

# ECONOMIC & BOND MARKET QUARTERLY UPDATE

SECOND QUARTER 2009

## Interview with Frank Koster, Chief Investment Officer

**R**ecently named Dwight's Chief Investment Officer, Frank Koster has over 30 years of institutional investment experience, most recently specializing in investment-grade institutional fixed income portfolios. In the interview below, Frank discusses his investment philosophy, his take on the current financial market environment, and his outlook for the future.

### *What enticed you to join Dwight?*

I saw the opportunity to join and help shape a team of very talented investment professionals. Dwight has enjoyed a solid reputation in the marketplace for many years, and I look forward to assuming a leadership role at such a highly regarded institution.

### *What is your investment philosophy?*

As a fixed income portfolio manager, I believe risk control is essential to long-term success. A highly diversified, granular approach to risk assumption is essential to limiting the downside risk of an overall portfolio.

### *How do you plan to enhance Dwight's fixed income investment process?*

At Dwight, our people are our greatest asset and will continue to be the backbone of our success going forward. My intent is to streamline our investment decision-making process for greater fluidity, efficiency, and transparency. Surrounding this process will be more

robust risk controls and a more granular approach to risk assumption. The objective is to leverage our talent with the appropriate risk culture to achieve long-term results for our clients.

### *What are your top priorities for the remainder of 2009?*

Enhancing the firm's risk monitoring and control systems is my highest priority for the foreseeable future, and I believe communicating the specifics of these systems to our clients and consultants will be of equal importance as they come to fruition in the months to come.

### *There has been a significant amount of turmoil in the financial markets over the past 18 months. How have these events changed how you view financial markets in the future?*

Recent events have done little to change my views, although they have definitely reinforced some of my core beliefs. Essentially, liquidity, fundamentals, and yes, risk controls, are of paramount importance to the fixed income investor.



**Frank Koster**  
Chief Investment Officer

*continued on page 2*

## Fixed Income Sector Review

### CORPORATES

**F**irst-quarter signs of stability in the corporate bond market were followed by the best-performing quarter on record by a wide margin. Investment-grade corporate bonds posted a total return of 10.45%, outperforming duration-matched Treasuries by 13.61% and ending the quarter at an option-adjusted spread (OAS) of 306 basis points.

Hints of economic stabilization, bank capital repair and replenishment, attractive valuations, and a powerful technical environment within corporate credit combined to drive the record-setting returns of the second quarter. Spreads tightened back to pre-Lehman-bankruptcy levels as the market priced out

systemic risk, but remain wide relative to the last recession's peak. While fundamental weakness is a persistent reality, historically attractive valuations and significant cash interest in corporate bonds contributed considerably to steady spread tightening. Every subsector within investment-grade corporates produced meaningful excess returns for the quarter. Notable outperformers included life insurance, non-captive consumer, and REITs, which produced 37.69%, 30.51%, and 25.69% of excess return, respectively.

*continued on page 3*

*Interview with Frank Koster, Chief Investment Officer, continued from the front page*

► *Historically, Dwight has invested in structured product. Given the challenges in that market, what do you think the securitized market will look like in three to five years?*

I believe the structured product markets will revert to the more traditional model that existed prior to this most recent period of excess. Well-underwritten loans, backed by residential or commercial real estate, credit cards, and auto loans will be financeable in the capital markets at attractive levels to all parties to the transaction. To a large degree, this is already taking place in the agency mortgage market and for prime underwriters in the credit card and auto sectors. Much work still needs to be done, and time will be a necessary component to a full market recovery. Nevertheless, capital markets are progressing toward restoring liquidity to these sectors.

*What do you expect the fixed income opportunities to be for institutional investors over the next five to ten years?*

Not unlike my views of the structured product markets, I believe fixed income investing will revert to its more traditional roots. I think investors will focus on the income component of the asset class and its ability to dampen equity volatility through a balanced portfolio approach.

Specifically, current spreads in both the investment-grade and high-yield sectors of the corporate bond market and much of the mortgage market will lead some investors to seek mandates specific to those sectors. Given all that has transpired in the marketplace over the last few years, absolute return strategies should continue to garner assets, and liability-driven investment approaches should gain momentum among corporate plan sponsors.

