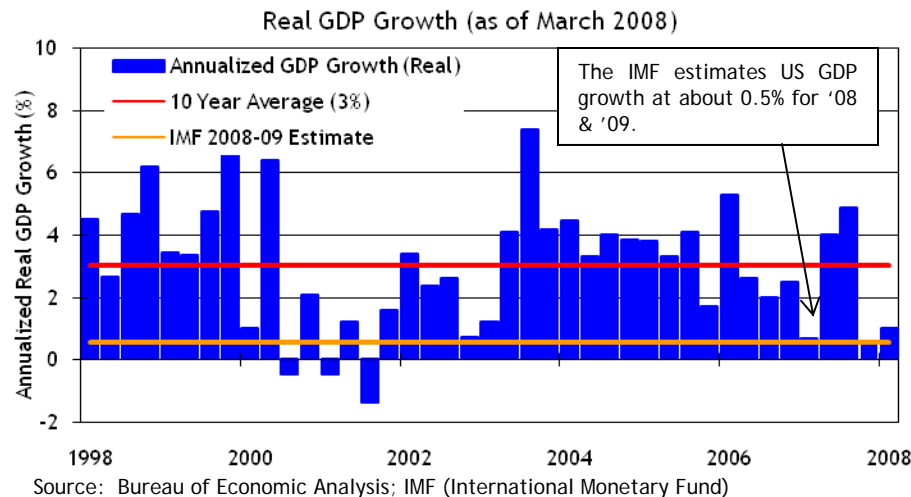


Market Environment Overview

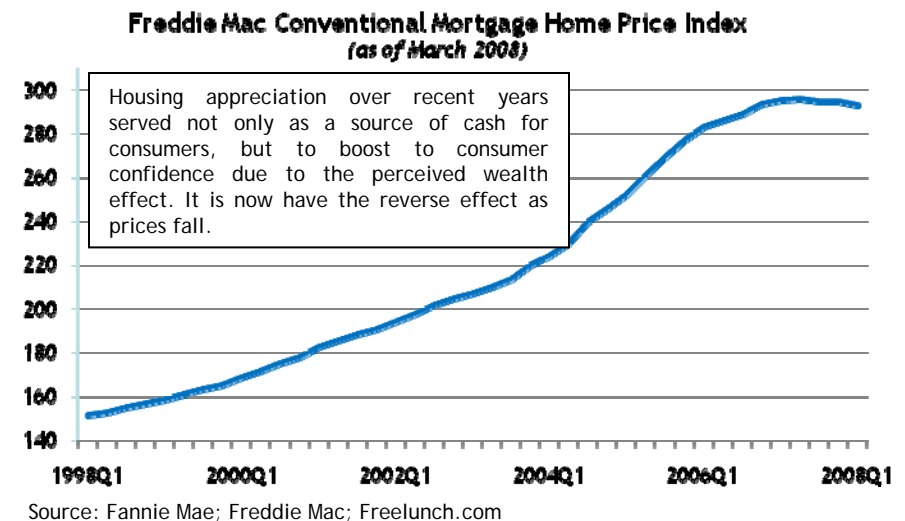
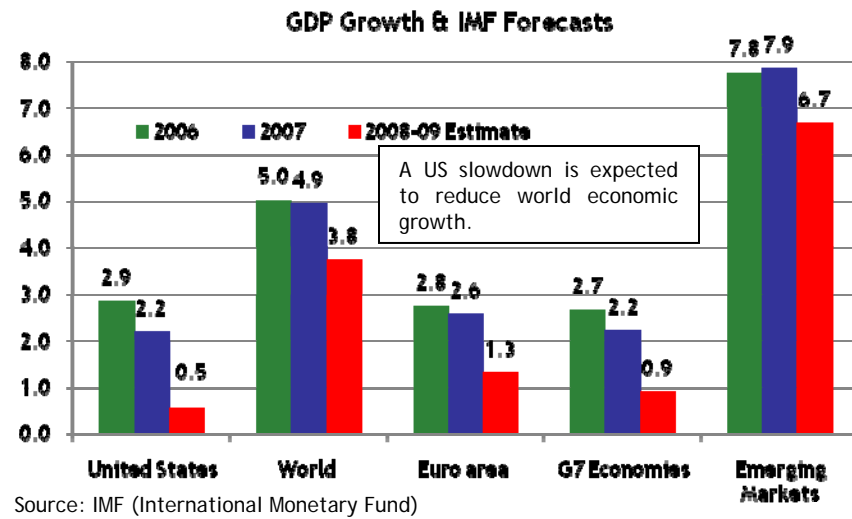
- The macroeconomic environment for the US continues to weaken as the economy faces numerous challenges.
- Housing prices are falling, taking away a significant source of cash for consumer spending vis-à-vis home equity loans. This is also affecting peoples' mindsets by making them feel less wealthy, placing downward pressure on consumer spending. Rising energy prices also served as an economic drag.
- The International Monetary Fund expects annual real US GDP growth of only 0.5% per annum for 2008 and 2009. This expectation is lowering worldwide economic growth forecasts.
- Capital markets continue to be concerned about credit and liquidity conditions with the failure of IndyMac Bank and talks of government intervention with Fannie Mae and Freddie Mac.
- Inflation is quickly becoming a concern as energy prices rise and the Federal Reserve pours liquidity into beleaguered credit markets. CPI now stands at 5%; CPI less food and energy is now 2.4%.
- Importation of inflation is also a concern as the dollar depreciates against major currencies.
- Investment markets broadly priced a renewed appreciation for risk and volatility as evidenced by worldwide losses in equity markets and a widening of fixed income credit spreads.
- US large cap stocks are nearing historic lows for rolling ten year returns and have been handily outpaced by other domestic equities. However, US large caps should arguably do better going forward on an absolute and relative basis.
- US Treasuries are priced to potentially provide negative real returns as investors bid prices up and yields down in a flight to safety. Credit spreads to Treasuries have widened substantially, increasing expected returns for diversified fixed income portfolios.
- Capital markets volatility should persist as the US economy works through its difficulties.



