

What's New at Arrowstreet?

Thanks for continuing to read the Arrowstreet Journal. We are pleased to announce that readership of the Journal has now eclipsed 2,000 readers. This edition of the Journal features another topic presented at our 2008 Client Conference. John Capeci, Partner and Head of Portfolio Management at Arrowstreet, discusses the effectiveness of Arrowstreet's global equity models when applied to the US equity market. We hope you find it insightful.

Q3 2008 Review:

Investment Performance Attribution:

Equity markets around the world remained extremely volatile during the third quarter of 2008 and witnessed a particularly sharp sell off in September. Most of Arrowstreet's strategies slightly underperformed their benchmarks during the quarter, mainly due to the rapid change in market leadership that occurred during the month of July.

Business Growth:

During the third quarter, Arrowstreet's firm-wide assets under management decreased to \$18.3 billion due to the downturn in global equity markets. Arrowstreet did, however, fund six new accounts, including our first international 130/30 mandate.

Team Members:

The Arrowstreet's investment team expanded during the third quarter by adding one new employee. In this edition of the Journal, we profile Zach Carter, who joined Arrowstreet's portfolio management team in 2006. Please turn to page 3 of the Journal to learn more about Zach.

As always, we are interested in your views and encourage your feedback. Please email your thoughts to us at:

info@arrowstreetcapital.com

Do Global Equity Models Work in the US?

John Capeci, Ph.D.

Partner, Head of Portfolio Management

Institutional investors in the US have traditionally segmented US and International equity investments on the grounds that each type of mandate requires unique skills and perspectives for successful active management. Some have argued that the opportunities for an active manager are simply less plentiful in the US market than outside the US.

This concern has also influenced investors' views on global mandates, which involve active management on a coordinated basis in both the US and outside of the US. While some investment concepts may have received more attention by investors in the US than outside the US, this greater scrutiny comes hand in hand with typically lower market impact and volatility.

Taking into account the impacts of transaction costs and risk, this white paper demonstrates the effectiveness of Arrowstreet's global equity process inside and outside the US.

For a complete version of this article, please visit:
http://www.arrowstreetcapital.com/research_whitepaper.htm

The Arrowstreet Journal is provided for informational purposes only and is not intended as investment advice. References to recent portfolio activity and holdings are not intended as investment advice. Arrowstreet Capital, L.P. may have already bought or sold or may in the future buy or sell these securities on behalf of its clients. There can be no assurance that an investment in the securities of these issuers, or in any investment recommendation, has been or will be profitable to Arrowstreet's clients. A complete list of buys and sells is available upon request.

September 2008 Investment Outlook

Global/International Equity Strategy

Developed Markets Overview: 3rd Quarter 2008

Global equity markets fell during 3Q 2008 amid a decline in investor confidence and unprecedented turmoil in international credit markets. The quarter saw the failure of a number of US banks and financial institutions, including mortgage companies Fannie Mae and Freddie Mac, investment bank Lehman Brothers, and insurance giant AIG. These failures, driven by uncertainty over the values of mortgage backed securities and reduced confidence in many other financial institutions caused a sharp contraction in lending and drove short term interbank rates to record highs. The last remaining Wall Street investment banks, Morgan Stanley and Goldman Sachs, strove to raise money from outside investors and agreed to become bank holding companies subjecting them to an additional layer of regulatory scrutiny. These disruptions prompted a government intervention that included short-sale bans in many markets as well as the organization of a number of mergers and rescue packages by the US and foreign governments.

The decline in equity markets was accompanied by gains in the US dollar. Versus a broad basket of currencies, the dollar rose in value more than 7% during the quarter. This was driven by investors' "flight to quality" as volatility and uncertainty about future world growth increased. This fear also took a toll on commodities. Oil prices, which had reach all time highs in early July, fell back below \$100 per barrel by the end of the quarter. Industrial metal prices also suffered.

At the country level, Ireland was one of the worst performing markets during the third quarter. The Irish government decided to guarantee both deposits and debt of beleaguered banks for two years in an effort to shore up confidence. In a sharp reversal from their second quarter's outperformance, Norway's energy heavy equity market fell precipitously on the back of declining crude prices and a depreciating currency. Meanwhile, the US market lost approximately 9% during the quarter, making it the best performing developed market.

Among global sectors, Materials and Energy stocks suffered during the third quarter on growing concerns of deteriorating world wide economic health. The outlook for oil companies was hurt as the IEA cut its forecasts for global oil demand and oil prices declined sharply during the quarter. Steelmakers suffered during the quarter as the costs for iron ore and coking coal continued to rise but slowing growth threatens to keep steel prices from rising. Conversely, the Health Care sector was one of the best performers during the third quarter, as demand remained stable for health insurance and prescription drugs. The Consumer Staples sector also benefitted from its

status as a defensive sector in the current turbulent markets, falling much less than other sectors.

