

INDEPENDENT CONSULTANTS COOPERATIVE MARKET ENVIRONMENT • Q4 2008

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

- Markets continued to decline in the first months of 2009, as the Dow fell below 7,000 for the first time in over 11 years in the beginning of March. Positive news regarding the Fed’s toxic asset plan boosted markets in the final weeks of the quarter.
- After the inauguration of President Obama in January, discussions of government intervention in both the banking and auto industries were frequent. Questions remain over how far the government will go to support struggling industries and whether this action will be successful in slowing the recession.
- Jobless claims reached a 26 year high, while mortgage rates dipped to an all-time low.
- Oil prices rose \$10/barrel in the first quarter of 2009, closing the quarter at \$50/barrel. Nevertheless, prices remain at less than one third of the peak level seen in July of 2008.
- Emerging markets had a strong rebound to start off the year, posting the first quarterly gain since the end of 2007, and out-performing both the U.S. and international markets.
- The Fed kept the key short term interest rate at the historic low range of 0 - .25% throughout the first quarter. It is suspected that rates will be kept at this range for an extended period of time.
- In the first quarter of 2009, the U.S. Dollar strengthened against each of the major currencies, as the euro, pound, and yen lost 4.4%, 2.2%, and 7.9% respectively.
- The State Street Investor Confidence Index® measures investor confidence by analyzing buying and selling patterns of institutional investors. Investor confidence closed 2008 at 48.2 and grew rather dramatically throughout the first quarter of the year to close at 70.2. This marks a return to the confidence levels seen before the dramatic market declines of September and October.

ENVIRONMENT

Independent Consultants Cooperative (ICC)



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MARKET SUMMARY

Equity Markets

	<u>QTR</u>	<u>1 Year</u>
U.S.		
S&P 500	-11.0	-38.1
Dow Jones Industrial Average	-12.5	-35.9
NASDAQ	-2.8	-32.0
Russell 1000	-10.5	-38.3
Russell 2000	-15.0	-37.5
Russell 3000	-10.8	-38.2
Non-U.S.		
MSCI EAFE (Net)	-13.9	-46.5
MSCI Emerging Markets (Net)	1.0	-47.1
MSCI All Country World ex U.S.	-10.7	-46.5

Bond Markets

	<u>QTR</u>	<u>1 Year</u>
U.S.		
Barclays Capital Aggregate	0.1	3.1
Barclays Capital Gov/Credit	-1.3	1.8
Barclays Capital Universal	0.4	1.1
Barclays Capital Corp. High Yield	6.0	-19.3
Non-U.S.		
CG Non-U.S. World Govt.	-5.7	-6.4

