

Economic Signals

Q3 2008

- GDP grew at a 2.8% annual rate in the second quarter, fuelled by exports and consumer spending as the tax rebates kicked in. This was substantially higher than the 0.9% pace in the first quarter.
- The Federal Reserve left the Fed Funds rate unchanged at 2%. However, in wake of the failure of Lehman Brothers and the precarious situation of other banks, it expanded its short-term lending to banks by starting to accept investment-grade debt as collateral instead of just Treasuries and other high-grade securities.
- In the third quarter, the U.S. Dollar gained significantly against the euro (+10.6%) and the pound (+10.6%) but remained relatively stable versus the yen (-0.2%)
- The trade deficit grew sharply in July to \$62.2 billion as oil prices spiked, but fell back to \$59.1 billion in August as exports surged while oil imports and prices fell.
- After reaching an all-time high of \$147/barrel in July, oil prices plummeted in response to declining global demand brought on by the economic slow-down. Oil closed the quarter at \$102/barrel on September 30th, down 27% in three months.
- The Consumer Price Index jumped by 0.8% in July to an annual rate of 5.6% -- the highest point since 1991 as the cost of energy surged. Prices fell slightly in August (down 0.1%) to an annual rate of 5.4%, and remained flat in September.
- The PMI dropped sharply in September to 43.5, a seven-year low, from a level of 49.9 in August. A level below 50 indicates that the manufacturing sector of the economy is generally contracting, and a reading below 41 marks a recession.
- Industrial production plunged 2.8% in September – the steepest drop in 34 years -- following a sharp 1.1% decline in August. This decline was largely a result of hurricanes Gustav and Ike on Gulf Coast industry and a strike at Boeing.
- The total seasonally-adjusted business inventories/sales ratio was 1.27 at the end of August, the same level as a year ago but up from 1.24 in May.
- Non-farm productivity is estimated to have jumped an impressive 4.3% (annual rate). Year-over-year, productivity has risen a robust 3.4% and unit labor costs a benign 0.6%.
- The unemployment rate jumped to 6.1% in August as employers trimmed jobs, but remained at that level in September. It was 5.5% at the end of June and 4.7% a year ago. Unemployment is now at the highest rate since September 2003
- Retail sales fell each month in the 3rd quarter – down 0.5% in July, 0.4% in August and 1.2% in September. Weakness was broad-based, but particularly notable in the more discretionary sectors.
- Housing starts declined each month in the 3rd quarter to a 17-year low in September of 817,000 units – 31.1% lower than a year ago. Although sales of new and existing homes were up in July, prices continued to sink and housing inventories rose. Sales of existing homes rose in July to 5.02 million, but fell back to 4.91 million in August, down 10.7% from a year earlier. In August, new home sales fell to the lowest level in 17 years, coming in at an annual rate of 460,000, after rising to 520,000 in July. The rate of sales was down 34.5% from a year ago.
- The State Street Investor Confidence Index® measures investor confidence by analyzing buying and selling patterns of institutional investors. After reaching a peak of 84.0 in July 2008, the index dropped dramatically to close the quarter at 70.7.
- After declining each month in the first half of the year, the Consumer Confidence Index rose throughout the third quarter. July saw a modest rise of 0.9 to 51.9, followed by unexpected gains in August (to 58.5) and September (to 59.8). However, it is well below a year ago when it stood at 99.5.

