

September 2011

Ibbotson Quarterly Portfolio Commentary

During the quarter, bond indexes performed better than equity indexes as Treasury Inflation Protected Securities (“TIPS”) led the way with the Barclays U.S. TIPS Index returning 4.5 percent while other bond indexes such as the Barclays Capital U.S. Aggregate Bond Index returned 3.8 percent and 1-3 year U.S. Government bond Index returned 0.5 percent. A continuation of high global uncertainty had a positive effect on U.S. Treasuries along with the U.S. Federal Reserve announcing their latest program “operation Twist”, which is attempting to lower longer-term rates. Credit spreads widened during the quarter on both investment grade and high yield bonds which had a negative impact on those asset classes.

Global equity markets continued to deteriorate after the first week in July to reflect investor’s realization that most major developed economies were contracting. Additionally, emerging economies slowed due to the interconnected nature of their relationship as a supplier to the developed economies. As the quarter progressed, market volatility spiked causing investors to broadly trade down the risk spectrum by crowding into U.S. Treasuries and other dollar denominated assets perceived to be safe havens during uncertain times. Ironically, one of the catalysts behind the significant increase in financial volatility was the U.S. credit rating downgrade by S&P in early August. Other driving factors include the ongoing European sovereign-bond crises and general stagnation or poor growth/high unemployment outlook within many developed economies.

In the U.S., the broader stock market, as represented by the S&P 500 Index, returned -13.9 percent in the quarter with over half of the decline in September. Small cap stocks, as represented by the Russell 2000, trailed larger cap stocks, as represented by the Russell Top 200, by 9.1 percent during the quarter. The growth style of investing continued to outpace value in large cap but slightly lagged in mid and small cap when looking across the capitalization spectrum, as represented by the Russell U.S. Growth and Value Indexes.

Developed international and emerging markets both experienced large declines during the quarter with the MSCI EAFE returning -19.0 percent and the MSCI EM index returning -22.5 percent respectively. Developed international indexes were largely driven down by the 42 percent eurozone exposure, which remains in the mist of a debt crisis. As investors weigh the potential contagion effects that a eurozone member default could cause, international indexes have exhibited additional volatility and a large negative impact due to investors fleeing local currency for the perceived safety of the U.S. greenback. As an example, the MSCI EAFE, which represents international developed countries, lost -3.3 of the -19.0 percent to the negative currency impact while the MSCI Emerging Markets lost -7.5 of the -22.5 percent to the same negative currency impact.

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.
- **Rational:** A move to reduce the risk of underperformance in bonds of lower credit quality.

The Conservative Portfolio returned -2.19 percent during the quarter while its primary benchmark, the DJ Conservative U.S. Relative Risk Portfolio, returned 0.19 percent. 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 the DJ U.S. Series will perform different than the Portfolios, especially when International equities play a significant role in the Portfolio’s

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Conservative Portfolio

(continued)

total performance. That said, the greatest asset class contributors to the Portfolio's quarterly performance were its exposure to fixed income, specifically, U.S. TIPS, U.S. aggregate bonds, and U.S. short-term bonds. The greatest asset class detractors to the Portfolio's quarterly performance were its exposure to equity, specifically, developed international, U.S. mid cap, and U.S. large cap stocks. The Portfolio's secondary benchmark, a blended 20 percent S&P 500 Index and 80 percent Barclays Capital U.S. Aggregate Bond Index, returned -0.15 percent during the quarter.

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.
- **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 -6.23 percent during the quarter while its primary benchmark, the DJ Moderately Conservative U.S. Relative Risk Portfolio, returned -4.12 percent. It's important to note that the DJ U.S. Series does not include International, Commodity, or Real Estate Investment Trust ("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. That said, the greatest asset class contributors to the Portfolio's quarterly performance were its exposure to fixed income, specifically, U.S. TIPS, U.S. aggregate bonds, and U.S. short-term bonds. The greatest asset class detractors to the Portfolio's quarterly performance were its exposure to equity, specifically, U.S. small cap, all international exposure, and U.S. mid cap stocks. The Portfolio's secondary benchmark, a blended 40 percent S&P 500 Index and 60 percent Barclays Capital U.S. Aggregate Bond Index, returned -3.69 percent during the quarter.

