ENVIRONMENT

Independent Consultants Cooperative (ICC)

> General Comments

- The final quarter of 2009 closed on a positive note as the Dow Jones Industrial Average passed 10,000 for the first time since October 2008 and the U.S. economy showed modest signs of improvement. During the quarter, the Dow rose 8.1%, the S&P 500 gained 6.0% and the NASDAQ advanced 6.9%. Over the 1-year period, the Dow rose 22.6%, S&P gained 26.5% and the tech-heavy NASDAQ climbed 43.9%.

- After experiencing the sharpest economic contraction since 1982, the Commerce Department reported that the U.S. economy grew 2.2% during the 3-month period from July to September. A number of economists noted that third quarter GDP growth was due in large part to unprecedented government stimulus and remained cautious on the sustainability of economic growth in the United States.

- In December, President Obama's top economic advisor Larry Summers predicted job growth would return in the United States as early as the spring. According to a Fed report, an additional 85,000 jobs were lost during the month of December and U.S. unemployment remained steady at 10%. In a separate report, the U.S. Labor Department noted that the number of Americans filing for unemployment benefits fell to its lowest level since August 2008.

- Commodities rallied in the final quarter of 2009, as crude oil futures settled above $80/barrel, gold topped $1,100/ounce, and home heating oil hit a 16-month high. Increases in commodity pricing were driven in part by the continued weakening of the U.S. dollar, which has declined 12% since hitting a 5-year peak in early March.

- In international markets, the National Institute of Economic and Social Research reported that the U.K. economy grew 1.6% between August and December. Simultaneously, Germany's Economics Ministry noted that the euro-zone's largest economy growth was flat in the fourth quarter.

- After a 4-month slide, the State Street Investor Confidence Index® rose to 103.9 in December. The index, which measures investor confidence by analyzing buying and selling patterns of institutional investors, benefited most from an increase in investor confidence in Asia which hit an 8-month high during the month. Harvard University professor, Ken Froot noted, "Institutions are continuing to add to their risky asset positions, but at a slower pace than was evident earlier in the year."

ICC INDEPENDENT CONSULTANTS COOPERATIVE

## Equity Markets

| U.S. | | QTR | 1 Year | 3 Year |
|---|---|---|---|---|
| S&P 500 | | 6.0 | 26.5 | -5.6 |
| Dow Jones Industrial Average | | 8.1 | 22.7 | -3.1 |
| NASDAQ | 6.9 | 43.9 | -2.1 | |
| Russell 1000 | | 6.1 | 28.4 | -5.4 |
| Russell 2000 | | 3.9 | 27.2 | -6.1 |
| Russell 3000 | | 5.9 | 28.3 | -5.4 |
| **Non-U.S.** | | | | |
| MSCI EAFE (Net) | | 2.2 | 31.8 | -6.0 |
| MSCI Emerging Markets (Net) | | 8.6 | 78.5 | 5.1 |
| MSCI All Country World ex U.S. | 3.7 | | 41.5 | -3.5 |

## Bond Markets

| U.S. | | QTR | 1 Year | 3 Year |
|---|---|---|---|---|
| Barclays Capital Aggregate | 0.2 | 5.9 | 6.0 | |
| Barclays Capital Gov/Credit | -0.2 | 4.5 | 5.8 | |
| Barclays Capital Universal | | 0.6 | 8.6 | 5.8 |
| Barclays Capital Corp. High Yield | | 6.2 | 58.2 | 5.9 |
| **Non-U.S.** | | | | |
| CG Non-U.S. World Govt. | | -2.2 | 4.4 | 8.6 |

## Non-Public Markets

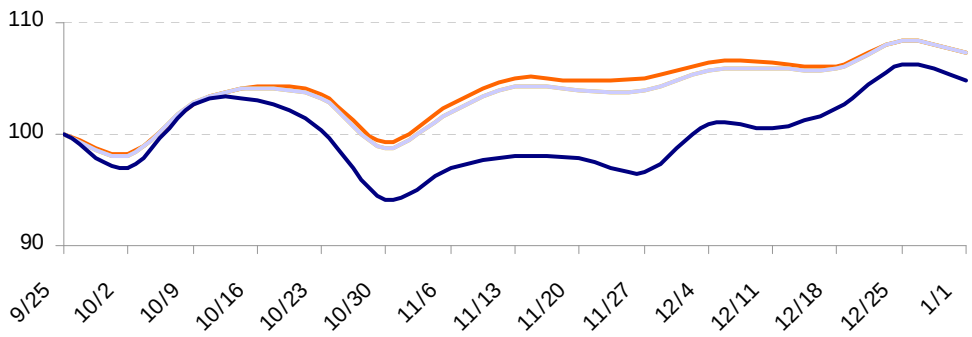
*lagged quarterly*

| | QTR | 1 Year | 3 Year |
|---|---|---|---|
| NCREIF Property | -3.3 | -22.1 | -1.3 |
| State Street Private Equity Index | 5.8 | -7.6 | 1.8 |

