



Hewitt Investment Group LLC | Second Quarter 2010

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 2010

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.

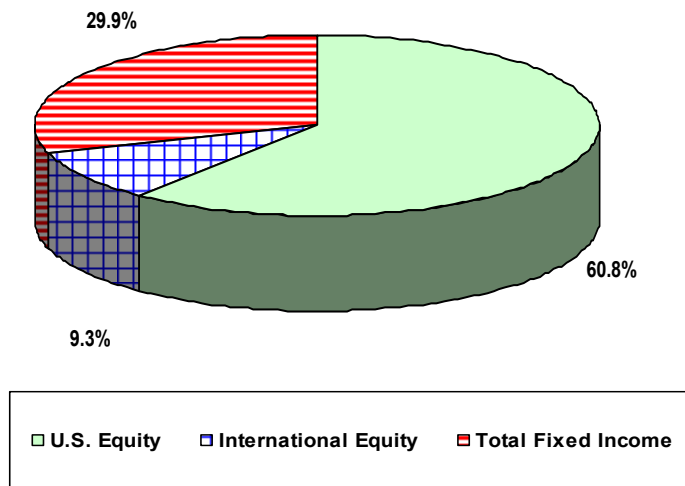
Passive Fixed Income Portfolio

- 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, 2010

Investment Manager	Target	June 30, 2010	
		Assets (\$ MM)	Percent of Portfolio
U.S. Equity			
State Street S&P 500 Index Fund	25.0%	\$87.5	22.7%
BHM&S	12.5%	46.2	12.0%
Gardner Lewis	12.5%	43.3	11.2%
Vanguard Small Cap Index	5.0%	20.8	5.4%
Thomson Horstmann & Bryant	5.0%	19.6	5.1%
Cadence	<u>5.0%</u>	<u>17.3</u>	<u>4.5%</u>
Total U.S. Equity	65.0%	\$234.7	60.8%
International Equity			
Dodge & Cox International Stock	5.0%	\$18.5	4.8%
Morgan Stanley Int'l Equity Trust	<u>5.0%</u>	<u>17.5</u>	<u>4.5%</u>
Total International Equity	10.0%	\$35.9	9.3%
U.S. Fixed Income			
State Street BC Aggregate Index Fund	}	\$103.9	26.9%
Cash Account		<u>11.3</u>	<u>2.9%</u>
Total U.S. Fixed Income		\$115.2	29.9%
Total Plan	100.0%	\$385.8	100.0%



THA Master Trust Performance Summary

June 30, 2010

Investment Portfolio	2 nd Quarter	YTD	1-Year	3-Years	5-Years	10-Years
THA Composite Fund	-8.35%	-3.74%	12.55%	-5.24%	1.42%	1.94%
<i>Custom Benchmark</i>	-7.79%	-3.54%	13.77%	-5.41%	1.49%	1.63%
U.S. Equity						
State Street S&P 500 Index Fund	-11.40%	-6.60%	14.52%	-9.73%	-0.72%	-1.52%
<i>S&P 500 Index</i>	-11.43%	-6.65%	14.43%	-9.81%	-0.79%	-1.59%
BHM&S	-12.30%	-6.44%	15.97%	-10.31%	-0.72%	-
<i>Russell 1000 Value Index</i>	-11.15%	-5.12%	16.92%	-12.33%	-1.64%	2.37%
Gardner Lewis	-14.96%	-9.74%	8.70%	-11.79%	-3.01%	-
<i>Russell 1000 Growth Index</i>	-11.75%	-7.65%	13.62%	-6.91%	0.38%	-5.14%
Vanguard Small Cap Index	-9.99%	-1.25%	25.37%	-7.13%	-	-
<i>MSCI U.S. Small Cap 1750 Index</i>	-10.03%	-1.33%	25.17%	-7.39%	1.36%	4.49%
Thomson Horstmann & Bryant	-11.80%	-0.39%	26.99%	-7.59%	1.39%	5.71%
<i>Russell 2000 Index</i>	-9.92%	-1.95%	21.48%	-8.60%	0.37%	3.00%
Cadence	-12.14%	-6.66%	8.76%	-	-	-
<i>Russell 2000 Growth Index</i>	-9.22%	-2.31%	17.96%	-7.54%	1.14%	-1.73%
International Equity						
Dodge & Cox Int'l Stock	-13.90%	-10.57%	13.96%	-10.66%	-	-
Morgan Stanley Int'l Equity Trust	-13.68%	-12.04%	4.26%	-10.07%	1.59%	-
<i>MSCI EAFE Index</i>	-13.97%	-13.23%	5.93%	-13.38%	0.88%	0.17%
U.S. Fixed Income						
State Street BC Aggregate Index Fund	3.53%	5.32%	9.54%	7.59%	5.56%	6.49%
<i>BC Aggregate Bond Index</i>	3.49%	5.33%	9.49%	7.54%	5.54%	6.47%

