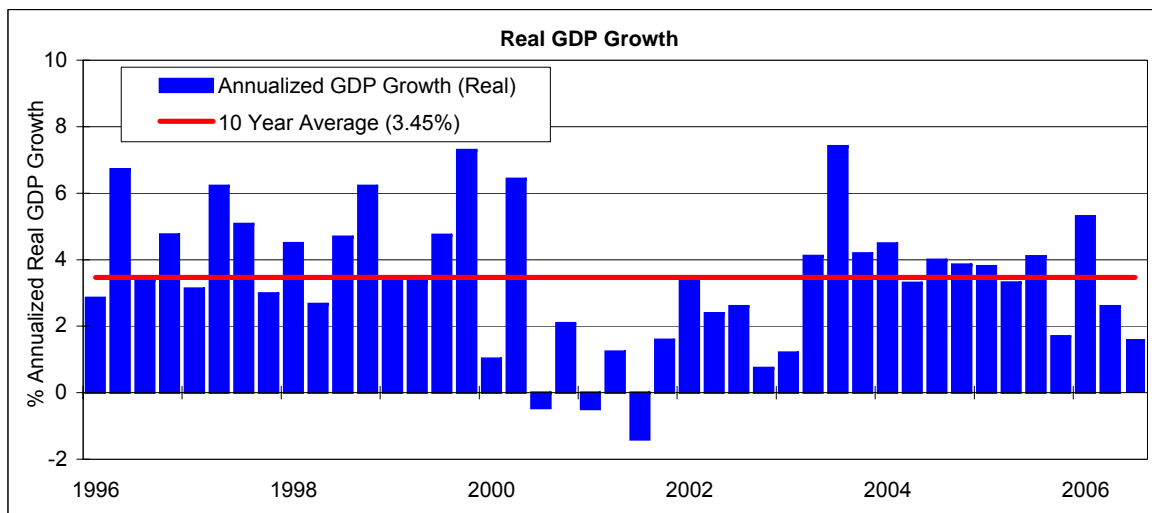


Economic Growth

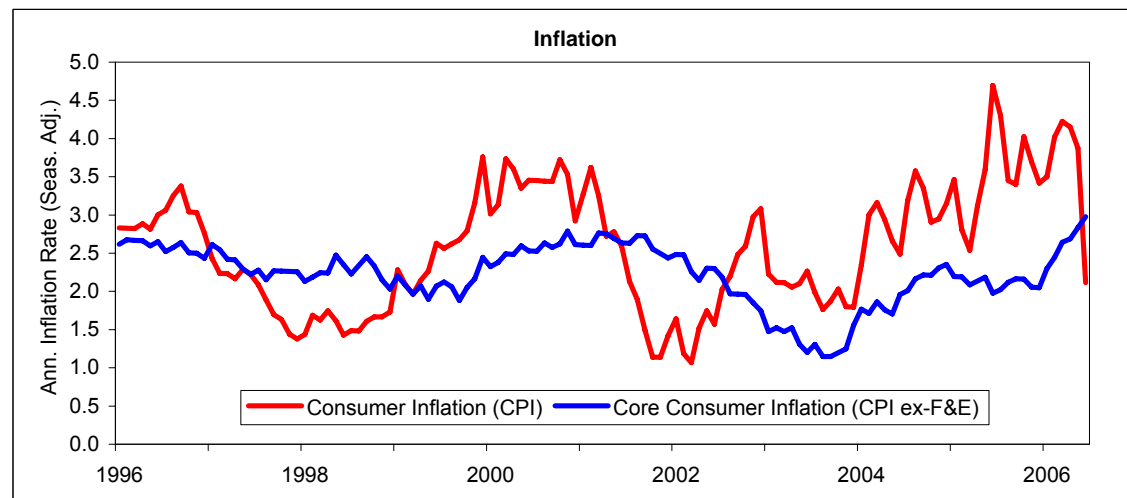


Source: Bureau of Economic Analysis.

- The Commerce Department's preliminary estimate for third quarter real GDP growth was 1.6%, the lowest rate of growth since the first quarter of 2003. This is also lower than the 2.2% that economists predicted.
- Real GDP increased at an annual rate of 2.6% during the second quarter, based on final estimates by the Bureau of Economic Analysis. This was a drop from the 5.6% annualized increase during the first quarter.
- The deceleration in third quarter GDP came amid a slowdown in the housing sector. Spending on housing fell to its lowest rate since 1991.

