

MARQUETTE ASSET MANAGEMENT, INC.



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ECONOMIC UPDATE

John C. Beuerlein

*Managing Director,
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ECONOMIC GROWTH

The economy continues to be positioned in a mid-cycle slowdown. The first quarter 2007 GDP increase at a 0.7% rate is the weakest quarterly growth rate since the fourth quarter of 2002. It marks four consecutive quarters of real economic growth at levels below the long term growth rate of the economy (3.0-3.5%). While consumer spending was strong, with personal consumption expenditures up 4.2% in the first quarter, the housing sector posted a 15.8% contraction that reduced the first quarter's Real GDP by 0.9%. First quarter 2007 S&P operating earnings were 7.9% higher than those of first quarter 2006, but corporate executives are more subdued looking forward in 2007, with expectations for profits to grow in the 4% - 6% range. The relationship between Real GDP and Leading Economic Indicators suggests that economic activity is likely to remain below trend for the upcoming two quarters.

The IMF projects world growth to be close to 5% this year and next. With U.S. growth in the 1%-2.5% range, it is clear that the rest of the world is becoming less dependent on the U.S. as a primary economic driver of global activity.

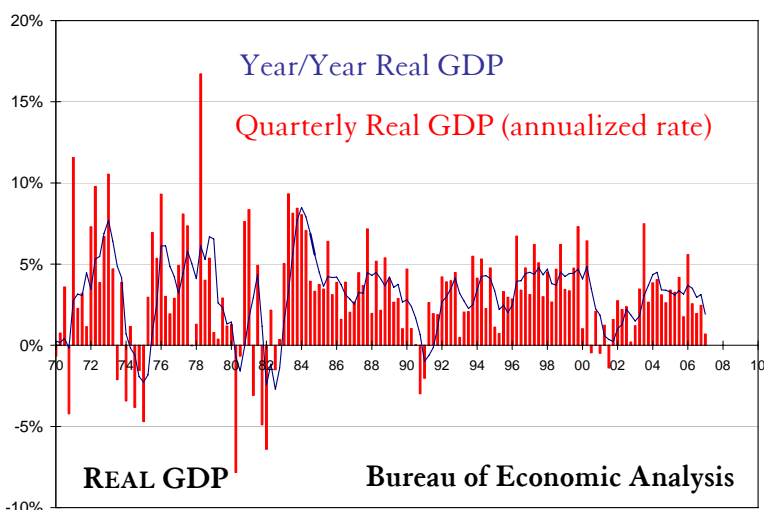
INFLATIONARY PRESSURES

On a year/year basis through May, the Consumer Price Index (CPI) is up 2.7% and the Producer Price Index (PPI) is up 3.9%. These headline inflation measures remain below levels of a year ago; however, recent strengthening in gasoline prices has generated some upward pressure. Core inflationary measures continue to drift lower. For the twelve months ending in May, the Fed's preferred measure of core inflation, the Core PCE, is at 1.9%--just under the upper bound of the Fed's target range for inflation. Core CPI is also moving lower and is at 2.3%. The shelter component of the CPI, which was the main driver of inflationary pressure the past year, has now started to ease with positive ramifications for core figures over the coming months. Although the economy is slowing and core inflationary pressures are lowering, the Fed does not see enough slack in the system to justify lowering rates at this time. The Fed remains more focused on containing inflation than on stimulating growth, as long as employment growth remains relatively steady.

Core inflationary pressures globally remain contained (<2.5%); however, brisk economic activity is causing some central banks in Europe and England to raise interest rates to ward off potential inflation.

EMPLOYMENT

After averaging gains of 188,000 new jobs per month in 2006, employment gains in 2007 have slowed to an average of 133,000 per month through May. Year/year payroll growth, which peaked at 2.1% in early 2005, is currently at 1.4%. Unemployment claims, which rose in the first quarter of 2007 as the economy slowed, have fallen 10% since the middle of April, indicating some stabilization in the overall economy. The unemployment rate is 4.5%. Earlier in this recovery, in June of 2003, it peaked at 6.3%. We are finally starting to see some increases in real wages. The Fed is concerned that these increases in the cost of labor will create inflationary pressures if they are passed on to consumers rather than absorbed by businesses. So far this has not occurred. The current more cautious positioning of corporations holds the potential to jeopardize



