Capital Markets Commentary

Second Quarter 2009

Michael J. Francis, CIMA

President, Chief Investment Officer

Clifford H. Dunteman, Jr. CIMA

Vice President

Edward C. McIlveen

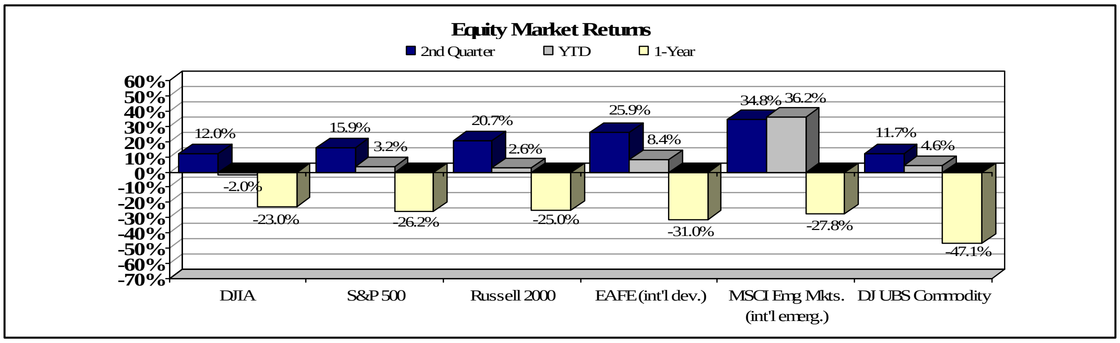
Director of Performance Analytics and Research

Summary of Market Activity

After one and one-half years of persistent and significant losses, U.S. equity markets turned in their strongest quarterly performance in over 10-years in the second quarter 2009. For the period, the market was up 15.9%, as measured by the S&P 500, and up 35.9% from the lows registered on March 9th. Sudden and unpredictable turns in the market such as this one serve as a reminder of the folly of trying to time the market. The rebound in stocks that began with short covering in the Financial Services sector spread quickly to companies with exposure to the commodity markets and Technology stocks. As is often the case, small company stocks outperformed large company stocks in the bounce off of the depressed levels reached in March. It is worth noting that during the second quarter GM, the second oldest component of the Dow Jones Industrial Average, was replaced by Cisco Systems, and Citigroup was replaced with Travelers Corporation.

Aggressive Central Bank action was successful in restoring confidence to the world's capital markets as evidenced by the reduction in the TED Spread (the difference between 3-month Treasuries and 3-month LIBOR) from over 4.6% in October to 0.4% by the end of June. Significant appreciation in the price of high yield bonds and a record decline in the value of ultra-safe Treasuries were further evidence of the success of this intervention. The Federally orchestrated bankruptcies of GM and Chrysler during the quarter, while much anticipated, were significant for the favored treatment received by employees of the firms over bondholders.

Foreign equity markets delivered their strongest quarterly results since the indices were compiled in 1989, aided by a weakening dollar and surprising economic strength demonstrated by a number of emerging market countries. The commodity markets were also positively impacted by the "China Effect," as strong demand from Asia drove the prices of many industrial commodities sharply higher.



Source – StyleAdvisor

The average diversified U.S. equity fund rebounded 17.1% in the second quarter of 2009 according to Lipper Analytical, for its best quarterly return since Q4 '99. This represents continued outperformance of the S&P 500 by the average Fund after a dismal year of underperformance in 2008. Trends were reversed from the first quarter with "Value" outperforming "Growth" and "Small-cap" generally outperforming "Large-Cap" funds. Foreign funds were the real stars of the quarter, with emerging market funds up well over 30%. Taxable bond funds also turned in their strongest quarter since 1995, up 5.3%, while the average General Treasury Fund declined 3.6%.

Average Equity Fund Performance
STYLE PERFORMANCE MATRIX
2nd Quarter 2009 Total Return

	Value	Core	Growth	*AVERAGE*
Large-Cap	16.34%	16.58%	16.70%	*16.54%*
Mid-Cap	21.38%	18.33%	19.10%	*19.60%*
Small-Cap	21.40%	22.23%	20.59%	*21.41%*
AVERAGE	*19.71%*	*19.05%*	*18.80%*	

Average Equity Fund Performance
STYLE PERFORMANCE MATRIX
2009 YTD

	Value	Core	Growth	*AVERAGE*
Large-Cap	2.67%	5.35%	12.33%	*7.83%*
Mid-Cap	9.80%	10.18%	13.91%	*9.99%*
Small-Cap	4.64%	8.23%	13.14%	*1.67%*
AVERAGE	*0.19%*	*4.10%*	*13.63%*	

Source - Lipper

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Near-Term Capital Markets Outlook

U.S. Economy – Economy Stabilizing

A sharp, and somewhat unexpected rebound in 7 out of 10 leading economic indicators (see Exhibit 1), suggests the current U.S. economic contraction is coming to an end. Other signs of stabilization include an improvement in housing starts, existing home sales, business equipment orders, and consumer sentiment. While important U.S. industries such as autos and home building continue to struggle, strong demand for U.S. goods and services from Asia has fueled talk of recovery. We believe that even though the U.S. economy will soon be recovering from these significantly depressed levels, a return to previous levels of economic activity is a long way off primarily because the U.S. consumer is struggling under the weight of too much debt, poor prospects for a wage increase, and a 20%-30% decrease in net worth. A financially imperiled U.S. consumer cannot support a robust recovery because they are focused on economic survival. The average personal savings rate has already moved from nearly 0% to 6.9% to prove it. (see Exhibit 2) With confidence returning to world capital markets, spreads are narrowing and the dollar is weakening. Even with signs of recovery beginning to appear, inflation should not be an issue for the foreseeable future due to significant excess capacity in manufacturing and labor markets as well as extremely tight lending standards. Central Banks around the world have a very delicate task ahead as they must carefully time the removal of the monetary and fiscal stimulus programs currently in place when they are no longer needed. Pull them too soon, and risk stalling the recovery; leave them in place too long, and risk unleashing the hounds of inflation. We expect home prices to continue dropping into 2010 as overbuilt communities and areas with significant unemployment deal with an oversupply of homes. The commercial real estate market is also struggling with increasing vacancies and uncooperative lenders. Prices in both residential and commercial real estate markets need to stabilize before real economic growth can materialize.

Domestic Equities – Neutral

We are affirming our “Neutral” weight to domestic equities. The rally in stock prices that began on March 10 has driven U.S. large-caps up 36% as measured by the S&P 500, and small-caps up 48% as measured by the Russell 2000. With the sharp move up, last quarter’s prognostication of Dow 7,000 before 9,000 has been proven overly pessimistic. We believe that we are currently experiencing a cyclical bull market within a secular bear market that began in March 2000, and that U.S. stocks, while likely to trade higher in the near-term, are now priced on the high side of reasonable given near-term economic growth prospects. According to Ned Davis Research, since 1900 the average secular bear market has lasted 12 years and experienced on average three cyclical bull markets that have averaged a 64% return over an eighteen month period. If the current bull market follows suit, we could see another 10% - 20% rally from here over the next twelve months before economic reality sets in and experience another significant drop. Accordingly, we believe short-term investors are well-advised to actively trim profits into any meaningful rally in domestic equities. Investors with a long-term time horizon are wise to remember the wealth-building power of innovation and emerging economies around the world, wait for a more opportune time to rebalance, and ride out all the twists and turns of the market.

International Equities – Neutral

The second quarter rally in U.S. equity prices was dwarfed by the huge bounce experienced by most foreign equity markets. While developed foreign markets significantly outperformed the U.S. for the quarter and year-to-date, emerging market equities trounced them all. China in particular has demonstrated surprising resiliency to the global economic slowdown thanks to the rapid deployment of over $150B of Chinese government stimulus funds as of May 2009. This is more than twice the amount the U.S. Government was able to invest over the same period. While emerging market equities represent our highest conviction long-term equity holdings, our analysis indicates that the recent rapid appreciation in share prices has caused valuation levels to get a little ahead of themselves. Currently, there is no risk premium associated with emerging market equities, in terms of average P/E ratio, to U.S. equities. This has historically been a pretty reliable sell signal for short-term traders. Our expectation for continued weakening of the 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.