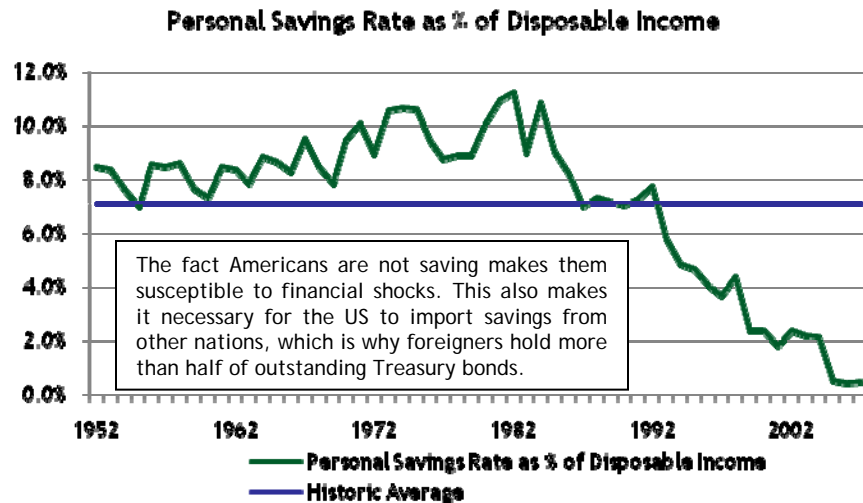
The US Economy is Expected to Slow



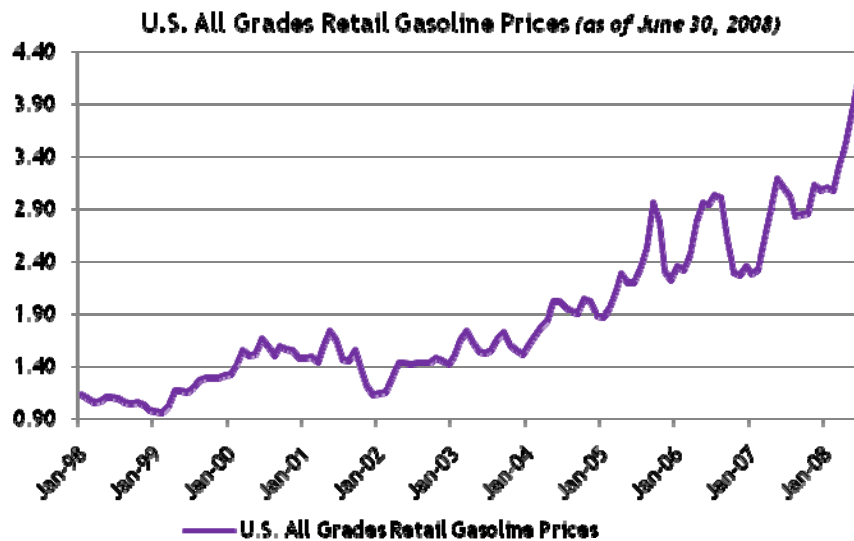
- Federal Reserve Chairman Bernanke recently said the US economy is facing “numerous difficulties” and there is a “high degree of uncertainty” about the Fed’s economic outlook.
- These difficulties include:
 - Falling home prices and consumer spending
 - Weakness in credit markets
 - Higher energy prices
 - Failing financial institutions and surging inflation
- As a result the IMF expects US GDP growth to slow to about a 0.5% pace per annum over the next two years. Estimates are subject to change though.



