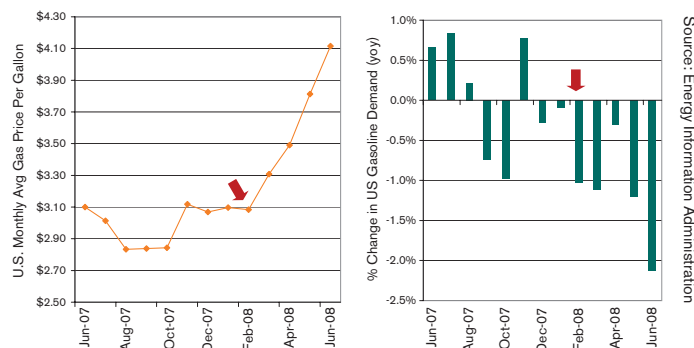


## Quarterly Highlights: Noteworthy Developments

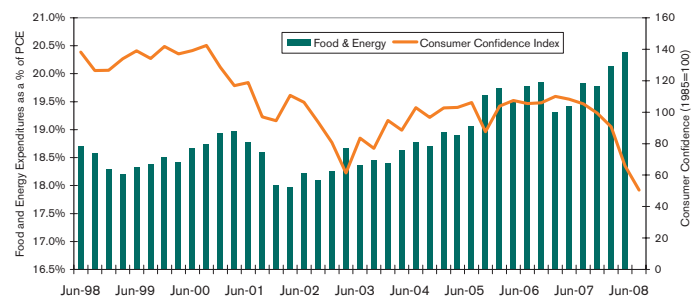
Segal Advisors finds the second quarter (Q2) 2008 developments discussed below to be noteworthy for institutional investors.

### Effects of Soaring Gas Prices

As illustrated by the arrow in the first of the adjacent set of graphs, the average price of gasoline accelerated in the U.S. and hit \$4 a gallon for the first time during June 2008, fueling concerns that soaring prices are straining household budgets. At first, U.S. consumers cut back marginally on their gas purchases, but as the year progressed and prices rose, the size of the cutbacks grew, accelerating with increasing prices. The arrow in the second graph points to the first month in which consumers started to reduce their consumption dramatically. Higher gasoline prices have prompted U.S. consumers and legislators to make both short-term and long-term changes, including: driving less, utilizing public transportation, buying smaller cars, imposing stricter fuel efficiency rules, and supporting the market for alternative fuels.



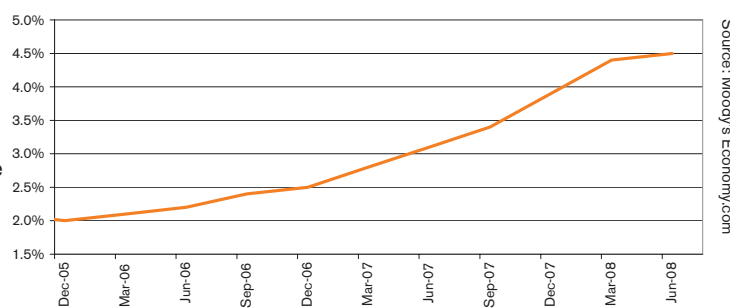
### Consumer Confidence Hits 16-Year Low



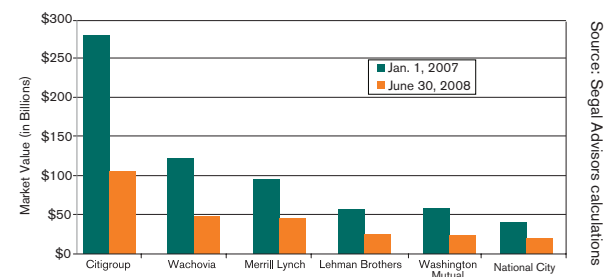
Consumer confidence, as illustrated by the line in the adjacent graph, continued to fall, reaching its lowest level since February 1992, as expectations for inflation remain high. The bars in the graph represent the percentage of income spent on energy and food. Consumers found it necessary to alter their spending habits as they encountered sharp increases in food and energy prices. Since food and energy are purchased virtually every week by most consumers, a significantly larger proportion of the Personal Consumption Expenditure (PCE) will continue to be spent on these necessities.

