Morningstar Market Commentary

Q109

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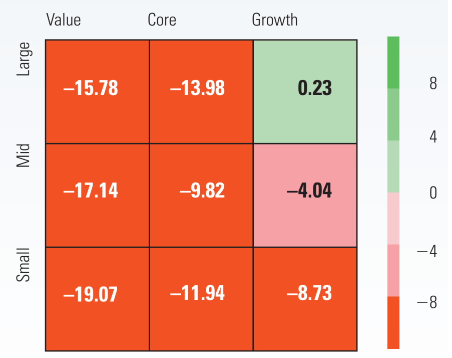
Stocks Embark on a Torrid, But Bumpy Run

Q1 Morningstar Market Barometer



	Value	Core	Growth
Large	**–15.78**	**–13.98**	**0.23**
Mid	**–17.14**	**–9.82**	**–4.04**
Small	**–19.07**	**–11.94**	**–8.73**

Q1 Morningstar Indexes

Stocks	
US Market Index	–10.58
Bonds	
Core Bond Index	0.28
Commodities	
Long-Only Commodity Index	–4.03

2008's negative market momentum continued through early March with another 25% drop for stocks. However, stocks embarked on a torrid run near the end of the first quarter, and some market pundits now say a market bottom may have been hit. The Morningstar US Market Index fell 11% in the first quarter and is down 38% over the past 12 months.

Growth stocks ended the decade-long trend of underperforming value, as the growth indexes have trounced the value indexes. The Morningstar US Growth Index was down 1.4% for the quarter, while the Morningstar US Value Index was down 16%. The Morningstar Small Value Index was the worst performer among nine-style indexes, declining 19%. Investors are according the greatest favor to large businesses with manageable debt levels. Wide-moat stalwart Coca-Cola is down 3% for the year, while technology and Internet-related companies such as Google, Apple, and Qualcomm are up 12%, 23%, and 3%, respectively, for the year.

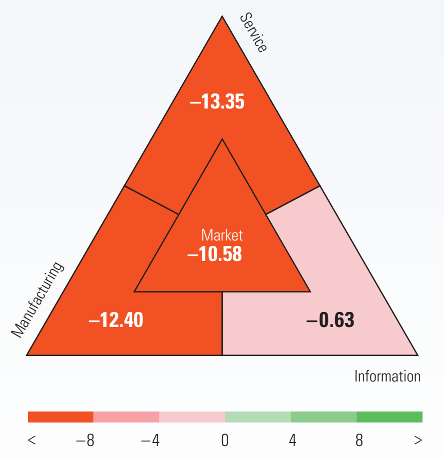
The markets responded poorly to the U.S. government's follow-on attempts at managing the credit crisis, plunging precipitously in February after Treasury Secretary Timothy Geithner's economic plan seemed to lack focus and clarity. In March, the markets responded favorably to the administration's plan for a Public-Private Investment Program establishing funds to create a market for impaired assets on bank balance sheets. Banks will have the ability to participate in those funds and take advantage of the financing provided by the government. The markets shifted into reverse as the quarter wrapped up, and took back some of the gains as the government rejected the automakers' viability plans and indicated that bankruptcy was an option for GM and Chrysler. Bonds held up fairly well for the quarter with the Morningstar Core Bond Index posting a modest 0.30% gain. The Federal Reserve's move to buy Treasuries and mortgage-backed bonds over a range of maturities sent long-term rates sharply lower. However, the only bond sector index to show a gain for the quarter was the Morningstar Mortgage Bond Index, which rose 2.25%. While Treasuries initially rallied on the government actions, gains leaked out over the quarter and the Morningstar US Treasury Index ended the quarter down 1.6%.

Finally, commodities continued to slide as the global markets continued to cool. The Morningstar Long-Only Index fell 4% in the quarter. Benefiting from the falling commodities prices, the losses for the Morningstar Long/Short Index were contained to 2%.

Overview

The long-running recession is taking another bite out of equity returns, and the uncertainty raised by the U.S. government did not help. Consequently, the service super sector fell more than 13% due in large part to the financial-services sector, which was the worst-performing sector. The information super sector was the best-performing super sector, down 1%. Part of the information super sector's resiliency is the strength of recurring maintenance fees that many firms generate in conjunction with product sales. The manufacturing super sector continues to suffer in line with the broader economy, turning in a loss of about 12%.