Non-Public Markets

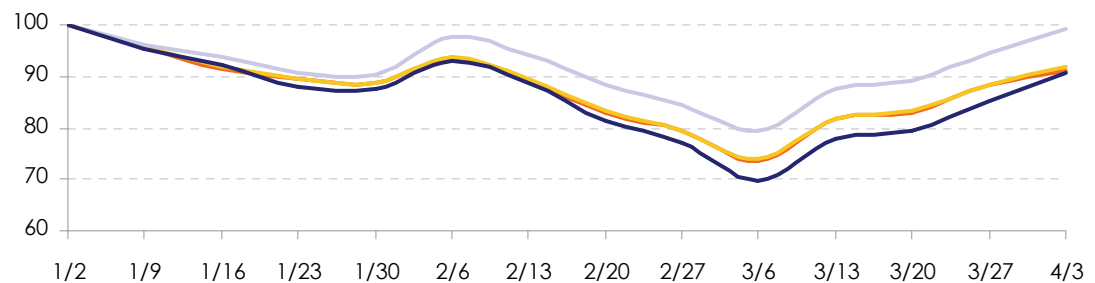
lagged quarterly

	<u>QTR</u>	<u>1 Year</u>
NCREIF Property	-8.3	-6.5

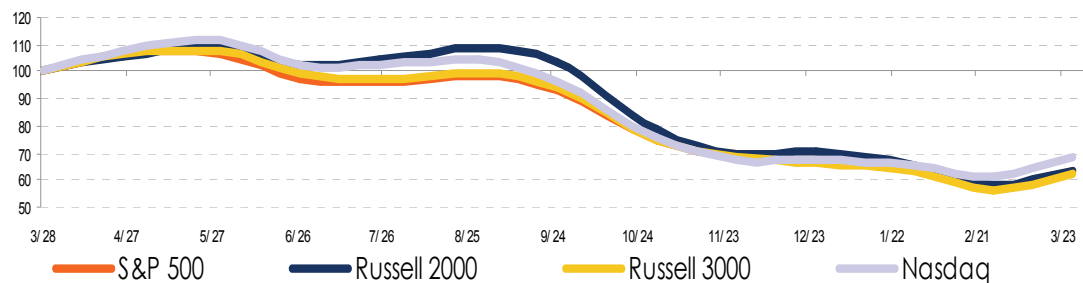
U.S. Equity Market

- The last two weeks of the quarter provided the strongest gains the U.S. equity markets have seen in months, as the major indices rose nearly 25%.
- The information technology sector rebounded from a difficult Q4 2008 with a strong first quarter, as the NASDAQ posted the best quarterly and 1-year returns.
- The blue chip stocks of the Dow Jones Industrial Average lagged in the first quarter of 2009, underperforming the S&P 500, Russell 1000, and Russell 3000. Nevertheless, the index's 1-year return remains relatively strong.

