

Q3

Quarterly Market Review

Third Quarter 2011

EXETER FINANCIAL

Quarterly Market Review

Third Quarter 2011

This report features world capital market performance in the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a topic of the quarter.

Overview:

Market Summary

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate (REITs)

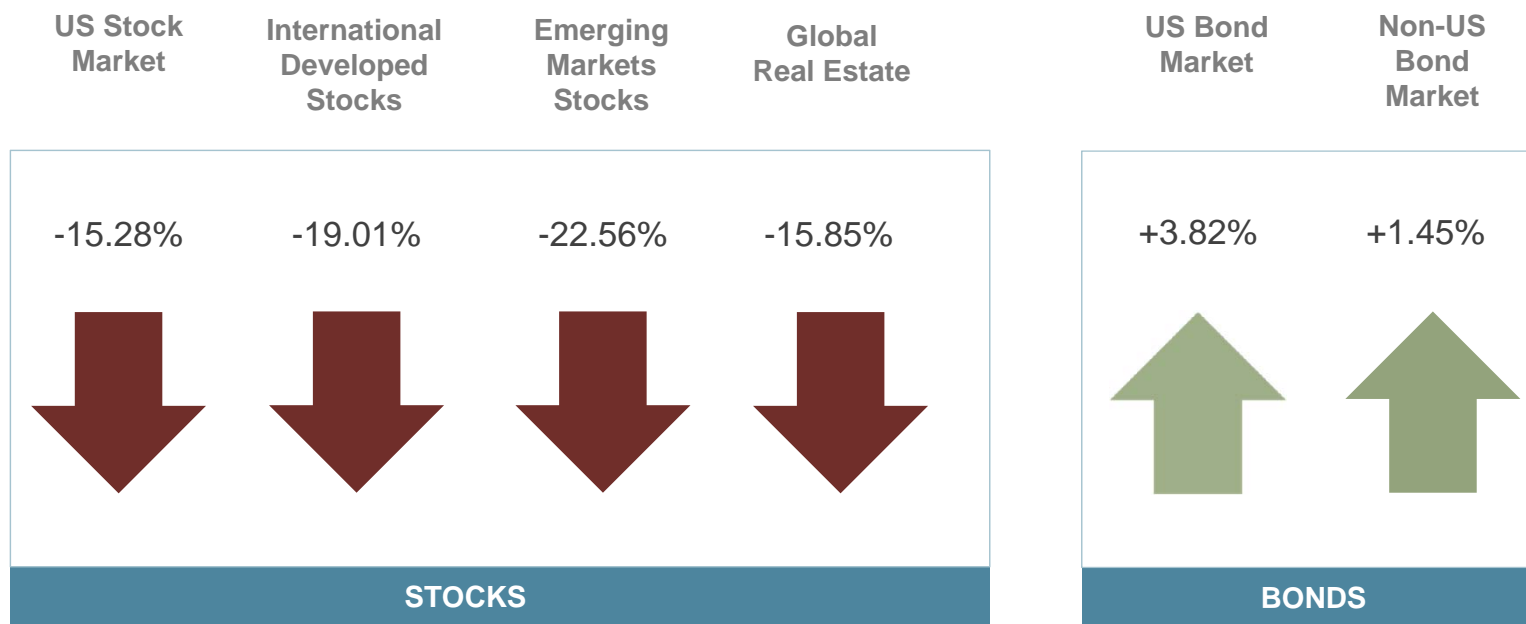
Fixed Income

Global Diversification

Quarterly Topic

Market Summary

Third Quarter 2011

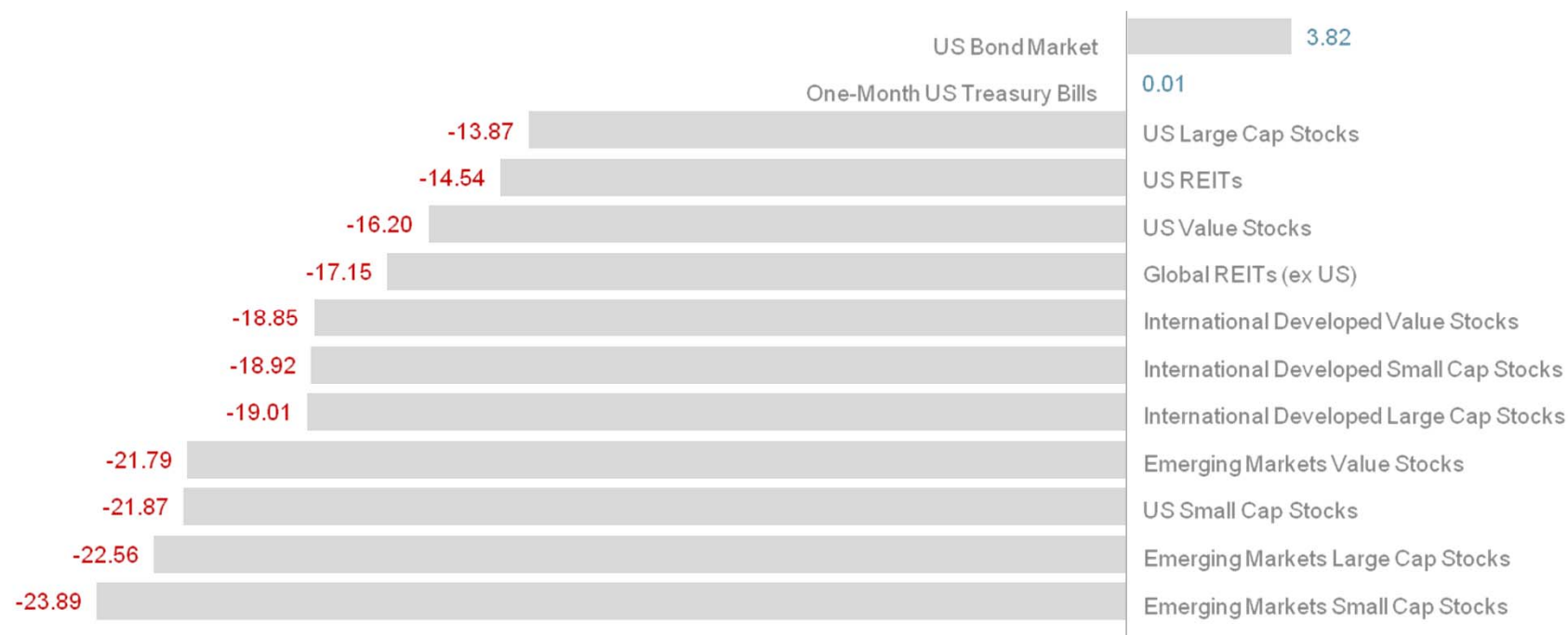


Market segment (index representation) as follows: US Stock Market (Russell 3000 Index); International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays Capital US Aggregate Bond Index), and Non-US Bond Market (JP Morgan GBI Global ex US Index). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, all rights reserved. JP Morgan data provided by JP Morgan. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Third Quarter 2011

Equity markets around the world had their worst quarter since the end of 2008, as investors reacted negatively to the sovereign debt problems in Europe, the budget stalemate in the US, and poor economic data in most developed countries and in some large emerging countries such as China.



Market segment (index representation) as follows: US Large Cap (S&P 500 Index), US Small Cap (Russell 2000 Index), US Value (Russell 1000 Value Index), US Real Estate (Dow Jones US Select REIT Index), Global Real Estate (S&P Global ex US REIT Index), International Developed Large, Small, and Value (MSCI World ex USA, ex USA Small, and ex USA Value Indexes [net div.]), Emerging Markets—Large, Small, and Value (MSCI Emerging Markets, Emerging Markets Small, and Emerging Markets Value Indexes), US Bond Market (Barclays Capital US Aggregate Bond Index), and Treasury (One-Month US Treasury Bills). The S&P data are provided by Standard & Poor's Index Services Group. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved. MSCI data copyright MSCI 2011, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays Capital data provided by Barclays Bank PLC. US long-term bonds, bills, and inflation data © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

