



# Market Update

Asset Consulting Group, Inc.

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Monthly Report

April 2008

## U.S. ECONOMY

The U.S. economy grew for the 26<sup>th</sup> consecutive quarter in the first three months of the year, avoiding outright contraction due to a build-up in business inventories and continued support from exports. But real final sales, excluding inventories, declined as investments fell and consumption slowed, suggesting that underlying demand may not be enough to support continued expansion. The Federal Reserve (the Fed), in their latest assessment on the economy, recognized the mounting pressures on businesses and consumers and elected to reduce interest rates for a seventh consecutive time in an effort to stimulate future economic activity.

### *The economy is "still growing, albeit modestly"...*

In a recent Bloomberg interview, U.S. Treasury Secretary, Henry Paulson, stated that the credit crisis, now in its ninth month, is probably more than half over. Despite many signs to the contrary, including weak first quarter GDP growth, Mr. Paulson was optimistic about the future of the U.S. economy, observing that "despite headwinds and despite some of the things we're going through, this economy is still growing, albeit modestly". Real GDP grew at a 0.6% annual pace in 1Q08, matching the growth from 4Q07, as business investment in inventories and growth in exports offset weaker consumer spending and lower construction activity. Businesses grew stockpiles at a \$1.8 billion annual rate compared to an annualized decline of \$18.3 billion in the final three months of 2007, adding 0.8% to overall economic growth, the largest contribution to the economy in the quarter. Strong global growth outside the U.S. coupled with a weaker U.S. dollar continued to benefit the nation's exporters as net exports contributed 0.2% to GDP, after a 1% boost in the prior quarter.

an average of \$3.62 per gallon in the first four months of the year, and food prices increased at a 5.3% rate in Q108, forcing consumers to spend more on daily necessities and less on big ticket items, such as cars and furniture. The weak consumer spending data suggests continued economic sluggishness might be ahead since consumer spending is the primary engine of the economy, accounting for more than two-thirds of GDP.

### *The employment and housing picture is deteriorating further ...*

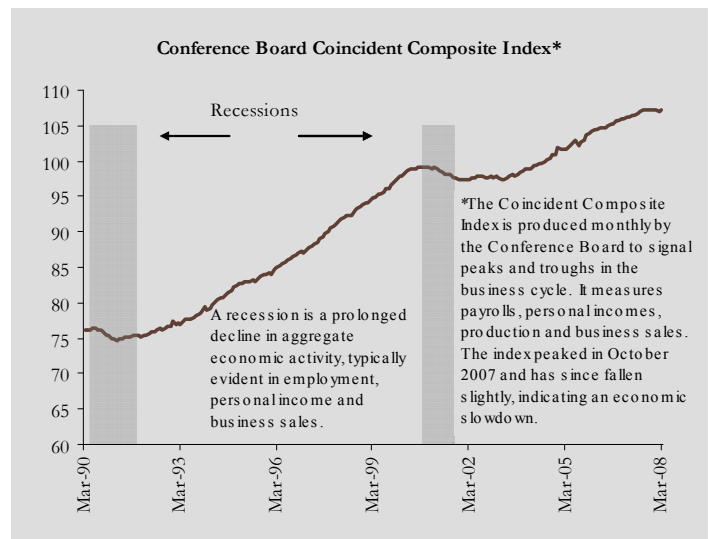
The nation's employers reduced payrolls by 20,000 in April, the fourth consecutive month of declines. The payroll decline would have been far worse except for a spurt of new jobs in the service sector. Large job losses continued in construction and manufacturing. Although the official unemployment rate for April declined marginally to 5% from 5.1% in March, this reduction was the result of an increase in part-time jobs. The number of workers with full-time jobs actually declined. The Mortgage Bankers Association recently reported that single-family existing home sales had declined 31% from their peak in September 2005, surpassing the peak-to-trough drop of about 30% seen in the 1990-91 recession.<sup>1</sup> This has led to a record 4.06 million of unsold homes and resulted in cutbacks in homebuilding and layoffs of 385,000 in construction over the past 12 months, with 190,000 occurring in the past four months alone.

