

THE MERCER ADVISORS GUIDING PRINCIPLES OF INVESTING

This research report details the 10 most influential principles within the Mercer Advisors investment philosophy. They provide the framework that our strategic advisors use to design custom portfolios for our clients and to generate optimal return while managing risk within each portfolio. These guiding principles govern our fiduciary actions and empower us to provide our clients with a superior caliber of investment advice and management.

OVERVIEW

The Mercer Advisors approach is based in investment science. It is grounded in academically validated investment theory — the findings of the best minds in financial economics. Because of this, our scientifically designed investment strategy is objective and precise. Its results have shown to be measurable, reproducible and consistent, having generated significant long-term returns.

Within this framework, our investment philosophy is built around the tenet of maximizing return for a given level of risk. Our goal is to help our clients recognize the risks worth taking — from a position of clarity, context and understanding — so that they are ideally positioned to achieve potential maximum return on their investments through every stage of life. Our methodology for identifying, measuring and managing risk and return — steeped in proven investment management theory — is born out of academic research (some Nobel Prize-winning) conducted in Financial Economics.

How exactly is risk managed in order to produce potential maximum return?

Most investment managers are able to produce some manner of portfolio return — the better question to ask is not only how these returns are generated, but also, how sustainable are they? What levels of risks are taken (with your money) in order to produce these returns?

We view the risk mitigation process, inherent to any investment strategy, and its influence over maximizing return, as a science. We base our investment philosophy on fact — tried and tested both academically and within hundreds of real-world scenarios over the span of 85 years. We have crafted this vast basis of knowledge into 10 fundamental principles we refer to as our Guiding Principles of Investing.

Principle #1: An investor's primary objective should be to maximize return, minimize risk and maintain portfolio longevity.

The mathematical or reported return of individual investments is less indicative of a portfolio's actual performance than many might believe. Rather, it is the investment methodology used to design, manage and maintain a portfolio that has the greatest impact on how well returns are maximized, risk is minimized and longevity is maintained.

Bottom line — the goal is financial security — and the peace of mind and comfort that come with having adequate assets to satisfy your needs during every stage of life. The objective is to generate consistent positive return within your portfolio while limiting its risk of negative return, thereby increasing the likelihood that you will not outlive your money.

The investment methodologies used to plan, design, manage and maintain a portfolio have the greatest influence over how successfully the objective of portfolio longevity and sustainability is achieved. Given that the average investor was unable to outperform inflation over a 20-year period [FIGURE 1], it is fairly evident that managing a portfolio and maximizing return is not a simple task. Consequently, the average investor's holdings likely endured excessive exposure to the negative effects of inflation, security or asset class concentration, interest rates, currencies or other market hazards.

20-Year Annualized Returns by Asset Class 1990–2009

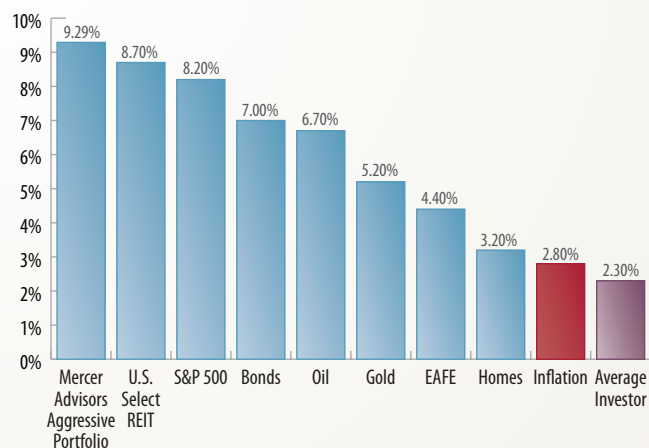


FIGURE 1 Average Investor Returns.

Source: US Bureau of Labor Statistics, Dalbar, S&P 500, Bloomberg, Factset, MSCI
See end disclaimer for Mercer Advisors Aggressive Portfolio 100.35.3.