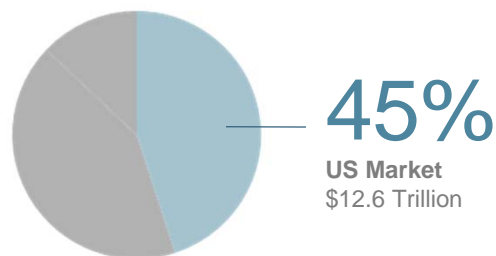
US Stocks

Third Quarter 2011

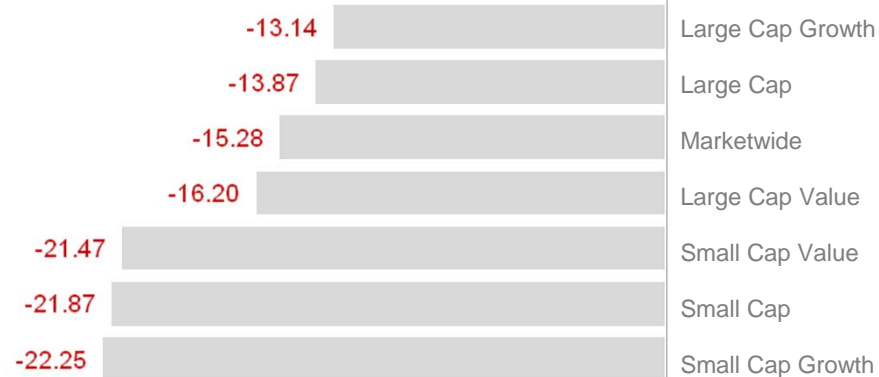
The broad US market returned -15.28%, and volatility increased as the European debt crises, weaker economic data, and the debt ceiling stalemate in Congress led investors away from risky assets. Asset class returns ranged from -22.25% for small cap growth stocks to -13.14% for large cap growth stocks.

The strongest sectors were utilities and consumer staples, while the weakest ones were materials and financials. Value stocks had mixed performance relative to growth, and small caps underperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Year*	5 Year*	10 Year*
Marketwide	-9.90	0.55	1.45	-0.92	3.48
Large Cap	-8.68	1.14	1.23	-1.18	2.82
Large Cap Value	-11.24	-1.89	-1.52	-3.53	3.35
Large Cap Growth	-7.20	3.78	4.69	1.62	3.01
Small Cap	-17.02	-3.53	-0.37	-1.02	6.12
Small Cap Value	-18.51	-5.99	-2.78	-3.08	6.47
Small Cap Growth	-15.57	-1.12	2.07	0.96	5.45

* Annualized

Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap: Russell 3000 Index is used as the proxy for the US market. Russell data copyright © Russell Investment Group 1995–2011, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

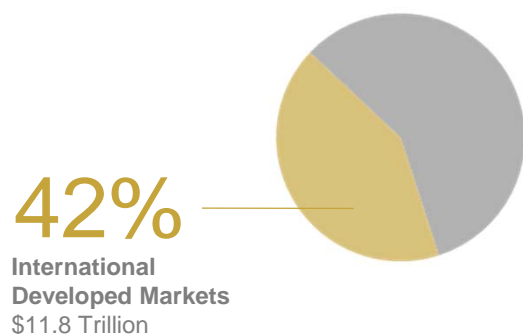
International Developed Stocks

Third Quarter 2011

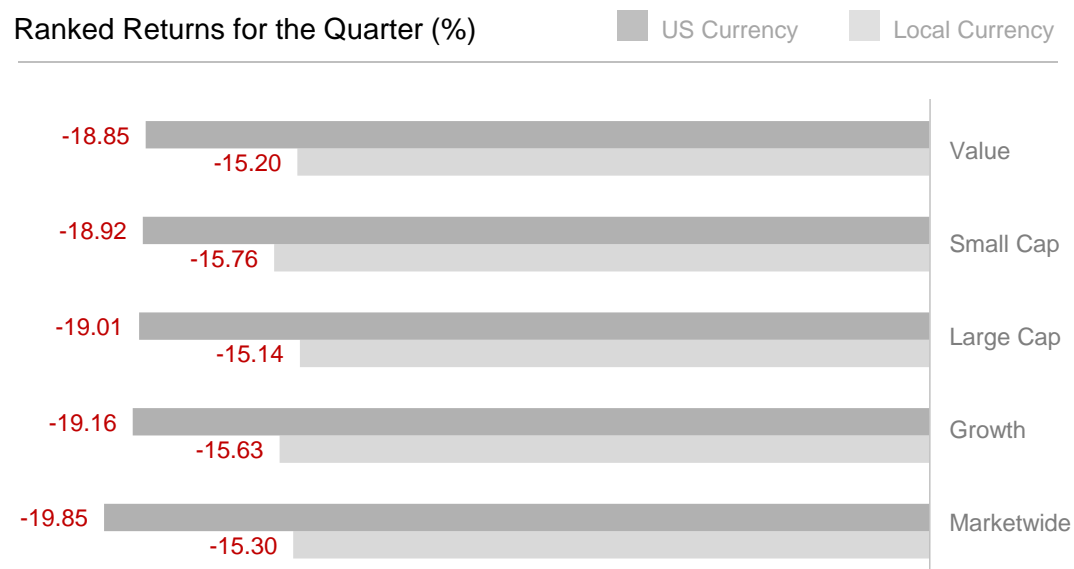
Non-US developed markets performed poorly as Europe's budgetary and sovereign-debt crises intensified and economic growth slowed. In US dollar terms, developed market equity performance was even worse due to the dollar's strengthening position against most major currencies, except for the yen. Greece was by far the worst performer, while Japan and New Zealand were the top performers.

