Overview:

- The price of crude oil (WTI) finished the first quarter at $101.59/barrel after topping $110/barrel in mid-March.
- The European Central Bank left the main refinancing rate at 4.0% throughout the first quarter, while the Bank of England cut the repurchase rate from 5.5% to 5.25% at the February meeting.
- Eurozone expansion decelerated during the fourth quarter of 2007, while the pace of U.K. expansion moderated slightly.
- In mid-March, the euro climbed to a new high of $1.59 against the U.S. dollar, while the U.S. dollar slipped to 95.77 yen – a 12½-year low.
- The Bank of Japan left the overnight call rate unchanged at 0.5%. The core CPI registered 1.0% year-over-year growth in February – the highest inflation rate since March 1998.

United Kingdom*:

- The Bank of England trimmed the repurchase rate from 5.5% to 5.25% at its February meeting, citing deteriorating prospects for global growth and continued financial market dislocation.
- The British economy expanded at a 2.9% year-over-year pace and 0.6% quarter-over-quarter pace during the fourth quarter of 2007. Relative to the previous quarter's 0.7% pace, real GDP growth eased slightly.

Eurozone*:

- Weighing the risks of accelerating inflation against signs of decelerating economic growth, the ECB left the main refinancing rate at 4.0% during the first quarter of 2008. Inflationary pressures persisted as the eurozone CPI climbed 3.3% on a year-over-year basis in February.
- European labor markets remained tight; the unemployment rate reached a new record-low of 7.1% in January and remained unchanged through February.
- Weaker consumption dampened European economic expansion during the fourth quarter; real GDP grew at a 2.2% year-over-year pace, down from 2.6% in the third quarter.
- Germany's Ifo Business Climate Index rebounded during the first quarter after falling during the latter half of 2007. Germany's real GDP growth slowed from the third quarter's 0.7% quarter-over-quarter pace to a 0.3% pace in the fourth quarter of 2007. The German unemployment rate continued its descent, falling from 8.4% in December to 7.8% at the end of March.
- The French economy grew 0.3% on a quarter-over-quarter basis (2.1% on a year-over-year basis) during the fourth quarter of 2007, down from 0.8% quarter-over-quarter growth (2.2% year-over-year growth) in the third quarter.

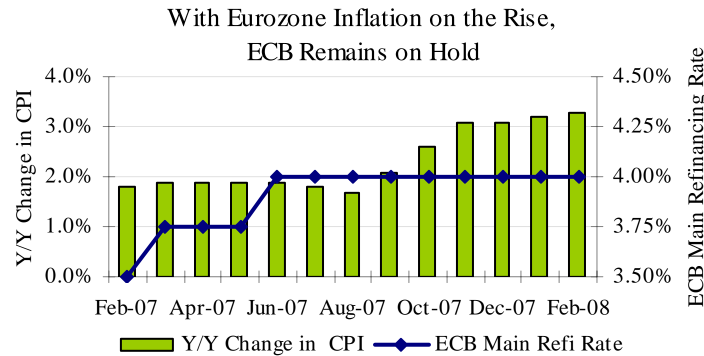
Japan*:

- The Bank of Japan maintained the overnight call rate at 0.5% during the first quarter of 2008. Japan's Core CPI registered a decade-high 1.0% year-over-year increase in February, which also marked Japan's fifth consecutive month of positive year-over-year price increase. However, higher energy prices were largely responsible for the upward trend in consumer prices.
- Real GDP growth picked up from the third quarter's 0.3% quarter-over-quarter pace to a 0.9% quarter-over-quarter pace in the fourth quarter of 2007.
- The Tankan Survey revealed a deterioration in confidence among Japanese businesses during the first quarter, as the index suffered its largest quarterly decline since 2001.
- Japan's unemployment rate inched up from 3.8% in December to 3.9% in February.

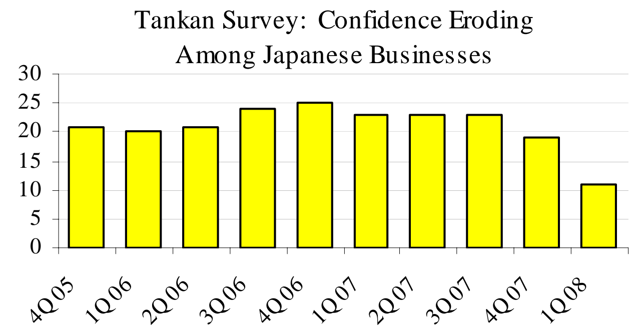
** GDP figures for the United Kingdom, eurozone, and Japan are lagged by one quarter.*

Country	Central Bank Target Rates	1Q Change
United States	2.25%	-200 bps
Eurozone	4.00%	-
United Kingdom	5.25%	-25 bps
Japan	0.50%	-
Australia	7.25%	+50 bps
Canada	3.50%	-75 bps
South Korea	5.00%	-
Thailand	3.25%	-
Brazil	11.25%	-

Source: Economy.com



Source: Economy.com



Source: Economy.com

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Interest Rates:

- The Federal Reserve Board cut the fed funds rate three times, lowering it from 4.25% in December to 2.25% in March. The Fed implemented interest rate cuts as concerns of economic slowdown outweighed the risk of higher inflation. With the most recent cuts, the real fed funds rate fell below zero, which should stimulate the faltering U.S. economy, suffering from lower consumer spending and softening labor markets.

Growth*/Sentiment:

- The annualized fourth quarter real GDP grew by 0.6%, down from 4.9% in the third quarter. According to economy.com, lower inventories dampened the GDP growth by 180 bps and declines in homebuilding by 125 bps. The only bright spot in the fourth quarter GDP report was a 6.5% increase in exports, driven by the recent weakness of the greenback. With consumer spending decelerating, the consensus expectation among economists is that the U.S. will experience a recession in the first half of 2008.
- The Institute for Supply and Management's (ISM) Index has flattened out in the first quarter, with a reading of 48.6 in March versus 48.4 in December; a reading below 50 is indicative of contraction in manufacturing activity.
- The Conference Board's Consumer Confidence Index continued its freefall, declining from 90.6 in December to 64.5 in March. Weakening employment prospects, stock market volatility, housing declines, and higher energy prices all contributed to the sharply lower reading. A deterioration in confidence of this magnitude does not bode well for future consumer spending and is yet another sign that the economy is entering a recession.

Employment:

- The employment environment deteriorated sharply in the first quarter, with payroll losses of roughly 75,000 each month and 232,000 in total. Not surprisingly, the construction sector was the largest detractor with a net loss of 51,000 jobs. The unemployment rate ticked up slightly from 5.0% in December to 5.1% in March.

Inflation:

- The price of crude oil, as represented by West Texas Intermediate (WTI), ranged from $87 to $110 per barrel in the first quarter, versus the previous quarter's range of $79 to $99 per barrel.
- The core CPI (which excludes more volatile food and energy prices) was flat in February, suggesting that the slowdown in the economy was putting a lid on price increases. Year-over-year, core inflation stood at 2.3% and the headline CPI at 4.1%.
- The Producer Price Index (PPI) rose 0.3% in February, pushing the year-over-year increase to 6.8%. The increase in producer prices for the past year has been primarily driven by the higher energy and food prices. By comparison, core PPI (which excludes energy and food) rose 2.5% over the trailing year.

