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Casey Quirk

2009 Consultant Search Forecast

Annual Survey

February 2009

- **North American investment consultants expect institutional investors to award more than $200 billion in mandates to asset managers during 2009,** a 15% increase over assignments awarded in 2008.
- **Traditional asset classes have regained favor, with long-only stocks and bonds, both domestic and foreign, becoming top search categories.** Hedge funds and funds of hedge funds, the number-one search focus for consultants in 2008, rank fourth.
- **Core and core-plus fixed income searches will surge.** Nearly three-quarters of US consultants will focus on such mandates in 2009, a dramatic fivefold increase over 2008.
- **Consultants anticipate more long-only equity searches,** with 86% of respondents predicting significant or moderate search activity for US equities, and 92% forecasting similar levels of interest in non-US stocks.
- **Searches for alternative fund managers will continue,** with at least 60% of consultants expecting significant or moderate search activity for hedge funds, private equity, and real estate.
- **More institutional investors will use funds of hedge funds,** with 84% of institutionally focused consultants preferring them to single-manager vehicles, compared to 60% last year. But the proportion of believers in direct hedge fund investing remains intact.
- **Investors continue globalizing equity portfolios.** Less than half of consultants now indicate a preference for EAFE over World benchmarks.
- **Demand for long-duration bonds will slow,** as corporate plan sponsors focus less on liability-driven investing and more on fixing funding shortfalls.
- **Consultants expect less interest in quantitative or long-extension strategies,** despite signs of reviving performance in late 2008.
- **Canadian consultants will focus on traditional searches.** Fewer consultants expect substantial demand for non-Canadian equity.

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Authorship

Casey Quirk contributors include:
Yariv Itah, Partner
Benjamin F. Phillips, Partner, Director of Research
Philip Kim, Associate Director
Rahul Patel, Associate

Casey Quirk Partners:
John F. Casey, Chairman
David J. Bauer
Jeb B. Doggett
Yariv Itah
Benjamin F. Phillips
Kevin P. Quirk

Casey Quirk

Casey, Quirk & Associates provides management consulting services exclusively to investment management firms. The firm specializes in developing business strategy, enhancing investment practices, and crafting distribution plans. The firm draws on more than 40 years of experience in delivering value to its clients and partners through a unique combination of deep industry knowledge and experience, solutions-oriented thought leadership, and a proven ability to influence change within organizations. Casey Quirk publishes a series of thought-leadership papers on topics of interest generated by ongoing industry research.

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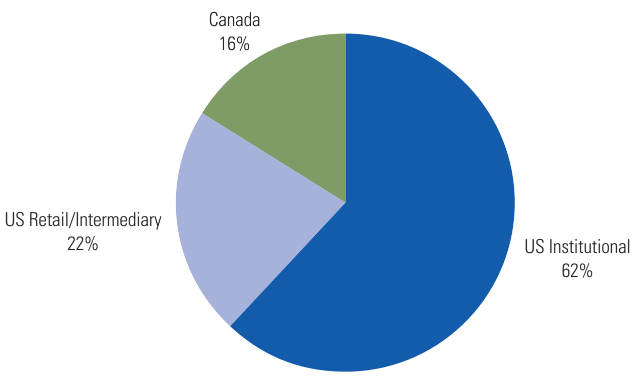
Introduction: Expected Search Activity in 2009

Casey Quirk and eVestment Alliance have worked together to produce their third annual survey of investment consultants in the United States and Canada. The poll, which took place in the fourth quarter of 2008—after the Lehman Brothers bankruptcy, but before the Madoff Investment Securities scandal—asks consultants to provide their opinions about the expectations of institutional investors and other professional buyers in North America, profiling potential demand for various investment strategies during 2009. This year, 64 consultants"—including 17 of the top 20 US consultants— participated in the survey, representing an estimated $10.7 trillion of assets under advisement.

Exhibit 1

Respondent Universe *by Geography and Type*

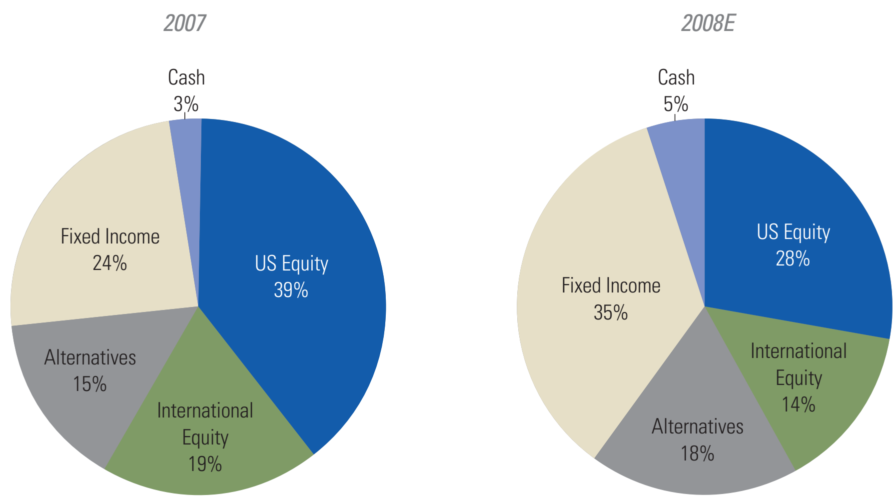


Sources: Casey Quirk, eVestment Alliance, Cerulli Associates, Pensions & Investments, Standard & Poor's, Empirical Research Partners, J.P. Morgan, Merrill Lynch

Respondents answered this year's poll in the midst of tumultuous markets. The S&P 500 fell more than 38% during the year, its worst performance since 1931, and Treasury bond yields sank below zero. Global equity markets collapsed even further. Fixed income prices, conversely, rose as investors sought safe havens. Consequently, US asset allocation appears to have shifted dramatically during 2008. Inflows to international equities continued, mitigating exposure reduction in the asset class. And while alternative investments also lost value, they outperformed most of their long-only counterparts, raising the aggregate allocation.

Exhibit 2

US Institutional Investor Asset Allocation



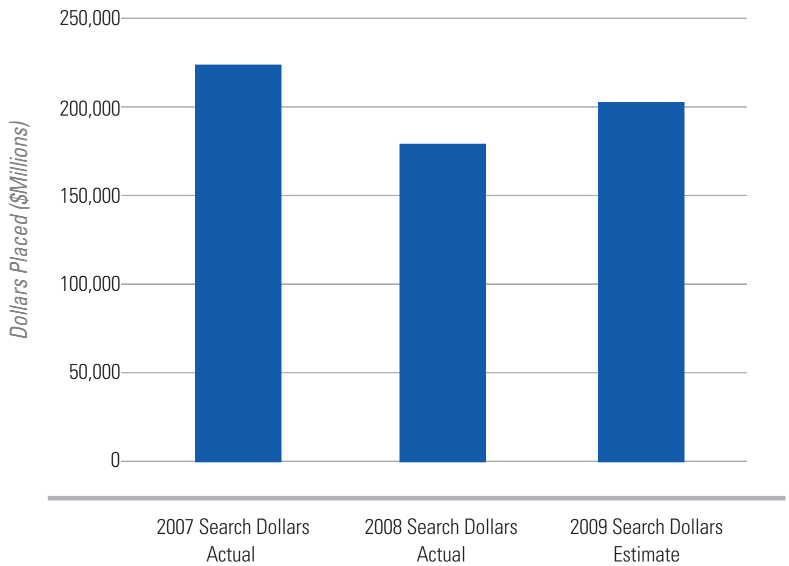
Sources: Casey Quirk, eVestment Alliance

Against such uncertainty, actual search activity slowed during 2008, with few investors willing to make significant decisions in such a volatile environment. During 2008, search activity, as measured by the dollar size of mandates placed, fell 20% from levels posted the prior year.

Surveyed investment consultants, however, believe search activity will re-ignite in 2009, with North American institutional investors expected to award asset managers around $200 billion in mandates. Consultants are reporting that they expect an increased number of asset allocation studies in 2009, given that market turmoil has likely caused significant dislocation in portfolios, triggering significant re-evalution of objectives and strategies. Several investment consultants report that US pension plans finished 2008 with a 25% shortfall in funding for projected benefit obligations, after starting the year nearly fully funded. Canadian retirement systems are in similar straits, finishing the year more than 30% underfunded, according to Watson Wyatt Worldwide.

