Economic Review:

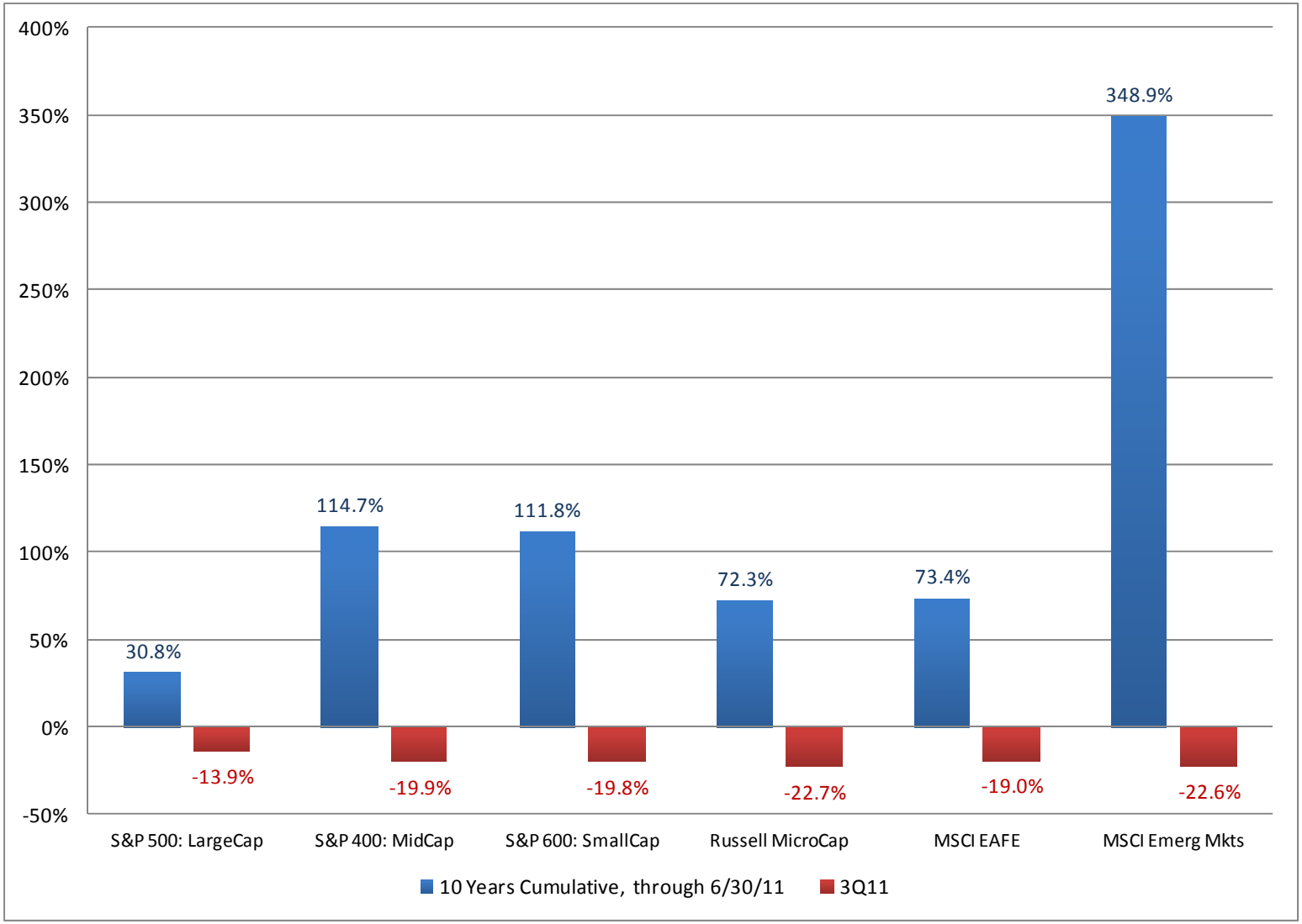
- The stock market weakened considerably in the third quarter, with the S&P 500 losing 13.9%, the MSCI EAFE losing 19%; midcap and smallcap stocks declined almost 20%.

- A global recovery is in doubt:
    - Slowing growth in U.S. and overseas
    - Sovereign debt crisis in the Euro Zone

- Concerns within the U.S. economy continue to plague investors:
    - Housing market
    - Unemployment
    - Government finances

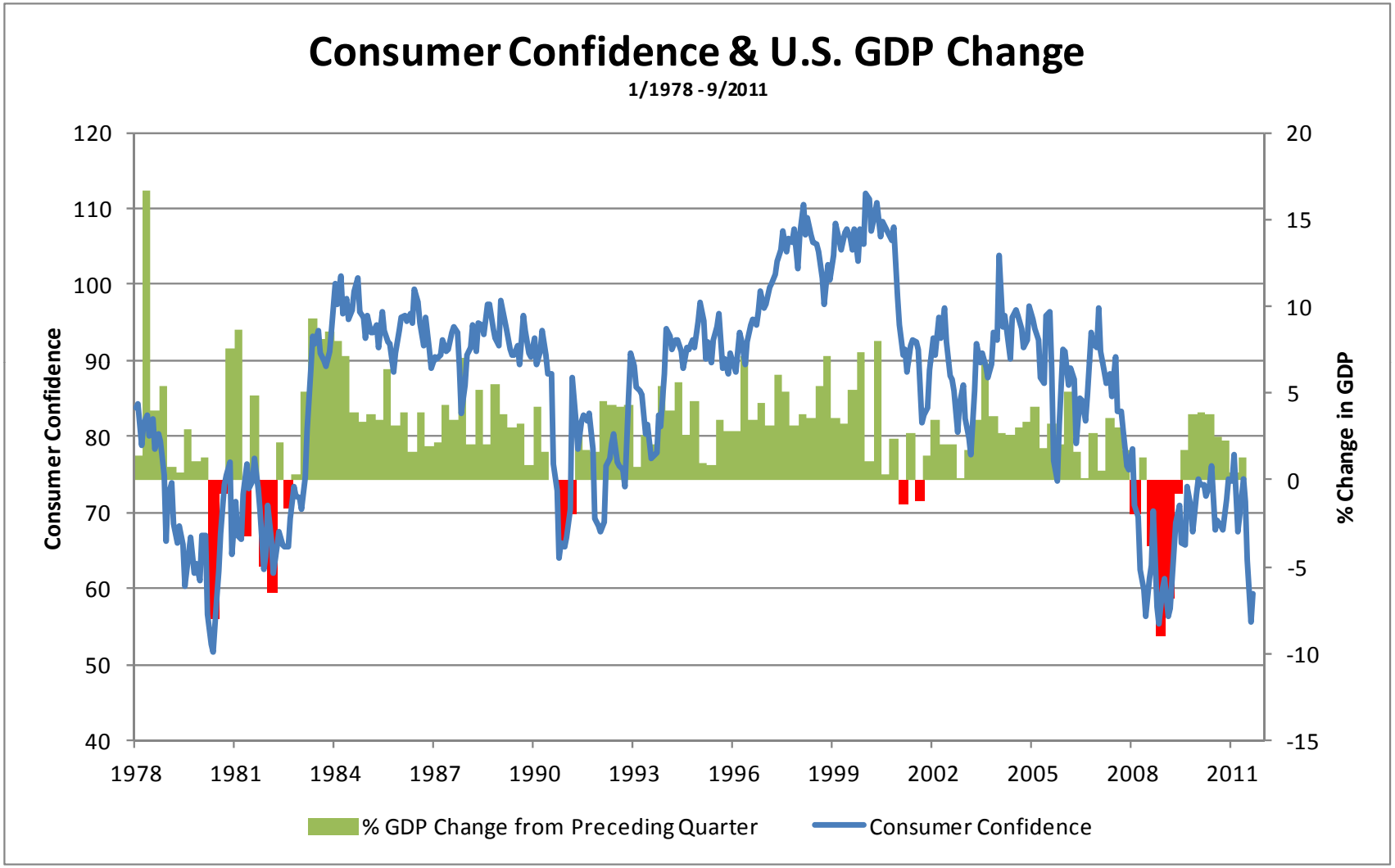
- As a result of surging profits and strong balance sheets, S&P 500 companies are attractively priced with current price-to-earnings multiples 36.4% cheaper than the 25-year average.