Equity Index - Quarter Growth Rate



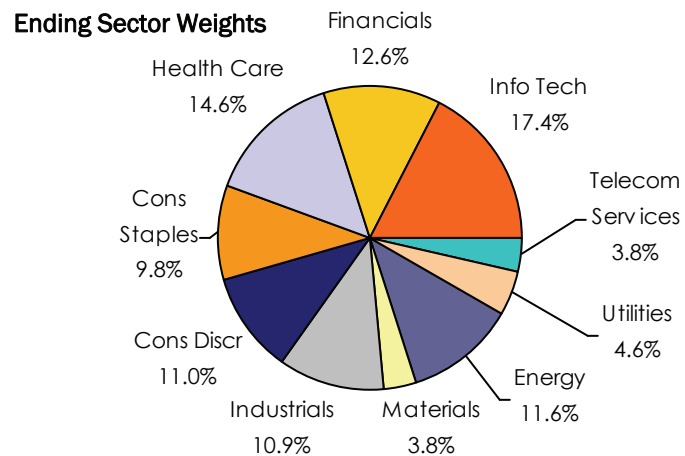
Equity Index - 1-Year Growth Rate



DOMESTIC MARKETS

Domestic Equity - Russell 3000

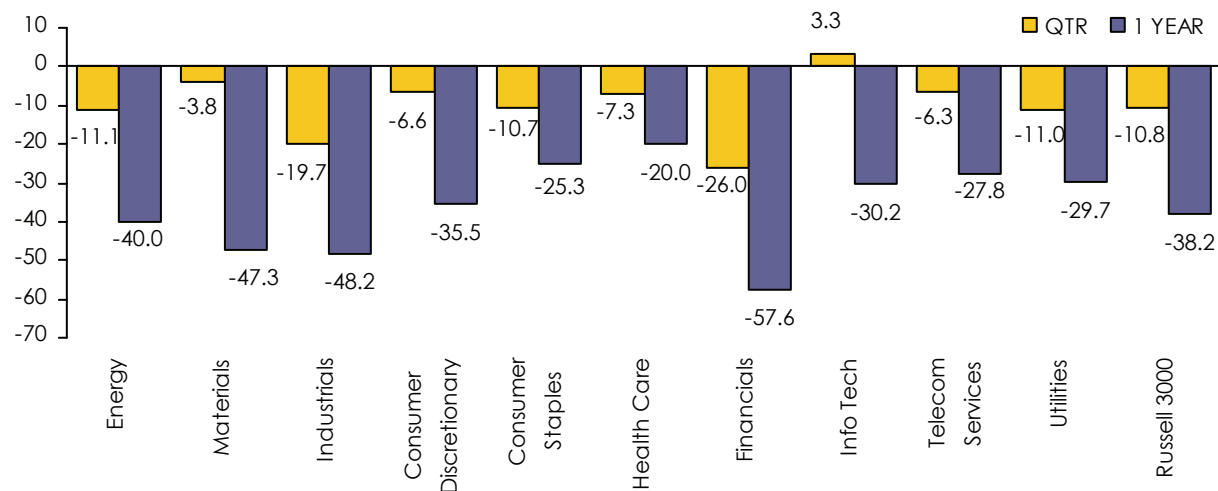
- Financials was the worst performing sector for the second consecutive quarter, returning -26.0%. The troubles in this sector have pushed the one year return to -57.6%. Just one year ago, the financial sector comprised nearly 18% of the index, poor performance in the past six months has reduced its weighting by over 5%.
- As evidenced by the success in the NASDAQ, the Information Technology sector was the best performer in the first quarter of 2009, providing the only positive return any sector has seen in the past two quarters.
- The Consumer Staples and Health Care sectors have provided the best downside risk protection in the past 1-year, returning -25.3% and -20.0% respectively.



Characteristics

Div Yield (%)	2.7
P/B Ratio	2.7
P/E Ratio	13.8
Fundamental Beta	1.0
Market Cap \$(MM)	56,096

Sector Returns (%)



Contribution to Return:

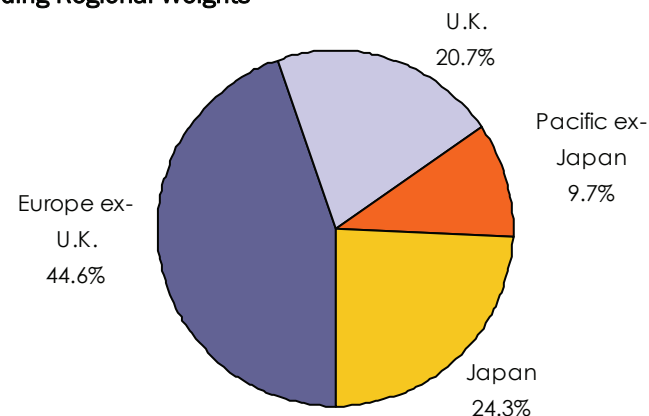
Qtr	-1.3	-0.1	-2.5	-0.7	-1.0	-1.0	-3.9	0.5	-0.2	-0.5	-10.8
1 Yr	-4.6	-2.0	-6.2	-3.6	-2.0	-2.3	-10.3	-4.9	-1.1	-1.2	-38.2

