Market Environment

November 2011

Table of Contents

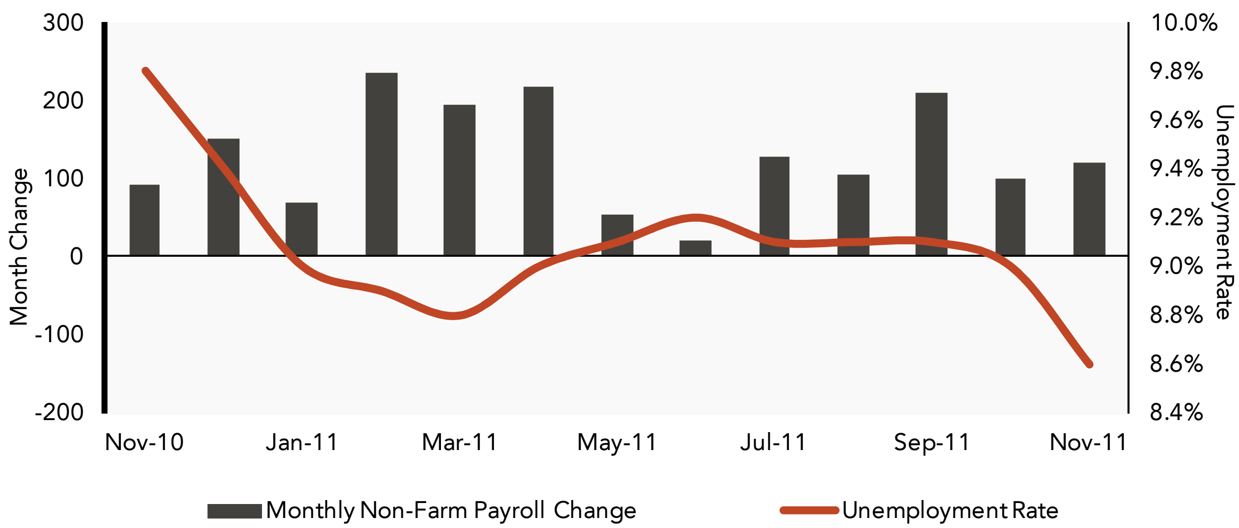
Section

U.S. Economy

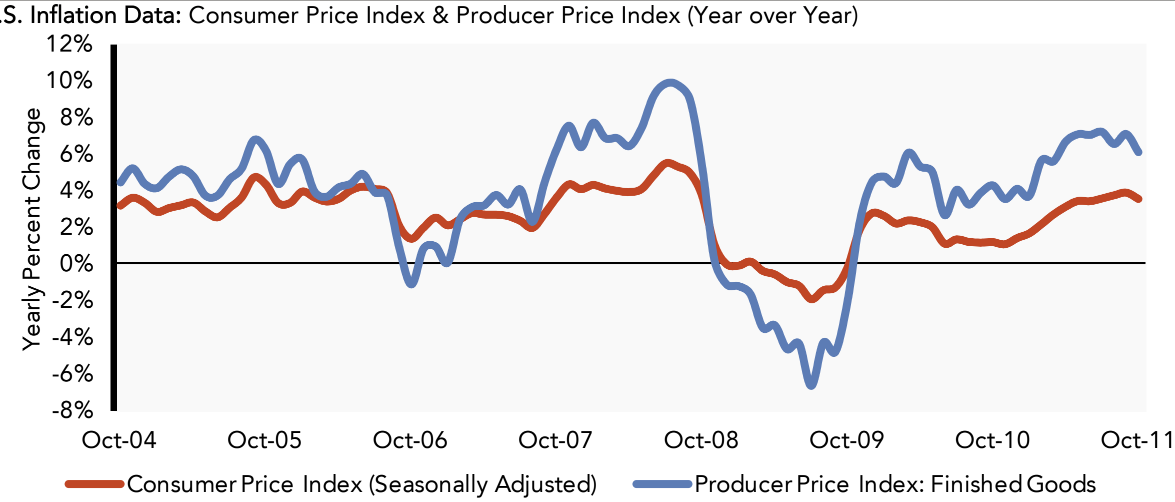
The unemployment rate fell by 0.4% in November to 8.6%, its lowest rate since March 2009. The total number of unemployed fell by 594K in November to 13.3M. The number of long-term unemployed, currently at 5.7M, accounts for 43% of total unemployment with the average duration of unemployment at 40.9 weeks. The non-farm payroll, the net number of non-farm jobs added or subtracted per month, added 120K jobs in November while private-sector employment added 206K jobs. Employment gains for November occurred in retail trade (50K), leisure and hospitality (22K), professional and business services (33K), and healthcare (17K). Government employment (-5K) declined in November. Non-farm payroll employment for September and October were revised upward to show 72K additional job gains.

