Economic Review

- The domestic stock markets posted strong returns in the 4th quarter of 2011. Full year results were negative for most equity asset classes.

- Foreign markets significantly lagged U.S. equities for the quarter and calendar year.

- The Barclays Capital US Aggregate Bond Index had a strong year, gaining 7.8%. Treasury Inflation Protected Securities performed extremely well with an index return of 13.6%.

- Equity valuations remain attractive.

- A global economic recovery continues to show mixed signals:
  - Decreasing U.S. jobless claims
  - Rise in U.S. durable goods orders
  - Political uncertainty, sovereign debt concerns
  - Continued pressure in residential real estate
  - Slowing growth in China

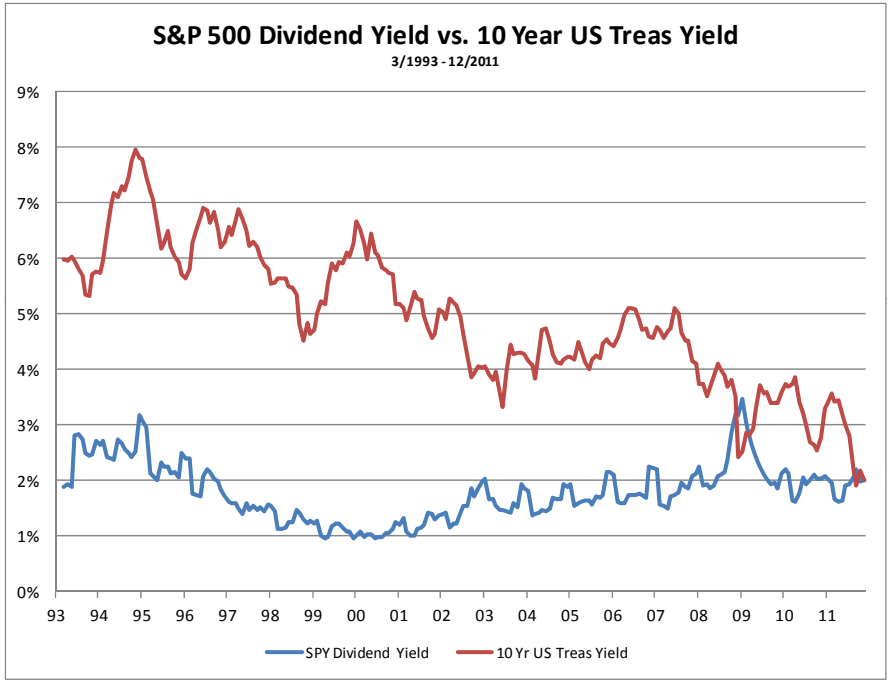
- Despite increased volatility, 2011 was not a good year for active money managers.

U.S. Equity Valuations Remain Attractive

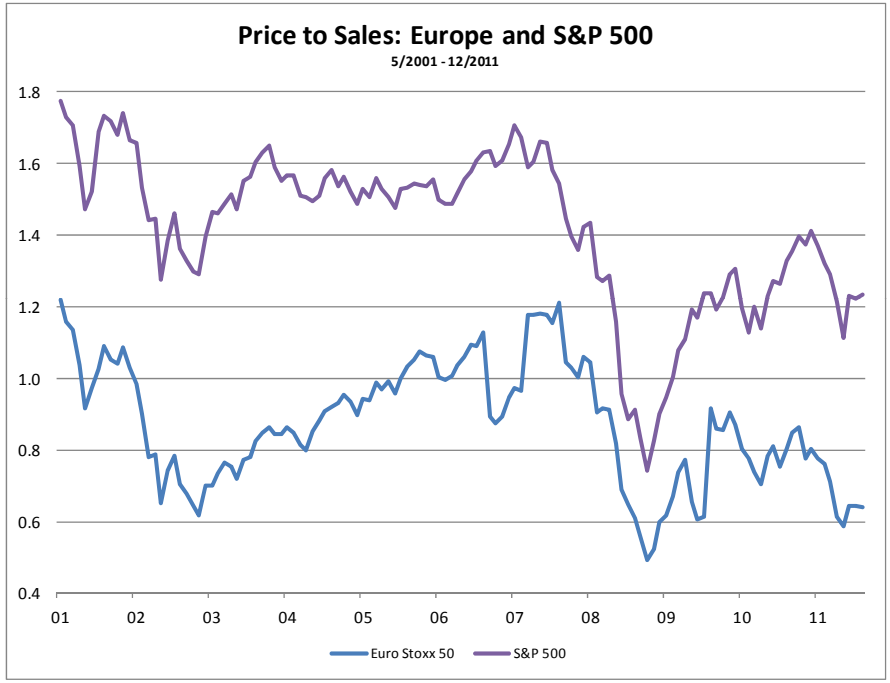
Valuation Characteristic	Market Peak 3/24/2000		Market Peak 10/9/2007		Current 12/31/2011
S&P 500 Index Level	1527.46	→	1565.15	→	1257.60
S&P 500 Earnings per Share	49.35	→	89.26	→	94.95
S&P 500 P/E Ratio (trailing 12M)	30.95	→	17.53	→	13.24
S&P 500 Dividend Yield	1.1%	→	1.8%	→	2.1%
10 Yr U.S. Treasury	6.2%	→	4.7%	→	1.9%

