Market Review

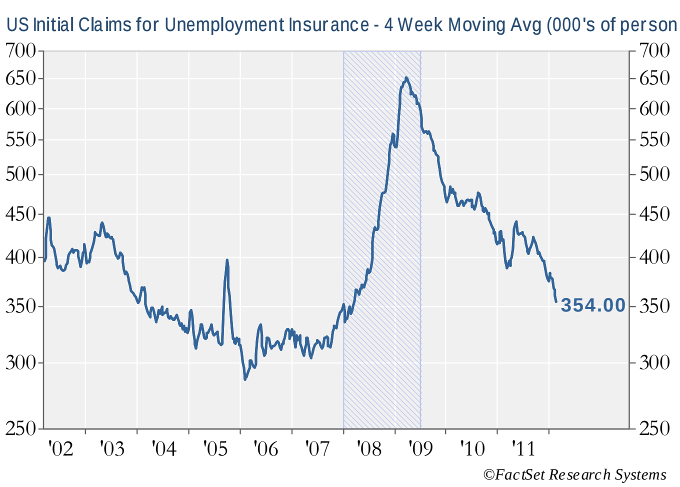
February 2012

Economic Review

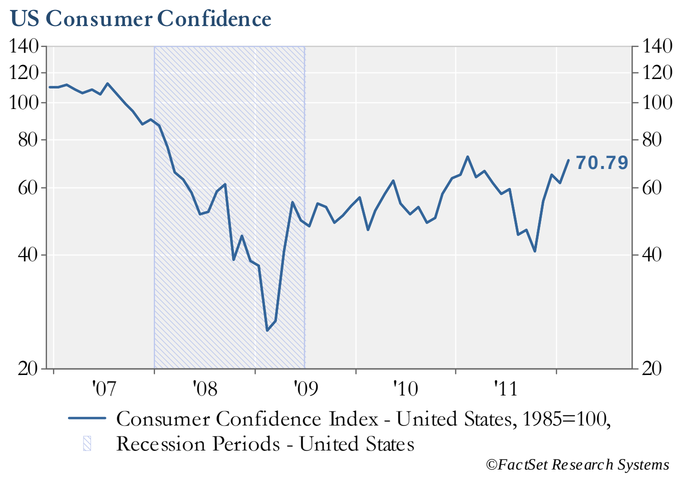
The U.S. fourth quarter real GDP grew by 3%, slightly above the initial estimate of 2.8%. Nonresidential fixed investment and personal consumption expenditure were higher than initially estimated.

The headline and core Consumer Price Index (CPI) rose 0.2% in January. Year over year, the headline CPI increased 2.9% while the core CPI increased 2.3%. The headline Producer Price Index rose 0.1%, while core Producer Prices Index increased 0.4%.

The employment situation continued to improve during February. The four week moving average of initial jobless claims fell to 354,000, the lowest level since March 2008, while the number of people on unemployment benefits also dropped to the lowest level since August 2008. In January, the unemployment rate fell to 8.3%, the lowest level in three years. The February unemployment rate will be released on March 9th. The consensus is that it would hold steady at 8.3%. Despite the recent improvements in the labor market, Federal Reserve Chairman Ben Bernanke said that the job market remains far from normal. He also stated that the elevated unemployment rate and subdued inflation expectation warrants a highly accommodative monetary policy. Meanwhile, Congress agreed to extend the payroll tax cut and long term unemployment benefits through the end of 2012.

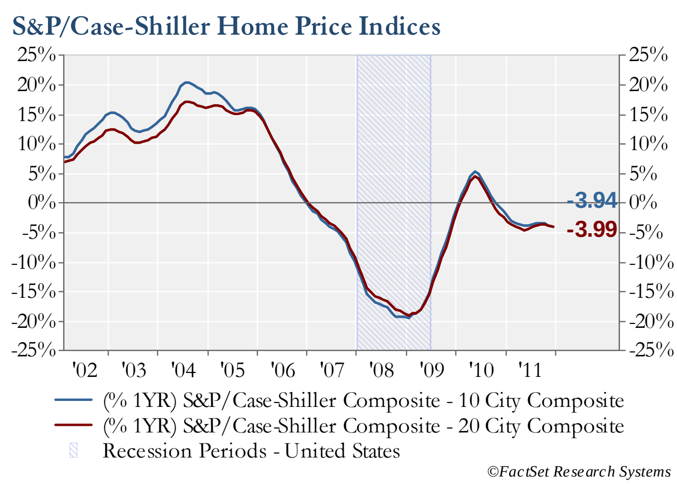


The Consumer Board's Confidence Index rose to a twelve month high of 70.8 in February, up from 61.5 in January, indicating that Americans were growing more optimistic about labor market and business conditions. Retail sales were up 0.4% in January from a month prior and up 5.8% from a year ago. In nominal terms, Consumer spending was up 0.2% in January while personal income rose by 0.3%, helped by the extension of payroll tax cuts. In real terms, PCE was flat and personal income declined 0.1%. Industrial production was flat in January, but December was revised up to +1%.



