

- **US Equities** had a strong third quarter with the S&P 500 Index posting a 5.7% return, bringing the year-to-date return to 8.5%. Investors responded well during the quarter due to a pause in rate increases by the Federal Reserve.
- **International (Non-US) Equities** recouped second quarter losses with the MSCI EAFE Index returning 4.0%. Emerging markets continued to rebound from the May-June sell off with the MSCI Emerging Markets Index posting a 5.0% return.
- **Fixed Income** markets performed well during the third quarter with the Lehman Brothers Aggregate Bond Index posting a 3.8% return. Positive third quarter results boosted year-to-date returns into positive territory.
- **Alternative Investments** provided mixed results as the HFRI Fund- of- Fund Index returned 0.6% for the quarter. The Dow AIG Commodity Index lost 6.5% while real estate, as measured by the NAREIT, advanced 8.6%.
- **Global Outlook** remains bullish as global GDP growth continues to be substantially above historical norms.

Subsiding tensions between Israel and Hezbollah, a dramatic drop in oil prices, and the suspension of interest rate hikes by the US Federal Reserve proved to be major catalysts for strong global equity and bond market returns. In the US, large capitalization stocks led the market with earnings on S&P 500 companies growing at a rate of 13.4% over the trailing 12 month period. International equity returns were hindered due to negative returns in Japan, and to a lesser extent, a rebound in the value of the US dollar. Mexico and China experienced exceptionally strong results, returning 16.0% and 8.8%, respectively.

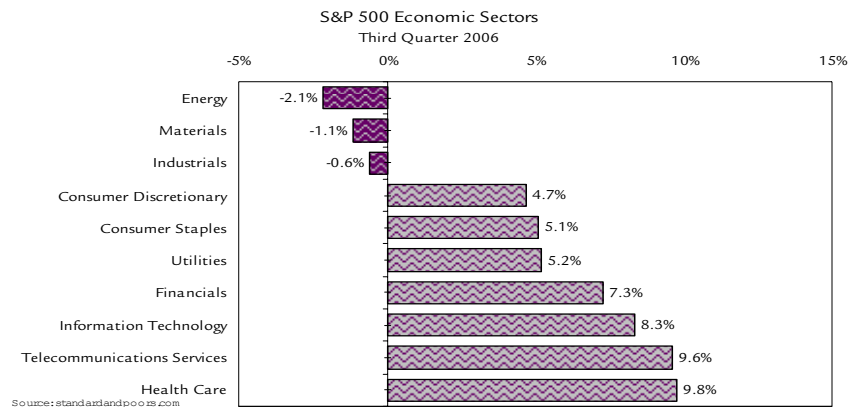
The European Central Bank continued its planned interest rate increases as economic conditions across the continent continued to improve. The US Federal Reserve left short rates unchanged. This action, coupled with a dramatic decrease in oil prices and a slow-down in the US residential housing market, has led to the highest quarterly return for US bonds since the third quarter of 2002. Bond yields seem overly depressed and we expect returns on cash to be more compelling than bonds in the short run.

Growth in the global economy continues to be robust with the consensus growth for 2007 to be approximately 4.5%, slowing from 5.0% in 2006. This remains well above the historical growth rate of 3.7%. The risks continue to be liquidity concerns in the event of a major pricing dislocation in the credit markets, current account deficits, and wage inflation.

US EQUITIES

The US stock market had a strong third quarter with the S&P 500 Index posting a 5.7% return, bringing the year-to-date return to 8.5%. During the quarter, investors responded well to a pause in rate increases by the Federal Reserve. Economic indicators were positive during the quarter as lower oil prices, stable interest rates, and moderate inflation helped increase both investor and consumer confidence.

In the US, returns in the health care, telecommunications, and information technology sectors led the market during the quarter. Telecommunications benefited significantly from falling bond yields and improved earnings expectations. Earnings revised upward due to increased confidence in dividend yields. Favorable returns from pharmaceutical companies and a turnaround within the hospital sector resulted in positive performance from the health care sector.



Decreasing prices in the computer markets helped returns in the information technology sector as investors hoped that consumers would increase purchases. As oil and gasoline

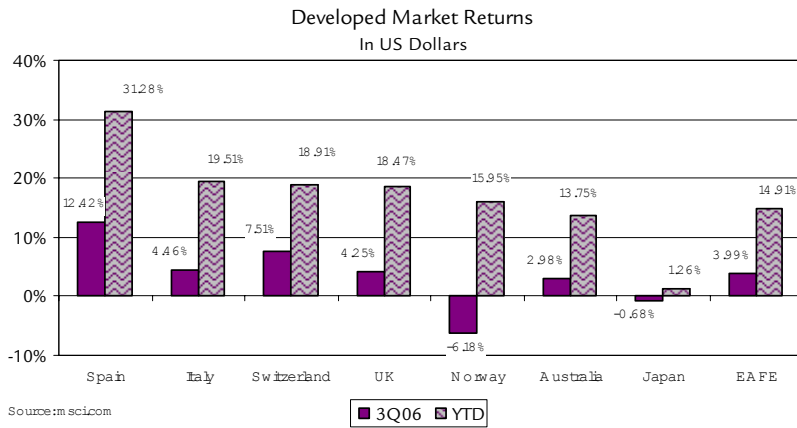
prices dropped, energy became the worst performing sector despite the positive economic impacts that came with the reduced prices.

