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## Quarterly Commentary

June 30, 2010

Investor sentiment turned sharply negative during the second quarter as macro-economic data from all regions showed signs of weakness. Moving from West to East governments wound down stimulus packages (US), announced fiscal austerity measures (Europe) and implemented tightening policies to curb inflation (China), leading to heightened concerns over the sustainability and trajectory of economic growth for the remainder of 2010.

By sector, BP's woes weighed heavily on the Energy sector and weak Chinese manufacturing data and concerns over predatory taxation had a negative impact on Materials stocks. The Financials sector also came under selling pressure as investors sought to digest the impact of proposed reforms. In contrast, defensive sectors such as Healthcare and Consumer Staples outperformed.

Despite its weak absolute performance, the Portfolio outperformed its MSCI EAFE benchmark in relative terms. By sector, stock selection in Financials and Energy added to returns, offsetting weakness in the Materials and IT sectors. Within the Financials sector, not owning any European Banks and a bias towards Asia were positives. By region, positive stock selection in Pacific ex-Japan and Continental Europe offset weak stock picking in Japan.

At the stock level a position in **Genting Singapore** was positive as the stock shrugged off concerns over a slow start to its Resorts World Sentosa (RWS) casino in Singapore: the company announced it is producing US\$5.8m revenue per day from the resort. **Fresenius Medical Care** (FMC) was also positive as the company reaffirmed full year guidance, announced the acquisition of Asia Renal Care and provided further details on the Medicare bundling proposals. Defensive growth positions in Europe – **SGS**, **Serco**, **AB InBev** – also added positively to relative returns, as did the Portfolio's bias towards Asian Financials - **United Overseas Bank**, **Hang Lung Properties**, **Bank of China** – and away from Eurozone Banks, which suffered from their estimated \$1.6tn exposure to the PIIGS countries (Portugal, Italy, Ireland, Greece and Spain). Weak economic data from China and concerns over a punitive resource tax in Australia led to weakness in materials positions, with **Rio Tinto** and **Xstrata** negatively impacting returns. A position in **Foxconn** also detracted from returns as the company increased wages in its Chinese manufacturing plants.

We continue to maintain a broadly defensive stance in Western economies, where we are underweight across Europe; although we have taken the opportunity to add some selective holdings during the recent weakness. We continue to favor Asia-Pacific and Emerging Markets and the Portfolio remains close to neutral in Japan.

We remain positive on the corporate sector buoyed by rising margins, solid balance sheets and easy monetary policy. However; visibility in economic growth remains difficult due to fiscal retrenchment and continued deleveraging in the West, and with tightening policies in Asia beginning to take effect. We continue to favor Asia-Pacific and Emerging Markets - benefiting from rising consumption, strong balance sheets and long term secular growth, while remaining underweight in Europe due to growth concerns. However, in the latter region we are looking for attractive growth opportunities at the stock level given the region's underperformance.

## Portfolio Manager

**Manraj Sekhon, CFA**, is Head of International Equities and the Portfolio Manager of the International ADR Portfolio. Mr. Sekhon has more than 15 years of investment experience.

This Portfolio is available in the Morgan Stanley **Access**, **Vision** 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](http://www.hendersonglobalinvestors.com).

# International Equity

## Portfolio

### Q2 2010 portfolio activity

| Security                                   | Transaction | Sector           | Region        | Description   |
|--|-------------|------------------|---------------|---|
| Millicom Intl Cellular S.A.                | BUY         | Telecom Services | Europe        | Millicom develops and operates cellular telephone systems worldwide. The Company has interests in cellular systems primarily in emerging markets in Asia, Latin America, Europe, and Africa.  |
| Ericsson (Telefonaktiebolaget LM Ericsson) | BUY         | Telecom Services | Europe        | Ericsson develops and manufactures products for wired and mobile communications in public and private networks. The Company produces mobile telephones through its Sony Ericsson joint venture. Ericsson manufactures and installs wired and wireless communications systems, wireless microwave links, call center equipment, microelectronics, and radar systems. |
| Secom Co.                                  | SELL        | Industrials      | Japan         | Secom provides comprehensive security services. The Company provides on-line centralized security services, home security systems, and home medical services  |
| Petrobras Brasileiro                       | SELL        | Energy           | Latin America | Petrobras explores for, produces, refines, and transports oil and natural gas in South America.   |
| PT Telekomunikasi Indonesia Tbk            | SELL        | Telecom Services | Asia          | PT Telekomunikasi is a Telecommunication company that provides a variety of domestic Telecommunications services such as telephone, telex, telegram, satellite, and leased lines services. The Company also offers electronic mail, mobile communication, and cellular phone services.  |

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The MSCI EAFE Index tracks the stocks of approximately 1,000 international companies in Europe, Australasia and the Far East. The MSCI EAFE Growth Index is composed of a sample of international companies in Europe, Australasia and the Far East with higher price-to-book ratios. The MSCI EAFE Value Index is composed of a sample of international companies in Europe, Australasia and the Far East with lower price-to-book ratios. One cannot invest directly in an index and index returns do not reflect any management fees or trading costs. Volatility of the portfolio may differ significantly from the volatility of the indices.

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