FOXHALL CAPITAL MANAGEMENT, INC.

THE FOXHALL GLOBAL OUTLOOK

Dear Paul,

Asian stock markets are down across the board, yet the Foxhall Capital "Pacific Rim & Emerging Markets" investment strategy is up year-to-date. How can Foxhall be up for the year when all of the Asian stock markets are down? Also, how is the earthquake in China going to affect Asian investments?

You are right; almost every Asian stock market is down year-to-date. As of last week, the Dow Jones China Broad Market Index was down over 33% year-to-date. It was down earlier in the year almost 40%. The Hong Kong Index was down over 21% and the Saigon Stock Exchange Index was down 50%.

CHINESE STOCK MARKETS ARE DOWN OVER 33%

As of the end of May, Foxhall Capital's "Pacific Rim & Emerging Markets" investment strategy was up year-to-date while almost all of the Asian stock markets were down 20% to 30%.

This is the key benefit of "active" investment management versus "passive" investment management. As you may remember, Foxhall Capital notified all of our clients that we were moving all of our portfolios to a Defensive investment strategy on January 10, 2008.

In early January, the only Asian investments held in Foxhall Capital accounts were Hong Kong and India. By the end of January, Foxhall Capital had sold out of all of its Asian investments.

Chinese and other Asian markets started to show some weakness in late October and early November. By the end of November, Foxhall Capital had exited all Asian markets except for Hong Kong.

> "THE CHINESE STOCK MARKET IS DOWN OVER 33% AND HAS BEEN DROPPING STEADILY FOR OVER 6 MONTHS."

THE FOXHALL CAPITAL INVESTMENT DISCIPLINE

The key element of Active investment management is that we constantly monitor all of our Foxhall investment holdings in every investment strategy that we manage. Every week we review and rank from best to worst our entire investment universe against the performance of the S&P 500 Index. The technical term for this is measuring the Relative Strength of each of our holdings compared the S&P 500 Index.

We want all of our holdings to outperform, over time, both the (1) S&P 500 Index and (2) a typical money market fund. A money market fund is essentially cash. If an investment is not outperforming cash, we prefer not to hold it—we prefer to hold cash...the better performer!

Once we identify one of our holdings as starting to underperform (based on a long-term Relative Strength measurement against the S&P 500 Index), we decisively sell out of that holding. There is no market timing. There is no crystal ball. There is no emotion. There is only the computer-based Foxhall Capital investment discipline that simply follows the trends already established in the market. When those trends are down in any given holding, we sell that position.

INVESTMENT PUNDITS USUALLY GET IT WRONG

My friend, Thi Nguyen, from Investment Advisors International sent me a recent article by a very famous investment advisor who breathlessly advised that now was the time to ***"get out of China, and fast. If you still own Chinese shares, sell."***

As I read the article, I thought, the Chinese stock market is down over 33% and has been dropping steadily for over 6 months and this guy is only telling his clients to sell now—after they have lost over 33% of their Chinese investments this year. **I don't think I want this guy managing my money!**

Talk about buying *high* and selling *low*—this kind of advice will not make you any money. Clearly this investment advisor has no discipline and no process for making investment decisions. It seems like pure emotional investment decision making.

WHEN WILL THE CHINESE AND OTHER ASIAN MARKETS REBOUND?

I believe that segments of the Chinese and other Asian stock markets will rebound before the end of this year.

The Chinese stock market is going through a major transition at the moment. It is moving from an emerging stock market to a developed stock market. Historically, when the stock market in China went up or down, almost stocks in the index went up or down at the same time. That is how EMERGING stock usually work.

But now, an investor just can't buy in and out of the entire Chinese stock market. The Chinese markets are becoming much more sophisticated and nuanced. Like the U.S., Europe and Japanese stock markets, you now have to be able to differentiate between good companies and bad ones and between booming sectors and declining sectors and industries.

CONSTRUCTION INDUSTRIES INVOLVED IN THE OLYMPICS: For example, over the past 8 years China has been preparing for the 2008 Olympics. The government has bulldozed away large sections of each Chinese city where Olympic events will be held. In there place, developers fueled by easy government loans have all made a fortune building beautiful new high-rise office buildings and apartment buildings.

While these new buildings will look great as the international television cameras showcase each city hosting an Olympic event, the truth is the vast majority of these buildings are nearly empty—but they will "look good" for the Olympic television coverage. It will take years to sell or rent this enormous inventory of excess office and apartment space.

Everyone knows this building boom was done primarily for the Olympics and now the easy government loans for these Olympic projects are finished forever and many of these Chinese-listed companies are going to go bankrupt. This is one of the reasons the Chinese stock market has declined so severely over the past few months.

