

WaterStreet QUARTERLY

CAPITAL MARKETS REVIEW AND OUTLOOK

2ND QUARTER 2008

Sparse Opportunities Amongst Global Deleveraging:

Continued credit crisis, inflation worries and high commodity prices drag markets down.

GLOBAL EQUITY MARKETS retreated across most styles and capitalizations as liquidity further tightened due to the global credit bust. While increased commodity prices provided positive return for exporter markets, it aggravated global inflation and contributed

QUARTERLY OVERVIEW

■ US Equities

The US stock market kicked-off the quarter with a rebound from March lows, but the upswing was short-lived. By the end of June, continued credit concerns, rising oil prices and unemployment reports brought the Dow Jones Industrial Average to 11,350, a 19.9% decline from its high in October 2007. In June alone, the Dow was down over 10.0%, the worst monthly performances since September 2002 in which it tumbled 12.4%. Year-to-date, the S&P 500 declined 11.9%. (page 2)

■ International (Non-US) Equities

International developed markets lost 0.6% in local currency and 1.9% in US Dollar terms. Emerging markets lost 1.5% in local currency and 0.8% in US Dollar terms. The second quarter's best performing sectors, by a large margin, were energy and materials. Country performance was largely determined by the side of the commodity and energy import/export divide on which a country resides. The MSCI Emerging Markets Index gained 8.1% in April, and then fell 10.0% in June to end the second quarter -0.8%. Currency effects differed

across various markets, resulting in a slightly weaker dollar that benefited US investors in emerging markets. Of the BRIC countries, gains in Brazil and Russia more than offset losses in India and China. (page 3)

■ Fixed Income

Yield curves flattened during the quarter as investors became fearful that the Fed would have to push short-term rates higher in the future. Rising interest rates and concerns about inflation caused negative returns in many fixed income sectors during the second quarter of 2008. The Lehman Brothers US Aggregate Bond Index posted a 1.0% loss return for the quarter. The two-year Treasury yield moved from 1.62% to 2.63%. The Merrill Lynch Global Government Bond Index dropped significantly for the quarter due primarily to the increased instability spilling over from the US to abroad. (page 4)

■ Alternative Investments

As a result of the continued credit crunch which almost resulted in a bear market, hedge funds turned in their worst first-half year performance in almost two decades, yet are still outperforming the S&P 500 Index. The Dow AIG

Commodity Index rose 15.6% in the second quarter, led by record-setting performances in the energy and grain sectors. The first quarter trend of moving away from traditional assets due to worries about slowing economic growth and inflation continued, while speculation and natural disasters also pushed up prices. The NAREIT Equity REIT Index fell 4.9% in the quarter, finishing down 3.7% for the first half of the year. The NAREIT Global Real Estate Index declined 8.6%, with European countries hardest hit. (page 5)

■ Global Outlook

World GDP growth continues to decelerate and is expected to remain at or below the 3.5% to 3.9% rate for 2008. Deleveraging and inflation are keeping advanced economies weak, with the European Central Bank holding firm on interest rates due to inflationary concerns. However, the US Fed and Bank of England lowered rates in an effort to spur growth. Emerging markets were divided, following two basic stories: firstly, manufacturing-driven economies suffered under high commodity prices; and secondly, weak export markets while commodity exporters thrived. (page 8)

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to the decline of many developed markets. As a result, the MSCI All Country World Index declined 1.43% during the quarter.

Second quarter concerns about the health of Fannie Mae and Freddie Mac were validated in July when US Treasury Secretary Hank Paulson announced plans for the government to bail out both entities. Under Paulson's plan, the Treasury would extend its credit lines to Fannie Mae and Freddie Mac, buy their shares if necessary and extend an ability previously reserved for banks by allowing the two companies to borrow from the Fed.

Fannie Mae and Freddie Mac, government institutions charged with providing liquidity in the housing market, brought about their current misfortune by straying from established policy and investing in mortgage-backed securities. Originally, these two companies focused on conservative investments, utilizing government sponsorship to operate with a small amount of core capital relative to its \$5.2 trillion in debt. However, the companies more recently began to purchase higher-yielding mortgage-backed securities, essentially exposing the government sponsored entities to the sub-prime mortgages they were supposed to avoid. When these securities turned sour, Fannie Mae's and Freddie Mac's ability to satisfy their capital requirements came under doubt and question. While Fannie Mae and Freddie Mac both satisfied their capital requirements by \$11 billion at the end of the second quarter, their ability to raise capital was further hampered when Moody's downgraded their credit rating shortly after the demise of mortgage lender Indy Mac.

Paulson's plan was intended to prevent further losses that would push Fannie Mae and Freddie Mac stock prices into further negative territory.

Although both were able to achieve some short-term relief, little upside in their share prices resulted. Both stocks continue to decline as investors worry that the two companies have not experienced the end of their losses.

With approval of the package by Congress, the Fed will have greater authority over the agencies. However, with the current housing market climate, it is unlikely that the agencies will be able to unload their debt portfolio or cease financing of mortgages. The dip in the housing market and current credit crunch increases the risk of bank failures and, ultimately, tax liabilities for Americans. We expect credit spreads to continue to widen while the Fed and Congress keep a close eye on the public's ability to qualify for credit.

Federal Reserve Bank

The Fed cut the federal funds rate 25 basis points to 2.00%, down from 5.25% in 2006. The Bank of England also lowered its rate by 25 basis points, while the European Central Bank held its benchmark interest rate at 4.00%, matching the 4.00% inflation rate that drove the policy. Central banks contin-

ued their first quarter trend of battling between two competing priorities, providing liquidity to the global financial system and raising interest rates to combat headline inflation.

US EQUITIES

The US stock market kicked-off the quarter with a rebound from March lows, but the upswing was short-lived. By the end of June, continued credit concerns, rising oil prices and unemployment reports brought the Dow Jones Industrial Average to 11,350, a 19.9% decline from its high in October 2007. In June alone, the Dow was down over 10.0%, the worst monthly performance since September 2002 in which it tumbled 12.4%. Year-to-date, the S&P is down 11.9%.

Losses around the globe were triggered by higher energy and food prices. Oil climbed from \$99.21 on March 30 to \$140.95 at the end of the quarter. Additionally, the period saw further write-offs by banks and struggling financial stocks. Rising unemployment added to those jitters as it rose by one-half of a percent in May, signaling a potential recession.

