



# Market Update

Asset Consulting Group, Inc.

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Monthly Report

October 2008

## U.S. ECONOMY

October economic reports clearly showed that the 14 month old financial market crisis began to spread to the broad economy as frozen credit markets reduced the ability of households and businesses to obtain credit, thereby curtailing spending. In a concerted effort to unlock the hoards of cash on U.S. banks' balance sheets, the Federal Reserve (Fed) lowered borrowing costs while the U.S. Treasury Department offered direct capital injections into the banking sector to increase their willingness to lend. Nonetheless, the probability the U.S. is headed into a recession has increased dramatically and the question is becoming how much the government's efforts will stabilize the banking sector and limit the overall damage to the economy.

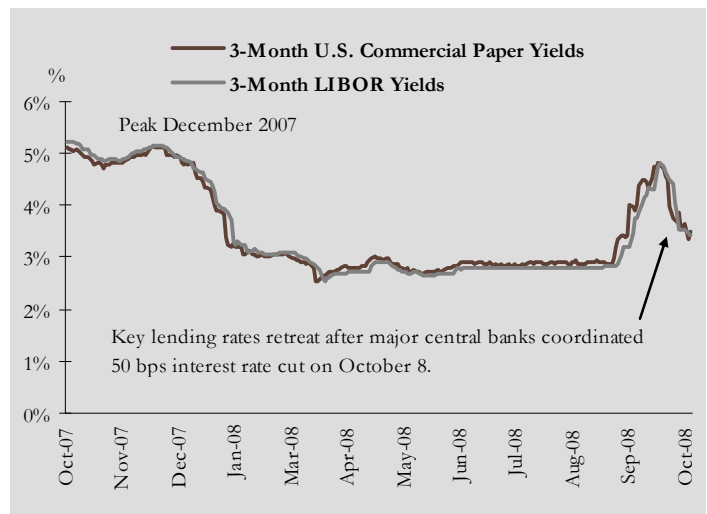
### *The Fed lowers its benchmark rate to the lowest in over five years...*

The financial market crisis has now resulted in \$917.7<sup>1</sup> billion in bank writedowns and credit losses worldwide, with over \$600 billion within the United States. The mounting credit losses led to an unprecedented move on October 8 in which major central banks<sup>2</sup> lowered key benchmark rates by 50 basis points in an effort to avert a global recession. During its October 29 meeting, the Fed cut rates another 50 bps to 1%, the lowest since June 2003, noting that "the pace of economic activity appears to have slowed markedly."

### *The U.S. Treasury injects capital and lending rates start to retreat...*

The U.S. Treasury also took action to add liquidity to the financial system in an effort to jump start bank lending. The previously passed Treasury's Troubled Assets Relief Program, or TARP, allowed the Treasury to purchase up to \$700 billion of troubled mortgages, in which the Treasury decided to use \$250 billion to directly pump new capital into U.S. banks in return for temporary ownership stakes. The lack of capital after the extreme credit losses severely impaired the flow of credit and banks' willingness to lend. The banks' mistrust and unwillingness to lend was evi-

dent as the London interbank offered rate (LIBOR), the rate banks charge to lend to each other, surged to a peak of 4.82% on October 14, a jump of 2.01% since the announced Lehman Brothers bankruptcy on September 15. LIBOR, from October 14 forward, shifted lower by month's end to 3.42%, offering signs that the credit markets were beginning to thaw.



Source: Bloomberg

### *The lack of credit curtailed consumer and business spending...*

A lack of credit the past two months and a deteriorating job market forced consumers to cut back spending as U.S. consumer spending in September<sup>3</sup> dropped 0.3%, matching the biggest slide in four years. Moreover, the pullback by consumers was impacting U.S. service industries as the October ISM<sup>4</sup> index for non-manufacturing, covering nearly 90% of the economy, fell to its lowest level on record.

The lack of credit, rising job losses, and declining home values are likely to keep consumers at bay, purchasing just what they need, which in response will lead businesses to further curtail operations. The Fed foresees continued weakness as their October 29 comments stated that "the intensification of financial market turmoil is likely to exert additional restraint on spending" and left the door open for further interest rate cuts. However, much of the easing to date has yet to be felt by the financial markets and the broader economy as lending rates remain high. Thus, not until trust among banks is restored and credit markets stabilize will the financial headwinds facing the economy begin to subside.