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.
- **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.
- **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 -10.38 percent during the quarter while its primary benchmark, the DJ Moderate U.S. Relative Risk Portfolio, returned -8.77 percent. It's important to note that the DJ

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Balanced Portfolio

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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. That said, the greatest asset class contributors to the Portfolio's quarterly performance were its exposure to fixed income, specifically, U.S. TIPS, U.S. aggregate bonds, and U.S. short-term bonds. The greatest asset class detractors to the Portfolio's quarterly performance were its exposure to equity, specifically, U.S. small cap, all international exposure, and U.S. mid cap stocks. The Portfolio's secondary benchmark, a blended 60 percent S&P 500 Index and 40 percent Barclays Capital U.S. Aggregate Bond Index, returned -7.12 percent during the quarter.

Growth Portfolio

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

- **Theme 1:** Underweight of equities and overweight of cash.
- **Rational:** 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 Growth Portfolio returned -14.31 percent during the quarter while its primary benchmark, the DJ Moderately Aggressive U.S. Relative Risk Portfolio, returned -13.16 percent. 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. That said, the greatest asset class contributors to the Portfolio's quarterly performance were its exposure to fixed income, specifically, U.S. aggregate bonds and U.S. short-term bonds. The greatest asset class detractors to the Portfolio's quarterly performance were its exposure to equity, specifically, U.S. small cap, all international exposure, and U.S. mid cap stocks. The Portfolio's secondary benchmark, a blended 80 percent S&P 500 Index and 20 percent Barclays Capital U.S. Aggregate Bond Index, returned -10.50 percent during the quarter.

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.

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Aggressive Growth Portfolio *(continued)*

- **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 -16.29 percent during the quarter while its primary benchmark, the DJ Aggressive U.S. Relative Risk Portfolio, returned -17.12 percent. 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. That said, the greatest asset class contributors to the Portfolio's quarterly performance were its exposure to fixed income, specifically, U.S. aggregate bonds and U.S. short-term bonds. The greatest asset class detractors to the Portfolio's quarterly performance were its exposure to equity, specifically, U.S. small cap, all international exposure, and U.S. mid cap stocks. The Portfolio's secondary benchmark, a blended 90 percent S&P 500 Index and 10 percent Barclays Capital U.S. Aggregate Bond Index, returned -12.19 percent during the quarter.

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Average Annual Total Returns

Performance Table as of 9/30/11	Ticker	1 Month	3 Month	YTD	1 Year	Since Inception*	Total Expense Ratio	What You Pay**
Ibbotson Conservative ETF Asset Allocation I		-2.11%	-2.19%	0.54%	1.83%	3.17%	0.90%	0.69%
Ibbotson Conservative ETF Asset Allocation II	CETFX	-2.11%	-2.20%	0.36%	1.65%	2.86%	1.15%	0.94%
Ibbotson Income & Growth ETF Asset Allocation I		-4.24%	-6.23%	-3.02%	0.23%	1.18%	0.82%	0.69%
Ibbotson Income & Growth ETF Asset Allocation II	IETFX	-4.28%	-6.28%	-3.29%	-0.10%	0.92%	1.06%	0.94%
Ibbotson Balanced ETF Asset Allocation I		-6.37%	-10.38%	-6.65%	-1.65%	-0.63%	0.77%	0.70%
Ibbotson Balanced ETF Asset Allocation II	BETFX	-6.32%	-10.40%	-6.78%	-1.83%	-0.86%	1.01%	0.95%
Ibbotson Growth ETF Asset Allocation I		-8.39%	-14.31%	-10.36%	-3.58%	-2.67%	0.78%	0.71%
Ibbotson Growth ETF Asset Allocation II	GETFX	-8.28%	-14.29%	-10.47%	-3.81%	-2.93%	1.02%	0.96%
Ibbotson Aggressive Growth ETF Asset Allocation I		-9.42%	-16.29%	-12.24%	-4.70%	-4.14%	1.01%	0.72%
Ibbotson Aggressive Growth ETF Asset Allocation II	AGTFX	-9.48%	-16.29%	-12.31%	-4.88%	-4.38%	1.22%	0.97%

*Fund inception 4/30/07.

**What You Pay reflects the Adviser's decision to contractually limit expenses through September 30, 2011. Please see the prospectus for additional information.

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Definitions:

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

Russell 2000 Index: A capitalization-weighted index including the 2000 firms from the Russell 3000 Index with the smallest market capitalizations.

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 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.

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.

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 systematically 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.

Operation Twist - describes a monetary process where the Fed buys and sells short-term and long-term bonds depending on their objective.

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