

## Equity Market Commentary

### Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	4.0%	25.6%	-1.6%	-3.8%	4.1%
MSCI All Country World Index	4.6	29.3	0.5	-2.7	5.1

*Annualized for periods greater than one year.*

**Market Environment:** According to the International Monetary Fund (IMF), the world economy is slowly on the mend, with 3.1% growth expected next year. However, the group warned that the recovery could be derailed by persistent trade imbalances and the still-weak global banking system. During September, the head of the World Bank announced that a shift in global power, pushed along by the broad economic crisis, will affect monetary policy, currency markets and trade relations in coming years, as well as the role of emerging countries. Meeting in Pittsburgh toward month-end, the leaders of the G20 resolved to bring about joint regulatory reforms before 2011. In the view of some economists, the relatively young organization—having met only three times—may not be ready to take a major part in directing the global economy.

#### MSCI WORLD INDEX

**Leaders:** Australia/New Zealand/Canada (9.2%), Hong Kong/Singapore (7.3%), Europe ex-UK (5.5%) Information Technology – UK (13.2%), Materials – Australia/New Zealand/Canada (10.1%), Banks – Australia/New Zealand/Canada (10.1%), Financials ex-Banks – Europe ex-UK (8.6%)

**Laggards:** Japan (-1.7%), UK (2.8%), US (3.8%)  
Banks – Japan (-12.9%), Financials ex-Banks – Japan (-9.9%), Consumer Discretionary – Japan (-2.5%), Materials – Japan (-2.5%)

**Outlook/Positioning:** Based on Batterymarch's model, fund positioning at month-end included modest exposure to emerging markets and an overweight in the UK. The biggest underweights were the aggregated Australia/New Zealand/Canada market and Europe ex-UK, with much smaller underweights in Japan, the US and Hong Kong/Singapore. Overweights among sectors included Telecommunication Services and Energy. Financials ex-Banks was the largest underweight.

### Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	4.1%	21.1%	-6.1%	-5.1%	1.5%
MSCI EAFE Index	3.9	29.6	3.8	-3.1	6.6
FTSE All-Share Index	2.8	37.2	-0.6	-6.1	4.1
FTSE World Europe ex UK Index	5.5	32.9	4.5	-1.3	9.0
MSCI Japan Index	-1.7	9.4	-0.4	-7.9	2.4
MSCI Emerging Markets Index	9.1	64.9	19.4	8.3	17.7

*Annualized for periods greater than one year.*

### US Market

**Market Environment:** US consumer confidence unexpectedly fell during September on worries over unemployment—projected to reach 10% this year—and heightened concerns about the upcoming holiday shopping season. Meanwhile, the Federal Reserve noted signs of economic activity in September, including improvements in the housing sector, but cautioned that the recovery is still fragile. While interest rates will remain ultra-low for the time being, the central bank plans to quickly tighten its stance once a solid recovery is underway. The FDIC reported at month-end that it would be running a deficit for September but proposed to help replenish its coffers by requiring banks to prepay their premiums through 2012.

#### RUSSELL 1000 INDEX

**Leaders:** Energy Services (11.7%), Consumer Services (9.1%), Industrials (8.2%), Financials-Real Estate (6.6%), Consumer Staples (5.8%), Telecommunications (5.7%)

**Laggards:** Health Care-Services (-1.1%), Financials-Banks (-0.1%), Consumer Cyclical (0.0%), Health Care (1.8%), Financials-Insurance (1.8%)

**Outlook/Positioning:** The most significant fund overweights on September 30, 2009 were Technology and Health Care. Retailers (primarily specialty) were overweight to a lesser extent. Notable underweights included Financials-Banks, Utilities, Industrials and Financials-Insurance.

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## Non-US Developed Markets

### UK

Retail sales in the UK climbed during September to the best level since April, and housing prices grew for the fifth month in a row, helping to offset the news of a slowdown in manufacturing. As the UK economy begins to bounce back, inflation is expected to be a bigger problem than in other developed countries, along with a shortage of credit. In fact, the IMF estimated in September that the funding gap between credit demand in the UK—both public and private—and available financing will account for approximately 15% of GDP through next year, compared to 2.4% in the US.

