

## Economic Review

**Economic Growth** – Preliminary readings show that the U.S. economy expanded at an annualized rate of 3.2 percent during the first quarter of 2010. 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.

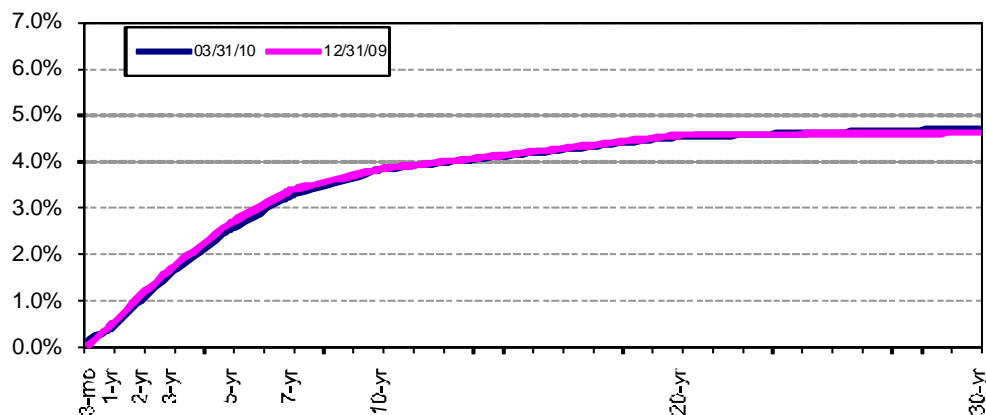
**Inflation** – The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9 percent in the quarter on an annualized basis, after seasonal adjustment. Core CPI-U decreased 0.2 percent for the quarter. CPI-U, before seasonally adjustment, increased 2.3 percent over the last 12 months.

**U.S. Dollar** – During the first quarter of 2010, the Yen depreciated 0.5 percent against the dollar, the Euro depreciated 6.0 percent versus the dollar, and the Sterling depreciated 5.7 percent against the U.S. Dollar.

**Unemployment** – The U.S. economy added 106,000 jobs in the quarter decreasing the official unemployment rate from 10.0 to 9.7 percent. In the quarter, job gains were largely due to increased hiring of temporary workers notably government hiring for the 2010 Census. Since the recession began in December 2007, the number of unemployed persons has increased by 7.5 million to 15.0 million, and the unemployment rate has risen by 5.0 percentage points.

**Domestic Interest Rates** – U.S. Treasury rates remained relatively stable 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 the completion of its asset purchases plan. In aggregate the Federal Reserve purchased \$300 billion in long-dated Treasury securities, \$175 billion in Agency debt, and \$1.25 trillion in Agency MBS. The Federal Reserve also allowed a number of the temporary liquidity facilities established during the crisis to begin winding down including non-CMBS TALF. These actions mark the early stages of its exit strategy from its current accommodative monetary policy stance.

### Treasury Yield Curve Changes



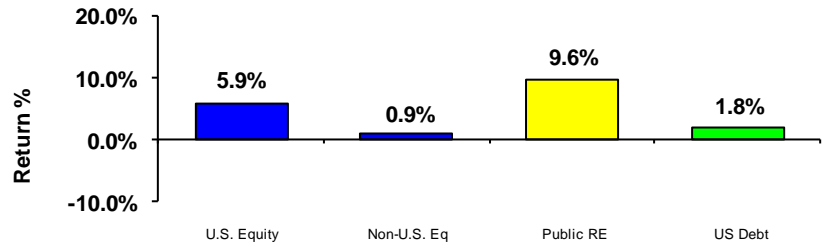
Source: U.S. Treasury Department

## Market Overview

### Capital Market Highlights – Latest Quarter Ending March 31, 2010

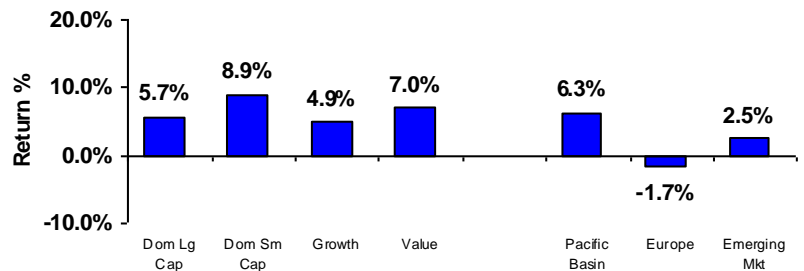
During the quarter, Equity Markets continued rebounding...

