Gallagher Fiduciary Advisors, LLC
a Subsidiary of Gallagher Benefit Services, Inc.

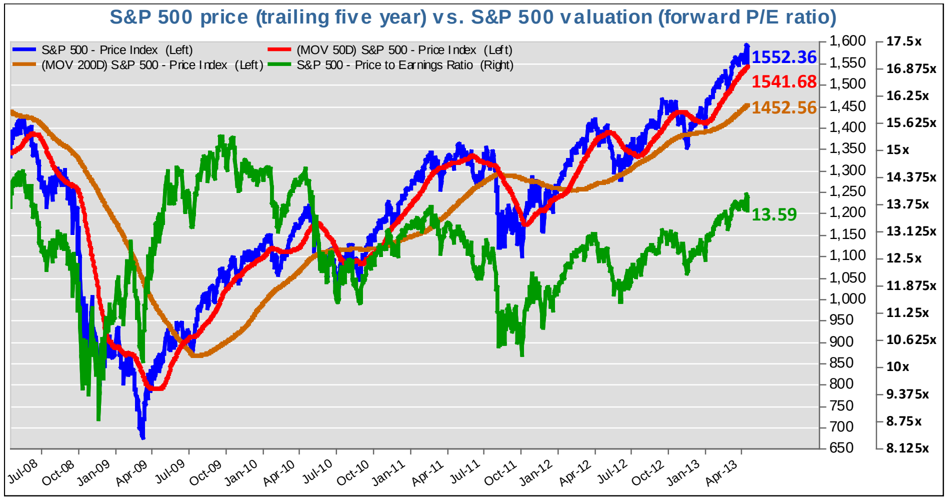
Market Monitor Report

4/15/2013

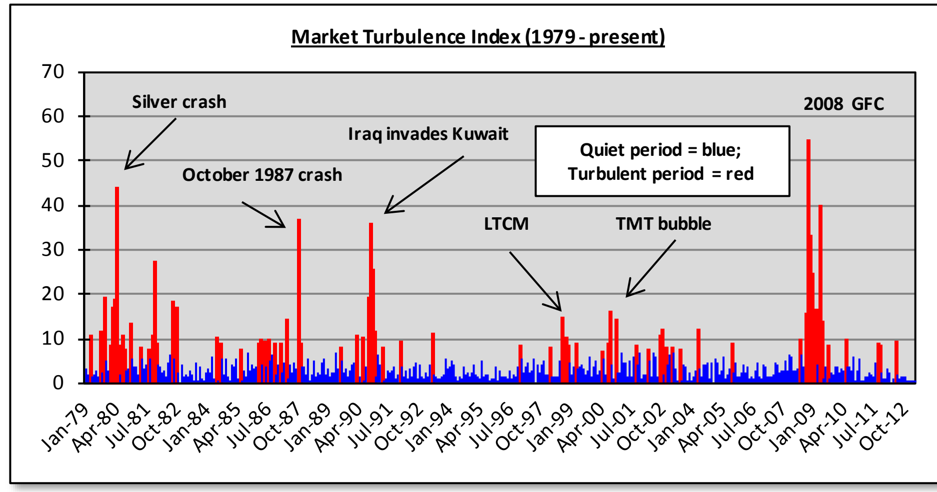
Index Returns

Index	As of 4/15/2013 MTD	YTD	As of 3/31/2013 1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Global Equity									
MSCI All-Country World ($, net)	-0.5%	6.0%	1.8%	6.5%	6.5%	10.6%	7.8%	2.1%	9.4%
Non-U.S. Equity									
MSCI All-Country World, ex U.S. ($, net)	0.1%	3.2%	0.2%	3.2%	3.2%	8.4%	4.4%	-0.4%	10.9%
MSCI EAFE ($, net)	1.8%	7.0%	0.8%	5.1%	5.1%	11.3%	5.0%	-0.9%	9.7%
MSCI Emerging Markets ($, net)	-2.9%	-4.5%	-1.7%	-1.6%	-1.6%	2.0%	3.3%	1.1%	17.1%
U.S. Equity									
Russell 3000	-1.5%	9.4%	3.9%	11.1%	11.1%	14.6%	13.0%	6.3%	9.2%
Russell 1000	-1.2%	9.6%	3.9%	11.0%	11.0%	14.4%	12.9%	6.2%	9.0%
Russell 1000 Growth	-1.2%	8.2%	3.8%	9.5%	9.5%	10.1%	13.1%	7.3%	8.6%
Russell 1000 Value	-1.3%	10.9%	4.0%	12.3%	12.3%	18.8%	12.7%	4.8%	9.2%
Russell 2000	-4.6%	7.2%	4.6%	12.4%	12.4%	16.3%	13.5%	8.2%	11.5%
Russell 2000 Growth	-4.9%	7.7%	5.1%	13.2%	13.2%	14.5%	14.7%	9.0%	11.6%
Russell 2000 Value	-4.4%	6.7%	4.2%	11.6%	11.6%	18.1%	12.1%	7.3%	11.3%
Fixed Income									
BC Aggregate	0.8%	0.7%	0.1%	-0.1%	-0.1%	3.8%	5.5%	5.5%	5.0%
BC U.S. Treasury	0.8%	0.6%	0.1%	-0.2%	-0.2%	3.1%	5.4%	4.4%	4.6%
BC Mortgage-Backed Securities	0.4%	0.4%	0.1%	0.0%	0.0%	2.0%	4.2%	5.2%	5.0%
BC Investment Grade Corporate	1.5%	1.4%	0.0%	-0.1%	-0.1%	7.5%	8.1%	7.9%	6.1%
BC High Yield Corporate	0.7%	3.6%	1.0%	2.9%	2.9%	13.1%	11.2%	11.6%	10.1%
Real Assets									
DJ UBS Commodity	-5.5%	-6.6%	0.7%	-1.1%	-1.1%	-3.1%	1.3%	-7.4%	2.0%
NAREIT U.S. Equity Real Estate	2.3%	10.6%	3.0%	8.1%	8.1%	17.1%	17.7%	7.1%	12.6%
Hedged Strategies									
HFRX Absolute Return	-0.2%	0.5%	0.2%	0.7%	0.7%	1.0%	-0.3%	-3.4%	0.6%
HFRX Equity Hedge	-0.1%	5.0%	1.2%	5.1%	5.1%	6.0%	-1.1%	-3.0%	1.0%

