

> **General Comments**

- The effects of the global financial crisis continued into the fourth quarter as the first full week of the quarter was the worst in the 112 year history of the Dow. The index dropped 22% within an eight day period.
- The National Bureau of Economic Research declared that the U.S. has officially been in a recession since December of 2007. Negative economic data is plentiful, as consumer confidence reached an all-time low in December, the jobless rate grew to its highest level in 16 years, and foreclosures soared by 81% in 2008.
- After reaching an all-time high of \$147/barrel in July, oil prices plummeted in the last six months of the year in response to declining global demand brought by the economic slow-down. Oil closed the year under \$40/barrel.
- In the tumultuous markets of 2008, U.S. stocks fared better than their international and emerging markets counter-parts. The S&P 500 out-performed both the MSCI EAFE and MSCI Emerging in 2008 for the first time since 2001 and 2000 respectively.
- The Fed dropped the key short term interest rate to a historic low range of 0% - 0.25% and announced plans to keep rates there for some time. Rates were dropped a total of eight times in 2008 after starting the year at 4.25%.
- In the fourth quarter of 2008, the currency markets were extremely volatile as the U.S. Dollar significantly gained against the pound (+17.9%), yet plunged versus the yen (-16.7%). The dollar made minor gains against the euro (+1.2%).
- The State Street Investor Confidence Index® measures investor confidence by analyzing buying and selling patterns of institutional investors. Investor confidence fell steadily in each month of the fourth quarter closing December at 48.0. This is nearly half the value of 2008's peak of 84.0 that occurred in July.

## MARKET SUMMARY

### Equity Markets

	<u>QTR</u>	<u>1 Year</u>
<b>U.S.</b>		
S&P 500	-21.9	-37.0
Dow Jones Industrial Average	-18.4	-31.9
NASDAQ	-23.8	-39.7
Russell 1000	-22.5	-37.6
Russell 2000	-26.1	-33.8
Russell 3000	-22.8	-37.3
<b>Non-U.S.</b>		
MSCI EAFE (Net)	-20.0	-43.4
MSCI Emerging Markets (Net)	-27.6	-53.3
MSCI All Country World ex U.S.	-22.3	-45.5

### Bond Markets

	<u>QTR</u>	<u>1 Year</u>
<b>U.S.</b>		
Barclays Capital Aggregate	4.6	5.2
Barclays Capital Gov/Credit	6.4	5.7
Barclays Capital Universal	2.7	2.4
Barclays Capital Corp. High Yield	-17.9	-26.2
<b>Non-U.S.</b>		
CG Non-U.S. World Govt.	8.8	10.1

### Non-Public Markets

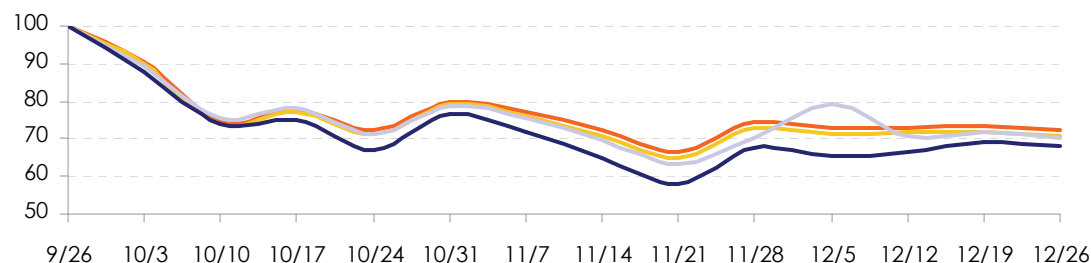
*lagged quarterly*

	<u>QTR</u>	<u>1 Year</u>
NCREIF Property	-0.2	5.3
State Street Private Equity Index	-5.0	-6.9