- Both Domestic and Non-U.S. Equity continued to post positive returns for the quarter led by the Industrials and Financial sectors.
- U.S. Debt posted a small gain despite an increase in rates late in the quarter.
- Public Real Estate continued to rebound strongly.



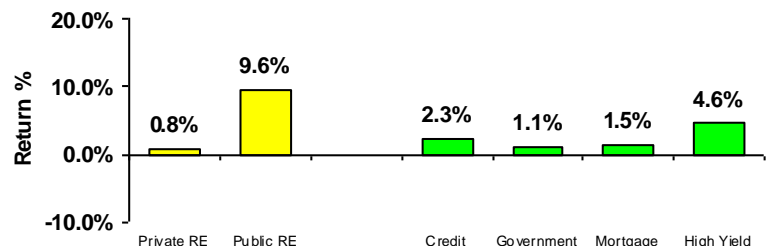
...with Domestic Small Caps leading the rally...

- Small Cap U.S. Equities outperformed Large Cap U.S. Equities as markets continued to rebound off their lows.
- Value outperformed Growth as Industrials and Financials rallied.
- Pacific Basin led the recovery in International Equity markets while Europe slipped into negative territory.



...while Fixed Income spread continued to narrow.

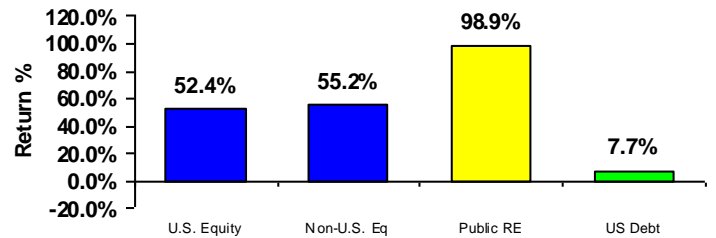
- High Yield continued to lead with yields tightening during the quarter.
- Government posted a small gain despite large new issuance.



## Capital Market Highlights – Latest Year Ending March 31, 2010

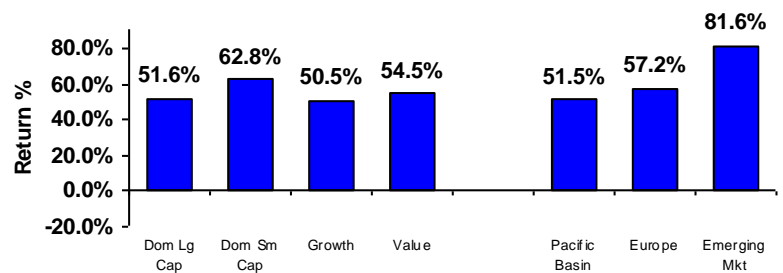
### U.S. Equity, Non-U.S. Equity, and Public Real Estate are a year off their lows...

- Equity markets and Public Real Estate returned strong returns as markets rebounded off their March 2009 lows.
- U.S. Debt underperformed other asset classes due to an increase in risk appetite.



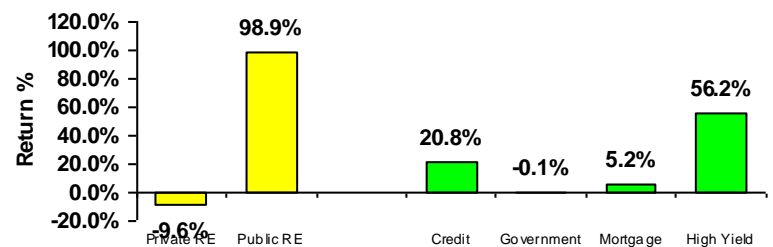
### ...while Emerging Markets posted enormous gains...

- 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 Small Cap experiencing relative outperformance.



