



## Financial Market Performance

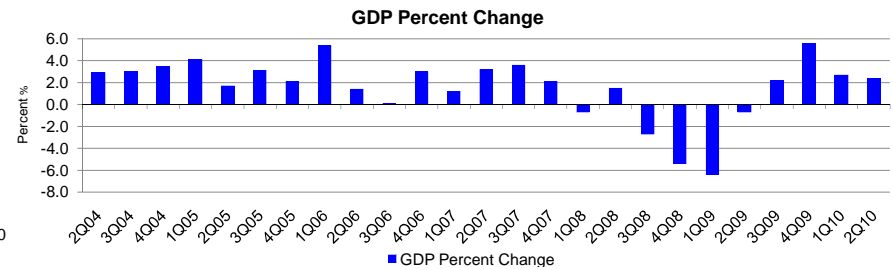
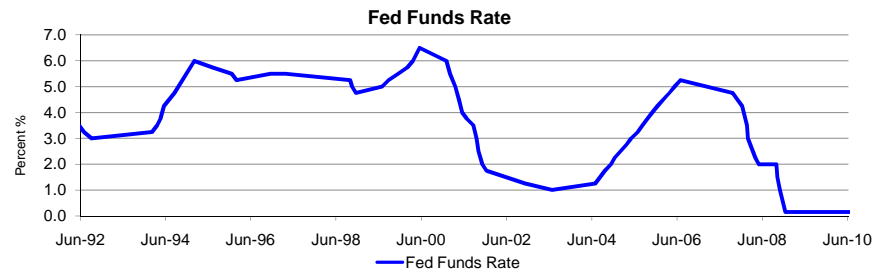
Periods Ending June 30, 2010

<u>Index</u>	<u>Month</u>	<u>Quarter</u>	<u>YTD</u>	<u>1 Year</u>
S&P 500 Index	-5.2%	-11.4%	-6.7%	14.4%
Russell 1000 Value	-5.6%	-11.2%	-5.1%	16.9%
Russell 1000 Growth	-5.5%	-11.8%	-7.7%	13.6%
Russell 2000	-7.8%	-9.9%	-2.0%	21.5%
Russell 2000 Value	-8.7%	-10.6%	-1.6%	25.1%
Russell 2000 Growth	-6.7%	-9.2%	-2.3%	18.0%
MSCI EAFE (net)	-1.0%	-14.0%	-13.2%	5.9%
Barclays Aggregate	1.6%	3.5%	5.3%	9.5%
U.S. Treasury	1.9%	4.7%	5.9%	6.7%
Barclays HY Ba & B 2% Capped	1.3%	0.3%	4.2%	20.8%
NCREIF Open End Funds <sup>1</sup>	---	4.4%	5.2%	-5.9%
HFRI Fund of Funds	-1.1%	-3.0%	-1.5%	4.5%

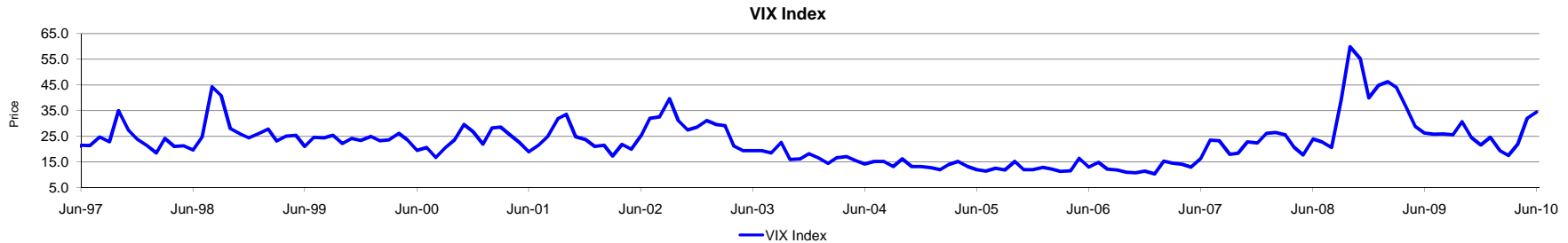
<sup>1</sup> Monthly data is not available.

