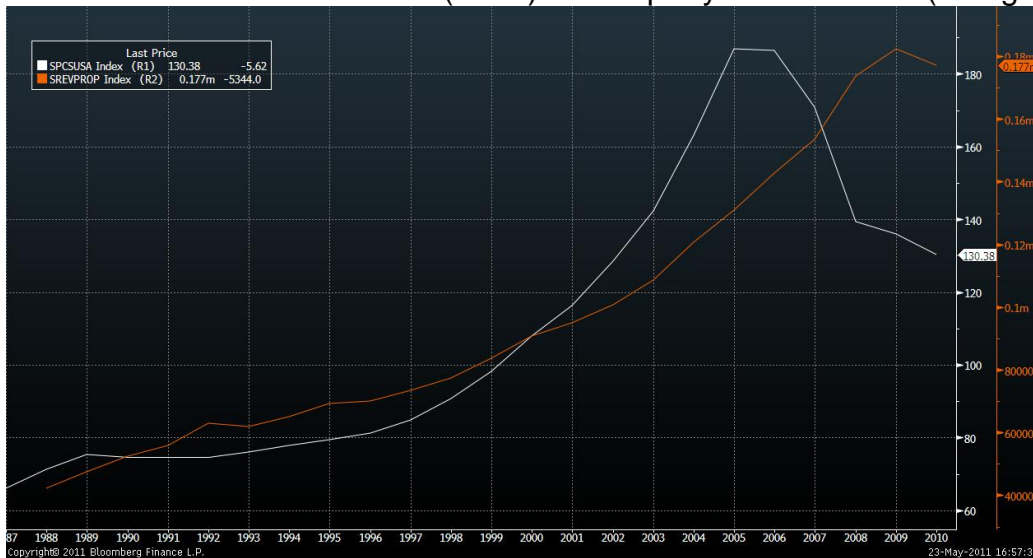
fallen 40% over that time period. However, as property values are reassessed property tax revenue will plummet and local budgets will be squeezed for years to come.

Unfortunately, recent data confirms our bearish outlook for local governments.



Source: Strategas

Case Shiller Home Price Index (white) vs. Property Tax Revenue (orange)



Source: Bloomberg, Case-Shiller, US Census Bureau

Ironically, as the data has become worse we have actually become more constructive on local budgets. We still believe revenue will fall and budgets will be constrained for years to come, but we do not believe that local government spending and property tax revenue will fall nearly as much as home prices. Our more constructive view is the result of a recent examination of property tax law that highlighted the flexibility municipalities have in raising property tax rates. In all but three states, local municipalities have the ability to arbitrarily raise property tax rates without a vote or constitutional amendment. The property tax rate is derived from the formula:

$$\text{Property Tax Rate} = \text{Total Spending} / \text{Aggregate Property Value}$$

Since 47 states have no law preventing municipalities from raising property taxes, local government spending levels are not restricted by property values. In other words, as home values fall (the denominator), municipalities can keep spending levels constant (the numerator) by increasing the property tax rate. We now believe that as spending cuts become more difficult, local governments will be forced to raise property tax rates to compensate for the lower property values. Because of the ease in which municipalities can raise property taxes, we do not believe that local government's tax revenue and spending will fall to the degree that home prices have fallen.

Economic Outlook

By Keith Buchanan

The big questions in today's economy are whether the recovery is sustainable and whether the recovery can transform into a full-fledged expansion. It is "make or break" time as we enter the third year of the post-crisis recovery, and the market has been extremely patient with the domestic economy as company fundamentals have buoyed stock performance. However, we can only expect that patience to wear thin as our economy plods along with two steps forward and one step back in the face of secular risks which loom large. Overall, we view the economy as a glass half full. There are several positives in the economy as we are clearly following the recovery-to-expansion game plan, but the very slow pace begs onlookers to question its validity.

GDP

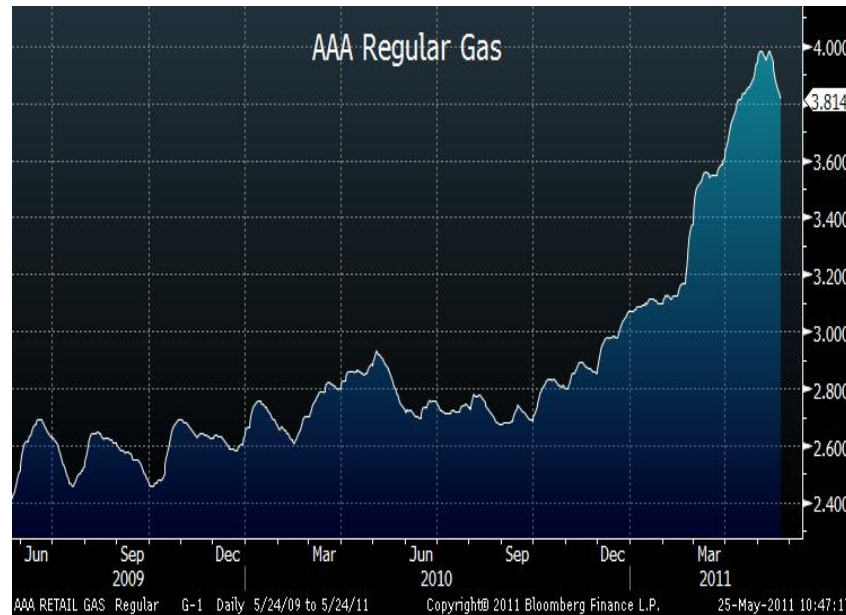
The economy expanded at a 1.8% pace last quarter. That was less than economists expected due to a smaller gain in consumer spending. Household spending growth is feeble as consumers are constrained by higher food and fuel costs. Manufacturing, fueled by foreign demand, is still buoying growth.



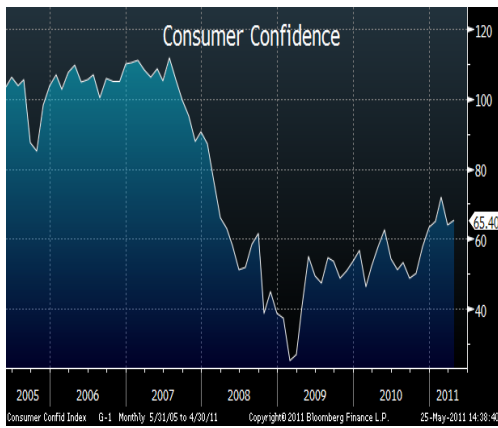
Source: Bloomberg

CONSUMER SPENDING

The U. S. consumer is in surprisingly decent but fragile shape, considering the headwinds of 9% unemployment and ever-increasing commodity prices. Consumer spending rose 2.2% last quarter, less than expected. In April, retail sales rose at the slowest pace in nine months. Spending improved at service stations and grocers as a larger part of the consumer's budget is being consumed by escalating food and gas costs. Since the average price of regular gas reached \$3.99 on May 4, the proceeding downshift in the crude oil futures curve offers hope that the worst of oil prices is behind us.



However, there are bright spots in consumer spending. The fact that consumer spending is still positively contributing to growth, considering the circumstances, speaks to the resilience of the American consumer. In May, U. S. light vehicle sales rose to 13.14 million cars on an annual rate, compared to the 11.65 million car rate at which we sold in May of 2010. Higher end retailers are also holding up as well, which may be more indicative of the inequality of the recovery than its strength in general. Nevertheless, there are positives to draw on for the consumer.



Source: Bloomberg

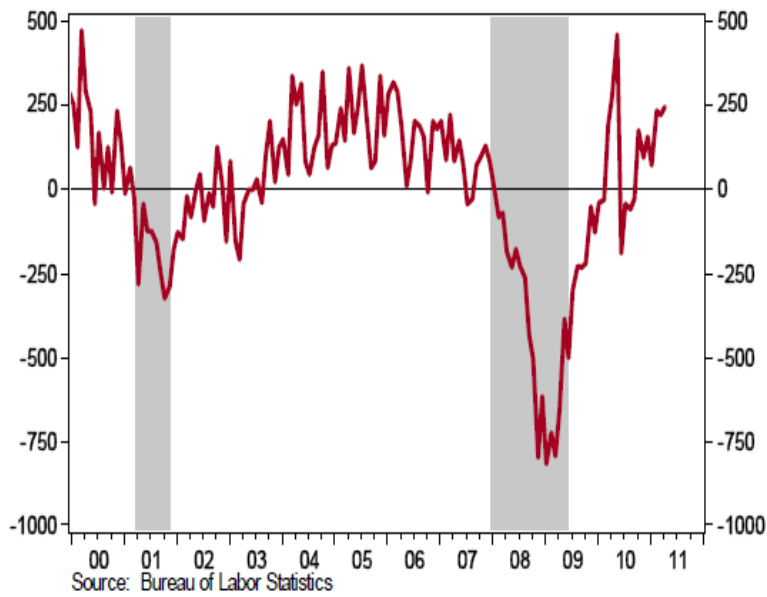


EMPLOYMENT

The employment picture of late has been one of promise. In April, the economy added 244,000 jobs according to the Bureau of Labor Statistics. While there was something for everyone in this payrolls report, the balance of the takeaways was positive. On one side, the nonfarm payrolls number was 59,000 larger than the consensus expectation and March was revised up by 5,000 jobs. The momentum is gaining as employers have added an average of 233,000 jobs per month for the past three months, compared to the average gain of 104,000 over the previous three months. The job gains were fairly well diversified by industry. However, the large influx of retail jobs is possibly indicative of retailers' take on consumer sentiment going forward. The slowest growth in productivity gains in two years also points to improved labor demand. On the other hand, the uptick in the unemployment rate from 8.8% to 9.0% shows that there are more entrants into the labor market than there were hires. As the labor market crawls back, there is ample supply that is willing to reenter the job market if they feel that they can get hired. This uptick in unemployment shows just how far we are from a tight labor situation and any sense of natural unemployment. Also, public sector jobs dropped more than expected, shedding 24,000 jobs as they get their fiscal house in order. This is the tenth month in the last twelve that the government has cut jobs. While this is a welcomed development that will bode well for the perceived fiscal health of our government on a global scale in the long term, the impact will drag on the consumer in the mean time.

