

INDEPENDENT CONSULTANTS COOPERATIVE MARKET ENVIRONMENT • Q2 2009

Welcome to the latest issue of “State Street Investment Analytics **Market Environment**”, a companion newsletter to “State Street Investment Analytics **Market Commentary**.” It is designed to summarize key market indicators for our institutional clients. While the “*Environment*” keeps you up to date on market changes the “*Commentary*” is designed to keep you up to date on the research generated by various specialty units within State Street Investment Analytics (SSIA). We hope you find both reports useful and relevant in your investment endeavors.

> General Comments

- U.S. equity markets rebounded sharply during the second quarter of 2009, registering the best quarterly performance since 1998. The Dow Jones Industrial Average rose 12.0% while the S&P 500 climbed 15.2% in the second quarter.
- The U.S. economy showed mixed signs of improvement as the Conference Board’s Consumer Confidence Index posted its largest 1-month increase in six years, rising 14.1 to 54.8 in May. Although the index posted strong gains during the first two months of the quarter, it fell 5.5 in June ending the quarter at 49.3.
- U.S. Federal Reserve Chairman, Ben Bernanke, testified before Congress that recent data supports a slowing in economic contraction. Simultaneously, the Fed elected to keep the key short-term interest rate at the historically low range of 0 - .25%.
- Despite signs of an easing U.S. labor market, the economy has lost 6.5 million jobs since December 2007. The unemployment rate continued to rise during the quarter, ending the period at 9.5%. This marked the ninth consecutive month of increases in unemployment and the highest U.S. unemployment rate since 1983.
- Oil prices edged upward during the quarter, rising above \$70/barrel in June and ending the month at \$73.38. Analysts note that while oil inventories remain relatively high, recent inflows into commodities have steadily driven prices higher.
- After losing ground during the first two months of year, emerging markets indices have experienced a sharp rebound. Frontier markets have led returns and the MSCI BRIC Index has advanced 47.9% year to date.
- The U.S. dollar fell to a 6-month low against the euro in early June but rebounded slightly as the quarter came to a close. Simultaneously, the U.K. pound strengthened to an 8-month high. The dollar also fell against the yen which strengthened during the second quarter.
- The State Street Investor Confidence Index® rose 45.5 points during the quarter to close at 115.5. The index measures investor confidence by analyzing buying and selling patterns of institutional investors. June marks the third consecutive month that the index has remained above the neutral level of 100, indicating institutional investors are increasing their allocations to risky assets.

ENVIRONMENT

Independent Consultants Cooperative (ICC)



MARKET SUMMARY

Equity Markets

	<u>QTR</u>	<u>1 Year</u>
U.S.		
S&P 500	15.9	-26.2
Dow Jones Industrial Average	12.0	-23.0
NASDAQ	20.5	-18.8
Russell 1000	16.5	-26.7
Russell 2000	20.7	-25.1
Russell 3000	16.8	-26.6
Non-U.S.		
MSCI EAFE (Net)	25.4	-31.4
MSCI Emerging Markets (Net)	34.7	-28.1
MSCI All Country World ex U.S.	22.3	-29.3

Bond Markets

	<u>QTR</u>	<u>1 Year</u>
U.S.		
Barclays Capital Aggregate	1.8	6.1
Barclays Capital Gov/Credit	2.8	5.3
Barclays Capital Universal	2.9	4.9
Barclays Capital Corp. High Yield	23.1	-2.4
Non-U.S.		
CG Non-U.S. World Govt.	5.4	3.5