Using the MSCI World ex USA Index and its sector and country segments as proxies, value stocks underperformed growth stocks and small caps edged large caps.

World Market Capitalization—International Developed



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Year*	5 Year*	10 Year*
Marketwide	-16.80	-10.81	0.52	-1.57	6.83
Large Cap	-15.19	-9.11	-0.88	-2.90	5.50
Small Cap	-16.38	-5.63	6.28	-1.21	10.09
Value	-14.29	-9.36	-1.14	-4.09	5.61
Growth	-16.06	-8.93	-0.67	-1.77	5.33

* Annualized

Market segment (index representation) as follows: Marketwide (MSCI All Country World ex USA Index), Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap: Non-US developed market proxies are the respective developed country portions of the MSCI All Country World IMI ex USA Index. Proxies for the UK, Canada, and Australia are the relevant subsets of the developed market proxy. MSCI data copyright MSCI 2011, all rights reserved. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Emerging Markets Stocks

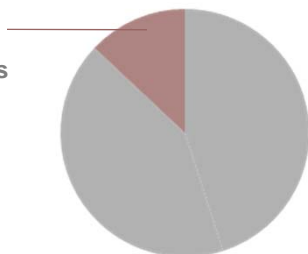
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Emerging markets as a whole had larger negative returns relative to US and international markets, although the difference was mainly due to a stronger US dollar relative to those currencies. Emerging Europe, which was hurt by the poor performance of the Russian market, was the worst performer. Emerging Asia, where Indonesia, the Philippines, and Thailand did relatively well, was the top-performing region. Using the MSCI Emerging Markets Index and its sector and country segments as proxies, value stocks outperformed growth, and large caps outperformed small caps.

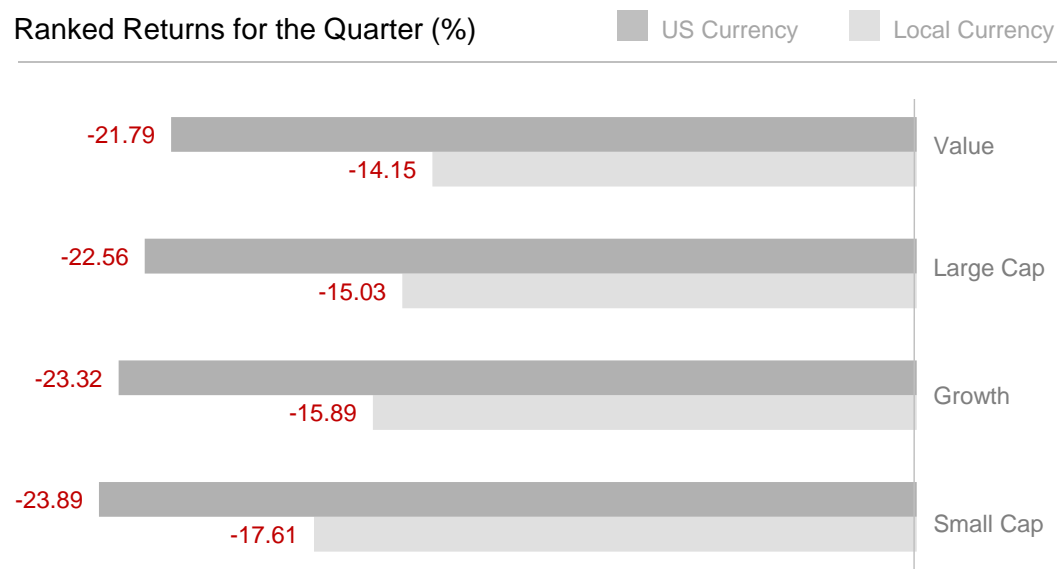
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$3.5 Trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Year*	5 Year*	10 Year*
Large Cap	-21.88	-16.15	6.27	4.87	16.07
Small Cap	-26.70	-20.89	13.90	7.24	17.05
Value	-21.23	-15.27	7.29	6.84	17.83
Growth	-22.52	-17.03	5.23	2.89	14.30

