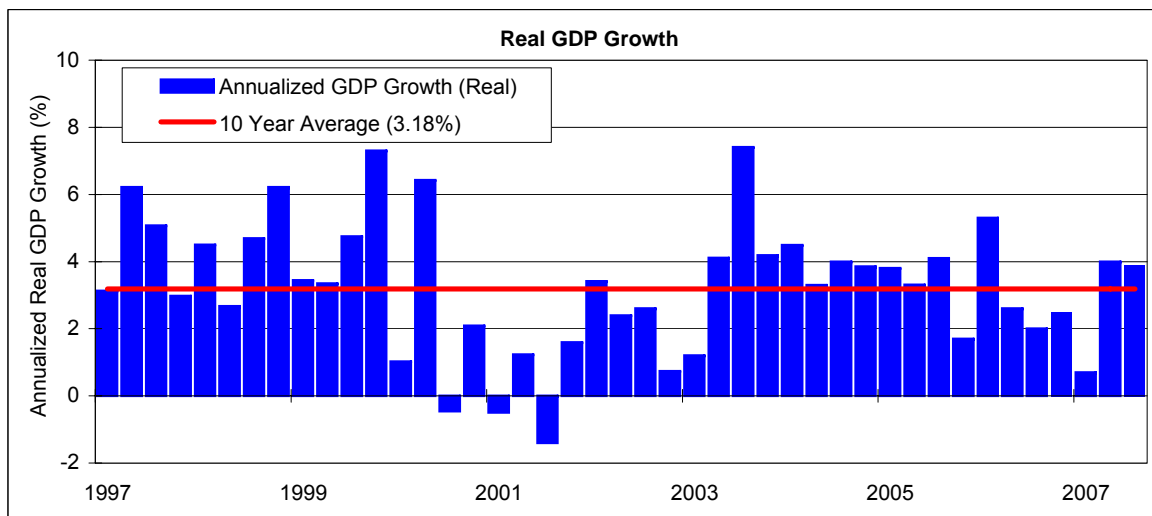


Economic Growth

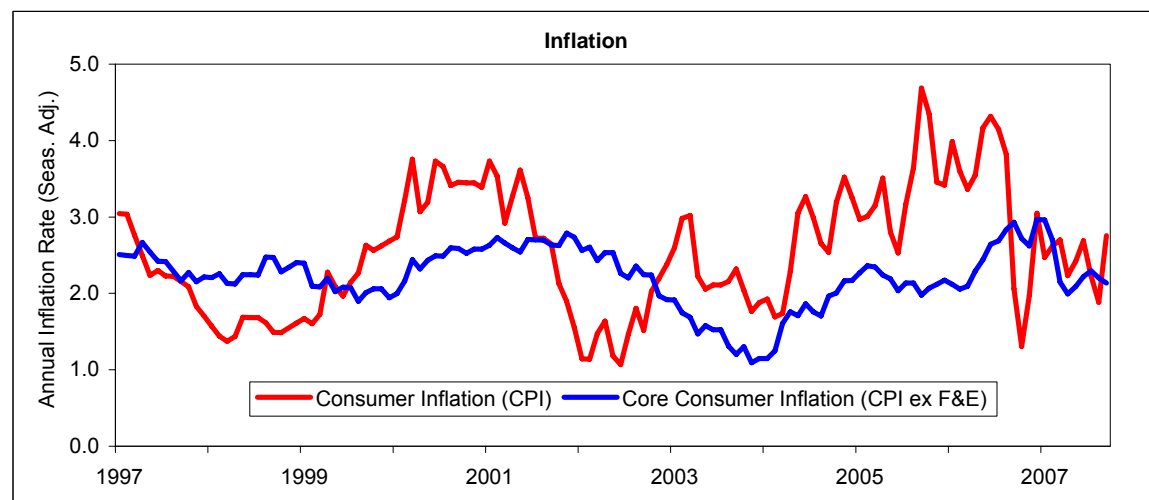


Source: Bureau of Economic Analysis.

