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MaxCap's Structural and Strategic Uses

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Our MaxCap Strategy is designed to deliver an active, value-added portfolio of mega capitalization stocks to clients. As a group, mega cap stocks (e.g., Exxon Mobil, General Electric, Microsoft, AT&T, Procter & Gamble, etc...) represent the most influential securities within cap-weighted US equity market indices and typically define most of an investor's targeted US equity return.

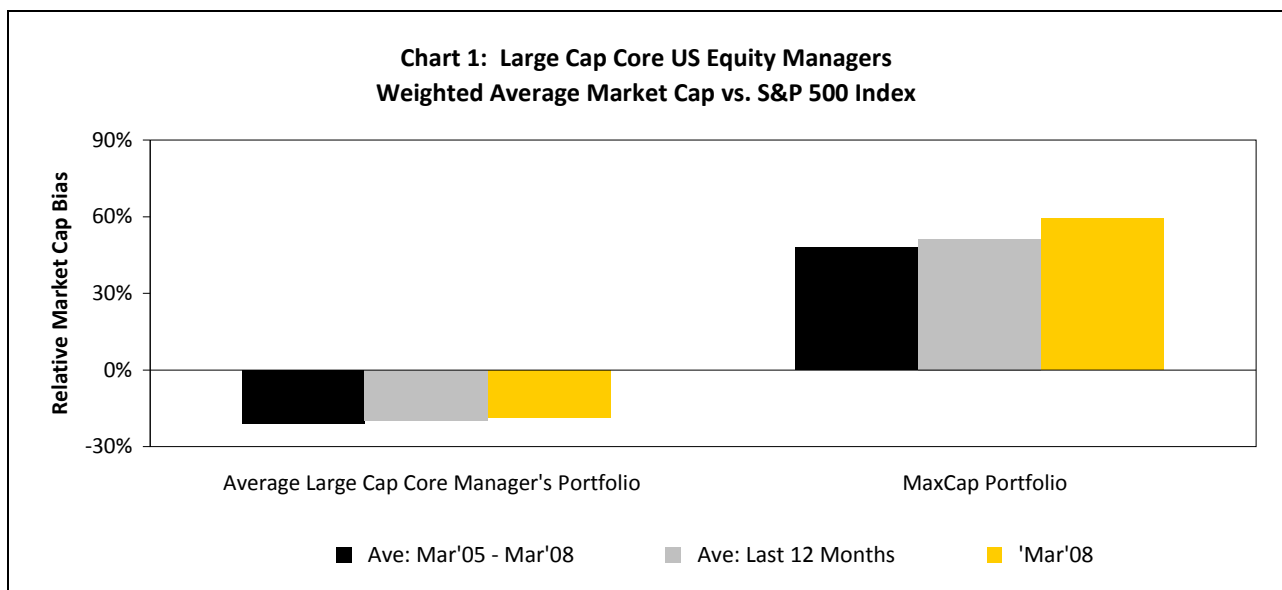
How a client chooses to weight mega cap stocks within their aggregate portfolio can have a significant impact on risk and return. The MaxCap Strategy can be used to address risk and return considerations within the client's aggregate portfolio by providing a vehicle for structural and strategic portfolio management.