* Annualized

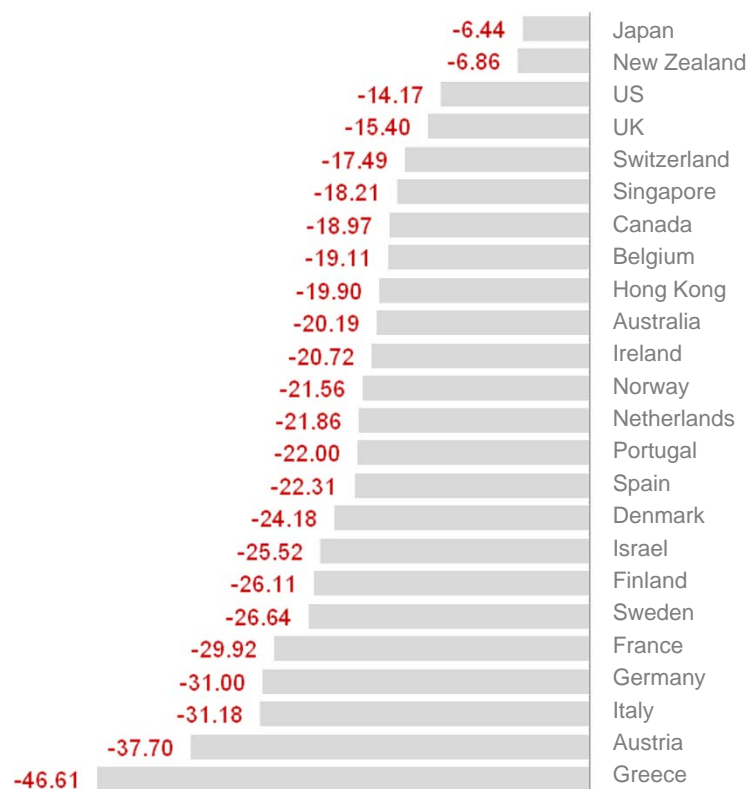
Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap: Emerging markets proxies are the respective emerging country portions of the MSCI All Country World IMI ex USA Index. MSCI data copyright MSCI 2011, all rights reserved. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Select Country Performance