Equity Index Returns - Short Term

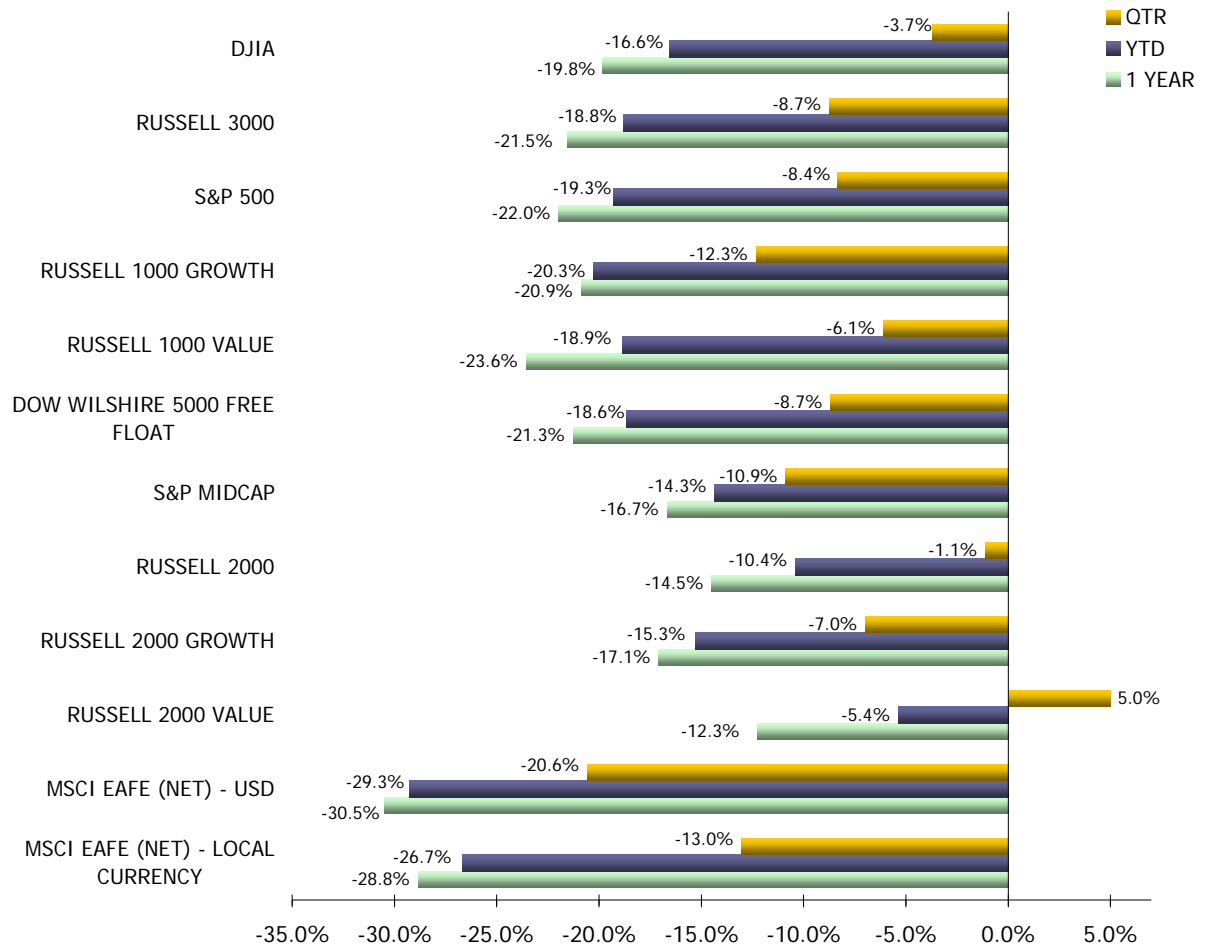
Returns as of 9/30/08

Equity results over the last 12 months have been disappointing, as the impact of the financial crisis and signs pointing towards a slow-down or even a recession took hold.

Only the Russell 2000 Value index experienced a positive return in the third quarter -- up 5%. All other indices fell, with the Russell 1000 Growth losing the most, down 12.3%.

In the full year ending September 2008 and for the year-to-date, all indices lost ground. The Russell 2000 Value index, however, declined the least (down 12.3% and 5.4%, respectively). Large stocks tended to suffer the greatest losses: The lowest performing index for the full year was the Russell 1000 Value index which dropped 23.6%, and the Russell 1000 Growth index had the lowest return for the year-to-date, down 20.3%.

In all three periods, the MSCI EAFE suffered even greater losses than did the US indices, and the losses in US Dollar terms were greater than in local currency terms. In US dollar terms, the MSCI EAFE plummeted 20.6% in the third quarter, which pushed the year-to-date loss to 29.3% and the full year to a loss of just over 30%.

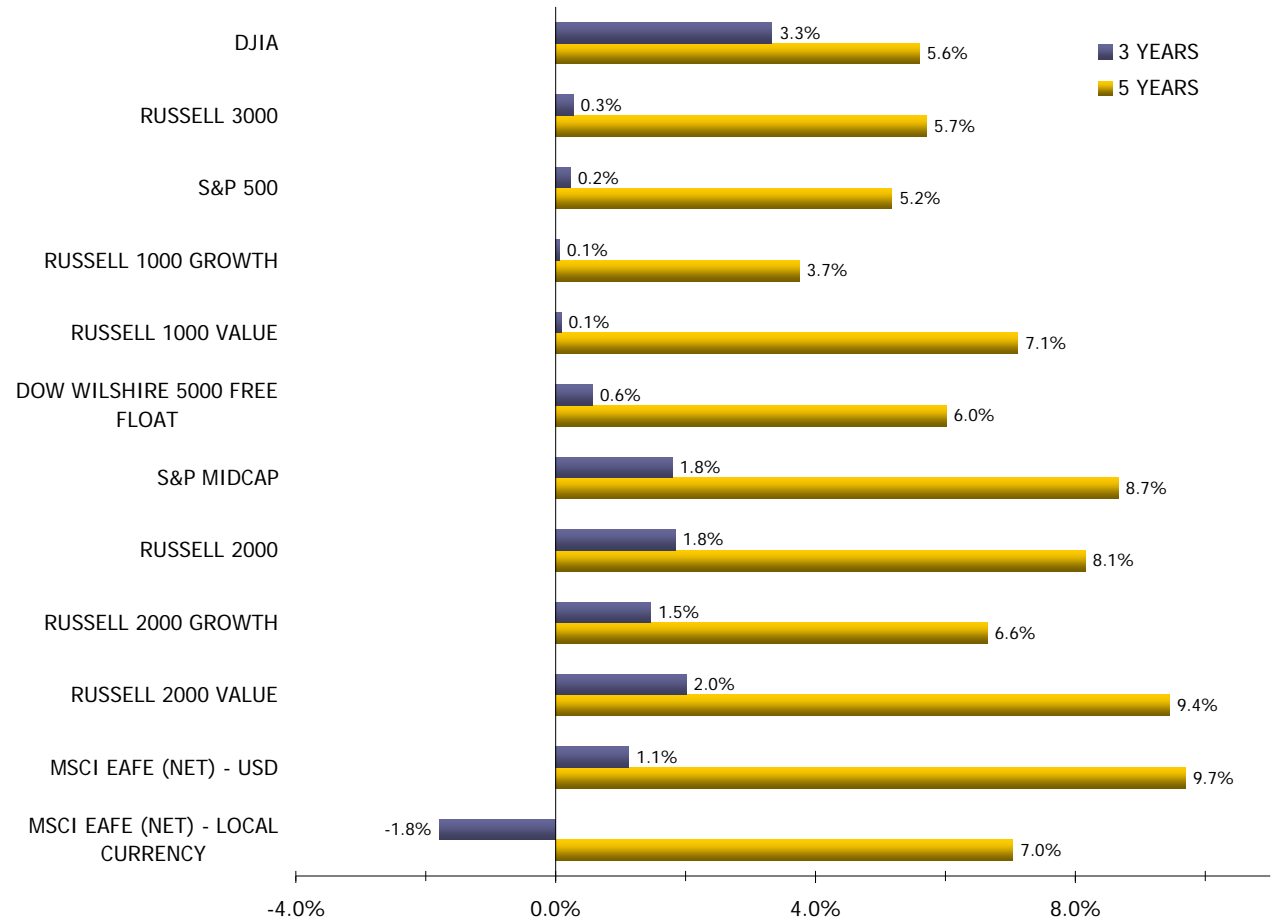


Equity Index Returns - Long Term

Returns as of 9/30/08

All major US indices showed positive returns for the last three and five years. During the 5 year period, the Russell 2000 Value showed the biggest gain of 9.4%, followed by the S&P MidCap (up 8.7%). For the 3-year period, gains were more modest. The Dow Jones outperformed all indices with a gain of 3.3%, but both the Russell 1000 Growth and Value indices barely remained in positive territory with a very weak gain of 0.1%

The MSCI EAFE index turned in a strong positive performance for the 5 year period gaining 9.7% and 7.0% in US dollars and local values respectively. The MSCI EAFE in local terms is the only index in this group to experience negative returns in the 3 year period, losing 1.8%.



