

ECONOMIC REVIEW AND MARKET COMMENTARY

ECONOMIC REVIEW

- Gross Domestic Product increased at a 1.9% annualized rate during the second quarter, up from an increase of 0.9% in the first quarter. Residential investment was again a large detractor from growth, with its tenth consecutive quarter of contraction.
- Inflation jumped higher during the second quarter to a 5.5% Seasonally Adjusted Annual Rate. Food and energy led all inflation concerns as prices rose in the face of increased commodity demand, constrained supply and speculative investors. Core inflation, all items minus food and energy, was up 2.3% due to competition and moderate wage growth.
- The Fed lowered its target for the federal funds rate 25 basis points to 2% amid continued financial market troubles, tightening credit and housing market woes. The Fed continues to balance the easing of monetary policy to help encourage growth against the continual monitoring of prices closely as the inflation outlook remains uncertain.
- The U.S. trade deficit decreased 1.17% in May to -\$59.8 billion. Petroleum product imports continue to be substantial; however, imports of other products trended lower as a struggling U.S. economy has resulted in decreased domestic demand.
- Housing prices declined again in the month of May, according to the S&P/Case-Shiller Composite-20. However, prices are falling at a slower rate, dropping 0.9% in May as opposed to the declines of 1.3% in April and 2.2% in March. The 20-city Composite posted a record low for annual price changes, deteriorating 15.8% over the past year.
- The unemployment rate rose to 5.7% in July, up 1.1% from a year ago. Nonfarm payroll employment declined by 51,000, totaling a 463,000 decrease year-to-date.

FOREIGN EQUITY

- Though overseas equity markets gained ground during most of the second quarter, sharply rising oil prices and adverse economic news sent them tumbling in June. The overall result for the MSCI EAFE Index was a 1.9% loss in US\$ for the period.
- Growth stocks continued their recent trend of outperforming their value counterparts, with a slight gain of 0.3% (as measured by the MSCI EAFE Growth Index) as compared to the MSCI EAFE Value Index's 4.1% decline for the quarter. Small cap issues generally lagged their larger counterparts.
- The energy sector (+17.5%) was, by far, the strongest performer during the period, followed by the materials sector (+9.6%), which also benefited from rising commodity prices. Conversely, the financial sector (-10.7%) was the quarter's greatest detractor as credit concerns and additional write-downs of asset-backed securities continued to unnerve investors. Consumer discretionary (-8.1%) and consumer staples (-9.2%) also struggled due to declining spending as materials costs rose sharply.
- The MSCI Europe Index was down 3.7% in US\$, with returns varying widely across countries. France, Germany and the U.K. saw modest declines (-2.7%, -1.2% and -0.9%, respectively), while Norway gained 14.7% and Belgium's market fell 18.3%.
- Japan performed very well for the quarter (+9.1%), driven largely by the strength of its technology sector, but also by strong results from leading financial companies.
- Emerging equity markets fell slightly during the quarter (-0.8%), though it is noteworthy that Latin America and emerging Europe were well in positive territory (+11.0% and +7.3%, respectively), while emerging Asia fell sharply (-9.1%).

DOMESTIC EQUITY

- After an initial rally in April and May, the equity markets fell sharply in June. The domestic equity markets posted negative returns for the quarter. The Dow Jones fell 6.9% or almost 1000 points, the NAREIT Equity Index fell 4.9%, the S&P 500 declined 2.7% and the Russell 1000 was down 1.9% for the quarter.
- During the quarter, small capitalization stocks outperformed their large counterparts. The Russell 2000 Index gained 0.6% while the Russell 1000 Index lost 1.9%. Mid cap stocks were the strongest performers for the quarter, gaining 2.7%.
- In 2008, growth styles have outperformed their value counterparts. This theme continued in the second quarter as the Russell 1000 Value Index fell 5.3% and was down 13.6% for the year. On the flip side, the Russell 1000 Growth Index managed to gain 1.3% for the quarter and is down 9.1% for the year.
- Energy was the leading sector in the second quarter, with an 18.8% increase, followed by utilities, business services, and software. Financial services, consumer goods and consumer services were the laggards for the quarter.
- Energy stocks were the clear winners during the quarter, due to the run up in commodity prices. Rising crude oil prices was the driving force behind the energy sector's performance. The financial services sector, down 18.7%, has continued to feel the effects of lingering credit and banking issues.