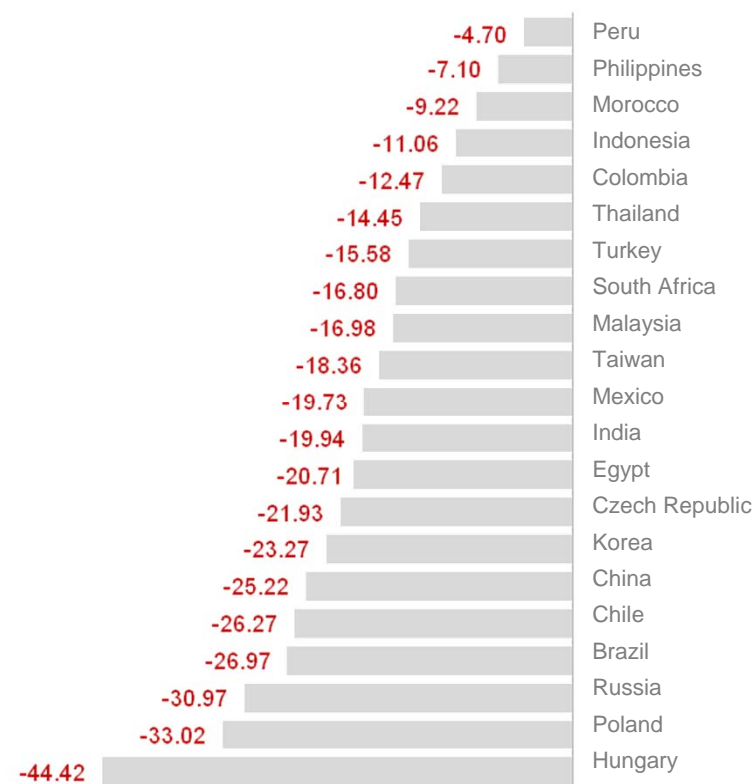
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Individual country market performance varied considerably in both developed and emerging markets. The difference between the best-performing developed market, Japan, and the worst-performing market, Greece, was close to 40% (-6.44% vs. -46.61%). In emerging markets, the difference between the best performer (Peru) and worst performer (Hungary) was almost 40% (-4.70% vs. -44.42%). All three world regions had equally poor performance in local currency.

Developed Markets (% Returns)



Emerging Markets (% Returns)

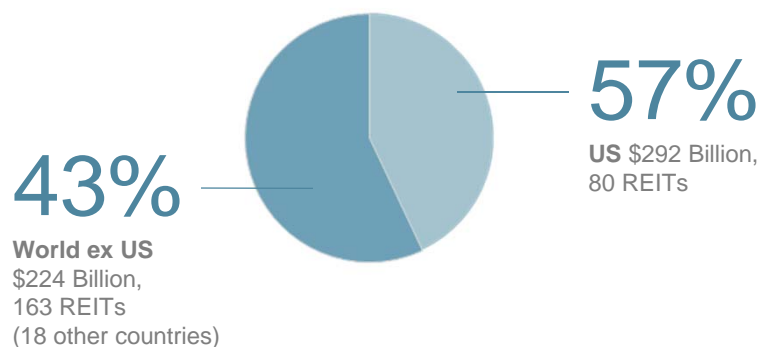


Real Estate Investment Trusts (REITs)

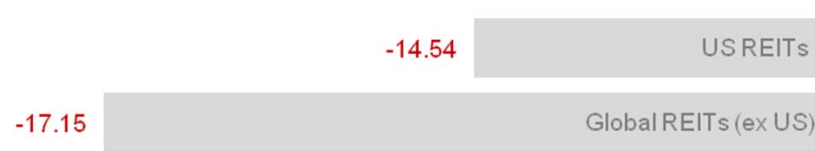
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Real estate securities had large negative returns in the third quarter but better performance relative to other asset classes. In the US and in other developed markets, REITs were among the top-performing equity asset classes.

Total Value of REIT Stocks



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Year*	5 Year*	10 Year*
US REITs	-5.20	1.87	-2.16	-3.17	9.07
Global REITs (ex US)	-9.64	-3.87	-0.01	-4.79	10.23

* Annualized

Fixed Income

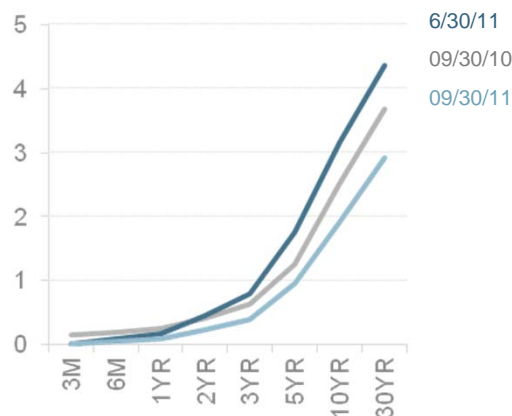
Third Quarter 2011

Most fixed income securities had excellent returns, especially inflation-protected securities and short-term US government securities, which benefited from a flight to quality triggered by economic and debt concerns around the world.

