December 2011

Ibbotson Quarterly Portfolio Commentary

The quarter ended December 31, 2011, with solid gains across many equity and fixed income asset classes. Yet those gains during the quarter were not enough to pull many equity asset classes back into positive territory for the full year period. 2011 was marked by pronounced market volatility driven by high geopolitical uncertainty and natural disasters. Unfortunately, most of the drivers behind the geopolitical risk and uncertainty in 2011 still exists and will likely continue to impact markets in 2012.

Fixed income proved to be unpredictable during much of 2011, thanks in large part to unprecedented actions undertaken by the Federal Reserve (FED) and other government banks attempting to expand their economies, or in some cases just stay solvent. Without obsessing about a prefix to place in front of the word “normal”, we would agree that a combination of global factors (ie: credit, debt, currency, interest rates) has made investing within fixed income a much more difficult and risky proposition than the years leading up to the 2008 credit crisis. During the quarter, bond indexes posted mixed results with longer-term credit and inflation bonds, or Treasury Inflation Protected Securities (TIPS), leading the way. For the full year, the Barclays Capital U.S. TIPS Index returned 13.6% while other bond indexes such as the Barclays Capital U.S. Aggregate Bond Index and 1-3 year U.S. Government Bond Index returned 7.8% and 1.6% respectively. Junk bonds, as represented by Barclays Capital U.S. Corporate High Yield Index, finished the quarter up 6.5%, which largely erased a similar decline in the third quarter. During the full year, high yield (HY) bonds finished up 5.0%, lagging behind other higher quality credit bonds such as Barclays Capital U.S. Credit Index, which returned 8.4% during the same period.

In the U.S., the broader stock market, as represented by the S&P 500 Index, returned 11.8% in the quarter and 2.1% for the full year period. The S&P 500’s sharp upswing in October caught many defensively positioned asset managers by surprise to the same extent the sharp selloff did in late July through early August. Additionally, many of the equity indexes traded in unison, reflecting very high correlations, during most of 2011. U.S. small cap stocks, as represented by the Russell 2000, outpaced larger cap stocks, as represented by the Russell Top 200, by 3.8% during the quarter yet trailed by 7.0% for the full year period. Over a longer-term 3-year period ending December 31, 2011, U.S. small cap stocks outperform large cap stocks by 2.8%. At quarter end, the value style of investing outpace growth across the capitalization spectrum (large, mid, small) as represented by the Russell U.S. Top 200, Mid Cap, and 2000 Growth and Value Indexes. The value style has on average lagged the growth style over the one (-1.5%) and three-year (-5.7%) periods ending December 31, 2011.

Developed international and emerging markets, as represented by the MSCI EAFE and MSCI EM Indexes, both posted unimpressive returns during the quarter, 3.4% and 4.5% respectively, relative to most other equity indexes double digit returns. On the other hand, the glass half full view keeps us happy with a positive return given the very real risks that exist across Europe and select emerging markets. For the one-year period ending December 31, 2011, the MSCI EAFE and MSCI EM indexes returned -11.7% and -18.2% respectively. From a portfolio impact standpoint, there were two important factors that existed on international exposures during 2011. First, international equity traded lockstep with U.S. equity (ie: very high correlations), which eliminated the diversification benefit. Second, for 2011, their was a large negative currency impact of -5.7% on the MSCI EM Index (ie: U.S. dollar strengthened; collective EM currencies weakened). The currency impact on developed international was flat.

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Conservative Portfolio

During the quarter, the Portfolio had the following dynamic theme(s):

- **Theme:** Overweight of U.S. investment-grade corporate debt and underweight of U.S. high-yield corporate debt (this theme was removed towards the end of December)
- **Rational:** A move to reduce the risk of underperformance in bonds of lower credit quality

