



Hewitt Investment Group LLC | Second Quarter 2009

Summary Performance Review and
Investment Manager Evaluation

Texas Hospital Association Retirement Plan

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Hewitt

Summary Performance Review and
Investment Manager Evaluation

**Texas Hospital Association
Retirement Plan**

Second Quarter 2009

THA Master Trust

Investment Objectives

The Trustees will evaluate the performance of the pension investment program and its investment managers with respect to the stated objectives and in the context of a five-year time horizon.

Total Fund

The total fund's annualized total return should:

- Exceed the annualized total return of the following customized index:
 - Standard and Poor's 500 Stock Index (50% weight)
 - Russell 2000 Stock Index (15% weight)
 - MSCI Europe, Australia, Far East (EAFE) Index (10% weight)
 - Barclays Capital Aggregate Bond Index (25% weight)

Active Large Cap U.S. Equity Portfolio (Growth)

- Exceed the annualized total return of the Russell 1000 Growth Index.

Active Large Cap U.S. Equity Portfolio (Value)

- Exceed the annualized total return of the Russell 1000 Value Index.

Passive Large Cap U.S. Equity Portfolio

- Match the return of the Standard & Poor's 500 within 0.10 percent on an annual basis.

Active Small Cap U.S. Equity Portfolio

- Exceed the annualized total return of the Russell 2000 Stock Index.

Passive Small Cap U.S. Equity Portfolio

- Match the return of the MSCI U.S. Small Cap 1750 Index within 0.30 percent on an annual basis.

Active Small Cap Growth U.S. Equity Portfolio

- Exceed the annualized total return of the Russell 2000 Growth Stock Index.

Active International Equity Portfolio

- Exceed the annualized total return of the EAFE Index.

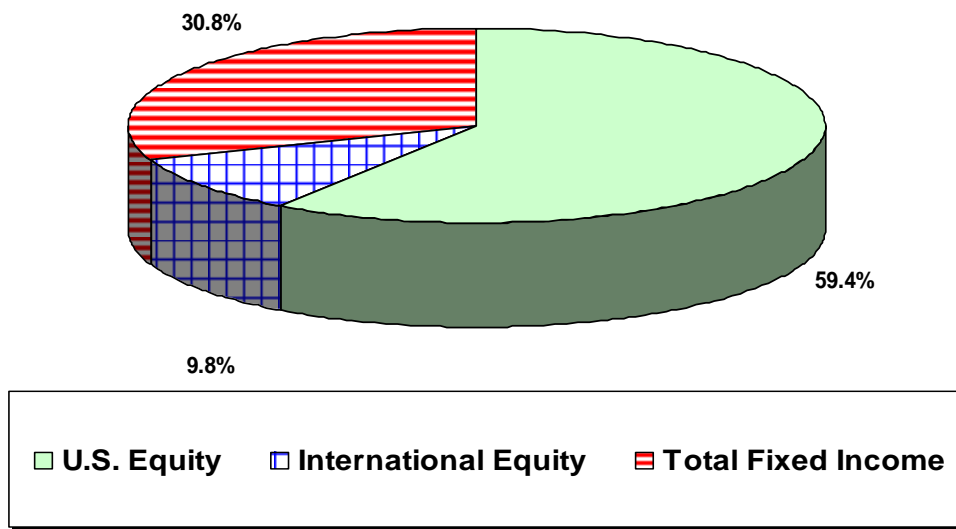
Passive Fixed Income Portfolio

- Match the return of the Barclays Capital Aggregate Bond Index within 0.20 percent on an annual basis.

THA Master Trust Investment Structure

June 30, 2009

Investment Portfolio	Target	June 30, 2009	
		Assets (\$ MM)	Percent of Portfolio
U.S. Equity			
State Street S&P 500 Index Fund	25.0%	\$71.0	21.8%
BHM&S	12.5%	38.3	11.8%
Gardner Lewis	12.5%	38.3	11.8%
Vanguard Small Cap Index	5.0%	15.5	4.8%
Thomson Horstmann & Bryant	5.0%	14.8	4.6%
Cadence	<u>5.0%</u>	<u>15.3</u>	<u>4.7%</u>
Total U.S. Equity	65.0%	\$193.2	59.4%
International Equity			
Dodge & Cox Int'l Stock	5.0%	\$15.7	4.8%
Morgan Stanley Int'l Equity Trust	<u>5.0%</u>	<u>\$16.2</u>	<u>5.0%</u>
Total International Equity	10.0%	\$31.9	9.8%
U.S. Fixed Income			
State Street BC Aggregate Index Fund	} <u>25.0%</u>	\$91.7	28.2%
Cash Account		<u>8.4</u>	<u>2.5%</u>
Total U.S. Fixed Income		\$100.0	30.8%
Total Plan	100.0%	\$325.0	100.0%



