NEUBERGER BERMAN

# Peralta Community College District

*April 13, 2011*


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# Firm Overview

# Neuberger Berman



## Founded in 1939, today we are among the world's largest private, employee-controlled asset management companies

- An independent organization, structured to promote stability and long-term success for our clients
  - Over 400 investment professionals with an average of 16 years industry experience[1]
    - Portfolio managers with an average of 24 years of industry experience
- Employee interests are strongly aligned with clients, with long-term retention incentives
  - Up to 25% of annual compensation is contingent/deferred into the same strategies that clients invest
- Employees control the firm with more than 52% ownership of the company
  - Equity is subject to a vesting schedule over five years and long-term non-compete agreements
  - Broad-based equity award plan in place to incentivize long-term performance
- Strong financial position
  - $180 billion assets under management invested across multiple asset classes
  - Approximately $950 million in run-rate revenue
  - More than $325 million in cash

*1.Investment professionals include: Equity portfolio managers, research analysts/associates, traders, and product specialists; Fixed Income portfolio managers, research analysts/associates, traders, and investment support (product specialists, portfolio analysts, and trading support); Alternatives investment professionals who are involved in the decisions concerning asset allocation, investment monitoring and making new investments (includes two consultants). Average years experience does not include Equity product specialists or Fixed Income investment support.*
*All information as of September 30, 2010, except as otherwise noted. Reflects collective data for the various affiliated investment advisers that are subsidiaries of Neuberger Berman Group LLC (the "firm"). Firm history/timeline information dates back to the 1939 founding of Neuberger & Berman (the predecessor to Neuberger Berman LLC), and highlights key business expansions, including those that resulted from acquisitions of the various affiliated investment advisers that now comprise the firm.*

# Asset Allocation Review

# Neuberger Berman Asset Allocation Committee

## A multi-disciplinary committee directs asset allocation advice

### Asset Allocation Committee

- **Joseph Amato**, President & Chief Investment Officer, Equity
- **Thanos Bardas**, Portfolio Manager, Head of Interest Rates
- **Alan Dorsey**, Head of Risk & Investment Strategy
- **Gerald Kaminsky**, Portfolio Manager, Team Kaminsky
- **Wai Lee**, CIO & Director of Research for the Quantitative Investment Group
- **Matthew Rubin**, Director of Investment Strategy
- **Raheel Siddiqui**, Portfolio & Quantitative Strategist
- **Brad Tank**, Chief Investment Officer, Fixed Income

**Expertise**

- Global economics & research
- Equity strategies
- Fixed income strategies
- Quantitative investing
- Risk management
- Diverse client experience

**Responsibilities**

- Review and set long-term asset allocation models
- Make near-term tactical asset class recommendations
- Review asset allocation for large diversified mandates

**Considerations**

- Macroeconomic factors
- Fundamental market assumptions
- Investable universe
- Managing tax sensitivity
- Excess return opportunities
- Systematic and idiosyncratic risk

**Collection of Tactical Views**

- Committee members polled monthly for their views on tactical positioning

**Black-Litterman Model**

- Black-Litterman model used to incorporate views into mean-variance framework

**Committee Debate**

- Model output serves as discussion starting point in Committee meetings

**Tactical Recommendations**

- Final consensus on tactical recommendations and commentary available for clients

## Overall, discerning the actual impacts of events in Japan will take time; meanwhile, the developments in the Mideast are unpredictable and will bear close observation

- **U.S. Outlook**
  - S&P 500 corporate profits are likely to reach record levels this year
  - Looking for more M&A activity and, potentially, further corporate dividend increases
  - We believe the Japan tragedy and Mideast unrest appear unlikely to derail economic expansion
- **Libya Impact**
  - Military intervention in Libya has few implications for energy production as most oil activity had already ceased
  - Saudi Arabia and other producers appear able to make up for reduced supply
  - Temporary drop in demand from Japan could also ease any supply/demand imbalance reflected in pricing
- **Japan Update**
  - Although still a major economy, Japan is primarily an exporter with limited influence on world economic growth
  - A temporary drop in demand may actually alleviate inflationary pressures in Emerging Markets in the short term
  - The Japan disaster has dealt a major blow to the use of nuclear energy; China has already reportedly backed off its nuclear expansion plans
  - Natural gas may gain favor, and coal will likely remain a key energy source for some time
- **European Sovereign Debt Crisis**
  - Greece, Ireland and Portugal touched new borrowing cost highs in March
  - Portuguese Prime Minister resigned after opposition parties voted down the government's austerity plans and may need a bailout to avert a government collapse
  - Euro trading near 5-month high versus the dollar

Despite recent global disturbances, U.S. equities have shown resilience

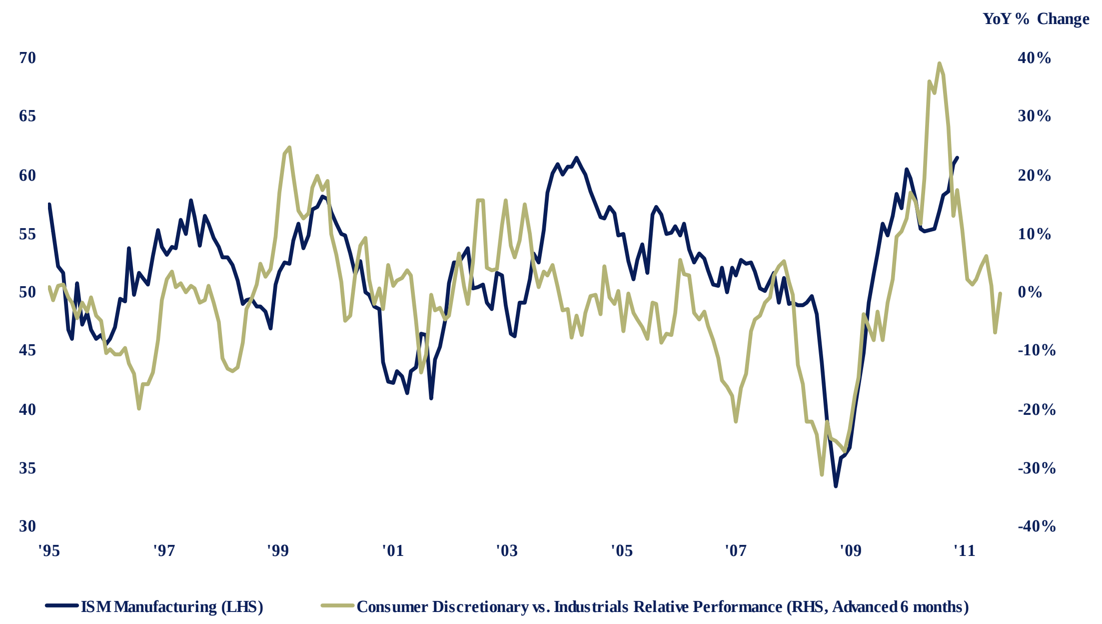
## S&P 500 Since Previous Market Peak (a/o 3/31/2011)


- Good start to the year for the S&P 500
  - Jan. 2011: +2.4%
  - Feb. 2011: +3.4%
  - Mar. 2011: +0.1%
  - YTD a/o 3/31: +5.9%
- More uncertainty than normal clouding the financial markets
  - Global: Japan, Libya, Europe, oil
  - Domestic: Fiscal issues, Federal Reserve policy, housing, inflation
  - Positioning: We currently favor a mix of cyclical (Energy/Industrials) sectors that stand to benefit from rising inflation and defensive sectors should economic prospects begin to dim

*Source: Callan Associates. The characteristics, including length and recovery time, of past recessions and bear markets have varied significantly and are no indication of the characteristics of the current or future recessions and bear markets. Indexes are unmanaged and are not available for direct investment. Investing entails risks, including possible loss of principal. Past performance is no guarantee of future results. See Disclosures section at the end of this material, which is an important part of this presentation.*

The underperformance of early-stage cyclical sectors (Consumer Discretionary) versus late-stage cyclical sectors (Industrials) sends a more cautionary growth signal for the second half of the year and beyond

