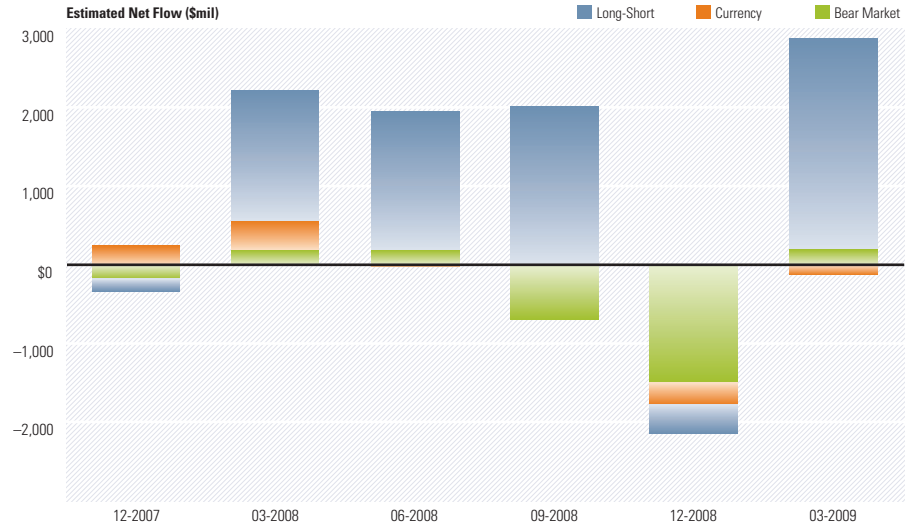


## Flows and Assets Under Management: Alternative Mutual Funds

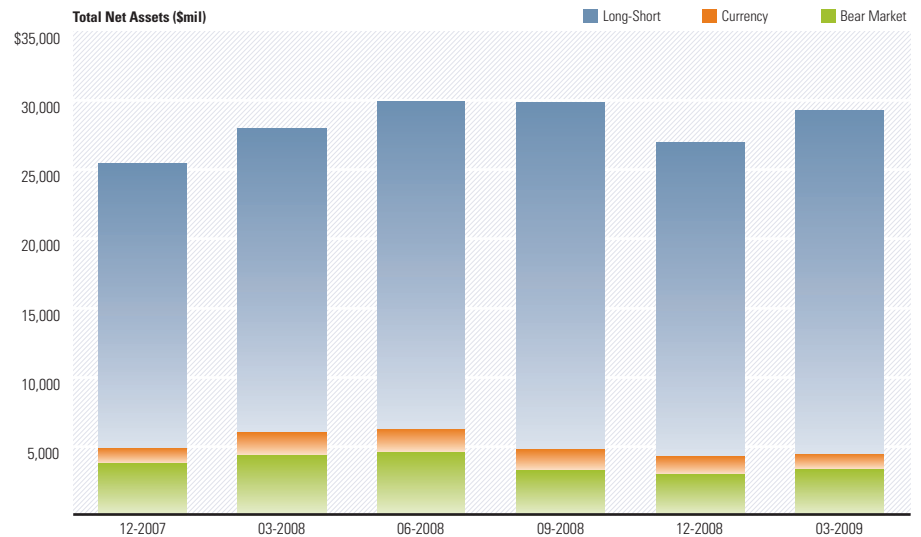
### Quarterly Alternative Mutual Fund Flows

After ending the year with relatively large outflows in the fourth quarter of 2008, alternative mutual funds saw flows turn strongly positive in the first quarter of 2009. Bear-market mutual funds led the flight for the exits in 2008 but saw fund flows go positive in early 2009. Long-short mutual funds, which include a wide variety of alternative investment strategies, have consistently received the most inflows.