THA Master Trust Performance Summary

June 30, 2009

Investment Portfolio	2 nd Quarter	YTD	1-Year	3-Years	5-Years	10-Years
THA Composite Fund	11.92%	4.35%	-18.47%	-4.03%	0.62%	1.31%
<i>Custom Benchmark</i>	13.97%	3.65%	-18.79%	-4.56%	0.41%	1.22%
U.S. Equity						
State Street S&P 500 Index Fund	15.94%	3.22%	-26.10%	-8.15%	-2.15%	-2.16%
<i>S&P 500 Index</i>	15.93%	3.16%	-26.22%	-8.22%	-2.24%	-2.22%
BHM&S ¹	15.33%	-1.51%	-24.64%	-8.66%	-	-
<i>Russell 1000 Value Index</i>	16.70%	-2.87%	-29.03%	-11.11%	-2.13%	-0.15%
Gardner Lewis	19.62%	17.33%	-33.03%	-8.95%	-3.71%	-
<i>Russell 1000 Growth Index</i>	16.32%	11.53%	-24.50%	-5.45%	-1.82%	-4.18%
Vanguard Small Cap Index ²	24.23%	7.50%	-25.03%	-8.90%	-	-
<i>MSCI U.S. Small Cap 1750 Index</i>	24.10%	7.32%	-25.37%	-9.13%	-0.80%	4.39%
Thomson Horstmann & Bryant	24.16%	11.37%	-30.54%	-11.11%	-1.24%	5.05%
<i>Russell 2000 Index</i>	20.69%	2.64%	-25.01%	-9.89%	-1.71%	2.38%
Cadence ³	14.27%	-3.81%	-35.63%	-	-	-
<i>Russell 2000 Growth Index</i>	23.38%	11.36%	-24.85%	-7.83%	-1.33%	-0.89%
International Equity						
Dodge & Cox Int'l Stock ⁴	33.56%	16.44%	-29.58%	-6.72%	-	-
Morgan Stanley Int'l Equity Trust	18.71%	3.27%	-24.76%	-4.22%	3.32%	-
<i>MSCI EAFE Index</i>	25.43%	7.95%	-31.36%	-7.97%	2.31%	1.18%
U.S. Fixed Income						
State Street BC Aggregate Index Fund	1.81%	1.92%	6.08%	6.45%	5.01%	5.94%
<i>BC Aggregate Bond Index</i>	1.78%	1.90%	6.05%	6.43%	5.01%	5.98%

- **State Street S&P 500 Index Fund** – seeks to track the performance of the S&P 500 Index. Invests in the same large cap stocks that comprise the index.
- **BHM&S** – invests in stocks of medium-to-large sized companies whose valuation level is considered attractive by the firm's investment staff. Investment objective is to outperform the Russell 1000 Value Index. Barrow Hanley lagged the index by 1.37% over the second quarter but leads by 1.36% year-to-date. Holdings in financials, consumer staples and energy sectors added to performance for the quarter, while the fund's Bristol-Myers Squibb and Microsoft holdings detracted from results.
- **Gardner Lewis** – invests in stocks of medium-to-large sized companies considered by the firm's investment staff to have favorable prospects for revenue and earnings growth. Seeks to outperform Russell 1000 Growth Index. Gardner Lewis continues to outperform the benchmark in 2009, returning 19.62% over the second quarter and leading the Russell 1000 Growth Index by 5.80% year-to-date. The fund benefited from stock selection in financials, as well as an overweight to that sector.
- **Vanguard Small Cap Index** – A small cap fund designed to track the MSCI Small Cap 1750 Index – a slightly broader index in terms of capitalization than the Russell 2000 Index.
- **Thomson Horstmann & Bryant** – invests in stocks of small-to-medium sized companies whose valuation level is considered attractive by the firm's investment staff. Seeks to exceed the return of the Russell 2000 Index. TH&B beat its benchmark by 3.47% during the second quarter and has outperformed by 8.73% year-to-date. The fund's energy and industrials holdings performed best over the quarter.

¹ ICAP was terminated on 12/17/2004. State Street managed the account transition over to Barrow, Hanley, Mewhinney & Strauss effective 01/01/2005.

² THARP's inception in the Vanguard Small Cap Index was 12/02/2005.

³ THARP's inception in the Cadence small cap growth portfolio was 12/03/2007.

⁴ THARP's inception in the Dodge & Cox Int'l Stock fund was 06/06/2006.