Exhibit 3

Historical and Expected Search Activity

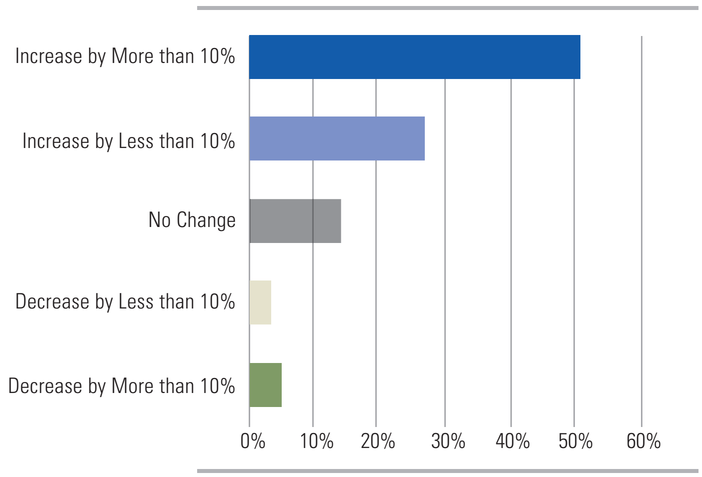


Sources: Casey Quirk, eVestment Alliance

Nevertheless, the expected increase in search activity does not differ dramatically from predictions consultants made last year. Roughly half of this year's survey respondents believe search activity will increase more than 10% over 2008 levels, about the same proportion that forecasted such an increase last year. Less than 10% of polled consultants anticipate a decrease in search activity—again, about the same proportion that did so during 2008.

Exhibit 4

Expected Change in Search Activity, *2009 vs. 2008*



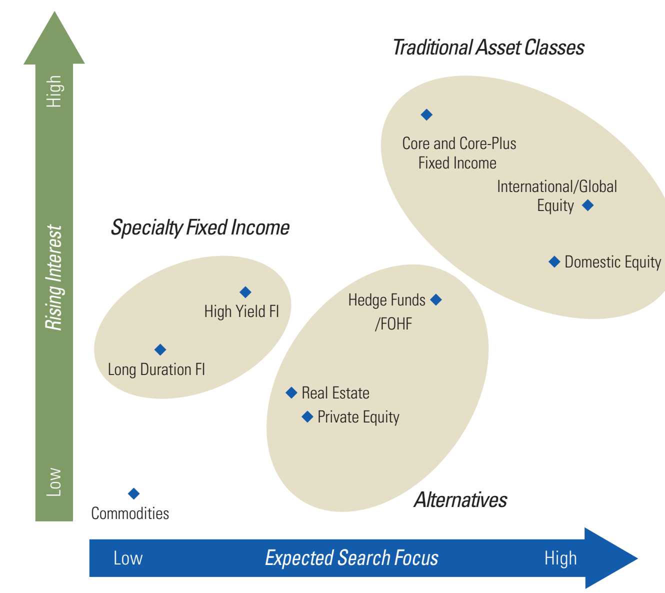
Sources: Casey Quirk, eVestment Alliance

2009 Product Opportunity Map

As in previous years, our product opportunity map for 2009 compares the demand consultants expect in the coming year for key asset classes with the change in expected demand from the previous year.

Exhibit 5

2009 Product Opportunity Map



Note: US consultant responses only.
Sources: Casey Quirk, eVestment Alliance

Consultants believe demand patterns among institutional investors and other professional buyers have shifted notably, and those changes fall into three broad categories:

1. **Traditional asset classes:** Consultants expect their clients to focus on these asset classes in 2009. Respondents believe interest in core and core-plus search activity will surge, a marked difference from 2008, when most consultants labeled standard fixed income as a low-priority asset class. Survey respondents also expect more searches involving mandates in international and global equities—a growing secular demand among institutional investors—as well as domestic stocks.

2. **Alternatives:** Interest in such products surged in 2008, but consultants expect it to recede in 2009. Volatile markets have cooled, but not frozen, demand for alternative investments, as institutional investors re-assess their policy decisions about hedge funds, private equity and real estate. Pensions, in particular, are starting to re-examine the role hedge funds may play in meeting looming unfunded liabilities, as well as the way such investments are used—whether they are designed to generate equity-like or bond-like returns, for example.

3. **Specialty or "satellite" fixed income:** Consultants believe the deleveraging crisis and spiking yields on corporate and sovereign debt have created a wide range of opportunities within credit markets, encouraging institutional investors to take advantage of depressed debt prices. While these bonds still represent smaller portions of allocations, consultants believe institutional investors and professional buyers will show more interest in increasing or improving their exposure to such instruments.

Fixed Income Resurgent

Consultants indicate that core and core-plus fixed income search activity will rise dramatically in 2009. Recently, broad bond portfolios have been a backwater of search activity, as investors hunted alpha among equities and alternative assets. But respondents to our most recent poll believe core and core-plus portfolios will represent the third most active set of mandates in 2009—well above interest levels recorded for 2007 and 2008.

Exhibit 6

Historical Ranking of Asset Classes *by Expected Search Activity*

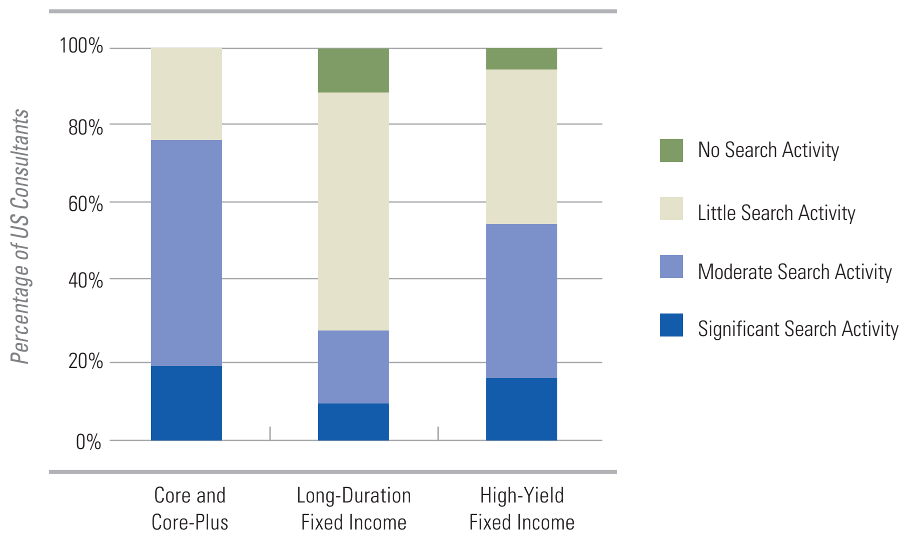
	2007	2008	2009
1	Domestic Equity	Hedge Funds/Funds of Hedge Funds	International/Global Equity
2	International/Global Equity	International/Global Equity	Domestic Equity
3	Hedge Funds/Funds of Hedge Funds	Domestic Equity	Core/Core-Plus Fixed Income
4	Real Estate	Real Estate	Hedge Funds/Funds of Hedge Funds
5	Core/Core-Plus Fixed Income	Private Equity	Real Estate
6	Private Equity	Core/Core-Plus Fixed Income	High-Yield Fixed Income
7	Commodities	LDI/Long Duration FI	Private Equity
8	LDI/Long Duration FI	Commodities	LDI/Long Duration FI

Note: US consultant responses only.
Sources: Casey Quirk, eVestment Alliance

Nearly 80% of consultants surveyed expect to see significant or moderate mandates for core and core-plus fixed portfolios, with all consultants expecting at least some search activity. In 2008, only 14% of consultants expected to focus on broad bond assignments, while 22% of respondents to this year's poll believe they will do so. Four-fifths of firms focused on the corporate pension plan sector are forecasting strong or moderate search activity in core and core-plus; only three out of five consultants concentrating on public plans have similar expectations.

