NEPC, LLC

RICHARD M. CHARLTON
CHAIRMAN

March 5, 2012

RE: Chairman's Annual Update

Dear Client:

As March draws to a close, we mark the first anniversary of our new governance and management structure, a transition planned by our partners and advisors and signaled to our clients over an extended period of time. While this was an emotionally difficult decision from a personal perspective, it was the correct call for our clients (and my wife, Maxine), the balance of our partners, and the Company itself. I am pleased to advise you that the "new" NEPC has not missed a beat. In formally passing the torch to Mike Manning, our President for the previous 10-years, and the members of our Executive Committee, Chris Levell, Sean Gill, Allan Martin and Jay Roney, NEPC has gained fresh momentum. As I reflect on these changes, our business results and the strength of our independent model, our future is bright.

Our management team achieved some key milestones in 2011, booking the largest asset and revenue increases in our history, including the conversion of four of the nation's largest 100 investment programs. Importantly to you, our already excellent service margins and research commitment continue to improve and our collective client performance results surpassed national industry medians for the 23rd year of our 26-year existence. We also formalized our new Practice Group organizational structure and integrated the Practice Group Heads into our Management Group, enabling us to even more effectively work with and respond to the needs of clients within each market segment. Collective client evaluations of NEPC in the annual Greenwich Associates Consultant Client Survey continue to be excellent, and NEPC has now ranked in the top three among the 10-largest consulting firms for seven of the past eight years, the only consultancy to exhibit such consistency. The depth and breadth of firm leadership have never been stronger and we are extremely grateful for your longstanding support.

In addition to our organizational changes, we have spent considerable effort behind the scenes working on initiatives that will ultimately provide client access to their investment information, manager research and meeting write-ups in a more efficient, user-friendly manner through a web-based client log-in system. Additionally, after thorough review, we have decided to convert our reporting platform to InvestorForce. This transition will move you and us to a platform designed to provide enhanced flexibility to present results to your investment committees in a more efficient, streamlined fashion. We will be converting to the InvestorForce reporting system this summer and hope to seamlessly transition all clients by the end of the third quarter. You will hear more details about both of these initiatives at our client conference this May.

Most of you are aware that we launched our Discretionary Services Platform a few months ago in response to growing market demand, both within and external to our current client base. Market acceptance has been excellent and we have been retained by five clients, having eight plans and $2.5 billion in assets as of this writing. Steve Charlton is overseeing this effort for NEPC and recently added Jeff Evaul, who had prior experience at UPromise and State Street Corp, as our new Discretionary Services Operations Manager. Steve's Discretionary Services team now includes focused compliance, consulting and operations personnel to ensure our continued commitment to deliver high quality, conflict free, independent investment advice.

The Markets and the Economy: As I write this letter, the domestic stock markets have rebounded off their September lows to a four year high. There is guarded optimism that the Eurozone has forestalled the immediate likelihood of a peripheral country default, financial stocks are on the rise and there is a hint of optimism in the air. Our domestic economy is showing signs of improvement and modest, but favorable indicators are emerging on many fronts, including improved outlooks for corporate profits and GDP growth; slow but consistent progress in the job markets; and the beginnings of housing market stabilization. However, this is an election year in Washington and we expect another protracted battle over raising the debt ceiling and no meaningful progress to contain our frightening deficits and entitlement commitments, both of which are unsustainable. Until these structural deficits are addressed, we will remain in a "new normal" characterized by slower growth and more moderate returns than otherwise might be the case. Our outlook for future prosperity is still long-term, and we believe it will take years, not months, to fully recover.

As we assess the current prospective environment of low expected asset returns and amplified risks, we believe it important for investors to continue to incorporate risk budgeting and dynamic asset allocation into their portfolio structuring efforts in order to better manage investment risks while targeting incremental return. As noted in the white paper on dynamic markets written by our CIO, Erik Knutzen, "the structure of the global investment landscape is changing constantly. Investors' most recent experience highlights the rapidly shifting nature of markets and the importance of becoming more dynamic." Our job, in fact, is to provide you the tools for risk parity and dynamism in 2012 and beyond.

Client Recommendations: The continued low interest rate environment, concerns about unemployment and our unprecedented national debt levels have crystallized the economic challenges which we face and heavily influenced the lower return forecasts which we expect for the coming decade. Over this time span, we believe that the traditional 60/40 portfolio construct which performed so well in the growth era of the 80's and 90's will continue to underperform, though perhaps not as badly as during the decade of the 2000's.

The Fed's quantitative easing program has given us some breathing room and is dominating current market psychology, but the stimulus programs will wane, deleveraging will run its course and fundamentals will return to the forefront at some juncture. We continue to encourage our clients to broaden their overall diversification and to become more mindful of budgeting risk in the rebalancing process to ease the extraordinary influence of the equity markets on total fund volatility found in traditional 60/40 portfolios. The flat-to-negative market returns of 2011 have given rise to selective re-risking opportunities for the first time in a while, particularly in less liquid credits, risk parity products, global asset allocation, and emerging market debt and equity. Coupled with an eye to hedging inflation risk and, as rates rise, the phased implementation of liability hedges, we believe the reward for a more dynamic rebalancing of fund assets is attractive.

