



**STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION**
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Modesto, CA 95354
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AGENDA

BOARD OF RETIREMENT
832 12th Street, Suite 600 – **Wesley W. Hall Board Room**
Modesto, CA 95354

January 24, 2012
2:00 p.m.

The Board of Retirement welcomes you to its meetings, which are regularly held on the second Wednesday and the fourth Tuesday of each month. Your interest is encouraged and appreciated.

CONSENT ITEMS: These matters include routine administrative actions and are identified under the Consent Items heading.

PUBLIC COMMENT: Matters under jurisdiction of the Board, may be addressed by the general public before or during the regular agenda. However, California law prohibits the Board from taking action on any matter which is not on the posted agenda unless it is determined an emergency by the Board of Retirement. Any member of the public wishing to address the Board during the "Public Comment," period shall be permitted to be heard once up to three minutes. Please complete a Public Comment Form and give it to the Chair of the Board. Any person wishing to make a presentation to the Board must submit the presentation in written form, with copies furnished to all Board members. Presentations are limited to three minutes.

BOARD AGENDAS & MINUTES: Board agendas, Minutes and copies of items to be considered by the Board of Retirement are customarily posted on the Internet by Friday afternoon preceding a meeting at the following website: www.stancera.org.

Materials related to an item on this Agenda submitted to the Board after distribution of the agenda packet are available for public inspection at StanCERA, 832 12th Street, Suite 600, Modesto, CA 95354, during normal business hours.

NOTICE REGARDING NON-ENGLISH SPEAKERS: Board of Retirement meetings are conducted in English and translation to other languages is not provided. Please make arrangements for an interpreter if necessary.

REASONABLE ACCOMMODATIONS: In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Board Secretary at (209) 525-6393. Notification 72 hours prior to the meeting will enable StanCERA to make reasonable arrangements to ensure accessibility to this meeting.

1. Meeting Called to Order

2. Roll Call

3. Announcements

4. Public Comment

5. Consent Items

a. Approval of the January 11, 2012, Administrative Meeting Minutes [View](#)

b. StanCERA Complaint Log of October 1, 2011 through
December 31, 2011 [View](#)

5. Consent Items (Cont.)
 - c. Receipt of Strategic Investment Solutions Inc.'s November 2011 Monthly Performance Review for StanCERA [View](#)
 - d. Receipt of the 2012 Board of Retirement Standing Committee Assignments [View](#)
6. Invesco's Presentation of the Global Real Estate Investment Trust (REIT) Portfolio for the Fourth Quarter 2011 [View](#)
7. Research Affiliates' Presentation of the Long/Short Absolute Return Portfolio [View](#)
8. Strategic Investment Solutions (SIS), Inc.
 - a. Monthly Performance Review for the Month Ending December 31, 2011 [View](#)
 - b. Report on "Top 10 Holdings" by StanCERA Investment Managers as of December 31, 2011 [View](#)
 - c. Verbal Update on BNY Mellon Securities Lending
9. Executive Director Report
 - a. Discussion and Action on a Request for Allocation of One Confidential Assistant IV (CAIV) Position [View](#)
10. Members' Forum (Information and Future Agenda Requests Only)
11. Adjournment



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PLEASE POST FOR EMPLOYEE VIEWING

BOARD OF RETIREMENT MINUTES

January 11, 2012

Members Present: Maria De Anda, Darin Gharat, Jeff Grover, Mike Lynch,
Ron Martin, Michael O'Neal, Jegan Raja*, and Donna Riley

*Mr. Raja Deputy Treasurer-Tax Collector represents ex-officio Mr. Gordon Ford,
Treasurer-Tax Collector

Members Absent*: *Jim DeMartini, and Gordon Ford**

Alternate Member Absent: *Joan Clendenin (Alternate Retiree Representative)*

Staff Present: Rick Santos, Executive Director
Kelly Cerny, Executive Secretary
Kathy Herman, Operations Manager
Kathy Johnson, Accountant
Donna Wood, Retirement Technician
Luiana Irizarry, Administrative Assistant

Others Present: Fred Silva, General Legal Counsel
Stan Risen, Doris Foster and Monica Nino, County Chief
Executive Office
Graham Schmidt, EFI Actuaries

1. Meeting called to order at 2:00 p.m. by Mike Lynch, Chair.

2. **Roll Call**

3. **Rotation of Officers**

Pursuant to Bylaws Section 1.5, and the rotation by succession of the seat number assigned to Board members, Jim DeMartini is Chair of the 2012 Board of Retirement, and Darin Gharat, 2012 Vice-Chair. In the absence of Mr. DeMartini at today's meeting, Mr. Gharat conducted the meeting as Vice Chair.

4. **Announcements**

Ms. Cerny announced that Board members had received the Fair Political Practices Commission's (FPPC) 2011-2012 Form 700 – Statement of Economic Interests. The completed form is due no later than Monday, April 2, 2012.

5. **Public Comment**

None.

6. **Consent Items**

Ms. Cerny distributed to Board members a revised Item #6b, the 2012 Master Calendar – Educational Opportunities. After distribution of the Agenda, CALAPRS submitted some date changes and location updates to the 2012 CALAPRS Program.

Motion was made by Jeff Grover and seconded by Maria De Anda to approve the following items as revised and presented.

Motion carried.

- a. Approval of the December 14, 2011, Administrative/Investment Meeting Minutes
- b. Approval of the Revised 2012 Calendar Year Educational Opportunities
- c. Receipt of the 2010-2012 Action Plan Quarterly Update for Fourth Quarter 2011
- d. Approval of Service Retirement(s) – **Sections 31499.14, 31670, 31662.2 & 31810**
 1. Sonia Armas, HSA, Effective 01-22-12
 2. Cathy Armenta, DCSS, Effective 01-06-12
 3. Consuelo Carrillo, CSA, Effective 01-28-12
 4. Sharon Dean, BHRS, Effective 01-21-12
 5. Michael French, Oakdale Rural Fire District, Effective 01-04-12
 6. Lenore Maurice, Public Defender, Effective 01-03-12
 7. Joseph Mingham, Stanislaus Fire, Effective 12-27-11
 8. Julie Mueller, Public Guardian, Effective 01-03-12
- e. Approval of Deferred Retirement(s) – **Section 31700**
 1. Kirsten Alvord, Alliance Worknet, Effective 08-05-11
 2. Margaret Jean Anderson, BHRS, Effective 10-15-11
 3. Sandra Arauza, Sheriff, Effective 11-12-11
 4. Lawrence Boone, HSA, Effective 10-01-11
 5. Karina Castillo, CSA, Effective 09-06-11
 6. Marisa El Gada, Probation, Effective 12-17-11
 7. Stephanie Landgraf, Sheriff, Effective 11-12-11
 8. Sandra Ortega, CSA, Effective 08-22-11
 9. Sara Tumbarello, DCSS, Effective 10-21-11

6. **Consent Items (Cont.)**

f. Approval of Death Benefit

1. Jackline Kay King, Deceased, December 24, 2011, Active Member, Option Pursuant to Government Code Sections 31781, 31781.1, or 31781.3
2. Mary Ann Donahou, Deceased December 30, 2011, Active Member, Option Pursuant to Government Code Sections 31781 or 31787

7. **EFI Actuaries Presentation on Preliminary Results of the Actuarial Valuation as of June 30, 2011**

8. **Executive Director Report**

- a. Verbal Update of the Definition of Final Average Salary (FAS) and the 92% Securities Lending Increase in the June 30, 2011 and 2010 Comprehensive Annual Financial Report (CAFR)

Mr. Santos gave an update to Mr. Ford's questions asked at the December 14, 2011, Board meeting regarding the CAFR. Mr. Santos clarified the definition of final average salary and the reasons for the change in the securities lending portfolio between 2010 and 2011.

- b. Verbal Update on Disability Meeting with Staff of Risk Management, Sheriff, and Chief Executive Offices on December 16, 2011

This item was postponed until the February 8, 2012 Board meeting.

- c. Verbal Report on Meetings with Plan Sponsors

Mr. Santos gave a report on his meetings with the County Chief Executive Officer, Monica Nino, and Supervisor Terry Withrow.

9. **Closed Session**

Motion was made by Maria De Anda and seconded by Donna Riley to commence to Closed Session at 3:21 p.m.

Motion carried.

D. Wood & K. Johnson recused themselves at 3:21 p.m.

Motion was made by Ron Martin and seconded by Jeff Grover to return to Open Session at 4:33 p.m.

Motion carried.

9. **Closed Session (Cont.)**

Ms. Cerny read the findings of the Closed Session:

- a. Real Estate Negotiations Pursuant to Government Code Section 54956.8

No report.

L. Irizarry recused herself at 3:37 p.m.

- b. Personnel Matter Pursuant to Government Code Section 54957(b) (1)

Note: On advice of legal counsel, this matter will be placed on the January 24, 2012, Board meeting agenda for Open Session discussion and action.

- c. Public Employment: Discussion and Action on the Executive Director's 2012 Goals

Motion was made by Ron Martin and seconded by Darin Gharat to approve the Executive Director's 2012 Goals.

Motion carried.

Mr. O'Neal recused himself at 4:02 p.m.

- d. Conference with Legal Counsel – Pending Litigation – One Case:
Dennis Nasrawi et al v. Buck Consultants, LLC, Santa Clara County
Superior Court Case No. 1-11-CV202224
Government Code Section 54956.9 (a)

No report.

- e. Conference with Legal Counsel – Anticipated Litigation and/or Anticipated
Initiation of Litigation Pursuant to Government Code Section 54956.9 (b):
One Matter

No report.

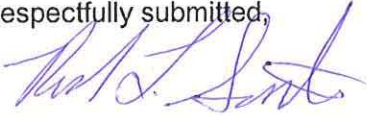
10. **Members' Forum (Information and Future Agenda Requests Only)**

Mr. Gharat thanked staff for their recent rapid response in processing Ms. Donahou's death benefit.

11. **Adjournment**

Meeting adjourned at 4:37 p.m.

Respectfully submitted,



Rick Santos, Executive Director

APPROVED AS TO FORM:
FRED A. SILVA, GENERAL LEGAL COUNSEL



Fred A. Silva, General Legal Counsel



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January 17, 2012

TO: Retirement Board Members

FROM: Kathy Herman, Operations Manager

SUBJECT: StanCERA Complaint Log

Two (2) complaints were logged from October 1 through December 31, 2011 in the StanCERA complaint log.

Staff refers insurance related calls to BMTI, but complaints regarding health insurance may still be recorded in our complaint log. Staff has been requested to log all complaints, but they do have discretion as to what should be logged. We will continue to update the Board on a quarterly basis providing copies of the complaints received during the previously completed quarter.

MARKET UPDATE

FOR NOVEMBER 2011

U.S. EQUITY

The European Debt crisis continues to dominate the day-to-day movement of the global financial markets. Greece's main political parties agreed to form a unity government in a deal that saw Prime Minister George Papandreou step down. Silvio Berlusconi resigned as prime minister of Italy as the country works to reign in its debt. Technocrats Lucas Papdemous (Greece) and Mario Monti (Italy) have temporarily taken over control of their respective governments. A spike in Italian and Spanish bond yields (above 7% on the 10-year) fanned investors' worries about contagion in the European debt crisis. The European Central Bank reportedly intervened heavily in the bond markets by purchasing Italian and Spanish government debt. In a worrying sign of contagion, the spread of Austrian, French and Dutch bond yields over German Bunds also shot up. The markets continue to be rattled by uncertainty about the willingness of the ECB to stand behind euro zone governments, as senior German officials continue to insist that the bank should not be a lender of last resort. Euro zone banks struggled to obtain credit in the markets, forcing them to borrow from the ECB. Market participants continue to alternate between hope that the EMU debt crisis issues will be resolved with a credible rescue plan and the reality that it is still unsolved.

November was a down month for equities but it could have been worse as the markets staged a strong rally at the end of the month. Growth performed in-line with value and small caps performed in-line with large caps. The Russell 1000 Growth Index was down -0.0% for the month and the Russell 1000 Value Index was down -0.5%. The Russell 2000 Growth Index was down -0.5% and the Russell 2000 Value was down -0.2%. The S&P 500 Index ended the month down -0.2%.

The S&P 500 Index has a trailing 12-month P/E ratio of 14.4 (estimated P/E ratio of 12.4 on forward looking twelve-month operating earnings) and a dividend yield of 2.2%. Even as the U.S. economy continues to post a below-average recovery growth, corporate profits increased in the third quarter. Domestic profits of financial companies increased \$16 billion in the third quarter, in contrast to a decrease of \$54.2 billion in the second. Non-financial corporations increased \$17.4 billion in the third quarter, compared with an increase of \$80.8 billion in the second. Just two-thirds of the S&P 500 companies that reported earnings in the third quarter

topped their profit forecasts. That compares with 80 percent plus levels seen over the past two years.

Corporate merger activity highlights for the month included: Time Warner made an offer of about \$1.4 billion for Endemol, the Dutch producer of "Big Brother" television; Kirin Holdings will buy out Brazilian beer maker Schincariol Participacoes for \$1.35 billion; Best Buy will buy out Carphone Warehouse, its U.S. mobile joint venture for \$1.3 billion; Goldman Sachs hopes to raise up to \$1.5 billion by selling shares in Industrial and Commercial Bank of China; Alibaba Group and Softbank are talking with private equity funds about making a bid for all of Yahoo!; Caterpillar may acquire Hong Kong based ERA Mining Machinery in a deal valued at about \$887 million; Sinopec, Asia's largest refiner, will pay \$3.5 billion for a 30% stake in Galp Energia SGPS's Brazilian unit; Bank of America will sell most of its remaining stake in China Construction Bank for \$6.6 billion; Shandong Gold Group, parent of China's 2nd largest gold producer by market value, made a \$785 million offer to buy Jaguar Mining; Virgin Money, the financial arm of Richard Branson's Virgin conglomerate, will buy Northern Rock Bank from the British government for \$1.2 billion; Gilead Sciences, the world's largest maker of HIV drugs, will buy Pharmasset for about \$11 billion; Alleghany, a property-casualty insurer will pay \$3.4 billion to acquire Transatlantic Holdings; A consortium led by private equity firm KKR will buy oil and gas group Samson Investment for \$7.2 billion; Icahn Enterprises offered to buy Commercial Metals, a metal recycler, for about \$1.7 billion; and, KKR is close to a deal to buy Capital Safety for about \$1.1 billion.

Groupon raised \$700 million after increasing the size of its IPO, becoming the largest IPO by an Internet company since Google raised \$1.7 billion in 2004. Facebook is reportedly seeking as much as \$10 billion in next year's IPO.

FIXED INCOME

Gross domestic product grew at a revised 2.0% annual rate in the 3rd quarter, down from the previously reported 2.5% because of lower inventory accumulation. At its latest policy meeting the Federal Reserve said it expects America's economy to continue growing at a "moderate pace" over the coming months. Business fixed investment has been the most significant support to U.S. growth in recent months as it expanded at a 15%

annualized rate in the third quarter and added about 1.4% to GDP growth.

U.S. employment rose less than expected in October, but a drop in the jobless rate to a six-month low of 9.0% and upward revisions to prior months' job gains may be pointing to an improving labor market. The Labor Dept. reported that unemployment rates fell in 36 states in October and rose in only 5.

The Treasury Department reported that the national debt surpassed \$15 trillion.

Thanksgiving weekend sales rose to \$52 billion from \$45 billion in 2010 and on average, shoppers spent \$398.62, up from \$365.34 last year.

Long-term interest rates were slightly higher in the month of November. The bellwether 10-year Treasury note ended the month yielding 2.06% up slightly from 1.97% at the close of October. At month-end, the 30-year long bond yield was 3.06% with the 3-month T-bill remaining low at 0.02%. The Barclays Capital US Aggregate Index was down by -0.1% in November.

The "Super Committee" on America's budget deficit admitted defeat in Congress. Its failure to do so triggers automatic spending cuts of \$1.2 trillion to begin in 2013. It is important to keep in mind that these fiscal policy choices have a relatively small impact on the economy although the economy has a very large impact on fiscal balances. Stimulating growth and lowering the unemployment rate has a much greater effect because tax revenues will substantially increase.

On the economic front, the following key data was released in November, with the overall activity data generally positive:

THE GOOD

* The Commerce Dept. reported that factory orders edged up 0.3% to \$453.5 billion in September and year-to-date, orders are up 12.6% from the comparable period in 2010.

*The Commerce Dept. reported that wholesale inventories dropped 0.1% in September, the first decline since December 2009.

*The national median price of previously owned homes was \$169,500 in the 3rd quarter, up from \$169,100 last quarter. The National Association of Realtors reported that existing home sales rose 1.4% in October to a seasonally adjusted annual rate of 4.97 million.

*The Commerce Dept. reported that the trade deficit narrowed 4% to \$43.1 billion, the third straight monthly decline and the smallest imbalance since last December.

*The Federal government budget deficit narrowed to \$98.5 billion in October from \$140 billion in the same month one year ago. Receipts rose by 11.7% while outlays shrank by 8.7%.

*The number of U.S. properties with foreclosure filing fell 31% in October from a year earlier, the 13th consecutive month of year-over-year declines.

*The Commerce Dept. reported that retail sales rose an unexpected 0.5% in October, its fifth consecutive increase.

*The producer price index fell a seasonally adjusted 0.3% in October on a 1.4% drop in energy. Year-over-year, PPI inflation decelerated a full percentage point to 5.9%.

*Headline inflation appears to be stabilizing. CPI fell 0.1% in October and year-over-year decelerated 0.4% to 3.5%, the lowest level since April.

*Industrial production rose 0.7% in October after a 0.1% drop in September. Capacity utilization continues to rise gradually with overall utilization increasing 0.5% to 77.8%.

*The Conference Board reported that its index of leading economic indicators rose 0.9% in October, significantly faster than the revised 0.1% rise in September.

*The Commerce Dept. reported that incomes rose by the most in the past seven months.

The Univ. of Michigan consumer confidence index rose another 3.2 points in November to 64.1, the third consecutive gain, and the highest level since June. But it is still only 10.0 points above its Lehman low, and well below its long-term average of 86. The Conference Board consumer confidence index improved sharply in November as it rose 15.1 points to 56.0, regaining most of the ground lost since July.

THE NOT SO GOOD

*The Institute for Supply Management reported that its factory index dropped to 50.8 in October from 51.5 in September. The non-manufacturing index inched lower to 52.9% in October from 53.0% in September.

*Construction spending rose a less-than-expected 0.2% in September.

*The construction industry is on pace to start 424,000 single family homes this year, down 10% from 2010.

*U.S. home prices declined 1.1% in September, the second consecutive monthly decline, and year-over-year prices are down 4.1% according to CoreLogic.

*Households reduced debt by \$549 billion since 2007 but the federal government added over \$4 trillion in debt, pushing the total debt to \$36.5 trillion.

*The estimated household cost for buying gasoline in October was \$332, or 8% of the median household income.

NON-U.S. MARKETS

Canadian GDP rose a greater than expected 3.5% (annualized) in Q3, fueled by a large contribution from international trade as exports surged by 14.4%.

UK economic activity expanded at a 0.5% rate in the third quarter. This followed gains of 0.4% and 0.1% in Q1 and Q2 respectively. The Bank of England left monetary policy unchanged in November as the Bank Rate was held at 0.50%. The Bank of England in the latest Inflation Report downgraded its economic outlook, and expects GDP growth to remain extremely anemic in the range of 0.0% to 1.0% for the better part of the next year. The Bank indicated that it would undertake more quantitative easing measures over the coming months. Britain's unemployment rate rose to 8.3%, the highest since 1996.

The European Central Bank surprised the markets in the first week of November when it lowered its three administered interest rates by 25 basis points. The cut leaves the minimum bid rate at 1.25%, the marginal lending rate at 2.00% and the deposit rate at 0.50%.

The new ECB President Mario Draghi opined that the euro zone would be in a mild recession by the end of the year. Third quarter GDP reports were surprisingly positive, especially as the region appears headed into recession. Overall Eurozone GDP rose 0.2%, following a similar gain in the second quarter. Year-over-year, GDP rose 1.4%. In Germany, GDP rose 0.5% for the quarter and year-over-year is up a solid 2.6%. German investor sentiment continues to erode sharply.

The September industrial production data in the Eurozone was decidedly downbeat. In Germany, production fell by 2.7%, its largest decline since 2009.

In France, production fell 1.7% and 4.8% in Italy for the month. The unemployment rate in the euro zone was 10.2% in September, the highest since 1998.

The Bank of Japan left policy rates unchanged in November. The economy finally emerged from recession with GDP up 1.5% (6.0% annualized) in the third quarter, following three consecutive quarterly declines amounting to 1.7% of output.

The Reserve Bank of Australia cut its policy rate by a quarter of a point to 4.50%.

China's consumer price index rose 5.5% from a year ago, slowing growth for the 3rd month in a row, while producer price inflation was up 5%. The news was viewed as evidence that measures taken by the central bank to tame inflation are working. China's PBoC has lowered the reserve requirement for the first time in three years by 50 bps to 21% as a sign that it has ended its tightening cycle and has started to ease. China's economic growth for 2012 is likely to slow to 8.5% according to the OECD, a slower pace than its previous 9.2% forecast in May.

Non-U.S. Developed equities were relatively weaker than U.S. stocks in the month of November. The MSCI ACWI Ex-U.S. was down by -5.1% (US dollars) in November. Developed stocks (EAFE) were down -4.8% while Emerging Markets lost -6.7% for the month.

CONCLUSION

The financial crisis has had the effect of producing many social changes including more young adults living with their parents. Among males age 25 to 34, 19% live with their parents today, a 5% increase from 2005, according to Census data. The fact that more young adults are living with their parents has the cause and effect of the disruption of family creation leading to the lack of demand of owning single family homes. Barely 1 in 9 people moved residences between 2010 and 2011, the lowest total since the government began tracking the figure in 1948. The U.S. birth rate hit an all-time high of 4.3 million in 2007; over the next two years it dropped to about 4.2 million and was down to 4.0 million in 2010. The unemployment rate in the euro zone for youth stood at 21.2%; it was a staggering 48% in Spain and 43.5% in Greece.

The new normal will include profound social changes as a result of the global financial crisis within the developed and emerging markets. The shortage of food supplies was one of the contributing factors to the unrest in the Arab nations that began earlier this past spring along with the lack of hope for young adults of living a decent life. Occupy Wall Street is another sign of social tension coming out of the financial crisis. One would expect a continuation of social unrest going forward.

Monthly Market Update

US Equity Indices Trailing Performance

| Annualized Performance to Date: Ending Nov-11 | 1 Month | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|--|------------|-------------|-------|-----------|------------|------------|------------|-------------|
| Russell 3000 Index | -0.27 | 2.58 | 0.20 | 7.00 | 15.29 | 0.06 | 3.36 | 3.57 |
| Russell TOP 200 Index | -0.16 | 3.08 | 1.57 | 8.25 | 12.62 | -0.45 | 2.52 | 1.95 |
| Russell TOP 200 Growth Index | 0.19 | 3.30 | 4.46 | 9.92 | 17.03 | 2.77 | 3.99 | 1.74 |
| Russell TOP 200 Value Index | -0.52 | 2.86 | -1.20 | 6.76 | 8.20 | -3.61 | 1.03 | 2.23 |
| S&P 500 Index | -0.22 | 2.90 | 1.08 | 7.83 | 14.13 | -0.18 | 2.98 | 2.90 |
| Russell 1000 Index | -0.26 | 2.64 | 0.66 | 7.38 | 15.10 | 0.07 | 3.35 | 3.37 |
| Russell 1000 Growth Index | -0.01 | 2.79 | 2.97 | 8.64 | 18.85 | 2.64 | 4.43 | 2.61 |
| Russell 1000 Value Index | -0.52 | 2.49 | 1.59 | 6.17 | 11.32 | -2.59 | 2.14 | 3.93 |
| Russell Mid-Cap Index | -0.50 | 1.62 | -1.43 | 5.39 | 21.91 | 1.44 | 5.49 | 7.43 |
| Russell Mid-Cap Growth Index | -0.49 | 1.58 | -0.16 | 6.07 | 24.16 | 2.56 | 5.85 | 5.84 |
| Russell Mid-Cap Value Index | -0.52 | 1.65 | -2.60 | 4.75 | 19.59 | -0.01 | 4.84 | 7.97 |
| Russell 2000 Index | -0.36 | 1.86 | -4.80 | 2.75 | 17.56 | 0.09 | 3.54 | 6.18 |
| Russell 2000 Growth Index | -0.53 | 2.00 | -2.69 | 4.70 | 21.21 | 2.08 | 4.48 | 5.14 |
| Russell 2000 Value Index | -0.20 | 1.71 | -6.96 | 0.77 | 14.03 | -2.01 | 2.46 | 6.87 |
| DJ US REIT Index | -3.93 | 2.16 | 4.46 | 9.41 | 26.47 | -3.38 | 4.95 | 9.89 |

Flat month.
Big rally last week of Nov.

Non-US Indices Trailing Performance

| Annualized Performance to Date: Ending Nov-11 | 1 Month | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|--|------------|-------------|--------|-----------|------------|------------|------------|-------------|
| MSCI AC World Index ex USA | -5.08 | -6.71 | -12.36 | -5.49 | 13.70 | -1.67 | 4.76 | 7.01 |
| MSCI AC World Index | -2.94 | -2.63 | -6.71 | 0.15 | 14.03 | -0.94 | 3.96 | 4.87 |
| MSCI EAFE Index | -4.83 | -5.55 | -10.90 | -3.63 | 10.63 | -3.49 | 2.95 | 5.28 |
| MSCI Emerging Markets index | -6.66 | -9.68 | -17.18 | 11.26 | 23.98 | 3.86 | 11.65 | 15.21 |
| ML Global Government Bond Ex. U.S. Index | -0.83 | -2.16 | 7.03 | 10.26 | 9.16 | 8.46 | 5.82 | 8.07 |
| Euro | -3.49 | -6.50 | 0.34 | 3.41 | 1.99 | 0.31 | 0.18 | 4.16 |
| Japanese Yen | 0.44 | -1.49 | 4.48 | 7.91 | 7.05 | 8.30 | 4.09 | 4.72 |
| UK Pound Sterling | -2.56 | -3.41 | 0.46 | 0.99 | 0.83 | -4.37 | -2.75 | 0.98 |

Non-US stocks weak

US Fixed Income Indices Trailing Performance

| Annualized Performance to Date: Ending Nov-11 | 1 Month | 3 Months | YTD | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years |
|--|------------|-------------|------|-----------|------------|------------|------------|-------------|
| ML 3-month T-bill Total Return Index | 0.00 | 0.00 | 0.10 | 0.12 | 0.15 | 1.57 | 2.21 | 1.97 |
| BarCap Aggregate Bond Index | -0.09 | 0.75 | 6.67 | 5.52 | 7.69 | 6.14 | 5.57 | 5.59 |
| ML U.S. Corp/Govt Master Index | -0.17 | 0.82 | 7.32 | 5.80 | 7.81 | 6.07 | 5.51 | 5.61 |
| ML U.S. Corporate Master Index | -1.87 | -0.28 | 5.48 | 4.48 | 13.45 | 5.98 | 5.52 | 6.03 |
| BarCap Mortgage Backed Securities Index | 0.18 | 0.35 | 5.49 | 4.91 | 6.17 | 6.33 | 5.78 | 5.58 |
| ML U.S. High Yield Master Index | -2.16 | -0.07 | 1.96 | 3.71 | 25.48 | 6.95 | 7.07 | 8.20 |

Corp bonds weak

A

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOV 30, 2011
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

| ASSET CLASS | MARKET VALUE | PERCENT | POLICY | |
|-----------------------------|---------------|--------------|---------|----------------------|
| | | | TARGET | RANGE |
| DOMESTIC EQUITIES | 532,795,670 | 40.5% | ✓ 40.9% | 35.9% - 45.9% |
| INTERNATIONAL EQUITIES | 221,656,371 | <u>16.9%</u> | ✓ 19.0% | <u>16.0%</u> - 22.0% |
| FIXED INCOME | 515,333,434 | 39.2% | ✓ 37.1% | 33.4% - 40.8% |
| SPECIAL SITUATIONS | 33,848,325 | 2.6% | 3.0% | 2.0% - 4.0% |
| SECURITY LENDING | (2,607,640) | -0.2% | 0.0% | 0.0% - 0.0% |
| CASH (equity managers only) | 12,923,706 | 1.0% | 0.0% | 0.0% - 3.0% |
| TOTAL PORTFOLIO | 1,313,949,866 | 100.0% | 100.0% | |

| | CURRENT | TARGET |
|-------------------------------|---------|--------|
| DODGE & COX · LARGE CAP VALUE | 12.3% | 12.8% |
| BGI · R1000 VALUE INDEX | 3.0% | 3.0% |
| DELAWARE · LARGE CAP GROWTH | 7.8% | 6.8% |
| BGI · R1000 GROWTH INDEX | 5.3% | 5.0% |
| CAPITAL PROSPECTS | 4.4% | 4.5% |
| LEGATO CAPITAL | 4.0% | 4.0% |
| BNY · S&P 500 INDEX | 4.5% | 4.8% |
| LSV ASSET MGMT · INTL EQ | 8.4% | 9.5% |
| PYRAMIS · INTL EQ | 8.7% | 9.5% |
| DODGE & COX FIXED INCOME | 32.8% | 32.1% |
| PIMCO | 6.4% | 5.0% |
| INVESCO · GLOBAL REIT | 1.3% | 1.5% |
| RAFI · LONG SHORT | 1.3% | 1.5% |
| SECURITY LENDING | -0.2% | 0.0% |
| TOTALS | 100.0% | 100.0% |

①

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOV 30, 2011
PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION

| ASSET CLASS MARKET VALUE | CURRENT MONTH | PRIOR MONTH | % CHANGE * | PRIOR YEAR | % CHANGE * |
|-----------------------------|------------------|----------------|------------|---------------|------------|
| DOMESTIC EQUITIES | 532,795,670 | 537,920,065 | -0.95% | 557,752,364 | -4.47% |
| INTERNATIONAL EQUITIES | 221,656,371 | 230,496,287 | -3.84% | 270,113,610 | -17.94% |
| FIXED INCOME | 515,333,434 | 522,065,787 | -1.29% | 454,284,174 | 13.44% |
| SPECIAL SITUATIONS | 33,848,325 | 34,485,930 | -1.85% | 17,314,988 | 95.49% |
| SECURITIES LENDING | (2,607,640) | (2,638,267) | -1.16% | (2,747,648) | -5.10% |
| CASH (equity managers only) | 12,923,706 | 11,599,748 | 11.41% | 9,826,164 | 31.52% |
| TOTAL PORTFOLIO | 1,313,949,866 | 1,333,929,549 | -1.50% | 1,306,543,651 | 0.57% |
| ASSET ALLOCATION (ACTUAL) | | -20MM | | +7.5MM | |
| DOMESTIC EQUITIES | 40.55% | 40.33% | 0.2% | 42.69% | -2.1% |
| INTERNATIONAL EQUITIES | 16.87% | 17.28% | -0.4% | 20.67% | -3.8% |
| FIXED INCOME | 39.22% | 39.14% | 0.1% | 34.77% | 4.5% |
| SPECIAL SITUATIONS | 2.58% | 2.59% | 0.0% | 1.33% | 1.3% |
| SECURITY LENDING | -0.20% | -0.20% | 0.0% | -0.21% | 0.0% |
| CASH (equity managers only) | 0.98% | 0.87% | 0.1% | 0.75% | 0.2% |
| TOTAL PORTFOLIO | 100.0% | 100.0% | 0.0% | 100.0% | 0.0% |

* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOV 30, 2011
PRELIMINARY BASIS

MANAGER ALLOCATION

| ASSET CLASS | MARKET VALUE | PERCENT | POLICY | |
|-------------------------------------|----------------------|---------------|---------------|--------------------|
| | | | TARGET | RANGE |
| DOMESTIC EQUITIES | | | | |
| DODGE & COX - LARGE CAP VALUE | 161,232,792 | 12.3% | 12.8% | 10.3% - 15.3% |
| BLACKROCK - R1000 VALUE INDEX | 39,604,791 | 3.0% | 3.0% | 2.0% - 4.0% |
| DELAWARE - LARGE CAP GROWTH | 102,440,895 | 7.8% | 6.8% | 5.3% - 8.3% |
| BLACKROCK - R1000 GROWTH INDEX | 69,025,945 | 5.3% | 5.0% | 4.0% - 6.0% |
| CAPITAL PROSPECTS - SMALL CAP VALUE | 57,545,184 | 4.4% | 4.5% | 3.5% - 5.5% |
| LEGATO CAPITAL - SMALL CAP GROWTH | 53,100,888 | 4.0% | 4.0% | 3.0% - 5.0% |
| BNY - S&P 500 INDEX | 59,140,013 | 4.5% | 4.8% | 3.8% - 5.8% |
| TOTAL DOMESTIC EQUITIES | 542,090,508 | 41.3% | 40.9% | |
| FIXED INCOME | | | | |
| DODGE & COX | 430,601,696 | 32.8% | 32.1% | 29.1% - 35.1% |
| PIMCO | 84,731,738 | 6.4% | 5.0% | 4.0% - 6.0% |
| TOTAL FIXED INCOME | 515,333,434 | 39.2% | 37.1% | |
| INTERNATIONAL INVESTMENTS | | | | |
| LSV ASSET MGMT | 110,952,389 | 8.4% | 9.5% | 8.0% - 11.0% |
| PYRAMIS | 114,332,850 | 8.7% | 9.5% | 8.0% - 11.0% |
| TOTAL INTERNATIONAL EQUITIES | 225,285,240 | 17.1% | 19.0% | |
| SPECIAL SITUATIONS | | | | |
| INVESCO (Global REITs) | 17,214,245 | 1.3% | 1.5% | 0.0% - 3.0% |
| RAFI (Global Long/Short Equity) | 16,634,080 | 1.3% | 1.5% | 0.0% - 3.0% |
| TOTAL SPECIAL SITUATIONS | 33,848,325 | 2.6% | 3.0% | 0.0% - 3.0% |
| SECURITIES LENDING | (2,607,640) | -0.2% | 0.0% | 0.0% - 0.0% |
| TOTAL STANCERA PORTFOLIO | 1,313,949,866 | 100.0% | 100.0% | |

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOV 30, 2011
PRELIMINARY

| | TOTAL FUND | | | |
|-------------------------------------|-------------------|--------------------|--------------------|----------------------|
| | CASH | BONDS | EQUITIES | TOTAL |
| DOMESTIC EQUITIES | | | | |
| DODGE & COX - LARGE CAP VALUE | 4,192,511 | | 157,040,281 | 161,232,792 |
| BLACKROCK - R1000 VALUE INDEX | 6,225 | | 39,598,566 | 39,604,791 |
| DELAWARE - LARGE CAP GROWTH | 1,851,495 | | 100,589,400 | 102,440,895 |
| BLACKROCK - R1000 GROWTH INDEX | 0 | | 69,025,945 | 69,025,945 |
| CAPITAL PROSPECTS - SMALL CAP VALUE | 2,072,903 | | 55,472,282 | 57,545,184 |
| LEGATO CAPITAL - SMALL CAP GROWTH | 1,171,496 | | 51,929,392 | 53,100,888 |
| BNY - S&P 500 INDEX | 208 | | 59,139,804 | 59,140,013 |
| TOTAL DOMESTIC EQUITIES | 9,294,838 | | 532,795,670 | 542,090,508 |
| FIXED INCOME | | | | |
| DODGE & COX | 15,287,487 | 415,314,208 | | 430,601,696 |
| PIMCO | 10,208,894 | 74,522,845 | | 84,731,738 |
| TOTAL FIXED INCOME | 25,496,381 | 489,837,053 | | 515,333,434 |
| INTERNATIONAL INVESTMENTS | | | | |
| LSV ASSET MGMT. | 2,488,066 | | 108,464,324 | 110,952,389 |
| PYRAMIS | 1,140,802 | | 113,192,048 | 114,332,850 |
| TOTAL INTERNATIONAL EQUITIES | 3,628,868 | | 221,656,371 | 225,285,240 |
| SPECIAL SITUATIONS | | | | |
| INVESCO (Global REITs) | 0 | | 17,214,245 | 17,214,245 |
| RAFI (Global Long/Short Equity) | 0 | | 16,634,080 | 16,634,080 |
| TOTAL SPECIAL SITUATIONS | 0 | | 33,848,325 | 33,848,325 |
| SECURITIES LENDING | | | | |
| | (2,607,640) | | | (2,607,640) |
| TOTAL STANCERA PORTFOLIO | 35,812,447 | 489,837,053 | 788,300,366 | 1,313,949,866 |

2.7% 37.3% 60.0% 100.0%

4

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING NOV 30, 2011

PRELIMINARY BASIS

CURRENT PERFORMANCE

| | MARKET VALUE | NOV | ALPHA | OCT | ALPHA | FISCAL YTD | ALPHA |
|--|---------------|--------|--------|--------|--------|------------|---------|
| DOMESTIC EQUITIES | | | | | | | |
| DODGE & COX - LARGE CAP VALUE | 157,040,281 | -0.98% | -0.46% | 11.40% | -0.05% | -10.49% | -3.40% |
| RUSSELL 1000 VALUE | | -0.52% | | 11.45% | | -7.09% | |
| BLACKROCK - R1000 VALUE INDEX* | 39,598,566 | -0.51% | 0.01% | 11.44% | -0.01% | -7.05% | 0.04% |
| RUSSELL 1000 VALUE | | -0.52% | | 11.45% | | -7.09% | |
| DELAWARE - LARGE CAP GROWTH | 100,589,400 | 0.55% | 0.56% | 10.06% | -0.91% | -0.58% | 3.04% |
| RUSSELL 1000 GROWTH | | -0.01% | | 10.97% | | -3.62% | |
| BLACKROCK - R1000 GROWTH INDEX** | 69,025,945 | 0.00% | 0.01% | 10.97% | 0.00% | -3.57% | 0.05% |
| RUSSELL 1000 GROWTH | | -0.01% | | 10.97% | | -3.62% | |
| CAPITAL PROSPECTS | 55,472,282 | -0.75% | -0.55% | 14.72% | 0.31% | -9.66% | 0.67% |
| RUSSELL 2000 VALUE | | -0.20% | | 14.41% | | -10.33% | |
| LEGATO CAPITAL | 51,929,392 | -0.13% | 0.40% | 13.18% | -2.68% | -10.93% | -0.53% |
| RUSSELL 2000 GROWTH | | -0.53% | | 15.86% | | -10.40% | |
| BNY - S&P 500 INDEX | 59,139,804 | -0.22% | 0.00% | 10.93% | 0.00% | -4.65% | 0.00% |
| S&P 500 | | -0.22% | | 10.93% | | -4.65% | |
| TOTAL DOMESTIC EQUITY | 532,795,670 | -0.35% | -0.08% | 11.56% | 0.05% | -6.99% | -1.21% |
| Russell 3000 Index | | -0.27% | | 11.51% | | -5.78% | |
| FIXED INCOME | | | | | | | |
| DODGE & COX | 430,601,696 | -1.11% | -1.02% | 1.10% | 0.99% | 0.59% | -3.25% |
| BARCLAYS US AGGREGATE BOND | | -0.09% | | 0.11% | | 3.84% | |
| PIMCO*** | 84,731,738 | 0.10% | 0.19% | 0.05% | -0.06% | 4.31% | 0.47% |
| BARCLAYS US AGGREGATE BOND | | -0.09% | | 0.11% | | 3.84% | |
| TOTAL FIXED INCOME | 515,333,434 | -0.91% | -0.82% | 0.94% | 0.83% | 1.20% | -2.64% |
| BARCLAYS US AGGREGATE BOND | | -0.09% | | 0.11% | | 3.84% | |
| INTERNATIONAL INVESTMENTS | | | | | | | |
| LSV ASSET MGMT | 108,464,324 | -4.49% | 0.59% | 9.80% | -0.74% | -16.47% | -0.65% |
| MSCI ACWI Free ex-US | | -5.08% | | 10.54% | | -15.82% | |
| PYRAMIS | 113,192,048 | -3.81% | 1.27% | 10.39% | -0.15% | -15.34% | 0.48% |
| MSCI ACWI Free ex-US | | -5.08% | | 10.54% | | -15.82% | |
| TOTAL INTERNATIONAL EQUITY | 221,656,371 | -4.15% | 0.94% | 10.10% | -0.44% | -15.89% | -0.07% |
| MSCI ACWI Free ex-US | | -5.08% | | 10.54% | | -15.82% | |
| SPECIAL SITUATIONS | | | | | | | |
| INVESCO | 17,214,245 | -3.57% | 2.00% | 12.77% | 0.14% | -11.05% | 1.04% |
| FTSE EPRA/NAREIT Global REIT | | -5.57% | | 12.63% | | -12.09% | |
| RAFI - LS**** | 16,634,080 | -6.08% | -6.09% | -2.75% | -2.75% | -16.83% | -21.69% |
| US 1- month LIBOR | | 0.01% | | 0.00% | | 0.03% | |
| SECURITIES LENDING | | | | | | | |
| BNY MELLON | (2,607,640) | | | | | | |
| CASH and SHORT-TERM INVESTMENTS | | | | | | | |
| CASH | 12,923,706 | 0.01% | 0.01% | 0.01% | 0.02% | 0.05% | 0.05% |
| 90 DAY TREASURY BILL | | 0.00% | | -0.01% | | 0.00% | |
| TOTAL StanCERA Fund | 1,313,949,866 | -1.61% | -0.41% | 6.80% | -0.35% | -6.16% | -2.29% |
| Policy Index | | -1.20% | | 7.15% | | -3.87% | |
| Actuary Rate of Assumption (8.00%) | | 0.66% | -2.27% | 0.66% | 6.14% | 3.36% | -9.52% |
| Actuary Rate of Inflation (3.50%) | | 0.29% | -1.90% | 0.29% | 6.51% | 1.45% | -7.61% |

* BLACKROCK R1000 Value Index funded close of 7/31/09.