### Increasing Delinquencies in First Mortgages

Since Q1 2007, delinquency rates have consistently increased for all types of credit: auto, consumer finance, bank cards and first mortgage. First mortgages have seen the largest percentage uptick. The run-up in mortgage delinquencies, illustrated in the adjacent graph as a percentage of outstanding mortgages, stems from the ongoing and deepening housing crisis. Rate resets on adjustable rate mortgages ignited a wave of foreclosures in 2007. This caused an acceleration in housing price declines that, in turn, left many homeowners owing more on their mortgage than the market value of their homes. As a result, many borrowers have chosen to "cut their losses" and stop making monthly payments.



### Steep Declines in Financial Shares



Downgrades by Wall Street analysts, industry write-downs, high oil prices and end-of-quarter worries about profitability all caused continued steep declines in financial shares during Q2 2008, as seen in the adjacent graph. The leverage that was fueling aggressive lending and securitization practices is now exacerbating the contraction of the entire industry. As financial firms look to limit leverage in falling markets, they sell assets, which further depresses prices and places additional strain on their balance sheets. The lack of liquidity within the global banking system is also placing downward pressure on prices.

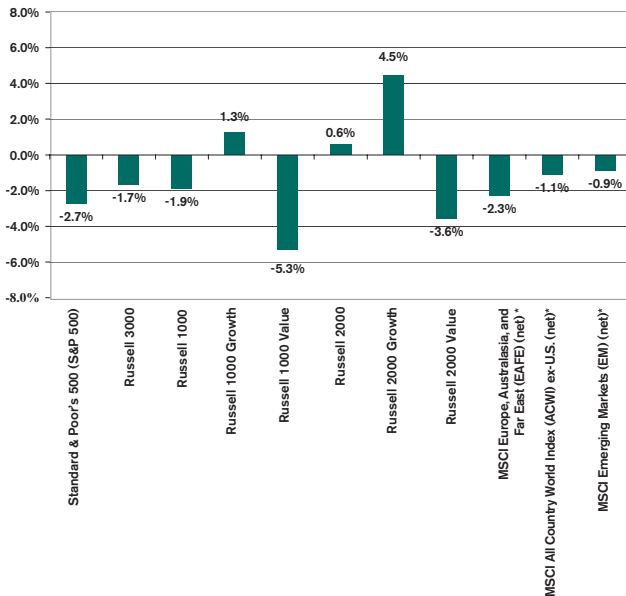
Synopsis

### Investment Performance: Selected Rates of Return

This page presents rates of return for selected equity, fixed-income and other indices. The graphs illustrate returns for Q2 2008. The tables of data show returns for the quarter, year-to-date (YTD), and one-, three-, five- and 10-year annualized time frames. All data in the tables are percentages.

#### Equity Index Returns

Q2 2008 Equity Index Returns



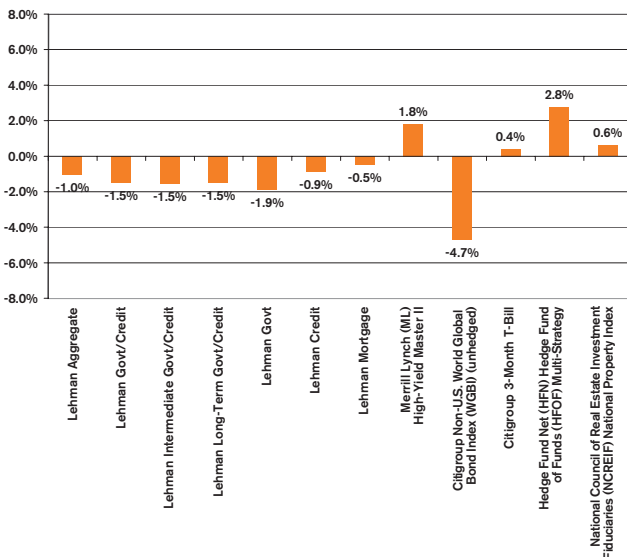
EQUITY INDICES	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	-2.7	-11.9	-13.1	4.4	7.6	2.9
Russell 3000	-1.7	-11.1	-12.7	4.7	8.4	3.5
Russell 1000	-1.9	-11.2	-12.4	4.8	8.2	3.4
Russell 1000 Growth	1.3	-9.1	-6.0	5.9	7.3	1.0
Russell 1000 Value	-5.3	-13.6	-18.8	3.5	8.9	4.9
Russell 2000	0.6	-9.4	-16.2	3.8	10.3	5.5
Russell 2000 Growth	4.5	-8.9	-10.8	6.1	10.4	2.8
Russell 2000 Value	-3.6	-9.8	-21.6	1.4	10.0	7.5
MSCI EAFE (net)	-2.3	-11.0	-10.6	12.8	16.7	5.8
MSCI ACWI ex-U.S. (net)	-1.1	-10.2	-6.6	15.7	18.9	7.7*
MSCI EM (net)	-0.9	-11.8	4.6	27.1	29.8	15.5*