Inflation

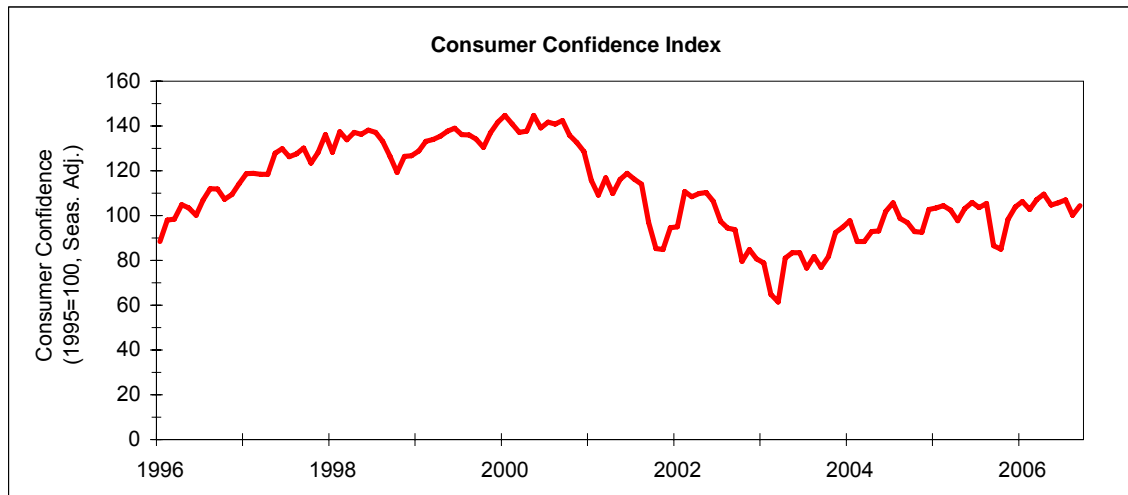
- The US Department of Labor's Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.5% on a seasonally adjusted basis (SAAR) during September, following a 0.2% increase in August. The decrease was largely attributed to a 13.5% drop in gasoline prices. Year to date, the CPI-U rose at a 3.4% SAAR, the same as for all of 2005.
- Core consumer prices, which exclude food and energy, advanced at a 2.7% SAAR year to date, higher than the 2.2% rise for all of 2005.
- September marked the first month that overall consumer prices did not rise. However, core inflation is still accelerating at its fastest pace in 10 years.



