WATERSTREET
INVESTMENT CONSULTANTS, LLC

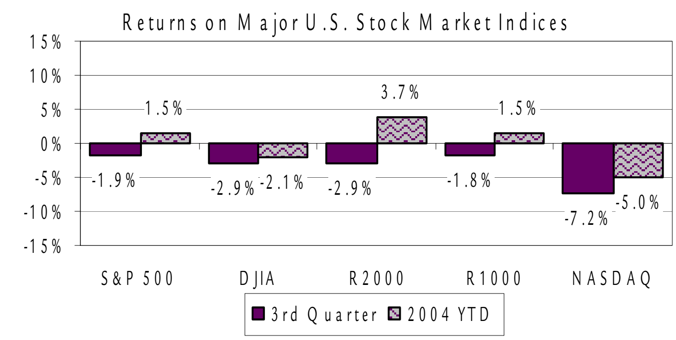
QUARTERLY MARKET COMMENTARY

3RD QUARTER 2004

Amid investor uncertainty regarding the upcoming presidential election, the US markets declined in the 3rd quarter as did international developed nations. Emerging markets posted a gain for the quarter as well as on a year-to-date basis.

The US market decreased during the third quarter – as measured by the S&P 500 Index. But on a year-to-date basis, value outperformed growth and small cap outperformed large.

For the US markets, the value asset class outperformed this quarter, but the poor returns of the growth asset class caused the overall returns of the S&P 500 to be negative for the quarter. Large cap US equities outperformed small cap for the third quarter, but small caps are still better performers for the year-to-date. In the S&P 500 Index, the energy sector returned a stellar 10.4% for the quarter, leaving it with a +23.56% return for the year. This dramatic sector return was certainly helped by the large increases in the cost of crude oil in 2004.



On the international front, the developed nations of the world saw a decrease in performance during the quarter, posting a 23 basis point loss. Emerging markets securities saw an over 7% rise during the quarter – 4% coming from the month of September. The skepticism and uncertainty that resulted

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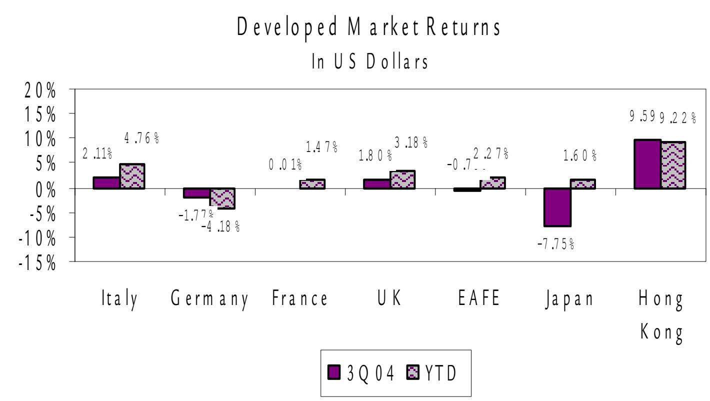
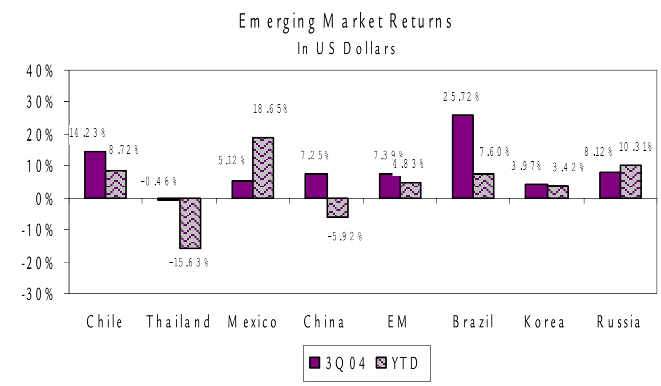


in market losses in the developed world was caused by a variety of issues including the War in Iraq, crude oil prices, and world elections.