### ...and Public Real Estate and High Yield supplied robust returns.

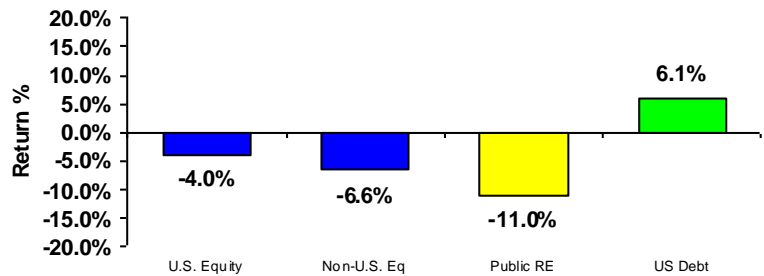
- Credit and High Yield benefited from a more benign credit environment and low global interest rates.
- Public Real Estate nearly doubled as fears subsided.



## Capital Market Highlights – Latest 3 Years Ending March 31, 2010

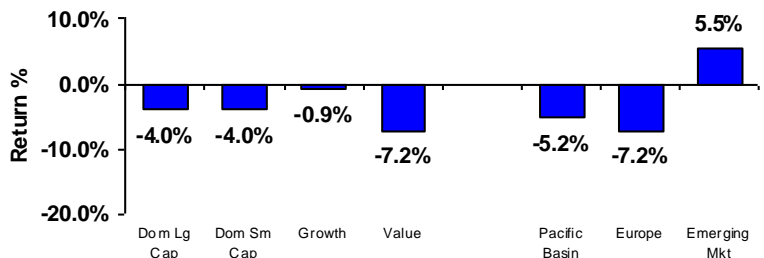
During the latest 3 years, high quality U.S. Debt has been the only asset class to post positive returns...

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



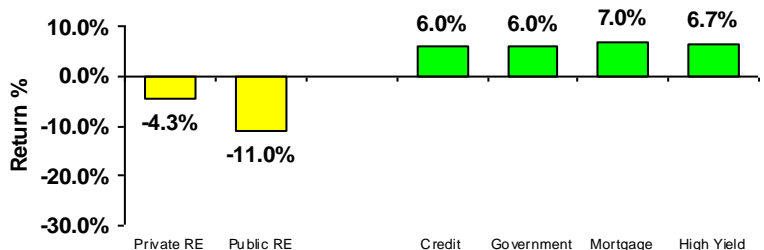
...as the credit crisis took its toll on Equity markets, with the exception of Emerging Markets...

- All U.S. Equity components provided negative returns, however Growth has weathered the credit crisis better than other components.
- 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.

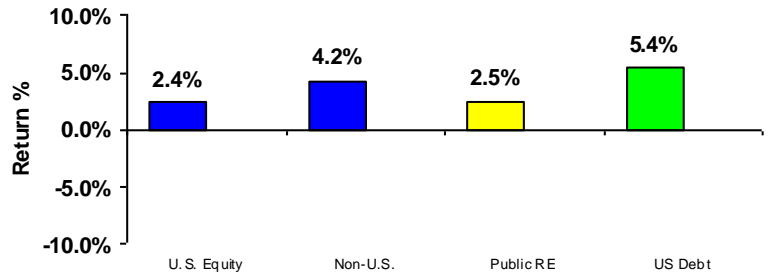
- Mortgage outpaced all other U.S. Fixed Income segments as investors sought relative safety.



## Capital Market Highlights – Latest 5 Years Ending March 31, 2010

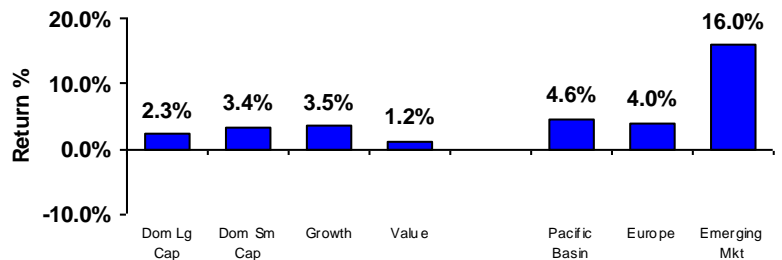
During the latest 5 years, US Debt led all other asset classes...

- 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 posted a small increase.
- 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 sub-components posted positive results over the latest 5-year period led by High Yield.