The Consumer Price Index (CPI-U) decreased by 0.1% in October. Within the CPI-U, food increased by 0.1% and energy fell by 2%. In the last twelve months, the CPI-U has increased 3.5% with food increasing 4.7% and energy increasing by 14.2% during this time. Core CPI increased by 0.1% in October and has a year-over-year increase of 2.1%. The Producer Price Index (PPI) declined 0.3% in October and has a year-over-year increase of 4.3%. Core PPI was unchanged in October following ten consecutive monthly increases.

Unemployment Data: Monthly Non-Farm Payroll Change and Unemployment Rate



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



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

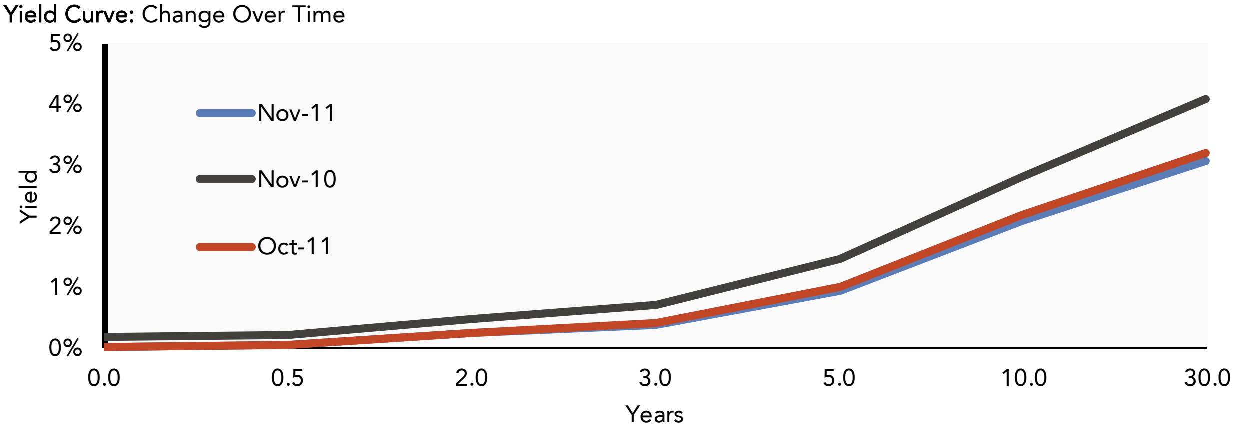
Fixed Income

November was another difficult month for credit, as continued concerns about the Eurozone pushed spreads higher. High yield bonds returned -2.2% in November, and 2.3% year to date. Spreads remain elevated at 783 bps. Long Treasuries posted strong gains in the month, up 2.7% as interest rates continued to drift lower. The ten-year interest rate has now fallen 131 bps year to date. Broader fixed income market indices were down slightly, with the Agg falling 0.1% and the Gov/Credit index dropping 0.2% in November. Year to date investment grade fixed income returns remain strong, outperforming most major equity benchmarks.

