
Mutual Funds Are Bought, Not Sold: Winning in an Investor-Centric World

- ▶ **Don Phillips, Managing Director**

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Biggest Fund Firms 1986

1. Merrill Lynch

2. Fidelity

3. Federated

4. Dreyfus

5. Franklin

6. Dean Witter

7. Kemper

8. Putnam

9. Pru-Bache

10. EF Hutton

11. Shearson

12. IDS

Biggest Fund Firms 2008

1. Vanguard

2. Fidelity

3. American Funds

4. Barclays

5. Franklin Templeton Investments

6. T. Rowe Price

7. Columbia

8. PIMCO Funds

9. Federated

10. Dreyfus

11. Goldman Sachs

12. JP Morgan

Salesmanship vs. Stewardship

Salesmanship

Merrill Lynch

Dean Witter

Pru-Bache

EF Hutton

Shearson

Stewardship

Vanguard

American Funds

Barclays

T. Rowe Price

PIMCO Funds

Marks of Stewardship

- ▶ Stayed clear of market-timing scandals
- ▶ Have below-average costs, relative to distribution channel
- ▶ Did not market Internet funds
- ▶ Launch and manage funds that they would buy on the same terms that they sell them to the public
- ▶ Create a good investor return, not just a good total return

Costs Clearly Matter to Investors

Expense Ratio	Average Flow per Fund 2004-2007
< 20% of category average	+143.9M
+/- 20% of category average	+33.7M
> 20% of category average	-14.2M

As of 12/31/07

But Stewardship Matters Even More

Stewardship Grade	# of Funds	Average Flow per Fund 2004-2007
A	157	+839.6M
B	1035	+490.7M
C	2393	+39.6M
D	1148	-66.9M
F	158	-20.1M

The Ultimate Test is Whether Investors Win

Total Return

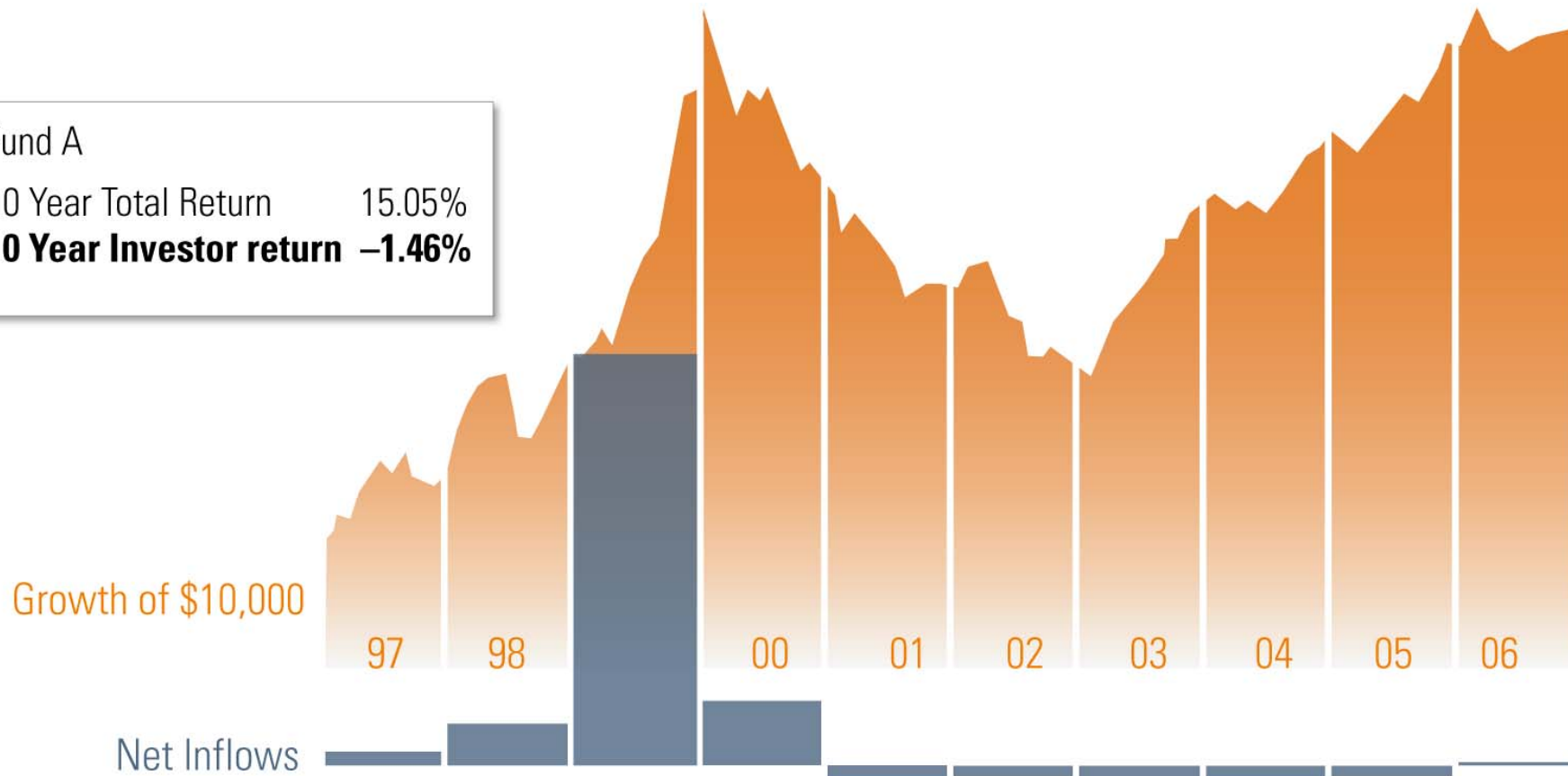
- ▶ Time-weighted calculation
- ▶ Assumes investor buys and holds for entire period with no additional investments

