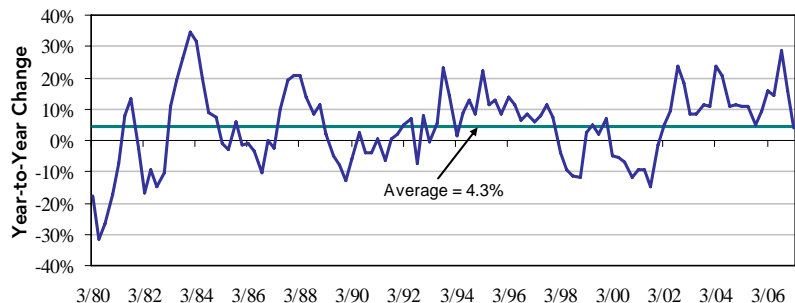


CAPITAL MARKETS REVIEW
2nd Quarter 2007

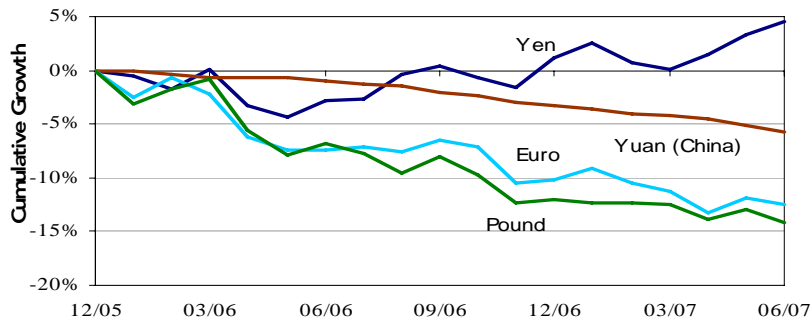
CAPITAL MARKETS REVIEW

Economy

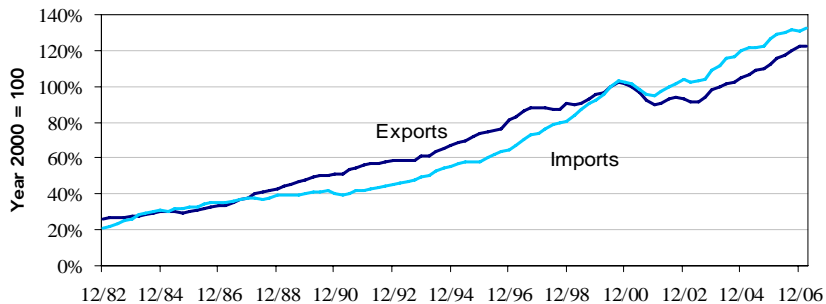
Real Corporate Profit Growth



U.S. Dollar Continues to Weaken



U.S. Exports and Imports



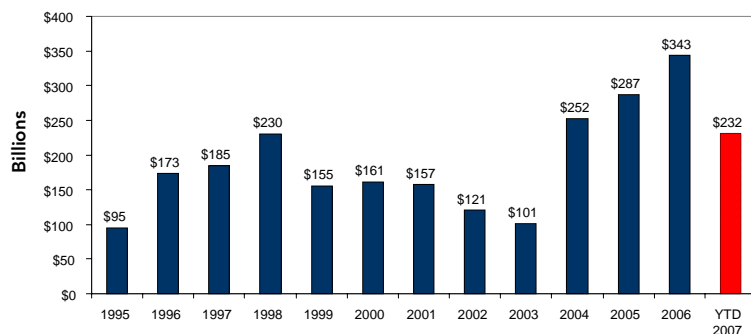
US Dollar Weakens; Corporate Earnings Growth Remains Strong

