



Parametric™

Leaders in Structured Portfolio Management

MARKET COMMENTARY

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About Parametric

Parametric is an industry-leading provider of structured portfolio management, headquartered in Seattle, Washington. Parametric and its affiliate, Parametric Risk Advisors, offer a variety of structured portfolio solutions, including customized core equity portfolios (U.S., Non-U.S., Global Tax-Managed Core™), options strategies (DeltaShift™), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

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Domestic

The S&P 500 Index fell 11% in the first quarter, the sixth consecutive quarterly decline. The tenuous state of banks and the US economy made investors skeptical that a recovery was on the horizon. Financial services was again the worst performing sector in the first quarter, down 29%, as the Treasury and Federal Reserve formulated policy to avert bankruptcy in the nation's largest financial institutions. Industrials were also hard hit, down 21%, with the US economy entering its 17th month of the recession, longest since the Great Depression. Technology was a bright spot, up 4%, the only positive returning sector of the quarter. Growth trounced value, largely due to the concentration of technology and financial stocks in each respective index. Small-cap stocks underperformed large- and mid-caps (S&P MidCap 400 Index, -9%; S&P SmallCap 600 Index, -17%). As the new administration embarks on a bold government intervention plan to rescue financial markets, investors seem wary of putting money to work in such an uncertain and rapidly changing environment. While upcoming corporate earnings reports will provide some insight, equity investors are primarily watching Washington. As this unfolds, our broadly diversified, sector-neutral *Tax Managed Core* portfolios will provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

International

In international markets, results were mixed as the MSCI EAFE index was down 14% and the emerging markets MSCI EM Index was up 1%. With developed markets falling 10% in both January and February, markets reversed in March returning 6%. Utility and financial sector stocks, both down 21%, were the worst performing sectors. As the global banking crisis continues, the financial sector continues to weigh heavily on returns. No sector had positive returns, however, energy, materials and consumer discretionary stocks were the best relative performers. In dollar terms, Finland, Italy and Germany were the worst performing developed markets. Japan was also hard hit, down 17%, as the yen gave back most of its fourth quarter appreciation and fell 9%. In emerging markets, strength in commodity prices buoyed the returns of Brazil and Russia. Other less commodity intensive countries, such as Israel and Taiwan, were also strong performers as emerging markets diverged from developed countries and posted a positive return in the first quarter.

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