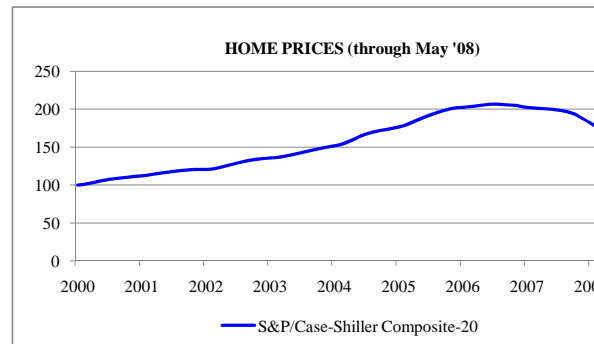
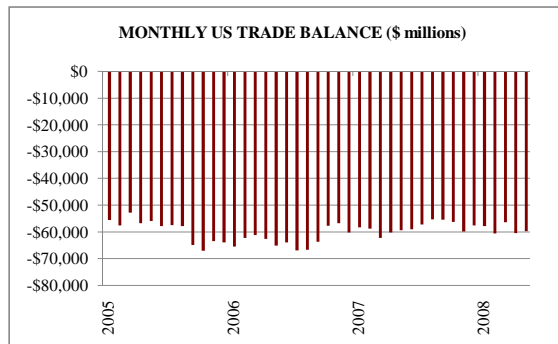
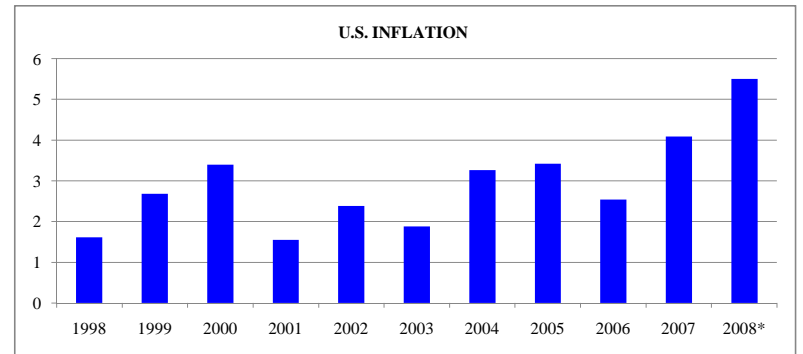
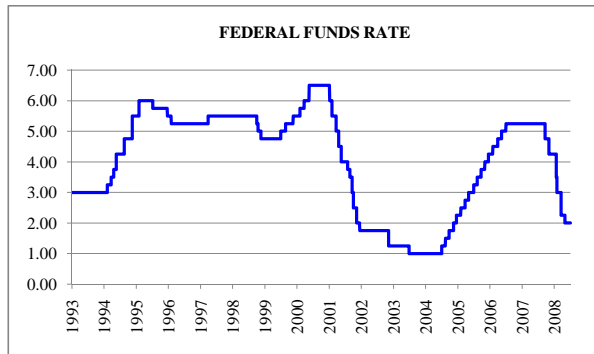
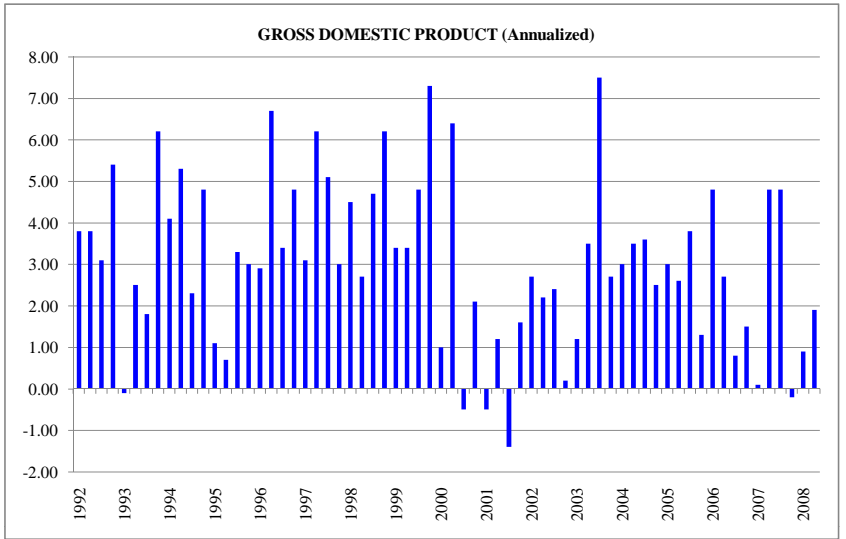
FIXED INCOME

