

Financial Market Review and Outlook



Oxford's Investment Strategy Group

March 31, 2008

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Financial Market Weatherscape

Overall Economy		US recession is likely, with Europe just a step behind. Developing economies slow at the margins as export demand declines.
Inflation		Inflation a growing problem worldwide, with food and energy prices hitting consumers' wallets. Economic slowdown may act as a brake.
Credit Environment		Credit spreads continue to widen, but Fed and Treasury now clearly stand behind banks. High-grade corporates offer value to investors.
Earnings		Most consumer-oriented stocks likely to suffer. US exporters benefit from a weak dollar.
Equity Valuations		Earnings yields on stocks remain attractive relative to bonds, though optimism in earnings forecasts presents a risk.
Sentiment		Excessive pessimism historically indicative of buying opportunities.
Technical Factors		Market so far has successfully tested its lows. While still narrow, market breadth is improving.

Source: Oxford Investment Strategy Group

Opinions, estimates, forecasts and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.



Favorable



Unclear



Unfavorable

Investment Outlook

- Last quarter we said that financial markets will remain volatile until there is more clarity on the effects of subprime-related problems, the housing collapse, and corporate earnings.
- The discovery process of subprime-related losses is well underway. Meanwhile the collapse in house prices is ongoing, and the magnitude of declining corporate earnings is unclear.
- The recent wave of airline bankruptcies, while scarcely surprising, may be a harbinger of defaults to come—tight credit markets are taking out the weakest players first. The market is likely to present distressed opportunities soon.
- The 2008 presidential campaign will provide a headwind for stocks, as uncertainty hinders the market.

Investment Outlook

➤ Key investment themes:

- Weakening consumer in the US due to food and fuel inflation, the housing crisis, and high debt burdens. Consumers in Europe (especially the UK and Spain) will feel the same pain on a delay.
- Rapid recovery of the US consumer is unlikely due to high debt burden.
- Business investment and exporters will drive US growth.
- Inflation in Asia generates a policy response, most likely through accelerated currency revaluation.
- Weak dollar benefits large US exporters.
- Commodities remain in a long-term bull market, but near-term retrenchment is likely.
- Distressed opportunities are coming.

Investment Outlook

- We strongly advise exercising discipline and rebalancing portfolios to strategic asset allocation targets.
- Don't try to time this market! Opportunities may emerge later.
- Our tactical recommendations:
 - **Overweight:** domestic large-cap growth, non-dollar securities, and hedge funds;
 - **Underweight:** small-cap equities, domestic high yield fixed income and publicly traded REITS.
 - **Evaluate:** Mix of fixed income assets with an eye to tax considerations and transaction costs. Municipal bonds and high-grade credits look appealing relative to treasuries.

Tactical Asset Allocation Summary

<p>Domestic Large Cap Equities</p>	<p>Overweight. Favor Growth Over Value.</p> <ul style="list-style-type: none"> • Large companies with strong balance sheets are best positioned to weather an economic slowdown. • Scarcity of growth opportunities suggests stocks with growing earnings should fetch a premium. • Valuations remain attractive on a relative basis. • S&P 500 companies generate a significant portion of their revenue and profits overseas, and benefit from a weaker dollar.
<p>Domestic Small Cap Equities</p>	<p>Underweight.</p> <ul style="list-style-type: none"> • Earnings of small-caps are more vulnerable to a domestic economic contraction. • Diminished access to credit markets may limit growth opportunities.
<p>International Equities</p>	<p>Neutral Allocation.</p> <ul style="list-style-type: none"> • Developed markets—especially Europe—trade at a significant P/E discount to the US. Weakening growth in Europe and uncertainty about the future direction of the euro are risks. • Rebalance emerging markets positions to targets. Economies are positioned for further growth, but equity markets are dominated by exporters. Emerging markets currencies remain attractive.

Tactical Asset Allocation Summary

<p>Fixed Income</p>	<p>Neutral Allocation.</p> <ul style="list-style-type: none"> • Fixed income remains valuable for capital preservation, but low yields mitigate long-term total return expectations. Treasuries look expensive. • As spreads have widened, high yield is looking more interesting, though it's still too early to invest. Spreads still haven't reached 2002 levels, and we've seen few defaults; things may get worse before they get better. • High grade credits and municipal bonds offer investors relative value. • Foreign currency denominated issues, particularly in emerging markets, remain attractive. • TIPS are trading outside fair value range. Reallocate to core fixed income managers.
<p>Commodities / Natural Resources</p>	<p>Neutral Allocation. Rebalance to Targets.</p> <ul style="list-style-type: none"> • Asset class delivered strong returns in 2007 and year-to-date. • Oil, gold, and agricultural products have all risen strongly. • Fundamentals underlying commodity prices – historic underinvestment, emerging markets demand – remain strong, but speculative excess is also at work. • Retain strategic position, but take profits. Average into new positions.