Our objective at Mercer Advisors is to maximize the amount of return you make on the money you invest by using the science of risk mitigation to optimize and balance the risk-return relationship for the assets held within your portfolio. Each investor's relationship with risk is unique; some are more comfortable with it than others. Our methodology addresses the full range of risk tolerance levels in a scientifically supported manner.

Our time-tested and systematic approach to portfolio risk management can greatly improve the probability that your portfolio will realize positive return while maintaining its longevity throughout your retirement years — thereby diminishing your risk of outliving your assets.

Principle #2: Successful investors maintain a clearly defined investment policy.

An investment policy outlines and identifies your objectives, risk tolerance and time horizon. It should be referenced regularly to ensure your portfolio remains aligned with your long-term objectives and is not driven solely by short-term results.

Returns are often more dependent upon investor behavior than on investment performance. Investors who maintain a consistent, proven investment management approach typically earn significantly greater returns over time than those who speculate, or who react impulsively before gathering all of the facts and consulting their plan.

Investor behavior is as much about what is not done in response to market factors as about what is done. A written investment policy statement can serve as a grounding tool during times of market tumult. It outlines and identifies your investment objectives, risk tolerance, time horizon and liquidity requirements, as well as the manner in which you will achieve these objectives. Deviation from the planned strategy may not deliver the intended or expected outcome, thus upsetting the plan.

At Mercer Advisors, we believe it is paramount that our clients maintain an informed and comprehensive investment plan. Having a defined investment policy statement means you have a plan of action. Market trends will come and go; investment opportunities will present themselves in different ways at different times; money needs will vary significantly as different life milestones are reached — how can these needs and decisions be managed prudently without the context of a plan?

Principle #3: While risk and return are related, increased risk may not always lead to increased return.

Many portfolios assume more risk than is necessary to achieve the desired return. Consequently, they may endure excessive exposure to the negative effects of inflation, security or asset class concentration, interest rates, currencies or other market hazards.

In the market, you cannot expect return if you do not take risk. Some risks are worth taking while others are not. For instance, high volatility investments within your portfolio increase the risk of losing principle — this risk is magnified further as your time horizon shrinks. All other things being equal, it is important to minimize the volatility within your portfolio. Conversely, low-risk investments tend to produce lower rates of return. A portfolio containing only low-risk investments can produce only limited principle growth.

The key to successful risk management is designing the optimal portfolio — one that reaches the highest level of risk suitable for your situation and maximizes the potential return for that risk level. Do not take additional risk, as you will not 'get paid' with corresponding return. Do not take less risk, as you will leave return 'on the table.'

In his ground breaking paper¹ that launched portfolio theory, Harry Markowitz, a Nobel laureate, mapped all the possible risk and return combinations for a large collection of stocks (like

the S&P 500). He discovered a curve — which he named the Efficient Frontier — that represents the optimum risk-return relationship within a portfolio. [FIGURE 2.] If the risk and expected return of a portfolio do not fall on the Efficient Frontier, an investor is either assuming more portfolio risk than is necessary to achieve the desired level of return or has not maximized his/her expected return for a given risk tolerance. Typically, the portfolios plotted on the Efficient Frontier are those most highly diversified. Less diversified portfolios tend to fall closer to the middle of the achievable region.