Drivers of the US Economic Slowdown are Straightforward

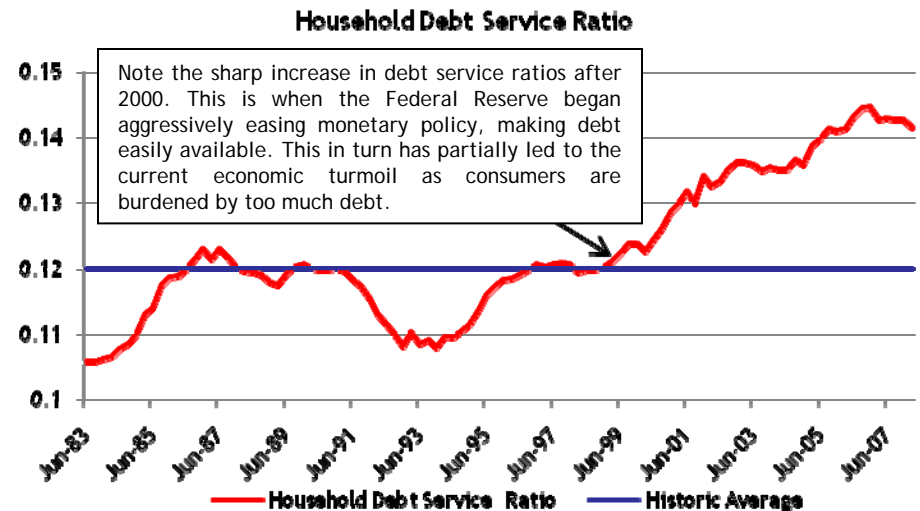


Source: Bureau of Economic Analysis



Source: US Department of Energy

- US consumers were simply unprepared for the combination of increasing energy prices and falling home values.
- Household debt service ratios are at all time highs and savings rates are at all time lows, making consumers very susceptible to increases in cost of living expenditures.
- Recent shocks to consumers could very well change their financial behavior and motivate an increase in the savings rate and a reduction in overall debt.
- If consumers start to de-lever their personal finances, such actions would put even further downward pressure on consumer spending and therefore economic growth.

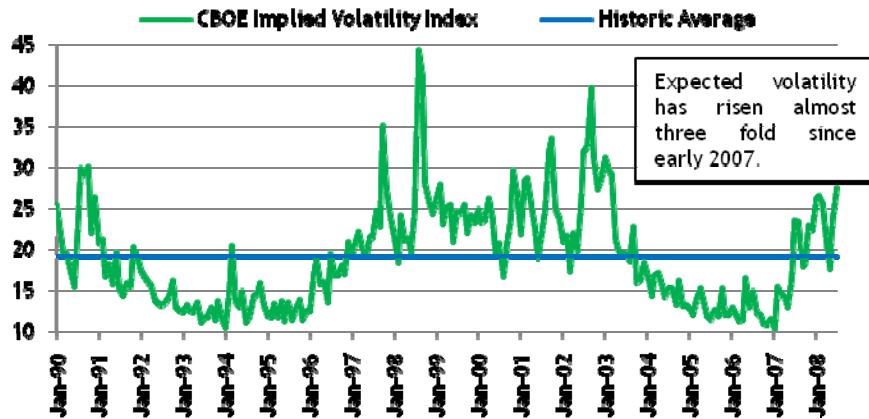


Source: US Federal Reserve



Pessimism and Uncertainty Punished Risky Asset Classes

CBOE¹ Implied Volatility Index (as of June 30, 2008)



