



THE FOXHALL GLOBAL OUTLOOK



JULY 10, 2008

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Dear Paul,

I know the FOXHALL “DEFENSIVE STRATEGY” in bear markets is made up of (1) bonds, (2) foreign currency funds to offset the falling U.S. Dollar and (3) oil, energy, metals, mining, agriculture and other commodities and basic materials funds. BUT, OVER THE PAST TWO WEEKS COMMODITIES HAVE DECLINED PRECIPITOUSLY. AGRIBUSINESS COMMODITY FUNDS are down this month 6%. STEEL FUNDS are down over 9% and METALS AND MINING FUNDS are down over 12%. It is hurting your FOXHALL performance. I thought commodities were supposed to go up when the stock market was going down.

ANSWER:

IN THE LONG RUN THAT IS HOW IT WORKS! Oil and other commodities have rocketed up over the past few years and the basic LAW OF GRAVITY tells us this cannot go on forever.

THIS IS SIMPLY A NORMAL, HEALTHY, GOOD, AND FROM MY POINT OF VIEW, MUCH NEEDED CORRECTION.

FOXHALL CAPITAL GLOBAL HARD ASSETS UP APPROXIMATELY 23% OVER PAST 12 MONTHS

Just to put everything in perspective, over the past 12 months from July 3, 2008, the FOXHALL CAPITAL GLOBAL HARD ASSETS STRATEGY’S performance is up approximately +23%, while, at the same time, the S&P 500 INDEX is down almost -14% for the same period. That is substantial outperformance of the overall stock market, but it is also COMPLETELY UNSUSTAINABLE over the long term. Eventually there had to be a correction. This is simply a healthy retrenching and a way of purging speculation out of the system.

Through the first half of this year, crude oil prices surged 46%! From April to June, oil prices went up 38% and gained 10% in just the month of June. If that trend had continued, we would have had \$300 a barrel oil by December and \$9 a gallon gasoline prices by the end of this year. That trend wasn’t

going to continue at that rate of growth!

Besides oil, many other commodities rallied to unrealistic highs this year. Corn jumped 21% in June; gained 28% in the second quarter and surged 60% since the first of the year.

Among precious metals, since the first of January, gold jumped 11%, silver is up 17% and copper rose 28%.

DESPITE CORRECTION—THE LONG TERM TREND IS UP!

A week ago a major business magazine reporter called me and said, “As part of your FOXHALL CAPITAL “DEFENSIVE STRATEGY” you are heavily over-weighted in all of your investment portfolios in commodities and basic materials. Yet two months ago you told me to expect a stock market correction in oil, gold, steel and even the U.S. dollar. If you knew all of this was coming several months ago, WHY DIDN’T YOU SELL OUT OF THOSE INVESTMENTS?”

“ I EXPLAINED TO THIS REPORTER THAT FOXHALL CAPITAL’S INVESTMENT DISCIPLINE AND INVESTMENT PROCESS FOLLOWED LONG-TERM TRENDS AND THAT WE ARE NOT “DAY-TRADERS”. ”

I explained to this reporter that the FOXHALL CAPITAL’S INVESTMENT DISCIPLINE AND INVESTMENT PROCESS followed long-term trends and that we were not “day traders.”

I said to him, “What are the key long-term trends over the next 18 months? This is the question every investor has to ask himself. Which investments will make you sleep well at night knowing that in the long-run, these investments are probably the only way to make money until this bear market/recession is over? Every investor needs to ask, what should my “DEFENSIVE INVESTMENT STRATEGY” be?”

LONG-TERM TREND # 1: THIS BEAR MARKET /RECESSION WILL LAST AT LEAST ANOTHER 18 MONTHS

Since 1945 the United States has had a bear market/recession every 5-to-8 years and the average drop in the stock market, as measured by the S&P 500 INDEX, over those average two years was 34.1% according to USA TODAY. In the last bear market/recession from 2000 to 2002, the S&P 500 INDEX dropped 49.1% from top to bottom.

If history is any guide, this current bear market/recession will last until late 2009 to early 2010. The FEDERAL RESERVE



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released a report some months ago that said that the “worst abuses” of the adjustable rate mortgage scandal took place over the past 18 months. Since most of those ARMs had a 2-year, 0% interest rate, most of those “most abusive ARM’s” haven’t even “triggered” yet. The FED predicts the peak of home foreclosures will come in late 2009 and early 2010.

