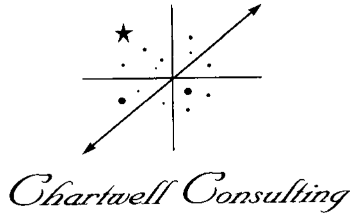

CHARTWELL REVIEW

October 2010 | THIRD QUARTER 2010 | Volume XVII, Issue No.3

Anything But Core.

That's the message most investment managers, and all fixed income managers, have been delivering during our conversations over the past few months. Not one major bond manager we've talked with favors the US Government bond sector, which accounts for 41% of the market value of the BarCap Aggregate Bond index. Few bond managers have anything good to say about the agency-backed Mortgage sector, which nonetheless accounts for 33% of the AGG index. All bond managers we've met with favor some combination of non-Agency residential MBS, Commercial MBS, high yield corporate bonds, and emerging market bonds (particularly those issued in local currency). Investment grade corporate bonds get some nods, but everyone is basically pushing niche market investments.

Why is that? Government bond portfolios have performed so well for investors over the past three years. The Long Treasury index has returned 10.8% annualized, and the Agency Mortgage index 7.6%, despite all the travails of the housing markets. The investment grade Credit Bond index has returned 8.6%.

One word: yields. The US Treasury index trades with a yield-to-maturity of 1.41%. Its duration is 5.5 years. Best guess annualized return over the next 5 years? 1.4%, p.a. The BarCap Aggregate Bond index traded at the end of September with a current yield-to-maturity of 2.57%. Best guess annualized return over the next 5 years? 2.6%. Before fees. If rates fall 1%, you'll probably return 3.5% p.a. If the 10-year Treasury bond rises to 4%, you'll struggle to make 1% p.a.

3rd quarter investment markets were strong, particularly in September. It was a "risk on" environment, favoring stocks and high yield bonds. Anything but core.

Table 1: Index Benchmarks

Market Index	Trailing Returns *				
	Q3 10	1 Yr	3 Yr	5 Yr	10 Yr
S&P 500	11.3	10.2	(7.2)	0.6	(0.4)
U.S. Large-cap Stocks	10.8	8.1	(7.8)	0.2	(1.9)
U.S. Mid-cap Stocks	13.3	17.5	(4.2)	2.6	4.9
U.S. Small-cap Stocks	11.3	13.3	(4.3)	1.6	4.0
Foreign Stocks (**devel**)	16.5	3.7	(9.1)	2.4	3.0
Foreign Stocks (**emerg**)	**18.2**	**20.5**	(1.2)	**13.1**	**13.8**
3 mo. LIBOR	0.2	0.3	2.2	3.3	3.0
U.S. Aggregate Bonds	2.5	8.2	7.4	6.2	6.4
High Yield Bonds	6.7	18.5	**8.6**	8.3	7.7
Global Bonds, unhedged	7.1	5.1	7.6	6.8	7.5
CPI, annualized	*0.9*	*1.1*	*1.6*	*1.9*	*2.3*
Dow UBS Commodity	11.6	10.0	(6.8)	(2.3)	5.2
Chartwell Global 65/35	10.4	10.0	(0.2)	5.5	5.5

Table 2: Average Mutual Fund Returns

Fund Category	Trailing Returns *				
	Q3 10	1 Yr	3 Yr	5 Yr	10 Yr
U.S. Large-cap	11.6	9.6	(6.7)	0.9	0.4
U.S. Mid-cap	12.6	15.1	(4.3)	2.8	3.5
U.S. Small-cap	11.0	13.9	(4.1)	2.0	4.8
International Lg. Cap	16.9	5.6	(8.6)	2.9	3.5
International Sm. Cap	**18.7**	14.5	(6.6)	5.1	6.8
Emerg. Mkt. Equity	18.6	**19.9**	(1.9)	**11.8**	**13.4**
Balanced/Hybrid	8.2	9.4	(1.2)	3.2	3.5
General Bonds	3.3	10.0	7.1	5.9	6.2
Government Bonds	2.4	8.1	**7.6**	6.0	6.1
High Yield Bonds	6.4	16.3	6.0	6.3	6.2

* Annualized trailing returns for periods ending 9/30/10.