## Early/Late-Stage Cyclicals Relative Performance and ISM Manufacturing Index

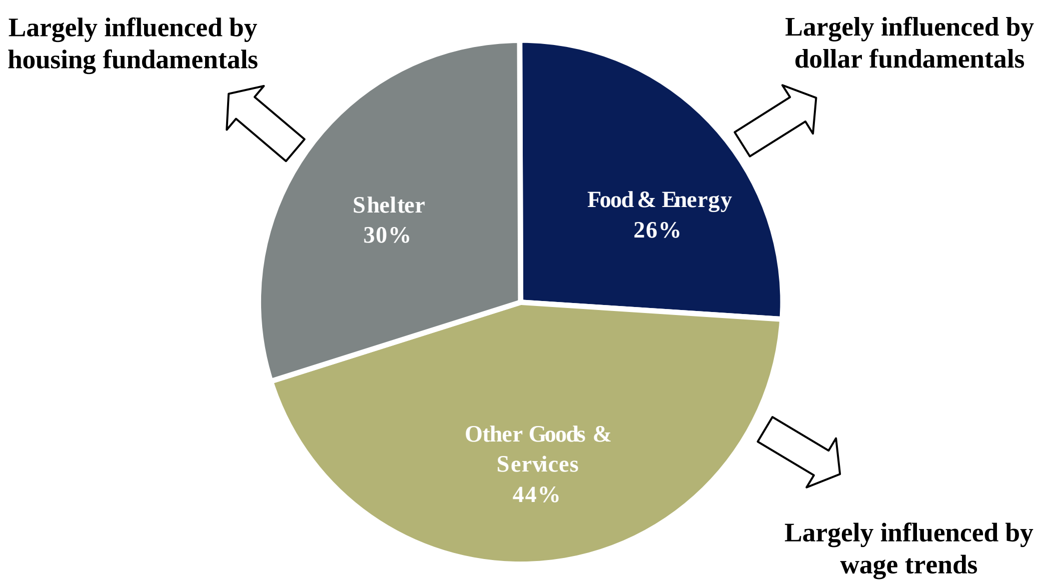



- A slowdown in early-cyclical stocks tends to foreshadow a slow-down in leading economic indicators
- Consumer Discretionary is a classic early-cyclical sector that tends to underperform in rising cost environments whereas sectors like Energy/Materials/Industrials tend to do better in inflationary environments

*Source: FactSet. See Disclosures section at the end of this material, which is an important part of this presentation.*

# Inflation readings are beginning to tick higher, largely due to rising food and energy prices

## Consumer Price Index Breakdown (a/o December 2010)

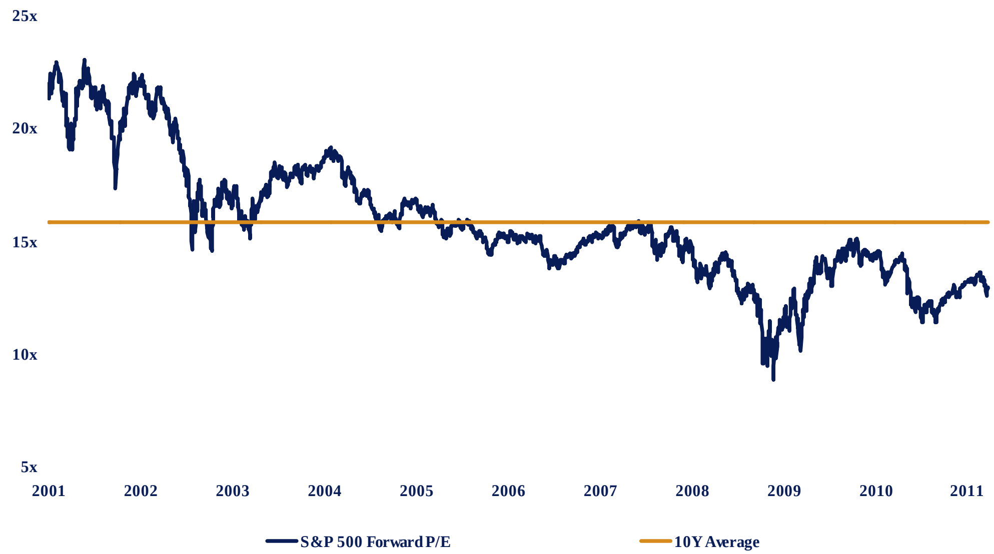



- Divergent inflation trends
  - Food and energy prices are surging
  - **Wage** (pressured by high unemployment and competitive global labor market) **and rent inflation** (pressured by weak housing fundamentals) **remain subdued**
- If wage growth fails to keep pace with rising inflation, higher food and energy prices, which account for only a quarter of the Consumer Price Index, have the potential to eat away at the consumer

*Source: Bureau of Labor Statistics. See Disclosures section at the end of this material, which is an important part of this presentation.*

# We could see some multiple compression in the face of continued global unrest, but P/E multiples are still well below their historical average

## S&P 500 Forward 12-Month P/E

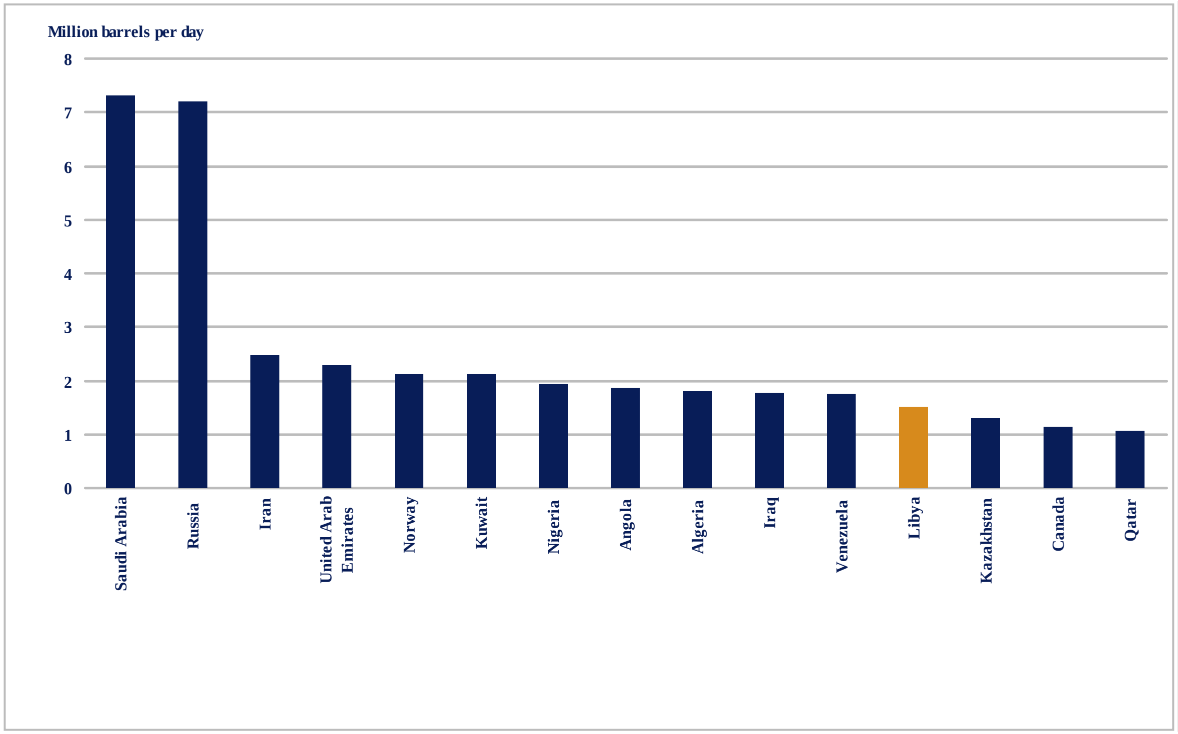



- Despite the potential for higher inflation readings and/or decelerating growth, equities still appear attractively valued due to strong forward-looking earnings expectations
- Reaching consensus 2011 S&P 500 EPS of around $95 will likely require
  - Peak margins
  - Robust economic growth
  - Or a combination of the two, both of which are currently under pressure

*Source: FactSet. See Disclosures section at the end of this material, which is an important part of this presentation.*

