

What's New at Arrowstreet?

We hope this issue of the Arrowstreet Journal finds you enjoying the start of spring. This edition of the Journal features a white paper by Jim Thames and John Capeci on the Profit Potential During Economic Calamity.

Q1 2010 Review:

Investment Performance Attribution:

International and Emerging equity strategies showed modest gains in the first quarter of 2010, while Global portfolios underperformed slightly.

Business Growth:

During the first quarter, Arrowstreet gained four new client relationships and firm-wide assets under management increased to \$25.5 billion.

Team Members:

In this edition of the Journal, we profile Sean Paylor and Zach Vernon, who joined Arrowstreet's portfolio management team in 2008. Please turn to page 3 of the Journal to learn more about Sean and Zach.

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

Profit Potential During Economic Calamity

John Capeci, Ph.D., Partner, Head of Portfolio Management
Jim Thames, CFA, Partner, Portfolio Management

The scope of recent credit problems for a number of sovereign European nations within the Eurozone presents an opportunity for Arrowstreet to not only discuss its current outlook for the affected markets, but also to engage in a broader discussion about the recent change in mispricing associated with macroeconomic signals for markets around the world. Analogous to the way in which money making opportunities relate to the spreads in valuation multiples in the markets, the same is true of macroeconomic signals. Macro profit opportunities are often greatest when countries exhibit wide variations in characteristics such as changes in interest rate or GDP expectations.

In this paper, we review the recent credit crisis in the Eurozone and what that could mean to equity investors. We'll also discuss the profit potential from such events and how our process identifies such opportunities.

For a complete version of this article, please visit:
http://www.arrowstreetcapital.com/research_whitepaper.htm
For complete versions of other white papers, please contact us.

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March 2010 Investment Outlook Global/International Equity Strategy

Developed Markets Overview: 1st Quarter 2010

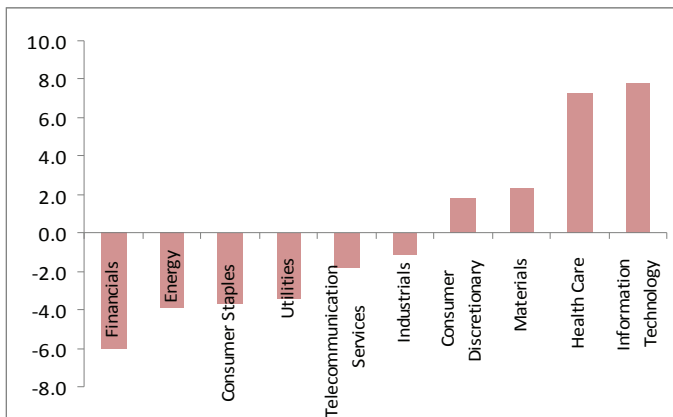
Global equity markets showed modest gains in the first quarter of 2010, making it four straight quarters of positive returns. A strong March made up for a poor January as most global indices continued their positive ascent. US Consumer confidence rose 6.1 points in March, coming in a little better than expected at 52.5, and reversing slightly the 10.1 point decline in the February report. US housing prices continued to climb, posting steady growth over the last seven months. The strongest gains have come from southwestern cities such as Los Angeles, San Diego, and Las Vegas. House prices in New York, however, continue to decline and are now off 5.3% from last year. Crude oil surged in the latter half of the first quarter amid optimism that fuel demand will increase with American job growth and an economic rebound.

European indices declined slightly in the first quarter, hampered by a declining Euro and the sovereign debt crisis in Greece. Despite an emergency loan package from the IMF to reduce the threat of a default by Greece, the MSCI Greece Index lost 8% in the first three months of 2010. German unemployment unexpectedly declined in the month of March, a sign that Europe's biggest economy has rebounded from its deepest recession since World War II. The number of unemployed Germans fell a seasonally adjusted 31,000 to 3.38 million.

Among developed countries, Finland was the best performing developed country in local currency terms during the first quarter of 2010. The country index advanced 17% over the three-month period. Finland's outperformance was paced by the Information Technology sector, where Nokia OYJ makes up the majority of the basket. The worst performing developed country was Spain, whose MSCI Spain Index declined by more than 10% in the first quarter after a 9% drop in the month of January. Spanish Financials were the laggard in the country index, dropping 15% in the first quarter.

Five of the ten sectors in the EAFE index posted positive performance in the 1st quarter of 2010. The Information Technology sector posted the largest gain of over 11%. Some of the best performing stocks in this sector were Nintendo Co. and Nokia Corp, two international consumer electronics companies. Consumer confidence has seen a broad rally over the past quarter and consumer spending has ticked upwards on discretionary items. The Telecommunications Services sector was the worst performing sector in the developed markets during the first quarter, after posting gains the prior two quarters. Telefonica S.A and Deutsche Telekom AG were hardest hit as the European regulator, Ofcom, implemented policies that will reduce off network charges and broad based network tariffs, reducing fees the operators collect.