I agree with Warren Buffett, when he said in a recent FOX NEWS interview that he believed this bear market/recession would be “deeper and longer than a lot of TV pundits were predicting.”

As part of the FOXHALL CAPITAL “DEFENSIVE STRATEGY,” we believe that a substantial component of bonds is a key part of a DEFENSIVE INVESTMENT STRATEGY. THE PRIMARY PURPOSE OF BONDS IS TO PROTECT YOUR INVESTMENT PRINCIPAL OVER THE LONG-TERM.

LONG-TERM TREND # 2: COMMODITIES ARE IN A LONG-TERM “SUPER-CYCLE” INVESTMENT TREND UP!

Despite their recent “healthy” and “overdue” correction, the long-term trend for commodity prices is UP!

Yes, there will be periods when commodity prices shoot up like rockets and there will also be the inevitable “normal” corrections like we are seeing now, BUT over the next 10 years, commodity prices will continue to go up over the long-term.

It is simply the LAW OF SUPPLY & DEMAND. China, India and several other governments in Asia have budgeted over \$3 Trillion (that’s Trillion with a T) over the next 10 to 15 years. Never before in the history of the world have we seen this level of infrastructure spending over a 10 to 15 year period.

China alone is building 45 nuclear power plants, another 50,000 miles of super-highways, almost 1,000 miles of a massive waterway system to bring water from the south of China to the north (many engineering experts say this may be the largest single infrastructure project in history). China is also building or rebuilding scores of new ports, building or rebuilding at least 8 hydro-electric dams and in order to build housing for the 5 million Chinese left homeless because of the recent earthquakes, the government has to build a new city bigger than the size of New York and all of it’s suburbs.

After the engineering studies are complete, investors actually know how much steel, copper, concrete and other basic materials and commodities will be needed to complete these projects.

The world has never seen infrastructure spending like this! All of these Asian countries have the surplus U.S. dollars to complete these projects, and these projects WILL BE completed because they create millions of jobs and more importantly, infrastructure creates the foundation for these counties to move to the next level of economic development.

As part of the FOXHALL CAPITAL “DEFENSIVE STRATEGY,” we believe that a substantial component of commodity and basic materials funds are crucial. In the long-term, commodities do usually run counter-cyclical to the stock market, so they are an integral part of a DEFENSIVE INVESTMENT STRATEGY.





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However, from a long-term supply and demand perspective, commodities and basic materials will also be part of a long-term investment trend over the next 10 to 15 years because of the unprecedented infrastructure spending in Asia.

LONG-TERM TREND # 3: THE U.S. DOLLAR WILL TREND DOWN FOR THE FORESEEABLE FUTURE

Since 2002, the U.S. dollar has fallen 40% against its major rival the euro. It dropped over 10% last year.

Just like commodities, the dollar may rally over the next few months. It is probably oversold at the moment. **BUT THIS WILL JUST BE A SHORT-TERM CORRECTION.**

In the long run, the U.S. dollar will continue to decline. We have a war in Iraq and Afghanistan. We have a congress of both Democrats and Republicans who continue to spend like there is no tomorrow. No one in Washington believes that the wars can be ended in any of the time frames promised in the primary debates. And no matter who is elected, either Senator McCain or Senator Obama, the deficit will continue to go up.

There are only two ways to deal with the U.S. government deficit. You can sell long-term U.S. government bonds to China and Saudi Arabia, etc. But they are no longer buying like they used to, because the bond yield doesn't even cover inflation and the U.S. government has a history of devaluing the dollar so that the money they get back in 15 or 30 years is less in "buying power" than the U.S. dollars they have now. Most of these governments think spending their U.S. dollars on their own infrastructure is a better investment than investing in U.S. government bonds.

If foreign governments do not buy up all of our bonds, then the only way for our government to fund the U.S. deficit is for the U.S. government to print more money. That is what the government is doing, and that is a major reason why the dollar continues to fall.

I do not know of a single economist who believes that any of the underlying fundamentals mentioned above can be reasonably turned around any time soon. That is why the long term trend in the U.S. dollar is going to continue to decline.

Even though gold and some foreign currency funds have dropped in recent weeks and the dollar has rallied, as part of the FOXHALL CAPITAL "DEFENSIVE STRATEGY" we will continue to hold asset classes like gold and foreign currencies, when it is possible, in order to hedge against what we believe is the long term decline in the U.S. dollar.