INTERNATIONAL MARKETS

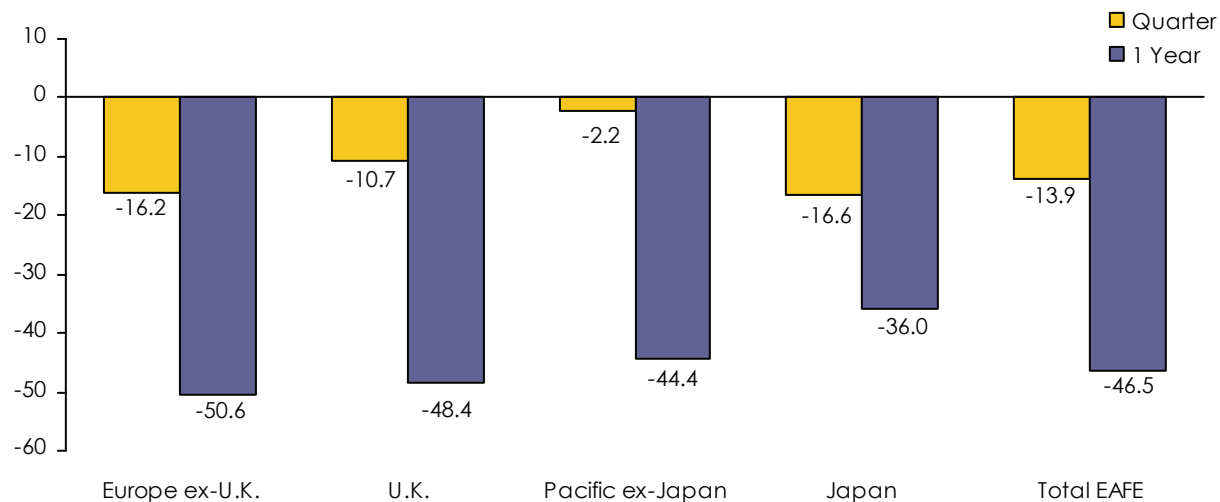
Developed Equity—MSCI EAFE (Net)

- The MSCI EAFE Index fell another -13.9% in the first quarter of 2009. The index's 1-year return, -46.5%, is the lowest in its 39 year history.
- Pacific ex-Japan was the best performing region in the first quarter, as Australia and Hong Kong posted the two best country returns in the index (-1.58% and -0.47% respectively). Europe ex-U.K. was the worst performing region for both the quarter and the past 1-year, as Germany, Italy, and the Netherlands had significant struggles.
- After three consecutive quarters of having the top regional return, Japan recorded the worst regional performance in Q1 2009. The strength of the yen was a significant factor in Japan's out-performance in prior quarters, however in Q1 2009 the yen weakened versus the dollar.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

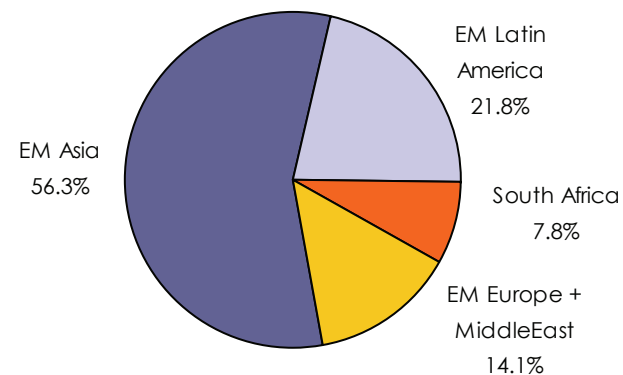
	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan	Total EAFE
Qtr	-7.4	-2.1	-0.2	-4.2	-13.9
1 Yr	-24.4	-10.5	-4.4	-7.2	-46.5