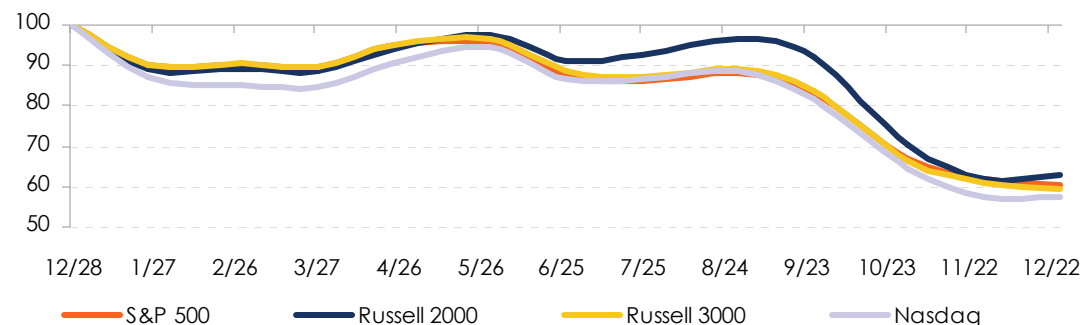
### U.S. Equity Market

- The Russell 2000 struggled in the fourth quarter, yet for 2008 it provided stronger relative returns than the S&P 500 and other Russell indices due to small cap stocks' significant out-performance in the third quarter.
- The Nasdaq provided the lowest returns in 2008, as the information technology sector suffered.
- The blue chip stocks of the Dow Jones Industrial Average provided stronger returns in 2008, posting -18.4% in the fourth quarter and -31.9% for the year. Although these returns out-performed the S&P 500, Nasdaq, and Russell indices, they still represent the worst returns for the Dow since 1931.

Equity Index - Quarter Growth Rate



Equity Index - 1-Year Growth Rate

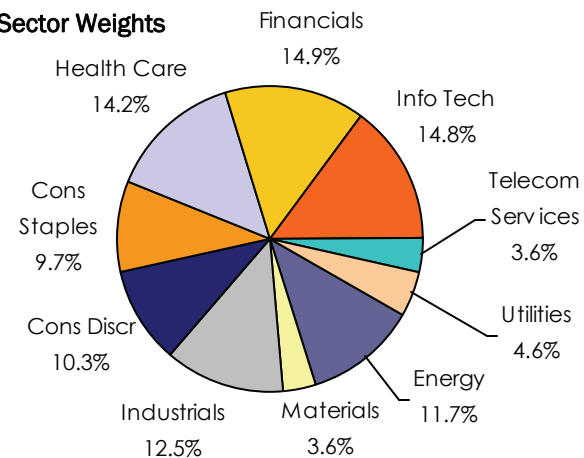


## DOMESTIC MARKETS

### Domestic Equity - Russell 3000

- It cannot come as a surprise that Financials was the worst performing sector in the fourth quarter, recording a -33.4% return. The sector has lost nearly half of its value in 2008.
- Consumer staples was the most reliable sector in the down markets of 2008, posting the best 1-year return in the index (-19.3%). The Health Care sector also out-performed other sectors recording a -23.2% return for the year.
- The Energy and Materials sectors endured significant losses in the second half of the year, as each sector posted over 20% declines in both the third and fourth quarters.
- Information technology lost 42.7% of its value in 2008. Due to its large weighting in the index, it had the second largest negative contribution to return for the quarter and year.