### Economy at a Glance

Recent growth indicators	Jul-08	Aug-08	Sep-08	Oct-08
ISM Manufacturing Composite*	50	49.9	43.5	38.9
ISM Non-Manufacturing Composite*	49.5	50.6	50.2	44.4
Conference Board Consumer Confidence**	51.9	58.5	61.4	38
Change in Payrolls (m-o-m, 000)**	-67	-127	-284	-240
Personal Income (% m-o-m)***	-0.8	0.4	0.2	
Personal Spending (% m-o-m)***	0	0	-0.3	

Source: \*Institute for Supply Management (ISM), \*\*Bureau of Labor Statistics, \*\*\*Dept. of Commerce - one month lag

1. As of 11/11/08.
2. On October 8 the Fed, European Central Bank and Bank of England reduced interest rates by 50 bps to 1.50%, 3.75% and 4.5%, respectively.
3. Latest reading available.
4. Institute for Supply Management.

## GLOBAL EQUITIES

### U.S. Equities

Forced selling by hedge and mutual funds to meet redemption demands by investors led U.S. equities to post one of the most volatile and worst performing months on record. The S&P 500 index recorded its ninth worst monthly performance dating back to 1926 as 472 issues, or 94%, of the index declined in value. October marked one of the most volatile on record as the index posted movements of at least 2.5% (up or down) within a range of -9.03% to +11.58% in 18 of the 28 days of trading. October losses were 16.80% for the index, bringing year-to-date (YTD) losses to 32.84%. All ten of the S&P 500 economic sectors lost ground in the month, as Financials (-22.74%) and Materials (-22.18%) were the two worst performers. After five consecutive months of outperforming large caps, small caps turned in their second worst monthly performance in history. The Russell 2000 dropped 20.80% for the month, 4.01% below the S&P 500, bringing the YTD decline to 29.03%. Value stocks outperformed growth at every market capitalization tier as the Russell 1000 Value index lost 17.31% (-32.91% YTD) vs. a decline of 17.61% for the Russell 1000 Growth index (-34.31% YTD).

Dow Jones Industrials Dividend Yields					
Components	12/31/2007	10/31/2008	Components	12/31/2007	10/31/2008
General Motors	4.02%	8.70%	3M	2.28%	2.90%
Bank of America	5.82%	7.31%	Coca Cola	2.22%	2.82%
Citigroup	7.34%	7.31%	Boeing	1.66%	2.79%
Pfizer	5.24%	6.86%	Medonalds	2.55%	2.64%
AT&T	3.42%	5.57%	Johnson & Johnson	2.40%	2.52%
Verizon	3.82%	5.45%	Procter & Gamble	1.85%	2.15%
General Electric	3.10%	4.86%	United Technologies	1.54%	2.13%
Merck	2.62%	4.82%	American Express	1.21%	2.03%
Dupont	3.45%	4.07%	Exxon Mobil	1.46%	1.93%
Home Depot	2.63%	3.77%	Caterpillar	1.90%	1.81%
Intel	1.68%	3.50%	Microsoft	1.80%	1.72%
Kraft	3.19%	3.36%	Walmart	1.83%	1.56%
JP Morgan	3.39%	3.25%	IBM	1.39%	1.54%
Alcoa	1.86%	3.01%	Disney	1.08%	1.11%
Chervon	2.42%	2.98%	Hewlett Packard	0.62%	0.89%

Source: Bloomberg

### International Equities

The U.S. dollar (USD) had the largest monthly gain against the euro in October since the 15-nation currency's 1999 debut as investors anticipated the European Central Bank (ECB) would start aggressively lowering borrowing costs to support Europe's economy. The USD gained 9.69% to \$1.27 per euro from \$1.41 on September 30, bringing the YTD gain to 12.77%. The dollar traded at ¥98.46 on October 31, compared to ¥106.11 at the end of September, a loss of 7.21% for the month (-11.89% YTD).