INTERNATIONAL MARKETS

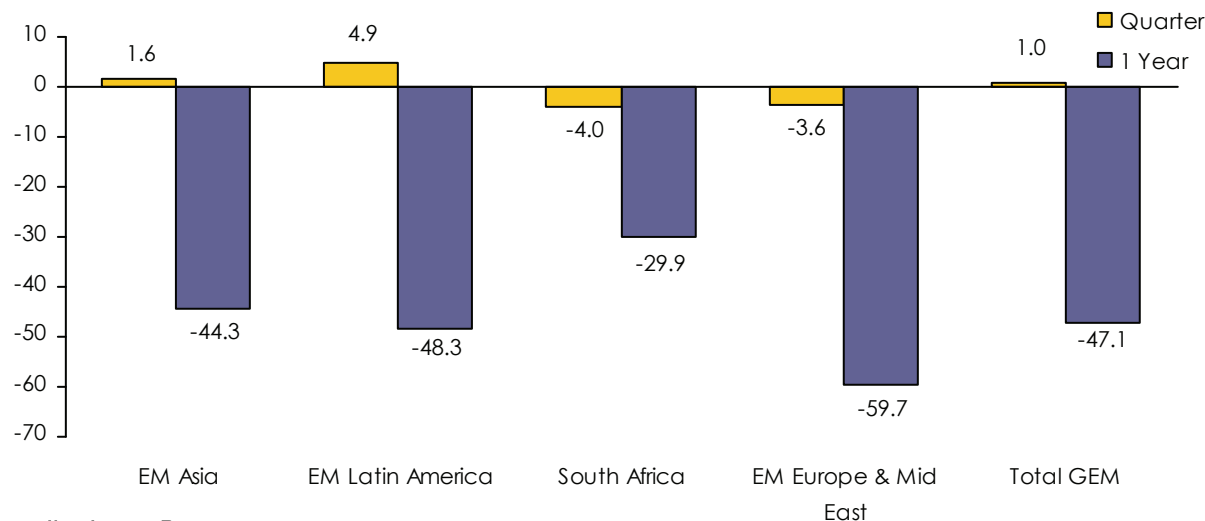
Emerging Markets Equity - MSCI EM (Net)

- The MSCI Emerging Markets Index had an excellent March, posting the best 1 month return in 15 years (+14.4%). As a result, MSCI EM had the first positive quarterly return since Q4 2007 (+1.0%).
- Latin America posted the best regional return for the quarter (+4.9%) as commodity rich countries like Brazil and Chile provided strong positive returns (+12.45 and +13.55% respectively).
- Russia posted a gain in the first quarter of the year (+5.85%). Unfortunately the country's -68.75% 1-year return is the main source of EM Europe & Middle East's regional return in that time frame. Russia's credit rating was downgraded during the first quarter, suggesting concerns over the stability of its economy.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

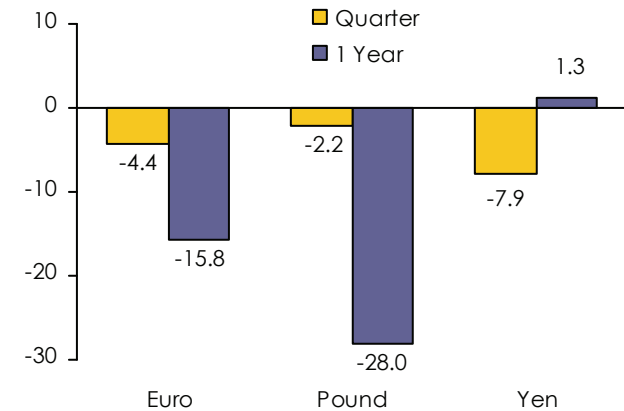
	EM Asia	EM Latin America	South Africa	EM Europe & Mid East	Total GEM
Qtr	0.9	1.0	-0.3	-0.5	1.0
1 Yr	-23.4	-11.0	-1.9	-10.8	-47.1