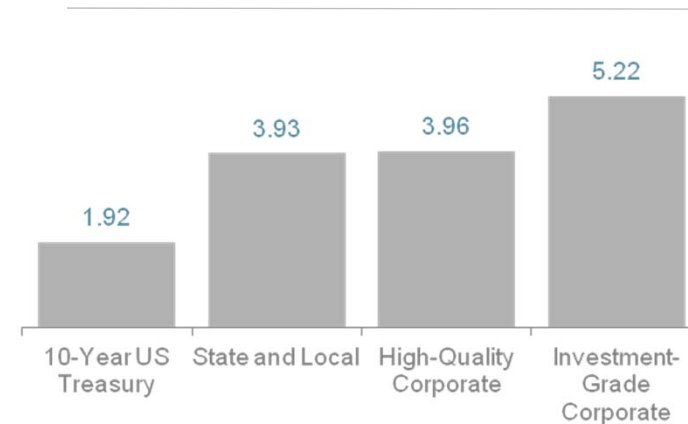
Despite Standard & Poor's decision to downgrade the US sovereign credit rating in early August, short-term Treasury yields fell slightly, while yields on longer-term Treasury securities fell sharply. As a result, the yield curve flattened. Credit spreads widened due to increasing yield differences between investment-grade and speculative-grade bonds vs. Treasury securities.

The Federal Open Market Committee maintained its target range for the federal funds rate between zero and 0.25% and reaffirmed its goal to maintain that target at very low levels until at least mid-2013.

US Treasury Yield Curve



Bond Yields across Different Issuers



Period Returns (%)

Asset Class	YTD	1 Year	3 Year*	5 Year*	10 Year*
One-Month US Treasury Bills (SBBI)	0.04	0.08	0.15	1.55	1.87
Bank of America Merrill Lynch Three-Month T-Bills	0.10	0.14	0.22	1.74	2.02
Bank of America Merrill Lynch One-Year US Treasury Note	0.48	0.55	1.26	2.76	2.61
Citigroup World Government Bond 1-5 Years (hedged)	1.88	1.37	3.25	3.98	3.62
US Long-Term Government Bonds (SBBI)	24.56	14.33	12.11	10.14	8.37
Barclays Capital Corporate High Yield	-1.39	1.78	13.83	7.08	8.79
Barclays Capital Municipal Bonds	8.40	3.88	8.08	5.01	5.09
Barclays Capital US TIPS Index	10.59	9.87	8.13	7.10	7.18

* Annualized

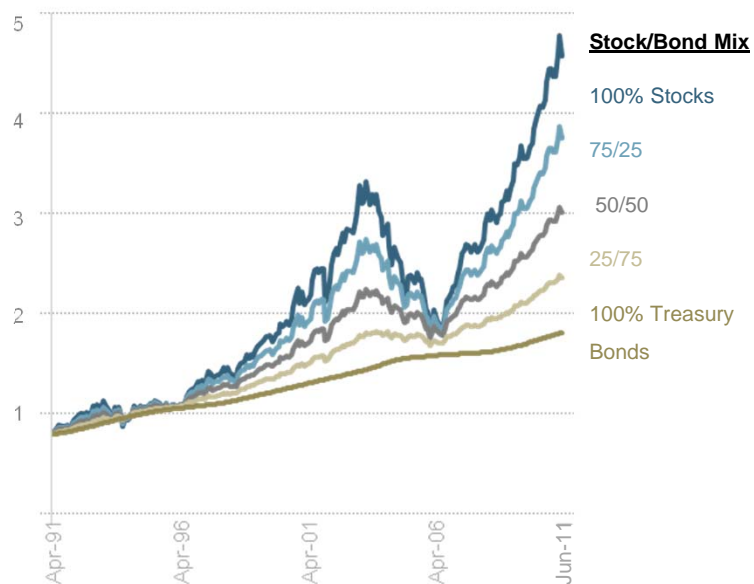
Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. High-quality corporate bonds represent the Moody's seasoned Aaa Corporate Yield. Investment Grade Corporate Bonds represent the Moody's seasoned Baa Corporate Yield. Barclays Capital data, formerly Lehman Brothers, provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBB) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices copyright 2011 by Citigroup. The Merrill Lynch Indices are used with permission; copyright 2011 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Global Diversification

