GE Asset Management

April 2008

Tactical Asset Allocation Review

GE Asset Management's approach to asset allocation is a rigorous and repeatable process that has helped generate consistent long-term performance for GE company's U.S. pension plan*. The plan, which is overfunded, has not had a contribution from GE since 1987. Our Asset Allocation Committee is comprised of two separate committees, the Strategic Asset Allocation (SAA) Committee and Tactical Asset Allocation (TAA) Committee. While the SAA Committee's decisions and investment targets are long term in nature, the TAA Committee meets at least bi-monthly (and more often as needed), as its decisions are shorter term in nature.

To highlight the TAA Committee's outlook for dynamic market shifts with the potential to provide investment opportunities over the near term, we are pleased to introduce the inaugural issue of *Tactical Asset Allocation Review*, which will be published after each TAA Committee meeting.

The Fed Pulls Out All The Stops: Few Benefits Yet For Consumers

Over the course of the quarter, investors shifted from debating the probability of a U.S. recession to the severity, duration and depth of a recession. Obstacles to economic growth mounted as home prices fell, unemployment increased, credit markets seized and energy and commodity prices continued their upward trend.

The event that made this period one for the history books, however, was the collapse of Bear Stearns, one of Wall Street's largest and oldest investment banks. JPMorgan made a bid of $2 a share for Bear Stearns (later revised to approximately $10 a share) as the company faced insolvency. The Federal Reserve facilitated this transaction, lending JPMorgan $29 billion secured by Bear Stearns' less liquid assets, demonstrating its resolve to ensure the functionality of the financial markets. In addition, the Fed opened the discount window to investment banks for the first time, and lowered its benchmark rate 200 basis points to 2.25%.

Despite the Fed's repeated efforts to lower companies' and consumers' borrowing costs and jumpstart lending activity, banks remained slow on the uptake, with lending standards tightening.

While a flight to quality in the Treasury market had pushed down shorter-term interest rates by the end of March, other interest rates remained stubbornly high, as shown in the chart below. Corporations seeking to issue investment grade debt in the five- to ten-year maturity range saw no meaningful rate relief from the Fed's actions, and lesser-quality corporations seeking to issue high-yield debt actually saw spreads widen by more than 200 basis points since the end of last June. For mortgage borrowers, the interest rate on 30-year conforming mortgages was down almost 100 basis points over the period, but the rate on 30-year jumbo mortgages (i.e., those over $729,750) increased. Home equity loan rates were slightly cheaper, but the rate for a one-year adjustable rate mortgage increased modestly. Bottom-line, consumers saw few benefits from the Fed's measures, and until that happens we believe that the fixed income market and the economy are in for further rough patches.

Geographical diversification was of little help in the first quarter of 2008, as stock markets tumbled overseas as turmoil in the financial sector, first sparked in the United States, spilled over to the rest of the world. The forecast for global economic growth has also been lowered.

Fed Pushing on a String?

Interest Rate	6/28/07 FOMC Meeting	3/31/08	Change
US Government Rates			
Target Fed Funds Rate	**5.25%**	**2.25%**	**-3.00%**
3-Month Treasury Bill	4.76%	1.34%	-3.42%
2-Year Treasury Note	4.94%	1.59%	-3.35%
10-Year Treasury Note	5.10%	3.41%	-1.69%
Corporate Rates			
Lehman Bros. High Yield	8.10%	10.42%	2.32%
Mortgage Rates (National Avg or National/Regional)			
1-Year Adjustable Rate Mortgages	5.50%	5.65%	0.15%
30-Year Fixed Rate Conforming Mtgs	6.59%	5.68%	-0.91%
30-Year Fixed Rate Jumbo Mtgs	6.80%	7.11%	0.31%
Home Equity Loans ($30K)	7.69%	7.40%	-0.29%

Source: Bianco Research L.L.C.©

Consumer not feeling benefits of Fed actions

*Investors can expect the asset allocation, performance, and portfolio holdings to differ in material respects from those of GE's pension plan due to the fact that the pension plan invests in certain asset classes and strategies and has benefited from certain expense reimbursements not available to or different from those utilized by GEAM investment products.

