

Economic Review

Economic Growth – The U.S. economy decreased at an annual rate of 0.3% during the third quarter of 2008. The decrease in real GDP reflects weak consumer spending, which fell 3.1%, as well as a turndown in business investment, and a drag on growth as a result of the continuing residential fixed investment problems.

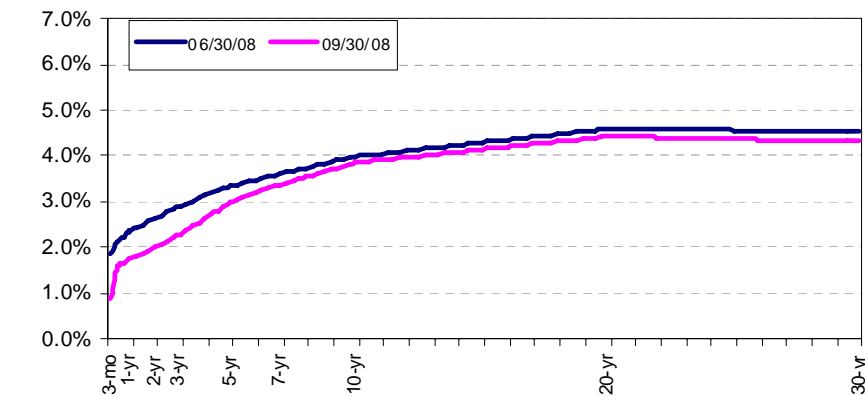
Inflation – On a seasonally adjusted basis, the Consumer Price Index (“CPI”) decreased 0.1% in September, resulting in a compounded annual rate (using the latest 3-month data ending September 30, 2008) of 2.6%. In comparison, the compounded annual rate during the third quarter of 2007 was 1.0%.

U.S. Dollar – During the third quarter of 2008, the Yen depreciated 0.2% against the dollar, the Euro depreciated 10.9% versus the dollar, and the Canadian Dollar depreciated 4.8% against the U.S. Dollar.¹

Unemployment – The domestic unemployment rate was 6.1% in September, up from the previous quarter’s rate of 5.5%. Employment rose in health care, and mining, while employment in manufacturing and construction, and retail trade continued to decline.

Domestic Interest Rates – During the quarter, the U.S. Treasury curve grew steeper as short-term yields decreased. At the September 16, 2008 meeting, the Federal Reserve decided to keep its target for the federal funds rate at 2.00%, holding steady from June. According to the Federal Reserve, over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth.

Treasury Yield Curve Changes



Source: Federal Reserve

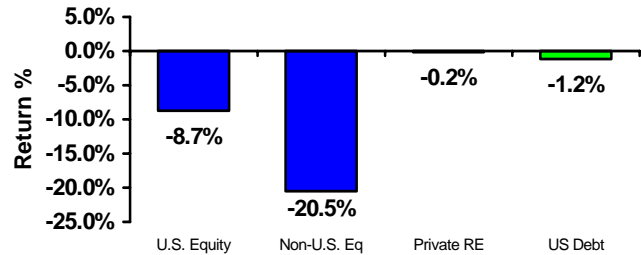
¹ Source: State Street Global Markets.

Market Overview

Capital Market Highlights – Latest Quarter Ending September 30, 2008

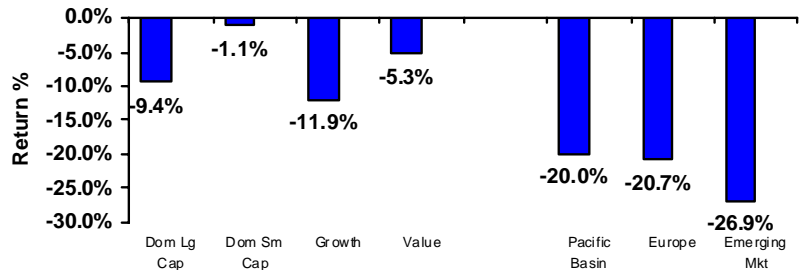
During the quarter, Equity Markets continued their decline...

- Worries of a global economic meltdown initiated a decline in commodity prices.
- Investors have been willing to accept lower returns in exchange for the safety offered by holding U.S. T-Bills.
- The U.S. Troubled Asset Relief Program (TARP) was approved by Congress.