*What is your investment outlook for the second half of 2009, and beyond?*


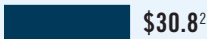

I believe interest rates will be relatively range bound for the foreseeable future. The yield curve should remain steep as the Fed holds funds to essentially zero in an effort to stimulate the economy, enable homeowners to refinance, and allow banks to earn back lost capital via a steep yield curve (e.g. large net interest margins). Although the economy continues to languish, we do see signs of bottoming and believe the dramatic deceleration is abating. However, we do not anticipate a quick economic rebound, but instead a protracted bottoming phase and slow growth in the second half of 2009.

If the financial markets and economy play out the way we expect, fixed income investors should be well served in moderate-duration mandates with some exposure to the spread sectors—corporate bonds in particular. ■

Dwight Asset Management Company LLC  
Total Assets as of 6/30/09:

**\$77.6 Billion**

**Assets by Product Strategy (\$ Billions)**

Stable Value		<b>\$55.9<sup>1</sup></b>
Fixed Income		<b>\$30.8<sup>2</sup></b>
Insurance		<b>\$16.8<sup>3</sup></b>

1. Includes assets also included in the fixed income total managed for stable value clients.

2. Includes assets also included in the stable value and insurance totals.

3. Includes assets also included in the fixed income total.

Please Note: Stable value separate account and commingled fund data is as of 5/31/09.

This Quarterly Update is prepared for general informational purposes only, without respect to the investment objectives, financial profile, or risk tolerance of any specific person or entity who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any investment strategy or security discussed or recommended in this update and should understand that statements regarding future performance may not be realized. Investors should note that income, if any, from any investment strategy or security may fluctuate and that underlying principal values may rise or fall. Past performance is not necessarily a guide to future performance.

*Fixed Income Sector Review, continued from the front page*

► We maintained our overweight position to the corporate sector throughout the second quarter. As high-quality credit positions outperformed, we took the opportunity to move into a few more cyclically sensitive names using both the primary and secondary markets. On balance, we continue to focus on higher-quality credits that have been unduly punished by the current market environment and that are well positioned to manage through a difficult economic landscape. We also maintain an overweight to the banking sector, which provides compelling value and benefits from strong federal support. Going forward, we expect to maintain our overweight to corporate bonds with an eye toward adding to our exposure upon a backup in spreads or a meaningful improvement in our economic outlook.

