

> **General Comments**

- Headlines have been both shocking and devastating during the first quarter of the New Year. Political unrest in North Africa and the Middle East resulted in violence, regime changes, and a shutdown of Libyan oil exports. The most tangible result of these events has been higher oil prices: A barrel of oil reached \$107 as of March 31, 2011, the highest it has been since September 2008. In addition, Japan was hit by an earthquake and tsunami in March resulting in the worst nuclear accident since Chernobyl. Despite these events, worldwide stock markets have remained resilient.
- Following the strong 4<sup>th</sup> quarter performance, U.S. equity markets continued to post gains in the 1<sup>st</sup> quarter. The S&P 500 ended the first three months up 5.9% (15.7% for the year), which is the highest first quarter since 1999. The fixed income markets were slightly positive, with the Barclays Capital Aggregate up almost half a percent. The Barclays Capital Municipal Bond Index also was flat following last quarter's decline which highlighted investor concerns about the deteriorating financial condition of municipalities.
- In the US, while housing prices remained stagnant and home starts were at an all time low, employment numbers showed some life in the first quarter: The unemployment rate dropped to 8.8% as of March 31, 2011, down from 9.4 at year end.
- The Federal Reserve left the federal funds target rate unchanged at 0% to 0.25%, noting elevated rates of unemployment and a low inflation rate. The committee also intends to complete QE2, the injection of funds into the marketplace through the purchase of \$600 billion of Treasury securities, on schedule by the end of the second quarter.
- Headline inflation continues to be buffeted by movements in oil prices, while core inflation appears to be trending higher. Consumer prices (CPI) rose 0.5% in March largely on food and energy.
- The State Street Investor Confidence Index was volatile this quarter, finishing at 98.3, slightly below the end of 2010 level. Investor confidence in Europe had a significant drop off from its highs in September 2010 to a disappointing 64.3 as of March 31, 2011 because of sovereign debt concerns that still plague the PIIGS countries. Confidence in North America and Asia both dropped off slightly since the end of 2010, ending the first quarter at 10.30 and 100.2 respectively..

## MARKET SUMMARY

### Equity Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
<b>U.S.</b>			
S&P 500	5.9	15.7	2.4
Dow Jones Industrial Average	7.1	16.5	3.1
NASDAQ	5.0	16.8	7.8
Russell 1000	6.2	16.7	3.0
Russell 2000	7.9	25.8	8.6
Russell 3000	6.4	17.4	3.4
Russell Micro Cap	6.8	25.3	6.7
<b>Non-U.S.</b>			
MSCI EAFE (Net)	3.4	10.4	-3.0
MSCI Emerging Markets (Net)	2.1	18.2	4.3
MSCI All Country World ex U.S.	3.4	13.1	-0.8

### Bond Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
<b>U.S.</b>			
Barclays Capital Aggregate	0.4	5.1	5.3
Barclays Capital Gov/Credit	0.3	5.3	4.8
Barclays Capital Universal	0.1	5.7	5.7
Barclays Capital Corp. High Yield	3.9	14.3	12.9
<b>Non-U.S.</b>			
CG Non-U.S. World Govt.	1.0	8.5	3.3

### Non-Public Markets

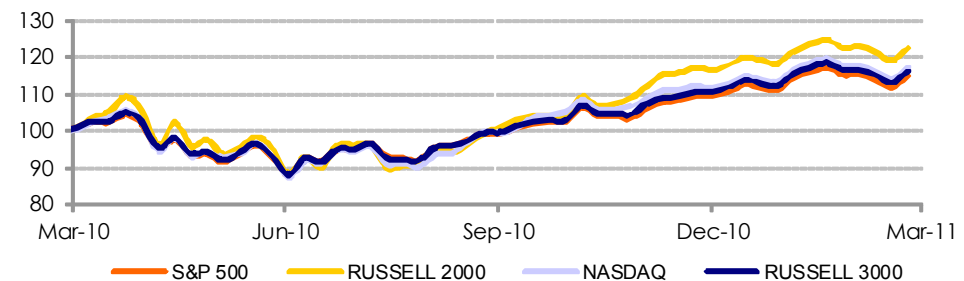
	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
NCREIF Property (4Q10)	4.6	13.2	-12.4
State Street Private Equity Index(3Q10)	6.6	16.2	-2.1

