



Texas Hospital Association Retirement Plan | Third Quarter 2010

Summary Performance Review and Investment Manager Evaluation

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In September 2010, Hewitt acquired the Investment Consulting firm Ennis Knupp which merged with Hewitt Investment Group to form Hewitt Ennis Knupp. To avoid confusion, all references to our combined Investment Consulting practice will be Hewitt EnnisKnupp or HEK.

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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.

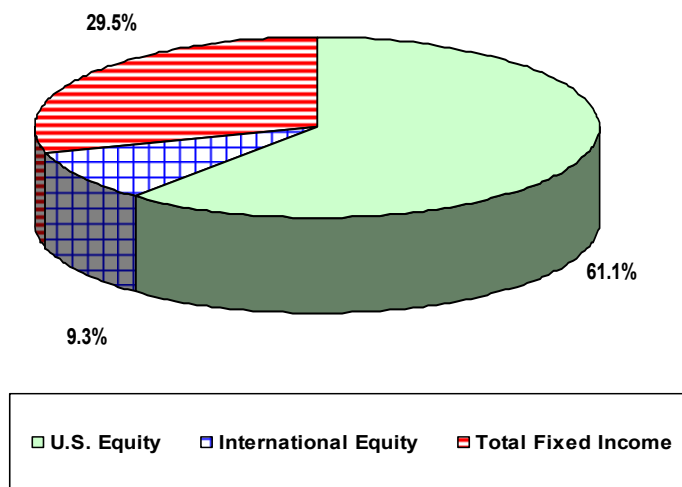
Passive Fixed Income Portfolio

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

THA Master Trust Investment Structure

September 30, 2010

Investment Manager	Target	September 30, 2010	
		Assets (\$ MM)	Percent of Portfolio
U.S. Equity			
State Street S&P 500 Index Fund	25.0%	\$102.7	23.0%
BHM&S	12.5%	56.3	12.6%
Gardner Lewis	12.5%	48.7	10.9%
Vanguard Small Cap Index	5.0%	23.3	5.2%
Thomson Horstmann & Bryant	5.0%	22.3	5.0%
Cadence	<u>5.0%</u>	<u>19.6</u>	<u>4.4%</u>
Total U.S. Equity	65.0%	\$272.9	61.1%
International Equity			
Dodge & Cox International Stock	5.0%	\$21.8	4.9%
Morgan Stanley Int'l Equity Trust	<u>5.0%</u>	<u>19.8</u>	<u>4.4%</u>
Total International Equity	10.0%	\$41.6	9.3%
U.S. Fixed Income			
State Street BC Aggregate Index Fund	}	\$116.5	26.1%
Cash Account		<u>15.4</u>	<u>3.4%</u>
Total U.S. Fixed Income		\$131.9	29.5%
Total Plan	100.0%	\$446.4	100.0%



THA Master Trust Performance Summary

September 30, 2010

Investment Portfolio	3 rd Quarter	YTD	1-Year	3-Years	5-Years	10-Years
THA Composite Fund	9.31%	5.23%	9.30%	-2.94%	2.59%	2.84%
<i>Custom Benchmark</i>	9.70%	5.82%	9.97%	-2.93%	2.70%	2.61%
U.S. Equity						
State Street S&P 500 Index Fund	11.30%	3.95%	10.26%	-7.08%	0.70%	-0.36%
<i>S&P 500 Index</i>	11.29%	3.89%	10.16%	-7.16%	0.64%	-0.43%
BHM&S	10.46%	3.35%	10.82%	-7.31%	0.48%	-
<i>Russell 1000 Value Index</i>	10.13%	4.49%	8.90%	-9.39%	-0.49%	2.59%
Gardner Lewis	12.46%	1.51%	7.15%	-9.92%	-1.37%	-
<i>Russell 1000 Growth Index</i>	13.00%	4.36%	12.65%	-4.36%	2.06%	-3.44%
Vanguard Small Cap Index	12.18%	10.77%	15.35%	-2.72%	-	-
<i>MSCI U.S. Small Cap 1750 Index</i>	12.11%	10.61%	15.16%	-3.00%	2.65%	5.62%
Thomson Horstmann & Bryant	13.98%	13.53%	16.86%	-3.40%	2.53%	6.78%
<i>Russell 2000 Index</i>	11.29%	9.12%	13.35%	-4.29%	1.60%	3.99%
Cadence	13.11%	5.57%	11.04%	-	-	-
<i>Russell 2000 Growth Index</i>	12.83%	10.23%	14.79%	-3.75%	2.35%	-0.13%
International Equity						
Dodge & Cox Int'l Stock	18.32%	5.82%	8.24%	-5.69%	-	-
Morgan Stanley Int'l Equity Trust	13.38%	-0.27%	2.10%	-6.40%	2.80%	-
<i>MSCI EAFE Index</i>	16.48%	1.08%	3.28%	-9.51%	1.98%	2.56%
U.S. Fixed Income						
State Street BC Aggregate Index Fund	2.45%	7.90%	8.20%	7.45%	6.21%	6.43%
<i>BC Aggregate Bond Index</i>	2.48%	7.94%	8.16%	7.42%	6.20%	6.41%

