

Worldwide equity markets faltered in August and September, closing their worst quarter since the collapse of Lehman Brothers in 2008. Investors' flight from equity was driven by uncertainty surrounding the debt crisis in Europe, potential inflation and slowing GDP growth in Asia, and double-dip recession fears domestically.

In August, Standard & Poor's removed the United States Government from its list of risk-free borrowers. "The downgrade reflects our view that the effectiveness, stability, and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenge," the company said in a statement. Investors were pragmatic about the downgrade, with some claiming expectations of its inevitability for quite some time.

The Federal Reserve announced "Operation Twist" on September 21st. The widely expected stimulus policy is designed to sell \$400 billion in short-term treasuries by the end of June 2012 and use the proceeds to buy longer-term Treasuries. The program is not necessarily designed to pump money back into the economy, but rather to lower yields on longer-term bonds. "This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative" the Fed said in its official statement. Markets initially reacted poorly to the announcement, focusing on the Fed's statement, "there are significant downside risks to the economic outlook."

Overall market health indicators have been mixed. Oil prices have fallen to \$83.1 per barrel, which is down 12.6% during the third quarter, and down 26.5% from its peak of \$113.0 per barrel on April 29th. Gold prices peaked in early September, hitting an all-time high of \$1,896.5 an ounce and are up 8.0% this quarter and 62.0% over the past year. Unemployment remains a disappointing 9.1%, a slight improvement from September 2010's level of 9.6%.

The State Street Global Investor Confidence Index, which measures investor confidence by analyzing buying and selling patterns of institutional investors, ended the quarter at 89.9 — a sharp decline from the June reading of 99.2. The Confidence Index dropped sharply in August to 88.1 before rising slightly in September. The September gains originated in Europe and Asia. Among North American investors, sentiment declined.



MARKET SUMMARY

Equity Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
U.S.			
S&P 500	-13.9	1.1	1.2
Dow Jones Industrial Average	-11.5	3.8	3.2
NASDAQ Composite	-12.7	3.2	6.1
Russell 1000	-14.7	0.9	1.6
Russell 2000	-21.9	-3.5	-0.4
Russell 3000	-15.3	0.5	1.4
Russell Micro Cap	-22.7	-4.8	-2.0
Non-U.S.			
MSCI EAFE (Net)	-19.0	-9.4	-1.1
MSCI Emerging Markets (Net)	-22.6	-16.1	6.3
MSCI All Country World ex U.S.	-19.9	-10.8	0.5

Bond Markets

	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
U.S.			
Barclays Capital Aggregate	3.8	5.3	8.0
Barclays Capital Gov/Credit	4.7	5.1	8.4
Barclays Capital Universal	2.9	4.8	8.2
Barclays Capital Corp. High Yield	-6.1	1.8	13.8
Non-U.S.			
CG Non-U.S. World Govt.	0.9	4.1	8.1

Non-Public Markets (2Q11)

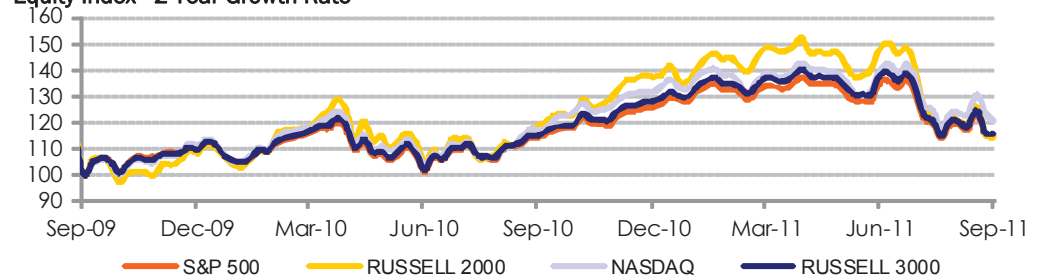
	<u>QTR</u>	<u>1 Year</u>	<u>3 Year</u>
NCREIF Property	3.9	16.7	-2.6
State Street Private Equity Index	4.5	21.5	3.7