Slower Growth

In September, the Bureau of Economic Analysis released its final estimate of *2nd* quarter GDP growth. Originally reported in July to have been 2.4%, it turns out that our real GDP grew at just a 1.7% annualized rate in Q2. The consensus forecast this spring had been that our economy was growing at a 3.2% rate, so investment markets were surprised and disappointed by the reality. Discussions about the impact of a double-dip recession and ensuing deflation ruled the 3rd quarter airwaves, and equity markets sold off sharply in August.

What precipitated the slowdown in our recovery? A summary of GDP components is contained in **Table 3**. The rebound in business inventory build began to peter out, because Final Sales growth remains tepid. And, whatever volume growth in domestic demand we did see was increasingly met from imports. Net imports, which deduct from GDP, soared in the 2nd quarter, as a consequence of the Dollar's strength earlier in the year versus European currencies (the European bloc is collectively our largest trading partner).

Table 3: Breaking Down Real GDP

% Change from Preceding Period *(seasonally adjusted)*

Factor	2Q '10	1Q '10	2009	2008
Real GDP Growth	**1.7**	**3.7**	**(2.6)**	**0.0**
Nominal GDP Growth	**3.7**	**4.8**	**(1.7)**	**2.2**
Final Sales	**0.9**	**1.1**	**(2.1)**	**0.5**
Personal Consumption	2.2	1.9	(1.2)	(0.3)
Private Investment	26.2	29.1	(22.6)	(9.5)
- Businesses	*17.2*	*7.8*	*(17.1)*	*0.3*
- Residential	*25.7*	*(12.3)*	*(22.9)*	*(24.0)*
*Chg. In Inventories **($Bn)***	*$25*	*$81*	*$(51)*	*$(143)*
Exports	9.1	11.4	(9.5)	6.0
Imports	33.5	11.2	(13.8)	(2.6)
Government Spending	3.9	(1.6)	1.6	2.8

What's on the near-term horizon for our overall economy? The current consensus forecast for 3rd quarter GDP growth is 1.9%. This figure was 3.0% as recently as June, so expectations are low. Economists think 4th quarter GDP growth will be 2.3%, also down from 3.0% in June. If so, 2010's rebound will rank as the weakest early stage recovery from recession in generations.

The US employment situation changed little during the quarter. Total non-farm payrolls declined by 218k, as the census workers were let go, after rising 599k in the 2nd quarter. Private sector payrolls rose by 274,000 from June to September, compared to +314k in Q1. The broader households survey indicated that 272k *more* persons thought they were employed, although the number of unemployed also rose, by 143k.

Looking at income, private sector average weekly hours rose a little bit in the 3rd quarter, from 33.4 to 33.5. One year ago, the average was 33.1 hours. Average weekly earnings rose to $639.85 in September, up 0.7% from June, and 3.3% higher than one year ago.

Before seasonal adjustments, general consumer prices rose very modestly in the 3rd quarter, increasing at just a 0.9% annualized rate, after rising at a 0.6% rate in Q2. However, adjusted for seasonality factors and led by robust energy prices, general CPI *rose* in each month of the quarter, at an overall 2.7% annualized clip. Core inflation (before food and energy costs) advanced at just a 0.9% rate. A better gauge of price trends is year-over-year change. This was +1.1% for All-items through September, the same pace as June. The ex-food & energy index rose just 0.8% during the past year, because housing costs (42% of CPI) declined 0.3%.

