

- **US Equities** gave back most of first quarter returns losing -1.4% as measured by the S&P 500 Index and bringing the year-to-date return to 2.7%. The technology-heavy NASDAQ lost -7.2% for the quarter resulting in a 1.5% return for the first half of 2006.
- **International (Non-US) Equities** sold off during the quarter as developed international markets rose only 0.9% as measured by the MSCI EAFE Index, bringing its year-to-date return to 10.4%. Emerging markets fell -4.3% bringing the total return to 7.3% for the first half of the year.
- **Fixed Income** The Federal Reserve Bank raised interest rates twice during the second quarter bringing the federal funds rate to 5.25%. The Lehman Aggregate Bond index returned -0.1% for the quarter and has produced a -0.7% return for first half of 2006.
- **Alternative Investments** continued to provide positive returns as hedge fund of funds returned 1.6% as measured by the HFRI Fund of Funds Index. The Dow AIG Commodities Index advanced 6.1% while real estate as measured by the NAREIT Composite Index fell -1.1%.
- **Global Outlook** remains bullish as the global GDP growth forecast is in the 4.7%-4.9% range for the remainder 2006. US growth will provide a drag on world GDP growth as it moderates to 3.3% for 2006 and 3.0% in 2007.

Increased uncertainty with regard to the direction of global inflation, interest rates, economic growth and the impact of the Israeli war with Hezbollah in Lebanon caused significant volatility and a sell-off in both international and US equities. In the US, second quarter corporate earnings grew at approximately 12%, an historically healthy rate. The sell-off in conjunction with increased earnings produced more compelling valuations. Based on quarter end 12-month forward earnings estimates, the S&P 500 Index traded at a price-to-earnings (P/E) ratio of 14, its cheapest since 1995. Valuations for international stocks also seem very reasonable as the MSCI Emerging Markets Index traded at 9.9 times 12-month forward earnings.

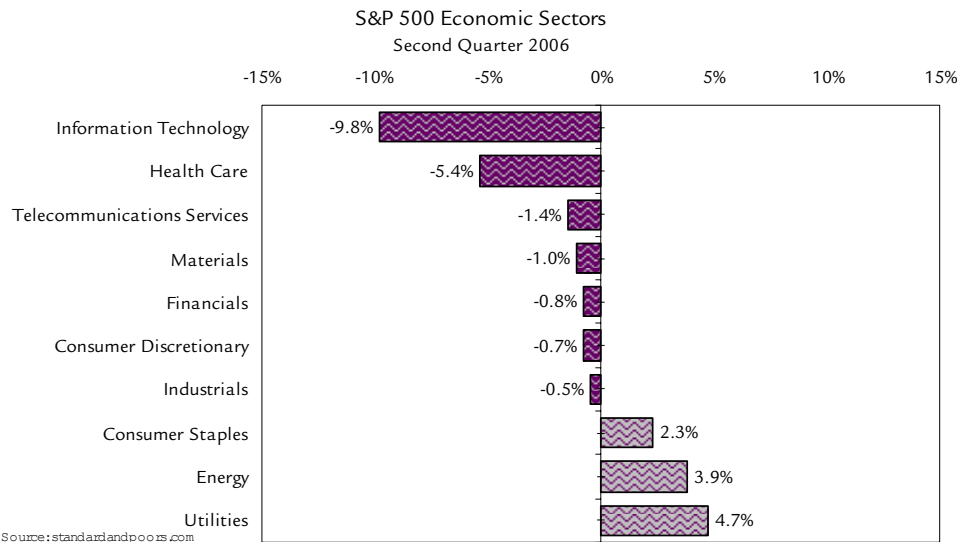
The continued slide in the value of the dollar muted losses in international shares for US investors. The US Federal Reserve remains focused on monitoring core CPI, excluding food and energy. This measure has deteriorated recently jumping to 2.4% for the 12-months ending May. However, US Treasury futures point to a less than 50% chance the Fed will increase rates in its August meeting. Bonds remain under pressure as cash yields push over 5%. Spreads to US Treasuries remain tight.

The global recovery that began in 2002 will continue despite the potential destabilization of the Middle East. The situation in Lebanon looks like a repeat of the 1982 conflict and is something that the global capital markets have dealt with before.

## US EQUITIES

The second quarter was volatile as investors worried about inflation, interest rates, and economic growth. The S&P 500 Index started the quarter with a positive return for April only to give all of the return back in May. The index ended the quarter -1.4% amid reduced consumer spending and corporate earnings.

As oil prices continued to increase during the quarter, the utilities and energy sectors saw the highest returns of all S&P 500 sectors. Investors were attracted to the relatively high dividend yields on natural gas and power companies. Health care continued to be one of the lower performing sectors this quarter with a -5.4% return as shown in the following chart.



The Consumer Price Index has now grown 4.2% over the past year although a significant amount of this increase is due to the doubling of gas prices since 2004. Core CPI, which excludes volatile food and energy components, accounted for 2.4% of the increase. The Federal Reserve Bank has continued to increase rates in an effort to thwart inflation. In the beginning of the quarter, the US reported declines in new home construction as well as smaller increases in producer prices. This was an encouraging sign for investors as they believed that the Federal Reserve could be close to ending the current trend of increasing rates.

Small capitalization companies underperformed their large capitalization counterparts with the Russell 2000 Index posting a -5.0% return for the quarter. Much of this discrepancy is a reflection of the increased sensitivity of small capitalization companies to economic growth and interest rates. Despite the loss for the quarter, the small capitalization stocks are still ahead of the large capitalization stocks on a year-to-date basis.

According to Russell Index returns, stocks with a value bias outperformed growth stocks during the quarter and on a year-to-date basis. Much of this performance can be attributed to a reduced appetite for risk by investors. During the quarter, there seemed to be an increased attention on fundamentals, which tends to favor value investing.

