

## Equity Market Commentary

### Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	-4.1%	-4.1%	37.4%	-6.8%	2.2%
MSCI All Country World Index	-4.3	-4.3	41.6	-5.8	3.2

Periods ending 1/31/10. Annualized for periods greater than one year.

**Market Environment:** During January, the International Monetary Fund upgraded its 2010 global economic growth forecast to 3.9% but warned that the faster-than-anticipated comeback has been the result of temporary policies. Participants at the annual World Economic Forum in Davos, Switzerland also weighed in, announcing that the global recovery could slow later this year as governments and households grapple with crushing debt. With different economies improving at different rates, there is no consensus among the central banks as to how and when to pull back stimulus measures while avoiding inflation. Australia and Israel have already raised interest rates, and China has begun to implement tightening measures, but most countries have not yet reduced their fiscal and monetary support.

### MSCI WORLD INDEX

**Leaders:** Japan (1.9%), US (-3.5%), UK (-4.8%),

Banks – Japan (7.5%), Telecommunication Services – Japan (5.8%), Information Technology – UK (4.4%), Utilities – Japan (4.0%), Consumer Staples – Japan (4.0%)

**Laggards:** Australia/New Zealand/Canada (-7.2%), Hong Kong/Singapore (-6.4%), Europe ex-UK (-6.4%)  
Banks – Europe ex-UK (-11.5%), Materials – Australia/New Zealand/Canada (-9.5%),  
Utilities – Europe ex-UK (-8.9%), Materials – US (-8.6%), Telecommunication Services – Europe ex-UK (-8.6%)

**Outlook/Positioning:** Based on Batterymarch's model, portfolio positioning on January 31, 2010 included exposure to emerging markets and an overweight in the UK. Japan and the US were the largest underweights, while Hong Kong/Singapore and Europe ex-UK were underweight to a lesser degree. The aggregated Australia/New Zealand/Canada market was neutral to the benchmark. By sector, the top overweights were Banks, Information Technology and Energy. The biggest underweight positions were Consumer Staples and Financials ex-Banks.

### Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	-3.6%	-3.6%	34.8%	-7.1%	0.6%
MSCI EAFE Index	-4.4	-4.4	40.4	-7.2	3.5
FTSE All-Share Index	-4.3	-4.3	48.1	-8.8	2.0
FTSE World Europe ex UK Index	-6.4	-6.4	45.9	-6.9	4.9
MSCI Japan Index	1.9	1.9	16.3	-9.9	0.2
MSCI Emerging Markets Index	-5.6	-5.6	80.7	3.8	14.5

Periods ending 1/31/10. Annualized for periods greater than one year.

### US Market

**Market Environment:** Signs of recovery in the US included a 5.7% advance in fourth-quarter GDP, the strongest quarterly improvement in over six years. However, much of this growth was a function of inventory rebuilding. January saw an increase in industrial output, and consumer sentiment reached a two-year high. In addition, capital spending and hiring plans are on the rise. Nonetheless, many analysts expect unemployment to creep further up. President Obama's proposal to restructure Wall Street rattled financial institutions during January, and Federal Reserve chairman Ben Bernanke was confirmed for a second term after fierce opposition.

### RUSSELL 1000 INDEX

**Leaders:** Financials-Banks (2.1%), Health Care (0.5%), Health Care-Services (0.4%), Financials-Insurance (0.1%)

**Laggards:** Technology (-8.9%), Software & Services (-8.5%), Materials (-8.1%), Financials-Diversified (-7.7%), Telecommunications (-7.0%)

**Outlook/Positioning:** The largest portfolio overweights on January 31, 2010 were Technology, Health Care, Retailers (primarily specialty) and Software & Services. Both Technology and Software & Services should benefit from increased capital spending. Utilities, Financials-Diversified and Transportation were the most notable underweights.

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## Non-US Developed Markets

### UK

Reports indicated that the UK economy began to pull out of its longest-ever recession during the fourth quarter on strength in the manufacturing and services sectors, although the growth rate was slower than expected. Manufacturing activity continued to improve for January, increasing at its quickest pace in 15 years, and consumer confidence rose. Housing prices also continued upward, supported by the ongoing lack of inventory. The Bank of England announced that it would act if necessary to hold down inflation, while government officials said that public spending is still required to help uphold the shaky recovery.