**BLACKROCK R1000 Growth Index Funded 6/30/10.

***PIMCO funded 5/1/10.

****RAFI L/S funded 7/1/11.

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Fiscal YTD Attribution

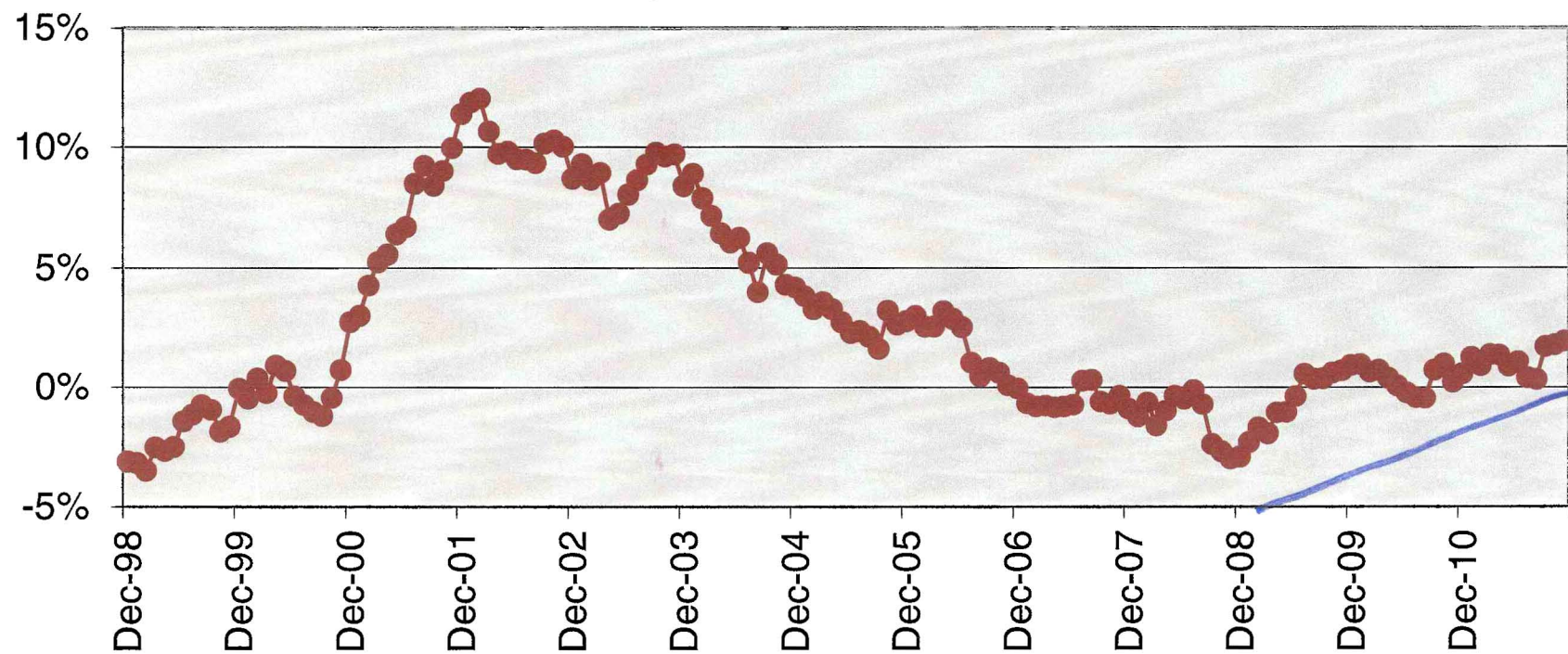
D+C Equity - 45 bps

D+C F.I - 108 bps

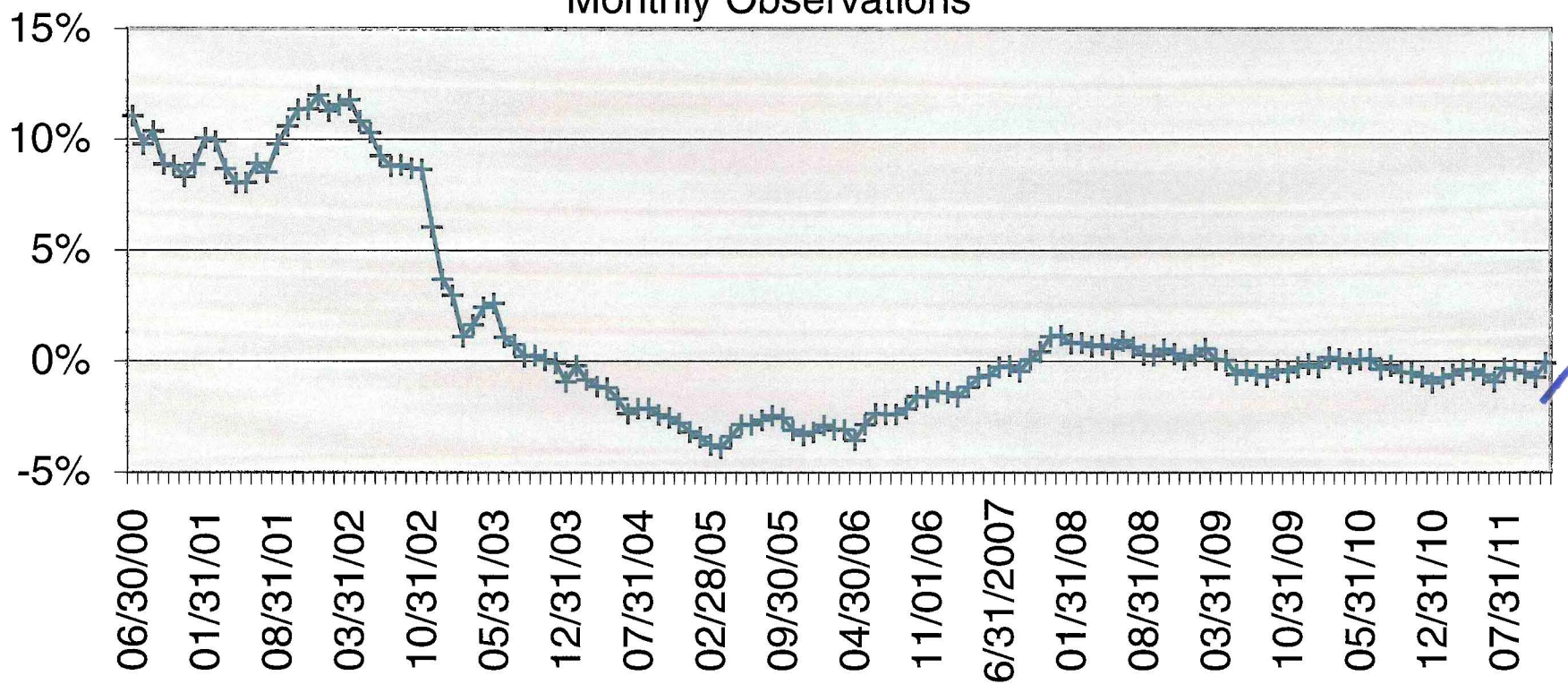
RAFI L/S - 30 bps

(S)

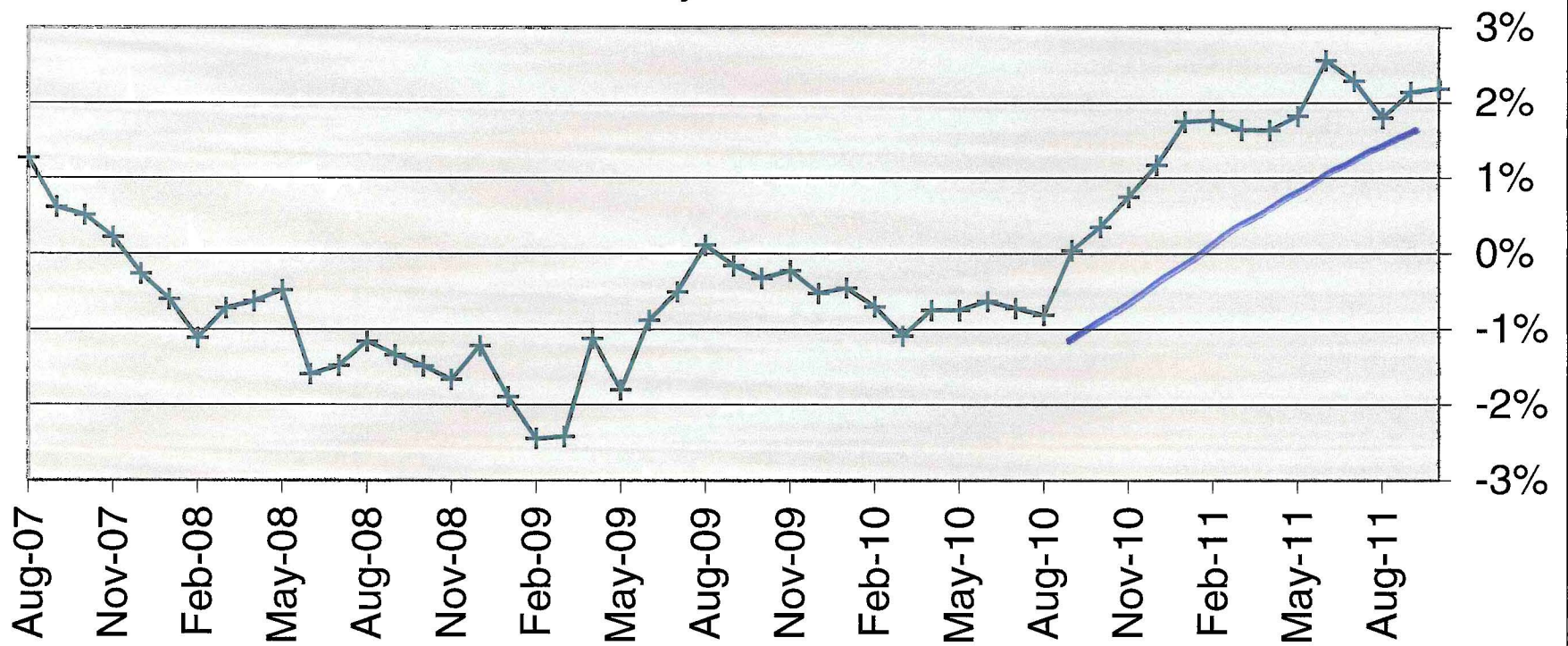
Dodge & Cox Equity
Rolling 3-Years Annualized Alpha
Monthly Observations



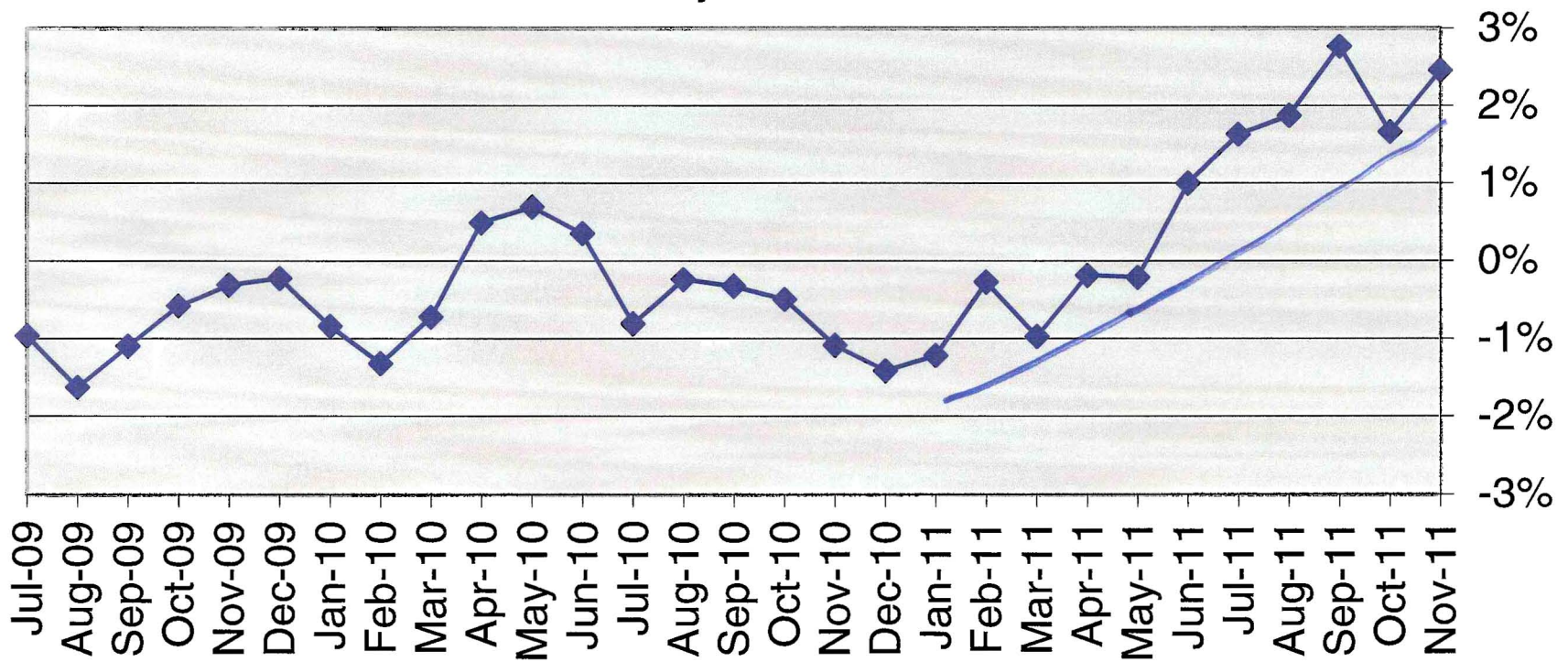
Pyramis (May 2006)
Rolling 3-Years Annualized Alpha
Monthly Observations



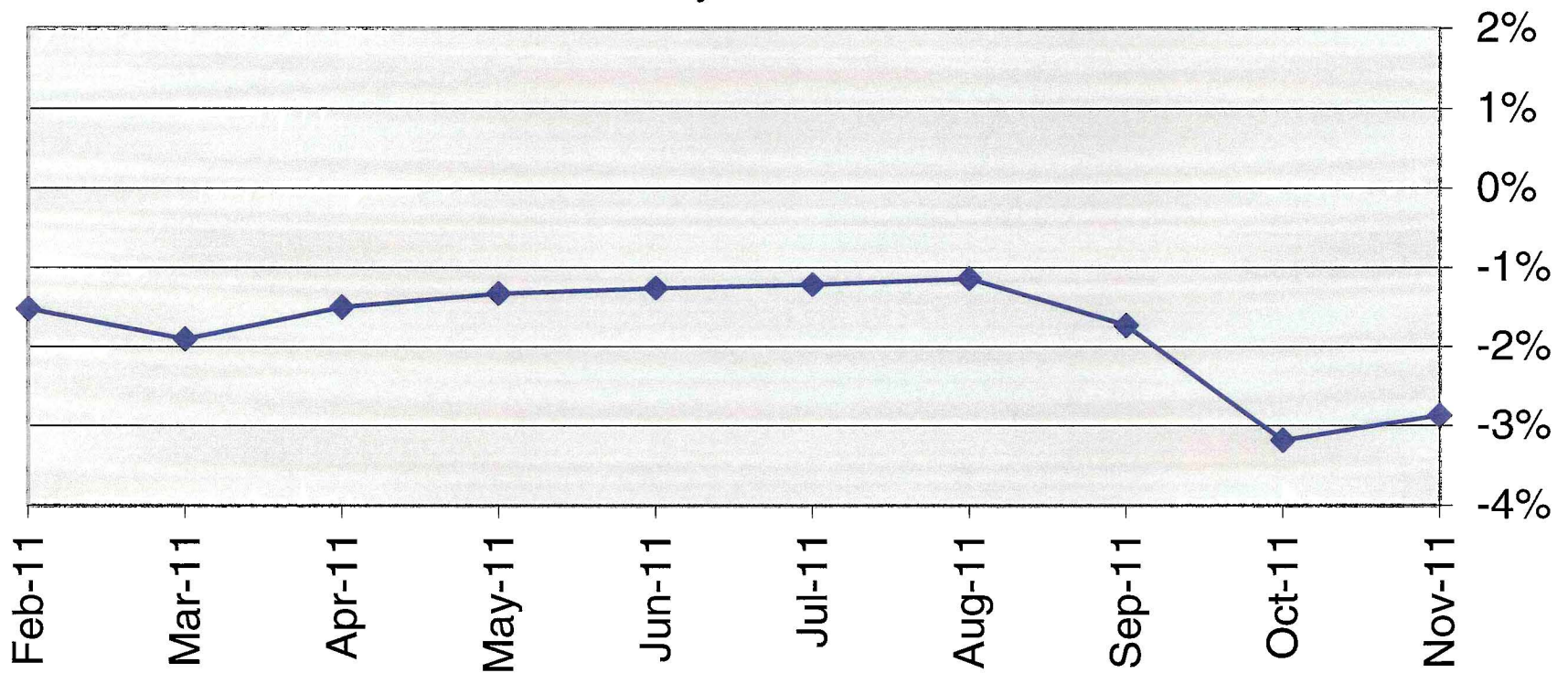
LSV
Rolling 3-Years Annualized Alpha
Monthly Observations



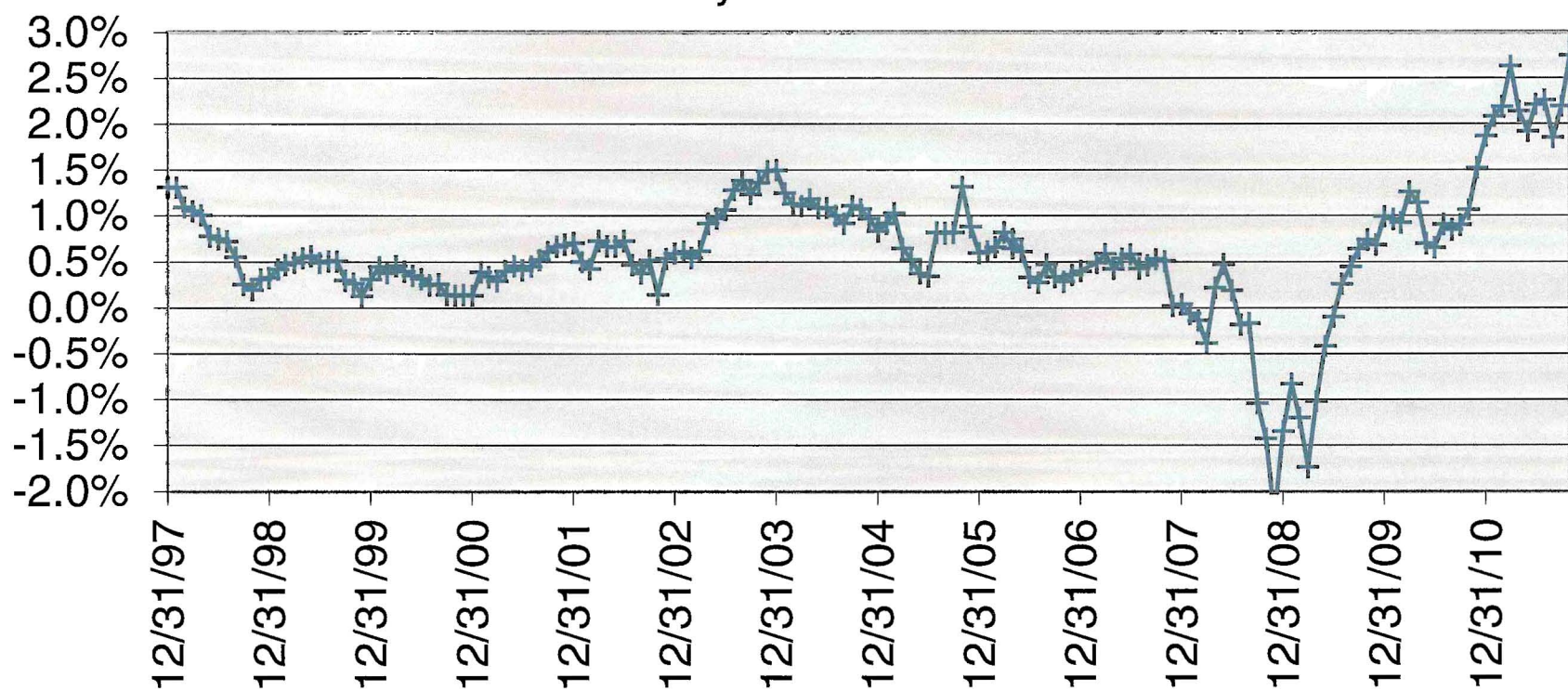
Delaware
Rolling 3-Years Annualized Alpha
Monthly Observations



INVESCO
Rolling 3-Years Annualized Alpha
Monthly Observations



Dodge & Cox Fixed Income
Rolling 3-Year Alphas Annualized
Monthly Observations



2012 BOARD OF RETIREMENT COMMITTEES

Approved January 24, 2012

STANDING COMMITTEES

INTERNAL GOVERNANCE COMMITTEE:

Maria De Anda, Chair

Ron Martin

Donna Riley

(Staff: Rick Santos/Kathy Herman as needed)

Areas of Responsibility: Audits, Bylaws Revisions,
Policy Revisions, Board Member Education

DUE DILIGENCE COMMITTEE: (Est. May 1997)

(Pursuant to Bylaw 1.7a the Board's Vice Chair is the Committee Chair on a rotating basis)

Darin Gharat, Chair

Jim DeMartini

Ron Martin

Jeff Grover

(Staff: Rick Santos/Kathy Herman as needed)

Paul Harte, SIS, Inc., Consultant

STRATEGIC PLANNING OBJECTIVES COMMITTEE

Maria De Anda, Chair

Michael O'Neal (Joan Clendenin, Alternate)

Donna Riley

(Staff: Rick Santos/Kathy Herman as needed)

Areas of Responsibility: May include Current Strategic Planning Objectives (Review of AAROR, Defined Benefit Plans and Alternatives; Improving Communications with BOS, CEO, Plan Sponsor Decision Makers and the Public), and Future Objectives



Invesco Equity Global
Real Estate Securities Trust

4Q11 Preliminary Fund Review

January 24, 2012



North America: Dallas • San Francisco • Newport Beach • New York • Atlanta
Europe: London • Paris • Munich • Prague • Madrid
Asia: Hong Kong • Shanghai • Tokyo

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1. Invesco Overview
2. Performance & Portfolio Overview
3. Outlook
4. Current Valuations
5. Current Market Commentary

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Section 1

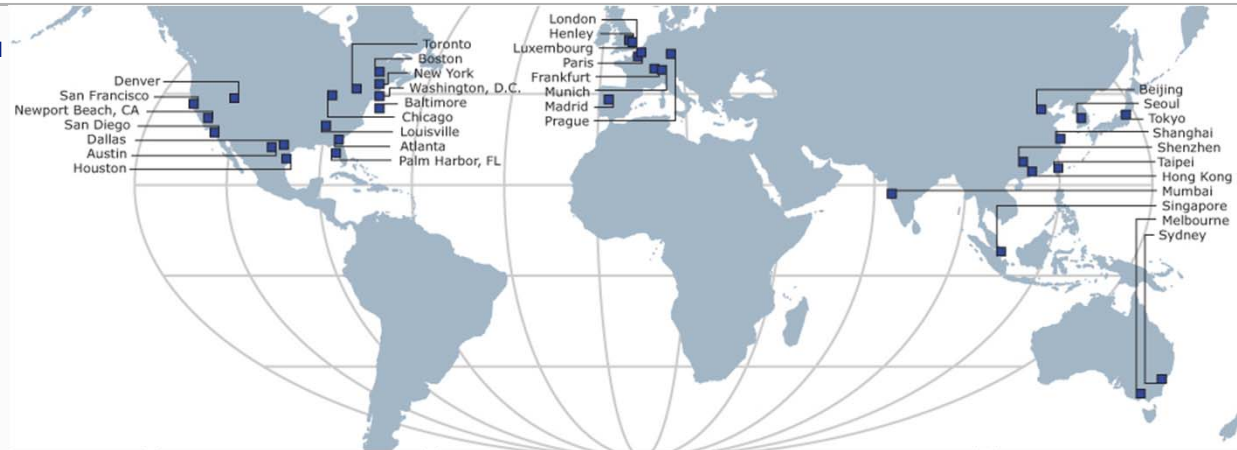
Invesco Overview



Explore Intentional Investing with InvescoSM

Intentional InvestingSM is the science and art of investing with purpose, prudence and diligence. It's the philosophy that forms the foundation of our "investors first" approach, exemplified by our commitment to investment excellence, depth of investment capabilities and organizational strength. As an independent firm, our global organization is solely focused on investment management:

- More than 600 investment professionals
- Global assets under management of \$598.4 billion
- Investment expertise in 11 countries
- More than 6,000 employees worldwide



| | | | | | |
|--|--|---|--|--|--|
| Invesco Asia-Pacific Investment Focus: <ul style="list-style-type: none"> • Asia ex-Japan • Greater China • Japan • Australia Locations: Beijing, Hong Kong, Melbourne, Shenzhen, Sydney, Taipei, Tokyo | Invesco Fundamental Equities Investment Focus: <ul style="list-style-type: none"> • U.S. growth equity • U.S. core equity • U.S. value equity • International and global growth equity • Sector equity • Balanced portfolios Locations: Austin, Houston, San Francisco | Invesco Perpetual Investment Focus: <ul style="list-style-type: none"> • Global and regional equities, including U.K., European, Asian, Japanese and emerging markets • Fixed income Location: Henley, U.K. | Invesco Private Capital Investment Focus: <ul style="list-style-type: none"> • Private equity funds of funds • Customized portfolios Locations: London, New York, San Francisco | Invesco Trimark Investment Focus: <ul style="list-style-type: none"> • Canadian, regional, sector and global equity • Canadian and global fixed income • Balanced portfolios Location: Toronto | Atlantic Trust Investment Focus: <ul style="list-style-type: none"> • High-net-worth wealth management • U.S. equities; master limited partnerships (MLPs) • Multi-manager investment program Locations: Atlanta, Austin, Baltimore, Boston, Chicago, Denver, Houston, New York, Newport Beach, San Francisco, Washington, D.C. |
| Invesco Fixed Income Investment Focus: <ul style="list-style-type: none"> • Global money markets and cash management • Stable value • Global and U.S. broad fixed income • Global alternatives and bank loans Locations: Chicago, Hong Kong, Houston, London, Louisville, Melbourne, New York, Palm Harbor, San Diego, Tokyo | Invesco Global Strategies Investment Focus: <ul style="list-style-type: none"> • Global equity (global, non-U.S., and emerging market equities) • Canadian equities • Global quantitative equity (quantitative active, enhanced and long/short strategies) • Global asset allocation (global macro, risk parity, commodities and active balanced solutions) Locations: Atlanta, Boston, Frankfurt, Melbourne, New York, Tokyo, Toronto | Invesco PowerShares Investment Focus: <ul style="list-style-type: none"> • Index-based ETFs and ETNs and actively managed ETFs • Domestic and international equity • Taxable and tax-free fixed income • Commodities and currencies Location: Chicago | Invesco Real Estate Investment Focus: <ul style="list-style-type: none"> • Global direct real estate investing • Global public real estate investing Locations: Atlanta, Dallas, Hong Kong, London, Luxembourg, Madrid, Munich, New York, Newport Beach, Paris, Prague, San Francisco, Seoul, Shanghai, Singapore, Tokyo | Invesco Unit Investment Trusts Investment Focus: <ul style="list-style-type: none"> • Equity trusts • Closed-end trusts • Tax-free fixed-income trusts • Taxable fixed income trusts Location: Chicago | WL Ross & Co. Investment Focus: <ul style="list-style-type: none"> • Distressed and restructuring private equities • Energy private equities Locations: Beijing, Mumbai, New York, Tokyo |

Source: Invesco. Client-related data, investment professional and employee data are as of Sept. 30, 2011. Invesco Ltd. assets under management are as of Sept. 30, 2011, and include all assets under advisement, distributed and overseen by Invesco, including those of its affiliates Invesco Distributors, Inc. and Invesco PowerShares Capital Management LLC, which have an agreement with Deutsche Bank to provide certain marketing services for the PowerShares DB products. Invesco PowerShares Capital Management LLC is the sponsor for the PowerShares QQQ and BLDRS products and unit investment trusts. ALPS Distributors, Inc. is the distributor of PowerShares QQQ, BLDRS Funds and the PowerShares DB Funds. Invesco PowerShares Capital Management LLC and Invesco Distributors, Inc. are wholly owned, indirect subsidiaries of Invesco Ltd. Invesco Distributors, Inc. is the U.S. distributor for Invesco Ltd.'s retail products. Invesco Ltd. is not affiliated with ALPS Distributors, Inc. or Deutsche Bank. The listed centers do not all provide products or services that are available in all jurisdictions, nor are their products and services available on all platforms. The entities listed are each wholly owned, indirect subsidiaries of Invesco Ltd., except ALPS Distributors Inc., Deutsche Bank and Invesco Great Wall in Shenzhen, which is a joint venture between Invesco and Great Wall Securities, and the Huaneng Invesco WLR Investment Consulting Company Ltd. in Beijing, which is a joint venture between Huaneng Capital Services and WL Ross & Co. Please consult your Invesco representative for more information.



Invesco Real Estate

As of September 30, 2011

\$43.7 Billion Under Management

322 Employees Worldwide; 16 Offices

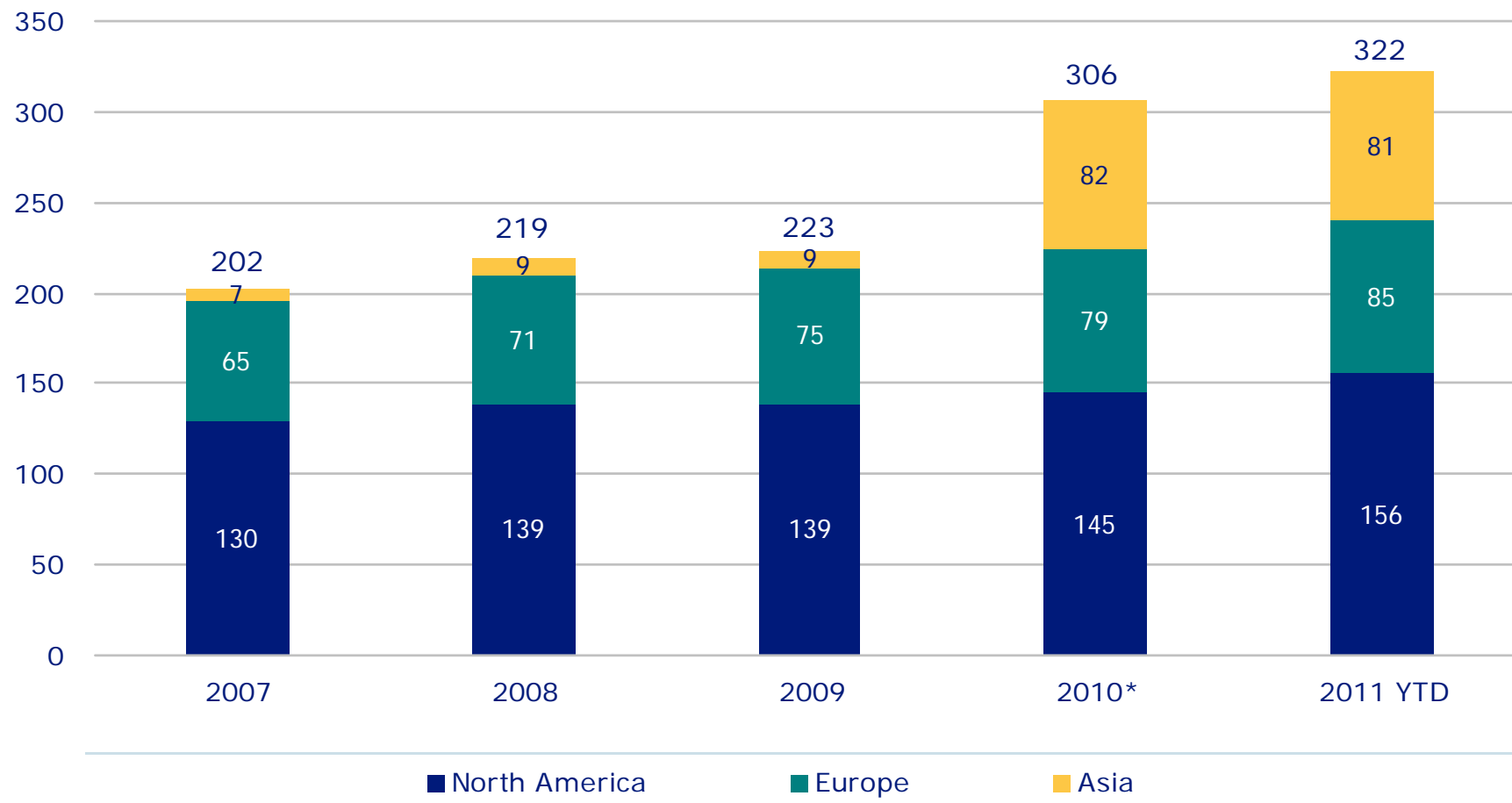


Total employees and assets under management as of September 30, 2011

- **Real Estate Securities Management**
 - \$17.8 BN Under Management
 - Since 1988
- **Direct Real Estate Investments**
 - \$25.9 BN Under Management
 - Since 1983

Invesco Real Estate Employees

Total Employees as of September 30, 2011



* The figures above reflect the addition of 72 employees (as of January 1, 2011) that have joined Invesco Real Estate through the acquisition of the Asia and Japan fund and asset management business of AIG Global Real Estate Investment Corp.

Invesco Real Estate

Global Equity Real Estate Securities Team as of December 31, 2011

Average portfolio manager experience: 19 years
 Average analyst experience: 12 years
 Average investment team experience: 15 years

| Name | Title | Years of Experience | Years With Invesco |
|---|--------------------------|---------------------|--------------------|
| Real Estate Securities Investment Team | | | |
| Joe V. Rodriguez, Jr. | Portfolio Manager | 29 | 22 |
| Mark Blackburn, CPA, CFA | Portfolio Manager | 25 | 14 |
| Ping-Ying Wang, Ph.D., CFA | Portfolio Manager | 15 | 14 |
| Paul Curbo, CFA | Portfolio Manager | 19 | 14 |
| James Cowen | Portfolio Manager | 14 | 12 |
| Darin Turner | Portfolio Manager | 9 | 7 |
| Patrick Beytagh | Senior Analyst | 22 | 13 |
| Chris Faems, CFA | Senior Analyst | 16 | 6 |
| Grant Jackson | Senior Analyst | 10 | 7 |
| Hui (Sabrina) Ren | Senior Analyst | 11 | 1 |
| Krishna Soma, CFA | Senior Analyst | 11 | * |
| Xiaoying (Catherine) Li | Securities Analyst | 10 | 6 |
| Shabab Qadar | Securities Analyst | 14 | 4 |
| Min Zhang, CFA | Securities Analyst | 12 | 5 |
| Shelby Noble | Associate Analyst | 6 | 3 |
| Client Portfolio Managers¹ | | | |
| Laler DeCosta | Client Portfolio Manager | 29 | 9 |
| Rita Ling | Client Portfolio Manager | 22 | 2 |
| Walt Stabell | Client Portfolio Manager | 26 | 6 |
| Max Swango | Client Portfolio Manager | 24 | 24 |

¹ Not involved in managing assets of the fund and are excluded from portfolio manager and investment team experience calculations.

* Started with Invesco November 30, 2011

Not all portfolio managers on the team are named portfolio managers for each real estate fund.

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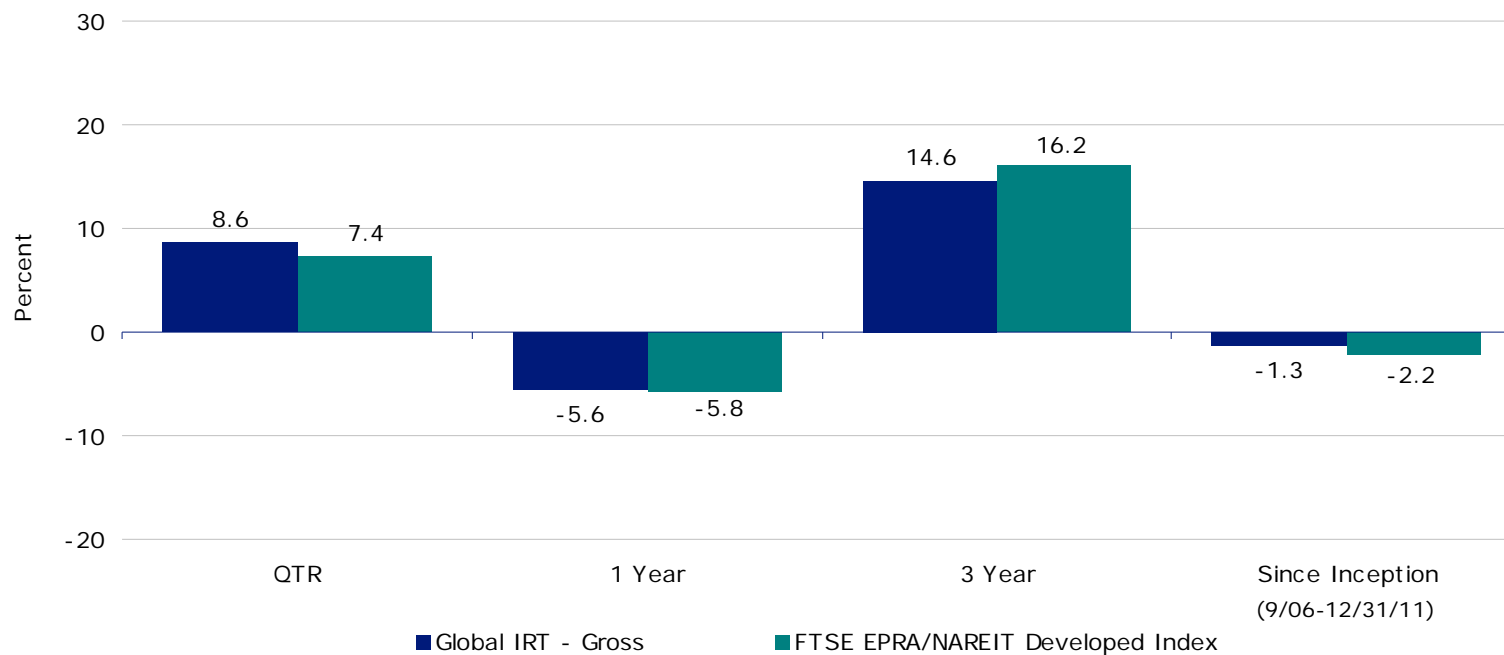
Section 2

Performance & Portfolio Overview



Invesco Equity Global Real Estate Securities Trust

Fund Summary – As of December 31, 2011



Sources: FTSE International Limited ("FTSE")[®] FTSE 2011. FTSE[™] is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE International Limited under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data. Past performance is not a guarantee of future results.

Stanislaus County Employees' Retirement Association

As of December 31, 2011

Client Funded 3/2008

\$20,000,000.00

Market Value as of 12/2011

\$17,167,434.50

Performance

| | QTR | 1 Year | Since Inception (03/08-12/11) |
|---------------------------|--------------|---------------|--|
| Total Fund – Gross | 8.63% | -5.58% | -3.23% |
| Total Fund – Net | 8.45% | -6.28% | -3.93% |

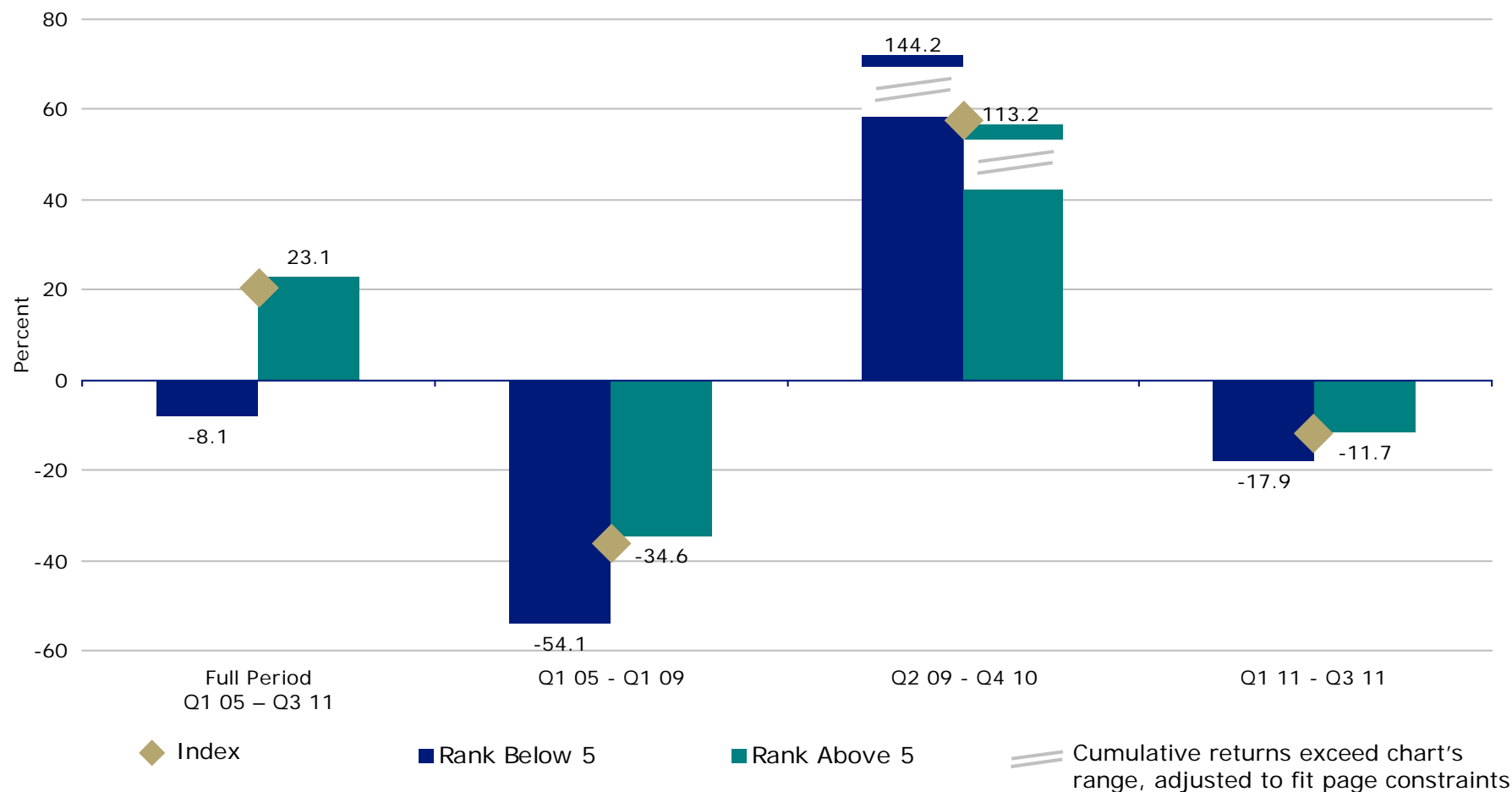
FTSE EPRA/NAREIT Developed Index

7.36%

-5.82%

-3.52%

FTSE EPRA/NAREIT Developed Index Constituent by Fundamental Rank Q1 2005-Q3 2011 - Cumulative Returns

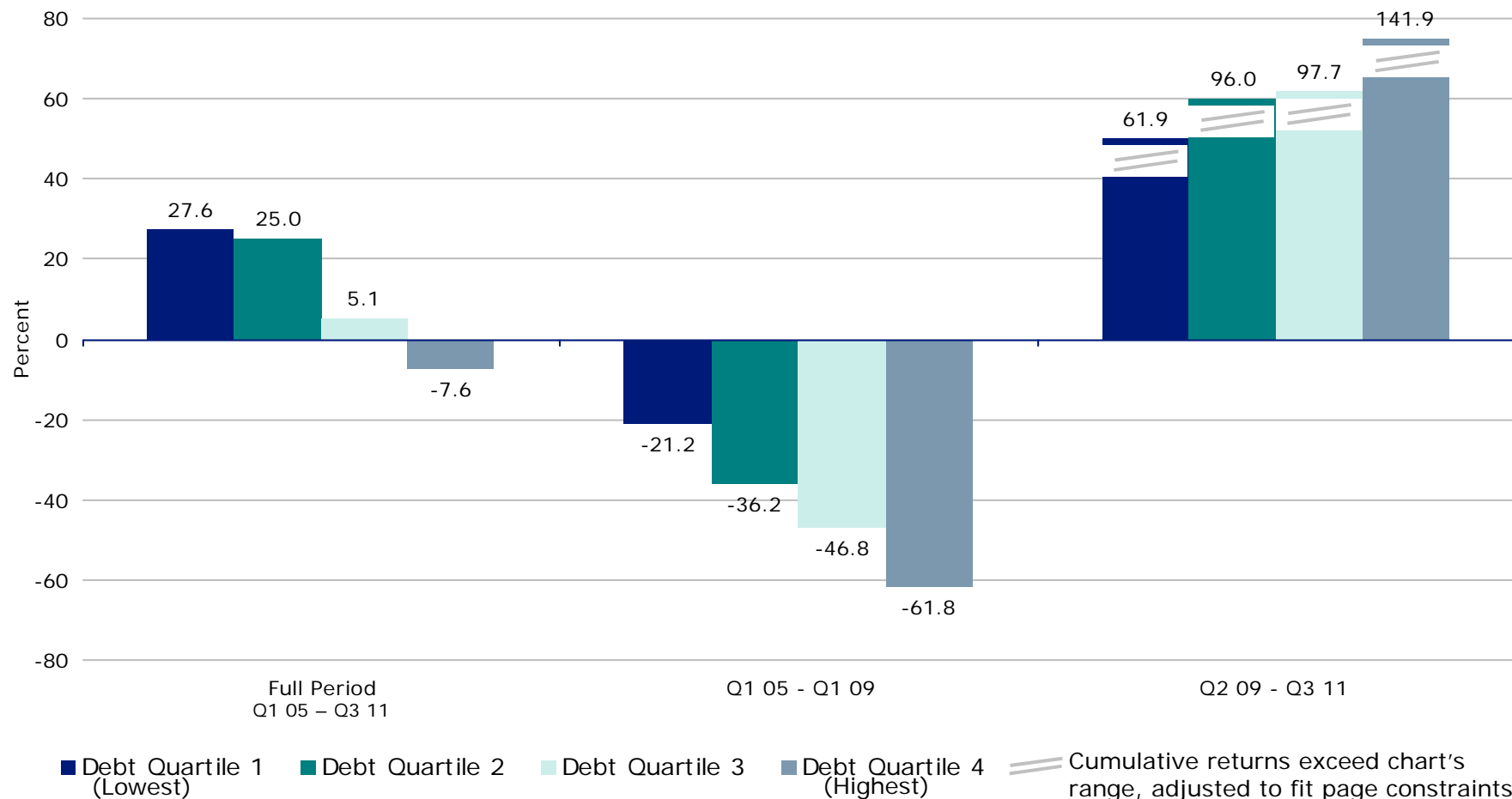


Source: Invesco Real Estate using underlying index data provided by Bloomberg, FTSE EPRA/NAREIT
 Note: Above 5 = PASS in Invesco's fundamental ranking process

Analysis captures the weighted return of individual index constituents divided into two groups, 1) those Invesco has ranked 5 or above and 2) those Invesco has ranked below 5 in its fundamental ranking process. In Invesco's fundamental ranking process, only stocks ranked 5 or above are considered suitable for investment. This analysis is an approximation of the performance of the two subsets of the index, based on the fundamental ranking process and is prepared for illustrative purposes only. The period shown reflects the inception date of IRE global fundamental rankings. This does not represent any account's actual performance. FTSE EPRA/NAREIT has not participated in the preparation of this analysis.



FTSE EPRA/NAREIT Developed Index Constituent by Debt Quartile Q1 2005-Q3 2011 - Cumulative Returns



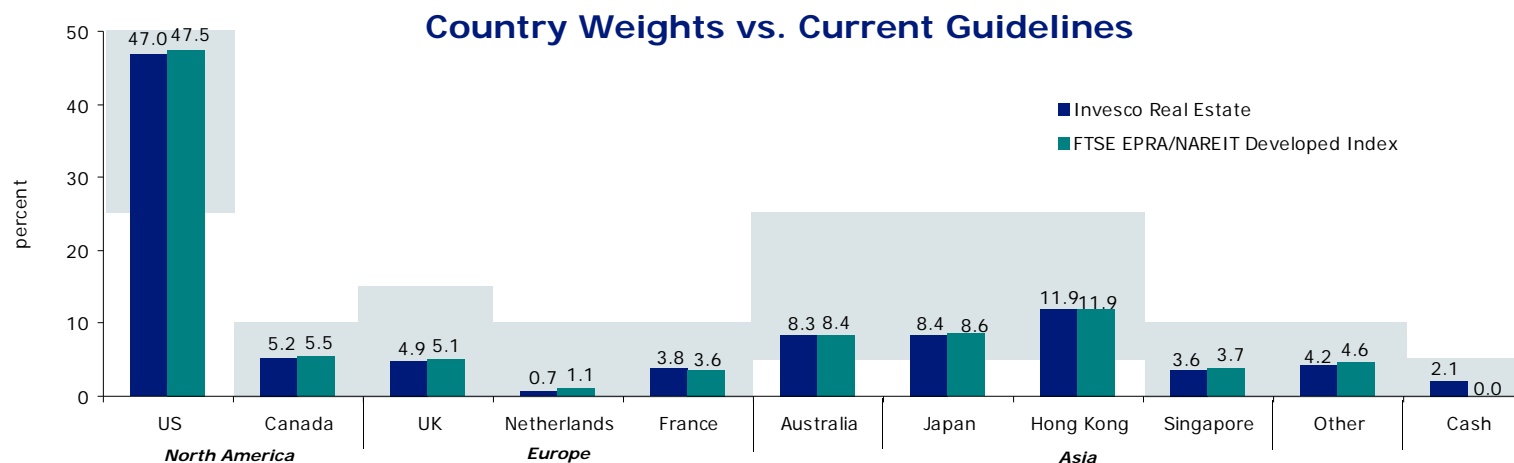
Source: Invesco Real Estate using underlying index data provided by Bloomberg, FTSE EPRA/NAREIT
 Note: Constituent quartiles created based on previous quarter's ending leverage level

Analysis captures the weighted return of individual index constituents divided into four equal numbered groups of companies (quartiles) based on their leverage (debt divided market capitalization) at the end of the previous quarter. Quartile 1 represents the least leveraged companies while Quartile 4 represents the most leveraged companies. This analysis is an approximation of the performance of the four subsets of the index and is prepared for illustrative purposes only. The period shown reflects the inception date of IRE global fundamental rankings. This does not represent any account's actual performance. FTSE EPRA/NAREIT has not participated in the preparation of this analysis.



