

2008 Survey of Institutions, Financial Advisors and Alternatives

Morningstar and Barron's



November 10, 2008

Morningstar/Barron's 2008 survey of institutions

Predominant respondent:

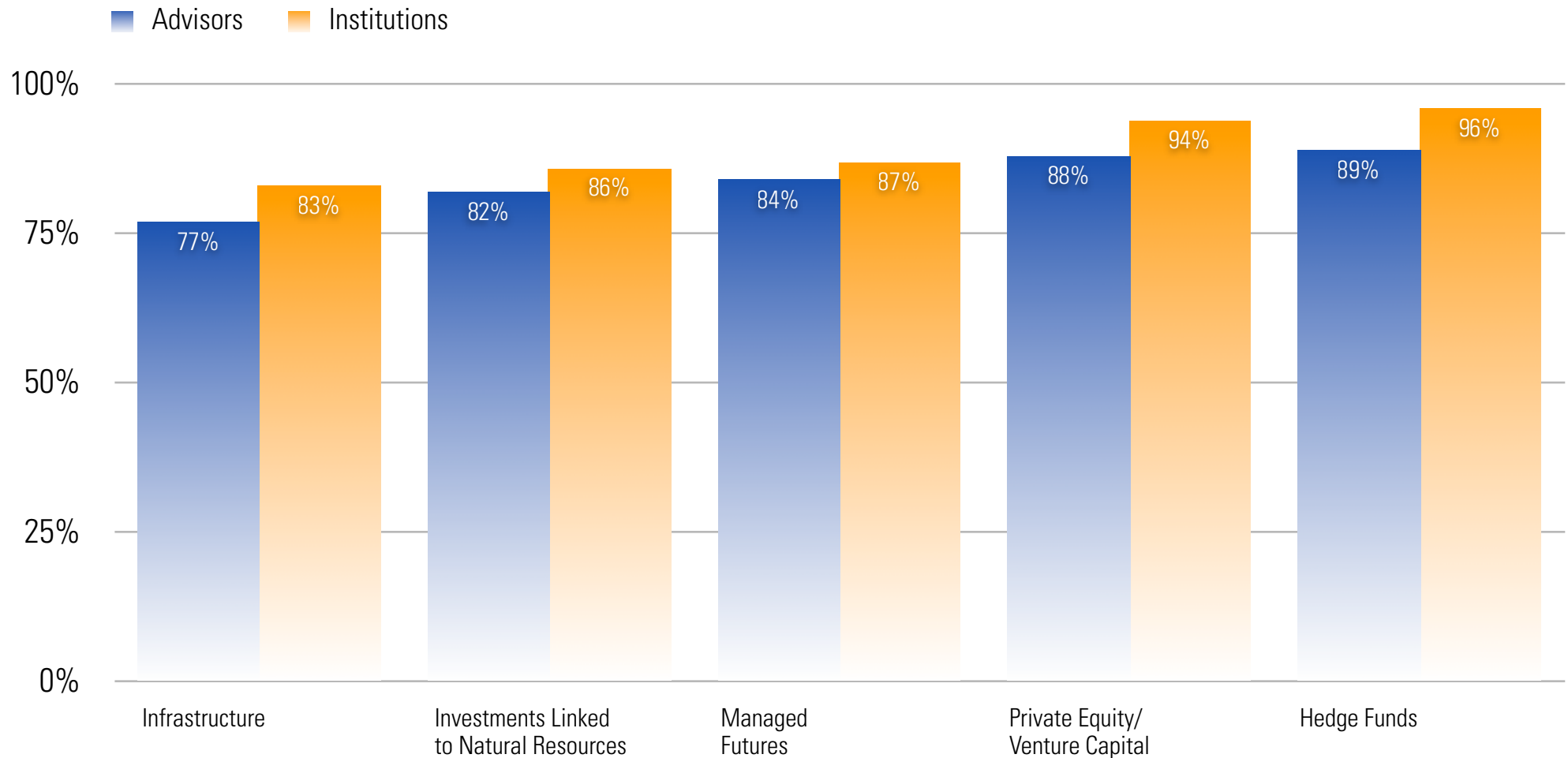
- ▶ An investment company (39%)
- ▶ Also public and private pension plans, foundations, banks, consultants, family offices, Taft-Hartley pension plans
- ▶ AUM under \$11 billion (70%)
- ▶ 18% had AUM over \$30 billion
- ▶ 252 institutions

