STRATEGIC RESEARCH REPORT

In This Issue

Letter from the Editor	2
Wealth Management Planning	5
Portfolio Strategy	11
Index Returns	15
Investment Asset Classes	16
Discretionary Research Highlights	18
CAPTRUST News	19

REST ASSURED: YOUR "SLEEP NUMBER" IS AT LEAST $250,000

Jeremy Altfeder, CFP®
CAPTRUST Senior Client Management Consultant

Sleeping well at night and knowing that investment capital is safe has become a fundamental concept for baby boom investors as they redefine risk tolerance. Given sharp drops across many asset classes during the financial crisis, even the most risk-tolerant of investors have revisited their pain thresholds. Due to the unforgettable events of fall 2008, when a money market mutual fund famously "broke the buck"—or recorded a Net Asset Value below $1 due to mark-to-market losses in its portfolio—clients are double-checking fund prospectuses and reading the fine print on their monthly investment statements more frequently. This recent curiosity has sparked a number of frequently asked questions about insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC) and Securities Investor Protection Corporation (SIPC).

What does the FDIC cover?

Created by Congress in the Banking Act of 1933, the FDIC is an independent agency established in response to the widespread bank failures during the Great Depression.[1] Currently, the FDIC serves to maintain stability and consumer confidence in the banking system by monitoring financial institution safety standards and providing insurance to depositors in case of bank failures.

The FDIC uses the term "ownership category" to describe differing registration types for which they assign specific insurance coverage limits. For example, an individual account and an account held in joint name are considered two unique ownership categories. Trusts, corporations, partnerships, and certain retirement accounts are also considered unique ownership categories.[2]

The FDIC insures cash investments at banking institutions for up to $250,000 per ownership category, per institution. An individual can have multiple like-registered accounts at several different banking institutions to obtain coverage above this $250,000 mark. With an account held in joint name, each account owner will carry his or her own $250,000 of coverage, thus allowing up to $500,000 of insured coverage for a joint deposit account. Trust accounts carry their own specific ownership category rules based upon the number of trustees and beneficiaries. Meanwhile, corporation and partnership accounts are covered at the $250,000 level, regardless of the number of shareholders or partners. The FDIC has also extended coverage to certain retirement accounts,

continued on page 3

LETTER FROM THE EDITOR

Dear Readers,

2013 is upon us, and although the last two digits of this particular year often strike fear in the superstitious, at CAPTRUST we do not suffer from triskaidekaphobia.

Having survived a rancorous U.S. election,"fiscal cliff" mayhem, international tensions, and Mayan doomsday prognostications, we start 2013 fully recharged and ready. According to lore, my alma mater was founded by 13 men with 13 dollars, 13 prayers, and 13 articles, so I am selfishly resolute in spreading Colgate's embrace of this often ill-cited number. While we don't have 13 articles in this quarter's *Strategic Research Report*, we do have several noteworthy pieces covering timely topics we hope you will find helpful.

In this issue, we outline the specifics of account-level insurance coverage and address the state of the municipal bond market in a must-read piece for investors given crosscurrents in that asset class. We also discuss our capital markets return and risk forecasts in the current environment which have been revised down given moves in the bond market.

While most asset classes enjoyed a positive 2012 and ended the year on a high note, capital markets have several new issues to digest, while other variables were simply mothballed to be addressed in 2013. In my *Investment Strategy* piece, I devote a few pages to our 2013 view of the investing climate.

We are wary of joining an already-loud chorus regarding 2013 predictions, so instead we aim to provide relevant information that provokes thought and potential action. In closing, while we don't fear the number 13, we do fear client dissatisfaction with our content. Please do not hold back any suggestions for topics you would like to read about in future issues.We recognize that individual investors have a lot to sift through and your viewpoints are extremely valuable to our efforts.

Here's to a safe and happy start to 2013.

Onward,

Eric J. Freedman
CAPTRUST Chief Investment Officer

continued from page 1

covering $250,000 of cash investments in traditional, Roth, and SEP individual retirement accounts. All retirement accounts held at one institution by one owner are aggregated and insured up to $250,000.[3]

CAPTRUST's primary custodian—Pershing, LLC—provides our private wealth clients access to FDIC-insured money market sweep funds inside their brokerage accounts. Our default sweep option for taxable accounts uses a multi-bank money market fund, which has the effect of raising the coverage on cash balances from $250,000 per depositor to $2.5 million—or $5 million for joint accounts. Cash balances invested in this program sweep overnight into as many as 10 member banks, each of which provides $250,000 of coverage.[4] This affords our clients increased coverage without the complexity of maintaining banking or investment accounts at multiple institutions and, most importantly, peace of mind knowing their cash balances are insured.

What does the SIPC cover?

The Securities Investor Protection Corporation is a nonprofit corporation created by the Securities Investor Protection Act of 1970 in response to a high number of trade failures caused by an overwhelming increase in trading volume in the late 1960s.[5] Its primary purpose is to restore "missing" assets to clients of failed, bankrupt, or financially distressed brokerage firms. The SIPC is unrelated to the FDIC and does not afford investors the same protections. The SIPC does not insure against a decrease in the value of securities due to market decline. The FDIC's scope is limited to bank deposits and does not extend to investments held in brokerage accounts. Fortunately, that's where the SIPC picks up.

The SIPC uses the nomenclature "separate customer," referring to the types of investors for which it provides insurance. For example, an individual account is considered a type of separate customer, as is an account held in joint name. Each owner of a joint account does not carry his or her own separate unique coverage, as they do with the FDIC. The same is true for corporations and trusts, both of which carry their own unique singular separate customer identity regardless of the number of trustees, beneficiaries, or shareholders respectively.[6]

The SIPC provides insurance for replacement of securities up to $500,000 per separate customer account, of which

continued on page 4

continued from page 3

$250,000 can be cash awaiting investment, defined as uninvested cash in a brokerage account, as demonstrated in Figure 1. Pershing, LLC has obtained coverage above and beyond basic SIPC through Lloyd's of London, the well-known syndicate of insurance underwriters. This coverage—called "excess SIPC"—provides $1 billion of coverage in aggregate for missing cash and securities (including up to $1.9 million of cash per customer account). In other words, Pershing's excess SIPC coverage is applied after the last dollar of SIPC coverage at a per-client loss limit of $1.9 million for cash awaiting investment, and has an aggregate firm loss-limit of $1 billion for cash and securities.

Figure 1: SIPC Coverage for Multiple Separate Accounts in a Household

Asset	Registration	Securities (stocks, bonds, mutual funds)	Cash (awaiting investment)
Brokerage	Joint	$250,000	$250,000
Rollover IRA	Individual 1	$250,000	$250,000
Rollover IRA	Individual 2	$250,000	$250,000
HOUSEHOLD TOTAL		**$750,000**	**$750,000**

The above table illustrates how multiple accounts for a couple at one SIPC insured brokerage institution are provided coverage in aggregate up to $1.5 million. The joint account is covered at a maximum of $500,000 of securities, of which $250,000 can be cash. The same is true for each rollover IRA.[7,8]

While FDIC and SIPC coverage details do not make for the most exhilarating pillow talk, knowing the protections the two afford can help investors mitigate restless nights. Due to fallout from the recent financial crisis and ensuing recession, risk sensitivity has become deeply entrenched in the psyche of investors. Despite this fallout, the FDIC and SIPC provide security in an otherwise unsure investment universe. It is imperative that our clients know why they own what they own and are informed about the protections provided to them when investing with CAPTRUST. If you would like more information on FDIC and SIPC coverage and how they apply to your specific situation, please contact your CAPTRUST Financial Advisor. ■

Sources:

[1] History of the FDIC. Federal Deposit Insurance Corporation. http://www.fdic.gov/about/history/index.html.

[2] FDIC. *Your Insured Deposits* (brochure). Federal Deposit Insurance Corporation. July 2011.

[3] Ibid

[4] BNY Mellon Asset Management. *Dreyfus Insured Deposit Program* (brochure). MBSC Securities Corporation. 2011.

[5] SOUTHERN CALIFORNIA LAW REVIEW. *Who Watches the Watchers? The Securities Investors Protection Act, Investor Confidence, and the Subsidization of Failure*. Joo, T. Vol. 72 (1071), 1076.

[6] SECURITIES INVESTOR PROTECTION CORPORATION. *Rules Identifying Accounts of "Separate Customers" of SIPC Members* (brochure). June 1981.

[7] Ibid

[8] Pershing LLC. *Understanding the Protection of Assets* (brochure). 2012.

