

WaterStreet QUARTERLY

CAPITAL MARKETS REVIEW AND OUTLOOK

3RD QUARTER 2008

Nowhere to Hide

Massive global deleveraging accelerated during the quarter causing historic losses in equities, bonds, commodities and real estate assets.

GLOBAL EQUITY and fixed income markets retreated across most all sectors, capitalizations and styles as the fallout from major commercial and investment bank failures in the US and Europe prompted institutions and individuals to indiscriminately liquidate securities in all asset classes. Continued

apprehension about the financial strength of counterparties and their exposure to credit default swaps and other derivatives transactions triggered a near total loss of confidence in the banking system and the subsequent stampede into short-term government debt.

QUARTERLY OVERVIEW

■ US Equities

For the quarter, the Dow Jones Industrial Average was down 3.7%, the NASDAQ lost 8.8% and the S&P 500 declined 8.4%. July and August were actually positive months for the US, but the gains were offset by losses in September amidst the Lehman Brothers and AIG failures. Volatility in the third quarter was at an all-time high. The VIX Index reached 46.7 on September 29, surpassing the previous high of 45.7 recorded on October 8, 1998. (page 3)

■ International (Non-US) Equities

International markets posted substantial losses in the third quarter, with returns lower than the US as the dollar strengthened and several European countries and Japan moved toward recession. The MSCI EAFE Index declined 20.5% and the MSCI Europe Index fell 20.7% for the quarter. The biggest losers were Ireland (-42.1%), Austria (-41.2%) and Norway (-40.6%). Japan dropped 17.6%. Over the past six years, Japan's growth has been driven primarily by exports, and demand for Japanese exports has declined significantly in this global economic downturn. The MSCI

Emerging Markets Index lost 26.9% over the quarter. (page 4)

■ Fixed Income

The Merrill Lynch High Yield Index posted a large loss, down 10.6%. Mortgage backed securities started to post modest recoveries, while investors opportunistically picked up cheapened assets. The quarter also was marked by a flight to quality, demonstrated by the increase in the Merrill Lynch US Treasury Index. (page 5)

■ Alternative Investments

While all hedge fund strategies saw declines in the third quarter, hedge funds saw historic losses as the credit market unraveled. September marked the third consecutive month in which hedge funds posted their worst monthly performance. The Convertible Arbitrage Index declined 14.5% during the quarter. The Dow Jones AIG Commodity Index dropped 12.0% in July and 11.7% in September to finish the quarter down 27.7%. After a strong second quarter, the energy sector fell dramatically as it regained contact with reality. Industrial metals also lost significant ground this quarter as poor economies reduce demand. The NAREIT Index finished the quarter

up 5.6%. Real estate soundly outperformed the stock market, with the best performers within the sector reflecting the poor state of the economy. The top performing sector was shopping centers, which benefited as consumers chose grocery shopping and eating-in over dining at restaurants. (page 6)

■ Global Outlook

World GDP growth continues to decelerate to approximately 3.8% for 2008 and in the 2.5% to 3.0% range for 2009. There are many wild cards to include the effectiveness of central bank and direct government intervention to unfreeze credit markets and provide liquidity to the system. The question remains if it was too little too late to prevent a global recession. On a positive note headline inflation should moderate substantially and the dramatic fall in energy and commodity prices continues allowing central banks to cut short-term interest rates. Valuations in many equity and fixed income sectors are at historic lows and will present extreme buying opportunities after the credit market stabilizes and market participants are convinced that the majority of global deleveraging is complete. (page 7)

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None of the major asset classes performed well during the quarter. The Dow Jones Industrial fell 3.7% for the quarter finishing down 16.6% year-to-date. Value outperformed growth, and emerging markets were the worst performers. The flip of the long-energy, short-financial trade was one of the quarter's biggest stories. The energy sector turned in the quarter's biggest losses, while financials was one of the few sectors avoiding huge losses.

Until this quarter, the current financial crisis has seemed disconnected from the markets with which most investors are familiar. This disconnect results from the intangible markets that traders created in the last two decades, securitizing various assets and insuring them with credit default swaps (CDS). That trend resulted in a \$60 trillion CDS market.

When this unregulated market collapsed in mid-September, credit froze. As the perceived extent of the global credit bust has widened, the US government's attempts at intervention have become increasingly costly. After guaranteeing between \$122 billion and \$182 billion of debt held by Fannie Mae and Freddie Mac, the US government loaned AIG \$85 billion, as well as passing a \$700 billion plan to buy the toxic securities.

When Treasury Secretary Paulson announced his plans in early July to bailout Fannie Mae and Freddie Mac, the US government hoped it had stymied fallout from the global credit bust. However, by mid-September, Lehman Brothers declared bankruptcy, Merrill Lynch sold itself to Bank of America and AIG followed the footsteps of Fannie and Freddie in a gov-

ernment bailout. These companies lost control of their exposure to sub-prime loans and the mechanisms used to securitize and insure them. Lehman failed to bring in an outside infusion of capital, whether from Korea Development Bank, Bank of America or the US government, and could not save itself despite a \$42 billion pool of liquidity. Fearing that it might become the next institution to fail, Merrill Lynch folded itself into the security of Bank of America's retail banking operation.

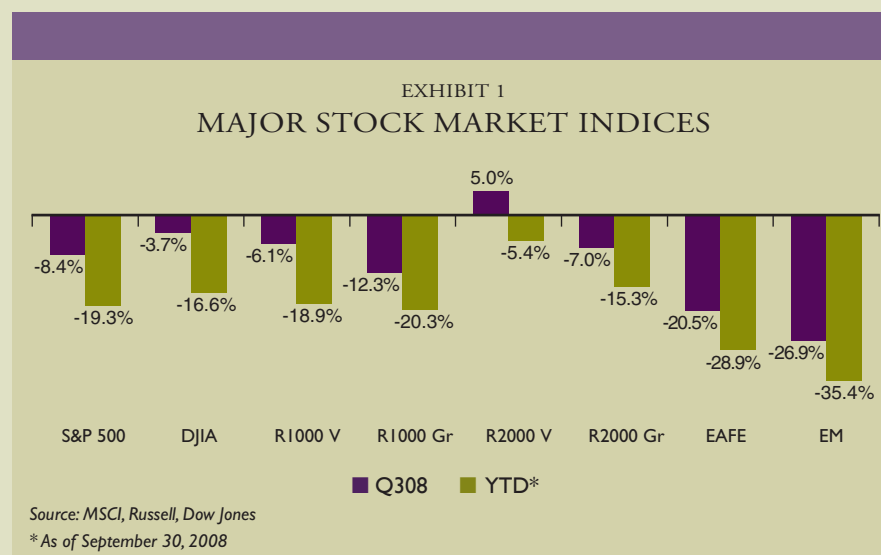
Finally, AIG's role insuring the credit default swaps for these securities overwhelmed the insurance giant. When Lehman collapsed and credit locked up, AIG could not post the collateral necessary to keep up with credit downgrades. While US officials initially refused to bailout AIG, citing "moral hazard", the potential disaster facing the US market in the wake of an AIG collapse caused them to reverse course.

