

Market Environment

4Q 2011

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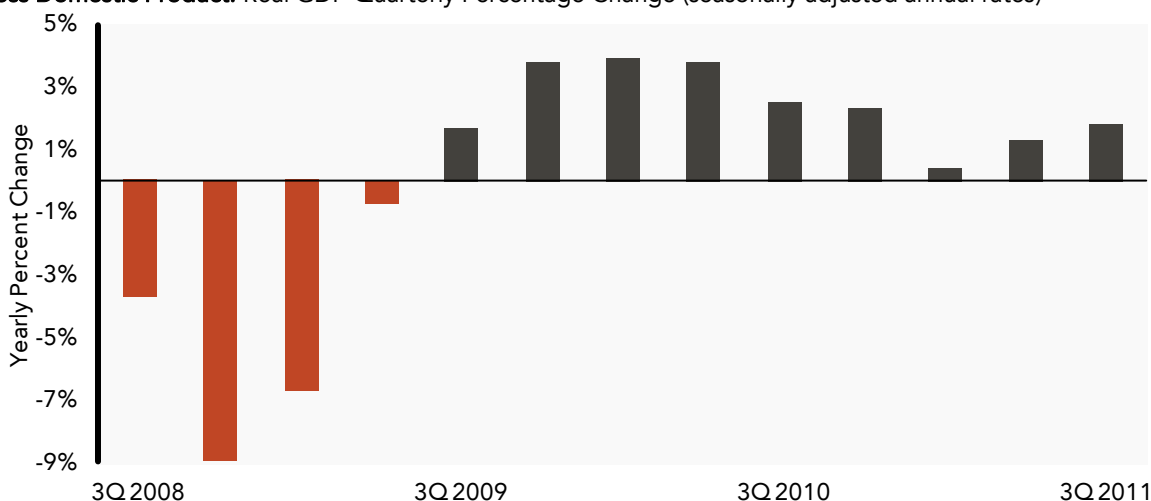
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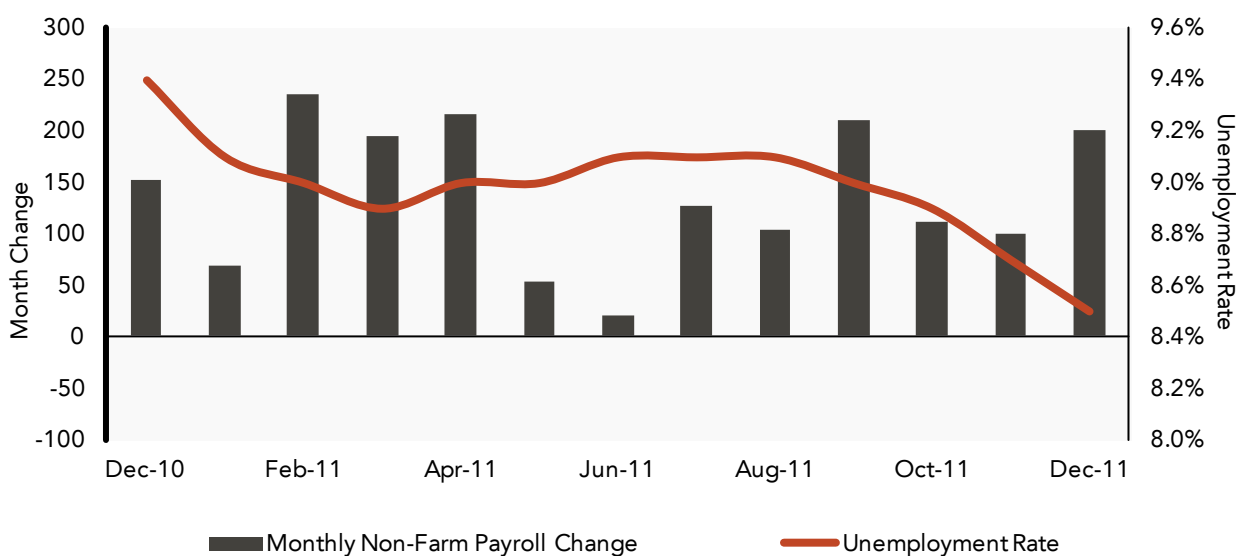
U.S. Economy

The "third" estimate for third quarter GDP was released showing a growth rate of 1.8%, a 0.2% decrease over the prior estimate. This change primarily reflects a downward revision to consumer spending which grew 1.7% during the quarter compared to a previous estimate of 2.3%. Despite lower consumer spending levels, personal consumption contributed 69% to GDP growth during the quarter. Nonresidential fixed investment, exports, and federal government spending had positive contributions to GDP growth for the quarter. The change in business inventories subtracted 1.35% from GDP as private inventories decreased by \$2B during the third quarter. Nondefense and State and Local Government spending continued to trend downward. The unemployment rate fell to 8.5% in December, the lowest rate since February 2009. The number of unemployed is currently 13.1M and the number of long-term unemployed is 5.6M. The average duration of unemployment in December is 40.8 weeks. Non-farm payroll employment gained 200K jobs in December while private payroll employment added 212K jobs. Over the past twelve months, non-farm payroll employment has gained 1.6M jobs.

Gross Domestic Product: Real GDP Quarterly Percentage Change (seasonally adjusted annual rates)



Unemployment Data: Unemployment Rate % & Non-Farm Payroll (000's) Net Jobs Created