- The third quarter's real gross domestic product (GDP) increased at an annual rate of 3.9% based on preliminary estimates from the Bureau of Economic Analysis. The strong performance surprised economists, who had expected growth of 2.2% based on the average forecast among the Wall Street Journal's survey of 55 economists.
- GDP growth was driven by consumer spending, which contributed 211 basis points during the period. The strong spending offset residential fixed income investment, which fell by 20.1%.
- Despite the strong quarter, the WSJ survey expects growth to ease to 1.9% during the fourth quarter.

Inflation

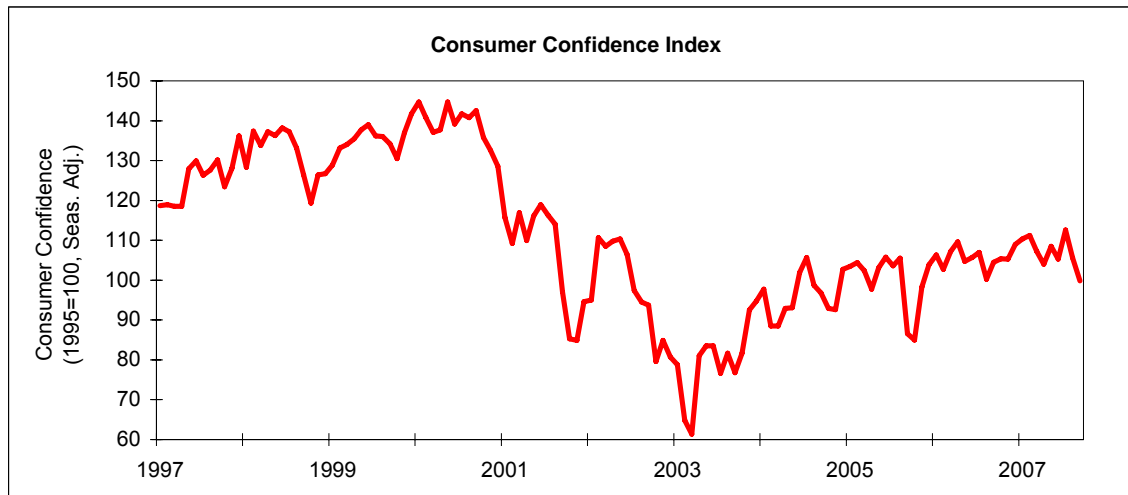
- Consumer prices, as measured by the Consumer Price Index (CPI), rose at a 2.8% annual rate in September. The largest contributor to CPI was the energy index, which has risen 5.3% from last year, partly as a result of higher oil prices.
- Excluding food and energy, consumer prices rose 2.1% over the past year. However, over the past three months, this "core inflation" metric has risen at a 2.5% annualized rate, which may be of concern to the Fed at their upcoming FOMC meetings.
- Within CPI, medical care and housing experienced increases of 4.6% and 2.9% over the past year while apparel prices fell 1.8%, respectively.



