



Economic Review

Economic Growth – Preliminary readings show that the U.S. economy decreased at an annual rate of (6.1%) during the first quarter of 2009. The decrease in real GDP in the first quarter primarily reflected negative contributions from exports, private inventory investment, equipment and software, nonresidential structures, and residential fixed investment that were partly offset by a positive contribution from personal consumption expenditures.

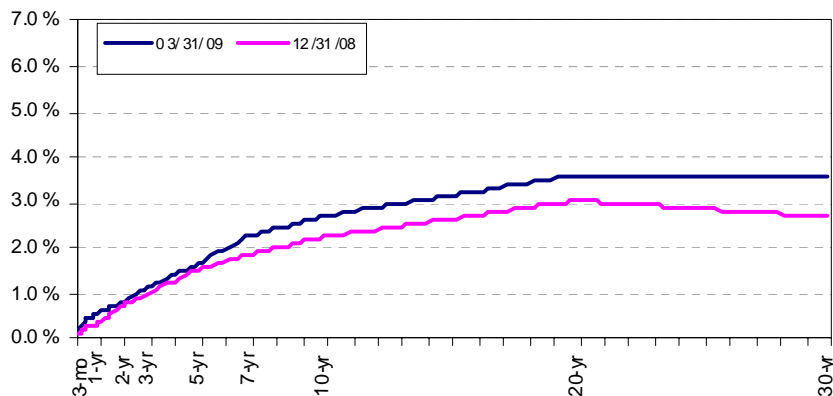
Inflation – The Consumer Price Index for All Urban Consumers (CPI-U) increased 1.18 percent in the quarter on an annualized basis, before seasonal adjustment. Seasonally adjusted CPI-U has increased 2.2 percent on an annualized basis for the quarter. Core CPI increased 0.2 percent in every month of the quarter. The CPI-U has decreased 0.4 percent over the last year, the first 12 month decline since August 1955.

U.S. Dollar – During the first quarter of 2009, the Yen depreciated (8.2%) against the dollar, the Euro depreciated (4.5%) versus the dollar, and the Sterling depreciated (0.3%) against the U.S. Dollar.¹

Unemployment – The U.S. economy shed 663,000 jobs in March bringing the unemployment rate up from 8.1% to 8.5% the highest reading since 1983. In the quarter, job losses were large and widespread across the major industry sectors. Since the recession began in December 2007, 5.1 million jobs have been lost, with almost two-thirds (3.3 million) of the decrease occurring in the last 5 months.

Domestic Interest Rates – U.S. Treasury rates across the maturity spectrum remained low throughout the quarter. Since the December 16, 2008 meeting, the Federal Reserve has maintained a target range for the Federal Funds rate of 0.00% to 0.25%. On March 18, the Federal Reserve announced plans to begin quantitative easing through the purchasing of long dated Treasury Securities and Agency debt and mortgage-backed securities. These steps were taken to help improve conditions in private credit markets and to subdue a rise in long-term Treasury rates. Counterbalancing downward pressure on rates generated from the aforementioned Federal Reserve's purchases is a considerable increase in supply of Treasury Securities as the Treasury attempts to finance copious government deficits.

Treasury Yield Curve Changes



Source: U.S. Treasury Department

¹ Source: State Street Global Markets.

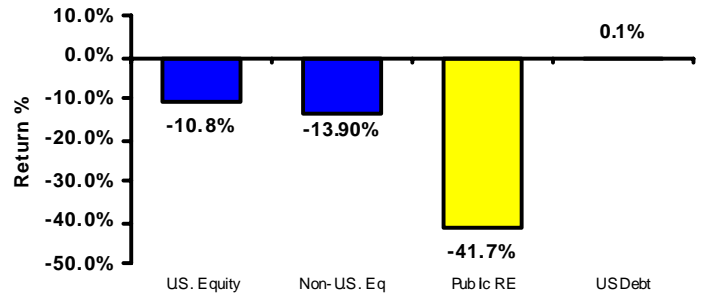


Market Overview

Capital Market Highlights – Latest Quarter Ending March 31, 2009

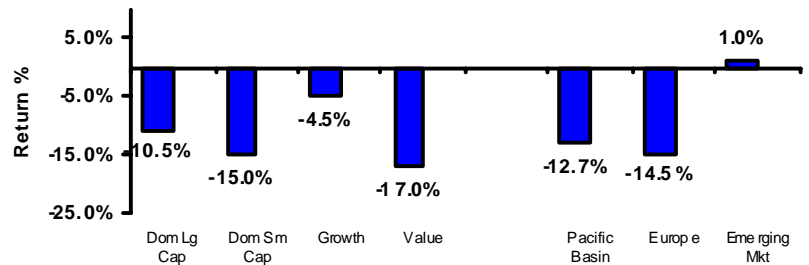
During the quarter, Equity Markets continued their decline...