Market Overview

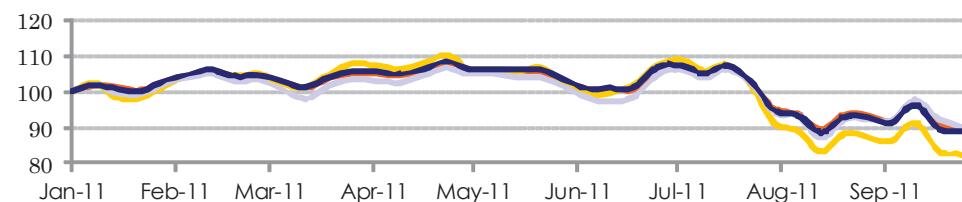
Global equity markets struggled this quarter. Riskier mandates, including the MSCI Emerging Markets, Russell 2000, and Russell Microcap, all contracted to the greatest degree, losing 22.6%, 21.9%, and 22.7%, respectively. Domestic large cap and developed non-U.S. indices lost ground as well. Domestically, the Dow Jones Industrial Average performed best, posting a return of -11.5%. In non-US markets, MSCI EAFE lost 19.0%, posting better results than MSCI ACWI ex US and MSCI Emerging Markets. Over the trailing 12 months, the more stable U.S. market indices remained slightly positive (S&P 500 returned 1.1%, Dow Jones earned 3.8%), but the riskier indices (Russell 2000 and Russell Microcap) lost 3.5% and 4.8%, respectively.

Fixed Income market returns increased during the third quarter and continued their outperformance over equities through the trailing 12 months. Domestic bond markets, excluding the Barclays High Yield Index, advanced between 2.9% and 4.7% this quarter. Over the past year, the Barclays Capital Aggregate Index had the greatest return in fixed income markets, advancing 5.3%, while the Barclays Capital Government/Credit Index nearly kept pace, returning 5.1%. The Barclays Capital High Yield index lost 6.1% in the third quarter but remained positive for the 1-year period.

Equity Index - 2-Year Growth Rate



Equity Index - Year to Date Growth Rate



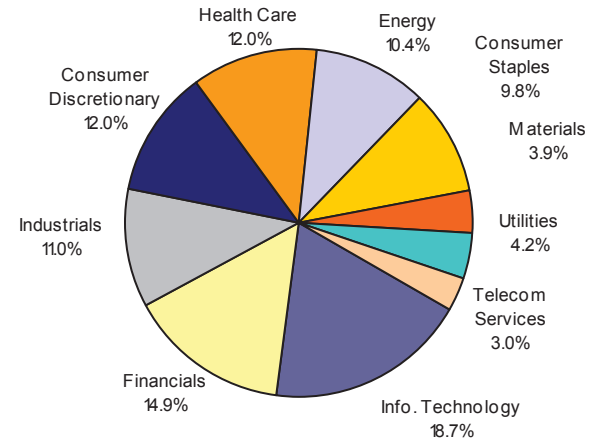
DOMESTIC MARKETS

Domestic Equity - Russell 3000

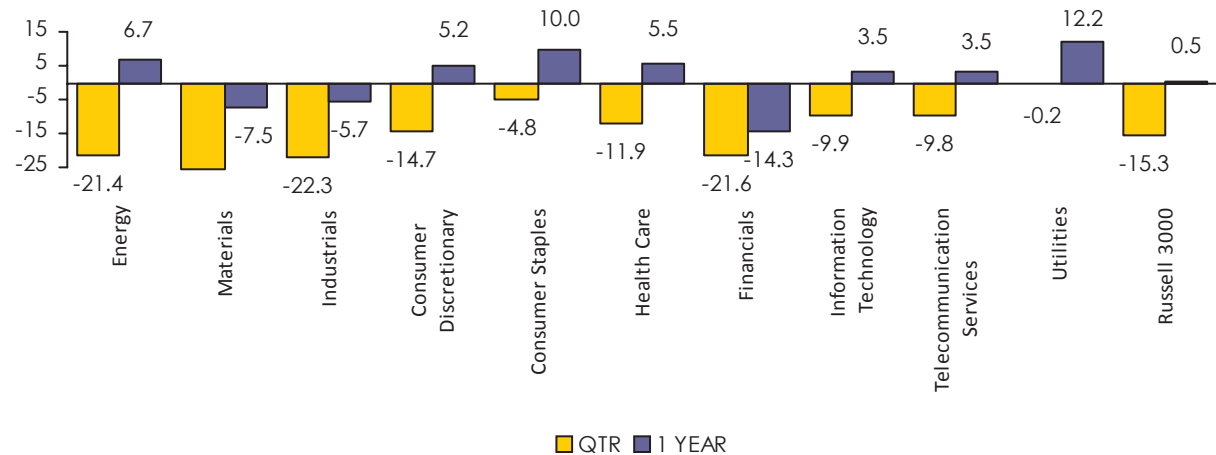
The Russell 3000 Index finished the third quarter down 15.3%. Performance was negative across the board, with all 10 sectors declining in value. The greatest detractors from performance included the Financials, Industrials, and Energy sectors, which comprised 36.3% of the index and accounted for a loss of 8.3%.