When a \$1 trillion insurance company with operations in 130 countries could not withstand the global credit bust, the US government became the

only entity large enough to turn the tide. On September 16, the Federal Reserve loaned AIG \$85 billion at LIBOR plus 850 basis points in exchange for warrants for a 79.9% stake in the company.

While the AIG bailout could potentially turn into a great investment for the US government, in the meantime, the market continued to decline. Smaller players like Wachovia and Washington Mutual floundered and analysts predicted a vicious wave of regional bank failures that would handicap small business across the country. In turn, as the crisis grew, the government finally proposed a policy to create a bottom for the market by buying out the securities that caused Lehman and AIG to fail. While the US House of Representatives originally voted against the \$700 billion plan, it eventually passed in October.

The US Federal Reserve (Fed), Bank of England and Bank of Japan all held firm on interest rates during the quarter amidst inflation concerns. The Fed unanimously voted to stay at 2.0% on September 16 despite market turmoil. Previous decisions to reduce the rate



had been met with dissension from a growing number of regional Federal Reserve Bank presidents who thought the Fed's attempt to increase liquidity would cause even more troublesome inflation issues.

The European Central Bank (ECB) actually raised its rates during the quarter by 25 basis points to 4.25%. Inflation in Europe had reached 4.0% as the continent suffered from the global trend of high commodity prices. Tight credit and global deleveraging has dramatically decreased growth in developed markets. Much of Europe is in recession territory. In turn, many emerging markets are struggling with reduced demand for their exports.

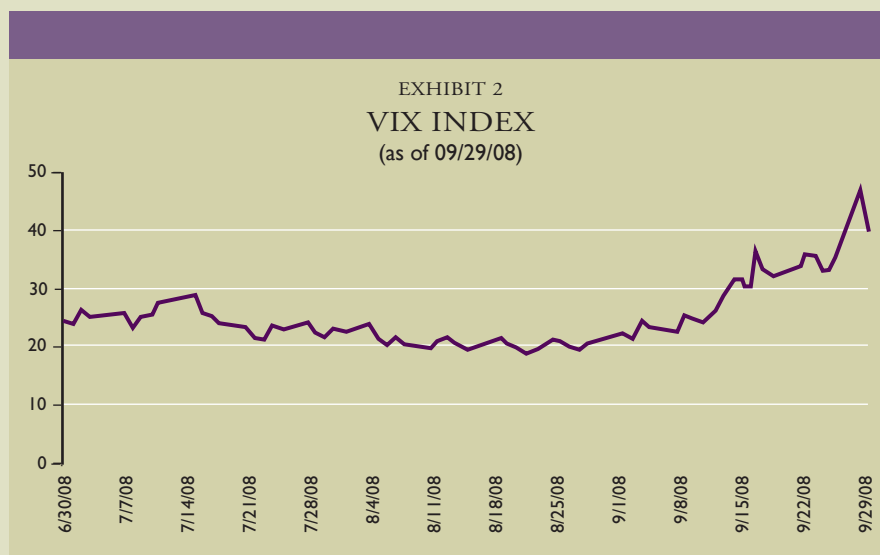
US EQUITIES

For the quarter, the Dow Jones Industrial Average was down 3.7%, the NASDAQ lost 8.8% and the S&P 500 declined 8.4%.

The VIX Index, which measures the volatility of the 500 largest stocks traded on US markets, reached 46.72 on September 29, surpassing the previous high of 45.74 recorded on October 8, 1998.

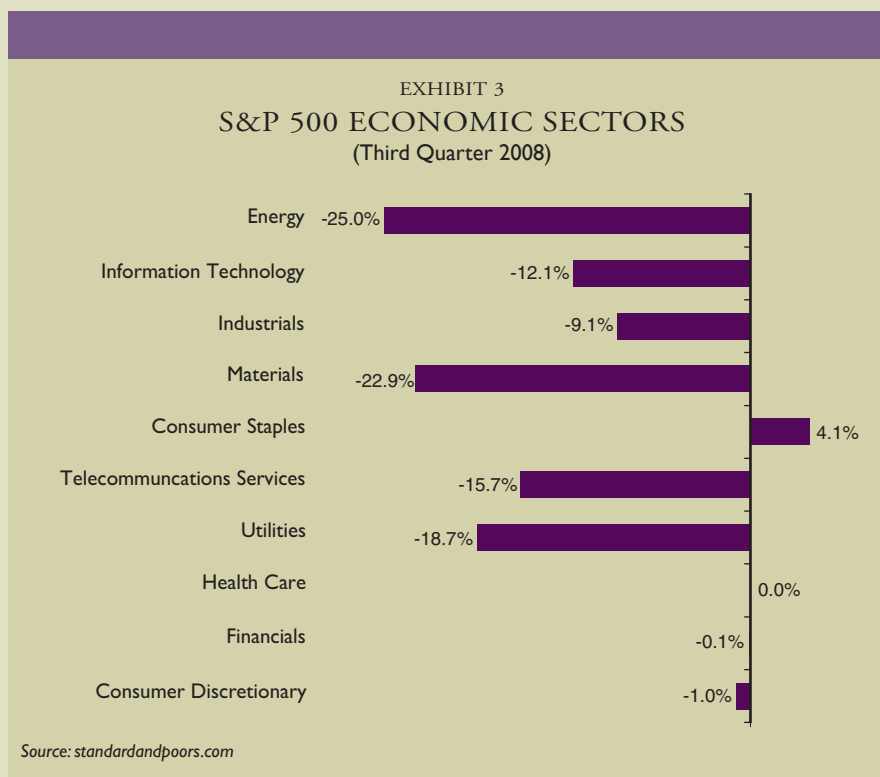
Value slightly outperformed growth within capitalization categories. Both the Russell 1000 Value and Russell 2000 Value Indices outperformed their counterparts in growth styles largely due to sector exposure.

Consumer staples was the only sector to produce positive returns for the quarter, providing a safe investment during the financial downturn. Financials essentially broke even, along with health care. Energy was the biggest loser of the quarter, reversing



its gains from the second quarter in which it was the best performer. Energy prices fell tremendously, driven by reduced demand and broader economic hardship. Materials dropped similarly, intuitively relating to reductions in natural resource exploration and construction as commodity prices declined and the economy slowed.

Retail investors have fallen prey to what we view as panic selling. According to AMG Data Services, equity funds recorded \$75 billion in outflows (excluding exchange traded funds) in the third quarter. With cash levels at historic highs, we view this as an indicator of potential upside when consumer confidence returns.



INTERNATIONAL EQUITIES

Developed Markets

International markets posted substantial losses in the third quarter, with returns lower than the US as the dollar strengthened and several European countries and Japan moved toward recession. The MSCI EAFE Index declined 20.5%.