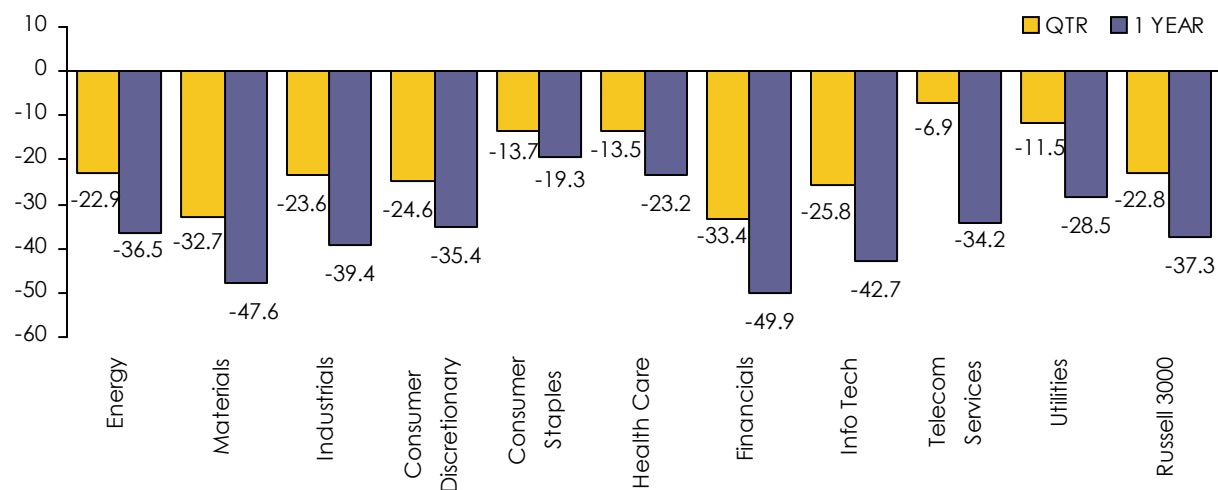
Ending Sector Weights



#### Characteristics

Div Yield (%)	2.8
P/B Ratio	2.6
P/E Ratio	11.9
Fundamental Beta	1.1
Market Cap \$(MM)	65,899

Sector Returns (%)



Contribution to Return:

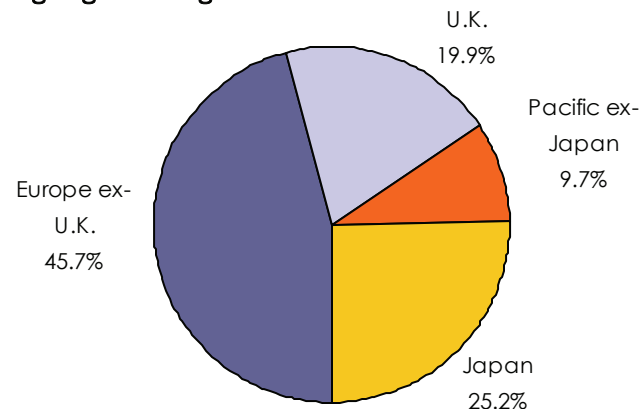
Qtr	-2.7	-1.3	-3.0	-2.6	-1.3	-1.7	-5.6	-4.0	-0.2	-0.5	-22.8
1 Yr	-4.2	-2.0	-5.0	-3.6	-1.5	-2.7	-8.9	-6.9	-1.2	-1.2	-37.3

## INTERNATIONAL MARKETS

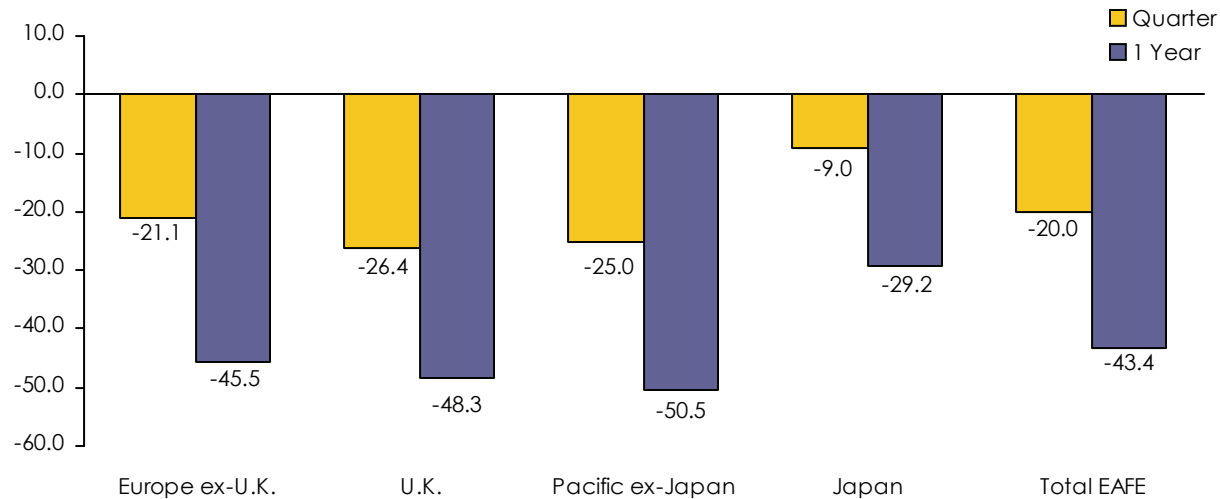
### Developed Equity—MSCI EAFE (Net)