THA Master Trust Performance Summary

June 30, 2009

- **Cadence** – invests in stocks of small sized companies whose valuation and growth prospects are considered favorable by the firm’s investment staff. Seeks to exceed the return of the Russell 2000 Growth Index. Cadence performed strongly over the second quarter, but did not exceed the soaring Russell 2000 Growth Index. Cadence returned 14.27% for the quarter, while the index gained 23.38%. Year-to-date Cadence trails by 15.17%. Greatest detractors to relative performance came from the fund’s health care and information technology holdings.
- **Dodge and Cox** – invests in non-U.S. equities, primarily in companies that appear to be temporarily undervalued, but have a favorable outlook for long-term growth. Dodge and Cox exceeded the MSCI EAFE Index by 8.13% over the second quarter and leads year-to-date by 8.49%. The fund’s holdings and overweight positions in information technology, as well as holdings in financials, boosted relative performance.
- **Morgan Stanley** – invests in non-U.S. equities with desirable value characteristics and diversified across many different countries. Morgan Stanley underperformed the MSCI EAFE Index over the second quarter by 6.72% and lags year-to-date by 4.68%. Stock selection and an underweight to the best performing sector, financials, was the most significant detractor from performance. An average of 5% in cash was also a negative factor for the portfolio.
- **State Street BC Aggregate Index Fund** – fixed income index fund seeks to track the performance of the Barclays Capital Aggregate Bond Index. This strategy involves an efficient sampling of the over 9,000 securities in the index.

THA Master Trust Top Ten Holdings

June 30, 2009

State Street S&P 500 Index Fund¹

Top Ten Equity Holdings	% of Equity
Exxon Mobil Corp	4.24%
Microsoft Corp	2.26%
Johnson & Johnson	1.94%
Procter & Gamble Co	1.85%
AT&T Inc	1.82%
IBM	1.71%
JPMorgan Chase & Co	1.65%
Chevron Corp	1.65%
Apple Inc	1.58%
General Electric Co	<u>1.54%</u>
Total	20.25%

Thomson Horstmann & Bryant

Top Ten Equity Holdings	% of Equity
Eagle Materials Inc	2.58%
Inverness Med Innovatiion	1.84%
VCA Antech Inc	1.74%
Darling Intl Inc	1.73%
Clarcor Inc	1.61%
Landstar Sys Inc	1.60%
Anixter Intl Inc	1.60%
Macrovision Solutions	1.58%
Valueclick Inc	1.57%
Forward Air Corp	<u>1.47%</u>
Total	17.31%

BHM&S

Top Ten Equity Holdings	% of Equity
Occidental Pete Corp	4.84%
Bristol Myers Squibb	4.01%
Wyeth	3.58%
Wellpoint Inc.	3.54%
AT&T Inc	3.35%
Pfizer Inc	3.32%
IBM	3.10%
Verizon Communications	3.01%
Honeywell Intl Inc	2.94%
Illinois Tool Works Inc	<u>2.86%</u>
Total	34.56%

MSCI Small Cap 1750 Index²

Top Ten Equity Holdings	% of Equity
Genworth Finl Inc	0.30%
Brocade Communications	0.30%
Dendreon Corp	0.28%
F5 Networks Inc	0.27%
On Semiconductor Corp	0.27%
Msci Inc	0.24%
AGL Res Inc	0.24%
Atmos Energy Corp	0.23%
Aeropostale	0.23%
Aptargroup Inc	<u>0.23%</u>
Total	2.60%

Gardner Lewis Asset Management

Top Ten Equity Holdings	% of Equity
Bank of America Corp	4.72%
Humana Inc	3.65%
Goldman Sachs Group Inc	3.64%
Apple Inc	3.05%
Gilead Sciences Inc	2.73%
CME Group Inc	2.73%
Teva Pharmaceutical Inc	2.71%
Liberty Media Corp	2.68%
CVS Caremark Corp	2.66%
Qualcomm Inc	<u>2.65%</u>
Total	31.21%

Cadence

Top Ten Equity Holdings	% of Equity
Medicis Pharmaceutical	1.49%
Starent Networks Corp	1.43%
Stanley Inc	1.42%
Onyx Pharmaceuticals	1.38%
IPC Hldgs Ltd	1.38%
Syniverse Hldgs Inc	1.38%
Microsemi Corp	1.36%
Atheros Communications	1.35%
Platinum Underwriter	1.33%
Knight Capital Group	<u>1.33%</u>
Total	13.85%

¹ The S&P 500 Stock Index is used as a proxy for State Street S&P 500 Index Fund.

² The MSCI Small Cap 1750 Index is being used as a proxy for the Vanguard Small Cap Index Fund.

THA Master Trust Top Ten Holdings (continued)

June 30, 2009

Morgan Stanley Int'l Equity Trust

Top Ten Equity Holdings	% of Portfolio
Brit Amer Tobacco	4.15%
Nestle SA	4.05%
Unilever NV	3.91%
Reckitt Benck Grp	3.80%
Imperial Tobacco	3.80%
Vodafone Group	2.34%
EDF	2.19%
Roche Hldgs AG	2.16%
Bayer AG	2.10%
T&D Holdings Inc	<u>2.09%</u>
Total	30.59%

Dodge & Cox

Top Ten Equity Holdings	% of Equity
Lafarge	3.46%
Naspers	3.41%
Novartis A G	3.14%
Standard Chartered	2.61%
Schneider Electric	2.59%
Schlumberger Ltd	2.55%
HSBC Hldgs	2.50%
Credit Suisse Grp	2.37%
Standard Bk GR Ltd	2.33%
Nokia Oyj	<u>2.33%</u>
Total	27.29%

THA Participant-Directed Investment Objectives

The Investment Committee will review performance of the participant-directed plan investment managers with respect to the stated objectives and in the context of a three- to five-year time horizon.