The MSCI Europe Index declined 20.7% for the quarter. The biggest losers were Ireland (-42.1%), Austria (-41.2%) and Norway (-40.6%). European banks posted large losses, as many of the big multinationals had significant exposure to Lehman, AIG, as well as the US housing market. German banks were some of the hardest hit as a result of their US sub-prime holdings. Nevertheless, German banks are still lending, which helps alleviate the pain of reduced demand for German manufacturing. In France, manufacturing has declined sharply and many banks have tightened credit. While this news is not particularly dire, Europe's rigid labor regulations make it difficult for these markets to adjust to hardship. We noted last quarter that this lack of resiliency created a gloomy outlook if Europe moved into recession, and the continent progressed further down that path.

The MSCI Japan Index dropped 17.6% for the quarter. Over the past six years, the majority of Japan's growth has been driven by exports, and demand for Japanese exports has dropped significantly in this economic downturn. As corporate profits continue to fall, new Prime Minister Taro Aso has proposed a

stimulus package in efforts to revitalize the economy. Progress is slow though, and while Japanese banks' limited exposure to the global credit bust is a positive note for the country, it will struggle until demand for its exports increase. Hong Kong lost 22.9%; its status as a global financial center made it a natural loser amidst the global financial crisis. Singapore declined 22.2%.

The US Dollar moved dramatically during the quarter, finishing around \$1.40 to the euro after hitting nearly \$1.60 in mid-July. The increase in value can be attributed to two factors: the relative underperformance of Europe and the reverse of the short-dollar, long-commodity trade. While huge deficit spending and sub-prime mortgages weakened the dollar earlier in the year, it regained strength once the credit crisis turned global and modestly performing European economies shifted toward recession. In addition, many investors who rode the short-dollar, long-commodity bet began to see

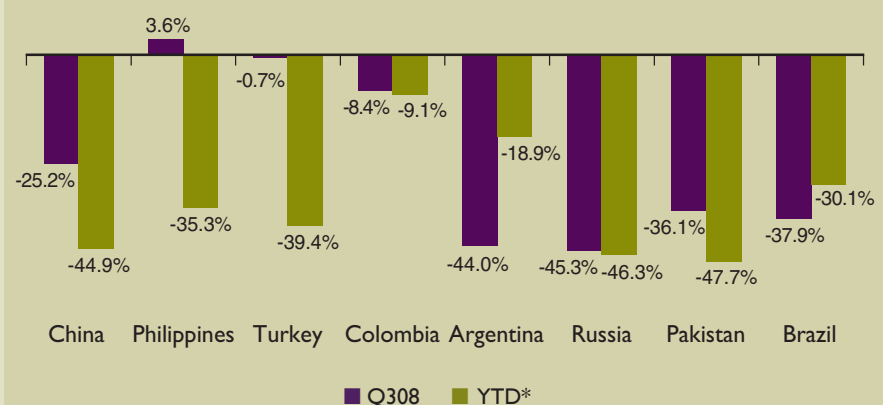
the end of that trade. These two trends worked somewhat cyclically to strengthen the dollar.

Emerging Markets

The MSCI Emerging Markets Index declined 26.9%. Emerging markets' generally rely on a strong commodity market. With continued depression in commodities, these markets were particularly hurt throughout the quarter.

The MSCI Emerging Markets Latin America Index dropped 32.6% during the quarter. Latin America peaked mid-May and has steadily lost ground since that time. After experiencing tremendous growth earlier in the year, Brazil backtracked significantly, down 37.9%. This drop can be attributed to investors selling off gains, momentum investors leaving the market and lower commodity prices hurting export potential. While Brazil's GDP growth is expected to slow, its equities are nevertheless trading at attractive price-to-equity ratios. Argentina flipped from the

EXHIBIT 4
EMERGING MARKETS
(In US Dollars)



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

group's biggest winner to the biggest loser, down 44.1% due to concerns over its debt, inflation and lower commodity prices. Mexico's 18.7% decline was largely tied to the US economic downturn.

The MSCI Emerging Markets Eastern Europe Index lost 39.3%. Its biggest loser was Russia, which declined 45.3% as investors fled the market after the conflict in Georgia. Lower commodity prices also dramatically reversed Russia's fortunes, which combined with market woes endanger Russian banks. Turkey performed relatively well, largely due to market gains after the country's Constitutional Court decided not to ban the ruling Justice and Development Party. European Union members in Central Europe performed similarly to their neighbors in Western Europe.

The MSCI Emerging Markets Asia Index lost 23.0% in the third quarter. China dropped 10.3%, as markets continued their slide after the Olympics. Chinese investors are hesitant to re-enter a market that has dropped so dramatically, while foreign investors have no appetite for the risk involved when many are moving to ultra-conservative investments. India lost 13.9% as inflation and modest growth slowed markets. India's loss was not as dramatic as many other Asian markets because it already experienced severe sell-offs earlier in the year. Small markets saw positive performance, largely as governments reformed in the wake of market busts.

In 2001, the financial crises in emerging markets brought the price-to-earnings ratio of the MSCI

Emerging Markets Index near single digits. We again see the opportunity to invest at bargain prices. Aside from the most recent downturn, those markets have performed exceptionally well since that time period, especially as compared to the US. As a result of global deleveraging, decreased import demand and investors selling, the index has once again fallen to 2001 levels. Again we are presented with an opportunity for investment at rare valuations.

FIXED INCOME

The Merrill Lynch High Yield Index posted a large loss, down 10.6%. Moody's AAA Bond Index saw yield increase to 6.0% at the end of the quarter, up from 5.7% at the end of second quarter, demonstrating that even investment-grade bonds are experiencing losses. Mortgage-backed securities started to post some recoveries while investors opportunistically bought cheapened assets. The quarter also was

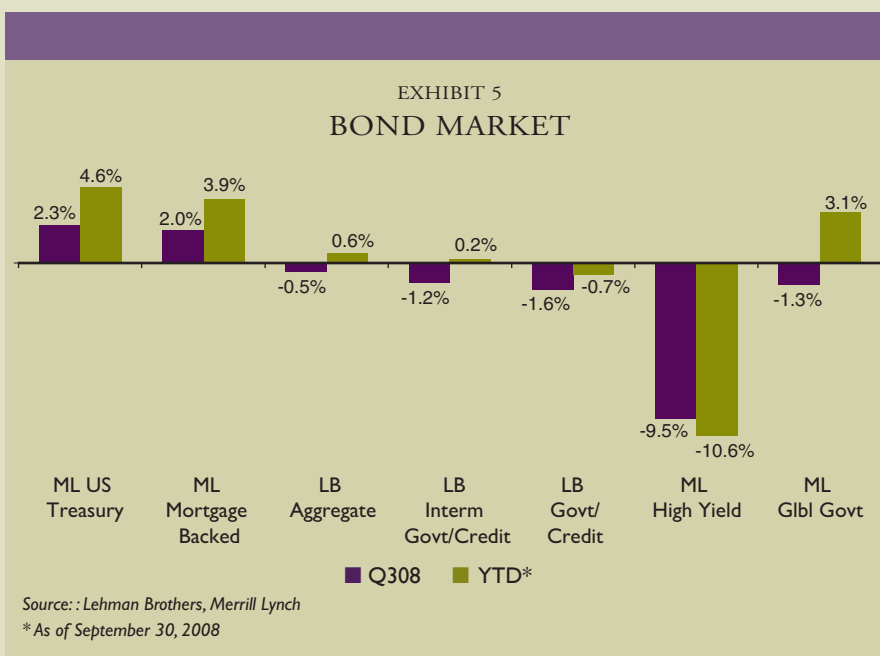
marked by a flight to quality, marked by the increase in the Merrill Lynch US Treasury Index. Global bonds were down 1.3% as the dollar recovered against foreign currencies.