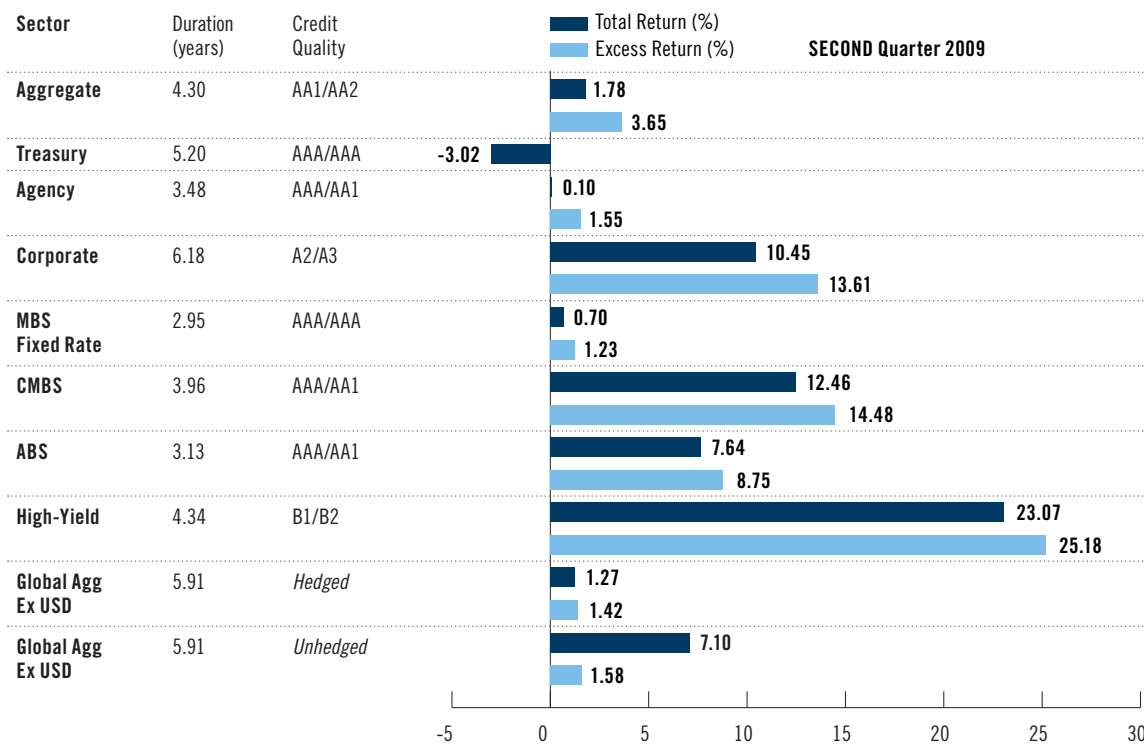
**MORTGAGE-BACKED SECURITIES**

The mortgage-backed securities (MBS) sector returned 0.70% for the second quarter of 2009. On a duration-adjusted basis, MBS outperformed U.S. Treasuries by 123 basis points, marking the sector’s second quarter in a row of strong relative performance.

The Federal Reserve continued its purchase program during the quarter, leading many mortgage market participants to become complacent about the Fed providing a backstop for mortgage prices. But on a sharp backup in Treasuries the Fed allowed mortgages to fall. Servicers and originators panicked and sold billions of mortgages at falling dollar prices. This hurt mortgage performance briefly, but

*continued on page 4*

**Second Quarter 2009 Sector Statistics\***



\*Source: Barclays Capital Indices. Excess returns represent returns over duration-matched Treasuries. Credit quality represents market-weighted average credit quality for the indicated sector expressed in Moody’s nomenclature. The Barclays Capital U.S. High Yield Index and Global Agg. Ex USD are not components of the investment-grade U.S. Aggregate Index.

*Fixed Income Sector Review, continued from page 3*

▶ the sector soon recovered as Treasuries rallied back.

Non-agency mortgages had a very quiet quarter, as prices seemed to stagnate and then drop slightly from the levels reached in the first quarter. Most of the activity was driven by repackaging distressed bonds and increasing the credit enhancement to stabilize their ratings via Re-REMIC (Re-securitization of Real Estate Mortgage Investment Conduit Securities) structures.

We were overweight in the MBS sector in the beginning of the quarter, but moved to an underweight position as mortgages reached their tightest spreads of the past year. Within non-agency mortgages, we sold a few bonds that appreciated in recent months but continue to hold our core position of seasoned bonds in this sector. We are currently neutral in agency MBS and believe mortgages look fairly valued relative to U.S. Treasuries.

**COMMERCIAL MORTGAGE-BACKED SECURITIES**

The commercial mortgage-backed securities (CMBS) sector experienced a massive rebound in the second quarter, providing a total return of 12.46% and outperforming duration-matched Treasuries by 14.48%.

While the sector's fundamentals continued to deteriorate, it was buoyed by investors' general willingness to take on more risk, as well as more localized news that provided a measure of comfort in the relative value of the sector.

CMBS entered the second quarter with expectations of Federal assistance via the Term Asset-Backed Securities Loan Facility (TALF)—the same program that led the asset-backed securities (ABS) market to solid outperformance in the first quarter of the year. Underlying commercial properties experienced stress from retail weakness, consolidation of office space, and continued deterioration within the hotel and multi-family sectors due to lower rental rates. Nevertheless, investors found the credit enhancement and diversification inherent in the CMBS structure to be attractive from a relative risk-adjusted return standpoint.

Investor optimism was muted later in the quarter when S&P called for major downgrades that were predicated on methodology changes that seemed inconsistent and vague to many investors. Uncertainty with regard to the timing and scope of the potential ratings actions created a stir in the sector and led prices drastically lower.

CMBS prices rebounded again, however, when Wall Street dealers began to create and market CMBS Re-REMICs. In this process, dealers repackaged previously issued bonds into super senior tranches that were better able to hold AAA ratings, and junior tranches that provided support and very attractive yields.

The CMBS sector continues to face uncertainty as we enter the second half of 2009. While we still favor the sector from a relative-value standpoint, we will monitor our overweight and continue to scale back on risk as we head into 2010. We will look to take advantage of short-term TALF and Re-REMIC rallies, and reduce remaining portfolio volatility from ratings uncertainty and further fundamental deterioration.