- **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 third 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 outperformed the index by 33 basis points over the quarter and lags year to date by 1.14%. Stock selection in the consumer discretionary and health care sectors added value while stock selection in technology detracted.
- **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 trailed the index by 54 basis points for the quarter and lags year-to-date by 2.85%. Poor stock selection in financials and consumer discretionary sectors hurt relative returns.
- **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 third 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 exceeded the index over the third quarter, returning 13.98% versus the index's 11.29%. Year-to-date the fund leads by 4.41%. The portfolio benefited from stock selection in the industrial and energy sectors, and the overweight in information technology.

THA Master Trust Performance Summary

September 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 beat the index by 28 basis points for the quarter and trails by 4.66% over the year-to-date period. Information technology was the greatest contributor to this quarter’s relative outperformance due to strong stock selection. Holdings in materials and consumer discretionary sectors also aided performance.
- **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 beat its benchmark by 1.84% for the quarter. Year-to-date, the fund is ahead by 4.74%. Performance was enhanced by the portfolio’s telecommunication stocks, emerging markets holdings, and the underweight to Japan.
- **Morgan Stanley** – invests in non-U.S. equities with desirable value characteristics and diversified across many different countries. Morgan Stanley trailed the MSCI EAFE Index by 3.10% for the quarter; it lags year-to-date by 1.35%. Firstly, on a country basis, the fund’s overweight allocation to Switzerland and Japan (the two worst performing markets) in combination with negative stock selection in these markets (mainly technology and financials in Japan and pharma in Switzerland) adversely impacted relative performance. An underweight exposure to the strong Australian dollar and Swedish Krona and cash balances further detracted from returns.
- **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 slightly lagged its benchmark for the quarter.

THA Master Trust Top Ten Holdings

September 30, 2010

State Street S&P 500 Index Fund¹

Top Ten Equity Holdings	% of Equity
Exxon Mobil Corp	3.04%
Apple Inc	2.51%
Microsoft Corp	1.80%
General Electric Co	1.68%
Johnson & Johnson	1.65%
Procter & Gamble Co	1.65%
IBM	1.64%
AT&T Inc	1.63%
Chevron Corp	1.58%
JPMorgan Chase & Co	1.46%
Total	18.64%

Thomson Horstmann & Bryant

Top Ten Equity Holdings	% of Equity
McMoRan Exploration Co	2.61%
Globe Specialty Metals	2.02%
Savvis Inc	1.95%
Sirona Dental Systems	1.74%
Popular Inc	1.70%
Titan Intl Inc III	1.64%
Anixter Intl Inc	1.64%
Digital Riv Inc	1.62%
Eagle Materials Inc	1.60%
Trina Solar Limited	1.57%
Total	18.09%