¹ CBOE: Chicago Board Options Exchange; Source: Yahoo Finance

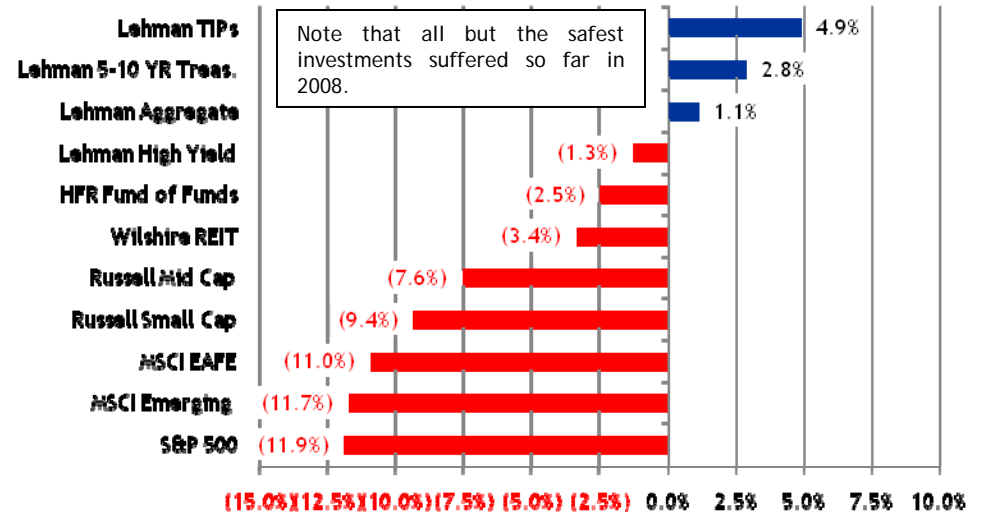
- One consistent pattern of investor behavior is to avoid risky assets during times of uncertainty.
- With credit markets a mess, volatility on the rise, housing prices falling, and GDP growth slowing, investors broadly reduced their risk exposures.
- This led to the strong performance of US inflation protected and nominal Treasuries, and poor performance for risky bonds, all equities, and even hedge funds.

Consumer Confidence Index (as of June 30, 2008)



Source: Conference Board

Major Asset Class Returns YTD (as of June 30, 2008)



