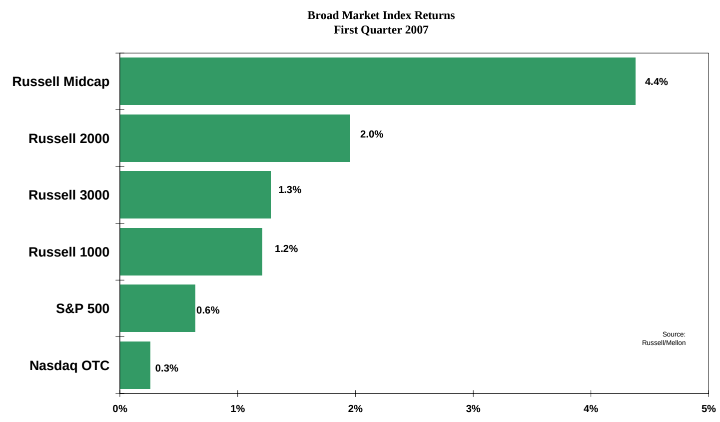
First Quarter 2007 Market Summary

Economy



The US economy grew 3.3% in 2006 as measured by gross domestic product, according to a March 29 release issued by the Commerce Department. To put this number in perspective, GDP grew by 3.2% in 2005 and 3.9% in 2004. A 3% growth rate is considered to be the long-term benchmark average.

Fourth quarter 2006 annualized GDP growth was 2.5%, an upward revision from an earlier 2.2% estimate. This followed a third quarter GDP increase of 2.0%. (An initial first quarter 2007 estimate will be reported April 27.)

With a close eye on the solid GDP growth in 2006, the Fed continues to perform its balancing act, keeping inflation under control and maintaining moderate economic growth. The Federal Reserve Open Market Committee stood pat at the close of its March 20-21 meeting. The Fed Funds rate remained unchanged at 5.25% for the sixth consecutive meeting.

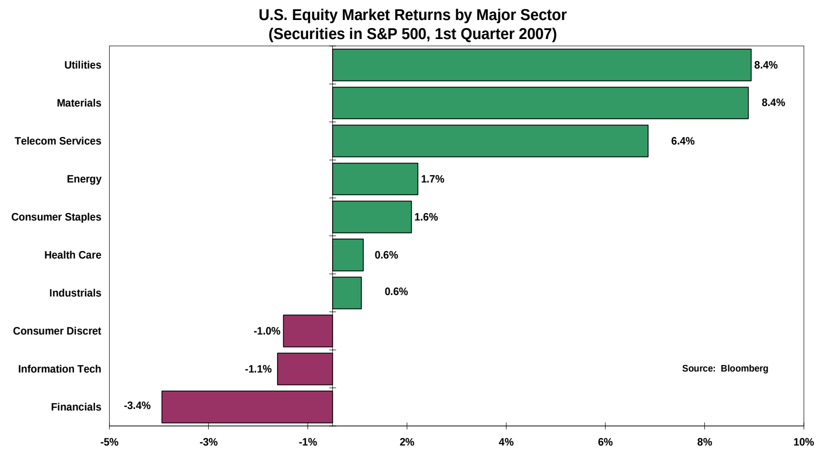
In his comments, Ben Bernanke stated, "The continuing increases in employment, together with increases in real wages, have helped sustain consumer spending, which increased at a brisk pace during the second half of last year and has continued to be well maintained so far this year. Growth in consumer spending should continue to support the economic expansion in coming quarters."

Although Bernanke expects consumer spending to support the economy, the slowdown in the housing market is impacting both individuals and the housing industry in the US. Higher inventories of unsold homes have caused home builders to slow construction, putting further pressure on the economy. In addition, defaults on sub-prime mortgages due to easy credit standards pushed several lending institutions to file for bankruptcy.

Overall, US businesses seem to be in good shape, flush with cash and profitable. The Commerce Department released its first estimate of fourth-quarter corporate profits, which rose 18% from the same quarter a year ago. Profits of financial corporations increased 27%, and profits of non-financials increased 9%.

