Perspectives
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Market Commentary First Quarter 2010

Economic Highlights

- **GDP: Real GDP grew at an annual rate of 5.6% in the 4th quarter, building off of 2.2% growth in Q3. This marks the first consecutive quarterly increase since the third and fourth quarters of 2007.**
  Source: BEA

- **Interest Rates: The Fed held its target rate steady at a 0.00%-0.25% range, reiterating its view that current economic conditions "warrant exceptionally low levels of the federal funds rate for an extended period." After jumping 64 bps in December, yields on the 10-year Treasury were relatively stable during the quarter; drifting slightly from 3.85% at the end of 2009 to close Q1 at 3.84%.**
  Source: Federal Reserve, US Treasury

- **Inflation: After showing some signs of rapid increase in June through August of 2009, consumer prices have moderated in recent months. CPI rose at a seasonally-adjusted monthly rate of 0.2% in each of the five months from September to January and was unchanged in February. Prices excluding food & energy have been flat for the past four months (Nov 0.0%, Dec 0.1%, Jan -0.1%, Feb 0.1%).**
  Source: BLS, US Treasury

- **Employment: Since bucking the trend to add 64,000 jobs in November, job losses resumed in the subsequent three months. Through February, recession-to-date job losses now exceed 8.4 million, with 3.3 million lost over the past 12 months. The rate of unemployment, however, eased from 10.0% to 9.7%.**
  Source: BLS

- **Housing: After signaling a bottom in mid-2009, home prices have pulled back in recent months. The S&P Case-Schiller Home Price Indices reflect a decline of -0.58% and -0.86%, respectively, for the 10- and 20-city Composite indexes in the three months through January.**
  Source: S&P

The U.S. Equity Market

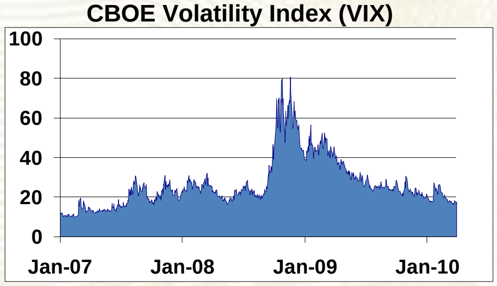
Despite stumbling out of the blocks in January with a -3.43% total return, the U.S. stock market carried its strong 2009 performance through the first quarter of 2010. The Wilshire 5000 Total Market Index℠ delivered a 6.04% gain for the quarter, with March's 6.23% advance standing out. This represents the index's fourth consecutive quarterly gain, which extends to a cumulative return of 52.12% over the past year and a 80.18% rally since its March 9, 2009 closing low. After reaching a peak-to-trough sell-off of -55.40%, the Wilshire 5000 has narrowed its losses since its October 9, 2007 closing high to -19.64%.

U.S. Equity	MTD (%)	QTD (%)	YTD (%)	1 Year
Wilshire 5000℠	6.23	6.04	6.04	52.12
Standard & Poor's 500	6.03	5.39	5.39	49.77
Wilshire 4500℠	7.29	9.73	9.73	65.77
U.S. Equity by Size/Style	**MTD (%)**	**QTD (%)**	**YTD (%)**	**1 Year**
Wilshire 2500℠	6.22	6.00	6.00	51.85
Wilshire U.S. Large Cap℠	6.01	5.60	5.60	49.18
Wilshire U.S. Large Growth℠	5.85	4.78	4.78	51.60
Wilshire U.S. Large Value℠	6.16	6.41	6.41	46.94
Wilshire U.S. Small Cap℠	8.17	9.70	9.70	77.60
Wilshire U.S. Small Growth℠	7.62	8.30	8.30	73.97
Wilshire U.S. Small Value℠	8.69	11.10	11.10	81.20
Wilshire U.S. Microcap℠	7.02	11.58	11.58	83.11

Small capitalization stocks continued to lead the market recovery, with the Wilshire U.S. Small Cap Index climbing 9.70% during the quarter to build its total return over the past year to an impressive 77.60%. In a repeat of the fourth quarter of 2009, only the microcap size segment performed better with quarterly and annual gains of 11.58% and 83.11%, respectively. Both the growth and value style segments performed well during the quarter with value outpacing growth across universes; 6.41% vs. 4.78% for the Wilshire U.S. Large Cap Value & Growth Indexes, respectively, and 11.10% vs. 8.30% for the Wilshire U.S. Small Cap Value & Growth Indexes, respectively.