\*For 10-year performance, gross returns are provided.

\*Index represents the return of the benchmark net of dividends paid on the stocks.

#### Fixed-Income and Other Index Returns

Q2 2008 Fixed-Income and Other Index Returns



FIXED-INCOME INDICES	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
Lehman Aggregate	-1.0	1.1	7.1	4.1	3.9	5.7
Lehman Govt/Credit	-1.5	1.0	7.2	3.8	3.6	5.7
Lehman Intermediate Govt/Credit	-1.5	1.4	7.4	4.3	3.5	5.6
Lehman Long-Term Govt/Credit	-1.5	-0.7	6.8	2.2	4.0	6.3
Lehman Govt	-1.9	2.1	9.7	4.6	3.8	5.7
Lehman Credit	-0.9	-0.5	3.8	2.8	3.3	5.6
Lehman Mortgage	-0.5	1.9	7.8	4.8	4.6	5.8
ML High-Yield Master II	1.8	-1.3	-2.1	4.6	6.9	4.9
Citigroup Non-U.S. WGBI (unhedged)	-4.7	5.7	18.7	6.7	7.1	6.7
Citigroup 3-Month T-Bill	0.4	1.1	3.3	4.1	3.1	3.5

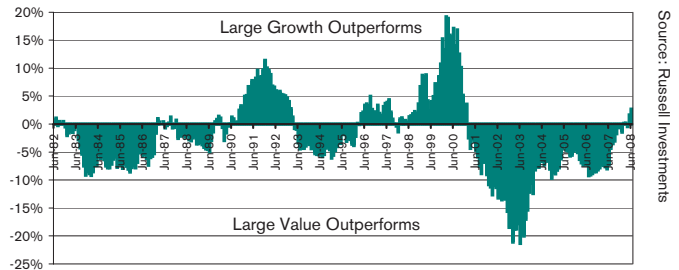
OTHER INDICES	Quarter	YTD	1 Year	3 Year	5 Year	10 Year
HFN HFOF Multi-Strategy	2.8	-1.2	1.1	8.2	7.6	8.7
NCREIF National Property Index	0.6	2.2	9.2	15.0	14.7	12.2

## Investment Performance: Long-Term Equity Trends

This page focuses on Segal Advisors' observations on the relative performance of selected indices. All of the graphs on this page show rolling three-year return deviations from June 1982 through June 2008. These graphs demonstrate the importance of diversification over the long term. Changes are expressed in terms of percentages and/or basis points (bps). As a reminder, 10 bps equals 0.1 percent.

