DECEMBER FLASH REPORT
(QUARTER ENDING DECEMBER 31, 2011)

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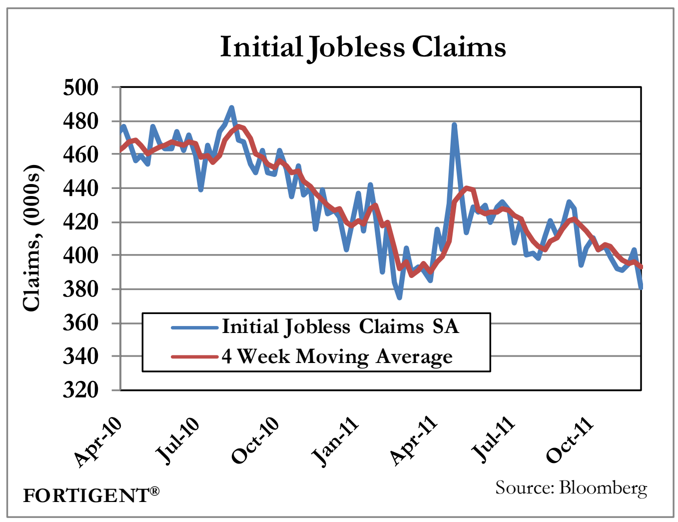
ECON: US FINISHES 2011 ON FIRMER FOOTING

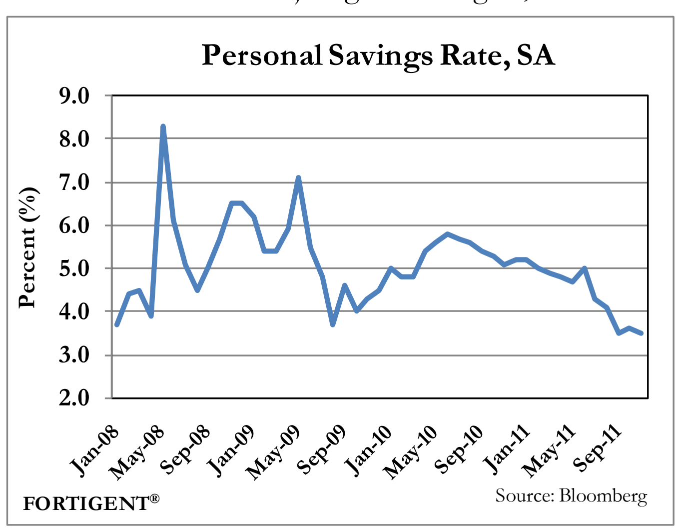
Econ: Over the course of a difficult and trying year, the domestic economy fought to maintain some amount of positive momentum. After starting the year strong and enduring a mid-year hiccup, it can be said that the economy actually finished on firmer footing than many expected. That does not mean 2012 will be an easy year, however, as the overhang from Europe will remain front and center.

In aggregate, the economy went through a series of three periods during the year. The first third of the year was marked by improving economic growth coupled with a series of abnormal global occurrences, from the Arab Spring to the earthquake in Japan. Those events dampened the global economy in the middle third of the year and caused a slowdown globally and in the US. This was most evident in the Citigroup Economic Surprise Index for the US, which peaked near 100 in early March before tumbling to -100 by early June. Such a dramatic move was last experienced in fall 2008.

Once it became apparent that consumer spending and corporate profitability was better than expected, the US economy gradually clawed out of its mid-summer doldrums. In the last third of the year, the Citigroup Economic Surprise Index once again soared, rising to 85 by early December and holding steady through the end of the year.



A critical area of focus throughout 2011 has been the labor markets. Despite numerous headlines discrediting improvement in the labor markets, modest job gains occurred during the year and in the past few months. For example, in 2010, private payrolls grew by an average of 98,000 jobs per month. In the first eleven months of 2011, that number rose to 156,000. In addition, the unemployment rate, which began the year at 9.0% and rose to 9.2% by the summer, ended November at 8.6%. In the last positive development, initial claims for unemployment benefits, which hovered just above 400,000 for most of the year, broke decidedly through the 400,000 barrier in December, dropping as low as 366,000. Many economists peg 400,000 as the point at which sustainable job growth begins, so this is a welcome development. Whether the economy can continue that trend into 2012 is a significant unknown.



With job growth slightly improved, but still weak, consumers were hesitant to embrace a fully fledged spending binge. Real personal consumption expenditures rose 0.2% in October and November, respectively, to post a 1.7% year-over-year gain. Inflation played a role in driving prices higher, particularly in the first half of the year. That, in turn, left consumers dipping into their savings in order to offset relatively modest wage gains; the personal savings rate dipped from 5% at the end of last year to 3.5% in November. The holiday shopping season looks to be stronger than first thought, offering support for fourth quarter

GDP figures, but nevertheless, consumers are stuck in a tough position with little income gains and little savings to cushion any weakness.

Federal Reserve: The quarter started comparatively quietly for the Federal Reserve, as the only major news was the standard policy meeting of the Federal Open Market Committee (FOMC). Largely in line with expectations, the FOMC chose to reiterate that interest rates would remain low until at least mid-2013 while also confirming that "Operation Twist" would continue as originally planned. One shift was a downgrade to growth expectations for 2011 and 2012. The range of estimates for 2012 growth fell from 3.3-3.7% to 2.5-2.9%. The FOMC did note that "there are significant downside risks to the economic outlook, including strains in the global financial markets."