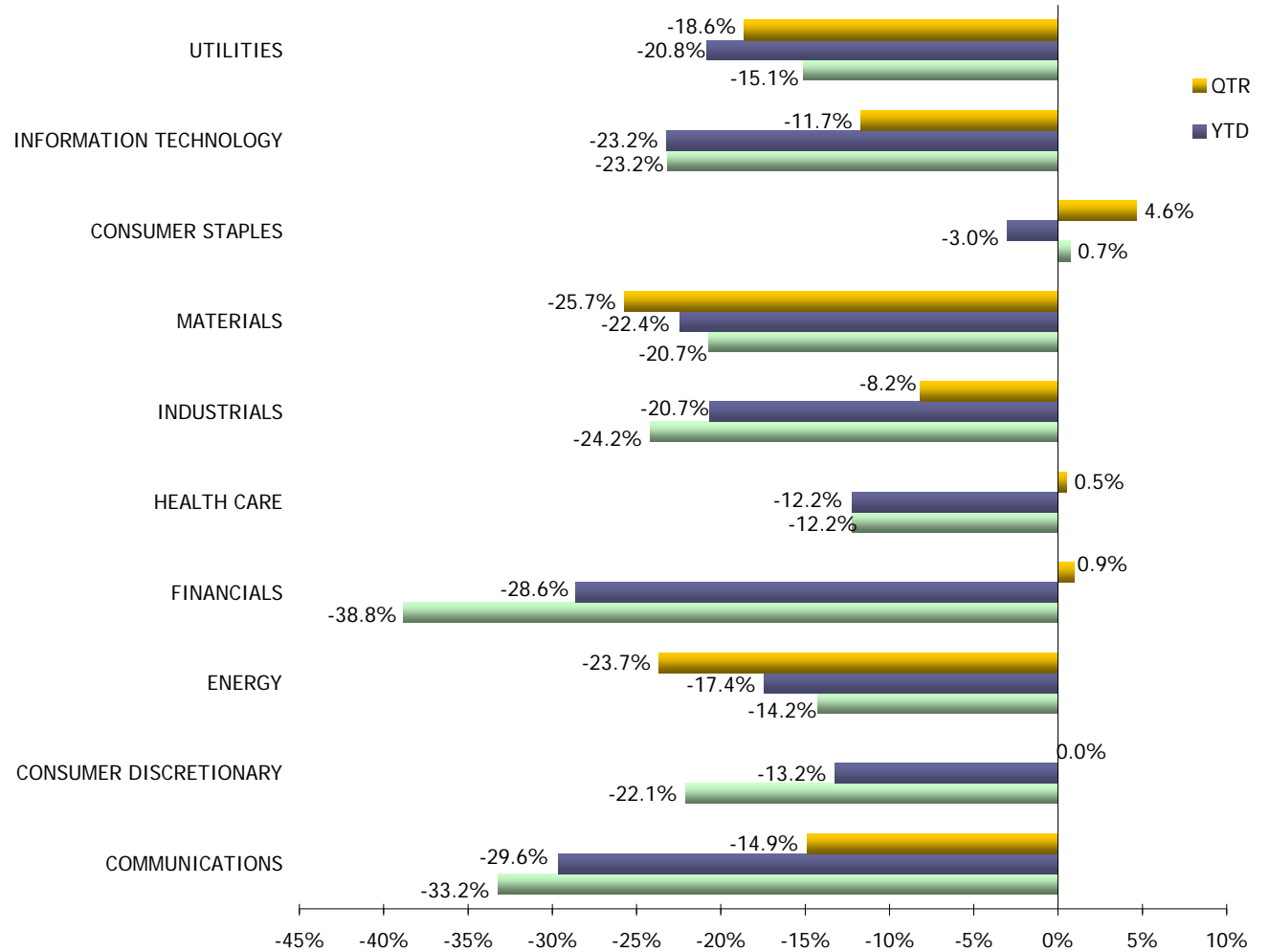
Equity Sector Returns

S&P 500 Economic Sector Returns as of 9/30/08

The only sector with significant gains in the third quarter was Consumer Staples which was up 4.6%. Despite the turmoil in the financial markets, the Financial sector managed to gain modest 0.9% following substantial loses earlier this year. All other sectors fell, with Materials and Energy taking substantial hits as oil prices plummeted (down 25.7% and 23.7%, respectively).

For the year ended September 2008, Financials fell a whopping 38.8% and Communications suffered a 33.2% drop, and other sectors also saw steep declines. Only Consumer Staples remained in positive territory, up just 0.7%.

On a year-to-date basis, Communications and Financials also saw the biggest losses, tumbling 26.9% and 28.6%, respectively. Even Consumer Staples lost ground in this period, losing 3%.



