



Market Review - Q2 2010

■ U.S. Equity Markets

The equity market rally that began in March of 2009 came to an abrupt halt during the second quarter of 2010 as both domestic and international equities generated negative results for the period (regardless of size or style). Domestically, for the three-month period, the S&P 500 Index lost 11.43% and is now down 6.7% for the first half of 2010. From a capitalization standpoint, both small-and-mid-cap stocks declined slightly less than large cap stocks. Mid-cap securities posted a return of -9.88% and small-cap stocks returned -9.92%, for the second quarter. For the trailing six months, both mid-cap [-2.06%] and small-cap [-1.95%] stocks remain ahead of their large cap brethren.

Stylistically, over large and mid capitalization ranges, value stocks slightly edged out growth stocks during the second quarter of 2010. However, within small cap stocks, growth slightly outpaced value. In all cases, the difference in style returns was minimal. Traditional value sectors, like Financial Services and Industrials, were large detractors for the quarter. Within the Financials, for example, both Bank of America [-19%] and J.P. Morgan [-18%] had a significant negative impact on the value index. Meanwhile, the Technology sector (i.e., a growth sector) was pulled down by the likes of Google [-22%], Microsoft [-21%], and Cisco [-18%].

All sectors were negative for the quarter and seven of the ten sectors posted double-digit negative returns. The worst performing sector was Materials [-15.3%], followed by the Financials [-13.3%] and Energy [-12.6%]. Meanwhile, the Utilities [-3.8%] and Telecom [-5.0%] sectors, the bottom two performing sectors back in 2009, generated the top two relative returns in the second quarter of 2010.

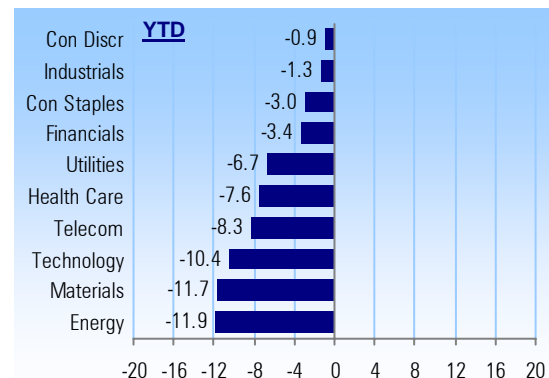
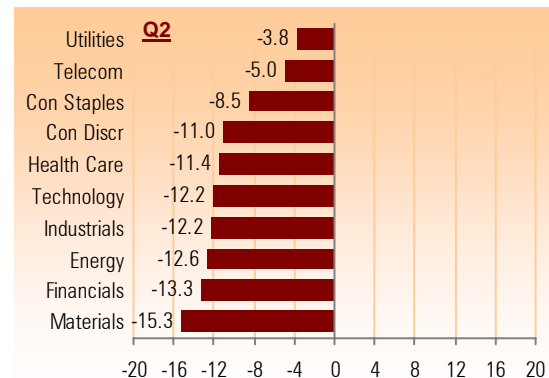
■ International Equity Markets

Developed international markets posted a loss of nearly 14% during the quarter, falling below that of the S&P 500 Index and experiencing its worst three-month performance since the 1st quarter of 2009. Sovereign default concerns reached critical mass in the month of May, weighing heavily on equity returns across the Eurozone. At the epicenter of the crisis, Greece suffered an astounding loss of 40.5%. Spain and Italy, with substantial debt issues of their own, also posted losses in excess of 20%. Asia was the relative winner during the quarter with Japan (-10%), Hong Kong (-5.8%), and Singapore (0.02%) outpacing the broad market index.

Emerging markets fared comparatively better versus both the US and developed markets returning -8.37%. China's slide continued from last quarter as it posted a loss of -4.6% amid increasing concerns over its ability to sustain current levels of growth. BRIC counterparts Russia (-16%) and Brazil (-15%), suffered more significant losses as a result of broad-based declines in commodities prices, while India was a relative bright spot shedding slightly over 2%. On a regional basis, Asia and the Far East generated the best overall returns for the period. At the other end of the spectrum, Eastern Europe continued to be plagued by its proximity to the sovereign debt crisis.

