

Nebraska United Methodist Foundation

AS OF DECEMBER 31, 2011

MANAGER QUARTERLY REVIEW:

Market volatility remained a key theme in December, as it has been throughout much of 2011. Over the last few months, market participants have largely ignored U.S. economic news and have instead focused attention on European sovereign debt concerns. Risks to global growth in 2012 are apparent. The future (if any) for the European Union will be tested as its members grapple with government bailouts and austerity measures. Growth in China has recently slowed, with many fearing a continuation throughout the year. Despite such risks, investors also have reasons to be optimistic. Though corporations remain cautious, consumers have continued to spend. Strong growth in car and TV sales in recent weeks may be evidence that pent-up demand for such products will finally be unleashed in 2012. In addition, low leverage and strong profits have left U.S. corporations in an enviable position. With a record \$2 trillion-plus in cash and profit margins at or near all-time highs, corporations are poised to expand operations once demand expectations increase.

Stocks markets exhibited wide swings in 2011, with domestic markets outpacing their international counterparts. Although the S&P 500 Index finished the year with meager returns, investors witnessed gains as high as 8.4% in early April, to losses approaching 13% through early October. In contrast to the Dow finishing up over 8%, European stocks were clobbered amid the debt crisis, with most indexes posting double-digit losses. Many emerging-market stock indexes also suffered sharp declines. Stock market volatility is likely to persist into 2012, with traders swinging between "risk on" and "risk off" market bets.

Long-term U.S. government bonds were the clear winners in 2011, as investors sought a safe harbor and downgraded expectations for economic growth. The U.S. Treasury 10-year yield finished the year at 1.9%, down 1.4 percentage points. Investment-grade and high-yield corporate bond returns were also positive and respectable, benefiting from the general fall in government yields. Current market consensus is calling for rates to stay low in 2012 as economic growth projections remain weak and investors struggle with continued uncertainty, largely stemming from the debt woes of certain European sovereigns.

ALLOCATION & PERFORMANCE:

	Target Allocation		*Annualized returns				
	Equity	Fixed Income	4th Qtr	YTD	1 Year	3 Year*	5 Year*
Fixed Income	0%	100%	1.32%	4.17%	4.17%	7.78%	6.81%
Conservative	25%	75%	2.72%	1.64%	1.64%	8.39%	4.64%
Balanced	50%	50%	4.49%	-1.03%	-1.03%	10.15%	1.90%
Growth	75%	25%	6.23%	-3.80%	-3.80%	11.30%	-0.23%
Equity	100%	0%	8.39%	-6.29%	-6.29%	12.61%	-3.35%

MANAGER COMMENTARY:

In the final quarter of 2011, all Methodist Foundation strategies were positive, with the Fixed Income portfolio beating its benchmark. The Conservative fund rose 2.72% vs. 3.80% for the benchmark, the Balanced fund was up 4.49% vs. 6.47%, and the Growth fund gained 6.23% vs. 9.15%. Fixed income assets returned 1.32% vs. 1.12% for the Barclays Aggregate Index, while Equities increased the most, adding 8.39% vs. 11.82% for the S&P 500 Index. For the year, the Fixed Income and Conservative portfolios remain in positive territory, while the other three funds pared its 2011 losses. Trailing three-year returns show gains for all strategies, while trailing five-year returns improved from the previous quarter.

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