



Questis

Q1

Market Review
First Quarter 2013

Quarterly Market Review

First Quarter 2013

This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a topic of the quarter.

Overview:

Market Summary

Timeline of Events

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

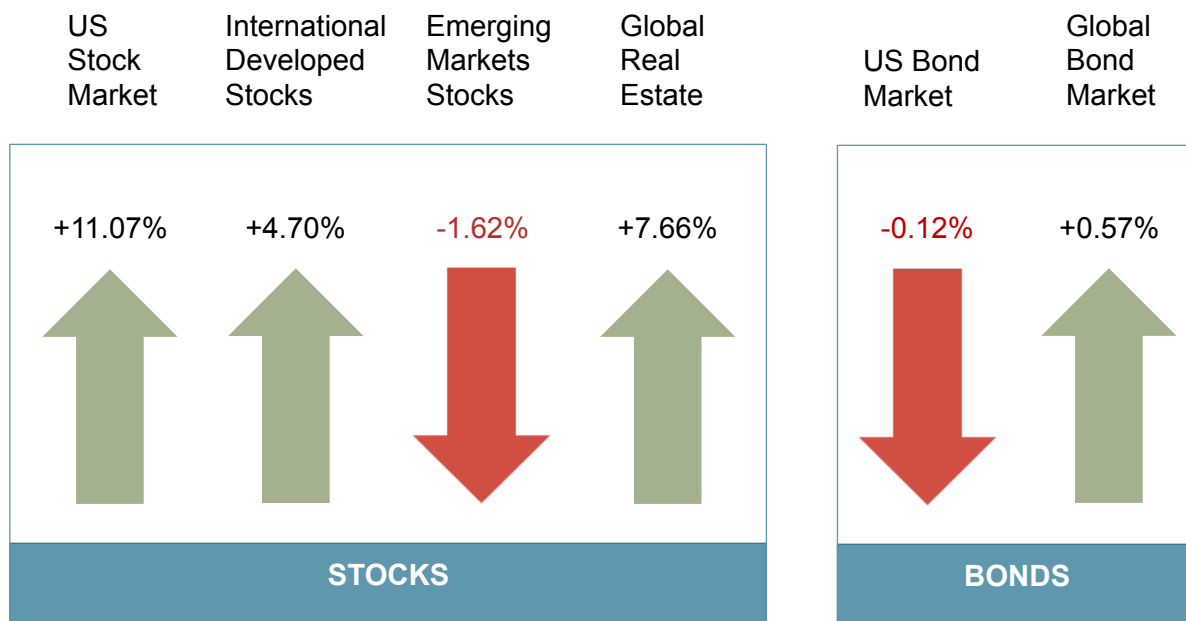
Global Diversification

Quarterly Topic:

Betting against the House

Market Summary

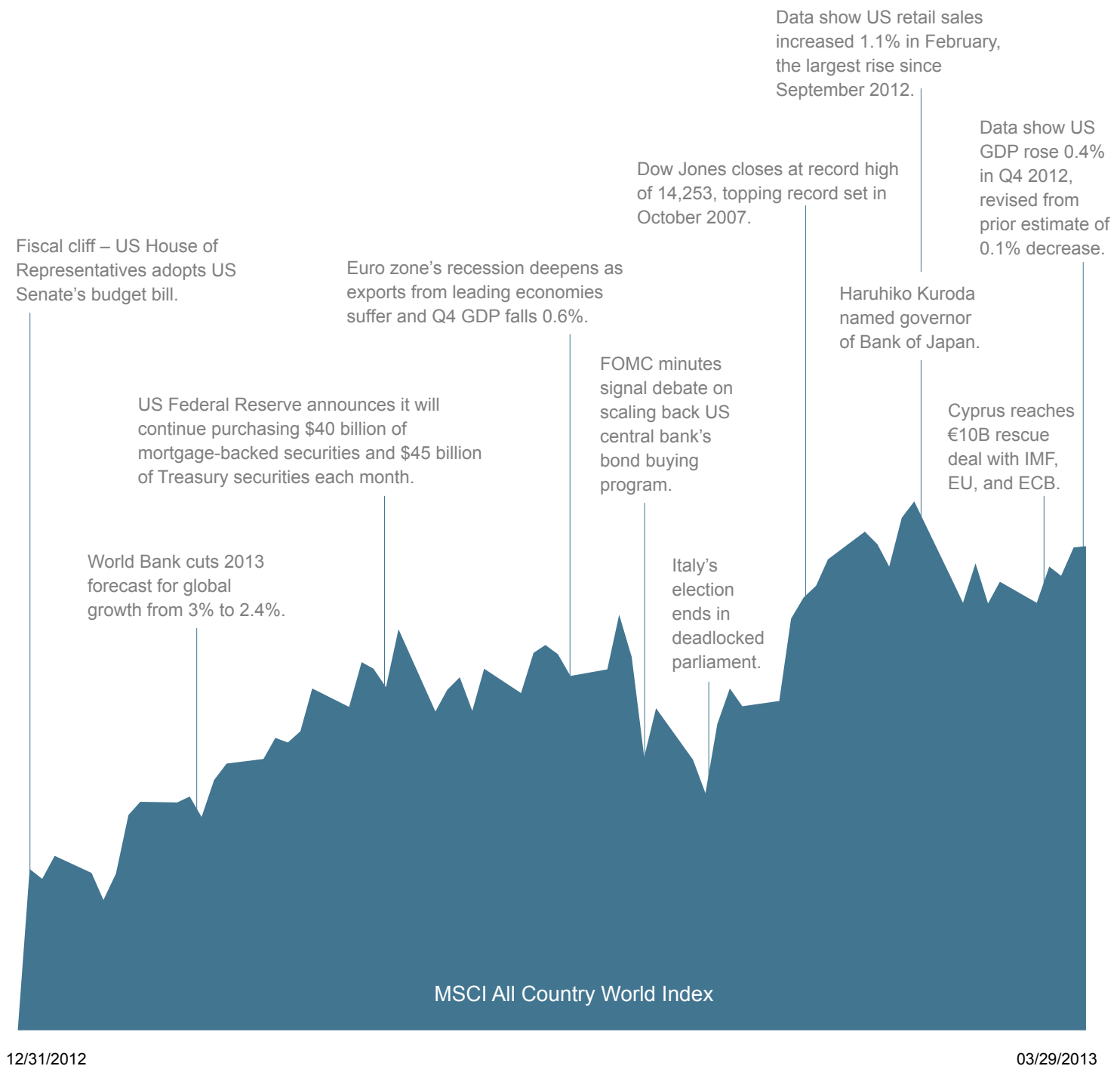
First Quarter 2013 Index Returns



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond Market (Barclays Global Aggregate Bond Index [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2012, all rights reserved. MSCI data copyright MSCI 2012, all rights reserved. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