Non-Public Markets

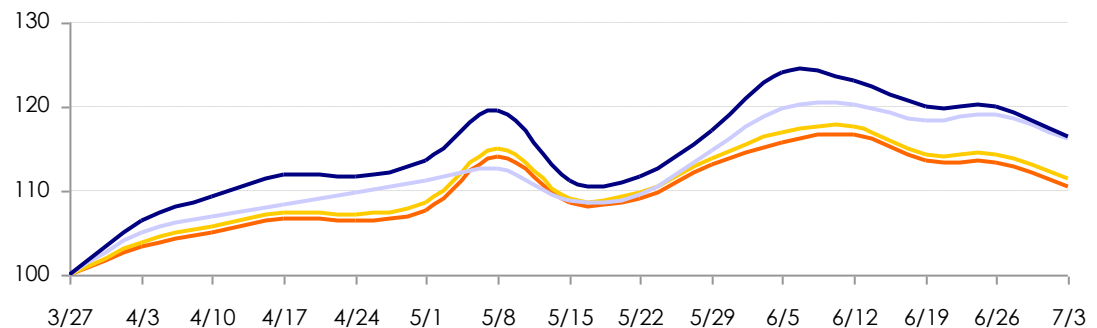
lagged quarterly

	<u>QTR</u>	<u>1 Year</u>
NCREIF Property	-7.3	-14.7
State Street Private Equity Index	-6.7	-28.4

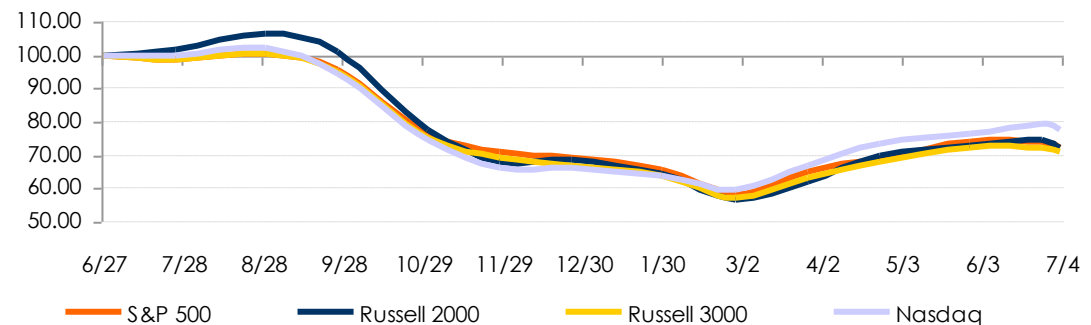
U.S. Equity Market

- U.S. equities continued a sharp rally into mid-June as the Dow Jones Industrial Average, the S&P 500, and the NASDAQ advanced to their highest levels since early January. Both the S&P 500 and the NASDAQ posted double digit gains for the quarter, while the Dow rose 8.6%.
- On both a year-to-date and trailing 12-month basis, the information technology heavy NASDAQ produced the best results, out-performing the Dow Jones Industrial Average, the S&P 500, the Russell 1000, and the Russell 3000 indices.