At quarter end, US high yield spreads had widened to over 1000 basis points and global high yield spreads had extended their spread to 1038 basis points. The 90-day T-Bill fell to 0.54%.

ALTERNATIVE INVESTMENTS

Hedge Funds

While all hedge fund strategies saw declines in the third quarter, hedge funds experienced some of their worst losses ever driven primarily by deleveraging accelerated by investors reducing exposure voluntarily and lenders forcing hedge funds to post more collateral or sell positions to reduce their balance sheet risk. Government intervention also caused many main stream hedge fund strategies to falter when short-



selling was ban on hundreds of financial stocks. Counter-party risk, seldom understood by the average investor, moved to the forefront during the quarter as the market witnessed the failure of Lehman Brothers, which many now view as the first major mistake by the government in its plight to stabilize the market. Managers using Lehman's prime brokerage services were directly impacted, as well as managers with indirect exposure through CDS or other counterparty trades. Assets brokered with Lehman were written down an average of 85% based on managers with which we are familiar. Other managers, which escaped performance issues related to Lehman counterparty exposure, found themselves subject to margin calls on their prime brokerage accounts, causing forced selling and some hedge fund collapses across the industry.

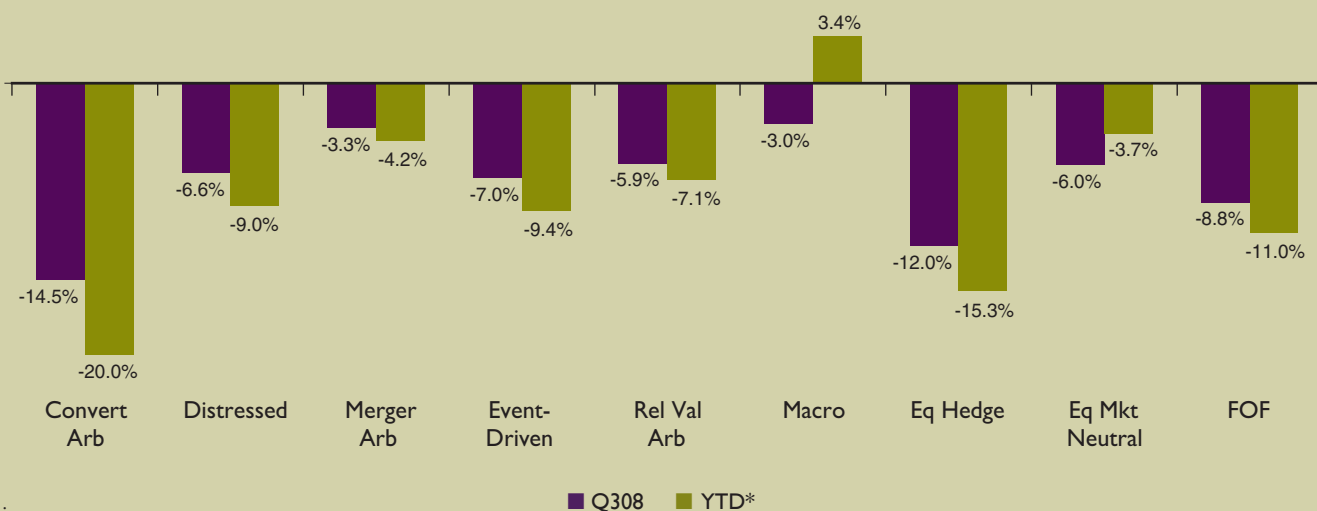
Hedge funds, in general, posted their worst monthly performance in September, continuing the losing streak from the first two months of the quarter.

All strategies saw declines with convertible arbitrage posting the largest decline of all hedge fund strategies, down 14.5%. Convertible arbitrage managers were faced with two separate issues that culminated to create what many believe will be the end of the strategy. Most impactful to the strategy was the complete dislocation of credit instruments during the quarter. Convertible bonds, which are held by these managers, initially suffered huge market-to-market losses then losses were later realized as managers received margin calls and investor redemption requests. To make matters worse, short selling ban regulations effectively removed these managers' ability to hedge risks related to

convertible bonds they held. Distressed funds were battered down 6.6% with continued default risk, although the current carnage unfolding in the credit market will present great opportunities for many of these managers in the near future.

Hedge funds strategies, such as relative value fixed income arbitrage, that depend on leverage to generate attractive returns have found themselves in dire straits as borrowing costs have gone up and credit spreads remain elevated. Equity long/short managers have lowered gross and net exposure across the board to levels well below their operating range over the last five years. Directional equity long/short managers lost 12.0% over the quarter, as represented by the HFRI Equity Hedge Index. Equity market neutral should remain poised to generate attractive returns over the coming months provided no further short selling provisions are passed

EXHIBIT 6
HEDGE FUND STRATEGIES (HFRI INDICES)



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

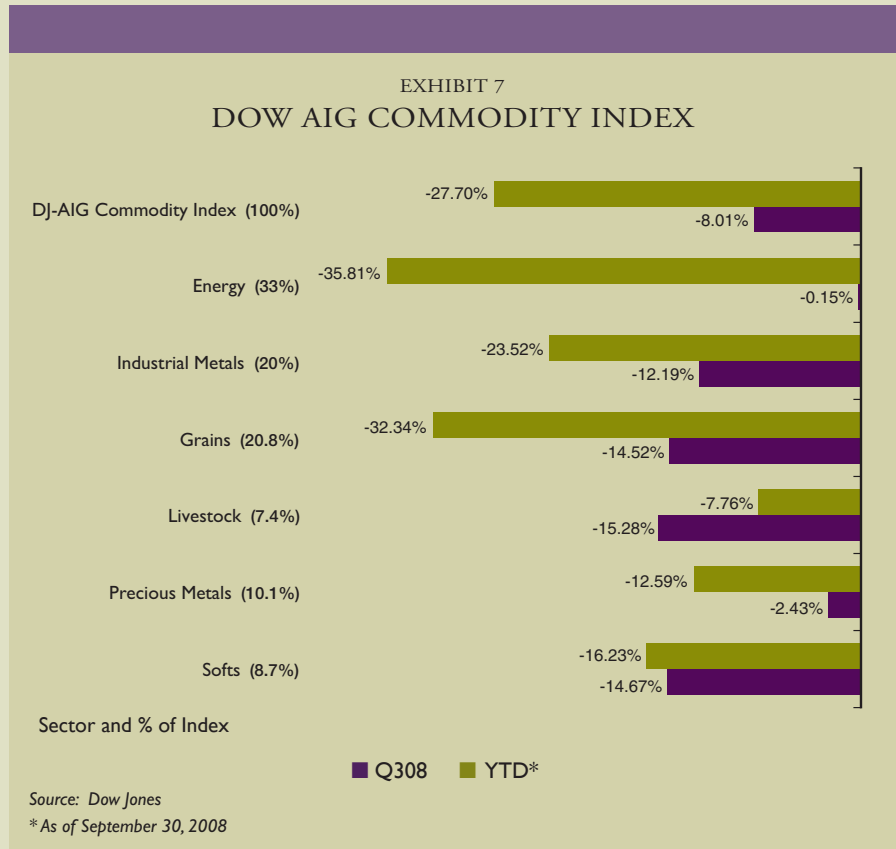
and the market refocuses on company fundamentals.