Recent growth indicators	Economy at a Glance			
	Jan-08	Feb-08	Mar-08	Apr-08
ISM manufacturing*	50.7	48.3	48.6	48.6
ISM non-manufacturing Composite*	44.6	49.3	49.6	52
Conference Board Consumer Confidence**	87.3	76.4	65.9	62.3
Change in Payrolls (m-o-m, 000)**	-76	-83	-81	-20
Personal Income (%m-o-m)***	0.3	0.5	0.3	
Personal Spending (%m-o-m)***	0.4	0.1	0.4	

Source: \*ISM, \*\*Bureau of Labor Statistics, \*\*\*Dept. of Commerce

### *The consumer is pulling back...*

The impact of declining home values, job losses, and higher food and energy costs was reflected in lower consumer spending, as purchases slowed to a 1% annualized pace in 1Q08, after the 2.3% rate in the previous quarter. Gasoline prices soared 19% to



Source: Bloomberg

The considerable strains on the consumer from the mounting job losses, higher energy costs and the ongoing housing contraction

prompted the Fed to lower its benchmark Fed funds rate by 25 basis points (bps) to 2.0% on April 30. The Fed has now cut rates by 325 bps over the past eight months, the most aggressive easing since the 2001 recession. The Fed did not send a clear signal of a pause in its easing policy and did not rule out further interest rate reductions, but deleted the words “downside risks to growth remain” from their minutes, suggesting they might be ready to pause to allow for their easing to work its way through the economy.

## GLOBAL EQUITIES

### U.S. Equities

Stronger than expected corporate earnings and another cut in interest rates by the Fed helped U.S. stocks break their five-month losing streak in April. The S&P 500 reached levels above 1400 in intraday trading last month for the first time this year. It closed April at 1385.59, increasing 4.87% for the month, its best monthly gain since December 2003, which brought the year-to-date (YTD) loss to 5.04%. The index had risen 9% from its 19-month low on March 10, 2008. As of May 5, 2008, 395 companies in the S&P 500 universe reported that 1Q08 earnings from continuing operations were down 12.7% on a share-weighted basis. However, ex-Financials, 315 corporations posted average earnings growth of 10.8%, with 62.3% of the companies topping analyst estimates. According to Bloomberg data, analysts are currently projecting that corporate profits will decline 13.8% in 1Q08, but will grow 7.9% for the year. The Energy sector outpaced the other nine sectors in April with a gain of 10.87% for the month (+2.52% YTD), while the Consumer Staples sector trailed the pack with a decline of 0.38% (-3.15% YTD). Small cap stocks rallied amid investor optimism that the seven Fed interest rate cuts would lead to lower borrowing costs and boost their bottom line. The small cap Russell 2000 index rose 4.19% for the month and pared the YTD loss at 6.12%. Prospects for higher growth opportunities attracted investors to growth stocks in April, as the Russell 1000 Growth index climbed 5.25% outpacing the Russell 1000 Value index's gain of 4.87%. In the first four months of the year the Value index lost 4.28% vs. a decline of 5.47% for the Growth index.

**Bloomberg Forecasted Quarterly and Annual YoY Share-Weighted Earnings Growth Estimates (as of May 9, 2008)**

	Q1/08	Q2/08	Q3/08	Q4/08	2008	2009
S&P 500 Index	-16.1%	-6.8%	11.6%	51.5%	7.4%	17.1%
Consumer Discretionary	-23.3%	-13.4%	19.2%	32.2%	-0.1%	17.7%
Consumer Staples	12.0%	8.5%	10.0%	10.6%	9.7%	10.1%
Energy	28.1%	10.4%	30.6%	14.7%	18.5%	7.1%
Financials	-80.5%	-38.1%	8.5%	449.1%	-4.3%	41.8%
Health Care	3.8%	6.8%	6.5%	8.8%	5.7%	10.9%
Industrials	6.6%	4.7%	4.1%	7.3%	6.4%	13.5%
Information Technology	18.6%	11.6%	10.0%	9.7%	17.5%	17.0%
Materials	16.1%	2.4%	6.2%	35.9%	16.3%	11.7%
Telecom. Services	1.6%	-2.2%	-0.1%	0.5%	-1.1%	11.0%
Utilities	6.0%	0.4%	4.5%	0.1%	5.2%	9.7%

