Economic Review

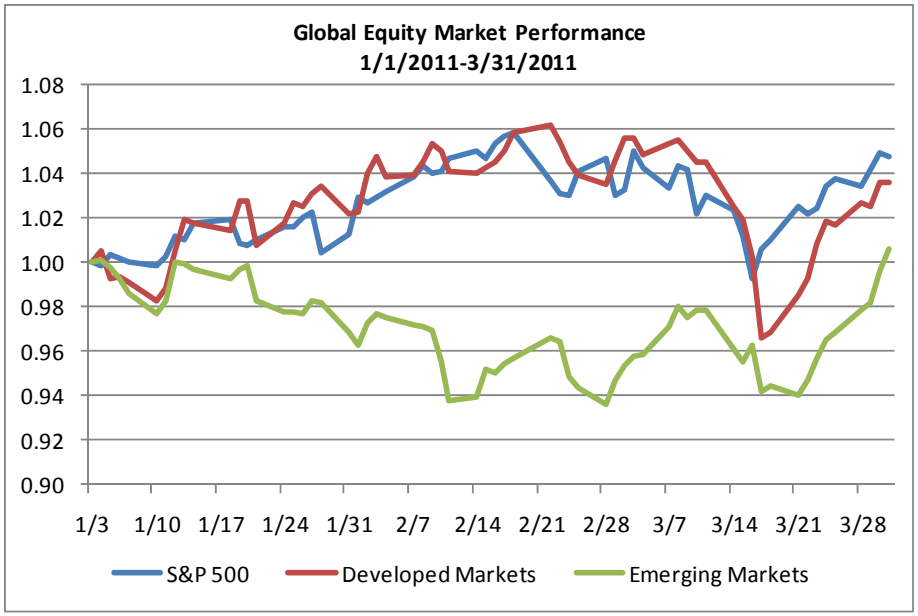
- Equity markets displayed resilience in the first quarter posting strong gains despite a major natural disaster in Japan and continued political unrest in the Middle East.

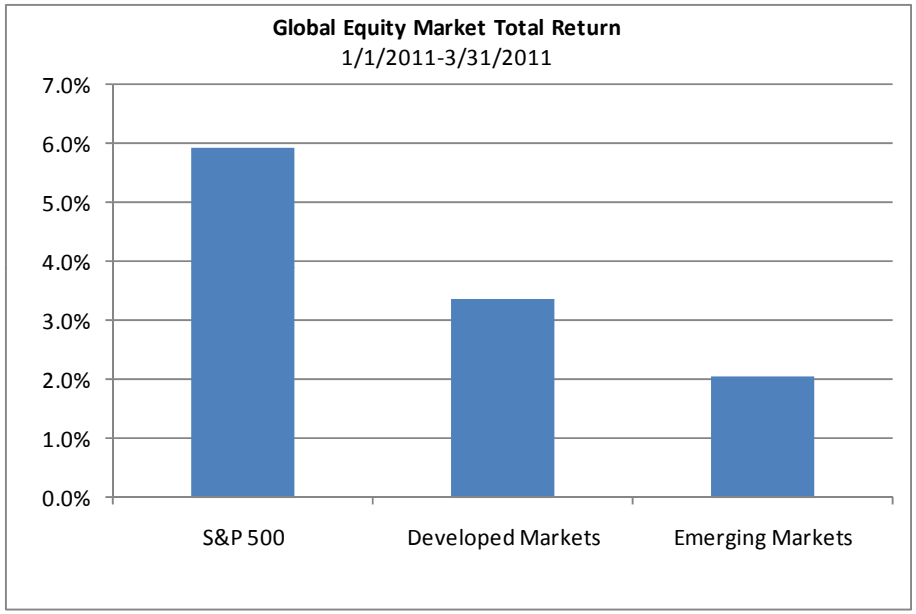
- Fundamental indicators signal a strengthening domestic economy:
  - Unemployment is declining
  - Estimates for real GDP are favorable
  - Retail sales, manufacturing, and durable goods orders are rising
  - Corporate earnings remain strong

- Equity market valuations are below historic norms.

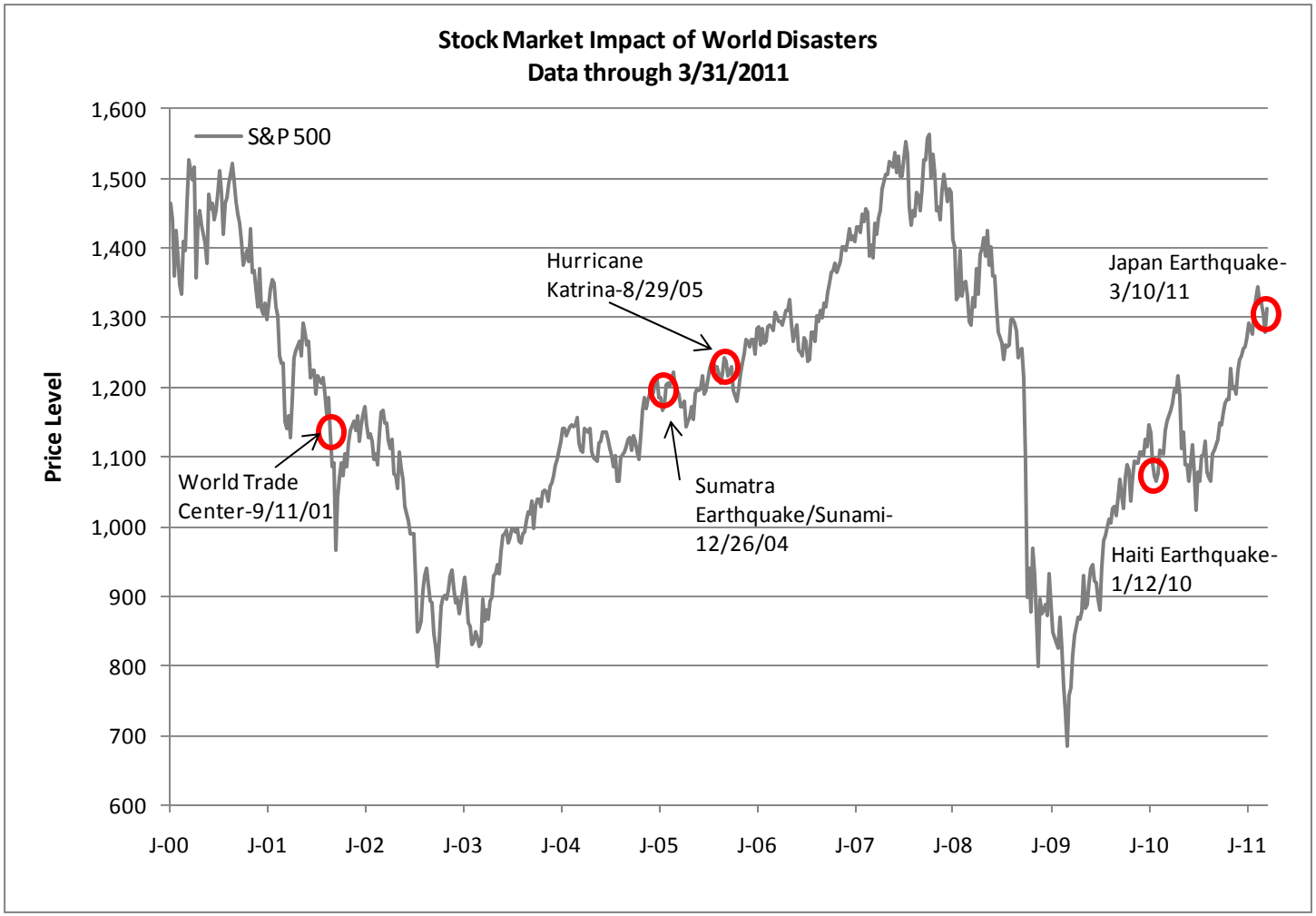
- Interest rate risk remains a valid concern for bond investors as the economy strengthens.