Scorecards

Key U.S. Variables To Watch

		Status	Potential Concerns
Financial Environment	R	Subprime writedowns continue	Financial institutions under pressure, potential for more negative news
Liquidity	R	Liquidity is tight, flight to quality Pockets of improvement for non-distressed debt	Credit availability and pricing (globally)
Fed Action	Y	Systematic risk off table?	Another shoe/institution to drop
Employment	R	Negative job growth in Q1	Pointing to a deeper recession
Yield curve	Y	Steeper on long end but short end inversion an issue	Bank profitability
Government actions	G	Liquidity injections, rates ↓, fiscal stimulus	Too late? / Future bubble?
Housing	R	Sharp decline in housing volumes, pricing and credit	Rate of change in home price declines
Consumer/consumption	R	Retail sales remain sluggish	Sentiment could worsen due to weakening employment picture, housing and market volatility
Inflation	G	Appears under control Core CPI 2.4 YoY	Headline volatility driven by food & energy short term tax. Long term inflationary

Credit issues remain a concern… housing and liquidity starting to hit employment and consumer, we believe double dip a possibility

Source: GEAM views as of April 10, 2008. Subject to change at any time without notice.

About The TAA Scorecards

As part of its process, the TAA Committee aggregates various market metrics into tactical "Scorecards" for individual asset classes and overall market balance sheets. The Scorecards are a quick snapshot of the Committee's views on macroeconomic variables that influence world markets and impact market sentiment. Scorecard variables are color coded to reflect the Committee's view on the positive, neutral or negative status of each variable (e.g., market-friendly variables are colored green).

- ***Financial Environment:*** Despite the Fed's actions with regard to Bear Stearns, fears of continuing writedowns and the need for capital raising are running high.
- ***Liquidity:*** Credit availability remains tight and pricing high, although there appears to be sufficient cash at the company level.
- ***Fed and Government Actions***: The Fed has finally taken aggressive measures, beyond simple rate cuts, to help ease the liquidity situation, and has also coordinated efforts with other central banks for a global response. Will it be enough? Is it too late? Could it create future bubbles? At this stage we really do not know, but it seems likely that concerted central bank and government activity could bring us closer to the end game for the liquidity crisis.
- ***Housing, Consumption and Employment:*** Housing continues its huge decline in volumes, prices and credit availability. Mortgage resets, coupled with diminished consumer confidence, have hurt consumer spending. A key variable is employment, which has the potential for either stabilizing spending or tipping it into further declines.
- ***Inflation:*** Core inflation remains in reasonable territory and gives the Fed air cover in lowering rates, but energy and food inflation could prove to be an additional headwind.

Key International Variables To Watch

	Japan	Continental Europe	Emerging Markets	U. K.	Comments:
Global Fin'l Environment	Y	Y	Y	R	Financial institutions under pressure; potential for more negative news. Lack of transparency.
Global Liquidity	G	Y	G	R	Japan & EM's flush. Tightness elsewhere
Consumer	Y	R	G	R	UK is consuming; Japan yet to start; Europe slowing
Employment	G	G	G	G	UK recovering; Europe employment rising
Interest rates	Y	Y	Y	Y	UK cuts but no benefit yet. Europe & Japan still not budging
Inflation	Y	R	R	Y	UK ok @ 2%. Europe & Emerging too much. Japan not enough
Currency	R	Y	G	Y	Yen rebounds strongly. Euro at new high. Pound also strong. Don't forget commodity imports
Business Environment	Y	Y	G	Y	UK & Europe slowing but not yet recessionary; Japan anemic
Valuation (PEGY)	G	G	G	G	Recent sell-offs make markets cheap. '08 outlook holds risks

U.K. weak; emerging markets ok; Europe slowing; and Japan is still Japan

Source: GEAM views as of April 10, 2008. Subject to change at any time without notice.