Q1 Morningstar Sector Delta and Return %



Sector	Quarter	1-Year	3-Year
Information	**–0.63**	**–31.24**	**–10.83**
Software	–0.68	–26.82	–7.66
Hardware	5.57	–30.41	–11.27
Media	–13.61	–45.35	–18.71
Telecommunication	–6.17	–26.45	–6.61
Service	**–13.35**	**–38.30**	**–17.00**
Healthcare	–7.29	–19.84	–6.51
Consumer Services	–2.33	–24.90	–10.76
Business Services	–10.61	–33.77	–11.50
Financial Services	–26.58	–57.98	–29.52
Manufacturing	**–12.40**	**–40.38**	**–8.32**
Consumer Goods	–11.96	–28.33	–4.41
Industrial Materials	–15.39	–51.77	–16.26
Energy	–10.38	–40.13	–4.77
Utilities	–11.60	–29.19	–2.39

Morningstar Super Sectors

	P/E	P/B	Yield %	Earn Growth	Sales Growth
Information Super Sector	13.14	2.17	2.72	12.79	10.29
Service Super Sector	13.14	1.45	4.05	-9.59	5.07
Manufacturing Super Sector	8.80	1.74	3.77	7.12	8.62

A Closer Look

Information Super Sector –0.63%

The information super sector was the best-performing super sector in the quarter thanks to the hardware sector, up 6% and the only sector in positive territory. Sun Microsystems surged 105% after entering into merger discussions with IBM. A host of small and medium-sized semiconductor makers rose as well; for example, Maxim Integrated Products gained 20%. Maxim, a maker of analog and mixed-signal circuits, has garnered Morningstar's wide-moat designation for its proprietary chips.

Although no sector can avoid the economic doldrums plaguing the global economy, the software sector held up relatively well with a 1% decline. Oracle is the second-largest position in software, and it was up nearly 2% for the quarter. While companies can put off software sales more easily, it is more challenging for companies to put off maintenance fees, which is helping Oracle through this difficult period.

Service Super Sector –13.35%

The Morningstar service super sector was the worst-performing super sector, falling more than 13% in the quarter on top of 2008's dismal 36% performance. Some traditional defensive companies disappointed in the quarter; for example, Johnson & Johnson fell 12%, leading the broader health-care sector down more than 7%. JNJ has a large branded consumer goods division, and some consumers are switching to store brands to save pennies.

The biggest drag on the service super sector was the financial sector, which dropped about another 27%. Credit concerns caught up with super-regional banks, such as Fifth Third Bancorp, Wells Fargo, US Bancorp, and BB&T Corp., which dropped about 65%, 51%, 41%, and 37%, respectively. One of the few bright spots in financial services was the recently converted bank holding companies from investment banks, such as Morgan Stanley and Goldman Sachs Group, Inc., which were up around 44% and 26%, respectively.

Manufacturing Super Sector –12.40%

With the U.S. economy in a long-running recession, it is no surprise that the Morningstar manufacturing super sector suffered a loss of 12%. The recession has driven consumers to cut back in various ways, such as buying store brands, trading down to cheaper goods, and buying less. In turn, companies such as Procter & Gamble have responded by providing a tiered portfolio of branded goods at different price points rather than cutting prices on branded goods, such as Tide laundry detergent. While the market has not been kind—P&G's shares have lost nearly 25% in the quarter or more than double the US Market's loss—the firm has not resorted to discounting that could ultimately hurt the firm's brand name over the long term.

Overview

Unfortunately, the broader equity markets over the quarter look strikingly like riding a roller-coaster with camelbacks (a series of hills on a roller coaster where each preceding one is slightly smaller). The good news is that the Morningstar Growth Index held up admirably given the global slowdown, down just 1%. The bad news is that the Morningstar Core Index was down 13%. Even worse, the Morningstar Value Index fell 16%. The cap indexes were much more homogenous.

Trailing Returns

1-Year

	Value	Core	Growth
Large	–40.24	–36.54	–34.17
Mid	–41.88	–40.14	–40.83
Small	–41.61	–39.63	–35.94

3-Year

	Value	Core	Growth
Large	–13.86	–10.73	–11.98
Mid	–17.57	–15.66	–14.82
Small	–18.05	–17.38	–16.16

5-Year

	Value	Core	Growth
Large	–4.24	–2.98	–6.28
Mid	–4.90	–4.32	–2.59
Small	–5.63	–4.62	–5.40

Morningstar Style & Cap Indexes

	P/E	P/B	Yield %	Earn Growth	Sales Growth
Morningstar Value	9.20	1.15	6.64	-8.30	2.89
Morningstar Core	10.48	1.77	3.38	3.79	10.01
Morningstar Growth	14.42	2.58	1.26	18.55	16.03
Morningstar Large Cap	11.12	1.87	3.90	2.27	10.84
Morningstar Mid Cap	11.03	1.34	3.17	-2.07	2.16
Morningstar Small Cap	10.64	1.14	2.63	-1.17	2.86

A Closer Look

Morningstar Value Index –16.28%

The Morningstar Value Index fell more than 16% and was clobbered by its growth-oriented counterparts. More than half of the value index is in the economically sensitive manufacturing super sector, and in particular the energy sector. ExxonMobil Corporation and ConocoPhillips both fell out of favor with investors, dropping about 15% and 24%, respectively. The White House released its federal budget proposal during the quarter, which revealed that many tax incentives to U.S. energy producers may be repealed. On top of this uncertainty, a sluggish economy demands less energy, which drives the price of oil and natural gas as well. In addition, financial-services firms continue to weigh on the value index. J.P. Morgan Chase & Co., a top-five holding, fell nearly 16%.