The Long-Term Benefits of Diversification



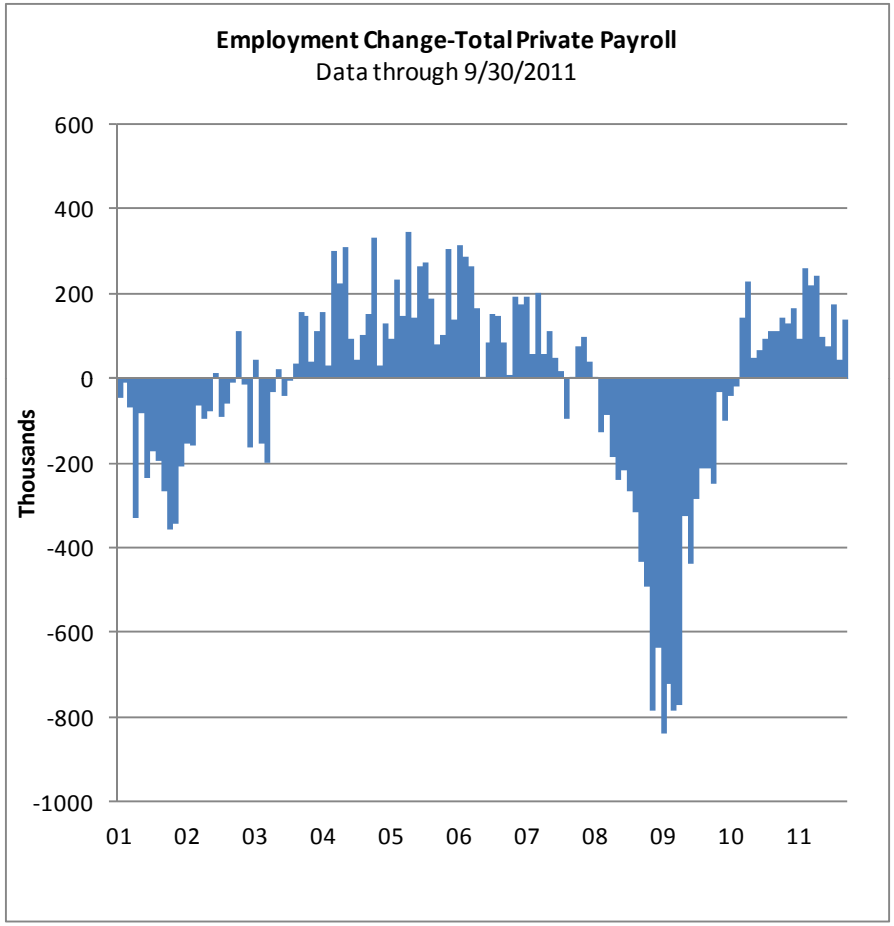
Source: Bloomberg

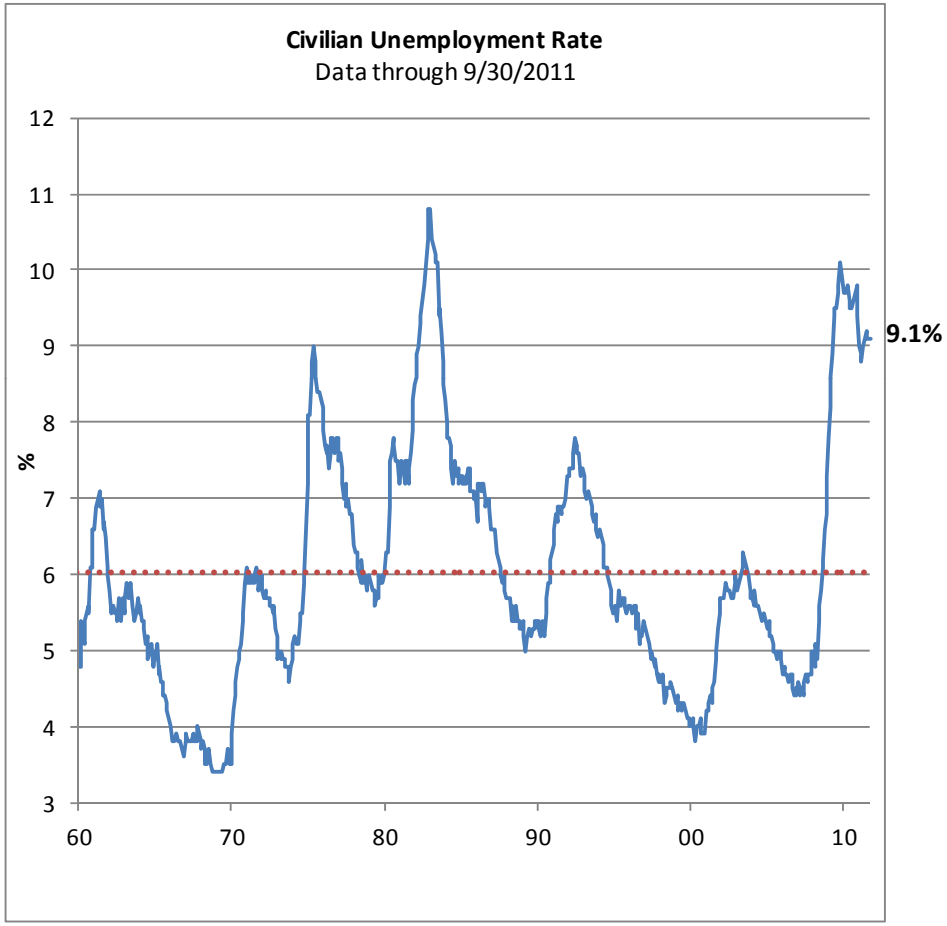
Consumer Sentiment



Source: Bloomberg, University of Michigan Survey of Consumer Confidence Sentiment, US Department of Commerce Bureau of Economic Analysis