Source: Bloomberg

Equity Valuations

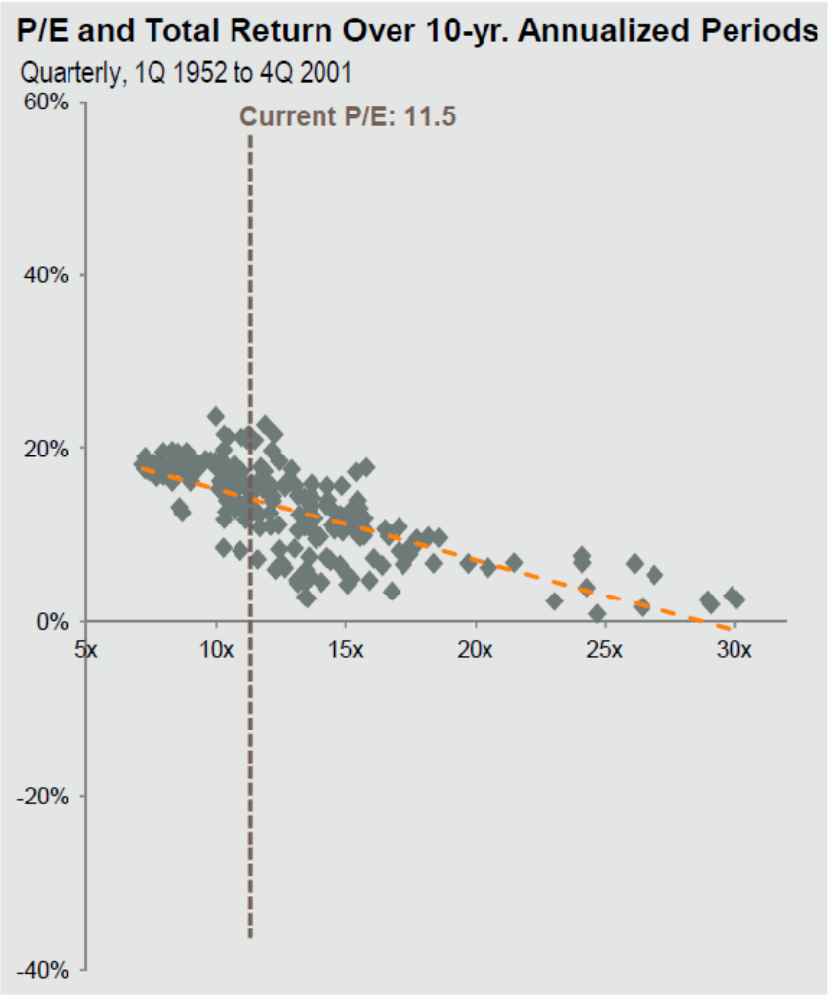


Source: Bloomberg



Source: Bloomberg

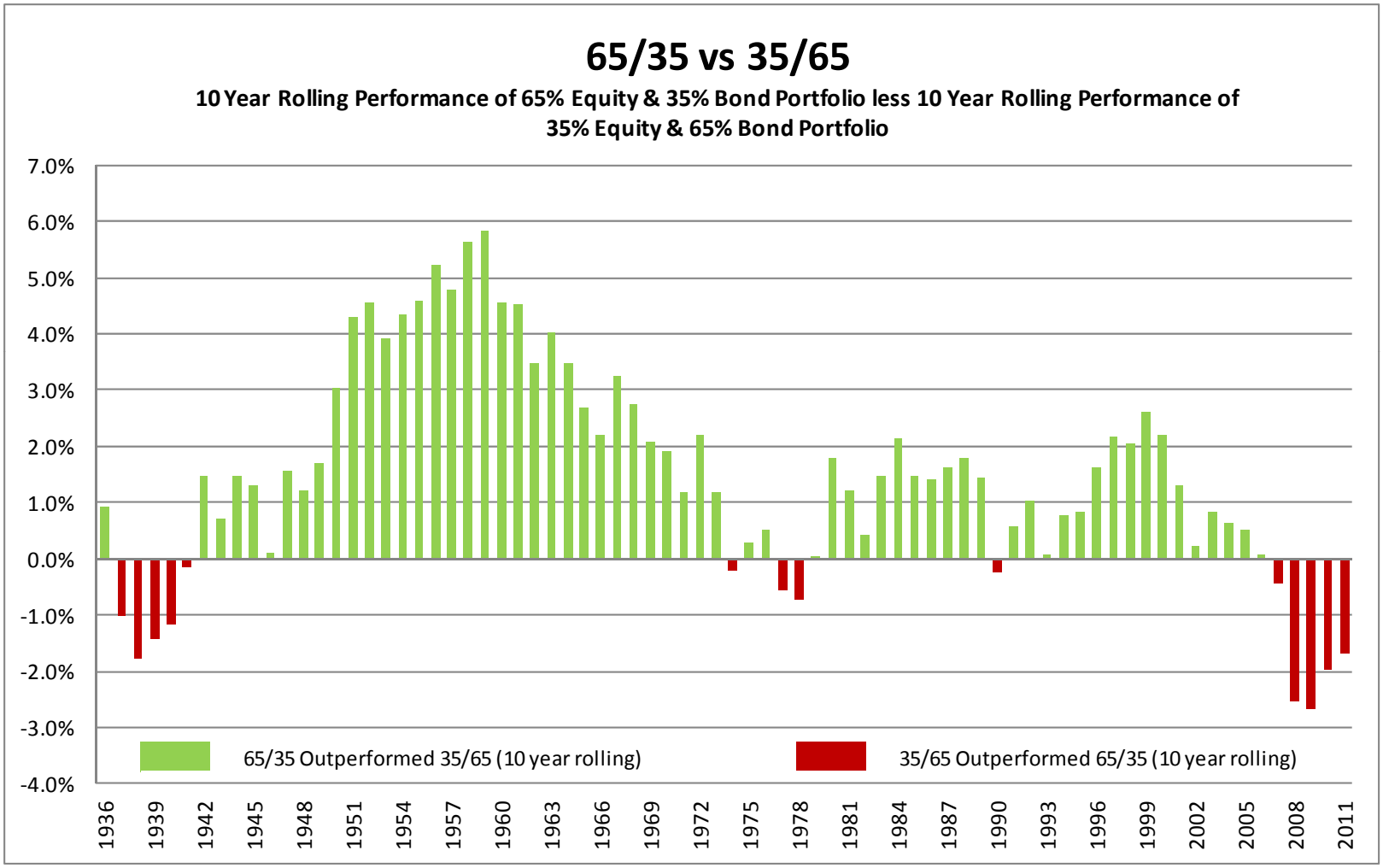
P/E Ratios and Equity Returns



Source: BEA, FRB, J.P. Morgan Asset Management. Prices are based on the market value of all US corporations and include quarterly dividends. Valuation based on long-term PE ratio.

Note: Orange line denote results of linear regression with R-squared of 0.39 for 1-yr. returns (LHS) and 0.71 for 10-yr. returns (RHS).

Data are as of 12/31/11.