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

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Consumer Confidence

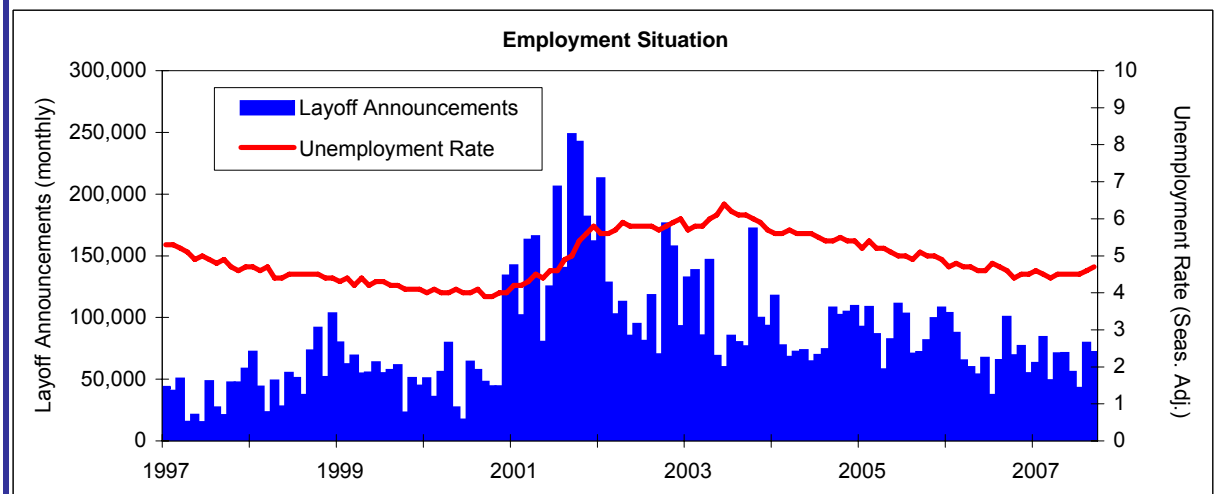


Source: The Conference Board

- The Conference Board's Consumer Confidence Index fell to 99.8 from 105.6 in August, its lowest level since November 2005.
- Looking ahead, consumers expect little economic improvement as weaker business conditions combined with an unfavorable job market continue to weigh on consumers. The proportion of respondents who anticipate fewer jobs increased to 18.7% from 15.2% in the prior month.
- The poor confidence figures do not bode well for the upcoming holiday season as consumers will likely be more conscientious as they shop, which is unwelcome news for retailers.

Employment

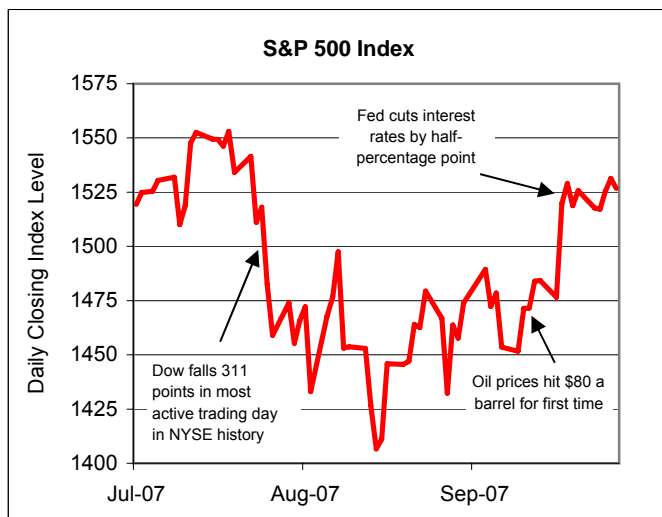
- Non-farm employment rose by 292,000 during the third quarter, down from 444,000 new jobs during the previous quarter. August's employment figures were sharply revised from a decline of 4,000 jobs to a rise of 89,000.
- Despite the higher employment figures, the US unemployment rate ticked up 0.1% from last quarter to 4.7%. In addition, average hourly earnings increased 7 cents to \$17.57, which is 4.1% higher than one year ago. This suggests that the tight labor market is spurring wage growth.
- Among sectors, services and government added jobs while manufacturing and construction employment fell.



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

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US Stock Market Highlights



Source: Yahoo! Finance

Sector Performance

	<u>Quarter</u>	<u>One Yr</u>
Consumer Disc.	(6.4)	4.5
Consumer Staples	4.8	13.8
Energy	10.0	43.4
Financials	(4.2)	1.7
Health Care	1.1	8.6
Industrials	5.8	23.9
Info. Technology	6.6	23.6
Materials	4.7	35.3
Telecom. Services	2.1	26.1
Utilities	2.0	21.3

- The S&P 500 returned 2.0% during the quarter amid a volatile market environment. During the three month period, the S&P 500 experienced eight trading days of greater than 2% movements, compared to only two days during the first and second quarters combined.
- Benefiting from a spike in oil prices, the energy sector returned 10% during the quarter and has risen 43% over the past year.
- The financial sector returned -4.2% as the credit crunch had a particularly negative impact on the banking industry. For example, financial bellwethers Citigroup and JPMorgan Chase fell 9.0% and 5.4% respectively.