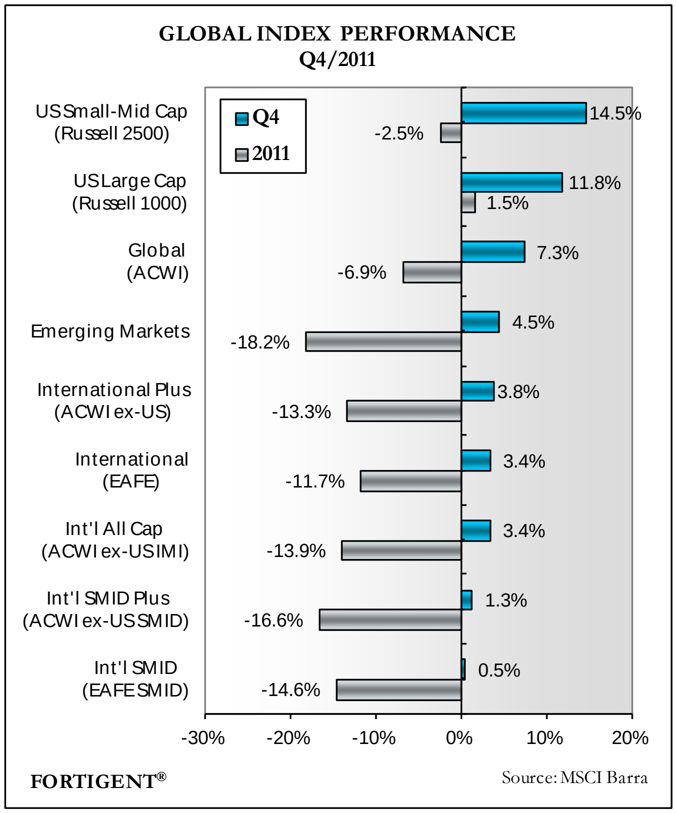
Toward the end of November, minutes from the meeting were released, painting a similar picture. What emerged from the minutes, however, was news that the FOMC is considering changes to its communication strategy, including the release of a long-term inflation target, fed funds rate expectations, and GDP targeting. Each of those ideas was received with differing amounts of support, but regardless, it is obvious that the Fed is likely to undertake changes to its current communication stance.

At the end of November, the Federal Reserve, in a coordinated effort with the Bank of Canada, the Bank of England, the Bank of Japan, the Swiss National Bank and the European Central Bank, announced the extension of US dollar swap lines to February 2013, and a reduction in the cost to the US dollar overnight index swap (OIS) rate plus 50 basis points. The move was in direct response to funding pressure at a number of foreign banks, as well as fears that an inability of foreign banks to borrow would lead to a severe recession around the globe. Swap lines first appeared as the financial crisis unfolded in 2007 and provided one of the few stabilizing factors throughout the crisis.

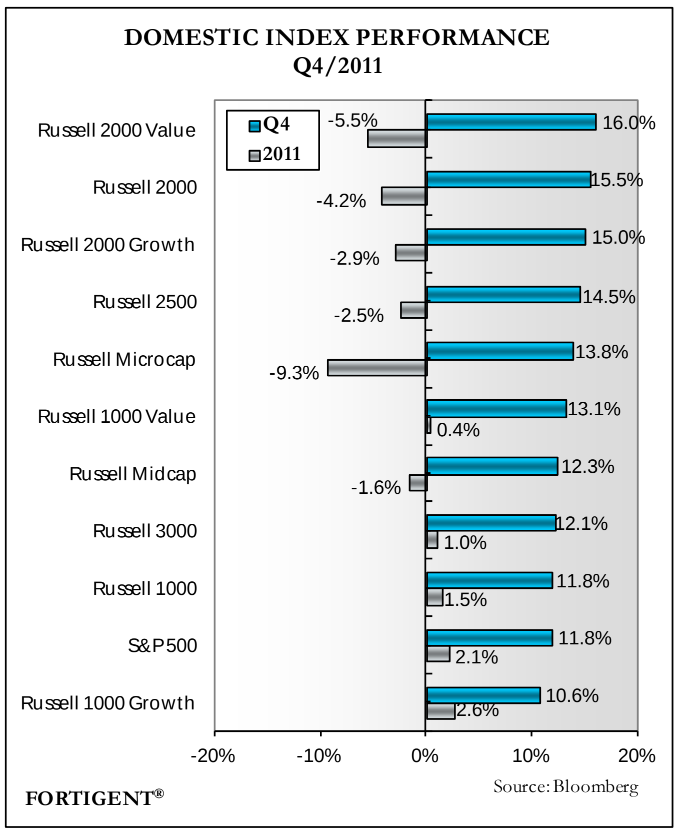
An extension of the swap lines, coupled with a cut in the financing costs, at a minimum, buys European leaders additional time to work out a long-term solution to the ongoing crisis. Bank stability was a growing area of pressure in Europe, and one that risked plunging the whole economy into a deep contraction. For now, those fears will ease while a cogent solution is debated.

GLOBAL EQUITIES: LACKLUSTER HOLIDAY MONTHS CAN'T ERODE OCTOBER RALLY

Global equities finished Q4 in positive territory due to the best October in the 23-year history for the MSCI All Country World Index (ACWI), despite lackluster performance in November and December. Apparent improvement in the European sovereign debt crisis led to optimism early in the quarter; however, in subsequent days it became clear to financial markets that the details of the European Union's latest plan were lacking. This led to a renewed selloff that carried over for most of the year's final months, though a mini three-day rally at the end of November helped keep Q4 returns in the black.



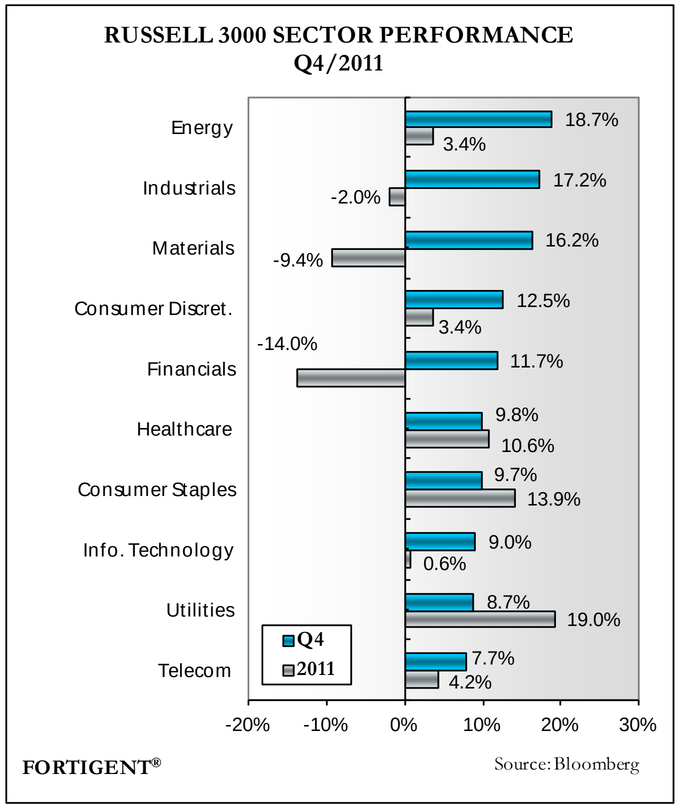
A reversal of risk aversion during the period, though only momentary, led to stronger performance of riskier market segments including small-mid cap and emerging markets. However, US stocks defied this pattern and outperformed its foreign counterparts – on both a local and US dollar basis. This continued a yearlong trend, and the US finished as the runaway winner in 2011 compared to other major countries and regions.