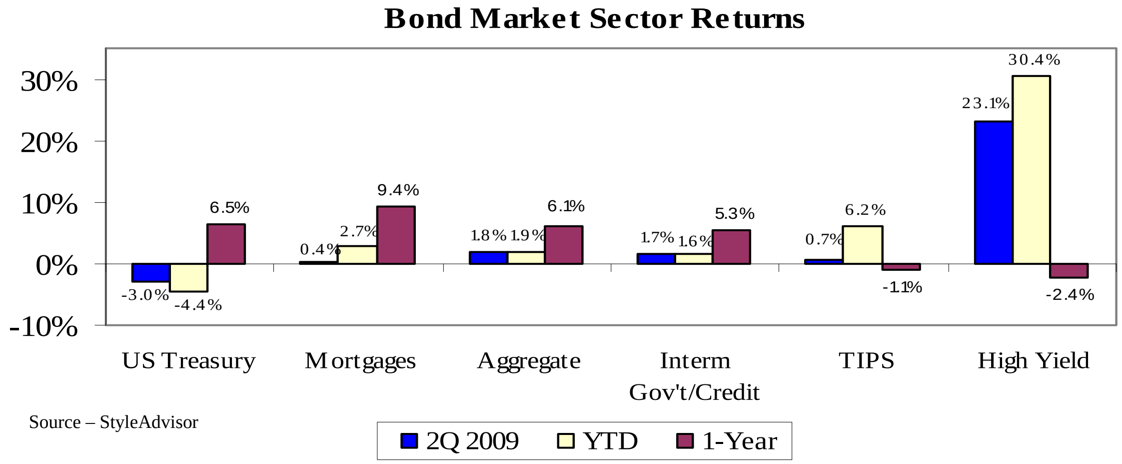
Domestic Bonds – Underweight (Treasuries), Overweight (Corporate Bonds)

Record issuance of new Treasury debt, and Government intervention in the U.S. Treasury and Mortgage Backed Securities bond markets cry out for caution. While short-term Treasuries remain one of the only truly “safe” investments in an economic storm, locking in the historically low and artificially suppressed current long-term Treasury yields seems a bad bet. Conversely, corporate bonds yields remain attractive relative to nominal Treasuries and the historic norm in a low inflation environment. In the second quarter, high yield debt was issued at a record pace, yet the growing appetite for risk and large pools of liquid capital led to a significant rally in the high yield market. We prefer investment grade corporate bonds and TIPS bonds at this time as our intermediate-term economic outlook is cautious.

Hard Assets – Neutral

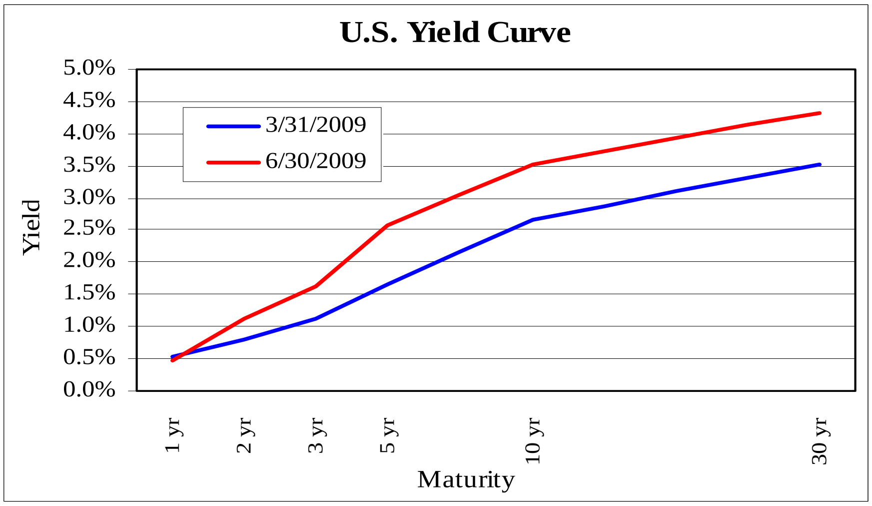
The oil and equity markets have recently become more highly correlated which makes this asset class less attractive as a portfolio diversifier. Unlike stocks, which we believe to be in a secular bear market, Hard Assets have been in a secular bull market for most of this decade and provide an excellent hedge to a substantially weaker dollar.

U.S. Bonds – Multiple Bond Indexes



Source – StyleAdvisor

Risk taking returned to the global financial markets, causing the Barclay's Capital U.S. Aggregate Bond Index to lag equities this quarter albeit with a gain of 1.78%. Strong rebounds in the corporate and asset-backed securities sectors were partially offset by a decline in the market value of most Treasuries. Confidence in the banking system showed significant signs of improvement as the TED spread (difference between 3-month Treasuries and 3-month LIBOR, see exhibit 3) narrowed to below its historical average; other evidence that the credit markets have been put back in motion is that new corporate issues, especially brisk activity in high yield, have been brought to market. In our discussions with various bond managers, we hear strong evidence that some of the Federal programs, such as TALF, are having a positive impact in the trading and pricing of securities. Many sectors of the bond market that investors had a meaningful aversion to 6-9 months ago were stellar performers this quarter. As a result, corporate bonds, especially high-yield, and asset backed securities rebounded 10.5%, 23.1%, and 7.6% respectively. Government debt, specifically, nominal U.S. Treasury bonds (those that do not adjust for inflation) lost 3.0%. In fact, the yields on the 10-year and 30-year issues rose by 87 and 80 bps respectively. Higher yields in this area were attributable to investors shifting money back to riskier assets, long-term concerns about inflation, and the deterioration of the U.S. balance sheet. Although not a component of the Aggregate Index, Treasury Inflation-Protected Securities (TIPS) gained 0.7% in the quarter, as investors looked for an inflation hedge.



Source: Bloomberg

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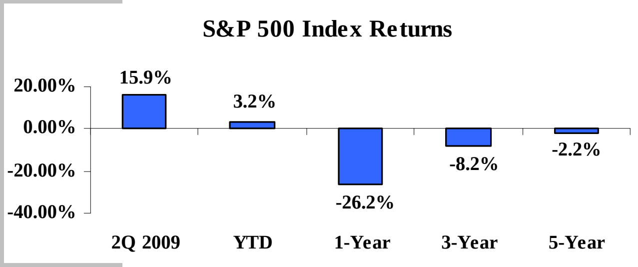
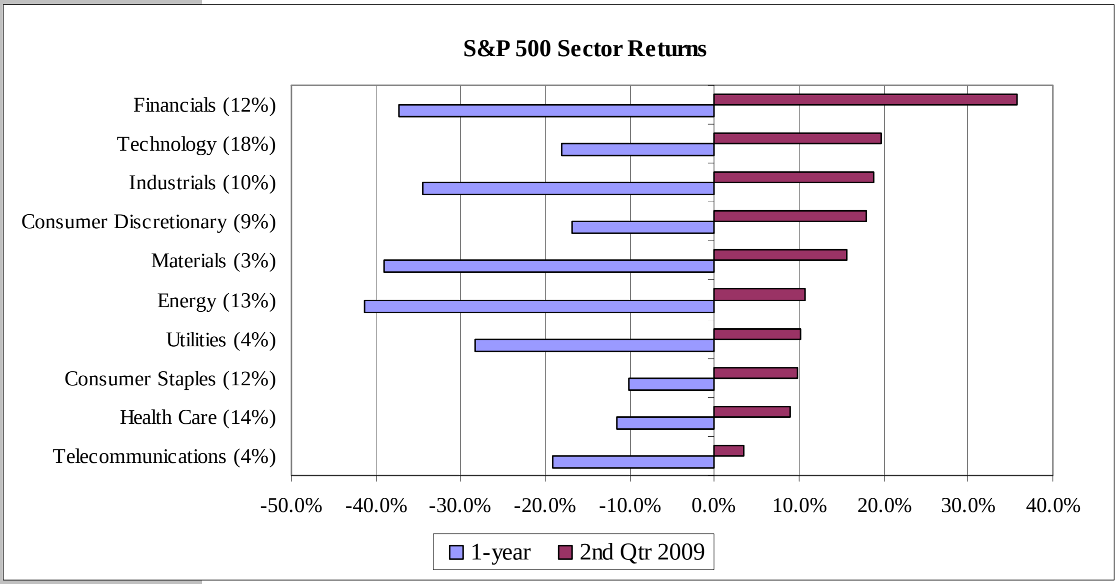
Large-Cap Equities – S&P 500



Source: StyleAdvisor

Large-cap stocks, as measured by the S&P 500 Index, gained 15.9% in the second quarter and brought the index into positive territory with a year-to-date return of 3.2%. A rally that started on March 10th following some favorable comments from banking executives, gained more momentum this quarter as economic reports pointed towards a possibility that the worst was behind us. The sectors that performed the best in the quarter included Financials (+35.8%), Information Technology (+19.8%), Industrials (+18.9%), and Consumer Discretionary (+18.0%). Among the largest individual contributors to overall performance, were stocks such as Wells Fargo (+70.7%), Microsoft (+30.2%), Bank of America (+93.7%), Apple (+35.5%), JP Morgan Chase (+28.6%), and Goldman Sachs (+39.4%). With the sudden surge in the market, it was not surprising to see more defensively oriented sectors such as Telecommunications Services (+3.5%), Health Care (+8.9%), Consumer Staples (+9.8%), Utilities (+10.2%) and Energy (+10.7%) lag. Some of the largest individual detractors in order of magnitude included Wal-Mart (-6.5%), Monsanto (-9.9%), Biogen IDEC (-13.9%), Newmont Mining (-8.5%), and Genzyme (-6.3%). During the quarter, S&P reported that a record few companies increased their dividends (among all publicly held companies) and that most pension plans of the S&P 500 Index members were partially or severely underfunded. We believe that the economic drag from eventually funding these programs could be a significant hindrance to future profitability. On the positive side, more and more of the S&P 500 index companies are increasing their international presence as evidenced by the growth in international sales. For the years 2006 through 2008, foreign sales as a percent of total sales were 43.6%, 45.8% and 47.9% respectively. This posture is fairly uniform across the spectrum of sectors, with Information Technology having the greatest amount at 55.3% and Financials with the lowest amount of foreign sales at 34.1%. In terms of valuation, the S&P 500 is currently trading at 14.1x forward earnings and we note that the earnings-yield of the Index, inverse of the P/E ratio, favors investing in stocks over bonds. The earnings yield is currently 7.1% vs. the 10-year bond at 3.5%. According to the 'Fed Stock" model, this is a bullish indicator for equities. Given the rebound in the credit markets, which reduces funding costs and hence the overall cost of capital, as well as reduced input prices from commodities, we'd expect more surprises to the upside than down. We believe that an appropriate multiple to value earnings for the S&P is 13-14 times based on assumptions surrounding long-term returns on equity (13%), slightly higher interest rates (10-year bond at 5.00%), dividend payouts (35% of earnings), and long-term growth rates (8.5%). With this multiple in mind, and given the median operating earnings estimates for the next two years, the S&P looks to be "fairly" valued in the 800 to 900 range.