BHM&S

Top Ten Equity Holdings	% of Equity
Pfizer Inc	3.78%
Honeywell Intl Inc	3.29%
IBM	3.22%
Wellpoint Inc.	3.15%
AT&T Inc	3.09%
E I Du Pont De Nemours	3.06%
Occidental Pete Corp	3.04%
Carnival Corp	2.97%
Bristol Myers Squibb	2.96%
Conocophillips	2.92%
Total	31.49%

MSCI Small Cap 1750 Index²

Top Ten Equity Holdings	% of Equity
Core Laboratories N V	0.28%
Alexandria Real Estate	0.27%
Msci Inc	0.26%
Atmel Corp	0.26%
Skyworks Solutions Inc	0.26%
Jones Lang Lasalle Inc	0.26%
Herbalife Ltd	0.26%
Informatica Corp	0.25%
Phillips Van Heusen Co	0.25%
Micros Sys Inc	0.24%
Total	2.58%

Gardner Lewis Asset Management

Top Ten Equity Holdings	% of Equity
Apple Inc	4.45%
Humana Inc	4.12%
Directv	3.79%
Equinix Inc	3.21%
Bank of America Corp	3.03%
E M C Corp Mass	2.96%
FedEx Corp	2.84%
Amazon Com Inc	2.54%
Danaher Corp	2.53%
Oracle Corp	2.53%
Total	32.00%

Cadence

Top Ten Equity Holdings	% of Equity
Verifone Sys Inc	1.53%
Brush Engineered Mats	1.45%
Actuant Corp	1.39%
Semtech Corp	1.37%
Applied Intl Technology	1.36%
Tibco Software Inc	1.35%
Sonosite Inc	1.34%
HNI Corp	1.33%
Woodward Governor Co	1.30%
Nu Skin Enterprises Inc	1.29%
Total	13.72%

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)

September 30, 2010

Morgan Stanley Int'l Equity Trust

Top Ten Equity Holdings	% of Portfolio
Nestle SA	3.97%
Imperial Tobacco Group	3.93%
Unilever NV	3.79%
Brit Amer Tobacco	3.77%
Reckitt Benck Grp	3.46%
Bayer AG	3.12%
Novartis AG	2.89%
Roche Hldgs AG	2.89%
Prudential	2.74%
HSBC Hldgs	<u>2.33%</u>
Total	32.89%

Dodge & Cox

Top Ten Equity Holdings	% of Equity
Naspers	4.07%
Vodafone Group Plc	3.33%
Novartis A G	2.93%
Glaxosmithkline Plc	2.91%
Bayer AG	2.81%
Schneider Electric	2.56%
HSBC Hldgs	2.38%
Sanofi-Aventis	2.34%
Roche Hldgs AG	2.24%
Nokia Oyj	<u>2.12%</u>
Total	27.69%

