

2011 CAPITAL MARKETS OUTLOOK

Joseph V. Amato
President and Chief Investment
Officer for Equities

While the financial markets see-sawed through several distinct phases in 2010, investors regained confidence late in the year and stocks rallied as mixed economic indicators became more positive and corporate earnings displayed continued strength. In bonds, spread sectors generally outpaced Treasuries for the year as investors were willing to take on risk to generate yield.

Looking ahead, we are cautiously optimistic about the investment climate for 2011 with a moderately bullish outlook for U.S. equities, supported by loose monetary policy and what we expect to be a slow but steady economic expansion. More broadly, we believe that emerging market economic strength will help share prices of global companies in the developed world as well as locally focused companies in emerging markets. Although yield spreads have narrowed, we think that non-Treasuries will continue to show strength on a relative basis.

Overall, we favor an overweight of equities over bonds, with a balance of dividend-producing and cyclical stocks, as well as some exposure to higher risk/return profile investments including high yield and emerging market stocks. In a generally muted economic environment that carries a variety of risks, we believe that security selection will be highly important to investment performance across asset classes in the year ahead.

EXECUTIVE SUMMARY

- Global economic growth is expected to remain slow overall, with emerging market economies outpacing developed counterparts.
- In the U.S., expansion should be supported by healthy manufacturing, gradually improving labor conditions, steady consumer spending and loose Fed policy.
- Corporate fundamentals appear generally strong, characterized by steady earnings growth and healthy cash levels; as macro concerns ease, we favor an equity focus on company-specific fundamentals.
- Among bonds, we look for spread sectors to continue to excel versus Treasuries, although less than the past two years; uncertainties in the municipal market appear largely reflected in current prices.
- We currently favor equities over bonds, with balanced exposure to dividend-paying stocks and cyclical issues, as well as selective exposure to high yield securities and emerging market equities.

U.S. stock returns were close to historical norms for 2010, but this aggregate “stability” obscures the roller coaster ride experienced by many investors as the markets moved from optimism about corporate earnings and recovery to pessimism about macroeconomic issues—and back again—often in rapid sequence.

TURBULENT BUT POSITIVE YEAR

U.S. stock returns were close to historical norms for 2010, but this aggregate “stability” obscures the roller coaster ride experienced by many investors as the markets moved from optimism about corporate earnings and recovery to pessimism about macroeconomic issues—and back again—often in rapid sequence.

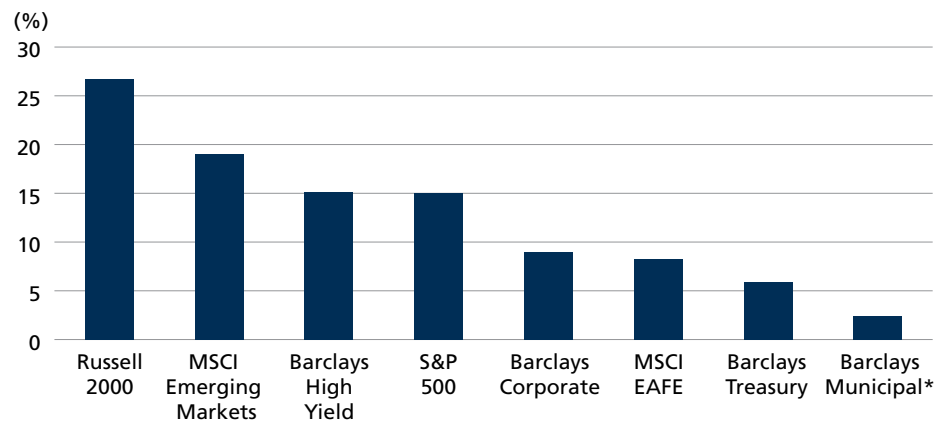
In the first four months of the year, market psychology was largely positive. Fresh off the stellar price gains of 2009, investors worried early on about financial policy and health care reforms, while warning signs about the risk of a Greek default mounted. But, in the face of strong earnings reports, market psychology gained positive steam, and investors cheered healthy GDP results; a strong fourth-quarter 2009 earnings season and relatively favorable forward earnings estimates, helped drive up equity prices.

Unfortunately, the optimism did not last, as investors—faced with stubborn unemployment and a still weak housing sector—became more alarmed about the potential for a double-dip recession. Even more influential, the European debt crisis intensified as the markets weighed the potential for defaults by an array of sovereign borrowers, sending investors from “risk assets” to areas of perceived safety like Treasuries. Although Greece did receive a bailout from the IMF and the European Union, market pessimism endured, fueled by the May 6 U.S. “flash crash,” tightening Chinese monetary policy, the BP oil spill and ongoing economic fears. By early July, the S&P 500 had erased all of its gains since the start of the year and then some while various European markets—especially the peripheral nations most affected by debt concerns—were also in negative territory.

Late in the summer, talk of a U.S. “double dip” recession had begun to fade, while news emerged about improved economic growth and manufacturing activity. And markets increasingly anticipated (correctly) Republican gains in the midterm election—something that was widely seen as positive for the business environment. Finally, U.S. stocks reacted positively to the Federal Reserve’s new quantitative easing program (known as QE2), in which the Fed is buying up to \$600 billion in Treasury securities in an attempt to keep a lid on long-term yields and thus stimulate the economy. European markets, meanwhile, were somewhat reassured by a new deal supporting Irish debt as well as modestly improving economic indicators.

