

Built on Trust

January 2012

Results for 2011

For the year ending December 31, 2011, the TCI Balanced Portfolio gained 0.1% as compared to the Wall Street Index* gain of 1.5% and Morningstar Moderate Allocation Funds loss of 0.4%. Two things held us back. First, in the stable sector PIMCo Total Return Bond Fund held no Treasury securities during the summer of 2011 'flight to quality'. Second, the total U.S. stock market returned 1.0% for the year while international stocks lost 14.6%. This created a substantial headwind for the Balanced Fund, because the equity sector of the TCI portfolio is 57% U.S. stocks and 43% international stocks, while the equity sector of the Wall Street Index is 83% U.S. stocks and 17% international stocks.

Winners and Losers

The TCI Balanced Portfolio fund managers had an excellent 2011 relative to their peers. Of the thirteen balanced portfolio fund managers at year end, seven were in the top 25% of their peer group. The Vanguard Dividend Growth Fund was ranked in the top 1% of the 1,817 large blend funds Morningstar follows. The Morgan Stanley Global Franchise Fund, which was first purchased on January 5th of 2011, was in the top 3% of the 905 global equity funds followed by Morningstar. Honorable mention goes to Absolute Strategies and PIMCo All Asset All Authority for both finishing in the top 10% of their peer group.

No balanced portfolio fund managers finished in the bottom 10% of their fund group in 2011, however two finished in the bottom 25%. PIMCo Total Return Bond finished in the 86th percentile of its peer group. Prior to 2011, PIMCo Total Return was TCI's most consistent performer, finishing in the top 50% of its peer group in each of the last 10 years. Morgan Stanley Small Company Growth was the other laggard.

Looking Forward to 2012

Valuation using reversion-to-the-mean continues to play the most important role in determining asset allocation of TCI portfolios. As the table shows, current valuation is better than normal in only the two asset categories shown in bold. TCI portfolios continue to focus on high quality U.S. stocks, large cap international stocks and emerging markets stocks. Bond valuations are poor, and our positions are at the low end of our range.

*50% U.S. stocks, 10% international stocks, 30% U.S. taxable bonds and 10% Treasury bills

Our base case for the economy in 2012 calls for moderate global growth with low inflation and extremely low interest rates. Deleveraging has a long way to go in the developed world and acts as a strong headwind to growth for 2012. One big unknown is how the euro crisis will play out. Most commentators feel this situation will end badly but European policymakers may yet deliver a more credible program of fiscal relief and reform. Further monetary easing in the emerging world would be a plus. Our leading economic advisor, the Bank Credit Analyst, believes that China is set for a soft landing and that there is considerable scope for more fiscal and monetary stimulus to offset problems coming from housing and banking.

Recent Portfolio Changes

Gone are Altegris Managed Futures Fund (MFTIX) and Absolute Opportunities Fund (AOFIX). The proceeds from the sale of those two funds have been allocated in part to our two remaining alternative investment funds, PIMCo All Asset All Authority Fund (PAUIX) and Absolute Strategies Fund (ASFIX). Additionally, a small portion of the proceeds has been left in cash to take advantage of future opportunities.

Our goal has been to build out a robust alternative sector to limit risk in our portfolios without necessitating the purchase of (what we consider to be) expensive bonds. The mutual fund world has introduced many new

funds in the alternative space. We've added a few of the newer offerings, but over time we became dissatisfied with relatively high expense ratios and performance that didn't measure up to our longer-term managers—thus, the moves we made.

Conclusion

The investment objective of most clients is to earn 4–5% more than the rate of inflation over the long-term. To succeed, you must have a clear idea of your tolerance for risk, exercise discipline and stick to your plan. Please contact your relationship manager should you have any questions or concerns.

Tax Information for 2011

1099s for taxable accounts will be mailed by February 29, 2012. TCI requires the extra month (and receives an extension from the IRS) to prepare this information because mutual funds are not required to send us the details of how income distributions are taxed until February 15, 2012. These details include the amount of income that is qualified dividends (taxed at 15%) and the foreign taxes paid by international funds. For most taxpayers these items save taxes and are worth the wait.

1099Rs for distributions from IRAs will be mailed by January 31, 2012. Should you have questions regarding tax information for your specific situation, please do not hesitate to ask your TCI representative.