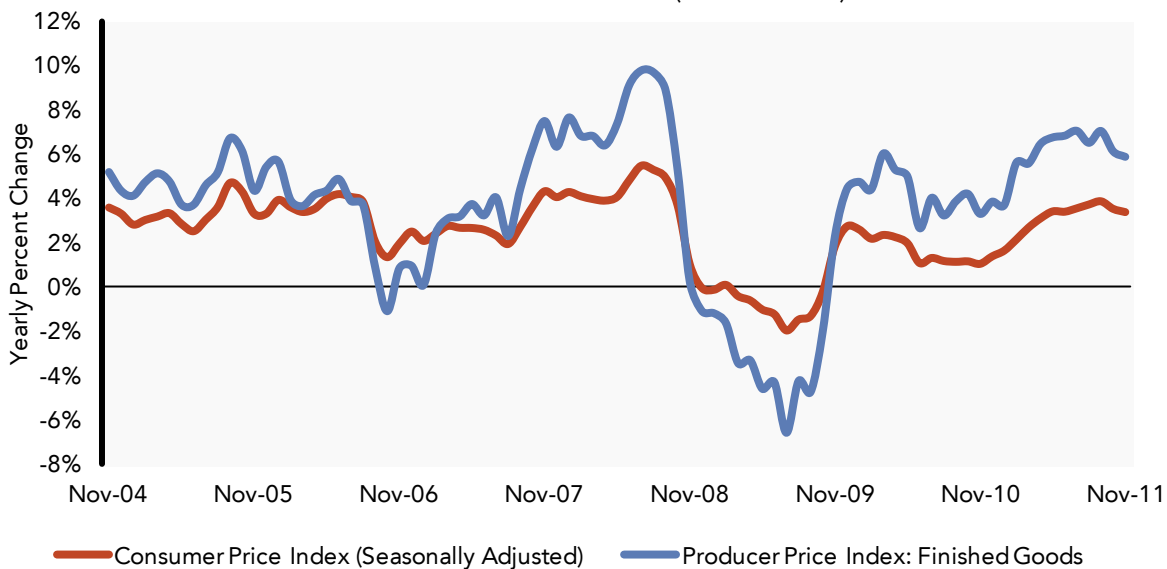


Sources: Bureau of Economic Analysis, Bureau of Labor Statistics

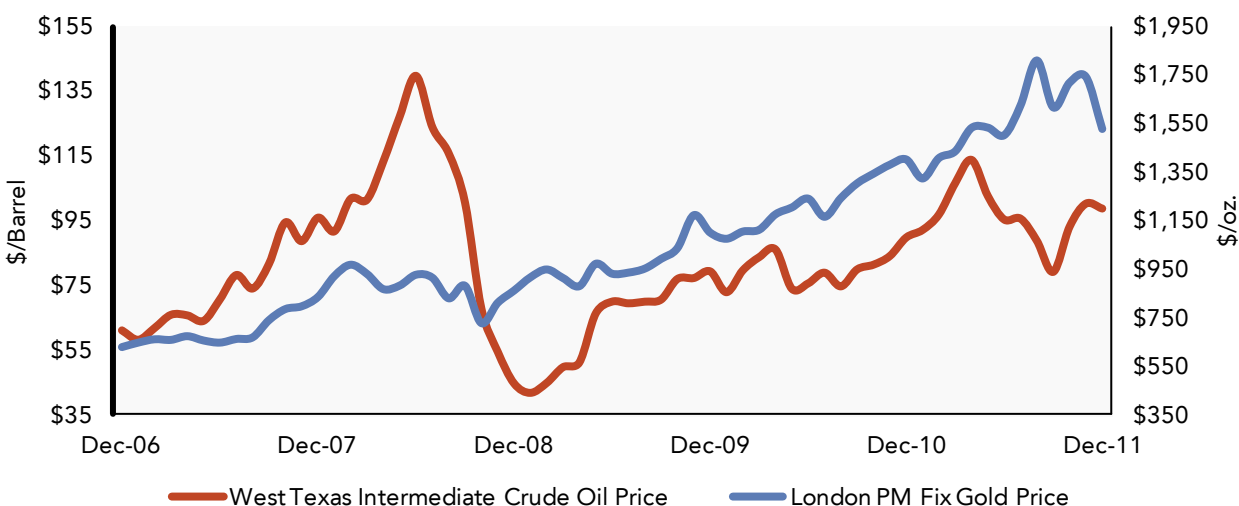
U.S. Economy

The Consumer Price Index (CPI-U) was unchanged in November. Within the CPI-U, food rose by 0.1% and energy fell by 1.6% during November. In the last twelve months, the CPI-U has increased 3.4% with energy increasing by 12.4% and food increasing by 4.6% during this time. Core CPI increased 0.2% in November and has a year-over-year increase of 2.2%. The Producer Price Index (PPI) increased by 0.3% in November and has increased by 5.7% in the last twelve months. Finished consumer goods increased by 1% in November with over half of that rise from an 11.5% increase in the index for fresh and dry vegetables. Core PPI increased by 0.1% in November. Gold finished December at \$1,531/oz, a monthly decrease of 12.3%. Crude oil prices finished December at \$98.30 per barrel, a monthly decrease of 1.5%. Year-over-year gold and crude oil have increased by 8.9% and 8.2%, respectively.

U.S. Inflation Data: Consumer Price Index & Producer Price Index (Year over Year)



Commodities: Gold and Oil



Sources: St. Louis Federal Reserve, Union Pacific, Kitco

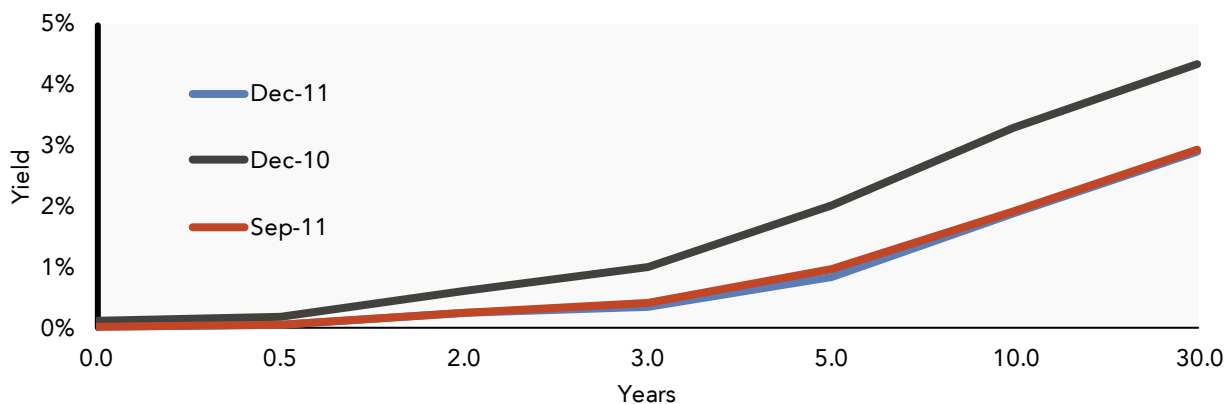
Fixed Income

Credit markets continued to recover in December, with investment grade credit (+1.9%) and high yield (+2.7%) posting strong returns in December. Long Treasuries (+3.1%) also continued gains in December as rates fell slightly, closing out the year with a 29.9% gain. TIPS were flat on the month, and ten-year break-even inflation expectations fell to 1.96%. Resident mortgage backed securities (+0.7%) and commercial mortgage backed securities (+1.3%) underperformed corporate credit for the month, and for the year.

Benchmark Annualized Performance: Select Fixed Income Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market Indices							
BarCap Aggregate	1.1%	1.1%	7.8%	7.8%	6.8%	6.5%	5.8%
BarCap Gov./Credit	1.3%	1.2%	8.7%	8.7%	6.6%	6.6%	5.9%
BarCap Long Gov./Credit	3.4%	2.6%	22.5%	22.5%	11.2%	9.7%	8.5%
Intermediate Indices							
BarCap Int. Gov./Credit	0.8%	0.8%	5.8%	5.8%	5.7%	5.9%	5.2%
Government Only Indices							
BarCap Long Gov.	3.1%	1.9%	29.9%	29.9%	7.4%	11.0%	9.0%
BarCap Government	0.9%	0.8%	9.0%	9.0%	4.0%	6.6%	5.6%
BarCap Int. Government	0.5%	0.7%	6.1%	6.1%	3.5%	5.9%	4.9%
BarCap 1-3 Year Gov.	0.1%	0.2%	1.6%	1.6%	1.8%	3.8%	3.4%
91 Day T-Bill	0.0%	0.0%	0.2%	0.2%	0.2%	1.6%	2.0%
BarCap U.S. TIPS	0.0%	2.7%	13.6%	13.6%	10.4%	8.0%	7.6%
Corporate Bond Indices							
BarCap U.S. Credit	1.9%	1.7%	8.4%	8.4%	10.9%	6.8%	6.4%
BarCap High Yield	2.7%	6.5%	5.0%	5.0%	24.1%	7.5%	8.9%
CSFB Leveraged Loan Index	0.5%	2.7%	1.8%	1.8%	17.5%	3.3%	4.7%
Securitized Bond Indices							
BarCap Mortgage	0.7%	0.9%	6.2%	6.2%	5.8%	6.5%	5.7%
ABS	0.1%	0.2%	5.1%	5.1%	11.6%	4.4%	4.4%
CMBS	1.3%	3.1%	6.0%	6.0%	17.9%	6.6%	6.3%

