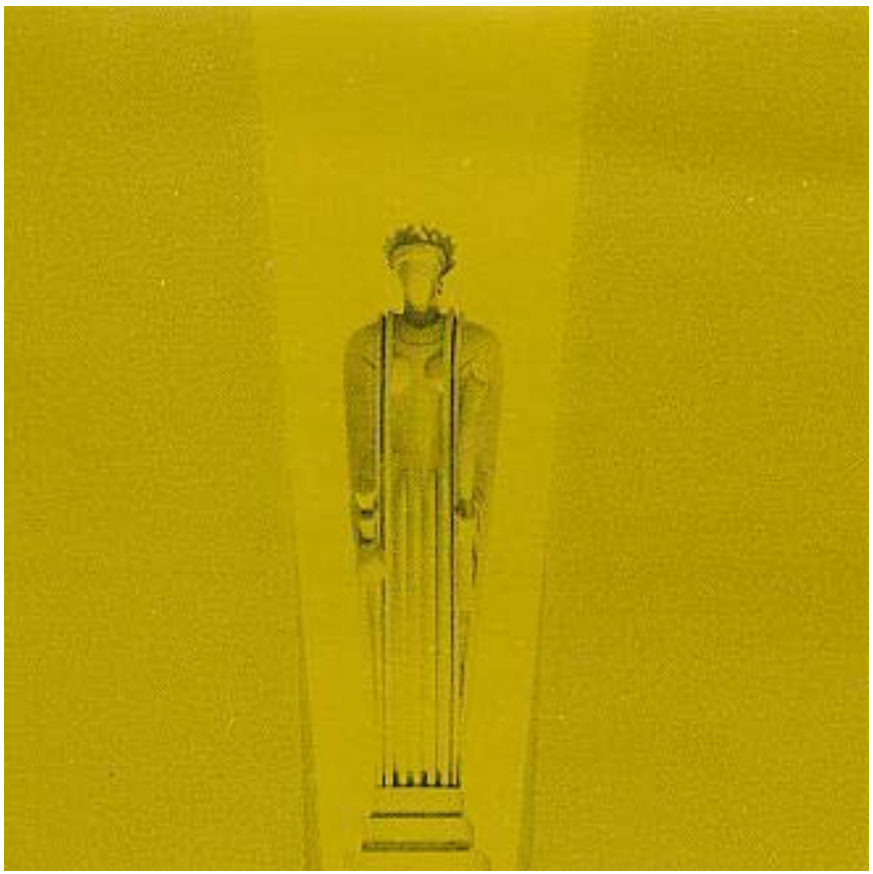
THE DIFFERENCES BETWEEN BENCHMARK-BASED AND ABSOLUTE-RETURN MANAGEMENT



Risk invest 2002

Boston

Ms. Hilary Till
Premia Capital Management, LLC
Chicago, IL

December 11, 2002

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PRESENTATION OUTLINE

The Differences Between Benchmark-Based and Absolute-Return Management Result From:

- **Competing Views on Sources of Investment Returns**

Which Then Result in Differing:

- **Investment Processes;**
- **Risk Management Practices; and**
- **Expectations for Money Managers.**

PRESENTATION OUTLINE
(Continued)

The Differing Types of Absolute-Return Programs Result From:

- **Varying Investor Preferences in Return-to-Risk Trade-Offs**

COMPETING VIEWS ON SOURCES OF RETURNS

I. Asset Allocation as Dominant Source of Returns

II. Absolute Returns Expected from Each Investment

III. Hybrid View

I. Asset Allocation

- **The view that *asset allocation* is the dominant source of returns …**

- **… has resulted in *benchmark-based management*.**

I. Asset Allocation
(Continued)

A. Performance Attribution Studies

B. CAPM

C. Long-Term Structural Returns

D. Industry Organization

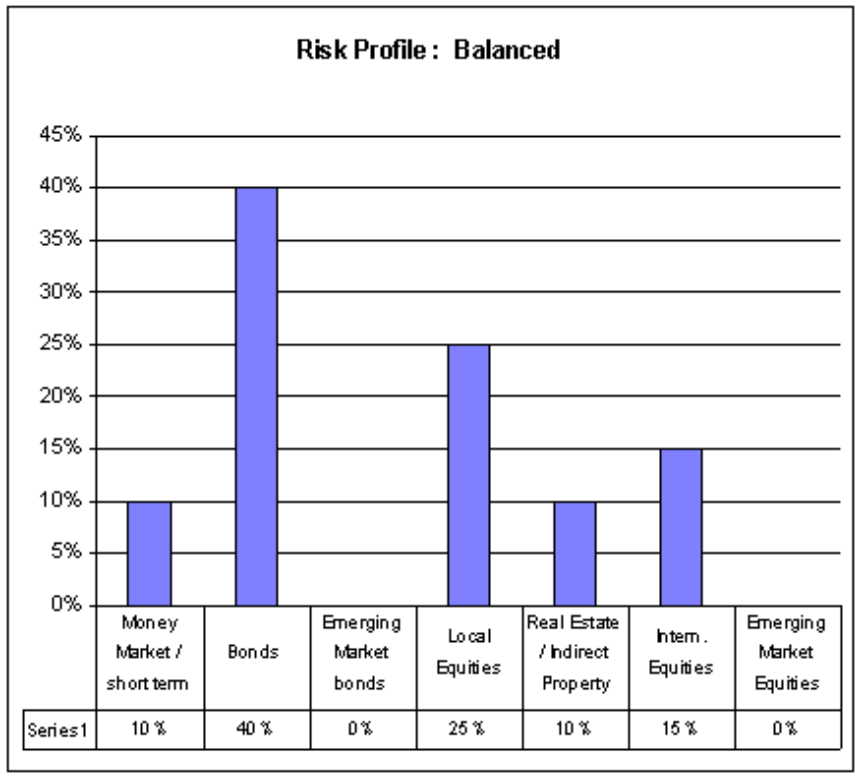
E. Investment Process

F. Risk Measurement and Monitoring

G. Consequences

A. Performance Attribution Studies

- **The decision by an institutional investor on how to allocate among a number of asset classes is the key performance driver.**



A. Performance Attribution Studies
(Continued)

- **Asset allocation is more important than security selection.**

- ***Asset allocation policy accounted for 93.6% of total return variation amongst the corporate plans studied.***

  – **Brinson,G.P., L.R. Hood, and G.L. Beerbower, "Determinants of Portfolio Performance," Financial Analysts Journal, July – August 1986.**

A. Performance Attribution Studies
(Continued)

Current Policy Portfolio (October 2000)

		Minimum	POLICY	Maximum	Benchmark
1.	Domestic equities	12%	22%	40%	80% S&P500, 10% S&P 400, 10% Russell 2000
2.	Foreign equities	10	15	20	93% EAFE, 7% Salomon Extended ex USMS
3.	Emerging markets	3	9	13	IFC Global and EMBI+
4.	Private equities	10	15	20	Cambridge Associates Weighted Composite
	Total Equities:	40	61	75	
5.	Absolute return portfolio	0	5	10	60% Sal Global Eq, 20% Morgan Global Bonds, 20% LIBOR + 5%
6.	High-yield bonds	0	3	5	Salomon High-Yield and Bankrupt
7.	Commodity-related[a]	3	6	9	GSCI and NCREIF Timber leverage adjusted
8.	Real estate	4	7	10	NCREIF Property Index, 50% leverage
	Total	12	21	32	
9.	Domestic bonds	5	10	20	Lehman 5+ year Treasury Index
10.	Foreign bonds	0	4	10	J.P. Morgan Non U.S.
11.	Inflation-indexed bonds	2	7	12	Salomon 5+ year TIPS
12.	Cash	(8)	(3)	10	One month LIBOR
	Total Fixed Income:	8	18	30	
		Overall Total:	100%		

Harvard Management Company (2001)

B. CAPM

- **Under the Capital Asset Pricing Model (CAPM), in equilibrium all assets and portfolios have the same return after adjusting for risk.**