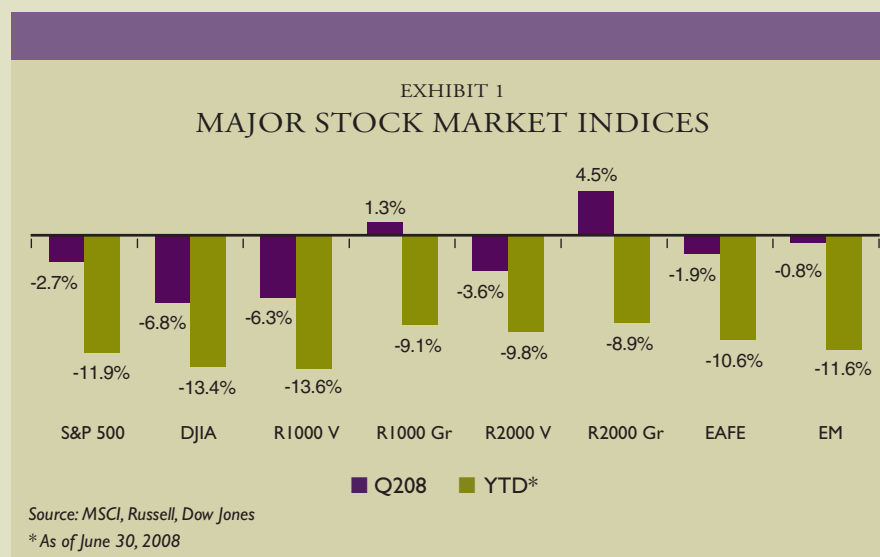
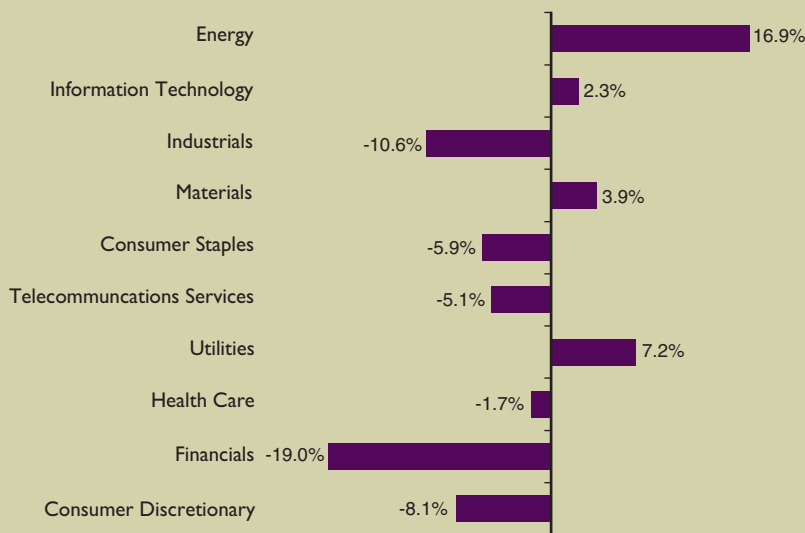


EXHIBIT 2
S&P 500 ECONOMIC SECTORS
(Second Quarter 2008)



Source: standardandpoors.com

Growth and value stocks demonstrated varying returns. While the Russell 2000 Growth ended the quarter in positive territory, at 4.5%, the Russell 2000 Value was down 3.6%. The poor performance in the value index was likely attributed to the concentration of financial stocks.

In terms of sector performance, there is no surprise that energy was a top performer, up 16.9%. Again, not surprisingly, financials were a drag, down 19.0%. Gains made in the utility sector were reflective of investor behavior looking for a safe defensive play throughout the volatile quarter.

INTERNATIONAL EQUITIES

Developed Markets

International markets experienced extreme market moves on both the upside and the downside throughout the quarter, ending slightly down. The MSCI EAFE Index experienced gains in

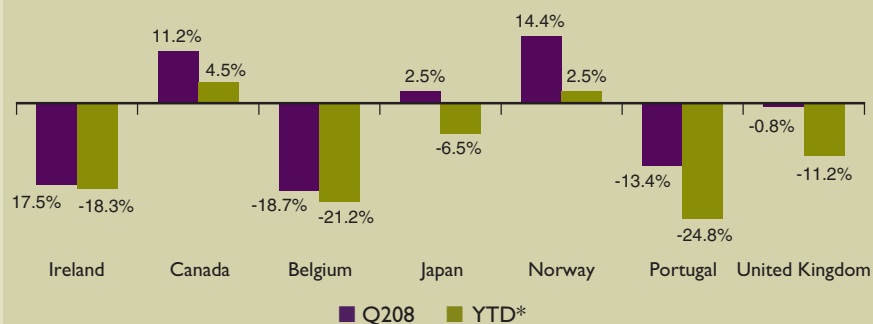
April and May then fell 8.2% in June to finish the quarter down 1.9%. The sharp turn came amid the continued credit crisis and steeply rising commodity prices. A decline in consumption by US customers could stifle growth for companies worldwide.

The second quarter's best performing sectors by a large margin were

energy and materials. Country performance was largely determined by the side of the commodity and energy import/export divide on which a country resides. Net exporters Norway and Canada gained 14.4% and 11.2%, respectively. The worst performing countries were those that import most of their energy and commodities, such as Belgium (-18.7%) and Ireland (-17.5%). Japan, a net importer, broke this trend by gaining 2.5% in the second quarter. The weakest performing sectors were financials, consumer discretionary and consumer staples.

International small cap markets also experienced a difficult quarter, as the MSCI EAFE Small Cap Index fell 4.3%. The poorest performing sectors were telecom and consumer discretionary. The ongoing boom in demand for commodities of all types boosted the consumer staples, energy, and materials sectors. While currency played a small role during the second quarter, the declining dollar is proving to be a headache for many small international companies. Many have begun pricing their products in euros rather than the US Dollar.

EXHIBIT 3
DEVELOPED MARKETS
(In US Dollars)



Source: MSCI, Russell, Dow Jones
* As of June 30, 2008

Emerging Markets

Despite a volatile quarter, emerging markets delivered almost break-even returns. The MSCI Emerging Markets Index gained 8.1% in April, and then fell 10.0% in June to end the second quarter down 0.8%. Currency effects differed across various markets, resulting in a slightly weaker dollar that benefited US investors in emerging markets. Of the BRIC countries, gains in Brazil and Russia more than offset losses in India and China.

Rising energy and food prices, along with higher interest rates, are creating a challenging environment for emerging market companies. Governments struggle with rising prices and slowing economies, while central banks are faced with the dilemma of raising rates to combat inflation just as the global economy is beginning to slow.

As with developed markets, energy was the strongest sector during the second quarter. The materials sector (which includes metals and mining stocks) also posted positive returns. Most other sectors suffered due to concerns over rising costs and declining real purchasing power of consumers. Hardest hit was

the industrials sector in which companies are major consumers of raw materials and energy. Capital goods producers declined on fears of slowing economic growth and transportation companies weakened due to rising fuel costs.