Exhibit 7

Expected Search Activity in Fixed Income, *2009*

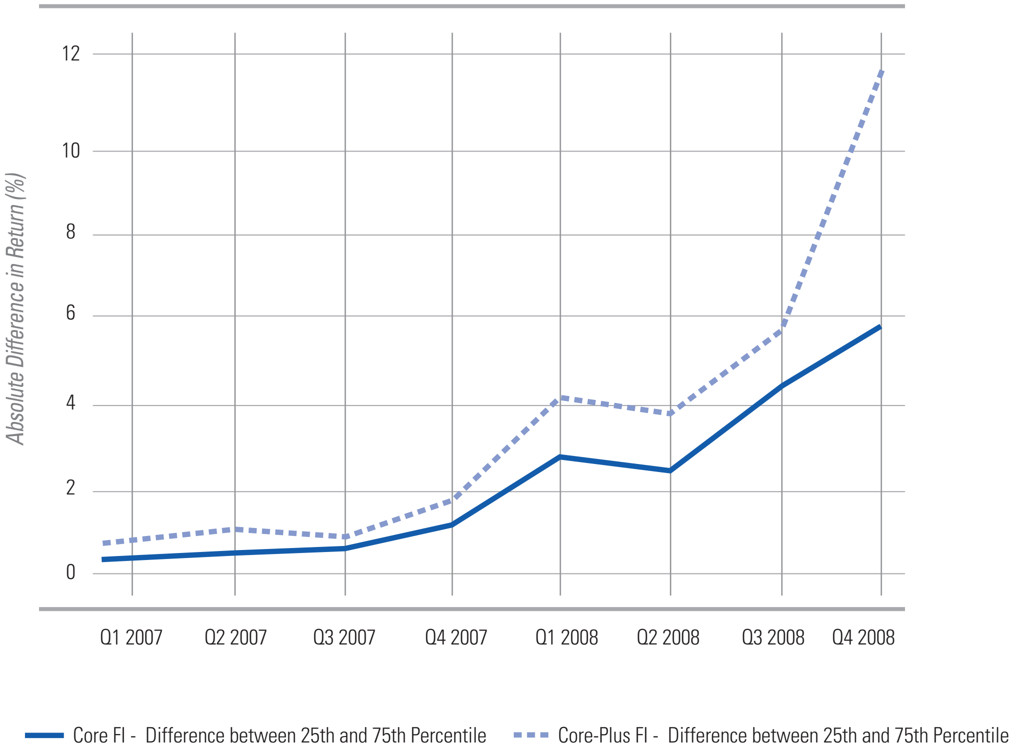


Sources: Casey Quirk, eVestment Alliance

The diverging returns among fixed income managers partly drive the expected increase in search activity for core and core-plus mandates. In the past, performance metrics of active core and core-plus managers fell within a relatively tight range centered on the benchmark. In 2007, the majority of core and core-plus fixed income managers offered returns that fell within a 150-basis-point range solidly above the Barclays Capital Aggregate. Deleveraging and the unprecedented dislocations in credit markets during 2008 widened the band of posted returns to more than 1,500 basis points, and most core-plus managers trailed the BarCap index, with the benchmark inflated by surging prices on Treasuries to which nervous investors fled.

Exhibit 8

Range of Performance for Core and Core-Plus Fixed Income Managers

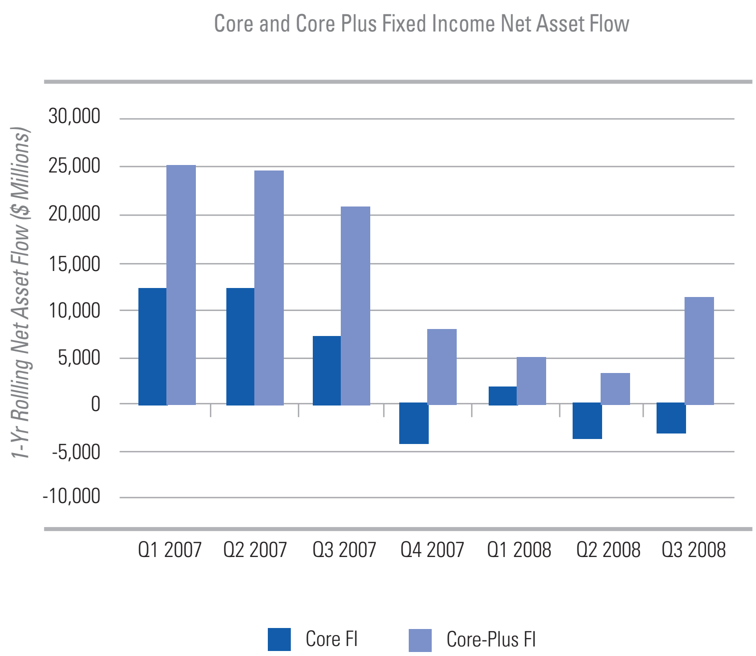


Sources: Casey Quirk, eVestment Alliance

Institutional investors had been shifting their portfolio allocations to core-plus mandates at the expense of their core portfolios, injecting $55 billion of asset inflows into core-plus assignments during the three years ended September 2008. The significant underperformance of the core-plus managers, however, led institutional investors to start reversing the flow of assets in 2008. Investors are re-evaluating the role of their fixed income allocations, particularly focusing on the risks they are willing to take in order to gain incremental yield.

Exhibit 9

Historical Asset Flows to Institutional Core and Core-Plus Fixed Income Mandates



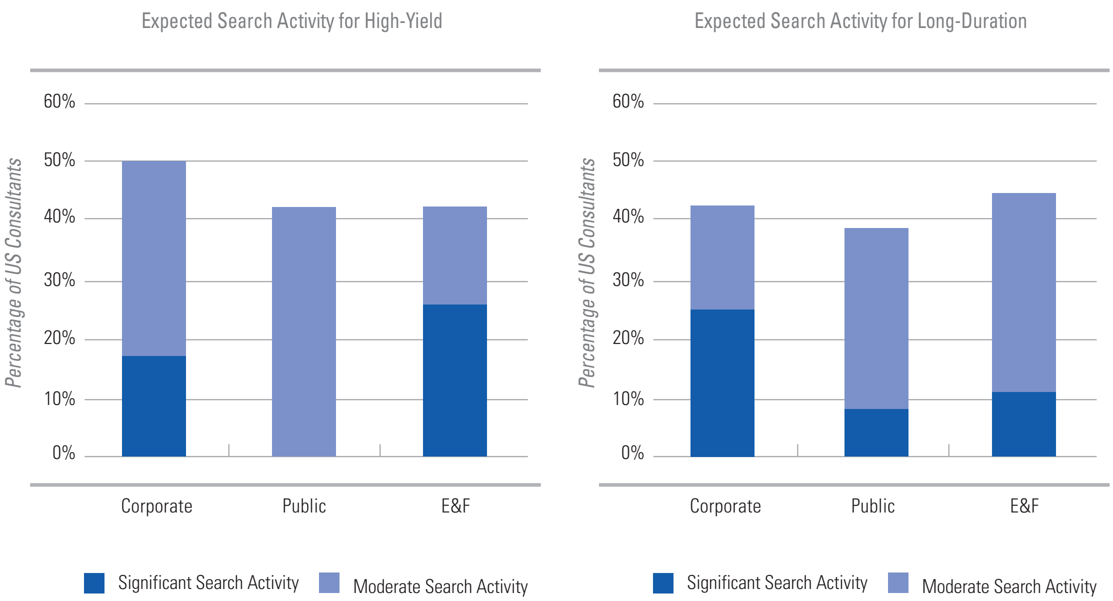
Sources: Casey Quirk, eVestment Alliance

Consultants expect institutional investors to consider replacing underperforming core-plus managers. They also increasingly expect clients to look beyond the traditional oligopoly of large core and core-plus fixed income managers and consider a wider number of firms, given the view that investment opportunities still exist in the fixed income markets, particularly for firms with strong credit analysis skills. A number of consultants report that they expect more investors to adopt a core-satellite approach for fixed income portfolios, wrapping a large, potentially passive, core with specialized mandates in specific disciplines, including credit, duration, inflation, mortgages, distressed securities, and international fixed income.

Our 2009 survey added new questions regarding expectations for high-yield bond searches, with more than 40% of consultants anticipating significant or moderate interest in such portfolios this year. Interest in high-yield bonds appeared to flag through most of 2008; by September, institutional investors had halved their 12-month net flows into such mandates. But respondents believe that current conditions in credit markets will raise institutional investors' collective interest in high-yield bond portfolios during 2009, with consultants focused on endowments and foundations appearing most aggressive.

Exhibit 10

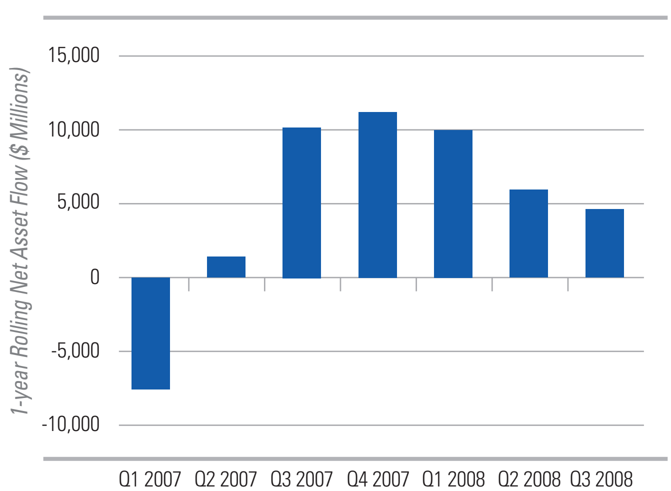
Expected Search Activity in High-Yield Fixed Income, *2009*



Sources: Casey Quirk, eVestment Alliance

Exhibit 11

Historical Asset Flows to Institutional High-Yield Fixed Income Mandates

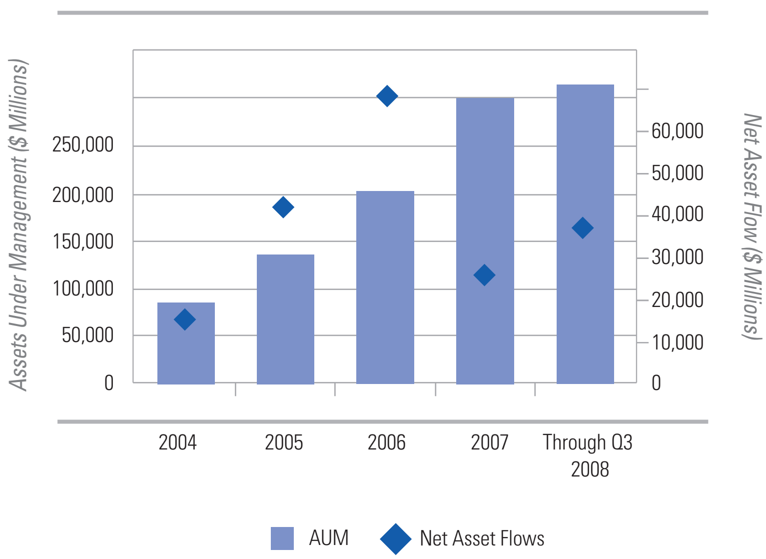


Sources: Casey Quirk, eVestment Alliance

For long-duration bonds, however, survey respondents say interest will flag from levels reported in 2008. Last year, 42% of survey respondents expected significant search activity for long-duration assignments, and institutional investors poured billions of dollars into such bonds. Interest in liability-driven investing (LDI) from defined benefit plans drove much of that activity.