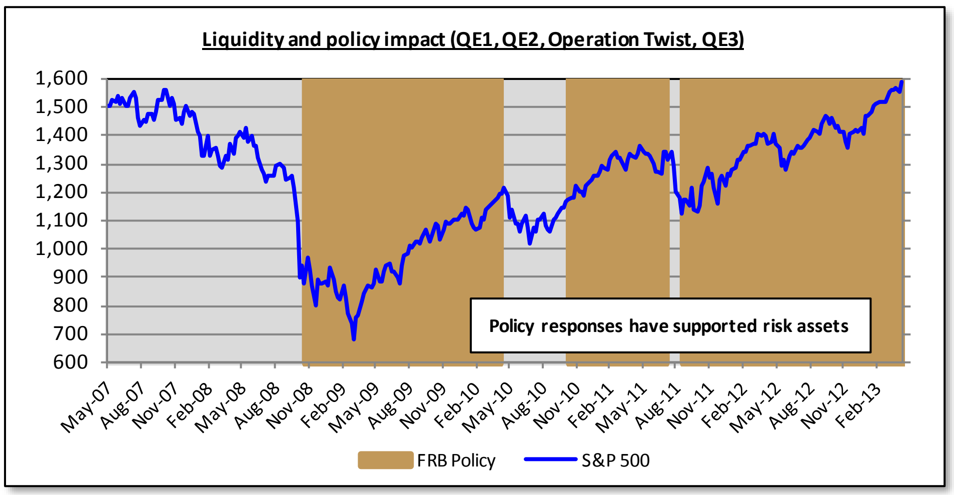
Market and economic indicators



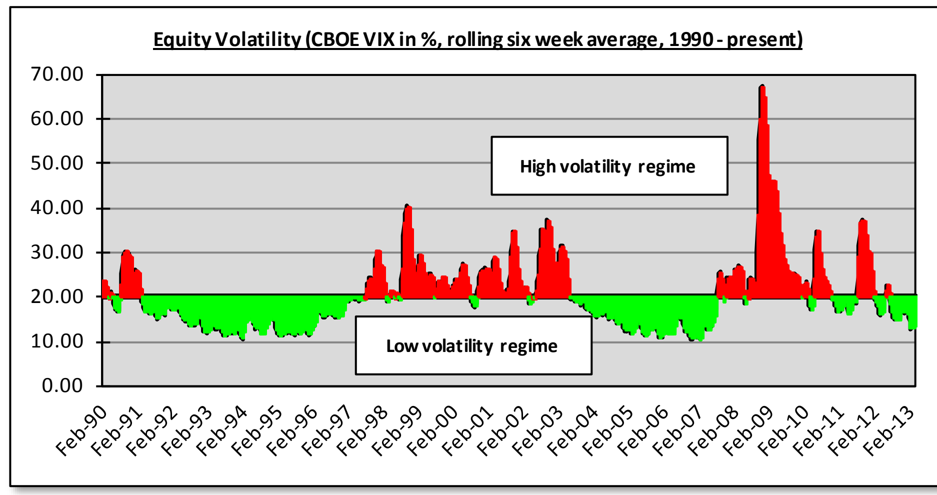
Source: FactSet



Source: Windham Portfolio Advisor

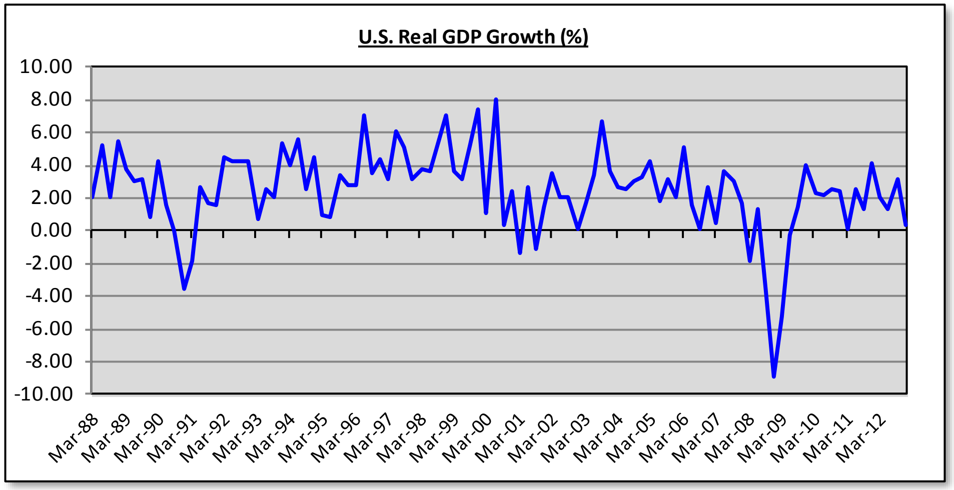


Source: FactSet

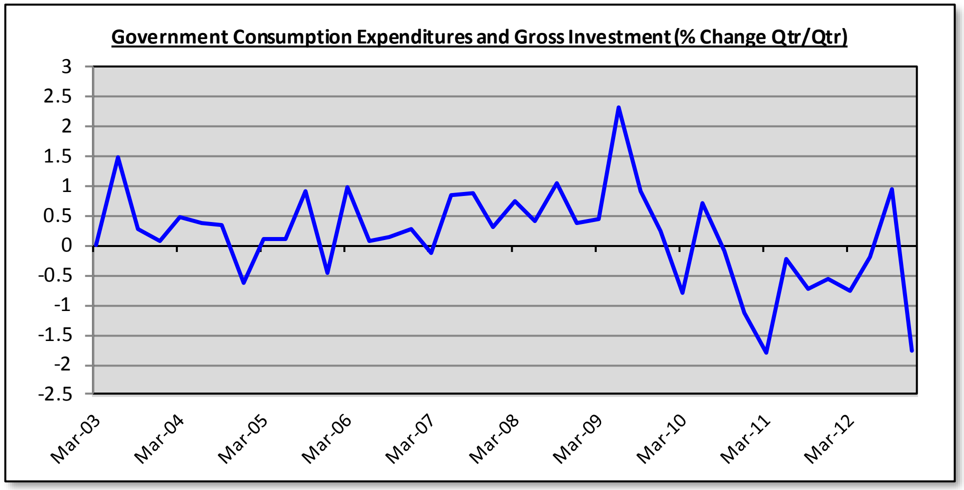


Source: FactSet

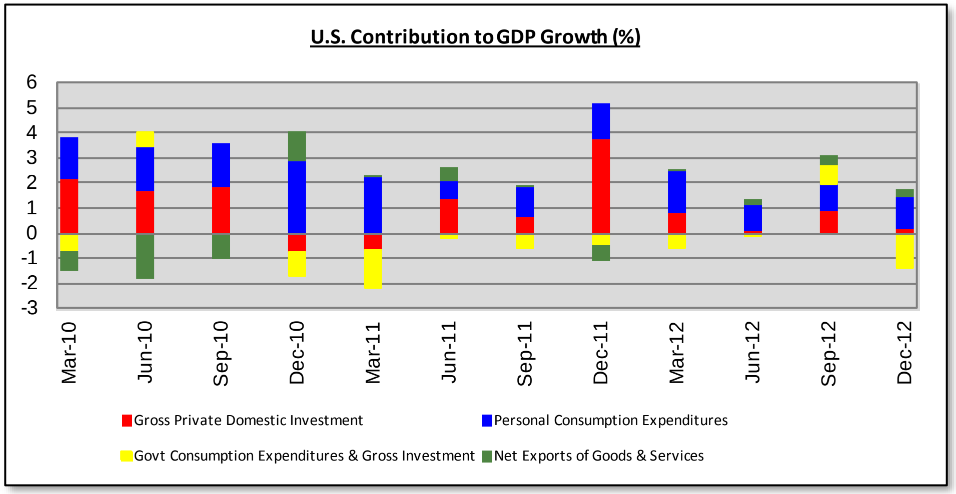
- The S&P 500 has surged higher to start the year, recently closing at an all-time high of 1,569
- The impact of central bank policy remains a key consideration for asset class performance over the short-term and long-term
  - Potential second-order effects (i.e., rising inflation expectations) from policy stimulus merit attention
- Market turbulence (i.e., unusually high asset class volatility and unusual asset class correlation) has declined after rising sharply in May of last year
- Equity market volatility has been steady recently and remains below the long-term median of 20%



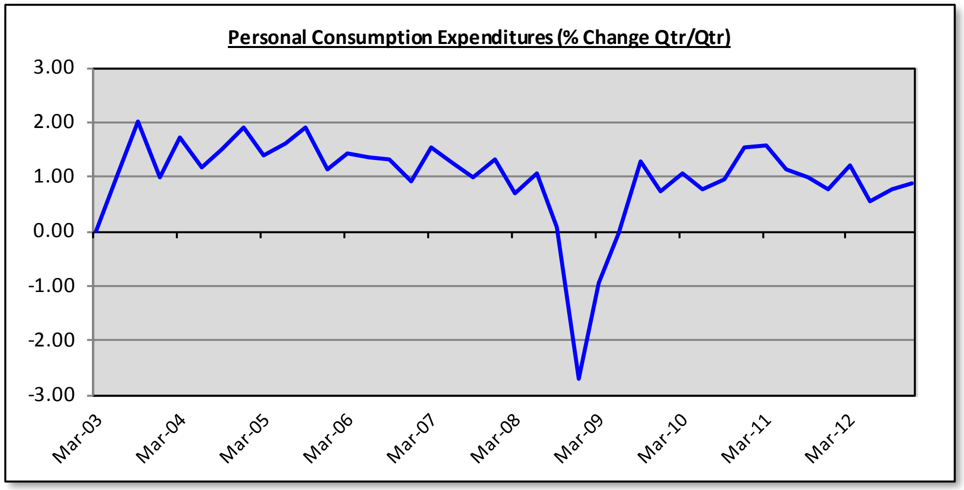
Source: Factset



Source: Factset

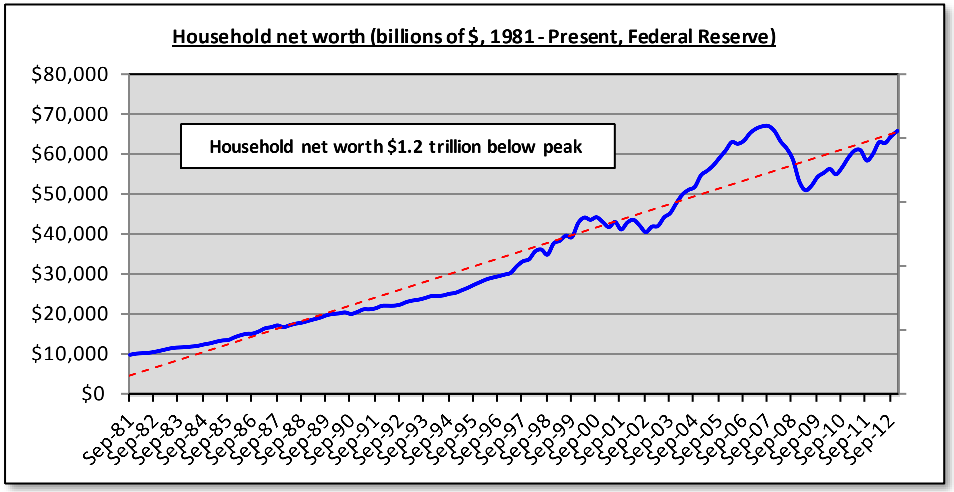


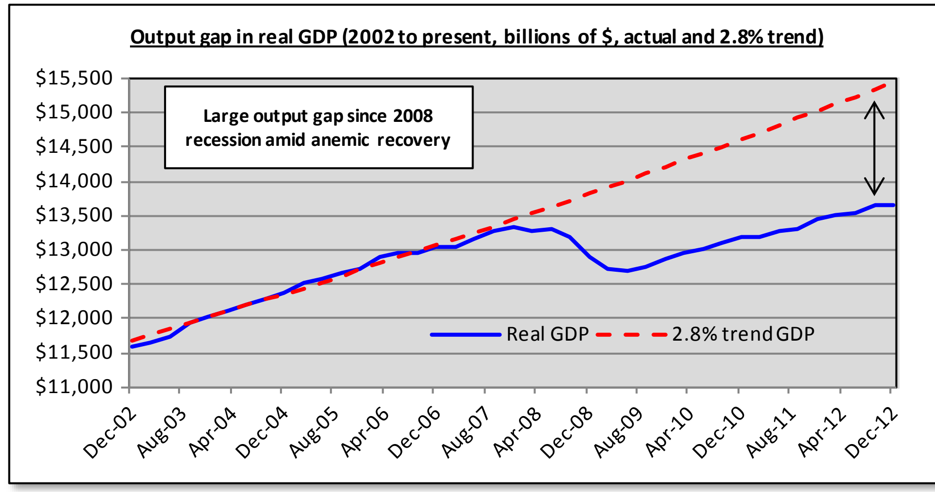
Source: Factset



Source: Factset

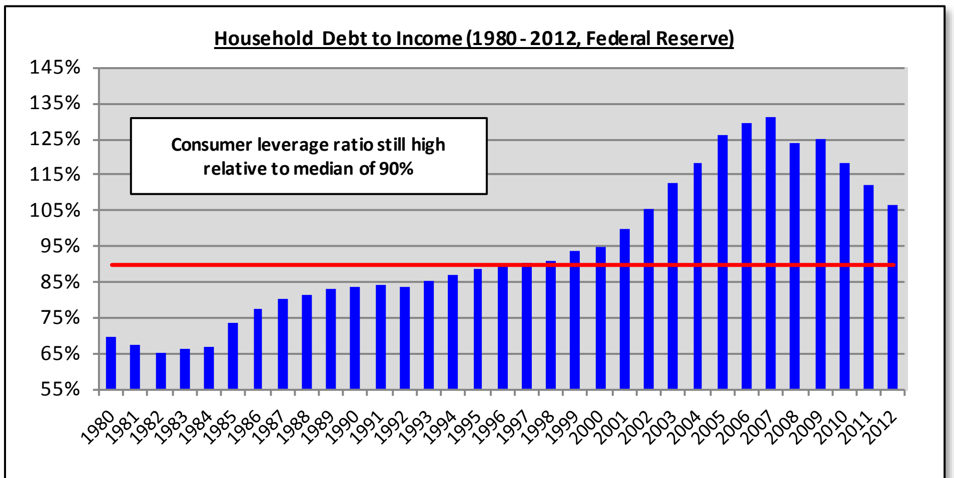
- Fourth quarter GDP was revised to +0.4% (from +0.1%), well below consensus expectations
    - A decline in government spending (defense) was a major detractor
- Personal consumption expenditures and residential investment continue to show improvement, indicating increased consumer demand and improved health of the U.S. housing market