All Employees: Total Nonfarm

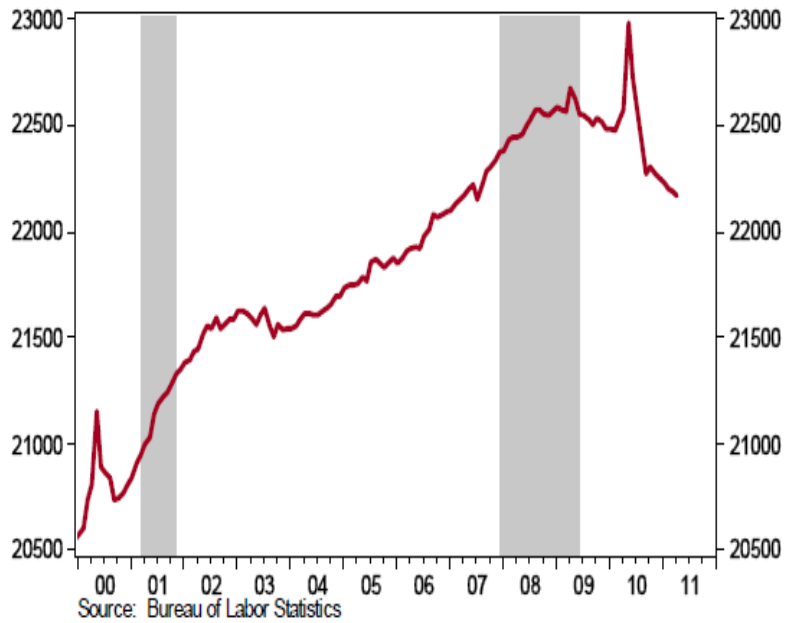
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Source: Strategas Research Partners

All Employees: Government

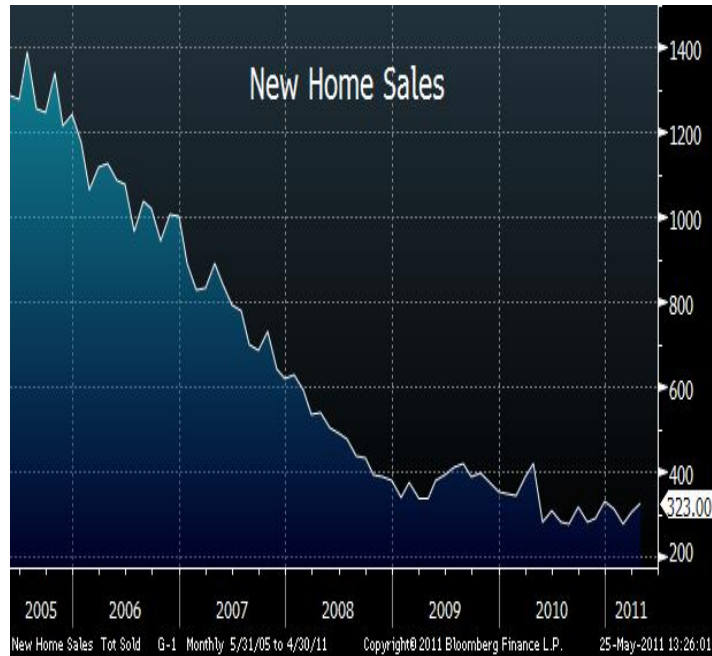
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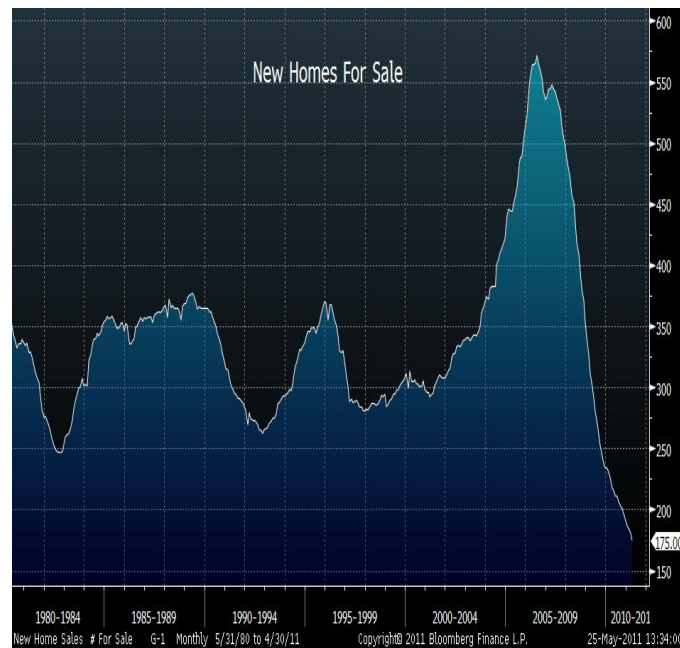
Source: Strategas Research Partners

HOUSING

Another leg of the pullback in the housing market is a major risk to this economic recovery. However, the market seems to be stabilizing due to improved affordability and supply response. New home sales has been trading between the 275,000 and 325,000 run rates for twelve months now, as new homes for sale has fallen to levels not seen since the data was first collected in the 1960s.



Source: Bloomberg

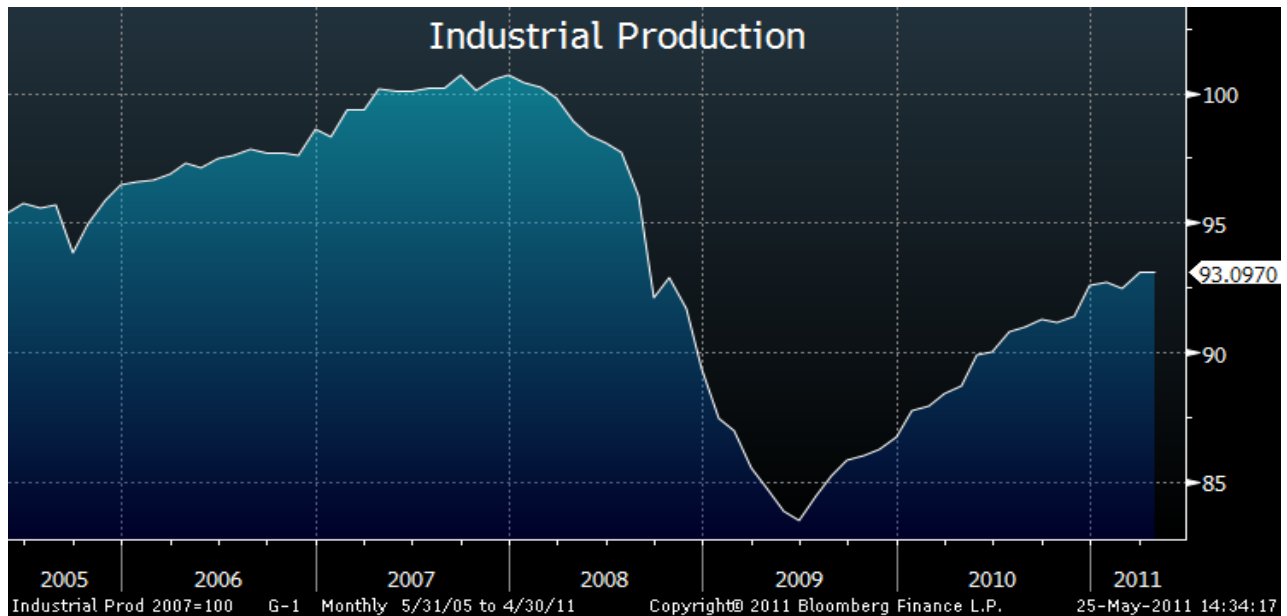


Source: Bloomberg

The housing market continues to face very significant headwinds. As underwriting standards have limited new entrants into the real estate market, those repeat buyers are hampered by lower valuations on their homes and higher down payment requirements on a potential new purchase. All the while, the foreclosure crisis has left casualties of thousands of distressed homes on the market. Foreclosures have been falling progressively since early 2010, but still remain as the pink elephant in the real estate market. By most accounts, the worst of the housing market is behind us, but we do not look for housing to contribute meaningfully to growth in the near future.

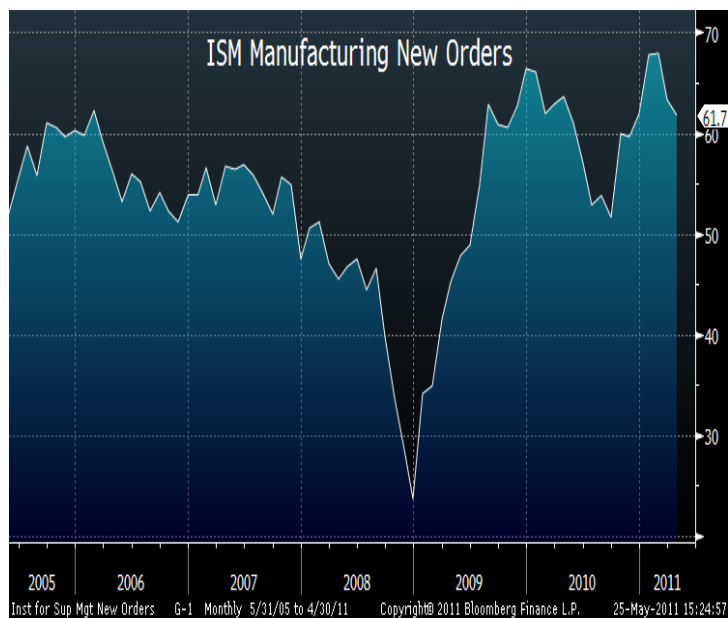
MANUFACTURING VS. SERVICES

Manufacturing has been the strong suit of the recovery. After cutting swiftly and deeply going into the recession, industrial production has recovered nicely. A survey by the Institute for Supply Management showed that manufacturers have a more optimistic outlook for sales and spending in 2011 than they did six months ago. They estimated that they will boost spending on new equipment by 18 percent.



Source: Bloomberg

The ISM Manufacturing New Orders Index cooled but remained in positive territory as automakers saw delays in part deliveries due to the earthquake and tsunami in Japan. The service industries did the same but expanded at the slowest pace in eight months as service industries cut back due to higher energy costs.



Source: Bloomberg



Source: Bloomberg

INFLATION

Inflation fears are front and center in the minds of the public, policy makers, and corporate decision makers. Higher gas and food prices run the risk of burdening this recovery as it redirects consumer and business funds away from spending on goods and services needed to grow. According to the minutes, Fed officials think that the impact of higher commodity prices will be transitory. However, if wage increases were to take hold, more widespread inflation would be inevitable. As mentioned earlier, there is substantial slack in the labor market which would have to be taken up before we would see wage inflation. Therefore, we see widespread inflation as a long term risk, but not as a threat to the recovery in the near term.

CONCLUSION

The current state of the economy is a mixed bag of opportunities and risks. Just as the labor market can be seen as either half full or half empty, the economy has several data points on which both bulls and bears can build their cases. However, even if we are not satisfied with the speed and trajectory of the recovery, we can still take solace in the steady trend of improvement.

RSA PORTFOLIO STRATEGY

Interest Rates and Fixed Income Strategy

By Nick Prilliman

At our previous meeting, we discussed the continued outperformance of corporate bonds over other sectors as risk assets showed significant tightening. Treasuries weakened as inflation expectations rose in response to rising commodity prices in January and February. Volatility came back into play as natural disasters and Middle East violence caused increased price oscillations. Agency debt and mortgage-backed securities posted small gains over treasuries as supply issues provided a tailwind.

The month of March was characterized by increased volatility due to unforeseen global events like the Japanese tsunami with the accompanying partial meltdown at the Fukushima Nuclear Facility, and the heightened Middle East tensions as NATO assisted rebel forces in Libya through air strikes. Economic data was mostly positive even as the housing market continued to show strains. The Labor Department showed nonfarm payrolls increasing by 216,000, with the unemployment rate hitting a two-year low of 8.8 percent. New-home sales decreased 16.9 percent to 250,000 units which was the lowest pace on record as price dropped to levels not seen since December 2003, according to Bloomberg. This bifurcation in the economy along with the heightened risk aversion produced a flatter treasury curve. Front-end treasuries stayed historically low as the Federal Reserve maintained their low rate bias to “foster maximum employment.”