US large capitalization stocks outperformed their small capitalization counterparts during the quarter. With continued uncertainty about future economic strength, investors favored more financially secure companies. Despite a low 0.4% third quarter return, small capitalization stocks, as measured by the Russell 2000 Index, have posted an 8.7% return for the year. Exceptional first quarter returns in small capitalization stocks have kept year-to-date performance high. Value stocks continued the trend of outperforming growth stocks during the quarter as investors seemed to seek dividend returns in companies with improved fundamentals.

INTERNATIONAL EQUITIES

Developed Markets

During the third quarter, most international developed markets recouped their losses from the second quarter where only one index component, Hong Kong, produced positive results. In contrast, during the third quarter, all developed markets excepting Norway (whose index is heavily weighted towards energy) produced positive results. The MSCI EAFE Index returned 4.0% during the quarter, bringing the year-to-date return to 14.9%. European stocks performed well, while Japanese stocks hindered overall performance (see exhibit below). Declining commodity prices, particularly energy prices, were a major factor during the quarter. Commodity related names in the materials and industrials sectors were also affected.



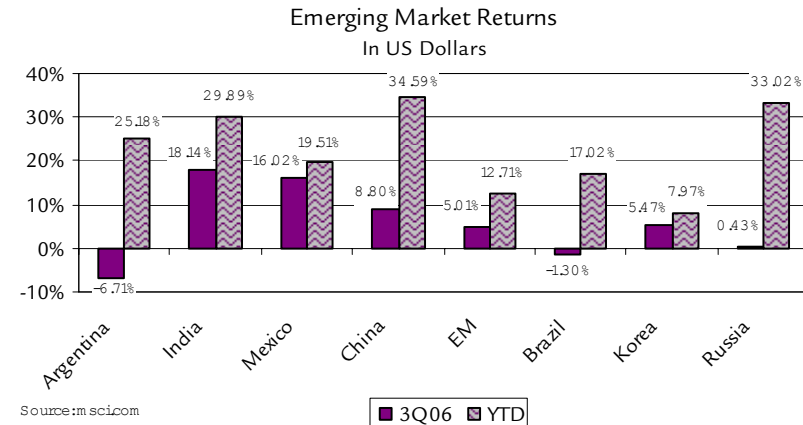
For the first time in several years, high quality large capitalization companies gained favor in the developed international markets. Value stocks outperformed growth stocks in the third quarter. Utilities, telecom, and consumer staples were top performing sectors, while energy and materials were the two worst performing sectors.

European countries performed well during the third quarter; although, the European consumer remains relatively sluggish. Spain gained 12.4%, followed by Belgium 11.2%, the Netherlands 11.0%, and Ireland 8.8%.

Japanese stocks struggled do to relatively high equity valuations and political uncertainty with the prime minister’s succession. The first interest rate hike by The Bank of Japan in six years also depressed share values. Japanese small capitalization and financial stocks failed to recover from the May-June correction in contrast to other markets where these industries recovered. The Japanese labor market continues to improve, however.

Emerging Markets

Emerging markets continued to rebound from the sell-off that occurred between May-June, but remain below their highs from earlier in the year. The MSCI Emerging Markets Index returned 5.0% during the third quarter. Year-to-date the index has gained 12.7%.



Emerging market countries continue to maintain relatively healthy economies with current account surpluses and decreasing foreign debt. Major credit rating agencies upgraded debt ratings or had positive outlooks assigned in South Africa, China, Brazil, Russia, and India. Growth of emerging market economies has been a key factor for positive performance.