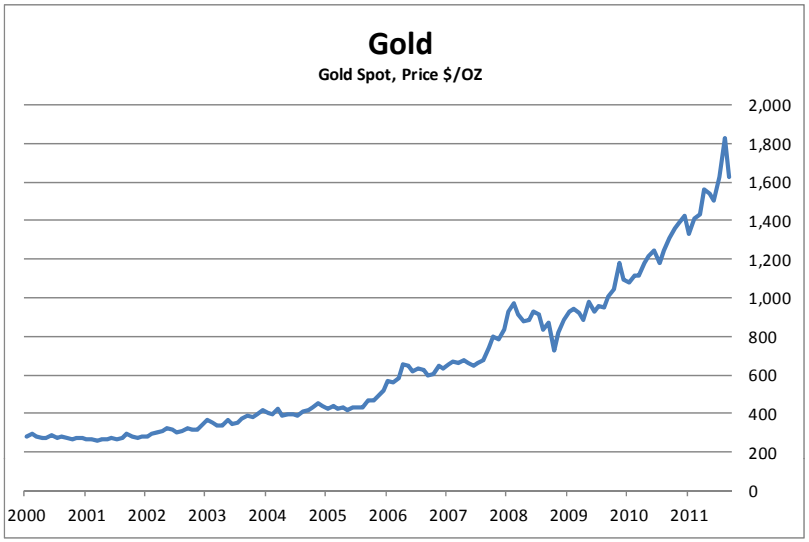
The Unemployment Situation

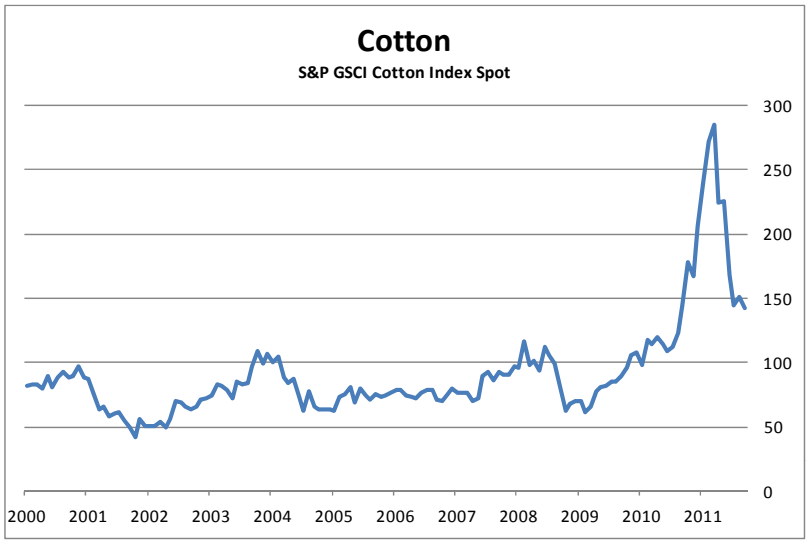


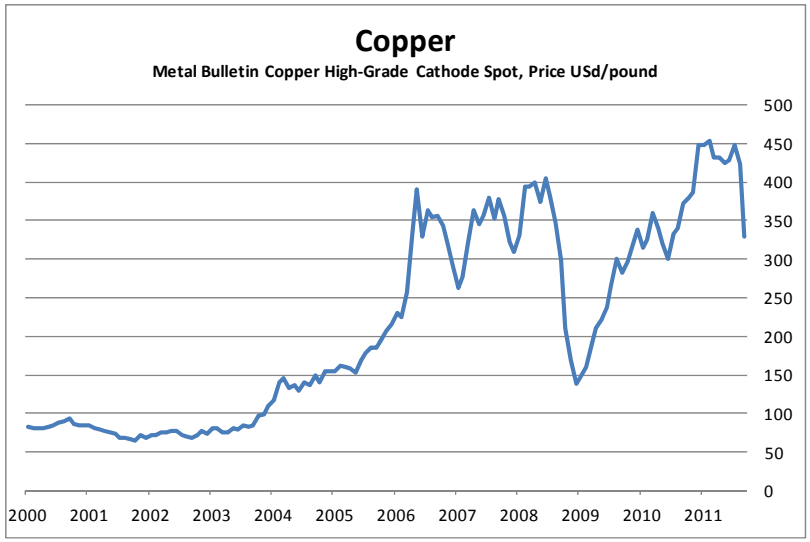


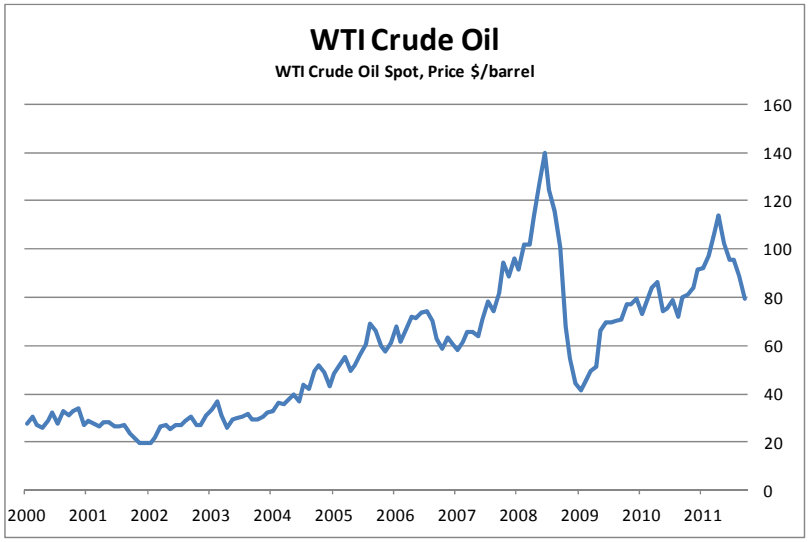
Source: Bloomberg, Bureau of Labor Statistics

Commodity Prices



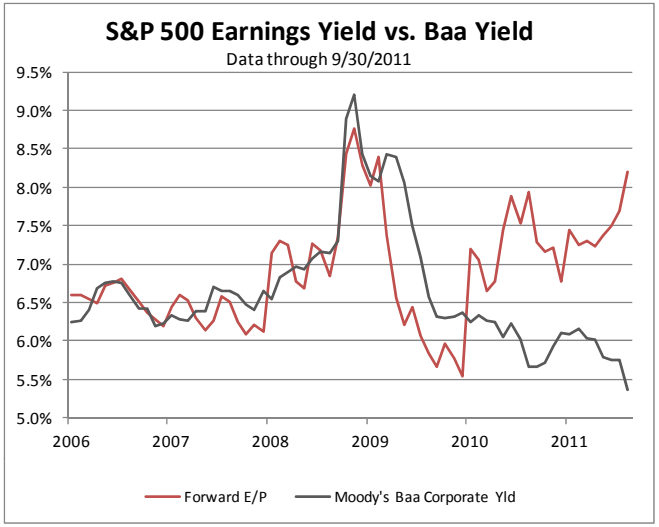




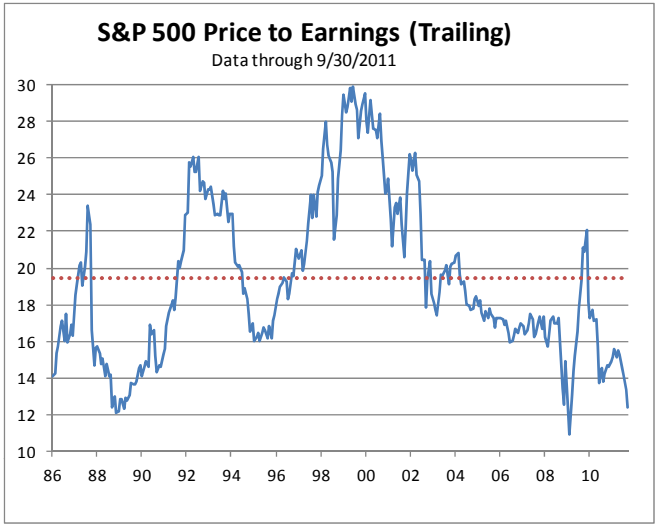


Source: Bloomberg

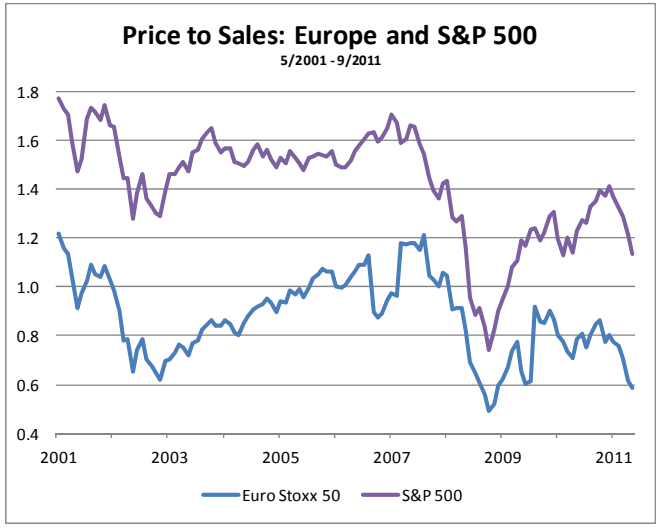
Equity Valuations are Attractive



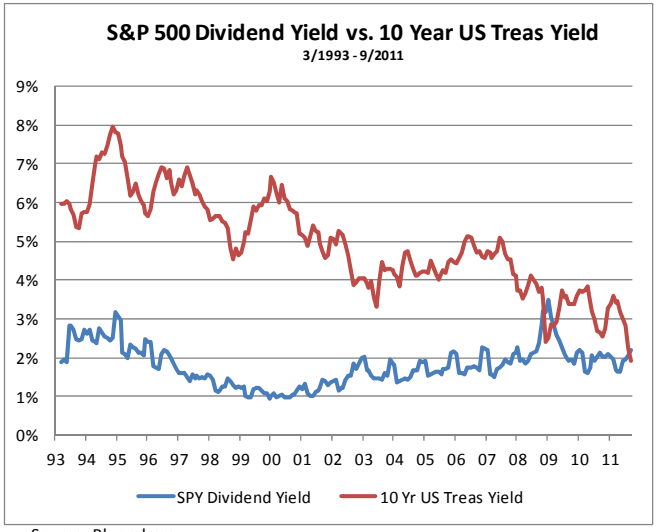
Source: Bloomberg



Source: Bloomberg

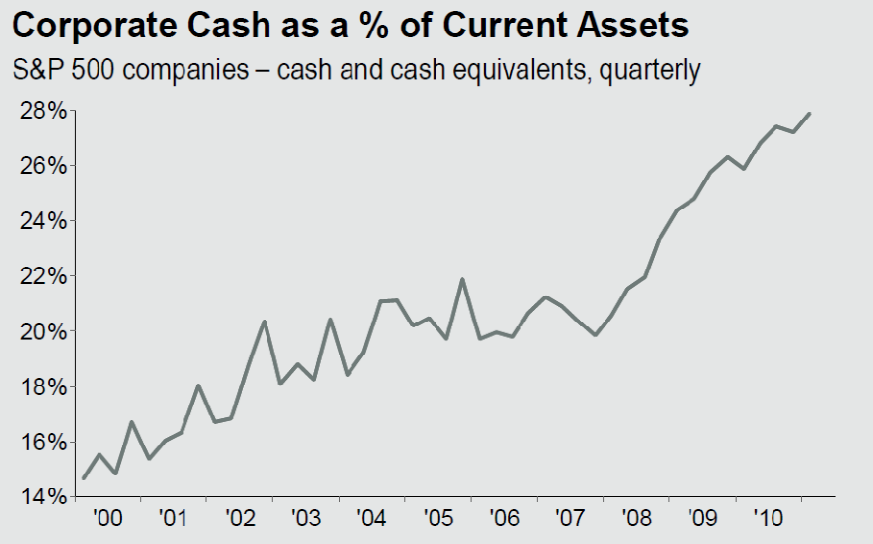


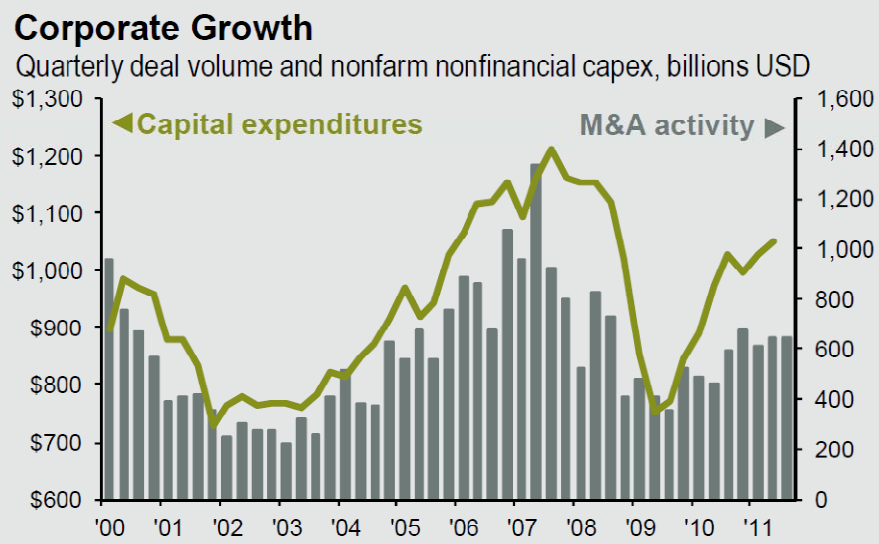
Source: Bloomberg, Index Price/Sales calculated as last price divided by trailing 12 month sales per share