FIGURE 1: DESPITE VOLATILITY, A STRONG YEAR FOR MARKETS

2010 Market Returns

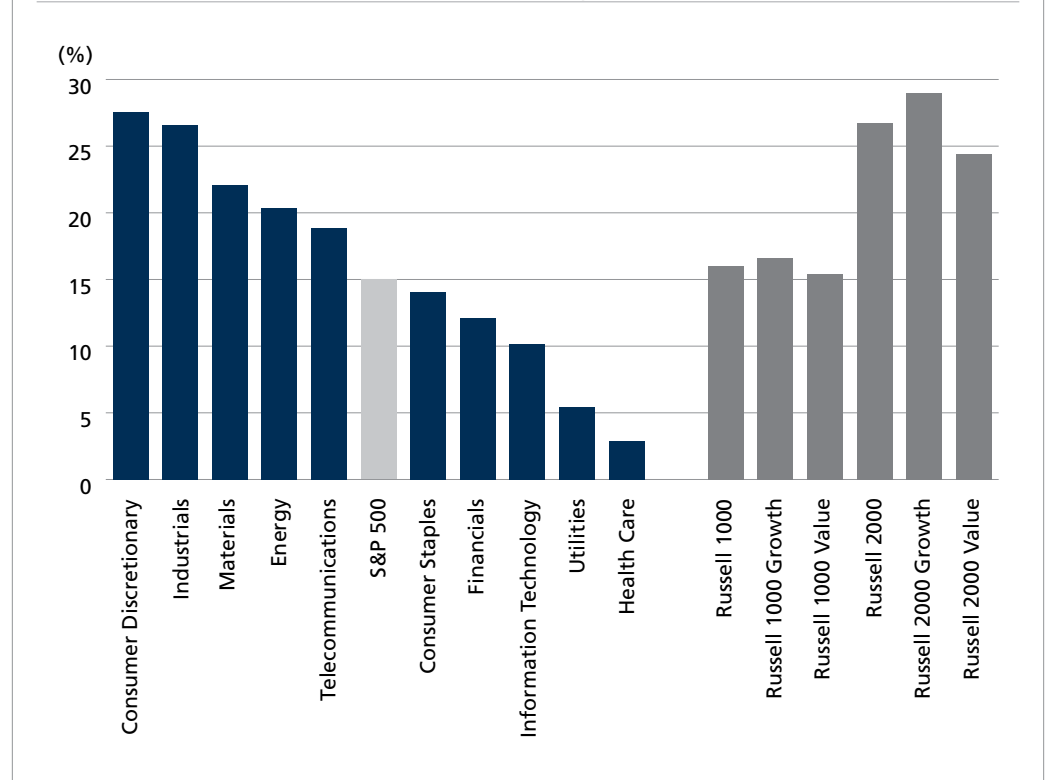


Source: FactSet. Data as of December 31, 2010. For illustrative purposes only. Indexes are unmanaged and are not available for direct investment. Investing entails risk, including possible loss of principal. Past performance is no guarantee of future results.

*Municipal performance not adjusted for taxes.

With a gain of 24.2% from the July 5 low through December 31, the S&P 500 advanced 15.1% for 2010, with growth stocks generally outpacing value counterparts and small caps leading larger issues. In terms of sectors, cyclical areas such as consumer discretionary, industrial and materials stocks were particularly strong while health care and utility stocks lagged. Elsewhere, the MSCI EAFE Index finished with a 8.2% gain as markets in Northern Europe and Asia were relatively strong, while peripheral European nations including Greece, Ireland, Spain and Italy were particularly weak. The emerging markets, meanwhile, had another strong year, with the MSCI Emerging Markets Index advancing 19.2%. Gains were widespread, with Thailand and Peru generating particularly impressive results. Certain Eastern European markets faltered on concerns about the economic impact of the sovereign debt crisis, while Brazil posted only a modest positive return due to an overhang from issues at Petroleo Brasileiro (or Petrobras), the national oil company.

FIGURE 2: CONSUMER AND SMALL CAP STOCKS EXCELLED
2010 Market Returns (U.S. Sector and Market Cap)



Source: FactSet. Data as of December 31, 2010. Sectors are for S&P 500 Index. For illustrative purposes only. Indexes are unmanaged and are not available for direct investment. Investing entails risk, including possible loss of principal. Past performance is no guarantee of future results.

In bonds, high yield and emerging market issues were particularly strong for the year as investors were willing to take on additional risk to generate returns in a low-interest-rate environment.

In bonds, high yield and emerging market issues were particularly strong for the year as investors were willing to take on additional risk to generate returns in a low-interest-rate environment. Investment grade corporate bonds and, to a lesser degree, agency bonds also showed solidly positive returns. Although Treasury yields declined for much of 2010, more favorable economic data in the fourth quarter caused an increase in yields (and a decline in prices), leading to moderately positive total returns for the full year. Meanwhile, municipal bonds experienced volatility late in the year exacerbated by uncertainty over whether Congress would extend the Build America Bonds (BABs) program. This triggered a spike of new issuance in this popular area of the market, coming at a time of significant

Looking ahead, we believe there is room for more upside for equity markets in the coming year, with a continuation—and possible improvement—of various positive economic trends.

In bonds, we anticipate further outperformance by spread sectors as the economy continues to recover and corporate default rates remain low.

redemptions by mutual funds, as investors sought to avoid overall negative bond market momentum and perceived credit risk.