## INTERNATIONAL EQUITIES

### **Developed Markets**

The past quarter was tumultuous in the international markets. The MSCI EAFE Index started the quarter with a 4.8% return in April. By the time May was finished, much of the returns were

given back as the index posted a -3.8% return. Much of this loss seems to have been triggered by growing concerns regarding economic imbalances, slowing corporate earnings, and interest rate uncertainty as G7 tightening continued. These concerns caused a rapid readjustment of investors' risk appetite.

At quarter end the MSCI EAFE Index was up 0.9%, and still up 10.5% on a year-to-date basis in dollar-based returns. In local currency terms however, all international developed indices and most developed national indices posted negative returns for the quarter. A decline in the value of the US dollar against both the Euro and the Japanese yen helped to partially offset these declines.

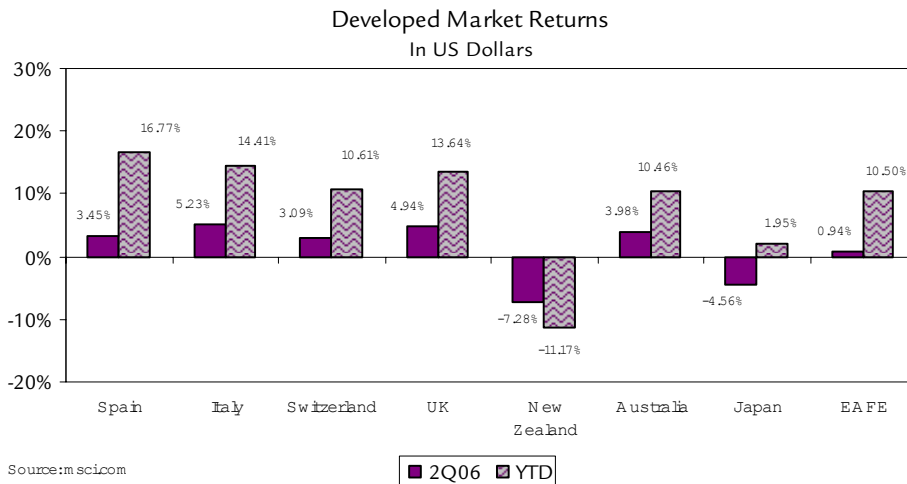
As was the case in the US markets, value stocks tended to outperform growth for the quarter by just over 1%, as measured by the MSCI EAFE Value and MSCI EAFE Growth Indices. For the first time in five years, the large capitalization developed stocks outperformed their smaller capitalization counterparts.

The developed international returns were boosted for the quarter by positive returns in Europe with the MSCI Europe Index posting a 2.9% gain. Most of the western European countries were among the top international developed market performers during the quarter. Investors were encouraged by signs of rising business investments and consumer spending. The interest rate increased by the European Central Bank during the quarter held back returns somewhat.

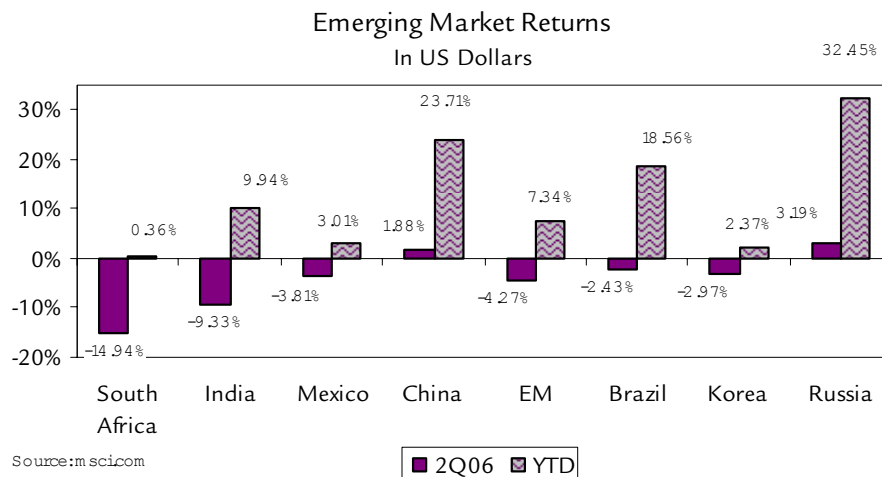
Despite recent fluctuations in the international markets, we continue to find opportunities for investment there. Unlike past market corrections, the recent decline does not seem to reflect a change in long-term fundamentals nor does it appear to be a sell-off from irrational equity valuation levels. It seems that much of the cause of the second quarter's poor performance was simply due to investors being more risk averse.

### Emerging Markets

Emerging markets underperformed developed international and US markets due to soaring energy prices, rising interest rates, and increased geopolitical tension in the second quarter. However, the decline in the US dollar helped international returns. The MSCI Emerging Markets Index returned -4.3% for the quarter, bringing its year-to-date return to 7.2%. Investor demand decreased due to worries about inflation and commodity prices. April gains were offset by mid-May to mid-June losses as higher US interest rates added to volatility and uncertainty. Emerging market countries, China, South Korea, South Africa, and Turkey, also raised interest rates during the quarter. This led to a reduction in investor demand, which resulted in decreased equity prices.



Emerging market countries continue to grow and reduce external debt. According to the IMF, emerging economies account for 48% of global GDP (in PPP terms), and these economies are growing at an average rate of 7% versus 3% for developed economies (Source: 2006 IMF World Economic Outlook). The gross sovereign external debt as a percent of GDP has experienced a downward trend since 2002. During the quarter, Brazil continued to reduce its debt by completing a tender for \$1.1 billion of external sovereign debt. Colombia, Venezuela, and Panama have also reduced sovereign debt this year. Mexico has been able to fully finance itself domestically over the past few years.



European and Middle Eastern regions performed the worst, returning -5.2% for the quarter, bringing the year-to-date return to 6.2%. Most of the region’s markets have high current account deficits and experienced sharp declines in both their equity and currency markets. Turkey’s external debt and inflation resulted in a 20% currency plunge, which hurt performance during the quarter (-30%). Turkey has not

managed to assemble an economic position that is robust enough to free it from foreign debt as shown by their external deficit, which is close to 10% of GDP. However, Russia continued to reap the benefits of its huge oil and natural gas deposits and returned 3% for the quarter.

