

What's New at Arrowstreet?

In this issue of the Journal, we highlight a recent Arrowstreet research piece on Measuring and Monitoring Capacity in Emerging Markets, written by Partner and CIO, Peter Rathjens, Ph.D.

Q1 2011 Review:

Global equity markets performed well during the first quarter 2011. A sell-off that began in February amidst concerns over oil prices and turmoil in the Middle East was punctuated by the March 11th Tohoku earthquake, tidal wave, and subsequent nuclear crisis. Asset prices began to stabilize after the extent of the damage became clear. The US Fed has been more hesitant to signal rate increases, but has acknowledged improving economic conditions and increasing attention towards inflationary pressures. One source of inflation concerns are the rising energy prices resulting from uncertainty in the Middle East. Protests against Muammar Qaddafi culminated in a UN imposition of a "no-fly zone," and eventually NATO-led support of the Libyan rebel forces, opening a third front for US and allied forces in the region.

Business Growth:

During the first quarter ended March, 31 2011, Arrowstreet gained 4 new client relationships and firm-wide assets under management reached approximately \$36.9 billion.

Team Members:

In this edition of the Journal, we profile Anthony Ryan, CFA, who joined Arrowstreet as Chief Operating Officer late in the first quarter. Please turn to page three of the Journal to learn more about Tony.

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

Measuring and Monitoring Capacity in Emerging Markets

Peter Rathjens, Ph.D.
Partner, CIO

Consistent with our commitment to our clients and our focus on investment performance, we closely monitor and evaluate each investment strategy's implementation costs and the associated implications regarding incremental capacity. We adopt a conservative approach and have closed investment strategies in the past due to capacity and will continue to do so as necessary in the future.

This investment note describes the analytics and measures we believe should be considered when thinking about capacity issues in a capacity constrained asset class. As such, we will review the following points:

- How we measure our emerging markets asset under management
- An analysis of our trading costs and portfolio process over time
- Our conclusions based upon this analysis

For a complete version of this article, please contact us at
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March 2011 Investment Outlook Global/International Equity

Developed Markets Overview: 1st Quarter 2011

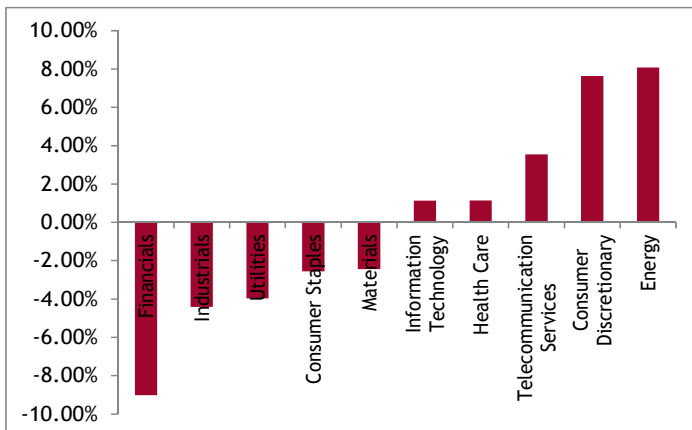
Developed markets performed well during the first quarter of 2011, with the MSCI World Index returning 3.58% for the period. Asset prices recovered from a sell off that began in February with turmoil in Middle East nations sparking a rise in energy prices, and culminating with a sharp correction when on March 11th, Japan was struck by the Tohoku earthquake and tidal wave off its northeastern coast. The disaster left more than 28,000 people dead or missing, and sent the MSCI Japan index spiraling down over 15 percent in the subsequent two days of trading. The region continued to be threatened as damage assessments came in, and news that Tokyo Electric Power Co.'s Fukushima Daiichi nuclear plant was critically damaged.

Jean-Claude Trichet, President of the European Central Bank, has signaled intentions to commence a cycle of rate increases, despite continued trouble in the European periphery and citing heightened inflation concerns. The US Fed has been more hesitant to signal rate increases, but has acknowledged improving economic conditions and increasing attention towards inflationary pressures. One source of inflation concerns are the rising energy prices resulting from uncertainty in the Middle East. Protests against Muammar Qaddafi culminated in a UN imposition of a "no-fly zone," and eventually NATO-led support of the Libyan rebel forces, opening a third front for US and allied forces in the region.

Greece was the best performing developed country in the MSCI World Index during the first quarter of 2011. The country advanced 8.86% over the period, rebounding from a very poor fourth quarter in 2010. The telecommunication services sector was the best performer, led by mobile and satellite telecom operator, Hellenic Telecommunications Organization SA. The worst performing developed country was Finland. Finnish stocks declined 3.68% in the first quarter of 2011. Nokia Corporation, the largest constituent in the MSCI Country Index, plummeted 22% in the first three months of 2011, on concerns that a partnership with Microsoft Corporation will not be enough to compete with the likes of Google and Apple in the smart phone space.