Yield Curve: Change Over Time



Source: Barclays

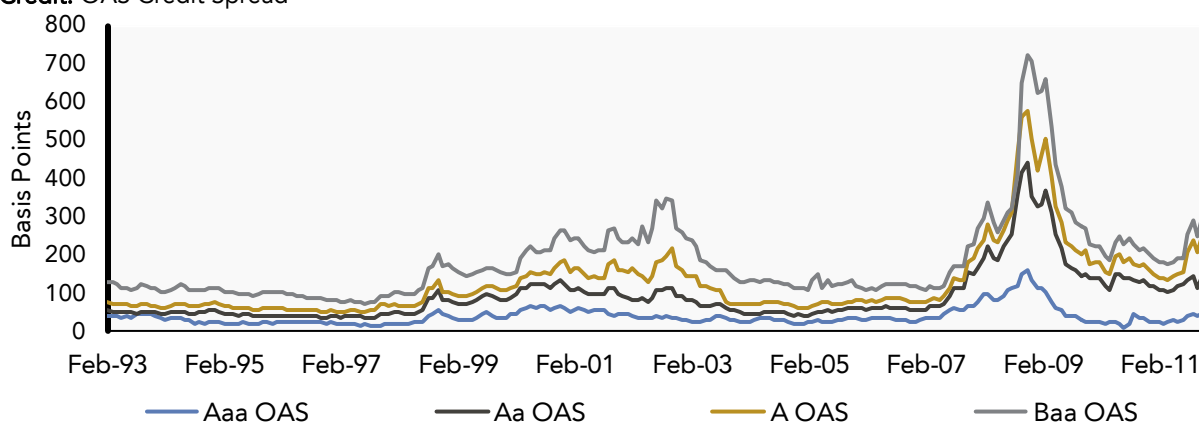
Fixed Income

After a tumultuous start to the third quarter, risk assets rallied to close out the year. Low quality CCC-rated corporate bonds (+8.4%) outperformed higher rated bonds in the fourth quarter, though turned in a paltry 1.2% gain for 2011. For riskier corporate bonds, BBB-rated bonds were the strongest performers for the year, up 9.1%. The highest rated corporate bonds also had the highest returns for 2011, at 12.3%. Investment grade fixed income continued to benefit from falling rates, with more than half of the return of the BarCap Aggregate driven by price appreciation for the year.

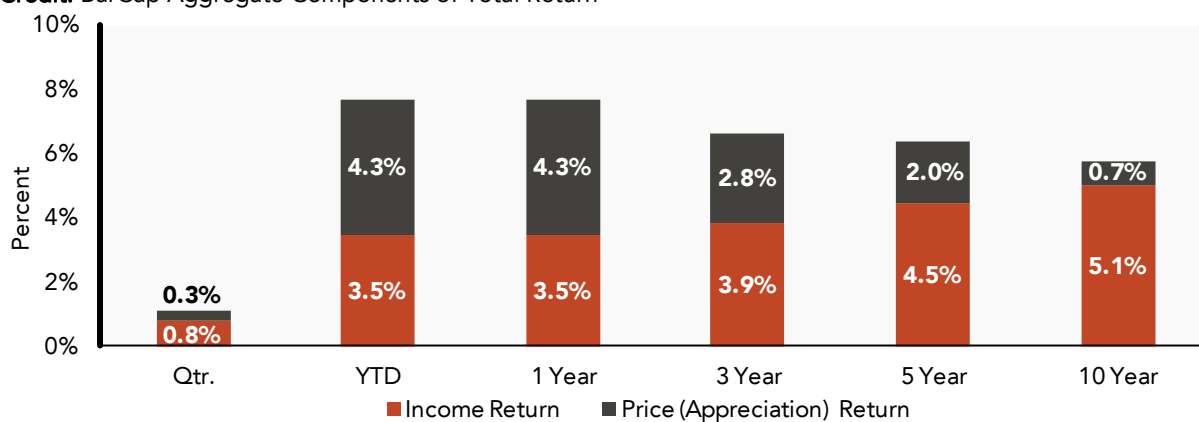
Corporate Quality Indices: Annualized Performance

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
BarCap Corporate AAA	2.1%	1.1%	12.3%	12.3%	5.9%	6.0%	5.8%
BarCap Corporate AA	2.0%	1.7%	7.1%	7.1%	7.8%	6.0%	5.8%
BarCap Corporate A	2.1%	1.6%	7.7%	7.7%	10.6%	5.9%	5.8%
BarCap Corporate BBB	2.3%	2.4%	9.1%	9.1%	15.7%	7.9%	7.0%
BarCap Corporate BB	2.4%	5.6%	6.8%	6.8%	21.4%	8.5%	8.2%
BarCap Corporate B	2.6%	6.4%	5.4%	5.4%	20.2%	5.6%	7.9%
BarCap Corporate CCC	3.3%	8.4%	1.2%	1.2%	31.0%	4.5%	9.3%

