To: Investment Committee, Client

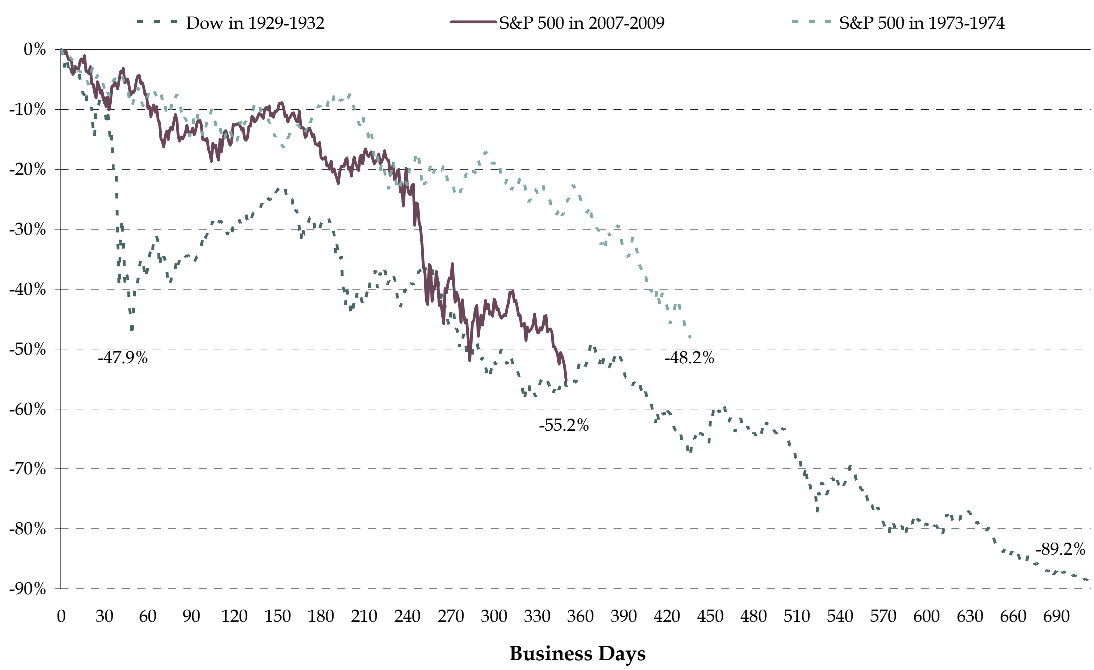
From: Managing Principals, Meketa Investment Group

Date: March 3, 2009

Re: Market and Economic Update

The chart below depicts the peak-to-trough movement of the stock market in the major U.S. bear markets that began in 1929, in 1973, and in 2007. The current decline has been swift and severe, and its magnitude has drawn comparisons to the Great Depression.

Historical Bear Markets – Peak-to-Trough Movement
(current decline through March 2, 2009)



Source: Global Financial Data

ARE WE ENTERING ANOTHER GREAT DEPRESSION?

This is not likely.

However, through March 2, U.S. equity market losses have been more severe and occurred more quickly than those of the 1974 bear market, and stand comparable only to those of the Great Depression that started in 1929. Today's bear market, similar to the two others depicted above, reflects significant structural problems in the global economy that will take time to fix. The problems are vast, widespread, and will require national governments to play a significant role in the global economy for many years.

The U.S. stock market has lost 50% to 55% of its value from its peak in late 2007, the most significant decline in the broad market since the 1930s. Additionally, in two separate bear markets of the past century (1974 and 2002), the market's losses were never worse than 50% from peak to trough.

However, due to the size of the government sector today in the global economy, and the magnitude of global fiscal and monetary stimulus, a severe depression with 20%+ unemployment, like the Great Depression, is not likely. An extended period of stagnant economic growth, potentially combined with growing inflation concerns, is a more likely outcome.

WHAT IS CAUSING THIS ECONOMIC TURMOIL?

Simply put, the structural problem our global economy faces today is excessive debt.

The largest, but not only, component of the debt overhang is U.S. consumer debt. Over the past ten years, the U.S. consumer sector has added approximately $8 trillion of debt to its aggregate balance sheet, through larger home mortgages, ballooning credit card balances, and increased educational borrowing. U.S. consumers have used this debt not to invest, but rather to buy goods and services of dubious long-term value, such as luxury homes, SUVs, dining, and recreation electronics.

Eventually, the cumulative debt load became too great for many households to sustain. To service the existing debt load, the U.S. consumer has had to reduce spending sharply, causing the recent reduction in GDP. Consumer expenditures are likely to decline further, as debt loads could become larger in the face of further housing price declines and rising unemployment.

