Morningstar Market Commentary

Q2 2013

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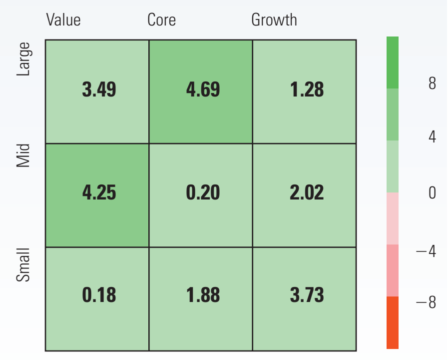
Discussions of Fed tapering cast a cloud of uncertainty over markets in second quarter.

Q2 2013 Morningstar Market Barometer



	Value	Core	Growth
Large	3.49	4.69	1.28
Mid	4.25	0.20	2.02
Small	0.18	1.88	3.73

Q2 2013 Morningstar Indexes

Stocks	
US Market Index	2.72
Global Ex-US Index	–3.05
Developed Ex-US Index	–1.57
Emerging Markets Index	–7.91
Bonds	
Core Bond Index	–2.22
Commodities	
Long-Only Commodity Index	–7.33

The United States stock markets continued their meteoric rise to open the second quarter after starting 2013 on a tear. However, as the economy begins to show modest signs of improvement, the Federal Reserve has begun to seriously consider reductions in asset purchases, adding a level of volatility to the markets during the quarter's final days.

U.S. markets muddled along for the first few weeks of the quarter after the Morningstar U.S. Market Index rose substantially during 2013's first three months. However, U.S. stocks rose for much of May as housing and employment data continued to drive bullish sentiment across several major asset classes. The runup on stocks continued to new record highs late in May ahead of the minutes from the Federal Reserve's latest meeting as well as statements from Federal Reserve Chairman Ben Bernanke. The modest improvement in the U.S. economy's underlying indicators sparked increased discussion of tapering the Fed's quantitative easing programs.

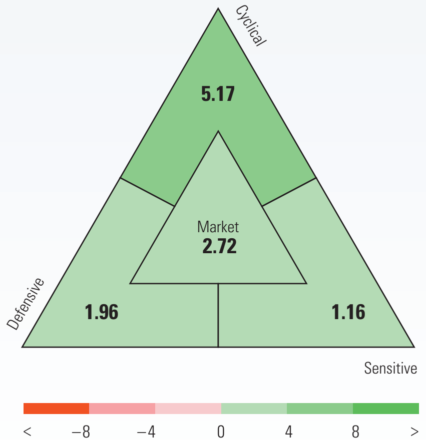
Despite strength in the housing sector, the market panicked following the news that the Fed could begin winding down its spending programs before the end of 2013, triggering a substantial sell-off in the final days of June that erased much of May's gains. The Morningstar U.S. Market Index, which had risen as much as 6% as of late May, closed the quarter up 3%.

Adding to the stock market volatility were concerning economic conditions in Japan, which entered a bear market after a substantial sell-off in the region, and precious metals were slammed stemming from deflationary expectations surrounding the Fed amending its spending habits. However, the Fed has maintained that its bond purchases and rates decisions are entirely data driven, and there are still significant gaps between the Fed's targets regarding inflation and unemployment, and where the data is actually shaking out. While the Fed has identified an unemployment rate of 6.5% and inflation of 2%–2.5% as ideal conditions to make substantial changes to monetary policy, unemployment remains well above and inflation well below their respective target levels, suggesting that bond purchases and near-zero interest rates will continue in the intermediate term at the very least.

Sector Indexes

Overall, stocks advanced for the better part of the quarter as the strength seen in equities in the first quarter continued into 2013's second stanza. However, volatility entered the market as the Fed's discussion of tapering became more serious, paring much of the quarter's gains. The Cyclical Super Sector was the quarter's only real winner, as the Defensive Super Sector and Sensitive Super Sector posted only modest gains after the market fell from its record highs in late May. The Cyclical Super Sector gained 5% in the quarter, compared with gains of 2% and 1% for the Defensive and Sensitive Super Sectors, respectively.

