

The second quarter of 2010 was a tough and volatile period for the equity markets overall. During the first few weeks of the quarter, the large-cap value strategy lagged its benchmark as the stock market continued its rally from earlier in the year. When the market later became spooked by the "Flash Crash", as well as a number of other concerns, including the sovereign debt crisis in Europe, U.S. financial services reform and disappointing domestic employment growth, the strategy started to outperform as its holdings of higher quality companies declined less than those of the benchmark. Making up for the ground lost earlier in the quarter, the strategy finished the quarter slightly ahead of its Russell 1000® Value benchmark.

All ten sectors of the Russell 1000® Value Index posted declines for the quarter, with most sectors down double-digits. In fact, only three of the more defensive sectors - consumer staples, telecommunications services and utilities – fell by only single-digits. The materials sector had the most negative performance, presumably due to concerns about slowing growth in China. More surprising were the double-digit declines in the consumer discretionary, industrials and information technology sectors, where U.S. companies' earnings surprises and outlooks generally continued to be strong. In contrast, the weak performance of the health care sector was accompanied by reports of weaker than expected outlooks by many companies in the sector, due to the negative impact of health care reform on their expected earnings. We expect financial companies to experience similar cuts to expectations during the second quarter earnings season, due to the government-driven financial reform that is currently being finalized.

For the large-cap value strategy, the consumer discretionary, industrials and telecommunications services sectors had the strongest relative performance for the quarter. In contrast to these positive factors, the financials, consumer staples, health care and utilities sectors of large-cap value portfolios showed relative weakness for the quarter. The underperformance of the financials holdings was driven by relative weakness in the commercial banks, diversified financial services and capital markets industries.

During the quarter, the strategy's holdings in the financials, consumer staples and health care sectors were increased, and energy, industrials and consumer discretionary exposures were pared back, primarily due to the completion of the annual rebalancing of its Russell 1000® Value benchmark in June. As always, we maintain our focus on companies with higher profitability, stronger balance sheets and attractive valuations relative to peers or historical levels.

Past performance does not guarantee future results.

Reflects information for a portfolio that serves as the model against which each Large-Capitalization Value account is managed. The model portfolio is an actual account and the information provided will vary for other actual accounts. Portfolio holdings are subject to change.

The Russell 1000® Value Index measures the performance of those Russell 1000® companies (the 1,000 largest companies in the Russell 3000® Index, an index representing approximately 98% of the investable U.S. equity market) with lower price-to-book ratios and lower expected growth values. Index performance information was furnished by sources deemed reliable and is believed to be accurate, however, no warranty or representation is made as to the accuracy thereof and the information is subject to correction. You cannot invest directly in an index, securities in the Composite may not match those in the index and performance of the Composite will differ. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns.

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