

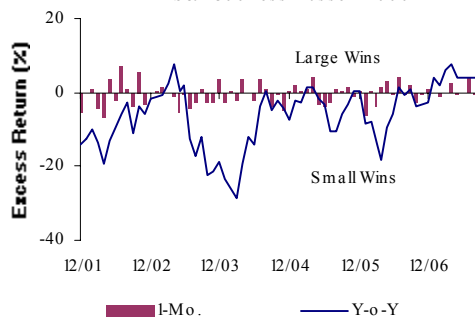
**U.S. ECONOMIC BACKGROUND**

The U.S. housing market continues to struggle through persistent subprime market effects, exhibiting the potential to plague a broader environment. While there still remains a vast amount of liquidity in the market, lenders have become fearful to engage in certain loans, namely jumbo mortgages, encouraging the Fed to step in. The Fed left rates unchanged at 5.25% on August 7<sup>th</sup>, then elected to inject \$120 billion of liquidity into the banking system on August 12<sup>th</sup>, and finally on August 17<sup>th</sup> the Fed cut the discount rate by .5% to 5.75%. The actions by the Fed were uplifting to the economy as it was viewed as an attempt to contain any further impact. Otherwise, the health of the U.S. economy remains sound. Domestic growth, as measured by GDP, was reported at 4.0%, fueled by a surge in durable good orders (+5.9%) and factory orders (+3.7%). Unemployment (4.6%) remains within the realm of full employment, and inflationary fears have been kept at bay. The Producer Price Index (PPI) edged up .60% while CPI remained relatively benign inching up by .1%.

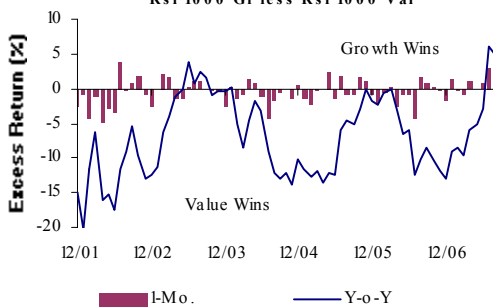
**U.S. Equity Returns (%)**

	1 Mo.	3 Mos.	12 Mos.
S&P 500	1.50	-3.28	15.13
S&P 400	0.92	-5.53	16.48
Russell 1000 Growth	1.59	-1.47	17.71
Russell 1000 Value	1.12	-5.81	12.84
Russell 2000	2.27	-6.12	11.37
Russell 2000 Growth	2.51	-3.36	16.35
Russell 2000 Value	2.00	-8.85	6.65
NASDAQ Composite	2.07	-0.10	19.80

**Large Cap vs. Small Cap**  
S&P 500 less Russell 2000



**Growth vs. Value**  
Rsl 1000 Gr less Rsl 1000 Val



**S&P Sector Returns (%)**

	1 Mo.	3 Mos.	12 Mos.
Financial	1.54	-10.27	3.57
Utilities	2.29	-6.53	15.03
Energy	0.84	3.39	28.76
Industrials	-0.01	1.13	23.69
Materials	-0.51	-3.32	26.57
Healthcare	2.55	-5.36	7.06
Consumer Staples	2.58	-1.60	8.87
Consumer Discretionary	0.38	-7.03	14.32
Information Tech	2.88	3.09	23.50
Telecom Svcs	-0.07	-4.84	27.67