WEALTH MANAGEMENT PLANNING

CAPITAL MARKET ASSUMPTIONS

SEEKING OPPORTUNITIES IN A MORE CHALLENGING ENVIRONMENT

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Since the financial crisis, the massive intervention of governments in the developed world has overwhelmed normal market forces. Monetary policy, rather than fiscal policy or fundamental factors such as corporate earnings, has been the driving force behind capital markets. The result has been slower economic growth, historically low interest rates, and contained inflation. These traits have characterized the economic environment of the past several years. But how does where we are today—economically speaking—influence how we should be thinking about the future?

CAPTRUST recently completed an extensive research project as part of an effort to answer this important question. The result of this work is a set of asset class return and risk assumptions for the next full market cycle, a period of five to seven years (based upon historical definition). We divide this forecast period into two periods. In the first three years of our forecast, we foresee a continuation of slow growth—as measured by Gross Domestic Product (GDP)—low interest rates, and modest inflation. In years four through seven, we expect a gradual acceleration of GDP growth leading to higher inflation and interest rates.

Four principal themes guide our thinking for capital market assumptions. They are:

1) Slower economic growth. Deleveraging has been a primary cause of the current shallow recovery when compared to prior economic cycles. While the private sector's debt burden shows marked improvement, the U.S. government's debt-to-GDP ratio remains at a historically high level. In the early years of our forecast, we expect fiscal contraction to offset better private sector growth prospects. In the later years, both the public and private sectors could contribute to growth.

2) Low interest rates. Many investors are concerned that interest rates can only go higher from today's historically low levels. The Federal Reserve may keep short-term rates at the present low levels for several more years depending on the pace of economic improvement. However, longer-term interest rates could rise gradually toward historical equilibrium levels.

3) Monetary policy. With fiscal policy constrained in the developed world, monetary policy becomes a critical factor in forecasting asset class returns. Central bank actions influence not only interest rates, but also investor behavior, as evidenced by strong flows into higher-yielding asset classes over the past year.

4) Inflation. Sluggish GDP growth and considerable slack in the economy have recently kept inflation in check.

How does where we are today—economically speaking—influence how we should be thinking about the future?

We expect inflation to remain subdued in the near term but pick up in the later years of our forecast due to the impact of accommodative monetary policy and stronger economic growth.

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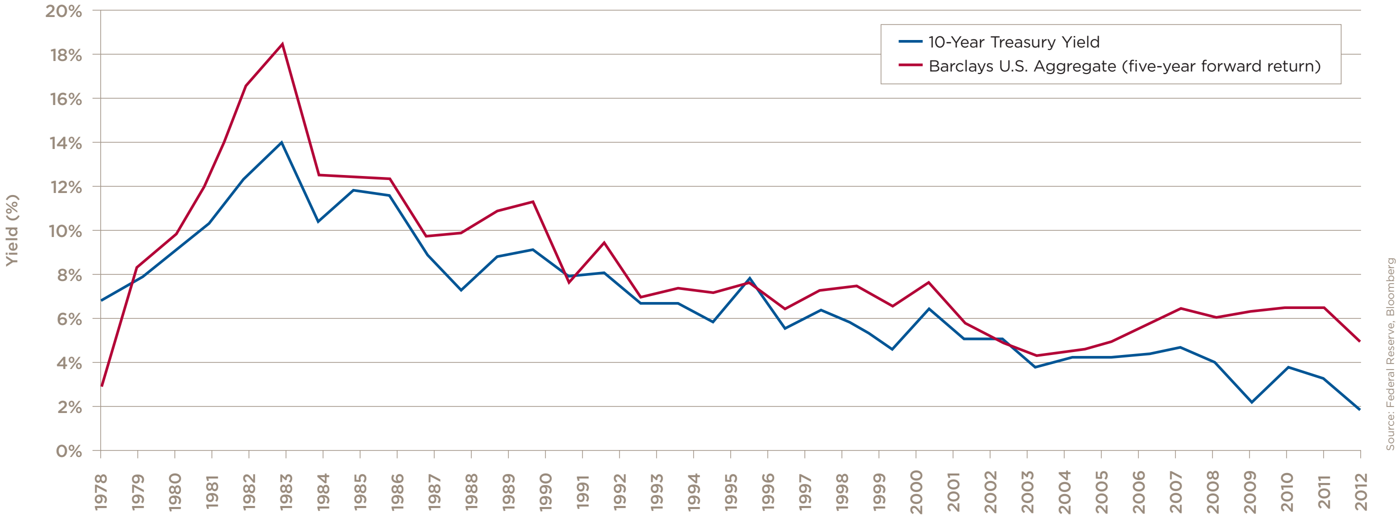
Figure 1: 10-Year U.S. Treasury Yield vs. Barclays U.S. Aggregate Index (through December 31, 2012)



Note: Forward returns beginning in 2008 are less than five years.

We foresee generally lower returns and higher levels of risk for most asset classes, primarily due to lower starting points across each asset class. Fixed income is perhaps the easiest asset class to demonstrate the impact of a low starting point. As shown in Figure 1, 10-Year U.S. Treasury yields have historically proven to be a good proxy for five-year forward returns for fixed income investments. If this relationship holds true, a 2% yield on the 10-Year Treasury at the start of 2013 could signal subdued fixed income returns in future years.

Following a multi-decade bull market in fixed income and facing the prospect of rising interest rates, it may be tempting for investors to abandon this asset class. However, we continue to believe that fixed income has an important role to play in client portfolios, as it provides a cushion during times of economic stress. Nevertheless, we expect subdued returns for fixed income going forward, so investors will need to be more selective with their asset allocation decisions in this area.

Slower economic growth adversely impacts equity returns. We use three building blocks to develop equity return assumptions—dividend yield, expected earnings growth, and the impact from valuation changes. While high cash levels on corporate balance sheets and a focus on returning capital to shareholders (including share buybacks) provide support for dividend yields, earnings growth could be significantly lower than historical averages as companies face pressure to grow revenue and further reduce costs. We do not model any valuation impact for most equity categories because they appear fairly priced based on price-to-earnings ratios. The net result of this analysis is reduced return assumptions and, in most asset classes, slightly elevated risk levels.

While alternative assets can benefit from individual manager skill and are often less correlated with traditional asset classes, the same four themes drive our following thinking:

- ***Nominal global GDP growth is used as a reasonable proxy for commodity returns. As with equities, slower global economic growth leads to lower commodity returns compared to our prior assumptions.***

- ***To derive private equity returns, we add an illiquidity premium to our U.S. large-cap equity assumption.***

- ***We use a multifactor model to identify the components of hedge fund returns. The model is largely driven by our cash forecast, which leads to a subdued return expectation for the broad hedge fund of funds category.***

Figure 2 shows our new return assumptions, which are generally below prior assumptions. We also highlight our new risk assumptions, which, in most cases, are higher than prior assumptions. Increased volatility in economic growth and asset prices are by-products of the deleveraging process and could continue in coming years.

Despite our forecast of generally lower returns and higher levels of risk for most asset classes, we remain generally constructive on the capital market opportunity set. While economic growth prospects are not robust, traditionally riskier assets such as equities could still provide solid returns over our five to seven year forecast horizon. Equities do not appear inexpensive on an absolute basis, but they do look compelling relative to fixed income—subject to one's risk tolerance and time horizon. The current low level of interest rates leads us to expect subdued fixed income returns, most notably in rate-sensitive subsectors such as long-term Treasurys and core fixed income. These factors lead us to believe that, as has been the case in recent years, investors will need to be selective with their asset allocation decisions.