The Federal Reserve Board voted on September 21st to raise the Fed Funds Rate by 25 basis points to 1.75% in an attempt to decrease inflationary trends. Greenspan and other Fed Members have commented on the resurgence of the economy in recent times. This could mean that the Fed plans to increase rates again in their November meeting. The economy overall seems to show signs of recovery as business spending is on the rise, employment growth has increased, and productivity gains have continued to grow.

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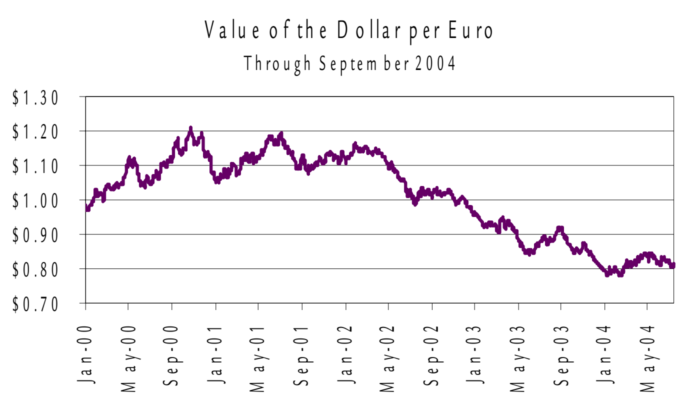

The bond market saw slightly positive returns for the quarter as treasuries posted strong gains in September. The yield curve flattened during the quarter as the Fed increased rates. There was a sharp drop in longer-term yields which was the result of reduced inflation expectations. This has further hampered growth expectations however; it is still unclear whether this will be a temporary slowdown in the bond market or if it will have a more prolonged effect. We are expecting to see an increase in the short-term rates as the economy continues to expand.

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The value of the dollar dropped slightly during the quarter. The dollar may not gain any real strength versus the euro through the end of 2004 and we don't feel that the bottom of the dollar has yet been reached.

The US trade deficit continues to grow. While the US economy exports much from the services sector, the income sector and goods sector are largely imported from other countries. This leaves the US Current Account Balance in the negative. Such deficits mean that domestic spending exceeds domestic production by significant amounts. With interest rates at all time lows, Americans are finding it easier and cheaper than ever to borrow more money. Interest rates have helped to fund this surge of American consumption. As evidence, household savings in the US has fallen to a record low of less than 1% of disposable income. However, much of this money is leaving the country to purchase goods; thus pushing the value of the dollar lower. As the Fed raises interest rates, we will likely see borrowing and credit card debt lower somewhat while investors reap the rate of return benefits once again of saving for the future. The dollar will once again turn around and gain strength; however, the current account deficit will have to be corrected first and this will more than likely be done by further decreases in the value of the dollar.

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The cost of crude oil continues to be a major issue in the world. US consumers – individuals and corporations alike - have been paying all time high prices at the gas pumps throughout the quarter. Many companies have been passing their increased transportation costs on to consumers. For example, the prices for paper, recycled materials, and pulp were up during the quarter. Some US and international airlines have recently announced an increase in ticket prices due to the increased cost of fuel. This is a trend that is expected to continue as long as fuel prices remain at such high levels. The high energy costs are a concern not only for many industries faced with either having to reduce profit margins or pass costs on to consumers, but also to people living in the US who are anticipating high heating costs for what the Farmer's Almanac is predicting to be a colder than average winter. If oil costs continue to rise during the fourth quarter 2004, the world economy will further feel the effects.

