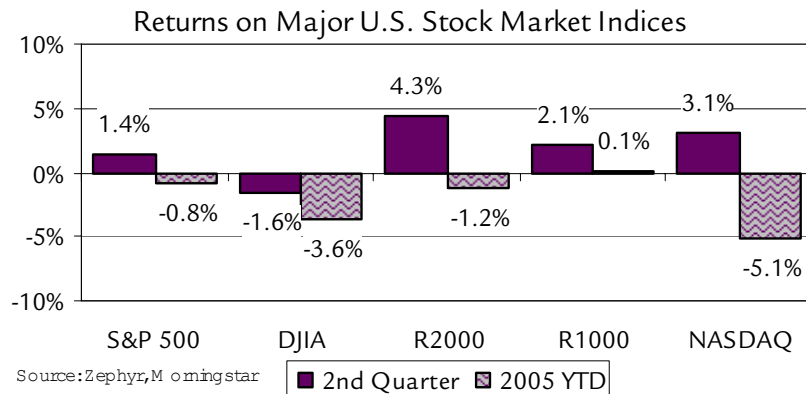


- US equity markets ended the quarter on a positive note despite a difficult month of returns in April.
- Yields on long term Treasuries declined despite the Fed increasing rates.
- International developed markets posted a loss during the quarter due to a slight appreciation of the dollar compared to the euro and the yen. In local currencies, the MSCI EAFE index still managed to post positive returns.
- Emerging markets continued to show positive returns during the quarter. Due to the positive returns, this area of the world has seen an inflow of investment in recent months.

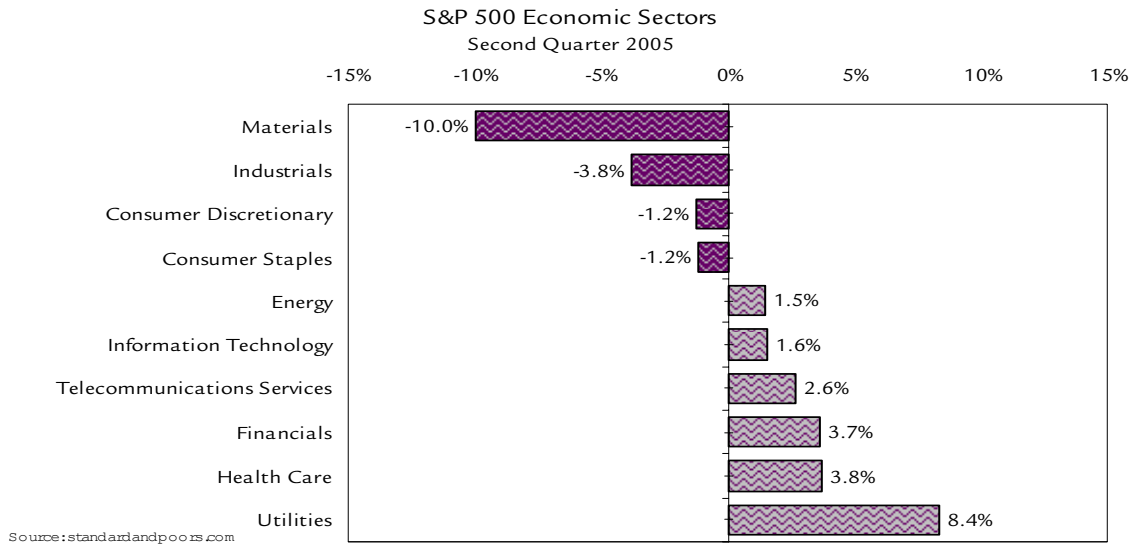
After a rocky start with most indices posting negative returns in April, the equity markets managed to eek out a positive return for the 2nd quarter of 2005 with the S&P 500 Index posting a 1.4% return. The US growth markets are still negative on a year-to-date basis, but the value asset classes, aided by the high returns in oil and gas, have been profitable

during the course of the past six months. International developed markets saw a decline during the quarter of -0.75% while emerging markets were up 4.25%.



