Institutional Investor

U.S. SUB-ADVISORY ROUNDTABLE

Rebuilding, Restructuring and Reassessing in the Aftermath of the Great Recession

JULY 14-15, 2010 | THE HARVARD CLUB | NEW YORK

SPONSORING ORGANIZATIONS
(TO DATE)

Aviva Investors

OFI Institutional Asset Management, Inc./OppenheimerFunds, Inc.

Old Mutual Asset Management, Inc.

CO-SPONSORING ORGANIZATIONS
(TO DATE)

GE Asset Management

Institutional Investor's
U.S. Sub-Advisory Roundtable
Rebuilding, Restructuring and Reassessing in the Aftermath of the Great Recession

Sub-advisors are expected to feel the impact of the global economic crisis for throughout 2010 as managers pursue product changes and strategic initiatives to achieve the better results their clients are seeking. However, research reports have suggested that this will not change the emphasis on performance and price on which sub-advisory clients place a premium. But greater attention is likely to be given to areas such as risk management and the investment processes, procedures and policies being utilized, along with the people who stand behind them. In addition, factors such as the perceived stability of a sub-advisory firm, as well as the risk-adjusted track record of the portfolio manager, will be given increased weight than they have been given in the past when assessing which external managers should be hired, fired or retained.

As the internal and external review of managers continues, expectations are that the merger or liquidation of funds will proceed apace. While this will temporarily reduce the number of existing funds, it's also anticipated that new domestic and international fund offerings in a range of asset classes will be introduced and that a revitalized product landscape will begin to take shape.

As these trends develop, and barring any other major market disruptions, predictions are that sub-advised assets are likely to double in less five years. As this occurs, where will the greatest demand come from as it regards styles, strategies, asset classes, regions and sectors? To what extent will products such as global asset allocation, micro-cap growth, absolute return and other alternative and specialized funds be in demand compared with more traditional fund offerings? How will the criteria used to evaluate managers be applied more robustly and consistently and what can or should firms do to improve their operations? How will asset allocation and the application of models expand and be altered over the next few years, and what does that portend for firms that serve the sub-advisory marketplace? To what degree will brand recognition still influence decisions? What will be the effect on fees and break-points and what can firms do to prepare for possible changes brought about by demand? What else will those who hire sub-advisors be seeking from managers and how will various measures of service and performance be modified in determining relationship management best practices?

These are among the key questions that will be raised at **Institutional Investor's 5th Annual U.S. Sub-Advisory Roundtable**, as we explore and analyze the role sub-advisors are likely to play as we recover from the historically exceptional global economic collapse.

The U.S. Sub-Advisory Roundtable will bring together leading sub-advisory participants to examine lessons both advisors and their clients have absorbed from the dislocations we have suffered, and to evaluate how sub-advisors can best serve the needs and demands of the sub-advisory marketplace going forward.

Well designed sub-advisory alliances with third-party asset managers continue to offer numerous benefits, allowing organization's to focus on their core competencies and remain competitive in a continually evolving global marketplace, to improve their product offerings, and to grow their client base. But these opportunities must now be examined more carefully to more fully understand how asset managers have influenced, and been influenced by, market events.

Wednesday, July 14, 2010

8:00-8:50 am **Registration and Continental Breakfast**
North Room (Third Floor)

8:50-9:00 am **Opening Remarks and Introductions**
Biddle Room (Third Floor)

Roundtable Moderator:
Jack Miller
Investment Advisory Committee Member
Pension Benefit Guaranty Corporation
Former Senior Advisor
General Motors Asset Management

9:00-9:45 am Presentation: **The Big Picture: Making Sense of Policy, Current Trends and the Economic Cycle**
Biddle Room

Speaker:
Jerry Webman, Ph.D., CFA
Senior Investment Officer, *Chief Economist*
OppenheimerFunds, Inc.

The scope and array of issues the global economy has confronted over the last several years have been large enough to compare with the most challenging phases in financial history. As we appear to be climbing slowly and steadily from the economic malaise that struck us, however, discerning patterns that can better guide investment decisions remains elusive. The sharp contrast between the economic performance of Asia and other emerging markets and the developed world, for example, will influence capital flows through this cycle and beyond. If the demand for commodities and other real assets is driven sustainably by underlying economic fundamentals, the result will be far different from the outcome that would follow from speculation playing the greater role in influencing prices. The intervention of government creates long-term uncertainties as financial market supports are withdrawn, regulation is restructured and sovereign debt and deficits mushroom. In this opening session the speaker will attempt to put into perspective these varying trends and issues and to provide both insights and guidance for investors considering ways to structure and restructure their portfolios in response to a changed financial and economic world.

