



Market Review - Q3 2009

■ Domestic Equity Markets

September marked the seventh consecutive month of the current equity market rally. For the second quarter in a row, the S&P 500 Index posted a strong return, up 15.6% for the three month period ending September 30, 2009. From a market capitalization standpoint, both small-capitalization and mid-capitalization stocks outpaced their large-cap brethren, increasing approximately 20% for the third quarter. Back-to-back quarterly returns of nearly 16% have pushed the year-to-date return of the S&P 500 Index to 19.3%. Though the trailing seven month rally has been impressive, it is important to note that the trailing one-year returns for most major indices remain in negative territory (i.e., S&P 500 Index, -6.91%).

Value outperformed growth during the third quarter (over all cap ranges). Value stocks continue to benefit from the strong performing Financials sector. However, for the year-to-date period, growth stocks maintain a significant lead over value, benefiting mostly from strong performance within the 'growth tilted' Technology sector.

As was the case last quarter, all of the market sectors generated positive returns during the third quarter period. Once again, the Financials (up 25%) sector was the top performing sector for the period, as 'nationalization' fears lessened as banks were able to raise private capital and were less dependent on government support. Both J.P. Morgan (up 32%) and Bank of America (up 30%) were strong performers in this sector for the quarter. Also posting returns over 20% for the quarter were the Materials, Industrials and Consumer Discretionary sectors. For the year-to-date period, the Technology sector surge continued, as this sector is ahead 46% for the first nine months of the year. Within the sector, both software and hardware companies benefited from inventory restocking and new product launches during the period.

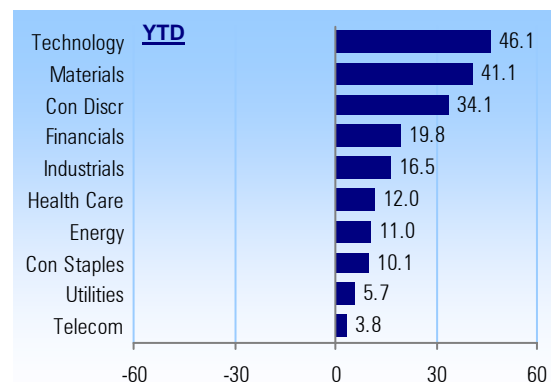
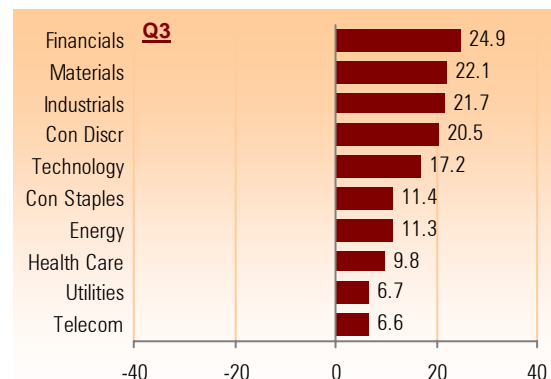
■ International Equity Markets

Developed international markets continued their upward trajectory in the third quarter as signs of a sustainable economic recovery and a favorable interest rate environment helped to lift stocks across the board, especially among lower quality names. The one exception to this was Japan which returned only 6.5% amid a change in government leadership. The Euro Zone outpaced the broader market with Greece (33%) and the Netherlands (31%) among the top performers, while the UK lagged behind its mainland counterparts with returns slightly more contained at 18.5%. Pacific ex-Japan also performed measurably better than the index led by Australia (33%) and New Zealand (25.5%).

Emerging markets put in another impressive showing, returning 21% as measured by the MSCI Emerging Markets Index, but were off their torrid pace from the 2nd quarter when the index returned nearly 35%. On a regional basis, the BRIC countries deviated during the quarter with Brazil and Russia each posting returns of 27%, while India and China came in below the broad index with returns of 19.6% and 7.8%, respectively. Once again, Eastern Europe generated the best overall results of the period with Latin America not far behind. With the exception of Indonesia (38%) and Korea (34.5%), Asia and the Far East was slightly below the index with returns averaging in the high teens.

Equity Market	Past Month	Past 3 Months	YTD	Past 12 Months
S&P 500	3.73%	15.61%	19.26%	-6.91%
Russell 1000	4.06%	16.06%	21.07%	-6.14%
Russell 1000 Growth	4.25%	13.97%	27.12%	-1.85%
Russell 1000 Value	3.86%	18.24%	14.84%	-10.62%
Russell MidCap	5.67%	20.62%	32.61%	-3.56%
Russell MidCap Growth	5.75%	17.58%	37.12%	-0.40%
Russell MidCap Value	5.60%	23.62%	27.57%	-7.12%
Russell 2000	5.77%	19.28%	22.44%	-9.54%
Russell 2000 Growth	6.57%	15.95%	29.13%	-6.31%
Russell 2000 Value	5.02%	22.70%	16.33%	-12.63%
MSCI World	3.99%	17.46%	24.91%	-2.28%
MSCI EAFE	3.83%	19.47%	28.97%	3.23%
MSCI EM	9.08%	20.90%	64.44%	19.05%
MSCI REIT	6.68%	34.59%	17.86%	-28.17%

