Headwater Investment Consulting, Inc.

Quarterly Review & Outlook

2nd Quarter 2007

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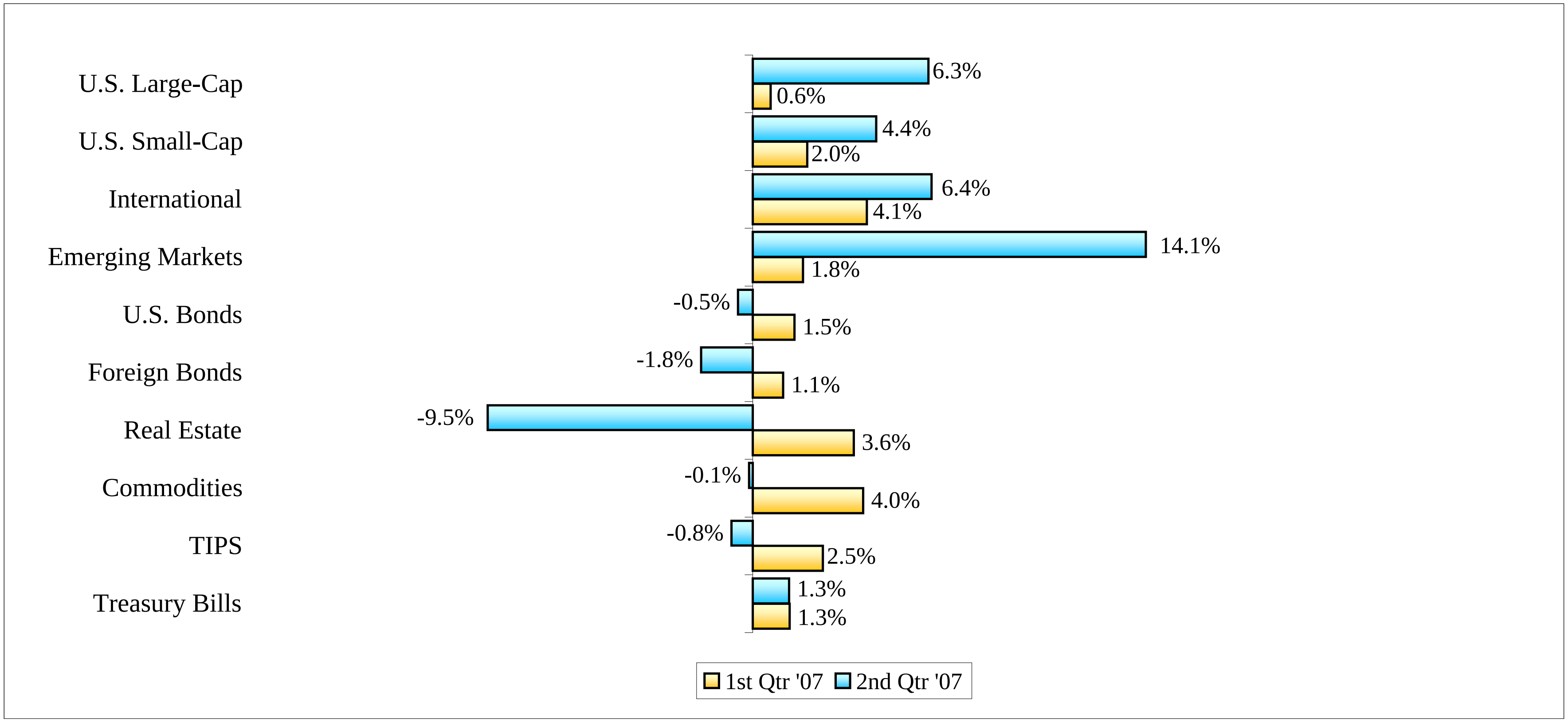
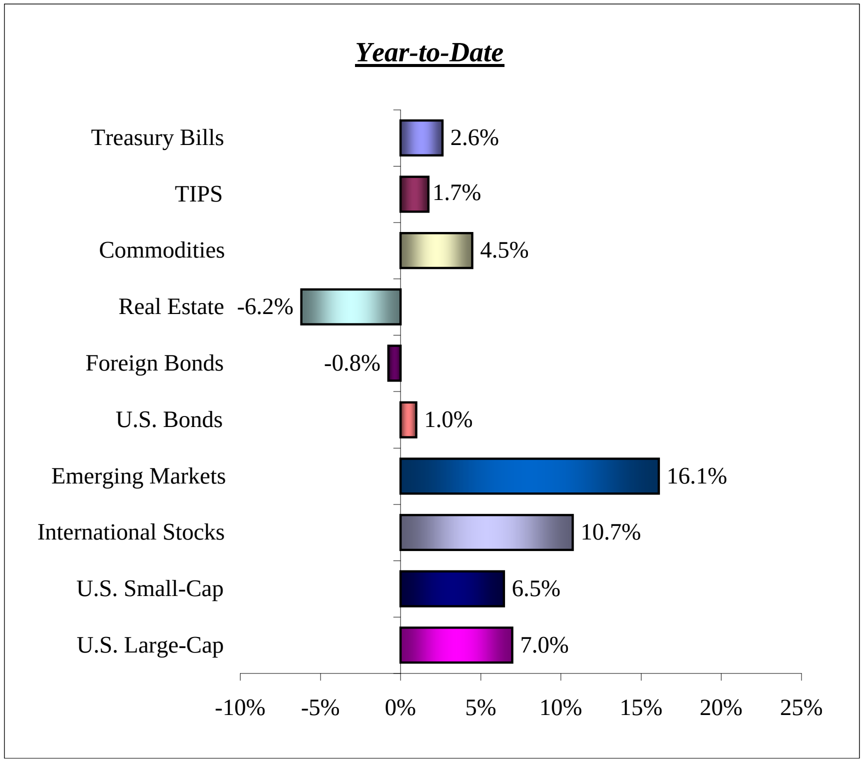
MARKET UP-DATE

