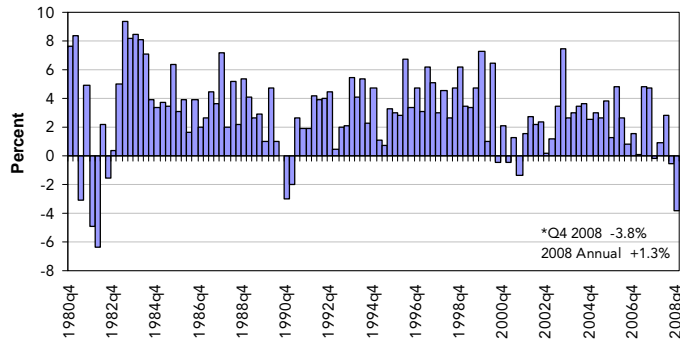


CAPITAL MARKETS REVIEW
4th Quarter 2008

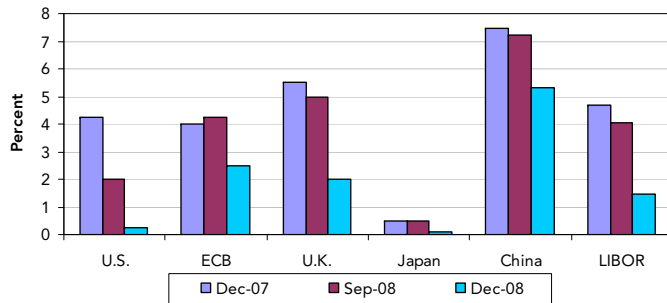
CAPITAL MARKETS REVIEW

Economy

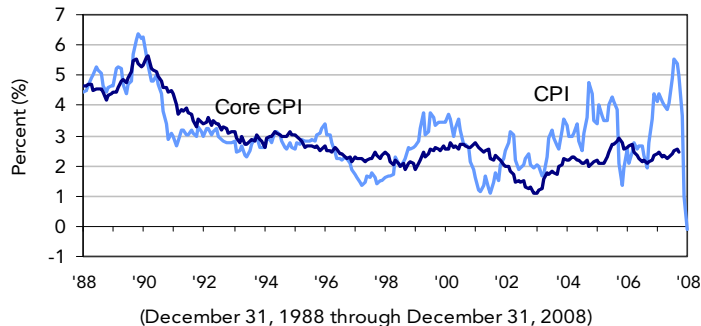
GDP Contracts in Second Half of 2008



Interest Rates Fall Worldwide



Consumer Price Index



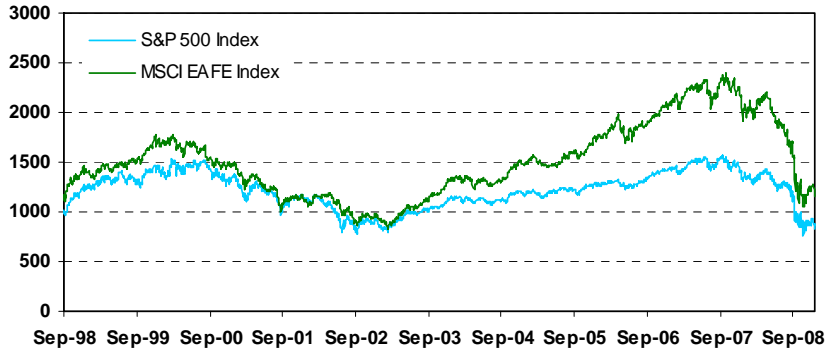
World Economies in Recession

- The U.S. economy contracted sharply in the fourth quarter, posting its worst economic growth since 1982.
- Fallout from the Lehman Brothers bankruptcy in September plagued financial markets throughout the quarter. A seizure in lending markets and a continued contraction in asset values led the Federal Reserve to implement a number of programs to provide stability. The Fed created a commercial paper lending facility after short-term funding for corporations and states evaporated, and widely expanded the types of collateral it would accept for loans. Other central banks lifted limits on funds available for borrowing as the financial crisis spread globally.
- Interest rates were cut globally, as the immediate need for liquidity grew and inflationary pressures subsided. The Federal Reserve cut rates from 2.0% down to a range of 0-0.25%, a historic low.
- Congress approved the \$700 billion Troubled Assets Relief Program (TARP), which took several directions during the quarter. Initially a program to purchase bad assets from banks, the plan ended up providing capital infusions to banks. The legislation did not require banks to lend the money as originally intended, nor did it include disclosure provisions. Including other Fed lending, over \$2 trillion was provided to banks by year-end, and details of who received what were not made public.