Despite improvement in US economic data, uncertainty surrounding the European sovereign debt crisis and its implications for global financial markets remain. With little indications of a resolution to this issue in sight, investors have little incentive to pile into risk assets. Slowing economic activity in Europe and China unfortunately serves as another headwind heading into 2012.

Domestic Equities: While US stocks were flat from a price perspective (as measured by the S&P 500 index level) in 2011, dividends boosted investors' return to just over 2%. This allowed the index to avoid failing its near-perfect pattern of positive performance in the third year of the presidential cycle. In the fourth quarter, performance was led by smaller capitalization stocks, as risk aversion momentarily abated during October's rally. This trend did not include micro cap stocks, however, which were the noticeable laggard in 2011.

Value stocks also bounced back during the quarter to outperform growth, but this was not enough to offset sharp underperformance during the first nine months of the year. In an environment short on growth, investors have consistently bid up stocks with stronger earnings outlooks. This was the fourth time in five years that large cap growth stocks outperformed value stocks, a stark reversal from 2000 to 2006 when value outperformed growth in every calendar year.



From a sector standpoint, the most economically sensitive areas of the market performed best in Q4, with energy, industrials, and materials leading returns. Strong performance earlier in the year by more defensive companies, however, led to 2011 outperformance for sectors like consumer staples, healthcare, telecom, and utilities.

In retrospect, 2011 can certainly be characterized as a year of volatility, punctuated by the VIX index which finished the year 32% higher than where it began. Still, the year's closing figure of 23.4 represented a significant decline from the peak of 48 in early August (following the confluence of the US credit rating downgrade, debt ceiling debacle, and spike in Italian bond yields). The volatility index remained above 30 for most of the next three months before collapsing in December. This may not last, however, as current futures prices anticipate the VIX returning to the 30 range by mid-2012.

The upward, albeit volatile, path of the S&P 500 since October has created technical improvement in the markets. Fourth quarter performance has led to an imminent crossing of the 50-day exponential moving average and the 200-day exponential moving average for the S&P 500 – typically viewed as a bullish signal. The Dow Jones Industrial Average also recently broke out above the neckline of its head and shoulders pattern, a favorable development in the opinion of chartists. When taken in conjunction with other encouraging developments in secondary indices like the Dow Jones Transportation index, US markets appear to be signaling a sustained uptrend.

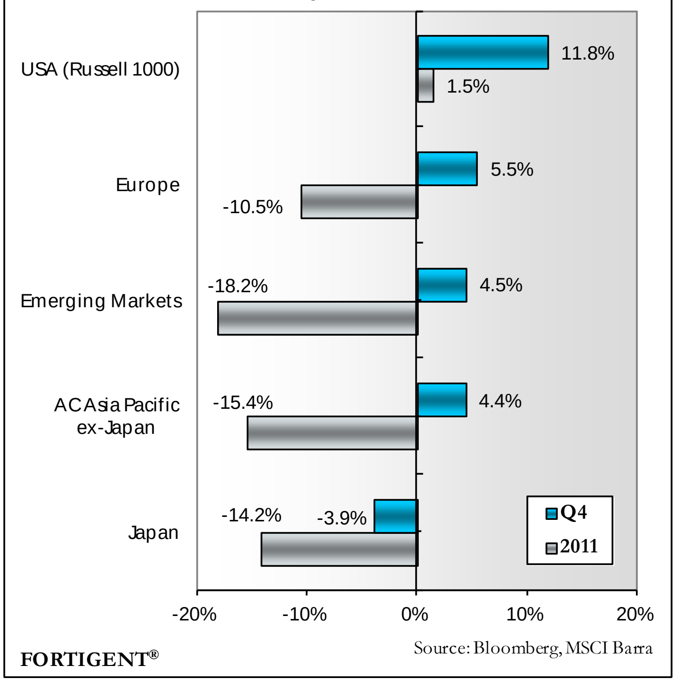
Contradicting these bullish signals, however, is the steep reduction in earnings estimates for US companies. Since the end of Q3, EPS growth estimates for S&P 500 constituents have more than halved, reflective of diminished guidance provided by companies themselves and a weaker global economic backdrop.

International Equities: International stocks sharply lagged their US counterparts in Q4, with currency playing only a modest role in the quarter's final numbers. This result masked intra-quarter activity, however, as the foreign currencies swung wildly versus the US dollar. This was the case in October's rally, when emerging markets and Europe both outpaced US stock market returns, in part due to strong currency recoveries. Those gains were subsequently wiped out by a November swoon.

European stocks were the exception in Q4, as the index experienced material currency depreciation versus the US dollar. By year end, the euro fell below $1.30 for the first time since January, reviving the mid-2010 talk of euro-dollar parity. A major European summit in November – one that many expected to finally present a credible long-term solution to the debt crisis – was once again undermined by squabbling between leaders and diluted measures. As a result, many began to seriously question the tenability of the region's monetary union. Meanwhile, the region's banks came under increasing pressure as an agency report showed a dramatic shortfall in capital ratios. The euro fell nearly 9% from a near-term peak of $1.42 at the end of October.

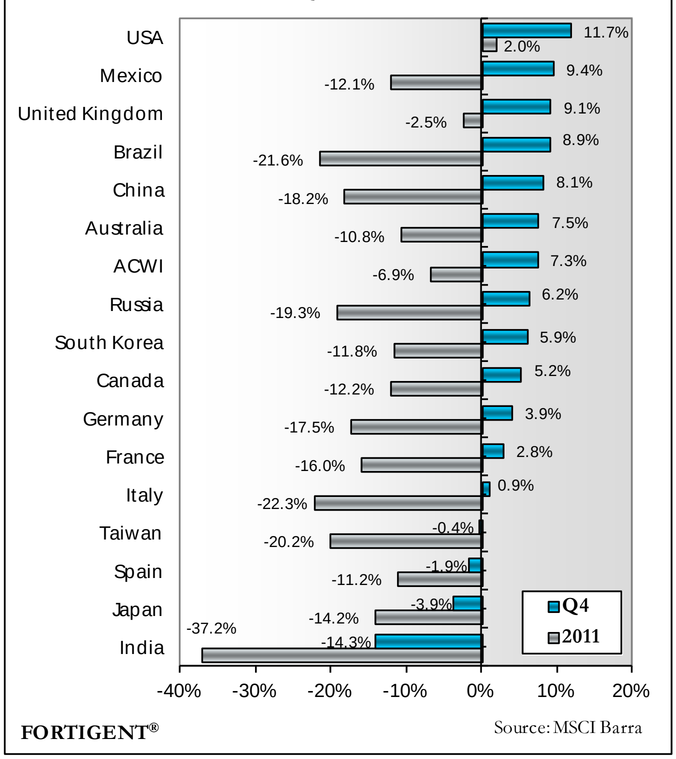
Europe displayed incredibly diverse stock market performance during the quarter and for the year. Tiny Ireland (+22%) led all global MSCI countries during Q4, and finished 2011 as the top market with a return of 14% (more than double the second place country). Alternatively, Greece declined another 27.5% during the quarter, worst among ACWI countries. The epicenter of the European debt crisis, beleaguered Greece dropped an astounding 63% in 2011, easily eclipsing all other countries in the index (including Egypt, which suffered dramatic political strife and saw its stock market shut down for more than a month). Ultimately, Europe's performance in Q4 and 2011 was driven by the United Kingdom (36% of the index), which was among the top performing global markets this year.