Benchmark Annualized Performance: Select Fixed Income Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market Indices							
BarCap Aggregate	-0.1%	0.8%	6.7%	5.5%	7.7%	6.1%	5.6%
BarCap Gov./Credit	-0.2%	0.9%	7.4%	5.9%	7.7%	6.1%	5.6%
BarCap Long Gov./Credit	-0.2%	5.2%	18.5%	15.9%	13.9%	8.5%	8.0%
Intermediate Indices							
BarCap Int. Gov./Credit	-0.2%	-0.1%	5.0%	3.7%	6.4%	5.6%	5.1%
Government Only Indices							
BarCap Long Gov.	2.7%	8.5%	26.0%	21.3%	9.5%	9.8%	8.4%
BarCap Government	0.7%	1.5%	8.1%	6.3%	4.9%	6.2%	5.4%
BarCap Int. Government	0.3%	0.4%	5.5%	4.1%	4.1%	5.7%	4.8%
BarCap 1-3 Year Gov.	0.1%	0.0%	1.5%	1.3%	2.1%	3.8%	3.4%
91 Day T-Bill	0.0%	0.0%	0.1%	0.2%	0.3%	1.7%	2.0%
BarCap U.S. TIPS	0.8%	2.4%	13.5%	11.8%	12.2%	7.4%	7.4%
Corporate Bond Indices							
BarCap U.S. Credit	-1.7%	0.0%	6.3%	5.2%	12.4%	6.2%	6.1%
BarCap High Yield	-2.2%	0.3%	2.3%	4.1%	26.1%	7.2%	8.5%
CSFB Leveraged Loan Index	-0.4%	2.5%	1.3%	2.7%	15.8%	3.4%	4.8%
Securitized Bond Indices							
BarCap Mortgage	0.2%	0.4%	5.5%	4.9%	6.2%	6.3%	5.6%
ABS	0.2%	0.4%	5.0%	4.0%	11.3%	4.3%	4.4%
CMBS	0.3%	1.8%	4.6%	4.8%	23.7%	6.2%	6.1%