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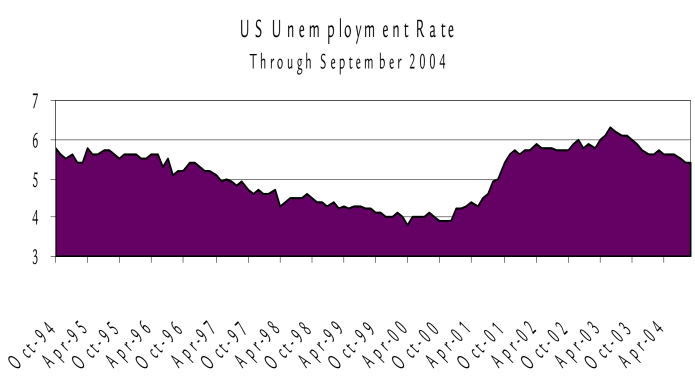
While it is common knowledge that US consumption of oil is high, developing nations are also large importers and consumers of oil. Chinese oil imports, for example, have increased over 40% since the end of the 3rd quarter 2003. Developing and emerging countries are known for being oil-intensive. Due to their emerging economies, Asians consume more oil per unit of output than Europeans or Americans. The International Energy Agency has said that Thailand and China use more than twice the developed-country average for oil use and India uses almost three times as much. In these underdeveloped nations, oil has to be subsidized by the governments to make it affordable for the people. This costs their governments billions of dollars a year. While this is not an unanticipated cost and their budgets were written to spend significant amounts of money to help subsidize it, oil prices have increased dramatically this year. The governments now are seeing their bills increase by as much as four fold. As a result, the growing debt of emerging countries is putting upward pressure on interest rates. With their GDPs booming, countries like China could see investment in their country decreasing in the coming year. China alone has accounted for almost 33% of the world's GDP growth in the past 3 years and will no doubt become a major player in the world economy.

The weak dollar makes us a favorable nation for other countries to trade with as our goods have become relatively less expensive.

International markets have reaped the benefits of the decreasing dollar. As Americans are spending more and importing more goods, other countries are supplying us with those products. The weak dollar makes us a favorable nation for other countries to trade with as our goods have become relatively less expensive. We have seen international countries post large returns both in the quarter and on a year to date basis. In particular, the emerging and developing countries have significantly benefited in 2004. US companies have found it very profitable to export unskilled labor jobs to other countries. Jobs are going to countries with a large workforce willing to do low-skilled or semi-skilled labor at a relatively low cost. This has helped the profitability of the US companies and has helped the economy and rates of return in the emerging countries of the world. This trend is likely to continue for



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some time. We continue to feel that international and emerging markets have room to grow. Given that state of the dollar and the increased occurrence of unskilled jobs moving to these countries, we find international and emerging markets to continue to be favorable areas for investment.

As the fourth quarter progresses we will undoubtedly see little change in the market until the uncertainty of the US Presidential election is over on November 2nd. Meanwhile, the US economy is certainly improving. US unemployment rates throughout the quarter have been decreasing and are at the same levels as October 2001. Look for Greenspan and the Federal Open Market Committee to raise rates at least once during the fourth quarter.

If you have any questions, please feel free to contact the Investment Committee of WaterStreet Investment Consultants at 512-334-3300 or 866-747-3300

Data sources for statistics and charts: Zephyr, Standard & Poors, MSCI, and Federal Reserve.

Trade, Exchange Rates, and Budget

	Trade balance*, latest 12 mos		Current Account Balance $bn latest 12 mos		Current Account Balance: The Economist poll % of GDP, forecast 2004	2005	Exchange Rate trade weighted** 1990=100 Oct 6th	year ago	Budget balance % of GDP 2004‡
Australia	-17.0	Aug	-34.2	Q2	-5.8	-5.0	85.7	83.6	0.5
Austria	-1.5	Jul	-2.0	Jul	-0.3	-0.4	103§	103.0	-1.3
Belgium	20.3	Jul	13.0	Jun	3.2	3.2	103.1§	103.0	-0.2
Britain	-97.5	Jul	-41.7	Q2	-2.4	-2.6	102.0	98.1	-2.9
Canada	49.3	Jul	23.8	Q2	2.8	2.4	91.8	87.2	1.2
Denmark	10.4	Jul	7.0	Jul	2.9	2.6	106.6	106.4	0.9
France	1.9	Jul†	-0.7	Jul	0.3	0.3	106.5§	106.4	-3.8
Germany	186.4	Jul	95.1	Jul	3.1	2.9	104.3§	104.1	-3.7
Italy	3.3	Jul	-14.0	Jul	-0.9	-1.1	76§	75.9	-3.1
Japan	133.4	Jul	165.8	Jul	3.5	3.5	131.9	136.9	-7.1
Netherlands	33.7	Jul	20.7	Q2	2.9	3.0	102.6§	102.5	-3.1
Spain	-64.0	Jul	-33.4	Jun	-3.1	-3.1	77.1§	77.1	0.3
Sweden	22.9	Aug	23.4	Q2	6.6	6.1	82.5	82.7	0.2
Switzerland	8.2	Aug	45.0	Q2	11.3	10.8	112.0	111.8	-1.6
United States	-598.3	Jul	-571.9	Q2	-5.5	-5.3	95.9	98.8	-4.7
Euro Area	111.8	Jul	61.5	Jul	0.6	0.6	91.7	90.7	-2.8