Morningstar/Barron's 2008 survey of advisors

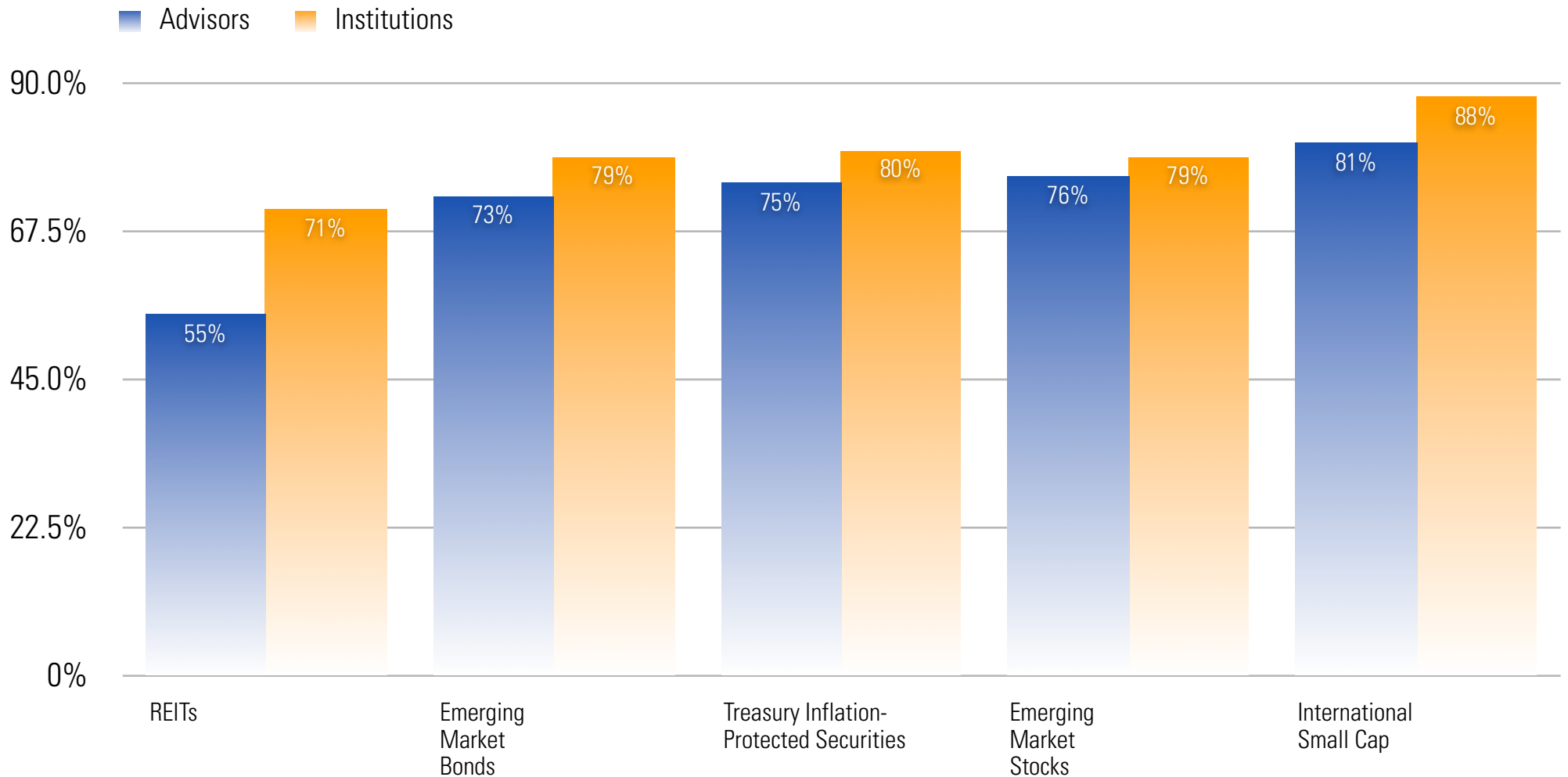
Predominant respondent:

- ▶ A RIA–SEC registered
- ▶ Serving individuals with less than \$1 million in net worth/investable assets
- ▶ 200 or more clients
- ▶ Compensated by asset-based fees
- ▶ 1,180 advisors

What defines alternatives for institutions and advisors?



What is not alternative for institutions and advisors?