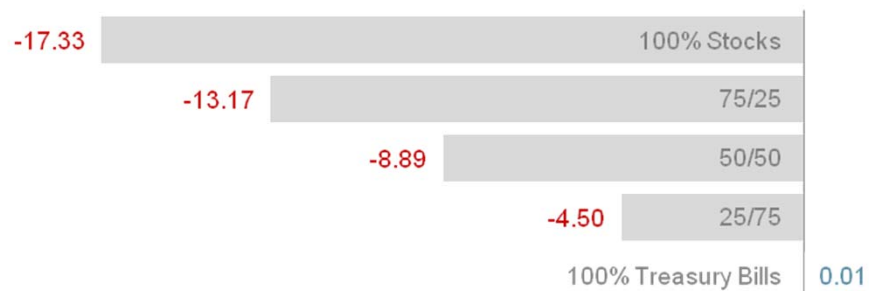
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These portfolios illustrate performance of different global stock-bond mixes. Those with larger allocations to stocks are considered riskier but also have higher expected returns over time.

**Growth of Wealth:
The Relationship between Risk and Return**



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Year*	5 Year*	10 Year*
100% Stocks	-13.20	-5.54	1.14	-1.07	4.96
75/25	-9.90	-3.93	1.44	0.00	4.48
50/50	-6.59	-2.46	1.37	0.79	3.80
25/75	-3.28	-1.12	0.93	1.31	2.92
100% Treasury Bills	0.04	0.08	0.15	1.55	1.87

* Annualized

Hypothetical allocations are for illustrative purposes only.

Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified portfolios rebalanced monthly. Data copyright MSCI 2011, all rights reserved. © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

Living with Volatility

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The current renewed volatility in financial markets is reviving unwelcome feelings among many investors—feelings of anxiety, fear, and a sense of powerlessness. These are completely natural responses. Acting on those emotions, though, can end up doing us more harm than good.

At base, the increase in market volatility is an expression of uncertainty. The sovereign debt strains in the US and Europe, together with renewed worries over financial institutions and fears of another recession, are leading market participants to apply a higher discount to risky assets. It is all reminiscent of the events of 2008, when the collapse of Lehman Brothers and the sub-prime mortgage crisis triggered a global market correction. This time, however, the focus of concern has turned from private-sector to public-sector balance sheets.

As for what happens next, no one knows for sure. That is the nature of risk. But there are a few points individual investors can keep in mind to make living with this volatility more bearable.

- Markets are unpredictable and do not always react the way the experts predict they will. The recent downgrade by Standard & Poor's of the US government's credit rating, following protracted and painful negotiations on extending its debt ceiling, actually led to a strengthening in Treasury bonds.
- Quitting the equity market at a time like this is like running away from a sale. While prices have been discounted to reflect higher risk, that's another way of saying expected returns are higher. And while the media headlines proclaim that "investors are dumping stocks," remember someone is buying them. Those people are often the long-term investors.
- Market recoveries can come just as quickly and just as violently as the prior correction. For instance, in March 2009—when market sentiment was last this bad—the S&P 500 turned and put in seven consecutive months of gains totaling almost 80%. This is not to predict that a similarly vertically shaped recovery is in the cards this time, but it is a reminder of the dangers for long-term investors of turning paper losses into real ones and paying for the risk without waiting around for the recovery.
- Never forget the power of diversification. While equity markets have had a rocky time in 2011, fixed income markets have flourished—making the overall losses to balanced fund investors a little more bearable. Diversification spreads risk and can lessen the bumps in the road.
- Markets and economies are different things. The world economy is forever changing, and new forces are replacing old ones. For example, the IMF noted in its April 2011 World Economic Outlook that while advanced economies seek to repair public and financial balance sheets, emerging market economies are thriving. A globally diversified portfolio takes account of these shifts.
- Nothing lasts forever. Just as smart investors temper their enthusiasm in booms, they keep a reserve of optimism during busts. And just as loading up on risk when prices are high can leave you exposed to a correction, dumping risk altogether when prices are low means you can miss the turn when it comes. As always in life, moderation is a good policy.

The market volatility is worrisome, no doubt. The feelings being generated are completely understandable. But through discipline, diversification, and understanding how markets work, the ride can be made bearable. At some point, value will re-emerge, risk appetites will re-awaken, and for those who acknowledged their emotions without acting on them, relief will replace anxiety.

Past performance does not guarantee future results.

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