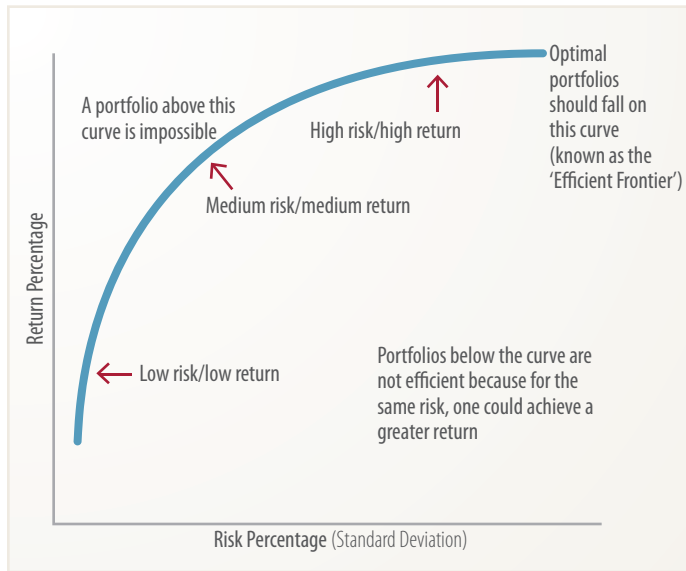


FIGURE 2 The Efficient Frontier. A line created from the risk-return graph, containing optimally balanced portfolios.

Source: Investopedia, 2003

Principle #4: Asset class diversification is the single best means for reducing risk.

Asset classes respond differently to the influence of market factors. Owning thousands of investments across an ample range of asset classes decreases the likelihood of any single market event devastating your portfolio.

Asset classes are groups of investments that have similar characteristics, perform similarly within the marketplace and are subject to the same laws and regulations. There are currently 17 asset classes represented within Mercer Advisors’ portfolios. In short, asset classes are segments of the market — how they are weighted (allocated) within your portfolio contributes significantly to the overall success of your investments.

Similar to the often-quoted advice, “Don’t put all of your eggs in one basket,” diversification distributes risk across different investment categories (asset classes) within a portfolio in order to offset the luck required to select the market’s top performing investments. In fact, asset class diversification decreases volatility, or risk, in your portfolio and provides a more reliable and sustainable investment vehicle over time.

When comparing two investors, both in the accumulation phase of their portfolio, both achieving an average annual portfolio return of 10%, you may expect them both to receive the same net return over time. Yet as evidenced in [TABLE 1], the investor with a stable portfolio — one that uses extreme asset class diversification for consistent incremental growth — is rewarded with greater net return over time than an investor holding a more ‘exciting,’ yet volatile, portfolio.

Year	RISKY PORTFOLIO			STABLE PORTFOLIO		
	Account Balance	Return Percentage	Dollars	Account Balance	Return Percentage	Dollars
1	\$1,000,000	30%	\$300,000	\$1,000,000	10%	\$100,000
2	\$1,300,000	-10%	-\$130,000	\$1,100,000	10%	\$110,000
3	\$1,170,000	30%	\$351,000	\$1,210,000	10%	\$121,000
4	\$1,521,000	-10%	-\$152,100	\$1,331,000	10%	\$133,100
5	\$1,368,900	30%	\$410,670	\$1,464,100	10%	\$146,410
6	\$1,779,570	-10%	-\$177,957	\$1,610,510	10%	\$161,051
7	\$1,601,613	30%	\$480,484	\$1,771,561	10%	\$177,156
8	\$2,082,097	-10%	-\$208,210	\$1,948,717	10%	\$194,872
9	\$1,873,887	30%	\$562,166	\$2,143,589	10%	\$214,359
10	\$2,436,053	-10%	-\$243,605	\$2,357,948	10%	\$235,795
	Net: \$1,192,448			Net: \$1,593,743		
	10-year difference: \$401,294					
	30-year difference: \$6,910,681					

TABLE 1 When 10% Is Not 10%

Source: Mercer Advisors Investment Committee 2011

Once these investors retire and enter into the distribution, or de-accumulation, phase of their portfolios, they will continue to reap the benefit of asset class diversification. In fact, with all other effects equalized, a volatile portfolio — one without asset class diversification to stabilize the portfolio — will run out of money far more quickly than the more stable, diversified portfolio, as shown in [FIGURE 3].