- Domestic and foreign equities again posted double digit declines for the quarter; however a rally in March muted much of the losses.
- U.S. Debt remained flat for the quarter despite significant headwinds.
- Public Real Estate continued to deteriorate as vacancies rise due to slumping consumer demand.



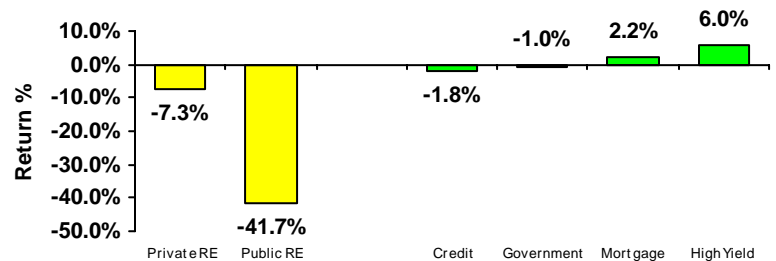
...with the one exception being Emerging Markets...

- Large Cap U.S. equities outperformed Small Cap Equities.
- Growth greatly outperformed relative to Value.
- Emerging Markets showed a slight rebound as internal stimulus and demand replaced reliance on exports.



...while Fixed Income investors cautiously moved out on the risk curve.

- The Federal Reserve began quantitative easing with purchases of long dated Treasuries and Agency Mortgage backed Securities.
- Investors responded to compelling yields in the High Yield end of the market.

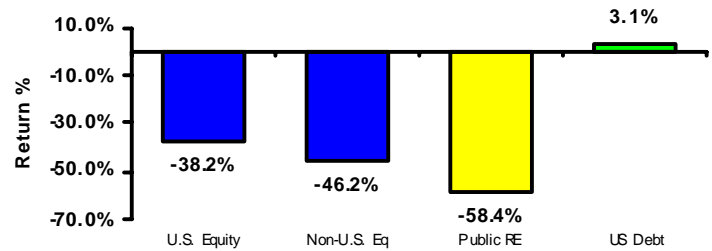




Capital Market Highlights – Latest Year Ending March 31, 2009

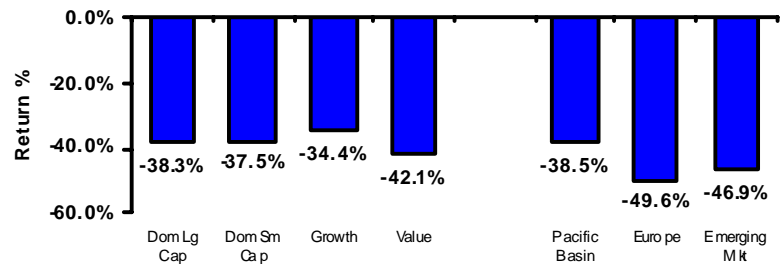
U.S. Fixed Income continued to eek out a positive return...

- The U.S. Equity markets fell through the lows of the dot com bust to levels not seen since 1996.
- The U.S. economy shed more jobs in recent quarters bringing the unemployment rate up to 8.5% the highest reading since 1983.



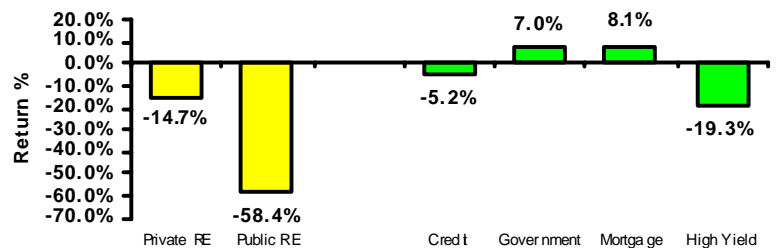
...while all Equity Markets provided dismal returns...

- Steep declines across the board for Non-U.S. Equities and all Domestic Equity subcomponents.
- Unprecedented rate cuts around the world signaled a global response to the credit crisis.
- Global Equity returns roughly mirrored each other as the credit crisis contagion spread worldwide.



...and Government and Mortgage Fixed Income supplied strong returns.

- A flight to safety has driven the price up on Government Securities at the expense of High Yield and Credit.
- Public Real Estate experienced unprecedented losses driven by declining values of a broad range of Real Estate assets.