### Global Equity Markets

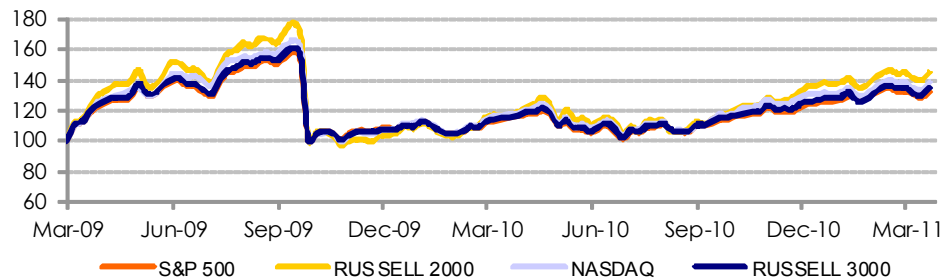
Global markets performed well in the first quarter of 2011. In the U.S., the broad S&P 500 Index returned 5.9%, and the NASDAQ gained 5.0%. Meanwhile, the Dow Jones Industrial Average led the way, gaining 7.1%. International markets, as represented by the MSCI EAFE Index, increased by 3.4%, a more modest increase compared to last quarter's gain of 6.6%, and the prior quarter jump of 16.5%. The MSCI Emerging Markets Index also increased by 2.1%, continuing its recent positive performance. Over the past 12 months, the MSCI Emerging Markets Index returned 18.2%, which outpaces the larger developed market indices.

Small cap indices continue to outperform their large cap counterparts as investors continue to favor riskier options. The Russell 2000 Index posted a 7.9% return for the quarter, and the Russell Microcap Index posted a return of 6.8%, outperforming the Russell 1000 Index (large cap) return by 150 and 60 basis points respectively.

Equity Index - 1 Year Growth Rate



Equity Index - 2-Year Growth Rate



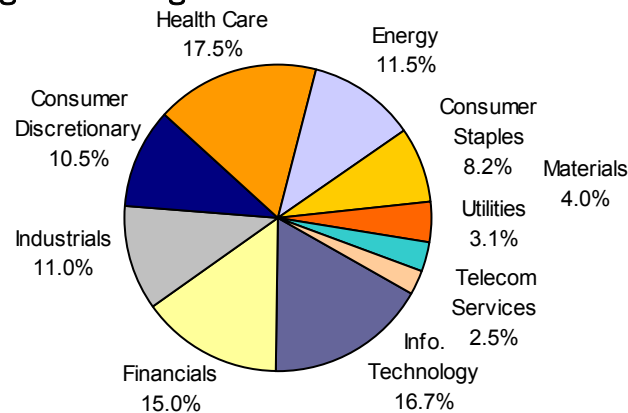
## DOMESTIC MARKETS

### Domestic Equity - Russell 3000

The Russell 3000 Index gained 6.4% during the first quarter of 2011. Every sector within the Russell Index posted positive returns. The greatest sector contributors to quarterly performance were Health Care, Industrials, and Energy. These sectors account for 40% of the index weight.

In a continuation of the 2010 success, all sectors reported positive returns over the trailing 12 months. The most influential sectors for the trailing one-year time frame were Consumer Discretionary, Energy, Industrials, Information Technology which make up just under half of index weight. They returned 21.7%, 41.1%, 24.1%, and 15.1%, respectively, and as a result, had the largest positive impact on returns.