In the agency sector, spreads tightened in a number of maturity buckets as the lack of issuance drove the positive technical picture. According to JP Morgan, FNMA, FHLMC, and FHLB passed on 5 of the previous 7 bellwether issuance days in the prior two months which caused new volumes to be almost 50 percent below average. On the mortgage side, spreads bounced out mid-month due to the announcement by the Treasury to unwind its mortgage portfolio over the next 10-12 months by selling around \$10 billion in securities per month. However, this widening was fully alleviated by the end of March as higher yields and attractive spreads induced real money managers to come in and support the market.

The corporate sector provided another month of excess returns with investment grade securities returning 9 bps over treasuries according to the ML/BofA US Corporate Master Index. Industrial credits led the way with utilities actually providing negative excess returns. The high yield segment returned 49 bps with BB-rated bonds outperforming the most. According to CreditSights, corporate bond performance was driven by the strong US balance sheets, high levels of cash available for corporate use, and reduced borrowing needs which reduced the default probabilities.

The month of April saw a resumption in risk as the stock market was able to shrug off global uncertainties and posted a 2.85 percent gain for the S&P 500. These gains were driven by the multitude of earnings releases that came in better than

expected at the end of the month. According to JP Morgan, top line growth for S&P 500 companies reached 10.1% in the first quarter which was the fastest year-over-year growth in 9 months. On the economic data front, the numbers reflected an element of softening going forward even though the broad trend was still higher. Initial jobless claims jumped to the highest level in 3 months and a handful of economist downgraded their GDP projections. The Federal Reserve affirmed this idea of a mixed recovery at their April meeting. They stated that the recovery was “proceeding at a moderate pace” with continued weakness in the housing sector. The Fed also said the recent increase in commodity prices were “transitory.” To further promote recovery, they kept the federal funds target rate at 0 to .25 percent and affirmed the future completion of QE2 at the end of the quarter. With mixed data and a central bank committed to low rates, treasuries put in an impressive performance with 3 weeks of rising bond prices as 10-year yields fell by 19 basis points (bps). Long-dated treasuries participated in the move as measures of underlying inflation remained somewhat low even in the wake of advancing oil prices.

The agency debt and mortgage-backed spaces were not able to keep up with returns in treasuries for April. Within the Barclay’s Aggregate, mortgages underperformed treasuries by almost 6 bps while agencies underperformed by 36 bps. Tight spreads and rich valuations were the causes of the lackluster run in agencies. Also, Standard and Poor’s lowered their credit rating outlook to negative from stable for Fannie Mae, Freddie Mac, and FHLB after the outlook on the United States of America was revised to negative, which caused some uncertainty in the space. There were conflicting currents in mortgages as the Treasury sold \$10 billion in securities while sizable REIT demand and relative-value buyers offset the majority of the sellers. The mortgage spread versus 10-year treasuries was basically unchanged for the month.

With first quarter earnings coming in better than expected, credit markets maintained their trajectory of incremental gains over treasuries. According to CreditSights, high grade corporate bonds posted excess returns of 41 bps for the month. Financials outperformed industrials and utilities with banks leading the financial space as the provisions for credit losses improved. Automotive credits were the weakest as index rebalancing caused the widening. Similarly to high grade bonds, high yield credits posted 45 bps of excess turns. The CCC-rated portion of the index was by far the best performer with a 2.07 percent excess return. Investors continued to chase yield as they judged risk/reward to be in their favor. JP Morgan stated that par-weighted default rates for bonds were .80 percent for the year, so fund managers did not feel the need to reduce their risk taking.

While equities seemed to run out of steam in May, treasuries continued to move lower in yield as certain data points came in weaker than expected. The Philadelphia Fed Business Outlook Survey fell from 18.50 to 3.9 while the New York Fed Manufacturing Index fell from 21.7 to 11.9. Sovereign credit problems in the Eurozone resurfaced over the last few weeks to add fuel to the broad risk aversion that was in place. According to Bloomberg, Fitch Ratings cut Greece’s credit rating three levels to B+ in mid-May while Moody’s stated in the context of a Greek default that “the fallout would have implications for the creditworthiness, and

hence the ratings, of issuers across Europe.” The markets were and are concerned about a potential restructuring of Greek debt and this has caused a flight-to-quality bid in treasuries. The belly of the treasury curve has seen the largest rally while the long-end slowly moves lower.

May has produced range bound markets in the agency and mortgage-backed spaces as spreads oscillated in their trading ranges. Agencies traded within 15 basis points over 5-year treasuries and continued to offer little value. Mortgages weakened slightly as they were not able to keep up with treasury rally. Benign prepayments helped higher coupons outperform those pools in the lower end of the coupon stack. Traditionally, lower coupons go up in price more than their higher counterparts in a rate down environment, but due to stricter loan standards and poor housing liquidity, the longer duration pools were largely unimpressive in the rally.

The first three weeks of May saw weaker spreads in corporate bonds as investors moved to safer treasuries. According to CreditSights, the US Corporate Master Index underperformed treasuries by 4 basis points with financials proving to be the laggard. High yield spreads bounced out by 11 basis points with bonds rated “B” showing the most strain. Even though a level of risk aversion prevailed, credit markets remained open and robust with high grade new issue supply totaling \$75.4 billion as of May 23, according to Bank of America.

The outlook for the next few months is one of uncertainty as a number of trends that have been in place over the last 9 months look to take a pause or end. The primary risk for bonds is the ending of QE2 as the Federal Reserve completes their \$600 billion purchase of treasury securities at the end of June. The worry is that treasuries sell off without the Fed’s support. There have been many different views on the ramifications of the completion of the program, but the actual effect is still cloudy. A number of funds like PIMCO have entirely sold out of their treasury holdings, yet treasuries have stayed somewhat stable. This might indicate that the bulk of the initial selling has already occurred which could limit the weakness. Besides the ending of QE2, higher inflation expectations due to rising commodity prices seem to be changing direction in the short term. A number of leaders in the commodity complex like oil, silver, and cotton have lost their momentum. With lower inflation expectations, the longer end of the treasury curve should continue to flatten in the absence of other pressures. The fact that the treasury curve started flattening as brent crude oil rose 25% this spring is a good sign that structural inflation is not a major concern.



Source: Bloomberg

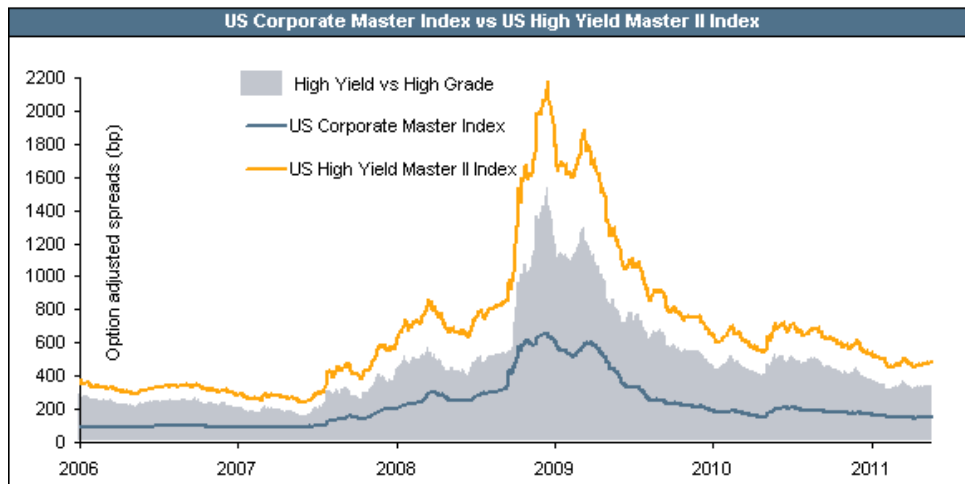
Overall, the long term trend in rates is still down with the intermediate trend in a range bound pattern. The 10-year treasury has made no price progress in almost 2 years, so the 2.50 percent to 4 percent yield range should be expected to hold for the time being. In the short term, rates look to be heading lower as the 50 day moving average is declining and yields seem to have broken the 3.20 percent support level. From a portfolio perspective, we continue to hold a long duration bias in the treasury segment to take advantage of the current rally in prices.

On the agency front, spreads continue to trade at historically tight levels as agency debt volumes continue to be far below previous levels. The spreads look to grind tighter over the next few months as Congress will probably push out any meaningful GSE reform into 2012 and thus maintain their financial support for the entities. The main risk for spreads is an unwinding of the Federal Reserve's agency debt holdings in an effort to tighten monetary policy. We could see this happening later in the year if economic growth really picks up. In the terms of the RSA agency portfolio, we have swapped out of short dated agency notes and into longer-dated callable issues in the 3 to 5-year maturity buckets to take advantage of the curve. Another trade has been to sell Fannie Mae notes and buy Federal Farm Credit notes to pick up basis points while staying in the AAA-rated sector. Our weighting to the sector has declined over the last few months in accordance with the agency portion of the Barclays' Aggregate.

The mortgage space over the medium term offers better yields for similar credit risk when compared with other AAA-rated fixed income products. The current spread over 7-year treasuries for a 4.5 coupon mortgages is around 135 bps while 5-year agencies have a spread of 17 bps. The spread should stay reasonably stable until the Fed begins to allow their mortgage holdings to runoff through ongoing prepayments. The major risk is if the economy really expands and the Fed decides to sell their \$1.25 trillion in MBS holdings. As of right now, the selling of MBS pools is the lesser probability as Federal Reserve Bank of St. Louis President James Bullard stated "allowing the runoff to occur seems to be a likely first step....whether you would supplement that with actual sales is controversial and undecided at this point." Currently, the MBS portion of RSA's portfolio has a duration level that is shorter than the index as a way to play a range-bound

treasury market or a rate selloff. The coupon stack has been tracing out what could be a bottoming pattern in 4.5/4.0 swap and if the 4.0 coupon starts outperforming, we will be switching into those pools to take advantage of the rally in rates. Over the last few months, we added to our mortgage holdings when rates backed up in early April to take advantage of higher yields. We also reinvested proceeds from an agency sale into 15-year mortgages to pick up yield and shorten the overall average life.

The view in corporate credit is fairly positive over the next few months especially mid-way down the risk ladder. Strong balance sheets, a good earnings season, and open credit markets should allow spreads to move tighter. Also, Bank of America estimates \$1.1 trillion of negative non-Treasury net supply in corporate bonds which should also help spreads on a technical level. Corporate bonds still look relatively attractive compared to other fixed income products even though the potential for outperformance is not what it was two years ago. With historically low interest rates, investors continue to reach out on the risk and maturity spectrum to try to add incremental yield to their portfolio. The most creditworthy names in the high grade sector appear on the expensive side which can be seen in the issuance of Google debt which came at 43 basis points over the 5yr. As one can see by the chart below, the lower- rated paper offers the most value but also the most risk. This risk should be mitigated for the rest of the year as defaults remain low and spreads are still wider than the same time period in the previous cycle. The main risk is a recession which would cause balance sheet fundamentals to deteriorate and spreads to widen. We don't see a full recession in the cards as of right now due to the willingness of the Federal Reserve to stimulate the economy in the event of a slowdown.