THE RECENT STOCK MARKET CORRECTION IN COMMODITIES

Over the trailing past 12 months, almost all of FOXHALL CAPITAL'S INVESTMENT STRATEGIES have substantially out-performed the S&P 500 INDEX. At some point, there had to be a correction in the soaring prices of commodities as we have witnessed over the past few weeks.

We at FOXHALL CAPITAL strongly believe this correction in commodities was "GOOD" and "LONG OVERDUE." We understand that the long-term trend in commodities, simply because of long-term trends in supply and demand, is up and we believe this short-term correction will end over the next few months.



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There is no “PERFECT” investment strategy THAT ALWAYS GOES UP. If there were, everyone would use it. However, we at FOXHALL CAPITAL believe that our clients sleep well at night knowing that the FOXHALL CAPITAL DEFENSIVE STRATEGY is primarily invested in principal protecting bonds, “real assets” like oil, gold, steel, other precious metals and agricultural commodities, as well as funds that help protect your “buying power” as the U.S. dollar declines.

OVER ANY 3-YEAR PERIOD, SOME OF THESE FUNDS WILL CORRECT AND GO DOWN—sometimes substantially. However, we firmly believe at FOXHALL CAPITAL that the best way to protect your retirement savings and keep your long-term buying power in tact during a bear market/recession is through a diversified DEFENSIVE INVESTMENT STRATEGY of bonds, hard assets and non-U.S. currency funds.

UNTIL NEXT WEEK...

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PORTFOLIO COMMENTARY AND ALLOCATIONS

PORTFOLIO UPGRADES PLUS NEW VA/VUL SPOTLIGHT

Portfolio Upgrade Overview:

Prior to each portfolio review and upgrade, Foxhall Capital’s proprietary quantitative analysis process:

- Objectively ranks over 9000 ETFs, mutual funds, indexes, and variable insurance sub-account funds from the strongest to the weakest.
- Identifies current rank of the money market fund as key ‘offense/defense’ line.
- Limits eligible securities for upgrade process to those demonstrating a better risk-return ranking than the money market.

Foxhall clients benefit directly from this clear, objective, and timely global supply and demand knowledge. Our Co-Chief Investment Officers, Paul Dietrich and David Morton, are guided past personal opinion, pre-disposition, or bias to an understanding of the realities of the current global financial markets.

Clear and objective knowledge, combined with disciplined execution of portfolio upgrades, forms the basis for what we call “The Foxhall Way” of investment management.



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In recent days, we have again completed this portfolio upgrade process. An outline of the significant changes follows.

A new and important addition to the Portfolio Commentary is the **VA/VUL Spotlight** where I will regularly discuss our management process and current allocations in our variable annuity (VA) and variable universal life (VUL) account strategies.

Bottom line: Foxhall remains in longstanding, bear-market, defensive allocation. Emerging markets equities sold and moved to defensive holdings. Global hard assets remain highly ranked and fully allocated.

GLOBAL ETF SPOTLIGHT

- **Global Hard Assets** – With the global commodity markets remaining generally strong, the only adjustment required was to replace the Water Resources ETF with the higher ranked Metals & Mining ETF. We continue holding two diversified Commodity Index ETFs with large allocations to the oil complex, as well as Steel, Agribusiness, and the Australian Dollar ETFs.
- **Pacific Rim & Global Emerging Markets**- All equities sold and allocations moved to ‘Active Defense’ strategy with the objective of delivering positive total return greater than just going to the money market. Holdings include the Australian Dollar, Swedish Krona, EuroCurrency, TIPS and Dollar Bearish ETFs.
- **Bonds and Currencies** –We continue holding the high yielding, highly ranked, TIPS and Mexican Peso ETFs.
- **Global Developed Markets** – “Bear-market” view of global developed stock markets. ‘Active Defense’ strategy continues to hold TIPS, and several high yielding currency ETFs that we believe provide the potential for positive total return greater than just going to the money market: Australian Dollar, the Swedish Krona, and Euro-Currency ETFs.

VA/VUL SPOTLIGHT

Overview:

How does Foxhall implement its investment process in light of its motto: “There is always a bull market somewhere in the world” on behalf of clients in these vehicles?