U.S. Equity Markets

The market got off to a good start in January, then retreated in February. Fear came back into the US domestic equity market, fueling volatility not seen in several years. Reality hit home on February 27, when Chinese stocks tumbled about 9% in one day. This triggered a global sell off that hit the Dow Jones Industrial Average for its biggest one day percentage loss since March 2003. In March, however, the market posted positive returns, recovering what it gave up in February as investors recognized that the economy is on stable ground. In addition, Fed chairman Ben Bernanke implied that he is just as likely to lower short term interest rates as raise them, pending further analysis. Despite their overall confidence in the Fed, investors continue to climb the wall of worry regarding inflation concerns, rising oil prices, the slowing housing market and the effects of failing sub-prime mortgages.



In review of the first quarter's market performance for large cap stocks, Value slightly outperformed Growth. The Russell 1000 Value Index was up 1.24%, and the Russell 1000 Growth Index was up 1.19%. The trend also continued in the Midcap space with Value outperforming Growth. The Russell Midcap Value Index was up 4.86% thru March while the Russell Mid Cap Growth Index rose 3.96% for the quarter.

Small companies, as reflected in the Russell 2000 Index rose 1.95% for the quarter. The consensus seems to be that Growth will return to favor, although we have heard this for several years. So far, only the small caps have born out this thesis. The Russell 2000 Growth Index rose 2.48%, but the Russell 2000 Value Index did not keep up, delivering a positive return of 1.46%.

Analyzing the S&P 500 Index sector returns, the Utilities sector was the best performer, gaining 8.43% for the quarter. Some have attributed this strong showing to the Utilities' ability to pay consistent dividends in periods of volatility. Materials also did well with a return of 8.38%, and commodities in general increased in value. Consumer Discretionary and Information Technology were in negative territory giving up 0.99% and 1.10% respectively. The exposed weakness of sub-prime mortgage lenders and homebuilders has cast a shadow over other housing and financial service related companies which translated into Financials bringing up the rear, losing 3.44% for the quarter.

U.S. Fixed Income Markets

Bonds remained the anchor of stability in a volatile equity market delivering a total return similar to the equity market for the first quarter 2007. Due to turbulence in the equity markets and a global market selloff in late February, investors piled money into the bond market, pushing yields down during the quarter. The Lehman Brothers US Aggregate Bond Index returned 1.50% for the first quarter 2007, and 6.59% on a one year basis as of March 31.

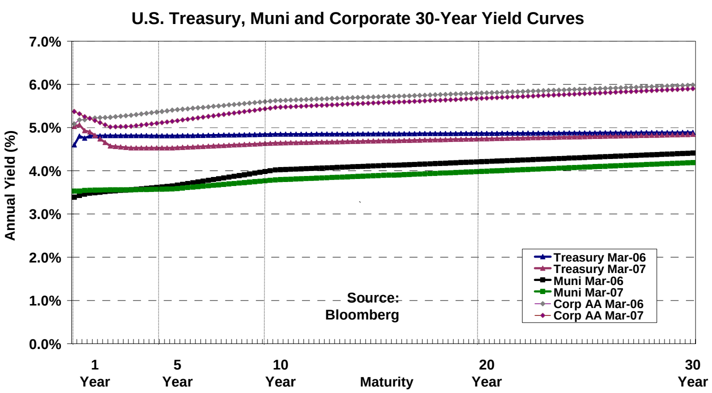
The quarter closed with a slightly positively sloped Treasury yield curve. On March 31, the 2-year Treasury yielded 4.57%, while the 10-year stood at 4.64%, both dropping approximately 20 basis points from a year ago. The 30-year was little changed, yielding 4.84%, and was down about 5 basis points from a year earlier.

The municipal yield curve remained somewhat flat but was upward sloping at the end of the first quarter 2007. At quarter-end, the 2-year yield was 3.56% and the 10-year stood at 3.79%. Since March 2006, the municipal yield curve has not changed much on the short end. The 10-year dropped just under 25 basis points from 2006, slightly boosting the total return in this maturity range.

