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QUARTERLY INVESTMENT REVIEW

First Quarter 2010

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MARKETS OVERVIEW

First Quarter 2010

- The US equity market continued its strong performance in the first quarter of 2010, the fourth consecutive quarter with above-average returns. The broad US market gained about 6% in the quarter, with all asset classes delivering solid gains again.
- Performance in other developed markets around the world was mixed. European markets as a whole had negative returns for the quarter, with Spain, Greece and Portugal all suffering double-digit losses. On the other hand, developed markets in Asia-Pacific, led by Japan, which had an outstanding quarter, generally fared much better. The US dollar gained ground against most major currencies, especially the euro and the pound, which hurt the dollar-denominated returns of developed market equities.
- After being the top-performing asset class for the past four quarters, emerging markets cooled off in the first quarter, although returns there were still solidly positive. As in the case of developed markets, there was much dispersion in the performance of different emerging markets and asset classes. Most emerging markets experienced solidly positive returns in the first quarter, but some of the larger markets such as Brazil, China, and Taiwan had negative returns. The US dollar lost ground against the main emerging market currencies in the first quarter, which contributed to the dollar-denominated returns of emerging market equities.
- Value stocks outperformed growth stocks across all market capitalization segments in the US, while the opposite was true in other developed markets. In emerging markets, large cap value stocks trailed large cap growth stocks, while small cap value stocks outperformed small cap growth stocks. Along the market capitalization dimension, small caps outperformed large caps in the US, in other developed markets, and in emerging markets.
- Real estate securities were among the top performers in the first quarter in the US, but they had a flat performance in other developed markets.
- Fixed income securities had positive returns in the first quarter. Longer-term securities tended to have better performance than short-term ones.

Three Years as of March 31, 2010

- With the exception of emerging markets, equity markets around the world suffered significant losses in the three years that ended in March. Emerging markets, on the other hand, managed to deliver solidly positive returns during that period. In US dollar terms, the US equity market performed better than developed non-US equity markets. In the US, the value effect was sharply negative across all size categories. In developed non-US markets, the value effect was mixed: positive among small cap stocks and negative among large cap stocks. With regard to the size effect, small cap stocks underperformed large cap stocks in developed non-US markets, and was flat in the US. In emerging markets, the value and size effects were very strong in the three-year period that ended in March.
- The US dollar sharply depreciated against all major currencies except the British pound. The dollar's depreciation, which ranged from 1% against the euro to 26% against the yen in the three years ending in March, helped the dollar-denominated returns of developed market strategies. Indeed, the overall impact of currency fluctuations between the US dollar and developed country currencies was to increase the dollar-denominated returns of developed market equities by approximately 1.3% per year over the three-year period that ended in March. On the other hand, the US dollar had mixed performance against the main emerging markets' currencies, and the impact of currency fluctuations on the dollar-denominated returns of emerging markets strategies was minimal.
- Real estate securities in the US and in other developed markets finished the three-year period that ended in March as the worst-performing asset class.
- Over the three years ending in March, fixed income securities delivered annual returns that ranged from 3.4% to 7.1%, and were among the best-performing asset classes.

