

Global Economic Summary

Inside this issue:

Inflation	2
Federal Deficit and Debt Ceiling	3
Financial Markets ' Performance	5
Investment Strategy	7
Appendix	8

World economic growth is estimated to increase to almost 5% during 2011, experiencing its third year of above-trend expansion; see Exhibit 1. Emerging markets lead this expansion with estimated GDP growth of BRIC¹ countries approximating 8% and the estimated growth of developed economies falling within the 2.6—2.8% range. These estimates² include adjustments for the recent turmoil in the Middle East and North Africa and the unexpected and unfortunate earthquake, tsunami, and subsequent nuclear crisis in Japan.

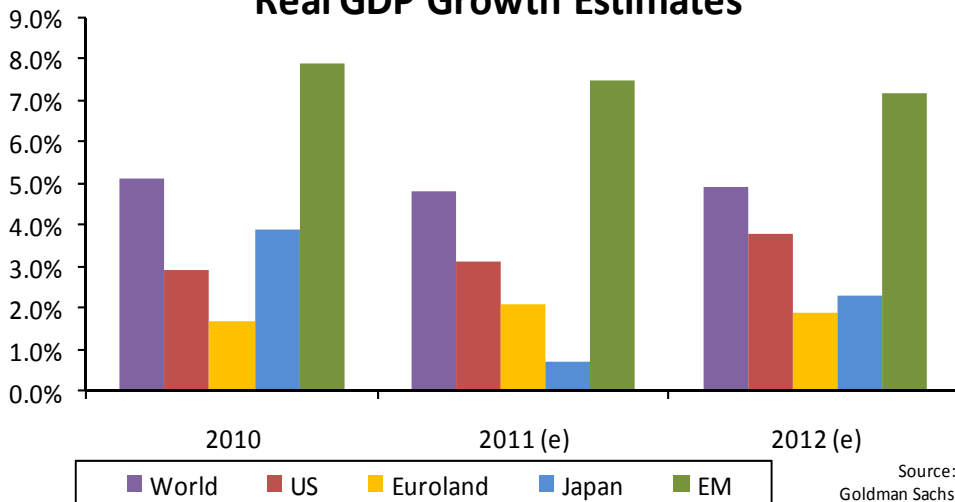
The evolving uncertainties in the Middle East and North Africa have considerably increased oil prices, now standing in excess of \$105 per barrel. This, in turn, has lowered overall consumer confidence

and other key economic variables, resulting in a worldwide economic growth rate lower than that originally anticipated. If oil price increases continue, world GDP growth might be further reduced for the remainder of the year, as well as in 2012.

As you know, Japan experienced on March 11th its most powerful earthquake since modern record-keeping – a magnitude 9.0 centered off its eastern coast. The earthquake triggered destructive tsunami waves, compounding the damage, and leading to an ongoing nuclear crisis centered in the Fukushima Nuclear Power Plant. We deeply regret the loss of life and significant disruptions to daily life the Japanese people have had to face in light of this disaster. Their swift and calm response during the crisis is a testament to the people of Japan and we hope they will fully and quickly recover from these events.

Exhibit 1

Real GDP Growth Estimates



Since Japan was not expected to be a significant contributor to global growth in 2011, the temporary disruptions in the Japanese economy should not markedly impact global growth. On the other hand, set-backs in the Japanese manufacturing sector have led to disruptions in global industrial production, particularly in autos and technology. The combination of the Bank of Japan's massive injection of liquidity into

(Continued on page 2)

¹ Brazil, Russia, India and China

² Viewpoints from GSAM's Chairman—Living in a Growth Market World, 4/20/21, Jim O'Neill
Chairman, Goldman Sachs Asset Management, pg 1



Global Economic Summary Cont.

From page 1

the economy, a likely large fiscal response, and the payment of insurance claims should lead to a stabilization of growth during 2011 and an acceleration in 2012.