Exhibit 12

Historical AUM and Asset Flows for Long-Duration Bond Mandates

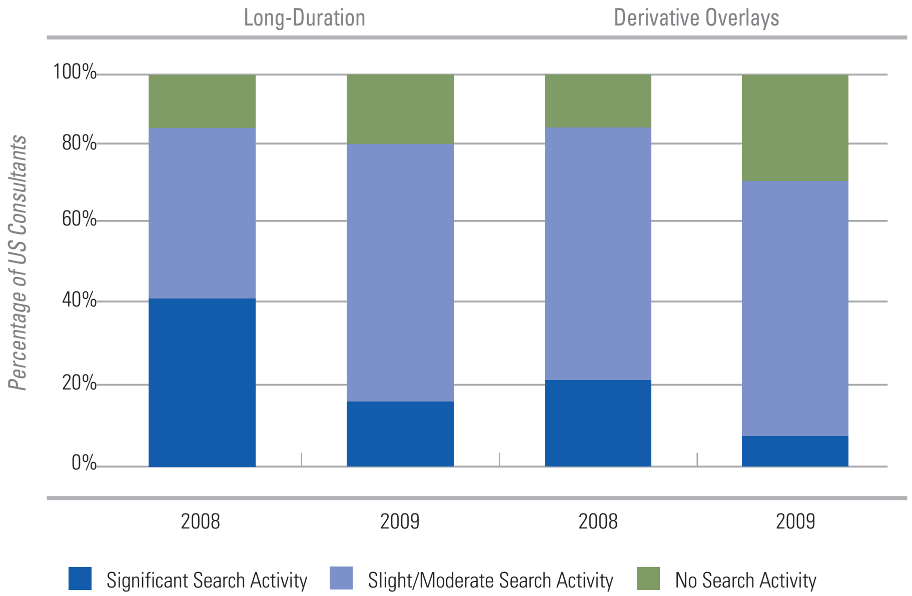


Sources: Casey Quirk, eVestment Alliance

However, asset-liability ratios plummeted in 2008 and central banks slashed interest rates, frustrating a number of LDI strategies. Understandably, the proportion of consultants expecting strong interest in LDI-related search activity—particularly involving derivative overlays, currently difficult to find anywhere along a Wall Street devastated by deleveraging—has softened. The proportion of consultants anticipating even moderate LDI-related search activity has receded as well.

Exhibit 13

Expected LDI-Related Search Activity



Note: Includes only consultants focused on corporate pension plans.
Sources: Casey Quirk, eVestment Alliance

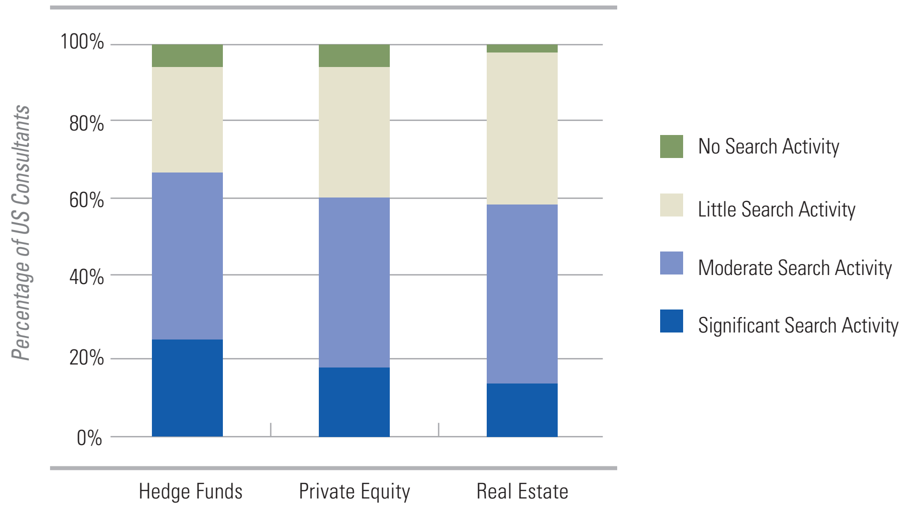
Nevertheless, a number of consultants point out that long-term trends favoring LDI remain in place. Some further argue that widening corporate yield actually can help meet LDI objectives, despite the greater proportion of unfunded liabilities. Institutional investors who implemented LDI strategies in 2007 and prior years report better funding ratios than those which did not. Consultants will continue to explain the benefits and appropriateness of reducing interest rate sensitivity in client portfolios, and they expect an increased number of asset-liability studies. But most survey respondents anticipate resistance, as plan sponsors and investment boards grapple with unfunded liabilities that LDI strategies cannot ameliorate. And the likelihood of interest rates remaining low for the foreseeable future will continue to impede LDI implementation.

Alternatives Demand Recedes But Remains

Roughly one-fourth of survey respondents expect hedge funds, including funds of hedge funds, to see significant search activity in 2009; another third expect moderate search activity. This marks a dramatic difference from the beginning of 2008, when 69% of consultants expected significant or moderate search activity for hedge funds. Expected search activity for private equity and real estate, the other primary asset classes, also fell from 2008 levels. Only 18% of consultants expected significant demand for private equity in 2009, compared to 31% for 2008; for real estate, the similar metric fell from 33% to 12%.

Exhibit 14

Expected Search Activity in Alternative Asset Classes, *2009*



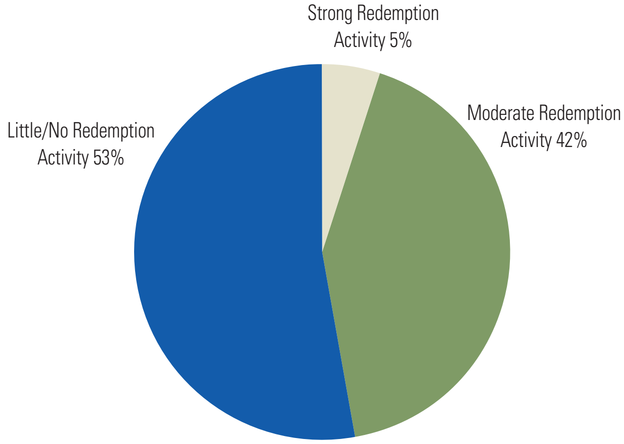
Search: Casey Quirk, eVestment Alliance

Consultants appear to believe institutional investors have mixed opinions about hedge funds and other alternative investments. On one hand, many such vehicles provided slimmer losses than long-only equity vehicles in 2008, somewhat justifying their value proposition. Hedge Fund Research Fund-Weighted Composite Index fell nearly 19% during the year, compared to the MSCI World's US dollar-denominated collapse of 42%. On the other hand, most alternative investments still lost money, puncturing their promise to deliver absolute returns in volatile markets. Consequently, institutional investors and professional buyers will re-evaluate the role that alternatives, particularly hedge funds, play within the overall portfolio. Consultants expect alternatives exposure will remain stable, as investors recognize they have benefits from the diversification such instruments provide.

Many clients, however, also realize they are in an environment that may place a significant premium on liquidity, and will be nervous about less liquid vehicles. But most consultants do not expect a wholesale redemption from hedge funds, especially given that most US institutional investors were fortunate enough to avoid exposure to spectacular meltdowns such as Madoff. Respondents specializing in alternative investments, however, point out that a number of clients are overhauling manager rosters in their hedge fund portfolios. Furthermore, consultants expect institutional investors to reassess how they categorize hedge fund strategies, thinking more in terms of equity and fixed income rather than simply liquidity or asset allocation.