Q2 2013 Morningstar Sector Delta and Return %



Sector	Quarter	1-Year	3-Year
Cyclical	**5.17**	**29.98**	**18.93**
Basic Materials	–3.95	9.66	12.84
Consumer Cyclical	6.76	33.19	27.31
Financial Services	8.07	38.69	15.27
Real Estate	–3.20	8.25	17.58
Sensitive	**1.16**	**15.27**	**17.20**
Communication Svcs	4.92	27.90	24.58
Energy	–0.58	19.5	19.02
Industrials	2.28	23.53	18.63
Technology	0.66	7.11	14.29
Defensive	**1.96**	**20.92**	**19.61**
Consumer Defensive	0.99	17.46	19.20
Health Care	4.05	27.93	22.31
Utilities	–1.76	9.35	15.69

Morningstar Super Sectors

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Cyclical Super Sector	16.39	1.78	1.93	2.26	–2.62
Sensitive Super Sector	15.78	2.67	2.02	11.93	5.89
Manufacturing Super Sector	19.44	2.93	2.49	2.81	6.46

Cyclical Super Sector 5.2%

Cyclical stocks led the way in the second quarter after Defensive stocks posted the biggest gains in the first quarter of 2013. Financial services stocks posted the largest gains in the quarter, and the sector was the best performer of the second quarter, rising more than 8%. Consumer Cyclical stocks also enjoyed a relatively strong quarter, rising nearly 7%. However, a portion of those gains was pared by the decline of Basic Materials stocks as commodities sold off in the quarter, while Real Estate companies also suffered. Basic Materials stocks fell nearly 4% during the quarter, and Real Estate stocks slipped just over 3%.

A number of financial services stocks enjoyed strong performances. MetLife and Hartford Financial Services each rose more than 20% in the quarter, while top contributor and heavyweight Wells Fargo posted a gain of 12% over the same period. However, gains such as these were offset by substantial declines from Basic Materials companies, particularly those exposed to gold, as firms such as Allied Nevada Gold and Royal Gold Inc. fell 60% and 40%, respectively.

Defensive Super Sector 2.0%

The Defensive Super Sector was unable to maintain its torrid pace to open 2013, rising just 2% in the second quarter after posting double-digit gains during the first quarter. Health Care stocks led the sector, rising just over 4% in the quarter. However, those gains were largely offset by poor performances from the Utilities sector. Utilities stocks fell nearly 2% in the quarter on falling input prices.

While there weren't any particularly big losers in the Utilities sector this quarter, a large number of stocks saw modest declines that dragged down the entire sector. FirstEnergy Corp. was the largest decliner during the period, falling more than 10%; Exelon Corp., UNS Energy Corp., and American Electric Power Co. all fell 7% or more. A number of Health Care companies enjoyed excellent quarters, including Theravance Inc., which rose more than 63% in the period.

Sensitive Super Sector 1.2%

The Sensitive Super Sector proved to be the largest relative laggard for the second consecutive quarter, staying essentially flat over the past three months.

The Technology sector produced both the biggest gainers and losers in the period, as volatility and news affected individual stocks. Heavyweights such as Microsoft, Cisco, and Intel all posted double-digit gains. Conversely, Aruba Network, SolarWinds Inc., and LivePerson Inc. each fell more than 30%, offsetting a significant portion of the gains made by the sector's largest companies. First Solar continues to make waves in the alternative energy space. The solar power developer rose more than 66% in the quarter as renewed optimism regarding the firm's technology lifted its share price.

Style & Cap Indexes

After racing out to a fast start in 2013, stocks finally met some adversity in the second quarter as they tumbled from all-time highs in late May. Core and Value stocks once again led the way, though to a much smaller degree, with each group rising just over 3%. The Growth Index once again served as the relative laggard, remaining essentially flat in the second quarter. For the size indexes, Large Cap stocks posted the largest gains as equity investors chose to avoid riskier Small Cap stocks. Large cap stocks rose 3%, while Mid Cap and Small Cap stocks rose 2%.

Trailing Returns

1-Year

	Value	Core	Growth
Large	21.47	26.11	13.42
Mid	33.17	23.27	20.67
Small	25.08	25.09	21.75

3-Year

	Value	Core	Growth
Large	17.54	20.12	18.15
Mid	19.26	21.03	18.21
Small	19.08	18.39	20.49

5-Year

	Value	Core	Growth
Large	5.30	8.81	5.96
Mid	10.75	9.22	5.58
Small	13.13	9.22	5.58

Morningstar Style & Cap Indexes

	P/E	P/B	Yield %	Earnings Growth	Sales Growth
Morningstar Value	13.44	1.58	3.10	0.38	2.05
Morningstar Core	17.15	2.50	2.18	4.08	0.15
Morningstar Growth	21.14	3.78	1.00	21.78	13.78
Morningstar Large Cap	16.45	2.36	2.30	6.25	2.29
Morningstar Mid Cap	16.87	2.26	1.69	5.65	6.10
Morningstar Small Cap	17.93	1.95	1.58	1.19	1.79

Morningstar US Value 3.4%

The Value Index was paced by Large Cap Financial Services firms while a number of other companies made headlines that resulted in stock price appreciation. However, poor performances from stocks in the Energy and Basic Materials sectors weighed down heavily on the index, keeping its gains in check. Wells Fargo, JPMorgan Chase, and MetLife all posted double-digit gains, serving as three of the Index's top six contributors. Headline movers included First Solar, which rose more than 66% on renewed optimism surrounding alternative energy, while Best Buy continued to be the subject of privatization speculation as well as an ongoing recovery story. The brick-and-mortar electronics store chain rose more than 24% in the quarter.