As a result of the continued and strong economic growth in emerging markets, some central banks have implemented a tightening in monetary policy. Although economic growth in Euroland is recovering (current GDP estimates for 2011-2012 are approximately 2%), the European Central Bank also increased interest rates in April – as a precautionary measure – and the UK might follow in June. However, the continued excess in worldwide productive capacity and high unemployment, leads us to believe a strong worldwide monetary tightening effort will not occur in the near future. Furthermore, some European sovereign debt concerns linger and their solutions remain ‘works in progress’ requiring special care in implementing changes in monetary and fiscal policy.

While the impact of higher oil prices, weather-related interferences, and other factors held US GDP growth to 1.8% during the first quarter of 2011, it is estimated that growth for the year still will exceed 3%. Manufacturing output and employment continued to improve during the quarter. The Federal Reserve has maintained its accommodative monetary policy and, in general, credit conditions have continued to loosen. Specifically, credit has become more accessible to small businesses. Additionally, although the impact of the fiscal stimulus is declining, it still remains a positive factor for the economy.

Corporate profits set a new record high during the fourth quarter of 2010 and continued to grow substantially during this first quarter. Corporations have started to use their increasing cash positions to fund capital expenditures and expand employment (e.g., smaller businesses finally have started hiring, which should positively impact and lower the unemployment rate). Mergers and acquisitions are expected to continue at a reasonable level during the year.

“The Federal Reserve has maintained its accommodative monetary policy and, in general, credit conditions have continued to loosen.”

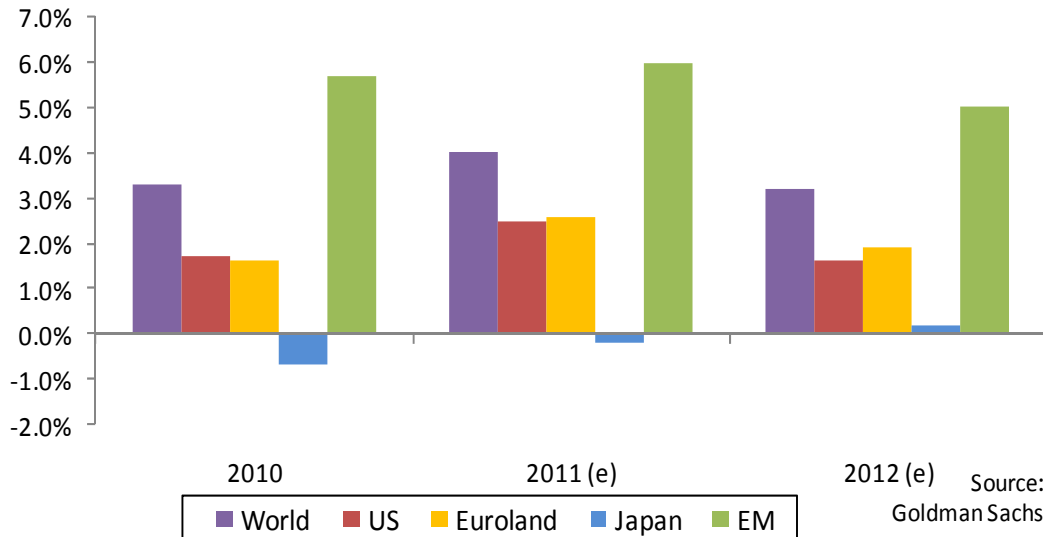
Inflation

As shown in Exhibit 2, while inflation has been relatively subdued in the developed world (resulting from excess capacity in the economy and employment) higher commodity prices have

started to affect headline inflation. In the high-growth emerging markets, inflation looms larger and, as mentioned, many central banks have begun to implement corrective measures.

Exhibit 2

Inflation Estimates



Federal Deficit and Debt Ceiling

Much recent discussion and concern has surrounded the issues of the US fiscal deficit and the increase in the US debt ceiling (which specifically requires Congressional approval). As discussed in our previous Client Investment Letter, while these very important issues need to be addressed, their solutions are long-term in nature and require gradual implementation. It is critical that these very delicate measures are implemented in a thoughtful and responsible manner, so as not to harm the ongoing current economic expansion.

