



Economic Review

Economic Growth – The U.S. economy decreased at an annual rate of (3.8%) during the fourth quarter of 2008. The decrease in real GDP reflects weak consumer spending, which fell (3.5%), as well as a turndown in exports, and a continuing decline in housing.

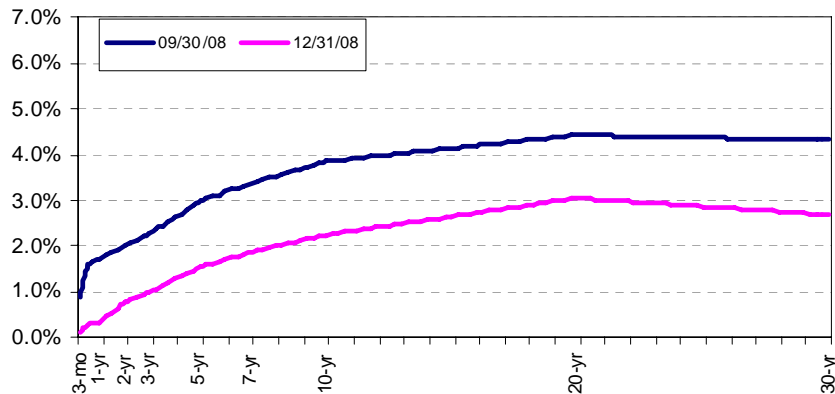
Inflation – On a seasonally adjusted basis, the Consumer Price Index (“CPI”) decreased (0.7%) in December, resulting in a compounded annual rate (using the latest 3-month data ending December 31, 2008) of (12.7%). In comparison, the compounded annual rate during the fourth quarter of 2007 was 5.6%.

U.S. Dollar – During the fourth quarter of 2008, the Yen appreciated 14.3% against the dollar, the Euro depreciated (1.2%) versus the dollar, and the Canadian Dollar depreciated (13.4%) against the U.S. Dollar.¹

Unemployment – The domestic unemployment rate was 7.2% in December, up from the previous quarter’s rate of 6.8%. In December, job losses were large and widespread across most major industry sectors.

Domestic Interest Rates – During the quarter, the U.S. Treasury curve declined across the maturity spectrum. At the December 16, 2008 meeting, the Federal Reserve decided to establish a target range for the federal funds rate of 0.00% to 0.25%, down from 2.00% in September. The Federal Reserve plans to employ all available tools to promote the resumption of sustainable economic growth and to preserve price stability. In particular, the Committee anticipates that weak economic conditions are likely to warrant exceptionally low levels of the federal funds rate for some time.

Treasury Yield Curve Changes



Source: Federal Reserve

¹ Source: State Street Global Markets.

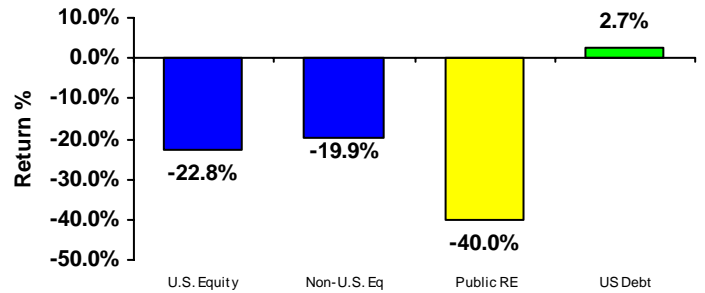


Market Overview

Capital Market Highlights – Latest Quarter Ending December 31, 2008

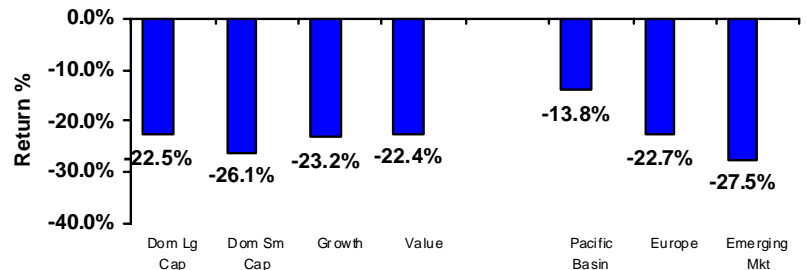
During the quarter, Equity Markets continued their decline...