Core Investment Options

Money Market Fund

- ▣ Exceed the annualized total return of the 90-Day Treasury Bill Index

Stable Value Fund/Fixed Interest Account

- ▣ Exceed the annualized total return of the Five-Year Constant Maturity Treasury Index

Intermediate Core Bond Fund

- ▣ Exceed the annualized total return of the Barclays Capital Aggregate Bond Index

Inflation-Protected Bond Fund

- ▣ Exceed the annualized total return of the Barclays Capital U.S. Treasury Inflation Notice Index

Balanced Fund

- ▣ Exceed the annualized total return of 60% S&P 500 Index/40% Barclays Capital Aggregate Bond Index

Large Cap Index Equity Fund

- ▣ Exceed the annualized total return of the S&P 500 Index.

Large Cap Value Equity Fund

- ▣ Exceed the annualized total return of the Russell 1000 Value Index

Large Cap Blend Equity Fund

- ▣ Exceed the annualized total return of the S&P 500 Index.

Large Cap Growth Equity Fund

- ▣ Exceed the annualized total return of the Russell 1000 Growth Index

Mid Cap Value Equity Fund

- ▣ Exceed the annualized total return of the Russell Mid Cap Value Index

Mid Cap Growth Equity Fund

- ▣ Exceed the annualized total return of the Russell 2500 Growth Index

THA Participant-Directed (continued)