REGIONAL INDEX PERFORMANCE
Q4/2011



Japan did not participate in October's rally and finished with poor performance for the quarter. Despite retaining safe-haven status at the currency level – the yen was one of the few currencies to appreciate relative to the dollar this year – Japanese equities failed to recover fully from the natural disasters in March that disrupted supply chains and eviscerated mid-year GDP. Evidence of a slowdown in China further reduced investor confidence in a country so dependent on external demand (due to an aging demographic and poor domestic consumption trends).

MSCI COUNTRY PERFORMANCE
Q4/2011



Emerging markets posted disappointing performance in Q4, considering the developed market rebound. After leading global returns during October's rally, the index suffered in November, due in large part to Asia (read: India). Mediocre December returns failed to pull the index back out of mid-single digit performance for the quarter. Despite an absence of the fiscal issues plaguing the developed world, emerging markets were targeted as a high risk market segment in 2011. While a significant chunk of losses were due to currency depreciation, the index underperformed Europe even on a local currency basis, reflecting investors' continued aversion to these markets in uncertain times.

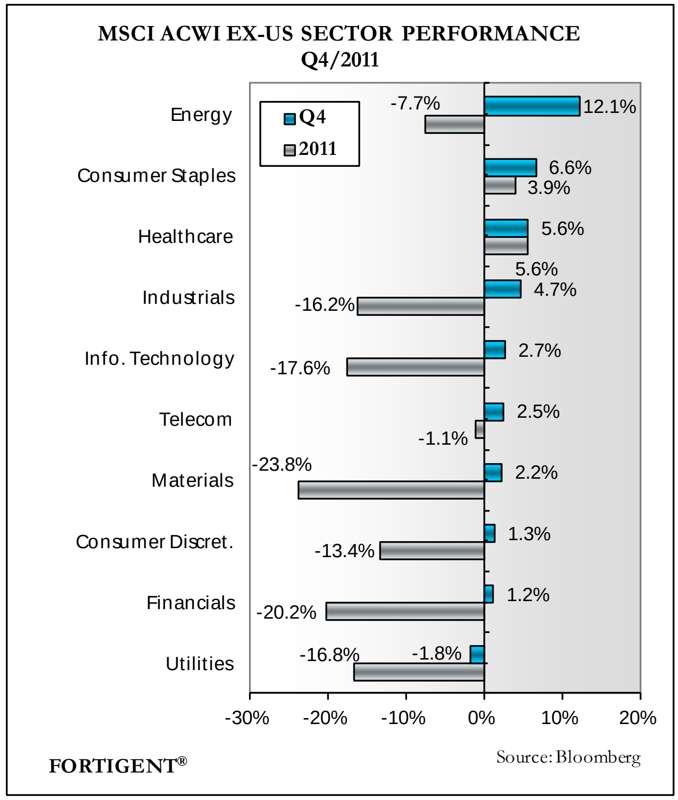
Performance was bifurcated in Q4 within the emerging markets index, as the Asia and EMEA (Europe, Middle East, & Africa) segments posted modest returns (3% each) while Latin America surged 9%. Brazil and Mexico were among the top performing countries in the global index (which account for a combined 85% of the EM Latin America index).

India experienced an extremely poor Q4 and 2011, declining 14% in the quarter and more than 37% for the year. The country battled soaring inflation and allegations of political corruption in 2011 that severely undercut confidence in the economy and financial market. India's government raised interest rates by a record amount in 2011, crimping growth dramatically – third quarter GDP reported in late November grew at the slowest pace in more than two years. The Indian rupee also plummeted in the second half of 2011, resulting in 16% devaluation against the US dollar.

Frontier markets also posted disappointing performance in Q4, falling 2%. This was largely the result of the index's failure to rally in October alongside other global equities (only a 2% gain versus emerging market's 13% rise). For the year, frontier markets performed in line with emerging markets, declining 18.4%.

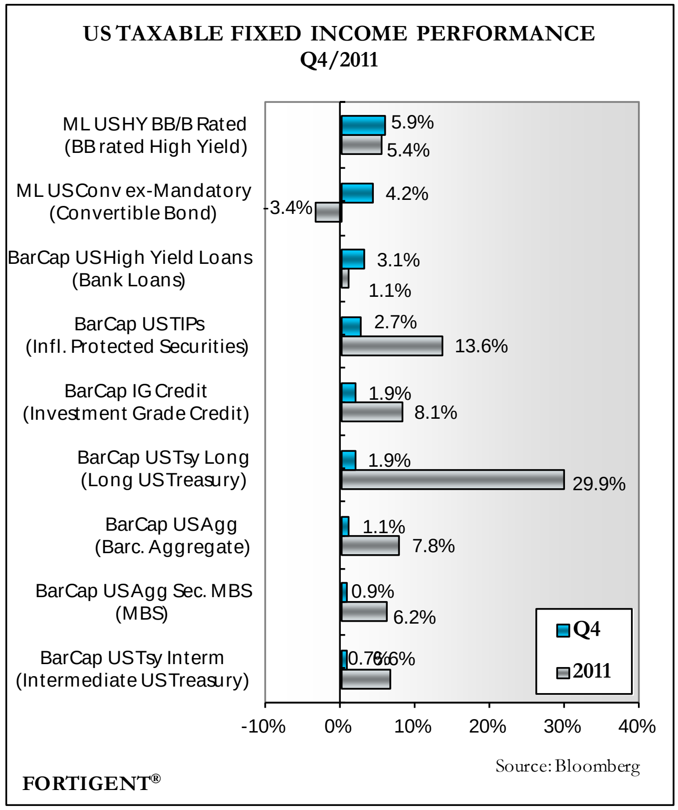
From a sector standpoint, more defensive sectors in the international index (MSCI ACWI ex-US) led performance, with the exception of energy. The latter sector was boosted by surging oil prices, which climbed from near $75 a barrel at the beginning of October to over $100 by year's end. For the year, staples and healthcare were the clear winners as the only positive sectors in the index.