Investor Return

- ▶ Money-weighted calculation
- ▶ Accounts for aggregate monthly purchases and sales by all of a fund's investors

Investors Often Chase Performance

Fund A
 10 Year Total Return 15.05%
10 Year Investor return -1.46%

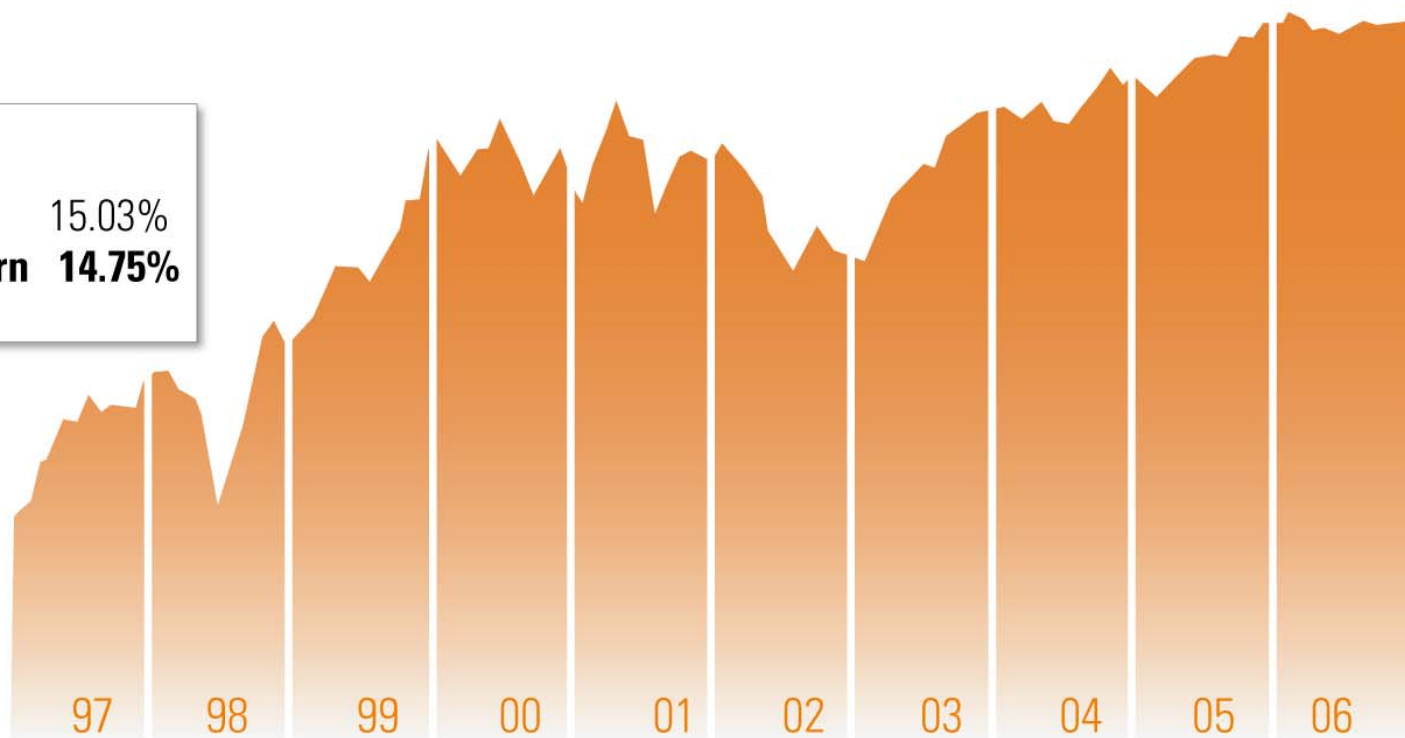


Annual Return (%)	12.7	34.9	120.1	-17.1	-27.8	-17.7	43.8	20.9	24.4	8.8
Net Assets (\$mil)	5.3	9.9	72.4	118.9	69.1	45.6	52.2	51.9	57.1	63.2

Slow and Steady Wins the Race

Fund B
 10 Year Total Return 15.03%
10 Year Investor return 14.75%

Growth of \$10,000



Net Inflows



Annual Return (%)	32.9	23.0	42.3	6.7	6.3	-22.5	41.4	13.2	8.1	4.9
Net Assets (\$mil)	258.4	304.0	395.4	428.6	477.6	374.9	561.7	683.0	788.0	856.0

Diversification Leads to Better Investor Results

	10 Year Investor Return	10 Year Total Return	Success Ratio
Equity Sector Funds (100% tech, health, etc.)	6.75%	9.53%	71%
Balanced Funds (inc. Target Maturity funds)	7.88%	7.80%	101%