- The U.S. economy rebounded during the second quarter, following anemic GDP growth of 0.7% in the first quarter. Corporate profit growth, though slower, continued to top estimates, signaling underlying resilience in the economy.
- Oil refinery outages contributed heavily to an upward spike in gasoline prices. Local outages aggrandized into national price increases as market forces carried all fuel grades to near record levels. Recurrent violence in Nigeria, targeting political figures and oil-producing assets, pushed crude oil prices to \$70/barrel at quarter end.
- The fallout from subprime mortgage lending continued to envelop an expanding swath of interests. Bear Stearns saw two hedge funds, which invested heavily in aggregated subprime mortgage securities, nearly collapse following delinquencies in the underlying mortgages. Subprime mortgage issuance slowed exponentially, as lenders tightened credit standards and the federal government directed Fannie Mae and Freddie Mac to substantially pare purchases of lower-quality loans. Housing values in most markets continued to stagnate, and new construction plans were significantly reduced.
- The U.S. dollar continued to lose value against most world currencies. Rising interest rates in Europe and other regions, coupled with strong growth, contributed to lower demand for the U.S. dollar. The Euro reached a record high versus the U.S. dollar, while the British Pound ascended to a 15-year high. The falling dollar helped U.S. exports grow and elicited a strong rise in tourism from abroad. The inflationary tendencies of a weakening currency have remained subdued thus far.
- Health scares, including melamine in pet food and ethylene glycol in toothpaste, prompted calls for increased inspections of products imported from China and abroad. Venezuelan dictator Chavez's seizure of utilities and oil assets alarmed investors and sparked riots within the country. Long-serving leaders of France and England, Chirac and Blair, were succeeded in office by Sarkozy and Brown, respectively.

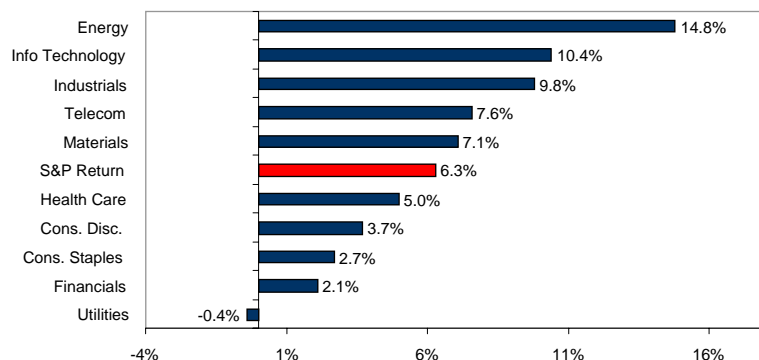
CAPITAL MARKETS REVIEW

Equities

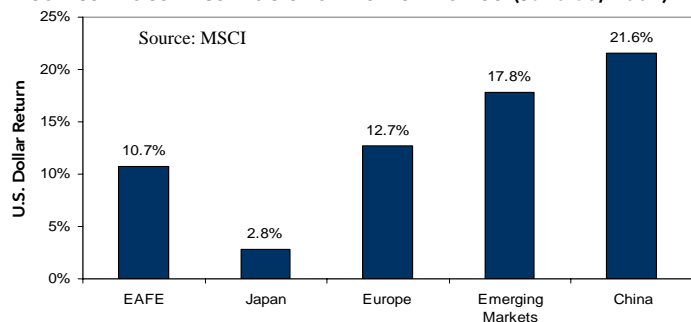
Announced Corporate Share Repurchases (Annually)



Second Quarter 2007 Sector Returns



Year-to-Date International Performance (June 30, 2007)



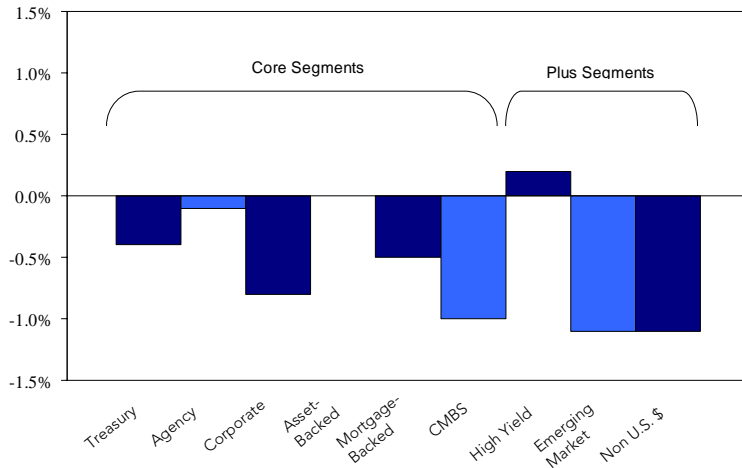
Equities March Ahead During the Second Quarter