Deficit:

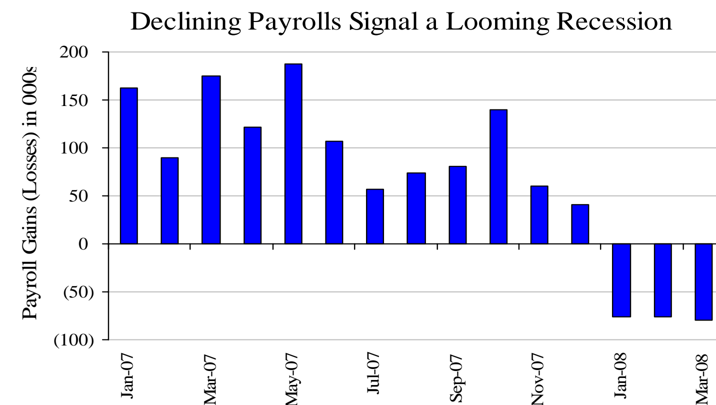
- Following the third quarter deficit of $177.4B, which represented 5.1% of GDP, the fourth quarter current account deficit narrowed to $172.9B, or 4.9% of GDP.

** U.S. GDP figures are lagged by one quarter.*

Economic Indicators

Descriptor	Frequency	Actual	Consensus
Federal Funds Rate	Monthly	2.25%	2.00%
GDP (Lagged)	Quarterly	0.6%	0.7%
Consumer Sentiment	Monthly	64.5	73.0
Jobless Claims	Weekly	357,000	386,000
Unemployment Rate	Monthly	5.1%	NA
CPI (Lagged)	Monthly	0.0%	0.3%
PPI (Lagged)	Monthly	0.3%	0.4%
Current Account Deficit (Lagged)	Quarterly	$173B	$184B
ISM	Monthly	48.6	48.0
Existing Home Sales (Lagged)	Monthly	5.03M	4.89M
New Home Sales (Lagged)	Monthly	0.590M	0.575M

Source: Economy.com



Source: Economy.com, Bureau of Labor Statistics

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Market Overview:

- The U.S. equity market declined for the second consecutive quarter with all major indices posting negative returns. January proved to be the worst of the three months as the S&P 500 Index experienced its worst monthly return since September 2002. Stocks rebounded during the second half of March after the FOMC cut the fed funds rate by 75 basis points.
- As measured by the Russell indices, value outperformed growth across the market capitalization spectrum. After a dismal 2007, the Russell 2000 Value Index (-6.5%) was the strongest performing market segment during the first quarter of 2008.
- The U.S. equity market offered very few places to hide as all but one of the major economic sectors posted negative returns and over 70% of the S&P 500 Index constituents were in the red for the quarter.
- The first quarter's performance has pushed the trailing one year returns for the broad market S&P 500 Index and Russell 3000 Index into negative territory. The Russell 1000 Growth Index was the strongest performing market segment over the last 12 months.

Market Drivers:

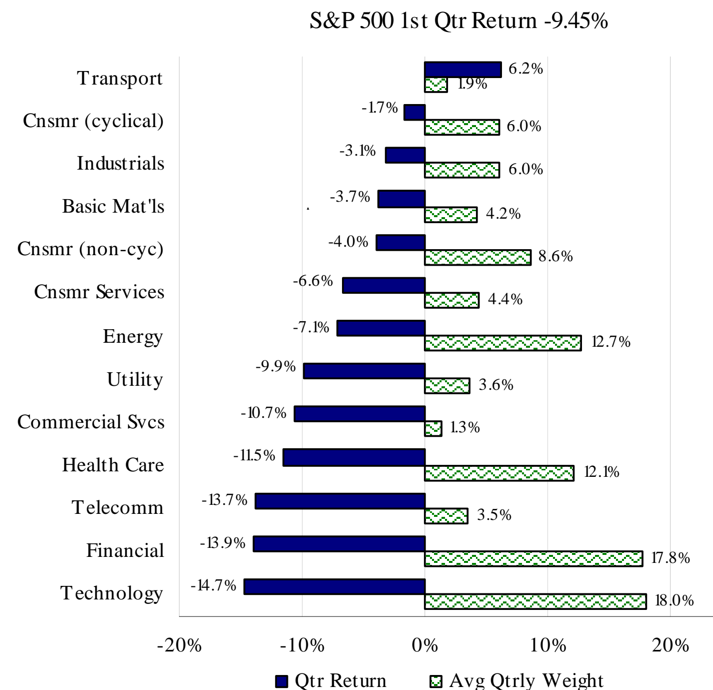
- The FOMC cut the fed funds rate three times, lowering it from 4.25% in December to 2.25% in March. Committee members cited a slowdown in consumer spending, softer labor markets, tighter credit conditions, and a deepening of the housing contraction as threats to economic growth.
- The Fed's response to continued stress in the financial markets and shrinking liquidity was not limited to rate cuts. The FOMC created a new lending facility for banks seeking liquidity. In another bold move, the Fed agreed to provide special financing in connection with JPMorgan Chase's acquisition of Bear Stearns.
- Financial institutions continued their capital raising in an effort to shore up weakened capital bases. Bank of America raised $13 billion, Lehman Brothers $4 billion, and Wachovia $3.5 billion during the quarter.
- Volatility remained high in the U.S. equity market as the S&P 500 Index experienced daily moves greater than 2% on 19 of the quarter's trading days.

Performance Highlights:

- Soaring crude oil prices did not help returns for the energy sector. The sector's quarterly returns were negative for the first time since the third quarter of 2006.
- The transport sector was the only sector to deliver positive performance during the quarter. Other bright spots for the market included two DJIA components, Wal-Mart and IBM, which posted returns of 11.3% and 6.8%, respectively.
- Technology, one of the stronger performing sectors in 2007, was the worst performing sector in the first quarter of 2008. Google and Apple, two of technology's high flyers in 2007, fell 36.3% and 27.5% during the quarter, respectively. The market also punished Microsoft (-19.9%) after its unsolicited bid for Yahoo!
- The financial sector's woes continued during the first quarter of 2008. Bears Stearns, which was pushed to the brink of bankruptcy, lost nearly 90% of its market value. Citigroup (-26.4%), AIG (-25.4%), Goldman Sachs (-22.9%), and Wachovia (-27.5%) were also among the most significant detractors.

U.S. Equity Index Returns
3/31/2008

	Jan	Feb	Mar	1Q08	1-YR
Dow Jones Industrials	-4.5	-2.8	0.1	**-7.0**	1.6
S&P 500 Index	-6.0	-3.3	-0.4	**-9.5**	-5.1
S&P 500 (Eq Wtd, Rbl Daily)	-4.4	-3.4	-1.2	**-8.8**	-9.8
NASDAQ Composite (Ex Income)	-9.9	-5.0	0.3	**-14.1**	-5.9
Russell 3000 Index	-6.1	-3.1	-0.6	**-9.5**	-6.1
Russell 1000 Index	-6.0	-3.1	-0.7	**-9.5**	-5.4
Russell Midcap Index	-6.5	-2.3	-1.5	**-10.0**	-8.9
Russell 2000 Index	-6.8	-3.7	0.4	**-9.9**	-13.0
Russell 1000 Growth Index	-7.8	-2.0	-0.6	**-10.2**	-0.8
Russell 1000 Value Index	-4.0	-4.2	-0.8	**-8.7**	-10.0
Russell Midcap Growth Index	-8.0	-1.5	-1.8	**-11.0**	-4.6
Russell Midcap Value Index	-4.6	-3.3	-1.0	**-8.6**	-14.1
Russell 2000 Growth Index	-9.2	-3.5	-0.6	**-12.8**	-8.9
Russell 2000 Value Index	-4.1	-4.0	1.5	**-6.5**	-16.9