- General Motors and Chrysler received over \$13 billion in loans from the federal government after facing imminent bankruptcy. Terms of the loans included heavy modifications to labor agreements and overall corporate structures.
- Oil and commodity prices spiraled downward as consumer and industrial demand waned. Outflows from speculative investors provided further downward momentum, as hedge funds and trading desks closed out long positions. Crude oil fell under \$33/barrel, from a high of \$147 in July. Output cuts by OPEC temporarily halted the slide, though unexpected growth in inventories caused prices to resume falling.
- Over 1.5 million jobs were lost during the quarter. Losses were exceptional in the financial, retail, and service industries, while the government and healthcare sectors added workers. Retail sales contracted as discretionary spending fell and overall consumer debt fell for the first time on record.
- Barack Obama was elected President, and with a nearly veto-proof Congress, is expected to dramatically alter healthcare policy and dramatically increase spending on infrastructure and social programs in the upcoming years.

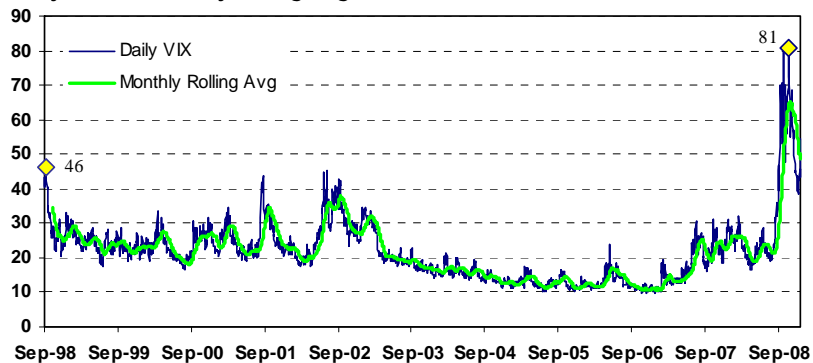
CAPITAL MARKETS REVIEW

Equities

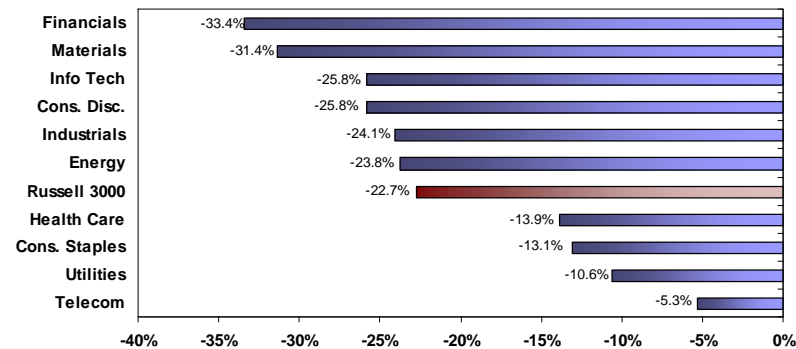
Historical Daily Price - S&P 500 vs. MSCI EAFE