Source: Bloomberg

### International Equities

The U.S. dollar posted its first monthly advance of the year against the euro and its best monthly gain since December 2001

versus the yen as traders anticipated the Fed would soon pause its easing cycle. As of April 30, 2008, interest-rate futures showed the Fed might keep rates steady until August 2008, and then increase them by a quarter point to 2.25% by February 2009. The dollar traded at \$1.56 per euro on April 30, a rise of 1.05% for the month, and advanced 4.23% against the yen to ¥103.91. Still, the dollar was down 7.07% and 6.98% versus the euro and yen in the first four months of the year.

European stocks rose in April, capping their best monthly gain since April 2003. Better than expected corporate earnings within the Dow Jones Stoxx 600 index helped send the index to a monthly gain of 6.40% in local currency. However, the index still declined 10.04% YTD. In dollar terms, the index gained 4.79% last month but declined 3.94% YTD. Japanese stocks soared to their first monthly double-digit gain since March 1999. In local currency terms, the Nikkei 225 index jumped 10.57% (-8.83% YTD), led by real estate and financial shares, as investors gained confidence that the Fed was determined to temper the crisis in the credit markets and bolster U.S. economic growth. On a USD basis, the index rose 5.80% for the month and had a loss of 1.47% YTD. The broad based MSCI EAFE index rose 7.58% for the month, but was down 8.42% YTD in local currency. On a USD basis, the index climbed 5.56% in April, which helped pare YTD losses at 3.76%.

Standard & Poor's upgraded Brazilian sovereign debt to investment grade last month, helping send Brazilian stocks to a record close. The Bovespa index jumped 11.32% for the month in local currency terms, which helped reverse the YTD loss to a gain of 6.23%. In general, most emerging market stocks closed higher in April. The MSCI Emerging Market Index gained 7.26% in local currency but was down 4.47% YTD. On a USD basis, the index rose 8.13% for the month, cutting the YTD loss to 3.68%.

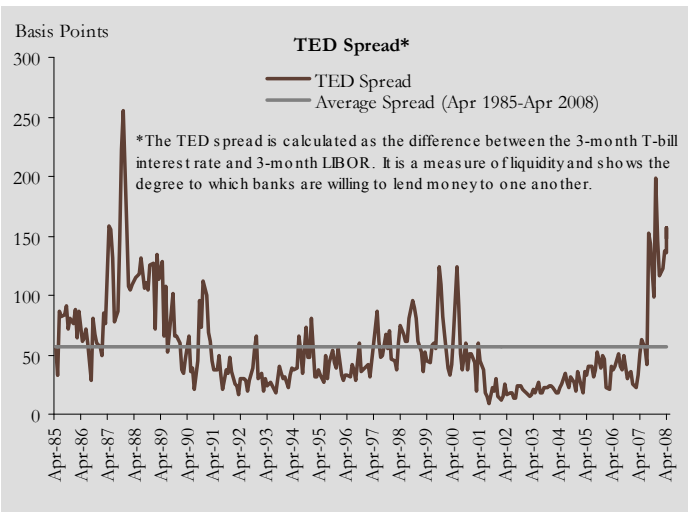
## GLOBAL FIXED INCOME

### U.S. Fixed Income

U.S. fixed-income markets saw a rise in U.S. Treasury yields and a return of investor appetites for riskier high-yield corporate bonds in April. Two-year Treasury yields, which had been inverted to the Fed funds rate since June 2006, rose amid speculation the Fed is near the end of its easing cycle. After hitting a low of 1.46% on March 19, 2008, the lowest level since June 2003, two-year yields closed April at 2.26%, a rise of 67 bps for the month and 26 bps above the Fed's 2.0% benchmark interest rate. Ten-year yields climbed as high as 3.87%, but settled back to 3.73% by the close of April, a gain of 32 bps during the month. The rise in yields ended nine consecutive months of gains for Treasuries dating back to the start of the credit crisis in July 2007. The Merrill Lynch U.S. Treasury Master index lost 1.70% in April but returned 2.62% YTD.