- Rising commodity prices renewed inflationary fears and pushed bond yields higher. As a result, most bond market sectors delivered negative total returns. High yield bonds were an exception as investors were looking for more risky assets in hopes of an early-cycle recovery.
- Federal Reserve comments regarding currency concerns and inflation risks encouraged investors to build rate hike expectations into market pricing. However, the risk of slower economic growth and further evidence of weakness in the financial sector contained rate hike expectations.
- Weakness in the second quarter was led by the benchmark 10-year Treasury bond that yielded 3.97% as of quarter end, 56 basis points higher than at the end of the first quarter. Treasury Inflation Protected Securities were among the best performing fixed income asset classes and benefited from strong inflation accruals. The yield curve remained steep due to inflation concerns and the Fed responses.
- Municipal yields rose less than U.S. Treasury yields. Mortgage and Asset Backed Securities rebounded from the first quarter and outperformed Treasuries but not enough to earn positive returns. The spreads for many municipal and corporate bonds began to tighten but remained wide relative to Treasuries. The best returns came from the lower quality rated securities in the high yield bond sector.
- Global fixed income indices have been pressured by expectations of future increases by the European Central Bank. Dollar denominated and locally issued Emerging Market bonds outperformed Treasuries during the quarter.

ECONOMIC REVIEW

% Change From Preceding Period
Seasonally Adjusted Annual Rates

	2005				2006				2007				2008	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
GDP	3.0	2.6	3.8	1.3	4.8	2.7	0.8	1.5	0.1	4.8	4.8	(0.2)	0.9	1.9
PCE	1.7	3.6	3.7	1.4	4.3	2.8	2.2	3.7	3.9	2.0	2.0	1.0	0.9	1.5
Durable Goods	0.6	12.1	5.4	(11.7)	18.9	1.8	3.5	4.2	9.2	5.0	2.3	0.4	(4.3)	(3.0)
Nondurable Goods	2.4	4.2	3.0	4.7	4.4	3.1	2.3	3.1	3.5	1.9	1.2	0.3	(0.4)	4.0
Services	1.7	1.7	3.8	2.5	1.6	2.8	2.0	3.9	3.1	1.4	2.4	1.4	2.4	1.1
GDPDI	9.1	(5.1)	4.0	12.2	6.2	(0.4)	(5.3)	(15.0)	(9.6)	6.2	3.5	(11.9)	(5.8)	(14.8)
Fixed Investment	5.3	7.6	5.3	2.3	8.3	(2.5)	(4.8)	(7.6)	(3.4)	3.0	(0.9)	(6.2)	(5.6)	(2.4)
Nonresidential	3.7	6.3	6.1	3.7	15.9	6.4	5.3	(1.0)	3.4	10.3	8.7	3.4	2.4	2.3
Structures	7.5	(1.3)	(9.2)	1.9	15.6	19.7	14.3	2.5	11.2	18.3	20.5	8.5	8.6	14.4
Equip & software	2.3	9.2	12.2	4.4	16.3	1.7	2.0	(2.4)	0.0	6.9	3.6	1.0	(0.6)	(3.4)
Residential	8.1	9.7	4.0	0.2	(3.6)	(16.6)	(21.4)	(19.5)	(16.2)	(11.5)	(20.6)	(27.0)	(25.1)	(15.6)
Exports	8.1	8.8	0.4	10.9	16.7	5.5	3.5	15.6	0.6	8.8	23.0	4.4	5.1	9.2
Goods	7.1	14.5	(0.8)	13.2	18.1	6.7	3.6	10.4	2.1	6.9	21.8	5.1	4.5	11.9
Services	10.2	(2.8)	3.2	5.7	13.4	2.7	3.2	28.6	(2.7)	13.3	25.9	2.7	6.4	3.5
Imports	3.2	0.6	0.8	15.3	10.3	0.1	3.1	2.0	7.7	(3.7)	3.0	(2.3)	(0.8)	(6.6)
Goods	5.0	0.7	1.1	17.0	9.0	0.5	3.8	(0.8)	8.4	(4.0)	2.4	(2.6)	(2.0)	(6.3)
Services	(5.7)	0.0	(1.0)	6.8	17.7	(2.0)	(0.3)	18.4	4.2	(2.0)	6.3	(0.9)	5.5	(8.4)
Government	(0.2)	0.9	3.4	(1.7)	3.9	1.2	1.7	1.6	0.9	3.9	3.8	0.8	1.9	3.4
Federal	1.1	1.1	9.7	(7.2)	10.0	(1.5)	1.9	1.8	(3.6)	6.7	7.2	(0.5)	5.8	6.7
State and Local	(1.0)	0.8	(0.1)	1.6	0.5	2.9	1.6	1.5	3.6	2.4	1.9	1.6	(0.3)	1.6



