



TRADITIONAL INVESTMENTS SUFFER SIGNIFICANT LOSS; MERGER ACTIVITY HIGH AMONG ASSET MANAGEMENT FIRMS SAYS CALLAN ASSOCIATES STAR REPORT

Research indicates strong client interest in alternative strategies driving both trends

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SAN FRANCISCO, May 7, 2008 — Callan Associates 2007 Style, Trend, Analysis and Research report (STAR), published in April by the firm's Institutional Consulting Group, shows traditional asset classes lost \$265 billion — an 8% decline in the \$3.3 trillion tax-exempt asset pool and merger and acquisition activity among investment management firms set new records in value and volume at \$26 billion. Heavy demand for alternative strategies from clients and merger activity propelled traditional asset declines — mainly to alternatives.

STAR indicates that two other factors likely contributed to institutional outflows in the traditional asset category. First, rebalancing was particularly evident in styles with strong recent results including: mid-cap, small cap, international and emerging market equities. Secondly, movement by corporate fund sponsors towards liability-driven investing pushed an estimated \$50 billion in assets into long-duration strategies in 2007.

Despite the specialized nature of the alternative area and lack of data sources, STAR cites industry sources that show asset gains across various alternative strategies. Hedge fund assets across all investor types topped \$2.7 trillion in 2007, with approximately 48% managed in hedge fund-of-fund vehicles. Private equity scored record levels in fundraising, deal volume and the largest buyout to date. Real estate gained roughly \$80 billion with commodities and infrastructure strategies garnering renewed interest from institutional investors.

In 2007, very few institutional areas experienced asset growth. Core plus fixed income showed net gains of \$7.4 billion and leading strategies included those that helped clients further diversify their fixed income manager structures. Global equity received net inflows of \$5.6 billion in 2007.

“This is the second consecutive year we’ve seen gains to global equity strategies,” says Inga Sweet, senior vice president of Callan’s Published Research group. “Over this two year period, institutional strategies added nearly \$9 billion in assets due to multiple factors and mutual funds gained \$33 billion, reflecting interest from individual investors and use within defined contribution plans.”

Sweet also observed that active extension strategies raised \$9 billion, primarily at the expense of other large cap equity strategies which appeal to some investors as an alternative to hedge fund investing. In total, as measured by STAR,¹ the active extension group managed U.S. tax-exempt assets of nearly \$20 billion at year-end.

STAR also found that investment managers, in response to rising interest to diversify plan assets using alternatives, have concentrated on developing specialty product offerings; including active extension strategies (U.S., international and global), frontier emerging markets, international small cap and international/global REITs.

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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.

About STAR

Callan’s STAR report provides insight into investor trends by examining asset flows in traditional asset categories and measures asset flows on more than 2,200 tax-exempt products and 2,200 mutual funds strategies across an array of actively managed equity and fixed income styles. In total, these products manage in excess of \$3.3 trillion in tax exempt separate accounts and commingled funds and nearly \$3.5 trillion in mutual fund assets. Callan was the first to formally examine institutional asset flows, launching the STAR report in 2001.

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1. This figure represents only a fraction of the total extension strategy products and assets that other sources cite. This highlights the customized nature of these assignments, the limited amount of institutional product data that is currently reported to consultant databases, and suggests allocations beyond tax-exempt investors. While more than 55 products comprise the broad group, only slightly more than half (54%) had tax exempt assets and a four-quarter track record, as of December 31, 2007. The majority (60%) of products in this group managed less than \$150 million in tax-exempt assets at year-end.