## Libya is a meaningful exporter of oil, but falls well short of other producers in the Middle East and North Africa region

### Top World Oil Net Exporters in 2010

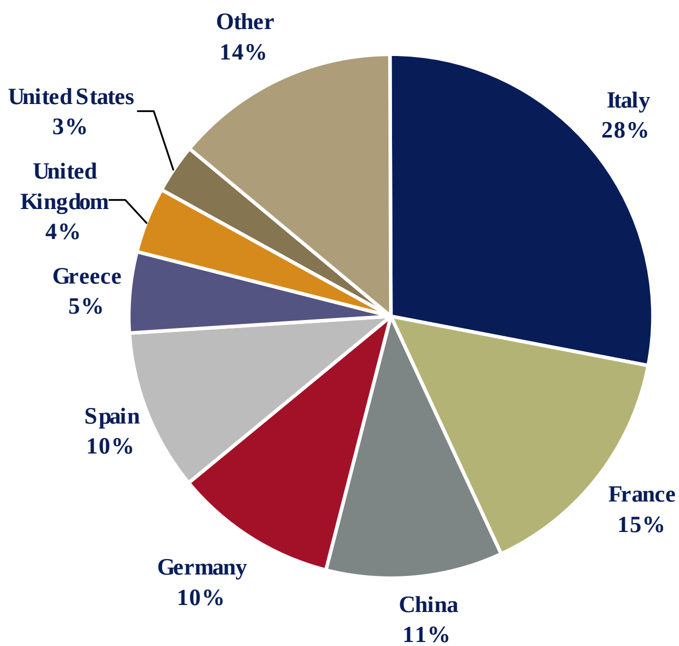



- Libya oil production
  - 12th largest oil exporter in 2010
  - Exported about 1.5 million barrels per day
  - Oil production in Libya has fallen by an estimated 60-90 percent since hostilities began
- Libya only accounts for about 2% of global oil supplies, but the country produces a higher quality of oil (lighter and sweeter) than most other oil-producing nations
- The loss of "sweet" oil production means the excess OPEC supply is largely "sour," which is more difficult to refine
- Protests in larger-producing oil countries such as Saudi Arabia and Iran have been relatively quiet but ongoing; a supply disruption in an energy market of greater importance would have a more drastic impact on the price of oil

*Source: U.S. Energy Information Administration. See Disclosures section at the end of this material, which is an important part of this presentation.*

# Europe comprises the largest market for oil exports from Libya

## Libyan Oil Exports by Destination in 2010

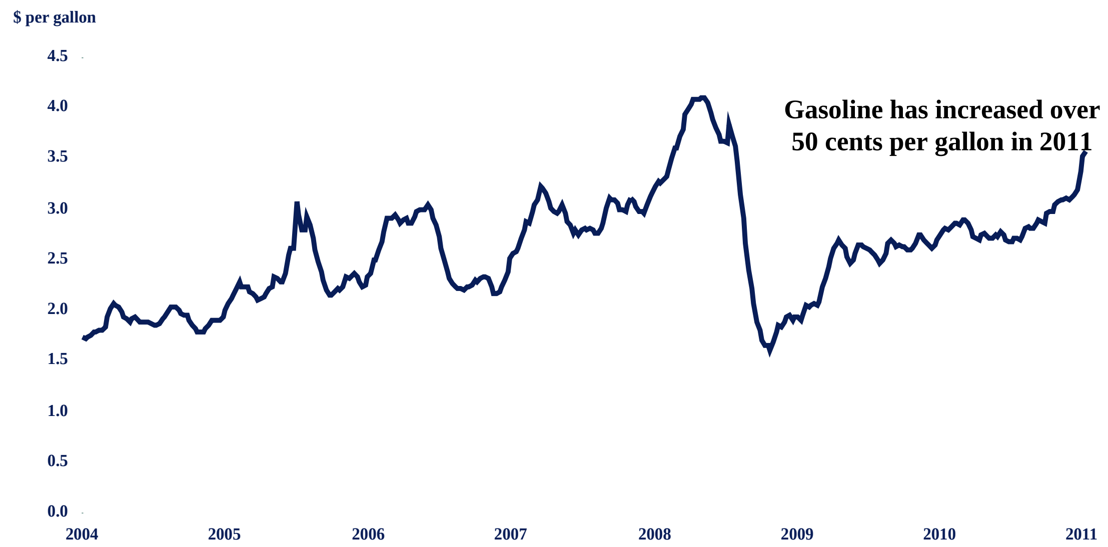



- Market outlet and destination
  - About 85% of Libyan oil exports go to Europe, including Italy, Germany, France and Spain
  - The United States imported an average of 70,000 barrels per day from Libya in 2010, or 0.6% of our total imports
  - About 3% of China's oil imports came from Libya in 2010
- Although the United States imports a very small amount of oil from Libya, American end-users may be impacted should alternate supplies (from Algeria or Nigeria for example) find a stronger market in Europe

*Source: U.S. Energy Information Administration. See Disclosures section at the end of this material, which is an important part of this presentation.*

## The unrest in the Middle East is having a large effect on what American consumers are paying at the pump

### United States Average Regular Gasoline Price

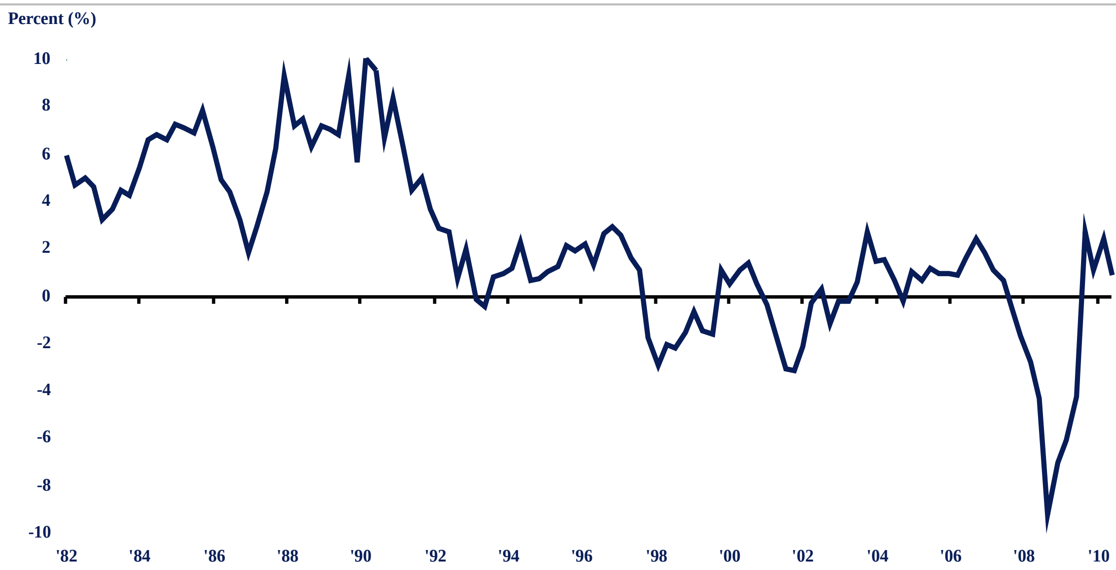



- The impact of higher energy prices
  - Energy price volatility introduces another layer of uncertainty, which could place pressure on private consumption and business investment
  - Americans use roughly 140 billion gallons of gasoline each year; with gasoline prices up over 50 cents per gallon year-to-date, that leaves consumers with roughly $70 billion less to spend on other items
- Central bank response
  - Higher energy prices pose a difficult situation to central banks since they simultaneously boost inflation and undercut growth
  - The Federal Reserve sees the current rise in energy prices as transitory and has thus has taken a passive approach to recent developments

*Source: FactSet. See Disclosures section at the end of this material, which is an important part of this presentation.*