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

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Consumer Confidence

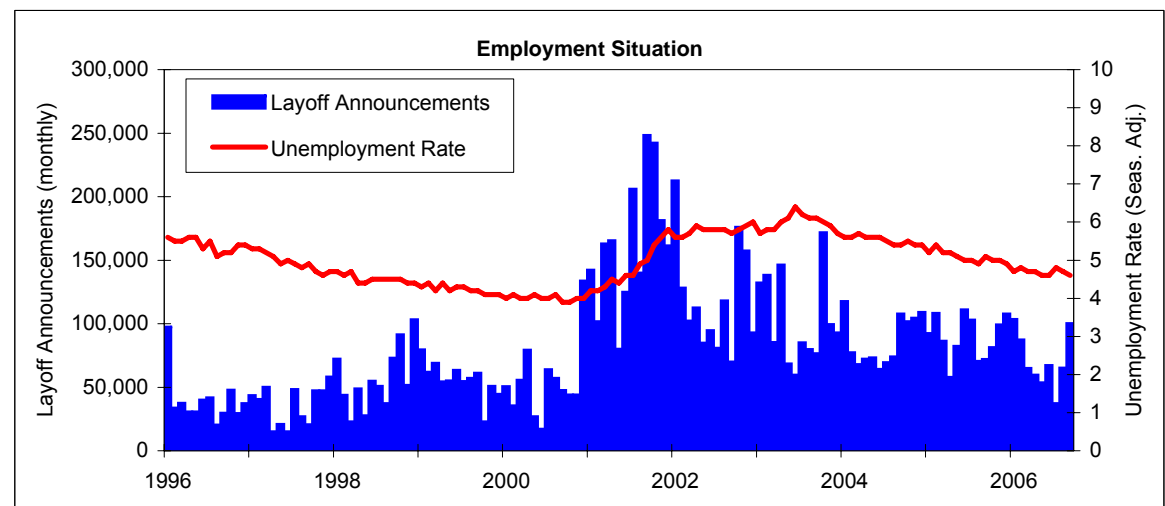


Source: The Conference Board

- After decreasing sharply during August, the Conference Board's Consumer Confidence Index posted a gain in September, finishing the month at 104.5. Lower gas prices may have contributed to the gain.
- Consumers' appraisal of ongoing conditions improved during the month of September. Those claiming conditions are "good" increased to 27.4% from 26.2% in August while consumers claiming conditions are "bad" eased to 15.4% from 16.6%.
- Consumers' outlook for the next six months was less pessimistic in September than in August. Their outlook for the labor market also improved moderately.

Employment Situation

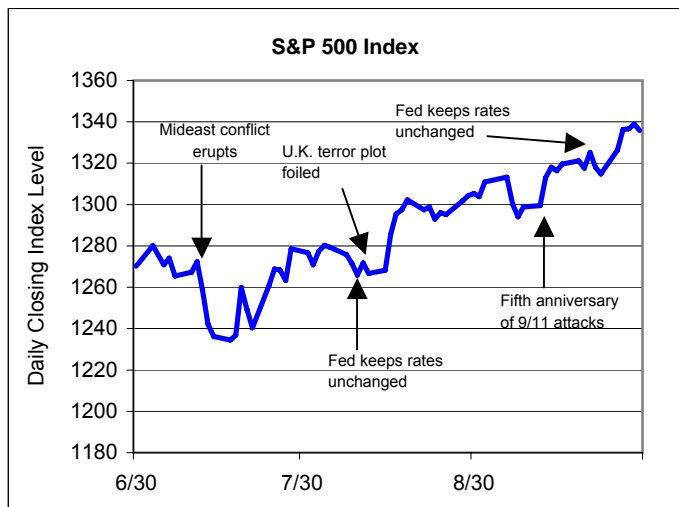
- The U.S. unemployment rate fell to 4.6% in September from 4.7% during the month of August. Financial services firms were particularly active, adding 16,000 jobs amid a strong stock market.
- Though the unemployment rate is at a five year low, U.S. employers added only 51,000 new jobs in September, much less than the gain of 188,000 jobs in August and the weakest growth since the aftermath of Hurricane Katrina in 2005.
- Among sectors, manufacturing lost an additional 19,000 jobs while construction added 8,000 jobs during September. Average hourly earnings rose 4.0% from a year earlier, the highest figure since 2001.



Source: Bureau of Labor Statistics; Challenger, Gray & Christmas, Inc.

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US Stock Market Highlights



Source: Yahoo! Finance

Sector Performance

	Quarter	One Yr
Consumer Disc.	5.1	8.9
Consumer Staples	5.7	11.3
Energy	(1.5)	3.7
Financials	8.1	20.7
Health Care	10.2	7.5
Industrials	(0.2)	11.8
Info. Technology	8.5	3.3
Materials	(1.2)	17.5
Telecom. Services	10.5	22.7
Utilities	6.1	4.9

- The S&P 500 Index rebounded strongly during August and September and returned 5.7% during the third quarter, its strongest since 1997.
- Health care and telecommunications were the top performing market sectors, returning 10.2% and 10.5%, respectively. Energy had a negative quarter amid falling oil prices but is still positive over the past year.
- The market's rally can be partially attributed to falling oil prices and optimism that the Fed is finished raising rates. The Dow has been particularly strong, finishing the quarter near an all-time high.

