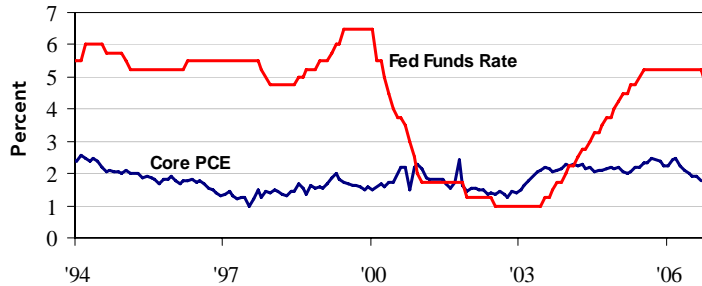


CAPITAL MARKETS REVIEW
3rd Quarter 2007

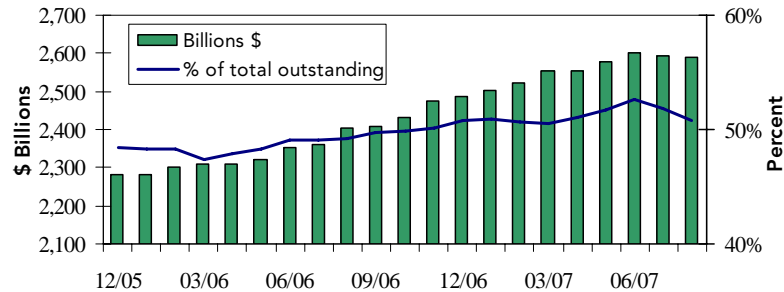
CAPITAL MARKETS REVIEW

Economy

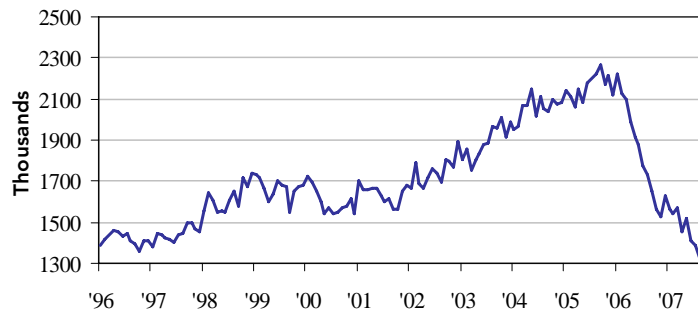
Core Inflation and Fed Funds Rate



Foreign Holdings of Public U.S. Treasury Debt



New Housing Permits Fall



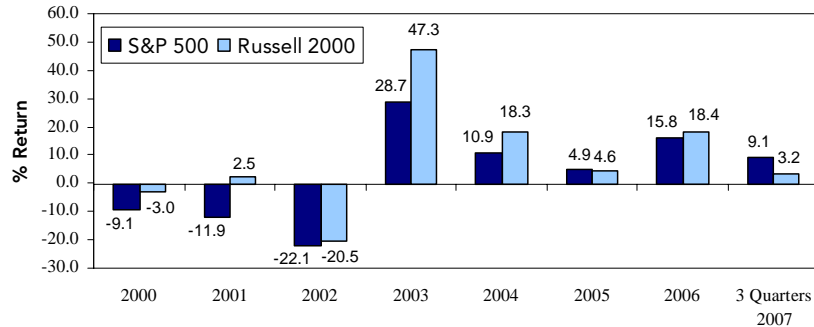
Oil Prices Rise While Housing and US Dollar Decline

- World economies were jolted in August after commercial paper markets seized. The Federal Reserve, European Central Bank, and the Bank of Japan delivered emergency infusions of more than \$300 billion to ensure continued market liquidity.
- The Federal Reserve lowered the Federal Funds rate 50 bp and the Discount Rate 100 bp, citing threats to economic growth in the midst of the credit market turmoil triggered by subprime mortgage defaults. Total inflation remained elevated, driven higher by food and energy prices. Grocery prices year to date have advanced at a 6.7% annual rate. Core inflation remained below 2%. GDP growth for the third quarter is expected to be near 3%.
- Worries over growth and potential interest rate cuts pushed the U.S. dollar lower against world currencies. The U.S. dollar sank to record lows versus the Euro, and reached parity with the Canadian dollar, a level not seen since 1976. During the quarter, the U.S. dollar lost 5.1% versus the Euro and 6.8% versus the Yen. Foreign investors lowered their holdings of U.S. Treasury debt during the quarter.
- Crude oil steadily rose to record highs of more than \$83/barrel, triggered by financial market conditions, and led to a rapid drawdown of reserves. Tension in Iran and Iraq further exacerbated fears of supply disruptions.
- The U.S. housing market showed no signs of improvement during the quarter. Median home prices continued to move lower, and new home construction slowed dramatically as mortgage lenders curtailed lending activity.