The US GDP growth remained consistent, expanding at a 3.2% annualized rate during the second quarter. The labor market is strengthening with reports of increased hiring at all levels. Wages within the

service sector are increasing although there have not been increases within the key non-professional wages. There continues to be concerns

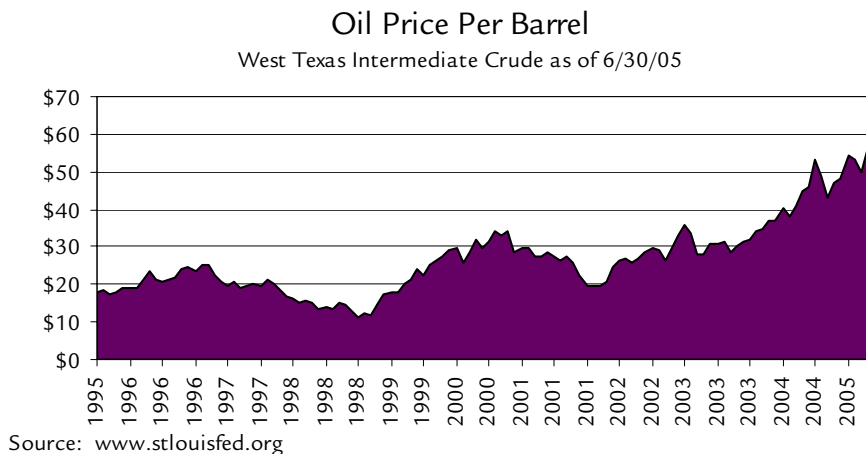


with the high cost to employers of benefits namely in the healthcare area. The US GDP growth has been revised upwards and expected corporate earnings have remained steady.

While retail sales have increased slightly in the past quarter, continued sales growth within the US seems to still be slowed by the increase in oil and gasoline prices. Crude oil prices rose to more than \$55 a barrel by the end of June. Economists are arguing about how high prices may rise. Consumers and corporations will continue to feel the brunt of these increases as prices on consumer goods rise and the cost of travel increases. Any airlines who have not hedged their energy bet will certainly struggle to make a profit

during the coming months. As the world's largest oil consumer, the US is particularly affected and concerned by the rising costs. These high oil costs have not yet caused an economic shock among consumers, but sharp rises would certainly hurt the world economy going forward. The short term solutions seem to be further oil exploration in Alaska, the North Sea, and the Gulf of Mexico or possibly research and development into alternative sources of energy. This sort of independence from oil producing nations does not seem to be right around the corner, leaving the high costs and low reserves the only alternative in the foreseeable future.

The Fed continued to boost rates during the quarter by 0.25% to 3.25%. Rates are at their highest point since September 2001. The obvious goal of the Fed is to continue to boost rates so that they neither help nor hinder growth while



controlling inflation. Estimates are that the Fed will continue to increase rates until they reach approximately 4%. When the agendas of international investors, companies, and central banks conflict with US goals, the Fed has to continue to adjust rates when the stabilization should have already been in effect. In instances such as this, the increased importance of the global trade truly impacts domestic monetary policy.

The Fed's increase in rates continued to affect the bond markets during the quarter. As Fed rates increased, investors moved assets into longer-term debt which had the impact of driving down long-term interest rates. During the quarter the yield on 2 year Treasuries fell 0.14% and the yield on 30 year Treasuries fell by 0.59%.

The recent rate hikes by the Fed have slightly helped the dollar appreciate relative to the euro and yen in June, but we believe that this is a temporary increase.

Even at a 61-week high, the dollar is still lower versus the euro than it was merely 3 years ago. With current trade deficits remaining at all time highs and the recent de-pegging of the Chinese yuan to the dollar, we expect the dollar to further depreciate and remain low for the next year or two. This long awaited move by the Chinese government was not the free floating that many had hoped. Instead, the government made the decision to allow the yuan to float in a tight 0.3%

band against a basket of foreign currencies. While this decision will certainly allow the yuan to appreciate compared to the dollar, the precautions put in place will have a nominal affect on the US trade deficit with China.