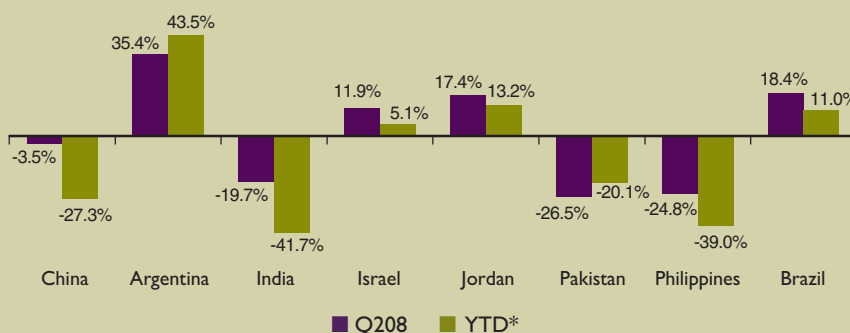
Four of the five emerging market regions posted gains in the second quarter. Latin America saw the largest gain, up 11.0%, led by Argentina and Brazil. Argentina gained 35.4% as high commodity prices increased demand on domestic industries, unemployment dropped and central bank intervention strengthened the peso. Brazil gained 18.4%, similarly bolstered by high commodity prices. Asia, which constitutes approximately half of the index, declined 9.1% during the second quarter. Again, the strongest markets were those countries that are net commodity exporters, and weaker markets were the net commodity importers. Russia (11.0%) was another beneficiary of high energy prices; oil represents approximately 30% of Russia's GDP and 60% of the country's exports. The commodity boom is responsible for Russia's 8.5% GDP growth and rising trade as well

as its budget surplus. However, inflation has become a significant issue, with CPI at 15.1% in May.

Asian markets suffered on worries of the impact of both rising costs on consumers and company earnings. Asia relies heavily on food and energy imports and the rising prices have had a significant impact on household budgets in the region. The governments of seven Asian countries have allowed their state-controlled fuel prices to rise (although still below market rates). China fell 3.3% in the second quarter as CPI climbed to 7.7% in May. India was among the worst performers of the quarter, declining 19.7%. Rising inflation has spurred India's central bank to tighten credit and slow growth in the money supply.

On a positive note, share prices in emerging markets are approaching levels that could offer very good value to investors. The 12-month forward price/earnings ratio (P/E) on the MSCI Emerging Markets Index declined to 10.95 on June 30, compared to the 12.80 P/E for the S&P 500 Index. High quality companies with attractive growth prospects may be available at reasonable valuations.

EXHIBIT 4
EMERGING MARKETS
(In US Dollars)

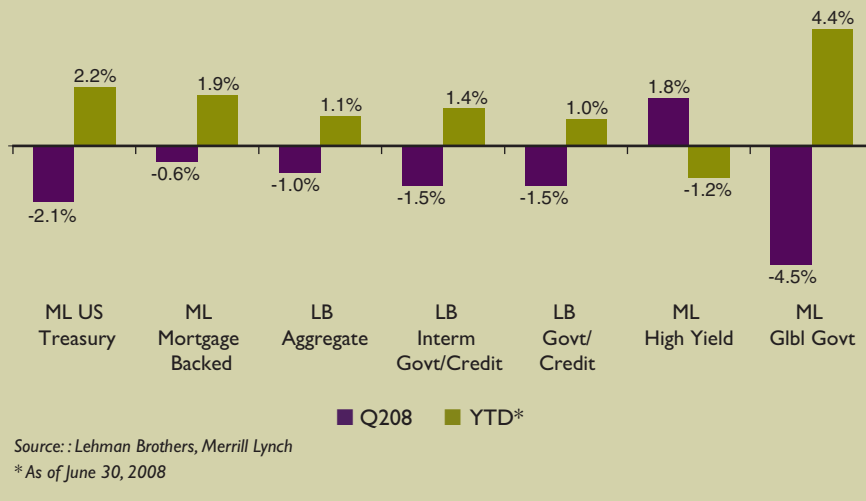


Source: mscibarra.com
* As of June 30, 2008

FIXED INCOME

The Fed took steps to stabilize the volatile credit market in March with the facilitation of JPMorgan Chase's takeover of Bear Stearns. With increased confidence, some investors began to move back towards riskier corporate bonds. Regardless, spreads still remain well above their usual level. The Fed has cut rates 2.25% in 2008 but decided to leave rates unchanged at the June FOMC meeting. The halt in rate changes is the result of the continued complexity in the US economy. On one side, financial institutions need liquidity due to

EXHIBIT 5
BOND MARKET



the burden of subprime losses. On the other hand, CPI has risen above 4.0% due to increasing oil and other commodity prices. Yield curves flattened during the quarter as investors became fearful that the Fed would have to push short-term rates higher in the future.

US High Yield spreads increased to 741 at of the end of the quarter compared to 298 one year ago. Global High Yield also is experiencing the widening with an increase from 287 to 742. Moody's AAA bond spreads have widened to 180 versus 70 one year ago.

Rising interest rates and concerns about inflation caused negative returns in many fixed income sectors during the quarter. The Lehman Brothers US Aggregate Bond Index posted a loss of 1.0% for the quarter, but remains up 1.1% for the year. Both money market and two-year Treasury yields moved from 1.38% to 1.90% and 1.62% to 2.63%, respectively. The Merrill Lynch Global Government Bond Index was down significantly for the quarter due primarily to the increased instability spilling over from the US to abroad.

Global yields rose sharply, giving back much of the gains from the first quarter of the year. The threat of inflation increased the likelihood of tighter monetary policy causing all major yield curves to flatten during the quarter.