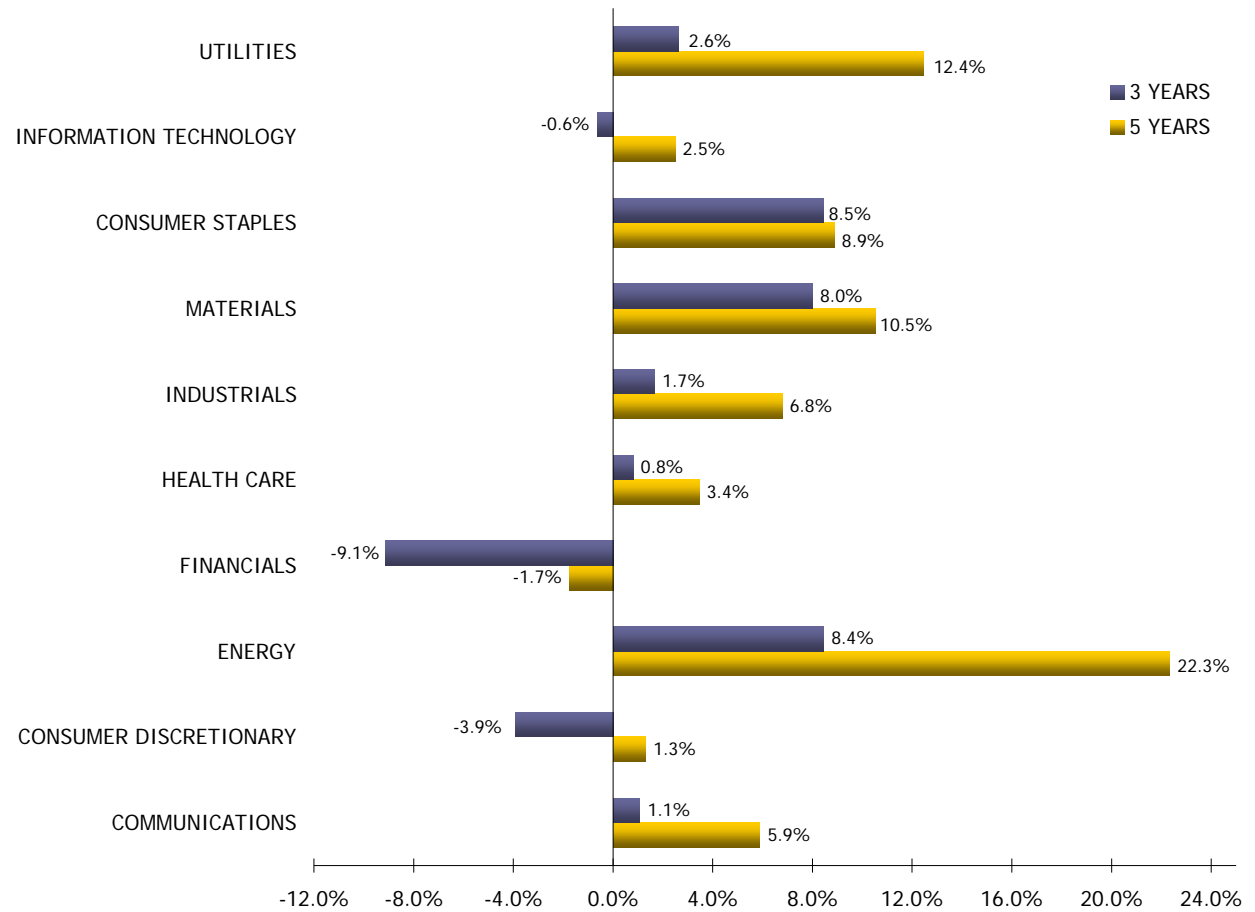
Equity Sector Returns - Long Term

S&P 500 Economic Sector Returns as of 9/30/08

The events of the last year more than wiped out the gains Financials had made over the last 3 and 5 years; as a result, Financials lost 9.1% in the last 3 years and 1.7% in the 5 year period.

Over the last 5 years, Energy grew an impressive 22.3%, nearly double the return of Utilities, the next best performing sector (up 12.4%).

Over the last 3 years, Consumer Staples and Energy experienced strongest returns, up 8.5% and 8.4%, respectively.

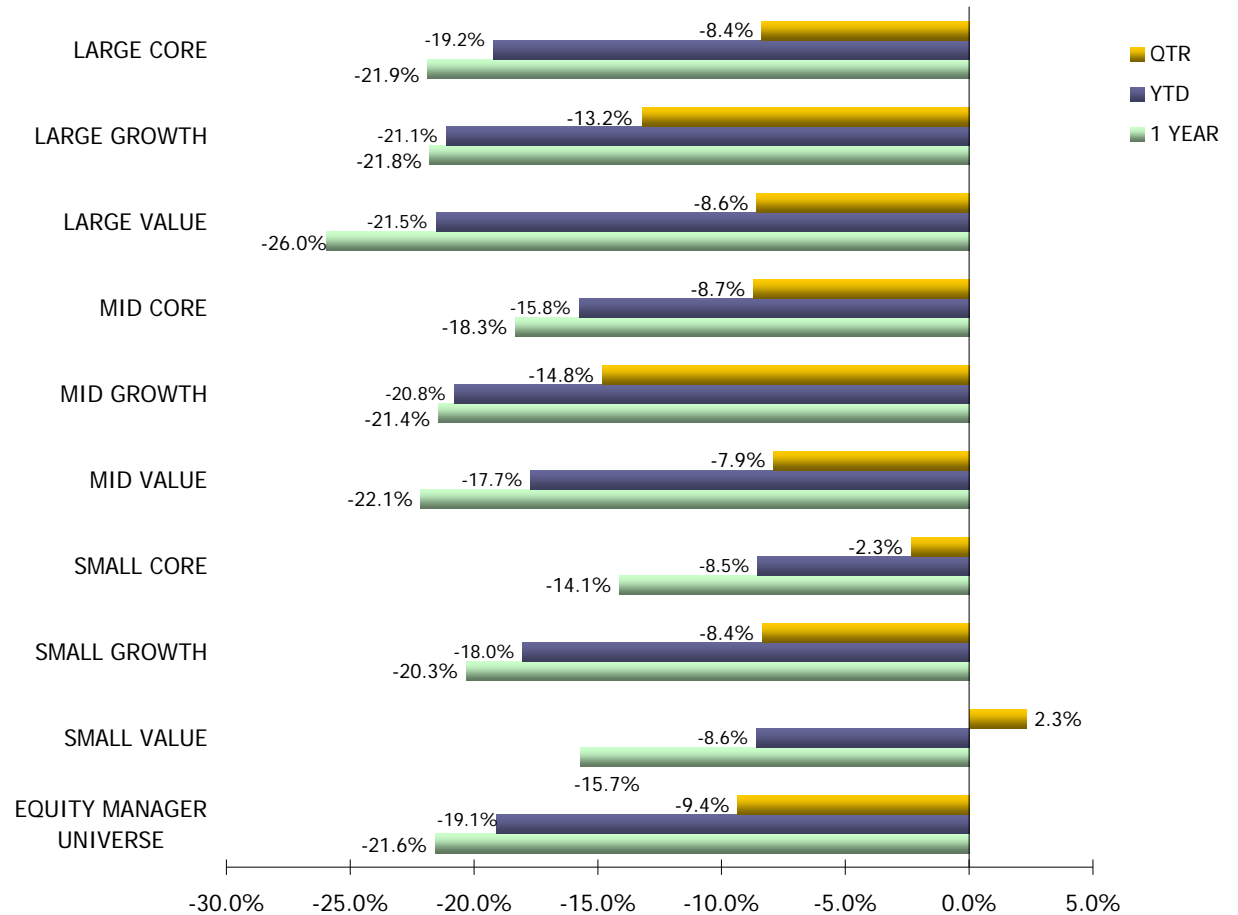


Managed Equity Portfolios Style Spectrum Returns - Short Term

Equity Only Median Returns as of 9/30/08

During the third quarter, small capitalization stocks outperformed mid- and large capitalization stocks within each style. Only Small Value stocks had positive gains (up 2.3%), while Small Core lost the least. Large and Mid-Cap Growth stocks fared worst, down 13.2% and 14.8% respectively.