When the investable universe is virtually unlimited, as it is with ETFs, stocks, and mutual funds, we are able to identify highly ranked asset classes and funds from around the globe. However, when the investment universe is defined by a prospectus as only having 20 to 40 members, there are times when it is not possible to invest in the current ‘bull market somewhere in the world’ simply because it is not available within the contract.

Foxhall addresses this by ranking the ‘investable world’ for each contract, investing only in those that meet our selection standards. Although VA/VUL portfolios may be somewhat different from what our ‘ideal’ portfolio would contain, we have found that over time we are able to deliver investment results that meet investor and advisor performance demands.



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Summary:

Foxhall manages VA and VUL accounts with the same disciplined process as the ETF strategies. In most cases, there are sufficient asset-classes available that VA and VUL accounts follow closely our current investment themes and outlook for world financial markets. Although the specific 'investable world' will vary product to product, we invest in the highest ranked funds available that meet our selection criteria and implement our offensive and defensive investment strategies.

Current Allocation:

Up to 100% in TIPS funds, dollar bearish funds, US Government bond funds, and/or money market funds, based on availability.

Where available: 10 to 50% in commodities, basic materials, and/or energy funds.

Foxhall's investment strategy and process is consistent across the investment platforms where our clients invest. ETF/VA/VUL/Mutual Fund/Stock – whatever the platform, our clients and their financial advisors can be confident that we are always seeking the 'bull market in their investment world'!

David Morton

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* Investment Sub-Strategy definitions:

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!

Bonds & Currencies: This 'Non-Correlated/Low Volatility' allocation generally invests in 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.

Disclosure: The opinions and portfolio information provided in the Foxhall Global Outlook are subject to change at any time, and are not to be construed as advice for any individual nor as an offer or solicitation of an offer for purchase or sale of any security. Client accounts may differ from model allocations due to many reasons. All investment strategies offer the potential for loss as well as gain. Individuals should consult with their financial professional to determine an investment strategy appropriate for their objectives, risk level, and time horizon prior to investing. Past performance is not a guarantee of similar future performance.