- **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. The fund slightly exceeded the index over second quarter.
- **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. The fund trailed the index by 1.15% over the quarter and lags year to date by 1.32%. The portfolio's technology and health care holdings detracted for the quarter. BP (-45% for the quarter) was the worst performing and biggest detractor in the portfolio.
- **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 gave back first quarter's gains, returning -14.96% versus the benchmark's -11.75% during the second quarter. It trails year to date by 2.09%. Poor stock selection in information technology and an overweight to financials hampered performance.
- **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. Vanguard slightly exceeded its benchmark over the second quarter.
- **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 lost some momentum during the second quarter, ending behind the benchmark by 1.88%, though they maintained a year to date lead of 1.56%. The fund's consumer discretionary holdings held back performance for the quarter.

THA Master Trust Performance Summary

June 30, 2010

- ❑ **Cadence** – invests in stocks of small sized companies by utilizing a quantitative model to identify favorable growth company prospects with compelling valuation characteristics. Seeks to exceed the return of the Russell 2000 Growth Index. Cadence lagged the index by 2.92% for the quarter and trails by 4.35% over the year to date. Overweights in consumer discretionary, energy and information technology sectors detracted from results.
- ❑ **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 & Cox slightly exceeded its benchmark for the quarter. Year to date, the fund is ahead by 2.66%. Stock selection in financials and energy boosted performance for the quarter.
- ❑ **Morgan Stanley** – invests in non-U.S. equities with desirable value characteristics and diversified across many different countries. Morgan Stanley beat the MSCI EAFE Index by 29 basis points for the quarter; it leads year to date by 1.19%. The portfolio benefited from an underweight to financials, as well as positive stock selection in materials, energy, financials and technology.
- ❑ **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. The fund beat its benchmark for the quarter.

THA Master Trust Top Ten Holdings

June 30, 2010

State Street S&P 500 Index Fund¹

Top Ten Equity Holdings	% of Equity
Exxon Mobil Corp	3.13%
Apple Inc	2.46%
Microsoft Corp	1.88%
Procter & Gamble Co	1.85%
Johnson & Johnson	1.75%
IBM	1.70%
General Electric Co	1.65%
JPMorgan Chase & Co	1.56%
Bank of America Corp	1.55%
AT&T Inc	<u>1.53%</u>
Total	19.06%

Thomson Horstmann & Bryant

Top Ten Equity Holdings	% of Equity
Swift Energy Co	2.02%
Eagle Materials Inc	1.95%
Sirona Dental Systems	1.87%
McMoRan Exploration Co	1.85%
Forest Oil Corp	1.80%
Popular Inc	1.76%
Rackspace Hosting Inc	1.75%
Globe Specialty Metals	1.66%
Savvis Inc	1.59%
Immucor Inc	<u>1.57%</u>
Total	17.83%

BHM&S

Top Ten Equity Holdings	% of Equity
Pfizer Inc	3.45%
Occidental Pete Corp	3.28%
IBM	3.25%
Capital One Finl Corp	3.22%
Honeywell Intl Inc	3.21%
Bristol Myers Squibb	2.99%
Wellpoint Inc.	2.99%
AT&T Inc	2.87%
Illinois Tool Wks Inc	2.78%
JPMorgan Chase & Co	<u>2.74%</u>
Total	30.79%

MSCI Small Cap 1750 Index²

Top Ten Equity Holdings	% of Equity
Valeant Pharmaceutical	0.32%
UAL Corp	0.27%
Core Laboratories	0.26%
Continental Airls Inc	0.24%
MSCI Inc	0.24%
Chimera Invt Corp	0.23%
Skyworks Solutions Inc	0.23%
Essex Ppty Tr Inc	0.23%
Aeropostale	0.23%
Green Mtn Coffee Roast	<u>0.22%</u>
Total	2.47%