Tactical Asset Allocation Summary

<p>Real Estate</p>	<p>Underweight REITs. Neutral on Private Real Estate.</p> <ul style="list-style-type: none"> • Public REITs have been positive YTD, but market doesn't yet seem to be pricing in likely higher vacancies. • Private real estate has held up better, but operators are now facing a more difficult "portfolio realization" environment. • Credit availability and tenant growth are near-term concerns.
<p>Hedge Funds</p>	<p>Overweight Allocation.</p> <ul style="list-style-type: none"> • Generally delivered strong relative returns during the first quarter. • Remain an attractive diversifier and portfolio hedge during uncertain times. • Recent failure of overleveraged players highlights importance of manager selection and diversification.
<p>Private Equity</p>	<p>Neutral Allocation.</p> <ul style="list-style-type: none"> • Opportunities still available for proven managers and those focusing on less efficient strategies. • Experienced, well-capitalized teams likely to find opportunities in distressed assets. • Not an asset class that can be "timed." • Credit availability and portfolio realization a near-term concern.

Periodic Table of Investment Returns

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Q1-2008
Large Cap Value 35.18%	Large Cap Growth 38.71%	Small Cap Growth 43.09%	Real Estate 26.36%	Small Cap Value 14.03%	Core Fixed Income 10.27%	Small Cap Growth 48.54%	Real Estate 31.58%	International Stocks 13.54%	Real Estate 35.06%	Large Cap Growth 11.81%	Core Fixed Income 2.17%
Large Cap Core 33.36%	Large Cap Core 28.58%	Large Cap Growth 33.16%	Small Cap Value 22.83%	Real Estate 13.93%	Real Estate 3.81%	Small Cap Value 46.03%	Small Cap Value 22.25%	Real Estate 12.16%	International Stocks 26.34%	International Stocks 11.17%	Real Estate 2.14%
Small Cap Value 31.78%	International Stocks 20.00%	U.S. Hedge Funds 31.29%	Core Fixed Income 11.63%	Core Fixed Income 8.44%	U.S. Hedge Funds -1.49%	International Stocks 38.59%	International Stocks 20.25%	U.S. Hedge Funds 9.26%	Small Cap Value 23.48%	Small Cap Growth 7.05%	U.S. Hedge Funds -2.78%
Large Cap Growth 30.49%	Large Cap Value 15.63%	International Stocks 26.96%	Large Cap Value 7.01%	U.S. Hedge Funds 4.62%	Small Cap Value -11.43%	Real Estate 37.14%	Large Cap Value 16.48%	Large Cap Value 7.04%	Large Cap Value 22.25%	Core Fixed Income 6.97%	Small Cap Value -6.53%
Real Estate 20.29%	Core Fixed Income 8.70%	Large Cap Core 21.04%	U.S. Hedge Funds 4.98%	Large Cap Value -5.59%	Large Cap Value -15.52%	Large Cap Value 30.03%	Small Cap Growth 14.31%	Large Cap Growth 5.26%	Large Cap Core 15.79%	Large Cap Core 5.49%	Large Cap Value -8.72%
U.S. Hedge Funds 16.79%	U.S. Hedge Funds 2.62%	Large Cap Value 7.35%	Large Cap Core -9.10%	Small Cap Growth -9.23%	International Stocks -15.66%	Large Cap Growth 29.75%	Large Cap Core 10.87%	Large Cap Core 4.91%	Small Cap Growth 13.35%	U.S. Hedge Funds 4.20%	International Stocks -8.91%
Small Cap Growth 12.93%	Small Cap Growth 1.23%	Core Fixed Income -0.82%	International Stocks -14.17%	Large Cap Core -11.88%	Large Cap Core -22.10%	Large Cap Core 28.68%	U.S. Hedge Funds 9.03%	Small Cap Value 4.70%	U.S. Hedge Funds 9.25%	Large Cap Value -0.17%	Large Cap Core -9.44%
Core Fixed Income 9.64%	Small Cap Value -6.46%	Small Cap Value -1.48%	Large Cap Growth -22.42%	Large Cap Growth -20.42%	Large Cap Growth -27.89%	U.S. Hedge Funds 19.56%	Large Cap Growth 6.30%	Small Cap Growth 4.14%	Large Cap Growth 9.07%	Small Cap Value -9.78%	Large Cap Growth -10.18%
International Stocks 1.78%	Real Estate -17.51%	Real Estate -4.62%	Small Cap Growth -22.43%	International Stocks -21.44%	Small Cap Growth -30.26%	Core Fixed Income 4.11%	Core Fixed Income 4.34%	Core Fixed Income 2.43%	Core Fixed Income 4.33%	Real Estate -17.55%	Small Cap Growth -12.83%