A number of Basic Materials and Energy firms endured difficult quarters as commodities prices took a major hit. Alpha Natural Resources and Axiall fell 36% and 31%, respectively, while Energy firms such as McDermott International and Forest Oil Corp. each sold off more than 20% in the quarter.

Morningstar US Core 3.5%

While the Core Index received strong contributions from a wide range of sectors, the Energy sector was the source of the index's biggest losers.

The index received positive contributions from telecom company T-Mobile US, which advanced nearly 70% in the quarter, while chipmaker Advanced Micro Devices rose at a similar clip in the period. Clearwire Corporation, a high-speed Internet service provider, also saw huge gains in the quarter, rising more than 50%. Microsoft was the index's top contributor thanks to its heavy weighting, rising more than 21% in the quarter, while Large Cap Health Care names such as Johnson & Johnson and Bristol-Myers Squibb contributed 6.1% and 9.4%, respectively.

The Energy sector proved to be the weakest for the Core Index, with three companies posting losses greater than 20%. Louisiana-Pacific Corp., Peabody Energy Corp., and Key Energy all saw their shares decline heavily as commodities prices fell significantly. Esco Technologies, which has exposure to the utility sector, also had a difficult quarter as its share price plummeted more than 20% as well.

Morningstar US Growth 1.3%

The Growth Index served as the relative laggard for the second consecutive quarter, thanks to substandard performances from prominent technology names. Google was the exception, appreciating 11%, while Apple and IBM each fell nearly 10%. The Growth Index's troubles were compounded by smaller technology companies such as Aruba Networks and Rackspace Hosting, which fell 38% and 25%, respectively, in the quarter.

Home Depot served as a bright spot for the index, as the continued recovery of the housing market bodes well for the hardware and home improvement chain. Shares rose more than 11% as housing data continued to improve and bolster the stock. Fellow Consumer Cyclical stock Walt Disney Company also enjoyed a solid quarter, rising at a similar 11% clip as it continued to deliver solid performance. However, Allied Nevada Gold and Walter Energy each tumbled more than 60%, which pared the Index's quarterly gains.

Morningstar Large Cap 3.1%

Large Cap stocks enjoyed the strongest performance of the size indexes in the second quarter as investors moved money out of higher-risk Small Cap equities. Still, the gains were muted owing to discussions of the Fed reducing its pace of bond buying. Big banks lifted the index for the second consecutive quarter, while technology heavyweights Microsoft and Cisco also enjoyed solid quarters. Citigroup, Wells Fargo, Bank of America, and JPMorgan Chase all enjoyed gains of over 5%, while Microsoft and Cisco posted gains of 21% and 17%, respectively.

A number of health-care firms posted solid returns in the quarter. Shares of top contributor Johnson & Johnson managed to gain more than 6% in the quarter, while Regeneron Pharmaceuticals posted gains greater than 27%. Staying in the Health Care sector, Aetna and WellPoint also saw their share prices rise in the second quarter, with gains coming in just under 25%. Conversely, shares of Newmont Mining Corporation suffered through a difficult quarter, falling nearly 28%.

Morningstar Mid Cap 2.2%

The Mid Cap Index also experienced a very mixed quarter, resulting in muted gains. Much like the Large Cap Index, Technology and Health Care were among the top contributors to the index, though struggles in the Basic Materials sector served as a major impediment to the Index extending its gains.

Top contributors from the Communication Services sector included T-Mobile US and Clearwire Corporation, which rose 69% and 54%, respectively, but the Index's biggest winner of the quarter by far was Elon Musk's Tesla Motors. The firm has repaid the entire balance of its loan from the U.S. Department of Energy, and its strong quarterly earnings release helped catalyze the stock price and triggered a major short squeeze. Shares of the new-age automaker soared 183% in the quarter as demand continues to grow for its electric cars. Longtime technology laggard Groupon also enjoyed a rebound quarter as it moved beyond the Andrew Mason era. Shares of the e-commerce firm rose nearly 40% as it attempted to recover from a sustained plummet since its 2011 initial public offering.