Investment Objectives

International Equity Fund

- Exceed the annualized total return of the MSCI EAFE Index

Emerging Markets Equity Index

- Exceed the annualized total return of the MSCI Emerging Markets Index

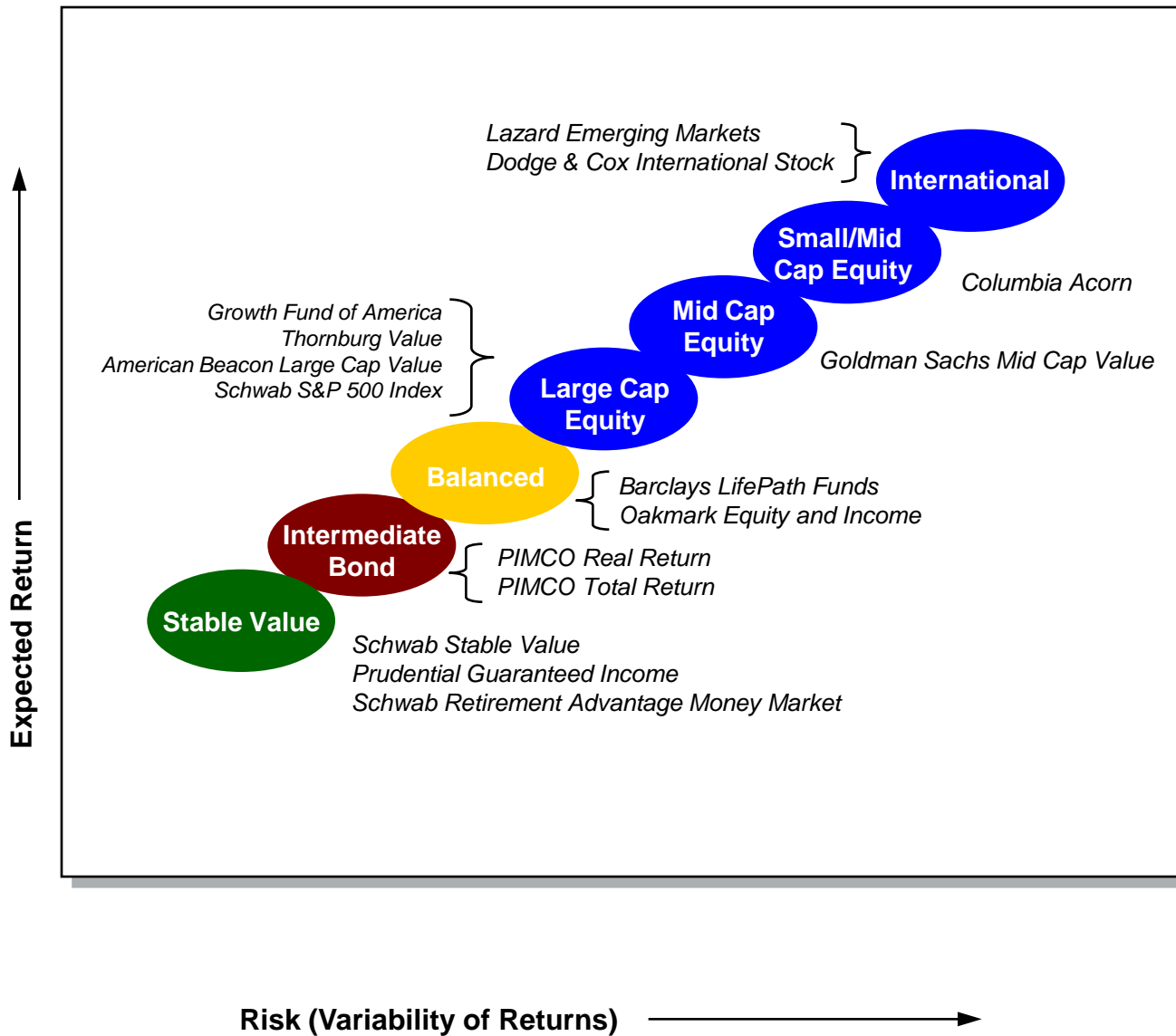
Target Date Funds

Lifestyle Funds

- Exceed the annualized total return of each fund's custom index

THA Participant-Directed Plan Options

Risk/Return Spectrum



Investment Manager Structure

THA Participant-Directed Plan

Investment Manager	June 30, 2009	
	Assets (\$ MM)	Percent of Portfolio
Core Investments		
U.S. Fixed Income		
Schwab Retirement Advantage Money Market	\$0.0	0.0%
Prudential Guaranteed Income	3.8	11.6%
Schwab Stable Value	0.0	0.0%
PIMCO Total Return	2.2	6.5%
PIMCO Real Return	0.6	1.7%
Loan Fund	0.4	1.1%
Cash	<u>0.5</u>	<u>1.4%</u>
Total U.S. Fixed Income	\$7.4	22.2%
Balanced		
Oakmark Equity & Income	\$9.0	27.1%
U.S. Equity		
Schwab S&P 500 Index	\$0.9	2.6%
American Beacon Large Cap Value	0.7	2.2%
Thornburg Value	0.9	2.6%
Growth Fund of America	1.3	4.0%
Goldman Sachs Mid Cap Value	0.7	2.0%
Columbia Acorn	<u>0.9</u>	<u>2.7%</u>
Total U.S. Equity	\$5.3	16.0%
International Equity		
Dodge & Cox International Stock	\$1.1	3.2%
Lazard Emerging Markets	<u>0.6</u>	<u>1.8%</u>
Total International Equity	\$1.7	5.0%
Target Date Funds		
BGI LifePath Retirement	\$0.2	0.7%
BGI LifePath 2010	1.8	5.4%
BGI LifePath 2020	4.5	13.4%
BGI LifePath 2030	2.2	6.6%
BGI LifePath 2040	<u>1.2</u>	<u>3.5%</u>
Total Target Date Funds	\$9.8	29.7%
Total Plan	\$33.1	100.0%