Daily VIX vs. Monthly Rolling Avg



4th Quarter 2008 Sector Returns



U.S. Equity Markets Post Worst Year Since 1931

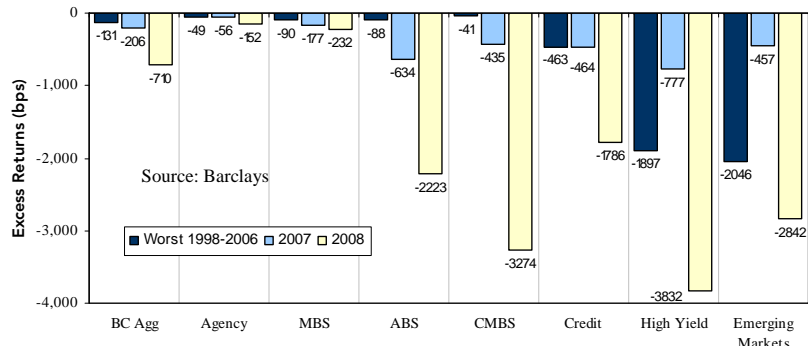
- Global equity markets continued their steep decline in the fourth quarter with the MSCI EAFE losing 30.0% and the S&P 500 losing 21.9%. During the quarter, the S&P 500's price reached a ten-year low of 752 on November 20, 2008, but rebounded 20% to end the quarter at 903. For the year, the MSCI EAFE and S&P 500 lost 43.4% and 37.0%, respectively.
- S&P 500 implied volatility as measured by the VIX index, peaked at 81 on November 20, 2008, concurrent with the S&P's bear market low. Since its high in November, implied volatility declined, with the VIX ending the quarter at 40. Although volatility in the markets still remains high relative to historic norms (10 year average VIX is ~21), it's important to note that sudden spikes, like those experienced in November, have historically signaled points of market capitulation. Conversely, lower volatility typically corresponds to upward trending markets.
- Bloomberg reported that there was approximately \$8.9 trillion of cash & equivalents outstanding at the end of the fourth quarter. This equates to 74% of the market value of U.S. companies. This is the highest cash to market capitalization ratio since 1990, when the ratio reached 75% as a result of the savings and loan collapse. Bloomberg found that the previous eight times cash holdings peaked relative to market capitalization, the S&P 500 rose 24% in the following six months.
- U.S. stock indices were down more than 20% across all caps and styles in the fourth quarter, with large cap companies outperforming small cap companies and value equities outperforming growth equities. Small cap growth companies were hit the hardest during the quarter and lost 27.4%, as returns in energy (-48.2%), materials (-29.0%), and information technology (-28.1%) were miserable. Internationally, developed markets traded lower in concert with domestic markets. The range of returns among developed countries was relatively high, with Japan losing only 9% for the quarter, and countries such as Ireland and the United Kingdom losing 40% and 26%, respectively.
- All sector returns were negative for the quarter, with financials (-33.4%), and materials (-31.4%) losing the most. Financials declined as a result of continued pressure on the larger banks, with Bank of America (-58.9%), Citigroup (-66.9%), and JPM Chase (-32.0%) all giving back third quarter gains. Notable performers for the quarter included Exxon Mobil (+3.4%), Verizon (+7.4%), and Archer Daniels Midland (+32.2%).
- There was no reprieve from the carnage experienced in the third quarter as emerging market equities lost 27.6% in dollar terms and 22.0% in local terms. Poor performance was again attributable to losses experienced in the energy sector (-9.0%); however information technology (-13.4%) was the largest detractor for the quarter. BRIC¹ countries Brazil and Russia lost 37.3% and 51.3% for the quarter as commodity driven economies continued to struggle amid the global economic slowdown, while export-driven India and China lost 29.9% and 10.8%, respectively. Over half of the countries in the index lost more than 50% of their value in 2008, with the BRIC countries losing 56.2%, 73.9%, 64.6%, and 50.9%, respectively.