CURRENCY AND BOND MARKETS

Currency Markets

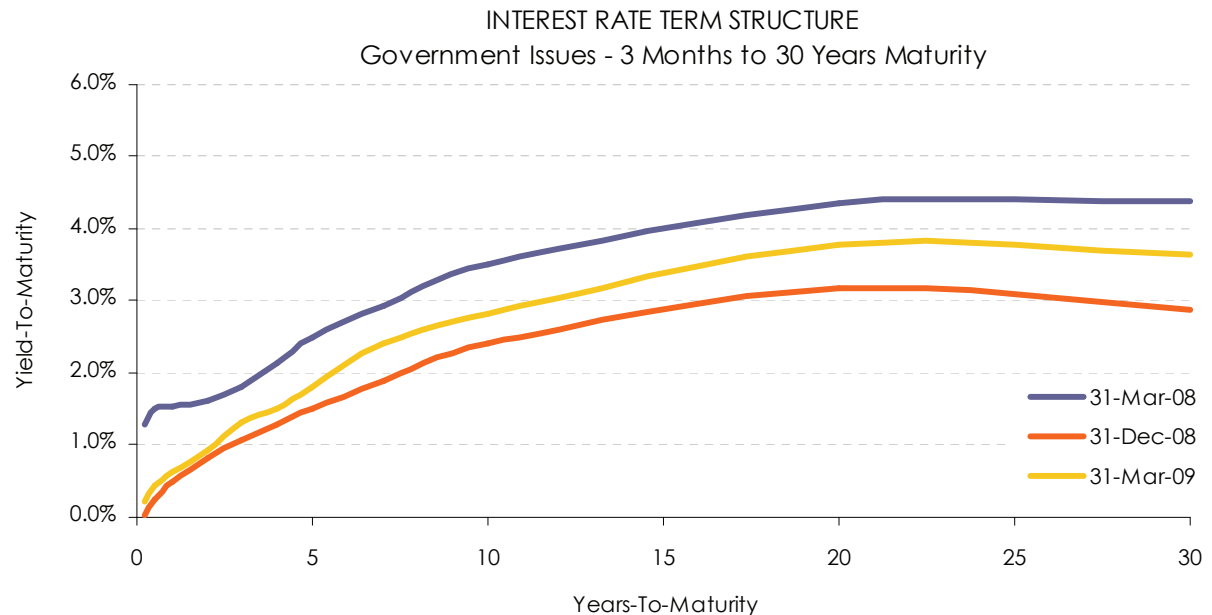
- The U.S. dollar strengthened against the euro, pound, and yen due to the Fed's aggressive action as well as relative optimism about the U.S. economy. The dollar was especially strong during the first two months of the quarter, yet weakened as equities strengthened in the final weeks of March.
- The pound continued to weaken versus the dollar, as it has lost 28% of its value in the past 1-year period. During the first quarter, U.K. interest rates were dropped to an all time (315 year) low.
- The euro has also weakened considerably in the past 1-year period, losing 15.8% of its value to the dollar. It is speculated that this currency will remain weak due to its exposure to problems in central and eastern Europe, specifically Russia.

Currency Returns (%)



Yield Curve

- The Fed held the key short term interest rate at the range of 0 - 0.25%.
- Long-term treasury yields increased in the first quarter, as prices continued to fall. The Fed announced it was willing to purchase long-term treasury securities if necessary, however many bond investors are concerned that there will be an increase in supply as new bonds are issued to pay for the stimulus plan.

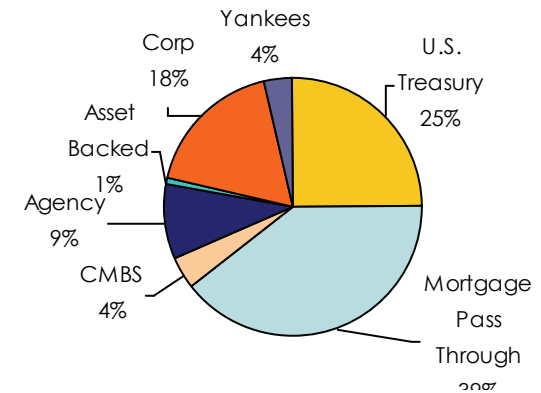


BOND MARKETS

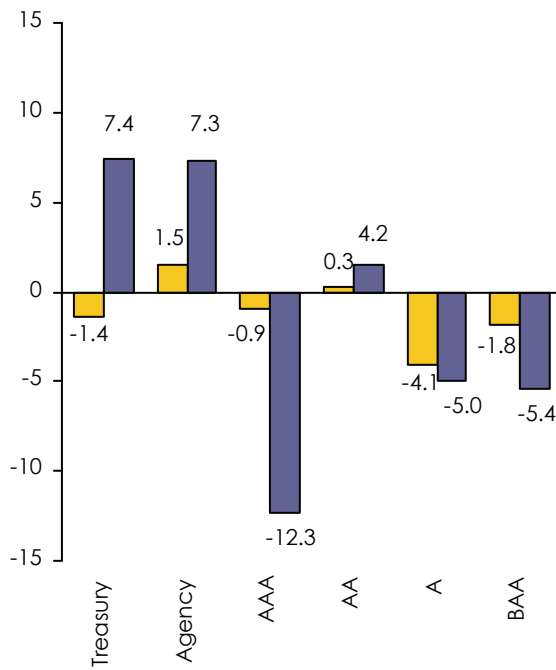
U.S. Bond Market Returns - Barclays Capital Aggregate