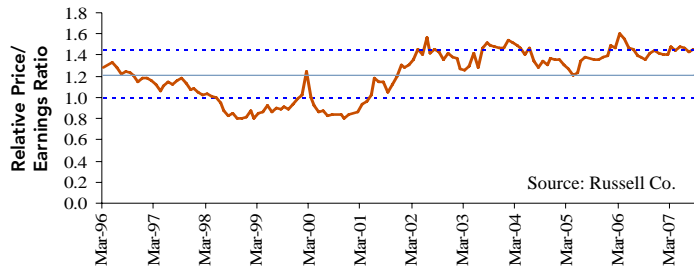
CAPITAL MARKETS REVIEW

Equities

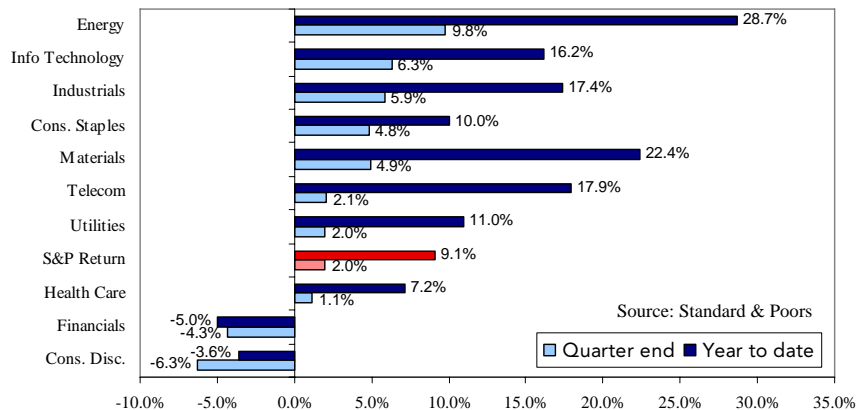
Large- vs. Small-Cap Stocks



Small vs. Large Company Price/Earnings Ratios



Quarter End and Year To Date 2007 Sector Returns



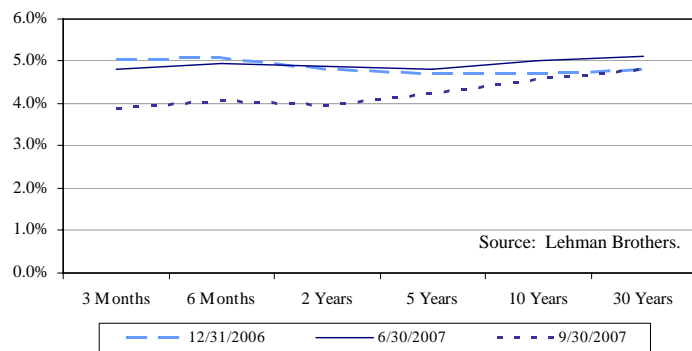
Consumer Woes Impact Stock Market Returns

- Sub-prime woes resulted in a difficult start for the equity markets during the third quarter. Prices rebounded late in the quarter, however, following Federal Reserve interest rate cuts. The S&P 500 finished the quarter up 2.0%, bringing the year to date return to +9.1%.
- Tighter credit conditions and a slowing economy resulted in two trend shifts during the third quarter. Sentiment shifted in favor of growth and large-cap stocks from value and small-cap stocks. Large-cap stocks returned +2.0% for the quarter (+9.1% year to date) versus -3.1% for small-cap stocks (+3.2% year to date). The third quarter return for value stocks was -0.2% (+6.0% year to date) versus +4.2% for growth (+12.7% year to date). Valuations clearly favor large-cap stocks over small-cap stocks. Growth and value stock valuations are similar.
- Consumer spending, the backbone of the economy for the past several years, was widely anticipated to fall from the unraveling mortgage markets, and higher oil and grocery prices. This was reflected in third quarter sector returns. The consumer discretionary sector was one of the worst-performing sectors globally, returning -6.3% in the US and -0.9% in the developed foreign markets. Also hard hit were financials. Technology, materials, and telecom performed well. In the US, the energy sector added significantly to third quarter (+9.8%) and year to date (+28.7%) returns.
- Emerging market stocks soared during the third quarter, returning +14.5%, and bringing the year to date return to +34.8%. Thus far, emerging market stocks have had five consecutive years of double digit returns. Emerging market stocks have benefited from monetary easing, robust economic growth, and a continued commodity boom. By comparison, the third quarter return for the developed foreign markets was weaker (+2.2%). Nonetheless, developed foreign markets have posted a solid +13.6% return year to date.