### Quarterly Alternative Mutual Fund Assets Under Management

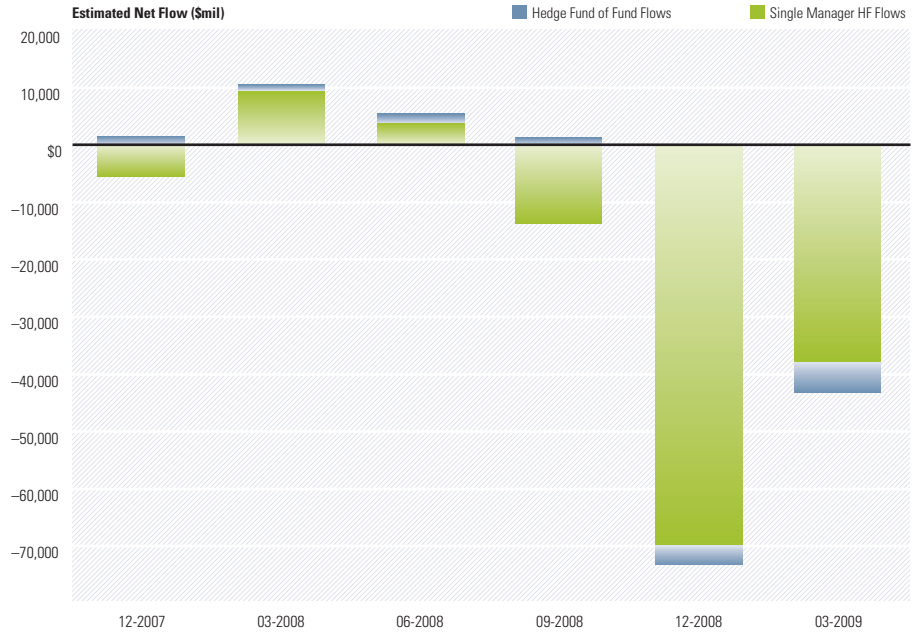
Long-short mutual funds constitute the largest alternative mutual fund category, at approximately \$25 billion as of the end of the first quarter. The first-quarter inflows constitute approximately 10% of this category. Total assets are down approximately 3% year over year. Alternative funds remain the smallest U.S. mutual fund broad category by assets, with less than 1% market share.



## Flows and Assets Under Management: Hedge Funds

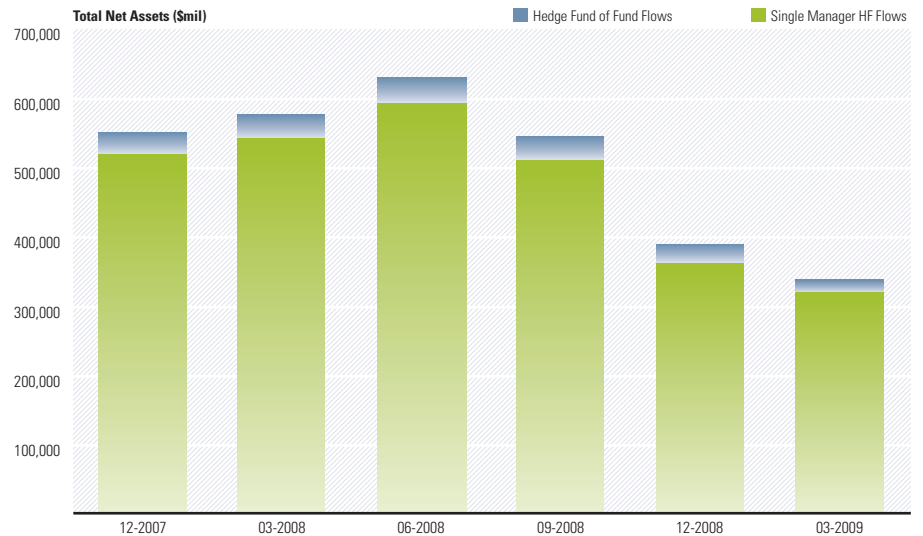
### Quarterly Hedge Fund Flows

Hedge funds in Morningstar’s database continued to experience redemptions in the first quarter of 2009. The start of the year saw approximately \$38 billion of outflows, continuing the trend from 2008. Hedge funds experienced record redemptions in the last quarter of 2008—approximately \$70 billion. Hedge funds in Morningstar’s database have seen outflows in only one other year of the last 10—2001—when outflows totaled approximately \$7 billion.



### Quarterly Hedge Fund Assets Under Management

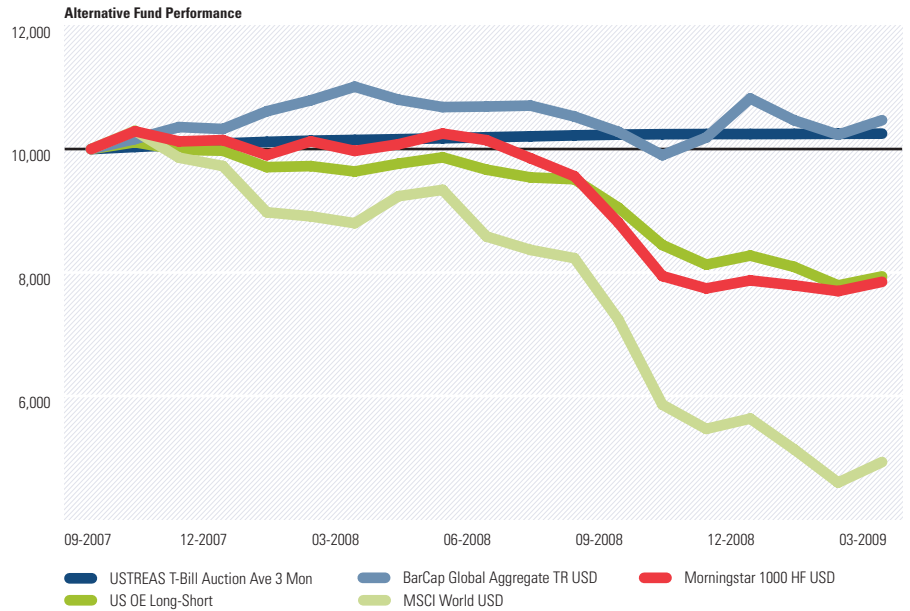
Total net assets of hedge funds in Morningstar’s database dropped significantly in the first quarter of 2009, to \$331 billion from the peak of almost \$600 billion in the second quarter of 2008. This was driven by redemptions, falling asset prices, and poor performance. There is no single source of hedge fund asset or flow information, as hedge funds report to databases voluntarily.