**EQUITY MARKETS**

- In the wake of July's volatility, equity markets followed suit in August as market activity remained fickle throughout the month. Ongoing concerns in the financial sector heightened investor uncertainty and risk aversion, causing equity sell-offs followed by abrupt market rallies. The DJIA experienced 14 days of triple-digit moves and at its lowest point was 8% below the all time high of 14,000 set in late July. The markets were impacted by the demise of several financial firms, a tightening credit market, and poor performance among certain high profile hedge fund managers which triggered the need to raise capital, and led to sizable market gyrations. As the month progressed, the markets were clearly influenced by the Fed's actions which helped induce some substantial rebounds. The accommodating moves by the Fed coupled with the better than expected GDP data helped nudge equity markets to actually end the month in positive territory. In the end, the NASDAQ topped the indices, adding +1.9% for the month to close at 2,596. The S&P 500 closed at 1,474 (+1.5%) and the DJIA ended the month up +1.1% at 13,358.
- Growth stocks outperformed their value counterparts across the market capitalization range for August. The Russell 2000 Growth Index (+2.51%) led all Russell index comparisons, while the large-cap Russell 1000 Growth Index (+1.59%) and Russell Midcap Growth Index (+0.54%) weren't far behind. Year-to-date figures show the Russell Midcap Growth Index (+9.07%) has expanded its noteworthy lead over the Russell Midcap Value Index (+2.30%), while the Russell 2000 Growth Index has been far superior to the Russell 2000 Value Index (+6.25% vs. -3.13%) thus far through August 2007. Similarly, the Russell 1000 Growth Index, up 8.15%, is outpacing the Russell 1000 Value Index, up 2.45%, in comparison.
- According to month-end total returns for Russell Indexes, small cap stocks outperformed large caps in August. The small cap Russell 2000 Index gained 2.27% in August, while the large cap Russell 1000 Index posted a modest gain but didn't keep pace (+1.36%). Even so, large caps maintain a year-to-date advantage over small caps, leading +5.28% versus +1.43%. Meanwhile, companies comprising the Russell Midcap Index (+0.17%) lagged for the month but have led the pack since the start of the year (+6.00%).
- Seven of the ten GIC sectors posted positive returns during the month with Information Technology (+2.88%), Consumer Staples (+2.58%) and Health Care (+2.55%) posting the largest gains. Materials (-0.51%), Telecomm Service (-0.07%) and Industrials (-0.01%) were the only sectors to post negative returns for the period. Earnings within the information technology sector exceeded analysts' estimates, pushing tech stocks higher to the point where they had the largest impact on the monthly S&P 500 return. The largest contributors were Cisco Systems (+10.41%), Intel Corp (+9.53%) and Hewlett Packard (+7.21%). Within Consumer Staples, Procter & Gamble (+5.58%) and Altria Group (+4.42%) contributed the most. Performing well within the Health Care area were Wellpoint Inc (+7.28%) and Pfizer (+6.90%). Given the concerns in the sub-prime space, financials detracted from performance the most during the month. Within financials, Countrywide Financial (-29.14%) and Lehman Brothers (-11.33%) were among some of the most notable.

