



Economic Review

Economic Growth – Preliminary readings show that the U.S. economy decreased at an annual rate of (1.0%) during the second quarter of 2009. The decrease in real GDP in the second quarter primarily reflected negative contributions from nonresidential fixed investment, personal consumption expenditures, residential fixed investment, private inventory investment, and exports that were partly offset by positive contributions from federal government spending and state and local government spending.

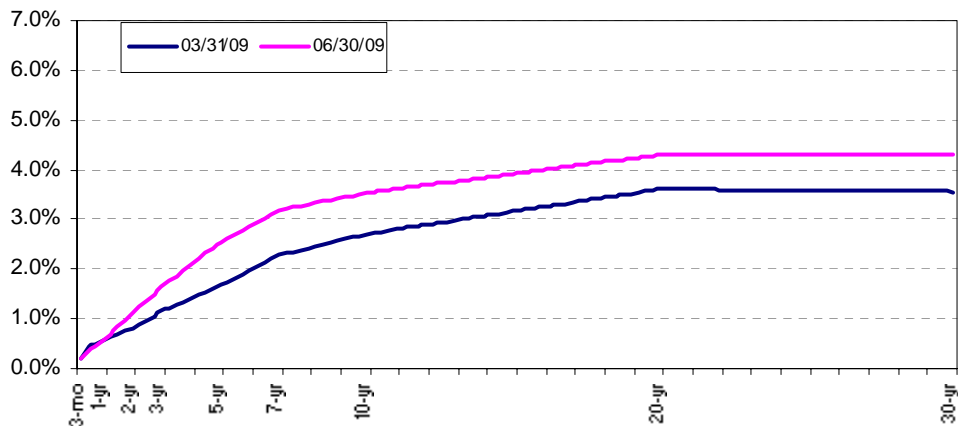
Inflation – The Consumer Price Index for All Urban Consumers (CPI-U) increased 3.3 percent in the quarter on an annualized basis, after seasonal adjustment. Core CPI-U increased 2.4 percent for the quarter. Year-to-date seasonally adjusted CPI-U increased 2.7 percent which compares with a 0.1 percent increase in all of 2008.

U.S. Dollar – During the second quarter of 2009, the Yen appreciated 2.3% against the dollar, the Euro appreciated 5.3% versus the dollar, and the Sterling appreciated 13.0% against the U.S. Dollar.

Unemployment – The U.S. economy shed 467,000 jobs in June while the unemployment rate increased to 9.5 percent. In the quarter, job losses were large and widespread across the major industry sectors with large declines occurring in manufacturing, professional and business services, and construction. Since the recession began in December 2007, the number of unemployed persons has increased by 7.2 million, and the unemployment rate has risen by 4.6 percentage points.

Domestic Interest Rates – U.S. Treasury rates increased across the maturity spectrum during the most recent quarter, however, rates remained low by historical standards. 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%. The Federal Reserve announced plans to continue planned asset purchases and a commitment to keep interest rates low for a considerable time. 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 the supply of Treasury Securities as the Treasury attempts to finance copious government deficits.

Treasury Yield Curve Changes



Source: U.S. Treasury Department

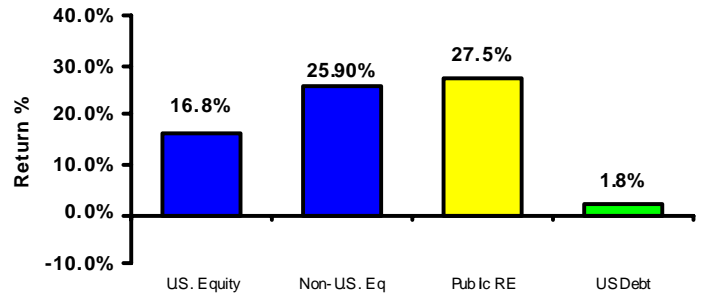


Market Overview

Capital Market Highlights – Latest Quarter Ending June 30, 2009

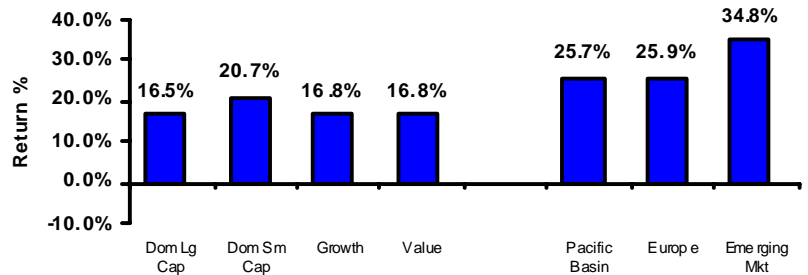
During the quarter, Equity Markets reversed course and posted gains...