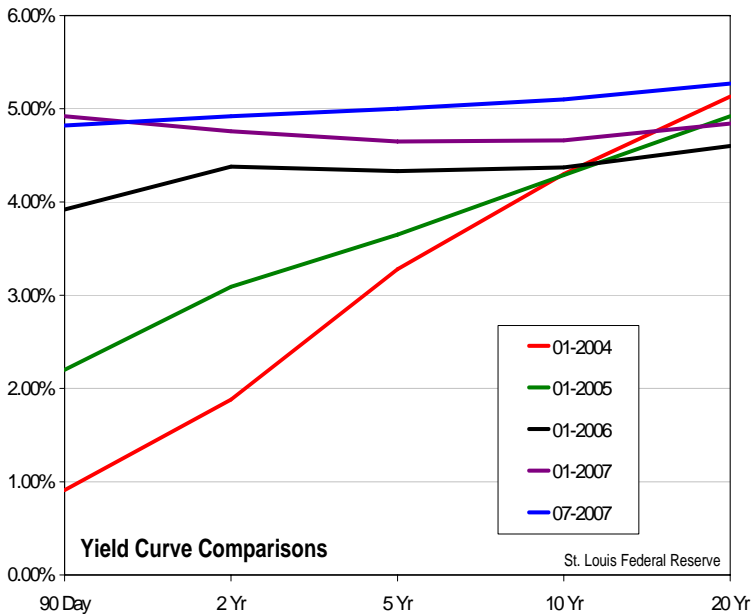
employment growth. It is unlikely that we will see improvement in year/year employment until there is some improvement in year/year retail sales.

CORPORATE PROFITS

Rising short term rates over the past two years has contracted corporate liquidity levels, resulting in the decline of year/year retail sales. This deterioration is beginning to be reflected in the corporate bottom line. Economic data is indicating that the slowdown in the U.S. is legitimate, and thus the necessary slack in the economy is developing that would allow the Fed to commence an expansion of liquidity growth, should it so choose. Meanwhile, the global profit expansion has been the strongest on record.

INTEREST RATES

All of the movement in the yield curve over the past several years has come at the short end of the curve, as the Fed started to increase rates in June 2004. For the past 18 months the curve has been very flat. Investors are not being paid to extend durations, nor are they being paid to accept higher levels of risk, as indicated by the tightest spread between high yield bonds and 90 day T-Bills in the past ten years. Even the concerns around the subprime mortgage debt that came to the forefront in February only caused a small blip in the pricing of risk. Corporations are beginning to re-lever their balance sheets, which will likely put upward pressure on corporate bond spreads over the foreseeable future. The recent increase in long rates should be primarily attributed to rising global growth expectations.



HOUSING

The softness in the housing sector continues to detract from overall economic growth, however, its impact is likely to ease with each passing quarter. Inventories remain elevated and affordability remains too low. The most likely way that affordability will be improved is via steady to lower prices over time. Based on May data, new home sales were down 15.8% compared to a year earlier. Home builders are reducing prices and adding incentives to move inventory. Existing home sales were down 10.8% on a year/year basis through May, and the median price of existing home sales was down 2.4%. There has been a sharp tightening in mortgage lending standards, particularly in the subprime sector, and demand for mortgages weakened modestly across all segments. The recent FOMC meeting minutes indicate that the Fed expects the housing slump to last longer than originally anticipated.

EQUITY MARKET

The stock market and bond market are encountering a period of uncertainty regarding the direction of interest rates and the growth rate of profits. Uncertainty typically produces increased volatility in the markets. Despite the likelihood of increased volatility in the equity market over the short term, conditions that typically precede a major correction do not exist. Monetary policy is neutral, inflationary pressures are easing, and corporate profits remain healthy even though the growth rate is slowing from the double digit growth rate of the past four years. Equity valuations remain reasonable on an absolute basis, and very favorable on a relative basis when compared to bond valuations. One year forward price/earnings ratios are approximately 16 and back to levels seen in the mid 1990's. The correlation between short-term liquidity growth and the Price/Earnings ratio of the equity market suggest that the P/E ratio of the S&P 500 is likely to expand over the upcoming 12 – 18 months.