Source: ML Indices (COA0, HOA0), CreditSights

Source: CreditSights

The RSA corporate portfolio has continued to stay overweight for the attractive spread pickup. We undertook a variety of trades to try to generate additional yield from security selection. For example, the fund swapped out of 2-year paper and into 7-year notes of the same entity to pick up 250 basis points. Another trade involved selling lower coupon/lower priced bonds and buying higher coupon/higher priced bonds from the same issuer to take advantage of the liquidity premium. A third trade was to sell out of certain high quality borrowers like Berkshire Hathaway on the front end of the curve and to purchase bonds of a lower credit rating with a wider spread.

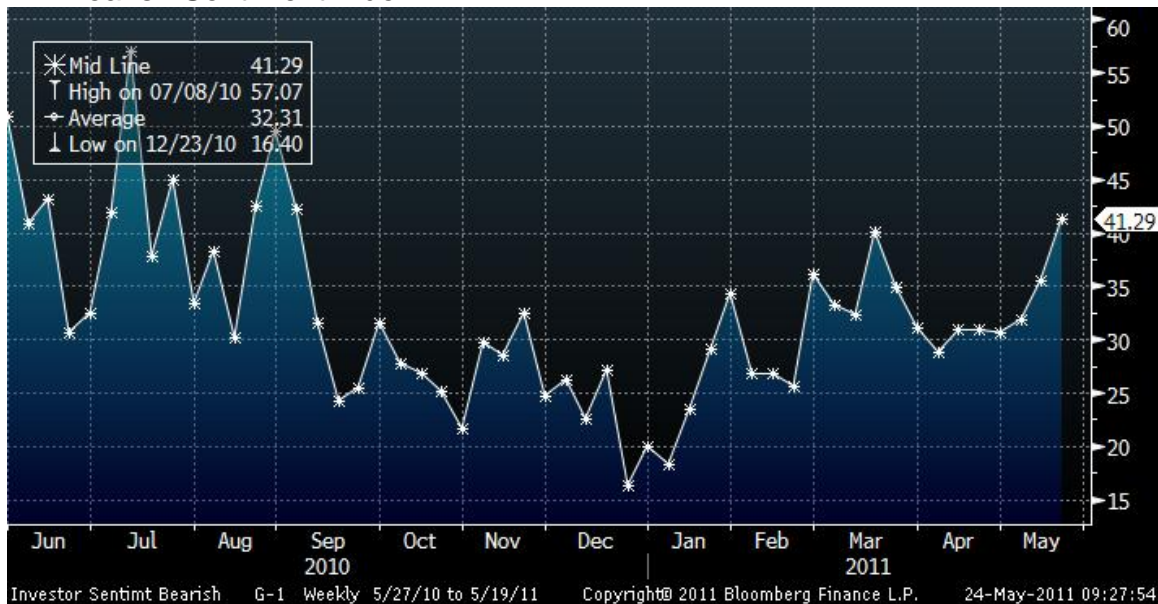
Domestic Equity Strategy

By Marc Green

There seems to be the view in the marketplace that there is an elevated chance of a tail risk event happening. The myriad of worrisome issues include but are not limited to: debt ceilings, end of quantitative easing, sovereign debt downgrades, high unemployment, high oil prices, weak housing markets, and tightening fiscal policies in emerging markets. That is more than enough to keep investors at least skittish, if not downright scared. Having recently emerged from the “Credit Crisis” it makes sense that investors are looking for the next bubble to burst and implode the financial markets. The following chart provided by the American Association of Individual Investors shows the percentage of investors that are bearish on the stock market over the next six months.

Chart1

AAll Bearish Sentiment Index

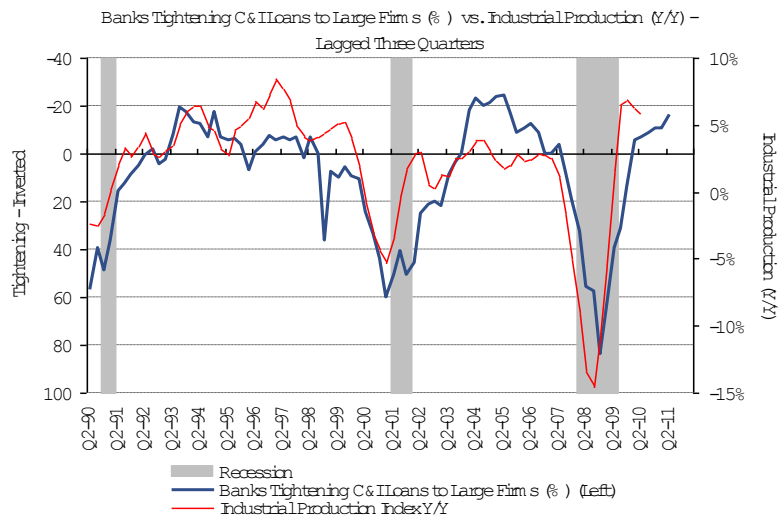


The graph is not at the extreme levels that gives you a ton of confidence from a contrarian perspective, but it does show that all the uncertainty in the global economy has not gone unnoticed by retail investors. We have certainly had a big run off the lows of 2009, but the “risk-on/risk-off” nature of the markets suggests that there is a healthy amount of skepticism around the strength and sustainability of the recovery.

To highlight some of the positives currently, we will start with one of the biggest issues that caused the Great Recession, namely credit. We are aware that certain types of loans are not readily available, with one of the biggest problem areas being jumbo mortgages. However, banks willingness to lend has picked up in the Federal Reserve’s most recent loan officers survey. With the end of QE2 looming, the public banking system will definitely have to pick up some of the slack if the Fed starts to reign in some of the loose money policies that have been in place the past couple of years. The following chart provided by Citigroup highlights the

already sharp rebound seen in the commercial loan market, and we are seeing signs that lending standards are easing for consumers as well.

Chart 2

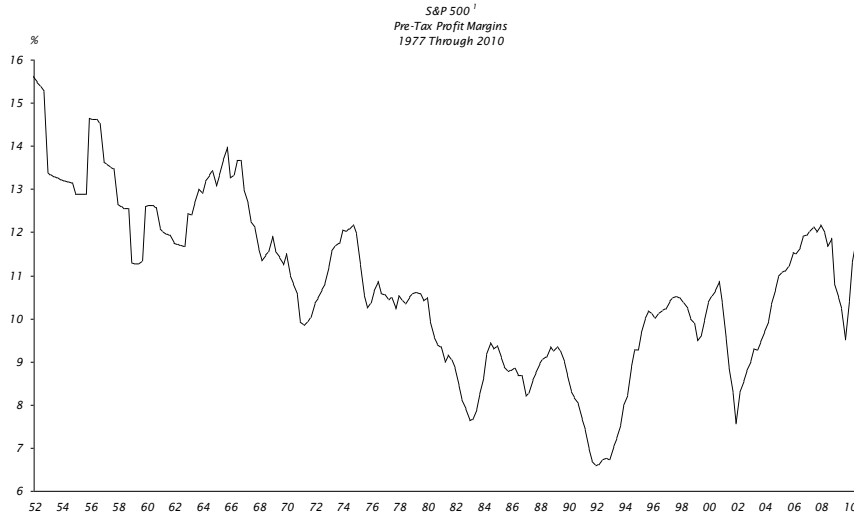


Nearly 20% of banks reported having eased credit standards on both credit card and auto loans. Terms have remained much the same, but banks are citing increased competition as the reason for easing standards. This is but another sign that the credit market is slowly creeping back to normal, and that the cost of capital is lower, which should spur further investment.

The decreasing cost of capital implied by easing lending standards does not bode as well for margins as a whole. In certain instances it is a good thing, such as removing production bottlenecks, or allowing for needed funds which improve efficiencies that raise margins. The scary aspect of it is that marginal projects which wouldn't be funded during harsh credit conditions stand a much better chance of being funded.

This gets us to the issue of profit margins and the direction they are going. After plummeting during the great recession, margins have snapped back to decades highs as corporations had completely cut off the capex spigot. As the economy rebounded, incremental sales flowed straight through to the bottom line. The following chart provided by Empirical Research provides a snapshot of profit margins the past 30+ years.

Chart 3



Source: Corporate Reports, Empirical Research Partners Analysis.
¹ Excludes financials. Prior to 1976, the large-cap universe is used.

Taking into consideration how recent the last debacle was, we don't believe corporate management is going to go haywire adding capacity and bringing on marginal projects. That is not to say that certain segments of the market will not get into a spending frenzy, but we believe managements should be better stewards of capital considering from whence we just came.

Another nail to hang the equity hat on is the thought that there are trillions of dollars of capital sitting around at the corporate and household level, and it is earning very little. As we alluded to earlier, this is another indicator that sentiment is at least guarded on equities. Corporations alone have around \$2 trillion of cash on their balance sheets, and household holdings of short term investments are still hovering around \$8 trillion. That is a lot of firepower sitting on the sidelines. (Chart 4 and 5 provided by Citigroup and Haver)