Credit: OAS Credit Spread



Credit: BarCap Aggregate Components of Total Return

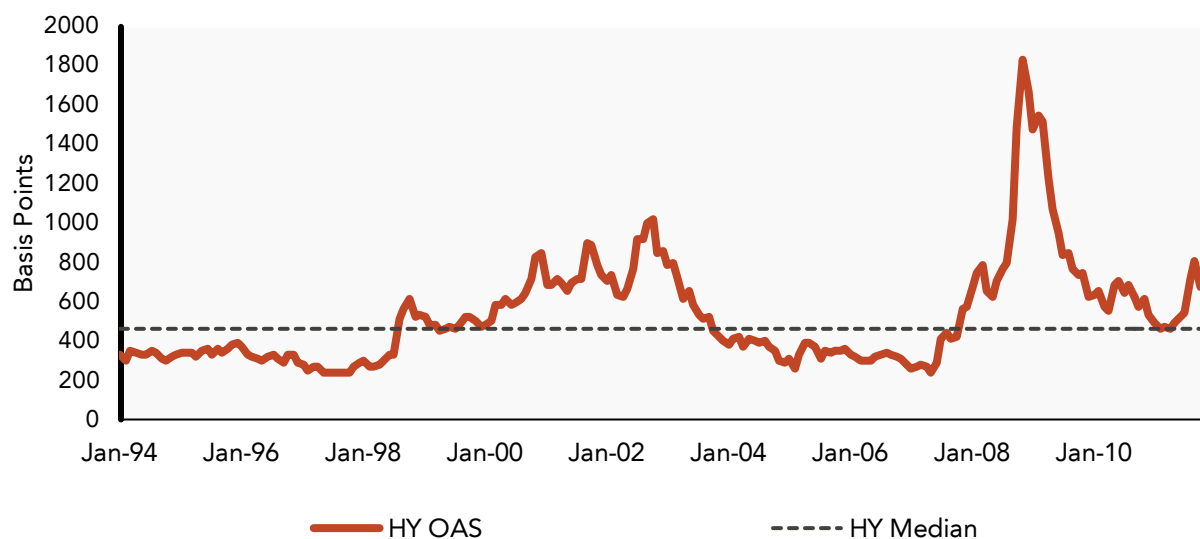


Source: Barclays

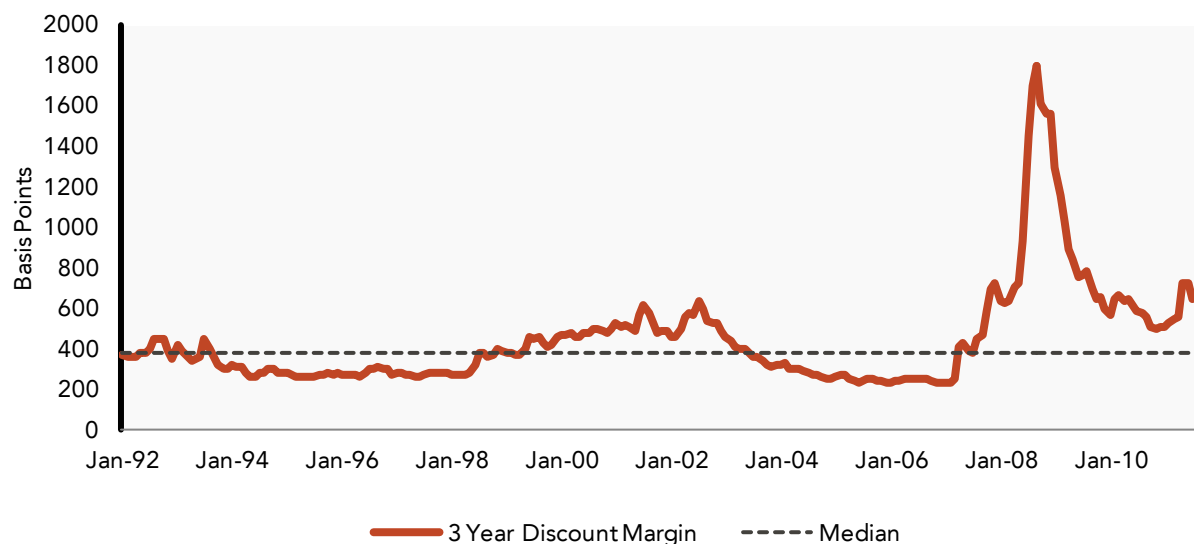
Below Investment Grade

High yield spreads fell in December, after gapping out dramatically in the third quarter on concerns related to the European debt crisis. At 699bps, spreads are still elevated significantly from the start of the year, but have fallen from peak levels reached in early October. Spreads remain elevated compared to historic averages. Valuations also recovered somewhat for leveraged loans in December; though less so than for high yield. The largest and most liquid loans posted the best returns in the fourth quarter, after record mutual fund outflows depressed prices of these loans in August. Loan valuations remain compelling, with the yield on the Credit Suisse Leveraged Loan Index at 6.6% as of year-end.

OAS: High Yield OAS and Long-Term Median



3 Year Discount Margin: Credit Suisse Leveraged Loan Index and Long-Term Median



Sources: Barclays, Credit Suisse

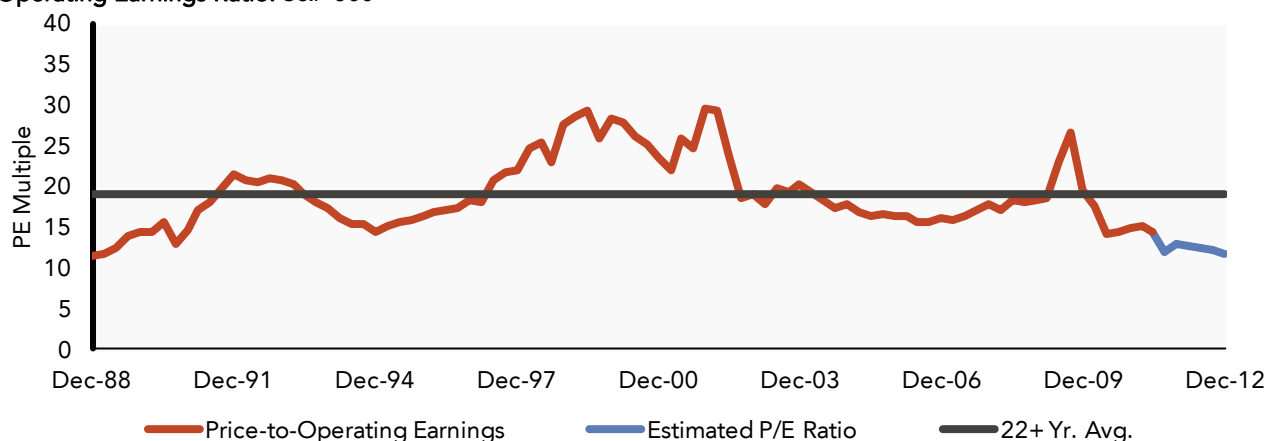
U.S. Equity

U.S. stocks bounced back to recover most of their losses from the third quarter market correction, closing 2011 in positive territory. Large-cap stocks significantly outperformed small-cap stocks over the year. The Dow Jones Industrial Average (+8.4%) had a particularly strong year with investors favoring multi-national blue chips in a choppy market. Small-caps represented by the Russell 2000 (-4.2%) regressed this year. The earnings story remained a positive one domestically, and guidance for 2012 remains strong despite a few decreasing growth estimates. The sustainability of such high earnings, however, will depend on the recovery of the macro economy and labor market. Lingering concerns surrounding European fiscal health and growth slowdowns in Asia have thus far limited stocks from moving much higher. According to J.P. Morgan Asset Management, correlations between large-cap stocks ended the year at 66.5%, higher than in any other year on record (starting 1926). Historically, high correlation among stocks has coincided with periods of great economic stress.

Equity Returns: Select Index Performance

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market Indices							
Dow Jones (12,217.56)	1.6%	12.8%	8.4%	8.4%	14.9%	2.4%	4.6%
Wilshire 5000	0.9%	12.0%	1.0%	1.0%	14.9%	0.1%	3.8%
Russell 3000	0.8%	12.1%	1.0%	1.0%	14.9%	0.0%	3.5%
Large-Cap Market Indices							
S&P 500 (1,257.60)	1.0%	11.8%	2.1%	2.1%	14.1%	-0.3%	2.9%
Russell 1000	0.8%	11.8%	1.5%	1.5%	14.8%	0.0%	3.3%
Russell 1000 Value	2.0%	13.1%	0.4%	0.4%	11.5%	-2.6%	3.9%
Russell 1000 Growth	-0.3%	10.6%	2.6%	2.6%	18.0%	2.5%	2.6%
Mid-Cap Market Indices							
Russell MidCap	-0.1%	12.3%	-1.5%	-1.5%	20.2%	1.4%	7.0%
Russell MidCap Value	1.2%	13.4%	-1.4%	-1.4%	18.2%	0.0%	7.7%
Russell MidCap Growth	-1.5%	11.2%	-1.7%	-1.7%	22.1%	2.4%	5.3%
Small-Cap Market Indices							
Russell 2000	0.7%	15.5%	-4.2%	-4.2%	15.6%	0.2%	5.6%
Russell 2000 Value	1.6%	16.0%	-5.5%	-5.5%	12.4%	-1.9%	6.4%
Russell 2000 Growth	-0.2%	15.0%	-2.9%	-2.9%	19.0%	2.1%	4.5%