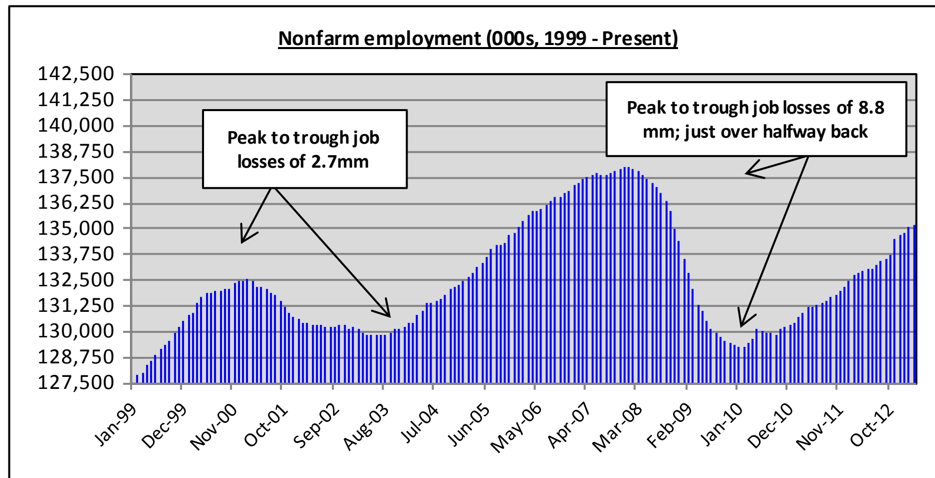




Source: Federal Reserve

Source: BEA

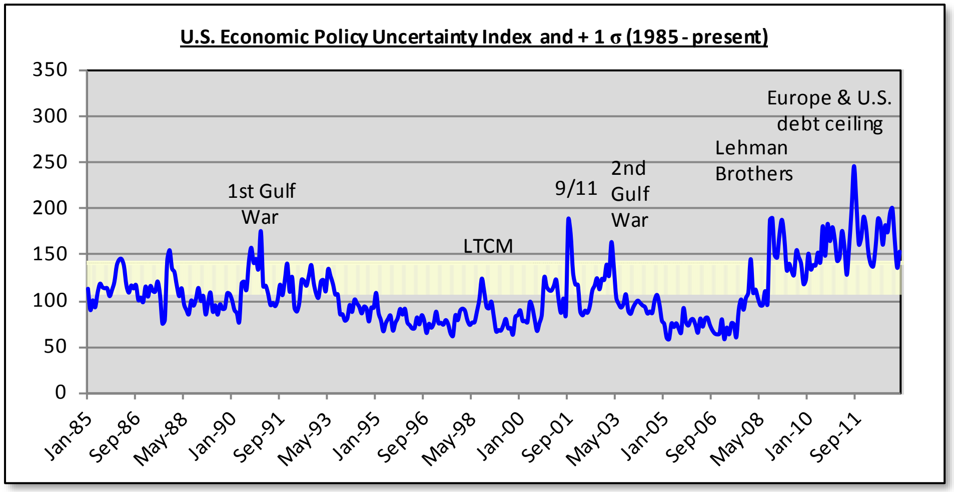




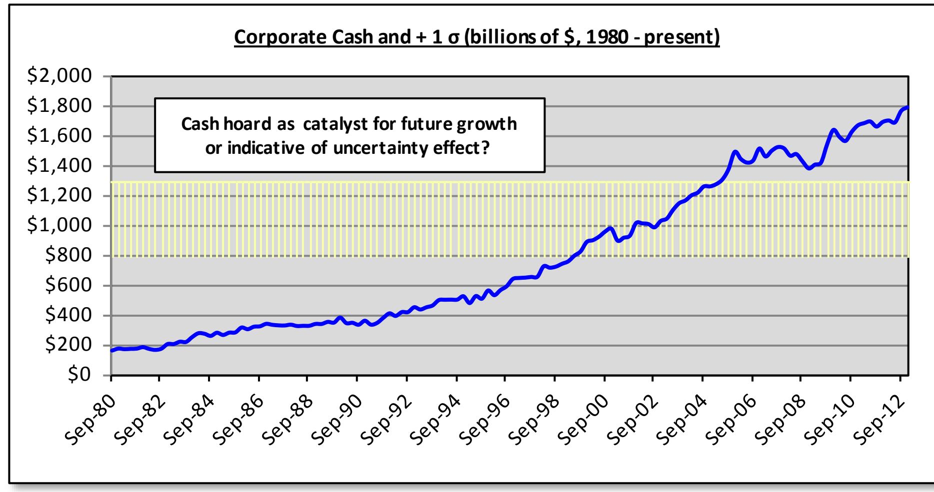
Source: Federal Reserve

Source: BLS

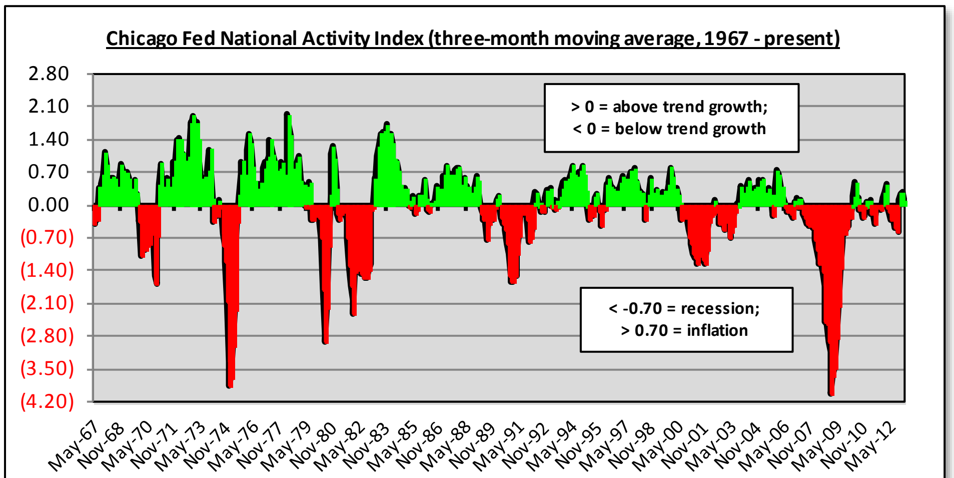
- The U.S. economy continues to face headwinds from a “balance sheet” recession:
    - Consumer net worth levels slowly rising as asset values (real estate, stocks) have appreciated, but liabilities relative to stagnant incomes remain above long-term averages
- The GDP “output gap” remains high, as realized GDP has underperformed relative to long-term trend GDP
- Employment growth remains positive but gains are weak relative to the number of jobs lost during the recession



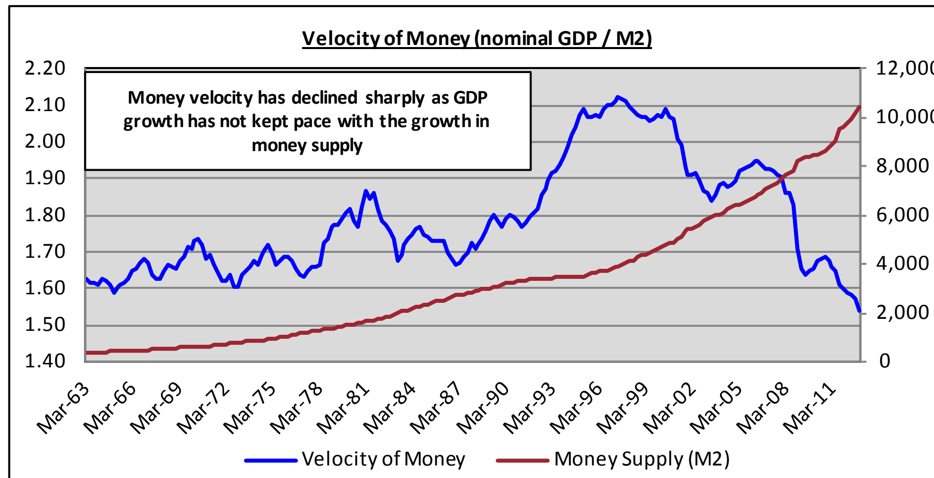
Source: Bloomberg



Source: Federal Reserve

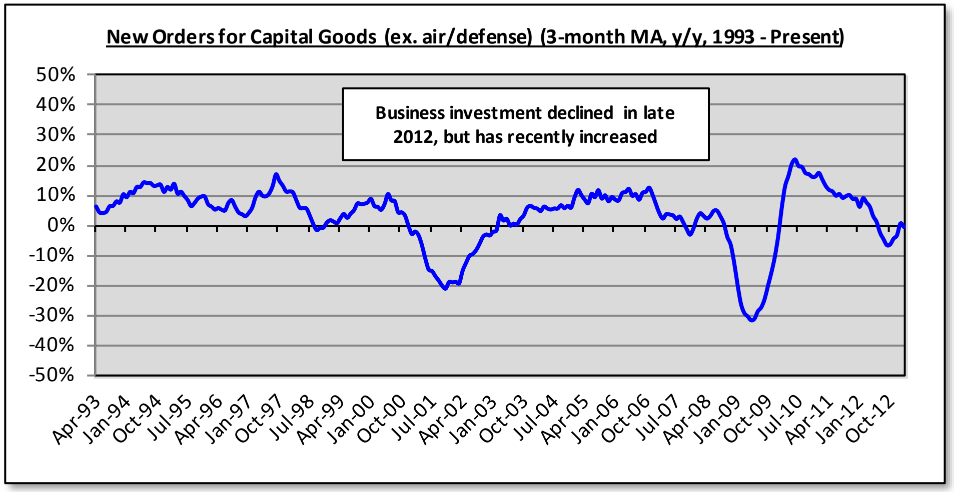


Source: Chicago FRB

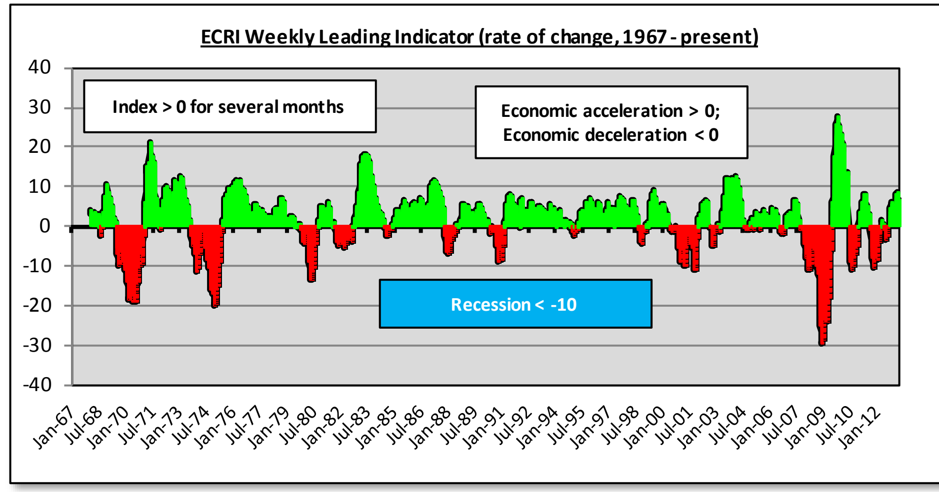


Source: FactSet

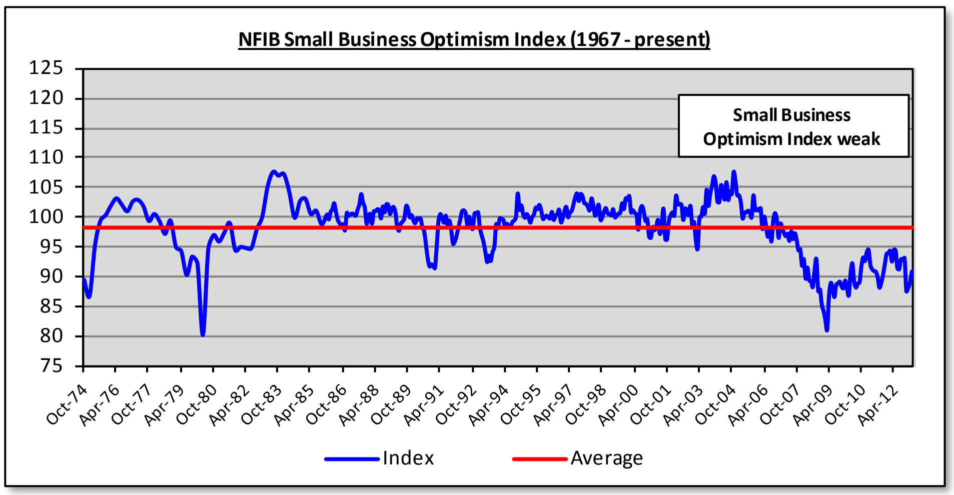
- Economic uncertainty negatively impacts the economy, as consumers rein in spending, banks ration credit, and businesses keep payrolls and inventories at lean levels
- The Chicago Fed National Activity Index, a composite of 85 economic indicators, has recently moved above zero, following multiple months of below trend growth
- Since mid-2007, economic uncertainty has been exceptionally high, weighing on economic activity and on the capital markets
- Households and businesses are uncertain about tax policy, regulatory policy, interest rates and inflation. Absent better clarity, long-term investments are likely to be deferred