**April 2010 Active Sector Weights (%)
(MSCI World)**



Developed Markets Strategy Performance Attribution

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

Netherlands Industrials: Shares of Philips Electronics gained 14% over the first quarter after an 11% rally in March. Philips continued to make advancements in its health care unit, highlighted by a planned collaboration with Microsoft to develop monitoring and analytics devices. Philips announced plans to broaden its reach in emerging markets, such as Brazil, through acquisitions focused on health care and electronics businesses. Our overweight position in the stock was motivated by favorable basket level momentum and basket level value signals.

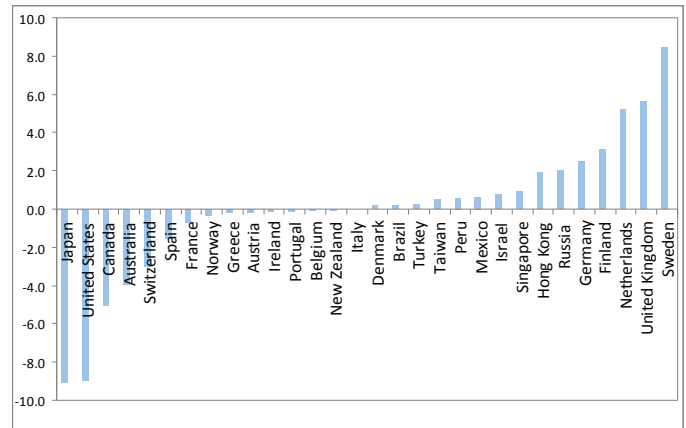
Sweden Consumer Discretionary: Our overweight position in Hennes & Mauritz (H&M) was motivated by basket level earnings and basket level momentum signals. The Swedish retailer climbed 18% in the first quarter of 2010, making six straight quarters of positive returns. Shares jumped in January after fourth-quarter profits beat analysts' estimates and December holiday sales increased. As other retailers closed down shops, H&M announced plans to open more stores, including shops in Israel and its first outlet in South Korea. Also helping share prices were comments by CEO Karl-Johan Persson that this year's outlook looks more promising than 2009.

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

Tenaris (Italy Energy): Paolo Rocca, CEO of the world's largest makers of seamless pipes for oil and gas, is confident that his company can continue its growth in the next year. Rocca announced that the company has significant orders outstanding, far surpassing its shipments. The company has planned to spend approximately \$850 million on capital expenditures over the next three quarters. Tenaris shares are influenced by commodity prices. We view Tenaris as attractive based on favorable stock and basket level momentum terms, as well as positive basket level earnings signals.

Western Digital (United States Information Technology): Basket level earnings and stock level value signals provide the motivation for favoring Western Digital, the second largest maker of hard drives. The company acquired a subsidiary of the Singaporean Hoya Corp. specializing in glass-magnetic memory disks in May, which will help support anticipated demand growth for 2010. Western Digital recently beat expected analyst earnings estimates for the fourth quarter and has seen a number of recommendation upgrades.

**April 2010 Active Country Weights (%)
(MSCI World)**



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

March 2010 Investment Outlook Emerging Markets Equity Strategy

Emerging Markets Overview: 1st Quarter 2010

Emerging equity markets posted modest gains in the first quarter of 2010, marking a fourth straight quarter of positive returns. A strong March made up for a poor January as markets showed signs of exiting recession. Concerns over a direct confrontation between the United States and China over yuan valuations grew throughout the quarter. Specifically, leaders from both countries expressed disagreement over what course of action would be pursued to address trade imbalances between the nations. As the renminbi's current managed float amounts to an export subsidy, the outcome has implications for most emerging nations' exports.

Thailand was the best performing country among the Emerging Markets in the first quarter of the year. Thai stocks rose as the turmoil in Thai politics began to subside and the economy showed signs of recovery from a yearlong recession. Taiwan and China were the worst performing Emerging Markets countries during the quarter. Taiwan's technology focused stock market suffered early in the quarter on concerns of building inventories after a period of restocking. Chinese stocks fell on concerns that the government's plans to fight inflation by raising interest rates and limiting lending would hurt companies' opportunities for growth.

The Health Care sector was the best performing sector in the Emerging Markets during the first quarter of 2010. Israeli drug maker Teva Pharmaceuticals pushed the sector's return higher as the company's debt rating improved. Teva also announced plans to acquire Ratiopharm GmbH, Germany's second-largest generic drug maker, expanding Teva's geographic reach. The Energy sector was the worst performing sector, returning -0.67% in USD terms, and was the only Emerging Markets sector with a negative return.