For the year-to-date and last 12 month periods, all styles lost value. In both periods, Small Core and Small Value stocks lost the least, while Large Value experienced the greatest losses (down 21.5% and 26.0%).

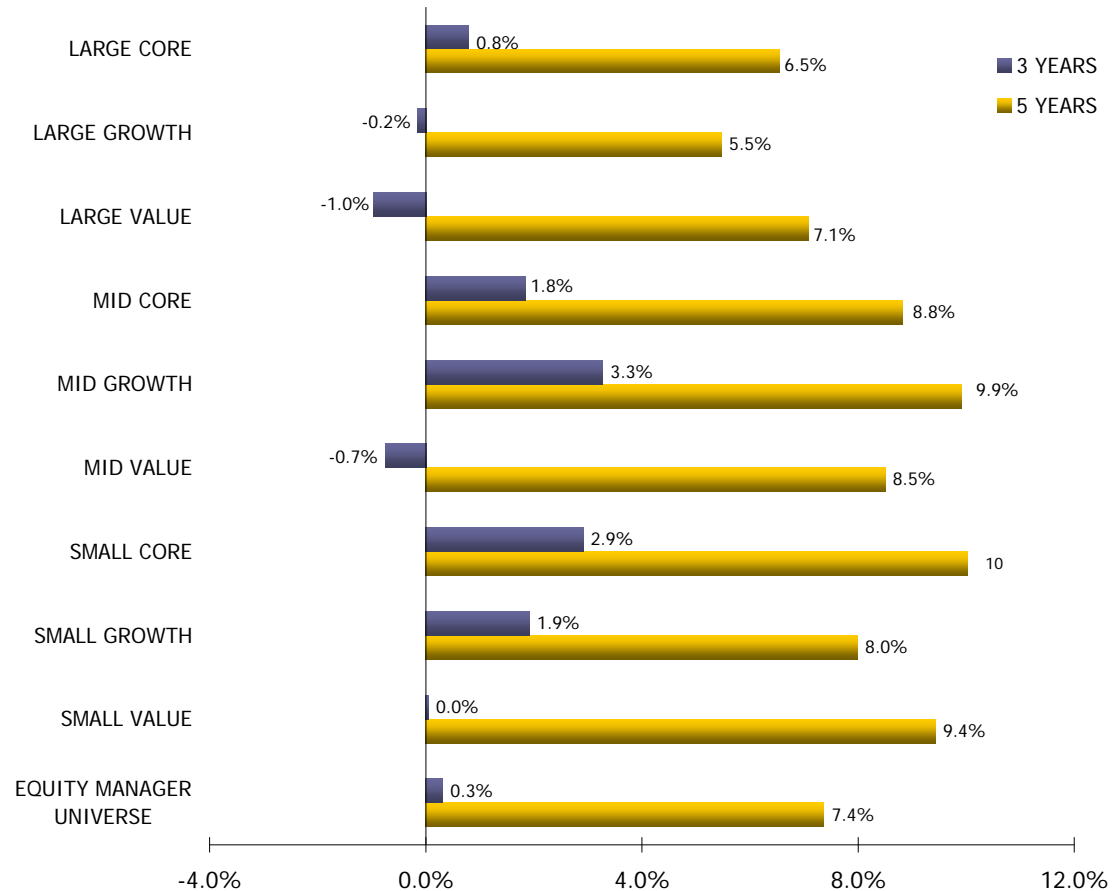


Managed Equity Portfolios Style Spectrum Returns - Long Term

Equity Only Median Returns as of 9/30/08

Within all size bands, Value fared worst for the 3 years ending September 2008 and large capitalization stocks underperformed other stocks within each style. Mid-Cap Growth experienced the highest return, up 3.3%, followed by Small Core (up 2.9%). Large Value and Mid-Value suffered modest losses, down 1% and 0.7%, respectively.

Over the last 5 years, all styles had positive returns. Small Core and Mid-Value topped other styles with returns of 10.0% and 9.4% respectively, followed closely by Small Value at 9.4%. Large capitalization styles experienced the smallest gains in the period. Large Growth earned only 5.5%.