	Percent Changes in CPI for All Urban Consumers (CPI - U)							
	2001	2002	2003	2004	2005	2006	2007	2008*
Food and Beverages	2.8	1.5	3.5	2.6	2.3	2.2	4.8	6.6
Housing	2.9	2.4	2.2	3.0	4.0	3.3	3.0	4.3
Apparel	(3.2)	(1.8)	(2.1)	(0.2)	(1.1)	0.9	(0.3)	(1.9)
Transportation	(3.8)	3.8	0.3	6.5	4.8	1.6	8.3	11.9
Medical Care	4.7	5.0	3.7	4.2	4.3	3.6	5.2	2.7
Recreation	1.5	1.1	1.1	0.7	1.1	1.0	0.8	1.5
Education & Communication	3.2	2.2	1.6	1.5	2.4	2.3	3.0	4.1
Other Goods and Services	4.5	3.3	1.5	2.5	3.1	3.0	3.3	4.8
Energy Commodities	(24.5)	23.7	6.9	26.7	16.7	6.1	29.4	34.7
Energy Services	(1.5)	0.4	6.9	6.8	17.6	(0.6)	3.4	20.1
All Items Less Food & Energy	2.7	1.9	1.1	2.2	2.2	2.6	2.4	2.3

*Seasonally adjusted annual rate

DOMESTIC EQUITY MARKET PERFORMANCE

Trailing Performance as of: June 30, 2008

(As exhibited by the Russell 1000, MidCap and 2000 stylized indices)

Quarter			
Large	-5.31	-1.89	1.25
Mid	0.07	2.67	4.65
Small	-3.55	0.58	4.47
	Value	Blend	Growth

Year To Date			
Large	-13.57	-11.20	-9.06
Mid	-8.58	-7.57	-6.81
Small	-9.84	-9.37	-8.93
	Value	Blend	Growth

