

Second Quarter: 2009 Review

The second quarter began in the same manner as the first quarter ended—with stocks soaring—but the torrid run appears to have stalled since late May, and the markets have leveled off for the rest of the quarter. The S&P 500-stock index finished up 16% for the quarter; it's best since 1998 while the Dow Jones Index gained 11% marking its best quarterly performance since the fourth quarter of 2003.

The Morningstar Market Barometer for the second quarter highlights depth of the rally across various equity styles, with small cap stocks distinctively better in the quarter. Growth and value may have turned in a similar performance for the quarter, but growth has topped value significantly so far this year. Moreover, much of the equity gains have come from companies that score high in financial health, which helps confirm that this is not just a “junk rally”.

Q2 Morningstar Market Barometer

	Value	Core	Growth
Large	11.85	16.62	15.77
Mid	23.88	19.68	18.07
Small	25.49	24.14	23.38

Source: Morningstar Market Commentary

The quarter marked a period of healing for financial markets around the globe. In many parts of the credit markets, which had been the epicenter of the financial crisis, conditions continued to improve. As investors became more comfortable holding riskier assets, they shifted out of U.S. government debt. Emerging markets, financials and commodities were big winners on hopes for a global economic recovery. The other big winner has been technology stocks as fear of additional liquidity crunches and the sharp drop in stock prices has held back many firms with debt-laden balance sheets and highlighted the clean balance sheets of technology firms.

The recent rally has been notably resilient so far, but it has not yet healed the scars left by financial crisis. In dollar terms, world stock prices are still 36% below the level a year ago, the credit markets are not still fully functional, credit spreads although dropped but are still higher from a year ago level and debt buyers are still counting on a prolonged recession. Investors require convincing evidence not only that the U.S. economy's decline has slowed but that activity will begin to turn higher by year-end and hence the market needs to wait for fundamentals to catch up with prices.

Going forward, we are cautiously optimistic about the economic recovery and have strategized our Ethical Wrap Program to continue to take advantage of market bargains by investing in companies with strong balance sheets and high earnings potential. We have diversified the strategies across various



sectors and geographies and have maintained a delicate exposure between cash and equities to limit the down side risk and short term volatility.

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Sincerely,
Jamal Barmil
Vice President

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