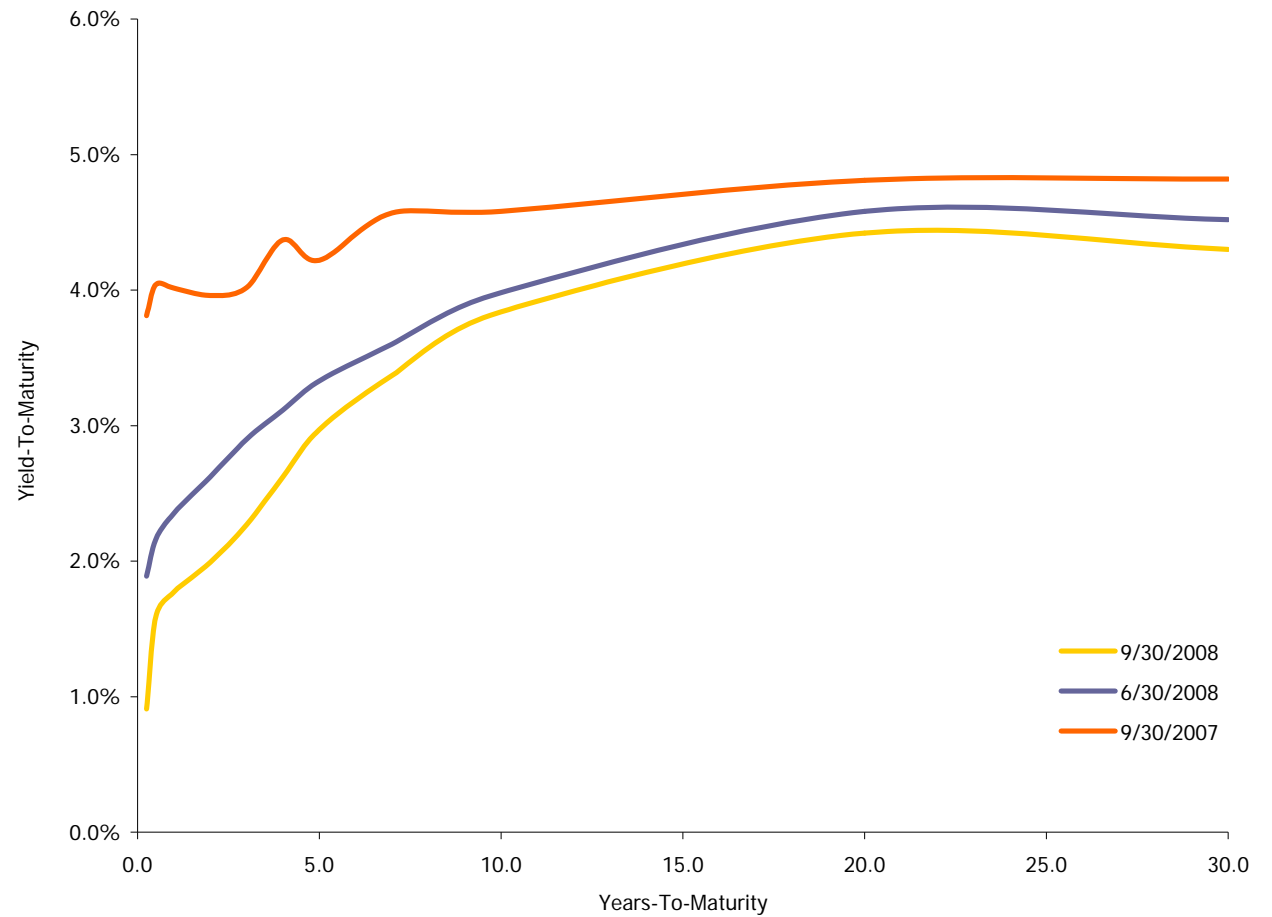
Treasury Yield Curve

Interest Rate Term Structure

Government Issues - 3 Months to 30 Years Maturity

The Federal Reserve held the key Fed Funds interest rate at 2.0% during the entire third quarter as concerns over inflation began to mount.

In the last 3 months, the yield curve has shifted downwards slightly.



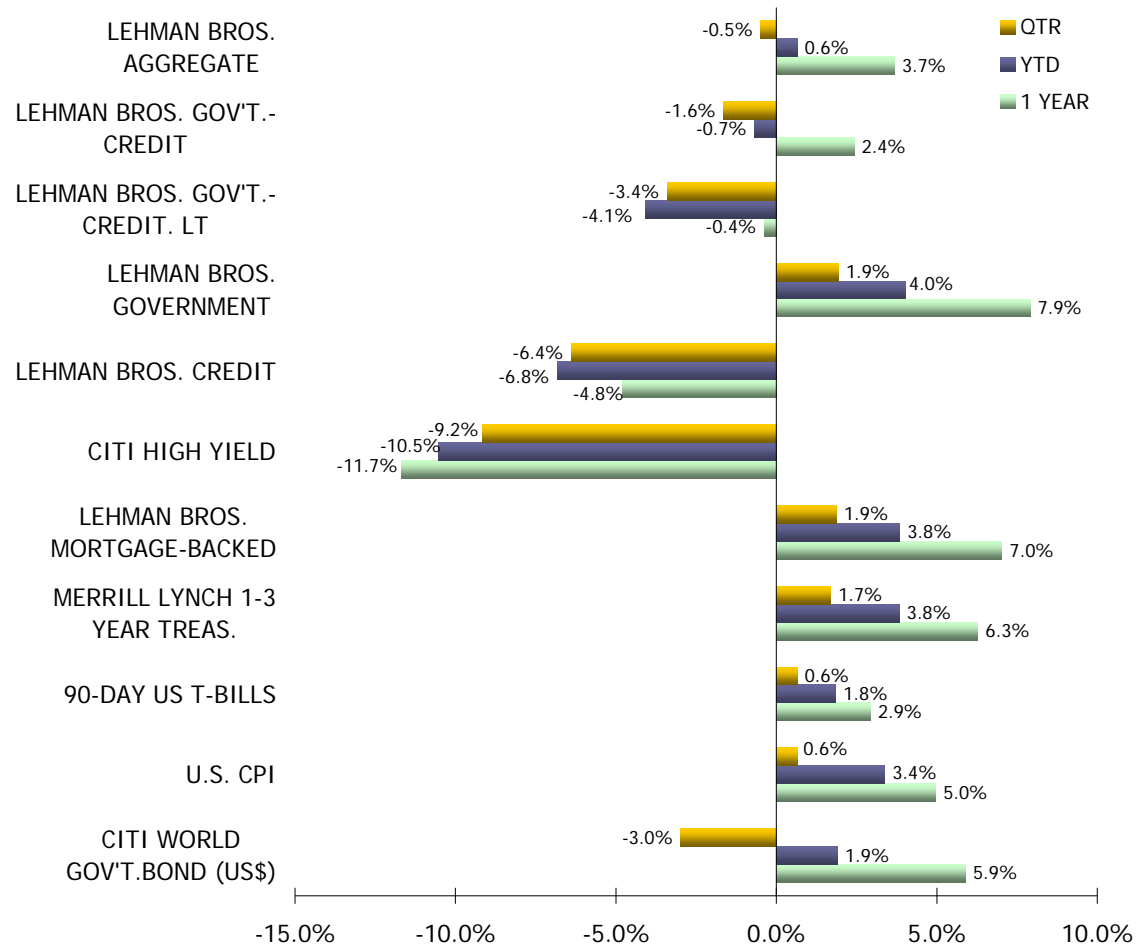
Fixed Income Index Returns - Short Term

Returns as of 9/30/08

In the third quarter, bond market performance was split along quality lines, as investors abandoned potentially defaulting low quality instruments in favor of high quality treasuries and agencies, thus pushing values up and yields down. The Citi High Yield Index was hit the hardest in this environment, down 9.2%, followed by the Lehman Brothers Credit Index (down 6.4%). The Lehman Aggregate posted only a modest loss in the quarter (down 0.5%) as governments and agencies brought the average up.