During the quarter, Asia was the best performing region, outperforming Latin America, Eastern Europe, and the Middle East. Representing 7% of the index, India gained 18%, as earnings expectations increased. The country also reported first half GDP growth of 9%. China gained 9%, representing 9% of the index, also due to upward revised earnings

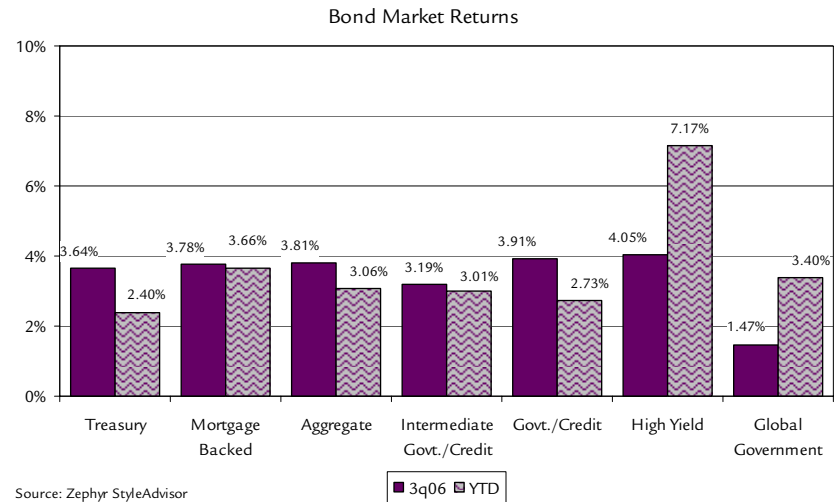
expectations. China reported 11% first half GDP growth, although they struggle with rampant growth.

Commodity or resource-intense emerging market countries detracted from third quarter performance due to the downturn in energy prices and inflationary pressures. Commodity oriented countries, such as Brazil and South Africa, did not participate in the rebound during the third quarter. Brazil lost 1.3% due to commodity exposure as well as political uncertainty, while South Africa lost 6.5% due to less robust commodity prices, rising interest rates, and a weak currency.

FIXED INCOME

Fixed income markets performed well during the third quarter with the Lehman Brothers Aggregate Bond Index posting a 3.8% return. Positive quarterly performance among fixed income helped boost year-to-date performance into positive territory. Much of the positive performance during the quarter can be attributed to a weakening US economy. The largest impact in the US was the housing market where prices fell on a national level for the first time in 11 years. Additionally, commodity prices, which had been major contributors to inflation, reversed course during the quarter.

The US Federal Reserve left the discount rate unchanged at 5.25% for the second consecutive time during the quarter. This quarter marks the first time in almost two years that the Fed did not increase rates. As a result, interest rates fell overall due to investor hopes that the Fed would cut short term rates to ward off a recession. The Fed warned that they remain concerned about inflationary pressures and could potentially raise rates again.

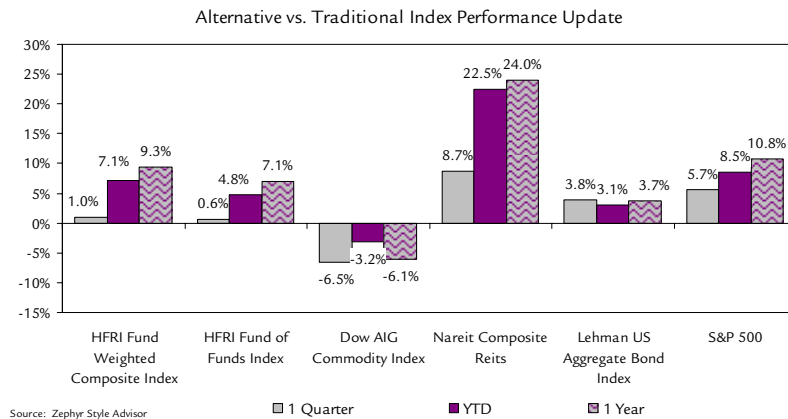


Stable interest rates and yield premiums allowed mortgage-backed, corporate, and emerging bonds to outperform Treasuries during the quarter. Mortgage-backed securities were supported during the third quarter by non-US buyers who were in search of higher yields and historically low levels of volatility. The pause in Fed rate hikes also produced a positive effect on the corporate bond market. Emerging market bonds were the top performing of all fixed income assets. Continued investor risk tolerance and increasing positive economic fundamentals in Argentina, Brazil, and Peru buoyed prices.

ALTERNATIVE INVESTMENTS

Hedge Funds

Hedge funds experienced a benign performance quarter. For the quarter hedge funds and fund of funds returned 1.0% and 0.6% as represented by the HFRI Fund Weighted Composite Index and HFRI Fund of Funds Index, respectively.

