Capital Markets Commentary

Third Quarter 2009

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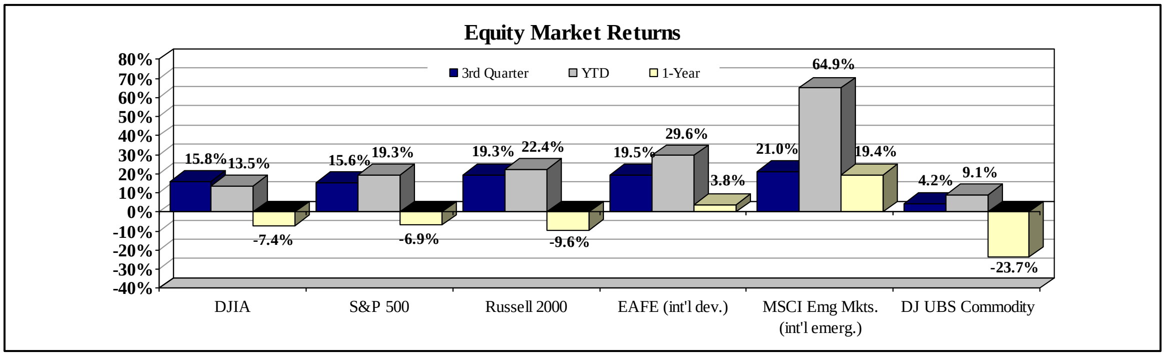
Summary of Market Activity

The stock market rally continued throughout the third quarter, with a return of 15.61% as measured by the S&P 500 Index. After seven consecutive months of positive returns, the S&P 500 has now rallied 56% off of its March 9 low as evidence mounted that the worst economic contraction since 1947 has ended. As with most market-bottom rallies, the best performing stocks were the riskiest (most susceptible to economic downturn) with small- and mid-cap stocks generally outperforming large-cap. A noticeable increase in merger and acquisition activity and surprising strength in corporate profits pointed to a U.S. economy on the mend.

The recovery also continued in the fixed income markets and the differential in yield between Treasuries and corporate bonds (yield spread) continued to narrow. With the Fed and the Treasury continuing to support the asset- and mortgage-backed debt markets, institutions and individuals found it easier to gain access to credit in the third quarter and yields dropped across all bond sectors. The biggest winners were once again the riskiest categories of debt securities with some of the lowest quality securities registering gains of +14% for the quarter. Intermediate-term Treasuries (Barclay's Capital 7-10 Year) gained 2.69% for the quarter.

Foreign equity markets also continued to recover in the third quarter and once again outperformed the domestic indices with gains of 19.47% for the EAFE and 20.90% for the Emerging Market Index. The dollar's slide continued during the quarter, falling over 4% as measured by the U.S. Dollar Index, and added approximately four percentage points to these indices' returns for U.S. investors. Fundamentally, many of the emerging markets continued to display stronger than expected fundamentals, while European and British fundamentals remained weaker.



The average diversified U.S. equity fund gained 15.76% in the third quarter according to Lipper Analytical. This result was slightly lower than what we saw in the second quarter, but still quite satisfying nonetheless. For the second consecutive quarter, "value" outperformed "growth" and small-caps outperformed large-caps. While the returns were strong domestically, the average international fund outperformed domestic stock funds by returning 19.80% and the average emerging market fund was even stronger with a gain of 22.02%. Investments seeking to track the DJ UBS Commodity Index and S&P GSCI experienced returns of 4.2% and -1.8% respectively.

Source – StyleAdvisor

STYLE PERFORMANCE MATRIX

3rd Quarter 2009 Total Return

	Value	Core	Growth	*AVERAGE*
Large-Cap	*15.9%*	*15.3%*	*14.9%*	*15.4%*
Mid-Cap	*20.5%*	*19.9%*	*18.6%*	*19.7%*
Small-Cap	*22.0%*	*18.9%*	*15.9%*	*18.9%*
AVERAGE	*19.5%*	*18.0%*	*16.5%*	

Source: Lipper, Inc.

STYLE PERFORMANCE MATRIX

2009 YTD Total Return

	Value	Core	Growth	*AVERAGE*
Large-Cap	*19.0%*	*21.4%*	*29.1%*	*23.2%*
Mid-Cap	*32.3%*	*32.1%*	*35.0%*	*33.2%*
Small-Cap	*27.6%*	*28.7%*	*31.1%*	*29.1%*
AVERAGE	*26.3%*	*27.4%*	*31.7%*	

Source: Lipper, Inc.

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Near-Term Capital Markets Outlook

U.S. Economy – Recovery Has Begun

We believe third quarter GDP will demonstrate that after four consecutive quarters of decline, a U.S. economic recovery has begun. The primary drivers of this recovery are unprecedented government intervention, both fiscal and monetary, and an improving U.S. balance of trade, as U.S. consumers buy fewer foreign goods while foreign demand for U.S. goods and services demonstrates surprising strength. Persistently improving leading economic indicators suggest that these two forces are currently helping to replace the weakened demand from a fearful and encumbered U.S. consumer. Both of these forces appear to have staying power based on the growing size of demand for imports from emerging nations (see exhibit 1, page 11) as well as the manageable size of the U.S.'s current total debt as a percentage of its GDP. (see exhibit 3, page 12) As fear begins to dissipate, buoyed by time and a sharp rally in the stock market, we believe U.S. consumers and businesses will slowly begin opening their wallets thus extending the expansion. Inflation and interest rates remain at historically low levels, and we expect inflationary pressures to remain low for the next six months as the U.S. economic recovery begins to soak up excess capacity in labor and manufacturing. The biggest challenge to this forecast* is predicting the outcome of the interaction between two countervailing forces; the unwinding of the inflationary monetary and fiscal policies currently in place and the temptation to raise taxes to combat the record budget deficit as well as erect barriers to trade in an attempt to protect jobs. A move too far in either direction could squelch the nascent economic recovery.

Domestic Equities – Neutral/Overweight

Despite the recent +50% rally in U.S. stock prices off the panic-driven lows of March 9, we are upgrading our outlook for U.S. stocks to reflect the surprising strength of the U.S. economic rebound and our growing conviction that the current rally will be sustained by future earnings growth. Considering our previously more cautious outlook, we offer as an explanation a quote from Economist Arthur Pigou who wrote, "the error of optimism dies in the crisis, but in dying it gives birth to an error of pessimism . . . born not an infant, but a giant." With the preponderance of market pundits cautious, it strikes us that the current rally has occurred with few fans. Continued evidence of the power of exports on U.S. economic growth should gain more believers and help to sustain this rally. Accordingly, we are no longer advising clients to trim profits, and are inclined to recommend buying on any meaningful pullback. As is typical of rallies after a severe sell-off, the first six months of the rally have been led by low quality stocks. Going forward, however, we recommend large-cap over small-cap, and growth over value. The biggest risk remains overstimulation of the world economy and the runaway inflation that could result.

International Equities – Neutral (Developed), Overweight (Emerging)

The strongest economic fundamentals in the world are currently found overseas in a number of emerging market countries. While many of these economies are driven primarily by commodity-based exports, demographic trends in some of these countries show the growing impact of a rapidly expanding middle class that is capable of generating its own economy-sustaining demand. Add to that the fact that 4 out of 5 countries with the largest currency reserves are considered emerging, and you have a recipe for sustainable growth. Economic growth in Europe and the UK remains subdued but we believe Australia and Japan should benefit from continued strength in China. The U.S.'s laissez faire U.S. dollar policy makes international investing attractive for U.S.-based investors even though valuation levels are no longer compelling.

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

The once compelling yield spread in corporate bonds has been significantly narrowed. While spreads for both investment-grade and high-yield issues have moved much closer to normal, we believe there still exists enough opportunity in carefully selected investment-grade corporate bonds to maintain their attractive status and rating. The yield curve remains fairly steep suggesting a bond market forecast of continued economic strength. The chief intermediate-term risk we believe investors should be focused on now is interest rate risk which can be defended against by staying shorter-term on the yield curve.