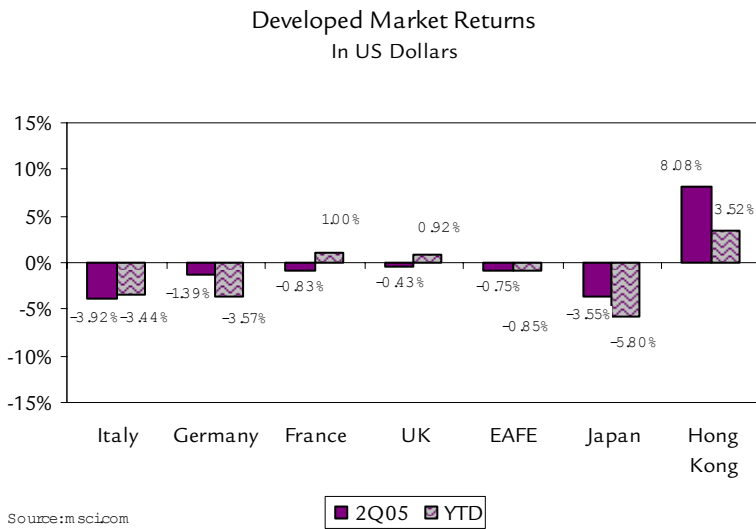
Another large global economy, the European Union (EU), continues to expand and grow. Ten new countries joined the EU in 2004, and a number of other countries are slated to join in the coming years. The presidency of the EU is now in the hands of Britain's Tony Blair who recently took over for Jean-Claude Juncker of Luxembourg. Blair will certainly be focused on amending and ratifying an EU constitution, which was

Value of the Dollar per Euro Through June 2005



Source: The Federal Reserve

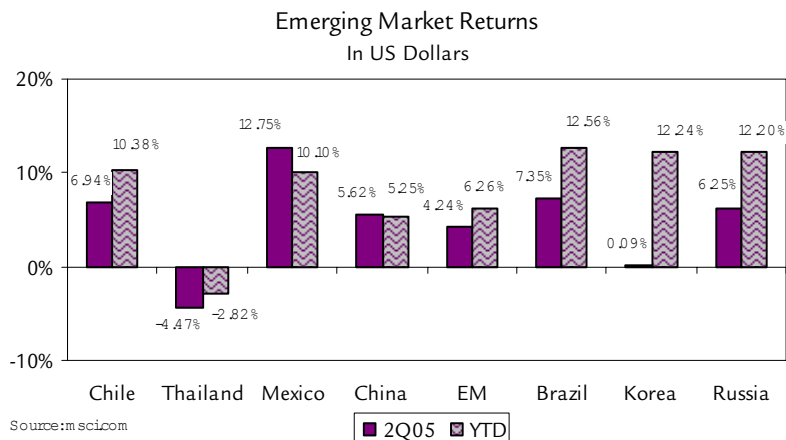
rejected by French and Dutch voters earlier this year, Political analysts have also suggested that Mr. Blair may be working towards increasing membership in the EU as well as economic reform. Eastern Europe is suspected to be an area of the world that may be able to provide much growth and appreciation in coming years. The MSCI EAFE Index had a -0.75% return for the 2nd quarter; however, that return was calculated in US dollars. The quarter return in local currencies was actually 4.8%, which translated to a loss



for US investors after accounting for the appreciation of the dollar. Gains in developed markets indicate that the growth potential for investors abroad remains.

higher growth moving forward in non-US markets as the dollar continues to struggle for, what we believe will be, the next few years.

Emerging countries continued to see growth with the MSCI Emerging Markets Index posting a 3% return for the second quarter. While a substantial amount of these returns seem to be coming from Asia, the index returns also got a boost from oil producing nations such as Jordan who managed to have a stellar 24.16% return during the past three months. While there is still significant amount of growth potential in these areas of the world, some of the returns came from increased investor interest in emerging markets as this index has seen multiple quarters of positive returns.



Globalization has become a way of life in most areas of the world; economies that used to be separate and distinct are now

Hedge fund strategy returns were relatively flat for the quarter. The most notable exception was the HFRI Short Selling Index which returned +2.35% for the quarter and has returned +8.3% year-to-date. The HFRI Fund-of-Funds Composite Index gained +0.4% for the quarter and has gained +1.1% year-to-date. Traditional relative value strategies continued to underperform. The most common, Convertible

relying on each other. The US economy and currency will be affected by choices the Chinese government made regarding their own economy and this type of interdependence among all world economies will certainly continue into the future. Overall, the world, and certainly the US, has shown signs during the second quarter of improving economic conditions. We will continue to look for

Arbitrage, lost -2.9% for the quarter and has returned -5.6% year-to-date. We have felt for some time that there is too much money chasing limited ideas in this space. It has been estimated that hedge funds control 75% or more of the convertible bond market. Additionally, continued low historical spreads between securities make it challenging to achieve historical returns.