In our view, the current unemployment problem remains the highest economic priority; fortunately, it appears the economy is finally starting to generate a more reasonable number of jobs which will enhance the pace of the recovery, especially in lagging sectors (e.g., housing). The combination of higher economic growth and employment gains will most likely result in an increase in tax revenues and

a decrease in some fiscal expenditures. As a consequence, the deficit could be reduced to a more manageable level.

Recent bi-partisan Congressional budget measures incorporated modest reductions in expenditures which, if coupled with a potential higher economic growth rate, will reduce the deficit even further. However, in our view, the real problem is not the current deficit (which we believe is manageable), but rather the deficit's future long-term prospects. We believe these long-term problems can be resolved if entitlement spending is appropriately reformed, defense budget issues addressed, and the tax system modified in order to deal with the nation's new economic and social priorities. We recognize that this is a challenging task for a democratic society, but one that has no reasonable alternatives.

“...the current unemployment problem remains the highest economic priority; fortunately, it appears the economy finally is starting to generate a more reasonable number of jobs .”

(Continued on page 4)

From page 3

Fortunately, there is time to implement gradual, forceful, and responsible measures to tackle and solve the country's deficit—despite the views of 'gloomers and doomers'.

Under current conditions, where consumer sentiment and other economic variables still are fragile, tax increases and draconian cuts in governmental expenditures would not be the most effective policies to foster economic growth and generate new employment. Such fiscal measures should be undertaken only when the economy is operating in 'high-growth mode' and, if anything, could be used later to help contain potential future inflation.

Encouragingly, consensus exists on the need to reduce the longer-term deficit. The substantial differences lie in the measures, magnitude, and timing of the 'means to achieve the end'. In our democratic political system, this means that the opposing parties will need to compromise and design a workable solution that might not be perfect – and might take longer – but should comprehensively address this serious national problem. In our view, despite the recent political posturing by both parties (in advance of the upcoming 2012 elections), some work already has started and much more needs to be accomplished. What we need to remember, quoting General Patton, is that, "A good plan well executed is better than a perfect plan that never gets off the ground".

Although we do favor fiscal responsibility, it is vital that Congress approves the increase to the debt ceiling in order to maintain normalcy in the government's financial activities. As the country continues to operate in a deficit-spending mode, the debt ceiling is closely approaching its legal limit as to how much outstanding debt the US government can owe. First set in 1917, this limit has been raised numerous times

(e.g., over 10 times in the last decade).

We believe that Congress will increase the ceiling; however, as discussed in our previous Client Investment Letter, politicians should exercise prudence in the current debt ceiling discussion so as not to send the world the wrong message and possibly compromise the financial integrity of the country. Failing to raise the debt ceiling either would require instant and severe fiscal tightening, or a default on US debt – both consequences would be devastating to the United States and the global economy. And while we believe that neither will come to pass, political posturing surrounding this issue can lead to increased volatility in the financial markets.

For example, in April, Standard & Poor's (S&P) reaffirmed the AAA rating of US government debt, but downgraded its long-term outlook from 'stable' to 'negative'. This downgrade in outlook (which is quite different from a *rating downgrade*) was based on S&P's perception that there is material risk the US Congress will not agree on how to address the nation's fiscal challenges by 2013. S&P's downgrade in outlook led to a temporary increase in volatility for US equities.

At the end of 2008 and during 2009, it is worth noting the country's economic and financial situation was truly delicate, but no change in outlook was decreed. Now that the country stands on much stronger economic and financial ground and reform efforts have been initiated (within the context and limitations of a true democratic system), S&P has issued a downgrade in outlook on the speculation that our political system will fail to address the issues by the arbitrary date of 2013.

"A good plan well executed is better than a perfect plan that never gets off the ground."