Source: Ibbotson

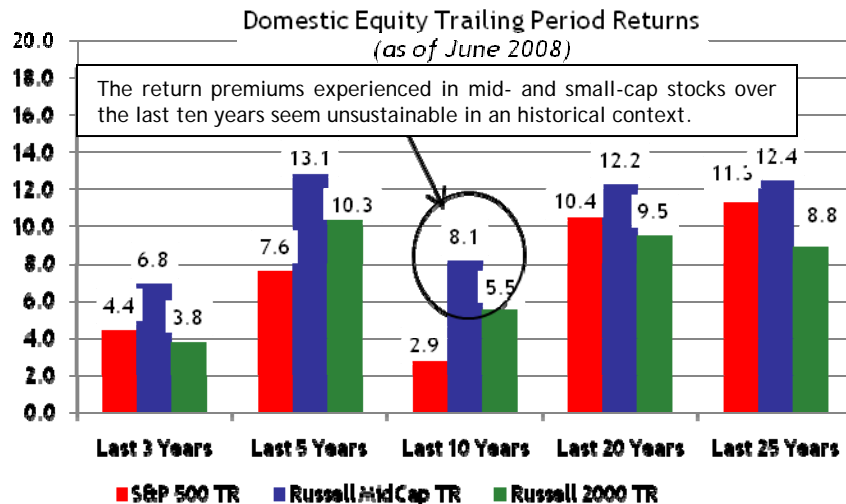


US Large Cap Stocks are Becoming More Attractive

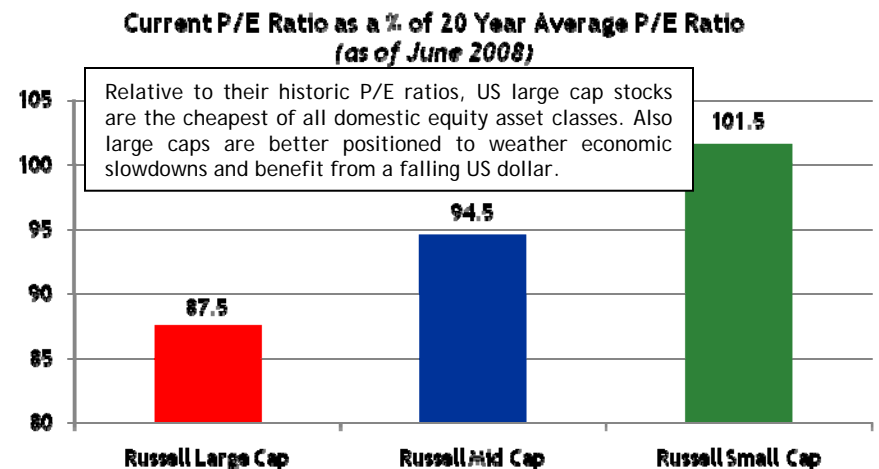


Source: Ibbotson; Wurts & Associates

- Investors naturally tend to focus their attention on past returns and extrapolate those returns too far into the future.
- US large cap stocks are clearly lagging other domestic equity asset classes over the last ten years, which may prompt investors to shift allocations to better performing equities.
- Fiduciaries must keep in mind that returns tend to revert to the average over time and that valuations are the single strongest predictor of future returns.
- US large caps are the cheapest domestic equities and are near historic lows for their rolling ten year returns.
- Going forward it seems reasonable to expect stronger returns for large caps both on an absolute and relative basis.