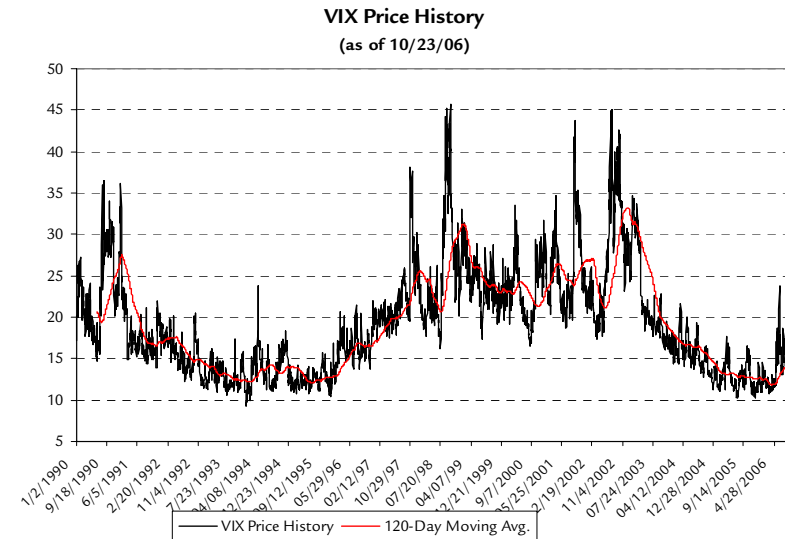


Within hedge fund strategies convertible arbitrage outpaced other main stream strategies for the quarter returning 2.7% as represented by the HFRI Convertible Arbitrage Index. Convertible arbitrage managers benefited from strong bond market returns in the third quarter as investors have begun to expect a less aggressive interest rate policy from the Fed. Most other hedge fund strategies provided very lackluster returns for the quarter.

Equity based strategies represented by the HFRI Equity Hedge and HFRI Equity Market Neutral Indices did not benefit much from the stronger equity markets seen in the US and abroad during the quarter. This is because performance in the US market was driven mainly by large capitalization stocks, an

area that many hedge fund managers do not attempt to arbitrage. Additionally, during the quarter many long/short equity managers reduced their net directional exposure to the market, thus becoming more hedged.

After a large increase in the second quarter, implied equity volatility, as measured by the VIX Index, remained subdued. Volatility continues to trade near historical lows.



If this trend continues, returns may be harder to realize in the equity long/short strategy. This strengthens our belief that negotiating capacity with the best firms in the business remains the key to realizing expected returns from this asset class.

Event-Driven and merger arbitrage (M&A) strategies were positive for the quarter as M&A activity continued at a robust pace both domestically and abroad. Equity and credit markets have continued to move Leveraged Buy Out (LBO) activity forward at a feverish pace. Investors appear determined to

focus on the positive aspects of the credit markets which include historically low default rates and energy prices easing the pressure on inflationary expectations.

We remain very watchful of the credit default swap market as they relate to corporate and consumer default rates. Of all the industry wide changes occurring in hedge funds, we feel this area is by far the most misunderstood and potentially hazardous. We are happy to see many managers recognizing this fact and hedging CDS exposure from their portfolios.

Commodities

After gains in July, commodity losses in August and September left the Dow AIG Commodity Index down -6.5% for the quarter and down -3.2% for the year. The largest losses of the quarter came from energy, primarily due to natural gas which has lost 67.5% year-to-date. There were several factors that contributed to the declines to include, lower demand caused by milder summer temperatures, oversupply, and that the fact that United States was not hit with any major storms.

Crude prices remained relatively unchanged in July and then began a steady decent through the end of the quarter. Prices received a limited boost from a mid September announcement by BP that an oil field in the Gulf of Mexico will be out of commission until 2008. However, extremely high levels of US supplies and fears about a slowdown in the US economy caused extensive liquidation through September.

Industrial metals rose 9.3% in the third quarter, with the majority of those gains coming in July. Despite concerns of a global economic slowdown, declining inventories and supply concerns due to strikes and other disruptions have kept prices on the rise. Precious metals ended the quarter relatively flat.

Real Estate Investment Trusts (REITs)

After a two month slump in the second quarter, REITs bounced back with an 8.6% return in the third quarter, leaving the NAREIT Composite REITs Index up 22.5% for the year. Health care REITs saw the largest gains of the quarter, followed by residential REITs, which have performed well all year. Mortgage REITs, which actually gained over 6% during the second quarter, declined in July and August. September's strong return in the sector left mortgages flat for the quarter. 30-year mortgage rates declined steadily through the quarter, from 6.8% at the end of June to 6.3% at the end of September.

Private Equity

Venture Capital (VC) fundraising continues to be strong relative to recent years. Despite high demand from institutional investors, VC firms are taking a more cautious approach and keeping their fund sizes relatively small. Demand for Leveraged Buy Out (LBO) funds is also at its highest point in years. LBO fundraising is on pace to exceed the record set in 2005 as firms increase their fund size amid growing global opportunities to accommodate the high demand.

VC firms may be showing such discipline because they remember the hard lessons learned from the excesses of 1999-2000, or they could be concerned with the continuing low volume of VC-backed IPOs. On the other hand, LBO-backed IPOs continue to increase and are set to break last year's record. Merger and acquisition activity remains at high levels and is the main outlet for liquidity for both VC and LBO backed companies.