The Conservative Portfolio returned 2.86% during the quarter while its primary benchmark, the DJ Conservative U.S. Relative Risk Portfolio, returned 2.85%. It's important to note that the DJ U.S. Series does not include International or Commodity exposures on the equity side and Short-term Bonds and TIPS on the fixed income side. Instead, the DJ U.S. Series uses an evenly weighted combination of Barclays Government, Corporate and Mortgage Bond Indexes for its fixed income exposure. As a result, the DJ U.S. Series will perform different than the Portfolios, especially when International equities play a significant role in the Portfolio's total performance. The Portfolio's secondary benchmark, a blended 20% S&P 500 Index, 73% Barclays Capital U.S. Aggregate Bond Index, and 7% BofAML US 3-month Treasury Bill, returned 3.18% during the quarter. That said, the Portfolio's Dynamic Overlay detracted 11 basis points during the quarter and was flat for the full year period. The Portfolio's international exposure remained the largest detractor during the quarter and full year period. U.S. equity and Real Estate Investment Trusts (REITs) contributed the most during the quarter while REITs and bonds with higher duration and inflation protection added the most to performance over the full year period. Additionally, the strategic asset allocation policy (ie: mix of asset class exposures) detracted from performance. However, Ibbotson maintains that there are proven benefits to holding a well diversified portfolio over longer periods of time. The underlying Exchange-Traded Funds (ETFs) that make up the Portfolio have continued to do a good job of delivering the performance of the indexes that they track.

Income and Growth Portfolio

During the quarter, the Portfolio had the following dynamic theme(s):

- **Theme 1:** Overweight of U.S. investment-grade corporate debt and underweight of U.S. high-yield corporate debt (this theme was removed towards the end of December)
- **Rational 1:** A move to reduce the risk of underperformance in bonds of lower credit quality
- **Theme 2:** Underweight of equities and overweight of cash
- **Rational 2:** A move to reduce the risk of near-term declines within the global equity markets
- **Theme 3:** Underweight U.S. small cap equity relative to U.S. large cap equity
- **Rational 3:** The valuations of U.S. small cap stocks look stretched relative to U.S. large cap stocks

The Income and Growth Portfolio returned 4.53% during the quarter while its primary benchmark, the DJ Moderately Conservative U.S. Relative Risk Portfolio, returned 5.17%. It's important to note that the DJ U.S. Series does not include International, Commodity, or REIT exposures on the equity side and Short-term Bonds and TIPS on the fixed income side. Instead, the DJ U.S. Series uses a combination of Barclays Government, Corporate and Mortgage Bond Indexes for its fixed income exposure. As a result, the DJ U.S. Series will perform different than the Portfolios, especially when International equities play a significant role in the Portfolio's total performance. The Portfolio's secondary benchmark, a blended 40% S&P 500 Index, 55% Barclays Capital U.S. Aggregate Bond Index, and 5% BofAML US 3-month Treasury Bill, returned 5.35% during the quarter. That said, the Portfolio's Dynamic Overlay detracted 15 basis points during the quarter and was flat for the full year period. The Portfolio's international exposure remained the largest detractor during the quarter and full year period. U.S. equity and REITs contributed

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Income and Growth Portfolio *(continued)*

the most during the quarter while REITs and bonds with higher duration and inflation protection added the most to performance over the full year period. Additionally, the strategic asset allocation policy (ie: mix of asset class exposures) detracted from performance. However, Ibbotson maintains that there are proven benefits to holding a well diversified portfolio over longer periods of time. The underlying ETFs that make up the Portfolio have continued to do a good job of delivering the performance of the indexes that they track.

Balanced Portfolio

During the quarter, the Portfolio had the following dynamic theme(s):

- **Theme 1:** Overweight of U.S. investment-grade corporate debt and underweight of U.S. high-yield corporate debt (this theme was removed towards the end of December)
- **Rational 1:** A move to reduce the risk of underperformance in bonds of lower credit quality
- **Theme 2:** A move to reduce the risk of near-term declines within the global equity markets
- **Rational 2:** U.S. Corporation's balance sheets are improving while the Governments is deteriorating
- **Theme 3:** Underweight U.S. small cap equity relative to U.S. large cap equity
- **Rational 3:** The valuations of U.S. small cap stocks look stretched relative to U.S. large cap stocks
- **Theme 4:** Underweight U.S. REITs and overweight U.S. Large Cap Stocks
- **Rational 4:** Despite recent declines, REIT valuations still look stretched based on historical averages and relative to other U.S. equity sectors