Chart 4

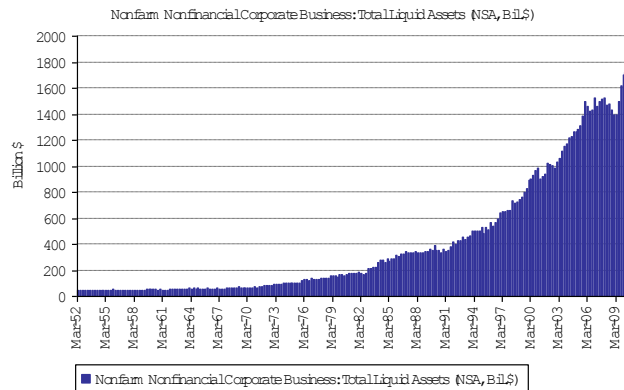
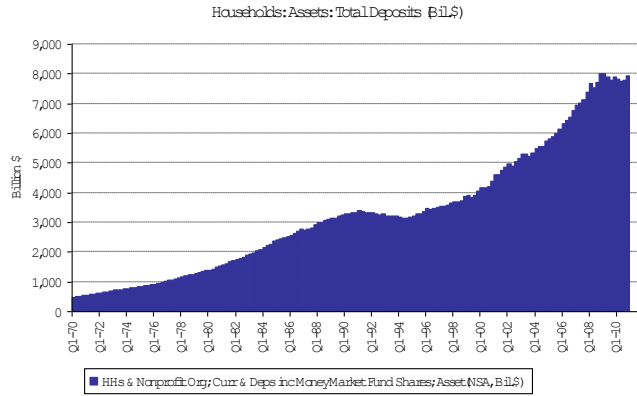
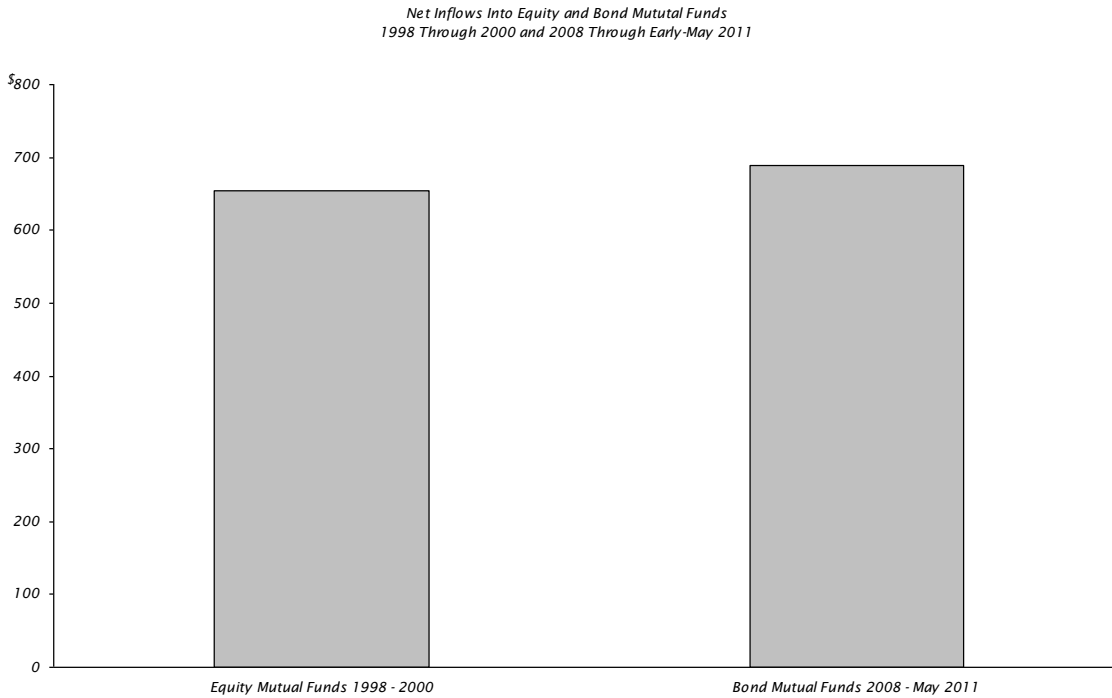


Chart 5



And that is after investors have been voting with their feet. Net inflows into domestic equity funds just started a few months ago, and has been spotty since then. In the meantime, money has continued to be allocated into bond funds. The following chart provided by Empirical highlights the amount of money flowing into bond funds the last three years was much like what happened in equity funds just before the tech bubble burst in 2000 and domestic equity returns lagged for 10 years.

Chart 6



Source: Investment Company Institute, Empirical Research Partners Analysis.

On the corporate side, we have continued to see increased dividends and share buybacks. The merger and acquisition market remains robust, though no blockbuster deals have been announced recently. IPO's have been warmly received in total, signaling some appetite for risk by investors.

In summary, it seems that the business cycle is in the early expansion phase. The recent softness we have experienced is hopefully nothing more than a midcycle pause. With credit spreads having tightened considerably, and the long end of the curve still low by any definition, this can be taken as an indication that the economy has not overheated from all the stimulus. It also indicates that the bond vigilantes think that inflation will remain in check. To use a bad analogy from the Greenspan era, it is somewhat of a Goldilocks economy, not too hot or cold. The biggest thorn in the side remains the weak employment picture that continues to haunt the administration. With this being the third year of the election cycle, we believe that a lot of the hard decisions on entitlements and the budget will be kicked down the road. When the dust clears, corporate profits should be up in the high single digit area. The S & P 500 return has tracked earnings growth quite well looking over the long term, and we envision a slow grind higher, with various fits and starts in between.

As for our actively managed funds, the risk-on/risk-off environment the past few quarters has made stock picking hard. Correlations have been high, and lower quality momentum stocks have been some of the best performers. Our large-cap quality bias has not been the best strategy coming out of the lows, but going forward we feel that the ingredients for that style to outperform are coming together.

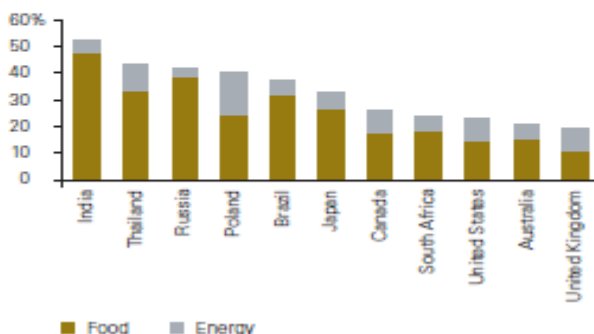
International Equity Strategy

By Steve Lambdin

The global market place continued to be a seesaw of activity in the first quarter of 2011, making the investment climate very volatile and difficult to read. Investors dealt with the continuing tragedy unfolding in Japan, European sovereign debt concerns, Middle Eastern unrest, a crude oil spike, and a worsening of inflation readings in the emerging markets. However, even in the face of these issues, the global equity markets still managed to post positive returns in the quarter, a feat we find quite remarkable. At this point, we have probably reached a post recovery high in many economic indicators around the globe with a notable exception of employment readings, which should continue to get better on the margin. This could make for very choppy and a slightly downward trajectory in the global equity markets over the next couple of months. Investors need to see how many of the key issues mentioned above play out as they reassess their respective investment positions. Commodity input prices still remain an issue as many companies try to deal with these quickly rising costs. However, there are several issues that still project a positive image in the global economy. Corporate earnings remain very robust with a lot of positive commentary in recent quarterly earnings calls. Interest rates don't seem to be rising to the point of becoming a major issue in the developed markets. Global M&A and IPO activity remains robust with new deals being announced almost on a weekly basis. As we have passed the two year anniversary of the March 2009 lows, many investors in the global equity markets are obviously concerned that much of the "easy" money has been made. However, the key question still remains, "How long and strong of a sustained growth pattern post the recovery are we in?" We feel the answer to this key question will set the direction for the global equity markets in the months to come.

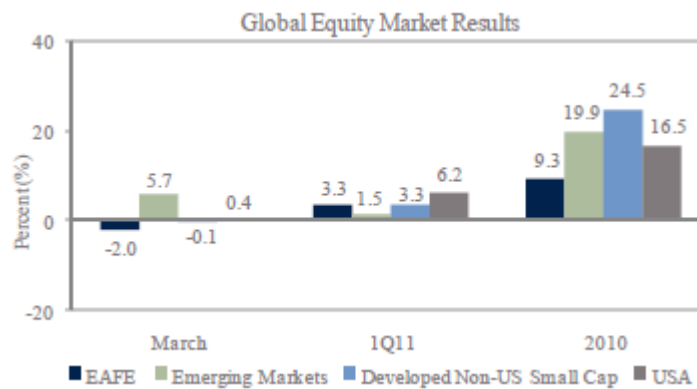
Emerging economies hit hardest by spike in food and energy prices

Food and energy as a percentage of consumer price index (CPI)



Source: Strategas and Vanguard

The MSCI EAFE Index (net dividend) and the MSCI Emerging Markets Index returned +3.4% and +2.1% respectively during the first quarter of 2011 vs. +5.9% for the S&P 500 Index. Significant weakness in Japan from the recent earthquakes, tsunami, and subsequent nuclear crisis was responsible for the underperformance of large cap global stocks vs. U.S. stocks in the quarter. A weaker U.S. Dollar also helped global returns during the quarter and cushioned the hit from the Japanese equity markets just a bit. Not surprisingly, from a regional perspective, the European region outperformed the Asian region in the quarter due to Japan. Within the MSCI Emerging Markets Index, we saw healthy gains in Russia (+16.3%), as energy companies performed exceptionally well, while India (-5.1%) was very weak from rising inflation readings. From an economic sector standpoint, Industrials, Energy, and Telecommunications performed well, while Utilities and Staples were relatively weaker. As with the previous quarter, the pro-cyclical thesis continued with investors.



Source: William Blair

Thus far into the second quarter of 2011, the global equity markets have been very volatile as a multitude of issues continue to garner much attention with investors. Fresh European sovereign debt concerns continue to mount and pose a mighty challenge for the rest of 2011 as government officials grapple with ways to deal with this issue. Inflation readings continue to worsen in many of the emerging markets and threaten to slow down the growth we have seen in these regions. Also, the Middle East continues to be plagued by riots and civil unrest as attempts to oust ruling parties and government officials continue. As we sit back and evaluate these issues since the end of the first quarter, it's hard to believe that many global market indices are actually slightly positive during this time. So far, overshadowing this has been the strength in the business cycle and the prospects for good earnings growth. As this unfolds, we have seen a decent flow of funds into many equity products, helping to keep equities positive thus far in the second quarter. However, we would not be surprised to see this be short-lived, as downside pressure seems to be building on these concerning issues. The markets seem to be very nervous as evidenced by the recent volatility. Investors will be watching inflation readings, commodity prices, sovereign debt news, and other economic data points over the next few months to try to grasp its implication for the markets.

Asia Update

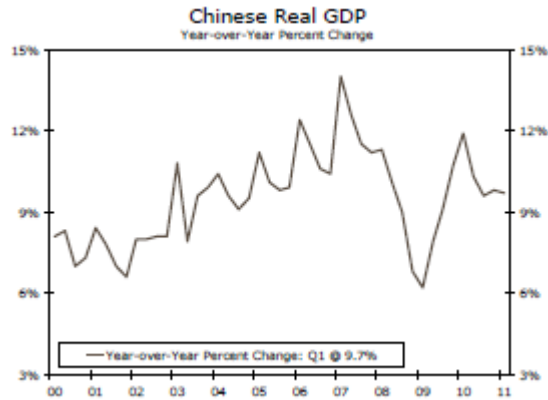
The events in Japan during the first quarter proved too much to overcome for the Asian equity markets. The MSCI Pacific region posted a -1.98% return in the quarter and was the only region to have a negative return. Equity markets in Australia and Korea were good as global trade flows continue to benefit these regions. The Korean market still remains hot as exports to China were up +9.2% and up +13.5% to the U.S. The Chinese equity market did manage to shrug off a weak January and February to post a positive result in the quarter, even as the central bank continued its monetary policy tightening. The table below shows various MSCI country indices by quarterly price performance. Overall, the Asian region performed well ex. Japan, but global trade needs to be watched carefully as this region depends heavily on the ability to export.

