

Equity Market Commentary

Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	1.5%	-2.7%	55.2%	-6.2%	1.8%
MSCI All Country World Index	1.3	-3.1	59.0	-5.2	2.7

Periods ending 2/28/10. Annualized for periods greater than one year.

Market Environment: During February, the International Monetary Fund (IMF) called on advanced nations to coordinate their efforts in lifting economic stimulus measures, highlighting the considerable distance between the current fiscal environment and "normality." An IMF report noted that governments could trim more than 15% from their public debt burdens by cutting fuel subsidies in half. In addition, the head of the organization suggested that it might one day need to provide an alternative to the US dollar as the global reserve currency. Oil prices finished the month at nearly \$80 per barrel, climbing 2% on the final trading day on word of better-than-expected growth in US fourth-quarter GDP.

MSCI WORLD INDEX

Leaders: Australia/New Zealand/Canada (4.7%), US (3.1%), Hong Kong/Singapore (2.7%), Japan (1.1%)
Consumer Discretionary – US (5.4%), Industrials – US (5.0%), Banks – Australia/New Zealand/Canada (4.8%), Utilities – Japan (4.8%), Materials – US (4.6%), Materials – Australia/New Zealand/Canada (4.5%)

Laggards: Europe ex-UK (-2.2%), UK (-1.4%)
Information Technology – UK (-5.0%), Consumer Discretionary – Europe ex-UK (-4.6%), Banks – Europe ex-UK (-4.5%), Financials ex-Banks – UK (-3.8%), Energy – Europe ex-UK (-3.6%), Utilities – Europe ex-UK (-3.6%), Utilities – UK (-3.4%)

Outlook/Positioning: On February 28, 2010, portfolio positioning included exposure to emerging markets and an overweight in the UK. Japan was the largest underweight, followed by the US. Europe ex-UK and Hong Kong/Singapore were underweight to a lesser extent, while the combined, resource-based Australia/New Zealand/Canada market was nearly neutral. The biggest overweights among sectors were Information Technology, Banks and Materials. Financials ex-Banks and Consumer Staples were the leading underweights.

Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	3.3%	-0.4%	55.3%	-5.5%	0.8%
MSCI EAFE Index	-0.7	-5.1	55.3	-7.7	2.5
FTSE All-Share Index	-1.8	-6.0	57.4	-9.3	0.7
FTSE World Europe ex UK Index	-2.4	-8.7	60.1	-7.5	3.4
MSCI Japan Index	1.1	3.0	34.2	-10.8	0.0
MSCI Emerging Markets Index	0.4	-5.2	92.1	4.1	12.7

Periods ending 2/28/10. Annualized for periods greater than one year.

US Market

Market Environment: The US economy expanded modestly in February, with a rise in manufacturing as producers continued to restock inventories. However, factory output lagged January levels and missed expectations, indicating that the increase may be short-lived. News of 5.9% fourth-quarter economic growth—higher than originally reported—was offset by a sharp drop in consumer confidence for February. On a brighter note, fewer private-sector jobs were lost than in January, and the number of planned layoffs fell. The US Federal Reserve withdrew several emergency lending programs during the month, but chairman Ben Bernanke told Congress that interest rates will remain steady for the time being.

RUSSELL 1000 INDEX

Leaders: Consumer Cyclical (7.8%), Transportation (7.3%), Technology (5.9%), Financials-Real Estate (5.6%)

Laggards: Utilities (-0.7%), Health Care (0.2%), Services & Distribution (1.4%), Telecommunications (1.5%)

Outlook/Positioning: Based on BatteryMarch's model, the most significant portfolio overweights on February 28, 2010 were Technology, Software & Services, Health Care (with improving fundamentals) and Retailers (primarily specialty). The top underweights were Utilities, Financials-Diversified, Services & Distribution and Transportation (primarily airlines).