Risks at this point in the market are centered on the trend of inflationary pressures and growth prospects for the economy. A strong economy raises concerns about increasing inflationary pressures and the likelihood that monetary policy would need to be tightened further. Weaker growth raises concerns about the economy slipping into recession. Until the economy begins to emerge from this mid-cycle slowdown, data will be strong one month and weak the next—adding to the level of uncertainty and market volatility. Domestic liquidity growth is positioned to expand and provide support to the markets once the Fed is comfortable that inflationary pressures have diminished to acceptable levels. Liquidity on a global level is abundant and is very supportive of the M&A activity that is occurring, which, in turn, is very supportive of global equity markets.



SO, HOW IS YOUR PORTFOLIO DOING?

Adam K. Mans, CFA
Senior Vice President

If you're like most investors, you probably have a general understanding of how your portfolio is doing. But when it comes to a complete and accurate assessment of portfolio performance, that might be a different story.

Many investors judge portfolio performance against a general notion of what the broader market is doing at any given time. However, that's not the most accurate measure of performance. If you want a true sense of how your investments are performing, you need to assess your investments by comparing them to an established "benchmark." A benchmark is a standard or reference portfolio against which you can judge the performance of your own investments.

First things first, it's unfair to compare your entire portfolio to a single benchmark. For a true measure of how your portfolio is doing, you need to measure specific portions of your portfolio to specific benchmarks. That way, you'll be sure you're comparing "apples to apples." For example, instead of simply comparing the performance of your entire portfolio to the performance of the S&P 500, it would be more appropriate to compare the performance of the stocks in your portfolio to the performance of a relevant equity index and the performance of the bonds in your portfolio to the performance of a relevant fixed income index.

For ease of comparison, if you do want to have a benchmark for your entire portfolio, you can create a "custom" benchmark that combines the benchmarks used for comparing the stock and bond portions of your investments. This custom benchmark typically is constructed to reflect the overall asset allocation of your portfolio. For example, if you have determined that it is most appropriate to have 60% of your assets in stocks and 40% of your assets in bonds, you can create a custom index that weights an equity index at 60% and a fixed income index at 40%. By comparing your overall portfolio performance to the performance of this custom index, you can determine if your total portfolio is performing well or not.

At Marquette Asset Management, we believe it is important to measure and communicate investment performance on a regular basis, typically quarterly. In addition to determining appropriate stock and bond indices for the underlying components of each portfolio, we create a custom index for each of our clients that reflects their overall asset allocation.

COMMONLY USED MARKET INDICES

- Russell 3000 Index – Measures the performance of the 3,000 largest U.S. companies based on total market capitalization. Represents approximately 98% of the investable U.S. equity market. Considered a broad U.S. equity index.
- Russell 2000 Index – Measures the performance of the 2,000 smallest companies in the Russell 3000 Index. Represents approximately 8% of the market capitalization of the Russell 3000 Index. Considered a U.S. small cap equity index.
- Standard and Poor's 500 Index – Measures performance of the broad U.S. economy through changes in the aggregate market value of 500 large cap companies, typically greater than \$5 billion, representing all major industries and sectors. Considered a U.S. large cap equity index.
- MSCI EAFE Index – Measures the performance of approximately 1,000 stocks designed to represent the developed market stock exchanges of Europe, Australia, and the Far East. Considered an international equity index.
- Merrill Lynch 1-10 Year U.S. Corporate and Government Index – Measures the performance of investment grade government and corporate debt issued in the U.S. domestic bond market with maturities ranging from 1 to 10 years. Considered a domestic taxable fixed income index.
- Merrill Lynch 1-12 Year Municipal Securities Index – Measures the performance of tax-exempt investment grade debt of U.S. municipals with maturities ranging from 1 to 12 years. Considered a tax-exempt fixed income index.



MISSION NEW ORLEANS

Tami Koehler
Office Manager

Marquette Asset Management employee Tami Koehler joined some 60 other volunteers from the Pohlads Family of Companies in May for a third mission to assist with Hurricane Katrina recovery efforts in New Orleans. While the volunteer teams on the first two missions spent their entire time gutting homes, the third team was also able to provide painting and yard work services for owners of restored homes. The owners' spirits were lifted and hope renewed as the government "markings" on their homes were obliterated with fresh paint. "It was an important step in their healing process," reports Tami. The Pohlads Family of Companies recently received a Quality of Life Award from the Minneapolis Regional Chamber of Commerce in recognition of the New Orleans Volunteer Project.



