

MARKET COMMENTARY

3rd Quarter, 2009

Domestic

The US equity market continued last quarter's rally, with the S&P 500 Index up 15.6% in the third quarter. US stocks are firmly in gains for the year, but are still well off their all time highs set two years ago. In many ways the third quarter was a repeat of last quarter. All economic sectors were in positive territory again. Financials led the market once more, up 26%. The cyclical sectors, those most sensitive to changes in the overall economy, were yet again among the best performers, including industrials, up 22%, materials, up 22%, and consumer discretionary, up 19%. The worst performing economic sectors were the defensive telecommunications, up 3%, utilities, up 6%, and health care, up 10%, as investors were not as focused on sectors that can weather a slumping economy. And again, some of the best performers this quarter were companies that had been beaten down earlier, helping small and mid-cap stocks outperform large-caps (S&P SmallCap 600 Index, 18.7%; S&P MidCap 400 Index, 20%). Value outperformed growth (S&P 500/Citigroup Value Index, 17.9%; S&P 500/Citigroup Growth Index, 13.6%), largely due to the concentration of financials in the Value Index. Some critics see the recent market rise as investor complacency with regard to the substantial risks facing a fragile US economy propped up by central bank asset purchases. But if it looks like a recovery and sounds like a recovery, then it's probably a recovery, as portrayed by the Federal Reserve. The US equity market, a leading economic indicator, had back to back top performing quarters within the last decade. Remarks recently made by Federal Reserve Chairman Ben Bernanke and reiterated in the latest Federal Open Market Committee minutes all but declared the US recession over. But most experts, including the Fed, expect that growth will be weak in the coming months due to continuing job losses and tight credit. 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.



Tom Seto
Director — Portfolio Management



Parametric™

Leaders in Structured Portfolio Management



Brooke Beresh
Portfolio Manager

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 (DeltaShiftSM), emerging markets (Structured Emerging Markets™), and overlay portfolio management (OverlayOne™).

International

The US equity market continued last quarter's rally, with the S&P 500 Index up 15.6% in the third quarter. US stocks are firmly in gains for the year, but still off their all time highs set two years ago. The third quarter was similar to the previous quarter, with all economic sectors in positive territory and financials leading the market, up 26%. The cyclical sectors, those most sensitive to changes in the overall economy, were among the best performers, including industrials, up 22%, materials, up 22%, and consumer discretionary, up 19%. The worst performing economic sectors were the defensive sectors, including telecommunications, up 3%, utilities, up 6%, and health care, up 10%, as investors were not as focused on sectors that can weather a slumping economy. Some of the best performers this quarter were companies that were beaten down the most, helping small and mid-cap stocks outperform large-caps (S&P SmallCap 600 Index, 18.7%; S&P MidCap 400 Index, 20%). Value outperformed growth (S&P 500 Citigroup Value Index, 17.9%; S&P 500/Citigroup Growth Index, 13.6%), largely due to the concentration of financials in the Value Index. Some critics see the recent market rise as investor complacency with regard to the substantial risks facing a fragile US economy propped up by central bank asset purchases. But if it looks like a recovery and sounds like a recovery, then it is probably a recovery, as portrayed by the Federal Reserve. 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. In international markets, the MSCI EAFE index was up 19.5% in the third quarter and the emerging markets MSCI EM Index was up 20.7%. All developed country returns were positive in dollar terms. Greece was the leader, up 33%, followed by Australia, up 31%, boosted by the strong Australian dollar. The worst performer, Japan, was up only 5.8%, thanks mostly to the yen's 8% appreciation versus the dollar. Japan was the only country with a negative return in local currency terms, down 1%. In the third quarter, the US dollar continued its weakening trend against all major currencies except the British pound. All economic sectors were positive with financials the standout, up 28%, while the weakest performing sector was energy, up 13%.

Disclosures

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