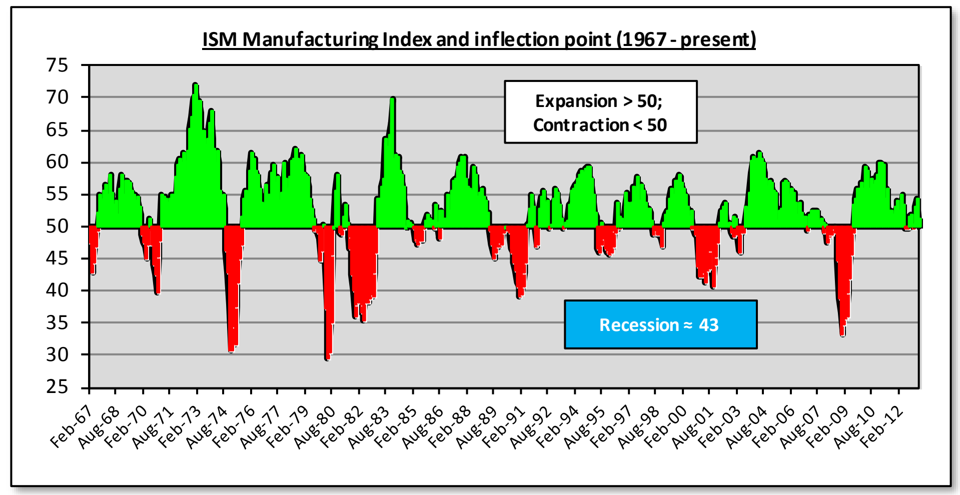
Source: Census Bureau



Source: ECRI

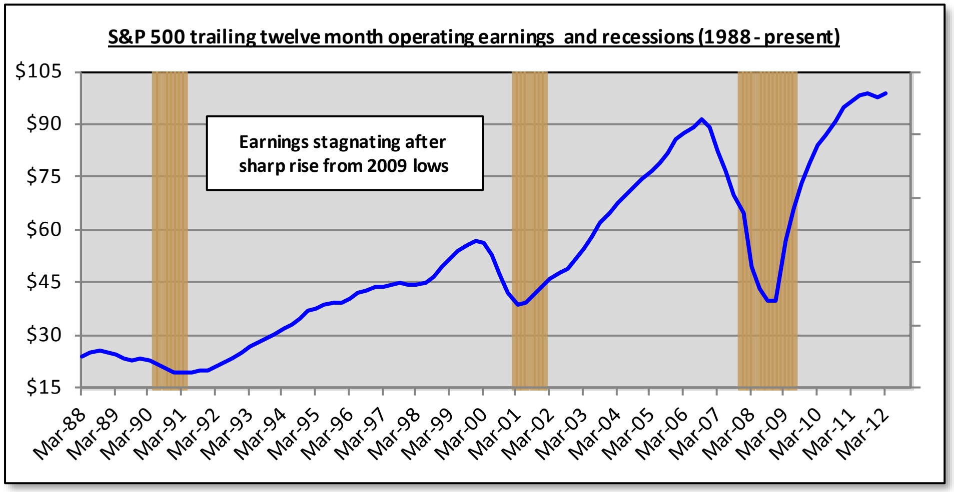


Source: NFIB

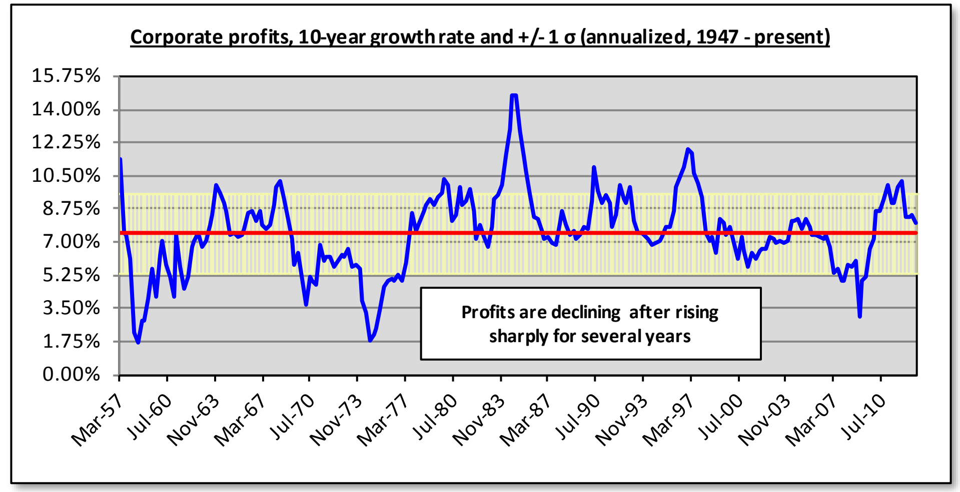


Source: ISM

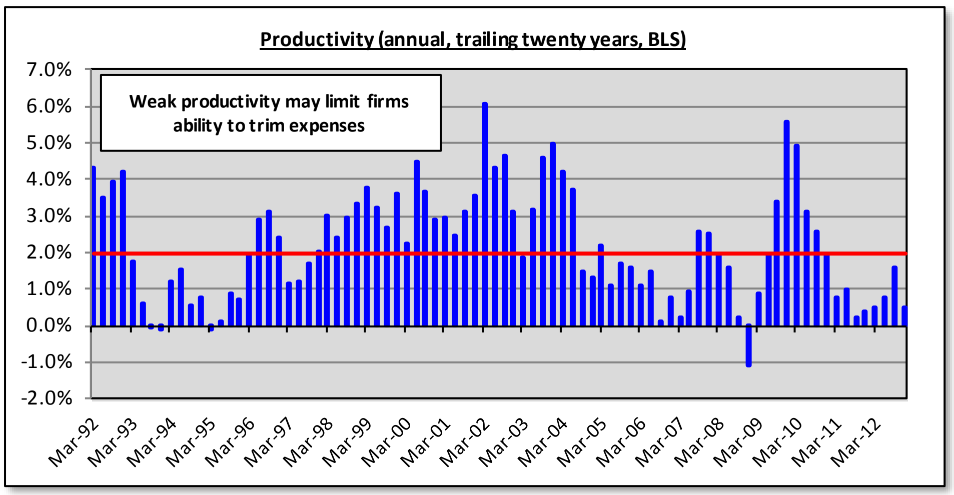
- Cyclical indicators confirm that economic momentum slowed in mid to late 2012, particularly in the area of business investment, but have increased in early 2013
  - Orders for capital good excluding aircraft and defense (i.e., core long-term business investment) have increased after falling sharply
  - Small business owner optimism remains weak and many owners refer to “uncertainty” in their assessment of the economic environment
  - ECRI Weekly Leading Indicator has been above zero for over several months, suggesting future economic acceleration
  - The ISM Manufacturing Index is above the inflection point



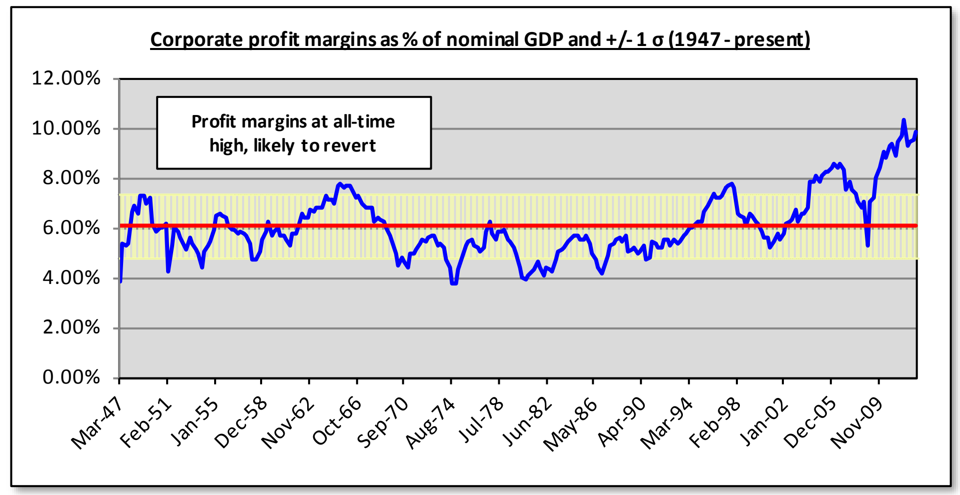
Source: S&P



Source: BEA

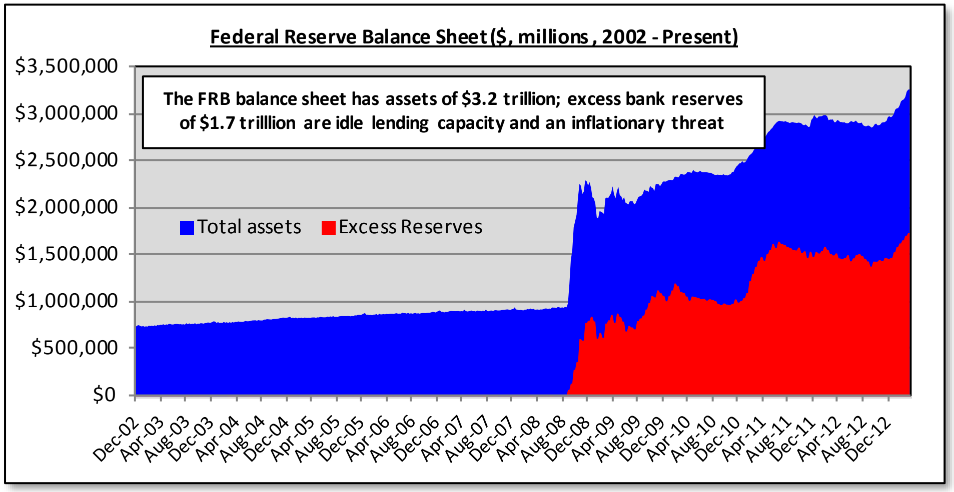


Source: BLS

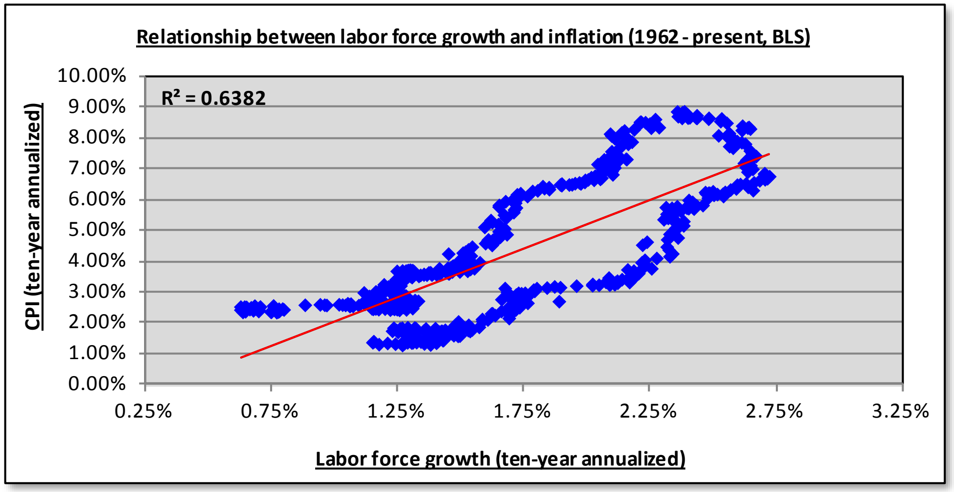


Source: BEA

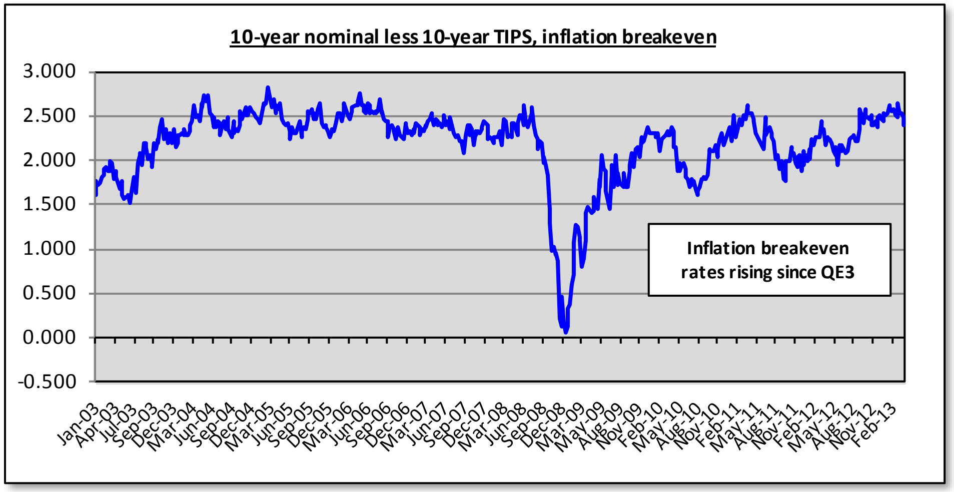
- The growth rate in corporate earnings has slowed over recent quarters
- Rising productivity acted as a tailwind to earnings at the beginning of the economic recovery, but may shift to being a headwind as firms have little room to materially cut expenses
- Any significant earnings deceleration will likely lead to increased market volatility
- Long-term corporate profit growth appears to be reverting to the mean