ALTERNATIVE INVESTMENTS

Hedge Funds

Hedge funds turned in their worst first-

EXHIBIT 6
HEDGE FUND STRATEGIES (HFRI INDICES) vs. TRADITIONAL INDICES

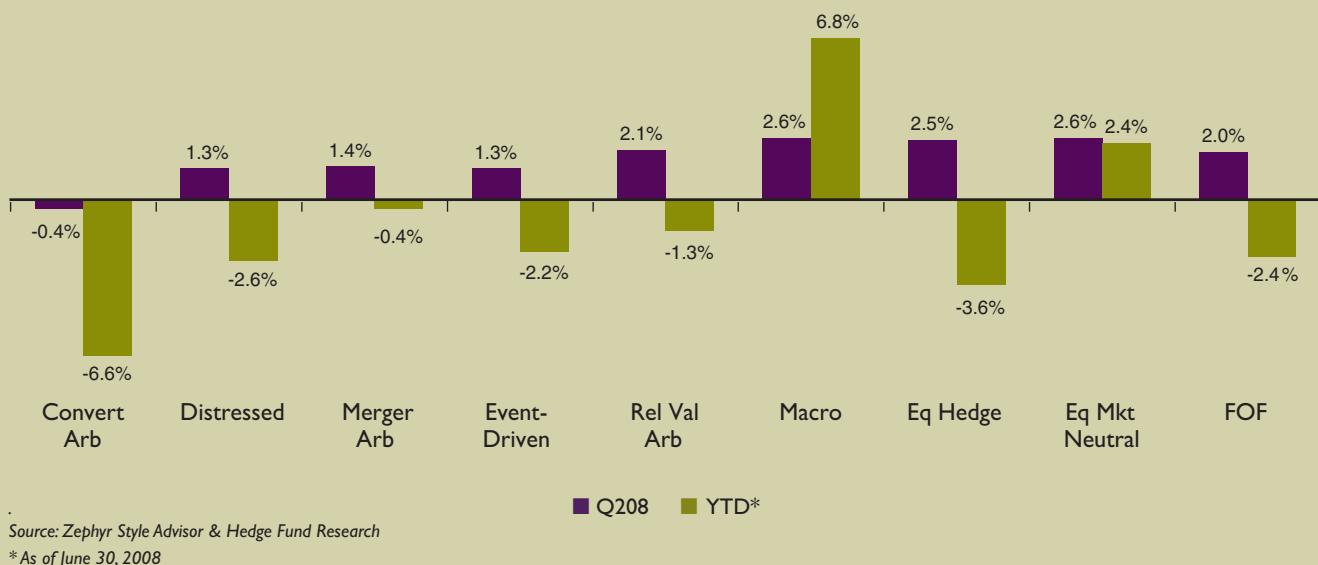
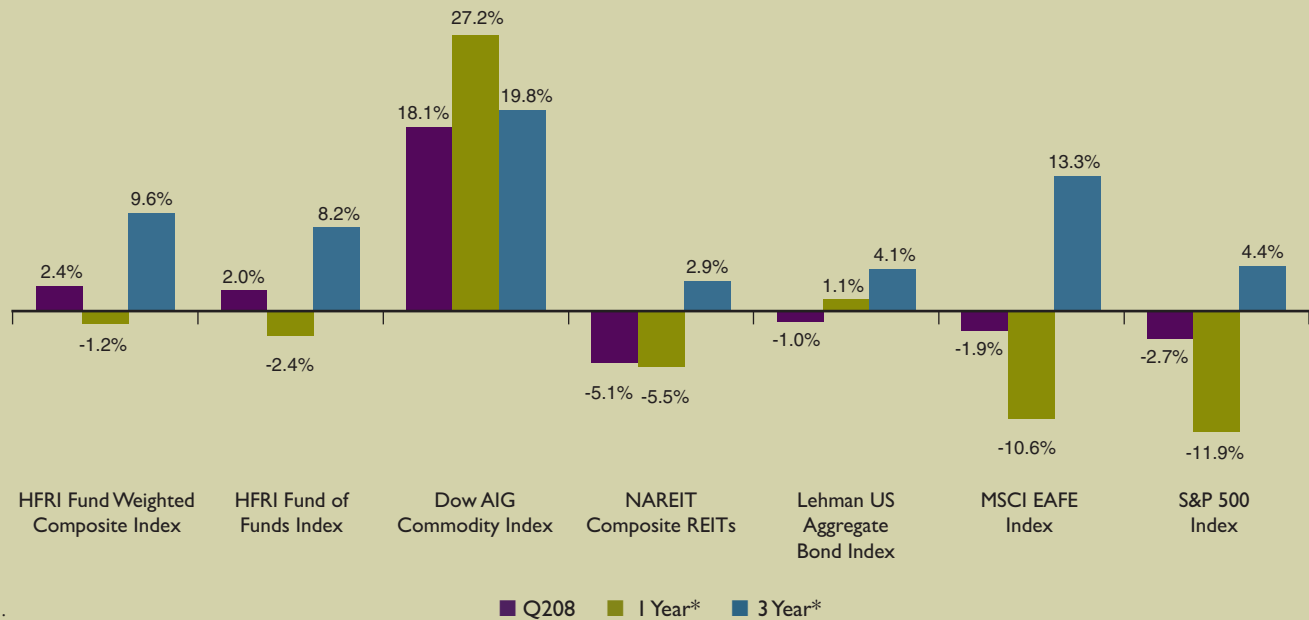


EXHIBIT 7
ALTERNATIVE vs. TRADITIONAL INDICES



Source: Zephyr Style Advisor & Hedge Fund Research
*As of June 30, 2008

half annual performance in almost two decades as a result of the continued credit crunch and the corresponding downward pressure on equities. Nevertheless, they were still able to outperform the S&P 500 Index for the quarter, which was down 2.7%. Despite the continued challenging economic environment, fundamentals began to bolster security prices, offering investment opportunities. Managers with discretionary and systematic focus on natural gas and crude oil benefited from a significant rise in value. Market neutral, macro and equity hedge funds all posted gains of 2.5% or better.

Strategic arbitrage experienced difficult conditions in June resulting in slightly lower returns. Convertible arbitrage and merger arbitrage were the only hedge fund sectors unable to achieve positive returns both posting losses of 0.4%.

Commodities

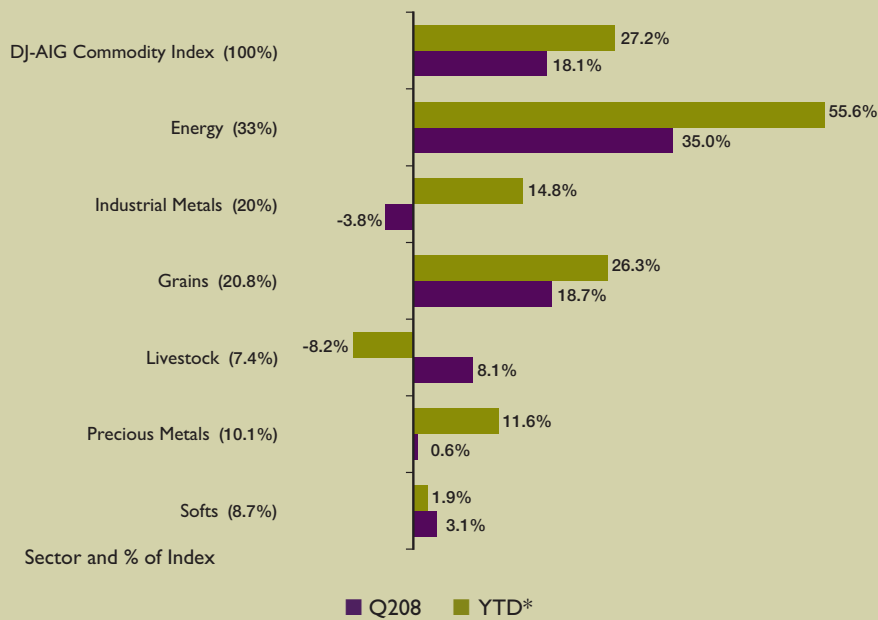
The Dow AIG Commodity Index rose 18.1% in the quarter, led by record-setting performances in the energy and grain sectors. The first quarter trend of moving away from traditional assets due to worries about slowing economic growth and inflation continued, while speculation and natural disasters also pushed up prices. After increases around 3.0% in April and May, the market exploded by 9.0% in June with added pressure by widening interest rates between the US and the Eurozone and the US Fed's decision to hold firm on interest rates.

Crude skyrocketed to a new intraday high of \$143.67 on June 30, and gaining 42.5% for the quarter. OPEC officials attributed price increases to speculation, geopolitics and dollar erosion as the head of Libya's National Oil

Corporation told Bloomberg that OPEC countries are "not in control (of prices) anymore." Saudi Arabia announced that it would increase production by 220k bpd in June, but Saudi increases will barely offset Nigerian production interruptions. The Nigerian rebel group, Movement for the Emancipation of the Niger Delta (MEND), disrupted production throughout the quarter. Meanwhile, natural gas also gained 29.5%.