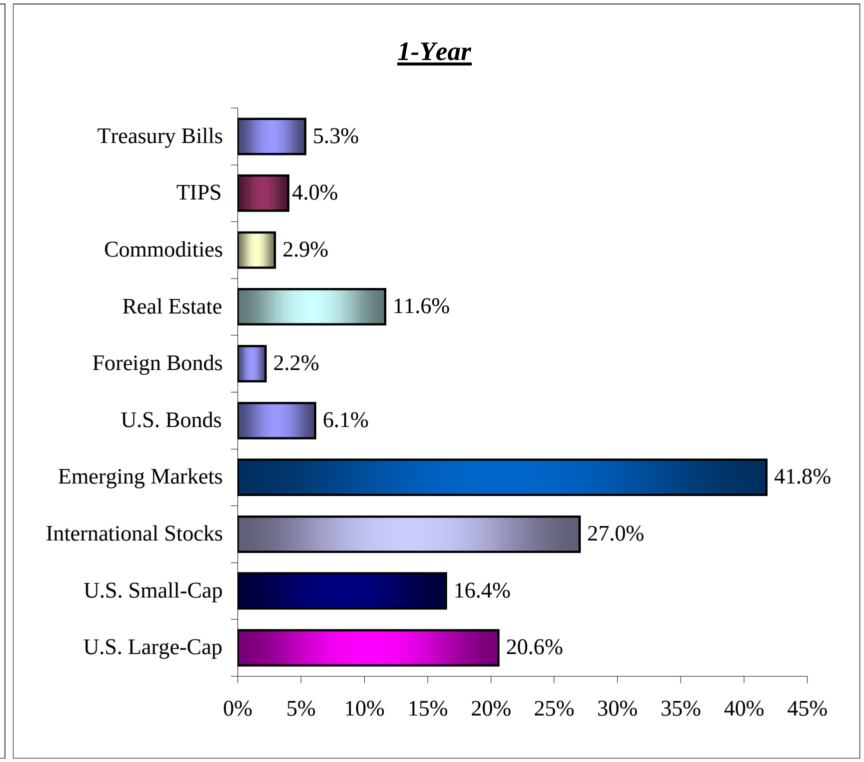
The 2nd Quarter of 2007 was a mixed bag, and the month of June was particularly difficult. As usual, uncertainty in the economy provided the catalyst for volatility. Stocks performed very well, with broad U.S. and international indices gaining over 6%. Bonds of all types—U.S., foreign, and inflation protected—lost money during the quarter. Interest rates spiked in June, prompting most of the losses. Real estate investments declined roughly 9% due to housing market concerns. The economy appears to be absorbing the blows of the downturn in housing, but this slowdown has undermined the rate of economic growth in the first half of this year.