- Equity markets posted strong advances during the second quarter with the S&P 500 Index earning a 6.3% return. Strong company earnings, record mergers and acquisition activity, and significant corporate share repurchases were key drivers behind the strong results. The market continued to shrug off concerns over a slowing real estate market and recurrent subprime mortgage troubles.
- Large-caps exceeded the returns of small-caps during the second quarter. The Russell 1000 Index returned 5.9% versus a 4.4% gain for the Russell 2000 Index. Large-caps outpaced the results of small-caps during the first half of 2007, possibly reversing an extended trend of underperformance relative to small-cap stocks.
- Energy, helped by rising oil prices, was the top-performing sector within the S&P 500 Index during the quarter. Resurgent corporate spending contributed to the favorable advances made within the information technology sector.
- Developed international equities performed favorably during the second quarter, advancing 6.4% in USD terms. Continued weakness of the dollar versus most major currencies contributed to international returns. During the quarter, the dollar's value reached an all-time low versus the euro. Japan, hampered by increased global competition and rising material costs, lagged most markets during the quarter, posting a 0.6% decline.
- Returns within the emerging markets exceeded those of all other equity markets during the quarter. The MSCI Emerging Markets Index advanced 15.1% in USD terms. Returns surged within the BRIC countries, with Brazil (+23.9%), India (+20.8%) and China (+24.5%) continuing to exhibit strong growth, as foreign investment remains strong. Despite the strong performance of emerging markets over the past several years, valuations remain fair relative to developed markets.

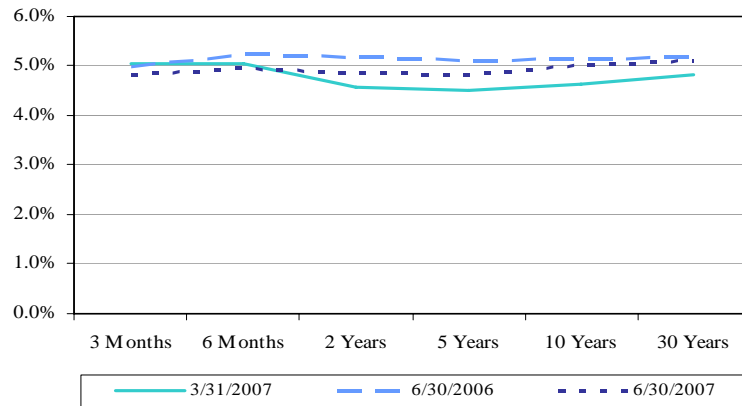
CAPITAL MARKETS REVIEW

Fixed Income

Fixed Income Market Segments
2Q07 Return



US Yield Curve



Source: Lehman Brothers.

Inflation Concerns and Sub-prime woes Impact Bonds

- The Fed held interest rates steady at 5.25% during the first half of 2007. Although US growth slowed, inflation remains a concern, particularly the prospect of imported inflation from high growth countries such as China and India. The yield curve steepened in the US, and the LB Aggregate returned -0.5%. Long bonds performed poorly during the second quarter with the 20+ year Treasury index down 2.4%.
- Yield curves steepened in three-fourths of the world's major bond markets as inflation was a global concern during the second quarter. The Global Treasury Index (ex US) returned -1.1% in local terms. The UK had one of the worst-performing markets, -3.5% in local currency terms, as the Bank of England raised interest rates 25bp in May to 5.5%, with another rate hike expected in August.
- The second quarter saw a re-pricing of risk as delinquencies and defaults on subprime mortgage loans increased. Spreads widened, particularly within the collateralized market. The CMBS sector performed the worst, declining 1.0% for the quarter. The MBS sector, benefiting from stronger credit quality, returned -0.5%. The Corporate sector returned -0.8% during the quarter. High yield corporate bonds were one of the bright spots, gaining 0.2% during the quarter.
- Emerging market bonds produced a negative return during the second quarter (-1.1%); however, losses were primarily limited to Latin America. The Venezuelan market, which represents 7% of the index, declined 10.3%. Investors sold Venezuelan bonds as Hugo Chavez continued to nationalize foreign interests, place restrictions on currency movement, and threatened to exit from the International Monetary Fund. Other emerging markets outperformed the US investment grade bond market.