The Balanced Portfolio returned 6.52% during the quarter while its primary benchmark, the DJ Moderate U.S. Relative Risk Portfolio, returned 7.67%. It's important to note that the DJ U.S. Series does not include International, Commodity, or REIT exposures on the equity side and Short-term Bonds and TIPS on the fixed income side. Instead, the DJ U.S. Series uses a combination of Barclays Government, Corporate and Mortgage Bond Indexes for its fixed income exposure. As a result, the DJ U.S. Series will perform different than the Portfolios, especially when international equities play a significant role in the Portfolio's total performance. The Portfolio's secondary benchmark, a blended 60% S&P 500 Index, 38% Barclays Capital U.S. Aggregate Bond Index, and 2% BofAML US 3-month Treasury Bill, returned 7.52% during the quarter. That said, the Portfolio's Dynamic Overlay detracted 26 basis points during the quarter and 15 basis points for the full year period. The Portfolio's international exposure remained the largest detractor during the quarter and full year period. U.S. equity and REITs contributed the most during the quarter while REITs and bonds with higher duration and inflation protection added the most to performance over the full year period. Additionally, the strategic asset allocation policy (ie: mix of asset class exposures) detracted from performance. However, Ibbotson maintains that there are proven benefits to holding a well diversified portfolio over longer periods of time. The underlying ETFs that make up the Portfolio have continued to do a good job of delivering the performance of the indexes that they track.

Growth Portfolio

During the quarter, the Portfolio had the following dynamic theme(s):

- **Theme 1:** Underweight of equities and overweight of cash
- **Rational 1:** A move to reduce the risk of near-term declines within the global equity markets
- **Theme 2:** Underweight U.S. small cap equity relative to U.S. large cap equity
- **Rational 2:** The valuations of U.S. small cap stocks look stretched relative to U.S. large cap stocks
- **Theme 3:** Underweight U.S. REITs and overweight U.S. Large Cap Stocks
- **Rational 3:** Despite recent declines, REIT valuations still look stretched based on historical averages and relative to other U.S. equity sectors

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Growth Portfolio *(continued)*

The Growth Portfolio returned 7.65% during the quarter while its primary benchmark, the DJ Moderately Aggressive U.S. Relative Risk Portfolio, returned 10.06%. It's important to note that the DJ U.S. Series does not include International, Commodity, or REIT exposures on the equity side and Short-term Bonds and TIPS on the fixed income side. Instead, the DJ U.S. Series uses a combination of Barclays Government, Corporate and Mortgage Bond Indexes for its fixed income exposure. As a result, the DJ U.S. Series will perform different than the Portfolios, especially when International equities play a significant role in the Portfolio's total performance. The Portfolio's secondary benchmark, a blended 80% S&P 500 Index and 20% Barclays Capital U.S. Aggregate Bond Index, returned 9.68% during the quarter. That said, the Portfolio's Dynamic Overlay detracted 36 basis points during the quarter and 23 basis points for the full year period. The Portfolio's international exposure remained the largest detractor during the quarter and full year period. U.S. equity and REITs contributed the most during the quarter while REITs and bonds with higher duration and inflation protection added the most to performance over the full year period. Additionally, the strategic asset allocation policy (ie: mix of asset class exposures) detracted from performance. However, Ibbotson maintains that there are proven benefits to holding a well diversified portfolio over longer periods of time. The underlying ETFs that make up the Portfolio have continued to do a good job of delivering the performance of the indexes that they track.

Aggressive Growth Portfolio

During the quarter, the Portfolio had the following dynamic theme(s):

- **Theme 1:** Underweight of equities and overweight of cash
- **Rational 1:** A move to reduce the risk of near-term declines within the global equity markets
- **Theme 2:** Underweight U.S. small cap equity relative to U.S. large cap equity
- **Rational 2:** The valuations of U.S. small cap stocks look stretched relative to U.S. large cap stocks
- **Theme 3:** Underweight U.S. REITs and overweight U.S. Large Cap Stocks
- **Rational 3:** Despite recent declines, REIT valuations still look stretched based on historical averages and relative to other U.S. equity sectors