Operating Earnings Ratio: S&P 500



Sources: Encorr, Standard & Poors

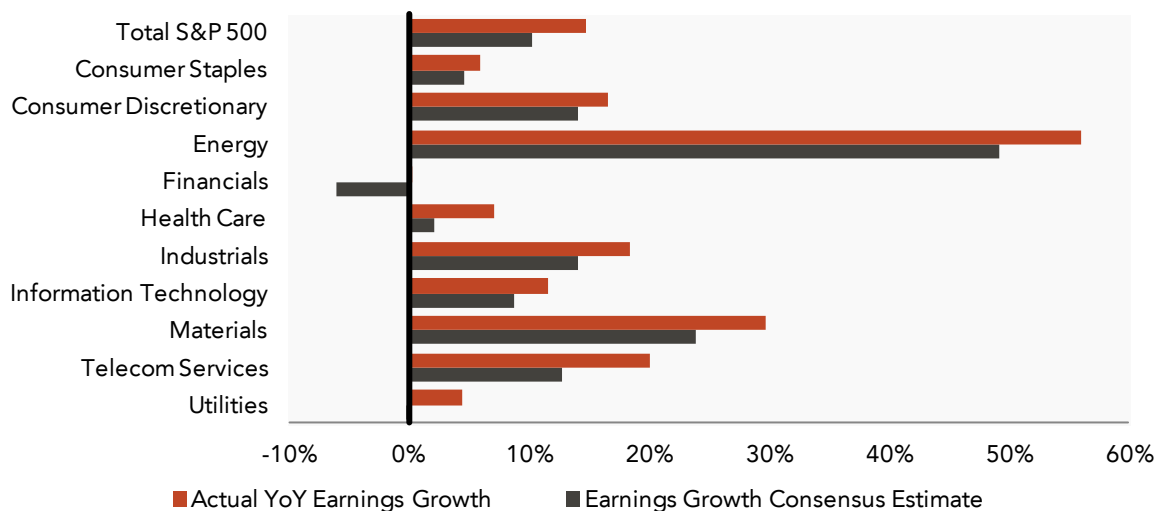
U.S. Equity

Energy (+18.2%), Industrials (+16.5%) , and Materials (15.4%) were the star sectors in the fourth quarter, but cyclicals were trounced by the relatively higher performance of defensive stocks in 2011. There was stark contrast in the returns of the S&P 500 sectors this year. Utilities (+19.9%), Consumers Staples (+14.0%), and Healthcare (+12.7%) yielded double digit returns while Financials (-17.1%), Materials (-9.8%), and Industrials (-0.6%) were dead weight for the S&P 500. Every sector experienced positive year over year earnings growth, outpacing analyst estimates.

S&P 500 Sector Performance: Historic Returns

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
Consumer Staples	2.8%	10.3%	14.0%	14.0%	14.3%	7.6%	7.0%
Consumer Discretionary	1.3%	12.6%	6.1%	6.1%	24.2%	2.0%	3.8%
Energy	-1.0%	18.2%	4.7%	4.7%	12.8%	4.7%	11.7%
Financials	1.8%	10.8%	-17.1%	-17.1%	2.9%	-16.9%	-4.6%
Health Care	2.9%	10.0%	12.7%	12.7%	11.6%	2.8%	2.3%
Industrials	1.2%	16.5%	-0.6%	-0.6%	15.1%	0.5%	3.2%
Information Technology	-0.9%	8.7%	2.4%	2.4%	22.2%	3.8%	2.2%
Materials	-2.1%	15.4%	-9.8%	-9.8%	17.9%	1.8%	7.2%
Telecommunications	4.0%	7.9%	6.3%	6.3%	11.3%	1.4%	1.6%
Utilities	3.4%	8.3%	19.9%	19.9%	12.3%	3.7%	6.4%

Quarterly Earnings: Analyst Expectations vs. Actual, Breakdown by Sector

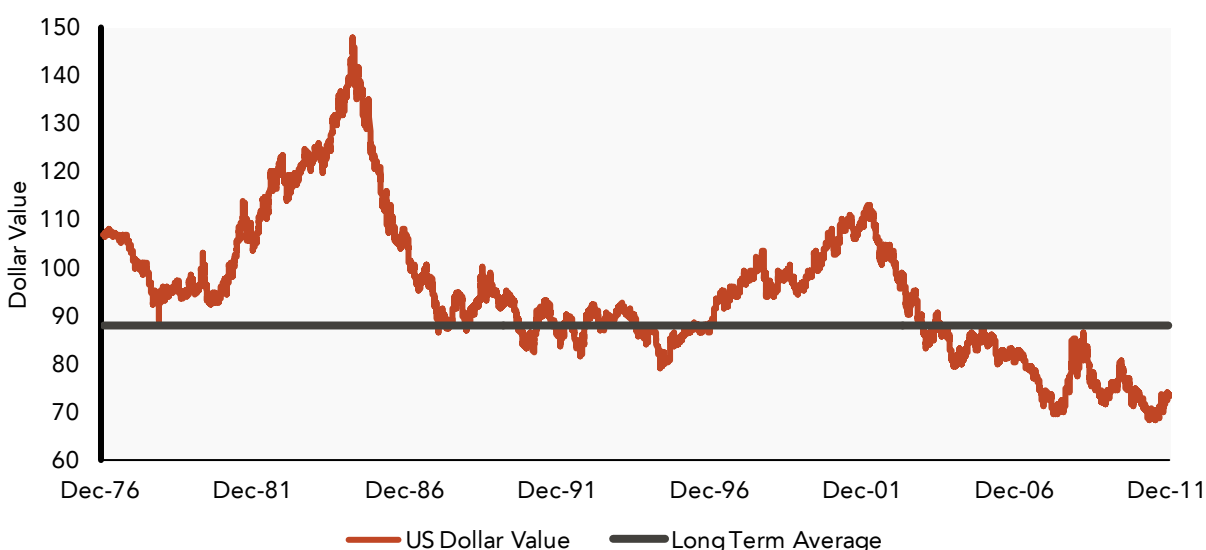


Sources: Encorr, Bloomberg

Global Economy

The Federal Reserve tracks a trade-weighted exchange index between the U.S. dollar and other major widely circulated currencies. The index increased by 1.3% in December and has risen by 0.2% in the last twelve months. Currently the index is 16.8% below its long-term average. The International Monetary Fund (IMF) in its World Economic Outlook is projecting global growth through 2012 to average 4%. Advanced economies are projected to expand at a rate of 2% in 2012 with emerging and developing economies expected to expand by 6% during this time.