However, U.S. consumer debt is only one side of the economic coin. U.S. debt is also a reflection of excess Chinese savings that must be soaked up elsewhere in the world. Over the past decade, the Chinese have super-charged their economic growth by exporting more goods and services than they have imported, while the U.S. has imported more goods and services than it has exported. To pay for the Chinese imports, the U.S. has borrowed increasingly from China, who recycles its U.S. import payments by purchasing U.S. securities. In essence, the U.S. and China have been involved in an unsustainable virtuous cycle whereby the U.S. facilitates Chinese economic growth and job creation, and China provides a near limitless supply of inexpensive goods to the U.S. and the credit we need to buy them. However, as this system continued, the Chinese economy became overly export focused, and the U.S. went into excessive debt. Once the U.S. consumer stopped borrowing, the virtuous cycle began to unravel.

Thus, the current economic turmoil is not a U.S. problem. It is a global problem. And, it will require a global solution.

Because it is unlikely that the U.S. consumer sector will re-leverage its balance sheet, the global economy will likely not snap back quickly. The global economy will have to find another source of global demand for goods and services. And, more importantly, it will have to find another way to finance that demand.

WILL GOVERNMENT STIMULUS WORK?

Yes, but only temporarily, and while creating a longer-term risk of high inflation.

In reaction to the rapid contraction in the private sector globally, governments around the world have introduced massive stimulus packages. China and America alone have announced more than $1.4 trillion in government stimulus, nearly 10% of the combined GDP of both countries.

In addition to the unprecedented fiscal stimulus, central banks around the world have enacted unprecedented monetary stimulus measures. The U.S. Federal Reserve has reduced the federal funds rate to record lows of 0% to 0.25%, and has purchased more than $1 trillion of assets with newly printed money as part of its efforts to provide liquidity. Further, the Federal Reserve is likely to continue to provide debt guarantees and expand its balance sheet further as the financial crisis continues.

The combination of the unprecedented fiscal and monetary stimulus has so far had a very limited impact. However, fiscal and monetary measures typically take twelve months or more to show results. *Thus, it is still far too early to deem the stimulus efforts a failure.*

One risk that is now heightened as a result of the global stimulus efforts is inflation. While some assets are unlikely to experience price inflation for some time (e.g., house prices, retail store shares), others may. Recall that the Federal Reserve's efforts to stimulate the economy after the 1974 recession led to the runaway inflation we saw through the remainder of the 1970s. It is much more difficult to take money out of the economic system than to put more money into it.

WHAT CAN WE EXPECT GOING FORWARD?

More of the same, and some new risks.

The U.S. economy ***will*** rebound, but not immediately. It has been the most vital and stable in the world for over 100 years. This remarkable performance results from our stable democracy, adherence to the rule of law, respect for private property, entrepreneurial spirit, growing population, abundance of natural resources, and, most importantly, a belief that a lifetime of hard work can improve the living standards of future generations.

The U.S. economy has been through sharp downturns many times over the past 200 years, many with conditions far worse than we are experiencing today. Because of the flexibility of our economic system and our unique attributes listed above, our economy has not only always recovered, but has always recovered to be stronger and more competitive. None of these attributes of our economy have changed as a result of the events of the last eighteen months.

The U.S. now has a labor force of nearly 150 million people. We are global leaders in diverse and critical industries such as information technology, biotechnology, financial services, education, and energy. Our economy is largely self sufficient in most important goods and services. And, we continue to be seen as the center of the global economy and the engine to its growth through our vast demand for goods and our capacity for creating new technologies and enhancing products. It is nearly inconceivable that the global economy can recover in a meaningful way without the U.S.

Because this recession was caused by the structural imbalance of trade between China and the U.S., it will take longer than prior recessions to recover. Nevertheless, the U.S. economy will recover, as it has so many times in the past.

Investors the world over are in a state of shock. Uncertainty, fear, and in some cases, undue optimism abound. In this environment, we can expect continued volatility, perhaps extreme volatility. Stock prices remain at risk, but we could see large run ups on occasional good news.

Bonds, as well as stocks, will be affected. With U.S. federal deficits well in excess of $1 trillion for the next couple of years (at least), interest rates may increase in order to attract the capital necessary to support the U.S. federal debt. As Treasury interest rates are at historic lows presently, due to the flight to quality, any increase in interest rates could cause significant losses in the value of longer-maturity Treasury bonds.

Though less likely, the value of the U.S. dollar could depreciate significantly if foreign investors lose confidence in the U.S. government's ability to manage its debt without printing excessive money. While a declining U.S. dollar would positively impact the returns of foreign assets (in dollar terms), and would elevate the competitiveness of U.S. exporters, it is also very inflationary to the U.S. economy, as imports would cost much more. However, note that to date, the U.S. dollar has remained relatively strong as investors realize that despite our problems, the U.S. economy might be stronger than those in Europe or Asia.

Finally, as the government stimulus spending globally is focused on "infrastructure" investments, demand for resource inputs for building roads, bridges, and transportation assets will likely increase. *Thus, the price of oil, metals, concrete, and other inputs in large infrastructure projects will likely increase, potentially significantly, as governments compete for these limited resources.*

In short, as this economic turmoil continues, equity prices, interest rates, currency values, and commodity prices, will all be affected, some negatively, and others positively.

