



Like many throughout the world, our thoughts and sympathies are with those affected by the tragic earthquake and tsunami in Japan. The incredible devastation to lives and property is difficult to comprehend and the added uncertainty of a potentially deadly nuclear event only exacerbates the situation.

Reaction to this human tragedy has been strong, evidenced in the world's efforts to mobilize aid and assistance. Response was also strong in the investment markets with the Nikkei and other indices posting steep losses in the days immediately after the event followed by sharp turnarounds. As with any period of uncertainty, we anticipate continued volatility as events continue to unfold. At present, Japanese economic growth is forecasted to dip slightly in the second quarter as businesses adjust to temporary factory shutdowns, transportation disruptions and lack of power. However, as government aid and the inevitable rebuilding of the hard hit northeast region begin, GDP growth will likely pick up later in the year. With respect to the impact of this tragedy on the global recovery, we remain optimistic, noting that Japan accounts for less than 10% of global output. Accordingly, while the impact of these events is incalculable for many Japanese citizens, the net impact to global GDP is expected to be minimal.

Our International Equity portfolio is approximately 10% underweight in Japanese companies relative to our benchmark MSCI ACWI ex US. This is a result of our bottom-up stock picking process which leads us to favor companies with higher-than-average growth rates trading at reasonable valuations. Japan has been mired in weak economic growth for over a decade, and this lack of growth has been accompanied by unattractive valuation, as Japanese stocks on average sell at higher valuations than many markets. For example, the Nikkei 225 trades on a forward price-to-earnings ratio of 15.6x compared to more attractive markets such as France's CAC 40 (9.7x), United Kingdom's FTSE 100 (10.1X) and China's Shanghai SE (13.7x).

Our current 6% Japanese exposure is represented by companies in three different sectors – auto manufacturer **Nissan**, construction equipment maker **Komatsu** and telecom provider **NTT** – and each of these stocks has been directly affected by the earthquake. Following are comments regarding each:

Nissan Motor Company LTD

According to Nissan management, the company had six plants in Japan affected by the devastating earthquake. Although all plants, except for the Iwaki engine plant, have been able to repair some damaged facilities and/or equipment, supply deliveries have been delayed. Of particular concern is the electronic components supply that relies on Japanese-sourced semiconductors; however, industry analysts estimate that currently there is a 6 to 8 week supply of such semiconductors available in North American and European plants. Long-term, we like the company and the overall trends in global auto demand. However, it is too early to estimate the potential duration and extent of supply interruptions and we continue to monitor the situation closely.

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Komatsu LTD

Komatsu is a mining and construction equipment manufacturer and some branches of Komatsu Group companies have been extensively damaged by the recent tsunami. Inspection and repairs of facilities, and their suppliers' facilities, are ongoing. Although resumption of production has already begun at the least-affected plants, it is unclear as to when full production will be regained and the extent to which damage at the Port of Hitachinaka will impact the company even after full production is resumed. Accordingly, the financial impact cannot currently be fully assessed, and we will continue to analyze the situation as more information becomes available.

Nippon Telegraph and Telephone

Based on estimates provided by Nippon Telegraph and Telephone, approximately 1% of its subscriber base has been impacted by recent events. For customers impacted by power outages in the northeast, NTT is currently mobilizing generative power units to the affected areas so that its customers can begin to resume usage of its phone and broadband lines. NTT has expressed confidence that business will resume to normalcy; however, the timetable for this is still unknown. We continue to hold NTT as the company has provided stronger-than-expected subscriber growth guidance in its fiber-to-home business line and increased operating income in their Eastern and Western markets.

In the weeks ahead, the tragic events in Japan will continue to grab headline attention, causing markets to gyrate. However, other global issues such as rising inflation, geopolitical turmoil in the Middle East, continued sovereign debt concerns in Europe and the rising price of crude oil will likely play a larger and longer-term role in the direction of global markets. While it is difficult to predict how any of these situations will ultimately play out, our years of experience managing portfolios through times of uncertainty has taught us that the best response is guided by reliance on a proven investment process and thoughtful analysis of potential pitfalls and opportunities.

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