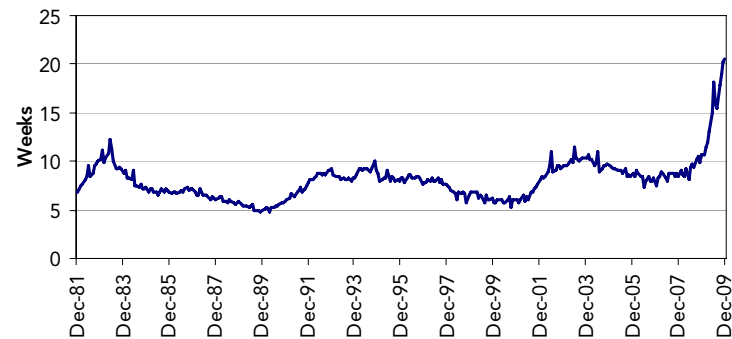


**CAPITAL MARKETS REVIEW**  
**4th Quarter 2009**

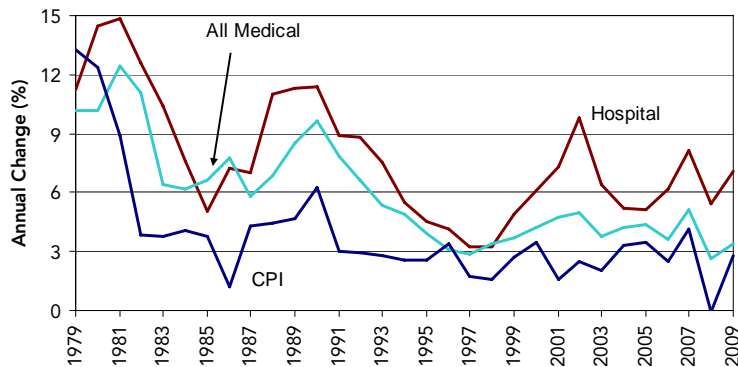
# CAPITAL MARKETS REVIEW

## Economy

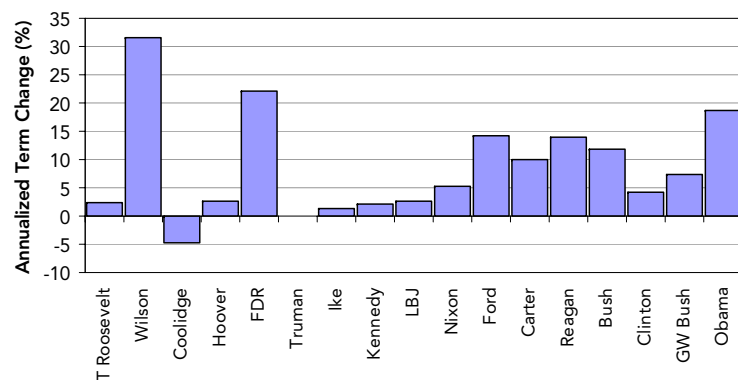
### Median Weeks Unemployed



### Hospitalization Costs Outpace CPI



### Presidents and National Debt



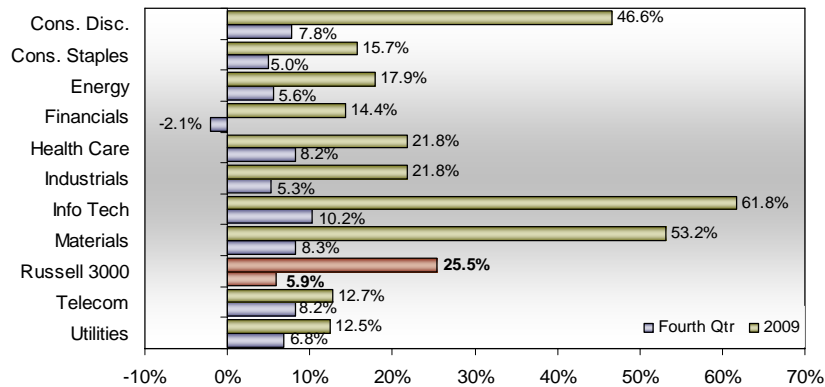
## Growth Prospects for 2010 Remain Subdued

