

WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009¹

	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	4 years (% p.a.)	5 years (% p.a.)	7 Years (% p.a.)
Growth Return	1.50	8.18	-4.09	-13.47	-8.92	-5.23	-2.84
Distribution Return	0.00	2.95	2.61	1.19	1.89	1.80	1.67
Total Return	1.50	11.12	-1.47	-12.28	-7.02	-3.43	-1.17
MSCI World Accumulation Index (\$A)	2.13	9.87	0.77	-9.69	-4.76	-0.76	0.78

¹ Performance figures are calculated using withdrawal values and assume that income is reinvested. Annual management fees and expenses have been taken into account; however, no allowance has been made for entry fees, tax or any rebates that may be given.

Past performance is not a reliable indicator of future performance.

FUND COMMENTARY

The Advance International Sharemarket Fund, managed by The Boston Company Asset Management (TBCAM), underperformed the benchmark, the MSCI World Accumulation Index (\$A), over the three months to December 2009.

MARKET PERFORMANCE

The global stock market closed out its best year since 2003, representing a dramatic turnaround from the negative performance of 2008 when the global economic crisis precipitated the market's worst year since the Great Depression.

During the fourth quarter, global equity markets advanced as investors were encouraged by positive data pointing to economic recovery in 2010. Initial weekly jobless claims declined from elevated levels during the quarter, an encouraging sign that the employment picture was beginning to stabilize in the US. At the same time, the manufacturing sector rebounded moderately and business confidence rose. In the United States, third-quarter gross domestic product (GDP) was positive for the first time in five quarters (revised from 3.5 to 2.8, but positive nonetheless), giving investors another milestone marking the end of the current recession. Markets briefly pulled back during the period on news of Dubai World's decision to suspend their debt repayments, causing risk aversion to take hold in the broader markets as sovereign debt risk more generally came back into focus toward the end of November. While the September quarter earnings season began with a string of positive reports in the US, later in October saw more mixed results, particularly among European, UK and US commercial and investment banks. Third quarter corporate earnings results were ultimately disappointing, with most of the

gains coming from cost cutting while very few companies reported an acceleration of their top-line revenue growth.

Emerging Asia demonstrated exceptional resiliency and has led the overall global recovery as China, India and Indonesia managed to avoid recession. China's manufacturing growth held at its fastest pace in 18 months; India's economy grew 7.9%, its fastest expansion in 1½ years; and South Korea's exports rose 19%, the first gain in 13 months. Japan struggled, as currency headwinds could seriously undermine the country's sizeable export sector. The Organization for Economic Cooperation and Development predicted that next year the US economy would expand 2.5%, the Eurozone would grow 0.9%, and Japan would advance 1.9%.

FUND PERFORMANCE

The benchmark returned 3.6% in the month of December, shifting return for the quarter to a positive 2.13%. The Fund performed roughly in line with the benchmark over the quarter. The positive move at year-end brought the benchmark into roughly flat territory for 2009, capping a difficult year when markets were down double-digits at their worst and only pulled even in the end.

Stock selection in industrials showed very positive results during the quarter. Improving business activity is good news for companies dedicated to transporting people and goods, and the Fund had solid exposure here. From railroads to air freight, it paid to move products, people, energy, and inputs to production last quarter. Health care was another solid performer, particularly owing to an overweight and strong stock selection in Pharmaceutical companies. In financials many of the Fund's European names—notably Barclays, Credit Agricole Group, Axa,

and Erste—fell after the new Basel Committee proposals for capital and liquidity regulations were announced. If enacted, the proposals would take a more conservative approach to the calculation of capital ratios. The proposals will be challenged, and final approval comes well down the road; but this is an uncertainty that will hang over stocks in the meantime. Performance in materials was hurt by lack of exposure to the metals and mining stocks, which rose along with expectations of global demand recovery. Stock selection was solid to very strong broadly across Continental Europe; but lagged in the United Kingdom on financials and light exposure to mining and metals, in the United States on financials, and in Japan on consumer holdings.

Model performance continues to improve as fundamental market relationships become more stable. Value factors gained favour as the year ended, and high beta stocks underperformed.

MARKET OUTLOOK

TBCAM continue to favour stocks that are attractively valued on a normalized earnings basis, a strategy that boosted performance in the latter part of 2009; but as recovery becomes the Consensus view, those opportunities are less plentiful. As TBCAM had anticipated, the market appears to be shifting away from the riskier, high-beta plays that were favoured in the initial recovery phase and toward paying for value attributes. In the next phase, TBCAM expect quality companies that can grow earnings consistently will lead—with the initial euphoria of recovery prospects having passed and the hard work of rebuilding business franchises underway

TOP 10 PORTFOLIO HOLDINGS

	Country	Fund (%)	Sector
JPMorgan Chase & Co.	US	2.1	Financials
Nestle S.A.	Switzerland	1.9	Consumer staples
Pfizer Inc.	US	1.8	Healthcare
ENSCO International PLC (ADS)	US	1.6	Energy
Google Inc. (Cl A)	US	1.6	Information technology
Microsoft Corp	US	1.6	Information technology
Chevron Corp.	US	1.5	Energy
Apple Inc.	US	1.5	Information technology
Bank of America Corp.	US	1.5	Financials
Unilever PLC	UK	1.4	Consumer Staples

SECTOR ALLOCATIONS

Sector	Fund (%)	Benchmark (%)
Consumer discretionary	9.9	9.4
Consumer staples	10.1	10.1
Energy	9.9	11.1
Financials	20.1	21.0
Healthcare	11.7	10.0
Industrials	12.3	10.5
Information technology	12.6	11.5
Materials	6.1	7.4
Telecommunications services	3.6	4.4
Utilities	3.8	4.6

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