Gardner Lewis Asset Management

Top Ten Equity Holdings	% of Equity
Apple Inc	4.88%
Humana Inc	4.34%
Bank of America Corp	3.76%
Directv	3.50%
Equinix Inc	2.88%
Urban Outfitters Inc	2.85%
Mastercard Inc	2.82%
Teva Pharmaceutical Inc	2.67%
Express Scripts Inc	2.48%
Citigroup Inc	<u>2.42%</u>
Total	32.60%

Cadence

Top Ten Equity Holdings	% of Equity
Watsco Inc	1.55%
Tibco Software Inc	1.49%
Advent Software Inc	1.42%
American Med Sys Hldgs	1.32%
Nu Skin Enterprises	1.29%
Cooper Tire & Rubr Co	1.28%
Semtech Corp	1.28%
Commvault Systems Inc	1.26%
Trex Co Inc	1.24%
Analogic Corp	<u>1.23%</u>
Total	13.35%

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, 2010

Morgan Stanley Int'l Equity Trust

Top Ten Equity Holdings	% of Portfolio
Imperial Tobacco	4.07%
Nestle SA	3.95%
Brit Amer Tobacco	3.79%
Reckitt Benck Group	3.24%
Unilever NV	3.04%
Bayer AG	2.78%
Novartis AG	2.69%
Keyence Corp	2.31%
Roche Hldgs AG	2.30%
Reed Elsevier	<u>2.14%</u>
Total	30.31%

Dodge & Cox

Top Ten Equity Holdings	% of Equity
Naspers	3.41%
Vodafone Group Plc	3.36%
Novartis AG	3.34%
Glaxosmithkline Plc	3.03%
Bayer AG	2.67%
HSBC Hldgs	2.60%
Schneider Electric	2.49%
Sanofi-Aventis	2.45%
Roche Hldgs AG	2.44%
Standard Chartered Bank	<u>2.35%</u>
Total	28.14%

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

Small Cap Growth Equity Fund

- ▣ Exceed the annualized total return of the Russell 2000 Growth Index

International Equity Fund

- ▣ Exceed the annualized total return of the MSCI EAFE Index

THA Participant-Directed (continued)