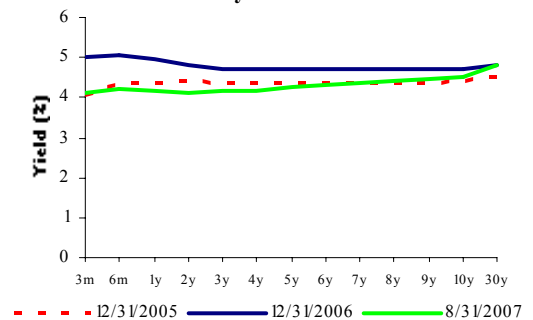
**U.S. FIXED INCOME MARKETS**

- Interest rates declined and the yield curve steepened on investor risk aversion and flight to quality flows into Treasuries. Economic and earnings data took a back seat to deteriorating market technicals, which led to significant market illiquidity, a widening of spreads and howls from some market participants that the Fed must cut rates. While the Fed didn't cut the target rate in between meetings as some had hoped, it did cut the Discount Rate by 50 bps to 5.75%, encouraged banks to borrow from the discount window, and injected liquidity into the market through open market operations. Interest rates on the 3-month maturity declined by 84 bps as investors recoiled from counterparty credit risk, particularly in the asset backed commercial paper market, and flocked to the safety of Treasury Bills. Interest rates declined farther out the curve as well with the 2-, 5-, 10- and 30-year Treasuries declining by 39, 32, 21 and 8 bps, respectively. The yield curve steepened by 76 bps to a slope of 71 bps, as measured by the 3-month and 30-year Treasuries. Swap spreads widened, particularly on short maturities. At month end, swap spreads on the 2-, 5- and 10-year maturities were 74 bps, 69 bps and 67 bps, respectively.
- The Lehman Aggregate Index returned 1.23% for the month as interest rates declined and volatility and risk aversion dominated market activity. All spread sectors performed poorly in relation to Treasuries. U.S. Credit returned 0.92%, underperforming comparable duration Treasuries by 77 bps. Credit spreads widened as investors looked to reduce risk. The few new issues that came to market were priced with much higher yields. Finance companies, insurers and housing related issues continued to experience price pressure. Within quality segments, AA rated issues returned 0.95% (-69 bps excess versus like duration Treasuries) while A rated issues were the worst relative performers returning 0.64% (-107 bps excess). BBB rated issues returned 1.06% (-68 bps). The U.S. Government/Credit Index returned 1.28% (-29 bps excess).
- Securitized sectors returned 1.16% or 32 bps less than comparable duration Treasuries as swap spreads widened and volatility increased. The hardest hit sector in the securitized market was Asset Backed Securities (ABS) which returned -0.36% (-166 bps excess) as investors sought to reduce risk. Not surprisingly, the home equity ABS segment was the worst relative performer, returning -1.61% (-299 bps excess) as difficulties in the subprime mortgage market continued unabated. Mortgage Backed Securities (MBS) returned 1.18% (-26 bps) as ample supply, an increase in volatility, risk reduction trades and widening of swap spreads weighed on the segment. Commercial Mortgage Backed Securities (CMBS) returned 1.29% (or -49 bps excess).
- The Merrill Lynch High Yield Master II Index returned 1.12% as cash levels began to build and investors sought out relative bargains. Higher quality issues outperformed lower quality. The BB and B segments returned 1.26% and 1.25%, respectively, while CCC issues returned 0.54%. Industry sectors which performed poorly included Brokerage (-7.15%), Banks/Thriffs (-6.97%), Financials (-5.85%), Real Estate Development (-3.25%) and Building & Construction (-2.88%). At month end, the yield on the index increased 5 bps to 9.02% while the option adjusted spread increased to 455 bps.
- The Lehman Brothers Municipal Bond Index returned -0.43% as municipal bond yields increased on hedge fund selling and flight to quality flows. Longer duration issues performed particularly poorly. The Revenue Bond segment returned -1.21% followed by Insured Bonds (-0.53%), General Obligation Bonds (-0.08%) and Pre-refunded Bonds (+0.59%).
- U.S. TIPS returned 0.87% underperforming Treasuries by 70 bps on flight to quality flows which benefit nominals. The breakeven spread on the 10-year maturity declined by 14 bps to 2.19%. The breakeven spread (difference between the nominal Treasury yield and TIPS real yield) is a gauge of the market's expectation for future inflation.

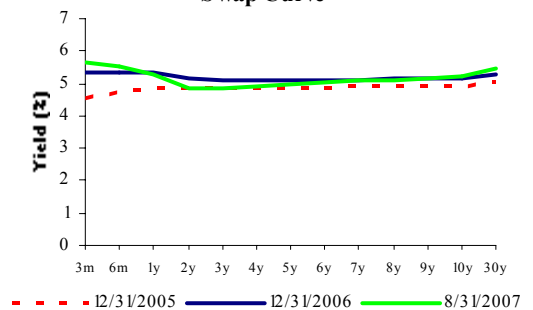
**U.S. Fixed Income Returns (%)**

	1 Mo.	3 Mos.	12 Mos.
LB Aggregate	1.23	1.77	5.26
LB US Government	1.51	2.92	5.90
LB US Credit	0.92	0.79	4.56
LB Mortgage Backed	1.18	1.43	5.31
LB Asset Backed	-0.36	0.36	3.68
ML US HY Master II	1.12	-3.71	6.57