CAPITAL MARKETS REVIEW

Hedge Funds

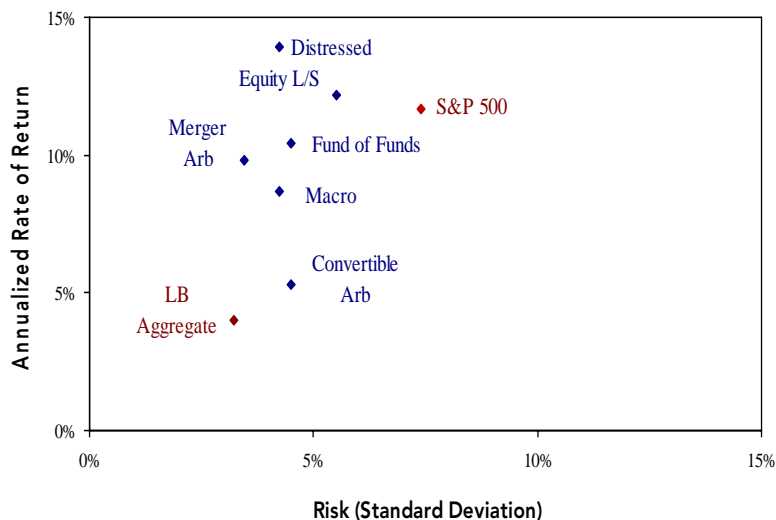
Hedge Fund Performance Results

June 30, 2007

Style	Second Quarter	Year to Date
Convertible Arbitrage	1.8%	4.7%
Distressed Securities	3.1%	7.0%
Equity Long/Short	5.4%	8.4%
Equity Market Neutral	2.7%	4.6%
Macro	5.7%	6.2%
Merger Arbitrage	2.4%	5.8%
Fund of Funds	4.6%	7.9%

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Three Year Risk/Return for Various Hedge Strategies



Source: Hedge Fund Research

Long/Short Equity Leads in Returns and Asset Growth

- The HFRI Hedge Fund of Funds Index gained 4.6% during the second quarter of 2007, pushing the year-to-date return to 7.9%. Following the market correction that occurred during the latter half of the first quarter, financial markets recovered strongly in April and May. Inflationary pressures and weakness in the subprime mortgage market drove up volatility during June, however most hedge funds still posted positive gains. For the year, equity long/short strategies outpaced all other strategies. Funds with net long exposure to international securities performed particularly well.
- Two hedge funds managed by Bear Stearns nearly collapsed during the second quarter. The High Grade Structured Credit Strategies Enhanced Leveraged Fund and the High Grade Structured Credit Strategies Fund with leveraged assets topping \$20 billion, declined significantly. These funds invested in securities tied to risky mortgages given to borrowers with poor credit. Bear Stearns announced that it will help bail out the less levered fund with a capital infusion of approximately \$3.2 billion. It is yet to be determined what will happen to the fund with enhanced leverage. This marks the largest bail-out since the \$4.6 billion collapse of Long-Term Capital Management in 1998. Overall however, this event and the subprime lending debacle have had limited impact on the rest of the market.
- New hedge fund launches spiked during the first half of 2007. Year-to-date through June 30, 2007 there were 72 hedge fund launches compared to 51 during the first half of 2006. These new funds have raised more than \$14 billion in assets compared to \$11 billion for new funds raised during the first half of 2006. Long/short equity strategies accounted for 28, or 37% of the total new funds launched, up from 19 new long/short funds in 2006.
- During the quarter it was announced that BlackRock plans to acquire the fund of funds business of Quellos Group, LLC. The combined firm would manage more than \$25 billion in fund of fund assets, making it one of the largest fund of funds platforms. The acquisition is slated to close October 1, 2007.

CAPITAL MARKETS REVIEW

Private Equity

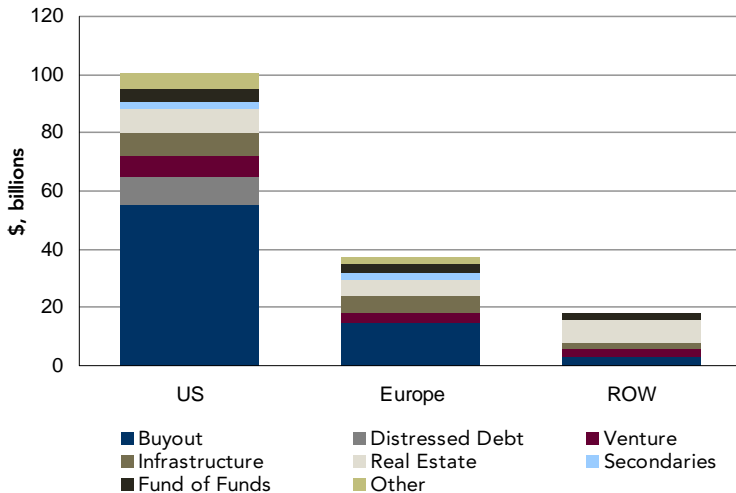
Investment Horizon Returns as of 3/31/07