Developed Markets Performance Attribution

Three country/sector baskets that impacted the performance of Arrowstreet's developed markets portfolios during the quarter are described here:

United States Materials - Our overweight holding in International Paper were based on valuation measures like price to book and free cash flow yield, as well as positive earnings terms. Shares of International Paper Co. rose 14% during the third quarter. The stock jumped on news that second-quarter profits beat Wall Street estimates.

United States Consumer Staples – Our overweight position in Wal-Mart was based on favorable basket level price momentum. The stock gained as recession fears set in and consumers flocked to discount stores. Same store sales were up during the quarter, even after taking the US taxpayer rebates into account, and their margins improved as well.

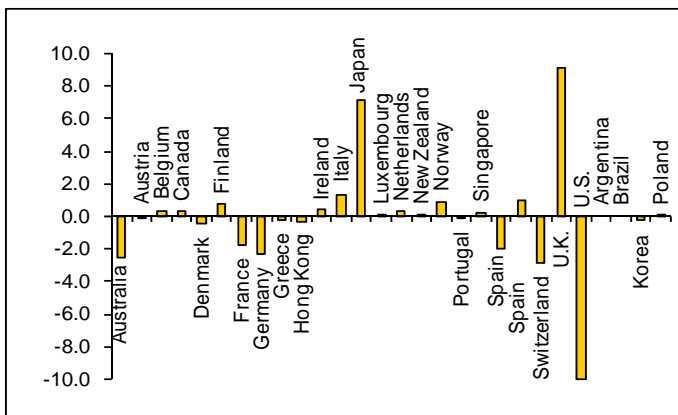
Germany Materials – ThyssenKrupp AG, Germany's largest steel producer, declined 43% during the third quarter. The stock was hurt by falling steel prices and reports that analysts were cutting price targets for the stock. The portfolio's overweight position in ThyssenKrupp AG was motivated by stock level valuation measures, including free cash flow yield.

Specific opportunities that we believe will offer attractive return potential include:

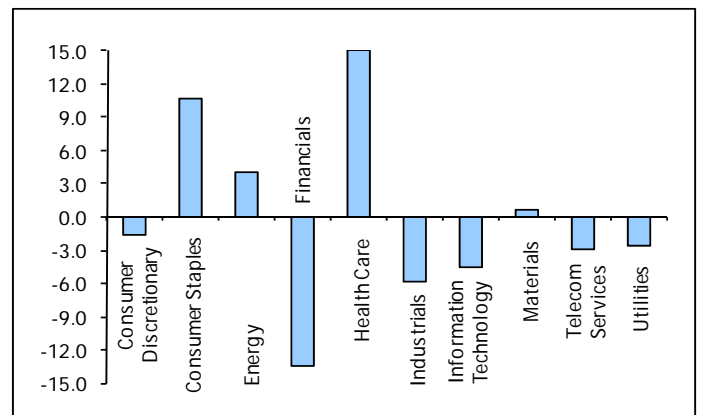
GlaxoSmithKline (United Kingdom Health Care) – Despite net income falling 22% during the third quarter from a year ago, GlaxoSmithKline beat analysts' estimates of earnings for the period after excluding costs associated with restructuring. The company plans to delay share repurchases next year in favor of maintaining available cash for acquisitions of smaller companies they expect to be hurt by the economic crisis. The stock is favored due to attractive earnings signals as well as the strong momentum signals for the United Kingdom Healthcare basket.

Seven & I Holdings (Japan Consumer Staples) – Seven & I Holdings Co., Japan's largest retailer, is currently favored due to basket-level price momentum and earnings scores. The company saw its profit rise while other retail chains have posted declines amid weakening consumer demand. The increase was due to its 7-Eleven convenience stores. The company has been increasing earnings by stocking its own grocery brands at its stores, adding banking services, and

October 2008 Active Country Weights (%)
(Citigroup PMI World)



October 2008 Active Sector Weights (%)
(Citigroup PMI World)



Data provided above is for Arrowstreet's longest standing representative portfolio for the Global Equity strategy as of the end of October.

September 2008 Investment Outlook Emerging Markets Equity Strategy

Emerging Markets Overview: 3rd Quarter 2008

While 3Q 2008 was a very challenging time for emerging markets, some of the most volatile days for emerging market stocks were witnessed in early October. Investors around the world panicked and sold equities amid skepticism that the U.S. bailout plan was a sub-optimal, stop-gap measure, and that European and Asian financial institutions might fall victim to the worsening global credit crisis. Market volatility at an overall index level spiked, with the 100-day annualized volatility on the MSCI Emerging Market Index measuring at nearly 30%.

This dramatically negative period was highlighted by the steep decline in Russian equities, as the commodity-based economy suffered from the general sell-off in oil and metals. The MSCI Russia stock index posted a one-day drop of 22.58% on October 6, 2008. Brazil also suffered, as the Bovespa index fell 10% that same day, shortly after it opened. Trading was halted for 30 minutes on the Bovespa, only to resume and fall another 5%, at which point the second 'circuit-breaker' was triggered and trading was halted for an hour. When the market reopened, it rebounded and finished down 5.43%.