In a complete turnaround from the 2nd quarter, Producer Prices for Finished Goods rose at a 4.1% annualized rate in the 3rd quarter. PP-FG are up 4.0% over the past 12 months. After robust increases during the 3rd quarter, Producer Prices for Crude and Intermediate goods have now risen by 20% and 5.6%, respectively, over the past year. At the producer level, prices are beginning to signal the return of goods inflation.

The quarter's most important economic "event" took place on August 27th, when Fed Chairman Bernanke delivered a speech at the annual Jackson Hole meetings. During it, Mr. Bernanke pointed to the Federal Reserve's readiness to enter into a new phase of quantitative easing through the large scale purchase of (mostly) Treasury securities, as a means of abating the impending disinflationary pressures resulting from the lingering elevated levels of slack in output and factor markets. The policy was afforded by the markets an exceedingly high level of credibility, as evidenced by a sharp recovery in inflation expectations as well as in economic growth expectations. In the middle of September, the Bernanke speech was affirmed as policy by the Federal Open Market Committee.

This new quantitative easing phase was further reinforced by Bank of England and Bank of Japan announcements of similar shifts in policy stances at the end of September and early October. The Bank of Japan's historic October 5th announcement additionally indicated a commitment to the purchase of equity instruments, a first for any central bank since the Hong Kong Monetary Authority's similar action at the peak of the Asia economic and financial crisis in 1998.

We believe the steady succession of central bank QE policy announcements since August 27th primarily accounts for the nearly unprecedented September rally in higher risk markets.

Bonds - Prices Up; Yields Down

In the 2nd quarter, we experienced a classic flight to safety, in reaction to contagion risk worries flowing from European markets. A sharp rally in US Treasury prices ensued, especially the longer-term bonds. Higher credit risk bonds underperformed, but overall fixed income returns were very favorable.

In the 3rd quarter, bond markets broadly reverted to that comfortable "take more risk/get more reward" space, ultimately supported by the continuation of large portfolio net purchases and by the Federal Reserve's late August signaling of a major upcoming policy shift in favor of quantitative easing. Overall sector returns were again favorable, as **Table 4** reflects, with the US Aggregate bond index returning 2.48%. Nearly every primary US bond sector returned more than their coupon, as prices rose. Agency MBS were the exception, prices of which declined following the end of the Fed's purchase program. The broad "T10y-T2y" yield curve flattened, from +233bps to +209bps.

The reach for yield was evident, as those sectors with the widest spreads, e.g., High Yield, Comm'l MBS, and Emerg. Mkts bonds, delivered the best excess returns. This was in sharp contrast to the 2nd quarter (**Chart 1**), but consistent with the trends we've observed over the past eighteen months.

In the US Credit sector, higher risks produced better returns. The BB index outperformed BBB's by 166bps, which outperformed AA's by 144bps. The US Invest-Grade Credit index yielded just 3.44% at quarter's end (with 10+ year maturities yielding 5.40%), but this compared favorably to the US Gov't index' 1.40% yield (with 10+ year's at 3.45%). Yield on the 10-year Treasury, which had been in the 3.5-3.9% range earlier this year, shot down to 2.52%. In contrast, corporate high yield bonds offer yields centered around 8%.

Global bond yields fell to historic lows during the quarter, led down by the US, German and British markets (**Table 5**). Greek bonds remained the developed market outlier. Currency returns from unhedged non-$ portfolios turned positive with a vengeance in the quarter, as the US$ has declined sharply following Bernanke's August 27th speech. However, this only caught investors up for the trailing 1-year period.

Central bankers' quest to keep monetary policy easy and liquidity flowing have forced investors to make yield the dominant selection criteria, by extending duration or increasing exposure to riskier markets. But, viewed in the context of the past three years' returns, the "ABC trade" looks a little long in the tooth. And, **if** the Fed's quantitative easing program is going to take the 10-year Treasury down to yields below 2%, then the "risk-on" trades may not be unnecessary.