Source: Dimensional Returns by Dimensional Funds, S&P 500 Index, US Long-Term Government Bonds. Step Interval 1 Year. Data from 2/1926 - 11/2011

World Stock Markets – Mostly Negative

COUNTRY / INDEX	2011 % CHG
Venezuela Caracas General	79.1%
United States DJIA	5.5%
Philippines PSE Composite	4.1%
Indonesia Jakarta	3.2%
Malaysia KLCI	0.8%
Ireland ISEQ	0.6%
South Africa Johannesburg	-0.4%
Thailand SET	-0.7%
New Zealand NZX-50	-1.0%
Americas DJ Americas	-3.4%
Mexico IPC All-Share	-3.8%
Pakistan KSE 100	-5.6%
United Kingdom FTSE 100	-5.6%
Switzerland SMI	-7.8%
Europe STOXX 50	-8.4%
Sri Lanka Colombo All Share	-8.5%
World DJ TSM Global	-10.2%
South Korea Kospi	-11.0%
Canada S&P/TSX	-11.1%
Europe STOXX 600	-11.3%
Netherlands AEX	-11.9%
Norway OSEBX	-12.5%
Spain IBEX-35	-13.1%
Australia ASX	-14.5%
Germany DAX	-14.7%
Chile Santiago IPSA	-15.2%
Denmark OMXCB	-16.5%

COUNTRY / INDEX	2011 % CHG
Sweden OMXS All Share	-16.7%
France CAC 40	-17.0%
Singapore FTSE Straits Times	-17.0%
Japan Nikkei	-17.3%
Asia Pacific DJ Asia Pacific	-17.4%
Brazil Bovespa	-18.1%
Israel TA-25	-18.2%
Colombia Bogota IGBC	-18.3%
Belgium Bel20	-19.2%
Hong Kong Hang Seng	-20.0%
Hungary BUX	-20.4%
Taiwan TAIEX	-21.2%
China SSE Composite	-21.7%
Poland WIG 20	-21.9%
Russia RTSI	-21.9%
Turkey ISE National 100	-22.3%
India Sensex	-24.6%
Italy FTSE MIB	-25.2%
Czech Republic PX	-25.6%
Vietnam VietnamVN	-27.5%
Portugal PSI-20	-27.6%
Argentina Merval	-30.1%
Finland OMXH	-30.1%
Austria ATX	-34.9%
Egypt Case 30	-49.3%
Greece ATG	-51.9%

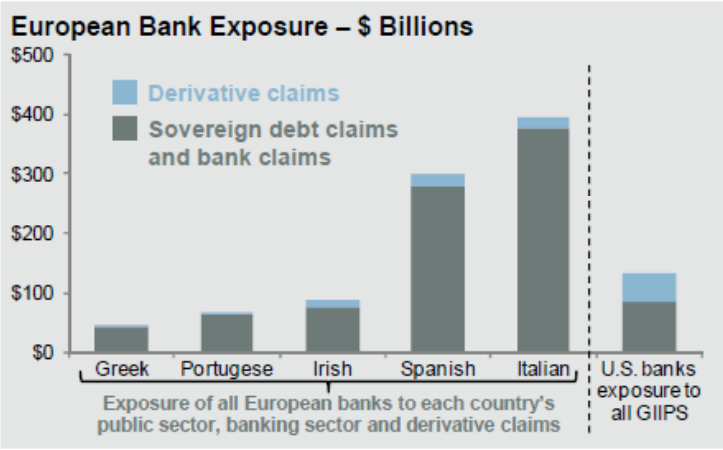
Source: WSJ Market Data Group, price change only

Exposure to Europe

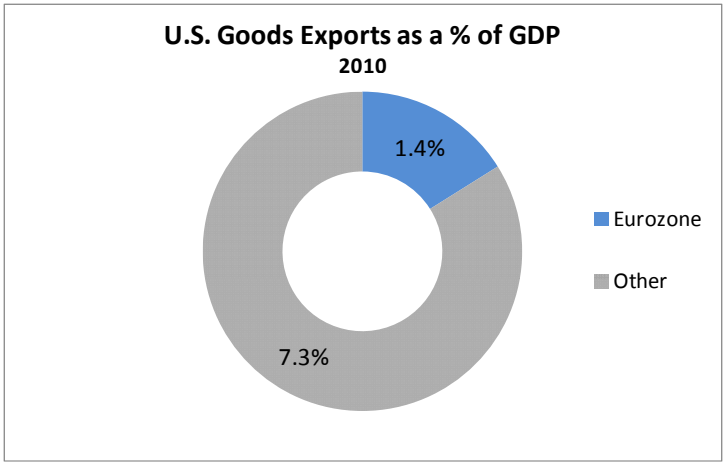
Typical Alesco Advisors Portfolio Exposure to Europe:

Country	% of Equity
United Kingdom	2.43%
France	0.91%
Switzerland	0.86%
Germany	0.82%
Spain	0.34%
Sweden	0.33%
Netherlands	0.27%
Italy	0.25%
Austria	0.19%
Greece	0.15%
Denmark	0.13%
Russia	0.12%
Finland	0.11%
Turkey	0.11%
Portugal	0.11%
Belgium	0.05%
Norway	0.04%
Ireland	0.03%
Poland	0.02%
Hungary	0.02%
Czech Republic	0.01%
Total Eurozone	3.23%
Total Europe (All)	7.31%

U.S. Exposure to Europe:



Source: IMF, FactSet, Bloomberg, BIS, J.P. Morgan Asset Management.
Bank exposure based on 3Q11 data.