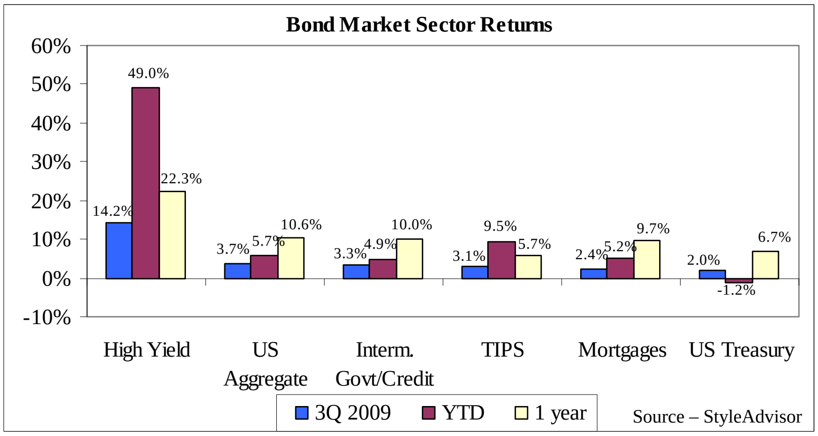
Hard Assets – Neutral

While we expect inflationary pressures to remain low in the near-term, inflation is a key concern in our intermediate- to long-term outlook. The oil and equity markets remain much more highly correlated than is their historic norm, which makes this asset class less attractive as a portfolio diversifier. We believe exposure to commodity index products continues to present an excellent hedge against most of the worst case scenarios we can envision and recommend a 5 – 15% exposure for most portfolios.

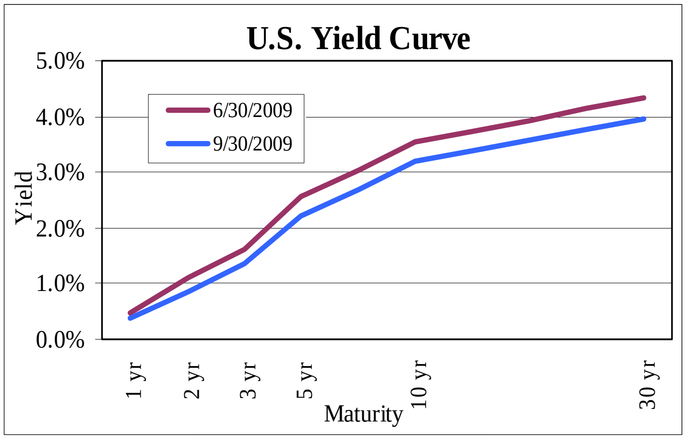
"In some ways, predicting the economy is even more difficult than forecasting the weather, because the economy is not made up of molecules whose behavior is subject to the laws of physics, but rather of human beings who are themselves thinking of the future and whose behavior may be influenced by the forecasts that they or others make."

Ben Bernanke – May 22, 2009

U.S. Bonds – Multiple Bond Indexes

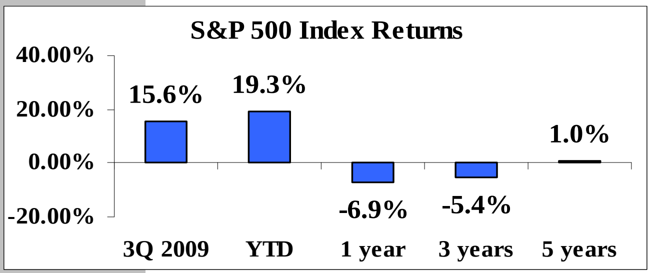


The Barclays Capital U.S. Aggregate Bond Index, an investment grade only index, returned 3.7% in the third quarter. High yield bonds, however, cruised ahead by 14.2% as investors' willingness to take on risk outweighed fear of more troubles in the economy. The Federal Reserve made no changes to its 0.0% to 0.25% targeted Fed Funds rate and committed to keep interest rates low for "an extended period." Overall the yield curve flattened during the period which in turn fueled the positive gains in the asset class. All major sectors of the bond market were positive in the quarter with corporate bonds gaining 8.1%, Muni-bonds up 7.1%, TIPS bonds up 3.1%, Mortgages up 2.4% and U.S. Treasuries up 2.0%. Concerns from market pundits that foreigners might not have an appetite to purchase large amounts of debt issued by the Treasury have so far been unfounded. Foreign interest is much stronger than it was in September 2008 as investors outside the U.S. bought 43% of the $1.41T of notes issued compared to just 27% of $527B issued at this point last year. Furthermore, auctions held in July and September confirmed that foreigners were still putting in numerous bids for new issues. Sure, there's been plenty of discussion from the creditor nations (namely Brazil, Russia, India, and China) about diversifying into other currencies including IMF bonds, but 65% of the world's currency reserves are in U.S. Dollars and there are not many other alternatives at this point for them to seriously consider. The once frozen credit markets have been revamped and rejuvenated as the myriad of government programs and intervention have performed well. The often looked to TED spread (the yield differential between the 3-month T-bill and 3-month LIBOR) for confidence in the overall financial system is a mere 20bps, down from the October 8, 2008 peak at 460 bps and well below its historic average of 60 bps. Both the investment-grade and high-yield bond sectors received a boost from a newly buoyant market for new issues, the result of many companies seeking to improve their capital structures with cheap and assisted financing. While it may seem counterintuitive that performance of corporate bonds improves with a flurry of new supply, this phenomenon is actually quite common. Since bonds are not continuously priced like stocks, the new issuance gives the market a renewed sense of pricing and provides traders more price discovery which adds to efficiency. The yield curve remained in an upward sloping posture with the steepest portion being in the 1-10 year range and flatter 10+ years out. In the last 12-months, the bond market has afforded some rather compelling opportunities, such as in corporate and TIPS bonds. But in time, as credit spreads have converged and the Fed has been active in its buying programs, opportunities for investors are not as plentiful as before. With yields very low, we believe it is prudent for investors to guard against interest rate risk more than anything and thus we recommend shortening duration in most portfolios.