- The MSCI EAFE Index fell -20.6% in the third quarter and another -20.0% in the fourth quarter of 2008. The index's 1-year return, -43.4%, is the lowest in its 39 year history.
- Japan continues to out-perform in recent down markets, recording the best county return in the MSCI EAFE index and the best regional return for the third consecutive quarter. Most of this out-performance however, is due to the yen's recent dominance as returns are converted back to dollars.
- The U.K. posted the worst regional return for the quarter (-26.4%) as economic data has projected a gloomy outlook for the country and the pound has experienced a substantial drop in value versus the dollar.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

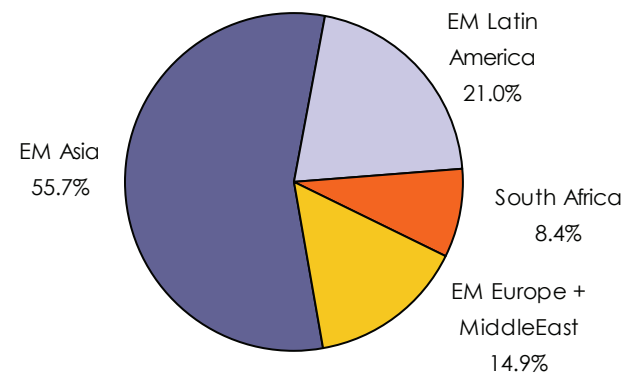
	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan	Total EAFE
Qtr	-9.8	-5.7	-2.4	-2.0	-20.0
1 Yr	-21.7	-10.7	-5.1	-5.8	-43.4

## INTERNATIONAL MARKETS

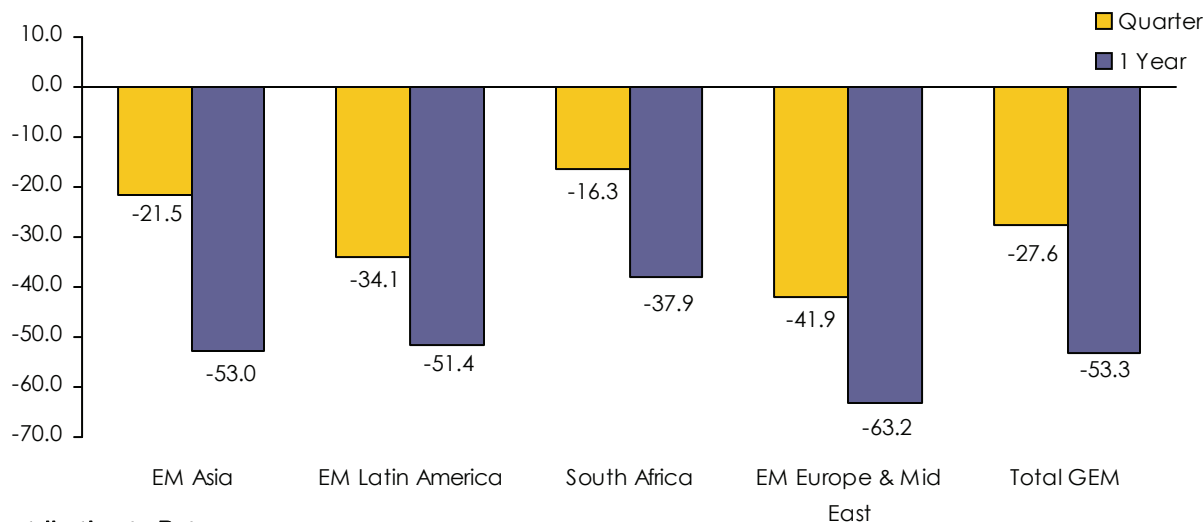
### Emerging Markets Equity - MSCI EM (Net)

- Last quarter's -27.0% return was the lowest in the history of the MSCI EM index. The fourth quarter of 2008 was even worse, dropping -27.6%. The index's one year return of -53.3% is also the worst in the 20 year history of the index.
- Russia was the leading cause of EM Europe & Mid East's decline in both the quarter and past year. The country dropped a staggering -51.3% in the fourth quarter and has lost 73.9% of its value in 2008.
- EM Asia out-performed the broad index due to China's out-performance for the quarter (-10.8%). China recorded the best fourth quarter return of all countries in the index.
- South Africa had the best regional return for the second consecutive quarter (-16.3%).

