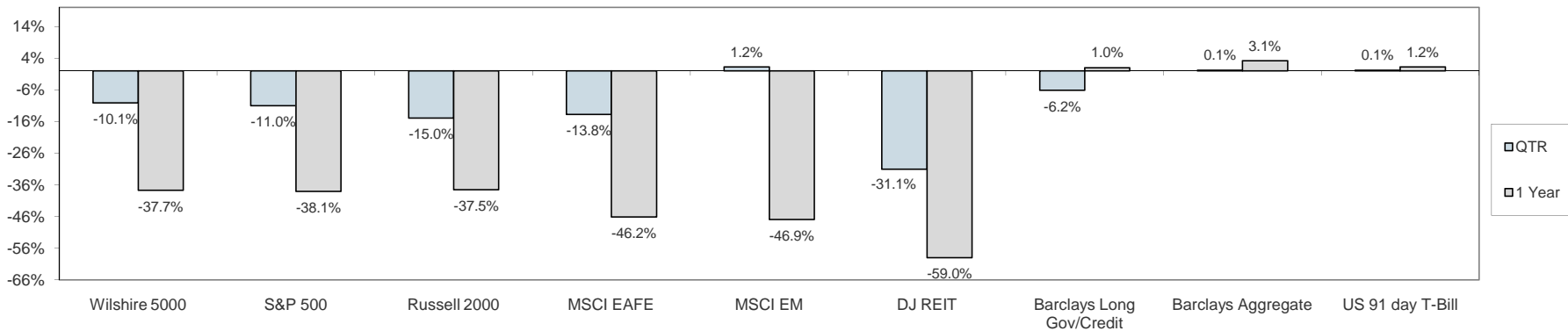


## Quarter and Year-End Benchmark Returns



## U.S. Market

- The first quarter of 2009 started poorly, but a March rally helped cushion the losses considerably. On March 9, the S&P 500 Index dropped to 676 points, its lowest level since 1996. This translated to a 24.6% decline in the index year-to-date. Fortunately, a significant rally in the equity markets during March reduced the year-to-date decline to a slightly more bearable 11% by the end of the quarter.
- Change in market sentiment was likely attributable to the U.S. Government Financial Stability Plan, which combines the TALF (Troubled Asset Relief Plan) and PPIP (Public Private Investment Program) to help the banks unclog their balance sheets. Further, the global effort including China's infrastructure spending and the G-20's concerted stimulus effort brought buying back into the equity markets.
- Performance in the bond markets was, at best, mixed. Treasuries saw sharp declines on the longer end while Asset Backed Securities (ABS), Mortgage-Backed Securities (MBS), and TIPS all witnessed substantial gains. The Barclays Aggregate Index added 0.1% in the first quarter, and the Barclays Intermediate Aggregate Index gained 0.9%. The Barclays U.S. Treasury Index lost 1.3% partially because long Treasuries fell over 10% for bonds with 20 year maturities or longer.