Morningstar Small Cap 1.9%

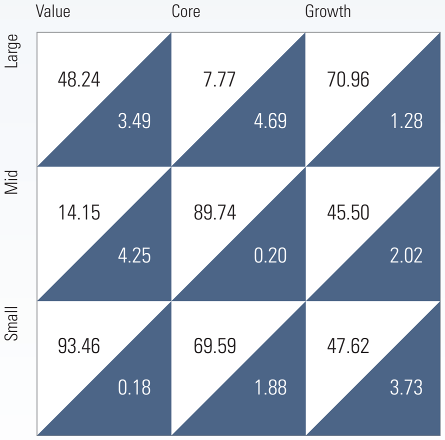
The Small Cap Index had plenty of major movers, but several of its largest contributors posted large losses that prevented the index from generating gains. Aruba Networks, Axiall Corp., and Walter Energy each posted large double-digit losses that pared the gains of top contributor First Solar, which rose more than 66% in the quarter. The Index was also affected by concerns over the underlying economy, which usually results in a flight to safety and a shift away from riskier Small Cap equities.

Results across sectors were mixed, though Basic Materials and Energy companies largely struggled this quarter as they did in other indexes. Energy firm Carbo Ceramics slipped more than 25% in the quarter. Conversely, a pair of consumer companies enjoyed enormous gains in the quarter. Pilgrims Pride Corporation and Rite Aid Corporation rose 62% and 50%, respectively, in the second quarter, after each firm received positive news during the period that catalyzed the stock upward.

Fund Categories and Benchmarks

Benchmark returns were lower this quarter than last, and a greater number of active managers beat their corresponding Morningstar Index in the second quarter of 2013. Nearly 50% of active managers outperformed the benchmark this quarter. The Morningstar Small Value Index returned 0.18% this quarter, and 93.46% of Small-Value active fund managers were able to beat this mark. After underperforming throughout much of 2012, Large-Growth managers outperformed the index for the third quarter in a row, with 92.12% beating the benchmark. Mid-Core managers experienced similar success, with 89.74% outperforming.

Active vs. Passive



	Value	Core	Growth
Large	48.24 3.49	7.77 4.69	70.96 1.28
Mid	14.15 4.25	89.74 0.20	45.50 2.02
Small	93.46 0.18	69.59 1.88	47.62 3.73

◸ Actively managed mutual funds outperforming their respective benchmark (%)[1]

◢ Index Returns (%), Q2

[1] Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of June 28, 2013 there were 2,128 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

Fixed-Income Indexes

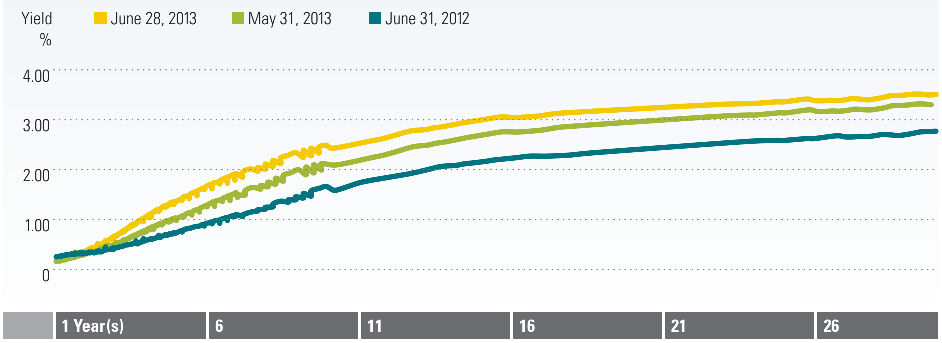
Fixed-income indexes declined across the board during the second quarter as the yields on global benchmark sovereign bonds rose and corporate credit spreads widened. Although corporate credit spreads have become more attractive at these wider levels, we continue to think they are within the range of being fairly valued (albeit at the high end of this range). The Fed has begun to prepare investors for an eventual reduction of its asset purchase program. Once the Fed begins to reduce its purchases, we expect long-term rates to normalize, which could lead the yield on the 10-year Treasury another 100 basis points higher.

Widening Investment-Grade Credit Spreads and Rising Interest Rates Lead to Losses

The Morningstar Core Bond Index—our broadest measure of the bond market—declined 2.22% in the second quarter. Losses were driven by a combination of rising yields on global benchmark sovereign bonds and widening corporate credit spreads. For example, the yield on the U.S. 10-year Treasury rose 36 basis points to 2.49%, and the yield on Germany's 10-year bond rose 21 basis points to 1.73%. The average credit spread within the Morningstar U.S. Corporate and Eurobond Indexes widened 24 basis points and 18 basis points, respectively, to +161 and +134.

Morningstar's US Government Bond Index declined 1.93%, with the greatest losses being suffered in long-term bonds; Morningstar's Long-Term Core Bond Index fell 5.30%. Being less sensitive to rising rates, shorter-duration indexes posted lower losses; our Short-Term Core Index and Intermediate Core Index declined 0.40% and 1.98%, respectively. Amid the fixed-income rout, treasury inflation protected securities, or TIPS, were unable to escape last month's losses as our TIPS Index lost 7.26%. As the market priced in a higher probability that the Fed may begin to taper its asset purchase program as soon as this fall, market-implied inflation expectations fell rapidly.