Equity Index - Quarter Growth Rate



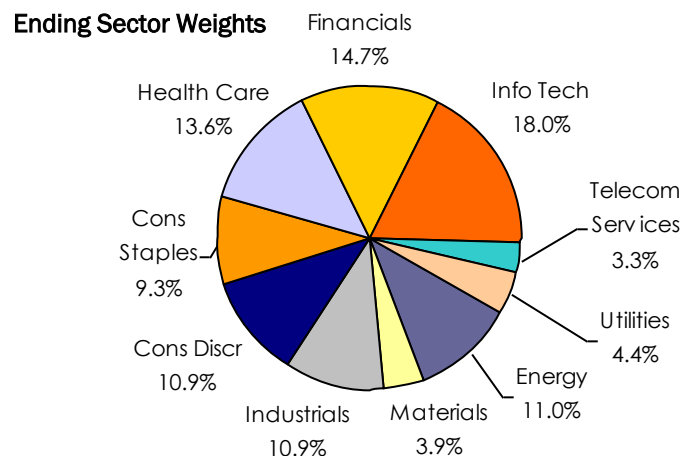
Equity Index - 1-Year Growth Rate



DOMESTIC MARKETS

Domestic Equity - Russell 3000

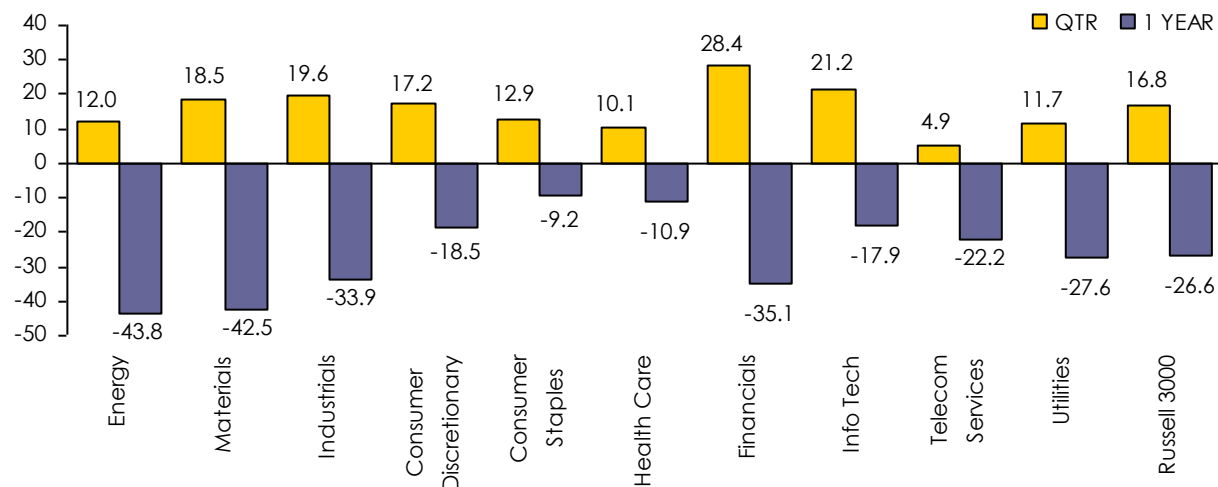
- The majority of Russell 3000 Index sectors delivered double digit returns during the second quarter with the financial and information technology sectors posting the strongest results for the quarter (+28.4% and +21.2% respectively). Conversely, the weakest performance was generated in the telecommunication services sector (+4.9%).
- Gains for the Russell 3000's two heaviest sector weightings (information technology and financials) contributed nearly half of the index's second quarter return. Financial sector performance was strengthened by gains for securities in the banking and diversified financials industries, while the information technology sector benefited from advances for positions in the office electronics and electronic equipment and instruments industries.
- On a 1-year basis, the consumer staples and health care sectors have provided the best down-side risk, while the energy and materials sectors experienced the largest declines.



Characteristics

Div Yield (%)	2.2
P/B Ratio	3.0
P/E Ratio	19.8
Fundamental Beta	1.0
Market Cap \$(MM)	58,718

Sector Returns (%)



Contribution to Return:

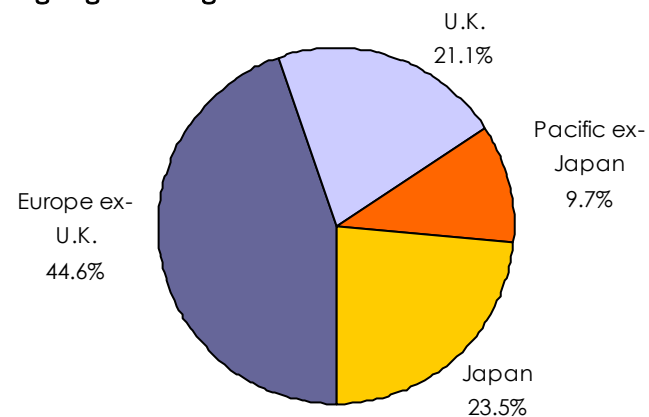
Qtr	1.4	0.7	2.1	1.9	1.3	1.5	3.6	3.7	0.2	0.5	16.8
1 Yr	-4.8	-1.7	-3.7	-2.0	-0.9	-1.5	-5.2	-3.2	-0.7	-1.2	-26.6