Currency: Weighted U.S. Dollar vs. Major Currencies



Economic Indicators: For Select Countries

Consumer Prices (Inflation)			GDP			Unemployment Rate		
		<i>as of</i>			<i>as of</i>			<i>as of</i>
Britain	4.8%	Nov-11	Britain	0.5%	3Q	Britain	8.3%	Oct-11
Canada	2.9%	Nov-11	Canada	2.4%	3Q	Canada	7.4%	Nov-11
China	4.1%	Dec-11	China	9.1%	3Q	China	6.1%	2010
France	2.5%	Dec-11	France	1.5%	3Q	France	9.8%	Nov-11
Germany	2.1%	Dec-11	Germany	2.5%	3Q	Germany	6.8%	Dec-11
India	9.3%	Nov-11	India	6.9%	3Q	India	10.8%	2010
Italy	3.3%	Dec-11	Italy	0.2%	3Q	Italy	8.6%	Nov-11
Japan	-0.5%	Nov-11	Japan	-0.7%	3Q	Japan	4.5%	Nov-11
United States	3.4%	Nov-11	United States	1.5%	3Q	United States	8.5%	Dec-11

Sources: St. Louis Federal Reserve, Economist, Bloomberg

Non-U.S. Equity

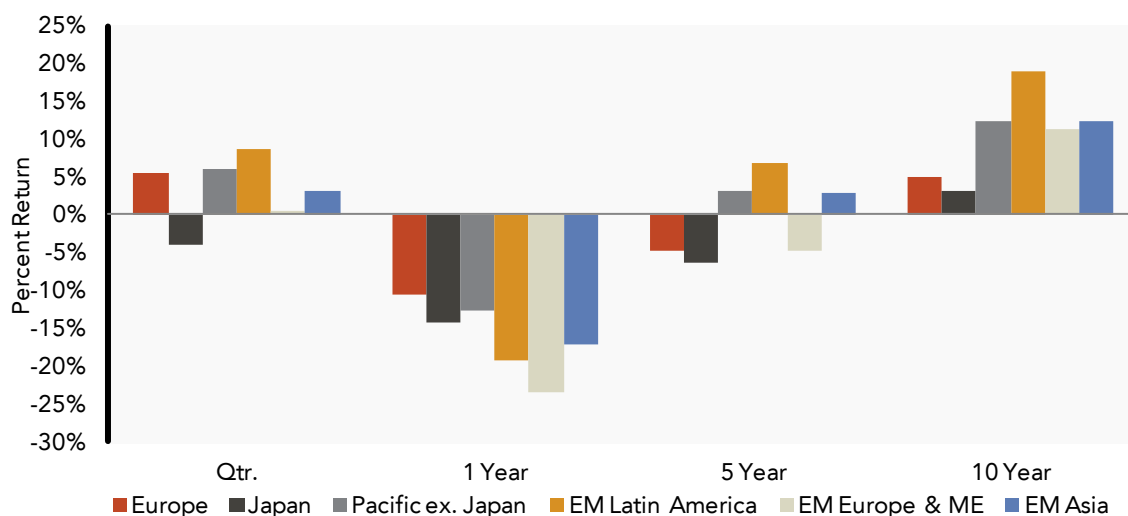
During the fourth quarter, the majority of broad non-U.S. indices were positive as the MSCI ACWI ex. U.S. IMI index returned 3.4%, ending what has been a very volatile year for international stocks. For the year, international equities, both developed and non-developed, suffered double-digit declines as the European debt crisis took center stage. Small-cap and emerging market stocks fared the worst, down 17.4% and 18.2% respectively, as investors sought the safety of larger, more established companies and exited emerging markets because of their dependence on global demand.

At the regional level, EM Latin America was the best performer during the fourth quarter, returning 8.81% while Japan declined the most (-3.85). For the year, surprisingly enough, Europe was the best regional performer declining 10.5%. Though it seems Europe should have been the worst performer at the regional level, the strongest countries in Europe make up the largest portion of the index: UK, 34%; France, 13.5%; Switzerland, 13%; and Germany at 12%. The dollar continued to rally against all major currencies aside from the Yen for both the fourth quarter and all of 2011 as investors continued to demand dollars for the safety of U.S. treasuries and the carry trade.

Non U.S. Equity Performance: Select Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
MSCI ACWI ex U.S. IMI	-1.2%	3.4%	-13.9%	-13.9%	12.0%	-2.3%	7.4%
MSCI ACWI ex U.S.	-1.1%	3.8%	-13.3%	-13.3%	11.2%	-2.5%	6.8%
MSCI EAFE (U.S. dollar)	-0.9%	3.4%	-11.7%	-11.7%	8.2%	-4.3%	5.1%
MSCI EAFE (Local)	0.5%	4.1%	-11.7%	-11.7%	5.2%	-6.2%	1.1%
MSCI EAFE Value	-0.6%	2.8%	-11.6%	-11.6%	7.4%	-5.8%	5.5%
MSCI EAFE Growth	-1.3%	3.9%	-11.8%	-11.8%	8.9%	-2.8%	4.6%
Citi Global ex U.S. < \$2 Billion	-1.4%	-0.2%	-19.6%	-19.6%	17.7%	-1.0%	11.1%
Citi World ex U.S. < \$2 Billion	-1.5%	0.1%	-16.3%	-16.3%	14.5%	-3.0%	9.9%
Citi EMI Global ex U.S.	-1.9%	1.2%	-17.4%	-17.4%	16.8%	-2.1%	10.3%
Citi EMI World ex U.S.	-1.9%	1.2%	-14.5%	-14.5%	14.8%	-3.2%	9.4%
MSCI Emerging Markets	-1.2%	4.4%	-18.2%	-18.2%	20.4%	2.7%	14.2%
MSCI Frontier Markets	-1.1%	-1.9%	-18.4%	-18.4%	4.2%	-5.9%	---