Corporate borrowing costs rose in April reflecting the unwillingness of banks to lend to each other. The three-month London interbank offered rate (LIBOR), a benchmark for corporate loans, rose to 2.85% on April 30, 2008 from 2.69% at the end of March. This increased the gap between three-month Treasury bill yields and the three-month LIBOR rate to 147 bps, from 137 bps on March 31, 2008, signaling continued lack of trust in the interbank market. The spread averaged only 57 bps since January

1985. Despite the rise in LIBOR, yields for high-yield bonds declined to their lowest level since the start of the year. Funds flowed into the U.S. high-yield sector as investors showed a renewed interest in this riskier asset on a belief high yield spreads might have already discounted a significant amount of bad news.



Source: Bloomberg

Yields on the Lehman Bros. U.S. Corporate High Yield index dropped 84 bps to 10.02% in April, helping the index gain 4.31% for the month, the biggest monthly rise since April 2003, and

sending the index to a gain of 1.16% YTD<sup>2</sup>. Yields on the broad based Lehman Bros. Aggregate index rose by 19 bps to 4.70% during the month<sup>2</sup>. As a result, the index declined 0.21% for the month, but was still up 1.95% YTD<sup>2</sup>.

### International Fixed Income

European government yields increased in April on speculation the European Central Bank will continue to hold or will raise interest rates this year to quell inflation, considered the biggest threat to the economy. European two-year and ten-year yields rose 33 bps and 22 bps in April, to 3.76% and 4.12% respectively, helping send the Merrill Lynch EMU Direct Government index to a monthly decline of 2.36% on a USD basis. The index still managed a very healthy gain of 8.20% YTD. Japanese government bond yields trended higher in April after inflation accelerated, adding to the speculation the Bank of Japan will increase its overnight interest rate this year. Japanese two-year yields rose 21 bps to 0.79%, while ten-year yields jumped 30 bps to 1.59%. Japanese government bonds tumbled in April as money flowed out of safer assets and into Japanese stocks that recorded double-digit monthly gains. The Merrill Lynch Japanese Government index fell 6.32% in April but gained 6.61% YTD, both on a USD basis. The Merrill Lynch Global Government bond index declined 3.28% for the month but was up 5.82% YTD.