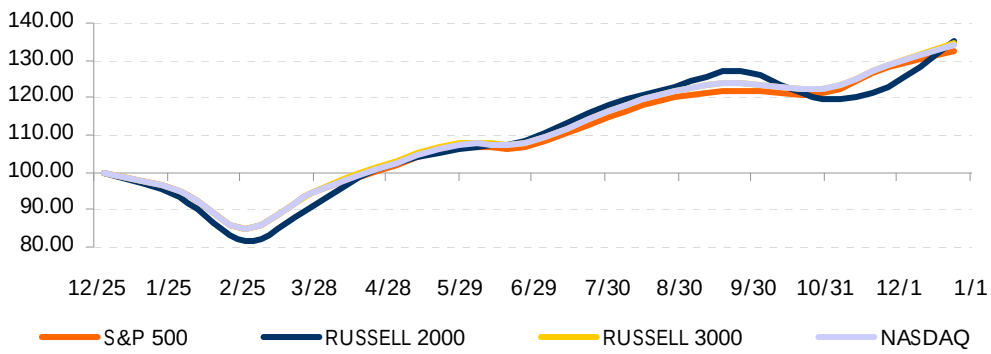
## U.S. Equity Market

- During the quarter, the Dow Jones Industrial Average passed 10,000 for the first time since October 2008, the S&P finished above 1,000, and the NASDAQ rose over 2,200. Since the trough in early March, all three indices have returned over 50%.
- Among the Russell indices, the large cap Russell 1000 Index outperformed it small-cap peers during the quarter. However, Russell MidCap Index posted the best 1-year performance, outperforming both the Russell 1000 and Russell 2000 indices by more than 15%. The information technology sector was the strongest performing sector in the fourth quarter and over the 1-year period.

Equity Index - Quarter Growth Rate




Equity Index - 1-Year Growth Rate

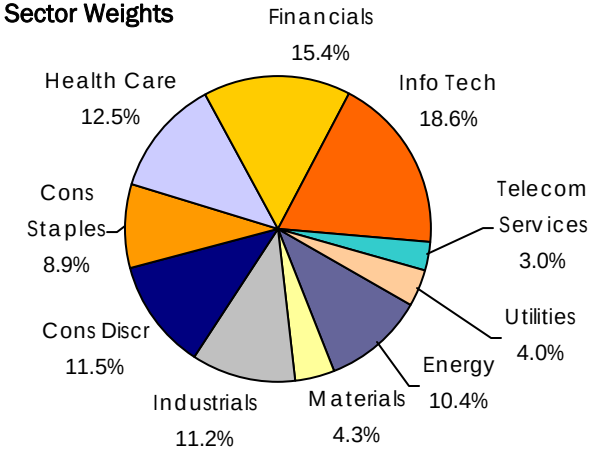


# Domestic Equity - Russell 3000

- The Russell 3000 Index advanced 5.9% in the fourth quarter. The greatest contributors to index performance included advances for positions in the information technology and health care sectors. Gains for securities in the consumer discretionary sector also had a positive influence on performance, while declines in the financial sector tended to have a negative influence on returns.

- Over the trailing 12 months, the Russell 3000's largest sector weighting (information technology) posted the best performance and made the largest contributions to returns. Performance was also strengthened by advances in the consumer discretionary and health care sectors. Double-digit gains were registered for every sector at year end.