Looking ahead, we believe there is room for more upside for equity markets in the coming year, with a continuation—and possible improvement—of various positive economic trends. Still, stock price volatility is likely to remain substantial as investors are confronted with an uneven fundamental landscape. In bonds, we anticipate further outperformance by spread sectors as the economy continues to recover and corporate default rates remain low. Although municipalities face fiscal challenges, we believe that, in the aggregate, these are priced into the marketplace.

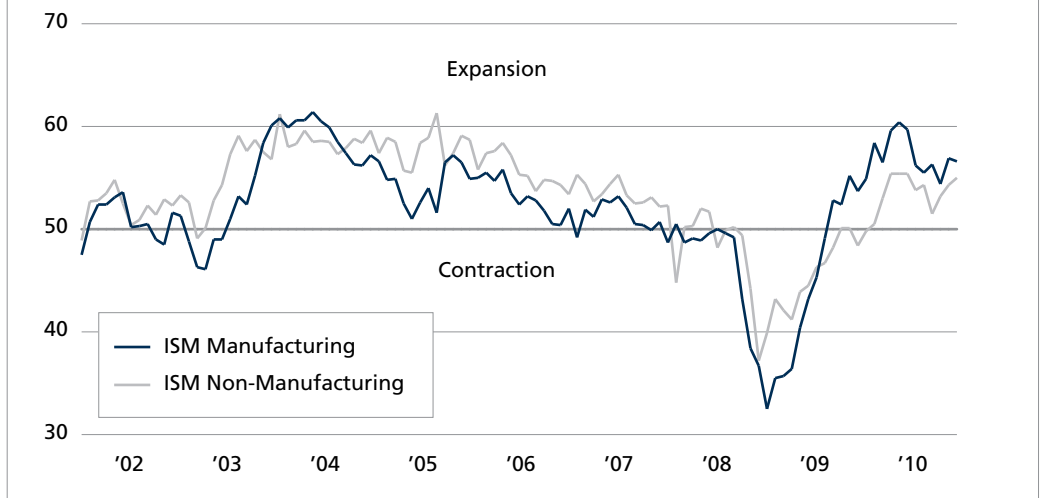
MORE SLOW ECONOMIC GROWTH IN 2011

In the U.S., the recovery has thus far been helped by both government spending and the business inventory rebuilding that took place after corporations cut costs dramatically during the recession. Although these influences may fade in 2011, we believe that any cooling effect will be offset by increases in capital spending and modest new hiring as companies gear up for a period of more substantial growth. In our view, the relatively weak dollar will also have some benefits for U.S. exporters.

One still problematic area is housing, as home values have declined moderately in recent months and demand remains meager despite low mortgage rates. Delays in mortgage foreclosures, caused by a system-wide documentation failure, are also slowing recovery. Government policy initiatives related to Fannie Mae and Freddie Mac will be an important determinant of the long-term health of the housing market. As of now, the government has yet to propose any substantive change to these institutions. However, we believe that downside risk is moderate given the sector's steep decline from its 2006–07 highs, leaving some upside as purchasers gradually work through inventories—something that could help the overall economy in the coming year.

The labor picture appears moderately better. Private payroll gains averaged just over 100,000 jobs per month in 2010—a subpar pace for a recovery—while unemployment remains high at more than 9%. However, we expect stronger job gains in 2011 as businesses become more comfortable preparing for growth. Interestingly, consumer spending remains impressive despite job fears and efforts to reduce personal debt. December was the sixth straight month of steady gains in spending and the holiday season was strong—a good sign for 2011. Meanwhile, the manufacturing sector remains quite healthy, with the ISM's Purchasing Managers Index indicating rapid expansion in December. In our view, these numbers should remain strong in an overall improving environment.

FIGURE 3: LEADING ECONOMIC INDICATORS ARE BRIGHTENING
ISM Manufacturing and Non-Manufacturing Indexes



Source: Thompson Reuters Datastream. Data as of December 31, 2010.

Finally, we believe monetary policy should be a neutral to positive factor for business activity this year. The Federal Reserve seems committed to an accommodative approach. However, with interest rates already low, we believe that QE2 will have only limited impact on long-term GDP growth. We do think that the program will contribute to improved confidence, help consumer and business spending, as well as hiring, and revive the availability of credit, which has been absent for many smaller businesses.

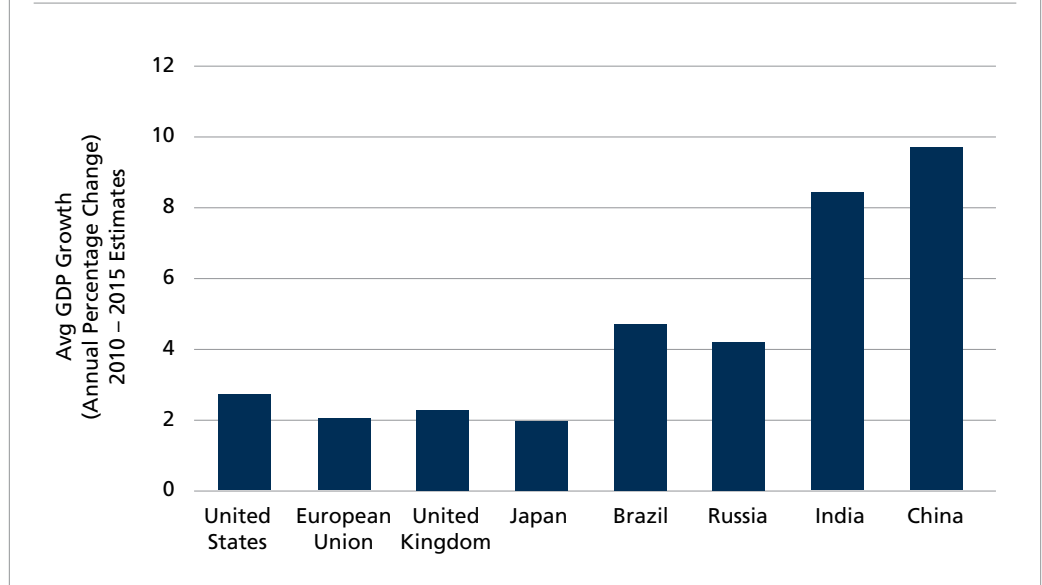
HEADWINDS IN EUROPE, EXPANSION IN EMERGING COUNTRIES

In other developed markets, the economic backdrop is likely to remain challenging despite a soft recovery.

