

## Economic Review

**Economic Growth** – The U.S. economy increased at an annual growth rate of 1.9% during the second quarter of 2008. The increase in real GDP reflects an increase in exports, as well as a smaller decrease in residential fixed investment, and an acceleration in Personal Consumer Expenditures that were partly offset by a larger decrease in inventory investment.

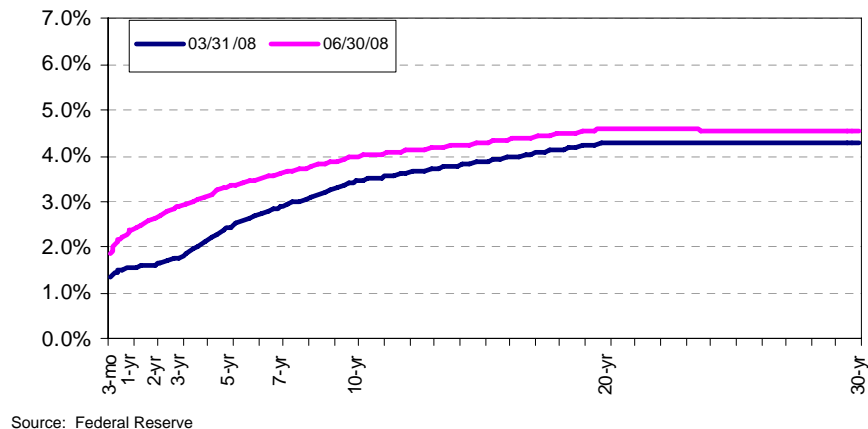
**Inflation** – On a seasonally adjusted basis, the Consumer Price Index (“CPI”) increased 1.1% in June, resulting in a compounded annual rate (using the latest 3-month data ending June 30, 2008) of 7.9%. In comparison, the compounded annual rate during the second quarter of 2007 was 5.2%.

**U.S. Dollar** – During the second quarter of 2008, the Yen depreciated 6.50% against the dollar, and the Euro depreciated 0.57% versus the dollar, while the Canadian Dollar appreciated 1.12% against the U.S. Dollar.<sup>1</sup>

**Unemployment** – The domestic unemployment rate was 5.5% in June, up from the previous quarter’s rate of 4.8%. Employment rose in health care, food services, and mining, while employment in manufacturing and construction, and employment services continued to decline.

**Domestic Interest Rates** – During the quarter, the U.S. Treasury curve slightly flattened as short-term yields increased. At the June 25, 2008 meeting, the Federal Reserve decided to keep its target for the federal funds rate at 2.00%, down from 2.25% in March, after a 25 basis point cut in April. According to the Federal Reserve, the substantial easing of monetary policy to date, combined with ongoing measures to foster market liquidity, should help to promote moderate growth over time.

**Treasury Yield Curve Changes**



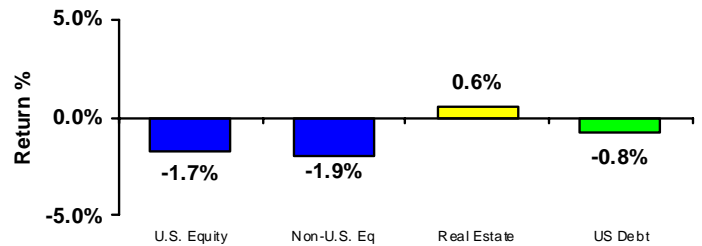
<sup>1</sup> Source: State Street Global Markets.

## Market Overview

### Capital Market Highlights – Latest Quarter Ending June 30, 2008

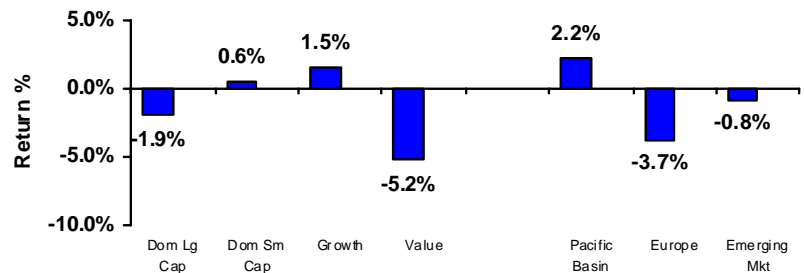
During the quarter, Equity Markets continued their decline...

- U.S. stocks fell as the S&P 500 lost ground.
- Bonds also declined sharply due to spread widening as concerns about inflation persist.
- The U.S. found some support against other currencies mid-quarter, but this reversed by quarter end with commodity prices hitting record highs.