Another reason for the value index's poor showing was the low 14% weighting in the best-performing information super sector. Few value stocks fall in the software and hardware sectors, although 11% of the index fell in the telecommunications sector. However, AT&T Inc., the second-largest holding in the index, traded more in line with the Morningstar US Market than the telecom sector, declining nearly 12% in the quarter.

Morningstar Core Index –13.07%

Although the Morningstar Core Index's super sector weightings were more balanced, its returns are nothing to brag about, down 13% for the quarter. The manufacturing super sector still weighed down the core index with the inclusion of firms like General Electric Company. As a conglomerate, GE faces head winds across its industrial and financial services business lines. GE was the top contributor to the index's loss for the quarter, declining 38%. While the industrial businesses are facing sluggish demand, investors are concerned about GE Capital's commercial loan portfolio and the need to raise external capital. GE also took a hit after its credit ratings were cut and it slashed its dividend. More pure-play financial-services sector woes bled through to the core index as well. Wells Fargo Company dropped 51% as the company cut its dividend as it suffers from credit losses. In addition, Wells Fargo faces integration risk as it digests Wachovia over the next couple of quarters.

Morningstar Growth Index –1.36%

Taking top honors this quarter was the Morningstar Growth Index, which fell just over 1%. In fact, the index's three-year average annualized return of negative 13% now exceeds the value index's return by 2 percentage points. Growth's turnaround in the quarter was led by a variety of sectors, such as hardware, health care, and business services. Apple Inc., Genentech Inc., and Google Inc., rose about 23%, 15%, and 13%, respectively. Each of these companies has a proven track record of delivering earnings growth, and in these tough economic times, the market has chosen to reward this consistency.

Another factor boosting the growth index was an uptick in some merger announcements in the health-care arena. In particular, CV Therapeutics announced in the quarter that Gilead has offered to buy the firm, sending its shares up more than 115%. With plenty of money on the balance sheets of big pharmaceutical and biotechnology firms, this consolidation theme can continue to be a factor in the growth index. There already have been several announcements during the quarter: Pfizer's agreement with Wyeth and Roche's deal with Genentech.

Morningstar Large Cap Index —10.39%

Unlike the style-based indexes, the cap-based indexes' returns are homogenous. The Morningstar Large Cap Index lost about 10%, generally in line with the other cap-based indexes. About half of the loss for the large-cap index is due to the top 10 stocks: Not a single one had a positive return. Still, financials certainly lost more than the rest. The subpar performance of superregional banks weighed heavily on the index, but so did money-center bank Bank of America, which lost nearly 52%.

It is difficult to say when the era of large-scale acquisitions will return, but when it does, the Large Cap Index is likely to benefit. The effects of these types acquisitions can be felt immediately. For example, Merck and Schering-Plough announced their merger agreement during the quarter. SGP's shares are up more than 38% on the news, which makes it a top-five performer for the index. Given the dry pipelines in the big pharmaceutical companies, this is one trend that is likely to continue.

Morningstar Mid Cap Index —10.39%

Like the Large Cap Index, the Morningstar Mid Cap Index also lost 10%. Investors have continued to punish financials, regardless of size, across the board, and mid-caps were no exception. Principal Financial Group, Lincoln National Corp., and Fifth Third Bancorp each had a loss in the mid-60% range.

Among real estate investment trusts (REITs), the carnage that began in late 2008 has accelerated. Firms associated with nearly every type of property, including office property operator Boston Properties and residential firm Equity Residential, endured drops of about 37% or more for the quarter. REITs are suffering from having overloaded on debt when money was cheap in the early part of the decade. Additionally, a slowing economy is keeping rents and occupancy down.

Morningstar Small Cap Index —13.19%

While the Morningstar Small Cap Index's drop of about 13% places it at the bottom of the performance tables for cap-based indexes, this is not altogether unexpected. Large caps generally have more access to capital, internally generated cash flow, and pricing power, so these types of firms can weather a downturn better than their small-cap counterparts. In addition, federal bailouts generally focus most of their time and attention on their "too big to fail" counterparts. For example, East West Bancorp Inc. fell more than 73% and United Bankshares Inc. fell 49%.

Retailers have also continued to take it on the chin through the first few months of the year. Most of the firms in the index have reported declines of both traffic and average ticket. However, teen retailer Aeropostale Inc. rose more than 64%. This retailer's results show that firms offering a compelling value proposition to consumers are likely to do well even during downturns.