Invesco Equity Global Real Estate Securities Trust

Fund Characteristics – Quarter Ended December 31, 2011



| | Invesco Real Estate ¹ | FTSE EPRA/NAREIT Developed Index ² |
|--------------------------------|-------------------------------------|--|
| No. of Securities | 126 | 284 |
| Market Correlation (R-Squared) | 0.99 | 1.00 |
| Equity Beta | 1.01 | 1.00 |
| Earnings Multiple | 16.6x | 16.2x |
| Expected Earnings Growth | 9.3% | 8.3% |
| Multiple to Growth Ratio | 1.77x | 1.96x |
| Leverage | 35.5% | 36.7% |
| Dividend Yield | 4.0% | 4.1% |
| Dividend Coverage | 1.50x | 1.52x |
| Dividend Payout | 66.51% | 65.85% |
| Average Market CAP | \$4,944 MM | \$2,693 MM |

¹ Represents Invesco's current global real estate securities sample portfolio as of December 31, 2011.

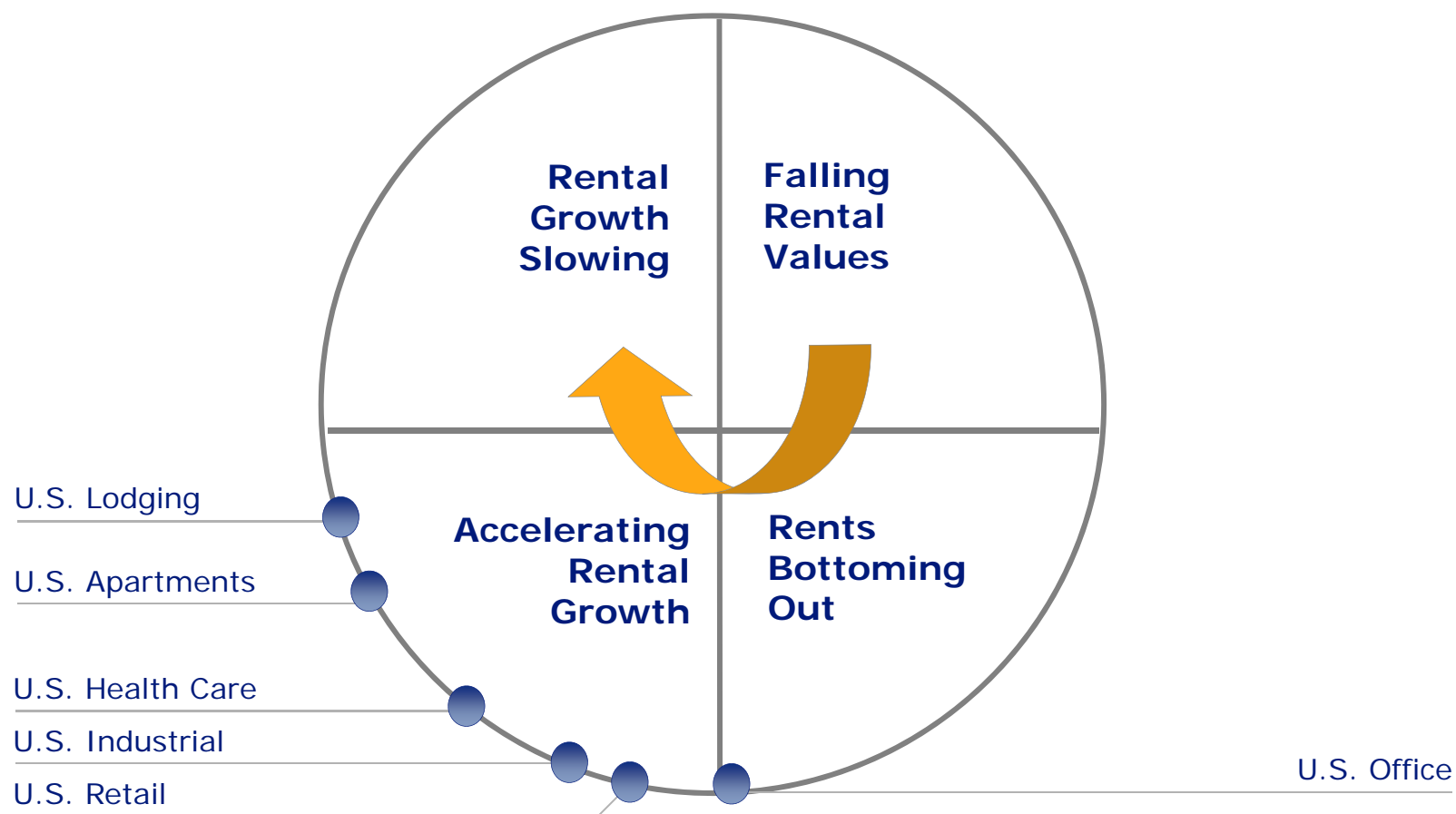
² Sources: FTSE EPRA/NAREIT and IRE as of December 31, 2011. FTSE International Limited ("FTSE")® FTSE 2011. FTSE™ is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE International Limited under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data. Past performance is not a guarantee of future results. The FTSE EPRA/NAREIT Developed Index is an unmanaged index considered representative of global real estate companies and REITs. An investment cannot be made directly in an index.

Section 3

Outlook

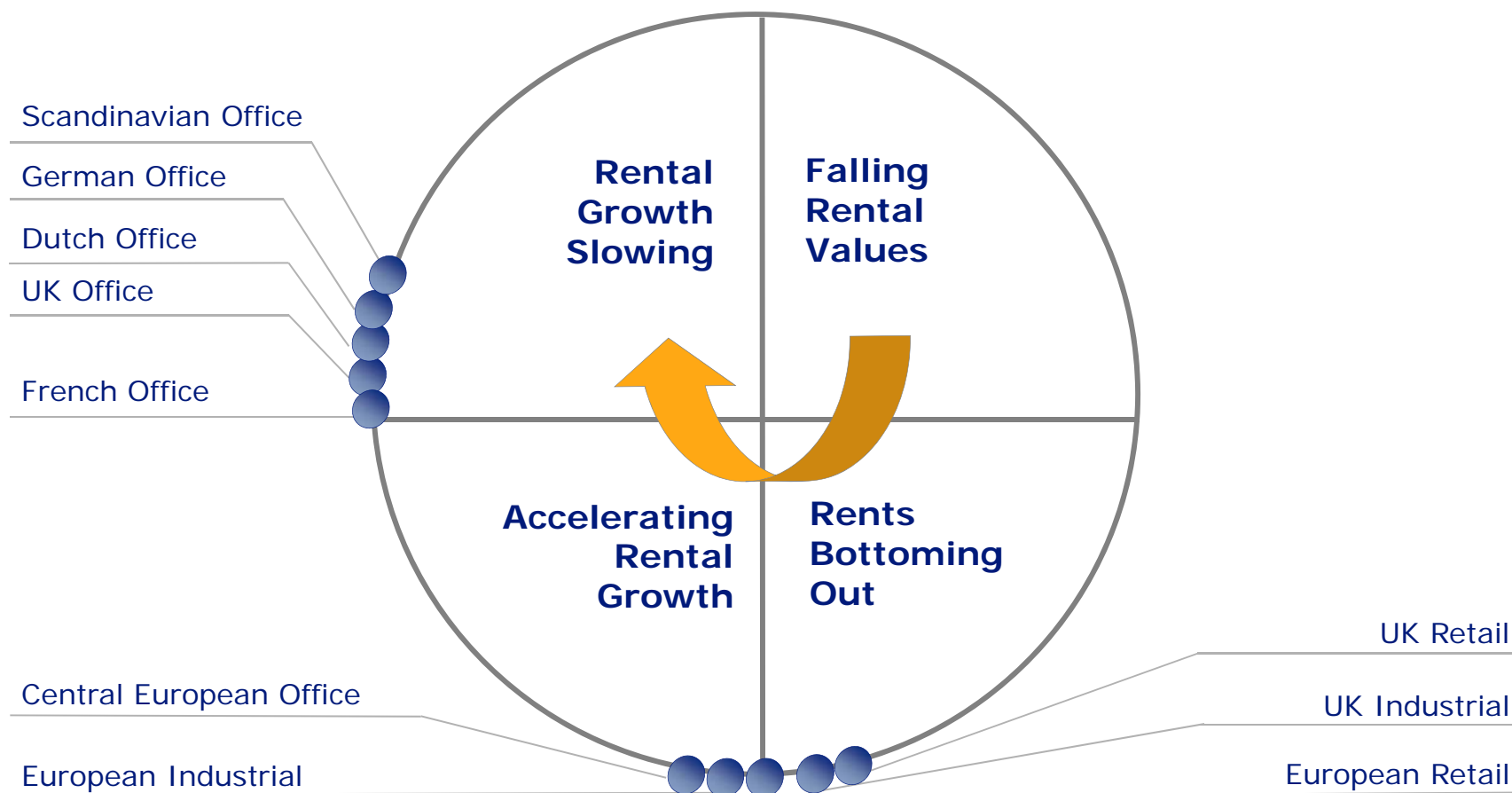


Fundamentals in Key Markets — U.S.



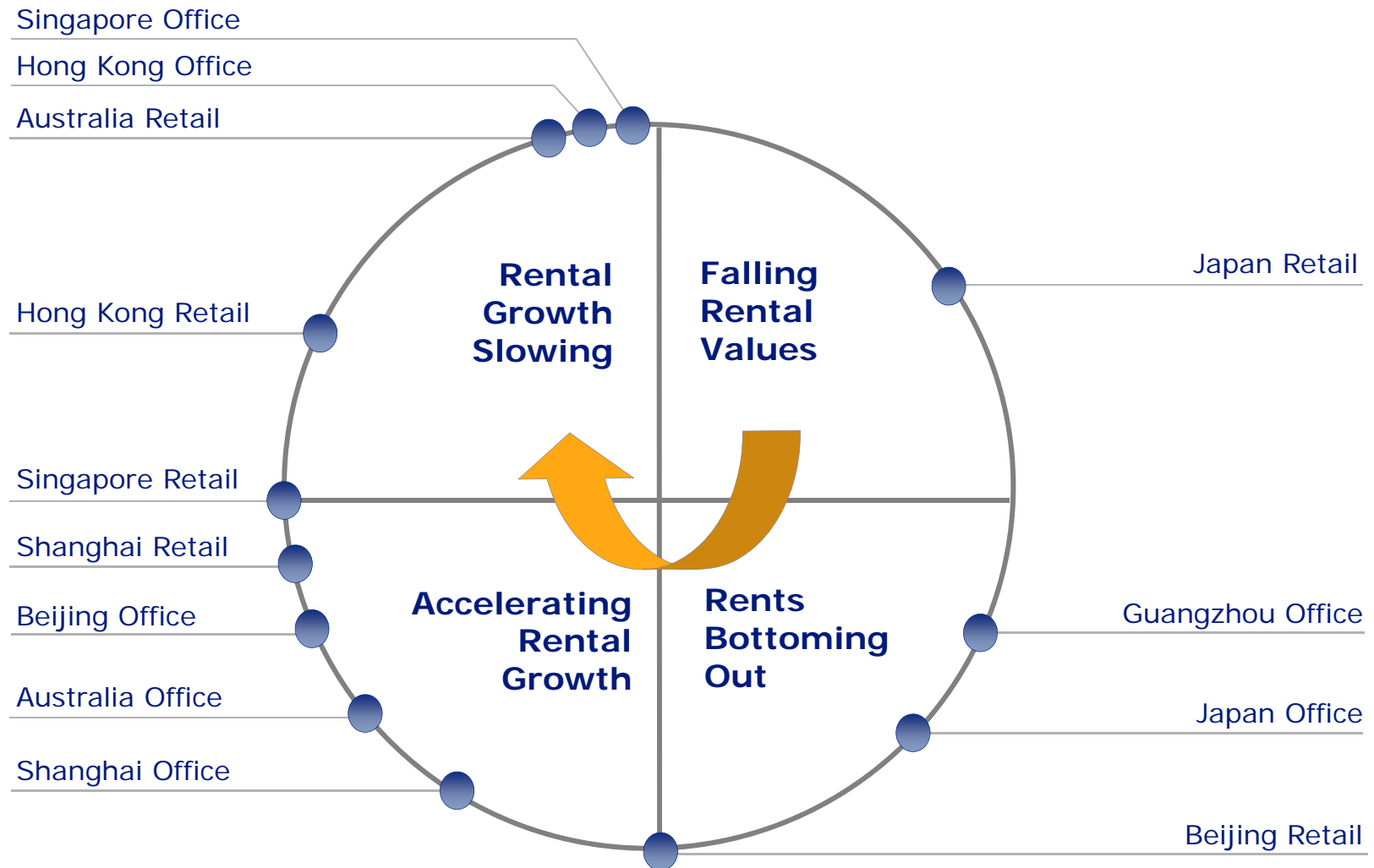
Source: Invesco Real Estate (September 30, 2011) based on internal research. For illustrative purposes only.

Fundamentals in Key Markets — Europe



Source: Invesco Real Estate (September 30, 2011) based on internal research. For illustrative purposes only.

Fundamentals in Key Markets — Asia



Source: Invesco Real Estate (September 30, 2011) based on internal research. For illustrative purposes only.

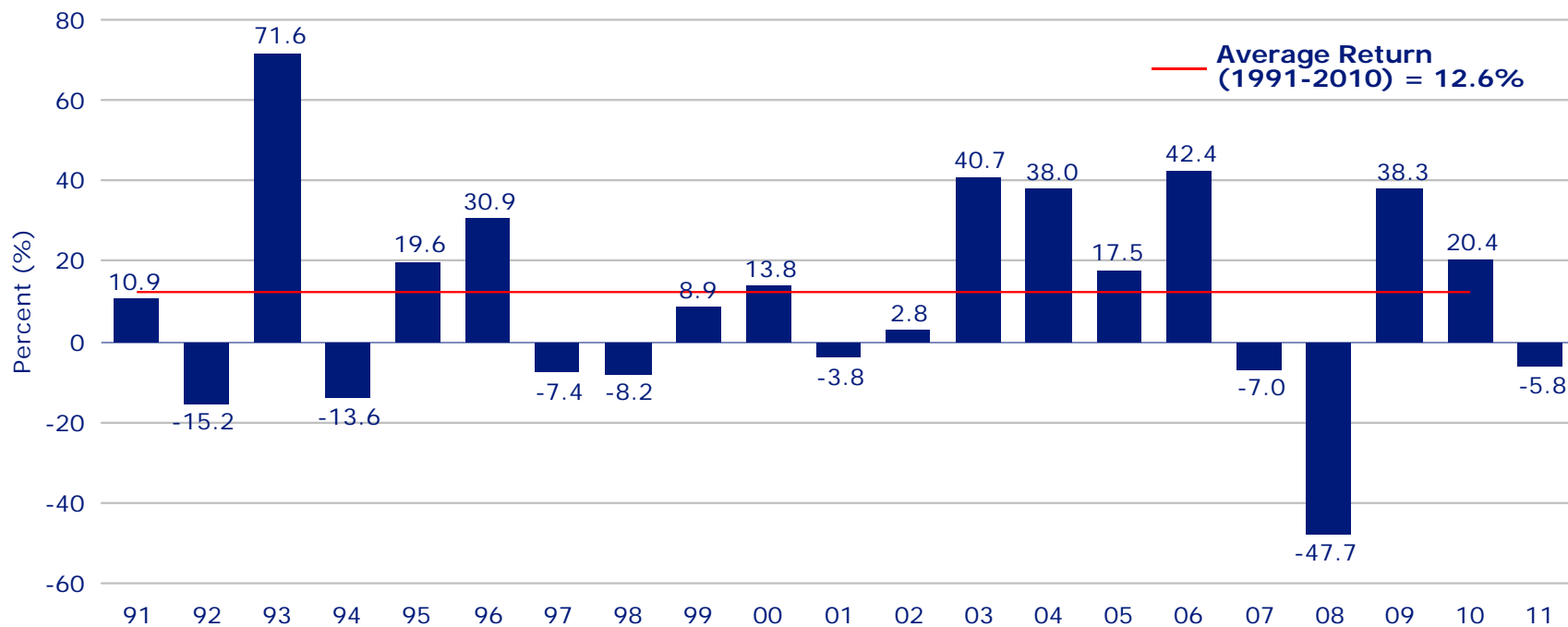
Section 4

Current Valuations



Annual FTSE EPRA/NAREIT Developed Index Returns

1997- YTD as of December 31, 2011

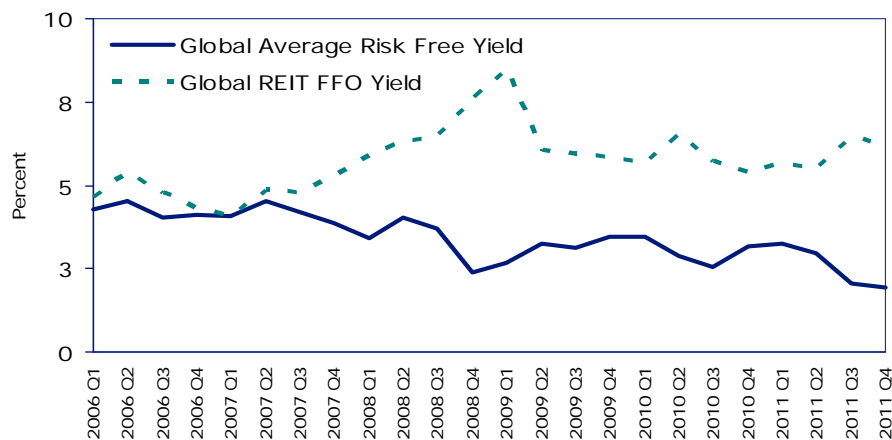


Source: FTSE EPRA/NAREIT as of December 31, 2011

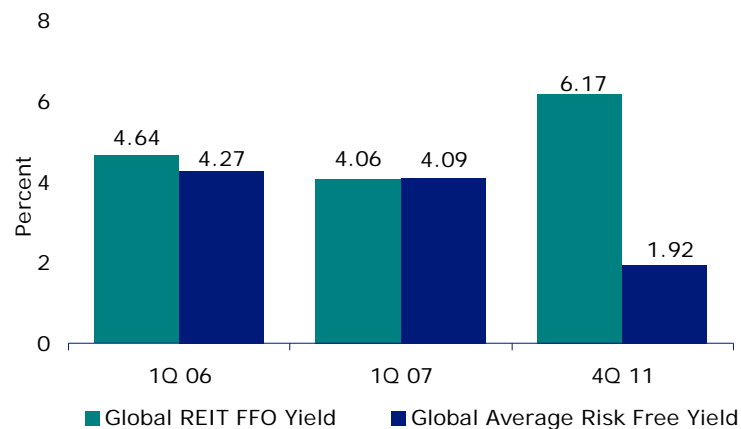
Global REIT Relative Valuations

As of December 31, 2011

Global REIT FFO Yield vs. Global Average Risk Free Yield



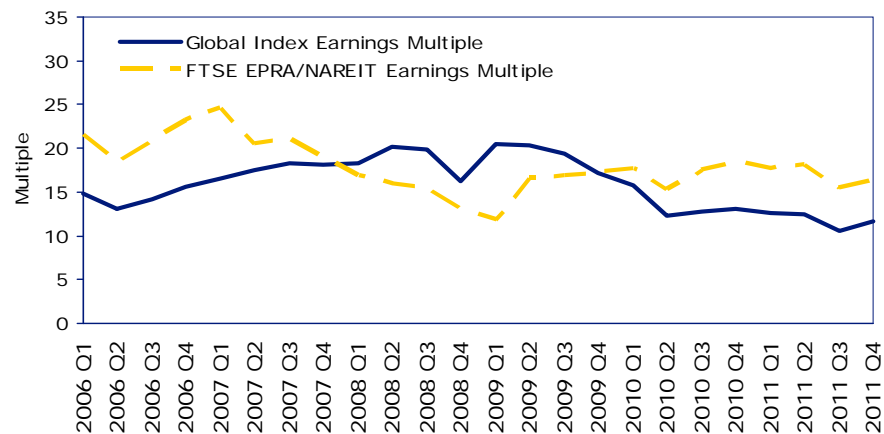
Sources: Invesco Real Estate, SNL Datasource, First Call Consensus Estimates, and Bloomberg L.P. Data represents 1Q 06 to 4Q 11.



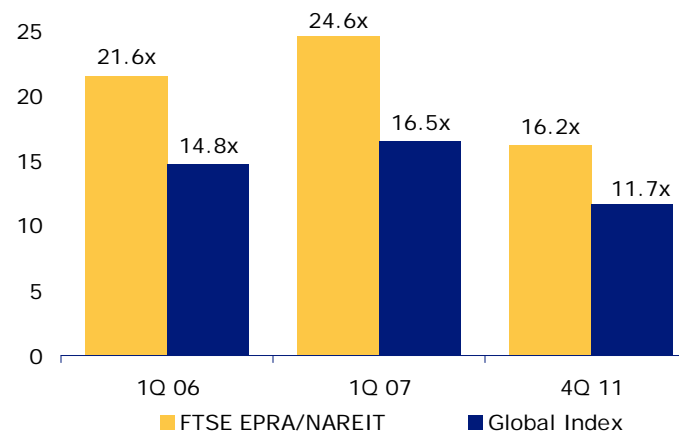
Global REIT Relative Valuations

As of December 31, 2011

Global Index Earnings Multiple vs. FTSE EPRA/NAREIT Earnings Multiple

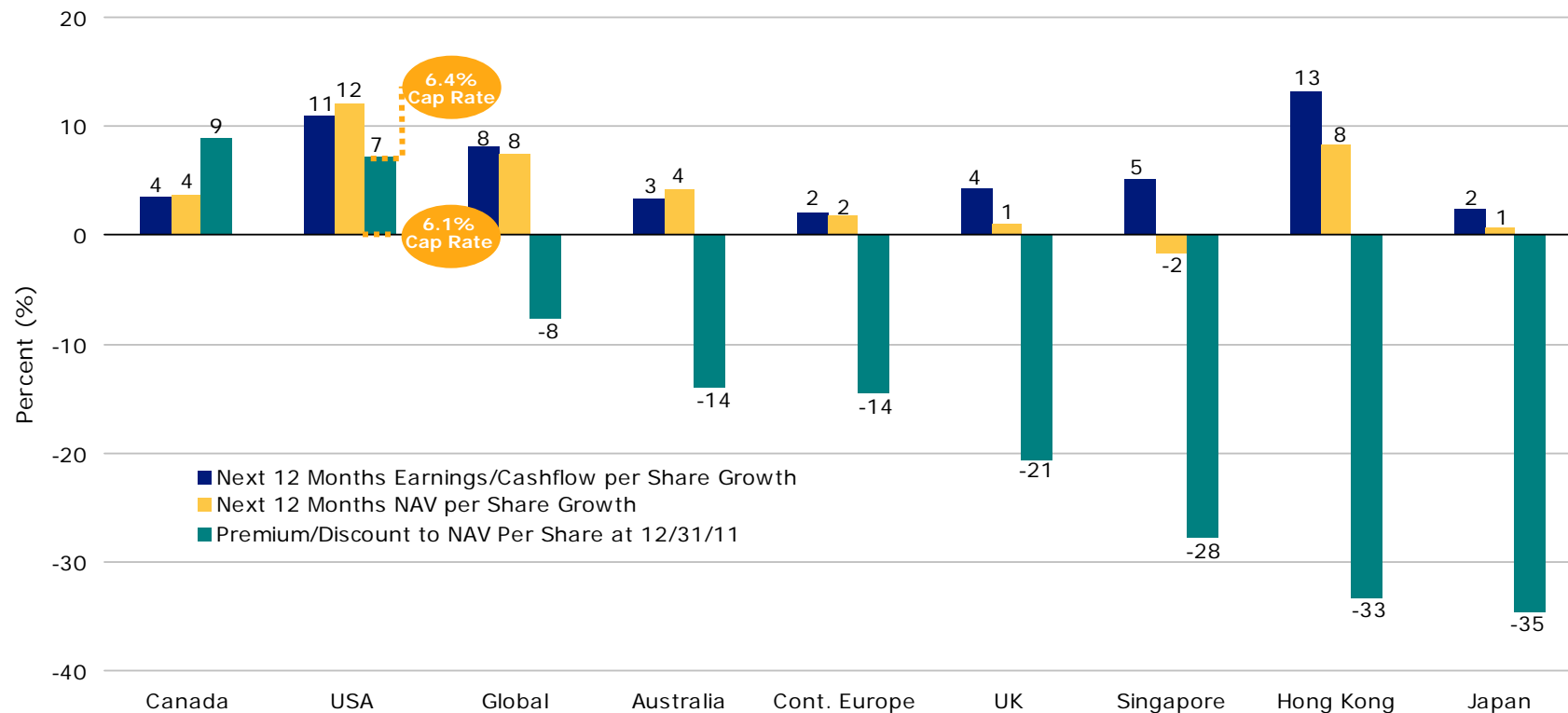


Sources: Invesco Real Estate, SNL Datasource, First Call Consensus Estimates, and Bloomberg L.P. Data represents 1Q 06 to 4Q 11.



Global Real Estate Securities Valuation Metrics

As of December 31, 2011



Source: Invesco Real Estate estimates based on consensus data as of 12/31/11.

Note: The USA NAV premium is based on third party provided 6.4% nominal cap rate.

- If the cap rate is 6.1%, the current USA valuation would be a 0% premium.
- If the cap rate is 6.1%, the current Global valuation would be a 11% discount.

Section 5

Market Commentary



Market Commentary

Quarter Ended December 31, 2011

Global Market Commentary:

Issues of deleveraging, government spending and economic growth policy continued to dominate world headlines during the quarter. In Europe, progress on key issues of bank recapitalization and economic reform has been painfully slow, but modestly positive, with increasing intervention by the ECB being key to stabilizing markets. In the U.S., government budget issues remain outstanding, but economic data has been more constructive. In Asia, slowing growth and moderating inflationary pressure have been met with monetary and fiscal policy easing, most notably in China. Listed real estate delivered a positive period of performance in local currency terms. Performance was led by U.S. REITs and Chinese developer stocks. Japanese and Southern European listed real estate were the key laggards. Trends in the real estate investment and occupancy markets have been moderating during the period. Weakness in Chinese residential markets has continued, while, better capitalized developer stocks continue to offer strong earnings growth. Across the gateway cities of the globe, occupier demand has fallen back as corporates defer decision-making. In retail, shopping trends continue to favor prime malls. Asset pricing has generally remained stable during the period for higher quality assets with good tenants and longer-term leases. However, without meaningful economic growth and job creation, secondary quality real estate across most of the globe remains out of favor with both tenants and investors.

Market Commentary

Quarter Ended December 31, 2011

U.S. Market Commentary:

While long-term structural issues of excess debt persist, the U.S. witnessed improved economic data during the quarter. Employment growth and jobless claims, in particular, were better than economists' estimates and offered the potential for a stronger pace of growth in 2012. Nevertheless, economic growth is expected to remain modest by historical standards and structural issues such as the U.S. federal government deficit have not yet been addressed and may continue to restrict the U.S. economy's growth rate. As several macro risks, including European sovereign risk, tended to stabilize during the quarter, the U.S. equity market trended higher. Real estate fundamentals continued to modestly improve as a result of low levels of new construction coupled with positive net absorption for most property sectors and markets. Within the REIT market, the lodging sector outperformed during the quarter, as this more cyclical sector benefited from a stabilization in macro risks.

Canada (N.A.) Market Commentary:

In the fourth quarter, Canadian leading indicators reversed their moderate third quarter decline and retail sales continued to strengthen, reporting their highest levels of the year. The Canadian job market seems to have lost momentum, which highlights the delicate state of the economy. In the real estate market, capital raising continued to be strong as 2011 marked a new peak level for Canadian REITs. Debt availability remains high and REITs continue to take advantage of accretive refinancing opportunities. Investor expectations seemed to focus on a slow to moderate pace of growth and continued to reward the less volatile, relatively stable conditions provided by Canadian real estate. During the quarter, the Canadian REIT market outperformed both the Canadian broad market and the Global REIT Index. Canadian REITs outperformed the broad market every quarter in 2011, and every year since 2008.

Market Commentary

Quarter Ended December 31, 2011

Asia Market Commentary:

Asian economic indicators pointed to slowing economic growth, accompanied by moderating inflation pressure. Exports, industrial production and labor market conditions generally weakened, while retail sales appeared more resilient. In light of ongoing global uncertainties and moderating inflationary pressure, regional economic policymakers increased their focus on supporting growth. Chinese authorities implemented selective easing in bank credit, as well as tax reductions for select industries. Following six reserve requirement ratio (RRR) increases in the first half of the year, China announced a surprise RRR cut at the end of November. However, the region's governments have, in general, maintained their cautious stance towards residential real estate. In addition, Singapore announced another set of stamp duty rises to moderate investment demand in December. With still depressed transaction volumes, residential prices in the primary market saw wider-spread, but still moderate, declines in China. Key financial center cities such as Tokyo, Hong Kong and Singapore saw office rental trends moderate during the quarter. JREITs were the worst performing group of property stocks in the region during the period, due to fund raising concerns and slower Bank of Japan JREIT purchases. China developer stocks led the region in performance, benefiting from the shift in policy tone towards growth support as the sector recovered from a dismal third quarter.

Australia Market Commentary:

Australian economic indicators continued to be mixed in the fourth quarter of 2011. The Reserve Bank of Australia (RBA) reduced the cash rate twice during the quarter to a rate of 4.25%. The RBA mentioned that domestic economic conditions were mixed but slightly stronger than was the case six months ago. Economic releases remain broadly positive by wider global standards, evidenced by annualized GDP growth of 2.5%, positive trends in consumer spending and credit growth expansion for consumers and private business. Modestly weakening data was seen in labor market conditions, with the unemployment rate rising to 5.3%. Business and consumer confidence stagnated a little during the quarter while housing starts continued to fall. Australian REITs outperformed the broader Australian equity market in the quarter as investors sought defensive and yield-oriented stocks, and the sector benefited from a widening yield spread.

Market Commentary

Quarter Ended December 31, 2011

Europe Market Commentary:

The outlook for Europe appears increasingly weak, with economic indicators suggesting periods of negative quarterly GDP growth across a significant portion of the region in 2012. The impact of austerity measures is being felt alongside diminished confidence in the ability of European governments to control their increasing debt load whilst also putting into place economic reforms to facilitate longer-term sustainable growth. Sovereign bond yields for Eurozone countries rose during the last quarter with Italy and France showing greatest rises. With growth prospects declining, the ECB and Swedish Riksbank both lowered interest rates last quarter, while the U.K. undertook further quantitative easing. The equity market rallied during the final quarter of the year following third quarter weakness. Listed real estate companies generally participated in the rally, but lagged general equities. Direct real estate investment transaction markets have generally continued to hold firm in recent months. However, occupiers willingness to commit to new rental agreements has somewhat diminished amid wider economic uncertainty. Listed real estate companies are expected to report solid growth in earnings and net asset values for 2011 year end, however, management guidance for 2012 has become increasingly guarded.



Research Affiliates Fundamental Index®

RAFI® Long/Short / Absolute Return Portfolio

Stanislaus County Employees Retirement Assoc.

January 24, 2012

Rob Arnott / arnott@rallc.com
John West, CFA / west@rallc.com



Research Affiliates Fundamental Index®

RAFI® Long/Short / Absolute Return Portfolio

Stanislaus County Employees Retirement Assoc.

January 24, 2012

Rob Arnott / arnott@rallc.com
John West, CFA / west@rallc.com



Enhanced RAFI Global L/S Objectives

Objectives

1. Produce returns in excess of mainstream stock and bond markets.
2. Fully exploit excess return attributable to RAFI concept in a market neutral fashion via both long and short positions.
3. Provide diversification to plan portfolio due to uncorrelated return pattern.

| | Returns Since Inception (11/30/04-3/31/11) | Correlation to Stocks (S&P 500 Index) | Correlation to Bonds (Barcap Agg Index) | Correlation to Hedge Funds (HFRX Global HF Index) |
|---|---|--|--|--|
| Enhanced RAFI Global Long Short Composite | 8.61% | 0.21 | 0.05 | -0.09 |
| S&P 500 Index | 4.06% | 1.00 | 0.13 | 0.72 |
| Barcap Aggregate Bond Index | 5.17% | 0.13 | 1.00 | 0.06 |
| HFRX Global Hedge Fund Index | 1.35% | 0.72 | 0.06 | 1.00 |

Live RAFI L/S's Characteristics When Hired 11/30/04 to 3/31/11

| | eRAFI LS Composite | HFRX EH | S&P 500 | BarCap US Agg |
|-------------------------|--------------------|--------------|--------------|---------------|
| Characteristics | | | | |
| Return | 8.6% | 0.9% | 4.1% | 5.2% |
| Volatility | 16.1% | 8.7% | 16.2% | 3.5% |
| Sharpe Ratio | 0.39 | -0.16 | 0.11 | 0.84 |
| Correlation | - | -0.08 | 0.21 | 0.05 |
| Largest Drawdown | | | | |
| Monthly | -10.3% | -10.0% | -16.8% | -2.4% |
| Quarterly | -17.4% | -19.8% | -29.6% | -2.8% |
| Continuous | -27.1% | -29.5% | -50.9% | -3.8% |
| Biggest Gains | | | | |
| Monthly | 14.7% | 5.2% | 9.6% | 3.7% |
| Quarterly | 32.0% | 8.6% | 25.8% | 6.2% |

Notes:

HFRX EH: Hedge Fund Research, equity hedge is an equity long short strategy index.

The RAFI Long Short data published herein is of our Enhanced RAFI Global Long Short composite. Past performance is no guarantee of future performance and is not indicative of any specific investment. Actual investment results may differ. Based on month-end market close prices. RAFI and RAFI L/S performances are gross of all fees.

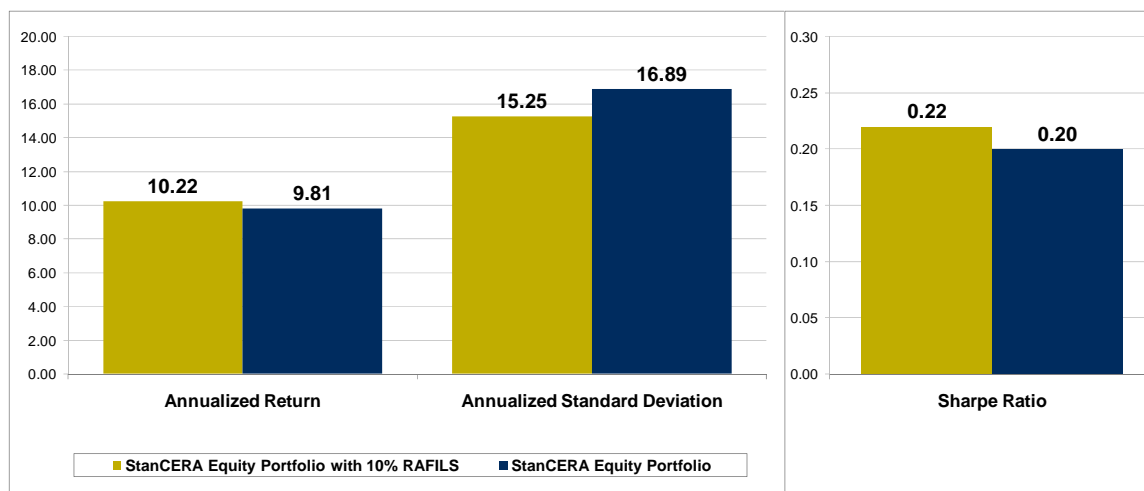
Source: Research Affiliates, based on data from Bloomberg.

3

Enhanced RAFI Global Long/Short 2012



Improve Portfolio By Adding RAFI Long/Short November 30, 2004 through March 31, 2011



StanCERA Equity Portfolio based on current target weight of plan (33.1% US Large Cap (S&P 500 Index), 8.3% US Small Cap (Russell 2000 Index), 20.0% International Equities (MSCI EAFE Index)) re-normalized to 100% (53.9%/13.5%/32.6%).
StanCERA Equity Portfolio with 10% RAFILS includes 10% of the Plan's equity weight is allocated to the Enhanced RAFI Global Long/Short LP and taken from the other three asset classes pro-rata (10.0%/48.5%/12.2%/29.3%).

Source: Research Affiliates.

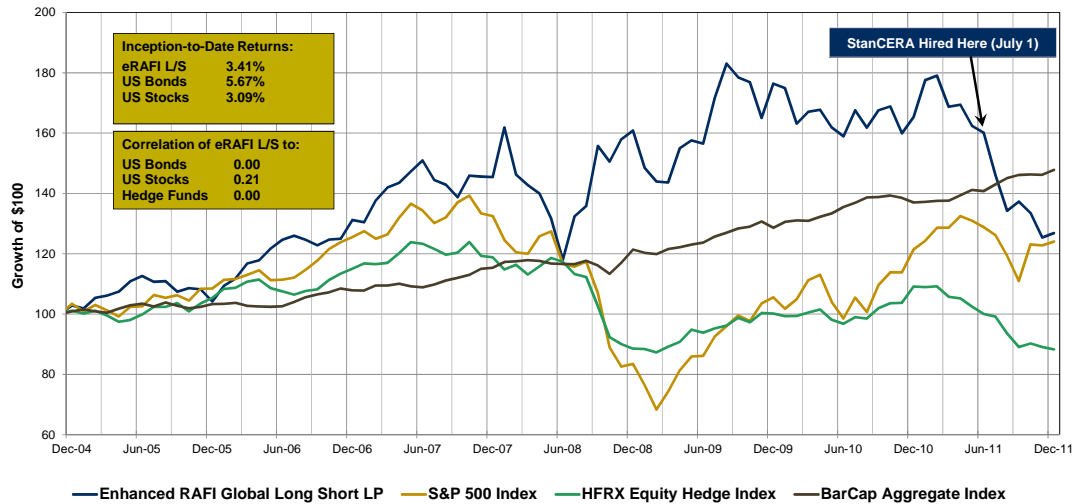
4

Enhanced RAFI Global Long/Short 2012



What Has Happened to the Enhanced RAFI Global Long Short Since StanCERA Hiring?

- Performance of the strategy has suffered during StanCERA's time in the LP.
- There have been four periods of similar drawdowns for the LP since its inception. In all four periods, the subsequent performance of the LP sharply rebounded to higher levels. On average, the LP had a drawdown of 13% over the course of 4 months, and subsequently rebounded an average of +25% over six months.



Source: Research Affiliates, LLC and eVestment Alliance.

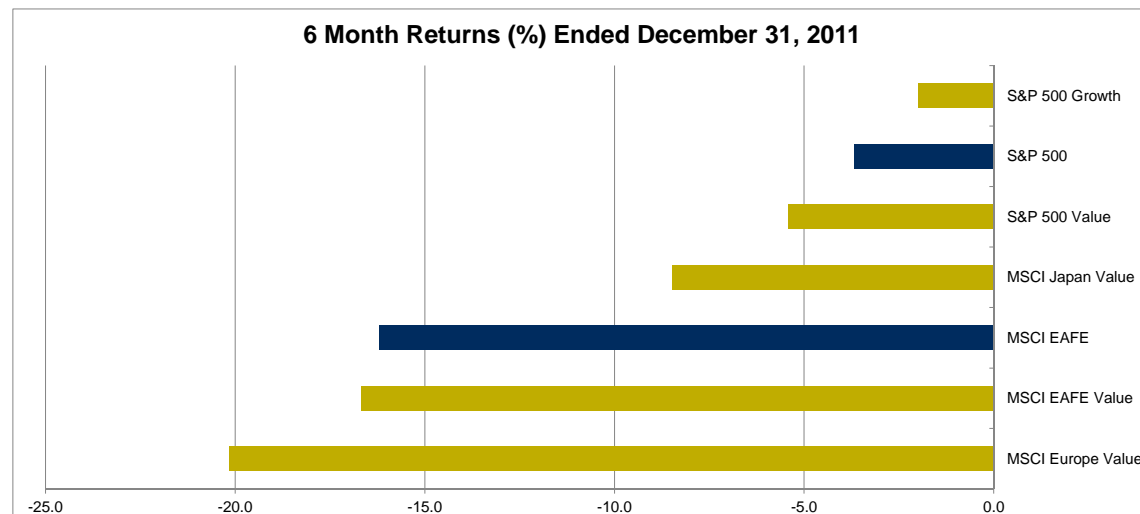
5

Enhanced RAFI Global Long/Short 2012



Second Half of 2011 – Equity Market Review

- The regional overweight to non-US stocks was first key detractor for last six months (blue bars).
- The long overweight to non-US value stocks and the short emphasis on US growth stocks (gold bars) magnified the shortfall in country positions.



Source: Research Affiliates, LLC and eVestment Alliance.

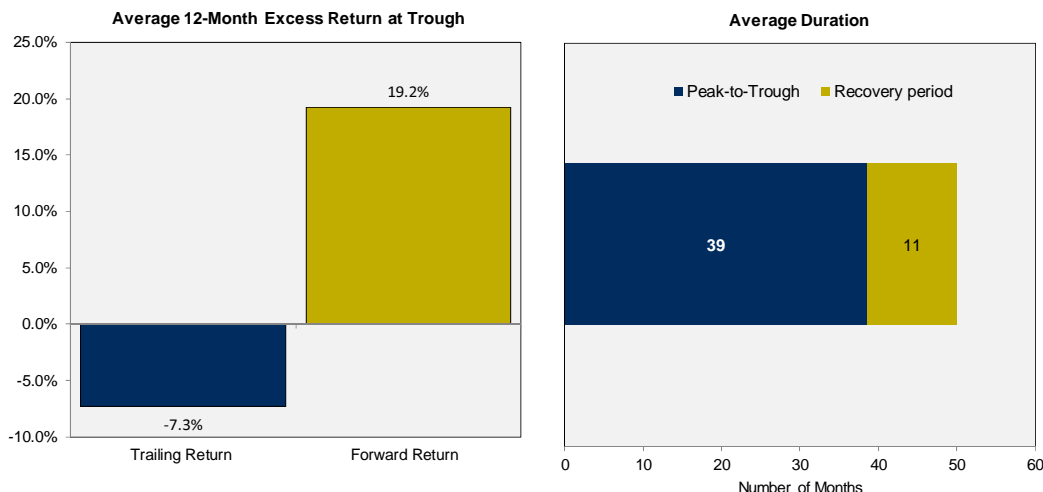
6

Enhanced RAFI Global Long/Short 2012



RAFI Recovery Periods are Stronger and Faster

- When RAFI performance rebounds is difficult to predict, but it turns rapidly.
- Excess returns in recovery periods exceed those in drawdown periods by over 1.5x.
- Recovery periods are on average 1/3 shorter than drawdown periods.



The excess return and durations are the average figures of the five periods during which RAFI® US Large's cumulative underperformance against the S&P500 was at least 5% from January 1, 1962 to September 30, 2011.

Source: Research Affiliates.

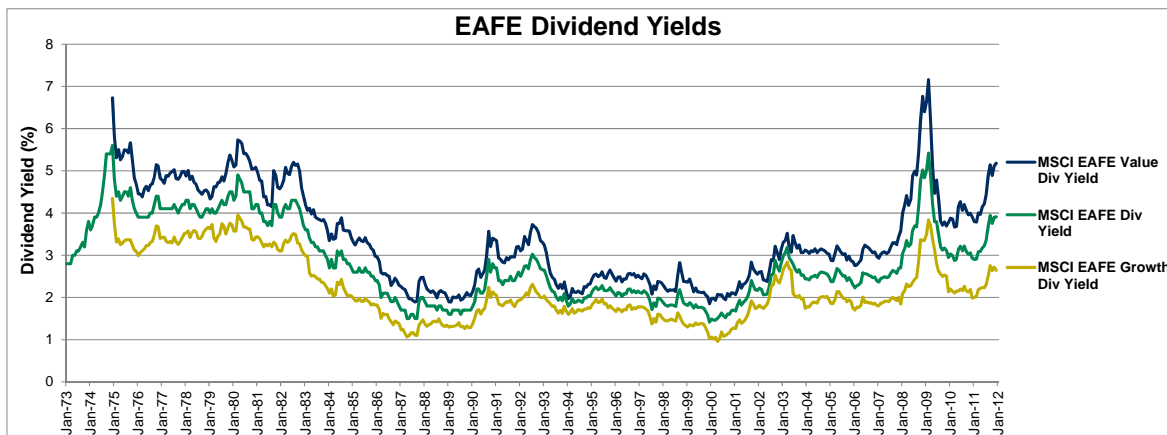
7

Enhanced RAFI Global Long/Short 2012



Current Dividend Yields Are At Attractive Levels Comparable to GFC and 1970s

- Foreign developed stocks have the highest dividend yields of all major equity markets:
 - S & P 500: 2.1%
 - MSCI EAFE: 3.9%
 - MSCI EAFE Value: 5.2%
- Current dividend yields are at highest level since 1982 (excluding the Global Financial Crisis).
 - Relative attractiveness compared to other equities and to risk-free bond assets very high:
 - 1982: real interest rates were 6%, while in 2011 real interest rates are -2%.



Source: Research Affiliates based on data from Encorr. Data through December 31, 2011.

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Enhanced RAFI Global Long/Short 2012



RAFI Long Short Positioned for Attractive Absolute Returns

- Overweight in European companies has resulted in drawdown.
- However, many of the biggest overweights are in attractively priced stocks that are in defensible industries.

| As of 12/31/11 | Active Overweight | Dividend Yield | Price/Earnings | Price/Book | 5 Year ROE |
|------------------------|-------------------|----------------|----------------|------------|------------|
| Telecom | 6.8% | | | | |
| Verizon Communications | 1.6% | 4.9% | 19.4 | 2.91 | 6.4% |
| BT Group | 1.4% | 4.0% | 8.7 | -- | -- |
| AT&T | 1.2% | 5.7% | 15.4 | 1.58 | 18.6% |
| Deutsche Telekom | 1.1% | 7.9% | 28.6 | 1.07 | 4.6% |
| Telecom Italia | 1.1% | 7.0% | -- | 0.61 | 11.4% |
| Utilities | 4.4% | | | | |
| E.ON Ag | 0.8% | 9.0% | 9.9 | 0.82 | 14.3% |
| Enel SPA | 0.8% | 8.9% | 6.7 | 0.78 | 12.5% |
| SSE Plc | 0.7% | 5.8% | 11.9 | -- | 42.0% |
| Energy | 3.7% | | | | |
| BP Plc | 2.1% | 3.8% | 6.0 | 1.24 | -- |
| ENI | 1.8% | 6.4% | 9.5 | 1.25 | 13.0% |
| ConocoPhillips | 1.8% | 3.6% | 9.3 | 1.47 | 17.3% |
| Chevron | 1.5% | 2.9% | 7.9 | 1.75 | 19.3% |
| Repsol YPF | 1.3% | 4.2% | 6.0 | 1.12 | 21.3% |

- We believe the portfolio appears quite attractive – in our opinion, the rubber band is stretched very taut – with an average dividend yield of 3.5% on the long book and just 2% for stocks shorted. The P/E ratio of the longs is nearly half that of the shorts.