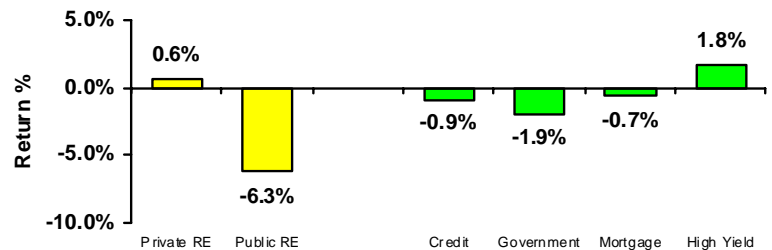
...with the European and Emerging Markets equity subcomponents declining...

- The Pacific Basin was the best performing region among the developed markets.
- The second quarter demonstrated a reversal of the previous dominance of value over growth.
- In Western Europe, inflation has hit a 15-year high.



...while High Yield Fixed Income and Private Real Estate provided some principal protection.

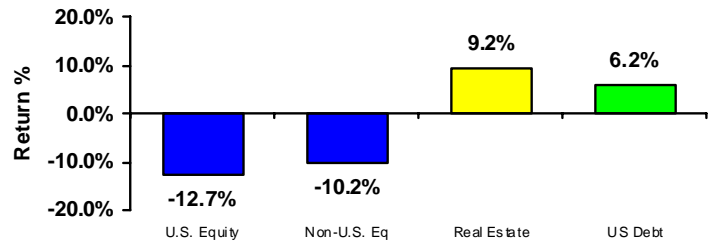
- Investment-grade spreads tightened for most of the quarter, but a sharp reversal occurred towards the end amid fears that high commodity prices would dampen economic recovery.
- Public real estate continued its decline as a result of the ailing mortgage market.



## Capital Market Highlights – Latest Year Ending June 30, 2008

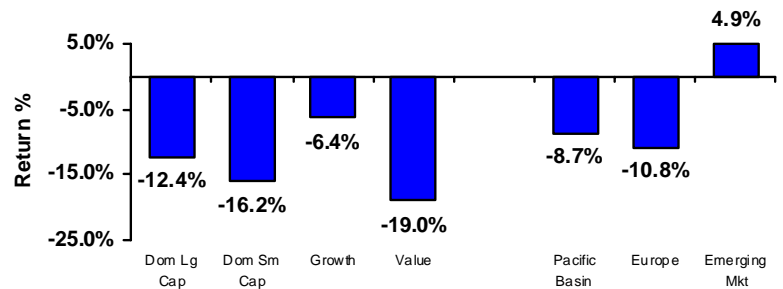
### Real Estate continued to provide positive returns...

- U.S. Debt remains nearly unchanged.
- Equities continued their decline as investors have sought protection.
- Non-U.S. Equity begins to be hit by the mortgage crisis in earnest.



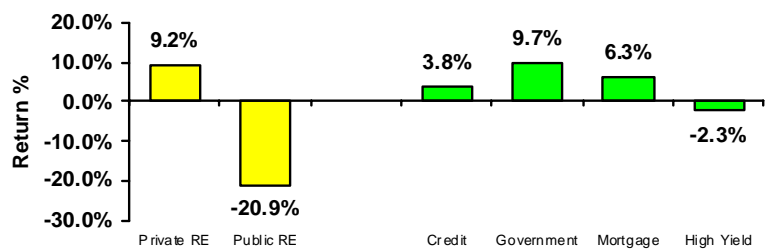
### ...with Emerging Markets surpassing the Developed Markets...

- European markets were hard-hit with inflation.
- Growth stocks greatly outperformed value partly due to the optimistic technology sector.
- Investors preferred established large cap companies over small cap companies, as depicted in returns.



### ...and private real estate provided strong returns.

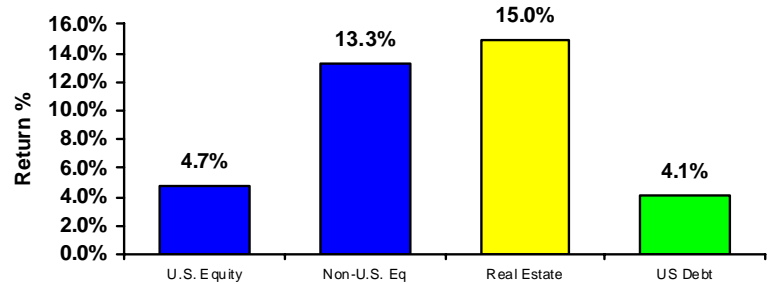
- Investors preferred the safe-haven of government securities.
- Existing home sales dipped in June to an annual pace of 4.86 million, down 15.5% from the 5.75 million units sold in June 2007.
- Private real estate, which lags other markets, remained positive, while investors continued to flee public real estate.



