



Parametric™

Leaders in Structured Portfolio Management

MARKET COMMENTARY

1st Quarter, 2008

Domestic

Continuing concerns of recession and stability of the US financial system weighed heavily on stocks in the first quarter. High volatility persisted with the S&P 500 Index moving more than 1% on 31 of 61 trading days. The market finished in negative territory with the S&P 500 Index down 9.4%; all sectors, market caps and styles were down. Contributing most significantly were Financials (-14.7%) and Technology (-15.4%).

Banks and brokers plunged as their liquidity woes worsened. Technology stocks tumbled as fears of reduced corporate tech spending in 2008 predominated. Not surprisingly, the best performing sector was Consumer Staples (-2.8%) as investors sought safety in defensive issues. Large and mid-cap stocks trailed small-caps in the first quarter (S&P Small Cap 600 Index, -7.5%; S&P MidCap 400 Index, -8.9%). Growth trailed Value as investors hammered the technology heavy Growth Index (S&P 500/Citigroup Growth Index, -9.9%; S&P 500/Citigroup Value Index, -8.9%).

With US markets down nearly 13% over the last two quarters, investors are left to wonder whether the worst is over. In any case, this volatile environment lends itself to our broadly diversified, sector-neutral *Tax Managed Core* portfolios providing a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.

International

International markets were not immune from malaise felt in US markets. The MSCI EAFE index was down 8.9% and the emerging markets MSCI EM Index was down 11%. In developed markets, every country and sector had negative returns. Financials (-11.4%) contributed most significantly as banks around the world continue to face liquidity crises. The UK (-12%) contributed significantly amidst criticism that its central bankers have been slow to respond to the global credit crisis. Japan (-8.6%) and Germany (-12%) dragged down returns as their export-based industrial economies were hit with strengthening currencies and skyrocketing commodity prices.

In emerging markets, most countries were negative with China (-24%) and India (-27%) most significant. On the plus side were Taiwan (5%) and Mexico (5%), along with most of Latin America whose commodity-based economies performed better than most emerging countries. Looking ahead, a severe credit crisis, exchange rate volatility, slowing growth yet increasing inflation challenge central bankers around the globe to take action to avert a global slowdown.

Disclosures

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Brooke Beresh

Senior 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), and overlay portfolio management (OverlayOne™).

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1151 Fairview Avenue N.

Seattle, WA 98109

T 206 694 5500

F 206 694 5581

www.ParametricPortfolio.com