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

	EM Asia	EM Latin America	South Africa	EM Europe & Mid East	Total GEM
Qtr	-10.8	-8.1	-1.2	-7.5	-27.6
1 Yr	-28.7	-10.5	-2.5	-11.6	-53.3

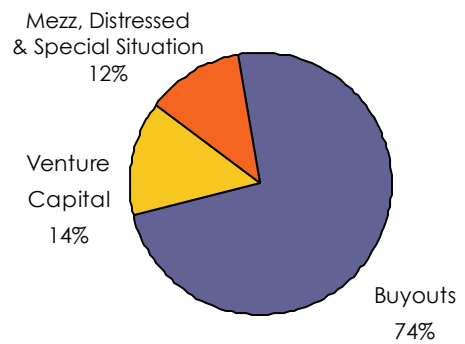
**PRIVATE EQUITY MARKETS**

as of September 30, 2008

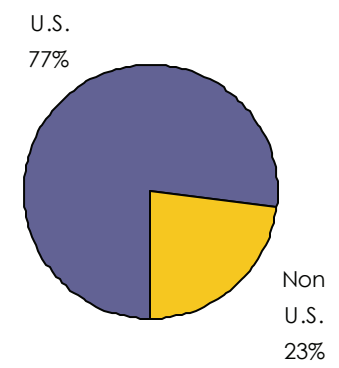
**State Street Private Equity Index<sup>sm</sup>**

- The State Street Private Equity Index<sup>sm</sup> fell to -5.0% in the third quarter of 2008 (the most recent date available). The one year IRR for the Index was -6.9% as of September 30, 2008.
- All three strategy categories reported negative returns for Q3 2008. Buyout funds, which comprise 74% of the Index, reported a -4.8% return for the quarter and a -8.0% loss for the year ended September 30, 2008.
- Non U.S. funds out-performed U.S. funds, generating a 1.0% return versus a -7.0% return for Q3 2008.

Ending Strategy Weights



Ending Regional Weights



IRR Returns (%)



Contribution to Return:

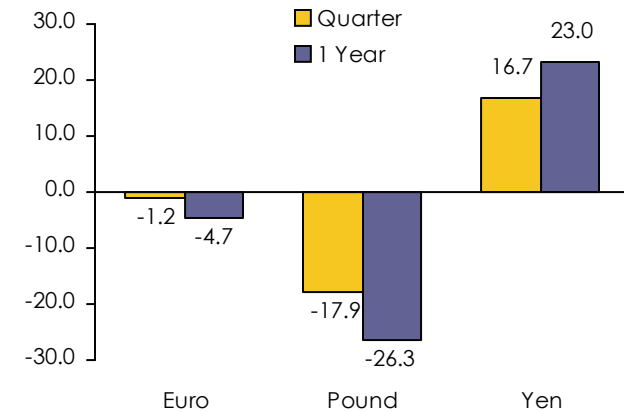
	Buyouts	Venture Capital	Mezz, Distressed & Special Situation	All U.S.	All Non U.S.	All Private Equity
Qtr	-3.5	-0.6	-0.9	-5.4	0.4	-5.0
1 Yr	-6.0	0.0	-0.9	-4.5	-2.4	-6.9

## CURRENCY AND BOND MARKETS

### Currency Markets

- The yen gained a dramatic 16.7% against the dollar in the fourth quarter as a combination of the country's low rates and the unwinding of carry trades drove the currency higher. The G7 warns that the yen's excessive volatility could have adverse implications for economic and financial stability. In addition, since a significant part of Japan's economy is based on exports, a strong yen will potentially hurt sales and hinder the economic growth of the world's second largest economy.
- The pound had an extremely difficult quarter, losing 17.9% of its value to the dollar. In addition, the currency endured a significant drop in value versus the yen and reached record lows against the euro. The currency plunged throughout the quarter in response to a deterioration in U.K. economic and housing data. Many experts believe the U.K. will continue to experience a severe economic downturn.