INTERNATIONAL MARKETS

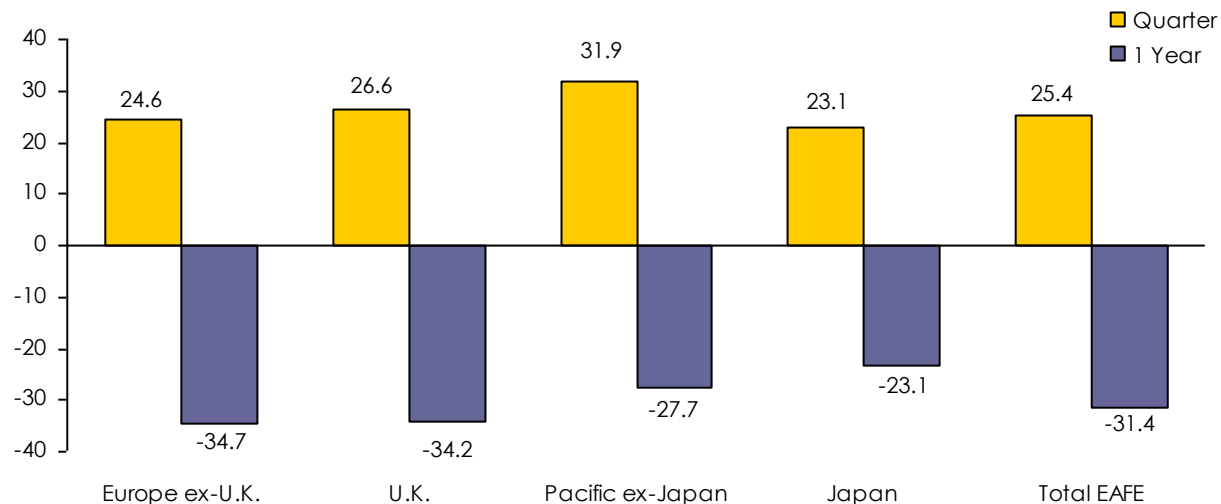
Developed Equity—MSCI EAFE (Net)

- The MSCI EAFE Index gained 25.4% during the second quarter of 2009. This marked the index's first positive quarter since 3Q 2007.
- Pacific ex-Japan was the top-performing region during the second quarter, driven by advances in Singapore (+43.1%) and Hong Kong (+33.8%). Outside of Asia, the U.K. market (+26.6%) out-performed the broader Europe ex-U.K. region (+24.6%), but countries such as Greece (+38.9%), Spain (+36.6%), and Sweden (+34.8%) posted some of the strongest results of the period.
- Over the trailing 12 months, declines for Europe- and U.K.-based holdings have had the most adverse impact on MSCI EAFE Index performance.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

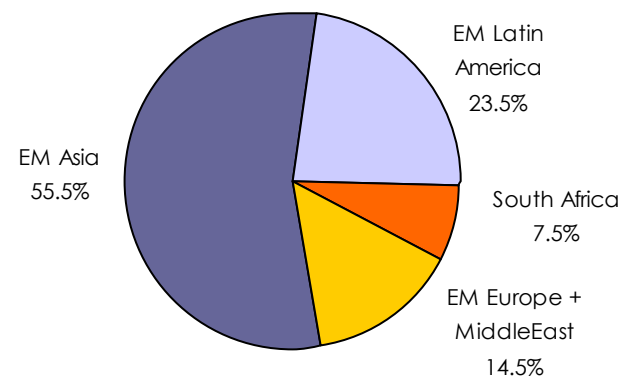
	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan	Total EAFE
Qtr	11.9	5.7	3.1	4.6	25.4
1 Yr	-15.5	-7.2	-3.0	-5.4	-31.4