The great leverage un-wind gained momentum throughout the third quarter with institutional, retail and hedge fund investors alike liquidating investments for cash. As a result, we expect to see redemptions across the hedge fund industry running up to 20% to 40% of assets based on our industry sources. When extrapolated, this amounts to nearly \$1 trillion in assets that will be thrown back into the market by hedge funds over the fourth quarter, obviously enough to continue selling pressure across the broad market. In the third quarter alone, more than \$250 billion was withdrawn from the hedge fund industry according to the latest Hedge Fund Research, Inc. reports. This has led to many hedge fund managers across the board sitting on high levels of cash for new investments and to facilitate redemptions.

Commodities

The Dow Jones AIG Commodity Index dropped 27.7% in the third quarter. After a strong second quarter, the energy sector fell dramatically as it regained contact with reality. Industrial metals have also lost significant ground this year as poor economies reduce demand.

After reaching a record intraday price of \$142.27 amidst Iranian missile tests on July 11, crude settled around \$100 at quarter-end. This marked a dramatic reversal in the long-commodities, short-dollar trade. In addition to Iran and Iran-Israel tensions, a potential strike in Brazil and rebel tensions in Nigeria



pushed up prices in early July. The trend began to reverse in mid-month, dropping more than \$16 for the week of July 14. A strengthening dollar and decreased demand pushed down prices in August, and energy posted a big loss in September as risk-averse investors moved from commodities into cash and Treasury bonds.

Improved weather forecasts caused a 32.3% drop in grains, as last quarter's floods were replaced with predictions of optimal weather and near-record harvests. Industrial metals finished the quarter down 23.5% on the back of slowing demand. Nickel and zinc have been the biggest losers for the year, down 40.7% and 31.2%, respectively. For precious metals, gold was essentially flat for the quarter.

Real Estate Investment Trusts (REITs)

The NAREIT Index finished the quarter up 5.6%. Real estate soundly outperformed the stock market, with the best performers reflecting the poor state of the economy. The top performing sector was shopping centers, which benefited as consumers went grocery shopping and eating-in instead of dining out. September's best performers, self-storage space and apartment complexes, continued their strong performance, up 19.3% and 12.5%, respectively. Apartments continue to perform well as many housing markets lose value. Self-storage remains relatively strong due to the short-term nature of the leases that allow frequent mark-to-market rent increases to pass through inflation. In contrast, the poor economy has taken a substantial toll on hotels, office space and discretionary-goods retailers.

GLOBAL OUTLOOK

Last quarter we wrote about the perceived growth of the global credit bust, citing the IMF's prediction of \$1 trillion in financial losses. The IMF's numbers far surpassed most estimates at the time, but they have become increasingly reasonable if not possibly low. This has continued the trend of the global credit crisis impact being underestimated.

Looking forward, the question for global markets is whether the US government intervention will create a bottom for the markets. The global credit bust has drained markets around the world, and that negative movement will continue if credit continues to tighten and financial institutions continue to fail. After citing "moral hazard" and trying to take a limited approach to the crisis, the US government is now employing sums of money greater than the annual GDP of all but 16 countries in the world.

We believe that one of the best indicators for detecting when a market bottoms is individual investor movement. Traditionally, individual investors in vehicles like mutual funds tend to enter a market as it peaks and leave a market as it bottoms. The increased volatility and record drops in the current market have chased out individual investors.

As a result of this trend, markets are extremely cheap across the board. Many US companies with strong fundamentals have seen their stock prices drop as investors cover their losses or switch to cash. Price-to-earning ratios have dropped to 11.6

for the Dow Jones, 29.5 for the NASDAQ and 19.1 for the S&P 500. With such deals available, the sound investments that are available are positioned for substantial gains once the buying begins.

Bargains are also available in emerging markets. The price-to-equity ratios for the MSCI Emerging Markets Index have dropped to levels unseen since 2001. In turn, 2001 is a good reference point because it marks the beginning of a substantial rally by emerging markets. In the third quarter, prestigious companies lost substantial value as investors fled emerging markets to cover their losses in developed markets. Petroleo Brasileiro and China Telecom lost 38.0% and 24.8% on the NYSE, respectively. Gazprom lost 40.7% on Russia's MICEX. At the same time, all traded at price-to-earnings ratios below 10.

Average forecasted US GDP is -0.2%. Tight credit has critically handicapped businesses' ability to grow. It's worth noting though, that this correction is long overdue. Since 2001, US GDP growth has largely been a result of population growth and credit. While population growth will continue to fuel US GDP growth, despite GDP per capita growth similar to Europe, bad credit needs to get flushed out of the system. Sub-prime mortgages and CDS fits into a larger trend of relatively high levels of corporate and personal debt. All this credit, as opposed to productivity, has largely financed growth since 2001, resulting in the overwhelmed system that we are now struggling through. As a result, we believe GDP will continue to shrink in the fourth quarter

as markets continue to correct. Depending on whether the US government can get the credit market turned around, the economy might start to slowly rebound as early as the first quarter of 2009. In sum, the pace and direction of credit reform will be a significant determinant of performance going forward.

Europe suffered significant equity and fixed income price declines during the quarter as credit troubles shifted its moderate growth into recession. The closing of the credit markets claimed many European banks in manners similar to US failures: the United Kingdom took over Bradford & Bingley, while French bank BNP Paribas took over Fortis, a Belgium-Netherlands-Luxembourg bank. Real estate markets in the United Kingdom, Ireland, Spain and Denmark are particularly poor, while industrial output is dropping across the board.

Poor economics have changed the political scenery around the world, even undermining the United Kingdom's Labour Party and Prime Minister Gordon Brown. After the failures of British banks Northern Rock and Bradford & Bingley, the takeover of struggling HBOS by Lloyd's and a gloomy mortgage market, polls are showing the British public favoring the Conservative party over Labour on economic issues. Brown shuffled his cabinet in late-September, but continued bad economic news will roil the United Kingdom as it has across Europe and the globe. In Japan, Prime Minister Yasuo Fukuda resigned as Japan entered recession territory. His replacement, Taro Aso, will be

Japan's fourth prime minister in three years. In turn, Japan's continued inability to stimulate growth has increased tension for its Liberal Democratic Party, which has ruled the country since 1955.