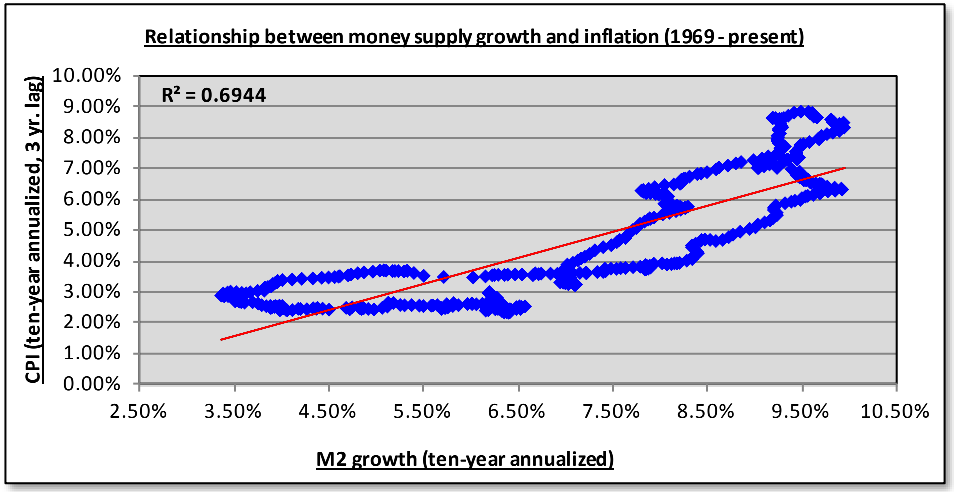
Source: FRB



Source: BLS



Source: FRB

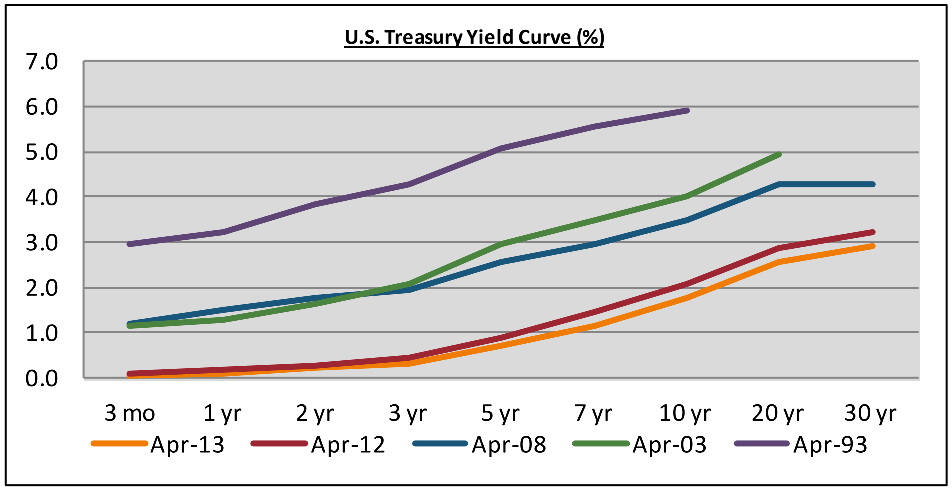


Source: BLS and FRB

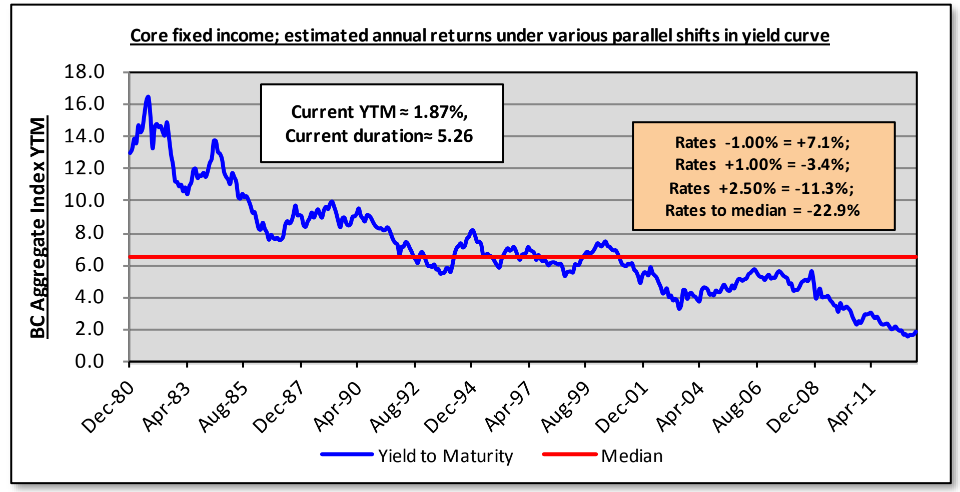
- Quantitative easing ("QE") in the U.S. has resulted in a sharp increase the monetary base, but banks have failed to intermediate (i.e., lend) this excess liquidity
- Market implied inflation rates have move higher following the most recent QE announcement by the Federal Reserve. The U.S. dollar is also weaker
- Sustained above average growth rates in the labor force and in the money supply are often associated with rising inflation. Current readings imply limited inflation risk

Gallagher Fiduciary Advisors, LLC
a Subsidiary of Gallagher Benefit Services, Inc.

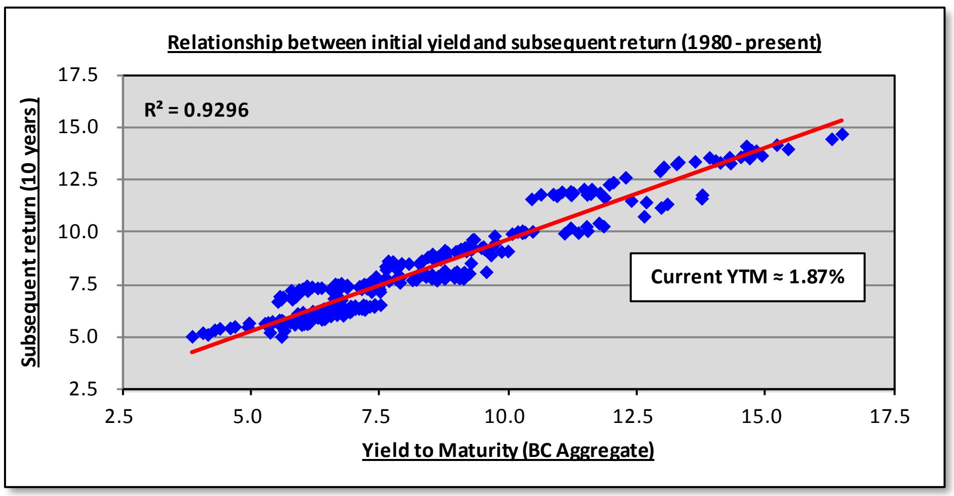
Interest Rates and Credit



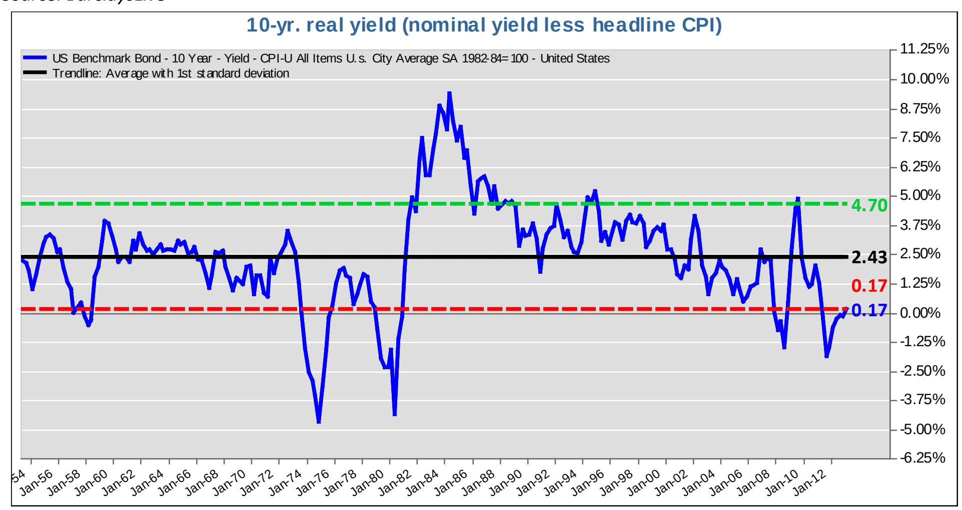
Source: FactSet



Source: BarclaysLive



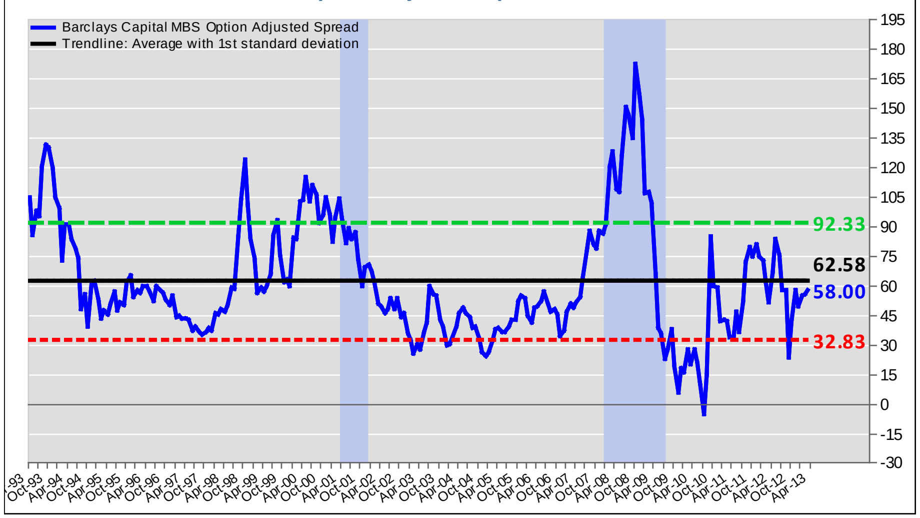
Source: BarclaysLive



Source: FactSet

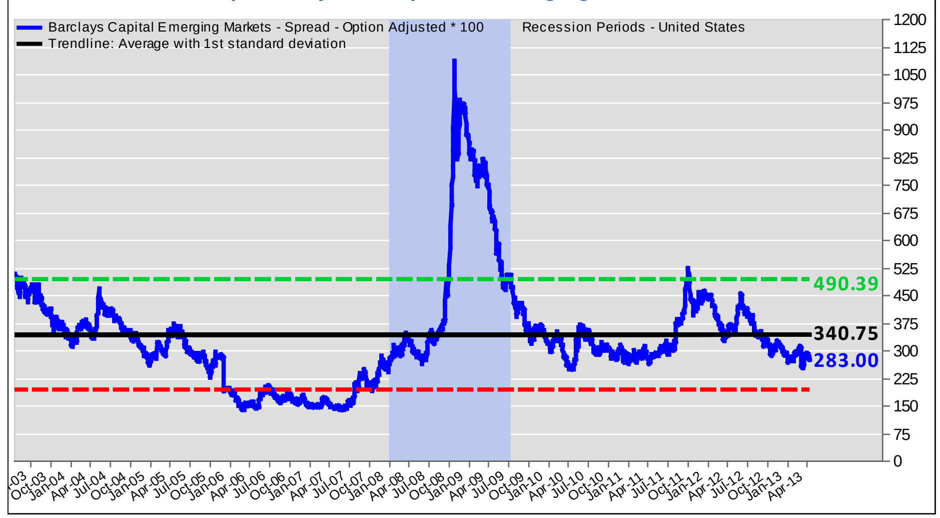
- Global developed market interest rates are at historically low levels due to activist central bank policy
- Coupon income is low, resulting in a thin return cushion in the event of rising interest rates
- Low current yields imply low future returns for most fixed income sectors
- Nominal yields are below the level of inflation, resulting in negative real yields

