

INDEPENDENT CONSULTANTS COOPERATIVE MARKET ENVIRONMENT • Q3 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 continued a steady rally during the third quarter of 2009. The Dow Jones Industrial Average gained 15.8% and the S&P 500 rose 15.6% during the quarter. Year-to-date, both indices have delivered double-digit returns.
- While speaking at a conference in September, U.S. Federal Reserve Chairman Ben Bernanke told attendees that, “From a technical perspective, the recession is very likely over at this point.” Bernanke remarked it was probably June which marked the economic trough and that growth likely returned during the third quarter.
- While monthly unemployment numbers declined during the period, the U.S. unemployment rate ticked upward ending the quarter at 9.8%. This marked the highest U.S. unemployment rate since 1983 and the largest job loss (7.2 million) since the Great Depression. The results of a survey of economist conducted at quarter end found that over 80% of those surveyed predict unemployment will rise past 10.0% in the first quarter of 2010.
- Commodities tended to appreciate during the period as crude oil futures settled above \$70/barrel and gold topped \$1,000/ounce. Gains for commodities coincided with an increase in investor appetite for higher risk assets and a continued weakening of the U.S. dollar.
- Emerging markets equities generated gains during the months of July and September, but remained relatively flat in August. Year to date, the MSCI Emerging Markets Index returned 64.5%, while the MSCI BRIC Index advanced 74.7%.
- The U.S. dollar continued to come under pressure during the third quarter and has slid 15% since March. The U.K. pound also fell during the period and was off from highs registered during August against both the euro and dollar. Conversely, the yen rose 7.4% vs. the dollar in the third quarter.
- After rising eight consecutive months, the State Street Investor Confidence Index® fell slightly during September closing the quarter at 118.1. The index which measures investor confidence by analyzing buying and selling patterns of institutional investors has remained above the neutral level of 100 since April, indicating institutional investors have been increasing their allocations to riskier assets.

ENVIRONMENT

Independent Consultants Cooperative (ICC)



MARKET SUMMARY

Equity Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
U.S.			
S&P 500	15.6	-6.9	-5.4
Dow Jones Industrial Average	15.8	-7.4	-3.3
NASDAQ	15.9 3.0	-0.9	
Russell 1000	16.1	-6.2	-5.1
Russell 2000	19.3	-9.6	-4.6
Russell 3000	16.3	-6.4	-5.1
Non-U.S.			
MSCI EAFE (Net)	19.5	3.2	-3.6
MSCI Emerging Markets (Net)	20.9	19.1	8.0
MSCI All Country World ex U.S.	17.9	-0.1	-1.2

Bond Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
U.S.			
Barclays Capital Aggregate	3.7 10.6	6.4	
Barclays Capital Gov/Credit	4.2 11.5	6.3	
Barclays Capital Universal	4.5 10.9	6.1	
Barclays Capital Corp. High Yield	14.2 22.3	6.1	
Non-U.S.			
CG Non-U.S. World Govt.	7.3	16.1	10.2

Non-Public Markets

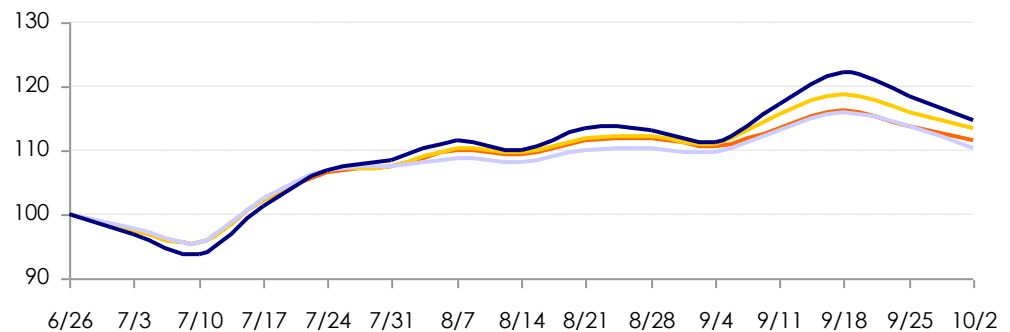
lagged quarterly

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
NCREIF Property	-5.2	-19.6	1.0
State Street Private Equity Index	5.5	-22.0	