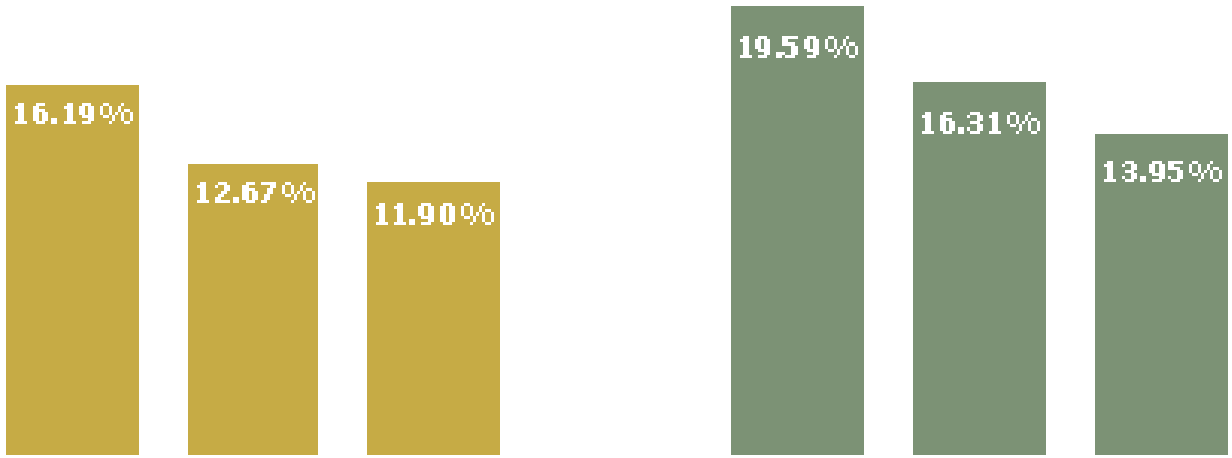
- **Empirical studies had justified the use of the CAPM for a quarter of a century.**

- **In the main, the only way to earn more returns is to take on more market risk or "beta."**

C. Long-Term Structural Returns

US Equities
Arithmetic Average Rates of Return

Annual Data: 1927-2001



	FF Large Value	S&P 500 Index	FF Large Growth	FF Small Value	CRSP 6-10 Index	FF Small Growth
Annual Standard Deviation (%)	27.32	20.37	20.50	31.87	31.35	33.40

- *Value and growth data courtesy of Fama/French.*
- *S&P data courtesy of © Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated works by Roger C. Ibbotson and Rex A. Sinquefield).*
- *CRSP data courtesy of the Center for Research in Security Prices, University of Chicago.*

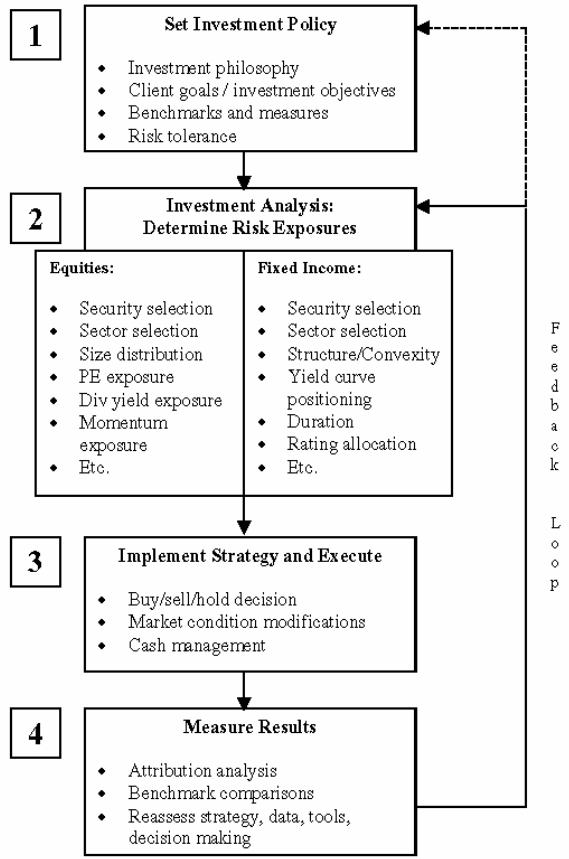
D. Industry Organization

- **Pension fund consultants and financial planners advise on the long-term asset allocation mix.**
- **Each asset class within the mix is assigned a benchmark.**
- **The investment managers are responsible for providing investment results that are relative to the benchmark.**
- ***The investor owns the risk of the benchmark.***

E. Investment Process

- **The investment process is centered around ensuring that any deviation from the benchmark is an active investment decision.**

- **The scaling of each active bet should correspond to the degree of confidence in that bet.**



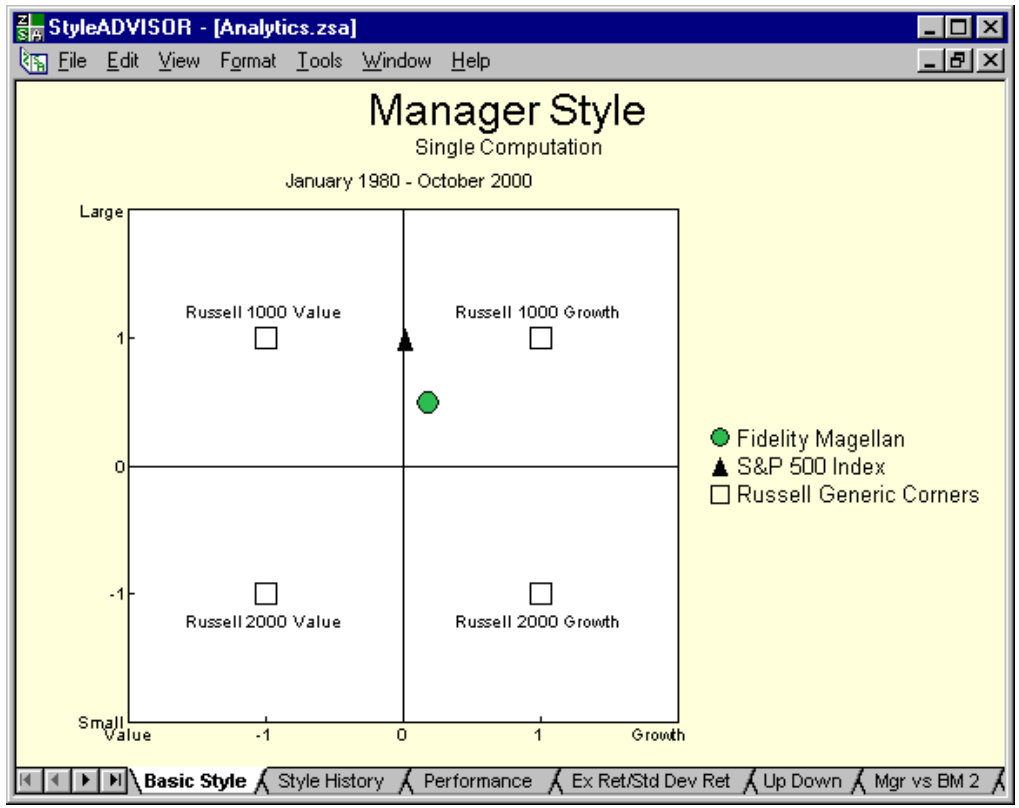
F. Risk Measurement and Monitoring

- **The risks that are monitored are as follows:**
  - **Style Drift**
  - **Tracking Error**
  - **Maverick Risk.**

F. Risk Measurement and Monitoring: Style Drift

- **In the event of style drift, the overall asset allocation plan could be invalidated.**

- **The structural returns of the benchmark are sufficient, so it does not make sense to give a manager too much discretion.**



F. Risk Measurement and Monitoring: Tracking Error

- **The total risk of the portfolio is not important.**
- **The manager's risk is always viewed in relative terms.**

G. Consequences

- *A mutual fund can lose over 50% of its market value.*
- **This is acceptable as long as the losses are consistent with its benchmark or product category.**
- **In 2001, this was the case for the aggressive growth equity style.**

G. Consequences
(Continued)

- **The manager can note that the performance is consistent with its product design.**

- **The manager can also note that they will continue offering the product.**

- **Articles on the topic are broadly sympathetic to the manager.**

II. Absolute Returns Expected from Each Investment

- **The Post-2000 view is starting to depart from some of the preceding assumptions …**

- **… Which has consequences for:**

  - **The investment management industry's organization;**
  - **Investment processes;**
  - **Risk management and monitoring; and**
  - **Expectations for managers.**

II. Absolute Returns Expected from Each Investment
(Continued)

- **A. Long-Term View on Structural Returns is Shaken**
- **B. Valuation Matters**
- **C. Performance Attributions Studies Questioned**
- **D. Throw Out Equity Benchmarks**
- **E. Downside Risk Protection is Crucial**
- **F. Consequences**
- **G. Risk Management**
    1. **Event Risk**
    2. **Extreme Risk**

A. Long-Term View on Structural Returns is Shaken

- **Equities may have returned 12.7% annually since 1927.**
- **But there are long stretches where one had to be very patient.**

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THE MARKET

Mr. Buffett on the Stock Market

The most celebrated of investors says stocks can't possibly meet the public's expectations. As for the Internet? He notes how few people got rich from two other transforming industries, auto and aviation.