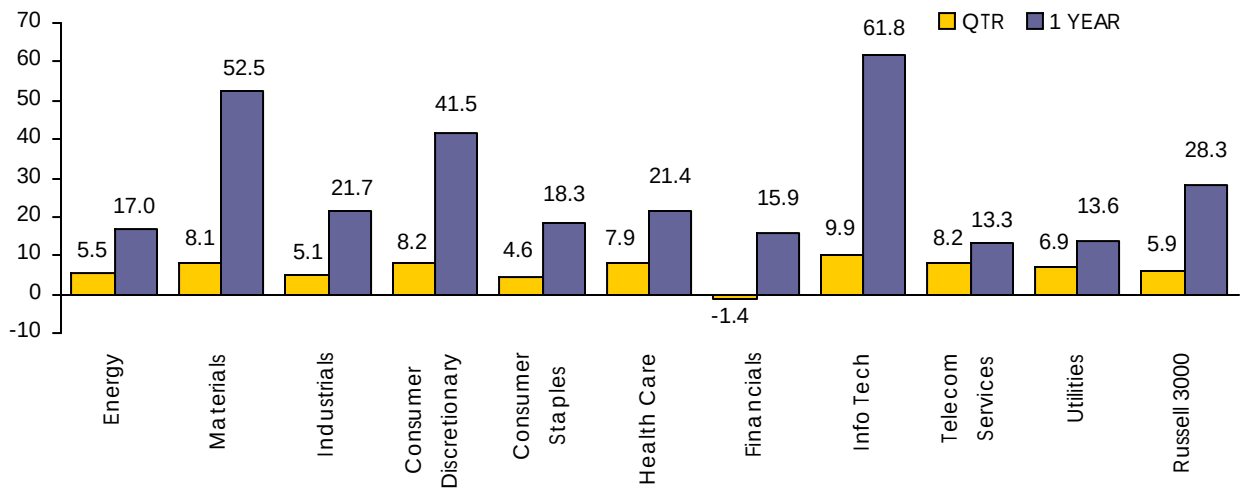
Ending Sector Weights




Characteristics

| | |
|---|---|
| Div Yield (%) | 1.8 |
| P/B Ratio | 2.2 |
| P/E Ratio | 34.8 |
| Fundamental Beta 1.0 | |
| Market Cap $(MM) | 75,300 |

Sector Returns (%)




Contribution to Return:

| | Energy | Materials | Industrials | Consumer Discretionary | Consumer Staples | Health Care | Financials | Info Tech | Telecom Services | Utilities | Russell 3000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Qtr | 0.6 | 0.3 | 0.6 | 0.9 | 0.4 | 1.0 | -0.2 | 1.8 | 0.2 | 0.3 | 5.9 |
| 1 Yr | 1.8 | 2.3 | 2.4 | 4.8 | 1.6 | 2.7 | 2.4 | 11.5 | 0.4 | 0.5 | 28.3 |

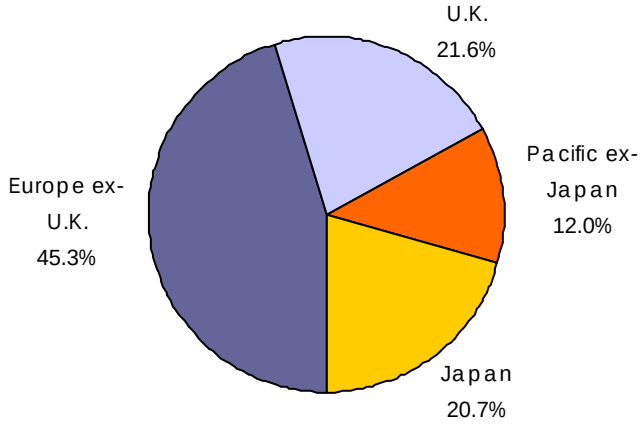
# Developed Equity—MSCI EAFE (Net)

- The MSCI EAFE Index returned 2.2% in the fourth quarter of 2009. Advances for U.K.-based securities helped strengthen the index's return, while Japan-based holdings tended to weaken in the final three months of 2009.

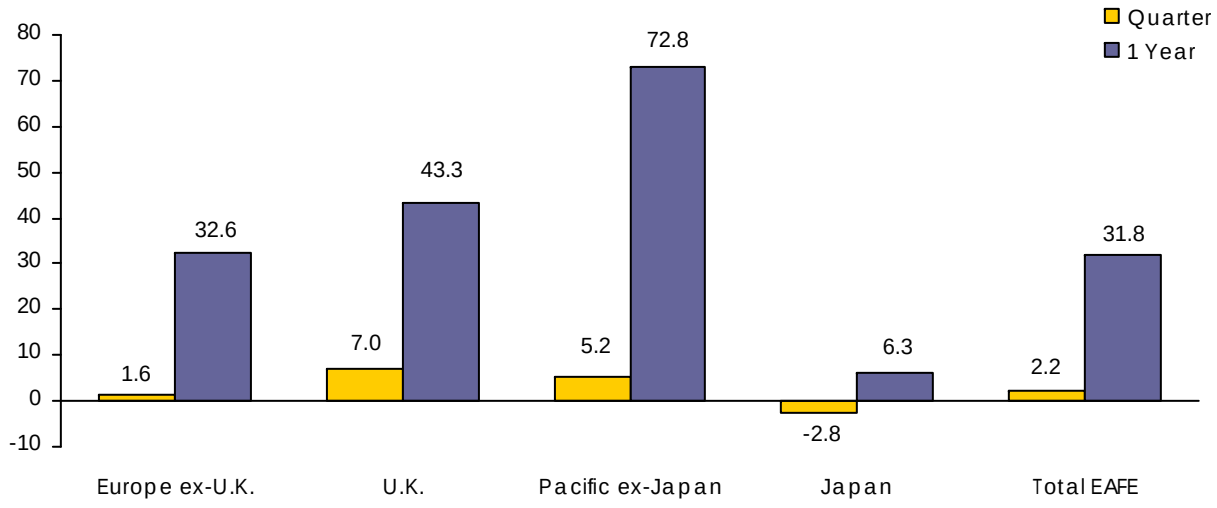
- For the 1-year period, top-performing countries in continental Europe included Norway (+87.1%), Sweden (+64.2%) and Belgium (+57.5%). Outside of Europe, MSCI EAFE constituents based in the Pacific tended to experience the greatest share price appreciation. In particular, countries such as Australia (+76.4%), Singapore (+74.0%) and Hong Kong (+60.2%) delivered sizeable returns.