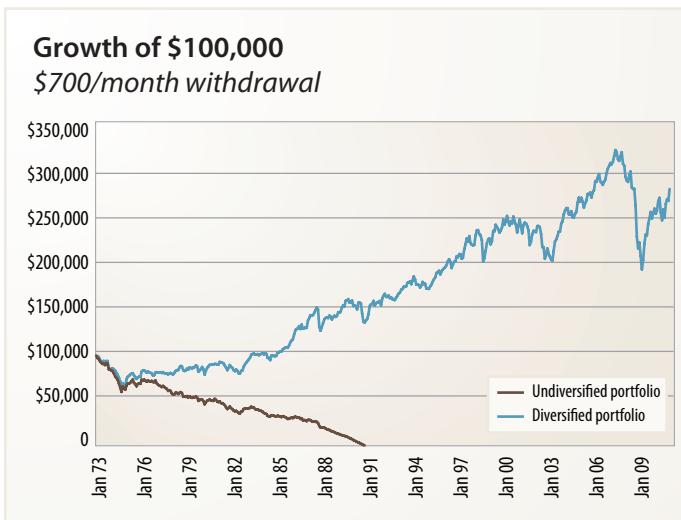


FIGURE 3 Diversification and Retirement Income Distribution

Source: S&P 500, MSCI, Dimensional, CRSP, Bloomberg. Mercer Advisors Investment Committee. Diversified Portfolio is 60% diversified equity allocation mix consisting of US, International, and Emerging Market Equities and 40% Short-Term Fixed income. The Undiversified portfolio consists of 60% US Large Equities and 40% Barclays Gov't Bond Index. Beginning with \$100,000 in 1973, \$700 is distributed monthly from each portfolio. Further information can be provided by your Mercer Advisor representative.

Mercer Advisors subscribes fully to the scientifically validated principle of asset class diversification. We systematically invest in thousands of companies across the world and cover virtually all asset classes. This strategy — academically proven to perform consistently over time — optimizes the risk vs. return relationship in your portfolio and, as a result, increases the likelihood of extending your portfolio's longevity.

Principle #5: Asset classes with risk premiums provide greater return for assuming greater risk.

A risk premium is the incremental return that an asset class pays for the risk taken. Academic research has validated the risk premiums tied to stocks vs. bonds, as well as small vs. large companies and value vs. growth stocks. Most recently, research has identified a risk premium associated with momentum, or upwardly trending, stocks. By strategically tilting a portfolio toward risk premium asset classes, returns can be optimized for a defined risk level.

Academic research, some Nobel Prize-winning, has validated four major risk premiums. The first, most obvious risk premium was identified by William Sharpe in 1964, and won a Nobel Prize in 1990. It states that the cumulative result of investing in

the stock market produces higher returns than investing in the bond market².

In 1992, Eugene Fama and Kenneth French defined the Multi-Factor model³ — adding two more risk premiums to the equation. Their research concluded that small stocks tend to act very differently than large stocks in almost all market conditions and that long-term, small stocks generate higher return than large stocks. However, the additional return was not 'free' as there was more risk in the small stocks. The two professors found the same held true for value stocks which generated higher return than growth stocks.

In 2004, Narasimham Jegadeesh and his colleagues identified a fourth risk premium associated with momentum, or upwardly trending, stocks⁴. Momentum is the phenomenon that explains why assets continue to trend in their current pattern. Those that are outperforming their peers will continue to outperform; those that are underperforming will continue to underperform and those that are performing in the middle of the pack will generally remain there.

By strategically tilting (or weighting) a portfolio toward risk premium asset classes, return can be optimized for a defined risk tolerance level. FIGURE 4 demonstrates the incremental expected return increase associated with each risk premium. These premiums are what allow you consciously to take on additional, yet calculated risk, in order to capture incremental return within your portfolio.