CAPITAL MARKETS REVIEW

Fixed Income

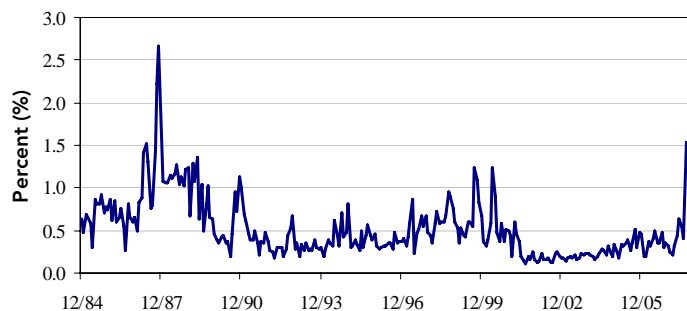
US Yield Curve



Third Quarter 2007 Bond Spreads (bp)

Segment	June 30, 2007	September 30, 2007
1 mo LIBOR – Fed Funds	7	37
ABCP – AA Spread (Overnight)	4	67
Spreads to Treasuries:		
US Investment Grade	89	132
US High Yield	292	405
US Emerging Market	165	210
Pan European High Yield	210	347
Pan European Emerging Market	97	143

3 Mo. Libor/T-Bill Spreads



Flight to Quality Hurts Spread Sectors

- The LB Aggregate Bond Index returned a solid 2.9% during the third quarter, bringing the year to date return to 3.8%. The strength of the Index's return belies the amount of turmoil that occurred within the credit markets in July and August. Spreads widened dramatically as investor concern focused on increased mortgage and corporate credit defaults. As a result, all spread sectors lagged Treasuries, which returned 3.8% during the quarter.
- Turmoil in the credit markets was particularly evident at the short end of the curve. Troubles surfaced in the commercial paper market centering on asset-backed commercial paper – debt backed by assets like home and car loans, and credit card receivables. The Federal Reserve made extra short-term credit available to banks, but this did not keep yields from rising significantly.
- Although spread sectors generally outperformed Treasuries during September, they were unable to recapture July and August losses. US Investment Grade Credit returned 2.1% while high yield returned just 0.4%. The lowest rated sectors performed the worst. CA-D rated bonds returned -11.9% during the quarter, although they finished the year to date period in positive territory with a 2.7% return. Although one of the smallest segments of the Index, the ABS sector performed the worst during the quarter with a 1.4% return.
- Lower interest rates, a weaker dollar, higher commodity prices, and a large budget deficit raised inflation concerns. Consequently, US TIPS were one of the best-performing bond segments, returning 4.5% during the quarter and 6.3% year to date. Inflation concerns were not just a US phenomenon. With the exception of Japan, inflation breakeven points widened in the other major markets. In US dollar terms, the Global Inflation Linked Index returned 3.9% during the quarter and 3.6% year to date.
- Emerging market bond returns diverged during the quarter. Among the best performers were Brazil and Mexico with quarterly returns in excess of 2.0%. Countries such as Argentina, Venezuela and Russia did not fare as well, turning in negative returns for the quarter. Although spreads have widened in the emerging markets, emerging market debt remains expensive by historical standards.

