



Portfolio Shift Commentary: June 2, 2011

There are several reasons to be cautiously optimistic about the economy's performance. The persistent struggles of the U.S. economy have not been without high points, as periodic growth spurts generated bouts of optimism that is quickly deflated when economic data once again turned negative. We have seen this pattern repeated as the optimism earlier this year based on improving labor market conditions has again eroded, reflecting weaker growth and another disappointing jobs report for May.

According to the broadest measure of activity -- gross domestic product, the economy has actually moved out of the recovery stage, as real GDP has recouped all of the ground lost during the downturn. But that's statistical, which hardly represents the anemic state of the struggling upturn. What's more, a host of other headwinds loom on the horizon. The Fed's \$600 billion bond purchase program (QE2) is ending at the end of the month, growth in developing nations, particularly China and India, is slowing, and the outcome of the headline-grabbing Greek debt debacle is still unknown.

On June 2, we continued to reduce our exposure to emerging market equities as we expect conditions to remain challenged in light of policy response to inflationary concerns and geopolitical uncertainty in the Middle East. As part of this shift, we sold our South Korea position in late May. Overall, we still believe in the fundamental story of emerging markets and expect returns to ultimately recover vs. the developed markets. We are shifting the proceeds to domestic large caps which we believe offer better return prospects near-term. Within domestic large caps, our value bias is based on our desire to increase our portfolio dividend yield. In addition, we are currently running the portfolios with higher cash positions to help offset recent volatility.

There are no changes to the fixed income side of the portfolio at this time as we continue to be defensively postured against rising interest rates.

We thank you for your continued support.

Sincerely,

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