Yield Curve: Change Over Time



Source: Barclays

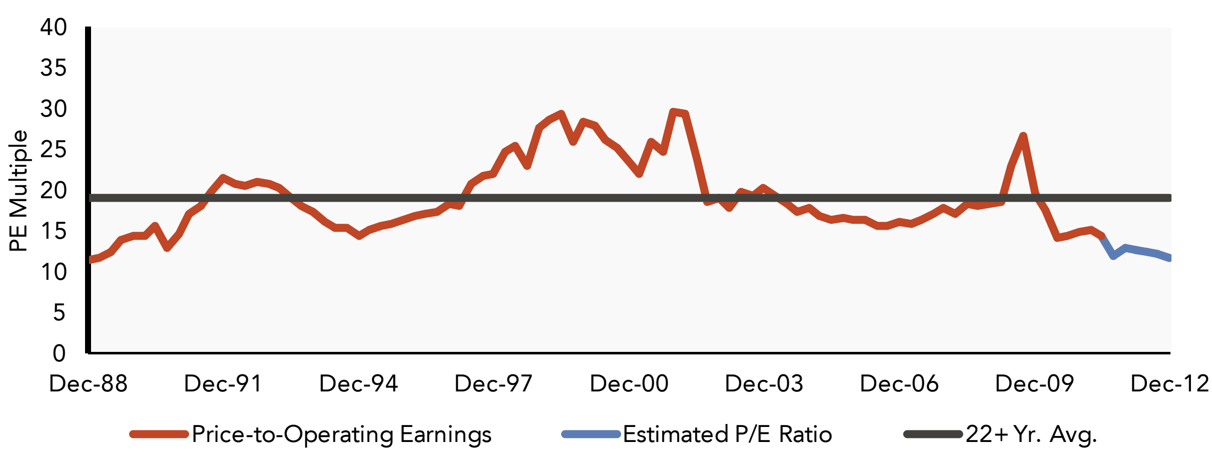
U.S. Equity

In November, U.S. stocks retreated slightly after a whipsaw resurgence in October. The disparity of returns between the S&P 500 (-0.2%) and Dow Jones Industrial Average (+1.2%) highlights the impact of the underperformance of the Financials sector (-4.7%), to which the S&P 500 has more exposure. Investors shied away from the sector due to the unknown risks posed directly to financial institutions from the European sovereign debt crisis as evidenced by MF Global's recent collapse. Performance from the other sectors was a mixed bag. Consumer Staples (+2.7%) and Energy (+2.0%) led the way in November. In other notable headlines, American Airlines parent AMR filed for bankruptcy, Angie's List and Groupon IPO'd, and Gilead Sciences offered $11B to acquire Pharmasset.

Equity Returns: Select Index Performance

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market Indices							
Dow Jones (12,045.68)	1.2%	4.5%	6.7%	12.4%	14.1%	2.5%	4.6%
Wilshire 5000	-0.3%	2.5%	0.1%	6.9%	15.2%	0.2%	3.9%
Russell 3000	-0.3%	2.6%	0.2%	7.0%	15.3%	0.1%	3.6%
Large-Cap Market Indices							
S&P 500 (1,246.96)	-0.2%	2.9%	1.1%	7.8%	14.1%	-0.2%	2.9%
Russell 1000	-0.3%	2.6%	0.7%	7.4%	15.1%	0.1%	3.4%
Russell 1000 Value	-0.5%	2.5%	-1.6%	6.2%	11.3%	-2.6%	3.9%
Russell 1000 Growth	0.0%	2.8%	3.0%	8.6%	18.8%	2.6%	2.6%
Mid-Cap Market Indices							
Russell MidCap	-0.5%	1.6%	-1.4%	5.4%	21.9%	1.4%	7.4%
Russell MidCap Value	-0.5%	1.7%	-2.6%	4.8%	19.6%	0.0%	8.0%
Russell MidCap Growth	-0.5%	1.6%	-0.2%	6.1%	24.2%	2.6%	5.8%
Small-Cap Market Indices							
Russell 2000	-0.4%	1.9%	-4.8%	2.8%	17.6%	0.1%	6.2%
Russell 2000 Value	-0.2%	1.7%	-7.0%	0.8%	14.0%	-2.0%	6.9%
Russell 2000 Growth	-0.5%	2.0%	-2.7%	4.7%	21.2%	2.1%	5.1%