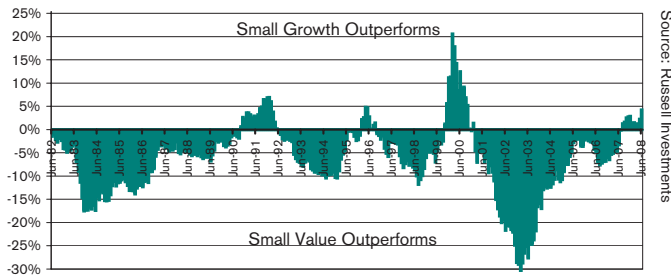
### Large Growth Stocks vs. Large Value Stocks

After seven consecutive years of outperformance by the Russell 1000 Value (R1000V) Index relative to the Russell 1000 Growth (R1000G) Index, the R1000G was ahead of the R1000V at the end of Q2 2008 for the trailing one-year (+1,282 bps) and three-year (+238 bps) time periods. The adjacent graph compares the rolling three-year returns for both indices. Since the inception of these indices in January 1979, the R1000V has increased 13.2 percent and the R1000G has increased 11.3 percent, a difference of +192 bps.



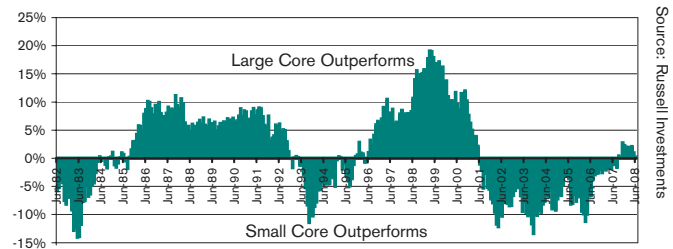
### Small Growth Stocks vs. Small Value Stocks

The Russell 2000 Value (R2000V) Index outperformed the Russell 2000 Growth (R2000G) Index in six of the last 10 calendar years. However, the R2000G outperformed the R2000V at the end of Q2 2008 for the trailing one-year (+1,080 bps), three-year (+469 bps) and five-year (+35 bps) time periods. The adjacent graph compares the rolling three-year returns for both indices. Since the inception of these indices in January 1979, the R2000V has increased 14.3 percent and the R2000G has increased 9.7 percent, a difference of +457 bps.



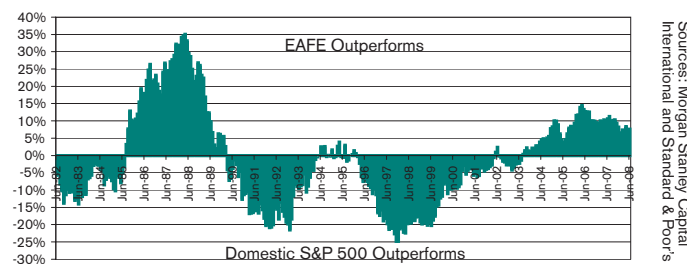
### Large Stocks vs. Small Stocks

The Russell 1000 (R1000) Index outperformed the Russell 2000 (R2000) Index in seven of the last nine calendar years; however, the R1000 was ahead of the R2000 at the end of Q2 2008 for the trailing one-year (+381 bps) and three-year (+102 bps) time periods. The adjacent graph compares the rolling three-year returns for both indices. Since the inception of these indices in January 1979, the R1000 has increased 12.5 percent and the R2000 has increased 12.2 percent, a difference of +32 bps.



### Foreign Stocks vs. U.S. Stocks

Foreign stocks, as measured by the MSCI EAFE Index, outperformed the S&P 500 Index in seven of the last 10 calendar years, including the last six in a row. For the trailing one-year time period, the EAFE was ahead of the S&P 500 by +250 bps. The adjacent graph compares the rolling three-year returns for both indices. Since January 1979, the S&P 500 increased 12.5 percent and the EAFE increased 10.7 percent, a difference of +173 bps.

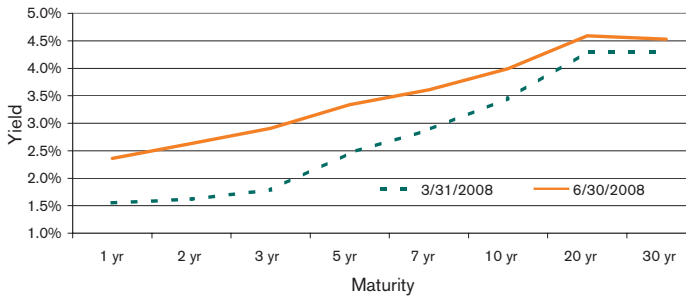


**Synopsis**

**Investment Performance: Fixed-Income Data**

This page focuses on selected Q2 2008 fixed-income data and Segal Advisors' commentary.

