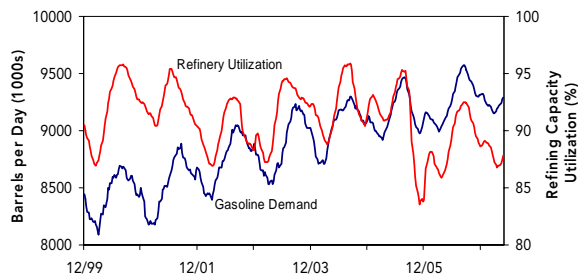


Economic Review

May was a month with global events that will profoundly affect the upcoming years. French voters elected conservative Nikolas Sarkozy to lead their country, dealing a blow to the Socialist party's long-standing hold on power. Sarkozy pledged to have a more collegial relationship with the U.S., opening the prospect of improved relations between the countries. British Prime Minister Tony Blair announced his resignation, effective late June, when Gordon Brown ascends to the role. Cerberus Capital acquired an 80% stake in Chrysler, as Daimler shed majority ownership of the troubled automaker.

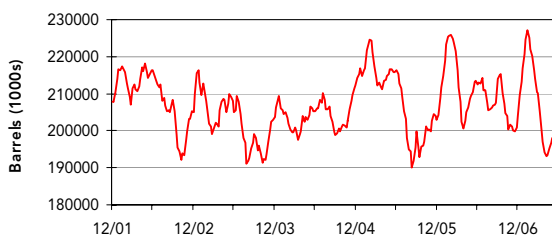
Gasoline Demand Rises, Refining Output Falls



13-week moving averages
Source: Energy Information Administration

The U.S. economy performed worse in the first quarter than initially reported. GDP grew at an annual rate of 0.6%, the slowest rate since the 2002. The Federal Reserve's interest rate policy remained static amidst slow growth on the one hand, and steady job growth and above-target inflation on the other.

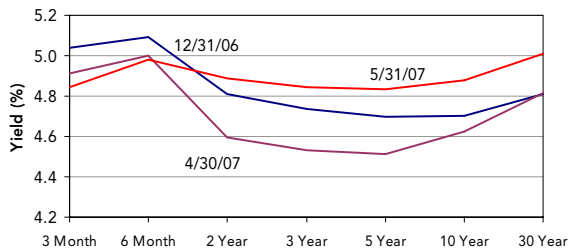
Gasoline Inventories Drop



Source: Energy Information Administration

Upward spiraling gasoline prices impacted consumers and businesses. Real and nominal price records were broken, with prices in the Midwest and California approaching \$4.00/gallon. The strongest contributing factor was decreased output from refineries, which faced seasonal outages as well as damage from numerous accidents. Although inventories fell quickly, they did not reach near-term lows. Investor speculation also contributed to the rise in prices. Refiners have been reluctant to add significant capacity in light of federal mandates for increased ethanol production and stringent environmental regulations. Prices are expected to remain elevated for the near future, as demand growth outpaces supply growth. The disconnect from crude oil prices highlighted the ongoing need for a comprehensive energy policy which encapsulates the whole supply chain, from exploration to delivery, and reasonable alternative sources.

Yield Curve Flattens



Source: Lehman Brothers

The Supreme Court issued a landmark decision on patents. The ruling stated that obvious combinations of existing ideas may not be afforded patent protection. The decision is expected to diminish legal defense costs as patent issuance will become more stringent. Congress reignited the immigration debate, though quick passage of a bill was derailed amidst dissension from citizens and lawmakers.

Dry weather across Florida and Georgia sparked widespread fires, while the longer-term drought placed tighter restrictions on water usage by residents and agriculture. Parts of a collapsed freeway interchange in Oakland were reopened following a gasoline tanker accident in late April. Disruption to traffic and commerce have cost several million dollars per day.

As of May 31, 2007

	May	3 Months	YTD
S&P 500	3.5%	9.0%	8.8%
Russell 1000 Value	3.6%	9.1%	8.8%
Russell 1000 Growth	3.6%	9.1%	9.8%
Russell 2000	4.1%	7.1%	8.0%
MSCI EAFE	1.8%	9.0%	10.6%
LB Agg	-0.8%	-0.2%	1.3%
3-Month T-Bills	0.4%	1.2%	2.0%

Venezuela saw widespread protests against Hugo Chavez's progression towards a socialist state. Further degradation of property rights and falling domestic output led to food shortages and rising inflation. The Lebanese army started offensive action against Al Qaeda militants within the country, igniting strong protests from Iran and Syria.

The bond market reacted to prospects of continued slow growth and potential Federal Reserve interest rate action. The yield curve flattened further, as short-term rates fell and long-term rates rose throughout the month.