Comparing institutions to advisors in delineating alternative from non-alternative

- ▶ Remarkable that both agree and disagree on same items of what is and isn't alternative
- ▶ And in the same order
- ▶ Institutions have more pronounced view of what is and isn't alternative

Institutional definitions of other alternative investments

- ▶ Distressed debt/mezzanine debt/distressed equity
- ▶ Volatility
- ▶ Carbon emissions
- ▶ Swaps (interest, credit)
- ▶ Socially conscious/responsible stocks

“Anything with less than a 0.3 correlation coefficient to stocks or bonds”

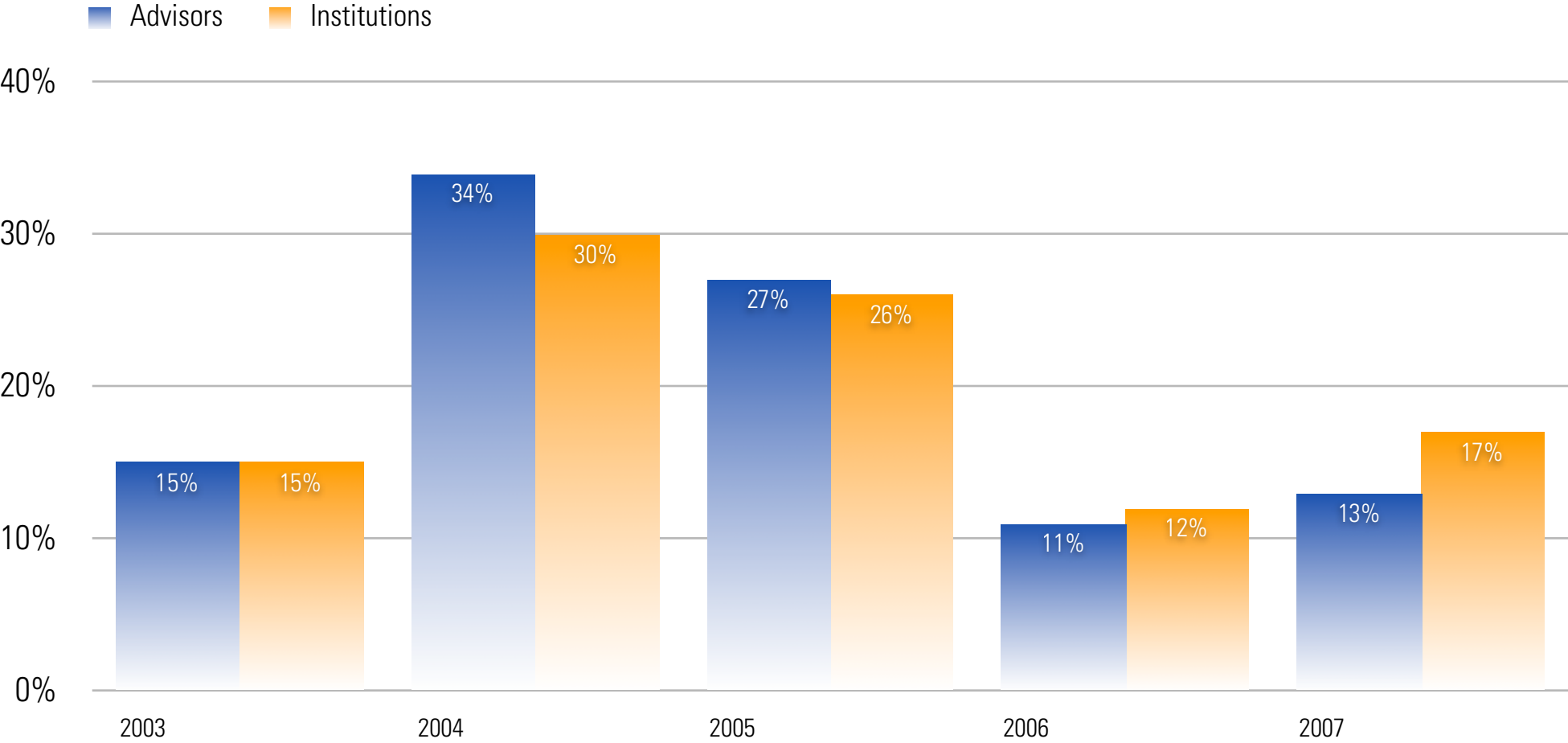
“All assets which cannot be liquidated in less than a week”