# The recent earthquake and tsunami will likely add to the economic malaise that has long-characterized Japan's economy

## Japan Nominal GDP YoY Percent Change

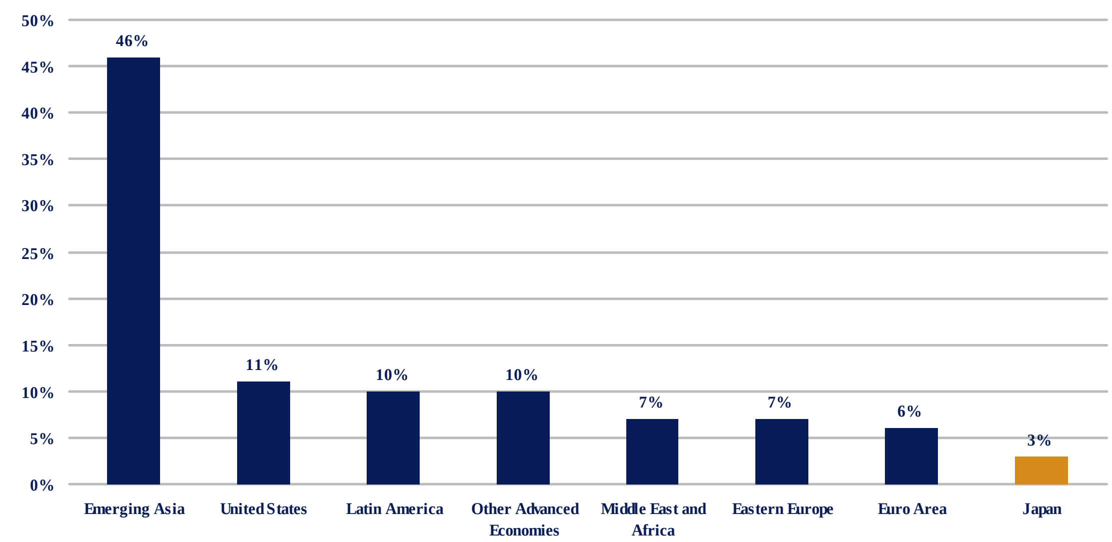



- Japan's "lost decade" during the 1990s saw their economy slip in and out of recession and grow at an average rate of about 1 percent a year
- Now, Japan has sustained an estimated $312 billion worth of damage from the devastating March 11 earthquake and tsunami according to government officials
- Damage from the earthquake and declines in production from supply disruptions will likely cause a short, deep recession

Source: FactSet. See Disclosures section at the end of this material, which is an important part of this presentation.

# Although still a major economy, Japan is primarily an exporter with limited influence on world economic growth

## Contribution to World GDP Growth in 2010

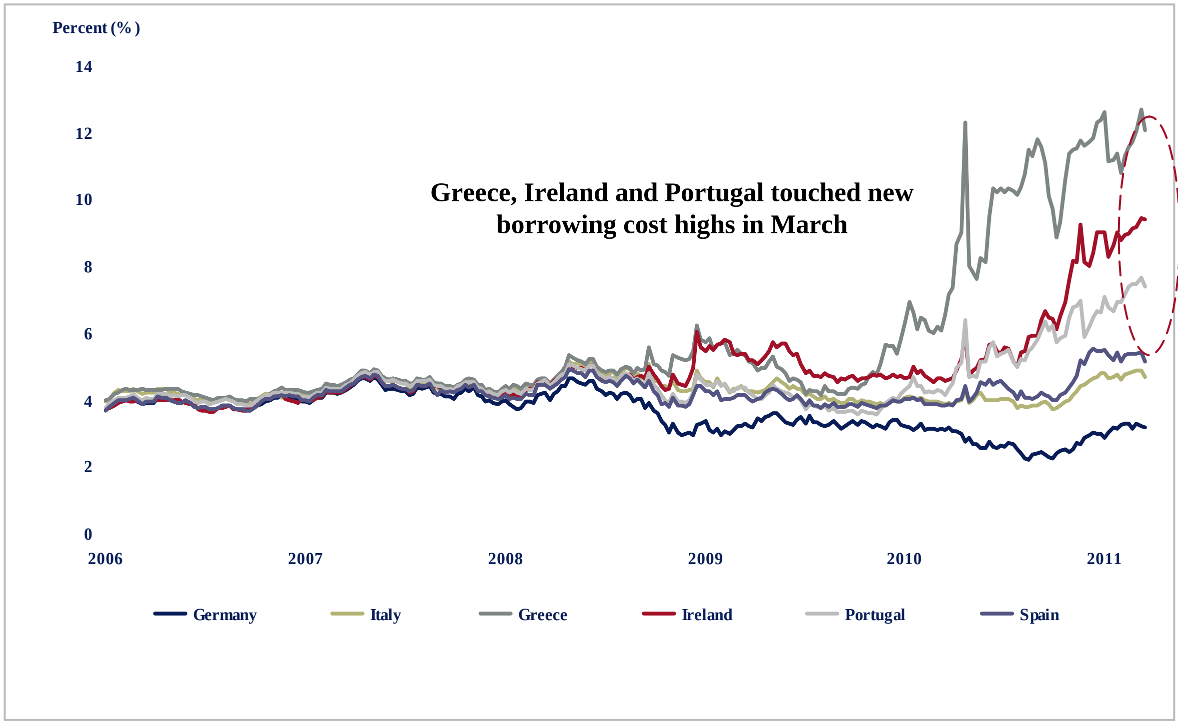



- Japan's impact on global economic growth is likely to be limited given their smaller weight in global GDP and slower growth rate
- In the end, we think the U.S. and global economic expansion will continue, albeit at a slower pace and vulnerable to shocks
- A temporary drop in Japanese activity may actually alleviate inflationary pressures in Asian Emerging Markets in the short-term, which is where the current engine of global growth resides

*Source: International Monetary Fund. See Disclosures section at the end of this material, which is an important part of this presentation.*

# Peripheral European bond yields remain near all-time highs as European Union leaders delay decisions on support measures