Nine of the ten MSCI World sectors advanced during the quarter, with Utilities lagging after posting a negative .60% return. Energy stocks were the best performing group during the period, returning 12.4%. Marathon Oil rose 45%, gaining each month in the quarter as oil prices spiked amidst rising turmoil in the Middle East. Utilities lagged other sectors as Japanese constituent Tokyo Electric Power suffered in the wake of the earthquake. Tepco Shares plunged 77% during the quarter as management worked to contain the potential impact from their damaged nuclear power plants.

**March 2011 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:

Japanese Utilities: Tokyo Electric Power Company generates, transmits, and distributes electricity. Shares of Tokyo Electric plummeted over 75% in the first quarter. The loss was directly related to the natural disaster in Japan on March 11th. Several nuclear power plants owned by Tokyo Electric were stricken by the earthquake and tsunami. The company struggled to contain the damages turning to Japanese banks for emergency financing. Our underweight position was motivated by Basket Level Value and Stock Level High Frequency signals.

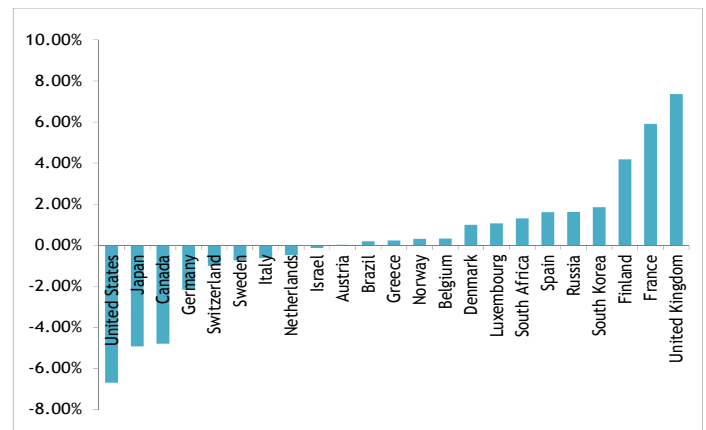
United States Financials: Capital One Financial Corporation, a US diversified bank, rose nearly 19% during the first quarter of 2011. Heavy buying helped elevate the stock higher as 4th quarter profits, released in January, revealed an increase of 85%, exceeding analyst expectations. Additionally, the completed acquisition of Hudson Bay's credit card portfolio helped triple the customer accounts serviced by Capital One Canada. Our overweight position was motivated by Stock Level Value and Stock Level Earnings signals.

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

Credit Agricole SA (French Financials): Credit Agricole S.A., France's third-largest bank, rose 21.9% over the first quarter despite reporting a net loss of 328 million Euros in the fourth quarter 2011. This was largely impacted by the deconsolidation of the bank's equity investment in Intesa Sanpaolo. Credit Agricole indicated that the company intends on posting earnings of more than 900 million Euros in 2014; this growth will stem mostly from expansion in the international banking unit through more branch locations in countries such as Italy. Our overweight position in the stock is motivated by Basket Level Value and Stock Level Earnings signals.

BroadSoft Inc. (US Info Tech): US company BroadSoft Inc. is a leading global provider of IP network software for cable, mobile, and fixed-line service providers. Following a successful IPO in June 2010, shares rose 99% in the first quarter of 2011. For the fourth quarter of 2010, total revenue rose 85% year-over-year and 61% from the previous quarter, while for the first quarter of 2011, total revenue rose 67% year-over-year. Broadsoft also announced plans for its Xtended Incubator Program, a global initiative designed to accelerate the development of in-demand voice and voice-enabled communications applications. Our overweight positioning in the stock has been motivated by Stock Level Momentum and Stock Level Earnings signals.

**March 2011 Active Country Weights (%)
(MSCI World)**



Data provided above is for Arrowstreet's longest standing Global Equity representative portfolio as of March 31, 2011.

March 2011 Investment Outlook Emerging Markets Equity

Emerging Markets Overview: 1st Quarter 2011

Emerging equity markets posted modest gains over the first quarter of 2011, with the MSCI Emerging Markets Index rising 2.1% in USD terms. A sell-off that began in February amidst concerns over oil prices and turmoil in the Middle East was punctuated by the March 11th Tohoku earthquake, tidal wave, and subsequent nuclear crisis. Asset prices began to stabilize after the extent of the damage became clearer. The civilian protests in the Middle East and Africa that began in December of last year spread throughout the region over the quarter with varying degrees of severity and impact on local governments. Egypt saw the ouster of long-time president Hosni Mubarak, for the most part avoiding a violent confrontation, in favor of plans for a democratic regime change.

