

Equity Market Commentary

Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	-1.8%	23.3%	19.2%	-5.5%	3.2%
MSCI All Country World Index	-1.5	27.3	23.4	-4.4	4.3

Annualized for periods greater than one year.

Market Environment: October brought worries about the sustainability of new economic growth. World stock markets tumbled at month-end after reports cast doubt on the strength of the US recovery despite positive third-quarter GDP data. Oil prices also fell, landing at \$77 per barrel not long after reaching a one-year high. The World Bank warned early in October of a “wobbly” global rebound, and the UN’s International Labour Organization said that stagnant or declining wages, which will limit consumer spending, are a major threat to a lasting global recovery. In addition, the International Monetary Fund (IMF), which had upgraded its global economic forecast, said that developed nations will require broad tax hikes and spending cuts over the coming decade to regain control of public finances.

MSCI WORLD INDEX

Leaders: Hong Kong/Singapore (1.4%), UK (1.3%)
Consumer Staples – Europe ex-UK (4.7%), Materials – UK (4.4%), Consumer Staples – UK (4.3%), Consumer Discretionary – UK (3.2%)

Laggards: Australia/New Zealand/Canada (-2.8%), Japan (-2.5%), Europe ex-UK (-2.3%), US (-1.9%)
Information Technology – UK (-10.7%), Utilities – Japan (-7.4%), Banks – US (-7.4%), Utilities – Europe ex-UK (-6.5%), Financials ex-Banks – Europe ex-UK (-6.5%), Information Technology – Europe ex-UK (-6.5%)

Outlook/Positioning: Fund positioning on October 31, 2009 included modest exposure to emerging markets and an overweight in the UK. Europe ex-UK, the US and the aggregated Australia/New Zealand/Canada region were the most significant underweights. Japan was underweight to a lesser extent, and Hong Kong/Singapore was flat. The leading overweight at the sector level was Banks, while Financials ex-Banks and Consumer Staples were the top underweights.

Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	-2.2%	18.4%	11.2%	-6.8%	0.7%
MSCI EAFE Index	-1.2	28.0	28.4	-4.7	5.6
FTSE All-Share Index	1.2	38.9	26.0	-7.3	3.8
FTSE World Europe ex UK Index	-2.4	29.7	32.2	-3.3	7.6
MSCI Japan Index	-2.5	6.7	13.9	-9.2	1.3
MSCI Emerging Markets Index	0.1	65.1	64.6	6.7	17.2

Annualized for periods greater than one year.

US Market

Market Environment: US third-quarter GDP grew by a more-than-anticipated 3.5%—after four quarters of economic decline—thanks to the government support for auto and home sales. The news failed to buoy consumers, however, who reduced spending in October for the first time in five months and continued to lose confidence on fears over unemployment. Nonetheless, consumer sentiment is still much higher than a year ago. Experts worry that dependence on government stimulus measures makes the budding recovery quite fragile. Disappointing data on new home sales may help push through an extension of the first-time homebuyer tax credit, and the US Federal Reserve, meeting in early November, is expected to keep interest rates untouched.

RUSSELL 1000 INDEX

Leaders: Software & Services (3.9%), Energy (3.0%), Energy Services (1.5%), Retailers (0.5%)
Consumer Staples (0.5%), Health Care-Services (0.2%)

Laggards: Financials-Banks (-6.7%), Telecommunications (-5.2%), Transportation (-5.2%),
Financials-Insurance (-5.1%), Financials-Real Estate (-5.1%), Consumer Services (-5.0%)

Outlook/Positioning: Based on Batterymarch’s model, Technology, Health Care and Retailers (primarily specialty) were the biggest fund overweights at month-end. Utilities and Industrials were the most notable underweights, followed by Services & Distribution, Energy Services and Transportation.

Non-US Developed Markets

UK

Recent reports showed an unexpected contraction in the UK economy for the third quarter, making it the last major country to emerge from recession. Many analysts believe that the Bank of England will extend its stimulative bond-purchase program as a result. The news was better for October, with manufacturing output increasing faster than in two years. In addition, home prices crept up for the fourth consecutive month on low interest rates and pent-up demand, although some economists doubt that this is a long-term trend.

Europe ex-UK

Manufacturing in Europe picked up during October for the first time in 17 months, and business and consumer confidence continued to improve despite additional job losses. The unemployment level for Europe may reach 11.7% in 2010, according to IMF projections, and deflation remains a threat, with consumer prices sliding again in October. The European Central Bank indicated that it might be ready to cut back its stimulus measures next year as the credit crunch appear to be easing, according to a lender survey.