Treasury Yield Curve



Morningstar Bond Indexes

		Returns		Statistics			
		QTR	YTD	Market Value ($Mil)	Credit Quality	Yield to Maturity	Average Duration
Broad Market	Core Bond	–2.22	–2.27	13,419	AA	2.18	5.00
Sector	US Govt	–1.93	–2.08	6,410	AAA	1.22	4.88
	Corporate	–3.45	–3.60	3,274	A–	3.32	6.29
	Mortgage	–1.53	–1.36	3,688	AAA	2.83	4.04
Maturity	Short–Term Core	–0.40	–0.14	4,443	AA	0.73	2.21
	Intermediate Core	–1.98	–1.73	6,137	AA+	2.48	4.32
	Long–Term Core	–5.30	–6.19	2,788	AA–	3.80	10.89
Inflation Prot. Secs.	TIPS	–7.26	–7.47	738	AAA	0.02	7.74
Global Sovereign	Global Govt USD	–0.81	–3.59	19,800	AA	1.56	6.41
	Global Govt ex–US USD	–0.43	–4.36	13500	AA–	1.71	7.05
	Eurozone USD	–0.76	–0.35	6,326	A+	2.29	6.18
	Swiss USD	–1.52	–2.70	90	AAA	0.76	8.45
	UK USD	–4.24	–3.71	1,619	AA+	2.19	9.19
	Australasian USD	–9.84	–9.17	268	AAA	3.30	4.99
	Canadian USD	–1.23	–1.00	377	AAA	1.93	6.52
	Japanese USD	–0.73	1.75	4,819	A+	0.69	7.60
Europe	Eurobond Corp EUR	–0.69	–0.13	1,227	AAA	2.09	4.44
	European Bank Capital EUR	0.26	0.39	421	AAA	2.69	4.43
	European Covered EUR	–0.24	1.21	778	AA	1.85	4.17
	UK Eurobond Corp EUR	–3.35	–1.83	221	AAA	3.92	8.33
	UK Bank Capital EUR	–2.45	–0.66	49	AAA	4.98	6.42
Emerging Market	Composite USD	–5.41	–6.30	664	BB	6.63	5.81
	Sovereign USD	–5.80	–8.16	398	BBB–	5.49	6.91
	Corporate USD	–4.94	–5.20	59,594	BBB+	5.07	5.34

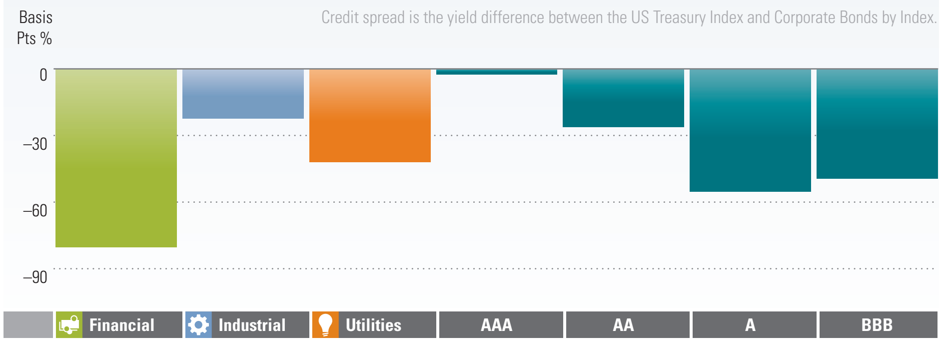
Data as of June 30, 2013

Our preferred measure of inflation expectations is the five-year, five-year forward inflation break-even rate, which is the average annual inflation rate expectation for five years, five years in the future (i.e., years six through 10). It is calculated by stripping out inflationary rates embedded in TIPS. Since the beginning of the year, the five-year, five-year forward breakeven rate has dropped to 2.27% from 2.83%.

