



Investment Committee

Open Session

March 17, 2011

Open Item 5

A Broader View.

A Sharper Focus.SM



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U.S. Economic Outlook

- ◆ U.S. GDP growth expected to average about 3.9% over the next two years
- ◆ Residential real estate appears to have bottomed, following government stimulus
- ◆ Federal Reserve likely on hold through 2011; may cease further asset purchases

KEY ECONOMIC INDICATORS	2008	Actual 2009	2010	Forecast	
				2011	2012
Gross Domestic Product	0.0%	-2.6%	2.8%	3.8%	4.0%
Civilian Unemployment Rate	5.8%	9.3%	9.6%	9.1%	8.4%
Capacity Utilization	77.9%	70.0%	74.3%	77.6%	79.5%
Housing Permits (millions)	0.896	0.583	0.594	0.638	0.862
New Home Sales (millions)	0.482	0.374	0.321	0.315	0.393
Existing Home Sales (millions)	4.894	5.149	4.918	5.222	5.528
S&P Case-Shiller C-20 (Y/Y)	-15.8%	-11.5%	0.1%	-2.0%	-0.4%
WTI Oil Price	\$99.57	\$61.69	\$79.43	\$104.49	\$130.55
CPI (Y/Y)	0.1%	2.7%	1.5%	2.7%	2.7%
CPI Core (Y/Y)	1.8%	1.8%	0.8%	0.8%	1.6%
Fed Funds Rate	1.88%	0.16%	0.16%	0.16%	1.35%
10-Year Note Yield	3.61%	3.29%	3.14%	3.80%	4.43%

Source of data and commentary: Action Economics

Impact of oil price spike; who gets hurt quickest?

- ◆ Consumers
- ◆ Airlines
- ◆ Transportation
- ◆ Chemicals
- ◆ Financials

Relative Value Decisions for March 2010

Asset Class/Structure	Bias	Recommendation
Treasurys	Underweight	Corporate bonds offer better relative value. Use Treasurys to shorten duration.
Agencies	Underweight	The U.S. Treasury white paper on housing reform strongly reiterated government support for FNMA and FHLMC, reducing volatility and tightening spreads. Valuations remain unattractive.
Corporates: Investment Grade	Overweight	Spread tightening in recent months has moved the sector closer to fair value, yet fundamentals and technicals remain supportive.
Corporates: High Yield	Marketweight	Improving economic data, solid earnings and supportive capital markets are tempered by current valuations and the overhang of geopolitical risks.
Municipals	Marketweight	On a one-year historical basis, municipal yield ratios are fair value across the majority of the curve.
MBS	Marketweight	Low supply and steady demand for AAA-rated spread product will keep valuations range-bound and coupon income the main return driver.
CMBS	Marketweight	Economic growth, spread contraction and renewed CMBS issuance have lowered future loss expectations and provided new opportunities within the sector.
ABS	Marketweight	ABS spreads remain at relatively tight levels and supply is well contained.
Equities	Overweight	Despite rising geopolitical risk in recent weeks, the market remains relatively inexpensive based on 13.8x next twelve months earnings.
Duration	Short	While flight-to-quality flows may moderate any increase in yields in the short term, strong global growth will lead to higher interest rates. Allow duration to shorten.
Yield Curve	Bullet	The Fed's extended low interest-rate policy leads us to recommend a bullet portfolio structure until the timing of a change in Fed policy becomes more certain.