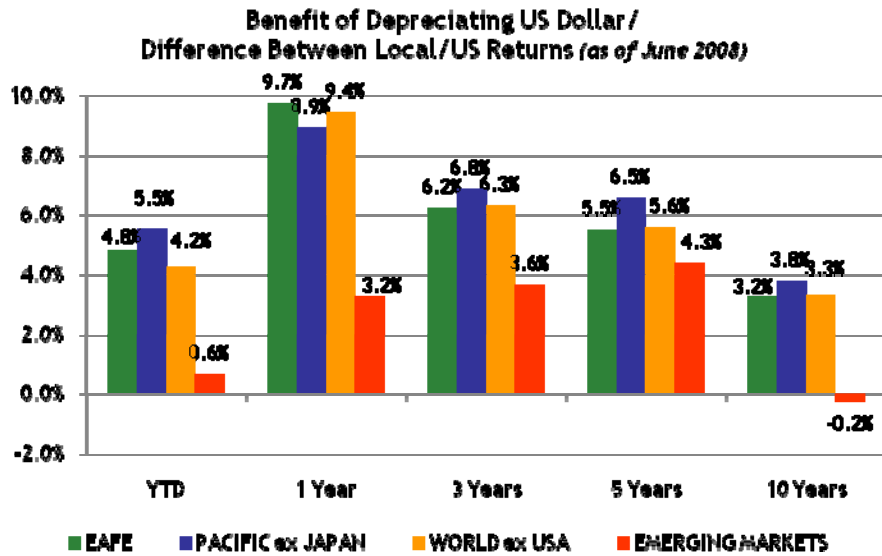
Source: Ibbotson



Source: Russell; JPMorgan



A Weak Dollar Bolstered International Equity Returns

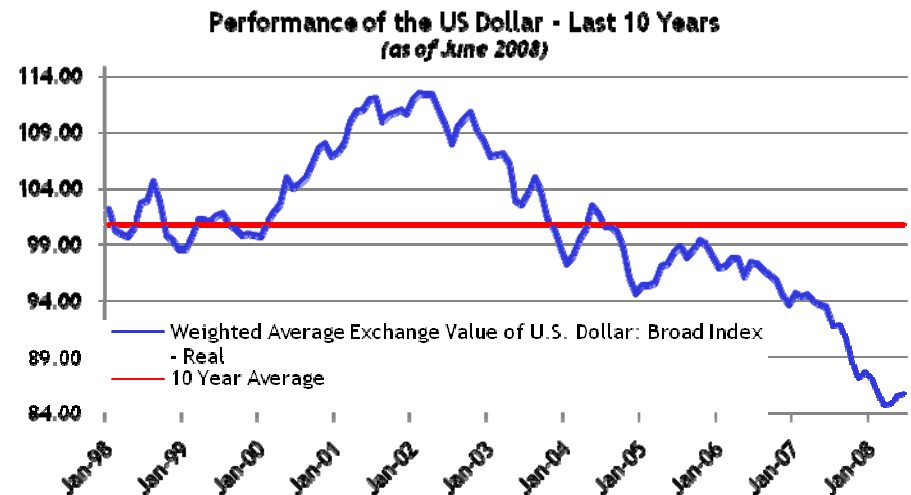


Source: MSCI; Wurts & Associates

		Returns as of June 2008				
		YTD	1 Year	3 Years	5 Years	10 Years
USD	EAFE	-10.6%	-10.2%	13.3%	17.2%	6.2%
	G7 INDEX	-10.0%	-10.7%	8.1%	11.2%	4.0%
	PACIFIC ex JAPAN	-11.4%	-1.0%	19.2%	24.0%	14.8%
	WORLD ex USA	-9.4%	-8.3%	14.2%	17.8%	6.7%
	EMERGING MARKETS	-11.6%	4.9%	27.5%	30.2%	15.5%
Local	EAFE	-15.3%	-19.8%	7.1%	11.7%	3.0%
	PACIFIC ex JAPAN	-16.9%	-9.9%	12.4%	17.5%	11.0%
	WORLD ex USA	-13.6%	-17.8%	8.0%	12.3%	3.5%
	EMERGING MARKETS	-12.3%	1.7%	23.9%	25.8%	15.7%

Source: MSCI

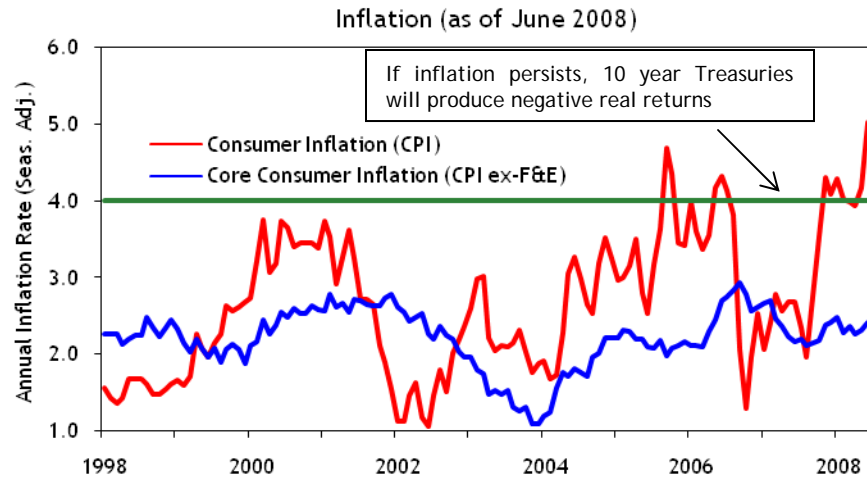
- Over the last ten years US large cap stocks (S&P 500) returned 2.9%, annualized, whereas international large cap stocks (EAFE) returned 6.2%, annualized, to US investors.
- Interestingly though, if you had hedged away exposure to the US dollar the EAFE would have only returned 3.0%!
- What this means is the decline of the US dollar has been a material factor in the returns experienced by US investors in foreign equities.
- Going forward the value of the US dollar will continue to be a material factor in returns.
- If the dollar's value rebounds, this will detract from the returns experienced by US investors, assuming their exposures to international equities are unhedged.