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

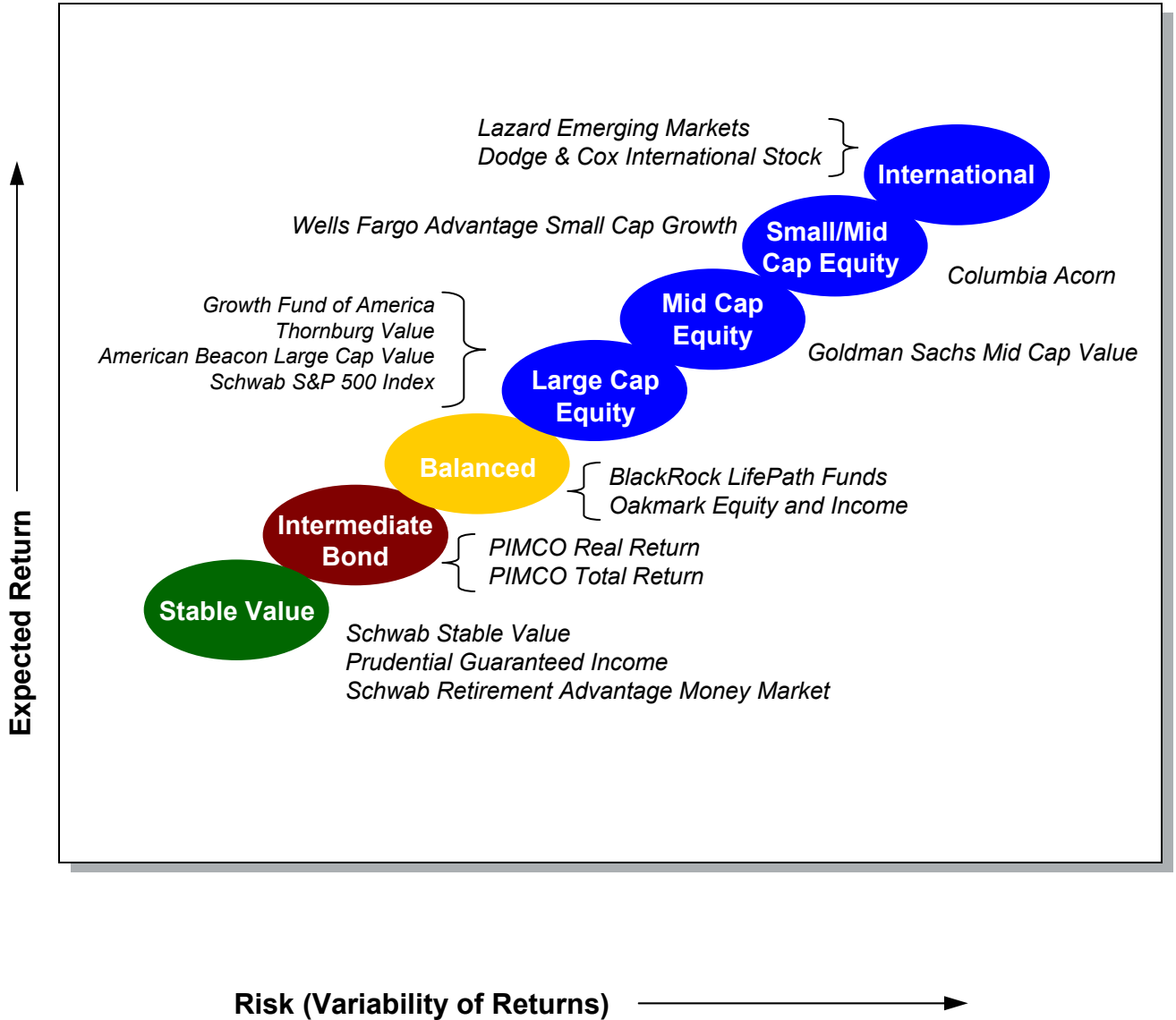
Target Date Funds

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	September 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	5.4	9.1%
Schwab Stable Value	0.0	0.0%
PIMCO Total Return	4.3	7.3%
PIMCO Real Return	1.3	2.2%
Loan Fund	1.1	1.8%
Cash	<u>0.1</u>	<u>0.1%</u>
Total U.S. Fixed Income	\$12.2	20.6%
Balanced		
Oakmark Equity & Income	\$12.9	21.6%
U.S. Equity		
Schwab S&P 500 Index	\$1.3	2.2%
American Beacon Large Cap Value	1.6	2.7%
Thornburg Value	1.2	1.9%
Growth Fund of America	2.6	4.4%
Goldman Sachs Mid Cap Value	1.3	2.3%
Columbia Acorn	1.5	2.6%
Wells Fargo Advantage Small Cap Growth	<u>0.3</u>	<u>0.5%</u>
Total U.S. Equity	\$9.9	16.6%
International Equity		
Dodge & Cox International Stock	\$2.4	4.0%
Lazard Emerging Markets	<u>1.4</u>	<u>2.3%</u>
Total International Equity	\$3.7	6.3%
Target Date Funds		
BlackRock LifePath Retirement	\$3.7	6.2%
BlackRock LifePath 2020	8.5	14.3%
BlackRock LifePath 2030	5.5	9.2%
BlackRock LifePath 2040	3.1	5.2%
BlackRock LifePath 2050	<u>0.0¹</u>	<u>0.0%</u>
Total Target Date Funds	\$20.7	34.9%
Total Plan	\$59.4	100.0%

¹ Under \$50,000.