It was a run-n-gun type of rally this quarter as Financials, Information Technology, Industrials, and Consumer Discretionary stocks cruised ahead. Even with this quarter's large gains, it failed to bring the Index or any of its sectors into positive territory. It is also noteworthy that the S&P 500 gain significantly lagged the international markets.

Source: Morningstar Direct

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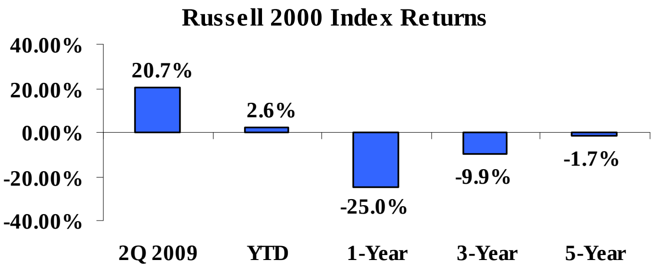
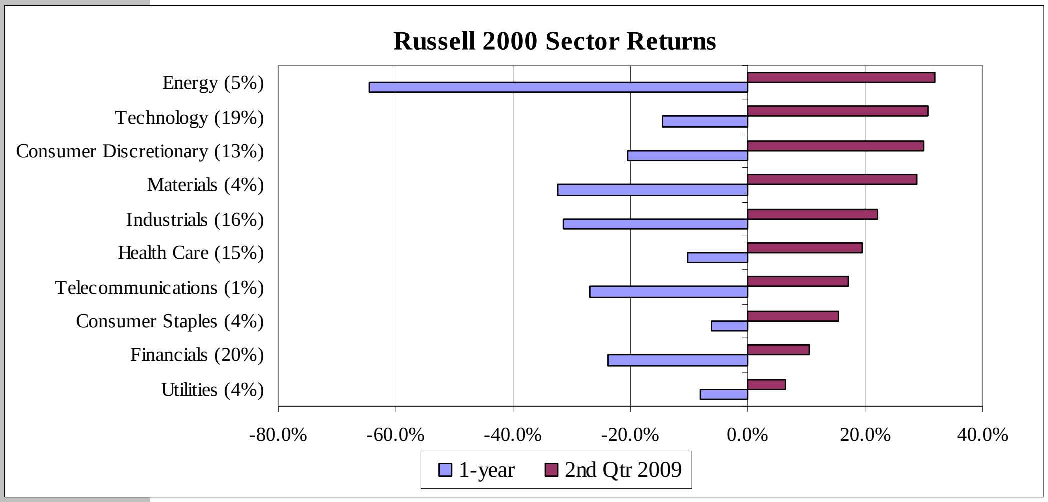
Small-Cap Equities – Russell 2000 Index



Source - StyleAdvisor

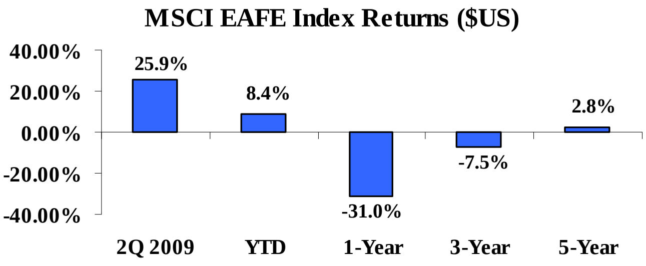
The Russell 2000 Index, which measures the performance of U.S. small-cap stocks, gained 21% in the second quarter, offsetting the 15% loss suffered by the index in the first quarter and brought its year-to-date above breakeven. As investors started to increase their appetite for risk in the second quarter, small-cap stocks, outperformed large-caps stocks (as measured by the S&P 500) by a margin of 4.8%. For the same reason, more speculative small-cap growth stocks returned 23% in comparison to a return of 18% for their value counterparts. After three straight quarters of abysmal performance, the Energy sector was the top performing sector for small-caps, rising 32% due in part to a 26% rebound in the price of crude oil. However, the small-cap Energy sector's one year return is still a dreadful -65%, more than double the loss of any other sector over the same time period. Other top performing sectors included those that are cyclical. As consumer sentiment improved, and with expectations that an economic recovery may be nearing, Information Technology (+ 31%), Consumer Discretionary (+ 30%), and Materials (+ 29%) were the sectors that benefited the most. Conversely, sectors often considered to be defensive in nature, like Utilities (+6%) and Consumer Staples (+16%), lagged behind. Between large-cap and small-cap stocks, the valuations of large-caps appeared to be more compelling at the end of the quarter. Small-caps finished the quarter trading at 15.9x expected 2009 earnings, which is up significantly from a P/E of 9-10x in the first quarter. In comparison, large-caps were trading at 14.1x expected earnings. Thus, the small-cap valuation premium to large-caps is currently 9%, whereas historically it has been at a discount. Small-cap stocks also look more expensive than large-caps when evaluated based on their 20-year P/E ratios. At the end of the second quarter, small-cap stocks were trading at a 15.9% discount to their 20-year average P/E while large-caps were trading at a 28.3% discount. It certainly appears as though large-caps are the more attractively priced market capitalization, but small-caps shouldn't be avoided completely. It's well documented that small-cap stock returns have typically led the market immediately following a recession. Therefore, we do not recommend that investors avoid this asset class entirely.



The small-cap Energy, Technology, Consumer Discretionary, and Materials sector gained in the quarter, but even with this quarter's large gains, it failed to bring the 1-year performance above the breakeven level.