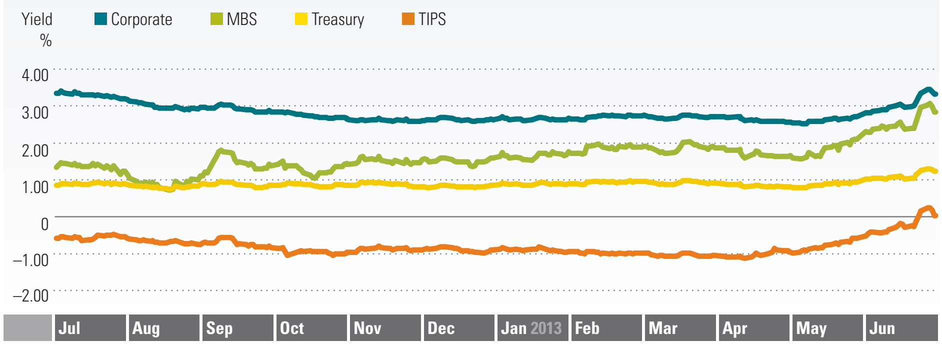
Morningstar's Global Ex-US Government Bond Index declined 0.43% for the quarter. This index outperformed to the downside due to foreign exchange currency movements, as most of the underlying local indexes that compose the overall index suffered greater declines in the quarter. For example, Morningstar's Australasian, Swiss, and Eurozone Indexes lost 9.84%, 1.52%, and 0.76% in local currencies. Morningstar's Japanese Bond Index declined the least last quarter, down just 0.73%.

The volatile emerging-market indexes suffered the worst losses across the fixed-income sector. Morningstar's Emerging Markets Composite Bond Index declined 5.41% as the Emerging Markets Sovereign Bond Index lost 5.80% and the Emerging Markets Corporate Bond Index lost 4.94%.

Credit Spread Change by Sector and Quality



US Bond Indexes: Average Yields



Credit Spreads on Corporate Bonds Are Fairly Valued

Although credit spreads have become more attractive at these wider levels, we continue to think they are within the range of being fairly valued (albeit at the high end of the range). However, we would consider moving to an overweight opinion if credit spreads widened much from here, and there is no change to our underlying fundamental and economic assumptions. Since we changed our view on the corporate bond market to neutral from overweight last fall, the credit spread of the index has ranged between +130 and +167, averaging +140. The tightest spread our corporate bond index has hit since the 2008 credit crisis was registered in April 2010 at +130, just prior to the beginning of the European sovereign debt crisis. Over a longer-term perspective, since the beginning of 2000, the average credit spread within our index is +176, and the median is +160.

Fed to Balance Communication Between Reducing Extraordinary Measures and Maintaining Low Rates

We have been cautioning investors that over the next few months, the Fed will need to perform a very delicate balancing act. The Fed needs to guide the market as to when it will begin tapering its extraordinary measures (asset purchase program) so as not to shock the market when it first occurs. However, that warning itself will lead to higher interest rates and may cause a pullback in risk asset prices. The Fed also wants to let the market know that it will continue its easy money policy (i.e., zero percent short-term rates) for a long time yet to come in order to slow the rate of increase in interest rates and reduce the severity of the sell-off in the markets. Fed Chairman Ben Bernanke has specified that the Fed will keep short-term rates near zero as long as the unemployment rate is above 6.5% (currently 7.6%). In addition, so long as inflation and inflation expectations are under control, the Fed would likely keep rates at very low levels even if unemployment were to dip below 6.5%.

Reportedly, the Fed was shocked that interest rates rose as quickly and as much as they did in June. We are shocked that the Fed was shocked. We have long opined that every bond trader and fixed-income portfolio manager in the world will try to front-run the rise in rates, likely compounding how quickly and how far rates will rise. Who in their right mind would want to buy long-duration securities once the single largest buyer of Treasury bonds (the Fed) begins to reduce its purchases? Compounding the problem of reduced demand, this same buyer has been unconcerned about gains and losses, as these asset purchases have not been made for investment purposes. The intent has been for economic reasons—to purposefully push interest rates down below where they would otherwise be. Once the Fed is no longer manipulating interest rates, we expect long-term rates to normalize, which could lead the yield on the 10-year Treasury another 100 basis points higher.

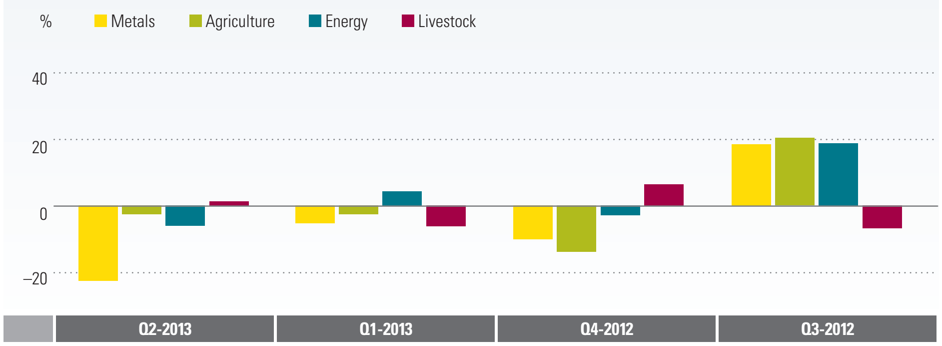
Commodities Indexes

Commodities were hammered by deflationary fears as the indexes exacerbated their declines that began in the first quarter. As money continued to flow into equities and fixed income, commodity prices—and precious metals prices in particular—fell off the table. The Morningstar Metals Commodity Index fell nearly 23% during the quarter, while the Morningstar Energy Commodity Index slipped more than 5%. The Morningstar Agriculture Commodity Index lost 1.5%, and the Morningstar Livestock Commodity Index remained relatively flat, with a 1.3% gain, after falling more than 6% in the first quarter.