Over the course of the entire third quarter, Russia's stock market dropped 45.26% in USD terms and was the worst performing emerging market during the period. In addition to the energy sell-off, concerns over political risks rose as the Russian military entered South Ossetia to drive Georgian forces out, in support of the region's efforts to break away from Georgia. This drew criticism, but no military action, from the European Union and the United States.

On the other hand, the Philippines were the best performing emerging market country during 3Q 2008. After falling roughly 40% in the first half of the year on concerns over rising inflation, the Philippines equity markets reached support levels at the end of Q2 2008. The country's market stabilized in the third quarter and ended the quarter slightly positive (+3.64% in USD terms), outperforming all other emerging markets, which were down sharply amid the global credit crisis.

As in developed markets, the Materials and Energy sectors of emerging markets also suffered during the third quarter on growing concerns of deteriorating world wide economic health.

Emerging Markets Performance Attribution

Two country/sector baskets that impacted the performance of Arrowstreet's emerging markets portfolios during the quarter are described here:

Czech Republic Financials – The portfolio's overweight position in Komerčni Banka A.S was based on valuation signals, including price to book, and momentum. The company benefitted from being one of the few financial firms with limited exposure to sub-prime assets or US based banks. The stock rose 8.5% over the quarter.

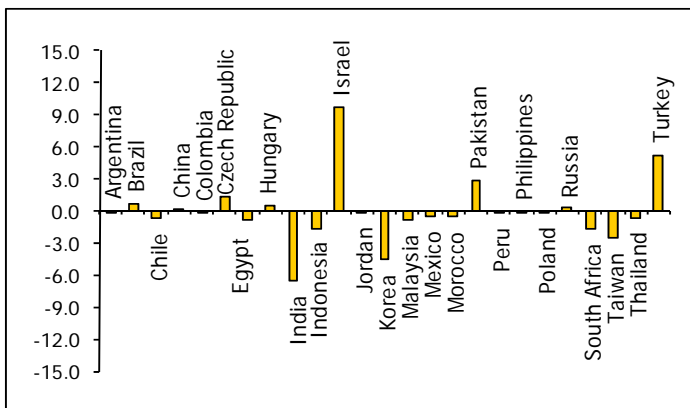
Brazil Materials – The overweight position in Usiminas, the Brazilian steel producer and manufacturer, was established based on favorable valuation signals. But the stock was down 46% on the quarter, getting hurt as steel prices plummeted over the last three months. A sharp decline in construction projects and a slowdown in automobile production are partly to blame for the downturn.

Specific opportunities that we believe will offer attractive return potential include:

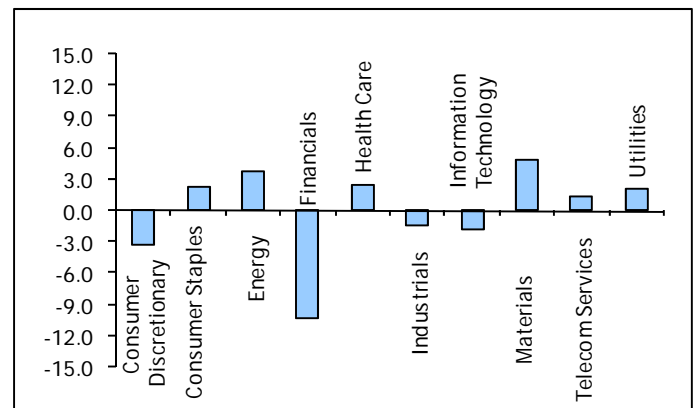
Check Point Software (Israel Information Technology) - The Israeli Information Technology basket is expected to outperform going forward. Our positive outlook is based on basket-level price momentum as well as basket-level valuation terms, specifically dividend yield. Check Point saw rising net income during the third quarter as the network-security company was able to bring on many new customer accounts despite the difficult economic environment.

Fomento Economico Mexicano S.A.B. (FEMSA) (Mexico Consumer Staples) - Latin America's largest soft-drink company, Fomento Economico Mexicano, is expected to outperform the broad market. The soft-drink and beer bottler has taken aggressive action in raising its prices and reducing costs. These actions are to deal with the continuing decline in the value of Latin American currencies versus the U.S. dollar and rising raw materials costs. We favor the stock based on stock-level reversal and basket-level price momentum terms.

October 2008 Active Country Weights (%) (MSCI EM Index)



October 2008 Active Sector Weights (%) (MSCI EM Index)



Data provided above is for Arrowstreet's longest standing representative portfolio for the Emerging Markets Equity strategy as of the end of July.

Employee Profiles — Zach Carter – Associate, Portfolio Management

Zach is instrumental to the Portfolio Management team in designing reporting tools that allow for the ongoing oversight of data integrity feeding the firm's alpha forecasting models. Zach is also responsible for many functions associated with the day-to-day implementation of the firm's investment strategies.

Zach joined Arrowstreet in 2006. Prior to joining Arrowstreet, Zach graduated from Oberlin College with a B.A. in Applied Mathematics and Mathematical Economics. In his spare time, Zach likes to play ultimate Frisbee and snowboard.