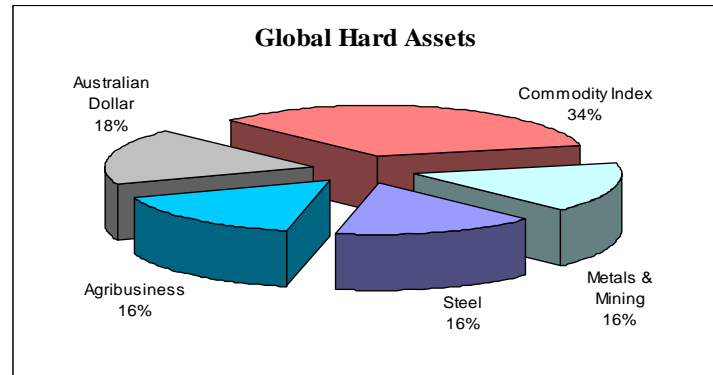
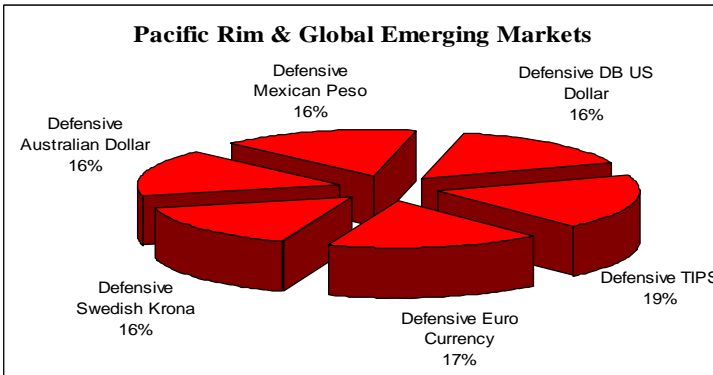
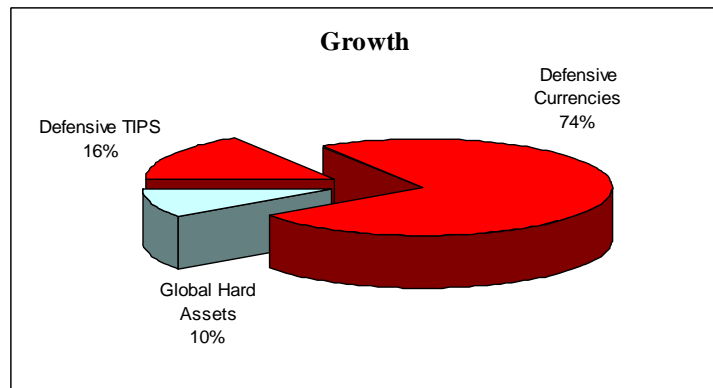
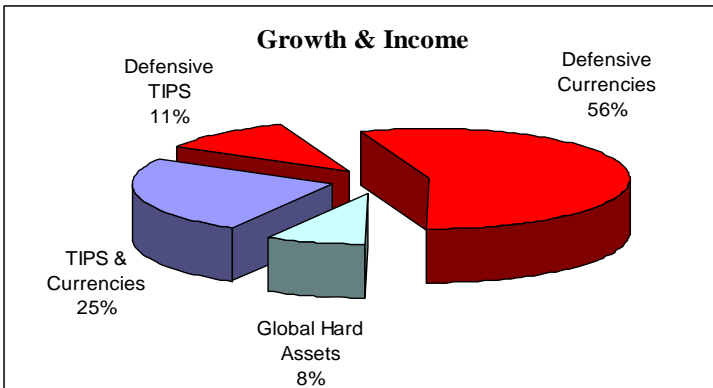
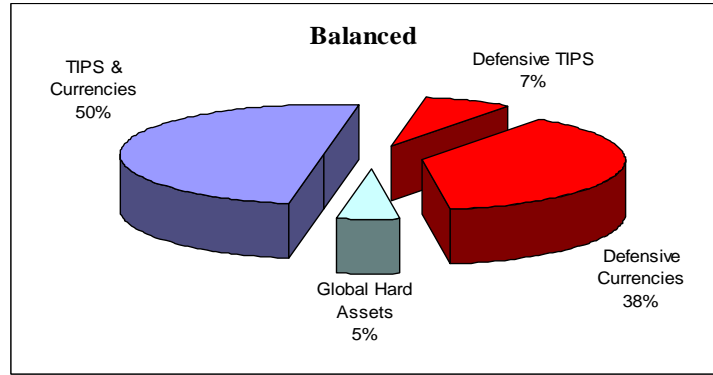
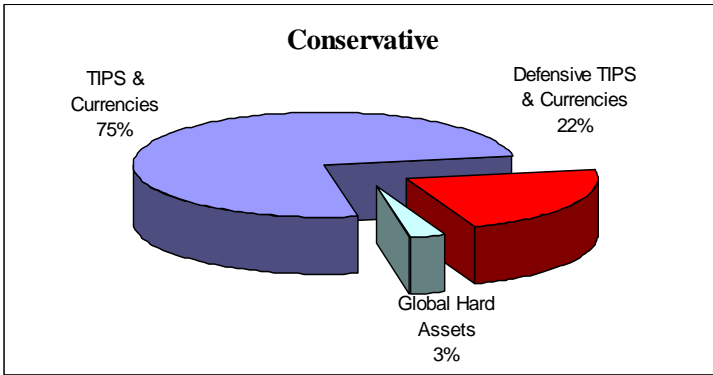


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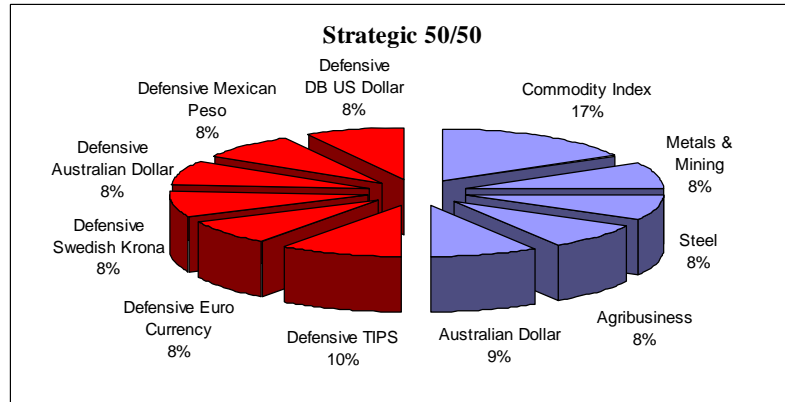
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- Emerging Markets ■
- Hard Assets ■
- Defensive Position ■



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.