Emerging Markets Strategy Performance Attribution

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

Russian Materials: Russian steel and coal producer OAO Mechel saw its share price rise 50% during the 1st quarter of 2010. The Russian firm saw its output increase and the company announced it was opening an office in China to take advantage of the additional exports. The company also benefitted from

rising coal prices over the quarter. Overweight positioning in Mechel was motivated by country level macroeconomic and basket level momentum signals.

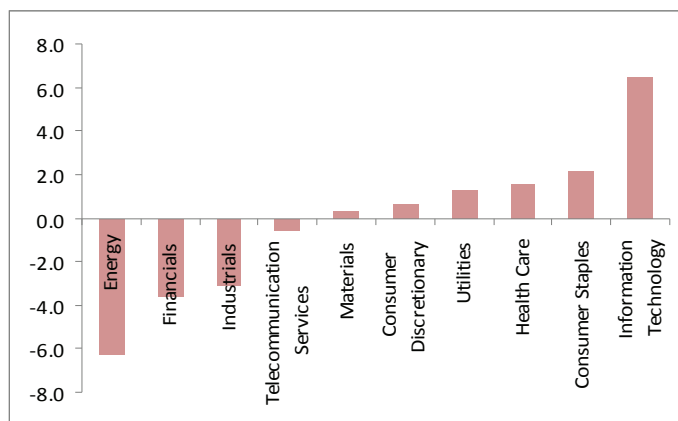
Taiwan Information Technology: Hon Hai Precision Industry shares declined more than 9% over the first quarter after surging 171% in 2009. Shares of the world's largest contract electronics maker plunged 5% after an analyst downgrade by Citigroup, citing the possibility of slumping earnings. In March, Hon Hai announced plans to sell global depository receipts backed by up to 430 million new common shares. Our underweight position in the stock was motivated by weak stock level momentum and basket level value terms.

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

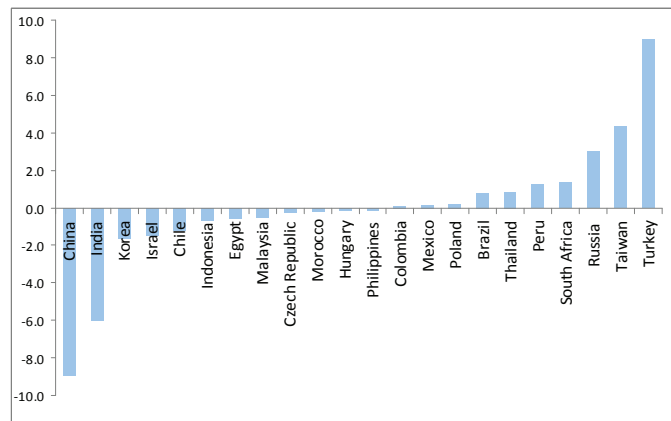
Southern Copper Corporation (Peru Materials): Basket level earnings and country level macroeconomic signals are the motivation behind overweight positioning in Latin American mining company, Southern Copper. The company's Financial Manager, Raul Jacob, foresees a rise in copper prices this year on the back of increased demand in China and other emerging markets. Jacob also believes that silver prices remain supported as investors seek inflationary hedges. Southern Copper mines emerged unscathed after the 6.4 magnitude earthquake that rattled southern Peru in early February. Furthermore, none of the company's employees were injured in the earthquake.

Companhia de Bebidas das Americas (Brazil Consumer Staples) Shares of Latin America's biggest brewer are attractive due to positive basket and stock level earnings and momentum terms. The company continues to aggressively market itself in Brazil ahead of the country's June World Cup. Am-Bev has profiled former Brazilian soccer stars and coaches via television and billboard ads, which will continue through the World Cup tournament. Ambev recently announced intentions to raise 621 million BRL in a stock offering.

**April 2010 Active Sector Weights (%)
(MSCI EM Index)**

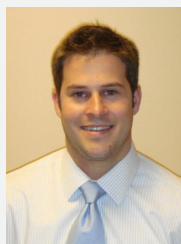


**April 2010 Active Country Weights (%)
(MSCI EM Index)**



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

Employee Profiles



Sean Paylor
Associate, Portfolio Management

Sean works within Arrowstreet's Portfolio Management group. In this role, he is responsible for many functions associated with the firm's investment process, including equity trading. Prior to joining Arrowstreet, Sean worked at SSGA as an ETF consultant. He also spent time with Kellogg Capital Group, in NYC, as an ETF marketmaker. Sean received his B.A. from Princeton University in 2006.

Zach Vernon
Associate, Portfolio Management

Zach works within the Portfolio Management group and is responsible for equity trading and other functions associated with the day to day implementation of the firm's investment strategies. Prior to joining Arrowstreet, he worked at BlackRock. Zach is currently a candidate for the CFA Level 3 exam in June. He received a B.S. in Finance from Boston College in 2006.