Fund Type	3 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Early/Seed VC	1.9%	8.0%	6.9%	-1.4%	37.7%	20.6%
Balanced VC	9.5%	25.4%	12.3%	5.8%	18.0%	14.3%
Later Stage VC	4.0%	23.5%	9.6%	5.2%	10.0%	13.8%
All Venture	5.4%	18.1%	9.6%	2.7%	21.0%	16.4%
Small Buyouts	0.6%	10.3%	9.0%	6.4%	4.9%	23.5%
Med Buyouts	5.3%	26.0%	13.6%	8.5%	11.0%	13.8%
Large Buyouts	13.6%	22.1%	11.0%	11.0%	8.1%	12.5%
Mega Buyouts	5.1%	22.3%	16.4%	12.2%	9.2%	12.0%
All Buyouts	6.0%	22.3%	15.0%	11.4%	8.9%	13.1%
Mezzanine	2.1%	10.8%	4.9%	4.5%	5.9%	8.5%
All Priv Equity	5.9%	21.5%	13.1%	8.7%	11.3%	14.0%
S&P 500	0.6%	11.8%	10.1%	6.3%	8.2%	10.8%
Russell 2000	2.0%	5.9%	12.0%	11.0%	10.2%	9.8%

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

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

Aggregate Capital by Regional Focus



Source: Private Equity Intelligence

Investors Planning to Increase Allocations

- Venture capital and private equity performed strongly during the first quarter of 2007 and for the past year. With the exception of early stage venture capital, one-year returns have been near 20% for most categories. A strong mergers and acquisitions market accounts for some of the favorable performance.
- Fundraising continued to break records during the second quarter. The 139 funds that held final closings during the quarter raised \$155 billion of capital. The number of funds raising capital has remained relatively steady, however, average fund size has increased.
- About two-thirds of the buyout capital raised during the first quarter is US focused. By contrast, only about one-half of the venture capital raised is US focused.
- Investors continue to have a growing appetite for private equity. The average allocation to private equity is 7.8% and the average target allocation is 9.7%. A study of intentions suggests that more money will be poured into private equity; 72% of investors expect to increase their allocations and only 5% expect to reduce allocations.
- IPO activity increased and was largely successful during the second quarter. There were 36 IPOs, which raised \$6.7 billion. MetroPCS Communications, the largest IPO during the quarter and the third largest venture-backed offering of all time, raised \$1.15 billion. The offering performed very well, with its post-offer value increasing to \$8.0 billion. M&A activity was slower than in past quarters, but still strong with total announced deals of \$2.7 billion.

CAPITAL MARKETS REVIEW

Real Assets

Returns as of March 31, 2007

	3 Mon.	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.	Allocation
NCREIF	3.6%	3.6%	16.6%	17.4%	13.7%	12.9%	
Apartments	2.9%	2.9%	13.9%	16.2%	13.4%	12.8%	23%
Industrials	3.2%	3.2%	16.8%	16.7%	13.0%	13.0%	17%
Office	4.6%	4.6%	19.9%	17.7%	12.4%	12.9%	36%
Retail	3.1%	3.1%	13.1%	18.7%	17.7%	13.4%	22%
Hotel	3.6%	3.6%	23.2%	17.9%	13.3%	12.2%	2%
East	3.7%	3.7%	17.6%	18.6%	15.4%	14.0%	33%
Midwest	3.1%	3.1%	11.9%	13.1%	10.5%	10.1%	10%
South	0.0%	0.0%	11.0%	14.7%	11.6%	11.0%	21%
West	4.2%	4.2%	18.8%	18.9%	14.4%	14.1%	35%

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

Allocation	Segment	3 Months	6 Months
70%	Energy	0.6%	8.0%
11%	Industrial Metals	2.9%	10.7%
2%	Precious Metals	1.4%	0.9%
12%	Agriculture	6.7%	-1.3%
5%	Livestock	-2.9%	1.4%
100%	Total Market	1.3%	6.5%