1 Year			
Large	-18.78	-12.36	-5.96
Mid	-17.09	-11.19	-6.42
Small	-21.63	-16.19	-10.83
	Value	Blend	Growth

3 Years			
Large	3.53	4.81	5.91
Mid	4.97	6.84	8.19
Small	1.39	3.79	6.08
	Value	Blend	Growth

5 Years			
Large	8.92	8.22	7.32
Mid	13.00	13.07	12.32
Small	10.02	10.29	10.37
	Value	Blend	Growth

10 Years			
Large	4.91	3.38	0.96
Mid	8.45	8.10	5.64
Small	7.47	5.53	2.80
	Value	Blend	Growth

15 Years			
Large	10.09	9.36	7.97
Mid	11.83	11.52	9.73
Small	10.90	8.92	6.32
	Value	Blend	Growth

20 Years			
Large	11.00	10.60	9.68
Mid	12.44	12.24	10.85
Small	11.30	9.48	7.10
	Value	Blend	Growth

Top 3 performers

Bottom 3 performers

Sector Performance as of: June 30, 2008

Sector	Weight	3 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
Energy	16.3	18.79	11.48	28.90	28.01	31.27	16.08
Utilities	3.9	6.19	-4.70	3.61	12.16	16.66	8.17
Business Services	4.7	2.74	-8.52	-7.11	12.40	12.87	3.81
Software	4.0	2.45	-13.72	-4.54	7.23	7.53	0.86
Hardware	10.2	1.02	-13.45	-9.18	6.13	7.68	2.39
Healthcare	11.9	-2.13	-13.05	-10.27	2.16	3.99	3.42
S&P 500 Index	-	-2.73	-11.91	-13.12	4.41	7.58	2.88
Telecommunications	3.3	-3.64	-17.85	-20.74	7.62	8.31	-2.56
Industrial Materials	12.6	-6.92	-12.04	-7.94	10.45	13.67	5.36
Media	2.9	-7.01	-12.90	-25.93	-3.30	-0.68	-1.74
Consumer Services	6.9	-7.24	-11.38	-18.89	-1.90	5.08	3.55
Consumer Goods	9.1	-9.12	-12.95	-9.15	5.55	8.34	3.71
Financial Services	14.0	-18.71	-29.14	-39.76	-7.85	0.69	1.71

Other Market Indices Performance as of: June 30, 2008

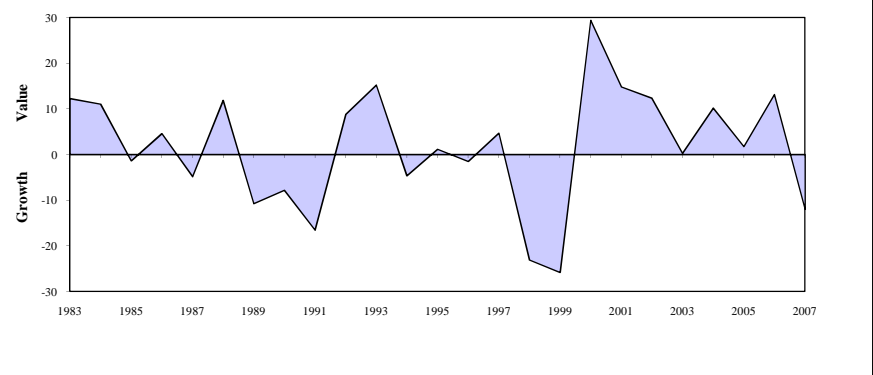
Index	3 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
S&P 500 Index	-2.73	-11.91	-13.12	4.41	7.58	2.88
NASDAQ Composite Index	0.61	-13.55	-11.92	3.69	7.16	1.93
Dow Jones Wilshire 5000 Index	-1.48	-10.95	-12.46	5.06	8.78	3.61
NAREIT - Equity	-4.93	-3.59	-13.64	4.99	14.30	10.65
Dow Jones Industrial Average	-6.85	-13.38	-13.27	5.83	7.20	4.50

Calendar Year Performance By Style Within Capitalization Category

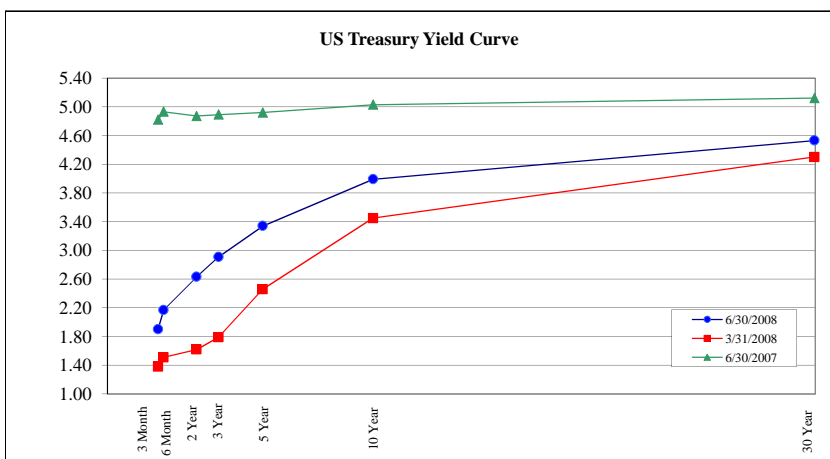
(As exhibited by the Russell 1000, MidCap and 2000 stylized indices)