For the trailing 12 months, 7 of the 10 sectors managed to stay above water, a change from last quarter's trailing 12 months when all sectors finished with double-digit positive returns. Losses in Financials, Industrials, and Materials provided the greatest drag on performance. These three sectors account for almost a third of the index and combined for a 2.5% deduction from total return.

Ending Sector Weights



Sector Returns (%)



Characteristics

Div. Yield (%)	2.24
P/B Ratio	1.86
P/E Ratio	13.5
Fundamental Beta	0.98
Market Cap \$(MM)	71,770

Contribution to Return

Qtr.	-2.4	-1.0	-2.5	-1.8	-0.4	-1.4	-3.3	-1.9	-0.3	0.0
1 Yr.	0.7	-0.4	-0.6	0.5	0.8	0.6	-1.5	0.4	0.2	0.4

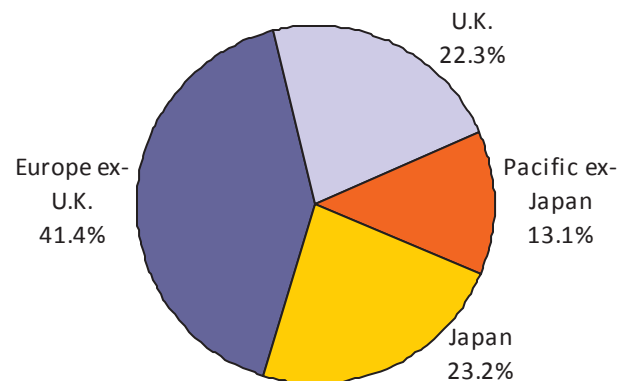
INTERNATIONAL MARKETS

International Equity—MSCI EAFE (Net)

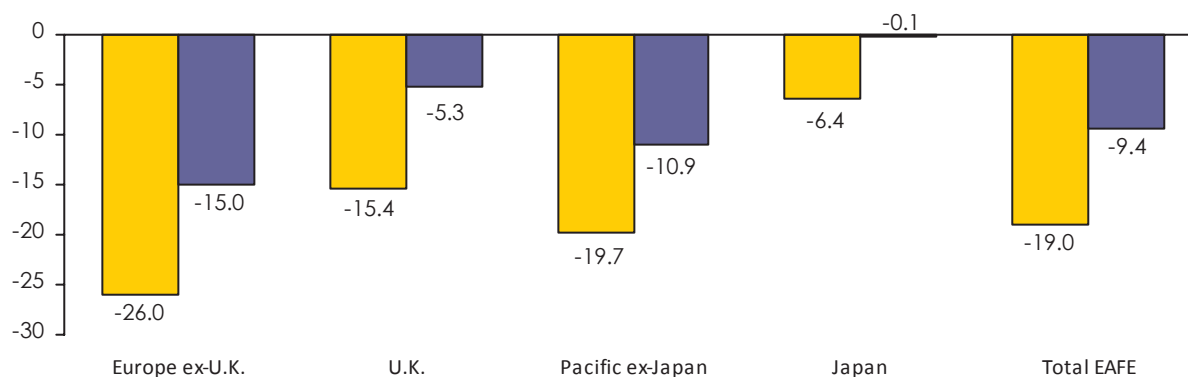
After four consecutive quarters of positive returns, the MSCI EAFE Index lost 19.0% in the third quarter — the worst quarterly return since the end of 2008. A strengthening dollar hurt performance this quarter, as the local currency return was -15.7%. The Europe ex-U.K. region had the greatest negative impact on performance, losing 26.0% during the quarter.