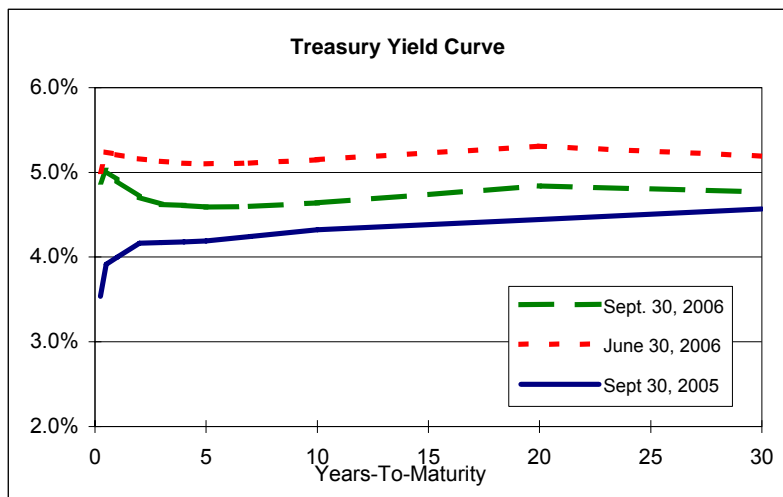
Equity Market Performance

- Large caps handily outperformed small caps. The Russell 1000 posted a 5.1% return, outpacing the 0.4% performance of the Russell 2000.
- Value continued to outperform growth in both the large cap and small cap spaces. Year to date, value is outperforming growth by 10.2% in large cap and 9.1% in small cap.
- Market volatility fell during the quarter as energy and commodity prices fell. The CBOE Volatility index fell from a peak of 23.81 in June to 11.98 at the end of September. The third quarter's average VIX was 13.5, much lower than the VIX's historical average of 19.7.

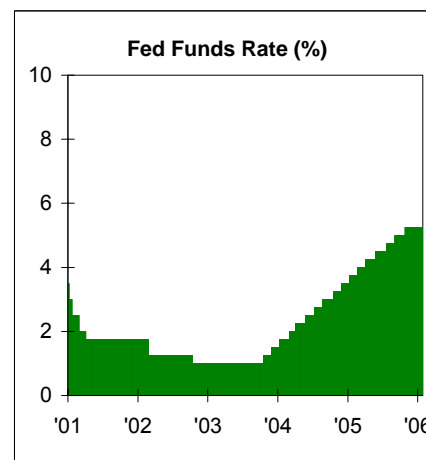
	Quarter	YTD	One Yr	Three Yrs	Five Yrs	Ten Yrs
<u>Core Index Performance:</u>						
Standard & Poor's 500	5.7	8.5	10.8	12.3	7.0	8.6
S&P 500 Equal Weighted	3.9	8.1	10.9	16.3	12.8	11.5
Dow Jones Industrial Average	5.3	10.8	13.1	10.4	8.0	9.2
Russell 1000	5.1	8.0	10.3	12.8	7.6	8.8
Russell 2000	0.4	8.7	9.9	15.5	13.8	9.1
Russell 3000	4.7	8.0	10.2	13.0	8.1	8.7
Russell Mid Cap	2.1	7.1	9.6	18.2	14.8	12.0
<u>Style Index Performance:</u>						
Russell 1000 Growth	3.9	3.0	6.1	8.4	4.4	5.5
Russell 1000 Value	6.2	13.2	14.6	17.2	10.7	11.2
Russell 2000 Growth	(1.8)	4.2	5.9	11.8	10.2	4.0
Russell 2000 Value	2.6	13.3	14.0	19.0	17.0	13.4

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Interest Rate Environment



Source: State Street Corp.



Source: Federal Reserve

- After seventeen consecutive quarter-point interest rate hikes, the Federal Reserve held rates steady at 5.25% over the third quarter's two FOMC meetings.
- While the Fed did pause their tightening cycle, it also left the door open for potentially more rate hikes in the near future as core inflation remains a concern.
- After peaking at a four-year high of 5.25% in early summer, the yield on the 10-year Treasury fell to 4.64% by late September, the biggest quarterly decline since the second quarter of 2005.