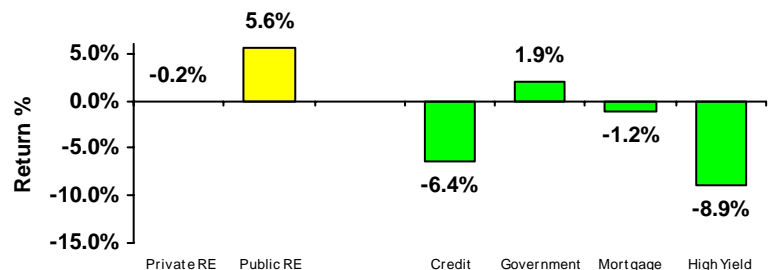
...with the European and Emerging Markets equity subcomponents declining...

- The U.S. equity markets outperformed the non-U.S. markets.
- Value continued to outpace growth during the third quarter.
- European governments sought to contain the deepening world financial crisis, with Britain stepping in to help its hard-pressed banks and Russia shutting down its biggest stock market for two days.



...while Government Fixed Income and Public Real Estate provided some principal protection.

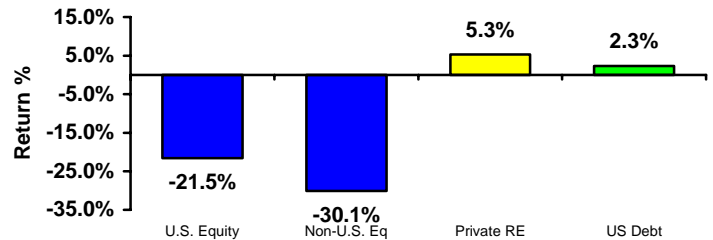
- The U.S. 3-Month T-Bill yield to maturity reached its lowest level since 1954 on 9/17/08: 0.2%.
- Pending home sales rose 7.4% from July to August, in an unexpected piece of positive news, but declined by the close of August.



Capital Market Highlights – Latest Year Ending September 30, 2008

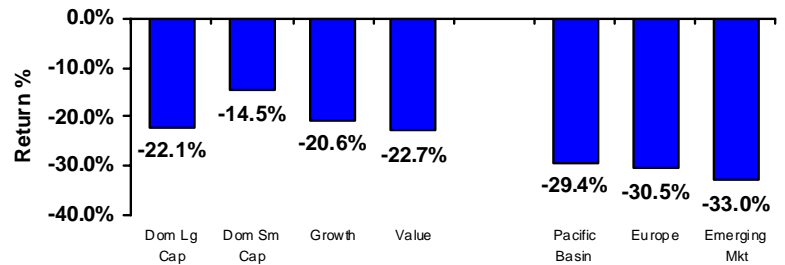
U.S. Fixed Income was one of the sole ray of sunshine...

- U.S. debt was still in positive territory.
- Credit conditions continue to tighten further from where they were 3-4 months prior.
- All 10 sectors in the MSCI All Country World (Equity) Index delivered negative returns in the first eight months of 2008.



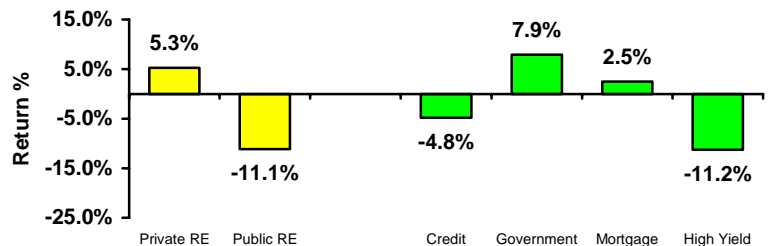
...with all Equity Markets providing dismal returns...

- Growth outperformed value.
- Investors preferred small cap equity over large cap companies.
- The global credit crisis has finally landed in Europe.



...and Government Fixed Income supplying strong returns.

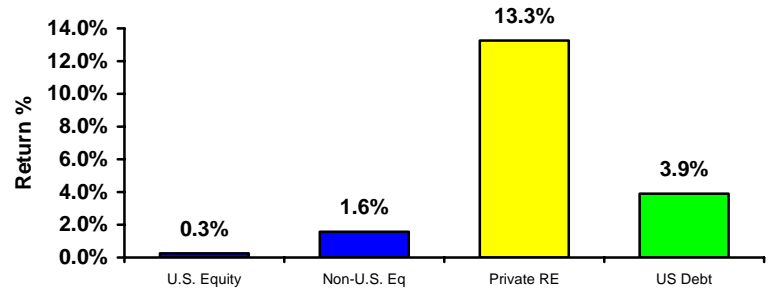
- Investors preferred the safety of government securities.
- Existing-home sales were down in August following a healthy gain in July as tight mortgage credit curtailed activity.