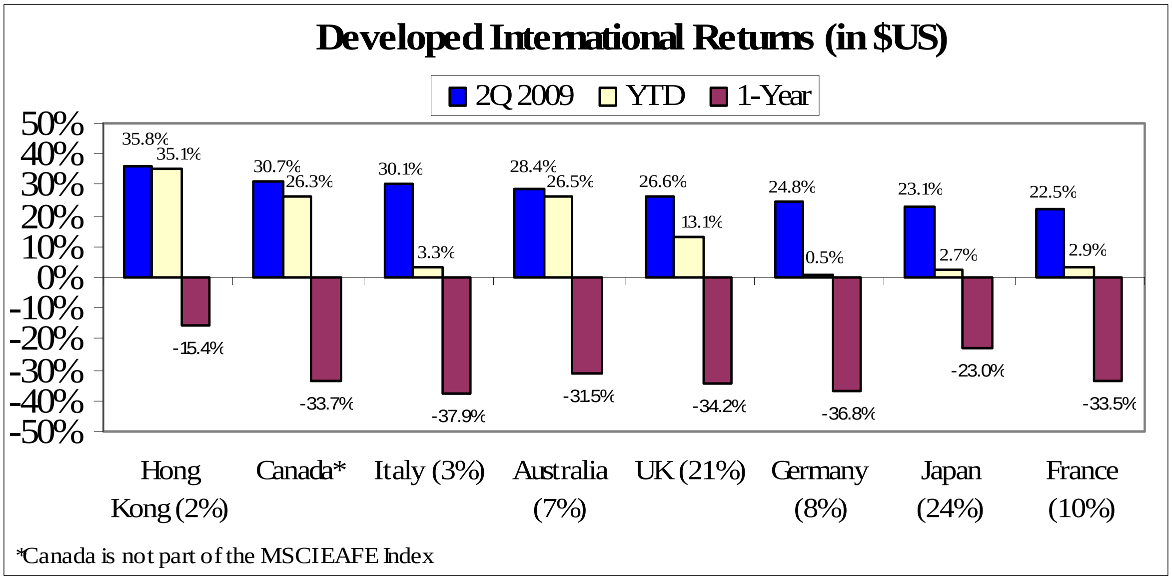
Source: Morningstar Direct

International Equities – MSCI EAFE Index



Source – StyleAdvisor

The MSCI EAFE Index gained 25.9% in the second quarter, notching its largest one quarter gain since its inception in 1989. After losing nearly 50% of its value over the last three quarters, a combination of investor optimism, attractive valuations, and rising oil prices helped international equities gain a toehold this quarter. The U.S. dollar also bolstered returns for U.S. investors as it weakened against 14 of 16 major currencies and added to the 17% return that was generated by the EAFE Index in terms of local currencies. International value stocks returned 30.3% and significantly outperformed the 21.7% return posted by foreign growth stocks. From a country perspective, all 21 component countries of the EAFE Index were in positive territory. Singapore led all countries with a return of 43.1%, and Ireland was the worst performing country with a return of 6.5%. As a region, European countries, which account for nearly 50% of the EAFE index, returned 23.0% in the quarter. The largest countries in the region, the UK, France, and Germany, gained 24.9%, 18.5%, and 20.1%, respectively. Similar to the U.S., both consumer and producer confidence in these European countries has risen to levels not seen since early in 2008 due to the belief that the worst of the recession has passed. With an increase in retail spending, industrial production in France increased unexpectedly in May for the first time since August 2008, and production surged 3.7% from April to May in Germany. Though there was more encouraging news in the second quarter, there are still plenty of headwinds to a full-blown economic recovery. Most economists and central banks believe that these countries won't experience substantial growth until late in the fourth quarter or 2010. Due to costly stimulus efforts, high unemployment figures, and waning tax revenues, Britain may see its budget deficit rise to 13% of GDP by the end of 2009. Projections for France and Germany are 7% and 4.4%, respectively. With the massive amount of liquidity that these countries injected into their economies to combat the credit crunch, inflationary pressures will be strong in the long-term. In the near-term, deflation is the bigger concern as a sharp contraction in economic activity continues to influence prices. Japan, another country that owns a substantial weighting in the EAFE Index at 24%, gained 23% in the quarter. Whereas consumer confidence is soaring in Europe, Japanese consumers remain more pessimistic, retail sales fell in the second quarter and unemployment rose to 5.2%. Australia, which represents 7% of the index, recorded a strong gain of 27%. Forecasted GDP growth for Australia is among the best of any developed country for both 2009 and 2010 with forecasts of -0.5% and 1.5%, respectively. Somewhat contradictory was the warning from the federal government that unemployment could rise to 8.5% by mid-2011. At the end of the quarter, the MSCI EAFE Index was trading at a forward P/E of 13.0x. Compared to U.S. equities with a P/E of 14.1x, developed international equities are trading at a discount, with the most compelling relative valuations found in Europe and Japan versus domestic equities.



Source – StyleAdvisor

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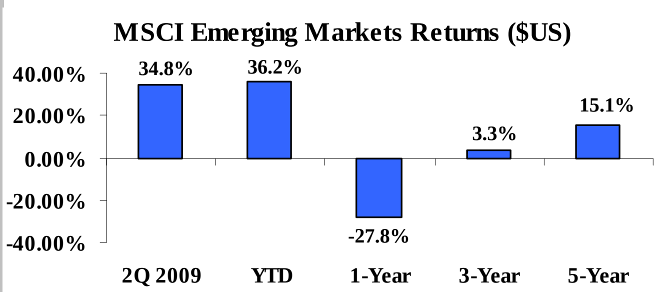
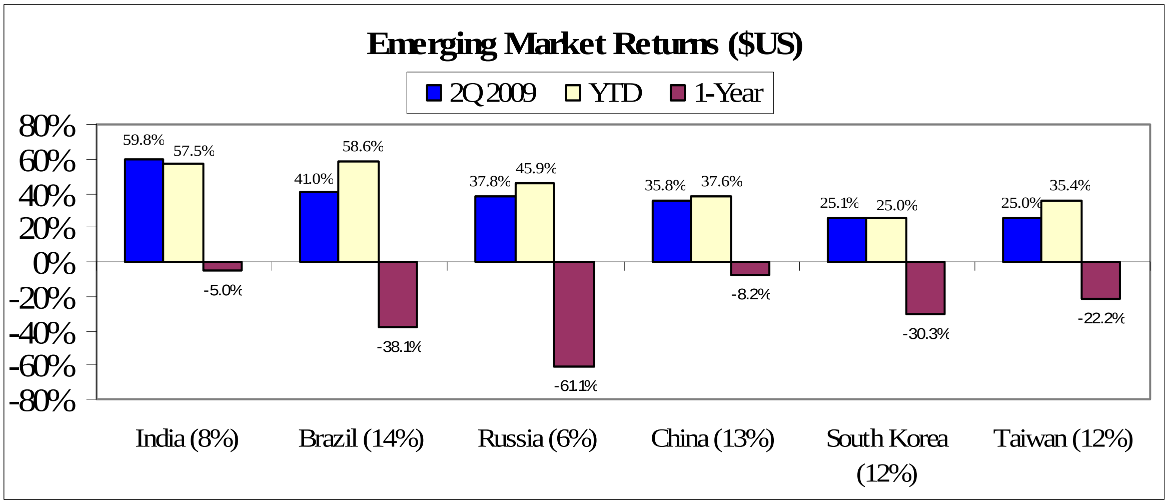
Emerging Market Equities - MSCI EM Index



Source - StyleAdvisor

Emerging markets (EM) were the leaders of the global rally this quarter, surpassing all other equities with a sharp rebound of 34.8%. The largest components of the MSCI Emerging Markets Index which includes the "BRIC" nations, skyrocketed by 41.2% in the period. India gained 59.8%, followed by Brazil (+41.0%), Russia (+37.8%), and China (35.8%). Other notable performers in the period included Hong Kong (+35.8%), Turkey (+57.2%), and Thailand (+53.8%). Some of the laggards in the period included South Korea (+25.1%), Taiwan (+25.0%) and South Africa (31.3%). EM small- and mid-cap equities returned 50.3% and 41.8% respectively while large-caps lagged the broader index albeit with a strong gain of 33.7%. Value stocks outperformed growth stocks in this asset class by just over 400 bps with value gaining 37.0% and growth-oriented equities at 32.7%. It's not surprising to us to see the strong bounce during the period for three reasons. First, they traditionally lead out-of-the-gate when rebounds occur. Second, EM nations have some of the healthiest balance sheets, as evidenced by the BRIC nations carrying 2.2x more foreign currency reserves than the entire G-7; therefore, capital was drawn to this asset class partially based on strong fundamentals. Third, the growth of these EM nations, as estimated by the IMF, is projected at 4.7% for next year, while growth in the developed economies is anticipated to be flat. With this most recent rally, the MSCI Emerging Markets Index is trading at a premium to the S&P 500 for reported earnings with the trailing P/E of EM at 15.4x and the S&P 500 at 14.0x. The last time this kind of frothy valuation appeared was in late 2007. Additionally, EMs have collected more economic might by seeking to diversify their currency reserves away from the U.S. dollar. Arguments against a premium for EM equities include the notion that many of these nations have not fully developed stable educational and governmental institutions, that their infrastructures are still in need of significant development, and high degrees of government meddling in business are rampant which results in poor capital allocation decisions. Also, while most of the world's population lives in EM nations, the EM economies represent about 25% of the total world's GDP, which is a significant amount, but not worthy of a premium valuation. Importantly, we note that the cost for insuring government debt in most EM nations is still higher than most of the G-7 as evidenced through higher spreads in the credit default swap market. Higher costs for insuring debt on the CDS market and a premium valuation in the equity markets seems inconsistent to us.



Source – StyleAdvisor

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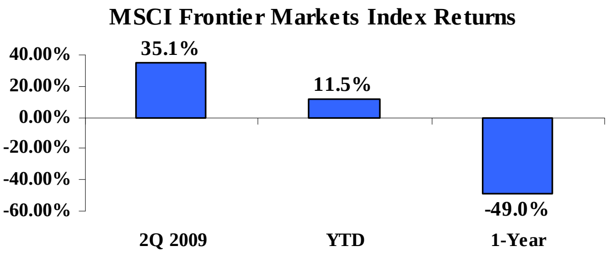
Frontier Markets - MSCI Frontier Markets Index



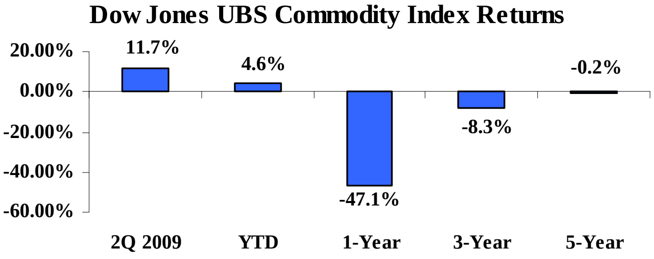
Source - StyleAdvisor

The Frontier Markets performed very well this quarter with a gain of 35.1% after losing close to two-thirds of its value in the previous three quarters. The one year return for the Index is now -49.0%. The top performing countries included Sri Lanka (+103.1%), Serbia (+66.0%), Ukraine (63.8%), and Romania (51.2%). Only Trinidad and Tobago (-3.9%) and Lithuania (-1.1%), had negative returns. As we continue our coverage of the Frontier Markets, this quarter we've selected to report on Pakistan and Kazakhstan. Pakistan is a perfect example of how risky investing in the frontier markets can be. South Asia's second largest economy ($146 billion) was hit hard by the global recession and the ongoing cost of military operations. The ongoing war against the Taliban and terrorism has been a major obstacle to the country's stable economic growth. Since 2001, the government has spent $35 billion on military operations and estimates that it will continue to spend about $8.5 billion annually fighting the Taliban. Their GDP, which is lead by agriculture and textiles, stalled at 2% in 2008 and is estimated to grow by less than 3% in 2009, after expanding by 6.8% annually over the previous 5 years. During the last 11 months, foreign investors have withdrawn $1.1 billion dollars from the local economy. The MSCI Pakistan index returned only 2.12% in the 2nd quarter, leaving it with a one year return of -57.23%. Other problems the country is faced with include the highest interest rates in the region and the decline of the local currency, as the Rupee fell as much as 22% against the dollar in 2008.