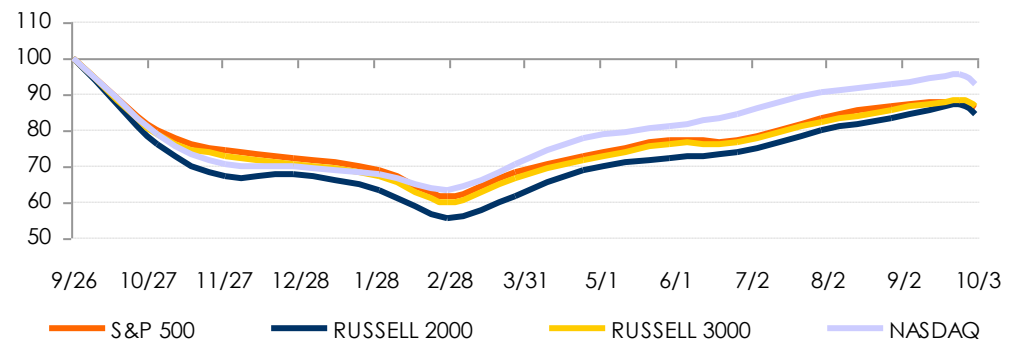
U.S. Equity Market

- U.S. equities extended their rally into the third quarter as the Dow Jones Industrial Average, the S&P 500, and the NASDAQ advanced to their highest levels since November of 2008. The Dow closed the quarter just under the 10,000 mark while the S&P 500 and the NASDAQ have returned 19.3% and 35.8% respectively year-to-date.
- During the quarter, the Russell 2000 Index (the small cap sub-set of the Russell 3000 Index) outperformed its large-cap counterparts. The Russell 2000's materials sector experienced the greatest gains in the index. On a 1-year basis however, the tech-heavy NASDAQ is the only major U.S. equity index to post positive results.

Equity Index - Quarter Growth Rate



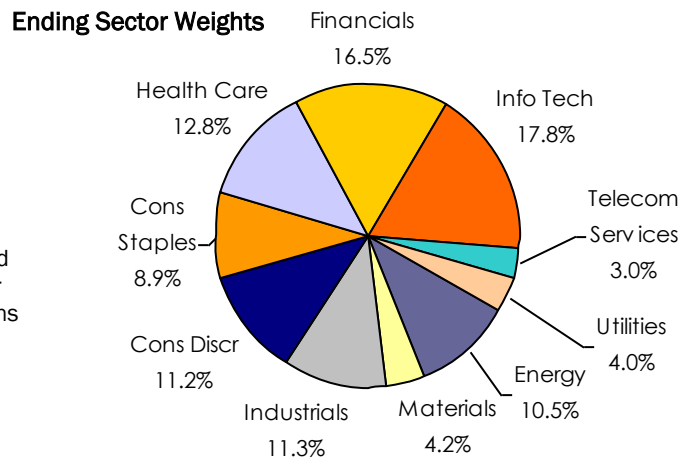
Equity Index - 1-Year Growth Rate



DOMESTIC MARKETS

Domestic Equity - Russell 3000

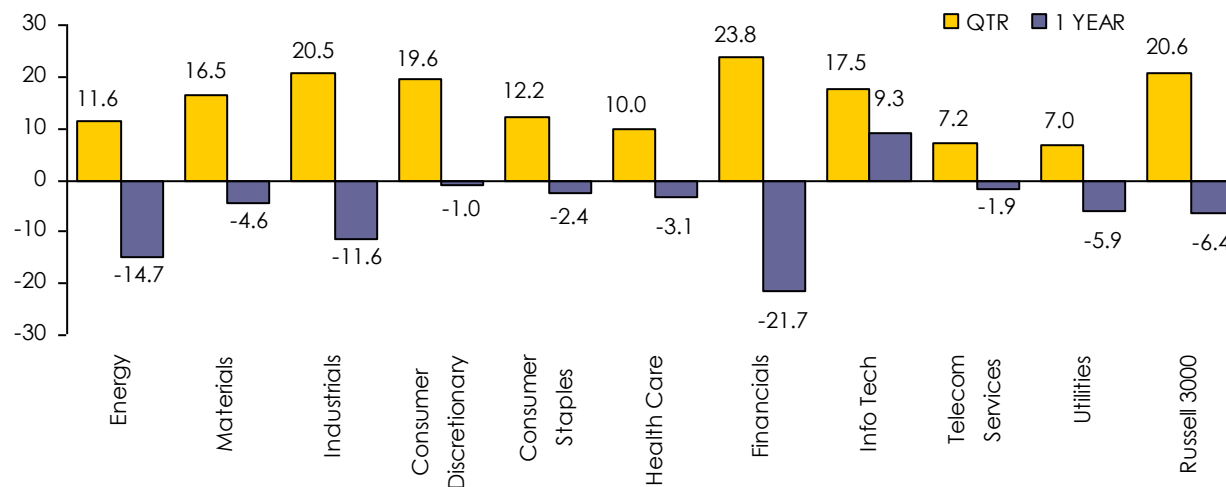
- The majority of Russell 3000 Index sectors delivered favorable results during the third quarter with the financial sector posting the strongest returns (+23.8%). Other positive contributions to index's third quarter performance came from the industrials and consumer discretionary sectors.
- The Russell 3000's two heaviest sector weightings (information technology and financials) contributed the bulk of the quarter's return. Financial sector performance was strengthened by gains in the real estate and insurance industries, while the information technology sector benefited from advances for positions in the computers and peripherals and communications equipment.
- On a 1-year basis, the information technology sector was the only positive sector, while the financials sector proved to be the largest detractor.