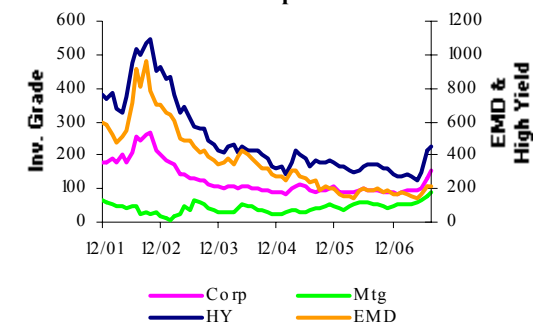
**Treasury Yield Curve**



**Swap Curve**



**Sector Spreads**



Source: Citigroup

**NON-U.S. ECONOMIC BACKGROUND**

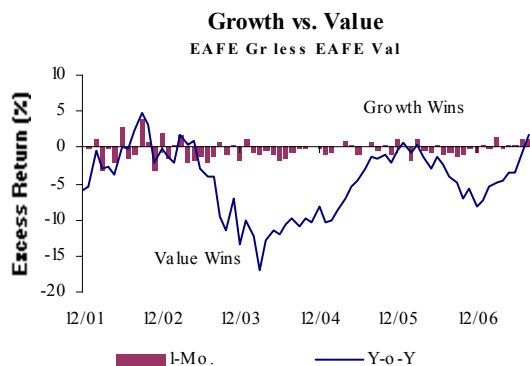
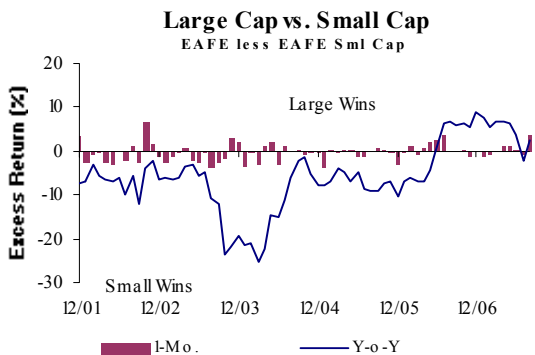
August marked another month of volatility as fallout from the U.S. subprime mortgage debacle continued to take a toll on global markets. To arrest an accelerating downward spiral, the U.S. Federal Reserve reduced its discount rate by 50 basis points to 5.75% and central banks in the U.K, Japan, and the ECB all made additional injections of liquidity into the financial system. In the eurozone, GDP came in at a slower-than-expected 0.3% for the second quarter which, together with global financial market turmoil, decreased the probability for a rise in the ECB's main interest rate in September. Japan left its key interest rate unchanged at 0.5% – the lowest in the industrial world – amid weak economic data and political uncertainties. Though emerging markets remain strong in terms of underlying fundamentals, fears of the impact of a slowdown in global growth led to increased volatility in those markets. China continued to rise despite further tightening measures to address consumer price inflation that rose by a decade-high 5.62% year to date through July.

**MSCI Non-U.S. Equity Returns (\$)**

	1 Mo.	3 Mos.	12 Mos.
EAFE	-1.56	-2.89	18.71
AC World Free Ex-US	-1.54	-0.98	23.00
Japan	-2.94	-3.39	2.94
Pacific Ex-Japan	-1.77	0.88	34.89
United Kingdom	-0.84	-2.07	17.56
Europe Ex-UK	-1.23	-3.79	25.03

**NON-U.S. EQUITY MARKETS**

- Non-U.S. equity markets continued to lose ground in August with the MSCI EAFE Index generating returns of -1.56% in U.S. dollar terms and -1.45% on a local currency basis. Developed market returns ranged from lows of -5.53% in Portugal and -4.56% in Sweden to highs of 5.86% in Finland and 0.48% in Hong Kong. In currencies, the yen appreciated versus the dollar and most major currencies during the month; the dollar advanced against the euro.
- The largest capitalization stocks performed best during the month with those in the highest quintile of the EAFE Index by size (greater than \$108 billion) declining 0.41%; stocks in the lowest quintile (less than \$11 billion) declined 2.00%. The MSCI Small Cap Index returned -5.28% for the month.
- Growth stocks extended their year-to-date lead over value stocks with the MSCI EAFE Growth and Value indices generating monthly returns of -0.98% and -2.15%, respectively.
- Among sectors, Financials (-3.48%) fared the poorest followed closely by Energy (-3.08%), Industrials (-3.07%), and Consumer Discretionary (-3.01%). Four of the 10 sectors posted positive returns led by Telecomm Services (+4.63%).
- The European region modestly outperformed the broader Index with a U.S. dollar return of -1.10% (-0.53% local). Germany eked out a positive return of 0.17% (+0.58% local) as strong performance among Utilities and Telecomm holdings offset poor performance in the Financials sector, notably Deutsche Bank (-10.55%). Subprime concerns also took their toll on the U.K. (-0.84% USD; -1.10% local), which represents one third of the regional Index. Barclays (-11.30%) and HSBC (-1.64%) made large negative contributions to results, as did BP (-3.27%) in the Energy sector. The story was similar in France (-1.85% USD; -1.45% local) where BNP Paribas (-5.66%), Societe General (-7.50%), and Total (-5.59%) led the market down. Finland led the region due to Nokia (+13.70%).
- The Pacific region lagged the broader Index, returning -2.59% in U.S. dollar terms and -3.44% on a local currency basis. Japan declined 2.94% (-5.51% local) as the strength of the yen versus the dollar weighed heavily on the exporters, notably Toyota (-3.56%) and Honda Motor (-8.75%), and compounded by weakness in the Financials sector. Hong Kong, which rose 0.48% (+0.10% local), was the only country in the region with a positive return buoyed by China's decision to allow direct investment in Hong Kong-listed shares. New Zealand fell 12.02% (-3.59% local) with the New Zealand currency dropping sharply against the U.S. dollar. In other areas, Australia returned -1.88% (+3.33% local) negatively impacted by weakness in the Aussie dollar as well as in Financials.