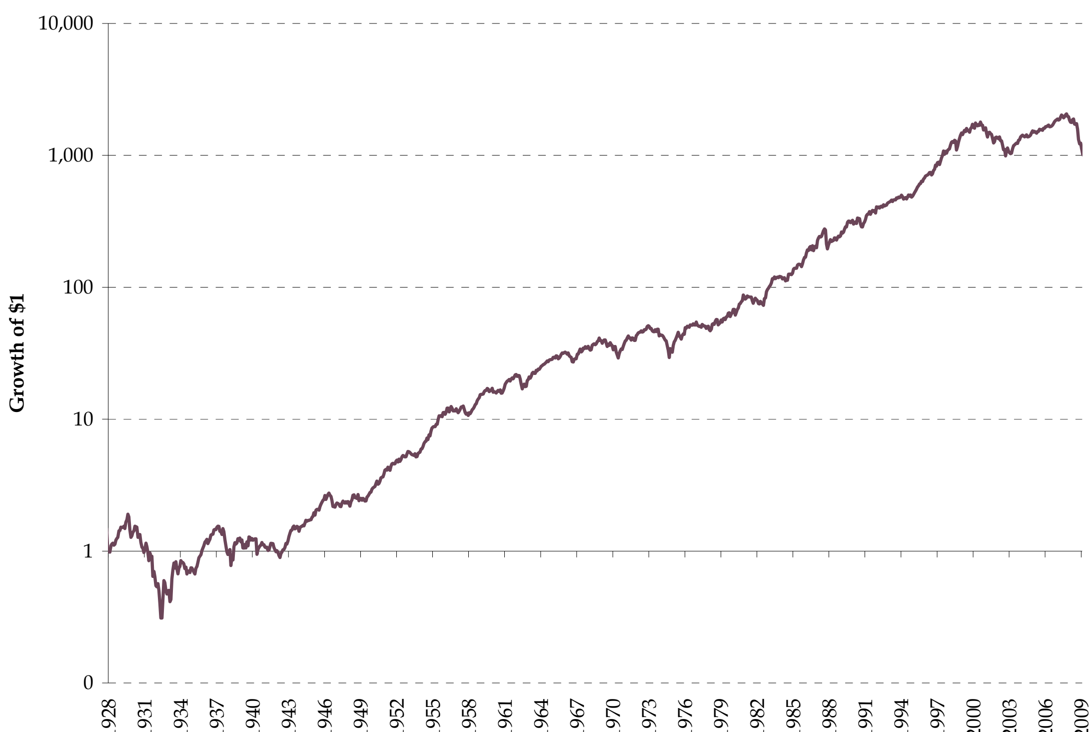
HOW SHOULD TRUSTEES REACT TO THESE EVENTS?

Meketa Investment Group has developed specific plans to deal with the continued volatility. These plans, which will be discussed with you by your Meketa Investment Group consultant, balance the risks and opportunities we find in the economic system today.

Most importantly, since the government's response to the current crisis cannot be predicted with accuracy, and asset values are in constant flux in anticipation of government reaction, *Trustees should not* make drastic changes to their long-term strategies in the near term. Still, we will look to take advantage of new opportunities presented by recent price declines.

Trustees should not lose faith in the long-term return potential of equities. History shows that while capitalist systems can be unstable, they are powerful at producing economic growth over long periods of time. Equity investing is the only way to tap in directly to this economic growth.

Growth of $1 invested in the S&P 500 in January 1928



Source: Global Financial Data

Trustees should make sure that their funds are balanced across the risks to which they are exposed. Today, those risks include not only continued deflation and equity price declines, but also potential inflation, commodity price appreciation, and currency volatility. Equity prices, interest rates, currency values, credit spreads, and commodity prices are all likely to experience above-average volatility for the foreseeable future.

If they have not already, *Trustees should* consider shifting some assets from diversified equity portfolios to equity investments focused on "natural resources" and "infrastructure" strategies. Natural resource strategies take advantage of the characteristics of commodities like gold, oil, natural gas, and metals in a global economy with stagnant growth and significantly higher government spending. Likewise, infrastructure investments in energy transmission/distribution, water assets, airports, ports, and roads tend to behave defensively during periods of prolonged economic stagnation. People continue to utilize these critical services even in deep recessions.

Separately, high yield bonds, bank loans, and Treasury Inflation Protected Securities (TIPS), in our view, are currently priced at attractive risk/reward ratios. Increased exposure to these areas will help portfolios produce higher expected returns and appreciably less risk than portfolios constructed a year ago.

CONCLUSIONS

We may only be in the initial stages of a longer process of structural change to the global economy. The next stage could be very different from the current one, and Trustees should begin planning for that stage now. Meketa Investment Group continues to monitor and evaluate the rapidly changing economic environment, and we will continue to proactively recommend changes to react to these unique times.