US STOCKS

- The US equity market continued its strong performance in the first quarter of 2010, the fourth consecutive quarter with above-average returns. The quarter was roughly characterized by three distinct phases. At the beginning of the year, prices rose steadily in a low-volatility environment. Then, from mid-January to early February, prices fell by more than 8% in a highly volatile environment. Finally, starting in late February and throughout March, US equity prices rose steadily again in a much less volatile environment, as the data indicated that the economic recovery was becoming stronger and more broad based.
- Despite the extraordinary market recovery that started in March 2009, at the end of the first quarter US equity prices still were about 25% below their previous peaks of the fall of 2007. In addition, although the recent data have provided solid indicators of an economic recovery, there is still much uncertainty among market participants about the depth, speed, and sustainability of that recovery. That uncertainty contributed to the higher-than-normal percentage of trading days with big market movements (defined as days during which the broad US market moved by more than 1% in absolute value) that we saw in the first quarter, especially in January and February.
- The strongest sectors in the quarter were consumer discretionary, financials and industrials, while the weakest sector was telecommunication services. Quarterly returns for the broad US market, as measured by the Russell 3000 Index, were 5.9%. Asset class returns ranged from 10.0% for small cap value stocks to 4.7% for large cap growth stocks.
- Value stocks outperformed relative to their growth counterparts in the first quarter. Using the Russell indices as proxies, small cap value stocks (Russell 2000 Value) outperformed small cap growth stocks (Russell 2000 Growth) by 2.4% in the quarter, while large cap value stocks (Russell 1000 Value) outperformed large cap growth stocks (Russell 1000 Growth) by 2.1% in the quarter. Over the three-year period through March 31, however, the Russell 2000 Value Index underperformed the Russell 2000 Growth Index by 3.3% annualized, while the Russell 1000 Value Index underperformed the Russell 1000 Growth Index by 6.6% annualized.

As of March 31, 2010

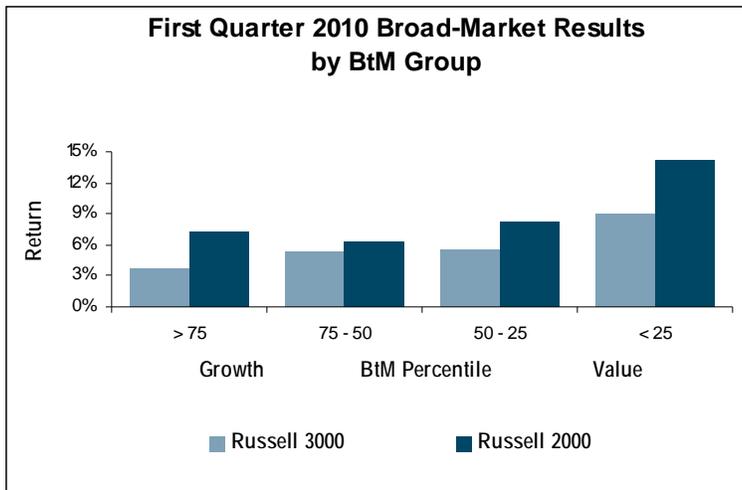
Return (%)

Index Returns	First Quarter	One Year	Three Years Annualized
Russell 3000	5.95	52.44	(3.99)
Russell 2500	9.20	65.69	(3.16)
Russell 2000	8.85	62.76	(3.99)
Russell 2000 Value	10.03	65.06	(5.71)
Russell 2000 Growth	7.61	60.31	(2.42)
Russell 1000	5.70	51.57	(3.98)
Russell 1000 Value	6.79	53.56	(7.33)
Russell 1000 Growth	4.65	49.75	(0.78)
S&P 500	5.39	49.77	(4.17)

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US STOCKS

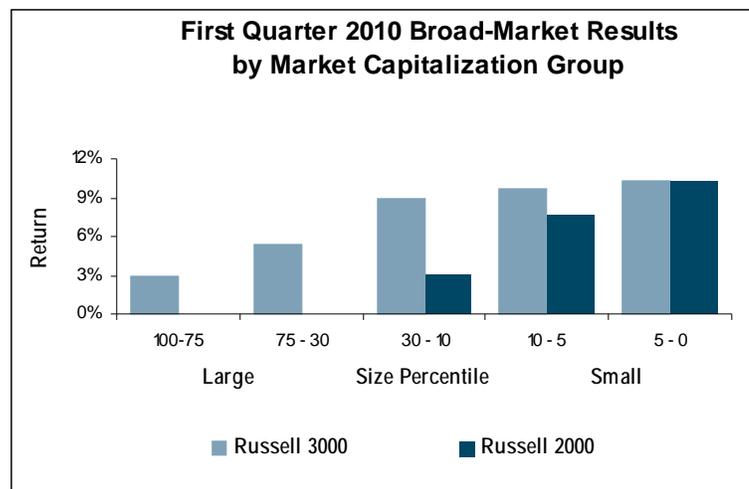
- A look at the determinants of stocks performance—relative price and market capitalization—provides some insight into the sources of returns. Historically, value stocks, as measured by the ratio of book-to-market equity (BtM), have outperformed growth stocks, while small stocks have experienced higher returns than large stocks.