- In 2009, the MSCI EAFE Index registered the greatest calendar year performance since 2003 and each of the index's country constituents posted double digit gains.

Ending Regional Weights




Regional Returns (%)



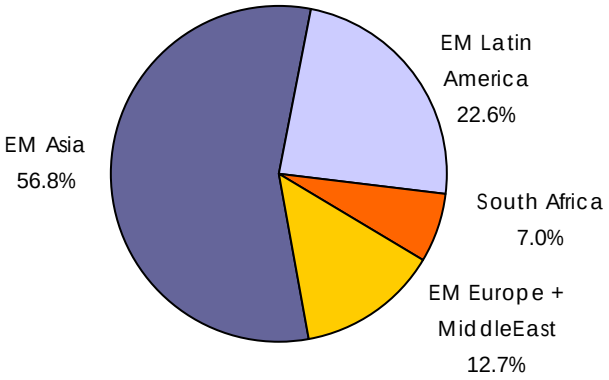

Contribution to Return:

| | | | | | |
|---|---|---|---|---|---|
| Qtr | 0.7 | 1.4 | 0.6 | -0.6 | 2.2 |
| 1 Yr | 15.8 | 9.4 | 7.1 | 1.3 | 31.8 |

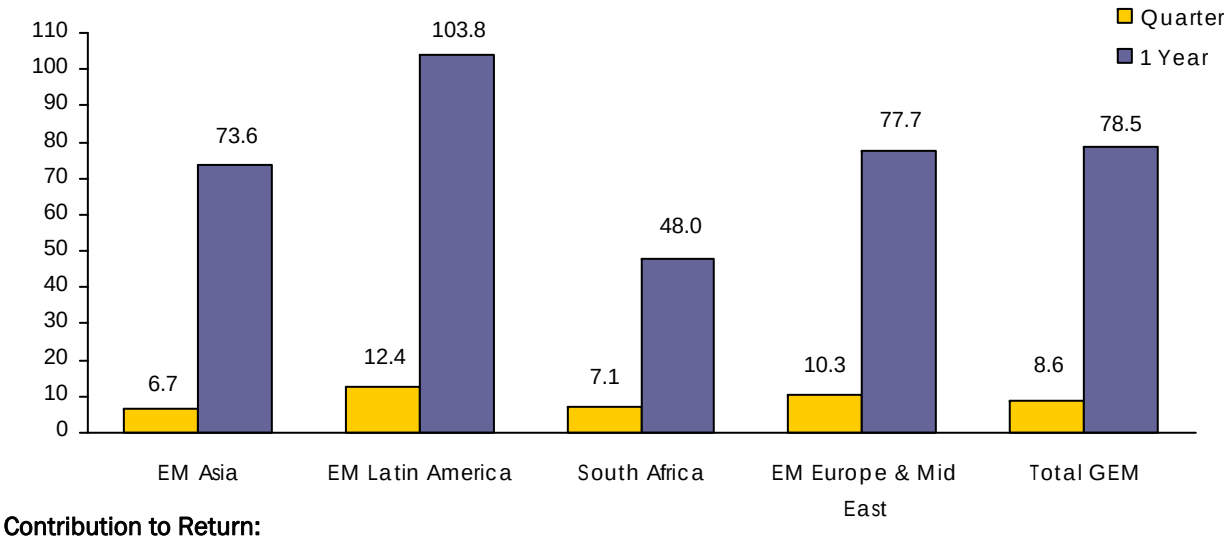
# Emerging Markets Equity - MSCI EM (Net)

- The MSCI Emerging Markets ("EM") Index rose 8.6% in the fourth quarter and climbed 78.5% for the 1-year period ending December 31, 2009.
- Asia-based securities made the greatest contributions to performance in the fourth quarter. Key contributors included gains for securities domiciled in the Philippines, China and Taiwan. Outside of Asia, the index also benefited from positive results for Latin America-based holdings.
- Latin American countries tended to generate sizeable performance in the fourth quarter and over the 1-year period. Brazil was the top-performing country advancing 128.1% during the year. Similarly, other constituents of the MSCI BRIC Index tended to register the largest gains within their respective regions, including Russia (+104.2%), India (+102.8%) and China (+62.3%).