FORTUNE
Monday, November 22, 1999

A. Long-Term View on Structural Returns is Shaken
(Continued)

- **DOW JONES INDUSTRIAL AVERAGE**

  December 31, 1964: 874.12

  December 31, 1985: 875.00

- **"Now I'm known as a long-term investor and a patient guy, but that is not my idea of big move."**

  – **"Mr. Buffett on the Stock Market," Fortune, 11/22/99.**

B. Valuation Matters: Bill Gross

- **The returns on equities depends on their beginning valuation and right now valuation remains poor.**
- **"Earnings have been phonied up for years …."**
- **"Companies have been diluting … equity via stock options …."**

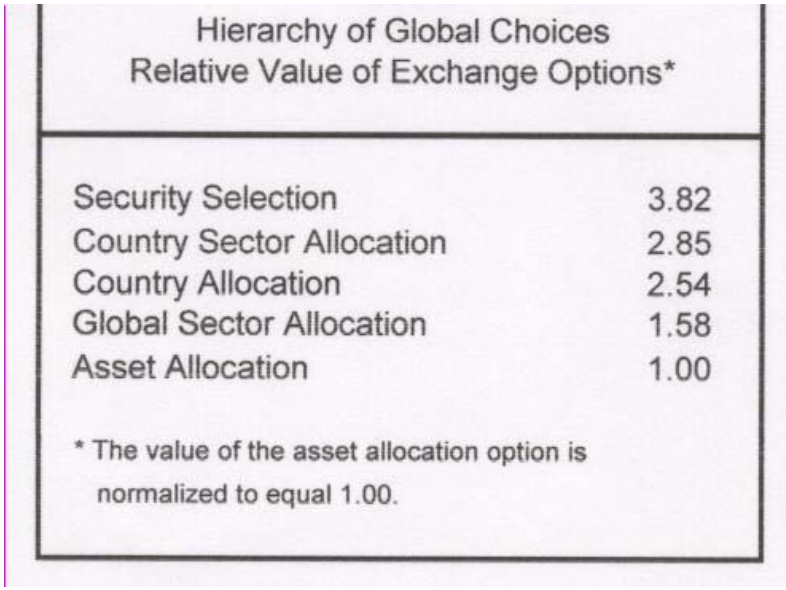
B. Valuation Matters: Warren Buffett

- **Key value-determining factors:**
  - **Interest rates must fall further; and**
  - **Corporate profitability in relation to GDP must rise.**

C. Performance Attribution Studies Questioned

- **Institutional investors have chosen asset allocation as the key area to exercise investment discretion ...**

- **... But it may be that the "natural opportunity set presented by the capital markets" is far greater than what's offered through discretion in asset allocation.**



Hierarchy of Global Choices Relative Value of Exchange Options*	
Security Selection	3.82
Country Sector Allocation	2.85
Country Allocation	2.54
Global Sector Allocation	1.58
Asset Allocation	1.00

* The value of the asset allocation option is normalized to equal 1.00.

- Kritzman, Mark and Sebastien Page, "The Hierarchy of Investment Choice: A Normative Interpretation," Revere Street Working Paper Series, 8/30/02.

D. Throw Out Equity Benchmarks

- **Equity benchmarks produce a high tracking error against underlying liabilities of pension plans.**

- Alan Brown, group Chief Investment Officer of State Street Global Advisors

- **Instead, pension plans may start considering:**
  - **Bigger allocations to bonds;**
  - **Increased use of risk budgeting; and**
  - **Allocations to absolute-return products.**


BENCHMARKS

TIME TO THROW OUT EQUITY BENCHMARKS

A move away from relying on equity benchmarks could herald a new era in asset management.

- Global Investor, November 2002.

E. Downside Risk Protection is Crucial

- **Once one no longer has faith in equity benchmarks providing target returns, …**

- **… Downside risk management becomes crucial.**

E. Downside Risk Protection is Crucial
(Continued)

- **"Investors are not indifferent whether an active manager simply captures the premium of the asset class …."**

- **" …. Or whether he or she tilts the return distribution of the portfolio to the right."**

  – **Ineichen, Alexander, "Asymmetric Returns and Sector Specialists," UBS Warburg Working Paper, 10/2/02.**

E. Downside Risk Protection is Crucial
(Continued)

- **Ineichen notes that long/short equity sector funds have an opportunity set correlated to their sector.**

- ***Even so, long-term superiority is due to balancing investment opportunities with <u>total</u> risk.***

	AMEX Biotechnology - Pharmaceuticals	HFRI Healthcare/ Biotechnology
Initial investment	100	100
Dec-97	113	101
Dec-98	122	108
Dec-99	274	159
Dec-00	442	240
Dec-01	420	246
Jul-02	252	194
Return 97-99	174%	59%
Return 00-02	-8%	22%
Under water	-43%	-21%
Loss recovery return*	75%	27%
Recovery at 8% pa	Nov-09	Sep-05

Source: Hedge Fund Research, Datastream
* Return required to recover losses.

	NYSE Financials	HFRI Financials
Initial investment	100	100
Dec-97	141	149
Dec-98	148	131
Dec-99	147	129
Dec-00	184	176
Dec-01	169	207
Jul-02	151	209
Return 97-99	47%	29%
Return 00-02	3%	63%
Under water	-18%	0%
Loss recovery return*	22%	0%
Recovery at 8% pa	Feb-05	Index at peak level

Source: Hedge Fund Research, Datastream
* Required return to recover losses

F. Consequences

- **A manager is expected to keep losses under control.**

- ***It is unacceptable for a manager to lose more than 50% of market value.***

F. Consequences
(Continued)

- **Fixed Income Arbitrage: Beacon Hill Plans to Close Hedge Funds**

  From Wall Street Journal Interactive

  The WSJI reports Beacon Hill Asset Management informed its investors that the losses incurred by its two hedge funds, the Bristol Fund and the Safe Harbor Fund, were much greater than originally reported; the losses, as of Sept. 30, were 54% not 25%. *Following these losses Beacon Hill has decided to close down its hedge funds and liquidate its remaining positions.*

  - Albourne Village Website, 10/21/02

G. Event Risk: Individual Managers

- **Since it is unacceptable for an absolute-return manager to have large losses, individual managers pay particular attention to event risks.**