THA Participant-Directed Funds Performance

June 30, 2009

Investment Portfolio	2 nd Quarter	YTD	1-Year	3-Years	5-Years	10-Years
Fixed Income						
Schwab Retirement Advantage Money Market	0.04%	0.19%	1.20%	3.46%	3.30%	3.18%
<i>90-Day Treasury Bill</i>	<i>0.04%</i>	<i>0.10%</i>	<i>0.54%</i>	<i>2.74%</i>	<i>2.90%</i>	<i>2.92%</i>
Prudential Guaranteed Income ¹	1.13%	2.27%	4.73%	-	-	-
Schwab Stable Value	0.67%	1.38%	3.36%	4.12%	4.05%	4.51%
<i>5-Year Constant Maturity Treasury</i>	<i>0.93%</i>	<i>1.88%</i>	<i>3.84%</i>	<i>3.83%</i>	<i>3.86%</i>	<i>4.59%</i>
PIMCO Total Return	4.66%	6.14%	8.94%	8.07%	6.02%	6.67%
<i>BC Aggregate Bond Index</i>	<i>1.78%</i>	<i>1.90%</i>	<i>6.05%</i>	<i>6.43%</i>	<i>5.01%</i>	<i>5.98%</i>
PIMCO Real Return	3.90%	10.16%	-1.72%	5.02%	4.41%	7.03%
<i>BC Treasury Inflation-Protected Index</i>	<i>0.65%</i>	<i>6.20%</i>	<i>-1.12%</i>	<i>5.80%</i>	<i>4.96%</i>	<i>7.24%</i>
Balanced						
Oakmark Equity & Income	10.37%	3.71%	-15.10%	1.35%	4.02%	8.03%
<i>60% S%P 500/40% BC Aggregate</i>	<i>10.18%</i>	<i>3.06%</i>	<i>-13.90%</i>	<i>-2.20%</i>	<i>0.90%</i>	<i>1.33%</i>
U.S. Equity						
Schwab S&P 500 Index	15.86%	3.10%	-25.96%	-8.28%	-2.37%	-2.44%
<i>S&P 500 Index</i>	<i>15.93%</i>	<i>3.16%</i>	<i>-26.22%</i>	<i>-8.22%</i>	<i>-2.24%</i>	<i>-2.22%</i>
American Beacon Large Cap Value	18.52%	2.52%	-27.39%	-10.30%	-1.35%	0.89%
<i>Russell 1000 Value Index</i>	<i>16.70%</i>	<i>-2.87%</i>	<i>-29.03%</i>	<i>-11.11%</i>	<i>-2.13%</i>	<i>-0.15%</i>
Thornburg Value	30.15%	19.48%	-18.59%	-4.73%	1.60%	2.08%
<i>S&P 500 Index</i>	<i>15.93%</i>	<i>3.16%</i>	<i>-26.22%</i>	<i>-8.22%</i>	<i>-2.24%</i>	<i>-2.22%</i>
Growth Fund of America	16.81%	12.16%	-26.74%	-6.47%	0.55%	-
<i>Russell 1000 Growth Index</i>	<i>16.32%</i>	<i>11.53%</i>	<i>-24.50%</i>	<i>-5.45%</i>	<i>-1.82%</i>	<i>-4.18%</i>
Goldman Sachs Mid Cap Value	15.85%	5.03%	-30.99%	-8.87%	0.23%	5.41%
<i>Russell Mid Cap Value Index</i>	<i>20.94%</i>	<i>3.19%</i>	<i>-30.52%</i>	<i>-11.07%</i>	<i>-0.43%</i>	<i>4.00%</i>
Columbia Acorn Fund	20.90%	9.77%	-25.83%	-7.72%	0.95%	7.25%
<i>Russell 2500 Growth Index</i>	<i>21.79%</i>	<i>14.52%</i>	<i>-27.29%</i>	<i>-7.72%</i>	<i>-0.65%</i>	<i>0.66%</i>
International Equity						
Dodge & Cox International Stock	33.37%	16.07%	-30.04%	-7.34%	4.46%	-
<i>MSCI EAFE Index</i>	<i>25.43%</i>	<i>7.95%</i>	<i>-31.36%</i>	<i>-7.97%</i>	<i>2.31%</i>	<i>1.18%</i>
Lazard Funds Emerging Markets	33.89%	30.86%	-26.11%	3.98%	16.94%	10.57%
<i>MSCI Emerging Markets Index</i>	<i>34.73%</i>	<i>36.01%</i>	<i>-28.07%</i>	<i>2.95%</i>	<i>14.72%</i>	<i>8.74%</i>
Target Date Funds						
BGI LifePath Retirement	9.51%	5.04%	-8.69%	-0.02%	2.26%	3.23%
<i>LifePath Retirement Custom Benchmark</i>	<i>8.78%</i>	<i>4.77%</i>	<i>-8.12%</i>	<i>1.08%</i>	<i>3.05%</i>	<i>4.28%</i>
BGI LifePath 2010	10.00%	5.06%	-10.22%	-0.69%	2.27%	2.36%
<i>LifePath 2010 Custom Benchmark</i>	<i>9.24%</i>	<i>4.79%</i>	<i>-9.60%</i>	<i>0.49%</i>	<i>3.05%</i>	<i>3.54%</i>
BGI LifePath 2020	13.89%	5.50%	-17.14%	-3.84%	0.95%	0.86%
<i>LifePath 2020 Custom Benchmark</i>	<i>13.59%</i>	<i>5.91%</i>	<i>-16.28%</i>	<i>-2.53%</i>	<i>1.75%</i>	<i>2.03%</i>
BGI LifePath 2030	16.61%	5.62%	-21.97%	-6.15%	-0.02%	-0.11%
<i>LifePath 2030 Custom Benchmark</i>	<i>16.84%</i>	<i>6.63%</i>	<i>-20.97%</i>	<i>-4.74%</i>	<i>0.77%</i>	<i>0.97%</i>
BGI LifePath 2040	19.00%	5.58%	-25.83%	-8.09%	-0.95%	-1.27%
<i>LifePath 2040 Custom Benchmark</i>	<i>19.56%</i>	<i>7.14%</i>	<i>-24.78%</i>	<i>-6.62%</i>	<i>-0.14%</i>	<i>-0.05%</i>

¹ Investment contract return specific to the THA account established in 4th quarter 2007. The annualized interest rate for this fund through 06/30/2009 is 4.60%.