9:45-10:30 am Panel Session: **Identifying and Managing Tail Risks: What Would a Better Model Look Like?**
Biddle Room

Panelists:
Peng Chen
President
Ibbotson Associates

Howard Hirakawa
Vice President, Investment Advisory Oversight
Pacific Life Insurance Company

Thomas G. Hoffman
Chief Investment Officer
Samoset Asset Management Co. LLC

Cleo Chang
Vice President, Head of Investment Research Group
Wilshire Associates

There is a broad consensus that market downturns have been more frequent and brutal in recent decades than during other periods we have lived through or studied. While these steep declines may not consistently be classified as having a connection to so-called “fat tail” risks, they nevertheless have shared certain characteristics such being linked to easy credit that helped create asset bubbles and having a global impact when they burst. In addition, in each case mass exuberance has outweighed and overwhelmed caution and drowned out naysayers who questioned collective wisdom. Is there anything that can be done to recognize the signs that will help investors avoid or mitigate such major risks in the future? What practical steps can or should asset managers be taking to protect their portfolios from extreme events? Finally, should we expect the same type of "fat tails" we have experienced in recent years, or by emphasizing the past do we put ourselves in danger of missing other factors and putting in place safeguards that fail to provide the type of defense we are seeking?

10:30-11:00 am Coffee Break
North Room

11:00-11:45 am Presentation: **The Role of Dividends in a Total Return Strategy**
Biddle Room

Presented by:
Henry W. Sanders III, CFA
Executive Vice President and Senior Portfolio Manager
Aviva Investors

Dividend strategies play an important role in the asset allocation process as well as a portfolio's overall total return. Historically, dividends have been a key source of total return. Looking at the S&P 500 over the past two decades, 40% of the return can be attributed to dividends. Furthermore, returns for dividend based strategies typically have a much lower degree of volatility. Along with lower volatility and being a key source of total return, dividends also provide cash flow that can help to fund current obligations and liabilities. Including dividend-paying equities can enhance the absolute as well as the risk adjusted returns of a total portfolio. In this session, we will discuss the inclusion of dividend paying equities in the asset allocation model and the benefits this may provide to the overall portfolio.

11:45-12:45 pm Panel Session: **Emerging Markets: What the Rebound Indicates**
Biddle Room

Panelists:
Sarvjeev S. Sidhu, CFA
Global Head of Emerging Markets
AEGON Asset Management

Kiernan Curtis
Fund Manager, Emerging Markets Debt Team
Aviva Investors

Jonathan Passmore
Senior Vice President and Portfolio Manager
GE Asset Management

Rick Lake
Co-Chairman
Lake Partners, Inc.

Emerging markets suffered as much, and in many instances more, during the economic upheaval as developed nations, debunking the view that they could ride out the storm and even provide a substitute for demand during a time of turmoil. Yet emerging markets also showed a remarkably quicker pace of recovery once the worst was over and, in the case of China, helped substantially to stabilize markets as the result of a massive stimulus and lending program. But while a variety of experts argue that demographic, socioeconomic and geopolitical trends point toward long-term opportunities by those investing in emerging markets, skeptics contend that too many risk factors are being downplayed or dismissed altogether, and that regardless of long-term prospects major dislocations are not only possible but inevitable. What view about emerging markets should be dominate and why is that so? How can investors take advantage of the opportunities they represent and still minimize risks? How can those risks be more accurately calculated to determine the strengths and weaknesses of individual countries and regions?

12:45-2:30 pm Lunch With Guest Speaker
North Room

Understanding Market Events from the Standpoint of Psychology and Behavior: What We Know and What We Are Still Discovering

Speaker:
Denise Shull, M.A.
President
Trader Psyches, a ReThink Group Company

In the aftermath of the global economic crisis from which we are still emerging, there is a greater recognition that psychology played a far greater role in creating it than might have been expected. Most investors and portfolio managers alike depended on what they believed to be superior mathematical and probabilistic analysis that lead them to the conclusion that housing prices would not fall sufficiently, and that home owners would not ever default in large enough numbers to have such devastating consequences for financial markets. And when a small number of skeptics used the same type of tools and observations to draw a different conclusion, enthusiasts continued to see the same flawed picture. Clearly it was emotional attachments to ideas, concepts and models that had a great deal to do with managers ignoring or overriding their response to the same data that a few astute managers applied to come up with an opposite viewpoint. What can we learn from these events in terms of developing a better understanding of the real relationship between rational analysis, feeling, emotion and trading performance? How much is understood about the interaction between objective observations formed by intelligent brain functions and emotions and the decisions made by traders and investors? What is and can be done to find and develop portfolio managers with exceptional skills in the intricate human half of the joint probability distribution embedded in consistently successful trading?