Equity Sector Returns (%)



Equity Style Returns (%)

	Value	Core	Growth
Q3			
Large	18.24	16.06	13.97
Mid	23.62	20.62	17.58
Small	22.70	19.28	15.95

	Value	Core	Growth
YTD			
Large	14.84	21.07	27.12
Mid	27.57	32.63	37.12
Small	16.33	22.44	29.13



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Fixed Income Markets

During the third quarter of 2009, economic reports came in stronger than most expected, which has led many economists to believe that the recession may have ended. The fixed income market responded positively to the data as the Barclays Capital Aggregate Index rose 3.7% for the quarter. The spread sectors of the market continued their rally as the riskiest sectors produced the highest returns (high-yield 14.2%, CMBS 12.7%, investment-grade corporates 7.5% and ABS 6.3%) while US Treasuries and agencies lagged.

For the quarter, interest rates fell across the treasury yield curve due to the government's strategic purchases of US Treasuries, government agency and agency mortgage pass-through securities. The change was most pronounced at the long end of the curve (30-year Treasuries) which decreased by 28 basis points, while the short end of the curve saw a decline of 10 basis points. In addition, spreads continued to tighten as investors sought out better alternatives than Treasuries.

While there continues to be some optimism within the fixed income market, significant spread contraction within investment-grade and high-yield corporate bonds has increased valuations close to normal recessionary levels.

Economic Overview

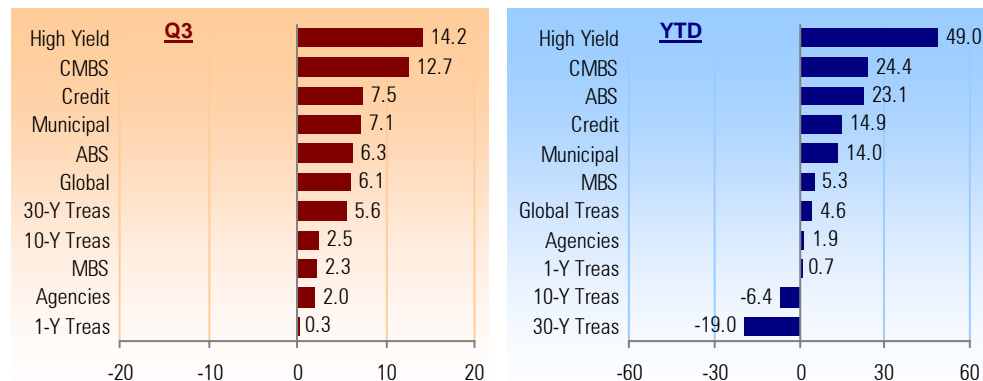
Economic data showed improvement and global growth appears to have turned positive during the third quarter. Consensus economic forecasts are calling for U.S. GDP to grow at a 3% annualized rate in the third quarter. Improving economic conditions include declines in unemployment claims, stabilizing home prices, and productivity gains. However, improving conditions are tempered by high unemployment, weak consumer spending, troubled commercial real estate markets, and impaired credit markets. These conflicting indicators lead economists to speculate that any global economic recovery will be characterized by sub-par growth rates.

A modest 4% third quarter gain in the Dow Jones - UBS Commodity Index masked significant volatility in commodity prices. While oil held steady at \$70 a barrel based on high inventories and a weak dollar, other commodities, such as copper (+24%), sugar (+43%), and natural gas (+26%) saw steep increases and meaningful volatility. Gold prices ended the quarter up 9% at \$1,008 on inflation fears.

The U.S. Dollar continued to weaken during the third quarter as investors moved out of the safe haven currency and into riskier assets and higher yielding currencies of commodity-producing nations such as Australia. For the quarter, the Dollar lost 4.1% versus the Euro and 6.8% versus the Yen. However, the U.S. Dollar gained 2.9% versus the British Pound, a reversal from its sharp loss of 14.7% last quarter.

Fixed Income Market	Past Month	Past 3 Months	YTD	Past 12 Months
Barclays Capital Aggregate	1.05%	3.74%	5.72%	10.57%
Barclays Capital Intermediate Aggregate	0.89%	3.21%	5.91%	9.69%
Barclays Capital Universal	1.36%	4.47%	7.96%	10.90%
Barclays Capital Government	0.75%	2.03%	-1.20%	6.74%
Barclays Capital Credit	1.73%	7.48%	14.87%	19.50%
Barclays Capital Municipal	3.59%	7.12%	14.01%	14.86%
Barclays Capital High Yield	5.69%	14.21%	48.96%	22.33%
Barclays Capital Mortgage	0.80%	2.31%	5.29%	9.86%
Citigroup 3-Month Treasury Bill	0.01%	0.03%	0.13%	0.38%
Citigroup Non-US WGBI Unhedged	2.71%	7.32%	6.66%	16.04%
1-Month LIBOR	0.02%	0.07%	0.27%	0.74%
Barclays Capital U.S. TIPS	2.11%	3.08%	9.49%	5.68%
DJ-UBS Commodity	1.57%	4.24%	9.05%	-23.71%

Fixed Income Sector Returns (%)



Treasury Yield Curve