Source: MSCI, Bloomberg, WSJ, The Economist, Morgan Stanley, Bespoke, FactSet, Russell, Reuters, J.P. Morgan



FIXED INCOME: 2011 – NO BUBBLES BURSTING OR MASS MUNI DEFAULTS

US Taxable Markets: The fourth quarter and 2011 return for core taxable bonds, as measured by the BarCap Aggregate index, was approximately 1.1% and 7.8% respectively. In a quick review of the year's performance campaign, the summer months were strongest with Q2 and Q3 producing the bulk of 2011 return. US rates fell in a broad based flight from risk assets. In addition, Federal Reserve activity forced rates lower. In Q4, US rates remained relatively unchanged with the exception of the five year area of the yield curve where rates fell a bit over 10 bps to 0.83%. Ten year rates held constant at 1.9%. Core taxable bond performance in Q4 reflected income due to rate and price stability.



US investment grade credit produced 1.9% and 8.1% for the quarter and year. In Q4, performance was mostly driven by income. From a spread perspective, the option adjusted spread (OAS) for US corporate bonds, as measured by the BarCap index, initially fell from 240 bps to start the quarter, down to 200 bps mid quarter. Unfortunately, spreads retraced to finish near 240 bps due to heightened macroeconomic concerns.

US Treasury Yields

Security	9/30/2011	12/31/2011	Change
90 Day	0.01	0.01	0.00
2 Year	0.24	0.24	0.00
5 Year	0.95	0.83	-0.12
10 Year	1.92	1.88	-0.04
30 Year	2.91	2.89	-0.02

SOURCE: BLOOMBERG

US TIP Yields

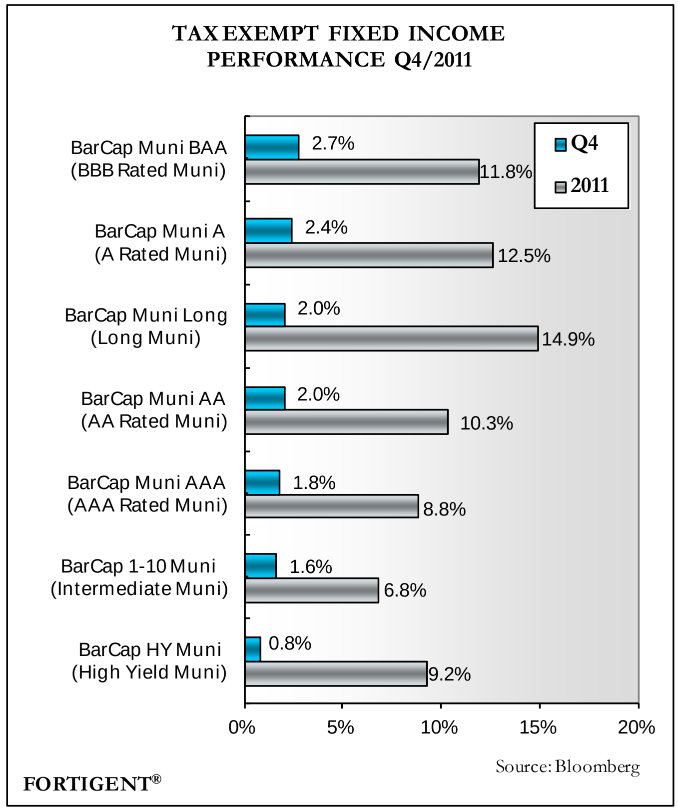
Security	9/30/2011	12/31/2011	Change
5 year	-0.61	-0.89	-0.28
10 Year	0.14	-0.12	-0.27
20 Year	0.84	0.53	-0.31
30 Year	1.00	0.75	-0.25

SOURCE: BLOOMBERG

For the quarter and year, high yield corporate bond performance was exceptionally volatile. Based on BarCap High Yield index data, investors realized a 6% rebound in Q4. This led to a 2011 return of approximately 5.4%, which was slightly less than income generated for the year. In review of Q4 spread activity, the OAS for this area of the market broadly reflected investors' propensity for risk: spreads fell from 820 bps to 700 by mid quarter, but retraced a good portion of this move through late November. Spreads finished the year below the 700 level, with the help of strong investor appetite.

Leveraged loans produced a gain of approximately 3.1% for the quarter and 1.1% for the year based on BarCap index data. Performance in 2011 was dominated by technical issues, with third quarter activity being the main driver of results. The Fed's pledge to maintain its key rate until 2013 led investors to reduce capital held in this market. Fourth quarter results were relatively strong and reflected price appreciation along with income. The average loan price increased from approximately $89 to $90 in the quarter.

Agency MBS generated 0.9% and 6.2% returns for the quarter and year. 2011 performance reflected income and mild price appreciation with the space benefiting from a flight to quality that occurred in Q3 and the Fed's purchase activity. Q4 performance largely reflected income. At year end, the average OAS for conventional BarCap MBS index was around 80 bps – a relatively high level compared to the previous five year average. This elevated level indicates realized and expected refinancing volume. Based on the Mortgage Bankers Association refinancing index data, fourth quarter refinance application activity was 17% above the five year average. October and December were particularly strong months as mortgage rates remained at record low levels.



Municipal Market: The Q4 and 2011 performance for core tax exempt bonds, as measured by the BarCap 1-10 year index, was approximately 1.0% and 7.3%, respectively. The muni market was under considerable pressure at the start of 2011 as investors were net sellers on worries of mass defaults. As tax exempt yields reached levels more attractive than traditional taxable bonds, institutional investors allocated capital to munis, forcing a rather quick turnaround midway through the first quarter. This rally bled into the second quarter and continued in sympathy with the US Treasury rally in Q2 and Q3. The Q4 performance, while positive, masked volatility driven mostly by supply. For the first two months of the quarter, yields moved higher and in the opposite direction of US Treasuries as the market digested over $70 billion of new bonds, well over the previous nine month average. By December, however, the market calmed and yields fell back to levels in line with US Treasuries. The December price rally resulted in munis essentially producing a return that equaled Q4 income.