More in-depth information about our revised capital market return and risk assumptions—and the methodology behind them—will be published in a forthcoming position paper. As always, if you have questions or would like additional perspective, please contact your CAPTRUST Financial Advisor. ■

Figure 2: Comparison of New and Prior Capital Market Assumptions

Asset Class	Prior Return (%)	New Return (%)	Prior Risk (%)	New Risk (%)
U.S. GDP Growth	—	2.5%	—	—
U.S. Inflation	3.0%	2.6%	—	—
Cash	1.5%	1.2%	0.5%	0.5%
Long-term U.S. Treasury	—	1.8%	—	12.1%
Core Fixed Income	5.0%	2.5%	5.1%	5.5%
U.S. Investment Grade Corporate	5.8%	3.6%	6.9%	6.1%
Long Duration Corporate	—	5.0%	—	11.3%
U.S. High Yield Corporate	6.1%	7.0%	9.7%	15.0%
Emerging Market Debt	—	5.8%	—	13.0%
U.S. Municipal Debt	5.8%	2.7%	4.9%	4.9%
U.S. Large-cap Equity	8.1%	7.0%	15.3%	17.4%
U.S. Mid-cap Equity	9.3%	7.5%	18.5%	20.6%
U.S. Small-cap Equity	9.5%	7.3%	22.9%	22.5%
International Equity—Developed	9.3%	7.6%	19.3%	25.0%
International Equity—Emerging	12.0%	9.3%	28.0%	27.2%
Private Equity	13.0%	10.0%	26.5%	28.8%
U.S. Public Real Estate	7.4%	7.2%	15.9%	22.8%
U.S. Private Real Estate	9.0%	6.2%	18.9%	12.5%
Commodities	8.6%	6.0%	21.0%	19.7%
Hedge Fund of Funds (Diversified)	8.5%	4.0%	5.5%	5.0%

Source: CAPTRUST Research

THE BATTLE IS WON, BUT THE WAR IS NOT OVER

Mark Paccione, CFA®, CFP®
Director, CAPTRUST Consulting Research Group

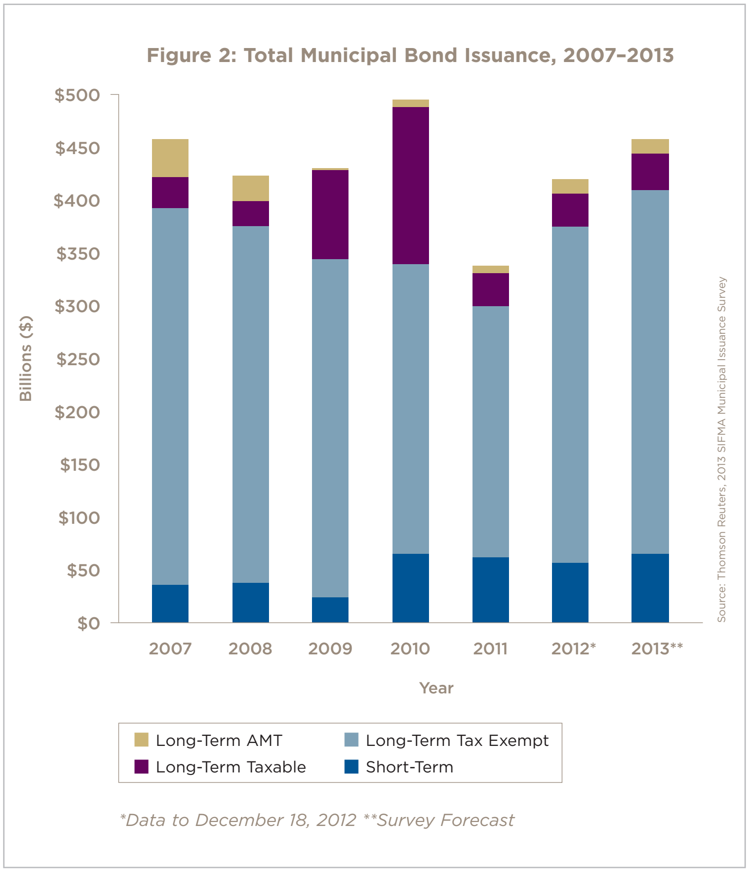
Municipal bond investors have been on an emotional rollercoaster over the past several years as these once-sleepy investments have been unusually visible in the news. Following the financial crisis in 2008, concerns centered on municipalities' ability to repay their obligations in the face of tight state and local budgets. These fears were further stoked in late December 2010 when a respected analyst told *60 Minutes* that the financial woes plaguing state and local municipalities have "tentacles as wide as anything I've seen. I think next to housing this is the single most important issue in the United States, and certainly the largest threat to the U.S. economy."[1] Yet, while a few high-profile city bankruptcies—such as Vallejo, California and Jefferson County, Alabama—grabbed headlines, wide-scale municipal defaults have not occurred.

More recently, with several proposals circulating that could alter tax policy, municipal bond investors have since shifted their focus to the tax status of municipal bond interest. For example, the much heralded (although unimplemented) Simpson-Bowles Commission called for eliminating the tax-exempt status of municipal bond interest altogether.

Most recently, one proposal in the fiscal cliff debate called for capping the municipal bond interest exemption at 28%, meaning a taxpayer in the new 39.6% income tax bracket would pay an income tax of 11.6% (or 39.6% minus 28%) on municipal bond interest. After much political drama, Congress passed the American Taxpayer Relief Act of 2012 on January 1, 2013, and, fortunately for municipal bonds, no changes were made to their tax treatment.

From a relative-value perspective, municipals are attractive when compared to U.S. Treasurys of comparable maturity. Historically, AAA-rated municipal bonds carry lower yields than comparable U.S. Treasurys due to municipals' tax-exempt advantage. However, as Figure 1 illustrates, 10-Year municipal bond yields are trading at a premium to 10-Year Treasury yields. As of December 31, the yield on the Barclays 10-Year Municipal Bond Index was 13% higher than the yield on the 10-Year Treasury. Over time, one would anticipate a return to historical average with municipal bond yields falling more than Treasurys or, more likely, Treasury yields moving higher than municipal bond yields. Either way, municipal bonds remain inexpensive relative to Treasurys.

Figure 1: Ratio of Barclays 10-Year Municipal Bond Yield to U.S. 10-Year Treasury Yield



From a supply and demand point of view, the picture remains favorable as well. As Figure 2 demonstrates, consensus expectations for municipal bond issuance in the coming year are approximately $458 billion.[2] While this is an increase from 2012, it is still below levels seen in previous years, indicating expected supply for 2013 is not overwhelming. From a demand perspective, increased tax rates for higher-income earners resulting from the fiscal cliff agreement and recent healthcare legislation should bolster demand going forward. Coupled with their premium to Treasurys, municipal bonds should continue to attract investors seeking yield.

From a fundamental perspective, state and local governments have taken advantage of low interest rates to lower debt costs. As of the third quarter of 2012, debt servicing represented just 5.1% of state and local government expenditures. This is a minute fraction of the average municipal government's spending and among the lowest debt service levels of the past 20 years, as Figure 3 indicates. Should the economy and the housing market continue to recover as expected, financial strain on municipalities will ease, providing further support for municipal bonds.

