

# Capital Markets Commentary

First Quarter 2009

## First Quarter 2009

The first quarter of 2009 was the sixth consecutive quarter of falling stock prices. Initially tumbling nearly 30% and setting a new bear market low of 6550 for the Dow on March 9th, world equity markets rallied more than 20% in the last three weeks of the first quarter. U.S. Financial Services sector stocks continued to be at the epicenter of the extreme volatility as concerns about the viability of some of the largest U.S. banks peaked in early March, but announcements of better-than-expected first quarter results powered an explosive rally at the end of the quarter. It is worth noting that from the market's peak in October 2007 to its March lows, the Financial Services sector of the S&P 500 declined 83%, which is more than the Technology sector fell when the tech bubble burst in 2000. When all the dust settled, the first quarter finished with a double-digit loss for most major equity indices, making it the worst first quarter for equity investors since 1939, and only the second time on record that the S&P 500 index has declined for six quarters in a row.

On a positive note, the first quarter saw the return of some risk taking to the capital markets. This was most evident in the fixed-income markets. After a historic flight to safety pushed their prices up and yields down in the fourth quarter of 2008, U.S. Treasuries declined and their yield rose this quarter as investors took advantage of large yield spreads by selling ultra-safe Treasuries and buying much higher yielding corporate, and mortgage-backed securities. The Barclays Capital U.S. Aggregate Bond Index, which is 36% governments and agencies and 64% corporates, essentially broke even this quarter up 0.1%.

Foreign equity markets remained highly correlated with US markets in the first quarter. They began the quarter under a lot of pressure, but delivered an explosive rally in March. The strong dollar hampered results for US investors during January and February, but when risk taking returned in March, sudden weakness in the dollar just accelerated the rally. The strongest performers this quarter were a handful of emerging markets that delivered double digit gains.



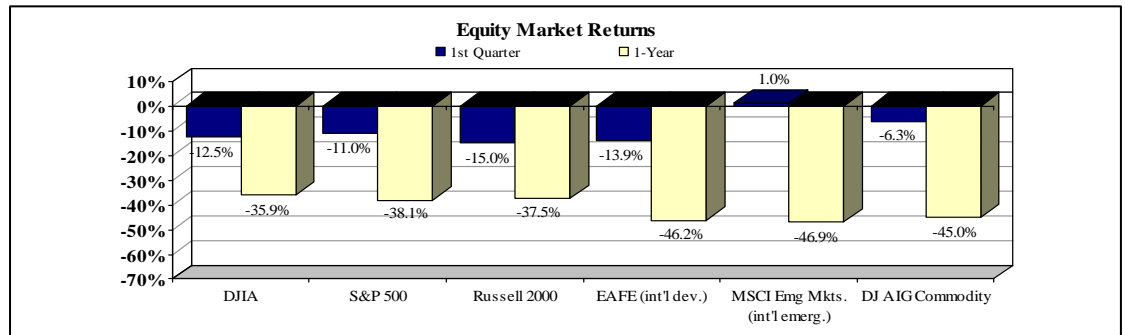
Michael J. Francis, CIMA  
President,  
Chief Investment  
Officer



Clifford H. Dunteman, Jr.  
CIMA  
Vice  
President



Edward C. McIlveen  
Director of  
Performance  
Analytics and  
Research



The average diversified US equity fund declined 8.9% in the first quarter of 2009 according to Lipper Analytical. After being routed by their index in 2008, the average actively managed fund outperformed this quarter as many high quality stocks rebounded from an oversold position. The severe weakness in the Financial Services sector hammered most "Value" oriented funds, while the relative strength of the Technology sector boosted the returns of the typical "Growth" fund. Investors favored larger companies with more predictable earnings this quarter. Global/foreign funds, that weren't heavily invested in emerging markets, underperformed for the second consecutive quarter.

Source – StyleAdvisor

### Average Equity Fund Performance STYLE PERFORMANCE MATRIX

	1st Quarter 2009 Total Return			AVERAGE
	Value	Core	Growth	
Large-Cap	-11.75%	-9.63%	-3.74%	-8.37%
Mid-Cap	-9.54%	-6.89%	-4.36%	-6.93%
Small-Cap	-13.80%	-11.45%	-6.18%	-10.48%
<b>AVERAGE</b>	<b>-11.70%</b>	<b>-9.32%</b>	<b>-4.76%</b>	

Source - Lipper

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## **U.S. Economy – Recession Continues**

We believe the recent sharp drop in wealth and recession have meaningfully changed consumer behavior in this country. People are saving more, primarily by retiring debt, and spending less. This has started what is being called a “negative feedback loop” in which less consumption causes demand for products to drop which in turn causes companies to reduce staffing levels. The rapid rise in unemployment is causing foreclosures which drives home prices lower and puts more pressure on banks’ balance sheets. This causes asset prices to drop further and the cycle starts over again. While as one commentator put it “the magnitude of negativity appears to be nearing a positive inflection point,” the indicators we follow suggest continued economic weakness ahead with no material rebound in sight until 2010. Currently, Congress and the new Administration have rolled out numerous fiscal and monetary stimulus programs aimed at interrupting this cycle, but to date, their policies are best described as laboratory experiments with unpredictable results. Clearly lower energy costs, significant mortgage refinancing, and governmental stimulus money will help keep the current recession from turning into the next Great Depression. We expect unemployment numbers to continue getting worse, therefore putting further downward pressure on home prices. Other near-term economic concerns include: the lack of resolution to the over capacity in the U.S. auto industry, and new consumer debt defaults, namely in auto and credit card debt, causing further harm to financial institutions. With plunging demand for U.S. exports, weak corporate profits, falling home prices, and stagnating global GDP growth, inflation should not be an issue for the foreseeable future as long as we can avoid a significant drop in the dollar. Once the economy stabilizes, we forecast slower-than-average U.S. growth for a number of years based on the continued deleveraging process, lessened willingness to trade, and increased financial services regulation.

## **Domestic Equities – Neutral**

We are affirming our “Neutral” weight to domestic equities. The March rally in stock prices was ignited by short covering in the Financial Services sector and brought a few momentum investors along for the ride. We see plenty of evidence, however, that corporate profits are still under tremendous pressure and believe that stock prices are likely to retest their lows before a sustainable rally begins. Sharply lower earnings (-65%) in the fourth quarter, and continued weakness expected in the first quarter (-35%) means stock price valuations are rising in terms of P/E ratio analysis. Using trailing twelve months earnings as of March 31, we come up with an estimated P/E for the S&P 500 index of 17 versus the long-term historical average of 15. Because of a rash of recent dividend cuts, the current dividend yield of the S&P 500 is only 3.6%. While higher than average and attractive relative to Treasuries, this yield still looks low versus levels above 5% at bear market lows in the 70’s and early 80’s. With the Dow currently trading just above 8,000, in the short run we expect to see 7,000 before crossing 9,000 again. For long-term investors, we believe money invested in the midst of a recession is likely to yield above-average returns. As bleak as the current outlook might be, one cannot overlook the power of innovation and the rapid growth of emerging economies around the world to reignite a stock market rally in the future.

## **International Equities – Neutral**

Export dependent foreign countries such as Germany, South Korea, and Japan have experienced horrific declines in demand over the past six months with corresponding declines in their respective equity exchanges. A strong U.S. dollar magnified the losses for U.S. investors in these markets over most of that time. While most international economies are hurting, some foreign governments are sitting on significant surplus funds to build infrastructure and ride out the recession in better shape than much of the developed world. Our expectation for a weakening U.S. dollar due to our rapidly expanding budget deficit, and weakening position in the world’s economic order supports a bullish long-term view. On a comparative price/earnings’ ratio basis, international equities in Europe, Japan, and Asia-Ex Japan look relatively inexpensive; additionally, most emerging market equities are especially underpriced.

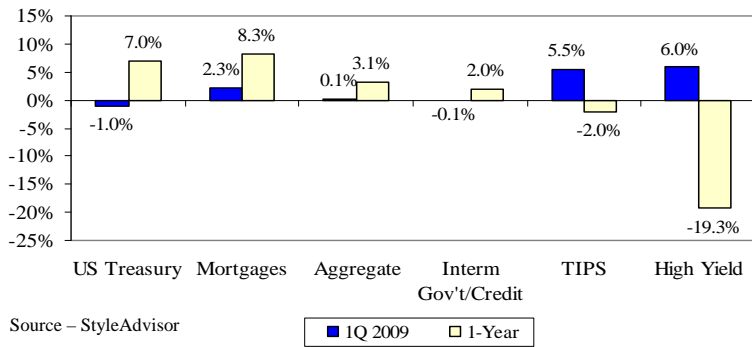
## **Domestic Bonds – Neutral**

A global economic contraction is generally positive news for bonds. High quality short- to medium-term bonds have been attractive since the credit markets disintegrated in the third quarter of 2008. But a meaningful rally in bond prices since that time has lessened their appeal in the short run as a source of added return going forward, yet increased their attractiveness as a safe harbor in a storm. For long-term investors, U.S. fixed-income is becoming an increasingly riskier asset class as its current yield remains low, and the U.S. rapidly expands its outstanding debt. Attractive opportunities exist in corporate investment grade and Treasury Inflation-Protected Securities (TIPS).