Capital Market Highlights – Latest 3 Years Ending September 30, 2008

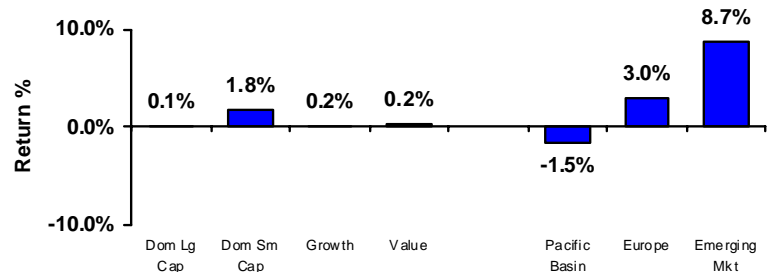
During the latest 3 years, Developed Non-U.S. Equity surpassed U.S. Equity ...

- Non-U.S. equity outperformed domestic equity, benefitting from a declining U.S. dollar.
- Private real estate surpassed equity and fixed income.



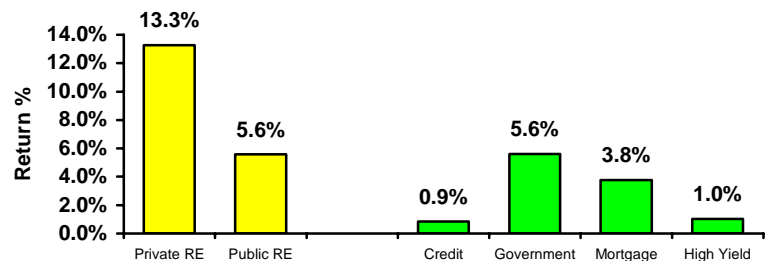
...as Emerging Markets was the highest performing equity subcomponent...

- All U.S. equity components provided modest, yet positive returns.
- The Pacific Basin trailed Europe and the Emerging Markets.
- U.S. growth and value stocks generated equivalent returns.



...and Government Fixed Income produced strong returns.

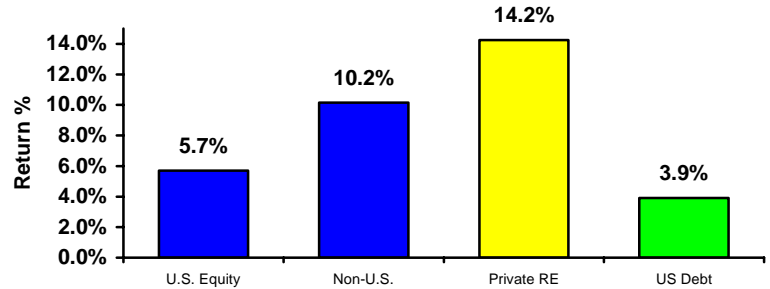
- Government debt and mortgage outpaced all other U.S. fixed income segments.



Capital Market Highlights – Latest 5 Years Ending September 30, 2008

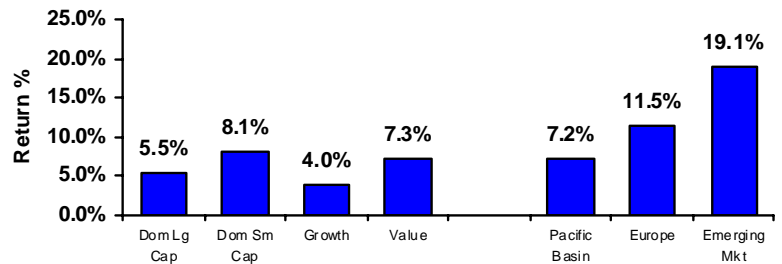
During the latest 5 years, Private Real Estate generated the highest returns...

- Non-U.S. equity outperformed U.S. equity.
- Fixed income generated solid returns.



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

- Europe and the Pacific Basin developed markets provided strong returns, but lagged emerging markets.
- U.S. small cap and value stocks outperformed large cap and growth.



...and Public and Private Real Estate produced strong results over the latest five years.

- High yield and government outpaced all fixed income subcomponents over the latest 5-year period.
- Investors were not rewarded for credit risk.