Advisors definitions of other alternative investments

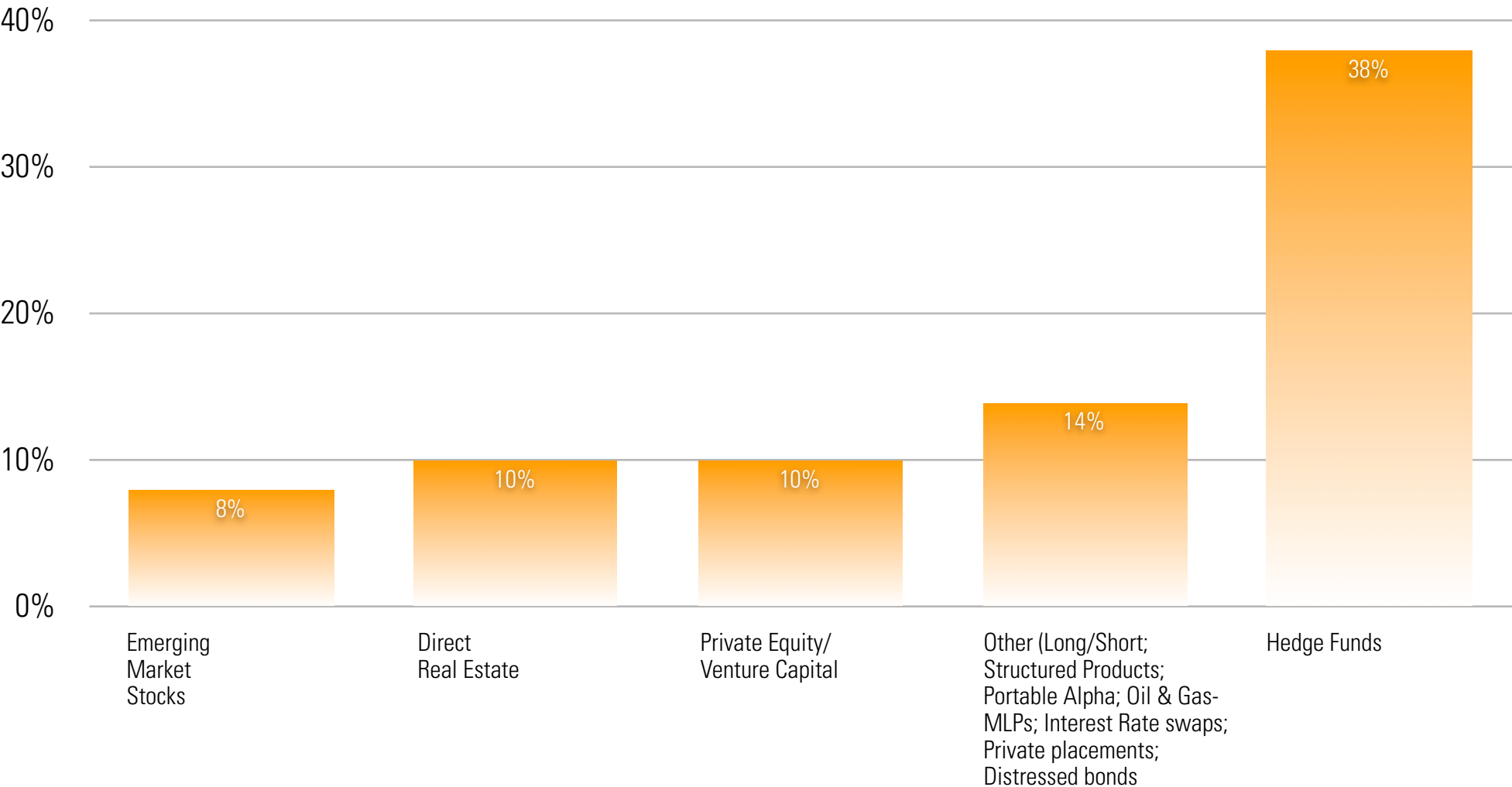
- ▶ Equipment Leasing
- ▶ Oil and gas explorations (limited partnerships)
- ▶ Angel investing, mezzanine debt, bridge loans
- ▶ Promissory notes, private mortgages, tax liens, private debt, private placement life insurance
- ▶ Viaticals
- ▶ Church bonds, municipal arbitrage

“It is easier to describe what AIs are not, vs a full list of what they are. We say that if a sub-asset class or skill based strategy is NOT US large cap, US small cap, US investment grade bonds, US cash or cash like investments, or international large cap stocks, it is an AI or a non-traditional investment. Over time this definition will evolve to include more in the non-AI list.”