- Economic expansion continued in the fourth quarter as inventories were replenished and exports rose more quickly than imports. Impending legislation and a removal of government stimulus spending in 2010 are potential hazards as the economy enters the new year.
- The Federal Reserve extended its mortgage purchase program until the spring of 2010, while the homebuyer tax credit was extended and expanded to apply to existing homebuyers. Banks continued to hold a large volume of foreclosed homes off the market, which may dilute a housing rebound if released to the market en masse.
- Prices in the fourth quarter rose at a 3.3% annual rate, while inflation for 2009 was up 2.8%. Leading the rise in prices during the fourth quarter were automobiles (+12.2%), gasoline (+37.6%), and all energy (+25.8%). Falling during the quarter were appliance prices (-8.8%), housing ex-utilities (-0.6%), and recreational items, including televisions (-24.3%), toys (-16.6%), and cameras (-14.1%). Automobile costs are expected to mitigate as manufacturers increased production in the fall to compensate for depleted inventories. Consumer goods prices are unlikely to rise in the near term, as a result of lingering high unemployment. Prices for medical care rose 3.8% during 2009, with hospital care its strongest component (+7.1%).
- Job losses decelerated during the fourth quarter, while temporary hiring increased, signaling continued healing in the labor markets. The longer-term unemployed workers fared worse, as the average term of unemployment stretched to 29 weeks, with the median at 20 weeks. In December, over 6.1 million workers had been unemployed for at least 27 weeks. The labor force participation rate of 64.6% was at its lowest rate since August 1985. Construction and manufacturing workers continued to bear the brunt of ongoing job losses. The unemployment rate surpassed 10% at the end of 2009.
- Gold prices briefly breached \$1200/oz in December following Federal Reserve pronouncements to keep interest rates low for an extended time period. Following rising default risks in Dubai, Greece, Spain, Ireland, and Austria, the dollar rallied through the close of the quarter.
- A \$400 billion cap on loss support for Fannie Mae and Freddie Mac was lifted, opening the way for massive writedowns on mortgages in 2010. The U.S. federal debt surpassed \$12 trillion during November. 2009's debt increase of 18.8% ranks second (post WWII) to the 20.6% increase in 1983. Calvin Coolidge was the last President to exit the office with a lower national debt than when he began.

