



## Economic Review

**Economic Growth** – Preliminary readings show that the U.S. economy expanded at an annualized rate of 5.7 percent during the fourth quarter of 2009. The increase in real GDP in the quarter primarily reflected positive contributions from personal consumption expenditures, exports, and private inventory investment while an increase in imports represented a drag on GDP growth. Third quarter GDP has been sharply revised lower from a preliminary reading of 3.5 percent down to a final reading of 2.2 percent.

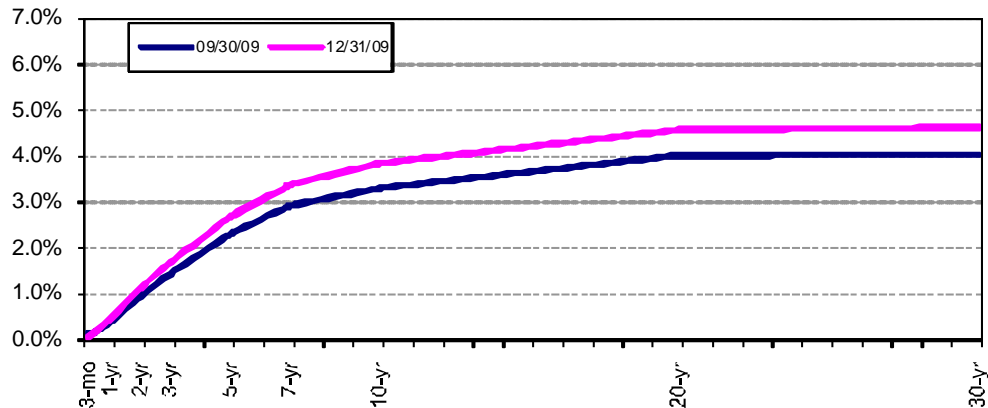
**Inflation** – The Consumer Price Index for All Urban Consumers (CPI-U) increased 3.3 percent in the quarter on an annualized basis, after seasonal adjustment. Core CPI-U increased 1.3 percent for the quarter. CPI-U, before seasonally adjustment, increased 2.7 percent over the last 12 months.

**U.S. Dollar** – During the fourth quarter of 2009, the Yen depreciated 3.5 percent against the dollar, the Euro depreciated 1.9 percent versus the dollar, and the Sterling strengthened 1.2 percent against the U.S. Dollar.

**Unemployment** – The U.S. economy shed an additional 286,000 jobs in the quarter increasing the official unemployment rate to 10.0 percent. In the quarter, job losses were 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 7.8 million to 15.3 million, and the unemployment rate has risen by 5.0 percentage points.

**Domestic Interest Rates** – U.S. Treasury rates increased 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. During the quarter, the Federal Reserve announced that they would allow a number of the temporary liquidity facilities established during the crisis to begin winding down, marking the early stages of its exit strategy from its current accommodative monetary policy stance.

**Treasury Yield Curve Changes**



Source: U.S. Treasury Department

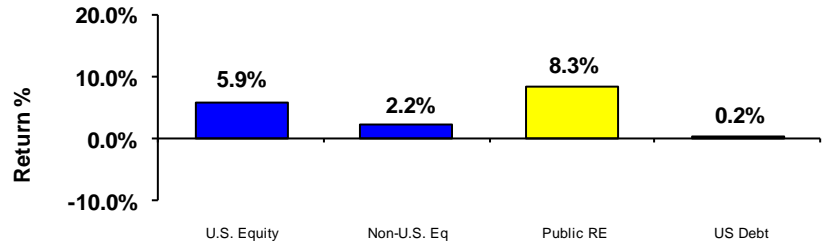


## Market Overview

### Capital Market Highlights – Latest Quarter Ending December 31, 2009

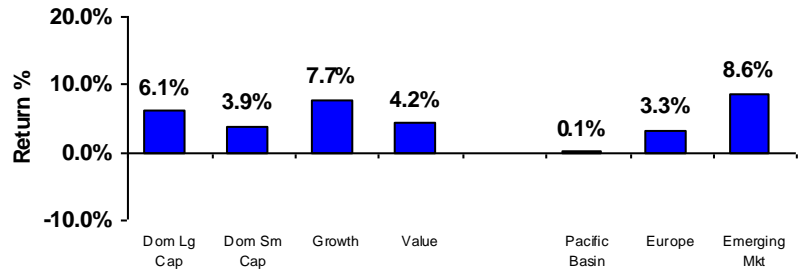
During the quarter, Equity Markets continued rebounding...