While Japanese GDP is forecasted to be slightly positive, it is insulated against the current credit bust due to its similar experiences in the past. After its bust in 1990, then suffering huge losses again in the 1997 Asian financial crisis, Japanese banks finally learned their lesson. As a result, their holdings are much more conservative and they did not get involved with assets related to sub-prime mortgages. In turn, while Japanese exports are suffering due to the global downturn, Japan's internal economy is much more resilient than most developed markets. Japanese firms have made around \$57 billion in foreign acquisitions this year, led by UFJ Financial Group's purchase of a 21% stake in Morgan Stanley and Nomura's takeover of Lehman's European, Asian and Middle East operations.

Last quarter's trend of high-performing commodity producers and poor-performing exporters was somewhat flipped, except that exporters were still fairly weak due to low global demand. China is a good example of this trend: while high commodity prices began to upset internal politics in the second quarter, any recovery in the third quarter was dampened by reduced foreign investment and demand for its goods. Chinese GDP was up 9%, while inflation has come under control at 5.3%.

Inflation continues to raise doubts about the Indian economy, with CPI

at 12.0% compared to GDP growth of 7.9%. With the cost of credit increasing across the globe, India faces at least a few weak upcoming quarters.

News out of Russia is even bleaker, as Russian banks struggle to stay afloat. Much of Russia's stock market was bought with leverage, and the huge market losses of late have endangered the banks. As a result, high inflation and capital flight are becoming problematic, with Russia's central bank spending billions to prop up the flailing ruble.

Latin American growth has slowed, though its biggest market in Brazil has maintained strength driven by its healthy level of consumer spending. Nevertheless, Brazilian GDP growth is expected to slow to around 3.0% next year, while Mexico might be lucky to maintain around 2.0% growth. As such, questions about global credit have increased worries about Argentina, as its debt spreads over US Treasuries neared 1000 basis points.

COURSE OF ACTION

The quarter saw the massive unwinding of the credit crisis, along with the demise of some of Wall Street's oldest investment banks. Additionally, government action played an unforeseen role with the bailout of AIG and passage of the Troubled Asset Relief Program. As mentioned, transforming the financial world further, this quarter familiar names such as Lehman Brothers, Fannie Mae, Freddie Mac and Washington Mutual literally disappeared. Globally, governments are intervening with capital

markets at levels not seen since the Great Depression in the United States. Deleveraging is a painful but necessary process. Over time the excesses will be worked out of the system resulting in a much sounder, stable banking system and regulatory environment. This will in turn lead to a significant rebound in financial assets pricing.

Domestic fixed income spreads continue to widen as investors are still weary to re-enter both corporate and sovereign debt. 10-year US Treasuries are at 4.109% versus below 4.0% last quarter, demonstrating that investors are starting to regain confidence with the market. Over the next 12 months, we anticipate upside as markets re-stabilize and investors take comfort with the new financial world.

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. The potential opportunities in distressed debt will offer diligent managers a chance to invest at an attractive discount.


While we are in the largest financial dislocation since the Great Depression, we look back at the third quarter as a once in a lifetime storm. Overall, we are positive about the ability to maximize returns after periods of market losses. The panic selling across all asset classes provides an opportunity we are likely never to witness again, just as most of us have never witnessed a financial system transformation we are in the midst of today. 

EXHIBIT 8: 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	+2.1 Q2	+2.8	+1.6	+0.6	-1.5 Aug	+5.4 Aug	+2.0	+4.5	6.1 Sep
Japan	+0.7 Q2	-3.0	+0.7	+0.6	-6.9 Aug	+2.1 Aug	-0.2	+1.8	4.2 Aug
China	+10.1 Q2	na	+9.8	+8.5	+12.8 Aug	+4.9 Aug	+6.5	+6.4	9.5 2007
Britain	+1.5 Q2	nil	+1.1	+0.1	-2.3 Aug	+4.7 Aug§	+1.8	+3.8	5.5 Jul ††
Canada	+0.7 Q2	+0.3	+0.8	+1.4	-2.1 Jul	+3.5 Aug	+1.7	+2.8	6.1 Aug
Euro Area	+1.4 Q2	-0.7	+1.2	+0.6	-1.7 Jul	+3.6 Sep	+2.1	+3.5	7.5 Aug
Austria	+2.2 Q2	+1.5	+2.1	+1.0	-0.4 Jul	+3.7 Aug	+1.7	+3.0	3.3 Aug
Belgium	+1.9 Q2	+0.9	+1.5	+0.9	+2.5 Jul	+5.5 Sep	+1.5	+4.5	11.2 Aug †††
France	+1.1 Q2	-1.3	+1.1	+0.7	-2.0 Jul	+3.2 Aug	+1.2	+3.2	8.0 Aug
Germany	+1.7 Q2	-2.0	+1.6	+0.6	-1.7 Aug	+2.9 Sep	+2.7	+2.9	7.6 Sep
Greece	+3.5 Q2	+3.1	+2.4	+1.5	-1.3 Jul	+4.6 Sep	+2.9	+4.6	7.3 Jun
Italy	-0.1 Q2	-1.1	+0.1	+0.3	-3.2 Jul	+3.8 Sep	+1.7	+3.6	6.8 Q2
Netherlands	+3.0 Q2	+0.5	+2.1	+1.0	-2.6 Jul	+3.1 Sep	+1.3	+2.5	3.9 Aug ††
Spain	+1.8 Q2	+0.4	+1.4	+0.3	-3.0 Jul	+4.9 Aug	+2.2	+4.5	11.3 Aug
Czech Republic	+4.6 Q2	+3.6	+4.5	+4.9	-2.6 Aug	+6.6 Sep	+2.8	+6.6	5.3 Aug
Denmark	+0.9 Q2	+1.6	+0.6	+0.8	-0.2 Aug	+4.3 Aug	+1.1	+3.3	1.6 Aug
Hungary	+2.0 Q2	+2.3	+2.0	+3.3	-5.9 Aug	+6.5 Aug	+8.3	+6.5	7.5 Aug ††
Norway	+5.9 Q2	+2.4	+2.5	+2.2	-5.7 Aug	+4.5 Aug	+0.4	+3.3	2.4 Jul †††*
Poland	+5.8 Q2	na	+5.4	+4.3	-3.7 Aug	+4.8 Aug	+1.5	+4.2	9.3 Aug ††
Russia	+7.8 Q2	na	+7.5	+6.8	+4.7 Aug	+16.1 Sep	+9.4	+14.0	5.3 Aug ††
Sweden	+0.7 Q2	-0.1	+1.3	+1.0	+0.9 Jul	+4.4 Sep	+2.2	+3.8	5.2 Aug ††
Switzerland	+2.4 Q2	+1.5	+2.0	+1.1	+6.1 Q2	+2.9 Sep	+0.7	+2.6	2.5 Aug
Turkey	+1.9 Q2	na	+4.5	+4.3	+3.4 Jul	+12.6 Sep	+7.1	+11.0	9.0 Q3 ††
Australia	+2.7 Q2	+1.1	+2.6	+2.3	+2.4 Q1	+4.5 Q2	+2.1	+4.2	4.1 Aug
Hong Kong	+4.2 Q2	-5.5	+4.7	+4.4	-4.2 Q2	+4.6 Aug	+1.6	+5.3	3.2 Aug ††
India	+7.9 Q2	na	+7.7	+7.1	+7.1 Jul	+9.0 Aug	+7.3	+7.9	7.2 2007
Indonesia	+6.5 Q2	na	+5.8	+5.5	+1.4 Jul	+11.0 Sep	+7.0	+10.3	8.5 Feb
Malaysia	+6.3 Q2	na	+6.0	+5.6	+1.8 Jul	+8.5 Aug	+1.9	+5.4	3.5 Q2
Pakistan	+5.8 2008**	na	+6.0	+4.4	-4.2 Jun	+25.3 Aug	+6.5	+18.6	5.6 2007
Singapore	+2.1 Q2	-6.0	+4.0	+3.8	-12.2 Aug	+6.4 Aug	+2.9	+6.5	2.3 Q2
South Korea	+4.8 Q2	+3.4	+4.4	+4.2	+1.9 Aug	+5.1 Sep	+2.3	+4.2	3.2 Aug
Taiwan	+4.3 Q2	na	+4.3	+3.4	+0.4 Aug	+3.1 Sep	+3.1	+3.8	3.9 Aug
Thailand	+5.3 Q2	+2.9	+4.8	+3.9	+7.9 Aug	+6.0 Sep	+2.1	+6.4	1.2 Jun
Argentina	+7.5 Q2	+8.7	+6.0	+3.5	+4.2 Aug	+9.0 Aug	+8.7	+9.3	7.8 Q3 ††
Brazil	+6.1 Q2	+6.6	+4.6	+3.4	+2.0 Aug	+6.3 Sep	+4.1	+6.0	7.6 Aug ††
Chile	+4.3 Q2	+7.4	+3.6	+3.6	-3.1 Aug	+9.2 Sep	+5.8	+8.6	8.2 Aug ††††
Colombia	+3.7 Q2	+2.8	+4.5	+4.0	+0.7 Jul	+7.6 Sep	+5.0	+6.7	11.0 Jul ††
Mexico	+2.8 Q2	+0.6	+2.3	+2.5	-0.3 Jul	+5.6 Aug	+4.0	+4.8	4.2 Aug ††
Venezuela	+7.1 Q2	na	+5.2	+3.0	-2.5 Jun	+36.0 Sep	+15.3	+30.6	7.5 Q2 ††
Egypt	+6.8 Q2	na	+7.1	+6.7	+6.8 Q2**	+23.7 Aug	+8.1	+17.1	9.0 Q1 ††
Israel	+4.9 Q2	+4.2	+4.0	+3.2	+9.7 Jul	+5.0 Aug	+1.0	+4.3	5.9 Q2
Saudi Arabia	+3.5 2007	na	+7.2	+5.1	na	+10.9 Aug	+5.0	+8.5	na
South Africa	+4.5 Q2	+4.9	+3.2	+3.5	+0.4 Aug	+13.7 Aug	+6.7	+10.3	23.1 Jun ††

