



GLOBAL MEGATRENDS

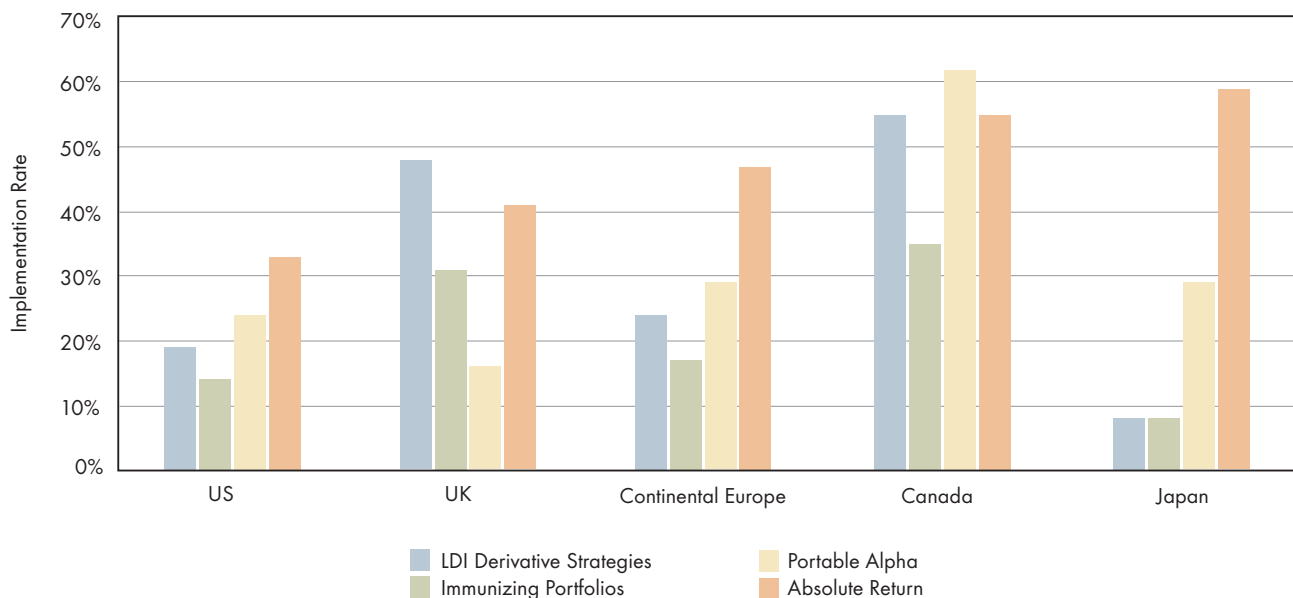
Today, and over the foreseeable future, a series of events — call them global megatrends — will have a profound impact on the world economy. Each issue of *Point of View* will share insight into these trends and how the institutional investment community is preparing to address them.

OUTCOME-ORIENTED INVESTING

Investors — both institutional and individual — are shifting gears, moving away from a sole emphasis on outperforming a market or style benchmark and toward purpose-driven strategies. The investment goals are varied, from ensuring a defined benefit plan (DB) sponsor can meet future benefit obligations to being a force for positive change on environmental, social and governance (ESG) issues. Among institutions, these missions have fueled the popularity of several investment strategies, such as liability driven investing (LDI), immunized portfolios, portable alpha and socially responsible investing (SRI). Individual participants in defined contribution (DC) plans are part of the trend as well, not only seeking SRI options but also showing a strong appetite for lifecycle or target-date funds.

The Rise of New Strategies Among DB Plans

DB plan sponsors face myriad challenges: meeting future benefit obligations, controlling the volatility of the plan's funded status and closing any funding gap. As a result, an array of investment approaches such as LDI, immunized portfolios, portable alpha and absolute return strategies are being used to varying degrees by plan sponsors throughout the world.



Source: Putnam Lovell Strategic Analysis, December 2007

Investors Screen On ESG Issues

Investors are seeking greater reporting on ESG issues. Now, almost four out of 10 companies have adopted reporting standards developed by the Global Reporting Initiative (GRI), a not-for-profit network of businesses, civil society and labor organizations, investors, accountants and others.

“GRI reporting — Aiming to uncover true performance,” a study by the Social Investment Research Analyst Network, looked at corporate responsibility/sustainability reporting from April 2005 through March 2007. Examining the DJ STOXX Global 1,800 index — a widely watched set of 600 American companies, 600 European companies, and 600 companies from the Asia/Pacific region — researchers found:

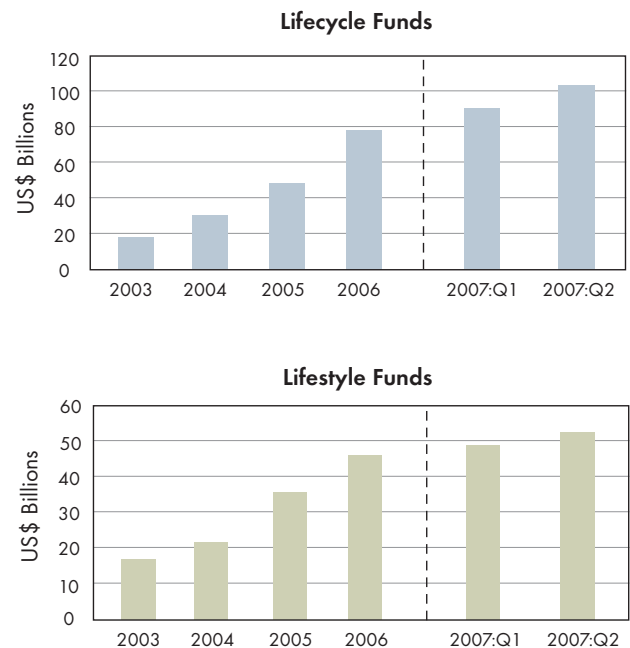
- 44% (785 companies) issued sustainability reports on ESG issues. Among the largest 10% of companies in the index, the figure jumped to 82%.
- The United Kingdom had the highest ESG reporting rate at 67% of companies studied. Continental Europe was second at 56%, followed by Japan (47%) and the United States (29%).
- The study found sustainability reports, in general, tended to be “overweight” in narrative information and “underweight” in benchmarkable, meaningful data.

The analysis identified some best practice leaders in the auto, food and banking sectors. Company rankings within sectors was hampered, however, by a lack of comparability on ESG reporting relative to financial reports.

Source: Social Investment Research Analyst Network

DC Assets Flowing into Lifecycle/Lifestyle Funds

Lifecycle and lifestyle funds have become popular vehicles in U.S. DC plans. Participants wanting to put their portfolios on automatic pilot find these funds particularly attractive. Lifecycle funds rebalance the asset mix as the target date nears. Lifestyle funds maintain pre-set risk levels.



Source: “The U.S. Retirement Market, Second Quarter 2007,” Investment Company Institute

SRI Options in DC Plans

Six out of 10 U.S. DC plan sponsors offer plan participants an SRI investment option or plan to do so in the near future. The SRI options that already exist are overwhelmingly equity-based.



Source: “Defined contribution plans and socially responsible investing in the United States,” a survey by the Social Investment Forum and Mercer Investment Consulting of 65 plan sponsors, 13 plan administrators and 38 financial consultants.