Characteristics

Div Yield (%)	1.9
P/B Ratio	3.2
P/E Ratio	32.1
Fundamental Beta 1.0	
Market Cap \$(MM)	63,352

Sector Returns (%)



Contribution to Return:

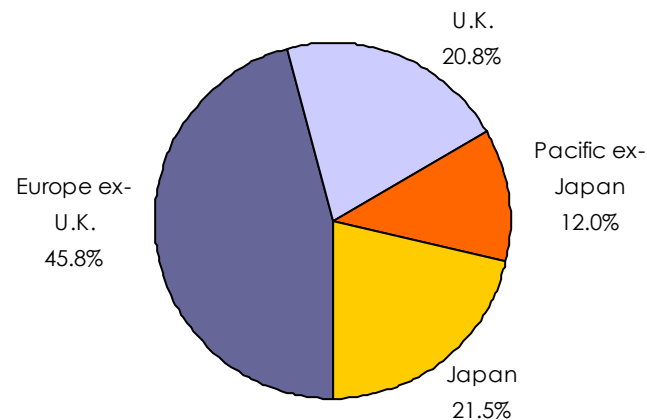
	Energy	Materials	Industrials	Consumer Discretionary	Consumer Staples	Health Care	Financials	Info Tech	Telecom Services	Utilities	Russell 3000
Qtr	1.3	0.6	2.2	2.1	1.1	1.4	3.5	3.1	0.2	0.3	20.6
1 Yr	-1.5	-0.2	-1.3	-0.1	-0.2	-0.4	-3.6	1.7	-0.1	-0.2	-6.4

INTERNATIONAL MARKETS

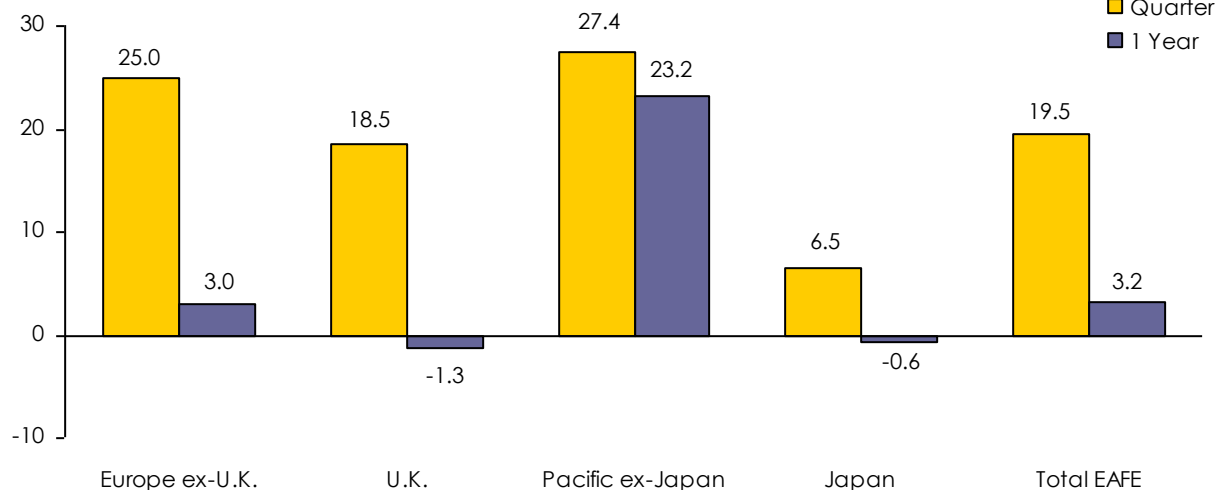
Developed Equity—MSCI EAFE (Net)