Further evidence that the jump in U.S. mortgage defaults continued to saddle European banks with additional losses helped send European shares to their steepest monthly decline in six years. The Dow Jones Stoxx 600 plunged 21.45% (-44.92% YTD) in USD, the worst monthly slump since September 2002. Investors sent Japanese stocks toward their worst monthly drop since

March 1990 despite the Bank of Japan's first interest rate cut in seven years. In USD the Nikkei 225 index declined 17.68% in October (-34.65% YTD). For the month, the broad based MSCI EAFE index fell 15.53% (-37.75% YTD) in local currency, while declining 20.17% on a USD basis (-43.25% YTD).

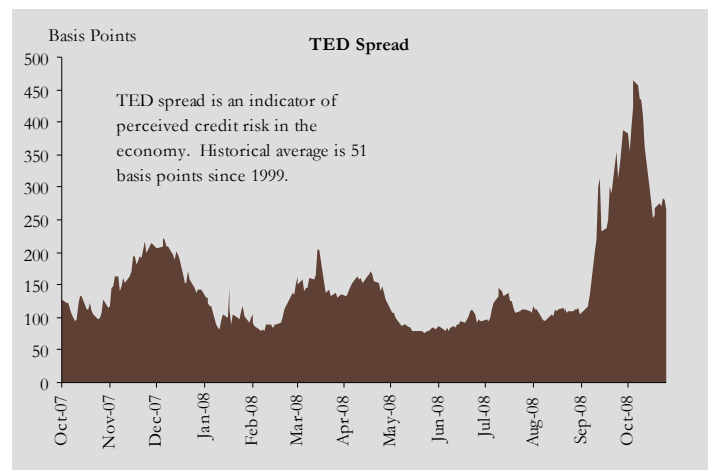
Investors shed emerging market equities in October as the global credit market turmoil began to show signs the world, potentially, was falling into a recession, while economists started reducing emerging economy growth rates. The benchmark MSCI Emerging Market index declined 27.35% on a USD basis, the worst monthly decline since the inception of the index back in 1987, resulting in a YTD loss of 53.04%. In local currency terms, the index dropped 22.30% (-45.99% YTD).

<sup>1</sup> Lehman Brothers

## GLOBAL FIXED INCOME

### U.S. Fixed Income

U.S. credit markets continued their downward spiral in October, following September's sell-off, amid fears the credit crisis was spreading beyond financial firms and into mainstream corporate America, potentially leading to a global recession. Yields on 2-year Treasuries fell 40 basis points (bps) during the month to 1.57%, while ten-year notes yielded 3.97%, up 14 bps from September. For the month, the Merrill Lynch U.S. Treasury Master index fell 0.15% (+4.46% YTD). Yields on U.S. corporate high-yield rated bonds soared 476 bps to 18.67%, still below a record high of 20.94% set in December 1990. Nonetheless, the jump in yields was enough to send the Lehman Brothers U.S. Corporate High Yield index down 15.91% (-24.38% YTD), its worst monthly loss since the inception of the index back in July 1983. Yields on the Lehman Brothers U.S. Corporate Investment Grade index jumped to 9.09%, from 7.83% in September, leading to a monthly decline of 6.44% (-14.47% YTD). The Lehman Brothers U.S. Aggregate index dropped -2.36% in October (-1.74% YTD).



Source: Bloomberg

### International Fixed-Income

Investors within European credit markets shied away from corporate bonds and purchased shorter-dated European government debt in October, which is more sensitive to changes in borrowing

costs, in anticipation the European Central Bank (ECB) would begin a series of interest rate cuts to help ward off a recession. The yield on European two-year government notes fell 93 bps to 2.54%, and now has declined 205 bps over the past two months. Ten-year government bond yields fell 12 bps to 3.90%. Corporate bonds in Europe lost 1.94% in October (-5.41% YTD), after declining 4.12% in September, according to the Merrill Lynch EMU Corporate index. In local currency, the Merrill Lynch EMU Direct Government index rose 0.85% in October (+3.96% YTD), but the advance in the USD vs. the euro caused a decline of 8.96% (-9.84% YTD) for U.S. based investors. Two-year

yields on Japanese government notes fell 21 bps to 0.55%, while ten-year yields held steady at 1.47%, helping send the Merrill Lynch Japanese Governments index to a USD gain of 8.50% for the month (+15.34% YTD). For October, the Merrill Lynch Global Government bond index declined 1.73% in USD (+0.05% YTD).