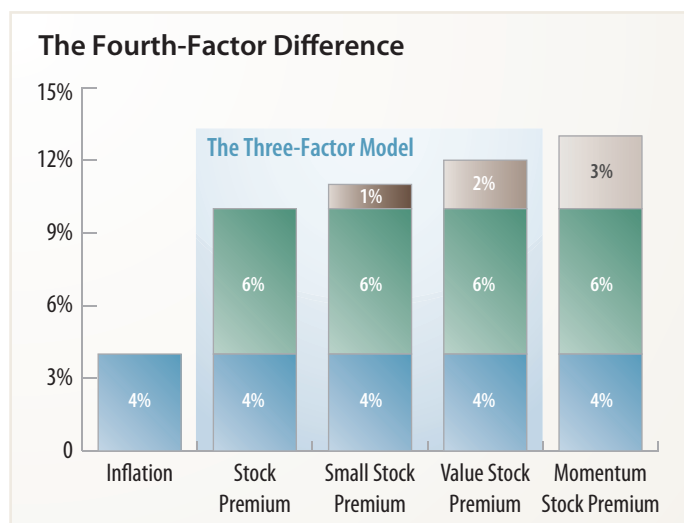


FIGURE 4 Incremental Risk Premium Returns

Source: S&P 500, CRSP, Fama-French, French Data Library

Finally, to help offset the calculated risk associated with risk premium investing, Mercer Advisors portfolios use additional scientifically proven strategies to mitigate risk within a portfolio. A common technique used to create a risk-curbing effect is to allocate a percentage of portfolio holdings to bonds. Other strategic stabilizers that we incorporate into many of our portfolios include managed futures (namely currency and commodity futures) and domestic and international real estate investment trusts (REITs).

Principle #6: Short-term, high quality bonds help to reduce portfolio risk.

Collectively, bonds are considered to be a relatively low-risk asset class; however, not all bonds carry the same level of risk. In general, the shorter a bond's timeframe is to maturity, the lower its risk. By managing bond risk levels, you free your portfolio to take on risk elsewhere in order to augment its overall performance.

Scientific analysis of risk and return creates a clear context regarding bond yields. While long-duration bonds generally have higher yields than short-duration bonds, the additional return does not compensate for the increased risk. The volatility of a 20-year Treasury Bond is five times that of the 1-year T-Bill, yet its return is not nearly proportionate. [FIGURE 5.]



FIGURE 5 Why Shorter Bonds Are Better

Source: B of A Merrill Lynch 1964-2010, Fama-French 1964-2010

If you decrease the quality of a bond investment, you approach the credit and market risk levels of a stock investment, thereby undermining the portfolio-stabilizing effect of bonds. For this reason, Mercer Advisors uses only short-duration bond and bond-like instruments with high credit ratings in order to achieve preservation of capital and steady growth goals for both diversified portfolios and investments with a short time horizon.

Principle #7: Investing internationally helps to mitigate domestic risk.

Economic and political factors around the world are varied and fluctuate distinctly. Owning assets within multiple countries helps to minimize domestic risk (posed by economic and/or political factors) as these global assets are held in the denominational currency of the company's country of origin.

The best approach to defend against the devaluation of the U.S. dollar is to invest internationally. Yet to achieve a currency hedge, the asset must be held in the denominational currency of the company's country of origin.

For example, many international equity funds buy stocks on a foreign exchange, paying for the stock in the foreign currency, but do not buy or sell corresponding currency contracts (or any derivative designed to offset foreign currency exposure). Since the returns of a U.S.-based, international equity fund are calculated in U.S. dollars, these types of international funds are able to reap the benefits of both positive stock return and foreign currency appreciation.

As TABLE 2 illustrates quite effectively, over a span of 19 years, developed countries have experienced their fair share of bad months, years, sometimes even decades. Yet, in every instance, a diversified global portfolio produced superior average return rates over a non-diversified home country portfolio (28.6% better over the worst 10-year market return performance between 1990 and 2008). Once again, the powers of diversification are at work — the more countries you have offsetting each other within your portfolio, the better your return because the risk can be distributed across a greater number of currencies.