Energy-rich Russia's equity markets benefitted from a rise in oil prices during the second half of the first quarter. Along with other BRIC nations, the Russian government continues to balance competitive currency devaluations to promote exports with the need to raise rates to control inflation.

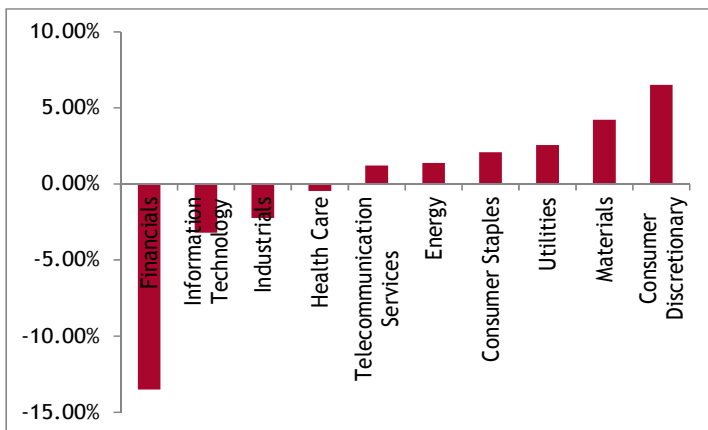
Hungary was the best emerging country in USD currency terms during the first quarter of 2011. The country returned 20% in the first three calendar months, outperforming Czech Republic, the next best performer, by nearly 4%. Hungary's outperformance can be attributed, in large part, to a strong quarter from energy stocks. The worst performing emerging country was Egypt, as its MSCI Country Index lost 23% in the first quarter. The Egyptian Exchange closed on January 27th in the midst of political turmoil and protests. Despite announcements throughout the quarter that trading would resume in the month of February, the exchange reopened on March 23rd and heavy selling ensued.

Energy stocks were the best performing sector in the Emerging Market index, advancing 11.9% in USD terms during the quarter. Korean oil refiner S-Oil Corporation benefited from rising commodity prices as its shares rose 69%. Emerging Markets Health Care stocks were the worst performers in the index, declining almost 5% over the three month period. Shares of Indian pharmaceutical company Ranbaxy Laboratories shed 25% during the quarter, pacing the underperformance in the sector. Ranbaxy plunged as Mylan, a competitor of Ranbaxy, initiated a lawsuit to block exclusive fabrication of the high revenue Lipitor generic.

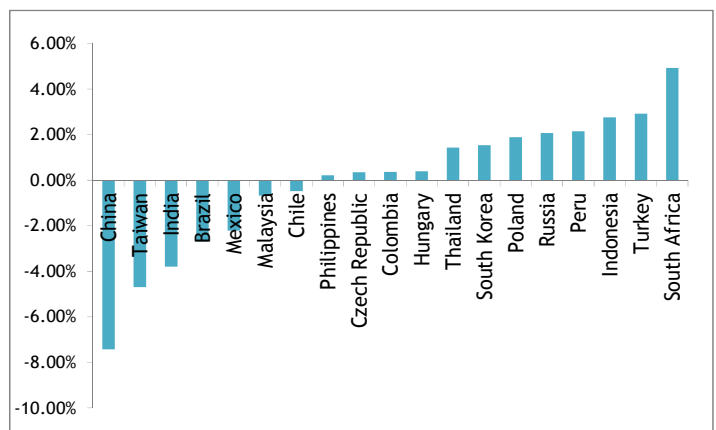
Emerging Markets Strategy Performance Attribution

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

**March 2011 Active Sector Weights (%)
(MSCI EM Index)**



**March 2011 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 March 31, 2011.

Arrowstreet Profiles — Anthony Ryan, CFA — Chief Operating Officer

As part of our long term plan to enhance our investment and management teams, giving them depth and breadth that match the growth of the company, we created a new role of Chief Operating Officer. As our first COO, Tony will oversee a number of business functions and assist in the development of Arrowstreet's long range business plan, as well as its annual budget. In addition, he will join the firm's Operating Committee. Tony brings over 20 years of extraordinary experience in financial markets. He joins us from Fidelity Investments where he was the Chief Administrative Officer and Head of Asset Management Strategy and Product Development for the past two years. From 2006 through 2008, Tony worked at the US Treasury Department in a variety of roles including Assistant Secretary of the US Treasury. In this capacity he oversaw US Treasury financing, public debt management, Federal regulation of financial markets, and advised the Secretary on key policy matters. Tony is a CFA charterholder, and received a Masters degree from London School of Economics in 1986. He received his Bachelors degree from University of Rochester in 1985.