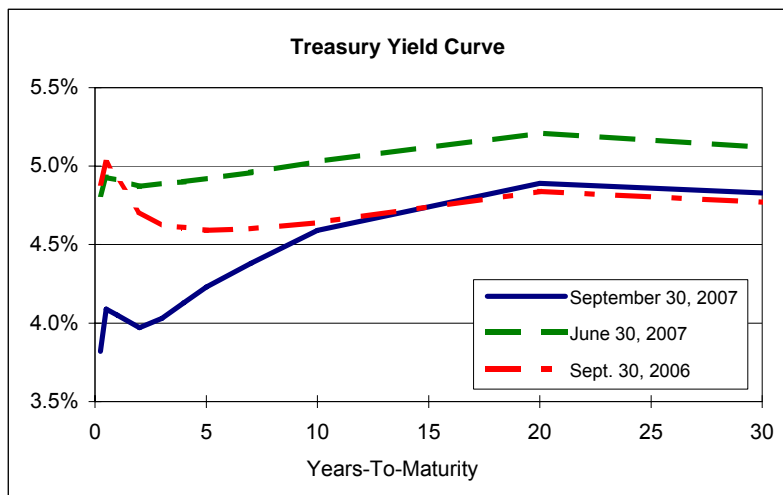
Equity Market Performance

- Large cap equities continued their strong recent run by outperforming small caps as the Russell 1000 returned 2.0% versus -3.1% for the Russell 2000. In addition, the Russell 1000's three year return of 13.8% is 40 basis points ahead of the Russell 2000.
- Mega-caps also had a strong quarter as measured by the Dow Jones Industrial Average, which returned 4.2% during the period.
- Growth outperformed value during the quarter within both large and small cap equities. The outperformance was particularly wide among small caps as the Russell 2000 Growth's year-to-date return of 9.4% is 1210 basis points ahead of the Russell 2000 Value.

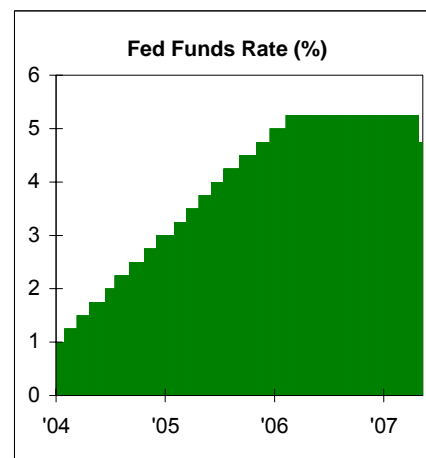
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	<u>Quarter</u>	<u>YTD</u>	<u>One Yr</u>	<u>Three Yrs</u>	<u>Five Yrs</u>	<u>Ten Yrs</u>
<u>Core Index Performance:</u>						
Standard & Poor's 500	2.0	9.1	16.4	13.1	15.5	6.6
S&P 500 Equal Weighted	(1.9)	6.8	14.3	14.5	20.1	10.2
Dow Jones Industrial Average	4.2	13.3	21.7	13.9	15.4	7.9
Russell Top 200	3.0	9.3	16.6	12.4	14.2	5.8
Russell 1000	2.0	9.3	16.9	13.8	16.0	6.9
Russell 2000	(3.1)	3.2	12.4	13.4	18.8	7.2
Russell 3000	1.6	8.8	16.5	13.8	16.2	6.8
Russell Mid Cap	(0.4)	9.5	17.9	17.4	20.9	10.4
<u>Style Index Performance:</u>						
Russell 1000 Growth	4.2	12.7	19.4	12.2	13.8	4.1
Russell 1000 Value	(0.2)	6.0	14.5	15.2	18.1	8.8
Russell 2000 Growth	0.0	9.4	18.9	14.1	18.7	3.7
Russell 2000 Value	(6.3)	(2.7)	6.1	12.5	18.7	10.1

Interest Rate Environment



Source: State Street Corp.



Source: Federal Reserve

- The Fed surprised the markets with a 50 basis point cut in the Fed Funds rate on September 18th. It was the first rate change since June 2006 and exceeded the quarter-point reduction which most economists had expected. The rate now stands at 4.75%.
- Markets appear unsure of the Fed's next move. The Fed futures market indicates an implied probability of rates staying at 4.75% through October at about 55% while the probability of another 25 basis point cut stands at 42%.
- Yields fell sharply across the short end of the curve, resulting in a more normal slope.