*Merchandise. Australia, Britain, France, Canada, Japan, and United States imports fob, exports fob. All others cif/fob. **Bank of England except §IMF, July average. ‡OECD forecast. †New series.

Source: The Economist, Oct 9-15, 2004

Output, Demand, and Jobs

% change on a year ago

	GDP latest	GDP qtr*	The Economist poll GDP forecasts 2004	2005	Industrial Production latest		Retail Sales (volume) latest		Unemployment % rate latest		year ago
Australia	4.1	Q2	2.5	3.7	4.6	Q2	7.9	Q2	5.6	Sep	5.9
Austria	1.9	Q2	3.6	1.6	6.1	Jul	5.8	Jun	4.5	Sep	4.5
Belgium	2.7	Q2	3.0	2.4	1.5	Jul	4.4	Jun	13.2	Sep†	13.2
Britain	3.6	Q2	3.6	3.4	-0.1	Aug	6.5	Aug	4.7	Jul††	5.1
Canada	3.0	Q2	4.3	3.0	4.1	Jul	3.1	Jun	7.2	Aug	8.0
Denmark	2.6	Q2	0.9	2.2	0.7	Jul	4.5	Aug	6.3	Aug	6.1
France	2.8	Q2	2.8	2.5	2.5	Jul	1.0	Aug	9.9	Aug	9.8
Germany	2.0	Q2	1.9	1.5	2.2	Jul	-1.4	Aug	10.7	Sep§	10.5
Italy	1.2	Q2	1.1	1.2	-1.2	Jul	-2.3	Jul	8.5	Apr	8.7
Japan	4.2	Q2	1.3	4.3	9.9	Aug	0.8	Jul	4.8	Aug	5.1
Netherlands	1.3	Q2	-0.4	1.2	-0.1	Aug	-0.7	Jun‡	6.2	Aug**	5.3
Spain	2.6	Q2	2.0	2.6	5.5	Aug	3.0	Jul	11.0	Aug	11.2
Sweden	3.6	Q2	4.0	3.3	-0.1	Jul	6.4	Aug	5.5	Aug†	5.4
Switzerland	2.0	Q2	1.6	1.9	4.3	Q2	-0.8	Jul	3.7	Aug†	3.6
United States	4.8	Q2	3.3	4.3	5.2	Aug	4.1	Aug	5.4	Aug	6.1
Euro Area	2.0	Q2	2.1	1.9	2.4	Jul	-0.4	Aug	9.0	Aug	8.9

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New Series. ††May-Jul; claimant count rate 2.7% in Aug. §EU