CHINESE MANUFACTURING COMPANIES: Another large segment of the Chinese stock market is the manufacturing companies that export goods to the U.S. and Europe. Because of the economic slowdown, exports to the U.S. and Europe are down. These companies' stock will eventually rebound once the U.S and European economies start growing again.

LARGE-SCALE INFRASTRUCTURE ENGINEERING, CONSTTRUCTION & COMMODITY COMPANIES: Several years ago the Chinese Government committed almost $1 trillion U.S. dollars to a decade-long infrastructure program, building hydroelectric dams, nuclear power plants, new ports, bridges, electrical and telephone grids, urban renewal, new sewer systems and tens of thousands of miles of new super highways.

The engineering studies were started several years ago and now we know when these projects will be started and how much in the way of steel, concrete, copper and hundreds of other commodities and equipment will be needed to complete all of these projects. The government has already started to bid and lock-in prices for their early stage commodities and equipment needs.

Some analysts have called this the largest infrastructure project in the history of the world. It will provide millions of jobs for Chinese skilled and unskilled labor. This project will continue to drive up commodity prices throughout the world for the next decade.

You can already see the stock prices of the Chinese companies that are involved in these infrastructure projects going up. You can also see the stock prices of companies like POSCO Steel (the largest steel producer in the world) in South Korea benefitting from these projects, as well as Australian commodity producers and U.S. engineering firms and nuclear and hydroelectric equipment suppliers.

With Chinese labor inexpensive, the major beneficiaries will be companies around the world supplying China with the commodities and equipment needed to complete these projects.

One of the long-term "Super-Cycle" investment trends over the next decade will be investing in companies everywhere in the world who are supplying all the commodities and equipment that the Chinese government will need to complete all these projects.

HOW WILL THE CHINESE EARTHQUAKE AFFECT CHINA'S STOCK MARKET?

The Chinese government is now estimating that more than 80,000 people have died and over 5 million remain homeless as a result of the recent earthquake. China has decided not to rebuild all the cities in the earthquake zone. However, they will have to find a new location or several locations to quickly build housing and infrastructure for the 5 million people who are currently homeless.

They will have to build a city or cities that are equivalent in size to New York City and all of its suburbs.

That is, by itself, a monumental infrastructure, housing and business building project unprecedented in history. AND IT MUST BE COMPLETED VERY QUICKLY. Luckily, the Chinese government has more than enough U.S. and other foreign currency reserves to pay for all this infrastructure spending.

Besides the human suffering caused by this massive earthquake, the problem the Chinese government faces is how do you safely build a city the size of New York quick enough to deal with the homeless problem caused by the earthquake? Many analysts fear large-scale protests from the homeless, even though the earthquakes can't be blamed on the Chinese government. I don't think I would like to be a political official in that region of China.

In addition, eight major hydroelectric dams were severely damaged as a result of the earthquake. These dams will need extensive repairs or to be replaced before they can resume electrical generation.

The net result of this rush to build new cities to house the homeless and repair or replace the damaged hydroelectric dams will create even more unexpected infrastructure spending and again will benefit many of the same companies working on other large-scale infrastructure projects.

CONCLUSION

I believe that before the end of this year, important segments of the Chinese stock market will revive and revive strongly.

We at FOXHALL CAPITAL follow these trends closely and as soon as the stock market in China and other Asian markets start showing signs of revival, we will start investing again in China and the rest of Asia.

Since FOXHALL CAPITAL sold off our holdings in these stock markets before the big declines, we will be re-entering these markets at a much lower entry point. We believe that strategy will provide the foundation for increased profits in the future.

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

The Foxhall Way: Sound Process + Discipline = Systematic Portfolio Upgrading

At Foxhall Capital, we employ a quantitative screening and ranking process to assist us in determining which securities to buy and sell within each of four investment categories that we use. These are utilized independently or in combination to make up our seven current ETF based strategies in the Foxhall Global ETF Series.

This rigorous process highlights for us the strongest investment options currently available within the following categories:

Non-Correlated/Low Volatility (Bonds & Currencies currently are used in this allocation since they generally are income producing assets that tend to not follow the stock market and display lower volatility and risk than stocks)

Global Developed Markets (Invests in the stock markets of US, Europe, Canada, Australia, and other long established markets)

Pacific Rim & Global Emerging Markets (Invests in the stock markets of Asia, and of the developing world)

Global Hard Assets (Invests in natural resource and currency related securities, including physical commodities like crude oil and natural gas, gold and precious metals, grains and agriculture, base and industrial metals; as well as the companies involved in their production and development like the agribusiness, water resources, mining, real estate, steel, and energy industries, and even in the new alternative energy sources like solar!)