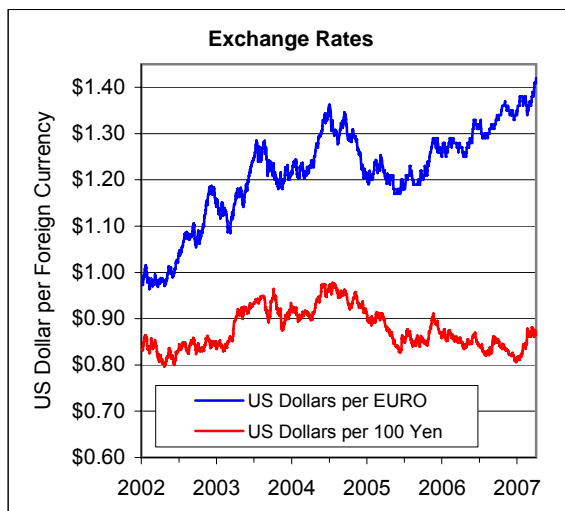
Bond Markets

- A fall in interest rates helped the bond market as the Lehman Brothers Aggregate posted a return of 2.9%, its highest quarterly return since September 2006.
- The yield on TIPS also fell as the Fed's rate cut and overall market volatility spurred fears of higher inflation. As a result, the Lehman Brothers TIPS index returned 4.5%, outperforming the broader bond market.
- Credit spreads rose in the high yield market, resulting in a return of 0.3% for the Lehman High Yield index. Issuance of high yield bonds also dried up as investor appetite for risk waned amid the credit crunch.

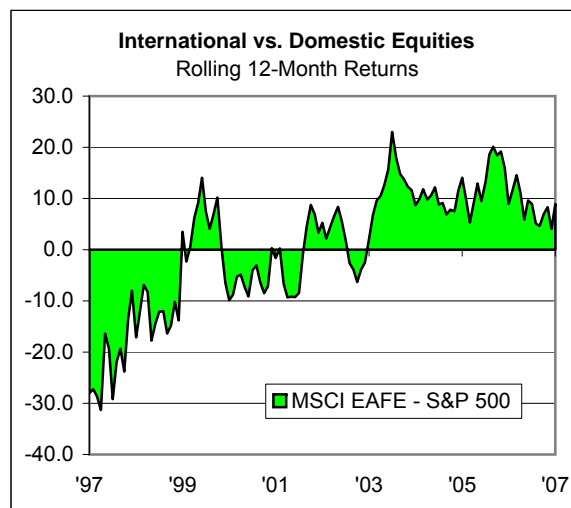
	<u>Quarter</u>	<u>YTD</u>	<u>One Yr</u>	<u>Three Yrs</u>	<u>Five Yrs</u>	<u>Ten Yrs</u>
<u>Index Performance:</u>						
LB Aggregate	2.9	3.8	5.1	3.9	4.1	6.0
LB US TIPS	4.5	6.4	5.0	4.0	5.4	7.1
90 Day US Treasury Bills	1.3	3.9	5.2	4.1	2.9	3.8
<u>Maturity Evaluation:</u>						
LB 1-3 Yr Treasury	2.6	4.8	5.8	3.5	2.8	4.6
LB Intermediate Treasury	3.4	4.9	5.9	3.6	3.2	5.4
LB Long Treasury	4.9	3.9	4.5	4.7	4.6	7.3
<u>Issuer Performance:</u>						
LB Intermediate Agency	3.0	4.6	5.8	3.8	3.5	5.6
LB U.S. Credit	2.1	2.9	4.2	3.5	5.0	6.1
LB Mortgage	2.7	3.7	5.4	4.3	4.1	5.8
LB High Yield	0.3	3.2	7.6	7.5	12.7	5.9
JPM Emer Mkts Bond Plus	3.1	3.7	7.9	10.4	16.2	9.6

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International Market Environment



Source: Federal Reserve Bank, Daily Press



Source: Ibbotson

- International equities performed in line with the domestic market during the third quarter. Over the past year, however, the MSCI EAFE has outperformed the S&P 500 by 900 basis points.
- The Fed's interest rate cut helped weaken the dollar to another record low against the euro. In addition, the dollar also dropped to parity with the Canadian dollar for the first time in 31 years.
- Despite its weakness against the euro, the dollar has held up well against the Japanese yen, implying that markets are not optimistic about the Japanese economy.