Investment Objectives

Emerging Markets Equity Index

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

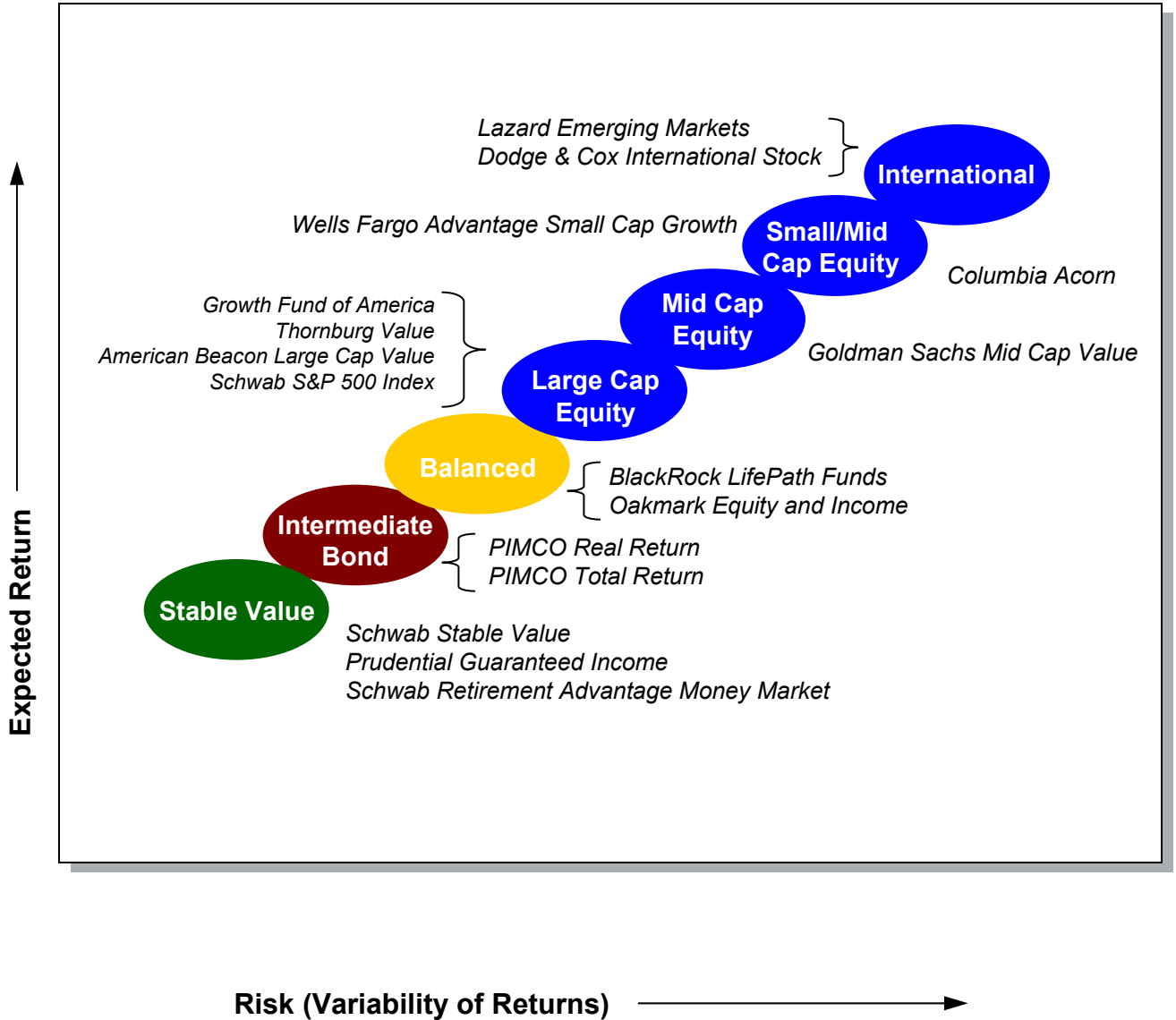
Target Date Funds

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, 2010	
	Assets (\$ MM)	Percent of Portfolio
Core Investments		
U.S. Fixed Income		
Schwab Retirement Advantage Money Market	\$0.0	0.0%
Prudential Guaranteed Income	5.2	9.9%
Schwab Stable Value	0.0	0.0%
PIMCO Total Return	3.7	7.0%
PIMCO Real Return	1.2	2.2%
Loan Fund	0.9	1.7%
Cash	<u>0.4</u>	<u>0.7%</u>
Total U.S. Fixed Income	\$11.3	21.6%
Balanced		
Oakmark Equity & Income	\$12.0	23.0%
U.S. Equity		
Schwab S&P 500 Index	\$1.1	2.2%
American Beacon Large Cap Value	1.3	2.6%
Thornburg Value	1.1	2.1%
Growth Fund of America	2.2	4.2%
Goldman Sachs Mid Cap Value	1.1	2.1%
Columbia Acorn	1.3	2.5%
Wells Fargo Advantage Small Cap Growth	<u>0.2</u>	<u>0.4%</u>
Total U.S. Equity	\$8.4	16.0%
International Equity		
Dodge & Cox International Stock	\$1.9	3.7%
Lazard Emerging Markets	<u>1.0</u>	<u>2.0%</u>
Total International Equity	\$3.0	5.7%
Target Date Funds		
BlackRock LifePath Retirement	\$3.3	6.3%
BlackRock LifePath 2020	7.4	14.2%
BlackRock LifePath 2030	4.5	8.6%
BlackRock LifePath 2040	2.4	4.6%
BlackRock LifePath 2050	<u>0.0¹</u>	<u>0.0%</u>
Total Target Date Funds	\$17.6	33.7%
Total Plan	\$52.2	100.0%

¹ Under \$50,000.