We disagree. We caution against placing too much reliance on QE2, especially since alot has already been priced into US Government bond yields. Slow but positive economic growth (the probable result of QE2), low yields and rates anchored by near 0% fed funds, creates a healthy forward backdrop for broad corporate credit, and fundamentals are already in very good shape.

Table 4: Primary Bond Sector Returns

Bond Index	3Q '10	1 year	3 years
US Aggregate Bonds	**2.5**	**8.2**	**7.4**
Treasuries, 1-3 Yrs.	0.6	2.5	4.1
US Treasuries, long	5.2	12.7	10.8
U.S. TIPS	2.7	9.4	7.0
Mortgages	0.5	5.8	7.6
CMBS	6.6	23.4	6.4
ABS	1.2	6.7	(4.2)
Inv. Grade Credit	4.5	11.4	8.4
High Yield Credit	6.7	18.5	8.6
Non-US Global, Hedged	2.0	5.8	6.0
Non-US Global, Unhedged	10.4	5.9	9.2
Emerging Mkts Bonds	8.2	16.1	10.3

Chart 1: Relative Sector Performance in Q3

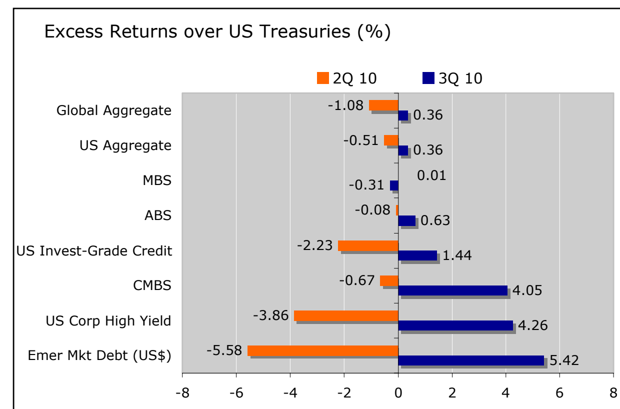

Table 5: Sovereign Bond Trends in 2010

10-Year Gov't Bond Yields, as of . . . .

	Mar 30th	June 9th	Aug 14th	Oct 2nd
United States	**3.62**	**3.18**	**2.68**	**2.50**
Germany	3.11	2.56	2.42	2.23
Britain	4.02	3.52	3.23	3.01
Poland	5.50	5.82	5.79	5.47
Spain	3.81	4.57	4.10	4.19
Greece	6.37	8.15	10.31	10.64
China	3.36	3.01	2.94	3.01
Australia	5.80	5.31	5.05	5.05
South Korea	4.91	4.81	4.66	4.04

Domestic Equities Change Course, again

The US stock market turned in its best September since 1939, rallying sharply after Bernanke's quantitative easing announcement was interpreted as taking a double-dip recession off the table. Yet, the manic-depressive return pattern we saw in the first half of the year was again observable in Q3. July's 10% rally, morphed into a 7% August decline, followed by September's 9% advance.

The size effect (*smaller > larger*) was not strong in Q3, across both value and growth styles (**Table 6**). Instead, what was clearly observable was decided investor preference for mid-sized companies. In fact, while the size effect has ebbed and flowed over the past three years (strongly evident since March '09, but marginal before then), the preference for mid-caps has remained.

From a style perspective, the value effect (*value > growth*) was clearly not observable. Indeed, the opposite was true across capitalization, as investors reversed the year's earlier trends. Looking at cumulative returns during the full 18 months since the market low, value stock indices have advanced more than growth across each capitalization range (**Table 6**), but particularly mid-caps. Since the market's peak in October 2007, the weakest size/style sector, by far, has been large-value.

The driver of size/style returns, as we've noted before, has been differential sector returns. Value indices are dominated by financial services stocks (27% of large-value; 37% of small-value), and growth indices have ~5% in the sector. Technology stocks represent 32% of large-growth, and just 5% of large-value. Financials lagged in the 3rd quarter, and so did the value indices. Financials have led the rally since the market low (+136% for S&P financials), and so have the value indices. S&P financials are off -57% since the market peak, and large-value is the lagging size/style sector.