- The MSCI EAFE Index advanced 19.5% during the third quarter of 2009. Price appreciation for securities based in developed Europe and Asia helped strengthen the index's return.
- Top-performing regions in the period included the markets of Australia (+33.1%), Greece (+32.8%), and the Netherlands (+31.2%). Nearly all the country constituents of the MSCI EAFE Index posted double digit returns during the quarter with the exception of Japan (+6.5%).
- Over the trailing 12 months, declines within European markets have had the most adverse impact on MSCI EAFE Index performance. Conversely, constituents of the Pacific-Basin including Hong Kong, Australia, and Singapore were among the top performers for the 1-year period ending September 30, 2009.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

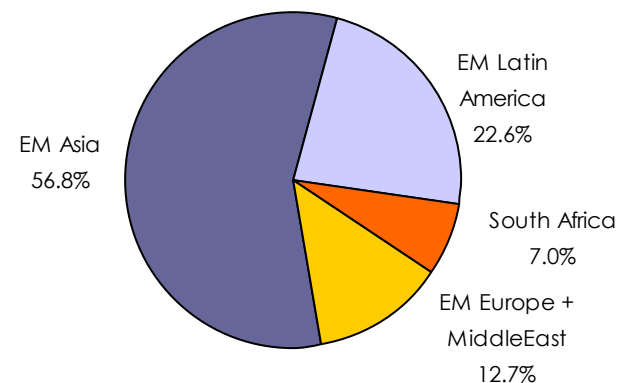
	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan	Total EAFE
Qtr	11.2	3.9	2.9	1.5	19.5
1 Yr	1.4	-0.3	2.8	-0.1	3.2

INTERNATIONAL MARKETS

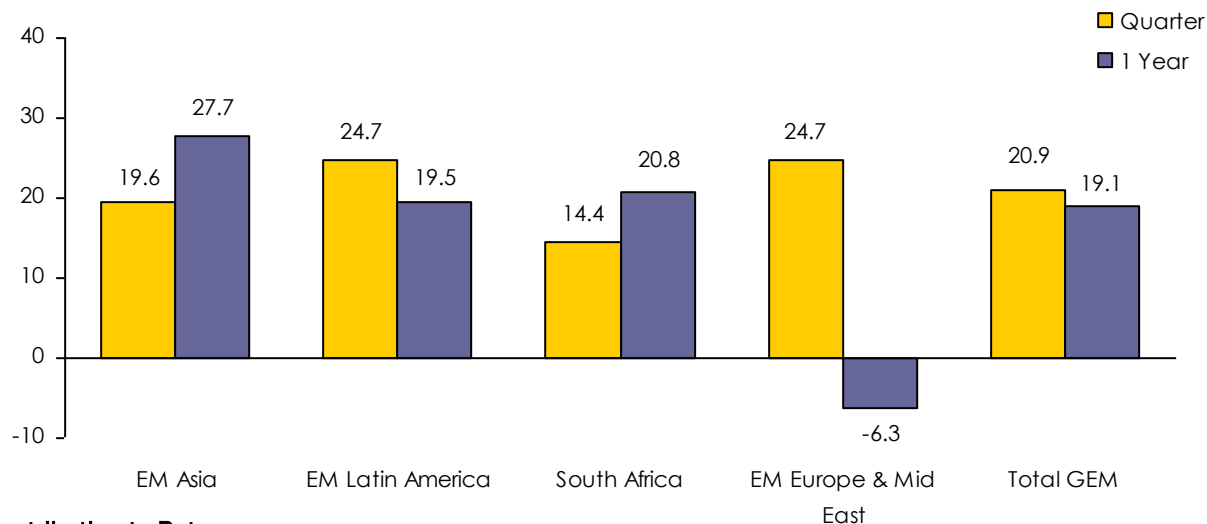
Emerging Markets Equity - MSCI EM (Net)

- During the third quarter, the MSCI Emerging Markets (“EM”) Index gained 20.9% and has advanced 64.5% year to date.
- BRIC countries posted some of the largest year-to-date advances. The MSCI Brazil Index advanced 102%, the MSCI India Index gained 88.3%, the MSCI Russia Index returned 84.9% and the MSCI China Index increased 48.1%.
- From a regional perspective, emerging markets in Latin America and Europe and the Middle East posted the best third quarter performance (both advancing 24.7%). Over the trailing 12 months, Asia-based emerging markets securities registered the greatest returns, while performance for the emerging markets of Europe and the Middle East remained negative (-6.3%).