Exhibit 15

Expected Institutional Hedge Fund Redemption Activity During 2009

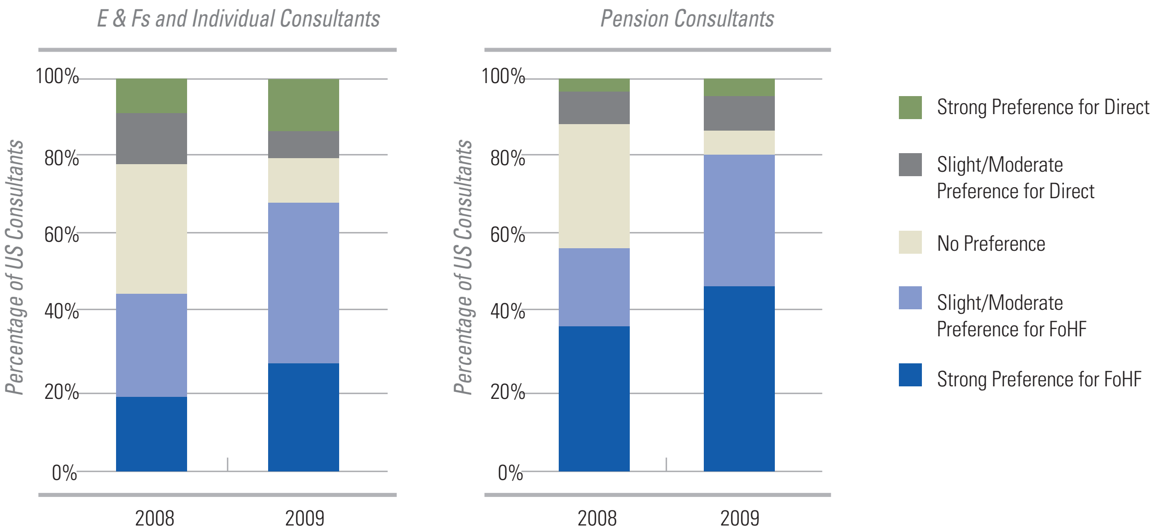


Note: Only includes US consultants focused on institutional clients.
Sources: Casey Quirk, eVestment Alliance

Survey respondents anticipate appetite for FOHFs to rise among institutional investors between last year. The true believers in direct investment remain unswayed, however, as consultants believe the proportion of institutional investors strongly or moderately interested in direct hedge fund investments should remain relatively constant between last year.

Exhibit 16

Expected Preference in Vehicles for Hedge Fund Investing



Sources: Casey Quirk, eVestment Alliance

Nevertheless, some consultants focused on non-profit plans—endowments and foundations—believe their clients will increase use of direct hedge fund investing: the proportion of consultants in this space expecting an increased focus on single-manager hedge funds rose from 9% to 13%. For the most part, however, consultants believe the wider majority of institutional investors are orienting themselves toward FOHFs as the vehicle of choice for primary exposure to alternative investments. FOHFs continue to make sense for the large number of institutional investors who lack the resources to manage their portfolios directly, or do not have enough assets to create a well-diversified hedge fund exposure without the use of assembled portfolios. The survey results likely also reflect the fact that many generalist consultants find that advising institutional investors on direct portfolios is labor-intensive, requiring a wide range of specialist skills that smaller consulting firms usually do not have.

Consultants indicate that clients preferring direct hedge fund investments will continue to demand long/short equity, distressed and multi-strategy portfolios, tastes similar to those reported in 2008. Nevertheless, volatile equity markets have contributed to long/short equity's tumble within league tables of hedge fund strategies in demand. Consultants expect interest in long/short may fade in favor of distressed strategies—most of which have significant cyclical appeal in the current market—and multi-strategy products, which tout a portion of the diversification FOHFs offer without an additional layer of fees, thus appealing to a subset of institutional investors. Survey respondents believe depressed M&A activity will soften demand for event-driven funds, an area of expected focus last year.

Exhibit 17

Direct Hedge Fund Strategies Ranked by Expected Search Activity

Rank	2008	2009
1	Long/Short Equity	Multi-Strategy
2	Multi-Strategy	Distressed Securities
3	Distressed Securities	Long/Short Equity
4	Event-Driven	Emerging Markets
5	Emerging Markets	Global Macro

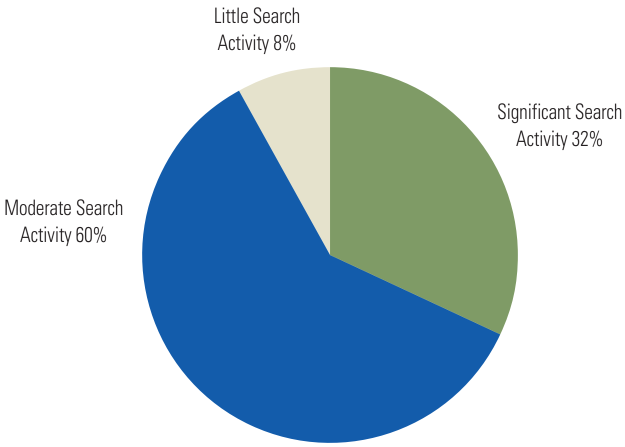
Search: Casey Quirk, eVestment Alliance

International, Global Equity Still Hot

Consultants believe mandates for international and global equities will comprise the highest proportion of manager searches launched in 2009. Nine out of ten survey respondents expect significant or moderate search activity for international and global equity.

Exhibit 18

Expected Search Activity for Foreign Equity, *2009*

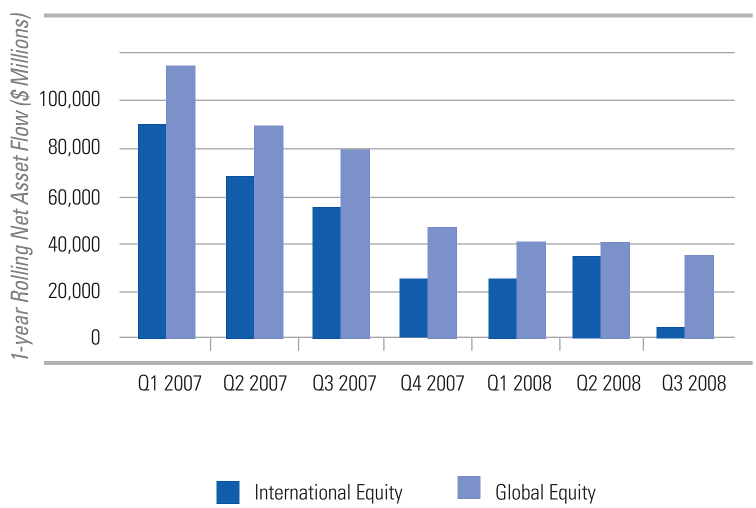


Note: Only includes US consultants.
Sources: Casey Quirk, eVestment Alliance

This emphasizes the secular demand for foreign and globalized investments among institutional investors not only in North America, but worldwide. Consultants ranked global and international stocks as the second-most desired asset classes in both 2007 and 2008. Institutional investment in such portfolios continued during 2008, abating—but not disappearing—as equity markets tumbled worldwide.

Exhibit 19

Historical Asset Flows to Foreign Equity Mandates, Net Asset Flow



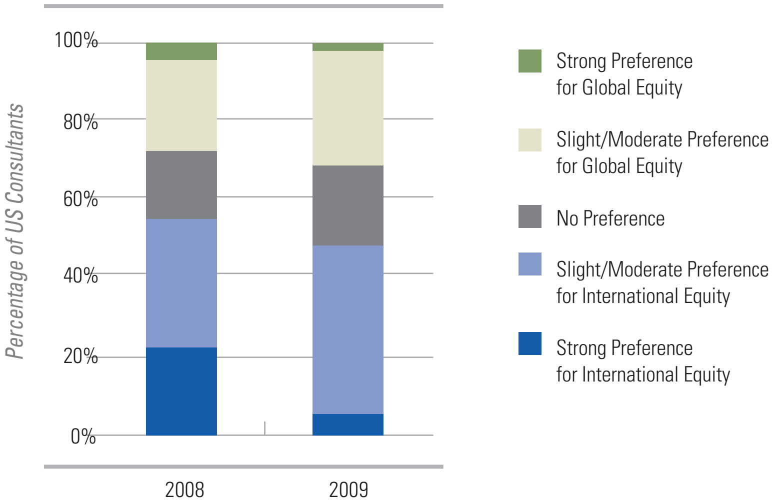
Sources: Casey Quirk, eVestment Alliance

Nevertheless, the proportion of consultants predicting significant increases in search activity for global and international equity managers dropped from more than half in 2008 to roughly one-third this year, indicating many firms may be approaching their policy allocations to foreign investments. The biggest drop in demand for foreign equity comes from consultants with a focus on the non-profit market. Last year, 75% of these consultants expected significant search activity in international or global equities, while only 10% expect significant mandates in 2009.