Country	WORST 1-MONTH		WORST 1-YEAR		WORST 10-YEAR	
	Home Country	Global Portfolio	Home Country	Global Portfolio	Home Country	Global Portfolio
France	-22.0	-24.3	-51.0	-48.6	-44.2	-8.5
Germany	-24.9	-25.8	-54.4	-48.7	-30.9	-20.3
Japan	-26.0	-30.4	-47.2	-60.9	-54.2	-39.5
Spain	-25.7	-25.9	-49.8	-48.8	-8.1	-32.0
UK	-26.3	-25.6	-61.1	-41.5	-51.4	-22.0
US	-21.4	-24.2	-46.3	-54.5	-39.4	-12.5
Average	-27.0	-23.3	-54.3	-49.2	-45.1	-16.5
Globally Diversified Advantage		3.8		5.1		28.6

TABLE 2 Incremental Return of Globally Diversified Portfolios

Source: MSCI
Global portfolio equally weighted over 22 countries between January 1990 and December 2008. Returns are local currency denominated. MSCI country returns when available and global financial data otherwise.

Principle #8: Investing in emerging markets can generate higher returns.

Emerging markets include the fastest growing economies in the world. These markets enhance return because they have a higher rate of growth as compared to developed markets. However, their added risk must often be balanced by lower risk investments in order to maintain portfolio alignment with your objectives.

The traditional view of the world's stock markets focuses on the developed world. The top performing developed countries from 2005 thru 2009⁵ included Canada, Spain, Finland, Japan and Norway. If we expand that view to include all countries, both emerging markets and developed ones, the top performers take on a very different flavor — Egypt, China, Peru, Morocco and Brazil.

As an asset class, emerging markets is geographically quite diverse and typically does not move in conjunction with other asset classes. Emerging markets also carry greater inherent risk which extends beyond the usual business or industry risk — this risk can be political or geo-political, related to infrastructure or currency and monetary policy.

Therefore, by allocating a portion of your portfolio to this asset class and offsetting the positions with lower

risk investments, you increase your portfolio's overall diversification and are able to seize the opportunity for incremental return.

Principle #9: Systematically rebalancing a portfolio reduces risk and may increase return.

Over time, your portfolio's investments will diverge from its optimized allocation. Rebalancing brings your portfolio back to its preferred allocation in order to maintain your desired risk exposure. Rebalancing also creates opportunities to sell high and buy low.

Essentially, rebalancing is another risk management tool. Market movement (the rise and fall of asset classes) changes your portfolio's risk vs. return profile. [FIGURE 6.] Over time, your portfolio's investments will diverge from the precise balance you determined with your Strategic Advisor to be best for your investment, financial and life goals.

If left unattended, your portfolio may become either more risky or more conservative than you prefer — creating unwelcomed volatility or relinquished return.