Latin American markets returned -3.1% during the quarter, bringing the year-to-date return to 12.1%. Mexico’s stock returns suffered (-4%) over the country’s pending presidential election. Almost all Latin American markets performed poorly during the quarter except for Argentina (5%) due to the country’s 8% GDP growth, which helped push the country’s stock returns higher.

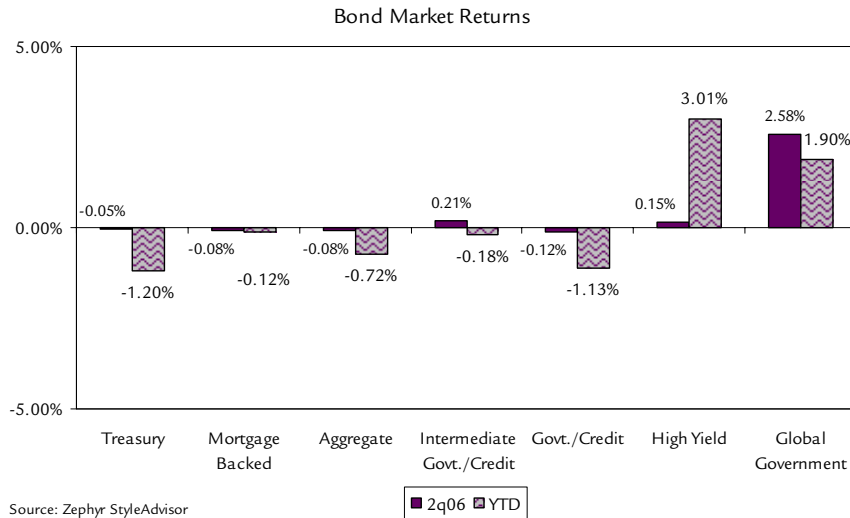
Finally, Asian markets performed the best during the quarter relative to the other regions returning -2.0%. Japan’s economic growth of 3.1% positively impacted this region’s relative performance. China’s economy continues to surge, with foreign currency reserves increasing to over \$900 billion during the quarter. China performed relatively better than Thailand and Korea.

The risks to investing in emerging market countries are lower today than in the past. These countries have restructured their banking systems, decreased their trade deficits and turned them into trade surpluses, and reduced their foreign indebtedness in order to become less dependent on the capital markets and other developed countries.

## **FIXED INCOME**

The Federal Reserve Bank raised interest rates twice during the second quarter bringing the Federal Funds rate to 5.25%. The second rate increase of the quarter that occurred on June 29<sup>th</sup>

was the 17<sup>th</sup> consecutive hike since 2004. The rates were increased amid concern about higher than expected inflation, stronger consumer confidence, and low unemployment levels. The US Federal Reserve was not the only central bank plagued with inflation fears. The central banks of Europe, India, and China all increased rates during the quarter.



Most fixed income sectors posted flat to slightly negative returns for the quarter. The Lehman Brothers Aggregate Bond Index posted a -0.1% return for the second quarter and was down -0.7% on a year-to-date basis.

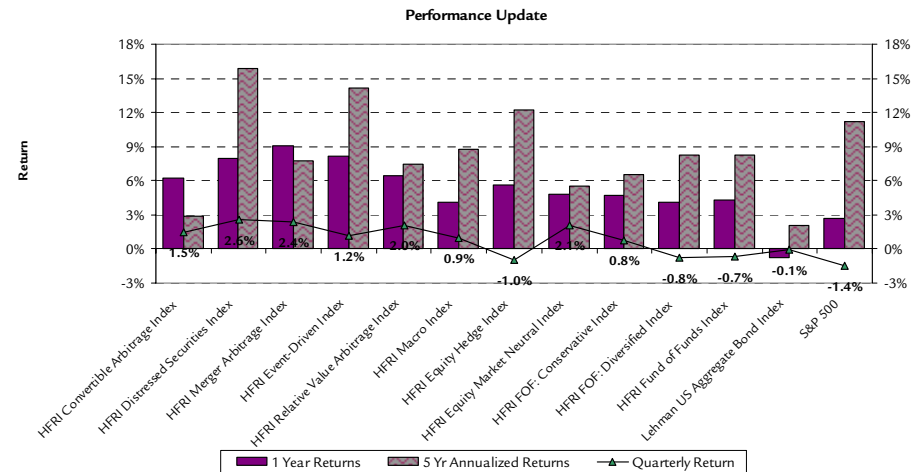
The US yield curve inverted as shorter maturity yields rose more than longer maturity yields. Bond yields also rose in both Europe and Japan although at a lower rate of increase.

## ALTERNATIVE INVESTMENTS

### Hedge Funds

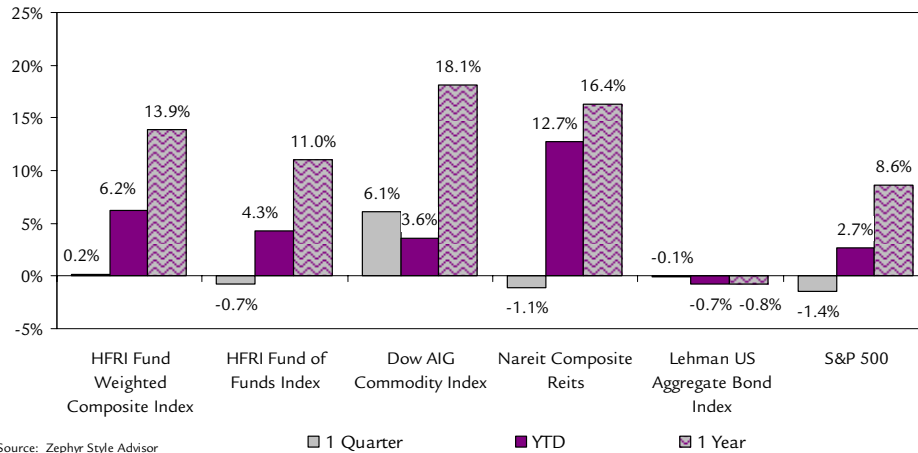
Alternative investments started off the second quarter continuing to ride the positive performance wave generated by

strong equity markets and global growth. However, gains generated in April for many hedge funds were mitigated by losses realized in May and June. The quarter provided a good measuring stick for the amount of equity market beta inherent in hedge fund managers' portfolios. A deviation of returns could be seen across the hedge fund landscape. Most managers with directional equity exposure in their portfolio experienced losses while managers focused on equity market neutral, event driven, structured finance, and other non-equity focused strategies managed to generate minimal returns. As shown in the performance chart below, distressed securities, merger arbitrage, relative value, and equity market neutral strategies generated modest results for the quarter.