- Barclays Capital Aggregate Bond Index has a positive return for the second consecutive quarter, resulting in a 1-year gain of +3.1%.
- The Asset-backed and Mortgage-pass-through sectors provided the strongest returns of the first quarter, while CMBS continued to produce negative returns, resulting in a -22.4% 1-year return.
- Shorter term duration instruments provided positive returns for the quarter, while longer term duration instruments produced negative returns following a strong fourth quarter.
- The Barclays Capital Aggregate Bond Index returned +0.1%, only slightly out-performing the shorter duration Barclays Capital Intermediate Government/Credit Index return of -0.05%.

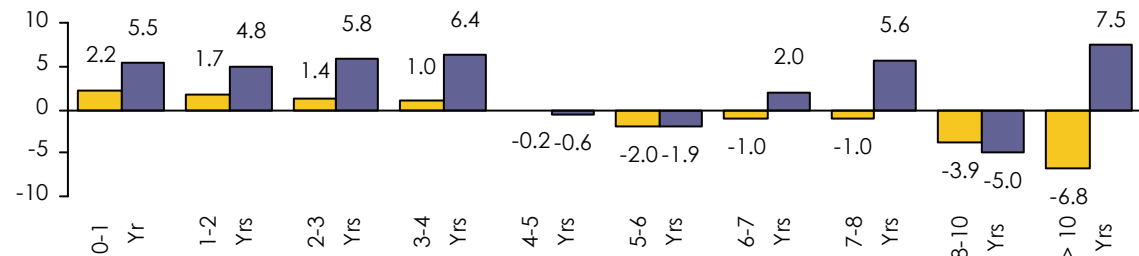
Sector Weights



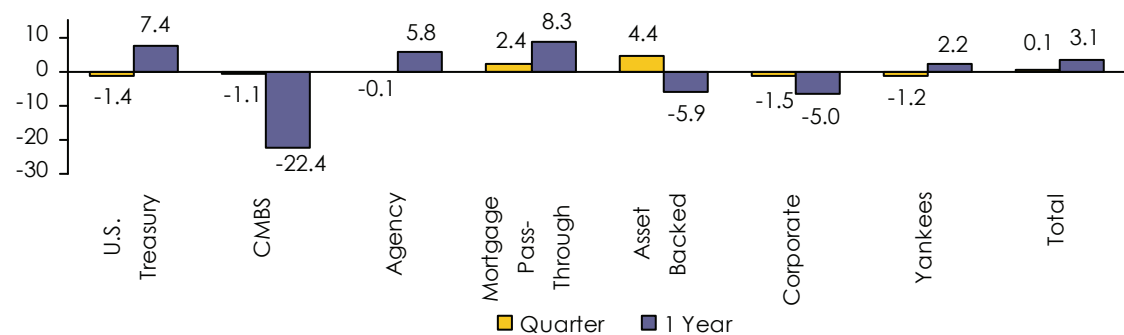
Quality Performance (%)



Duration Performance (%)



Sector Performance (%)