Structural Portfolio Management

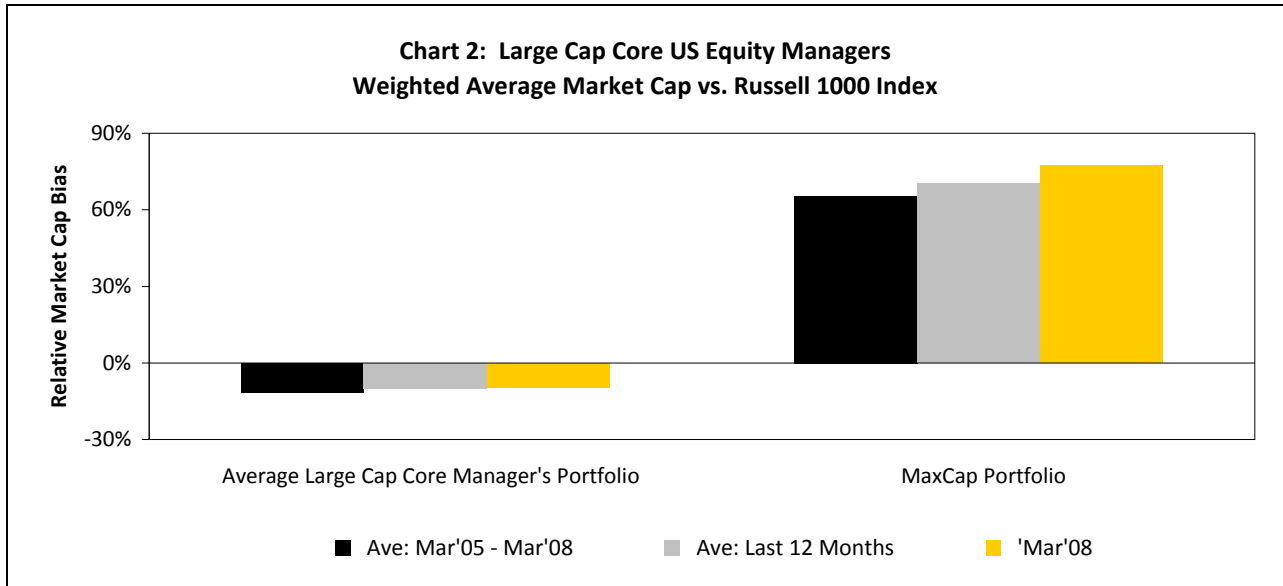
From a risk management perspective, the MaxCap Strategy can assist in addressing structural sources of misfit risk associated with market cap biases within a client's aggregate portfolio. Market cap related misfit risk occurs in many client portfolios due to a prevalent bias towards a consistent underrepresentation among mega cap stocks.

This source of risk exists when the aggregation of the client's individual managers do not match the market cap profile of the targeted US equity benchmark index. Such market cap risk arises from the limits of combining imperfectly complementary managers or an unintended skewing when making funding decisions across managers. This market cap risk can be further exacerbated by individual managers consistently maintaining a smaller cap bias relative to their own benchmarks, which is a common occurrence – especially within the US equity large cap core universe of managers.

In Charts 1 and 2 the weighted-average market cap for the average U.S. equity large cap core manager's portfolio is compared to the weighted-average market for the S&P 500 Index and Russell 1000 Index, respectively, for the last three years, the last twelve months, and as of March 2008. In each of the Charts, the weighted-average market cap for the MaxCap portfolio is also compared to each of the indices over the same time periods.



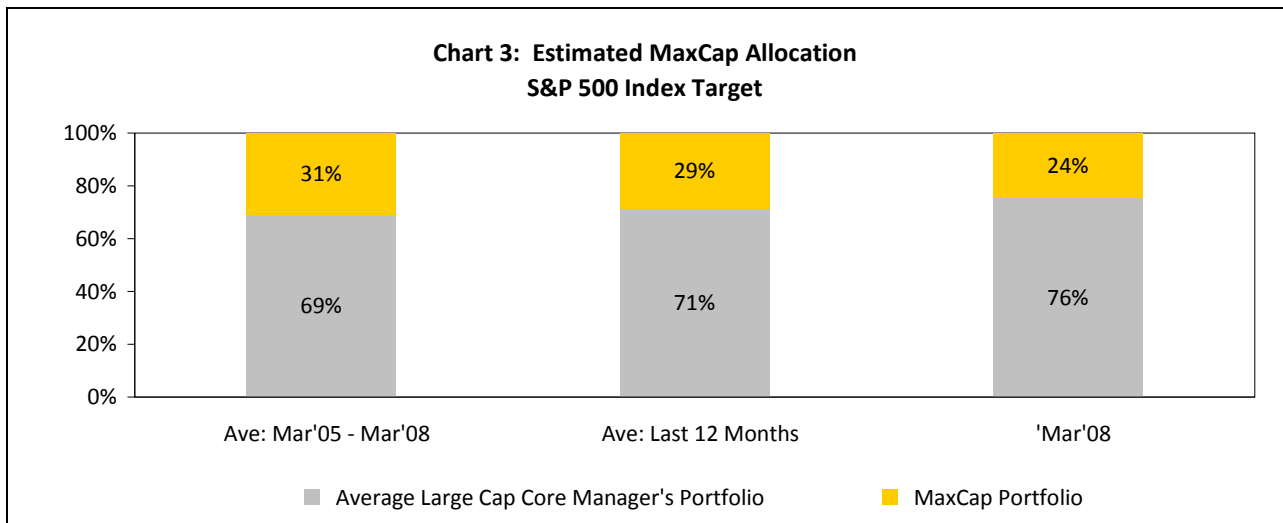
Data Source: eVestment Alliance; Standard & Poors.