This month, we followed our established process: reviewing each strategy, culling out weaker holdings and replacing them with higher ranked funds within their category. Let me outline the portfolio changes made:

Non-Correlated/Low Volatility – The lower yielding 3-7 year Treasury ETF (3.08% current fund distribution yield) and EuroCurrency ETF (3.77% current interest rate) were replaced by the higher yielding, and higher ranked, TIPS ETF (5.06%) and Mexican Peso ETF (6.75%).

Global Developed Markets – Maintaining our “bearish” view of global developed stock markets we continue to hold ‘defensive’ positions in bonds and currencies that we believe provide the potential for positive total return greater than just going to the money market.

We replaced the High Yield Corporate Bond ETF (yielding 7.09%) with the Australian Dollar ETF (6.55%) and the Swiss Franc ETF (1.54%) with the higher yielding EuroCurrency ETF (3.77%).

Pacific Rim & Global Emerging Markets- We replaced the broad Emerging Markets ETF with the more focused and highly ranked Emerging Europe ETF, while maintaining 2/3 invested in emerging markets equities with positions in a Latin America ETF , BRIC ETF (Brazil, Russia, India, China), and a High Dividend Yielding Emerging Market Equities ETF (current dividend yield 5.3%). We maintained our 1/3 allocation to the high yielding Australian Dollar ETF (6.55%) and Mexican Peso ETFs (6.75%).

<u>Global Hard Assets</u> – With the global commodity markets remaining strong, the only adjustment required was to move from the EuroCurrency ETF to the higher yielding Australian Dollar ETF. We continue to hold two diversified blends of hard asset investments including two Commodity Index ETFs with large allocations to the oil complex, a Water Resources ETF, a Steel ETF, and an Agribusiness ETF.

<u>Strategic 50-50</u> – This unique and dynamic portfolio reflects the changes and combined holdings of the <u>Pacific Rim & Global Emerging Markets</u> strategy and the <u>Global Hard Assets</u> strategy.

You may have noticed, as I did, <u>how many of our higher ranked selections were also higher income producing than the funds they replaced.</u> This reflects positively on our process of ranking based on the 'total return' of an investment, meaning the total of price appreciation and dividends or interest paid to the holder. We believe that neglecting to include income paid would result in missing many worthy investment opportunities, especially in a weaker economic and market environment like the one we have today.

At Foxhall, we search the global markets for opportunities to provide investment 'total return' to our clients and their financial advisors, in every market environment!

Dave Morton

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(Note: Quoted currency interest rates and fund dividend yields obtained on 6/3/08 from company websites. Dividends and interest rates may change at any time, and are included here for comparative reference only.)

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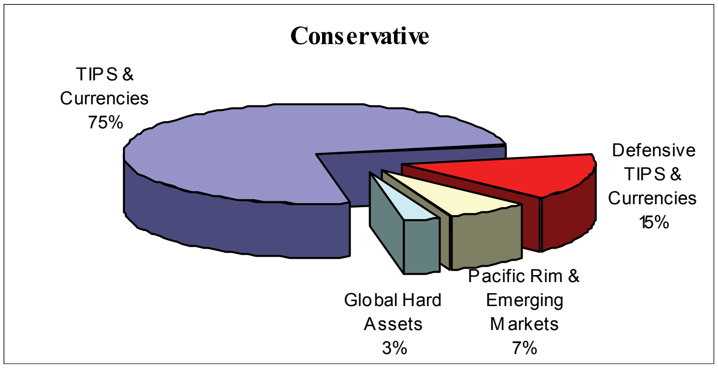
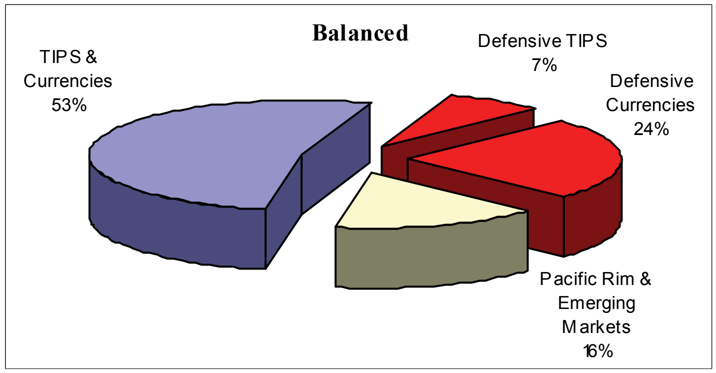
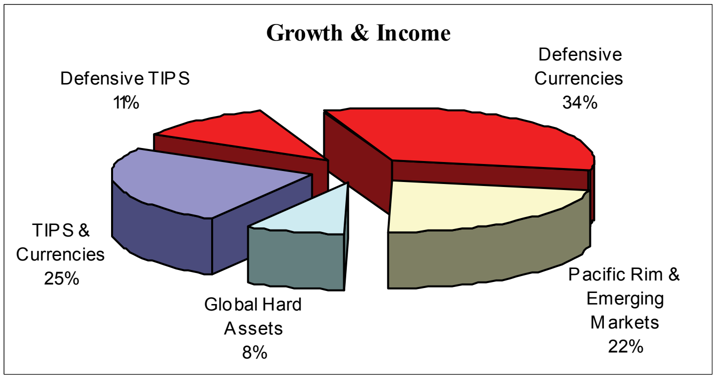
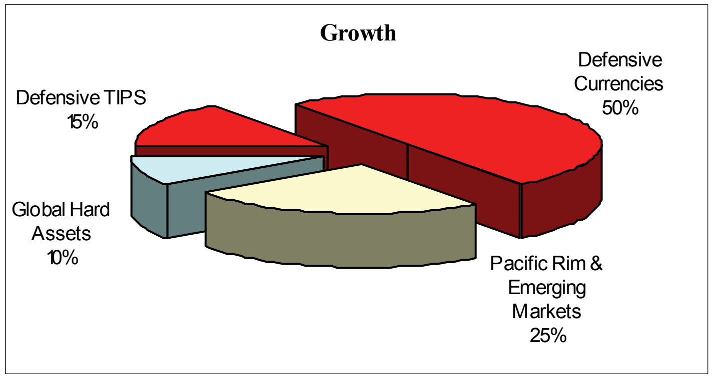
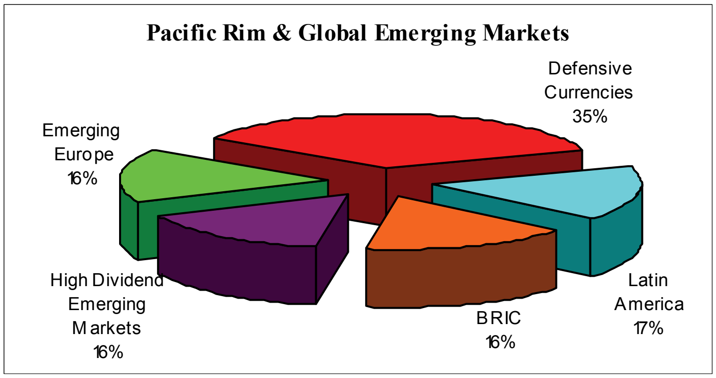
THE FOXHALL GLOBAL OUTLOOK
GLOBAL MARKET ROTATION PORTFOLIOS