GLOBAL OUTLOOK

Globally, economic growth remains robust with forecasted growth for 2007 between 4.4 and 4.6%. The major positive factors are moderating economic growth in the US, substantial declines in energy prices, and a possible conclusion of interest rates hikes by the European Central Bank and the US Federal Reserve. Additionally, OPEC and other oil producers seem satisfied with oil prices in the low \$60 a barrel range. This is good news for overall inflation. Wage gains and the corresponding increase in personal consumption should help to offset the residential housing slump, especially in the US. In the long-run this is a double edged sword. Core CPI, which excludes food as well as energy, jumped to 2.8%, well above the US Federal Reserve's target of 1.0%-2.0%.

There are two major risks in the capital markets that give us pause. The first is the size of the US current account deficit which is now approaching a trillion dollars. A significant dollar devaluation and subsequent recession in the United States will probably not occur as long as China, Japan, India, and other countries continue to finance the current account deficit by buying US Treasury debt. The US current account deficit is currently running about 6.6% of Gross Domestic Product (GDP). GDP growth overall could slip to near 2.0% in the US in 2007. A recession in 2008 is not out of the question. The second is a possible dislocation in the credit markets. Some experts believe that there are many risks that cannot be quantified resulting from the dramatic increase in credit derivatives. The proliferation of leverage finance which includes second lien loans, mezzanine finance, and payment-in-kind notes all contribute to the uneasiness that is felt by many in the credit markets. Additionally, the explosion of the credit-default swap market has many questioning the ability of counterparties to settle contracts in the event of a liquidity

crisis. Credit derivatives are purchased by investors to buy or sell cover in the event a borrower defaults. Many of these risks are pooled into collateralized debt obligations (CDO's). According to the International Swaps and Derivatives Association the notional value of outstanding credit derivatives was approximately \$26 trillion, a 52% increase in just the first 6 months of the year.

Course of Action

We continue to favor stocks to bonds and international equities to US equities. Earnings growth expectations have slowed substantially, especially in the US. Cash, which is currently yielding over 5%, could provide excellent competition to stocks and bonds over the short run. Additionally, global equity valuations are now more in sync with historical price to earnings ratios but still represent good value on a cash flow basis. Over the long term non-US stocks still seem cheaper on a valuation basis to US stocks and have fairly higher forecasted country GDP growth rates. Emerging markets currently sell at 11x forward 12-month earnings which is considerably below its long-term multiple of 18. Growth rates in Asia powered by India and China should be in the 7% range. They have been growing between 9% and 11% in the past two years. Additionally, we expect the dollar to resume its downward trend against other major currencies.

Growth stocks look poised to outperform value going forward as energy, manufacturing, and financial service firm earnings come under pressure with the slowing economy. Many technology and health care companies could see a resurgence of higher equity valuations as earnings- per- share growth remains stable. Companies in the Goldman Sachs Technology Composite Index will increase their earnings- per- share by 14.6% over the next 12 months, according to I/B/E/S. This is

substantially higher than the rest of the S&P 500 which is forecast to grow at 10.0%. Two other factors seem to favor growth. The first is that growth stocks, especially technology, have substantially outperformed in the three months after the Federal Reserve suspended tightening. This out performance occurred in 1987, 1989, 1995, 1997, and 2000 according the economic-research firm ISI. Secondly, value stocks have outperformed growth stocks for almost seven years and we expect the growth cycle to start in earnest in 2007.

In the alternative asset classes we expect commodities to rebound and stabilize during the fourth quarter, especially the energy complex. Global real estate in the commercial sector also looks stable while residential, especially in the US, should continue to fall into 2007. Low volatility hedge fund- of- funds will continue to be a good bond alternative. We believe, however, the gap between the very good hedge fund firms and the sea of mediocre firms will continue to broaden. Look for many hedge funds to close their doors in the next 12-18 months due to lack of performance. Obtaining capacity with top tier managers will continue to be advisors and consultant's biggest challenge.

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Please contact WaterStreet if you would like to receive a copy of our Glossary of Terms, which defines market indices and statistical definitions