Timeline of Events: Quarter in Review

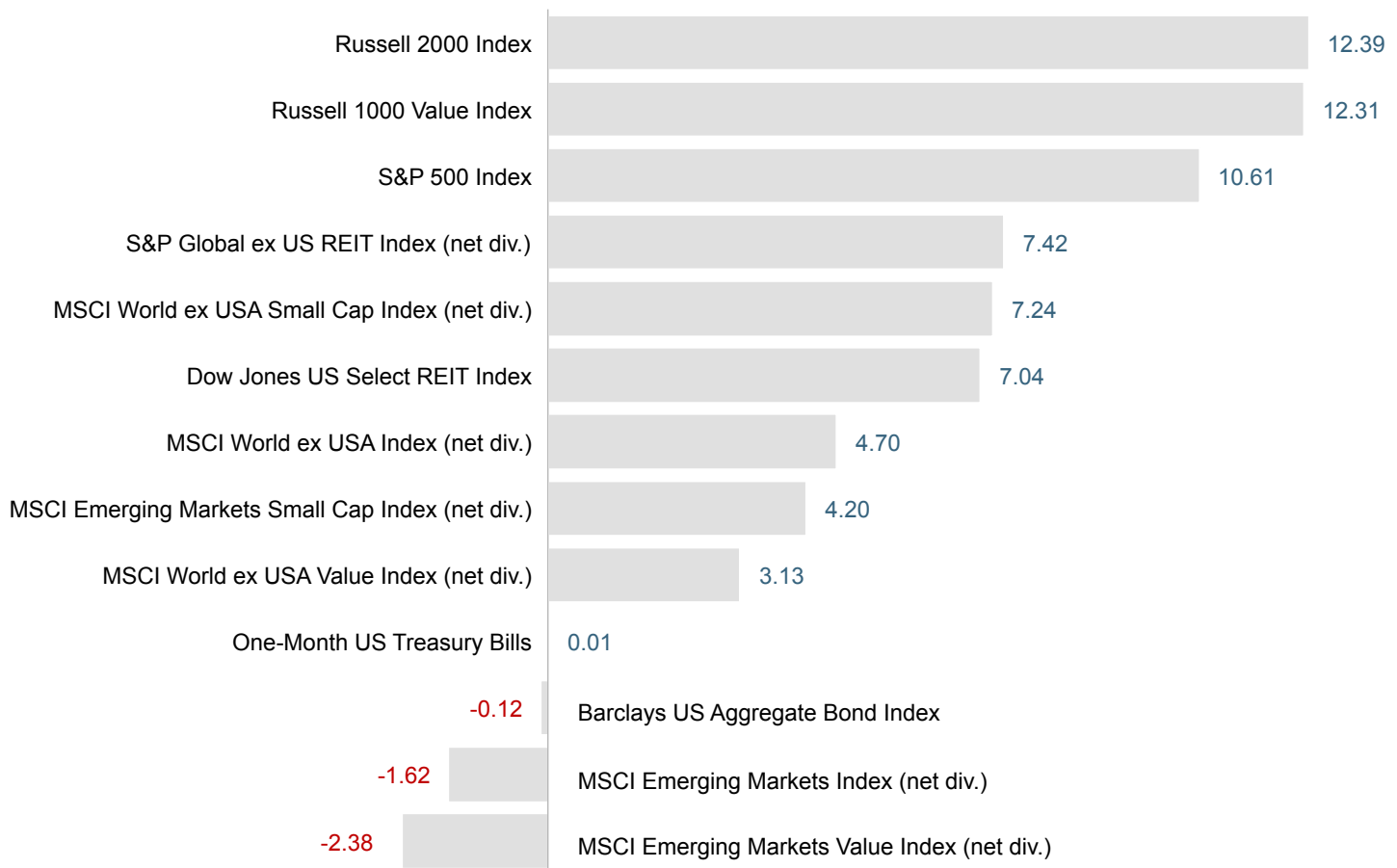
First Quarter 2013



World Asset Classes

First Quarter 2013 Index Returns

The US market led equity returns vs. developed ex US and emerging markets after strong performances in both January and February. The US yield curve steepened and remained upwardly sloped.



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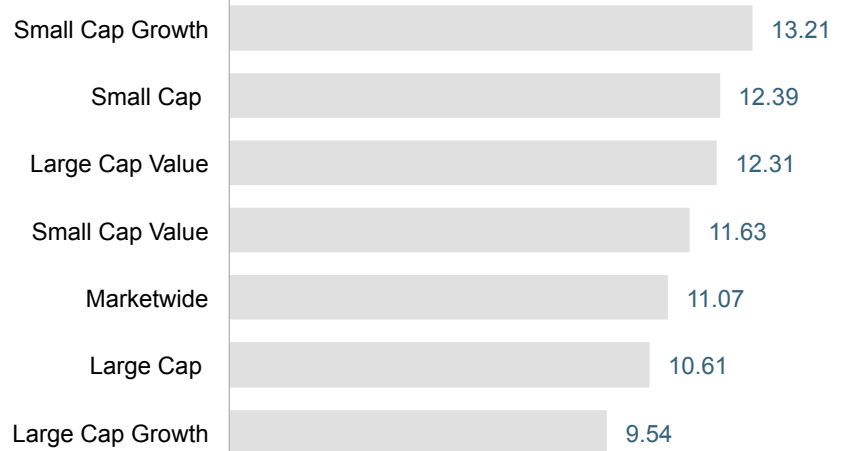
US Stocks

First Quarter 2013 Index Returns

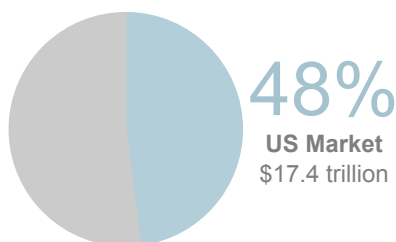
All major US asset classes posted positive results in the first quarter, with the broad market returning 11.07%. Asset class returns ranged from 9.54% for large growth stocks to 13.21% for small growth stocks.