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

	EM Asia	EM Latin America	South Africa	EM Europe & Mid East	Total GEM
Qtr	10.9	5.8	1.1	3.6	20.9
1 Yr	15.7	4.4	1.5	-0.8	19.1

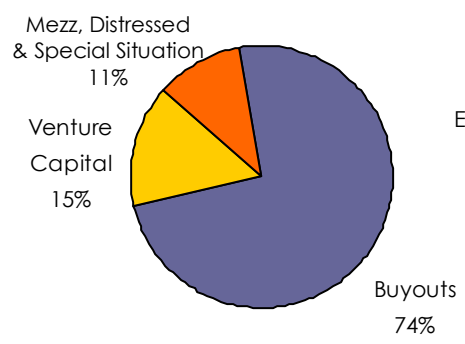
PRIVATE EQUITY MARKETS

State Street Private Equity Indexsm

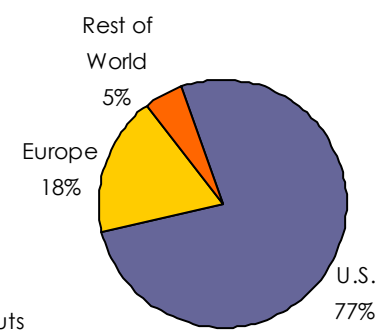
- The State Street Private Equity Indexsm gained 5.5% in the second quarter of 2009 (the most recent date available). The 1-year IRR for the Index was -22.0% as of June 30, 2009.
- All three strategy categories reported positive results for Q2 2009.
- European funds outperformed U.S. funds during the quarter, gaining 6.5% vs. 4.2%, while funds outside both regions fared best. Over the trailing 12 months, funds outside developed markets also outperformed their developed counterparts.

as of June 30, 2009

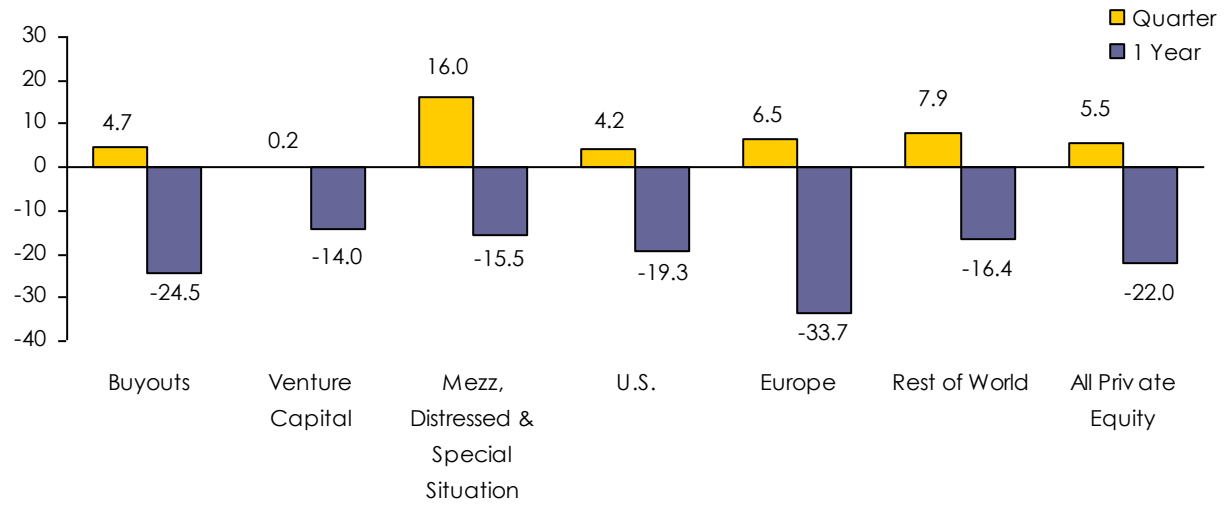
Total Capitalization Weights by Strategy



Total Capitalization Weights by Region Weights



IRR Returns (%)



Contribution to Return:

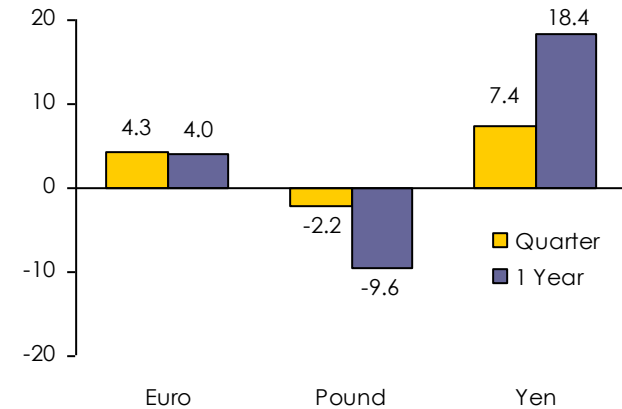
	Buyouts	Venture Capital	Mezz, Distressed & Special Situation	U.S.	Europe	Rest of World	All Private Equity
Qtr	-3.5	2.0	0.0	4.0	1.0	0.4	5.5
1 Yr	-18.2	-1.9	-1.9	-14.6	6.7	-0.7	22.0

CURRENCY AND BOND MARKETS

Currency Markets

- Amid speculation foreign investor interest in American debt is diminishing, investors fled the dollar and gravitated toward higher returning assets such as stocks, commodities and foreign currencies during the third quarter, putting increased pressure on the U.S. dollar.
- The British pound fell during the quarter as the Bank of England's quantitative easing policy added £175 into the British economy.
- The euro strengthened relative to the dollar during the quarter, advancing to levels not seen since August 2008. The euro ended the quarter trading at 1.46 vs. the dollar.
- The yen surged to an 8-month high during quarter. Some analysts suggest that any reversal in global economic recovery and a decline in equity markets may push the yen even higher.

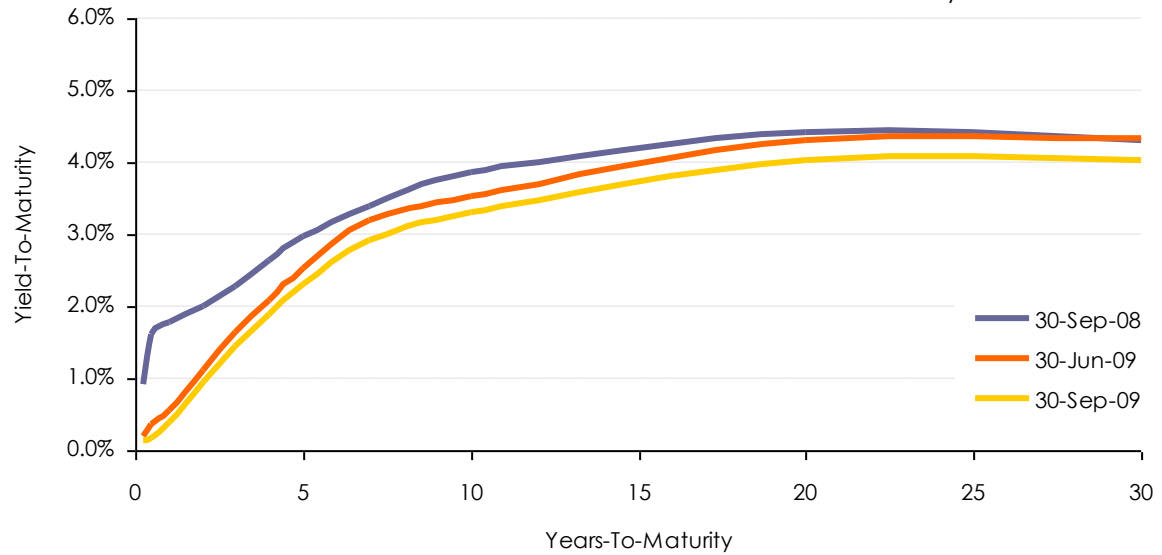
Currency Returns (%)



Yield Curve

- The Federal Reserve continued to hold the key short term interest rate at the historically low range of 0 - 0.25% during the third quarter, and minutes released from the Fed's September meeting suggested that the Fed funds rate will be kept near zero for an extended period.