*All data from Bloomberg unless otherwise noted.*

<sup>1</sup> *Lehman Brothers*

## Indices Report

## Monthly Indices Report

Periods Ending October 31, 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	(16.80)%	(23.11)%	(32.84)%	(29.28)%	(36.09)%	(5.21)%	0.26%	0.40 %
S&P Equal Weighted	Large Cap Core	(21.06)%	(26.96)%	(35.21)%	(32.65)%	(39.18)%	(7.12)%	0.74%	4.37 %
Russell 1000	Large Cap Core	(17.46)%	(24.30)%	(33.56)%	(30.14)%	(36.81)%	(5.52)%	0.37%	0.75 %
Russell 1000 Growth	Large Cap Growth	(17.61)%	(26.36)%	(34.31)%	(30.50)%	(36.95)%	(5.89)%	(1.28)%	(2.10)%
Russell 1000 Value	Large Cap Value	(17.31)%	(22.09)%	(32.91)%	(29.91)%	(36.81)%	(5.26)%	1.89%	2.78 %
Russell Mid Cap	Mid Cap Core	(22.35)%	(30.61)%	(37.49)%	(34.96)%	(40.67)%	(7.06)%	1.76%	4.94 %
Russell 2000	Small Cap Core	(20.80)%	(24.48)%	(29.03)%	(24.40)%	(34.16)%	(4.79)%	1.57 %	4.90 %
Russell 2000 Growth	Small Cap Growth	(21.70)%	(28.83)%	(33.67)%	(27.63)%	(37.86)%	(5.30)%	(0.12)%	1.62 %
Russell 2000 Value	Small Cap Value	(19.98)%	(20.11)%	(24.28)%	(21.48)%	(30.54)%	(4.49)%	3.05 %	7.39 %
Wilshire 5000	Broad Equities	(17.57)%	(24.06)%	(32.94)%	(29.40)%	(36.31)%	(5.13)%	0.78%	1.26 %
HFRI Equity Hedge	Long Short Equity	(7.91)%	(17.11)%	(22.47)%	(19.53)%	(24.32)%	0.00%	3.28%	8.51 %
<b><u>International Equity Indices</u></b>									
MSCI World	Broad Global	(18.93)%	(29.51)%	(38.26)%	(35.63)%	(41.50)%	(4.80)%	2.24%	1.19%
MSCI EAFE	Developed Markets Intl	(20.17)%	(34.43)%	(43.25)%	(41.04)%	(46.34)%	(4.83)%	4.04%	2.04%
MSCI EAFE Growth	Developed Markets Intl Growth	(19.78)%	(35.07)%	(42.25)%	(40.19)%	(44.63)%	(3.87)%	3.69%	0.06%
MSCI EAFE Value	Developed Markets Intl Value	(20.56)%	(33.78)%	(44.27)%	(41.90)%	(48.07)%	(5.89)%	4.29%	3.85%
MSCI Emerging Markets	Emerging Market	(27.35)%	(44.82)%	(53.04)%	(51.25)%	(56.21)%	(0.06)%	9.87%	10.06%
<b><u>Domestic Fixed Income Indices</u></b>									
Merrill Lynch Treasury Bills	Cash	0.11%	0.56%	1.96%	0.95%	2.72%	4.15%	3.27%	3.52%
Merrill Lynch 1-3 Yr Treasuries	Treasuries	1.27%	2.84%	5.61%	3.08%	8.22%	6.14%	4.16%	4.87%
Lehman Muni 5 Yr	5 Yr Municipal Bonds	0.01%	(0.73)%	1.79%	(0.05)%	3.33%	3.66%	2.94%	4.22%
Merrill Lynch High Yield	High Yield Bonds	(16.25)%	(22.96)%	(25.13)%	(25.90)%	(26.43)%	(4.69)%	0.18%	2.88%
Lehman Aggregate	Core Bonds	(2.36)%	(2.75)%	(1.73)%	(3.62)%	0.31%	3.60%	3.48%	5.00%
Lehman Government	Government Bonds	(0.28)%	1.19%	3.73%	1.11%	6.81%	5.74%	4.58%	5.34%
Lehman U.S. Credit Index	Corporate Bonds	(5.81)%	(11.30)%	(12.24)%	(13.12)%	(11.36)%	(0.77)%	0.95%	4.04%
Lehman Muni 10 Yr	10 Yr Municipal Bonds	(0.83)%	(3.09)%	(2.00)%	(2.88)%	(0.64)%	2.80%	3.18%	4.38%
HFRI FOF Conservative	Low Volatility	(6.61)%	(12.36)%	(15.04)%	(13.01)%	(15.57)%	0.70%	2.47%	5.17%
<b><u>Real Estate Indices</u></b>									
NCREIF Property	Real Estate	N/A	(0.17)%	2.00%	0.39%	5.29%	13.24%	14.23%	11.80%
NAREIT Equity	Real Estate	(31.67)%	(30.29)%	(30.48)%	(35.23)%	(39.96)%	(6.28)%	4.76%	8.49%