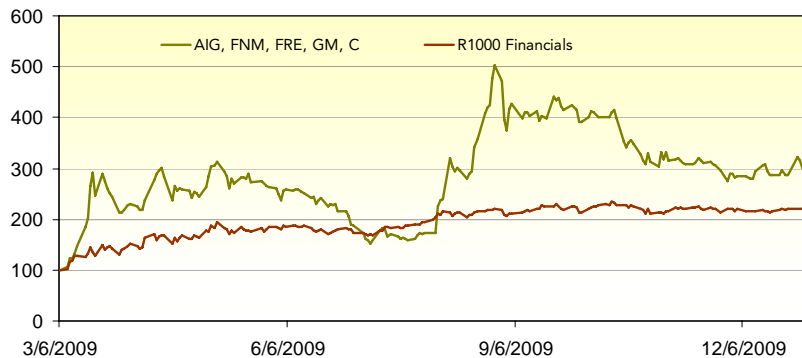
# CAPITAL MARKETS REVIEW

## Equities

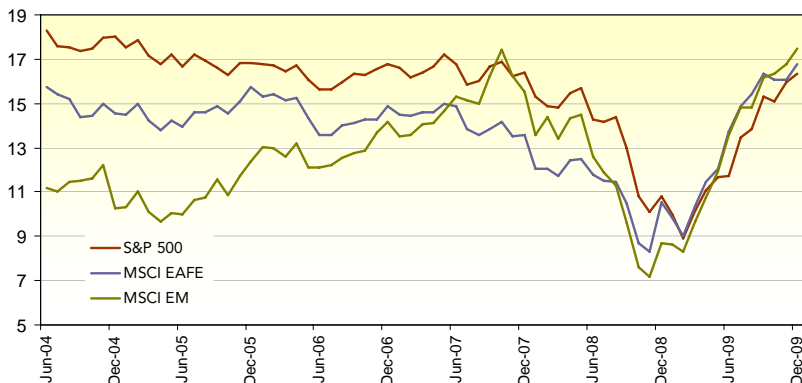
### 4th Quarter 2009 Sector Returns



### "Failed" Company Composite Performance - Cumulative Returns



### P/E Ratio Excl. Negative Earnings



## Equity Markets Finish 2009 Strong

- Equity markets finished the year on a strong note, with most markets finishing the year up over 25%. For the quarter, domestic markets broadly outpaced developed international markets with the S&P 500 gaining 6.0% vs. 2.2% for the MSCI EAFE. Emerging markets continued to outperform all other equity markets returning 8.6% for the quarter, which brought the 2009 return to a staggering 79.0%. In all, 2009 ended as one of the strongest years for equities on record.
- Growth outperformed value during the quarter as financials underperformed relative to more growth-oriented sectors such as information technology and telecom. Larger cap companies generally outperformed smaller cap companies, with mid cap companies showing no leadership for the quarter. All sectors within the Russell 3000 Index, with the exception of financials (-2.1%), posted positive returns. Information technology, materials and telecom were the strongest performing sectors, returning 10.2%, 8.3% and 8.2%, respectively. Top individual contributors to the Russell 3000 during the quarter included Google (+25.0%), Microsoft (+19.0%) and Apple Inc. (+13.7%).
- Despite losses experienced in the fourth quarter, financials have rebounded significantly from their early March 2009 lows. What's more, several companies on the verge of failure experienced the most appreciable performance year to date. A buy and hold portfolio of some of the largest troubled companies (AIG, Freddie, Fannie, GM, and Citi) markedly outperformed the broader financials sector. Performance for these companies is due mostly to investor speculation that they would avoid collapse and survive, regardless of ownership.
- Consumer staples and materials companies were the strong performers in international markets, as countries rich in commodities tended to outperform those dependent on commodities. Australia continued to perform strongly, returning 4.9% for the quarter and 76.4% for the year. Euro countries didn't fair as well as public debt problems surrounding Greece and the other constituents of the "PIIGS" (Portugal, Ireland, Italy, Greece and Spain) caused local markets to sell off. Greece finished the quarter down 22.4%, Italy lost 2.7%, and Ireland lost 2.7%, with Spain and Portugal finishing up 1.3% and 0.4%, respectively. Resource rich countries led a strong fourth quarter for emerging markets. Latin American countries gained 12.4%, as Brazil (+12.9%) continued to anchor strong returns in the region. Eastern Europe (+9.3%) contributed strong returns for the quarter as Russia and Poland returned 10.5% and 12.9%, respectively. Laggards included Egypt (-6.2%) and Morocco (-7.1%).
- Valuations, as measured by the price to earnings ratio, have expanded materially since December 2008. As of December 31, 2009 the emerging markets' multiple (17.5x) was at a premium to that of domestic (16.3x) and international (16.8x) markets. Further P/E expansion is plausible; however, the broad market rally has resulted in multiples that are at or above the pre-crisis levels experienced in 2007.

# CAPITAL MARKETS REVIEW

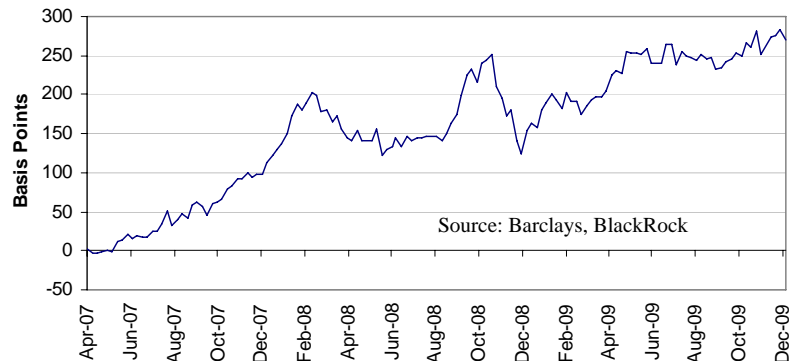
## Fixed Income

### Duration-adjusted Excess Returns to Treasuries (bps)

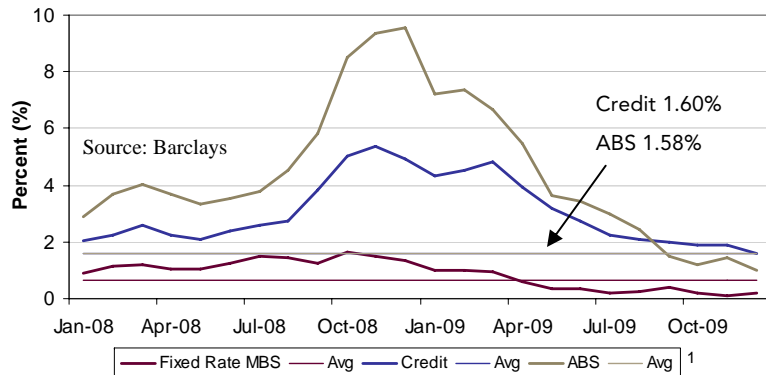
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Aggregate	-80	80	-131	54	29	155	103	-31	85	-206	-710	746
Agency	-49	41	-13	73	96	27	78	13	75	-56	-110	288
MBS	-90	113	-77	-75	173	11	142	-37	122	-177	-232	495
ABS	-88	137	43	139	-16	181	145	32	87	-634	-2223	2496
CMBS	N/A	87	-41	131	210	201	118	15	137	-435	-3274	2960
Credit	-238	170	-463	277	-187	527	159	-85	119	-464	-1786	1990
High Yield	-843	476	-1897	-285	-1329	2642	800	47	843	-777	-3832	5955
Emerging Markets	-2046	2417	148	-541	23	2465	823	959	702	-457	-2842	3797

■ Best Period   
 ■ Worst Period   
 ■ Second Worst Period   
 Source: Barclays, BlackRock

### Two to Ten Year Treasury Spread



### Option-Adjusted Spreads vs. 10 Year Average



<sup>1</sup> Note: Average lines for Credit and ABS plot on top of each other.