Fund Categories and Benchmarks

In six out of nine style categories, the majority of actively managed funds in a style category exceeded the return of the relevant Morningstar style index. The benchmarks with the biggest losses usually are the easiest to beat, and the value indexes all turned in losses in the mid-teens. Active managers added value by avoiding the biggest losing sectors in the index, such as energy and utilities.

Active vs. Passive

	Value	Core	Growth
Large	86.24 −15.78	93.21 −13.98	7.04 0.23
Mid	96.03 −17.14	58.44 −9.82	45.85 −4.04
Small	88.71 −19.07	39.15 −11.94	52.38 −8.73

◸ Actively managed mutual funds outperforming their respective benchmark (%)[1]

◢ Index Returns (%), Q1.

[1] Includes the oldest share class for all U.S. diversified mutual funds with at least a one-year history. As of March 31, 2009 there were 2,492 eligible funds. Morningstar classifies funds into style categories based on the average style score (using the same 10-factor methodology as underlying benchmarks) of all available portfolio holdings over a three-year period.

Overview

Signs of thawing emerged in some sections of the economy in the first quarter. Orders for durable goods, a key economic indicator, rose unexpectedly by 3.4% in February for its biggest gain in a year. New home sales also reversed the downward trend with a year-on-year gain of 4.7%. Damping hopes for any quick recovery was a continued weakening job market. The Federal Reserve buoyed the fixed-income markets with its stated intentions to buy $300 billion of long-term Treasuries and $1.45 trillion of mortgage-backed debt. The corporate bond markets, in contrast, continued to slide. The Morningstar Core Bond Index gained a modest 0.30% for the quarter.

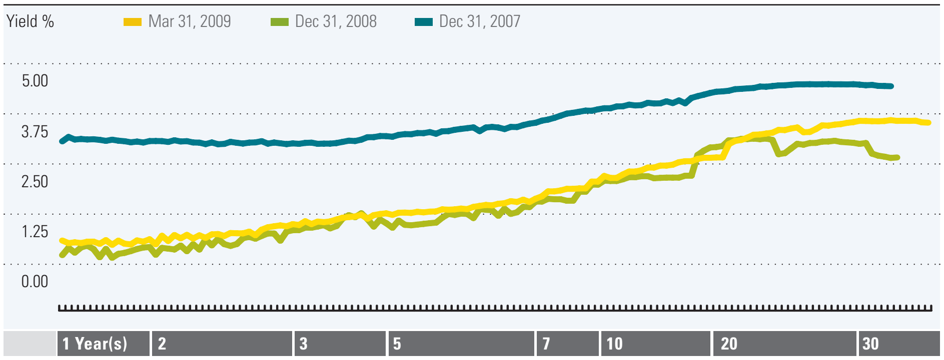
A Closer Look

The Fed Lifts but Supply Weighs

In a significant move, the Federal Reserve Bank announced on March 18 that it will buy long-term bonds to lift the sagging market. In response, U.S. Treasuries staged one of the biggest one-day rallies in history, and the Morningstar US Treasury Index gained 2.08%. The weight of the upcoming supply was evident later in the month when a five-year note auction drew a higher-than-expected yield and Treasuries gave back much of the record day's gains. The Morningstar US Treasury Index was down 1.40% for the quarter.

Treasury Inflation-Protection Securities (TIPS) were the quarter's strongest-performing sector, rising 4.97%. At the tail end of 2008 the TIPS market was priced for deflation. That is, TIPS yields were higher than nominal yields of comparable maturities. At the end of March the 10-year nominal Treasury had a yield of 2.67% and the 10-year TIPS had a yield of 1.35%.