# The Economic Market

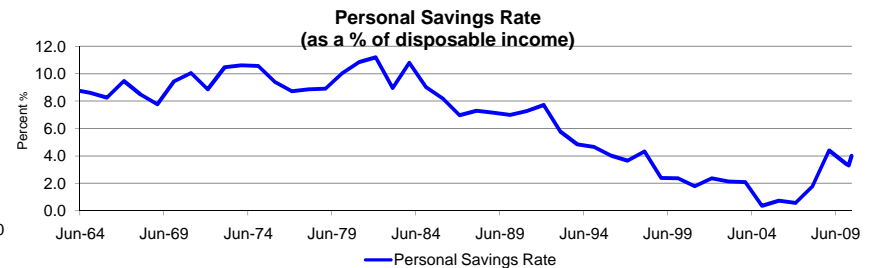
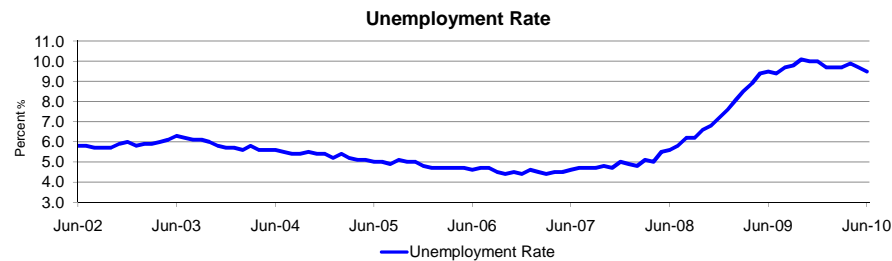
GDP growth for the second quarter of 2010 came in at 2.4% following a 2.7% increase for the first quarter. Expectations for the second quarter show an anticipated slowdown in the expansion of our economy. Investors were trepid in the second quarter as the financial reform bill made its way through the House, Senate, and ultimately to President Obama's desk for final signature. Earnings season was much anticipated as portfolio managers and traders alike were looking for any sign of the recovery losing steam in corporate results or economic leading and lagging indicators. The Federal Reserve has changed its message on the strength on future recovery and reaffirmed their desire to see the Fed Funds Rate between 0 and 25 basis points in order to try to encourage commercial investing and increased lending to individuals and institutions. As a result, investors have become accustomed to seeing the equity markets move multiple percentage points on any one day and the excessive volatility associated with such drastic movements.



The VIX Index, which measures volatility in the market, crept upward during the second quarter as investors began to question the likelihood of sustained financial recovery, but was still off from all time highs seen in 2008. Despite losses in the second quarter, equity markets are up approximately 45% - 65% from March 10, 2009 through the end of the second quarter of 2010. Investors have continued to fret over a lagging employment environment, dismiss improved corporate profits, and worry over the strength of the Euro to contain sovereign debt collapse. Emotions and profit taking have ruled the day for investors looking for strong returns during the market turbulence.



Jobs decreased by 125,000 in June 2010 and the unemployment rate edged down to 9.5%. The decline in employment reflected a decrease (-225,000) in the number of temporary employees working on Census 2010. Private-sector payroll employment edged up by 83,000, although this increase in private employment was worse than hoped. The number of unemployed persons, at 14.6 million, was down in June in part to unemployment benefits expiring. At the start of the recession in December 2007, the number of unemployed persons was 7.5 million, and the jobless rate was 4.9%. As a result, the personal savings rate increased over the past year and a half to a rate that has not been seen since 1993, but has declined recently due to the improved long-term financial outlook.