Looking forward, the housing slump continues to be a worry, but other sectors of the economy appear to be doing well. The world economy continues to grow, helping US exports.   Interest rates have stabilized and bond yields are beginning to normalize with longer term rates rising and are not too far below short term rates.



ASSET CLASS PERFORMANCE





Index Performance as of: 6/30/2007

	YTD	1 Mo	3 Mo	1-yr	3-yr	5-yr	10-yr
U.S. Large-Cap	7.0%	-1.7%	6.3%	20.6%	11.7%	10.7%	7.1%
U.S. Small-Cap	6.5%	-1.5%	4.4%	16.4%	13.5%	13.9%	9.1%
International Stocks	10.7%	0.1%	6.4%	27.0%	22.2%	17.7%	7.7%
Emerging Markets	16.1%	4.4%	14.1%	41.8%	34.8%	27.1%	6.7%
U.S. Bonds	1.0%	-0.3%	-0.5%	6.1%	4.0%	4.5%	6.0%
Foreign Bonds	-0.8%	-0.7%	-1.8%	2.2%	3.3%	6.9%	5.0%
Real Estate	-6.2%	-9.5%	-9.5%	11.6%	22.3%	19.3%	13.9%
Commodities	4.5%	-1.4%	-0.1%	2.9%	9.7%	14.4%	7.4%
TIPS	1.7%	-0.2%	-0.8%	4.0%	3.8%	6.0%	6.8%
Treasury Bills	2.6%	0.4%	1.3%	5.3%	4.1%	3.0%	3.9%

QUARTERLY TOPIC: PRIVATE EQUITY…*LADIES AND GENTLEMEN, ELVIS HAS LEFT THE EXCHANGE*

The company that owns Graceland and other Elvis properties (CKX Inc.) agreed on June 1st to be purchased by a group of private investors for over $1b and delisted from the NASDAQ Stock Market. The buy-out marks a trend we have seen accelerate this year – an increasing number of companies traded on the New York Stock Exchange or NASDAQ are moving from public to private ownership structures.

The buy-out trend is being driven by Private Equity firms, including Kolhberg, Kravis, and Roberts (KKR), Blackstone, and Bain Capital, who create pools of 'private' capital by raising money from wealthy individuals and other investment firms. The money is leveraged, magnifying its buying power through borrowing huge sums from banks and financial institutions. The cash and borrowed money are then used to purchase a company that is believed to be underperforming and/or undervalued. If a buy-out and turn-around is successful, the company is sold back to the public in 3-5 years. Leverage from the large amounts of borrowed money magnifies the gains and losses, similar to how mortgage debt magnifies the gains or losses to a person's home equity.

Private Equity deal-making has accelerated over the past few years, rising from under $100b of total deal value in 2001 to over $700b in 2006. According to the Wall Street Journal and Thomson Financial, the number of deals has tripled from a year ago and most have involved publicly traded companies. These include the $7.4b purchase of Chrysler by Cerberus Capital Management LP and have been raised from wealthy individuals and Goldman Sachs' purchase of Alltel Corp for $25.7b, the 3rd largest leveraged buy-out in U.S. history.