Real Assets Continue To Perform Well

- Private real estate continued to post strong returns in the first quarter, gaining 3.6%. The NCREIF Index has experienced strong appreciation while income returns have hovered around 6% (annualized). Historically, the majority of real estate returns have come from income, which is now slightly below long-term averages.
- The office sector was the strongest performer in the Index. The rally in this sector was highlighted by Blackstone's \$38 billion bid for Equity Office Properties, the largest owner of office space in the United States. The sale was completed after a bidding war between Blackstone and Vornado, which considerably drove up prices. Property market fundamentals continued to improve, with more markets moving into the rent growth stage of the investing cycle. Tenant demand remains solid across all major property types, while new supply has remained modest.
- Regionally, the Midwest and South continue to lag markets on the coasts, with returns in the South being virtually flat during the first quarter. Factors helping the coastal regions include: rising rental rates, lower unemployment, and accelerated property development relative to the Midwest and South.
- The Goldman Sachs Commodity Index produced positive results for the second consecutive quarter, returning 1.3%. Heavy exposure to agriculture was the primary driver of performance, as the sector returned 6.7% for the quarter. Despite rising oil prices, the energy sector ended the quarter relatively flat, returning 0.6%, largely in part to the sharp decline in natural gas prices.
- Several factors contributed to pushing industrial metals prices sharply higher early in the quarter, including a Peruvian miner strike, the struggling dollar, and strong Asian demand. For the trailing 12 months, industrial metals have been the strongest-performing sector of the commodities market. Agriculture also experienced strong gains for the quarter. Very hot and dry weather in many parts of the world have threatened supply of various crops, most notably wheat. Continued demand for corn, which is used to produce ethanol, also drove prices upward.

CAPITAL MARKETS REVIEW

Index Returns

Periods Ended June 30, 2007

(Percentage Return)

	<u>2nd 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	6.0	7.6	20.4	15.1	12.8	12.0	3.2	7.7
S&P 500	6.3	7.0	20.6	14.5	11.7	10.7	2.2	7.1
Russell 1000	5.9	7.2	20.4	14.6	12.3	11.3	2.6	7.6
Russell 1000 Growth	6.9	8.1	19.0	12.4	8.7	9.3	-4.4	4.4
Russell 1000 Value	4.9	6.2	21.9	16.9	15.9	13.3	9.4	9.9
Russell MidCap	5.3	9.9	20.8	17.2	17.2	16.4	10.1	11.9
Russell MidCap Growth	6.7	11.0	19.7	16.3	14.5	15.5	0.5	8.7
Russell MidCap Value	3.7	8.7	22.1	18.1	19.3	17.2	15.8	13.1
Russell 2000	4.4	6.5	16.4	15.5	13.5	13.9	8.4	9.1
Russell 2000 Growth	6.7	9.3	16.8	15.7	11.8	13.1	0.9	5.3
Russell 2000 Value	2.3	3.8	16.1	15.3	15.0	14.6	15.9	12.1
International Equity Indices								
MSCI EAFE	6.4	10.7	27.0	26.8	22.2	17.7	6.6	7.7
MSCI EAFE Growth	6.9	12.2	25.7	26.0	21.1	15.8	3.4	5.5
MSCI EAFE Value	6.5	10.0	29.3	28.5	24.4	20.6	10.6	10.4
MSCI EAFE Small-Cap	4.4	11.9	25.6	27.2	25.2	24.8	14.3	NA
MSCI All Country World Free	7.4	10.2	25.8	22.2	18.6	15.4	4.9	7.6
MSCI AC World Free ex U.S.	8.4	12.6	30.2	29.3	25.0	19.9	8.2	8.6
MSCI Emerging Free	15.1	17.8	45.5	40.6	38.7	30.7	16.2	9.4
Fixed Income Indices								
LB Aggregate Bond	-0.5	1.0	6.1	2.6	4.0	4.5	6.0	6.0
LB TIPS	-0.8	1.7	4.0	1.1	3.8	6.0	7.4	6.7
LB Gvt/Credit	-0.5	1.0	6.0	2.2	3.8	4.7	6.1	6.1
LB IT Gvt/Credit	-0.1	1.5	5.8	2.7	3.4	4.1	5.7	5.7
LB LT Gvt/Credit	-1.9	-0.9	7.0	0.0	5.4	6.6	7.5	7.4
LB Hi-Yld	0.2	2.9	11.6	8.1	9.0	11.9	7.7	6.3
ML 1-3 Treasury	0.7	2.1	5.1	3.4	2.9	2.8	4.2	4.6
SB U.S. 3 Mo T-bill	1.2	2.4	4.9	4.6	3.8	2.7	3.0	3.6
SB Non-U.S. 1+ Yr Gvt	-1.8	-0.8	2.2	1.1	3.3	6.9	5.9	5.0
Real Estate								
Wilshire Real Estate Securities	-9.5	-6.2	11.7	16.7	22.4	19.5	19.4	13.6
Other								
DJ AIG Commodities Index	-0.1	9.1	2.9	10.3	9.7	14.4	10.4	7.4