The Aggressive Growth Portfolio returned 8.99% during the quarter while its primary benchmark, the DJ Aggressive U.S. Relative Risk Portfolio, returned 12.42%. It's important to note that the DJ U.S. Series does not include International, Commodity, or REIT exposures on the equity side and Short-term Bonds and TIPS on the fixed income side. Instead, the DJ U.S. Series uses a combination of Barclays Government, Corporate and Mortgage Bond Indexes for its fixed income exposure. As a result, the DJ U.S. Series will perform different than the Portfolios, especially when International Equities play a significant role in the Portfolio's total performance. The Portfolio's secondary benchmark, a blended 90% S&P 500 Index and 10% Barclays Capital U.S. Aggregate Bond Index, returned 10.75% during the quarter. That said, the Portfolio's Dynamic Overlay detracted 49 basis points during the quarter and 32 basis points for the full year period. The Portfolio's international exposure remained the largest detractor during the quarter and full year period. U.S. equity and REITs contributed the most during the quarter while REITs and bonds with higher duration and inflation protection added the most to performance over the full year period. Additionally, the strategic asset allocation policy (ie: mix of asset class exposures) detracted from performance. However, Ibbotson maintains that there are proven benefits to holding a well diversified portfolio over longer periods of time. The underlying ETFs that make up the Portfolio have continued to do a good job of delivering the performance of the indexes that they track.

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Average Annual Total Returns

Performance Table as of 12/31/11	Ticker	1 Month	3 Month	YTD	1 Year	3 Year	Since Inception*	Total Expense Ratio	What You Pay**
Ibbotson Conservative ETF Asset Allocation I		0.43%	2.86%	3.42%	3.42%	6.20%	3.62%	0.90%	0.69%
Ibbotson Conservative ETF Asset Allocation II	CETFX	0.42%	2.77%	3.14%	3.14%	5.91%	3.31%	1.15%	0.94%
Ibbotson Income & Growth ETF Asset Allocation I		0.19%	4.53%	1.37%	1.37%	7.92%	2.08%	0.82%	0.69%
Ibbotson Income & Growth ETF Asset Allocation II	IETFX	0.24%	4.52%	1.08%	1.08%	7.63%	1.83%	1.06%	0.94%
Ibbotson Balanced ETF Asset Allocation I		0.13%	6.52%	-0.56%	-0.56%	10.02%	0.76%	0.77%	0.70%
Ibbotson Balanced ETF Asset Allocation II	BETFX	0.10%	6.33%	-0.89%	-0.89%	9.76%	0.50%	1.01%	0.95%
Ibbotson Growth ETF Asset Allocation I		-0.34%	7.65%	-3.50%	-3.50%	11.24%	-0.98%	0.78%	0.71%
Ibbotson Growth ETF Asset Allocation II	GETFX	-0.27%	7.58%	-3.68%	-3.68%	10.98%	-1.24%	1.02%	0.96%
Ibbotson Aggressive Growth ETF Asset Allocation I		0.05%	8.99%	-4.36%	-4.36%	12.21%	-2.14%	1.01%	0.72%
Ibbotson Aggressive Growth ETF Asset Allocation II	AGTFX	-0.42%	8.29%	-5.04%	-5.04%	11.67%	-2.50%	1.22%	0.97%

**Fund inception 4/30/07.*
***What You Pay reflects the Adviser's decision to contractually limit expenses through April 29, 2014. Please see the prospectus for additional information.*

Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance data may be higher or lower than actual data quoted. For the most current month-end performance data please call 1.866.432.2926.

The performance shown here does not reflect the impact of costs associated with variable contracts, qualified pension and retirement plans or registered and unregistered separate accounts which when deducted will reduce the return figures shown.

Shares of the Portfolios are offered only to participating insurance companies and their separate accounts to fund the benefits of Variable Contracts, and to qualified pension and retirement plans and registered and unregistered separate accounts.

An investment in the Portfolios involves risk, including loss of principal. The Portfolios allocate investments among multiple ETF asset classes including: U.S. equity, fixed income, real estate and international ETFs. Asset allocation and diversification do not assure a profit or protect against down markets. The stocks of smaller companies are subject to above-average market-price fluctuations. There are specific risks associated with international investing, such as currency fluctuations, foreign taxation, differences in financial reporting practices and rapid changes in political and economic conditions. Real estate investments are subject to specific risks, such as risks related to general and local economic conditions and risks related to individual properties. Fixed income securities are subject to interest rate risk, prepayment risk and market risk.