## Capital Market Highlights – Latest 3 Years Ending June 30, 2008

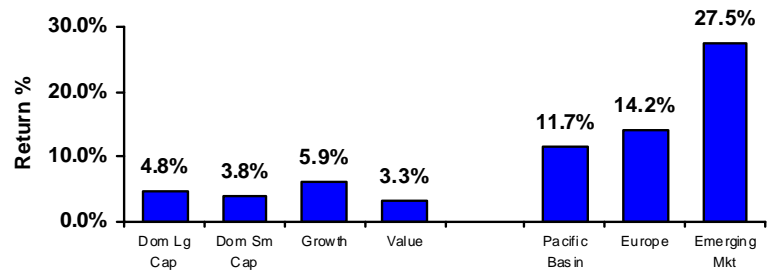
During the latest 3 years, Non-U.S. equity surpassed all other equity asset classes...

- Non-U.S. equity produced strong returns, benefitting from a declining U.S. dollar.
- Real Estate posted strong returns due to appreciation in value from prior periods.



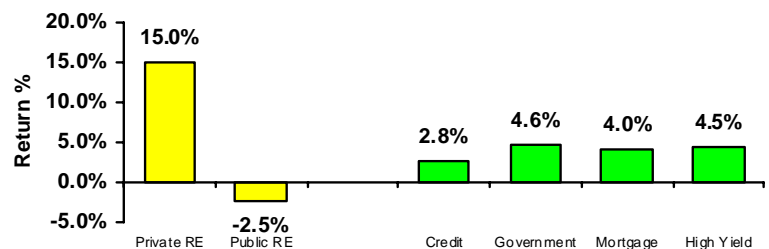
...as Emerging Markets was the highest performing equity subcomponent...

- All equity components generated modest, yet positive returns.
- U.S. large cap stocks slightly outperformed U.S. small cap.
- Growth stocks continued to outpace value.



...and private real estate produced strong returns.

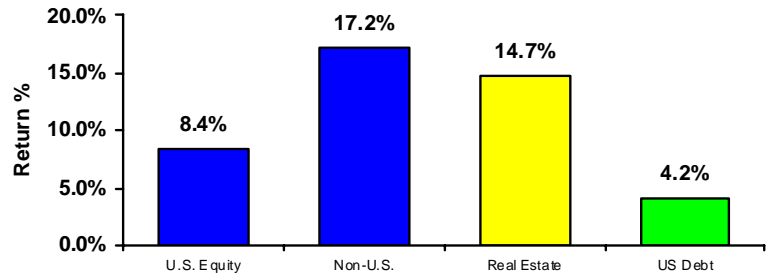
- Private real estate outperformed public real estate.
- Government debt and high yield slightly outpaced all other U.S. fixed income segments.



## Capital Market Highlights – Latest 5 Years Ending June 30, 2008

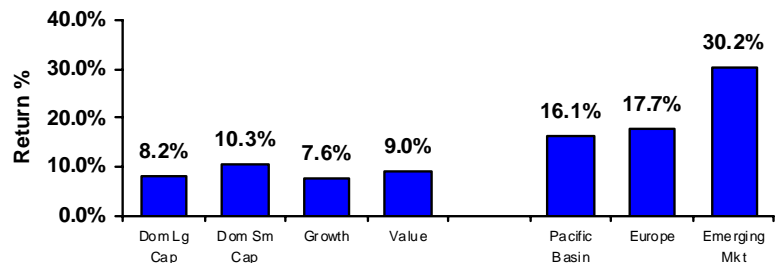
### During the latest 5 years, Non-U.S. equity generated the highest returns...

- Real Estate provided strong returns as the recent problems had not yet surfaced to affect the market.
- U.S. Equity securities produced strong long-term results, surpassing fixed income.



### ...with emerging markets outperforming all other equity sub-components...

- Europe and Pacific Basin Developed Markets provided strong performance, but lagged emerging markets.
- U.S. small cap and value stocks narrowly outpaced large cap and growth.



### ...and real estate produced strong results over the latest five years.

- Over this longer cycle, private real estate outpaced public.
- High yield outpaced all fixed income subcomponents over the latest 5-year period.