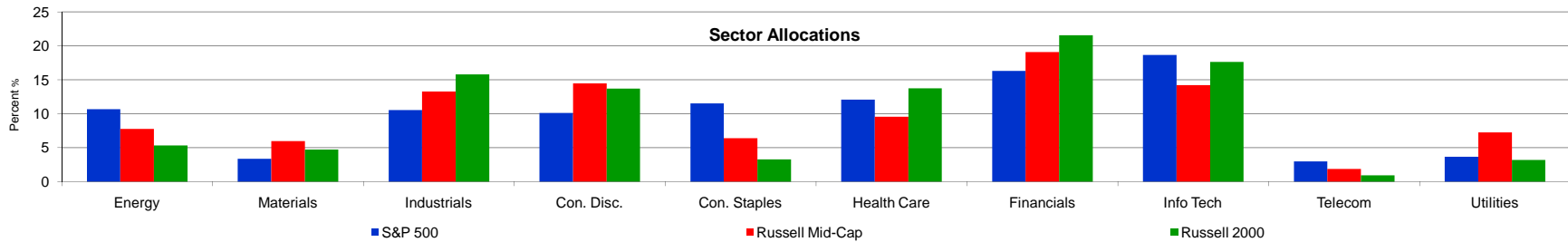


# The US Equity Market

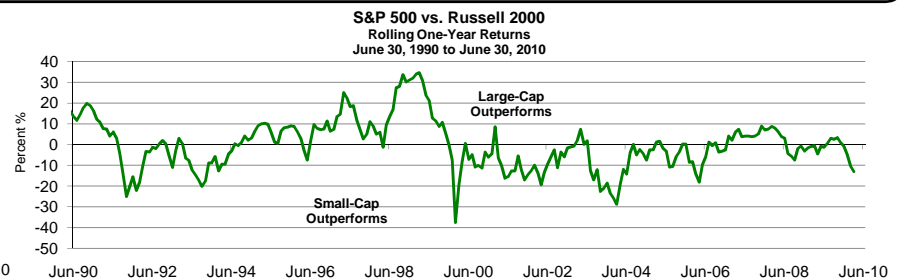
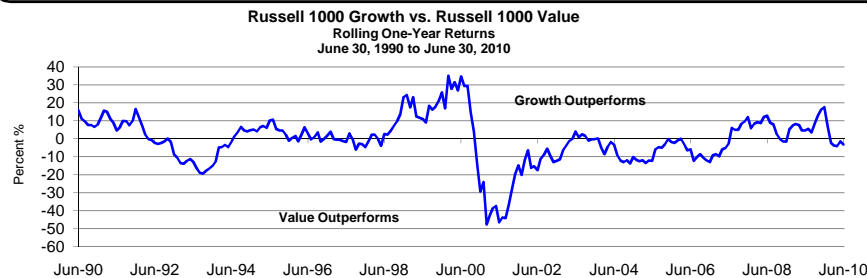
The domestic equity markets suffered drastic losses in the second quarter of 2010 as investors showed anxiety regarding the likelihood of continued financial recovery. These losses caused the domestic equity markets to turn negative over the year-to-date time period with small-cap indices and value styles relatively doing the best. Longer-term performance has reflected the weakness of the equity markets over the past three years and the mixed results over the past decade.

	<u>Qtr.</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>
<b>S&amp;P 500</b>	-11.4%	-6.7%	14.4%	-9.8%	-0.8%	2.8%	-1.6%
<b>Russell 1000 Value</b>	-11.2%	-5.1%	16.9%	-12.3%	-1.6%	3.5%	2.4%
<b>Russell 1000 Growth</b>	-11.8%	-7.7%	13.6%	-6.9%	0.4%	2.9%	-5.1%
<b>Russell Mid-Cap</b>	-9.9%	-2.1%	25.1%	-8.2%	1.2%	7.0%	4.2%
<b>Russell Mid-Cap Value</b>	-9.6%	-0.9%	28.9%	-9.4%	0.7%	7.4%	7.6%
<b>Russell Mid-Cap Growth</b>	-10.2%	-3.3%	21.3%	-7.5%	1.4%	7.0%	4.2%
<b>Russell 2000</b>	-9.9%	-2.0%	21.5%	-8.6%	0.4%	5.8%	3.0%
<b>Russell 2000 Value</b>	-10.6%	-1.6%	25.1%	-9.9%	-0.5%	6.0%	7.5%
<b>Russell 2000 Growth</b>	-9.2%	-2.3%	18.0%	-7.5%	1.1%	5.5%	-1.7%
<b>Russell 3000</b>	-11.3%	-6.1%	15.7%	-9.5%	-0.5%	3.5%	-0.9%