Sustaining the flurry of transactions is a flood of cash into private equity coffers. Countless billions institutions. Bank loans have been secured on usually favorable terms. Easy money is symptomatic of an environment where investors are pushing the risk envelope in an effort to diversify away from traditional stocks & bonds or find the next hot asset class. However, the easy money could dry up quickly. Interest rates are rising, which makes loans more expensive and sets a higher bar for the investment returns needed to justify borrowing money. Also, banks and other institutions are becoming more wary lenders. Problems in the sub-prime housing market have already hit lenders with a nasty surprise and they do not want another. Finally, as prices for distressed companies are bid up by this flood of capital, both the availability and the attractiveness of good investments will diminish.

Executives within the industry are divided, some warn that private equity is a bubble and others suggest this is the golden age of deal-making. Michael Psaros, a managing partner at KPS Capital Partners, when asked recently about prices being paid for companies, was quoted in the Wall Street Journal as saying, "We are selling everything that isn't nailed to the floor at prices that are between stunning and inconceivable."

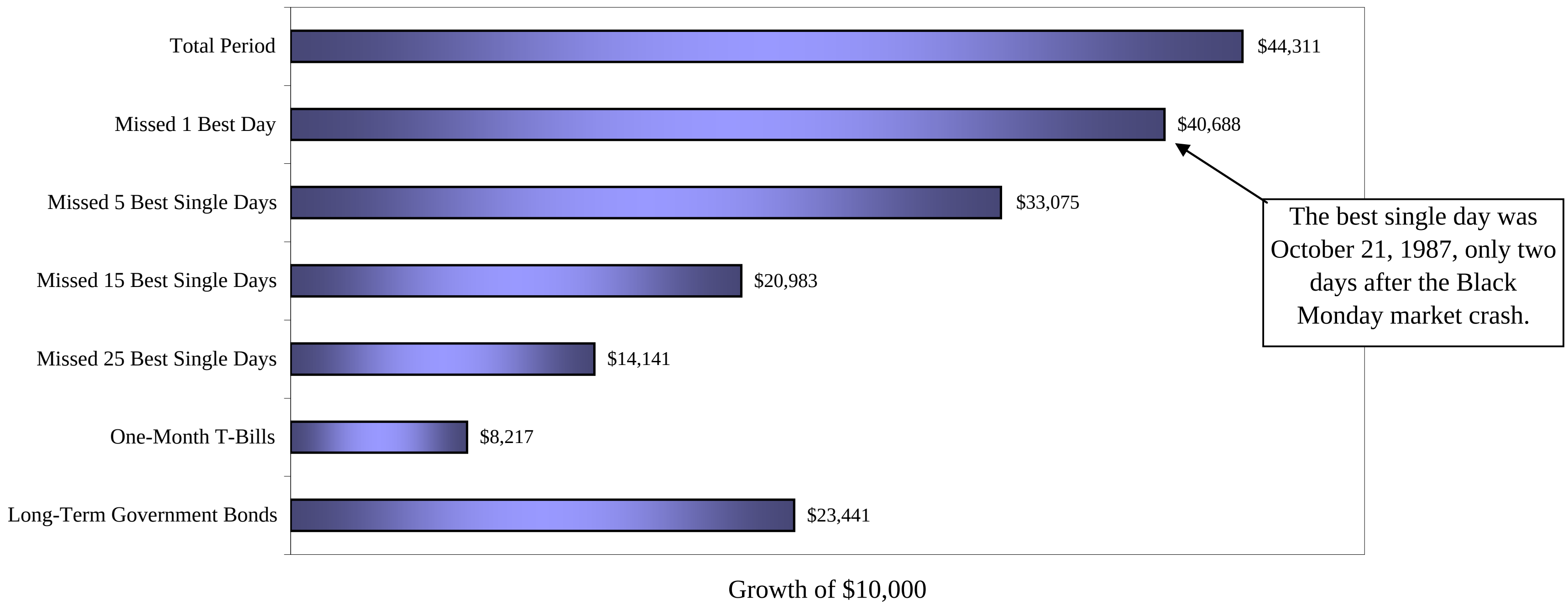
In an ironic move, two of the most prominent private equity firms, Blackstone and KKR, have issued or will be issuing initial public offerings of stock. Private equity firms going public?

