



## Economic Review

**Economic Growth** – Preliminary readings show that the U.S. economy expanded at an annual rate of 3.5% during the third quarter of 2009. The increase in real GDP in the quarter primarily reflected positive contributions from personal consumption expenditures, exports, private inventory investment, federal government spending, and residential fixed investment. The largest driver of growth was motor vehicle purchases, spurred on by the Government's "cash-for-clunkers" program, accounting for nearly half of the gain in GDP.

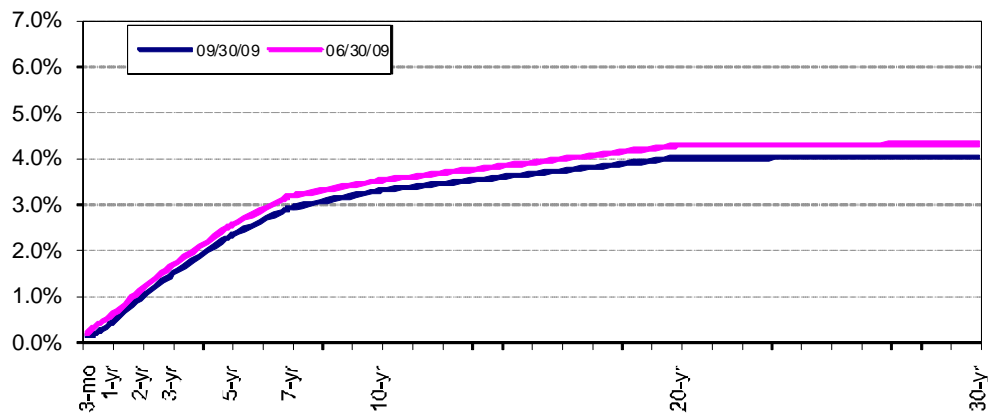
**Inflation** – The Consumer Price Index for All Urban Consumers (CPI-U) increased 2.5 percent in the quarter on an annualized basis, after seasonal adjustment. Core CPI-U increased 1.3 percent for the quarter. Not seasonally adjusted CPI-U decreased 1.3 percent over the last 12 months.

**U.S. Dollar** – During the third quarter of 2009, the Yen appreciated 6.7 percent against the dollar, the Euro appreciated 4.3 percent versus the dollar, and the Sterling fell 2.8 percent against the U.S. Dollar.

**Unemployment** – The U.S. economy shed an additional 726,000 jobs in the quarter increasing the official unemployment rate to 9.8 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 7.6 million to 15.1 million, and the unemployment rate has risen by 4.9 percentage points.

**Domestic Interest Rates** – U.S. Treasury rates decreased across the maturity spectrum during the most recent 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%. The Federal Reserve announced plans to continue 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. The U.S. budget deficit hit a record \$1.4 trillion in the fiscal year that ended on September 30<sup>th</sup> leading to a 17.6 percent increase in total public debt outstanding to a staggering \$11.9 trillion.

Treasury Yield Curve Changes



Source: U.S. Treasury Department

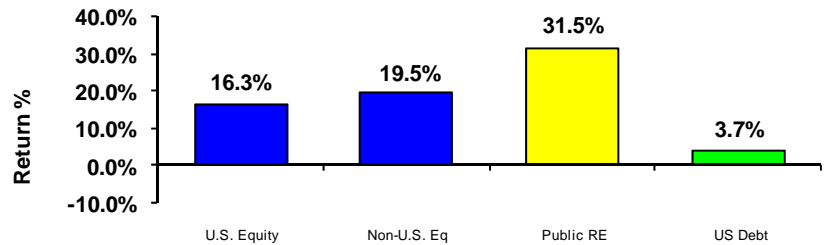


## Market Overview

### Capital Market Highlights – Latest Quarter Ending September 30, 2009

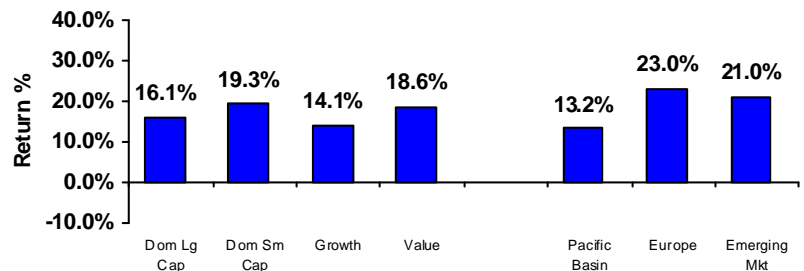
During the quarter, Equity Markets continued rebounding...