During the first quarter of 2010, all major sectors posted negative returns within the S&P 500 Index. The Telecom Services and Utilities sector were the best performers in the S&P 500 Index for the second quarter returning -4.3% and -3.8%, respectively. The Materials sector was the worst performer during the quarter returning -15.2%.



Investors reversed course from 2009 and favored value stocks during the first half of 2010 as they generally liked the relative stability of the earnings within that segment. Over the past ten years, value investing has enjoyed a run of relative outperformance as investors looked to capitalize on larger dividends and more favorable price/earnings statistics. Over the same ten year time period, small-cap stocks outperformed their larger counterparts. However, regardless of the style or capitalization range, all stocks posted losses in the second quarter of 2010 as investors left the equity markets looking for the safety of government debt and cash.



# The International Equity Market

In the second quarter of 2010, international indices were hurt by investor concerns regarding the strength of the European Union and its ability to stave off debt issues within the member countries such as Greece, Spain, and Portugal. As a result, international indices posted lower results than their domestic counterparts over the second quarter, year-to-date, and one year time periods. In May, the European Union and the International Monetary Fund (IMF) pledged \$1 trillion to fight off sovereign debt contagion risk.

	<u>Qtr.</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>
<b>MSCI EAFE</b>	-14.0%	-13.2%	5.9%	-13.4%	0.9%	6.7%	0.2%
<b>MSCI EAFE Value</b>	-15.5%	-15.7%	3.2%	-15.1%	0.0%	7.0%	1.8%
<b>MSCI EAFE Growth</b>	-12.4%	-10.7%	8.6%	-11.7%	1.7%	6.3%	-1.6%

Even though the United States continues to have the largest GDP as compared to other developed and emerging countries, our GDP had remained consistently larger per capita as compared to these other countries. Globally, the unemployment rate has remained high and inflation was mixed. Emerging countries continued to post large gains during the recovery as investors sought cheaper labor and goods.

	Economics					Demographics				
	GDP USD (B\$)	GDP Per Capita	GDP Growth	Unempl. Rate	Inflation (CPI)	Population	Population Growth	Percent Age >65	Median Age	Migration per 1000
<b>Developed</b>										
U.S.	\$14,592	\$46,400	2.7%	9.5%	2.4%	310 mm	1.0%	13.0%	36.8 yrs	+4.3
Canada	1,285	38,400	6.1	8.1	1.7	34	0.8	15.5	40.7	+5.6
U.K.	2,149	35,200	1.2	7.9	3.3	61	0.3	16.4	40.5	+2.2
Germany	2,811	34,100	0.6	7.7	0.9	82	-0.1	20.4	44.3	+2.2
France	2,110	32,800	0.5	9.5	1.3	64	0.5	18.5	39.7	+1.5
Japan	4,137	32,600	5.0	5.2	-1.2	127	-0.2	22.6	44.6	-
Italy	1,760	30,300	1.7	8.4	1.3	58	-0.1	20.3	43.7	+2.1
<b>Emerging</b>										
Russia	2,116	15,100	2.2	7.3	7.2	139	-0.5	13.3	38.5	0.3
Mexico	1,482	13,500	-1.4	5.1	4.8	112	1.1	6.4	26.7	-3.4
Brazil	2,025	10,200	11.4	7.5	4.9	201	1.2	6.6	28.9	-0.1
China	8,789	6,600	13.1	4.3	2.2	1,330	0.5	8.6	35.2	-0.3
India	3,560	3,100	9.2	10.7	15.3	1,173	1.4	5.3	25.9	-0.1