First Quarter Global Equity Performance

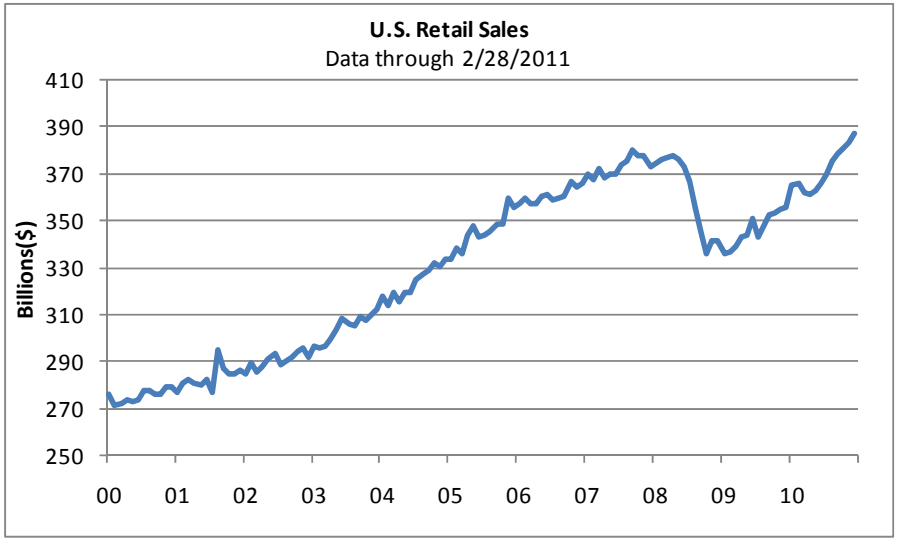


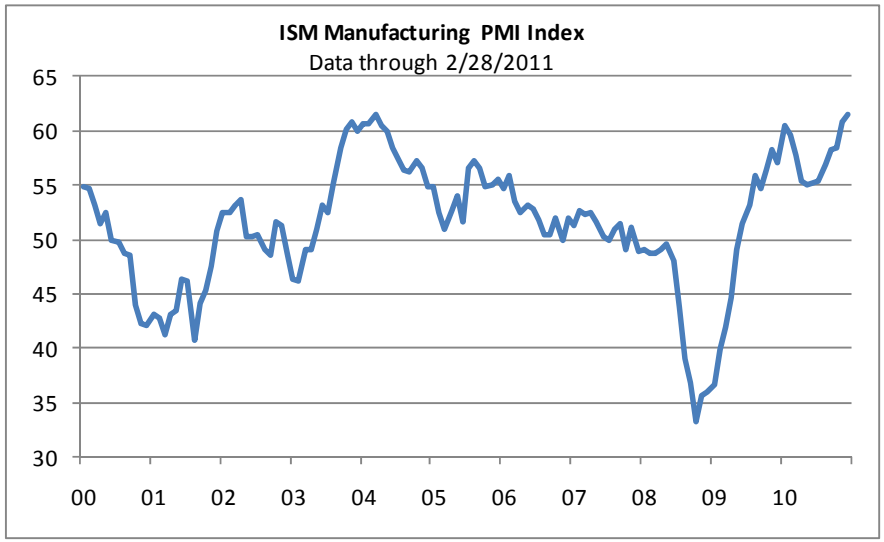


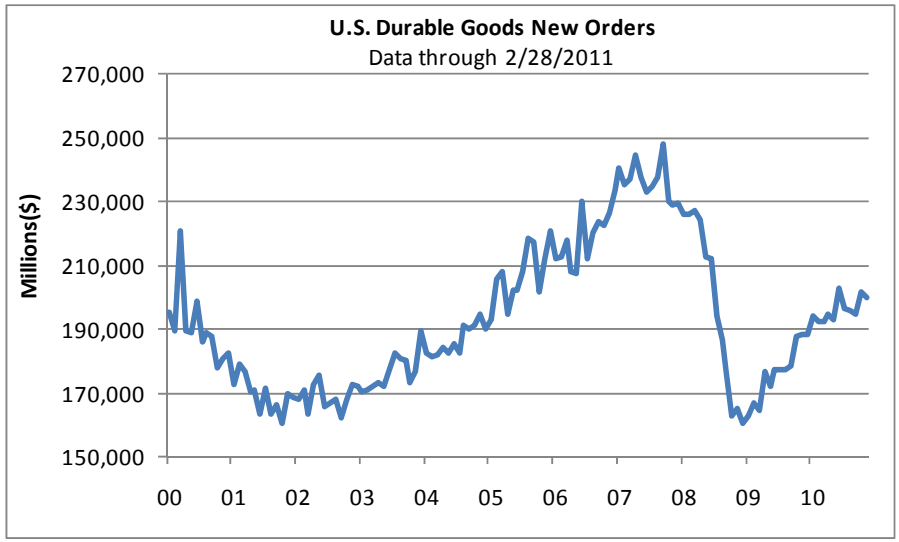
World Disasters and the Stock Market