INTERNATIONAL MARKETS

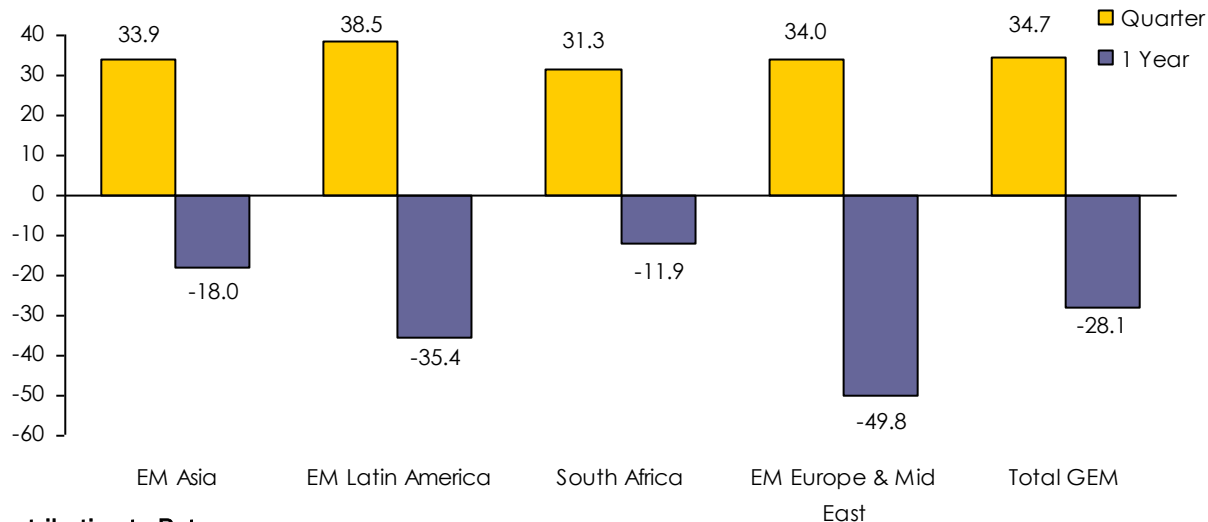
Emerging Markets Equity - MSCI EM (Net)

- During the second quarter, the MSCI Emerging Markets (“EM”) Index jumped 34.7%, despite negative performance in June. The index closed the quarter rebounding to 3Q 2008 levels.
- The EM Index delivered its best 1-month return in more than 15 years (+17.1%) in May and advanced 36.0% year to date as of June 30, 2009.
- On a regional basis, positions in Latin America posted the best performance in the second quarter (+38.5%) followed closely by advances for securities in developing markets in Asia (+33.9%). Over the trailing 12 months, South Africa-based holdings have delivered the greatest downside protection (-11.9%), while Europe & Middle East holdings have endured the most significant declines (-49.8%).

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

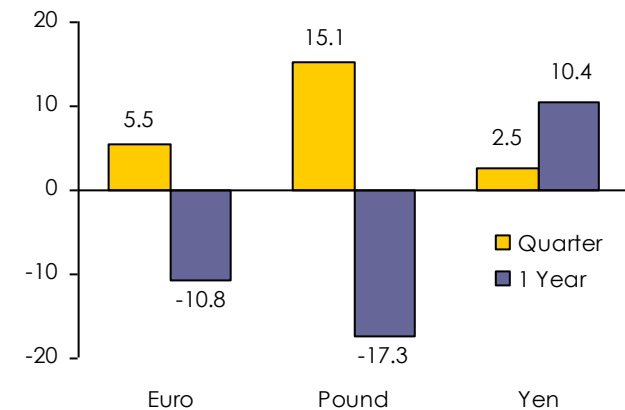
	EM Asia	EM Latin America	South Africa	EM Europe & Middle East	Total GEM
Qtr	19.5	8.4	2.3	4.6	34.7
1 Yr	-10.0	-8.3	-0.9	-7.2	-28.1