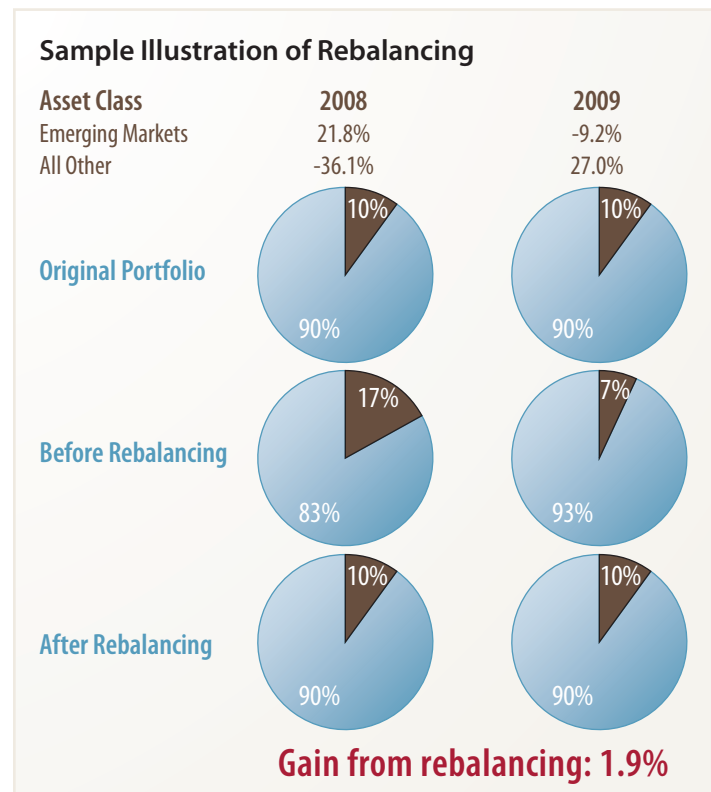


FIGURE 6 Benefits of Rebalancing

Source: Mercer Global Advisors Investment Committee.

Rebalancing also creates opportunities to sell high and buy low. When a portfolio is rebalanced, investments are sold from within asset classes that have performed well and immediately re-invested by purchasing from within asset classes that have underperformed. Fundamentally, this process harvests gains while ideally positioning you to take advantage of the next market-based shift.

Principle #10: Portfolio costs and taxes impact returns.

When evaluating costs, remember that there are more factors to weigh than merely the transaction costs or management fees included on your account statement. There may be hidden costs associated with your investments including front-end or back-end loads as well as investment-level operational costs, management fees and transaction costs. For taxable accounts, tax cost will also impact a portfolio's total after-tax return.

The discussion of fees is one that is too often glossed over by financial professionals. By generalizing or rushing through this important wealth management topic, they are able to avoid the specifics regarding how the investment advisor, the fund manager, the service providers and even the government are paid for their services. This lack of transparency — or at its worst, concealment — is problematic throughout the entire investment process. Many investors just assume that this is a necessary expense of investing. Yet, when the mechanics of cost are understood, there are opportunities to manage these expenses in order to reduce their impact on your portfolio.

As a fiduciary, Mercer Advisors is committed to complete fee transparency. Our philosophy involves understanding exactly what it costs to run your portfolio and then

reducing costs at every level. We invest primarily in institutional funds. These funds tend to carry lower operating, research, advertising and other internal costs. [TABLE 3.] Most institutional funds also offset their costs with lending revenue.

Fund	Institutional Funds Expense Ratio	EQUIVALENT RETAIL FUNDS EXPENSE RATIO		
		Lowest 10%	Average	Highest 10%
US Large	15	54	122	205
US Large Value	16	70	120	196
US Small	40	73	135	222
US Small Value	41	91	142	217
Int'l Large	52	77	142	225
Int'l Large Value	28	74	134	220
Int'l Small	57	94	156	235
Int'l Small Value	71	75	143	220

TABLE 3 Institutional vs. Retail Fund Expense Ratios

Source: Morningstar, 2010.

Another component that can lead to increased cost is sales commission. The investments within our portfolios do not have front-end or back-end loads. In other words, the fund managers do not pay us a commission for placing you into the investment. As our fee increases only when your portfolio grows, we are not incented to churn holdings within your portfolio to generate revenue.

Our taxable portfolios typically use tax-managed funds where stocks are bought and sold with a high consideration for taxes in order to minimize taxable distributions. A powerful, yet often overlooked, tax-reduction strategy that we utilize is active tax-loss harvesting — the selling of securities at a loss in order to offset capital gains tax liabilities. This enables us to limit the short-term capital gains, taxed at a higher rate than long-term capital gains, reported on your tax returns.

The Mercer Advisors investment philosophy is efficient and sound. It is supported by investment science and based in fact. We have developed a systematic approach to investing that combines select award-winning and academically validated strategies to increase return, reduce risk, limit tax exposure and maximize longevity within your portfolio. As a result, our portfolios have consistently performed over time, including during some of the worst economic times seen in decades.