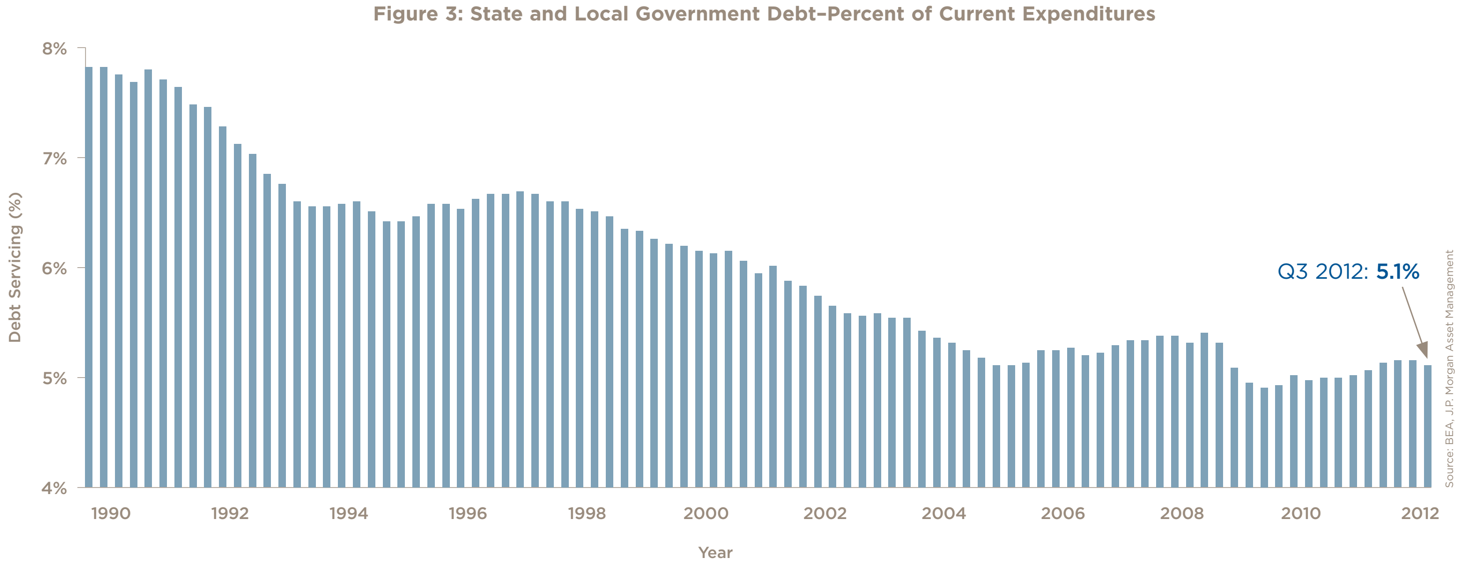


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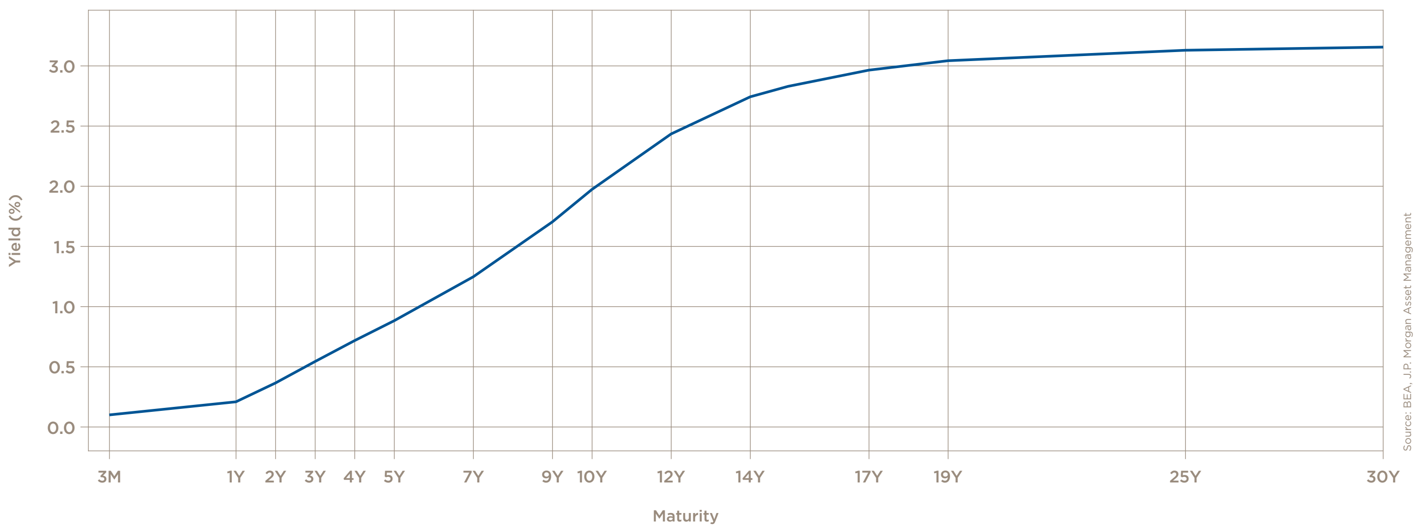
Figure 4: Municipal Bond Yield Curve as of January 4, 2013



Finally, the municipal bond yield curve remains steep, which allows investors to benefit from holding municipal bonds as they move closer to maturity. All things being equal—and assuming an upward, sloping yield curve—the yield demanded by the market on a bond decreases as it approaches maturity. As the yield decreases, the price of the bond increases. This strategy, known as "rolling down the yield curve," works best when the yield curve is steep.

Two big concerns remain, notably the overall level of interest rates and potential legislative changes. Prevailing interest rates impact all bond investors. With interest rates at historically low levels, rising interest rates are a risk for most fixed income securities, including municipal bonds. With the Fed committed to maintaining low interest rates for an extended period of time, we do not anticipate a significant jump in rates in the immediate future. Our analysis also indicates that a fixed income portfolio can generate positive returns in a gradually rising interest rate environment. However, the 30-year declining rate tailwind that began in the early 1980s is unlikely to continue for the next 30 years.

We believe that, if and when rates begin to rise, the positive factors discussed earlier will provide some cushion, although investors who have not done so already should consider moving away from longer-maturity bonds, which are more interest-rate sensitive than shorter-dated bonds, and utilize lower-volatility alternative investment strategies that are not sensitive to interest rate moves.

The second main concern for municipal bond investors is the potential for passage of legislation that calls into question the tax-exempt status of municipal bond interest. While many believe that completely eliminating the exemption municipal bond interest is unlikely, issues surrounding federal spending and deficits remain unsettled. Proposals such as taxing municipal bond investors over the 28% limit may resurface. If they do, it will be important to analyze the potential impact of the particular proposal in question. Investors should remain vigilant, monitoring developments out of Washington for the foreseeable future.

The once-sleepy world of municipal bonds has had its share of excitement over the past several years. While municipal bond investors have remained unscathed so far, and municipal bonds remain an attractive investment, investors will need to navigate a less friendly interest rate environment and keep an eye out for unexpected policy developments moving forward. As always, CAPTRUST is here to help you achieve this objective. ■

Sources:

[1]"State Budgets: Day of Reckoning." Narr. Steve Kroft. Pro. James Jacoby. *60 Minutes*. CBS. 19 Dec. 2010.

[2]Decker, Michael, et al. "US Municipal Issuance Survey 2013" <http://www.sifma.org/research/item.aspx?id=8589941273> 21 Dec. 2012.

PORTFOLIO STRATEGY

SOUND BITES

Eric J. Freedman
CAPTRUST Chief Investment Officer

Art Linkletter, the variety and talk show icon, hosted his enduring radio program *House Party* and eventual television series *Art Linkletter's House Party* for almost 25 years, from 1945 to 1969. Admittedly a little before my time, the broadcasts are best remembered for a popular segment titled "Kids Say the Darndest Things," in which Art would candidly interview children between ages five and 10. Over the show's history, more than 23,000 children were interviewed, generating some choice material.[1] The segment's popularity spawned a book, a late-1990s TV show hosted by Bill Cosby, a 1973 Tammy Wynette chart-topping country hit, and several international offshoots.

With three children of our own, my wife Jamie and I have amassed our own choice material over the years, with a recent example worth sharing. Just before the new year, our nine-year-old daughter Elle was showing me some email exchanges between her and a classmate. "Exchanges" may be a liberal description given the word count; after an unscientific polling of parents with similar-age children, I can report that nine-year-olds vehemently protest exceeding 20 words per email.

Here is a reproduction of the referenced email exchange:

Elle (upon receiving an emailed picture of chocolate chip and sugar cookies from her friend): They look so good!

Friend: I know!!!

Elle: I want to just jump inside the computer and eat them.

Friend: I know, right?

Elle: Right.

Friend: I am so bored.

Elle: Me too (sigh). (Editor's note: the child has a backyard, a bookshelf full of literature, two siblings, and a room that is likely in need of cleaning; she is clearly fibbing.)

Friend (Editor's note: remember that this is a nine-year-old.): I am so excited for 2013 except for the fiscal cliff.

Elle: Me too!

I recognize that I find this email exchange much more humorous than you may, given that it was my child and her friend bantering about a significant focal point for me and anyone else wearing an investment hat in this profession. CAPTRUST's fiscal cliff preparations began long before the cliff's deadline, including delegation of responsibility for analysis, definition of our client communication strategy, discussions with our investing partners and research providers, content creation, and—apparently like the nine-year-olds highlighted in the earlier tête-à-tête—waiting for an actual outcome. While Elle did not watch CSPAN all New Year's Day like her father, she, like many others, braced for the ultimate congressional outcome, which arrived at 11:35 p.m. on January 1, one day after the fiscal cliff technically began. Globally, asset classes responded with vigor the next trading day, with equities, high yield bonds, and other traditionally risky asset classes racing higher while government bonds fell.

While the fiscal cliff deal (more formally titled H.R. 8, the American Taxpayer Relief Act of 2012) provided capital markets with a temporary salve, the deal's contents did not

continued on page 12

continued from page 11

address its root cause: a massive cumulative imbalance between savings (revenue) and spending. The nonpartisan Congressional Budget Office (CBO) offers two perspectives regarding the fiscal cliff bill. First, in the event no deal materialized and the economy had gone "over the cliff," the CBO estimated that the H.R. 8 legislation would reduce revenues and increase spending by nearly $4 trillion between 2013 and 2022 (and by definition increase net debt by the same amount, all else equal).[2] However, had the existing tax policies from calendar year-end 2012 carried forward into 2013, the CBO estimates that the fiscal cliff bill reduced budget deficits by $600-$700 billion less than what they would have been without the deal.[3] Crystal balls forecasting trillion-dollar budgets 10 years forward may be better described as obsidian balls, but note that the CBO sees the 2022 budget deficit at just under $7 trillion, subject to a more complete analysis later this year.[4]

We Americans are not alone in our saving-spending imbalance; smaller economies have gained unfortunate notoriety for spiraling debt levels as a percentage of their Gross Domestic Product (GDP), particularly from 2005 onward. Figure 1 provides a sampling of countries and their debt-to-GDP ratios, with all countries listed showing an increase in their debt position relative to GDP, save Norway, whose debt to GDP fell more than 7% during this time period thanks to robust energy exports and prudent government finances. Greece, Japan, and the United States all had triple-digit percentage increases, and note the steep ramp higher for all countries (again, except Norway) between 2005 and 2012.

