

## Ibbotson Annual Update Commentary

April 2011

The annual review took place in April and covers all the Strategic Asset Class Models within the Ibbotson Asset Allocation Series (the "Series"). As part of the review, Ibbotson updates the strategic asset class models to reflect our ongoing asset class level research. Ibbotson's asset class research focuses on the risk, return, and correlations amongst the asset classes in addition to considering the historical and expected behavior during extreme market events, a.k.a. fat tail events. Simply put, a financial fat tail describes a rare and extreme event. The term is derived from the inverted U-shaped bell curve that statisticians draw to describe the probability of events happening. Near the middle of such diagrams are "thin tail" events that happen all the time. As you move toward the edges, events become increasingly unlikely but can be highly significant on the rare occasions when they do occur. Based on this research, we can determine the risk and return tradeoff of adding an asset class to an existing set of models.

Given this research, we have decided to selectively add three new asset classes to our existing models. Ibbotson has added U.S. High Yield, U.S. Mid Cap Equity, and International Small Cap Equity to select Portfolios across the Series. While factoring the timing of these three new asset class additions, our decision was primarily based on the potential long-term benefits they can bring to the models. The potential long-term benefits include added diversification and improved risk and return characteristics across the Series.

### Conservative Portfolio

As part of the annual review, Ibbotson added U.S. Mid Cap equity and High Yield to the Portfolio. To fund these new asset class allocations, we reallocated 1% from Large Cap and 2% from Small Cap to create a 3% Mid Cap allocation. Within fixed income, we reallocated 1% from Treasury Inflation Protected Securities ("TIPS") and 5% from Aggregate Bonds to create a 6% High Yield position. Additionally, we reallocated 3% from TIPS to Short-Term Bonds 3% to reflect changes to our strategic guidelines within fixed income.

### Income and Growth Portfolio

As part of the annual review, Ibbotson added U.S. Mid Cap equity International Small Cap equity, and High Yield to the Portfolio. To fund these new asset class allocations, we reallocated 5% from Large Cap and 1% from Small Cap to create a 6% Mid Cap allocation. Also, we reallocated 1% from Small Cap and 1% from International to create a 2% International Small Cap allocation. Within fixed income, we reallocated 5% from Aggregate Bonds to create a 6% High Yield position. Additionally, we reallocated 3% from TIPS to Short-Term Bonds 3% to reflect changes to our strategic guidelines within fixed income.

### Balanced Portfolio

As part of the annual review, Ibbotson added U.S. Mid Cap equity International Small Cap equity, and High Yield to the Portfolio. To fund these new asset class allocations, we reallocated 9% from Large Cap and 1% from Small Cap to create a 10% Mid Cap allocation. Also, we reallocated 1% from Small Cap and 2% from International to create a 3% International Small Cap allocation. Within fixed income, we reallocated 3% from TIPS and 1% from Short-Term Bonds to create a 4% High Yield position.

### Growth Portfolio

As part of the annual review, Ibbotson added U.S. Mid Cap equity and International Small Cap equity to the Portfolio. To fund these new asset class allocations, we reallocated 12% from Large Cap and 2% from Small Cap to create a 14% Mid Cap allocation. Also, we reallocated 1% from Small Cap, 1% from U.S. REITS, and 2% from International to create a 4% International Small Cap allocation. Within fixed income, we reallocated 3% from TIPS to Short-Term Bonds 2% and Aggregate Bonds 1% to reflect changes to our strategic guidelines.

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### Aggressive Growth Portfolio

As part of the annual review, Ibbotson added U.S. Mid Cap equity and International Small Cap equity to the Portfolio. To fund these new asset class allocations, we reallocated 13% from Large Cap and 3% from Small Cap to create a 16% Mid Cap allocation. Also, we reallocated 1% from Small Cap, 1% from U.S. REITS, and 3% from International to create a 5% International Small Cap allocation.

## Important Considerations

*The Portfolio allocates investments among multiple ETF asset classes including: U.S. equity, fixed income, real estate and international ETFs. Asset allocation does 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. Commodity trading is highly speculative and involves a high degree of risk.*

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