- Both Domestic and Non-U.S. Equity continued to post positive returns for the quarter led by Technology and Health Care sectors.
- U.S. Debt posted a small gain despite a fall in Government Debt.
- Public Real Estate continued to rebound strongly.



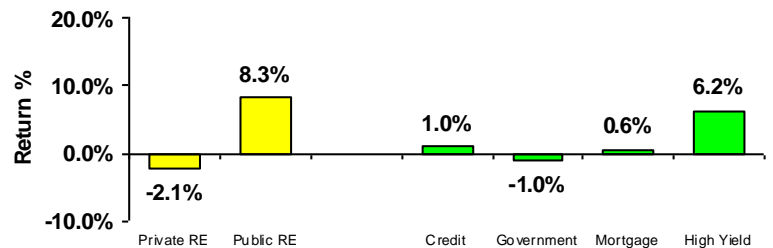
...with Emerging Markets leading the rally...

- Large Cap U.S. Equities outperformed Small Cap U.S. Equities as markets continued to rebound off their lows.
- Growth outperformed Value as Technology and Health Care rallied.
- Emerging Markets led the recovery in International Equity markets.



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

- High Yield spreads continued to tighten during the quarter.
- Government Debt posted a loss in the wake of large new issuances.

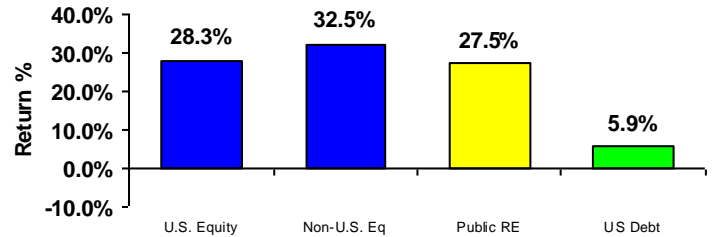




## Capital Market Highlights – Latest Year Ending December 31, 2009

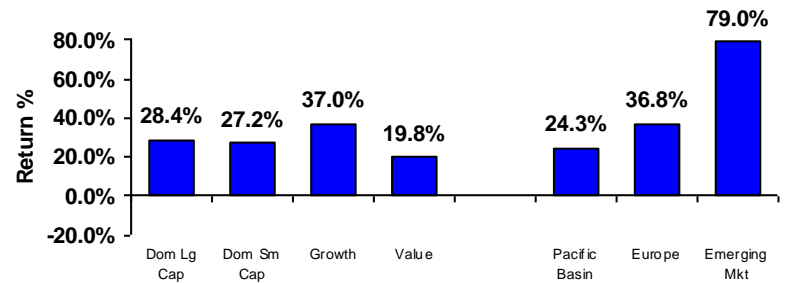
### U.S. Equity, Non-U.S. Equity, and Public Real Estate achieved strong returns...

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



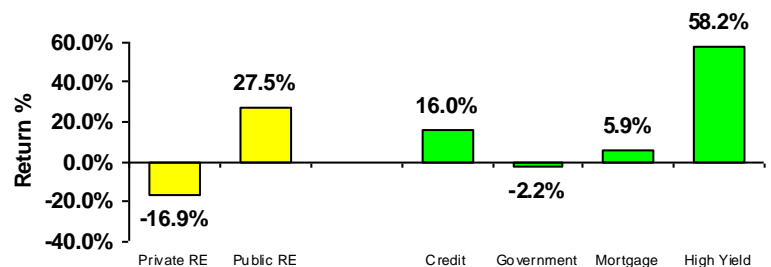
### ...while Emerging Markets posted enormous gains...