- Performance of Large Cap Core (large capitalization U.S. stocks) is measured using the S&P 500 Index
- Performance of Large Cap Growth (large cap U.S. stocks utilizing growth style investing) is measured using the Russell 1000 Growth Index
- Performance of Large Cap Value (large cap U.S. stocks utilizing value style investing) is measured using the Russell 1000 Value Index
- Performance of Small Cap Growth (small cap U.S. stocks utilizing growth style investing) is measured using the Russell 2000 Growth Index
- Performance of Small Cap Value (small cap U.S. stocks utilizing value style investing) is measured using the Russell 2000 Value Index
- Performance of International Stocks (non U.S. stocks) is measured by the MSCI EAFE Index--a Morgan Stanley Capital International Index of the developed stock markets of Europe, Australia, and the Far East
- Performance of Core Fixed Income (U.S. corporate and government bonds) is measured using the Lehman Brothers Aggregate Bond Index
- Performance of Real Estate (Real Estate Investment Trusts) is measured using the NAREIT Index
- Performance of U.S. Hedge Funds is measured using the HFR Fund Weighted Composite Index prior to 2006, beyond that date the performance of Hedge Funds is measured using the HFRX Global Hedge Fund Index.

Financial Market Review

- 2008's first quarter will be remembered more for the extraordinary actions of US market regulators than for the gyrations of the equity and credit markets.
 - January 22 – following massive losses in overseas markets on the Martin Luther King Jr. holiday, the Fed cuts rates 75 basis points before the market opens. The Dow falls just 128 points, a fraction of what investors dreaded.
 - In March, fearing the ramifications of a collapse of a major investment bank, the Fed and the Treasury broker a weekend deal to rescue Bear Stearns via a sale to JPMorgan Chase.
 - On March 16, in a Sunday night announcement, the Fed announces the opening of its discount window to non-depository institutions for the first time since the Great Depression.
 - On March 28, the SEC sends a letter to banks and other corporations suggesting they back away from fair value accounting.

Financial Market Review

➤ Skepticism abounds...

- Moral hazard and inflation are watchwords for “Helicopter Ben’s” critics.
- Main Street cries foul, but may be mollified by stimulus checks and Barney Frank’s housing plan.

➤ ...but action was required to preserve confidence.

- The Fed has made clear that it intends to act swiftly and decisively to keep the market functioning.
- Bernanke, a serious student of both the Great Depression and Japan, is anxious to avoid the mistakes of the Depression-era Fed and the Japanese monetary authorities.
- Acknowledging the risk of inflation, the Fed has focused on economic growth.

Financial Market Review

- Credit and equity markets in turmoil...
 - Market for auction-rate securities, formerly regarded as cash-like, dries up.
 - Equity markets sell off worldwide, with financials leading the way; emerging markets return to earth.
 - Overleveraged players, including some hedge funds and private equity operators—even countries like Iceland and the Baltics—run into trouble.

- ...create opportunities for disciplined investors.
 - Municipal bonds offer yields above taxable treasuries, an inverse of the normal relationship. Many investment-grade corporates look attractive.
 - While the future direction of corporate earnings and equity markets is uncertain, a disciplined rebalancing strategy takes advantage of volatility.
 - Diversified hedge funds with prudent levels of leverage offer an advantage in volatile markets.
 - Experienced private equity and real estate managers look for value in distressed assets and forced sales.