Estimated annual growth in alternative AUM last five years

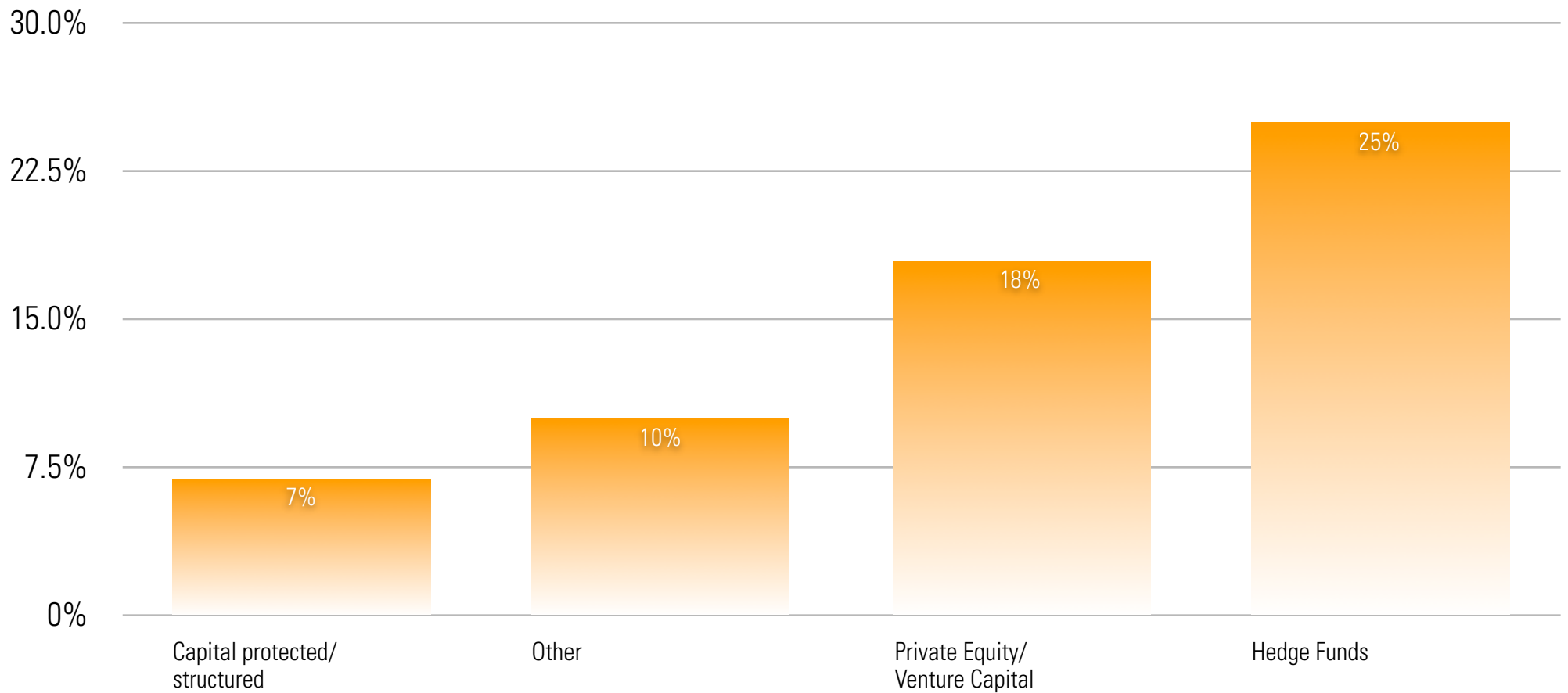


Institutions: Which alternative investments have driven growth?