Regional Performance: Equity Market Performance by Region



Source: Encorr

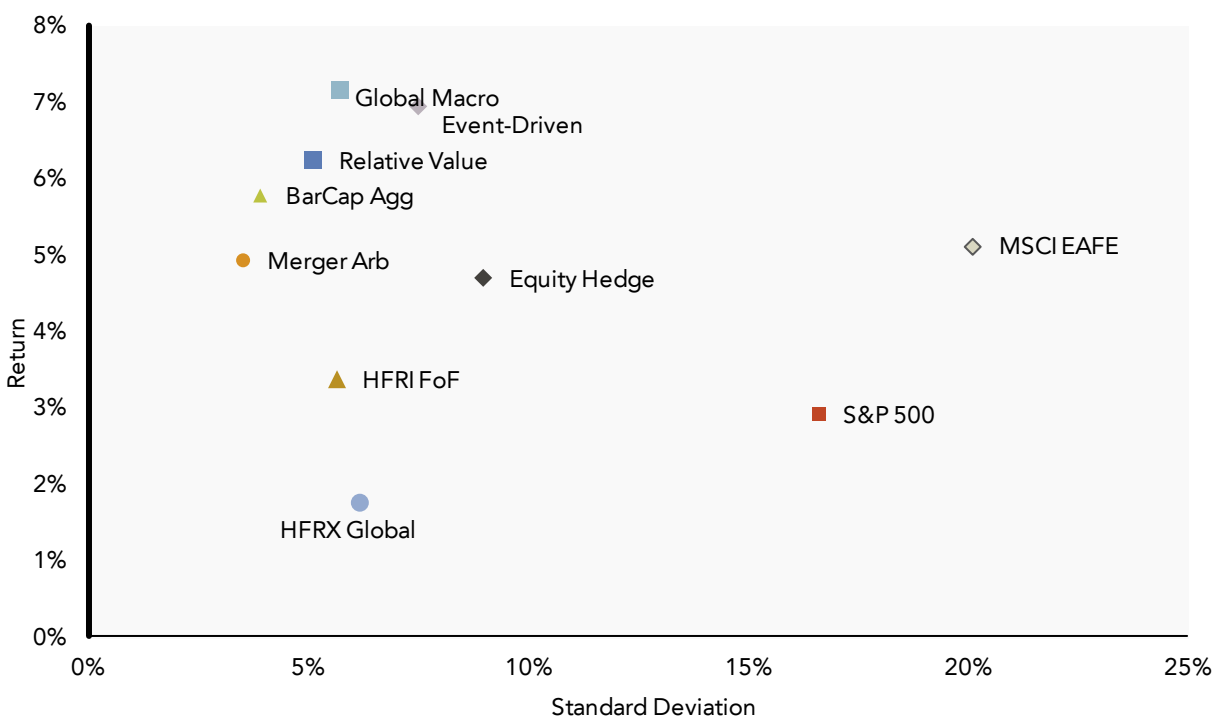
Hedge Fund

Hedge funds finished a difficult year with another tough month. Relative value funds managed narrow gains for the month and were one of only two hedge fund categories to conclude 2011 with positive performance numbers. Hedged equity and convertible arbitrage managers suffered from weak equity markets, particularly in small caps. Global Macro managers had a disappointing year on the whole, as the carry trade (long higher yield currencies and short lower yielding currencies) was unprofitable in 2011 as both the U.S. dollar and Japanese yen outperformed most other currencies.

Hedge Fund Performance: HFR strategy index returns

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
HFRX Global	-0.5%	-0.6%	-8.9%	-8.9%	2.8%	-2.8%	1.8%
HFRX Hedged Equity	-0.9%	-0.9%	-19.1%	-19.1%	-0.1%	-5.2%	0.4%
HFR Composite	-0.2%	1.3%	-4.8%	-4.8%	8.0%	2.3%	5.9%
HFR Fund of Funds	-0.3%	-0.3%	-5.5%	-5.5%	3.6%	-0.7%	3.4%
HFR Convertible Arbitrage	0.2%	-2.7%	-8.1%	-8.1%	18.6%	3.1%	4.5%
HFR Equity Hedge	-0.7%	2.2%	-8.0%	-8.0%	8.2%	0.5%	4.7%
HFR Event-Driven	0.0%	2.3%	-2.7%	-2.7%	10.9%	2.8%	7.0%
HFR Macro	0.2%	-1.2%	-3.6%	-3.6%	2.8%	4.8%	7.2%
HFR Merger Arbitrage	0.1%	1.7%	1.6%	1.6%	5.9%	3.8%	4.9%
HFR Relative Value	0.5%	1.3%	0.6%	0.6%	12.1%	4.7%	6.2%

Ten Year Risk Return: Hedge Fund Returns vs. Public Markets



Source: EurekaHedge

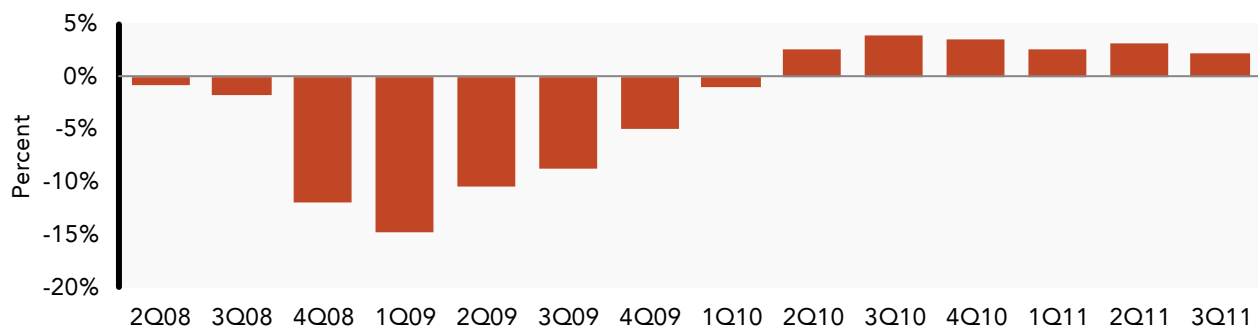
Commercial Real Estate

Results for the fourth quarter of 2011 are not yet available, but preliminary returns for reporting funds have ranged from 1.00% to 5.34%. Income levels remained consistent (> 1.0%) for the quarter with debt marks to market and appraisals creating the wide range of realized returns. For the third quarter of 2011, the NPI and the NFI-ODCE both reported returns over 3%: 3.30% and 3.52%, respectively. Strong net operating income as well as ongoing appreciation of property values contributed to the returns. The appreciation component of total return, though, did not increase as much as previous quarters. The REIT market suffered along with the equity markets over the third quarter, returning -15.1% overall and making the trailing one-year return basically flat (+0.9%). Over the last ten years, the NPI has provided an annualized return of 7.82% with volatility of 6.71%. Performance depends on where managers buy properties and in what segments.

Real Estate Performance: Select Indices

Indices	3Q11	YTD	1 Year	3 Year	5 Year	10 Year	10 Yr Risk
NPI - Total	3.3%	11.0%	16.1%	-1.5%	3.4%	7.8%	6.7%
Income	1.5%	4.6%	6.3%	6.3%	5.9%	6.7%	0.5%
Appreciation	1.8%	6.2%	9.4%	-7.4%	-2.4%	1.1%	6.3%
NFI-ODCE	3.5%	12.6%	18.3%	-6.4%	0.0%	5.9%	9.3%
Income	1.3%	4.1%	5.7%	6.0%	5.7%	6.4%	0.5%
Appreciation	2.2%	8.3%	12.0%	-11.9%	-5.4%	-0.5%	8.8%
FTSE NAREIT All Eq. REITs	-15.1%	-6.0%	0.9%	-2.0%	-2.4%	9.2%	29.4%
NPI Apartment	3.6%	11.6%	18.6%	-0.1%	3.1%	7.8%	7.0%
NPI Office	3.0%	11.0%	15.3%	-3.1%	3.5%	6.9%	7.4%
NPI Industrial	3.4%	11.6%	15.4%	-2.6%	2.5%	7.2%	6.7%
NPI Retail	3.6%	10.1%	15.3%	1.1%	4.4%	10.5%	6.1%
NPI Hotel	2.0%	9.5%	13.2%	-5.4%	1.7%	6.2%	8.1%
NPI East	3.0%	10.9%	16.7%	-1.5%	3.6%	8.6%	7.4%
NPI Midwest	3.0%	9.1%	13.0%	-1.0%	3.0%	6.2%	5.2%
NPI South	3.2%	9.5%	14.3%	-0.7%	3.3%	7.3%	5.8%
NPI West	3.8%	12.7%	17.6%	-1.9%	3.5%	8.1%	7.3%