Prices and Wages

% change on a year ago

	Consumer Prices			Producer Prices			Wages/Earnings		
	latest	year ago		latest	year ago		latest	year ago	
Australia	4.0	Q 2	2.5	9.9	Q 2	6.9	4.7	Q 2	5.8
Austria	1.8	Aug	2.0	3.9	Aug	0.9	2.7	Aug	2.3
Belgium	1.2	Sep	3.2	5.9	Aug	1.7	2.1	Jul	2.5
Britain	2.5	Aug*	2.4	2.6	Aug	3.0	4.4	Jul†	4.1
Canada	2.1	Aug	2.6	3.6	Aug	-0.3	-0.4	Jun	1.6
Denmark	2.0	Aug	2.2	4.3	Aug	5.0	3.2	Q 2	2.9
France	1.9	Aug	1.8	3.9	Jul	3.3	3.1	Q 2	3.0
Germany	1.0	Sep	2.5	5.3	Aug	1.9	-0.5	Jul	1.3
Italy	2.2	Sep	2.0	6.6	Aug	3.7	2.9	Aug	2.9
Japan	0.9	Aug	-0.3	3.4	Aug	1.8	-0.6	Aug	-2.7
Netherlands	1.1	Sep	1.8	4.9	Aug	5.1	1.9	Aug	0.8
Spain	3.7	Aug	3.3	5.7	Aug	4.9	3.1	Q 2	3.4
Sweden	1.6	Aug	0.6	3.9	Aug	4.2	2.5	Jul	2.9
Switzerland	0.8	Sep	1.4	3.1	Aug	1.0	1.0	2005	0.9
United States	3.8	Aug	3.6	3.7	Aug	5.3	3.9	Aug	2.7
Euro Area	1.8	Sep	2.6	5.7	Aug	4.0	2.4	Q 2	2.5

* RPI inflation rate 3.4% in Aug. † May-Jul.

Source: The Economist, October 7th-13th, 2006

Output, Demand, and Jobs

% change on a year ago

	GDP			The Economist poll GDP forecasts		Industrial Production		Retail Sales (volume)		Unemployment % rate		
	latest	qtr*		2006	2007	latest	latest		latest	year ago		
Australia	1.9	Q 2	1.3	2.7	3.2	-1.0	Q 1	3.6	Q 2	4.9	Aug	5.0
Austria	3.0	Q 2	3.6	2.6	2.0	7.9	Jul	2.2	Jul	4.8	Sep	5.2
Belgium	2.8	Q 2	3.1	2.6	2.0	3.7	Jul	1.6	Jul	13.0	Jul†	13.4
Britain	2.6	Q 2	2.8	2.6	2.4	-0.5	Jul	4.3	Aug	5.5	Jul‡	4.7
Canada	2.9	Q 2	2.0	2.9	2.6	0.7	Jul	5.5	Jun	6.5	Aug	6.8
Denmark	2.4	Q 2	7.8	2.7	2.1	5.6	Jul	3.8	Aug	4.4	Jul	5.8
France	2.6	Q 2	4.9	2.3	2.0	1.3	Jul	5.5	Jul	9.0	Aug	9.9
Germany	2.4	Q 2	3.6	2.3	1.3	4.7	Jul	1.0	Aug	10.6	Sep§	11.7
Italy	1.5	Q 2	1.9	1.6	1.2	-0.2	Jul	-0.3	Jun	7.0	Q 2	7.8
Japan	2.5	Q 2	1.0	2.8	2.1	6.0	Aug	-1.0	Jul	4.1	Aug	4.3
Netherlands	2.8	Q 2	4.8	2.7	2.2	1.9	Jun	4.6	Jun	5.4	Aug††	6.6
Spain	3.7	Q 2	3.8	3.5	2.8	4.9	Aug	1.1	Jul	7.8	Aug	8.6
Sweden	5.1	Q 2	5.4	4.4	3.0	1.5	Jul	8.0	Aug	5.7	Aug†	6.5
Switzerland	3.2	Q 2	3.0	3.0	2.0	4.3	Q 2	2.1	Jul	3.1	Aug†	3.6
United States	3.5	Q 2	2.6	3.4	2.4	4.7	Aug	2.5	Jul	4.7	Aug	4.9
Euro Area	2.4	Q 2	3.6	2.5	1.8	3.2	Jul	2.4	Aug	7.9	Aug	8.5

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*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡May-Jul; claimant count rate 3.0% in Aug. §EU harmonised rate 8.2% in Jul.. ††Jun-Aug.