AAA Municipal Yields

Security	9/30/2011	12/31/2011	Change
2 Year	0.48	0.47	-0.01
5 Year	1.27	1.10	-0.17
10 Year	2.55	2.28	-0.27
30 Year	4.31	4.22	-0.09

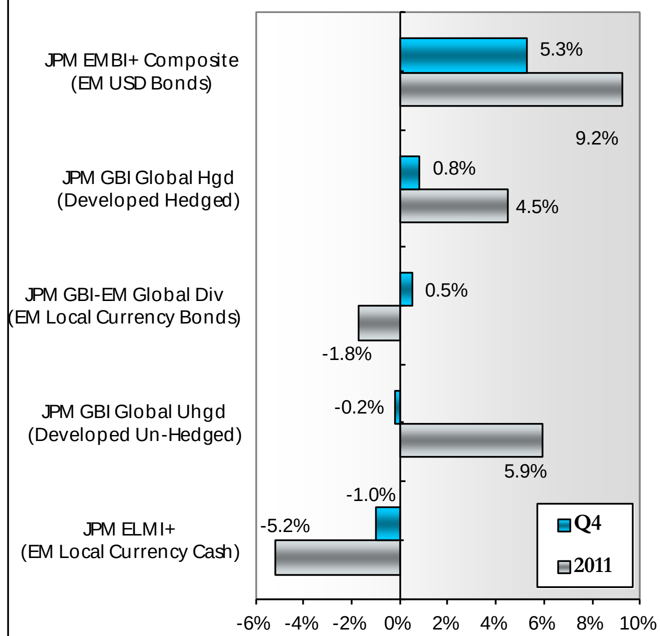
SOURCE: BLOOMBERG

High yield munis produced a 9.2% return for the quarter and 0.8% year-to-date, based on BarCap index data. The high yield muni market was relatively well balanced in Q4, as hefty supply was met with solid demand from institutional investors and mutual fund complexes. The yield spread for the BarCap High Yield Muni index relative to investment grade munis held steady at +400 basis points, which is approximately 100 bps above the 10 year average. The yield for the index, however, fell in tandem with long duration munis, reaching 6.8% by year end.

The quarter was not without its major headlines. AMR Corporation, which is responsible for the cash flow payments of several airline-related municipal issues, declared bankruptcy. Such issues represented less than 2% of the BarCap index at the start of the quarter. Other issuers in the headlines that may have affected this market include Harrisburg, Pa., Jefferson County, Ala., and Central Falls, R.I.

International Markets: Much like the US fixed income markets, the international sovereign bond and currency markets were dominated by events in Europe. For the year, unhedged strategies for US investors were impacted by the general weakness of EM currencies. The currency weakness overwhelmed the solid income and general price appreciation of emerging market bonds and currencies. As a result, as measured by JPM indices, EM bonds lost 1.8% for the year while cash and short term securities lost 5.2%. In Q4, continued currency weakness in Eastern Europe was partially offset by general strength in Asia, leading to a 1% loss for currencies and short term instruments and a 50 bps gain for EM Bonds. Developed hedged bonds performed well in the year, producing a return of 5.9%, driven by a flight to quality that occurred in the later part of Q2 and Q3. The fourth quarter was relatively calm for developed markets outside of Europe. The 20 bps loss in the quarter reflected income offset by strength in the US dollar. The main highlight in the international space was EM bonds denominated in US dollars. This area of the market generated a 5.3% return in Q4 and 9.2% for the year. This reflected the decline of US rates and a compression of spreads as investors searched for quality yield.

INTERNATIONAL FIXED INCOME PERFORMANCE Q4/2011



Source: Bloomberg

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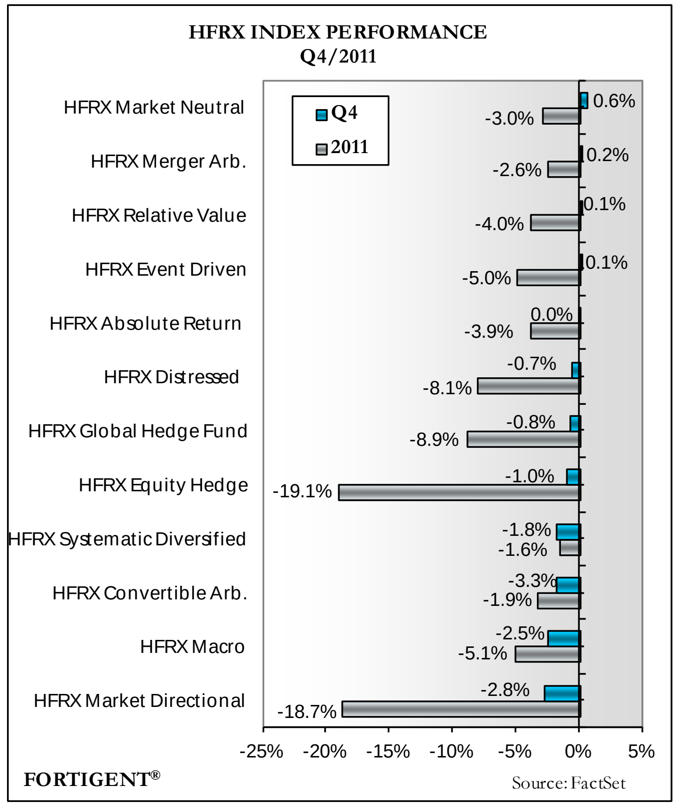
Sources: Barclay's Capital, Bloomberg LP, Financial Times, J.P. Morgan, Municipal Market Advisors, US Treasury

ALTERNATIVES: IN VOLATILE YEAR, HEDGE FUNDS EARN CRITICISM INSTEAD OF FEES

**Note that HFRX performance shown represents returns through December 29, 2011.*



In the hedge fund annals, 2011 will go down as a year to forget. Macroeconomic driven markets that frequently shifted between a risk-on and risk-off mentality created a treacherous trading environment for hedge fund managers and left many scratching their collective heads in wonderment at the year that was.

Across the board, hedge funds struggled to hold gains on the year, led by the equity hedge index, which closed the year down more than 19%. Those results are quite a bit worse than other hedge fund indices, as we mentioned previously, but few hedged equity managers finished the year positive. The majority were flat to down slightly, which does not compare favorably to an S&P 500 that was slightly positive. It is important to remember that many equity-focused hedge funds invest in small and mid-cap securities, where they believe there is an information advantage. The Russell 2000 index finished the year down 4.2% after a 15.5% rally in the fourth quarter. Most hedge funds, struggling for direction, reduced risk around the end of September, just as equity markets embarked on a furious rally.