### Europe ex-UK

European manufacturing output beat growth forecasts for January as global demand picked up. The head of the European Central Bank said during the month that the region will see moderate economic expansion for 2010, while emphasizing the need to reduce government budget deficits. To that end, Spain and other countries announced new austerity plans, and talk circulated about an emergency bail-out of Greece, whose debt burden could exceed 120% of GDP this year. The euro fell to a six-month low against the US dollar over heightened concerns about the Greek economy.

### Japan

In Japan, data for December showed an increase in industrial production—fed by an uptick in exports—as well as a drop in unemployment. Deflation worsened, however, with consumer prices falling in December at record speed. During January, Standard & Poor's lowered Japan's sovereign credit rating outlook to "negative," citing the country's burgeoning debt, which limits fiscal flexibility. The downgrade put additional pressure on Prime Minister Hatoyama to cut spending. Vowing to battle deflation and sustain the recovery, the Bank of Japan opted at month-end to leave interest rates very low.

### MSCI EAFE INDEX

**Leaders:** Japan (1.9%), UK (-4.8%)

Banks - Japan (7.5%), Telecommunication Services - Japan (5.8%), Information Technology - UK (4.4%), Utilities - Japan (4.0%), Consumer Staples - Japan (4.0%)

**Laggards:** Australia/New Zealand (-7.0%), Hong Kong/Singapore (-6.4%), Europe ex-UK (-6.4%)

Banks - Europe ex-UK (-11.5%), Materials - Australia/New Zealand (-9.7%), Utilities - Europe ex-UK (-8.9%), Telecommunication Services - Europe ex-UK (-8.6%)

**Outlook/Positioning:** Portfolio positioning on January 31, 2010 included exposure to emerging markets. Japan was neutral to the benchmark, with the largest underweights in Europe ex-UK and the UK. Hong Kong/Singapore and the combined Australia/New Zealand market were underweight to a smaller extent. At the sector level, Materials and Information Technology were the leading overweights, while Consumer Staples, Financials ex-Banks and Energy were the most significant underweights.

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## Emerging Markets

**Market Environment:** The Chinese economy grew 10.7% in the fourth quarter, and the government pulled back additional stimulus measures during January to control inflation and avoid overheating. India took similar steps, with both countries reining in loan growth by mandating higher bank cash reserves. Meanwhile, Brazil announced that its public debt could rise by 16% in 2010, a conservative plan designed to support slow, steady growth. The BRIC countries—Brazil, Russia, India and China—set a record for January IPO activity as 26 new offerings garnered US \$6.7 billion in assets. At least 140 more IPOs are expected this year.

### MSCI EM INDEX

**Leaders:** Middle East (6.5%), Russia (2.4%), Turkey (2.3%), Indonesia (2.0%), Israel (0.3%), small Latin American markets (0.1%)  
Health Care Equipment & Services (0.1%), Pharmaceuticals & Biotechnology (-0.3%), Utilities (-1.3%), Commercial & Professional Services (-1.3%)

**Laggards:** Brazil (-10.9%), China (-8.6%), Taiwan (-6.5%), Mexico (-6.2%), Philippines (-5.9%), Thailand (-5.3%), India (-5.3%), South Africa (-5.3%)  
Consumer Durables & Apparel (-12.3%), Real Estate (-11.9%), Retailing (-10.3%), Insurance (-8.1%), Materials (-7.2%)

**Outlook/Positioning:** On January 31, 2010, the largest portfolio overweights were Russia, Turkey, Mexico, Egypt and Brazil, with underweight positions in India, Malaysia, Israel, Taiwan, South Korea and China. The most notable overweights by industry group were Materials, Automobiles & Components, Banks and Capital Goods. Underweights included Energy, Utilities, Diversified Financials, Software & Services and Pharmaceuticals & Biotechnology.

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### NOTE: All data is shown in US dollars.

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