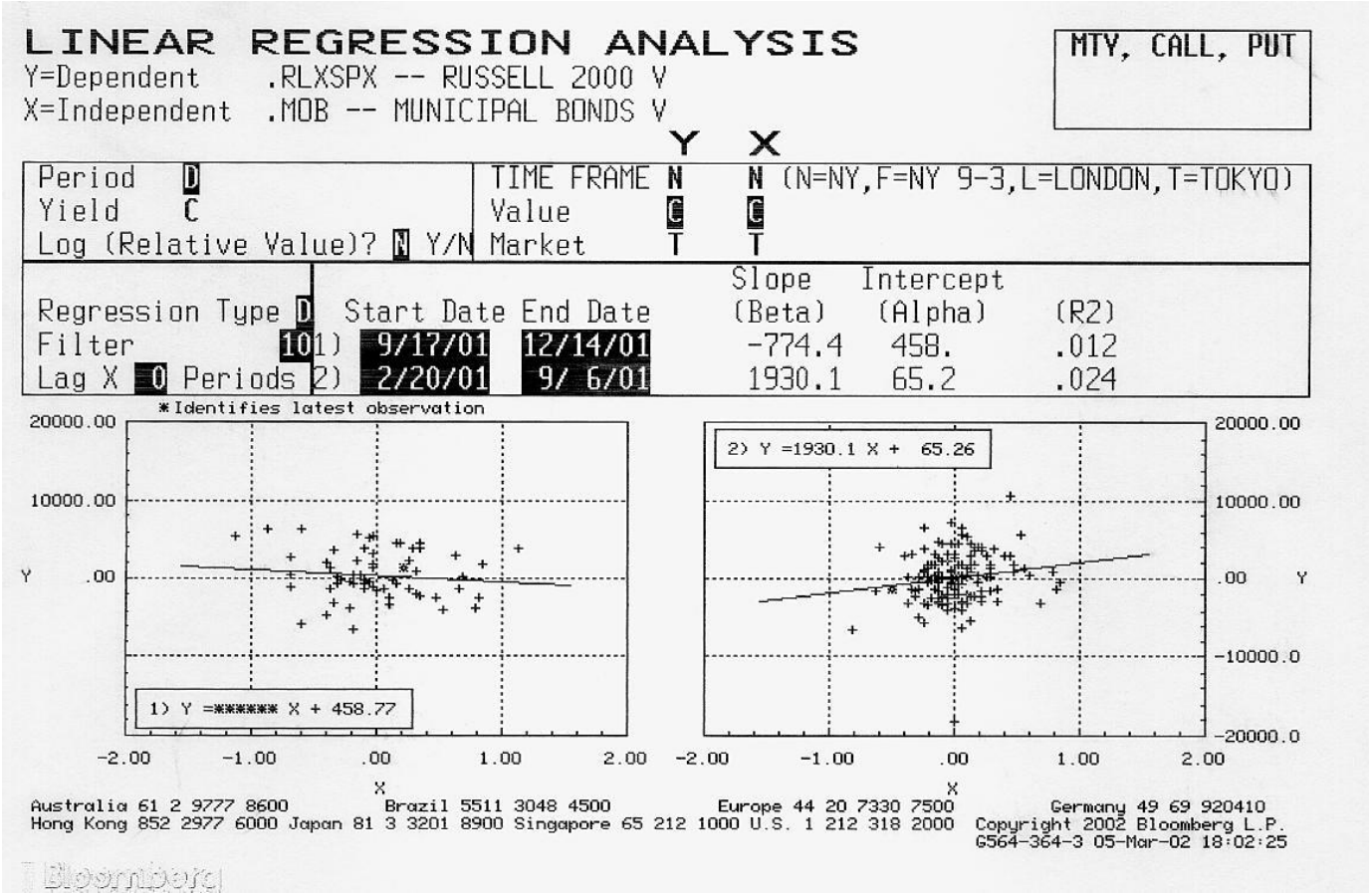
- **An example of an "event risk" analysis for a total-return portfolio follows …**

G. Event Risk: Individual Managers (Continued)

- **This example portfolio consists of a long Russell 2000 vs. a short S&P 500 futures strategy and a long Municipal Bond vs. a short U.S. Bond futures strategy.**

- **These strategies are normally unrelated as illustrated in the graphs on the next slide.**

G. Event Risk: Individual Managers (Continued)



G. Event Risk: Individual Managers (Continued)

- **But during a scenario test of the portfolio's sensitivity to event risk, we find that the combination of the two trades results in an exposure to a liquidity shock.**

G. Event Risk: Individual Managers (Continued)

Event	Maximum Loss
October 1987 stock market crash	-4.11%
Gulf War in 1990	-4.12%
Fall 1998 bond market debacle	*-6.42%*
Aftermath of 9/11 attacks	-3.95%

G. Event Risk: Individual Managers (Continued)

- **Worst-Case Event** — **Maximum Loss**

  Fall 1998 bond market debacle — **-6.42%**

- **Value-at-Risk based on recent volatilities and correlations**

  3.67%

G. Event Risk: Individual Managers (Continued)

- **The short legs of each spread are the more liquid of the pair.**
- **So both of these trades are at risk to a flight-to-quality event as happened during the Fall of 1998.**
- **One response to a concentrated risk to a liquidity shock has been to purchase OTM fixed-income calls.**
- **These hedges would cushion the portfolio in the event of another liquidity crisis.**

G. Event Risk: Fund-of-Fund Managers

- **Similarly fund-of-hedge-fund managers attempt to model their portfolio's return distribution …**

- **… When all the strategies are influenced by a dominant event.**

G. Event Risk: Fund-of-Fund Managers (Continued)

- **An investor frequently uses the normal distribution to represent returns of a diversified portfolio since one assumes it is OK to use the Central Limit Theorem.**

- **Under this theorem, as the number of randomly distributed independent variables becomes large, the distribution of the collection's mean approaches normality.**

- **This would be OK for a portfolio's return if its strategies would never be influenced by a dominant event.**

G. Event Risk: Fund-of-Fund Managers (Continued)

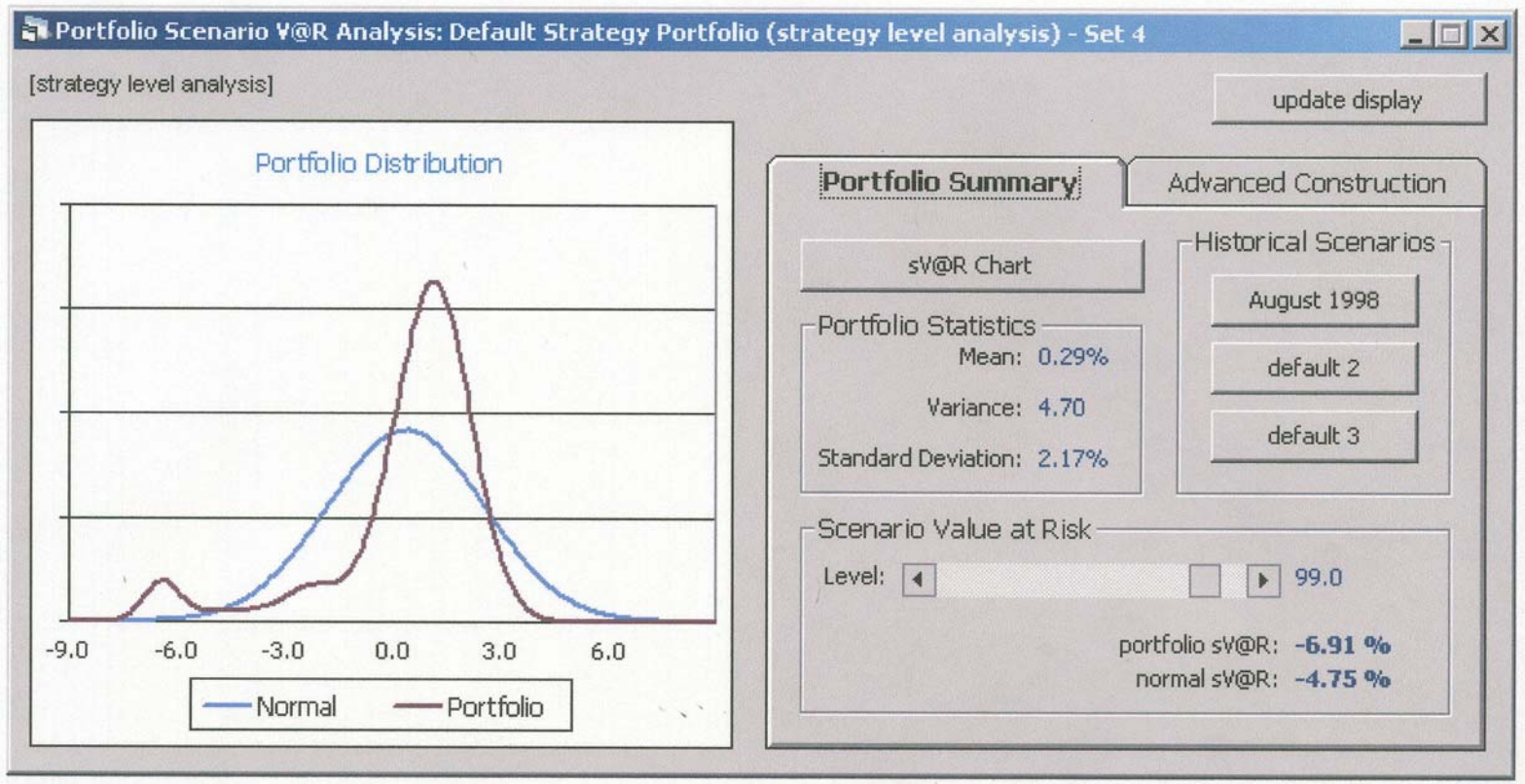
- **One idea is to represent an investment's distribution as a combination of two distributions: one for peaceful times and a second for eventful times.**

- **The distribution during eventful times would not just include higher volatility, but also the greater correlation among strategies that tends to occur during crises.**

- **A risk manager would explicitly determine the proportion of crisis returns in the combined distribution.**

G. Event Risk: Fund-of-Fund Managers (Continued)

SCENARIO-DRIVEN RISK VISUALIZATION



- Johnson, Damien, Nick Macleod, and Chris Thomas, "Modelling the Return Structure of a Fund of Hedge Funds, " AIMA Newsletter, April 2002.