Stocks Down Across Styles

Returns by Style – Domestic Equities

Q1 2008

	Value	Blend	Growth
Large	-8.7	-9.5	-10.2
Mid	-8.6	-10.0	-11.0
Small	-6.5	-9.9	-12.8

2007

	Value	Blend	Growth
Large	-0.2	5.8	11.8
Mid	-1.4	5.6	11.4
Small	-9.8	-1.6	7.1

Since Market Low (October 2002)*

	Value	Blend	Growth
Large	14.1	12.3	10.4
Mid	17.0	17.0	16.6
Small	15.1	15.1	15.0

Since Market Peak (March 2000)*

	Value	Blend	Growth
Large	5.6	0.2	-5.4
Mid	11.0	5.9	-2.6
Small	10.9	3.6	-3.3

* Returns annualized

Source: Russell Investment Group

Financials Still Suffer; Consumer Staples Play Defense

Domestic - Returns by Sector*

	Financials	Technology	Energy	Industrials	Health Care	Cons. Staples	Cons. Disc.	Utilities	Materials	Telecom	S&P 500 Index
S&P Weight	16.8%	15.7%	13.3%	12.2%	11.7%	11.1%	8.7%	3.6%	3.6%	3.4%	100%
Q1 2008	-14.7	-15.4	-7.5	-4.5	-11.9	-2.8	-6.2	-10.7	-3.5	-14.5	-9.4
2007	-20.8	8.5	32.4	9.8	5.4	11.6	-14.3	15.8	20.0	8.5	5.5
Forward P/E Ratio	11.7x	16.9x	10.6x	14.8x	13.6x	15.5x	15.6x	14.8x	15.2x	12.9x	13.7x

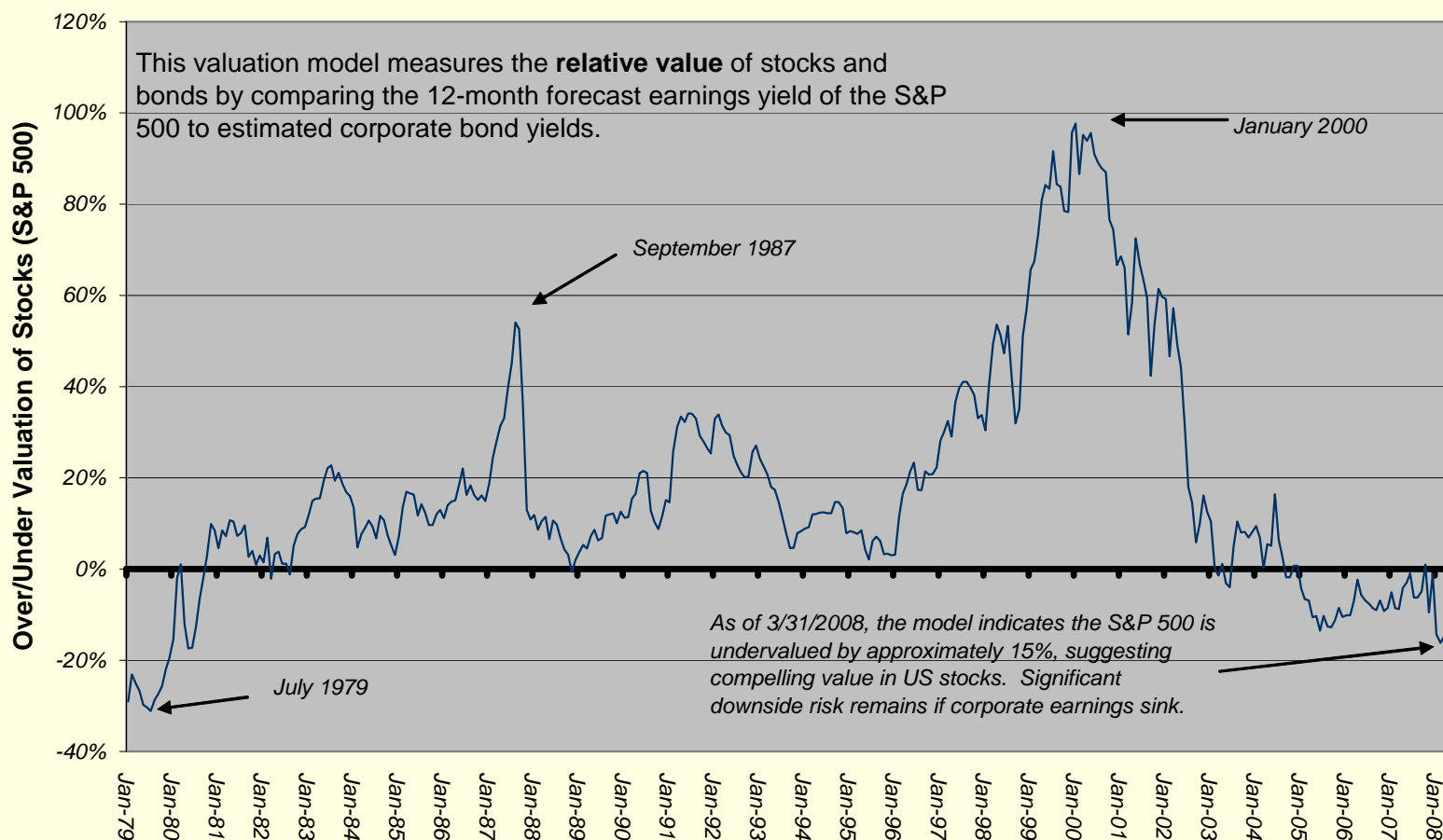
*Individual sector returns exclude dividends.