## 10Y European Government Benchmark Yields



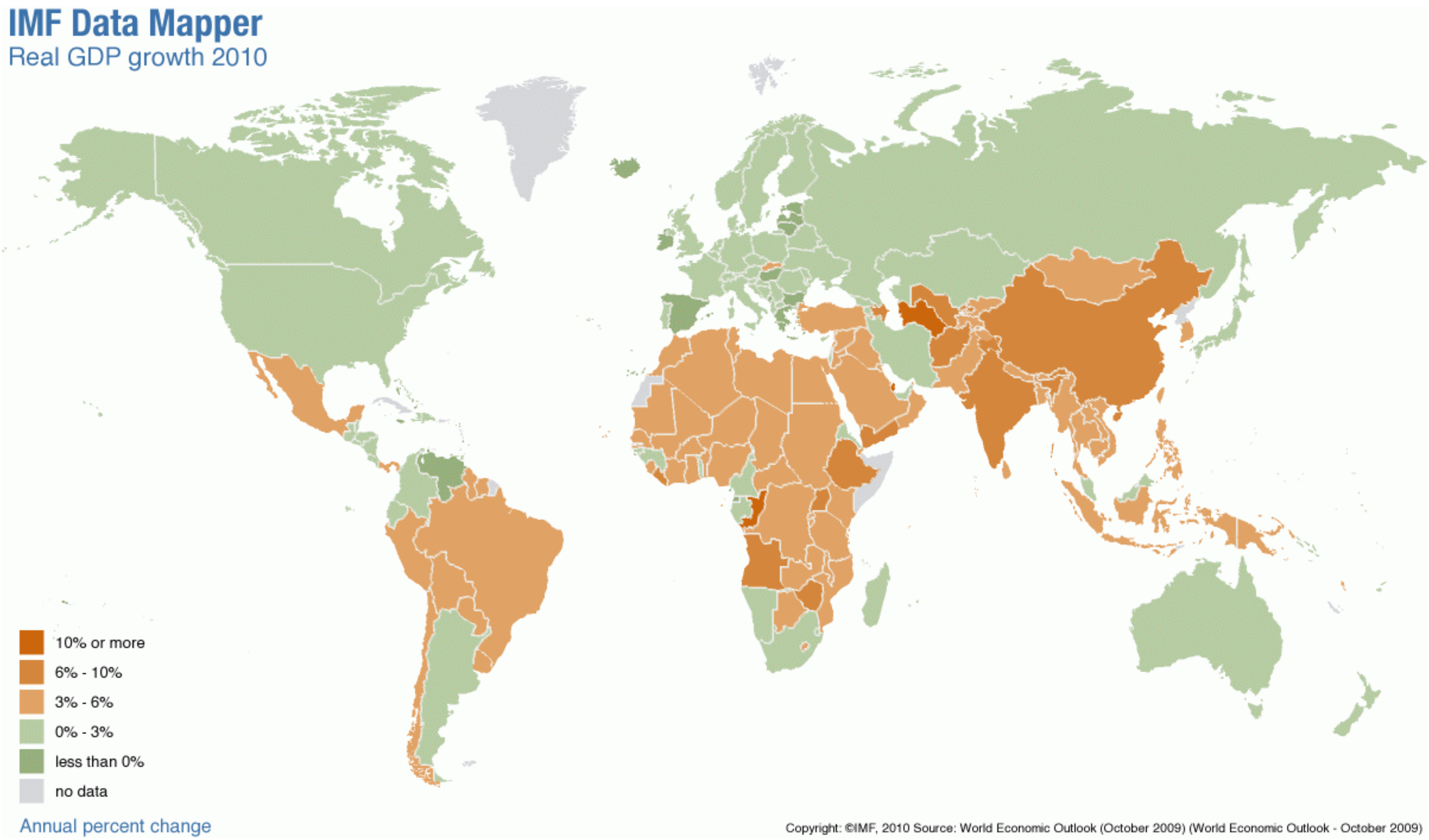

- European leaders demonstrated their commitment to the euro and attempted to boost investor confidence by agreeing to set up a permanent $700-billion rescue fund to contain the region's debt crisis
- Separately, Eurozone countries signed a pact to harmonize some of their fiscal policies with the goal of increasing economic coordination and preventing further crises
- That being said, investors continue to focus their attention on Portugal where lawmakers rejected new austerity measures; despite claims that the country is financially stable, many believe it is only a matter of time before Portugal asks for emergency aid

Source: FactSet. See Disclosures section at the end of this material, which is an important part of this presentation.

# Strongest Economic Growth is Expected to Come From the Developing World

**Exposure to higher growth international markets may be important going forward.**

**IMF 2010 Global Real GDP Forecasts**

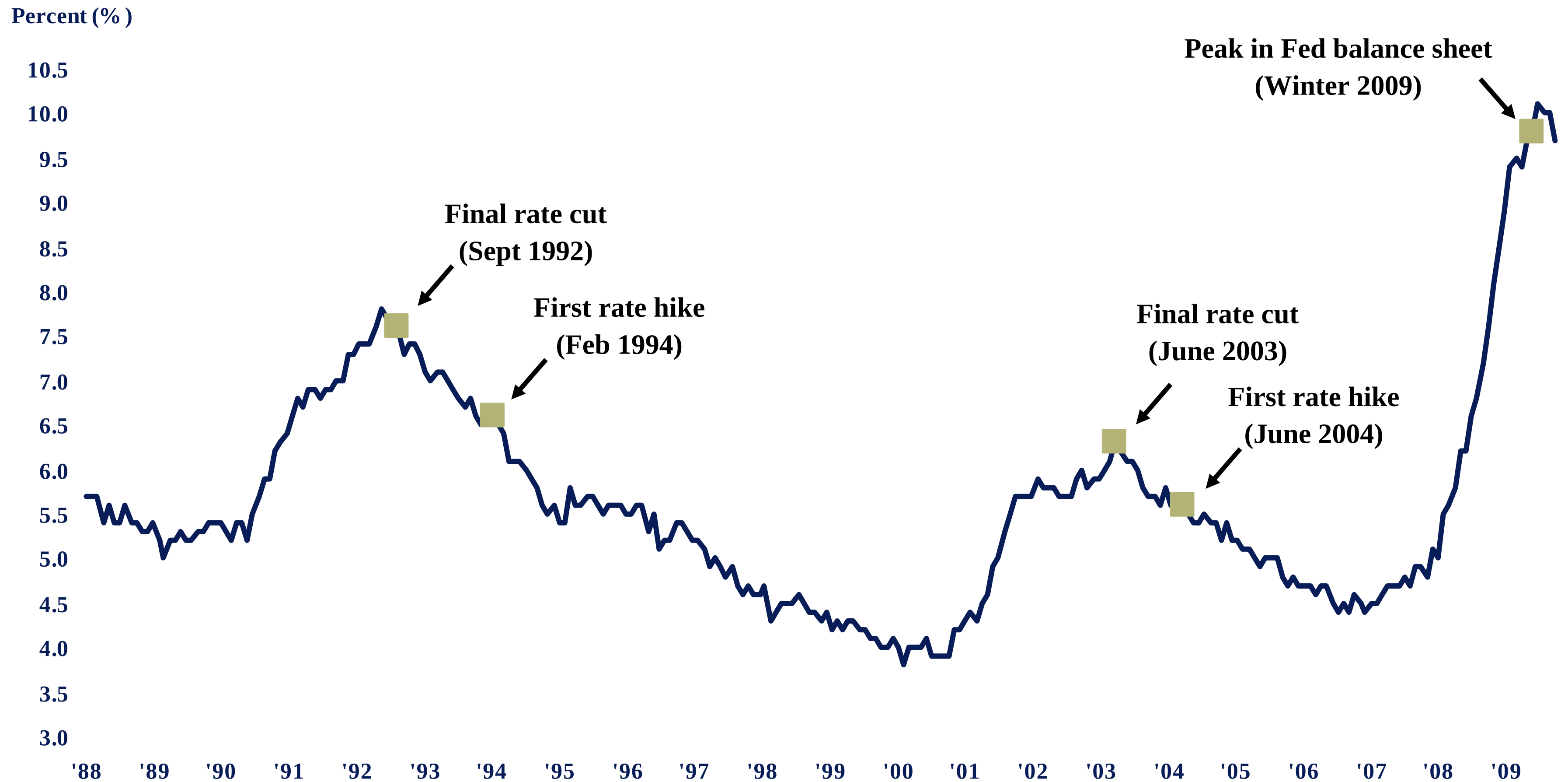



*Source: IMF. See Disclosures section at the end of this material, which is an important part of this presentation.*

# Fed Tightening Likely Remains Months Away

**Watch for more positive language from the Fed, but we anticipate that interest rates will stay at historic lows until the Fed sees a meaningful drop in the unemployment rate.**

**Unemployment Rate and Fed Rate Hikes**

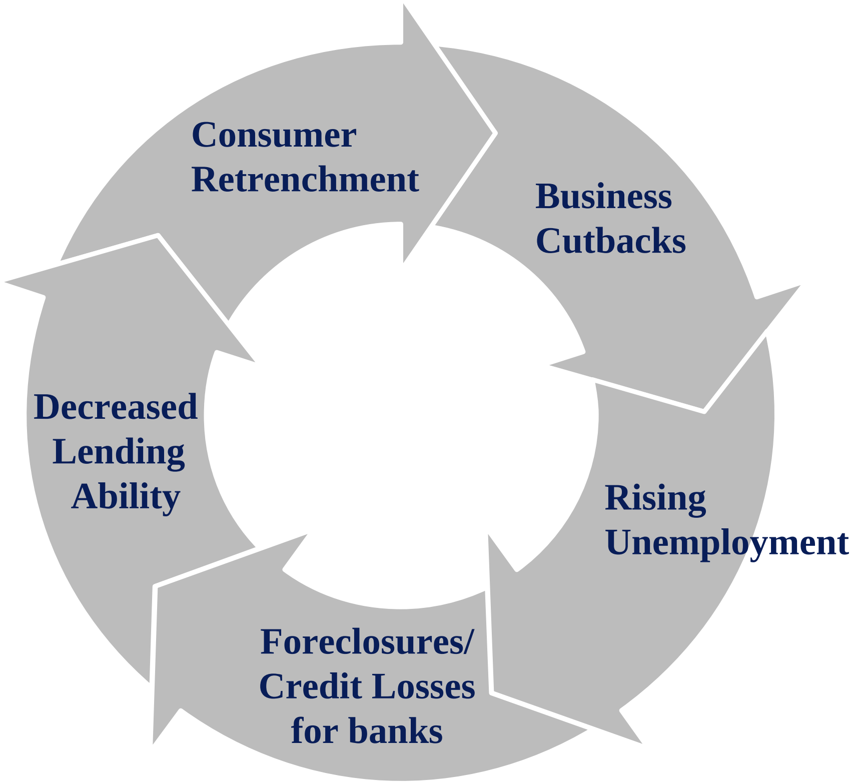



*Source: Bureau of Labor Statistics. See Disclosures section at the end of this material, which is an important part of this presentation.*