## **Hard Assets – Neutral**

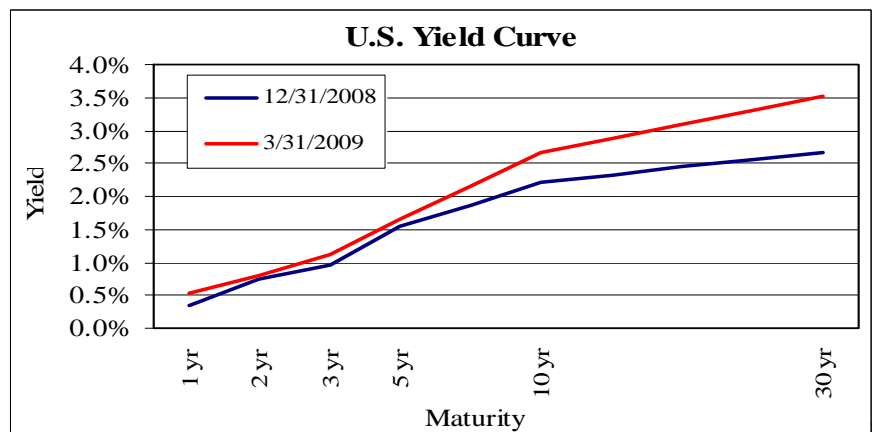
The remainder of 2009 looks like it will be mostly deflationary in nature and therefore a difficult environment for most commodity prices. We do believe, however, that the inflation “train” will gather steam later in 2010 as the U.S. dollar weakens and world growth reignites.

## U.S. Bonds – Multiple Bond Indexes

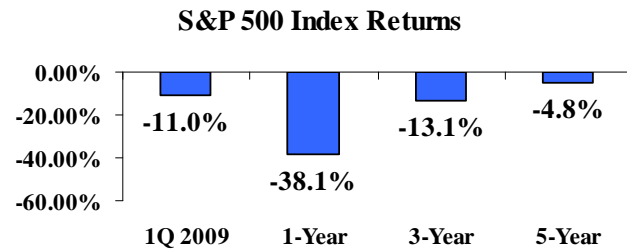


Bonds remained a safer haven for investors with the Barclay’s Capital U.S. Aggregate Bond Index returning a modest 0.12%. Certain segments of the bond market rallied from oversold positions, such as TIPS (Treasury Inflation-Protected Securities), mortgages, and high yield. TIPS bonds benefited mainly from a turn in market sentiment about deflation moving to inflation within the economy and gained after the Federal Reserve announced a buyback of TIPS. Mortgage securities also benefited significantly from Treasury repurchase programs which caused average mortgage rates to drop. High yield bonds surged on the market’s perception that the sell-off was

overdone. High yield investments rallied also due to optimism caused by a few new issues that were absorbed by the market at reasonable rates (9% coupons) and thus served as a gauge for the market to adjust pricing accordingly. U.S. Treasuries lost ground this quarter as very low rates started to inch their way back-up partially due to an improvement in investor outlook following Tim Geithner’s announcement of the government’s “Public-Private Investment Program” to move toxic assets off balance sheets. This unique program is intended to galvanize investment funds to purchase illiquid securities that have been “locked-up” in the recent credit environment. The Federal Reserve lowered the Fed Funds rate to a range of 0.00% to 0.25% last quarter which has money market funds and other short-term fixed income securities yielding next to nothing. Protecting principal remained on investor’s minds as flows to money market funds continued to surge. In fact, as a gauge of investor sentiment, money market funds held by investors were 49% of the S&P 500 Index total market capitalization (as of 2/28/09) during the quarter. This amount is double that of 2000-2002 (≈25%) and 1990-1992 (≈20%). We continue to observe the credit markets struggling as the “TED Spread” (difference between 90-days T-bills and 90-day LIBOR) is 1.00%, which is still high by historical standards. The U.S. credit markets are still in crisis mode with the spread similar to periods such as 9/11 and when the Savings & Loan meltdown occurred, but the bond managers we speak with noted marked improvement in the trading of various credit instruments such as credit card receivables. Looking to the future, the bond market remains split in terms of valuation, with Treasuries & Agencies of most kinds (with the exception of Treasury Inflation-Protected Securities) at an extreme overvaluation and some non-Treasuries still looking attractive. We believe yields on Treasury debt could continue rising for any one of three reasons: 1) decreased investment from foreign entities as the global economy slows down; 2) inflationary pressures return; or 3) the economy revives which would shift investor assets to more equities once a risk taking appetite returns. High quality corporate bonds, municipal bonds, and high-yield debt are trading at very large spreads relative to Treasuries. While there are entities that are in dire circumstances, and we expect to see a meaningful increase in defaults ahead, we do believe that professional bond managers stand to benefit from many opportunities in these categories. For many, it is time to shift some assets away from the short-end of the yield curve and increase exposure to corporates. The current U.S. yield curve is steepening, as are many others in the Eurozone, the U.K. and Japan, which has historically been a positive signal for economic improvement.



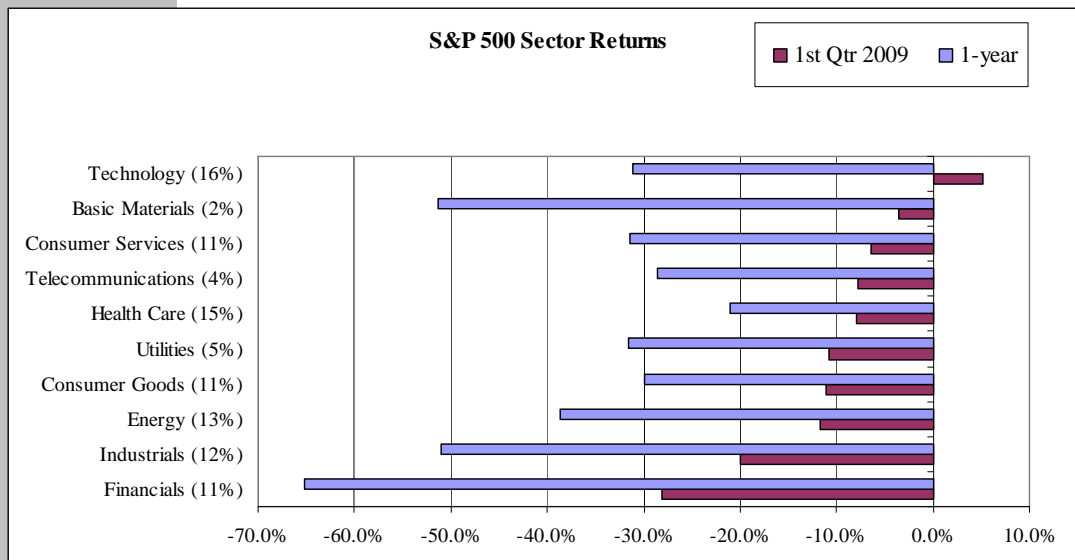
## Large-Cap Equities – S&P 500



Source – StyleAdvisor

In the first quarter, U.S. equities, as measured by the S&P 500 Index, lost 11.0%. A sharp rally in the month of March helped the index recover from new bear market lows set in early March. In fact, by the end of February, the S&P 500 Index had dropped nearly 25%. As noted below, only one area of the S&P 500 made money last quarter, Information Technology. The Technology sector rallied in the period thanks in part to the strong performance of semiconductor stocks along with solid returns from companies such as IBM, Texas Instruments, Microsoft, and Amazon.com. The rally in the tech sector was also indicative of a pronounced change in investor appetite for risk, which prior to early March had been nil for much of the last six months. Basic Materials relatively outperformed many other

sectors in the period, only dropping 3.5% in the quarter. This was due in part to a surge in metals prices, especially copper. As expected, more defensive areas of the market turned in relatively better results including Telecommunications (-7.8%) and Health Care (-8.0%). The Financials sector took another pounding this quarter, falling 28.1% and the cyclical Industrials sector was also crushed with a loss of 22%. While stock prices have come down significantly (-33.5%) from their October 2007 highs, we believe valuations have further room to drop. First, the dividend yield of the S&P 500 is only 3.6% versus levels of near 5% and 6% in the 70's and 80's, (see chart on page 5) and stock prices relative to company assets (book value) are trading below historical averages, but not yet approaching levels of the 70's and 80's. We are mindful that all market environments are different from previous ones for various reasons, but we note these periods of history because they help us gauge expectations. The S&P 500's return over the last ten years is comparable to a ten year period in the 30's, and the government is responding as if another depression could be on our doorstep. If the market's expectations and government response indicate a severe response, then its arguable that equities could be overvalued because the traditional relative value metrics to date haven't approached some of the most bearish sentiment that replicates that era. However, our reasons for long-term optimism include a tremendous amount of cash accumulating in short-term instruments capable of fueling a rally. Also, the spread between the earnings yield and 10-year Treasury, indicates that stocks are attractive relative to Treasuries. Looking forward, we believe the most attractive area for large-caps continues to be within growth style equities. Their relative value attractiveness has grown in the last six months as they were over 30% cheaper than their historical valuations at the end of the third quarter 2008, but now they are over 50% cheaper (P/E of 11.7 versus historical average of 25.4 using the Russell 1000 Growth Index as a proxy, see chart on page 6). While the valuation data strongly suggests that large-caps look more attractively priced than small-caps (see chart on page 5), history has shown that small-cap stocks have typically led the pack out of the blocks in an economic recovery. We also note that the current trailing P/E of 16.9 is in-line with long-term historical averages and argues that equities are fairly valued.