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- Along the market capitalization dimension, small caps (Russell 2000) outperformed large caps (Russell 1000) by 3.2% in the quarter. Over the three-year period that ended in March, small cap stocks and large cap stocks had similar performance.
- For the Russell 2000 Index, the best relative performance and the largest contribution to performance came from small cap stocks in the 0-5th market capitalization percentile range.

- For the Russell 3000 Index, the best relative performance came from small cap stocks in the 0-5th market capitalization percentile range, while the largest contribution to performance came from the smaller stocks in the large cap universe (those in the 30th-75th market capitalization percentile range).



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NON-US STOCKS

- Developed non-US equity markets as a whole had below-average returns in the first quarter. There was a lot of variation in performance at the country and asset class levels. For instance, the difference in performance between the best-performing developed market, Finland, and the worst-performing one, Spain, was almost 26% (11.0% vs. -14.8%).
- Not surprisingly, given Europe's fiscal crises, four of the euro-zone's most-troubled economies (Portugal, Italy, Greece, and Spain) and the two largest economies of the euro area (Germany and France) were among the worst performers. The poor performance of equity markets in those countries in the quarter most likely reflected investors' skepticism about the former group's ability to bring their very large fiscal deficits under control and about the latter group's ability to reach a credible compromise on the rescue package for Greece and, possibly, for other euro-zone countries.
- In contrast to the poor performance of most European equities, commodity-rich countries such as Canada and Australia had once again above-average returns for the quarter. The Asia Pacific region, led by Japan, also had excellent performance in the first quarter.
- Developed market equity returns for US investors were hurt by the relative strength of the US dollar against the euro and the pound in the first quarter. The US dollar appreciated by 5.8% against the euro and by 6.1% against the pound in the quarter, which likely reflected the concerns about the Greek rescue and the weak economic data in Europe, where both unemployment and inflation increased during the first quarter.
- On the other hand, the US dollar depreciated by 2.2% against the Australian dollar and by 3.5% against the Canadian dollar, which likely reflected the rise in commodity prices fueled by the global economy recovery. The overall impact of currency fluctuations between the US dollar and developed country currencies was to decrease the dollar-denominated returns of developed market equities by approximately 2.8% in the first quarter. Information technology was by far the best-performing sector in the quarter, while telecommunication services and utilities were the weakest sectors.

Non-US Equity Returns

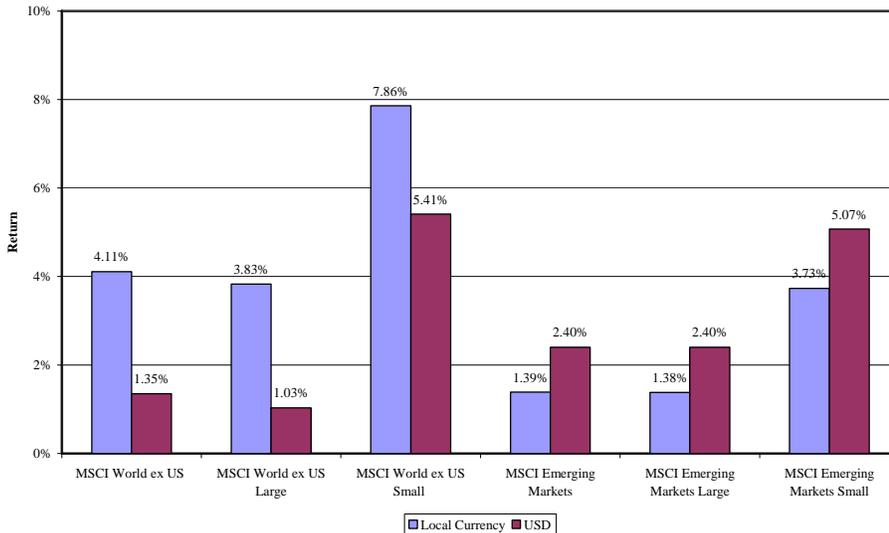
As of March 31, 2010	Return (%)		
	First Quarter	One Year	Three Years Annualized
MSCI EAFE Small Cap	4.76	70.02	(8.27)
MSCI World ex USA Small	5.41	74.55	(7.34)
MSCI EAFE	0.87	54.44	(7.02)
MSCI World ex USA	1.35	55.96	(6.15)
MSCI EAFE Value	(0.24)	58.52	(8.40)
MSCI EAFE Growth	1.96	50.61	(5.70)
MSCI Emerging Markets	2.40	81.08	5.16
MSCI Emerging Markets Small	5.07	118.10	7.44