**MSCI EAFE Sector Returns (\$)**

	1 Mo.	3 Mos.	12 Mos.
Financial	-3.48	-8.19	9.88
Utilities	2.83	-2.98	27.55
Energy	-3.08	2.11	15.26
Industrials	-3.07	-1.10	33.68
Materials	-2.56	2.64	38.47
Healthcare	-0.18	-3.44	0.01
Consumer Staples	2.66	0.59	23.46
Consumer Discretionary	-3.01	-5.23	17.59
Information Tech	1.28	4.56	19.76
Telecom Svcs	4.63	0.96	36.19

**EMERGING EQUITY MARKETS**

- The emerging markets lost ground in August as the MSCI Emerging Markets Index generated returns of -2.09% and -0.92% in U.S. dollar and local terms, respectively. Most emerging markets currencies declined in value against the dollar during the month. In terms of sectors, Telecomm Services (+4.26%) was a clear stand out while Materials (+0.13%) was modestly positive. All other sectors were negative with Consumer Discretionary (-5.31%) and Financials (-4.21%) the hardest hit.
- The MSCI Latin America Index posted a return of -2.91% (+0.18% local). Mexico (-1.17%; -0.28% local) was among the best performing markets with strong performance of Telecomm holdings offsetting weaker results in the Consumer and Industrial areas. Brazil, the largest market in the region, declined 3.52% (+1.14% local) amid weakness in Industrials and Energy.
- Emerging Asia was the leader among regions with a return of -1.38% (-0.41%) for the MSCI Emerging Asia Index. The Chinese market continued to outperform (+7.21%) with Industrials and Telecomm Services (China Mobile, +16.73%) providing support. In other areas, Korea and Taiwan lost 4.45% and 2.63%, respectively. In India (-3.14%), Financials and Consumer Discretionary holdings were primary sources of underperformance.
- Emerging Europe and Middle East lagged the broader Index with a return of -4.03% (-4.11% local). Turkey (-7.19%) was one of the region's laggards amid broadbased weakness brought about by political concerns over the newly elected president's commitment to secularism. Russia (-3.75%) was led down by Gazprom (-4.77%) and Lukoil (-7.61%).

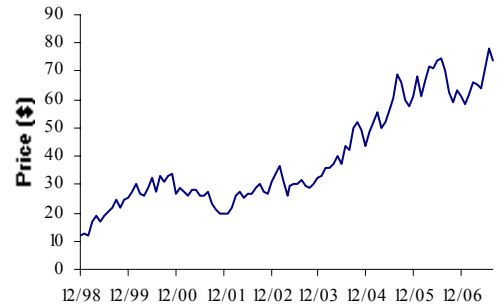
**MSCI Emerging Market Equity Returns (\$)**

	1 Mo.	3 Mos.	12 Mos.
EM	-2.09	8.00	44.04
Latin America	-2.91	1.18	54.04
Asia	-1.38	12.88	51.48
Europe & M. East	-4.03	6.58	19.89
South Africa	-0.46	-2.52	31.42