# Positive Feedback Loops and Sentiment Could Further Market Gains

## Key question: The willingness of banks to lend and companies to hire.

| Negative Feedback Loop 2008 - 2010 | Positive Feedback Loop in 2011? |
| --- | --- |





*See disclosures section at the end of this material which is an important part of this presentation.*

# Strategy in 2011

## Bullish on equities:

- **Sustained profits growth**
  - S&P 500 companies returning to prior peak earnings levels
  - Global nature of S&P 500
  - Positive estimate revisions
  - Leading ECRI economic indicators have reached 63-year highs
- **Healthy risk-taking appetite**
  - Lower volatility
  - Improving sentiment
- **Economic backdrop**
  - Labor and housing markets improving
  - Liquidity and policy still supportive

## Areas to watch:

- **Economic risks**
  - "Jobless" recovery
  - Bank lending
  - Inflation
  - Fed tightening
  - Fiscal deficits
- **Maturing bull market**
  - Sector performance and flows more balanced
  - Hedge funds have covered shorts and may be net long

◆ **Strategy – Quality, valuation and low earnings risk**

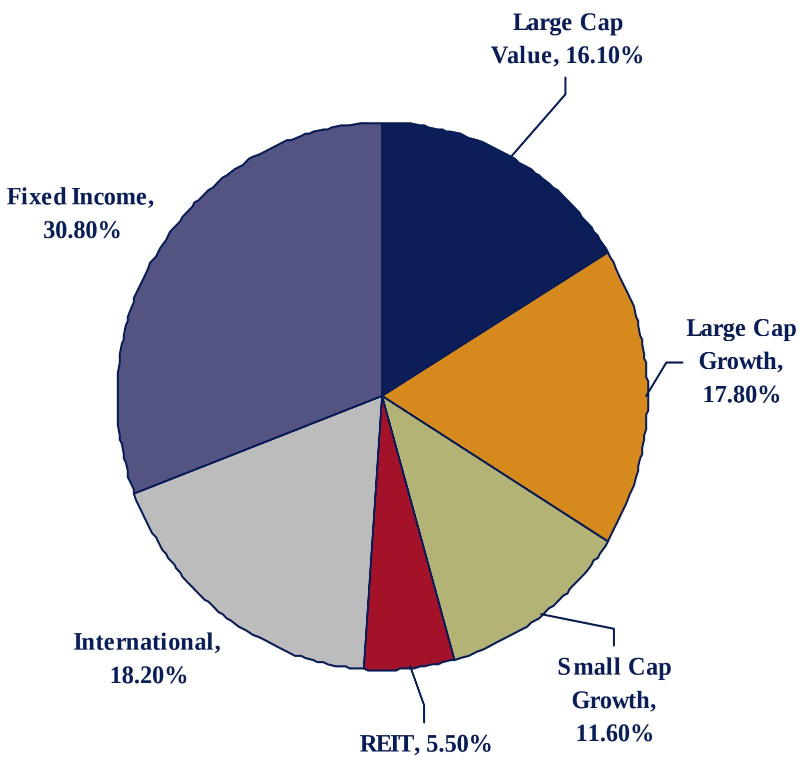
*As of February 1, 2010. ECRI represents the Economic Cycle Research Institute. See disclosures section at the end of this material, which is an important part of this presentation.*

# Portfolio Review

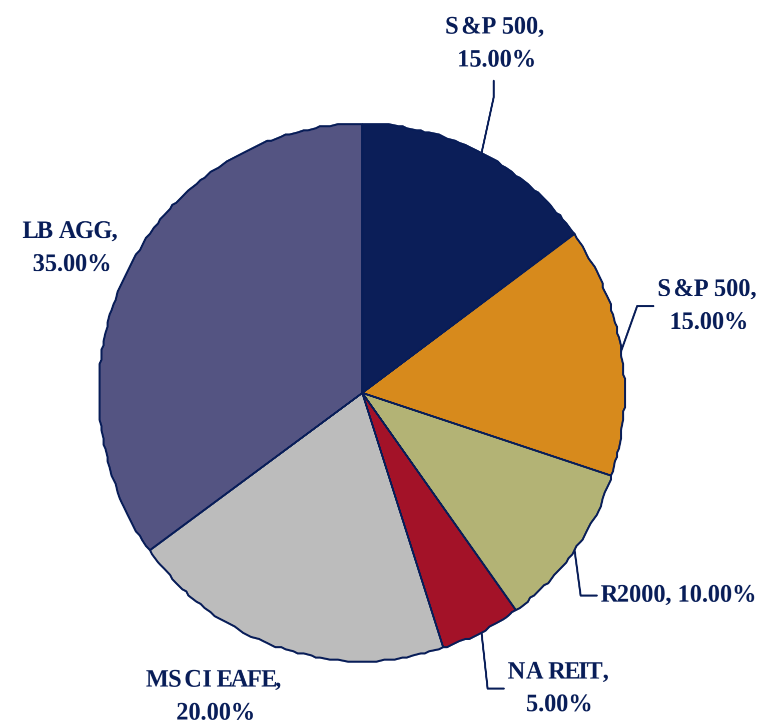
# Peralta Community College

## Asset Allocation as of 3/31/11

### Asset Allocation




### Asset Allocation Target Strategy




*See additional disclosure

# Asset Allocation Summary

## Summary

| Asset Class | Strategic Target | Tactical Range | Benchmark |
|---|---|---|---|
| Fixed Income | 35% | 30% - 40% | Barclays Capital US Aggregate Bond Index |
| Large Cap Equity | 30% | 25% - 35% | S&P 500 |
| International Equity | 20% | 15% - 25% | MSCI EAFE Index |
| Small Cap Equity | 10% | 5% - 15% | Russell 2000 Index |
| Real Estate | 5% | 0% - 10% | NAREIT Equity REIT Index |
| | **100.00%** | | |

# Peralta Community College



## March 31, 2011

### Performance

| | |
|---|---|
| Beginning Balance (January 2006): | 150,307,485 |
| Contributions/Withdrawals: | (18,600,000) |
| Earned[1]: | 38,913,405 |
| **Total:** | **170,620,890** |

### Asset Allocation

| Peralta Community College District Portfolio | Market Value ($000) |
|---|---|
| International Equity | 30,983,399 |
| Large Cap Value | 27,540,993 |
| Large Cap Growth | 30,442,024 |
| Small Cap Growth | 19,812,574 |
| REITS | 9,359,963 |
| Fixed Income | 52,481,937 |
| **Total Market Value** | **170,620,890** |

*Past performance does not predict or guarantee future results. Returns shown are gross of fees.*
*(1) Earned includes realized and unrealized gains and losses, dividend income and interest income earned, principal pay-downs, less fees paid.*

# Peralta Community College District



## Performance as of March 31, 2011 (1)

| Total Portfolio Performance (as of 3/31/11) (2) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **Last Month** | **Last 3 Months** | **Last 12 Months** | **Last 2 Years (Annualized)** | **Last 3 Years (Annualized)** | **Last 5 Years (Annualized)** | **Since Inception(3) (annualized)** |
| Peralta Community College | 1.17 | 5.13 | 16.23 | 26.97 | 4.99 | 4.49 | 4.61 |
| PCC Custom Benchmark(4) | -0.21 | 3.78 | 12.91 | 25.08 | 3.92 | 4.32 | 4.51 |

*Past performance does not predict or guarantee future results. Returns shown are gross of fees.*
*(1) Returns shown are gross of fees.*
*(2) Earned includes realized and unrealized gains and losses, dividend income and interest income earned, principal pay-downs, less fees paid.*
*(3) Inception date 1/31/06.*
*(4) Benchmark consists of 20% MSCI EAFE, 30% S&P 500, 10% Russell 2000, 5% NAREIT Equity REIT and 35% Barclays Capital Aggregate.*
*See Disclosures section at the end of this material, which is an important part of this presentation.*

# Disclosures

## DISCLOSURES

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Unless otherwise indicated, the term bear markets as used in this material is defined as 10% reversals in the S&P 500 stock index close. Past bear markets have often included brief bear market rallies (market increases of over 20%) which were often followed by subsequent declines. Nothing herein constitutes an opinion or a prediction regarding the length or bottom of the current recession and bear market, or any subsequent market or portfolio behavior. The characteristics, including length and recovery time, of past recessions and bear markets have varied significantly and are no indication of the characteristics of the current or future recessions and bear markets.