- Stocks, bonds, currencies and commodities have all taken a hit as investors who borrowed money to invest in these assets are forced to liquidate positions.
- The U.S. dollar was one of the few beneficiaries of the bedlam as investors sought a safe haven from volatility.
- The U.S. Troubled Asset Relief Program (TARP) allocated \$350 billion towards recapitalizing the banking system through the purchase of preferred stock.



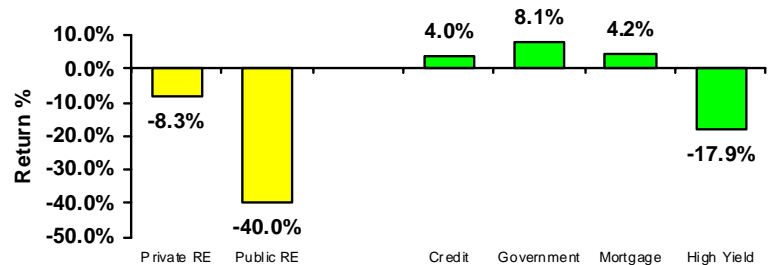
...with the European and Emerging Markets equity subcomponents declining...

- The People's Bank of China lowered its one-year lending rate in response to the financial turmoil.
- Value slightly surpassed growth during the fourth quarter, but all sectors lost significant value.
- The European Central Bank reduced its benchmark policy rate on October 8.



...while Government Fixed Income provided some principal protection.

- T-Bills slipped into negative territory in December.
- In November, real estate securities posted their second-worst month on record.

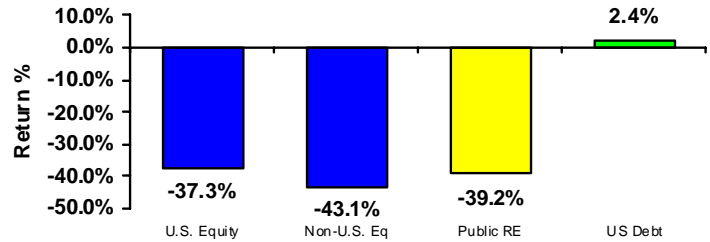




Capital Market Highlights – Latest Year Ending December 31, 2008

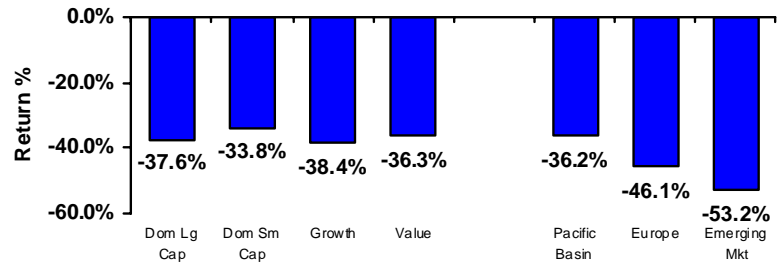
U.S. Fixed Income continued to eek out a positive return...

- The S&P 500 saw a bottom on November 20th 2008, which put its decline from its peak in October 2007 at approximately 50%.
- Every U.S. equity benchmark, all sizes and styles, lost at least 30% in 2008.



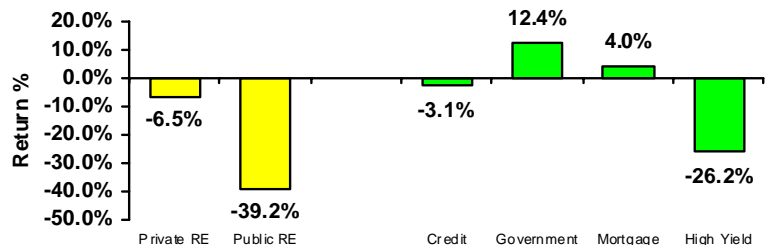
...with all Equity Markets providing dismal returns...

- Oil prices fell by approximately (\$100)/barrel after a peak in mid-July.
- The Chinese abruptly halted monetary tightening aimed at reducing inflation.
- Investors preferred small cap equity over large cap companies, as depicted in returns.



...and Government Fixed Income supplying strong returns.

- Investors preferred the safety of government securities.
- Real Estate was hit hard by the mortgage crisis.