International Equity Market Performance

- International markets cooled during the third quarter as the US market's credit troubles weighed on global markets. The MSCI World index, which includes the U.S., returned 2.5% while EAFE ex Japan returned 3.1% (compared to 2.2% for the broad EAFE index).
- Despite a highly volatile period, emerging markets returned 14.5% during the quarter. The MSCI Emerging Markets index has returned nearly 60% over the past year despite falling 18% over a three week period in July and August.
- Within style, growth outperformed value by 430 basis points while small caps underperformed large caps by 640 basis points.

	<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	2.2	13.6	25.4	23.8	24.1	8.3
MSCI World	2.5	12.2	21.7	18.6	19.9	7.4
MSCI EAFE ex. Japan	3.1	17.0	31.2	26.2	26.7	10.1
MSCI Emerging Markets	14.5	34.9	58.6	41.3	39.1	11.9
MSCI EAFE Small Cap	(4.4)	6.9	19.5	24.0	28.0	n/a
<u>Style Index Performance:</u>						
MSCI EAFE Growth	4.4	17.2	28.2	23.5	21.8	5.9
MSCI EAFE Value	0.1	10.0	22.5	24.0	26.3	10.7
<u>Regional Index Performance:</u>						
MSCI Europe ex-UK	2.5	16.9	31.1	27.9	28.5	11.1
MSCI United Kingdom	0.2	11.0	22.5	20.6	n/a	n/a
MSCI Japan	(0.8)	2.0	7.2	15.5	n/a	n/a
MSCI Asia	19.0	41.3	62.8	39.9	n/a	n/a
MSCI Latin America	10.8	40.8	71.9	54.4	54.8	15.9

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Portfolio Diversification

Asset Class Rankings Over the Past Twenty Years


Third Quarter, 2007

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007 YTD
Best	24.9	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	13.6
	8.0	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	13.4
	5.9	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	1.8	38.6	16.5	7.5	22.2	12.7
	5.3	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	9.4
	4.6	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	8.5
	2.7	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	8.4
	0.5	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	6.0
	-7.1	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	3.9
	-10.5	6.8	7.8	-21.8	5.8	-4.3	2.9	-2.9	7.5	5.3	5.2	-5.1	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.1	4.8	3.8
Worst	N/A	N/A	N/A	-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	1.2	1.2	2.4	4.3	-2.7


 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)