Simulated/Back-tested Returns From 09/2010 to 12/2010 – 17.5% AMOMX, 5.5% BTIIX, 17.5% DFUVX, 9.0% ASMOX, 9.0% DFFVX, 7.5% AIMOX, 2.5% BTAEX, 7.5% DFVIX, 4.0% DFISX, 4.0% DISVX, 2.0% SSEMX, 2.0% DEMSX, 2.0% DFEVX, and 10% AQMIX. Prior to 09/2010 – 19.5% BTIIX 01/1993-09/2010, DFVIX 01/91-12/92, S&P 500 Index net of 0.10% annual estimated management fee, 19.5% DFUVX 03/1995-09/2010, DFLVX 04/1993-02/1995, Fama/French US Large Value Index (ex. Utilities) net of 0.19% annual estimated management fee 01/1990-03/1993, 13.0% DFSTX 04/1992 – 09/2010, CRSP 6-10 Index net of 0.41% annual estimated management fee 01/1990 – 03/1992, 13.0% DFFVX 01/2008-09/2010, DFSVX 04/1993 – 12/2007, Fama French Small Value Index (ex. Util) net of 0.56% annual estimated management fee 01/1990 – 03/1993, 8.5% BTAEX 02/1996 – 09/2010, MSCI EAFE Index net of 0.40% estimated annual management fee 01/1990 – 01/1996, 8.5% DFVIX 03/1995-09/2010, DFIVX 07/1993 – 02/1995, Fama/French Int'l Value Index net of 0.35% estimated annual management fee 09/2010 – 06/1993, 5.5% DFISX 10/1996 – 09/2010, DFA International Small Company Index net of 0.71% estimated management fee 01/1990 – 09/1996, 5.5% DISVX 01/1995 – 09/2010, DFA International Small Company Index, net of 0.83% estimated annual management fee 01/1990 – 12/1994, 1.0% SSEMX 03/1994 – 09/2010 – MSCI Emerging Markets Free (gross) index net of 1.25% estimated management fee 01/1990 to 02/1994, 2.5% DEMSX 04/1998 – 09/2010, Dimensional Emerging Markets Small Cap Index net of 1.20% estimated annual management fee 01/1994 – 03/1998, Fama/French Emerging Markets Small Cap Index net of 1.20% estimated annual management fee 01/1990 – 12/1993, 3.5% DFEVX 04/1998 to 09/2010, Dimensional Emerging Markets Value Index net of 0.85% estimated annual management fee 01/1990 – 03/1997.

These returns represent simulated portfolios, rebalanced monthly to the model allocation. Simulated returns reflect reinvestment of all estimated earnings less estimated management fees based on Mercer Advisors' fee schedule that is determined by the client's estimated assets under management, 0.10% estimated trading costs and the estimated mutual funds' internal administrative expenses and transaction fees. Simulated returns do not necessarily portray how a portfolio would have performed because, among other factors, active management decisions may have been made based on material economic and market factors which at the time could have impacted actual client results.

Past performance is not indicative of future returns. As with any investing, there is the possibility for loss as well as gain.

Mercer Global Advisors Inc. is registered with the Securities and Exchange Commission and delivers all investment-related services. Mercer Advisors Inc. is the parent company of Mercer Global Advisors Inc. and is not involved with investment services.

¹Markowitz, Harry M. (1952). Portfolio Selection, *Journal of Finance*, 7 (1), pp. 77-91.

²Sharpe, William F., Capital Asset Prices: A Theory of Market Equilibrium Under Conditions of Risk, *Journal of Finance*, 19 (2), pp. 425-442.

³Eugene F. Fama and Kenneth R. French, The Cross-Section of Expected Stock Returns, 1992

⁴Narasimhan Jegadeesh and Sheridan Titman, Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency, 2004

⁵Source: 2010 Morningstar