

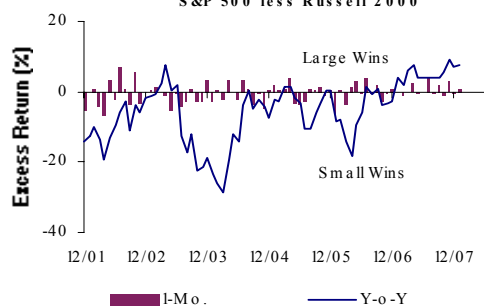
**U.S. ECONOMIC BACKGROUND**

Pronounced weakness swept through the economy in January, as signals such as the ISM Manufacturing Index (47.7) and annualized GDP growth (0.6%) confirmed an economic slowdown. The housing market continued to hit historical lows as new and existing home sales continued to fall. The Fed responded aggressively with the most rapid rate cut in two decades, cutting rates 125 basis points over an eight-day period to 3.0%. The Fed has now cut rates by 225 basis points since the acceleration of the subprime crisis last August. Housing-related concerns and credit-related issues weighed on consumer sentiment, fueling a pullback as seen in January's negative retail numbers. Personal Income continues to wane as consumers shoulder more debt, paring back discretionary spending. Both the Producer Price Index and CPI (ex food and energy) rose 0.20% for the month while wages failed to keep pace, making it difficult for the average consumer. Unemployment figures showed signs of softening, as this month's figure ticked up to 5.0% in response to economic weakness. On the positive side, exports were up 19% and business investment grew 7.4% as the U.S. economy dodged a major contraction.

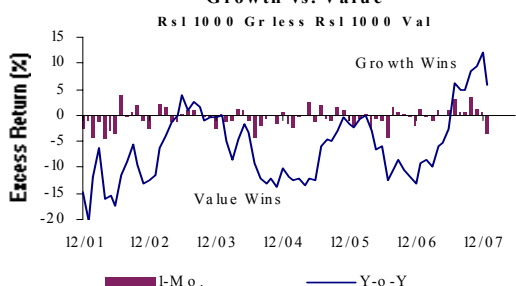
**U.S. Equity Returns (%)**

	1 Mo.	3 Mos.	12 Mos.
S&P 500	-6.00	-10.55	-2.31
S&P 400	-6.16	-11.06	-2.23
Russell 1000 Growth	-7.80	-11.51	0.51
Russell 1000 Value	-4.01	-9.59	-5.40
Russell 2000	-6.82	-13.56	-9.77
Russell 2000 Growth	-9.17	-14.91	-4.55
Russell 2000 Value	-4.10	-12.04	-14.75
NASDAQ Composite	-9.86	-16.25	-2.25

**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	-0.35	-13.06	-19.63
Utilities	-6.84	-6.07	11.53
Energy	-10.92	-7.98	21.97
Industrials	-4.42	-8.34	5.68
Materials	-3.94	-7.64	12.56
Healthcare	-4.82	-6.67	-1.06
Consumer Staples	-5.20	-3.30	6.12
Consumer Discretionary	-1.28	-11.19	-16.61
Information Tech	-12.49	-18.26	0.20
Telecom Svcs	-9.10	-13.03	-2.06