Alternative investments as a whole floundered during the quarter with the exception of commodities. Hedge funds, hedge fund of funds, and real estate all realized minimal performance, either positive or negative during the quarter.

Alternative vs. Traditional Index Performance Update

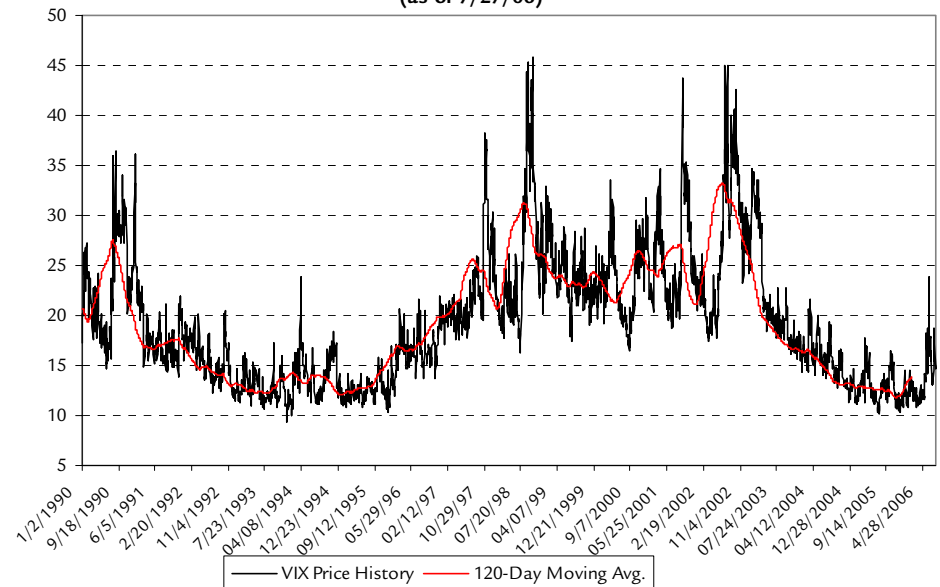


Source: Zephyr Style Advisor

Directional equity hedge fund of funds generally experienced the worst bout with negative performance as reflected by the HFRI Equity Hedge and HFRI Hedge Fund of Funds indices, both of which have directional exposure to equity markets. The indices returned -0.9% and -0.7%, respectively, for the quarter. Hedge funds with equity exposure globally fared even worse during the quarter as emerging market equities experienced the brunt of the negative performance generated by US inflation concerns. Volatility in those markets has been greater, which some believe is reflective of the tendency for hedge fund managers to play the same trades in those markets. This has led to increased correlation between manager's returns and to some extent exacerbated the sell off in May and June as selling by one manager caused selling in other portfolios. We were happy to see asset flows into the emerging markets arena slow during the quarter. However, we continue to monitor mutual fund flows into emerging equity markets. Smaller investors hungry for returns were pouring billions of dollars in capital into the space during the fourth quarter of 2005 and the first quarter of 2006.

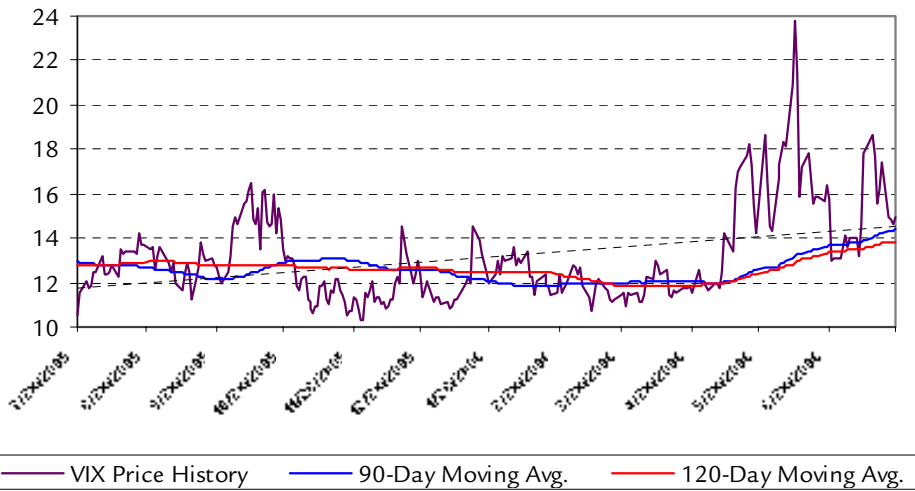
As was the case with non-US markets, volatility returned to the US equity markets during the second quarter. The main cause for this revolved around uncertain monetary policy and US inflationary fears working their way through the market. As seen in the chart below, implied volatility, as measured by the VIX index, reached levels not seen in three years.

VIX Price History (as of 7/27/06)



While volatility returned to more normalized levels towards the end of June, strategies such as convertible arbitrage benefited, because they depend on equity volatility as a large component of returns. Fundamental stabilization in the convertible arbitrage market also bolstered the strategies return (+1.5%) for the quarter.

VIX 1 Year Price History  
(as of 7/27/06)



Source: Chicago Board of Options Exchange

The mergers & acquisitions (M&A) market continued to perform well during the second quarter. Ample cash positions held by many companies fueled the activity in this strategy. For the quarter the HFRI Merger Arbitrage index was up 2.4%. During the quarter approximately \$369 billion in M&A activity was announced in the US, which is up over 20% from this period last year. Globally speaking, M&A activity is up over 35%.