Ending Regional Weights




Regional Returns (%)



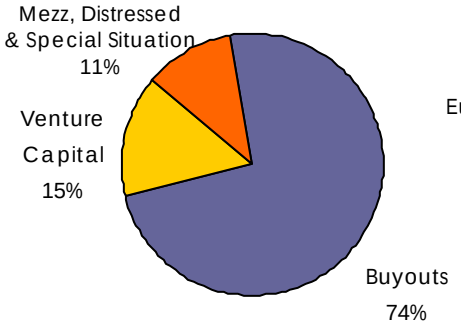

Contribution to Return:

| | | | | | |
|---|---|---|---|---|---|
| Qtr | 3.8 | 2.8 | 0.5 | 1.3 | 8.6 |
| 1 Yr | 41.0 | 24.8 | 3.3 | 10.5 | 78.5 |

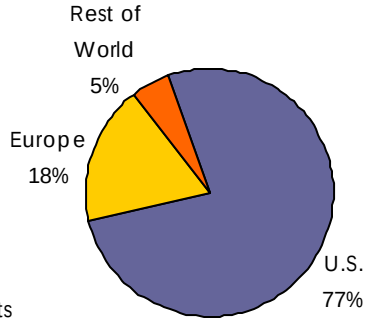
# State Street Private Equity Index[sm]

- In third quarter of 2009 (the most recent date available), the State Street Private Equity Index[sm] gained 5.8%. Over the trailing 1-year period, the IRR for the index was -7.6% as of September 30, 2009.
- Mezzanine, distressed, special situation and buyout strategies generally registered gains in the third quarter, while venture capital strategies (particularly those based in the United States) tended to experience declines.
- U.S.-based mezzanine and distressed funds generated the best returns in the quarter and over the 1-year period, but in aggregate, European private equity funds gained 10.2% vs. 4.9% for U.S. funds. Rest of world funds posted positive results for 1-, 3-, and 5-year periods.

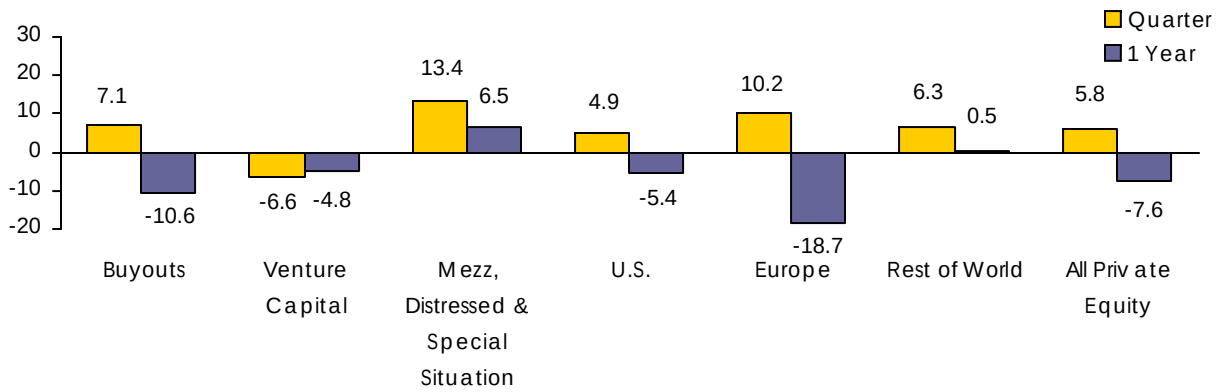
Total Capitalization Weights by Strategy