Over the trailing 12 months, the MSCI EAFE Index returned -9.4%, driven by five consecutive negative months. With essentially flat returns during the year, Japan had the greatest positive contribution to performance while the Europe ex-U.K. region’s -15.0% return was the largest detractor.

Ending Regional Weights



Regional Returns (%)



Contribution to Return:

	Europe ex-U.K.	U.K.	Pacific ex-Japan	Japan	Total EAFE
Qtr.	-11.0	-3.4	-2.5	-1.4	-19.0
1 Yr.	-6.4	-1.2	-1.4	0.0	-9.4

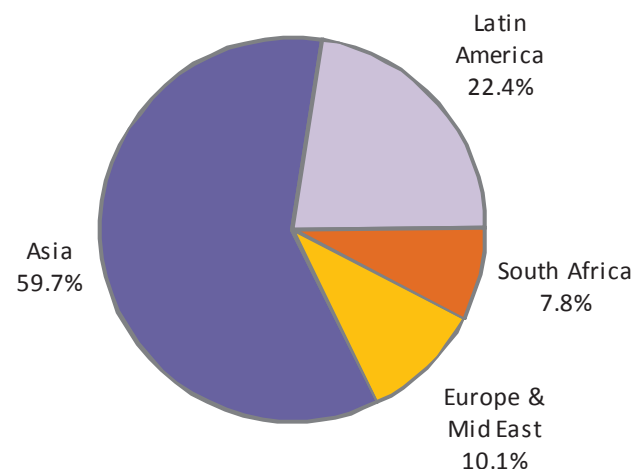
INTERNATIONAL MARKETS

Emerging Markets Equity - MSCI EM (Net)

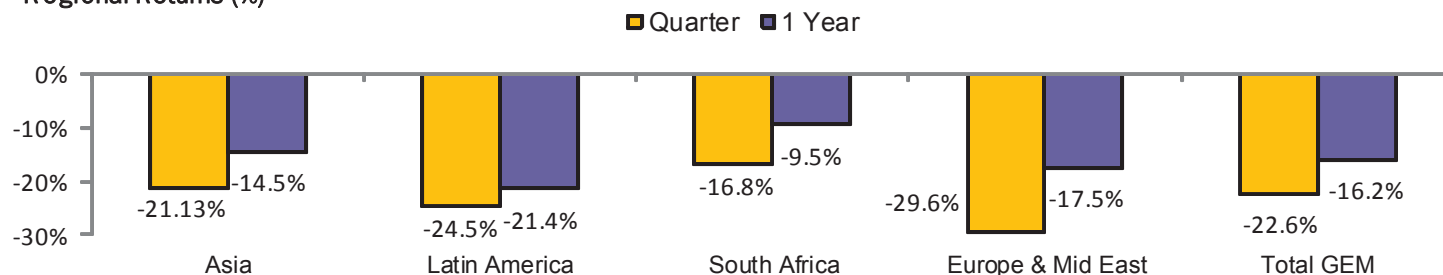
The MSCI Emerging Markets Index contracted significantly in the third quarter, losing 22.6%. Russia was the worst performing country during the period, falling 31.0%; however, Asia, which accounts for nearly 60% of the index, had the greatest impact on overall performance, mainly due to growth concerns in China (-25.0%).

Asia was also the greatest detractor from performance over the trailing 12 months due to losses in China (-24.0%) and India (-25.3%), which represent 25% of the index. Brazil, the second largest emerging market, also negatively impacted performance with its 25.0% decline.