**Yield Curve Flattened Sharply**



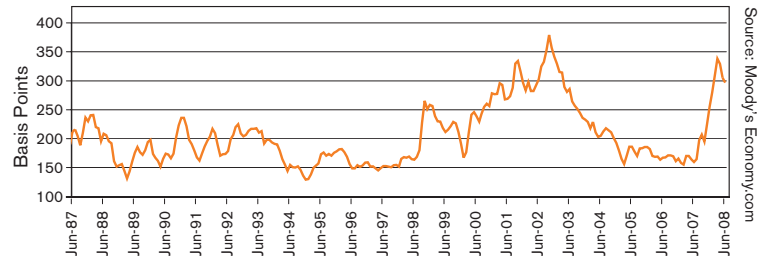
After having cut the fed funds rate target rate (the interest rate that banks charge other banks to loan their balances) by -25 bps to 2.0 percent at the April 30, 2008 meeting of the Federal Open Market Committee (FOMC), inflation concerns, combined with an effort to bolster the U.S. Dollar, guided the FOMC to hold its target for the fed funds rate at 2.0 percent at its June 25, 2008 meeting. The yield curve flattened sharply during Q2 2008 as short-term Treasury yields rose by over +100 bps. See the adjacent graph. The difference between two-year and 30-year Treasury yields fell to +190 bps on June 30, 2008 from +208 bps on May 31, 2008 and +271 bps on March 31, 2008.

**Narrowing Credit Spreads**

After three consecutive quarters of widening credit spreads, spreads narrowed during Q2 2008 by -41 bps to +297 bps. See the adjacent graph.

Corporate defaults are on the rise, as corporate fundamentals continue to deteriorate. The Moody's 12-month corporate default rate rose modestly to 2.3 percent in June 2008 from 1.5 percent in March 2008.

**Moody's Corporate-Treasury Bond Spread Baa 10-Yr Constant Maturities**



**Narrowing Yield Spreads for Non-Treasury Sectors**

**OAS and Excess Returns (in bps)**

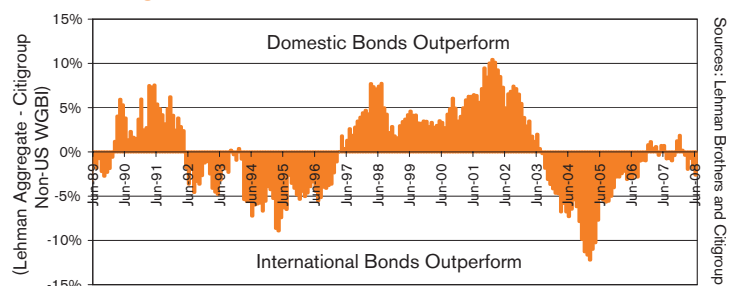
	3/31/2008 OAS	5/31/2008 OAS	6/30/2008 OAS	Q1 2008 Excess Return vs. U.S. Treasuries	Q2 2008 Excess Return vs. U.S. Treasuries
U.S. Aggregate Index	135	113	129	-183	64
U.S. Agency (non-mortgage) Sector	69	60	67	-67	4
<b>Mortgage and ABS Sectors</b>					
Mortgage Backed Securities	121	108	127	-81	52
Asset-Backed Securities	402	332	353	-594	78
CMBS	347	227	288	-777	260
<b>Credit Sectors</b>					
U.S. Investment Grade	259	211	239	-427	134
Industrial	259	207	226	-466	196
Utility	251	222	232	-393	182
Financial Institutions	330	268	315	-530	112
U.S. High Yield	781	622	708	-781	393

As shown in the adjacent table, yield spreads on all non-Treasury sectors – except for mortgage-backed securities (MBS) – narrowed in Q2 2008, resulting in positive excess returns over Treasuries. The two worst performing sectors in Q2 2008, U.S. high-yield (HY) and commercial mortgage-backed securities (CMBS), rebounded in 2008 and led all other sectors. Option-adjusted spreads (OAS) within these sectors tightened for the quarter. The OAS within U.S. investment grade credit sectors widened from May 31, 2008 to June 30, 2008, but was still tighter relative to March 31, 2008.