## Non-U.S. Markets

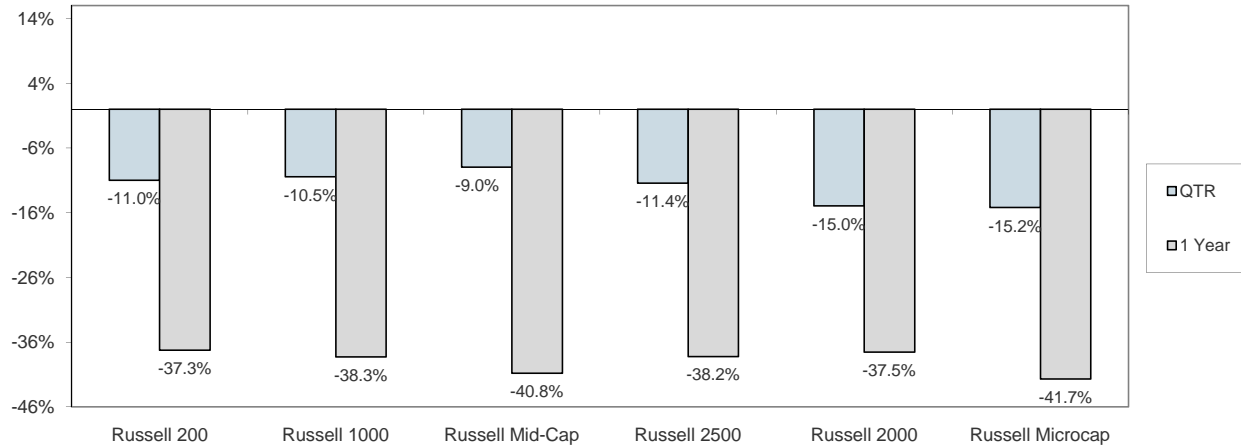
- Developed Markets continued to slide in the first quarter, while Emerging Markets staged a strong come-back to end the quarter in positive territory. The MSCI EAFE Index declined 13.8%, while the MSCI Emerging Market Index gained 1.2%. The larger developed economies of Japan, Germany, and France lost between 16-19% for the quarter. Significant deterioration in each country's economic fundamentals placed their respective markets under pressure.
- Emerging Markets benefited from secular growth in the BRIC (Brazil, Russia, India, and China) economies led by Brazil up 12.5% and China up 1.3%. Growth stocks led the way overseas with Technology, Communications, and Healthcare holding up far better than value-oriented industries.

## Economic Developments

- The economic data for March was also mixed, leading many to suggest that the worst of the crisis is over. The ISM Manufacturing Index increased from 35.8 to 36.3 for March, driven by an 8.1 point increase in new orders. This brought the new order statistic to its highest level since August, 2008. Deflation remains a serious threat as wages are declining and businesses are reducing prices to boost sales.
- Manufacturers are aggressively cutting inventories, a step that is painful for employees but necessary to facilitate growth going forward. The ISM Non-Manufacturing Index painted a gloomier picture, declining to 40.8 in March from 41.6 in February and 42.9 in January. New orders fell from 40.7 in February to 38.8 in March and the employment index fell sharply from 37.1 to 32.3 over that same time period. The silver lining was that the one industry reporting growth in March, as measured by the Purchasing Managers' Index, was real estate, rental and leasing. This development is particularly interesting since this is the same industry that dragged the economy into a global recession in the first place.
- Unemployment figures were in line with analyst expectations, with the United States shedding 663,000 more jobs during March. The unemployment rate currently stands at 8.5%, the highest it has been since 1983. Most sectors of the economy witnessed job losses with the Healthcare sector being the exception and the Financial Sector bearing the biggest brunt of the headcount reductions.