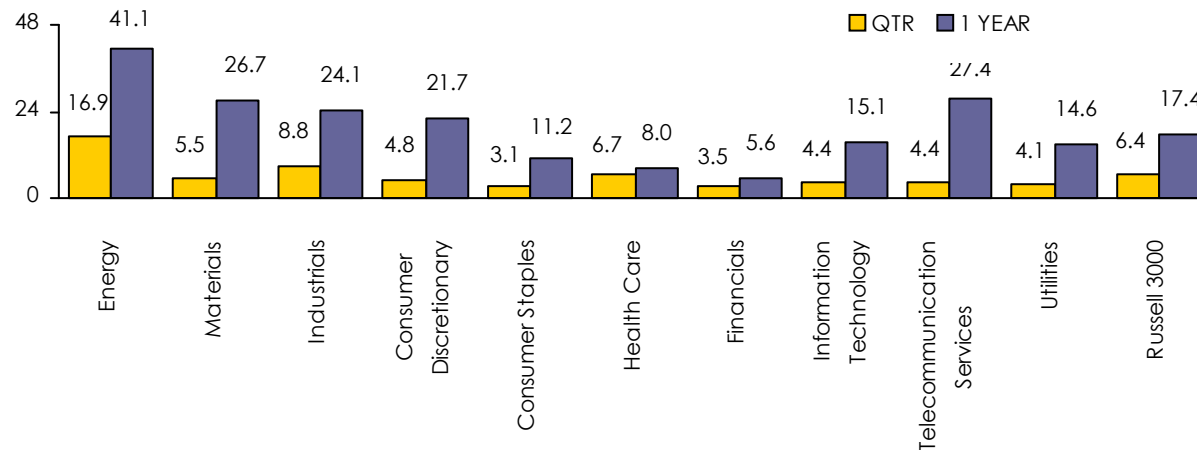
Ending Sector Weights



### Characteristics

Div. Yield (%)	1.8
P/B Ratio	2.29
P/E Ratio	17.8
Fundamental Beta	1.25
Market Cap \$(MM)	76,470

Sector Returns (%)



Contribution to Return

Qtr.	0.8	0.2	1.0	0.5	0.3	1.0	0.6	0.8	0.1	0.1
1 Yr.	3.3	1.8	3.1	3.5	0.9	1.0	0.9	2.1	0.7	0.5

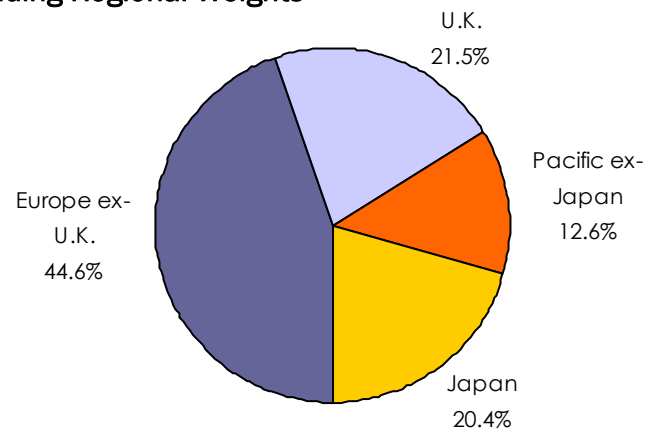
## INTERNATIONAL MARKETS

### International Equity—MSCI EAFE (Net)

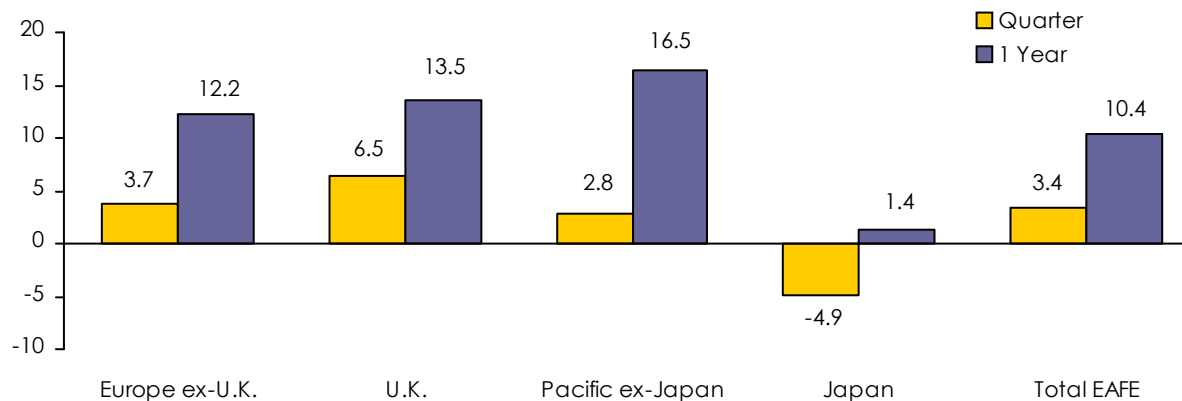
The MSCI EAFE Index posted positive returns for two out of the three months in the quarter; January returned 2.4%, February gained 3.3%, and March gave back 2.2%, totaling 3.4% return for the first quarter. After the rocky 2010 that the “PIIGS” countries had, they were able to bounce back to start off the New Year. Greece (15.2%), Italy (13.8%), and Spain (12.9%) all led the countries in the MSCI EAFE index.

