Equity Market Commentary

Global Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
MSCI World Index	1.8%	30.8%	30.8%	-5.1%	2.6%
MSCI All Country World Index	2.1%	35.4%	35.4%	-4.1%	3.6%

Periods ending 12/31/09. Annualized for periods greater than one year.

Market Environment: Sharp increases in new orders for December boosted manufacturing activity in some developed countries, a sign that the economic recovery has begun to spread beyond emerging markets powerhouses such as India and China. A sustained rebound is uncertain, however, since the growth has been driven by temporary fiscal and monetary stimulus measures. Nonetheless, the International Monetary Fund has projected 3.1% world growth for 2010, with sluggish improvement in the more developed economies. The US dollar weakened on the final day of the year, just after reaching a three-month high, and oil prices reached $80 per barrel for the first time since November.

MSCI WORLD INDEX

Leaders: Hong Kong/Singapore (3.4%), UK (2.6%), Australia/New Zealand/Canada (2.5%), US (2.1%)
Information Technology – Japan (7.0%), Information Technology – US (5.9%), Telecommunication Services – US (5.7%), Utilities – US (5.4%), Utilities – UK (5.0%), Consumer Discretionary – Japan (5.0%)

Laggards: Europe ex-UK (1.0%), Japan (0.8%)
Banks – Japan (-10.9%), Utilities – Japan (-7.5%), Telecommunication Services – Japan (-6.1%), Banks – US (-5.1%), Banks – Europe ex-UK (-3.0%), Banks – UK (-2.6%)

Outlook/Positioning: Portfolio positioning on December 31, 2009 included exposure to emerging markets and an overweight in the UK. Hong Kong/Singapore was slightly positive. The most notable underweight was the US, followed by Europe ex-UK, Japan and the combined resource-based market of Australia/New Zealand/Canada. Materials, Information Technology and Banks were the biggest overweights at the sector level, while Consumer Staples and Financials ex-Banks were the leading underweights.

Region/Country Equity Markets

	Month	YTD	1 Year	3 Years	5 Years
Russell 1000 Index	2.4%	28.4%	28.4%	-5.4%	0.8%
MSCI EAFE Index	1.5	32.5	32.5	-5.6	4.0
FTSE All-Share Index	2.7	46.2	46.2	-7.5	2.9
FTSE World Europe ex UK Index	1.0	34.9	34.9	-4.5	5.8
MSCI Japan Index	0.8	6.4	6.4	-10.3	-0.7
MSCI Emerging Markets Index	4.0	79.0	79.0	5.4	15.9

Periods ending 12/31/09. Annualized for periods greater than one year.

US Market

Market Environment: December was a promising month for the US economy. A key survey showed that US companies grew faster than expected for the month, and inventory rebuilding pushed manufacturing output to its best level in more than three years. Consumer confidence rose, and holiday retailers saw a modest improvement over prior-year sales due to last-minute buyers, on-line purchases and an extra shopping day this season. However, some weak spots remained—construction activity continued to fall, for example, particularly home-building. Declaring that a lasting recovery is not yet assured, Federal Reserve chairman Ben Bernanke vowed to keep interest rates extremely low for some time, which continued to fuel inflation fears.

RUSSELL 1000 INDEX

Leaders: Financials-Real Estate (6.9%), Technology (6.6%), Consumer Cyclicals (6.2%), Software & Services (6.1%), Telecommunications (5.9%), Utilities (5.6%)

Laggards: Financials-Banks (-4.0%), Energy (-1.0%), Consumer Staples (0.4%), Retailers (1.0%), Financials-Insurance (1.1%), Industrials (1.4%)

Outlook/Positioning: Based on Batterymarch's model, the most significant portfolio overweights on December 31, 2009 were Technology, Retailers (primarily specialty) and Health Care, with relatively large underweights in Utilities (primarily electric), Financials-Diversified and Transportation.