Past performance is not indicative of future returns.

Source: Standard & Poor's

Stocks Trade Below Fair Value, But How Resilient Are Earnings?

Timeline 1979-Present



Source: Data obtained from S&P, Thomson Financial, and Federal Reserve Bank of St. Louis.

U.S. Pain Is Shared Worldwide

DEVELOPED MARKETS

Returns in US \$

<i>Country/Region</i>	<i>Q1 2008</i>	<i>2007</i>	<i>1 year</i>	<i>3 year</i>	<i>5 year</i>	<i>10 year</i>
MSCI World ex-US	-8.7%	12.4%	-1.3%	13.9%	21.8%	6.5%
United Kingdom	-10.5%	8.4%	-5.9%	10.3%	18.6%	4.5%
Europe ex-UK	-7.8%	16.7%	3.2%	17.2%	25.3%	7.5%
Japan	-7.8%	-4.2%	-14.7%	6.4%	15.0%	3.4%
Pacific ex-Japan	-13.0%	30.7%	5.9%	19.4%	26.0%	11.0%
Canada	-6.1%	29.6%	17.9%	21.1%	27.0%	12.3%
S&P 500 (United States)	-9.4%	5.5%	-5.1%	5.9%	11.3%	3.5%

Past performance is not indicative of future returns.