Source: Barra APA

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Market Overview*:

- Developed non-U.S. equity markets fell sharply during the first quarter, as measured by the 8.8% decline in the MSCI EAFE Index (-14.8% in local currency terms). It was the worst quarterly decline for the Index since the first quarter of 2003. The market began 2008 with widespread losses, experienced a mild recovery in February, and dipped again in March. Ongoing concerns of a severe crisis in the financial sector, a weakened economic outlook, and lower profit growth expectations drove developed regions lower.
- The U.S. dollar continued to fall against most major currencies, which enhanced returns for U.S. investors. The U.S. dollar hit record lows relative to the euro and the yen. The British pound was an exception, as it declined slightly against the U.S. dollar. The Canadian dollar also fell relative to the U.S. dollar.
- Economic sectors declined across the board. According to the S&P/Citigroup GICS indices, telecommunication services (-15.6%), information technology (-10.9%), financials (-10.5%), and energy (-10.4%) were the worst performers. Uncertainty surrounding major telecom providers in Europe dragged this sector lower. Meanwhile, further write-downs at several prominent banks pushed the financial sector lower.
- As measured by the relevant S&P/Citigroup indices, small caps outperformed large caps by 243 basis points, while value outpaced growth by 98 basis points.

Market Drivers:

- Continental Europe struggled during the quarter, with write-offs at a number of high profile financial institutions shaking confidence in the region. However, high commodity prices aided the performance of the region's materials and energy shares. With regard to monetary policy, the European Central Bank left the interest rates unchanged at 4.0%, while the Bank of England cut the repurchase rate to 5.25%.
- Japan experienced a significant decline during the quarter, as slowing worldwide consumer demand and a gloomy economic outlook continued to negatively affect this market. Furthermore, an unwinding of the yen carry trade pushed the yen higher, relative to many currencies. The Bank of Japan left the interest rates unchanged during the quarter, but injected USD $4 billion into its banking system.
- In the Asia-Pacific region, financial companies in the region were also hurt by the exposure to structured finance investments. The Bank of Australia continued its anti-inflation policy, with two rate hikes, to leave its cash rate at 7.25%.

Performance Highlights*:

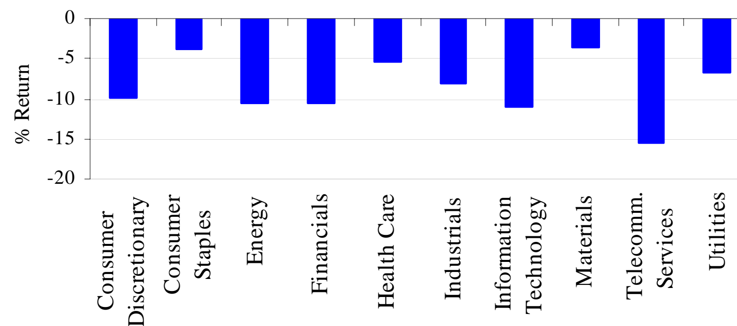
- Portugal (-13.2%), Greece (-15.8%), Italy (-11.7%), and Germany (-11.8%) had the biggest losses among the MSCI EAFE Index constituents.
- Hong Kong (-18.9%), New Zealand (-14.7%), and Australia (-11.7%) declined significantly in the Asia-Pacific region. Singapore (-7.4%) managed to slightly outperformed the broad market.
- All major telecommunication services companies declined during the quarter; Telecom Italia (-37.7%), Vodafone (-19.7%), and Deutsche Telekom (-29.8%) all fell sharply.
- Within the information technology sector, most companies experienced a sharp sell-off, particularly Japanese names such as Nintendo (-21.6%), Hitachi (-28.7%), and Fujifilm Holdings (-25.1%).
- The financial services sector was hit the hardest. UBS (-44.9%) was one of the worst performing companies; Unicredito Italiano (-25.4%) and Credit Suisse (-25.8%) also had significant declines.

** Returns in USD unless otherwise stated.*

International Equity Index Returns
3/31/2008

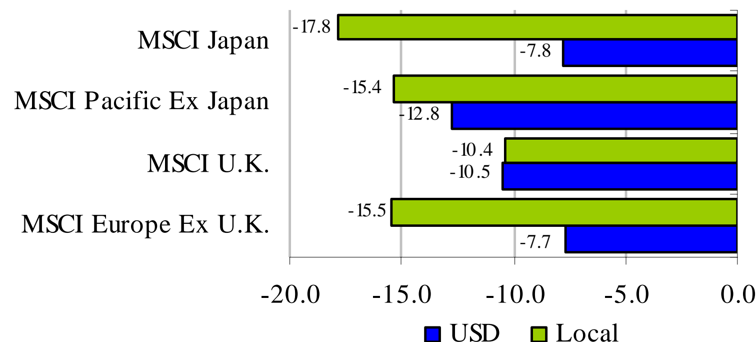
	Jan	Feb	Mar	Qtr	1 Year
MSCI EAFE	(9.23)	1.46	(1.00)	(8.82)	(2.27)
MSCI EAFE Small Cap	(9.76)	4.26	(0.27)	(6.16)	(10.89)
MSCI EAFE Growth Index	(9.19)	2.75	(1.48)	(8.07)	2.27
MSCI EAFE Value Index	(9.26)	0.16	(0.51)	(9.58)	(6.77)
S&P/Citigroup EPAC BMI	(9.49)	1.89	(0.99)	(8.69)	(2.60)
S&P/Citigroup EPAC PMI	(9.34)	1.37	(1.19)	(9.19)	(1.22)
S&P/Citigroup EPAC EMI	(10.04)	3.89	(0.23)	(6.76)	(7.23)
S&P/Citigroup EPAC BMI Growth	(9.57)	2.16	(1.68)	(9.17)	(2.33)
S&P/Citigroup EPAC BMI Value	(9.40)	1.62	(0.28)	(8.19)	(2.86)

1Q 2008 S&P/Citigroup EPAC BMI Sector Returns



Source: *S&P/Citigroup*

1Q 2008 Regional Performance (%)



Source: MSCI.

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Emerging Markets Equity*:

- Emerging market equities experienced a volatile first quarter. The MSCI Emerging Markets Index fell in January, rebounded somewhat in February, but fell once again in March to end the quarter with an aggregate loss of 10.9%. Concerns about the spill-over effect of the developed markets' credit crisis on emerging markets caused the emerging market equities to go on a downward roller-coaster ride. Notwithstanding, the appreciation of many free-floating emerging market currencies versus the U.S. dollar proved beneficial for the second consecutive quarter. All major economic sectors declined: the hardest-hit were energy (-14.5%), financials (-13.5%), consumer discretionary (-13.4%), and utilities (-13.3%). Materials (-0.2%) and consumer staples (-2.9%) lost ground, but on a relative basis, performed much better than the other sectors.
- Latin America (-1.4%) fell less than the other regions, partly as a result of its exposure to the materials sector. Steel companies such as Usiminas (24.1%) and Sider Nacional (21.2%) were positively impacted when a major competitor, ArcelorMittal, announced a price increase. Among countries, Chile (9.8%), Peru (7.7%) and Mexico (4.4%) experienced quarterly gains. Conversely, Brazil (-5.0%) and Colombia (-4.4%) declined due to their energy and financial companies. Petrobras, for example, fell 12.8% during the quarter.
- Asia declined 14.1% during the quarter. China and India were the major laggards within the region. Regulatory constraints imposed by the Chinese government, including price controls and export constraints, proved detrimental to a broad range of stocks. Losses were widespread across sectors in India, but were particularly steep in the banking, real estate, and infrastructure-related industries. Taiwan and Thailand were the only countries to experience gains, returning 5.3% and 3.4%, respectively.
- Europe, Middle East, and Africa (EMEA) declined 11.8%. Turkey was the worst-performing country within the region as political uncertainty caused a decline of 38.3%. Russia lost ground due to its heavy energy exposure. Morocco and Egypt were the only countries within the region to produce positive returns: Morocco led the region with a double digit gain of 33.8% and Egypt advanced 7.9%.

