

Capital Market Review • Second Quarter 2005

The stock market had difficulty getting traction in the first half of the year, with the S&P 500, the Dow Jones Industrials and the NASDAQ all continuing to struggle in the second quarter. The bond market, on the other hand, continued to surprise, despite rising interest rates.

Market Returns

	3 MONTHS ENDED JUNE 30	6 MONTHS ENDED JUNE 30
T-bills	0.8%	1.4%
Lehman Bros. Aggregate Bond Index	3.0%	2.5%
S&P 500	1.4%	-0.8%
Dow Jones Industrials	-1.6%	-3.7%
NASDAQ	2.9%	-5.5%
Russell 2000	4.3%	-1.3%
EAFE	-1.0%	-1.2%
Wilshire REIT	15.1%	6.8%

STOCK MARKET

The S&P 500 managed to gain 1.4% during the second quarter but was still down 0.8% for the six months. The Dow Jones had a second negative quarter, losing 1.6% and bringing its year-to-date return to -3.7%. The NASDAQ, with a return of 2.9%, was the best performing domestic stock index over the quarter but continued to be the worst performer over the six months with a return of -5.5%. The Russell 2000, representing small domestic stocks, beat all the major U.S. stock market indices with a return of 4.3% for the second quarter, but lost 1.3% for the year to date. The EAFE Stock Index, representing foreign stocks, lost 1.0% for the quarter, under-performing all the domestic equity indices except the Dow Jones. EAFE lost a total of 1.2% for the six months. Despite worries of a looming real estate bubble, the Wilshire REIT index was the best-performing

domestic index during the second quarter with a return of 15.1%. After struggling during the first quarter, the Wilshire's second-quarter rebound put it back at the top of all the major market indices with a six-month return of 6.8%.

Investment Styles

Growth stocks fared better than their Value counterparts in the second quarter, and Small stocks continued to perform better than Large. Large Growth stocks returned 2.6% for the quarter, out-performing the S&P 500, while Large Value slightly under-performed with a return of 1.2%. For the six months, however, Large Growth returned -1.8%, underperforming both Large Value (+0.4%) and the market. Much like the larger stocks, Small Growth stocks (+3.6%) outperformed Small Value (+2.9%) during the quarter, but for the six months Small Value (+1.0%) outperformed Small Growth (-1.5%).

International equities returned -0.4% during the quarter, underperforming all domestic equity styles. For the six months to June 30, International equities returned a net -0.4%, performing better than the domestic Large Growth and Small Growth categories but trailing both domestic Large Value and Small Value. Real Estate equities continue to be the best-performing category for both the second quarter and six months, with returns of 13.1% and 5.5% respectively.

Returns by Equity Manager Style

	3 MONTHS ENDED JUNE 30	6 MONTHS ENDED JUNE 30
Large Value	1.2%	0.4%
Large Growth	2.6%	-1.8%
Small Value	2.9%	1.0%
Small Growth	3.6%	-1.5%
International	-0.4%	-0.4%
Real Estate	13.1%	5.5%

Sectors

The second quarter produced mixed results across the various sectors of the stock market. Energy stocks continue to be one of the best performing sectors of the stock market as oil prices remain near an all time high. Throughout June, prices hovered around the \$60 mark, finally topping the \$61 mark for the first time ever on July 6. Energy stocks continued to beat the broader market (S&P 500) returning 4.1% during the quarter and continued to be the best performing sector for the six months with a return of 23.4%. Utilities were the best-performing sector during the quarter with a return of 9.2% and second-best for the six months with a return of 15.1%. Financial stocks followed Utilities with a return of 4.3% for the quarter, but still under-performed the market for the six months, returning -2.5%. Health stocks strengthened during the quarter, gaining 4.1% and producing a net six-month return of 3.4%. The Technology sector, with a return of 2.0%, also outperformed the broader market during the quarter, but significantly under-performed the S&P 500 for the six months, returning -5.7%. The Consumer Services and the Raw Materials sectors of the market were the two worst-performing sectors of the market for the quarter and the six months. Consumer Services stocks lost 1.2% in the quarter, while Raw Materials lost 9.5%. Through the end of June Consumer Services lost 6.8%, Raw Materials, 7.9%.

Global Stock Markets

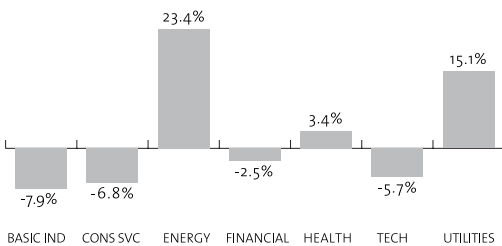
The U.S. was the third-worst-performing major global market during the second quarter. The S&P 500 gained 1.4% in the quarter but was still down 0.8% for the six months, making the U.S. the second-worst performer through the end of June. Europe's and Japan's markets trailed the U.S. market for the quarter, returning -0.8% and -3.6% respectively. Japan represents roughly 24% of the EAFE Index while Europe makes up roughly 68%. The Pacific and

Latin American markets continued to out-pace our domestic market. The Pacific Rim returned 4.6% and Latin America gained 7.1% during the quarter. Latin America, which is not included in the EAFE index, was the best-performing market for the first half of the year with a return of 9.0%. The Pacific Region, which represents only 8% of EAFE, was the second-best market for the six months with a return of 5.0%.