Total Capitalization Weights by Region Weights




IRR Returns (%)*



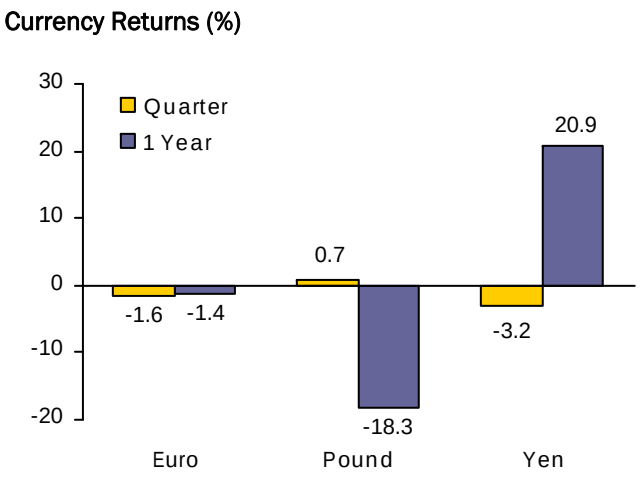

Contribution to Return:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Qtr | 5.0 | -1.0 | 1.9 | 3.8 | 1.6 | 0.4 | 5.8 |
| 1 Yr | -7.8 | -0.7 | 0.9 | -4.0 | -3.7 | 0.1 | -7.6 |

*State Street Private Equity Index calculated on a dollar-weighted basis

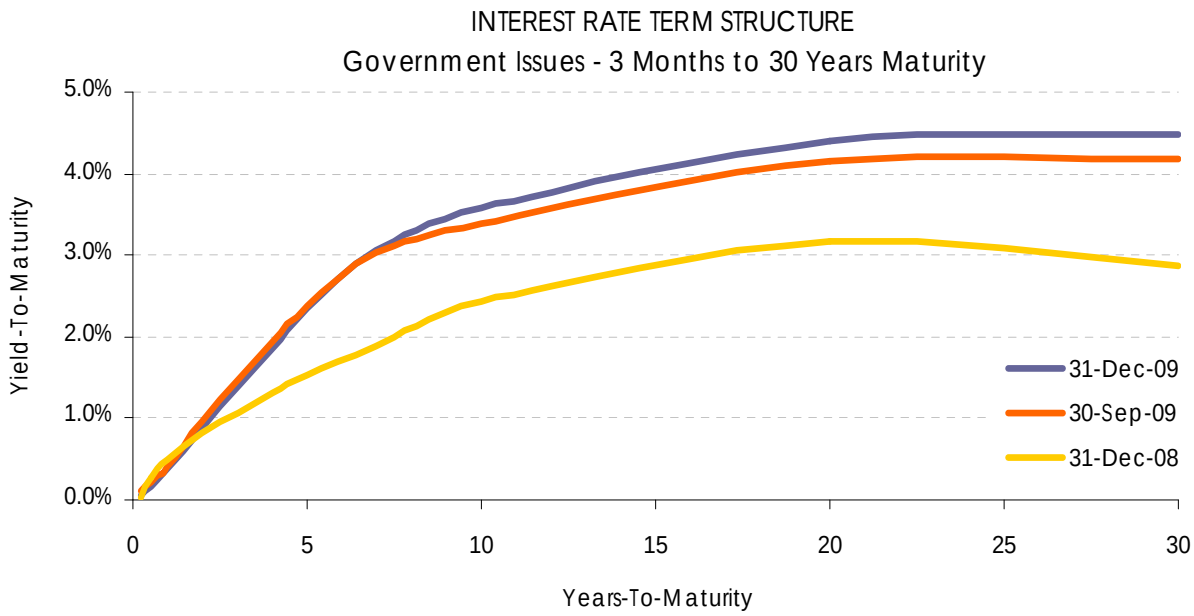
## Currency Markets

- The Bank of England and the European Central Bank held key lending rates at historic lows during the fourth quarter, keeping them at 0.5% and 1.0% respectively.
- The Bank of England expanded its quantitative easing policy during the period adding £25 billion into the British economy, bringing the total stimulus program to £200 billion.
- After three quarters of weakness, the dollar strengthened relative to euro in the fourth quarter. The euro ended the quarter trading at 1.44 vs. the dollar.
- The dollar fell to a 52-week low against yen in late November. However, since November the dollar has moderately strengthened.




## Yield Curve

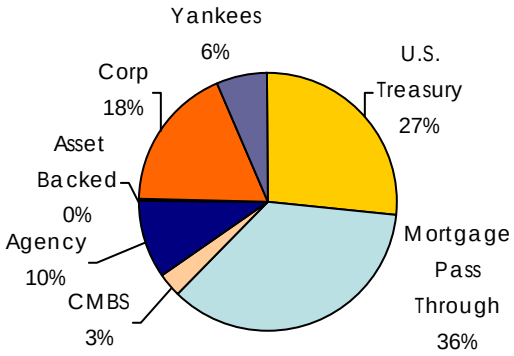
- The Federal Reserve continued to hold the short term key interest rate at the historically low range of 0 - 0.25% during the fourth quarter.
- In a speech at the American Economic Association, Ben Bernanke discussed using the Taylor Rule, which uses inflation and economic output, to help determine the appropriate fed funds rate.