Source: Federal Reserve; Freelunch.com

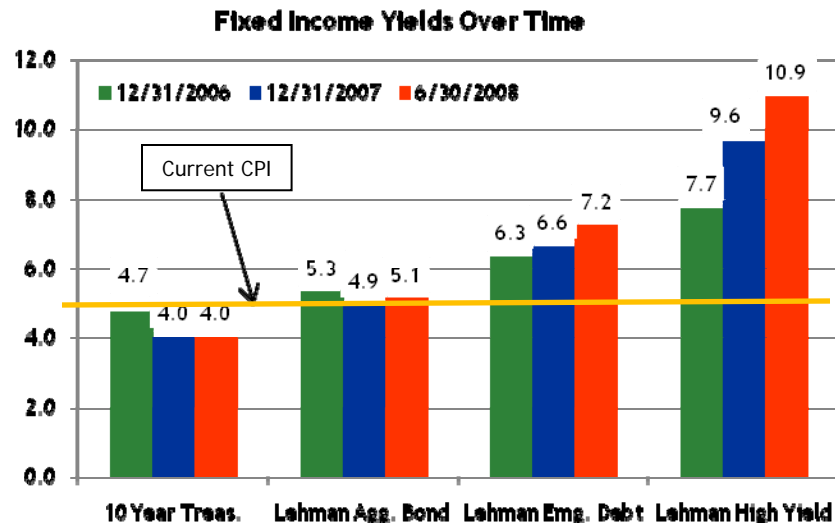


Investors are Shying Away from Credit Risk

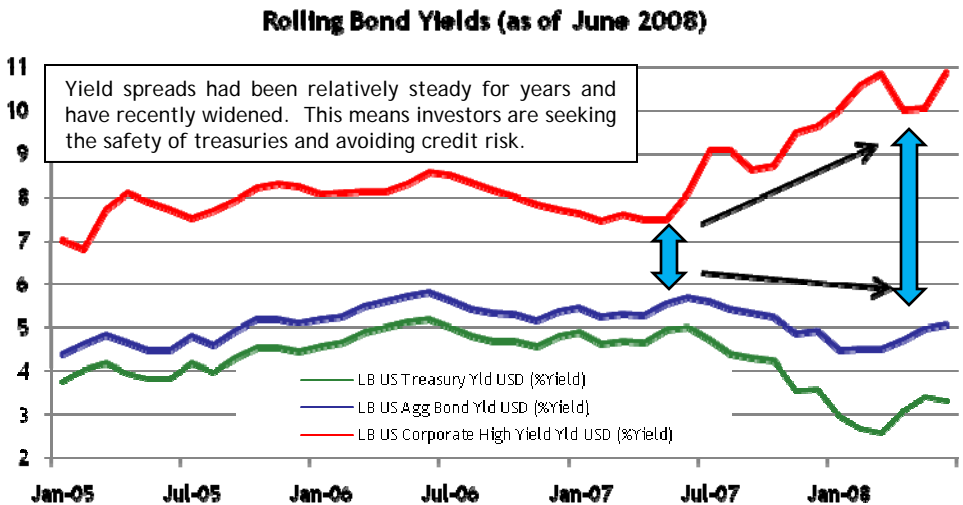


Source: Bureau of Labor Statistics; Federal Reserve Bank of St. Louis

- Economic uncertainty breeds aversion to risk. Fixed income markets are no exception to this rule.
- An analysis of yield spreads indicates investors are shifting away from credit risk and into the safety of Treasuries.
 - *Treasury yields are falling; credit yields are rising.*
- Treasury yields are now below the current rate of inflation, potentially setting the stage for negative real returns, which only serves to illustrate investors' fear in that they would embrace these sorts of returns.
- Fortunately prospective returns for diversified fixed income portfolios are rising as a result.



Source: Lehman Brothers, EconWin, Factset, JPMorgan



Source: Ibbotson



Randomness in Returns

Asset Class Rankings Over the Past Twenty Years Second Quarter, 2008

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	YTD 2008
Best	29.5	35.9	17.5	51.2	29.1	32.9	8.1	38.3	23.1	35.2	38.7	43.1	22.8	14.0	10.3	48.5	22.3	18.9	26.9	15.8	2.2
	28.6	25.2	8.9	41.7	13.8	26.3	6.4	37.2	21.6	31.8	20.3	33.2	12.3	8.4	6.7	46.0	20.7	14.0	23.5	11.8	1.2
	23.2	20.2	7.9	41.2	12.3	23.8	4.2	31.0	21.4	30.5	16.2	27.3	11.6	7.3	1.7	38.6	16.5	7.5	22.2	11.6	1.1
	20.4	18.8	2.6	24.6	8.0	18.1	2.7	25.8	14.4	18.6	15.6	26.5	7.0	4.1	1.0	30.0	14.3	7.1	16.1	9.9	-2.5
	11.7	14.5	2.3	21.7	7.8	13.4	-0.8	24.6	14.1	16.2	13.6	13.0	6.0	2.8	-8.6	29.7	13.1	7.1	13.4	7.9	-5.7
	11.3	12.4	-0.3	16.0	7.4	11.5	-1.5	18.5	11.3	13.9	8.7	11.4	4.1	-2.7	-11.4	21.6	11.1	5.3	12.8	7.1	-8.9
	9.6	10.8	-8.1	14.5	5.0	9.8	-2.0	11.6	10.3	12.9	5.1	7.3	1.9	-5.6	-15.5	11.6	6.9	4.7	10.4	7.0	-9.1
	7.9	8.6	-17.4	12.5	3.6	3.1	-2.4	11.1	6.4	9.7	1.2	4.7	-14.0	-9.2	-15.7	9.0	6.3	4.1	9.1	4.7	-9.8
	6.8	7.8	-21.8	5.8	-4.3	2.9	-2.9	7.5	5.3	5.3	-5.1	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.0	4.8	-0.2	-10.6
	Worst	NA	NA	-23.2	-5.6	-11.9	1.4	-3.5	5.8	3.6	2.1	-6.5	-1.5	-22.4	-21.2	-30.3	1.1	1.2	2.4	4.3	-9.8