¹ Brazil, Russia, India and China

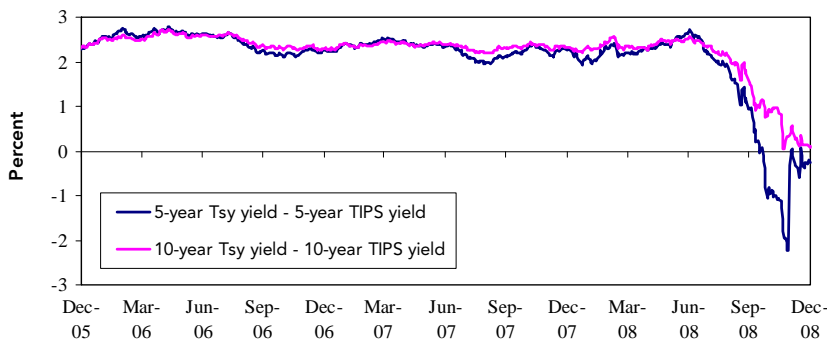
CAPITAL MARKETS REVIEW

Fixed Income

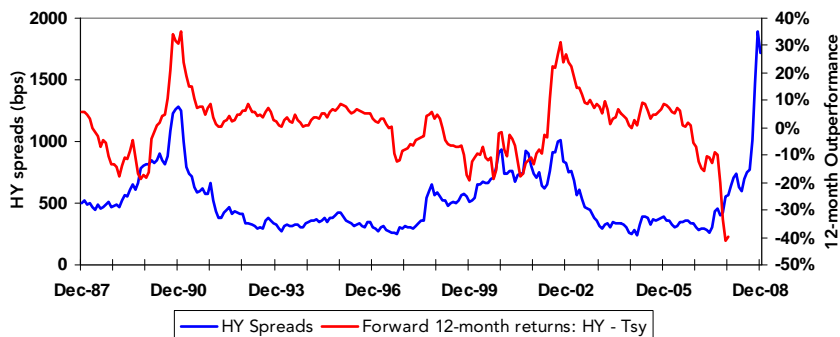
Annual Excess Returns to Treasuries (Duration-Adjusted)



TIPS Breakeven Rates (Inflation Expectations)



High Yield Spreads and Subsequent Outperformance



Source: FAF Advisors; Barclays

Extreme Volatility as US Government Intervenes Further

- The Barclays Capital Aggregate Index returned 4.6% during another unprecedented quarter in the fixed income markets. Investors fled risky assets for Treasury securities (+8.8%) as credit remained tight and the economy contracted. The US government unveiled a number of programs in response, including the Treasury's Troubled Asset Relief Program, the Fed's Term Asset-backed Lending Facility and quantitative easing program, and the FDIC's corporate bond guarantee program. The government's actions heartened investors and led to a very strong December rally across most sectors. However, the effect of the actions on liquidity and the broad availability of credit remained to be fully seen.
- Investment grade credit (+4.0%) had a very difficult October before rebounding with stronger returns in November and December. The financials subsector outperformed during the quarter benefiting from the US government's coordinated efforts to shore up financial firms' balance sheets via TARP and to stimulate short term lending. However, the corporate sector as a whole underperformed as market participants weighed the effects of a broad slowdown in the global economy. High yield corporates (-17.9%) reached record high spreads during the quarter as extensive selling combined with very poor liquidity caused severe price declines. The quarter ended with a rally upon the news of government loans to the automakers and GMAC's attainment of bank holding status, but at year end the sector's yield spread remained at a near-historic high.
- Mortgage-backed securities returned 4.3% during the quarter. The MBS sector saw waves of selling in the first half of the quarter but rebounded after the Fed announced that it would target the purchase of MBS as part of its quantitative easing program. Asset-backed securities (-6.8%) had a similar return trajectory as the Fed announced the TALF, which is designed to stimulate consumer lending. However, the pricing of lower quality ABS continues to reflect expectations of severe consumer stress and drove the sector return.
- Commercial mortgage-backed securities returned -15.0% during a volatile quarter. Heavy deleveraging throughout October and November led the sector to monthly returns of -10.1% and -18.8%, respectively. Portfolio reallocations from fixed income to equities, worries about deterioration in fundamentals (exacerbated by two high profile defaults within a 2008 JPMorgan CMBS deal) as well as increasing financing costs for holders of CMBS all resulted in significant selling. Constrained dealer capacity reduced liquidity in the space, which worsened price declines. Record wide spreads enticed opportunistic buyers in December, leading to a 16.5% rally in the final month of the year.
- Developed countries around the globe undertook coordinated rate cuts as the global economy contracted and the credit crisis continued. The rate cuts combined with a flight to quality led hedged developed non-US bonds to return 5.5% during the quarter. Emerging markets returned -6.0% as exporters suffered from a collapse in demand and Ecuador defaulted on a debt obligation.