The strongest primary sector during the 3rd quarter was consumer discretionary, which has also contributed most positively to returns over the past year. Everyone is concerned about the US consumer, and unemployment rates are nearly 10%, but investors have bid up consumer discretionary stocks by 115% since the market low. Materials stocks were better performers in the quarter, due to the roaring metals and mining stocks, but they account for only 5% of the US stock market.

Small-cap sector performance was generally consistent with the large-caps. The notable exception was information technology, due to takeover activity.

The large-cap sectors currently trade at a 15% discount to small and mid-cap stocks (**Table 8**). With stronger growth expected outside the US, and large-cap stocks generating 50% of revenues from offshore sources, that discount seems unwarranted.

In the category of nifty stock market factoids, this in from the Leuthold Group: Since 1942, the stock market has *never* been down in the 200 trading days following a midterm election. The average gain has been 18.3%. Lowest gain was 1946 (3.9%), and nearly half the gains exceeded 18%. Conversely, the S&P 500 has posted an average gain of just 2.6% in the 200 days leading up to the midterms.

Last quarter we discussed how S&P earnings had been exceeding estimates, which were also rising. Since then, the calendar 2010 earnings estimate has been increased by 4%, to $83.63. This quarter, over 75% of companies (so far) have reported earnings above estimates.

Table 6: U.S. Equity Market - Size/Style Returns

	3Q '10	YTD	Since Mkt Low	Since Mkt Peak
Growth				
Large Cap	12.4%	2.0%	73.7%	(14.8)%
Mid Cap	14.7%	10.9%	98.7%	(14.0)%
Small Cap	12.8%	10.2%	99.5%	(15.5)%
Value				
Large Cap	9.2%	1.8%	80.8%	(27.5)%
Mid Cap	12.1%	11.1%	114.1%	(16.1)%
Small Cap	9.7%	7.9%	103.0%	(17.9)%

Table 7: U.S. Equity - Sector Returns

thru 9/30/2010	Large/Mid Returns *(%)*		Small-cap Returns *(%)*	
(GICS Sector)	3Q '10	1-Year	3Q '10	1-Year
Consumer Disc.	15.8	24.7	14.5	21.6
Telecom Svcs	21.0	20.2	8.9	1.1
Industrials	14.0	19.1	11.8	12.2
Consumer Staples	10.8	12.9	11.5	16.2
Materials	18.6	11.3	17.0	22.2
Utilities	11.8	10.8	12.3	17.4
Info Technology	11.8	10.6	16.1	20.6
Health Care	8.7	7.7	8.8	16.5
Energy	13.3	4.9	15.1	13.9
Financials	4.6	(1.0)	8.4	11.3

Table 8: U.S. Equity – Current Price/Earnings Ratios

	Value	Blend	Growth
Large	13.7x	15.4x	17.3x
Mid	16.2x	18.1x	20.7x
Small	15.7x	18.0x	20.7x

International Markets: Strong Across the Board

In contrast to the second quarter, when equities delivered negative returns, international equity markets achieved dramatic gains in the third quarter. In a sense, many countries got one year's worth of returns in just three months. The EAFE+Canada index gained over 16% in US$ terms for the quarter. Emerging Markets jumped 18%. These strong results pulled developed market equities into low, but positive, territory for the trailing twelve months, up 4.6% in US$ terms.

UK and European markets were up 19.8% and 19.4%, respectively, in Q3. This was driven by both a strong rebound in local share values and a bounce in currencies, especially the Euro (**Table 9**). Modest economic growth continued in Europe, with eurozone GDP expanding 1%. Germany's 2.2% quarterly gain was its best since reunification, as exports rebounded, but peripheral countries still struggled. In the UK, GDP was 1.2%, the highest quarterly rate since 2001.