Equity volatility, as measured by the VIX Index continued its long decline after spikes in April and May. The current low level of volatility has made it difficult for volatility arbitrage managers as well as other relative value strategies that depend on volatility to create opportunities. With regard to risk, the two most talked about risks in hedge funds currently are 1)

concentrated security risk (predisposition of some hedge fund managers to put on concentrated positions in already crowded trades such as the General Motors convert trade this spring) and, 2) the explosion of the credit derivatives market, specifically the use of CDS (Credit Default Swaps) and Synthetic CDOs (Collateralized Debt Obligations).

In the near term, it may prove difficult for market neutral managers to achieve desired returns with both equity and credit markets continuing to trade in narrow ranges. Long/Short Equity and Event Driven strategies look the most promising at this time.

HRFI Returns

Index	2Q '05	YTD 2005	1 Year	3 Years	5 Years
HFRI Equity Market Neutral	0.91%	2.87%	5.43%	2.92%	5.02%
HFRI Equity Hedge	1.31%	1.77%	7.24%	8.39%	4.63%
HFRI Convertible Arbitrage	-2.88%	-5.61%	-4.37%	3.36%	5.99%
HFRI Distressed Securities	0.41%	2.16%	12.40%	17.19%	12.84%
HFRI Event-Driven	1.08%	2.12%	11.86%	13.10%	9.91%
HFRI Fixed Income Arbitrage	0.67%	2.10%	5.11%	7.30%	6.52%
HFRI Merger Arbitrage	1.47%	2.29%	5.41%	4.46%	4.52%
HFRI Relative Value Arbitrage	-0.34%	0.37%	4.42%	6.21%	6.70%
HFRI Regulation D	4.15%	6.38%	6.72%	9.31%	4.18%
HFRI Statistical Arbitrage	0.89%	2.19%	4.40%	2.61%	2.35%
HFRI Short Selling	2.35%	8.31%	4.52%	-3.76%	9.17%
HFRI Macro	0.51%	1.14%	5.79%	9.61%	8.87%
HFRI Fund of Funds	0.30%	1.09%	6.32%	6.38%	4.47%
S&P 500	1.37%	-0.81%	6.32%	8.28%	-2.37%
90 Day T-Bills	0.69%	1.26%	2.04%	1.47%	2.49%

Prices and Wages

% change on a year ago

	Consumer Prices			Producer Prices			Wages/Earnings		
	latest		year ago	latest		year ago	latest		year ago
Australia	2.4	Q1	2.0	6.0	Q1	-1.1	4.5	Q1	5.0
Austria	2.3	May	2.1	1.3	May	6.1	2.3	May	2.1
Belgium	2.5	May	2.6	3.3	Apr	2.6	2.6	Apr	2.3
Britain	1.9	May*	1.5	2.7	May	2.5	4.6	Apr**	4.4
Canada	2.4	Apr	1.6	1.5	Apr	2.3	2.5	Feb	3.5
Denmark	1.5	May	1.3	3.8	Apr	1.6	3.1	Q1	3.3
France	1.5	May	2.6	3.1	Apr	1.3	2.9	Q1	2.8
Germany	1.7	May	2.0	1.7	May	3.6	1.5	Mar	1.5
Italy	1.9	May	2.3	4.4	Apr	1.7	3.5	Apr	2.8
Japan	nil	Apr	-0.4	1.8	May	0.9	0.5	Apr	1.2
Netherlands	1.3	May	1.5	4.7	Apr	2.3	0.6	May	1.5
Spain	3.1	May	3.4	5.0	Apr	2.6	3.0	Q1	3.2
Sweden	0.1	May	0.7	2.7	Apr	-0.2	4.2	Mar	1.5
Switzerland	1.0	May	0.9	1.3	Apr	0.7	0.9	2004	1.4
United States	2.8	May	3.1	3.5	May	4.7	2.6	May	2.0
Euro Area	2.0	May	2.5	4.2	Apr	1.4	2.2	Q4	2.1

*RPI inflation rate 2.9% in May. **Feb-Apr.