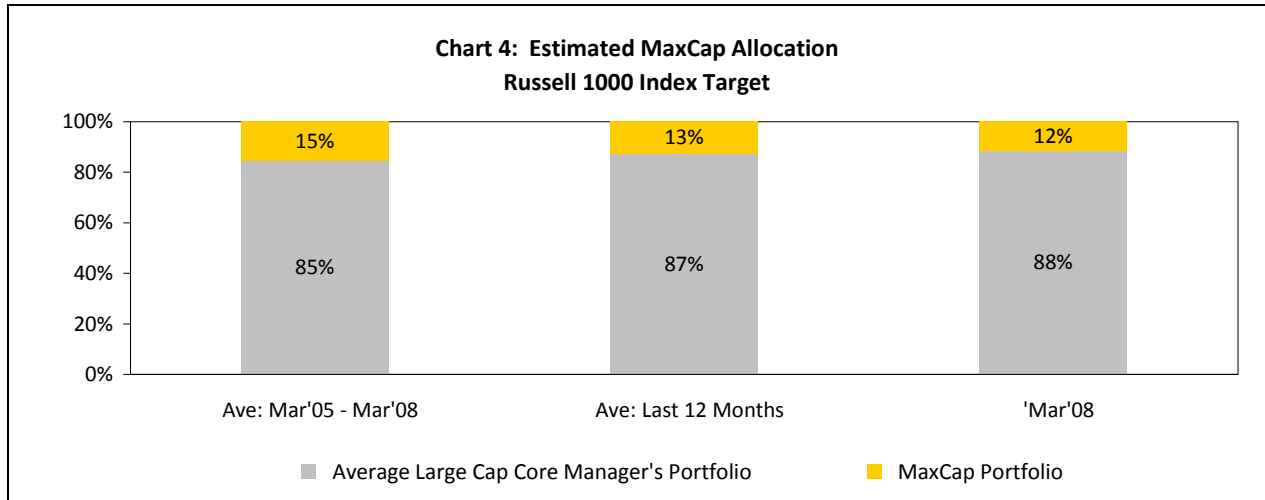
Data Source: eVestment Alliance; Russell Investments.

Relative to the S&P 500 Index (Chart 1), the market cap bias for average large cap core manager has been 21% smaller than the Index for the last three years while the MaxCap portfolio's bias has been 48% larger. Relative to the broader Russell 1000 Index, the average large cap core manager's bias was found to be 12% smaller than the Index with the MaxCap portfolio's bias being 65% larger. These observed directional biases for the average large cap core manager and MaxCap portfolio hold for longer periods of time as well. Therefore, a client can use the MaxCap portfolio as a vehicle for correcting unintended market cap biases within their aggregate portfolio.

To see how much a client would need to fund the MaxCap strategy to address their potential market cap misfit risk, Charts 3 and 4 display the MaxCap portfolio funding levels required to completely offset the smaller cap bias of the average large cap core manager relative to the S&P 500 Index and the Russell 1000 Index, respectively.



Data Source: eVestment Alliance.