Stocks of the Pacific region ex-Japan were up 22%, with the gains split equally between local market returns and currency appreciation. Hong Kong stocks were bolstered by improved economies in China and Southeast Asia (+22%), and resource-rich Australia and New Zealand gained 24% and 14%, respectively. Japan was a notable laggard, as the rising Yen (hitting a 15-year high against the US$) and political uncertainty compounded the negative effect of the slow economic recovery. Local returns were flat for the quarter, although the Yen's appreciation added nearly 6% for US investors.

Economically sensitive sectors posted higher returns than defensive ones during the quarter, led by materials, energy and consumer discretionary shares. Every sector of the market was up double digits except for technology, which gained nearly 7%. The largest sector, financials (nearly 25% of the index) gained 17%. Despite the strong returns of the third quarter, three sectors remain in negative territory for the trailing twelve months; energy, financials, and utilities. These sectors combine to make up over 45% of value indices, which explains why there has been such a big difference between MSCI Value (+0.3%) and MSCI Growth (+9.1%) for the past year. Small-cap international stocks continued to outperform large-caps stocks, rising 17.6% for the quarter, and gaining 10.6% year to date.

Robust corporate profits, driven by strong economic growth, and strong cross-border capital inflows, led to a sharp rise in emerging market equity indices. The largest emerging market countries, the BRIC nations (Brazil, Russia, India and China), all posted double digit results, but lagged the broad index benchmark. China's 11% return was one of the weakest in the index. Brazil was the top performer amongst the BRIC nations with a 22% return (14.5% in local terms).

Emerging Europe and Latin America both posted 20% gains, including index topping returns in Poland (36%) and Chile (31%), respectively. Emerging Asia was up a respectable 16%, as China's results weighed down the region's index. The weakest performing countries were in the Middle East - Egypt (3.3%) and Morocco (8.1%).

Some of the most dramatic movements during the quarter occurred in currency markets. The US$ was dumped in favor of other currencies. The Australian dollar jumped 14.6%, as their relationship with China continues to expand. The much-maligned Euro staged an impressive rally of 11.5%, despite re-surfacing concerns over Ireland and Greece. The Swiss franc rose 10.4% and now trades in parity with the US dollar. As noted above, the Japanese yen rose another 6%.

Table 9: International Markets Returns for Q3

	U.S. Dollar Returns (%)		**Local Currency Returns (%)**	
thru Sept. 30, 2010	**3Q '10**	**1-Year**	**3Q '10**	**1-Year**
EAFE+Canada	**16.2**	**4.6**	**7.4**	**3.5**
- MSCI Growth	*16.5*	*9.1*	*7.8*	*7.4*
- MSCI Value	*15.9*	*0.3*	*6.9*	*(0.2)*
- Europe	19.4	3.2	9.1	6.4
- Pacific, ex-Japan	22.2	13.7	10.6	6.0
- Japan	5.9	0.3	(0.0)	(6.5)
- United Kingdom	19.8	9.8	13.7	11.4
Int'l Small Cap	**17.8**	**11.2**	**9.2**	**9.4**
Emerging Mkts	**18.2**	**20.5**	**12.9**	**16.0**
- EM Ásia	*16.0*	*19.1*	*12.3*	*15.2*
- EM Europe & ME	*20.1*	*20.3*	*13.2*	*20.3*
- EM Latin América	*21.0*	*21.9*	*14.1*	*15.0*
- EM BRIC	*15.3*	*16.9*	*12.0*	*13.9*

Table 10: Global ex-US Sector Returns *(% in US$ terms)*

thru Sept. 30, 2010	**Large/Mid Returns *(%)***		**Small-cap Returns *(%)***	
(GICS Sector)	**3Q '10**	**1 Year**	**3Q '10**	**1 year**
Cons. Staples	14.9	17.9	13.7	8.4
Materials	20.3	17.4	21.4	28.5
Cons. Discretionary	18.5	15.4	18.3	10.9
Industrials	17.0	14.4	17.7	9.2
Telecom Services	20.4	8.0	13.2	20.7
Health Care	11.9	7.4	14.8	1.6
Info Technology	6.7	0.6	13.5	10.0
Energy	18.8	(0.7)	21.6	13.6
Financials	16.8	(5.1)	16.0	(0.2)
Utilities	11.4	(6.7)	18.5	4.4

