

## Market Environment

International equity markets rebounded strongly during the third quarter, with the MSCI EAFE (Europe, Australasia, Far East) Net Dividends Index reversing the second quarter's 14.0% decline with a 16.5% gain. The International Core Equity strategy performed well in this environment and finished ahead of its MSCI EAFE benchmark. All countries within the Index were up except for Ireland (-3.4%), where uncertainty over the costs involved in bailing out the troubled Irish banks kept the market in negative territory. Although having a positive return, Japan (5.8%) trailed the overall market as the major Japanese exporters were hurt by a stronger yen, which reached a 15-year high of 82.88 vs. the U.S. dollar on September 15th. Several countries in Europe had stock market returns that exceeded 20% for the quarter. The region benefited from both strong earnings reports and results from European bank stress tests, which revealed that many of the European banks appear strong enough to withstand a potential downturn without government help. Norway (29.4%), Austria (28.4%), and Spain (27.5%), were the top performers in Europe. Germany (16.7%) surprised the market as second quarter GDP grew 9.0% (annualized) vs. consensus expectation of 5.3% (annualized). The Asia Pacific region was boosted by commodity-rich Australia (23.7%), as base metals copper and nickel gained 23% and 16.5% respectively.

## Portfolio Review

While the magnitude of the movement of Index returns during the second and third quarters was high, value- and earnings-related metrics remained stable, and exhibited positive trends. These characteristics were instrumental in providing the International Core Equity strategy with excess return from security selection in seven out of the ten economic sectors in the third quarter. In terms of the Index, energy (22.4%) was the best performing sector while Information Technology (8.2%) was the worst performing Index sector, with general market risk aversion in August hurting the sector more than others. Turning to the International Core Equity strategy, relative performance was particularly strong in the utilities sector and the strategy's materials sector also had strong relative performance during the quarter. Performance in financials also benefited from positions in European banks.

## Outlook

While the macro environment has stabilized, there is still uncertainty going forward. The earnings growth picture globally is still quite robust over the next two fiscal years. After several years of cost cutting, many companies have positioned themselves for margin expansion. The International Core Equity strategy continues to focus on companies that exhibit improving business momentum with price multiples in a reasonable range given earnings expectations and sustainability.

## Past performance does not guarantee future results.

Reflects information for a portfolio that serves as the model against which each International Core Equity account is managed. The model portfolio is an actual account and the information provided will vary for other actual accounts. Portfolio holdings are subject to change. The MSCI EAFE (Europe, Australasia, Far East) Index is a free float-adjusted market capitalization index that is designed to measure developed equity market performance, excluding the U.S. and Canada. Returns provided for the MSCI EAFE Index are net dividends (i.e., net of foreign withholding taxes applicable to U.S. investors). Index performance information was furnished by sources deemed reliable and is believed to be accurate, however, no warranty or representation is made as to the accuracy thereof and the information is subject to correction. You cannot invest directly in an index, securities in the Composite may not match those in the index and performance of the Composite will differ. Although reinvestment of dividend and interest payments is assumed, no expenses are netted against an index's returns.

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