Real Estate

REITS enjoyed a stellar month in January, with the Dow Jones Wilshire REIT Index outpacing the S&P 500 Index by over 7%. Although the REIT index lagged the S&P 500 in February and March, it finished the quarter ahead of the S&P 500 Index's return by almost three percentage points at 3.62%.

The Equity Office Properties buyout story was news again in the first quarter. Vornado topped Blackstone's bid which spurred a bidding war. Blackstone ultimately won by nearly tripling their original bid to $55.50 per share—a 24% premium to the market price when the first offer was made. REIT analysts saw this deal as evidence that REITS are fairly valued in the marketplace, and in some cases, even undervalued. After completing the Equity Office purchase, Blackstone filed for an IPO with the SEC in late March.



Looking at REIT sectors, regional malls, which underperformed during most of 2006, made a comeback as the top performer early in the quarter. The Mills Corp., which significantly underperformed last year on balance sheet accounting and corporate governance issues, was bought out in a joint venture. Analysts see this as evidence of stock price stability in the REIT market. Falling stock prices make companies attractive candidates for buyouts in this active merger & acquisition environment.

The apartment sector, which was a leader in 2006, pulled back in the first part of 2007. Fundamentals remain strong, although slowing growth rates cooled the sector. Still, several analysts upgraded apartment stocks in mid March, thanks to high occupancy rates relative to demand and stretched home affordability.

International Equity Markets

The benchmark MSCI EAFE Index delivered solid performance during the first quarter of 2007, gaining 4.15% through March 31. Foreign markets were especially strong in March, up roughly 2.59%. (All performance statistics in the international equities section are quoted in gross USD, unless otherwise noted.)

The MSCI EAFE Index outperformed US stocks, which extended a streak that has continued for more than five years. Specifically, international stocks outperformed US small cap and large cap stocks, as measured by the Russell 2000 Index and Russell 1000 Index, respectively. However, US mid cap stocks edged out the performance of international stocks by roughly 20 basis points.

Overall, the US dollar's general depreciation during the quarter benefited US-based investors. The MSCI EAFE gained 3.41% in local currency during the first quarter, slightly less than the return that US investors experienced. Generally, though, changing exchange rates during the quarter did not play a significant role in absolute US-based returns on international investments versus overseas (or "local") returns.

Most regions of the world experienced moderately positive performance during the first quarter. The MSCI Far East Index gained 3.60% while the MSCI Europe Index was up 3.92%. The region that stood out (again) as a strong performer was the Nordic region. As measured by the MSCI Nordic Countries Index, the region gained 6.89% during the first quarter.

In reviewing individual country performance, Japan gained 3.56%, the U.K. gained 3.02%, Germany gained 6.86%, and France was up 2.83%. Some forecasts have Germany's GDP expanding nearly 6% in 2007. This may explain some of the upward momentum in its country's stock prices. The two strongest performers were Finland and Singapore, which gained 10.94% and 10.33%. Meanwhile, the one developed market to post a loss was Ireland, which lost .77%.

The MSCI Emerging Markets Index gained 2.35% during the first quarter of 2007. In general, emerging markets stocks gained about 4% in March, coming off lows in February.

Interestingly, the MSCI BRIC Index (Brazil, Russia, India, and China) posted a small loss for the quarter, dropping .41%. Of the four constituents within the MSCI BRIC Index, only Brazil posted a gain. Brazil was up 6.18%. Russia, India and China lost 3.01%, 3.25%, and 2.30% respectively. China staged a partial comeback after making global headlines for losing 9% of its value on February 27.

The best performing emerging market region was Latin America. The MSCI Latin America Index was up 6.07%. This included Peru's astounding gain of 25.03% during the first quarter. Peru was the strongest performing country within the MSCI family of emerging market indices. Morocco came in a close second place, finishing with a 24.07% gain. Peru's strong performance was enough to offset the underperformance of Venezuela, which was down 11.17%. While a handful of other emerging market countries dropped modestly, Venezuela recorded the worst emerging market country-specific performance, by far.

Non-U.S. Equity Market Returns
By Country (U.S.$)
1st Quarter 2007