Non-US Developed Markets

UK

During December, housing demand dropped in the UK for the first time since January 2009, and a decrease in commercial construction caused overall building activity to further decline. On the positive side, manufacturing rose at its quickest rate in over two years, and corporate confidence hit a six-year high. Prime Minister Gordon Brown reported in December that the worst of the recession is over, although the recovery is still fragile. The Bank of England noted conflicting economic indicators and adopted a wait-and-see attitude that leaves room for additional monetary support.

Europe ex-UK

Retail sales in Europe increased for December, and manufacturing grew faster than in the previous 21 months. Despite these encouraging signs, economists worry that rising joblessness will dampen consumer spending and that the strong euro will have a negative impact on exports. Inflation during December continued to undershoot the 2% target set by the European Central Bank, supporting the case for maintaining a loose monetary stance. Although some eurozone economies are in recovery, countries including Greece, Spain, Italy and Ireland have a rough road ahead, according to the European Commission, because of high levels of public debt.

Japan

Threatened by deflation and a soaring yen, the Japanese recovery is considered shaky, prompting the central bank to inject over $100 billion into the financial system in early December. Days later, the government unveiled a new $81 billion stimulus plan—worth 1.5% of GDP—to support public works projects, environmental programs, small businesses and more. Government officials announced at month-end that Japan is unlikely to lapse back into recession and targeted 2% GDP growth over the next 10 years. Skeptics pointed out that the Japanese economy hasn’t grown that much since the 1980s.

MSCI EAFE INDEX

Leaders: Hong Kong/Singapore (3.4%), UK (2.6%), Australia/New Zealand (1.8%)
Information Technology – Japan (7.0%), Utilities – UK (5.0%), Consumer Discretionary – Japan (5.0%), Industrials – UK (4.9%), Materials – Europe ex-UK (4.7%)

Laggards: Europe ex-UK (1.0%), Japan (0.8%)
Banks – Japan (-10.9%), Utilities – Japan (-7.5%), Telecommunication Services – Japan (-6.1%), Banks – Europe ex-UK (-3.0%), Banks – UK (-2.6%)

Outlook/Positioning: On December 31, 2009, the portfolio maintained exposure to emerging markets. The UK, Europe ex-UK and Hong Kong/Singapore were the most significant underweights. Japan and the aggregated Australia/New Zealand market were underweight to a lesser degree. The top overweights among sectors were Materials, Industrials and Banks. Financials ex-Banks, Consumer Staples, Energy and Health Care were underweights.

Emerging Markets

Market Environment: Chinese manufacturing expanded for the ninth consecutive month in December thanks to increasing foreign sales and a jump in local demand. The median fourth-quarter growth estimate for China is 10.4%. Factory output also rose in India, where a shortage of construction engineers could hinder government plans for massive infrastructure development. In Russia, manufacturing cooled during December, and inflation continued to ease as demand faltered. Like other major emerging markets, Russia has seen significant currency appreciation in recent months, which has hurt exports. As a result, the government intends to curb capital inflows in an effort to hold down the ruble.

MSCI EM INDEX

Leaders: Turkey (19.6%), Taiwan (8.5%), South Korea (8.3%), Thailand (7.3%), Israel (5.8%), Indonesia (5.7%), South Africa (5.0%)
Semiconductors & Semiconductor Equipment (10.8%), Technology Hardware & Equipment (10.4%), Automobiles & Components (10.0%), Retailing (8.3%)

Laggards: Eastern Europe (-2.7%), China (0.5%), Malaysia (0.6%), Brazil (1.6%), Philippines (2.7%)
Insurance (-0.4%), Consumer Services (-0.1%), Real Estate (-0.1%), Telecommunication Services (1.%), Energy (1.2%)

Outlook/Positioning: Based on our model, portfolio positioning on December 31, 2009 included overweights in Russia, Turkey, Brazil, Mexico and Egypt. Underweights were led by India, Malaysia, Taiwan and Israel. By industry group, the largest overweight was Materials, followed by Banks and Automobiles & Components. The most notable underweights were Energy, Utilities, Diversified Financials and Software & Services.

NOTE: All data is shown in US dollars.

John Hancock Tower | 200 Clarendon St. | Boston, MA 02116 USA | Telephone 617-266-8300 | Facsimile 617-266-0633 | www.batterymarch.com