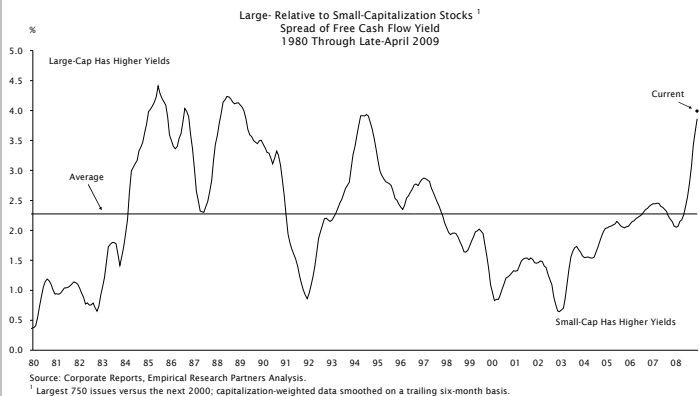


Source – Bloomberg

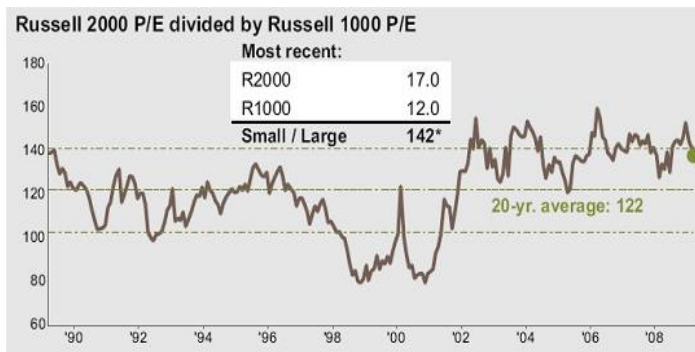
*Some traditionally defensive sectors including Health Care and Telecommunications were lower this quarter, but still relatively better than others. Commodities prices increased some, pushing the Energy and Materials Sectors slightly higher while Financials tumbled.*

## Why do we believe that Large-Caps are preferred over Small-Caps?

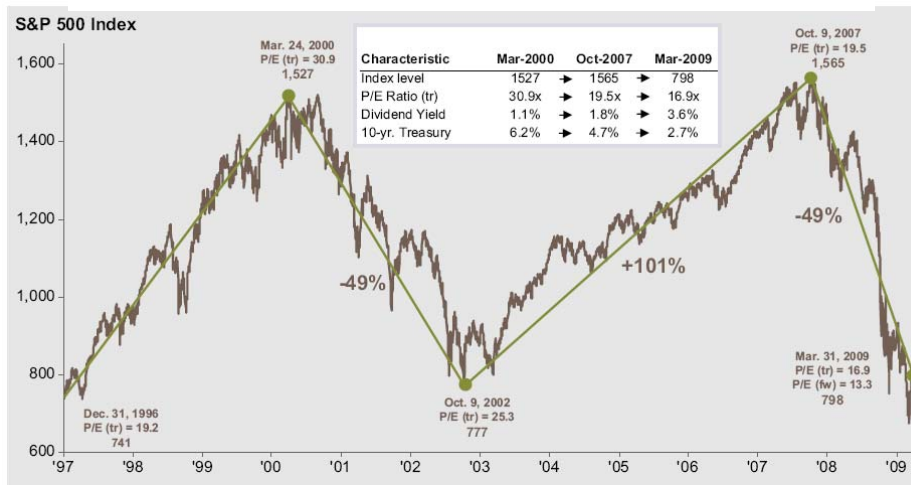
Free-cash flow yield suggests they are better relative investments:



Using the P/E ratio, history suggests that small-cap are overvalued and large-caps undervalued:



## Historical P/E Ratio of the S&P 500 Index



Trailing P/E ratios for the S&P 500 Index are top-down values which reflect the index month-end price divided by the last twelve months' as reported earnings, as provided by Compustat/Standard & Poor's, which is calculated by summing four quarters of available earnings data. There is an inherent lag in the reporting of this data by companies to S&P. As such, historical data can change as new information becomes available.

Dividend yields are bottom-up values defined as the annualized value of the most recent cash dividend as a percent of month-end price.

Forward P/E is a top-down value based on analyst operating estimates from First Call on a next twelve months' basis. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future results. Data are as of 03/31/09.

## Historical Dividend Yield of the S&P 500 Index



## Current P/E as % of 20-year avg. P/E

*E.g.: Large Cap Blend stocks are 40.4% cheaper than their historical average.*

	Value	Blend	Growth
Large	73.3%	59.6%	45.9%
Mid	81.6%	64.4%	43.1%
Small	81.2%	69.7%	52.6%

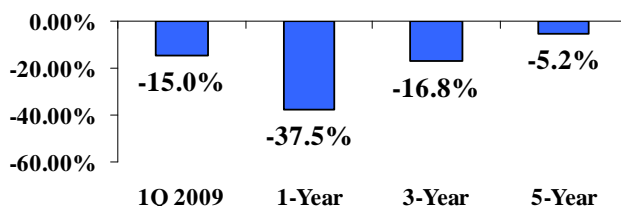
*Why do we believe “growth” is more attractively priced vs. “value?”*

*On balance this chart shows that “growth” stocks in all market capitalizations are trading at around a 50% discount to their long-term historical averages. In comparison, “value” stocks are trading at discounts of just 20-30% of their historical averages.*

Source – JP Morgan

## Small-Cap Equities – Russell 2000 Index

### Russell 2000 Index Returns



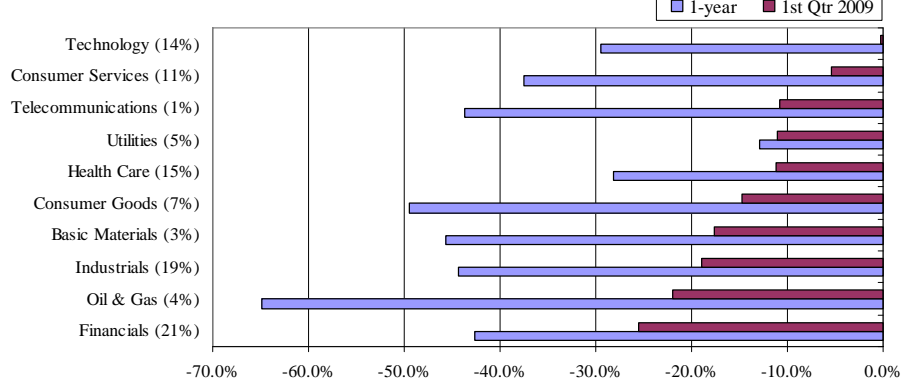
Source - StyleAdvisor

The Russell 2000 Index fell 15.0% in the first quarter, which brought its total one-year loss to 37.5%. Large-cap equities, as measured by the S&P 500, outperformed small-cap equities in the quarter albeit with a loss of 11.0%. Every sector of the Russell 2000 was in negative territory on both a quarterly and annual basis. During the quarter, the largest decliners in the period included the Financials and Energy sectors which posted losses of 25.6% and 22.0% respectively. Other laggards included Industrials (-19.0%) and the Basic Materials stocks, which lost 17.6%. On a relative basis, more defensive sectors such as Health Care (-11.1%) and Telecommunications (-10.8%) held-up better but none were as strong as the small-cap Information Technology stocks.

Like the surge in Information Technology for large-caps, small-cap technology stocks outperformed by only declining 0.3% as a feeling that the economy may have turned a corner. Like large-cap stocks, “growth” oriented equities outperformed “value” by an enormous margin of about 10.0%. The Russell 2000 Growth Index returned -9.7% versus the Russell 2000 Value Index at -19.6%. Looking to the future, small-cap stocks have had one major headwind removed, the persistently high input prices in many commodities, but they continue to experience problems with higher costs of capital in equity and debt financing. Specifically, the high yield market shows that the yield spread above Treasuries was 15.4%, which is very high. Additionally, relative to large-caps in historical price-earnings terms, small-caps look expensive right now as free-cash flow yields currently favor large-caps over small-caps (see chart on previous page). Arguments for small-cap stocks to outperform large-caps include that small-cap

stock returns have typically led the market immediately following a recession. In particular, small-cap growth stocks have fared well in the first year of previous bull markets and they have led the market in eight of the last fifteen bull markets. Therefore, we believe completely avoiding this asset class for fear of valuations is not an optimal strategy. As a case and point, in the brief period from March 9<sup>th</sup> through the end of the quarter, the Russell 2000 Growth Index outperformed the S&P 500 Index 21% vs. 18%.