An investor should consider investment objectives, risks, charges and expenses carefully before investing. To obtain a prospectus, which contains this and other information, please contact your investment professional. Read the prospectus carefully before investing.

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Important Considerations

The Ibbotson ETF Allocation Series Portfolios are not Exchange Traded Funds (ETFs), instead they consist of five risk-based asset allocation portfolios that invest in underlying ETFs, which are typically open-end investment companies or unit investment trusts.

Ibbotson Associates is a registered investment advisor and wholly owned subsidiary of Morningstar, Inc. The Ibbotson name and logo are registered marks of Ibbotson Associates, Inc. All other marks are the property of their respective owners.

Definitions:

Basis Point – A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument. The basis point is commonly used for calculating changes in interest rates, equity indexes and the yield of a fixed-income security.

BofA ML 3-month Treasury Bill Index – this index is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income.

Barclays Capital Mortgage Bond Index – a market value weighted index which covers the mortgaged backed securities component of the Barclays Capital U.S. Aggregate Bond Index.

Dow Jones Relative Risk Indexes definition: Dow Jones Relative Risk Indexes: The Dow Jones Relative Risk Indexes measure the performance of conservative, moderate and aggressive portfolios based on incremental levels of potential risk. The indexes are designed to sys?tematically measure various levels of risk relative to the risk of a U.S. all stock index. Each Dow Jones Relative Risk Index is made up of composite indexes representing the three major asset classes: stocks, bonds and cash. The asset class indexes are weighted differently within each relative risk index to achieve the targeted risk level. The weightings are rebalanced monthly to maintain these levels.

MSCI EAFE Index: This index tracks non-U.S. stock funds (EAFE refers to Europe, Australasia, and Far East). The EAFE Index is an aggregate of 21 individual country indexes that collectively represent many of the world's major markets.

MSCI Emerging Markets Index: Capitalization-weighted index measuring the total returns of stocks from a number of emerging markets across the world.

Russell Top 200 Growth Index: Market-weighted total return index that measures the performance of companies within the Russell 200 Index having higher price-to-book ratios and higher forecasted growth values.

Russell Top 200 Index: includes the 200 firms from the Russell 3000 Index with the largest market capitalizations.

Russell Top 200 Value Index: Market-weighted total return index that measures the performance of companies within the Russell 200 Index having lower price-to-book ratios and lower forecasted growth values.

Russell Mid Cap Growth Index: Market-weighted total return index that measures the performance of companies within the Russell Mid Cap Index having higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Growth Index: Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Value Index: Market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Standard & Poor's 500 Index: Market-capitalization-weighted index of 500 widely held stocks. Member companies are chosen based on market size, liquidity, and industry group representation. Included are the stocks of industrial, financial, utility and transportation companies.

Barclays Capital Aggregate Index: Market-value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities, with maturities of at least one year.

Barclays Capital U.S. Aggregate Government Long Index: Serves as a measure of total return of all public-issued nonconvertible investment-grade corporate debts that have a maturity of 10 years or more.

Barclays Capital U.S. Aggregate Government 1-3 Yr Index: Total returns index comprised of both the Treasury Bond Index (all public obligations of the U.S. Treasury, excluding flower bonds and foreign-targeted issues) and the Agency Bond Index (all publicly issued debt of U.S. Government agencies and quasi-federal corporations and corporate-debt guaranteed by the U.S. Government). These bonds must have maturities of one to three years.

Barclays Capital U.S. Corporate High Yield Index: Index measuring returns of the high yield bond market. The Index includes issues rated BB and below by S&P or Moody's.

Barclays Capital U.S. Credit Index: An unmanaged index considered representative of publicly issued, SEC-registered U.S. corporate and specified foreign debentures and secured notes.

Barclays U.S. TIPS Index: the Barclays US Government Inflation-linked bond index (US TIPS) measures the performance of the TIPS market. Inflation-linked indices include only capital indexed U.S. government bonds with a remaining maturity of one year or more.