Emerging Market Economies

	% change on year ago						Latest 12 months, \$bn				Foreign reserves*	
	GDP		Industrial production		Consumer Prices		Trade balance		Current Account		\$bn, latest	
China	11.3	Q2	15.7	Aug	1.3	Aug	135.9	Aug	160.8	2005	954.5	Jul
Hong Kong	5.2	Q2	5.3	Q2	2.5	Aug	-14.9	Aug	18.6	Q2	128.9	Aug
India	8.9	Q2	12.4	Jul	6.3	Aug	-41.8	Aug	-13.2	Q2	158.0	Aug
Indonesia	5.2	Q2	12.2	Jul	14.5	Sep	36.4	Aug	3.8	Q1	40.4	Aug
Malaysia	5.9	Q2	7.3	Jul	3.3	Aug	28.0	Aug	20.0	Q2	79.0	Aug
Pakistan	6.6	2006†	13.0	Jul§	8.9	Aug	-12.5	Jul	-5.0	Q2	11.6	Jun
Philippines	5.5	Q2	-10.4	Jul	5.7	Sep	-4.1	Jul	2.9	Mar	18.6	Aug
Singapore	8.1	Q2	5.5	Aug	0.7	Aug	32.6	Aug	38.3	Q2	130.7	Aug
South Korea	5.3	Q2	10.6	Aug	2.4	Sep	15.7	Sep	5.8	Aug	227.0	Aug
Taiwan	4.6	Q2	4.8	Aug	-0.6	Aug	20.3	Aug	20.6	Q2	261.0	Aug
Thailand	4.9	Q2	7.4	Aug	2.7	Sep	-1.9	Aug	3.4	Aug	57.7	Aug
Argentina	7.9	Q2	7.6	Aug	10.4	Sep	11.3	Aug	7.4	Q2	25.1	Jul
Brazil	1.2	Q2	3.2	Jul	3.8	Aug	46.3	Sep	13.8	Aug	68.8	Aug
Chile	4.5	Q2	1.9	Jul	2.8	Sep	18.5	Aug	2.2	Q2	16.3	Aug
Colombia	6.0	Q2	13.6	Jul	4.6	Sep	0.7	Jul	-2.2	Q2	14.9	Aug
Mexico	4.7	Q2	5.8	Jul	3.5	Aug	-4.2	Aug	-0.6	Q2	83.0	Jul
Peru	9.0	Jul	5.6	Jul	2.0	Sep	6.9	Jul	1.3	Q2	14.3	Aug
Venezuela	9.2	Q2	14.3	Jun	15.3	Sep	37.2	Q2	29.5	Q2	23.8	Jun
Egypt	5.9	Q1	4.0	2005†	8.9	Aug	-11.2	Q1	2.1	Q1	23.2	Aug
Israel	6.2	Q2	13.4	Jul	2.2	Aug	-7.9	Aug	5.8	Q2	28.1	Aug
Saudi Arabia	6.6	2005‡	na		2.2	Jul	126.5	2005	90.7	2005	22.8	Jul
South Africa	3.6	Q2	5.8	Jul	5.4	Aug	-8.2	Aug	-13.3	Q2	21.9	Aug
Czech Republic	6.2	Q2	11.8	Jul	3.1	Aug	1.6	Jul	-3.8	Q2	30.7	Aug
Hungary	3.8	Q2	12.2	Jul	3.5	Aug	-3.3	Jul	-7.6	Q2	20.8	Aug
Poland	5.5	Q2	12.5	Aug	1.6	Aug	-3.2	Jul	-4.9	Jul	46.7	Aug
Russia	7.4	Q2	5.6	Aug	9.7	Aug	139.6	Jul	91.4	Q2	252.2	Aug
Turkey	7.5	Q2	9.5	Jul	10.6	Sep	-50.6	Aug	-29.6	Jul	57.0	Jul

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

Source: The Economist, October 7th-13th, 2006

Trade, Exchange Rates, and Budget

	Trade balance*, \$bn latest 12 mos		Current Account Balance				Exchange Rate		Budget balance % of GDP 2006‡
			\$bn latest 12 mos		The Economist poll % of GDP, forecast		trade weighted** 2000=100		
					2006	2007	Oct 4th	year ago	
Australia	-10.6	Aug	-41.0	Q2	-5.6	-5.3	115.9	118.5	0.9
Austria	-1.6	Jul	6.4	Q1	0.8	0.8	105.7§	104.8	-1.9
Belgium	15.7	Jul	6.5	Jun	1.8	2.0	107.6§	106.5	-0.4
Britain	-140.1	Jul	-64.4	Q2	-2.7	-3.0	102.3	99.0	-3.4
Canada	58.8	Jul	28.6	Q2	1.5	1.0	127.9	122.8	2.2
Denmark	8.2	Jul	5.9	Jul	1.9	1.8	106.8	105.5	3.3
France	-33.2	Jul	-36.3	Jul	-1.8	-1.4	108.4§	107.1	-2.9
Germany	185.8	Jul	106.2	Jul	3.6	3.6	110.1§	108.5	-3.1
Italy	-23.9	Jul	-34.3	Jul	-1.8	-1.7	108.0§	106.8	-4.2
Japan	78.0	Jul	165.1	Jul	3.5	3.5	79.5	84.6	-5.2
Netherlands	39.0	Jul	46.2	Q2	6.3	6.0	108.5§	107.2	-0.5
Spain	-104.9	Jul	-92.6	Jun	-8.4	-8.0	105.9§	105.1	1.1
Sweden	19.7	Aug	24.1	Q2	6.5	6.0	97.3	96.1	1.7
Switzerland	8.2	Aug	55.3	Q2	13.0	12.5	105.0	106.3	-0.2
United States	-8.4	Jul	-838.1	Q2	-6.6	-6.6	84.2	86.1	-3.6
Euro Area	-20.9	Jul	-52.3	Jul	-0.4	-0.2	118.8	115.0	-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, October 7th-13th, 2006