- Domestic and foreign equities posted double digit gains for the quarter led by financials.
- U.S. Debt remained flat for the quarter despite a drop in Treasury Securities.
- Public Real Estate rebounded strongly as fear subsided.



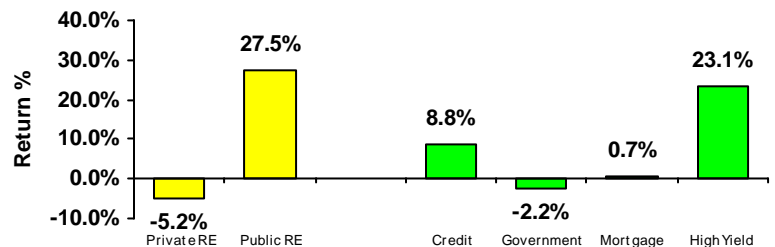
...with Emerging Markets leading the rally...

- Small Cap U.S. Equities outperformed Large Cap Equities as markets rebounded off their lows.
- Growth and Value posted identical returns.
- Emerging Markets remained strong despite sluggish export growth.



...while Fixed Income investors continue to move out on the risk curve.

- The Federal Reserve programs, notably TALF, helped narrow risk premiums across fixed income assets.
- Investors responded to compelling yields in the High Yield end of the market.

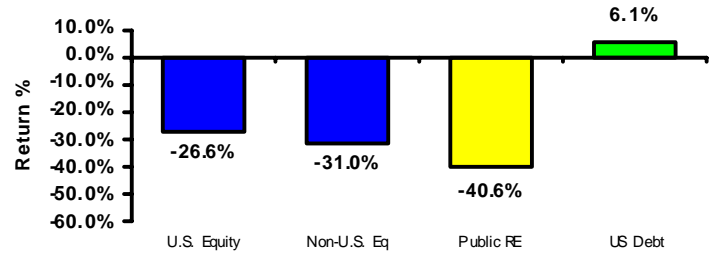




Capital Market Highlights – Latest Year Ending June 30, 2009

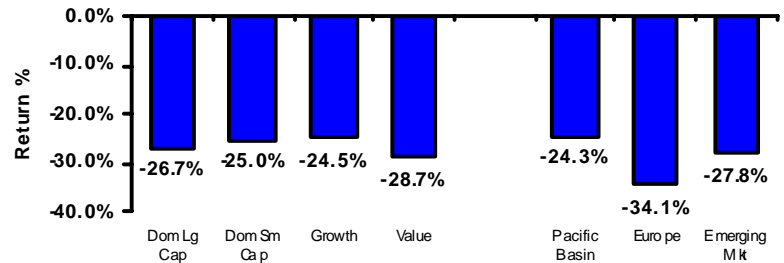
U.S. Fixed Income continued to post positive returns...

- The U.S. Equity markets outperformed non-U.S. Equity markets as signs of stabilization appear.
- The U.S. economy shed more jobs in recent quarters bringing the unemployment rate up to 9.5% the highest reading since 1983.



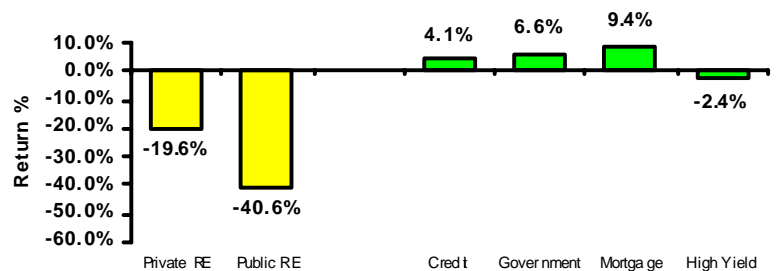
...while all Equity Markets provided dismal returns...

- Steep declines across the board for Non-U.S. Equities and all Domestic Equity subcomponents.
- Unprecedented stimulus efforts from around the world signaled a global response to the credit crisis.
- Asian Equities have fared better than European Equity markets.



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

- A flight to safety has driven the price up on Government-backed Mortgages and Government Securities.
- Real Estate experienced unprecedented losses forcing many REITS to raise capital.