## Rally Slows as Spreads Tighten to Pre-2008 Levels

- The U.S. economy's strong headline growth, combined with the still-accommodative stance of the Federal Reserve, caused government bonds to fall and spread sectors to continue to rally during the quarter, leading to a modest broad market return of 0.2%. Treasuries declined 1.3% as investors sought higher yielding instruments. Long duration Treasuries (-5.3%) bore the brunt of the selling due to concerns regarding the Treasury's large scheduled issuance calendar, which led the Treasury yield curve to steepen to record levels.
- Asset-backed securities (+1.3%) saw a modest positive return during the quarter as demand for high yielding and high quality assets continued to drive returns. Despite the high unemployment rate, fundamentals within ABS are strengthening, as credit card charge-offs have begun to moderate and demand for new vehicles has been on an upward trend. CMBS returned 3.3% during a fairly mixed quarter for the sector. Prices for TALF-eligible CMBS strengthened, and three new CMBS deals were met with strong demand. However, extremely poor fundamentals in commercial real estate cast a heavy pall over the market while demand for CMBS from Public-Private Investment Program (PPIP) managers has been slow to materialize.
- Investment grade credit returned 1.0% during the quarter, bringing their year to date return to 16.0%. Earnings and profits at several large banks came in much better than expectations, which led investors to continue to move into financials (+2.6%). Industrials (+0.8%) and utilities (+0.2%) both underperformed as investors sought less conservative and less expensive alternatives. During the quarter, spreads within investment grade credit narrowed to within their long term averages.
- High yield corporate bonds continued their very strong performance with a 6.2% return during the quarter, which brought their 2009 return to 58.2%. Defaults appear to have reached a peak of 12.7% during November, as the market's appetite for yield continues to allow companies to issue longer term debt to replace near-term liabilities. Low quality high yield continued to outperform high quality, with CCC-rated securities returning 8.7% during the quarter and 90.7% for the year.
- Mortgage-backed securities (+0.6%) saw a fairly weak quarter. The U.S. government drove down yields as they continued to purchase nearly all new agency MBS issuance during the quarter, while many investors began to sell their holdings in anticipation of the winding-down of the government's purchase program slated for the end of the first quarter of 2010. Non-agency MBS continued to perform strongly during the quarter, with returns being driven by demand from a rejuvenated re-securitization market, private equity and PPIP managers, and a variety of other yield-hungry investors.
- The broad non-U.S. developed government bond market returned 0.1% in local currency terms and -2.2% on a hedged basis. While many developed countries' government bonds saw a modest positive return in local terms during the quarter, the performance of the broad market was dominated by the -6.5% return of Greece, whose credit rating was downgraded to BBB+ by S&P and Fitch, and the -2.1% return of England, which suffered due to concerns regarding its fiscal policy and the prospect of heavy debt issuance. In emerging markets, externally-denominated debt returned 1.5% and locally-denominated government debt returned 3.1% as investors shrugged off the effect of Dubai World's debt restructuring and focused on strong economic growth.