# US Equity Markets Overview

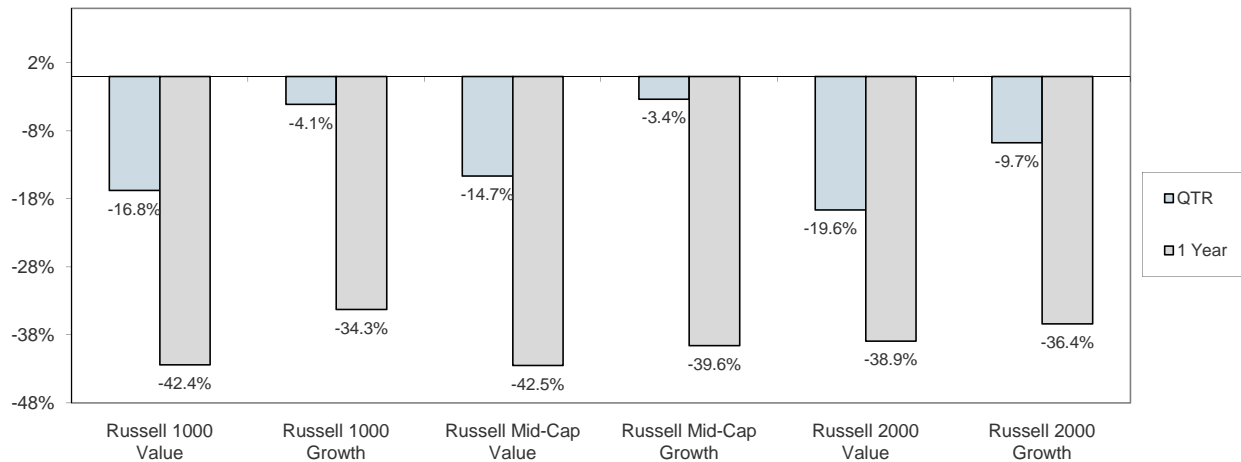
March 31, 2009



## Capitalization Analysis

- Mid and large capitalization stocks performed better than small and micro cap stocks during the quarter.
- The large cap Russell 1000 Index declined 10.5% during the quarter while the Russell 2000 Index fell 15.0%. The Russell Mid Cap Index put in the strongest quarterly return, down 9.0%.
- On a longer term basis, however, there is a less apparent relationship between capitalization and performance. Even though the mega cap Russell 200 Index outperformed the small cap Russell 2000 Index over the past 12 months, the Russell 1000 Index underperformed the same small cap index by a similar margin.
- In spite of the fact that both the Russell 1000 Index and the Russell 2000 Index had a similar allocation to the Technology sector (the highest performing sector this quarter), large cap tech stocks generated positive net returns while the smaller cap stocks declined slightly during the quarter.

## Style Analysis

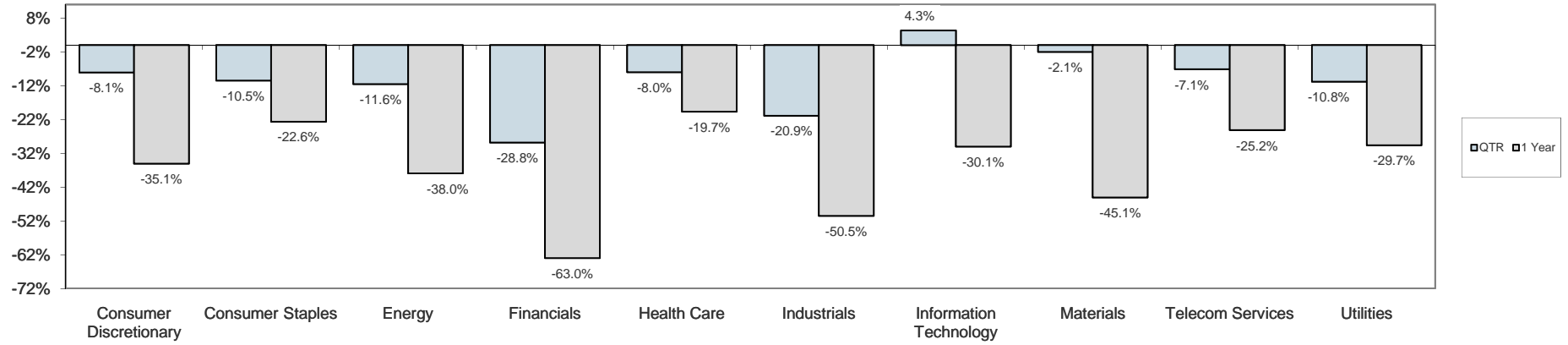


- Growth stocks far outperformed their value counterparts in the first quarter of 2009 buoyed by the strong-performing Information Technology sector (+4.4%). Value, on the other hand, suffered from continued weakness in Financials (-28.1%).
- The Russell 1000 Growth Index returned -4.1% for the quarter, 12.7% ahead of the Russell 1000 Value Index return of -16.8%.
- The trend of Growth stocks faring better than Value could also be seen in the small and mid cap spaces where the Russell 2000 Value Index underperformed the Russell 2000 Growth Index by close to 10%, and the Russell Mid Cap Value declined 14.7% compared to a just a 3.4% drop in the Russell Mid Cap Growth Index.
- Over a one year period, Growth still outperformed Value. The differences between the two became more pronounced higher up the cap ladder. The Russell 1000 Value Index handily beat the Russell 1000 Growth Index by 8.1% but the Russell 2000 Growth Index declined 36.4% compared to a 38.9% drop in the Russell 2000 Value Index.