Market Performance & Valuation [Aggregate Source: Benchmark Source](#)

Index Name	Total Return (31-Mar-2011)	MTD % Change	QTD % Change	YTD % Change
MSCI Korea (KR-MSEX)	638.309	11.70	7.56	7.56
MSCI Australia (AU-MSEX)	5017.228	2.21	4.49	4.49
MSCI Thailand (TH-MSEX)	713.767	7.99	4.17	4.17
MSCI China (CN-MSEX)	102.329	5.32	2.88	2.88
MSCI Hong Kong (HK-MSEX)	41128.684	1.28	(0.41)	(0.41)
MSCI Singapore (SG-MSEX)	10918.569	4.83	(0.63)	(0.63)
MSCI Philippines (PH-MSEX)	526.544	10.01	(2.75)	(2.75)
MSCI Taiwan (TAMSCI-MSEX)	459.150	1.71	(4.25)	(4.25)
MSCI Japan (JP-MSEX)	4411.504	(9.12)	(4.85)	(4.85)

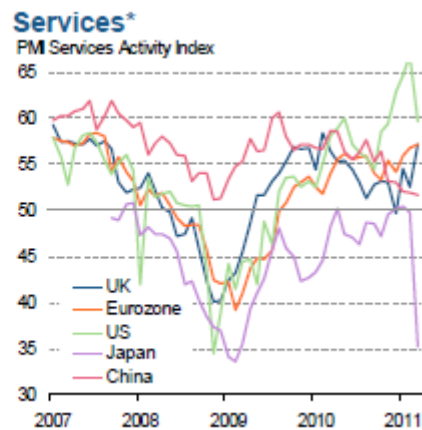
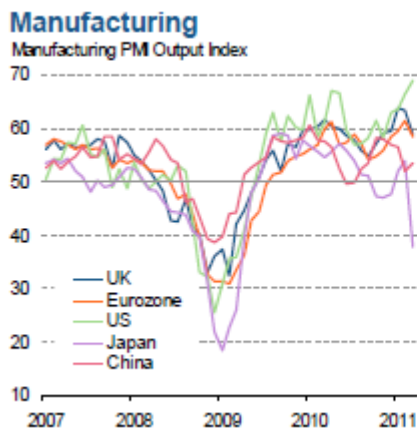
Source: Factset Research

The Chinese economy continues to surprise most of us. In the first quarter 2011, Chinese GDP growth moved forward +9.7% from the year earlier period, which was just slightly more than what many economists were looking for. This growth comes even as we have aggressive monetary tightening actions over the last several months. Industrial output continues to climb and was reported up +14.2% in the January through March period. Also, retail sales were up approximately +16.5% in the first quarter, a slight cool down from the previous quarter. Inflationary pressures continue to mount as recent consumer prices were up +5.4%, well above the government's +4% target. Even though we have seen several interest rate increases as well as reserve ratio increases, we expect to see more in an effort to cool off inflation. Rising food costs as well as escalating property prices are presenting a real problem in this country. The central bank may also let the Yuan strengthen a bit more in order to try to combat this inflation problem. The primary risk here still remains an "overheating" economy as the government tries to engineer a "soft" landing.



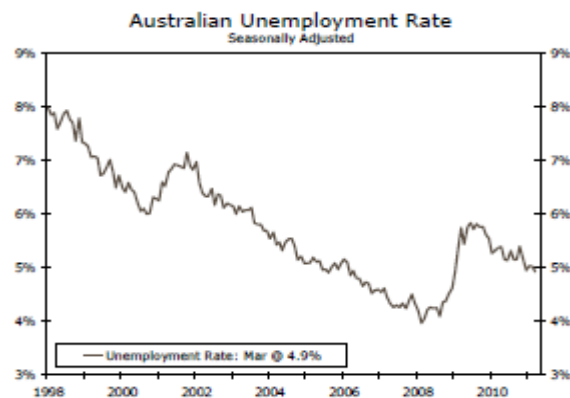
Source: Wells Fargo

Needless to say, post the earthquake and tsunami in Japan, the country is an official recession. Japan's economy contracted -3.7% on an annualized basis in the first quarter of 2011, which is the second straight quarter of negative growth. Most economic data points showed a sharp contraction from the previous quarter as the effects of this natural disaster begin to flow through the economy. Factories had no choice but to shut down as supply chains were completely severed after the disaster. Industrial production in March fell -12.9% after being positive in January and February. Retail sales fell -8.5% in March from the year earlier period, which is the most in 13 years. The small business index continues to fall as many are left to ponder their future in the wake of this tragedy. However, on a bright note, the jobs to applicant ratio has improved recently up to .63 and the jobless rate fell to 4.6% in February, as job prospects were looking better prior to the earthquake and tsunami. At this point, we feel the economy will probably bottom out in the second quarter and a recovery and rebuilding process will begin in earnest in the third and fourth quarter. By this time, the economy should show significant growth as aid packages filter through this country. Obviously, we expect the equity markets to remain volatile as news flow on the crippled nuclear reactors gets digested by the market place.



Sources: Markit, ISM, HSBC

First quarter GDP in Australia has yet to be released, but we expect a somewhat weak report given the severe flooding that took place in the early part of the quarter. The good news is that we should see some rebuilding here as well, which should serve to help the economy through the balance of 2011. Several rail lines have been restored which should help out industry in these regions. But business conditions still remain somewhat difficult at present. April's business confidence index dropped from March, as the recent highs in the Australian dollar and higher inflation readings are hurting manufacturing. Retail sales have been weak as well, as severe discounting by merchants is commonplace as they work off high inventory levels. However, April's jobless rate held steady at 4.9% from March, which we feel is a good reading especially with what has happened in this country over the last six months. Employment readings could get even better on the margin as closed mines come back on line and these workers rejoin the labor force. Moving in the summer months, we expect the economy to remain resilient as the recent impact from the severe floods begins to fade away. As with many other regions, inflation remains one of the most critical issues to watch.



Source: Wells Fargo

As we look at the Asian region, there are economies which appear on solid footing as well as those that have a tough near term outlook. Japan faces near term weakness as we should pass the worst of this country's issues over the next few months. The massive stimulus expected from the rebuilding effort will probably not be felt until later this year. China remains a mixed bag. While the economy here remains in a solid growth mode, many issues are surfacing which could scare investors. Property markets and inflation are two of the most pressing issues at this point. Whether recent measures to combat these issues work is an area of constant debate. The smaller emerging markets in the Asian region appear to have a solid outlook over the near term as their export demand is very impressive and should support good growth of their respective economies.

Europe Update

European equities were the best performing region within the MSCI EAFE Index in the first quarter of 2011, posting a +6.5% return. Strong gains in January and February were more than enough to offset a rather weak March in the equity markets. Several of the countries plagued by the sovereign debt crisis actually turned out to be the best performing equity markets in the quarter, as investors became just a bit more comfortable with austerity measures being undertaken in these countries. However, investor sentiment can change very quickly on this issue as news flow needs to be monitored very carefully. Germany continues to be an area of strength of the region from an economic standpoint and its equity market reflects this as well. However, the Euro rose +6.25% against the US Dollar and was responsible for almost all of the return in the region for unhedged US investors. In addition, the British Pound rose +3.9% against the US Dollar, which help our returns in the U.K. equity market. Overall, the equity market returns were very good especially as many countries in Euroland are dealing with a growing sovereign debt crisis as well as a growing inflation problem. Market valuations still look very reasonable relative to large cap equities around the globe and perhaps this can be a bit supportive of the equity markets in this region.

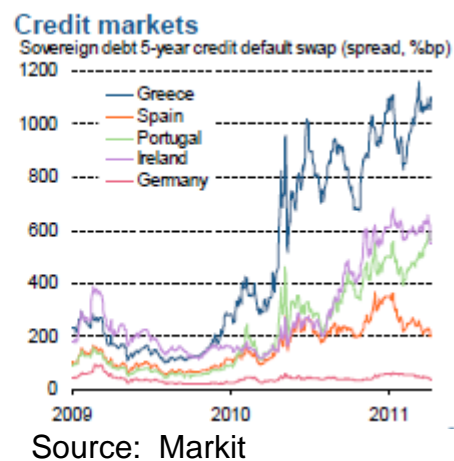
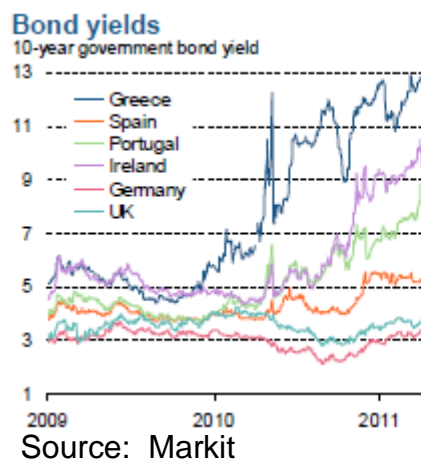
Market Performance & Valuation [Aggregate Source: Benchmark Source](#)

Index Name	Total Return (31-Mar-2011)	MTD % Change	QTD % Change	YTD % Change
MSCI Greece (GR-M5X)	535.052	(0.92)	15.15	15.15
MSCI Spain (ES-M5X)	4935.855	(0.81)	13.80	13.80
MSCI Italy (IT-M5X)	1211.332	(0.42)	13.77	13.77
MSCI France (FR-M5X)	6635.670	(0.09)	10.58	10.58
MSCI Germany (DE-M5X)	5910.610	(0.42)	7.57	7.57
MSCI United Kingdom (GB-M5X)	6350.080	(2.44)	3.79	3.79
MSCI Switzerland (CH-M5X)	10055.789	(1.46)	1.91	1.91

Source: Factset Research

The Euroland economy continued to gain momentum in the first quarter of 2011 as the economy expanded by +2.5% on a year over year basis. Germany continues to be one of the strongest countries in the Euroland economy as this country grew +4.8% from the year ago period. As was the case in the previous quarter, northern European countries continue to perform nicely and are providing the bulk of this region's growth as many of the southern European countries are seeing their economies contracting. The austerity measures being instituted in these southern countries are no doubt constraining growth to a great degree. Manufacturing output has expanded in April in France and Germany as capacity utilization in factories rose to 81%, which is very near the optimal rate. Companies such as Volkswagen and Siemens are seeing good demand for products and have raised profit estimates recently. Demand from other regions around the globe is helping this region as order books to these regions remain very strong heading into the early summer. On another positive note, employment levels in the Euroland economy are up slightly in March, at least indicating that unemployment rates at

9.5% may have stabilized and could be getting better over the near term. However, there are still other issues worth monitoring which could derail the recovery we have seen in some parts of the Euroland economy. Inflation readings of 2.7% in April still remain above acceptable levels set by the ECB. This is most likely from the 38% increase in crude oil prices over the last six months as well as stubbornly higher commodity input costs. This has also hurt retail sales recently as these higher costs have drained purchasing power from the consumer. But the ECB still expects this to cool off a bit from current levels over the balance of the summer. Just as we expected, the ECB did raise its key benchmark interest rate 25 basis points to 1.25% in April. This was the first interest rate increase in three years. With inflation above acceptable levels set by the ECB and the economy performing better over the last couple of quarters, we would not be surprised to see one more interest rate increase sometime during the summer. We don't feel this would derail the growth outlook of the region nor should it catch investors by surprise. The main issue to watch going forward is still the potential spreading of the sovereign debt crisis to other countries in Euroland and the willingness of government officials to come up with a comprehensive "bailout" package to deal with this crisis. We expect the equity markets to remain focused on this and be very volatile over the next few months.