Ending Regional Weights (%)



Regional Returns (%)



Contribution to Return:

Qtr.	-12.5	-5.6	-1.3	-3.1
1 Yr.	-8.5	-5.0	-0.7	-1.6

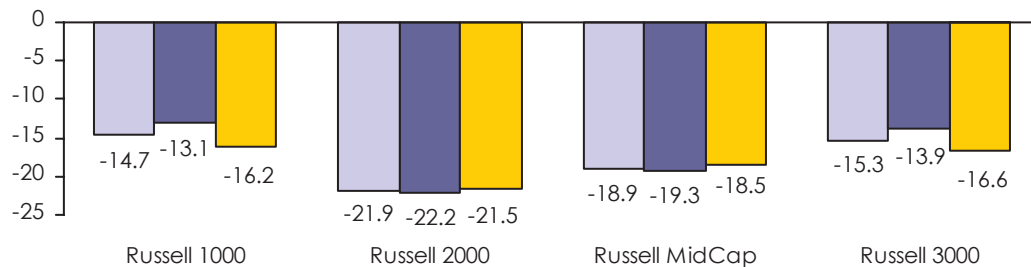
EQUITY BY STYLE & CAPITALIZATION

Style & Capitalization Returns

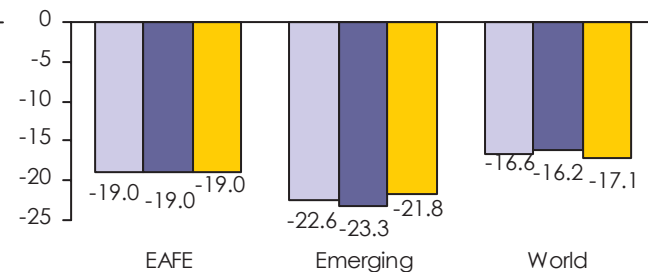
In U.S. markets, larger capitalization equities, particularly those with a growth-style, outperformed smaller-capitalization equities. The Russell 1000 Growth Index returned -13.1%, outperforming the Russell 2000 Growth Index, this quarter's worst performer, by 9.1%. Over the 1-year period, Growth was the clear leader in the US while Value lagged.

Global developed markets outperformed emerging markets for the quarter and trailing one-year period. Growth indices in the developed markets fared better than their value counterparts, but performed worse in the emerging markets. The MSCI World Growth Index offered the best performance, returning -16.2% over the quarter, while the MSCI World Value Index slid an additional 90 basis points. The same trend can be seen over the one year period as MSCI World Growth Indices have outperformed MSCI World Value Indices by at least one percent. The MSCI Emerging Markets Value Index outperformed the MSCI Emerging Markets Growth Index by 1.7% over the year.