WATERSTREET CAPITAL MARKETS OVERVIEW

International Developed Market Performance

Source: Morgan Stanley Capital International

REGIONS	In Local Currency		In US Dollars	
	3Q'06	YTD	3Q'06	YTD
EAPE	5.09%	9.20%	3.99%	14.91%
EURO	7.41%	13.53%	6.41%	21.92%
EUROPE	6.15%	11.91%	5.67%	20.49%
PACIFIC	2.88%	3.81%	0.50%	4.19%
THE WORLD INDEX	5.10%	8.41%	4.57%	11.23%
WORLD ex USA	4.82%	8.91%	3.79%	14.58%
NATIONAL INDICES				
AUSTRALIA	2.53%	11.82%	2.98%	13.75%
AUSTRIA	4.37%	7.45%	3.40%	15.39%
BELGIUM	12.57%	16.49%	11.52%	25.11%
CANADA	1.60%	5.50%	1.27%	10.46%
DENMARK	9.73%	11.87%	8.74%	20.16%
FINLAND	2.16%	10.49%	1.20%	18.65%
FRANCE	5.88%	14.06%	4.90%	22.49%
GERMANY	5.83%	11.37%	4.84%	19.60%
GREECE	6.09%	9.28%	5.10%	17.36%
HONG KONG	6.69%	14.38%	6.34%	13.81%
IRELAND	9.83%	16.90%	8.80%	25.54%
ITALY	5.44%	11.28%	4.46%	19.51%
JAPAN	2.57%	1.29%	-0.68%	1.26%
NETHERLANDS	12.08%	15.02%	11.04%	23.53%
NEW ZEALAND	1.53%	0.67%	8.64%	-3.49%
NORWAY	-1.72%	11.62%	-6.18%	15.95%
PORTUGAL	8.17%	22.34%	7.17%	31.38%
SINGAPORE	7.21%	13.58%	6.87%	19.00%
SINGAPORE FREE	7.21%	13.58%	6.87%	19.00%
SPAIN	13.48%	22.24%	12.42%	31.28%
SWEDEN	8.74%	11.11%	6.88%	20.66%
SWITZERLAND	10.05%	13.13%	7.51%	18.91%
UNITED KINGDOM	3.23%	8.88%	4.25%	18.47%

International Emerging Market Performance

Source: Morgan Stanley Capital International

REGIONS	In Local Currency		In US Dollars	
	3Q'06	YTD	3Q'06	YTD
EM (EMERGING MARKETS)	5.54%	12.41%	5.01%	12.71%
EM ASIA	8.02%	12.91%	7.59%	15.64%
EM EASTERN EUROPE	0.85%	20.50%	1.40%	23.40%
EM EUROPE	1.19%	15.25%	2.25%	15.39%
EM EUROPE & MIDDLE EAST	1.53%	8.06%	2.82%	9.23%
EM LATIN AMERICA	4.03%	14.60%	4.80%	17.53%
NATIONAL INDICES				
ARGENTINA	-6.11%	28.39%	-6.71%	25.18%
BRAZIL	-1.00%	8.78%	-1.30%	17.02%
CHILE	7.70%	14.31%	8.15%	8.91%
CHINA	9.15%	35.26%	8.80%	34.59%
COLOMBIA	11.20%	1.32%	19.91%	-3.24%
CZECH REPUBLIC	4.85%	3.40%	4.74%	13.99%
EGYPT	32.41%	5.71%	32.76%	5.69%
HUNGARY	-0.32%	1.90%	2.52%	1.26%
INDIA	17.85%	32.53%	18.14%	29.89%
INDONESIA	18.03%	36.97%	18.52%	46.10%
ISRAEL	4.18%	-13.67%	6.88%	-8.58%
JORDAN	-0.78%	-24.13%	-0.78%	-24.14%
KOREA	5.23%	1.10%	5.47%	7.97%
MALAYSIA	6.29%	10.77%	5.90%	13.52%
MEXICO	13.05%	23.57%	16.02%	19.51%
MOROCCO	10.66%	49.46%	9.96%	58.69%
PAKISTAN	7.28%	10.61%	6.68%	9.23%
PERU	11.04%	39.41%	11.15%	42.78%
PHILIPPINES	20.52%	25.56%	27.57%	32.68%
POLAND	4.28%	11.14%	6.00%	15.45%
RUSSIA	0.41%	31.78%	0.43%	33.02%
SOUTH AFRICA	1.85%	14.94%	-6.49%	-6.16%
SRI LANKA	7.25%	18.85%	7.46%	16.96%
TAIWAN	5.71%	7.88%	3.40%	7.05%
THAILAND	5.13%	0.37%	6.73%	9.49%
TURKEY	4.28%	-7.72%	9.52%	-17.54%
VENEZUELA	12.14%	68.93%	4.19%	57.66%