Option-adjusted spread: MBS



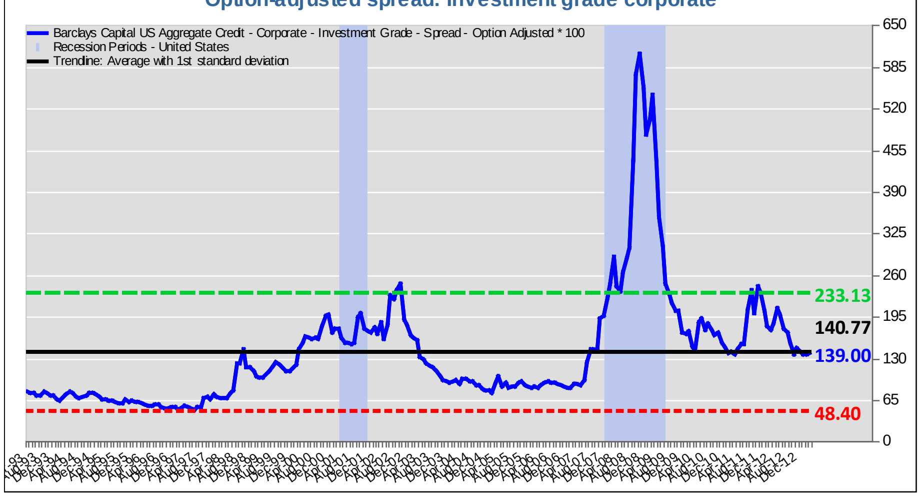
Source: FactSet

Option-adjusted spread: Emerging market debt



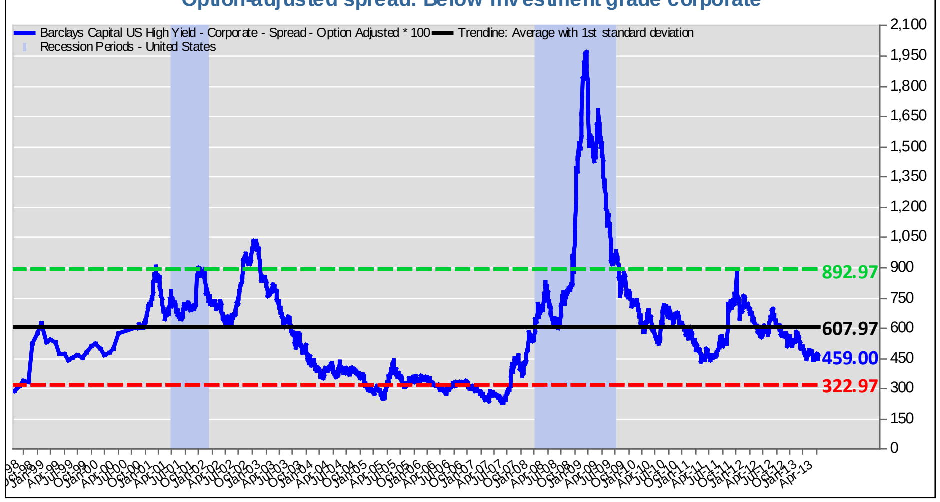
Source: FactSet

Option-adjusted spread: Investment grade corporate



Source: FactSet

Option-adjusted spread: Below Investment grade corporate

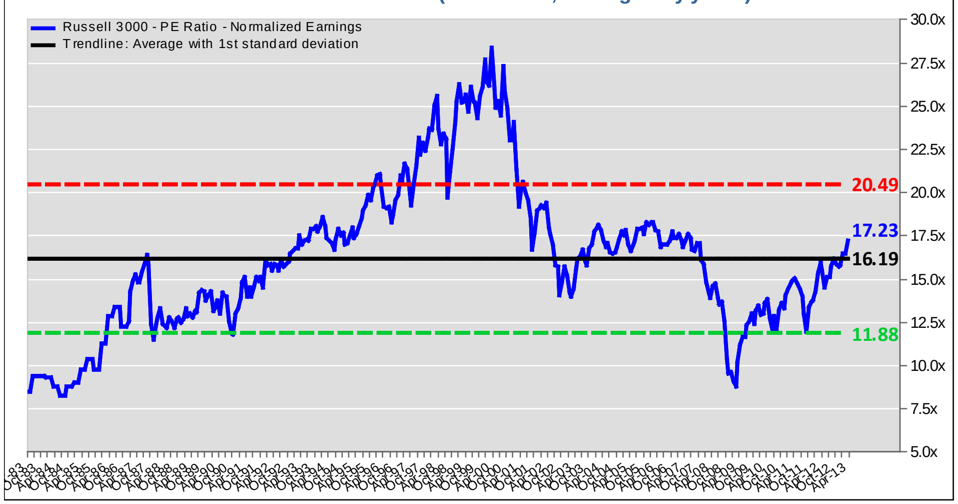


Source: FactSet

- Valuations in various credit sectors are tight:
  - Spreads in MBS have declined due to QE3 buying, but security selection in this sector is critical
  - Spreads in corporate bonds (both investment grade and below investment grade) are tight. Demand for high yield remains robust despite increased issuance
  - Spreads in emerging market debt are tight

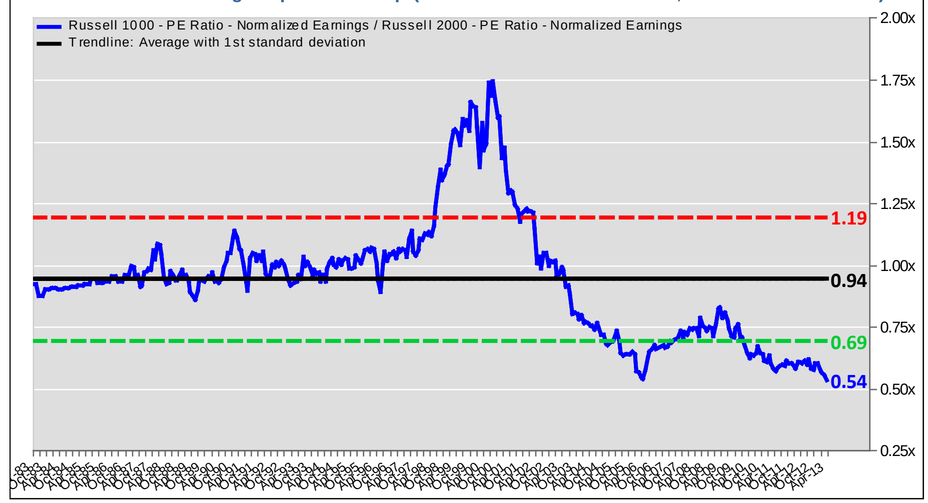
Equities

P/E ratio - Russell 3000 (normalized, trailing thirty years)



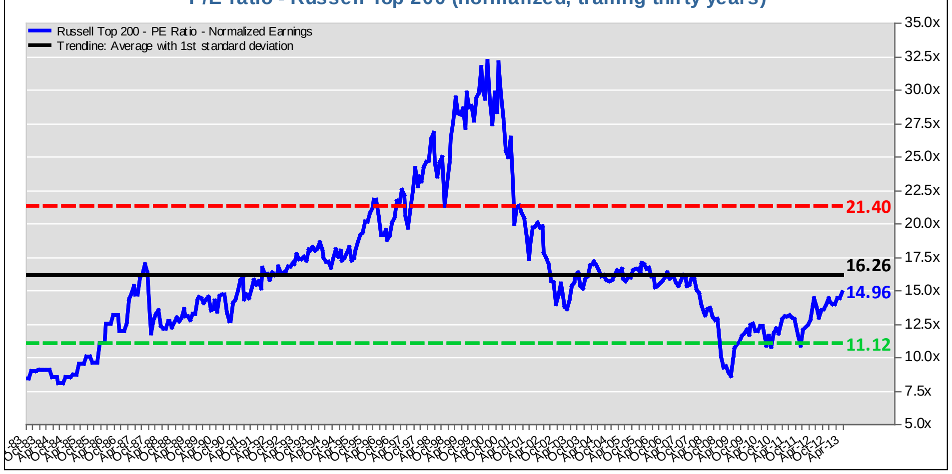
Source: FactSet

Relative valution: large-cap to small-cap (Russell 1000 to Russell 2000, normalized PE ratios)



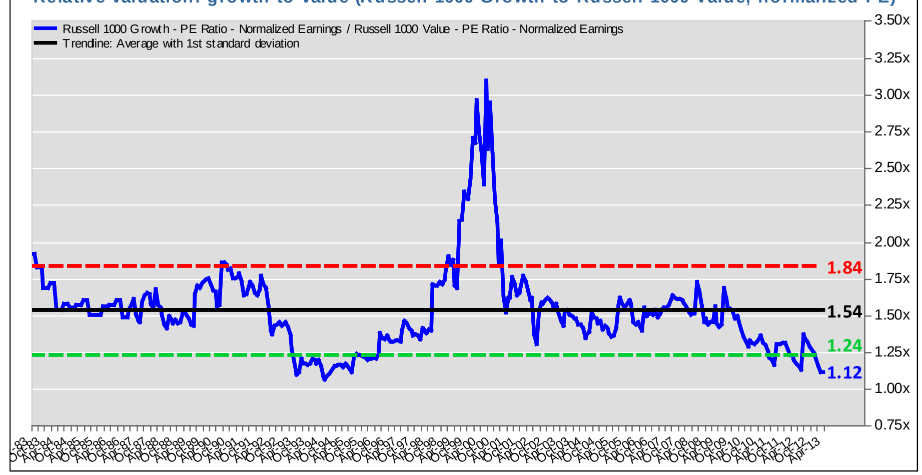
Source: FactSet

P/E ratio - Russell Top 200 (normalized, trailing thirty years)



Source: FactSet

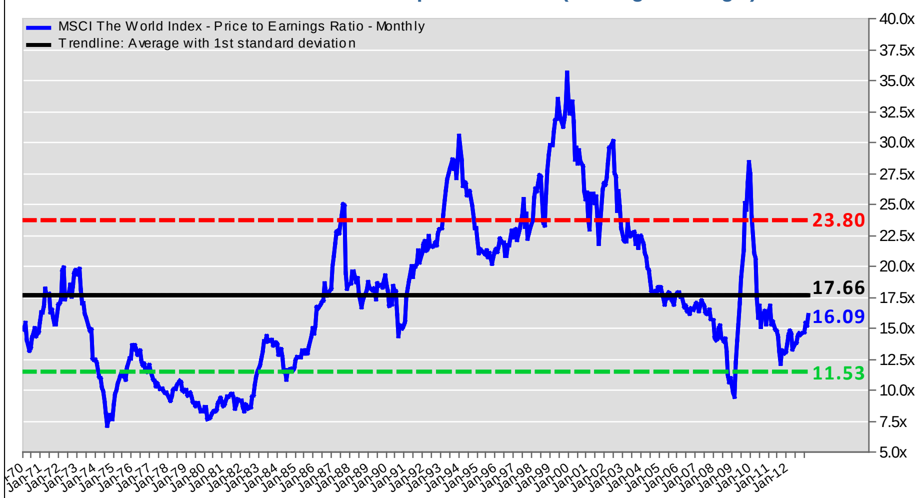
Relative valuation: growth to value (Russell 1000 Growth to Russell 1000 Value, normalized PE)



Source: FactSet

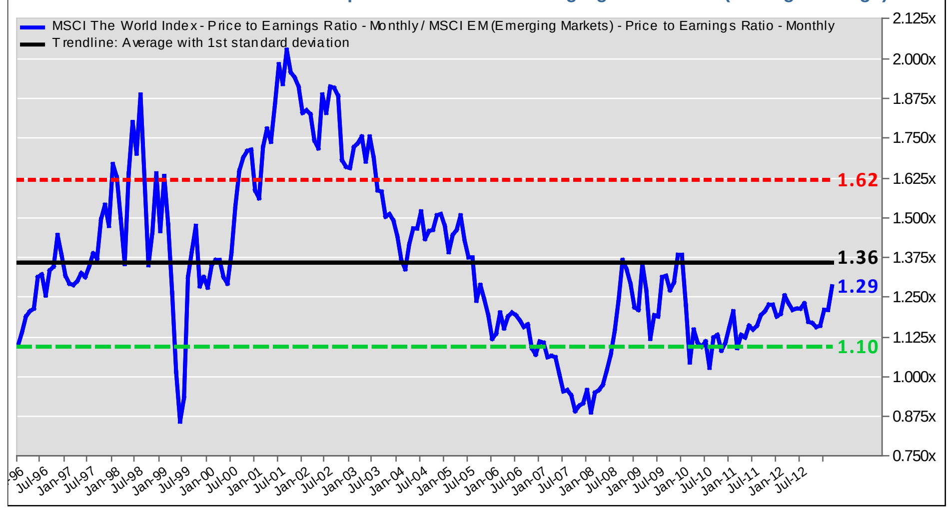
- Valuations in the U.S. equity market (Russell) based on normalized earnings are fair:
    - Large cap and mega cap valuations are at or slightly below their long-term average, while small-cap are above their long-term average
    - Large-cap relative to small-cap is below its long-term average and growth relative to value is below its long-term average