Source: The Economist, June 18-24, 2005

Trade, Exchange Rates, and Budget

	Trade balance*, latest 12 mos		Current Account Balance				Exchange Rate		Budget balance % of GDP 2005‡
			\$bn latest 12 mos	The Economist poll % of GDP, forecast		trade weighted** 2000=100			
				2005	2006	June 15th	year ago		
Australia	-18.1	Apr	-42.4	Q1	-5.7	-5.1	117.9	107.3	0.9
Austria	nil	Mar	-0.4	Mar	-0.5	-0.6	104.8§	103.6	-2.0
Belgium	16.7	Mar	12.0	Dec	3.3	3.3	105.5§	103.9	-0.5
Britain	-109.9	Apr	-49.0	Q4	-2.5	-2.5	101.4	103.0	-2.9
Canada	49.1	Apr	20.2	Q1	1.7	1.5	116.4	104.9	1.2
Denmark	9.2	Apr	8.6	Apr	2.1	2.1	105.5	105.7	1.8
France	-22.4	Apr	-10.9	Mar	-0.3	-0.1	108.3§	106.4	-3.0
Germany	198.5	Apr	108.0	Apr	3.4	3.2	106.2§	104.0	-3.5
Italy	-6.1	Apr	-18.8	Mar	-1.2	-1.2	77.5§	76.2	-4.4
Japan	125.3	Apr	170.9	Apr	3.6	3.6	87.5	87.7	-6.1
Netherlands	38.7	Apr	33.9	Q1	3.4	3.4	105.0§	103.2	-2.2
Spain	-83.1	Mar	-55.5	Feb	-4.9	-4.9	77.8§	76.9	0.5
Sweden	23.0	Apr	29.7	Q1	6.9	6.3	96.2	97.6	0.8
Switzerland	7.0	Apr	40.8	Q4	11.1	10.6	106.8	107.9	-1.0
United States	-709.7	Apr	-665.9	Q4	-6.3	-6.2	85.7	88.3	-4.1
Euro Area	74.9	Mar	42.1	Mar	0.5	0.5	114.3	113.6	-2.8

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

Source: The Economist, June 18th-24th, 2005

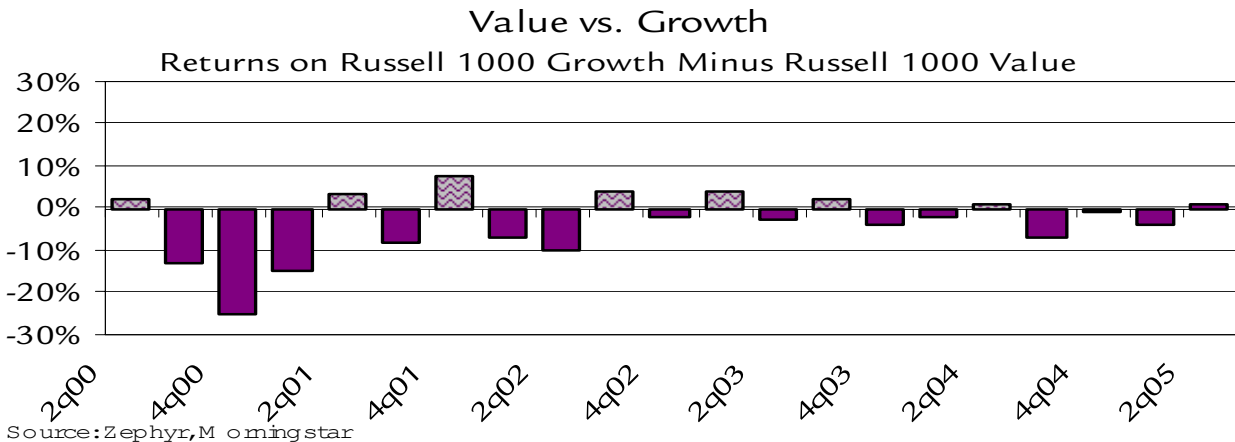
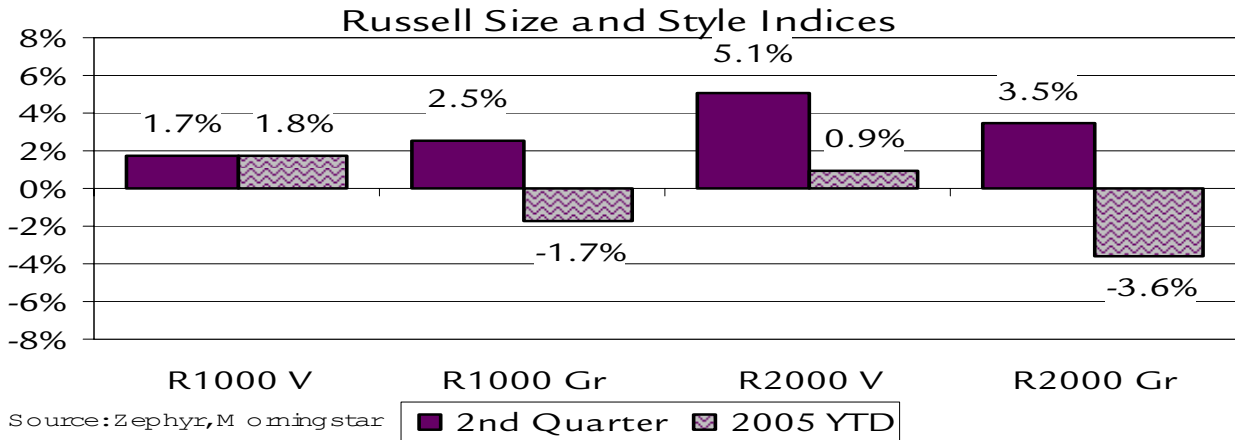
Output, Demand, and Jobs