CURRENCY AND BOND MARKETS

Currency Markets

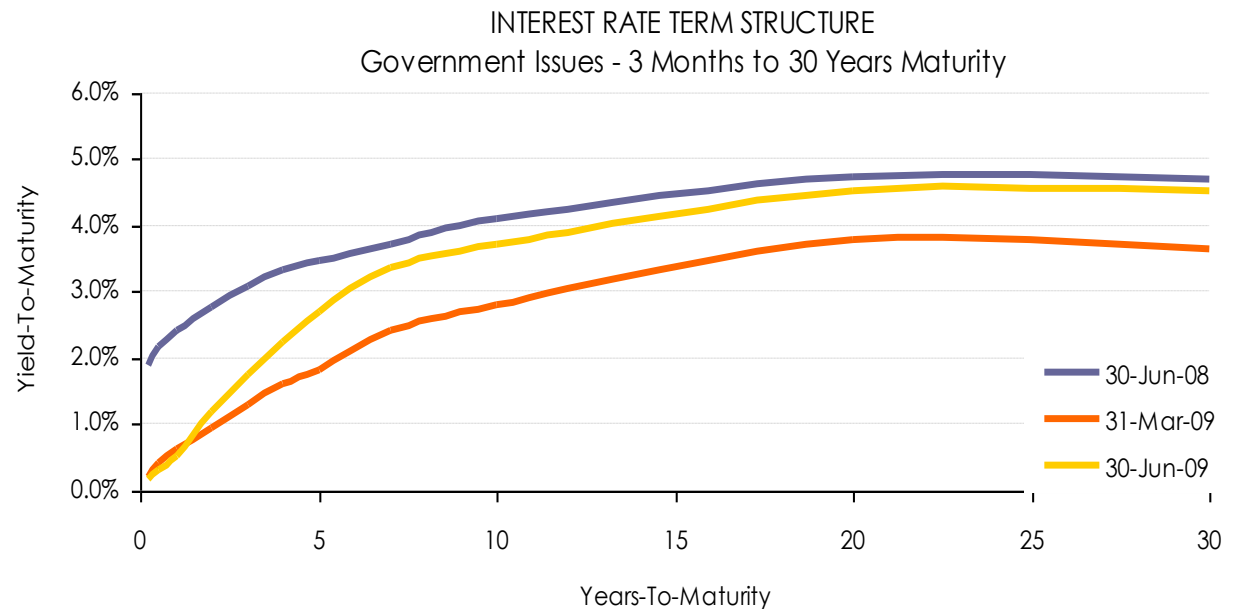
- The dollar weakened against a basket of foreign currencies including the euro, pound, and yen as investors began to embrace riskier assets during the second quarter.
- The pound strengthened considerably over the 3-month period gaining 15.1%. In mid-June the pound moved to an 8-month high relative to the dollar, but the currency still remains well below its peak registered in October 2007.
- The euro strengthened during the first two months of the quarter, but remained relatively flat in June as mixed economic data tempered the currency's outlook.
- Conversely, the yen weakening slightly in the first month of the quarter, but regained ground on the dollar later in the period as economic optimism cooled in U.S. financial markets.

Currency Returns (%)



Yield Curve

- The Fed continued to hold the key short term interest rate at the historically low range of 0 - 0.25% during the second quarter.
- Amid large U.S. government purchases of mortgage-backed securities and Treasuries, the gap between yields of the 2-year Treasury and the 10-year note widened to its highest point ever during May.