G. Extreme Risk

- **Conditional Value-at-Risk (CVar) vs. Value-at-Risk (VaR)**

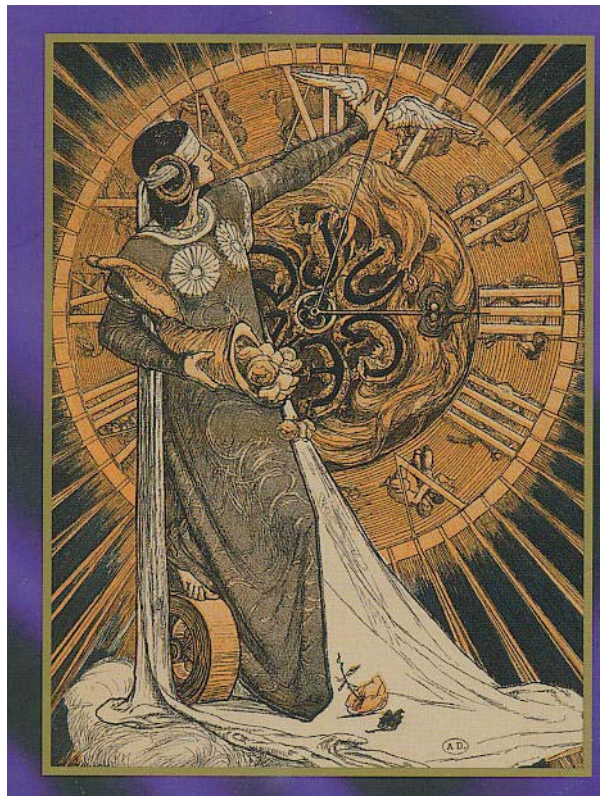
- **"[Whereas] VaR measures the maximum loss for a given confidence interval, … CVaR corresponds to the expected loss conditional on the loss being greater than or equal to the VaR."**

  - **Agarwal, Vikas and Narayan Naik, "Risks and Portfolio Decisions involving Hedge Funds," Forthcoming Review of Financial Studies (2003).**

G. Extreme Risk
(Continued)

- **When the goal is to keep extreme losses under control …**

- **... CVaR should be used as the risk constraint during portfolio construction.**



III. Hybrid View: A Blend of Asset Allocation and Absolute-Return Approaches

A. Main Source of Returns Still from Asset Allocation
B. Extra Returns through Niche Opportunities
C. These Niche Opportunities are Risk Premia Strategies
D. Investment Process for Risk Premia Strategies
E. Performance Metrics
F. Risk Management
G. Industry Organization

A. Main Source of Returns is Still from Asset Allocation

- **Broadly speaking,**
  - **Markets are indeed efficient;**
  - **The average investor must hold the market portfolio; and**
  - **Some investors can achieve extra returns by in effect selling insurance to other investors.**

B. Extra Returns through Niche Opportunities

- **Institutional investors who are not constrained by:**

  - **market segmentation issues, and**
  - **liquidity concerns …**

- **… Can take advantage of these niche opportunities.**

- **Still, their main source of returns derives from their asset allocation decision.**

C. These Niche Opportunities are Risk Premia Strategies

- **There are multiple sources of risk, besides the market risk factor, which produce high average returns.**
- **If an investor bears any of these risks, they will earn a return, which does not depend on superior information.**
- **There may be losses from bearing these risks, resulting in a short-option-like profile.**
- **These returns are called "*risk premia*."**

D. Investment Process for Risk Premia Strategies

- **An investment manager must decide:**
  - **How much to leverage the strategy; and**
  - **Where to give up any of its returns to hedge out the strategy's extreme risks.**

E. Portfolio Construction for Risk Premia Strategies

- **When one earns a risk premium, an investor is implicitly short options …**
- **… And is therefore exposed to asymmetric payoffs.**
- **During portfolio construction, one should use a risk metric that takes into consideration the potential asymmetry of an investment's distribution.**

E. Portfolio Construction for Risk Premia Strategies
(Continued)

- **In addition to CVaR, another measure is "modified VaR," which takes into consideration the skewness and kurtosis of a distribution.**

- **Skewness describes how asymmetric a distribution is.**

- **Kurtosis describes how fat the tails of the distribution are.**

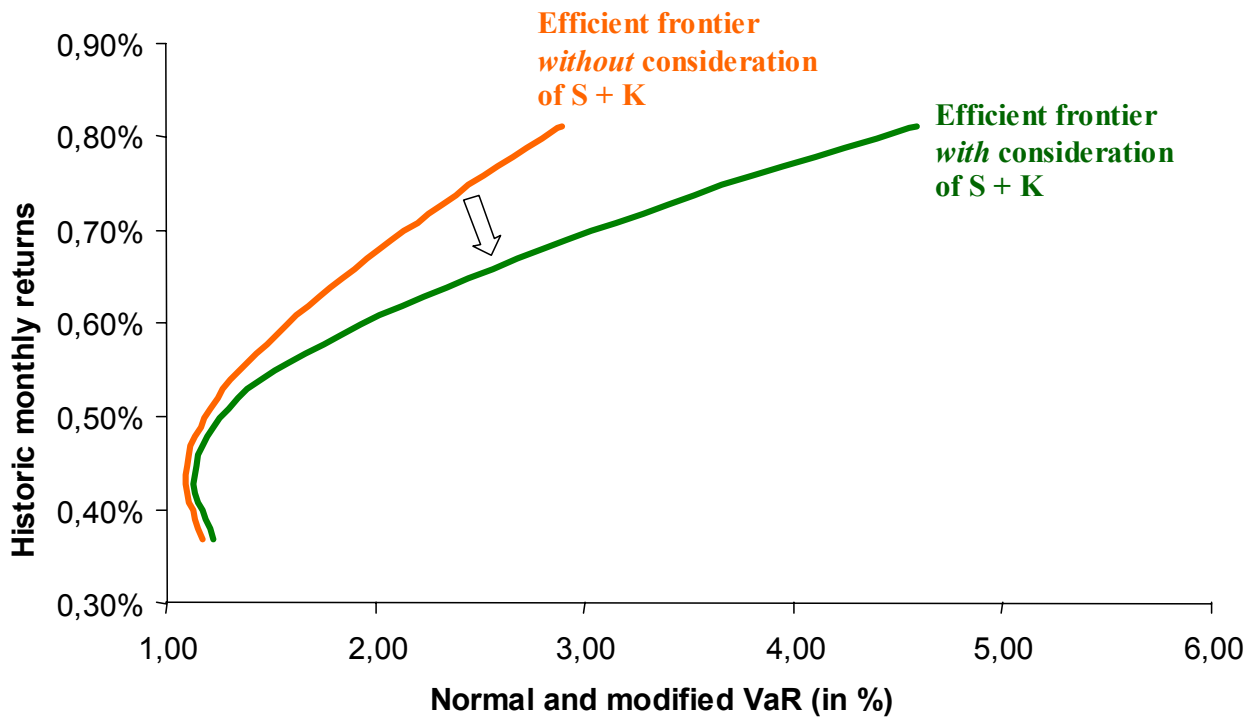
E. Portfolio Construction for Risk Premia Strategies
(Continued)

- **On the following slide, the figure illustrates how the efficient frontier is affected when using modified VaR rather than VaR as the risk constraint.**