% change on a year ago

	GDP		The Economist poll GDP forecasts		Industrial Production		Retail Sales (volume)		Unemployment % rate		
	latest	qtr*	2005	2006	latest		latest		latest	year ago	
Australia	1.9	Q1	2.6	3.2	-0.4	Q4	1.8	Q1	5.1	May	5.5
Austria	2.0	Q1	2.0	2.0	1.9	Mar	3.2	Mar	4.6	May	4.4
Belgium	1.8	Q1	1.6	2.1	-1.5	Apr	3.4	Mar	12.3	Apr†	12.4
Britain	2.7	Q1	2.4	2.1	-1.9	Apr	1.3	May	4.7	Apr††	4.8
Canada	3.3	Q1	2.6	2.9	1.3	Mar	6.3	Feb	6.8	May	7.1
Denmark	0.8	Q1	2.1	2.2	-2.4	Apr	8.2	Apr	5.9	Apr	6.5
France	1.7	Q1	1.8	2.0	nil	Apr	1.0	Apr	10.2	Apr	10.0
Germany	1.1	Q1	1.1	1.4	1.8	Apr	nil	Mar	11.8	May§	10.5
Italy	-0.2	Q1	0.3	1.3	0.8	Apr	1.2	Mar	8.0	Dec	8.2
Japan	1.3	Q1	1.4	1.8	0.6	Apr	0.7	Mar	4.4	Apr	4.7
Netherlands	-0.3	Q1	0.8	1.6	-0.7	Apr	0.6	Mar	6.6	May**	6.5
Spain	3.3	Q1	2.8	2.7	7.1	Apr	3.0	Apr	10.0	Apr	11.2
Sweden	1.4	Q1	2.8	2.8	4.4	Mar	4.0	Apr	5.8	Apr†	5.4
Switzerland	0.8	Q1	1.2	1.7	4.7	Q4	-0.3	Mar	3.7	May†	3.8
United States	3.7	Q1	3.5	3.2	3.1	Apr	5.3	Apr	5.1	May	5.6
Euro Area	1.3	Q1	1.4	1.8	-0.1	Mar	-0.9	Apr	8.9	Apr	8.9