For emerging markets, we feel that economic growth is likely to continue to outpace growth in the developed world by 3–6% for the year ahead.

In other developed markets, the economic backdrop is likely to remain challenging despite a soft recovery. In general, European governments are faced with the task of stimulating economic growth while at the same time containing deficits. And although austerity measures are a key to long-term economic health, they are likely to reduce demand and limit the strength of the rebound overall. In our view, countries that are especially burdened by debt—such as Greece, Italy, Ireland, Portugal and Spain—as well as an inability to devalue their currencies will probably experience weak or negative growth. Japan is also likely to face economic challenges, not only because of public debt, but also because of its aging population and the ongoing challenge of deflation. By contrast, Germany has been a bright spot for growth due largely to the competitiveness of its industrial sector and the ongoing demand from export markets in the developing world. Countries that are more geared to natural resources, such as Australia and Canada, should continue to expand at a faster rate, given emerging-market demand for their commodity exports.

For emerging markets, we feel that economic growth is likely to continue to outpace growth in the developed world by 3–6% for the year ahead. Strong demographics—growing, young populations with more access to products and an interest in improving their lives—as well as exceptional balance sheets for both individuals and sovereigns should help spending overall. Moreover, governments and companies understand that they need to spend, respectively, on infrastructure and productivity measures to meet demand and avoid production bottlenecks—further driving expansion.

FIGURE 4: EMERGING MARKET GROWTH REMAINS IMPRESSIVE

Source: International Monetary Fund, World Economic Outlook Database, October 2010.

Real GDP estimates begin after 2009. European Union composed of 27 countries: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Romania, and United Kingdom.

REASONS FOR CAUTION

In the context of generally slow economic growth, we see a number of key risks—including sovereign debt, political paralysis, tensions over trade and price inflation in the emerging markets—that could lead to periods of market volatility in 2011.

In the context of generally slow economic growth, we see a number of key risks—including sovereign debt, political paralysis, tensions over trade and price inflation in the emerging markets—that could lead to periods of market volatility in 2011.

High sovereign debt levels have been a key issue, affecting not only “problem” borrowers like Ireland and Greece, but various leading economic powers as well. The sizable deficits in Europe, Japan and the U.S. (including many of its states and local governments) have been worsened by structural problems like pension liabilities. Such issues are unlikely to fade quickly and may implicate taxes and fiscal policies that could, in turn, affect growth and the potential for inflation (or deflation).

In the U.S., political gridlock associated with split government is largely viewed as positive by the markets. However, inaction could mean increased harmful deficits as politicians fail to adequately address the nation’s fiscal problems. On the flipside, overly conservative fiscal policies could prematurely rein in growth-oriented programs at a time when job creation is quite limited. Our concerns are eased somewhat by the law passed in December authorizing an extension of the Bush-era tax cuts and introducing various stimulative measures. But it remains to be seen how a divided and polarized government will behave in the coming year.

During 2010, trade imbalances and related currency issues were a source of international tension—a trend that we believe could continue into 2011. Although QE2’s stated purpose was to limit increases in long interest rates, many nations roundly criticized its potential secondary impact of reducing the value of the dollar. (In fact, the dollar has actually risen since the program was announced, in large part because of the turbulence associated with European debt.) Moreover, the policy of China and other export nations to peg their currencies to the dollar continues to be at odds with balance-of-payment fundamentals and is adding to what many consider to be those countries’ “unfair” trade advantage. In short, the war of words over currency is likely to continue.

Among other worries, inflation — although a rather remote threat in the U.S. — is a concern for faster-growing emerging economies, as reflected in prices for food, raw materials, labor and asset prices. As a result, governments in China and elsewhere have been seeking to rein in expansion through monetary tightening. Such efforts may have a balancing effect, but if taken too far could weaken emerging market growth, which has thus far been essential in sustaining the global economy. Supply constraints due to stressed infrastructure in developing countries could also hold back expansion. In a related issue, higher commodity prices (driven largely by emerging market demand) could put pressure on corporate profit margins around the world. Finally, geopolitics continues to be a source of concern, particularly in relation to North Korea and Iran. Should conflicts escalate, the impact on economies and markets could be unpredictable.