Treasury Yield Curve



Morningstar Bond Indexes

		Returns		Statistics			
		4th QTR	YTD	Market Value $Mil	Credit Quality	Yield to Maturity	Average Duration
Broad Market	Core Bond	0.28	0.28	9264	AA+	3.22	3.63
Sector	US Govt	–1.20	–1.20	3596	AAA	1.85	5.01
	Corporate	–1.03	–1.03	1827	A	7.05	5.45
	Gov Guaranteed	1.33	1.33	97	AAA	1.81	2.63
	Mortgage	2.31	2.31	3841	AAA	2.69	1.48
Maturity	Short-Term Core	0.48	0.48	2215	AA+	2.39	2.14
	Interm. Core	1.82	1.82	5074	AAA	2.87	2.20
	Long-Term Core	–3.48	–3.48	1943	AA	5.08	9.03
Inflation Prot. Secs.	TIPS	4.97	4.97	428	AAA	1.50	7.27
Global Sovereign	Global Govt USD	–4.69	–4.69	11775	AA+	2.12	6.04
	Global Govt ex-US USD	–5.89	–5.89	8833	AA	2.23	6.29
	Eurozone IL	1.15	1.15	4383	AA+	3.06	6.00
	Swiss IL	1.01	1.01	83	AAA	1.66	6.57
	UK IL	–0.85	–0.85	815	AAA	3.00	8.94
	Australasian USD	–2.59	–2.59	47	AAA	3.97	4.47
	Canadian IL	1.18	1.18	217	AAA	2.21	6.84
	Japanese IL	–0.79	–0.79	3286	AA–	0.92	6.00
Europe	Eurobond Corp IL	0.86	0.86	1021	AA–	4.64	4.19
	European Bank Capital IL	–5.87	–5.87	208	A+	10.32	3.54
	European Covered IL	0.60	0.60	725	AAA	3.91	3.98
	UK Eurobond Corp IL	–1.89	–1.89	185	AA	5.20	7.06
	UK Bank Capital IL	–32.51	–32.51	29	A	17.09	5.33
Emerging Market	Composite USD	3.85	3.85	277	BB+	10.87	5.61
	Sovereign USD	2.85	2.85	226	BBB–	8.14	6.10
	Corporate USD	8.25	8.25	51	BB	23.02	3.45

USD—unhedged returns in USD IL—returns in local currency

To finance the bailout and the anticipated 2009 federal budget deficit of $1.75 trillion, the Treasury plans to lengthen the average maturity of debt and, all else equal, this will lead to higher duration of U.S. Treasury indexes. The current average maturity of the Morningstar US Treasury Index is seven years, down from 10 years at the end of 2001. Passive investors should be cognizant that an increase in the index's duration will translate into greater price sensitivity to interest rates of their US Treasury Index-based investments.

Financials Go Their Own Way

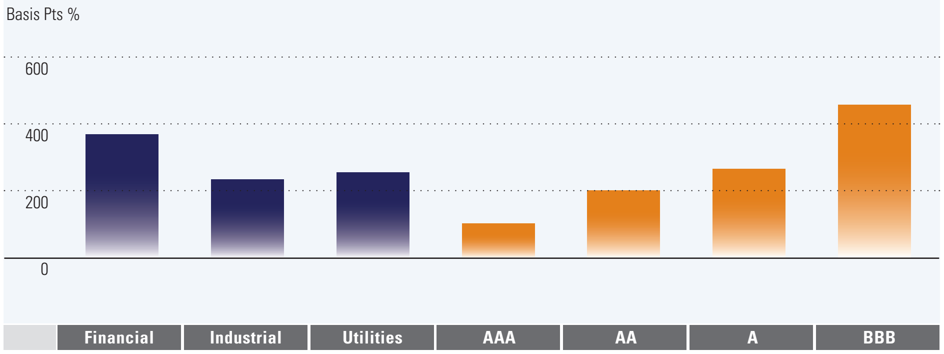
There has been a pronounced decoupling of U.S. Treasury returns and U.S. domestic corporate bond returns since the middle of last year. The correlation between the two sectors (measured from rolling 12-month returns) is now at 0.45, and the 10-year average is above 0.82. Within the corporate sector we have seen a similar decoupling between the financial sector and non-financial sector.

The financial-heavy US Corporate Bond Index fell 1.03% for the quarter with the spread premium narrowing 38 basis points. All the downward pressure has come from the financial sector. Spreads on the financial index widened 114 basis points in the quarter. In contrast, the non-financial sectors of industrials and utilities are 87 and 121 basis points narrower, respectively.

In addition to concern for the overall financial health of the sector, financial bond prices have been falling on concerns there are initiatives afoot to ask bondholders to swap bonds for new debt at lower interest rates or reduced principal. This came close on the heels of a comment from a Washington lawmaker suggesting that “it's time for bondholders to share the pain.” Those who think the political risk is exaggerated argue that the current yields on financial corporate debt are very attractive and more credit-worthy given the government support.

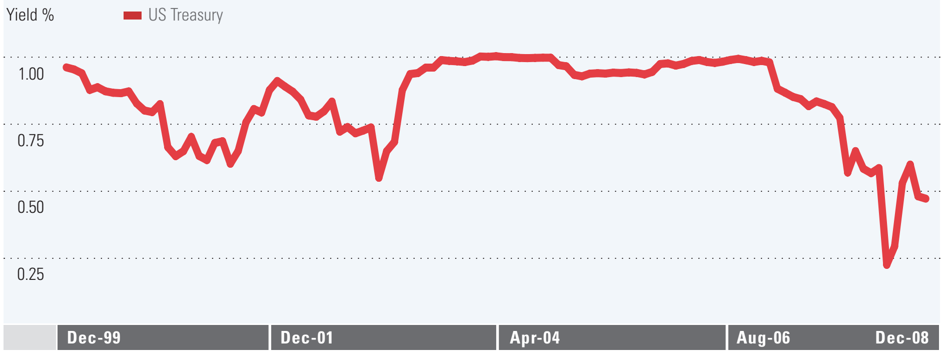
Similar trends were seen in Europe, where financial credits deteriorated over the course of the quarter, while the spread premiums on the industrial and utilities sectors were little changed. The Morningstar Euro Corporate Financial Index had a spread-widening of 58 basis points in the quarter. The spread premium now stands at 421 basis points, while Industrial and Utilities Index spread premiums finished the quarter at 286 and 215 basis points, respectively. In the U.K. the contrast is starker. The quarterly spread on financials was 634 basis points, up 164 basis points, while industrial and utilities spreads were unchanged.