Any ratios or other measurements using a factor of forecasted earnings of a company or economic growth discussed herein are based on consensus estimates, and not Neuberger Berman's own projections, and thy may or may not be realized. By quoting them herein, Neuberger Berman does not offer an opinion as to the accuracy of and does not guarantee these forecasted numbers.

A bond's value may fluctuate based on interest rates, market conditions, credit quality and other factors. You may have a gain or loss if you sell your bonds prior to maturity. Of course, bonds are subject to the credit risk of the issuer. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the investor's state of residence. High-yield bonds, also known as "junk bonds," are considered speculative and carry a greater risk of default than investment-grade bonds. Their market value tends to be more volatile than investment-grade bonds and may fluctuate based on interest rates, market conditions, credit quality, political events, currency devaluation and other factors. High Yield Bonds are not suitable for all investors and the risks of these bonds should be weighed against the potential rewards. Neither Neuberger Berman nor its employees provide tax or legal advice. You should contact a tax advisor regarding the suitability of tax-exempt investments in your portfolio. 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. The properties held by REITs could fall in value for a variety of reasons, such as declines in rental income, poor property management, environmental liabilities, uninsured damage, increased competition, or changes in real estate tax laws. There is also a risk that REIT stock prices overall will decline over short or even long periods because of rising interest rates

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# ASSET CLASS BENCHMARKS AND DEFINITIONS

| Asset Class | Benchmark | Definition of Benchmark |
|---|---|---|
| Cash | Citigroup 3-Month T-Bill | The Citigroup 3-Month T-Bill is an unmanaged index that is generally representative of 3-month Treasury bills and consists of an average of the last 3-month U.S. Treasury Bill issues. |
| Short Duration Government | Bank of America Merrill Lynch Treasury (1-3 Year) | The Bank of America Merrill Lynch Treasury (1-3 Year) Index is a subset of the Merrill Lynch U.S. Treasury Index. The U.S. Treasury Index tracks the performance of the direct sovereign debt of the U.S. government. It includes all US dollar-denominated U.S. Treasury notes and bonds having at least one year remaining and up to (but not including) three years to maturity and a minimum amount outstanding of $1 billion. |
| Investment Grade Taxable Fixed Income | Barclays Capital U.S. Aggregate | The Barclays Capital U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. Index rules: Must have at least one year to final maturity regardless of call features. • Must have at least $250 million par amount outstanding. Asset-backed securities must have at least $500 million deal size and $25 million tranche size. For commercial mortgage-backed securities, the original transaction must have a minimum deal size of $500 million, and a minimum tranche size of $25 million; the current outstanding transaction size must be at least $300 million to remain in the index. • Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. • Must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule. • Must be dollar-denominated and non-convertible. • Must be publicly issued. However, 144A securities with Registration Rights and Reg-S issues are included. |
| U.S. Government/Agency | Barclays Capital U.S. Government | The U.S. Government Index is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes Treasuries (public obligations of the U.S. Treasury that have remaining maturities of more than one year) and U.S. agency debentures (publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The index is a component of the U.S. Government/Credit Index and the U.S. Aggregate Index. |
| Government and Investment Grade Corporate | Barclays Capital U.S. Intermediate Government / Credit | The Barclays Capital U.S. Intermediate Government / Credit Index represents securities in the intermediate (1-10 yr) maturity range of the Government/Credit Index. The index includes treasuries (i.e., public obligations of the U.S. Treasury that have remaining maturities of more than one year) and agencies (i.e., publicly issued debt of U.S. Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. Government). The index includes publicly issued U.S. corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements. |
| Investment Grade Corporate | Barclays Capital U.S. Corporate | The 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. |
| Agency MBS | Barclays Capital U.S. MBS | The U.S. Mortgage Backed Securities (MBS) Index covers agency mortgage-backed passthrough securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Introduced in 1986, the GNMA, FHLMC, and FNMA fixed-rate indices for 30- and 15- year securities were backdated to January 1976, May 1977, and November 1982, respectively. Balloon securities were added in 1992 and removed on January 1, 2008. 20-year securities were added in July 2000. On April 1, 2007, agency hybrid adjustable-rate mortgage (ARM) passthrough securities were added to the U.S. MBS Index. Hybrid ARMs are eligible until 1 year prior to their floating coupon date. |

# ASSET CLASS BENCHMARKS AND DEFINITIONS

| Asset Class | Benchmark | Definition of Benchmark |
|---|---|---|
| Securitized ABS/CMBS | Barclays Capital ABS + CMBS | The ABS + CMBS Index is a custom index including the investment grade ABS and CMBS components of the U.S. Aggregate index. Securities must be rated investment-grade by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. Securities must be ERISA eligible under the underwriter's exemption. 144A securities are not included. The ABS index includes pass-through, bullet, and controlled amortization structures. The ABS index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. Inherited Rules: must have an average life of at least one year, must have at least $500 million deal size and $25 million tranche size. Must be fixed rate, must be the senior class, ERISA-eligible B or C tranche of the deal. Must belong to one of the following categories of asset-backed securities: Credit Card and Charge Card, Auto Loan, Utility or must be issued from an eligible issuer as determined by Barclays Capital based on pricing availability. |
| High Yield Corporate | Barclays Capital U.S. Corporate High-Yield Bond | The U.S. Corporate High-Yield Bond 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. |
| High Yield Corporate | Barclays Capital U.S. Corporate High Yield – 2% Issuer Capped | The U.S. Corporate High-Yield 2% Issuer Capped Index is an issuer-constrained version of the U.S. Corporate High-Yield Index that covers the USD denominated, non-investment grade, fixed-rate taxable corporate bond market. This index follows the same construction rules as the uncapped index but limits issuer exposures to a maximum 2% and redistributes the excess market value index-wide on a pro rata basis. The index was incepted in 2004 with history from January 1, 1993. |
| Municipal Bond | Barclays Capital Municipal Bond | The U.S. Municipal Index covers the USD-denominated long term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Many of the indices have historical data to January 1980. In addition, several subindices based on maturity and revenue source have been created, some with inception dates after January 1980 but no later than July 1, 1993. In January 1996, Barclays Capital also began publishing a non-investment grade municipal bond index and "enhanced" state-specific indices for Arizona, Connecticut, Maryland, Massachusetts, Minnesota and Ohio. These indices are published separately from the Barclays Capital Municipal Bond Index. |
| Municipal Bond | Bank of America Merrill Lynch 1-3 Year Municipal Index | The Bank of America Merrill Lynch 1-3 Year Municipal Index is a subset of the Merrill Lynch Municipal Securities Index. The Merrill Lynch Municipal Securities Index tracks the performance of the investment grade US tax-exempt bond market. Qualifying bonds must have up to (but not including three years but no less than one year remaining term to maturity, a fixed coupon schedule, a minimum original maturity amount outstanding of $50 million and an investment grade rating from Moody's. This subset index is re-balanced on the last calendar day of the month. Issues that meet the qualifying criteria are included in the index for the following month. |
| Municipal Bond | Bank of America Merrill Lynch 3-7 Year Municipal Index | The Bank of America Merrill Lynch 3-7 Year Municipal Index is a subset of the Merrill Lynch Municipal Securities Index. The Merrill Lynch Municipal Securities Index tracks the performance of the investment grade US tax-exempt bond market. Qualifying bonds must have up to (but not including seven years but no less than three years remaining term to maturity, a fixed coupon schedule, a minimum original maturity amount outstanding of $50 million and an investment grade rating from Moody's. This subset index is re-balanced on the last calendar day of the month. Issues that meet the qualifying criteria are included in the index for the following month. |
| Municipal Bond | Bank of America Merrill Lynch 1-3 / 3-7 Year Blended Muni Index (MSCOR) | The Bank of America Merrill Lynch 1-3 / 3-7 Blended Index is comprised of an equal blend of both the Bank of America Merrill Lynch 1 – 3 Year Municipal Index and the Bank of American Merrill Lynch 3-7 Year Municipal Index defined above. |