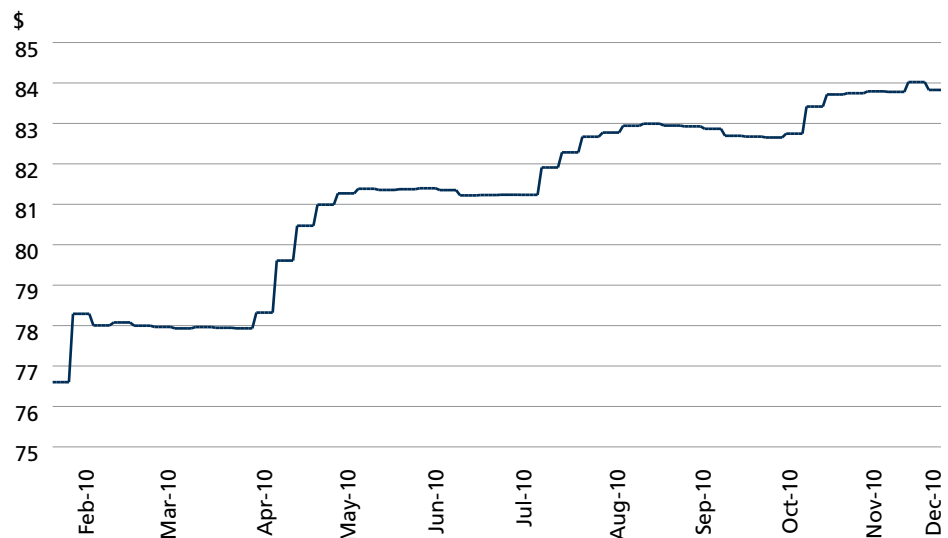
U.S. STOCKS: FOCUS ON FUNDAMENTALS

In the context of our measured but generally favorable economic outlook, we believe that U.S. equities have considerable appeal. In part, this is simply a function of the current strength of corporate America.

In the context of our measured but generally favorable economic outlook, we believe that U.S. equities have considerable appeal. In part, this is simply a function of the current strength of corporate America. Many companies have healthy balance sheets and large cash reserves, with roughly \$1 trillion held by S&P 500 companies as of December 31, 2010. Since businesses have been reluctant to significantly increase capital expenditures or hiring expenses, their cash has thus far been used for share buybacks and increased dividends as well as to engage in mergers and acquisitions, which often have the potential to benefit shareholders. Although we expect this activity to continue, we also believe that companies will increasingly put the money back in their businesses in response to a more stable economic environment and more visible growth prospects.

Continued strong earnings are also likely to support equities moving forward. Profits remained solid throughout 2010 despite tepid economic growth, with the S&P 500 providing cumulative earnings per share of an estimated \$84 – \$85 — close to its \$87 peak in 2007. For the coming year, consensus expectations are for record S&P 500 earnings of around \$95. Top-line revenues should also be strong, helped by improving domestic demand and robust growth in emerging markets — even considering potential pressures on margins from rising commodities prices and a strengthening employment outlook.

FIGURE 5: CORPORATE EARNINGS HAVE STRENGTHENED
S&P 500 2010 EPS Estimates



Source: Thompson Reuters Datastream. Data as of December 31, 2010.

As for valuations, we believe that U.S. equities, as represented by the S&P 500, remain reasonably priced at around 13 times forward estimates and are quite underpriced when compared with bonds. Given this comparative advantage, we feel that investment flows that for so long were moving into bonds will increasingly find their way into the equity markets. Although uncertainties and slow growth are likely to keep equity valuations below long-term averages, we think there is some potential for multiple expansion in the coming year.

In terms of investment themes, we believe that the emerging markets will continue to have a major influence on profits at many U.S. companies. Although U.S. and European economies remain weak, emerging economies are expanding more rapidly. Unlike in developed markets, sovereign and personal debt levels are relatively modest in developing countries, while growing consumption and the need for infrastructure expansion are bolstering demand and business activity. As such, we believe well-positioned U.S. companies with global businesses are likely to benefit.

From a sector perspective, consumer stocks have some potential for outperformance, in our view, given the resiliency of consumer spending. Moreover, signs of improvement in the labor market suggest further upside over time. Growing manufacturing activity and infrastructure building could also mean another good year for industrials while limited supply growth and exceptional demand for commodities (mirrored in higher commodity prices) could help materials companies. Energy firms may be poised for a good year given the dynamics in commodity markets.

Overall, we think investors would be well advised to maintain broadly diversified allocations, with stocks in relatively aggressive companies that stand to do well in a strong environment as well as more defensive names, including high dividend stocks, that could offer some stability should economic results prove disappointing.

NON-U.S. EQUITIES: SELECTIVITY, EMERGING GROWTH ARE KEY

With expectations for slow economic growth, our Global Equities team does not anticipate much of a tailwind for international developed stocks — meaning that individual stock selection will be especially important in seeking to achieve attractive returns in the coming year.

In Europe and Japan, where sovereign debt and government fiscal consolidation are significant concerns, the team believes a focus on companies operating on a global basis and with emerging markets exposure is appealing. Many such companies have long track records, strong management teams and exceptional transparency, but have trailed the stock performance of emerging market counterparts — providing far more favorable valuations. The team also favors markets that have not suffered the same problems as Europe. For example, Canada and Australia have much lower levels of public debt and economies that benefit from continued high commodity prices — which are likely to be sustained by continued economic growth in emerging markets.

From a sector perspective, the team is still skeptical about financials, where banks in particular will see profitability undermined by increasing regulation that required them to hold more capital to withstand economic volatility. However, the team thinks well-positioned companies in the materials and industrial sectors that serve the infrastructure, manufacturing and distribution needs in the emerging markets could perform well. Overall, companies selling efficiency and productivity solutions — for example in the technology sector — may also outpace the overall market.