Non-US Developed Markets

UK

Although new data for the UK showed greater fourth-quarter economic growth than initially reported—thanks in large part to government spending—worries about the fragile recovery kept pressure on the pound during February. In addition, housing prices declined for the first time in 10 months as winter weather and higher transaction taxes kept buyers at home. On the positive side, a jump in export orders set a record monthly increase and pushed manufacturing activity to a 15-year high. Consumer confidence also rose, but the willingness to buy big-ticket items did not.

Europe ex-UK

Greece took center stage in Europe during February, with both Standard & Poor's and Moody's threatening to downgrade its long-term credit rating. Greek officials agreed to a series of belt-tightening measures, sparking street protests. However, more budget cuts are needed, according to the European Union. The prospect of a possible bail-out for Greece weakened the euro, which could be further tested by the economic crisis in Spain, whose jobless level stands at 19%. Some analysts believe that the eurozone is at more risk than other regions of a double-dip recession.

Japan

Japanese manufacturing activity leveled off in February, and exports began to slow in the wake of the Toyota safety scandal, reversing the uptick for January. With the enormous influence of exports on the Japanese economy—and of Toyota, the country's largest employer—February's slowdown could put a dent in GDP, according to observers. Meanwhile, government officials are considering higher sales taxes to help reduce the massive budget deficit, while renewing their call for the Bank of Japan to put an end to deflation this year.

MSCI EAFE INDEX

Leaders: Australia/New Zealand (3.4%), Hong Kong/Singapore (2.7%), Japan (1.1%)
Utilities – Japan (4.8%), Telecommunication Services – Japan (3.5%), Materials – Australia/
New Zealand (3.5%), Materials – Japan (3.4%), Banks – Australia/New Zealand (3.0%)
Laggards: Europe ex-UK (-2.2%), UK (-1.4%)
Information Technology – UK (-5.0%), Consumer Discretionary – Europe ex-UK (-4.6%),
Banks – Europe ex-UK (-4.5%), Financials ex-Banks – UK (-3.8%), Energy – Europe ex-UK (-3.6%),
Utilities – Europe ex-UK (-3.6%), Utilities – UK (-3.4%)

Outlook/Positioning: On February 28, 2010, the portfolio included exposure to emerging markets. Underweights were led by Europe ex-UK, Japan and Hong Kong/Singapore, with smaller underweight positions in the UK and the aggregated Australia/New Zealand market. By sector, Information Technology and Materials were the most notable overweights. The largest underweights were Consumer Staples and Energy.

Emerging Markets

Market Environment: Manufacturing in China failed to meet expectations for February, and government officials announced that it may take two or three years for exports to fully recover from the 16% decrease in 2009. Obstacles include possible labor shortages and uncertain global demand. The Indian government forecast 8.8% economic growth for the coming fiscal year and then announced plans to retain its fiscal stimulus programs despite worries over public debt and inflation. Inflation is also a concern in Brazil, and central bankers tightened their monetary stance in February. Analysts predict a Brazilian interest-rate increase as early as March.

MSCI EM INDEX

Leaders: Philippines (5.8%), Brazil (4.5%), Thailand (4.4%), Mexico (4.2%), China (2.2%), Israel (2.2%)
Food & Staples Retailing (5.6%), Real Estate (5.2%), Pharmaceuticals & Biotechnology (4.3%),
Retailing (3.8%), Automobiles & Components (3.5%), Software & Services (3.5%)
Laggards: Turkey (-12.4%), Russia (-5.2%), Eastern Europe (-4.9%), Taiwan (-3.7%), Indonesia (-3.7%)
Semiconductors & Semiconductor Equipment (-4.5%), Technology Hardware & Equipment (-4.3%),
Media (-3.4%), Commercial & Professional Services (-3.1%), Diversified Financials (-2.8%)

Outlook/Positioning: Portfolio positioning on February 28, 2010 included overweights in Russia, Mexico, Egypt, Brazil, Indonesia and Poland. The most significant underweights were India, Malaysia, Taiwan, Israel and South Korea. At the industry-group level, the top overweights were Materials, Automobiles & Components, Retailing and Capital Goods, with underweights in Energy, Utilities, Diversified Financials, Software & Services and Pharmaceuticals & Biotechnology.

NOTE: All data is shown in US dollars.

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