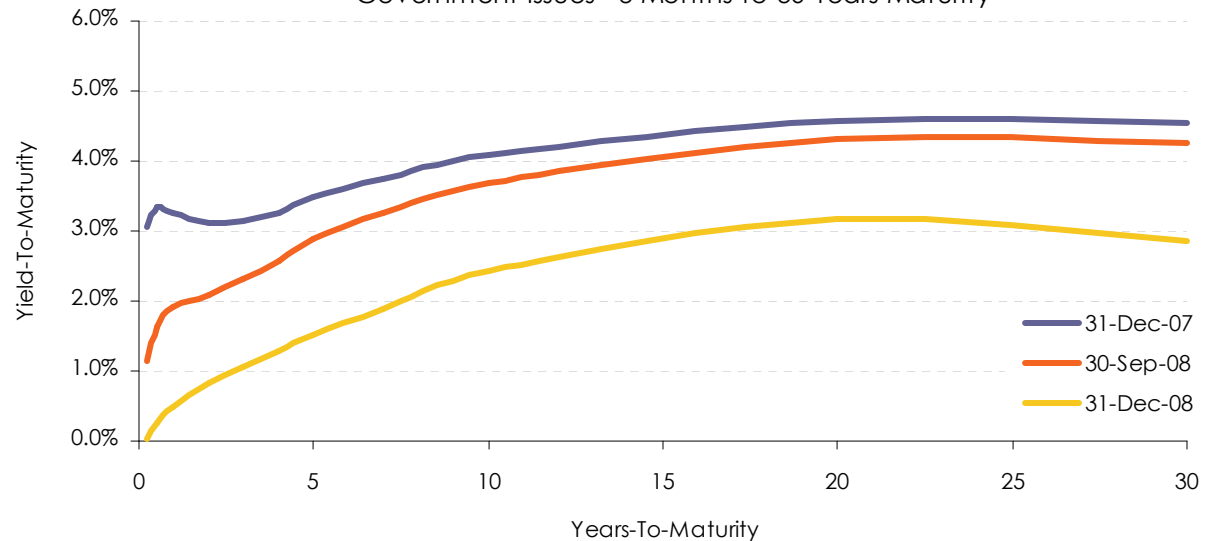
Currency Returns (%)



### Yield Curve

- The Fed dropped the key short term interest rate three times in the fourth quarter, including one emergency cut on October 8<sup>th</sup>, closing out the year with a record low range of 0 - 0.25%.
- The Fed has little room left to maneuver if the economy does not improve. One bright note is that the risk of inflation has lessened in recent months, thus reducing the pressure to raise rates in the future.