Despite tepid economic growth, the picture for many individual developed market companies is positive. Balance sheets at many firms have been repaired to pre-crisis levels,

Overall, we think investors would be well advised to maintain broadly diversified allocations, with stocks in relatively aggressive companies that stand to do well in a strong environment as well as more defensive names, including high dividend stocks, that could offer some stability should economic results prove disappointing.

cash-flow generation is strong, and new capital expenditures and working capital have been cut back, while wage pressures are generally minimal. With that in mind, overall valuations generally seem reasonable.

DOMESTIC FOCUS IN EMERGING MARKETS

In emerging markets, we believe investors should balance the opportunities associated with strong economic growth with often higher risks and valuations. In this segment, the Global Equities team believes that focusing on quality businesses with strong and sustainable returns is an attractive approach. Currently, they see particular value in domestically (or home country) oriented names, which offer good exposure to positive local demographic trends with less earnings volatility. Within this group, consumer sectors already appear to price in much of their potential upside, although select stocks within health care and energy provide better values.

With respect to our views on emerging countries, Thailand, Turkey and the Philippines offer potential growth and value. India still provides interesting opportunities in mid-cap stocks, as does Brazil—with economic growth likely to be underpinned by investment ahead of the 2014 World Cup and the 2016 Olympics, as well as ongoing investment in the energy sector. China, despite adverse sentiment resulting from its ongoing monetary tightening efforts, may offer interesting opportunities in the year ahead. In contrast, export-driven, technology-oriented markets such as Korea and Taiwan merit some caution in the current environment.

Overall, we believe non-U.S. equities continue to provide meaningful opportunity for diversification and an additional means to capitalize on emerging market economic growth. Individual fundamentals, valuations and the ability of companies to execute on their strategies will be the key to identifying the major outperformers in the coming year.

FIXED INCOME: IMPROVING ECONOMY FAVORS NON-TREASURIES

Against a backdrop of positive economic growth and low inflation, our Fixed Income team's outlook is for the spread sectors to continue to outperform equal-duration Treasuries in 2011, although excess returns may not be as large as in the past two years. Security selection with careful attention to individual credit quality will be especially important moving forward.

Investment Grade Bonds

For investment grade corporate issues, many of the factors that we believe supported the market in 2009 and 2010 remain in place, including strong corporate balance sheets, improving profits, attractive borrowing costs and robust demand given the low interest rate environment. A further decline in corporate defaults is also likely. These factors support attractive opportunities in corporate bonds. Among other investment grade sectors, agency mortgage-backed securities appear relatively attractive. Pre-payment risks appear to have been reduced, given the number of mortgages that are underwater as a result of the sharp decline in housing prices. We believe that spread tightening in the second half of 2011 is a possibility as interest rates trend somewhat higher and investor demand increases. Commercial mortgage-backed securities and non-agency residential mortgage-backed securities also continue to offer attractive loss-adjusted yields, although the bulk of the price rally appears to be behind us. Meanwhile, asset-backed securities currently provide less relative value. Finally, although Treasury Inflation-Protected Securities (or TIPS) rallied in the latter half of 2010, they appear to remain the most attractive high-quality option to help bond portfolios hedge against inflation.

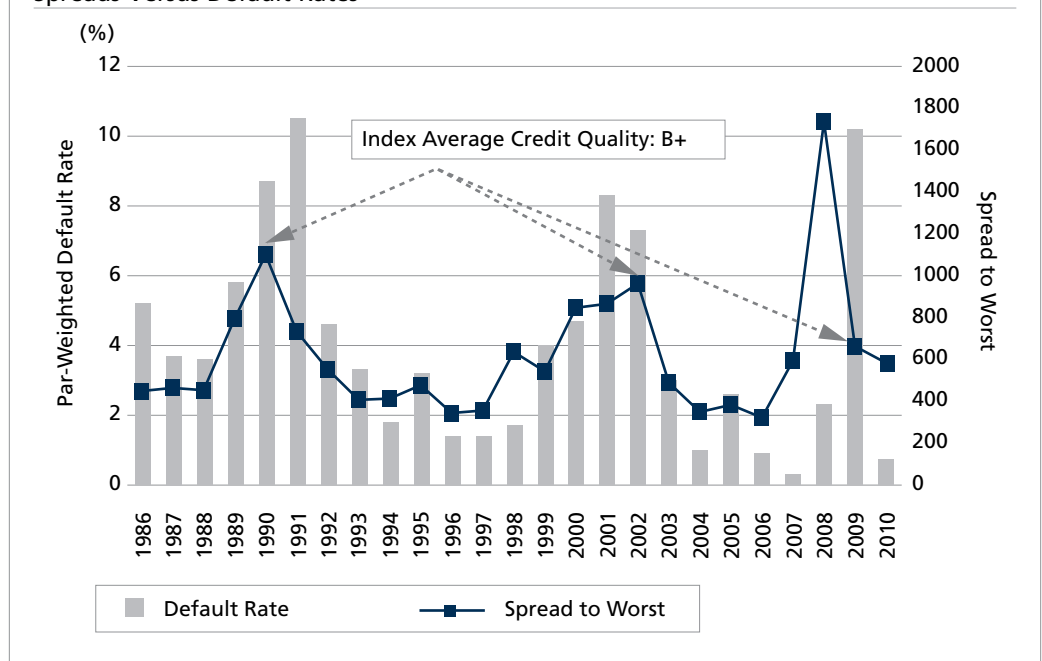
Our Fixed Income team's outlook is for the spread sectors to continue to outperform equal-duration Treasuries in 2011, although excess returns may not be as large as in the past two years. Security selection with careful attention to individual credit quality will be especially important moving forward.