Source: The Economist, Oct 9-15, 2004

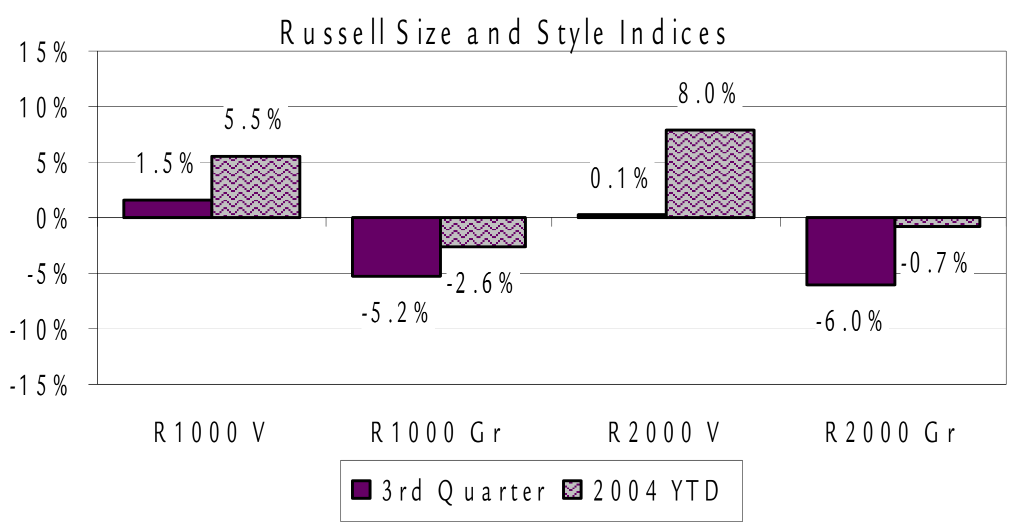
Prices and Wages

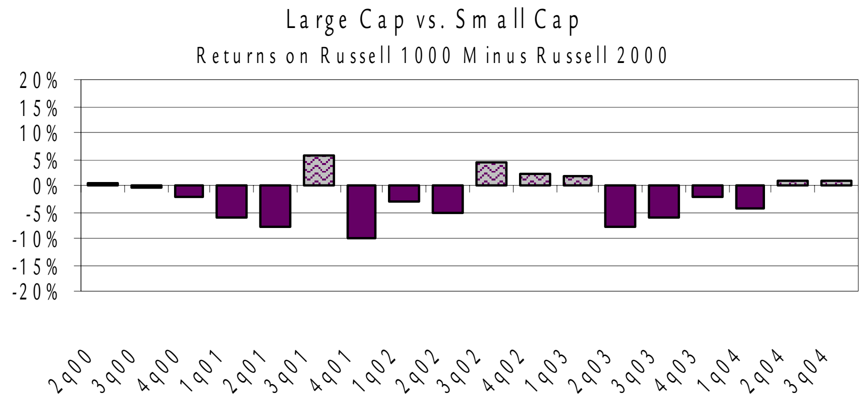
% change on a year ago

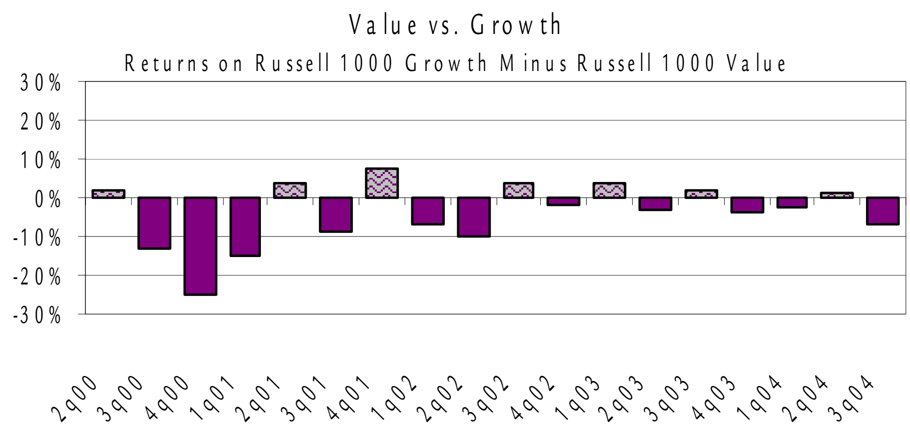
	Consumer Prices			Producer Prices			Wages/Earnings		
	latest		year ago	latest		year ago	latest		year ago
Australia	2.5	Q2	2.7	2.8	Q2	0.2	2.9	Q2	5.5
Austria	2.4	Aug	1.2	6.0	Sep	1.3	1.9	Aug	2.3
Belgium	2.0	Sep	1.8	5.8	Aug	-1.4	2.2	Jul	1.9
Britain	1.3	Aug*	1.4	2.6	Aug	1.5	3.8	Jul**	3.3
Canada	1.9	Aug	2.0	4.9	Aug	-1.9	1.5	Jul	5.1
Denmark	1.2	Aug	1.7	3.1	Aug	-0.3	3.1	Q2	3.8
France	2.4	Aug	1.9	2.8	Aug	0.5	2.8	Q2	2.7
Germany	1.8	Sep	1.1	4.2	Aug	0.5	0.5	Jul	1.4
Italy	2.1	Sep	2.8	3.5	Aug	1.4	2.6	Aug	2.6
Japan	-0.2	Aug	-0.3	1.7	Aug	-0.7	1.9	Jul	3.6
Netherlands	1.0	Sep	2.0	5.3	Aug	0.6	1.2	Aug	2.5
Spain	3.3	Aug	3.0	4.4	Aug	1.1	3.1	Q2	4.2
Sweden	0.6	Aug	1.7	2.0	Aug	-1.7	2.4	Jul	3.6
Switzerland	0.9	Sep	0.5	1.5	Aug	-0.3	1.4	2003	1.8
United States	2.7	Aug	2.2	3.4	Aug	3.5	2.3	Aug	2.6
Euro Area	2.2	Sep	2.2	3.1	Aug	1.4	2.2	Q2	3.3