**EQUITY MARKETS**

- January's challenging market provided a rocky start to the year, as all major market indices finished in the red. The DJIA had its worst start to the year since 2000, finishing -4.5% at 12,650. The S&P 500 fared worse, ending the month -6.0% to 1378, while the tech-heavy NASDAQ suffered the most (-9.9%), ending the month at 2389. Extreme levels of volatility exacerbated reactions to Fed rate cuts, as pessimism in the markets overshadowed the positive effects the Fed was hoping for. In response to gloomy economic data, investors reacted wildly, as the Fed's attempt to quell recession fears was muted by volatility and financial write downs. All hopes of the January effect were lost mid month, as the major market indices showed no signs of coming out of the red. Oil prices retreated to \$91.75 (-4.4%) while gold surged 10.5% to \$922 per ounce. In late January, global markets fell in response to U.S economic fears, creating the impression that the U.S. economic slowdown had global reach.
- For the month of January, value stocks outperformed growth stocks across the market cap spectrum. The Russell 3000 Value Index was down 4.0%, versus a loss of 7.9% for its growth counterpart. The largest disparity between styles was among small caps where the Russell 2000 Value outperformed the growth index by roughly 507 basis points (-4.1% vs. -9.2%). The competition was tightest amongst mid caps where mid value outperformed mid growth by 339 basis points (-4.6% vs. -7.9%) followed by large value besting large growth by roughly 379 basis points (-4.0% vs. -7.8%).
- According to the Russell indices, mega-cap stocks lost less than their smaller brethren in January. The Russell Top 200 Index, composed of companies with an average weighted market capitalization of over \$130 billion, was down 5.8% for the month. In contrast, the large cap Russell 1000 Index lost 6.0%; the Russell Midcap Index, 6.5%; and the small cap Russell 2000 Index, 6.8%.
- All ten GICS sectors posted negative returns during the month with Information Technology (-12.5%) and Energy (-10.9%) suffering the largest declines. Conversely, the worst performing sector last year, Financials, was the best performer in January, losing about 0.4%. The largest contributors within Financials were Washington Mutual (+47.6%), Wells Fargo (+12.7%), and JP Morgan (+9.9%). Information Technology was the largest detractor to the S&P's monthly performance as 58 of the 71 related stocks posted negative returns. Within Information Technology, Apple (-31.7%), Intel (-20.5%), and Google (-18.4%) were among the largest detractors for month-end performance, while a few household names within Information Technology, Symantec (+11.1%) and Qualcomm (+7.8%), had positive returns. Within Energy, Schlumberger (-23.3%), Chevron (-9.5%), and Exxon Mobil (-7.8%) were the largest decliners within the sector as concerns about a global slowdown added pressure on the industry. In Health Care, Merck (-20.4%) and Schering Plough (-26.3%) were the largest negative contributors.