- **The sample portfolio includes absolute-return strategies, some of which have asymmetric payoffs.**

E. Portfolio Construction for Risk Premia Strategies

(Continued)



- **Signer, Andreas and Laurent Favre, "The Difficulties of Measuring the Benefits of Hedge Funds," The Journal of Alternative Investments, Summer 2002.**

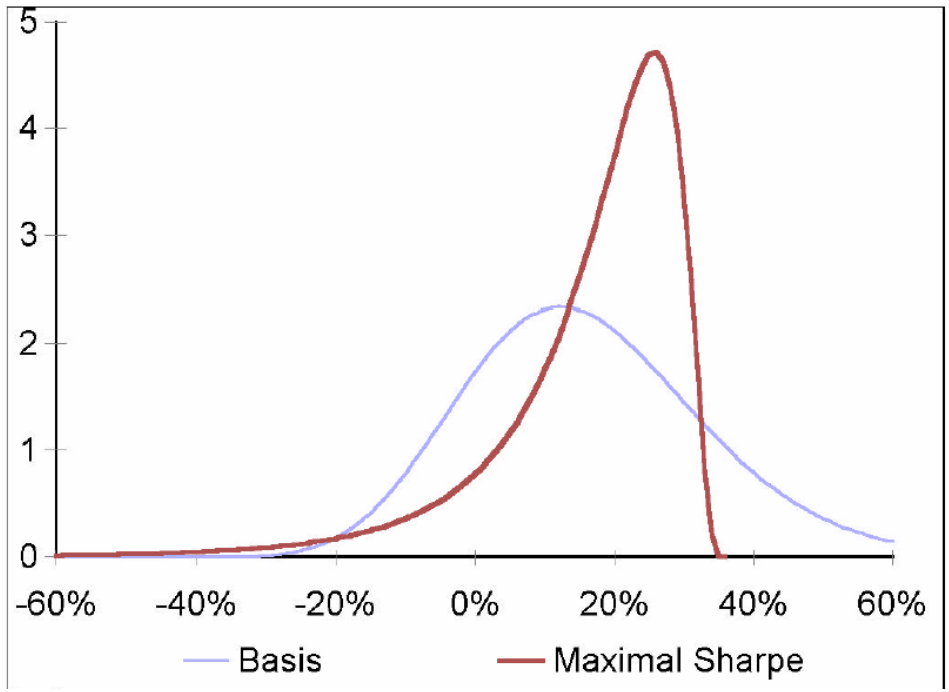
F. Performance Metrics

- **Due care must be used in relying on the Sharpe ratio as a performance metric for risk premia strategies.**

- **Four Yale University professors have derived an optimal strategy for maximizing the Sharpe ratio.**

F. Performance Metrics
(Continued)

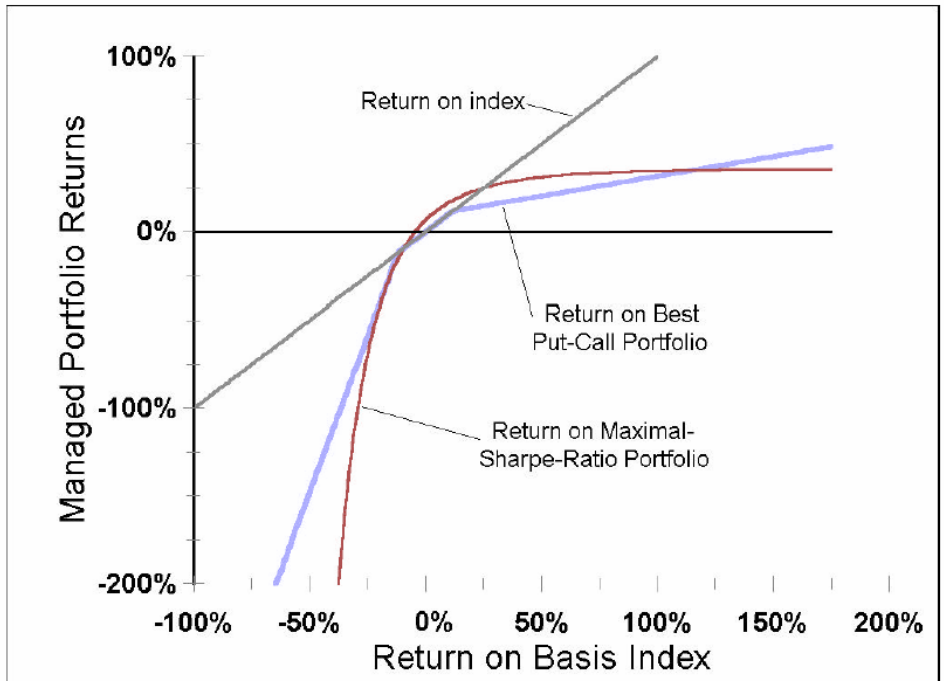
- **The optimal strategy has a truncated right tail and fat left tail.**



- **Goetzmann, William, Jonathan Ingersoll, Matthew Spiegel, and Ivo Welch, "Sharpening Sharpe Ratios," Yale School of Management, Working Paper, February 2002.**

F. Performance Metrics
(Continued)

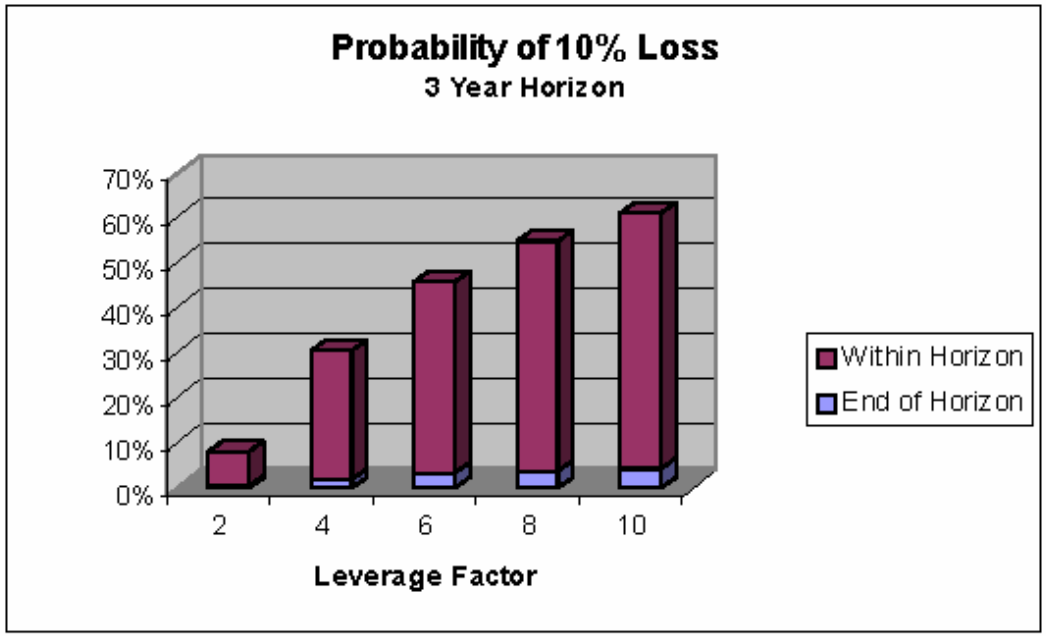
- **This strategy can be achieved by selling certain ratios of calls and puts against a core equity market holding.**



-Goetzmann, William, Jonathan Ingersoll, Matthew Spiegel, and Ivo Welch, "Sharpening Sharpe Ratios," Yale School of Management, Working Paper, February 2002.

G. Risk Management

- **Risk measures tend to solely focus on end-period losses.**
- **With the ability to leverage, one must also ensure that investors can tolerate the potential within-period losses.**



- Kritzman, Mark, "Hidden Risks of Hedge Funds, and Asset Allocation versus Security Selection," Presentation to QWAFAFEW, 2/12/02.