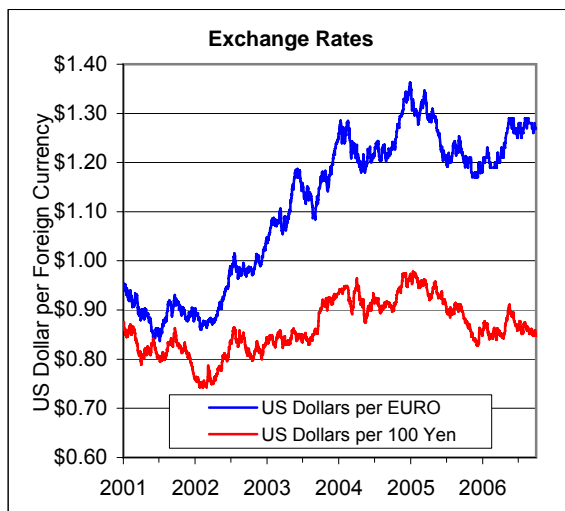
Bond Markets

- Overall, the Fed's actions helped bonds rally to a very strong quarter. The Lehman Aggregate's 3.8% return was its highest quarterly return since 2002.
- Long-term treasuries outperformed shorter term during the quarter. Treasury Inflation Protected Securities (TIPS) also rallied to a return of 3.6%, their best performance since the third quarter of 2004.
- Risk-taking in the bond sector paid off during the quarter. The high yield and emerging market sectors of the market performed well, rewarding investors with quarterly returns of 4.1% and 6.9%, respectively.

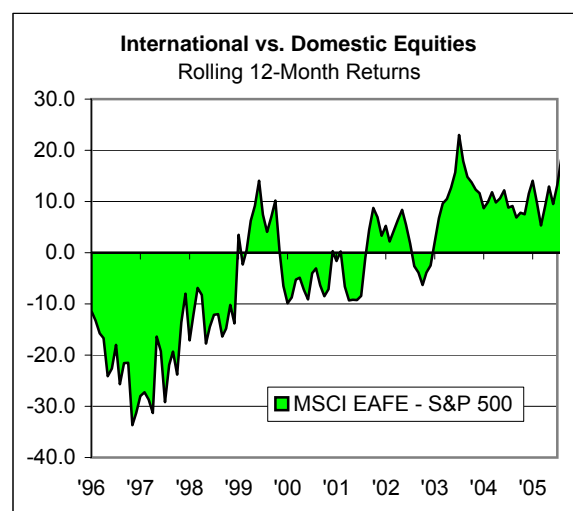
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	<u>Quarter</u>	<u>YTD</u>	<u>One Yr</u>	<u>Three Yrs</u>	<u>Five Yrs</u>	<u>Ten Yrs</u>
<u>Index Performance:</u>						
LB Aggregate	3.8	3.1	3.7	3.4	4.8	6.4
LB US TIPS	3.6	1.7	1.8	4.9	7.2	n/a
90 Day US Treasury Bills	1.3	3.5	4.5	2.7	2.3	3.8
<u>Maturity Evaluation:</u>						
LB 1-3 Yr Treasury	2.0	3.0	3.7	1.9	2.8	n/a
LB Intermediate Treasury	2.4	2.9	3.5	1.8	3.1	5.1
LB Long Treasury	4.4	2.2	2.8	2.5	4.5	n/a
<u>Issuer Performance:</u>						
LB Intermediate Agency	2.9	3.3	3.9	2.7	4.1	5.9
LB U.S. Credit	4.5	2.9	3.4	3.5	5.8	6.8
LB Mortgage	3.6	3.6	4.2	4.0	4.5	6.3
LB High Yield	4.1	7.4	8.1	9.1	10.5	6.5
JPM Emerg. Mkts Bond Index	6.9	6.1	8.4	11.8	14.1	11.3
Non-US Gov't Bond (Hedged)	3.4	2.5	3.3	1.5	4.6	6.8

International Market Environment



Source: Federal Reserve Bank, Daily Press



Source: Ibbotson

- International equities rose during the quarter as fears that central banks in Europe and Asia would aggressively raise interest rates dissipated. The MSCI EAFE gained 4.0% during the quarter and is up 14.9% year to date.
- The U.S. dollar ended the quarter with gains against major currencies. The dollar gained about 3.1% against the yen and 0.8% versus the euro over the period.
- For the quarter, the MSCI EAFE's return in US dollars is 4.0% compared to 5.1% in the local currency. Year to date, returns are 14.9% in US dollar terms and 9.2% in the local currency.