Their move to go public has a few implications. First, it could be a sign the market is frothy and executives of the Blackstone and KKR are trying to cash in at the top. Blackstone's CEO is estimated to be worth over $10b after their IPO. More importantly, the IPO's of private equity firms indicates that both private and public ownership structures have benefits. Publicly traded stocks on the NYSE and NASDAQ benefit from very deep and liquid markets. They can raise capital by issuing stock or bonds to a very broad base of investors. Privately owned companies benefit from a lighter regulator environment and less shareholder scrutiny which translates into more operating flexibility. They can focus on longer investment time horizons of 3-5 years rather than be pressured to provide steady quarterly earnings. In a major vote of confidence, retired legendary CEO's Jack Welch (GE) and Lou Gerstner (IBM) are both involved with private equity firms.

Some investor advocates are worried about the loss of companies from the exchanges and the draw of talented managers from public to private companies. They worry this trend will potentially make a larger portion of the capital markets accessible only to the ultra-wealthy, leaving Joe-investor out of the game. We are not overly concerned. While Elvis may have left the exchange, approximately 200 companies per year since 2004 have conducted initial public offerings, subjecting themselves to public scrutiny and giving the average investor a chance to buy their shares. Furthermore, the capital markets will continue to evolve and run through their various cycles. Private equity is no different. The flood of cash will at some point recede, but they will continue to play an important roll. Since Headwater utilizes index funds, our portfolios will include shares of private equity companies that list their shares. The cross-over of these two worlds, private and public, ultra-wealthy and average Joe, should benefit everyone in the long-run.