Emerging Markets Debt*:

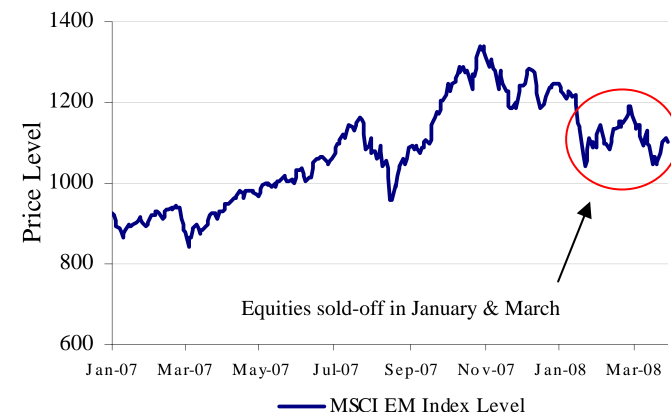
- Emerging market debt (EMD), as measured by the JPMorgan EMBI Global Index, gained 0.6%. EMD spreads widened and underperformed treasuries, but outperformed U.S. investment grade credit, high yield, and CMBS.
- Local currency debt weathered the global credit crisis much better than dollar-denominated external debt. The JPMorgan GBI-EM Global (Unhedged) Index - the local currency EMD benchmark - increased 3.3% in the first quarter as emerging market currencies generally appreciated against the U.S. dollar.
- Emerging economies began to show early signs of weakness due to investor expectations of a global economic slowdown. Food and energy price increases were at the forefront of people's minds.
- Within the JPMorgan EMBI Global universe, Côte d'Ivoire was the strongest performing country, followed by Pakistan. Argentina was the weakest performer.
- Brazil, the largest component of the EMD Index, saw a modest rise of 0.5%. Mexico (3.4%) and Russia (2.1%) also performed well during the quarter. Turkey (-2.1%) and Argentina (-12.7%), other major components of the universe, registered negative returns during the quarter.
- Farmers in Argentina staged protests against new commodity tariffs. Hungary made the switch from a euro-based fixed currency regime to a floating regime. Turkish politics impacted asset prices negatively. Global EMD supply was limited given the reduced credit appetite.

** Returns in USD unless otherwise stated.*

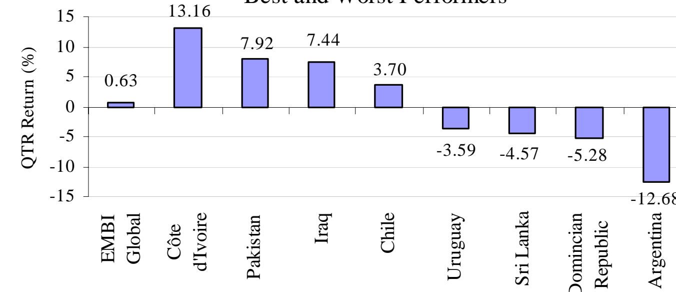
Emerging Markets Equity Returns as of 3/31/08

	Jan	Feb	Mar	Qtr	1 Year
MSCI Emerging Markets	-12.45	7.42	-5.28	-10.92	21.65
MSCI EM Asia	-14.28	7.42	-6.72	-14.11	21.30
MSCI EM Latin America	-6.21	8.82	-3.39	-1.39	40.07
MSCI EMEA	-13.55	6.16	-3.85	-11.75	9.56

Source: MSCI



Source: MSCI



Source: JPMorgan EMBI

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1st Quarter 2008 Returns

3/31/2008 Weighting MSCI EM Index*	Country	Local Return	Currency Effect	Total Return($)
13.9	China	-23.8 %	0.2	-23.7 %
7.0	India	-25.7	-1.8	-27.0
1.7	Indonesia	-8.3	2.0	-6.5
13.8	Korea	-7.7	-5.5	-12.7
2.5	Malaysia	-12.3	3.4	-9.3
0.2	Pakistan	13.3	-1.7	11.4
0.5	Philippines	-16.0	-1.2	-17.0
11.7	Taiwan	-1.4	6.8	5.3
1.6	Thailand	-3.4	7.0	3.4
52.9	EM Asia	-14.2	0.1	-14.1
0.6	Argentina	7.5	-0.5	6.9
14.4	Brazil	-6.7	1.8	-5.0
1.4	Chile	-3.7	14.0	9.8
0.4	Colombia	-13.2	10.1	-4.4
5.2	Mexico	2.7	2.3	5.1
0.7	Peru	1.9	3.3	5.3
22.7	EM Latin America	-4.0	2.7	-1.4
0.9	Czech Republic	-12.9	14.3	-0.4
0.7	Hungary	-18.1	5.4	-13.7
2.3	Israel	-12.0	8.3	-4.7
0.1	Jordan	-1.9	0.0	-1.9
1.8	Poland	-13.3	10.8	-3.9
10.0	Russia	-12.3	0.9	-11.5
1.2	Turkey	-29.7	-12.3	-38.3
0.8	Egypt	6.7	1.2	7.9
0.4	Morocco	25.0	7.1	33.8
6.3	South Africa	1.1	-15.9	-15.0
24.4	EM Europe, Middle East, and Africa	-9.2	-2.8	-11.8
100.0	EM (Emerging Markets)	-10.9	0.0	-10.9

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** May be off due to rounding.*

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1st Quarter 2008 Returns

3/31/2008 Weighting MSCI EAFE Index*	Country	Local Return	Currency Effect	Total Return($)
0.6	Austria	-16.9 %	8.4	-9.9 %
1.3	Belgium	-10.6	8.4	-3.1
1.0	Denmark	-7.4	8.4	0.4
1.8	Finland	-17.1	8.4	-10.2
10.9	France	-15.4	8.4	-8.3
9.2	Germany	-18.5	8.4	-11.7
0.7	Greece	-22.3	8.4	-15.8
0.7	Ireland	-8.6	8.4	-1.0
3.9	Italy	-18.5	8.4	-11.7
2.9	Netherlands	-13.8	8.4	-6.5
1.1	Norway	-16.2	6.8	-10.4
0.3	Portugal	-19.9	8.4	-13.2
4.4	Spain	-12.8	8.4	-5.5
2.5	Sweden	-11.4	9.0	-3.4
7.2	Switzerland	-14.2	14.5	-1.8
21.6	United Kingdom	-10.4	-0.2	-10.5
70.1	Europe	-13.9	6.2	-8.6
6.4	Australia	-14.8	4.0	-11.4
2.2	Hong Kong	-19.0	0.2	-18.9
20.1	Japan	-17.8	12.2	-7.8
0.1	New Zealand	-16.2	2.2	-14.4
1.2	Singapore	-11.4	4.4	-7.4
29.9	Pacific Basin	-17.0	9.1	-9.5
100	EAFE	-14.9	7.1	-8.8
-	Canada	-2.3	-3.8	-6.0
-	USA	-9.3	0.0	-9.3
-	World	-11.8	3.2	-9.0

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** May be off due to rounding.*

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Market Overview:

- The Canadian equity market retreated again during the first quarter of 2008, as the S&P/TSX Composite fell 3.5% and the MSCI Canada Index declined 2.3%.
- The Canadian dollar, which has been trending upward against the dollar, depreciated during the quarter.
- Small caps lagged large caps this quarter.
- Materials was the leading sector (see chart at right for relevant indices).
- The Bank of Canada cut its target overnight rate to 3.5%.