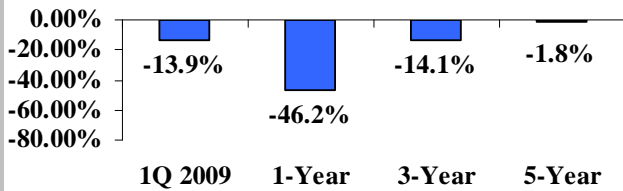
### Russell 2000 Sector Returns



Source – Bloomberg

## International Equities – MSCI EAFE Index

MSCI EAFE Index Returns (\$US)

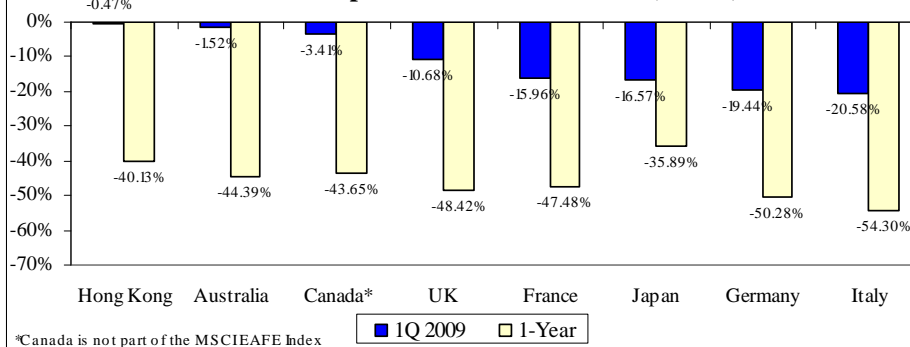


Source - StyleAdvisor

International Equities, as measured by the MSCI EAFE Index, declined 13.9% in the first quarter. In local terms, the index lost 10.0% which means that U.S. investors experienced relative returns that were 39% lower due to the currency effect of a stronger U.S. dollar. Currency translation risk is always present when investing internationally, but in this credit crunch and deleveraging process, the effects have been pronounced. For example, in this current quarter, U.S. investors lost 16.0% in the French market, while local investors only lost 12.0%; German markets were 19.4% lower for U.S. investors, but down 15.7% locally; Japanese investments declined 16.6% for the quarter for U.S. investor, but only dropped 9.1% locally.

Equity markets in the developed world fell as these economies experienced meaningful contractions as evidenced by sharply lower GDP growth (on an annualized basis) with Canada (-3.4%), U.K. (-2.6%), Japan (-12.1%), Germany (-2.1%), and Italy (-2.1%) turning in negative growth along with higher unemployment rates. Of the major economies, only France is still growing, albeit at a modest rate of 0.5%. In Canada, the Bank of Canada cut interest rates twice in the first quarter bringing their central rate to 0.50%, an all time low. An estimate from the head of Parliament's budget office was that Canadian GDP could fall as much as 8.5%. A bounce back in commodities prices in the month of March helped spark a rally in the Canadian market but it still declined 3.4% in the quarter. European Central Bank President Jean-Claude Trichet said that he expects demand to remain weak throughout 2009 and has his eyes on a gradual recovery in the Eurozone sometime in 2010. Overall, the Euro-area economy may contract by over 4.0%, which would be the worst recession since World War II. Italian stocks moved sharply lower in the quarter by 20.6% as business confidence continued to plunge along with declines in exports and consumer spending. The economic contraction experienced by the country is the worst since the mid 70's. German equities declined due to a drop-off in demand for many industrial exports and a hurting car industry with companies such as Porsche and Volkswagen declining in value. French consumer confidence remained at a record low amid a worsening labor market, but an uptick in confidence in the U.K. along with speculation that the pace of economic deterioration in the region was slowing helped the market slightly outperform other regional indices. As previously noted, the decline in the Japanese Yen vs. the U.S. dollar had a profound impact on returns this quarter. Like elsewhere in the developed world, Japan is suffering from a drop in exports and domestic demand has become weaker in the midst of declining corporate profits and lower personal incomes. The Bank of Japan (BOJ) has acted in similar fashion to other central banks to help alleviate the economic slow down by reducing short-term interest rates and facilitating some corporate financing. Post quarter, the BOJ expanded its range of eligible collateral for loans in an attempt to further loosen the tight credit environment. Elsewhere in the developed world, the Norwegian stock market advanced 3.3% as a result of a strong rally in Energy stocks, which make-up 50% of the local index. Another highly commodity-related economy, Australia, declined just 1.5% as base metals prices, notably Copper, moved higher in the period and benefited the companies that supply China with this raw material. On a valuation basis, we note that the MSCI AC World Ex-USA index traded at 10x forward earnings, which is at a slight discount to the S&P 500 at 12x forward earnings. Forward estimates are difficult to base investment decisions on in our opinion, so we also note that the S&P 500's trailing P/E is 17x vs. the U.K. at 8x, Japan at 9x, Europe 7x, and Asia ex-Japan at 10x. Overall, these are relatively compelling discounts.

Developed International Returns (in \$US)

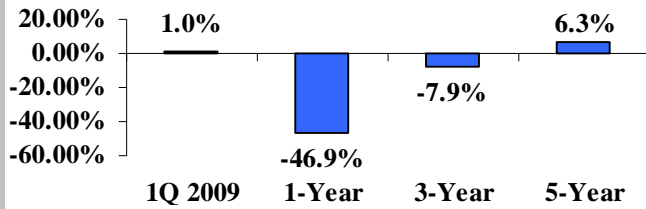


Source – StyleAdvisor

*It's important to realize that a rising U.S. dollar meaningfully hurt returns to U.S. investors in the Eurozone and in this quarter, especially against the Japanese Yen.*

## Emerging Market Equities - MSCI EM Index

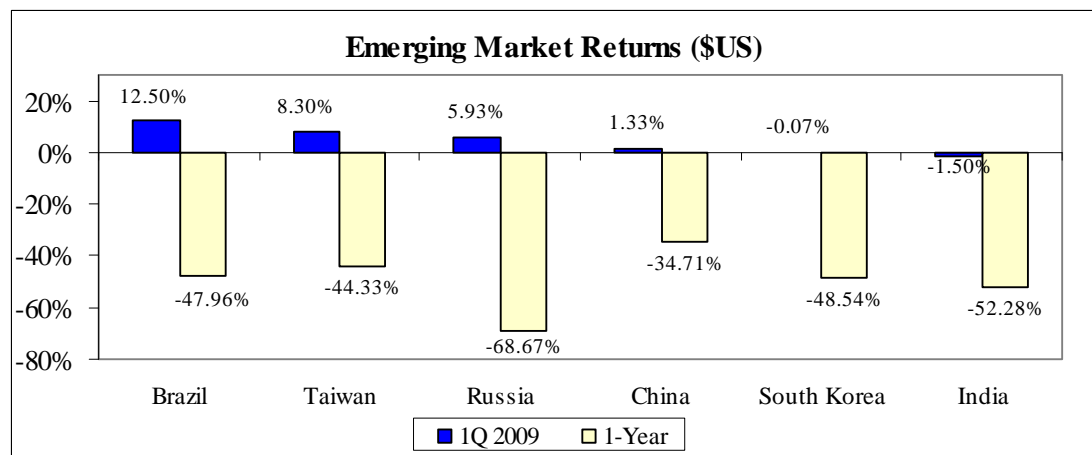
MSCI Emerging Markets Returns (\$US)



Source - StyleAdvisor

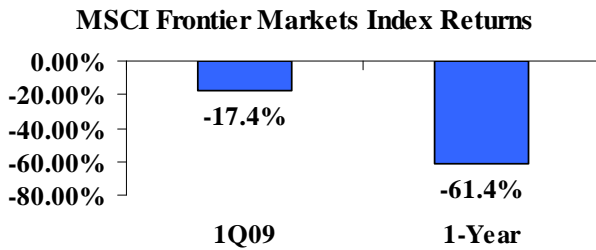
Emerging market (EM) equities provided investors some diversification benefits this quarter, gaining 1.0% and outperforming all other worldwide equities. Interestingly, emerging markets outperformed the S&P 500 in every month of the quarter and posted a strong gain of 14.4% in the month of March alone. A potential catalyst for this strong rally was the announcement by the Federal Reserve that they would buy back Treasuries and in doing so would help reduce the cost of borrowing for the EM. Moreover, a pledge by the 20 finance ministers of the IMF to infuse significant (at least \$500B) capital into the International Monetary Fund's bailout pool also boosted investor