Source: Bloomberg

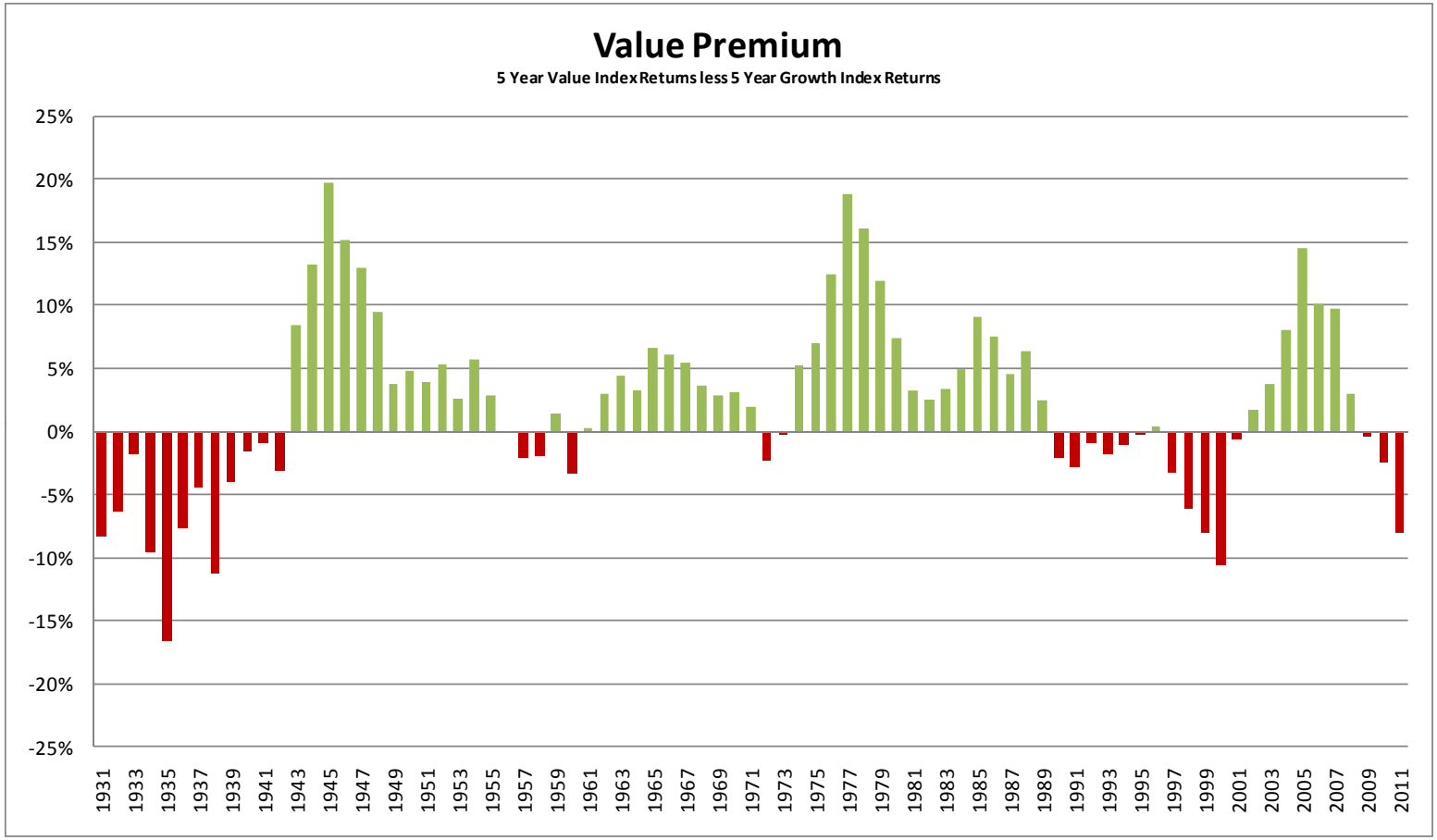
Corporate America is Poised for Prosperity





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

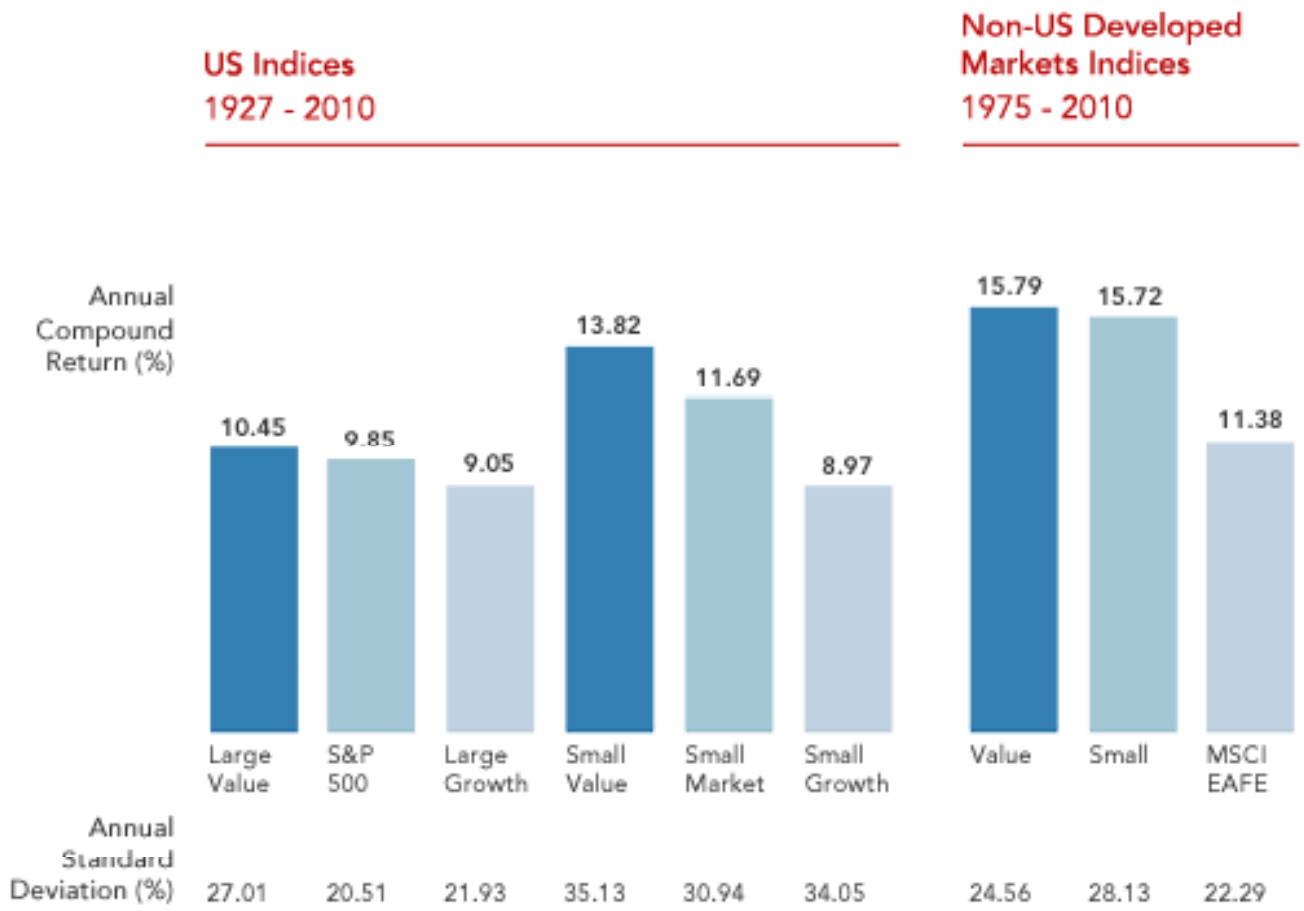
Why Overweight Value?