Market Drivers:

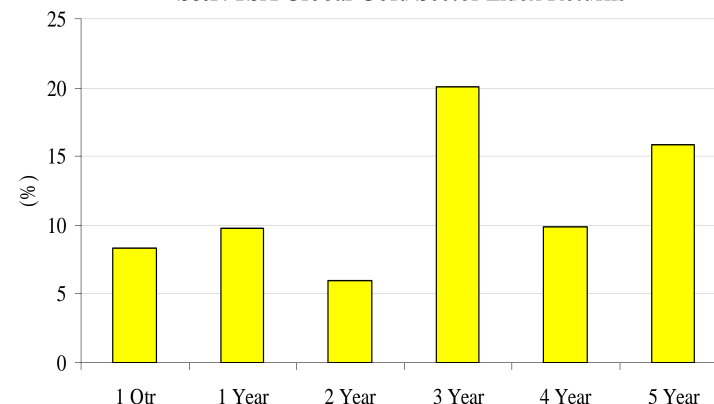
- Canada's financial stocks, like many others globally, continued to be weak on concerns about credit quality and asset write-offs.
- Data showed slowing GDP and productivity growth rates.
- Strong global demand for materials and precious metals helped to mitigate large declines in other sectors.

Performance Highlights:

- Potash Corporation of Saskatchewan (11.2%), a major producer of fertilizer, was a strong gainer and became one of the largest stocks by market capitalization in Canada.
- Research in Motion (2.6%) provided a modest positive return despite a sell-off in the technology sector.
- Encana (16.4%), Canada's largest energy firm by market capitalization, pulled the energy sector to a small positive gain; however, PetroCanada (-15.8%) was down strongly.
- Major financials, such as Royal Bank of Canada (-4.6%) and Bank Nova Scotia (-6.5%), continued to fall due to the global credit crunch.
- Barrick Gold (7.4%) and Goldcorp (18.2%), Canada's leading gold miners, showed strength in a defensive global macroeconomic environment.
- Brookfield Asset Management (-19.8%) fell strongly on finance-related concerns.
- In fixed income, sector performances as measured by the relevant DEX indices, were all positive, with the exception of industrials. Purely from a relative return perspective, Canada bonds performed the best (4.1%), followed by federal bonds (3.8%), and Canadian agency bonds (3.4%).

Note: All returns in Canadian dollars unless otherwise stated.

	1st Qtr 2008	1 Year
Information Technology	-13.6%	-2.6%
Materials	7.2%	34.4%
Energy	2.0%	9.6%
Financials	-9.1%	-14.5%
Consumer Discretionary	-15.0%	-17.0%
Industrials	-3.0%	0.4%
Consumer Staples	-7.0%	-13.1%
Utilities	-6.5%	7.0%
Telecommunications Services	-11.2%	-6.5%
Health Care	-1.0%	-23.1%
S&P / TSX Composite	-3.5%	1.4%
S&P / TSX Small Cap	-5.0%	-11.6%
MSCI Canada in USD	-6.0%	16.0%
DEX Universe Index	3.0%	5.8%



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Market Overview:

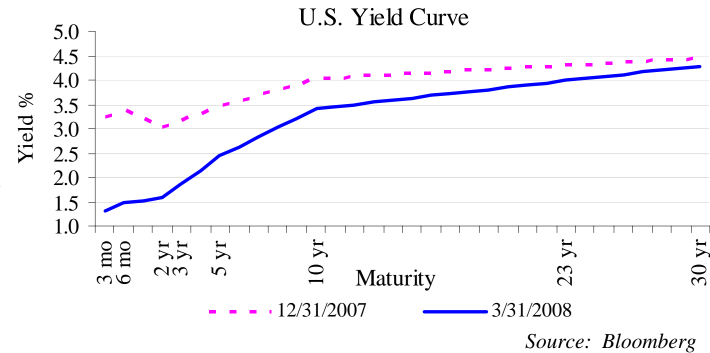
- The U.S. fixed income markets posted positive returns during the first quarter. The Lehman Brothers ("LB") Aggregate Index returned 2.2%. Investment grade spread sectors' performances were largely positive - with the exception of ABS and CMBS - on an absolute basis, but entirely negative relative to duration-neutral treasuries.
- The "plus" sectors, namely high yield and emerging market debt, generated mixed results relative to their investment grade counterparts. They, like the investment grade sectors, significantly underperformed duration-neutral treasuries, by 781 and 469 bps, respectively.

Market Drivers:

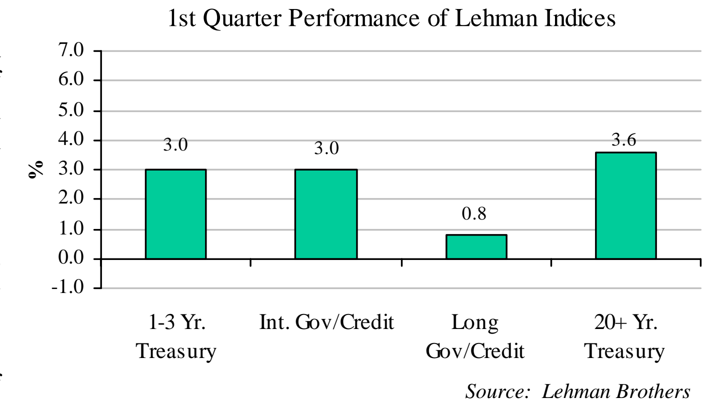
- The fixed income markets remained volatile during the first quarter, as investors rejected everything outside of treasuries, bolstering illiquidity. Inability to finance positions caused levered investors to sell-off high quality non-treasury assets. As a result, spreads widened out materially.
- Over the quarter, the economy continued to show signs of weakness, as housing prices continued to drop, unemployment rose, and consumer sentiment declined. The Federal Reserve Board stepped in, using traditional and less traditional methods, in an attempt to promote growth, inject liquidity, and restore financial market stability. On three occasions, the Fed cut the federal funds rate for a total of 200 bps. The fed funds rate ended the quarter at 2.25%. In addition, the Fed expanded the Term Action Facility allowing non-depository institutions to access the discount window and provided financial support for JPMorgan Chase's acquisition of Bear Stearns. And as a result, spreads narrowed towards the end of March.
- Treasury yields fell across the yield curve as investors continued to favor treasuries above all else. Short- and intermediate-term rates fell more notably than longer-term rates. The curve steepened due to the Fed's dramatic rate cuts and heightened inflationary concerns. The 2- to 10-year spread widened by 85 bps and ended the quarter at 183 bps; the 2- to 30-year spread closed the quarter at 271 bps.