**ASSET-BACKED SECURITIES**

Since its inception in March, TALF has buoyed the ABS market by increasing liquidity and returning confidence to the investor base. Issuers were able to achieve more favorable execution through the government-sponsored program, while investors benefited from stronger underwriting and improved structure. Roughly \$48 billion in ABS were priced through the primary market, two thirds of which were TALF eligible. Extremely oversubscribed deals, combined with light net supply and better structure, led to tighter ABS spreads on each successive deal. As a result, the ABS portion of the Barclays Capital Aggregate Index returned 7.64%, outperforming duration-matched Treasuries by 8.75% during the second quarter.

Despite weaker trust performance and the passage of the Credit Cardholders' Bill of Rights, credit card spreads led the rally in ABS. This reform bill that will go into effect in early 2010 will prevent card

---

*The Federal Reserve continued its purchase program during the quarter, leading many mortgage market participants to become complacent about the Fed providing a backstop for mortgage prices.*

---

companies from charging certain fees and will effectively eliminate their ability to re-price existing balances. Fortunately, those firms should have ample time to implement other changes, such as interest rate increases, that will protect profitability.

Autos spreads also tightened nicely throughout the quarter on the heels of tighter supply and improved used car sales. New issue autos benefited even further, with stronger underwriting and improved structure.

The outlook for the consumer remains negative but technicals should keep ABS bonds well bid in the months to come. We will continue to favor shorter, high-quality credit cards, autos, and rate reduction paper while selectively looking at credit opportunities. Finally, given bleak expectations surrounding housing prices and unfavorable refinance initiatives, we will continue to let our home equity exposure decline through amortizations and select sales.

## HIGH YIELD

The high yield market posted a record-setting 23.07% total return in the second quarter, outperforming duration-matched Treasuries by 25.18%. Outperformance was driven by the lowest credit tiers, as the sector returned to pre-Lehman-bankruptcy valuations. Spreads tightened a massive 569 basis points to a still-swollen 945 basis points as investors raced to add more risk amid improvement in economic numbers and the reopening of the primary issuance market.

Market sentiment improved markedly during the quarter due to a confluence of factors that included strong fund inflows, the reopening of the new issuance market, and the ability of firms to enact bond exchanges and obtain covenant relief from banks, allaying default fears. In fact, the pace of default activity actually declined as the quarter progressed, despite reaching a 7-year high of 10.2% by the end of May. Nevertheless, default activity is likely to remain elevated into 2010 despite the improving macroeconomic environment, given that defaults typically lag spread movement and real economic activity.

The high yield market has had a remarkable rally that has brought spreads back to normal bear-market wides from near depression-like levels. Despite increasing defaults and a tepid economic recovery, we believe that spreads remain compensatory given identifiable risks. That said, spreads of lower-quality CCC names have rallied much more relative to higher-quality tiers and offer less compelling risk-adjusted return potential. We will therefore retain our up-in-quality bias in the coming quarter as we wait for signs that the combination of aggressive fiscal and monetary stimulus positively impacts the economy. In addition, we expect to continue to actively participate in the primary market given attractive pricing and deal structure. Lastly, we will continue to actively reassess our overall strategy pending changes in our firm-wide economic view, as well as changes in the quality and depth of the primary market.

## MUNICIPAL BONDS

The Barclays Capital Municipal Bond Index returned 2.11% in the second quarter, outperforming the Barclays Capital U.S. Treasury Index by 513 basis points. New issue volume for the year totaled \$195 billion, down 15.2% from the first half of 2008.

The states are facing a deteriorating fiscal and financial situation that is without doubt one of the worst in U.S. history. California's crisis is ongoing, as lawmakers have yet to reach an agreement on the state's \$26.3 billion budget gap and have started to issue IOUs for only the second time since the Great Depression. Total budget shortfalls have reached almost \$170 billion for fiscal year 2010, as states continue to experience serious declines in sales, income, and corporate taxes. The American Recovery and Reinvestment Act of 2009 has provided some relief, but with such large budget deficits, the states must continue to raise taxes and cut spending.