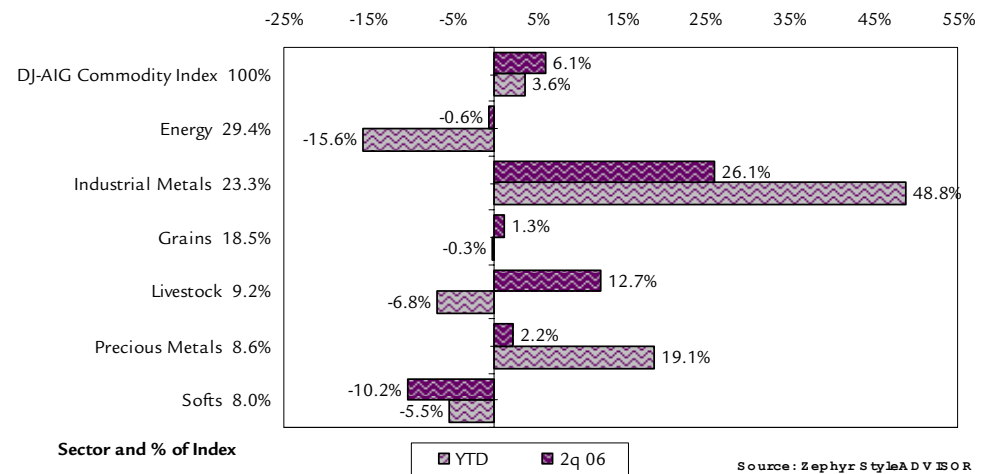
### Commodities

Thanks to strong April returns, the Dow AIG Commodity Index finished the quarter up 6.1%. Industrial metals were the largest contributor, up 26% for the quarter and 48.8% year-to-date. Zinc and copper lead April's aggressive rally in the industrial metal sector. Supply issues were a concern due to the strikes, accidents, and labor tensions in Mexican mines as well as

protests and a landslide at a large Indonesian mine. The sector saw an intense correction beginning in mid-May and continuing on through June.

The energy sector finished the quarter slightly negative due to continued declines in natural gas prices. Natural gas saw a short-lived, weather induced jump in prices as a result of record high temperatures in the southwestern US as local utilities had a surge in cooling demand. However, natural gas returned to declining prices, down 39% for the year, as supplies continue to be abundant. Crude ended the quarter at \$74.81 per barrel, up 17.5% for the year. Crude prices soared in April due to potential supply problems and tensions between the US and Iran over nuclear activities. Iranian officials suggested the government might cut off oil exports in a crisis. After a slight decline in May, crude ended June on a bullish note after the unexpected closure of a shipping channel affected refineries around Lake Charles, Louisiana.

Dow AIG Commodity Index Returns  
Second Quarter 2006



Source: Zephyr StyleAdvisor

Livestock rose in June on the possibility of reopening the Japanese beef market. Prior to the 2003 case of mad cow disease, the US exported \$1 billion of beef per year to Japan. Implementation of an agreement hinges on inspections of US meat processing facilities by Japanese agriculture officials.

Precious metals rose in April, partially due to speculative flows anticipating the first silver ETF. On April 20<sup>th</sup>, silver suffered a large price correction, falling -13.8% in one day. Prior to that correction, silver was up over 60% year-to-date. The price rebounded at the end of April when the silver ETF began trading on April 28<sup>th</sup>. Both gold and silver experienced an intense correction beginning in mid-May. The profit taking and risk reduction lasted through June. By the end of June, precious metals were only up 2.2% for the quarter, but still up 19.1% year-to-date.

### **Real Estate Investment Trusts (REITs)**

Despite rising stock markets, REITs declined in April, then again in May. A June rally left the NAREIT Composite Index down only -1.1% for the second quarter, but still up 12.7% for the year. Inflation concerns, risk reduction, and profit taking were the general causes of the April and May declines.

The office sector has been a strong performer in 2006 and has benefited from much of the merger and acquisition activity, which has been an overall driver of returns. Mortgage REITs had the highest returns of the quarter while the retail sector saw the largest drop.

### **Private Equity**

The venture-backed IPO market in the US has been lackluster as more and more companies are looking to international

exchanges to avoid the high costs of Sarbanes Oxley (SOX) compliance. SOX costs for small companies range from \$900,000 to as much as \$4 million. Conversely, the IPO market has been booming outside of the US. The AIM, an affiliate of the London Stock Exchange that serves small to mid-size companies, has exploded in popularity. India, Asia, and Australia/New Zealand have also seen increases in IPOs.

During the second quarter, private equity giant Kohlberg Kravis Roberts & Co. (KKR) listed a \$5 billion fund on the Euronext exchange in Amsterdam. To participate in such a fund, investors would previously need \$25 million to get in the door. Now anyone can buy a share for \$25. The fund will invest at least 75% in private equity, but the remaining 25% may be invested in “opportunistic” investments, such as public debt and equity. By listing in Amsterdam, KKR not only avoids SOX, but is also avoiding disclosure of their full fee schedule.

KKR is not the first private equity firm to list a fund on a public exchange. Ripplewood Holdings, a New York based firm, listed in Brussels in March and has seen modest gains since then. KKR listed a real estate investment trust last year, which has declined since its IPO. Additionally, two hedge funds have raised capital through listing on the London AIM.

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## **GLOBAL OUTLOOK**

The current global economic expansion appears to be sustainable as GDP growth remains extremely robust in Asia and India. Eastern Europe, Russia, Latin America and Mexico continue to grow their economies at roughly twice the rate of more mature economies such as the UK, US, and Japan. The US economy has shown signs of a material slowdown as current account and fiscal budget deficits continue to

consume investment capital. According to the US General Accounting Office (GAO), interest on the national debt eclipsed \$20 billion a month in May and is almost twice as costly as the wars in Afghanistan and Iraq. It is our opinion that current US fiscal policy (tax and spending) is structurally flawed as deficits continue to increase in spite of robust economic growth beginning in 2002 and healthy employment rates. The US fiscal deficit seems poised to expand significantly as the economy slows, pushing down tax receipts while governmental spending continues to grow.