# CAPITAL MARKETS REVIEW

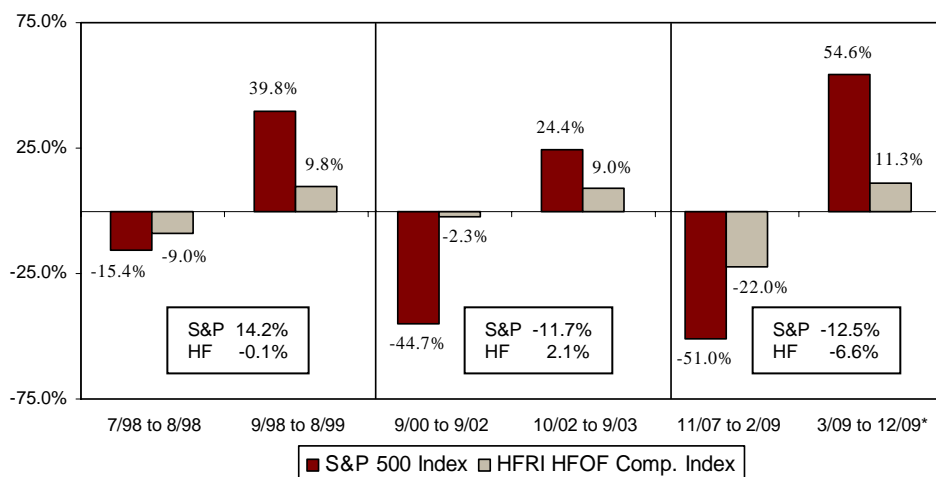
## Hedge Funds

### Hedge Fund Performance Results December 31, 2009

Style	Fourth Quarter	2009	2008
Convertible Arbitrage	4.5%	60.2%	-33.7%
Distressed Securities	6.6%	29.2%	-25.2%
Equity Hedge	3.3%	25.0%	-26.7%
Equity Market Neutral	0.4%	1.7%	-5.9%
Macro	0.2%	4.2%	4.8%
Merger Arbitrage	2.0%	11.6%	-5.4%
Hedge Fund Composite	2.7%	20.1%	-19.0%
Fund of Funds	1.5%	11.6%	-21.4%
S&P 500	6.0%	26.5%	-37.2%

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### Hedge Fund Performance: One Year Following Large Market Downturns



\* Only ten months of returns are available after 2/28/2009.

Cumulative annualized returns in boxes.

### Hedge Funds Recoup 2008 Losses

- The HFR Hedge Fund Composite Index advanced 20.1% during 2009, its best annual return in the past decade. This performance follows the industry's stunning 2008 loss of 19.0%, the worst year on record for hedge funds. Hedge funds of funds ended the year in positive territory, although the 11.6% return for diversified funds of funds was average, held back by market neutral and macro strategies. During the last twelve months, hedge funds significantly outpaced bonds, but could not keep pace with equities, as the Barclays Capital U.S. Aggregate Index and S&P 500 Index returned 5.9% and 26.5%, respectively.
- All hedge fund strategies produced positive returns in 2009, with the exception of short-biased managers, which were crushed by the market rally and lost 23.5% during the year. Convertible arbitrage managers were the top performers, gaining 60.2% during 2009. These managers, which exploit price discrepancies between companies' convertible bonds and the underlying stock, profited in 2009 from the appreciation of beaten down convertible securities, and the purchase of newly issued securities at severely discounted prices.
- Although mostly positive, there was significant dispersion among the returns of long/short equity fund managers during the year. Managers with greater directional exposure benefited more from the rally that continued through the fourth quarter. Managers entered 2009 cautious about the markets, with many holding 50% to 60% of their portfolios in cash; however, as the economy and markets stabilized, hedge funds deployed cash, buying both stocks and bonds. Through most of the fall, hedge funds were fully invested in the market.
- Managers are expecting event-driven trades such as mergers and spinoffs to increase during 2010 as firms seek to expand top-line revenue after a year of cutting expenses. With less competition in the event-trading space due to the closure of many proprietary trading desks, event trades are expected to offer larger profits.
- Hedge funds experienced net inflows of \$54 billion from August through November of 2009, according to BarclayHedge. Flows into hedge funds are back to pre-crisis levels. Hedgefund.net reports assets under management industry wide at \$2.0 trillion currently.
- In October 2009, Raj Rajaratnam, the founder of the multi-billion dollar hedge fund firm Galleon Group, and a number of others were charged in what is believed to be the largest insider trading case in history. The case involves employees from some of America's best-known and most prestigious companies. Prosecutors say Rajaratnam's alleged illegal profits stand at more than \$40 million.

