



First Quarter 2010 Investment Commentary

After correcting sharply in late January, the markets continued their upward trajectory with the S&P 500 Index up 49.8% from a year ago. Equity indices across the board were positive for the first three months of this year, as growing evidence that the economic recovery is taking hold persuaded investors to reduce their short term holdings and venture into longer term assets. Unlike in 2009, when international stocks produced the best returns, the biggest gainers in the first quarter were home-grown U.S. equities. While the broadly diversified, large cap S&P 500 Index posted a respectable 5.4% return for the quarter, smaller was better: the Russell Midcap Index was up 8.7% for the quarter and the smaller capitalization Russell 2000 Index rose 8.9%. Interestingly, the financial services stocks, which were at the crux of the meltdown and lost over half of their value in 2008, rose sharply in the first quarter (+11.2%) and are up over 83% versus one year ago. The bid for risk assets also was evident in the fixed income markets as the Barclays Capital High Yield Bond index was up 4.2% while the investment grade Barclays Capital Aggregate (investment grade) Index was up only 1.8% for the quarter.

The MSCI Europe Australasia and Far East (EAFE) Index also rallied 4.4% in local currency, but resulted in a 0.9% return in dollar terms, as concerns over Greece's ability to support its sovereign debt caused weakness in the euro. Major European nations have shown an understandable reluctance to "bail out" those countries with less fiscal discipline. Nevertheless, past experiences suggest that it is in the collective self-interest of all European nations to reach an accommodation to resolve their current crisis. In contrast to Europe, the emerging market index benefited from continued currency strength and generated a 2.5% return to U.S. investors. As noted in prior correspondence, emerging market economies, led by Latin America and Asia, are recovering faster and, in general, have much less indebtedness than the more mature economies of Europe, Japan and the US. The big surprise was the strength of the long dormant Japanese equity market as the Nikkei Index produced an impressive 8.2% return for the quarter.¹

While the debate over healthcare reform dominated national politics, investors focused their attention on improving economic trends. The most recent employment report showed that nonfarm payroll employment increased 162,000 in March while the unemployment rate held steady at 9.7%. Although about 48,000 of these jobs were with the federal government (including many census jobs), manufacturing employment rose for the third straight month², indicating a cyclical improvement that has historically been a precursor to a stronger economy. It is also encouraging that retail sales have increased in four of the past five months, as personal consumption accounts for over two thirds of the Gross Domestic Product of the US.³ Housing appears to be stabilizing and auto sales have recovered to an 11.78 million seasonally adjusted annual rate from under 9.86 million units a year ago, according to AutoData⁴. These signs of cyclical economic recovery, supported by future employment growth, the pull of expansion from emerging economies and the lagged effect of fiscal stimulus spending, should sustain our economic recovery. Even so, we question whether this recovery will be as robust as others given the secular pressures on consumers to de-leverage their balance sheets that we have noted in earlier writings.

UMFNE Socially Responsible Stock Pool*

The first quarter of 2010 was in many ways a repeat of 2009: stocks continued to advance as investors' appetite for risk grew and economic data suggested that the worst of the Great Recession was behind us. The S&P 500 Index rose 5.4% while the developed market international MSCI EAFE Index was up 0.9% for the quarter and emerging markets were up 2.5%.

¹ Bloomberg L. P.

² <http://www.bls.gov/news.release/empsit.nr0.htm>

³ http://www.census.gov/retail/mrts/historic_releases.html

⁴ <http://industry.bnet.com/auto/10003874/february-auto-sales/>

The UMFNE Socially Responsible Stock Pool* is comprised of two portfolios designed to optimally track the performance of both domestic and international stocks as represented by the Russell 3000 Index (target: 75% of the pool) and MSCI EAFE (Europe Australia Far East) Index (target: 20% of the pool) and MSCI Emerging Markets (target: 5% of the pool). Currently, our Stock Pool consists of over 1170 holdings with an asset allocation of 54% large-cap, 17% mid-cap, 5% small-cap, and 24% international companies

	Quarter Ended	12 Months Ended	3 Years Ended	5 Years Ended
Time Weighted Return	03/31/10	03/31/10	03/31/10	03/31/10
UMFNE Stock Pool*	4.74%	53.76%	-3.64%	2.92%
Russell 3000 Index	5.94%	54.32%	-4.29%	2.40%
S & P 500	5.39%	49.77%	-4.17%	1.92%
Domini Social Index5	5.02%	52.94%	-2.21%	2.68%
MSCI EAFE Index	2.40%	81.08%	5.50%	16.00%

UMFNE Socially Responsible Bond Pool*

For the first quarter, the UMFNE Socially Responsible Bond Pool* posted a return of +1.39%, lagging behind the Barclays (formerly Lehman) Intermediate Government Credit Index which had a return of 1.54%. On a year over year basis, our Bond Pool was up 5.20%, versus than the 6.92% for the Index. Our focus on quality and the conservative structure of the portfolio (particularly its underweight to BBB-rated bonds and our underweight to corporate bonds relative to the benchmark), was additive to our performance for all of 2008 but has lagged the benchmarks as credit markets recovered and investors' appetite for risk has increased. Investors have rotated out of treasury and agency debt and into corporate credit. We view the bond portfolio as (ideally) a stable source of income for investors and look to our equity investments for appreciation over time.

Market Outlook

Inflation remains subdued, in spite of improving economic prospects and rising commodity prices. Labor cost increases have been relatively modest, in part due to the recession and in part due to the fact that the labor market has become increasingly global. Americans are more likely to compete with skilled workers in China and India for certain medical, technical and engineering work than ever before. The Bureau of Labor Statistics reports that compensation costs grew only 1.2% for all of 2009, the smallest increase recorded since they began tracking private industry worker data in 1975⁶. Longer term, the inflation picture may not be so benign. As emerging economies become more industrialized, the highly-populated countries of Latin America, Asia and India are likely to grow in wealth and purchasing power, creating increased demand for commodities and goods that developed nations already consume in great quantities. Another inflationary pressure is the growing U.S. government debt burden, which is likely to result in higher interest rates due to our further dependence on foreign capital.

As the recovery moves beyond its initial stages, multi-national companies with strong balance sheets and growing earnings are poised to benefit. These companies did not tend to be the best performers in 2009 when many of the weakest companies had the best stock performance, however, they are the ones are likely to reward investors in the long run. Further, we favor exposure to countries with smaller debt burdens and an emerging middle class. We also suggest adding exposure to commodities, energy pipeline companies and, where appropriate, hedged investments to further diversify portfolios. In summary, a diversified, global investment strategy, in our judgment, continues to be appropriate in the current environment. We appreciate your loyalty to our firm and we welcome your feedback on our correspondence

Kimberly D. Gluck CFA
UMFNE Investment Committee
May 4, 2010

* The actual performance of individual customer accounts will be impacted by fees, deposits, withdrawals and timing of investments, and may not reflect the performance described in UMFNE's Pools.

⁵ <http://www.kld.com/indexes/ds400index/performance.html>

⁶ <http://www.bls.gov/news.release/pdf/eci.pdf>