Performance Highlights:

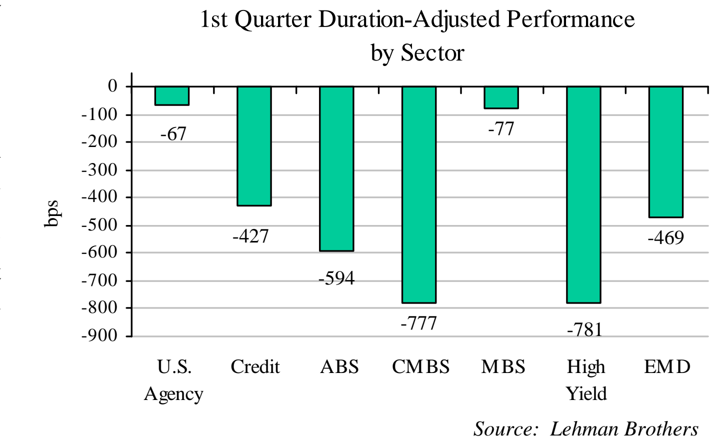
- Weak economic data, investor risk aversion, and illiquidity caused a massive underperformance of spread sectors relative to duration-neutral treasuries. Absolute performance was mixed.
- The mortgage and agency sectors held up best due to their high quality. Mortgages, the largest component of the LB Aggregate Index at 38.9% weight, returned 2.4% on an absolute basis and -77 bps relative to duration-neutral treasuries. Agencies earned 3.2% in absolute terms and -67 bps relative to duration-neutral treasuries.
- Within the LB Aggregate sectors, CMBS and ABS posted the worst absolute and relative performance, declining 2.6% and 1.9%, respectively, in absolute terms. CMBS was negatively impacted due to forced selling by levered investors; while ABS continued to be burdened by concerns over the financial strength of the monoline insurers and consumer credit.
- Investment grade credit and high yield, posted poor results due to weak economic data and recessionary fears. The LB High Yield Index dropped 3.0% and investment grade credit earned 0.4%. Higher credit quality and less cyclical industries fared the best. Financials, automobiles, and homebuilders continued to perform poorly. The Moody's trailing 12-month corporate default rate rose over the quarter to 1.5% (through February).
- Municipals underperformed treasuries in the first quarter due to the continued flight-to-quality, fears over potential monoline downgrades, and the dislocation in auction-rate municipals.



Source: Bloomberg



Source: Lehman Brothers



Source: Lehman Brothers

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Market Overview:

- Non-U.S. fixed income markets rose 2.0% in local currency terms and 10.9% in unhedged U.S. dollar terms during the first quarter of 2008. Global bond markets experienced turmoil amidst fears of a slowdown in the global economy. Yields generally declined across the board due to the broad-based flight-to-quality and interest rate cuts in the U.S.
- Yield curves continued to steepen as investors sought safety in short-term bonds as inflation fears mounted. In the eurozone and the U.K., this was less pronounced as investors considered the ECB and BOE less likely to provide the aggressive stimulus than the Fed, given their sole mandate of controlling inflation.
- In local currency terms, global bonds gained 2.4% for the quarter and 9.7% in unhedged U.S. dollar terms. The U.S. dollar depreciated against most major currencies. U.S. bonds (4.4%) significantly underperformed versus non-U.S. bonds (10.9%) on an unhedged basis and outperformed on a hedged basis (2.1%).

Market Drivers:

- Across the eurozone, the credit crunch and housing slump remained the germane topics. The ECB maintained its focus on controlling inflation, but the tone shifted to a more cautionary stance regarding the credit crisis and a global economic slowdown. Additionally, inflationary pressures continued to accelerate as the eurozone's CPI hit 3.5% in March. The financial sector continued to struggle: UBS wrote down $18 billion in credit related losses; a trading scandal cost French bank, Société Générale, $7 billion; and regulators proposed a series of bailout plans for IKB Bank. Both the retail sector and investment expenditures sputtered. The euro reached a new high against the U.S. dollar during the quarter.
- The Bank of England cut its short-term interest rate 25 basis points to 5.25%, which was widely viewed as a modest move. The U.K. continued to feel the strain of the subprime credit contagion and weakening housing market as interbank rates spiked. The retail sector remained relatively resilient in the first quarter, but house prices softened and consumer confidence dropped markedly.
- The Bank of Japan ("BOJ") left the overnight lending rate unchanged during the first quarter. The BOJ continued to search for a permanent replacement for Governor Toshihiko Fukui. Bond yields fell significantly in the first quarter. The yen appreciated materially against the U.S. dollar and the euro as risk aversion and the unwinding of the yen carry trade continued.
- Contrary to U.S. monetary policy, both Sweden and Australia hiked rates in the quarter by 25 and 50 bps, respectively, to combat inflation.

Performance Highlights:

- For the quarter, non-U.S. bonds, as measured by the Citigroup Non-U.S. World Government Bond Index (WGBI), underperformed U.S. bonds on a local currency basis by 246 bps but outperformed on an unhedged basis by 650 bps. In local currency terms, eurozone bonds rose 2.3%, outperforming Japanese bonds which rose 1.4% but underperforming U.S. bonds which returned 4.4%. In local currency terms, the U.S. was the best performer and Poland the worst.
- The LB Global Aggregate Index, which includes spread sectors, underperformed the sovereign-only WGBI Index on an unhedged basis and outperformed on an hedged basis.
- The LB Global Inflation-Linked Index rose 7.1% on an unhedged basis and 3.7% on a hedged basis.

Global Yields (%) as of 3/31/08

Government Bonds	*2 Year*	*5 Year*	*7 Year*	*10 Year*
U.S.	1.59	2.44	2.83	3.41
Canada	2.62	2.91	3.11	3.44
Germany	3.43	3.60	3.76	3.90
U.K.	3.83	3.89	4.01	4.35
Japan	0.58	0.75	0.85	1.28

Source: Bloomberg

Citigroup WGBI Index*	Country	Local Currency Return (Qtr)	Currency Effect*	Total Return (Qtr)
18.7	United States	4.4 %	-	4.4 %
1.8	Canada	4.0	-3.8 %	0.1
0.3	Australia	3.3	4.0	7.4
29.1	Japan	1.4	12.2	13.8
0.3	Singapore	2.7	4.4	7.3
1.7	Austria	2.7	8.4	11.3
2.4	Belgium	2.2	8.4	10.8
0.5	Finland	2.6	8.4	11.2
8.4	France	2.4	8.4	10.9
9.9	Germany	2.6	8.4	11.2
0.4	Ireland	2.2	8.4	10.8
9.4	Italy	2.1	8.4	10.6
2.3	Netherlands	2.4	8.4	11.0
1.0	Portugal	2.1	8.4	10.7
3.1	Spain	2.0	8.4	10.5
2.1	Greece	1.5	8.4	10.0
0.9	Poland	1.2	10.8	12.2
0.7	Denmark	2.6	8.4	11.1
0.3	Norway	2.0	6.9	9.0
0.6	Sweden	2.6	9.0	11.9
0.6	Switzerland	1.5	14.5	16.2
5.5	United Kingdom	1.9	-0.2	1.7
81.3	Non-U.S. Govt. Bond	2.0	8.8	10.9
100.0	World Govt. Bond	2.4	7.0	9.7

** May be off due to rounding* — *Source: Citigroup*

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Market Overview:

- Hedge funds, as measured by the HFRI Hedge Fund Composite Index, declined 2.8% during the first quarter of 2008. In comparison, the S&P 500 Index declined 9.4% for the quarter. Additionally, T-Bills gained 0.9%, the LB Aggregate Index increased 2.2%, the MSCI EAFE declined 8.8%, and the Russell 2000 declined 9.9%.
- The HFRI Hedge Fund of Funds Composite Index ended the quarter down 3.9%. Non-directional funds of funds outperformed the broader fund of funds index by 100 bps as equity market-neutral and relative value managers outperformed more directional strategies such as equity hedge and emerging markets. Event-driven strategies ended the quarter in negative territory as weak equity markets and failed M&A deals drove risk arbitrage spreads higher. January was a particularly difficult month as most of the major equity market indices fell significantly (e.g., the S&P 500 declined by 6.0% while the MSCI EAFE Index declined 9.2%). The HFRI Hedge Fund Composite was down 2.6% in January.
- Directional funds of funds finished the quarter down 5.3% as a result of difficult equity markets. January was a particularly difficult month for the directional fund of funds index (down 4.4%) as equity markets swooned on a global basis. For the quarter, short-biased, macro, and asset-backed managers were the top performers.