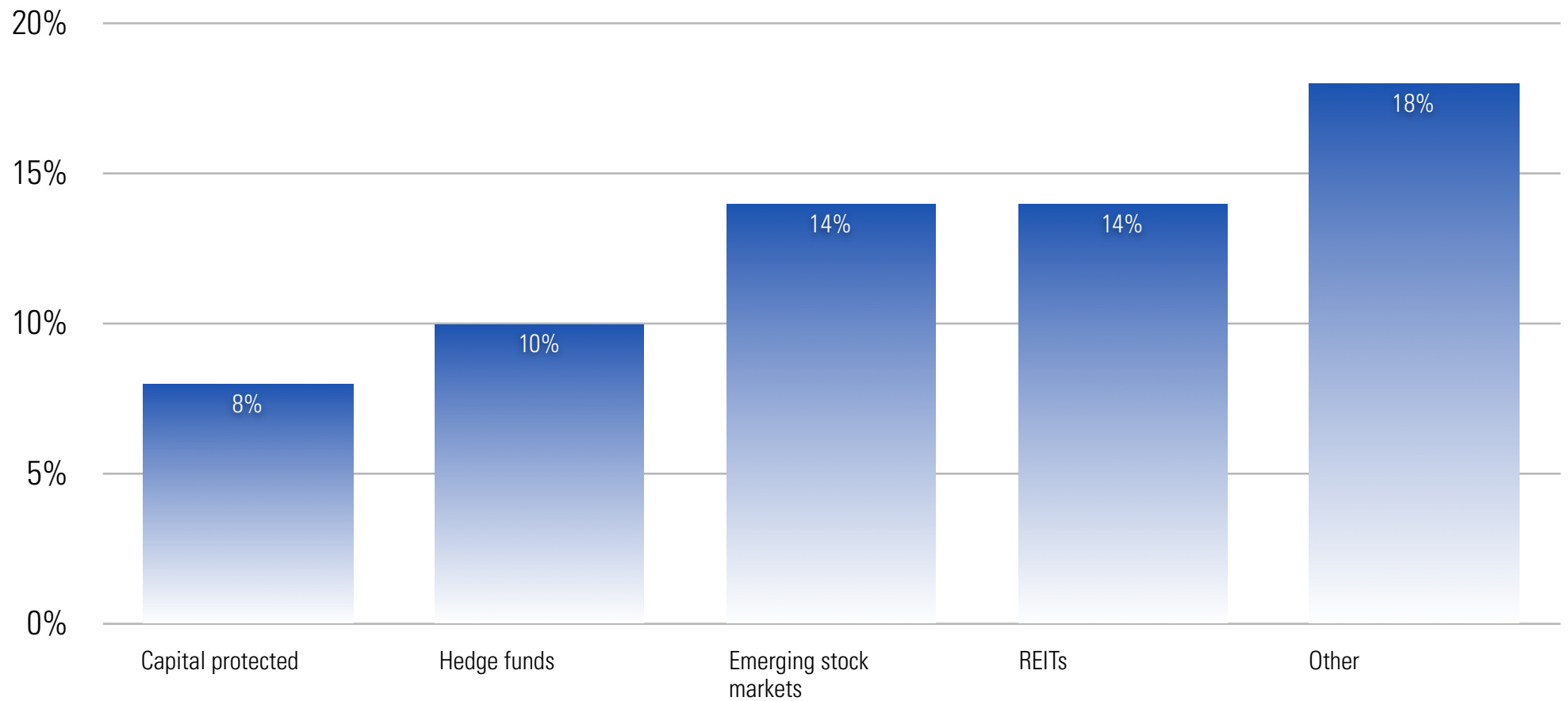


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Institutions: Which alternative investments might get increased allocation over next five years?



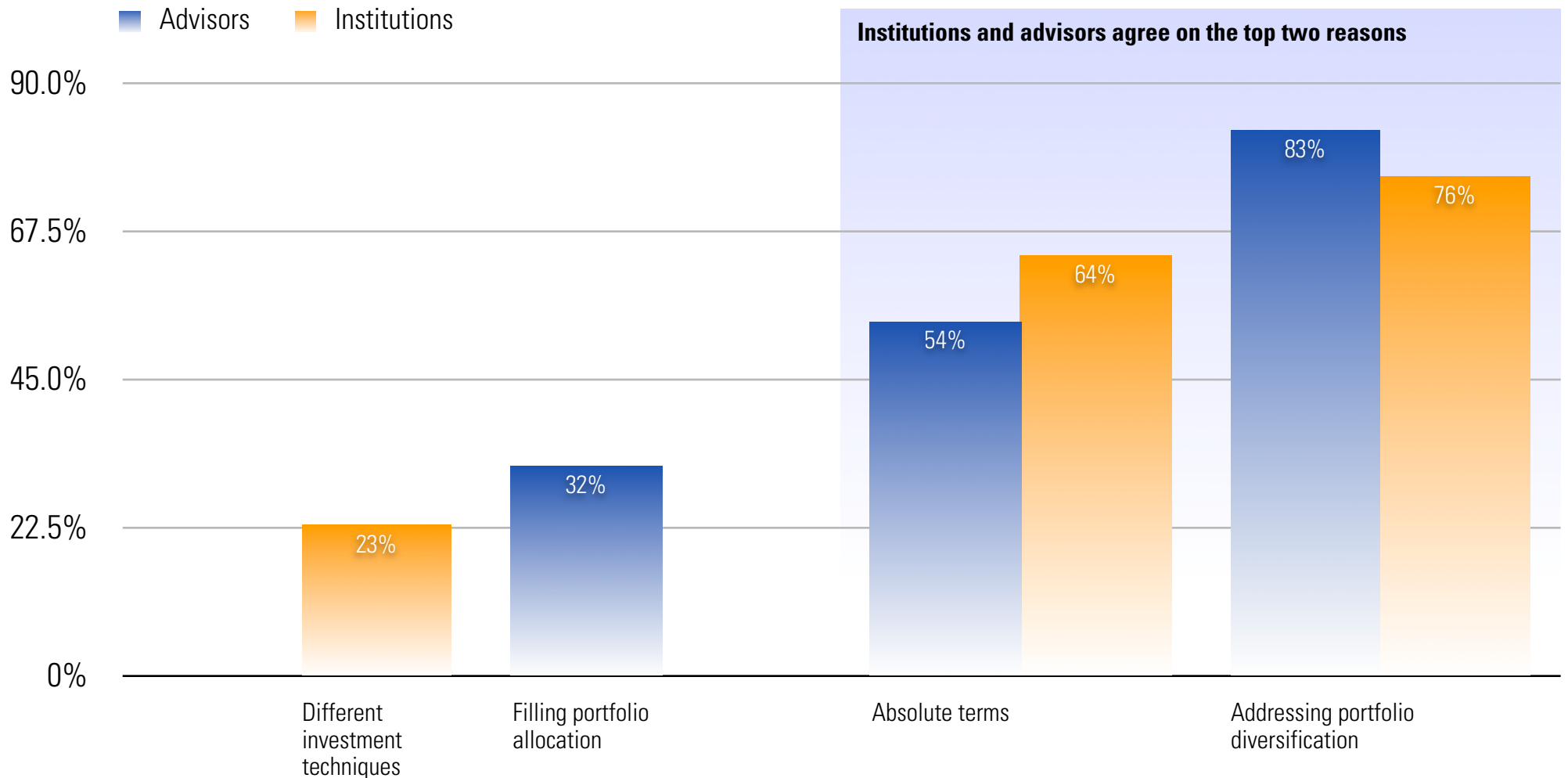
Advisors: Which alternative investments have driven growth?