Municipal bonds continue to be a historically safe investment, with a 10-year cumulative default rate of only 0.10% for all rated municipal bonds. We will

---

*The high yield market has had a remarkable rally that has brought spreads back to normal bear-market wides from near depression-like levels. Despite increasing defaults and a tepid economic recovery, we believe that spreads remain compensatory given identifiable risks.*

---

*continued on page 8*

# Economic Update



**Jane Caron, CFA**  
Chief Economic Strategist

Our long-held forecast that real GDP will reach a trough this summer remains on track. After plunging at annualized rates of 6.3% in the final quarter of 2008 and 5.5% in the initial quarter of 2009, the economy's pace of contraction slowed significantly last quarter. We estimate that real GDP fell at an annualized rate of 1.5% in the second quarter, which should mark the last quarter of contraction in this recession. During the second half of the year, we look for the economy to expand at roughly a 2–2.5% pace.

While we are heartened by the expectation of an expansion in real GDP, we are not feeling particularly cheerful about the economy. We expect a significant portion of second-half GDP growth to reflect government stimulus and a rebalancing of inventory levels following an excessively rapid pace of destocking during the first half of the year. In our minds, this kind of activity does not reflect sustained strength. Not until mid-2010 do we envision a more fundamentally supported pickup in business and consumer activity.

The danger is that some sort of a shock could derail the recovery before we get to that point. We are not forecasting a double-dip, but we are not ruling one out either because, in its fragile state, the economy is vulnerable to a negative shock. We are currently forecasting real GDP growth of roughly 2% next year, but the risks associated with this forecast are significant. If a positive feedback loop can develop or if there is another stimulus package, then growth could be stronger, but if the economy continues to trend sideways or experiences a negative shock, it will likely be slower.

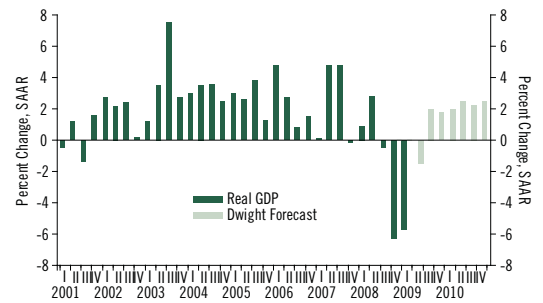
The outlook for inflation is clearer. Over the next year, core consumer inflation is expected to trend down from its current annual growth rate of 1.8% to around zero. The risk, however, is that we enter a period of deflation. Importantly, this risk prevails even if GDP comes in above our 2% forecast next year. That is because there is so much excess capacity in the system that it will take years of very strong growth to remove it.

With unemployment headed to 10.5% next year, downward pressure on wage and salary income is quite substantial. We are hesitant to forecast contracting nominal wages because employees tend to be very resistant to pay cuts, but there is a high probability that this will occur in the current environment of low inflation and high unemployment.

Nominal wage growth has slowed substantially in recent months and is still on a downward track. The Bureau of Labor Statistics reported in the June employment report that average hourly earnings were flat for the month and up just 0.7% (annualized) over the last three months. That is the slowest pace in the 45-year history of this series. The federal minimum wage hike scheduled for July (from \$6.55/hour to \$7.25/hour) should ensure a positive gain this month, but that event will soon be behind us. In 2010, we believe nominal wages could decline by as much as 1%.

## Real GDP: Actual versus Forecast

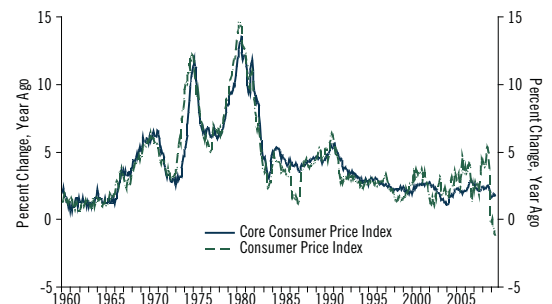
The Deep Recession Should Give Way to a Modest Recovery



Source: Global Insight and DAMCO

## Consumer Price Indices: Total & Core

By the End of 2010, Core Consumer Inflation Should Be Nil



Source: Global Insight

This, of course, will make it harder for households to service their debt, and it could result in a debt-deflation spiral if consumer inflation expectations collapse in line with wages. That would be an exceedingly bad outcome because Washington and the Federal Reserve are not well positioned to fight another battle, and consumers and business managers are already beleaguered from the eighteen-month (and counting) recession experience. This is a key reason why we believe the Federal Reserve will remain highly accommodative through 2010. While it is possible that the Fed may start to slowly adjust the funds rate up from its 0–25 basis point range during the second half of 2010, we would not be surprised if they keep this range in place until 2011.