One year returns were strong, as the EAFE Index returned 13.5%. Top performing countries in Europe were based in the Nordic region, especially Denmark (29.4%) and Sweden (28.3%). The one-year rolling return is closing the gap compared to that of emerging markets as the recent debt troubles within domestic markets begins to fade. Greece (-28.9%) and Ireland (-12.1) are significantly negative over the one year time period, while Spain is barely negative with a -0.2% loss.

### Ending Regional Weights



### Regional Returns (%)



### Contribution to Return:

	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan
Qtr.	3.4	0.8	0.4	-1.0
1 Yr.	5.7	2.9	1.8	0.3

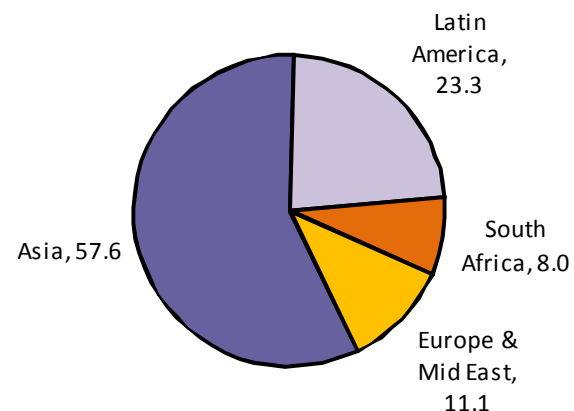
## INTERNATIONAL MARKETS

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

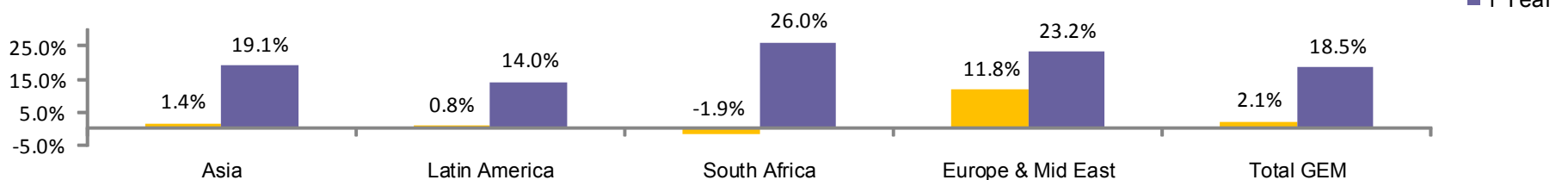
The MSCI Emerging Markets Index gained 2.1% in the first quarter, which brings its 12 month gain to 18.5%.

European based securities made the greatest contribution to return over the quarter, but over the one year time period, Asian based securities impacted positive performance the most. Over the quarter, the key contributors to performance within Europe were Hungary and the Czech Republic (20.2% and 16.3% respectively). Over the longer time period, key contributors in Asia included gains from securities domiciled in Thailand and Korea, each returning 38.6% and 29.8% respectively. The largest emerging markets, China and Brazil (which represent nearly a third of the index) cooled, while South Africa and Korea (which represents about a fifth of the index) picked up the slack returning 25.9% and 31.1% respectively.

Ending Regional Weights (%)



Regional Returns (%)