**International Bonds Underperformed Domestic Bonds**

For the first quarter since Q1 2007, international bonds underperformed domestic bonds (-4.7 percent compared to -1.0 percent) during Q2 2008. This can be partially attributed to currency movements. Despite outperforming international bonds during Q2 2008, domestic bonds continue to trail international bonds across all annualized periods studied. In addition, international bonds outpaced domestic bonds by 2.6 percent over the three-year rolling period that ended June 30, 2008. See the adjacent graph.

**Performance of U.S. Bonds vs. International Bonds: Rolling Three-Year Return Deviations, June 1989–June 2008**



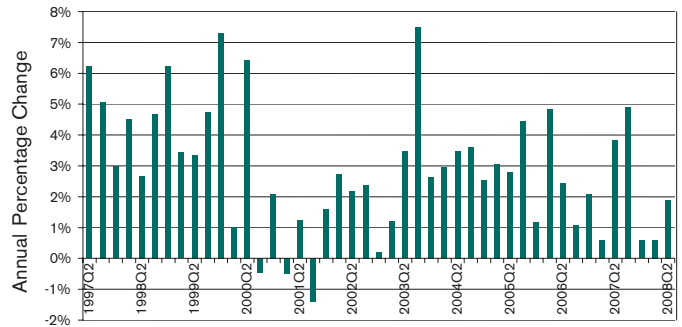
## The Economy: Key Indicators

This page focuses on Segal Advisors' commentary about key economic indicators for Q2 2008.

### GDP Growth Slower than Economists' Expectations

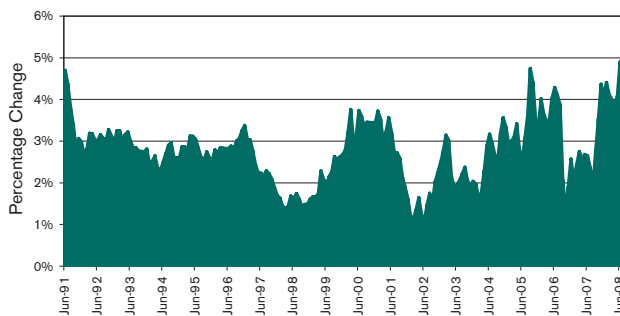
As shown in the adjacent graph, Q2 2008 gross domestic product (GDP) advanced at a 1.9 percent annualized rate, which was below the consensus expectation of 2.4 percent. Over the past 12-month period, real GDP increased 1.8 percent. Rising exports, falling imports and an increase in consumer spending were the key drivers of GDP growth. A significant drop in inventories subtracted nearly two percentage points from growth in Q2 2008, the biggest drop in three years. Consumer spending, which contributed 1.08 percent to GDP in Q2 2008, can be partially accredited to government stimulus payments, which were distributed as tax rebates from April to July.

