



Manraj Sekhon, CFA
Head of International
Equities

Quarterly Commentary

March 31, 2011

Equity markets made a strong start to 2011, rising steadily during the first two months of the quarter on robust global economic data and positive company earnings. However, markets corrected dramatically following increasing turmoil and conflict in the Middle East and North Africa (MENA), and a devastating earthquake, tsunami and nuclear risk trifecta in Japan. Despite this, equity markets remained surprisingly stoical as the quarter came to an end, with the MSCI EAFE index finishing the period in positive territory.

The Portfolio delivered a positive absolute performance but underperformed its MSCI EAFE benchmark in relative terms for the quarter. By sector, stock selection in Financials and Information Technology detracted from returns, offsetting positive selections in the Telecoms and Industrials. By region, returns in Europe (including UK) and emerging markets detracted the most from relative returns, more than offsetting a positive contribution from Japan.

The main negative contributor was stock selection within Financials, led by the underweight to European banks and insurance companies. During the quarter, investors became more sanguine about sovereign debt levels, increased regulation and the potential for increased capital requirements; despite the effective nationalization of Irish banks and the yield on Portuguese debt fast approaching double digits. While positions in Barclays and Credit Suisse added value in this environment, Chinese insurance company Ping An lagged on concerns about tighter controls stymieing growth. Within the IT sector, Japanese exposure weighed on relative returns, offsetting positive returns from a position in Ericsson.

At the regional level overall, however, Japanese stock selection was positive. A position in Makita was a strong performer; the Japanese power tool company is exposed to international sales and manufacturing and we believe will continue to benefit from the broadening global economic recovery. Defensive, quality growth positioning in Europe continued to be rewarded, with Shire Pharmaceutical, Michelin, SGS and ABB all adding value. The rising oil price also helped positions in explorer Cairn and oil rig builder Keppel Corp.

The Portfolio remains underweight a bifurcated Europe, with a cautious view on growth and the Financials sector in particular. The Portfolio is more exposed in Europe to Industrial and Consumer Discretionary stocks exposed to either a US recovery or emerging market demand. The Portfolio is also marginally underweight Japan having reduced domestic exposure following the earthquake. We are increasingly finding attractively valued opportunities in emerging markets, particularly in China which has lagged both emerging and developing markets, but appears near to the end game in its policy tightening.

Looking forward, we expect the global economic recovery to continue on track, despite recent events in the Middle East and North Africa, and Japan, with the US an increasing contributor to growth. This bodes well for equity markets in general, but as stronger growth leads to increased inflationary concerns there is a risk of policy tightening in developed as well as emerging markets; as such equity markets are likely to be choppy.

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Portfolio Manager

Manraj Sekhon, CFA, is Head of International Equities and the Portfolio Manager of the International Equity Portfolio. Mr. Sekhon has more than 17 years of investment experience.

This Portfolio is available in the Morgan Stanley Smith Barney **Fiduciary Services (FS), CES** and **PPA** programs.

For more information

For additional information on the Henderson International Equity Portfolio, please call 1.866.443.6337 or visit our website at www.hendersonglobalinvestors.com.

International Equity Portfolio

Top 5 sectors		
1.	Industrials	21.9%
2.	Financials	16.0%
3.	Consumer Discretionary	10.5%
4.	Consumer Staples	10.1%
5.	Energy	9.0%

Top 10 holdings		
1.	Rio Tinto	4.4%
2.	Makita Corp	3.8%
3.	Petrobras Brasileiro	3.8%
4.	Bank of China	3.7%
5.	Keppel Corp	3.7%
6.	Richemont	3.7%
7.	Saipem	3.6%
8.	ABB Ltd	3.5%
9.	Unilever	3.2%
10.	Randstad Holding	3.2%

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