Source: MSCI, Standard & Poor's

Emerging Markets Recouple

EMERGING MARKETS

Returns in US \$

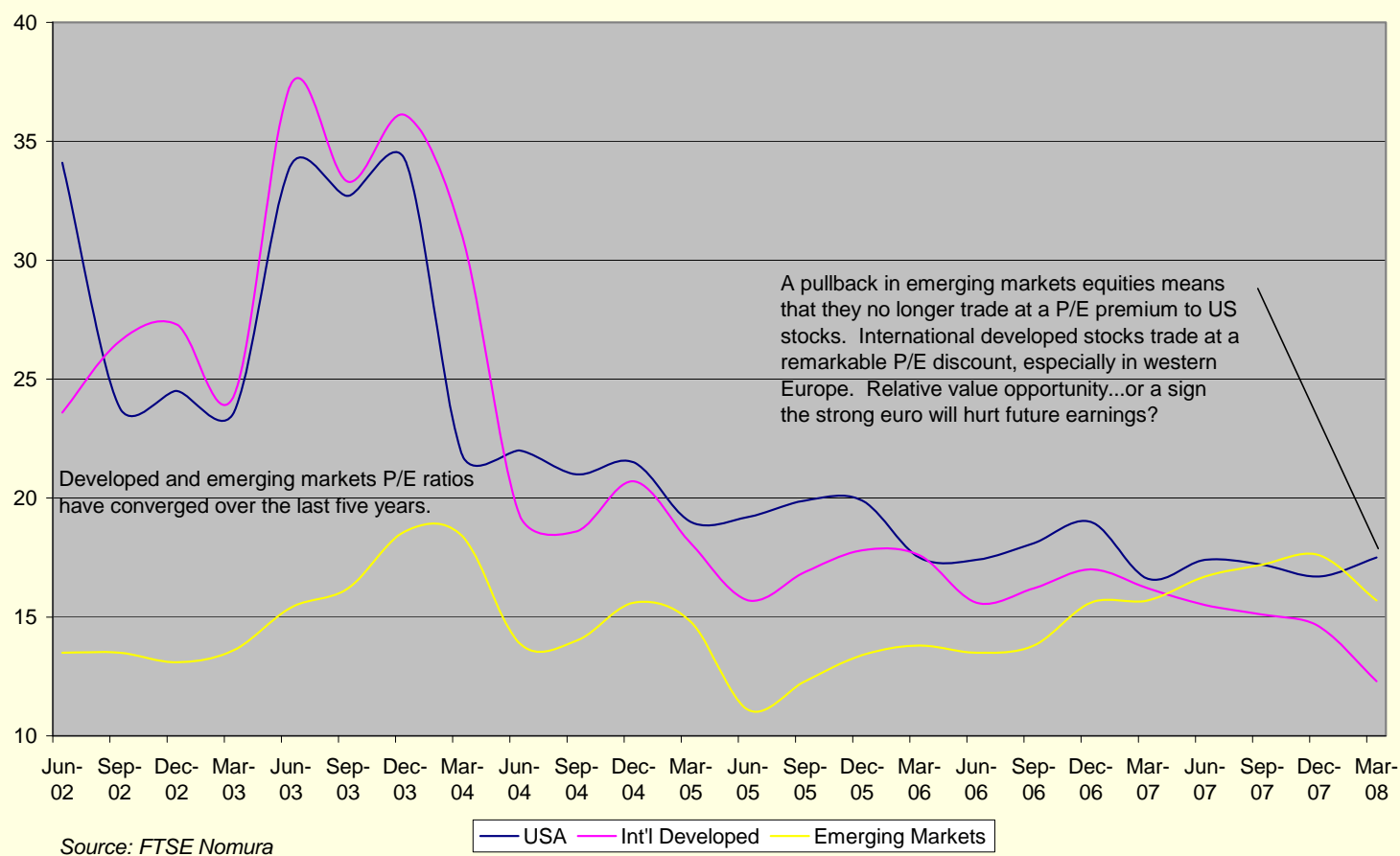
<i>Country/Region</i>	<i>Q1 2008</i>	<i>2007</i>	<i>1 year</i>	<i>3 year</i>	<i>5 year</i>	<i>10 year</i>
MSCI Emerging Markets	-11.0%	39.4%	21.3%	29.2%	35.5%	12.5%
Korea	-13.1%	31.9%	11.7%	22.0%	32.3%	23.4%
Taiwan	5.3%	8.4%	17.9%	14.7%	18.3%	1.8%
Brazil	-5.0%	79.6%	60.7%	54.6%	60.6%	18.6%
Russia	-11.5%	24.5%	13.6%	41.2%	41.1%	16.9%
China	-23.7%	66.2%	29.8%	40.8%	40.1%	4.7%
South Africa	-15.0%	18.1%	-6.2%	18.8%	28.8%	10.9%
Mexico	5.1%	12.2%	11.2%	36.5%	39.1%	17.7%
India	-27.0%	73.1%	30.8%	39.1%	44.0%	18.1%
MSCI World Index (All Developed Markets)	-9.1%	9.0%	-3.3%	9.7%	16.0%	4.6%

Past performance is not indicative of future returns.