sentiment. Positive contributors to this quarter's results came mainly from 3 of the "BRIC" nations (Brazil, Russia, India and China) which collectively gained 4.9%. Within the four heavy weights in EM, Brazil returned 12.5%, Russia 5.9%, China 1.3% and India slightly declined with a loss of 1.5%. One of the big beneficiaries of the move by the IMF is Eastern Europe, which has been pummeled by lower exports, devalued currencies, and difficulties in repaying foreign debt as evidenced by a one year decline of over 67% for the region. Countries such as Czech Republic (-15.7%), Hungary (-28.8%), Turkey (-12.7%) and Poland (-31.4%) were all detractors in the quarter but gained anywhere from 8% to 20% in the month of March on the IMF's announcement. Indian-based Satyam Computer Services, which had been a strong provider of outsourcing, collapsed when it revealed that it had been cooking the books for years. Such instances as these give rise to investor questions concerning how many other types of fraud have yet to be revealed and serve to remind investors of the financial accounting risk when investing in emerging markets. We're mindful that strength in the credit markets is a helpful gauge to form some expectations about equity markets. To that end, we continued to see narrowing of yield spreads in EM debt relative to U.S. Treasury bonds during the first quarter, which is positive in our view. Additionally, the prices to ensure sovereign debts in EM Asia, Eastern Europe, and Latin America have declined which gives us reason to be optimistic that the asset class has some resiliency and this quarter's results serve as evidence. Furthermore, we remind investors that there are some broad macro considerations when contemplating an investment in EM. 85% of the world's population resides in these countries as does 65% of the world's natural resources. While long-term projections are always at risk of being inaccurate, it is estimated that the BRICs nations could be half as large as the G6 economies (United States, the United Kingdom, Germany, Japan, Italy, and France) by 2025 and maybe surpass them by 2040. In order to keep this growth going, these and other EM nations will need to have stable and sound macro policies (low inflation, efficient markets and stable currencies), strong and stable political institutions, openness to free trade and foreign direct investment, and broad government support of education. In short, higher growth in these economies could offset the impact of graying populations and slower growth in the developed world. With advanced economies becoming a shrinking part of the world economy, shifts in spending could provide significant opportunities for many of today's global companies. In terms of valuation, emerging market equities are trading at 9.5x forward earnings versus the S&P 500 at 12x trailing earnings. This discount of about 21% is modestly attractive in our view.



Source - StyleAdvisor

## Frontier Markets - MSCI Frontier Markets Index



Source - StyleAdvisor

The Frontier Markets declined 17.4% in the quarter and are now over 60% cheaper versus 1-year ago, with some stock markets having declined over 80% in this same time period. Worldwide economic downdrafts have hit these markets very hard as their dependence on foreign direct investment and many commodity-based economies have shown their vulnerabilities. Credit has been short in supply and while the developed world depends on this to grease the gears of its economies, it is even more important for these “pre-emerging” nations. The largest decliners included Romania (-47.3%), Nigeria (-35.4%), Qatar (-24.5%), and Ukraine (-23.5%). Recently, countries such

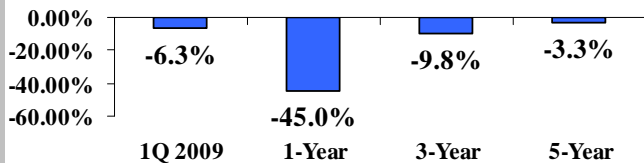
as Bulgaria (-82.9%), Ukraine (-85.5%), Nigeria (-73.7%) and Bahrain (-68.9%) have seen substantial stock market wealth wiped-out. While we believe that these markets present a long-term growth opportunity, it’s our opinion that they are probably 3-5 years away from being mature enough to recommend as a stand alone option for most 401(k) plans, mainly due to a lack of liquidity, available investment products in this category, and a seasoned track-record to evaluate their return characteristics. As the performance over the last year demonstrates, there is considerable risk for this investment category. As we continue coverage, we’re taking some time to detail the countries in this index. This quarter we’ve selected Nigeria and Lebanon.

For 2009, Nigeria’s finance ministry predicts GDP growth of 6%; however, the IMF and Bloomberg analysts anticipate growth rates of 3.3% and 2.0%, respectively. No matter what the exact figure turns out to be, the nation is not expected to fall into a recession. However, given that Nigeria derives 90% of export revenue from crude oil, the country is facing serious problems caused by a fall in oil prices, evidenced by a sharp decline in its equity market. Weakness in the naira (the nation’s currency) has pushed up food costs in the import-driven economy, and inflation grew to 14.6% in February. The increase in inflation will likely put pressure on the central bank to keep its benchmark interest rate unchanged, which has been at 9.75%. Inflation is expected to moderate by the midpoint of 2009, but it will likely remain in double digits. In an effort to diversify its economy away from oil, the Nigerian government has put an emphasis on agriculture. Nigeria is also diversifying its economy because it worries about Barack Obama’s policy to seek energy alternatives. At least 40% of Nigeria’s oil exports go the U.S. To cope with the current financial crisis, Nigeria has considered creating an asset management company backed by state and private funds that could buy bad debts. S&P warns that the country’s account deficit may run as high as 7.2% of GDP in 2009, and they have issued a negative credit-rating outlook on Nigeria’s BB- rating shortly after its budget was passed. To finance its deficit, Nigeria will have to turn to the capital markets, where it recently issued 20-year bonds with a coupon of 15%.

Lebanon is one of the nations that has been least affected by the financial crisis because of its ability to maintain liquidity. That liquidity is a direct result of Lebanon’s Central Bank’s regulation that prohibits banks from investing in U.S. subprime mortgages. In addition, banks are required to hold a third or more of deposits in cash and to have a capital adequacy that is more than 11 percent on average. Though the country has been able to maintain liquidity, it will continue to feel the impact of weak global demand. Lebanon’s finance minister recently cut the country’s forecasted growth in gross domestic product from 5% to 3% for 2009, which is much lower than its 8% growth in 2008. Inflation is expected to be between 4% and 5% in 2009. One of Lebanon’s biggest concerns is the \$47 billion of public debt on its balance sheet at the end of 2008, most of which was amassed during a reconstruction period after the end of a 15-year civil war in 1990 and during a month long war with Israel in 2006. Lebanon has one of the highest debt-to-GDP ratios in the world, but the good news is that most of the public debt in Lebanon is held by domestic commercial banks, which are willing and able to purchase and roll over government securities. To help manage its debt load in the short-term, Lebanon recently offered minimum yields of 7.5% and 9.0% for longer-dated debt issued in exchange for dollar and euro notes maturing in 2009. After the exchange, Moody’s changed the outlook on Lebanon’s B3 sovereign rating from stable to positive. Despite the positive outlook, with a projected 28% spending deficit in 2009, Lebanon’s debt load may grow to upwards of \$50 billion by the end of the year. However, the government plans to raise about \$7 billion from the sale of two mobile licenses to pay off some of its debt. Lebanon’s January offshore oil find in the Mediterranean Sea may also help reduce its deficit. Officials believe that the reserve may be large enough to meet domestic demand with a surplus that could be exported.

## Hard Assets – Dow Jones Commodity Index

### Dow Jones AIG Commodity Index Returns

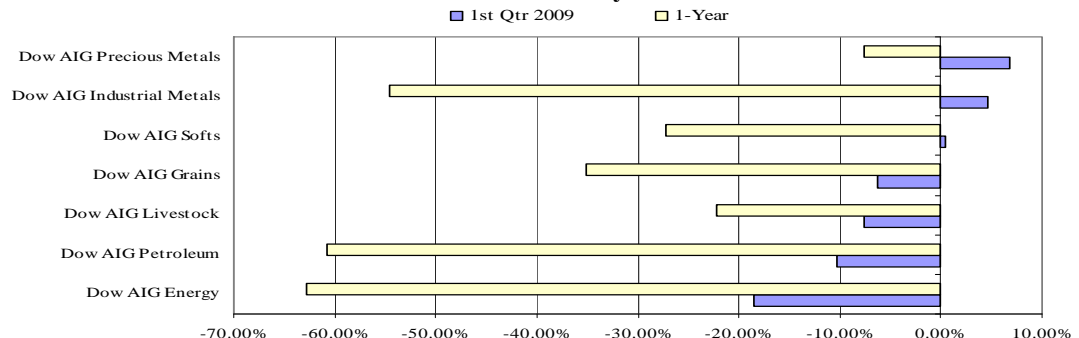


Source - StyleAdvisor

“Hard Assets,” as aggregated by the DJ AIG Commodity Index, declined 6.3% in the quarter primarily due to the global economic slowdown as well as the continuation of the U.S. dollar’s gains against most major currencies. Commodity prices dropped for the third straight quarter. The last time commodities repeated that type of performance was in 2001. However, like equities, commodities rebounded later in the quarter as the trillions of dollars of government spending on various infrastructure (roads, bridges and other public projects) initiatives served to give a boost to prices as did the hope that the fortunes of the economy had reached a possible turning pointing. Natural Gas (-35.1%), Crude Oil (-18.7%), Nickel