Across the size spectrum, small caps outperformed large caps. There was a positive value premium marketwide in the US, driven by the performance of large value and midcap value stocks; however, small cap value stocks underperformed small cap growth stocks.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	14.56	12.97	6.32	9.15
Large Cap	13.96	12.67	5.81	8.53
Large Cap Value	18.77	12.74	4.85	9.17
Large Cap Growth	10.09	13.06	7.30	8.62
Small Cap	16.30	13.45	8.24	11.52
Small Cap Value	18.09	12.12	7.29	11.29
Small Cap Growth	14.52	14.75	9.04	11.61

* Annualized

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International Developed Stocks

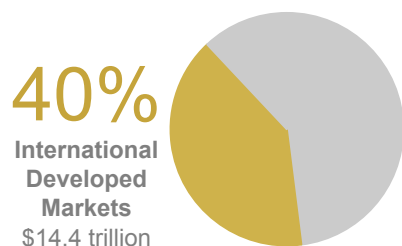
First Quarter 2013 Index Returns

International developed equities maintained strong performances, with all major asset classes posting positive absolute numbers in US dollars for the quarter.

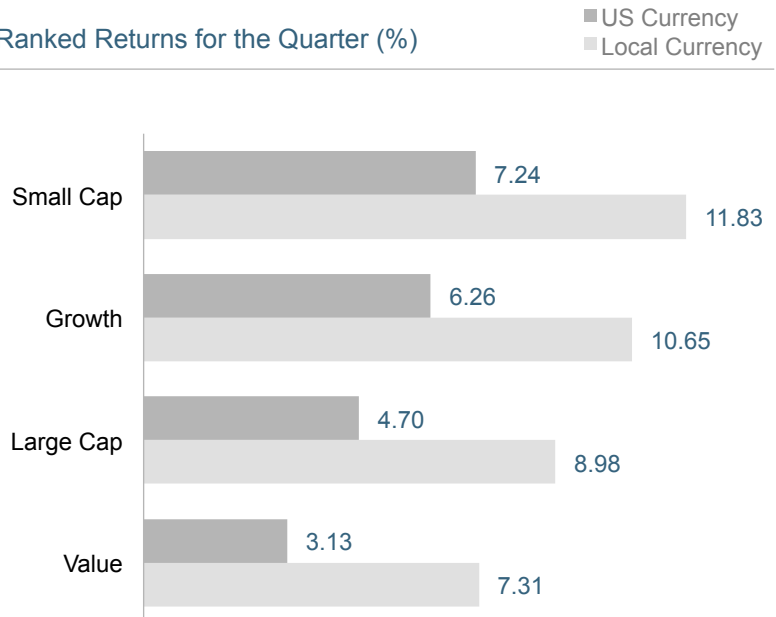
Consistent with the fourth quarter, the US dollar appreciated relative to most major foreign developed currencies.

Across the size and style spectra, small beat large and growth outperformed value.

World Market Capitalization— International Developed



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	10.43	4.78	-0.75	9.95
Small Cap	10.87	7.80	2.05	13.14
Value	10.35	3.57	-1.16	10.28
Growth	10.41	5.92	-0.39	9.53

* Annualized

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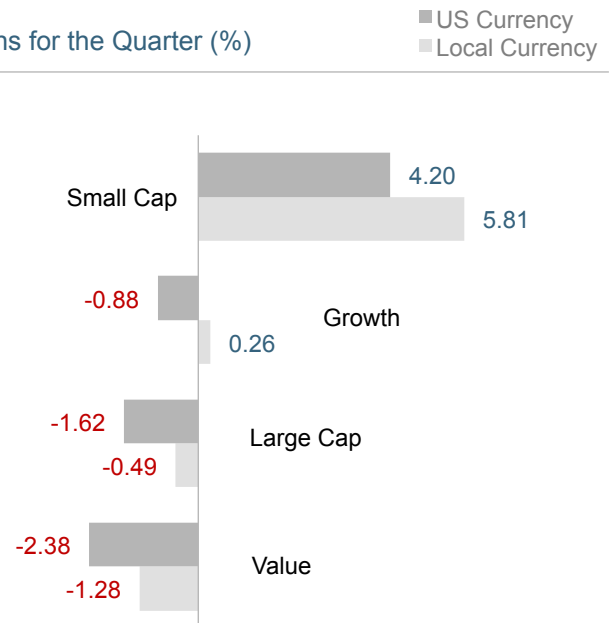
Emerging Markets Stocks

First Quarter 2013 Index Returns

Many emerging markets posted negative returns for the quarter. There was a significant size premium, with small caps outperforming large caps by 5.8%. The value premium was negative across all size segments.