It is important to point out that we are not forecasting a debt-deflation spiral. We view it as a risk. It is a very serious risk not because it has a high probability of occurring—it is not more than a tail risk—but because it would have very serious consequences for the economy if it were to occur. We believe policymakers recognize this risk, and will err on the side of being overly accommodative rather than under accommodative. Indeed, we expect the Fed to keep the 0–25 basis point range for the federal funds rate in place until mid-2010 and possibly longer. If the Fed begins to move this rate higher in the second half of 2010, they will do so at a very gradual pace. In this environment, investors will continue to worry about inflation in the out years because very high government debt loads and a potentially boxed-in Fed point to significant inflation uncertainty. We sincerely doubt, however, that inflation will be allowed to rear its ugly head because investors will be quick to tighten financial conditions if they deem the Fed is being too lax.

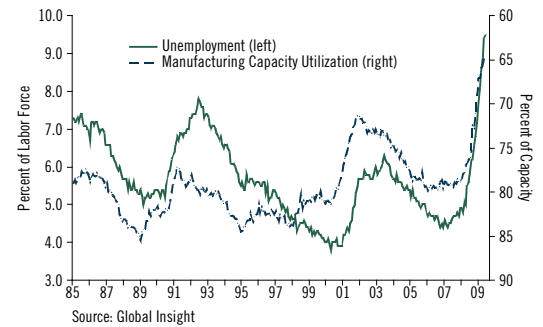
For now, we are willing to give the Fed the benefit of the doubt that they can and will tighten policy as soon as there are convincing signs that core consumer inflation is headed appreciably above 2%. The Fed's actions, however, are unlikely to be well-received by Congress because of the rapidly growing fiscal debt load. Washington is running

a federal budget deficit of roughly 11% of GDP this year and 10% of GDP next year. The market's tolerance for such deficits will wane quickly once the private sector comes back on line and is steadily issuing debt again. Thus, Washington needs to soon develop a strategy to control the rate of increase in public debt. Otherwise, Washington will be facing a rapidly growing interest rate bill, and economic growth will be impaired by high interest rates and tax burdens.

Higher Treasury rates during the second quarter sapped some of the economy's strength, but financial market conditions were still loose. Looking forward, we expect economic growth to remain limited by the household sector's need to deleverage. We believe we are entering the recovery phase of this cycle, but we expect it to be a drawn out experience of subpar growth. We retain a high level of confidence in the Fed's ability to control inflation, but we worry about the tail risk of deflation. We also worry about the fiscal outlook, and believe it too will be a restraining force on economic growth. Fiscal prudence, should it occur, implies higher taxes and reduced spending, while fiscal folly will lead to significantly higher interest rates. Similarly, should the Fed overly relax its inflation guard, we have no doubt that investors will tighten monetary conditions for them. There is no free lunch. ■

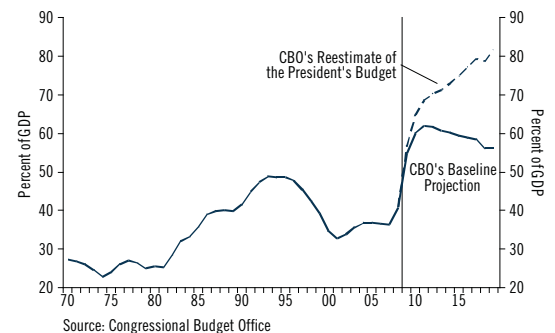
### Unemployment & Capacity Utilization Rates

Excess Slack Is Putting Downward Pressure on Inflation



### Federal Debt Held by the Public

The CBO Forecasts a Huge Jump in Outstanding Debt



*Fixed Income Sector Review, continued from page 5*

▶ continue to remain cautious with a focus on high-grade names and essential service revenue bonds in 2009, and expect the sector to continue providing attractive risk-adjusted returns going forward.