Annual Percentage Change in GDP



### Inflation Increasing

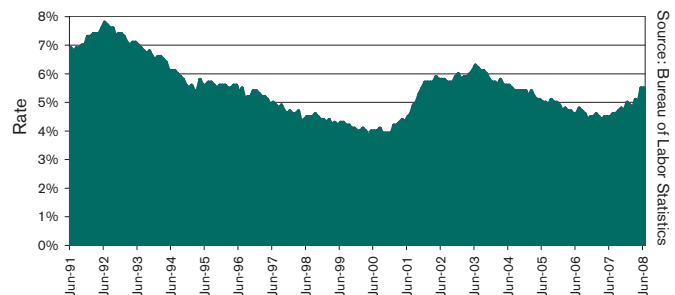
CPI: Percentage Change Year over Year



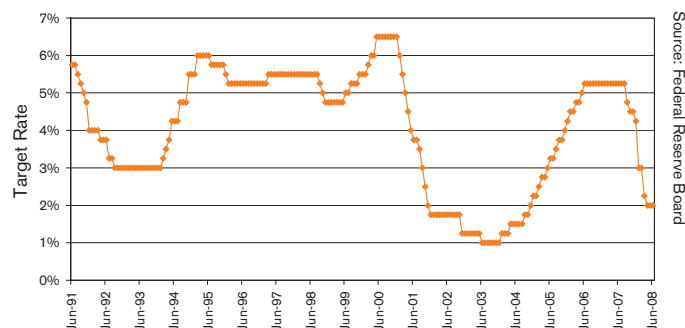
As shown in the adjacent graph, the CPI rose by 1.1 percent since May and 4.9 percent on a year-over-year basis. The core index, which excludes food and energy prices, increased 2.4 percent (year-over-year) during Q2 2008, which was an increase of three-tenths of a percentage point over the previous month. The increase in top-line inflation is primarily due to an increase in energy prices and, to a lesser extent, food price inflation.

### Labor Market Contraction and the Unemployment Rate

As shown in the adjacent graph, the labor market continued to contract at a steady pace throughout Q2 2008. The unemployment rate remained unchanged at 5.5 percent in June, after a half percentage point jump in May. Nonfarm payroll employment fell 62,000 in June. Most losses were concentrated in goods-producing industries, led by losses in construction (43,000) and manufacturing (33,000).



### Fed Funds Target Rate



As noted earlier, in response to uncertainty pertaining to growth and inflation risks, the FOMC decided to keep the fed funds target rate unchanged at 2.0 percent at the June 24-25, 2008 meeting, after cutting rates by -25 bps at the April 30, 2008 meeting. Although the first half of 2008 witnessed stronger-than-expected growth, the economy remained soft through Q2 2008 in the following areas: falling payroll employment, weakening housing market, slowing business investment growth, moderating international growth and elevated headline inflation. Views on inflation expectations were mixed among participants.

## Helpful Online Resources

### News Web Sites

- Bloomberg  
<http://www.bloomberg.com>
- Google Finance  
<http://finance.google.com/finance>
- Moody's Economy.com  
<http://www.economy.com>
- *The New York Times* DealBook Blog  
<http://dealbook.blogs.nytimes.com>
- *The Wall Street Journal*  
<http://online.wsj.com/public/us>

### Government Web Sites

- Bureau of Economic Analysis  
<http://www.bea.gov>
- Bureau of Labor Statistics  
<http://www.bls.gov>
- Energy Information Administration  
<http://www.eia.doe.gov>
- Federal Reserve Bank of New York Research  
<http://www.newyorkfed.org/research/index.html>
- The Federal Reserve Board  
<http://www.federalreserve.gov>

### Publication Web Sites

- CFA Institute Publications  
<http://www.cfapubs.org>
- *The Economist*  
<http://www.economist.com>
- *Pensions & Investments*  
<http://www.pionline.com>

To discuss any of the content in this issue of *Synopsis*, contact your Segal Advisors investment consultant or the nearest Segal Advisors office from the list in the adjacent box. Alternatively, send an e-mail message to [info@segaladvisors.com](mailto:info@segaladvisors.com).

*Synopsis* is a publication of Segal Advisors, Inc. Although Segal Advisors is registered with the Securities and Exchange Commission (SEC), it does not function as an investment manager. Instead, Segal Advisors provides consulting advice on asset allocation, investment strategy, manager searches, performance measurement and related issues. Segal Advisors' *Synopsis* and the data and analysis herein should not be relied upon as being applicable to the facts and circumstances surrounding a particular employee benefit plan. Of course, on all matters involving legal interpretations and regulatory issues, plan sponsors should consult legal counsel.

### SEGAL ADVISORS

Boston	617.424.7300
Chicago	312.984.8547
Cleveland	216.687.4400
Los Angeles	818.956.6700
New York	212.251.5900
Portland	503.594.1708
San Francisco	415.263.8288
Toronto*	416.969.3960

[www.segaladvisors.com](http://www.segaladvisors.com)

\* Investment consulting in Canada provided by The Segal Company, Ltd.