Source: Research Affiliates based on data from Wilshire.

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Enhanced RAFI Global Long/Short 2012



Conclusion



Conclusion

We appreciate your continued support of the RAFI Global Long/Short LP

- Low correlation with major asset classes and other hedge funds
- Fees waived until StanCERA reaches its high water mark
- Six employee owners of RALLC initiated or added to the LP in Q4
- We believe the “rubber band” is stretched very taut
- Timing is difficult to predict, but past track record indicates RAFI outperformance comes very quickly

Appendix

Product Overview

Objective

- 10% - 15% annualized gross returns over a full market cycle

Product

- Limited Partnership (LP)
- \$1 million minimum
- Monthly Liquidity with no lockup

Fee

- \$1-25 million – 100 bps + 20% incentive above T-bills
- \$25-100 million – 75 bps + 15%
- \$100+ million – 50 bps + 12%
- Fee discounts (assets aggregated) for clients with other eRAFI strategies

Transparency

- High level

Diversification

- Low correlation to stocks, bonds and other hedge fund strategies

RALLC Co-Investment

- Firm's senior level management have significant personal assets in strategy

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Enhanced RAFI Global Long/Short 2012



Enhanced RAFI Global Long Short Portfolio Construction

- Buy securities that have a significant fundamental weight greater than their capitalization weight/size.
- Sell securities that have a significant capitalization weight greater than their fundamental size.
- Broadly diversify both portfolios of Buy (long) and Sell (short)

Portfolio Composition

- Opportunity Set: Developed Markets:
 - 4 regions (US, UK, Japan, Eurozone), including 11 countries
 - Approximately 3,000 securities
- Approximately 250 securities in both Long and Short portfolios
- Avoid excess country and sector weighting
- Typical Leverage of 2x (range 1.5x to 3.0x) on Long and Short books
- Dollar Neutral (close to market neutrality)

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Enhanced RAFI Global Long/Short 2012



Research Affiliates, LLC

Mission

- Concentrate on **Research** and product development
- Partner with world-class **Affiliates** to bring product to market

Global leader in

- Global tactical asset allocation (GTAA)
- Innovative indexation

Profile

- Approximately \$84 billion in assets managed using RA investment strategies as of December 31, 2011¹
- Founded in 2002 by Rob Arnott
- Majority employee-owned

¹As of 12/31/2011: Based on estimates. Includes assets managed or sub-advised by Research Affiliates or licensees using RAFI, eRAFI®, or GTAA strategies.

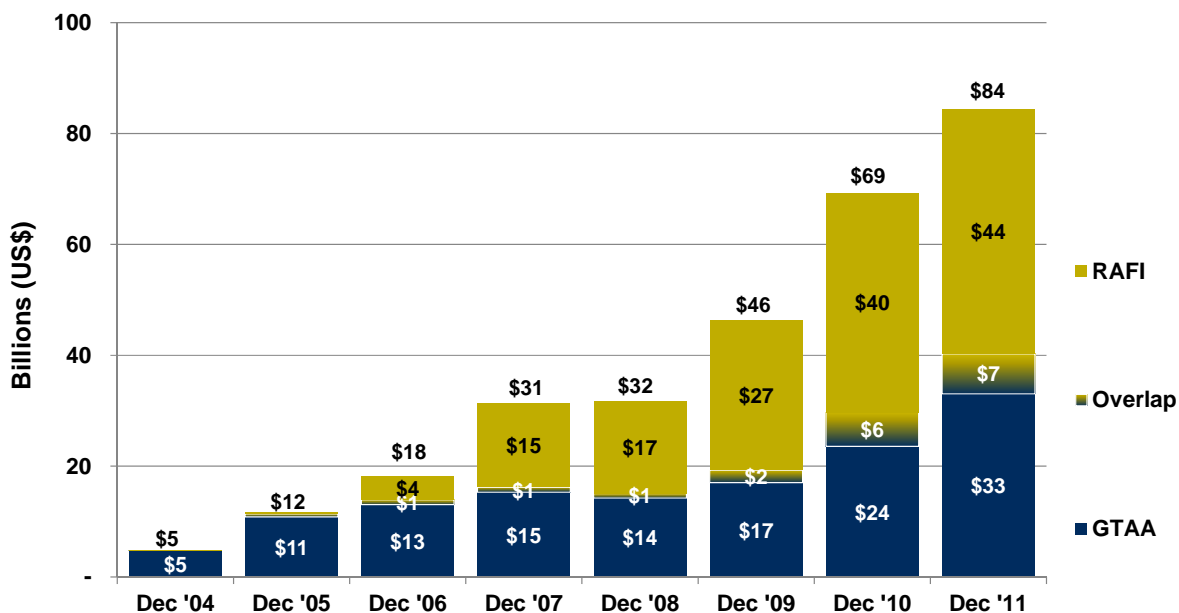
Note: Please refer to the disclosure slide at the end for all relevant disclaimers, disclosures, and information on our intellectual property.

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Enhanced RAFI Global Long/Short 2012



Managed Assets Growth Since Inception



December 2011 data based on estimates.

Includes GTAA, RAFI and eRAFI assets managed or sub-advised by Research Affiliates and RAFI licensees.

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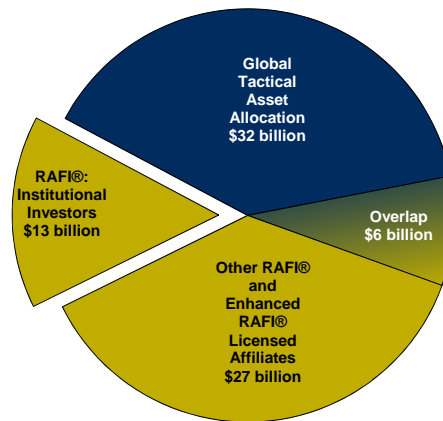
Enhanced RAFI Global Long/Short 2012



Representative Clients and Affiliates As of December 31, 2011

Institutional Plans

- Alaska Permanent Fund Corporation
- Broward College Foundation, Inc.
- CalPERS
- City of Alexandria
- City of Phoenix Employees' Retirement System
- Fresno County Employees' Retirement Association
- HCA Foundation
- Los Angeles Fire & Police Pension System
- Lutheran Foundation of St. Louis MO
- Mississippi State University Foundation
- New York City Employees' Retirement System
- New York City Police Pension Fund
- North Dakota State Investment Board
- Producer-Writers Guild of America
- San Joaquin County Employees Retirement Association
- San Luis Obispo County Pension Trust
- Southwestern Medical Foundation
- Tacoma Employees' Retirement System
- Texas Treasury Safekeeping Trust Company
- UFCW-Northern CA
- Waterford Township Police & Fire Retirement System
- University of Arizona Foundation



Affiliates

- PIMCO
- Charles Schwab
- PowerShares Capital Management
- Russell
- Colonial First State
- FTSE
- IPM
- Nomura Asset Management

Disclaimer: Representative list, not all inclusive. Inclusion on this list does not constitute an endorsement.

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Enhanced RAFI Global Long/Short 2012



Enhanced RAFI Global Long/Short Team

Portfolio Managers

- Research idea generation
- Design portfolio construction parameters
- Final decision making power

Robert D. Arnott
Chairman
(34 years experience)

Jason Hsu, Ph.D.
Chief Investment Officer
(14 years experience)

Chris Brightman, CFA, Director
(28 years experience)

Max Moroz, Vice President
(7 years experience)

Christine Sol, Strategy Manager
(6 years experience)

Investment Experience

- Previous editor of *Financial Analysts Journal (FAJ)*
- Published more than 100 articles in various journals
- Chairman, First Quadrant
- Global Equity Strategist, Salomon Brothers
- Authored more than 20 academic and practitioner articles
- Research/Trading, Far Eastern Securities (Taiwan)
- Adjunct Professor of Finance, Anderson School of Business at UCLA
- CEO, University of Virginia Investment Management Company
- Director of Global Equity Strategy, UBS Asset Management
- Vice Chair, Investment Advisory Committee of the Virginia Retirement System

Implementation

- Construct theoretical portfolios
- Optimize for liquidity, trading and execution
- Monitor daily

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Enhanced RAFI Global Long/Short 2012

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Client Service

Research Affiliates delivers world class client service with dedicated team led by John West



Coordinate delivery of comprehensive client service activities

- Semi-annual (or as needed) portfolio manager meetings
- Quarterly performance review and update
- Monthly performance updates
- Monthly newsletter: *Fundamentals*
- Communicate latest papers and journal articles generated by RALLC

Motivation for the Fundamental Index Idea: Mispricing

If mispricing occurs, cap-weighting has a structural flaw

- Portfolio weights are inextricably linked to any pricing errors
- Overvalued stocks are overweighted
- Undervalued stocks are underweighted
- Portfolios are particularly vulnerable to pricing bubbles and subsequent corrections

Mispricing is an empirical reality

- Mispricing is evident in most markets
- Massive bubbles: South Sea, Dutch Tulip, "Nifty-Fifty"
- Smaller bubbles: Krispy Kreme Donuts, Crocs, Ethanol
- Recent bubbles: Technology and .com

The RAFI Approach

The RAFI approach

- Select and weight stocks by non-price measures of firm size
 - Sales, cash flow, dividends, and book value
- Achieve excess returns over cap-weighting¹
 - 2–4% in developed markets
 - 4–10% in less efficient markets
- Preserve the advantages of passive investing
 - Diversification
 - Liquidity
 - Transparency
 - Broad economic representation
 - Low cost access to equity markets

¹Based on Research Affiliates historical simulated data using CRSP, Compustat, Worldscope and Datastream, on universe of U.S. equities 1962-2009 and International equities 1984-2009.

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Enhanced RAFI Global Long/Short 2012

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Non-Price Weighted Indexes Outperform Simulated RAFI Developed 1000: 1984–2010

| Index | Ending Value of \$1 | Annual Return | Volatility | Sharpe Ratio | Tracking Error |
|-----------------------------|---------------------|---------------|------------|--------------|----------------|
| MSCI World | \$13 | 9.9% | 15.6% | 0.32 | --- |
| Equal Weight Developed 1000 | \$16 | 10.8% | 15.8% | 0.37 | 2.9% |
| Book | \$21 | 12.0% | 15.8% | 0.44 | 4.4% |
| Cash Flow | \$28 | 13.1% | 15.0% | 0.54 | 4.4% |
| Sales | \$26 | 12.8% | 16.4% | 0.48 | 5.2% |
| Gross Dividend | \$28 | 13.2% | 14.7% | 0.56 | 6.2% |
| RAFI Composite | \$26 | 12.8% | 15.3% | 0.51 | 4.6% |

Source: Research Affiliates, LLC, based on data from Bloomberg, Datastream and Worldscope. THE INDEX DATA PUBLISHED HEREIN IS SIMULATED, UNMANAGED AND CANNOT BE INVESTED IN DIRECTLY. PAST SIMULATED PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE AND IS NOT INDICATIVE OF ANY SPECIFIC INVESTMENT. ACTUAL INVESTMENT RESULTS MAY DIFFER.

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Enhanced RAFI Global Long/Short 2012

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RAFI Performance Across Markets

December 2010

| | Annualized Return | Annualized Volatility | Annualized Value Add | % 3-Year Wins | Start Date |
|-------------------------------------|----------------------|--------------------------|-------------------------|------------------|------------|
| Simulated RAFI US Large | 11.6% | 15.4% | 2.2% | 74.5% | 1962 |
| S&P 500 | 9.4% | 15.2% | | | |
| Simulated RAFI - 23 Country Average | 14.0% | 15.6% | 2.8% | 94.8% | 1984 |
| MSCI - 23 Country Average | 11.1% | 15.9% | | | |
| Simulated RAFI U.S. Small | 15.9% | 20.0% | 4.2% | 99.7% | 1979 |
| Russell 2000 | 11.8% | 20.0% | | | |
| Simulated RAFI All World 3000 | 13.7% | 15.5% | 4.7% | 89.6% | 1984 |
| MSCI All Country World | 9.1% | 15.7% | | | |
| Simulated RAFI Int'l. Small 1500 | 14.2% | 17.5% | 5.0% | 96.3% | 1999 |
| MSCI EAFE Small Cap | 9.1% | 19.7% | | | |
| Simulated RAFI EM | 16.6% | 25.1% | 9.5% | 96.4% | 1994 |
| MSCI EM | 7.1% | 24.5% | | | |

Source: Research Affiliates, LLC, based on data from Worldscope, Datastream, CRSP, and Compustat. The 23-Developed Countries correspond to the country study conducted by Research Affiliates. THE INDEX DATA PUBLISHED HEREIN IS SIMULATED, UNMANAGED AND CANNOT BE INVESTED IN DIRECTLY. PAST SIMULATED PERFORMANCE IS NO GUARANTEE OF FUTURE PERFORMANCE AND IS NOT INDICATIVE OF ANY SPECIFIC INVESTMENT. ACTUAL INVESTMENT RESULTS MAY DIFFER.

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fact sheets

rafi[®] related enhanced strategies

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September 2011



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Mission

Research Affiliates strives to be the preeminent source of innovative products that add value for the global investment community; we succeed by helping others succeed.

Dedicated to solving complex investment issues, Research Affiliates creates innovative strategies that respond to the current needs of the market. We offer proprietary solutions in the areas of active asset allocation, optimal portfolio construction, equity indexation, and enhanced equity indexation.



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Composite Description

Accounts in the Enhanced RAFI® Global All Country Composite (eRAFI® Global All Country) apply our Fundamental Index® concept globally, including emerging markets. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g., quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. The strategy uses three RAFI® Limited Partnerships: Enhanced RAFI® US Large, Enhanced RAFI® International, and Enhanced RAFI® Emerging Markets to achieve the desired global exposure. Information contained herein relates to the performance of the eRAFI® Global All Country Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | ITD ^{1,2} |
|--|---------|---------|--------|--------------------|
| Composite - Gross Returns | -17.96% | -17.48% | -5.98% | -0.95% |
| Composite - Net Returns | -18.03% | -17.69% | -6.43% | -1.22% |
| MSCI Net ACWI | -17.42% | -17.22% | -6.01% | -1.50% |
| Composite - Volatility | 10.70% | 16.52% | 16.99% | 19.80% |
| MSCI Net ACWI - Volatility | 16.61% | 16.61% | 16.50% | 18.70% |
| Gross Value Added relative to MSCI Net ACWI | -0.54% | -0.26% | 0.04% | 0.55% |
| Risk-Adjusted Alpha with respect to MSCI Net ACWI | 0.39% | 0.65% | 0.36% | 0.73% |
| Tracking Error with respect to MSCI Net ACWI | — | 2.43% | 2.22% | 2.34% |

¹Returns greater than one year are annualized. Composite inception date 12/31/2009.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with MSCI ACWI | Beta on MSCI ACWI | Weighted Average Cap |
|---------------|-------------------------|------|------|-------------------|----------------------------------|----------------------|-------------------------|
| Portfolio* | 10.98 | 0.57 | 1.30 | 3.53% | 0.99 | 1.05 | \$54B |
| MSCI Net ACWI | 11.65 | 0.86 | 1.47 | 3.03% | 1.00 | 1.00 | \$58B |

*Based on a representative account (eRAFI® Global All Country LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Basic Materials | 7.05% | 8.86% |
| Consumer, Cyclical | 11.23% | 11.19% |
| Consumer, Non-Cyclical | 12.78% | 11.33% |
| Energy | 12.00% | 11.44% |
| Financial | 16.80% | 18.90% |
| Healthcare | 9.09% | 9.11% |
| Industrial | 9.90% | 8.54% |
| Technology | 6.82% | 10.22% |
| Telecommunications | 8.02% | 6.50% |
| Utilities | 6.31% | 3.93% |

*Based on a representative account (eRAFI® Global All Country LP).

Portfolio* Country Weights vs. Index Country Weights

| Country | Portfolio Holding Snapshot | |
|------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| United States | 45.15% | 44.46% |
| Canada | 2.76% | 4.12% |
| United Kingdom | 11.88% | 8.41% |
| France | 5.45% | 3.36% |
| Germany | 4.16% | 3.05% |
| Europe (other) | 11.69% | 9.61% |
| BRIC | 2.59% | 5.79% |
| EM ex BRIC | 4.56% | 6.70% |
| Japan | 8.50% | 9.43% |
| Pacific ex Japan | 3.26% | 5.07% |

*Based on a representative account (eRAFI® Global All Country LP).

Notes:

The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® Global All Country Composite and individual account performance may differ.

The MSCI Net ACWI is a free float-adjusted market capitalization weighted index, with the minimum possible dividend reinvestment, that is designed to measure the equity market performance of developed and emerging markets. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Holdings Comparison

| Portfolio* | | MSCI ACWI | |
|---------------------|---------|-------------------|---------|
| Company | Weights | Company | Weights |
| 1 Exxon Mobil | 1.90% | Exxon Mobil | 1.48% |
| 2 Royal Dutch Shell | 1.24% | Apple | 1.47% |
| 3 Chevron | 1.14% | IBM | 0.91% |
| 4 BP | 1.11% | Nestle | 0.79% |
| 5 AT&T | 0.95% | Microsoft | 0.78% |
| 6 Total | 0.89% | Chevron | 0.75% |
| 7 Verizon | 0.86% | Procter & Gamble | 0.70% |
| 8 Johnson & Johnson | 0.85% | AT&T | 0.67% |
| 9 IBM | 0.83% | Johnson & Johnson | 0.67% |
| 10 Nestle | 0.74% | General Electric | 0.63% |

*Based on a representative account (eRAFI® Global All Country LP). Exchange Traded Funds (ETFs) may be used to gain equity exposure to regions where trading is problematic or not cost-effective. The top 10 holdings include the "look through" underlying security weights of any ETFs held in the portfolio. Specific ETFs and their total weight within the portfolio are available upon request.

Top 10 Over/Under Weights*

| Over | | Under | |
|----------------------|---------|----------------------|---------|
| Company | Weights | Company | Weights |
| 1 BP | 0.67% | Apple | -1.14% |
| 2 Total | 0.54% | Google | -0.43% |
| 3 Royal Dutch Shell | 0.49% | Oracle Systems | -0.35% |
| 4 Verizon | 0.46% | Toyota Motor | -0.33% |
| 5 Exxon Mobil | 0.44% | Chunghwa Telecom | -0.31% |
| 6 Chevron | 0.41% | Schlumberger | -0.30% |
| 7 ING Groep | 0.40% | HSBC Holdings | -0.30% |
| 8 Berkshire Hathaway | 0.34% | Amazon Com | -0.27% |
| 9 GlaxoSmithKline | 0.31% | Intel | -0.25% |
| 10 Telefonica | 0.30% | Taiwan Semiconductor | -0.24% |

*Based on a representative account (eRAFI® Global All Country LP).

Investment Returns

| | 2010 | | | 2011 | | |
|-----|-------------------|-----------------|-----------------|-------------------|-----------------|-----------------|
| | Composite (Gross) | Composite (Net) | MSCI ACWI (Net) | Composite (Gross) | Composite (Net) | MSCI ACWI (Net) |
| Jan | -3.50% | -3.50% | -4.32% | 2.38% | 2.18% | 1.57% |
| Feb | 0.56% | 0.56% | 1.27% | 2.62% | 2.61% | 2.91% |
| Mar | 7.05% | 7.05% | 6.43% | 0.24% | 0.22% | -0.10% |
| Apr | 0.51% | 0.51% | 0.17% | 4.65% | 4.51% | 4.09% |
| May | -10.32% | -10.32% | -9.48% | -2.31% | -2.33% | -2.15% |
| Jun | -3.14% | -3.14% | -3.08% | -1.61% | -1.62% | -1.58% |
| Jul | 9.29% | 9.29% | 8.14% | -2.85% | -2.87% | -1.63% |
| Aug | -4.24% | -4.24% | -3.50% | -7.54% | -7.57% | -7.30% |
| Sep | 10.19% | 10.19% | 9.57% | -8.67% | -8.70% | -9.44% |
| Oct | 3.76% | 3.76% | 3.61% | | | |
| Nov | -3.21% | -3.21% | -2.23% | | | |
| Dec | 7.73% | 7.73% | 7.32% | | | |
| YTD | 13.16% | 13.16% | 12.67% | -13.09% | -13.51% | -13.56% |

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 55 | 15 | 24% |
| Next \$75M | 25 | 10 | 20% |
| Next \$400M | 20 | 5 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® Global All Country Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$84.2 million

LP Fund Facts

| | |
|----------------------|--|
| Commingled Fund Name | Enhanced RAFI Global All Country, LP |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Holdbacks | 2.5% (released after pro rata application to fund's annual audit expenses) |
| Fund Inception | 31 December 2009 |

Separately Management Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

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Composite Description

Accounts in the Enhanced RAFI® Global All Country ex US Composite (eRAFI® Global All Country ex US) apply our Fundamental Index® concept globally outside of the U.S., including emerging markets. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g., quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

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Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | ITD ^{1,2} |
|--|---------|---------|---------|--------------------|
| Composite - Gross Returns | -20.30% | -19.56% | -10.54% | -1.71% |
| Composite - Net Returns | -20.35% | -19.73% | -10.88% | -2.01% |
| MSCI ACWI ex US Net | -19.85% | -19.54% | -10.81% | -1.76% |
| Composite - Volatility | 14.27% | 20.11% | 19.62% | 23.06% |
| MSCI ACWI ex US Net - Volatility | 17.53% | 19.79% | 18.72% | 21.24% |
| Gross Value Added relative to MSCI ACWI ex US Net | -0.45% | -0.02% | 0.27% | 0.05% |
| Risk-Adjusted Alpha with respect to MSCI ACWI ex US Net | 1.09% | 1.50% | 1.12% | 0.34% |
| Tracking Error with respect to MSCI ACWI ex US Net | — | 3.04% | 3.30% | 3.28% |

¹Returns greater than one year are annualized. Composite inception date 2/28/2010.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with MSCI ACWI ex US Net | Beta on MSCI ACWI ex US Net | Weighted Average Cap |
|---------------------|-------------------------|------|------|-------------------|--|-----------------------------------|-------------------------|
| Portfolio* | 10.42 | 0.50 | 1.17 | 4.28% | 0.99 | 1.08 | \$39B |
| MSCI ACWI ex US Net | 10.92 | 0.71 | 1.27 | 3.64% | 1.00 | 1.00 | \$40B |

*Based on a representative account (eRAFI® Global All Country ex US LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Basic Materials | 9.97% | 13.44% |
| Consumer, Cyclical | 9.39% | 8.63% |
| Consumer, Non-Cyclical | 12.68% | 10.37% |
| Energy | 12.33% | 10.98% |
| Financial | 18.36% | 23.71% |
| Healthcare | 7.23% | 7.33% |
| Industrial | 9.63% | 8.15% |
| Technology | 4.77% | 5.77% |
| Telecommunications | 9.99% | 7.67% |
| Utilities | 5.65% | 3.96% |

*Based on a representative account (eRAFI® Global All Country ex US LP).

Portfolio* Country Weights vs. Index Country Weights

| Country | Portfolio Holding Snapshot | |
|------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| United Kingdom | 21.72% | 15.44% |
| France | 10.03% | 6.14% |
| Germany | 7.62% | 5.92% |
| Europe (other) | 21.37% | 17.08% |
| BRIC | 4.69% | 10.31% |
| EM ex BRIC | 8.42% | 11.88% |
| Japan | 15.11% | 15.93% |
| Pacific ex Japan | 6.00% | 9.67% |
| Canada | 5.05% | 7.64% |

*Based on a representative account (eRAFI® Global All Country ex US LP).

Notes:

The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® Global All Country ex US Composite and individual account performance may differ.

The MSCI ACWI ex US is a free float-adjusted market capitalization weighted index, with the minimum possible dividend reinvestment, that is designed to measure the equity market performance of developed ex US and emerging markets. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Holdings Comparison

| Portfolio* | | MSCI ACWI ex US Net | |
|---------------------|---------|----------------------|---------|
| Company | Weights | Company | Weights |
| 1 Royal Dutch Shell | 2.26% | Nestle Sa | 1.47% |
| 2 BP | 2.03% | HSBC Holdings | 1.04% |
| 3 Total | 1.63% | Vodafone Group | 1.00% |
| 4 Nestle | 1.35% | Novartis Ag | 0.97% |
| 5 GlaxoSmithKline | 1.30% | BHP Billiton Limited | 0.93% |
| 6 BHP Billiton | 1.09% | Roche Holdings Ag | 0.89% |
| 7 Telefonica | 1.03% | GlaxoSmithKline | 0.84% |
| 8 Roche Holdings | 0.96% | BP | 0.84% |
| 9 ING Groep | 0.90% | Toyota Motor | 0.79% |
| 10 Unilever | 0.90% | Chunghwa Telecom | 0.78% |

*Based on a representative account (eRAFI® Global All Country ex US LP).

Top 10 Over/Under Weights*

| Over | | Under | |
|---------------------|---------|----------------------|---------|
| Company | Weights | Company | Weights |
| 1 BP | 1.21% | Chunghwa Telecom | -0.64% |
| 2 Royal Dutch Shell | 1.10% | HSBC Holdings | -0.61% |
| 3 Total | 1.01% | Toyota Motor | -0.58% |
| 4 ING Groep | 0.69% | Vale S A | -0.52% |
| 5 Telstra | 0.52% | Petroleo Brasileiro | -0.38% |
| 6 E.On | 0.48% | Commonwealth Bank | -0.36% |
| 7 GlaxoSmithKline | 0.48% | Taiwan Semiconductor | -0.33% |
| 8 Unilever | 0.46% | BHP Billiton Limited | -0.32% |
| 9 Axa | 0.45% | Royal Bk Cda Montrea | -0.31% |
| 10 ENI | 0.45% | Sk Telecom Ltd | -0.29% |

*Based on a representative account (eRAFI® Global All Country ex US LP).

Investment Returns

| | 2010 | | | 2011 | | |
|-----|-------------------|-----------------|-----------------------|-------------------|-----------------|-----------------------|
| | Composite (Gross) | Composite (Net) | MSCI ACWI ex US (Net) | Composite (Gross) | Composite (Net) | MSCI ACWI ex US (Net) |
| Jan | — | — | — | 2.74% | 2.65% | 0.98% |
| Feb | — | — | — | 2.14% | 2.13% | 2.63% |
| Mar | 7.30% | 7.29% | 6.80% | -0.20% | -0.22% | -0.23% |
| Apr | -0.96% | -0.98% | -0.88% | 5.94% | 5.81% | 4.89% |
| May | -11.75% | -11.76% | -10.52% | -3.22% | -3.24% | -2.88% |
| Jun | -1.47% | -1.49% | -1.28% | -1.55% | -1.56% | -1.45% |
| Jul | 10.54% | 10.52% | 9.03% | -2.50% | -2.52% | -1.36% |
| Aug | -3.90% | -3.91% | -2.75% | -9.07% | -9.10% | -8.57% |
| Sep | 10.81% | 10.79% | 9.95% | -10.10% | -10.12% | -11.13% |
| Oct | 3.97% | 3.96% | 3.41% | | | |
| Nov | -5.44% | -5.45% | -3.86% | | | |
| Dec | 8.01% | 7.99% | 7.83% | | | |
| YTD | 15.51% | 15.33% | 16.86% | -15.75% | -16.03% | -16.80% |

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 65 | 18 | 24% |
| Next \$75M | 30 | 15 | 20% |
| Next \$400M | 25 | 12 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® Global All Country ex US Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$99 million

LP Fund Facts

| | |
|----------------------|--|
| Commingled Fund Name | Enhanced RAFI Global All Country ex US, LP |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Holdbacks | 2.5% (released after pro rata application to fund's annual audit expenses) |
| Fund Inception | 28 February 2010 |

Separately Management Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

Disclosures

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Composite Description

Accounts in the Enhanced RAFI® US Large Composite (eRAFI® US Large) apply our Fundamental Index® concept to large US listed equities. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales, and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g., quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. Information contained herein relates to the performance of the eRAFI® US Large Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | 3-Yr ¹ | 5-Yr ¹ | ITD ^{1,2} |
|---|---------|---------|--------|-------------------|-------------------|--------------------|
| Composite - Gross Returns | -14.94% | -14.75% | 1.44% | 2.48% | -0.46% | 2.35% |
| Composite - Net Returns | -14.97% | -14.82% | 1.24% | 2.23% | -0.73% | 1.97% |
| S&P 500 Index | -13.87% | -13.78% | 1.14% | 1.23% | -1.18% | 1.05% |
| Russell 1000 Index | -14.68% | -14.58% | 0.91% | 1.61% | -0.91% | 1.37% |
| Composite - Volatility | — | 12.24% | 14.37% | 23.07% | 19.58% | 17.23% |
| S&P 500 Index - Volatility | — | 12.16% | 13.70% | 21.25% | 18.32% | 16.15% |
| Russell 1000 Index - Volatility | — | 12.80% | 14.18% | 21.70% | 18.72% | 16.50% |
| Gross Value Added relative to S&P 500 Index | -1.07% | -0.97% | 0.29% | 1.25% | 0.72% | 1.31% |
| Gross Value Added relative to Russell 1000 Index | -0.26% | -0.17% | 0.53% | 0.88% | 0.45% | 0.99% |
| Risk-Adjusted Alpha with respect to S&P 500 | -0.33% | -0.23% | 0.24% | 1.19% | 0.86% | 1.36% |
| Tracking Error with respect to S&P 500 | — | 1.78% | 1.72% | 3.63% | 3.19% | 2.83% |

¹Returns greater than one year are annualized. Composite inception date 12/31/2004.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with S&P 500 | Beta on S&P 500 | Weighted Average Cap |
|--------------|-------------------------|------|------|-------------------|-----------------------------|--------------------|-------------------------|
| Portfolio* | 11.81 | 0.70 | 1.54 | 2.65% | 0.99 | 1.05 | \$68B |
| S&P 500 | 12.86 | 1.18 | 1.81 | 2.39% | 1.00 | 1.00 | \$87B |
| Russell 1000 | 13.00 | 1.17 | 1.81 | 2.29% | 1.00 | 1.00 | \$77B |

*Based on a representative account (eRAFI® US Large LP).

Portfolio* Sector Weights vs. Index Sector

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------|
| | Portfolio* | S&P |
| Basic Materials | 3.69% | 3.70% |
| Consumer, Cyclical | 13.75% | 12.06% |
| Consumer, Non-Cyclical | 12.72% | 11.66% |
| Energy | 11.10% | 11.67% |
| Financial | 14.67% | 14.66% |
| Healthcare | 12.19% | 11.97% |
| Industrial | 10.19% | 9.78% |
| Technology | 9.01% | 15.27% |
| Telecommunications | 5.65% | 5.29% |
| Utilities | 7.03% | 3.97% |

*Based on a representative account (eRAFI® US Large LP).

Notes:

The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® US Large Composite and individual account performance may differ.

On January 1, 2008, the Fundamental Indexation – Domestic Composite name was changed to Enhanced RAFI® US Large Composite. The S&P 500 Index is an unmanaged market index that focuses on the large-cap segment of the US equities market. The Russell 1000 Index is a market-capitalization weighted benchmark index made up of 1,000 highest-ranking US stocks in the Russell 3000 index. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Holdings Comparison

| Portfolio* | | S&P 500 | |
|---------------------|---------|-------------------|---------|
| Company | Weights | Company | Weights |
| 1 Exxon Mobil | 3.65% | Exxon Mobil | 3.46% |
| 2 Chevron | 2.40% | Apple | 3.41% |
| 3 AT&T | 2.21% | IBM | 2.06% |
| 4 IBM | 1.88% | Chevron | 1.80% |
| 5 Verizon | 1.82% | Microsoft | 1.79% |
| 6 Johnson & Johnson | 1.53% | Procter & Gamble | 1.70% |
| 7 Procter & Gamble | 1.49% | Johnson & Johnson | 1.69% |
| 8 ConocoPhillips | 1.46% | AT&T | 1.63% |
| 9 Pfizer | 1.44% | General Electric | 1.56% |
| 10 Microsoft | 1.18% | Coca Cola | 1.49% |

*Based on a representative account (eRAFI® US Large LP).

Top 10 Over/Under Weights*

| Over | | Under | |
|------------------------|---------|----------------|---------|
| Company | Weights | Company | Weights |
| 1 Verizon | 0.81% | Apple | -2.77% |
| 2 Chevron | 0.61% | Google | -1.08% |
| 3 ConocoPhillips | 0.60% | Oracle Systems | -0.79% |
| 4 AT&T | 0.59% | Coca Cola | -0.79% |
| 5 Altria Group | 0.57% | Intel | -0.69% |
| 6 Cardinal Health | 0.34% | Schlumberger | -0.69% |
| 7 Bristol Myers Squibb | 0.30% | Microsoft | -0.61% |
| 8 McKesson HBOC | 0.29% | McDonalds | -0.60% |
| 9 UnitedHealth Group | 0.28% | Cisco Systems | -0.56% |
| 10 Kroger | 0.28% | Qualcomm | -0.54% |

*Based on a representative account (eRAFI® US Large LP).

Investment Returns

| Investment Returns | | | | | | | | | | | | | |
|--------------------|-------------------|-----------------|--------|-------------------|-----------------|--------|-------------------|-----------------|---------|------|-------------------|-----------------|--------|
| 2006* | | | | 2007* | | | 2010 | | | 2011 | | | |
| | Composite (Gross) | Composite (Net) | S&P | Composite (Gross) | Composite (Net) | S&P | Composite (Gross) | Composite (Net) | S&P | | Composite (Gross) | Composite (Net) | S&P |
| 1Q | 5.39% | 5.22% | 4.21% | 1.57% | 1.38% | 0.64% | 8.07% | 8.00% | 5.39% | Jan | 2.26% | 2.24% | 2.37% |
| 2Q | 0.02% | -0.25% | -1.44% | 5.92% | 5.86% | 6.28% | -11.21% | -11.29% | -11.43% | Feb | 3.89% | 3.87% | 3.43% |
| 3Q | 6.21% | 6.06% | 5.67% | 0.14% | 0.08% | 2.03% | 11.08% | 11.01% | 11.29% | Mar | 0.35% | 0.33% | 0.04% |
| 4Q | 7.17% | 7.04% | 6.70% | -3.61% | -3.67% | -3.33% | 11.62% | 11.55% | 10.76% | Apr | 3.01% | 3.00% | 2.96% |
| YTD | 19.99% | 19.16% | 15.79% | 3.84% | 3.46% | 5.49% | 18.97% | 18.64% | 15.06% | May | -1.08% | -1.10% | -1.13% |
| | | | | | | | | | | Jun | -1.65% | -1.66% | -1.67% |
| | | | | | | | | | | Jul | -3.25% | -3.26% | -2.03% |
| | | | | | | | | | | Aug | -5.56% | -5.57% | -5.43% |
| | | | | | | | | | | Sep | -6.91% | -6.92% | -7.03% |
| | | | | | | | | | | Oct | | | |
| | | | | | | | | | | Nov | | | |
| | | | | | | | | | | Dec | | | |
| | | | | | | | | | | YTD | -9.12% | -9.25% | -8.68% |
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*On January 1, 2008, due to asset reclassification, Gross Returns for 2006 were adjusted: From 20.15%, To 19.99%. Net Returns for 2006 were adjusted: From 19.31%, To 19.16%. Gross Returns for 2007 were adjusted: From 4.10%, To 3.84%. Net Returns for 2007 were adjusted: From 3.70%, To 3.46%.

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 40 | 6 | 24% |
| Next \$75M | 20 | 5 | 20% |
| Next \$400M | 16 | 5 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® US Large Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$2.1 billion

LP Fund Facts

| | |
|----------------------|------------------------------|
| Commingled Fund Name | Enhanced RAFI US Large, L.P. |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Fund Inception | 31 December 2004 |

Separately Managed Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

Disclosures

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Composite Description

Accounts in the Enhanced RAFI® US Small Composite (eRAFI® US Small) apply our Fundamental Index® concept to small U.S. listed equities. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales, and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g., quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. Information contained herein relates to the performance of the eRAFI® US Small Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | 3-Yr ¹ | 5-Yr ¹ | ITD ^{1,2} |
|---|---------|---------|--------|-------------------|-------------------|--------------------|
| Composite - Gross Returns | -22.48% | -23.57% | -4.49% | 1.87% | -0.84% | 1.04% |
| Composite - Net Returns | -22.54% | -23.68% | -4.78% | 1.54% | -1.17% | 0.62% |
| Russell 2000 Index | -21.87% | -23.12% | -3.53% | -0.37% | -1.02% | 0.73% |
| Composite - Volatility | — | 17.70% | 19.71% | 28.98% | 24.14% | 22.53% |
| Russell 2000 Index - Volatility | — | 17.36% | 19.78% | 28.24% | 23.68% | 22.30% |
| Gross Value Added relative to Russell 2000 Index | -0.62% | -0.45% | -0.96% | 2.24% | 0.18% | 0.31% |
| Risk Adjusted Alpha with respect to Russell 2000 Index | -0.54% | -0.37% | -0.94% | 2.24% | 0.19% | 0.32% |
| Tracking Error with respect to Russell 2000 Index | — | 1.83% | 1.69% | 2.28% | 2.46% | 2.52% |

¹Returns greater than one year are annualized. Composite inception date 9/29/2005.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with Russell 2000 | Beta on Russell 2000 | Weighted Average Cap |
|--------------|-------------------------|------|------|-------------------|-------------------------------------|-------------------------|-------------------------|
| Portfolio* | 14.16 | 0.67 | 1.26 | 1.46% | 0.99 | 1.00 | \$0.9B |
| Russell 2000 | 14.30 | 0.83 | 1.45 | 1.65% | 1.00 | 1.00 | \$1.1B |

*Based on a representative account (eRAFI® US Small LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Basic Materials | 9.64% | 6.79% |
| Consumer, Cyclical | 17.67% | 12.56% |
| Consumer, Non-Cyclical | 10.51% | 8.64% |
| Energy | 4.19% | 5.86% |
| Financial | 20.94% | 22.94% |
| Healthcare | 8.51% | 12.99% |
| Industrial | 11.12% | 10.23% |
| Technology | 11.01% | 12.29% |
| Telecommunications | 4.15% | 3.71% |
| Utilities | 2.26% | 4.01% |

*Based on a representative account (eRAFI® US Small LP).

Notes:

On January 1, 2008, 2005 to 2007 net returns were recalculated using actual accounts. Fees for the composite were waived during 2005. The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® US Small Composite and individual account performance may differ.

On January 1, 2008, the Fundamental Indexation – Mid Cap Composite name was changed to Enhanced RAFI® US Small Composite. The Russell 2000 Index is a market-capitalization weighted benchmark index made up of the 2,000 smallest US companies in the Russell 3000 index. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Holdings Comparison

| Portfolio* | | | Russell 2000 | |
|--------------------------|---------|--|--------------------------|---------|
| Company | Weights | | Company | Weights |
| 1 Hancock Holding | 0.40% | | Netlogic Microsystem | 0.34% |
| 2 Ulta Salon Cosmetics | 0.39% | | Home Properties | 0.28% |
| 3 El Paso Elec | 0.37% | | National Retail Property | 0.26% |
| 4 Cubist Pharmaceutical | 0.36% | | American Campus | 0.26% |
| 5 Medicis Pharmaceutical | 0.34% | | Nicor | 0.26% |
| 6 Take-Two Interactive | 0.32% | | Henry Jack & Assoc | 0.26% |
| 7 Newmarket | 0.32% | | MFA Mortgage | 0.26% |
| 8 Ascena Retail Group | 0.32% | | Healthspring | 0.26% |
| 9 RLI | 0.31% | | Clean Harbors | 0.25% |
| 10 Treehouse Foods | 0.31% | | Cepheid | 0.25% |

*Based on a representative account (eRAFI® US Small LP).

Top 10 Over/Under Weights*

| Over | | | Under | |
|--------------------------|---------|--|-----------------------|---------|
| Company | Weights | | Company | Weights |
| 1 Ulta Salon Cosmetics | 0.39% | | Netlogic Microsystems | -0.34% |
| 2 Madison Square Garden | 0.28% | | Home Properties | -0.28% |
| 3 DSW | 0.28% | | MFA Mortgage | -0.26% |
| 4 Autonation | 0.25% | | Nicor | -0.26% |
| 5 Polypore International | 0.24% | | American Campus | -0.25% |
| 6 Greif | 0.24% | | Clean Harbors | -0.25% |
| 7 El Paso Electric | 0.23% | | World Fuel Services | -0.24% |
| 8 Weight Watchers | 0.23% | | Healthspring | -0.24% |
| 9 Take-Two Interactive | 0.23% | | Cepheid | -0.23% |
| 10 Titanium Metals | 0.22% | | Nu Skin Enterprises | -0.23% |

*Based on a representative account (eRAFI® US Small LP).

Investment Returns

| Investment Returns | | | | | | | | | | | | | |
|--------------------|-------------------|-----------------|--------------|-------------------|-----------------|--------------|-------------------|-----------------|--------------|------|-------------------|-----------------|--------------|
| 2006* | | | | 2007* | | | 2010 | | | 2011 | | | |
| | Composite (Gross) | Composite (Net) | Russell 2000 | Composite (Gross) | Composite (Net) | Russell 2000 | Composite (Gross) | Composite (Net) | Russell 2000 | | Composite (Gross) | Composite (Net) | Russell 2000 |
| 1Q | 12.85% | 12.85% | 13.94% | 2.69% | 2.61% | 1.95% | 10.93% | 10.83% | 8.85% | Jan | 0.30% | 0.28% | -0.26% |
| 2Q | -3.60% | -4.23% | -5.02% | 4.01% | 3.92% | 4.42% | -9.38% | -9.46% | -9.92% | Feb | 5.53% | 5.50% | 5.48% |
| 3Q | -0.02% | -0.16% | 0.44% | -5.29% | -5.40% | -3.09% | 11.52% | 11.43% | 11.29% | Mar | 2.20% | 2.17% | 2.59% |
| 4Q | 9.11% | 9.06% | 8.90% | -6.24% | -6.31% | -4.58% | 15.53% | 15.42% | 16.25% | Apr | 2.02% | 2.00% | 2.64% |
| YTD | 18.68% | 17.67% | 18.36% | -5.16% | -5.48% | -1.57% | 29.51% | 29.06% | 26.85% | May | -1.75% | -1.78% | -1.87% |
| | | | | | | | | | | Jun | -1.63% | -1.66% | -2.31% |
| | | | | | | | | | | Jul | -3.44% | -3.46% | -3.61% |
| | | | | | | | | | | Aug | -9.44% | -9.46% | -8.70% |
| | | | | | | | | | | Sep | -11.36% | -11.38% | -11.21% |
| | | | | | | | | | | Oct | | | |
| | | | | | | | | | | Nov | | | |
| | | | | | | | | | | Dec | | | |
| | | | | | | | | | | YTD | -17.32% | -17.50% | -17.02% |
| 2008 | | | | 2009 | | | | | | | | | |
| 1Q | -8.00% | -8.09% | -9.90% | -14.67% | -14.75% | -14.95% | | | | | | | |
| 2Q | -2.80% | -2.90% | 0.58% | 22.47% | 22.36% | 20.69% | | | | | | | |
| 3Q | -1.99% | -2.07% | -1.11% | 23.53% | 23.42% | 19.28% | | | | | | | |
| 4Q | -26.72% | -26.78% | -26.12% | 4.38% | 4.29% | 3.87% | | | | | | | |
| YTD | -35.77% | -36.02% | -33.79% | 34.74% | 34.27% | 27.17% | | | | | | | |

*On January 1, 2008, 2006-2007 Net Returns were recalculated using actual accounts. Returns were adjusted: 2006 From: 18.03%, To 17.67%; 2007 From: -4.41%, To: -5.48%.

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 50 | 6 | 24% |
| Next \$75M | 25 | 5 | 20% |
| Next \$400M | 20 | 5 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® US Small Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$639 million

LP Fund Facts

| | |
|----------------------|------------------------------|
| Commingled Fund Name | Enhanced RAFI US Small, L.P. |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Fund Inception | 29 September 2005 |

Separately Managed Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

Disclosures

Research Affiliates, LLC (Research Affiliates) is an investment adviser registered under the Investment Advisors Act of 1940 with the U.S. Securities and Exchange Commission (SEC). Research Affiliates manages a broad array of investment strategies for qualified investors which are offered through pooled investment vehicles and separately managed accounts. The material contained in this document is for information purposes only. This material is not intended as an offer or solicitation for the purchase or sale of any security or financial instrument, nor is it advice or a recommendation to enter into any transaction. Any offer to sell or a solicitation of an offer to buy or sell shall be made solely to qualified investors through a private placement memorandum for pooled investment vehicles, or investment management agreement for separately managed accounts. This information is intended to supplement information contained in the respective disclosure documents. The information contained herein should not be construed as financial or investment advice on any subject matter. Research Affiliates and its related entities do not warrant the accuracy of the information provided herein, either expressed or implied, for any particular purpose. Investment accounts are speculative and involve a high degree of risk. Certain investment accounts may be leveraged and experience volatile performance. An investor could lose all or a substantial amount of his investment. Research Affiliates has total trading authority over the investment accounts. The use of a single advisor applying generally similar trading strategies could mean lack of diversification and, consequently, higher risk. For pooled investment vehicles, there is no secondary market for the investor's interest and none is expected to develop. There may also be restrictions on transferring interests in the pooled investment vehicle. An account's fees and expenses may offset the strategies' trading profits. A substantial portion of the trades executed for the non-US securities takes place on foreign exchanges.