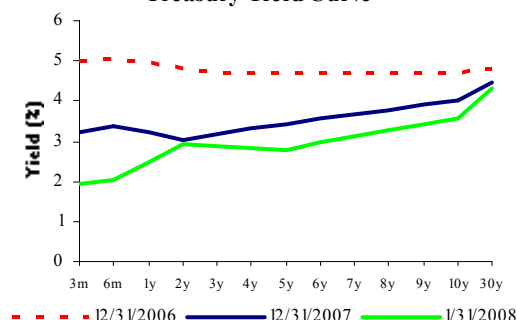
**U.S. FIXED INCOME MARKETS**

- As heightened fears of a recession gripped the market, the Federal Reserve slashed the target federal funds rate by 125 basis points over an 8-day period. This helped to stabilize broader markets and quell the massive global sell-off. As investors reduced risk exposures and the Fed cut rates, short term Treasury yields tumbled and the yield curve steepened. During January, the yield on the 2-, 5-, 10-, and 30-year Treasuries fell by 96, 68, 43, and 13 bps, respectively. However, the biggest gains came in the 3-month Treasury, which gave up 130 bps points in yield to end the month at 1.95%. As a result, the yield curve steepened by 117 bps to a slope of 237 bps, as measured by the 3-month and 30-year Treasuries. Swap spreads narrowed and at month's end, the 2-, 5-, and 10-year spreads were at 69, 71, and 61 bps, respectively.
- The Lehman Brothers Aggregate Index returned a strong 1.68% for January on interest rate declines. As investors looked to avoid risk, the U.S. Treasury sector led the way with a 2.54% return for the month followed by the Agency sector, which returned 2.10% (or 22 bps less than comparable duration Treasuries). All fixed income sectors underperformed Treasuries. Meanwhile, weakness in economic measurements and concern over corporate earnings weighed heavily on the corporate credit market. U.S. Credit returned 1.22% (-151 bps excess versus like duration Treasuries). As one would expect, higher quality credits performed best. Specifically, AAA and AA rated issues returned 2.25% (-39 bps excess) and 1.99% (-74 bps excess), respectively. A and BBB rated issues returned 1.17% (-155 bps excess) and 0.39% (-238 bps excess), respectively. The LB Government/Credit Index returned 1.90% (-67 bps excess).
- The securitized segments had mixed results for the month. Mortgage Backed Securities were the best relative performers of all spread sectors returning 1.85% (-14 bps excess versus comparable duration Treasuries). Despite an increase in volatility and risk of prepayments, agency mortgages performed well as investors sought safety from the credit markets and non-agency mortgage sectors. The non-agency and credit mortgage segments continued to see price pressure. CMBS was the worst performing spread sector returning -1.40% (-440 bps excess) while ABS managed to eke out a small positive return of 0.31% (-208 bps excess). The ABS sector continues to be weighed down by the Home Equity ABS segment (backed by subprime mortgage loans). The Home Equity ABS sub-sector returned -3.29% (-583 bps excess) for January.
- The Merrill Lynch High Yield Master II Index returned -1.36% for the month. The decline can be attributed to the steady flow of negative economic news, the projected increasing of default rates, growing likelihood of a recession, and general investor aversion to risk. Higher quality issues bested lower quality. The BB, B, and CCC rated segments returned 0.13%, -1.35%, and -4.25%, respectively. Option Adjusted Spreads (OAS) on the high yield index widened to 748 bps on a drop in Treasury yields as the Fed made their emergency rate cut on January 23<sup>rd</sup>. Since then, spreads have narrowed and closed the month at 695 bps. At month's end the yield on the Index was 10.03%.
- The Lehman Brothers Municipal Bond Index returned 1.26% as interest rates declined and the yield curve steepened. Intermediate and short bonds performed best while long duration bonds lagged significantly on forced selling by leveraged funds and risk aversion associated with credit downgrades of bond insurers. As one would expect, the pre-refunded bond performed best (+2.27%) followed by General Obligation (+1.66%) and Revenue Bonds (+1.39%). Insured bonds lagged significantly on bond insurer woes returning 0.68%.
- U.S. TIPS returned 3.96% on big declines in real yields. Breakeven rates on the 10-year maturity were unchanged from last month (2.32%) while real yields declined by 43 bps to 1.28%. The breakeven rate (the difference between real and nominal yields) is the market's expectation for future inflation.

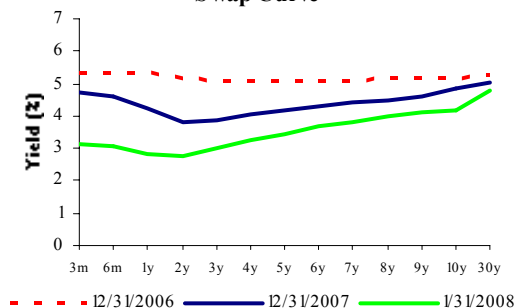
**U.S. Fixed Income Returns (%)**

	1 Mo.	3 Mos.	12 Mos.
LB Aggregate	1.68	3.80	8.81
LB US Government	2.39	5.44	11.40
LB US Credit	1.22	2.23	6.41
LB Mortgage Backed	1.85	3.91	8.81
LB Asset Backed	0.31	-0.96	2.49
ML US HY Master II	-1.36	-3.09	-0.27