CAPITAL MARKETS REVIEW

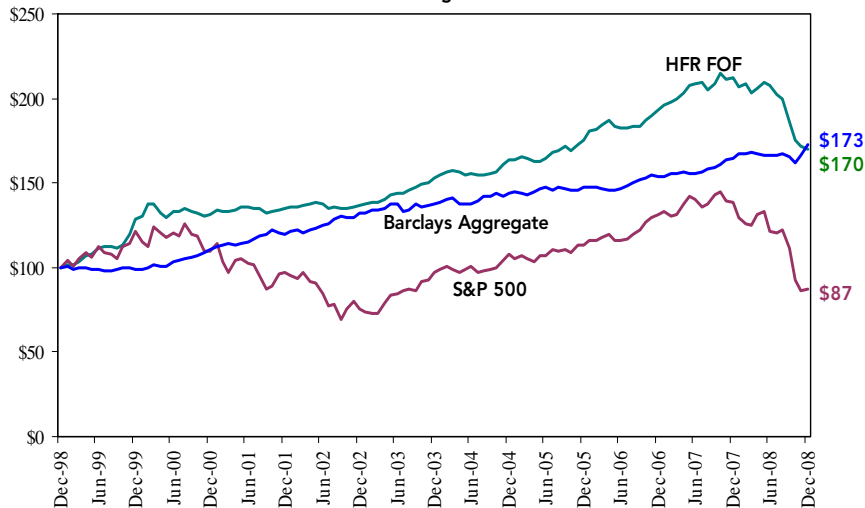
Hedge Funds

Hedge Fund Performance Results December 31, 2008

Style	Fourth Quarter	One Year
Convertible Arbitrage	-18.4%	-34.7%
Distressed Securities	-15.9%	-24.9%
Equity Hedge	-12.1%	-26.2%
Equity Market Neutral	-3.3%	-6.2%
Macro	3.9%	5.2%
Merger Arbitrage	-0.4%	-4.6%
Fund of Funds	-8.9%	-20.1%
S&P 500	-21.9%	-37.0%

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Ratio of Cumulative Wealth
10 Years Ending 12/31/2008



2008 Worst Year for Hedge Funds on Record; Madoff Fraud Shakes Fund of Funds Industry

- Hedge funds experienced another quarter of dismal performance and finished 2008 with the worst annual return on record, -20.1%. Despite this, 2008 was one of the best years for hedge funds relative to equities. Hedge funds outperformed equities by almost 17 percentage points. This is second only to the 23 percentage point outperformance hedge funds experienced in 2002.
- According to research from Hedgefund.net, approximately 70% of hedge funds posted negative returns in 2008. Themes that plagued hedge funds in September continued to hurt into the fourth quarter including forced selling of assets to meet redemptions, deleveraging, and spread widening. Most hedge fund managers have now positioned themselves for an environment of heightened risk aversion and volatility by reducing leverage levels and increasing cash allocations.
- Convertible arbitrage funds continued to suffer the most during the fourth quarter, negatively impacted by swiftly widening credit spreads and extremely volatile equity valuations. Long-biased equity managers also experienced significant declines. Short-biased and global macro were the only strategies to produce gains in 2008, up 28.6% and 5.2%, respectively.
- On December 11, 2008, Bernard Madoff, a one-time NASDAQ chairman, was arrested for running an illegal investment operation that may have resulted in \$50 billion in losses, perhaps the biggest fraud in Wall Street history. Madoff operated a classic Ponzi scheme, which consisted of taking money in from new clients and paying it out to existing clients to maintain the illusion of consistent, positive returns. Although Madoff's investment vehicle was not technically considered a hedge fund, many of Madoff's clients were hedge fund investors, including a small number of hedge fund of funds.
- The Madoff scandal, combined with liquidity needs and worries globally about financial market conditions, caused many investors to pull out of hedge funds during the fourth quarter, with the largest concentration of redemptions from retail and European investors. Hedgefund.net reported that hedge fund assets dropped 26% during the fourth quarter to \$1.8 trillion. Hedge funds lost \$471 billion through withdrawals and fund closures, while performance losses totaled \$185 billion. A significant number of hedge funds have imposed gates on investor withdrawals to limit redemptions and to limit forced selling of positions at losses.

