



Parametric™

Leaders in Structured Portfolio Management

MARKET COMMENTARY

1st Quarter, 2007



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Domestic

After eight consecutive up months, the US equity market showed some vulnerability in the first quarter. A 9% plunge in Chinese equities on February 27 triggered the largest one-day drop in US stocks in four years. Whether it was the sell off in Shanghai, defaults in the sub prime lending market, or the lack of an anticipated Federal interest rate cut, the first quarter of 2007 brought volatility back to the stock market. Through the tumult, US equities stayed positive, the S&P 500 Index returning 0.6% for the first three months of the year.

Contrary to the popular belief that investors seek safe harbor in large-cap stocks in times of increasing volatility, investors favored riskier mid- and small-cap stocks over their "dependable" large-cap counterparts during the first quarter (S&P MidCap 400 Index, +5.8%; S&P SmallCap 600 Index, +3.2%). Value slightly outperformed growth among large-cap stocks, although this relationship was reversed among mid and small-cap stocks (S&P 500/Citigroup Value Index, +1.3%; S&P 500/Citigroup Growth Index, -0.1%). Materials continued as top performing sector this quarter, +9%, benefiting from a commodity rally. Utilities, +9.3%, and telecommunication services, +7.6%, were also top performers. Financials was the worst performing sector this quarter, -2.9%, rocked by the implosion of the sub prime lending market.

Takeover activity is booming in 2007, helping support a moderating US equity market, with announced mergers and acquisitions setting a pace to eclipse last year's record activity. But escalating tensions in Iran, resulting in higher oil and gasoline prices, are giving investors pause. So too is the inaction of the Federal Reserve, stalled by unwavering inflation. Volatility is back, but 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

The International Markets were modestly up during the 1st quarter of 2007, with the MSCI EAFE Index up 4.1% and the Emerging Markets, measured by the MSCI EMF Index, up 2.3% during the same period. A sharp correction in Chinese markets together with the deterioration in US sub-prime mortgage market sparked a correction in international markets in late February and early March but the international markets recovered to post moderate gains. In Japan, manufacturers were slightly less upbeat than the previous quarter as evidenced by the central bank's Tankan Survey.

With inflation in Japan turning negative for the first time in 10 months and industrial production falling by 0.2% in February, it was not surprising that Japanese equity market was up only 3.5% during the first quarter. The Euro markets were up similarly mixed with Germany (+6.8%) and Finland (+10.4%), while Ireland and Italy were the laggards. In an increasingly interdependent global economy, it remains to be seen how a housing slowdown in US and rising oil prices will affect international markets worldwide as globalization makes the world economy so very interdependent.

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About Parametric

Parametric is the 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), and overlay portfolio management (OverlayOne™).