H. Industry Organization

WSJ.com THE WALL STREET JOURNAL. ONLINE

November 11, 2002

"Hedge Funds Are Expected To Face a Shakeout in 2003"

- **Hedge fund managers with genuine structural niches will survive.**
- **They will facilitate the ability of some investors to earn extra returns by in effect selling insurance to others.**
- **Those managers with trading strategies with no structural edge will disappear.**

DIFFERENT TYPES OF ABSOLUTE-RETURN PRODUCTS

- **Varying investor preferences result in different types of absolute-return products.**

DIFFERENT TYPES OF ABSOLUTE-RETURN PRODUCTS (Continued)

- **The optimal behavior of a loss-averse investor depends on whether an investor is in a situation of surplus.**

- **For those in surplus, the optimal strategies have long option profiles.**

- **For those who don't have a surplus, the optimal strategies are income-producing, short option-like payoffs.**

- Siegmann, Arjen, and Andre Lucas, "Explaining Hedge Fund Investment Styles By Loss Aversion: A Rational Alternative," Tinbergen Institute Discussion Paper, May 2002.

DIFFERENT TYPES OF ABSOLUTE-RETURN PRODUCTS (Continued)

I. Income-Producing Short Option-Like Payoffs

- **A. U.S. Institutional Investors**
- **B. Payoffs of Arbitrage Strategies**

II. Long Option Strategies

- **A. Wealthy Clients of European Private Banks**
- **B. Payoffs of Commodity Trading Advisors and Global Macro**

I. Income-Producing Short Option-Like Payoffs

A. U.S. Institutional Investors

- **"Institutional investors often use hedge funds as part of absolute return strategies in pursuing capital preservation while seeking high single to low double digit returns."**

  - Kao, Duen-Li, "Risk Analysis of Hedge Funds versus Long-Only Portfolios," General Motors Asset Management Working Paper, 10/01.

I. Income-Producing Short Option-Like Payoffs

B. Payoffs of Arbitrage Strategies

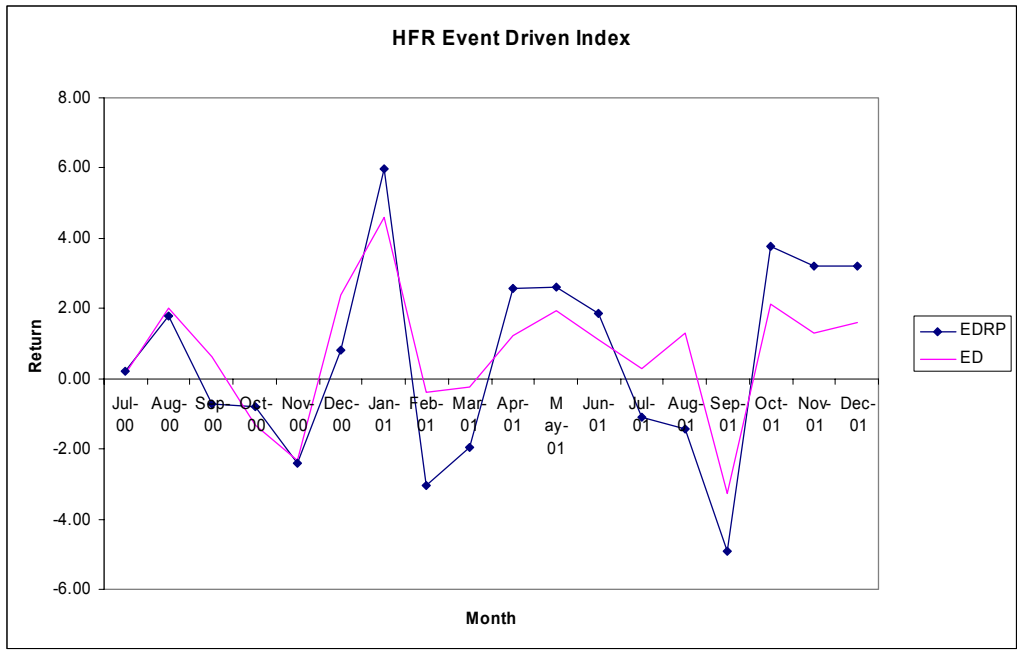
- **The payoffs of a number of arbitrage strategies resemble that from writing a put option on the market index.**

- **The figure on the next page illustrates the performance of the Event Driven hedge fund index versus a replicating portfolio of equity style factors and an out-of-the-money put on the S&P 500 ...**

- Agarwal, Vikas and Narayan Naik, "Risks and Portfolio Decisions involving Hedge Funds," Forthcoming Review of Financial Studies (2003).

I. Income-Producing Short Option-Like Payoffs

B. Payoffs of Arbitrage Strategies (Continued)



- Agarwal, Vikas and Narayan Naik, "Risks and Portfolio Decisions involving Hedge Funds," Forthcoming Review of Financial Studies (2003).

II. Long Option Strategies

A. Wealthy Clients of European Private Banks

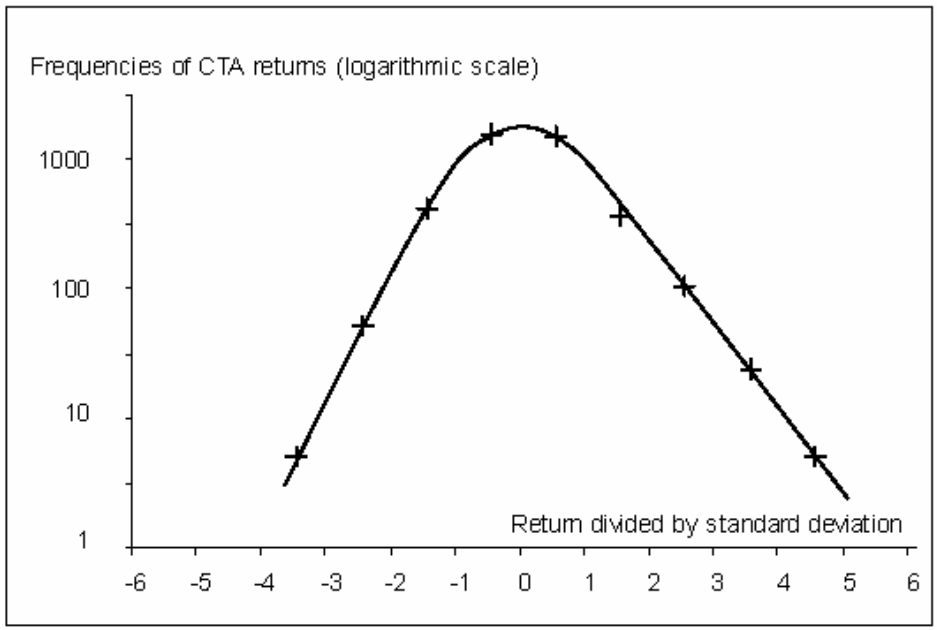
- **Anecdotally, the very wealthy clients of European fund-of-funds prefer strategies with a lot of optionality, including CTA's and Global Macro.**

- **They will frequently gravitate to managers who are in the midst of large draw-downs …**

- **… since with such a large dispersion of results, there is an increased chance of a large upside.**

II. Long Option Strategies

B. Payoffs of CTA's



- Schmidhuber, Christof and Pierre-Yves Moix, "Fat Tail Risk: The Case of Hedge Funds (Part II)", AIMA Newsletter, December 2001.

II. Long Option Strategies

B. Payoffs of CTA's

(Continued)

Top 20 CTA Performers Past Five Years

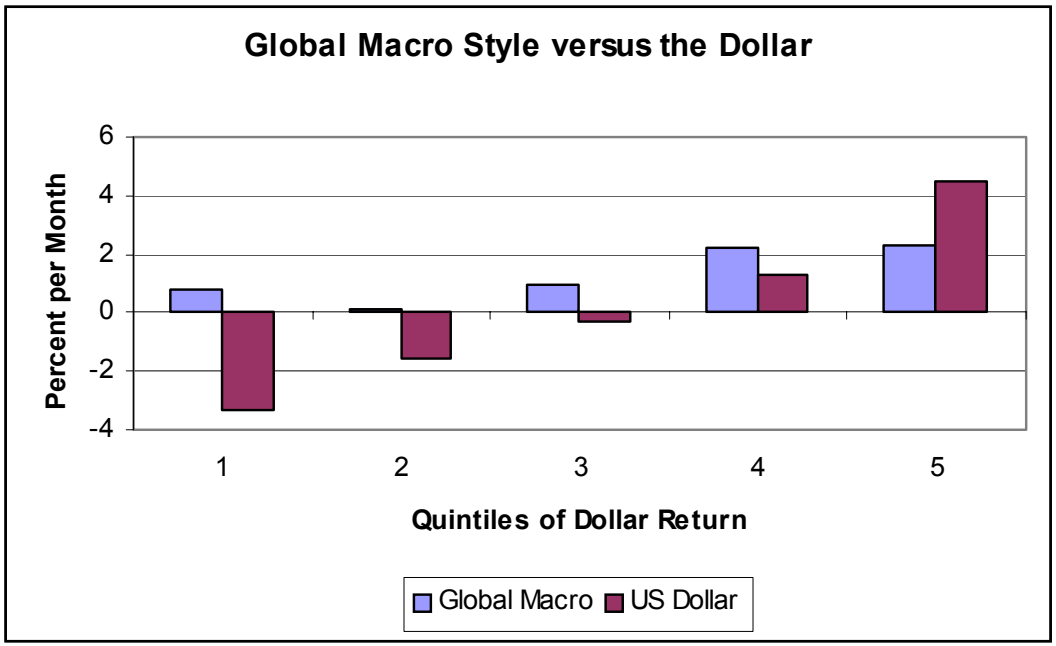
For the period 1/1/96 to 12/31/00. Includes only CTAs managing at least $10 million as of 12/31/00

