



NEWS RELEASE

INSTITUTIONAL INVESTORS ASSETS PLUNGE 42 PERCENT SAYS CALLAN ASSOCIATES RESEARCH

Equities shed more than \$230 billion but opportunities may grow for investment managers

SAN FRANCISCO, April 22, 2009 — Callan Associates 2008 Style, Trend, Analysis and Research report (STAR), published by the firm's Institutional Consulting Group, shows institutional asset losses were extensive across 17 traditional equity and fixed income styles measured by STAR – plunging 42% to \$2 trillion. Retail investors suffered comparable losses, but net of performance, equities sustained the greatest outflows for both institutional and retail investors at more than \$130 billion and \$100 billion respectively.

According to STAR, the watershed events of 2008 will have long term implications for the economy and investors. The US stock market experienced its third worst year in more than a century. Liquidity froze and deepened risk aversion. Fear and panic destroyed investor confidence and raised volatility to record levels. Bubbles in oil and other commodity prices burst, pricked by a synchronized global recession. Wall Street as we knew it disappeared and a deteriorating job market contributed to a consumer spending freeze.

Institutional outflows totaled \$259 billion in 2008 – comparable to the losses of 2007 at \$265 billion on a significantly reduced asset base. Market declines left many investors out of compliance within their asset allocation targets which led to an increase in rebalancing. As a result of those events, nearly half of the outflows occurred in the fourth quarter forcing many plans to raise funds to meet their benefit payments; tapping the most liquid investments within their structures.

The research also showed that institutional investor returns were off by approximately 25% for the median corporate, public and endowment/foundation fund. Taft-Hartley plans fared slightly better at -21.9% due to their higher fixed income and real estate allocations and lower international exposure.

Mutual funds fared slightly better than their institutional counterparts with outflows totaling \$176 billion for the year. Equities, both US and international, represented 98% of the collective net losses.

“We observed several key differences in how institutional and mutual fund investors reacted to the market turndown of 2008,” said Inga Sweet, senior vice president and author of STAR. “Institutional investors kept their long-term investment focus and managed their rebalancing needs, while mutual fund or retail investors were more short term performance focused.”

Although very few institutional areas experienced asset growth in 2008, there were positive flows in high yield of \$1.2 billion as a result of some large plan allocations to dedicated high yield mandates. Active extension and emerging markets also experienced net inflows of \$2.1 billion and \$5.1 billion respectively.

Investment management firms were not immune to the volatility of the 2008 market. At more than 530 investment management firms measured by STAR, revenues for investment managers declined in 2008 commensurate with their underlying asset mix, but equity-oriented firms suffered the most with revenue losses of 40% or more. Staff reductions of 10% to 20% were the norm and as firms scrutinized unprofitable businesses and product line-ups, further consolidation is expected in the coming months.

However, some positive trends and opportunities may be on the horizon for investment managers.

“As a result of significant total fund declines, many ERISA fund sponsors will likely make large contributions to their funds in 2009 to bring their asset allocation back within policy target ranges;” said Sweet. “We believe these contributions will trigger positive flows to traditional asset classes – namely equities.”

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About STAR

Callan’s Style, Trend, Analysis and Research report provides insight into investor trends by examining asset flows in traditional asset categories. The STAR report measures asset flows on nearly 2,100 tax-exempt products and 2,400 mutual funds across an array of actively managed equity and fixed income styles. In total, these products manage in excess of \$2 trillion in tax-exempt separate accounts and commingled funds, and \$2.2 trillion in mutual fund assets. Callan was the first to formally examine institutional asset flows, launching the STAR report in 2001. We have expanded coverage to include mutual funds to recognize the growth in defined contribution assets and the impact of the retail arena.

About Callan Associates Inc.

Founded in 1973, Callan Associates is one of the largest independently-owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support and advice to a broad array of institutional investors through five distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group, Callan Investments Institute and the Trust Advisory Group. Callan employs more than 170 people and maintains four regional offices located in Denver, Chicago, Atlanta and Florham Park, N.J. For more information, visit www.callan.com.

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