Commercial Real Estate Market: NFI-ODCE Property Appreciation

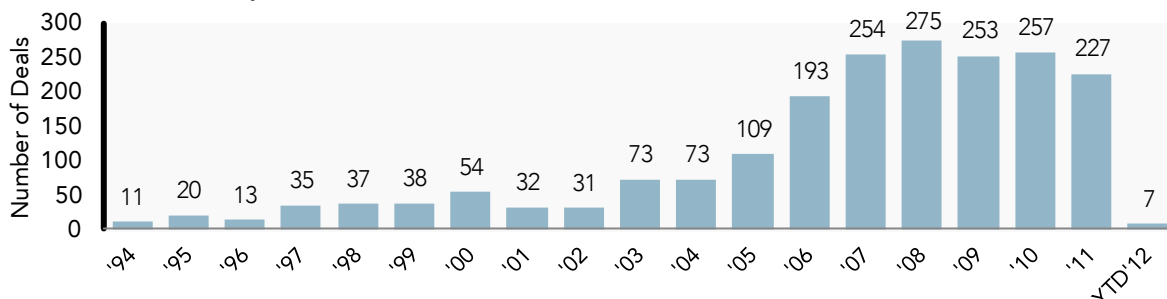


Sources: Encorr, NCREIF, Real Capital Analytics

Infrastructure

Over the quarter, 41 deals have been completed with the bulk of them featuring energy and transportation assets in Europe and North America. Recent deals of note: (1) Alinda acquired an additional piece of British Aviation Authority for EUR325 million from Ferrovial; (2) Arise Windpower and European Renewable Energy Fund completed EUR335 million in financing of Jadrass Wind Farm in Sweden; and (3) FLS Energy based in Asheville, NC had an infusion of \$12 million by NEC Cleantech Infrastructure Fund.

Number of Deals: Deals by Year

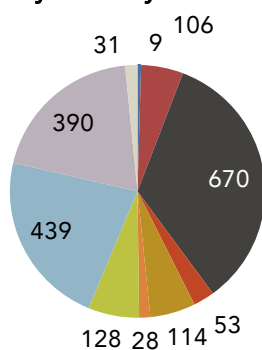


Dry Powder: Capital Available for Investment



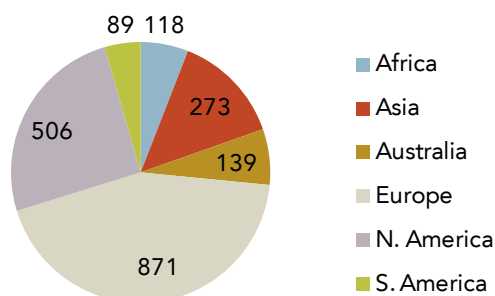
Deal Breakdown: By Industry (left) and by Region (right)

Deals by Industry



- Defense
- Education
- Energy
- Govt Bldgs
- Healthcare
- Logistics
- Telecomm
- Transport.
- Utilities
- Waste Mgmt

Deals by Region



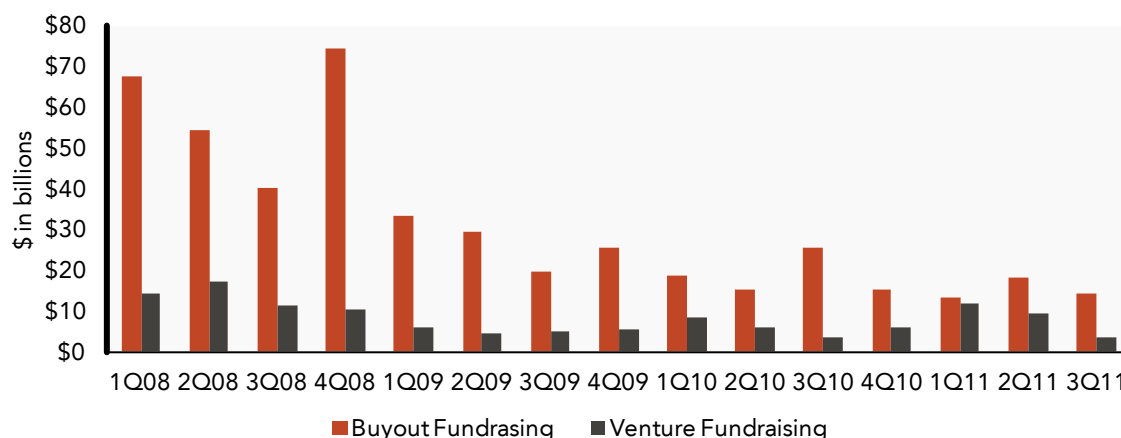
- Africa
- Asia
- Australia
- Europe
- N. America
- S. America

Source: Preqin

Private Equity

Deal activity slowed noticeably in the second half of 2011 as the European crisis picked up steam and credit availability disappeared. A number of successful venture backed companies, including Groupon, Inc. (GRPN), still managed to come to market in the fourth quarter despite the uncertain macroeconomic environment. Purchase price multiples ticked up again in 2011. This is partly because private equity firms have been favoring high quality businesses that fared well during 2008 and 2009 and now command lofty EBITDA (earnings before interest, tax, depreciation, and amortization) multiples, but remains a concern for prospective private equity investors.

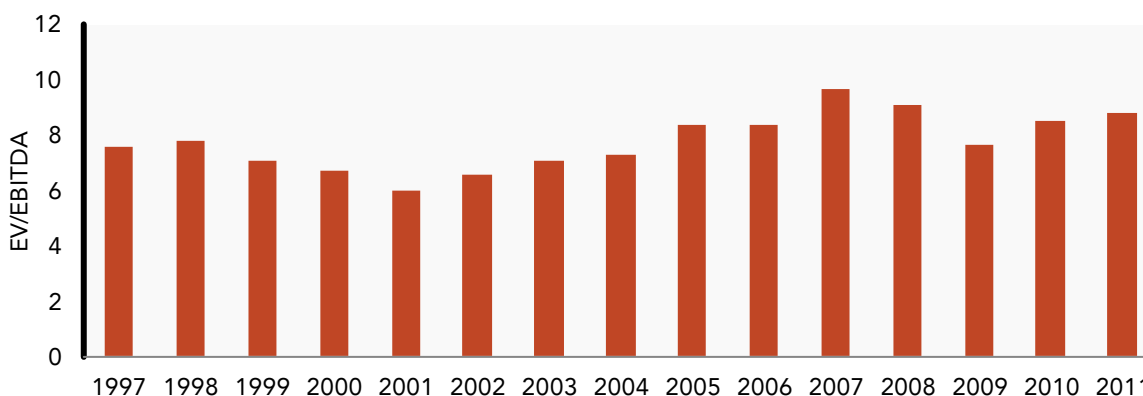
Fundraising: Buyout and Venture



Annualized Performance: Select Benchmarks as of March 31, 2011

	Qtr	YTD	1 Year	3 Year	5 Year	10 Year	15 Year
VE All Private Equity Index	4.2%	9.5%	23.0%	5.6%	9.4%	8.2%	13.7%
Wilshire 5000 Index	-0.1%	6.1%	32.0%	4.0%	3.4%	3.7%	6.8%
Russell 2000 Index	-1.6%	6.2%	37.4%	7.8%	4.1%	6.3%	7.4%

Purchase Price Multiples: EV/EBITDA



Sources: Venture Economics, Preqin, Standard & Poors, Bloomberg

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