Grains gained 18.7%, boosted by flooding and labor unrest in Argentina. Damp conditions had already caused upward pressure on corn prices in April before flooding in the Midwest pushed corn prices to a record high on June 27. Corn gained 30.3% for the quarter. Wheat fell 10.7% during the period, after losing 15.0% in April on reports of increased planting and news that the

EXHIBIT 8
DOW AIG COMMODITY INDEX



Source: Dow Jones
* As of June 30, 2008

Ukrainian government was lifting export restrictions. It regained some ground as Argentine President Cristina Fernandez battled striking farmers over the country's controversial export tariffs, which also increased soybean prices. Soybeans finished the quarter up 44.5% as a result of weather in the Midwest and strife in Argentina. Increased bio-fuel demand also bumped up prices.

Livestock recovered 8.1% in the quarter, but remains down 8.2% in 2008 following large first quarter declines. Industrial metals lost 3.8% while precious metals remained relatively neutral, up 0.6% for the quarter. Extensive fund liquidation was cited as the major reason for industrial metals' decline, with most of the loss occurring in May. Nickel lost 22.8% in May, dropping 26.4% during the quarter; Zinc dipped 10.5% in May

and 17.8% for the quarter; and, Copper lost 7.7% in May, although gained 1.3% during the quarter. Precious metals followed first quarter's rally by holding firm, although gold lost 1.9% as the US Dollar held around \$1.55 versus the euro.

Real Estate Investment Trusts (REITs)

The NAREIT Equity REIT Index fell 4.9% in the second quarter finishing the US REIT market down 3.7% for the first-half of the year. Performance varied widely by property sector. The office sector declined slightly, but outperformed the broad market. In the first quarter, office REITs showed correlation with the financial services stocks as investors were concerned about layoffs in the financial industry, although the two decoupled somewhat during the quarter.

Specialty REITs, primarily timber companies, was the highest performing sector for the quarter, rising 6.3%. After a difficult first quarter, timber REITs rallied as the sale of several large timberlands confirmed that the companies in this sector were trading at significant discount to the underlying asset value. The self storage sector declined 6.7% in the second quarter, giving back some of the first quarter's strong gains. Self storage remains up 12.1% for the first half of 2008, making it the best performing sector.

Hotels were the poorest performing sector, declining 15.0% in the quarter as the rising cost of air travel has investors concerned over hotel occupancy. Retail REITs suffered during the quarter, with regional malls falling 4.7% and shopping centers declining 10.2%.

The US REIT market fared better than the rest of the globe during the second quarter. The NAREIT Global Real Estate Index fell 8.6%, with European countries hardest hit (Spain -52.4%, Norway -42.1%, and UK -22.6%). A sell-off in the UK REIT market followed the Bank of England's signal that a reduction in base rate was unlikely until inflation falls back to their 2.0% target. The UK housing market worsened as banks were reluctant to lend and homebuilders' debt was downgraded below investment grade. Despite having one of Europe's strongest economies, German REITs fell 24.5% in the second quarter. Germany's first quarter GDP increased 1.5%, more than double the 0.7% forecast, prompting inflation fears.

Asia Pacific REITs declined 7.1% during the second quarter. The Hong Kong market fell 10.8% on expectations that the People's Bank of China

will raise bank reserve requirements and interest rates. Singapore suffered from high inflation and signs of a slowing economy. Concerns over rising interest rates, a restrictive monetary policy, and potential for dividend cuts as real estate companies delevered triggered a 14.5% decline in the Australian REIT market.

GLOBAL OUTLOOK

Global growth estimates for 2008 remain in the 3.5% to 3.9% range and are projected to remain at or below this range through 2009. Developed markets are struggling with tightened credit as the US economy continues to slow and foreign banks increasingly join a global trend of deleveraging. Many developed markets have moved into negative growth territory. Meanwhile, growth rates in emerging markets are maintaining healthy levels between 5% and 10%. As a whole, the global economy continues to suffer from combined high energy costs, food shortages and aggravated inflation. Countries such as South Korea saw anti-government protests as discontent

grew over surging inflation and slowing economic growth. Meanwhile, India and Malaysia were forced to allow increased fuel prices in order to ease the growing fiscal burden of their fuel subsidies. A global rice crisis added to food shortages early in the quarter as export controls in major rice producing countries were combined with a reduced supply.

European markets continue to decelerate due to declines in industrial production and European banks' holdings in US subprime securities. Eurozone growth rates contracted for the first time since creation of the monetary union, down 0.2% during the second quarter. Europe's strongest economy, Germany, reversed first quarter gains and GDP is expected to decline in the second quarter. Meanwhile, the European Central Bank held firm on interest rates as inflation surged to nearly 4.0%. Concerns are high that Europe will not fare well if it follows the US toward recession due to its comparative lack of resiliency.

The Japanese economy shrank in the second quarter at an annualized rate of 2.3%. The faltering economy will likely

propel the Bank of Japan to maintain the interest rate at 0.5%. Gains by equity funds were linked to inflation.

Chinese markets slowed their decline, with foreign investable equities losing 3.28% during the quarter. China's GDP growth declined 0.5% to 10.1% in the second quarter, still above the government's announced target. While worries over Vietnamese inflation and overheated development contributed to a 39% decline of the country's Ho Chi Minh Stock Exchange, growth is still projected around 6.5%. The global trend of rising food and energy prices pushed Indian inflation to 13-year highs above 11.0%, rapidly outpacing expected GDP growth of 7.5% to 8.0%.

Enthusiasm about Latin American equity performance was dampened by renewed concern over the potential of an Argentine fiscal crisis. Argentina stands by government estimates of inflation around 9.1%, while Standard & Poor's places it between 24% and 28%. For the quarter, Argentina grew around 6.2%, while Brazil maintained growth around 6.4%.

The perceived extent of global deleveraging vastly expanded in April, when the International Monetary Fund (IMF) estimated that financial losses resulting from the current credit crisis could reach \$1 trillion. As recently as early March, Standard & Poor's reported that subprime write-downs "could reach" \$285 billion and "are likely past the halfway mark." Instead of sharing that optimism, the IMF generated its number by estimating \$565 billion of subprime-related losses and an additional \$380 billion "in loans originated and securities issued in the United States related to commercial real estate, the

EXHIBIT 9
12-MONTH FORWARD
PRICE/EARNING RATIOS (P/E)

	Q208	Q108	% Change
S&P 500	12.80	13.20	-3.03%
Russell 1000	13.21	13.47	-1.93%
Russell 2000	19.23	17.98	6.95%
Russell 3000	13.51	13.72	-1.53%
Russell 3000 Growth	15.75	15.40	2.27%
Russell 3000 Value	11.71	12.27	-4.56%
MSCI EAFE	11.65	11.08	5.14%
MSCI EAFE Small Cap	11.65	12.19	-4.43%
MSCI Emerging Markets	10.95	11.92	-8.14%

Source: Thomson Portfolio Analytics

consumer credit market and corporations.” At the time, the market had only posted \$232 billion in write-downs, which suggests that the bulk of losses have yet to occur. The fear is that, on top of the subprime write-downs by banks that are still in the news, deleveraging in non-bank financial institutions would reverberate back to the banking system, further exacerbating the crisis. This would result in an unprecedented exposure of credit fragility that would greatly handicap world markets. The IMF report suggested that “authorities may wish to prepare contingency plans for dealing with large stocks of impaired assets if writedowns lead to disruptive dynamics and significant negative effects on the real economy.”