Domestic Economic Fundamentals Strong

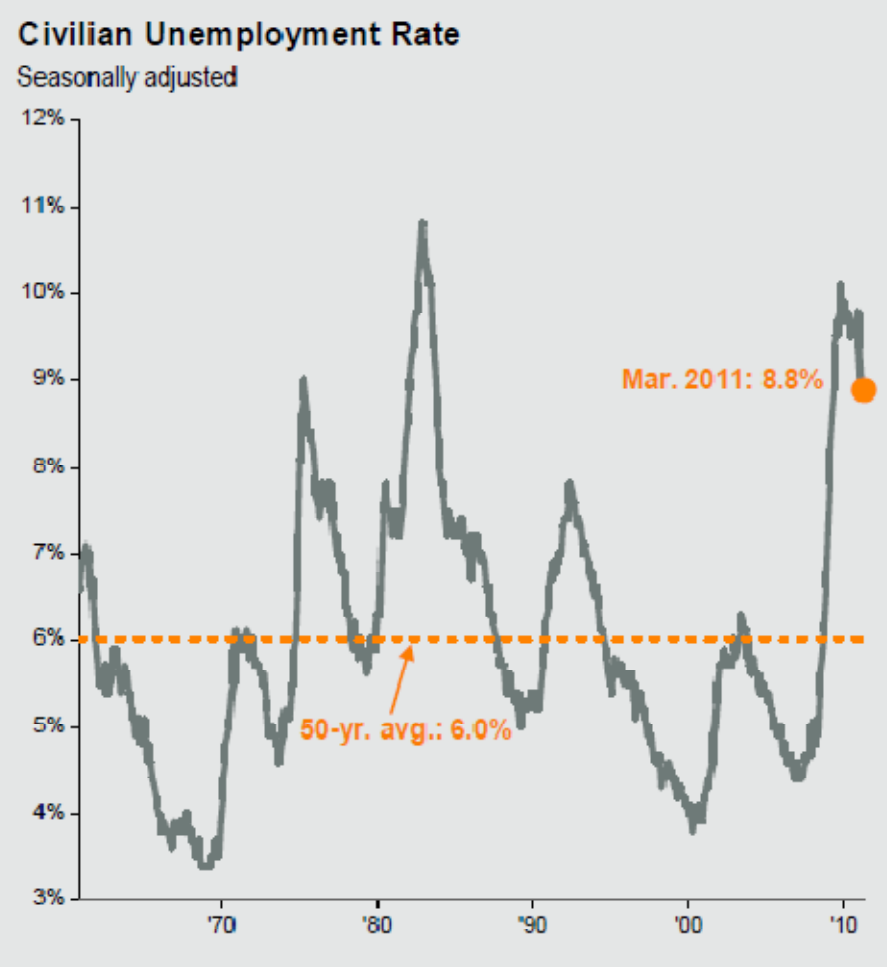




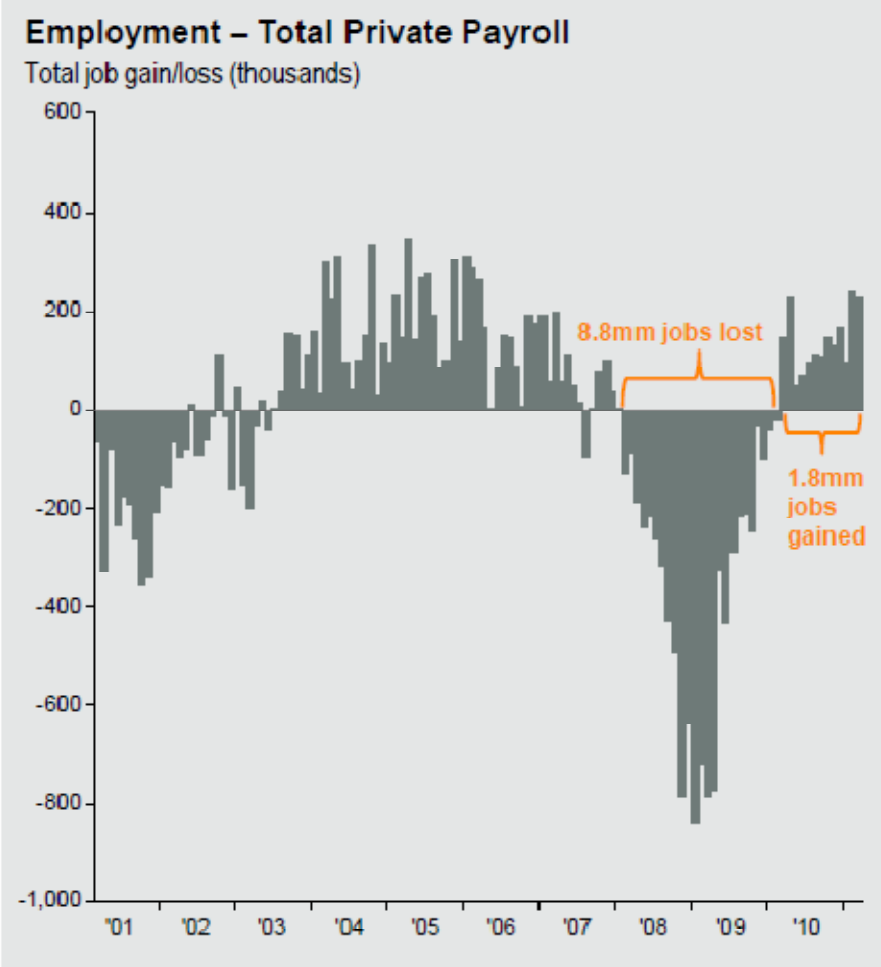


Source: Bloomberg

U.S. Unemployment

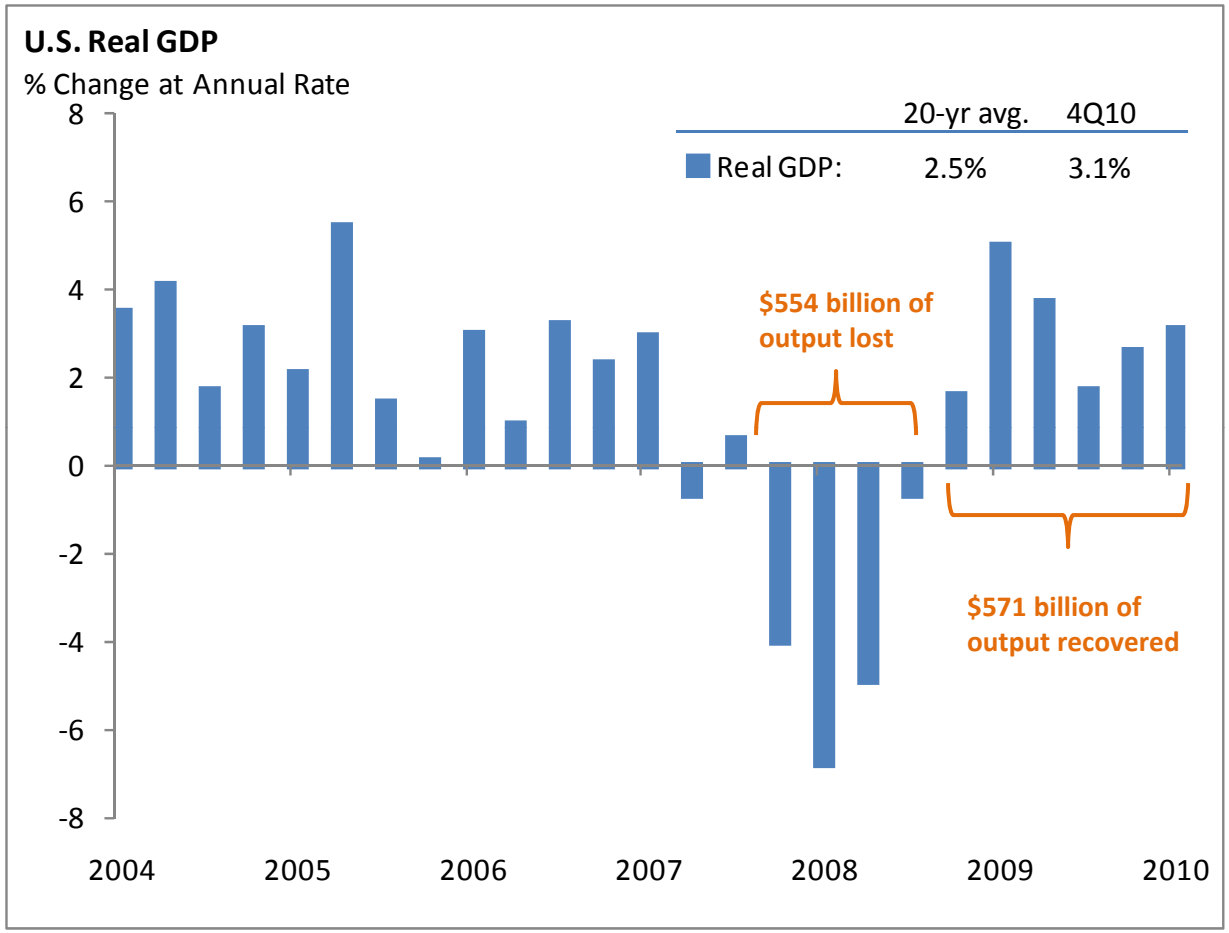


Source: BLS, J.P. Morgan Asset Management.
Data reflect most recently available as of 3/31/11.



Source: BLS, J.P. Morgan Asset Management.
Data reflect most recently available as of 3/31/11.