(-16.5%) and Wheat (-14.7%) saw their futures prices fall the most. Natural Gas declined meaningfully after reports showed that there was an unexpected increase in the stockpiles available for consumption. Crude Oil rebounded nicely at the end of the quarter, but moved lower overall due to a rising dollar and lower demand. Wheat, along with Corn (-3.1%) dropped on signs that demand for grain to make livestock feed, food and fuel will decline as the U.S. recessions continues. Ethanol plants and chicken processing plants have closed or reduced production significantly to address the glut of supply in the market. However, it’s projected that domestic farmers will plant fewer acres of corn, soybeans, and wheat this year which is bullish for prices but this is in response to frustration from farmers that are forced to plant seeds that cost 30% more but yield 30% less. Copper, the index’s strongest returning component gained 29.8%, the biggest quarterly gain since June 30, 2006. In fact, since the end of December, Copper has increased by nearly 50% but it’s debatable what this signals. In the past, the ebb and flow of Copper prices has been a strong indicator of economic growth or contraction because many cyclical industries use so much of the metal. Copper has been referred to as the commodity with a “Ph.D. in economics.” For example, the average car contains 1.2 miles of copper and alloy cables and the average home uses about 400 pounds of Copper. Unfortunately, other projections show that production for automobiles and houses is expected to be lackluster within the developed world. Higher prices seem to be the result of demand by emerging markets seeking to build out their infrastructure and on balance the advance does not, in our view, signal a rebound in the world wide economy. While prices for numerous energy commodities declined, including Heating Oil (-8.4%), Unleaded Gas moved solidly higher with a gain of 19.3%. Precious Metals posted positive results in the quarter with Gold moving higher by 4.2% and Silver by 14.8%. As the market slid lower in the end of February, Gold prices moved higher in response and crossed over \$1,000 per ounce on February 20<sup>th</sup>, but finished the quarter at \$920 per ounce. Like Treasury Bonds, Gold has a strong “flight to quality” characteristic in times of economic distress. Within agriculture, the prices of Cattle (-7.1%) and Lean Hogs (-8.8%) moved lower. Other Agricultural commodities, such as Soybeans (-3.3%), Cocoa (-2.0%), Soybean Oil (-0.9%), Sugar (+4.9%), and Coffee (1.5%) turned in relatively better returns than the overall index. It’s important to note that this index consists of both economically sensitive (Energy and Base Metals) and traditionally non-cyclical (Agricultural) commodities which provides investors with some internal diversification in this asset class. Looking to the future, we believe investors should maintain a neutral weight to this sector (5-10%) to help aid in diversification of a portfolio as well as serve as a hedge against inflation, which we believe is a long-term threat. Additionally, in the event that there is a stagflationary environment – high unemployment, flat economic growth, and rising inflation – this asset class would most likely outperform equities. Despite the steep sell-off in commodities, we recommend that investors resist the temptation to overweight this asset class at this time.

### Dow Jones AIG Commodity Index Sector Returns



Source - StyleAdvisor

## Primer: Credit Default Swaps



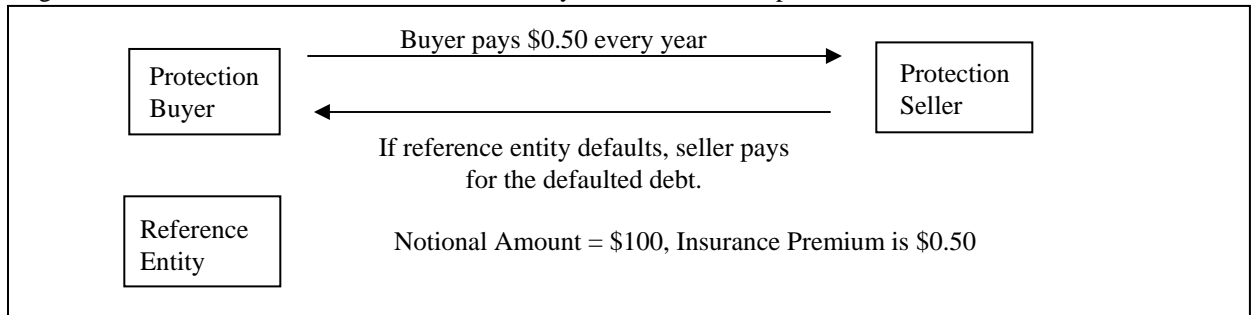
Edward C. McIlveen

Director of Performance Analytics and Research

An integral part of the market collapse since October 2007 and the balance sheet leveraging phenomenon, has been the role that complex securities such as credit default swaps and other credit derivatives played. Many stories emerged that these securities caused unprecedented financial distress at companies such as AIG. In an unregulated and opaque world, the derivatives market exploded through the market activities of investment bankers, hedge funds, insurance companies, and banks. Credit Default Swaps (CDS) are reportedly nearly half of the volume of all credit derivatives available, but it's difficult to know precisely because they are not traded on an exchange. Our objective in this piece is to provide some background on these securities, explain how they are traded and for what purposes as well as provide some insight as to why they can lead to extreme financial distress.

### Overview

For starters, credit default swaps work like an insurance contract. As an example, if a bond manager has a corporate bond in a portfolio and wishes to hedge any default risk, the manager can purchase a CDS that pays should a default or another specific credit event occur. Likewise, if a bond manager is very confident that a bond will not default, he can sell insurance to another entity. In this way, the CDS market allows for active managers and other market participants to manage their credit risk perhaps more efficiently than in the cash market, meaning that they don't have to buy traditional fixed-income securities that match exactly the risk profile they want to hedge. The following diagram illustrates how a transaction between a "buyer" and "seller" of protection.



### Advantages

CDS can help separate the interest rate risk from the credit risk in corporate bonds and other complex securities. This is especially attractive for banks, insurance companies, and reinsurance companies that have extensive regulatory requirements and CDS can help adjust a loan portfolio or other types of obligations with the goal of reducing a risk profile. Next, the transfer of credit risk can be done on a confidential basis. Aside from managing risk, investors can use CDS in an attempt to profit. For example, in a "Capital Structure Trade" if an investor thought that the General Electric Company was going to stay in overall good shape, but the investor thought that the finance division was in shaky condition, he could sell protection on CDS for General Electric Company and buy protection with CDS for the finance entity. Lastly, CDS prices, or "spreads" have been used as gauges of investor sentiment, but this is usually most reliable the more liquid the market. Again, using General Electric, speculation arose that their debt rating would be downgraded from AAA status and long before this took place the pricing of buying protection on GE referenced entities was comparable to significantly lower credit quality issues. This was essentially a signal from the market that a downgrade was imminent.

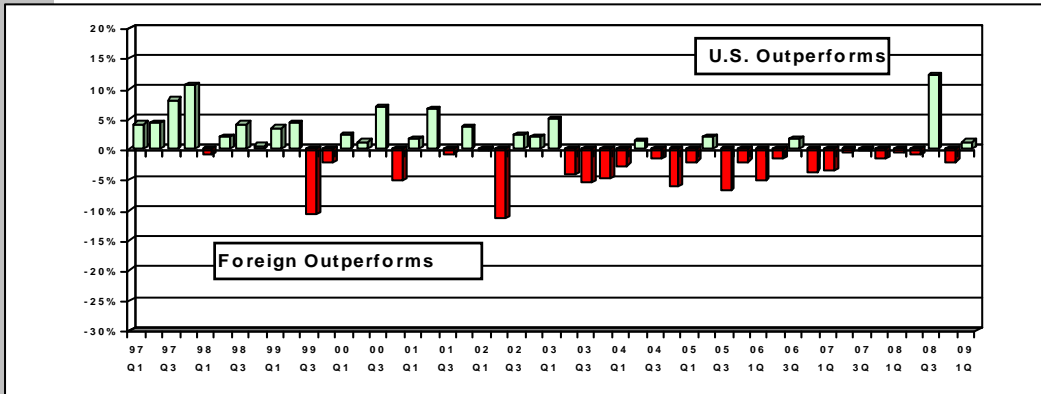
### Disadvantages

Up until the current credit crunch, worst case scenarios and stress tests were conducted in academic laboratories and most practitioners believed that the system could handle the default of some bonds. However, the default of Lehman Debt caused a cascade effect in this market and forced major players such as AIG to learn the hard way that selling bond insurance was not the same as selling car and home owners insurance. The payouts required by AIG and others who sold insurance on Lehman Debt were enormous due to the default itself but also because the amount of CDS in relation to the amount of bonds, compounded with the utilization of leverage, was disproportionate. We see the market for these securities moving more to an environment where they will be traded on an exchange which will foster transparency and more standardization of terms

### Conclusion

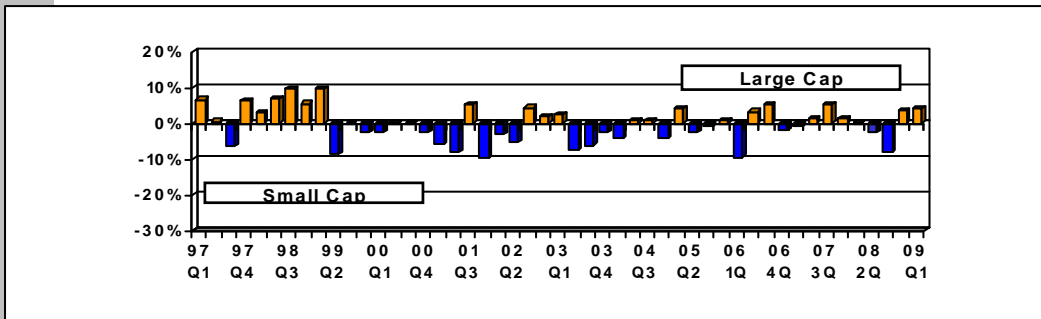
CDS emerged to dominate the credit derivative market place for their many perceived and real benefits of buying and selling bond insurance; however, they flourished in a time where no practical stress tests existed to give investors or regulators pause about their true risk characteristics. Increased regulatory guidelines for CDS and a better understanding and appreciation by investment practitioners of the risks associated with implementing them in managing risk and profiteering are justified. That said, an understanding of the CDS market has some benefits, namely that it can be a barometer of investor sentiment and gauge of credit quality which can lead rating agencies decisions. Francis Investment Counsel actively monitors these markets and believes there is valuable information embedded which will be helpful to us in formulating capital market expectations.