In a rebound, the U.K. economy grew +1.8% in the first quarter of 2011 from the year ago period. Economic production has returned to a more normal level in the quarter from the worst winter weather seen in a long time. Strength in services and manufacturing provided for the bulk of the growth, while the construction and oil/gas industries did not fare well. Retail sales rose in April after a weak March and were reported up 1.2% excluding fuel. Consecutive holiday weekends at the end of April provided a nice boost to these sales. However, consumers are still worried about the current situation. As a result, consumer confidence is not rising like many would have thought and the index did slip in April. Consumers see current inflation readings rising faster than their incomes and are growing increasingly pessimistic as a result. Inflation may rise to around 5% in the coming months, which would be one of the highest rates among the major regions around the

globe. If this happens, we would expect the Bank of England (BOE) to probably raise interest rates in an effort to curb this, even though the recovery is fragile at the present time. The unemployment rate did fall to 7.7% in the first quarter, a nice improvement from the previous quarter. Employment levels rose approximately 118,000 in the quarter, which is certainly positive news for spending at some point. Even though wage growth is improving just a bit, it still remains low at +2.3% on an annual basis. In summary, we feel the economic progress of this region remains very delicate as the BOE battles a serious inflation problem in the coming months while trying to keep the economy growing. This will probably make for a sideways equity market as investors watch this unfold.

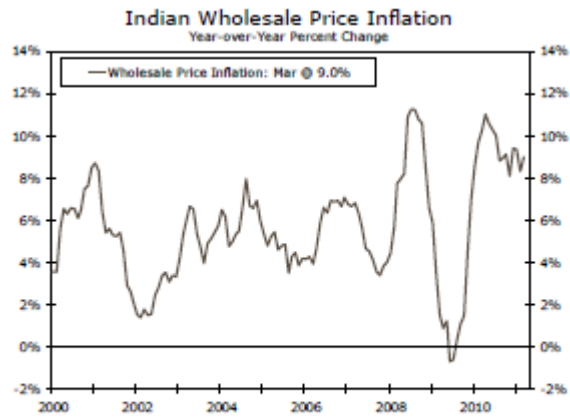
Global Economic Forecast

	Real GDP			Inflation	
	2010	2011	2012	2010	2011
US	2.8%	3.2%	2.7%	1.4%	3.0%
Euro Area	1.8	1.5	1.5	1.6	2.6
UK	1.7	1.4	2.0	3.1	4.0
Japan ¹	4.3	1.4	2.1	-1.0	0.2
China	10.3	9.0	8.5	3.5	4.3
World	4.0	3.6	3.6	3.0	3.7

Sources: Wellington Management, Consensus Economics
¹IMF and Consensus Economics
²Based on FactSet

Other Regions

Investors are becoming very concerned about rising inflation in India. In fact, India has one of the highest inflation rates among the emerging markets. Investors fear a meltdown at some point and as a result the equity market in India has been weak in the first quarter of 2011. The government forecasts the economy to expand at a 9% or better pace over the next year, which would put growth at the highest level in the emerging markets as well. Industrial production rose over +7% in March, the fastest pace in nearly six months. This has fueled inflation to +8.6% in April, the 16th month of above 8% inflation. This is hitting the consumer hard, as food inflation is a much bigger part of the overall inflation picture than the more developed economies. In response, we have seen the central bank raise interest rates again in March, which is the 8th time in the last year. With these issues in mind, we feel the equity market in India could be relatively weak vs. some of the other emerging markets until the country gets a better grip on inflation and makes strides to bring it under control.



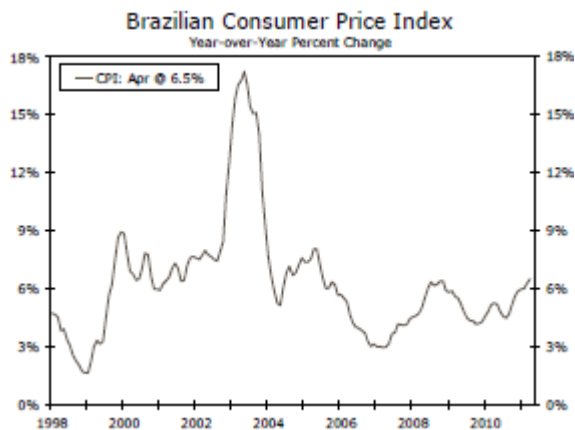
Source: IHS Global Insight and Wells Fargo Securities, LLC

The economy in Russia expanded by +4.1 in the first quarter from the year earlier period, a bit below the level many investors were looking for. Much like India, the economy in Russia is suffering from persistently high levels of inflation. Recent readings in Russia have consumer prices rising +9.6% from the year earlier period. We expect the central bank here to continue to raise interest rates while being cognizant to the effect this will have on relatively soft domestic demand.



Source: Wells Fargo

We expect the Brazilian economy to expand approximately +4.3% on a year over year basis in the first quarter when the official report comes out in early June. This is off slightly from the pace of the previous quarter as industrial production was under a little pressure in March. Just as we have seen in other emerging markets, inflation remain a top concern going forward as many economists expect inflation between +6.5% to +7.0% over the next couple of quarters. In addition to raising interest rates, government spending cuts are being implemented as well as a tax on consumer credit in an effort to combat this inflation problem.



Source: Wells Fargo

The main focus we want to bring out with regard to the emerging markets is the inflation issue. We believe this is the single most important piece of economic data being watched by investors in the emerging markets. We feel growth is not much of an issue as we see it staying rather robust over the next several years when compared to the developed markets. In addition, sovereign debt in the emerging markets remains much less of an issue than the developed markets. However, over the short term, we do expect more of a sideways type market here until investors see progress on the inflation front.

Market Performance & Valuation [Aggregate Source: Benchmark Source](#)

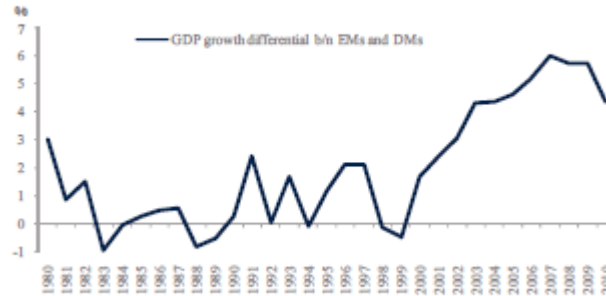
Index Name	Total Return (31-Mar-2011)	MTD % Change	QTD % Change	YTD % Change
MSCI Russia (RU-MSEX)	1364.359	5.17	16.29	16.29
MSCI Brazil (BR-MSEX)	9320.331	4.00	2.65	2.65
MSCI South Africa (ZA-MSEX)	1022.633	5.05	(1.86)	(1.86)
MSCI India (IN-MSEX)	705.348	11.11	(5.11)	(5.11)

International Equity Activity/Strategy

As we look at things going into the summer, it seems the negative issues facing the markets seem to be outweighing the positive ones. This could put some near term pressure on the markets. On the positive side of the scorecard, interest rates still remain low enough to spur growth, the M&A cycle appears to be alive and well which generally support the equity markets, capital spending plans seem decently robust, and corporate earnings are outstanding. The negative issues are the same ones we have been looking at before, with inflation concerns, sovereign debt issues, and civil unrest dominating investors' attention. As a result of these issues, we expect the markets to be a seesaw battle over the near term. Any weakness in the crude oil and commodity markets would be welcomed relief for the consumer. Though the employment outlook still remains rather difficult, it may be getting better on the margin, which could support the consumer. Housing still remains at near trough levels in several countries as we expect little help for this area for the

balance of 2011. Equity market valuations in most markets remain below five year averages and look very reasonable provided earnings growth outlooks do not deteriorate.

Chart 1. Growth differential between Emerging and Developed Markets



Sources: IMF World Economic Outlook, 2010; William Blair Investment Management

Over the last few months, we have not added any new monies to our international equity portfolios. This has benefited us just a bit as U.S. stocks have been better performers during the current fiscal year. While we still have a positive bias toward many of the global equity markets, especially the emerging markets, we want to be very disciplined and look for some level of a decent correction before committing new monies here. We feel our current put option strategy is the right way to do this as we remain active with regard to selling puts against the Emerging Markets Index (EEM) each month, as this brings in a bit of current income from the premium we receive and gives us exposure to EEM at a specific strike level. We still feel this is an attractive way to selectively add exposure to this segment of the market. Our total allocation to international equities is approximately 15.1% of total TRS assets, 13.8% of total ERS assets, and 15.8% of the JRF total assets. *(Charts provided by Factset, William Blair, IMF, HIS Global Insight, Wellington Management, Wells Fargo, Markit, ISM, HSBC, Strategas, Vanguard)*

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
TRS CORE FUND	1,585,659,265	0.29	5.95	5.95	16.77	15.32	2.30	2.83	2.93	Oct-94
TRS West Street Trust Certificates	731,355,945	0.09	6.04	6.04	17.63	16.24				Jan-10
TRS S&P 500 FUND	4,068,713,637	0.04	5.91	5.91	17.25	15.59	2.42	2.69	3.40	Oct-94
TRS MID CAP INDEX	949,450,599	2.45	9.35	9.35	24.25	27.22	10.23	6.17	9.56	Oct-94
TRS S&P SMALL CAP INDEX	506,349,276	3.02	7.74	7.74	25.13	25.66	9.03	4.08	8.87	Mar-01
TRS SMALLCAP ACTIVE FUND	137,148,193	3.46	9.21	9.21	20.34	25.44	7.59			Jun-06
TRS SPECIAL SITUATIONS	581,903,002	3.70	9.71	9.71	22.27	28.89	9.41	5.35	8.00	Oct-94
TRS TOTAL DOMESTIC EQUITY	8,560,579,918	0.82	6.71	6.71	18.74	18.98	3.60	3.16	4.35	Oct-91
TRS CUSTOM DOMESTIC EQUITY INDEX		0.68	6.65	6.65	19.06	18.15	3.91	3.27		
S&P 500		0.04	5.92	5.92	17.31	15.65	2.35	2.62	3.29	
S&P 400 MIDCAP		2.45	9.36	9.36	24.13	26.95	10.00	6.07	9.36	
S&P 600 SMALL CAP		3.01	7.71	7.71	25.21	25.27	8.36	3.67	9.20	
<u>INTERNATIONAL EQUITY</u>										
TRS ISHARES TR	214,547,957	6.33	2.20	2.20	9.64	21.94				Sep-09
TRS INTERNATIONAL EQUITIES	2,509,128,252	-2.06	3.57	3.57	10.55	11.28	-2.46	1.83	5.99	Nov-94
TRS TOTAL INTERNATIONAL EQUITY	2,723,676,209	-1.44	3.46	3.46	10.48	11.61	-1.80	2.45	6.31	Oct-94
MSCI EAFE (NET)		-2.24	3.37	3.37	10.20	10.42	-3.01	1.30	5.39	