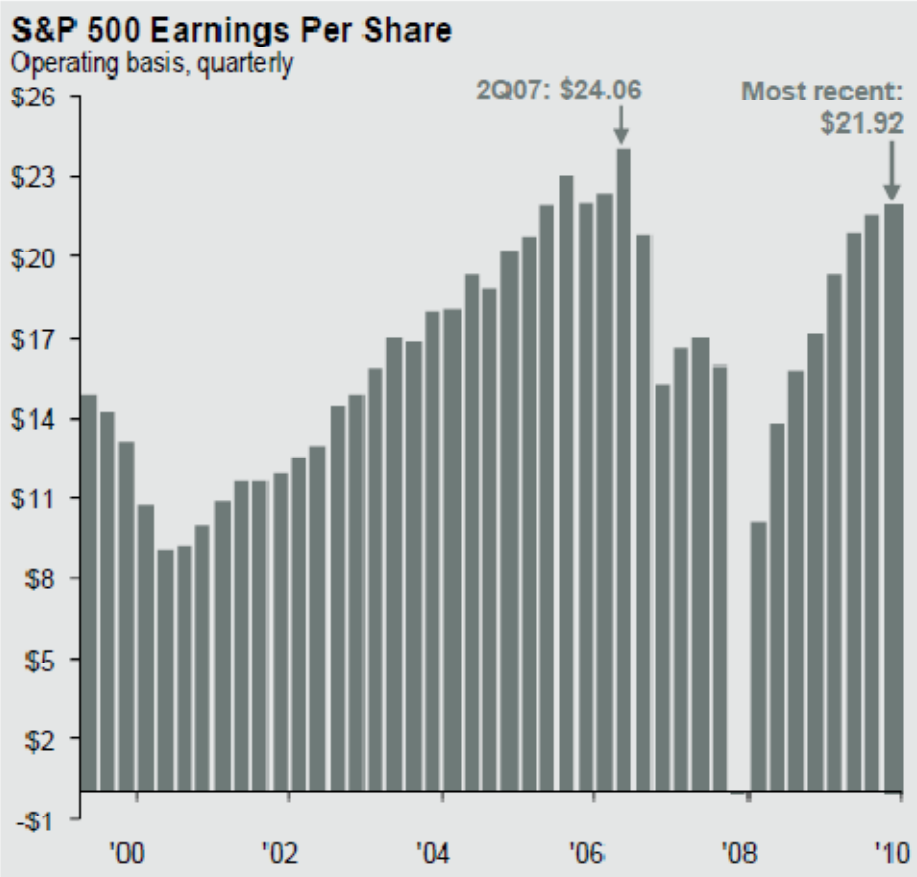
U.S. Gross Domestic Product



1Q 2011
Estimate: 3.1%

Source: Bloomberg
Data through 3/31/2011

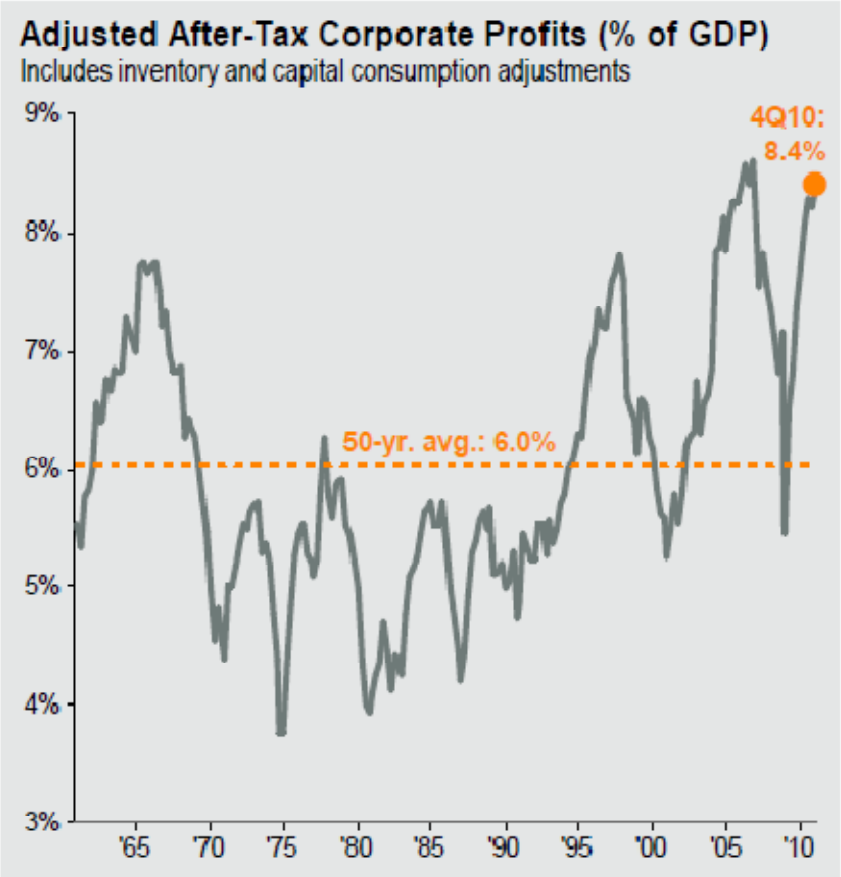
Corporate Earnings Are Strong



Source: Standard & Poor's, J.P. Morgan Asset Management.

EPS levels are based on operating earnings per share. Data reflect most recently available as of 3/31/11.

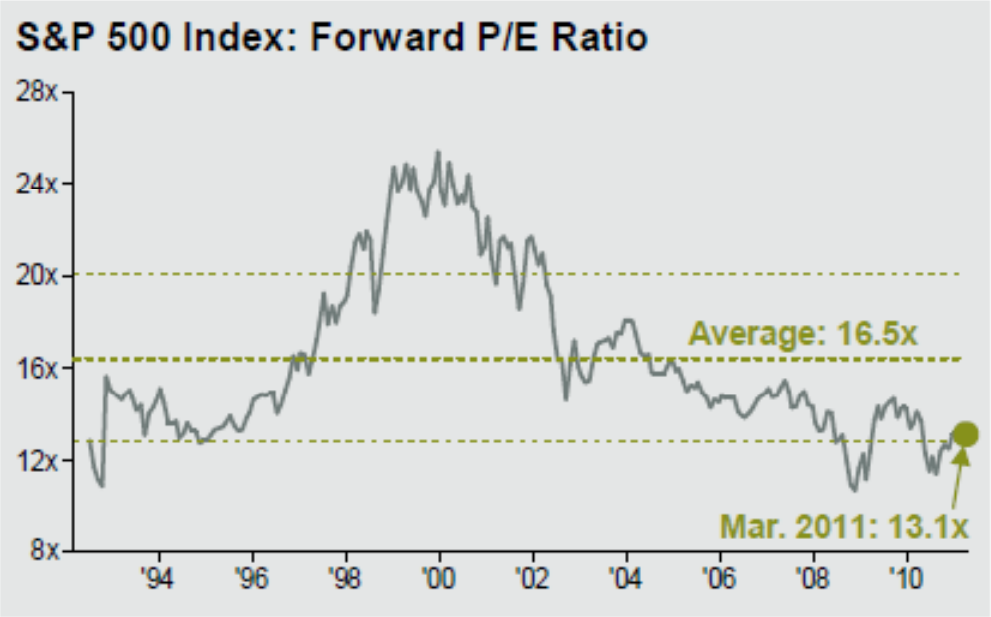
Most recently available is a 4Q10 99% complete estimate.



Source: BEA, FactSet, J.P. Morgan Asset Management.

Data are as of 3/31/11.