INTEREST RATE TERM STRUCTURE
Government Issues - 3 Months to 30 Years Maturity

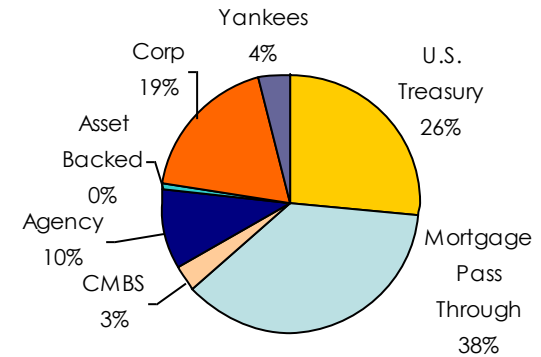


BOND MARKETS

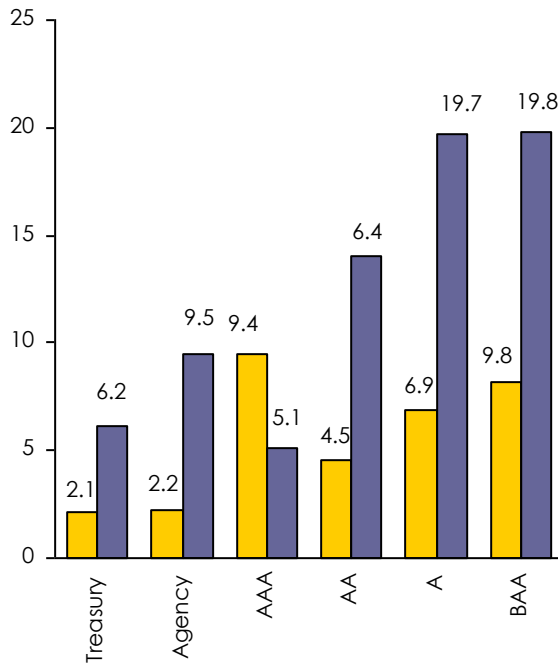
U.S. Bond Market Returns - Barclays Capital Aggregate

- During the third quarter, the Barclays Capital Aggregate Bond Index posted its fourth consecutive quarter of positive performance, resulting in a 1-year gain of 10.6%.
- The commercial mortgage-backed security (“CMBS”) and corporate sectors proved most favorable for investors during the quarter. Other strong performing sectors included asset-backed securities as well as Yankee issues.
- Long duration instruments tended to generate the highest returns during both the quarter and 1-year period. However, medium duration instruments also generated compelling performance.
- AAA issues led returns for the quarter, but lower quality issues generated the greatest 1-year returns.

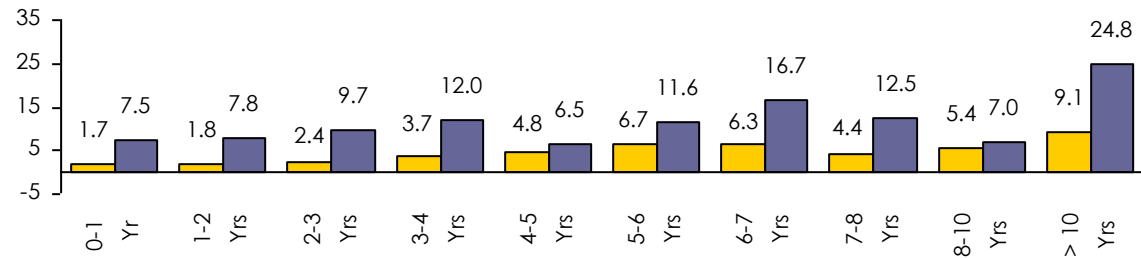
Sector Weights



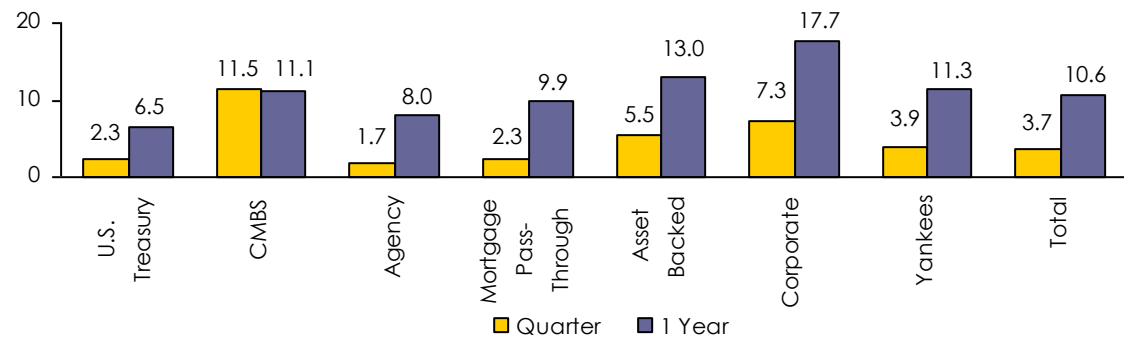
Quality Performance (%)