MSCI indices are total returns net of foreign withholding taxes on dividends. MSCI data copyright MSCI 2009, all rights reserved. Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results.

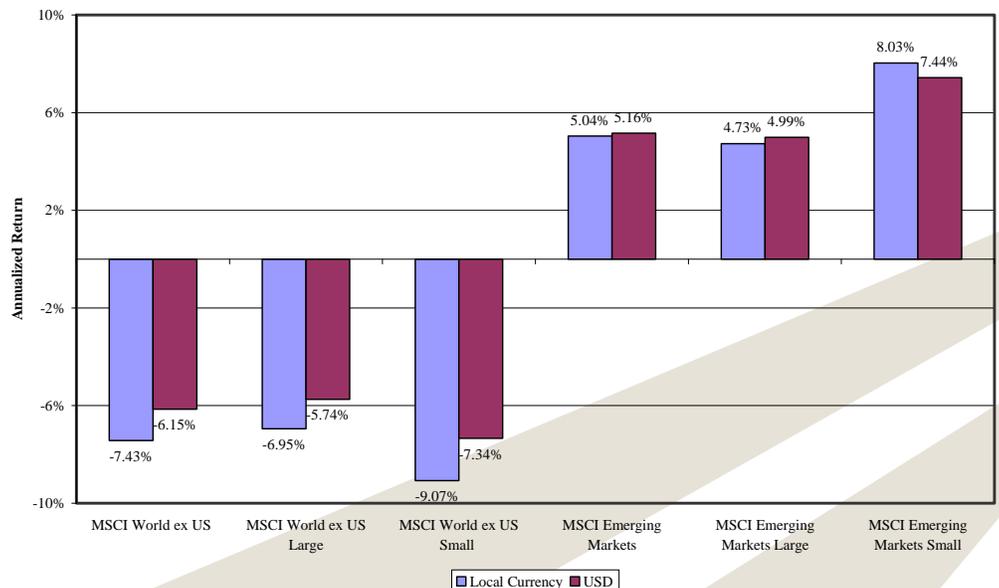
NON-US STOCKS

- Using the MSCI World ex USA Index and its sector and country segments as proxies, value stocks in developed markets underperformed growth stocks across both size categories in the first quarter.
- Small cap value stocks (MSCI World ex USA Small Cap Value) underperformed small cap growth stocks (MSCI World ex USA Small Cap Growth) by 0.6% in the quarter, while large cap value stocks (MSCI World ex USA Large Cap Value) underperformed large cap growth stocks (MSCI World ex USA Large Cap Growth) by 1.7% in the quarter.
- Over the three-year period through March 31, the value effect was negative in large cap stocks and positive in small cap stocks. Large cap value stocks underperformed large cap growth stocks by 3.7% on an annualized basis, while small cap value stocks outperformed small cap growth stocks by 1.4% annualized.
- Along the market capitalization dimension, small caps (MSCI World ex USA Small Cap) outperformed large caps (MSCI World ex USA Large Cap) by 4.4% in the quarter. Over the three-year period that ended in March, however, small cap stocks trailed large cap stocks by 1.6% annualized.