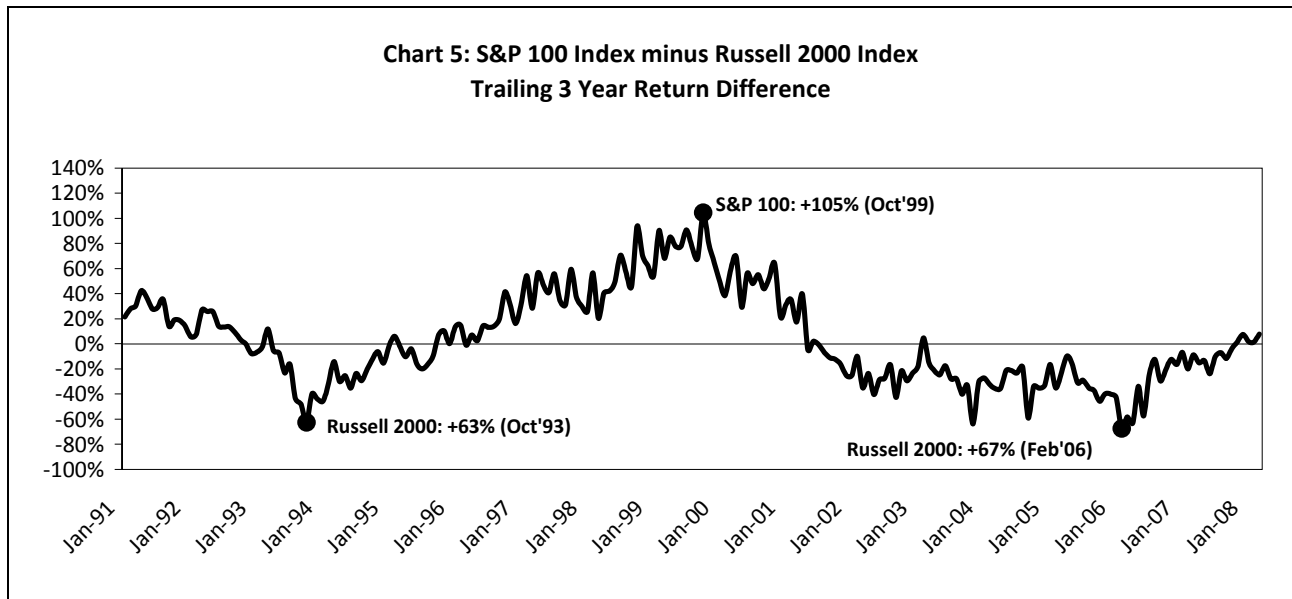
Data Source: eVestment Alliance.

Over the last three years, a client would have averaged MaxCap allocations of 31% and 15% when targeting the S&P 500 Index and Russell 1000 Index, respectively. The estimated funding levels were found to be slightly less over the last twelve months as well as the March 2008 point in time. A client's "appropriate" MaxCap allocation can vary over time and will also be a function of the actual roster of managers employed plus the nature of the active strategies pursued by each manager. Nonetheless, the consistently high market cap bias of the MaxCap strategy makes it a particularly efficient vehicle for addressing market cap misfit sources of risk in the structural management of a client's aggregate portfolio.

Strategic Portfolio Management

From a strategic management perspective, the MaxCap Strategy can assist clients in capturing rewards associated with their active decisions regarding the expected attractiveness of large cap versus small cap stocks. At a point in time a client may have a preference for large cap stocks and a desire to increase their exposure to this segment of the market vis-a-vis small cap stocks based upon compelling fundamentals and developing macro trends. The MaxCap Strategy's consistent mega cap focus – the largest of the large cap stocks – affords maximum exposure when a client's strategic bias is towards favoring large cap stocks.

Using the S&P 100 Index and the Russell 2000 Index to represent mega cap and small cap stocks, respectively, Chart 5 shows the well documented cycle and extremes of relative returns to market cap.



Data Source: Standard & Poors; Russell Investments.

MaxCap Strategy

Our MaxCap Strategy will reach the ten year mark in its live track record later this year. Since inception the Strategy has focused on the S&P 100 Index as a benchmark and has rigorously maintained a market cap profile consistent with this mega cap Index. We would welcome the opportunity to discuss how the MaxCap Strategy might assist you with the structural and strategic management of your aggregate U.S. equity exposure.

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