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

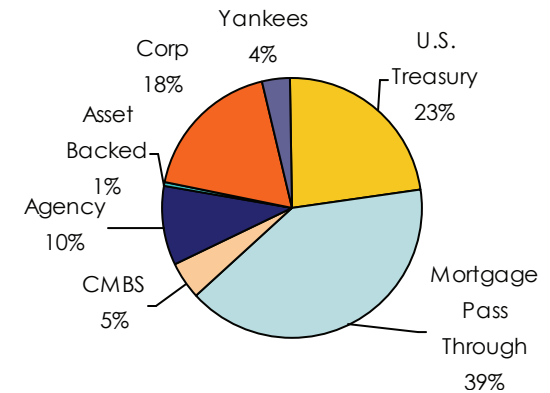


## BOND MARKETS

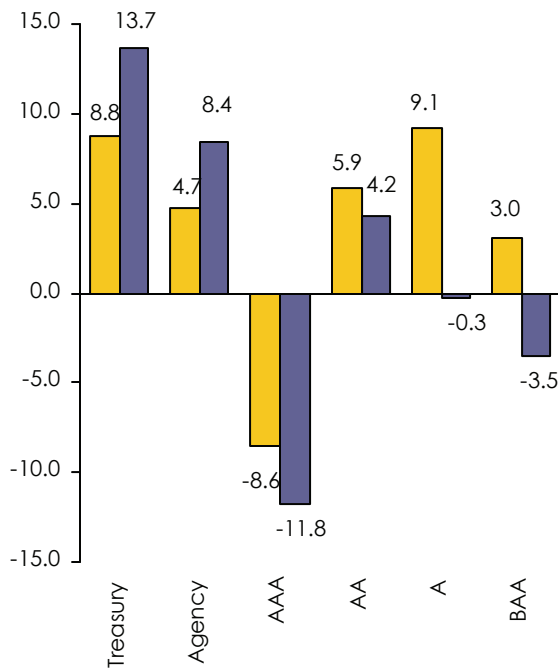
### U.S. Bond Market Returns - Barclays Capital Aggregate

- Bond markets survived another turbulent quarter, as the Barclays Capital Aggregate posted a gain of 4.6%. The strong fourth quarter provided the majority of the gains for the +5.2% 1 year return.
- Low quality instruments rebounded from a difficult third quarter, posting some of the best returns in the fourth quarter as only AAA instruments yielded negative returns.
- Longer duration instruments provided consistently strong returns in the fourth quarter, particularly for instruments of >10 years, which more than doubled the returns of other durations.
- The Barclays Capital Aggregate Bond Index returned +4.6%, only slightly under-performing the shorter duration Lehman Brothers Intermediate Government/Credit Index return of +4.8%.

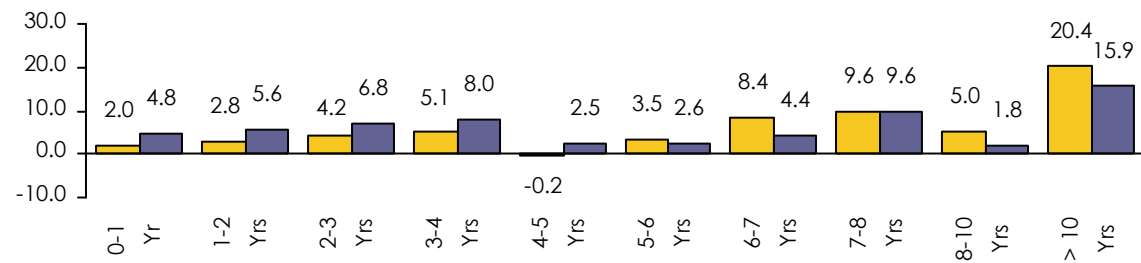
Sector Weights



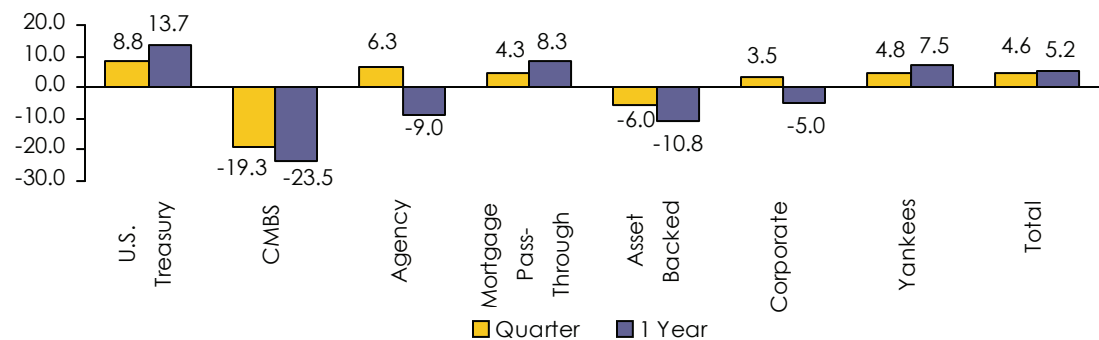
Quality Performance (%)



Duration Performance (%)



Sector Performance (%)