*New Series. RPI inflation rate 3.2% in Aug. **May-Jul.

Source: The Economist, Oct 9-15, 2004



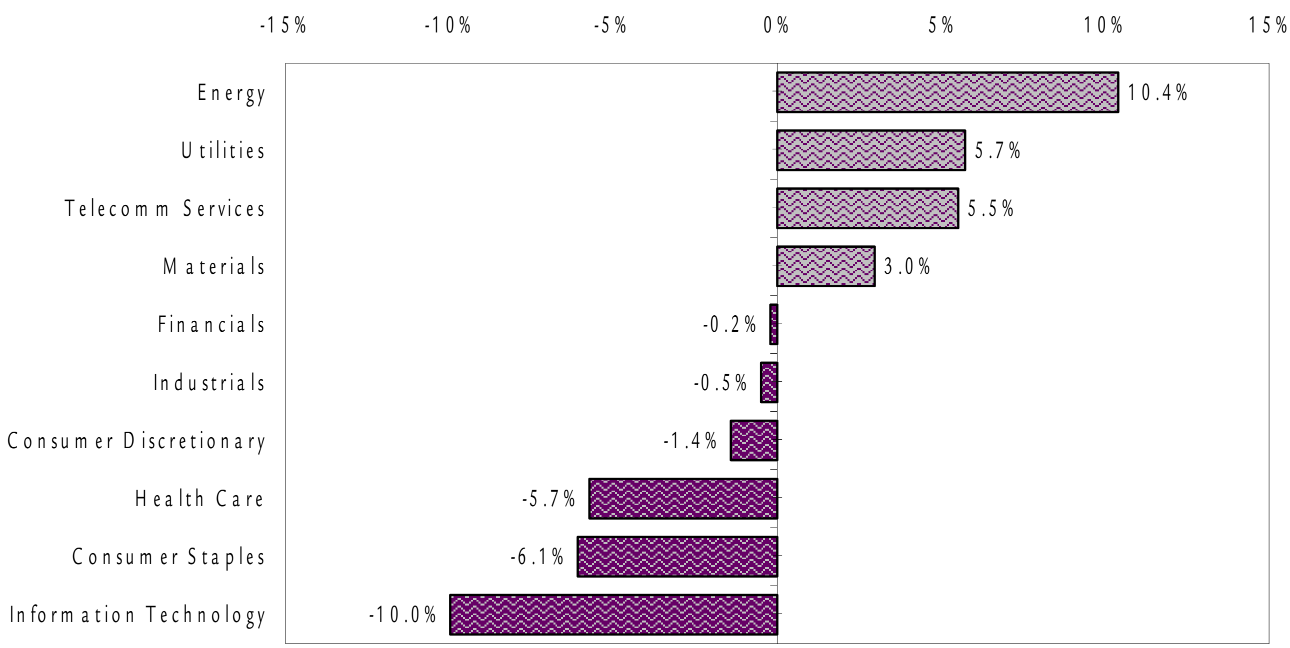




Index	3Q'04	YTD 2004	1 Year	3 Years	5 Years
S&P 500	-1.87%	1.51%	13.87%	4.05%	-1.31%
Russell 1000	-1.81%	1.46%	13.90%	4.69%	-0.66%
Russell 2000	-2.86%	3.71%	18.77%	13.71%	7.41%
Russell 2000 Growth	-6.01%	-0.67%	11.92%	9.09%	-0.68%
Russell 2000 Value	0.15%	7.99%	25.66%	17.69%	14.71%
Russell 1000 Value	1.54%	5.54%	20.51%	7.57%	4.31%
Russell 1000 Growth	-5.22%	-2.63%	7.51%	1.61%	-6.78%
MSCI EAFE Index	-0.23%	4.62%	22.52%	9.52%	-0.51%
MSCI Emerging Markets	8.26%	7.41%	26.53%	25.94%	6.04%
Lehman US Aggregate Bond	3.20%	3.35%	3.68%	5.88%	7.48%
Lehman US Municipal Bond	3.88%	3.18%	4.59%	5.78%	6.77%
Lehman US Treasury Long	6.35%	6.16%	4.94%	7.60%	9.29%
Citi Non-US Wld Govt Bond - UH	3.28%	1.37%	8.17%	12.07%	6.26%
90 Day T-Bills	0.39%	0.90%	1.15%	1.33%	2.81%

Index	3Q '04	YTD 2004	1 Year	3 Years	5 Years
HFRI Equity Market Neutral	0.56%	2.17%	3.16%	1.90%	6.07%
HFRI Equity Hedge	-0.02%	2.19%	8.64%	7.53%	9.26%
HFRI Convertible Arbitrage	0.28%	0.15%	3.27%	6.81%	9.81%
HFRI Distressed Securities	2.55%	10.96%	18.14%	15.60%	12.80%
HFRI Event-Driven	1.37%	6.45%	13.25%	10.36%	10.42%
HFRI Fixed Income Arbitrage	1.56%	4.56%	7.40%	8.12%	6.78%
HFRI Merger Arbitrage	-0.69%	0.31%	2.02%	2.87%	6.03%
HFRI Relative Value Arbitrage	1.74%	3.32%	6.20%	6.83%	8.78%
HFRI Regulation D	-0.68%	5.33%	7.44%	7.80%	8.50%
HFRI Statistical Arbitrage	-0.44%	1.41%	2.81%	2.19%	2.45%
HFRI Short Selling	2.87%	2.51%	-6.13%	-3.83%	2.11%
HFRI Macro	0.37%	0.48%	5.87%	11.02%	9.47%
HFRI Fund of Funds	0.35%	1.98%	5.79%	5.58%	6.90%
S&P 500	-1.87%	1.51%	13.87%	4.05%	-1.31%
90 Day T-Bills	0.39%	0.90%	1.15%	1.33%	2.81%