*% change on previous quarter at an annual rate.

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

‡National definitions.

§RPI Inflation rate 4.8% in Aug.

**Year ending in June.

††Latest 3 months.

†††Not seasonally adjusted.

***Centred 3-month average

EXHIBIT 9: 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	-844.6 Jul	-699.0 Q2	-4.7	-	-	-2.5	2.09	3.71
Japan	+88.2 Jul	+206.4 Jul	+3.9	100	117	-2.8	0.76	1.38
China	+252.5 Aug	+371.8 2007	+8.5	6.82	7.51	0.4	4.30	3.31
Britain	-188.9 Aug	-82.9 Q2	-3.1	0.58	0.49	-3.8	6.35	4.29
Canada	+49.3 Jul	+13.6 Q2	+1.1	1.12	0.98	0.2	0.95	3.65
Euro Area	-10.8 Jul	-38.5 Jul	-0.4	0.73	0.71	-0.9	5.39	3.78
Austria	-0.1 Jul	+14.5 Q2	+2.6	0.73	0.71	-0.8	5.39	4.20
Belgium	+5.5 Jun	-9.8 Jun	+1.6	0.73	0.71	-0.6	5.47	4.34
France	-76.9 Aug	-51.3 Jul	-1.8	0.73	0.71	-2.9	5.39	4.08
Germany	+279.8 Aug	+271.9 Jul	+6.5	0.73	0.71	1.1	5.39	3.79
Greece	-67.2 Jun	-50.5 Jul	-14.0	0.73	0.71	-3.3	5.39	4.72
Italy	-13.1 Jul	-71.4 Jul	-2.5	0.73	0.71	-2.6	5.39	4.64
Netherlands	+61.4 Jul	+62.5 Q2	+6.2	0.73	0.71	0.7	5.39	4.10
Spain	-154.1 Jul	-165.2 Jul	-9.8	0.73	0.71	-1.6	5.39	4.38
Czech Republic	+6.4 Aug	-4.8 Jul	-2.8	18.1	19.4	-1.9	4.04	3.93
Denmark	+5.1 Jul	+5.9 Aug	+1.3	5.47	5.26	3.8	5.95	4.44
Hungary	+0.5 Aug	-8.8 Q2	-5.9	185	176	-4.0	8.83	8.30
Norway	+80.5 Aug	+78.1 Q2	+17.3	6.18	5.43	17.7	6.93	3.88
Poland	-19.7 Jul	-22.0 Jul	-4.9	2.55	2.65	-1.9	6.75	5.86
Russia	+200.3 Aug	+104.3 Q2	+6.2	26.1	24.9	4.5	11.0	7.91
Sweden	+18.7 Aug	+38.6 Q2	+7.6	7.12	6.46	2.4	3.60	3.25
Switzerland	+16.4 Aug	+60.2 Q2	+13.0	1.13	1.18	0.9	3.09	2.49
Turkey	-76.0 Aug	-47.1 Jul	-6.4	1.41	1.19	-2.7	18.96	7.95‡
Australia	-15.6 Aug	-61.1 Q2	-5.1	1.50	1.11	1.3	6.33	4.94
Hong Kong	-26.3 Aug	+27.5 Q2	+9.0	7.77	7.76	3.0	4.15	2.36
India	-100.3 Aug	-21.9 Q2	-2.9	48.0	39.3	-4.3	8.83	8.83
Indonesia	+19.0 Sep	+6.3 Q2	+2.8	9600	9075	-2.0	11.50	10.38
Malaysia	+41.0 Aug	+35.3 Q2	+14.4	3.50	3.37	-3.1	3.70	4.38
Pakistan	-21.7 Aug	-14.0 Q2	-8.6	79.6	60.7	-6.4	14.90	21.14‡
Singapore	+25.5 Aug	+32.8 Q2	+20.3	1.47	1.46	1.0	1.63	2.85
South Korea	-11.5 Sep	-7.1 Aug	-2.5	1395	916	1.5	5.96	5.67
Taiwan	+6.9 Sep	+32.6 Q2	+4.6	32.5	32.6	-1.8	2.70	2.20
Thailand	+5.4 Aug	+7.8 Aug	+1.1	34.4	34.2	-2.9	3.85	4.25
Argentina	+13.2 Aug	+6.0 Q2	+3.1	3.22	3.16	0.7	15.00	na
Brazil	+28.8 Sep	-21.9 Aug	-1.6	2.38	1.80	-1.6	13.67	6.16‡
Chile	+16.1 Sep	+1.0 Q2	-0.3	617	497	6.5	10.08	3.58‡
Colombia	+1.8 Jul	-4.9 Q2	-2.6	2319	1971	-1.0	9.32	8.05‡
Mexico	-9.4 Aug	-5.3 Q2	-0.8	13.0	10.8	-0.1	7.99	8.55
Venezuela	+41.9 Q2	+37.8 Q2	+12.1	4.65	4.23§	1.6	17.04	6.55‡
Egypt	-22.2 Q1	-0.1 Q1	+0.2	5.51	5.56	-7.1	13.50	6.34‡
Israel	-13.1 Aug	+3.5 Q2	+0.2	3.61	4.03	-1.0	4.21	5.20
Saudi Arabia	+150.8 2007	+95.0 2007	+33.1	3.77	3.73	13.3	4.59	na
South Africa	-10.3 Aug	-22.5 Q2	-8.0	9.23	6.86	0.4	12.25	8.79