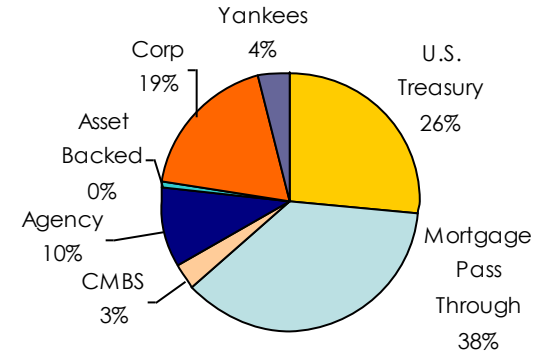


BOND MARKETS

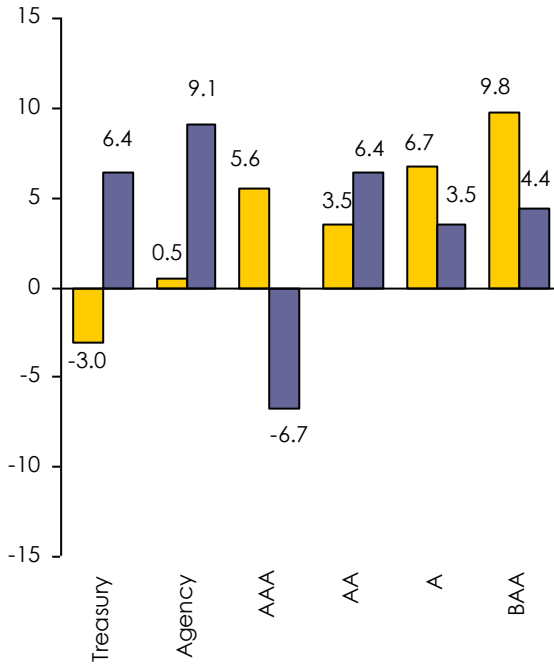
U.S. Bond Market Returns - Barclays Capital Aggregate

- During the second quarter, the Barclays Capital Aggregate Bond Index posted its third consecutive quarter of positive performance, resulting in a 1-year gain of 6.1%.
- The corporate and commercial mortgage-backed security (“CMBS”) sectors provided the strongest returns during the quarter, however the CMBS sector continued to post negative performance over the trailing 12 months (-15.5%).
- Moderate duration instruments tended to generate the highest returns during the quarter, while long duration instruments produced most compelling 1-year returns.
- Lower quality issues led returns in the second quarter, but agencies and Treasuries generated the greatest 1-year performance.

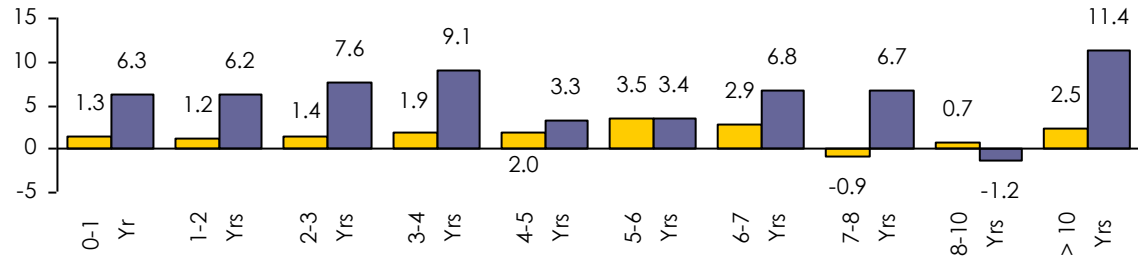
Sector Weights



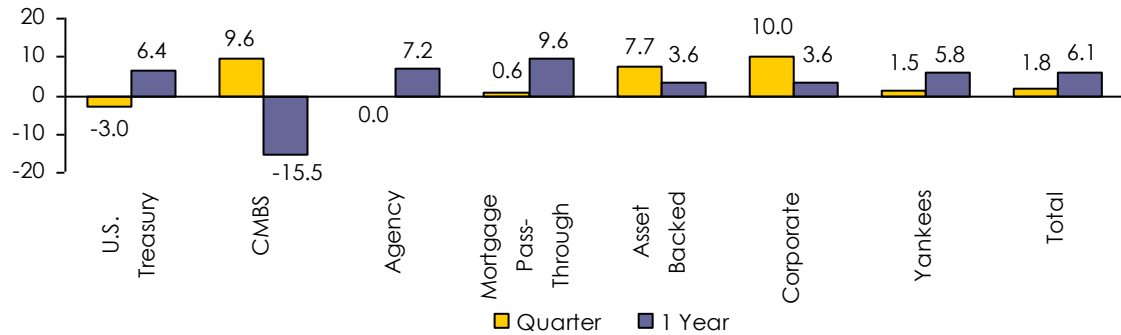
Quality Performance (%)



Duration Performance (%)



Sector Performance (%)