The Back Page

It's the season of politics, a topic even we are smart enough to avoid in our general remarks. However, the following table is factual, and we think it fairly well summarizes the challenges faced by our fiscal policy makers, regardless of which side of the aisle they sit on.

Comparative Federal Spending: 2008 vs. 2010

Source: Congressional Budget Office		
($ billions)	**FY 2008**	**FY 2010**
Social Security	607	696
Medicare	390	450
Medicaid	201	273
Unemployment Benefits	47	160
Defense	595	667
ALL SPENDING	2978	3,616
Individuals' Tax Receipts	1,150	901
Corporate Tax Receipts	304	192
Note: Excludes TARP outlays/repayments		

How can you begin to balance the budget, if the "untouchable" categories combine to vastly exceed the gross revenue stream? Those of a fiscally conservative persuasion might be giddy at the prospect of a landslide on November 2nd, but that's only a small first step.

We're struck by how difficult it has been for institutional investors over the past 10 years. Table 1 captures the tale of the tape. Core equity markets, US Large Caps and EAFE, failed to deliver on expectations, with the past three years being particularly difficult to navigate. Emerging markets stocks certainly produced for investors, but which plan sponsors had much money in EM equity ten years ago?

Most fixed income sectors, core and peripheral, did provide better than forecast returns over the past decade, although it was often difficult for active bond managers to capture the market's opportunities *and* avoid individual issuer landmines. Today, much of the global bond market is priced to yields which remind us of the 2000 stock market, and we all know how that worked out. PIMCO, the bond world's 800-lb. gorilla, has called the Fed's upcoming quantitative easing program the final act in what has been a 30-year bull market for bonds. Five-year TIPS bonds are being issued with a negative nominal interest rate, and the full Treasury curve yields 1.4% on a market cap-weighted basis. Who's gonna argue with Mr. Bill?

We belabor this stuff for a reason. There is a huge behavorial dynamic going on right now in the institutional investment world.

The natural tendency is to extrapolate directly from recent experience. So, we cling to bonds and we shun stocks. But, the former deserve a look forward total return expectation in the meager 2.5% p.a. range, with some volatility, unless one aggressively embraces the "ABC" approach (which we do).

Further, actual allocations to stocks have been declining, and remain well below strategic targets. Very few programs began to re-build equity allocations with new funds after the November 2008 market break. Yet, expected return assumptions have not been changed at the plan or endowment level. With less $ in equity markets than 3 years ago, and with bonds poised to return ~2.5%, the math doesn't work. We're not just arguing for big increases in equity allocations. It's much more complicated than that. Return expectations need to come down, and contributions and development need to be ratcheted up in a big way. Otherwise, we're simply kicking the can down the road.

The folks at Russell recently shared the results of their Global Alternatives Investing Survey. They asked clients (mostly large plan sponsors) how much their plans had invested in Alternatives at the end of 2009, and how much they expected to have invested at the end of 2012. Survey says –

% of Alternatives	**2009**	**2012**
Commodities	5	7
Infrastructure	2	6
Real Estate	32	30
Hedge Funds	32	29
Private Equity	22	24
Other	7	4
	100%	100%
Total Alternatives, as a % of Total Plan	14%	19%

We think 19% is a bit low for 2010, and we count Private Equity exposure with Public Equity allocations. In counterpart, we've been discussing much more aggressive natural resources/commodities allocations with our clients. Otherwise, seems reasonable.

Sell high, buy low. See you next quarter!

Natalka Bukalo ***Richard Shaffer, CFA***

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