	LARGE CAP		MID CAP		SMALL CAP		LARGE	MID	SMALL
	Russell 1000 V	Russell 1000 G	Russell MCV	Russell MCG	Russell 2000 V	Russell 2000 G			
1983	28.28	15.98	-	-	38.64	20.13	22.13	23.82	29.13
1984	10.10	-0.95	-	-	2.27	-15.83	4.75	1.43	-7.30
1985	31.51	32.85	-	-	31.01	30.97	32.27	32.01	31.05
1986	19.98	15.36	17.87	17.55	7.41	3.58	17.87	18.20	5.68
1987	0.50	5.31	-2.19	2.76	-7.11	-10.48	2.94	0.23	-8.77
1988	23.16	11.27	24.61	12.92	29.47	20.37	17.23	19.80	24.89
1989	25.19	35.92	22.70	31.48	12.43	20.17	30.42	26.27	16.24
1990	-8.08	-0.26	-16.08	-5.13	-21.77	-17.41	-4.16	-11.50	-19.51
1991	24.61	41.16	37.92	47.03	41.70	51.19	33.03	41.51	46.05
1992	13.81	5.00	21.68	8.71	29.14	7.77	9.04	16.34	18.41
1993	18.12	2.90	15.62	11.19	23.84	13.36	10.15	14.30	18.91
1994	-1.99	2.66	-2.13	-2.16	-1.55	-2.43	0.38	-2.09	-1.82
1995	38.35	37.19	34.93	33.98	25.75	31.04	37.77	34.45	28.44
1996	21.64	23.12	20.26	17.48	21.37	11.26	22.45	19.00	16.49
1997	35.18	30.49	34.37	22.54	31.78	12.95	32.85	29.01	22.36
1998	15.63	38.71	5.08	17.86	-6.45	1.23	27.02	10.10	-2.55
1999	7.35	33.16	-0.11	51.29	-1.49	43.09	20.91	18.23	21.26
2000	7.01	-22.42	19.18	-11.75	22.83	-22.43	-7.79	8.25	-3.02
2001	-5.59	-20.42	2.33	-20.15	14.03	-9.23	-12.45	-5.62	2.49
2002	-15.52	-27.89	-9.65	-27.41	-11.43	-30.26	-21.65	-16.18	-20.48
2003	30.03	29.75	38.07	42.71	46.03	48.54	29.89	40.06	47.25
2004	16.49	6.30	23.71	15.48	22.25	14.31	11.40	20.22	18.33
2005	7.05	5.26	12.65	12.10	4.71	4.15	6.27	12.65	4.55
2006	22.25	9.07	20.22	10.66	23.48	13.35	15.46	15.26	18.37
2007	-0.17	11.81	-1.42	11.43	-9.78	7.05	5.77	5.60	-1.57

% Differential Between Value and Growth Over Past 25 Years



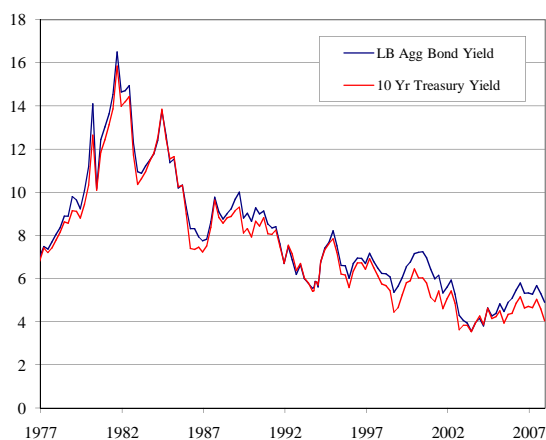
DOMESTIC FIXED INCOME MARKET PERFORMANCE



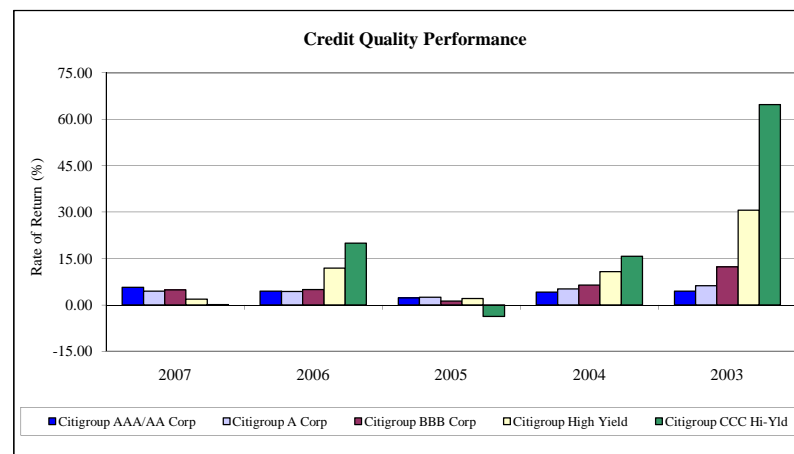
	3 Mos.	6 Mos.	2 Years	3 Years	5 Years	10 Years	30 Years
Trailing 3 Months	52	66	101	112	88	54	23
Trailing 12-Months	-292	-276	-224	-198	-158	-104	-59