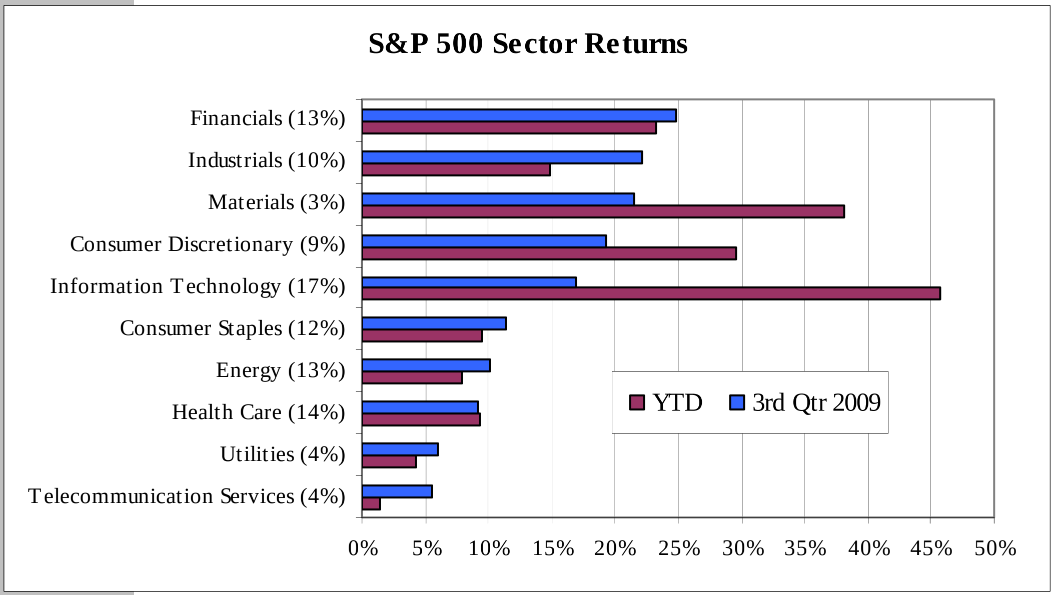
Source: U.S. Department of the Treasury

Large-Cap Equities



Source: StyleAdvisor

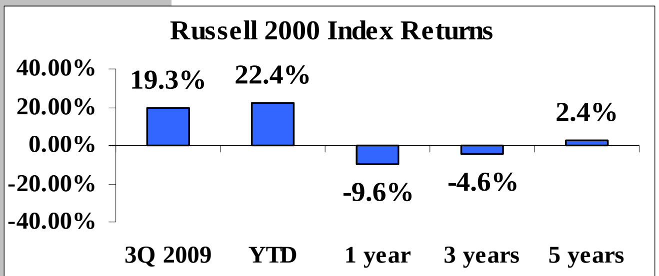
Large-cap stocks, as measured by the S&P 500 Index, gained 15.6% in the third quarter. The sectors that outperformed the broader market included Financials (+24.88%), Industrials (+22.07%), Materials (+21.59%), Consumer Discretionary (+19.27%) and Information Technology (+16.87%). Sectors that lagged the index were all defensive in nature and included Telecommunications Services (+5.51%), Utilities (+6.08%), Health Care (+9.17%), Energy (+10.11%) and Consumer Staples (+11.37%). In terms of individual stocks, the top performing equities were Gannett Co. (+251.54%), Hartford Financial Services (+123.67%), Tenet Health Care (+108.51%), Wynn resorts (+100.82%), and Textron (+96.69%). Leading individual laggards included MetroPCS Communications (-29.68%), Moody's Corporation (-21.97%), Sprint Nextel Corp (-17.88%), McGraw-Hill Companies, Inc (-15.76%), and SLM Corp (-15.09%). Since the March 9th bottom, "value" has outperformed "growth" by gaining 66% versus 54% while year-to-date "growth" leads "value" 27% versus 15%. It's not completely surprising to see the outperformance of "value" stocks given the stronger-than-expected economic reports that appeared during the quarter. Leading the rally were many "priced-for-dead" financial services and industrial companies that now look viable with an improved economic outlook. However, "value" stocks are currently not a compelling opportunity in our opinion, at least in terms of trailing P/E ratios where they are trading above their 20-year averages, while "growth" stocks still trade at a 25% discount. In terms of valuation, the S&P 500 is trading at 17x forward earnings which is slightly above its historical average. Meanwhile, the earnings-yield, the inverse of the P/E ratio, favors investing in stocks over bonds. The earnings yield is currently 5.88% vs. the 10-year bond at 3.31%. According to the "Fed Stock" model, this is a favorable indicator for equities but the spread has narrowed considerably. We believe the S&P 500 has more upside from here as companies have substantially cut costs and the amount of operating leverage available is substantial. Furthermore, the largest write-downs of assets in the S&P 500 companies are probably behind us, so further damage to company balance sheets looks to be limited. If there is any momentum to the recovery underway and earnings rebound, then returns on equity (ROE) could climb-back to more normal 5-year averages of 17-18% versus their very depressed level of just over 5% in the last 5-years. Additionally, with slightly less than half the sales for the companies in this index company from overseas, large-cap stocks stand to benefit from a weaker dollar and stronger sales abroad.



Source: Morningstar Direct

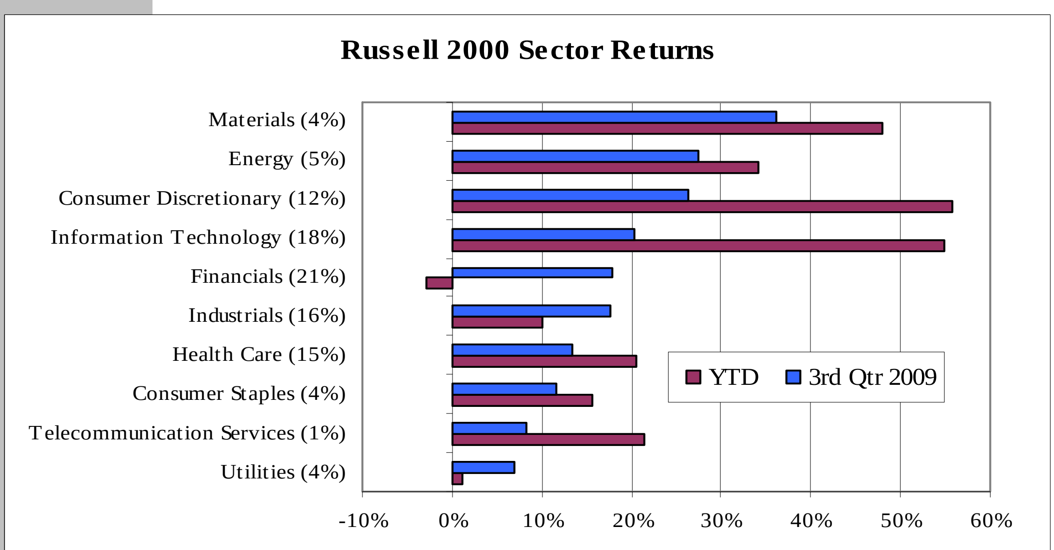
Renewed strength in the markets and a belief that the recession is over prompted a rally that had the cyclical sectors outperforming. Sectors that outperformed the broader markets in the quarter included Financials, Industrials, Materials, Consumer Discretionary, and Information Technology. Sectors that lagged the index were all defensive in nature and included Telecommunications, Utilities, Health Care, Energy, and Consumer Staples.

Small-Cap Equities



Source - StyleAdvisor

The Russell 2000 Index, which measures the performance of U.S. small-cap stocks, gained 19.3% in the third quarter, adding to a strong second quarter and bringing its year-to-date return to 22.4%. As investors continued to favor riskier assets in the third quarter, small-caps outperformed large-caps (as measured by the S&P 500) by 3.2%. In fact, since the stock market rally began on March 9, small-caps have outperformed large-caps 73.7% versus 56.7%. In contrast, within the small-cap universe itself, investors shied away from growth companies in favor of their value counterparts. Small value ultimately outperformed small growth by 7% in the third quarter, bucking the trend started in the first quarter that still has growth outperforming value by almost 13% year-to-date. All sectors of the Russell 2000 were in positive territory this quarter, but Materials took the top spot, rising 36.1% in the third quarter on hints of a rebound in manufacturing. The other top performing sectors continued to be those most sensitive to the state of the macroeconomy: Energy (up 27.5%), Consumer Discretionary (up 26.4%), and Technology (up 20.4%). The laggards were more defensive sectors, including Utilities (up 6.9%) and Telecommunications (up 8.4%). On a year-to-date basis, one thing worth noting is the disparity between large and small-cap Financials, which have returned 23.2% and -2.9%, respectively. This disparity is based on the market's perception that small financial institutions, particularly regional banks, are a step or two behind larger companies when it comes to absorbing losses and have more exposure to commercial real estate. With such wide-ranging expectations for earnings in coming quarters, we find it most useful to focus on backward-looking and current valuation models. At the end of the third quarter, small-cap stocks were trading at a trailing P/E of 16.9x, which represents only a 2% discount to the category's 20-year average of 17.2x. In comparison, the large-cap blend category had a P/E ratio of 16.3x, which represents an 11% discount. In this light, it appears that large-caps are the better value, especially considering that the S&P 500 offers a 2.4% dividend yield compared to a yield of 1.3% for the Russell 2000 Index. On the other hand, it's important to remember that small-cap stock returns typically lead the market following a recession. That's because, in general, products of smaller companies are typically inputs used by large companies; as orders increase, small-caps experience growth in revenue and earnings ahead of larger counterparts. Also favoring small-caps is the free cash flow yield spread between large-caps and small-caps. This measure has quickly moved to favor small-cap stocks, which suggests that small-caps may have the capacity to outperform large-caps. The sudden change in this important metric is probably the result of small-cap companies' abilities to refinance and improve their weighted average cost of capital. On the value-growth continuum, small-cap value stocks are 4.5% more expensive than their historical average, while the small-cap growth category is priced at a 12.2% discount. Growth appears to be more attractive within small-caps not only because of valuation, but because of superior earnings potential and the fact that small-cap growth has led the market in eight of the last 15 recoveries.



Materials took the honors in the small-cap arena this quarter as investors considered improving manufacturing data. Small-cap Financials are still in the red year-to-date as investors remain leery about more losses, particularly at regional banks.