THA Participant-Directed Funds Performance

September 30, 2010

Investment Portfolio	3 rd Quarter	YTD	1-Year	3-Years	5-Years	10-Years
Fixed Income						
Schwab Retirement Advantage Money Market	0.00%	0.01%	0.01%	1.32%	2.63%	2.39%
<i>90-Day Treasury Bill</i>	<i>0.04%</i>	<i>0.10%</i>	<i>0.12%</i>	<i>0.82%</i>	<i>2.31%</i>	<i>2.26%</i>
Prudential Guaranteed Income ¹	0.95%	2.87%	3.85%	4.39%	-	-
Schwab Stable Value	0.59%	1.75%	2.46%	3.31%	3.72%	4.11%
<i>5-Year Constant Maturity Treasury</i>	<i>0.83%</i>	<i>2.59%</i>	<i>3.52%</i>	<i>3.73%</i>	<i>3.74%</i>	<i>4.30%</i>
PIMCO Total Return	3.74%	9.61%	10.61%	10.51%	8.02%	7.58%
<i>BC Aggregate Bond Index</i>	<i>2.48%</i>	<i>7.94%</i>	<i>8.16%</i>	<i>7.42%</i>	<i>6.20%</i>	<i>6.41%</i>
PIMCO Real Return	3.41%	8.54%	10.82%	7.99%	5.79%	7.60%
<i>BC Treasury Inflation-Protected Index</i>	<i>2.48%</i>	<i>7.00%</i>	<i>8.89%</i>	<i>6.90%</i>	<i>5.50%</i>	<i>7.50%</i>
Balanced						
Oakmark Equity & Income	5.81%	1.92%	6.52%	1.14%	4.99%	8.53%
<i>60% S&P 500/40% BC Aggregate</i>	<i>7.86%</i>	<i>5.92%</i>	<i>9.86%</i>	<i>-1.03%</i>	<i>3.21%</i>	<i>2.63%</i>
U.S. Equity						
Schwab S&P 500 Index	11.24%	3.86%	10.11%	-7.10%	0.66%	-0.48%
<i>S&P 500 Index</i>	<i>11.29%</i>	<i>3.89%</i>	<i>10.16%</i>	<i>-7.16%</i>	<i>0.64%</i>	<i>-0.43%</i>
American Beacon Large Cap Value	10.51%	3.71%	9.71%	-8.84%	-0.28%	4.78%
<i>Russell 1000 Value Index</i>	<i>10.13%</i>	<i>4.49%</i>	<i>8.90%</i>	<i>-9.39%</i>	<i>-0.49%</i>	<i>2.59%</i>
Thornburg Value	8.31%	-1.53%	3.62%	-7.48%	2.43%	1.72%
<i>S&P 500 Index</i>	<i>11.29%</i>	<i>3.89%</i>	<i>10.16%</i>	<i>-7.16%</i>	<i>0.64%</i>	<i>-0.43%</i>
Growth Fund of America	10.71%	1.84%	7.79%	-6.71%	1.52%	-
<i>Russell 1000 Growth Index</i>	<i>13.01%</i>	<i>4.37%</i>	<i>12.66%</i>	<i>-4.36%</i>	<i>2.06%</i>	<i>-3.44%</i>
Goldman Sachs Mid Cap Value	14.22%	10.32%	16.62%	-3.55%	2.09%	8.93%
<i>Russell Mid Cap Value Index</i>	<i>12.13%</i>	<i>11.15%</i>	<i>16.93%</i>	<i>-4.78%</i>	<i>1.97%</i>	<i>7.79%</i>
Columbia Acorn Fund	13.57%	9.98%	16.29%	-2.97%	3.70%	8.13%
<i>Russell 2500 Growth Index</i>	<i>13.15%</i>	<i>11.09%</i>	<i>17.28%</i>	<i>-3.40%</i>	<i>3.09%</i>	<i>0.48%</i>
Wells Fargo Advantage Small Cap Growth	8.86%	7.37%	12.68%	-1.61%	7.14%	-
<i>Russell 2000 Growth Index</i>	<i>12.83%</i>	<i>10.22%</i>	<i>14.79%</i>	<i>-3.75%</i>	<i>2.35%</i>	<i>-0.13%</i>
International Equity						
Dodge & Cox International Stock	18.14%	5.31%	7.55%	-6.30%	4.37%	-
<i>MSCI EAFE Index</i>	<i>16.48%</i>	<i>1.08%</i>	<i>3.28%</i>	<i>-9.51%</i>	<i>1.98%</i>	<i>2.56%</i>
Lazard Funds Emerging Markets	20.67%	16.32%	22.96%	1.90%	13.42%	15.45%
<i>MSCI Emerging Markets Index</i>	<i>18.03%</i>	<i>10.74%</i>	<i>20.21%</i>	<i>-1.48%</i>	<i>12.74%</i>	<i>13.44%</i>
Target Date Funds						
BlackRock LifePath Retirement	6.73%	6.29%	8.93%	2.19%	4.25%	4.37%
<i>LifePath Retirement Custom Benchmark</i>	<i>6.61%</i>	<i>7.45%</i>	<i>9.89%</i>	<i>2.61%</i>	<i>4.94%</i>	<i>5.35%</i>
BlackRock LifePath 2020	9.06%	5.45%	8.83%	-1.85%	2.87%	2.20%
<i>LifePath 2020 Custom Benchmark</i>	<i>8.97%</i>	<i>7.01%</i>	<i>10.54%</i>	<i>-1.01%</i>	<i>3.89%</i>	<i>3.41%</i>
BlackRock LifePath 2030	10.81%	4.69%	8.70%	-4.16%	1.94%	1.32%
<i>LifePath 2030 Custom Benchmark</i>	<i>10.73%</i>	<i>6.60%</i>	<i>10.87%</i>	<i>-3.09%</i>	<i>3.17%</i>	<i>2.59%</i>
BlackRock LifePath 2040	12.34%	4.07%	8.56%	-6.13%	1.11%	0.28%
<i>LifePath 2040 Custom Benchmark</i>	<i>12.17%</i>	<i>6.20%</i>	<i>11.09%</i>	<i>-4.89%</i>	<i>2.50%</i>	<i>1.73%</i>
BlackRock LifePath 2050	13.68%	3.58%	8.50%	-	-	-
<i>LifePath 2050 Custom Benchmark</i>	<i>13.45%</i>	<i>5.86%</i>	<i>11.27%</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