Credit Spread Change by Sector and Quality



Credit spread is the yield difference between the US Treasury Index and Corporate Bonds by Index.

Correlation of Corporate and US Treasury Monthly Total Returns—1 Year Trailing



Correlation coefficient between Morningstar's US Corporate Bond Index and Morningstar's US Treasury Index 1-year trailing monthly total returns.

Few Takers for Government Paper

European government markets rallied over the course of the month; however, a third failed auction in front of unprecedented volumes of government debt scheduled for auction leaves the markets on edge. The Morningstar Euro Government Index rose 2.33% in the quarter and the UK Treasury Index, aided by government buying, rose 1.29% in the quarter. The U.K. government bond rally was stalled after a failed auction of 40-year government bonds, the first failure since 2002. The auction attracted bids of only GBP 1.63 billion for the GBP 1.75 billion offering. On the heels of two failed German auctions, expectations are the European governments will need to pay higher yields to clear the markets going forward.

Ireland had its AAA credit rating lowered on notch to AA+ by S&P, which cited the country's deteriorating public finances as the driving factor. Ireland was the fourth downgrade in the euro-region, following Spain, Portugal, and Greece, which were downgraded in January.

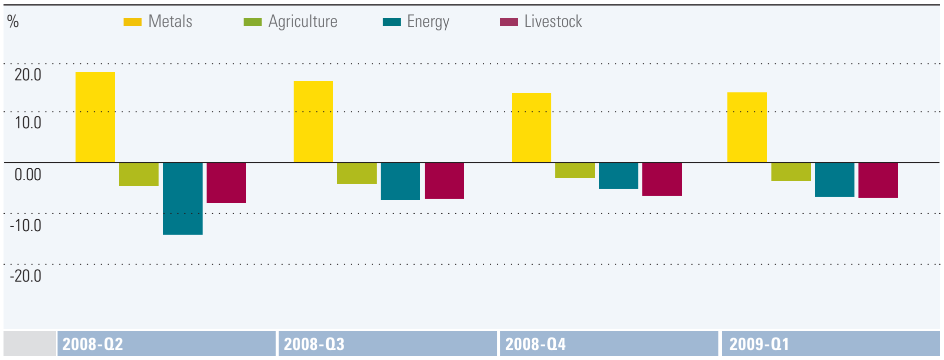
Strong Start for Emerging Markets

It is a long way to go before emerging markets are back to historical norms, but they are off to a good start in 2009. Stabilized yields in corporate bonds and modest price appreciation in sovereign bonds have resulted in very strong total returns in March and the quarter. The Morningstar Emerging Markets Composite Index (sovereign and corporate bonds combined) rose 3.79% in the quarter, with the sovereign sector contributing 3.20% and corporate sector contributing 6.46%. The yield on the Sovereign Index stands at 8.14%, down from 8.57% at the end of last year, and the Corporate Index yield of 23.02% is lower than the 24.74% year-end mark.

Overview

Many commodities swooned from the start of 2009 to about mid-February as global economic concerns sapped expectations for near-term demand for many products. Amidst this economic brown-out was a flight to safety reflected in a sharp strengthening of the U.S. dollar, further undercutting the ability of some countries to pay for commodity imports. However, conditions had changed by late February. Several global fiscal policy actions were announced to stanch the global economic bleeding.

Quarterly Commodity Sector Returns



Morningstar Commodity Index Returns %

	Quarter	1-Year	3-Year	5-Year	10-Year	YTD
Long-Only	–4.03	–41.83	–6.43	1.64	10.71	–4.03
Long/Flat	–0.42	–8.77	6.30	8.32	13.11	–0.42
Long/Short	–2.01	0.75	7.62	8.30	13.40	–2.01
Short/Flat	–1.64	11.03	4.46	2.71	3.20	–1.64
Short-Only	1.83	48.51	8.13	0.92	–4.77	1.83
Agriculture	–3.93	–31.54	2.75	–2.42	1.58	–3.93
Energy	–13.47	–61.72	–23.43	–6.60	12.51	–13.47
Livestock	–7.33	–21.38	–6.59	–0.99	4.13	–7.33
Metals	17.16	–10.91	12.88	18.38	14.92	17.16

A Closer Look

The energy sector is notoriously volatile and this quarter was no exception. Crude oil plunged from $55 a barrel to about $40 in mid-February before rebounding sharply to the mid-$50 range again due to global demand worries and limited supply constraint expectations. Natural gas prices have dropped about 30% this quarter as additional supply enters the picture and demand wanes due to the end of winter. Gasoline rose over 20% for the quarter as driving season approaches.