- ***Global Financial Environment:*** The general condition of banks in Europe, Japan and the emerging markets bears watching due to transparency issues, but in our view (with some notable exceptions) is generally under less pressure than in the United States. We believe U.K. banks are of more concern, as they are faced with corporate borrowers hit by a strong pound and a consumer base that is over-indebted and facing sliding real estate values and higher inflation.
- ***Global Liquidity:*** Conditions remain tight in the United Kingdom, while Japan and the emerging markets are flush with liquidity.
- ***Consumer:*** Spending appears to be slowing in Europe, while U.K. consumers are extended. Emerging markets consumption is in a secular growth phase.
- ***Employment:*** Positive in all four regions, with the United Kingdom recovering and Europe rising.
- ***Interest Rates:*** The Bank of England made another 25 basis point rate cut in April, after a similar cut in December, but we have seen little positive impact so far. China has raised rates to cool down its economy. The European Central Bank remains stubbornly opposed to easing rates. Japan's low rates provide little room for further help.
- ***Inflation:*** We believe inflation is a potential problem in Europe and is becoming a problem for emerging markets, while in Japan concern remains about not enough price action.
- ***Currency:*** The strong euro (near all-time highs), pound and yen are headwinds to exports, a particularly large component of the Japanese economy. However, these regions have seen little inflationary impact from commodity imports due to the strength of their currencies vs. the dollar.
- ***Valuations:*** In our view, equity valuations are reasonable across all four regions, assuming 2008 earnings estimates hold up decently.

Looking Ahead

Many sectors of the market have already corrected significantly, potentially discounting continued strains in the banking sector and credit markets, but have firmed through late April from their first quarter lows. It remains to be seen what will happen in the months to come, and the TAA Committee continues to monitor new developments that may influence its decisions over the next 18 months. Presently, concerns on the horizon include the possibility of a longer or deeper U.S. recession led by greater-than-expected consumer retrenchment. We are closely watching global earnings announcements and, more particularly, company outlooks for signals but we do expect that earnings expectations are likely to be adjusted downward. In addition, bonds are not out of the woods as the credit crunch continues and spreads could still widen. Treasurys are likely also overvalued. We believe the U.S. dollar could stabilize or strengthen later this year, if U.S. rate cuts near an end or there is G-7 intervention. The weak dollar has prompted investors to seek a safe haven in commodities such as oil and gold, driving prices higher, which could reverse as rate cuts come to an end. The TAA Committee will watch for greater visibility into these and other developments as it seeks to capture returns from dynamic market movement within and between asset classes over a shorter time horizon.

A Disciplined Yet Dynamic Asset Allocation Process

Our asset allocation process is a robust process that involves both strategic and tactical views. The Asset Allocation Committee includes two overlapping teams—the Strategic Asset Allocation Committee and the Tactical Asset Allocation Committee—creating a strategic investment approach with a tactical overlay.

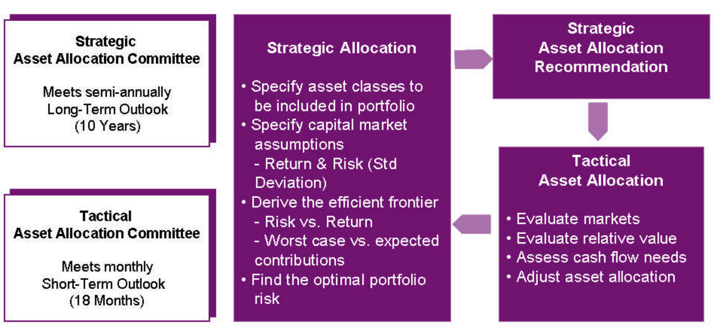
Strategic Asset Allocation Committee

The Committee formulates a set of forward-looking assumptions for return, risk and correlations of the different asset classes. These statistical analyses are complemented by the judgment and investment experience of the Committee members. Strategic asset allocation decisions and targets are long term in nature (~10 years), focus on high-level issues, such as inflation, earnings growth assumptions, valuations, dividend yields, etc., and are not impacted by short-term decisions.

Tactical Asset Allocation Committee

The Committee analyzes current market conditions, including market sentiment, valuations, earnings estimates and interest rates, as well as many other variables. This analysis drives portfolio decisions around equity and fixed income within their respective tactical ranges. Tactical decisions are short term in nature (~18 months) and are intended to take advantage of market developments and relative value opportunities.

GE Asset Management's Asset Allocation Process *



The Asset Allocation Committee members include key investment professionals and senior managers, among them are the firm's Chief Investment Officers, Research Directors, Head Traders, Risk Managers, and Currency Experts.

* The description of the asset allocation process is being provided solely as an example of how a large plan may incorporate certain items into its asset allocation decisions. The foregoing is incomplete and does not reflect all of the inputs utilized by GEAM on behalf of GE U.S. benefit plans. Furthermore, GEAM does not currently offer this service to any non-affiliated entities.

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