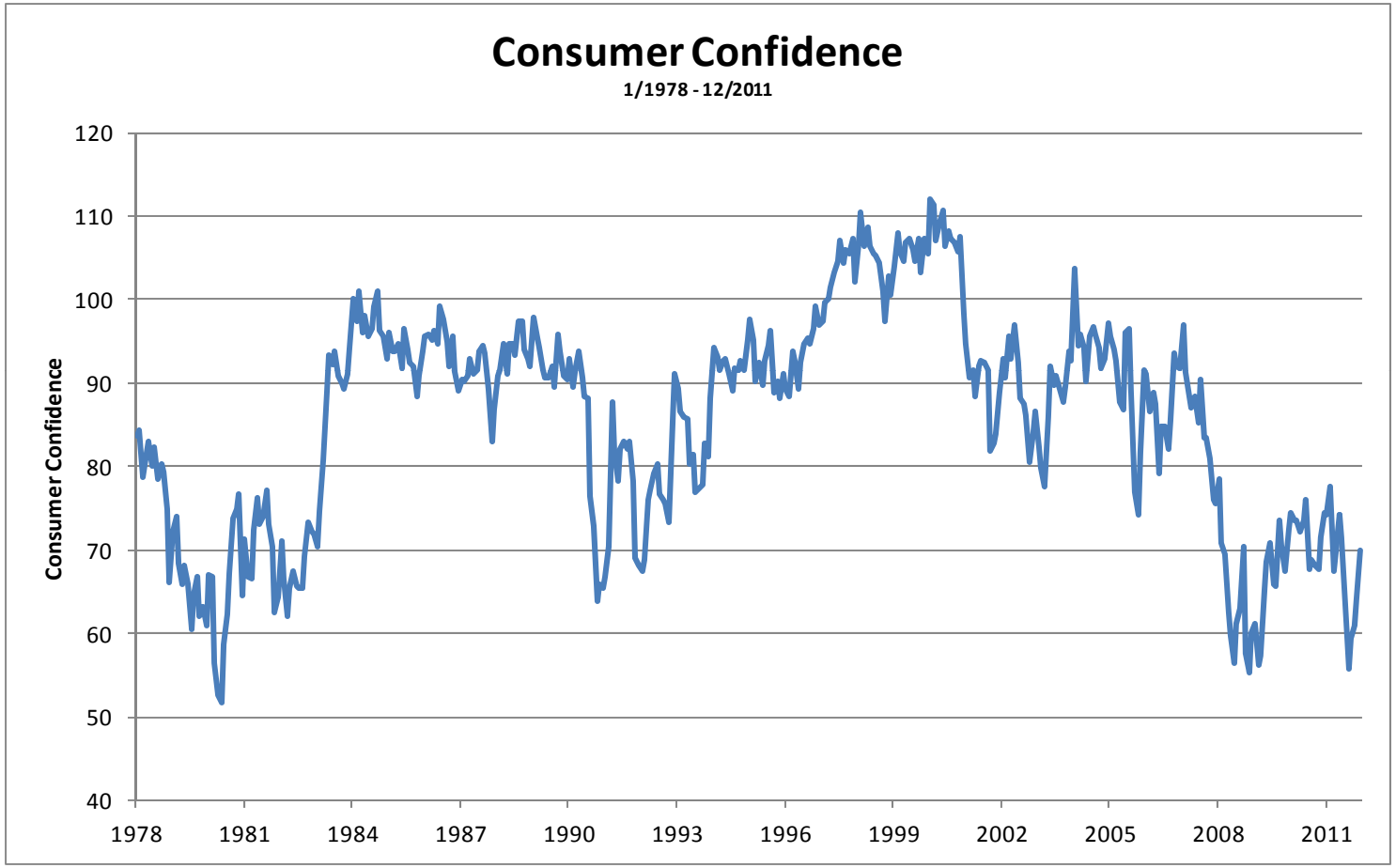
Source: IMF, J.P. Morgan Asset Management
Numbers represent exports of goods only, and would be higher if services were included.
Data reflect most recently available as of 12/31/11.

The Case for Emerging Markets

	Size of Equity Market % of global market cap.	Size of Economy % of global GDP
Developed Markets	**87.4%**	**51.0%**
United States	46.0%	19.1%
Canada	4.5%	1.8%
Japan	8.0%	5.6%
United Kingdom	8.6%	2.9%
Europe ex-U.K.	15.2%	15.4%
France	3.5%	2.8%
Germany	2.9%	3.9%
Spain	1.2%	1.8%
Italy	0.8%	2.3%
Other Europe	6.8%	4.6%
Other Developed	5.1%	6.3%
Emerging Markets	**12.6%**	**49.0%**
Korea	1.9%	2.0%
Brazil	1.9%	2.9%
Russia	0.8%	3.0%
India	0.8%	5.7%
China	2.2%	19.1%
Mexico	0.6%	2.1%
Other EM	4.4%	14.2%

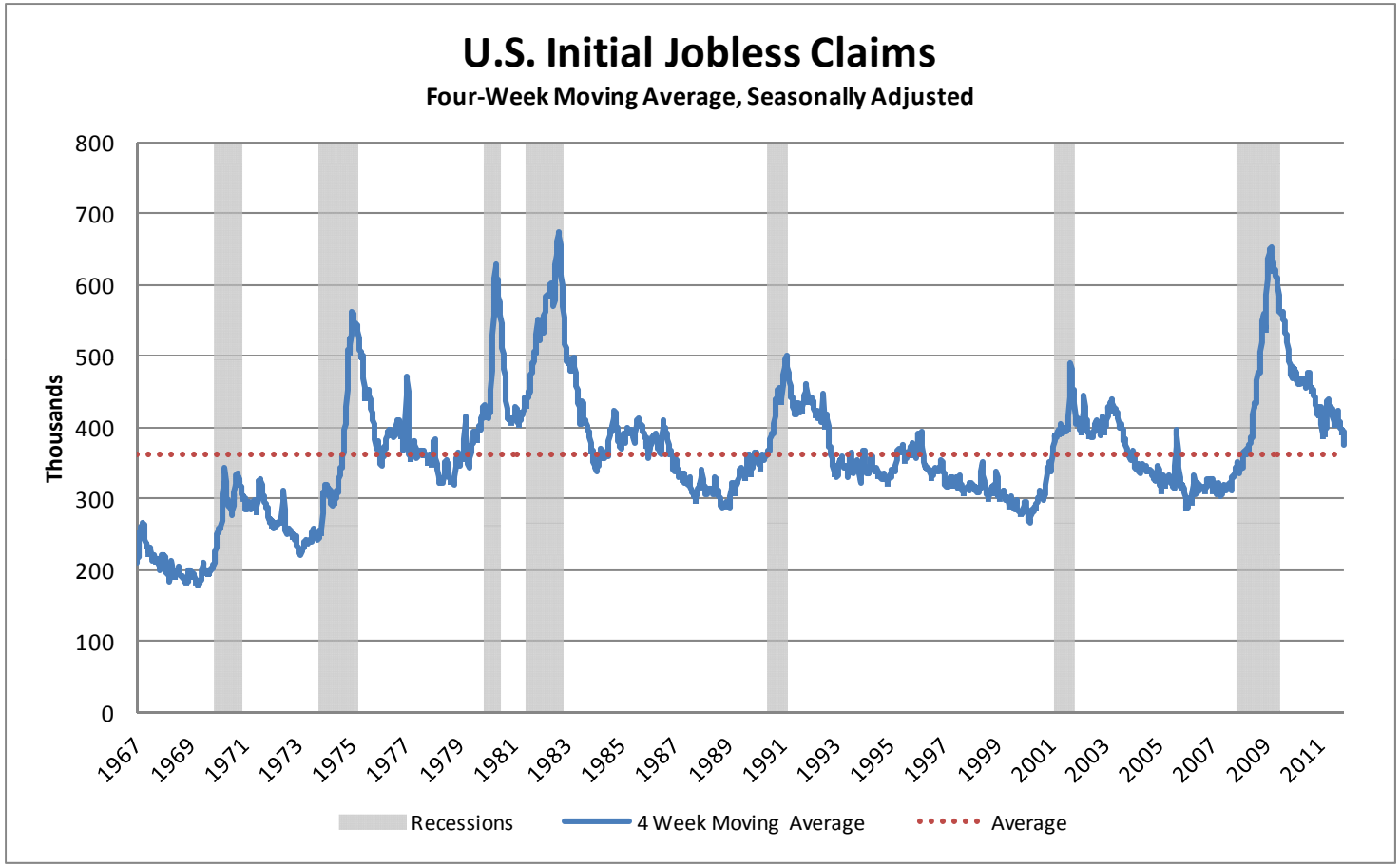
Source: MSCI, Standard & Poor's, INMF, FactSet, J.P. Morgan Asset Management.
Data are as of 12/31/11

