



Parametric™

Leaders in Structured Portfolio Management

MARKET COMMENTARY

4th Quarter, 2007

Domestic

Credit risk became the chief concern of equity markets during the fourth quarter. The subprime-led devaluation of mortgage-backed debt significantly impacted the largest financial institutions. Ill effects spilled over to the broader market with the S&P 500 Index down 3.3% for the quarter. Still, the market finished 2007 with a moderate gain, S&P 500 Index up 5.5%. In the fourth quarter, Utilities were the best performing sector followed by Energy as oil prices set record highs. Financials were the worst performing sector, down 14.3%. Consumer discretionary stocks also continued to decline, down 10%. Small-cap stocks trailed large and mid-cap stocks for the third quarter in a row and finished the year in negative territory. Growth outperformed Value as investors moved away from the financial and cyclical stocks dominating the Value Index. The markets face much uncertainty in the coming year; a fragile economy, \$100 oil, a housing market in decline, and presidential elections all weigh heavily on the minds of investors. An ambiguous Federal Reserve is adding to investor nervousness. After slowly reducing interest rates in the fourth quarter, the Federal Reserve is under pressure to cut rates to avoid recession, but may be forced to maintain rates to contain inflation. Among this uncertainty, our broadly diversified, sector-neutral Tax Managed Core portfolios provide a great opportunity to capture the next market leaders, while doing so in a tax efficient manner.



Tom Seto

Director of Portfolio Management

International

International markets continued to be volatile after a bumpy third quarter. While lofty returns carried over from mid-September through October, developed markets turned negative in November and December, ending the fourth quarter in negative territory. The MSCI EAFE Index was down 1.75% and emerging markets MSCI EM Index was up 3.64% for the quarter. Both finished with solid gains for the year, with MSCI EAFE Index up 11% and MSCI EM Index up 39%. In developed markets, fourth quarter results were driven by Japan, down 6%. Financials were the worst performing sector, down 5%, followed by Industrials and Materials. Telecom, Consumer Staples, and Utilities contributed positively as investors sought safety at the possibility of recession in 2008. In emerging markets, India, Russia, and Brazil posted gains but negative returns in China, Korea, and Taiwan, together composing more than 40% of the EM benchmark, nearly erased strength outside the Far East.

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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™).