Asset Class	Estimate of 7-Yr Expected Annual 'Real' Return	Normal Annual 'Real' Return
Stocks		
U.S. Large Cap Stocks	2.0%	5.7%
U.S. High Quality Stocks	5.4%	5.7%
U.S. Small Cap Stocks	0.2%	6.2%
Foreign Large Cap Stocks	6.8%	5.7%
Foreign Small Cap Stocks	5.6%	6.2%
Emerging Market Stocks	6.6%	6.5%
Bonds		
U.S. Government Bonds	-1.1%	2.6%
Short Term Bonds	-0.7%	1.5%

Source: GMO

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Returns to 12/31/11

Symbol	Name	3-Months	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
	Stable Investment Sector						
	Taxable Bonds						
PTLDX	PIMCo Low Duration Fund	1.1%	1.7%	1.7%	6.6%	5.2%	4.4%
PRRIX	PIMCo Real Return Fund	2.6%	11.6%	11.6%	12.7%	8.4%	7.9%
PTSHX	PIMCo Short Term Fund	0.4%	0.4%	0.4%	3.8%	2.9%	2.9%
PTTRX	PIMCo Total Return Fund	2.2%	4.2%	4.2%	8.9%	8.1%	6.8%
PFIUX	PIMCo Unconstrained Bond Fund	0.7%	0.6%	0.6%	6.3%	—	—
	Tax Free Bonds						
VWIUX	Vanguard Admiral Intermediate Tax Exempt	2.3%	9.7%	9.7%	7.4%	5.1%	4.8%
	Money Market Investments						
FPOXX	Financial Square Prime Obligations	0.0%	0.1%	0.1%	0.2%	1.7%	2.1%
	Opportunistic Investment Sector						
	Alternative Funds						
ASFIX	Absolute Strategies I	0.4%	2.6%	2.6%	8.2%	2.9%	—
AOFOX	Absolute Opportunities I	1.4%	-3.9%	-3.9%	8.3%	—	—
PAUIX	PIMCo All Asset All Authority Fund	4.9%	3.0%	3.0%	10.8%	6.9%	—
	Managed Futures Funds						
MFTIX	Altegris Managed Futures Strategy I	-1.5%	-6.5%	-6.5%	—	—	—
	Equity Investment Sector						
	US Stocks						
FINSX	Fidelity Advisor New Insights	7.8%	-0.7%	-0.7%	14.3%	2.3%	—
MSSGX	Morgan Stanley Instl Small Company	10.0%	-9.1%	-9.1%	19.6%	0.5%	5.7%
VDIGX	Vanguard Dividend Growth	11.9%	9.4%	9.4%	14.1%	3.4%	5.0%
VPMAX	Vanguard Primecap Admiral	10.5%	-1.8%	-1.8%	14.3%	2.5%	5.5%
	International Stocks						
ACINX	Columbia Acorn International	2.0%	-14.1%	-14.1%	16.8%	0.2%	10.3%
GMCEX	GMO Emerging Countries III	4.9%	-17.2%	-17.2%	18.8%	0.8%	14.7%
MSFAX	Morgan Stanley Instl Global Franchise	4.5%	9.4%	9.4%	17.4%	4.7%	10.4%
TFEQX	Templeton Instl Foreign	6.2%	-10.9%	-10.9%	-8.3%	-2.7%	6.5%
	Real Estate						
GRSIX	Cohen & Steers Instl Global Realty	8.5%	-9.2%	-9.2%	14.0%	-5.5%	—
	Asset Allocation Portfolios						
	Capital Preservation	2.2%	1.0%	1.0%	—	—	—
	Conservative	3.5%	0.2%	0.2%	7.9%	2.5%	4.8%
	Balanced	4.4%	0.1%	0.1%	9.1%	2.5%	6.2%
	Growth	4.7%	-0.7%	-0.7%	9.8%	0.4%	5.1%
	Indices for Comparison						
	BarCap US Aggregate Bonds	1.1%	7.8%	7.8%	6.8%	6.5%	5.8%
	MSCI EAFE International Stocks	3.3%	-12.1%	-12.1%	7.7%	-4.7%	4.7%
	Russell 2000 Small Cap Stocks	15.5%	-4.2%	-4.2%	15.6%	0.2%	5.6%
	S&P 500 Large Cap Stocks	11.8%	2.1%	2.1%	14.1%	-0.3%	2.9%
	Wall Street Index	6.3%	1.1%	1.1%	10.0%	1.5%	4.2%

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