2:30-3:00 pm Presentation: **The Active Share Investing Concept: A Better Way to Assess Managers' Potential?**
Biddle Room

Presented by:
Jerome Heppelmann, CFA
Portfolio Manager
OMCAP Investors (*An affiliate of Old Mutual Asset Management)*

Challenges persist in determining the value active portfolio managment may provide as ultimate performance can often mask the degree to which talent or other factors are responsible for outcomes. The idea of Active Share measurements seeks to add another tool investors can apply to help determine the extent to which managers deserve more or less merit for the returns they produce by identifying that portion of portfolio holdings in a given period that differs fron underlying benchmark holdings. In this session the concept will be outlined with an explanation of how applying it can provide additional information on a fund's potential to beat its benchmark index and, how in conjunction with measuring tracking error, can produce a more comprehensive view of active managment.

3:00-4:00 pm Panel Session: **The Growth of Sub-Advisors to Support Variable Annuity Products: Examining the Trend, Expectations and Issues**
Biddle Room

Panelists:
Steven Kluever
Senior Vice President, Product and Investment Management
Jackson National Life Distributors

Kevin Adamson
Director of Fund Management
Lincoln Financial Group

Rob D. McBee, CFA, AIF
Investment Consultant

Securian Financial Group

Doug Loeffler, CFA
Vice President
SunAmerica

The interest in finding retirement income solutions has increased substantially in proportion to the economic slump and the newfound desire for safety and security it engendered. In conjunction with this interest there has been an ongoing transition for those offering variable annuities—still one of the most popular ways to secure retirement income—from the use of variable insurance trusts and toward employing sub-advisors instead. As this shift is occurring those looking to hire sub-advisors to underpin their variable annuity products are seeking to ensure several objectives, specifically the ability to gain access to strong managers capable of delivering the performance necessary to the success of the products, and the flexibility to easily remove managers who undergo significant changes in their approach or strategies, among others. In this session we will examine this trend, discuss why it is occurring, review the primary and ancillary issues from the standpoint of those in search of sub-advisors and consider how these sub-advised relationships are likely to develop along with the growth of the variable annuity marketplace.

4:00-4:30 am Presentation: **Exploiting Opportunities in Highly Inefficient Asset Class: The Case for International Small Cap Equities**
Biddle Room

Presented by:
Steve Dexter
Chief Investment Officer
Copper Rock Capital Partners *(An affiliate of Old Mutual Asset Management)*

The international small cap asset class provides a significant diversification benefit for investor portfolios, as well as the potential for enhanced returns. International small cap stocks give U.S.-based investors access to small companies in a particular country that are not multi–national and export-oriented, but sell their products and services in the local market where corporate and consumer preferences are not in lock step with those in the U.S. The universe of international small cap stocks is large and well represented across regions, sectors, and industries. Yet, the sector remains very much under-followed by sell-side research, presenting a distinct opportunity to uncover unique growth stories. Over the six-year period from January 2004 to March 2010, non-U.S. small cap equities provided a much better diversification opportunity set than U.S. small cap equities. The correlation of U.S. small cap equities to U.S. large/mid cap equities was consistently around or above 90%. The correlation of non-U.S. small cap equities to U.S. large/mid cap equities ranged from as low as 20% to about 45%. During this session, we will explore this wonderfully inefficient asset class and why non-U.S. small cap equities present a fertile ground for active managers to provide superior risk adjusted returns relative to U.S. equities.

4:30-5:45 pm Cocktail Reception
Slocum Room (Third Floor)

5:45 pm Evening free for private functions

Thursday, July 15, 2010

8:00-8:55 am Continental Breakfast
Biddle Room

8:55-9:00 am **Introductions**
Biddle Room (Third Floor)

Roundtable Moderator:
Jack Miller
Investment Advisory Committee Member
Pension Benefit Guaranty Corporation
Former Senior Advisor
General Motors Asset Management

9:00-9:45 am Panel Session: **Portfolio Theory and Lessons from the 'Great Recession'**
Biddle Room

Panelists:
Cindy Zarker
Director
Cerulli Associates

Wayne Wicker
Chief Investment Officer
ICMARC

Michael C. Eldredge
Vice President, Investment Research
MassMutual Retirement Services

Brian Ahrens
Executive Vice President, Strategic Investment Research

Prudential Financial

Have managers and investors begun to apply any of the lessons they might have learned to change how Modern Portfolio Theory is used? Is this necessary? Should we change our views about basic assumptions revolving around diversification, asset classes and the risk protection derived from them as a result of the extreme market conditions we have experienced? Should we contemplate significant adjustments based on other global trends that suggest growth and economic power will be both more balanced and volatile? Can we do a better job at factoring in behavioral responses, both positive and negative, that can't easily be introduced into models? What tools exist to do any of these things or to do them in a more meaningful way? Can real downside risk protection ever be found when events lead to widespread correlations among asset classes, strategies, sectors and regions?

