



Fourth Quarter 2008

Market Commentary

2008 was a year without recent parallel for the financial markets, as the trust required for normal functioning was irrevocably shaken. We experienced the demise of major financial institutions, markets in disarray, and economies significantly weakened, despite massive efforts by governments worldwide to provide support. Domestically, consumer confidence slumped as housing values continued to decline and layoffs mounted. Consumption related sectors, especially automobile sales, have suffered as shoppers rethink their spending. Interestingly, economists are dating the start of the current recession to early 2008, although GDP and real final sales rose through the first half of the year. Third quarter GDP registered a negative 0.5% and the final quarter of 2008 is expected to be much worse.

The programs implemented or extended to provide liquidity and/or support to the credit markets have enjoyed mixed results. Despite improvement in the capital position of many banks, mortgage availability and consumer interest rates remain frozen at relatively high levels. The Bush team has been reluctant to implement the final half of the Troubled Asset Relief Program (TARP), preferring to leave the decision of how to spend the remaining monies to the new administration.

The Federal Reserve moved rates to a new low on December 16th, announcing a target overnight Federal Funds range of zero to ¼% (4.25% at the start of 2008). The committee also indicated they would maintain rates at these levels for a prolonged period and additionally, would consider the purchase of several other types of financial instruments to further reduce rates and spur consumer lending.

The incoming Obama Administration team has been active with announcements of cabinet appointments and future infrastructure programs to spur job growth. The massive stimulus is expected to balloon the budget deficit, however that fact, plus an effective devaluation of the currency and probable future inflation risks, are not being considered of paramount importance at this time.

Of note, oil prices have fallen dramatically, from a high of \$147 per barrel to under \$40 currently. This fact, plus sizable price cuts by retailers, has been a gift to cash-strapped consumers.

U.S. Treasury bills and other short maturities continued to see extraordinary demand. Capital preservation remains of paramount importance and investors have been willing to give the U.S. Treasury money at zero-to-nominally-negative yields since early December. Much of this can be attributed to the late-November announcement that the \$785 billion in special bills issued since mid-September would not be re-issued. Other asset types seeing strong demand include short-term GSE issues and debt backed by the FDIC's new Temporary Liquidity Guarantee Program. Despite dramatic declines in the 3-month London Interbank Offered Rate (LIBOR), from 4.81% on October 10th to 1.40% at year-end, non-guaranteed corporate debt remains at wide spreads to Treasuries.

It is just a matter of time before the massive amount of monetary stimulus in the pipeline will begin to have a positive impact. Your NIFCU\$ portfolio team will continue to focus on maintaining liquidity and protecting principal value.

Hillary Elder, Team Leader

Fund Profile

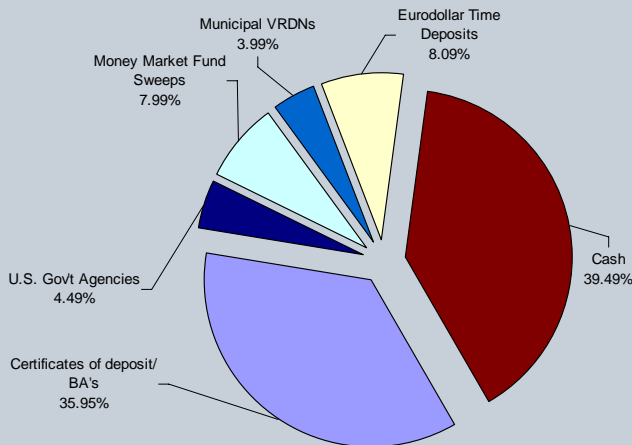
Advisor: HighMark® Capital Management, Inc.	State Domicile: California
Custodian: Union Bank of California, N.A.	Shareholder Base: Credit Unions
Trustee: Union Bank of California, N.A.	Inception: September 25, 1975
Auditor: Deloitte & Touche	Rating: Moody's Investor Services AAA assigned 12/18/97
Sponsor: NAFCU Services Corporation	

Fund Analysis*

Period Ending	4Q '08	4Q '07	4Q '06
Total Net Assets (\$Mil)	556.4	353.9	160.3
WAM Range (min to max, in days)	11-24	8-49	14-56
WAM Average (in days)	17	25	33
Effective 30 day yield	1.00	4.70	5.33

Portfolio Composition

As of December 31, 2008



Portfolio Review*

Monthly Average Rate

Oct 2008	2.3%
Nov 2008	1.7%
Dec 2008	1.0%

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