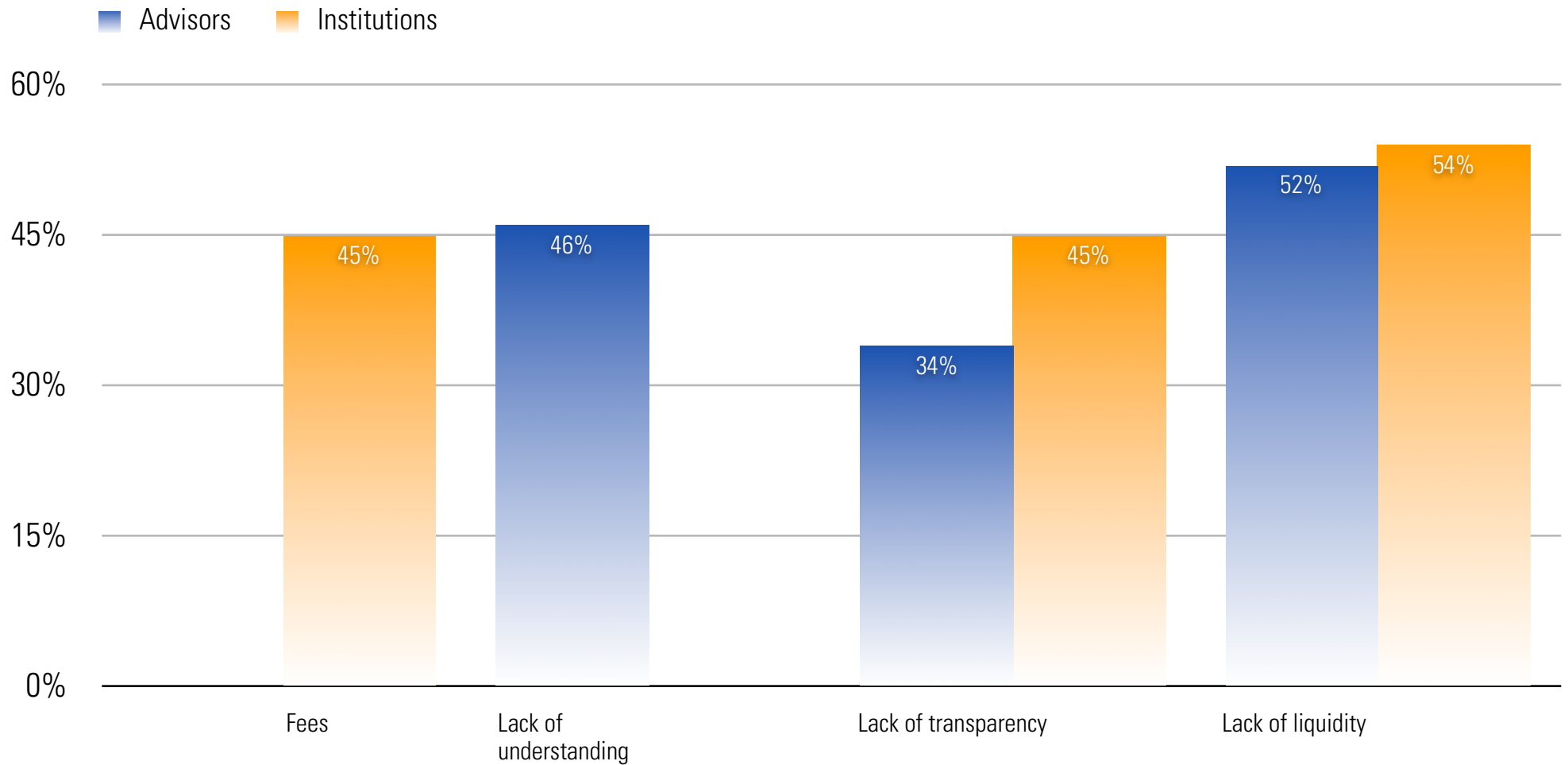
Alternatives are diverse and not equally available