CAPITAL MARKETS REVIEW

Hedge Funds

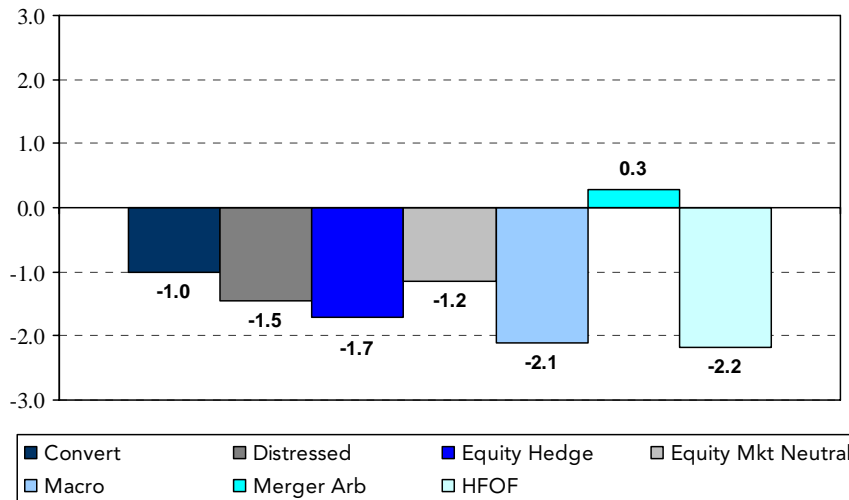
Hedge Fund Performance Results

September 30, 2007

Style	Third Quarter	Year to Date
Convertible Arbitrage	0.1%	4.8%
Distressed Securities	-1.6%	5.4%
Equity Hedge	1.7%	9.9%
Equity Market Neutral	-0.5%	4.5%
Macro	2.3%	8.0%
Merger Arbitrage	0.9%	7.2%
Fund of Funds	0.2%	8.1%

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August 2007 Hedge Returns



Source: Hedge Fund Research

Volatility Shakes Up Quant Funds; Assets Keep Growing

- Hedge fund strategies were negatively impacted in early August amidst heightened credit concerns and market volatility. News journal headlines noted the underperformance of quantitative strategies such as statistical arbitrage and equity market neutral. It is believed that several of the largest quant players delevered in order to meet margin calls, which had a domino effect. Other funds employing similar models were forced to sell securities. Hedge fund strategies stabilized after central bank intervention and Fed interest rate cuts.
- Overall, the third quarter ended in positive territory for most hedge fund categories. The exceptions were distressed and equity market neutral. Year-to-date, the hedge fund of funds index slightly trails the S&P 500 Index, yet outpaced the Lehman Brothers Aggregate Index.
- Legislation targeted at prohibiting individuals from utilizing offshore jurisdictions for deferred compensation is set to be introduced to both the House and the Senate in coming months. The proposed bills would halt hedge fund managers and others from deferring sizable amounts of compensation into tax-free savings.
- Globally, hedge fund assets under management reached nearly \$2.5 trillion. This represents an increase of more than 19% during 2007. It is anticipated that hedge funds will attract \$2.5 trillion in new fund flows from investors worldwide by 2011, according to Casey, Quirk & Associates. Hedge fund of funds currently manage about \$542 billion in assets. In a survey conducted by *Pensions & Investments*, it was found that institutional investors account for more than half of all money allocated to funds of hedge funds.

CAPITAL MARKETS REVIEW

Private Equity

Investment Horizon Returns as of 6/30/07

Fund Type	3 Months	9 Mo	1 Year	3 Years	5 Years	10 Years	20 Years
Early/Seed VC	4.3%	11.5%	12.8%	7.7%	0.7%	37.1%	20.6%
Balanced VC	7.9%	20.8%	21.6%	13.2%	8.0%	15.9%	14.2%
Later Stage VC	7.6%	19.2%	22.9%	9.6%	6.5%	8.9%	13.8%
All Venture	6.0%	15.8%	17.5%	10.2%	4.6%	19.0%	16.4%
Small Buyouts	3.9%	24.7%	25.4%	9.1%	7.0%	4.4%	21.4%
Med Buyouts	1.7%	21.0%	25.7%	14.5%	9.1%	10.1%	13.4%
Large Buyouts	3.6%	11.4%	12.1%	8.9%	11.1%	7.6%	12.2%
Mega Buyouts	-0.2%	20.5%	22.1%	15.6%	12.6%	8.8%	11.9%
All Buyouts	0.4%	19.6%	21.1%	14.1%	11.8%	8.4%	12.9%
Mezzanine	6.7%	17.9%	15.6%	5.2%	5.0%	5.8%	8.4%
All Priv Equity	3.5%	18.2%	19.3%	13.0%	9.6%	10.7%	13.9%
S&P 500	2.0%	9.1%	16.4%	13.1%	15.5%	6.6%	10.6%
Russell 2000	-3.1%	3.1%	12.3%	13.3%	18.7%	7.2%	9.7%

Source: Thomson Financial Venture Economics & National Venture Capital Assn.

Note: Data is continuously updated and is therefore subject to change.