Duration Performance (%)



Sector Performance (%)

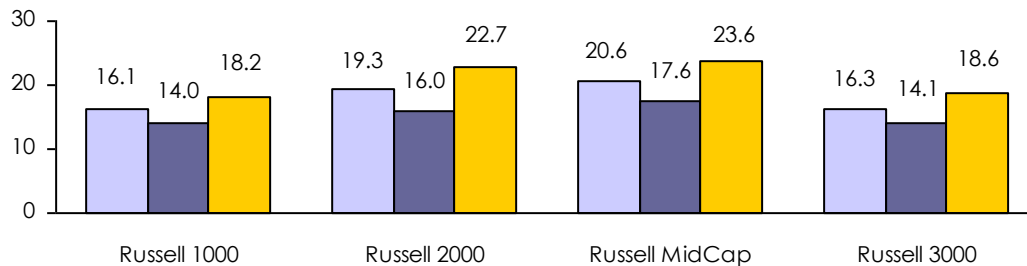


STYLE & CAPITALIZATION

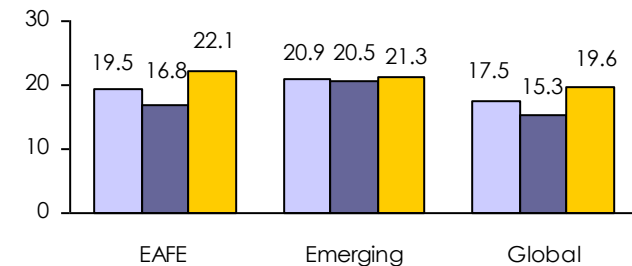
Style & Capitalization Returns

- The Russell MidCap Value Index was the top-performing index during the third quarter. The small-cap growth segment of the Russell series, the Russell 2000 Growth Index also posted strong results during the quarter, but experienced some of the largest declines over the trailing 12 months. The value segments of the Russell indices outperformed the growth segments regardless of market capitalization during the third quarter, but also faced the greatest headwinds on a 1-year basis.
- In non-U.S. equities, the MSCI EAFE Value Index delivered the greatest gains in the third quarter. The value segments of the MSCI EAFE, World and Emerging Markets indices proved to be the best performing segments in both the trailing 3-month and the 1-year period.

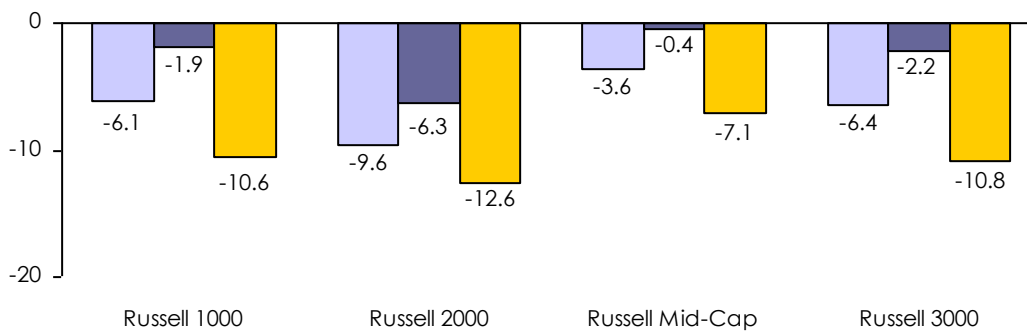
Russell U.S. Style Returns - Quarter



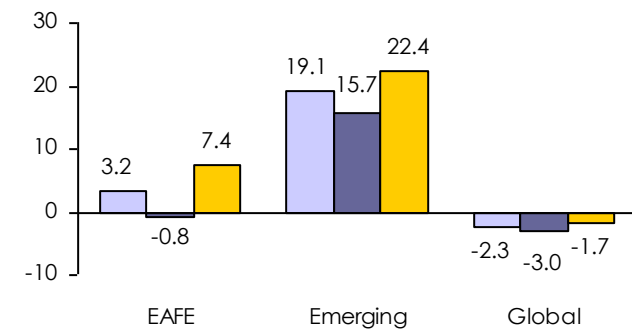
MSCI Non-U.S. Style Returns - Quarter



Russell U.S. Style Returns - 1 Year



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



□ Neutral ■ Growth ■ Value

ENVIRONMENT

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