



GLOBAL MEGATRENDS

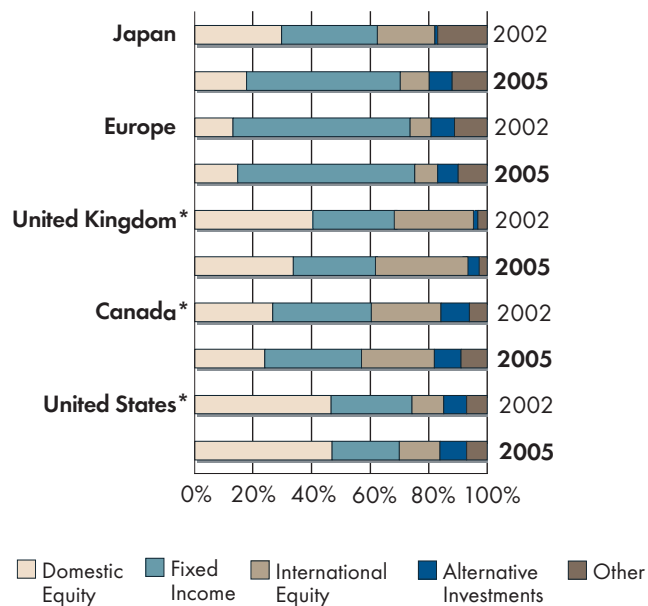
Today, and in the foreseeable future, a series of events – call them global megatrends – will have a profound impact on the world economy. Each issue of *Point of View* will share insight into these trends and how the institutional investment community is preparing to address them.

ASSET-MIX SHIFTING IN INSTITUTIONAL PORTFOLIOS

To maximize excess return and manage their liabilities, investors are shifting more of their allocations from equity holdings to alternative investments and strategies, as well as to fixed-income immunization strategies. Investors are also shaving costs through index funds and exchange-traded funds.

Global Institutional Asset Allocation

In 2005, the trend toward fixed-income immunization strategies was most evident in Japan and Europe. In Japan, fixed-income allocations represented more than half of institutional assets in 2005, up from a third in 2002.



*Projected to the Greenwich Associates universe
Note: Alternative investments include hedge funds, private equity and real estate. "Other" includes cash and short-term investments. Figures may not add up to 100% due to rounding. Investors in Japan and Europe (excluding the U.K.) include banks and insurance companies.

Source: Greenwich Associates

Allocations of Largest 200 U.S. Defined Benefit Plans

Since 2000, U.S. pension plans' allocations to domestic equity fell to 44.9% of assets in 2005, from 47.4% in 2000. At the same time, allocations to alternative asset classes are growing.

| Asset allocation | 2000 | 2005 |
|----------------------------|-------|-------|
| Domestic U.S. equity | 47.4% | 44.9% |
| Domestic U.S. fixed income | 26.5% | 24.4% |
| International equity | 14.1% | 17.7% |
| International fixed income | 1.5% | 1.2% |
| Cash | 1.8% | 1.3% |
| Private equity | 3.9% | 4.0% |
| Real estate equity | 3.1% | 3.9% |
| Mortgages | 0.8% | 0.9% |
| Other | 0.9% | 1.7% |

Source: Pensions & Investments

U.S. Investors Eye Lower-Cost ETFs

Total assets invested in exchange-traded funds have risen between 20% and 25% per year in the five years ended 2004.

Source: Northern Trust, "Mega-Trends in Institutional Investing"

Worldwide Activity in Hedge Funds Soars

- Worldwide quarterly net inflows for institutional and retail investors grew to nearly US\$40 billion in the first quarter of 2004.

– Tremont Capital Management, May 2004

- By 2005, one in three institutional investors in Europe invested in hedge funds or funds of hedge funds. That's up from just one in five in 2003.

– Northern Trust, "The Forced Institutionalisation of the Hedge Fund Industry"

- In the U.S., institutional investor allocation to hedge funds is projected to grow to \$300 billion within five years, from the current \$60 billion.

– Casey, Quirk & Acito

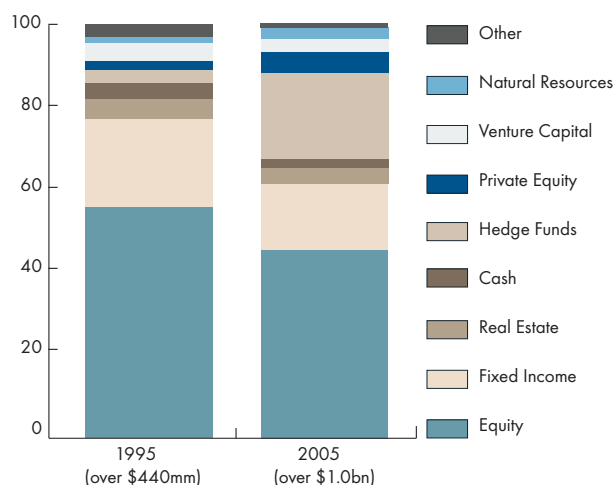
Private Equity Commitments Soar

Private equity fund commitments climbed to \$155.2 billion in 2005, from \$31.7 billion in 1995.

Source: The Private Equity Analyst

Endowments Favor Alternative Strategies

U.S. foundations and endowments are leading the trend in the shift toward sophisticated alternative asset classes, such as hedge funds, real estate investment trusts, commodities and derivatives.



Source: National Association of College and University Business Officers

European Pensions Shift to Fixed Income

In Europe, the Netherlands is leading the shift to fixed income strategies, with nearly two-thirds of pension fund holdings in bonds in 2005.

| Country | Equities | Bonds | Other |
|----------------|----------|-------|-------|
| France | 28% | 60% | 12% |
| Germany | 31% | 56% | 13% |
| Ireland | 60% | 33% | 7% |
| Netherlands | 33% | 63% | 4% |
| Spain | 40% | 38% | 22% |
| Switzerland | 33% | 52% | 15% |
| United Kingdom | 62% | 35% | 3% |

Source: Mercer Investment Consulting