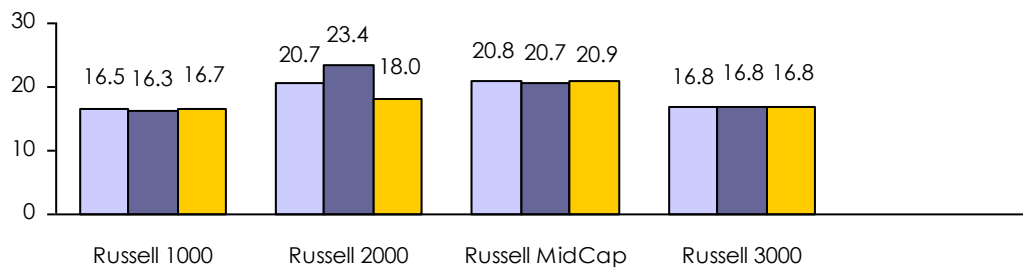


STYLE & CAPITALIZATION

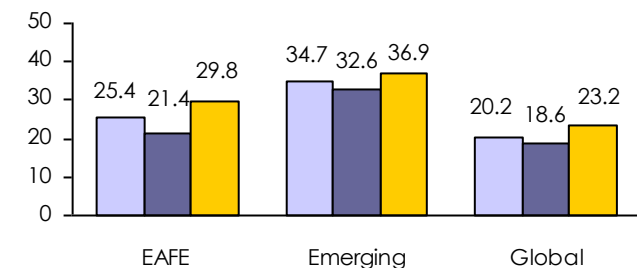
Style & Capitalization Returns

- The Russell 1000 Value Index narrowly out-performed its growth counterpart during the second quarter, but trailed the growth index for the 12-month period ending June 30, 2009. The small-cap growth segment of the Russell series, the Russell 2000 Growth Index, posted the greatest gains in the second quarter and had the largest disparity between its value and growth components. U.S. equity markets made significant advances during the second quarter, but remain negative over the trailing 1-year.
- In non-U.S. equities, emerging markets indices generated unprecedented performance results over the quarter and year-to-date periods. In particular, the value segments of these equity markets have delivered strong returns relative to growth. In developed EAFE countries, growth stocks provided the best returns in June, but the value component of the MSCI EAFE Index provided the greatest return over the quarter and year-to date periods.

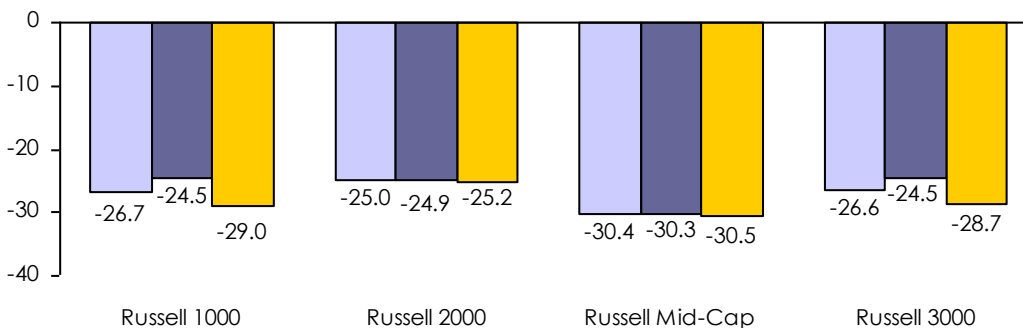
Russell U.S. Style Returns - Quarter



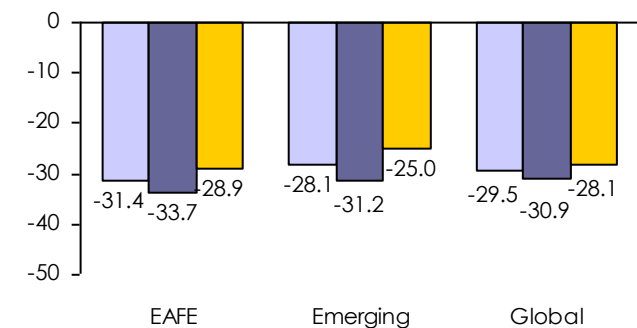
MSCI Non-U.S. Style Returns - Quarter



Russell U.S. Style Returns - 1 Year



MSCI Non-U.S. Style Returns - 1 Year



■ Neutral ■ Growth ■ Value

ENVIRONMENT

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