Financials and Consumer Discretionary stocks lead all sectors with quarterly returns of 11.98% and 11.84%, respectively. The Telecomm Services and Utilities sectors were the only two groups to suffer a Q1 loss, falling -3.70% and -2.33%, respectively.

CBOE Volatility Index (VIX)



Source: CBOE

As the nearby chart displays, the CBOE Volatility Index (VIX), a measure of anticipated stock market volatility, has recently moved below 20 for the first time since August of 2008. Some investors view a VIX level of 20 as a psychological demarcation between 'normal' and 'risky' market regimes. During the height of the credit crisis and market turmoil of 2008, for example, the VIX traded as high as 80. A VIX of 17.59 at quarter's end suggests that equity risk has stabilized to a more historically normal level.

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The Non-U.S. Equity Market

The first quarter found global investors favoring developed market stocks over emerging–market issues. Investors also focused on the increasingly-higher debt levels of many global economies and future prospects of higher inflation. China, one of the shining stars of 2009, actually experienced selling pressure over concerns that stock prices had exceeded near-term valuation targets. European equity performance was impacted by the mounting debt worries of Greece; in contrast, Pacific region stocks yielded strong returns, buoyed by a surprisingly resilient rally in Japanese equities. The US dollar strengthened against developed-market currencies, but weakened against currencies in commodity-producing countries; the Canadian dollar bought $0.9846 USD at quarter-end, only the second time since 1976 that it has approached parity.

	USD (%)				Local Currency (%)			
Non-U.S. Equity	**MTD**	**QTD**	**YTD**	**1 Year**	**MTD**	**QTD**	**YTD**	**1 Year**
MSCI AC World ex U.S.	6.80	1.58	1.58	60.93	6.90	3.50	3.50	46.79
MSCI EAFE	6.24	0.87	0.87	54.44	7.45	4.29	4.29	44.68
MSCI Europe	6.48	-1.80	-1.80	56.10	6.88	3.51	3.51	49.44
MSCI Pacific	5.80	6.27	6.27	51.29	8.55	5.94	5.94	36.46
MSCI Japan	4.99	8.18	8.18	37.87	10.40	8.59	8.59	30.43
MSCI EM (Emerging Markets)	8.07	2.40	2.40	81.08	6.23	1.39	1.39	58.00

The Fixed Income Market

Investor appetite for yield outpaced safety concerns in the first quarter of 2010, despite uneasiness over the upcoming end of central-bank supports of global securities markets. Investors also had to ponder the effects of the debt crisis in Greece and its possible spread to other Eurozone countries. With the U.S. Federal Reserve in no hurry to tighten monetary policy, Treasury yields fell in January and stayed flat in February; however, lackluster response to a late-March T-Note auction pushed yields markedly higher. In contrast, market demand for corporate paper pushed credit spreads notably lower over the quarter; whether new issuance or secondary market, buyers bid up prices and pushed down yields.

U.S. Fixed Income	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Barclays U.S. Aggregate	-0.12	1.78	1.78	7.69
Barclays Long Govt./Credit	-0.71	1.55	1.55	10.29
Barclays Long Term Treasury	-1.90	0.93	0.93	-7.26
Barclays U.S. TIPS	0.13	0.56	0.56	6.18
Barclays U.S. Credit	0.30	2.27	2.27	20.83
Barclays U.S. Corporate High Yield	3.13	4.62	4.62	56.18
Global Fixed Income	**MTD (%)**	**QTD (%)**	**YTD (%)**	**1 Year (%)**
Barclays Global Aggregate	-0.76	-0.27	-0.27	10.23
Barclays Global Aggregate (Hedged)	0.19	1.70	1.70	6.88
Barclays Global EM Local Currency	2.81	3.96	3.96	19.46
Barclays Global EM Local Currency (Hedged)	0.95	1.92	1.92	4.71

The Real Estate & Commodity Markets

Global real estate securities managed a sharp recovery from their January slump to end the first quarter of 2010 with positive performance, especially in the US, where this beleaguered sector continued its remarkable recovery. Commodities, on the other hand, lost ground in the first quarter as investors reined in expectations for the pace and strength of the global economic recovery. Gold and crude oil both closed the quarter with gains, but other commodities' prices fell under strong selling pressure due to worsening supply-and-demand fundamentals.