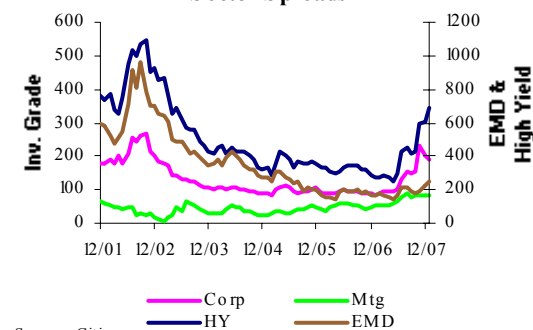
**Treasury Yield Curve**



**Swap Curve**



**Sector Spreads**



Source: Citigroup

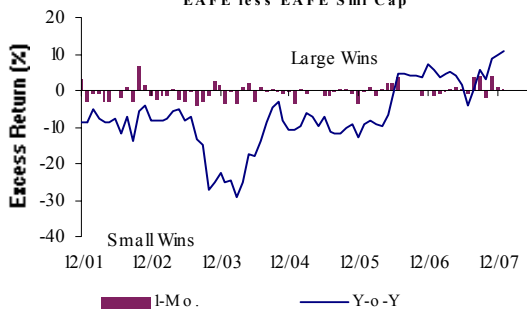
**NON-U.S. ECONOMIC BACKGROUND**

Global equity markets fell sharply in January against a backdrop of escalating fears of a U.S. recession and the expanding shakeout from the subprime mortgage crisis. The U.S. Federal Reserve stepped in to ease the panic with an unscheduled 75 basis point cut in the benchmark rate on January 22 followed by an additional 50 bps reduction at month end. The U.K. and European Central Bank hesitated to follow suit amid continued inflation concerns, and left their rates unchanged. The World Bank warned of subdued growth in 2008 with a world forecast of 3.3% (2.2% for high income countries and a still strong 7.1% for developing countries). Japan remained weak with expected growth in the low 1% range and a political system handcuffed to push through necessary economic reforms. Emerging markets also suffered sizable losses, though the debate continues as to whether strengthening domestic demand and healthier macroeconomic fundamentals will mute the impact of a widespread global slowdown on these markets. In commodities, gold surpassed \$925 a troy ounce and oil retreated to the \$90/barrel level at month's close.

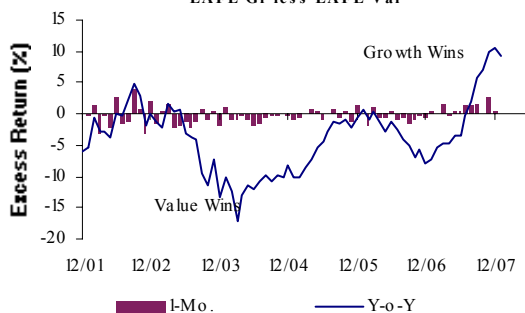
**MSCI Non-U.S. Equity Returns (\$)**

	1 Mo.	3 Mos.	12 Mos.
EAFE	-9.24	-14.20	0.22
AC World Free Ex-US	-9.68	-14.98	5.40
Japan	-4.57	-10.03	-9.38
Pacific Ex-Japan	-10.15	-18.02	16.39
United Kingdom	-8.93	-16.15	-1.16
Europe Ex-UK	-11.13	-14.16	2.66

**Large Cap vs. Small Cap**  
EAFE less EAFE Sml Cap



**Growth vs. Value**  
EAFE Gr less EAFE Val



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

	1 Mo.	3 Mos.	12 Mos.
Financial	-10.06	-18.45	-12.35
Utilities	-7.20	-4.77	14.93
Energy	-13.49	-15.03	10.72
Industrials	-10.60	-17.27	1.72
Materials	-7.69	-12.28	21.06
Healthcare	-4.13	-4.98	-3.36
Consumer Staples	-8.47	-8.20	13.06
Consumer Discretionary	-9.54	-16.76	-5.93
Information Tech	-9.97	-15.97	-2.07
Telecom Svcs	-6.88	-8.82	17.88