THA Participant-Directed Funds Performance

June 30, 2010

Investment Portfolio	2 nd Quarter	YTD	1-Year	3-Years	5-Years	10-Years
Fixed Income						
Schwab Retirement Advantage Money Market	0.00%	0.00%	0.01%	1.73%	2.79%	2.55%
<i>90-Day Treasury Bill</i>	<i>0.04%</i>	<i>0.06%</i>	<i>0.12%</i>	<i>1.16%</i>	<i>2.47%</i>	<i>2.40%</i>
Prudential Guaranteed Income ¹	0.95%	1.91%	3.85%	-	-	-
Schwab Stable Value	0.60%	1.16%	2.57%	3.48%	3.81%	4.20%
<i>5-Year Constant Maturity Treasury</i>	<i>0.86%</i>	<i>1.75%</i>	<i>3.60%</i>	<i>3.77%</i>	<i>3.76%</i>	<i>4.36%</i>
PIMCO Total Return	2.68%	5.65%	12.98%	10.78%	7.11%	7.49%
<i>BC Aggregate Bond Index</i>	<i>3.49%</i>	<i>5.33%</i>	<i>9.49%</i>	<i>7.54%</i>	<i>5.54%</i>	<i>6.47%</i>
PIMCO Real Return	3.75%	4.96%	12.89%	8.45%	5.10%	7.50%
<i>BC Treasury Inflation-Protected Index</i>	<i>3.82%</i>	<i>4.41%</i>	<i>9.52%</i>	<i>7.61%</i>	<i>4.99%</i>	<i>7.46%</i>
Balanced						
Oakmark Equity & Income	-8.00%	-3.68%	11.30%	0.29%	5.00%	8.94%
<i>60% S&P 500/40% BC Aggregate</i>	<i>-5.59%</i>	<i>-1.79%</i>	<i>12.81%</i>	<i>-2.73%</i>	<i>2.04%</i>	<i>1.92%</i>
U.S. Equity						
Schwab S&P 500 Index	-11.43%	-6.63%	14.35%	-9.72%	-0.77%	-1.64%
<i>S&P 500 Index</i>	<i>-11.43%</i>	<i>-6.65%</i>	<i>14.43%</i>	<i>-9.81%</i>	<i>-0.79%</i>	<i>-1.59%</i>
American Beacon Large Cap Value	-11.94%	-6.15%	16.41%	-11.66%	-1.27%	4.36%
<i>Russell 1000 Value Index</i>	<i>-11.15%</i>	<i>-5.12%</i>	<i>16.92%</i>	<i>-12.33%</i>	<i>-1.64%</i>	<i>2.37%</i>
Thornburg Value	-13.36%	-9.08%	10.86%	-9.01%	1.95%	0.78%
<i>S&P 500 Index</i>	<i>-11.43%</i>	<i>-6.65%</i>	<i>14.43%</i>	<i>-9.81%</i>	<i>-0.79%</i>	<i>-1.59%</i>
Growth Fund of America	-11.69%	-8.00%	10.35%	-8.51%	0.82%	-
<i>Russell 1000 Growth Index</i>	<i>-11.75%</i>	<i>-7.65%</i>	<i>13.62%</i>	<i>-6.91%</i>	<i>0.38%</i>	<i>-5.14%</i>
Goldman Sachs Mid Cap Value	-11.03%	-3.42%	22.02%	-8.69%	0.47%	8.85%
<i>Russell Mid Cap Value Index</i>	<i>-9.57%</i>	<i>-0.88%</i>	<i>28.91%</i>	<i>-9.44%</i>	<i>0.71%</i>	<i>7.55%</i>
Columbia Acorn Fund	-9.75%	-3.16%	23.20%	-7.08%	2.42%	7.73%
<i>Russell 2500 Growth Index</i>	<i>-9.77%</i>	<i>-1.82%</i>	<i>21.44%</i>	<i>-7.10%</i>	<i>1.81%</i>	<i>-1.05%</i>
Wells Fargo Advantage Small Cap Growth	-11.46%	-1.37%	22.97%	-3.88%	6.83%	-
<i>Russell 2000 Growth Index</i>	<i>-9.22%</i>	<i>-2.31%</i>	<i>17.96%</i>	<i>-7.54%</i>	<i>1.14%</i>	<i>-1.73%</i>
International Equity						
Dodge & Cox International Stock	-14.05%	-10.86%	13.24%	-11.24%	2.83%	-
<i>MSCI EAFE Index</i>	<i>-13.97%</i>	<i>-13.23%</i>	<i>5.93%</i>	<i>-13.38%</i>	<i>0.88%</i>	<i>0.17%</i>
Lazard Funds Emerging Markets	-9.03%	-3.61%	24.59%	-1.44%	13.53%	11.83%
<i>MSCI Emerging Markets Index</i>	<i>-8.37%</i>	<i>-6.17%</i>	<i>23.15%</i>	<i>-2.50%</i>	<i>12.73%</i>	<i>10.03%</i>
Target Date Funds						
BlackRock LifePath Retirement	-3.11%	-0.41%	12.11%	0.58%	3.20%	3.84%
<i>LifePath Retirement Custom Benchmark</i>	<i>-2.14%</i>	<i>0.79%</i>	<i>12.31%</i>	<i>1.32%</i>	<i>3.91%</i>	<i>4.87%</i>
BlackRock LifePath 2020	-6.40%	-3.31%	12.46%	-4.24%	1.78%	1.27%
<i>LifePath 2020 Custom Benchmark</i>	<i>-5.24%</i>	<i>-1.80%</i>	<i>13.89%</i>	<i>-3.07%</i>	<i>2.78%</i>	<i>2.49%</i>
BlackRock LifePath 2030	-8.83%	-5.52%	12.49%	-7.07%	0.71%	0.17%
<i>LifePath 2030 Custom Benchmark</i>	<i>-7.49%</i>	<i>-3.73%</i>	<i>14.70%</i>	<i>-5.67%</i>	<i>1.90%</i>	<i>1.41%</i>
BlackRock LifePath 2040	-10.82%	-7.36%	12.38%	-9.48%	-0.28%	-1.10%
<i>LifePath 2040 Custom Benchmark</i>	<i>-9.32%</i>	<i>-5.32%</i>	<i>15.35%</i>	<i>-7.87%</i>	<i>1.08%</i>	<i>0.37%</i>
BlackRock LifePath 2050	-12.51%	-8.88%	12.46%	-	-	-
<i>LifePath 2050 Custom Benchmark</i>	<i>-10.90%</i>	<i>-6.69%</i>	<i>15.91%</i>	<i>-</i>	<i>-</i>	<i>-</i>