- Both Domestic and Foreign equities again posted double digit gains for the quarter led by Financials and Industrials.
- U.S. Debt posted a modest gain as Credit posted strong returns.
- Public Real Estate continued to rebound strongly despite falling commercial real estate prices.



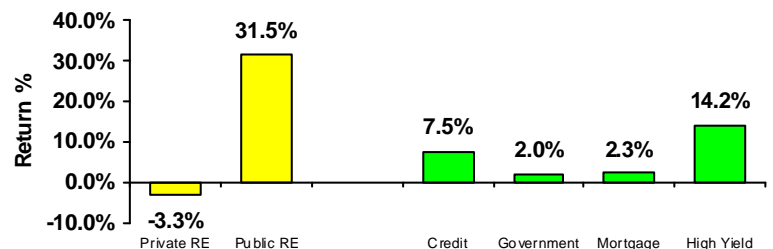
...with Europe leading the rally...

- Small Cap U.S. Equities outperformed Large Cap Equities as markets continued to rebound off their lows.
- Value outperformed Growth as Financials more than doubled the return of Health Care.
- Europe led the recovery in the rest of the world with strong gains in Financials and Industrials.



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

- Risk premiums across fixed income continued to tighten.
- Government posted small gains despite large new issuances.

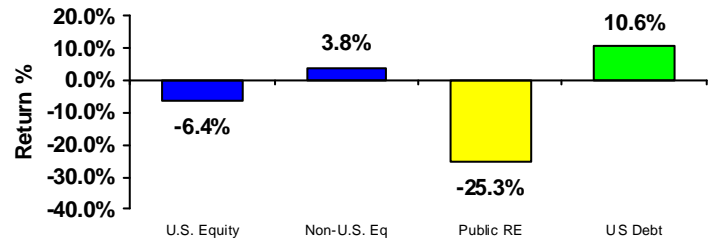




## Capital Market Highlights – Latest Year Ending September 30, 2009

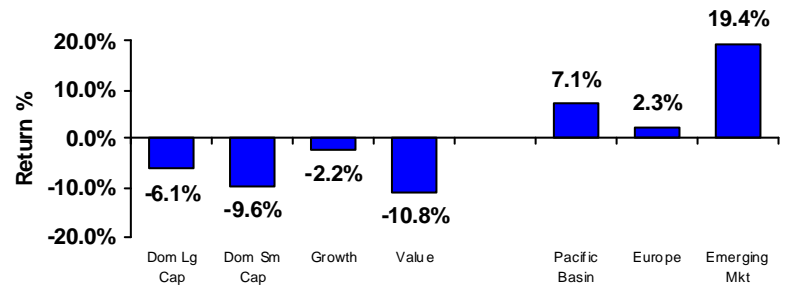
### U.S. Fixed Income and Non-U.S. Equity managed positive returns...

- Non-U.S. Equity markets returned to positive territory as signs of stabilization appeared.
- U.S. Debt outperformed other asset classes despite an increase in risk appetite.



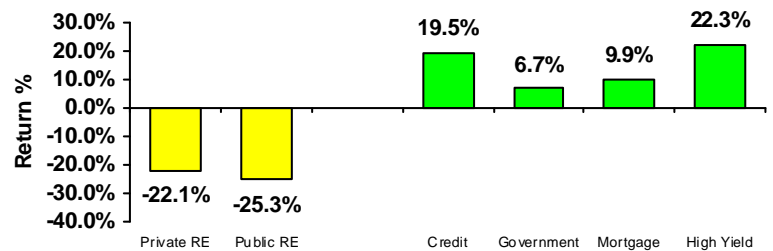
### ...while Emerging Markets posted solid gains...

- Emerging Markets posted strong gains along with positive gains for Pacific Basin and Europe signaling the worst of the global recession may be over.
- All Domestic sub-components posted modest declines with Value and Small Cap experiencing relative underperformance.



### ...and Credit and High Yield supplied strong returns.

- Fixed Income rallied across the spectrum responding to a more benign credit environment and low global interest rates.
- Commercial real estate price weakness continues to weigh on the Real Estate sectors.