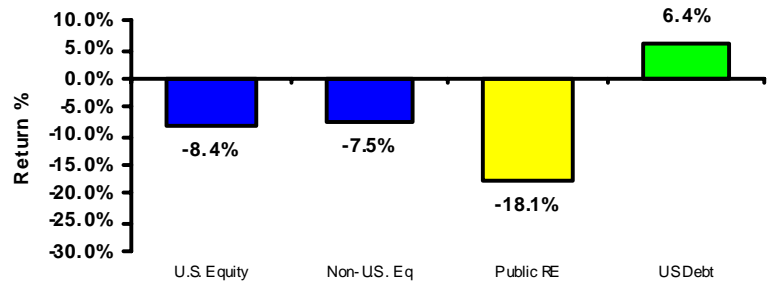




Capital Market Highlights – Latest 3 Years Ending June 30, 2009

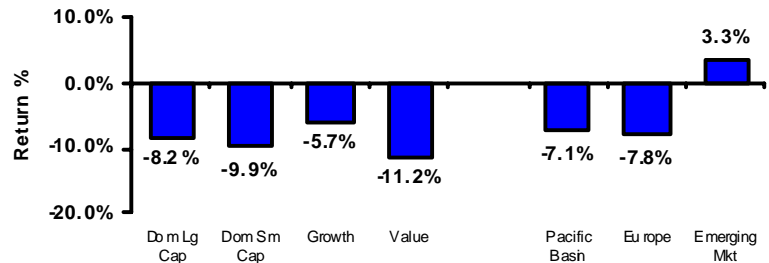
During the latest 3 years, high quality Debt has been the only asset class to post positive returns...

- Non-U.S. equity modestly outperformed Domestic Equity, however both posted negative returns.
- Public Real Estate had negative returns as concerns of overcapacity and lax underwriting weigh on the market.



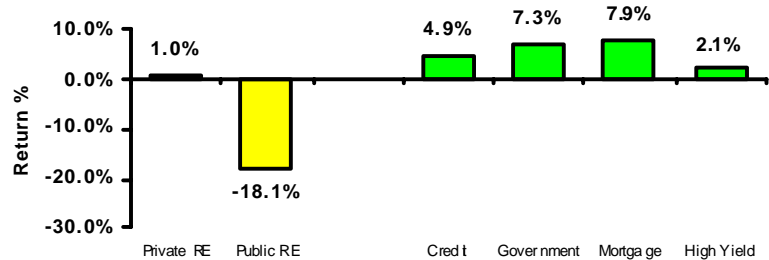
...as the credit crisis took its toll on Equity markets, save Emerging Markets...

- All U.S. Equity components provided negative returns, however Growth has weathered the credit crisis better than other components.
- The Pacific Basin and Europe were hurt by slowing exports demand.
- Value has been particularly hard hit due to its high concentration in financials and cyclicals.



...and Government and Government-backed Mortgages produced strong returns.

- Government Debt and Government-backed 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.

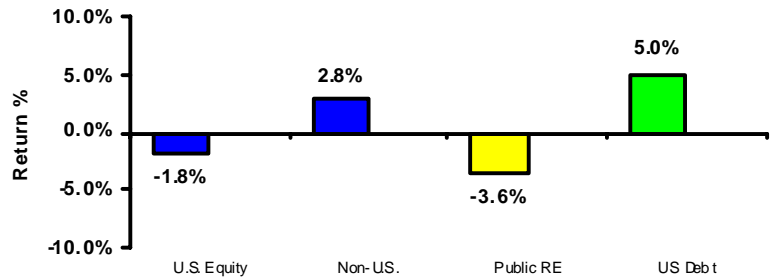




Capital Market Highlights – Latest 5 Years Ending June 30, 2009

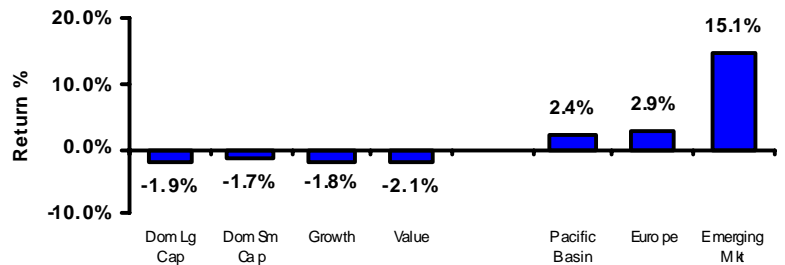
During the latest 5 years, U.S. Fixed Income and Non-U.S. Equity generated positive returns...

- Domestic Equity has posted negative results for the past 5 years as the credit crisis wiped out years of gains.
- Non-U.S. Equity and Fixed Income were able to produce positive results.



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

- Non-U.S. Equity posted positive returns while U.S. Equity sub-components returned negative results.
- Emerging Markets benefited from strong growth in BRIC countries and elevated natural resource prices.



...while Debt produced positive results over the latest five years.

- All fixed income subcomponents posted solid results over the latest 5-year period.