The US dollar appreciated vs. most emerging markets currencies.

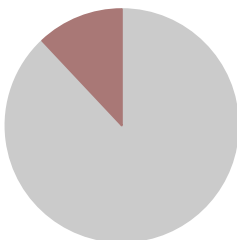
Ranked Returns for the Quarter (%)



World Market Capitalization—
Emerging Markets

12%

Emerging
Markets
\$4.3 trillion



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	1.96	3.27	1.09	17.05
Small Cap	9.20	3.93	4.13	18.18
Value	-1.08	2.43	1.58	18.47
Growth	5.00	4.09	0.54	15.60

* Annualized

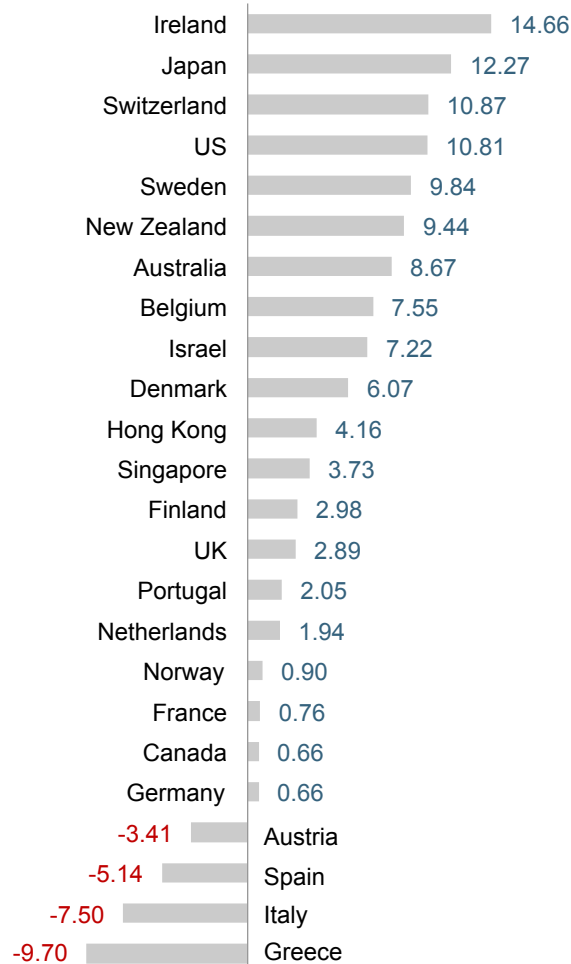
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Select Country Performance

First Quarter 2013 Index Returns

The majority of developed markets posted positive returns. Japanese stocks gained 12.27%, as the local government continued to implement its stimulus program. After receiving its first investment-grade rating, the Philippines posted the highest performance among emerging markets.

Developed Markets (% Returns)



Emerging Markets (% Returns)



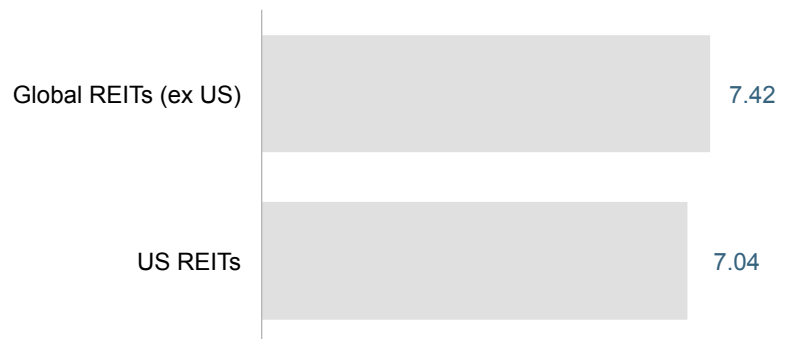
Real Estate Investment Trusts (REITs)

First Quarter 2013 Index Returns

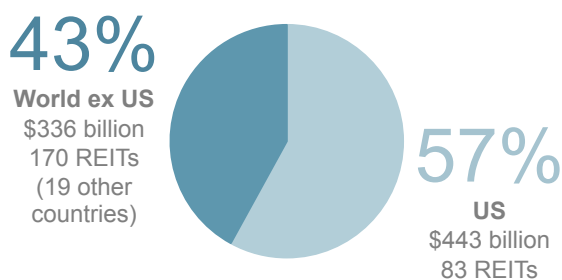
International REITs outperformed US REITs by 38 basis points in the beginning of 2013.