The Morningstar Metals Index continues to be the most scrutinized commodities index as inflation remains well below the Federal Reserve's target range of 2%–2.5%. As a result, gold prices continued to plummet, falling roughly 23% during the second quarter. Copper also felt the effects of deflationary fears, slipping more than 12% while silver prices fell off of a cliff to the tune of 31%. While the Fed sees progress in the underlying economy, inflation remains below key levels, and the possibility of tapered bond purchasing in these conditions has spooked commodities investors.

Energy prices have also experienced considerable decay over the past several weeks after managing small gains in the first quarter. WTI Crude prices fell just under 1% in the quarter, though Crude did rally off the quarter's lows in mid-April. Heating oil and gas oil were both hit hard in the quarter, with prices of each falling nearly 10%. Natural gas pared a substantial portion of its double-digit first-quarter gains, sliding more than 10%.

Quarterly Commodity Sector Returns



Morningstar Commodity Index Returns %

	Quarter	1–Year	3–Year	5–Year	10–Year	15–Year
Long–Only	–7.33	–1.52	6.79	–7.33	7.48	8.76
Long/Flat	–4.27	–7.10	4.14	–2.84	7.60	9.75
Long/Short	0.04	–6.66	2.80	–2.65	6.05	10.08
Short/Flat	4.15	–0.61	–1.57	0.46	–0.04	2.54
Short–Only	7.53	–3.45	–9.02	2.84	–6.87	–4.92
Agriculture	–1.50	–0.97	15.59	–2.33	6.69	2.46
Energy	–5.24	9.19	3.23	–19.52	0.57	8.82
Livestock	1.26	–5.42	–0.28	–6.47	1.39	1.88
Metals	–22.95	–23.42	–0.45	3.84	16.86	11.43

Market Commentary Conclusion

Overall, the U.S. economy remains on very shaky ground as progress remains extremely fragmented when one examines underlying indicators. While the housing markets have made headway and employment data has generally trended in the right direction during 2013, there remains a wide range of concerns over just how strong the U.S. economy actually is.

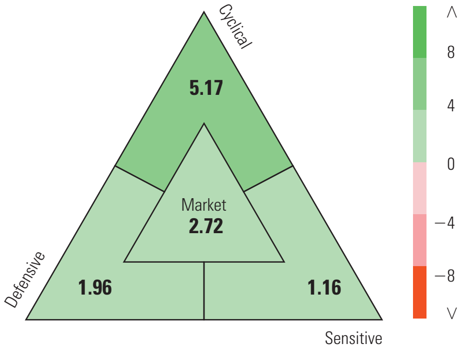
The impact of the Federal Reserve's quantitative easing program has without question been a key catalyst driving the equity markets to record highs in 2013, and we await the complete reaction when the Fed begins to taper its purchases and allow interest rates to rise once again. Though the Fed has begun in earnest to discuss the timing of these actions, it remains unclear when it will begin to taper its spending, as its decision-making process remains dependent on certain levels being reached in the economic data.

International markets will also continue to play a key role in the perception of the U.S. equity markets, as Japan, China, and the eurozone have all experienced a variety of headwinds both in the quarter and in 2013 overall. Japan's equity indexes entered a bear market during the second quarter, and concerns over slowing Chinese growth and a continually contracting eurozone will weigh heavily on how U.S. equities perform. There is the perception that U.S. markets remain "the cleanest of the dirty shirts" and could be a source relative strength. Still, the decisions made by the Federal Reserve will likely dictate market activity for the remainder of 2013, and volatility could remain high until definitive action is taken and markets get a clear feel for when tapering will occur and to what degree.