When Pakistan's budget deficit hit record highs in November of last year, the International Monetary Fund stepped in and granted them a $7.6 billion rescue package. Prime Minister Yousaf Gilani estimates that total foreign aid is relied upon to help cover about 1/3 of their budget deficit. Just recently, Pakistan has asked the IMF for an additional $4 billion in aid to help with economic recovery and their war against the Taliban. While it is evident the country faces serious problems, there are some signs that the worst may be over. In June, inflation slowed to a 16 month low and the central bank was able to cut the benchmark interest rates from a ten-year high of 15% to 14%. To help rebuild the economy, the government plans to spend about $7.7 billion over the upcoming year on infrastructure and development projects. They also plan to raise taxes in an attempt to narrow the huge budget deficit. Pakistan's deteriorating economy still presents attractive investments to some analysts. For instance, Pakistan's debt is rated CC+ (7 levels below investment grade), yet it returned 88% YTD and was the best performer out of 45 emerging market countries debt markets. Stocks in the Karachi Stock Exchange Index trade at only about 9.5 times earnings, the lowest in Asia, and some believe they present significant opportunities.

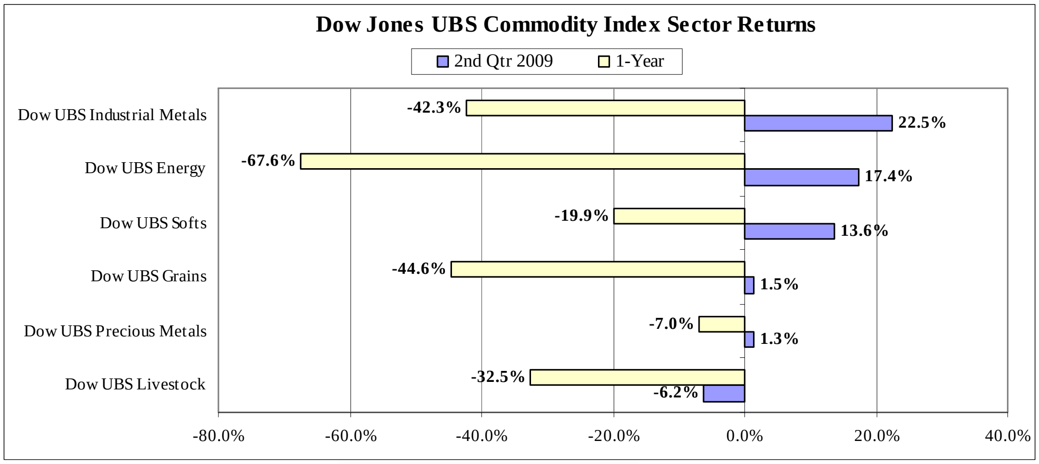
From 2001 to 2008, Kazakhstan experienced prosperous economic growth as they benefited from rising prices in oil and gas, their top exports. During that time, GDP grew at an average of 8.5% annually; but since the economic downturn began, the economy has faltered and GDP shrunk 2% in the first quarter of 2009. However, as the global economic downturn persists, GDP shrunk 2% in the first quarter. As oil retreated from its high of $147 per barrel and credit markets began to freeze, the country's expanding economy began to shrink almost as quickly as it grew. Foreign investors pulled money out of the country due to concerns about their financial system. Banks struggled to refinance their debts and defaults rose as oil declined. This year, two of Kazakhstan's largest banks defaulted on debt payments and the government was forced to take over BTA bank. The risk involved in frontier market investments is highlighted by this bank takeover and the fraud that was involved. Evidence of the fraud has surfaced and 12 executives have been charged with embezzlement of $550 million dollars. The government has spent more than $5 billion in an attempt to save banks and other businesses from failing, however many analysts believe that the country will see more banks fail. This country's debt is also an extremely risky investment as evidenced by the high cost of 472 bps to insure the country's bonds through credit default swaps. The risks aside, Kazakhstan does possess valuable energy assets and the Chinese are investing in their oil and gas projects. The Chinese have even extended them a line of credit worth billions and they believe Kazakhstan will prosper from the 3.2% of the world's oil reserves they hold.

Hard Assets – Dow Jones UBS Commodity Index



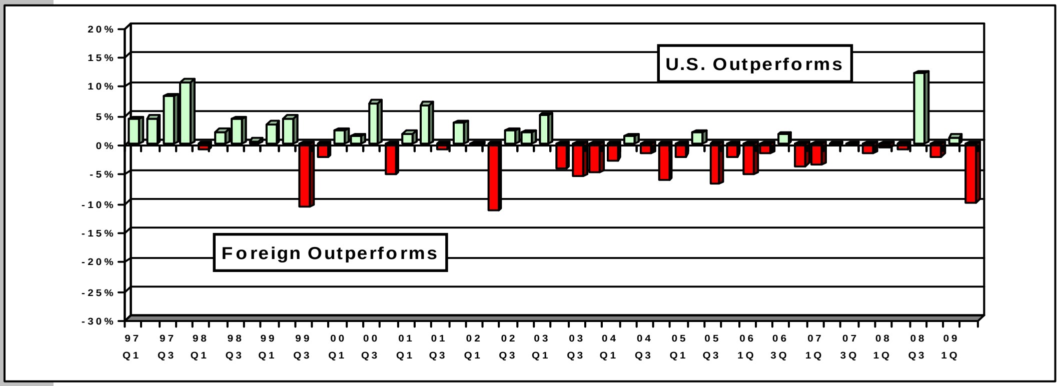
Source - StyleAdvisor

Hard assets, as measured by the Dow Jones UBS Commodity Index, underperformed equities in the second quarter albeit with a gain of 11.7%. Anticipation of a rebound in the global economy caused the largest jump in economically sensitive commodities, namely Energy and Industrial metals. A weakening U.S. Dollar also helped add some extra boost to this category. The Energy (+17.4%), and Industrial Metal (+22.5%) groups surged higher on renewed demand, especially from the growth of the emerging market economies. Within the index, the strongest gains came from individual contracts in Nickel (+55.2%), Tin (+38.3%), Unleaded Gas (+32.3%), Lead (+32.1%), Crude Oil (+26.3%), Sugar (+26.3%), Heating Oil (+24.0%), Copper (+21.9%), Zinc (+15.0%), and Aluminum (+14.9%). One exception to this trend was a decline in Natural Gas of nearly 11%. Prices were driven lower from two sources, decreased demand due to mild weather conditions and rising stock piles, which the Energy Department says has reached a higher than expected level. Crude Oil had its biggest quarterly percentage gain since 1990 moving from $49.66 per barrel to $69.89 per barrel. Contracts that lagged the most typically came from non-economically sensitive, or less cyclical in demand, areas such as Lean Hogs (-20.7%), Corn (-16.3%), Wheat (-5.1%), and Cocoa (-5.0%). Lean Hogs declined due to the impacts from the swine flu outbreak which resulted in many countries placing restrictions on imports of the meat. Precious metals, often a good barometer of fear in the markets, made some slight gains in the period, even as the equity markets powered ahead. Silver (+4.3%) and Platinum (+4.5%) moved slightly higher while gold essentially was flat with a modest gain of 0.1%. It's reasonable to assert that the gains in precious metals were more attributable to currency effects rather than strong demand, but the lack of the major sell-off tells us that the market is not "all-in" on the belief that order has been completely restored in the financial markets. In terms of valuation, commodities have much different characteristics than equities and as such finding valuation metrics from them is more challenging. They do not have earnings or cash flows to assess or forecast, so we turn to the futures market and specifically, to an analysis of the "forward curve" to better understand demand for the commodities based on the shape of it. The forward curve is constructed much like a Treasury yield curve, except instead of the yields on bonds plotted out through time, it is replaced with futures contract prices at various maturities. We also consider the broader economic environment which is a good gauge for understanding supply and demand. With this in mind, we note that the forward curve for 17 of the 19 contracts within the Index are presently in "contango," meaning that the prices of futures contracts is higher than the current or "spot" rates. This is graphically similar to an upward sloping yield curve. A spot rate is the price of a commodity scheduled for delivery in a short time frame, such as 48 hours. Generally, we can infer that the market is expecting higher future prices, which at first might look like a bullish indicator. However, a much better indicator of bullishness in commodities would be the opposite taking place, spot prices that are higher than futures. This phenomenon is known as "backwardation" and graphically appears as a downward sloping curve. Currently only Nickel and Soybeans are in backwardation which indicates that high demand can presently be seen in these contracts. To this end, since we see high demand for two of the commodities in the Index and a weaker global economy still digging out of a recession, this leads us to have tempered expectations in this asset class in the near term. In fact, we would expect financial assets to outperform in most of 2009.