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Composite Description

Accounts in the Enhanced RAFI® International Composite (eRAFI® International) apply our Fundamental Index® concept to internationally listed companies. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales, and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g. quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. Information contained herein relates to the performance of the eRAFI® International Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | 3-Yr ¹ | 5-Yr ¹ | ITD ^{1,2} |
|---|---------|---------|--------|-------------------|-------------------|--------------------|
| Composite - Gross Returns | -19.77% | -18.65% | -9.30% | 1.12% | -0.81% | 3.56% |
| Composite - Net Returns | -19.80% | -18.72% | -9.53% | 0.71% | -1.22% | 3.17% |
| MSCI Net EAFE | -19.01% | -17.74% | -9.36% | -1.13% | -3.46% | 1.58% |
| Composite - Volatility | — | 19.92% | 20.12% | 26.71% | 22.86% | 20.94% |
| MSCI Net EAFE - Volatility | — | 19.87% | 19.22% | 25.44% | 22.27% | 20.53% |
| Gross Value Added relative to MSCI Net EAFE | -0.76% | -0.90% | 0.06% | 2.26% | 2.65% | 1.98% |
| Risk-Adjusted Alpha with respect to MSCI Net EAFE | -0.59% | -0.75% | 0.14% | 2.27% | 2.69% | 1.98% |
| Tracking Error with respect to MSCI Net EAFE | — | 1.80% | 2.47% | 3.79% | 3.25% | 3.10% |

¹Returns greater than one year are annualized. Composite inception date 6/29/2005.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with MSCI Net EAFE | Beta on MSCI Net EAFE | Weighted Average Cap |
|---------------|-------------------------|------|------|-------------------|--------------------------------------|-----------------------------|-------------------------|
| Portfolio* | 10.50 | 0.53 | 1.21 | 4.43% | 0.99 | 1.01 | \$41B |
| MSCI Net EAFE | 10.95 | 0.67 | 1.23 | 3.92% | 1.00 | 1.00 | \$44B |

*Based on a representative account (eRAFI® International LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Basic Materials | 10.00% | 11.50% |
| Consumer, Cyclical | 9.91% | 10.83% |
| Consumer, Non-Cyclical | 13.32% | 13.05% |
| Energy | 12.17% | 8.39% |
| Financial | 16.59% | 22.11% |
| Healthcare | 8.27% | 9.30% |
| Industrial | 9.83% | 9.52% |
| Technology | 3.79% | 3.82% |
| Telecommunications | 10.49% | 6.76% |
| Utilities | 5.66% | 4.73% |

*Based on a representative account (eRAFI® International LP).

Portfolio* Country Weights vs. Index Country Weights

| Country | Portfolio Holding Snapshot | |
|-------------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Australia & New Zealand | 4.43% | 8.59% |
| EU (Scandinavia) | 5.33% | 5.62% |
| EU (Spain, Portugal & Greece) | 4.05% | 3.84% |
| France | 11.28% | 8.94% |
| Germany | 8.65% | 7.73% |
| Italy, Switzerland & Austria | 9.07% | 11.04% |
| Japan and South East Asia | 19.69% | 27.60% |
| Netherlands | 5.44% | 2.59% |
| United Kingdom | 23.30% | 22.39% |
| Other | 8.76% | 1.66% |

*Based on a representative account (eRAFI® International LP).

Notes:

On January 1, 2008, 2005 to 2007 net returns were recalculated using actual accounts. Fees for the composite were waived during 2005. The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® International Composite and individual account performance may differ.

On January 1, 2008, the Fundamental Indexation – International Composite name was changed to Enhanced RAFI® International Composite. The MSCI Net EAFE Index is a free float-adjusted market capitalization index, with the minimum possible dividend reinvestment, that is designed to measure the equity market performance of developed markets, excluding the US & Canada. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Holdings Comparison

| Portfolio* | | | Cap-Weighted | |
|------------|-------------------|---------|-------------------|---------|
| Company | | Weights | Company | Weights |
| 1 | Royal Dutch Shell | 2.55% | Nestle | 2.07% |
| 2 | BP | 2.49% | HSBC | 1.49% |
| 3 | Total | 1.93% | Vodafone | 1.46% |
| 4 | GlaxoSmithKline | 1.60% | Novartis | 1.42% |
| 5 | BHP Billiton | 1.36% | Roche Holdings | 1.24% |
| 6 | Nestle | 1.32% | BP | 1.24% |
| 7 | Telefonica | 1.26% | Royal Dutch Shell | 1.21% |
| 8 | Roche Holdings | 1.22% | BHP Billiton | 1.18% |
| 9 | Vodafone | 1.12% | GlaxoSmithKline | 1.17% |
| 10 | Unilever | 1.09% | Toyota Motor | 1.05% |

*Based on a representative account (eRAFI® International LP).

Top 10 Over/Under Weights*

| Over | | | Under | |
|---------|-------------------|---------|----------------------|---------|
| Company | | Weights | Company | Weights |
| 1 | BP | 1.26% | HSBC | -1.04% |
| 2 | Total | 0.92% | Toyota Motor | -0.83% |
| 3 | France Telecom | 0.75% | Nestle | -0.75% |
| 4 | Nippon Tel & Tel | 0.67% | Novartis | -0.60% |
| 5 | BT Group | 0.55% | Commonwealth Bank | -0.54% |
| 6 | ING Groep | 0.53% | BHP Billiton | -0.45% |
| 7 | Telstra | 0.53% | Mitsubishi Financial | -0.44% |
| 8 | ENI | 0.52% | Rio Tinto | -0.43% |
| 9 | E.On | 0.50% | Standard Chartered | -0.42% |
| 10 | Royal Dutch Shell | 0.44% | Australia & New | -0.38% |

*Based on a representative account (eRAFI® International LP).

Investment Returns

| Investment Returns | | | | | | | | | | | | | |
|--------------------|----------------------|--------------------|----------|----------------------|--------------------|----------|----------------------|--------------------|----------|-----|----------------------|--------------------|------------------|
| | 2006* | | | 2007* | | | 2010 | | | | 2011 | | |
| | Composite (Gross) | Composite (Net) | MSCI Net | Composite (Gross) | Composite (Net) | MSCI Net | Composite (Gross) | Composite (Net) | MSCI Net | | Composite (Gross) | Composite (Net) | MSCI Net EAFE |
| 1Q | 10.27% | 10.27% | 9.40% | 5.03% | 4.88% | 4.08% | 1.04% | 0.95% | 0.87% | Jan | 3.69% | 3.66% | 2.36% |
| 2Q | -0.31% | -0.41% | 0.70% | 7.43% | 7.31% | 6.40% | -15.02% | -15.10% | -13.97% | Feb | 3.15% | 3.12% | 3.30% |
| 3Q | 4.98% | 4.81% | 3.93% | 2.19% | 2.12% | 2.18% | 17.51% | 17.41% | 16.48% | Mar | -1.50% | -1.53% | -2.24% |
| 4Q | 10.42% | 10.38% | 10.35% | -1.29% | -1.40% | -1.75% | 5.84% | 5.76% | 6.61% | Apr | 6.31% | 6.29% | 5.98% |
| YTD | 27.43% | 27.06% | 26.34% | 13.81% | 13.32% | 11.17% | 6.80% | 6.43% | 7.75% | May | -3.21% | -3.23% | -2.95% |
| | | | | | | | | | | Jun | -1.46% | -1.47% | -1.25% |
| | | | | | | | | | | Jul | -2.73% | -2.74% | -1.59% |
| | | | | | | | | | | Aug | -8.93% | -8.94% | -9.03% |
| | | | | | | | | | | Sep | -9.43% | -9.44% | -9.53% |
| | | | | | | | | | | Oct | | | |
| | | | | | | | | | | Nov | | | |
| | | | | | | | | | | Dec | | | |
| | | | | | | | | | | YTD | -14.30% | -14.45% | -14.98% |
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*On January 1, 2008, 2006-2007 Net Returns were recalculated using actual accounts. Returns were adjusted: 2006 From: 27.03%, To 27.06%; 2007 From: 13.06%, To: 13.32%.

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 55 | 15 | 24% |
| Next \$75M | 22 | 5 | 20% |
| Next \$400M | 19 | 5 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® International Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$826 million

LP Fund Facts

| | |
|----------------------|-----------------------------------|
| Commingled Fund Name | Enhanced RAFI International, L.P. |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Fund Inception | 29 June 2005 |

Separately Managed Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

Disclosures

Research Affiliates, LLC (Research Affiliates) is an investment adviser registered under the Investment Advisors Act of 1940 with the U.S. Securities and Exchange Commission (SEC). Research Affiliates manages a broad array of investment strategies for qualified investors which are offered through pooled investment vehicles and separately managed accounts. The material contained in this document is for information purposes only. This material is not intended as an offer or solicitation for the purchase or sale of any security or financial instrument, nor is it advice or a recommendation to enter into any transaction. Any offer to sell or a solicitation of an offer to buy or sell shall be made solely to qualified investors through a private placement memorandum for pooled investment vehicles, or investment management agreement for separately managed accounts. This information is intended to supplement information contained in the respective disclosure documents. The information contained herein should not be construed as financial or investment advice on any subject matter. Research Affiliates and its related entities do not warrant the accuracy of the information provided herein, either expressed or implied, for any particular purpose. Investment accounts are speculative and involve a high degree of risk. Certain investment accounts may be leveraged and experience volatile performance. An investor could lose all or a substantial amount of his investment. Research Affiliates has total trading authority over the investment accounts. The use of a single advisor applying generally similar trading strategies could mean lack of diversification and, consequently, higher risk. For pooled investment vehicles, there is no secondary market for the investor's interest and none is expected to develop. There may also be restrictions on transferring interests in the pooled investment vehicle. An account's fees and expenses may offset the strategies' trading profits. A substantial portion of the trades executed for the non-US securities takes place on foreign exchanges.

Research Affiliates claims compliance with the Global Investment Performance Standards (GIPS®). Research Affiliates has been independently verified through December 31, 2010. Verification assesses whether (1) the firm has complied with all of the composite construction requirements of the GIPS standards on a firm-wide basis, and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS standards. Verification does not ensure the accuracy of any specific composite presentation. For GIPS purposes, Research Affiliates defines the Firm as all pooled investment vehicle assets and all separately managed account assets, for which Research Affiliates has investment discretionary authority. Current and qualified prospective investors may contact Research Affiliates at info@ralc.com to receive a copy of the verification report, a list of composite descriptions, a GIPS compliant presentation, and general information regarding the firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations.

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Composite Description

Accounts in the Enhanced RAFI® Small International Composite (eRAFI® Small International) apply our Fundamental Index® concept to internationally listed small companies. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales, and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g., quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. Information contained herein relates to the performance of the eRAFI® Small International Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | 3-Yr ¹ | 5-Yr ¹ | ITD ^{1,2} |
|---|---------|---------|--------|-------------------|-------------------|--------------------|
| Composite - Gross Returns | -14.43% | -14.71% | -2.77% | 6.36% | 1.33% | 1.33% |
| Composite - Net Returns | -14.49% | -14.89% | -3.26% | 5.96% | 1.04% | 1.04% |
| MSCI Net Small Cap EAFE + Canada | -18.92% | -19.05% | -5.63% | 6.28% | -1.21% | -1.21% |
| Composite - Volatility | — | 14.54% | 16.22% | 23.32% | 20.52% | 20.52% |
| MSCI Net Small Cap EAFE + Canada - Volatility | — | 19.93% | 20.63% | 27.69% | 24.82% | 24.82% |
| Gross Value Added relative to MSCI Net Small Cap EAFE + Canada | 4.49% | 4.33% | 2.86% | 0.09% | 2.54% | 2.54% |
| Risk-Adjusted Alpha with respect to MSCI Net Small Cap EAFE + Canada | 0.94% | 0.76% | 1.79% | 1.25% | 2.05% | 2.05% |
| Tracking Error with respect to MSCI Net Small Cap EAFE + Canada | — | 6.01% | 5.04% | 6.67% | 6.00% | 6.00% |

¹Returns greater than one year are annualized. Composite inception date 9/30/2006.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with MSCI Net Small Cap EAFE + Canada | Beta on MSCI Net Small Cap EAFE + Canada | Weighted Average Cap |
|----------------------------------|-------------------------|------|------|-------------------|--|---|-------------------------|
| Portfolio* | 11.99 | 0.43 | 0.95 | 3.14% | 0.98 | 0.81 | \$1.7B |
| MSCI Net Small Cap EAFE + Canada | 12.45 | 0.58 | 1.12 | 3.05% | 1.00 | 1.00 | \$1.7B |

*Based on a representative account (eRAFI® Small International LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Basic Materials | 13.75% | 13.96% |
| Consumer, Cyclical | 20.39% | 15.80% |
| Consumer, Non-Cyclical | 12.11% | 11.55% |
| Energy | 4.97% | 6.73% |
| Financial | 18.37% | 19.45% |
| Healthcare | 4.48% | 4.88% |
| Industrial | 17.11% | 16.29% |
| Technology | 5.02% | 7.18% |
| Telecommunications | 1.57% | 2.05% |
| Utilities | 2.24% | 2.11% |

*Based on a representative account (eRAFI® Small International LP).

Portfolio* Country Weights vs. Index Country Weights

| Country | Portfolio Holding Snapshot | |
|-------------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Australia & New Zealand | 6.24% | 8.93% |
| EU (Scandinavia) | 5.85% | 7.60% |
| EU (Spain, Portugal & Greece) | 2.88% | 2.30% |
| France | 3.69% | 3.52% |
| Germany | 3.99% | 4.70% |
| Italy, Switzerland & Austria | 6.06% | 8.28% |
| Japan and South East Asia | 49.67% | 33.52% |
| Netherlands | 1.57% | 1.82% |
| United Kingdom | 7.55% | 19.61% |
| Other | 12.50% | 9.72% |

*Based on a representative account (eRAFI® Small International LP).

Notes:

On January 1, 2008, 2006 to 2007 net returns were recalculated using actual accounts. Fees for the composite were waived during 2006. The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® Small International Composite and individual account performance may differ.

On January 1, 2008, the Fundamental Indexation – Small International Composite name was changed to Enhanced RAFI® Small International Composite. The MSCI Net Small Cap EAFE + Canada Index is a free float-adjusted market capitalization index, with the minimum possible dividend reinvestment, that is designed to measure the equity market performance of small-cap equities in developed markets, excluding the US. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Holdings Comparison

| Portfolio* | | Cap-Weighted | |
|------------------------|---------|--------------------|---------|
| Company | Weights | Company | Weights |
| 1 Toto | 0.31% | Franco Nevada | 0.37% |
| 2 Namco Bandai | 0.31% | Northumbrian Water | 0.37% |
| 3 Nichirei | 0.30% | Transalta | 0.37% |
| 4 Rinnai | 0.30% | Tate & Lyle | 0.37% |
| 5 USS | 0.29% | PSP Swiss Property | 0.36% |
| 6 Calsonic Kansei | 0.29% | Metro | 0.36% |
| 7 Sumitomo Rubber | 0.29% | Enerplus | 0.36% |
| 8 Atco | 0.29% | Groupe CGI | 0.35% |
| 9 Yamazaki Baking | 0.29% | Osisko Mining | 0.35% |
| 10 Maruichi Steel Tube | 0.29% | Canadian Tire | 0.34% |

*Based on a representative account (eRAFI® Small International LP).

Top 10 Over/Under Weights*

| Over | | Under | |
|-----------------------|---------|--------------------|---------|
| Company | Weights | Company | Weights |
| 1 Toto | 0.32% | Franco Nevada | -0.37% |
| 2 Namco Bandai | 0.31% | Transalta | -0.37% |
| 3 Nichirei | 0.30% | Tate & Lyle | -0.37% |
| 4 Rinnai | 0.30% | Groupe CGI | -0.35% |
| 5 USS | 0.30% | Metro | -0.35% |
| 6 Sumitomo Rubber | 0.29% | Enerplus | -0.35% |
| 7 Atco | 0.29% | Canadian Tire | -0.34% |
| 8 Yamazaki Baking | 0.29% | Northumbrian Water | -0.33% |
| 9 Maruichi Steel Tube | 0.29% | PSP Swiss Property | -0.33% |
| 10 Veresen | 0.28% | Pennon Group | -0.32% |

*Based on a representative account (eRAFI® Small International LP).

Investment Returns

| 2006* | | | | 2007* | | | 2010 | | | 2011 | | | |
|-------|----------------------|--------------------|-----------------------|----------------------|--------------------|------------------|----------------------|--------------------|------------------|------|----------------------|--------------------|-----------------------|
| | | | MSCI Net Small Cap | | | | | | | | | | MSCI Net Small Cap |
| | Composite (Gross) | Composite (Net) | EAFE + Canada | Composite (Gross) | Composite (Net) | EAFE + Canada | Composite (Gross) | Composite (Net) | EAFE + Canada | | Composite (Gross) | Composite (Net) | EAFE + Canada |
| 1Q | — | — | — | 7.95% | 7.95% | 7.27% | 4.99% | 4.93% | 5.41% | Jan | 0.66% | 0.60% | 0.52% |
| 2Q | — | — | — | 4.07% | 4.07% | 5.16% | -9.90% | -10.00% | -11.12% | Feb | 2.31% | 2.25% | 2.84% |
| 3Q | — | — | — | -0.31% | -0.31% | -3.73% | 15.78% | 15.68% | 17.75% | Mar | 0.33% | 0.28% | -0.09% |
| 4Q | 10.39% | 10.39% | 11.65% | -4.04% | -4.04% | -4.90% | 10.33% | 10.18% | 12.86% | Apr | 3.18% | 3.13% | 4.96% |
| YTD | 10.39% | 10.39% | 11.65% | 7.48% | 7.47% | 3.28% | 20.84% | 20.37% | 24.51% | May | -2.51% | -2.55% | -2.77% |
| | | | | | | | | | | Jun | -0.92% | -0.96% | -2.16% |
| | | | | | | | | | | Jul | -0.24% | -0.27% | -0.55% |
| | | | | | | | | | | Aug | -6.83% | -6.85% | -7.90% |
| 1Q | -6.03% | -6.06% | -6.45% | -12.87% | -12.88% | -8.92% | | | | Sep | -7.93% | -7.95% | -11.48% |
| 2Q | -2.26% | -2.28% | -3.57% | 30.05% | 30.04% | 34.09% | | | | Oct | | | |
| 3Q | -18.53% | -18.69% | -24.64% | 17.25% | 17.23% | 22.90% | | | | Nov | | | |
| 4Q | -12.88% | -13.16% | -23.56% | -2.37% | -2.41% | 0.48% | | | | Dec | | | |
| YTD | -34.81% | -35.18% | -48.03% | 29.72% | 29.62% | 50.82% | | | | YTD | -11.88% | -12.20% | -16.38% |

*On January 1, 2008, 2006-2007 Net Returns were recalculated using actual accounts. Returns were adjusted: 2006 From: 10.29%, To: 10.39%; 2007 From: 6.71%, To: 7.47%.

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 70 | 22 | 24% |
| Next \$75M | 30 | 20 | 20% |
| Next \$400M | 25 | 18 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® Small International Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$32.0 million

LP Fund Facts

| | |
|--------------------------|---|
| Commingled Fund Name | Enhanced RAFI Small International, L.P. |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Purchase/Redemption Fees | 35 bps |
| Fund Inception | 30 September 2006 |

Separately Managed Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

Disclosures

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Composite Description

Accounts in the Enhanced RAFI® Emerging Market Composite (eRAFI® Emerging Market) apply our Fundamental Index® concept to listed companies in the emerging markets. An index based on market capitalization will overweight overvalued stocks and underweight undervalued stocks, resulting in a performance drag. The RAFI methodology attempts to capture the benefits of indexing and avoid the performance drag associated with cap-weighting by selecting and weighting stocks in an index using fundamental measures of company size (cash flow, book value, sales, and dividends). The Enhanced RAFI® methodology incorporates additional factors (e.g., quality of earnings, financial distress, etc.) along with more frequent rebalancing in comparison to a passive FTSE RAFI® strategy.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. Information contained herein relates to the performance of the eRAFI® Emerging Market Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | 3-Yr ¹ | 5-Yr ¹ | ITD ^{1,2} |
|--|---------|---------|---------|-------------------|-------------------|--------------------|
| Composite - Gross Returns | -23.33% | -23.81% | -15.90% | 10.74% | 9.02% | 8.82% |
| Composite - Net Returns | -23.41% | -23.98% | -16.35% | 10.05% | 8.29% | 8.14% |
| MSCI Net EM | -22.56% | -23.45% | -16.15% | 6.27% | 4.87% | 5.44% |
| Composite - Volatility | — | 23.14% | 21.37% | 33.03% | 31.12% | 30.19% |
| MSCI Net EM - Volatility | — | 22.30% | 20.91% | 30.56% | 28.61% | 27.70% |
| Value Added relative to MSCI Net EM | -0.77% | -0.37% | 0.25% | 4.47% | 4.15% | 3.38% |
| Risk-Adjusted Alpha with respect to MSCI Net EM | 0.96% | 1.44% | 1.49% | 4.00% | 3.89% | 3.08% |
| Tracking Error with respect to MSCI Net EM | — | 1.87% | 2.73% | 4.51% | 5.03% | 5.10% |

¹Returns greater than one year are annualized. Composite inception date 5/31/2006.

²Performance is measured beginning the first full month after composite inception date.

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Correlation with MSCI Net EM | Beta on MSCI Net EM | Weighted Average Cap |
|-------------|-------------------------|------|------|-------------------|------------------------------------|---------------------------|-------------------------|
| Portfolio* | 9.68 | 0.40 | 1.09 | 3.28% | 0.08 | 1.08 | \$26B |
| MSCI Net EM | 10.59 | 0.66 | 1.61 | 2.96% | 1.00 | 1.00 | \$28B |

*Based on a representative account (eRAFI® Emerging Market LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| Basic Materials | 10.64% | 13.81% |
| Consumer, Cyclical | 6.47% | 8.89% |
| Consumer, Non-Cyclical | 5.93% | 7.99% |
| Energy | 15.69% | 14.34% |
| Financial | 20.72% | 23.63% |
| Healthcare | 0.21% | 1.12% |
| Industrial | 7.27% | 5.61% |
| Technology | 14.76% | 12.07% |
| Telecommunications | 14.58% | 9.14% |
| Utilities | 3.73% | 3.38% |

*Based on a representative account (eRAFI® Emerging Market LP).

Portfolio* Country Weights vs. Index Country Weights

| Country | Portfolio Holding Snapshot | |
|--------------|----------------------------|--------------|
| | Portfolio* | Cap-Weighted |
| South Korea | 21.81% | 14.75% |
| Taiwan | 15.82% | 11.69% |
| China | 14.67% | 16.44% |
| Brazil | 9.96% | 14.48% |
| South Africa | 8.18% | 7.91% |
| Russia | 7.91% | 6.23% |
| India | 5.11% | 7.52% |
| Mexico | 4.56% | 4.60% |
| Poland | 2.82% | 1.44% |
| Other | 9.16% | 14.93% |

*Based on a representative account (eRAFI® Emerging Market LP).

Notes:

On January 1, 2008, 2006 to 2007 net returns were recalculated using actual accounts. Fees for the composite were waived during 2006. The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® Emerging Market Composite and individual account performance may differ.

On January 1, 2008, the Fundamental Indexation – Emerging Market Composite name was changed to Enhanced RAFI® Emerging Market Composite. The MSCI Net EM Index is a free float-adjusted market capitalization index, with the minimum possible dividend reinvestment, that is designed to measure the equity market performance of emerging markets. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

Top 10 Over/Under Weights*

| Portfolio* | | | Cap-Weighted | |
|------------|----------------------|---------|-------------------------|---------|
| | Company | Weights | Company | Weights |
| 1 | Samsung Electronics | 3.45% | Samsung Electronics | 2.58% |
| 2 | China Mobile | 2.28% | China Mobile | 1.93% |
| 3 | Gazprom | 2.16% | Gazprom | 1.61% |
| 4 | Taiwan Semiconductor | 1.81% | America Movil | 1.43% |
| 5 | Petroleo Brasileiro | 1.46% | Petroleo Brasileiro | 1.40% |
| 6 | China Petro. & Chem. | 1.29% | Vale | 1.36% |
| 7 | Hyundai Motor | 1.25% | Petroleo Brasileiro | 1.09% |
| 8 | China Construction | 1.22% | Itau Unibanco | 1.06% |
| 9 | America Movil | 1.21% | Cnooc | 1.00% |
| 10 | LG | 1.10% | Industrial & Commercial | 0.97% |

*Based on a representative account (eRAFI® Emerging Market LP).

| Over | | | Under | |
|------|----------------------------|---------|---------------------|---------|
| | Company | Weights | Company | Weights |
| 1 | SK Holdings | 0.98% | Vale | -1.56% |
| 2 | LG | 0.93% | Petroleo Brasileiro | -1.03% |
| 3 | China Petroleum & Chemical | 0.76% | Infosys | -0.91% |
| 4 | SK C&C | 0.75% | Tencent Holdings | -0.68% |
| 5 | Samsung Electronics | 0.70% | Cnooc Limited | -0.64% |
| 6 | Asustek Computer | 0.67% | HDFC Bank | -0.59% |
| 7 | Surgutneftegaz | 0.56% | Reliance Industries | -0.57% |
| 8 | PKN Orlen | 0.56% | ICICI Bank | -0.51% |
| 9 | Gazprom | 0.55% | Bancolombia | -0.47% |
| 10 | KT | 0.53% | Wal-Mart De Mexico | -0.42% |

*Based on a representative account (eRAFI® Emerging Market LP).

Investment Returns

| Investment Returns | | | | | | | | | | | | | |
|--------------------|----------------------|--------------------|----------------|----------------------|--------------------|----------------|----------------------|--------------------|----------------|----------------------|--------------------|----------------|---------|
| | 2006* | | | 2007* | | | 2010 | | | 2011 | | | |
| | Composite (Gross) | Composite (Net) | MSCI Net EM | Composite (Gross) | Composite (Net) | MSCI Net EM | Composite (Gross) | Composite (Net) | MSCI Net EM | Composite (Gross) | Composite (Net) | MSCI Net EM | |
| 1Q | — | — | — | 2.85% | 2.83% | 2.25% | 3.30% | 3.12% | 2.40% | Jan | -1.12% | -1.18% | -2.71% |
| 2Q | -1.90% | -1.90% | -0.24% | 18.02% | 17.24% | 14.96% | -8.17% | -8.33% | -8.37% | Feb | -2.12% | -2.17% | -0.93% |
| 3Q | 3.91% | 3.91% | 4.88% | 15.53% | 15.60% | 14.42% | 18.71% | 18.53% | 18.03% | Mar | 5.84% | 5.79% | 5.88% |
| 4Q | 22.09% | 22.09% | 17.60% | 4.46% | 4.08% | 3.64% | 7.76% | 7.59% | 7.34% | Apr | 3.67% | 3.63% | 3.10% |
| YTD | 24.46% | 24.46% | 23.04% | 46.50% | 45.05% | 39.39% | 21.34% | 20.55% | 18.88% | May | -2.70% | -2.73% | -2.62% |
| | | | | | | | | | | Jun | -1.49% | -1.52% | -1.54% |
| | | | | | | | | | | Jul | -0.48% | -0.52% | -0.44% |
| | | | | | | | | | | Aug | -9.99% | -10.02% | -8.94% |
| | | | | | | | | | | Sep | -14.41% | -14.44% | -14.58% |
| | | | | | | | | | | Oct | | | |
| | | | | | | | | | | Nov | | | |
| | | | | | | | | | | Dec | | | |
| | | | | | | | | | | YTD | -21.96% | -22.25% | -21.88% |
| | 2008 | | | 2009 | | | | | | | | | |
| | Composite (Gross) | Composite (Net) | MSCI Net EM | Composite (Gross) | Composite (Net) | MSCI Net EM | Composite (Gross) | Composite (Net) | MSCI Net EM | Composite (Gross) | Composite (Net) | MSCI Net EM | |
| 1Q | -13.67% | -13.82% | -10.99% | -3.15% | -3.31% | 0.95% | | | | | | | |
| 2Q | -1.88% | -2.04% | -0.86% | 43.44% | 43.21% | 34.73% | | | | | | | |
| 3Q | -25.16% | -25.29% | -26.95% | 26.80% | 26.58% | 20.91% | | | | | | | |
| 4Q | -26.26% | -26.40% | -27.60% | 10.42% | 10.24% | 8.55% | | | | | | | |
| YTD | -53.25% | -53.58% | -53.33% | 94.50% | 93.22% | 78.51% | | | | | | | |

*On January 1, 2008, 2006-2007 Net Returns were recalculated using actual accounts. Returns were adjusted: 2006 From: 23.84%, To 24.46%; 2007 From: 44.14%, To: 45.05%.

Fee Structure*

| Management Fee Only | | Performance Driven | |
|---------------------|----------------|--------------------|-----------------|
| Investment | Base Fee (bps) | Base (bps) | Performance Fee |
| First \$25M | 90 | 22 | 24% |
| Next \$25M | 40 | 20 | 20% |
| Next \$150M | 30 | 18 | 10% |
| Thereafter | Negotiable | | Negotiable |

*Fee schedule for the eRAFI® Emerging Market Composite. Actual fees incurred by clients may vary.

Total Composite AUM \$153 million

LP Fund Facts

| | |
|--------------------------|--|
| Commingled Fund Name | Enhanced RAFI Emerging Market, LP |
| Minimum Investment | \$5.0 million |
| Redemption | 100% 30 days notice |
| Purchase/Redemption Fees | 50 bps |
| Holdbacks | 2.5% (released after pro rata application to fund's annual audit expenses) |
| Fund Inception | 31 May 2006 |

Separately Managed Account Facts

| | |
|--------------------|---------------|
| Minimum Investment | \$100 million |
|--------------------|---------------|

Disclosures

Disclosures

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Verification does not ensure the accuracy of any specific composite presentation. For GIPS purposes, Research Affiliates defines the Firm as all pooled investment vehicle assets and all separately managed account assets, for which Research Affiliates has investment discretionary authority. Current and qualified prospective investors may contact Research Affiliates at info@rallic.com to receive a copy of the verification report, a list of composite descriptions, a GIPS compliant presentation, and general information regarding the firm's policies for valuing portfolios, calculating performance, and preparing compliant presentations.

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Composite Description

Accounts in the Enhanced RAFI® Global Long Short Composite (eRAFI® Global Long Short) seek to profit from the possible mispricing in global equity markets through long and short positions in individual equity securities. Positions are primarily derived from the difference between Research Affiliates Fundamental Index® (RAFI®) weights and capitalization-based weights. RAFI weights are calculated using Research Affiliates' proprietary methodology of index and portfolio construction which selects and weights stocks using fundamental measures of company size including sales, cash flow, dividends, and book value. The Enhanced RAFI® methodology incorporates additional factors which may include quality of earnings and financial distress, among others. The Long Short strategy is managed to mitigate country and sector exposures while seeking market and dollar neutrality. Holdings are reconstituted annually and leverage is adjusted dynamically over time to manage downside risk and to take advantage of predictable patterns in RAFI® outperformance. The strategy may provide investors an alpha source that diversifies and complements most existing portfolios.

This strategy is offered through a pooled investment vehicle or separate investment management agreement with Research Affiliates, LLC. Information contained herein relates to the performance of the eRAFI® Global Long Short Composite.

Standardized Performance

| | 3-Mo | 6-Mo | 1-Yr | 3-Yr ¹ | 5-Yr ¹ | ITD ^{1,2} |
|----------------------------------|---------|---------|---------|-------------------|-------------------|--------------------|
| Composite - Gross Returns | -14.21% | -18.46% | -17.57% | -2.81% | 3.63% | 5.88% |
| Composite - Net Returns | -14.26% | -18.64% | -18.08% | -4.12% | 2.25% | 4.75% |
| Composite - Volatility | — | 15.62% | 17.12% | 17.24% | 18.93% | 16.70% |
| 1-Month Treasury Bill | 0.02% | 0.02% | 0.08% | 0.09% | 1.39% | 2.01% |
| S&P 500 Index | -13.87% | -13.78% | 1.14% | 1.23% | -1.18% | 1.53% |
| Barclays Capital Aggregate | 3.82% | 6.20% | 5.26% | 7.97% | 6.53% | 5.71% |
| 60% S&P / 40% BarCap Aggregate | -7.04% | -6.13% | 3.05% | 4.44% | 2.25% | 3.51% |
| HFRX Global Hedge Fund | -6.45% | -8.80% | -5.47% | -1.77% | -1.68% | -0.12% |

¹Returns greater than 1 year are annualized. Composite inception date 11/30/2004.

²Performance is measured beginning the first full month after composite inception date.

Portfolio* Return Correlation

| | S&P 500 | Barclays Capital Aggregate | HFRX Composite |
|-------------|---------|----------------------------|----------------|
| Correlation | 0.23 | -0.01 | -0.02 |

*Based on a representative account (eRAFI® Global Long Short LP).

Portfolio Characteristics

| | P/E (Trailing 12-Mo) | P/S | P/B | Dividend Yield | Beta on S&P 500 | Weighted Average Cap |
|--------------------|-------------------------|------|------|-------------------|--------------------|-------------------------|
| Portfolio* (Long) | 9.01 | 0.25 | 0.75 | 3.52% | 1.18 | \$37B |
| Portfolio* (Short) | 14.86 | 1.81 | 2.37 | 2.10% | 1.08 | \$54B |

*Based on a representative account (eRAFI® Global Long Short LP).

Portfolio* Sector Weights vs. Index Sector Weights

| Sectors | Portfolio Holding Snapshot | |
|------------------------|----------------------------|--------|
| | Long | Short |
| Basic Materials | 5.34% | 7.68% |
| Consumer, Cyclical | 11.16% | 14.54% |
| Consumer, Non-Cyclical | 11.00% | 12.23% |
| Energy | 13.37% | 10.36% |
| Financial | 22.76% | 12.36% |
| Healthcare | 7.57% | 11.04% |
| Industrial | 6.74% | 10.70% |
| Technology | 5.12% | 12.96% |
| Telecommunications | 9.02% | 4.91% |
| Utilities | 7.92% | 3.22% |

*Based on a representative account (eRAFI® Global Long Short LP).

Portfolio* Country Weights vs. Index Country Weights

| Country | Portfolio Holding Snapshot | |
|----------------|----------------------------|--------|
| | Long | Short |
| United States | 46.25% | 65.30% |
| Japan | 16.84% | 8.84% |
| United Kingdom | 10.94% | 10.52% |
| France | 6.50% | 6.10% |
| Germany | 6.16% | 3.49% |
| Italy | 5.66% | 1.51% |
| Netherlands | 3.86% | 1.26% |
| Belgium | 1.75% | 0.63% |
| Spain | 1.46% | 1.96% |
| Finland | 0.41% | 0.14% |
| Austria | 0.18% | 0.26% |

*Based on a representative account (eRAFI® Global Long Short LP).

Notes:

Fees for the composite were waived during 2004. The performance of the composite is shown gross and net of advisory fees paid, and reflects the deduction of expenses. The deduction of advisory fees and expenses (and the compounding effect over time) will reduce the performance results to an investor. Performance results are expressed in U.S. dollars. Past performance is not indicative of future performance. This Fact Sheet provides historical performance of the eRAFI® Global Long Short Composite and individual account performance may differ.

On January 1, 2008, the Fundamental Indexation – Long Short Composite name was changed to Enhanced RAFI® Global Long Short Composite. The 1-Month Treasury Bill is a one-month debt obligation backed by the US government. The S&P 500 Index is an unmanaged market index that focuses on the large-cap segment of the US equities market. Barclays Capital Aggregate Index is a broad-based bond index comprised of government, corporate, mortgage and asset-backed issues, rated investment-grade or higher and having at least one year to maturity. HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. Broad-based securities indexes are unmanaged, cannot be invested in directly, and are not subject to fees and expenses typically associated with managed accounts or investment funds.

The Long Short strategy may use a Total Return Swap (Swap) to create a position equivalent to an underlying index. The use of Swap positions may be used on a continuous basis and does not guarantee a certain level of performance.

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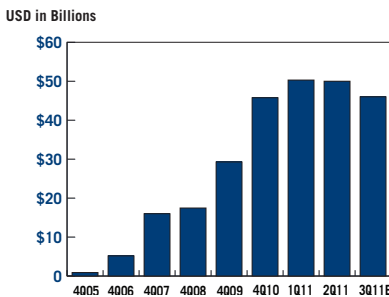
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Fundamentals



Rob Arnott

RAFI® Managed Assets*



*Includes RAFI assets managed or sub-advised by Research Affiliates® or RAFI licensees.



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THE LONG VIEW—BUILDING THE 3-D SHELTER

The word hurricane is derived from “juracán,” a Spanish derivation of a word from the indigenous islanders of the West Indies. The islanders believed in a god named Juracán that either was the storm or created the great storms that descended upon them certain times of the year.¹ Given the ferocity and resulting disruption of daily life, Juracán and his storms not surprisingly helped define the islanders’ culture. Columbus learned of the word shortly upon arriving in the New World and brought the term back to Spain for its eventual incorporation into most Western languages.

A half-millennium later, we use the term to describe the “3-D” storm that will likely be at the forefront of capital markets. Unending deficits, massive debt, and unfavorable demographics, like low pressure eddies over warm ocean waters, are the kinds of conditions that create stagflationary squalls over the next decade or more. With recent markets focused relentlessly on the presumed deflationary impact of a double-dip recession and European contagion, the

market is focused on—to borrow a phrase from Will Rogers—a return *of* capital, not *on* capital. But for the vast majority of investors, the relevant time horizon is much longer and likely to be inflationary. Sadly, traditional portfolios are likely to leave many investors caught up in the storm surge of rising prices.

In this issue, we will suggest gradually building a “third pillar” to existing developed world equity and bond allocations. Such a portfolio should produce more meaningful real returns over a market cycle—an outcome we assert should be the ultimate goal for investors.

A Miss for Diversification and Real Return Assets

Before we delve further into the prognosis for inflation and portfolio implications, let us review the recent asset allocation environment. **Table 1** shows third quarter performance of the 16 asset classes we typically use to proxy a more diversified portfolio than the traditional 60/40 equity/fixed-income standard asset allocation.

Table 1. Quarterly Correlation of Returns to U.S. Inflation, March 1997–September 2011 and 3Q2011 Return

| Asset Class | Index | Correlation | 3Q Return |
|----------------------------|--|-------------|-----------|
| Commodities | DJ UBS Commodity TR USD | 0.52 | -11.3% |
| Bank Loans | Credit Suisse Leveraged Loan USD | 0.51 | -3.9% |
| High Yield | BarCap US Corporate High Yield TR USD | 0.25 | -6.1% |
| TIPS | BarCap US Treasury US TIPS TR USD | 0.23 | 4.5% |
| Convertibles | BofAML Convertible Bonds All Qualities | 0.19 | -12.4% |
| REITs | FTSE NAREIT All REITs TR | 0.18 | -14.6% |
| Local Currency EM | JPM ELMI+ TR USD | 0.13 | -8.9% |
| Emerging Markets Equities | MSCI Emerging Markets (Gross) | 0.09 | -22.5% |
| Small Cap U.S. Equities | Russell 2000 | 0.08 | -21.9% |
| Developed ex U.S. Equities | MSCI EAFE (Gross) | 0.06 | -19.0% |
| Large Cap U.S. Equities | S&P 500 TR USD | 0.04 | -13.9% |
| Emerging Markets Bonds | JPM EMBI+ | 0.03 | -1.2% |
| Short Term Bonds | ML US Corp & Govt 1-3 Yr | -0.25 | 0.2% |
| Long Credit | BarCap US Long Credit | -0.32 | 9.1% |
| Core Fixed Income | BarCap US Agg Bond TR USD | -0.35 | 3.8% |
| Long Treasury | Barcap US Treasury Long | -0.38 | 24.7% |
| 16 Asset Class Portfolio | Equal-Weighted Portfolio of 16 Asset Classes | 0.18 | -6.2% |

Source: Research Affiliates, based on data from Morningstar Encorr.

The diversified portfolio fell 6.2%, the bulk of which occurred in the quarter's final month. September, with its -4.5% return, was the eighth worst month since 1988 for the diversified portfolio. In fact, the diversified 16 asset class mix also trailed the traditional 60/40 blend of S&P 500 Index stocks and BarCap Aggregate bonds, which posted a -3.9% return.

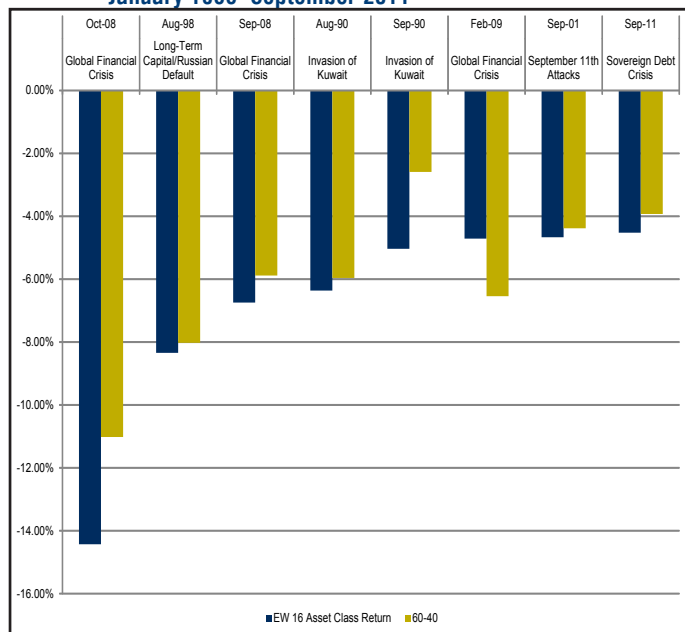
Since 1988, such shortfalls for diversification have largely been associated with crisis periods where massive uncertainty forces investors to first sell alternative markets, where perhaps risk is least understood. Parenthetically, there's probably some "maverick risk" contributing as well—large losses in emerging market local currency bonds draw far more scrutiny than similar declines incurred in the S&P 500! As **Figure 1** shows, the September loss for the 16-asset portfolio was exceeded only in four noteworthy periods—the 2008 Global Financial Crisis, the 1998 Long-Term Capital Management/Russian Default, the 1990 Invasion of Kuwait, and the September 2001 terrorist attacks. Interestingly, these previous crisis periods all subsequently witnessed superior results—an average of 2.7% per annum over the 60/40 portfolio—in the three years post crisis, as shown in **Figure 2**.

Of course, every crisis is different. So what is driving the seeming failure of diversification this time? Revisiting Table 1, *it is clear that the markets wholeheartedly abandoned the idea of inflation protection during the third quarter*. Of the 12 asset classes that have historically been positively correlated with inflation, only TIPS (Treasury Inflation-Protected Securities) produced a positive return for the latest quarter, and that was primarily due to across the board bond yield compression overriding the negative impact from its inflation protection. The remaining 11 all posted losses—averaging 12%!

Is Inflation Really a Non-Issue?

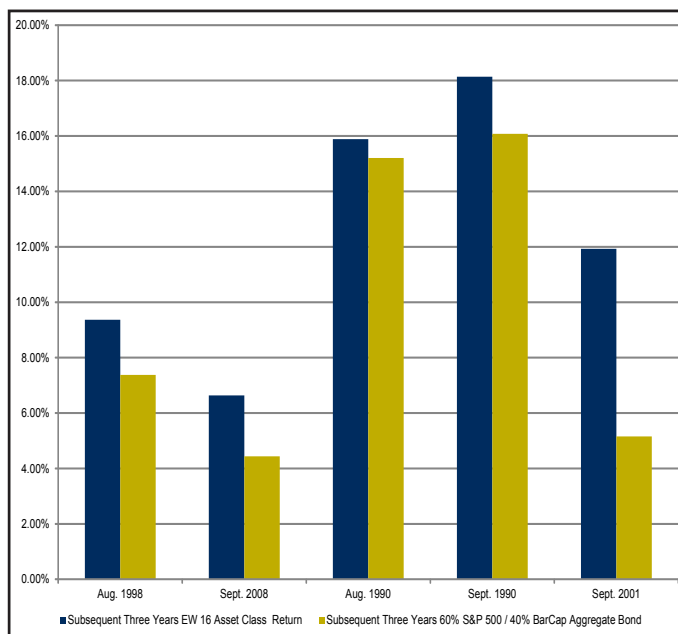
Unlike "the market," we believe inflation will be a factor in the next decade or two because of the game-changing effects of deficits, debts, and demographics. Combined these three "Ds" could produce hurricane force headwinds to developed world growth and tailwinds to bursts of rising prices as debt levels are manipulated down to more manageable levels. Over the past two years, we have encouraged investors to place a greater emphasis on real return asset classes and the emerging markets (where our 3-D headwind is a relative tailwind). We also advocate using an expanded inflation-protection asset class toolkit

Figure 1. Worst Months for Equal Weighted 16 Asset Class Portfolio, January 1988–September 2011



Source: Research Affiliates.

Figure 2. Diversification has Historically Outperformed Post-Crisis



Source: Research Affiliates.

and tactical management to produce substantive real returns in such an environment.² Key tools in the toolkit: traditional real return asset classes (TIPS, commodities, and REITs) and what we have labeled “stealth inflation fighters” such as bank loans, emerging market local currency debt, high yield bonds, and convertibles—the same assets that were brutalized in the third quarter!

We have oft referred to a portfolio of these assets as the “third pillar” to be added to the mainstays of traditional stocks and bonds. Scaling the allocation of this third pillar is dependent on one’s view of the probability and magnitude of the 3-D storm. We obviously are strong believers and assert the third pillar should be the core—the largest and most central part of one’s portfolio mix.

But if these inflation-protection assets were savaged, then we must really be looking at a rapidly deflating price level, right? Wrong! Inflation is 3.9% and core inflation—inflation net of the basic things that dominate the spending of working families—is 2%. Compounding matters, inflation is calculated in a way that produces figures 2–4% lower than in the past. So, 3.9% inflation probably means 6–8%, using the old fashioned method. The difference? The old fashioned method simply asks how much prices are rising or falling. The new method asks how much *quality-adjusted* prices have risen or fallen. If an anti-

lock braking system for a car was a \$2,000 option, but it’s now standard equipment, and the car costs \$1,000 more, then the car is presumed to be \$1,000 cheaper. If a \$1,000 computer has doubled in speed or capacity, it is presumed to have fallen 50% in price. This calculation provides little comfort to those squeezed by rising prices for basic necessities.³

Worse, the near-term direction for inflation is up, not down. The one-year inflation rate is a function of the difference between the new month’s data (coming in) and the year-old month’s data (going out). Rates for those soon-to-be-dropped months are 0.0–0.2%. That means year-end inflation will assuredly be above 4% and may even reach 5%... using the new method that systematically reduces our reported rates of inflation. Federal Reserve Chairman Ben S. Bernanke dismisses the one-year inflation rate as a temporary spike, because core inflation and three-year inflation rates are “well grounded.” Based on the year-ago months that are about to be dropped, one-year core inflation is likely to finish the year at about 3%. And, based on the three-year-ago *deflationary* months from 2008 that are about to be dropped, the three-year annualized inflation rate is likely to soar from 1.1% at mid-year to around 3% at year-end.