The livestock and agriculture sectors were active as well due to global demand and currency effects. Corn prices are firming at the $4 a bushel level after falling sharply throughout the second half of 2008. Production acreage is expected to continue shifting modestly to soybeans and recent weakness in the U.S. dollar should provide a tail wind to exports, which account for about 20% of corn demand. However, animal feed accounts for nearly 60% of corn consumption. Lower prices this quarter for cattle and hogs—hog prices alone dropped from $0.71/pound to $0.58/pound—should support demand for meat, which should help demand for corn as well.

Commodity investors had to endure volatile prices in the metals sector as well this past quarter. Gold and silver rallied strongly early this quarter as investors fled to the metals for safety during the darkest hours of the quarter's global economic turmoil. By the end of the quarter gold had moderated a bit while silver remains up over 15%.

Conclusion

The markets reacted harshly to the sketchy details in the U.S. government's early attempts in the quarter to breathe life back into the economy because of sketchy details. More questions were raised than answered about the condition of the economy and what, if anything, the government's plans would do about it. Nonetheless, details did emerge later in the quarter, and the chorus of Wall Street's nervous Nellies receded a bit.

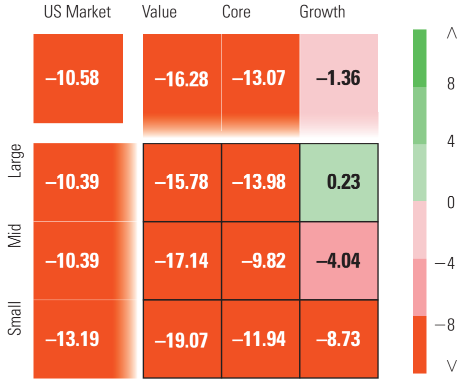
All in all, the U.S. equity markets turned in another down quarter. Unlike in 2008 when the style-based indexes were fairly homogenous, the Morningstar Growth Index handily beat the Morningstar Value Index. Given the forcefulness of the equity market rise, determining whether or not the markets are in a mere bear-market bounce or a sustainable rally is the question of the day. Part of the answer will be answered in the upcoming earnings season, as companies provide guidance on the rest of the year.

In fixed income, U.S. Treasury returns and U.S. domestic corporate bond returns have diverged since the middle of last year. Significant treasury volume is expected especially given the level of economic stimulus. Within the corporate sector, there is a similar decoupling between the financial sector and nonfinancial sector. Concerns over swapping current bonds with new bonds with lower interest rates are driving part of this divergence.

Like the equity markets, commodities continued to be volatile. The U.S. government's new energy plan announced in the quarter also adds more uncertainly to the mix. Nonetheless, rationalization of high-cost facilities should stabilize markets and support prices over time.