International REITs continued to post positive returns for the sixth consecutive quarter, while US REITs had their second consecutive quarter of positive returns.

Ranked Returns for the Quarter (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITs	13.19	16.94	6.07	12.10
Global REITs (ex US)	27.46	14.93	1.31	10.38

* Annualized

Commodities

First Quarter 2013 Index Returns

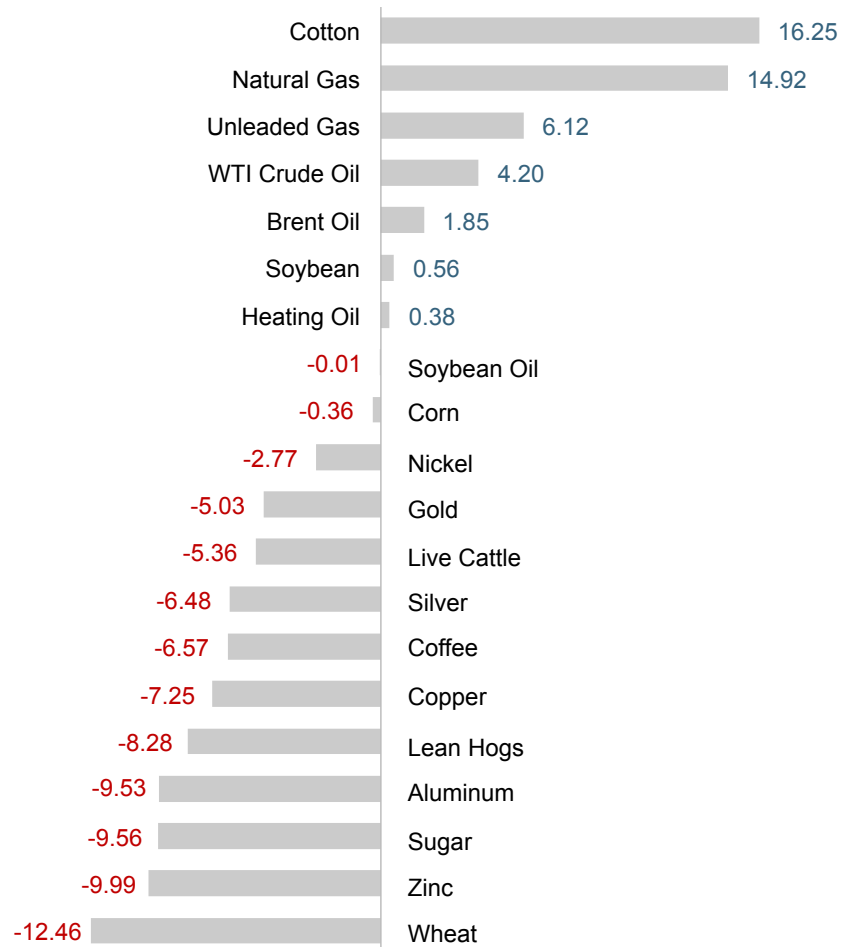
Commodities settled slightly lower during the first quarter, somewhat offsetting a strong comeback at the end of 2012.

The energy complex advanced, with natural gas providing significant total return during the period.

Precious metals finished lower, as investors' sensitivity to economic and geopolitical risks eased.

Soft commodities generally finished lower. One exception was cotton, as the market incorporated projections from the US Department of Agriculture that indicated a reduction in production capacity.