CAPITAL MARKETS REVIEW

Private Equity

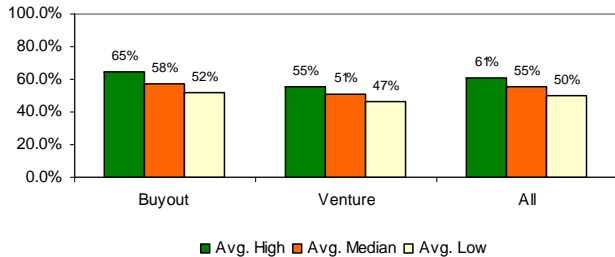
Investment Horizon Returns as of 9/30/08

Fund Type	3 Months	9 Months	1 Year	5 Years	10 Years	20 Years
Early/Seed VC	-4.9%	-4.1%	0.2%	5.1%	37.2%	21.6%
Balanced VC	-4.6%	-9.0%	-6.4%	11.5%	14.9%	14.7%
Later Stage VC	1.7%	1.9%	8.6%	10.5%	8.9%	14.7%
All Venture	-3.9%	-5.2%	-1.6%	8.6%	17.3%	17.1%
Small Buyouts	0.6%	7.2%	-1.1%	8.9%	5.0%	12.3%
Med Buyouts	-10.6%	-8.5%	-1.1%	12.1%	7.9%	11.6%
Large Buyouts	-3.1%	1.6%	8.9%	12.6%	7.0%	11.7%
Mega Buyouts	-6.1%	-8.8%	-9.7%	12.3%	7.4%	10.7%
All Buyouts	-5.6%	-7.8%	-8.2%	12.2%	7.3%	11.2%
Mezzanine	-6.5%	6.9%	10.5%	4.8%	5.4%	7.9%
All Priv Equity	-5.0%	-6.9%	-6.5%	11.2%	9.4%	12.9%
S&P 500	-8.4%	-19.3%	-22.0%	5.2%	3.1%	10.0%
Russell 2000	-1.1%	-10.4%	-14.5%	8.2%	7.8%	9.5%

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

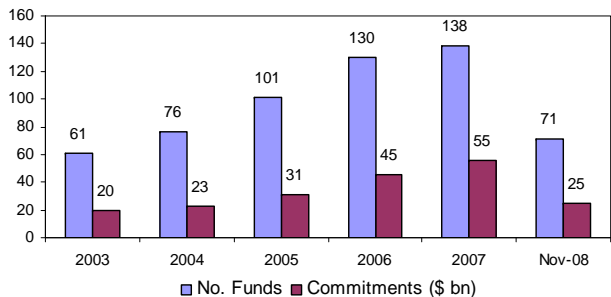
Note: Data is continuously updated and is therefore subject to change.

Secondary Bid Spreads 2nd Half 2008 (% NAV)



Source: Cogent Partners Study, December 2008

Funds of Funds Raised Annually



Source: Private Equity Analyst, December 2008

Private Equity Transaction Pricing Plummets Amid Recession

- During the third quarter, private equity funds exhibited vulnerability to the publicly-traded market's struggles for the first time since the credit crunch began in July 2007. Overall, private equity declined 5.0% for the quarter, still outperforming the S&P 500 by a considerable margin. Late stage venture capital and small-buyouts performed relatively well, as these strategies generally require less debt financing than typical private equity transactions. Over all measurable time periods, private equity continues to outperform public equities as measured by the S&P 500 and Russell 2000 indices. We anticipate this gap will narrow following fourth-quarter writedowns, which are expected to be significant.
- Pricing in the secondary market has plummeted. During the second half of 2008, private equity fund interests sold at an average high bid of 61% of net asset value (NAV), down from 85% in the first half of 2008. During 2007, secondary market interests sold at a premium to NAV. Venture capital funds have been especially hard hit. In the second half of 2008, the median bid for a venture fund interests was just above 50% of NAV. Private equity managers are raising a record amount of capital dedicated to the secondary space, with some funds expected to raise \$6 billion or more, hoping to take advantage of the attractive pricing environment.
- With the mega deals of 2006 and 2007 in the past, large buyout shops have, for the first time in history begun widespread layoffs. Layoffs have been announced at such firms as Blackstone, Carlyle and Apollo. This comes on the heels of Blackstone and Madison Dearborn each reducing the size of their buyout funds by a significant margin. In perhaps the most unexpected move of the year, TPG voted to return 10% of limited partner commitments in the wake of the failed \$1.25 billion Washington Mutual deal.
- Venture capital firms took just six portfolio companies public during 2008, making it the worst year for venture-capital backed IPOs since 1977 according to the National Venture Capital Association. An even worse sign: five of those deals were completed in the first quarter. In comparison, there were 260 IPOs completed in 2007. IPOs totaled \$470 million in 2008, down from \$10 billion in 2007.
- While fundraising by private equity managers held up surprisingly well through most of 2008, the funds-of-funds sector has seen a sharp decline. There are more fund managers raising capital - a total of 196 funds seeking an aggregate \$67 billion in commitments. Between September 15 and the end of November, there were only six fund closings totaling \$1.4 billion, an 87% decline from the same period in 2007.