Operating Earnings Ratio: S&P 500



Source: Encorr, Standard & Poors

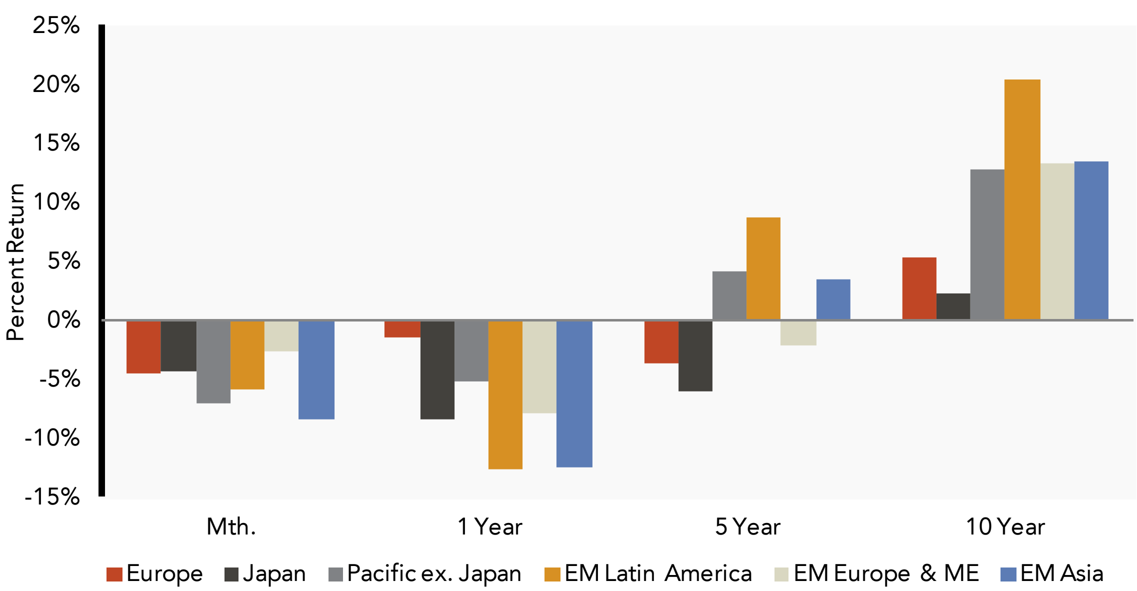
Non-U.S. Equity

During November, all broad non-U.S. indices decreased as the MSCI ACWI ex. U.S. index fell 5.1%. Uncertainty and fear were present during the month as Italian bond yields surged past 7% and bailout talks for the country arose. Emerging markets proved to be the worst performer (-6.7%) as the possibility of a global slowdown seemed increasingly likely. At the regional level, EM Europe & Middle East was the best performer (-2.7%), while the EM Asia region depreciated the most (-8.5%). The dollar appreciated throughout the month against all major currencies aside from the Yen.

Non-U.S. Equity Performance: Select Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
MSCI ACWI ex U.S. IMI	-5.2%	-7.2%	-12.9%	-5.8%	14.6%	-1.5%	7.6%
MSCI ACWI ex U.S.	-5.1%	-6.7%	-12.4%	-5.5%	13.7%	-1.7%	7.0%
MSCI EAFE (U.S. dollar)	-4.8%	-5.6%	-10.9%	-3.7%	10.6%	-3.5%	5.3%
MSCI EAFE (Local)	-2.5%	-0.9%	-12.2%	-8.0%	5.5%	-5.5%	1.2%
MSCI EAFE Value	-5.3%	-5.0%	-11.1%	-3.7%	9.6%	-5.0%	5.7%
MSCI EAFE Growth	-4.4%	-6.1%	-10.7%	-3.6%	11.6%	-2.0%	4.8%
Citi Global ex U.S. < $2 Billion	-6.3%	-11.9%	-18.5%	-10.7%	21.5%	-0.1%	11.5%
Citi World ex U.S. < $2 Billion	-5.5%	-10.5%	-15.1%	-5.9%	18.1%	-2.2%	10.0%
Citi EMI Global ex U.S.	-5.8%	-10.7%	-15.8%	-8.0%	20.5%	-1.0%	10.6%
Citi EMI World ex U.S.	-5.3%	-9.5%	-12.8%	-3.6%	18.4%	-2.2%	9.7%
MSCI Emerging Markets	-6.7%	-9.7%	-17.2%	-11.3%	24.0%	3.9%	15.2%
MSCI Frontier Markets	-2.9%	-5.7%	-17.5%	-13.6%	1.0%	-4.4%	---