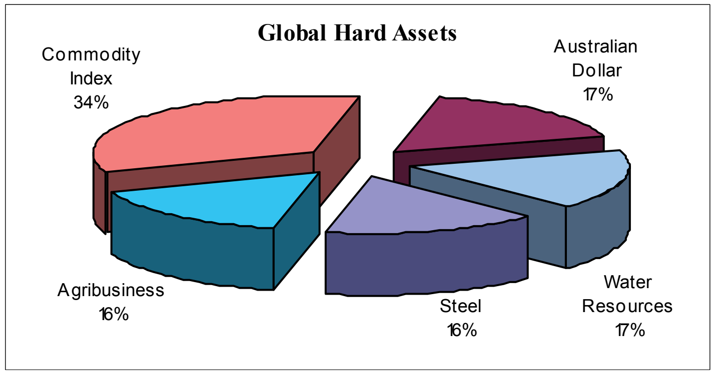


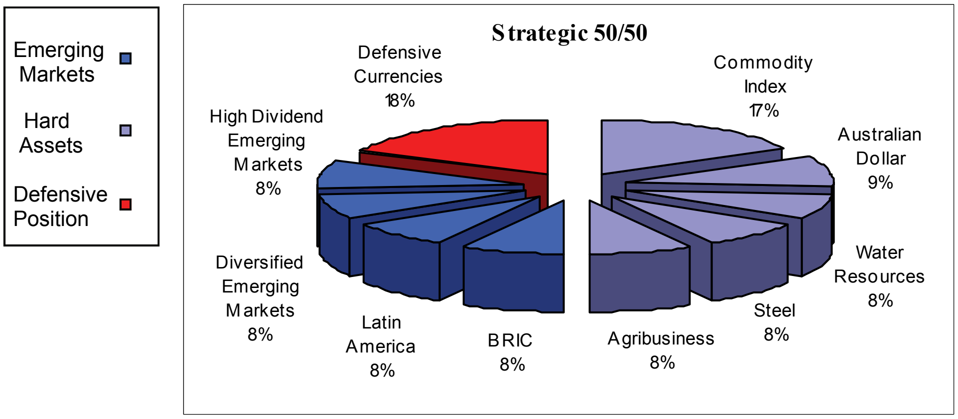












The allocations illustrated are model allocations, actual client accounts could vary due to many factors. Variable annuity/ variable life accounts will vary significantly due to the availability of investment options in each contract. All allocations may change without notice.