

Global Core Equity Management

First Quarter 2008 Investment Commentary



Investment Environment

The investment climate at the beginning of the quarter was poor at best, and it proved to be a most difficult quarter for global stocks. The major indices, FTSEurofirst 300, MSCI EAFE, MSCI Japan and the S&P 500, reported their worst quarterly return in over five years. Stresses in the financial market escalated as several industry giants announced significant losses. The collapse of Bear Stearns in the US was the most notable. European banks announced another rash of asset write-downs; the most recent at UBS totals \$18 billion and will require \$13 billion in new equity to shore the bank's capital position. US interest rates were cut to 2.25% over the period, sending the dollar down approximately 10% versus the euro and yen. Commodity prices continue to surge and agricultural product prices show no signs of relief. Japanese consumer confidence declined nearly 4%, reaching its lowest level since 2003, adding further pressure the market's dismal performance. At the end of the quarter, there was some good news for investors as JP Morgan, with a loan from the Fed, was able to buy out Bear Stearns at a more reasonable price than initially offered. The FOMC, in an effort to inject liquidity and buoy the struggling banking sector, cut the Fed Funds rate from 3% to 2.25% and announced a \$200 billion short-term lending facility which it made available to both commercial and investment banks.

Portfolio Performance Review

The Global Core Equity Management strategy slightly underperformed its benchmark, the MSCI World Index, during the first quarter of 2008 (based on net-of-fees performance). For the quarter, the Financials and Consumer Discretionary sectors were the major source of the underperformance, responsible for over 60% of the relative return. From a country perspective, Japan, France and the US were the weakest markets.

Sector Review

In Financials, the exposure to real estate management companies, particularly in Japan, detracted from the portfolio. Commercial banks were negative, as banks as a group were hit hard during the quarter due to write-downs of sub-prime loans. Our underweight to REITs

had a negative impact. The Consumer Discretionary group was weak. Following the surprise interest rate cut in January, the yen strengthening vs. the US dollar had a material effect on Japanese consumer stocks; several well-ranked Japanese exporters were sold off with expectations of earnings being hit by foreign exchange. Our exposure to a US educational firm negatively impacted the portfolio. The Consumer Staples sector was positive. Food product stocks performed well as companies have been able to pass along the price increases in agricultural raw materials to the consumer. Our retail store exposure was positive. Energy also contributed as both the oilfield services and E&P companies outperformed.

Country Review

In France, our exposure to the airline industry was a detractor. In Japan, the Financials were the detractors with real estate stocks being hit particularly hard. In the US, while selection in Energy stocks was positive, Information Technology was negative as weak performance in the computer industry bogged down the sector. We saw positive performance from Switzerland, Germany and Hong Kong. In Switzerland, the portfolio had a positive contribution from the financial sector as we avoided some of the more beaten down stocks, and our overweight in Swiss insurance companies helped as well. Our exposure to German steel stocks was positive. In Hong Kong, our underweight to the Financial sector was the source of the outperformance.

Looking Forward

Reuters reported on March 31 results of a survey showing that, in the near-term, seven out of ten money managers around the world expect a US recession. The US Fed has taken a strong stance to stabilize the market and investors will continue to look there for direction; however, the financial institutions are reluctant to take on additional credit risk and this will cause a lag in the flow of capital to both commercial and individual end-users. As the housing slump continues and the price of goods and raw materials rise, inflation is a

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worry. On the positive side, credit markets have shown some signs of stabilization, markets are down from recent peaks and valuations are attractive. We will continue to manage the portfolio using our time tested disciplined approach of choosing stocks with attractive valuation and positive business momentum.

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