Japan

Newly released data pointed to a rise in Japanese factory output for September, marking the seventh monthly increase in a row. Manufacturers predict additional production upticks for October and November. In his first speech to the Diet, Japan's newly installed prime minister, Yukio Hatoyama, pledged to reduce the country's dependence on exports by boosting consumer spending at home. Despite plans to shift economic support away from corporations, the new government stands ready to bail out Japan Airlines—a victim of poor management and the drop in global travel—because officials consider it “too big to fail.”

MSCI EAFE INDEX

Leaders: Hong Kong/Singapore (1.4%), UK (1.3%), Australia/New Zealand (0.1%)
Consumer Staples – Europe ex-UK (4.7%), Materials – UK (4.4%), Consumer Staples – UK (4.3%),
Consumer Discretionary – UK (3.2%)
Laggards: Japan (-2.5%), Europe ex-UK (-2.3%)
Information Technology – UK (-10.7%), Utilities – Japan (-7.4%), Utilities – Europe ex-UK (-6.5%),
Financials ex-Banks – Europe ex-UK (-6.5%), Information Technology – Europe ex-UK (-6.5%)

Outlook/Positioning: Fund positioning at month-end included greater exposure to emerging markets. Japan was the largest underweight, with smaller underweight positions in the UK, Europe ex-UK and the combined Australia/New Zealand market. Hong Kong/Singapore, while underweight, was nearly neutral. The largest overweight among sectors was Banks, while Consumer Staples and Energy were the most significant underweights.

Emerging Markets

Market Environment: The expansion in Chinese manufacturing accelerated in October at its fastest rate in 18 months, and government officials said that the economy will probably exceed their 8% growth target for 2009. Fighting the effects of the recent severe drought, India set aside its 70% rice import tax to help build up its food stocks. Brazil also made taxation changes, instituting a 2% levy on foreign investment inflows to stem this year's dramatic appreciation of its currency, which has damaged the country's competitiveness as an exporter. Russia cut interest rates to a record low of 9.5% during October—its eighth rate reduction since April—to bolster lending activity.

MSCI EM INDEX

Leaders: China (6.4%), Malaysia (4.7%), Russia (4.5%), Middle East (3.0%), Eastern Europe (2.9%),
Brazil (2.8%)
Health Care Equipment & Services (7.7%), Insurance (6.4%), Retailing (6.3%), Food, Beverage &
Tobacco (5.4%), Media (5.3%)
Laggards: Thailand (-6.4%), South Korea (-6.3%), Taiwan (-4.1%)
Semiconductors & Semiconductor Equipment (-9.2%), Commercial & Professional Services (-6.4%),
Diversified Financials (-4.6%), Consumer Durables & Apparel (-3.5%)

Outlook/Positioning: Based on Batterymarch's model, fund positioning on October 31, 2009 included overweights in Russia (due to cheap valuations), Turkey, Egypt and Mexico, with underweights in Taiwan, India, Malaysia, Israel and China (where valuations are relatively high). The top overweight at the industry-group level was Materials, followed by Capital Goods, Automobiles & Components and Retailing. Energy, Utilities and Software & Services were the biggest underweight positions.

NOTE: All data is shown in US dollars.

This document has been prepared and issued by Batterymarch Financial Management, Inc. (Batterymarch) for informational purposes only. Except where otherwise noted, all information is sourced from Batterymarch. In certain instances, Batterymarch has prepared the information and opinions contained herein using data from external sources believed to be reliable, but which are not guaranteed by Batterymarch as to their timeliness or accuracy and which are subject to change without notice. This document may include forward-looking statements, which are based on current opinions, expectations and projections. Batterymarch undertakes no obligation to update or revise any information, opinions or forward-looking statements should they change. This document does not constitute a recommendation to buy or sell any security or product. Past performance is no guarantee of future results. Actual results could differ materially from those anticipated. Index providers (e.g., Russell Investments, MSCI Barra and FTSE) are the sources and owners of the index data contained or reflected in this document and all copyrights related thereto. The MSCI indices shown are Standard indices. This is Batterymarch's presentation of the underlying index data, which includes a redefinition of sector and regional groupings in accordance with Batterymarch's unique classifications. The index providers are not responsible for the formatting or configuration of this material or for any inaccuracy in presentation thereof.