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

Source: The Economist, June 18th-24th, 2005



International Developed Market Performance

Source: Morgan Stanley Capital International

REGIONS	In Local Currency		In US Dollars	
	2Q'05	YTD	2Q'05	YTD
EAFE	4.82%	8.42%	-0.75%	-0.85%
EURO	6.31%	10.84%	-0.97%	-1.27%
EUROPE	6.22%	10.59%	-0.50%	0.01%
PACIFIC	1.53%	3.44%	-1.35%	-2.87%
THE WORLD INDEX	3.08%	3.66%	0.61%	-0.40%
WORLD ex USA	4.76%	8.44%	-0.53%	-0.39%
NATIONAL INDICES				
AUSTRALIA	5.55%	9.31%	4.01%	6.29%
AUSTRIA	14.26%	21.35%	6.44%	8.08%
BELGIUM	3.73%	10.80%	-3.38%	-1.31%
CANADA	3.88%	8.77%	2.61%	6.40%
DENMARK	8.76%	21.24%	1.28%	7.79%
FINLAND	14.80%	20.99%	6.94%	7.76%
FRANCE	6.46%	13.40%	-0.83%	1.00%
GERMANY	5.86%	8.26%	-1.39%	-3.57%
GREECE	9.53%	13.36%	2.03%	0.97%
HONG KONG	7.72%	3.53%	8.08%	3.52%
IRELAND	10.79%	2.69%	3.20%	-8.54%
ITALY	3.14%	8.42%	-3.92%	-3.44%
JAPAN	-0.08%	1.87%	-3.55%	-5.80%
NETHERLANDS	7.82%	15.69%	0.43%	3.04%
NEW ZEALAND	5.79%	4.72%	3.25%	0.88%
NORWAY	12.46%	22.83%	8.62%	13.79%
PORTUGAL	-1.55%	0.02%	-8.29%	-10.91%
SINGAPORE	5.46%	8.62%	3.10%	5.10%
SINGAPORE FREE	5.46%	8.62%	3.10%	5.10%
SPAIN	6.34%	8.65%	-0.94%	-3.22%
SWEDEN	10.90%	15.05%	0.03%	-2.09%
SWITZERLAND	6.87%	11.95%	-0.57%	-0.63%
UNITED KINGDOM	4.97%	8.09%	-0.43%	0.92%

International Emerging Market Performance

Source: Morgan Stanley Capital International

	In Local Currency		In US Dollars	
	2Q'05	YTD	2Q'05	YTD
REGIONS				
EM (EMERGING MARKETS)	4.54%	7.85%	4.24%	6.26%
EM ASIA	4.58%	6.97%	3.67%	6.74%
EM EASTERN EUROPE	6.42%	15.54%	2.52%	8.58%
EM EUROPE	6.37%	13.84%	3.39%	8.51%
EM EUROPE & MIDDLE EAST	5.50%	11.75%	2.35%	6.70%
EM LATIN AMERICA	1.31%	4.40%	9.06%	11.54%
NATIONAL INDICES				
ARGENTINA	9.92%	22.28%	11.03%	25.68%
BRAZIL	-4.65%	0.08%	7.35%	12.56%
CHILE	5.73%	15.03%	6.94%	10.38%
CHINA	5.27%	5.26%	5.62%	5.25%
COLOMBIA	16.22%	13.67%	18.27%	14.99%
CZECH REPUBLIC	8.34%	24.26%	0.59%	11.75%
EGYPT	31.17%	95.82%	31.34%	105.20%
HUNGARY	9.51%	28.27%	2.13%	13.63%
INDIA	11.49%	9.33%	11.97%	9.31%
INDONESIA	8.02%	16.16%	4.81%	10.48%
ISRAEL	1.61%	3.85%	-2.34%	-0.92%
JORDAN	25.65%	58.21%	25.66%	58.33%
KOREA	1.87%	12.05%	0.09%	12.24%
MALAYSIA	1.75%	-1.73%	1.75%	-1.73%
MEXICO	8.71%	6.48%	12.75%	10.10%
MOROCCO	9.59%	4.88%	3.27%	-4.62%
PAKISTAN	2.84%	31.45%	2.48%	31.04%
PERU	0.55%	4.16%	0.68%	4.71%
PHILIPPINES	-0.97%	6.12%	-2.74%	6.50%
POLAND	4.33%	9.34%	-1.89%	-1.96%
RUSSIA	6.43%	12.39%	6.25%	12.20%
SOUTH AFRICA	7.13%	9.72%	-0.09%	-7.38%
SRI LANKA	12.54%	33.33%	12.02%	39.09%
TAIWAN	6.26%	2.07%	5.89%	2.31%
TAIWAN PROVISIONAL	6.24%	2.06%	5.88%	2.30%
THAILAND	0.91%	3.36%	-4.47%	-2.82%
TURKEY	6.18%	7.31%	7.38%	8.36%
VENEZUELA	-9.07%	-12.45%	0.55%	-14.29%

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