Regional Performance: Equity Market Performance by Region



Source: Encorr

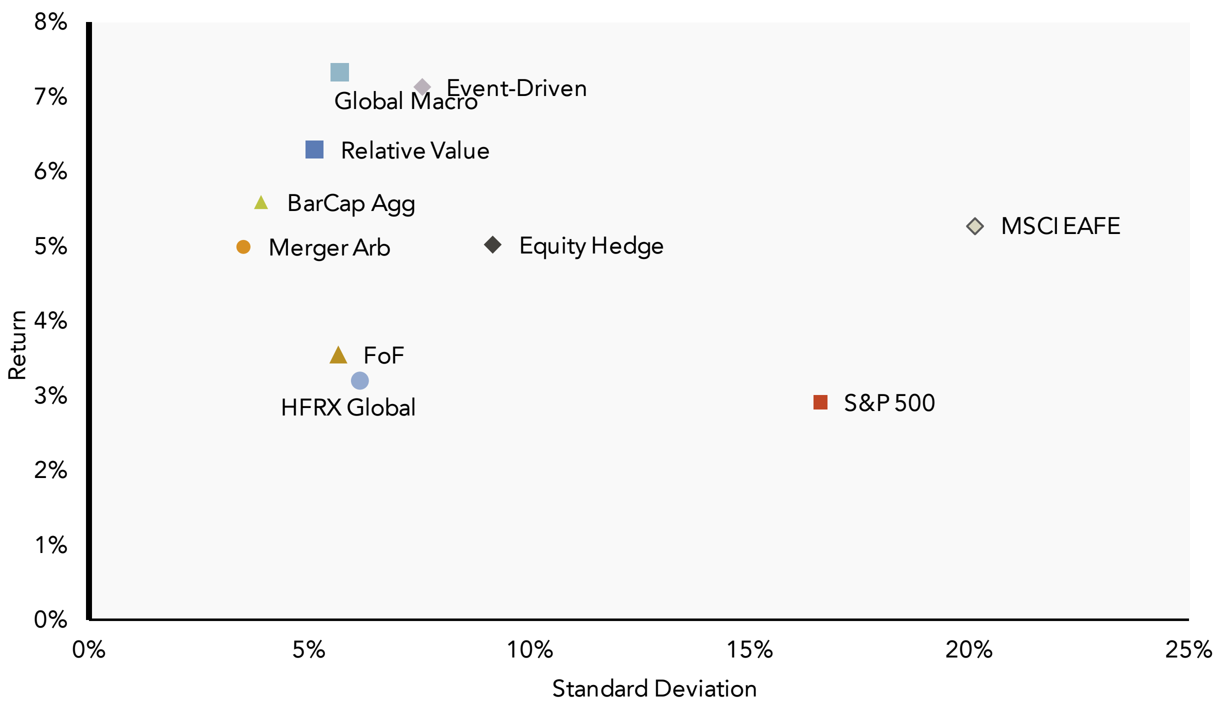
Hedge Fund

November was another challenging month for hedge funds, particularly long/short equity managers. While the S&P 500 was essentially flat for the month, weakness in the small cap and international markets contributed to negative returns. Managers also poorly traded the Thanksgiving week sell-off and subsequent rally. Merger arbitrage remains a bright spot in 2011. While spreads remain somewhat narrow due to the low interest rate environment, strong corporate balance sheets have meant that very few deals have collapsed. This has led to steady returns in the merger arbitrage space, despite a very volatile broad market.

Hedge Fund Performance: HFR strategy index returns

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
HFRX Global	-0.9%	-3.1%	-8.5%	-6.3%	2.5%	-2.4%	1.8%
HFRX Hedged Equity	-1.3%	-4.9%	-18.4%	-14.1%	-0.4%	-4.7%	0.7%
HFRI Composite	0.0%	0.0%	1.0%	3.9%	10.2%	3.8%	6.7%
HFRI Fund of Funds	-0.7%	-2.4%	-4.9%	-2.8%	3.3%	-0.2%	3.6%
HFRI Convertible Arbitrage	-1.3%	-1.5%	-5.1%	-2.9%	20.3%	4.0%	4.8%
HFRI Equity Hedge	-1.6%	-3.0%	-7.1%	-3.8%	8.6%	1.0%	5.0%
HFRI Event-Driven	-0.7%	-1.6%	-2.5%	0.2%	10.4%	3.2%	7.1%
HFRI Macro	-0.4%	-2.4%	-3.5%	-0.2%	3.3%	5.1%	7.3%
HFRI Merger Arbitrage	0.2%	0.8%	1.5%	2.4%	6.2%	4.0%	5.0%
HFRI Relative Value	-0.2%	-0.5%	0.4%	1.5%	12.0%	5.0%	6.3%

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



Source: Eurekahedge

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