General Patton

Financial Markets' Performance

Numerous geopolitical events in the Middle East and North Africa, as well as the Japanese tragedies, created volatility in worldwide equity markets during the first quarter of 2011, but ended with good overall returns; see Exhibit 3.

In the US, all styles and market segments experienced solid performance

during the quarter. Small and mid-caps outperformed large-caps and the Russell 2000, which measures small companies performance, hit a new record high during the quarter. Small and mid-cap growth stocks outperformed their corresponding value counterparts. In the large-cap segment, value returns exceeded growth.

“In the US, all styles and market segments experienced solid performance during the quarter.”

Exhibit 3

Total Return* for Selected Equity, Fixed Income, and Hedge Fund Indices

1Q 2011
(12/31/10 to
3/31/11)

Major Equity Indices	%
S&P 500 Index	5.9
Russell 3000 Index (Total US market)	6.4
Russell 2000 Index	7.9
MSCI All Country Ex-US Index (Net)	3.4
MSCI EAFE International Index (Net)	3.4
MSCI Emerging Markets (Net)	2.1
<i>Source: Bloomberg, MSCI</i>	
Major Fixed Income and Hedge Fund Indices	%
Barclays Capital US Aggregate Bond Index	0.4
Barclays Capital Credit Investment Grade	0.9
Merrill Lynch US High Yield BB-B Bond Index	3.6
JPMorgan GBI Global ex-US Index Hedged in USD	-0.8
JP Morgan EMBI Global Index in USD (Emerging markets)	1.0
HFRX Equal Weighted Strategies Index (Hedge Funds)	1.5
<i>Source: Bloomberg, PIMCO, HFRI</i>	

* Includes price appreciation plus dividends and/or interest.

Financial Markets' Performance Cont.

From page 5

Although they underperformed relative to US equities, international stocks showed positive returns during the first quarter, with developed country indices outpacing those of emerging markets. While the sovereign debt crises in Europe still remain a long-term concern, corporate earnings grew at a healthy pace and were supported by stable economic growth. Japanese stocks suffered significant declines resulting from its triple tragedies. Due to the political unrest in the Middle East and North Africa, as well as monetary tightening by several large countries including India and China, emerging market stocks underperformed during most of the quarter. For most developed and emerging market equities, US dollar-based investors benefited from the continued weakness of the dollar.

In the US, expectations of rising inflation and the prospect of an end to quantitative easing dominated the fixed income market during the first quarter, increasing Treasury yields. Additionally, we believe a challenging fixed income environment will likely persist. However, macroeconomic risks in Europe, geopolitical events in the Middle East and North Africa, and natural disasters in Japan countered most of the negative price impact ('safe haven' effect), keeping Treasury returns only slightly negative for the quarter. Still, there is a high probability that Treasury yields gradually will rise in the future. While Treasuries kept the Barclays Capital Aggregate Bond Index – the most commonly used fixed income index – slightly positive for the quarter, high yield bonds advanced. Stronger corporate balance

sheets, low default rates, and an increasing appetite for risk drove their strong performance.

Commercial Mortgage Backed Securities ('CMBS') and emerging market debt also benefitted from an improving economy and low interest rate sensitivity. Uncertainty in the muni market continued during the quarter, though some stabilization was apparent; munis ended the quarter with slight positive returns, as opposed to losses experienced during the fourth quarter of 2010. Higher grade munis outperformed lower quality issues.

Alternative investment performance was positive in the first quarter of 2011. As correlations among individual stocks declined during the fourth quarter of 2010 and during most of the first quarter 2011, equity managers were more able to add value to their portfolios. Hedge funds also were able to take advantage of special opportunities within the fixed income and commodity markets.

“...expectations of rising inflation and the prospects of an end to quantitative easing dominated the fixed income market during the first quarter, increasing Treasury yields.”

Investment Strategy

As the global economy sustains its recovery, we continue to find opportunities in equities – particularly those of developed countries. High quality multinationals lag the rest of the market and remain attractive. Valuations remain low not only in the US, but also in Europe and Japan, especially for the large-cap growth companies. While not as ample, selected opportunities still are present in the US mid and small-cap arenas, in global real estate, and in some emerging markets.