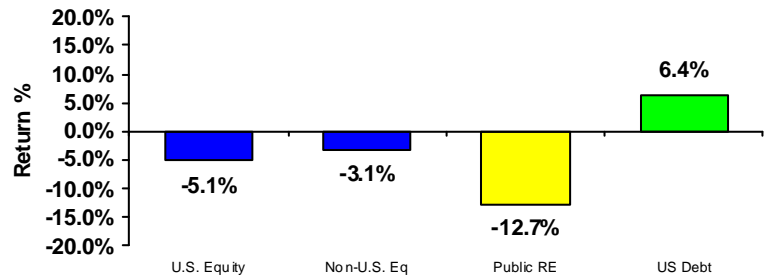




## Capital Market Highlights – Latest 3 Years Ending September 30, 2009

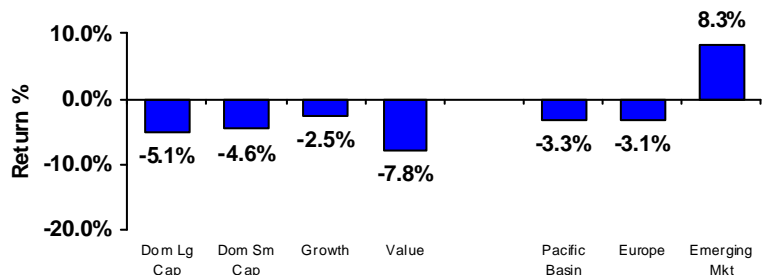
During the latest 3 years, high quality U.S. Debt has been the only asset class to post positive returns...

- 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.



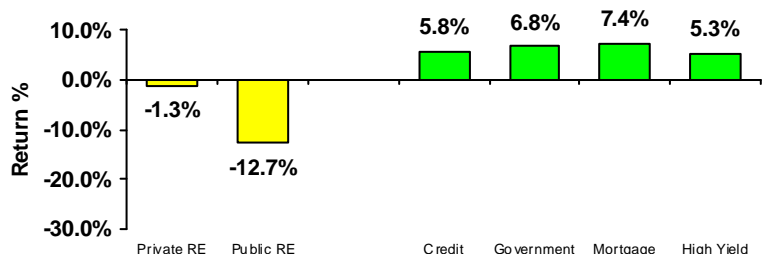
...as the credit crisis took its toll on Equity markets, with the exception of Emerging Markets...

- All U.S. Equity components provided negative returns, however Growth has weathered the credit crisis better than other components.
- The Pacific Basin and Europe outperformed Domestic Equity aided by declines in the value of the dollar.
- Value has been particularly hard hit due to its high concentration in Financials and Cyclical.



... and Fixed Income across the spectrum produced positive 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 negative.

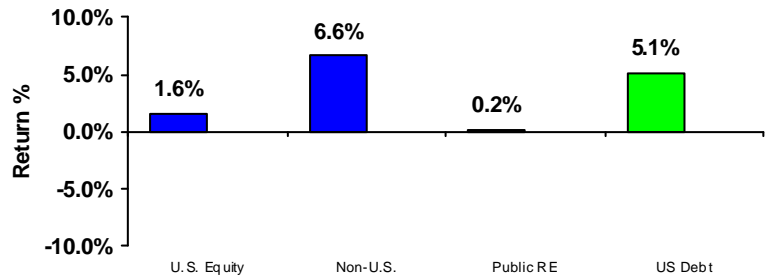




## Capital Market Highlights – Latest 5 Years Ending September 30, 2009

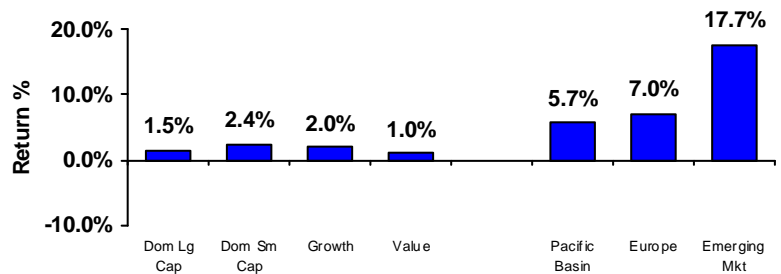
During the latest 5 years, all asset classes generated modest positive returns...

- Domestic Equity and Public Real Estate eked out a small gain as the credit crisis wiped out years of gains.
- Non-U.S. Equity and Fixed Income were able to produce respectable results.



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

- Both Non-U.S. Equity and all U.S. Equity sub-components returned positive results.
- Emerging Markets benefited from relatively strong economic growth compared to developed countries.



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

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