A similar pattern was seen for the year-to-date and full year ending September 2008 periods: Government indices fared particularly well (the Lehman Government Index gained 7.9%, the Lehman Mortgage-Backed index rose 7.0%, while the Citi High Yield index fell 11.7% for the year.

Non-US government bond markets struggled in the third quarter as it became apparent that the financial crisis in the US had spread to other countries. The Citi World Government Bond index fell 3.0% in the quarter, but up 5.9% for the year.



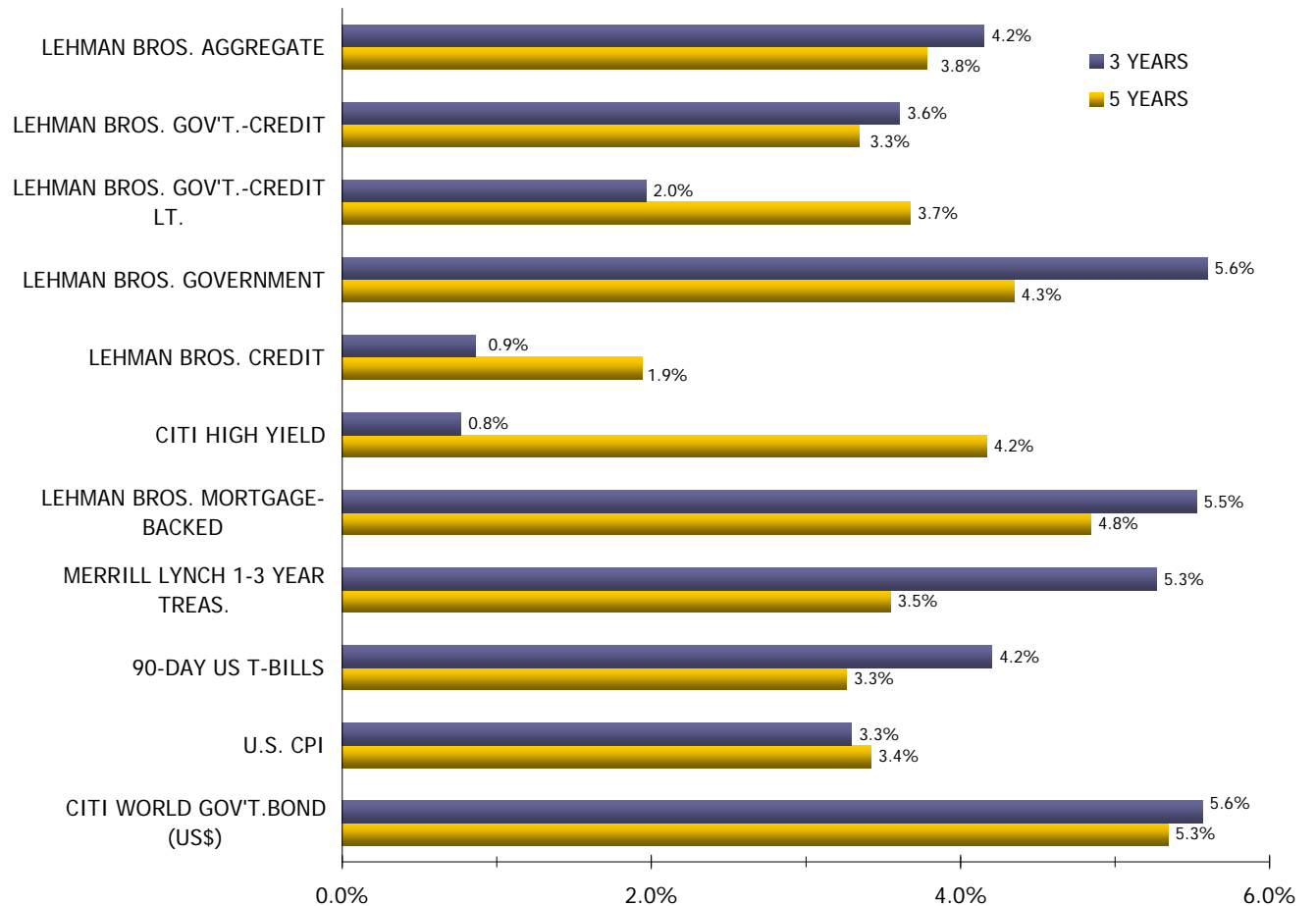
Fixed Income Index Returns - Long Term

Returns as of 9/30/08

All fixed income indices turned in a positive performance for the longer 3- and 5-year periods.

The Lehman Bros Government and Lehman Bros Mortgage Backed indices were the strongest performers for the 3 year period returning 5.6% and 5.5% respectively. They were matched by equally strong performance of Citi World Gov't Bond index, up 5.6%. The weakest performers for the period were Citi High Yield and Lehman Bros Credit up modestly 0.8% and 0.9% respectively.

Citi World Gov't Bond index outperformed all domestic fixed income indices for the 5 year period, gaining 5.3%. The Lehman Bros Mortgage Backed index (up 4.8%) and Lehman Bros Government up 4.3% led among the domestic indices.



Capital Market Review Third Quarter 2008

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Equity Index Returns - Short Term

	1 YEAR	YTD	QTR
MSCI EAFE (NET) - LOCAL CURRENCY	(28.84%)	(26.67%)	(13.02%)
MSCI EAFE (NET) - USD	(30.51%)	(29.27%)	(20.56%)
RUSSELL 2000 VALUE	(12.25%)	(5.37%)	4.96%
RUSSELL 2000 GROWTH	(17.07%)	(15.28%)	(6.98%)
RUSSELL 2000	(14.49%)	(10.39%)	(1.12%)
S&P MIDCAP	(16.67%)	(14.33%)	(10.86%)
DOW WILSHIRE 5000 FREE FLOAT	(21.26%)	(18.64%)	(8.67%)
RUSSELL 1000 VALUE	(23.57%)	(18.86%)	(6.11%)
RUSSELL 1000 GROWTH	(20.87%)	(20.26%)	(12.32%)
S&P 500	(21.97%)	(19.28%)	(8.37%)
RUSSELL 3000	(21.53%)	(18.81%)	(8.73%)
DJIA	(19.84%)	(16.57%)	(3.70%)