Fundraising by Venture Funds 2002-3Q 2007 YTD

Year/Quarter	Venture Capital	
	Number of Funds	Venture Capital (\$, M)
2002	175	3,770.0
2003	151	10,640.9
2004	207	190,234.4
2005	227	28,284.0
2006	229	31,693.6
2007 YTD	182	20,669.0

Credit Conditions Affect Deals, Fundraising Activity Moderates

- All venture capital and private equity segments performed strongly during the second quarter, with the exception of mega buyouts, which declined marginally. Longer term returns are most favorable for the large and mega buyout managers, which for the five-year period showed double digit returns. Venture capital returns for the same period are in the mid-single digits.
- The summer's credit crunch put a damper on large and mega buyouts, leaving some funds negotiating for more favorable terms and scrambling for financing. Nonetheless, the largest LBO ever was completed in early October. KKR and TPG put together a \$45 billion deal for TXU Corp with six banks providing about \$36 billion in buyout financing. Tighter credit conditions, and a backlog of debt on investment bank balance sheets, suggest that large and mega funds may face increased financing difficulties.
- Despite equity market volatility during the third quarter, venture-backed M&A activity reached a peak not seen since the first quarter of 2001. In total, 67 deals closed with a total value in excess of \$7.7 billion. The technology sector saw the greatest number of deals and accounted for more than half of the dollar volume.
- Venture capital fund raising activity slowed during the third quarter, with 2007 unlikely to beat 2006's levels. Funds raised by venture firms totaled \$20.7 billion during the first nine months of 2007. Fundraising in the private equity space continued at a very strong pace with 295 U.S. private equity firms raising \$199.4 billion in the first nine months of 2007.
- The Senate Finance and House Ways and Means Committees continued their debates on whether to tax carried interest for private equity (and hedge fund) managers at ordinary income tax rates instead of capital gains tax rates. The change in the tax rate could raise \$2 billion to \$3 billion annually for the US government. The Senate has deferred legislation on this matter until 2008. The House, however, could include a tax provision on carried interest in an upcoming tax bill.

CAPITAL MARKETS REVIEW

Real Assets

Returns as of June 30, 2007

	<u>3 Mon.</u>	<u>YTD</u>	<u>1 Yr.</u>	<u>3 Yrs.</u>	<u>5 Yrs.</u>	<u>10 Yrs.</u>	<u>Allocation</u>
NCREIF	4.6%	8.4%	17.2%	18.0%	14.4%	13.0%	
Apartments	3.3%	6.2%	13.3%	16.4%	13.7%	12.8%	23%
Industrials	5.1%	8.5%	16.9%	17.6%	13.9%	13.2%	16%
Office	5.1%	10.0%	21.1%	18.8%	13.4%	13.1%	36%
Retail	3.4%	6.7%	13.6%	18.0%	17.6%	13.6%	23%
Hotel	5.0%	8.7%	21.7%	18.8%	14.1%	12.2%	2%
East	4.3%	8.2%	18.2%	19.0%	15.8%	14.1%	34%
Midwest	3.4%	6.7%	12.8%	13.3%	11.0%	10.2%	10%
South	3.9%	6.9%	14.2%	16.4%	12.8%	11.5%	21%
West	5.6%	10.0%	19.7%	19.7%	15.4%	14.3%	35%

Goldman Sachs Commodity Index Components Total Return Ending September 30, 2007

<u>Allocation</u>	<u>Segment</u>	<u>3 Months</u>	<u>9 Months</u>
72%	Energy	11.6%	20.6%
9%	Industrial Metals	-0.6%	10.0%
2%	Precious Metals	14.0%	15.0%
13%	Agriculture	24.7%	23.1%
4%	Livestock	-0.6%	0.8%
100%	Total Market	<u>11.5%</u>	<u>18.9%</u>