The ISM Manufacturing Index expanded for the 31st consecutive month in February, registering 52.4%, a small decline from January. The new orders, production and employment sub-components grew in February, but at a slower rate than January. The ISM Non-Manufacturing or Service Index accelerated to reach a twelve month high of 57.3% from 56.8% in January and above the expectations of 56%. A reading above 50 indicates expansion.

Housing prices in the U.S. continue to slide. The 20 City Case-Shiller Index is at its lowest level since 2003. The Index fell 1.1% in December from the previous month and



is down 4% from a year ago. Existing home sales increased by 4.3%, while housing starts rose 1.5% in January from a month ago. New home sales fell 0.9% in January versus the prior month, but are up 3.6% from a year ago.

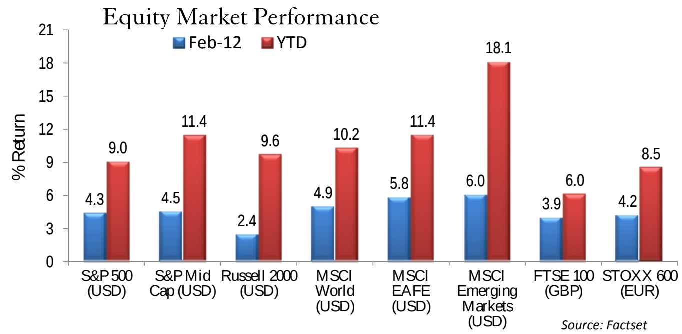
Eurozone finance ministers agreed on a €130 billion bailout package for Greece, but implementation is contingent upon approval of additional austerity measures and private bond holders agreeing to a voluntary 54% haircut. Additionally, the European Central Bank's (ECB) second three year Long-term Refinancing Operation (LTRO) drew 529.5 billion euros in bids from over 800 financial institutions, up from 489 billion euros from 523 institutions in early December. The ECB's balance sheet has increased to a record €3.02 trillion.

Moody's cut its ratings on the sovereign debt of Spain by two notches and Portugal, Italy, Slovakia, Slovenia and Malta by one notch. It also placed France, Austria and United Kingdom on a negative watch, citing growing financial and macroeconomic risks.

Equity Markets

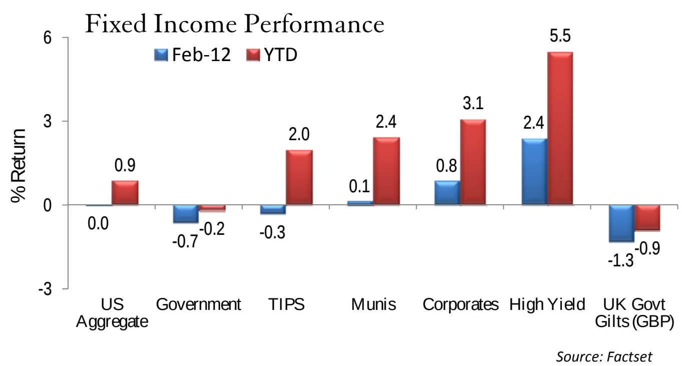
Global equity markets continued to rally in February, with the S&P 500 Index reaching the highs it made in the summer of 2008. Apple's market cap crossed $500 billion as the technology sector continued to lead the way in 2012. Small cap stocks lagged large cap indices in February. International equities continue to outperform U.S. markets in 2012. Emerging equity markets also enjoyed strong gains and posted the best start for the year in over two decades.

U.S. equity markets advanced during the beginning of February as investors welcomed unexpected improvement in unemployment figures. Stocks were modestly lower the following week as a final resolution on Greek bailout remained in doubt. Encouraging January retail sales and regional manufacturing combined with lower weekly jobless claims offset worries about the European debt crisis and pushed equities higher for the sixth of the seven weeks in 2012. The S&P 500 and Dow recorded four year highs while the Nasdaq reached an eleven year high during the fourth week of February, as economic data continued to exceed expectations and Europe reached an agreement on a Greek bailout. The Dow closed above 13,000 for the first time in almost four years on February 28th, despite news that durable goods orders had declined by 4% in January. Equity markets and other risk assets fell on the last day of the month when Ben Bernanke did not discuss QE3 in his semi-annual testimony.