Source: MSCI

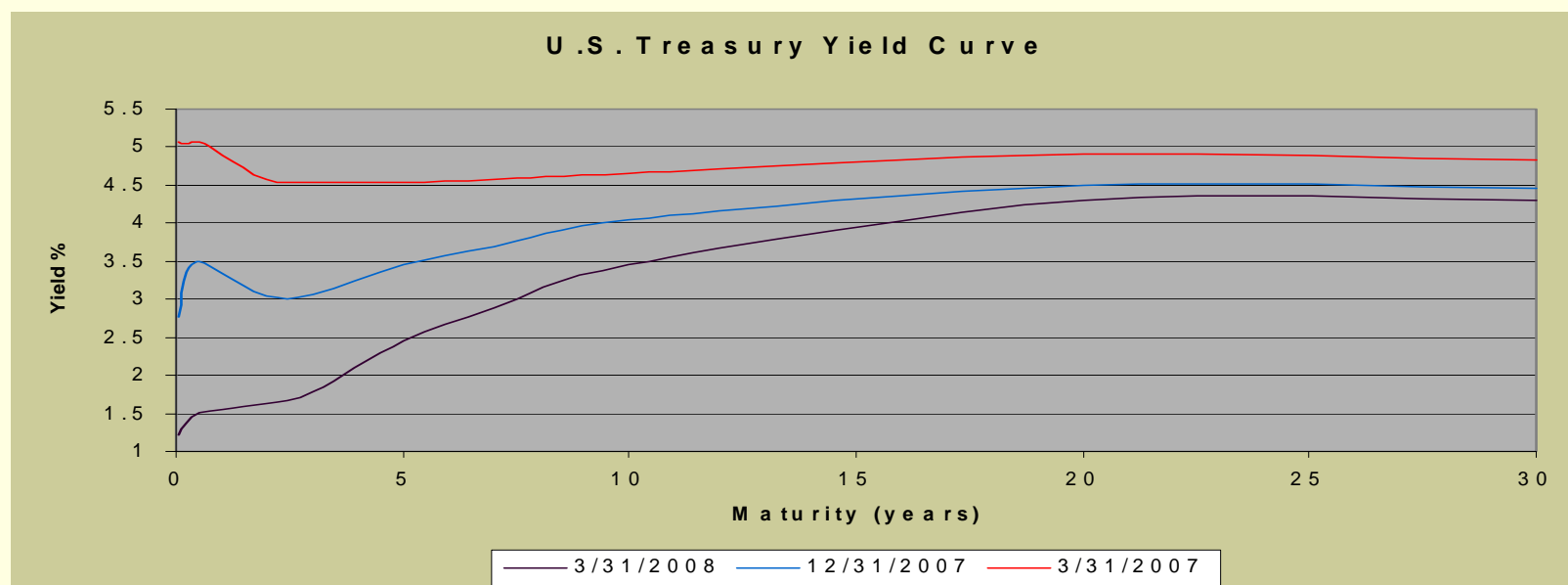
Developed Market P/E Ratios Signal Currency Pressure

World Markets - Trailing Price/Earnings Ratios



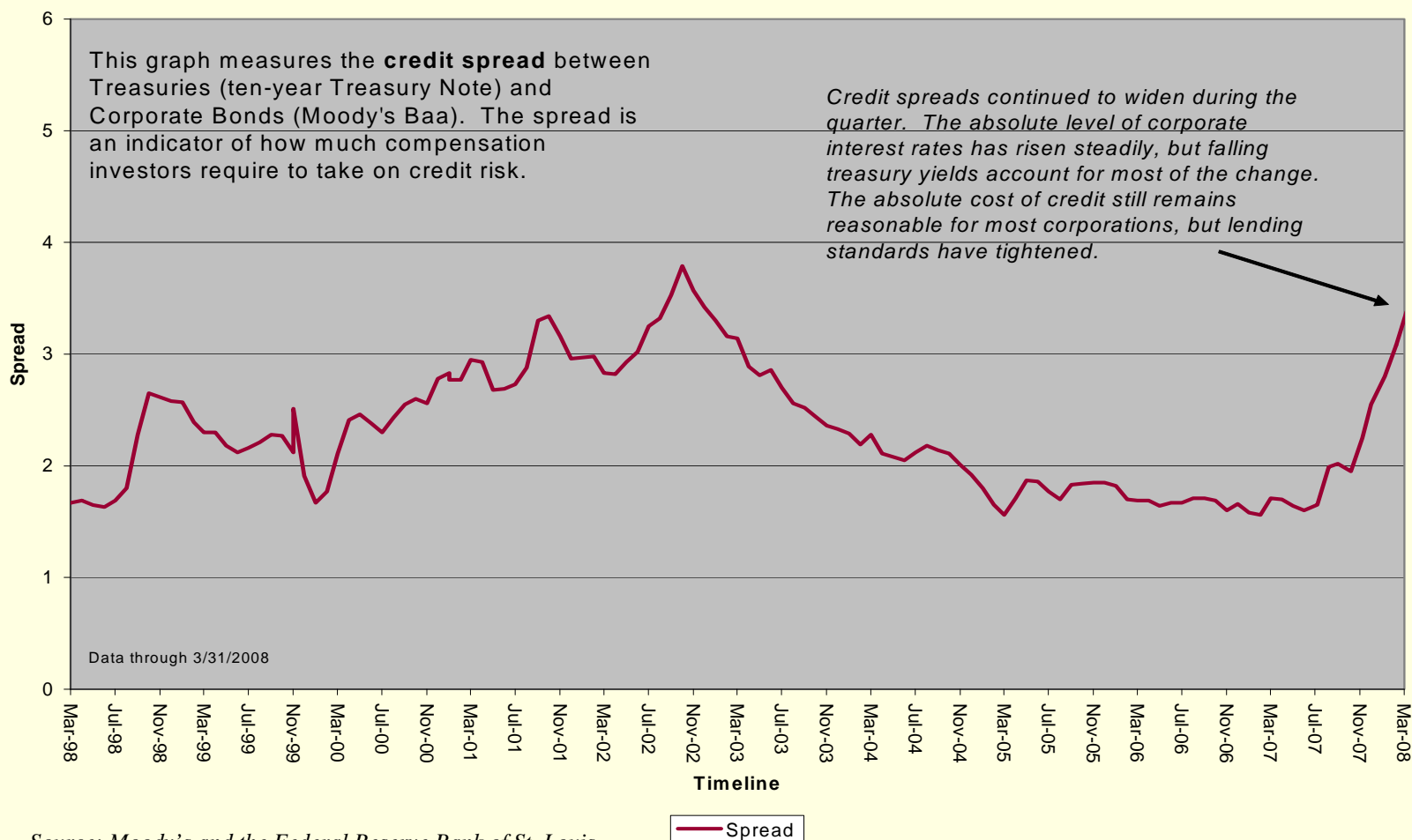
High Yield Struggles; International Bonds Deliver