If we finish 2011 with 3% core inflation, 4–5% total inflation, and 3% three-year total inflation,

the Fed's ammunition will be tapped out. If the Fed runs the printing presses in the face of 6–10% true inflation, we are flirting with hyperinflation.

So, contrary to the prevailing current view, we are strongly inclined to believe the big issue for most investors *over their relevant investment time horizon* will be the wealth-eroding effect of inflation.⁴ As a result, the first and primary focus should be to locate and invest in asset classes that over a full market cycle (and beyond) are likely to generate superior real returns. Can some of these recently battered asset classes that meet this definition fall further? Of course. But averaging into the riskier markets, when recent markets have brought them to reasonable valuations, and accepting some downside risk if you're early, is essential to successful asset allocation.

The First Steps to Building the Shelter

If we take the long view and focus on asset classes that are likely to excel over a 3-D dominated secular period, the recent sell-off is slowly beginning to create opportunities for establishing a meaningful third pillar within our portfolios. It's not yet a clearance sale, but bargain-starved asset allocators are finally being offered the chance to buy some asset classes at below retail prices. Let's review some that are currently interesting (based upon data as of September 30, 2011).

- **Emerging Markets Debt** sports attractive nominal yields of 6.7% (as measured by the JPM GBI-EM Global Diversified Index), a pretty attractive rate given their substantially higher capacity to service that debt.⁵ Emerging markets have 38% of world GDP, 81% of global population, 65% of its landmass, and 45% of worldwide energy consumption but only 11% of the debt.⁶
- **Investment Grade Credit** offers yields of 3.2% on the intermediate part of the curve (as measured by the Barclays Capital Intermediate U.S. Corporate Index), a spread of 2.2% above Treasuries, making it a far better low-risk option.

- **Emerging Markets Equities** have had higher dividend yields than today's 3.2%⁷ only twice—during the Long-Term Capital Management episode and the Global Financial Crisis. If we add in the historical excess return from the Fundamental Index® strategy and a slight premium for earnings growth above the developed world, we can arrive at an expected long-term real return over 8%.
- **High Yield Bond** spreads are the cheapest since 1986. Nominal yields are 9.5%, which allows for decent forward-looking returns even after netting out a sizeable default risk.

For an asset allocator, the sweet spot is a combination of cheap assets and an improving economic backdrop. Today, we have *cheaper* assets and a deteriorating macro picture. Thus, the prudent course is to add incrementally to these exposures.

If you are buying some assets, you have to be selling others. The obvious sell candidate in a long-term inflationary environment would be developed world sovereign debt. See **Figure 3**, which plots the starting nominal yield of the Ibbotson Intermediate Government Bond Index (essentially a five-year Treasury) and its subsequent five-year real return. When starting government bond yields are below 1% (as they are today), subsequent five-year real returns are substantially negative—by an average of 5%! After incorporating our long-term 3-D forecast, buying and holding Treasuries is the equivalent of an islander sitting in his hut and never looking out the window for the duration of the hurricane season!

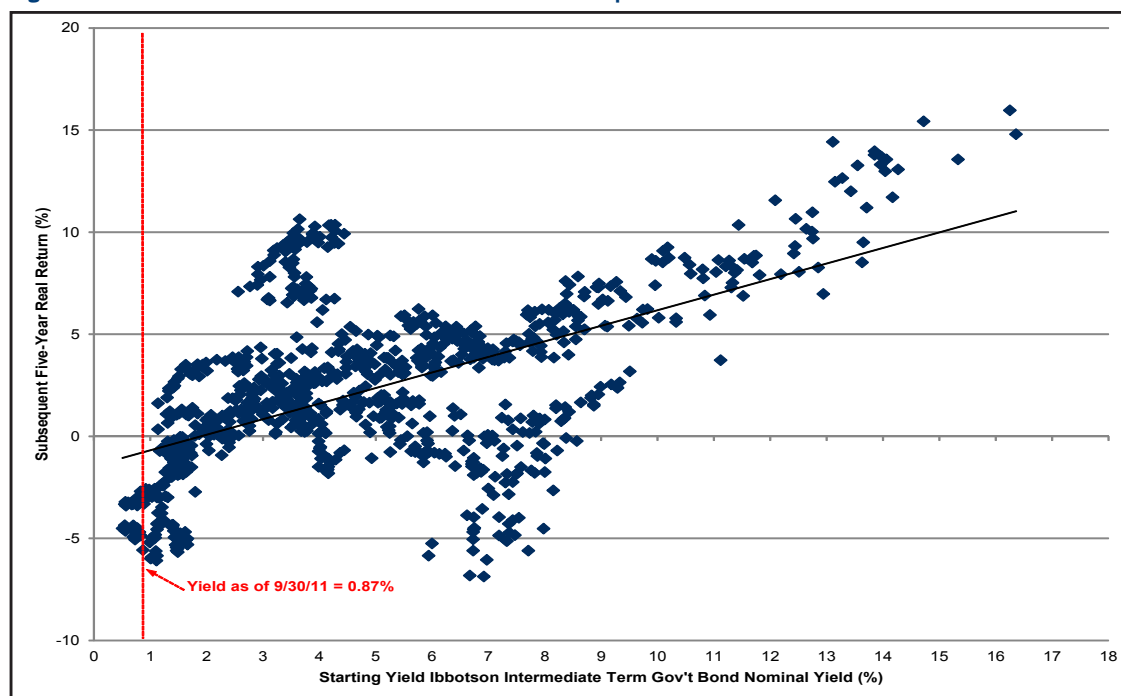
So while Treasuries and other ultra-low yielding safe haven assets will likely provide liquidity and possible short-term protection on a nominal basis, their long-term real return outlook is bleak. Thus, investors must ask themselves: What is risk? Short-term volatility or long-term impairment of purchasing power? Unless one plans to spend the bulk of one's assets in the next year or two, we strongly assert the latter is a far greater risk.

Conclusion

Without the aid of satellite images, radar, or airplanes, the islanders had to rely on subtle signs of an impending tempest learned over generations—blooming grass, a hazy sun, a light drizzle, and the normally open ocean frigate birds converging on land. Of course, none of these provided much advance notice versus the hurricane trackers of today. Thus, these ancient people had to prepare by building crude shelters well before the storm season. Typically, these shelters consisted of a dugout with a centrally placed and sturdily anchored log from which to lash cover to nearby trees.⁸

Investment portfolios of today are in a similar predicament. Sadly, a 3-D hurricane season will not be a matter of waiting a handful of months but will require many years of guarded vigilance. Preparedness can and should start now while a softening economy postpones the 3-D hurricane season a year or two. Fortunately, many of the asset classes that will form the bulwark of our shelter are becoming reasonably priced. There may never be a better time to establish our third pillar, using continued weakness to embed and reinforce our ability to weather the storm. The beach days are over. It's time to get to work—carefully and deliberately—building protection from the greatest threat to our portfolios.

Figure 3. Low Nominal Government Yields Lead to Poor Subsequent Real Returns



Source: Research Affiliates.

Endnotes

1. See <http://en.wikipedia.org/wiki/Jurac%C3%A1n>.
2. See the following *Fundamentals* issues: "A Complete Toolkit for Fighting Inflation," June 2009; "The '3-D' Hurricane Force Headwind," November 2009; "Debt Be Not Proud," August 2010; "Are 401(k) Investors Fighting Yesterday's War?" September 2010; "King of the Mountain," September 2011. <http://researchaffiliates.com/ideas/fundamentals.htm>.
3. This message was communicated to New York Fed Chair Bill Dudley at a March 2011 town hall meeting in Brooklyn. Dudley tried to explain that, while grocery prices had risen, the new iPad 2 cost the same as the original iPad with far better features, which really meant falling prices. One attendee then shouted "we can't eat an iPad." See "For Fed's Dudley, iPad Comment Falls Flat in Queens," March 11, 2011, <http://www.reuters.com/article/2011/03/11/us-usa-fed-dudley-ipad-idUSTRE72A4D520110311>.
4. Even those well into retirement or in the spend down stage of a portfolio are likely 10-plus years investors.
5. Many are surprised, especially given some of the spectacular defaults, that the starting yield is over 90% correlated with the subsequent five-year total return for the asset class. In other words, what you see (in yield) is what you get (in return). The improving creditworthiness of the survivors—the asset class has gone from approximately 8% investment grade in 1998 to 57% today—makes up for the blow-up losses leaving the overall portfolio no worse for the wear.
6. For a complete description of these metrics, see "Debt Be Not Proud," 2010, *Journal of Indexes*, November/December: <http://www.indexuniverse.com/publications/journalofindexes/joi-articles/8237-debt-be-not-proud.html>
7. Based on the MSCI Emerging Markets Index.
8. See <http://www.e-missions.net/om/2weeks/hurricanes.aspx>.

Performance Update

FTSE RAFI® Equity Index Series*

| TOTAL RETURN AS OF 9/30/11 | BLOOMBERG TICKER | YTD | 12 MONTH | ANNUALIZED 3 YEAR | ANNUALIZED 5 YEAR | ANNUALIZED 10 YEAR | ANNUALIZED 10 YEAR VOLATILITY |
|---|------------------|---------|----------|-------------------|-------------------|--------------------|-------------------------------|
| FTSE RAFI® All World 3000 ¹ | TFRAW3 | -14.85% | -7.45% | 3.07% | 0.81% | 8.84% | 18.91% |
| MSCI All Country World ² | GDUEACWF | -13.20% | -5.54% | 1.14% | -1.07% | 4.96% | 17.23% |
| FTSE RAFI® Developed ex US 1000 ³ | FRX1XTR | -16.69% | -11.42% | 0.53% | -1.66% | 7.49% | 20.20% |
| MSCI World ex US Large Cap ⁴ | MLCUWXUG | -14.80% | -8.97% | -0.98% | -2.58% | 5.29% | 18.38% |
| FTSE RAFI® Developed ex US Mid Small ⁵ | TFRDXXUS | -11.93% | -2.68% | 11.01% | 2.87% | 13.61% | 18.79% |
| MSCI World ex US Small Cap ⁶ | GCUDWXUS | -16.13% | -5.30% | 6.66% | -0.84% | 10.50% | 20.33% |
| FTSE RAFI® Emerging Markets ⁷ | TFREMU | -21.46% | -15.14% | 7.75% | 8.42% | 22.90% | 24.66% |
| MSCI Emerging Markets ⁸ | GDUEEGF | -21.66% | -15.89% | 6.59% | 5.17% | 16.41% | 24.14% |
| FTSE RAFI® 1000 ⁹ | FR10XTR | -10.97% | -0.38% | 4.76% | 0.13% | 5.21% | 18.12% |
| Russell 1000 ¹⁰ | RU10INTR | -9.25% | 0.91% | 1.61% | -0.91% | 3.28% | 15.95% |
| S&P 500 ¹¹ | SPTX | -8.68% | 1.14% | 1.23% | -1.18% | 2.82% | 15.75% |
| FTSE RAFI® US 1500 ¹² | FR15USTX | -18.10% | -4.08% | 5.72% | 2.03% | 10.22% | 22.57% |
| Russell 2000 ¹³ | RU20INTR | -17.02% | -3.53% | -0.37% | -1.02% | 6.12% | 20.84% |
| FTSE RAFI® Europe ¹⁴ | TFREUE | -18.40% | -13.85% | -0.79% | -4.60% | 3.05% | 19.13% |
| MSCI Europe ¹⁵ | GDDE15 | -15.17% | -10.89% | -0.88% | -3.87% | 2.18% | 16.85% |
| FTSE RAFI® Australia ¹⁶ | FRAUSTX | -11.07% | -8.08% | 0.71% | 0.32% | 7.87% | 13.08% |
| S&P/ASX 200 ¹⁷ | ASA51 | -12.40% | -8.56% | -0.11% | -0.68% | 7.24% | 13.31% |
| FTSE RAFI® Canada ¹⁸ | FRCANTR | -10.61% | -3.91% | 5.08% | 4.12% | 8.75% | 14.35% |
| S&P/TSX 60 ¹⁹ | TX60AR | -11.57% | -4.27% | 0.89% | 2.41% | 7.69% | 14.67% |
| FTSE RAFI® Japan ²⁰ | FRJPNTX | -15.83% | -8.11% | -8.65% | -10.83% | 0.69% | 18.47% |
| MSCI Japan ²¹ | GDJLJN | -15.18% | -7.67% | -10.16% | -12.55% | -1.49% | 18.09% |
| FTSE RAFI® UK ²² | FRGBRTR | -11.20% | -4.91% | 5.18% | -0.11% | 4.66% | 16.97% |
| MSCI UK ²³ | GDDLUK | -10.21% | -4.15% | 5.51% | 0.64% | 3.96% | 15.01% |

*To see the complete series, please go to: http://www.ftse.com/Indices/FTSE_RAFI_Index_Series/index.jsp.

Russell Fundamental Index® Series*

| TOTAL RETURN AS OF 9/30/11 | BLOOMBERG TICKER | YTD | 12 MONTH | ANNUALIZED 3 YEAR | ANNUALIZED 5 YEAR | ANNUALIZED 10 YEAR | ANNUALIZED 10 YEAR VOLATILITY |
|---|------------------|---------|----------|-------------------|-------------------|--------------------|-------------------------------|
| Russell Fundamental Global Index Large Company ²⁴ | RUFGLTU | -12.84% | -4.88% | 3.33% | 1.19% | 9.02% | 17.59% |
| MSCI All Country World Large Cap ²⁵ | MLCUAWOG | -12.90% | -5.47% | 0.58% | -1.22% | 4.35% | 16.91% |
| Russell Fundamental Developed ex US Index Large Company ²⁶ | RUFDXLTU | -15.49% | -9.88% | -3.41% | -2.06% | 9.20% | 18.60% |
| MSCI World ex US Large Cap ²⁷ | MLCUWXUG | -14.80% | -8.97% | -0.98% | -2.58% | 5.29% | 18.38% |
| Russell Fundamental Developed ex US Index Small Company ²⁸ | RUFDXSTU | -11.39% | -1.71% | 9.07% | 1.86% | 12.67% | 18.43% |
| MSCI World ex US Small Cap ²⁹ | GCUDWXUS | -16.13% | -5.30% | 6.66% | -0.84% | 10.50% | 20.33% |
| Russell Fundamental Emerging Markets ²⁹ | RUFGETRU | -20.42% | -12.78% | 9.92% | 9.46% | 22.79% | 24.50% |
| MSCI Emerging Markets ⁸ | GDUEEGF | -21.66% | -15.89% | 6.59% | 5.17% | 16.41% | 24.14% |
| Russell Fundamental US Index Large Company ³⁰ | RUFUSLTU | -8.88% | 1.55% | 3.71% | 0.65% | 6.00% | 16.57% |
| Russell 1000 ¹⁰ | RU10INTR | -9.25% | 0.91% | 1.61% | -0.91% | 3.28% | 15.95% |
| S&P 500 ¹¹ | SPTX | -8.68% | 1.14% | 1.23% | -1.18% | 2.82% | 15.75% |
| Russell Fundamental US Index Small Company ³¹ | RUFUSSTU | -16.40% | -3.08% | 6.37% | 3.26% | 10.95% | 21.17% |
| Russell 2000 ¹³ | RU20INTR | -17.02% | -3.53% | -0.37% | -1.02% | 6.12% | 20.84% |
| Russell Fundamental Europe ³² | RUFENTE | -17.21% | -11.52% | 1.46% | -2.41% | 6.03% | 18.02% |
| MSCI Europe ¹⁵ | GDDE15 | -15.17% | -10.89% | -0.88% | -3.87% | 2.18% | 16.85% |

*To see the complete series, please go to: http://www.russell.com/indexes/data/Fundamental/About_Russell_Fundamental_indexes.asp.

Fixed Income/Alternatives

| TOTAL RETURN AS OF 9/30/11 | BLOOMBERG TICKER | YTD | 12 MONTH | ANNUALIZED 3 YEAR | ANNUALIZED 5 YEAR | ANNUALIZED 10 YEAR | ANNUALIZED 10 YEAR VOLATILITY |
|--|------------------|---------|----------|-------------------|-------------------|--------------------|-------------------------------|
| RAFI® Bonds Investment Grade Master ³³ | | 6.93% | 5.17% | 13.45% | 7.55% | 6.54% | 6.07% |
| ML Corporate Master ³⁴ | COAO | 5.63% | 3.95% | 12.05% | 6.49% | 6.19% | 6.21% |
| RAFI® Bonds High Yield Master ³⁵ | | 2.80% | 4.48% | 18.02% | 9.51% | 9.36% | 10.97% |
| ML Corporate Master II High Yield BB-B ³⁶ | HOA4 | -0.42% | 1.98% | 11.98% | 6.28% | 7.74% | 9.79% |
| RAFI® US Equity Long/Short ³⁷ | | -6.11% | -3.14% | 10.47% | 2.09% | 4.85% | 11.74% |
| 1-Month T-Bill ³⁸ | GB1M | 0.05% | 0.08% | 0.11% | 1.47% | 1.82% | 0.48% |
| FTSE RAFI® Global ex US Real Estate ³⁹ | FRXR | -23.24% | -19.59% | -1.51% | -7.19% | 7.91% | 22.84% |
| FTSE EPRA/NAREIT Global ex US ⁴⁰ | EGXU | -18.84% | -15.30% | -3.17% | -8.40% | 6.49% | 20.51% |
| FTSE RAFI® US 100 Real Estate ⁴¹ | FRUR | -12.73% | -3.70% | -1.62% | -8.31% | 4.00% | 27.40% |
| FTSE EPRA/NAREIT United States ⁴² | UNUS | -8.84% | -2.78% | -6.70% | -7.31% | 3.78% | 25.75% |



Definition of Indices:

- (1) The FTSE RAFI® All World 3000 Index is a measure of the largest 3,000 companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value), across both developed and emerging markets.
- (2) The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
- (3) The FTSE RAFI® Developed ex US 1000 Index is a measure of the largest 1000 non U.S. listed, developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (4) The MSCI World ex US Large Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the United States.
- (5) The FTSE RAFI® Developed ex US Mid Small Index tracks the performance of small and mid-cap companies domiciled in developed international markets (excluding the United States), selected and weighted based on the following four fundamental measures of firm size: sales, cash flow, dividends and book value.
- (6) The MSCI World ex US Small Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of small cap developed markets, excluding the United States.
- (7) The FTSE RAFI® Emerging Markets Index comprises the largest 350 Emerging Market companies selected and weighted using fundamental factors (sales, cash flow, dividends, book value).
- (8) The MSCI Emerging Markets Index is an unmanaged, free-float-adjusted cap-weighted index designed to measure equity market performance of emerging markets.
- (9) The FTSE RAFI® 1000 Index is a measure of the largest 1,000 U.S. listed companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (10) The Russell 1000 Index is a market-capitalization-weighted benchmark index made up of the 1,000 highest-ranking U.S. stocks in the Russell 3000.
- (11) The S&P 500 Index is an unmanaged market index that focuses on the large-cap segment of the U.S. equities market.
- (12) The FTSE RAFI® US 1500 Index is a measure of the 1,001st to 2,500th largest U.S. listed companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (13) The Russell 2000 is a market-capitalization weighted benchmark index made up of the 2,000 smallest U.S. companies in the Russell 3000.
- (14) The FTSE RAFI® Europe Index is comprised of all European companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (15) The MSCI Europe Index is a free-float adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe.
- (16) The FTSE RAFI® Australia Index is comprised of all Australian companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (17) The S&P/ASX 200 Index, representing approximately 78% of the Australian equity market, is a free-float-adjusted, cap-weighted index.
- (18) The FTSE RAFI® Canada Index is comprised of all Canadian companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (19) The S&P/Toronto Stock Exchange (TSX) 60 is a cap-weighted index consisting of 60 of the largest and most liquid (heavily traded) stocks listed on the TSX, usually domestic or multinational industry leaders.
- (20) The FTSE RAFI® Japan Index is comprised of all Japanese companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (21) The MSCI Japan Index is an unmanaged, free-float-adjusted cap-weighted index that aims to capture 85% of the publicly available total market capitalization of the Japanese equity market.
- (22) The FTSE RAFI® UK Index is comprised of all UK companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (23) The MSCI UK Index is an unmanaged, free-float-adjusted cap-weighted index that aims to capture 85% of the publicly available total market capitalization of the British equity market.
- (24) The Russell Fundamental Global Index Large Company is a measure of the largest companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks), across both developed and emerging markets.
- (25) The MSCI All Country World Large Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
- (26) The Russell Fundamental Developed ex US Large Company is a subset of the Russell Fundamental Developed ex US Index, and is a measure of the largest non-U.S. listed developed country companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (27) The MSCI World ex US Large Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of large cap-developed markets, excluding the United States.
- (28) The Russell Fundamental Developed ex US Index Small Company is a subset of the Russell Fundamental Developed ex US Index, and is a measure of small non-U.S. listed developed country companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (29) The Russell Fundamental Emerging Markets Index is a measure of Emerging Market companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (30) The Russell Fundamental U.S. Index Large Company is a subset of the Russell Fundamental US Index, and is a measure of the largest U.S. listed companies, selected and weighted using fundamental measures; (adjusted sales, retained cash flow, dividends + buybacks).
- (31) The Russell Fundamental US Index Small Company is a subset of the Russell Fundamental US Index, and is a measure of U.S. listed small companies, selected and weighted using fundamental measures; (adjusted sales, retained cash flow, dividends + buybacks).
- (32) The Russell Fundamental Europe Index is a measure of European companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (33) The RAFI® Bonds Investment Grade Master Index is a U.S. investment-grade corporate bond index comprised of non-zero fixed coupon debt with maturities ranging from 1 to 30 years issued by publicly traded companies. The issuers held in the index are weighted by a combination of four measures of their fundamental size—sales, cash flow, dividends, and book value of assets.
- (34) The Merrill Lynch U.S. Corporate Master Index is representative of the entire U.S. corporate bond market. The index includes dollar-denominated investment-grade corporate public debt issued in the U.S. bond market.
- (35) The RAFI® Bonds High Yield Master is a U.S. high-yield corporate bond index comprised of non-zero fixed coupon debt with maturities ranging from 1 to 30 years issued by publicly traded companies. The issuers held in the index are weighted by a combination of four measures of their fundamental size—sales, cash flow, dividends, and book value of assets.
- (36) The Merrill Lynch Corporate Master II High Yield BB-B Index is representative of the U.S. high yield bond market. The index includes domestic high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default.
- (37) The RAFI® US Equity Long/Short Index utilizes the Research Affiliates Fundamental Index® (RAFI®) methodology to identify opportunities that are implemented through long and short securities positions for a selection of U.S. domiciled publicly traded companies listed on major exchanges. Returns for the index are collateralized and represent the return of the strategy plus the return of a cash collateral yield.
- (38) The 1-Month T-bill return is calculated using the Bloomberg Generic 1-month T-bill. The index is interpolated based off of the currently active U.S. 1 Month T-bill and the cash management bill closest to maturing 30 days from today.
- (39) The FTSE RAFI® Global ex US Real Estate Index comprises 150 companies with the largest RAFI fundamental values selected from the constituents of the FTSE Global All Cap ex U.S. Index that are classified by the Industry Classification Benchmark (ICB) as Real Estate.
- (40) The FTSE EPRA/NAREIT Global ex US Index is a free float-adjusted index, and is designed to represent general trends in eligible listed real estate stocks worldwide, excluding the United State. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate.
- (41) The FTSE RAFI® US 100 Real Estate Index comprises of the 100 U.S. companies with the largest RAFI fundamental values selected from the constituents of the FTSE USA All Cap Index that are classified by the Industry Classification Benchmark (ICB) as Real Estate.
- (42) The FTSE EPRA/NAREIT United States Index is a free float-adjusted index, is a subset of the EPRA/NAREIT Global Index and the EPRA/NAREIT North America Index and contains publicly quoted real estate companies that meet the EPRA Ground Rules. EPRA/NAREIT Index series is seen as the representative benchmark for the real estate sector.

Source: All index returns are calculated using total return data from Bloomberg, except for the real estate indices and benchmarks, which use price return data. Returns for all single country strategies and Europe regional strategies are in local currency. All other returns are in USD.

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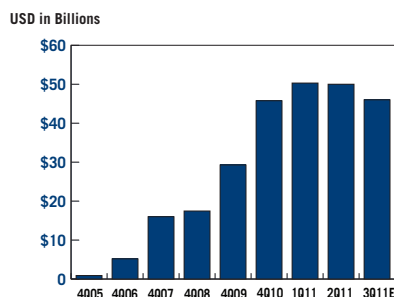
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Fundamentals



Jason Hsu

RAFI® Managed Assets*



*Includes RAFI assets managed or sub-advised by Research Affiliates® or RAFI licensees.



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ALTERNATIVE BETA—THE THIRD CHOICE

Before the publication of the Fundamental Index® concept in 2005, equity portfolio implementation was largely dependent on one's view of market efficiency. If markets were deemed mostly efficient, then the equity allocation would consist of index funds. If not, then active managers would fill out the equity slice.

Proponents of the Efficient Markets Hypothesis and proponents of active management disagreed vehemently; paradoxically, many organizations displayed schizophrenia in their investment philosophy by employing both a passive index team and an active management team. Passive proponents would point to performance databases that showed the failure of most active managers to produce index-beating results over the very long term. The active managers would parade examples of substantial mispricings (e.g., bubbles) in sectors, countries, and individual stocks that create opportunities for the disciplined and well-informed.

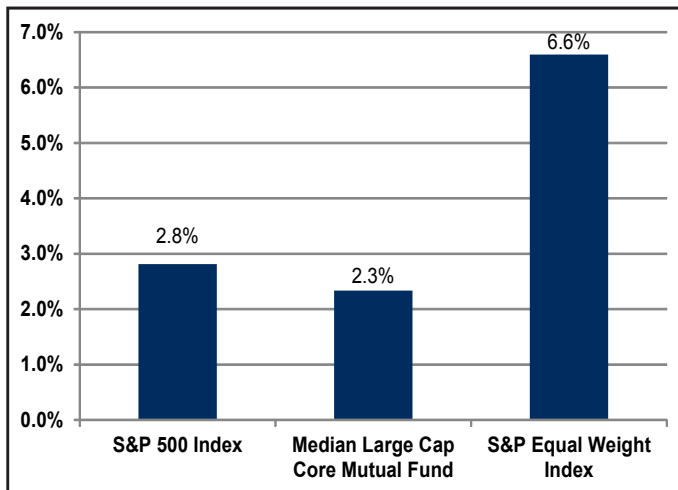
What does the past 10 years of data have to offer on this debate? As seen in **Figure 1**, the S&P 500 Index earned an annualized

return of 2.8% through September 2011—not very good in absolute terms but good enough to beat 67% of large-cap core managers. The indexers have achieved better results than the large majority of their competitors with far less effort and heartache!

However, in the last decade, we have also observed some undeniable mispricings—technology stocks in early years of the decade and homebuilders and mortgage bankers in mid-2007. Arguably, financial and consumer cyclical stocks of early 2009 were significantly undervalued. The S&P 500 capitalization-weighted index, by systematically overweighting the overpriced and underweighting the underpriced stocks, trailed the S&P Equal Weight Index by 3.8% per annum. Unpleasantly for investors, both active and passive approaches have delivered poor results.

While we believe strongly in markets being inefficient, we underperform the benchmark net of costs. Additionally, we believe that cap-weighting is an inappropriate passive investment vehicle

Figure 1. Active and Passive Approaches Underperform Equal-Weighting Annualized Returns, October 2001—September 2011



Source: Research Affiliates, based on data from eVestment Alliance.

where prices are inefficient as the index overallocates to expensive stocks and underallocates to cheap stocks. There is a third option for clients who wish to allocate to equities—non-price-weighted strategy indexes, which offer investors an alternative and complementary choice. Since the publication of “Fundamental Indexation” in the *Financial Analysts Journal*,¹ many asset managers and indexers have created a dizzying array of “alternative betas” or “strategy indexes” designed to offer investors passive investment vehicles that are grounded in the hypothesis of market inefficiency.

We have studied the similarities and differences among these alternative beta strategies. Our comprehensive research, which was published in the *Financial Analysts Journal*, compares the performance of several of the well-known alternative betas using a common data set and investment parameters.² We summarize the main findings of that research in this issue of *Fundamentals*.

The Methodologies

The non-price-weighted strategies examined can be classified into two categories: heuristic-based-weighting methodologies and optimization-based-weighting methodologies.

The heuristic-based strategies include naïve **Equal-Weighting** and its extensions that seek to eliminate the undesirable characteristics of a simple

equal-weighting strategy (e.g., Equal-Weighting’s sensitivity to the number of stocks in the portfolio). The strategies examined are **Diversity-Weighting**, which has limited turnover and tracking error relative to the cap-weighted benchmark as it is mathematically an interpolation of equal-weighting and cap-weighting; **Risk-Clusters Equal-Weighting**, which groups securities by country and risk factors, intuitively provides more robust diversification as it equal weights uncorrelated risk factors rather than individual securities; and the **Fundamental Index Strategy**, which completely severs the link with market prices, and instead uses variables tied to the economy to select and weight securities.

Optimization-based strategies are generally more complicated; they require complex mathematical and computational routines to arrive at a mean-variance optimal portfolio. While they are theoretically attractive, their models are difficult to apply in practice. Ad hoc assumptions for estimating the expected returns for all stocks and their covariance matrix are often required. The optimization-based strategies we look at are the **Minimum-Variance** strategy, a popular approach which assumes uniform expected returns for all stocks and targets the left end of the efficient frontier; the **Maximum Diversification Index**, which incorporates information on expected stock returns and seeks to reduce portfolio volatility; and **Risk Efficient Indexation**, which assumes risk and return are related to their downside risk and includes carefully designed portfolio constraints.

The Results

Our research involved simulations of the alternative beta strategies using a consistent database, risk factor construction, and portfolio parameters. Total returns were calculated for each strategy at a monthly frequency from 1964 through 2009 for the U.S. strategies, and from 1987 through 2009 for the global strategies. We compared these strategies to two leading cap-weighted indices—the S&P 500 for U.S. strategies and the MSCI World for global strategies. The choice of date ranges depended entirely on the breadth of historical data.

Portfolio parameters were synchronized to achieve a controlled environment for performance comparison.

As **Table 1** shows, all of the strategies produced meaningfully higher returns than their cap-weighted benchmarks over the full sample period. In general, the optimized strategies have higher tracking errors and lower volatilities, and the heuristic-weighting strategies tend to have relatively higher volatilities and lower tracking errors. As expected, the minimum-variance portfolios show the lowest volatilities of the strategies considered.

Is There Skill in Eliminating Negative Alpha?

All of the alternative betas surveyed produced excess returns. Indeed, there is no such thing as a bad backtest! But we attempted to dive a bit deeper and, odd as it sounds, assess the “manager skill” in each of the strategies. We used a four-factor analysis for the various strategies.³ As **Table 2** shows, all of the strategies display positive and significant exposure to the size and value factors, resulting in

their outperformance. Additionally, optimized strategies generally have a lower exposure to the market portfolio. We conclude that none of these strategies are different from naïve equal-weighting in their investment insights.

Despite the lack of statistically significant alpha based on the four factors, we conclude that these alternative betas are valuable to investors because they provide access to the size and value premia. Traditional value and small-cap indices exhibit negative Fama–French alphas, suggesting that they may not be the best ways to access value and small-cap tilts.⁴ Furthermore, Fama–French factor portfolios are impractical for the vast majority of investors—big and small alike—because they require shorting, experience high turnover at monthly rebalancing, and contain many illiquid stocks. Thus, any portfolio that can capture the vast majority of these premia in a more reliable and cost-effective manner deserves careful consideration.

Table 1. Return Characteristics of Annually Rebalanced Strategies: 1,000 Stocks

| Strategy | Total Return | Volatility | Sharpe Ratio | Information Ratio | Tracking Error |
|---|--------------|------------|--------------|-------------------|----------------|
| Panel A. Global (1987–2009) | | | | | |
| MSCI World Index ^a | 7.58% | 15.65% | 0.22 | — | — |
| Equal-Weighting | 8.64% | 15.94% | 0.28 | 0.35 | 3.02% |
| Diversity-Weighting | 7.75% | 15.80% | 0.22 | 0.10 | 1.60% |
| Fundamentals-Weighting | 11.13% | 15.30% | 0.45 | 0.74 | 4.77% |
| Maximum Diversification | 7.77% | 13.16% | 0.27 | 0.02 | 7.41% |
| Minimum-Variance | 8.59% | 11.19% | 0.39 | 0.12 | 8.66% |
| Risk-Clusters EW | 10.78% | 16.57% | 0.40 | 0.52 | 6.18% |
| Risk Efficient | 8.94% | 14.90% | 0.32 | 0.38 | 3.58% |
| Panel B. United States (1964–2009) | | | | | |
| S&P 500 Index ^b | 9.46% | 15.13% | 0.26 | — | — |
| Equal-Weighting | 11.78% | 17.47% | 0.36 | 0.36 | 6.37% |
| Diversity-Weighting | 10.27% | 15.77% | 0.30 | 0.31 | 2.63% |
| Fundamentals-Weighting | 11.60% | 15.38% | 0.39 | 0.47 | 4.50% |
| Maximum Diversification | 11.99% | 14.11% | 0.45 | 0.36 | 7.06% |
| Minimum-Variance | 11.40% | 11.87% | 0.49 | 0.24 | 8.08% |
| Risk-Clusters EW | 10.91% | 14.84% | 0.36 | 0.29 | 4.98% |
| Risk Efficient | 12.46% | 16.54% | 0.42 | 0.48 | 6.29% |

^aFor the MSCI Global Developed Index, they report turnover of a simulated global developed cap-weighted index of the top 1,000 stocks rebalanced annually on December 31.

^bFor the S&P 500 Index, they report turnover of a simulated U.S. cap-weighted index of the top 500 stocks rebalanced annually on December 31.

Note: For details of the portfolio weighting methodologies, see Tzee-man Chow, Jason Hsu, Vitali Kalesnik, and Bryce Little. (2011).

Source: Research Affiliates.

Table 2. Four-Factor Model Risk Decomposition

| Strategy | Annual Alpha | Market (Mkt-Rf) | Size (SMB) | Value (HML) | Momentum (MOM) | R ² |
|---|--------------|-----------------|------------|-------------|----------------|----------------|
| Panel A. Global (1987–2009) | | | | | | |
| MSCI World Index ^a | 0.00% | 1.000 | 0.000 | 0.000 | 0.000 | 1.00 |
| Equal-Weighting | 0.77% | 1.015† | 0.259† | 0.025* | -0.008 | 0.98 |
| Diversity-Weighting | 0.38% | 1.001† | 0.087† | -0.058† | 0.011* | 0.99 |
| Fundamentals-Weighting | 2.18%† | 0.970† | 0.040* | 0.332† | -0.090† | 0.97 |
| Maximum Diversification | 0.49% | 0.760† | 0.097* | 0.004 | 0.029 | 0.78 |
| Minimum-Variance | 1.25% | 0.628† | 0.001 | 0.138† | -0.013 | 0.73 |
| Risk-Clusters EW | 0.68% | 1.071† | 0.338† | 0.232† | 0.045† | 0.90 |
| Risk Efficient | 0.97% | 0.947† | 0.176* | 0.056† | -0.003 | 0.96 |
| Panel B. United States (1964–2009) | | | | | | |
| S&P 500 Index ^b | 0.00% | 1.000 | 0.000 | 0.000 | 0.000 | 1.00 |
| Equal-Weighting | 0.15% | 1.043† | 0.482† | 0.144† | -0.012 | 0.96 |
| Diversity-Weighting | 0.07% | 1.012† | 0.173† | 0.029† | 0.002 | 0.99 |
| Fundamentals-Weighting | 0.50% | 1.010† | 0.128† | 0.338† | -0.076† | 0.97 |
| Maximum Diversification | -0.02% | 0.844† | 0.342† | 0.264† | 0.061† | 0.87 |
| Minimum-Variance | 0.30% | 0.708† | 0.198† | 0.344† | 0.011 | 0.81 |
| Risk-Clusters EW | -0.13% | 0.954† | 0.116† | 0.185† | 0.040† | 0.91 |
| Risk Efficient | 0.19% | 1.002† | 0.465† | 0.250† | 0.004 | 0.95 |

^aThe MSCI World Index was used in the market factor; the HML and SMB factors were simulated following the methodology outlined on Ken French's website.

^bThe S&P 500 Index was used in the market factor; SMB, HML, and MOM factor portfolios were downloaded from Ken French's website.

† Significant at 0.01 level

* Significant at 0.10 level

Source: Research Affiliates.

The Devil's in the Details

Thus far, we have only discussed “paper portfolios.” If indeed alternative beta’s main attraction is to provide efficient exposure to value and size effects, then we must turn our attention to implementation costs. We find, not surprisingly, that the trading cost estimates are economically higher for the alternative beta strategies than for the cap-weighted indices (see **Figure 2**). Of the alternatives, Diversity-Weighting and the Fundamental Index strategies generally have lower annual turnover and trading costs. These strategies, with their greater average market-capitalization and lower turnover, also are likely to have higher investment capacities. The Fundamental Index and Diversity-Weighting strategies also generally have lower bid–ask spreads and higher average daily trade volumes. The implication is clear—investors in alternative betas need to carefully weigh the ease and efficiency of implementation before making a determination on what strategy over another. Indeed, we may go so far

as to say that it should be the primary driver of the decision-making process.

Conclusion

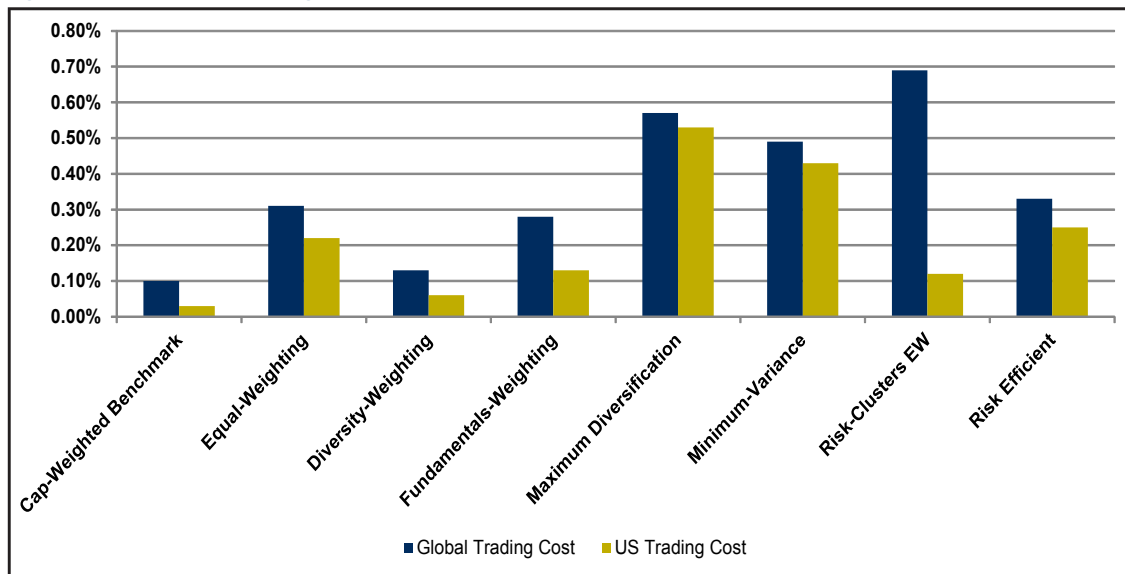
While the Fundamental Index strategy remains very close to our heart, we are very encouraged by the increasing innovation in the field of alternative betas. Despite often very different approaches, their respective results validate the entire idea of deviating from the binary active–passive world of the past. Some of the most compelling attributes of both are embedded in alternative betas. Like active managers, these methods can produce excess returns and produce different market exposures than mainstream indices, resulting in lower volatility and increased Sharpe ratios. Like traditional indices, most will have lower management costs, many will have similarly skinny implementation costs, and all will have lower governance/monitoring costs than active strategies. Furthermore, some of the most scalable

approaches efficiently capture the value and small-cap effects without the long/short requirement, monthly maintenance, and illiquidity of a true Fama–French implementation.

Most investors make their biggest bets on equities, comprising more than 50% of their asset allocation. Accordingly, they have sought to diversify risk within equities by style, size, and geography. We assert that investors should go to greater lengths to

diversify their equity portfolio. The past 10 years have brought considerable pain to both sides of the equity active–passive aisle. The third choice of alternative betas—even the simplest such as Equal-Weighting—would have resulted in a far better outcome. Will history repeat? Nobody knows. However, we think the evidence is far too compelling to ignore. We suggest moving alternative betas up your to-do list.

Figure 2. Annual Estimated Trading Costs



Source: Research Affiliates.

Endnotes

1. See Robert D. Arnott, Jason C. Hsu, and Philip Moore, 2005, "Fundamental Indexation," *Financial Analysts Journal*, vol. 61, no. 2 (March/April):83–99.
2. For detailed descriptions of the strategies and research tests, see Tzee-man Chow, Jason Hsu, Vitali Kalesnik, and Bryce Little, 2011, "A Survey of Alternative Equity Index Strategies," *Financial Analysts Journal*, vol. 67, no. 5 (September/October):37–57.
3. Investors traditionally use a three-factor model based on the Fama–French size and value factors, plus a market factor. We added momentum factors based on the methodology described by Mark Carhart in "On Persistence in Mutual Fund Performance," *Journal of Finance*, vol. 52, no. 1 (March 1997):57–82.
4. Jason Hsu, Vitali Kalesnik, and Himanshu Surti (2010) attribute the negative Fama–French alpha for traditional style indices to the cap-weighting construction, where the more expensive value stocks and small stocks take up larger weights than the cheaper value and small stocks ("An Examination of Traditional Style Indices," *Journal of Index Investing*, vol. 2, no. 2 [Fall]:14–23).

Performance Update

FTSE RAFI® Equity Index Series*

| TOTAL RETURN AS OF 10/31/11 | BLOOMBERG TICKER | YTD | 12 MONTH | ANNUALIZED 3 YEAR | ANNUALIZED 5 YEAR | ANNUALIZED 10 YEAR | ANNUALIZED 10 YEAR VOLATILITY |
|---|------------------|---------|----------|-------------------|-------------------|--------------------|-------------------------------|
| FTSE RAFI® All World 3000 ¹ | TFRAW3 | -5.79% | -1.23% | 14.96% | 2.04% | 9.79% | 19.16% |
| MSCI All Country World ² | GDUEACWF | -3.88% | 0.94% | 12.62% | 0.23% | 5.82% | 17.52% |
| FTSE RAFI® Developed ex US 1000 ³ | FRX1XTR | -8.13% | -5.98% | 12.32% | -0.53% | 8.32% | 20.42% |
| MSCI World ex US Large Cap ⁴ | MLCUWXUG | -6.32% | -3.41% | 10.19% | -1.47% | 6.04% | 18.61% |
| FTSE RAFI® Developed ex US Mid Small ⁵ | TFRDXXUS | -6.33% | 0.41% | 22.59% | 3.47% | 14.09% | 18.86% |
| MSCI World ex US Small Cap ⁶ | GCUDWXUS | -9.31% | -1.67% | 20.32% | -0.06% | 10.83% | 20.42% |
| FTSE RAFI® Emerging Markets ⁷ | TFREMU | -12.11% | -8.51% | 23.86% | 9.93% | 23.77% | 24.85% |
| MSCI Emerging Markets ⁸ | GDUEEGF | -11.27% | -7.44% | 23.59% | 6.83% | 17.16% | 24.38% |
| FTSE RAFI® 1000 ⁹ | FR10XTR | -1.13% | 6.96% | 16.15% | 1.55% | 6.28% | 18.42% |
| Russell 1000 ¹⁰ | RU10INTR | 0.92% | 8.01% | 12.22% | 0.54% | 4.17% | 16.31% |
| S&P 500 ¹¹ | SPTR | 1.30% | 8.09% | 11.41% | 0.25% | 3.69% | 16.09% |
| FTSE RAFI® US 1500 ¹² | FR15USTR | -5.64% | 6.21% | 20.43% | 3.89% | 11.18% | 22.96% |
| Russell 2000 ¹³ | RU20INTR | -4.46% | 6.71% | 12.87% | 0.68% | 7.02% | 21.27% |
| FTSE RAFI® Europe ¹⁴ | TFREUE | -11.70% | -9.33% | 7.14% | -3.84% | 3.50% | 19.26% |
| MSCI Europe ¹⁵ | GDDE15 | -8.57% | -6.77% | 6.66% | -2.99% | 2.52% | 16.97% |
| FTSE RAFI® Australia ¹⁶ | FRAUSTR | -4.52% | -2.77% | 6.71% | 0.96% | 8.06% | 13.16% |
| S&P/ASX 200 ¹⁷ | ASA51 | -6.05% | -3.65% | 6.94% | -0.18% | 7.29% | 13.33% |
| FTSE RAFI® Canada ¹⁸ | FRCANTR | -6.55% | -1.63% | 11.97% | 4.14% | 9.42% | 14.38% |
| S&P/TSX 60 ¹⁹ | TX60AR | -7.28% | -1.65% | 8.70% | 2.47% | 8.21% | 14.72% |
| FTSE RAFI® Japan ²⁰ | FRJPNT | -15.28% | -6.00% | -1.26% | -10.88% | 0.44% | 18.44% |
| MSCI Japan ²¹ | GDDLJN | -14.41% | -5.30% | -2.50% | -12.56% | -1.65% | 18.08% |
| FTSE RAFI® UK ²² | FRGBRTR | -3.73% | 0.36% | 12.77% | 0.82% | 5.25% | 17.14% |
| MSCI UK ²³ | GDDLUK | -2.89% | 1.18% | 12.42% | 1.66% | 4.47% | 15.18% |

*To see the complete series, please go to: http://www.ftse.com/Indices/FTSE_RAFI_Index_Series/index.jsp.