All data from Bloomberg unless otherwise noted

<sup>1</sup> Mortgage Bankers Association

<sup>2</sup> Lehman Brothers

## Indices Report

## Monthly Indices Report

Periods Ending April 30, 2008

Index Name	Style	Returns							
		Month	Qtr	YTD	2 Qtrs	1 Year	3 Years	5 Years	10 Years
<b><u>Domestic Equity Indices</u></b>									
S&P 500	Large Cap Core	4.87%	1.03%	(5.04)%	(9.63)%	(4.67)%	8.23%	10.62%	3.90 %
S&P Equal Weighted	Large Cap Core	5.26%	0.66%	(3.79)%	(9.69)%	(8.98)%	8.84%	13.96%	7.76 %
Russell 1000	Large Cap Core	5.07%	1.16%	(4.91)%	(9.55)%	(4.63)%	8.63%	11.23%	4.24 %
Russell 1000 Growth	Large Cap Growth	5.25%	2.53%	(5.47)%	(9.28)%	(0.24)%	8.86%	9.52%	1.66 %
Russell 1000 Value	Large Cap Value	4.87%	(0.28)%	(4.28)%	(9.84)%	(8.98)%	8.34%	12.84%	5.96 %
Russell Mid Cap	Mid Cap Core	6.76%	2.80%	(3.90)%	(8.79)%	(6.35)%	10.92 %	16.20%	8.33 %
Russell 2000	Small Cap Core	4.19%	0.75%	(6.12)%	(12.92)%	(10.94)%	8.62%	13.77 %	5.33 %
Russell 2000 Growth	Small Cap Growth	5.14%	0.91%	(8.34)%	(14.14)%	(6.69)%	9.91%	13.33%	2.19 %
Russell 2000 Value	Small Cap Value	3.16%	0.56%	(3.56)%	(11.54)%	(15.13)%	7.30 %	14.08 %	7.74 %
Wilshire 5000	Broad Equities	4.98%	1.12%	(5.01)%	(9.79)%	(4.87)%	8.92%	11.78%	4.34 %
HFRI Equity Hedge	Long Short Equity	3.08%	1.55%	(2.97)%	(5.27)%	2.37%	10.48%	11.11%	10.55 %
<b><u>International Equity Indices</u></b>									
MSCI World	Broad Global	5.34%	3.83%	(4.08)%	(9.12)%	(1.95)%	12.92%	15.75%	5.44%
MSCI EAFE	Developed Markets Intl	5.56%	6.03%	(3.76)%	(8.99)%	(1.32)%	16.74%	20.92%	7.04%
MSCI EAFE Growth	Developed Markets Intl Growth	5.04%	6.33%	(3.44)%	(7.42)%	2.95%	17.34%	19.36%	4.98%
MSCI EAFE Value	Developed Markets Intl Value	6.09%	5.72%	(4.07)%	(10.63)%	(5.56)%	16.05%	22.36%	8.90%
MSCI Emerging Markets Free	Emerging Market	8.13%	10.02%	(3.68)%	(10.17)%	25.73%	34.27%	35.76%	13.54%
<b><u>Domestic Fixed Income Indices</u></b>									
Merrill Lynch Treasury Bills	Cash	0.11%	0.49%	0.99%	1.75%	4.28%	4.37%	3.19%	3.69%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	(1.20)%	0.30%	2.45%	4.99%	8.76%	5.20%	3.64%	5.13%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	(0.09)%	(0.64)%	1.84%	3.38%	5.92%	3.76%	3.29%	4.68%
Merrill Lynch High Yield	High Yield Bonds	4.15%	2.42%	1.04%	(0.71)%	(0.77)%	6.70%	8.14%	5.57%
Lehman Aggregate	Core Bonds	(0.21)%	0.27%	1.95%	4.08%	6.86%	4.93%	4.37%	5.96%
Lehman Government	Government Bonds	(1.40)%	0.19%	2.59%	5.64%	9.34%	5.38%	4.31%	5.98%
Lehman U.S. Credit Index	Corporate Bonds	0.57%	(0.21)%	1.01%	2.02%	3.83%	4.02%	4.17%	5.93%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	0.59%	(1.11)%	0.90%	2.31%	4.13%	3.79%	4.09%	5.26%
HFRI FOF Conservative	Low Volatility	0.50%	(0.79)%	(2.33)%	(2.93)%	0.70%	6.53%	6.18%	N/A
<b><u>Real Estate Indices</u></b>									
NCREIF Property	Real Estate	N/A	1.60%	1.60%	4.88%	13.56%	16.75%	15.07%	12.58%
NAREIT Equity	Real Estate	5.86%	8.45%	7.33%	(7.31)%	(12.52)%	11.87%	18.66%	11.69%

All time period returns are rolling returns except for YTD

Source: State Street

### Online Availability

The Asset Consulting Group archive for Monthly Market Update reports can be accessed through our Web site, [www.acgnet.com](http://www.acgnet.com).

**DESCRIPTION OF INDICES****Domestic Equity Indices****S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries. The index was developed with a base level of 10 for the 1941-1943 base period.

