



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 US equity market had its best quarter in over 10 years, as measured by the S&P 500 Index, up 15.9%. The rally broke a string of six negative quarters in a row, lifting US stocks into positive territory for the year. All economic sectors were up in the quarter, but the reversal in financials was most stunning, up 35.7%. Cyclical sectors, most sensitive to changes in the overall economy, were especially strong performers with technology, up 19.7%, industrials, up 18.9%, consumer discretionary, up 18.2% and materials, up 16.3%. The defensive sectors were the worst performing, such as telecommunications, up 3.4%, health care, up 8.9% and consumer staples, up 9.8%, as investors focused less on sectors capable of weathering an economic slump. Small-caps outperformed large-caps (S&P SmallCap 600 Index, 21.1%; S&P MidCap 400 Index, 18.7%). Value outperformed growth, largely due to the high concentration of financials in the Value Index (S&P 500/Citigroup Value Index, 17.5%; S&P 500/Citigroup Growth Index, 14.6%). Stocks are trading at historical norms relative to projected earnings, but forecasting corporate profits in the current economic environment is challenging. Payrolls and home prices continue to decline, but consumer confidence and factory orders are on the rise. As this unfolds, our broadly diversified, sector-neutral Tax Managed Core portfolios will provide an opportunity to capture the next market leaders, while doing so in a tax efficient manner.

International

In international markets, the MSCI EAFE index was up 25.4% during the quarter and the emerging markets MSCI EM Index was up an impressive 34.7%. Currency appreciation contributed significantly to returns, as the US dollar depreciated against all major currencies. Developed markets are in positive territory for the year, up 8%, as are emerging markets, up 36% for the year. All country returns were positive with developed market leaders Singapore and Greece, up 46% and 39%, respectively. The laggards were Ireland, up only 6.6% and Switzerland, up 16.3%. The British pound and Australian dollar each appreciated over 15% versus the dollar. The best performing sector was financials, up 41%, while defensive sectors, such as healthcare and telecommunications, lagged the market, each up only 10.6%. As the US financial bailout takes hold and the idea of another round of stimulus begins to percolate, US dollar weakness may continue to be a significant factor in foreign market returns.

Disclosures

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