Real Estate / Commodity	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Wilshire U.S. RESI SM	10.27	10.28	10.28	115.40
Wilshire Non-U.S. RESI SM	4.67	1.12	1.12	72.03
Wilshire Global RESI SM	7.21	5.19	5.19	89.84
Dow Jones UBS Commodity Index	-1.24	-5.03	-5.03	20.53
S&P GSCI Commodity	1.94	-0.89	-0.89	25.87

Investment Manager News

TCW Group dropped out of the Treasury Department's Public-Private Investment Partnership **(PPIP)** program and will return the roughly $500 million raised from investors for the investment fund.
Tom Kenny, co-head of the US and Global Fixed Income team for **Goldman Sachs**, retired from the firm. **Andrew Wilson**, currently head of the Global Fixed Income team, will join **Jonathan Beinner** as the co-head of the US and Global Fixed Income team.
Goldman Sachs restructured the Quantitative Investment Strategies (QIS) Team. **Kent Daniel**, Managing Director and co-CIO of the QIS platform, left the firm. The QIS Team will be restructured into two alpha and beta strategies.
Richard M. Weil was named CEO of Janus Capital Group. Mr. Weil replaces **Gary Black**, who resigned as Janus' CEO in July. **Timothy K. Armour**, a member of Janus' board of directors, was interim CEO.
John Adams, CEO and CIO of **Munder Capital Management** decided to leave the firm. Vice Chairman **Tony Dong** has been elevated to firm-wide CIO, while President **Jim FitzGerald** will be responsible for all non-investment functions.
John R. Klopp was named head of Americas real estate investing and global real estate debt investing at **Morgan Stanley**.
Eric Colson was named CEO of **Artisan Partners**. He assumes that title from **Andrew A. Ziegler**, managing partner, who has taken on the new title of executive chairman.
Peter R. Fisher, who was co-head of **BlackRock's** fixed-income business with **Scott Amero**, was named sole head of the fixed-income executive team following the announcement that Mr. Amero will retire by the end of 2010.
BlackRock announced that **Morry Waked**, CIO of Scientific Active Equity and head of the Australian SAE business, will be stepping down from his current position and will leave the firm later this year.
Michel Anastassiades, executive chairman of BNP fixed-income subsidiary Fischer Francis Trees & Watts, will take on the title of head of North America for the enlarged BNP Paribas group.
Affiliated Managers Group (AMG) and the management of London-based **Pantheon Ventures** will buy that firm's global private equity fund-of-funds business from **Russell Investments.**
Marc A. Spilker retired as co-head of the investment management division at **Goldman Sachs**. **Edward C. Forst** will replace Mr. Spilker as co-head of Goldman's investment management division.
Fortress Investment Group announced it will acquire institutional fixed-income manager **Logan Circle Partners** from **Guggenheim Partners**.
Osbert Hood will step down as chairman and CEO of money manager **MacKay Shields**. Chief Operating Officer **Lucille Protas** will serve as interim CEO.
TCW Group completed its acquisition of fixed-income manager **Metropolitan West Asset Management**. The acquisition adds 115 MetWest employees to TCW.
Kenneth E. Olivier, president of **Dodge & Cox**, will take on the additional title of CEO. He will replace **John A. Gunn**, who will remain chairman.
Richard Ferst was promoted to CEO at **Urdang**, a global real estate investment subsidiary of **BNY Mellon Asset Management.** Mr. Ferst replaces company founder **E. Scott Urdang**, who will remain chairman as part of the business' succession plan.
Lynne Royer stepped down as Senior Portfolio Manager and Co-head of the **Wells Capital Management** Montgomery Fixed Income team.

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