International Equity Market Performance

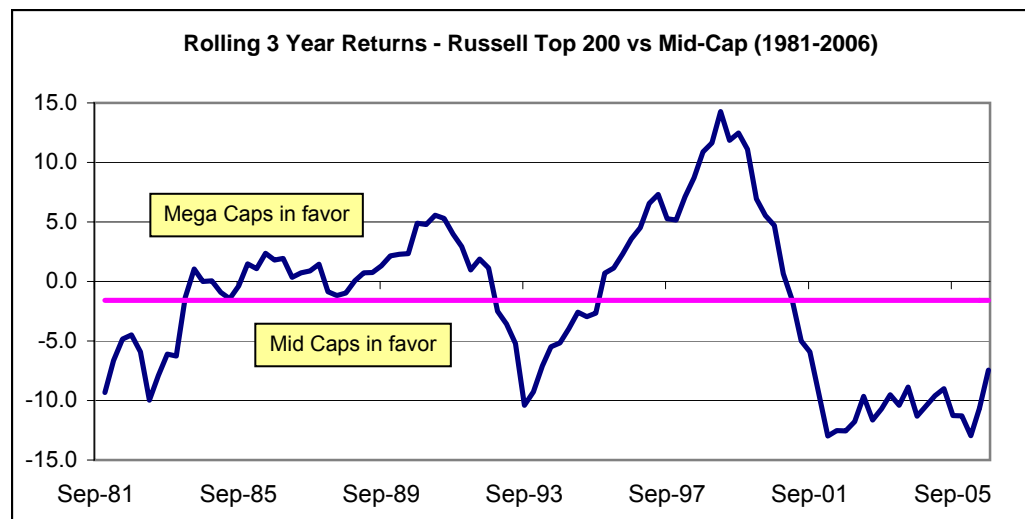
- International large caps underperformed small caps during the quarter. Over the past year, the MSCI EAFE has outperformed the EAFE Small Cap by 4.1%, following a similar trend in the US stock market.
- International value outperformed growth as a flight to quality emerged amid potentially disruptive events (i.e. Middle East conflict).
- Emerging market equities bounced back from a volatile second quarter to return 5.0%. Year to date, the MSCI Emerging Markets index is up 12.7% on the heels of strong performance from countries such as the Philippines and Mexico.

	<u>Quarter</u>	<u>YTD</u>	<u>One Yr</u>	<u>Three Yrs</u>	<u>Five Yrs</u>	<u>Ten Yrs</u>
<u>Broad Index Performance:</u>						
MSCI EAFE	4.0	14.9	19.7	22.8	14.7	7.2
MSCI World	4.6	11.2	14.7	17.3	10.5	7.7
MSCI EAFE ex. Japan	5.5	19.8	21.8	24.6	15.7	10.0
MSCI Emerging Markets	5.0	12.7	20.8	31.0	28.9	n/a
MSCI EAFE Small Cap	0.5	7.1	15.5	26.7	23.3	n/a
<u>Style Index Performance:</u>						
MSCI EAFE Growth	2.4	12.1	17.0	19.7	12.7	4.5
MSCI EAFE Value	5.6	17.7	22.3	25.8	16.7	9.7
<u>Regional Index Performance:</u>						
MSCI Europe ex-UK	6.5	21.6	25.3	26.3	16.4	11.4
MSCI United Kingdom	4.3	18.5	18.7	21.6	n/a	n/a
MSCI Japan	(0.7)	1.3	13.3	16.9	n/a	n/a
MSCI Asia	7.6	15.6	25.8	25.6	n/a	n/a
MSCI Latin America	4.8	17.5	21.7	45.1	32.4	14.5

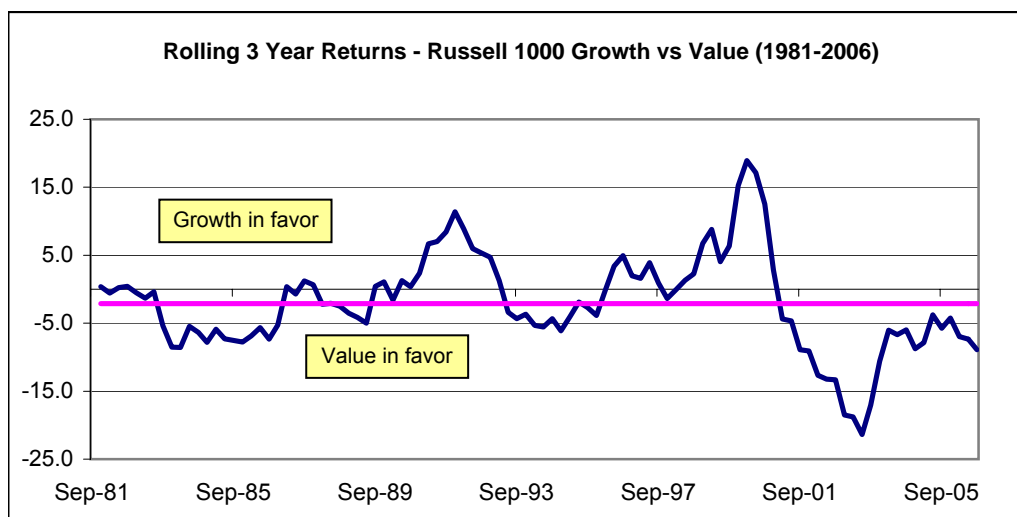
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Mean Reversion - Mega Caps vs. Mid Caps