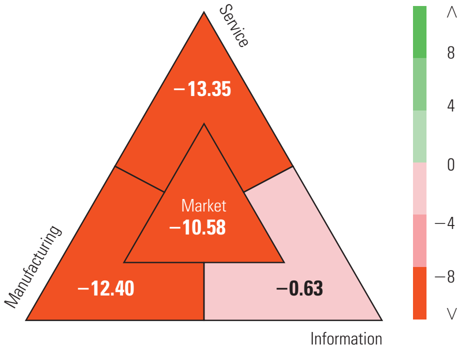
All data in this issue through 03-31-09

Q1 Style Indexes



	Total Returns %								
Index	3 Mo.	1-Year	3-Year	5-Year	10-Year	Price/ Earnings	Price/ Book	Yield%	5-Yr Earn Growth
Morningstar US Market	**−10.58**	**−37.79**	**−13.11**	**−4.19**	**−2.26**	**11.07**	**1.67**	**3.67**	**0.80**
Large Cap	−10.39	−36.89	−11.99	−4.28	−3.77	11.12	1.87	3.90	2.27
Mid Cap	−10.39	−40.83	−15.89	−3.81	1.61	11.03	1.34	3.17	−2.07
Small Cap	−13.19	−38.95	−17.02	−5.05	3.33	10.64	1.14	2.63	−1.17
US Value	−16.28	−40.66	−14.85	−4.41	0.20	9.20	1.15	6.64	−8.30
US Core	−13.07	−37.30	−12.09	−3.28	−0.53	10.48	1.77	3.38	3.79
US Growth	−1.36	−35.70	−12.86	−5.34	−7.11	14.42	2.58	1.26	18.55
Large Value	−15.78	−40.24	−13.86	−4.24	−0.90	9.31	1.33	6.76	−6.88
Large Core	−13.98	−36.54	−10.73	−2.98	−1.86	10.55	1.96	3.65	4.52
Large Growth	0.23	−34.17	−11.98	−6.28	−9.27	14.49	2.79	1.52	20.16
Mid Value	−17.14	−41.88	−17.57	−4.90	2.72	8.79	0.85	6.47	−9.48
Mid Core	−9.82	−40.14	−15.66	−4.32	2.47	10.33	1.46	2.76	4.09
Mid Growth	−4.04	−40.83	−14.82	−2.59	−1.12	14.57	2.28	0.66	16.93
Small Value	−19.07	−41.61	−18.05	−5.63	4.67	8.97	0.77	5.77	−9.31
Small Core	−11.94	−39.63	−17.38	−4.62	6.41	10.00	1.17	2.23	8.88
Small Growth	−8.73	−35.94	−16.16	−5.40	−0.97	13.29	1.88	0.34	11.71

Q1 Sector Indexes



	Total Returns %								
Index	3 Mo.	1-Year	3-Year	5-Year	10-Year	Price/ Earnings	Price/ Book	Yield%	5-Yr Earn Growth
Information	**−0.63**	**−31.24**	**−10.83**	**−4.75**	**−7.01**	**13.14**	**2.17**	**2.72**	**12.79**
Software	−0.68	−26.82	−7.66	−1.27	−5.56	12.83	3.19	1.16	22.30
Hardware	5.57	−30.41	−11.27	−5.65	−5.56	13.63	2.43	1.73	13.57
Media	−13.61	−45.35	−18.71	−12.07	−10.34	12.77	1.15	1.66	8.07
Telecommunication	−6.17	−26.45	−6.61	0.80	−8.33	12.45	1.74	7.94	5.20
Service	**−13.35**	**−38.30**	**−17.00**	**−7.25**	**−1.88**	**13.14**	**1.45**	**4.05**	**−9.59**
Healthcare	−7.29	−19.84	−6.51	−1.51	−0.27	12.76	2.44	2.68	13.18
Consumer Services	−2.33	−24.90	−10.76	−3.63	−0.26	13.41	2.00	2.16	6.31
Business Services	−10.61	−33.77	−11.50	0.04	−0.50	13.48	2.08	1.91	7.08
Financial Services	−26.58	−57.98	−29.52	−15.90	−5.07	13.27	0.78	8.14	−26.63
Manufacturing	**−12.40**	**−40.38**	**−8.32**	**1.18**	**2.51**	**8.80**	**1.74**	**3.77**	**7.12**
Consumer Goods	−11.96	−28.33	−4.41	−0.62	1.72	12.94	2.89	3.39	2.36
Industrial Materials	−15.39	−51.77	−16.26	−4.85	−1.28	8.13	1.61	4.89	5.36
Energy	−10.38	−40.13	−4.77	9.75	8.33	7.04	1.58	2.57	13.01
Utilities	−11.60	−29.19	−2.39	4.57	4.26	10.52	1.29	5.25	7.27

Bond Indexes

	3 Mo.	YTD	1-Year	3-Year	5-Year
Core	0.28	0.28	5.02	6.74	4.74
US Government	−1.20	−1.20	7.36	8.43	5.40
Corporate	−1.03	−1.03	−4.97	2.03	1.80
Mortgage	2.31	2.31	8.31	7.71	5.65
Short–Term	0.48	0.48	2.41	5.54	3.67
Intermediate Term	1.82	1.82	7.11	7.51	4.73
Long–Term	−3.48	−3.48	3.23	6.28	4.52
Global Govt ex–US	−5.89	−5.89	−6.94	7.18	4.28
EM Composite	3.85	3.85	−11.13	0.47	4.28

Commodity Indexes

	3 Mo.	YTD	1-Year	3-Year	5-Year	10-Year	15-Year
Long–Only	−4.03	−4.03	−6.43	1.64	10.71	8.63	−4.03
Long/Flat	−0.42	−0.42	6.30	8.32	13.11	11.87	−0.42
Long/Short	−2.01	−2.01	7.62	8.30	13.40	13.52	−2.01
Short/Flat	−1.64	−1.64	4.46	2.71	3.20	5.19	−1.64
Short–Only	1.83	1.83	8.13	0.92	−4.77	−1.29	1.83
Agriculture	−3.93	−3.93	2.75	−2.42	1.58	1.87	−3.93
Energy	−13.47	−13.47	−23.43	−6.60	12.51	10.91	−13.47
Livestock	−7.33	−7.33	−6.59	−0.99	4.13	2.43	−7.33
Metals	17.16	17.16	12.88	18.38	14.92	9.17	17.16