We continue to believe that an appropriate allocation to equities is important, as global core inflation starts to increase. Historically, in a rising (but reasonable) inflation environment, equities and commodities can provide a hedge against inflation, as shown in Appendix 1 prepared by J.P. Morgan Asset Management. Likewise, we and the fund managers that we utilize are tilting exposure towards equities and (on a more limited basis) commodities. Please remember that past performance is no indication or guarantee of future returns.

Also, as mentioned in our last Client Investment Letter, we believe it is highly probable that fixed income will face headwinds due to rising interest rates. Where appropriate, we have lowered duration and shifted toward fixed income sectors less sensitive to rising interest rates. Further, we seek

fund managers who search out special opportunities, or have the flexibility to move to less interest rate sensitive areas. Lastly, given that high yield fixed income securities generally have lower sensitivity to interest rates, we are maintaining a position, where appropriate. We continue to believe that allocation to fixed income is an integral part of a diversified portfolio due to the asset class' lower volatility and low correlation with equities.

While we continue to rebalance portfolios, we believe broad diversification remains one of the most prudent strategies. Exposure to equities requires investors to have a long-term horizon in order to minimize volatility. While the volatility of various asset classes (like equities) can be extremely high in the short-term, this volatility diminishes as the holding period increases and, after twenty years (of rolling periods), lies within a more narrow and positive range; see Appendix 2 prepared by J.P. Morgan Asset Management.

Our focus – as always – remains on achieving your long-term investment objectives (given your risk profile) and funding your future liquidity needs. Again, we invite you to call us at 301.881.3727 with any questions or concerns about your portfolio.

“Our focus – as always – remains on achieving your long-term investment objectives (given your risk profile) and funding your future liquidity needs.”

Please note that past performance is neither an indication nor a guarantee of future returns and that diversification does not ensure profits or guarantee against a loss.

SOL CAPITAL MANAGEMENT COMPANY

111 Rockville Pike, Suite 750
 Rockville, MD 20850
 Phone: 301.881.3727
 Fax: 301.770.5346

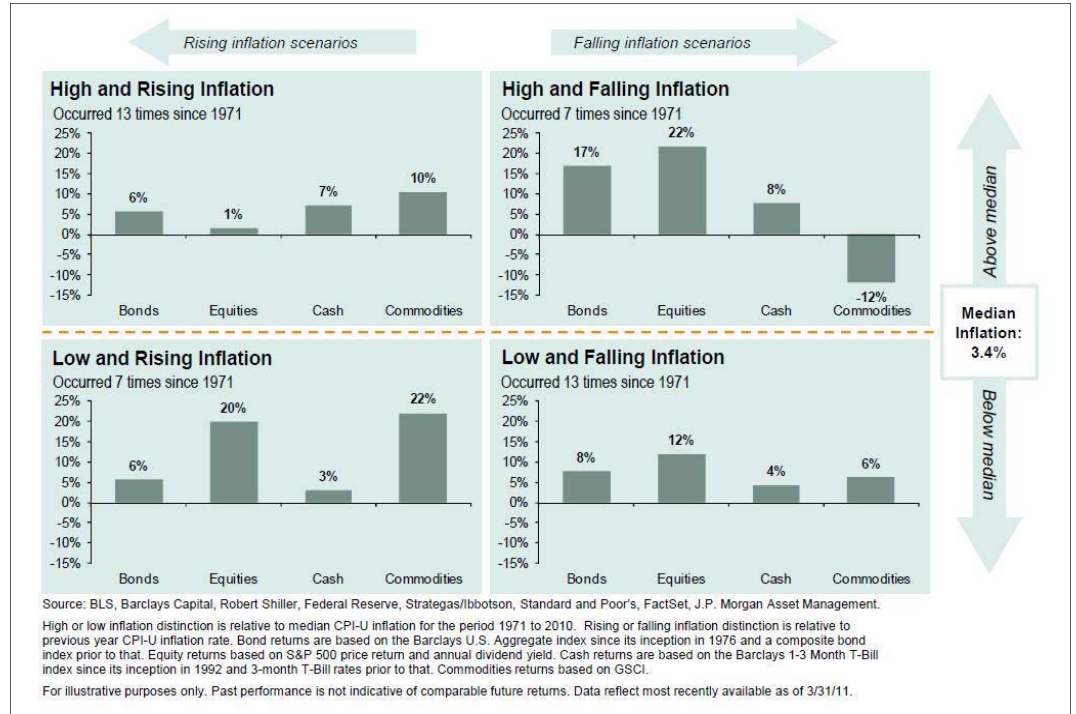
75 Rockefeller Plaza, 18th Floor
 New York, NY 10019
 Phone: 212.710.4698