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

- In January, the developed non-U.S. equity markets were hit hard with every country in the MSCI EAFE Index experiencing the downturn. For the month, the EAFE Index saw negative performance of -9.2% in U.S. dollars and -11.0% in local currencies. In the currency markets, there was mixed volatility among the major denominations. The euro continued its gains against the U.S. dollar, closing the month higher at 1.4861. The Pound sterling fluctuated heavily before closing at 1.9873 for a flat month versus the U.S. dollar, while the Japanese yen continued its steady appreciation, closing at 106.45. The Canadian dollar also continued to maintain parity with the U.S. dollar, closing at 1.0029.
- Contrary to last quarter, smaller capitalization stocks performed better than larger capitalization stocks. The bottom three capitalization size quintiles of the EAFE Index returned -8.3%, -8.4%, and -7.7%, respectively, while the top two quintiles struggled with returns of -9.8% and -11.9%.
- Growth and value stocks performed similarly in January, with performance of -9.2% and -9.3%, respectively. This marks the first time in nine months that growth stocks have failed to markedly outperform value stocks. While this is unlikely a sign that value stocks are making a comeback, it does highlight the indifference of investors regarding which stocks to sell off.
- No sector was immune to the global sell-off in January. However, the same sectors that proved resilient in the fourth quarter continued to fare better, as Health Care (-4.1%), Telecomm (-6.9%), and Utilities (-7.2%) did better than Financials (-10.1%), Information Technology (-10.0%), and Industrials (-10.6%). The Energy sector was the largest detractor (-13.5%) due to the drop in oil and energy prices.
- The European region saw a double-digit decline in January with a -10.4% return in U.S. dollars and -11.4% in local currencies. Europe's Energy sector was brought down by poor performance from BP (-13.6%), Total (-13.2%), and Royal Dutch Shell (-15.3%). Financials also continued to suffer with HSBC (-10.9%) and Allianz (-18.2%) being the largest detractors, however, some financial companies such as Unibail-Rodamco (+8.2%) and Swiss Re (+4.3%) are holding up well despite the overall credit market crisis. Health Care continues to be a strong sector led by Roche Holdings (+4.5%) and Elan Corp (+16.0%).
- The situation was much brighter in the Pacific region, which only saw a January pull back of -6.5% in U.S. dollars and -9.8% in local currencies. The story in the Far East continues to be the currency appreciation versus the U.S. dollar, hence the disparity between the U.S. dollar and local currency returns. Japan was the best performing country at -4.6% (-9.2% local) for the month. Defensive sectors like Health Care (-0.1%) and Utilities (+0.9%) continue to shine with Takeda Pharmaceuticals (+3.2%), CLP Holdings (+15.9%), and Kansai Electric Power (+7.3%) leading the way. Cyclical sectors such as Energy (-12.4%) and Information Technology (-11.2%) took a tumble in January.

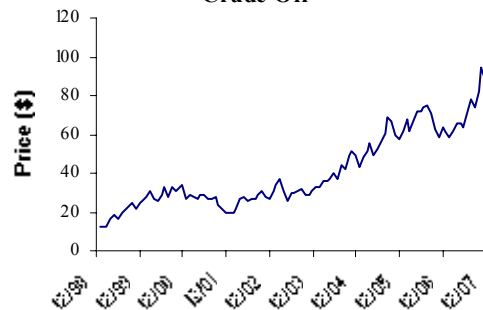
**EMERGING EQUITY MARKETS**

- The emerging markets experienced the sharpest drop of any region with a -12.4% loss in U.S. dollars and -12.6% in local currencies. Double-digit pullbacks were seen across most sectors with only Consumer Staples (-6.1%), Health Care (-6.9%) and Telecomm (-9.3%) failing to fall below the -10% threshold. Energy companies such as Gazprom (-15.2%), Lukoil (-20.1%), and PetroChina (-22.9%) all saw heavy declines in light of falling oil prices.
- Latin American countries as a whole only fell -6.2% (-7.4% local) in January. Mexico was the best performing country (-1.3%) largely due to its Telecomm and Consumer Staples companies. Peru also fared well (-4.5%) despite its concentration in Materials stocks due to a strong return by Minas Buenaventura (+17.8%).
- Emerging countries in Asia were extremely volatile with returns ranging from -0.9% (Malaysia) to -21.6% (China). As a whole, Emerging Asia declined -14.3% (-14.4% local) in January. Countries that rely heavily on exports such as China, India (-14.3%), Korea (-13.6%), and Taiwan (-10.5%) were negatively affected by the continued possibility of a U.S. recession and a global economic slowdown.
- Eastern Europe and the Middle Eastern emerging countries also had a rough January, posting a loss of -14.6% (-15.5% local). Turkey (-23.6%) and Russia (-16.1%) were the largest laggards while Jordan (+1.9%) and Israel (-4.0%) fared much better. Turkey was hurt by its concentration in Financials and Consumer Discretionary stocks and Russia was negatively impacted by its Energy stocks Gazprom and Lukoil. Jordan was buoyed by strong returns from Jordan Electric Power (+30.6%) and Capital Bank of Jordan (+15.4%).