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 Index**

The MSCI Emerging Markets Index is an unmanaged 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.

**MSCI Pakistan Index**

The MSCI Pakistan index is designed to broadly and fairly represent the full diversity of business activities in Pakistan. As of the close of May 31, 2002, this index will aim to capture 85% of the free float adjusted market capitalization in each industry group.

**MSCI Russia Index**

The MSCI Russia index is designed to broadly and fairly represent the full diversity of business activities in Russia. As of the close of May 31, 2002, this index will aim to capture 85% of the free float adjusted market capitalization in each industry group.

**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 created 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 Brothers 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 Brothers 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 created 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 Ba1 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.

**Other Indices Quoted in the Monthly Market Update****Dow Jones Stoxx 600 Index**

The Dow Jones Stoxx 600 Index is a capitalization-weighted index of European stocks designed to provide a broad yet liquid representation of companies in the European region. The equities use free float shares in the index calculation. The index was developed with a base value of 100 as of December 31, 1991. This index uses float shares.

**Nikkei 225 Index**

The Nikkei-225 Stock Average is a price-weighted index of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The Nikkei Stock Average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225.

**Lehman Brothers US High Yield Index**

The Lehman Brothers High Yield Index covers the universe of fixed rate, non-investment grade debt. Pay-in-kind (PIK) bonds, Eurobonds, and debt issues from countries designated as emerging markets (e.g., Argentina, Brazil, Venezuela, etc.) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-emerging countries are included. Original issue zeroes, step-up coupon structures, and 144-As are also included.

**Merrill Lynch U.S. Treasury Master Index**

The Merrill Lynch U.S. Treasury Master Index includes approximately 160 issues in the form of publicly placed, coupon-bearing US Treasury debt. Issues must carry a term to maturity of at least one year, and par amounts outstanding must be no less than \$10 million at the start and at the close of the performance measurement period. Flower bonds are excluded. Sub-indices are calculated for a variety of maturities, including: 1-2.99 years; 3-4.99 years; and 5-6.99 years.

**Merrill Lynch EMU Direct Government Index**

The Merrill Lynch EMU Direct Government Index measures the performance of euro-denominated government debt of Euro-zone nations.

**Merrill Lynch Japan Sovereign Index**

The Merrill Lynch Japan Sovereign Index measures the performance of yen-denominated government debt of Japan.

**Merrill Lynch Global Government Index**

The Global Government Index tracks the performance of public debt of investment grade sovereign issuers issued and denominated in their own domestic market and currency. Qualifying countries and their respective minimum issue size requirements include: Australia (AUD 1 billion); Canada (CAD 1 billion); Denmark (DKK 5 billion); Euro-Sovereigns (EUR 1 billion); Japan (JPY 200 billion); New Zealand (NZD 1 billion); Sweden (SEK 5 billion); Switzerland (CHF 500 million); the UK (GBP 500 million); and the US (USD 1 billion). In addition, individual qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Qualifying countries must maintain an investment grade foreign currency long term sovereign debt rating (based on a composite of Moody's and S&P). Government bills and inflation-linked securities are excluded from the index. Zero coupon bonds are excluded; however, any portion of a qualifying note or bond that has been stripped for purposes of creating a zero coupon security remains included in the amount outstanding of the underlying coupon note or bond. The index is re-balanced on the last calendar day of the month. The inception date of the index is December 31, 1985, with daily data available beginning September 30, 1993.

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