P/E Ratio - MSCI Developed Markets (trailing earnings)



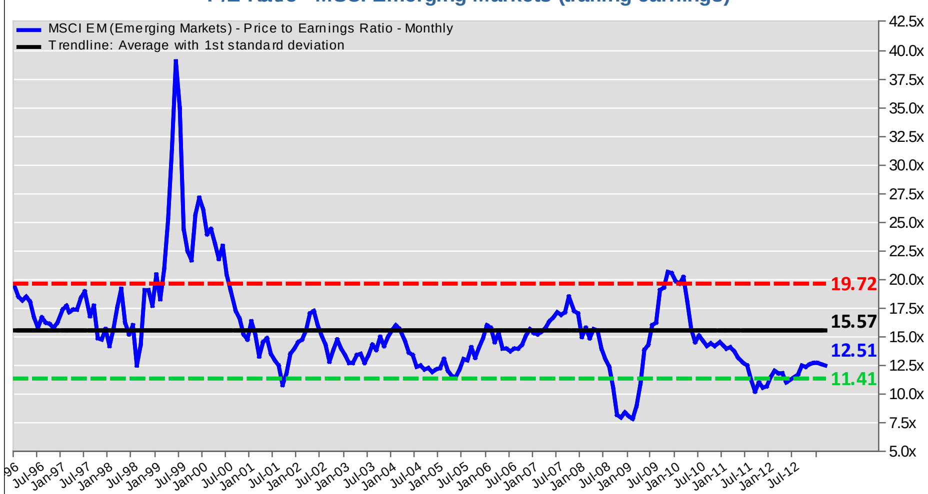
Source: FactSet

Relative valuation - MSCI Developed Markets P/E to Emerging Markets P/E (trailing earnings)



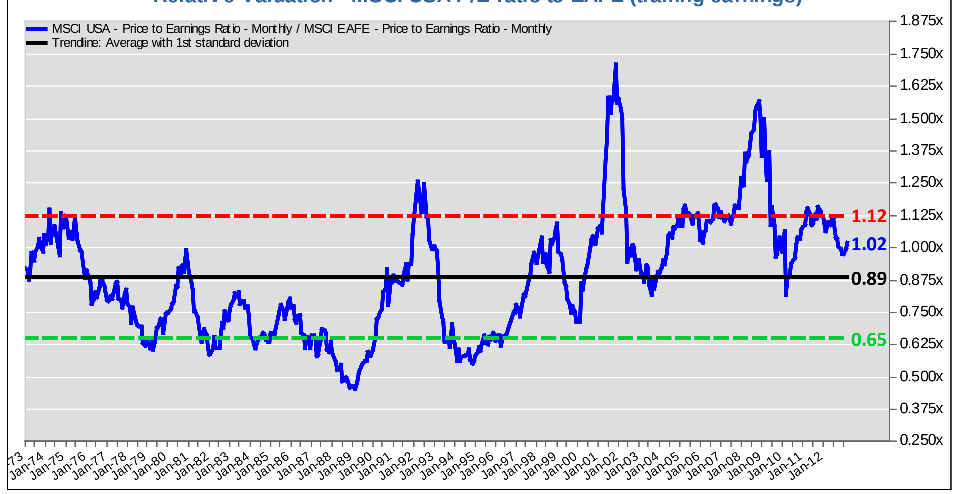
Source: FactSet

P/E Ratio - MSCI Emerging Markets (trailing earnings)



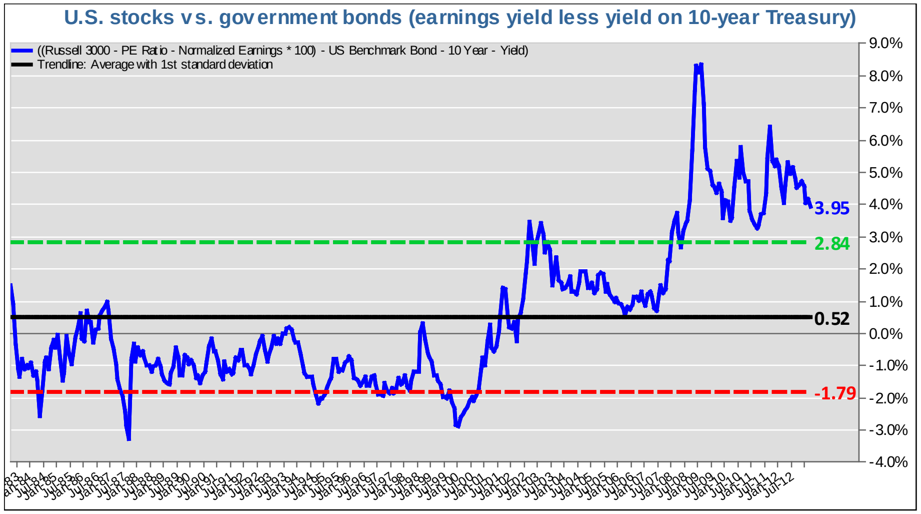
Source: FactSet

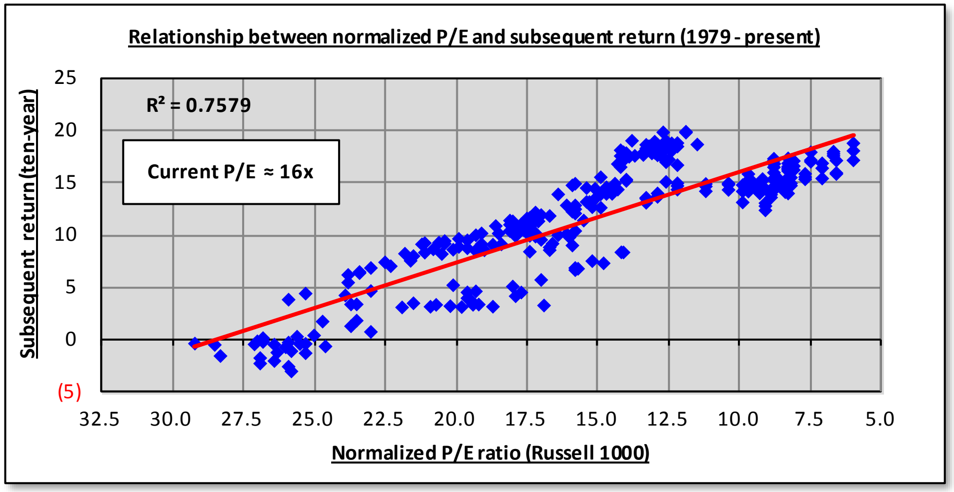
Relative Valuation - MSCI USA P/E ratio to EAFE (trailing earnings)



Source: FactSet

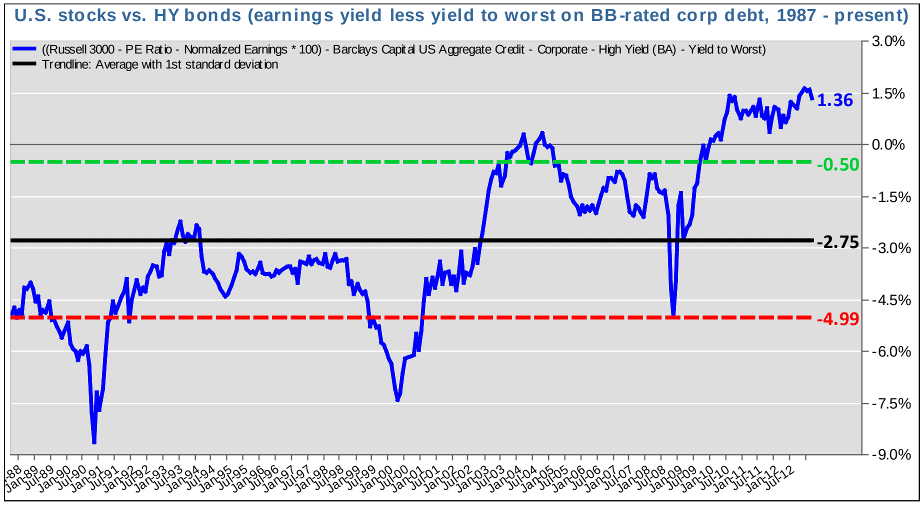
- Valuations in global and non-U.S. equity markets (MSCI) based on trailing earnings are below their long-term averages.
    - Developed market equity valuations are below their long-term average
    - Emerging market equity valuations are below their long-term average
    - Developed market equity relative to emerging market equity is below its long-term average, while U.S. relative to the non-U.S. is above its long-term average

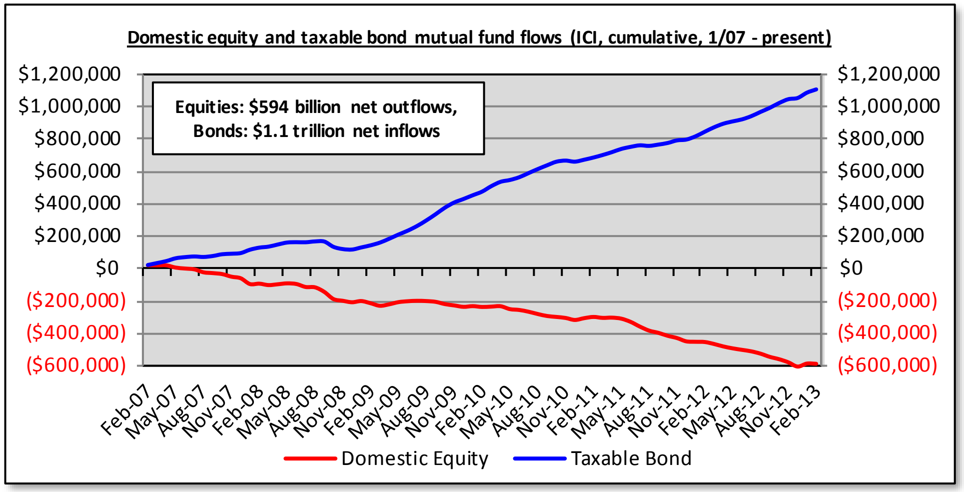




Source: FactSet

Source: FactSet



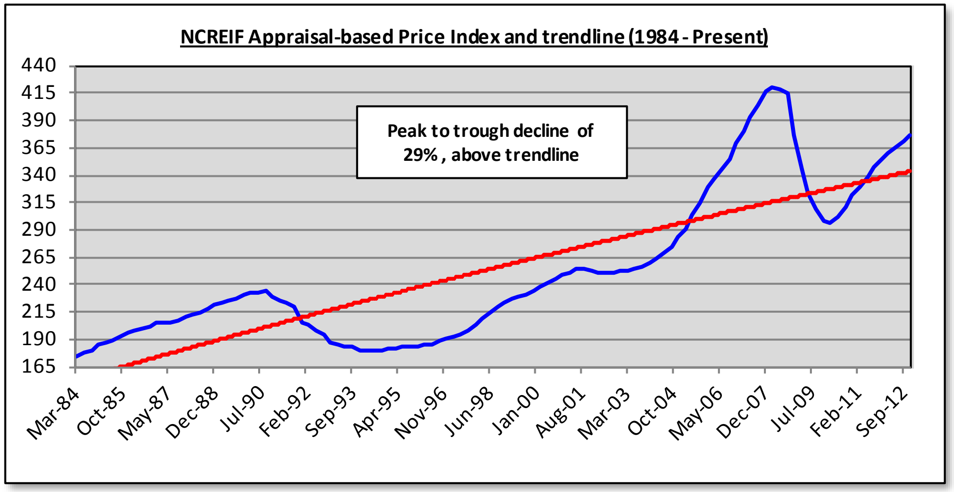


Source: FactSet

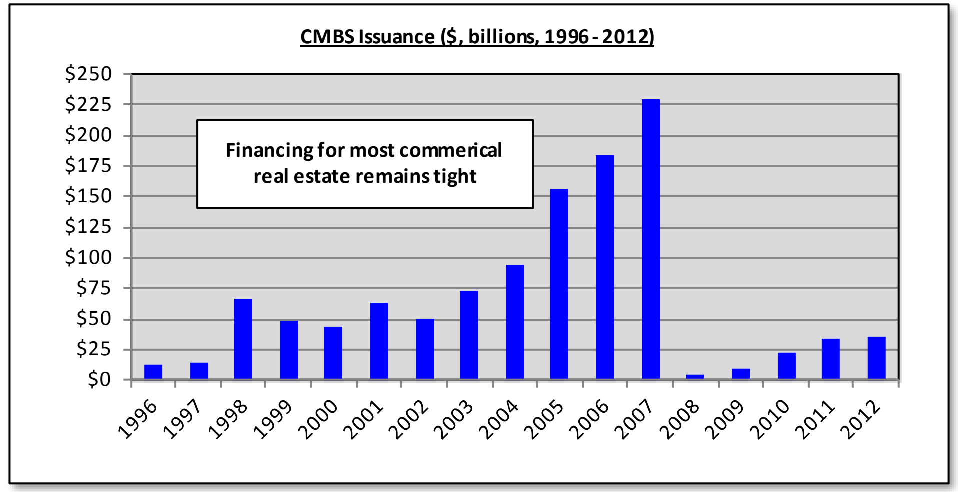
Source: FactSet

- Bond fund inflows remain much greater than equity fund inflows
  - The gap between the earnings yield on stocks relative to the yield on government debt is high
  - The gap between the earnings yield on stocks relative to below investment grade corporate debt is also high
  - Investor confidence in equities remains weak, creating an opportunity for longer-term and patient investors