Equity Valuations

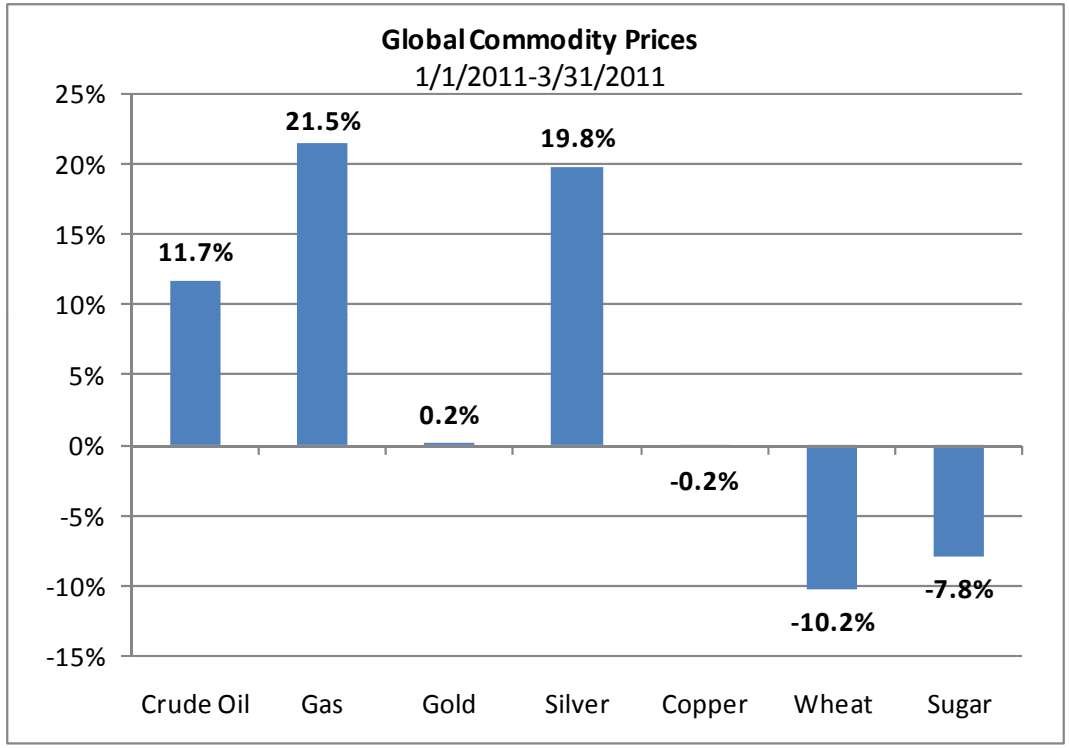


Data through 3/31/2011

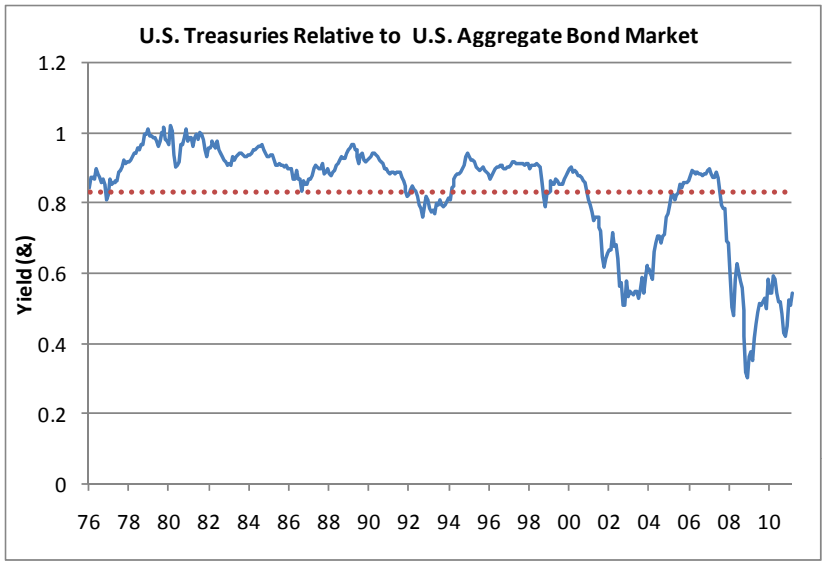
S&P 500 Valuation Measures Data through 3/31/2011

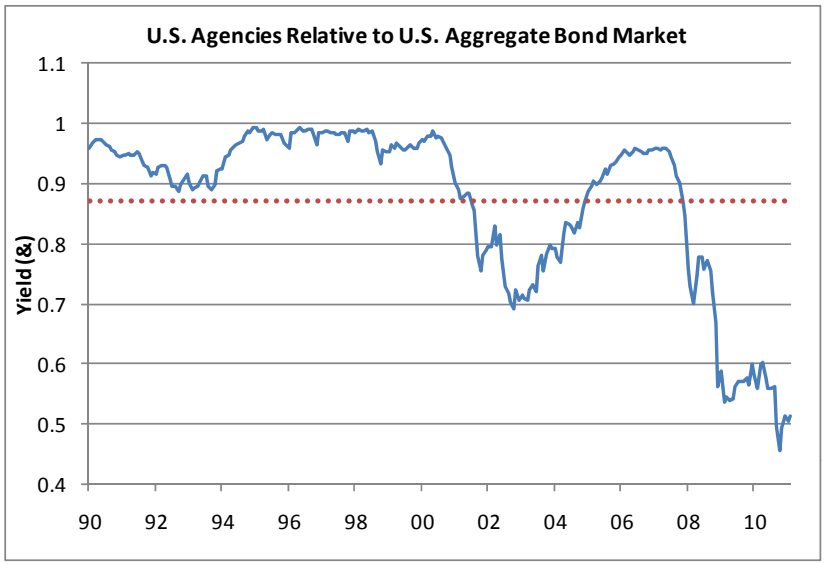
Valuation Measure	Description	Latest	1-year ago	3-year avg	5-year avg	10-year avg	15-yr avg
P/E	Price to Earnings	13.1x	14.1x	13.0x	13.6x	15.4x	17.1x
P/B	Price to Book	2.3	2.2	2.1	2.4	2.7	3.1
P/CF	Price to Cash Flow	8.8	8.9	8.3	9.1	10.5	11.2
P/S	Price to Sales	1.3	1.2	1.1	1.2	1.3	1.5
Div. Yield	Dividend Yield	2.0%	1.9%	2.3%	2.2%	2.0%	1.9%