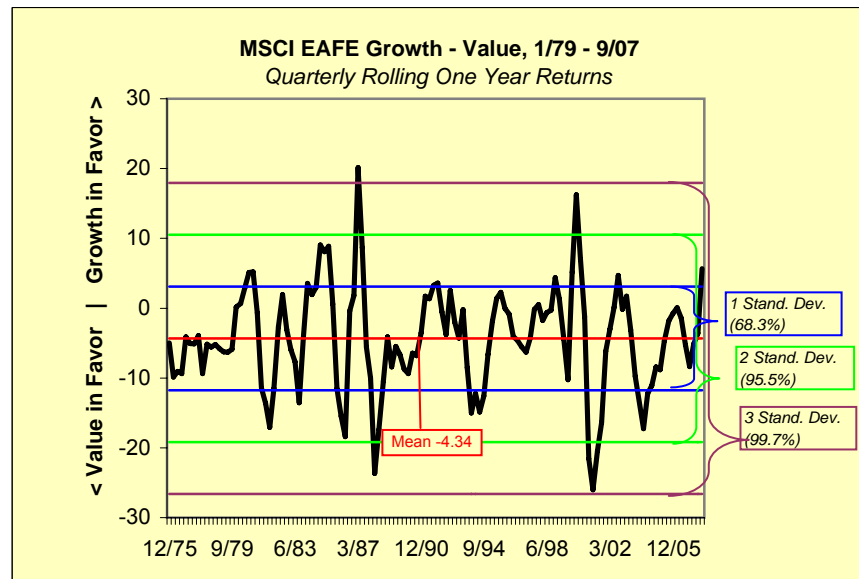
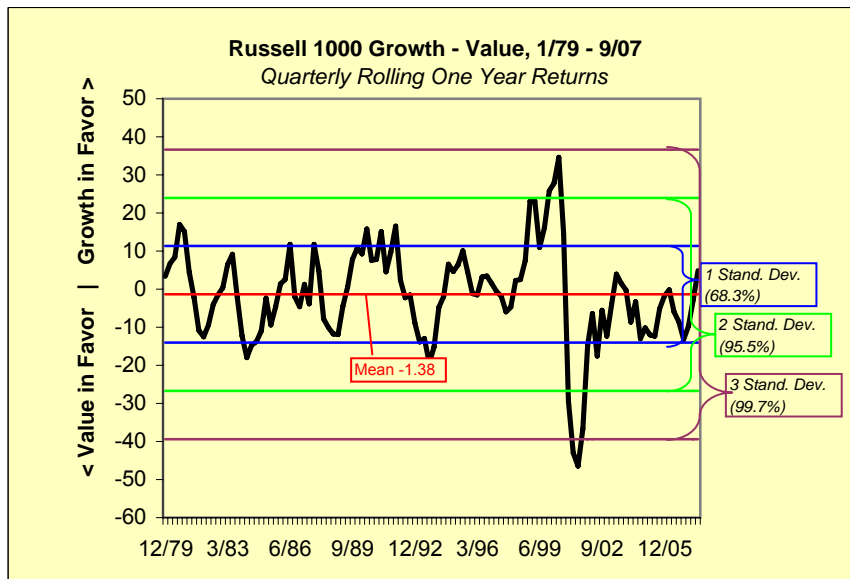
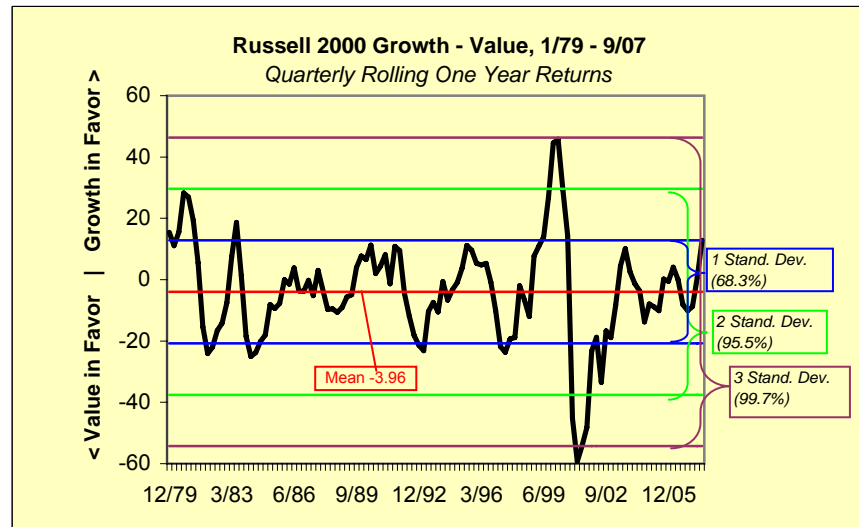
 Hedge Fund of Funds (HFRI Fund of Funds Index)

 ICC Universe Median (Total Funds)

Mean Reversion:

The theory that prices, or returns, will revert back to their long-term average.

- ★ Small Cap Growth (Russell 2000 Growth Index) leapt ahead of Small Cap Value (Russell 2000 Value) by a margin of 12.9% for the year ended 9/30/07. Over half of that outperformance came in the most recent quarter. Less than a year ago, SCV led by over 10%
- ★ Healthy relative performance for Large Cap Growth (Russell 1000 Growth Index) in the last two quarters brought the style ahead of Value (Russell 1000 Value) for the year, for the first time since a brief stint in 2003, and before that, September 2000.
- ★ International markets have seen similar reversion; in fact, International Growth (MSCI EAFE Growth) has outperformed Value (MSCI EAFE Value) the past 3 quarters. The relative performance is now past a "one-standard deviation event."



Data source: Ibbotson