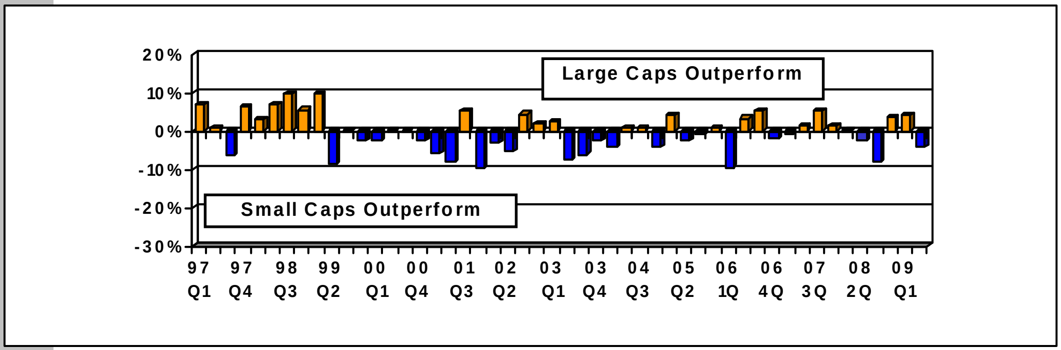
Source: StyleAdvisor

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



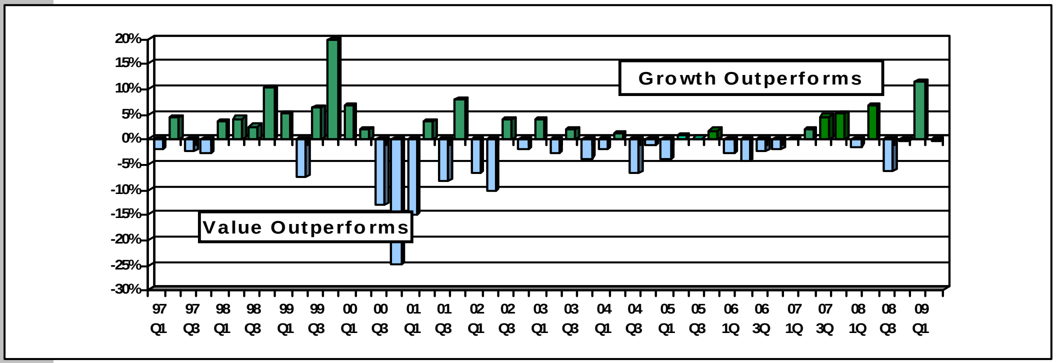
EAFE returns were fueled by the U.S. dollar, which weakened against 14 of 16 major foreign currencies.

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



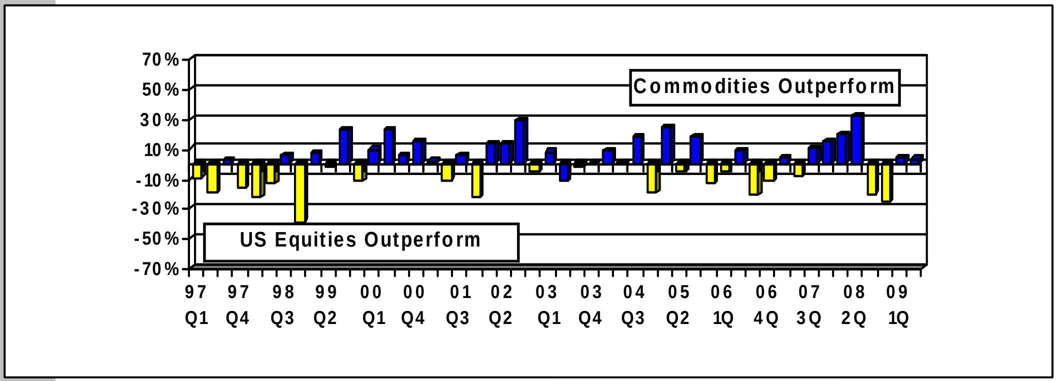
As investors gravitated towards assets with higher risk profiles, small-cap stocks outperformed large-caps.

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



Among large-caps, value stocks outperformed their growth counterparts due mainly to a strong surge from Financials. In the small-cap space, growth outperformed.

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

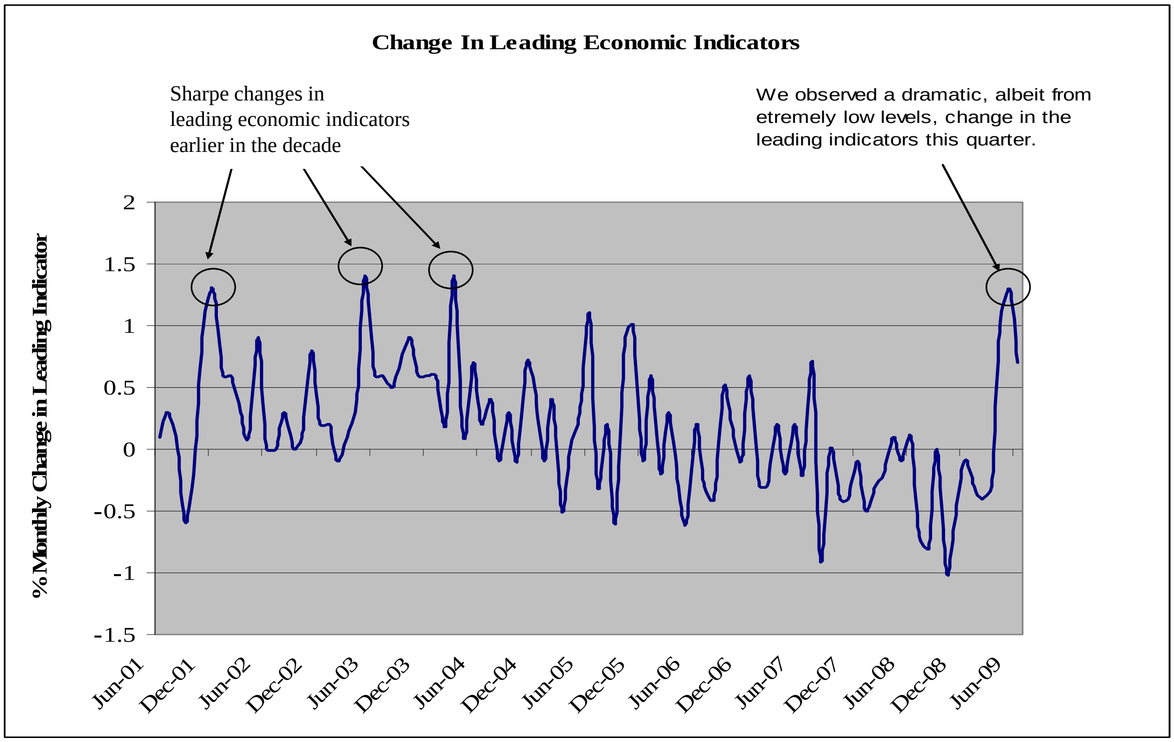


With oil gaining 26% on speculation that an economic recovery is nearing, commodities outperformed equities.