	3 Mos.	6 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
Citigroup US 3-Month T-Bill	0.39	1.11	1.11	3.32	4.11	3.06	3.47
ML 1-3 Year Treasury	-0.86	2.10	2.10	7.30	4.71	3.29	4.66
LB Aggregate Bond Index	-1.02	1.13	1.13	7.12	4.09	3.86	5.68
LBGC Intermediate	-1.53	1.43	1.43	7.37	4.27	3.49	5.55
LBGC	-1.51	0.98	0.98	7.24	3.84	3.58	5.69
LBGC Long-Term	-1.47	-0.71	-0.71	6.79	2.23	3.98	6.28

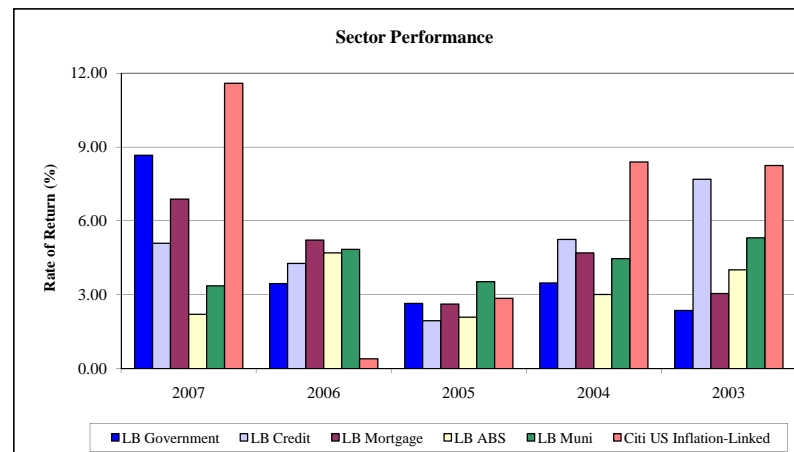
LB Aggregate Bond Yield vs. 10 Yr. Treasury Yield (%)



US Treasury	21.90
US Agency	9.90
Total Government	31.80
Industrial	9.28
Utility	2.04
Finance	8.51
Non-Corporate	3.83
Total Credit	23.66
GNMA	3.79
FNMA	18.34
FHLMC	13.25
Total MBS	35.38
Credit Card	0.35
Auto	0.19
Home	0.13
Utility	0.10
Manufactured Housing	0.00
Total ABS	0.77
CMBS	5.02
Hybrid Arm	3.36



Credit Quality	3 Mos.	6 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
Citigroup AAA/AA Corp	-1.68	-0.01	-0.01	4.86	3.23	3.14	5.67
Citigroup A Corp	-1.00	-0.58	-0.58	3.57	2.48	3.04	5.76
Citigroup BBB Corp	0.18	-0.61	-0.61	3.18	2.84	3.78	5.49
Citigroup High Yield	1.50	-1.50	-1.50	-2.29	4.34	6.71	4.99
Citigroup CCC Hi-Yld	3.37	-2.60	-2.60	-7.53	4.85	8.53	4.80



Sector	3 Mos.	6 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
LB Government	-1.91	2.06	2.06	9.68	4.60	3.78	5.70
LB Credit	-0.90	-0.48	-0.48	3.81	2.76	3.27	5.57
LB Mortgage	-0.49	1.93	1.93	7.83	4.82	4.56	5.76
LB ABS	-0.80	-2.71	-2.71	-2.08	1.52	1.95	4.77
LB Muni	0.63	0.01	0.01	3.23	2.93	3.52	4.90
Citi US Inflation-Linked	-0.36	4.86	4.86	15.12	5.56	5.96	7.78