Equity Market	Past Month	Past 3 Months	YTD	Past 12 Months
S&P 500	-5.23%	-11.43%	-6.65%	14.43%
Russell 1000	-5.57%	-11.45%	-6.40%	15.23%
Russell 1000 Growth	-5.51%	-11.74%	-7.65%	13.62%
Russell 1000 Value	-5.63%	-11.14%	-5.12%	16.92%
Russell MidCap	-6.25%	-9.88%	-2.06%	25.13%
Russell MidCap Growth	-6.36%	-10.20%	-3.31%	21.30%
Russell MidCap Value	-6.14%	-9.57%	-0.88%	28.91%
Russell 2000	-7.75%	-9.92%	-1.95%	21.49%
Russell 2000 Growth	-6.71%	-9.22%	-2.30%	17.97%
Russell 2000 Value	-8.73%	-10.59%	-1.63%	25.07%
MSCI World	-3.43%	-12.67%	-9.84%	10.21%
MSCI EAFE	-1.00%	-13.98%	-13.25%	5.90%
MSCI EM	-0.73%	-8.37%	-6.17%	23.14%
MSCI REIT	-5.21%	-3.99%	5.70%	55.23%
ML Invest Grade Convertible	-2.34%	-4.38%	-2.45%	13.23%

Equity Sector Returns (%)



Equity Style Returns (%)

Q2	Value	Core	Growth
Large	-11.14	-11.45	-11.74
Mid	-9.57	-9.88	-10.20
Small	-10.59	-9.92	-9.22

YTD	Value	Core	Growth
Large	-5.12	-6.40	-7.65
Mid	-0.88	-2.06	-3.31
Small	-1.63	-1.95	-2.30



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Fixed Income Markets

During the second quarter of 2010, the market witnessed an increase in concern over the solvency of debt in Greece and other European countries which could threaten the very existence of the European Union and limit economic growth around the world. This, as well as growing concerns regarding the strength of the U.S. recovery, drove fixed income investors to seek less risky investments and caused a flight to quality within the fixed income market. The fixed income sector returns were generally positive with higher quality performing better than lower quality.

For the quarter, U.S. Treasury yields fell across the yield curve as the global economy showed some signs of slowing. The long end of the yield curve (30-year Treasuries) decreased by 82 basis points, while the short end (2-year Treasury) of the curve saw a decline of 41 basis points. Meanwhile, spreads widened during the quarter as investors looked to reduce risk and move into Treasury securities.

The fundamental strength of the U.S. economy continues to be called into question and recent data shows that economic growth will likely remain below average. However, the absence of inflation remains a bright spot in the market and most economists believe that the Federal Reserve will maintain their current target rate (0.0%-0.25%) for an "extended period of time".

Economic Overview

After a mostly sanguine April in which market returns continued their year-long upward trajectory, risk aversion returned in May and June. Macro factors, particularly the Eurozone sovereign debt crisis and U.S. double dip recession fears, trumped company fundamentals as drivers of market performance. Adding fuel to the fire was the May 6th "Flash Crash" in which the Dow Jones Industrial Average plummeted 700 points in a matter of minutes. Reflecting increased risk aversion, the CBOE VIX index spiked from 15 to 35 to end the quarter.

Investors seeking to avoid risk turned to U.S. Treasuries and gold as safe havens. Gold rose 12% to \$1,245, modestly below its \$1,257 high. Natural gas prices also increased by 19% on forecasts of hot summer temperatures and potential production halts in the Gulf of Mexico. However, among commodities, gold and natural gas were exceptions as the price of raw materials were driven down by fears of the sovereign debt crisis and China's attempts to rein in their hot economy. The Dow Jones - UBS Commodity Index declined by nearly 5% during the quarter, including crude oil (-10%), copper (-17%), aluminum (-16%), and zinc (-26%).

The flight to safety trend continued in the currency markets as investors retreated from the Euro on concerns of contagion from the Greek debt crisis and questions about the long-term viability of a common European currency. The Dollar and Japanese Yen were the main beneficiaries, with the Dollar gaining 8% versus the Euro for the quarter.

Fixed Income Market	Past Month	Past 3 Months	YTD	Past 12 Months
Barclays Capital Aggregate	1.57%	3.49%	5.33%	9.50%
Barclays Capital Intermediate Aggregate	1.29%	2.92%	4.77%	8.71%
Barclays Capital Universal	1.55%	3.14%	5.24%	10.59%
Barclays Capital Government	1.71%	4.25%	5.40%	6.46%
Barclays Capital Credit	1.96%	3.27%	5.62%	14.69%
Barclays Capital Municipal	0.06%	2.03%	3.31%	9.61%
Barclays Capital High Yield	1.24%	-0.11%	4.52%	26.78%
Barclays Capital Mortgage	1.12%	3.07%	4.66%	7.68%
Citigroup 3-Month Treasury Bill	0.01%	0.03%	0.04%	0.10%
Citigroup Non-US WGBI Unhedged	1.67%	-1.26%	-3.33%	1.52%
1-Month LIBOR	0.03%	0.08%	0.14%	0.26%
Barclays Capital U.S. TIPS	1.43%	3.82%	4.41%	9.52%
DJ-UBS Commodity	0.32%	-4.81%	-9.60%	2.75%

Fixed Income Sector Returns (%)