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
TRS TOTAL GLOBAL EQUITY	11,284,256,127	0.26	5.91	5.91	16.63	17.14	2.17	2.98	4.77	Oct-75
TRS CUSTOM GLOBAL EQUITY INDEX		-0.04	5.84	5.84	16.80	16.22	2.08	2.76		
FIXED INCOME										
TRS DOMESTIC FIXED INCOME	2,651,487,593	0.05	0.61	0.61	-0.80	6.14	6.48	6.90	6.40	Aug-99
TRS CUSTOM DOMESTIC FIXED INDEX		-0.03	0.49	0.49	-1.08	5.82	6.09	6.30		
TRS TOTAL FIXED (ex. Private Placements)	2,651,487,593	0.05	0.61	0.61	-0.80	6.14	6.48	6.91		Oct-03
TRS CUSTOM GLOBAL FIXED INDEX		-0.03	0.49	0.49	-1.08	5.82	6.09	6.30		
BC AGGREGATE		0.06	0.42	0.42	-0.88	5.12	5.30	6.03	5.56	
TRS PRIVATE PLACEMENTS	2,114,498,098	16.52	18.59	18.59	24.13	17.30	-2.61	4.72		Aug-99
TRS CASH ACCOUNT	124,756,348	0.02	0.06	0.06	0.12	0.24	0.82	2.64		Sep-03
TRS TOTAL FIXED INCOME	4,890,742,040	6.63	7.72	7.72	8.70	10.28	1.79	5.75	5.58	Oct-93
ALTERNATIVE INVESTMENTS										
TRS PREFERRED STOCK	214,070,645	9.84	12.14	12.14	13.49	-2.05	-43.61	-24.61		Sep-03
TRS REAL ESTATE	1,895,872,431	0.00	0.00	0.00	0.00	0.46	-0.24	1.79		Oct-03
TRS INTERNALLY MANAGED	318,325,089	0.03	0.09	0.09	0.17	0.35	1.57	3.10		Oct-03
TRS OPTION COLLATERAL	3,241,875	0.00	0.00	0.00	0.00	0.00				Sep-03
TRS TOTAL ALTERNATIVES	2,431,510,040	0.77	0.94	0.94	1.05	0.21	-9.75	-3.53		Oct-03
TRS TOTAL F.I. PLUS ALTERNATIVES	7,322,252,080	4.57	5.33	5.33	5.99	6.94	-1.87	2.85	3.85	Oct-93

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
TRS TOTAL PLAN	18,606,508,208	1.93	5.67	5.67	12.15	12.94	0.45	2.86	4.19	Oct-88
TRS TOTAL PLAN POLICY		-0.03	4.17	4.17	11.19	12.26	3.12	3.37		

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
U.S. EQUITY										
ERS CORE FUND	855,082,331	0.28	5.96	5.96	16.80	15.35	2.30	2.88	2.89	Oct-94
ERS West Street Trust Certificates	331,712,708	0.09	6.04	6.04	17.63	16.24				Jan-10
ERS S&P 500 FUND	1,841,175,748	0.04	5.91	5.91	17.26	15.59	2.42	2.69	3.43	Oct-94
ERS MID CAP INDEX	419,825,193	2.45	9.35	9.35	24.25	27.23	10.22	6.18	9.59	Oct-94
ERS S&P SMALL CAP INDEX	208,240,395	3.02	7.74	7.74	25.13	25.66	9.04	4.09	8.86	Mar-01
ERS SMALLCAP ACTIVE FUND	67,621,234	3.46	9.18	9.18	20.31	25.43	7.56			Jun-06
ERS SPECIAL SITUATIONS	313,403,991	3.70	9.71	9.71	22.29	28.93	9.46	5.41	7.93	Oct-94
ERS TOTAL DOMESTIC EQUITY	4,037,061,601	0.82	6.72	6.72	18.67	18.91	3.58	3.17	4.36	Oct-93
<i>ERS CUSTOM DOMESTIC EQUITY INDEX</i>										
<i>S&P 500</i>		0.67	6.65	6.65	19.02	18.11	3.89	3.26		
<i>S&P 400 MIDCAP</i>		0.04	5.92	5.92	17.31	15.65	2.35	2.62	3.29	
<i>S&P 600 SMALL CAP</i>		2.45	9.36	9.36	24.13	26.95	10.00	6.07	9.36	
		3.01	7.71	7.71	25.21	25.27	8.36	3.67	9.20	
INTERNATIONAL EQUITY										
ERS ISHARES TR	102,472,487	6.33	2.20	2.20	9.64	21.94				Sep-09
ERS INTERNATIONAL EQUITIES	1,102,885,396	-2.06	3.58	3.58	10.56	11.31	-2.45	1.81	5.97	Nov-94
ERS TOTAL INTERNATIONAL EQUITY	1,205,357,883	-1.40	3.46	3.46	10.48	11.67	-1.73	2.49	6.32	Oct-94
<i>MSCI EAFE (NET)</i>		-2.24	3.37	3.37	10.20	10.42	-3.01	1.30	5.39	

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
ERS TOTAL GLOBAL EQUITY	5,242,419,484	0.30	5.95	5.95	16.68	17.19	2.24	3.01	4.78	Oct-93
<i>ERS CUSTOM GLOBAL EQUITY INDEX</i>		-0.01	5.88	5.88	16.88	16.28	2.15	2.79		
FIXED INCOME										
ERS DOMESTIC FIXED INCOME	1,217,112,954	0.05	0.61	0.61	-0.82	6.13	6.45	6.92	6.33	Sep-99
<i>ERS CUSTOM DOMESTIC FIXED INDEX</i>		-0.03	0.48	0.48	-1.24	5.65	6.00	6.26		
ERS TOTAL FIXED (ex. Private Placements)	1,217,112,954	0.05	0.61	0.61	-0.82	6.13	6.45	6.93		Oct-03
<i>ERS CUSTOM GLOBAL FIXED INDEX</i>		-0.03	0.48	0.48	-1.24	5.65	6.00	6.26		
<i>BC AGGREGATE</i>		0.06	0.42	0.42	-0.88	5.12	5.30	6.03	5.56	
ERS PRIVATE PLACEMENTS	1,075,969,136	16.09	18.15	18.15	23.63	17.84	-2.75	4.72		Aug-99
ERS CASH ACCOUNT	79,484,271	0.02	0.06	0.06	0.12	0.24	0.82	2.69		Sep-03
ERS TOTAL FIXED INCOME	2,372,566,361	6.81	7.92	7.92	9.02	10.70	1.57	5.73	5.42	Oct-93
ALTERNATIVE INVESTMENTS										
ERS PREFERRED STOCK	186,429,822	18.02	19.92	19.92	20.48	8.63	-36.50	-18.93		Sep-03
ERS REAL ESTATE	925,256,466	0.00	0.00	0.00	0.00	0.42	-0.26	1.84		Oct-03
ERS INTERNALLY MANAGED	216,728,704	0.03	0.09	0.09	0.18	0.36	1.57	3.10		Oct-03
ERS OPTION COLLATERAL	1,745,625	0.00	0.00	0.00	0.00	0.00				Sep-03
ERS TOTAL ALTERNATIVES	1,330,160,617	2.13	2.33	2.33	2.40	1.27	-11.98	-4.49		Oct-03
ERS TOTAL F.I. PLUS ALTERNATIVES	3,702,726,978	5.05	5.81	5.81	6.52	7.43	-3.14	2.22	3.35	Oct-93

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
TOTAL PLAN										
ERS TOTAL PLAN	8,945,146,462	2.23	5.89	5.89	12.21	12.96	-0.24	2.53	3.75	Oct-89
ERS TOTAL PLAN POLICY		-0.01	4.13	4.13	11.07	12.06	3.07	3.31		

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
U.S. EQUITY										
JRF S&P 500 FUND	108,378,446	0.04	5.98	5.98	17.33	15.65	2.54	2.80	3.44	Oct-94
JRF S&P MID CAP INDEX	12,555,383	2.45	9.34	9.34	24.19	27.15	10.21	6.13	9.51	Oct-94
JRF S&P SMALL CAP INDEX	4,560,444	3.02	7.74	7.74	25.13	25.66	9.03	4.07	8.82	Mar-01
JRF TOTAL DOMESTIC EQUITY	125,494,273	0.38	6.37	6.37	18.26	17.42	3.50	3.23	4.10	Oct-93
<i>JRF CUSTOM DOMESTIC EQUITY INDEX</i>										
<i>S&P 500</i>		0.38	6.32	6.32	18.24	16.99	3.18	2.98		
<i>S&P 400 MIDCAP</i>		0.04	5.92	5.92	17.31	15.65	2.35	2.62	3.29	
<i>S&P 600 SMALL CAP</i>		2.45	9.36	9.36	24.13	26.95	10.00	6.07	9.36	
		3.01	7.71	7.71	25.21	25.27	8.36	3.67	9.20	
INTERNATIONAL EQUITY										
JRF ISHARES TR	3,199,371	6.33	2.20	2.20	9.64	21.93				Sep-09
JRF INTERNATIONAL EQUITIES	33,138,446	-2.07	3.56	3.56	10.57	11.86	-2.17			Nov-06
JRF TOTAL INTERNATIONAL EQUITY	36,337,818	-1.39	3.44	3.44	10.49	12.39	-0.70			Nov-06
<i>MSCI EAFE (NET)</i>		-2.24	3.37	3.37	10.20	10.42	-3.01	1.30	5.39	
JRF TOTAL GLOBAL EQUITY	161,832,090	-0.02	5.70	5.70	16.41	16.94	3.00	3.23	4.11	Oct-93
<i>JRF CUSTOM GLOBAL EQUITY INDEX</i>		-0.22	5.65	5.65	16.33	15.96	2.30			

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>DOMESTIC FIXED INCOME</u>										
JRF DOMESTIC FIXED INCOME	62,199,367	0.04	0.69	0.69	-0.67	6.75	6.64	6.98	4.51	Oct-93
JRF CUSTOM DOMESTIC FIXED INDEX		-0.03	0.49	0.49	-1.06	5.82	5.86	6.19		
BC AGGREGATE		0.06	0.42	0.42	-0.88	5.12	5.30	6.03	5.56	
JRF PRIVATE PLACEMENTS	4,210,746	2.73	4.16	4.16	5.92	2.82	-0.14	3.14		Oct-01
JRF CASH ACCOUNT	4,122,723	0.02	0.06	0.06	0.12	0.24	0.82	2.50		Sep-03
JRF TOTAL FIXED INCOME	70,532,837	0.19	0.85	0.85	-0.24	6.04	5.57	6.29	4.84	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
JRF PREFERRED STOCK	35,089	-10.69	199.28	199.28	301.85	33.99	-50.59			Nov-07
JRF REAL ESTATE	2,608,254	0.00	0.00	0.00	0.00	15.12	6.19	5.96		Oct-03
JRF INTERNALLY MANAGED CASH	999,726	0.05	0.11	0.11	0.20	0.40	1.60	3.10		Oct-03
JRF TOTAL ALTERNATIVES	3,643,068	-0.06	0.45	0.45	0.55	6.35	2.77	3.80		Oct-03
JRF TOTAL F.I. PLUS ALTERNATIVES	74,175,905	0.18	0.82	0.82	-0.19	5.96	5.15	5.89	4.58	Oct-93

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING March 31, 2011



STATE STREET

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
TOTAL PLAN										
JRF TOTAL PLAN	236,007,995	0.04	4.08	4.08	10.43	13.30	4.04	4.42	3.80	Oct-93
<i>JRF TOTAL PLAN POLICY</i>		-0.16	4.00	4.00	10.38	12.53	3.28	3.57		