*Merchandise trade only.

†The Economist poll or Economist Intelligence Unit forecast.

‡Dollar denominated bonds.

§Unofficial exchange rate

EXHIBITS 10 & 11: Index Tables (period ending September 30, 2008)

INTERNATIONAL DEVELOPED MARKET PERFORMANCE

REGIONS	In Local Currency		In US Dollars	
	Q308	YTD	Q308	YTD
EAFE	-12.95%	-26.31%	-20.50%	-28.91%
EURO	-10.59%	-29.10%	-20.28%	-31.89%
EUROPE	-11.28%	-25.97%	-20.73%	-30.21%
THE WORLD INDEX	-11.29%	-22.37%	-15.15%	-23.84%
PACIFIC	-16.45%	-26.87%	-19.99%	-25.94%
WORLD ex USA	-13.40%	-25.19%	-20.61%	-28.06%

NATIONAL INDICES

AUSTRALIA	-10.24%	-24.11%	-26.22%	-31.82%
AUSTRIA	-33.99%	-41.75%	-41.15%	-44.04%
BELGIUM	-23.51%	-44.08%	-31.81%	-46.27%
CANADA	-17.94%	-11.84%	-21.69%	-18.17%
DENMARK	-17.31%	-23.68%	-26.32%	-26.72%
FINLAND	-18.42%	-40.92%	-27.27%	-43.24%
FRANCE	-9.02%	-25.11%	-18.88%	-28.05%
GERMANY	-10.89%	-28.30%	-20.56%	-31.11%
GREECE	-11.83%	-40.05%	-21.39%	-42.40%
HONG KONG	-23.26%	-40.20%	-22.93%	-39.94%
IRELAND	-35.05%	-50.76%	-42.09%	-52.70%
ITALY	-12.56%	-31.41%	-22.05%	-34.10%
JAPAN	-17.47%	-25.97%	-17.60%	-22.10%
NETHERLANDS	-11.34%	-29.63%	-20.95%	-32.39%
NEW ZEALAND	-4.86%	-29.42%	-16.51%	-38.75%
NORWAY	-31.07%	-33.76%	-40.62%	-39.16%
PORTUGAL	-8.65%	-36.24%	-18.56%	-38.74%
SINGAPORE	-18.11%	-29.07%	-22.18%	-28.59%
SINGAPORE FREE	-18.11%	-29.07%	-22.18%	-28.59%
SPAIN	-6.88%	-25.11%	-16.98%	-28.05%
SWEDEN	-10.50%	-26.81%	-22.79%	-32.16%
SWITZERLAND	-4.46%	-19.91%	-13.21%	-19.13%
UNITED KINGDOM	-11.76%	-21.65%	-20.97%	-29.84%

Source: Morgan Stanley Capital International

INTERNATIONAL EMERGING MARKET PERFORMANCE

REGIONS	In Local Currency		In US Dollars	
	Q308	YTD	Q308	YTD
EM (EMERGING MARKETS)	-20.77%	-30.49%	-26.86%	-35.37%
EM ASIA	-17.90%	-34.21%	-22.95%	-39.83%
EM EASTERN EUROPE	-35.77%	-40.27%	-39.27%	-40.97%
EM EUROPE	-32.37%	-39.29%	-35.99%	-40.45%
EM EUROPE & MIDDLE EAST	-29.69%	-36.47%	-33.08%	-36.56%
EM LATIN AMERICA	-21.94%	-21.73%	-32.57%	-26.22%

NATIONAL INDICES

ARGENTINA	-41.98%	-19.40%	-43.96%	-18.90%
BRAZIL	-24.65%	-24.25%	-37.87%	-30.10%
CHINA	-6.17%	-3.65%	-10.30%	-12.96%
CHILE	-25.53%	-45.14%	-25.22%	-44.91%
COLOMBIA	4.80%	-1.61%	-8.41%	-9.07%
CZECH REPUBLIC	-14.41%	-20.11%	-25.57%	-16.73%
EGYPT	-25.73%	-30.38%	-27.45%	-29.75%
HUNGARY	-6.70%	-28.17%	-19.12%	-27.86%
INDIA	-6.05%	-39.88%	-13.93%	-49.54%
INDONESIA	-24.49%	-33.79%	-26.17%	-34.05%
ISRAEL	-12.54%	-17.99%	-15.31%	-9.71%
JORDAN	-13.10%	-0.08%	-13.19%	-0.04%
KOREA	-12.56%	-21.20%	-24.21%	-38.89%
MALAYSIA	-13.47%	-29.53%	-17.87%	-32.31%
MEXICO	-13.33%	-17.92%	-18.73%	-18.47%
MOROCCO	-13.92%	5.48%	-21.74%	2.24%
PAKISTAN	-26.98%	-33.63%	-36.12%	-47.73%
PERU	-34.28%	-29.48%	-34.30%	-29.14%
PHILIPPINES	8.62%	-26.19%	3.64%	-35.25%
POLAND	-4.05%	-26.71%	-15.41%	-25.29%
RUSSIA	-43.94%	-45.49%	-45.26%	-46.26%
SOUTH AFRICA	-11.70%	-10.10%	-16.53%	-25.80%
TAIWAN	-20.08%	-29.55%	-24.59%	-28.98%
THAILAND	-21.54%	-29.00%	-22.48%	-29.32%
TURKEY	3.27%	-34.32%	-0.65%	-39.43%

Source: Morgan Stanley Capital International

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