Source: Dimensional Funds, Fama/French US Large Cap Value Index, Fama/French US Large Cap Growth Index
Data: 7/1926 to 7/2011

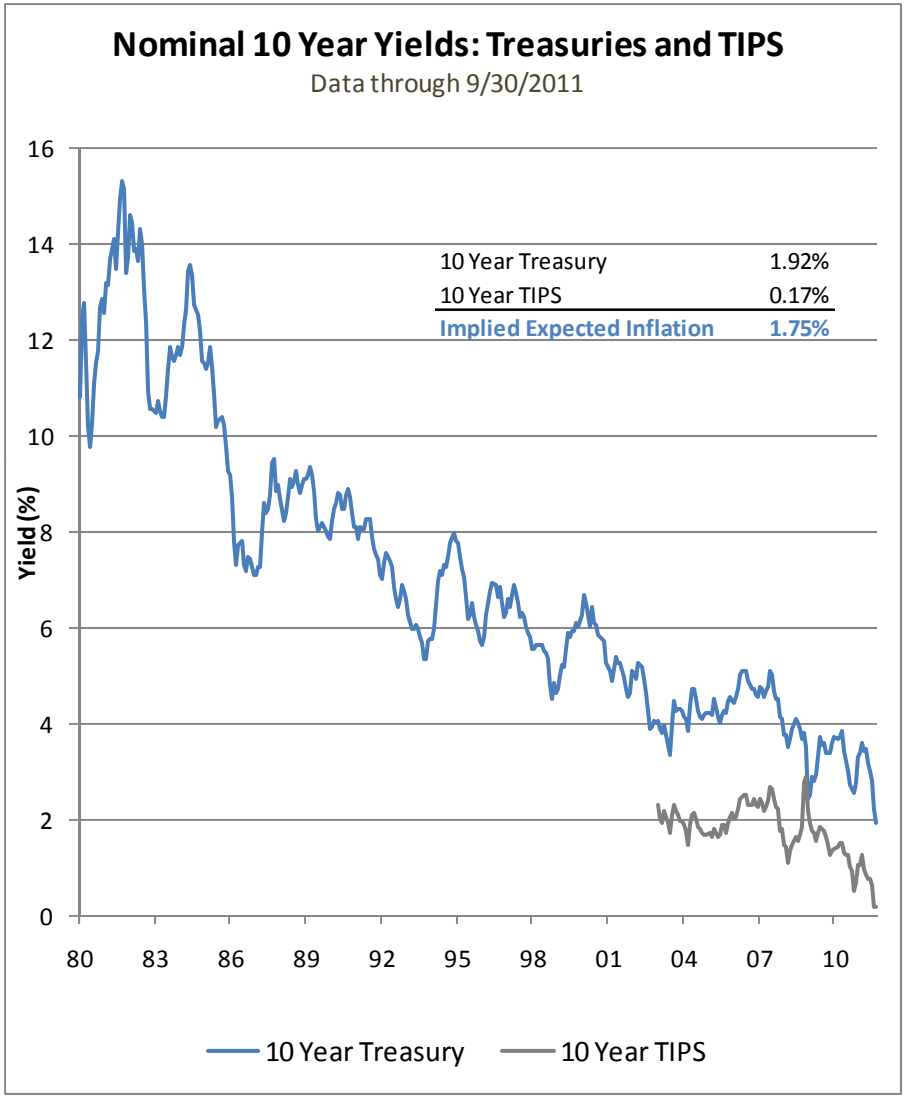
- Value stocks have outperformed growth stocks by an average of 1.69% per year since 1926

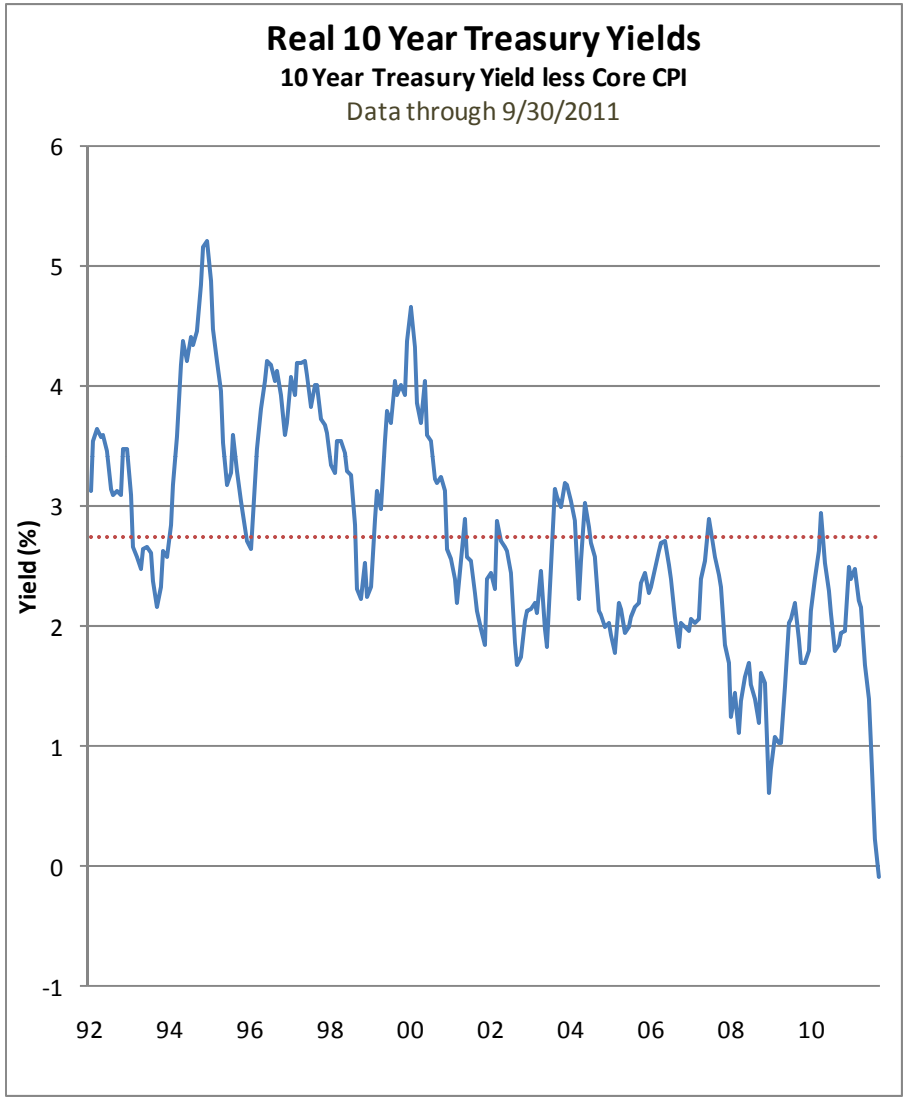
Size and Value Matter



Source: Dimensional Fund Advisors. In US dollars. Developed markets value and growth index data provided by Fama/French (ex utilities). The S&P data are provided by Standard & Poor's Index Services Group. US Small Cap Index is the CRSP 6-10 Index. CRSP data provided by the Center for Research in Security Prices, University of Chicago. International Small Cap index data: 1970–June 1981, 50% UK small cap stocks provided by the London Business School and 50% Japan small cap stocks provided by Nomura Securities; July 1981–present: simulated by Dimensional from StyleResearch securities data; includes securities of MSCI EAFE Index countries, market-capitalization weighted, each country capped at 50%. MSCI data copyright MSCI 2010, all rights reserved.

