



Second Quarter 2010 Investment Commentary

The optimism of the first quarter gave way to renewed fears of recession and market weakness in the second quarter as investors retreated to the relative safety of cash and bonds. Concerns regarding the ability of Greece and other southern European nations to repay their sovereign debts, the weakening tone of economic data in the U.S. and the possible cooling of the Chinese economy caused a major retreat in equities across the board, erasing all gains made earlier in the year and pushing equities into negative territory for 2010. For the quarter, the S&P 500 Index declined -11.4% while the developed market international EAFE Index fell -13.7%. While also weak, the MSCI Emerging Markets Index held up relatively well at -8.3% on the quarter. The combination of more robust economic growth and the lower debt burdens of their consumers and governments suggests that this relative strength may be sustained for some time. The Russell Mid Cap Index (-9.9%) and Russell 2000 (small-cap) Index (-9.9%) held up slightly better than large cap equities. Larger companies typically have a greater percentage of their earnings from non-U.S. markets and the 14% decline in the euro so far this year is likely to put pressure on repatriated earnings. The declining euro is also partly to blame for the weakness in the EAFE Index: for the first six months of 2010, EAFE is down -12.9% in U.S dollars but down only -7.0% in local currency terms. In contrast to equities, fixed income assets rallied in the second quarter. The investment grade Barclays Capital U.S. Aggregate Bond Index returned 3.5% for the quarter while the Barclays Capital U.S. Treasury Index was up 4.7%. The bid for risk assets was notably diminished as the Corporate High Yield Index fell -0.1% for the quarter.¹

For the second quarter and trailing twelve month period, your results are as follows:

<u>*UMFNE Stock & Fixed Income Pools</u>	<u>2nd Quarter</u>	<u>Year-to-Date</u>	<u>3 Year</u>	<u>5 Year</u>
100% Stock Pool	-11.31%	-7.12%	-9.15%	0.35%
Net of Fees	-11.65%	-7.80%	-10.50%	-1.00%
Custom Index	-11.67%	-7.48%	-9.91%	-0.29%
S & P 500	-11.43%	-6.65%	-9.81%	-0.79%
100% Fixed Income Pool	2.57%	3.94%	6.90%	5.48%
Net of Fees	2.32%	3.44%	5.90%	4.48%
Barclays Int. Gov/Credit Index	2.97%	4.56%	6.96%	5.26%

Although the economy continues to expand, the pace of the U.S. economic recovery predictably slowed in the second quarter as impact of the government fiscal stimulus was diminished. Specifically, with the expiration of the tax credit for first time home buyers, home purchases slowed.² Temporary census workers have completed their work, adding to roles of the unemployed. Furthermore, credits for car purchases expired last year and Congress has recently opted not to extend unemployment benefits. Accordingly, while government stimulus programs are still being implemented, continued economic

¹ Source: Thomson One

² Source: Hanley Wood Market Intelligence

recovery clearly is now more dependent on the private sector. Unemployment remains stubbornly high as the most recent reading of 9.5% was more reflective of discouraged job seekers abandoning their search rather than individuals finding employment. Against this backdrop, cautious consumers continue to save more and pare down their debts. Our sluggish recovery does have a silver lining: the exceptionally low interest rates have made the cost of debt service, for individuals, corporations and governments, more affordable. The household debt service ratio fell from a peak of 14.0% of disposable personal income in 2007 to 12.5% as of the most recent reading, reflecting this trend.³

Outside the developed markets of the U.S. and Europe, the economic picture is less glum. Emerging economies, particularly in Asia and Latin America, with their younger populations, lower indebtedness, and nascent consumer markets, have the flexibility to sustain their growth financed by their savings. Unlike many developed countries that have debt to GDP ratios well in excess of 60%, emerging economies have debt to GDP ratios of approximately 30%, on average, according to the International Monetary Fund (IMF). Likewise, real GDP growth in the developing world is expected to be in the high single digits versus 1% to 3% for the developed economies. China, about to surpass Japan as the world's second largest economy, recently announced that it would allow its currency to appreciate relative to the U.S. dollar, to which it has been set at a fixed rate since mid-2008. The timing of the announcement, just before a G-20 summit meeting in Toronto, suggests that it was done as much for political reasons as financial ones. However, the new policy should help to make U.S. goods more competitive in China and improve the skewed balance of trade between the two nations.

The environmental and psychological impact of the oil disaster in the Gulf of Mexico may be impossible to measure, but it surely contributed to the depressed tone of our second quarter. Success in capping the leaking well would likely give at least a temporary psychological lift to the markets. However, it is increasingly evident that the U.S. continues to be in need of a comprehensive energy policy that reduces our dependence on fossil fuels in general and imported oil especially. On a relative basis, the economic expansion is likely to be stronger in the emerging markets of the world, notably China, Brazil and India than in the U.S. and other debt-heavy developed nations. Our investment mantra for both debt and equity investments remains: go where the growth is and the debt is not. In summary, a global, diversified investment strategy continues to be appropriate in the current environment. We appreciate your loyalty to the Foundation and we welcome your feedback on our correspondence

Sincerely,

Kimberly D. Gluck CFA
UMFNE Investment Committee
July, 2010

* The actual performance of individual customer accounts will be impacted by fees, deposits, withdrawals and timing of investments, and may not reflect the performance described in UMFNE's Pools.

³ Source: Federal Reserve Board <http://www.federalreserve.gov/releases/housedebt/>