Event driven strategies were hit hard during the summer months when concern about deals falling through and adverse market conditions led to a risk reduction in many event driven trades. As valuations became more attractive, particularly in the merger arbitrage universe, managers stepped in and began buying. While merger arbitrage managers were being compensated more to hold mergers, the average expected duration of those deals also increased, resulting in managers being compensated more but having to wait longer. Following five months of negative performance between May and September, merger arbitrage closed the year down roughly 2.5%.

Macro and systematic strategies stumbled at various points in the year, as evidenced by the 5% decline in the macro index and the 1.6% loss in the systematic diversified index. Macro did surprisingly poorly in the year, but this index is also not consistent with other relevant benchmarks. According to HFR, commodity-based strategies were the bulk of the declines. Diversified systematic strategies, on the other hand, gained slightly more than 1% in December to finish the year relatively unscathed. There was a wide dispersion of performance among systematic managers, but losses were concentrated in systematic trend followers. Constant reversal of trends and signals resulted in many managers shifting portfolios at precisely the wrong points in time.

Overall, hedge funds posted disappointing performance in an environment that can be described as anything but ordinary. While volatile trading conditions are likely to persist, hedge fund managers will be hard pressed to post similar performance in 2012 and remain in business.
Sources: HFR, Factset

LIQUID REAL ASSETS: MAGNITUDE OVER DIRECTION

Liquid real assets (LRA) rose during the quarter as geopolitical malfeasance failed to derail a holiday season marked by slashed interest rates. While correlations approached 1.0 for most asset classes, the degree of moves in Q4 underscored a growing disconnect in LRA performance.

Commodities: There was a rebound in some of the most beaten down commodities during the quarter, most notably oil, copper, and select grains.

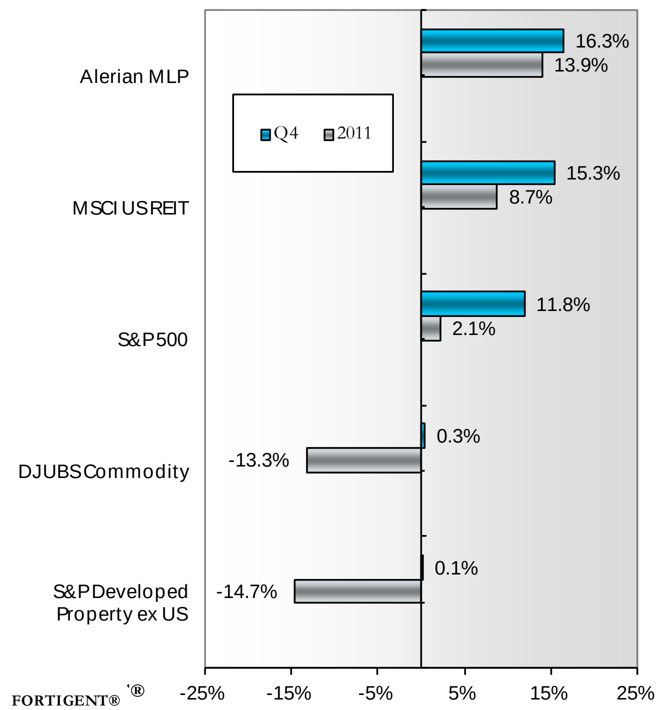
Oil benefited from tighter than expected year-end supply in the US and ominous missile brandishing by both sides in the Strait of Hormuz. As a result, both the Brent and WTI Crude curves finished the year in backwardation.

Copper rebounded during the quarter, with demand from China holding up better than a hard-landing would otherwise dictate. Nevertheless, the metal finished the year with its first loss since 2008.

Within grains, Q4 could not correct the YTD bifurcation between corn and wheat. Not since 1996 have corn futures traded at a premium to wheat, but that is exactly what happened in the second half of the year, due to strong wheat bumper crops around the globe and tight corn supply. CBOT wheat normally trades at a premium to corn because it yields fewer bushels per acre (45 bushels vs. 145 for corn[1]) and has higher protein content. Humans also primarily consume wheat; whereas corn is more often utilized in cattle feed.

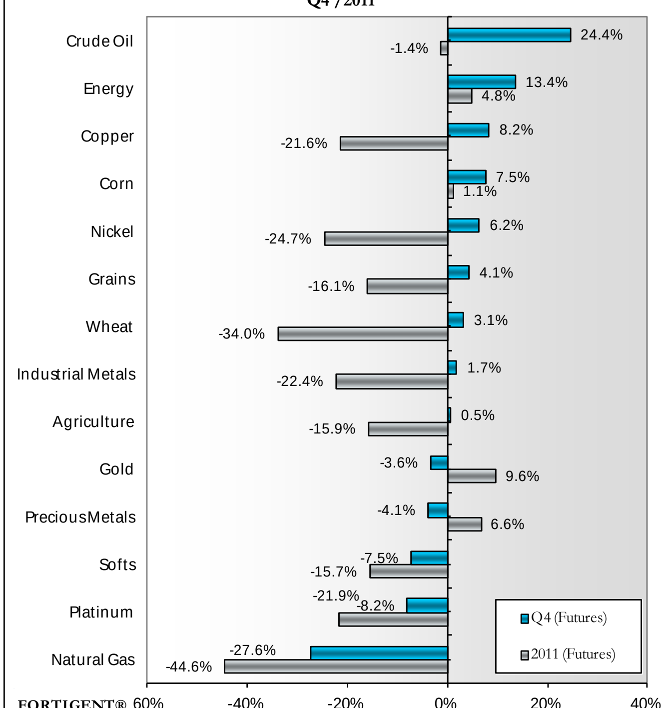
Demand for ethanol and livestock brought support for corn, but this price parity is in danger in the coming months. Livestock producers are starting to convert to wheat and (corn) ethanol demand is in limbo. The $6 billion per year, 45 cent/gallon US government ethanol subsidy expired on December 31, 2011, leaving a huge question mark for the ethanol industry going forward.