This quarter’s trends will continue to increase market risk as they play out in the coming months. Europe is set to continue its economic deceleration or recession, which creates a further depressing picture for developed markets. The trend of deleveraging is now a profoundly trans-Atlantic issue, with each market reeling. As the developed markets continue to slog through these lows, their decreased consumption will negatively impact import-dependent emerging markets. While their economies should continue to expand, the same will not be true for their stock markets. Commodity prices, many of which are at record highs, are expected to fall in the next quarter, which would decrease pressure on importers while stalling gains by exporters. Also, decreased income for commodity exporters will decrease those countries’ participation in world markets, such as Arab oil-producers in Egypt, Morocco and Tunisia. Commodity prices will also affect inflation, which is the pri-

mary concern for many emerging markets, from Vietnam to India to Argentina. While price drops might help, governments will be expected to take action to prevent CPI increases from eating away at corporate gains and causing public health issues.

COURSE OF ACTION

The quarter saw a shift in focus from a poor US economy to global inflation and the pressures of high commodity prices. However, we are still committed to overweight internationally. Markets in Latin America and East Asia continue to present profitable opportunities due to resilient growth, despite global trends that are dragging down developed markets. Traditional performers like Brazil, Colombia and India remain strong. The 12-month forward price/earnings ratio on the MSCI Emerging Markets Index declined to 10.95 on June 30, compared to the 12.80 P/E for the S&P 500 Index demonstrating continued opportunity. While potentially lower commodity prices may drive down performance in emerging markets such as Brazil, East Asian markets with significant portfolio exposure should perform better as production costs decrease and inflationary pressures are reduced. Nevertheless, the current credit crisis makes positive returns unlikely, with the possible exception of markets such as Vietnam and China as they recover from recent dramatic losses. China will perform better after the pressure of the Olympics.

Poorly performing European economies will likely result in negative market movements, while developed markets such as Japan remain stagnant due to structural weaknesses. Concerns

about stagflation are on the rise in Japan, as the global trend of inflation combines with the slow economy to cause growing uncertainty.

With crude hitting unparalleled highs, it would be likely to see some pullback in the coming quarters, negatively affecting energy companies. Investors with long interest in commodities and short the dollar will start to find themselves on the opposite end as the dollar gains momentum and crude prices regain contact with reality.

With the domestic credit crisis spilling over into European markets, we remain concerned about further mark downs in the financial sector, specifically with European Banks. We are less concerned about Eastern Europe, whose banking sector was largely absorbed by its Western neighbors since market liberalization. The European Central Bank is sharing the plight of monetary authorities around the world, as they are torn between raising interest rates to combat inflation while at the same time trying to encourage economic growth with lower interest rates.

Domestic fixed income spreads continue to widen as investors are still weary to re-enter both corporate and sovereign debt. 10-year US Treasuries continue to remain below 4.0% (3.77% at the end of the quarter). However, we foresee a flight to quality as investors begin to regain comfort with debt as the credit crisis resides. We still believe that hedge fund of funds offer a better alternative to fixed income, offering higher returns with a similar balanced portfolio outcome.

Equity long/short strategies will be able to take advantage of an improved stock market. In our view, the potential opportunities in distressed debt will offer diligent managers an opportunity to invest at an attractive discount. ■

EXHIBIT 10: Output, Prices and Jobs

% change from one year ago

	Gross Domestic Product				Industrial	Consumer Prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	Rate‡, %
United States	+2.5 Q1	+0.9	+1.4	+1.3	-0.1 Apr	+4.2 May	+2.7	+4.2	5.5 May
Japan	+1.3 Q1	+4.0	+1.4	+1.3	+1.2 May	+1.3 May	nil	+1.4	4.0 May
China	+10.6 Q1	na	+9.8	+9.0	+16.0 May	+7.7 May	+3.4	+6.5	9.5 2007
Britain	+2.5 Q1	+1.1	+1.6	+1.2	+0.2 Apr	+3.3 May§	+2.5	+3.4	5.3 Apr ††
Canada	+1.7 Q1	-0.3	+1.3	+2.0	-4.5 Apr	+2.2 May	+2.2	+2.0	6.1 May
Euro Area	+2.2 Q1	+3.2	+1.7	+1.3	+3.9 Apr	+4.0 Jun	+1.9	+3.5	7.2 May
Austria	+3.5 Q1	+3.2	+2.3	+1.9	+3.0 Apr	+3.7 May	+2.0	+3.0	4.1 May
Belgium	+2.2 Q1	+1.9	+1.7	+1.5	-1.3 mar	+5.8 Jun	+1.3	+3.9	9.9 May‡‡
France	+2.2 Q1	+2.6	+1.7	+1.3	+3.2 Apr	+3.3 May	+1.1	+3.2	7.4 May§§
Germany	+1.8 Q1	+6.1	+2.0	+1.5	+4.8 Apr	+3.3 Jun	+1.9	+2.9	7.8 Jun
Greece	+3.6 Q1	+4.5	+2.9	+3.0	+2.0 Apr	+4.9 May	+2.6	+4.2	9.0 Mar
Italy	+0.3 Q1	+1.9	+0.4	+0.8	+2.0 Apr	+3.8 Jun	+1.7	+3.4	6.5 Q1
Netherlands	+3.3 Q1	+1.8	+2.4	+1.7	+0.4 Apr	+2.6 Jun	+1.7	+2.4	4.0 May††
Spain	+2.7 Q1	+1.2	+1.7	+1.2	+11.3 Apr	+4.6 May	+2.3	+4.2	9.9 May
Czech Republic	+5.3 Q1	+3.6	+4.7	+5.4	+12.2 Apr	+6.8 May	+2.4	+6.4	5.0 May
Denmark	-0.7 Q1	-2.4	+1.3	+1.4	+7.8 Apr	+3.4 May	+1.8	+3.1	1.7 May
Hungary	+1.7 Q1	+1.3	+2.0	+3.4	+6.7 Apr	+7.0 May	+8.5	+6.3	7.7 May††
Norway	+0.9 Q1	+0.8	+2.7	+2.4	-4.4 Apr	+3.1 May	+0.3	+3.4	2.5 Apr***
Poland	+6.1 Q1	na	+5.4	+4.3	+2.3 May	+4.4 May	+2.3	+4.2	10.0 May‡‡
Russia	+8.5 Q1	na	+7.2	+6.4	+6.7 May	+15.1 May	+7.8	+13.5	6.4 May‡‡
Sweden	+2.2 Q1	+1.6	+2.1	+2.0	+0.2 Apr	+4.0 May	+1.7	+3.3	5.9 May‡‡
Switzerland	+3.1 Q1	+1.3	+2.0	+1.5	+4.4 Q1	+2.9 Jun	+0.6	+2.4	2.4 May
Turkey	+6.6 Q1	na	+3.1	+4.0	+6.3 Apr	+10.7 May	+9.2	+10.5	11.6 Q1‡‡
Australia	+3.6 Q1	+2.5	+2.9	+2.8	+0.1 Q4	+4.2 May	+2.4	+3.7	4.3 May
Hong Kong	+6.8 Q1	+7.4	+4.8	+4.9	-4.4 Q1	+5.7 May	+1.3	+5.3	3.3 May††
India	+8.8 Q1	na	+7.7	+7.1	+7.0 Apr	+7.8 Apr	+6.7	+6.9	7.2 2007
Indonesia	+6.3 Q1	na	+5.9	+5.7	+2.6 Apr	+11.0 Jun	+5.8	+9.9	9.1 Dec
Malaysia	+7.1 Q1	na	+5.8	+5.7	+4.3 Apr	+3.8 May	+1.4	+5.2	3.0 Q4
Pakistan	+7.0 2007**	na	+3.6	+4.4	+4.3 Apr	+19.3 May	+7.4	+15.6	6.2 2006
Singapore	+6.7 Q1	+14.6	+4.5	+5.0	-12.8 May	+7.5 May	+1.0	+4.3	2.0 Q1
South Korea	+5.8 Q1	+3.3	+4.5	+4.3	+8.3 May	+5.5 Jun	+2.5	+3.5	3.2 May
Taiwan	+6.1 Q1	na	+4.3	+4.4	+5.3 May	+3.7 May	nil	+3.1	3.9 May
Thailand	+6.0 Q1	+5.9	+4.8	+4.7	+10.5 May	+8.9 Jun	+1.9	+7.2	1.5 Apr
Argentina	+8.4 Q1	+2.4	+6.0	+4.0	+8.6 Apr	+9.1 May	+8.8	+9.9	8.4 Q1‡‡
Brazil	+5.8 Q1	+2.9	+4.6	+3.6	+2.4 May	+5.6 May	+3.2	+5.7	7.9 May‡‡
Chile	+3.0 Q1	+5.8	+3.6	+3.8	-2.4 May	+8.9 May	+2.9	+7.5	8.0 May††‡‡
Colombia	+8.1 Q4	+6.8	+4.8	+4.3	+9.8 Apr	+7.2 Jun	+6.0	+6.5	11.0 Apr‡‡
Mexico	+2.6 Q1	+2.1	+2.3	+2.5	+5.5 Apr	+4.9 May	+3.9	+4.7	3.2 May‡‡
Venezuela	+4.8 Q1	na	+5.2	+4.0	-7.9 Mar	+31.4 May	+19.6	+30.8	8.2 Q1‡‡
Egypt	+6.9 Q1	na	+6.9	+6.7	+7.5 2007**	+19.7 May	+10.0	+17.1	9.1 Q4‡‡
Israel	+5.2 Q1	+5.4	+3.9	+3.6	+14.1 Apr	+5.4 May	-1.3	+4.2	6.3 Q1
Saudi Arabia	+3.5 2007	na	+7.2	+6.7	na	+10.4 May	+3.0	+8.5	na
South Africa	+4.0 Q1	+2.1	+3.9	+4.4	+9.8 Apr	+11.7 May	+6.9	+8.2	23.0 Sep‡‡