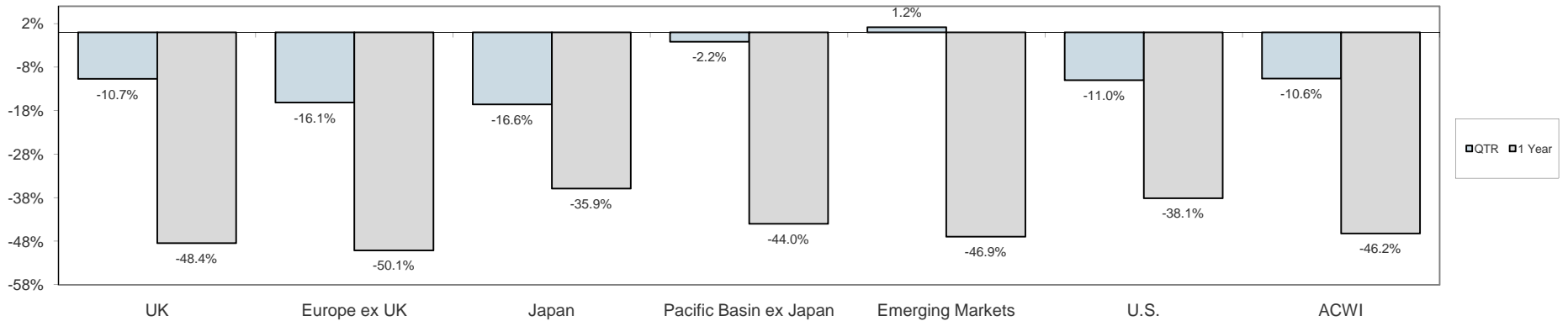
# U.S. Equity Sector Returns / Country Returns