Consultants expect home bias will continue to wane. The proportion of consultants anticipating a preference for international equity exposure—i.e., MSCI EAFE portfolios—shrank in this year's survey, particularly among those reporting that their clients strongly preferred international equity portfolios. The percentage of respondents indicating their clients want global equity portfolios—i.e., those combining domestic and foreign securities in a single mandate—rose incrementally, as did the ratio of consultants believing clients had no preference. A growing ratio of large institutional investors and professional buyers continues to shift to global equity benchmarks for their total equity allocations, raising demand for such portfolios.

Exhibit 20

Expected Client Preference for International vs. Global Equity



Sources: Casey Quirk, eVestment Alliance

Larger institutional investors continue to drive this secular trend. Consultants with more than $25 billion in assets under advisement—figures often buttressed by large, often public pension, clients—expect a fairly even split between international and global equity searches. This is a dramatic jump from 2008, when only a quarter of such consultants indicated a strong preference for global equities among their clients. Surprisingly, however, more than half of smaller consultants now expect investors to prefer international equity in 2009, but this reveals a substantial fall from 2008, when 70% of smaller consultants reported such a preference. The percentage of smaller consultants favoring global equity more than doubled, from 13% to 29%.

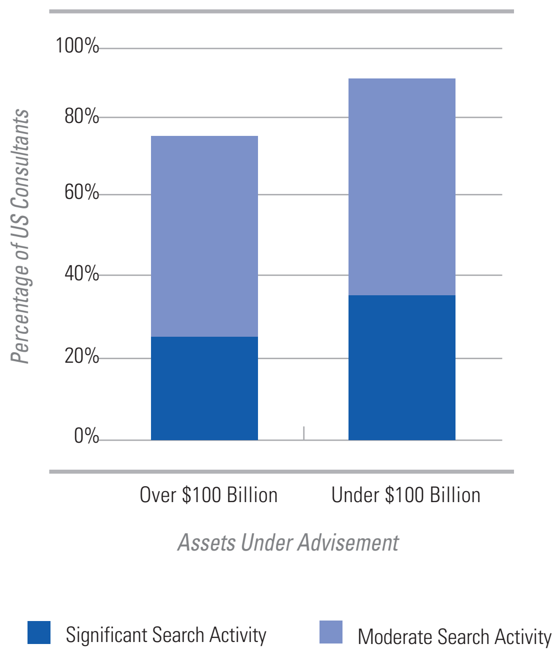
Domestic Equity Keeps Keystone Role

Given US institutional investors' large allocation to domestic equity, consultants always expect them to tender mandates for the asset class. For the past three years, domestic equity has ranked among the top three asset classes where consultants expect search activity, and it places second among the list created by 2009 respondents. Nevertheless, the percentage of respondents expecting significant US equity search activity, in particular, has dropped, from about one-half in 2008 to about one-third this year. But consultants expect many institutional investors will review their domestic equity portfolios. Market dislocations have widened the band of returns posted by equity managers, just as fixed income firms have separated into more apparent winners and losers. Consultants expect clients will closely examine their equity firm rosters as a result.

Only about 20% of consultants servicing primarily endowments and foundations expect significant search activity for domestic stocks this year, while 75% did so in 2008. Respondents concentrating on defined benefit plans expect more US stock searches: 40% of consultants in this category predicted significant activity, but that number trails a similar metric of 70% recorded last year.

Exhibit 21

Expected Search Activity for US Equity, *2009*

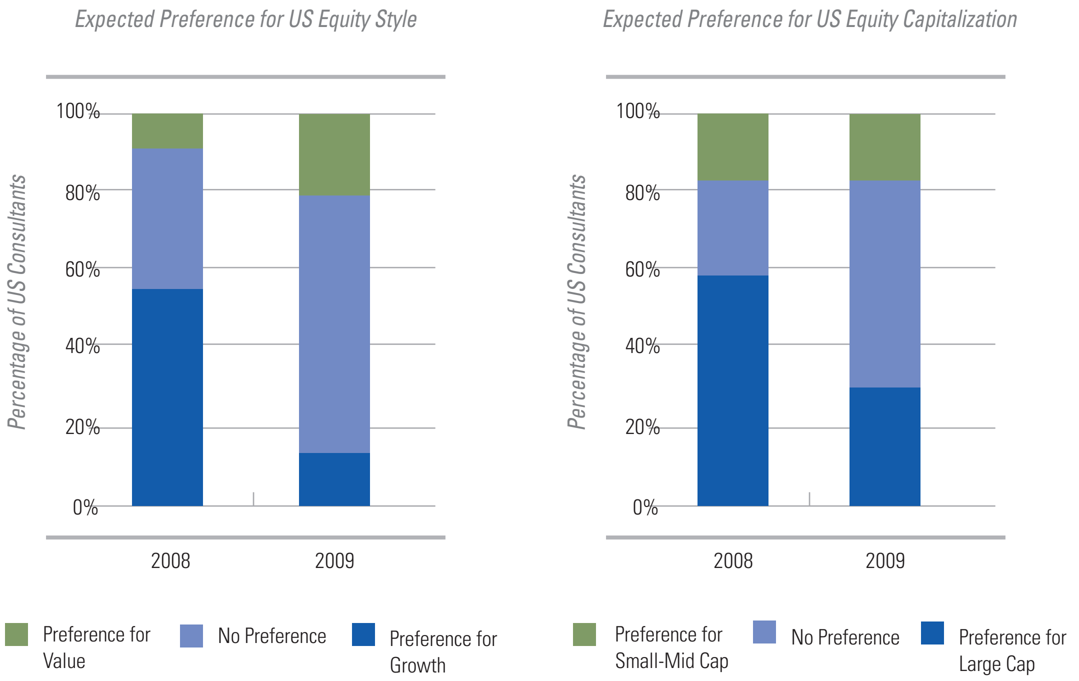


Sources: Casey Quirk, eVestment Alliance

In 2008, 9% and 12% of consultants expected their clients to have significant preferences for growth and large-cap strategies, respectively. But respondents in 2009 believe such preferences will disappear. This year, twice the proportion of respondents indicate their clients are likely to express no preference regarding style or capitalization size in the US equity mandates they tender. Consultants expect investors to use an agnostic approach, equally balancing large-cap and small-cap managers, making similar commitments to growth and value firms, or simply hiring core managers.

Exhibit 22

Expected Investor Preferences for US Equity Style and Capitalization



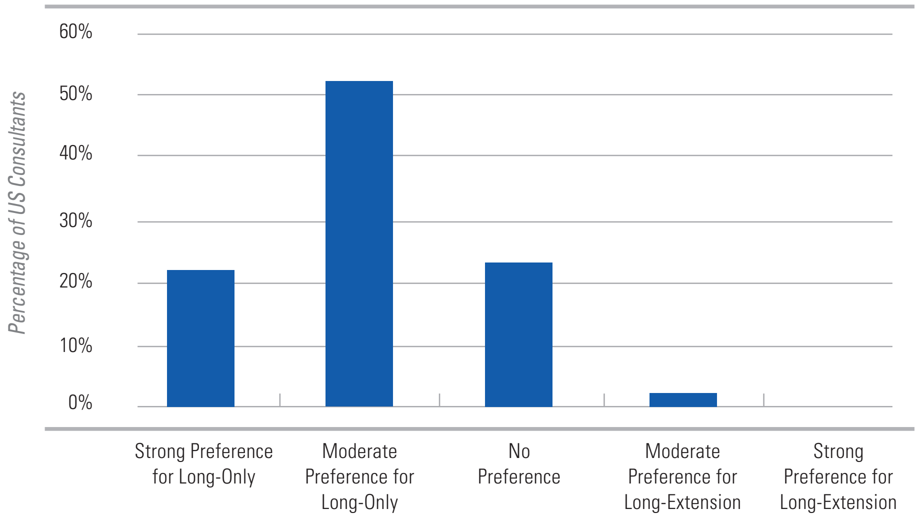
Sources: Casey Quirk, eVestment Alliance

Long-Short, Quant Equity Products Fall Further From Favor

Institutional investors' apparent back-to-basics approach apparently extends to portfolio management methods as well as asset classes. Long/short and long-extension mandates attracted significant attention in 2008, with more than one-fourth of larger consultants expecting significant volume in such assignments. Respondents to the 2009 poll, however, are less bullish. None indicated a strong preference for long/short over long-only equities, mainly motivated by concerns about allowing managers to short securities and manage counterparty risks with prime brokers. Consultants argue that many long-only managers do not have significant experience or capabilities in these areas. Most consultants complained about long-extension performance, particularly during the most dramatic months of the equity market collapse.