Performance of the S&P 500 Index

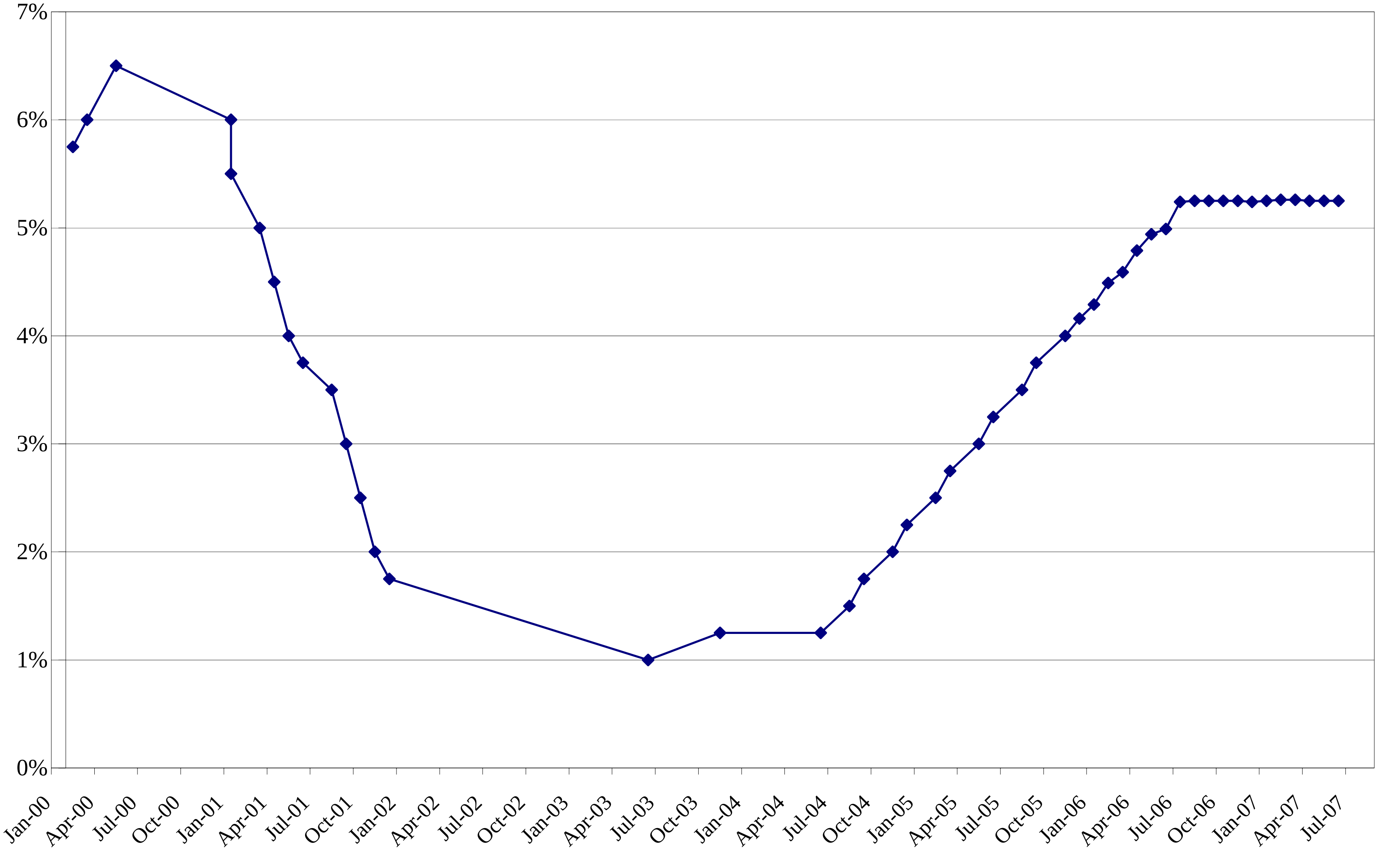
January 1970 - December 2005 (9,122 Total Days)



* The best one-month return, October 1974, happened immediately after the worst one-year period.
* The occurrence of strong positive returns has been especially unpredictable. Investors attempting to wait out an apparent downturn ran a high risk of missing these best periods.