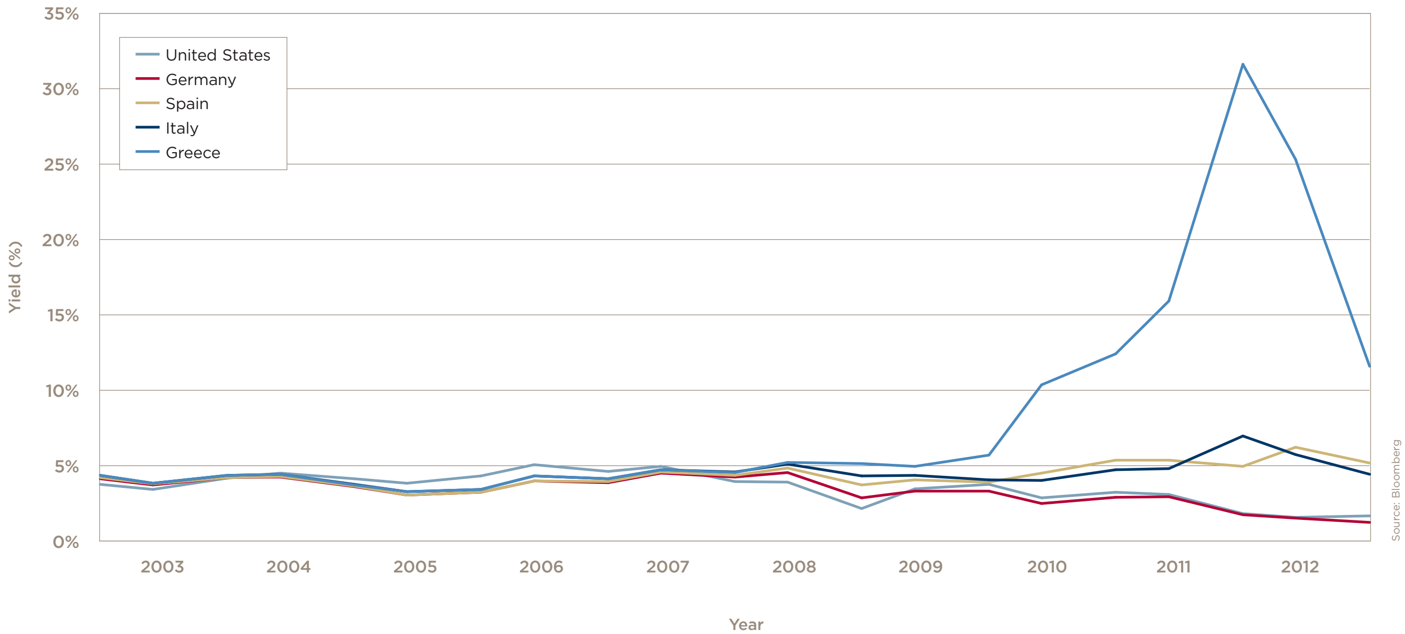
Figure 1: Select Country Gross Public Debt as a Percentage of GDP

Year	United States	United Kingdom	Ireland	Norway	Japan	Greece
1980	32.1%	46.1%	65.2%	47.3%	50.6%	22.6%
1985	43.0%	46.0%	93.8%	36.9%	66.7%	46.7%
1990	55.1%	32.4%	93.5%	28.9%	67.0%	73.3%
1995	66.7%	45.8%	81.2%	37.9%	91.2%	99.2%
2000	57.3%	40.9%	37.5%	32.7%	140.1%	103.4%
2005	62.8%	41.8%	27.1%	47.8%	186.4%	101.2%
2010	92.3%	75.0%	92.2%	49.6%	215.3%	144.6%
2012	101.6%	86.0%	111.5%	43.7%	229.6%*	150.3%
Percent Change (1980–2012)	216.6%	86.5%	71.1%	-7.6%	353.5%	565.7%

Source: International Monetary Fund, Eurostat, Government of Norway, St. Louis Federal Reserve

* = Japan figure for 2012 is based on a 2011 estimate.

Figure 2: Select Country 10-Year Government Bond Yields, 2003–2012



This phenomenon's development is certainly country-specific, but a common thread across each country was unprecedented government stimulus during the financial crisis in 2008 and beyond. Governments stepped in for beleaguered private consumers and businesses, leaving significant IOUs in their wake. We have used a relay race analogy to describe this situation, and right now several governments are still running with the growth baton (through spending and stimulus programs), desperate to pass that baton back to consumers. Consumers have long been in deleveraging mode since the credit bubble popped in 2008, shoring up personal balance sheets through more rational spending. Governments are aching to do the same thing, but they can't pass the baton until anemic growth improves.

Capital markets pay attention to debt-to-GDP levels, fearing an inverse relationship between a country's indebtedness and its ability to make good on those debts. As Figure 2 shows, the government bond issuances by countries such as Italy, Spain, and especially Greece spiked higher as a function of indebtedness, impacting financial institutions, investors, and the economy at large. Put more simply, when countries relying upon debt financing face sharper borrowing costs, bad things can happen to economic growth, equity returns, and unemployment. Japan, which has a massive debt-to-GDP ratio yet low government bond yields, has been forced into decades of central bank intervention, including money printing and encouraging Japanese banks to buy newly issued paper to keep rates low. As decades of sluggish Japanese economic growth and equity returns show, not even low bond yields can mask underlying fiscal fundamentals.

So where are we in this relay race? Again, country-specific analysis provides a more precise answer, but as a general statement, the major regions have not made enduring progress, or at best it has been unbalanced. For the United States, CBO data suggests that without higher taxes and with prescriptive spending cuts (pushed to later in 2013 during

continued on page 14

continued from page 13

Congressional H.R. 8 negotiations), the fiscal cliff deal still adds to the budget deficit. While Spanish, Italian, and Greek bond yields have fallen materially and provided some funding relief, debt reform has yet to occur. Most of the bond yield contraction came thanks to European Central Bank chief Mario Draghi's willingness to buy bonds from troubled countries who submit to fiscal reform; not a single country has signed up for that program. Japan continues to rack up debt through ongoing efforts to overcome a surprisingly strong yen and unfavorable demographics. Even the U.K., which has started to take hard medicine in the form of austerity measures and fiscal belt tightening, doesn't expect public debt to start to fall until 2016-17, according to their Office for Budget Responsibility.

If my claim is correct about minimal progress on the debt destruction front, then why did asset prices have such a strong 2012? Haven't investors learned from the Greek, Italian, and Japanese examples, where stock markets have lost 67%, 47%, and 10% since 2005 in local currency terms, respectively? The answer lies in hope regarding the denominator of this equation: GDP growth. GDP growth is the elixir indebted countries require to ease their pain. As of this writing, investors anticipate some global growth in 2013, thanks largely to a potential Chinese rebound, a firmer footing in the U.S. housing market, and ongoing domestic demand in developing economies. While many question the linkage of GDP to stock market performance, doubters tend to oversimplify this relationship, and given historically low bond yields, economic stability could mean another solid year for risk asset classes, particularly global equities.

We do not expect a linear move higher, however. While CAPTRUST sees the path forward with a glass-half-full perspective, this is not a time for portfolio heroism. Our current economic and policy tightrope walk remains perilous, and those tough political decisions our elected procrastinators pushed into the first quarter of 2013 (i.e., the debt ceiling debate and sequestration) invite further rancor. Like my daughter and her friend awaiting their report cards, central banks, bond rating agencies, and investors of all shapes and sizes await true fiscal progress. Without credible progress, riskier asset classes could live up to their name. Should the high-wire act unwind, traditionally safer options like fixed income will prove to be helpful portfolio tools despite their low current yields.

True progress must come from policy makers willing to compromise and make tough choices. It will also come from policy makers and an informed electorate who truly understand what is at stake, an understanding not achievable from relying on slick political catchphrases, tweets under 140 characters, or email exchanges with the brevity of my daughter and her friend. While I am proud that Elle and her friend are at least aware of the fiscal cliff, I fear that they will bear the brunt of our fiscal disorder should the United States and other peers trudge down this dubious path. As Edmund Burke famously said, "those who don't know history are destined to repeat it." As Elle and her friend would say… "I know, right?" (sigh) ■

Sources:

[1]Dunning, John. *On the Air: The Encyclopedia of Old-Time Radio.* Oxford: Oxford University Press, May 7, 1998, pp 333-34.