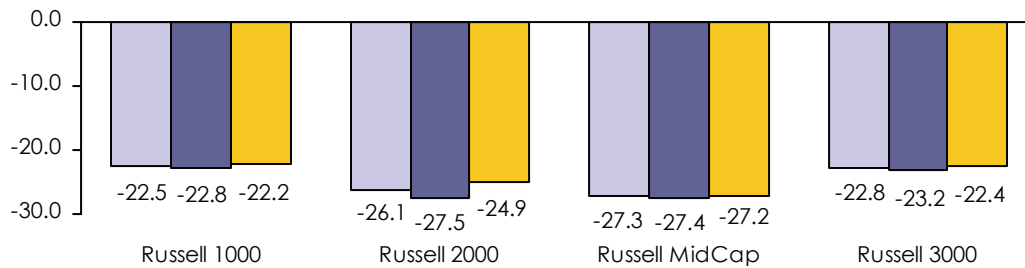


**STYLE & CAPITALIZATION**

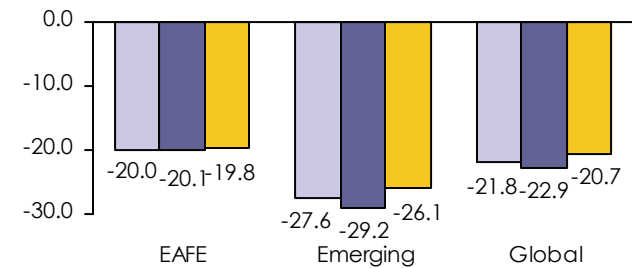
# Style & Capitalization Returns

- Value stocks provided the best returns in the down-markets of the second half of 2008, recording the top return in each capitalization size for both the quarter and past 1-year. After starting the year off strong, growth stocks struggled, posting the lowest 1-year return in all capitalization sizes.
- In the fourth quarter, large cap stocks excelled as the Russell 1000 out-performed in all styles. However, small cap stocks maintain the edge in the past 1-year, as their significant out-performance in the third quarter created a large enough cushion to provide the best returns for 2008.
- Emerging markets continued to struggle, posting the lowest returns in all styles for the second consecutive quarter. Similar to U.S. stocks, non-U.S. value stocks have provided the strongest returns in the second half of 2008, leading to out-performance for both the quarter and 1-year.

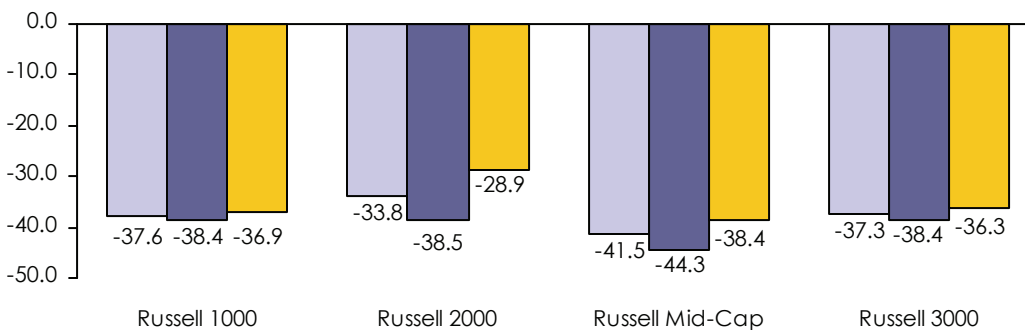
**Russell U.S. Style Returns - Quarter**



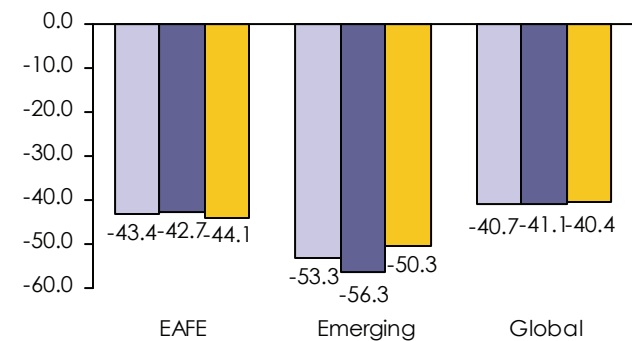
**MSCI Non-U.S. Style Returns - Quarter**



**Russell U.S. Style Returns - 1 Year**



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



□ Neutral    ■ Growth    ■ Value

# ENVIRONMENT

Independent Consultants Cooperative (ICC)

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