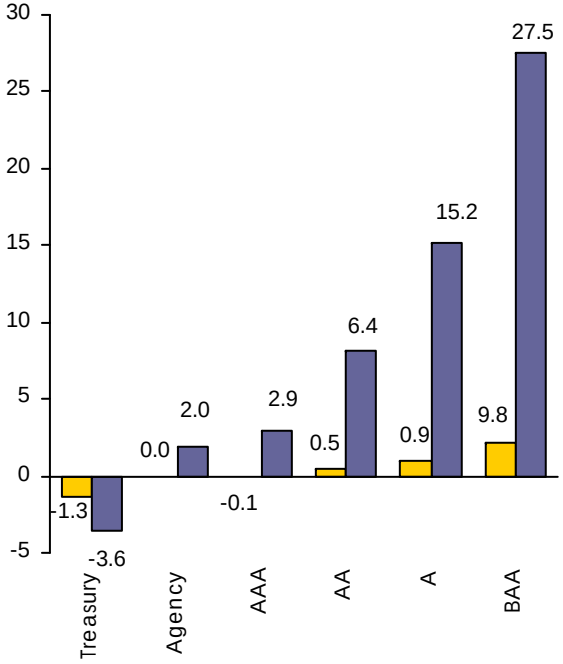
# U.S. Bond Market Returns - Barclays Capital Aggregate

- The Barclays Capital Aggregate Bond Index gained 0.2% in the fourth quarter and advanced 5.9% over the 1-year period.
- The commercial mortgage-backed security ("CMBS") and corporate sectors delivered the most compelling performance during the quarter. Over the trailing 12 months, the CMBS, asset-backed, and corporate sectors were the top performers.
- Long duration instruments tended to experience declines during the quarter, while shorter duration instruments posted modest gains. For the year, medium duration instruments generally delivered the largest returns.
- Lower quality issues led returns during the quarter and over the 1-year period.

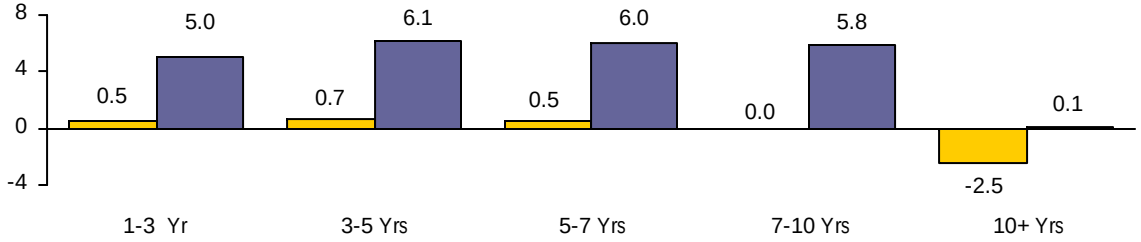
Sector Weights



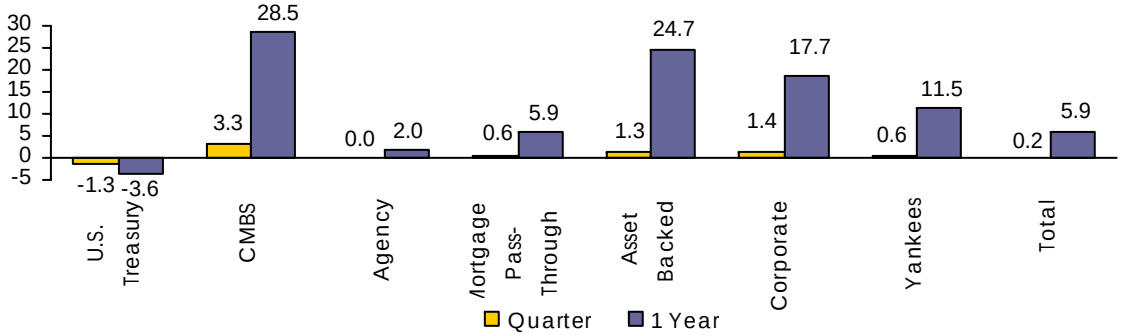

Quality Performance (%)




Duration Performance (%)