## Domestic vs. International (S&P 500 minus MSCI EAFE Index)



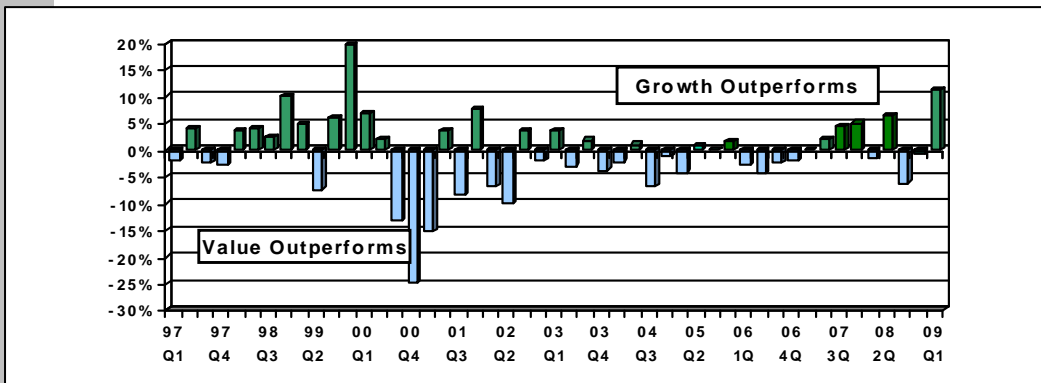
*A rising US Dollar relative to most major currencies served as a headwind for the quarter, which contributed to the outperformance of U.S. stocks.*

## Large-Cap vs. Small-Cap (Russell 1000 minus Russell 2000)



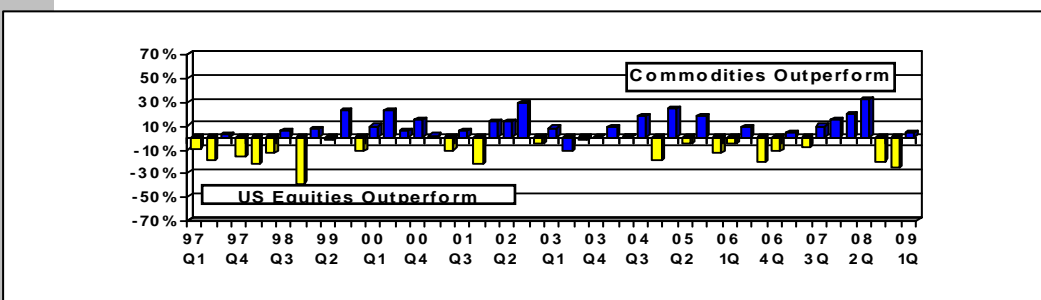
*Large-cap stocks outperformed small-caps stocks this quarter, as fears of a worsening economic recession and persistently higher debt costs weighed against small-cap stocks more than large-caps.*

## Growth vs. Value (Russell 1000 Growth minus Russell 1000 Value)



*Growth stocks outperformed value by the largest margin since shortly before the tech bubble burst. However, unlike that time period where speculation abounded in a roaring economy, investors were willing to pay a premium for stocks that could grow as the recession worsened.*

## S&P 500 vs. Commodity Returns (GSCI minus S&P 500 Index)



*As oil and other commodities prices stabilized, they managed to outperform equities.*

## PASSIVE INDEX DEFINITIONS

*Indices used to answer the question, "Has the manager added value through skilled security selection?"*

**90-DAY TREASURY BILL INDEX** - This index is comprised solely of Treasury Bills and will always have an average maturity of 90 days.

**RYAN LABS 3-YEAR GIC INDEX** - This index is the arithmetic mean of the ten highest quotes from a representative universe of three-year high quality GIC issues as measured by Ryan Labs, Inc.

**BARCLAY'S CAPITAL AGGREGATE BOND INDEX** - This index is composed of approximately 25% U.S. Treasuries, 50% Agencies/Mortgages, and 25% Corporates, with an average duration of approximately 4.5 years.

**BARCLAY'S CAPITAL INT. GOVT/CREDIT BOND INDEX** - This index is composed of approximately 35% U.S. Treasuries, 25% Agencies, and 40% Corporates, with an average duration of approximately 3.5 years.

**BARCLAY'S CAPITAL GOVT/CREDIT BOND INDEX** - This index is composed of approximately 40% U.S. Treasuries, 20% Agencies, and 40% Corporates, with an average duration of approximately 5.0 years.

**DOW JONES INDUSTRIAL AVERAGE (DJIA)** - This index consists of the 30 largest and most widely held public companies in the United States which have been chosen to represent the U.S. stock market because they are larger, more actively traded issues, and leaders of American industry.

**DOW JONES-AIG COMMODITY INDEX (DJ-AIGCI)** - Composed of futures contracts on physical commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc. Sub-indexes include: Energy, Petroleum, Precious Metals, Industrial Metals, Grains, Livestock, Softs, Agriculture and ExEnergy.

**STANDARD & POORS 500 INDEX (S&P 500)** - A basket of 500 stocks that are considered to be widely held. The S&P 500 index is weighted by market value, and its performance is thought to be representative of the U.S. equity market as a whole.

**WILSHIRE 5000 INDEX** – Measures the performance of virtually all U.S. headquartered equity securities with readily available price data. Composed of approximately 7,300 capitalization weighted securities, with additions/deletions to the index made monthly and represents virtually 100% of U.S. equity market.

**RUSSELL 3000 INDEX** – Composed of approximately 3,000 of the largest U.S. companies based on total market capitalization, which represents approximately 98% of the U.S. equity market.

**RUSSELL 1000 INDEX** – Composed of approximately 1,000 of the largest companies in the Russell 3000 Index, which represents the large-cap segment of the U.S. equity market.

**RUSSELL 1000 VALUE INDEX** – Composed of stocks with lower price-to-book ratios and lower forecasted growth values among the largest 1000 companies in the Russell 3000 Index.

**RUSSELL 1000 GROWTH INDEX** – Composed of stocks with higher price-to-book ratios and higher forecasted growth values among the largest 1000 companies in the Russell 3000 Index.

**RUSSELL MID-CAP INDEX** – Composed of the smallest 800 stocks in the Russell 1000 Index, which represent the mid-cap segment of the U. S. equity market.

**RUSSELL 2000 INDEX** – Composed of approximately 2,000 of the smallest companies in the Russell 3000 Index, which represents the small-cap segment of the U.S. equity market.

**RUSSELL 2000 VALUE INDEX** – Composed of stocks with lower price-to-book ratios and lower forecasted growth values among the smallest 2,000 companies in the Russell 3000 Index.

**RUSSELL 2000 GROWTH INDEX** – Composed of stocks with higher price-to-book ratios and higher forecasted growth values among the smallest 2,000 companies in the Russell 3000 Index.

**MSCI ALL-COUNTRY WORLD EX-U.S. INDEX** - An arithmetic average of over 2,000 securities listed on the stock exchanges of the countries outside the United States, and includes exposure to emerging markets.

**NASDAQ COMPOSITE INDEX** – Composed of the return of stocks listed on the NASDAQ over-the-counter stock exchange. Typically, the index is comprised of mainly technology and emerging company stocks.

## ACTIVE INDEX DEFINITIONS

*Indices used to answer the question, "How does the manager compare to other managers with a similar investment style?"*

**LIPPER INTERMEDIATE INVESTMENT GRADE BOND FUND INDEX** – A peer group index comprised of fixed-income funds with an average duration consistent with intermediate range (3-5 years) and average credit quality of at least investment grade (AAA, AA, A, or BBB).

**LIPPER CORPORATE DEBT A BOND FUND INDEX** – A peer group index comprised of fixed-income funds focused on corporate-issued debt with an average credit quality of A.

**LIPPER BALANCED FUND INDEX** – Funds whose primary aim is to conserve principal by maintaining at all times a balanced portfolio of equities and bonds, with at least 50% in equity securities and at least 25% in fixed income securities. Typically, the equity/bond ratio is approximately 60%/40%.

**LIPPER SMALL CO. AVERAGE FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) less than 250% of the dollar-weighted median of the smallest 500 of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**MORNINGSTAR WORLD ALLOCATION UNIVERSE** – A peer group of tactical asset allocation products.

**LIPPER LARGE-CAP VALUE FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**LIPPER LARGE-CAP CORE FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**LIPPER LARGE-CAP GROWTH FUND INDEX** – Funds that, by portfolio practice, invest at least 75% of their equity assets in companies with market capitalizations (on a three-year weighted basis) greater than 300% of the dollar-weighted median market capitalization of the middle 1,000 securities of the S&P SuperComposite 1500 Index.

**LIPPER INTERNATIONAL FUND INDEX** – A peer group index comprised of the universe (approximately 900 mutual funds) of international mutual funds classified by Lipper Analytics, Inc.