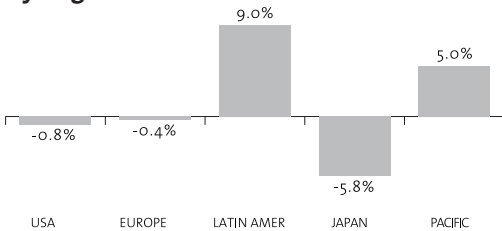
Stock Market Performance

6 months ended June 30, 2005

by Sector



by Region



BOND MARKET

T-bills returned 0.8% for the second quarter and 1.4% for the six months. This modest return, however, was still below inflation, which was 2.2% for the six months. The Lehman Brothers Aggregate Bond index, down in the first quarter, rebounded by 3.0% in the second quarter for a net 2.5% gain for the six months. During the second quarter the Fed increased short-term rates a quarter of a percentage point for the ninth consecutive time, pushing the federal funds rate up to 3.25%, the highest since August of 2001. The yield on Treasury bills increased from 2.64% on March 31 to 3.07% on

June 30, an increase of 0.43%, or 43 basis points. The yield on short-term Treasuries decreased 15 basis points for the quarter to 3.63%, and the yield on ten-Year Treasuries decreased 55 basis points to 3.94%. At June 30 the spread between the 91-day T-bill and the ten-year Treasury was 87 basis points, or 0.87%, compared to 2.01% at the end of 2004. Long-term government debt yields continued to decrease in the second quarter, falling from 4.76% at the end of the first quarter to 4.22% at the end of June. For the six months, yields fell 61 basis points from 4.83% at the end of 2004.

Government bonds of all durations had positive total returns for the second quarter as well as the six months. Short and Intermediate government bonds returned 1.2% and 2.3% respectively for the quarter, and 0.9% and 1.6% for the six months. Long-term government bonds have done surprisingly well despite the current rising interest-rate environment. Long governments were up 7.8% for the quarter and 8.4% for the six months.

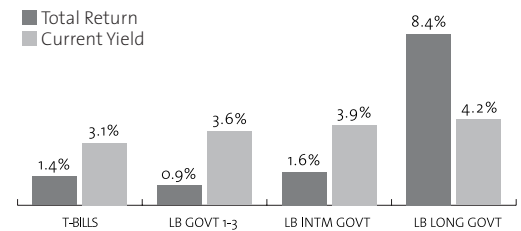
All sectors of the bond market had positive returns for the quarter ending June 30 except foreign bonds. Foreign debt, as represented by the Citigroup World Government Bond Index, was the worst-performing sector for the second consecutive quarter, returning -2.7%. Foreign debt returned -5.7% for the six months. High-yield debt was the second-worst sector of the bond market with a return of only 1.9% for the quarter. For the six months it was up 0.8%. Mortgage-backed debt gained 2.3% during the quarter but only 2.2% for the six months. Municipal bonds had a good quarter, gaining 2.9%, but returning the same for the six months. Government bonds and Corporate bonds were the best performers in the quarter, returning 3.4% and 3.6% respectively. Government bonds gained 2.9% for the six months, Corporate bonds, 2.5%.

Inflation, as measured by the Consumer Price Index, was 0.57% for the second quarter and 2.15% for the first half of 2005.

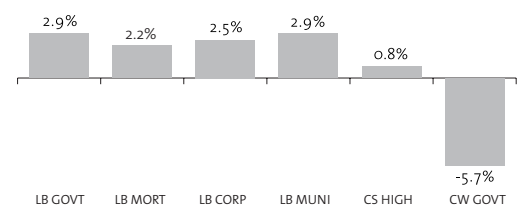
Bond Market Performance

6 months ended June 30, 2005

by Maturities



by Sector



COMMODITIES MARKET

The Dow Jones-AIG Commodity index lost 5.7% during the second quarter, but gained 5.0% for the first half of the year. Oil prices increased 2.0%, from \$55.40 to \$56.50, during the quarter. (Prices escalated to more than \$61 per barrel just a week later, so the high is not reflected in this calculation.) Over the first six months of the year the price of oil rose 30.0%. The price of gold increased during the second quarter from \$428.70 to \$435.90 per ounce, an increase of \$7.20 or 1.7%. For the six months, however, it decreased from \$437.50 to \$435.90, a loss of 0.4%.

CURRENCY MARKET

During the quarter the U.S. dollar continued to gain ground over the other major foreign currencies after falling throughout 2004. Against the euro, the U.S. dollar increased 6.63% in the quarter and was up 10.80% for the six months. Against the yen, the U.S. dollar strengthened by 3.46% for the quarter and rose 8.30% for the six months. Against the Canadian dollar, the U.S. dollar gained 1.25% in the quarter and 2.13% in the first half of the year.