www.sol-capital.com

E-mail: sol@sol-capital.com

Appendix 1

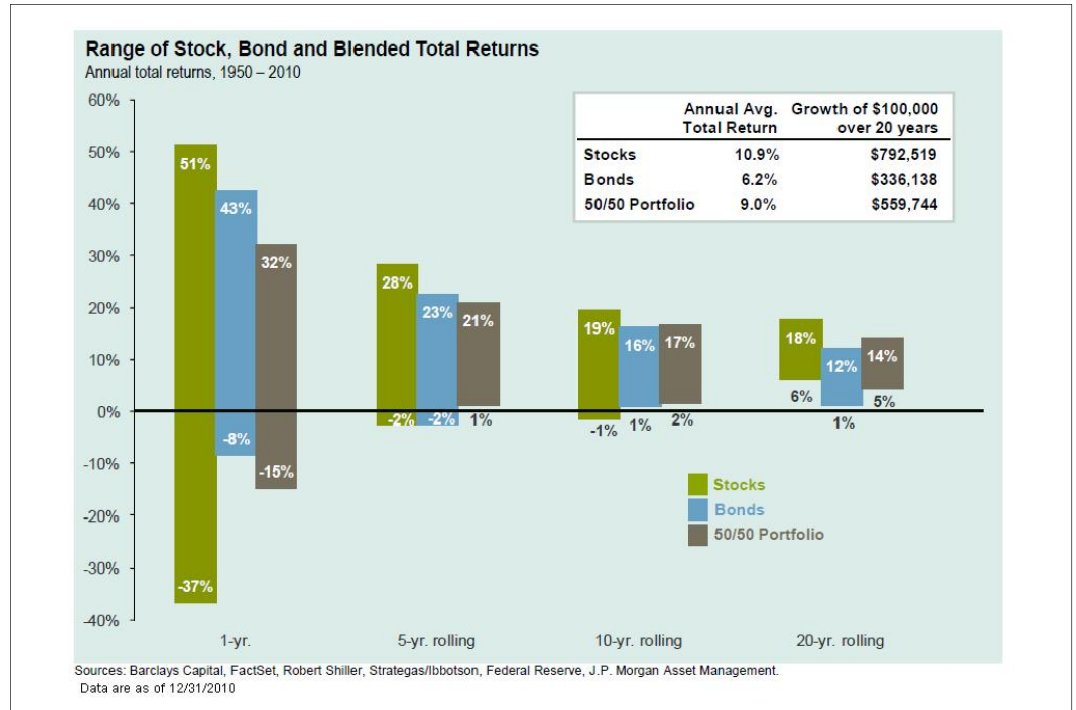
Returns in Different Inflation Environments — 40 years



Source: *Guide to the Markets, 2Q/2011, as of March 31, 2011*, J.P. Morgan Asset Management, page 24.

Appendix 2

Historical Returns by Holding Period



Source: *Guide to the Markets, 2Q/2011, as of March 31, 2011*, J.P. Morgan Asset Management, page 53.



**Registered Investment
 Advisers**