Source: Morningstar Direct

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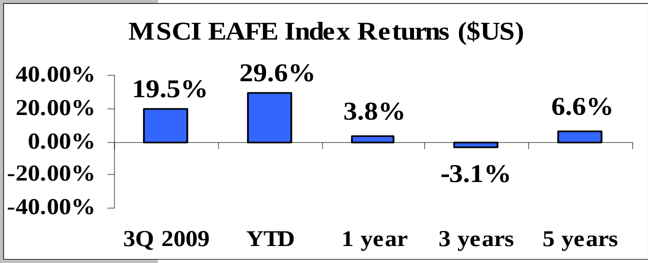
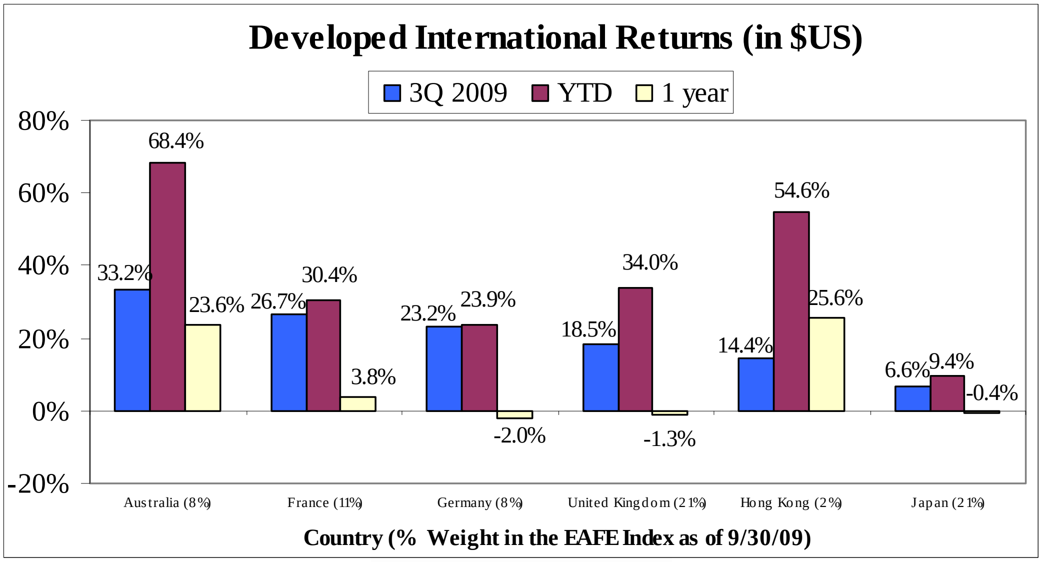
International Equities



Source – StyleAdvisor

The MSCI EAFE Index, which measures the performance of equities in developed markets outside the U.S. and Canada, gained 19.5% in the third quarter. International investors once again benefited from a weakening U.S. dollar, which bolstered the 14.9% third quarter return generated in terms of local currencies. Since the market rally began on March 9, the EAFE Index has returned an impressive 67.7% compared with a 56.7% gain for domestic equities (as measured by the S&P 500). On the value-growth continuum, international value equities continued to outperform their growth counterparts this quarter 22.2% versus 16.8%; and year-to-date, value is now outperforming growth by a whopping 25.4% as investors remain cautious about the strength of a recovery. When we look at market capitalization, small-caps led the way in the third quarter with a return of 21.5%; mid-caps and large-caps returned 19.3% and 18.7%, respectively. The top five performing developed markets this quarter were Greece (32.7%), Australia (31.5%), Netherlands (30.7%), Belgium (28.5%), and Austria (28.4%). The worst performing markets were Japan (5.8%), Finland (12.8%), Hong Kong (13.7%), United Kingdom (17.5%), and Denmark (18.0%). Some of the economic highlights that fueled stock returns this quarter included positive Q2 GDP growth in France (0.3% quarter-over-quarter) Germany (0.3% q-o-q) and Japan (0.6% q-o-q), an increase in the IMF's forecasted global 2010 GDP growth to 3.1%, surging manufacturing orders in the U.K., and strong positive changes in consumer sentiment, especially in Germany and France. In Japan, a strengthening Yen, the expiration of cash for clunkers in the U.S., and strengthening competition from Korea in autos and electronics all present challenges to a strong recovery in an economy so dependent on exports. Not only are exports expected to suffer, but a weak Japanese consumer won't offer much help stimulating demand because of falling wages and unemployment that continues to rise from a record high of 5.7%. Europe, whose countries make up 50% of the EAFE Index, has been the strongest performing region of the index with a third quarter return of 23.0% and a year-to-date return of 32.4%. Despite drastically better stock returns than Japan, the Eurozone faces similar challenges. In particular, consumer spending is likely to remain subdued with unemployment expected to rise from 9.5% to 11.5% next year, and exports may suffer if the strength in the Euro persists. In the United Kingdom, which makes up 21% of the EAFE Index, the central bank's surprisingly optimistic estimate of 2.2% year-over-year GDP growth in 2010 and increases in monthly housing prices set a positive tone for the stock market. Australia, one of the index's best performing countries, was the only developed country to avoid two consecutive quarters of negative GDP growth due to aggressive monetary and fiscal policies. Surprisingly strong Australian consumers saw disposable income rise 6% in the year ended in March, but business investments have fallen 6.3% over the last two quarters. Ultimately, government stimulus money has been a considerable factor in many of the noted improvements, but it's imperative that governments are able to "hand the baton" to consumer spending, investments, and exports for a sustainable, long-term recovery. From a valuation standpoint, the MSCI EAFE Index was trading at a trailing P/E of 23.0x at the end of the quarter. Compared to U.S. equities with a P/E of 16.3x and historical norms for the EAFE Index in the range of 15x to 16x, developed international equities generally appear pricey.



Source – StyleAdvisor

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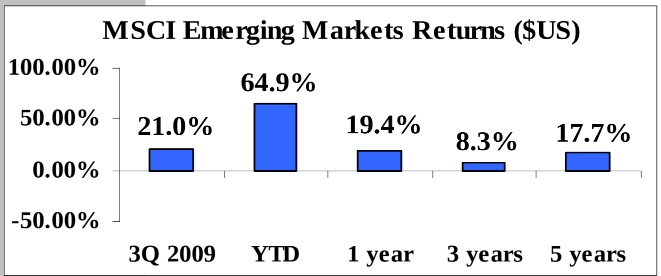
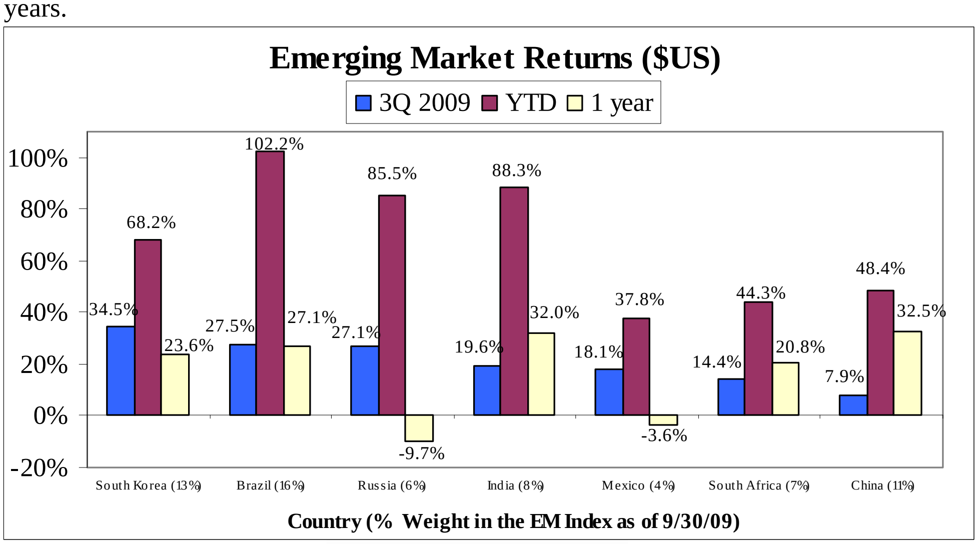
Emerging Market Equities