Our annual Asset Allocation Letter, posted on our website, has considerably more detail in this regard and I encourage you to read it in detail. Your consultant and all of the members of our management team stand ready to respond to any questions which you might have.

Alternative Assets: To the considerable benefit of our clients, our commitment to alternative assets continues apace, and at year end we were overseeing some $65 billion in hedge funds, private equity, real estate and real assets. We employ these non-traditional asset classes to enhance returns (private equity and real assets) and dampen investment volatility (hedge funds), enabling investors to moderate the significant influence of equity risk, while improving and stabilizing investment returns in these uncertain markets. Coupled with our opportunistic recommendations in the distressed credit markets, these placements enabled our overall client base to outperform in 2007, to better protect capital in 2008 and outperform again during the recovering markets of 2009, 2010 and 2011. The excellent oversight and guidance of Erik Knutzen, Sean Gill, Neil Sheth and Eric Harnish continue to strengthen our research commitment nicely.

Defined Contribution: Our DC team continues to enhance its industry-leading reputation under the leadership of Christine Loughlin. Our annual fee surveys are growing in importance, our custom target-date funds are performing very well and we are exploring income solutions, all while maintaining a strong presence on Capitol Hill through Ross Bremen's efforts.

NEPC's Professional Staff Growth: During 2011, we furthered our longstanding practice of complementing the development and advancement of our "home-grown" professionals with the selective addition of highly qualified consulting talent from the ranks of our competitors. In October, Brad Smith, CFA, CEBS (25 years of investment experience), joined NEPC as a Partner in our Atlanta office. Brad formerly led Hewitt's domestic US investment consulting business and is a recognized industry leader with specialized skills in discretionary services, asset allocation and client management across multiple market segments. Additionally, we welcomed David Barnes from Ennis Knupp to our Atlanta Office as a Sr. Consultant, in September. David brings expertise and experience with public, DB, endowment and foundation plans, coupled with specialized knowledge of the emerging markets. Then, in late December, Bill O'Donnell rejoined NEPC as a Senior Consultant on our Taft Hartley team. Bill returns with over twenty years of financial services' experience from both investment consulting and the "dark side." We also continued to expand our research commitment, adding Charles Tedeschi (12 years of industry experience) from NewSpring Capital as a Private Markets Consultant and Phillip Nelson (10 years' experience) to our Traditional Team from Pinnacle West Capital. We will be announcing the addition of another strong Private Markets Consultant to our team early in the second quarter.

My annual letter to you would not be complete without special recognition and a heartfelt thanks to Ellen Griggs, who took early retirement from her role as our COO in June. Ellen made a tremendous impact during her ten years with us: internally, with many of our clients and across the industry. Ellen worked closely with us to identify talented professionals to take her place upon her departure, and we were extremely pleased when Dan Kelly joined us in May, permitting a smooth transition. Dan came to us with a track record of success from a number of financial services firms, including a 17-year stint with Harvard Management Company where he was their Chief Risk Officer, also overseeing their Risk Analytics and Performance Management functions. Among his many responsibilities with NEPC, he is overseeing our InvestorForce conversion project.

Changes in 2012: Recognizing the strength and contributions of four of our key Senior Consultants, John Krimmel, CPA, CFA, Scott Perry, CAIA, Kristen Reynolds CFA, CAIA, and Neil Sheth were elected into our partnership. John joined us in 2010 from Callan Associates and has over 20 years of investment industry experience. He is a member of the Public Funds team and the Emerging Managers Advisory Committee. Scott joined us in 2006 from Ashton Partners and Putnam Investments and has 10 years of industry experience. He is a member of the Alternative Assets Due Diligence Committee and the Small Cap Equity Advisory Group. He moved to the Philanthropic Team from the Corporate Team earlier this year after successfully building strong relationships within multiple market segments. Kristen Reynolds (12 years of investment experience) joined NEPC in 2003 from Smith Barney and is a member of our Philanthropic team. She also serves on our Alternative Assets Due Diligence Committee, the Asset Allocation Committee and the Large Cap Equity Advisory Group. Finally, Neil Sheth (18-years) heads up our Hedge Fund Group and was most recently a portfolio manager at Berkshire Partners LLC. Neil and his team are responsible for assisting clients in implementing appropriate fund of fund and hedge fund strategies in their portfolios.

In addition, we announced several promotions to Senior Research Consultant at the start the New Year: Claire Woolston on our Private Markets team, Tim Bruce and Kamal Suppal on our Hedge Fund Team, Lynda Dennen in our Asset Allocation group and Steve Gargano, Jeff Markarian and Donna Szeto in our Traditional Research group.

In concluding, I thank you again on behalf of our entire team here at NEPC for the privilege of working with you and your investment programs. While I have stepped away from my day-to-day management activities within the firm, I remain engaged in my passions of business strategy, client interaction and industry issues as I serve out the next few years as our Chairman. In keeping with my custom, I encourage you to circle the dates of May 15th and 16th for our 2012 Client Conference in sunny Boston☺, and join us as we look back and into the future. Our featured speakers this year will be Jim O'Neill, Chairman, Goldman Sachs Asset Management, Bruce Richards, CEO of Marathon Asset Management, LP, and Ken Mehlman, Member and Global Head of Public Affairs, KKR & Co. It promises to be a great conference and we hope to see you there.

Regards,

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