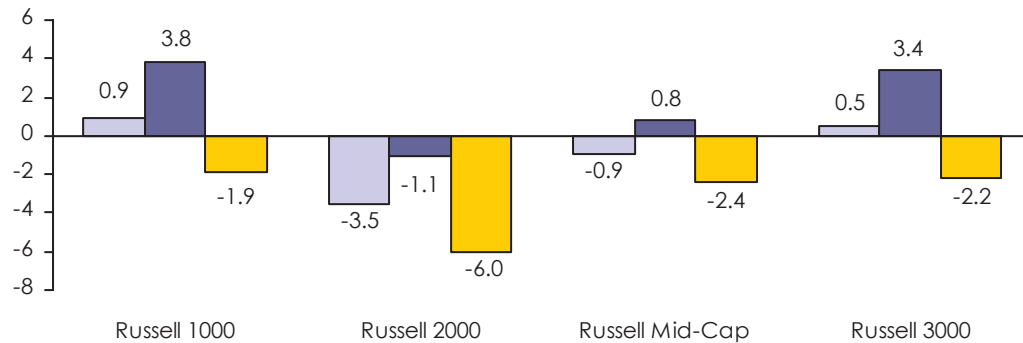
Russell U.S. Style Returns Quarter



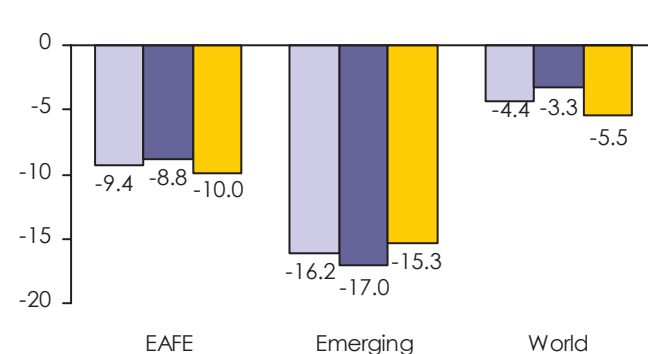
MSCI Non-U.S. Style Returns Quarter



Russell U.S. Style Returns - 1 Year



MSCI Non-U.S. Style Returns - 1 Year



Core Growth Value

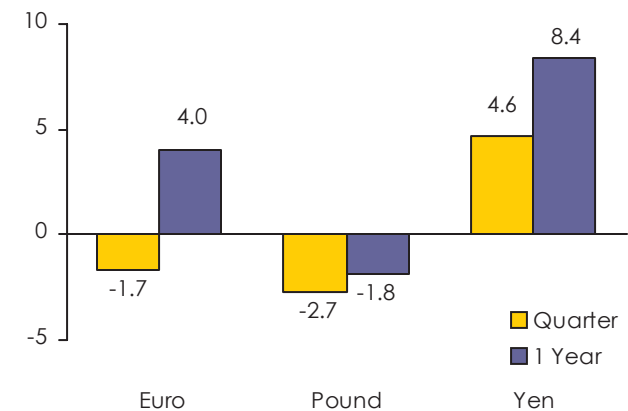
CURRENCY AND BOND MARKETS

Currency Markets

At the July 13th meeting in Frankfurt, the governing council of the ECB announced a 25 basis point hike of the key interest rate to 1.5%. This signaled the second rate hike this year and confirmed speculation of a further increase. The ECB governing council cited “the further adjustment of the current accommodative monetary policy stance is warranted in the light of upside risks to price stability.”

The Euro weakened slightly versus the U.S. dollar, losing 1.7% over the quarter. The dollar, which weakened against most currencies last quarter, rebounded sharply in the third quarter, especially against the British Pound. The debt crisis in Europe and concerns over the global economy sent investors fleeing to traditional safe havens like the Greenback and the Japanese Yen. The Bank of England’s Monetary Policy Committee has not made any change in the bank rate since March 2009 when it dropped to 0.5%. The Pound Sterling weakened considerably versus the U.S. dollar, falling 2.7% over the quarter.

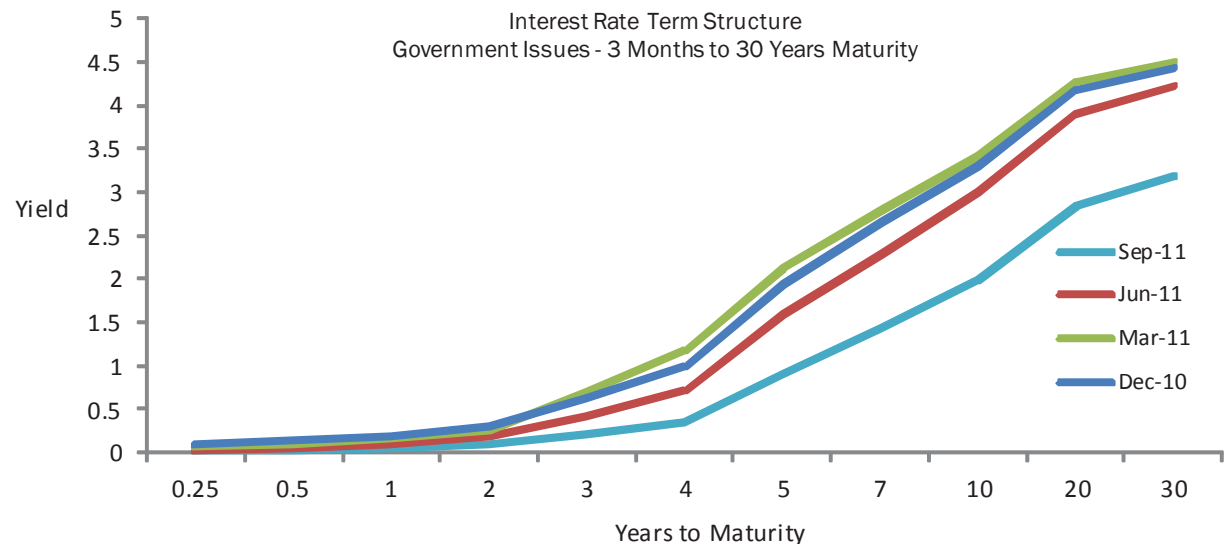
Currency Returns (%)



Yield Curve

The yield on the 30-year bond fell from 4.3% to 3.2% during the quarter, delivering a quarter-over-quarter return of 33.0% —one the highest returns in history.