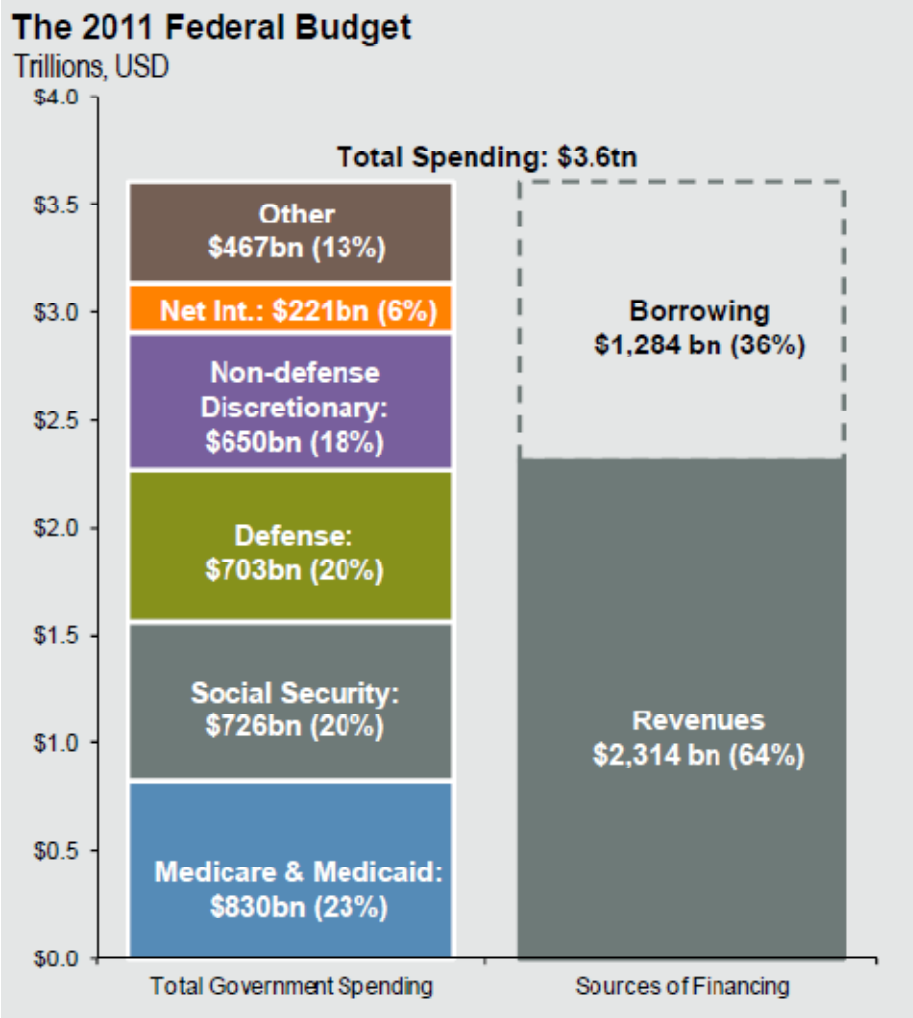
U.S. Treasury Yields

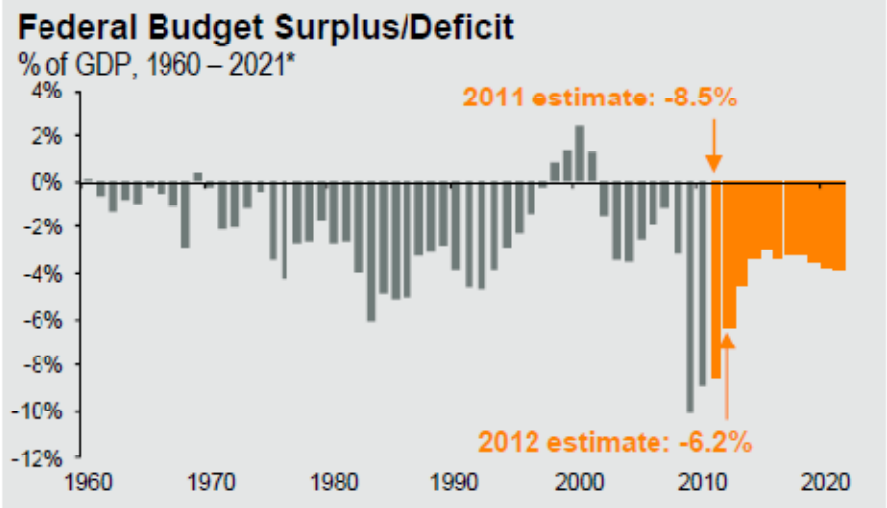


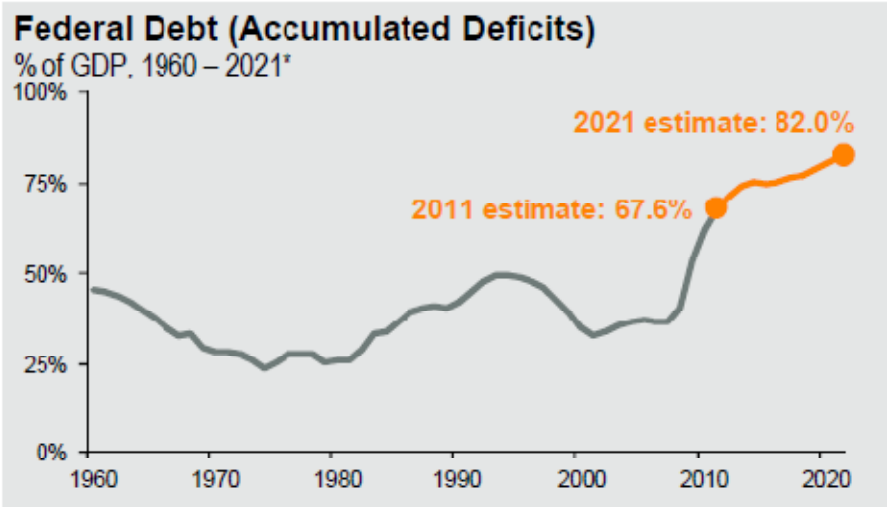


Source: Federal Reserve, Bloomberg

U.S. Government Finances

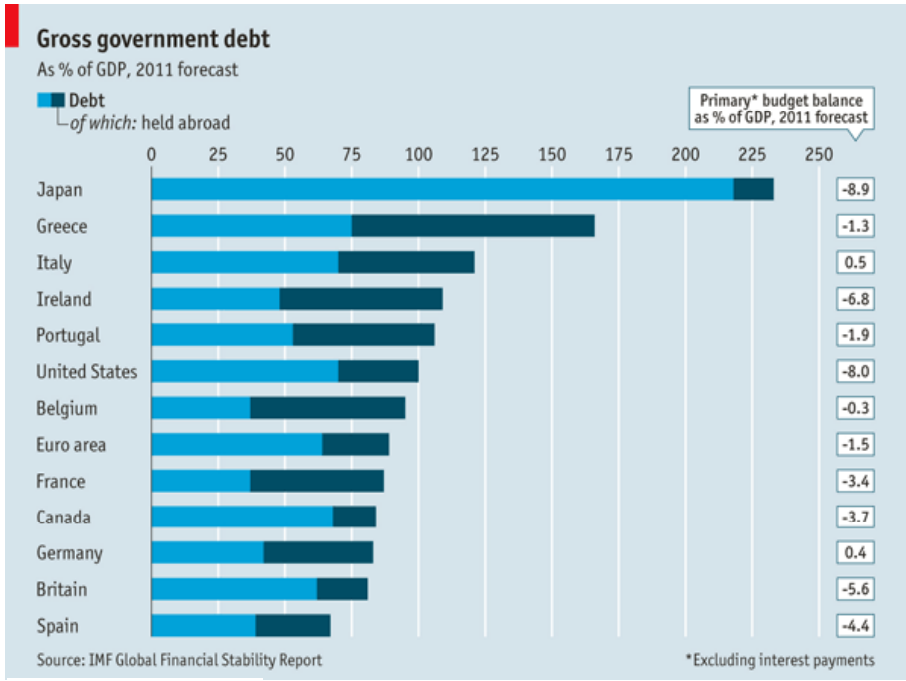




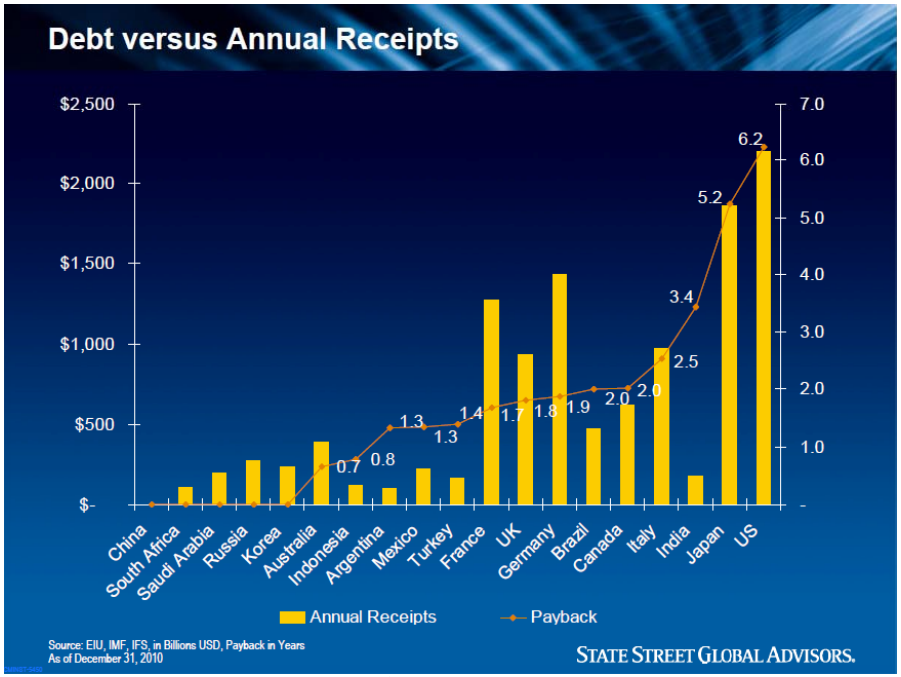


Source: U.S. Treasury, BEA, CBO, OMB, J.P. Morgan Asset Management.
2011 numbers are based on CBO August Baseline Scenario. *Estimates for 2011 – 2021 are based on August alternative scenario budget projections from the CBO's "Budget and Economic Outlook: An Update" which was released on August 24, 2011. The alternative scenario assumes an extension of all Bush tax cuts, annual adjustments to AMT and Medicare payment schedules and spending on operations in Afghanistan and Iraq rising from 2011 levels in line with inflation throughout the forecast period.
Note: Years shown are fiscal years (Oct. 1 through Sep. 30). Top right chart displays federal surplus/deficit (revenues – outlays).
Data reflect most recently available as of 9/30/11.

