

November 2007 Market Commentary

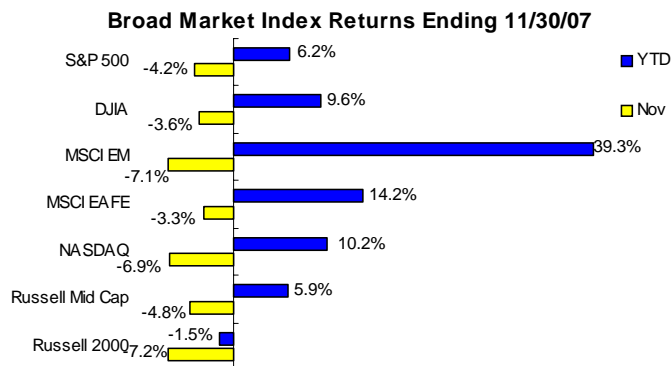


U.S. and overseas equity markets moved mostly lower in November as credit conditions deteriorated. Financial institutions reported large write-downs of fixed income assets as liquidity came to a halt in the securitized debt markets.

For the month, the S&P 500 and the Dow Jones Industrial Average both declined 4%. Meanwhile, the Russell 2000 and the technology-heavy NASDAQ Composite each fell 7%. Consumer staples, healthcare and utilities were among the top performing sectors, while financials, information technology and telecommunications services underperformed. Growth stocks outperformed value stocks across all market capitalizations, while larger cap issues outperformed smaller cap issues.

U.S. fixed income markets posted mostly positive results. Sectors that disappointed during the month were areas with higher perceived risk. The mortgage-backed securities sector outperformed investment grade corporate securities, but trailed U.S. Treasuries by a wide margin. Investment grade corporate securities were positive but returns were somewhat limited by weakness in homebuilders, mortgage lenders and certain retailers. Meanwhile, the asset-backed securities sector posted losses as concerns over assets backed by U.S. home loans reached new highs. Lower quality, higher yielding corporate securities also underperformed.

International markets moved lower, with the MSCI EAFE ending down 3%. Among the largest European markets, Germany and France declined 1% and 2%, respectively. Within the Pacific region, Japan fell 2% as demand from the U.S. slowed. Meanwhile, Singapore plunged 8% as inflation hit a 16-year high, while Australia lost 7% as Prime Minister John Howard was defeated in the November elections. In the emerging markets, the MSCI EM lost 7% on weak performances from select Latin American and Emerging Asian countries.



World Market Recap

Economy

- ✓ The U.S. economy expanded at the fastest pace in four years during the third quarter, growing at a real annual rate of 4.9% according to preliminary estimates. This is the fastest pace since the third quarter of 2003. The upward revision to gross domestic product was due to larger inventory building and a better trade balance. The final estimate is scheduled to be released December 20th.
- ✓ The housing sector remains generally weak. Single family starts declined to 884,000 units, its lowest level since October 1991. Building permits, a leading indicator of housing activity, also declined for the fifth straight month. Only a small up-tick in mortgage applications, in response to falling mortgage rates, may provide some relief from the gloomy news.

- ✓ In early December, President Bush outlined steps the Administration is taking to provide relief to U.S. homeowners affected by the subprime mortgage meltdown. Under the plan, the mortgage industry would voluntarily help as many as 1.2 million homeowners who are heading for trouble paying their subprime mortgages, but are not yet considered hopelessly in debt.

U.S. Equity

- ✓ The financial services sector underperformed amid continuing problems tied to investments in subprime mortgages. Investors fear that most of these financial institutions have failed to disclose the full extent of their subprime exposure, and that further write-downs are to come.
- ✓ Sovereign wealth fund Abu Dhabi Investment Authority made a \$7.5 billion investment into distressed Citigroup, giving it a stake of just under 5%. With many sovereign wealth funds sitting on large pools of cash, more U.S. companies could potentially find themselves owned, at least partially, by foreign governments.
- ✓ Information technology stocks also came under pressure after Cisco's outlook prompted fears of slower U.S. technology spending. Cisco issued disappointing guidance for its current fiscal first quarter and warned that sales to U.S. corporate customers were expected to be "lumpy" as financial services, automotive and retail companies cut back on IT spending.
- ✓ On the positive side, areas that are typically thought of as defensive such as utilities, healthcare and consumer staples, outperformed.
- ✓ In addition, stocks with large foreign sales also outperformed during the month benefiting from the weak U.S. dollar and stronger relative economic growth overseas.