Q2 2013 Style Indexes

Index	Total Returns % 3-Month	1-Year	3-Year	5-Year	10-Year	Price/ Earnings	Price/ Book	Yield%	5-Yr Earn Growth
Morningstar US Market	**2.72**	**21.26**	**18.77**	**7.36**	**8.03**	**16.61**	**2.30**	**2.13**	**9.24**
Large Cap	3.09	20.01	18.52	6.71	7.05	16.45	2.36	2.30	9.77
Mid Cap	2.17	25.56	19.56	8.48	10.48	16.87	2.26	1.69	8.01
Small Cap	1.87	23.95	19.32	10.42	10.6	17.93	1.95	1.58	12.31
US Value	3.42	24.01	17.99	6.94	7.77	13.44	1.58	3.10	6.53
US Core	3.51	25.39	20.22	9.06	9.16	17.15	2.50	2.18	10.27
US Growth	1.31	15.04	18.27	6.08	6.92	21.14	3.78	1.00	14.91
Large Value	3.49	21.47	17.54	5.3	6.63	13.46	1.63	3.21	6.66
Large Core	4.69	26.11	20.12	8.81	8.5	17.46	2.55	2.41	9.70
Large Growth	1.28	13.42	18.15	5.96	5.72	19.88	3.81	1.17	14.44
Mid Value	4.25	33.17	19.26	10.75	10.49	13.41	1.52	2.78	6.35
Mid Core	0.2	23.27	21.03	9.22	10.73	15.41	2.45	1.64	11.99
Mid Growth	2.02	20.67	18.21	5.58	9.92	25.99	3.96	0.65	15.85
Small Value	0.18	25.08	19.08	13.13	11.28	13.25	1.32	2.94	7.73
Small Core	1.88	25.09	18.39	9.17	10.62	19.81	2.18	1.30	12.95
Small Growth	3.73	21.75	20.49	9.09	9.66	25.50	3.16	0.45	20.35

Q2 2013 Sector Indexes



Index	Total Returns % 3-Month	1-Year	3-Year	5-Year	10-Year	Price/ Earnings	Price/ Book	Yield%	5-Yr Earn Growth
Cyclical	**5.17**	**29.98**	**18.93**	**5.78**	**3.58**	**16.39**	**1.78**	**1.93**	**8.37**
Basic Materials	−3.95	9.66	12.84	−1.82	9.01	18.80	2.41	2.30	9.12
Consumer Cyclical	6.76	33.19	27.31	16.22	9.54	17.30	3.58	1.40	13.47
Financial Services	8.07	38.69	15.27	3.19	1.00	14.17	1.20	1.67	9.35
Real Estate	−3.20	8.25	17.58	6.61	10.09	31.38	2.16	4.53	5.94
Sensitive	**1.16**	**15.27**	**17.20**	**4.54**	**8.39**	**15.78**	**2.67**	**2.02**	**10.12**
Communication Svcs	4.92	27.90	24.58	12.84	9.62	19.62	2.71	2.69	12.65
Energy	−0.58	19.50	19.02	1.30	15.96	12.46	1.96	2.16	6.14
Industrials	2.28	23.53	18.63	6.70	9.17	18.07	2.97	2.01	10.95
Technology	0.66	7.11	14.29	7.78	8.07	15.91	3.13	1.53	12.67
Defensive	**1.96**	**20.92**	**19.61**	**9.32**	**7.08**	**19.44**	**2.93**	**2.49**	**9.28**
Consumer Defensive	0.99	17.46	19.20	11.72	9.94	19.28	3.60	2.69	9.99
Health Care	4.05	27.93	22.31	12.25	7.84	19.80	3.24	1.87	9.76
Utilities	−1.76	9.35	15.69	3.93	9.79	18.74	1.61	4.10	5.21

Bond Indexes

	3-Month	1-Year	3-Year	5-Year
Core	−2.22	−0.46	3.63	5.38
US Government	−1.93	−1.58	3.02	4.49
Corporate	−3.45	1.54	5.57	7.00
Mortgage	−1.53	−0.03	3.08	5.30
Short–Term	−0.40	0.75	1.61	2.87
Intermediate Term	−1.98	−0.07	3.48	5.50
Long–Term	−5.30	−2.97	6.46	8.21
Global Government ex. US	−0.43	−1.72	3.78	3.13
Emerging Markets Composite	−5.41	3.10	6.37	7.90

Commodity Indexes

	3-Month	1-Year	3-Year	5-Year	10-Year	15-Year
Long-Only	−7.33	−1.52	6.79	−7.33	7.48	8.76
Long/Flat	−4.27	−7.10	4.14	−2.84	7.60	9.75
Long/Short	0.04	−6.66	2.80	−2.65	6.05	10.08
Short/Flat	4.15	−0.61	−1.57	0.46	−0.04	2.54
Short–Only	7.53	−3.45	−9.02	2.84	−6.87	−4.92
Agriculture	−1.50	−0.97	15.59	−2.33	6.69	2.46
Energy	−5.24	9.19	3.23	−19.52	0.57	8.82
Livestock	1.26	−5.42	−0.28	−6.47	1.39	1.88
Metals	−22.95	−23.42	−0.45	3.84	16.86	11.43

All data in this issue as of 06-30-13