## ECONOMIC SECTOR & INDUSTRY DEFINITIONS

### **CONSUMER DISCRETIONARY**

Auto Components (Johnson Controls, Goodyear Tire & Rubber)  
Automobiles (Harley Davidson, Ford, General Motors)  
Household Durables (Whirlpool, Snap-On, Pulte Homes, Lennar, KB Home, Harman, Fortune Brands, Black & Decker, Centex, D R Horton, Stanley Works, Newell Rubbermaid)  
Leisure Equipment & Products (Eastman Kodak, Mattel, Hasbro, Brunswick)  
Text, Apparel & Luxury Goods (Liz Claiborne, Nike, Jones Apparel, Coach, Ralph Lauren, V F Corp.)  
Hotels, Restaurants & Leisure (McDonalds, Starbucks, Carnival, Hilton Hotels, Wendy's, Wyndham, International Game, Starwood, Darden, Marriott, Yum Brands, Harrahs)  
Media (Comcast, Direct TV, Interpublic, Meredith Corp., News Corp., Omnicom, Walt Disney, Time Warner, Viacom, Gannett, NY Times, McGraw Hill, Clear Channel, Washington Post)  
Distributors (Genuine Parts)  
Internet & Catalog Retailing (Amazon, Expedia, IAC Interactive)  
Multi-Line Retail (Big Lots, Dillards, Family Dollar, JC Penny, Nordstrom, Kohls, Macy's, Sears, Target)  
Specialty Retail (Autonation, Abercrombie & Fitch, AutoZone, Bed Bath & Beyond, Best Buy, Circuit City, GameStop, Gap, Home Depot, Lowes, Limited Brands, Office Depot, OfficeMax, RadioShack, Sherwin Williams, Staples, Tiffany & Co., TJX Co.)

### **CONSUMER STAPLES**

Food & Staples Retailing (Kroger, Supervalu, Safeway, Sysco, Walgreens, Whole Foods, Wal-Mart)  
Beverages (Brown Forman, Anheuser Busch, Coca Cola, Pepsi, Constellation Brands, Molson Coors)  
Food Products (Archer Daniels, Conagra Foods, Campbell, Dean Foods, General Mills, Heinz, Hershey, Kellogg, Kraft, McCormick & Co., Sara Lee, Tyson Foods, Wrigley)  
Tobacco (Altria Group, RJ Reynolds, U.S.T, Philip Morris)  
Household Products (Kimberly Clark, Colgate Palmolive, Proctor & Gamble, Clorox)  
Personal Products (Avon Products, Lauder Estee)

### **ENERGY**

Energy Equipment & Services (Baker Hughes, BJ Services, Ensco, Halliburton, Nabors, Noble, National Oilwell Varco, Rowan, Transocean, Smith, Schlumberger, Weatherford, Cameron)  
Oil, Gas & Consumable Fuels (Apache, Anadarko Pete, Peabody Energy, Chesapeake Energy, Consol Energy, Conoco Phillips, Chevron, Devon Energy, EOG Resources, El Paso, Hess, Marathon Oil, Murphy Oil, Noble Energy, Occidental Pete, Range Resources, Spectra Energy, Sunoco, Tesoro, Valero Energy, Williams, Exxon, XTO Energy)

### **FINANCIAL SERVICES**

Capital Markets (American Capital, Ameriprise, Franklin, Bank of New York, Bear Stearns, E Trade, Federated, Goldman Sachs, Janus, Legg Mason, Merrill Lynch, Morgan Stanley, Northern, Charles Schwab, State Street, T. Rowe Price, )  
Commercial Banks (Bank of America, First Horizon, Keycorp, M & T, National City, Regions, SunTrust, Wachovia, Zion's, Wells Fargo, U.S. Bancorp, Marshall & Ilsley, PNC)  
Diversified Financial Services (Bank of America, Citigroup, CME, Intercontinental Exchange, JP Morgan Chase, Leucadia, Moody's, NYSE)  
Insurance (Ambac, Ace, Aflac, American, Assurant, Allstate, Aon, Chubb, Cincinnati, Genworth, Hartford, Lincoln, Loews, MBIA, MetLife, Marsh & McLennan, Principal, Progressive, Prudential, Safeco, Torchmark, Travelers, Unum, XL Capital)  
Real Estate (Apartment Investment & Management, Avalon bay, Boston Properties, Developers Diversified, Equity Residential, General Growth, Host Hotels & Resorts, Kimco, Plum Creek Timber, Prologis, Simon Properties, Vornado, HCP)

## HEALTH CARE

Health Care Equipment & Supplies (Baxter, Bard, Becton Dickinson & Co., Boston Scientific, Covidien, Hospira, Medtronic, St. Jude, Stryker, Varian, Zimmer)  
Health Care Providers & Services (AmerisourceBergen, Aetna, Cardinal Health, Cigna, Coventry Health, Quest Diagnostics, Express Scripts, Humana, Laboratory, McKesson, Medco Health, Patterson, Tenet Healthcare, UnitedHealth Group, WellPoint)  
Biotechnology (Amgen, Biogen, Celgene, Genzyme, Gilead Sciences, IMS Health)  
Pharmaceuticals (Abbott, Allergan, Bristol Myers, Barr, Forest, Johnson & Johnson, King, Lilly Eli, Merck, Mylan, Pfizer, Schering Plough, Watson, Wyeth)

## INDUSTRIALS

Aerospace & Defense (Boeing, Rockwell Collins, General Dynamics, Goodrich, Honeywell, L-3  
Communications, Lockheed Martin, Northrop Grumman, Precision Castparts, Raytheon, United Technologies)  
Building Products (Masco, Trane)  
Construction & Engineering (Fluor, Jacobs)  
Electrical Equipment (Rockwell Automation, Emerson Elec., Cooper Inds.)  
Industrial Conglomerates (3M, General Electric, Tyco International, Textron)  
Machinery (Deere & Co., Caterpillar, Cummins, Ingersoll-Rand, Paccar, Eaton, Danaher, Dover, ITT, Illinois Tool, Manitowoc, Parker Hannifin, Pall, Terex)  
Trading Companies & Distribution (Grainger WW)  
Commercial Services & Supplies (Avery Dennison, Allied Waste, Cintas, Equifax, Monster Worldwide, Pitney Bowes, Robert Half, Donnelley R. R. & Sons, Waste Management)  
Air Freight & Logistics (United Parcel Service, FedEx, C. H. Robinson, Expeditors)  
Airlines (Southwest)  
Road & Rail (Union Pacific, CSX, Burlington Northern, Norfolk Southern, Ryder)

## INFORMATION TECHNOLOGY

Internet Software & Services (Akamai, EBay, Google, Verisign, Yahoo)  
IT Services (Affiliated, Automatic Data, computer Sciences, Cognizant, Convergys, Electronic Data, Fidelity, Fiserv, Paychex, Total System, Unisystem, Western)  
Software (Adobe, Autodesk, BMC Software, CA Inc., Compuware, Citrix, Electronic Arts, Intuit, Microsoft, Novell, Oracle, Symantec)  
Communications Equipment (Cisco, Motorola, Qualcomm, Corning, Tellabs, Avaya, JDS Uniphase, Juniper Networks, Ciena)  
Computers & Peripherals (Dell, Apple, EMC, Sun Microsystems, Hewlett Packard, IBM, Lexmark, Netapp, Qlogic, SanDisk, Teradata, NCR)  
Electronic Equipment & Instruments (Agilent, Jabil Circuit, Molex, Tyco Electronics)  
Office Electronics (Xerox)  
Semiconductors & Semi Equipment (Analog Devices, Altera, Applied Materials, Advanced, Broadcom, Intel, KLA-Tencor, Linear, LSI, Microchip, Micron, National Semiconductor, Nvidia, Novellus, Teradyne, Texas Instruments, MEMC Electric, Xilinx)

## MATERIALS

Chemicals (Air Products & Chemicals, Ashland, Du Pont, Dow Chemicals, Ecolab, Eastman, Hercules, International Flavors, Monsanto, PPG, Praxair, Rohm & Haas, Sigma Aldrich)  
Construction Materials (Vulcan Materials)  
Containers & Packaging (Sealer Air, Pactiv, Ball, Pactiv, Bemis)  
Metals & Mining (Alcoa, U.S. Steel, Newmont Mining, Freeport-McMoran, Nucor, Phelps Dodge, Allegheny, Titanium Metals)  
Paper & Forest Products (Intl Paper, MeadWestvaco, Weyerhaeuser)

## **TELECOMMUNICATION SERVICES**

Diversified Telecom Services (AT&T, Citizens, Embarq, Windstream, Verizon, Qwest, CenturyTel)

Wireless Telecom Services (Sprint Nextel, American Tower)

## **UTILITIES**

Electric Utilities (Southern Co., Allegheny Energy, Duke Energy, Edison, Entergy, FirstEnergy, Progress, Exelon, Pinnacle West, Pepco, PPL, Southern, American Electric Power, FPL)

Gas Utilities (NiSource, Questar)

Industrial Power Production / Energy Trd (Constellation Energy, Dynegy, AES)

Multi-Utilities & Unreg. Power (Ameren, CMS, Centerpoint, Dominion, DTE, Consolidated Edison, NiSource, PG&E, Public Service, Sempra, Teco, Integrys, Xcel)

## **SERVICES**

Companies represented in the industries were selected from the S&P 500 Index as of 3/31/08.