SO, YOU ARE A TRUSTEE? PART 2

Betty Anderson
Senior Vice President

In the Spring 2007 issue we described several duties of those who accept the role of Trustee of another's assets, namely: the duty to administer the trust, duties of loyalty, confidentiality, and impartiality, and the duty to segregate trust property and render accounts. In this article, we will continue by addressing one critical area of responsibility: the duty to invest the assets of the trust.

While the individual trust agreement may dictate specific investment parameters for the trustee to follow, state law provides a general framework of investment guidelines. These standards have changed significantly since the 1940's.

Prior to 1940, it was the practice of many states to compile a list of "permissible" investments. These lists tended to emphasize high quality bonds. The Prudent Man Rule, adopted by most states in the early 1940's, replaced the "approved list" approach with a general guideline that trustees could purchase any investment which people of "prudence, discretion and intelligence" use in the management of their own affairs. These investments were not to be speculative, but long term in focus, considering both the income and safety of the investment. This change opened the door for trustees to purchase publicly traded stocks in greater measure.

Changing security markets and economic conditions over the next 50 years provided the impetus for the fiduciary investment standard most commonly in effect today - the Prudent Investor Rule, which was adopted by most states (including Minnesota) in the late 80's and early 90's. In his publication "Modern Portfolio Theory" in the 1950's, Harry Markowitz described a method for the construction of investment portfolios using a variety of asset classes based on an analysis of risk and return. In this process investments are not considered in isolation, but in relation to each other and in the context of the overall investment strategy for the trust. This "portfolio" approach is at the heart of the Prudent Investor Rule and distinguishes it from the "asset by asset" approach of the former Prudent Man Rule. This concept also applies to the assignment of different investment strategies among multiple accounts of an owner or beneficiary, all of which contribute to a prudent composite strategy.

Another development of the 1990's, "Total Return Trusts" and "Power to Adjust" statutes adopted by many states, enables trustees of these trusts to invest portfolios for higher total returns and supplement the income beneficiary's share with a portion of the capital appreciation.

To summarize, absent other direction, a trustee today is expected to develop an overall investment strategy for the account,

considering the purposes of the trust, and then select a combination of asset classes and individual securities which will accomplish those purposes. He/she must manage risk through proper diversification, and must consider time parameters, liquidity needs, and the income tax effects of the investments he/she selects. He/she is held accountable for utilizing reasonable processes in making investment decisions, based on the information available at the time of the decision.

In case this is sounding onerous, we offer another helpful duty of a trustee, which is the duty to delegate those tasks for which he/she does not have expertise. In this regard, the trustee is to exercise reasonable care in selecting a qualified investment advisor and in periodically reviewing the manager's actions to monitor overall performance.

Marquette Asset Management, as a Registered Investment Advisor, manages portfolios for its clients in accordance with fiduciary standards. In addition, because of the firm's affiliation with Marquette Trust, our staff has considerable depth of fiduciary management experience which informs our investment and administration practices. If you are a Trustee, we welcome the opportunity to explore ways we can assist you in fulfilling those obligations.

OUR GUIDING PRINCIPLES

Integrity	The core of who we are and the way we live
Expertise	Knowing our profession and practicing it with passion
Advocacy	Being active champions of our clients' financial interests
Confidentiality	Ensuring client privacy



INTRODUCING...

Jason Beumer
Financial Analyst

We are delighted to introduce you to Jason Beumer, our new Financial Analyst responsible for asset allocation and portfolio analysis. Previously, Jason was with Wells Fargo Wealth Management Group, where he was an Investment Performance Analyst.

Jason has a Bachelor of Science degree in Finance from Drake University, Des Moines, Iowa. He also has a Master of Business Administration degree with a finance concentration from the University of St. Thomas, St. Paul, Minnesota.

These statements are the opinion of Marquette Asset Management, Inc. and are subject to change without notice. This information is not intended to be used as the primary basis for investment decisions and should not be construed as advice designed to meet the particular investment needs of any investor, as individual investment plans will vary based on investment objectives and a number of additional factors. Please remember that past performance is no indication of future results and this publication makes no representation concerning actual future performance of the markets or economy. Please consult with your tax preparer and/or legal counsel as appropriate. Trust services are provided by Marquette Trust, an office of Meridian Bank, N.A.