- Emerging Markets posted significant gains along with the Pacific Basin and Europe signaling the worst of the global recession may be over.
- All Domestic sub-components posted double digit gains with Growth and Large Cap experiencing relative outperformance.



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

- Credit and High Yield benefited from a more benign credit environment and low global interest rates.
- Public Real Estate posted strong returns as investors anticipated the worst may be over for the sector.

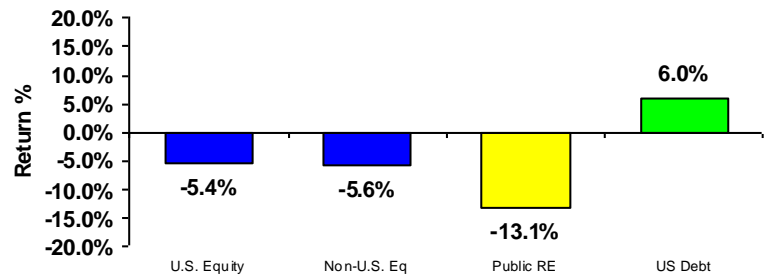




## Capital Market Highlights – Latest 3 Years Ending December 31, 2009

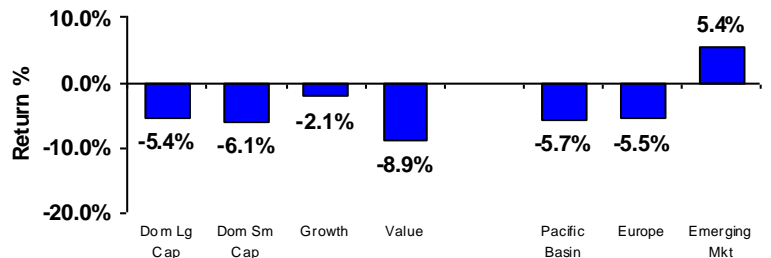
During the latest 3 years, high quality U.S. Debt has been the only asset class to post positive returns...

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



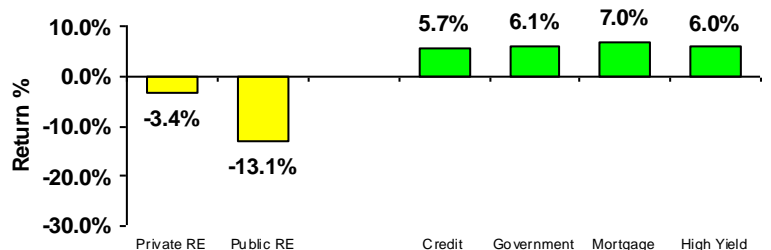
...as the credit crisis took its toll on Equity Markets, with the exception of Emerging Markets...

- All U.S. Equity components provided negative returns. However, Growth has weathered the credit crisis better than other components.
- Emerging Markets gained as they had less exposure to the credit crisis.
- 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.
- Real Estate's bull market ended in 2006 and has turned ruthlessly negative.





## Capital Market Highlights – Latest 5 Years Ending December 31, 2009

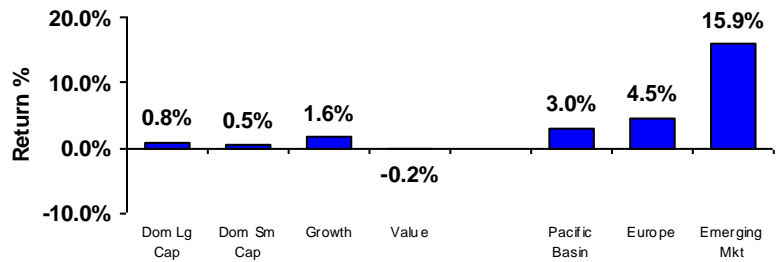
During the latest 5 years, US Debt led all other asset classes...

- Domestic Equities posted a small increase as the credit crisis wiped out years of gains.
- Non-U.S. Equity and Fixed Income were able to produce modest results.



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

- All U.S. Equity sub-components produced returns that were essentially flat.
- 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.