Individual Commodity (% Returns)



Period Returns (%)

Asset Class	Q1	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.13	-3.03	1.42	-7.11	3.67

* Annualized

Fixed Income

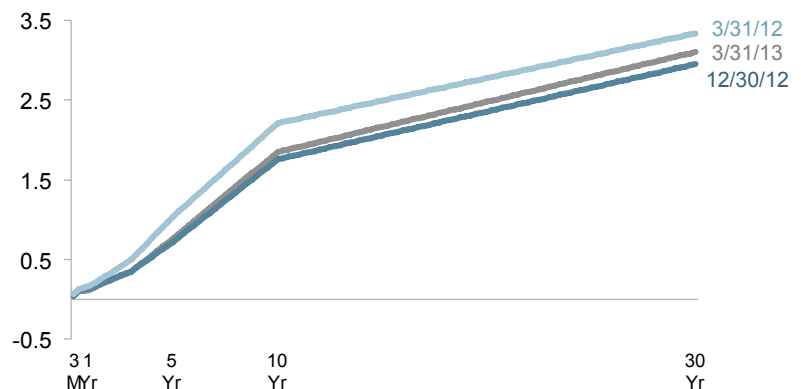
First Quarter 2013 Index Returns

Bond yields crept higher during the period, as fixed income sold off and equities pursued record levels.

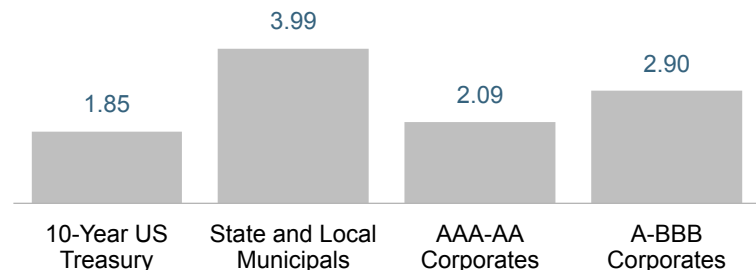
Global monetary policy remained accommodative, as central banks sought to maintain high levels of liquidity. These actions were taken to spur economic growth and protect the global financial system.

Yield-seeking behavior has been rewarded over the past year, as lower credit-quality investments have outperformed.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
One-Month US Treasury Bills (SBBI)	0.06	0.07	0.30	1.62
Bank of America Merrill Lynch Three-Month Treasury Bills	0.12	0.11	0.34	1.75
Bank of America Merrill Lynch One-Year US Treasury Note	0.31	0.49	1.01	2.15
Citigroup World Government Bond 1– 5 Years (hedged)	1.83	1.96	2.66	3.27
US Long-Term Government Bonds (SBBI)	5.99	12.14	8.11	7.16
Barclays Corporate High Yield	13.13	11.24	11.65	10.12
Barclays Municipal Bonds	5.25	6.23	6.10	5.01
Barclays US TIPS Index	5.68	8.57	5.89	6.32

* Annualized

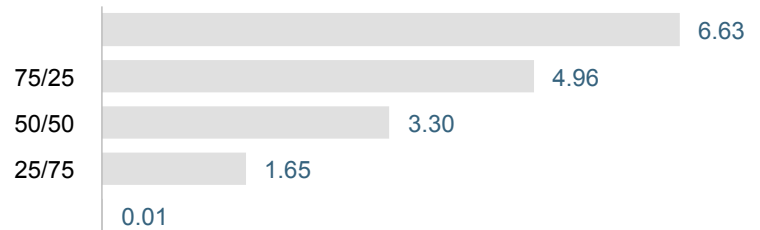
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Global Diversification

First Quarter 2013 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but also have higher expected returns over time.

Ranked Returns for the Quarter (%)