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

	1 Mo.	3 Mos.	12 Mos.
EM	-12.45	-18.36	23.66
Latin America	-6.21	-10.37	38.91
Asia	-14.28	-22.73	23.89
Europe & M. East	-14.62	-12.71	14.39
South Africa	-13.16	-22.86	2.29

**Crude Oil**



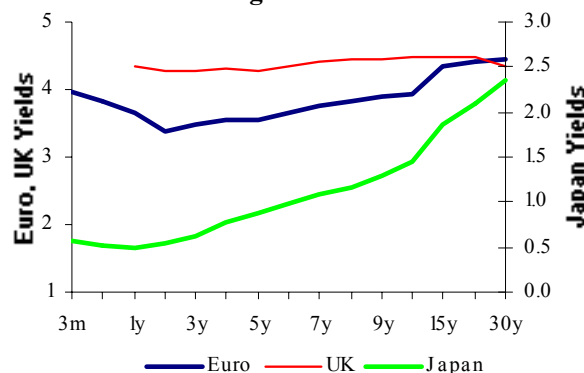
**NON-U.S. FIXED INCOME MARKETS**

- The Bank of England left the target rate unchanged as economic conditions continued to deteriorate. The BOE cited that inflation risks currently outweigh the likelihood of an economic downturn as the reason for keeping the target rate at 5.50%. The curve steepened as yields on the 2- and 5-year maturities declined by 7 and 15 bps, respectively, while yields on the 30-year increased 4 bps. In Europe, the ECB continued to be hawkish on inflation and held their target steady at 4.00% despite some signs of economic weakness. As a result, the yield on the 3-month increased by 8 bps while the 30-year yield declined by 16 bps. The yield curve flattened to a slope of 49 bps. The Bank of Japan also held their rate steady at 0.50%. Weakness in equity markets, flight to quality flows, and concern over the impact of U.S. weakness on exports caused the yield curve to steepen. Yields on the 3-month and 2-year maturities declined by 3- and 17-bps, respectively, while the 30-year JGB yield increased by 3 bps.
- The Citigroup World Government Bond Index (WGBI) had another very strong month, returning 3.71% in USD terms (unhedged). Continued fears of a global economic slowdown have contributed to the flight to quality as yields plummeted. Keeping with the global theme of risk aversion, the unwinding of carry trades and in seeking quality and safety, Switzerland and Japan were the top performing bond markets, returning 5.96% and 5.56%, respectively. The dollar weakened against most major currencies on U.S. slowing and the widening of rate differentials. The worst bond markets on an unhedged basis were Canada (-1.4%), U.K. (+0.72%) and Norway (+1.53%).
- The J.P. Morgan EMBI+ Index returned 0.68% for January as risk aversion and spread widening weighed on returns. Oil producer Venezuela produced the strongest returns (+2.92%) while Argentina (-3.24%) and Panama (-1.83%) were the laggards. The largest countries in the Index include Brazil (20%), Russia (17%), Mexico (13%), and Turkey (12%). The EMLI+ Index, which tracks returns in local currencies, posted 1.39% for the month on emerging currency strength versus the dollar. Latin America was the strongest region, returning 2.99% for January driven by Chile (+7.79%) and Colombia (+5.27%).

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

	1 Mo.	3 Mos.	12 Mos.
WGBI	3.71	6.04	16.64
United States	2.55	5.75	11.97
Europe	3.32	4.45	17.97
Japan	5.56	9.89	17.16
United Kingdom	0.72	-0.45	8.85
World BIG Ex-US	3.73	5.46	17.54
WGBI Non-U.S.	3.99	6.11	17.86
Agencies Ex-US	3.78	5.15	18.97
Collateralized Ex-US	3.37	4.46	18.04
Corporates Ex-US	2.45	2.22	14.28
EMBI+	0.68	0.80	7.65