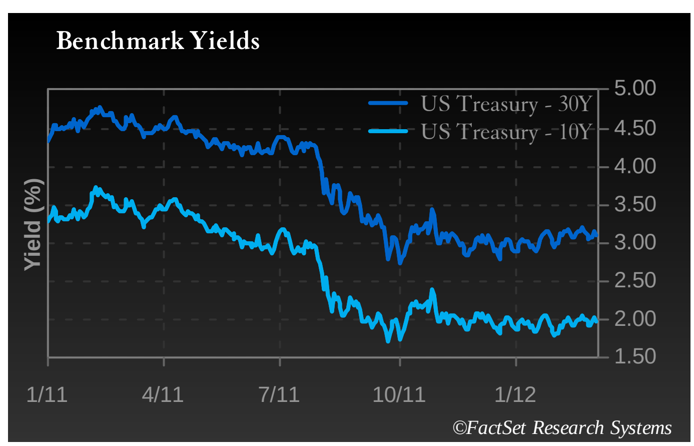


Bond Markets

The risk on trade continued into February, on the back of liquidity infusion by the ECB. The Barclays Capital U.S. Aggregate Index was flat in February. Corporate spreads narrowed and high yield and corporate bonds outperformed government bonds. U.S. government securities declined 0.7%, the worst performance since October 2011. Corporate and high yield debt spreads narrowed 7 and 18 bps during February, according to Markit CDX indices.



For the month, 10-year and 30-year Treasury yields widened 14 and 15 basis points respectively and closed at 1.97% and 3.09%. Treasury yields have been trading within



a narrow band at historically low levels since the end of October despite increasing positive economic data. This indicates that the bond investors are taking a more cautious outlook and do not share the optimism reflected in equity markets.

The UK 10 Year GILT yield rose 9 bps to close at 2.06% in February. The German 10 Year Bunds was nearly flat and closed at 1.82%.

Currency

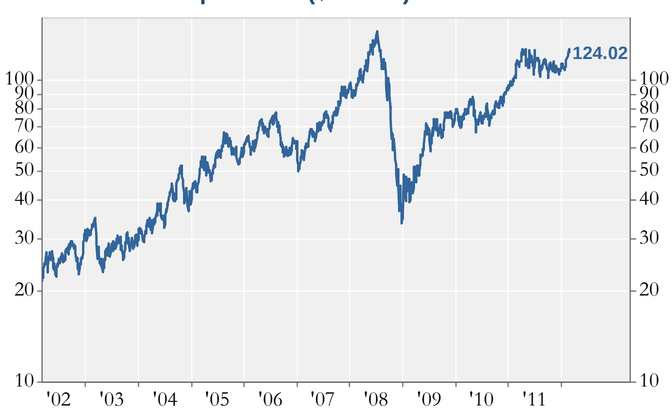
The US Dollar Index, used to track the US Dollar against a basket of six currencies, depreciated 0.69% last month as the Federal Reserve promised to keep interest rates low through 2014. The Yen depreciated 6.15% against the US Dollar after the Bank of Japan stated that it aimed for 1% inflation and would add 10 trillion yen to their economy. The Euro appreciated 2.18% against the Dollar and closed the month at 1.338 USD/EUR. The British Pound closed at 1.5970 USD/GBP in February.

Commodity Markets

The Dow Jones UBS Commodity Index gained 2.69%, while the energy heavy S&P GSCI Index surged 6.06% on expectations of an increase in demand for commodities due to improving global economy.

Led by energy and agriculture, all the S&P GSCI sub indices, except for precious metals, had positive returns in February. The Brent Crude Single Commodity Index was the best performing commodity, rising 10.22% amid worries about supply disruptions from Iran. Iran stopped exporting oil to Britain and France on February 20th. The infusion of liquidity by the ECB also fueled expectations of increased demand for Brent crude. Sugar and Soybeans also enjoyed strong gains with returns of 9.55% and 9.35% respectively. Sugar prices gained on lower supplies from Mexico. The increase in crude prices was also supportive of Sugar as an input in ethanol. Soybeans reached a five month high after the U.S. government forecast a significant fall in inventories before the 2012 harvest.

Brent Crude Oil Spot Price ($/barrel)



Orange Juice, Nickel, Coffee and Cotton were the biggest losers in February, returning -8.57%, -7.86%, -6.51% and -4.46% respectively. Orange Juice prices collapsed after the government declared a fungicide found in Brazilian exports was not a threat to health. Nickel, along with other base metals, lost on concerns of oversupply. Prices of Coffee traded below the $2/pound for the first time in over fourteen months on expectations of a bumper harvest in Brazil.

The S&P GSCI Index is up 8.43% for the year, led by Silver with a return of 23.9%, while Natural Gas is trailing with a return of -19.04%.