**CASH**

Demand for short-term paper increased over the course of the second quarter as it became abundantly clear that the Fed does not intend to take rates higher in the near term. Due to an influx of supply, 3-month U.S. Treasury bills sold off in June and ended the quarter at a yield of 0.188%, after beginning the period at 0.096%. The spread between 3-month LIBOR and the overnight indexed swap spread (LIBOR-OIS) continues to grind tighter as LIBOR falls. This spread closed out the period at 38 basis points, after reaching a high of over 350 basis points in the wake of the Lehman bankruptcy.

The U.S. commercial paper market continues to contract. With \$1.14 trillion outstanding, the market has nearly halved since July of 2007, and now stands at its lowest level in over eight years. With respect to asset-backed commercial paper and similar assets, investors have made a clear distinction between those programs sponsored by stronger financial institutions with a healthy buyer base and those programs that are more thinly traded with weaker support from

their sponsors. In some instances, spreads between top-tier names with a 3-month maturity may differ by up to 200 basis points.

Meanwhile, the SEC's efforts to rewrite the rules governing money market mutual funds (as a means of preventing a repeat of the Reserve Primary Fund collapse last year) has been front-and-center in the money markets. In June, the SEC finally proposed increased restrictions on money market funds in the areas of liquidity, duration, and credit quality. The Fed has been busy as well, having enacted a number of liquidity initiatives in recent months. One of the more successful initiatives, the Asset-Backed Commercial Paper Money Market Liquidity Facility (AMLF), which allows investors under certain conditions to effectively return securities to the Fed, was extended through early 2010.

In summary, there are some signs of life in the money markets. Investors are carefully choosing their spots and the commercial paper market is once again robust for the most creditworthy borrowers. Moreover, the contraction in the LIBOR-OIS spread, a widely watched metric, is a welcome sign. Nevertheless, we remain defensive in the face of a potentially long road to recovery. It also remains to be seen how efficiently the money market space will operate in the absence of Fed support. ■

**DWIGHT SECTOR SPECIALISTS**

The Sector Review was written by the following sector specialists:



**John Bisset, CFA**  
*Corporates*



**Steve Clancy**  
*Mortgage-Backed Securities*



**Jason Golder**  
*Commercial  
Mortgage-Backed Securities*



**Peter Milne**  
*Asset-Backed Securities*



**Sean Slein, CFA**  
*High-Yield*



**Keith McCarthy**  
*Municipal Bonds*



**Eric Hiatt, CFA**  
*Cash*

## International Bond Market Update

**A**re happy days really here again or will today's green shoots become tomorrow's wilting stems? While there is undisputable evidence that economies in most parts of the world are stabilizing—and some are even showing modest signs of recovery—we believe that the markets have started to become complacent about the challenges that lie ahead. The projected pace and sustainability of the economic recovery is still very much in question. The picture gets even muddier in Europe, where key elections are to take place in Germany, and the United Kingdom, where U.K. Prime Minister Brown is hanging onto power by a thread.

The global bond markets continued to outperform the U.S. market in relative terms but were unable to escape re-pricing, courtesy of supply-related concerns and reignited (and in our mind overblown) inflation fears. Higher yield levels attracted buyers in all market segments. Contrary to initial fears, and undoubtedly aided by rising consumer savings rates here and abroad, there was a significant appetite for bonds on a global level as long as they were priced attractively. Key interest rates will likely remain on hold for the foreseeable future, occasional rhetoric notwithstanding, as the European Central Bank (ECB), the Bank of Japan (BOJ), and the Bank of England (BOE) are not positioned to seriously contemplate any tightening of their respective monetary policies. It is prudent, however, to expect the conversation about neutralizing this unprecedented global liquidity injection to gain momentum going forward. We believe that the Europeans will ultimately take the lead in formulating and implementing an exit strategy, though their economic recovery clearly trails that of the United States.

The BRIC nations (Brazil, Russia, India, and China) did their best to rattle the markets by sending the world mixed signals with respect to the reserve currency holdings in U.S. dollars. Are they putting their money where their mouth is? It does not appear to be that way. For example, take

China, the largest holder of U.S. Treasury debt. One might argue that this nation whose current account surplus is on target to reach an excess of at least \$360 billion (versus \$423 billion in 2008) by year end 2009 will have little alternative but to continue to invest in the U.S. securities market. Recent Treasury auctions show no decrease in interest from overseas investors.