Growing Confidence



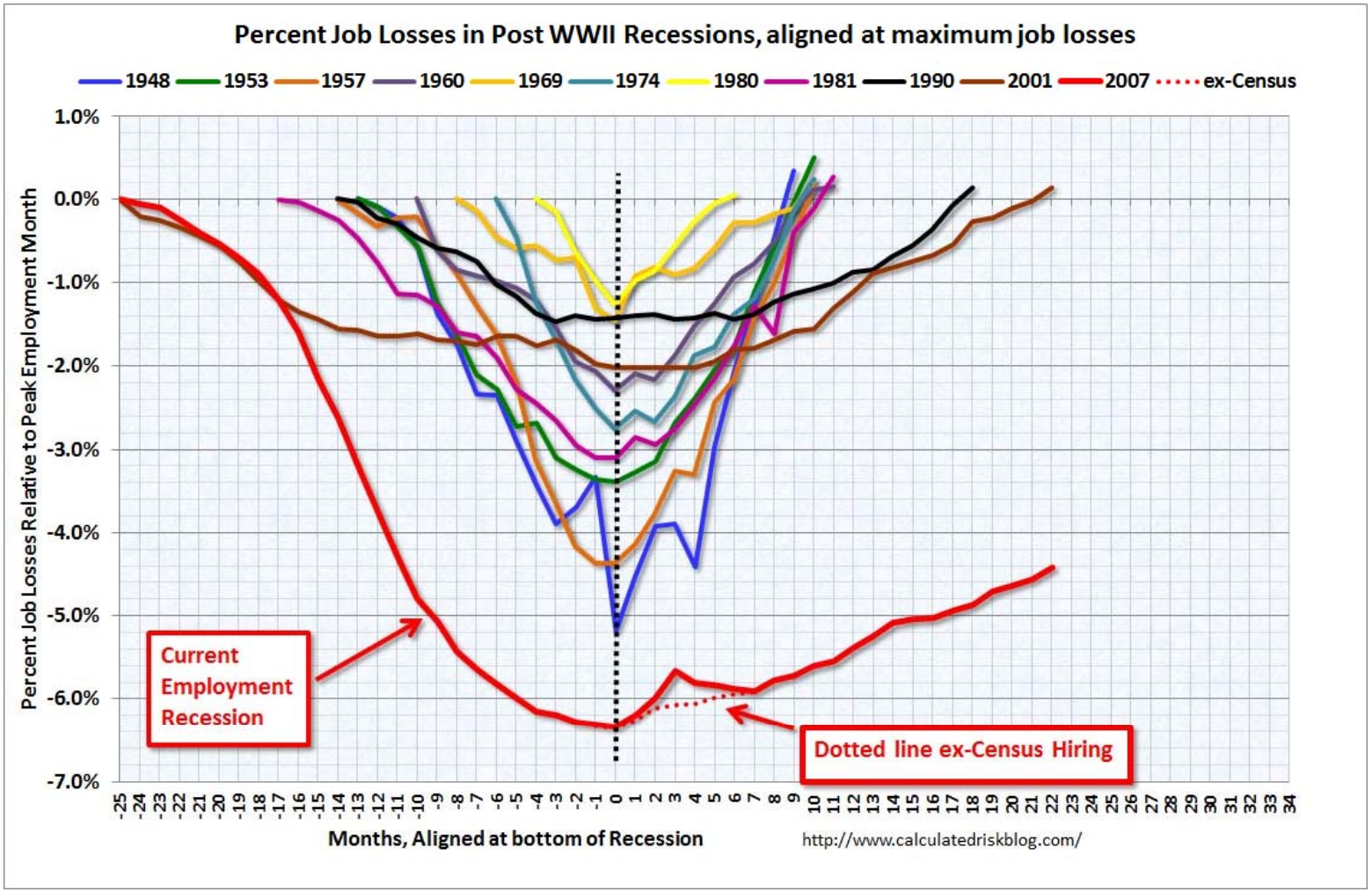
Source: Bloomberg, University of Michigan Survey of Consumer Confidence Sentiment