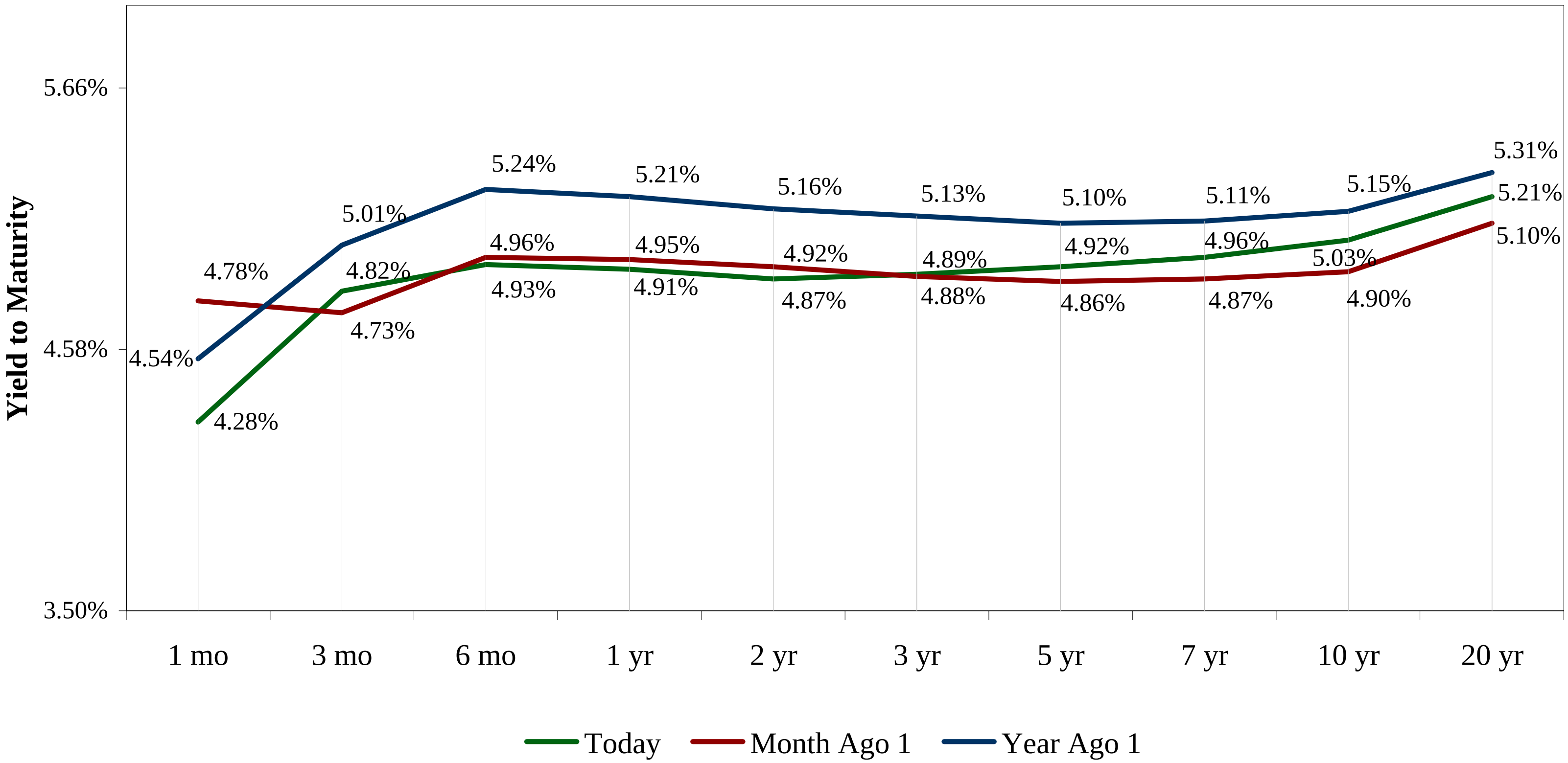
	Total Period	Missed 1 Best Day	Missed 5 Best Single Days	Missed 15 Best Single Days	Missed 25 Best Single Days	One-Month T-Bills	Long-Term Gov't Bonds
Annualized Compound Return	11.1%	10.8%	10.2%	8.8%	7.6%	6.0%	9.2%
% Differential to Total Period	0.0%	-0.3%	-0.9%	-2.3%	-3.5%	-5.1%	-2.0%

FEDERAL FUNDS RATE: 2000 - JUNE 2007



Treasury Yield Curves

	1 mo	3 mo	6 mo	1 yr	2 yr	3 yr	5 yr	7 yr	10 yr	20 yr
June 30, 2007	4.28%	4.82%	4.93%	4.91%	4.87%	4.89%	4.92%	4.96%	5.03%	5.21%
May 31, 2007	4.78%	4.73%	4.96%	4.95%	4.92%	4.88%	4.86%	4.87%	4.90%	5.10%
June 30, 2006	4.54%	5.01%	5.24%	5.21%	5.16%	5.13%	5.10%	5.11%	5.15%	5.31%