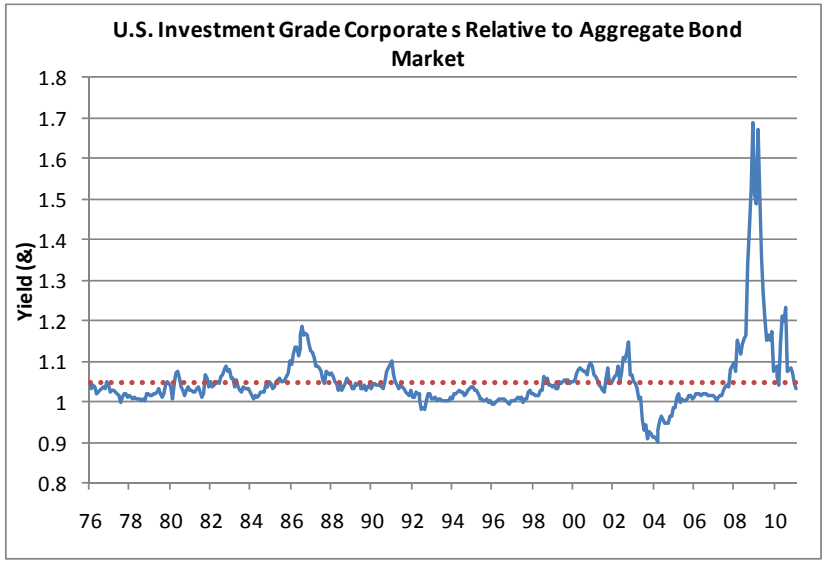
Commodity Prices

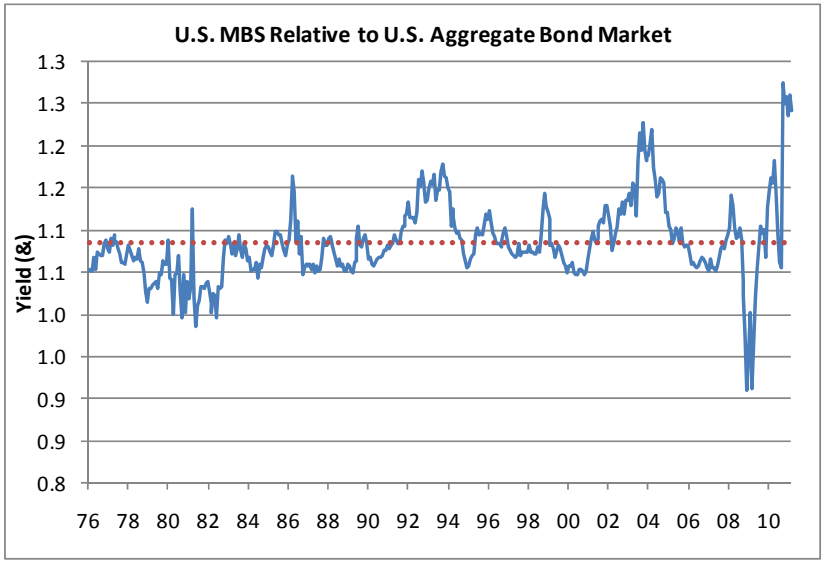


Bond Market Valuations







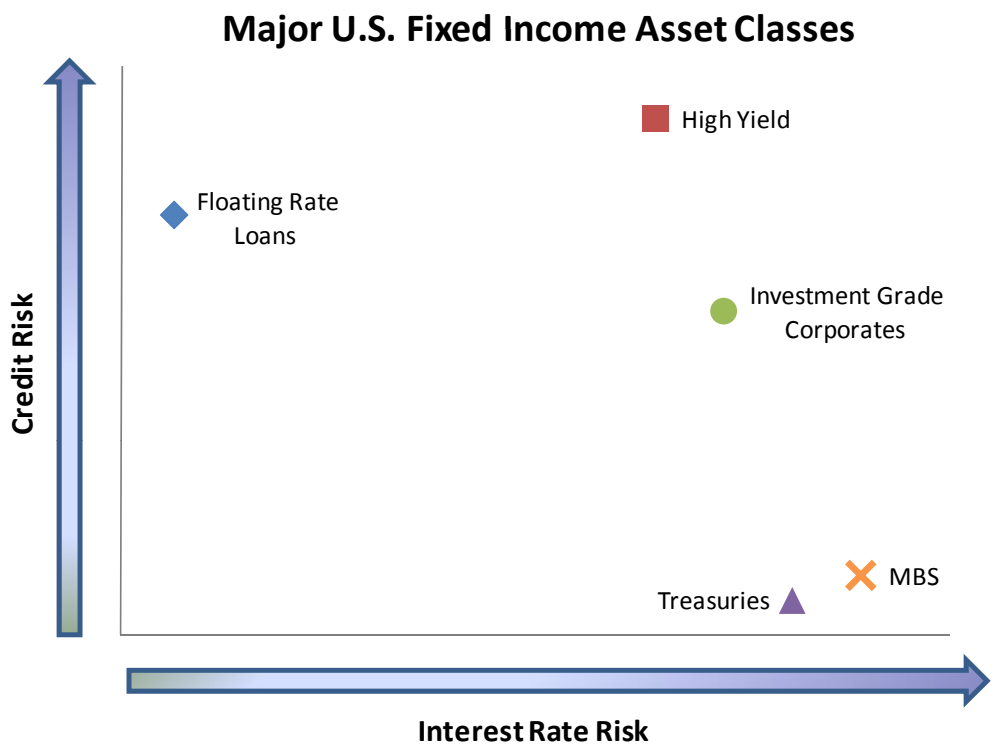


Risk in the Bond Market

20-Year Bond Coupon Rate	Duration	Impact on Price from 1% Increase in Rates	Impact on Price from 2% Increase in Rates
2.5%	15.86	-15.86%	-31.72%
5.0%	12.87	-12.87%	-25.74%
7.5%	10.66	-10.66%	-21.32%