Source: JP Morgan

The U.S. Dollar weakened against major foreign currencies in 2009 as investors came back to the market and domestic and foreign indices posted strong gains during the calendar year, but the dollar strengthened in the first half of 2010 reversing the recent trend of strong relative international equity returns. During the global recession, investors sought the safety of the U.S. Dollar in order to protect assets as the U.S. Government took drastic steps to strengthen domestic financial markets. As market conditions have improved, the U.S. Dollar weakened as investors diversified their currency exposure to levels to close to, but still above pre-recession levels.



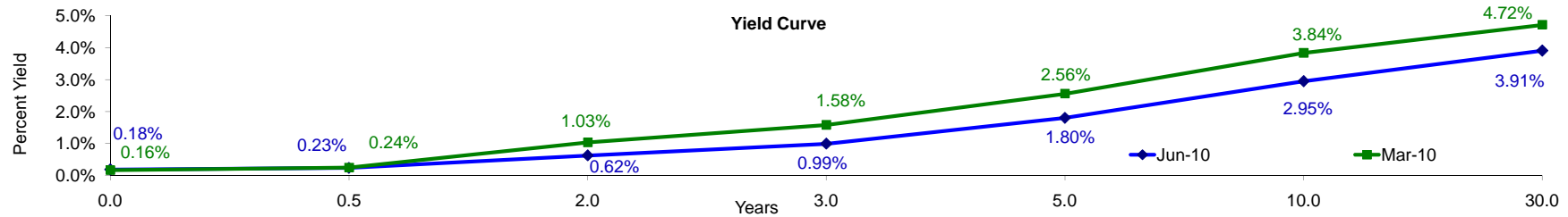
Source: JP Morgan

# The Bond Market

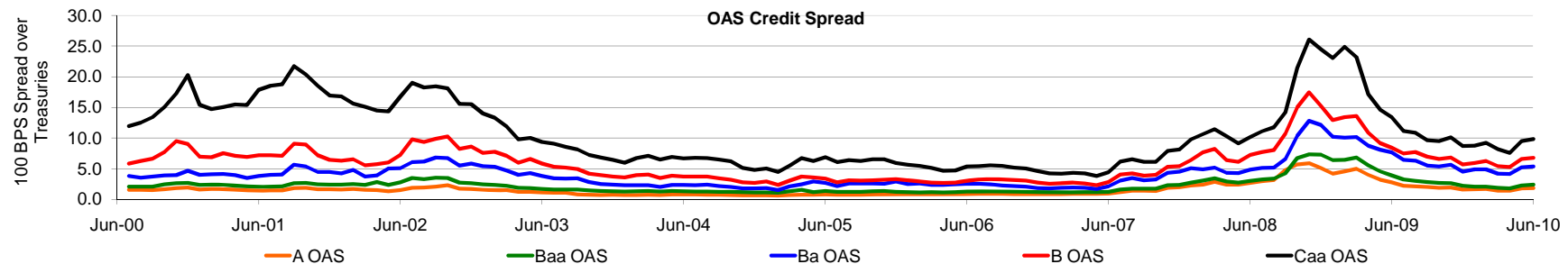
During the second quarter of 2010, Treasuries and mortgages reversed the recent trend and outperformed their credit related index counterparts as investors sought the safety of government backed issues during the quarter as equity losses effected corporate debt. For the first time in over a year, high yield indices did not post the largest gain during the quarter as option adjusted spreads on credits edged upward, but remain well off of all-time highs. TIPS issuance has increased as demand has risen due to future inflation concerns even though the Fed has signaled deflation is more likely to be prevalent over the near-term.