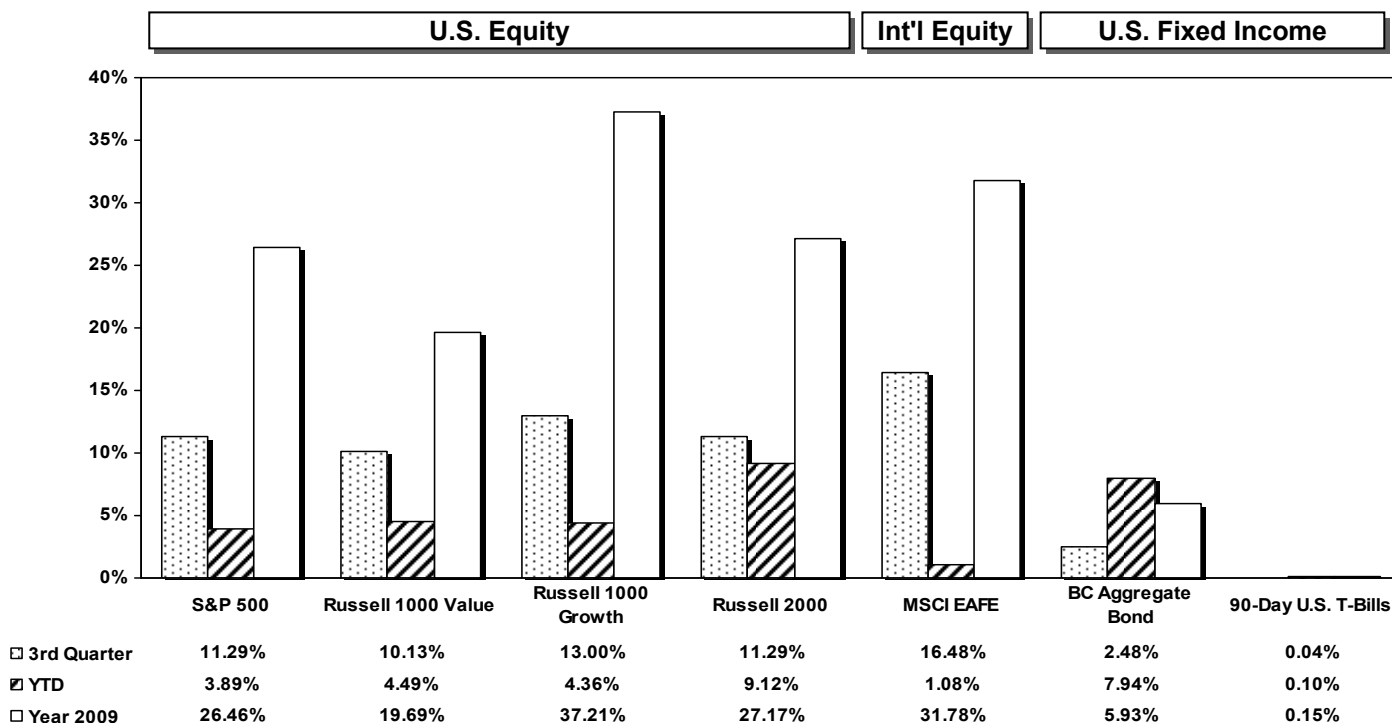
- ❑ **Schwab Retirement Advantage Money Market Fund** – This fund invests in high quality short-term investments issued by U.S. and foreign issuers; however, all investments are denominated in U.S. dollars. The fund’s goal is to seek current income consistent with capital stability and liquidity.
- ❑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