[2]http://www.cbo.gov/publication/43835

[3]Ibid

[4]Ibid

INDEX RETURNS

2012 4TH QUARTER ASSET CLASS RETURNS

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
International Equities 30.98%	Commodities 31.84%	Real Estate 12.83%	Commodities 25.90%	Small Cap Stocks 47.25%	Real Estate 31.49%	Commodities 21.36%	Real Estate 35.92%	International Equities 17.12%	Fixed Income 5.24%	International Equities 42.14%	Real Estate 28.48%	Real Estate 8.69%	Real Estate 17.77%
Fund of Funds 26.47%	Real Estate 26.81%	Fixed Income 8.44%	Fixed Income 10.25%	International Equities 41.41%	International Equities 21.36%	International Equities 17.11%	International Equities 27.16%	Commodities 16.23%	Cash 1.51%	Mid Cap Stocks 40.48%	Small Cap Stocks 26.85%	Fixed Income 7.84%	International Equities 17.39%
Commodities 24.35%	Fixed Income 11.63%	Cash 3.64%	Real Estate 3.64%	Mid Cap Stocks 40.06%	Mid Cap Stocks 20.22%	Mid Cap Stocks 12.65%	Small Cap Stocks 18.37%	Fund of Funds 10.26%	Fund of Funds -21.34%	Real Estate 28.61%	Mid Cap Stocks 25.48%	Large Cap Stocks 1.50%	Mid Cap Stocks 17.28%
Small Cap Stocks 21.26%	Mid Cap Stocks 8.25%	Fund of Funds 2.79%	Cash 1.68%	Real Estate 36.74%	Small Cap Stocks 18.33%	Real Estate 12.13%	Large Cap Stocks 15.46%	Fixed Income 6.97%	Small Cap Stocks -33.79%	Large Cap Stocks 28.43%	Commodities 16.83%	Cash 0.10%	Large Cap Stocks 16.42%
Large Cap Stocks 20.91%	Cash 6.36%	Small Cap Stocks 2.49%	Fund of Funds 1.01%	Large Cap Stocks 29.89%	Large Cap Stocks 11.40%	Fund of Funds 7.45%	Mid Cap Stocks 15.26%	Large Cap Stocks 5.77%	Commodities -35.65%	Small Cap Stocks 27.17%	Large Cap Stocks 16.10%	Mid Cap Stocks -1.55%	Small Cap Stocks 16.35%
Mid Cap Stocks 18.23%	Fund of Funds 4.08%	Mid Cap Stocks -5.62%	International Equities -14.67%	Commodities 23.93%	Commodities 9.15%	Large Cap Stocks 6.27%	Fund of Funds 10.34%	Mid Cap Stocks 5.60%	Large Cap Stocks -37.60%	Commodities 18.91%	International Equities 11.60%	Small Cap Stocks -4.18%	Fund of Funds 5.25%
Cash 5.01%	Small Cap Stocks -3.02%	Large Cap Stocks -12.45%	Mid Cap Stocks -16.19%	Fund of Funds 11.62%	Fund of Funds 6.79%	Small Cap Stocks 4.55%	Cash 5.08%	Cash 4.71%	Real Estate -37.97%	Fund of Funds 11.16%	Fixed Income 6.54%	Fund of Funds -5.51%	Fixed Income 4.22%
Fixed Income -0.82%	Large Cap Stocks -7.79%	International Equities -19.50%	Small Cap Stocks -20.48%	Fixed Income 4.10%	Fixed Income 4.34%	Cash 3.35%	Fixed Income 4.33%	Small Cap Stocks -1.57%	Mid Cap Stocks -41.46%	Fixed Income 5.93%	Fund of Funds 5.46%	Commodities -13.32%	Cash 0.11%
Real Estate -4.55%	International Equities -15.11%	Commodities -19.51%	Large Cap Stocks -21.65%	Cash 1.05%	Cash 1.44%	Fixed Income 2.43%	Commodities 2.07%	Real Estate -16.82%	International Equities -45.25%	Cash 0.21%	Cash 0.13%	International Equities -13.33%	Commodities -1.06%

Sources: Markov Processes Inc., Bloomberg, Mobius

- Small-Cap Stocks (Russell 2000 Index)
- Large-Cap Stocks (Russell 1000 Index)
- Commodities (Dow Jones UBS Commodity Index)
- Real Estate (MSCI U.S. REIT Index)
- Fund of Funds (HFRI FoF Composite Index)
- Mid-Cap Stocks (Russell Mid-Cap Index)
- International Equities (ACWI Ex-U.S. Index)
- Fixed Income (Barclays Capital U.S. Aggregate Index)
- Cash (Merrill Lynch 3-Month Treasury Bill)

2012 4TH QUARTER INDEX PERFORMANCE

INDICES	Q4'12	2012	2011	2010	2009	2008	2007	1-YEAR	3-YEAR	5-YEAR	10-YEAR
S&P 500	-0.38%	16.00%	2.11%	15.06%	26.46%	-37.00%	5.49%	16.00%	10.87%	1.66%	7.10%
Dow Jones Industrial Average	-1.74%	10.24%	8.38%	14.06%	22.68%	-31.93%	8.88%	10.24%	10.87%	2.62%	7.32%
NASDAQ Composite	-3.10%	15.91%	-1.80%	16.91%	43.89%	-40.54%	9.81%	15.91%	9.99%	2.63%	8.50%
Russell 1000	0.12%	16.42%	1.50%	16.10%	28.43%	-37.60%	5.77%	16.42%	11.12%	1.92%	7.52%
Russell 1000 Growth	-1.32%	15.26%	2.64%	16.71%	37.21%	-38.44%	11.81%	15.26%	11.35%	3.12%	7.52%
Russell 1000 Value	1.52%	17.51%	0.39%	15.51%	19.69%	-36.85%	-0.17%	17.51%	10.86%	0.59%	7.38%
Russell Mid-Cap Index	2.88%	17.28%	-1.55%	25.48%	40.48%	-41.46%	5.60%	17.28%	13.15%	3.57%	10.65%
Russell 2000	1.85%	16.35%	-4.18%	26.85%	27.17%	-33.79%	-1.57%	16.35%	12.25%	3.56%	9.72%
Russell 2000 Growth	0.45%	14.59%	-2.91%	29.09%	34.47%	-38.54%	7.05%	14.59%	12.82%	3.49%	9.80%
Russell 2000 Value	3.22%	18.05%	-5.50%	24.50%	20.58%	-28.92%	-9.78%	18.05%	11.57%	3.55%	9.50%
AC World Index Free Ex-U.S.	5.89%	17.39%	-13.33%	11.60%	42.14%	-45.24%	17.12%	17.39%	4.33%	-2.44%	10.22%
HFRI Fund of Funds	1.77%	5.25%	-5.72%	5.70%	11.47%	-21.37%	10.25%	5.25%	1.60%	-1.67%	3.67%
Wilshire REIT Index	2.48%	17.59%	9.24%	28.60%	28.60%	-39.20%	-17.55%	17.59%	18.21%	5.25%	11.57%
Barclays Govt. Intermediate Bond	0.03%	1.73%	6.08%	4.98%	-0.32%	10.43%	8.47%	1.73%	4.25%	4.51%	4.10%
Barclays Corporate IG Bond	1.06%	9.82%	8.15%	9.00%	18.68%	-4.94%	4.56%	9.82%	8.98%	7.87%	6.33%
Barclays Aggregate Bond	0.21%	4.22%	7.84%	6.54%	5.93%	5.24%	6.97%	4.22%	6.19%	5.95%	5.18%
Barclays Intermediate Govt./Credit	0.35%	3.89%	5.80%	5.89%	5.24%	5.08%	7.39%	3.89%	5.19%	5.18%	4.62%
Barclays Muni Bond	0.67%	6.78%	10.70%	2.38%	12.91%	-2.47%	3.36%	6.78%	6.57%	5.91%	5.10%
Barclays High Yield	3.29%	15.81%	4.98%	15.12%	58.21%	-26.16%	1.87%	15.81%	11.86%	10.34%	10.62%
90-Day U.S. Treasury	0.04%	0.11%	0.10%	0.13%	0.21%	2.06%	5.00%	0.11%	0.11%	0.52%	1.78%
Consumer Price Index (Inflation)	-0.48%	2.05%	2.96%	1.50%	2.72%	0.09%	4.08%	2.05%	2.17%	1.86%	2.44%

Sources: Morningstar, Mobius, MPI

The information contained in this report is from sources believed to be reliable, but are not warranted by CAPTRUST Financial Advisors to be accurate or complete. Index performance depicts historical performance and is not meant to predict future results.