Source - StyleAdvisor

Emerging Markets (EM) moved solidly higher with a gain of 21.0% and easily led the global rally this quarter. Gains were enhanced by weakness in the U.S. Dollar which contributed an additional 4.1% over the local currency return of 16.9%. The rally was broad based as all styles and stocks of all market caps were lifted substantially higher. Value stocks slightly outperformed growth stocks 21.44% vs. 20.63% and EM large-,mid-, and small-caps returned 20.85%, 22.10%, and 23.17% respectively. Emerging markets in Europe experienced the strongest gains with a return of 29.36% followed by Latin America, up 24.77%, Africa & Middle East, up 20.44%, and emerging Asia up 19.80%. The BRICs gained 18.19% in the period with Brazil and Russia outpacing the broader market, up 27.51% and 27.10% respectively, and India and China lagging with gains of 19.60% and 7.86%. The top five performing markets were Peru (+44.00%), Hungary (+42.04%), Indonesia (+38.07%), Colombia (+25.86%), and Korea (+34.48%) while the five worst performing markets were Morocco (-6.61%), Chile (+5.64%), China (+7.86%), Israel (+10.42%), and South Africa (+14.42%). While the risks in emerging markets haven't been eliminated, we believe that their fundamentals look much more attractive than in the developed world. Several upgrades were issued this past quarter which added to the frenzied rally. For example, the big news for Brazil was the upgrade of its debt from "junk" to "investment grade" on September 22 by Moody's and now S&P and Fitch all have Brazil's debt rated as investment grade. The upgrade by Moody's came as the result of the country's ability to weather the financial crisis successfully and the economy officially emerged from the recession in the second quarter. The IMF notes that it expects a fairly rapid recovery in Russia, a view which is also shared by several global analysts that predict the potential for explosive earnings growth in Russia. There is also discussion that Russia may be able to join the World Trade Organization in 2010 which would further expand its economic potential. While the Russian business environment is famous for corruption and makes many of the managers we speak with cautious, the valuations have been so compelling that the appeal of cheap assets and earnings growth outweighs the risks posed, at least for some. A company that fits this mold well is Russian natural gas company Gazprom. India is also rebounding and the currency, the Rupee, continues to strengthen as investors pile money into its stock market, the Sensex. China's GDP growth remains mostly unobstructed, but concerns about the Chinese banking system and slower lending led to lagging returns versus the market. There's a lot to like about emerging markets, but our expectations are tempered as valuations are in-line on a trailing price-to-earnings basis with the S&P 500 at 20 times. It can be argued that higher prices are justified by EM nations' much better looking prospects for growth and healthier balance sheets, but their governments and markets haven't yet matured to developed status so many risks are still present. We see this primarily reflected in the CDS (Credit Default Swap) market where it still costs, on average, 5-6 times more to insure 5-year debt issued by the governments of Brazil, Russia and China versus debt of the United States government. Also, the valuation levels are near their July 2000 highs but the complexion of emerging market investing has changed appreciably. We view EM equities as fairly priced given the substantial growth projected for the next five years.



Source – StyleAdvisor

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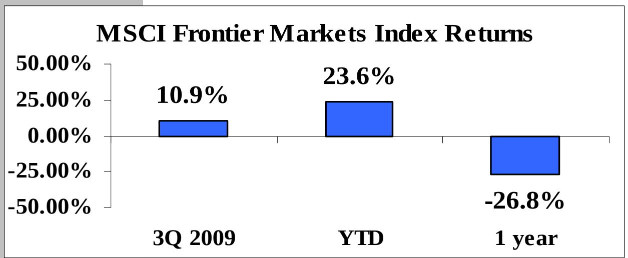
Frontier Markets

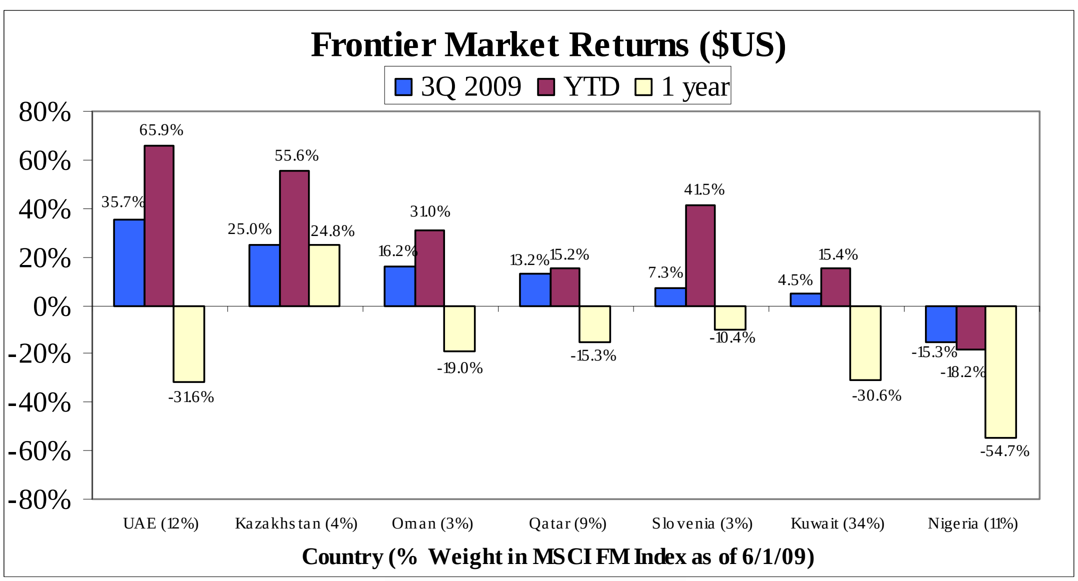


Source - StyleAdvisor

The Frontier Markets experienced another positive quarter as the index gained 10.9%. However, it considerably lagged the global rally as the Emerging Markets returned +21.0%, the MSCI World Index was up 17.6%, and the S&P 500 gained 15.6%. While the year-to-date return for the Frontier Markets is positive, the index still carries a significant decline of 26.8% over the past 12-months. Some of the best performing countries in the 3rd quarter included Lithuania (+82.2%), Serbia (+53.2%), and Bulgaria (+41.5%). The worst performing countries included Nigeria (-16.7%) and Bahrain (-11.0%). As we continue our coverage of the Frontier Markets, this quarter we've selected Argentina and Lithuania for closer inspection.

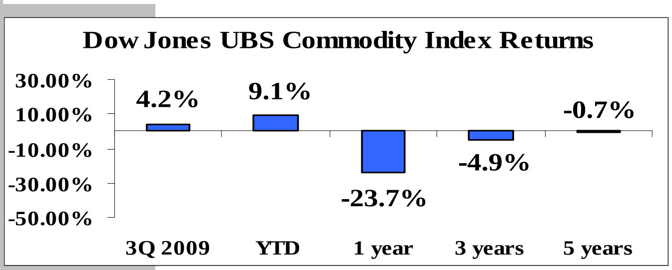
Argentina is one of the largest economies in Latin America and its stock market currently has a value of about $490 billion; however, it is the only country in the region that remains in the Frontier Index. A main reason for this is the capital controls the government places on foreign investment. The chairman of the Buenos Aires Stock Exchange has been asking the government to lift the restrictions claiming it will increase foreign investments by 30%. The MSCI Argentina Index returned 25.92% this quarter. However it is still down -18.42% for the trailing 12-months. Argentina's economy is primarily made up of agriculture (sunflower seeds, lemons, soybeans) and Industrials (food processing, motor vehicles, consumer durables, and textiles). Their top trade partners for exports include Brazil, China, and the U.S. As a result of the world economic slowdown, Argentina's economy has suffered from a decrease in auto sales, lower commodity prices, and rising unemployment. Their GDP growth has flat-lined in 2009 and is below the 4% growth estimates made only a year ago. Before this year, Argentina was experiencing tremendous growth of around 8% annually after their severe recession in 2001 and 2002. Argentine government debt is now some of the riskiest in the world and yields 800 bps more than a comparable U.S. Treasury, however this spread has significantly contracted from 18% at the beginning of April. The government is in the process of restructuring about $20 billion of defaulted debt.