#### Contribution to Return:

Qtr.	0.8	0.2	-0.1	1.2
1 Yr.	11.0	3.3	2.1	2.6

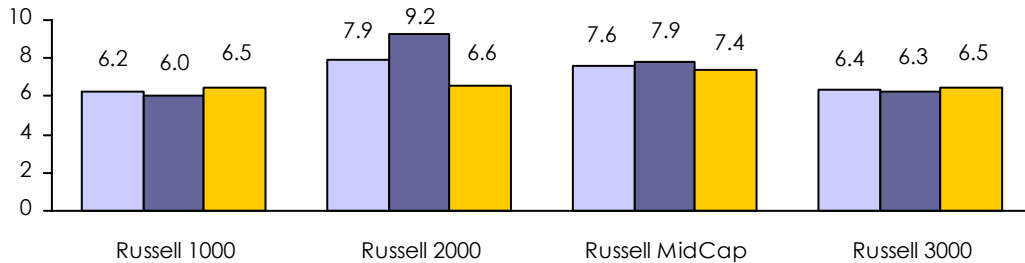
**EQUITY BY STYLE & CAPITALIZATION**

**Style & Capitalization Returns**

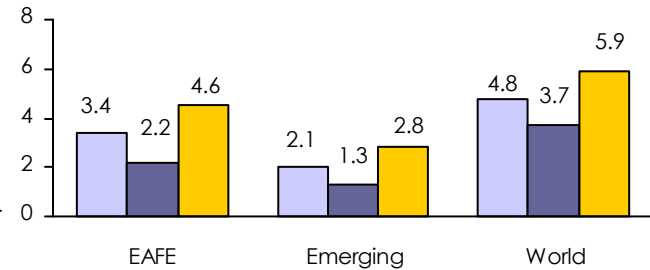
The major indices within the worldwide markets continued their upswing from the fourth quarter of 2010 through the first quarter of 2011. Growth indices within all of the cap spectrums of the domestic markets are adding value over their core and value counterparts over the trailing twelve months. The Russell 1000, 2000, 2500, and 3000 Growth Indices all outperformed their value counterparts by 310, 1040, 430, and 360 basis points respectively. In Cross-border mandates however, value indices are outperforming their growth counterparts. The MSCI EAFE, MSCI EM, and MSCI World Indices each outperformed their growth counterparts by 120, 150 and 220 basis points respectively.

Over the past 12 months, developed non-U.S. growth markets have experienced significant outperformance over value markets. The MSCI EAFE and World Growth Indices outperformed their value indices by 440 and 350 basis points, respectively. The MSCI EM Growth Index however, underperformed value counterpart, but by a more modest 100 basis points.