INVESTMENT ASSET CLASSES

Market Performance, 4th Quarter 2012

U.S. EQUITIES	Q4 '12	2012
Large Value (R1000 Value)	1.52%	17.51%
Large Blend (S&P 500)	-0.38%	16.00%
Large Growth (R1000 Growth)	-1.32%	15.26%
Mid Value (Russell)	3.93%	18.51%
Mid Blend (Russell)	2.88%	17.28%
Mid Growth (Russell)	1.69%	15.81%
Small Value (R2000 Value)	3.22%	18.05%
Small Blend (R2000 Blend)	1.85%	16.35%
Small Growth (R2000 Growth)	0.45%	14.59%

Source: MPI Stylus Pro

INTERNATIONAL EQUITIES	Q4 '12	2012
International Equities (MSCI EAFE)	6.60%	17.90%
Pacific Stocks (MSCI Pacific Ex-Japan)	6.09%	24.74%
European Stocks (MSCI Europe Ex-UK)	8.64%	22.54%
Japanese Stocks (MSCI Japan)	5.79%	8.36%
UK Stocks (MSCI UK)	4.18%	15.30%
Emerging Markets (MSCI EME)	5.61%	18.63%

Source: MPI Stylus Pro

Market Performance, 4th Quarter 2012

FIXED INCOME	Q4 '12	2012
Broad Market (Barclays Capital U.S. Aggregate)	0.21%	4.22%
Barclays Capital U.S. Treasurys	-0.09%	1.99%
Barclays Capital Mortgage Backed Securities	-0.20%	2.59%
Barclays Capital Municipals	0.67%	6.78%
Barclays Capital Intermediate Corporates	1.07%	8.84%
Barclays Capital High Yield	3.29%	15.81%

Source: MPI Stylus Pro

HEDGE FUNDS/PRIVATE EQUITY	Q4 '12	2012
HFRI Fund Weighted Composite Index	1.27%	6.16%
HFRI Equity Hedge Index	1.82%	7.39%
HFRI Relative Value Index	1.91%	10.04%
HFRI Fund of Funds Composite Index	1.77%	5.25%
HFRI Fund of Funds Conservative Index	1.35%	3.91%

Source: HFRI

Market Performance, 4th Quarter 2012

COMMODITIES	Q4 '12	2012
Dow Jones UBS Index	-6.33%	-1.06%
S&P GSCI Commodity Index	-3.28%	0.08%
Gold (Spot, $/oz)	-5.46%	7.14%
Natural Gas (U.S. Spot Henry Hub)	11.18%	14.95%
Crude Oil (U.S. Spot, WTI Cushing)	-0.40%	-7.09%

Source: MPI Stylus Pro, Bloomberg

REAL ESTATE	Q4 '12	2012
MSCI U.S. REIT Index	2.50%	17.77%
Wilshire REIT Index	2.48%	17.59%

Source: MPI Stylus Pro

U.S. EQUITIES

- U.S. large-cap stocks fell 0.4% in the fourth quarter due to year-end fiscal cliff concerns, but mid- and small-cap stocks closed higher. 2012 represented a strong total return for U.S. equities, with mid-cap leading the charge (+17.3%) and large- and small-caps closing up 16% and 16.4%, respectively.
- All 10 major S&P 500 sectors were positive for 2012, with financials registering a 28.8% gain followed by consumer discretionary up 23.9%. Utilities (+1.3%) and energy (+4.6%) were laggards this past year.
- Since the U.S. equity market peak in October 2007, the only style that has not fully recovered from the two-and-a-half-year market malaise (after incorporating reinvested dividends) is large-cap value, due to its large weighting in the financial sector.

INTERNATIONAL EQUITIES

- Developed and emerging international equities both rallied in the fourth quarter and have been higher 12 out of the last 15 and 12 out of the last 16 quarters, respectively. For the full year 2012, the MSCI EAFE Index, which is more focused on developed markets, closed up 17.9%, and the MSCI Emerging Markets Index tallied 18.6%.
- Developed equities were led by France (+10.9%) and Germany (+8.5%), helped by a weakening euro versus the dollar. Japan was up a sharp 17.6% in the fourth quarter in yen terms, but the weak currency meant only a 5.8% gain when translated to dollars.
- Emerging market currencies rallied relative to the U.S. dollar in the fourth quarter as well as for the full year. However, Indian and Brazilian stocks bucked that trend, delivering positive returns, although lower for dollar holders. Chinese stocks closed up 23% in 2012 after a late-in-the-year surge.

FIXED INCOME

- The Barclays Aggregate Bond Index eked out its 16th positive quarter in its past 17, closing up 0.2% in the fourth quarter and 4.2% for the year. The index has not had a negative annual return in 13 years.
- Within the broad fixed income space, historically riskier parts of the bond market were stronger this past quarter, with emerging market debt (+3.3%), high yield (+3.3%), and investment grade corporates (+1.1%) leading mortgages and Treasurys for the second straight quarter.
- Despite relentless calls for interest rates to rise, 10-Year Treasury rates hit an all-time intraday low on July 24, touching 1.394% and closing at 1.76% for the year.

HEDGE FUNDS / PRIVATE EQUITY

- Hedge fund strategies continue to post lackluster returns, with December's decent 1.3% gain bringing the HFRI Fund Weighted Composite Index to a 6.2% total return for 2012. The "risk on–risk off" environment, coupled with low interest rates, continues to serve as a headwind for hedge fund strategies.
- Global macro was the weakest subcategory for the year, losing 1% for 2012 following challenging years in 2010 and 2011 as global central bank policy and unstable trends plagued managers. Equity hedged strategies meaningfully underperformed their long-only peers in 2012.
- Alternatives research firm Prequin highlights that within private equity, more than half of surveyed investors (from December 2012) were looking to invest in small- to mid-market buyout deals, garnering almost twice as much interest as the next-highest priority, venture capital.

COMMODITIES

- The Dow Jones UBS Commodity Index fell 6.3% in the fourth quarter after rallying 9.7% in the third. The index fell for the second straight year, shedding 1.1%. For the fourth quarter, agriculture, grains, and precious metals were notable underperformers.
- For the full year, energy (the index's largest weighting) fell 9.4%, with WTI Crude shedding 11.8% and natural gas falling more than 30% despite showing signs of life through various parts of 2012. Precious metals silver and gold still delivered positive returns, however, up 7.1% and 6.1%, respectively.
- One recent concern about commodity investing has been elevated correlations relative to global equities (versus longer periods of time). While correlations have fallen (lately), that is largely attributable to strong equity performance and weak aggregate commodity prices, particularly within the energy complex, which has fallen more than 12% annualized over the past three years.

REAL ESTATE

- Public real estate, as measured by the NAREIT Equity REIT Index, increased 3.1% in the fourth quarter, with REITs outperforming U.S. equities five out of the last seven quarters. REITs, up a staggering 204.6% cumulative over the past 10 years, ended December 31 and finished up 19.7% for 2012.
- Capital raising continues to be robust for REITs, with NAREIT data showing that REITs had raised just shy of $68 billion as of the end of November 2012, $17 billion more than what the industry raised in a record-setting 2011.
- Several REIT subsectors exhibit attractive fundamentals based on changes in buyer behavior, but capitalization rates and other valuation metrics reflect strong REIT performance coming out of 2012 and into the new year.

DISCRETIONARY RESEARCH HIGHLIGHTS

U.S. EQUITIES

- We switched from a more defensive posturing early in the second quarter of 2010 to a more optimistic orientation in August 2010 and then an even more optimistic view in early October 2010, feeling that the market had overshot to the downside.
- In mid-May 2011, we ratcheted back to a more neutral posturing, anticipating a potential growth slowdown as well as to take profits on our previously held constructive positioning.
- After the initial sharp sell-off in August 2011, we deployed some more capital into small- and mid-cap stocks in a contrarian fashion but reversed that positioning a month later, fearing more potential downside. While we have not deployed fresh capital into the United States, we also have not rebalanced portfolios in the recent equity market rally, leading to a slightly bullish tilt. We have become more constructive on U.S. stocks in the near term and await more compelling entry points before getting more aggressive, still favoring large-cap and high-quality stocks.

FIXED INCOME

- We deemphasized fixed income in the second half of 2010 despite anticipating further federal stimulus in the form of quantitative easing and open market bond purchases.
- We increased our weighting to fixed income during mid-2011, incorporating a diversified approach by sector and geography using a combination of active and passive management. We expected a few persistent themes to endure within the space that are accessible via highly skilled managers and were pleased with those results.
- Active management continues to be our preferred access method, although we have decreased our overall fixed income weighting within portfolios, feeling better opportunities lie elsewhere. We do not anticipate a sudden and persistent move higher in interest rates, but we remain wary of a more gradual grind upward. By no means are we abandoning the asset class, but instead we are taking on a more global perspective with our exposure.

