Equity Market Commentary

Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	4.2%	20.7%	-16.6%	-4.7%	3.7%
MSCI All Country World Index	3.6	23.6	-15.9	-3.8	4.6

Annualized for periods greater than one year.

Market Environment: Manufacturing output grew in August for the US, Europe and Asia, suggesting a faster global economic recovery than expected earlier this year. However, weak spots remain—in the UK, for example—and governments are not sure if the strengthening trend will continue. During August, the US won a major victory with the World Trade Organization, which ruled that China must loosen its arguably protectionist import rules for books, CDs and other American-produced media. At month-end, worries over reduced bank lending led to a dramatic sell-off in China. The resulting slip in commodity prices brought oil to just under $70 per barrel, and global markets fell as investors fretted over the possibility of a slowing Chinese economy and its effect on global growth.

MSCI WORLD INDEX

Leaders: Europe ex-UK (6.7%), UK (5.5%), Japan (3.9%), US (3.5%)
Banks – US (17.1%), Banks – Europe ex-UK (14.9%), Banks – UK (12.6%), Financials ex-Banks – Europe ex-UK (10.4%)

Laggards: Hong Kong/Singapore (-5.4%), Australia/New Zealand/Canada (2.7%)
Telecommunication Services – US (-1.2%), Materials – Australia/New Zealand/Canada (-0.8%), Utilities – US (0.5%), Consumer Staples – UK (0.7%), Energy – US (0.7%)

Outlook/Positioning: Based on Batterymarch's model, fund positioning on August 31, 2009 included modest exposure to emerging markets and overweights in the US and the UK. Hong Kong/Singapore was flat relative to the benchmark. The most notable underweights were the combined Australia/New Zealand/Canada region and Europe ex-UK. Japan was underweight to a lesser degree. Telecommunication Services was the biggest overweight at the sector level, with less significant overweights in Information Technology and Banks. The leading underweights were Financials ex-Banks and Materials.

Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	3.6%	16.4%	-18.4%	-5.6%	0.9%
MSCI EAFE Index	5.5	24.8	-14.5	-4.3	6.3
FTSE All-Share Index	5.9	33.5	-18.0	-7.1	4.2
FTSE World Europe ex UK Index	7.1	25.9	-15.8	-2.5	8.8
MSCI Japan Index	3.9	11.3	-10.0	-7.9	2.2
MSCI Emerging Markets Index	-0.3	51.1	-9.7	5.5	17.0

Annualized for periods greater than one year.

US Market

Market Environment: US business activity outran expectations during August, with productivity rising at the quickest rate in six years and labor costs tumbling to a nine-year low. At the same time, consumer confidence remained well below the levels needed to sustain a healthy economy. While new unemployment claims modestly declined during the month, 9.7% of Americans are now out of work, and many economists predict additional job losses into next summer. President Obama opted to stay the course in August by nominating Ben Bernanke for a second term as Federal Reserve chairman. The Fed has reportedly garnered $14 billion in profits from its liquidity-injecting loan programs.

RUSSELL 1000 INDEX

Leaders: Financials-Banks (14.3%), Financials-Insurance (13.8%), Financials-Real Estate (13.3%), Consumer Services (6.2%), Services & Distribution (4.9%)

Laggards: Telecommunications (-1.2%), Consumer Staples (-0.4%), Energy (0.3%), Utilities (0.6%), Materials (2.0%), Health Care-Services (2.2%)

Outlook/Positioning: The largest month-end overweights were Technology and Health Care, with smaller overweights in Retailers (primarily specialty), Telecommunications and Energy. The most significant underweights were Financials-Banks, Utilities, Industrials, Materials and Transportation.

Non-US Developed Markets

UK
In the UK, reports released in August showed that the second-quarter economic contraction was slightly lower than first thought. However, data also indicated a much greater drop than predicted in business investment spending for the period. For August, one of the bright spots was a rise in home prices—the first in two years. In addition, consumer confidence remained at its best level since the spring of 2008. The head of the UK Treasury announced that a sustainable recovery is due by year-end, although some experts believe that the country's output has been permanently damaged.