Although GDP is expected to contract during 2009, there are indicators that Lithuania will see positive growth in 2010. Even so, at the end of the quarter Moody's downgraded Lithuanian debt for the second time this year to a current rating of Baa1. This was not a surprise to bond investors, as the country's growth prospects have stalled and their major European trade partners are expected to experience hard times and little growth over the next few years. While Lithuania is primarily a service-based economy (63% of 2008 GDP), they still export $24 billion mainly to Russia, Latvia, Germany and others European nations. Their industrial sectors include metal-cutting machine tools, electric motors, television sets, refrigerators, and freezers. As Lithuania's budget deficit is soon expected to rise to about 8.5% of GDP, its successful debt offering of $1.5 billion in October should help it avoid turning to the International Monetary Fund for any assistance, at least for the time being.



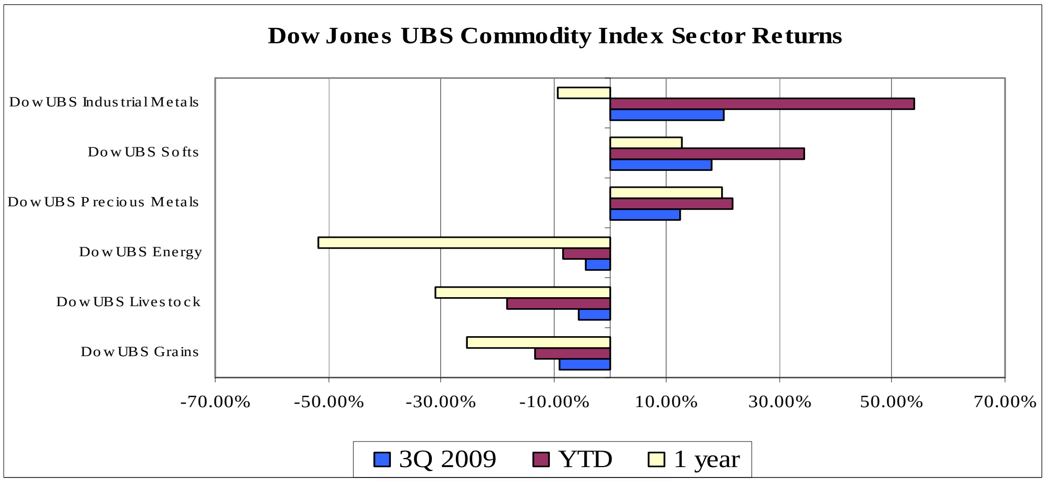
Source – StyleAdvisor, MSCI Barra

Hard Assets



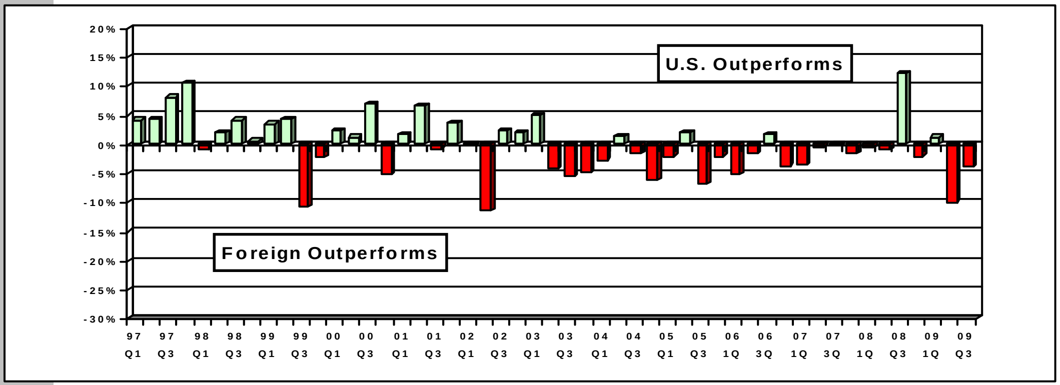
Source - StyleAdvisor

"Hard Assets" as measured by the Dow Jones UBS Commodity Index returned 4.24% in the third quarter and meaningfully underperformed financial assets. A weakening U.S. Dollar generally helped returns in this category. Within the 19 contracts that are aggregated in this index, the spread between the highest and lowest returning contracts was 53.51%. Both industrial and precious metals advanced solidly in the quarter with returns of 20.11% and 12.50% respectively. The "softs" component, which includes sugar, moved 17.97% higher. The Energy group moved lower by 8.87% along with Livestock which declined 5.60%. In terms of specific contracts, the largest gaining commodities included Lead (+33.66%), Sugar (+32.37%), Zinc (+25.34%), Cocoa (+23.52%), Copper (+23.4%), and Silver (+22.15%). Commodities that lost the most during the period included Wheat (-19.85%), Lean Hogs (-8.22%), Natural Gas (-7.54%), Soybeans (-5.50%), Crude Oil (-4.79%) and Live Cattle (-4.63%). Despite the strong gains in base metals this quarter (Lead, Copper, etc.), there is doubt that the rally is sustainable as China has been a large participant in the buying as well as renewed interest by speculators, which are just deemed to be performance chasers. Sugar has been on a meteoric rise this quarter thanks to a sharp reduction in the Indian crop and doubts that crops in the 2009-2010 planting seasons can help replenish supply. Additionally, Brazilian utilization of the plant is high as their economy is rebounding and sugar is integral to ethanol creation which in turn is used to produce fuel. Lean hogs have continued to be under pressure from the swine flu outbreak, even though the flu had nothing to do with pigs. Lower demand pushed crude prices slightly lower by 4.79% and in turn unleaded gas slipped 1.57% while heating oil retreated 3.30%. Looking to the future, we believe that commodities will underperform financial assets for the remainder of 2009, which is a position we took last quarter. We still believe this is based upon the supply/demand characteristics reflected in the futures market. Based on our analysis of the forward curve, or effectively the term structure of futures pricing for commodities, many of the contracts remain in "contango." This means that the prices of futures contracts are higher than the current or "spot" rates. If we observed more commodities in backwardation, where spot prices are higher than futures prices, then this would be indicative of stronger demand. When commodities are in backwardation, this is also more favorable from a total return perspective for investors. What is interesting to us is that the forward curve for some commodities, notably Copper, shows signs that demand may be picking back-up with gusto in mid-2010. With Copper's many uses in industry around the world, the price of this metal and its activity on the futures market is looked to as one indicator of future economic activity and having some predictive power. Additionally, according to forecasts compiled by Bloomberg, the outlook is for lower prices for base metals and a mildly favorable outlook for most energy commodities, except natural gas which is forecast to go much higher. In the near-term, demand for commodities from the developed world is weak. While emerging markets are growing nicely, they still represent a smaller piece of the global economy so their impact in the commodities markets is limited. On a regulatory note, the U.S. Commodity Futures Trading Commission (CFTC) has expressed concern over commodity funds, but has limited the scope of their concern to leveraged ETFs that are based on one commodity (for example, natural gas), and to date, no '40 Act mutual funds have been targeted for regulation. For the moment, we do not see a threat to the implementation of this kind of strategy in a retirement plan so long as the investment vehicle is one seeking to track an index, such as the Dow Jones UBS Commodity Index or the S&P GSCI.