COMMODITIES

- We remain long-term bullish on commodities due not only to the demand story but also because of a lack of infrastructure investment across many key commodities.
- Given the challenging macroeconomic environment and the potential for further growth scares, we expect to see considerable volatility within commodities. We would like to see commodities decouple from equity returns and give investors more of a correlation boost than we have experienced since the financial crisis.
- We have recently deemphasized actively managed strategies with the view that commodities present considerable macroeconomic challenges for most active managers to successfully navigate. Correlations between commodities and more "crowded" active manager positions leave us happy to invest in broad commodity mandates and control the overall exposure levels versus leaving that to an active manager. Commodities remain a small portfolio component for us right now.

INTERNATIONAL EQUITIES

- Growth prospects have improved across several regions, and our interest in international equities has picked up. While some of the structural issues plaguing areas like southern Europe and Japan will not see overnight fixes, we do see equity-friendly policies developing in the intermediate term amid a more favorable growth backdrop.
- Valuation is very attractive from a historical standpoint; however, valuation metrics could prove irrelevant should the European Union's structure unravel or additional financial system stress unhinge the potential for a muddle-through recovery. Recent concerns about whether Spain or Italy will submit to more stringent fiscal measures could continue to cast a shadow over European stocks.
- We have deployed more capital to this space in recent weeks, seeing a bigger opportunity within international equities than their domestic peers on a valuation basis. However, we remain mindful of where consensus thinking is, and many are taking a more bullish stance here, which we will continue to gauge as 2013 unfolds.

HEDGE FUNDS / PRIVATE EQUITY

- Hedge fund strategies have had a challenging backdrop in which to operate over the past three years given market oscillations, yet we see investment merit in certain hedge fund subcategories, particularly those that are less reliant on overall market direction.
- We have emphasized more conservative hedge fund strategies recently, with a goal of preserving capital during large down periods in riskier asset classes versus strategies that have higher equity market gearing or economic sensitivity.
- One of the challenges in a risk on–risk off investment environment is finding hedge fund solutions that display low correlation to other asset classes, and we are currently gauging the existing opportunity set in light of that need.

REAL ESTATE

- We added to real estate positions in mid-2010 based on improved fundamentals as well as attractive yields given subdued interest rates.
- In a low-yield world, REITs retain a strong distribution profile while offering some growth potential, an attractive combination for a variety of investors that should provide an underlying bid to the space. However, valuation metrics appear to be on the richer side, with REITs delivering a strong 2012 total return.
- Recent capital-raising success across the REIT complex in late 2011 through 2012 leave operators poised for opportunistic purchases and increased flexibility, but we remain watchful of investors chasing what has been a strong asset class since the financial crisis. Liquidity is clearly better, but we retain a watchful eye on valuation and loan quality.

The foregoing comments demonstrate our firm's strategic and forward-looking views as they are implemented in cases where clients have contractually granted CAPTRUST sole tactical discretion over portfolio decisions.

CAPTRUST NEWS

CAPTRUST GROWTH

CAPTRUST wrapped up 2012 with a new addition to our research team in Raleigh, a new financial advisor in Washington D.C., and the acquisition of Michigan's largest 401(k) plan consultant, Freedom One Financial.

Raleigh Office

Brent Hartman joined CAPTRUST in November 2012 as a senior manager, investment research. In his new position he will focus on defined benefit plans. He comes to us from The Newport Group, where he worked as a senior investment consultant. While working at The Newport Group, Brent provided investment consulting services to institutional retirement plans. Prior to that, Brent worked at the Retirement Corporation of America, where he worked with 401(k) plan sponsors on investment issues such as fund selection, fund monitoring, and model portfolio construction. Brent is a graduate of Brigham Young University with a Bachelor of Science in accounting and economics and received his MBA in finance and investments from Purdue University.

Washington D.C. Office

Rick Silliman joined the firm in December 2012 as a financial advisor. Bringing 25 years of experience in the retirement plan industry, Rick focuses on consulting with plan fiduciaries on plan design and investment strategy. Prior to joining CAPTRUST, Rick was a principal with Pension Benefits, Inc., a full-service recordkeeping and investment advisory firm located in Philadelphia. Rick has also been a frequent speaker and seminar facilitator for the MidAtlantic Employers' Association, the Graphic Arts Association, and the Pennsylvania Institute of Certified Public Accountants, to name a few. Rick is an active community leader and has served on a number of nonprofit boards. He is a graduate of Washington College with a Bachelor of Arts in American studies.

RECENT NEWS

In late December, CAPTRUST acquired the assets of Freedom One Financial, a retirement advisory firm with a 25-year history of providing plan sponsors and participants with unbiased investment advisory services. The Clarkston, Michigan-based firm is known for its industry-leading combination of model portfolios, high-touch employee education and advice, and fiduciary oversight. The Freedom One acquisition brings with it 45 employees and an operations hub in Michigan to support CAPTRUST's Midwest expansion and further development of discretionary consulting services. During 2012, CAPTRUST grew to nineteen offices and completed two acquisitions as evidence of the firm's commitment to expanding its national footprint and attracting the industry's best talent.

FREEDOM ONE

RECOGNITION

The following CAPTRUST financial advisors/advisory teams were recognized in *PLANADVISER Magazine's* list of Top 100 Retirement Plan Advisers for 2013.

- Jon Strickland | Raleigh, NC
- Jean Duffy, Aaron Morris, Jim Pierce, and Aaron (AJ) Shimp | Des Moines, IA
- Susan Clausen, Paul Stibich, and Steve Wilt | Akron, OH
- John Pickett and Travis Whitten | Dallas, TX

Selected advisors were recognized for quantitative standouts such as assets under management, number of plans under advisement, and having more than 20% of their practice in the areas of 403(b), 457, defined benefit, or nonqualified plans.

continued on page 20

continued from page 19

GIVING BACK

We are honored to share that with the help of our surrounding communities, The CAPCommunity Foundation was able to raise a total of $40,000 for the Payton Wright Foundation throughout the 2012 year. This nonprofit was established in 2008 by Patrick and Holly Wright (pictured left) in memory of their daughter Payton who tragically lost her battle with brain cancer at the tender age of five. The Payton Wright Foundation works to raise awareness and funding for pediatric brain cancer research, and also provides financial support for other families affected by the disease. To learn more, please visit www.paytonwright.org.

CAPCOMMUNITY Foundation

INDUSTRY INVOLVEMENT

The following is a list of topical discussions to be led by CAPTRUST at upcoming industry events.

February 5, 2013 | Washington, D.C.

FIDUCIARY ISSUES AND TRENDS IN THE PRIVATE HIGHER EDUCATION MARKETPLACE
National Association of Independent Colleges and Universities
Presented by Barry Schmitt and Jim Strodel

February 6 and 14, 2013 | Dallas and Forth Worth, TX

A FIDUCIARY RESPONSIBILITY IN A CHANGING WORLD (WORKSHOP)
Presented by Phyllis Klein and Travis Whitten

March 3-5, 2013 | Las Vegas, NV

STAYING AHEAD OF THE CURVE: TRENDS IN PLAN DESIGN, INVESTMENTS, AND CONSULTING
Panelist: Mark Davis

INNOVATIVE STRATEGIES FOR PENSION PLAN DE-RISKING
Panelist: Grant Verhaeghe

ASPPA 401(k) SUMMIT

March 17-20, 2013 | San Francisco, CA

ENHANCING RETIREMENT READINESS THROUGH A FOCUS ON TOTAL RETIREMENT
Mid-Sized Retirement & Healthcare Plan Management Conference
Presented by Mark Davis and Phyllis Klein

April 23-24, 2013 | Miami, FL

BUILDING A BETTER PLAN: STRUCTURE, FEES, AND DESIGN
Panelist: Mark Davis

NONQUALIFIED PLAN WORKSHOP
Presented by Mike Curran

Institutional Investor Defined Contribution Forum

April 25-26, 2013 | Charlotte, NC

HOT ISSUES FOR RETIREMENT PLAN SPONSORS AND PROVIDERS
Moderator: Linda Kerschner

UNDERSTANDING RESPONSIBILITIES AMONG FIDUCIARY ROLES AND BEST PRACTICES
Presented by Fielding Miller

43rd Annual University of South Carolina's Darla Moore School of Business with participation by the U.S. Department of Labor and the Internal Revenue Service

April 28-May 1, 2013 | Atlanta, GA

FIDUCIARY LEADERSHIP
Keynote speaker: Fielding Miller

ENHANCING RETIREMENT READINESS THROUGH A FOCUS ON TOTAL RETIREMENT
CAPTRUST Presenter TBD

Mid-Sized Retirement & Healthcare Plan Management Conference

CAPTRUST