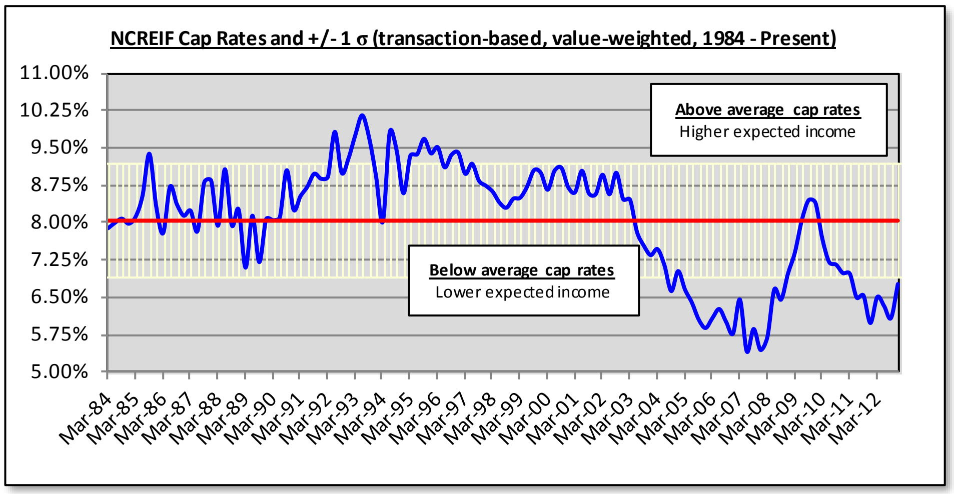
Real Estate



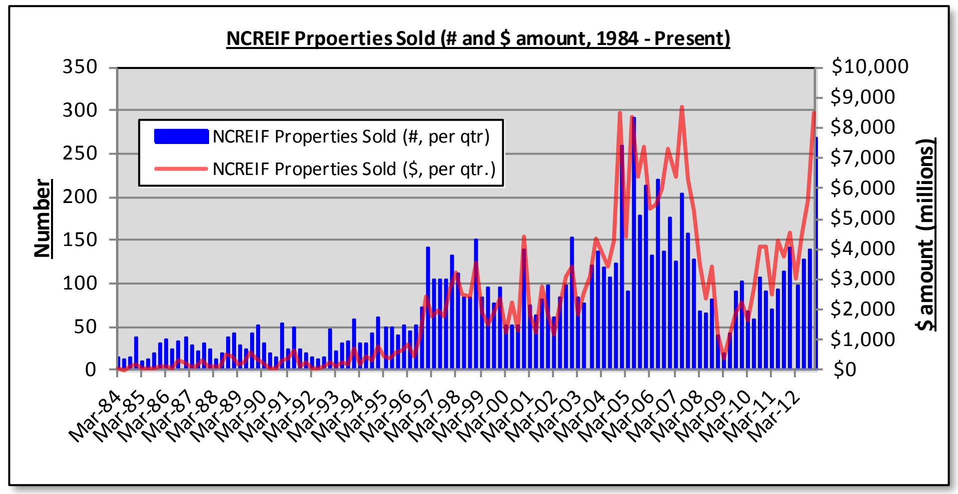
Source: NCREIF



Source: NCREIF

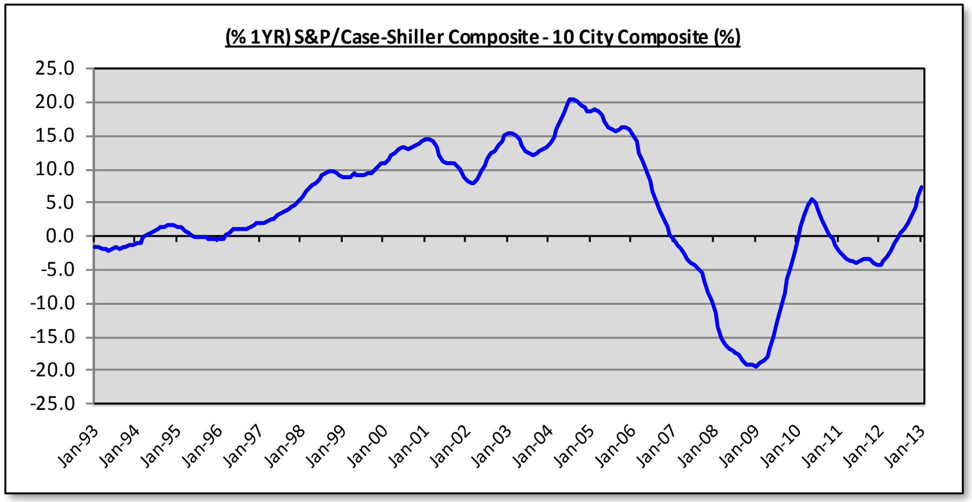


Source: MIT CRE

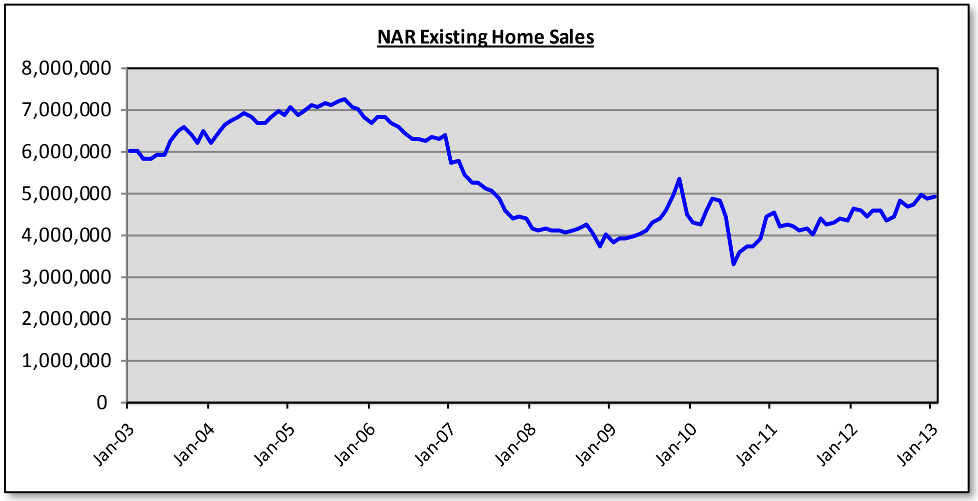


Source: NCREIF

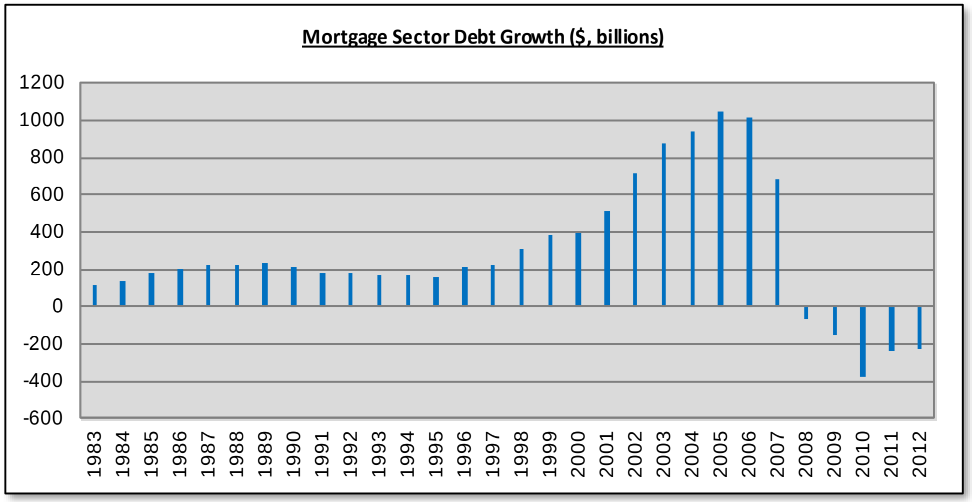
- Commercial real estate prices have stabilized, moving above their long-term trend after dropping sharply during the global financial crisis
- Cap rates (i.e., the ratio of net operating income to property value and a proxy for the yield on commercial real estate) are greater than one standard deviation below their long-term average. Absent significant NOI (i.e., rent) growth, cap rates may continue to narrow, making equity investments in core properties less attractive
- Lending in commercial real estate remains relatively tight, particularly for non-core properties. This may create an opportunity for investors willing to tie up capital for several years
- Commercial real estate sales activity continues to rise



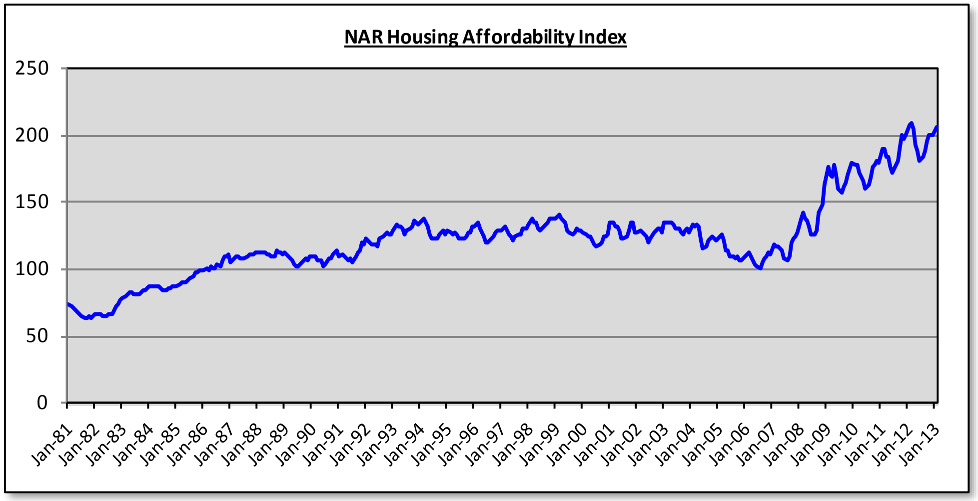
Source: Factset



Source: Factset



Source: Factset



Source: Factset

- There has been a broad based improvement in housing with sales, prices and demand surveys increasing over the last year
- However, this has not led to an increase in mortgage debt growth which still remains stagnant
- Prices – as measured by the S&P/Case Shiller Composite Index – have increased by approximately 5% over the last year
- Housing affordability still remains high relative to historical standards