Global Government Debt

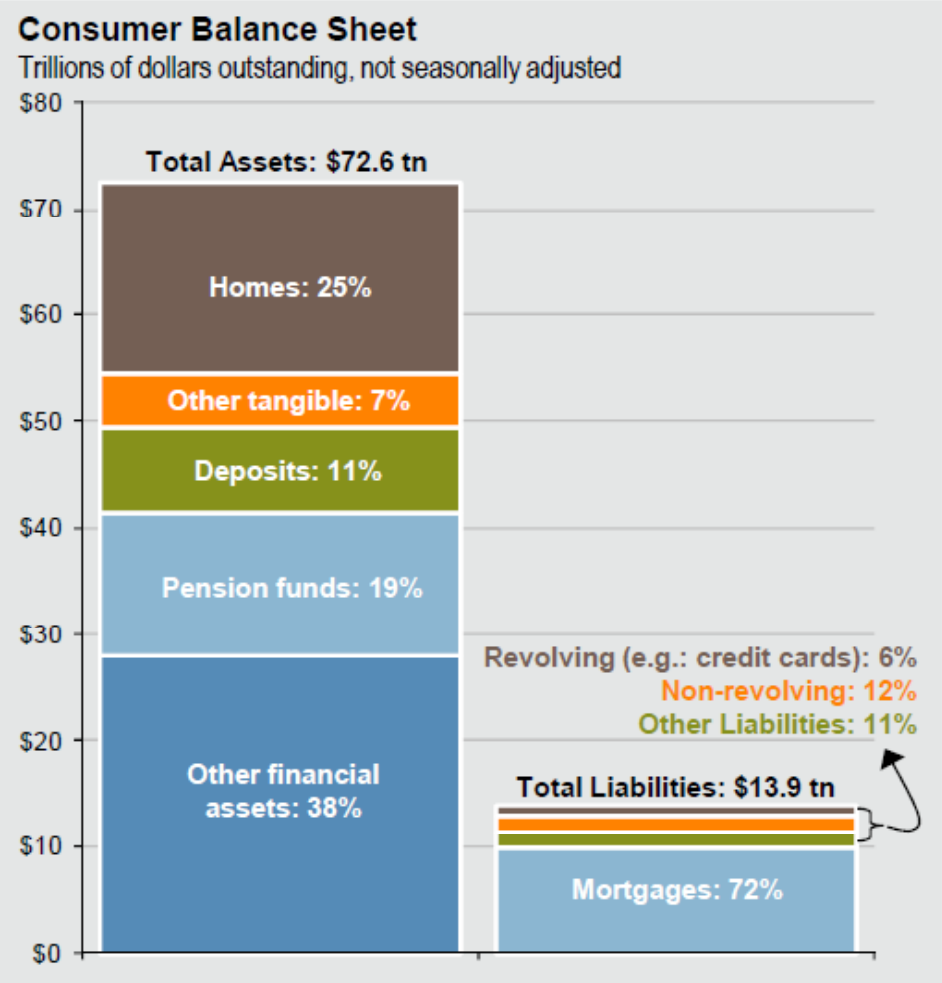


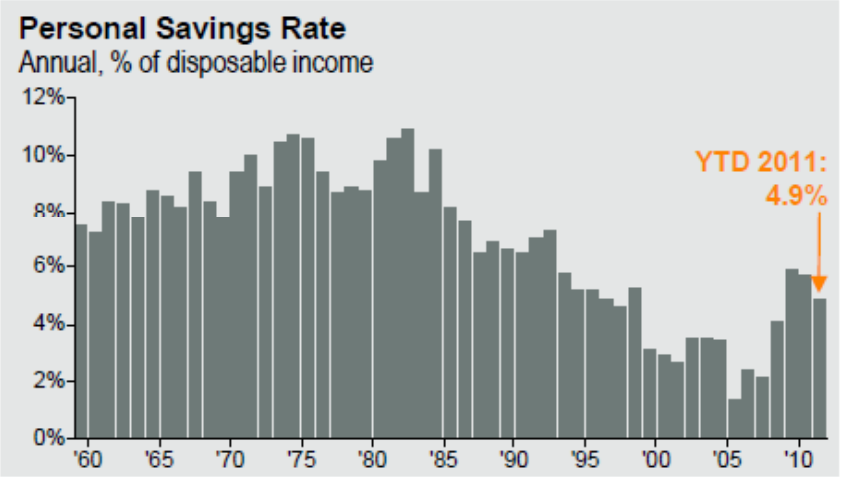
Source: The Economist

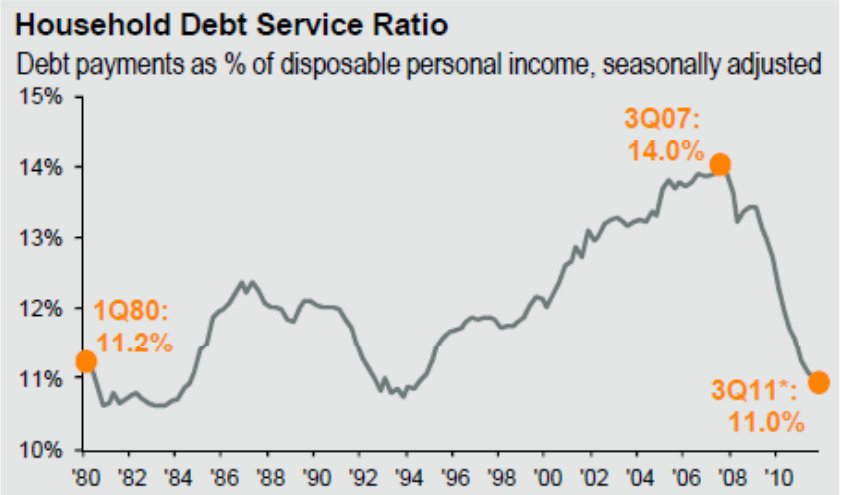


Source: State Street Global Advisors

Consumer Finances

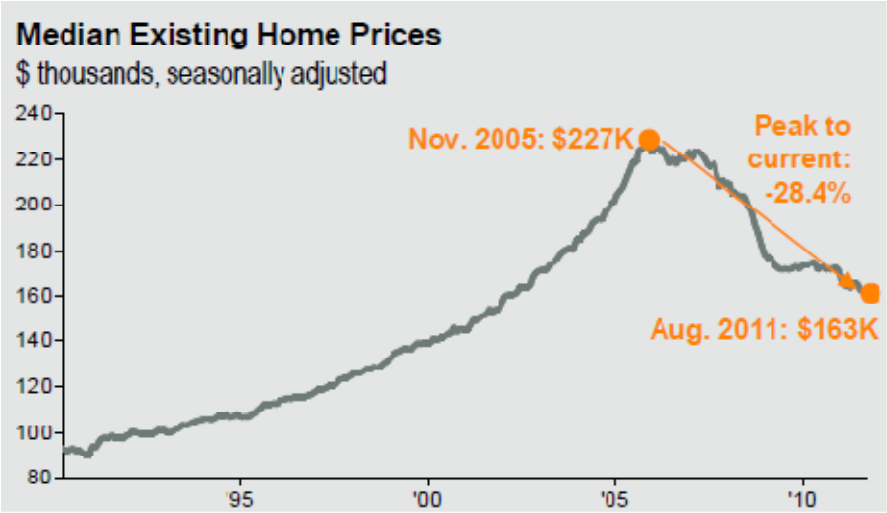


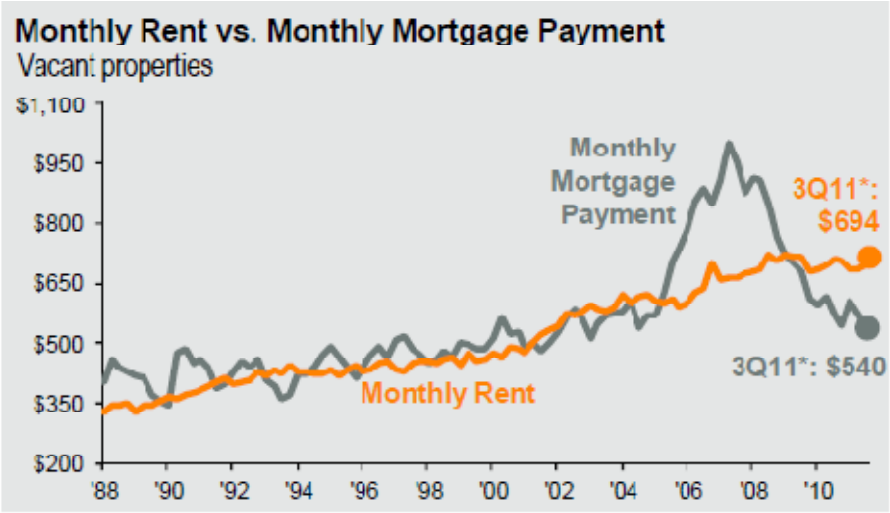


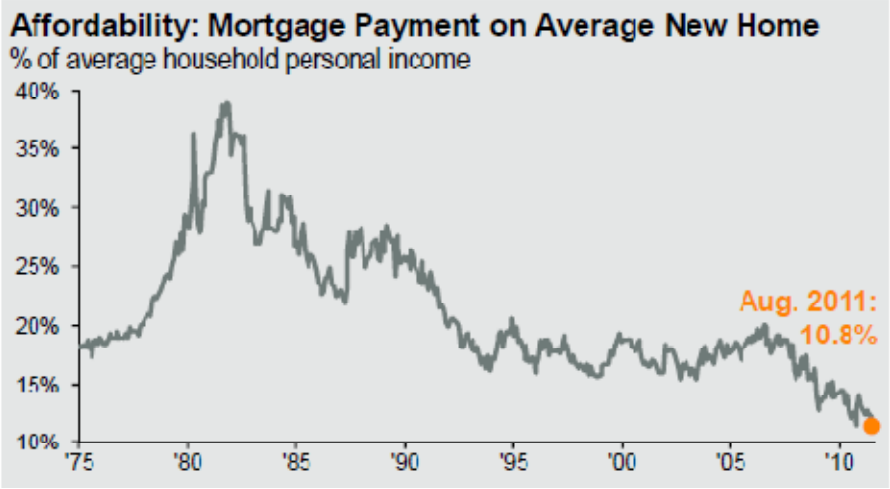


Source: (Left) FRB, J.P. Morgan Asset Management. Data includes households and nonprofit organizations. (Right) BEA, FRB, J.P. Morgan Asset Management. Personal savings rate is calculated as personal savings (after-tax income – personal outlays) divided by after-tax income. Employer and employee contributions to retirement funds are included in after-tax income but not in personal outlays, and thus are implicitly included in personal savings. Savings rate data as of August 2011. *3Q11 Household Debt Service Ratio is J.P. Morgan Asset Management estimate. All other data are as of 2Q11.