March 31, 2009

## US Equity Sector Returns



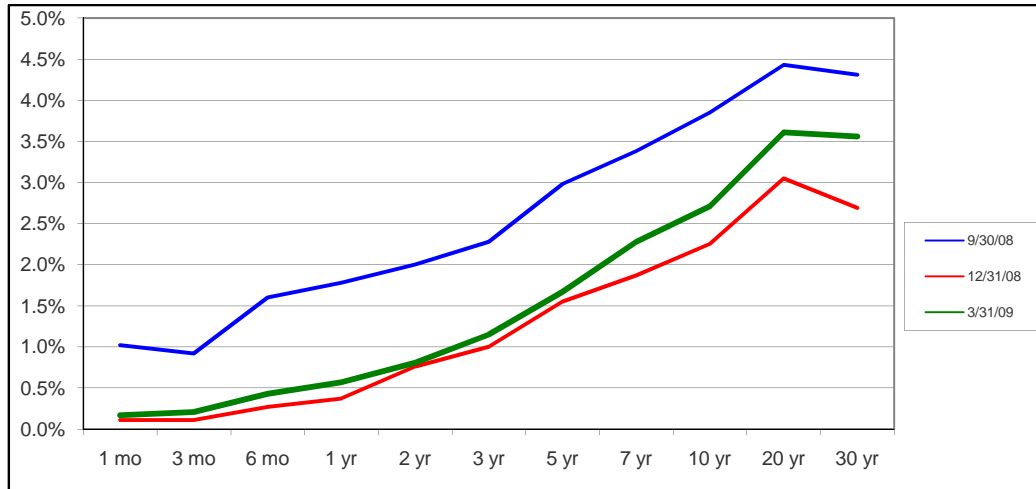
## Country Returns



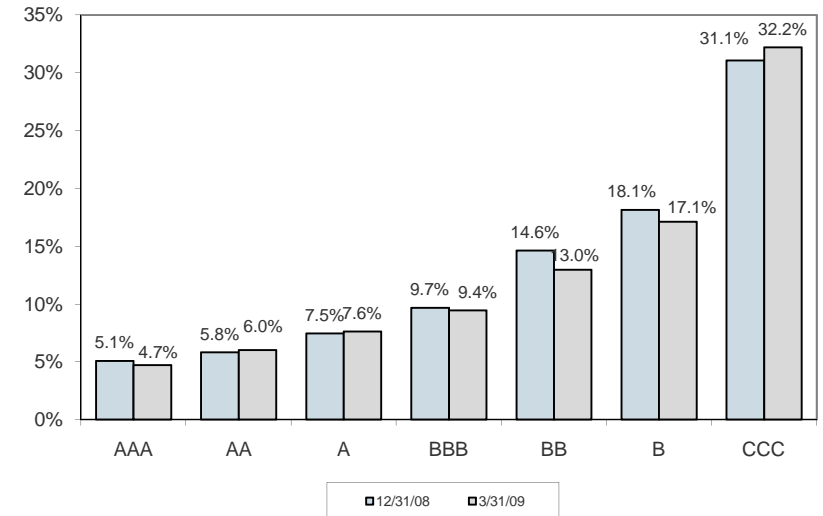
# Fixed-Income Markets Overview

March 31, 2009

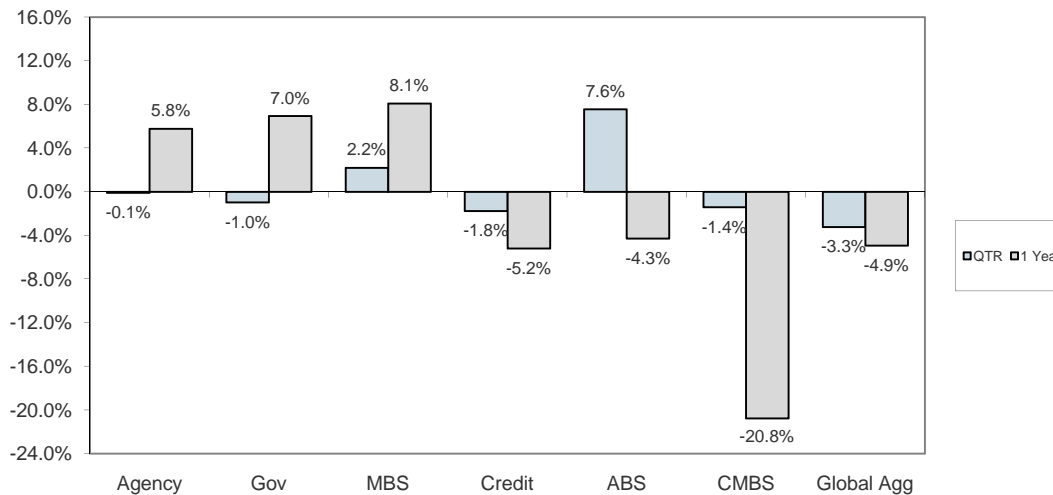
## Yield Curve



## Yield by Credit Rating



## Sector Returns



## Commentary

- Yields on treasuries rose significantly during the first two months of the quarter mostly due to concerns over possible inflation and supply constraints. The decision made by the Federal Reserve in March to purchase agency mortgages and treasuries with longer-maturities helped drive prices up, thereby decreasing yields.
- Spreads on corporate bonds over Treasury bonds continue to be at elevated levels even though absolute yields have declined on average. Yields on AAA corporate bonds declined 40 basis points from where they were three months ago. The compression in yields could be seen more in the high yield space mostly because of the rise in Treasury yields.
- Asset-Backed securities came back strongly in the first quarter of the year, again a direct consequence of Government Intervention. The Federal Reserve, as part of the TALF initiative, provided about \$12 billion in new bonds backed mainly by auto and credit card loans that investors could buy using non-recourse funds from the facility. The Barclays ABS Index rose 7.6%, the best performing sector in the quarter.