THA Participant-Directed Funds/Managers

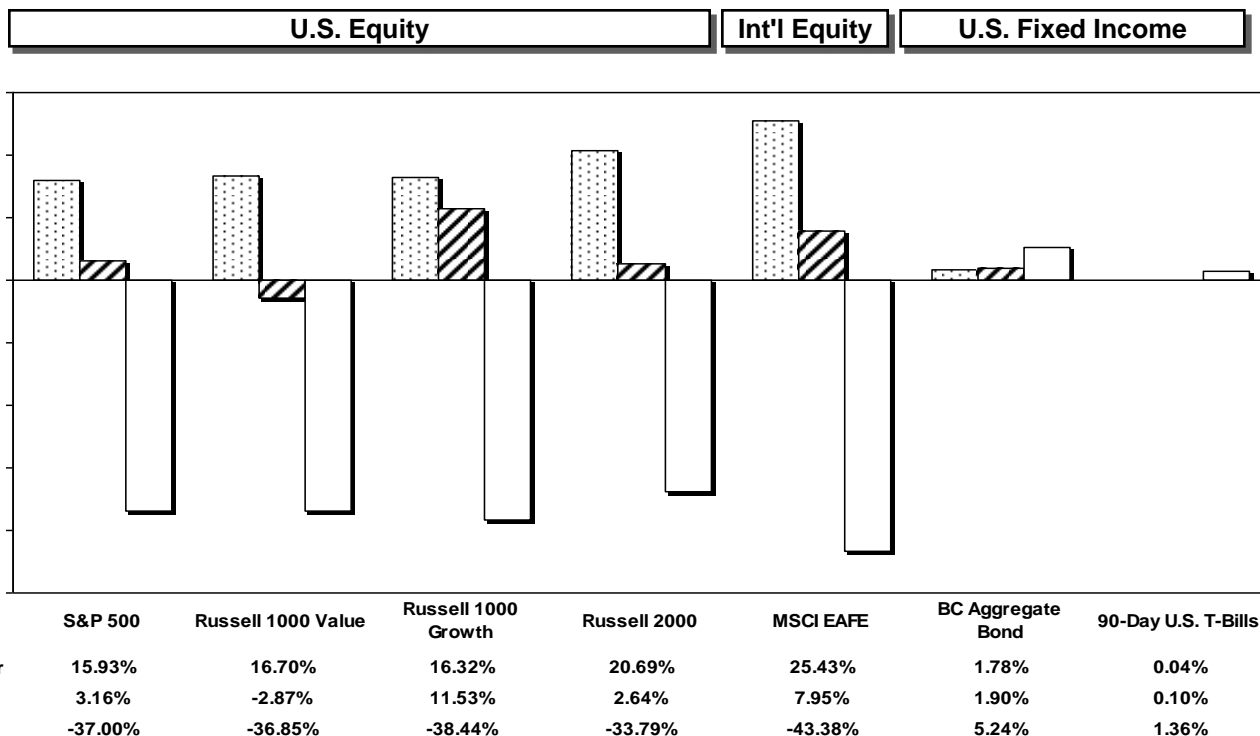
- **Schwab Retirement Advantage Money Market Fund** – This fund invests in high quality short-term investments issued by U.S. and foreign issuers; however, all investments are denominated in U.S. dollars. The fund’s goal is to seek current income consistent with capital stability and liquidity.
- **Prudential Guaranteed Income Fund** – This fund is a group annuity contract issued by the Prudential Retirement and Annuity Company and is backed by the creditworthiness of the issuer’s general account. Prudential declares an annual interest rate which is subject to change on July 1 and December 31 of each year.
- **Schwab Stable Value Fund** – This is a capital preservation fund managed by Dwight Asset Management. This fund invests primarily in high credit quality fixed income securities that are supported by financial contracts designed to protect the investor from the price fluctuation of the underlying securities. The fund’s goal is to provide safety of principal and a stable credited rate of interest with minimal volatility.
- **PIMCO Total Return Fund** – This fund invest in a broad range of bonds including government bonds, corporate bonds, mortgaged-backed bonds, foreign bonds, and short-term instruments. It invests primarily in investment grade debt securities but may invest up to 10% in high yield securities. The goal of this fund is to seek a total return that exceeds short-term rates but it will experience greater price variability in the underlying portfolio holdings.
- **PIMCO Real Return Fund** – This fund invests primarily in inflation-indexed bonds of varying maturities issued by the U.S. and non-U.S. governments, their agencies, and corporations. The goal of this fund is to provide a long-term total return that will exceed inflation. The return may reflect more variability- especially over shorter measurement periods – than money market or stable value funds.
- **Oakmark Equity & Income Fund** – This balanced fund is managed by Harris Associates and invests in stocks, bonds, and short term instruments. The equity portion may range between 50% and 70% in predominantly U.S. stocks and the fixed income allocation tends to favor short to intermediate high credit quality bonds.
- **Schwab S&P 500 Fund** – This fund invests in the stocks included in the S&P 500 Index and seeks to closely track the investment return of this index.
- **American Beacon Large Cap Value Fund** – This fund utilizes four independent sub-advisors to manage a portfolio of stocks that exhibit “value” characteristics such as below market price-to-earnings ratios, low market price to book ratios and above average dividend yields. The companies in the fund generally have market capitalizations similar to the Russell 1000 Large Cap Value Index.