After peaking at 10.3% in 2009, bond default rates have fallen sharply and are now well under 1% (loan defaults have had a similar move). It appears that defaults will be close to zero over the next two to three years, given the improvement in issuers' balance sheets and lack of default triggers.

High Yield Bonds and Loans

Despite the high yield market's strong recent results, we continue to have a positive, although modest, outlook for the sector in 2011. Historically, periods of tepid but positive economic growth and low inflation have offered positive environments for high yield prices. After peaking at 10.3% in 2009, bond default rates have fallen sharply and are now well under 1% (loan defaults have had a similar move). It appears that defaults will be close to zero over the next two to three years, given the improvement in issuers' balance sheets and lack of default triggers. High yield credit spreads, while substantially narrower than in 2008, remain attractive in our opinion given where we are in the current economic cycle. Risks to this viewpoint, which appear fairly remote, would be a sharp decline in economic activity, spiking interest rates, or a reversal of Fed liquidity measures.

FIGURE 6: HIGH YIELD VALUATIONS ARE RELATIVELY ATTRACTIVE
Spreads Versus Default Rates

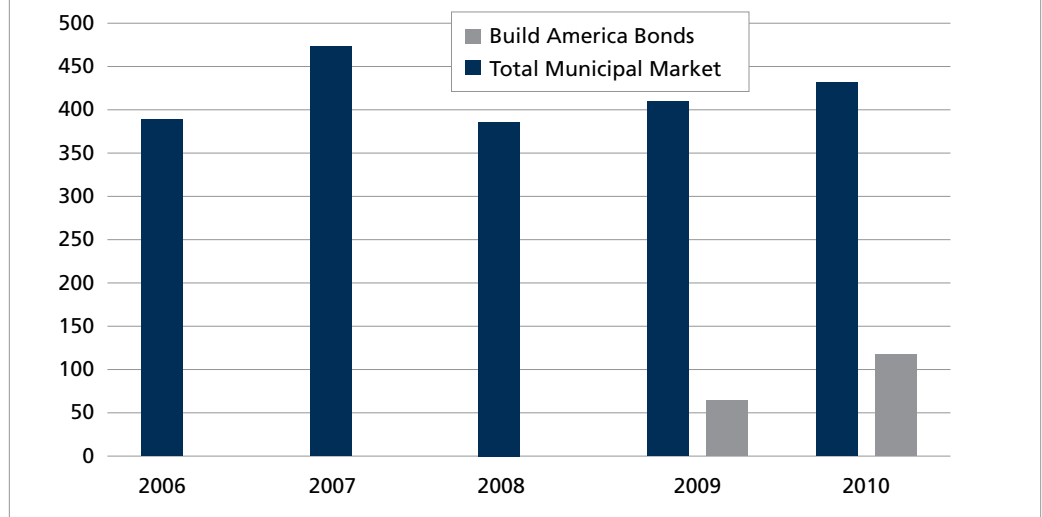


Sources: J.P. Morgan, Moody's Investment Service. As of December 31, 2010.

Municipal Bonds

The outlook for municipal bonds is clouded by a number of uncertainties: First, with the end of the popular Build America Bonds program, there could be a marked increase in long-term tax-free bond issuance which could pressure municipal bond spreads in that area of the yield curve. Also, given the results of the midterm elections, there could be less federal government support for financially strapped state and local governments. Less federal assistance, coupled with only a modestly improving economy and relatively weak tax revenues could result in an increase in municipal bond downgrades and greater volatility.

**FIGURE 7: BUILD AMERICA BONDS EXPIRATION
COULD HAVE MAJOR IMPACT**



Sources: The Wall Street Journal/Thompson Reuters MMD, as of December 31, 2010.

Still, there are reasons for optimism. Many of the factors that we believe contributed to the solid performance of tax-exempt bonds for much of 2010 may play a role next year. These include continued strong demand for reliable and liquid income-generating investments and the prospect of higher state and local taxes at some point down the road. Also, we believe that munis provide an attractive relative value proposition when compared to Treasuries and other high-quality fixed income sectors on a taxable-equivalent yield basis.

In terms of positioning, we favor a higher-quality bias given current fiscal stresses. Maintaining ample diversification in municipal portfolios will be critical, as well as a focus on attractively valued and well-funded sectors. From a geographic perspective, we believe it is prudent to avoid areas that are dependent on a single industry or employer (e.g., autos) and to limit exposure to issuers from parts of the country that were the hardest hit by the real estate bubble.

Non-U.S. Fixed Income

Depending on the investor, a prudent mix of non-U.S. government bonds presents the potential for higher yields as well as the benefit of diversification. With certain regions recovering from the economic downturn faster than others, yields in developed countries such as Australia and New Zealand are far higher than those in the U.S. Separately, the yields in peripheral Europe could remain elevated due to risks associated with their sovereign debt. Given our belief that much of the bad news has been priced into these spreads, some exposure to this area may be appropriate for investors who can withstand higher volatility. Non-U.S. corporate bond spreads also appear attractive, although in this case issuers in peripheral Europe may be pressured by government austerity measures. In the emerging debt markets, prospects of debt in 2011 are moderately positive, given superior economic growth, relatively strong risk appetite among investors and the potential for continued liquidity fostered by loose monetary policy in the developed world. Still, the sector has enjoyed exceptional gains over the last two years, leaving open the possibility of a correction in the coming year.

Depending on the investor, a prudent mix of non-U.S. government bonds presents the potential for higher yields as well as the benefit of diversification.