Market Drivers:

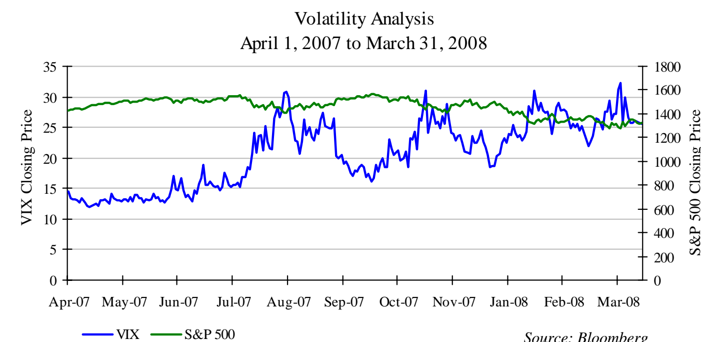
- Concerns over the scale of the economic downturn were reflected in the performance of the equity markets. Additionally, the Merrill Lynch High Yield Bond Index ended the quarter down 3.0% while leveraged loans nearly quadrupled the prior record for the worst quarter ever (-6.5%). In March, the spread between yields on high yield bonds and treasuries exceeded 800 bps for the first time since March 2003, even though the trailing 12-month default rate for high yield bonds has only increased to 1.3% from a record low of 0.9% in November. The default rate is certain to increase going forward as the pool of distressed bonds has increased by more than 40-fold in less than a year. FridsonVision, a high yield research firm, is forecasting an issuer default rate on U.S. high yield corporate bonds of 8.6% in 2009. Major banks have already recorded write-offs related to the subprime mortgages to the tune of close to $230 billion, with more to come. The only safe places to hide during the first quarter were in commodities and treasuries. The CRB Total Return Index rose 8.5% in the quarter as many commodities spiked, including wheat, soybeans, and gold. Oil finished the quarter near $102 a barrel.

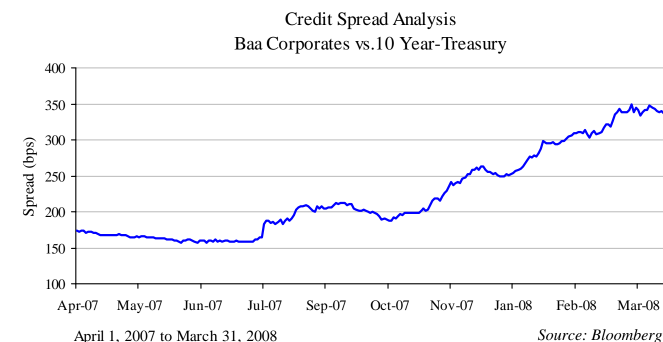
Performance Highlights:

- Top Performing Strategies
  - Short bias managers ended the quarter up 7.5%. The steep decline in global equity markets during January and the heightened volatility during the quarter benefited this strategy. January was a particularly strong month for short sellers as the HFRI EH: Short Bias Index was up 4.5%.
  - Macro managers produced strong results, ending the quarter up 5.1% with the systematic diversified portion of the HFRI Macro: Systematic Diversified Index up 9.5%. Macro managers also took advantage of increased market volatility and robust commodity markets.
- Bottom Performing Strategies
  - The HFRI Emerging Markets (Total) Index was down 8.1% in the first quarter as equity markets swooned, particularly in the month of January when the MSCI Emerging Market Index faltered by 12.4%.
  - Convertible arb managers also struggled during the first quarter, ending down 6.1%. March was a particularly difficult month as the index was down almost 4%.

HFRI Index Returns 3/31/08

Index	1Q08	YTD
Convertible Arbitrage	-6.1%	-6.1%
Distressed	-3.3	-3.3
Emerging Markets	-8.1	-8.1
Event Driven	-2.7	-2.7
Fixed Income Arbitrage	-4.2	-4.2
Long/Short Equity	-5.8	-5.8
Macro	5.1	5.1
Market Neutral	-0.7	-0.7
Merger/Risk Arbitrage	-1.6	-1.6
Relative Value	-2.6	-2.6
Short Bias	7.5	7.5
Hedge Fund Composite	-2.8	-2.8
Hedge Fund of Funds Composite	-3.9	-3.9





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Private Equity Statistics*

- According to *The Private Equity Analyst,* private equity firms raised $302B in 415 funds during 2007, which was a 19% increase over the $255B raised in 2006.
- Buyouts continued to dominate the fund-raising arena, accounting for almost 44% of the funds and 75% of the total capital. This sector was helped by the distressed opportunities investing area, which contributed $48B, or 16%, of the total capital raised in 2007.
- *Venture Economics* reported that private equity generated positive returns for all reporting periods as of September 30, 2007.** The one-year return for all private equity was 28.2%, with buyouts at 25.9% and venture capital at 31.2%.

Private Equity News Topics

- With the slowdown of the credit markets and lack of accessible borrowing, private equity firms are looking for differentiated strategies and sources of deal flow that are less dependent upon traditional financing. For example, niche strategies and international markets are areas of increased interest to private equity firms. They are also considering creative ways to structure and exit deals. For example, private equity firms are looking at selling minority equity stakes while keeping at least 51% of voting stake in order to maintain control of the portfolio companies. This allows existing, borrower-friendly debt to continue by avoiding change-in-control provisions that usually trigger new financing.

Venture Capital*

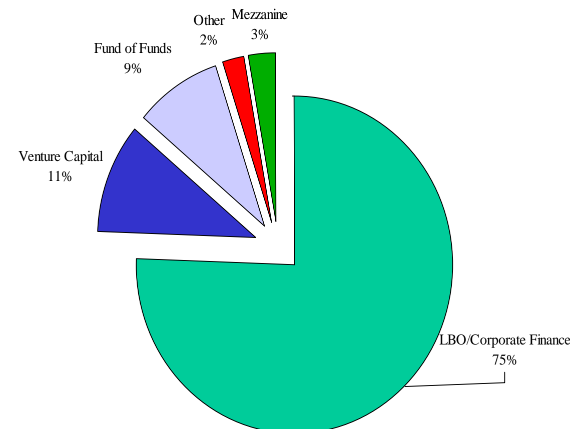
- Venture capital firms raised $32B in 148 funds during 2007, which is a 19% increase in dollar terms from the $27B raised over 146 funds during 2006.
- Of the total venture capital dollars raised during the year, 33% went to multi-stage, 30% to early-stage, 22% to expansion-stage, and 15% to late-stage funds.
- Venture capitalists invested $29B in 3,813 deals during 2007, making it a record year for venture investment since 2001. The life sciences sector set an all-time high, with $9B invested in 862 deals.
- During 2007, 86 venture-backed companies went public with an IPO value of $10B. This represented a 51% increase in the number of IPOs and a 102% increase in IPO value when compared to 2006. There were 31 venture-backed IPOs during the fourth quarter of 2007 representing $3B, the highest quarterly volume since the third quarter of 2000.