Declining U.S. Jobless Claims



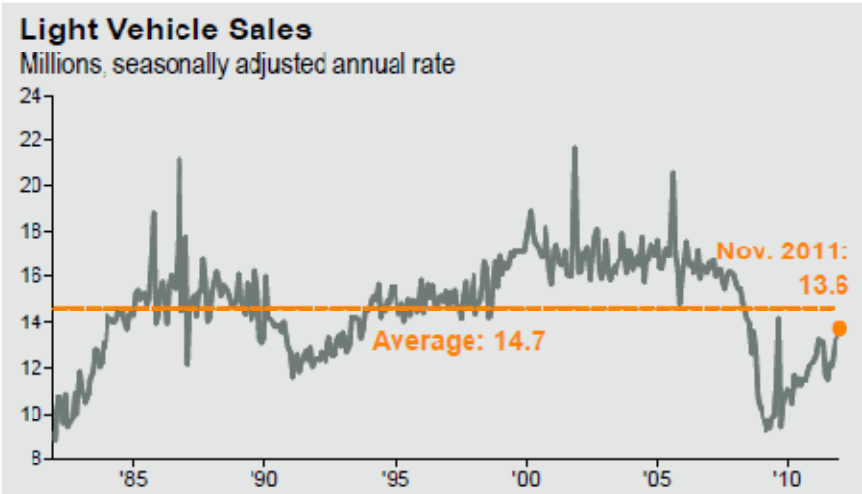
Source: Bloomberg, data through 12/2011

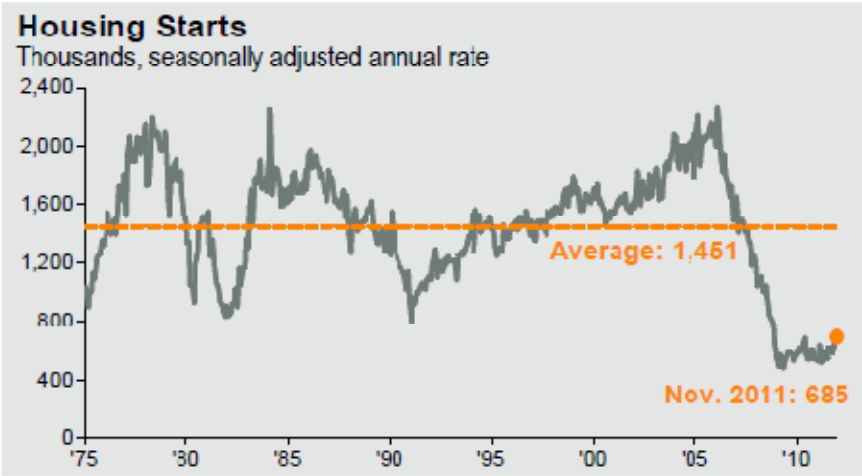
U.S. Employment Recessions



Source: Bill McBride (1/6/2012). Employment Summary, Part Time Workers, and Unemployed over 26 Weeks. *Calculated Risk.* Retrieved from www.calcualtedriskblog.com/2012/01/employment-summary-part-time-workers.html

U.S. Cyclical Sectors

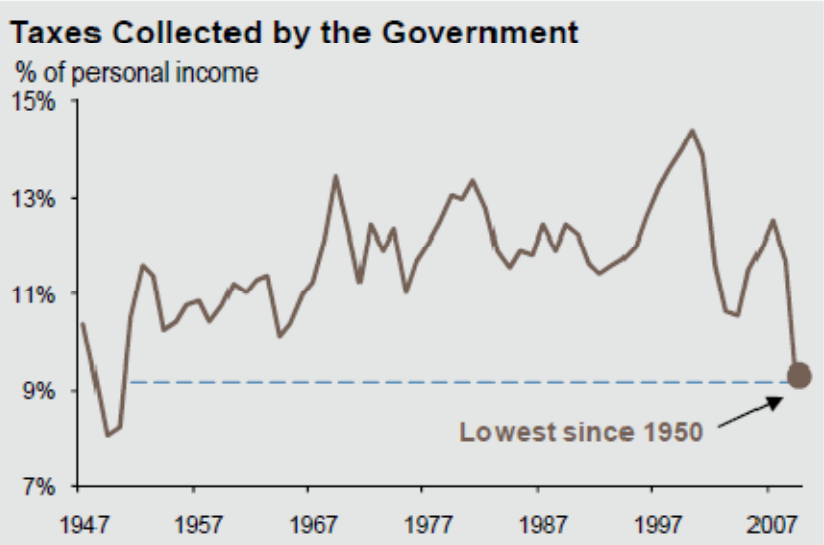


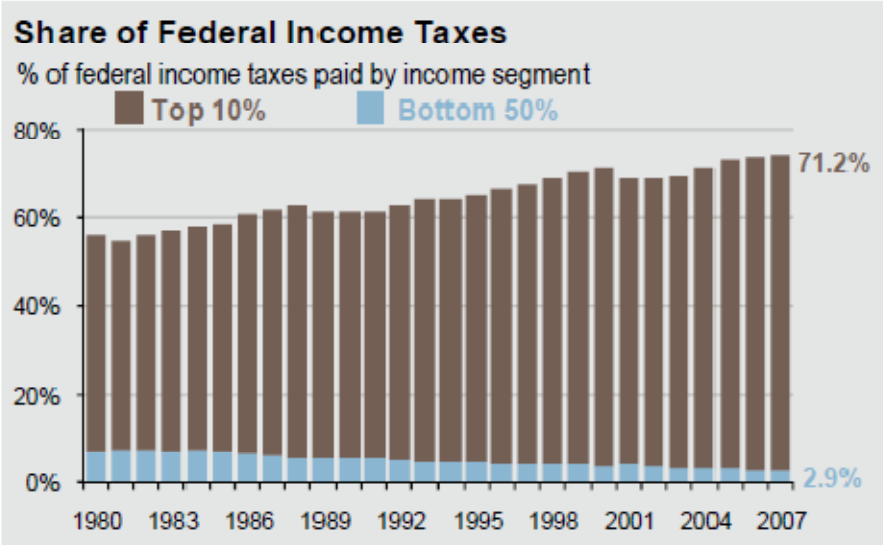


Source: (Top left) BEA, FactSet, J.P. Morgan Asset Management. (Top right) Census Bureau, FactSet, J.P. Morgan Asset Management. (Bottom left) Census Bureau, FactSet, J.P. Morgan Asset Management. (Bottom right) Census Bureau, FactSet, J.P. Morgan Asset Management.
Capital goods orders deflated using the producer price index for capital goods.

Data reflect most recently available as of 12/31/11.