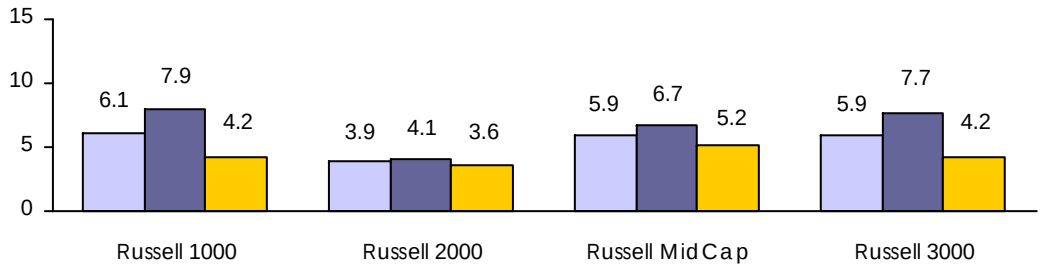

Sector Performance (%)



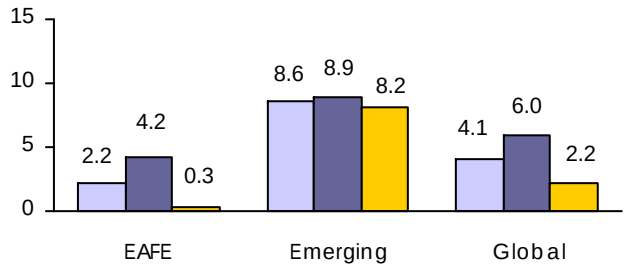
# Style & Capitalization Returns

- In U.S. markets, large caps tended to outperform small caps during the quarter. The Russell 1000 Index gained 6.1% narrowly outperforming both the Russell 3000 and Russell MidCap indices. Along style lines, the growth components of the Russell indices tended to generate the greatest returns both during the quarter and over the 1-year period. The Russell 1000 Value Index returned 19.7% while the Russell 1000 Growth Index returned 37.2%, outperforming its value counterpart by 17.5%. The Russell MidCap Growth Index generated the greatest gains for the year, advancing 46.3%.
- A similar trend was apparent outside the U.S., where the growth segment of international markets tended to outpace their value components. Both MSCI EAFE Growth and the MSCI World Growth Index return's exceeded that of their value equivalent by more than 300 basis points in the fourth quarter. The MSCI Emerging Markets Growth Index also outperformed the MSCI Emerging Markets Value Index by 60 basis points. For the 1-year period however, the MSCI Emerging Markets Value Index registered an impressive 79.1% return, outperforming the emerging growth and emerging core index.

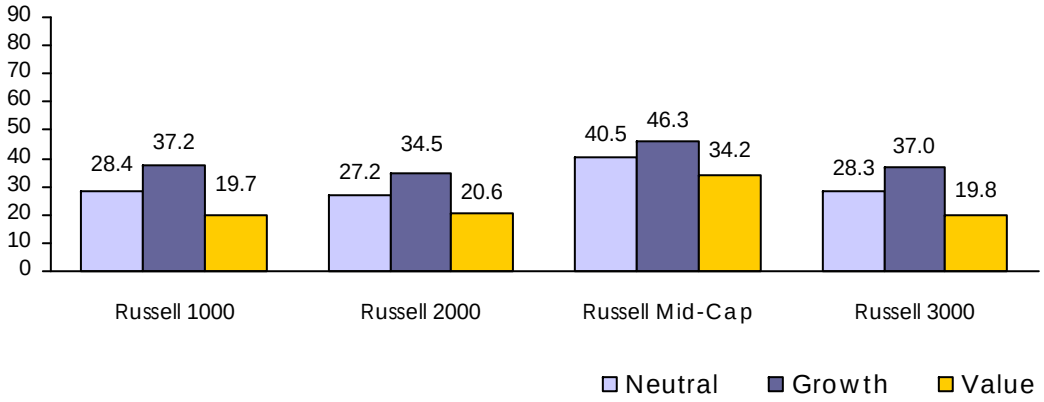
Russell U.S. Style Returns - Quarter



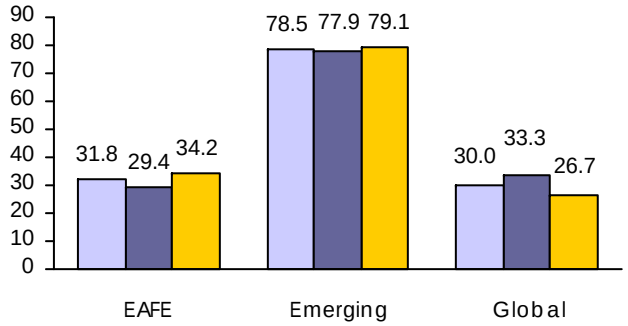

MSCI Non-U.S. Style Returns - Quarter




Russell U.S. Style Returns - 1 Year




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



# ENVIRONMENT

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