# CAPITAL MARKETS REVIEW

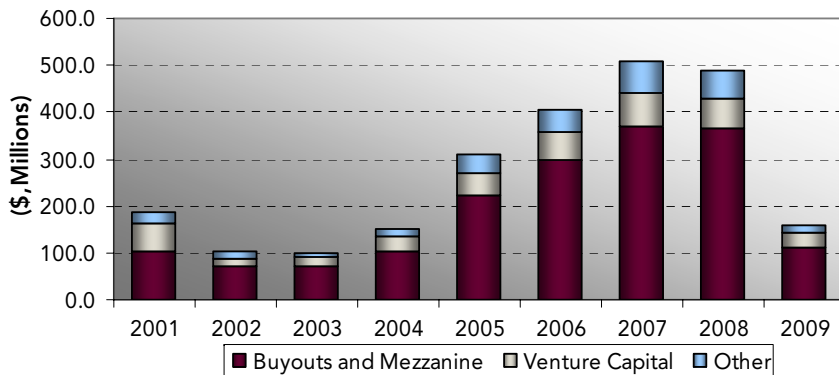
## Private Equity

### Investment Horizon Returns as of 9/30/09

Fund Type	3 Months	1 Year	3 Years	5 Years	10 Years	20 Years
Early/Seed VC	2.3%	-11.5%	0.4%	2.0%	8.3%	22.5%
Balanced VC	3.3%	-12.5%	3.2%	8.0%	9.2%	14.8%
Later Stage VC	1.8%	-5.9%	6.6%	8.2%	5.0%	14.7%
All Venture	2.6%	-10.8%	2.6%	5.4%	7.7%	17.4%
Small Buyouts	-5.3%	-17.6%	0.9%	6.2%	3.9%	11.8%
Med Buyouts	1.2%	-4.8%	4.3%	11.3%	5.9%	10.9%
Large Buyouts	5.0%	-5.0%	3.5%	7.6%	5.0%	10.5%
Mega Buyouts	5.7%	-10.4%	-0.8%	5.8%	4.7%	7.9%
All Buyouts	5.4%	-9.9%	0.1%	6.4%	4.8%	9.1%
Mezzanine	6.6%	-11.7%	2.3%	3.2%	3.9%	7.3%
All Priv Equity	6.4%	-7.9%	1.7%	6.6%	5.9%	11.4%
S&P 500	15.6%	-6.9%	-5.4%	1.0%	-0.2%	8.0%
Russell 2000	19.3%	-9.5%	-4.6%	2.4%	4.9%	7.9%

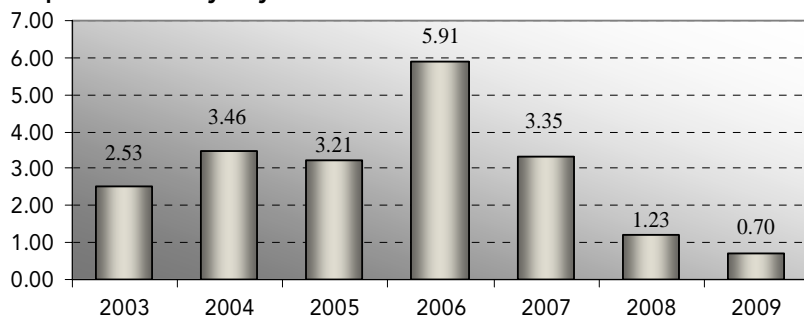
Source: Thomson Financial Venture Economics & National Venture Capital Assn.  
Note: Data is continuously updated and is therefore subject to change.

### Global Fundraising By Year



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

### Ratio of Total Global Buyout Deal Volume to Capital Called by Buyout Funds



Source: Dealogic / Private Equity Intelligence

## Fundraising and Deal Activity Tumbled in 2009

- All private equity fund types experienced positive returns during the third quarter, with the exception of small buyout funds, which declined 5.3%. While the rebound in private equity valuations continued, private equity funds significantly trailed the public markets for the second consecutive quarter. Private equity funds returned +6.4% for the quarter, compared to a +15.6% return for the S&P 500 and a +19.3% return for the Russell 2000 Index. For the year, private equity funds outperformed small-cap stocks, but lagged large-cap stocks. Over longer-term periods, private equity funds continue to outperform their public market counterparts.
- Global private equity fundraising continued to plummet during the second half of 2009. For the year, private equity fundraising declined 67% from the prior year while experiencing its worst fundraising totals since 2004. The drop in commitments has been driven by a lack of distributions from private equity funds and over-allocations to the asset class. Fundraising difficulties are expected to continue during 2010 and beyond. The recent lack of distributions has been mitigated somewhat by minimal drawdown activity, but drawdown activity is expected to pick up significantly as private equity funds look for bargains with record levels of “dry powder” to put to work.
- Total global buyout deal volume reached just \$77 billion in 2009, a 61% decline from 2008 and an 88% decline from 2007. As the credit environment remained extremely difficult in 2009, the deals that were completed required much larger equity portions than in previous years. This is evidenced by the ratio of total global buyout deal volume to capital called by buyout funds. At the peak of the cycle, the ratio reached 5.9x, which shows that a majority of deal activity was financed with leverage. However, the ratio was just 1.2x and 0.7x in 2008 and 2009, respectively, showing that recent deals have used little to no leverage. The ratio of less than 1.0x in 2009 suggests that most of the capital called was being used to prop up existing portfolio investments.
- While other private equity sectors experienced extreme difficulties finding commitments in 2009, secondary firms set a fundraising record with 28 funds raising \$19.1 billion during the year, a 57% increase from 2008. However, the record amount was driven by several extremely large (\$1+ billion) funds. The number of funds that raised capital in 2009 remained unchanged from 2008. While record commitments were raised on the expectation of record secondary deal activity, the opportunity has yet to pan out. Secondary activity actually decreased from 2009 to 2008 as buyers and sellers remained at an impasse over pricing.
- Venture-backed liquidity events remained sluggish in 2009 as only \$16.2 billion of venture-backed M&A deals were completed, a 37% decline from 2008. Nine venture-backed IPOs were completed in 2009 compared to the seven completed in 2008. However, 18 venture-backed companies have registered for an IPO since September 2009.

