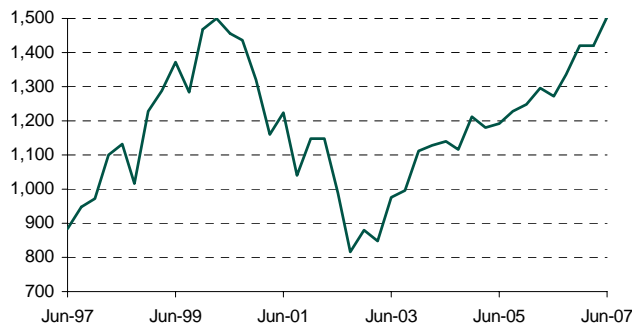




## Financial Review

Equity markets rallied sharply higher in the second quarter, buoyed by strong corporate earnings and the continuation of merger and acquisition activity. Large-cap stocks, as represented by the S&P 500 Index, increased 6.3% for the quarter, while the benchmark index for small-cap stocks, the Russell 2000 Index, advanced 4.4%. International stocks rose 6.4% for the quarter.

S&P 500 Index



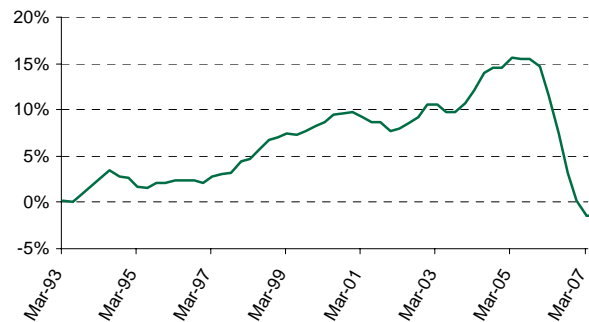
During the quarter, the S&P 500 Index eclipsed its previous high set back in 2000. The driving force behind the market continues to be the abundance of liquidity, creating shrinkage of the supply of equity shares available for investors. Since 2004, corporations have been accelerating plans for share buybacks, with recent announcements reaching record levels. Over the last few months a number of corporations have declared plans to purchase in excess of \$10 billion of their own shares, including Wal-Mart, IBM, ConocoPhillips, and Johnson and Johnson. Corporate earnings remain strong within most industries (housing being an

obvious exception), laying the groundwork for future buyback announcements.

Additionally, robust M&A activity - Alltel, Tribune, First Data, and Hilton Hotels, to name just a few acquisition targets - has (or will) provide shareholders with cash, requiring many investors to purchase shares of other companies just to remain invested. This “virtuous” cycle for stocks may continue for several more quarters, as announced deals are completed and new acquisitions occur.

Although the current environment for stocks is quite favorable, we acknowledge that risks exist – particularly as it relates to the future growth of the U.S. economy. Presently, the biggest worry for the economy is the impact of the severe downturn in housing. For several quarters, data from homebuilders have shown deterioration both in housing starts as well as the number of permits issued for future construction. Despite the slowdown in new supply on the market, only recently, have home prices across the country finally turned lower.

S&P/Case-Shiller Home Price Index  
Year Over Year Growth



Source: Case-Shiller & Bloomberg L.P.

The S&P/Case Shiller Home Price Index monitors price changes of homes within 20 metropolitan markets in the U.S. The preceding chart demonstrates a lengthy period of strong pricing for home sales, with home prices growing at a double digit rate (year over year) for most of this decade. The growth in prices began to decelerate noticeably in 2006, and in the first quarter of 2007 prices declined for the first time in the history of the index. We believe that further declines will be necessary to help reduce inventories to more normal levels - a process that may continue well into 2009.

Despite the bleak near-term outlook for housing related activity, we believe the broader economy will avoid a recession. As we noted in our investment review for the first quarter, we believe the saving grace for the economy is the strong labor market, which has consistently reported job creation, primarily in service industries. Our contention holds that as long as the employment data indicates continued strength, the economy can withstand the effects of the weakening housing picture. Coupled with the strong liquidity position enjoyed by corporations and private equity/LBO funds, we believe conditions for the stock market remain positive.

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## Core Equity Portfolio

We initiated a position in HSBC Holdings during the second quarter. HSBC is a leading international bank and financial service company. The company has substantial exposure to commercial and retail markets across the world – almost half of its profits are derived from fast growing economies in Asia and Latin America. At current prices, we find

the growth profile, valuation and dividend yield extremely attractive.

During the quarter, we sold our position in Honeywell, and our investment in Medimmune was acquired for cash.

Honeywell is a leading global manufacturer serving numerous industries, including aerospace, automotive, construction and power generation. Honeywell was originally acquired in client portfolios in March 2000 with the expectation that its merger with Allied Signal would create a more efficient, broadly diversified company. The market has recently afforded Honeywell a higher valuation, in large part reflecting the company's ability to deliver strong financial results over the past few years. The current share price, in our view, fully reflects the value of the conglomerate, resulting in our exit from the position.