The recovery in Japan seems likely to stay on track with GDP growth rising to 3.0% this year helping its trading partners. Growth also seems likely to increase in the Eurozone over its currently lackluster growth rate of 1.9%. Eastern Europe continues to look very compelling and should provide interesting investment opportunities as Bulgaria and Romania are scheduled to join the EU on January 1, 2007.

For the world, major risks continue to be the cost of financing the massive US current account deficit now approaching \$1 trillion and diminishing investor confidence due to hostilities in the Middle East, continued high energy cost, and decreasing liquidity brought about by rate increases by major central banks.

More defensive assets such as value stocks and larger capitalization issues will continue to outperform growth and smaller capitalization equities as long as increased volatility and the current level of geopolitical uncertainty is present.

### **Course of Action**

Looking forward, we continue to favor stocks to bonds and international equities to US equities. Global equity valuations

remain cheap compared to yields afforded fixed income investments although the relative valuation advantage has narrowed slightly. In the US, the fair market P/E of the S&P 500 Index is 19.6 as measured by the Federal Reserve Stock Valuation Model. The Fed model compares the forward earnings yield of the S&P 500 Index to that of the yield on the 10-year Treasury bond. The stock market is determined to be fairly valued when these two measures are in equilibrium. Based on this measure, the S&P 500 Index sold at a 28% discount to the 10-year Treasury bond at the end of the second quarter. However, any significant increases in mid-term interest rates would reduce the attractiveness of equities.

We continue to recommend overweighting international shares as valuations remain compelling versus US shares. As of June 30<sup>th</sup>, the P/E of the MSCI EAFE and Emerging Markets indices were 13.4 and 9.9, respectively. The P/E of the S&P 500 Index and the Russell 2000 Index of smaller companies stood at 14.0 and 20.3, respectively. US budget deficits will continue to put pressure on the dollar boosting international share returns for US investors. Twelve-month currency futures point to the expectation that the dollar will decline another 3% versus the Euro.

US large capitalization stocks continue to look more attractive versus small due to valuations as well as investors propensity to gravitate to larger and more defensive names in higher volatility environments. We believe volatility will remain higher than in recent periods as interest rate hikes by the European Central Bank and the Bank of Japan, as well as tensions in the Middle East, continue to create uncertainty. We are maintaining an equal weight position between large, mid and small capitalization issues.

We continue to recommend minimum allocations to fixed income investments globally as interest rates climb. Increases in core inflation in the US continue to put pressure on prices. The biggest competitor for bonds does not seem to be equities but cash. At the end of the second quarter, the yield on the 10-year Treasury note was 5.2% or 0.1% below the Fed Funds Rate, again inverting the yield curve. Spreads between US Treasuries and other credit instruments such as corporate and foreign bonds widened by a minimal amount as investors' appetite for risk in the fixed income asset class in general remains historically high.

Finally, low volatility hedge funds continue to be a very strong complement to bonds as they continue to produce T-bills plus 4-5% type of returns. We would expect talented hedge fund managers to produce superior risk-adjusted returns as volatility and interest rate uncertainty persists. We continue to search for managers that can provide unique exposures to existing investment structures with most of the opportunities continuing to be found in Eastern Europe and Asia.

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## Output, Demand, and Jobs

% change on a year ago

	GDP			The Economist poll GDP forecasts		Industrial Production		Retail Sales (volume)		Unemployment % rate		
	latest	Q1	qtr*	2006	2007	latest		latest		latest	Jun	year ago
Australia	3.1	Q1	3.5	3.2	3.4	-1.0	Q1	2.7	Q1	4.9	Jun	5.0
Austria	3.0	Q1	2.4	2.2	1.9	8.4	Apr	1.1	Apr	4.8	Jun	5.2
Belgium	2.2	Q1	3.2	2.4	1.9	7.6	May	0.8	Apr	12.0	May†	12.2
Britain	2.3	Q1	2.3	2.4	2.5	-0.7	May	4.0	May	5.4	May‡	4.7
Canada	3.2	Q1	3.8	3.2	2.7	3.1	Apr	5.7	Apr	6.1	Jun	6.8
Denmark	3.5	Q1	0.8	2.7	2.2	6.1	May	5.3	May	4.5	May	5.9
France	1.5	Q1	2.2	2.1	1.9	2.7	May	1.4	May	9.1	May	10.1
Germany	1.4	Q1	1.6	1.8	1.2	6.0	May	3.2	May	10.9	Jun§	11.9
Italy	1.5	Q1	2.4	1.3	1.1	2.9	May	1.5	Apr	7.7	Dec	7.9
Japan	3.8	Q1	3.1	3.0	2.4	3.9	May	-0.3	May	4.0	May	4.4
Netherlands	2.9	Q1	0.7	2.3	2.1	1.8	May	8.0	Apr	5.8	May††	6.7
Spain	3.5	Q1	3.3	3.3	2.8	7.9	May	1.3	May	8.3	May	9.3
Sweden	4.1	Q1	4.6	3.7	2.8	6.3	May	11.8	May	4.8	May†	5.2
Switzerland	3.5	Q1	3.8	2.9	1.9	9.2	Q1	-0.7	Apr	3.1	Jun†	3.6
United States	3.7	Q1	5.6	3.4	2.7	4.3	May	4.7	May	4.6	Jun	5.0
Euro Area	1.9	Q1	2.4	2.2	1.8	1.9	Apr	0.8	May	7.9	May	8.7

\*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Mar-May; claimant count rate 3.0% in Jun. §EU harmonised rate 8.3% in May. ††Mar-May.