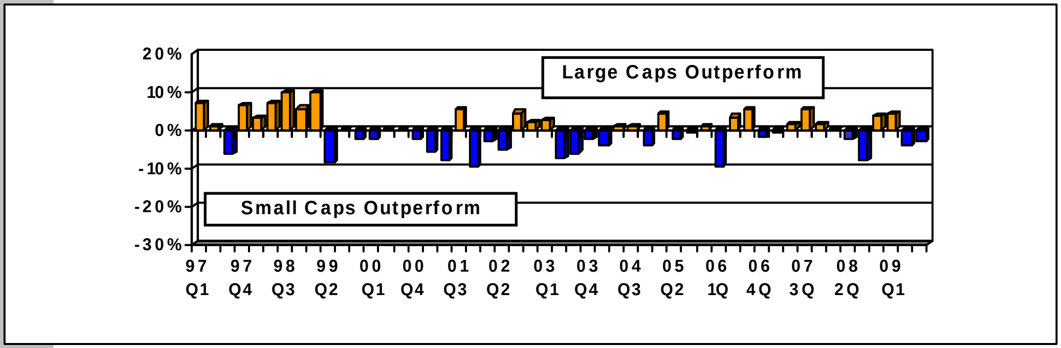
Source - StyleAdvisor

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



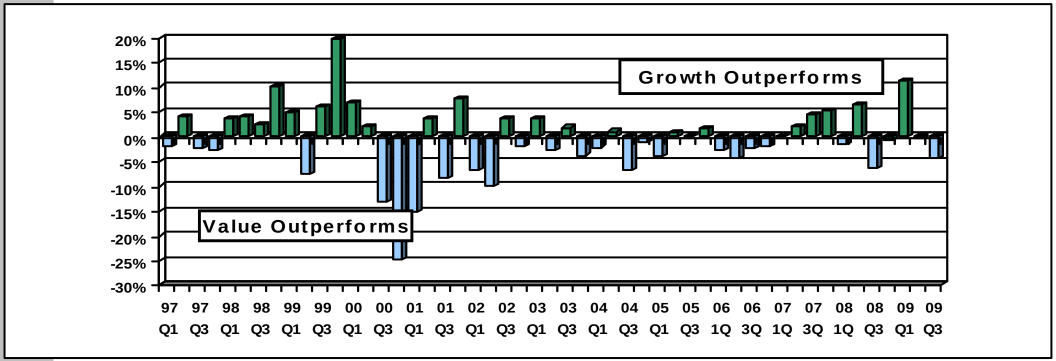
With many predicting that U.S. growth will lag considerably behind global growth coming out of the recession, investors favored international stocks over domestic.

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



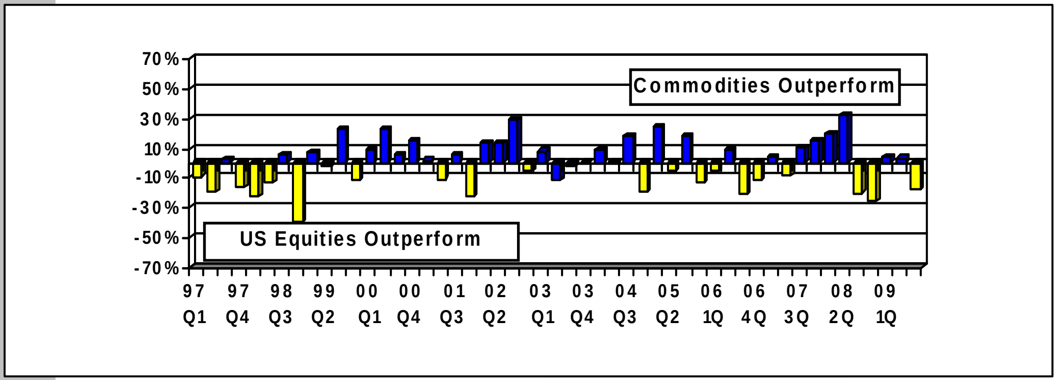
As has historically been the case, small caps are leading large caps coming out of a recession.

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



Among large-caps, value stocks outperformed their growth counterparts due mainly to a another strong quarter from Financials.

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



The S&P GSCI Index lost 1.8% due to weak returns from Energy-related commodities, which make up 70% of the index.

Source for all charts - StyleAdvisor

FRANCIS Investment Counsel LLC

Exhibit 1

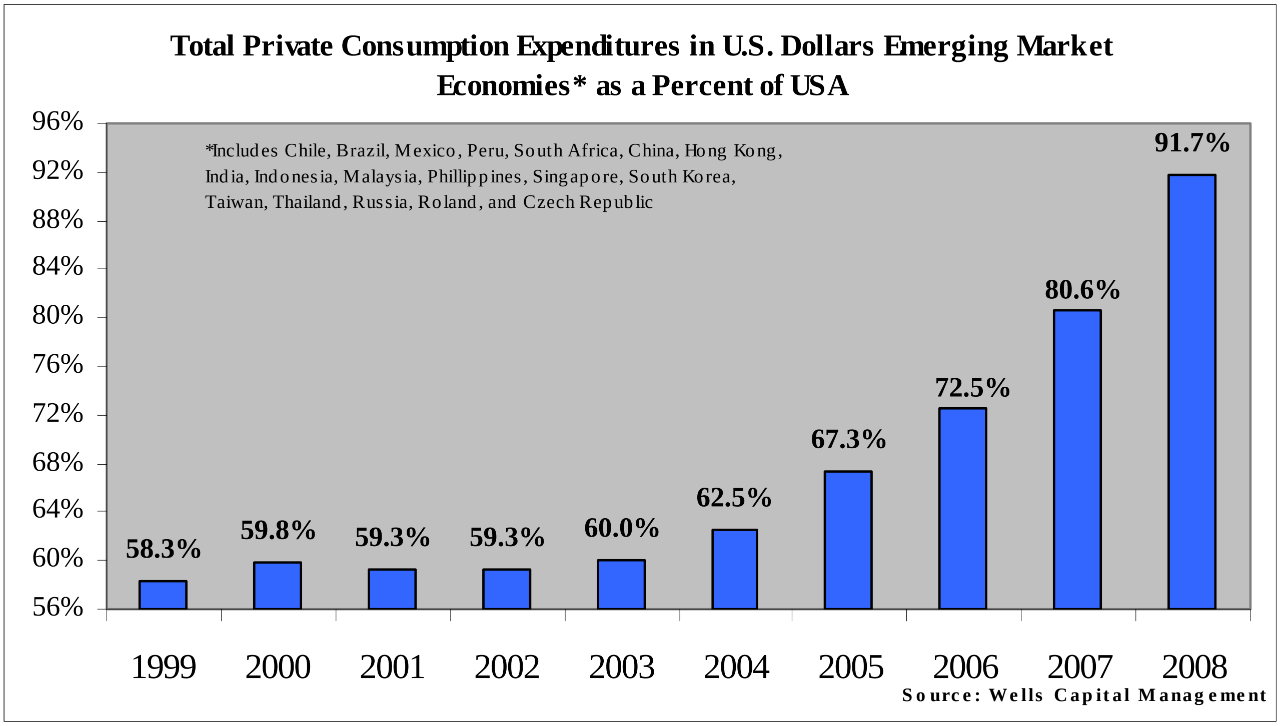
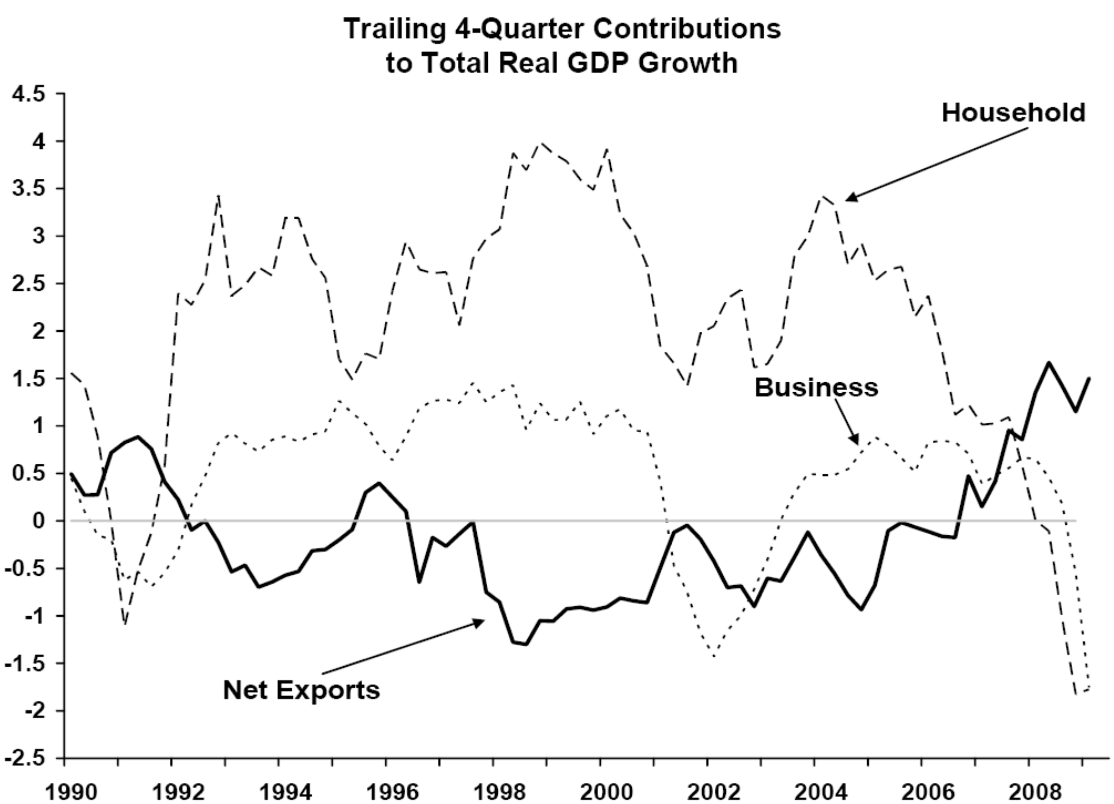
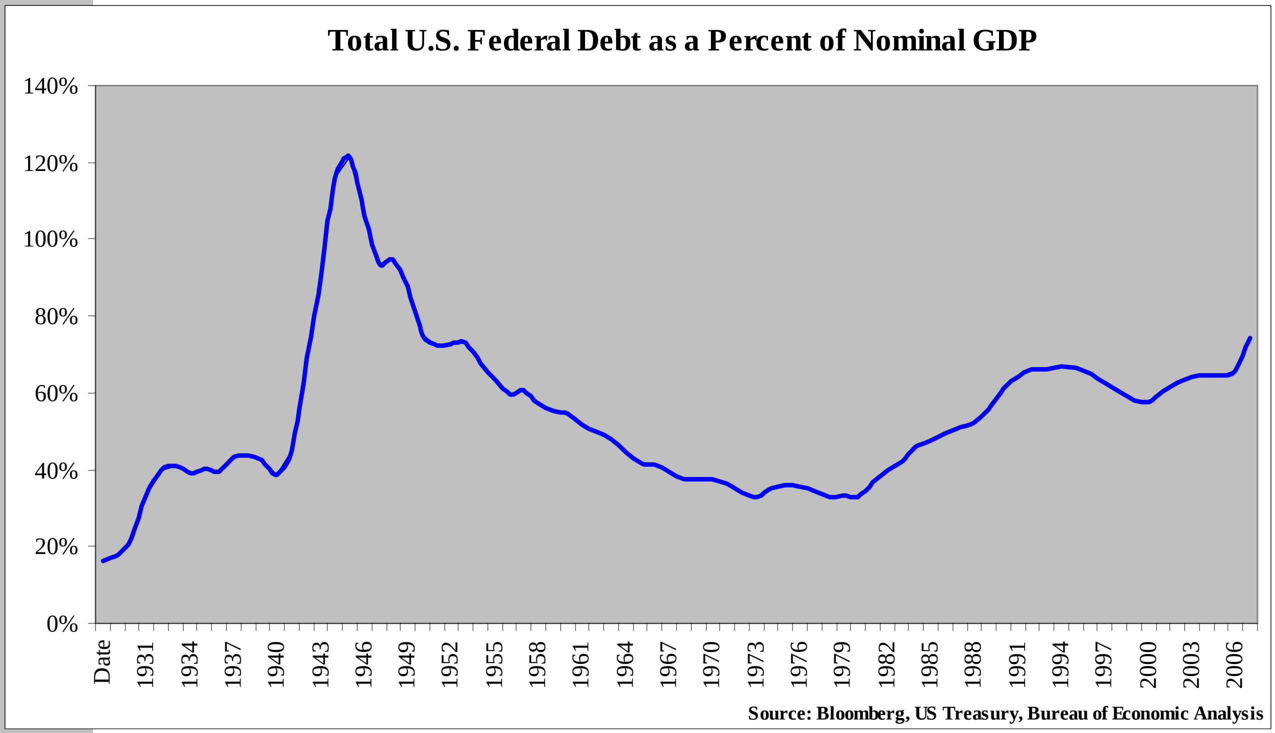