Source for all charts - StyleAdvisor

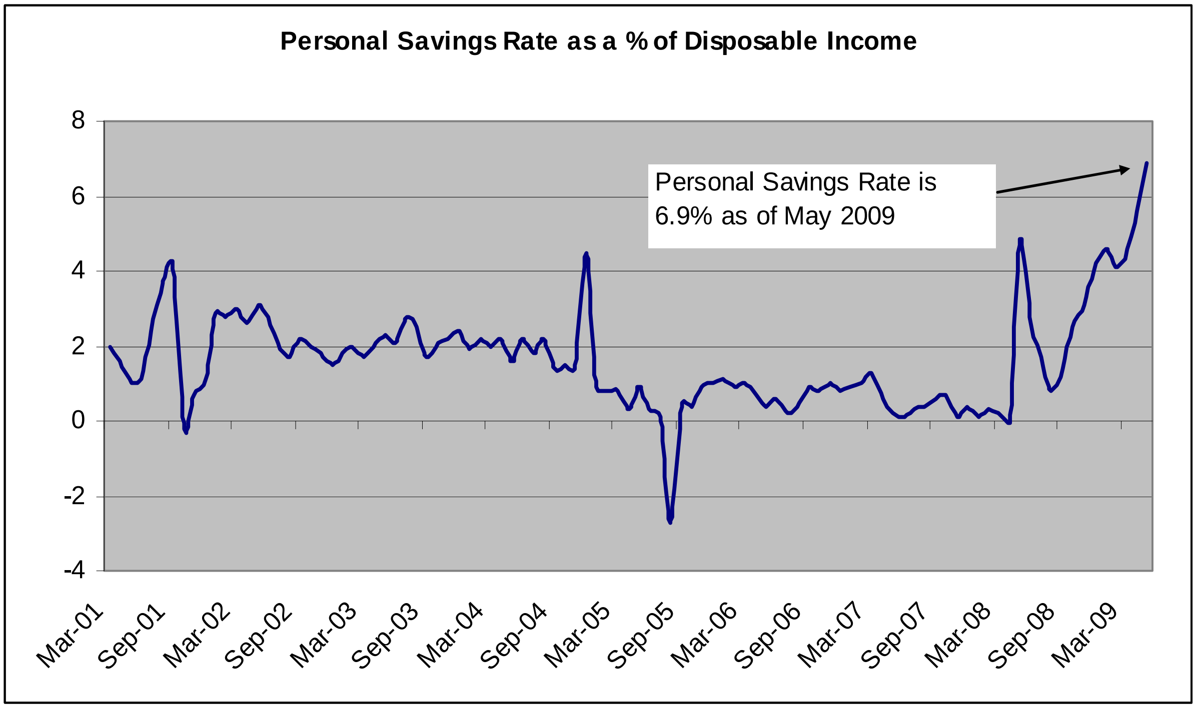
FRANCIS Investment Counsel LLC

Exhibit 1



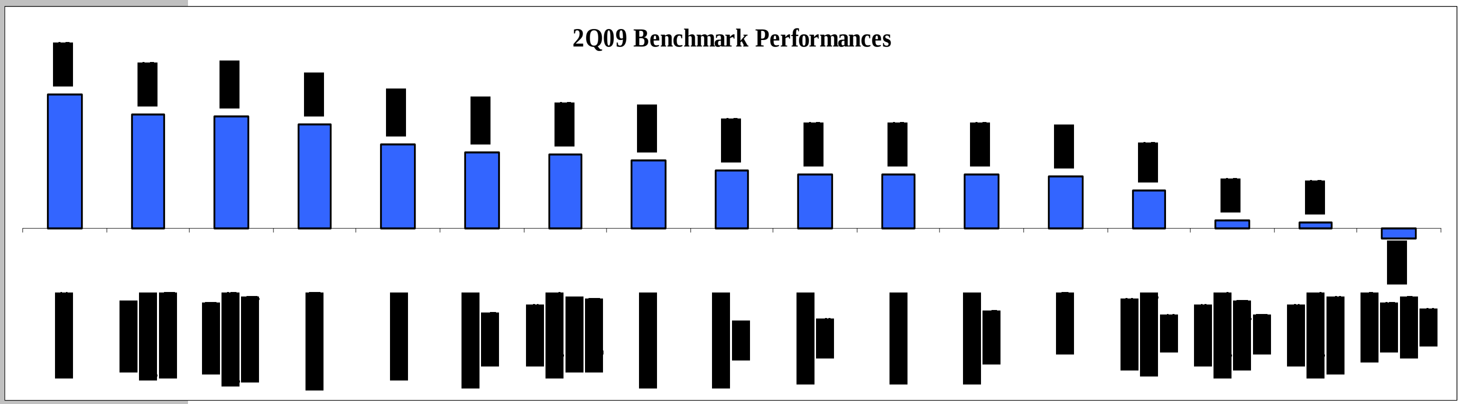
Source: Bloomberg

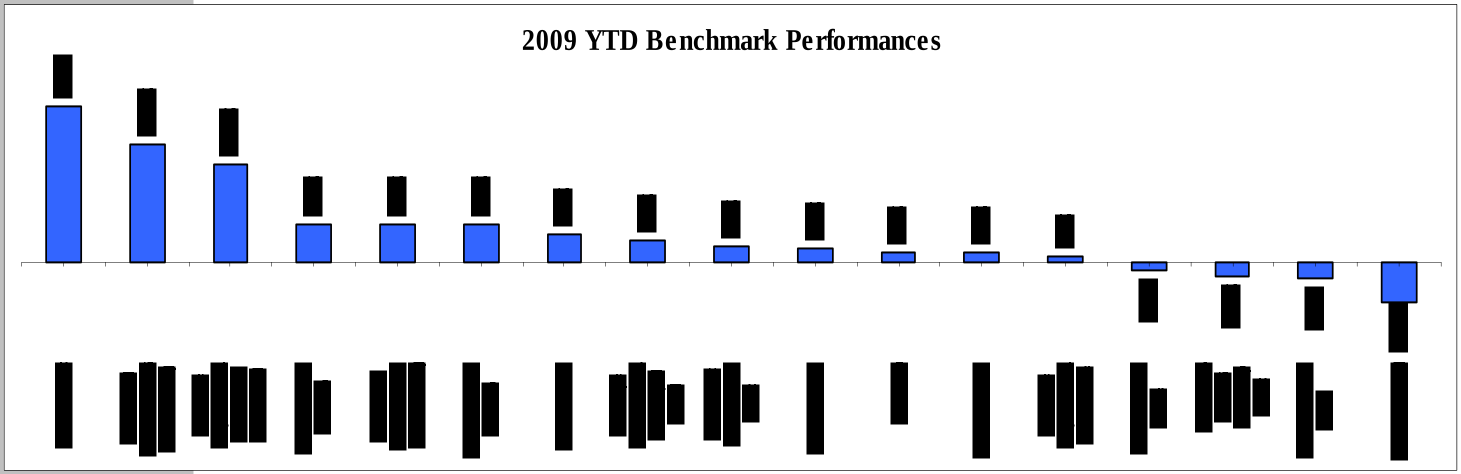
Exhibit 2

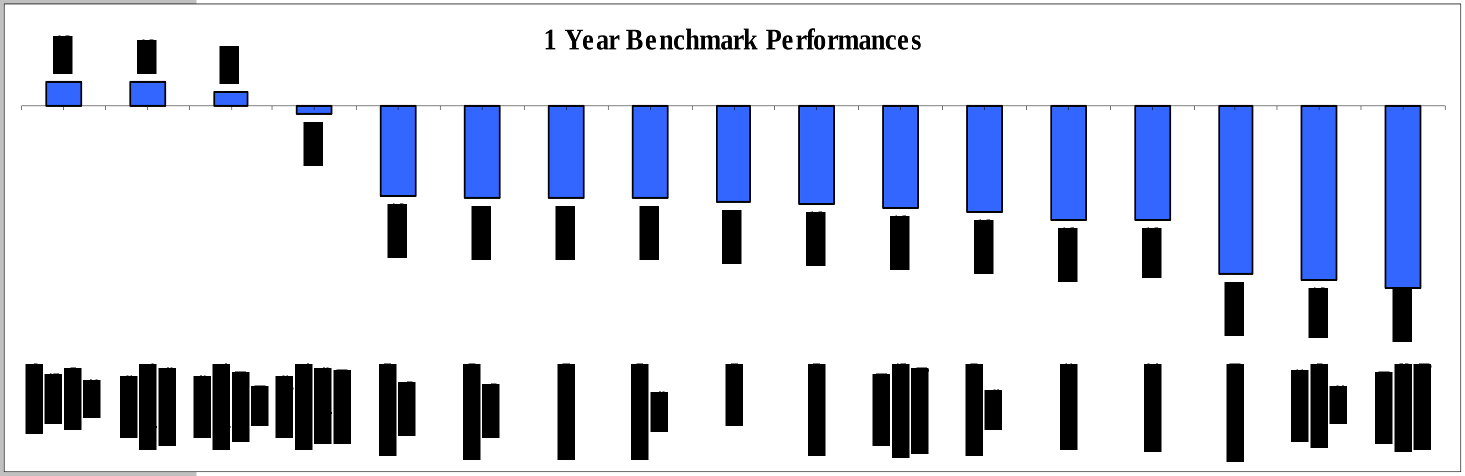


Source: Bloomberg

Exhibit 3 – Top-Down Look at the Global Financial Markets

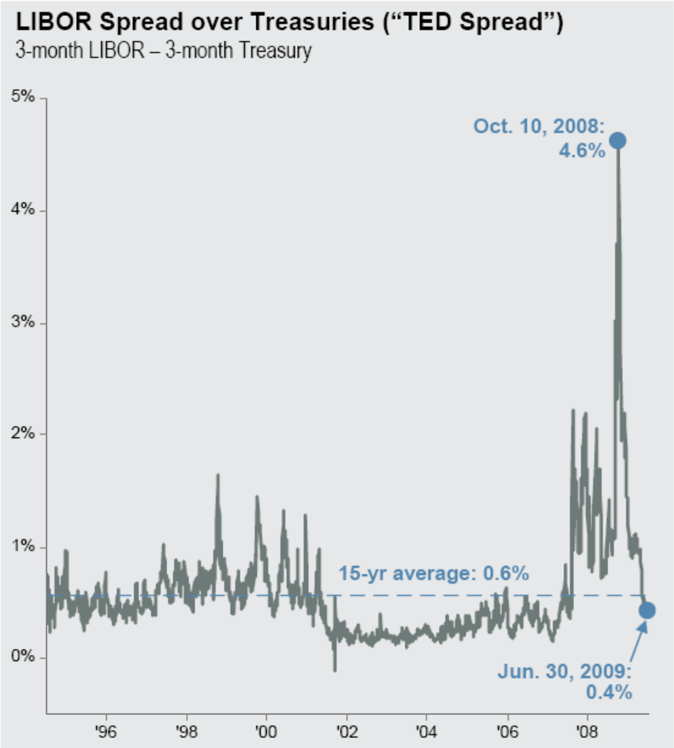




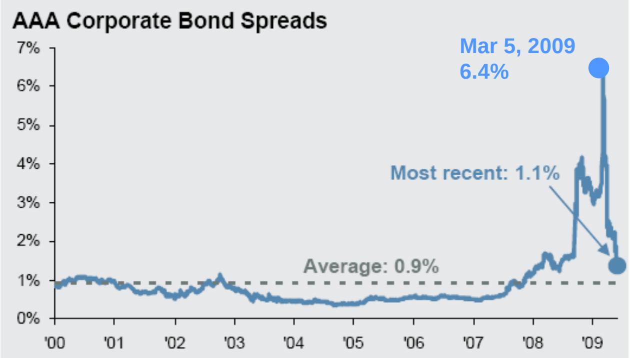


Source: StyleAdvisor

Exhibit 4 – Fixed Income Charts

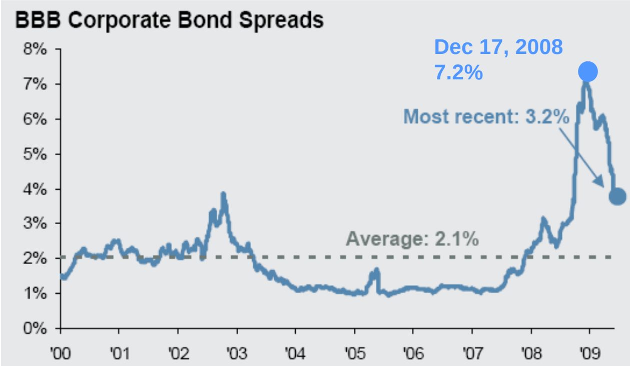


Source: JP Morgan, British Bankers Association



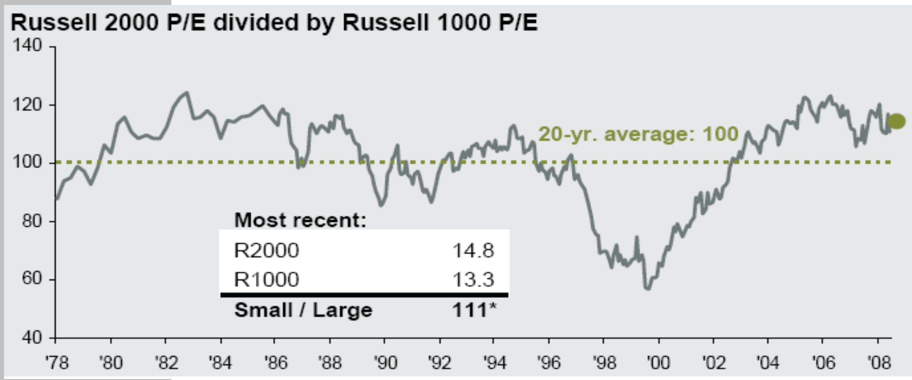
Source: JP Morgan

The catalysts to the equity markets, in our opinion, are not only tied to the fortunes of the overall domestic economy, but the significant improvement in the TED spread (left) and the strength of the highest investment grade corporate bond market (top & below). The spreads in these measures have both narrowed to below average and slightly above average levels respectively.