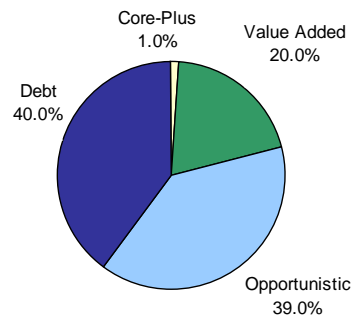
CAPITAL MARKETS REVIEW

Real Assets

Returns as of September 30, 2008

	3 Mon.	YTD	1 Yr.	3 Yrs.	5 Yrs.	10 Yrs.
NCREIF	-0.2%	2.0%	5.3%	13.2%	14.2%	11.8%
Apartments	-0.4%	1.2%	3.1%	11.0%	12.5%	11.6%
Industrials	0.0%	2.4%	5.1%	13.0%	13.7%	11.9%
Office	-0.3%	2.2%	6.1%	15.5%	14.8%	11.7%
Retail	0.2%	2.3%	6.3%	11.7%	15.6%	12.9%
Hotel	0.0%	1.8%	5.9%	16.4%	14.2%	10.3%
East	0.0%	2.0%	5.1%	13.8%	15.2%	12.9%
Midwest	0.1%	1.5%	4.8%	10.1%	10.8%	9.3%
South	0.1%	3.2%	5.6%	12.1%	13.0%	10.3%
West	-0.6%	1.5%	5.3%	14.5%	15.4%	12.8%

Market Share of Capital Raised by Fund Type



Source: Preqin Real Estate as of 9/30/08

DJ-AIG Commodity Index Components Total Return Ending December 31, 2008

Allocation	Segment	3 Months	1 Year	3 Years
25.0%	Energy	-47.3%	-47.3%	-28.1%
20.0%	Industrial Metals	-41.1%	-48.3%	-7.0%
10.0%	Precious Metals	-1.7%	-4.1%	15.4%
21.0%	Grains	-13.8%	-26.3%	9.0%
7.0%	Livestock	-15.5%	-28.4%	-15.6%
8.0%	Petroleum	-56.2%	-53.7%	-16.7%
9.0%	Softs	-16.1%	-28.4%	-15.3%
100%	Total Market	-30.0%	-35.7%	-8.6%

Private Real Estate Returns Turns Negative, While Commodities Get Clobbered

- Private real estate markets turned negative during the third quarter of 2008, experiencing a 0.2% decline, the lowest quarterly return in 15 years. The income return of 1.3% failed to offset markdowns of -1.4%. Year-to-date, the NCREIF Property Index returned 2.0% resulting in a trailing one-year return of 5.3%. There was no appreciation for the first three quarters of 2008, reflecting appraisers' dimming views of commercial real estate as the recession and constrained credit markets seem likely to further dampen demand.
- The return difference among property types narrowed during the quarter. Industrial properties outperformed the Index with a flat return, despite weak market fundamentals and slowing production growth. Retail properties also outpaced the Index during the quarter with a return of 0.2%, largely driven by super-regional, regional and neighborhood retail. However, retail property values are expected to significantly deteriorate amid a pullback in consumer spending, store closings and bankruptcies.
- Despite the economic climate, the third quarter of 2008 was successful for private equity real estate funds in terms of capital raised. Approximately \$30.8 billion was raised during the quarter by 32 funds. Although investors are making commitments, they are being very cautious about where to place assets. Investors are increasingly making commitments to firms with extensive track records and shunning first time funds. Additionally, investors are favoring funds making opportunistic and debt investments.
- The REIT market, whether U.S. or foreign, sank along with the equity markets during the fourth quarter. The NAREIT Index declined 36.5% during the quarter, bringing the calendar year return to -37.3%. The FTSE/EPRA NAREIT Global REIT Index ended the fourth quarter with a return of -32.4%, bringing the trailing one-year return to -47.7%.
- As the environment turned markedly negative during the fourth quarter and it appeared that global demand will shrink for industrial and consumer goods, commodities led the way with some of the worst performance results for the quarter. The DJ-AIG Commodity Index fell 30.0% during the fourth quarter, bringing calendar year 2008 losses to 35.7% and trailing three-year results to -8.6%. Although commodity sector results were mixed during the quarter, energy was the segment with the worst performance at -47.3%. Oil prices tumbled in the last few months of the year reaching a per barrel low in the mid- \$30's before ending the year at approximately \$45 per barrel, 70% off the summer's peak. Gold prices, by contrast, ended 2008 up at \$84.30.