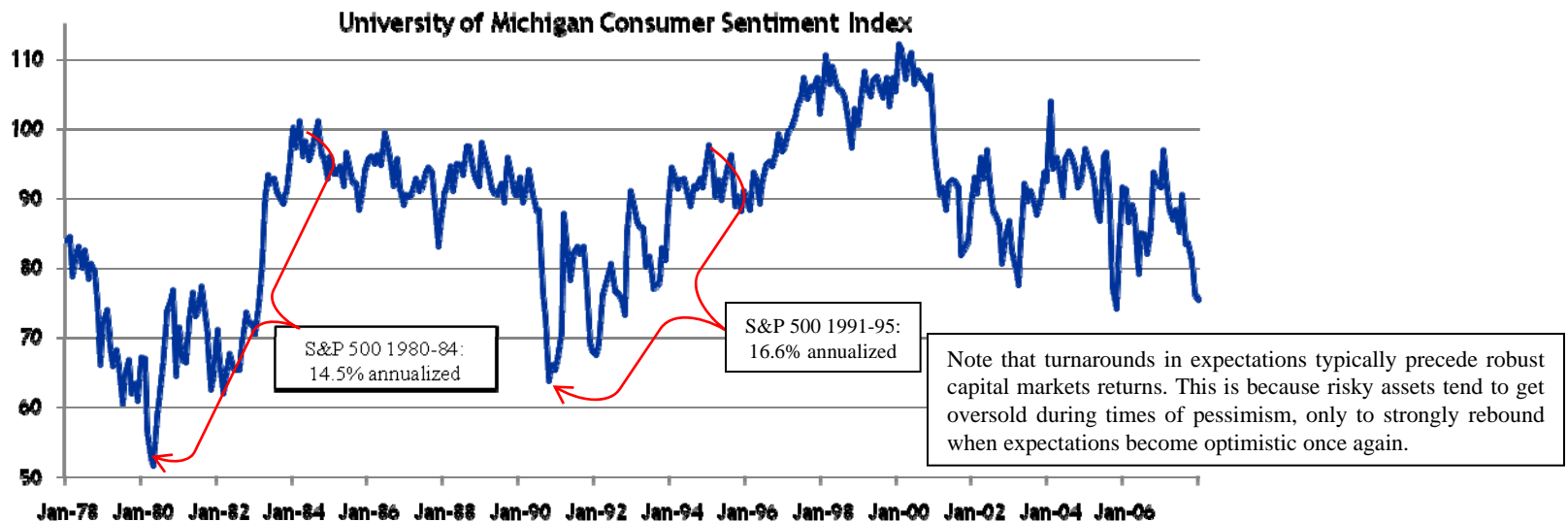
- Large Cap Growth US Stocks (Russell 1000 Growth Index)
- Large Cap Value US Stocks (Russell 1000 Value Index)
- Small Cap Growth US Stocks (Russell 2000 Growth Index)
- Small Cap Value US Stocks (Russell 2000 Value Index)
- Hedge Fund of Funds (HFRI Fund of Funds Index)
- International Stocks (MSCI EAFE Index)
- Domestic Fixed Income (Lehman Bro Aggregate Bond Index)
- Real Estate (NCREIF Property Index)
- Cash (Citigroup 3-Mo Treasury)
- ICC Universe Median (Total Funds)

Data: Ibbotson Associates, 2008; Independent Consultants Cooperative.



Concluding Thoughts

- Worldwide capital markets are evidently concerned about the US slowdown and its impact on the world economy.
- These concerns have manifested themselves in a broad aversion to risk amongst investors, leading to poor recent returns for risky investments. This of course is the bad news.
- The good news however is that economies and capital markets are cyclical in nature, and we have every reason to believe the US will eventually work through these difficult times and resume growing at a normal pace.
- We know pessimism will eventually lead to optimism, albeit we are unable to know exactly when this will occur, making market timing an especially difficult and fruitless task.
- We know that when such turnarounds in sentiment occur, risky assets will once again be embraced by investors and returns will gravitate towards normal levels, if not temporarily well above historic averages.
- So now is the time to remain within policy allocation guidelines, which may include rebalancing into oversold risky asset classes that will most benefit from a rebound in expectations.



Source: University of Michigan; Ibbotson

