KStone
PARTNERS LLC

Trustworthy, Conservative & Experienced

January 5, 2009

Outlook For 2009

At KStone Partners the asset allocation decisions made by our Investment Committee are guided by our outlook with respect to the future economic, financial and political climate. We would like to share with you our assessment of the challenging conditions that are likely to exist in 2009. Outlined below is a summary of our forecast for the global economy, U.S. financial markets and the political environment in 2009.

The Economy

1. U.S. Economy
   a. Consumer confidence will remain low as unemployment rises appreciably. Demand for consumer and industrial goods is expected to drop significantly with consumer spending plummeting. Consumers' wages will govern their spending.
   b. Housing prices are expected to continue to fall throughout 2009.
   c. Consumers will increase their savings rate dramatically and continue to de-lever.
   d. Banks will need to raise additional equity due to the continuing depreciation in the value of their assets.
   e. The credit crisis will persist with many corporations and private equity-owned companies unable to refinance their debt.
   f. Expected low inflation for most of 2009 will not be helpful for many overleveraged companies.

2. Federal Government
   a. The U.S. Budget Deficit is likely to reach $1.5 trillion in 2009. The real economic deficit for the Federal Government for 2009 including the cost of social insurance obligations is likely to exceed $5 trillion as it did in 2008.
   b. The total U.S. net debt position including the present value of social insurance obligations is likely to exceed $64 trillion by September 30, 2009. This debt level is about 4.5x the expected approximate $14 trillion U.S. Gross Domestic Product for 2009.

3. State & Local Government
   a. States and cities are likely to enact a variety of taxes to make up for their budget shortfalls.
   b. A meaningful number of municipal defaults and bankruptcies are likely to occur primarily due to tax revenue shortfalls.

4. World Economy
   a. Globally, banks' capitalizations will remain under severe pressure with the capital injections by their respective governments not likely to achieve their goal of stabilization. Banks are likely to continue de-leveraging. Default rates are likely to increase on housing and non-housing related asset classes held by banks. More banks will be declared insolvent and many will be forced to merge. The asset securitization markets are expected to remain largely frozen.
   b. The ongoing negative feedback loop will likely fuel declines in all asset classes.

c. Far Eastern markets, as the center of the world's manufacturing, will experience very significant economic declines.

U.S. Financial Markets

1. U.S. Stock Market
   a. 1st Half 2009 – Investors high hopes for the new administration and expectations regarding the government stimulus program lead to higher valuations.
   b. 2nd Half 2009 – The stock market may test its November 2008 lows. The market could be flat for the year but high volatility is likely to return. Investors should assume that the stock market will probably overshoot on the downside.

2. U.S. Treasury Market
   a. Treasuries may not be a safe haven.
   b. The Treasury Department needs to borrow over $2 trillion in 2009 so interest rates should rise. Cost of credit default insurance on U.S. obligations would then rise significantly.

Politics

1. U.S. Politics
   a. The new administration's policy efforts to promote growth in 2009 may not succeed. The stimulus program may well be offset by increased consumer savings and increasing state and local taxes. Spending stimulus' real impact may well be delayed until 2010.
   b. President-elect Obama's First 100 Days will be eventful as his administration pushes through a tax cut and spending stimulus package that should be well received by the stock market.
   c. There may be no IRAQ "peace dividend" as other flare-ups will most certainly occupy the new administration's time and commitment.

2. Global Politics
   a. Stressful economic times lead bad governments to poor behavior. One or more of the long-simmering powder kegs around the world (e.g., Russia/Ukraine) will likely go off.
   b. Governments around the world continue to play catch up to the U.S. in aggressively dealing with the financial crisis. Their actions may be largely ineffective in averting further deterioration of economic conditions. Furthermore, governments increasing their already high leverage levels may be counter-productive.
   c. The populist trend towards trade protectionism could increase significantly. Russia, Brazil and other countries are raising trade barriers. China may also be more assertive in protecting its markets.

The likely turmoil in the world in 2009 creates substantial opportunities to invest and achieve attractive risk-adjusted returns. We would be delighted to discuss our outlook and explain how we intend to take advantage of this environment.