Russell Fundamental Index® Series*

| TOTAL RETURN AS OF 10/31/11 | BLOOMBERG TICKER | YTD | 12 MONTH | ANNUALIZED 3 YEAR | ANNUALIZED 5 YEAR | ANNUALIZED 10 YEAR | ANNUALIZED 10 YEAR VOLATILITY |
|---|------------------|---------|----------|-------------------|-------------------|--------------------|-------------------------------|
| Russell Fundamental Global Index Large Company ²⁴ | RUFGLTU | -3.34% | 1.79% | 14.47% | 2.54% | 9.94% | 17.87% |
| MSCI All Country World Large Cap ²⁵ | MLCUAWOG | -3.62% | 0.92% | 11.65% | 0.08% | 5.17% | 17.20% |
| Russell Fundamental Developed ex US Index Large Company ²⁶ | RUFDXLTU | -6.80% | -4.39% | -1.49% | -0.89% | 10.02% | 18.83% |
| MSCI World ex US Large Cap ²⁷ | MLCUWXUG | -6.32% | -3.41% | 10.19% | -1.47% | 6.04% | 18.61% |
| Russell Fundamental Developed ex US Index Small Company ²⁸ | RUFDXSTU | -6.32% | 0.72% | 20.02% | 2.36% | 12.97% | 18.48% |
| MSCI World ex US Small Cap ²⁹ | GCUDWXUS | -9.31% | -1.67% | 20.32% | -0.06% | 10.83% | 20.42% |
| Russell Fundamental Emerging Markets ²⁹ | RUFGETRU | -10.40% | -4.29% | 26.35% | 11.01% | 23.57% | 24.71% |
| MSCI Emerging Markets ⁸ | GDUEEGF | -11.27% | -7.44% | 23.59% | 6.83% | 17.16% | 24.38% |
| Russell Fundamental US Index Large Company ³⁰ | RUFUSLTU | 1.26% | 9.05% | 14.53% | 2.15% | 7.02% | 16.90% |
| Russell 1000 ¹⁰ | RU10INTR | 0.92% | 8.01% | 12.22% | 0.54% | 4.17% | 16.31% |
| S&P 500 ¹¹ | SPTR | 1.30% | 8.09% | 11.41% | 0.25% | 3.69% | 16.09% |
| Russell Fundamental US Index Small Company ³¹ | RUFUSSTU | -3.22% | 8.12% | 21.17% | 5.30% | 12.08% | 21.65% |
| Russell 2000 ¹³ | RU20INTR | -4.46% | 6.71% | 12.87% | 0.68% | 7.02% | 21.27% |
| Russell Fundamental Europe ³² | RUFETE | -9.97% | -6.47% | 8.79% | -1.56% | 6.43% | 18.16% |
| MSCI Europe ¹⁵ | GDDE15 | -8.57% | -6.77% | 6.66% | -2.99% | 2.52% | 16.97% |

*To see the complete series, please go to: http://www.russell.com/indexes/data/Fundamental/About_Russell_Fundamental_indexes.asp.

Fixed Income/Alternatives

| TOTAL RETURN AS OF 10/31/11 | BLOOMBERG TICKER | YTD | 12 MONTH | ANNUALIZED 3 YEAR | ANNUALIZED 5 YEAR | ANNUALIZED 10 YEAR | ANNUALIZED 10 YEAR VOLATILITY |
|--|------------------|---------|----------|-------------------|-------------------|--------------------|-------------------------------|
| RAFI® Bonds Investment Grade Master ³³ | | 8.52% | 6.69% | 15.67% | 7.70% | 6.45% | 6.04% |
| ML Corporate Master ³⁴ | COAO | 7.48% | 5.55% | 15.62% | 6.68% | 6.14% | 6.20% |
| RAFI® Bonds High Yield Master ³⁵ | | 6.97% | 6.52% | 24.07% | 10.07% | 9.58% | 10.99% |
| ML Corporate Master II High Yield BB-B ³⁶ | HOA4 | 4.88% | 5.08% | 20.22% | 7.10% | 7.94% | 9.85% |
| RAFI® US Equity Long/Short ³⁷ | | -6.02% | -2.61% | 11.67% | 1.85% | 4.99% | 11.73% |
| 1-Month T-Bill ³⁸ | GB1M | 0.05% | 0.07% | 0.09% | 1.39% | 1.80% | 0.48% |
| FTSE RAFI® Global ex US Real Estate ³⁹ | FRXR | -14.46% | -13.46% | 13.49% | -6.32% | 8.91% | 23.08% |
| FTSE EPRA/NAREIT Global ex US ⁴⁰ | EGXU | -10.00% | -9.32% | 10.12% | -7.40% | 7.01% | 20.70% |
| FTSE RAFI® US 100 Real Estate ⁴¹ | FRUR | -0.82% | 3.38% | 17.60% | -6.85% | 5.27% | 27.71% |
| FTSE EPRA/NAREIT United States ⁴² | UNUS | 4.21% | 6.23% | 11.18% | -5.91% | 5.68% | 26.06% |



Definition of Indices:

- (1) The FTSE RAFI® All World 3000 Index is a measure of the largest 3,000 companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value), across both developed and emerging markets.
- (2) The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
- (3) The FTSE RAFI® Developed ex US 1000 Index is a measure of the largest 1000 non U.S. listed, developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (4) The MSCI World ex US Large Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets, excluding the United States.
- (5) The FTSE RAFI® Developed ex US Mid Small Index tracks the performance of small and mid-cap companies domiciled in developed international markets (excluding the United States), selected and weighted based on the following four fundamental measures of firm size: sales, cash flow, dividends and book value.
- (6) The MSCI World ex US Small Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of small cap developed markets, excluding the United States.
- (7) The FTSE RAFI® Emerging Markets Index comprises the largest 350 Emerging Market companies selected and weighted using fundamental factors (sales, cash flow, dividends, book value).
- (8) The MSCI Emerging Markets Index is an unmanaged, free-float-adjusted cap-weighted index designed to measure equity market performance of emerging markets.
- (9) The FTSE RAFI® 1000 Index is a measure of the largest 1,000 U.S. listed companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (10) The Russell 1000 Index is a market-capitalization-weighted benchmark index made up of the 1,000 highest-ranking U.S. stocks in the Russell 3000.
- (11) The S&P 500 Index is an unmanaged market index that focuses on the large-cap segment of the U.S. equities market.
- (12) The FTSE RAFI® US 1500 Index is a measure of the 1,001st to 2,500th largest U.S. listed companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (13) The Russell 2000 is a market-capitalization weighted benchmark index made up of the 2,000 smallest U.S. companies in the Russell 3000.
- (14) The FTSE RAFI® Europe Index is comprised of all European companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (15) The MSCI Europe Index is a free-float adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe.
- (16) The FTSE RAFI® Australia Index is comprised of all Australian companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (17) The S&P/ASX 200 Index, representing approximately 78% of the Australian equity market, is a free-float-adjusted, cap-weighted index.
- (18) The FTSE RAFI® Canada Index is comprised of all Canadian companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (19) The S&P/Toronto Stock Exchange (TSX) 60 is a cap-weighted index consisting of 60 of the largest and most liquid (heavily traded) stocks listed on the TSX, usually domestic or multinational industry leaders.
- (20) The FTSE RAFI® Japan Index is comprised of all Japanese companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (21) The MSCI Japan Index is an unmanaged, free-float-adjusted cap-weighted index that aims to capture 85% of the publicly available total market capitalization of the Japanese equity market.
- (22) The FTSE RAFI® UK Index is comprised of all UK companies listed in the FTSE RAFI® Developed ex U.S. 1000 Index, which in turn is comprised of the largest 1,000 non U.S. listed developed market companies, selected and weighted using fundamental factors; (sales, cash flow, dividends, book value).
- (23) The MSCI UK Index is an unmanaged, free-float-adjusted cap-weighted index that aims to capture 85% of the publicly available total market capitalization of the British equity market.
- (24) The Russell Fundamental Global Index Large Company is a measure of the largest companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks), across both developed and emerging markets.
- (25) The MSCI All Country World Large Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.
- (26) The Russell Fundamental Developed ex US Large Company is a subset of the Russell Fundamental Developed ex US Index, and is a measure of the largest non-U.S. listed developed country companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (27) The MSCI World ex US Large Cap Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of large cap-developed markets, excluding the United States.
- (28) The Russell Fundamental Developed ex US Index Small Company is a subset of the Russell Fundamental Developed ex US Index, and is a measure of small non-U.S. listed developed country companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (29) The Russell Fundamental Emerging Markets Index is a measure of Emerging Market companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (30) The Russell Fundamental U.S. Index Large Company is a subset of the Russell Fundamental US Index, and is a measure of the largest U.S. listed companies, selected and weighted using fundamental measures; (adjusted sales, retained cash flow, dividends + buybacks).
- (31) The Russell Fundamental US Index Small Company is a subset of the Russell Fundamental US Index, and is a measure of U.S. listed small companies, selected and weighted using fundamental measures; (adjusted sales, retained cash flow, dividends + buybacks).
- (32) The Russell Fundamental Europe Index is a measure of European companies, selected and weighted using fundamental factors; (adjusted sales, retained cash flow, dividends + buybacks).
- (33) The RAFI® Bonds Investment Grade Master Index is a U.S. investment-grade corporate bond index comprised of non-zero fixed coupon debt with maturities ranging from 1 to 30 years issued by publicly traded companies. The issuers held in the index are weighted by a combination of four measures of their fundamental size—sales, cash flow, dividends, and book value of assets.
- (34) The Merrill Lynch U.S. Corporate Master Index is representative of the entire U.S. corporate bond market. The index includes dollar-denominated investment-grade corporate public debt issued in the U.S. bond market.
- (35) The RAFI® Bonds High Yield Master is a U.S. high-yield corporate bond index comprised of non-zero fixed coupon debt with maturities ranging from 1 to 30 years issued by publicly traded companies. The issuers held in the index are weighted by a combination of four measures of their fundamental size—sales, cash flow, dividends, and book value of assets.
- (36) The Merrill Lynch Corporate Master II High Yield BB-B Index is representative of the U.S. high yield bond market. The index includes domestic high-yield bonds, including deferred interest bonds and payment-in-kind securities. Issues included in the index have maturities of one year or more and have a credit rating lower than BBB-/Baa3, but are not in default.
- (37) The RAFI® US Equity Long/Short Index utilizes the Research Affiliates Fundamental Index® (RAFI®) methodology to identify opportunities that are implemented through long and short securities positions for a selection of U.S. domiciled publicly traded companies listed on major exchanges. Returns for the index are collateralized and represent the return of the strategy plus the return of a cash collateral yield.
- (38) The 1-Month T-bill return is calculated using the Bloomberg Generic 1-month T-bill. The index is interpolated based off of the currently active U.S. 1 Month T-bill and the cash management bill closest to maturing 30 days from today.
- (39) The FTSE RAFI® Global ex US Real Estate Index comprises 150 companies with the largest RAFI fundamental values selected from the constituents of the FTSE Global All Cap ex U.S. Index that are classified by the Industry Classification Benchmark (ICB) as Real Estate.
- (40) The FTSE EPRA/NAREIT Global ex US Index is a free float-adjusted index, and is designed to represent general trends in eligible listed real estate stocks worldwide, excluding the United State. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate.
- (41) The FTSE RAFI® US 100 Real Estate Index comprises of the 100 U.S. companies with the largest RAFI fundamental values selected from the constituents of the FTSE USA All Cap Index that are classified by the Industry Classification Benchmark (ICB) as Real Estate.
- (42) The FTSE EPRA/NAREIT United States Index is a free float-adjusted index, is a subset of the EPRA/NAREIT Global Index and the EPRA/NAREIT North America Index and contains publicly quoted real estate companies that meet the EPRA Ground Rules. EPRA/NAREIT Index series is seen as the representative benchmark for the real estate sector.

Source: All index returns are calculated using total return data from Bloomberg, except for the real estate indices and benchmarks, which use price return data. Returns for all single country strategies and Europe regional strategies are in local currency. All other returns are in USD.

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MARKET UPDATE

FOR DECEMBER 2011

U.S. EQUITY

U.S. Stocks ended 2011 (as measured by the S&P 500 Index) exactly where they started the year. Style dimensions favored large caps and growth with the Russell 200 Growth Index up 4.6% and the Russell 2000 Value Index down -5.5% for the year. December was a flat month for equities. Value decidedly outperformed Growth for the month and small caps performed in-line with large caps. The Russell 1000 Growth Index was down -0.3% for the month and the Russell 1000 Value Index was up 2.0%. The Russell 2000 Growth Index was down -0.2% and the Russell 2000 Value was up 1.6%. The S&P 500 Index ended the month up 1.0%.

The S&P 500 Index has a trailing 12-month P/E ratio of 14.6 (estimated P/E ratio of 12.8 on forward looking twelve-month operating earnings) and a dividend yield of 2.1%.

Corporations held a record \$2.1 trillion in cash at the end of September. America's largest corporations spent more on stock repurchases for the ninth consecutive quarter as stock buybacks by companies in the S&P 500 index totaled \$118 billion, up nearly 49% from about \$80 billion in last year's third quarter. Buybacks rose 8% compared with this year's second quarter.

Corporate merger activity highlights for the month included: BP will sell its Canadian natural-gas liquids business to Plains Midstream Canada for \$1.7 billion; SAP will pay \$3.4 billion to acquire SuccessFactors, a software company specializing in human resources tasks; MidAmerican Energy, controlled by Berkshire Hathaway, will buy the \$2 billion Topaz Solar Farm project; Blue Coat Systems will be acquired by private equity firm Thoma Bravo; Martin Marietta, a construction aggregate producer, made an unsolicited \$5 billion bid to buy Vulcan Materials; Time Warner, made a \$1.3 billion offer for Endermol, the Dutch producer of 'Big Brother' television shows; Coca-Cola will acquire half of Saudi Arabia's Aujan Industries' drinks business for about \$980 million; Lam Research, a semiconductor equipment maker, will buy Novellus Systems for \$3.3 billion; Old Mutual will sell its Nordic business for \$3.3 billion; Fujifilm will buy U.S. medical equipment maker SonoSite for \$1 billion; United Rentals, the biggest U.S. equipment rental company, will acquire RSC for \$1.9 billion; and, Tokio Marine, Japan's largest nonlife insurer by market value, will buy Delphi Financial Group for \$2.7 billion.

Zynga, the maker of Facebook games, plans to raise \$1 billion in an IPO of up to 100 million shares. Michael Kors, the upscale clothing company, is seeking to raise up to \$800 million in a U.S. IPO.

FIXED INCOME

The Labor Dept. reported that employment growth picked up in November as the unemployment rate dropped to 8.6%, its lowest level in 2 ½ years. New applications for unemployment benefits fell in Mid-December to a seasonally adjusted 364,000, its lowest level since April 2008.

GDP was revised down to a 1.8% annual rate from 2.0% in the 3rd quarter.

Long-term interest rates were lower in the month of December. The bellwether 10-year Treasury note ended the month yielding 1.87% down from 2.06% at the close of November. At month-end, the 30-year long bond yield was 2.88% with the 3-month T-bill remaining low at 0.02%. The Barclays Capital US Aggregate Index was up by +1.1% in December.

The U.S. Federal Open Market Committee voted in December to leave its policy rate at 0-0.25% and retained the guidance that this target would remain "exceptionally low at least through mid-2013." The U.S. National debt is at \$16 trillion and 40 percent of the debt matures in one year or less. The average maturity of all U.S. debt is 4.3 years. All of this debt is currently being rolled over at historically low interest rates. The national deficit is increasing annually by more than \$1.5 trillion per year. The entire tax receipts taken in by the U.S. Government is now about \$2.0 trillion.

On the economic front, the following key data was released in December:

THE GOOD

*The Commerce Dept. reported that construction spending rose 0.8% to an annual rate of \$798 billion in October, the third consecutive month of gains.

*The ISM said its index of national factory activity rose to 52.7 in October from 50.8 in the month before.

*GM posted a sales gain of 7% for November, Ford's rose 3% and Chrysler's surged 45%.

*The U.S. trade gap narrowed 1.6% to \$43.5 billion in October; it's lowest in 10 months.

*The Philadelphia Federal Reserve Bank reported that its business outlook index rose to 10.3 in December from 3.6 in November, the highest level since April.

*The U.S. current account deficit fell to \$110.3 billion, or 2.9% of GDP, in the third quarter.

*The consumer price index was flat in November. Over the past 12 months core prices have risen 2.2%.

*Housing starts increased to a seasonally adjusted annual rate of 685,000 homes in November, a 9.3% jump from October and the highest level since April 2010.

*The National Association of Realtors reported that sales of previously owned homes increased 4% in November from October to an annual rate of 4.42 million units.

*Business inventories rose a robust 0.8% in October. The gain was the strongest since May.

The Univ. of Michigan consumer confidence index reached 69.9 in the final reading for December compared with 64.1 in November.

THE NOT SO GOOD

*CoreLogic reported that U.S. home prices dropped 1.3% in October, the third consecutive monthly decline. U.S. home values declined to \$16.1 trillion in the 3rd quarter, down from nearly \$21 trillion in 2007.

*The Commerce Dept. reported that orders for manufactured goods decreased 0.4% in October after a 0.1% drop in September.

*The Institute for Supply Management reported that its services index fell to 52.0 in November from 52.9 in October.

*Industrial production fell by 0.2% in November. Year-over-year, production rose by a solid 3.7%.

*More than half of retirees, 54%, report they have less than \$25,000 saved, up dramatically from 2006, when 42% said they had less than that saved.

*The Federal Reserve released figures showing that consumer credit increased by \$7.6 billion to \$2.46 trillion in October, the highest level in two years, propelled by gains in non-revolving debt and student loans.

*Household net worth declined 4% to \$57.4 trillion in the 3rd quarter, the sharpest drop since the 3rd quarter of 2008 and the second straight quarterly decline.

*The average balance in 401(k) plans managed by Fidelity Investments, the largest workplace savings plan provider, dropped nearly 12% in the 3rd quarter.

*Total retail sales increased a less-than-expected 0.2% in November after rising by an upwardly revised 0.6% in October.

*The Labor Dept. reported that import prices rose 0.7% in November, the first increase in four months and the largest jump since April.

*The Labor Dept. reported that the producer price index rose a seasonally adjusted 0.3% in November largely due to a 1.0% jump in food prices.

NON-U.S. MARKETS

The Canadian leading index rose by 0.8% in November, its largest gain since February. The steady uptrend in this series signals that the economy will most likely expand at a moderate pace at least during the first half of 2012.

U.K. retail sales were downbeat, falling by 0.4% in November. CPI inflation improved for the second straight month, slowing two ticks in November to 4.8% year-over-year.

The overall Eurozone purchasing managers' index rose 0.5 point to 46.9 in December, below the 50.0 level that differentiates between expansion and contraction. German investor sentiment unexpectedly improved in December while French business confidence continues to erode. Overall Eurozone CPI appears to be stabilizing as it remained 3.0% year-over-year in November.

Japanese business confidence eroded sharply and unexpectedly in the fourth quarter. Industrial production is now estimated to have risen by 2.2% in October.

Non-U.S. Developed equities continued to perform below U.S. stocks in the month of December. The MSCI ACWI Ex-U.S. was down by -1.0% (US dollars) in December. Developed stocks (EAFE) were down -0.9% while Emerging Markets lost -1.2% for the month.

CONCLUSION

What will 2012 bring for the financial markets? 2011 was a year of extreme volatility across asset classes. The S&P 500 Index moved nearly 2% intraday in nearly every trading day of the second half of 2011. Europe was the dominant driver of markets in 2011 and remains the major macroeconomic question for 2012. Equity valuations appear to be reasonable across the globe but were trumped by the macroeconomic events in 2011. Low Government bond yields will most likely continue in 2012 as investors consider reaching for yield (but not overreaching).

Defined benefit plans continue to face investment challenges in meeting their liabilities. Falling yields and falling equity markets are never a good combination for funding ratios. Pension plans are by definition long-term investors and will continue to consider strategies that attempt to reduce the volatility of their funded status; use market volatility to their benefit (opportunistic buckets employing tactical investments); and diversify growth assets as a way to manage portfolio risk.

Wishing all a Happy and Healthy New Year!

Monthly Market Update

US Equity Indices Trailing Performance

| Annualized Performance to Date: Ending Dec-11 | 1 Month | 3 Months | YTD | 1 Year | 2 Years | 3 Years | 5 Years | 7 Years | 10 Years |
|--|------------|-------------|--------|-----------|------------|------------|------------|------------|-------------|
| Russell 3000 Index | 0.82 | 12.12 | 1.03 | 1.03 | 8.69 | 14.88 | -0.01 | 2.97 | 3.51 |
| Russell TOP 200 Index | 1.24 | 11.65 | 2.83 | 2.83 | 7.54 | 12.83 | -0.56 | 2.22 | 2.06 |
| Russell TOP 200 Growth Index | 0.16 | 10.34 | 4.63 | 4.63 | 8.84 | 16.65 | 2.62 | 3.49 | 1.86 |
| Russell TOP 200 Value Index | 2.34 | 12.99 | 1.12 | 1.12 | 6.27 | 8.97 | -3.68 | 0.92 | 2.31 |
| S&P 500 Index | 1.02 | 11.82 | 2.11 | 2.11 | 8.39 | 14.11 | -0.25 | 2.64 | 2.92 |
| Russell 1000 Index | 0.84 | 11.84 | 1.50 | 1.50 | 8.55 | 14.81 | -0.02 | 2.95 | 3.34 |
| Russell 1000 Growth Index | -0.32 | 10.61 | 2.64 | 2.64 | 9.45 | 18.02 | 2.50 | 3.81 | 2.60 |
| Russell 1000 Value Index | 2.02 | 13.11 | 0.39 | 0.39 | 7.68 | 11.55 | -2.64 | 1.95 | 3.89 |
| Russell Mid-Cap Index | -0.12 | 12.31 | -1.55 | -1.55 | 11.15 | 20.17 | 1.41 | 4.85 | 6.99 |
| Russell Mid-Cap Growth Index | -1.50 | 11.24 | -1.65 | -1.65 | 11.49 | 22.06 | 2.44 | 4.92 | 5.29 |
| Russell Mid-Cap Value Index | 1.25 | 13.37 | -1.38 | -1.38 | 10.92 | 18.19 | 0.04 | 4.46 | 7.67 |
| Russell 2000 Index | 0.66 | 15.47 | -4.18 | -4.18 | 10.25 | 15.63 | 0.15 | 3.20 | 5.62 |
| Russell 2000 Growth Index | -0.22 | 14.99 | -2.91 | -2.91 | 11.95 | 19.00 | 2.09 | 3.92 | 4.48 |
| Russell 2000 Value Index | 1.57 | 15.97 | -5.50 | -5.50 | 8.47 | 12.36 | -1.87 | 2.35 | 6.40 |
| DJ US REIT Index | 4.70 | 15.36 | 9.37 | 9.37 | 18.35 | 21.63 | -2.04 | 4.88 | 10.12 |
| DJ-UBS US Commodity Index TR | -3.75 | 0.35 | -13.32 | -13.32 | 0.63 | 6.39 | -2.07 | 1.58 | 6.63 |

December
relatively flat

Non-US Indices Trailing Performance

| Annualized Performance to Date: Ending Dec-11 | 1 Month | 3 Months | YTD | 1 Year | 2 Years | 3 Years | 5 Years | 7 Years | 10 Years |
|--|------------|-------------|--------|-----------|------------|------------|------------|------------|-------------|
| MSCI AC World Index ex USA | -1.10 | 3.77 | -13.33 | -13.33 | -1.65 | 11.20 | -2.48 | 3.97 | 6.76 |
| MSCI AC World Index | -0.17 | 7.30 | -6.86 | -6.86 | 2.69 | 12.60 | -1.41 | 3.37 | 4.76 |
| MSCI EAFE Index | -0.94 | 3.38 | -11.73 | -11.73 | -2.27 | 8.16 | -4.26 | 2.18 | 5.12 |
| MSCI Emerging Markets index | -1.20 | 4.45 | -18.17 | -18.17 | -1.24 | 20.42 | 2.70 | 10.71 | 14.20 |
| ML Global Government Bond Ex. U.S. Index | 0.74 | 0.53 | 7.83 | 7.83 | 9.16 | 6.84 | 9.14 | 5.71 | 8.56 |
| Euro | -3.57 | -3.25 | -3.23 | -3.23 | -4.88 | -2.25 | -0.31 | -0.65 | 3.84 |
| Japanese Yen | 0.90 | 0.18 | 5.41 | 5.41 | 10.00 | 5.62 | 9.14 | 4.18 | 5.47 |
| UK Pound Sterling | -1.19 | -0.24 | -0.74 | -0.74 | -1.90 | 2.63 | -4.51 | -2.97 | 0.66 |

U.S. continues to
outperform Int'l

US Fixed Income Indices Trailing Performance

| Annualized Performance to Date: Ending Dec-11 | 1 Month | 3 Months | YTD | 1 Year | 2 Years | 3 Years | 5 Years | 7 Years | 10 Years |
|--|------------|-------------|------|-----------|------------|------------|------------|------------|-------------|
| ML 3-month T-bill Total Return Index | 0.00 | 0.00 | 0.10 | 0.10 | 0.11 | 0.15 | 1.48 | 2.18 | 1.95 |
| BarCap Aggregate Bond Index | 1.10 | 1.12 | 7.84 | 7.84 | 7.19 | 6.77 | 6.50 | 5.60 | 5.78 |
| ML U.S. Corp/Govt Master Index | 1.20 | 1.16 | 8.61 | 8.61 | 7.72 | 6.75 | 6.49 | 5.53 | 5.82 |
| ML U.S. Corporate Master Index | 1.93 | 1.78 | 7.51 | 7.51 | 8.51 | 12.14 | 6.58 | 5.59 | 6.29 |
| BarCap Mortgage Backed Securities Index | 0.70 | 0.88 | 6.23 | 6.23 | 5.80 | 5.83 | 6.54 | 5.78 | 5.69 |
| ML U.S. High Yield Master Index | 2.49 | 6.17 | 4.50 | 4.50 | 9.74 | 23.46 | 7.25 | 7.22 | 8.54 |

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DEC 31, 2011
PRELIMINARY BASIS

SUMMARY OF INVESTMENTS

| ASSET CLASS | MARKET VALUE | PERCENT | POLICY | |
|-----------------------------|---------------|---------|--------|---------------|
| | | | TARGET | RANGE |
| DOMESTIC EQUITIES | 540,668,320 | 40.9% | 40.9% | 35.9% - 45.9% |
| INTERNATIONAL EQUITIES | 218,687,961 | 16.6% | 19.0% | 16.0% - 22.0% |
| FIXED INCOME | 520,193,044 | 39.4% | 37.1% | 33.4% - 40.8% |
| SPECIAL SITUATIONS | 33,080,091 | 2.5% | 3.0% | 2.0% - 4.0% |
| SECURITY LENDING | (2,607,640) | -0.2% | 0.0% | 0.0% - 0.0% |
| CASH (equity managers only) | 10,433,580 | 0.8% | 0.0% | 0.0% - 3.0% |
| TOTAL PORTFOLIO | 1,320,455,355 | 100.0% | 100.0% | |

| | CURRENT | TARGET |
|-------------------------------|---------|--------|
| DODGE & COX - LARGE CAP VALUE | 9.3% | 12.8% |
| BGI - R1000 VALUE INDEX | 6.2% | 3.0% |
| DELAWARE - LARGE CAP GROWTH | 7.8% | 6.8% |
| BGI - R1000 GROWTH INDEX | 5.2% | 5.0% |
| CAPITAL PROSPECTS | 4.4% | 4.5% |
| LEGATO CAPITAL | 4.0% | 4.0% |
| BNY - S&P 500 INDEX | 4.5% | 4.8% |
| LSV ASSET MGMT - INTL EQ | 8.3% | 9.5% |
| PYRAMIS - INTL EQ | 8.5% | 9.5% |
| DODGE & COX FIXED INCOME | 31.4% | 32.1% |
| PIMCO | 8.0% | 5.0% |
| INVESCO - GLOBAL REIT | 1.3% | 1.5% |
| RAFI - LONG SHORT | 1.2% | 1.5% |
| SECURITY LENDING | -0.2% | 0.0% |
| TOTALS | 100.0% | 100.0% |

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DEC 31, 2011
PRELIMINARY BASIS

GROWTH OF ASSETS AND CHANGES IN ALLOCATION

| ASSET CLASS | CURRENT MONTH | PRIOR MONTH | % CHANGE * | PRIOR YEAR | % CHANGE * |
|----------------------------------|----------------------|----------------------|--------------|----------------------|---------------|
| MARKET VALUE | | | | | |
| DOMESTIC EQUITIES | 540,668,320 | 532,795,670 | 1.48% | 591,007,461 | -8.52% |
| INTERNATIONAL EQUITIES | 218,687,961 | 221,656,371 | -1.34% | 276,218,409 | -20.83% |
| FIXED INCOME | 520,193,044 | 515,333,434 | 0.94% | 452,501,562 | 14.96% |
| SPECIAL SITUATIONS | 33,080,091 | 32,869,442 | 0.64% | 18,307,807 | 80.69% |
| SECURITIES LENDING | (2,607,640) | (2,607,640) | 0.00% | (2,699,520) | -3.40% |
| CASH (equity managers only) | 10,433,580 | 12,923,707 | -19.27% | 11,976,550 | -12.88% |
| TOTAL PORTFOLIO | 1,320,455,355 | 1,312,970,983 | 0.57% | 1,347,312,269 | -1.99% |
| ASSET ALLOCATION (ACTUAL) | | | | | |
| DOMESTIC EQUITIES | 40.95% | 40.58% | 0.4% | 43.87% | -2.9% |
| INTERNATIONAL EQUITIES | 16.56% | 16.88% | -0.3% | 20.50% | -3.9% |
| FIXED INCOME | 39.39% | 39.25% | 0.1% | 33.59% | 5.8% |
| SPECIAL SITUATIONS | 2.51% | 2.50% | 0.0% | 1.36% | 1.1% |
| SECURITY LENDING | -0.20% | -0.20% | 0.0% | -0.20% | 0.0% |
| CASH (equity managers only) | 0.79% | 0.98% | -0.2% | 0.89% | -0.1% |
| TOTAL PORTFOLIO | 100.0% | 100.0% | 0.0% | 100.0% | 0.0% |

* % Change represents changes in cash balances, including cash transfers, and does not represent investment returns

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DEC 31, 2011
PRELIMINARY BASIS

MANAGER ALLOCATION

| ASSET CLASS | MARKET VALUE | PERCENT | POLICY | |
|-------------------------------------|----------------------|---------------|---------------|--------------------|
| | | | TARGET | RANGE |
| DOMESTIC EQUITIES | | | | |
| DODGE & COX - LARGE CAP VALUE | 122,225,301 | 9.3% | 12.8% | 10.3% - 15.3% |
| BLACKROCK - R1000 VALUE INDEX | 82,039,759 | 6.2% | 3.0% | 2.0% - 4.0% |
| DELAWARE - LARGE CAP GROWTH | 103,622,847 | 7.8% | 6.8% | 5.3% - 8.3% |
| BLACKROCK - R1000 GROWTH INDEX | 68,319,797 | 5.2% | 5.0% | 4.0% - 6.0% |
| CAPITAL PROSPECTS - SMALL CAP VALUE | 58,208,611 | 4.4% | 4.5% | 3.5% - 5.5% |
| LEGATO CAPITAL - SMALL CAP GROWTH | 52,967,132 | 4.0% | 4.0% | 3.0% - 5.0% |
| BNY - S&P 500 INDEX | 59,746,850 | 4.5% | 4.8% | 3.8% - 5.8% |
| TOTAL DOMESTIC EQUITIES | 547,130,296 | 41.4% | 40.9% | |
| FIXED INCOME | | | | |
| DODGE & COX | 414,494,878 | 31.4% | 32.1% | 29.1% - 35.1% |
| PIMCO | 105,698,167 | 8.0% | 5.0% | 4.0% - 6.0% |
| TOTAL FIXED INCOME | 520,193,044 | 39.4% | 37.1% | |
| INTERNATIONAL INVESTMENTS | | | | |
| LSV ASSET MGMT. | 110,138,186 | 8.3% | 9.5% | 8.0% - 11.0% |
| PYRAMIS | 112,521,378 | 8.5% | 9.5% | 8.0% - 11.0% |
| TOTAL INTERNATIONAL EQUITIES | 222,659,564 | 16.9% | 19.0% | |
| SPECIAL SITUATIONS | | | | |
| INVESCO (Global REITs) | 17,167,435 | 1.3% | 1.5% | 0.0% - 3.0% |
| RAFI (Global Long/Short Equity) | 15,912,657 | 1.2% | 1.5% | 0.0% - 3.0% |
| TOTAL SPECIAL SITUATIONS | 33,080,091 | 2.5% | 3.0% | 0.0% - 3.0% |
| SECURITIES LENDING | (2,607,640) | -0.2% | 0.0% | 0.0% - 0.0% |
| TOTAL StancERA PORTFOLIO | 1,320,455,355 | 100.0% | 100.0% | |

STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DEC 31, 2011
PRELIMINARY

| TOTAL FUND | | | | |
|-------------------------------------|-------------------|--------------------|--------------------|----------------------|
| | CASH | BONDS | EQUITIES | TOTAL |
| DOMESTIC EQUITIES | | | | |
| DODGE & COX - LARGE CAP VALUE | 1,355,485 | | 120,869,816 | 122,225,301 |
| BLACKROCK - R1000 VALUE INDEX | 6,225 | | 82,033,534 | 82,039,759 |
| DELAWARE - LARGE CAP GROWTH | 1,422,828 | | 102,200,019 | 103,622,847 |
| BLACKROCK - R1000 GROWTH INDEX | 0 | | 68,319,797 | 68,319,797 |
| CAPITAL PROSPECTS - SMALL CAP VALUE | 2,147,698 | | 56,060,913 | 58,208,611 |
| LEGATO CAPITAL - SMALL CAP GROWTH | 1,529,531 | | 51,437,600 | 52,967,132 |
| BNY - S&P 500 INDEX | 208 | | 59,746,641 | 59,746,850 |
| TOTAL DOMESTIC EQUITIES | 6,461,976 | | 540,668,320 | 547,130,296 |
| FIXED INCOME | | | | |
| DODGE & COX | 6,154,727 | 408,340,151 | | 414,494,878 |
| PIMCO | 12,703,347 | 92,994,820 | | 105,698,167 |
| TOTAL FIXED INCOME | 18,858,074 | 501,334,970 | | 520,193,044 |
| INTERNATIONAL INVESTMENTS | | | | |
| LSV ASSET MGMT. | 2,867,997 | | 107,270,188 | 110,138,186 |
| PYRAMIS | 1,103,606 | | 111,417,772 | 112,521,378 |
| TOTAL INTERNATIONAL EQUITIES | 3,971,604 | | 218,687,961 | 222,659,564 |
| SPECIAL SITUATIONS | | | | |
| INVESCO (Global REITs) | 0 | | 17,167,435 | 17,167,435 |
| RAFI (Global Long/Short Equity) | 0 | | 15,912,657 | 15,912,657 |
| TOTAL SPECIAL SITUATIONS | 0 | | 33,080,091 | 33,080,091 |
| SECURITIES LENDING | | | | |
| | (2,607,640) | | | (2,607,640) |
| TOTAL STANCERA PORTFOLIO | 26,684,013 | 501,334,970 | 792,436,372 | 1,320,455,355 |

2.0% 38.0% 60.0% 100.0%

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STANCERA
MONTHLY PERFORMANCE REVIEW
PERIOD ENDING DEC 31, 2011

PRELIMINARY BASIS

CURRENT PERFORMANCE

| | MARKET VALUE | DEC | ALPHA | NOV | ALPHA | FISCAL YTD | ALPHA |
|--|---------------|--------|--------|--------|--------|------------|---------|
| DOMESTIC EQUITIES | | | | | | | |
| DODGE & COX - LARGE CAP VALUE | 120,869,816 | 1.24% | -0.78% | -0.98% | -0.46% | -9.38% | -4.17% |
| RUSSELL 1000 VALUE | | 2.02% | | -0.52% | | -5.21% | |
| BLACKROCK - R1000 VALUE INDEX* | 82,033,534 | 2.00% | -0.02% | -0.51% | 0.01% | -5.19% | 0.02% |
| RUSSELL 1000 VALUE | | 2.02% | | -0.52% | | -5.21% | |
| DELAWARE - LARGE CAP GROWTH | 102,200,019 | 1.15% | 1.47% | 0.55% | 0.56% | 0.56% | 4.49% |
| RUSSELL 1000 GROWTH | | -0.32% | | -0.01% | | -3.93% | |
| BLACKROCK - R1000 GROWTH INDEX** | 68,319,797 | -0.29% | 0.03% | 0.00% | 0.01% | -3.85% | 0.08% |
| RUSSELL 1000 GROWTH | | -0.32% | | -0.01% | | -3.93% | |
| CAPITAL PROSPECTS | 56,060,913 | 1.15% | -0.42% | -0.75% | -0.55% | -8.62% | 0.31% |
| RUSSELL 2000 VALUE | | 1.57% | | -0.20% | | -8.93% | |
| LEGATO CAPITAL | 51,437,600 | -0.25% | -0.03% | -0.13% | 0.40% | -11.15% | -0.55% |
| RUSSELL 2000 GROWTH | | -0.22% | | -0.53% | | -10.60% | |
| BNY - S&P 500 INDEX | 59,746,641 | 1.03% | 0.01% | -0.22% | 0.00% | -3.67% | 0.01% |
| S&P 500 | | 1.02% | | -0.22% | | -3.68% | |
| TOTAL DOMESTIC EQUITY | 540,668,320 | 1.12% | 0.30% | -0.35% | -0.08% | -5.95% | -0.94% |
| Russell 3000 Index | | 0.82% | | -0.27% | | -5.01% | |
| FIXED INCOME | | | | | | | |
| DODGE & COX | 414,494,878 | 1.44% | 0.34% | -1.11% | -1.02% | 2.04% | -2.94% |
| BARCLAYS US AGGREGATE BOND | | 1.10% | | -0.09% | | 4.98% | |
| PIMCO*** | 105,698,167 | 1.09% | -0.01% | 0.10% | 0.19% | 5.45% | 0.47% |
| BARCLAYS US AGGREGATE BOND | | 1.10% | | -0.09% | | 4.98% | |
| TOTAL FIXED INCOME | 520,193,044 | 1.37% | | -0.91% | -0.82% | 2.59% | -2.39% |
| BARCLAYS US AGGREGATE BOND | | 1.10% | | -0.09% | | 4.98% | |
| INTERNATIONAL INVESTMENTS | | | | | | | |
| LSV ASSET MGMT | 107,270,188 | -0.73% | 0.37% | -4.49% | 0.59% | -17.08% | -0.33% |
| MSCI ACWI Free ex-US | | -1.10% | | -5.08% | | -16.75% | |
| PYRAMIS | 111,417,772 | -1.58% | -0.48% | -3.81% | 1.27% | -16.68% | 0.07% |
| MSCI ACWI Free ex-US | | -1.10% | | -5.08% | | -16.75% | |
| TOTAL INTERNATIONAL EQUITY | 218,687,961 | -1.17% | -0.07% | -4.15% | 0.94% | -16.87% | -0.12% |
| MSCI ACWI Free ex-US | | -1.10% | | -5.08% | | -16.75% | |
| SPECIAL SITUATIONS | | | | | | | |
| INVESCO | 17,167,435 | -0.27% | -1.21% | -3.57% | 2.00% | -11.30% | -0.06% |
| FTSE EPRA/NAREIT Global REIT | | 0.94% | | -5.57% | | -11.24% | |
| RAFI - LS**** | 15,912,657 | 1.64% | 1.64% | -5.88% | -5.89% | -20.44% | -20.46% |
| US 1- month LIBOR | | 0.00% | | 0.01% | | 0.02% | |
| SECURITIES LENDING | | | | | | | |
| BNY MELLON | (2,607,640) | | | | | | |
| CASH and SHORT-TERM INVESTMENTS | | | | | | | |
| CASH | 10,433,580 | 0.01% | 0.00% | 0.01% | 0.02% | 0.06% | 0.06% |
| 90 DAY TREASURY BILL | | 0.01% | | -0.01% | | 0.00% | |
| TOTAL StanCERA Fund | 1,320,455,355 | 0.80% | 0.26% | -1.61% | -0.41% | -5.41% | -2.06% |
| Policy Index | | 0.54% | | -1.20% | | -3.35% | |
| Actuary Rate of Assumption (8.00%) | | 0.66% | 0.37% | 0.66% | -2.27% | 4.00% | -9.41% |
| Actuary Rate of Inflation (3.50%) | | 0.29% | 0.29% | 0.29% | -1.90% | 1.75% | -7.16% |

* BLACKROCK R1000 Value Index funded close of 7/31/09.

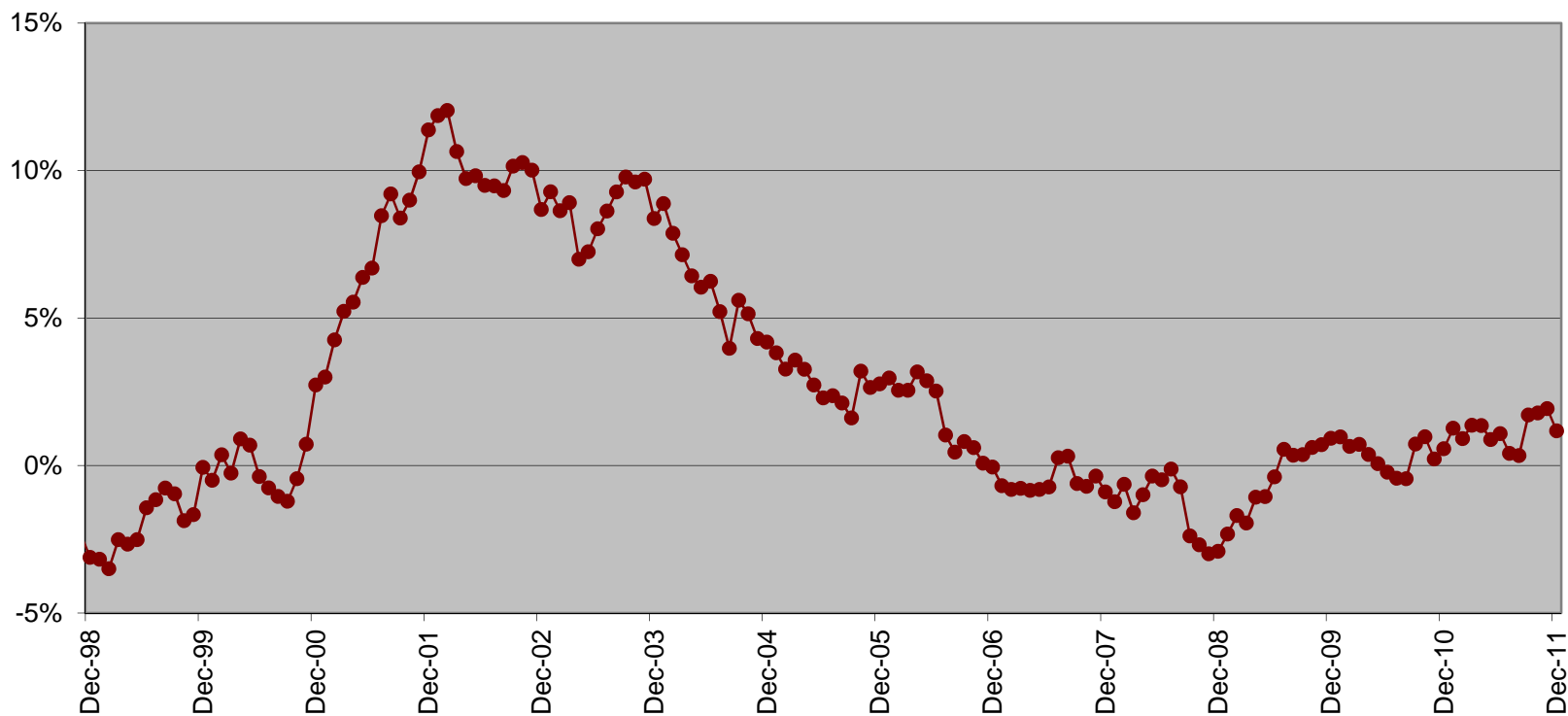
**BLACKROCK R1000 Growth Index Funded 6/30/10.

***PIMCO funded 5/1/10.

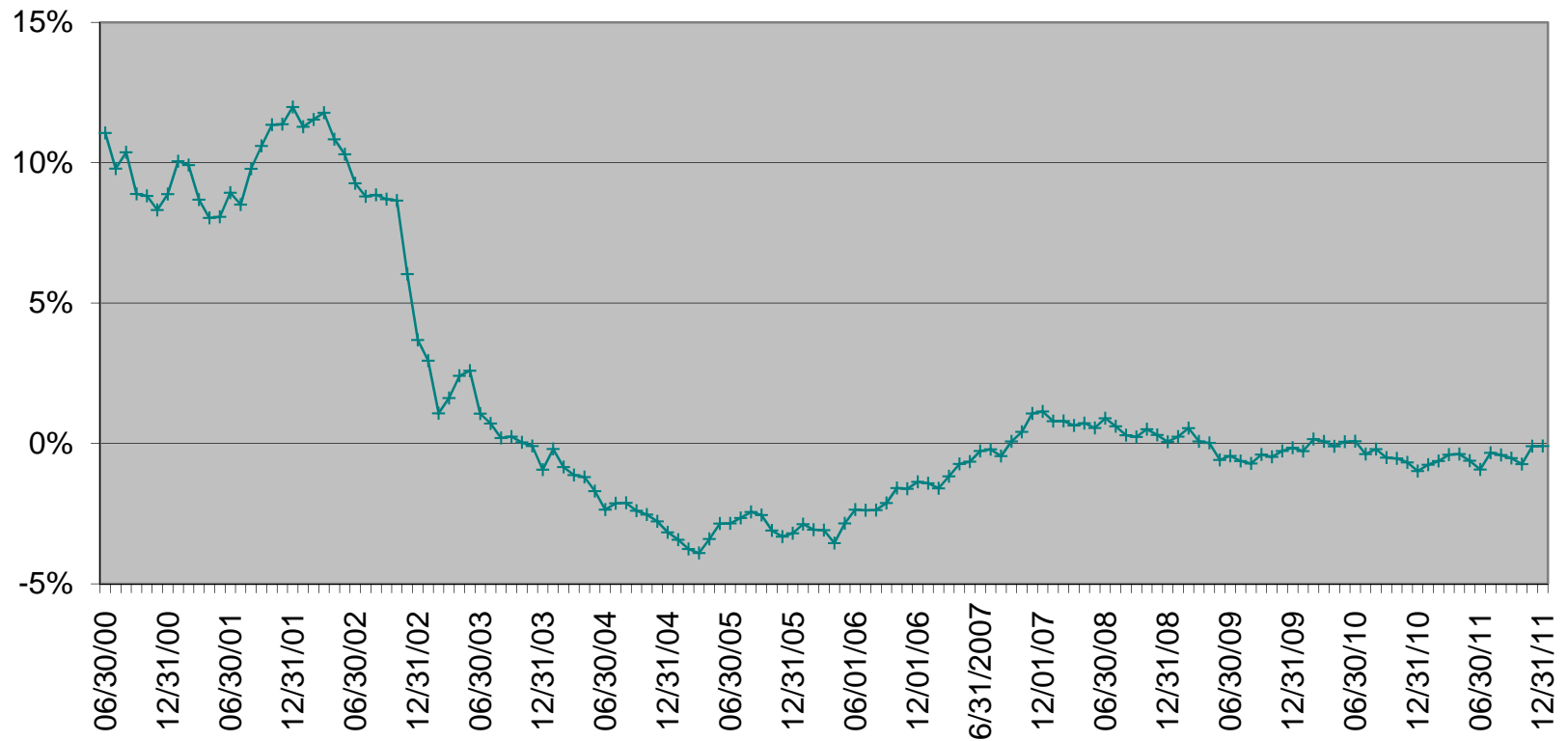
****RAFI L/S funded 7/1/11.