**NON-U.S. FIXED INCOME MARKETS**

- The Bank of England kept rates steady at 5.75% early in the month in order to gauge the impact of its tightening campaign. However, concern over subprime market exposure and counterparty credit dominated market activity later in the month caused strong flight to quality flows into government securities. As a result, rates declined by 19-26 bps in the short to intermediate part of the yield curve. The yield curve became more inverted carrying a slope of -137 bps as measured by the difference between the 3-month and 30-year maturities. Similarly, the European Central Bank (ECB) kept rates on hold at 4.00% at its policy meeting. Later in the month, risk aversion related to subprime exposures spilled into the broader European market creating strong safe haven buying of short government bonds. As a result, interest rates declined by 15-29 bps on the short end of the yield curve, causing it to steepen by 18 bps to a slope of 51 bps. The Bank of Japan (BOJ) held rates steady at 0.50% on weakness in economic growth measurements. As a result, rates declined by 11-21 bps across the curve during the month and the yield curve flattened by 11 bps to a slope of 169 bps as measured by the 3 month and 30 year maturity.
- The Citigroup World Government Bond Index (WGBI) had a strong return month on flight to quality flows into government bonds. The WGBI returned 1.62% for August on an unhedged basis. The dollar gained versus most major currencies, except for the yen, which benefit from the reversal of the long established carry trade. Particularly hard hit currencies were the higher yielding New Zealand and Australian Dollar, which up until a few months ago, were the beneficiary of such trades. The best performing bond markets for the month were Japan (3.83%) and Canada (1.94%) while the worst performers were New Zealand (-5.77%) and Australia (-4.03%).
- The J.P. Morgan EMBI+ Index returned 1.57% for August. Emerging country debt performed very well in the face of global risk aversion. The only outlier was Venezuela, which returned -4.35% on unfavorable political developments in that country. The largest countries in the index including Brazil (21%), Russia (16%), Mexico (14%) and Turkey (12%) had positive returns of about 1.5% to 3.0% for the month.

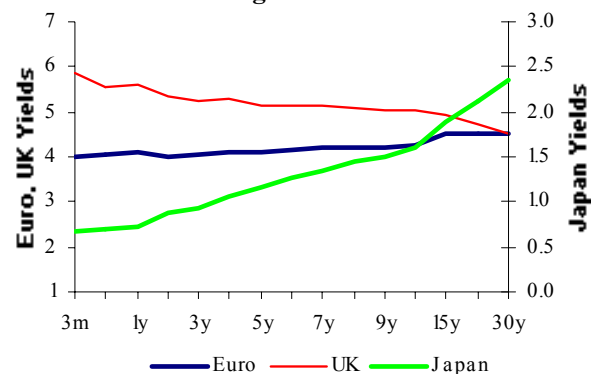
**Crude Oil**



**Global Fixed Income Returns (unhedged, \$)**

	1 Mo.	3 Mos.	12 Mos.
WGBI	1.62	4.01	5.77
United States	1.57	3.19	6.01
Europe	0.50	3.28	7.36
Japan	3.83	6.29	2.82
United Kingdom	0.82	4.93	6.80
World BIG Ex-US	1.29	3.81	6.13
WGBI Non-U.S.	1.64	4.23	5.74
Agencies Ex-US	0.58	3.00	7.28
Collateralized Ex-US	0.48	2.72	7.57
Corporates Ex-US	0.06	2.20	7.22
EMBI+	1.57	-1.58	5.84

**Foreign Yield Curves**



**STATISTICAL SUMMARY**  
As of August 31, 2007

**EQUITY MARKETS**

<u>US Markets</u>	<u>Total Return</u>			<u>S&amp;P 500 Sectors</u>	<u>Total Return</u>		
	<u>Month</u>	<u>3 Mos</u>	<u>YTD</u>		<u>Month</u>	<u>3 Mos</u>	<u>YTD</u>
S&P 500	1.50	-3.28	5.20	Financial	1.54	-10.27	-7.12
S&P 500/CG Growth	1.66	-1.84	5.88	Utilities	2.29	-6.53	7.17
S&P 500/CG Value	1.35	-4.64	4.54	Energy	0.84	3.39	19.11
S&P 400	0.92	-5.53	8.14	Industrials	-0.01	1.13	12.10
Russell 1000	1.36	-3.65	5.28	Materials	-0.51	-3.32	13.53
Russell 1000 Growth	1.59	-1.47	8.15	Healthcare	2.55	-5.36	4.09
Russell 1000 Value	1.12	-5.81	2.45	Consumer Staples	2.58	-1.60	5.20
Russell 2000	2.27	-6.12	1.43	Consumer Discretionary	0.38	-7.03	-2.67
Russell 2000 Growth	2.51	-3.36	6.25	Information Technology	2.88	3.09	11.98
Russell 2000 Value	2.00	-8.85	-3.13	Telecommunication Svcs	-0.07	-4.84	12.83
NASDAQ Composite	2.07	-0.10	8.06				