- ▶ “Other” alternatives factor high for both institutions and advisors—definition and availability of alternatives is abundant
- ▶ Selection of top five drivers of business growth or percentage of portfolio dedicated to alternatives also reflects that some alternatives (like hedge funds and private equity) are more available to institutions than to the clients of advisors

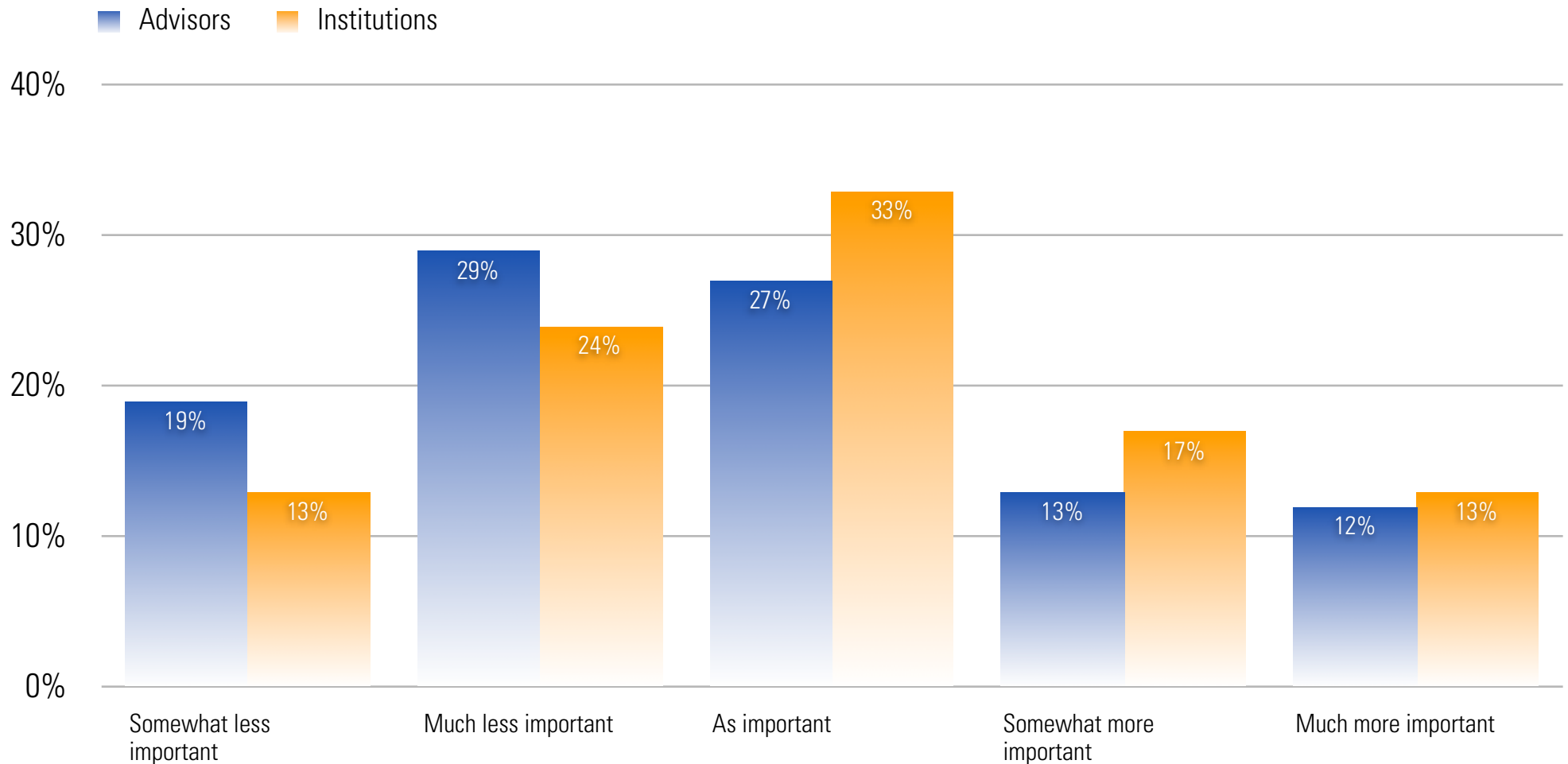
What top three investment objectives are driving alternative investment growth?



Top three reasons to hesitate to invest in alternatives



Extent to which alternative investments will become as important as traditional investments (stocks, bonds, mutual funds, etc) over the next five years. Both agree: As or more important



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