CAPITAL MARKETS REVIEW

Index Returns

As of December 31, 2008

(Percentage Return)

	1 Quarter	Year To Date	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years
Domestic Equity Indices								
Dow Jones Wilshire 5000	-22.9	-37.3	-37.3	-18.6	-8.4	-1.7	-0.6	-0.6
S&P 500	-21.9	-37.0	-37.0	-18.5	-8.4	-2.2	-1.5	-1.4
Russell 1000 Index	-22.5	-37.6	-37.6	-18.8	-8.7	-2.0	-1.2	-1.1
Russell 1000 Growth Index	-22.8	-38.4	-38.4	-17.0	-9.1	-3.4	-3.4	-4.3
Russell 1000 Value Index	-22.2	-36.8	-36.8	-20.6	-8.3	-0.8	0.8	1.4
Russell Midcap Index	-27.3	-41.5	-41.5	-21.4	-10.7	-0.7	1.8	3.2
Russell Midcap Growth Index	-27.4	-44.3	-44.3	-21.2	-11.8	-2.3	-1.2	-0.2
Russell Midcap Value Index	-27.2	-38.4	-38.4	-22.1	-10.0	0.3	3.5	4.4
Russell 2000 Index	-26.1	-33.8	-33.8	-19.3	-8.3	-0.9	1.6	3.0
Russell 2000 Growth Index	-27.4	-38.5	-38.5	-18.9	-9.3	-2.4	-1.2	-0.8
Russell 2000 Value Index	-24.9	-28.9	-28.9	-19.9	-7.5	0.3	3.9	6.1
International Equity Indices								
MSCI EAFE	-20.0	-43.4	-43.4	-20.7	-7.4	1.7	3.4	0.8
MSCI EAFE Growth Index	-20.1	-42.7	-42.7	-18.3	-6.5	1.4	2.5	-1.3
MSCI EAFE Value Index	-19.8	-44.1	-44.1	-23.0	-8.2	1.8	4.2	2.7
MSCI EAFE Small Cap	-22.1	-47.0	-47.0	-26.7	-13.8	1.2	6.8	N/A
MSCI AC World Index	-22.4	-42.2	-42.2	-19.7	-7.9	-0.1	1.1	-0.1
MSCI AC World ex US	-22.3	-45.5	-45.5	-20.3	-7.0	2.6	4.5	1.9
MSCI Emerging Markets Index	-27.6	-53.2	-53.2	-19.1	-4.6	8.0	11.6	9.3
Fixed Income Indices								
Barclays Capital Aggregate	4.6	5.2	5.2	6.1	5.5	4.7	5.4	5.6
Barclays Capital U.S. Government/Credit	6.4	5.7	5.7	6.5	5.6	4.6	5.5	5.6
Barcap Intermediate U.S. Government/Credit	4.8	5.1	5.1	6.2	5.5	4.2	5.0	5.4
Barclays Capital U.S. Long Government/Credit	13.1	8.4	8.4	7.5	5.9	6.3	7.4	6.6
Barclays Capital US Corp: High Yield	-17.9	-26.2	-26.2	-13.3	-5.6	-0.8	2.9	2.2
Merrill Lynch 1-3 Year Treasury	2.7	6.6	6.6	7.0	6.0	4.1	4.0	4.7
Merrill Lynch 3 Month US T-Bill	0.2	2.1	2.1	3.5	4.0	3.3	2.7	3.5
Citigroup Non-U.S. World Government Bond	8.8	10.1	10.1	10.8	9.5	6.0	9.9	5.6
Real Estate								
Dow Jones Wilshire REIT	-40.0	-39.2	-39.2	-29.2	-12.0	0.6	5.5	7.7

Returns for periods greater than one year are annualized.