Sources: Standard & Poor's, Frank Russell Company, Bloomberg, Vestek

<u>Non-US Markets</u>	<u>Total Return</u>			<u>MSCI EAFE Sectors</u>	<u>Total Return</u>		
	<u>Month</u>	<u>3 Mos</u>	<u>YTD</u>		<u>Month</u>	<u>3 Mos</u>	<u>YTD</u>
EAFE	-1.56	-2.89	7.40	Financial	-3.48	-8.19	-0.20
EAFE Growth	-0.98	-1.54	9.94	Utilities	2.83	-2.98	8.38
EAFE Value	-2.15	-4.25	4.91	Energy	-3.08	2.11	10.54
AC World Ex-US	-1.54	-0.98	10.53	Industrials	-3.07	-1.10	17.09
Japan	-2.94	-3.39	-0.34	Materials	-2.56	2.64	23.36
Pacific Ex-Japan	-1.77	0.88	16.04	Healthcare	-0.18	-3.44	-0.23
United Kingdom	-0.84	-2.07	7.14	Consumer Staples	2.66	0.59	13.56
Europe Ex-UK	-1.23	-3.79	9.78	Consumer Discretionary	-3.01	-5.23	4.24
Emerging Markets	-2.09	8.00	21.43	Information Technology	1.28	4.56	10.76
				Telecommunication Svcs	4.63	0.96	11.68

Sources: MSCI, Bloomberg, Vestek

**FIXED INCOME MARKETS**

<u>Key Rates</u>	<u>U. S. Yields</u>			<u>Euro</u>	<u>Japan</u>	<u>U.K.</u>
	<u>6/30/07</u>	<u>7/31/07</u>	<u>8/31/07</u>	<u>8/31/07</u>	<u>8/31/07</u>	<u>8/31/07</u>
Overnight	5.25	5.25	5.25	4.00	0.50	5.75
3- Month	4.81	4.95	4.12	3.99	0.67	5.87
2- Year	4.87	4.53	4.14	4.01	0.88	5.36
5- Year	4.93	4.57	4.25	4.12	1.17	5.16
10-Year	5.03	4.74	4.53	4.24	1.61	5.04

Sources: Merrill Lynch, Bloomberg

<u>Sectors</u>	<u>Total Return %</u>			<u>Mod.Adj. Duration</u>	<u>Weighting Basis</u>	
	<u>Month</u>	<u>3 Mos.</u>	<u>YTD</u>		<u>Duration</u>	<u>MktVal</u>
LB Universal	1.19	1.27	2.81	4.66	--	--
LB Aggregate	1.23	1.77	3.07	4.62	100.0%	100.0%
LB US Government	1.51	2.92	4.09	4.56	33.1%	33.5%
LB US Credit	0.92	0.79	2.04	6.11	29.0%	21.9%
LB Mortgage Backed	1.18	1.43	2.94	3.79	31.2%	38.1%
LB Municipal Bond	-0.43	-0.18	0.48	7.26	--	--
LB US TIPS	0.87	3.00	4.95	6.08	--	--
ML US HY Master II	1.12	-3.71	0.93	4.66	--	--

Sources: Lehman Brothers, Citigroup, Bloomberg

<u>Markets/Regions</u>	<u>U.S. Dollars %</u>			<u>Local Currency %</u>		
	<u>Month</u>	<u>3 Mos.</u>	<u>YTD</u>	<u>Month</u>	<u>3 Mos.</u>	<u>YTD</u>
United States	1.57	3.19	4.28	---	---	---
WGBI	1.62	4.01	4.19	1.13	1.93	1.60
WGBI Non-US	1.64	4.23	4.19	1.02	1.60	0.91
EMBI+	1.18	-1.96	0.85	---	---	---
EMLI+ (local currency index)	-0.37	1.40	6.83	0.52	1.59	4.44
Euro Zone	0.50	3.28	3.94	0.99	1.88	0.66
United Kingdom	0.82	4.93	3.71	1.57	2.90	0.63
Japan	3.83	6.29	4.14	1.09	1.14	1.30

Sources: Citigroup, JP Morgan, Bloomberg