Exhibit 23

Expected Preferences for Long-Extension Products, *2009*

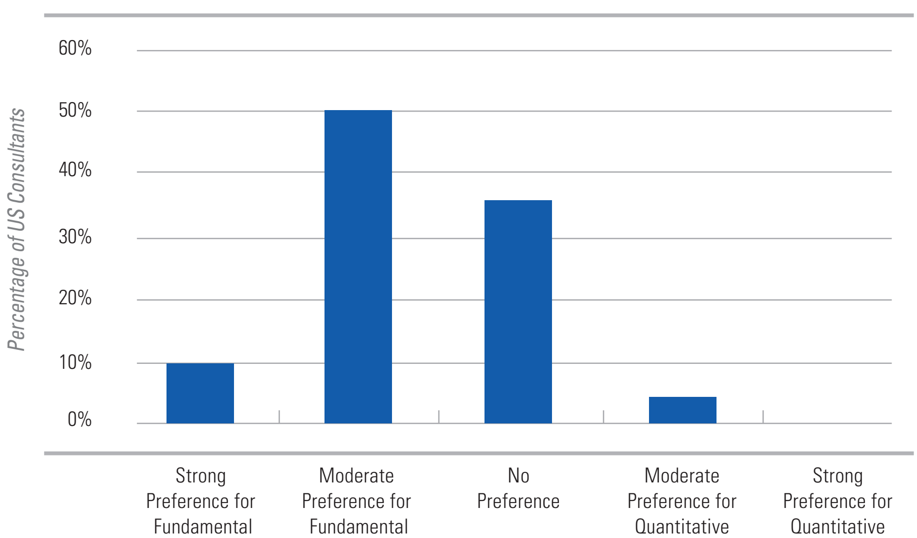


Sources: Casey Quirk, eVestment Alliance

Quantitative managers saw their performance rebound somewhat in 2008, but less than 10% of consultants felt their clients would express even a moderate, let alone strong, preference for quant products, in 2009. This is a slight increase from last year, when no respondents predicted clients would express interest in quantitative strategies. Overhang from poor performance in 2007, and a recognition of strategy and securities overlap among quantitative managers, continues to raise issues about heavily investing in such portfolios. The pendulum, nevertheless, shifts slightly back toward fundamental stockpicking, either strongly or moderately favored by 60% of consultants in 2009, compared to levels of 49% among 2008 respondents.

Exhibit 24

Expected Preferences for Quantitative Strategies, *2009*



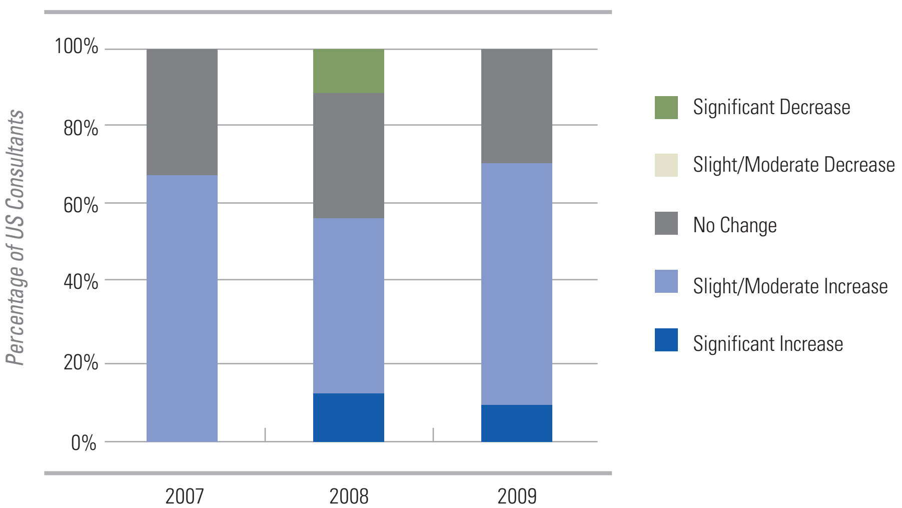
Sources: Casey Quirk, eVestment Alliance

Defined Contribution Searches Continue to Increase in Number

Defined contribution plans, which lost more than $1 trillion in the 2008 market collapse, continue to emerge as a distinct client base for specialist consultants. For the second year in a row, search activity is expected to rise. More than three-fourths of consultants focused on DC markets predict search activity will increase in 2009, a metric roughly comparable to the 78% of similar respondents sharing such views in 2008. A growing proportion feel the increased activity will be dramatic. Nearly half of these consultants now have separate teams dedicated to their DC clients.

Exhibit 25

Expected Change in DC Search Activity

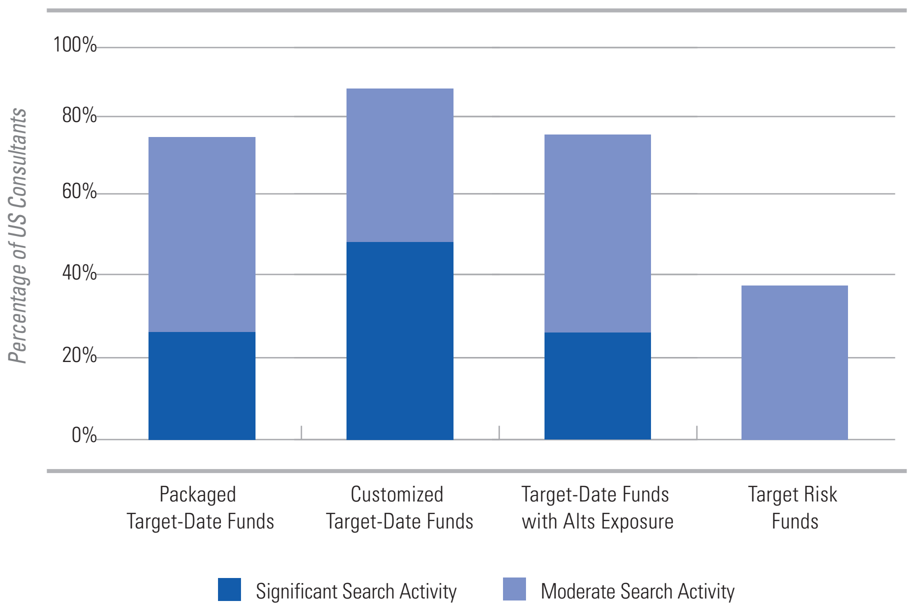


Note: Includes only consultants focused on DC plans.
Sources: Casey Quirk, eVestment Alliance

Consultants continue to believe most search activity will focus on target-date funds, one of the principal Qualified Default Investment Alternatives (QDIA) required by the Pension Protection Act. The proportion of consultants expecting significant activity has dropped to 25% this year from 52% in 2008, as a wider proportion of plans complete their compliance with new federal regulations.

Exhibit 26

Expected DC Search Activity by QDIA Focus, *2009*



Note: Includes only consultants focused on DC plans.
Sources: Casey Quirk, eVestment Alliance

Consultants, however, still expect target-date interest to drive search activity. Interest appears heaviest in customized target-date funds with asset allocations, manager stables, and glide paths specifically designed for the constituents in the plan. Consultants believe that plan sponsors and participants, disappointed with the performance of many target-date options in 2008, will demand modifications. Some of those enhancements are expected to include alternative investments such as real estate, commodities and absolute-return products, similar to the asset-allocation strategies pursued by larger defined benefit plans. Respondents indicate fewer of their clients will pursue target-risk options—built on static risk portfolios rather than a time-sensitive, dynamically rebalancing glide path—in their current format.

Return Assumptions Will Decline

This year's survey asked respondents a number of questions specifically related to the collapsing equity markets of 2008. Nearly half the consultants surveyed broadly expect their clients to decrease their return assumptions for 2009, with the biggest slashes appearing among defined benefit plans. Respondents, however, gave their answers before Congress provided temporary relief from the Pension Protection Act's funding rules, allowing pension plans to smooth returns for 24 months. Without smoothing returns, and facing a growing burden of retiree obligations, most pension plans had been forced to trade away returns to reduce risk.