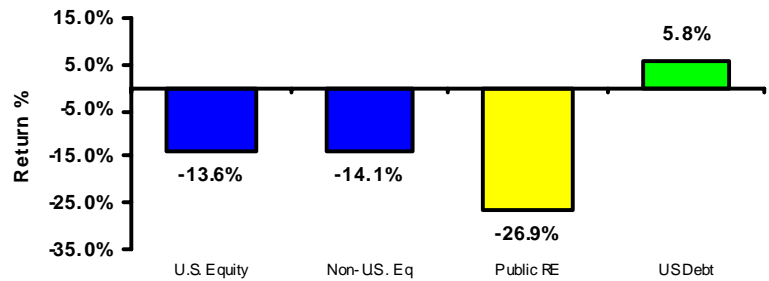




Capital Market Highlights – Latest 3 Years Ending March 31, 2009

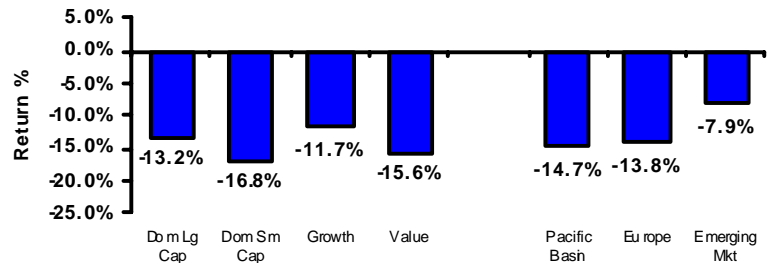
During the latest 3 years, high quality Debt has been the only asset class to post positive returns...

- Domestic Equity narrowly outperformed Non-U.S. equity, however both posted negative returns.
- Public Real Estate had negative returns as concerns arose about high cap rates and a slowing economy.



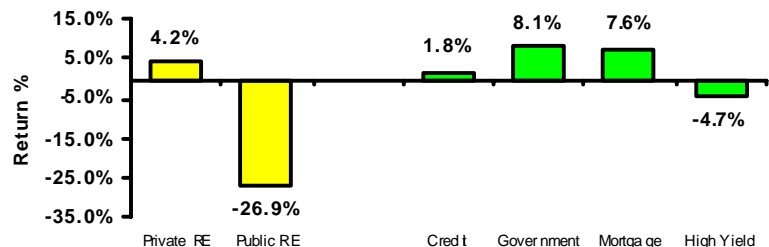
...as the credit crisis took its toll on all Equity markets...

- All U.S. Equity components provided negative returns as investors sold stocks indiscriminately.
- The Pacific Basin hurt by slowing exports demand trailed Europe and the Emerging Markets.
- Growth stocks notably outperformed value as many of the hardest hit industries are traditionally value oriented.



...and Government and Mortgage Fixed Income produced strong returns.

- Government Debt and Mortgage outpaced all other U.S. Fixed Income segments as investors sought the relative safety.
- The great bull market in Real Estate that started in 2001 came to a zenith in 2006 and has turned ruthlessly negative.

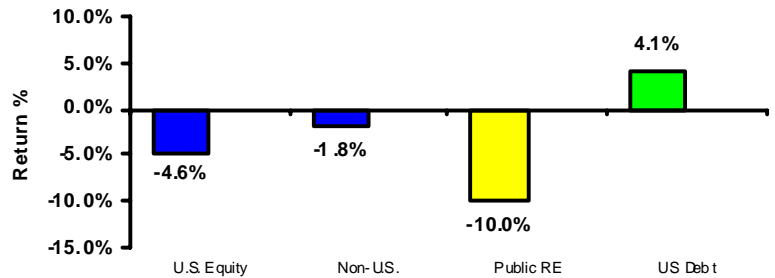




Capital Market Highlights – Latest 5 Years Ending March 31, 2009

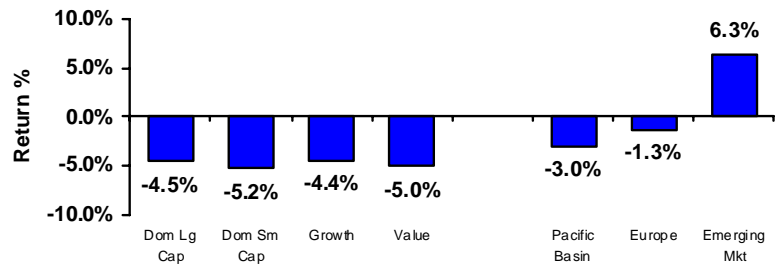
During the latest 5 years, U.S. Fixed Income generated positive returns...

- Both Domestic and Non-U.S. Equity markets have posted negative results for the past 5 years.
- Fixed Income remains the one stalwart asset class producing positive results.



...with Emerging Markets outpacing all other Equity sub-components...

- Outside of Emerging Markets all Equity sub-components returned negative results.
- Emerging Markets benefited from strong growth in BRIC countries and elevated natural resource prices.



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

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