CONCLUSION

During 2010, macroeconomic factors largely dominated the financial markets, creating a volatile, emotional environment as investors appeared at times to be thinking less about what stocks to own than whether they should own stocks at all. As a result, many equities with very different fundamental characteristics — profitability, balance sheet strength, growth rates, management teams and track records — often showed very high correlations to one another, while valuations converged.

Over time, we believe that the market will differentiate these stocks based on their individual fundamentals. A similar statement can be made about other assets as well.

For bond investors, for example, it is no longer enough to rely on securities ratings and insurance wrappers to make choices on what to buy. Indeed, the ability to find and invest in securities with superior characteristics — matched by attractive valuations — could be a differentiating factor for performance moving ahead. Also important will be a patient perspective, as the market's recognition of such fundamentals may only become apparent over time.

This material is provided for informational purposes only. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security. No recommendation or advice is being given as to whether any investment or strategy is suitable for a particular investor. It should not be assumed that any investments in securities, companies, sectors or markets identified and described were or will be profitable. Third-party economic or market estimates discussed herein may or may not be realized and no representation is being given regarding such estimates. Information is obtained from sources deemed reliable, but there is no representation or warranty as to its accuracy, completeness or reliability. All information is current as of the date of this material and is subject to change without notice. Any views or opinions expressed may not reflect those of the firm as a whole. Certain products and services may not be available in all jurisdictions or to all client types. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. Unless otherwise indicated, returns shown reflect reinvestment of dividends and distributions. **Past performance is no guarantee of future results.**

Investing in the stocks of even the largest companies involves all the risks of stock market investing, including the risk that they may lose value due to overall market or economic conditions. Small- and mid-capitalization stocks are more vulnerable to financial risks and other risks than stocks of larger companies. They also trade less frequently and in lower volume than larger company stocks, so their market prices tend to be more volatile. Investing in foreign securities involves greater risks than investing in securities of US issuers, including currency fluctuations, interest rates, potential political instability, restrictions on foreign investors, less regulation and less market liquidity. Economies in Emerging Markets are generally less well regulated and may be adversely affected by trade barriers, exchange controls, protectionist measures and political / social instability. There is a risk of volatility due to lower liquidity and the availability of reliable information. High Yield Bonds carry a higher level of default risk and can be less liquid than government bonds and investment grade corporate bonds.

The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The "500" is one of the most widely used benchmarks of U.S. equity performance.

The MSCI EAFE[®] Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of June 2006, the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey

The Russell 1000[®] Index measures the performance of the 1,000 largest companies in the Russell 3000[®] Index, which represents approximately 92% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the weighted average market capitalization was approximately \$62.8 billion; the median market capitalization was approximately \$3.4 billion. The smallest company in the index had an approximate market capitalization of \$829 million.

The Russell 1000 Growth Index measures the performance of those Russell 1000[®] companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 1000 Value Index measures the performance of those Russell 1000[®] companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000[®] Index measures the performance of the 2,000 smallest companies in the Russell 3000[®] Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index. As of the latest reconstitution, the weighted average market capitalization was approximately \$732 million; the median market capitalization was approximately \$306 million. The largest company in the index had an approximate market capitalization of \$1.7 billion and the smallest of \$78 million.

The Russell 2000 Growth Index measures the performance of those Russell 2000[®] companies with higher price-to-book ratios and higher forecasted growth values.

The Russell 2000 Value Index measures the performance of those Russell 2000[®] companies with lower price-to-book ratios and lower forecasted growth values.

The Barclays Capital U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed rate and hybrid ARM pass-throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety. The Index was created in 1986, with Index history backfilled to January 1, 1976.

The Barclays Capital U.S. Corporate Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD-denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers that meet specified maturity, liquidity and quality requirements. Securities in the index roll up to the U.S. Credit and U.S. Aggregate Indices. The U.S. Corporate Index was launched on January 1, 1973.

The Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index of the long-term tax-exempt bond market. It includes fixed-rate, investment-grade bonds with at least one year until maturity.

The Barclays Capital Treasury Index is the U.S. Treasury component of the U.S. Government Index and reflects the performance of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

The Barclays Capital U.S. Corporate High-Yield Index covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes Emerging Markets debt. The Index was created in 1986, with Index history backfilled to January 1, 1983. The U.S. Corporate High-Yield Index is part of the U.S. Universal and Global High-Yield Indices.

This document is being made available in Asia by Neuberger Berman Asia Limited, 紐伯格伯曼亞洲有限公司 ("NBAL"), a Hong Kong incorporated investment firm licensed and regulated by the Hong Kong Securities and Futures Commission ("SFC") to carry on Types 1, 4 and 9 regulated activities, as defined under the Securities and Futures Ordinance of Hong Kong (Cap.571) (the "SFO").

This document is issued by Neuberger Berman Europe Limited which is authorised and regulated by the UK Financial Services Authority ("FSA") and is registered in England and Wales, Lansdowne House, 57 Berkeley Square, London, W1J 6ER. Neuberger Berman is a registered trademark.

The "Neuberger Berman" name and logo are registered service marks of Neuberger Berman Group LLC.

Neuberger Berman LLC is a Registered Investment Adviser and Broker-Dealer. Member FINRA/SIPC.

No part of this document may be reproduced in any manner without the written permission of Neuberger Berman.

L0007 01/11 ©2011 Neuberger Berman LLC. All rights reserved.

NEUBERGER	BERMAN
-----------	--------

Partnering With Clients For Over 70 Years

Neuberger Berman LLC
605 Third Avenue
New York, NY 10158

www.nb.com