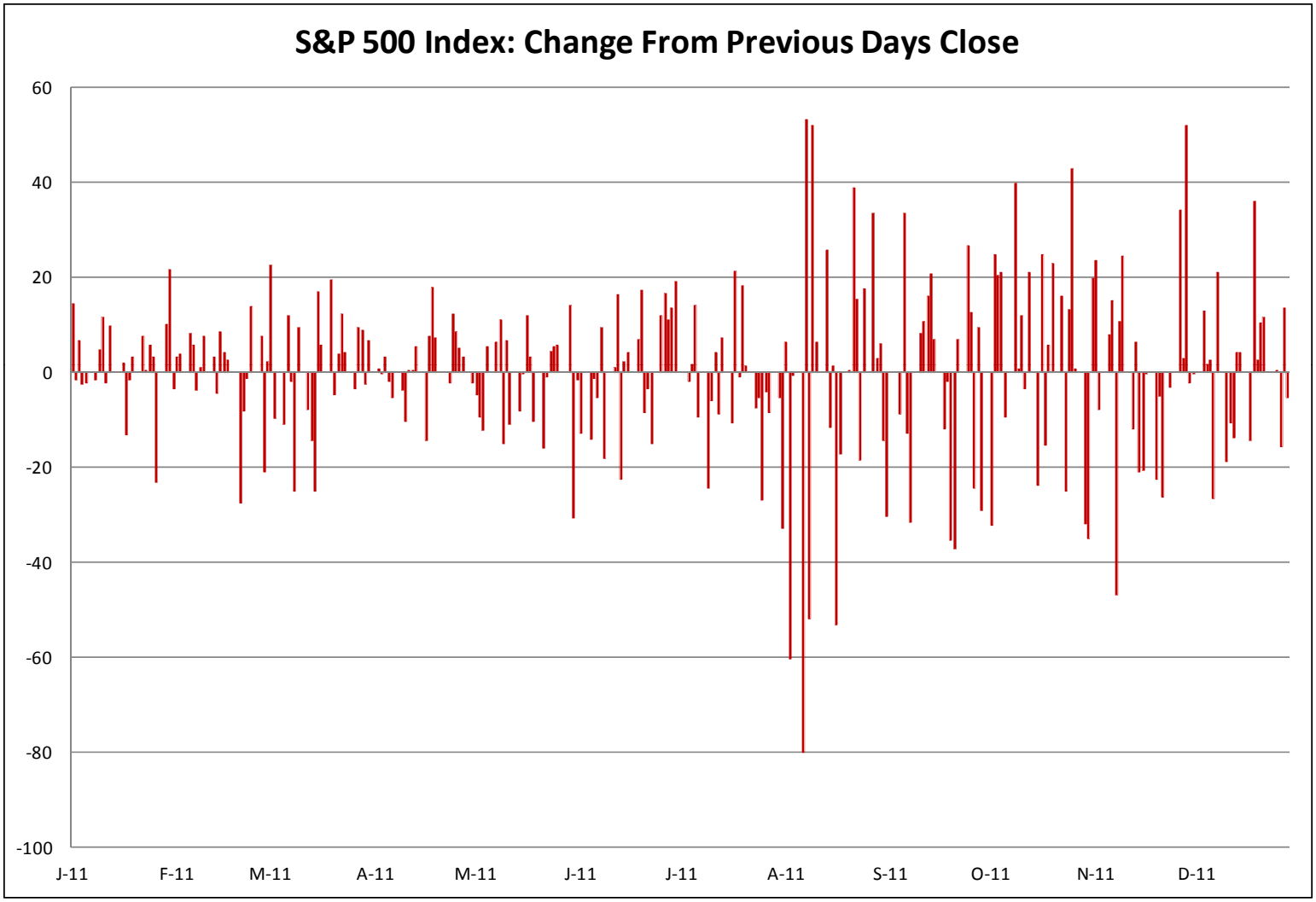
Election Year: Raising Taxes, a Challenge





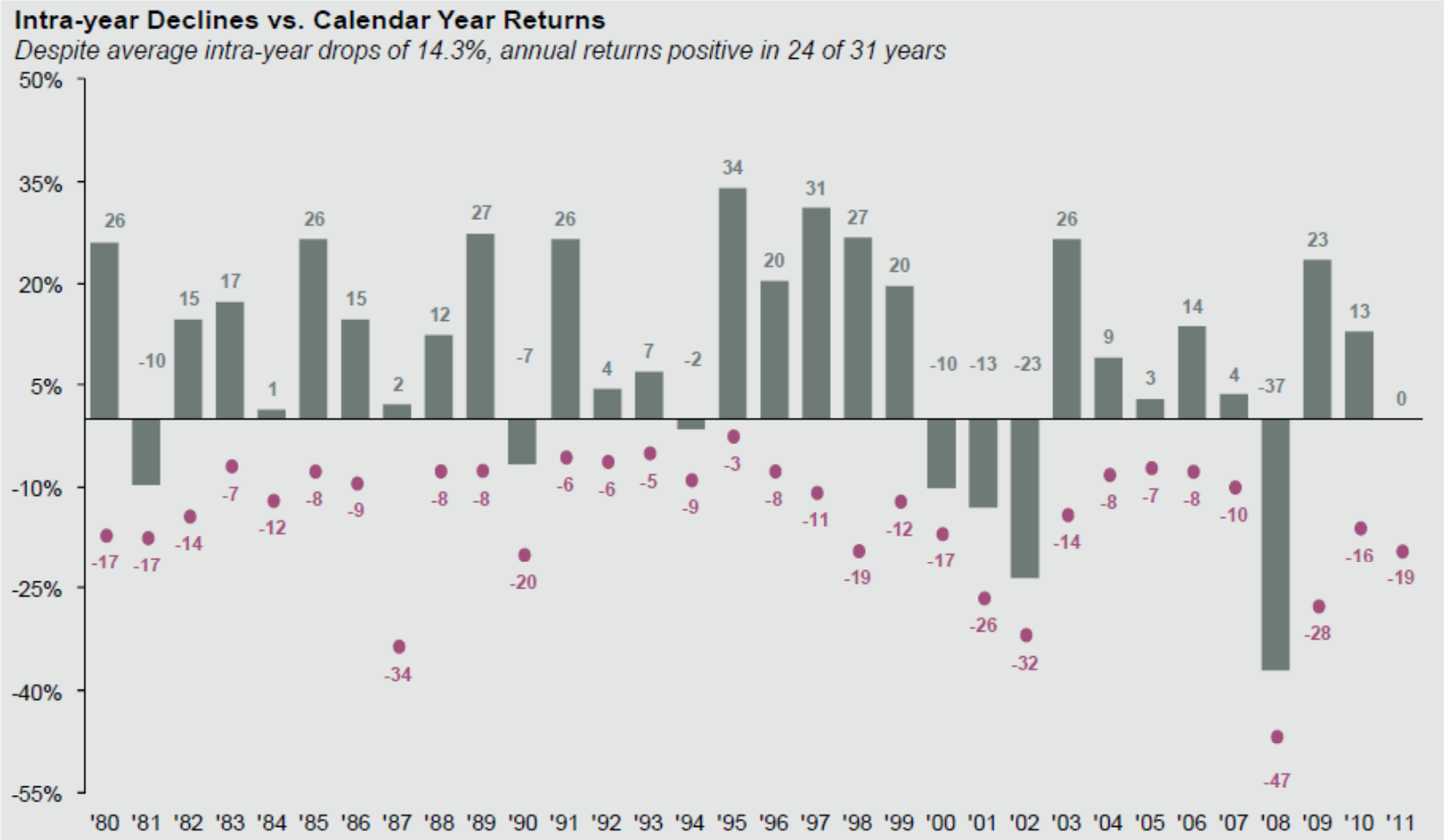
Source: (Left) BEA, J.P. Morgan Asset Management. (Right) The Tax Foundation, IRS, J.P. Morgan Asset Management. Personal taxes include taxes on income, personal property and payments for personal licenses (see NIPA tables 2.3 and 3.4u). Data through 2007 is the latest available from IRS. Includes all returns with positive AGI. 2007 dollar cut-off/minimum AGI for tax return to fall into top 10%: $113,018; bottom 50%: $32,870. The only tax analyzed here is the federal individual income tax, which is responsible for about 25% of the nation's taxes paid.