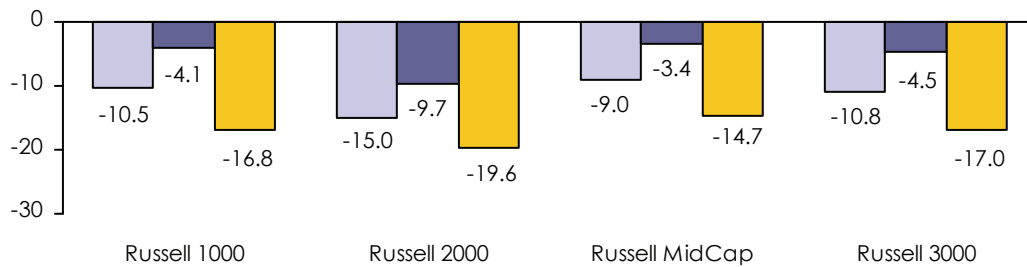


STYLE & CAPITALIZATION

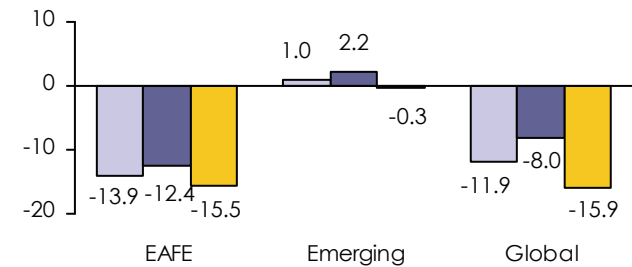
Style & Capitalization Returns

- Growth stocks had an excellent first quarter of 2009 as they out-performed their value counterparts by over 10% in each capitalization size. Just last quarter, growth posted the lowest 1-year returns in each capitalization size, however after the strong first quarter, growth posts the best return in each category.
- Mid-cap stocks recorded the best returns in the Q1 2009, yet still hold the lowest returns in all styles for the 1-year time frame.
- Emerging markets rebounded from a difficult third and fourth quarter by posting the highest returns of the quarter and positive returns in both growth and core. Growth provided the strongest quarterly returns for international, global, and emerging stocks.

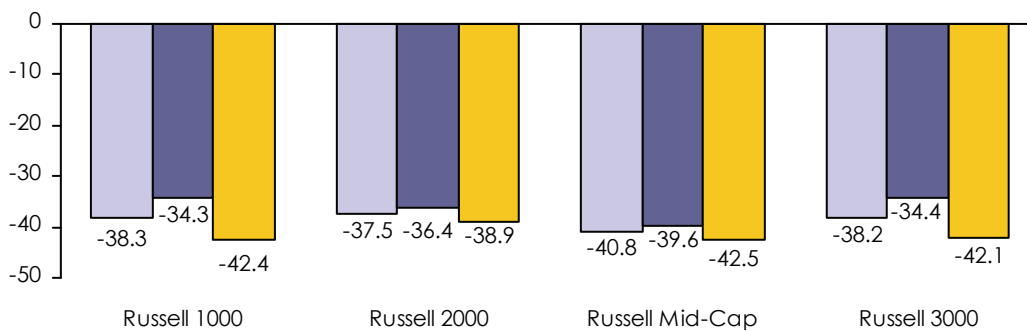
Russell U.S. Style Returns - Quarter



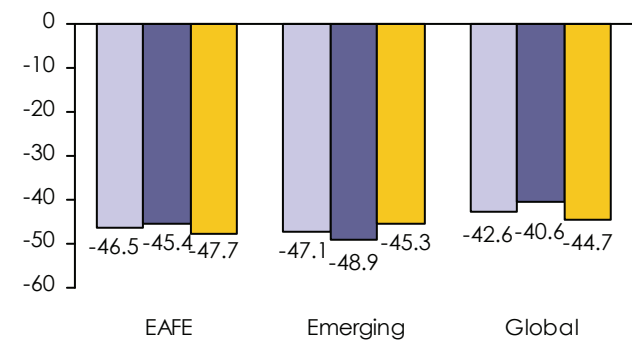
MSCI Non-U.S. Style Returns - Quarter



Russell U.S. Style Returns - 1 Year



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



□ Neutral ■ Growth ■ Value

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