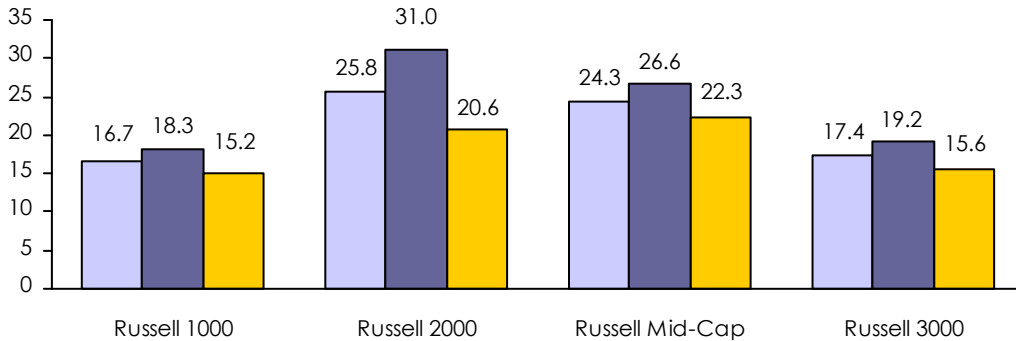
**Russell U.S. Style Returns Quarter**



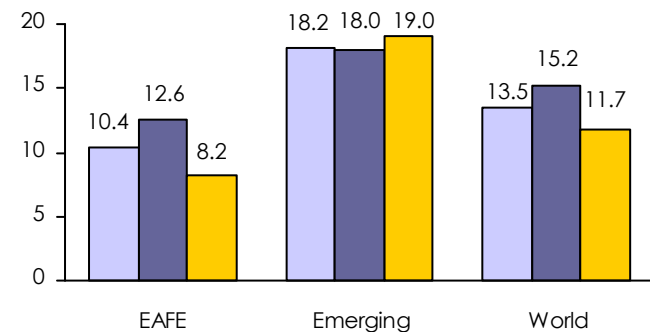
**MSCI Non-U.S. Style Returns Quarter**



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



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



■ Neutral ■ Growth ■ Value

## CURRENCY AND BOND MARKETS

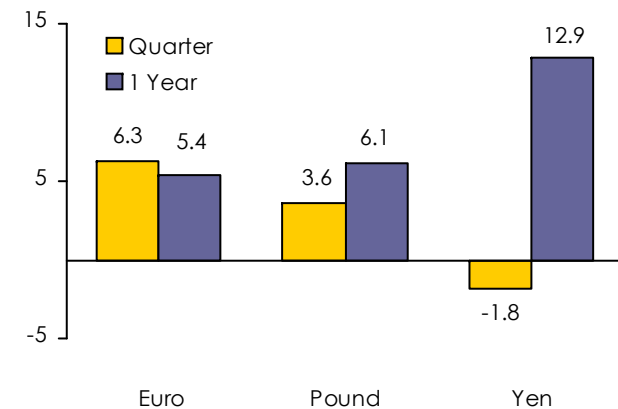
### Currency Markets

In a March 3<sup>rd</sup> meeting in Frankfurt, the President of the of the ECB continued to hold key lending rates at historic lows of 1.0% for the first quarter 2011 but hinted at a possible change stating recent economic data “indicates a rise in inflation, largely reflecting higher commodity prices.” The economic analysis indicates that risks to the outlook for price developments are on the upside, while the underlying pace of monetary expansion remains moderate. Recent economic data confirm that the underlying momentum of economic activity in the euro area remains positive; however, uncertainty remains elevated. The current very accommodative stance of monetary policy lends considerable support to economic activity.

The U.S. Federal Reserve has also kept its key lending rates at historic lows to allow for further economic recovery.

The British Pound Sterling and the Euro both surged against the dollar in the first quarter gaining 3.6% and 6.3% respectively, while the Yen lost 1.8% to the dollar. Over the past year the Euro has risen 5.4% while the Pound Sterling has gained 6.1%. The dollar was weakest against the Yen in the past 12 months losing 12.9%.

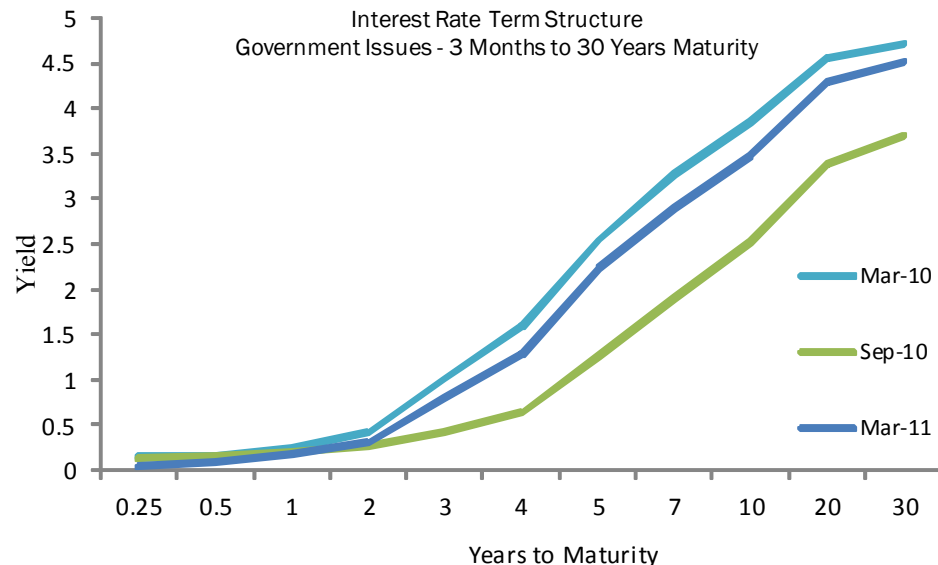
Currency Returns (%)



### Yield Curve

Yields on nominal treasury securities increased again during the first quarter and are inching closer to the levels at which they started in the beginning of 2010.

In the March 15<sup>th</sup> press release, the Federal Open Market Committee indicated it “will maintain the target range for the federal funds rate at 0 to 1/4 percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period.”



**BOND MARKETS**

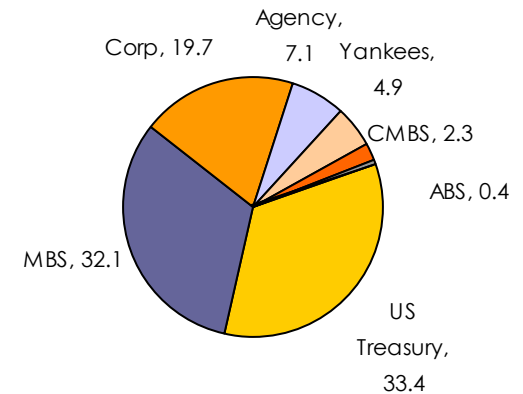
**U.S. Bond Market Returns - Barclays Capital Aggregate**

Bond markets edged into positive territory in the first quarter. The Barclays Capital Aggregate Bond Index gained 0.4% in the first quarter of 2011, and gained 5.1% over the past 12 month period.