Buyout Funds*

- Despite turmoils in the credit markets during the second half of 2007, LBO/corporate finance firms raised a significant amount of capital: $228B for 182 funds, as compared to $177B for 176 funds in 2006. This represented an increase of 29% in the dollars raised.
- The average LBO/corporate finance fund size increased from $1.0B in 2006 to $1.3B in 2007 due to the significant role mega funds played in fund-raising.
- During 2007, buyout funds completed 1,016 transactions with disclosed values totaling $454B, representing a 42% increase over the $320B of disclosed deal value in 2006. Seven out of the ten largest buyout deals occurred in 2007, including the largest buyout, TXU Corp., which had a value of $44B.
- *Robert W. Baird & Co.* reported that average total equity contribution for leveraged transactions was 30.9% in 2007, which is significantly lower than the 10-year average of 35.6%. Average equity contributions have not been this low since 1997, when they were at 30.0%.

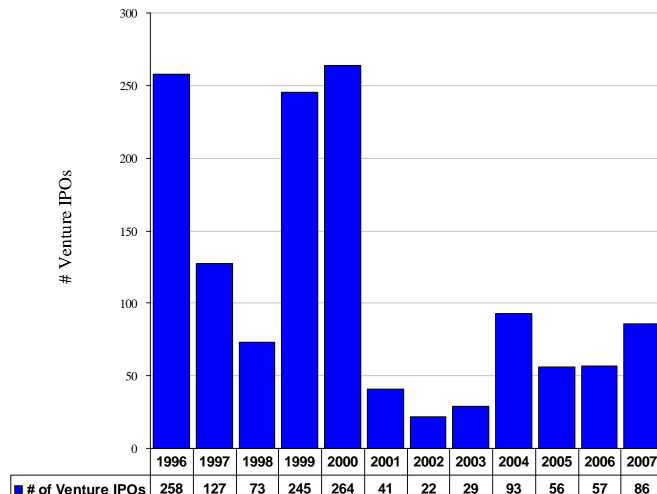
** Reported as of 12/31/07 due to the lagged nature of private market data.*
*** Reported as of 9/30/07 due to the lagged nature of private equity performance data.*

Total Dollars Committed to Private Equity Funds During 2007



Source: The Private Equity Analyst

Venture-Backed IPO Market
Comparision of the Nine Months ended December 31, 1996-2007



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
# of Venture IPOs	258	127	73	245	264	41	22	29	93	56	57	86

Source: Thomson Venture Economics/NVCA

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Market Overview – Public Real Estate:

- The U.S. REIT market, as measured by the NAREIT Equity Index, started the year on a positive note, returning a modest gain of 1.4% for the first quarter. It was a volatile three-month period with REITs falling approximately 15% in the first two weeks of January, only to rebound in the latter half of the month to end January down just 1.0%. February saw a further decline of 3.6%, which continued into early March, however, following the fed funds rate cut of 75 basis points in mid March, REITs reversed course and ended March up 6.2%.
- The broader NAREIT Composite Index was down 0.6% for the first quarter due to a 24.1% loss in the mortgage REIT sector (which is excluded from the Equity REIT Index).

Performance Highlights:

- Sector results were mixed for the quarter with seven sectors posting positive results and the remaining six registering losses. Self storage was, by far, the best performing sector, gaining 20.2% for the quarter, followed by apartments, which returned 11.5%. Specialty REITs were the worst performers, down 7.7%, followed by lodging (-6.8%) and free standing retail (-6.4%).

International REITs:

- Asia, the best performing region in 2007, fell off the pedestal following a material decline of 16.3% for the quarter. The biggest detractors for the quarter were the Hong Kong REOCs, which fell 25.6%.
- Europe, the 2007 laggard, took a turn in the spotlight with a robust gain of 6.5%. Country specific performances were mixed: Switzerland (31.4%), Finland (16.5%), and France (14.9%) generated strong results while Norway (-29.3%), Spain (-20.9%), and Italy (-9.8%) produced disappointing results.
- The FTSE EPRA/NAREIT Global Real Estate Index composition at the end of the first quarter was as follows: North America 41%, Europe 21%, and Asia 38%.

Market Overview – Private Real Estate*:

- Despite the turmoil in the financial markets, private real estate, as measured by the NCREIF Property Index (NPI), returned 3.2% for the last quarter of 2007. For the year, private real estate returned a robust 15.9%.
- The NFI-ODCE Index, an index comprised of 14 open-end diversified core equity funds, returned 2.1% on a gross basis and 1.9% net for the last quarter of 2007. The differences between the NPI and NFI indices can be attributed to more frequent valuation adjustments in the NFI Index, which also includes separate accounts.

Market Drivers:

- Fundamentals were under threat as fears that a slowing economy would hurt tenant demand. Limited new supply, however, should lessen the overall impact of a drop in real estate demand. The credit crisis has led to higher borrowing costs and tighter lending standards, which has forced the leveraged buyers from the market. The general consensus is that private real estate values peaked in 2007. Little is happening in the way of transaction activity as buyers and sellers have adopted a 'wait and see' approach.

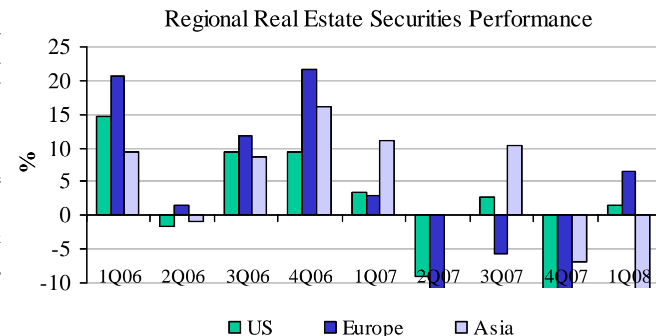
Performance Highlights:

- The West was the only region to outperform the index with a 3.8% gain. Properties in the Midwest gained 3.2%, while the East returned 3.1%, followed by the South's 2.4% gain. For the year, the West gained 18.3%, while the South underperformed other regions with a lesser gain of 12.8%.
- Hotels, retail, and office all outperformed the index for the quarter. Hotels performed the best with a gain of 4.0%, closely followed by retail properties at 3.9% and office at 3.8%. Industrial properties gained 2.6% and apartments brought up the bottom with a modest gain of 1.9%. For the year, office was the strongest performer with a healthy return of 20.5%, while apartments lagged all other sectors, gaining only 11.4%.

**Private real estate performance is as of 12/31/07, due to the lagged nature of private market data.*

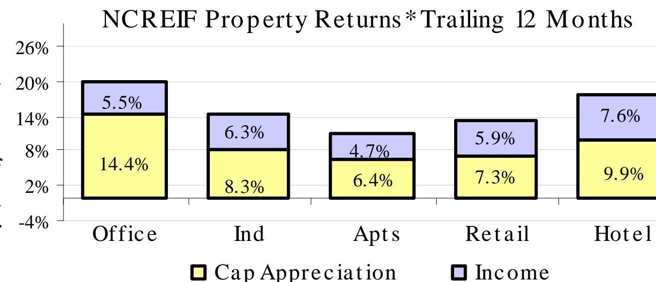
Public Real Estate Index Returns

Index	1Q08	LTM
NAREIT Comp Index	-0.6%	-20.0%
NAREIT Equity Index	1.4%	-17.4%
DJ Wilshire RESI	2.1%	-19.0%
Morgan Stanley REIT Index	2.1%	-17.9%



Private Real Estate Index Returns

Index	Trailing LTM	4Q07
NCREIF	15.9%	3.2%
Income	5.6%	1.3%
Appreciation	9.9%	1.9%
Market Value	$309,307.6.0M	N/A
Properties	5,711	N/A



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