Europe ex-UK
The French and German economies have begun to emerge from recession, lifting the eurozone as a whole. Inflation for the region declined less than anticipated for August, easing deflationary concerns, and consumer sentiment improved for the fifth month in a row. Unemployment in the 16-nation bloc remained troubling, especially in Spain, where reports indicated an 18% jobless rate for July. The European Central Bank is expected to upgrade its growth estimates for the rest of 2009, despite concerns over unemployment levels and commodity-price volatility, as well as for next year.

Japan
After more than 50 years in power, Japan's conservative Liberal Democratic Party was ousted during August in a crushing defeat by the Democratic Party of Japan. The new prime minister intends to shift the focus from US-style market reforms to programs that directly benefit consumers. Critics worry that his long-term plans are unclear and that additional government spending will increase the public debt, currently at about 170% of GDP. Meanwhile, the Bank of Japan announced that the country's economic recovery will be muted by ongoing weak demand.

MSCI EAFE INDEX

Leaders: Australia/New Zealand (8.2%), Europe ex-UK (6.7%), UK (5.5%), Japan (3.9%)
Banks – Europe ex-UK (14.9%), Banks – Australia/New Zealand (14.8%), Banks – UK (12.6%), Financials ex-Banks – Europe ex-UK (10.4%), Financials ex-Banks – UK (10.3%)

Laggard: Hong Kong/Singapore (-5.4%)
Consumer Staples – UK (0.7%), Consumer Discretionary – Europe ex-UK (0.8%), Consumer Discretionary – Japan (1.5%), Materials – Japan (2.2%)

Outlook/Positioning: Fund positioning on August 31, 2009 included modest exposure to emerging markets and an overweight in the UK. The aggregated Australia/New Zealand market was essentially flat, as was Hong Kong/Singapore, while Europe ex-UK and Japan were underweights. The largest overweight in terms of sectors was Banks. Information Technology and Health Care were overweight to a slight degree. Consumer Staples was the most notable underweight, followed by Telecommunication Services.

Emerging Markets

Market Environment: Chinese manufacturing grew at its fastest pace in 16 months for August, creating labor shortages as wary migrant factory workers hesitated to return. In India, reports indicated a 6.1% year-on-year climb in GDP for the second quarter. Economists noted that weakness in the Indian agricultural sector, thanks to the lowest rainfall in decades, should be offset by manufacturing as the year goes on. At month-end, a sharp sell-off in China—on fears of a cut in bank lending—helped drag down emerging markets in total, including Brazil, whose equity market is heavily weighted in resource-related companies that benefit from Chinese demand.

MSCI EM INDEX

Leaders: Eastern Europe (6.7%), Middle East (6.3%), Turkey (6.1%), South Africa (5.7%), Mexico (5.0%)
Automobiles & Components (4.8%), Media (4.7%), Consumer Durables & Apparel (4.3%), Semiconductors & Semiconductor Equipment (2.3%), Materials (1.7%)

Laggards: China (-7.0%), Taiwan (-2.7%), Israel (-1.8%), India (-1.1%), Indonesia (-0.7%), Philippines (-0.7%)
Real Estate (-10.7%), Commercial & Professional Services (-8.4%), Insurance (-5.3%), Transportation (-4.7%), Consumer Services (-3.6%)

Outlook/Positioning: The top overweights at month-end were Russia (due to cheap valuations), Turkey, Egypt, South Korea and Brazil. Significant underweights included Malaysia, India, Taiwan, China (where valuations are relatively high) and Israel. By industry group, the most notable overweights were Banks, Automobiles & Components and Materials, with the biggest underweights in Energy and Utilities.

NOTE: All data is shown in US dollars.