

**LOOMIS IXIS**  
INVESTMENT COUNSELING GROUP

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Cynthia L. Keith, CFA  
Vice President

April 15, 2008

Ms. Eva Myking  
Church House Administrator  
Protestant Episcopal Church  
Business Affairs Office Episcopal Church House  
Mount St. Alban  
Washington, DC 20016

Dear Ms. Myking:

There was a significant flight to quality in the first quarter of 2008. The S & P 500 declined almost 10% while high quality bonds rallied. With increased fears of a U.S. recession, a deteriorating housing market, and reports of a credit market “meltdown”, the underpinnings of the market’s move away from risky assets are not hard to understand.

Many of these trends, such as sub-prime mortgage losses, began in 2007 but as the breadth and depth of the losses spread, the spillover effect on the markets gathered speed. The culminating event may have been when Bear Stearns appeared to be close to default and the Federal Reserve stepped in to help bail them out. I use the term “may” because we are likely to hear of additional pain in the financial sector during the second quarter as well. However, we believe that the Fed’s aggressive actions have helped to speed a resolution to the liquidity crisis being experienced by financial institutions globally and, ultimately, to resolve the credit crunch as well.

The combination of the flight to quality and aggressive Fed easing have pushed interest rates down and bond prices up to levels last seen in 2003. Within your portfolio, the bonds have served their purpose in providing a cushion to the stock market declines and in generating positive returns in a volatile market. Indeed, the quality of your bonds remains high, with both your corporate and mortgage backed bonds rated investment grade. We do not own any of the subprime bonds that continue to make headlines.

As for the stocks within your portfolio, we began reducing the exposure in the consumer and financial sectors last year. As I mentioned above, the financial sector is likely to experience additional losses and write-offs for at least another quarter. Therefore, we remain underweighted in those sectors. However, we continue to see strength in the industrial, technology and materials sectors of the economy and good earnings growth for selected companies in those sectors. We remain overweighted there in anticipation that the current slow down will be short and shallow,

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allowing the economy to begin to grow again later this year. These weightings were the key to better returns for your stocks than for the S&P 500 in the first quarter.

During these volatile times I will redouble my efforts to keep you informed of all that we see transpiring in the markets. Please also feel free to call me at any time with questions about our outlook or your portfolio.

Sincerely,



Cynthia Keith  
Vice President

cc (via e-mail): John Call  
Kate Carr  
Terence Collins  
M. Anthony Gould  
Ellen Martin  
Robert Patterson  
Wardell Townsend  
G. Claude Villarreal  
Jeremiah de Michaelis

# EPISCOPAL DIOCESE OF WASHINGTON, DC

## Performance Returns as of 03/31/08

|                                 | Year-to-Date | 1 Year  | 3 Years* | 5 Years* | 10 Years* |
|---------------------------------|--------------|---------|----------|----------|-----------|
| Total (includes Mutual Funds)   | -4.53%       | 5.21%   | 9.76%    | 11.02%   | 6.62%     |
| Stocks (includes Mutual Funds)  | -8.43%       | 2.82%   | 11.59%   | 16.28%   | 6.25%     |
| PMP Core Equity                 | -8.21%       | 2.25%   | 9.41%    | 13.90%   | 5.16%     |
| PIMCO Total Return Fund         | 3.32%        | 10.81%  | N/A      | N/A      | N/A       |
| CGM Realty Fund                 | -5.02%       | 23.78%  | 27.61%   | N/A      | N/A       |
| Fidelity Diversified Int'l Fund | -9.62%       | 1.72%   | 14.57%   | N/A      | N/A       |
| Fidelity Small Cap Stock Fund   | -10.27%      | -7.22%  | 6.51%    | N/A      | N/A       |
| S&P 500                         | -9.44%       | -5.08%  | 5.85%    | 11.32%   | 3.50%     |
| S&P 400 Midcap                  | -8.85%       | -6.97%  | 7.06%    | 14.63%   | 8.80%     |
| FTSE NAREIT                     | -0.58%       | -20.01% | 8.66%    | N/A      | N/A       |
| MSCI EAFE                       | -9.53%       | -5.07%  | 10.67%   | N/A      | N/A       |
| Russell 2000                    | -9.90%       | -13.00% | 5.06%    | 14.90%   | 4.96%     |
| Lehman Aggregate                | 2.17%        | 7.67%   | 5.48%    | 4.58%    | 6.04%     |

•Annualized/Gross of Fees