S&P 500 Economic Sectors
Third Quarter 2004



International Developed Market Performance

Source: Morgan Stanley Capital International

	In Local Currency		In US Dollars	
	3Q'04	YTD 2004	3Q'04	YTD 2004
REGIONS				
EAFE	-1.49%	3.44%	-0.75%	2.27%
EUROPE	-2.09%	1.62%	-0.05%	0.06%
PACIFIC	-3.96%	5.87%	-3.96%	3.10%
WORLD	-1.85%	1.59%	-1.38%	1.11%
WORLD ex USA	-1.33%	3.56%	-0.27%	2.59%
NATIONAL INDICES				
AUSTRALIA	3.51%	10.63%	7.63%	6.36%
AUSTRIA	4.12%	32.95%	6.29%	30.91%
BELGIUM	8.84%	20.06%	11.11%	18.21%
CANADA	1.28%	5.16%	7.30%	7.37%
DENMARK	4.01%	18.02%	6.05%	16.28%
FINLAND	-3.78%	-9.50%	-1.77%	-10.89%
FRANCE	-2.03%	3.05%	0.01%	1.47%
GERMANY	-3.78%	-2.69%	-1.77%	-4.18%
GREECE	0.37%	8.13%	2.47%	6.47%
HONG KONG	9.57%	9.70%	9.59%	9.22%
IRELAND	2.64%	18.89%	4.78%	17.07%
ITALY	0.02%	6.40%	2.11%	4.76%
JAPAN	-6.82%	4.49%	-7.75%	1.60%
NETHERLANDS	-5.83%	-4.65%	-3.87%	-6.12%
NEW ZEALAND	3.78%	11.44%	10.44%	14.72%
NORWAY	8.64%	29.20%	11.86%	27.69%
PORTUGAL	0.02%	10.06%	2.11%	8.37%
SINGAPORE	6.67%	10.50%	9.12%	11.47%
SPAIN	-1.14%	2.31%	0.92%	0.74%
SWEDEN	1.24%	16.62%	4.75%	15.26%
SWITZERLAND	-2.49%	0.44%	-2.20%	-0.52%
UNITED KINGDOM	2.02%	2.07%	1.80%	3.18%

International Emerging Market Performance

Source: Morgan Stanley Capital International

	In Local Currency		In US Dollars	
	3Q'04	YTD 2004	3Q'04	YTD 2004
REGIONS				
EMERGING MARKETS	7.03%	4.03%	7.39%	4.83%
EM ASIA	4.26%	-2.07%	4.18%	-1.57%
EM EASTERN EUROPE	7.74%	15.89%	9.67%	18.23%
EM EUROPE & MIDDLE EAST	1.16%	10.60%	2.11%	10.82%
EM LATIN AMERICA	11.11%	12.47%	16.55%	12.48%
NATIONAL INDICES				
ARGENTINA	27.65%	16.95%	26.65%	15.01%
BRAZIL	16.06%	6.63%	25.72%	7.60%
CHILE	9.67%	12.08%	14.23%	8.72%
CHINA	7.22%	-5.50%	7.25%	-5.92%
COLOMBIA	22.99%	59.99%	26.63%	70.06%
CZECH REPUBLIC	10.58%	29.04%	13.77%	30.27%
EGYPT	48.54%	79.96%	47.46%	77.94%
HUNGARY	9.34%	37.39%	13.32%	43.29%
INDIA	15.10%	-5.72%	15.04%	-6.49%
INDONESIA	14.37%	27.60%	17.40%	17.33%
JORDAN	12.50%	19.19%	12.50%	19.19%
KOREA	3.61%	-0.06%	3.97%	3.42%
MALAYSIA	3.36%	5.46%	3.36%	5.46%
MEXICO	3.93%	20.40%	5.12%	18.65%
MOROCCO	0.62%	11.21%	2.22%	9.96%
PAKISTAN	-2.20%	-0.01%	-4.05%	-3.16%
PERU	7.27%	-3.61%	10.28%	-1.06%
PHILIPPINES	9.90%	20.07%	9.65%	18.44%
POLAND	3.81%	13.10%	9.20%	20.44%
RUSSIA	8.12%	10.31%	8.12%	10.31%
SOUTH AFRICA	17.52%	10.45%	12.75%	13.86%
SRI LANKA	-0.88%	14.24%	-2.06%	6.92%
TAIWAN	-1.80%	-5.91%	-2.75%	-5.97%
THAILAND	0.85%	-11.79%	-0.46%	-15.63%
TURKEY	21.82%	15.53%	20.08%	7.82%
VENEZUELA	9.19%	26.28%	13.49%	43.88%