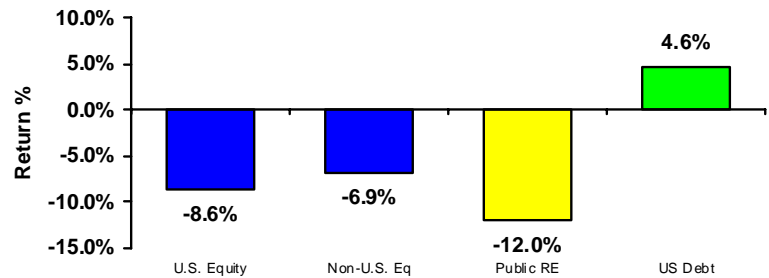




Capital Market Highlights – Latest 3 Years Ending December 31, 2008

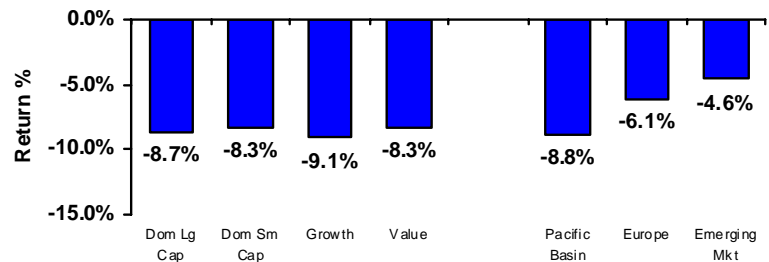
During the latest 3 years, Non-U.S. Equity surpassed all other equity asset classes...

- Non-U.S. equity outperformed Domestic equity, but posted negative returns.
- Diversified fixed income portfolios came very close to meeting expectations.



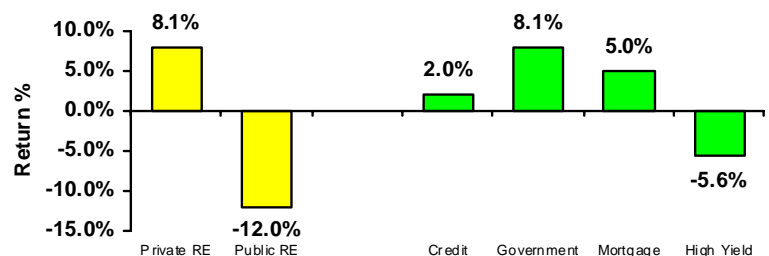
...as Emerging Markets' declines were the least among the major subcomponents...

- All U.S. equity components provided negative returns.
- The Pacific Basin trailed Europe and the Emerging Markets.
- Value stocks slightly outperformed growth.



...while Government Fixed Income produced strong returns.

- Government debt and Mortgage outpaced all other U.S. fixed income segments.

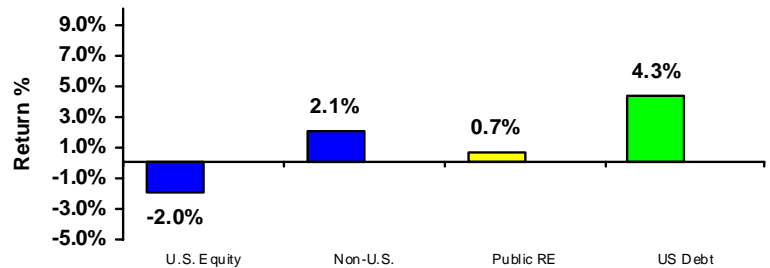




Capital Market Highlights – Latest 5 Years Ending December 31, 2008

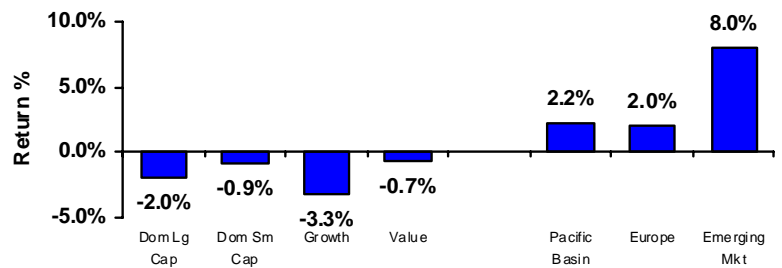
During the latest 5 years, U.S. Fixed Income generated the highest returns...

- Core inflation is virtually zero in Japan, less than 2% in the Eurozone, and only slightly above 2% in the U.S.
- Fixed Income produced relatively strong long-term results and performed close to expectations.



...with Emerging Markets outpaced all other equity sub-components...

- Europe and the Pacific Basin Developed Markets provided positive returns, but lagged emerging markets.
- U.S. small cap and value stocks outperformed large cap and growth.



...and Private Real Estate produced positive results over the latest five years.

- Government and Mortgage outpaced all fixed income subcomponents over the latest 5-year period.