### Europe ex-UK

The European economic recovery slowed in September, but consumer confidence continued to improve, reaching its highest point in 12 months. In other promising news, the decline in retail sales abated during the period, as did the pace of job cuts, and a banking stress test showed that the largest European banks could withstand an even worse recession, albeit with heavy losses. The European Central Bank, which anticipates weak growth next year, intends to hold interest rates at 1% for the time being while keeping an eye on inflation, which remained negative at month-end.

### Japan

In Japan, reports released for August showed the sixth straight month of price decreases, due largely to lower energy costs. Data also indicated a surprising drop in August unemployment, although analysts believe that the jobless level could creep back up. During September, the Bank of Japan chose to keep interest rates at 0.1% while voicing greater optimism about the economy, despite predictions that deflation will continue into 2011. A key survey revealed an uptick in business sentiment among large manufacturers for the third quarter, although this was not supported by plans to boost capital spending.

### MSCI EAFE INDEX

**Leaders:** Australia/New Zealand (11.6%), Hong Kong/Singapore (7.3%), Europe ex-UK (5.5%)  
Banks – Australia/New Zealand (15.1%), Information Technology – UK (13.2%),  
Financials ex-Banks – Europe ex-UK (8.6%), Materials – Australia/New Zealand (7.5%)

**Laggards:** Japan (-1.7%), UK (2.8%)  
Banks – Japan (-12.9%), Financials ex-Banks – Japan (-9.9%), Consumer Discretionary –  
Japan (-2.5%), Materials – Japan (-2.5%), Health Care – UK (-0.6%)

**Outlook/Positioning:** Fund positioning on September 30, 2009 included exposure to emerging markets. The leading underweights were Japan, the UK and the combined Australia/New Zealand region, with smaller underweights in Hong Kong/Singapore and Europe ex-UK. At the sector level, Banks (primarily in resource-based countries and the UK) and Information Technology were the top overweights, while Consumer Staples and Energy were the largest underweights.

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## Emerging Markets

**Market Environment:** Standard & Poor's announced in September that sovereign downgrades for developing countries have come to a halt, illustrating their resilience during the global financial crisis. Chinese manufacturing output continued to rise for September, and the IMF upgraded its 2010 growth forecast for the country to 9%. China's demand for raw materials required for infrastructure development pushed up the price of iron ore during the month, benefiting hard-commodity exporters such as Russia and Brazil. Russia, which has struggled in the downturn, reduced interest rates in September as a way to stimulate lending, and Prime Minister Putin cited the need for private enterprise to lead the economy out of recession. In India, where analysts predict at least 6% growth for the current fiscal year, inflation is expected to spike up as the effects of the recent drought on food production become apparent.

### MSCI EM INDEX

**Leaders:** Brazil (15.2%), Russia (15.1%), Thailand (12.7%), Taiwan (12.7%), South Korea (12.1%),  
smaller Latin America (12.0%)  
Automobiles & Components (14.3%), Banks (12.9%), Health Care Equipment & Services (11.7%),  
Semiconductors & Semiconductor Equipment (11.5%)

**Laggards:** Hong Kong (-1.3%), Philippines (-0.2%), Pakistan (0.0%), Sri Lanka (0.0%), Israel (0.5%),  
Pharmaceuticals, Biotechnology & Life Sciences (0.1%), Consumer Durables & Apparel (0.8%),  
Transportation (3.0%), Telecommunication Services (3.0%)

**Outlook/Positioning:** At month-end, the most notable overweights were Russia (where valuations are cheap), Turkey, Brazil, Mexico, South Korea and Pakistan. The biggest underweights were Taiwan, India, Malaysia, Israel and China (due to relatively high valuations). Among industry groups, the most significant overweights were Materials, Banks, Capital Goods and Retailing, with underweights in Energy, Utilities and Software & Services.

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

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