9:45-10:30 am Panel Session: **The Indexing Option and the Role for Sub-Advisors**
Biddle Room

Panelists:
Alwi Chan
Vice President, Funds Management Group
AXA Equitable

Elizabeth M. Forget
Senior Vice President
MetLife

Eric J. Hoerdemann
Senior Analyst
SEI Investments

Growing numbers of institutional investors are experimenting with an Index approach to portfolio construction for at least a portion of their assets, a trend that many observers expect to grow as the fallout from the financial and economic crisis is reviewed and its implications incorporated into viewpoints on the value of active managers. The main drawback of indexes—that no more than beta returns can be obtained—is well known. But supporters of the concept contend that there is enough variety among indexes available, particularly when including exchange-traded funds, to provide broad and dynamic exposure across regions, sectors, asset classes and even strategies. Combining these products and rebalancing exposures, supporters claim, can deliver comparable if not better results than more complicated approaches that require extensive and more careful due diligence to select managers and monitor their performance. How likely is that for this trend to become a major movement? Can sub-advisors fill this role by offering more options to invest in indexes with an active management component? What specific benefits and disadvantages should be considered by those reviewing this idea?

10:30-11:00 am Coffee Break
North Room

11:00-11:30 pm <u>Presentation</u>: **The Credit Disaster and the Next Phase for High Yield**
Biddle Room

Presented by:
David Newman
Partner and Head of European High Yield
Rogge Global Partners *(An affiliate of Old Mutual Asset Management)*

Despite assumptions based on the extreme economic conditions and volatility we have experienced since at least 2008, the high yield fixed income market has held up remarkably well. Defaults among high yield issuers, at least so far, have been far fewer than were anticipated, while new issues have continued to see significant demand. So what's on the horizon? Should investors be more wary of the high yield sector than they seem to have been up until now, or is the environment improving enough that it should assuage any lingering concerns? What high yield investment areas pose the greatest challenges and opportunities?

11:30-12:15 pm <u>Panel Session</u>: **Realigning Power in the Sub-Advisory Market: What Would a Better Model Look Like?**
Biddle Room

Panelists:
Tom H. Warren
President
UAT, Inc.

Additional panelists to be confirmed

As the Sub-Advisory market has grown from a relative cottage industry, or sector, to more than $100 billion now held in sub-advised trusts, many of the same basic processes and practices related to transparency, governance, compliance, reporting and trading have remained intact. So while technology and automation have helped create a number of operational efficiencies, improving the balance of interests between sub-advisors and their clients has frequently lagged. In this session we will discuss where improvements in these areas need to be made, what is required to make them and how it can be accomplished with practical changes implemented over time.

12:15-1:30 pm	Lunch *North Room (Third Floor)*
1:30 pm	Roundtable Concludes

The US Sub Advisory Roundtable is attended by invitation only and is designed for an audience of buyers of sub advisory services.

For more information or to register, please contact:

Ann Cornish
Director, Audience Development
Institutional Investor
225 Park Avenue South
New York, NY 10003

Tel: 212 224 3877
Email: acornish@iiconferences.com

ABOUT INSTITUTIONAL INVESTOR

Institutional Investor magazine, established in 1967, is a preeminent international financial publication with a readership in countries around the world. Institutional Investor, Inc. also publishes financial newsletters, such as *Wall Street Letter*, *Derivatives Week* and *Money Management Letter*, and journals that include *The Journal of Portfolio Management, The Journal of Alternative Investments, The Journal of Investing* and *The Journal of Private Equity.*

...AND INSTITUTIONAL INVESTOR CONFERENCES

Institutional Investor Conferences is a leading provider of highly interactive investment strategy conferences for senior money managers and financial executives seeking new insights into important strategic issues. Participants and speakers are able to develop new contacts, exchange views and compare experiences in informal, focused discussions and debates, as well as during social activities. Our purpose is to equip participants with information that can be utilized for both immediate decision-making and forward planning of strategies, administrative policies and operating procedures.

Institutional Investor has been involved in managing conferences for over 35 years. The company currently conducts more than 50 major meetings around the world each year for chief executive officers, financial executives and investment professionals in the securities and money management industries.

…AND THE SPONSORED CONFERENCE GROUP

Institutional Investor's Sponsored Conference Group runs a series of investment strategy conferences for senior financial executives and pension funds around the world. Symposiums are held regularly in North America, Europe and Asia. Each program is designed to facilitate an exchange of ideas and experiences through formal, carefully structured presentations, panels and small, informal discussion roundtables. The Group has presented successful conferences since 1970.