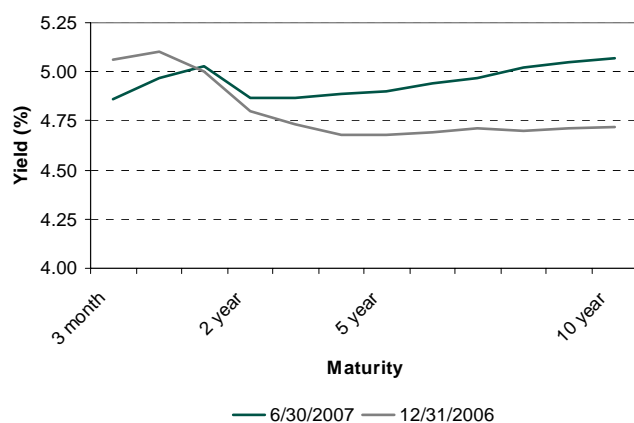
Medimmune, a biotechnology company, was originally acquired in client portfolios in August 2004, as we believed there was a disconnect between the stock price and the combined value of its existing drugs on the market and pipeline of future drugs. AstraZeneca, one of the largest pharmaceutical companies in Europe, recognized the underlying value of Medimmune, offering to acquire the company for \$58 per share in cash - an exceptionally attractive price for Medimmune shareholders.

Sector exposure in equity portfolios continues to favor companies operating within Energy, Health Care, and Technology. We remain underweight in financials primarily due to our concern for potentially higher credit losses on loans and investment exposure to derivative products.

## Fixed Income Markets

Interest rates on intermediate and long-term maturities moved higher in the second quarter, as investors expressed concern over future inflationary pressures from higher commodity costs and a strong labor market. The Federal Reserve, while not changing monetary policy, remains more concerned with inflation than the lingering effects of the housing slump. We believe the Fed will avoid any policy changes at least through the end of the year.

Treasury Yield Curve



After a strong April and May, **Long Credit** (loans granted to a non-investment grade borrowers and high yield debt) saw prices fall and credit spreads widen in June. Several companies were forced to cancel debt offerings due to lack of demand. After a period of indiscriminate buying, investors are becoming more cautious in their assessment of risk.

Pockets of opportunity have appeared in **Distressed Securities**, but most managers remain largely in run-off mode with this portion of their portfolio. If the market remains less willing to provide higher leverage and cheaper debt, corporate managers will be forced to confront operational issues rather than buying time through balance sheet refinancing. Once this occurs, we expect more corporate defaults.

Most **Specialty Finance** investments continue to post strong results. The only pocket of weakness is within direct corporate lending where managers are having difficulty sourcing attractive opportunities. We are heartened, however, that these managers have maintained their strict lending discipline, rather than reducing lending standards. Given some of the recent weakness in public credit markets, we anticipate more attractive opportunities will arise in the middle market area in the next few months.

## Alternative Investments

Alternative investments largely performed as expected in the quarter, generating strong absolute returns, although lagging behind the rapidly advancing equity markets.

**Equity Long/Short** and **Merger Arbitrage** benefited from a slew of corporate buyout transactions. The strong deal flow supported the equity market and enabled managers to speculate which company would be next to announce a transaction and pounce on opportunities after publicly disclosed.

## New Investments

Cedar Hill has raised capital for an opportunistic real estate fund, to investing in private real estate transactions. The fund is a continuation of the real estate investments we have pursued since 2001. We have chosen to

June 30, 2007

establish a fund as it allows us to move more quickly in making investment decisions and provides our clients with further diversification opportunities.

Approximately 65% of the fund will be invested in direct real estate transactions with operators whom we have previously co-invested. The balance will be invested opportunistically in funds that complement these transactions, potentially including international markets, resource land opportunities, and turn-around situations.

### One Year Economic Overview

		Jun 2007	Jun 2006
<b>Stock Market</b>			
S&P 500 Index	▲	1,503.35	1,270.20
Russell 2000 Index	▲	833.70	724.67
<b>Fixed Income Yields</b>			
3-Month Treasuries	▲	5.05%	5.03%
5-Year Treasuries	▼	4.90	5.09
10-Year Treasuries	▼	5.07	5.16
30-Year Treasuries	▼	5.12	5.19
<b>Inflation Monitor</b>			
CPI-Trailing 12-Month Growth	▼	2.7%	4.3%
CPI-(Excluding Food/Energy)	▼	2.2	2.6
Market Expectations*	▼	2.4	2.6
<b>Commodity Prices</b>			
Gold (per ounce)	▲	\$649.65	\$615.85
Crude Oil (per barrel)	▼	70.68	73.93

\*Comparison of yields for 10-Year Treasury and 10-Year TIPS