Source: The Economist, July 15th-21st, 2006

## Prices and Wages

% change on a year ago

	Consumer Prices			Producer Prices			Wages/Earnings		
	latest		year ago	latest		year ago	latest		year ago
Australia	3.0	Q1	2.4	7.9	Q1	6.0	4.0	Q1	4.5
Austria	1.7	May	2.3	3.9	Jun	0.7	2.8	May	2.3
Belgium	1.9	Jun	2.9	5.6	May	2.4	2.3	Apr	2.6
Britain	2.2	May*	1.9	3.3	Jun	2.5	4.1	May†	4.1
Canada	2.8	May	1.6	2.5	May	-0.3	0.2	Apr	2.6
Denmark	2.2	Jun	1.8	5.7	May	3.0	2.9	Q1	3.1
France	1.9	Jun	1.7	4.1	May	2.5	3.3	Q1	2.9
Germany	2.0	Jun	1.8	5.3	Jun	2.2	2.2	Apr	1.5
Italy	2.3	Jun	1.8	6.6	May	3.2	2.6	May	3.1
Japan	0.6	May	0.2	3.3	Jun	1.4	0.6	May	0.1
Netherlands	1.3	Jun	1.6	6.0	May	3.8	1.9	Jun	0.6
Spain	4.0	Jun	3.2	6.5	May	4.2	3.0	Q1	2.5
Sweden	1.5	Jun	0.6	5.0	May	2.4	3.6	Apr	2.3
Switzerland	1.6	Jun	0.7	2.4	May	0.3	1.0	2005	0.9
United States	4.2	May	2.8	4.5	May	3.6	3.9	Jun	2.7
Euro Area	2.5	Jun	2.1	6.0	May	3.5	2.2	Q1	3.2

\*RPI inflation rate 3.0% in May. †Mar-May.

Source: The Economist, July 15th-21st, 2006

## Emerging Market Economies

	% change on year ago						Latest 12 months, \$bn				Foreign reserves* \$bn, latest	
	GDP		Industrial production		Consumer Prices		Trade balance		Current Account			
China	10.3	Q1	17.9	May	1.4	May	123.0	Jun	160.8	2005	925.0	May
Hong Kong	8.2	Q1	7.0	Q1	2.1	May	-13.1	May	20.7	Q1	126.6	Jun
India	9.3	Q1	10.0	May	6.3	May	41.0	May	-10.6	Q1	156.0	Jun
Indonesia	4.6	Q1	-3.6	Apr	15.5	Jun	32.7	May	3.0	Q4	40.8	Apr
Malaysia	5.3	Q1	5.5	May	3.9	May	26.9	May	19.5	Q1	79.0	May
Pakistan	6.6	2006†	19.3	Sep	7.7	Jun	-11.2	May	-4.8	Q1	11.5	Apr
Philippines	5.5	Q1	-13.9	Apr	6.7	Jun	-3.6	Apr	2.9	Mar	18.2	Jun
Singapore	7.5	Q2	10.6	May	1.1	May	32.7	May	36.1	Q1	128.7	Jun
South Korea	6.1	Q1	11.6	May	2.6	Jun	18.2	Jun	8.9	May	224.7	May
Taiwan	4.9	Q1	8.6	May	1.7	Jun	10.7	Jun	18.1	Q1	260.4	Jun
Thailand	6.0	Q1	8.9	May	5.9	Jun	-3.7	May	1.2	May	56.0	May
Argentina	8.6	Q1	6.0	May	11.0	Jun	11.6	May	6.7	Q1	21.2	Apr
Brazil	3.4	Q1	4.8	May	4.0	Jun	44.7	Jun	12.7	May	63.4	May
Chile	5.1	Q1	6.9	May	3.9	Jun	15.0	Jun	0.8	Q1	17.4	May
Colombia	5.2	Q1	-1.8	Apr	3.9	Jun	1.1	Apr	-2.0	Q1	14.5	May
Mexico	5.5	Q1	-0.8	Apr	3.2	Jun	-3.8	May	-1.2	Q1	78.4	Apr
Peru	3.6	Apr	-1.5	Apr	1.8	Jun	6.0	May	0.7	Q1	13.3	Apr
Venezuela	9.4	Q1	21.0	Mar	11.8	Jun	34.8	Q1	28.1	Q1	23.7	Apr
Egypt	5.9	Q1	4.0	2005†	6.4	Jun	-11.2	Q1	2.1	Q1	22.1	May
Israel	5.2	Q1	2.7	Apr	3.5	May	-8.0	Jun	4.4	Q1	27.5	Jun
Saudi Arabia	6.5	2005‡	na		2.4	Apr	134.3	2005	90.7	2005	24.0	Apr
South Africa	4.0	Q1	5.1	May	3.9	May	-6.1	May	-11.7	Q1	21.5	Jun
Czech Republic	7.4	Q1	12.2	May	2.8	Jun	1.5	May	-3.4	Q1	30.4	Jun
Hungary	4.6	Q1	7.4	May	2.8	Jun	-3.1	Apr	-7.9	Q1	21.8	May
Poland	5.2	Q1	19.1	May	1.2	May	-2.6	Apr	-4.4	Apr	46.4	May
Russia	5.5	Q1	10.6	May	9.1	Jun	136.0	May	93.5	Q1	243.2	Jun
Turkey	6.4	Q1	9.0	May	10.1	Jun	-49.1	May	-28.7	May	59.6	May

\*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate.