¹ Investment contract return specific to the THA account established in 4th quarter 2007. The annualized interest rate for this fund through 12/31/2010 is 3.85%.

THA Participant-Directed Funds/Managers

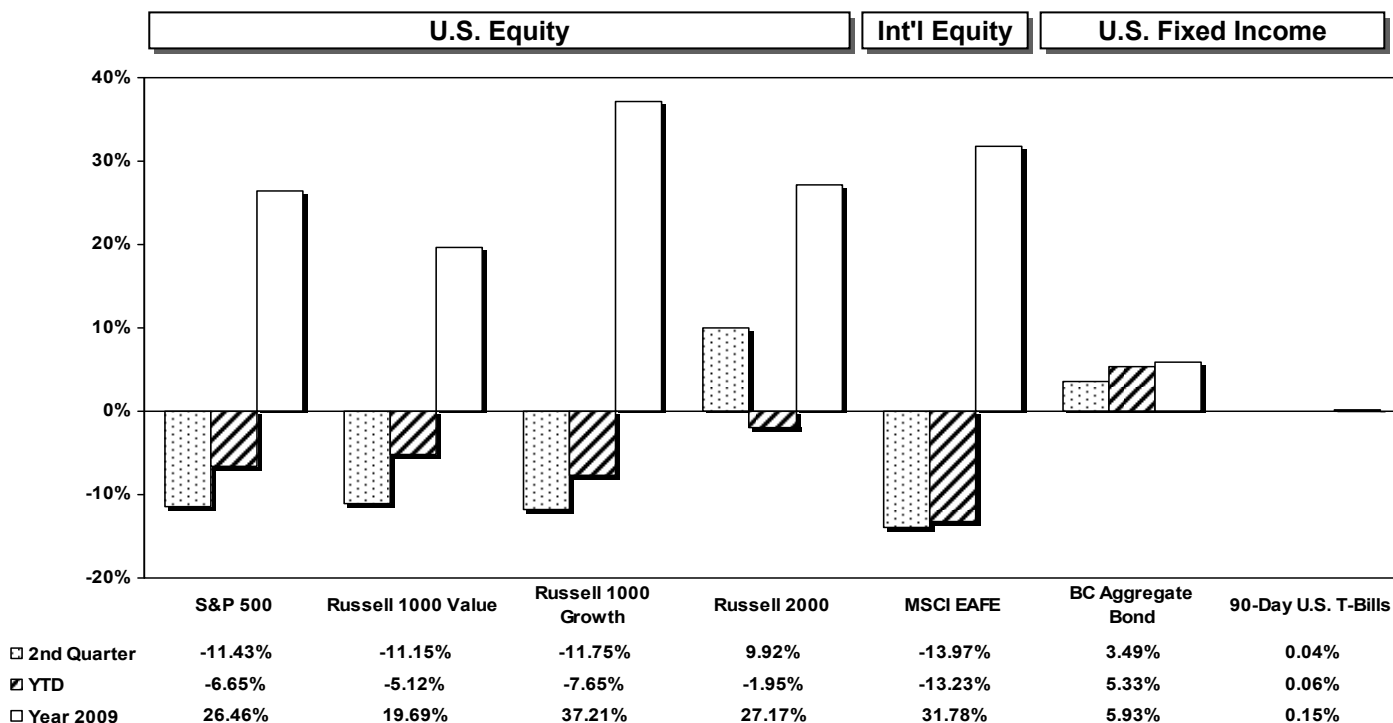
- ❑ **Schwab Retirement Advantage Money Market Fund** – This fund invests in high quality short-term investments issued by U.S. and foreign issuers; however, all investments are denominated in U.S. dollars. The fund’s goal is to seek current income consistent with capital stability and liquidity.
- ❑ **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.
- ❑ **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.