September 30, 2010



U.S. Equity Market

- Results were positive across the capital markets during the third quarter with equities and bonds posting gains. Rebounding from the low of the year that occurred near the end of the second quarter, equity markets were quite volatile during the third quarter, and nearly all of the gains for the quarter were derived from September's strong returns.
- Large cap stocks (+10.8%), as defined by the Russell Top 200 Index, lagged mid and small cap stocks in the third quarter. Mid and small cap stocks also outperformed large caps for the year-to-date period, returning 11.0% and 9.1%, respectively.
- All U.S. equity economic sectors posted positive returns in the third quarter. Markets reacted favorably to further speculation that the economy would not slide back into recession.

Non-U.S. Equity Market

- Non-U.S. equity markets (in U.S. dollar terms) outpaced U.S. equities in the third quarter as sentiment toward European debt problems improved.
- The U.S. dollar weakened relative to both developed and emerging market currencies during the third quarter. As such, unhedged non-U.S. equity exposure performed better than its hedged counterpart.
- The four major emerging markets regions all posted positive returns during the third quarter and over the year-to-date period. Returns for the emerging markets regions ranged between 15.8% and 21.8% during the quarter.

Fixed Income Market

- The U.S. Federal Reserve ("Fed") met twice during the third 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 subdued inflation trends and low rates of resource utilization.
- The yield curve fell across all maturities during the third quarter, with the yields on the 10- and 30-year bonds falling 43 and 20 basis points, respectively. The yield on the two-year note hit a historic low and finished the quarter at 0.42%. The spread between the three-month and 30-year maturities narrowed from 3.7% to 3.5%.
- Broad market bond returns were positive during the third quarter (+2.5%), contributing to a return of 7.9% for the year-to-date period. Returns were driven by rising bond prices during the third quarter (+1.6%), coupled with gains from coupon income (+1.0%). For the year-to-date period, both bond price changes and coupon income were positive, providing bond holders with competitive total returns.