Exhibit 27

Expected Change in Return Assumptions, *Between 2008 and 2009*

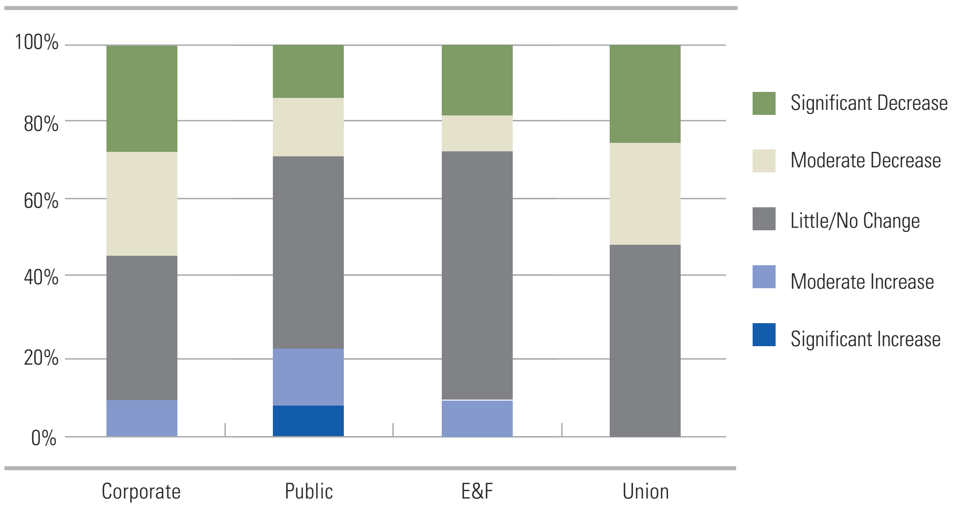
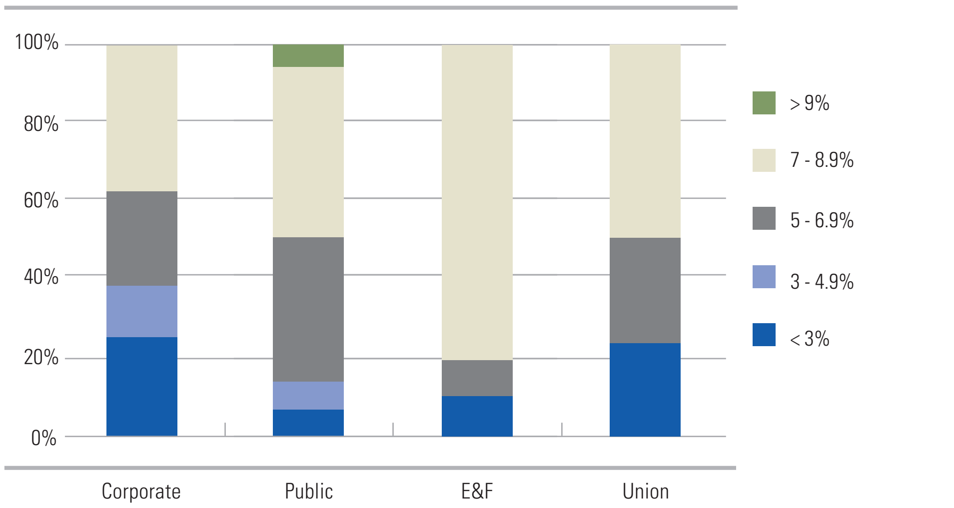


Exhibit 28

Return Assumptions, *2009*

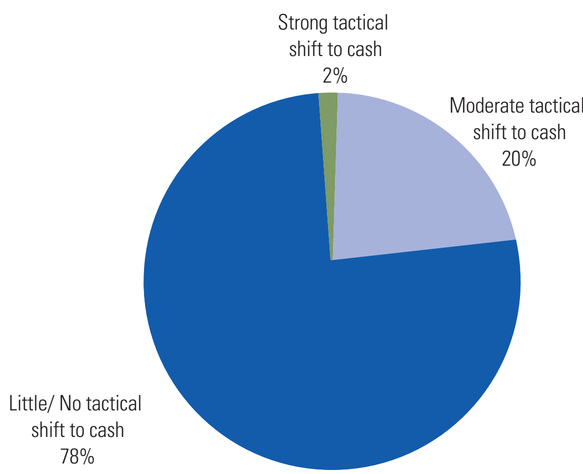


Sources: Casey Quirk, eVestment Alliance

Finally, few consultants anticipate their clients will retreat to cash as a tactical maneuver during 2009. Less than one-quarter of consultants expect their clients to make a moderate tactical shift to cash and only one consultant, with a material individual client base, expects a strong tactical shift to cash. Only institutional investors with immediate liquidity requirements are expected to raise their cash levels substantially.

Exhibit 28

Expected Tactical Shift to Cash
2009



Sources: Casey Quirk, eVestment Alliance

Canadian Investors to Focus on Traditional, Domestic Searches

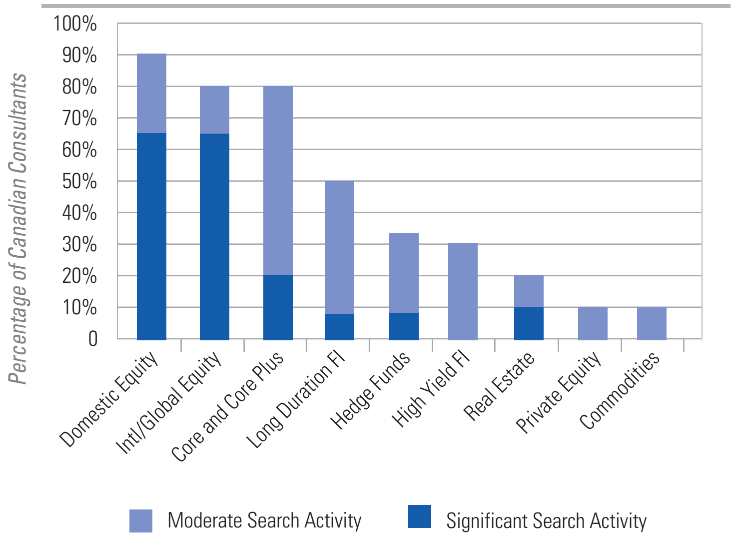
Canadian consultants faced similarly brutal markets: the commodity-heavy S&P/TSE Composite fell 54% in 2008, and the Bank of Canada slashed target overnight rates from 4.25% to 1.5% during the year. Many Canadian consultants also expect their clients to focus search activity on traditional asset classes during 2009. They particularly expect interest in Canadian equity searches to skyrocket, given collapsing equity values and the need to rebalance portfolios; more than a third of consultants expect significant search activity for domestic equities, an asset class that barely registered among Canadian consultants in 2008.

Interest in fixed income also rose: nearly 40% of consultants polled in 2009 expect some increased search activity for bond managers, compared to roughly half that proportion feeling the same way in 2008. Many Canadian consultants, however, point out that the Canadian bond markets are relatively shallow and serviced by the same group of providers, and therefore this search activity likely represents discretionary tilts toward higher-yield bonds, taking advantage of recent dislocation in the markets. In addition, most consultants point out that the expected search activity for fixed income also may partly reflect interest in balanced portfolios, still a staple for many Canadian institutional investors of less than C$1 billion in size.

International equity continues to attract interest, with nearly half of the Canadian consultants reporting that they expect significant or moderate interest in the asset class during 2009. While substantial, they represent a drop from the two-thirds of Canadian consultants who predicted significant search activity for international equity in 2008. Since 2005 Canadian pension plans have been liberated from previous limits on foreign investments among retirement portfolios, but many institutional investors continue to slowly implement higher allocations to non-Canadian securities, despite consultants' perennial predictions of large-scale shifts away from domestic stock.

Exhibit 29

Expected Search Activity in Canada, *2009*



Sources: Casey Quirk, eVestment Alliance

Conclusion: Beyond 2009

The speed of the market collapse during the latter half of 2008 led few institutional investors to react tactically, if at all. Beginning in 2009, many will not only seek to repair any damage that collapsing stock markets caused their portfolios, but also are likely to take a hard look at testing some long-standing assumptions underlying their policy allocations. In fact, consultants expect the severe market dislocations will spur some investors and investment committees to replace managers or make allocation shifts contrary to the advice they receive. Respondents also expect their own jobs will come under scrutiny, as clients launch consultant reviews.

In addition, the repercussions of the deleveraging crisis will shape a number of factors that directly impact institutional investing:

- How much regulation will institutional and individual investors and investment managers face?
- Will governments implement economic policies that change the valuation of liabilities, thus shifting the opportunity set for investment managers?
- What role will alternatives play? Will institutional investors use them to hunt for alpha, or as a beta replacement tool? Or both?
- As credit markets continue to convulse, will institutional investors regard bonds as the new stocks, more actively managing their fixed income portfolios to provide returns? Or will they look to end liability funding risk by indexing bonds?
- Finally, and perhaps more importantly, will consultants begin thinking about asset allocation in different ways: regarding alternative investments less as a separate asset class and more as components of equity and fixed income allocations? Or will stock and bond distinctions fade in favor of allocating assets by liquidity or expected volatility?

All of these questions will play a role in shaping our 2010 consultant survey.

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2009 Consultant Search Forecast
Annual Survey

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Casey Quirk

John F. Casey, Chairman
David J. Bauer, Partner
Jeb B. Doggett, Partner
Yariv Itah, Partner
Benjamin F. Phillips, Partner
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Philip Kim, CFA
Associate Director
p.kim@caseyquirk.com
203-899-3012

Yariv Itah
Partner
y.itah@caseyquirk.com
203-899-3010

Benjamin F. Phillips
Partner, Director of Research
b.phillips@caseyquirk.com
917-476-2140

Rahul Patel
Associate
r.patel@caseyquirk.com
203 899 3041

Casey, Quirk & Associates
19 Old King's Highway South
Darien, CT 06820
www.caseyquirk.com

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