U.S. Housing Market at a Glance

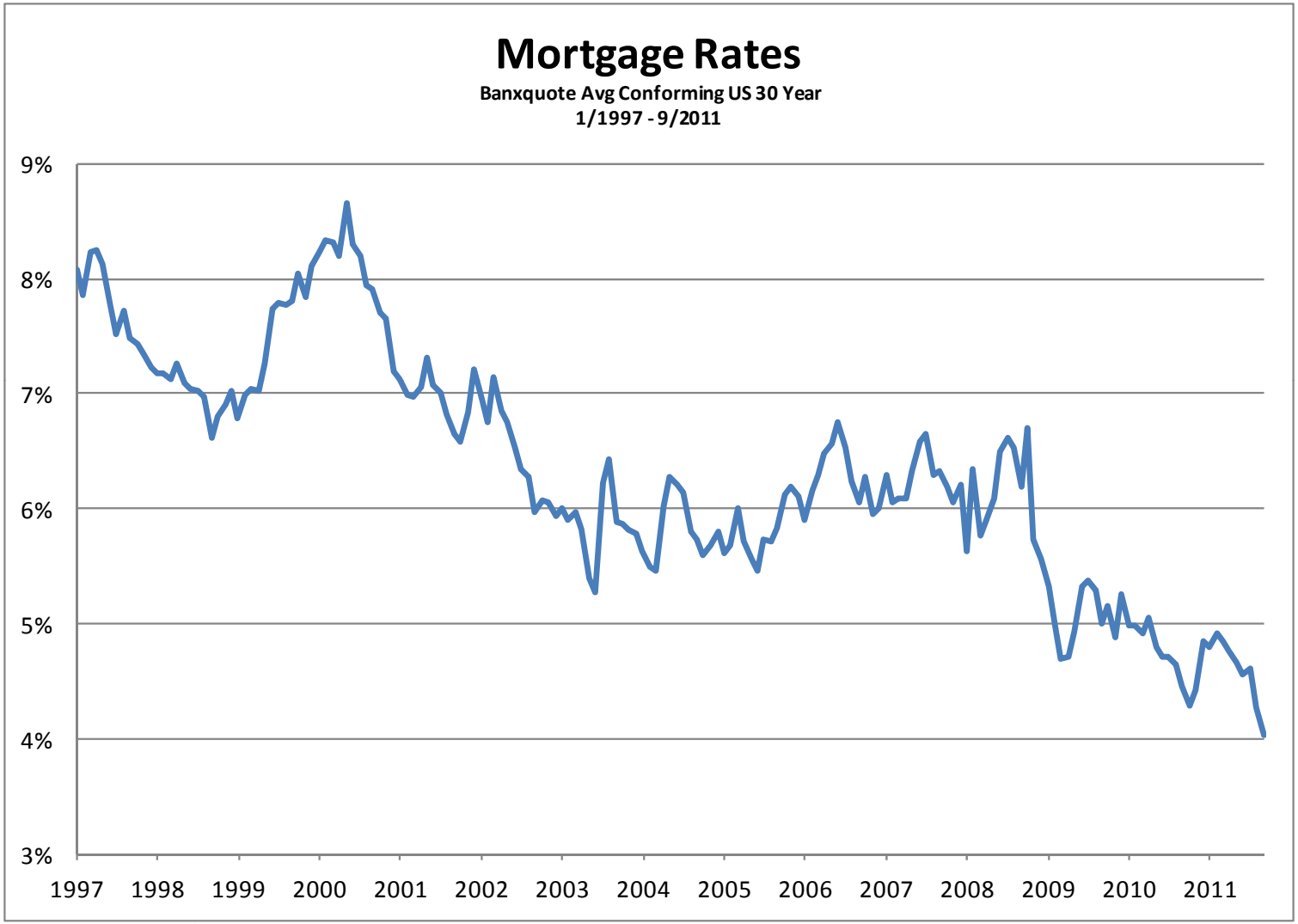






Sources: (Top left) National Association of Realtors, FactSet, J.P. Morgan Asset Management. (Top right) Census Bureau, J.P. Morgan Asset Management. Monthly mortgage payment assumes a 20% down payment at prevailing 30-year fixed-rate mortgage rates; analysis based on median asking rent and median mortgage payment based on asking price. *3Q11 estimates provided by J.P. Morgan Asset Management. (Bottom left) Census Bureau, National Association of Realtors, J.P. Morgan Asset Management. Home sales include both new and existing home sales. Existing home sales include single-family, townhouses, condominiums, and co-ops.
Bottom right) Census Bureau, FRB, BEA, J.P. Morgan Asset Management. Calculation assumes a 20% down payment, a 30-year fixed-rate mortgage, excludes property tax and homeowners' insurance and is expressed as a % of pre-tax income. Data reflect most recently available as of 9/30/11.

U.S. Mortgage Rates



Source: Bloomberg

SPIVA Scorecard

Percent of Mutual Funds Outperformed by Benchmark

Fund Category	Comparision Index	One Year (%)	Three Year (%)	Five Year (%)
All Large Cap Funds	S&P 500	60.47	63.96	61.28
All Mid Cap Funds	S&P MidCap 400	66.67	75.07	78.81
All Small Cap Funds	S&P SmallCap 600	47.48	63.08	60.69
All Multi Cap Funds	S&P Composite 1500	59.73	67.34	67.26
International Funds	S&P 700	55.30	64.62	80.23
Emerging Market Funds	S&P/IFCI Composite	63.23	80.77	86.96
Government Intermediate Funds	Barclays Intermediate Government	75.00	53.33	61.70
Investment-Grade Intermediate Funds	Barclays Intermediate Government/Credit	31.90	34.84	56.42
Mortgage-Backed Securities Funds	Barclays Mortgage-Backed Securities	30.65	60.78	79.17
New York Municipal Debt Funds	S&P New York AMT-Free Municipal Bond	94.12	97.14	100.00

Source: Standard & Poor's, CRSP. For periods ending June 30, 2011. Outperformance is based upon equal weighted fund counts. All index returns used are total returns. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Financial Market Performance

Total Returns through September 30, 2011

Asset Class	Index Description	QTD	YTD	Annualized Returns 1 Year	3 Year	5 Year	10 Year
U.S. Equity							
Large-Cap Core	S&P 500	-13.9%	-8.7%	1.1%	1.2%	-1.2%	2.8%
Large-Cap Growth	S&P 500/Citigroup Growth	-11.6%	-5.6%	4.9%	4.5%	1.4%	3.0%
Large-Cap Value	S&P 500/Citigroup Value	-16.3%	-11.9%	-2.7%	-2.2%	-3.9%	2.4%
Mid-Cap Core	S&P 400	-19.9%	-13.0%	-1.3%	4.1%	2.2%	7.5%
Mid-Cap Growth	S&P 400/Citigroup Growth	-18.8%	-10.2%	2.9%	7.0%	4.4%	8.2%
Mid-Cap Value	S&P 400/Citigroup Value	-20.9%	-15.8%	-5.4%	1.2%	-0.1%	6.7%
Small-Cap Core	S&P 600	-19.8%	-13.8%	0.2%	0.8%	0.3%	7.4%
Small-Cap Growth	S&P 600/Citigroup Growth	-19.6%	-10.6%	4.2%	2.9%	2.2%	8.1%
Small-Cap Value	S&P 600/Citigroup Value	-20.0%	-16.8%	-3.5%	-1.3%	-1.7%	6.6%
Micro-Cap Core	Russell Microcap	-22.7%	-20.3%	-4.8%	-2.0%	-4.4%	5.3%
International Equity							
Developed Markets	MSCI EAFE	-19.0%	-15.0%	-9.4%	-1.1%	-3.5%	5.0%
Emerging Markets	MSCI Emerging Markets	-22.6%	-21.9%	-16.1%	6.3%	4.9%	16.1%
Fixed Income							
Short-Term Treasury (1-3 mo.)	BarCap Short-Term Treasury	0.0%	0.2%	0.2%	0.5%	2.0%	2.2%
Intermediate-Term Corporate	BarCap Intermediate-Term Corporate	0.8%	4.1%	2.9%	11.0%	6.2%	5.7%
Diversified Bonds	BarCap Aggregate	3.8%	6.6%	5.3%	8.0%	6.5%	5.7%
Municipal Bonds	BarCap Municipal	3.8%	8.4%	3.9%	8.1%	5.0%	5.1%
Inflation-Protected Treasuries (TIPS)	BarCap Treasury Inflation Notes	4.5%	10.6%	9.9%	8.1%	7.1%	7.2%
Alternative Investments							
Domestic Real Estate (REITs)	Dow Jones Wilshire REIT	-14.5%	-5.2%	1.9%	-2.2%	-3.2%	9.1%
International Real Estate (REITs)	Dow Jones Wilshire ex-US Real Estate Index	-16.2%	-8.0%	-1.2%	0.8%	-3.7%	-

Source: Bloomberg