CAPITAL MARKET HISTORY: OVER 10 YEARS OF RETURNS BY ASSET CLASS

These are Annual Returns

Year	Inflation	Money Market	Large Co. Stocks	Small Co. Stocks	International Stocks	Emerging Markets	Total Bond Market	Foreign Bonds	Real Estate	TIPS
6/30/2007	2.3	2.6	7.0	6.5	10.7	16.1	1.0	-0.8	-6.2	1.7
2006	2.6	5.1	15.8	18.4	26.3	29.2	4.3	6.9	36.1	0.4
2005	3.4	3.3	4.9	4.6	13.5	30.3	2.4	-9.2	14.0	2.8
2004	3.3	1.4	10.9	18.3	20.3	22.5	4.3	12.1	3.1	8.5
2003	1.9	1.1	28.7	47.3	38.6	51.6	4.1	18.5	36.1	8.4
2002	2.4	1.7	-22.1	-20.5	-15.9	-8.0	10.3	22.0	3.6	16.6
2001	1.6	3.7	-11.9	2.5	-21.4	-4.7	8.4	-3.5	12.4	7.9
2000	3.4	6.3	-9.1	-3.0	-14.2	-31.9	11.6	-2.6	31.0	13.2
1999	2.7	4.9	21.0	21.3	27.0	64.1	-0.8	-5.1	-2.6	2.4
1998	1.6	5.0	28.6	-2.6	19.9	-27.7	8.7	17.8	-17.0	4.0
1997	1.7	5.3	33.4	22.4	1.8	-14.0	9.7	-4.3	19.7	- - -
1996	3.4	5.3	23.0	16.5	6.1	-3.9	3.6	4.1	37.0	- - -
1995	2.5	5.8	37.6	28.5	11.2	-6.9	18.5	19.6	12.2	- - -
1994	2.6	4.5	1.3	-1.8	7.8	-8.7	-2.9	6.0	2.7	- - -
Average	2.5	4.0	12.1	11.3	9.4	7.7	5.9	5.8	13.0	6.6
Risk	0.7	1.7	18.1	16.8	17.4	28.7	5.6	10.6	17.1	5.3

DISCLOSURES & DEFINITIONS

* Statistical data is gathered from Morningstar Principia and/or the fund manager's web site. All information contained in this document is compiled from sources believed to be reliable and current.
* Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of a portfolio.
* As with any investment, the holder of each fund is subject to various risk factors. These factors can be explained on a fund by fund basis.

* The performance data shown represents past performance, which is not a guarantee of future results. Current performance may be lower or higher than the data cited.

Large-Cap Stocks -	A U.S. large company stock index measured by the S&P 500. It is made up of a group of 500 of the most widely traded stocks in the U.S., as chosen by Standard & Poor's.
Small-Cap Stocks-	Measured by the Russell 2000 which is the dominant small-cap index in the U.S. The index is comprised of the smallest 2000 stocks in the Russell 3000 Market Index.
International Stocks-	An international stock index measured by the MSCI EAFE. It is comprised of stocks from developed markets in Europe, Australia, Asia, and the Far East.
Emerging Markets -	An international stock index that tracks non-developed markets throughout the world. It is measured by the MSCI Emerging Markets Index.
U.S. Bonds -	A measure of the Total U.S. Bond Market by the Lehman Aggregate Bond Index. It takes into account corporate, government, mortgage and asset backed securities.
Foreign Bonds -	Measured by the Citi World Gov't Bond Index. The fund is comprised of primarily investment grade bonds from around the world.
Real Estate -	Measured by the Wiltshire REIT Index which is a composite of Real Estate Investment Trusts traded on U.S. exchanges.
Commodities -	Performance is represented by the PIMCO Commodity Real Return Strategy Fund, which uses the DJ AIG Commodity Index as a benchmark.
TIPS -	Performance is represented by the Lehman Brothers US Treasury Inflation Protected Securities Index Fund. TIPS are government bonds that have adjustable coupon payments based on the rate of inflation (as measured by the CPI).
Treasury Bills -	Short-term government issued securities with maturities less than 90 days. Because they are government issued, T-Bills are free from default risk.