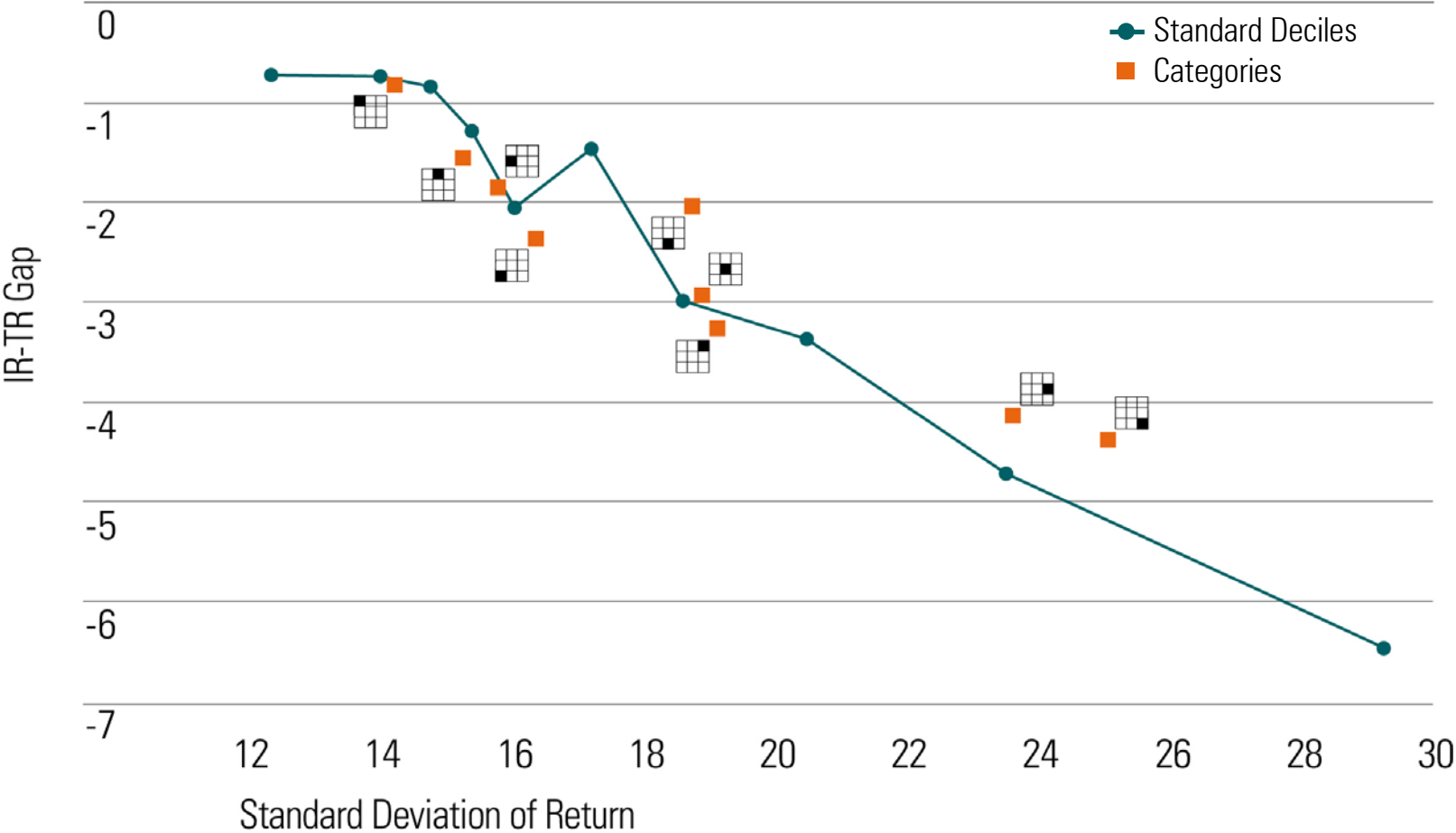
Asset weighted averages, 10 years ending 12/31/2007

Results Differ Between Asset Classes

Fund Group by Asset Class	Investor Return	Total Return	IR-TR Gap
U.S. Diversified Funds	6.03	7.30	-1.27
U.S. Sector Funds	6.75	9.53	-2.78
Balanced Funds	7.88	7.80	0.08
Intl. Diversified Funds	10.83	11.29	-0.46
Intl. Regional Funds	10.60	11.38	-0.78
Taxable Bond Funds	5.13	5.47	-0.34
Municipal Bond Funds	4.29	4.45	-0.16
All Funds	6.59	7.49	-0.90