Source: The Economist, July 15th-21st, 2006

## Trade, Exchange Rates, and Budget

	Trade balance*, \$bn 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		
					2006	2007	April 11th	year ago	
Australia	-11.7	Apr	-40.6	Q1	-5.6	-5.2	117.5	116.8	0.9
Austria	-1.2	Apr	0.5	Dec	0.3	-0.1	105.3§	105.7	-1.9
Belgium	13.2	Apr	7.3	Mar	1.5	1.6	107.1§	107.6	-0.4
Britain	-128.1	May	-52.3	Q1	-2.9	-2.9	99.3	98.0	-3.4
Canada	59.9	May	31.8	Q1	2.1	1.1	126.7	119.9	2.2
Denmark	8.5	May	5.1	May	2.3	2.2	106.4	105.9	3.3
France	-31.7	May	-32.6	Apr	1.8	-1.5	107.9§	108.5	-2.9
Germany	189.9	May	108.1	May	3.7	3.8	109.4§	110.1	-3.1
Italy	-18.2	Apr	-28.5	Apr	-1.6	-1.5	107.5§	108.0	-4.2
Japan	80.6	May	165.8	May	3.8	3.8	81.4	85.7	-5.2
Netherlands	39.0	Apr	42.3	Q1	5.9	5.8	108.0§	108.4	-0.5
Spain	-99.9	Apr	-88.9	Mar	-7.7	-7.7	105.6§	105.9	1.1
Sweden	20.1	May	23.2	Q1	6.6	6.1	98.9	95.7	1.7
Switzerland	7.8	May	51.7	Q1	13.4	12.5	106.3	106.0	-0.2
United States	-822.8	May	-808.0	Q1	-6.8	-6.9	84.0	86.2	-3.6
Euro Area	2.2	Apr	-39.2	Apr	-0.4	-0.1	119.0	116.1	-2.3

\*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, July 15th-21st, 2006

## WATERSTREET CAPITAL MARKETS OVERVIEW

### International Developed Market Performance

Source: Morgan Stanley Capital International

REGIONS	In Local Currency		In US Dollars	
	2Q'06	YTD	2Q'06	YTD
EAFE	-4.02%	3.92%	0.94%	10.50%
EURO	-3.55%	5.69%	1.91%	14.57%
EUROPE	-3.12%	5.42%	2.88%	14.03%
PACIFIC	-5.90%	0.90%	-2.93%	3.67%
THE WORLD INDEX	-2.86%	3.16%	-0.33%	6.37%
WORLD ex USA	-4.04%	3.90%	0.90%	10.40%
NATIONAL INDICES				
AUSTRALIA	-0.21%	9.06%	3.98%	10.46%
AUSTRIA	-6.93%	2.95%	-1.66%	11.59%
BELGIUM	-3.95%	3.49%	1.49%	12.18%
CANADA	-4.17%	3.84%	0.53%	9.07%
DENMARK	-4.87%	1.95%	0.56%	10.51%
FINLAND	-7.94%	8.16%	-2.73%	17.24%
FRANCE	-2.41%	7.72%	3.12%	16.77%
GERMANY	-5.18%	5.23%	0.19%	14.07%
GREECE	-7.99%	3.01%	-2.78%	11.66%
HONG KONG	0.03%	7.21%	-0.07%	7.02%
IRELAND	-5.22%	6.44%	0.15%	15.38%
ITALY	-0.41%	5.54%	5.23%	14.41%
JAPAN	-7.53%	-1.26%	-4.56%	1.95%
NETHERLANDS	-5.74%	2.63%	-0.40%	11.25%
NEW ZEALAND	-7.12%	-0.84%	-7.28%	-11.17%
NORWAY	-5.08%	13.58%	0.11%	23.59%
PORTUGAL	-4.31%	13.09%	1.11%	22.59%
SINGAPORE	-2.01%	5.94%	0.25%	11.36%
SINGAPORE FREE	-2.01%	5.94%	0.25%	11.36%
SPAIN	-2.10%	7.72%	3.45%	16.77%
SWEDEN	-8.72%	2.18%	-1.24%	12.89%
SWITZERLAND	-3.36%	2.80%	3.09%	10.61%
UNITED KINGDOM	-1.59%	5.48%	4.94%	13.64%

### International Emerging Market Performance

Source: Morgan Stanley Capital International

REGIONS	In Local Currency		In US Dollars	
	2Q'06	YTD	2Q'06	YTD
EM (EMERGING MARKETS)	-2.88%	6.51%	-4.27%	7.34%
EM ASIA	-2.40%	4.53%	-1.98%	7.49%
EM EASTERN EUROPE	0.35%	19.48%	1.55%	21.69%
EM EUROPE	-2.26%	13.90%	-3.76%	12.85%
EM EUROPE & MIDDLE EAST	-4.78%	6.43%	-5.16%	6.23%
EM LATIN AMERICA	-1.86%	10.15%	-3.06%	12.14%
NATIONAL INDICES				
ARGENTINA	5.22%	36.74%	5.13%	34.19%
BRAZIL	-2.71%	9.87%	-2.43%	18.56%
CHILE	-3.80%	6.14%	-6.39%	0.70%
CHINA	1.97%	23.92%	1.88%	23.71%
COLOMBIA	-22.72%	-8.89%	-31.35%	-19.31%
CZECH REPUBLIC	-7.12%	-1.38%	-1.89%	8.84%
EGYPT	-26.48%	-20.17%	-26.57%	-20.39%
HUNGARY	-6.74%	2.23%	-8.21%	-1.23%
INDIA	-6.32%	12.46%	-9.33%	9.94%
INDONESIA	0.10%	16.05%	-1.81%	23.27%
ISRAEL	-15.35%	-17.14%	-11.54%	-14.47%
JORDAN	-10.47%	-23.54%	-10.48%	-23.54%
KOREA	-5.26%	-3.92%	-2.97%	2.37%
MALAYSIA	-1.36%	4.22%	-1.13%	7.19%
MEXICO	-0.32%	9.30%	-3.81%	3.01%
MOROCCO	-0.92%	35.06%	3.64%	44.32%
PAKISTAN	-16.29%	3.10%	-16.42%	2.39%
PERU	13.92%	25.55%	15.42%	28.47%
PHILIPPINES	-2.74%	4.19%	-6.34%	4.01%
POLAND	0.44%	6.57%	2.43%	8.92%
RUSSIA	2.75%	31.25%	3.19%	32.45%
SOUTH AFRICA	-1.59%	12.85%	-14.94%	0.36%
SRI LANKA	-3.19%	10.82%	-4.49%	8.84%
TAIWAN	0.65%	2.06%	0.89%	3.53%
THAILAND	-6.83%	-4.53%	-5.02%	2.59%
TURKEY	-16.73%	-11.51%	-29.47%	-24.71%
VENEZUELA	2.81%	50.65%	0.76%	51.32%