- Mid cap equities have outperformed mega caps since the market peak of 2000. Over the past three years, mid cap has return 17.2% versus the 8.4% return of mega caps. Historically, mid-cap has outperformed mega caps by 1.6% over rolling three year periods.
- The past two quarters have seen mega-caps outperform mid caps. Year to date, the Russell Top 200 index has outperformed the Russell Mid Cap index by 126 basis points.
- The shift may signal a maturing economic landscape as bigger companies have historically outperformed smaller ones as economic expansions have matured.



Mean Reversion - Large Cap Growth vs. Large Cap Value



- Large cap value has outperformed growth over all rolling three year periods since late 2000. Historically, value has maintained a 2.1% performance advantage versus growth.
- During the third quarter, value outperformed growth by 2.3%. In addition, over the past three years, value has outperformed growth during eight of the twelve quarters.
- Despite its strong performance, value remains attractively valued relative to growth. The Russell 1000 Value's price to earnings ratio currently stands at 14.5 compared to the Russell 1000 Growth's price to earnings of 20.7. Growth's relative price to-earnings ratio of 143% that of Value is lower than its historical average of 155% since 1985.

Source: JPMorgan Asset Management, Ibbotson

Portfolio Diversification

Asset Class Rankings Over the Past Twenty Years

Third Quarter, 2006

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	YTD 2006
Best	69.9	24.9	29.5	35.9	8.9	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	14.9
	20.0	8.0	28.6	25.2	7.9	41.7	13.8	23.8	6.4	37.2	21.6	31.8	20.3	33.2	12.3	8.4	6.7	46.0	20.7	14.0	13.3
	15.9	5.9	23.2	20.2	2.6	41.2	8.0	18.1	4.2	31.0	21.4	30.5	16.2	27.3	11.6	7.3	1.8	38.6	16.5	7.1	13.2
	15.4	5.3	20.4	18.8	2.3	24.6	7.8	13.4	2.7	25.8	14.1	18.6	15.6	13.0	7.0	4.1	-8.6	30.0	14.3	7.1	12.1
	15.3	4.6	11.7	14.5	-0.3	21.7	7.4	11.5	-0.8	24.6	11.3	13.9	13.6	11.4	6.0	-2.7	-11.4	29.7	13.1	5.3	6.8
	8.3	2.7	11.3	12.4	-8.1	16.0	5.0	9.8	-1.5	18.5	10.3	12.9	8.7	7.3	1.9	-5.6	-15.5	21.6	11.1	4.7	4.2
	7.4	0.5	9.6	10.8	-17.4	12.5	3.6	3.1	-2.0	11.6	6.4	9.7	5.1	4.7	-14.0	-9.2	-15.7	9.0	6.3	4.1	3.5
	6.2	-7.1	7.9	8.6	-21.8	5.8	-4.3	2.9	-2.4	7.5	5.3	5.2	1.2	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.1	3.1
Worst	3.6	-10.5	6.8	7.8	-23.2	-5.6	-11.9	1.4	-2.9	5.8	3.6	2.1	-6.5	-1.5	-22.4	-21.2	-30.3	1.2	1.2	2.4	3.0


 Large Cap Growth US Stocks (Russell 1000 Growth Index)

 International Stocks (MSCI EAFE Index)


 Large Cap Value US Stocks (Russell 1000 Value Index)

 Domestic Fixed Income (LB Aggregate Bond Index)

 Small Cap Growth US Stocks (Russell 2000 Growth Index)

 Real Estate (NCREIF Property Index)

 Small Cap Value US Stocks (Russell 2000 Value Index)

 Cash (SB 3-Mo Treasury)

 ICC Universe Median (Total Funds)

Data: Ibbotson Associates, 2005; Institutional Consultants Cooperative.
Rev. 10/30/06