There is a discussion about adopting the Special Drawing Rights (SDR) issued by the International Monetary Fund (IMF) as the primary reserve currency, but it is largely an academic one, as it is neither imminent nor practical at this juncture. SDRs are relatively-narrow currency baskets, currently consisting of 44% U.S. dollars, 34% euros, 11% yen, and 11% pounds sterling. The current composition of the SDRs and, more importantly, the voting shares at the IMF are reflective of the historic balance of power within the IMF at its creation.

In our mind, the real issue at play is that BRIC nations and countries like Mexico should justifiably have power more reflective of their current economic might. As it is, the oil rich nation of Mexico has fewer votes (1.43%) than the Kingdom of Belgium (2.09%), and the United Kingdom has more votes (4.86%) than China (3.66%), the third largest global economy. We believe that the intermittent goal of the BRIC nations is one of gaining acceptance and influence, which is being addressed via investing a relatively small part of their excess reserves in SDR-denominated instruments of the IMF, rather than that of replacing the U.S. dollar as a primary reserve currency. While Europeans might like the idea of the euro taking on that role, even they must concede that in its current legal structure, the euro-zone is ill-equipped for such a challenge. In the long run, we do expect that the U.S. dollar's position as the undisputed reserve currency will be challenged, but we believe that time has yet to come.



**Peter Vutz**  
Senior Vice President  
Portfolio Manager:  
International, Non-Dollar

---

*In the long run, we do expect that the U.S. dollar's position as the undisputed reserve currency will be challenged, but we believe that time has yet to come.*

---

*continued on page 10*

**For more information:****Fixed Income & Stable Value**

Greg Prisk  
Executive Vice President  
802.383.4104  
gprisk@dwight.com

**Cash Management**

John Donohue  
Executive Vice President  
617.459.2777  
jdonohue@dwight.com

Kevin Zimmerman  
Vice President  
617.459.3196  
kzimmerman@dwight.com

**Insurance**

Donald Hill  
Senior Vice President  
802.383.4062  
dhill@dwight.com

John Loud  
Vice President  
802.383.4047  
jloud@dwight.com

**Consultant Relations**

Lisa Trubiano, CFA  
Senior Vice President  
802.383.4066  
ltrubiano@dwight.com

Anicia Mendez  
Vice President  
802.383.4067  
amendez@dwight.com

David Richardson, CFA  
Managing Director  
802.383.4024  
drichardson@dwight.com

100 Bank Street  
Suite 800  
Burlington, VT 05401  
802.383.4000

One SW Columbia  
Suite 1720  
Portland, OR 97258  
800.929.4427  
www.dwight.com

**International Bond Market Update, continued from page 9**

- ▶ Not all is well in the euro-zone, Great Britain, and Japan. We expect that their respective economic recoveries will lag, and that lag will be particularly significant for Europe and Japan. We believe this will support the dollar in the short run, but over the long term the United States will have to pay the piper as it faces the reality of an undisciplined and unsustainable budget deficit. As a result, our long-run view is bullish on foreign debt denominated in euros and other currencies relative to U.S. dollar-denominated debt. ■

## DWIGHT NEWS

**Frank Koster Joins Dwight as Chief Investment Officer**

Frank Koster joined Dwight's Investment Team in June. As Chief Investment Officer, Frank oversees the management of the firm's investment strategies. Prior to joining Dwight, Frank was Co-Head of the High Grade Fixed Income Team at Wells Capital Management in Menomonee Falls, WI, where he served as lead portfolio manager for all investment-grade institutional portfolios and was responsible for portfolio construction and risk management. Frank

had also served as Senior Portfolio Manager for Strong Capital Management, Head of Fixed Income at Fifth Third Bank, and focused on mortgage-backed securities at Donaldson, Lufkin & Jenrette, Merrill Lynch, and Goldman Sachs. Frank earned a Bachelor of Arts in Economics from the College of Wooster, Wooster, OH. In his spare time, Frank enjoys fly fishing, skiing, and attending his children's hockey games.

**Dwight Completes Liftout of Neuberger Cash Management Team**

Effective July 1, Dwight completed a collaborative liftout of Neuberger Berman's Cash Management Team. The eight-person team, led by industry veteran John Donohue, will be located in Dwight's new office in Boston. This team brings deep cash management expertise that broadens Dwight's

capabilities as a fixed income firm. The addition of the Cash Management Team will allow Dwight to offer complete investment solutions to clients and complements our capabilities within the stable value asset class. ■