Source: JP Morgan

Exhibit 5 – Small-Cap Stocks Overvalued



Source: JP Morgan

It's arguable that small-cap stocks have been overvalued relative to large-cap stocks on a comparative P/E basis for several years. Additionally, free-cash flow yields are now favoring large-caps. On balance, we favor underweighting small-cap equities for these reasons.

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Investment Counsel LLC

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 UBS 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 (AutoNation, Johnson Controls, Goodyear Tire & Rubber, O'Reilly Automotive)
Automobiles (Harley Davidson, Ford, General Motors)
Household Durables (Leggett & Platt, Whirlpool, Snap-On, Pulte Homes, Lennar, KB Home, Fortune Brands, Black & Decker, Centex, D R Horton, Stanley Works, Newell Rubbermaid)
Leisure Equipment & Products (Eastman Kodak, Mattel, Hasbro)
Text, Apparel & Luxury Goods (Nike, Coach, Ralph Lauren, V F Corp.)
Hotels, Restaurants & Leisure (McDonalds, Starbucks, Carnival, Wyndham, International Game, Starwood, Darden, Marriott, Yum Brands)
Media (CBS Corp., Comcast, Direct TV, Interpublic, Meredith, Monster Worldwide, News Corp., Omnicom, Scripps Networks Interactive, Walt Disney, Time Warner, Viacom, Gannett, NY Times, McGraw Hill, Washington Post)
Internet & Catalog Retailing (Amazon, Expedia
Multi-Line Retail (Big Lots, Costco, Family Dollar, JC Penny, Nordstrom, Kohls, Macy's, Sears, Target, Wal-Mart)
Specialty Retail (Abercrombie & Fitch, AutoZone, Bed Bath & Beyond, Best Buy, GameStop, Gap, Home Depot, Lowes, Limited Brands, Office Depot, RadioShack, Sherwin Williams, Staples, Tiffany & Co., TJX Co.)

CONSUMER STAPLES

Food & Staples Retailing (CVS Caremark Corporation, Medco Health Solutions, Kroger, Supervalu, Safeway, Sysco, Walgreens, Whole Foods)
Beverages (Brown Forman, Coca Cola, Pepsi, Constellation Brands, Dr Pepper Snapple Group, Molson Coors)
Food Products (Archer Daniels, Conagra Foods, Campbell, Dean Foods, General Mills, Heinz, Hershey, Hormel Foods, J.M. Smucker Co., Kellogg, Kraft, McCormick & Co., Sara Lee, Tyson Foods)
Tobacco (Altria Group, RJ Reynolds, Lorillard, Philip Morris)
Household Products (Kimberly Clark, Colgate Palmolive, Proctor & Gamble, Clorox)
Personal Products (Avon Products, Estee Lauder)

ENERGY

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

FINANCIAL SERVICES

Capital Markets (Ameriprise, Bank of New York, E Trade, Goldman Sachs, Janus, Morgan Stanley, Charles Schwab)
Commercial Banks (Bank of America, BB&T, Comercia, Fifth Third Bancorp, First Horizon, Huntington Bancshares, Hudson City Bancorp, Keycorp, M & T, Regions, Northern Trust, SunTrust, Zion's, Wells Fargo, U.S. Bancorp, Marshall & Ilsley, PNC)
Diversified Financial Services (Citigroup, CIT Group, CME, Intercontinental Exchange, Federated Investors, Franklin Resources, Invesco Ltd., Janus Capital Group, JP Morgan Chase, Legg Mason, Leucadia, Moody's, NASDAQ OMX, NYSE, People's United Financial , Principal Financial, State Street, T. Rowe Price, The Western Union)
Insurance (Aflac, American, Assurant, Allstate, Aon, Chubb, Cincinnati, Genworth, Hartford, Lincoln, Loews, MBIA, MetLife, Marsh & McLennan, Metropolitan Life Insurance, Progressive, Prudential, Torchmark, Travelers, Unum, XL Capital)
Real Estate (Apartment Investment & Management, AvalonBay Communities, Boston Properties, CB Richard Ellis Group, Equity Residential, Host Hotels & Resorts, Kimco, Health Care REIT, Plum Creek Timber, Prologis, Public Storage, Simon Properties, Vornado, HCP)

HEALTH CARE

Health Care Equipment & Supplies (Baxter, Bard, Becton Dickinson & Co., Boston Scientific, Covidien, Dentsply International, Intuitive Surgical, Medtronic, Patterson, St. Jude, Stryker, Varian, Zimmer)
Health Care Providers & Services (AmerisourceBergen, Aetna, Cardinal Health, Cigna, Coventry Health, Davita, Quest Diagnostics, Express Scripts, Humana, McKesson, Medco Health, Patterson, Tenet Healthcare, UnitedHealth Group, WellPoint)
Biotechnology (Amgen, Biogen, Celgene, Genzyme, Gilead Sciences, Laboratory, Life Technologies)
Pharmaceuticals (Abbott, Allergan, Bristol Myers, Cephalon, Forest, Hospira, 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 (Fastenal, Masco)
Construction & Engineering (Fluor, Jacobs)
Electrical Equipment (Rockwell Automation, Emerson Elec., Cooper Inds.)
Industrial Conglomerates (3M, General Electric, Textron)
Machinery (Deere & Co., Caterpillar, Cummins, Flowserve, Ingersoll-Rand, Paccar, Eaton, Danaher, Dover, ITT, Illinois Tool, Manitowoc, Parker Hannifin, Pall)
Trading Companies & Distribution (Grainger WW, Genuine Parts))
Commercial Services & Supplies (Apollo Group, Automatic Data Processing, Avery Dennison, Cintas, Convergys, Equifax, Fiserv, H&R Block, IMS Health, Paychex, Pitney Bowes, Molex, Robert Half, Donnelley R. R. & Sons, Republic Services, Stericycle, 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, Yahoo)
IT Services (Affiliated, Computer Sciences, Cognizant, Dun & Bradstreet, Fidelity, Total System, Iron Mountain)
Software (Adobe, Autodesk, BMC Software, CA Inc., Compuware, Citrix, Electronic Arts, Intuit, McAfee, Microsoft, Novell, Oracle, Salesforce.com, Symantec, VeriSign)
Communications Equipment (Cisco, Motorola, Harris, Qualcomm, Corning, Tellabs, JDS Uniphase, Juniper Networks, Ciena)
Computers & Peripherals (Dell, Apple, EMC, Sun Microsystems, Hewlett Packard, IBM, Lexmark, Netapp, SanDisk, Teradata)
Electronic Equipment & Instruments (Agilent, Amphenol, Flir Systems, Harman International, Jabil Circuit, Millipore, Millipore, Tyco Electronics, Waters)
Office Electronics (Xerox)
Semiconductors & Semi Equipment (Analog Devices, Altera, Applied Materials, Advanced, Broadcom, Intel, KLA-Tencor, Linear, LSI, Microchip, Micron, National Semiconductor, Nvidia, Novellus, SanDisk, Teradyne, Texas Instruments, MEMC Electric, QLogic, Xilinx)

MATERIALS

Chemicals (Air Products & Chemicals, CF Industries Holdings, Du Pont, Dow Chemicals, Ecolab, Eastman, International Flavors, Monsanto, PPG, Praxair, Sigma Aldrich)
Construction Materials (Vulcan Materials)
Containers & Packaging (Sealer Air, Ball, Pactiv, Bemis, Owens-Illinois)
Metals & Mining (Alcoa, AK Steel Holding, Consol Energy, Diamond Offshore Drilling, Pioneer Natural Resources, U.S. Steel, Freeport-McMoran, Newmont Mining, Nucor, Allegheny, Titanium Metals)
Paper & Forest Products (Intl Paper, MeadWestvaco, Weyerhaeuser)

TELECOMMUNICATION SERVICES

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

Wireless Telecom Services (Sprint Nextel, American Tower)

UTILITIES

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

Gas Utilities (El Paso, EQT, Nicor, NiSource, Questar)

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

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

Companies represented in the industries were selected from the S&P 500 Index as of 6/1/09.

Source: Morningstar Direct