*% change on previous quarter at an annual rate.

†The Economist poll or Economist Intelligence Unit estimate/forecast.

‡National definitions.

§RPI Inflation rate 4.3% in May.

**Year ending in June.

††Latest 3 months.

‡‡Not seasonally adjusted.

§§New series.

***Centred 3-month average

EXHIBIT 11: Trade, Exchange Rates, Budget Balances and Interest Rates

	Trade Balance	Current account balance		Currency units, per \$		Budget	Interest Rates, %	
	latest 12 months, \$bn	latest 12 months, \$bn	% of GDP 2008†	Apr 2nd	year ago	Balance % of GDP 2008‡	3-month latest	10-year gov't bonds, latest
United States	-831.2 Apr	-710.7 Q1	-4.9	-	-	-2.4	2.13	3.96
Japan	+99.7 May	+213.5 Apr	+4.1	106	123	-2.7	0.75	1.66
China	+254.2 May	+371.8 2007	+9.8	6.85	7.59	0.3	4.49	4.56
Britain	-184.5 Apr	-102.4 Q1	-4.1	0.50	0.50	-3.6	5.91	5.13
Canada	+45.6 Apr	+14.5 Q1	+0.8	1.02	1.02	0.4	2.48	3.82
Euro Area	+17.3 Apr	-2.5 Apr	-0.3	0.63	0.73	-0.9	4.96	4.65
Austria	+1.1 mar	+14.8 Q1	+3.0	0.63	0.73	-0.4	4.96	4.84
Belgium	+12.3 Mar	-1.1 mar	+1.6	0.63	0.73	-0.3	5.02	4.97
France	-61.6 Apr	-39.9 Apr	-1.6	0.63	0.73	-2.9	4.96	4.83
Germany	+278.6 Apr	+269.8 Apr	+6.3	0.63	0.73	1.1	4.96	4.65
Greece	-60.2 mar	-46.4 Apr	-13.9	0.63	0.73	-2.6	4.96	5.25
Italy	-12.7 Apr	-57.8 Apr	-2.6	0.63	0.73	-2.6	4.96	5.24
Netherlands	+59.3 Apr	+50.7 Q1	+6.0	0.63	0.73	0.7	4.96	4.84
Spain	-149.4 Apr	-160.6 Apr	-9.5	0.63	0.73	-0.7	4.96	4.92
Czech Republic	+4.7 Apr	-3.6 Apr	-2.6	15.0	21.1	-2.2	4.23	5.16
Denmark	+4.2 Apr	+3.5 Apr	+0.9	4.70	5.46	3.8	5.60	4.96
Hungary	+0.5 Apr	-7.2 Q1	-5.9	149	180	-4.2	8.74	8.60
Norway	+70.7 May	+68.8 Q1	+17.5	5.07	5.83	17.8	6.55	5.08
Poland	-17.8 Apr	-19.9 Apr	-4.0	2.11	2.76	-2.0	6.67	6.69
Russia	+157.9 Apr	+92.4 Q1	+5.2	23.4	25.7	3.5	10.75	6.57
Sweden	+18.8 May	+40.4 Q1	+8.1	5.97	6.72	2.1	4.17	4.54
Switzerland	+14.6 May	+91.4 Q1	+15.1	1.02	1.22	0.9	2.79	3.26
Turkey	-69.7 May	-42.0 Apr	-6.5	1.24	1.29	-2.7	19.46	7.58‡
Australia	-21.3 May	-61.4 Q1	-5.5	1.04	1.16	1.6	7.76	6.57
Hong Kong	-26.0 May	+26.6 Q1	+9.3	7.80	7.81	3.0	2.30	3.44
India	-85.0 May	-17.5 Q1	-2.9	43.2	40.5	-3.2	8.71	9.43
Indonesia	+38.0 May	+10.9 Q1	+2.3	9,215	9,008	-1.8	9.41	7.82‡
Malaysia	+33.4 Apr	+30.6 Q1	+14.0	3.27	3.45	-3.1	3.69	4.52‡
Pakistan	-19.8 May	-10.5 Q1	-8.0	69.2	60.4	-6.2	13.88	11.90‡
Singapore	+29.6 May	+35.8 Q1	+23.3	1.36	1.52	1.0	1.19	3.30
South Korea	+1.5 Jun	+1.7 May	-0.8	1,037	920	1.1	5.36	6.02
Taiwan	+13.9 May	+32.2 Q1	+5.3	30.4	32.8	-1.9	2.75	2.64
Thailand	+7.9 May	+13.2 May	+0.4	33.4	34.2	-2.7	3.65	5.63
Argentina	+11.4 May	+7.9 Q1	+2.9	3.02	3.09	1.7	16.44	na
Brazil	+30.8 Jun	-15.2 May	-1.1	1.60	1.91	-1.6	12.17	6.16‡
Chile	+19.1 May	+4.3 Q1	-0.6	516	524	9.0	6.72	4.62‡
Colombia	+0.4 Mar	-5.0 Q1	-3.7	1,831	1,960	-1.6	9.80	6.08‡
Mexico	-8.9 May	-4.8 Q1	-1.1	10.4	10.8	nil	7.75	9.13
Venezuela	+30.1 Q1	+26.7 Q1	+10.6	3.45	4.23§	2.4	17.26	6.55‡
Egypt	-22.2 Q1	-0.1 Q1	+0.2	5.33	5.70	-7.1	10.08	5.48‡
Israel	-13.2 May	+4.4 Q1	+0.2	3.27	4.19	-1.3	3.88	5.56
Saudi Arabia	+150.8 2007	+95.0 2007	+34.6	3.75	3.75	21.0	3.64	na
South Africa	-11.0 May	-22.3 Q1	-8.0	7.82	6.97	0.4	12.50	10.75