Asset weighted averages, 10 years ending 12/31/2007

Volatility, Equity Category, & the Gap



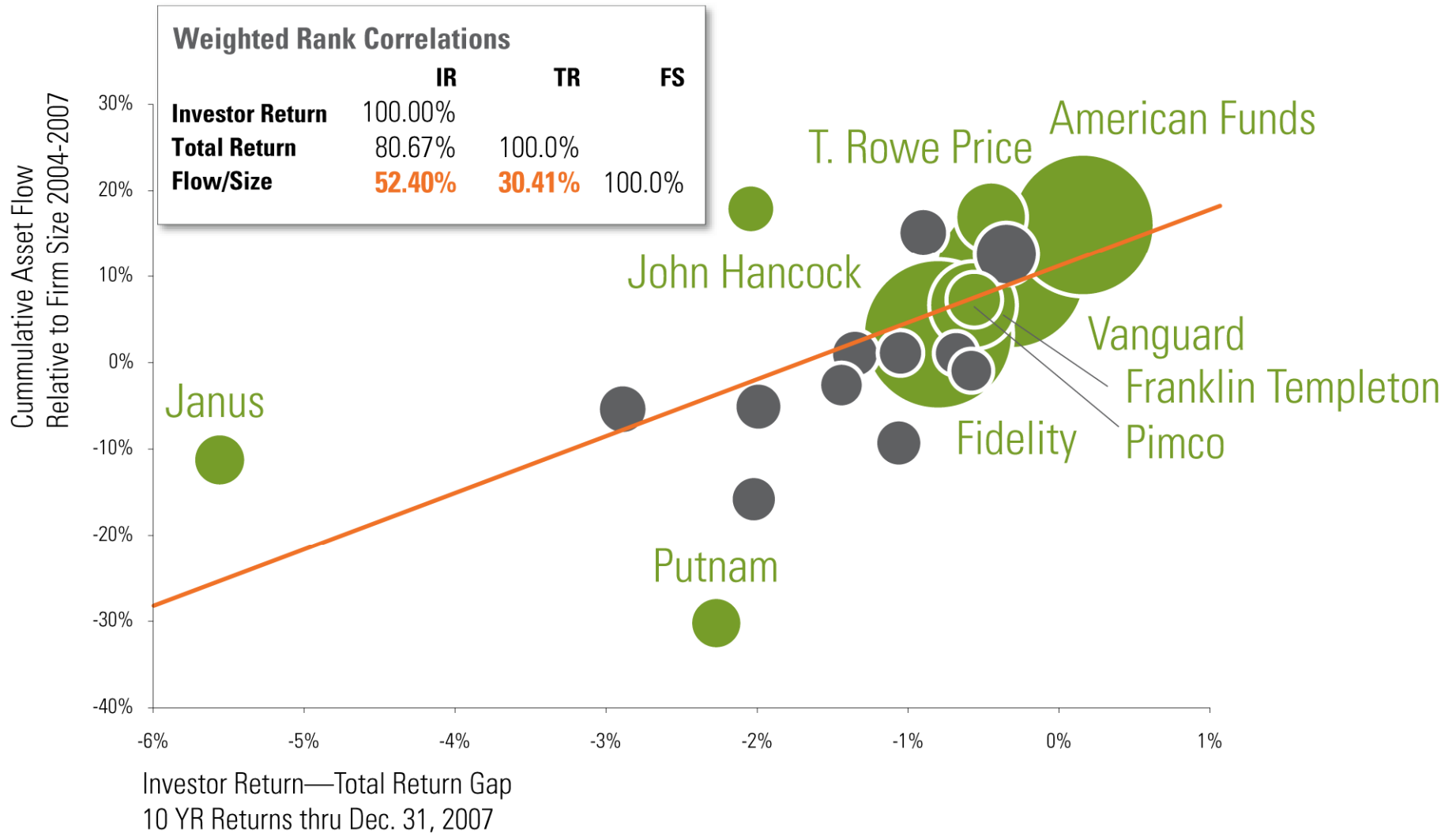
Volatility Hurts

	10 yr Investor Return	10 yr Total Return	IR-TR Gap
Low Standard Deviation Funds	5.97%	6.21%	0.24
High Standard Deviation Funds	4.32%	6.28%	1.96

- ▶ High and low standard deviation defined as relative to a fund's category.
- ▶ Group results based on weighted average of the dollar-weighted returns and total returns for each fund, using average assets for the period as the weights.

10 years ending 12/31/07

It Pays to Mind the Gap



The US Fund Market is a Meritocracy

- ▶ Investor interests come first—thanks to investor agents like directors
- ▶ High ethical standards are a prerequisite
- ▶ A compelling value proposition is essential
- ▶ Stewardship has usurped salesmanship
- ▶ If the investor doesn't win, no one does

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