THA Participant-Directed Funds/Managers

- **Thornburg Value Fund** – This is a core equity fund that invests primarily in domestic, larger cap stocks. However, the fund tends to be more concentrated in fewer stock holdings (i.e. around 50 stocks) than the other equity fund plan options, and yet still may hold a modest allocation in small cap and international equities.
- **Growth Fund of America** – This fund is managed by Capital Management & Research and invests primarily in stocks that exhibit “growth” characteristics such as above average earnings, growth in sales, and above average price multiples. It primarily invests in large cap domestic stocks but may hold 20% in non-US stocks.
- **Goldman Sachs Mid Cap Value Fund** – This fund is managed by a team of sector specialists that focuses on U.S. value stock opportunities across companies generally ranging in size between \$2 billion and \$12 billion in capitalization. The management team seeks to find stocks that are trading cheaply relative to peers yet represent companies with longer term competitive advantages.
- **Columbia Acorn Fund** – This fund is managed by the subsidiary firm Columbia – Wanger Asset Management and invests primarily in small and mid cap growth stocks (i.e., small cap stocks represent about 40% of the portfolio). The fund seeks to find companies that will benefit from economic, social, or technological trends that create superior earnings growth potential. This may include a material investment in non-US stocks.
- **Dodge & Cox International Stock Fund** – This fund applies a value oriented philosophy to invest in a well diversified portfolio of international stocks primarily listed across developed country markets. The primary focus is on mid and large cap stocks, and the portfolio will include allocations to emerging market stocks.
- **Lazard Emerging Markets Fund** – This fund invests 80% of the assets in emerging market equity securities – with a focus on companies in Latin America, the Pacific Basin, and Eastern Europe. The investment process has a value bias with a preference for buying companies with lower price to earnings ratios.
- **BGI LifePath Funds** – Each of these funds represents an asset allocation portfolio (i.e., diversified among broad asset classes) that is targeted to a specific retirement date. As the retirement date approaches, the allocation across the asset classes becomes more conservative. The underlying asset class funds include an actively managed domestic equity segment, five other equity index segments, a REIT index, two bond market segments, and a money market segment.

Capital Market Performance

June 30, 2009



U.S. Equity Market

- Capital markets rebounded in the second quarter of 2009. The rally dissipated late in the quarter, but was enough to recoup much of the losses suffered in the first quarter. Investor confidence improved during the quarter as the likelihood of many of the “worst case” economic scenarios decreased. Market gains were tempered by reports of increasing unemployment and continued economic weakness.
- Small cap stocks performed well in the second quarter, trailing mid cap stocks by only 10 basis points, and outperforming large cap stocks by 580 basis points. The outperformance was driven by strong results from the information technology sector. On a year-to-date basis, performance of small cap stocks was roughly on par with large cap stocks.
- All economic sectors posted positive returns in the second quarter. Financials rebounded from a weak first quarter, ending the second quarter as the top performing sector with a 35.7% return. Confidence in the financial sector improved as several major U.S. banks began to repay federal TARP loans.

Non-U.S. Equity Market

- Non-U.S. equity markets outpaced U.S. equities in the second quarter, up 25.4% in U.S. dollar terms and 16.9% in local market terms. Developed non-U.S. stocks outperformed U.S. large cap stocks by 950 basis points in the second quarter, and 470 basis points for the first half of 2009.
- The U.S. dollar retreated against both developed and emerging market currencies during the second quarter. Dollar depreciation added 850 basis points to U.S.-based investors' returns in developed markets, and 1,020 basis points in emerging markets during the quarter.
- Emerging market equities returned 34.7% in the second quarter and performed the strongest of any of the broad equity markets for the year-to-date period ended June 30, 2009 (+36.0%).

Fixed Income Market

- The U.S. Federal Reserve (“Fed”) met twice during the second quarter. The rate was left unchanged, targeting 0%-0.25%. The Fed justified its decision to hold the rate steady by citing concerns of risk to growth.
- The yield curve steepened during the second quarter, as long duration maturities experienced a steep increase in yields. The yield on the 30-year note increased by 80 basis points, while the yield on the three-month note remained unchanged. The spread between three-month and 30-year maturities widened from 3.3% to 4.1%.
- The unprecedented government actions taken over the past year to stabilize the market gained traction in the second quarter. Investors ventured away from low yielding government securities to participate in the bond market rally. Government bonds lagged other fixed income sectors in the second quarter, returning -2.2%, which contributed to a year-to-date loss of -3.2%.