Page 5

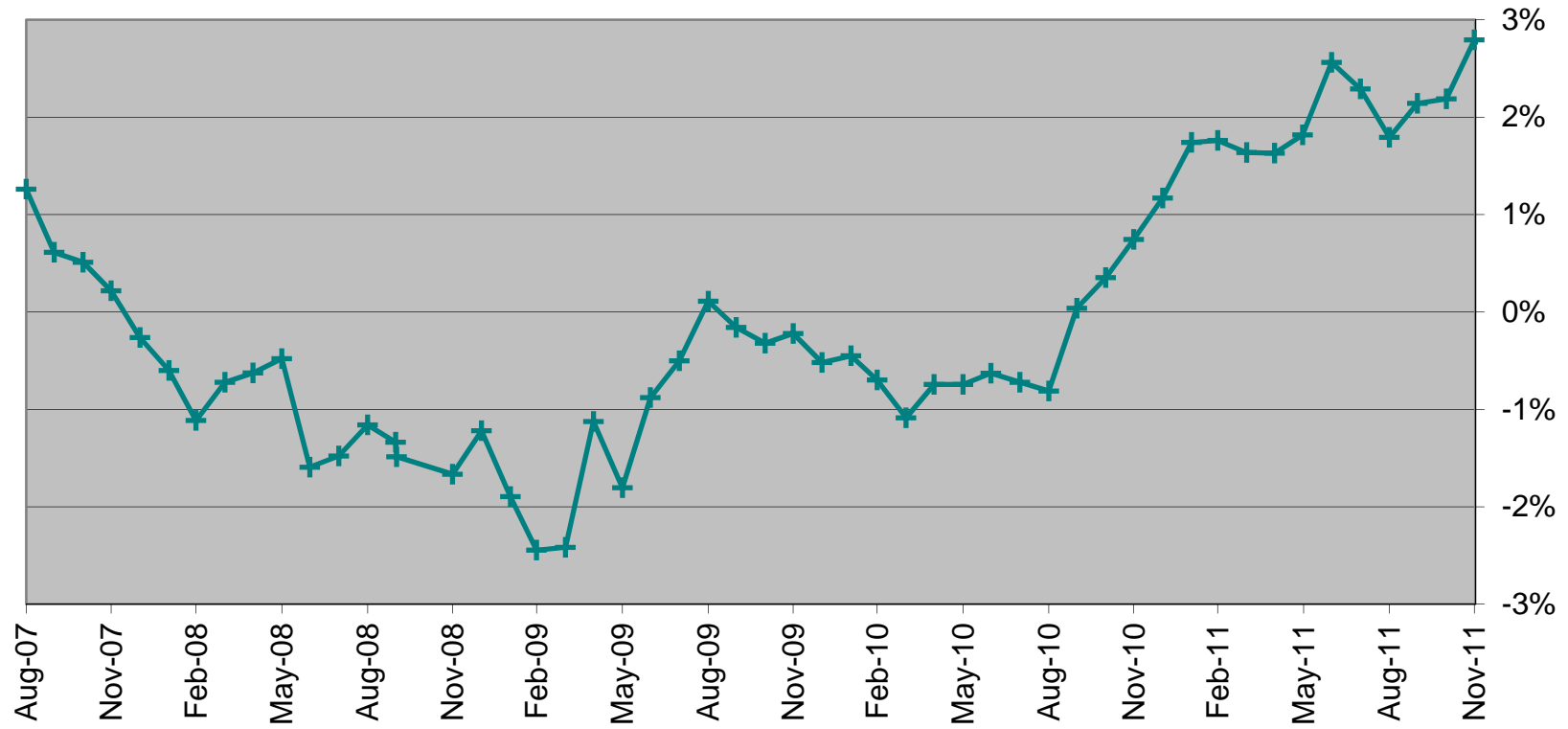
Dodge & Cox Equity
Rolling 3-Years Annualized Alpha
Monthly Observations



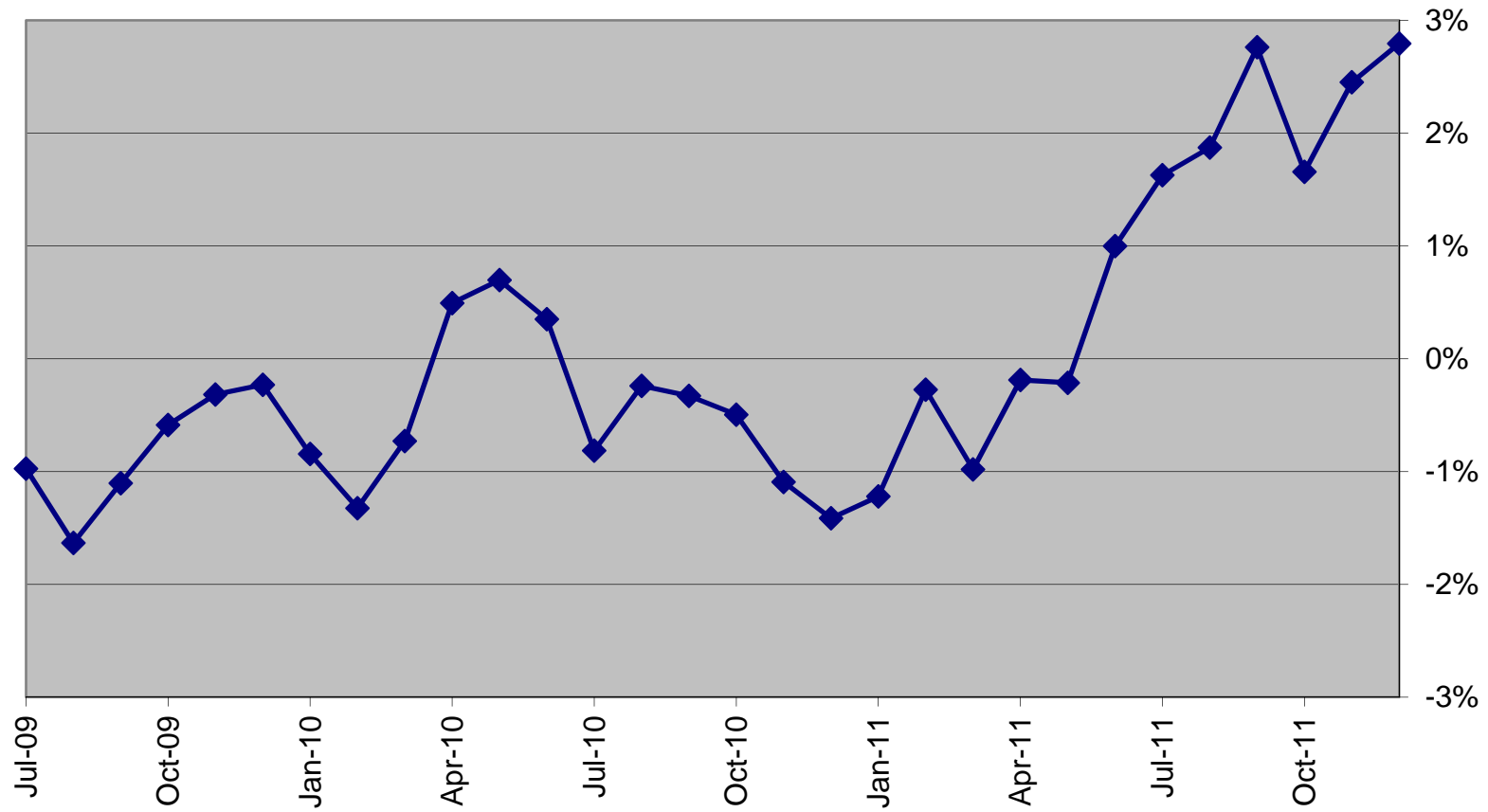
Pyramis (May 2006)
Rolling 3-Years Annualized Alpha
Monthly Observations



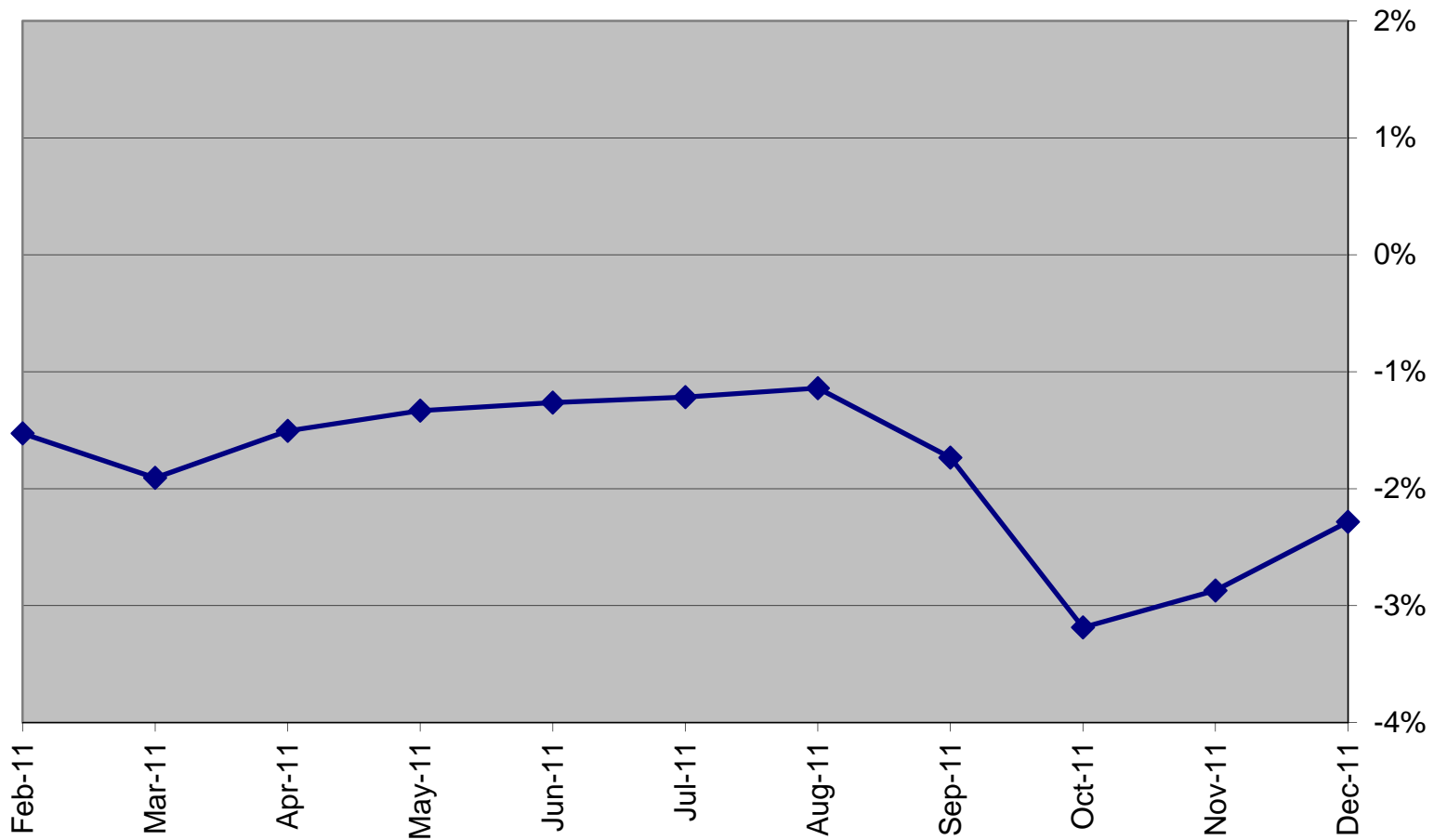
LSV
Rolling 3-Years Annualized Alpha
Monthly Observations



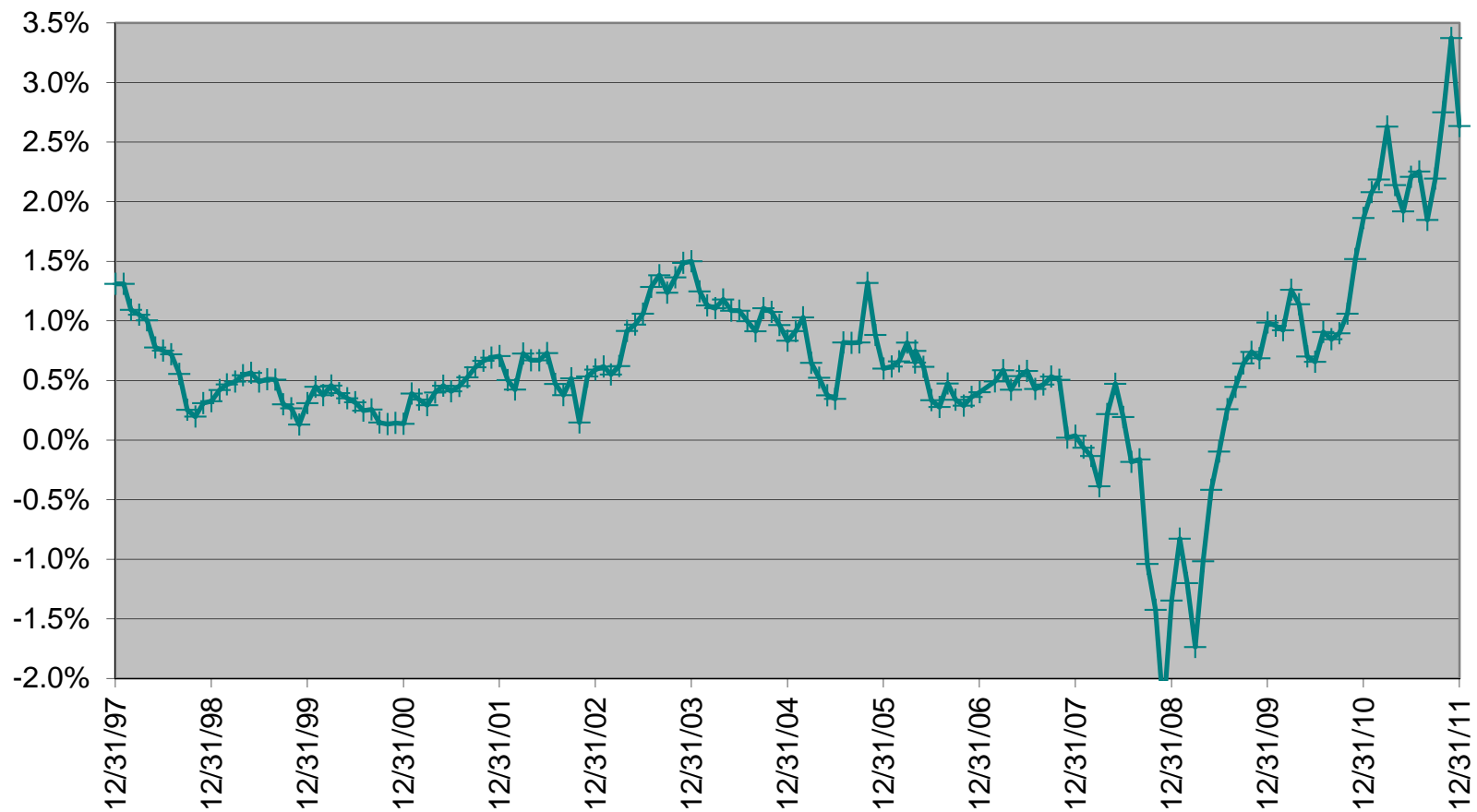
Delaware
Rolling 3-Years Annualized Alpha
Monthly Observations



INVESCO
Rolling 3-Years Annualized Alpha
Monthly Observations



Dodge & Cox Fixed Income
Rolling 3-Year Alphas Annualized
Monthly Observations



STANCERA
Price Monitor Position Report

BlackRock
Passive Large Cap Growth Manager
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|------------------------|--------|----------|----------------------|-------------------|--------------------|----------------------|--------------------|----------------------|----------------------|
| Apple Inc. | AAPL | 9,936 | \$4,024,036 | 5.89% | 0.30% | 405.00 | 419.81 | 3.66% | 1.15% |
| Exxon Mobil Corp | XOM | 37,723 | \$3,197,366 | 4.68% | 0.24% | 84.76 | 84.88 | 0.14% | -2.37% |
| INTL Business Machines | IBM | 12,224 | \$2,247,721 | 3.29% | 0.17% | 183.88 | 179.16 | -2.57% | -5.08% |
| Microsoft Corp. | MSFT | 83,689 | \$2,172,570 | 3.18% | 0.16% | 25.96 | 28.25 | 8.82% | 6.31% |
| Google Inc. | GOOG | 2,517 | \$1,626,011 | 2.38% | 0.12% | 645.90 | 624.99 | -3.24% | -5.75% |
| Coca-Cola Co. | KO | 19,626 | \$1,373,228 | 2.01% | 0.10% | 69.97 | 66.99 | -4.26% | -6.77% |
| Philip Morris Intl. | PM | 16,453 | \$1,291,244 | 1.89% | 0.10% | 78.48 | 77.32 | -1.48% | -3.99% |
| Oracle Corp | ORCL | 42,350 | \$1,086,285 | 1.59% | 0.08% | 25.65 | 27.34 | 6.59% | 4.08% |
| McDonald's Corp | MCD | 10,759 | \$1,079,453 | 1.58% | 0.08% | 100.33 | 100.35 | 0.02% | -2.49% |
| Pepsico Inc. | PEP | 15,857 | \$1,052,125 | 1.54% | 0.08% | 66.35 | 64.40 | -2.94% | -5.45% |
| TOP TEN HOLDINGS | | | \$19,150,039 | 28.03% | 1.45% | Russell 1000 Growth: | | 2.51% | |

Total Portfolio Value
Total StanCERA Value

\$68,319,797
\$1,320,455,355

STANCERA
Price Monitor Position Report

BlackRock
Passive Large Cap Value Manager
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|-------------------------|--------|----------|----------------------|-------------------|--------------------|---------------------|--------------------|----------------------|----------------------|
| Chevron Corp. | CVX | 23,286 | \$2,477,601 | 3.02% | 0.19% | 106.4 | 106.09 | -0.29% | -3.27% |
| General Electric Co. | GE | 38,300 | \$1,122,586 | 3.00% | 0.08% | 17.91 | 18.84 | -0.41% | 0.01% |
| AT&T Inc. | T | 67,419 | \$1,126,567 | 2.67% | 0.08% | 30.24 | 30.07 | -3.65% | -3.23% |
| Pfizer Inc. | PFE | 98,190 | \$2,124,830 | 2.59% | 0.16% | 21.64 | 21.84 | 0.92% | -2.06% |
| Procter & Gamble | PG | 31,606 | \$2,108,422 | 2.57% | 0.16% | 66.71 | 65.81 | -1.35% | -4.33% |
| JP Morgan Chase & Co. | JPM | 52,802 | \$1,755,651 | 2.14% | 0.13% | 33.25 | 35.92 | 8.03% | 5.05% |
| Johnson & Johnson | JNJ | 10,379 | \$808,103 | 2.14% | 0.06% | 65.58 | 65.26 | -2.57% | -2.15% |
| Berkshire Hathaway Inc. | BRK.B | 33,173 | \$804,122 | 2.04% | 0.06% | 76.30 | 77.77 | 0.08% | 0.50% |
| Wells Fargo & Co | WFC | 23,935 | \$831,988 | 2.03% | 0.06% | 27.56 | 29.61 | -6.36% | -5.94% |
| Intel Corp | INTL | 69,614 | \$1,640,795 | 2.00% | 0.12% | 23.57 | 24.84 | 5.39% | 2.41% |
| TOP TEN HOLDINGS | | | \$14,800,664 | 24.20% | 1.12% | Russell 1000 Value | | 2.98% | |

Total Portfolio Value
Total StanCERA Value

\$82,039,759
\$1,320,455,355

STANCERA
Price Monitor Position Report

STANCERA
Price Monitor Position Report

Capital Prospects
Active US Small Cap Value Manager
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | Weight R2000V | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|------------------------|--------|----------|----------------------|-------------------|--------------------|------------------|---------------------|--------------------|----------------------|----------------------|
| Regal Beloit Corp | RBC | 14,451 | \$736,572 | 1.3% | 0.06% | 0.00% | 50.97 | 55.24 | 8.38% | 5.35% |
| The Brink's Co | BCO | 26,887 | \$722,719 | 1.2% | 0.05% | 0.03% | 26.88 | 27.36 | 1.79% | -1.24% |
| Belden Inc | BDC | 21,151 | \$703,917 | 1.2% | 0.05% | 0.00% | 33.28 | 37.47 | 12.59% | 9.56% |
| Meadowbrook Ins | MIG | 64,918 | \$693,323 | 1.2% | 0.05% | 0.00% | 10.68 | 11.19 | 4.78% | 1.75% |
| Meredith Corp | MDP | 20,977 | \$684,883 | 1.2% | 0.05% | 0.22% | 32.65 | 31.53 | -3.43% | -6.46% |
| Gulfport Energy Corp | GPOR | 22,173 | \$652,985 | 1.1% | 0.05% | 0.00% | 29.45 | 29.99 | 1.83% | -1.20% |
| Hexcel Corp New | HXL | 26,553 | \$642,856 | 1.1% | 0.05% | 0.07% | 24.21 | 24.92 | 2.93% | -0.10% |
| Newell Rubbermaid Inc | NWL | 37,340 | \$603,042 | 1.0% | 0.05% | 0.00% | 16.15 | 17.19 | 6.44% | 3.41% |
| Littelfuse Inc | LFUS | 13,767 | \$591,691 | 1.0% | 0.04% | 0.00% | 42.98 | 47.44 | 10.38% | 7.35% |
| Broadridge Financial S | BR | 25,751 | \$580,689 | 1.0% | 0.04% | 0.00% | 22.55 | 22.94 | 1.73% | -1.30% |
| TOP TEN HOLDINGS | | | \$6,612,677 | 11.4% | 0.50% | 0.31% | Russell 2000 Value: | | 3.03% | |

Total Portfolio Value
Total StanCERA Value

\$58,208,648
\$1,320,455,355

STANCERA
Price Monitor Position Report

Delaware Investments Advisers
Active Large Cap Growth Portfolio
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | Weight R1000G | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|----------------------------------|--------|----------|----------------------|-------------------|--------------------|------------------|----------------------|--------------------|----------------------|----------------------|
| Apple Inc. | AAPL | 19,000 | \$7,695,000 | 7.43% | 0.58% | 5.82% | 405.00 | 419.81 | 3.66% | 1.15% |
| Visa Inc. | V | 57,100 | \$5,797,363 | 5.59% | 0.44% | 0.27% | 101.53 | 100.74 | -0.78% | -3.29% |
| MasterCard Inc. CI A | MA | 15,300 | \$5,704,146 | 5.50% | 0.43% | 0.62% | 372.82 | 339.08 | -9.05% | -11.56% |
| Google Inc. CI A | GOOG | 8,700 | \$5,619,330 | 5.42% | 0.43% | 2.52% | 645.90 | 624.99 | -3.24% | -5.75% |
| EOG Resources Inc. | EOG | 54,950 | \$5,413,125 | 5.22% | 0.41% | 0.41% | 98.51 | 103.04 | 4.60% | 2.09% |
| QUALCOMM Inc. | QCOM | 97,100 | \$5,311,370 | 5.13% | 0.40% | 1.42% | 54.70 | 56.54 | 3.36% | 0.85% |
| Allergan Inc. | AGN | 57,400 | \$5,036,276 | 4.86% | 0.38% | 0.42% | 87.74 | 88.16 | 0.48% | -2.03% |
| Crown Castle International Corp. | CCI | 105,800 | \$4,739,840 | 4.57% | 0.36% | 0.20% | 44.80 | 46.00 | 2.68% | 0.17% |
| VeriSign Inc. | VRSN | 128,600 | \$4,593,592 | 4.43% | 0.35% | 0.09% | 35.72 | 35.54 | -0.50% | -3.01% |
| Apollo Group Inc. CI A | APOL | 85,100 | \$4,584,337 | 4.42% | 0.35% | 0.09% | 53.87 | 57.19 | 6.16% | 3.65% |
| TOP TEN HOLDINGS | | | \$54,494,379 | 52.59% | 4.13% | 11.85% | Russell 1000 Growth: | | 2.51% | |

Total Portfolio Value
Total StanCERA Value

\$103,627,808
\$1,320,455,355

STANCERA
Price Monitor Position Report

Dodge & Cox Equity
Active US Large Cap Value Manager
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | Weight R1000V | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|----------------------------|--------|----------|----------------------|-------------------|--------------------|------------------|---------------------|--------------------|----------------------|----------------------|
| COMCAST CORP-CLASS A | CMCSA | 200,063 | \$4,743,493 | 3.89% | 0.36% | 0.55% | 23.71 | 25.38 | 7.04% | 4.06% |
| MERCK & CO. INC. | MRK | 122,500 | \$4,618,250 | 3.79% | 0.35% | 1.73% | 37.70 | 38.32 | 1.64% | -1.34% |
| HEWLETT-PACKARD CO | HPQ | 175,005 | \$4,508,128 | 3.70% | 0.34% | 0.87% | 25.76 | 26.49 | 2.83% | -0.15% |
| WELLS FARGO & CO | WFC | 160,072 | \$4,411,584 | 3.62% | 0.33% | 1.86% | 27.56 | 29.61 | 7.44% | 4.46% |
| GENERAL ELECTRIC CO | GE | 230,000 | \$4,119,300 | 3.38% | 0.31% | 2.65% | 17.91 | 18.84 | 5.19% | 2.21% |
| PFIZER INC | PFE | 190,000 | \$4,111,600 | 3.38% | 0.31% | 2.49% | 21.64 | 21.84 | 0.92% | -2.06% |
| CAPITAL ONE FINANCIAL CORP | COF | 92,500 | \$3,911,825 | 3.21% | 0.30% | 0.32% | 42.29 | 48.89 | 15.61% | 12.63% |
| AMGEN INC | AMGN | 60,000 | \$3,852,600 | 3.16% | 0.29% | 0.80% | 64.21 | 67.60 | 5.28% | 2.30% |
| SANOFI-ADR | SNY | 100,055 | \$3,656,009 | 3.00% | 0.28% | 0.00% | 36.54 | 35.32 | -3.34% | -6.32% |
| TIME WARNER INC | TWX | 100,032 | \$3,615,156 | 2.97% | 0.27% | 0.59% | 36.14 | 37.27 | 3.13% | 0.15% |
| TOP TEN HOLDINGS | | | \$41,547,945 | 34.11% | 3.15% | 11.87% | Russell 1000 Value: | | 2.98% | |

Total Portfolio Value
Total StanCERA Value

\$121,798,833
\$1,320,455,355

STANCERA
Price Monitor Position Report

Legato Capital Management
Active US Small Cap Growth Manager
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | Weight R2000G | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|----------------------------------|--------|----------|----------------------|-------------------|--------------------|------------------|----------------------|--------------------|----------------------|----------------------|
| CEPHEID INC | cphd | 21371 | \$735,376 | 1.39% | 0.06% | 0.38% | 34.41 | 35.73 | 3.84% | 0.59% |
| PORTFOLIO RECOVERY ASSOCIATES II | praa | 9996 | \$674,930 | 1.27% | 0.05% | 0.21% | 67.52 | 65.37 | -3.18% | -6.43% |
| ULTIMATE SOFTWARE GROUP INC | ulti | 9486 | \$617,728 | 1.17% | 0.05% | 0.30% | 65.12 | 66.35 | 1.89% | -1.36% |
| LKQ CORP | lkqx | 20300 | \$610,624 | 1.15% | 0.05% | 0.00% | 30.08 | 31.74 | 5.52% | 2.27% |
| KNOLOGY INC | knol | 42791 | \$607,632 | 1.15% | 0.05% | 0.07% | 14.20 | 14.30 | 0.70% | -2.55% |
| ROLLINS INC COM | rol | 26442 | \$587,541 | 1.11% | 0.04% | 0.26% | 22.22 | 21.99 | -1.04% | -4.29% |
| UNITED NATURAL FOODS INC | unfi | 14027 | \$561,220 | 1.06% | 0.04% | 0.35% | 40.01 | 41.90 | 4.72% | 1.47% |
| HEALTHSOUTH CORP | hls | 31720 | \$560,492 | 1.06% | 0.04% | 0.00% | 17.67 | 17.30 | -2.09% | -5.34% |
| NATIONAL INSTRUMENTS CORP | nati | 20995 | \$544,820 | 1.03% | 0.04% | 0.00% | 25.95 | 25.68 | -1.04% | -4.29% |
| GEO GROUP INC | geo | 31938 | \$534,962 | 1.01% | 0.04% | 0.00% | 16.75 | 17.41 | 3.94% | 0.69% |
| TOP TEN HOLDINGS | | | \$6,035,326 | 11.39% | 0.46% | 1.57% | Russell 2000 Growth: | | 3.25% | |

Total Portfolio Value
Total StanCERA Value

\$ 52,967,278
\$1,320,455,355

Legato recommends the client compare these statements independently against custodial records.

STANCERA
Price Monitor Position Report

BNY - S&P 500 Index
Passive S&P 500 Index Fund
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|-----------------------------|--------|----------|----------------------|-------------------|--------------------|---------------------|--------------------|----------------------|----------------------|
| Exxon Mobil Corp | XOM | 24,742 | \$2,097,114 | 3.51% | 0.16% | 84.76 | 84.88 | 0.14% | -2.44% |
| Apple Inc. | AAPL | 4,957 | \$2,007,494 | 3.36% | 0.15% | 405.00 | 419.81 | 3.66% | 1.08% |
| Chevron Corp | CVX | 10,388 | \$1,105,317 | 1.85% | 0.08% | 106.40 | 106.09 | -0.29% | -2.87% |
| Intl Business Machines Corp | IBM | 5,914 | \$1,087,393 | 1.82% | 0.08% | 183.88 | 179.16 | -2.57% | -5.15% |
| Microsoft Corp | MSFT | 40,967 | \$1,063,494 | 1.78% | 0.08% | 25.96 | 28.25 | 8.82% | 6.24% |
| General Electric Co. | GE | 56,378 | \$1,009,722 | 1.69% | 0.08% | 17.91 | 18.84 | 5.19% | 2.61% |
| Procter & Gamble | PG | 13,972 | \$932,051 | 1.56% | 0.07% | 66.71 | 65.81 | -1.35% | -3.93% |
| Johnson & Johnson | JNJ | 13,848 | \$908,152 | 1.52% | 0.07% | 65.58 | 65.26 | -0.49% | -3.07% |
| AT&T | T | 29,636 | \$896,203 | 1.50% | 0.07% | 30.24 | 30.07 | -0.56% | -3.14% |
| Pfizer Inc | PFE | 37,549 | \$812,557 | 1.36% | 0.06% | 21.64 | 21.84 | 0.92% | -1.66% |
| TOP TEN HOLDINGS | | | \$11,919,497 | 19.95% | 0.90% | S&P 500 Index: | | 2.58% | |

Total Portfolio Value
Total StanCERA Value

\$59,746,850
\$1,320,455,355

STANCERA
Price Monitor Position Report

LSV Asset Management
International Large Cap Value
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | Weight ACWI xUS | 12/31/2011 PX | 1/13/2012 PX | Position % Change | Relative % Change |
|--|--------|----------|----------------------|-------------------|--------------------|--------------------|-------------------|-----------------|----------------------|----------------------|
| ROYAL DUTCH SHELL | RDS/A | 49,390 | \$3,609,894 | 3.28% | 0.27% | 1.72% | 73.09 | 69.21 | -5.31% | -6.52% |
| SANOFI S.A. | SNY | 62,870 | \$2,297,256 | 2.09% | 0.17% | 0.62% | 36.54 | 35.32 | -3.34% | -4.55% |
| ASTRAZENECA PLC | AZN | 42,365 | \$1,961,065 | 1.78% | 0.15% | 0.45% | 46.29 | 46.70 | 0.89% | -0.32% |
| CHINA PETROLEUM & CHEMICAL CORPORATION | SNP | 17,732 | \$1,862,726 | 1.69% | 0.14% | 0.13% | 105.05 | 114.13 | 8.64% | 7.43% |
| NOVARTIS AG | NVS | 29,783 | \$1,702,700 | 1.55% | 0.13% | 0.98% | 57.17 | 55.80 | -2.40% | -3.61% |
| REPSOL-YPF SA | REP.MC | 69,648 | \$1,653,453 | 1.50% | 0.13% | 0.18% | 23.74 | 21.89 | -7.79% | -9.00% |
| VODAFONE GROUP PUBLIC LIMITED COMPANY | VOD | 57,328 | \$1,606,906 | 1.46% | 0.12% | 1.03% | 28.03 | 26.88 | -4.10% | -5.31% |
| ENI - ENTE NAZIONALE IDROCARBURI | ENI | 90,384 | \$1,593,475 | 1.45% | 0.12% | 0.37% | 17.63 | 17.71 | 0.45% | -0.76% |
| BP PLC | BP | 34,736 | \$1,484,610 | 1.35% | 0.11% | 0.99% | 42.74 | 43.77 | 2.41% | 1.20% |
| CANADIAN IMPERIAL BANK OF COMMERCE | CM | 20,206 | \$1,462,273 | 1.33% | 0.11% | 0.21% | 72.37 | 73.02 | 0.90% | -0.31% |
| TOP TEN HOLDINGS | | | \$19,234,358 | 17.46% | 1.46% | 6.68% | MSCI ACWI ex-U.S. | | 1.21% | |

Total Portfolio Value
Total StanCERA Value

\$110,138,186
\$1,320,455,355

STANCERA
Price Monitor Position Report
STANCERA
Price Monitor Position Report

Pyramis Global Advisors
Active Non-US Growth Manager
Positions as of December 31, 2011

| Company | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | Weight ACWI xUS | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change | Relative % Change |
|--------------------------------|---------|----------|----------------------|-------------------|--------------------|--------------------|---------------------|--------------------|----------------------|----------------------|
| ROYAL DUTCH SHELL PLC CL A(NL) | B09CBL4 | 68921 | \$2,518,575 | 2.24% | 0.19% | 1.70% | 73.09 | 69.21 | -5.31% | -6.52% |
| NESTLE SA (REG) | 7123870 | 30646 | \$1,769,740 | 1.57% | 0.13% | 1.37% | 57.71 | 56.10 | -2.79% | -4.00% |
| BP PLC | 0798059 | 228767 | \$1,637,201 | 1.46% | 0.12% | 0.98% | 42.74 | 43.77 | 2.41% | 1.20% |
| VODAFONE GROUP PLC | B16GWD5 | 558676 | \$1,553,278 | 1.38% | 0.12% | 1.02% | 28.03 | 26.88 | -4.10% | -5.31% |
| SAMSUNG ELECTRONICS CO LTD | 6771720 | 1363 | \$1,240,603 | 1.10% | 0.09% | 0.82% | 352.41 | 352.34 | -0.02% | -1.23% |
| SANOFI | 5671735 | 16240 | \$1,196,401 | 1.06% | 0.09% | 0.61% | 36.54 | 35.32 | -3.34% | -4.55% |
| ROCHE HLDGS GENUSSSCHEINE | 7110388 | 6865 | \$1,168,761 | 1.04% | 0.09% | 0.86% | 166.60 | 169.10 | 1.50% | 0.29% |
| BRITISH AMER TOBACCO PLC (UK) | 0287580 | 23300 | \$1,106,413 | 0.98% | 0.08% | 0.68% | 94.88 | 91.36 | -3.71% | -4.92% |
| GLAXOSMITHKLINE PLC | 0925288 | 46989 | \$1,074,572 | 0.96% | 0.08% | 0.83% | 45.63 | 44.13 | -3.29% | -4.50% |
| SIEMENS AG (REGD) | 5727973 | 10922 | \$1,048,351 | 0.93% | 0.08% | 0.57% | 95.61 | 95.87 | 0.27% | -0.94% |
| TOP TEN HOLDINGS | | | \$14,313,894 | 12.73% | 1.08% | 9.44% | MSCI ACWI ex-US: | | 1.21% | |

Total Portfolio Value
Total StanCERA Value

\$112,480,044
\$1,320,455,355

STANCERA
Price Monitor Position Report

Research Affiliates
Enhanced Rafi Global Long Short
Positions as of December 31, 2011

| Long Positions | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change |
|-----------------------------|---------|----------|----------------------|-------------------|--------------------|---------------------|--------------------|----------------------|
| BP PLC | BP-GB | 7,819 | \$334,166 | 2.10% | 0.03% | 42.74 | 43.77 | 2.41% |
| Ing Groep N.V. | INGA-NL | 58,671 | \$326,209 | 2.05% | 0.02% | 5.56 | 6.07 | 9.17% |
| Eni S.P.A. | ENI-IT | 18,052 | \$318,253 | 2.00% | 0.02% | 17.63 | 17.71 | 0.45% |
| General Electric Co. | GE-US | 17,325 | \$310,297 | 1.95% | 0.02% | 17.91 | 18.84 | 5.19% |
| Conocophillips | COP-US | 3,887 | \$283,245 | 1.78% | 0.02% | 72.87 | 70.34 | -3.47% |
| Verizon Communications Inc. | VZ-US | 6,267 | \$251,420 | 1.58% | 0.02% | 40.12 | 38.92 | -2.99% |
| Chevron Corp. | CVX-US | 2,288 | \$243,464 | 1.53% | 0.02% | 106.40 | 106.09 | -0.29% |
| Bt Group Plc | BT.A-GB | 7,301 | \$216,412 | 1.36% | 0.02% | 29.64 | 31.17 | 5.16% |
| Repsol Ypf S.A. | REP-MC | 8,848 | \$210,047 | 1.32% | 0.02% | 23.74 | 22.09 | -6.95% |
| Altria Group Inc. | MO | 6,870 | \$203,682 | 1.28% | 0.02% | 29.65 | 28.96 | -2.33% |
| TOP TEN HOLDINGS | | | \$2,697,195 | 16.95% | 0.20% | | | |

| Short Positions | Symbol | # Shares | \$ Value Position | Weight Manager | Weight StanCERA | 12/31/2011 \$ PX | 1/13/2012 \$ PX | Position % Change |
|----------------------------------|---------|----------|----------------------|-------------------|--------------------|---------------------|--------------------|----------------------|
| Apple Inc. | AAPL-US | 821 | \$332,575 | 2.09% | 0.03% | 405.00 | 419.81 | 3.66% |
| BG Group PLC | BG-GB | 4,034 | \$230,734 | 1.45% | 0.02% | 57.20 | 58.77 | 2.74% |
| Philip Morris International Inc. | PM-US | 2,818 | \$221,186 | 1.39% | 0.02% | 78.48 | 77.32 | -1.48% |
| Google Inc. Cl A | GOOG-US | 318 | \$205,273 | 1.29% | 0.02% | 645.90 | 624.99 | -3.24% |
| Coca-Cola Co. | KO-US | 2,866 | \$200,499 | 1.26% | 0.02% | 69.97 | 66.99 | -4.26% |
| Schlumberger Ltd. | SLB-US | 2,912 | \$198,908 | 1.25% | 0.02% | 68.31 | 67.99 | -0.47% |
| Saipem S.p.A. | SPM-IT | 6,090 | \$198,908 | 1.25% | 0.02% | 32.66 | 35.02 | 7.23% |
| Cisco Systems Inc. | CSCO-US | 10,121 | \$182,996 | 1.15% | 0.01% | 18.08 | 19.06 | 5.42% |
| McDonald's Corp. | MCD-US | 1,808 | \$181,404 | 1.14% | 0.01% | 100.33 | 100.35 | 0.02% |
| Qualcomm Inc. | QCOM-US | 3,229 | \$176,630 | 1.11% | 0.01% | 54.70 | 56.54 | 3.36% |
| TOP TEN HOLDINGS | | | \$2,129,113 | 13.38% | 0.16% | | | |

Total Portfolio Value
Total StanCERA Value

\$15,912,657
\$1,320,455,355



STANISLAUS COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
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01/24/12

Item #9a

For the January 24, 2012 Retirement Board Meeting

TO: Retirement Board

FROM: Rick Santos, Executive Director

I. SUBJECT: Addition of the Position of Senior Administrative Assistant
(Confidential Assistant IV - CAIV)

II. RECOMMENDATION: Create a new CAIV position in the Operations area of the
Organization while leaving the current Manager II position vacant.

III. ANALYSIS:

Creation of the CAIV

Over the past several months, the Organization has undergone a major transition. Its Retirement Administrator and Operations Manager with a combined knowledge base of 40 years have retired. At the same time, the Board and the Organization are facing and must address some major issues that confront most governmental pension plans today. Some of these issues are transitory in nature, but some must be dealt with on a continuous basis. Confronting these issues will require some changes in the way we do business and a resource structure that will make the Organization nimble and able to react to the changing pension world. The following are four areas of concern and issues the Organization should focus its resources on at this time:

1. *GASB Issues* – Major changes lie ahead regarding GASB compliance. Staff will be required to make changes to the CAFR and work with auditors to acquire and present this new information. They will be required to work closely with the actuary as cash flows and separate pension accounting for each agency/district within the System will become a major consumption of time and resources in the production of the information. Finally, considerable time must be spent getting up to speed and keeping up on the new accounting rule changes.
2. *Pension Risk* – Over the next several months, the Organization will be exploring alternative ways of funding pension benefits. This will require considerable staff time dedicated to educating the Organization and working with consultants to develop and implement different investment strategies if necessary.

III. ANALYSIS (Cont.):

3. *Transparency* – Over the last few years, our Auditors have noted discrepancies in Investment Manager Reports and our Custodian Bank. While procedures have been put into place, the Auditors have again noted discrepancies this last fiscal year. It is critical that the Organization acquires a level of comfort with all aspects of investment accounting. This includes understanding and monitoring trade costs, fees, and spreads. Money flow between accounts must be monitored and reconciled on a semi-regular basis. A thorough understanding of all our investment fees, their calculation, and their effects on portfolio performance must also be acquired.
4. *Staff Development* – As the Organization makes these transitions, staff will need to develop a better understanding and awareness of the issues and the role they play in achieving organizational success. To that end, several educational and cross-training sessions are scheduled throughout the next year.
5. *Tyler Pension Software Contract* - StanCERA is the only 1937 Act system with this software. If Tyler does not choose to support this software past the contract period (3 years), we may be forced into another system conversion.

The bulk of issues above will ultimately be thrust upon our Accountant, Executive Director, and Operations Manager. As such, some of the “routine” duties performed by these positions in the past must be reassigned. The new CAIV position will allow the Organization to reassign these duties and create a sense of focus and direction for not only the new position, but for the above mentioned as well.

The main focus and duties of the new position will be as follows:

- Publication of all printed material such as newsletters, flyers and brochures
- Graphic design and publication of the CAFR and PAFR
- Website Maintenance
- Accounts Payable
- Member Statements
- Provide support to the Board Secretary as necessary
- Provide support to the Organization’s Accountant as necessary

Keeping the Current Manager II Position Vacant

As the Organization moves forward through this time of transition, there is tremendous value in keeping the current vacant Manager II position at this time. In the future, the Organization may find itself in a situation where it needs to hire staff with specialized skills. The skills needed may include investment, accounting or, even finance. The ability to be nimble in the hiring process, especially regarding individuals with this kind of specialized knowledge is compelling and of great value. However, even if staff does decide that ultimately the filling of this position is in the best interests of the Organization, we would bring this to the Board for approval.

IV. RISK

As the Organization confronts the issues at hand, should the Board decide not to fund the CAIV position, it may find itself in a situation where job roles become less defined and focused and the ability to manage day-to-day tasks suffer as we continue to pull staff in from other areas to compensate. Simultaneously, if the Manager II position is not kept available, it may hamper the ability of the Organization to move quickly in acquiring competent and specialized staff that may be needed as the direction of the Organization becomes clearer in the future.

Alternatively, if the Board does decide to fund the CAIV position and then ultimately decides that organizational changes are not needed, the creation of this new position would add an unnecessary layer of expense.

V. STRATEGIC PLAN

The passage of this item accomplishes and/or maintains many of the goals and strategies of the current Strategic Plan:

- * Goal 1, Strategy A: Explore options for a more flexible investment policy with greater diversification
- * Goal 1, Strategy C: Review investment decisions regularly and ensure that the Board has a full range of information to make informed decisions regarding investment policy
- * Goal 3, Strategy A: Maintain excellence in governance through high quality educational activities for Board members
- * Goal 3, Strategy B: Maintain high standards for StanCERA staff and provide ongoing training and development opportunities
- * Goal 3, Strategy C: Regularly update policies, procedures and systems to ensure organizational effectiveness and consistency

VI. BUDGET IMPACT

Currently, the unfilled Manager II position is budgeted at \$81,345 for 2011-2012. The CAIV position has a salary level of \$68,399 which is considerably lower than that of a Manager II. Even though the creation of this position will add an extra body, there is no fiscal impact to our current budget.

The Organization has been run quite efficiently over the years. In fact, the accompanying chart bears this out. Relative to other 1937 Act systems within our size range, StanCERA uses less resources per dollar of pension assets under management. In one way, this is a testament to the leanness of our Organization. On the other hand, it creates difficulties in accomplishing additional or unexpected tasks as the need arises. Obviously, the creation of the new CAIV will relieve some of those difficulties.

**Assets Managed By Employee (in millions)
Administrative Expenses (BPS) of Assets Under Management
For Plans Up to \$2 Billion in AUM**