Volatility Increased for the Last Five Months of the Year



Source: Bloomberg

S&P 500 Returns and Intra-year Declines



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

Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops over periods of 6 months or less. For illustrative purposes only.

Data are as of 12/31/11.

With Higher than Normal Volatility and Divergent Stock Returns, 2011 Should Have Been a "Stock Pickers Market"…

S&P 500: 2011 Total Returns

Top 25 Gainers		Top 25 Losers	
Ticker	Returns	Ticker	Returns
COG	100.96	FSLR	-74.06
EP	93.47	ANR	-65.97
ISRG	79.64	NFLX	-60.56
MA	66.72	BAC	-58.13
BIIB	64.13	SHLD	-55.98
HUM	61.52	X	-54.46
OKE	61.24	AIG	-51.94
CMG	58.82	CSC	-51.05
PRGO	54.17	ETFC	-50.25
ROST	52.00	GNW	-50.15
VFC	50.92	HCBK	-48.62
FAST	48.45	BTU	-47.91
DLTR	48.20	NFX	-47.68
TJX	47.35	GS	-45.60
LO	46.26	HSP	-45.47
V	45.43	WHR	-44.99
SBUX	45.40	JNPR	-44.72
LTD	44.79	S	-44.68
CBS	44.45	C	-44.33
HRB	43.24	MS	-43.93
GR	42.20	AA	-43.32
UNH	42.19	FTR	-41.08
NI	41.41	STI	-39.65
EL	40.54	FII	-39.58
AET	39.88	CVC	-38.39
Average:	**54.53**	**Average:**	**-49.30**

Source - S&P 500 Constituents: Standard and Poor's Financial Services LLC as of 12/30/2011
Returns: Bloomberg Cumulative Total Return

Morningstar Universe of Active Funds

Universe: 412 Actively Managed Large Blend Mutual Funds

- 77.2% of the mutual funds underperformed the S&P 500 Index
- On average the mutual funds underperformed the S&P 500 Index by 3.27%

Hedge Funds

- On average hedge funds lost 5% for 2011
- The Dow Jones Credit Suisse Core Hedge Fund Index was down 7.55% for the year.

Source - (Top) Morningstar, Universe: 412 Active Large Blend Mutual Funds, data from 1/2011 through 12/2011.
(Bottom) HFRI estimate, Steve Eder (1/3/12), Why Hedge Funds Tripped in a Volatile Year. *The Wall Street Journal.* Retrieved from http://online.wsj.com/article_email/SB10001424052970203391104577125511459240368-lMyQjAxMTAyMDAwNDEwNDQyWj.html
DJ CS Core Hedge Fund Index 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.

Does Market Timing Pay Off?

Time Period	Fund Name	Total Return	Investor Return
1991 - 2005	Vanguard 500	11.41	7.96
1/1991 - 10/2011	Vanguard 500	8.72	6.61

Source: Allan Sloan (12/7/2011). Retrieved from http://finance.fortune.cnn.com/2011/12/07/bill-miller-legg-mason-returns/?iid=SF_TS_Lead

Financial Market Performance

Total Returns through December 31, 2011

Asset Class	Index Description	4Q11	Annualized Returns 1 Year	3 Year	5 Year	10 Year
U.S. Equity						
Large-Cap Core	S&P 500	11.8%	2.1%	14.1%	-0.2%	2.9%
Large-Cap Growth	S&P 500/Citigroup Growth	10.8%	4.7%	16.6%	2.4%	2.8%
Large-Cap Value	S&P 500/Citigroup Value	13.0%	-0.5%	11.5%	-3.0%	2.9%
Mid-Cap Core	S&P 400	13.0%	-1.7%	19.6%	3.3%	7.0%
Mid-Cap Growth	S&P 400/Citigroup Growth	10.3%	-0.9%	22.2%	5.3%	7.2%
Mid-Cap Value	S&P 400/Citigroup Value	15.9%	-2.4%	17.0%	1.4%	6.8%
Small-Cap Core	S&P 600	17.2%	1.0%	17.0%	1.9%	7.1%
Small-Cap Growth	S&P 600/Citigroup Growth	15.9%	3.6%	19.4%	3.8%	7.4%
Small-Cap Value	S&P 600/Citigroup Value	18.6%	-1.4%	14.8%	0.1%	6.7%
Micro-Cap Core	Russell Microcap	13.8%	-9.3%	14.2%	-3.8%	4.6%
International Equity						
Developed Markets	MSCI EAFE	3.3%	-12.1%	7.6%	-4.7%	4.7%
Emerging Markets	MSCI Emerging Markets	4.4%	-18.4%	20.1%	2.4%	13.9%
Fixed Income						
Short-Term Treasury (1-3 mo.)	BarCap Short-Term Treasury	0.0%	0.2%	0.3%	1.8%	2.1%
Intermediate-Term Corporate	BarCap Intermediate-Term Corporate	1.4%	5.5%	10.6%	6.3%	5.9%
Diversified Bonds	BarCap Aggregate	1.1%	7.8%	6.8%	6.5%	5.8%
Municipal Bonds	BarCap Municipal	2.1%	10.7%	8.6%	5.2%	5.4%
Inflation-Protected Treasuries (TIPS)	BarCap Treasury Inflation Notes	2.7%	13.6%	10.4%	8.0%	7.6%
Alternative Investments						
Domestic Real Estate (REITs)	Dow Jones Wilshire REIT	15.4%	9.4%	21.6%	-2.0%	10.1%
International Real Estate (REITs)	Dow Jones Wilshire ex-US Real Estate Index	0.4%	-7.6%	14.7%	-6.8%	-

Source: Bloomberg