Benchmarks	Fixed Income Returns					
	Q1 2008	2007	1 year	3 year	5 year	10 year
Lehman Brothers 1 - 3 Year US Govt/Credit	2.7%	6.8%	8.2%	5.3%	3.8%	5.1%
Lehman US Aggregate	2.2%	7.0%	7.7%	5.5%	4.6%	6.0%
Lehman Brothers Long US Govt/Credit	0.8%	6.6%	6.4%	5.1%	5.5%	6.9%
Lehman TIPS	5.2%	11.6%	14.5%	6.8%	6.8%	8.0%
Lehman 5 Year Municipal Bond	1.9%	5.2%	6.2%	4.2%	3.4%	4.7%
Lehman Brothers High Yield	-3.0%	1.9%	-3.7%	4.9%	8.6%	4.5%
JPMorgan Non-US Govt Bond Global Unhedged	11.0%	11.3%	22.2%	7.3%	9.0%	7.3%



Past performance is not indicative of future returns.

Credit Spreads on the Rise as Treasury Yields Fall



Source: Moody's and the Federal Reserve Bank of St. Louis.

Hedge Funds Offer Downside Protection

Hedge Funds (as of 3/31/2008)	Q1 2008	2007	2006	2005	2004
HFRX Global Hedge Fund Index	-2.8%	4.2%	9.3%	2.7%	2.7%
Convertible Arbitrage Index	-5.9%	-1.0%	9.6%	-5.7%	-0.1%
Distressed Securities Index	-2.3%	4.0%	9.6%	1.2%	9.0%
Equity Hedge Index	-4.8%	3.2%	9.2%	4.2%	2.2%
Equity Market Neutral Index	0.0%	3.1%	4.8%	0.2%	0.3%
Event Driven Index	-3.2%	4.9%	10.3%	2.8%	6.9%
Macro Index	9.3%	3.2%	5.6%	6.7%	-0.3%
Merger Arbitrage Index	0.2%	4.9%	10.7%	3.7%	2.8%
Relative Value Arbitrage Index	-8.0%	5.8%	10.7%	-1.0%	2.0%
Real Estate (as of 12/31/07)		2007	2006	2005	2004
NCREIF Property Index	n/a	15.8%	16.6%	20.1%	14.5%
Apartment	n/a	11.4%	14.6%	21.2%	13.0%
Industrial	n/a	14.9%	17.0%	20.3%	12.1%
Office	n/a	20.5%	19.2%	19.5%	12.0%
Retail	n/a	13.5%	13.4%	20.0%	23.0%
Private Equity (as of 9/30/07)		YTD	2006	2005	2004
Cambridge U.S. Venture Capital Index	n/a	12.0%	17.6%	8.0%	15.4%
Cambridge U.S. Private Equity Index (LBO)	n/a	15.9%	25.8%	27.6%	24.4%

Past performance is not indicative of future returns.

Source: Hedge Fund Research; NCREIF; Cambridge Associates