First Quarter Currency Effects on Non-US Equity Returns
As of March 31, 2010



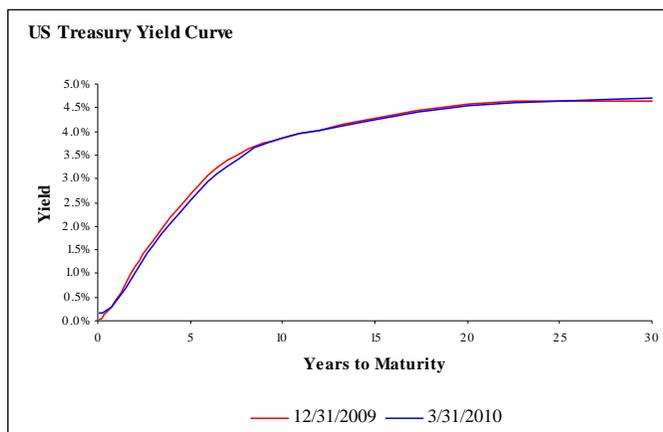
Three-Year Currency Effects on Non-US Equity Returns
As of March 31, 2010



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BONDS

- The Federal Open Market Committee maintained its target range for the federal funds rate between zero and 0.25% in the first quarter, and reaffirmed its goal to maintain that target at very low levels for an extended period. The Federal Reserve's balance sheet, currently the main focus of monetary policy actions, increased from about \$2.28 trillion at the end of 2009 to about \$2.35 trillion at the end of the first quarter. Most of that increase was due to purchases of about \$160 billion of agency mortgage-backed securities, part of a plan to buy up to \$1.3 trillion of mortgage-backed securities to support the housing markets that concluded at the end of March. Federal Reserve officials also indicated that as the Federal Reserve attempts to implement an orderly exit strategy from its current highly accommodative policies, the operating target for the conduct of monetary policy is not likely to be the federal funds rate, as it was before the start of the financial crisis, because it has become a less reliable indicator of conditions in short-term credit markets. Instead, the Federal Reserve is likely to use the interest rate that it will pay banks on their excess reserves as its operating target.
- As part of its exit strategy, the Federal Reserve closed or continued to wind down most of its emergency lending facilities. That had no apparent adverse effects on credit markets, which remained stable in the first quarter. Spreads between, among others, high- and low-quality thirty-day nonfinancial commercial paper, the so-called A2P2 spread; the rates on three-month interbank loans and three-month Treasury bills, the so-called TED spread; and the yields on investment-grade and speculative-grade corporate bonds, on the one hand, and the yields on Treasury securities, on the other, were little changed during the quarter and remained at low levels. Bid/ask spreads in most credit markets also continued to narrow relative to the levels reached in the fall of 2008, reflecting the improvement in liquidity in those markets in 2009 and through the early part of 2010.
- Yields on short-term Treasury bills rose in the first quarter relative to the end of 2009, while yields on long-term Treasury securities fell in the first quarter. As a result, the yield curve flattened slightly over the quarter. The difference in yield between ten-year Treasury bonds and one-month US Treasury bills was 369 basis points at the end of the first quarter, compared to 381 basis points at the end of 2009



As of March 31, 2010

Index Returns	Return (%)		
	First Quarter	One Year	Three Years Annualized
Merrill Lynch Three-Month US T-Bill	0.01	0.17	1.99
Merrill Lynch One-Year US Treasury Note	0.25	1.06	3.45
Citigroup World Government Bond 1-3 Years	0.57	1.85	4.29
Barclays Capital US Government Bond	1.11	(0.13)	5.98
Merrill Lynch US Treasury/Agency 1-5 Years	0.89	1.65	5.46
Citigroup World Government Bond 1-5 Years	0.76	2.29	4.85
Barclays Capital US TIPS	0.56	6.18	6.01

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