LIQUID REAL ASSET PERFORMANCE
Q4/2011



Source: FactSet, S&P GSCI

COMMODITY PERFORMANCE
(S&P GSCI - FUTURES RETURN)
Q4 /2011



Source: FactSet, S&P GSCI

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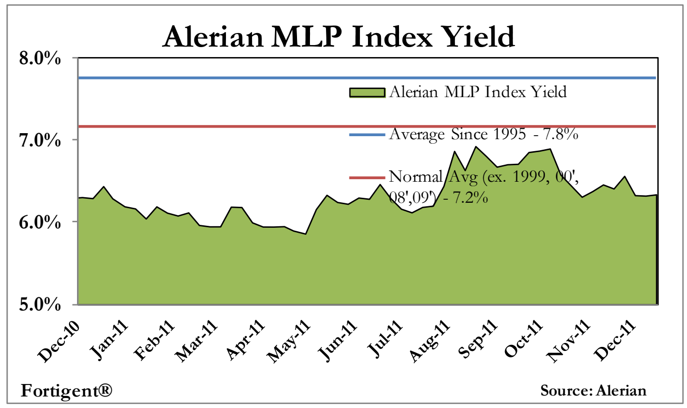
[1] 2010 USDA Data for the United States

Although higher for the year, gold struggled in Q4 despite accommodative European and US monetary policy decisions. A weak rupee was part of the story. India is the largest importer of gold in the world and higher prices in USD terms (gold bullion is priced in USD) resulted in December imports falling by 50% relative to last year. Policy decisions abroad also contributed to the decline. In Japan, for example, a new law was passed requiring bullion retailers to report gold and platinum transactions worth more than ¥2 million yen (~$26K USD) to tax authorities effective January 1, 2012. This resulted in a rush for the exits by many investors, requiring bullion dealers to open on Thursday, December 29 (normally a public holiday).

MLPs: It was an eventful quarter and year for MLPs. In the first half of 2011, discussion of public partnership taxation overhaul dominated headlines. As we moved into Q3 and Q4, rhetoric moved toward the Keystone XL Pipeline and the future of Canadian tar sands. If built, the Keystone pipeline would send approximately 830,000 barrels of oil per day from Alberta to Texas, reducing US dependence on seaborne oil. Opponents of the pipeline cite various environmental concerns, from endangered wetlands in Nebraska to the safety of the Ogallala Aquifer.



The latest wrinkle in the debate came from Canada, which showed reluctance to stand idly by while the US decides. Prime Minister Stephen Harper noted in a recent CTV news interview that Canada is "very serious" about selling its oil to China if the US cannot make up its mind.

Beyond the macro, MLPs had a very strong Q4 with the Alerian MLP index finishing the year at an all time high, despite a large volume of dilutive secondary issuances. Yield spreads relative to Treasuries finished 100 bps above the historic average, signaling room for further upside.

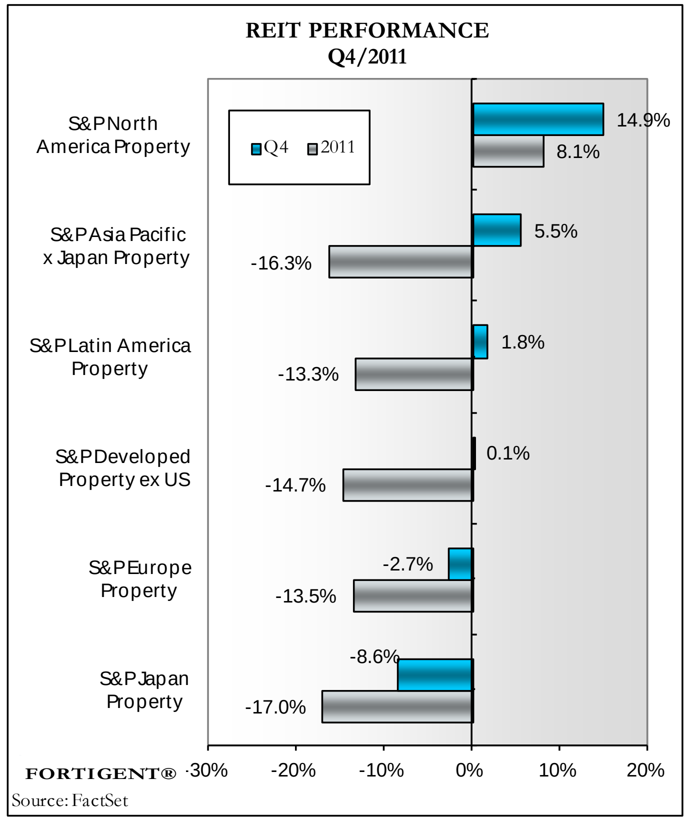
Strong index performance was driven by the largest MLPs, which outperformed smaller issues. General Partners and drop down stories (GPs moving assets to LPs) also performed well. Propane and natural gas storage MLPs were at the bottom of the pack. Natural gas (-44% in 2011) was one of the weakest commodities for the year, putting pressure on expensive storage companies.

REITs: Across the globe, the quarter ended much like it began, with cyclical REITs recovering from August lows. For the year, however, US REITs was the only major region in positive territory, outperforming European and Asian securities by more than 20%.

In the US, capital raises were the theme for the year, though activity did slow in Q4. Through November, REITs raised $50 billion in equity and debt offerings, the largest figure ever. Equity issuance in particular was 31% higher than any previous year, and this with only 11 months of activity.

Domestic equity REITs finished the year yielding less than 4%, with spreads relative to 10-year Treasuries near 200 bps (100 bps above the long-term average). Cap rate spreads to Treasuries finished at about 5%, 180 bps above the long-term average. Mortgage REITs, which comprise approximately 10% of US REITs, but are excluded from the MSCI US REIT Index, finished the year with a yield of 15%.

An interesting issue not often discussed is the distribution component of REITs. Many believe that because of the REIT structure, all distributions are treated as ordinary income. In actuality, in the US approximately two-thirds of distributions are taxed as ordinary income, 20% as long-term capital gains, with the balance distributed as return of capital.



International REITs echoed broad equities, with small caps underperforming large and Europe/EM exposed securities underperforming the rest of the universe. European REITs struggled in Q4 despite a coordinated central bank liquidity injection and an ECB rate cut. The main headwinds remained austerity concerns and the lack of a long-term debt plan.

Asia-ex Japan properties recovered slightly in Q4 with the help of falling rates in Australia and China. Latin American REITs found similar support due to lower rates in Brazil. Japanese REITs were relative laggards, pushed lower by the Bank of Japan's decision to reduce the volume of J-REIT purchases during the quarter.

Sources: hardassetsinvestor.com, MLPHINDSight, S&P, WSJ, CBRE, Cohen & Steers, FactSet, Alerian, commodityonline.com, fxstreet.com, USDA, IndexUniverse.com