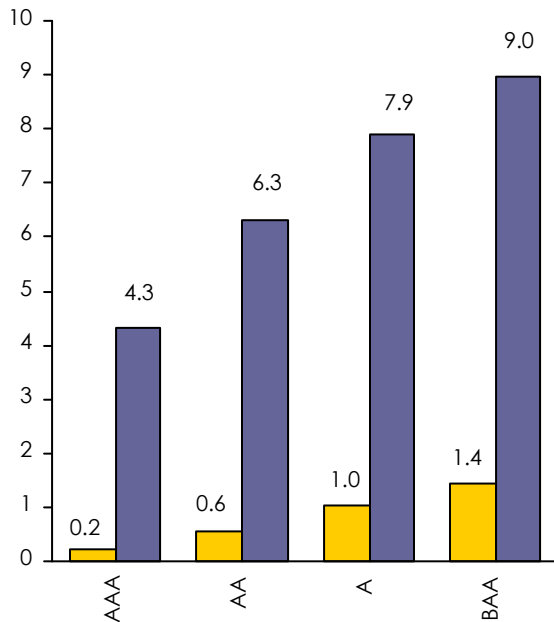
All sectors were positive this quarter, with the exception of corporate bonds. CMBS and Yankee bonds were the most successful, returning 2.1 and 0.7% respectively and over the last 12 months 12.7% and 7.5%. Instruments with maturities of 5 to 7 years experienced the strongest performance during the quarter (0.7%), but over the longer 12 month trailing period, longer-dated bonds (7-10 years) were more successful, returning 7.9%.

Bonds across all quality spectrums gained value during the first quarter, with lower rated securities gaining the most, at 1.0 and 1.4% respectively for A and BAA rated bonds. In addition, over the past year, less favorably rated bonds performed better, with BAA rated issues returning 9.0%.

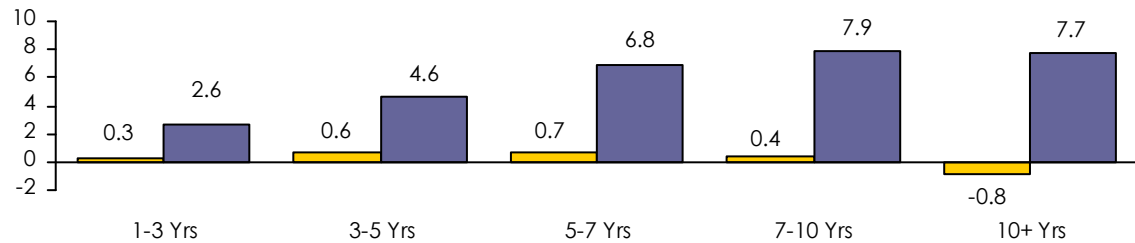
**Sector Weights (%)**



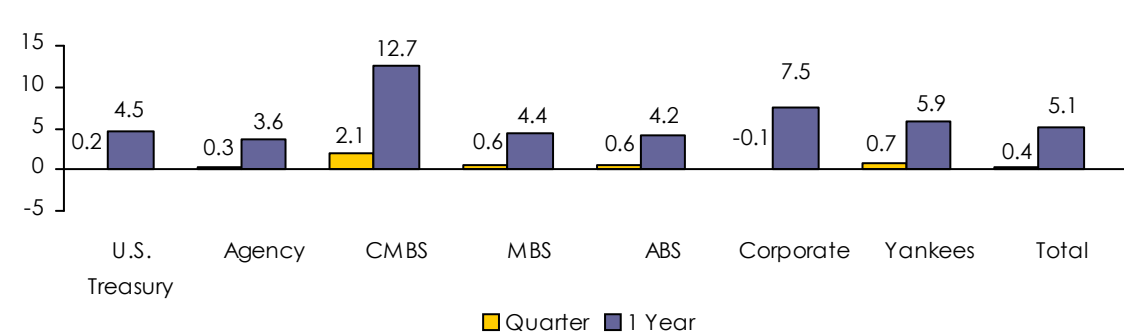
**Quality Performance (%)**



**Duration Performance (%)**



**Sector Performance (%)**



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