Exhibit 2

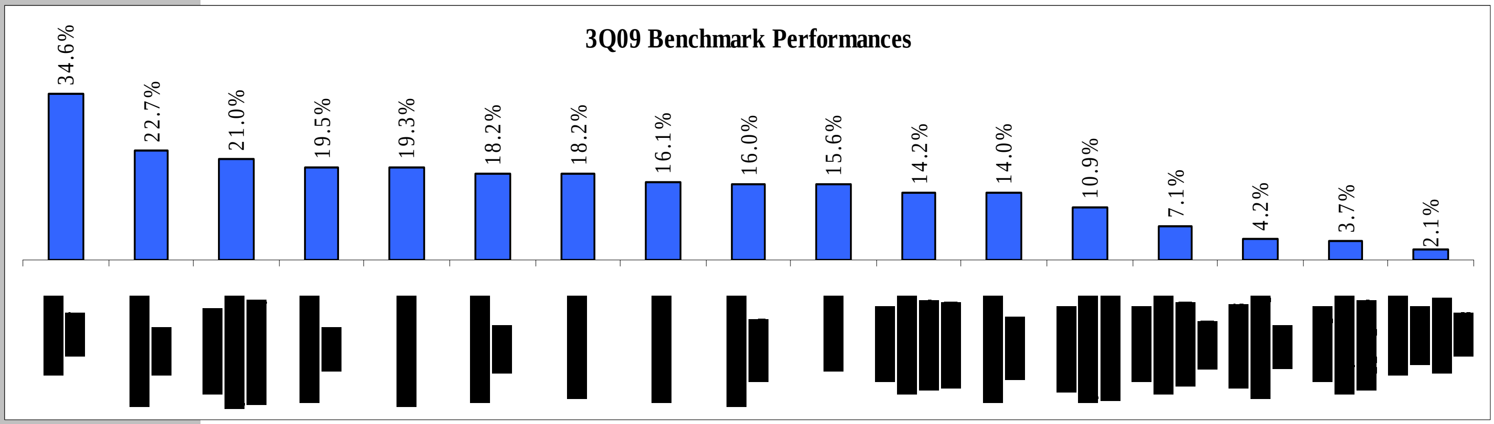


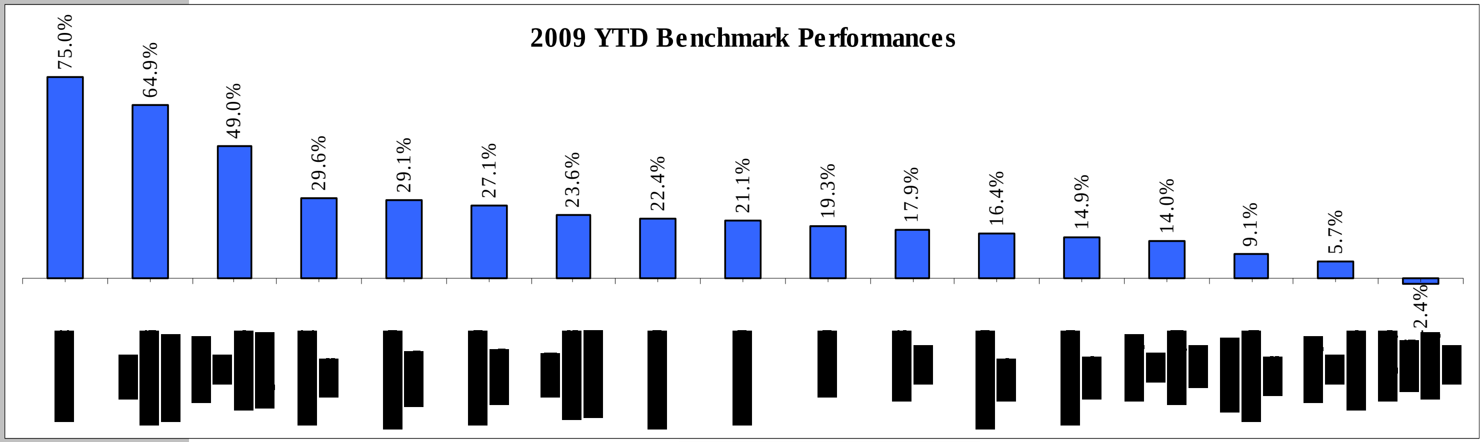
Source: Wells Capital Management

Exhibit 3



Top-Down Look at the Global Financial Markets





Source: StyleAdvisor

FRANCIS 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