	<u>Qtr.</u>	<u>YTD</u>	<u>1 Yr</u>	<u>3 Yrs</u>	<u>5 Yrs</u>	<u>7 Yrs</u>	<u>10 Yrs</u>
<b>Barclays Aggregate</b>	3.5%	5.3%	9.5%	7.5%	5.5%	5.0%	6.5%
<b>Barclays Gov/Credit</b>	3.9%	5.5%	9.7%	7.4%	5.3%	4.7%	6.5%
<b>Barclays Int. Aggregate</b>	2.9%	4.8%	8.7%	7.3%	5.6%	4.9%	6.2%
<b>Barclays Int. Gov/Credit</b>	3.0%	4.6%	8.3%	7.0%	5.3%	4.4%	6.1%
<b>Barclays High Yield</b>	-0.1%	4.5%	26.8%	6.5%	7.2%	8.1%	7.3%
<b>Barclays HY Ba &amp; B 2% Capped</b>	0.3%	4.2%	20.8%	5.9%	6.2%	7.2%	6.9%
<b>Barclays Mortgage</b>	2.9%	4.5%	7.5%	8.2%	6.3%	5.7%	6.5%
<b>Barclays Treasury</b>	4.7%	5.9%	6.7%	7.8%	5.4%	4.6%	6.2%
<b>Barclays U.S. TIPS</b>	3.8%	4.4%	9.5%	7.6%	5.0%	5.4%	7.5%
<b>91 Day T-Bill</b>	0.0%	0.1%	0.2%	1.6%	2.8%	2.4%	2.7%

The Federal Reserve kept the Fed Funds Rate at an all time low of a range between 0 to 25 basis points since December 2008. Interest rates along the entire curve continued to remain low as investors attempted to unload riskier assets and buy Treasuries, but to a far lesser extent than in 2009. The Federal Reserve stated concerns over continued recovery and possible deflation even though there has been massive stimulus and bailout dollars are being spent by an already deficit plagued federal system in a hope to spur the economy.



Credit spreads widened slightly in the second quarter of 2010, but were still off from at all-time highs as investors sought the large yield currently existent in investment grade and below investment grade credits. Although high yield indices were aided by high coupon payments and asset flows into the asset class, credit fundamentals generally improved and market conditions appear to have eased worries from anxious investors.



# The Real Estate Market

The NCREIF second quarter return was 4.4%, 5.2% year-to-date, and -5.9% over the twelve months ending June 30, 2010. While real estate fundamentals are under pressure due to economic weakness and a rising unemployment rate, the most important factors affecting the real estate market have been rising cap rates and soft credit markets. Cap rates have risen sharply by 100-200 bps, which has lowered valuations. The lack of CMBS issuance and a restrictive lending environment significantly impacted transaction volume and appraisers have a very limited pool of comparable sales. The combination of these factors led to an unfriendly appraisal environment. However, the correction has likely occurred as managers revalue 100% of the portfolio on a quarterly basis. Furthermore, cap rates appear to have stabilized and may even be under slight upward pressure for quality properties. Most commingled real estate funds have already eliminated or will have eliminated their withdrawal queues in the next quarter or two. Real estate manager consensus has been improved property valuations and continued income streams from existing property holdings through the end of the year.

## UNLEVERAGED CAP RATE IMPACT

Equals: Change in NAV

Cap Rate Change	Final Cap Rate	Implied Value Change	At 12% Income Growth	At 9% Income Growth	At 6% Income Growth	At 3% Income Growth
0.00%	7.00%	0.00%	12.00%	9.00%	6.00%	3.00%
0.25%	7.25%	-4.00%	7.52%	4.64%	1.76%	-1.12%
0.50%	7.50%	-7.69%	3.38%	0.62%	-2.15%	-4.92%
0.75%	7.75%	-11.11%	-0.44%	-3.11%	-5.78%	-8.44%
1.00%	8.00%	-14.29%	-4.00%	-6.57%	-9.14%	-11.71%

Note: Assumes an initial cap rate of 6.00%. Source: Prudential

2001 quarterly average = 100