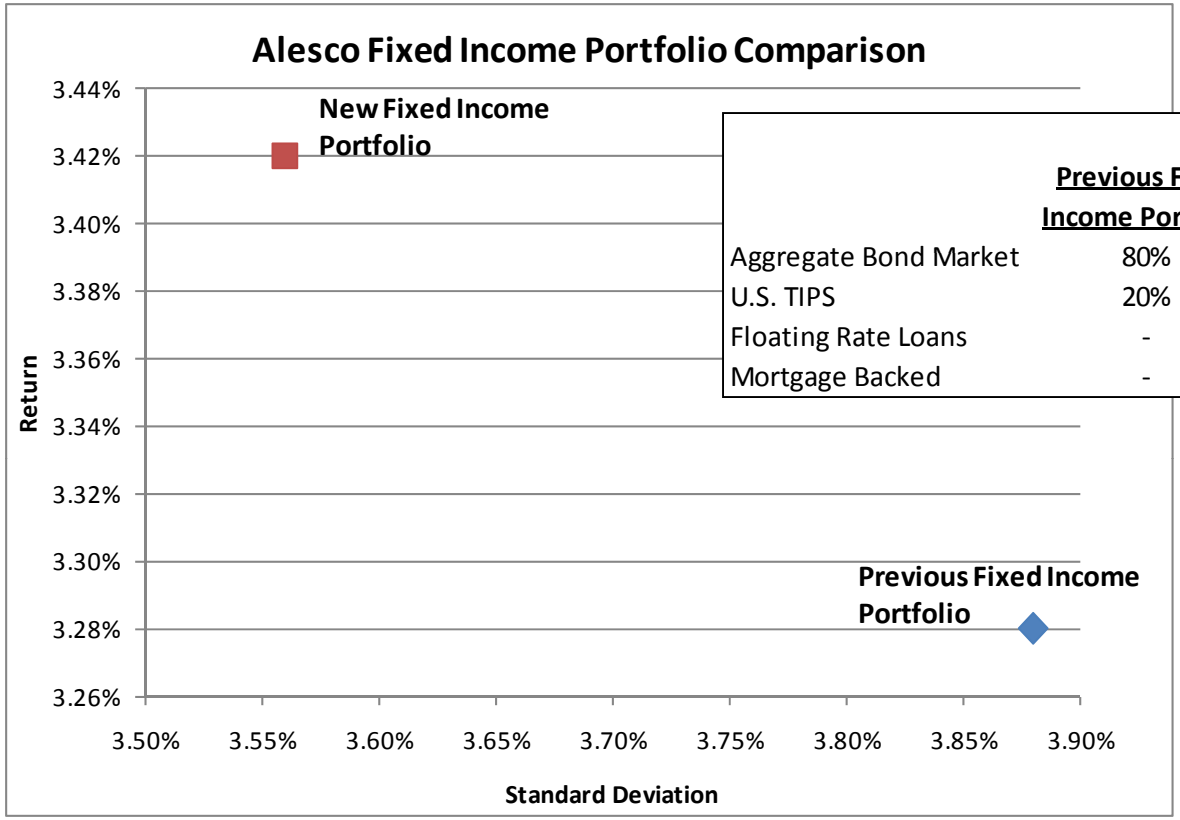
Lower Yields = Longer Duration = Greater Risk

Introduction to Floating Rate Loans



- Interest Rate Risk
  - Floating coupon virtually eliminates interest rate risk
- Credit Risk
  - Below investment grade credit quality
  - Senior debt instrument
  - Collateralized

Fixed Income Portfolio Changes



	Previous Fixed Income Portfolio	New Fixed Income Portfolio
Aggregate Bond Market	80%	64%
U.S. TIPS	20%	20%
Floating Rate Loans	-	8%
Mortgage Backed	-	8%

	U.S. TIPS	Mortgage-Backed Securities	Floating Rate Loans	U.S. Aggregate Bond Index
U.S. TIPS	1.00			
Mortgage-Backed Securities	0.61	1.00		
Floating Rate Loans	0.17	-0.16	1.00	
U.S. Aggregate Bond Index	0.74	0.90	-0.04	1.00

Total Returns through March 31, 2011						
			Annualized Returns			
Asset Class	**Index Description**	**YTD**	**1 Year**	**3 Year**	**5 Year**	**10 Year**
U.S. Equity						
Large-Cap Core	S&P 500	5.9%	15.6%	2.4%	2.6%	3.3%
Large-Cap Growth	S&P 500/Citigroup Growth	5.1%	16.6%	4.7%	4.1%	3.5%
Large-Cap Value	S&P 500/Citigroup Value	6.8%	14.8%	-0.2%	1.1%	3.0%
Mid-Cap Core	S&P 400	9.4%	27.0%	10.0%	6.1%	9.4%
Mid-Cap Growth	S&P 400/Citigroup Growth	9.8%	31.0%	11.5%	7.4%	9.6%
Mid-Cap Value	S&P 400/Citigroup Value	8.9%	22.9%	8.4%	4.7%	9.0%
Small-Cap Core	S&P 600	7.7%	25.3%	8.4%	3.7%	9.2%
Small-Cap Growth	S&P 600/Citigroup Growth	9.1%	30.2%	9.5%	4.7%	9.5%
Small-Cap Value	S&P 600/Citigroup Value	6.3%	20.6%	7.1%	2.6%	8.9%
International Equity						
Developed Markets	MSCI EAFE	3.4%	10.4%	-3.0%	1.3%	5.4%
Emerging Markets	MSCI Emerging Markets	2.0%	18.5%	4.3%	10.7%	16.8%
Fixed Income						
Short-Term Treasury (1-3 mo.)	BarCap Short-Term Treasury	0.1%	0.3%	0.8%	2.5%	2.4%
Intermediate-Term Corporate	BarCap Intermediate-Term Corporate	1.1%	6.8%	7.0%	6.4%	6.0%
Diversified Bonds	BarCap Aggregate	0.4%	5.1%	5.3%	6.0%	5.6%
Municipal Bonds	BarCap Municipal	0.5%	1.6%	4.5%	4.1%	4.7%
Inflation-Protected Treasuries (TIPS)	BarCap Treasury Inflation Notes	2.1%	7.9%	3.9%	6.2%	6.7%
Alternative Investments						
Domestic Real Estate (REITs)	Dow Jones Wilshire REIT	6.7%	24.4%	1.5%	0.7%	11.2%
International Real Estate (REITs)	Dow Jones Wilshire ex-US Real Estate Index	4.2%	25.0%	-4.2%	1.5%	-