Fixed Income

- ✓ Fixed income markets, especially U.S. Treasuries, moved mostly higher. Treasury yields fell sharply as credit concerns, limited liquidity and overall market volatility all contributed to a flight to quality.
- ✓ Conventional mortgage-backed securities performed better than investment grade corporate bonds, but well short of U.S. Treasuries. Spreads to Treasuries widened in all segments of the mortgage market.
- ✓ Meanwhile, a handful of areas came under pressure during November. Subprime concerns continued to weigh on the asset-backed securities sector, which posted negative results. High yield also underperformed as investors shunned areas with higher perceived risk.

Currency Markets

- ✓ Both the Euro and the Japanese yen continued to rally against the U.S. dollar during the period. After hitting record levels in recent months, both the Canadian dollar and the Australian dollar lost nearly 5% against the U.S. dollar in November. A handful of emerging markets currencies also declined against the U.S. dollar including the South Korean won, the South African rand and the Brazilian real.

International Developed Markets

- ✓ Canada plunged 11% as the currency declined nearly 5% against the U.S. dollar. A notable detractor during November was energy company Canadian Natural Resources, which weighed heavily on the S&P/TSX Composite after the announcement that it had reduced its capital spending and production guidance for 2008.

- ✓ Economic data in the Eurozone was mixed. GDP growth in the 13-nation Eurozone was revised up to 2.7% year-on-year. Meanwhile, inflation hit 3% in November, marking its highest level in more than six years. The rise, which was more than expected, stemmed from higher food and oil prices. Despite the rise in inflation, the European Central Bank left interest rates on hold.
- ✓ The United Kingdom declined 5% as the property market continued to slow. In early December, the Bank of England cut interest rates by 25 basis points to 5.5% amid growing signs that the economy is slowing. Economists had expected the decision to be a close call, as the bank weighed rising inflation against further evidence that Britain's housing boom is rapidly weakening.
- ✓ Japan declined 2% as demand from the U.S. slowed, weighing on exporters. In politics, public support for the newly-formed cabinet of Prime Minister Yasuo Fukuda has fallen sharply. The plunge in support is due to a series of scandals involving the Defense Ministry, as well as the government's failure to swiftly deal with millions of missing pension records.
- ✓ In the Pacific region, Australia declined 7%. Prime Minister John Howard of the Liberal Party suffered a defeat to Kevin Rudd of the Australian Labor Party. Howard was among President Bush's staunchest allies. Howard's defeat, after 11 years in power, follows that of Jose María Aznar of Spain, who also backed the United States-led invasion of Iraq, and political setbacks for Tony Blair, who stepped down as Britain's prime minister in June.

International Emerging Markets

- ✓ In Emerging Asia, China plunged nearly 14% on worries about the potential deflation of an asset bubble. South Korea declined 10% as industrial materials stocks performed poorly, while weakness from holdings in the information technology sector sent Taiwan 11% lower.
- ✓ Within Latin America, Mexico declined 6%. The government reported that Mexico's economy grew 3.7% in the third quarter as strength in services offset weakness in manufacturing, although expansion trailed expectations. Brazil's stock market ended down 5% as the real declined against the U.S. dollar. Meanwhile, Brazil's IPO of Latin American derivatives market Bolsa de Mercadorias e Futuros (BM&F) was a huge success, becoming its second largest offering ever.
- ✓ Among the EMEA countries, South Africa declined 8% as inflation rose well above expectations to 7.3%. Following month-end, the central bank hiked its key policy rate by 50 basis points to 11% to fight rising inflationary pressures in the local economy.
- ✓ Russia gained 2% on strong performances from energy stocks. On the political front, Vladimir Putin has endorsed the nomination of First Deputy Prime Minister and Gazprom Chairman Dmitry Medvedev to succeed him as the country's president next year. Putin also said that he would agree to become prime minister if Medvedev is elected as his successor. Given that Medvedev is regarded as the most business friendly of the possible candidates, the news should be relatively good for Russian markets.

*All indices are unmanaged and investors can not actually invest directly into an index. Past performance is not indicative of future results.

The S&P 500 Index is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's.

The Dow Jones Industrial Average is based on the average performance of the 30 blue-chip stocks monitored.

Russell 2000 Index measures the performance of the small-cap stocks.

The NASDAQ Composite measures all domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market.

MSCI EAFE is a market-cap weighted index representing 20 of the developed markets outside North America. These 20 countries include 14 European countries and 6 Pacific countries.

MSCI Emerging Markets is a market-cap weighted index representing 26 of the emerging countries in the world.