*Merchandise trade only.

†The Economist poll or Economist Intelligence Unit forecast.

‡Dollar denominated bonds.

§Unofficial exchange rate

EXHIBITS 12 & 13: Index Tables (period ending June 30, 2008)

INTERNATIONAL DEVELOPED MARKET PERFORMANCE

REGIONS	In Local Currency		In US Dollars	
	Q208	YTD	Q208	YTD
EAFE	-0.55%	-15.34%	-1.93%	-10.58%
EURO	-4.91%	-20.71%	-5.45%	-14.55%
EUROPE	-3.11%	-16.56%	-3.72%	-11.95%
THE WORLD INDEX	-0.80%	-12.50%	-1.43%	-10.25%
PACIFIC	5.44%	-12.47%	2.21%	-7.45%
WORLD ex USA	0.35%	-13.61%	-0.86%	-9.39%

NATIONAL INDICES

AUSTRALIA	-0.80%	-15.44%	4.29%	-7.58%
AUSTRIA	6.12%	-11.76%	5.52%	-4.91%
BELGIUM	-18.25%	-26.89%	-18.72%	-21.22%
CANADA	9.90%	7.43%	11.15%	4.50%
DENMARK	-0.32%	-7.70%	-0.89%	-0.55%
FINLAND	-12.59%	-27.58%	-13.09%	-21.95%
FRANCE	-2.68%	-17.69%	-3.23%	-11.30%
GERMANY	-1.24%	-19.53%	-1.80%	-13.28%
GREECE	-12.46%	-32.01%	-12.96%	-26.73%
HONG KONG	-3.75%	-22.08%	-3.93%	-22.08%
IRELAND	-17.03%	-24.20%	-17.50%	-18.31%
ITALY	-3.69%	-21.55%	-4.24%	-15.46%
JAPAN	9.14%	-10.30%	2.48%	-5.46%
NETHERLANDS	-7.98%	-20.63%	-8.50%	-14.47%
NEW ZEALAND	-11.43%	-25.82%	-14.26%	-26.64%
NORWAY	14.65%	-3.89%	14.39%	2.45%
PORTUGAL	-12.89%	-30.20%	-13.38%	-24.78%
SINGAPORE	-2.27%	-13.38%	-0.86%	-8.23%
SINGAPORE FREE	-2.27%	-13.38%	-0.86%	-8.23%
SPAIN	-7.76%	-19.58%	-8.28%	-13.34%
SWEDEN	-7.72%	-18.22%	-9.03%	-12.13%
SWITZERLAND	-2.26%	-16.17%	-5.10%	-6.82%
UNITED KINGDOM	-0.92%	-11.21%	-0.79%	-11.22%

Source: Morgan Stanley Capital International

INTERNATIONAL EMERGING MARKET PERFORMANCE

REGIONS	In Local Currency		In US Dollars	
	Q208	YTD	Q208	YTD
EM (EMERGING MARKETS)	-1.50%	-12.27%	-0.80%	-11.64%
EM ASIA	-6.60%	-19.87%	-9.08%	-21.91%
EM EASTERN EUROPE	6.62%	-7.01%	8.06%	-2.80%
EM EUROPE	5.15%	-10.24%	7.25%	-6.97%
EM EUROPE & MIDDLE EAST	5.36%	-9.65%	7.89%	-5.20%
EM LATIN AMERICA	4.47%	0.26%	10.96%	9.41%

NATIONAL INDICES

ARGENTINA	29.27%	38.92%	35.36%	44.72%
BRAZIL	7.72%	0.53%	18.42%	12.51%
CHINA	-3.28%	-26.33%	-3.46%	-26.33%
CHILE	6.59%	2.68%	-11.63%	-2.97%
COLOMBIA	8.16%	-6.12%	3.87%	-0.72%
CZECH REPUBLIC	7.10%	-6.67%	12.31%	11.87%
EGYPT	-12.10%	-6.25%	-10.26%	-3.17%
HUNGARY	-6.01%	-23.01%	3.35%	-10.80%
INDIA	-13.89%	-36.01%	-19.70%	-41.38%
INDONESIA	-4.36%	-12.32%	-4.51%	-10.68%
ISRAEL	6.56%	-6.23%	11.86%	6.62%
JORDAN	17.26%	14.98%	17.39%	15.15%
KOREA	-2.39%	-9.88%	-7.58%	-19.36%
MALAYSIA	-7.14%	-18.56%	-9.10%	-17.58%
MEXICO	-7.77%	-5.29%	-4.52%	0.32%
MOROCCO	-1.93%	22.55%	-2.38%	30.64%
PAKISTAN	-19.78%	-9.11%	-26.52%	-18.17%
PERU	5.29%	7.30%	2.41%	7.86%
PHILIPPINES	-19.15%	-32.05%	-24.78%	-37.53%
POLAND	-11.92%	-23.62%	-8.11%	-11.68%
RUSSIA	10.88%	-2.76%	10.95%	-1.82%
SOUTH AFRICA	0.69%	1.81%	4.53%	-11.11%
TAIWAN	-10.62%	-11.85%	-10.54%	-5.81%
THAILAND	-6.34%	-9.51%	-11.80%	-8.83%
TURKEY	-9.50%	-36.41%	-1.11%	-39.03%

Source: Morgan Stanley Capital International

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