INTERNATIONAL EQUITY MARKET PERFORMANCE

As of 6/30/08 (\$)	3 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
BROAD INDEXES						
MSCI AC World	-1.36	-10.41	-8.79	10.82	13.69	5.29
MSCI AC World x US	-0.86	-9.84	-6.20	16.16	19.42	7.73
MSCI EAFE	-1.93	-10.58	-10.15	13.34	17.16	6.23
MSCI EAFE Growth	0.25	-7.84	-4.07	15.07	16.64	4.42
MSCI EAFE Value	-4.13	-13.32	-16.05	11.52	17.56	7.82
MSCI EAFE Small Cap	-4.30	-10.19	-18.29	9.74	19.32	-
MSCI Emerging Markets	-0.80	-11.64	4.89	27.52	30.15	15.51
EPRA/NAREIT Global ex N. America	-11.02	-19.40	-23.07	11.04	21.08	13.63
REGIONAL INDEXES						
MSCI Europe	-3.72	-11.95	-10.81	14.15	17.71	6.04
MSCI Europe x UK	-5.02	-12.29	-9.65	16.27	19.42	6.71
MSCI Pacific Free	2.21	-7.45	-8.68	11.68	16.09	6.90
MSCI Pacific Free x Japan	1.65	-11.35	-1.03	19.20	24.00	14.62
MSCI EM Latin America	10.96	9.41	29.72	47.21	47.32	21.74
MSCI EM Europe	7.25	-6.97	14.18	32.15	34.94	18.84
MSCI EM Asia	-9.08	-21.91	-6.92	20.72	23.91	14.10
MSCI BRIC	3.21	-13.99	16.49	38.77	37.47	15.36

DEVELOPED MARKETS	MSCI EAFE WEIGHT	3 Mos.	YTD	1 Year	3 Years	5 Years	10 Years
MSCI U.K.	21.9%	-0.92	-11.21	-12.48	6.41	10.36	2.81
MSCI Japan	21.4%	9.14	-10.30	-24.40	7.12	10.36	1.55
MSCI France	10.8%	-2.68	-17.69	-23.70	4.84	10.67	3.24
MSCI Germany	9.1%	-1.24	-19.53	-19.00	12.40	15.51	1.81
MSCI Switzerland	7.1%	-2.26	-16.17	-22.85	5.90	10.02	1.22
MSCI Australia	6.8%	-0.80	-15.44	-12.48	11.76	16.57	10.84
MSCI Spain	4.1%	-7.76	-19.58	-15.27	10.57	15.28	5.47
MSCI Italy	3.8%	-3.69	-21.55	-26.75	-0.09	7.78	2.45
MSCI Netherlands	2.6%	-7.98	-20.63	-24.04	5.56	10.49	0.34
MSCI Sweden	2.2%	-7.72	-18.22	-31.14	4.13	15.00	4.79
MSCI Hong Kong	2.1%	-3.75	-22.08	3.20	14.64	20.99	12.44
MSCI Finland	1.6%	-12.59	-27.58	-22.04	8.84	9.85	7.40
MSCI Singapore	1.2%	-2.27	-13.38	-14.17	14.88	18.78	12.75
MSCI Norway	1.1%	14.65	-3.89	-5.44	19.56	29.85	11.77
MSCI Belgium	1.0%	-18.25	-26.89	-39.39	-2.95	9.39	0.46
MSCI Denmark	1.0%	-0.32	-7.70	-6.71	16.09	21.46	9.51
MSCI Greece	0.7%	-12.46	-32.01	-25.84	5.13	17.77	4.26
MSCI Austria	0.7%	6.12	-11.76	-24.91	6.01	21.89	8.65
MSCI Ireland	0.6%	-17.03	-24.20	-45.33	-7.29	3.58	-2.30
MSCI Portugal	0.3%	-12.89	-30.20	-34.98	5.94	10.38	-0.48
MSCI New Zealand	0.1%	-11.43	-25.82	-28.64	-3.91	4.76	4.24

MSCI EAFE SECTORS	3 Mos.	YTD	1 Year
Energy	17.47	4.89	9.66
Materials	9.64	5.66	11.04
Healthcare	1.94	-4.10	-4.31
Utilities	1.17	-5.89	6.67
Information Technology	0.36	-13.27	-15.04
Telecommunication Services	-0.74	-16.07	-2.36
Industrials	-2.05	-9.93	-11.85
Consumer Discretionary	-8.09	-17.29	-20.97
Consumer Staples	-9.21	-12.60	-3.09
Financial	-10.71	-20.13	-25.51