THA Participant-Directed Funds/Managers

- ❑ **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.
- ❑ **Wells Fargo Advantage Small Cap Growth** – This fund invests principally in equity securities of small cap companies believed to have above-average growth potential. The manager focuses on identifying rapidly growing companies that are in an early or transitional stage of their development. The strategy may employ futures, options, or swap agreements, as well as other derivatives, to manage risk or enhance return.
- ❑ **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.
- ❑ **BlackRock 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, 2010



U.S. Equity Market

- Results were mixed across the capital markets during the second quarter with equities posting negative returns and bonds posting gains. Following a year-long broad-based rally, equity markets pulled back sharply during the quarter due to increasing fears surrounding the European debt crisis and the risk of a "double dip" recession. The second quarter also brought about one of the most turbulent days in Wall Street history, with the Dow Jones Industrials Average losing 1,000 points in half an hour on May 6, 2010.
- Large cap stocks (-12.1%) lagged mid and small cap stocks in the second quarter. Mid and small cap stocks also outperformed large caps for the first half of 2010, returning -2.1% and -2.0%, respectively. During the second quarter, there was not a consistent style bias across the capitalization spectrum. Large cap value stocks outperformed large cap growth stocks by 60 basis points, while small cap growth outpaced small cap value by 140 basis points. However, on a year-to-date basis, value stocks dominated growth stocks across all capitalizations. Returns for value stocks were buoyed by the financials sector.
- All U.S. equity economic sectors posted negative returns in the second quarter and during the first half of 2010. The less economically sensitive sectors, such as utilities and telecomm services, withstood the downdraft reasonably well in the second quarter, while the more cyclical financials and materials sectors were hit the hardest.

Non-U.S. Equity Market

- U.S. equities outpaced developed non-U.S. equities in the second quarter in U.S. dollar terms, but trailed slightly in local market terms. For the year-to-date period, U.S. large cap stocks outperformed non-U.S. stocks by 650 basis points.
- The U.S. dollar strengthened versus developed market and emerging market currencies during the second quarter. Dollar appreciation detracted 280 basis points from U.S.-based investors' returns in both developed and emerging markets during the quarter.
- Emerging market equities returned -8.4% in the second quarter, the least negative of any of the broad equity markets. However, emerging market equities trailed U.S. small cap stocks for the year-to-date period by 420 basis points.

Fixed Income Market

- The U.S. Federal Reserve ("Fed") met twice during the second quarter. The Fed Funds target rate was left unchanged at 0%-0.25%. The Fed justified its decision to hold the rate steady by citing continued concerns of risk to growth.
- The yield curve flattened during the second quarter. The yield on the 30-year bond decreased by 83 basis points, while the yield on the three-month note increased by 2 basis points. The spread between three-month and 30-year maturities narrowed from 4.6% to 3.7%.
- Broad market bond returns were positive during the second quarter (+3.5%), contributing to a return of 5.3% for the year-to-date period. Government bonds (+4.2%) led all other bond categories in the second quarter. Investors turned to Treasuries as fears of a stalled market recovery spread during the quarter. Non-U.S. bonds trailed the rest of the bond market during the second quarter (+0.2%) and year-to-date period (-0.3%) due to continued uncertainty surrounding the sovereign debt problems in Europe.