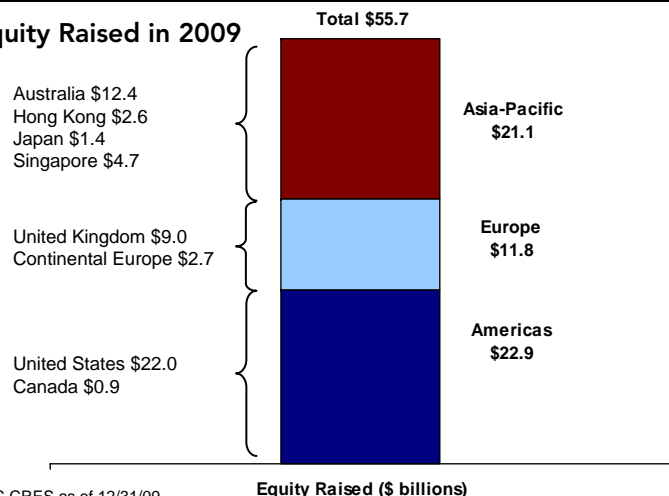
# CAPITAL MARKETS REVIEW

## Real Assets

Returns as of September 30, 2009

	3 Mon.	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
NCREIF	-3.3%	-15.1%	-22.1%	-1.3%	6.2%	7.8%
Apartments	-3.0%	-16.0%	-23.0%	-3.5%	4.6%	7.5%
Industrials	-3.9%	-15.7%	-22.4%	-1.7%	5.9%	7.9%
Office	-3.3%	-16.8%	-24.5%	-0.6%	6.5%	7.2%
Retail	-3.1%	-10.1%	-15.8%	0.4%	7.5%	9.9%
Hotel	-4.5%	-17.4%	-26.5%	-1.8%	5.9%	5.5%
East	-2.4%	-15.3%	-23.5%	-1.5%	6.4%	8.6%
Midwest	-2.4%	-12.0%	-17.9%	-0.8%	4.5%	6.0%
South	-3.2%	-13.0%	-18.9%	-0.8%	6.2%	7.0%
West	-4.5%	-16.9%	-23.7%	-1.4%	6.6%	8.5%

## REIT Equity Raised in 2009



Source: ING CRES as of 12/31/09

## DJ-UBS Commodity Index Components Total Return Ending December 31, 2009

Allocation	Segment	3 Months	1 Year	3 Years	5 Years
24.7%	Energy	3.4%	-5.3%	-15.6%	-12.9%
26.3%	Industrial Metals	16.9%	80.0%	-5.7%	14.1%
10.6%	Precious Metals	6.1%	29.2%	16.0%	19.0%
15.2%	Grains	13.6%	-1.6%	1.0%	4.2%
4.9%	Livestock	3.9%	-15.1%	-18.4%	-12.6%
8.5%	Petroleum	8.2%	18.9%	-6.2%	-2.2%
9.8%	Softs	7.2%	44.2%	-0.1%	-0.8%
100%	Total Market	9.0%	18.9%	-3.8%	2.0%