**Foreign Yield Curves**



STATISTICAL SUMMARY

As of January 31, 2008

EQUITY MARKETS

US Markets	Total Return			S&P 500 Sectors	Total		
	Month	3 Mos	YTD		Month	3 Mos	YTD
S&P 500	-6.00	-10.55	-6.00	Financial	-0.35	-13.06	-0.35
S&P 500/CG Growth	-8.37	-11.43	-8.37	Utilities	-6.84	-6.07	-6.84
S&P 500/CG Value	-3.49	-9.62	-3.49	Energy	-10.92	-7.98	-10.92
S&P 400	-6.16	-11.06	-6.16	Industrials	-4.42	-8.34	-4.42
Russell 1000	-6.00	-10.59	-6.00	Materials	-3.94	-7.64	-3.94
Russell 1000 Growth	-7.80	-11.51	-7.80	Healthcare	-4.82	-6.67	-4.82
Russell 1000 Value	-4.01	-9.59	-4.01	Consumer Staples	-5.20	-3.30	-5.20
Russell 2000	-6.82	-13.56	-6.82	Consumer Discretionary	-1.28	-11.19	-1.28
Russell 2000 Growth	-9.17	-14.91	-9.17	Information Technology	-12.49	-18.26	-12.49
Russell 2000 Value	-4.10	-12.04	-4.10	Telecommunication Svcs	-9.10	-13.03	-9.10
NASDAQ Composite	-9.86	-16.25	-9.86				

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

Non-US Markets	Total Return			MSCI EAFE Sectors	Total		
	Month	3 Mos	YTD		Month	3 Mos	YTD
EAFE	-9.24	-14.20	-9.24	Financials	-10.06	-18.45	-10.06
EAFE Growth	-9.20	-12.96	-9.20	Utilities	-7.20	-4.77	-7.20
EAFE Value	-9.27	-15.51	-9.27	Energy	-13.49	-15.03	-13.49
AC World Free Ex-US	-9.68	-14.98	-9.68	Industrials	-10.60	-17.27	-10.60
Japan	-4.57	-10.03	-4.57	Materials	-7.69	-12.28	-7.69
Pacific Ex-Japan	-10.15	-18.02	-10.15	Healthcare	-4.13	-4.98	-4.13
United Kingdom	-8.93	-16.15	-8.93	Consumer Staples	-8.47	-8.20	-8.47
Europe Ex-UK	-11.13	-14.16	-11.13	Consumer	-9.54	-16.76	-9.54
Emerging Markets	-12.45	-18.36	-12.45	Information Technology	-9.97	-15.97	-9.97
				Telecommunication	-6.88	-8.82	-6.88

Sources: MSCI, Bloomberg, Vestek

FIXED INCOME MARKETS

Key Rates	U. S. Yields			Euro	Japan	U.K.
	11/30/2007	12/31/2007	1/31/2008			
Overnight	4.50	4.25	3.00	4.00	0.50	5.50
3- Month	3.16	3.25	1.95	3.95	0.56	5.50
2- Year	3.00	3.06	2.10	3.73	0.55	4.29
5- Year	3.39	3.44	2.76	3.55	0.89	4.26
10-Year	3.94	4.03	3.60	3.93	1.44	4.47

Sources: Merrill Lynch, Bloomberg

Sectors	Total Return %			Mod.Adj. Duration	Weighting Basis	
	Month	3 Mos.	YTD		Duration	MktVal
LB Universal	1.45	3.22	1.45	4.34	--	--
LB Aggregate	1.68	3.80	1.68	4.23	100.00%	100.00%
LB U.S. Government	2.39	5.44	2.39	4.74	35.90%	32.10%
LB U.S. Credit	1.22	2.23	1.22	6.22	33.70%	22.90%
LB Mortgage Backed	1.85	3.91	1.85	2.52	23.10%	38.70%
LB Municipal Bond	1.26	2.19	1.26	7.74	--	--
LB U.S. TIPS	3.96	7.92	3.96	6.75	--	--
ML US HY Master II	-1.36	-3.09	-1.36	4.69	--	--

Sources: Lehman Brothers, Salomon Smith Barney, Bloomberg

Markets/Regions	U.S. Dollars %			Local Currency %		
	Month	3-Months	YTD	Month	3-Months	YTD
United States	2.55	5.75	2.55	---	---	---
WGBI	3.71	6.04	3.71	1.74	3.04	1.74
WGBI Non-US	3.99	6.11	3.99	1.55	2.37	1.55
EMBI+	0.68	0.80	0.68	---	---	---
EMLI+ (local currency)	1.39	2.33	1.39	0.62	1.72	0.62
Euro Zone	3.68	5.18	3.68	2.39	2.78	2.39
United Kingdom	0.72	-0.45	0.72	0.85	4.02	0.85
Japan	5.56	9.89	5.56	0.47	1.35	0.47

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