Real Assets Continue To Perform Well

- Private real estate continued to exceed expectations in the second quarter, gaining 4.6%. The year-to-date return of 8.4% is approximately 60 basis points higher than the same period in 2006. The NCREIF Index experienced strong appreciation as cap rates continued to tick downward, although at a slower pace than in the past few quarters. Recent capital market trends, however, increase the risk that cap rates could soon begin rising. The recent turmoil in the residential sub-prime market has triggered a re-pricing of risk that is spreading to the commercial real estate market.
- The office sector continues to be the strongest performing sector in the Index, followed closely by industrials. Fundamentals remain strong in the office market due to several factors: low and still-falling vacancy rates, stable supply levels, continued growth in corporate earnings, double-digit rent growth, and rising employment levels. As a result, office sector returns appear poised to continue to outperform those of the other main property types in the near-term.
- The retail and apartment sectors lagged the overall Index. Retail has been hurt by decelerating earnings and sales growth. Vacancy has increased slightly, which has pushed down prices. Despite steady job growth, a weak housing market, and overall strong fundamentals, apartments have lagged all other property sectors for the trailing one-year period. Part of this underperformance can be explained by a tempering of the “condo-conversion frenzy”, which has pushed down prices.
- The Goldman Sachs Commodity Index had a strong quarter, returning 11.3%. Energy, precious metals, and agriculture all enjoyed remarkably strong quarters, while industrial metals and livestock had slightly negative returns.
- The third quarter saw record prices for both oil and gold. Oil exceeded \$82 per barrel for the first time in history before settling around \$80. Continued supply constraints, coupled with political unrest drove prices upward. The price of gold rose to greater than \$700 amid a continued lack of confidence in the dollar.

CAPITAL MARKETS REVIEW

Index Returns

Periods Ended September 30, 2007

(Percentage Return)

	<u>3rd Quarter</u>	<u>YTD</u>	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>
Domestic Equity Indices								
Wilshire 5000	1.4	9.1	17.1	13.7	14.0	16.5	3.4	6.9
S&P 500	2.0	9.1	16.4	13.6	13.1	15.5	2.6	6.6
Russell 1000	2.0	9.3	16.9	13.5	13.8	16.0	2.8	6.9
Russell 1000 Growth	4.2	12.7	19.4	12.5	12.2	13.8	-3.0	4.1
Russell 1000 Value	-0.2	6.0	14.5	14.5	15.3	18.1	8.2	8.8
Russell MidCap	-0.4	9.5	17.9	13.6	17.3	20.9	9.0	10.4
Russell MidCap Growth	2.2	13.4	21.2	13.9	17.0	20.4	0.4	7.5
Russell MidCap Value	-3.6	4.8	13.8	13.0	17.2	21.0	13.7	11.3
Russell 2000	-3.1	3.2	12.3	11.1	13.4	18.8	7.8	7.2
Russell 2000 Growth	0.0	9.4	18.9	12.2	14.1	18.7	1.5	3.7
Russell 2000 Value	-6.3	-2.7	6.1	10.0	12.5	18.7	13.7	10.1
International Equity Indices								
MSCI EAFE	2.2	13.2	24.9	22.0	23.2	23.6	8.2	8.0
MSCI EAFE Growth	4.4	17.1	28.2	22.5	23.5	21.8	5.8	5.8
MSCI EAFE Value	0.1	10.1	22.5	22.4	24.0	26.3	11.3	10.7
MSCI EAFE Small-Cap	-4.4	6.9	19.5	17.5	24.0	28.0	14.8	NA
MSCI All Country World Free	3.6	14.1	24.6	19.8	20.2	21.0	6.3	7.8
MSCI AC World Free ex U.S.	4.7	17.9	31.1	25.1	26.5	26.3	10.2	9.2
MSCI Emerging Free	14.5	34.9	58.6	38.4	41.3	39.1	20.9	11.9
Fixed Income Indices								
LB Aggregate Bond	2.9	3.8	5.1	4.4	3.9	4.1	6.0	6.0
LB TIPS	4.5	6.3	5.0	3.4	4.1	5.4	7.8	7.1
LB Gvt/Credit	3.0	4.0	5.1	4.2	3.7	4.2	6.1	6.0
LB IT Gvt/Credit	2.9	4.4	5.4	4.5	3.5	3.8	5.7	5.7
LB LT Gvt/Credit	3.5	2.6	3.7	3.2	4.3	5.4	7.6	7.2
LB Hi-Yld	0.3	3.2	7.6	7.8	7.5	12.7	7.6	5.9
ML 1-3 Treasury	2.7	4.8	5.8	4.8	3.5	2.8	4.3	4.7
SB U.S. 3 Mo T-bill	1.1	3.5	4.8	4.7	4.1	2.9	2.9	3.6
SB Non-U.S. 1+ Yr Gvt	8.1	7.3	9.5	5.7	4.8	8.0	7.8	5.8
Real Estate								
Wilshire Real Estate Securities	1.4	-4.6	3.8	15.3	19.6	21.9	18.4	12.8
Other								
DJ AIG Commodities Index	6.2	14.9	17.0	4.8	9.5	14.1	10.8	7.6