**S&P 500 Equal Weighted Index**

Introduced in 2003, S&P Equal Weight Index (S&P EWI) is the equal-weight version of the widely regarded S&P 500. The index has the same constituents as the capitalization weighted S&P 500, but each company in the S&P EWI is allocated a fixed weight. Index constituents exhibit the following characteristics: Underlying Indices – S&P 500; Weighting – Attribute weighted: Equal weight of 0.20%; Rebalancing – Quarterly; Coincide with S&P 500 share adjustments S&P EWI is designed to meet the need for benchmarking, investing and trading strategies that require a size-neutral index compatible with the S&P 500. S&P EWI provides an even spread of individual stocks and offers different sector exposures than the S&P 500.

**Russell 1000® Index**

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market. The Russell 1000 Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected. The Index was developed with a base value of 130.00 as of December 31, 1986.

**Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates. The Russell 1000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the large-cap growth segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect growth characteristics. The index was developed with a base value of 200 as of August 31, 1992.

**Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates. The Russell 1000 Value Index is constructed to provide a comprehensive and unbiased barometer for the large-cap value segment. The Index is completely reconstituted annually to ensure new and growing equities are included and that the represented companies continue to reflect value characteristics. The index was developed with a base value of 200 as of August 31, 1992.

**Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership. The Russell Midcap Index represents approximately 31% of the total market capitalization of the Russell 1000 companies. The Russell Midcap Index is constructed to provide a comprehensive and unbiased barometer for the mid-cap segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true mid-cap opportunity set.

**Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

**Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates. The Russell 2000 Growth Index is constructed to provide a comprehensive and unbiased barometer for the small-cap growth segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect growth characteristics.

**Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values. The Russell 2000 Value Index is constructed to provide a comprehensive and unbiased barometer for the small-cap value segment. The Index is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set and that the represented companies continue to reflect value characteristics.

**Wilshire 5000**

The Wilshire 5000 index consists of approximately 5000 cap weighted common equity securities, covering all stocks in the U.S. for which daily pricing is available.

**HFRI Equity Hedge Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. Equity Hedge (EH): Investment Managers who maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. EH managers would typically maintain at least 50%, and may in some cases be substantially entirely invested in equities, both long and short.

**International Equity Indices****MSCI World Index**

The MSCI World Index is an unmanaged free float-adjusted market capitalization index that is designed to measure global developed market equity performance. As of June 2006 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States.

**MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom. There are 1,100 members designed to represent the performance of developed stock markets outside of the United States and Canada. It assumes reinvestment of dividends and interest, and does not reflect deductions of fees or expenses.

**MSCI EAFE® Growth Index**

The MSCI EAFE (Europe, Australasia, Far East) Growth Index is an unmanaged free float-adjusted market capitalization index that is considered representative of growth stocks of Europe, Australasia, and Far East. It assumes reinvestment of dividends and interest, and does not reflect deductions of fees or expenses.

**MSCI EAFE® Value Index**

The MSCI EAFE (Europe, Australasia, Far East) Value Index is an unmanaged free float-adjusted market capitalization index that is considered representative of value stocks of Europe, Australasia, and Far East. It assumes reinvestment of dividends and interest, and does not reflect deductions of fees or expenses.

**MSCI Emerging Markets (Free) Index**

The MSCI Emerging Markets Index is an unmanaged free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 25 emerging market country indices: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Jordan, Korea, Malaysia, Mexico, Morocco, Pakistan, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**Domestic Fixed Income Indices****Merrill Lynch U.S. Treasury Bills Index**

The Merrill Lynch U.S. Treasury Bill index tracks the performance of all outstanding 0-3 month outstanding Treasury Bills issued by the U.S. government. The index is re-balanced daily to take account of issues that are maturing and new auctions. New auctions are purchased into the index basket on their settlement date. Treasury bills are backed by the full faith and credit of the US Government and are issued at a discount. They pay no interest, but receive full face value if held until maturity. Exempt from state and local taxes, T-bills are issued in minimum denominations of \$10,000, and in multiples of \$1,000 thereafter. With the shortest maturities -- three and six months, and one year at issue -- T-bills are considered the least volatile of all Treasuries.