Equity Index Returns - Long Term

	5 YEARS	3 YEARS
MSCI EAFE (NET) - LOCAL CURRENCY	7.03%	(1.79%)
MSCI EAFE (NET) - USD	9.69%	1.12%
RUSSELL 2000 VALUE	9.45%	2.00%
RUSSELL 2000 GROWTH	6.64%	1.46%
RUSSELL 2000	8.15%	1.83%
S&P MIDCAP	8.65%	1.79%
DOW WILSHIRE 5000 FREE FLOAT	6.00%	0.56%
RUSSELL 1000 VALUE	7.11%	0.08%
RUSSELL 1000 GROWTH	3.74%	0.06%
S&P 500	5.17%	0.22%
RUSSELL 3000	5.70%	0.27%
DJIA	5.59%	3.33%

Equity Sector Returns

	1 YEAR	YTD	QTR
COMMUNICATIONS	(33.22%)	(29.64%)	(14.89%)
CONSUMER DISCRETIONARY	(22.10%)	(13.24%)	(0.02%)
ENERGY	(14.25%)	(17.44%)	(23.66%)
FINANCIALS	(38.84%)	(28.61%)	0.95%
HEALTH CARE	(12.23%)	(12.19%)	0.48%
INDUSTRIALS	(24.18%)	(20.67%)	(8.17%)
MATERIALS	(20.74%)	(22.43%)	(25.71%)
CONSUMER STAPLES	0.70%	(3.02%)	4.63%
INFORMATION TECHNOLOGY	(23.16%)	(23.23%)	(11.68%)
UTILITIES	(15.08%)	(20.85%)	(18.60%)

Equity Sector Returns - Long Term

	5 YEARS	3 YEARS
COMMUNICATIONS	5.88%	1.07%
CONSUMER DISCRETIONARY	1.30%	(3.92%)
ENERGY	22.32%	8.44%
FINANCIALS	(1.72%)	(9.12%)
HEALTH CARE	3.44%	0.80%
INDUSTRIALS	6.77%	1.66%
MATERIALS	10.52%	7.99%
CONSUMER STAPLES	8.87%	8.45%
INFORMATION TECHNOLOGY	2.49%	(0.62%)
UTILITIES	12.43%	2.61%

Managed Equity Portfolios Style Spectrum Return - Short Term

	1 YEAR	YTD	QTR
EQUITY MANAGER UNIVERSE	(21.57%)	(19.09%)	(9.35%)
SMALL VALUE	(15.68%)	(8.60%)	2.30%
SMALL GROWTH	(20.32%)	(18.03%)	(8.37%)
SMALL CORE	(14.12%)	(8.54%)	(2.34%)
MID VALUE	(22.14%)	(17.71%)	(7.90%)
MID GROWTH	(21.44%)	(20.80%)	(14.82%)
MID CORE	(18.33%)	(15.76%)	(8.72%)
LARGE VALUE	(25.97%)	(21.54%)	(8.59%)
LARGE GROWTH	(21.77%)	(21.12%)	(13.21%)
LARGE CORE	(21.87%)	(19.21%)	(8.37%)

Managed Equity Portfolios Style Spectrum Return - Long Term

	5 YEARS	3 YEARS
EQUITY MANAGER UNIVERSE	7.36%	0.31%
SMALL VALUE	9.42%	0.05%
SMALL GROWTH	7.98%	1.92%
SMALL CORE	10.01%	2.91%
MID VALUE	8.49%	(0.74%)
MID GROWTH	9.91%	3.27%
MID CORE	8.82%	1.84%
LARGE VALUE	7.07%	(0.98%)
LARGE GROWTH	5.47%	(0.16%)
LARGE CORE	6.54%	0.79%

Treasury Yield Curve

	9/30/2008	6/30/2008	9/30/2007
0.25	0.92%	1.90%	3.82%
0.50	1.60%	2.17%	4.05%
1.00	1.78%	2.36%	4.02%
2.00	2.00%	2.63%	3.97%
3.00	2.28%	2.91%	4.03%
4.00	2.63%	3.13%	4.38%
5.00	2.98%	3.34%	4.23%
7.00	3.38%	3.61%	4.58%
10.00	3.85%	3.99%	4.59%
20.00	4.43%	4.59%	4.82%
30.00	4.31%	4.53%	4.83%

Fixed Income Index Returns - Short Term

	1 YEAR	YTD	QTR
CITI WORLD GOV'T.BOND (US\$)	5.88%	1.90%	(2.97%)
U.S. CPI	4.95%	3.37%	0.65%
90-DAY US T-BILLS	2.92%	1.84%	0.63%
MERRILL LYNCH 1-3 YEAR TREAS.	6.27%	3.82%	1.68%
LEHMAN BROS. MORTGAGE-BACKED	7.01%	3.84%	1.87%
CITI HIGH YIELD	(11.68%)	(10.52%)	(9.15%)
LEHMAN BROS. CREDIT	(4.79%)	(6.83%)	(6.39%)
LEHMAN BROS. GOVERNMENT	7.90%	4.02%	1.92%
LEHMAN BROS. GOV'T.-CREDIT. LT	(0.37%)	(4.09%)	(3.40%)
LEHMAN BROS. GOV'T.-CREDIT	2.41%	(0.67%)	(1.63%)
LEHMAN BROS. AGGREGATE	3.66%	0.64%	(0.48%)

Fixed Income Returns - Long Term

	5 YEARS	3 YEARS
CITI WORLD GOV'T.BOND (US\$)	5.34%	5.56%
U.S. CPI	3.42%	3.29%
90-DAY US T-BILLS	3.26%	4.20%
MERRILL LYNCH 1-3 YEAR TREAS.	3.54%	5.27%
LEHMAN BROS. MORTGAGE-BACKED	4.84%	5.52%
CITI HIGH YIELD	4.17%	0.77%
LEHMAN BROS. CREDIT	1.94%	0.86%
LEHMAN BROS. GOVERNMENT	4.34%	5.59%
LEHMAN BROS. GOV'T.-CREDIT LT.	3.67%	1.96%
LEHMAN BROS. GOV'T.-CREDIT	3.34%	3.60%
LEHMAN BROS. AGGREGATE	3.78%	4.15%