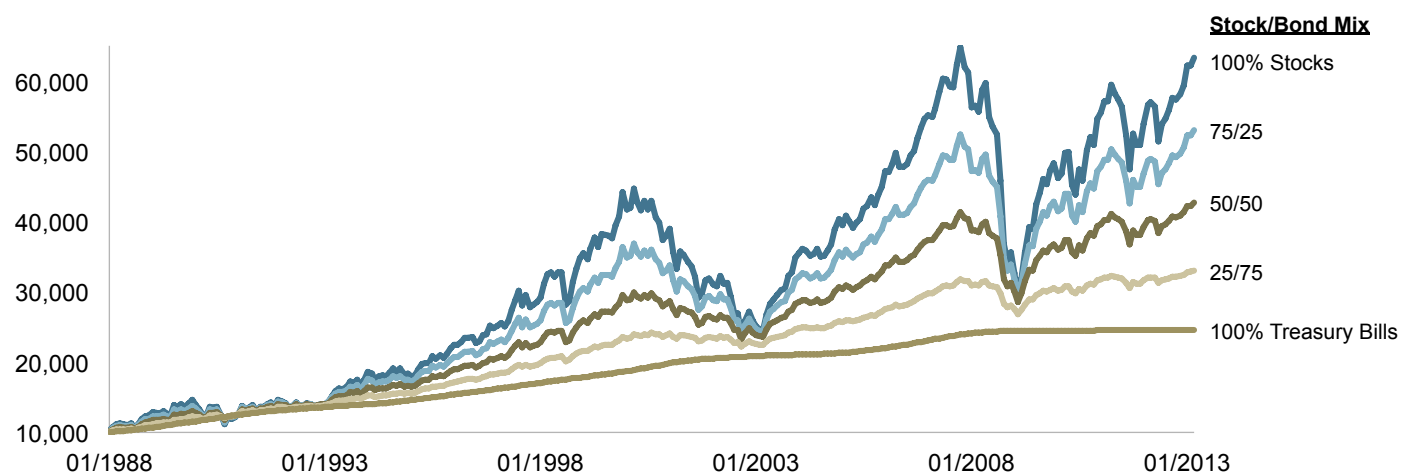


Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
100% Stocks	11.19	8.35	2.63	9.92
75/25	8.46	6.50	2.50	8.09
50/50	5.69	4.50	2.05	6.08
25/75	2.89	2.35	1.32	3.92
100% Treasury Bills	0.06	0.07	0.30	1.62

* Annualized

Growth of Wealth: The Relationship between Risk and Return



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Betting Against the House

First Quarter 2013

It's New Year's Day 2012. In addition to overdosing on televised college football, you're spending part of the holiday working on the family finances. Armed with a laptop and various online financial tools, you're on the hunt for appealing stock market opportunities. To prune the list of candidates to a manageable size, you decide to focus on firms that are leaders in their respective industries and exhibit above-average scores on various measures of financial strength. As you work your way through the alphabet, you come to the "P" stocks, and another candidate appears. It's a prominent player in a major industry (good), but operates in a notoriously cyclical industry (not so good), is currently losing money (definitely not good), pays no dividend, and has a junk-bond credit rating of BB-minus. Next! You push the "delete" key and move on.

Congratulations. You just passed up the best-performing stock in the entire S&P 500 Index for 2012.

Shares of PulteGroup, a Michigan-based homebuilder with a 60-year history, jumped 187.8% last year amid strong performance for the entire industry. For the year ending December 31, 2012, all 13 homebuilding firms listed on the New York Stock Exchange outperformed the S&P 500 Index by a wide margin, with total returns ranging from 34.1% for NVR to 382.8% for Hovnanian Enterprises. The Standard & Poor's SuperComposite Homebuilding Sub-Index rose 84.1% in 2012 compared to 13.4% for the S&P 500 Index.

The point? For those seeking to outperform the market through stock selection, underweighting the market's biggest winners can be just as painful as overweighting

the biggest losers. Investors are often caught flat-footed by stocks that do much better or much worse than the broad market, and the problem is not limited to individuals. Not one of the 10 seasoned professionals participating in Barron's annual Roundtable stock-picking panel in early January 2012 mentioned homebuilding stocks or any housing-related firms.

The recent surge in housing shares also serves as a reminder that stock prices are forward-looking and tend to rise or fall well in advance of clear changes in company fundamentals.

Investors who insist on waiting for evidence of healthy profits before investing are often frustrated to find that a firm's stock price has appreciated dramatically by the time the firm begins to report cheery financial results. Shares of Hovnanian Enterprises, for example, rose 580% between October 7, 2011, and December 31, 2012, even though the firm continued to report losses. Similarly, it is not unusual for a firm's stock price to decline long before signs of trouble become obvious.

Many observers in recent years predicted that a recovery in the housing industry would be agonizingly slow, and they were right. Many investors in recent years have avoided housing stocks as a consequence, and they've been wrong: Housing stocks have outperformed the broad US stock market by a healthy margin from the market low in March 2009 to the present day.

BOTTOM LINE: Markets have 101 ways to remind us of Nobel laureate Merton Miller's observation—diversification is the investor's best friend.