**Merrill Lynch U.S. 1-3 Yr Treasuries Index**

The U.S. 1-3 Treasury index tracks the performance of all outstanding U.S. Treasury Notes having a 1-3 year remaining term to maturity and a minimum amount outstanding of USD 1 billion. The index is re-balanced daily to take account of issues that are maturing and new auctions. New auctions are purchased into the index basket on their settlement date. Treasury notes are backed by the full faith and credit of the US Government and are coupon-bearing securities with initial maturities ranging between one and ten years. They pay accrued interest twice a year and repay principal at maturity. T-notes are exempt from state and local taxes; they're available with two- and three-year maturities for a minimum of \$5,000 and in multiples of \$1,000 thereafter.

**Lehman Muni 5-Year**

This index is the **5 Year (4-6)** component of the Lehman Municipal Bond index. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date. Remarketed issues, taxable municipal bonds, bonds with floating rates, and derivatives, are excluded from the benchmark. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds. Most of the index has historical data to January 1980. In addition, subindices have been create based on maturity, state, sector, quality, and revenue source, with inception dates later than January 1980.

**Merrill Lynch High Yield Index**

The U.S. High Yield index tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market. Qualifying bonds must have at least one year remaining term to maturity, a fixed coupon schedule and a minimum amount outstanding of USD 100 million. Bonds must be rated below investment grade based on a composite of Moody's and Standard & Poors. The index is rebalanced on the last calendar day of the month.

**Lehman Bros. Aggregate**

The Lehman Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

**Lehman Bros. Government**

The Lehman Government index includes the Treasury and Agency indices. The Treasury index accounts for 87.2% of the Government index, and includes public obligations of the U.S. Treasury that have remaining maturities of more than one year. Treasury bills are excluded by the maturity constraint.

**Lehman U.S. Credit Index**

The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. Publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. Must have at least one year to final maturity regardless of call features. Must have at least \$250 million par amount outstanding. Must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only two of the three agencies rate the security, the lower rating is used to determine index eligibility. If only one of the three agencies rates a security, the rating must be investment-grade. Must be fixed rate, although it can carry a coupon that steps up or changes according to a predetermined schedule. Must be dollar-denominated and non-convertible. Must be publicly issued. The U.S. Credit Index is the same as the former U.S. Corporate Investment Grade Index, which has been renamed as the U.S. Credit Index. The name change is effective as of 6/1/00 (for statistics) and as of 7/1/00 (for returns).

**Lehman Muni 10-Year**

This index is the **10 Year (8-12)** component of the Lehman Municipal Bond index. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prerefunded bonds. Most of the index has historical data to January 1980. In addition, subindices have been create based on maturity, state, sector, quality, and revenue source, with inception dates later than January 1980. To be included in the Lehman Brothers Non-Investment Grade Municipal Bond Index, bonds must be non-rated or be rated Baa1 or below. They must have an outstanding par value of at least \$3 million and be issued as part of a transaction of at least \$20 million.

**HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index. A fund in the HFRI FOF Conservative Index shows generally consistent performance regardless of market conditions.

**Real Estate Indices****NCREIF Property Index (NPI)**

The NCREIF Property Index is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. Properties exit the NPI when assets are sold or otherwise leave the database. All historical data remains in the database and in the Index. The Index represents investment returns from a single class of investor. As such, the NPI may not be representative of the market as a whole.

**NAREIT Equity**

All of the data is based upon the last closing price of the month for all tax-qualified REITs listed on the New York Stock Exchange, American Stock Exchange, and the NASDAQ National Market System. The data is market weighted. Newly issued shares by existing REITs are added to the total shares outstanding figure in the month that the shares are issued. Only common shares issued by the REIT are included in the index. The total return calculation is based upon the weighting at the beginning of the period. Only those REITs listed for the entire period are used in the total return calculation. Dividends are included in the month based upon their payment date. There is no smoothing of income. Liquidating dividends, whether full or partial, are treated as income.

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