| Asset Class | Benchmark | Definition of Benchmark |
|---|---|---|
| Municipal Bond | Bank of America Merrill Lynch 1-3 / 3-7 / 7-12 Year Blended Muni Index (MCOR Custom Blend) | The MCOR Custom Blend is a comprehensive index measuring short and intermediate term municipal debt. Its return history represents:1-01-93 through 12-31-96: equal weighted average of Bank of America Merrill Lynch 1-3, 3-7 and 7-12 Year Muni index, rebalanced monthly; 1-01-97 through 3-31-99: 34% BoA ML 1-3 / 50% BoA ML 3-7 / 16% BoA ML 7-12 Year Muni index, rebalanced monthly; 4-01-99 through present: equal weighted average of BoA ML 1-3, 3-7 and 7-12 Year Muni index, rebalanced monthly. |
| Municipal Bond | Bank of America Merrill Lynch 3-7 / 7-12 / 12-22 Year Blended Muni Index (MECOR Custom Blend) | The MECOR Custom Blend is a comprehensive index measuring short, intermediate and long-term municipal debt. Its return history represents: 1-01-93 through 12-31-96: equal weighted average of Bank of America Merrill Lynch 3-7, 7-12 and 12-22 Year Muni index, rebalanced monthly; 1-01-97 through 3-31-99: 60% BoA ML 3-7yr/ 35% ML 7-12 yr/ 5% ML 12-22 yr Muni index, rebalanced monthly; 4-01-99 through present: equal weighted average of Merrill Lynch 3-7 and 7-12 year Muni index, rebalanced monthly. |
| U.S. TIPS | Barclays Capital U.S. Treasury Inflation Protected Securities (TIPS) | The U.S. Treasury Inflation-Protected Securities (TIPS) Index (Series-L) is a rules-based, market value-weighted index that tracks inflation protected securities issued by the U.S. Treasury. The index is a subset of the Global Inflation-Linked Index (Series-L), with a 36.4 market value weight in that index (as of December 31, 2009), but is not eligible for other nominal Treasury or Aggregate indices. To prevent the erosion of purchasing power, TIPS are indexed to the non-seasonally adjusted Consumer Price Index for All Urban Consumers, or the CPI-U (CPI). |
| Non-U.S. Investment Grade Fixed Income | Barclays Capital Global Aggregate x USD | The Global Aggregate ex-U.S. Index is a subindex of the Global Aggregate Bond Index, which contains the U.S. Aggregate, the Pan-European Aggregate and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government and agency and corporate securities. Constituents must have a remaining maturity of at least one year. Mortgages and asset-backed securities must have a remaining average life of at least one year. Securities must be fixed rate, although zero coupon bonds and step-ups are permitted. Exclusions: Convertibles, floating-rate notes, fixed-rate perpetuals, warrants, linked bonds, and structured products, debt denominated in Swiss Francs and privately placed Japanese Government Bonds. |
| Leveraged Loans | S&P / LSTA Leveraged Loan Index | The S&P/LSTA Leveraged Loan Index is a daily total return index that uses LSTA / LPC Mark-to-Market Pricing to calculate market value change. On a real-time basis, the index tracks the current outstanding balance and spread over LIBOR for fully funded term loans. The facilities included in the index represent a broad cross section of leveraged loans syndicated in the United States, including dollar-denominated loans to overseas issuers. |
| U.S. All Cap Core | Russell 3000 | The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies, representing approximately 98% of the investable U.S. equity market. As of the latest reconstitution, the weighted average market capitalization was approximately $58.2 billion; the median market capitalization was approximately $589 million. The index had a total market capitalization range from approximately $78 million to $338 billion. |
| U.S. Large Cap | S&P 500 | 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 US equity performance. As of September 16, 2005, S&P switched to a float-adjusted format, which weights only those shares that are available to investors, not all of a company's outstanding shares. The value of the index now reflects the value available in the public markets. |

## ASSET CLASS BENCHMARKS AND DEFINITIONS

| Asset Class | Benchmark | Definition of Benchmark |
|---|---|---|
| U.S. Large Cap | Russell 1000 | 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. |
| U.S. Large Cap Growth | Russell 1000 Growth | The Russell 1000 Growth Index measures the performance of those Russell 1000® companies with higher price-to-book ratios and higher forecasted growth values. |
| U.S. Large Cap Value | Russell 1000 Value | The Russell 1000 Value Index measures the performance of those Russell 1000® companies with lower price-to-book ratios and lower forecasted growth values. |
| U.S. Mid Cap | Russell Midcap Value | The Russell Midcap Value Index measures the performance of the mid-cap value segment of the US equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values. The index is constructed to provide a comprehensive and unbiased barometer of the mid-cap value market. The index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap value market. |
| U.S. Small Cap | Russell 2000 | 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. |
| U.S. Small Cap Growth | Russell 2000 Growth | The Russell 2000 Growth Index measures the performance of those Russell 2000® companies with higher price-to-book ratios and higher forecasted growth values. |
| U.S. Small Cap Value | Russell 2000 Value | The Russell 2000 Value Index measures the performance of those Russell 2000® companies with lower price-to-book ratios and lower forecasted growth values. |
| Master Limited Partnerships | Alerian MLP | The Alerian MLP Index is a market-cap weighted, float-adjusted index created to provide a comprehensive benchmark for investors to track the performance of the energy MLP sector. The index components are selected by Alerian Capital Management, LLC ("Alerian"). Alerian is a registered investment advisor that exclusively manages portfolios focused on midstream energy MLPs. |
| Developed International Equities | MSCI EAFE | 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. |
| Global Equities | MSCI ACWI (All Country World Index) | The MSCI ACW Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. As of May 27, 2010 the index consisted of 45 country indices comprising 24 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. |

## ASSET CLASS BENCHMARKS AND DEFINITIONS

| Asset Class | Benchmark | Definition of Benchmark |
|---|---|---|
| Emerging Market Equities | MSCI Emerging Markets – Net Return | 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 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. |
| Public Real Estate | FTSE NAREIT REIT | The FTSE NAREIT REIT Index measures the performance of all publicly traded equity real estate investment trusts traded on U.S. exchanges. NAREIT is the National Association of Real Estate Investment Trusts®. It is the trade association for REITs and publicly traded real estate companies with an interest in the U.S. property and investment markets. Members are REITs and listed companies that own, operate and finance in-come-producing real estate, as well as those firms and individuals who advise, study and service these businesses. NAREIT's responsibilities include industry representation before policymakers affecting the REIT and publicly traded real estate community and outreach to the investment community. |
| Commodities | Dow Jones-UBS Commodity | The Dow Jones-UBS Commodity Index is composed of futures contracts on physical commodities. The index is composed of commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME). The index is designed to be a highly liquid and diversified benchmark for commodities investments. To ensure that no single commodity or commodity sector dominates the index, the index relies on several diversification rules. Among these rules are the following: no related group of commodities (eg., energy, precious metals, livestock or grains) may constitute more than 33% of the index. Also, no single commodity may constitute less than 2% of the index. The diversification rules are applied annually when the index is reweighted and rebalanced on a price-percentage basis. |
| Lower Volatility Hedge Funds | HFRI FOF Conservative | The HFRI FOF Conservative Index includes Fund-of-Funds (FOFs) classified as 'Conservative' which exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more 'conservative' strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Conservative Index shows generally consistent performance regardless of market conditions. |
| Private Equity | ThomsonOne Private Equity | The ThomsonOne Private Equity Index is a capitalization-weighted composite IRR of the buyout, venture, and special situations fund performances reported to Thomson; all historical IRRs are subject to, and regularly undergo, revision. |