## Re-pricing Continues to Dampen Returns for Private Markets, Public Markets Enjoy Another Strong Quarter

- Private real estate markets continued to deteriorate during the third quarter, albeit at a slower pace than previous quarters, possibly indicating that market pricing is approaching a bottom. During the quarter, the NCREIF Index generated an income return of 1.6% and depreciation of -4.9%, for a total return of -3.3%. The trailing one-year return of -22.1% set a new low since the Index's inception in 1978. Apartments and retail properties outpaced the NCREIF Index during the quarter, while the industrial, office and hotel sectors underperformed. Falling rents and rising vacancy rates are plaguing the industry, however, a divergence among property types is starting to emerge. This is most apparent between the apartment and office sectors. The decline among apartment properties appears to be lessening, while office properties have yet to find a bottom.
- Total transaction volume in the first three quarters of 2009 was lower than during any quarter since 2001, although transaction volume appears to be re-emerging. During the third quarter, total volume reached \$12.5 billion. Financing continues to be a headwind as debt remains scarce for those needing to re-finance. Lenders likely will require borrowers to pay down current debt significantly in order to receive additional financing.
- U.S. and foreign REITs continued to perform strongly during the quarter. The NAREIT Index and FTSE/EPRA NAREIT Index advanced 8.3% and 4.0%, respectively. U.S. REITs ended 2009 with a return of 27.5%, but failed to keep pace with foreign REITs' return of 41.3%. Investors believe property stocks are poised to make accretive acquisitions in 2010 due to large recapitalizations in 2009. Many REITs repaired their balance sheets by raising \$56 billion of new equity globally.
- The DJ-UBS Commodity Index enjoyed another strong quarter rising 9.0%, and bringing the calendar year 2009 return to 18.9%. Industrial metals continued to rise as economic recoveries in China, India and Brazil boosted demand worldwide. Investors expect demand to soar in 2010, as the world economy recovers. Concerns about inflation are still elevated, which pushed gold prices to an all-time high of \$1,226/oz. on December 3<sup>rd</sup>. Oil prices rose 12% to close the year at \$79.

# CAPITAL MARKETS REVIEW

## Index Returns

As of December 31, 2009

(Percentage Return)

	1 Quarter	Year To Date	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
<b>Domestic Equity Indices</b>								
Dow Jones Wilshire 5000	6.0	29.4	29.4	-9.9	-5.0	1.1	6.6	-0.2
S&P 500	6.0	26.5	26.5	-10.7	-5.6	0.4	5.5	-0.9
Russell 1000 Index	6.1	28.4	28.4	-10.5	-5.4	0.8	6.0	-0.5
Russell 1000 Growth Index	7.9	37.2	37.2	-8.1	-1.9	1.6	5.9	-4.0
Russell 1000 Value Index	4.2	19.7	19.7	-13.1	-9.0	-0.3	5.9	2.5
Russell Midcap Index	5.9	40.5	40.5	-9.3	-4.6	2.4	9.6	5.0
Russell Midcap Growth Index	6.7	46.3	46.3	-9.8	-3.2	2.4	9.2	-0.5
Russell Midcap Value Index	5.2	34.2	34.2	-9.1	-6.6	2.0	9.5	7.6
Russell 2000 Index	3.9	27.2	27.2	-8.2	-6.1	0.5	8.7	3.5
Russell 2000 Growth Index	4.1	34.5	34.5	-9.1	-4.0	0.9	8.5	-1.4
Russell 2000 Value Index	3.6	20.6	20.6	-7.4	-8.2	0.0	8.6	8.3
<b>International Equity Indices</b>								
MSCI EAFE	2.2	31.8	31.8	-13.6	-6.0	3.5	10.3	1.2
MSCI EAFE Growth Index	4.2	29.4	29.4	-13.9	-4.8	3.6	9.0	-1.3
MSCI EAFE Value Index	0.3	34.2	34.2	-13.4	-7.4	3.4	11.4	3.5
MSCI EAFE Small Cap	-1.0	46.8	46.8	-11.8	-7.6	3.5	14.1	N/A
MSCI AC World Index	4.6	34.6	34.6	-11.8	-4.6	3.1	8.7	0.5
MSCI AC World ex US	3.7	41.4	41.4	-12.2	-3.5	5.8	12.4	2.7
MSCI Emerging Markets Index	8.6	79.0	79.0	-8.4	5.4	15.9	22.4	10.1
<b>Fixed Income Indices</b>								
Barclays Capital Aggregate	0.2	5.9	5.9	5.6	6.0	5.0	4.8	6.3
Barclays Capital U.S. Government/Credit	-0.2	4.5	4.5	5.1	5.8	4.7	4.6	6.3
Barcap Intermediate U.S. Government/Credit	0.3	5.2	5.2	5.2	5.9	4.7	4.4	5.9
Barclays Capital U.S. Long Government/Credit	-2.6	1.9	1.9	5.1	5.6	5.0	5.6	7.7
Barclays Capital US Corp: High Yield	6.2	58.2	58.2	8.1	6.0	6.5	10.1	6.7
Merrill Lynch 1-3 Year Treasury	0.0	0.8	0.8	3.7	4.9	4.0	3.3	4.5
Merrill Lynch 3 Month US T-Bill	0.0	0.2	0.2	1.1	2.4	3.0	2.5	3.0
Citigroup Non-U.S. World Government Bond	-2.2	4.4	4.4	7.2	8.6	4.5	7.4	6.6
<b>Real Estate</b>								
Dow Jones Wilshire REIT	9.2	28.6	28.6	-11.6	-13.6	0.0	8.8	10.7

Returns for periods greater than one year are annualized.