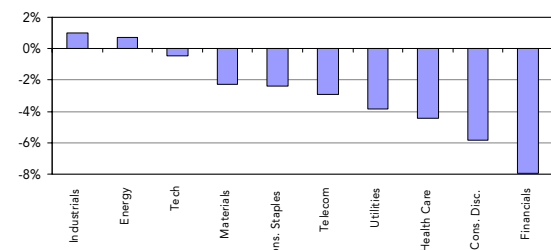


Economic Review

During July, investors worldwide reassessed their appetites for risk. Federal Reserve chairman Ben Bernanke testified before Congress, citing his views on ongoing risks to balancing inflation with the growth impact of continued turmoil in the housing markets. Futures markets viewed an interest rate cut by year-end with renewed optimism, although slower growth would be an essential facilitator of any such actions. The Bank of England continued to raise interest rates, adding 25 basis points to bring rates to 5.75%. Japan was hit by a strong earthquake, which disrupted automobile production for several days.

Financial Sector Leads Stock Market Lower



Performance During Month of July
Source: Standard & Poor's

The Dow Jones Industrial Average went from soaring highs, crossing the psychologically important 14,000 level, to retreating sharply as subprime concerns and higher oil prices squelched overriding optimism. Leading the market downward were consumer discretionary and financial sector stocks.

The open spigot of loans available to private equity managers participating in corporate takeover transactions diminished rapidly. The inability of several investment banks to sell high-profile loans in the secondary markets, including loans taken by Cerberus Capital to facilitate its purchase of Chrysler, prompted the banks to retreat from new loan offerings, including several near completion. The evaporation of potential buyers from the equity markets mirrored the disappearance of buyers in the housing markets, which affected the sharp pullback currently playing out.

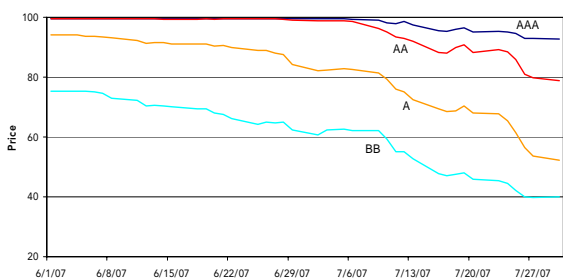
High Yield Bonds Lose Favor



Yield Differential Between High-Yield Bonds and 10-Year Treasury Bonds
Source: Lehman Brothers

Bond returns diverged as the flight-to-safety drove 10-year Treasury bond yields from a high of 5.25% down to 4.77%, while high-yield bond yields rose from 8.10% to close the month at 9.14%. The high-yield sector's return of -3.5% was its worst performance since July 2002. A downgrade of several investment-grade tranches of mortgage debt securities to junk status by Standard & Poor's contributed to the turmoil. The ramifications of further downgrades and the potential effects on pension covenants restricting low-grade bond holdings weighed on market sentiments, which feared a potential large-scale unloading of low-grade securities if additional downgrades ensued.

Subprime Mortgage Losses Spread to All Qualities



ABX On-The-Run Index
Source: Markit

GDP for the second quarter grew at a 3.4% annual rate. Gains in nonresidential construction, defense, medical, and state spending offset losses in residential construction and transportation spending. Government spending continued to outstrip revenues, prompting Treasury Secretary Paulson to urge Congress to raise the debt ceiling to over \$9 trillion. Interest on the debt, from October 2006 through June 2007, was \$359 billion. Other FY 2007 federal spending includes (in \$ billions): Social Security \$586; Defense \$536; Medicare \$392.

The Chicago Mercantile Exchange and the Chicago Board of Trade agreed on a merger that will bolster its standing in futures and options trading against global powerhouses in Germany, Asia, and New York. Exxon Mobil reached a market capitalization of over \$500 billion for several days in July. Oil finished July at a record close of \$78.04/barrel.

As of July 31, 2007

	July	3 Months	YTD
S&P 500	-3.1%	-1.4%	3.6%
Russell 1000 Value	-4.6%	-3.5%	1.3%
Russell 1000 Growth	-1.6%	0.5%	6.5%
Russell 2000	-6.8%	-4.4%	-0.8%
MSCI EAFE	-1.5%	0.4%	9.1%
LB Agg	0.8%	-0.2%	1.8%
3-Month T-Bills	0.4%	1.2%	2.9%