

GLOBAL EQUITY COMMENTARY

SECOND QUARTER 2009

Global Markets

For equity markets, the second quarter of 2009 generated significant gains despite a stall in the rally during June. Both U.S. and global equity markets have moved upward significantly since the low on March 9th. Strategists continued to worry that economic uncertainty across the globe points to a slower recovery. Nevertheless, the second quarter's positive gains brought most major equity indexes into the black year-to-date — reflecting that many investors are willing to embrace risk once again. Market volatility in the US has dropped precipitously as measured by the VIX index. Many investors have been preoccupied with money supply expansion and the widening budget deficit as it relates to the risk of inflation. However, through the end of the quarter, the U.S. economy appeared too weak to feed inflation. Credit markets are healing, but credit spreads remain higher than historical norms. Purchasing manager surveys, which measure manufacturing activity, have rebounded from historical lows – an early indication of economic recovery. Consumers continued to deleverage after their long history of pursuing easy credit. Policymakers warily watched employment data and anticipated that job losses would shrink toward the end of 2009, with job growth not expected until 2010. Clearly, in the face of one of the worst global financial crises in history, governments around the world continued to exert sustained fiscal and monetary actions that stabilized economies and helped capital markets to heal.

The MSCI World index was up 16.46% in local terms and 20.75% in USD terms. Index markets were positive across the board, with major indices in Europe reporting significant gains in local terms: Austria 26.80%; Spain 29.29%; Italy 22.08%; and the United Kingdom 10.17%. In Asia, major country indices reported sizable gains as reflected by Japan 20.20%, Singapore 39.00%, and Hong Kong 35.78%, respectively. On a relative basis, the U.S. market underperformed global markets as the S&P 500 index returned 15.93% versus 20.75% for the MSCI World Index in USD terms. Additionally, performance in emerging markets was solid, with the MSCI Emerging Markets Index reporting 24.47% in local terms. From a global perspective, all sectors reflected significant positive performance over the quarter. From a style perspective, value outperformed growth on a relative basis, as measured by the MSCI World indices.

Outlook and Positioning

The second quarter delivered solid performance across most equity indexes. The period can be characterized by out-performance centered on lower quality stocks – specifically, higher risk stocks with weak fundamentals, credit issues, liquidity concerns, bad management and weak balance sheets. Unfortunately, the factors that mattered most to our investment process – quality and margin of safety – underperformed during the period. Typically, we do not invest in low quality companies, instead investing our clients' assets in high quality firms that we anticipate will thrive going forward. Moreover, should the rally continue in the second half of the year, we believe it is less likely that recent low quality leaders will advance in the absence of positive or improved fundamentals.

Our perspective looking forward is to prepare the portfolio to benefit from a variety of scenarios. Our outlook is optimistic for the balance of 2009 given we are seeing tangible signs of a slow recovery fueled by government stimulus and by companies initiating replenishment of inventories. In the U.S., the consumer, housing and autos are all factors likely to be weighed down by rising unemployment and a drawdown of wealth due to the overall impact of stocks and real estate declining in value. The earnings outlook for many companies is murky given that earnings revisions are negative and the rate of downgrading is worsening. We expect to monitor this very closely with a focus on those companies with high quality business models and stable cash flows. Valuations have risen since the March lows, however, we still are identifying many companies that look attractive to purchase.

Our contrarian approach is centered on leveraging our team's judgment as active investors using a combination of quantitative, qualitative and fundamental analysis. Our perspective on stocks is tied to a view that we are likely to see range-bound markets over the foreseeable future. We strongly believe that



sustainable price appreciation will result from investing in high quality stocks that can generate a total return comprised of price appreciation, share repurchases, dividends and dividend growth.

Our investment process directs us to focus and select firms that possess the key drivers of prosperity — strong balance sheets, high quality business models, stable cash flows and solid management. Further, our process is active and bottom up, which allows us to filter the opportunity set to select quality firms that have a high probability of generating positive performance as the market recovery develops. As we execute for our clients, we always strive to protect on the downside by providing a margin of safety should the environment prove to be difficult. In some instances, we anticipate that analysts are overreacting on the downside and may be underestimating earnings potential. Currently, we continue to cautiously evaluate and purchase high-quality, early cycle opportunities.

History indicates that equity markets generally perform well in advance of a recession's end — in other words, the equity markets will be early to recognize and value the economic turnaround. Given this premise, the rally during the second quarter bodes well for hope that the global recession will draw to end shortly. Of course, to participate in potential upside, investors need to deploy assets and be invested as markets advance. We see significant opportunity for active management focused on low, fundamental valuations in combination with quality, market leading business franchises. Looking ahead to the second half of 2009, we believe that the weight of the evidence — given our investment discipline, close assessment of companies, and experience with previous investment cycles — reflects significant potential for the high-quality value stocks that we purchase for the long term.

The securities, sectors, industries, countries and regions discussed herein should not be perceived as investment recommendations, and may no longer be held in an account's portfolio. It should not be assumed that an investment in any security, sector, industry, country or region discussed was or will prove to be profitable. Sector/industry weights and country and regional allocations of any particular client account may vary based on any investment restrictions applicable to the account. If utilized, there is no guarantee that holding securities with relatively high (or low) price-to-earnings, price-to-cash flow or price-to-book ratios will cause the portfolio to outperform its benchmark or index. There may be additional risks associated with international investments. International securities and ADRs may be subject to market/currency fluctuations, investment risks, and other risks involving foreign economic, political, monetary, taxation, auditing and/or legal factors. International investing may not be suitable for everyone. Indices are unmanaged and not available for direct investment. This information should not be considered a solicitation or an offer to provide any Global Currents Investment Management, LLC service in any jurisdiction where it would be unlawful to do so under the laws of that jurisdiction. The views expressed represent the opinions of Global Currents and are not intended as a forecast or guarantee of future results.

Performance returns and other data are current as of June 30, 2009.