At their September meeting, the Federal Open Market Committee left the federal funds rate unchanged, stating that “the Committee... currently anticipates that economic conditions — including low rates of resource utilization and a subdued outlook for inflation over the medium run — are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013”



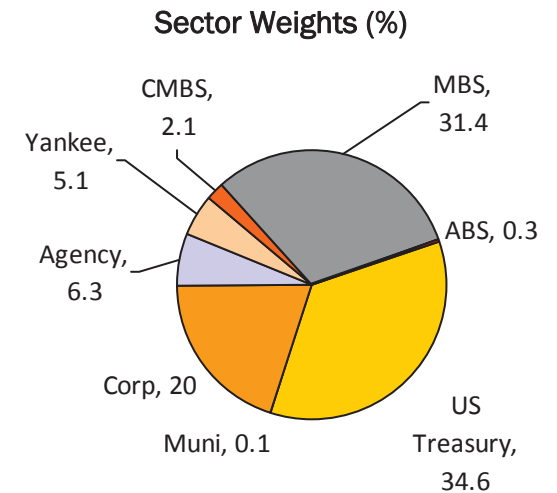
BOND MARKETS

U.S. Bond Market Returns - Barclays Capital Aggregate

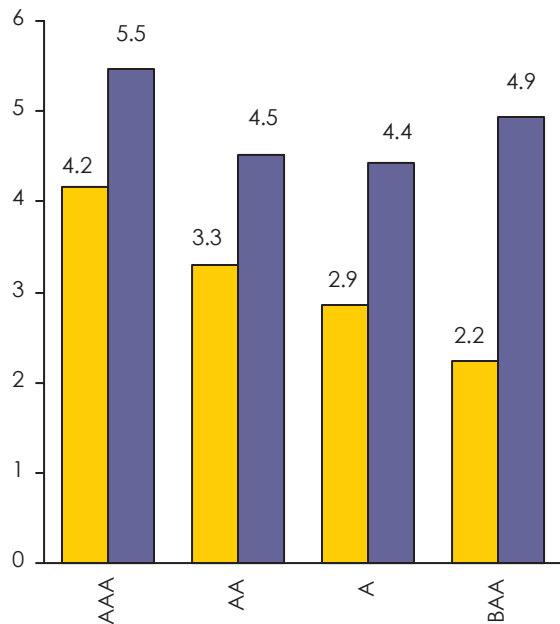
The Barclays Capital Aggregate Bond Index gained 3.8% in the third quarter and advanced 5.3% over the past year.

All sectors had positive performance for the quarter and trailing 12 months. U.S. Treasury Bonds were the leading issues, returning 6.5% over the quarter. Long-term duration issues provided the greatest boost, posting a 15.2% return for the quarter. CMBS issues were the largest drag, losing 0.9% over the quarter.

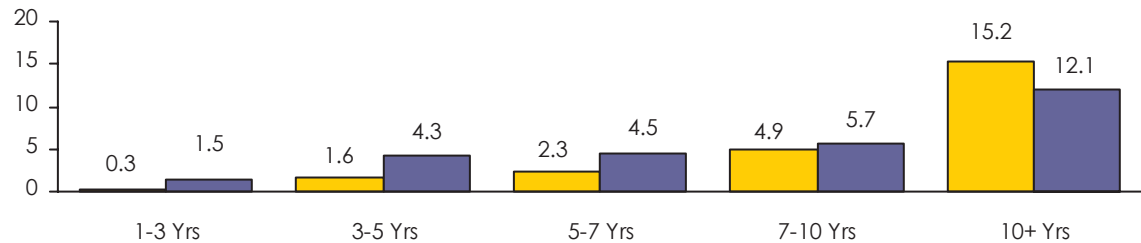
Across the quality spectrum, higher rated issues outperformed lower rated ones. AAA issues earned nearly double the return of BAA issues, gaining 4.2%. Over the past year, AAA bonds also posted the strongest results, gaining 5.5%, while lower quality debt outperformed both AA and AA-rated issues, returning 4.9% versus 4.5% and 4.4%, respectively.



Quality Performance (%)



Duration Performance (%)



Sector Performance (%)