TRADING ADVISORS	5-YR COMP. ANNUAL RETURN	SHARPE RATIO	LARGEST DRAW-DOWN	% WINNING MONTHS	BEST 12-MO. PERIOD	WORST 12-MO. PERIOD	FUNDS UNDER MGMT
1. SoundView Capital Mgmt. (MAP)	57.88%	1.68	17.94%	63.33%	+252%	-13%	$10M
2. Tucson Asset Mgmt. (Domestic 2X)	48.58%	1.42	41.18%	68.33%	+176%	-38%	$31M
3. Hathersage (Accelerated Appreciation)	40.07%	1.15	26.43%	65.00%	+132%	-16%	$71M
4. Gollyhott Trading (Discret.)	35.62%	1.32	7.85%	63.33%	+241%	+1%	$102M
5. Eckhardt Trading Co. (Higher Leverage)	34.48%	0.92	28.42%	56.67%	+185%	-13%	$20M
6. Johnson Management	32.96%	2.38	2.70%	70.00%	+68%	+12%	$15M
7. Beacon Management Corp. (Meka)	32.35%	0.79	46.48%	60.00%	+119%	-36%	$131M
8. Cipher Investment Management Co.	32.25%	1.32	12.90%	61.67%	+133%	-4%	$365M
9. Quicksilver Trading, Inc.	29.57%	1.17	17.14%	63.33%	+106%	-0%	$24M
10. Ansbacher Invest. Mgmt. (Opt. Writing)	27.34%	0.83	26.89%	65.00%	+113%	-17%	$30M
11. Dunn Capital Mgmt. (WMA)	27.23%	0.58	44.16%	58.33%	+106%	-44%	$1,066M
12. DigiLog LLC	26.83%	0.82	19.63%	56.67%	+104%	-8%	$103M
13. Clarke Capital Mgmt. (Worldwide)	26.08%	0.98	8.48%	61.67%	+73%	+1%	$87M
14. Eckhardt Trading Co. (Standard)	25.25%	0.88	17.05%	56.67%	+117%	-13%	$269M
15. Bell Fundamental Futures (Standard)	24.97%	0.87	21.37%	60.00%	+100%	+2%	$37M
16. Capital Fund Mgmt.	24.86%	1.40	8.01%	63.33%	+54%	-5%	$47M
17. Analytic Investment Mgmt. (3R Strat)	24.73%	1.73	6.69%	75.00%	+44%	+7%	$299M
18. Hathersage (Long Term Growth)	24.48%	1.37	7.94%	68.33%	+50%	-6%	$14M
19. Jacobson Fund Managers (Curr.)	23.99%	0.94	19.07%	65.00%	+84%	-9%	$188M
20. Macquarie Treasury (Diversified)	23.27%	1.36	8.96%	66.67%	+79%	-7%	$28M

II. Long Option Strategies

B. Payoffs of CTA's and Global Macro

Global Macro



- Fung, William and David Hsieh, "Empirical Characteristics of Dynamic Trading Strategies: The Case of Hedge Funds," The Review of Financial Studies, Summer 1997.

Source of Graphics

(not directly credited in presentation)

- **Slide 1, Statue of Ceres, ancient Roman goddess of the harvest, Chicago Board of Trade.**
- **Slide 10, "Asset Allocation By Risk Profile: Balanced," Asset-Analysis.com, http://www.asset-analysis.com/assetalloc/aamodel5.html**
- **Slide 12, "Harvard Management Company (2001)," Harvard Business School Case Study, 9-201-129, 10/23/2001, Exhibit 4.**
- **Slide 14, Clark, Truman, "The Dimensions of Stock Returns: 2002 Update," Dimensional Fund Advisors Inc., April 2002.**
- **Slide 16, Kuenzi, David, "Strategy Benchmarks From the Investment Manager's Perspective," Forthcoming Journal of Portfolio Management, Winter 2003, Exhibit 1.**

Source of Graphics (Continued)

- **Slide 18, "Manager Style," Style Analysis & Performance Analysis Software, Zephyr Associates Inc., http://www.styleadvisor.com/products/styleadvisor/manager_style.html.**

- **Slide 19, BARRA Risk Decomposition screenshot from BARRA Case Study: Fiduciary Trust International, http://www.barra.com/products/fiduciary.asp**

- **Slide 33, cover of Against the Gods: The Remarkable Story of Risk by Peter Bernstein, John Wiley & Sons, Inc., 1996.**

- **Slide 37, graphs of RLX-SPX vs. MOB futures spreads, The Bloomberg.**

- **Slide 47, cover of Fooled By Randomness: The Hidden Role of Chance in the Markets and Life by Nassim Nicholas Taleb, Texere LLC, 2001.**

Source of Graphics (Continued)

- **Slide 70, "Top 20 CTA Performers Past Five Years," *Barclay Managed Funds Report*, 1st Quarter 2001, p. 6.**

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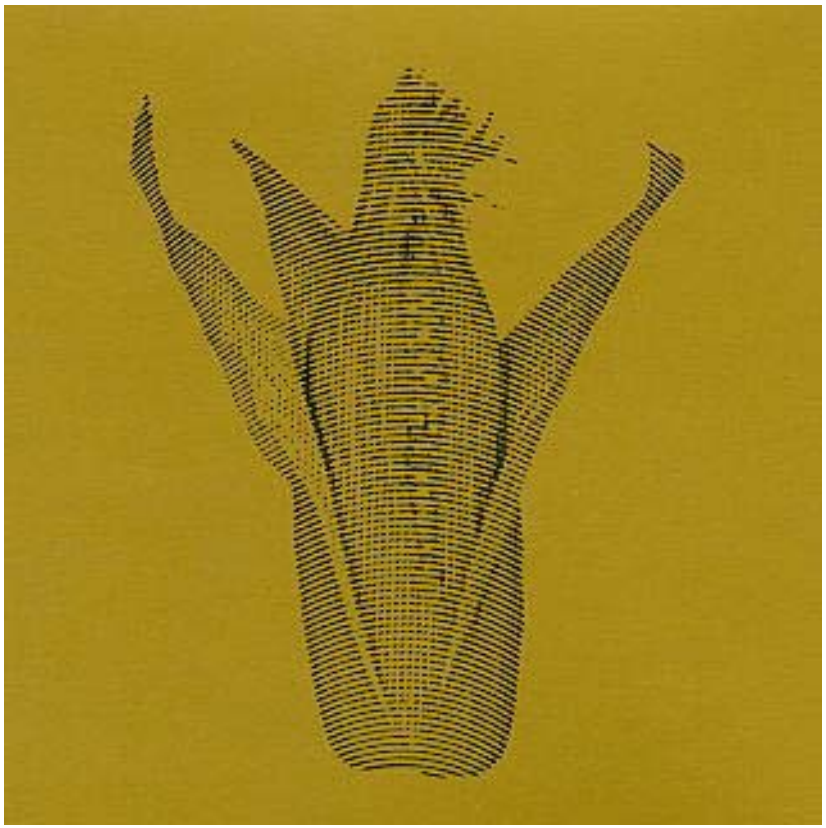

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