## Alternative Investment Performance

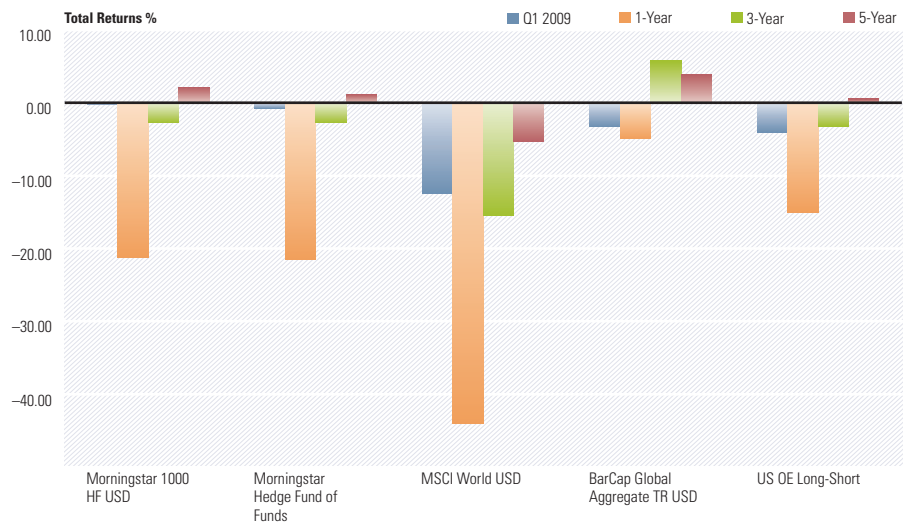
### Growth of a \$10,000 Alternative Investment

Hedge funds on average failed to protect investors' capital in the fourth quarter of 2008 and first quarter of 2009, as the Morningstar 1000 Hedge Fund Index drew down 21.5% in the last six quarters. Long-short mutual funds fared slightly better, as the category average drew down about 20%. Both hedge funds and long-short mutual funds significantly outperformed stocks but significantly underperformed bonds, on average.



### Performance of Alternative Investments Over Time

Losses in 2008 in funds in the Morningstar 1000 Hedge Fund Index and funds in the U.S. Long-Short Category Average wiped out most of the last five years of gains. The Morningstar 1000 Hedge Fund Index ended the first quarter of 2009 almost flat (down 0.3%), while the U.S. OE Long-Short Category Average lost 4%. The Morningstar Hedge Fund of Funds Index fared slightly worst (-0.7%) than the average single-manager fund.

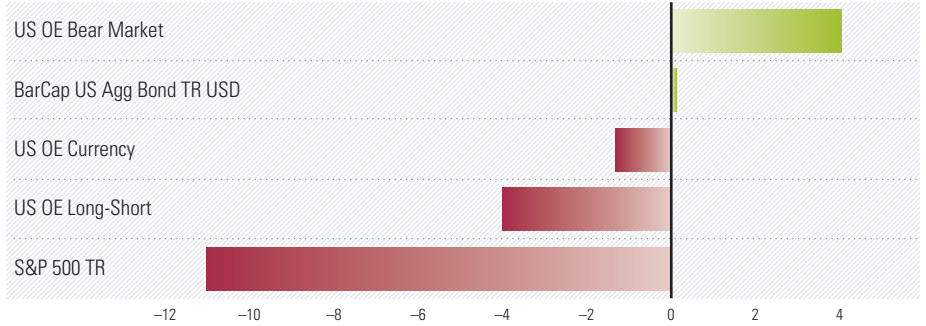


## Q1 Performance by Category

### Alternative Mutual Funds

Bear-market mutual funds gained 4% on average while long-short mutual funds lost 4% in the first quarter of 2009. All alternative mutual fund categories significantly outperformed the S&P 500 Index, which lost 11%, but currency and long-short strategies underperformed bonds, as measured by the BarCap U.S. Aggregate Bond Index, which gained 0.1% in the quarter ended March 31.

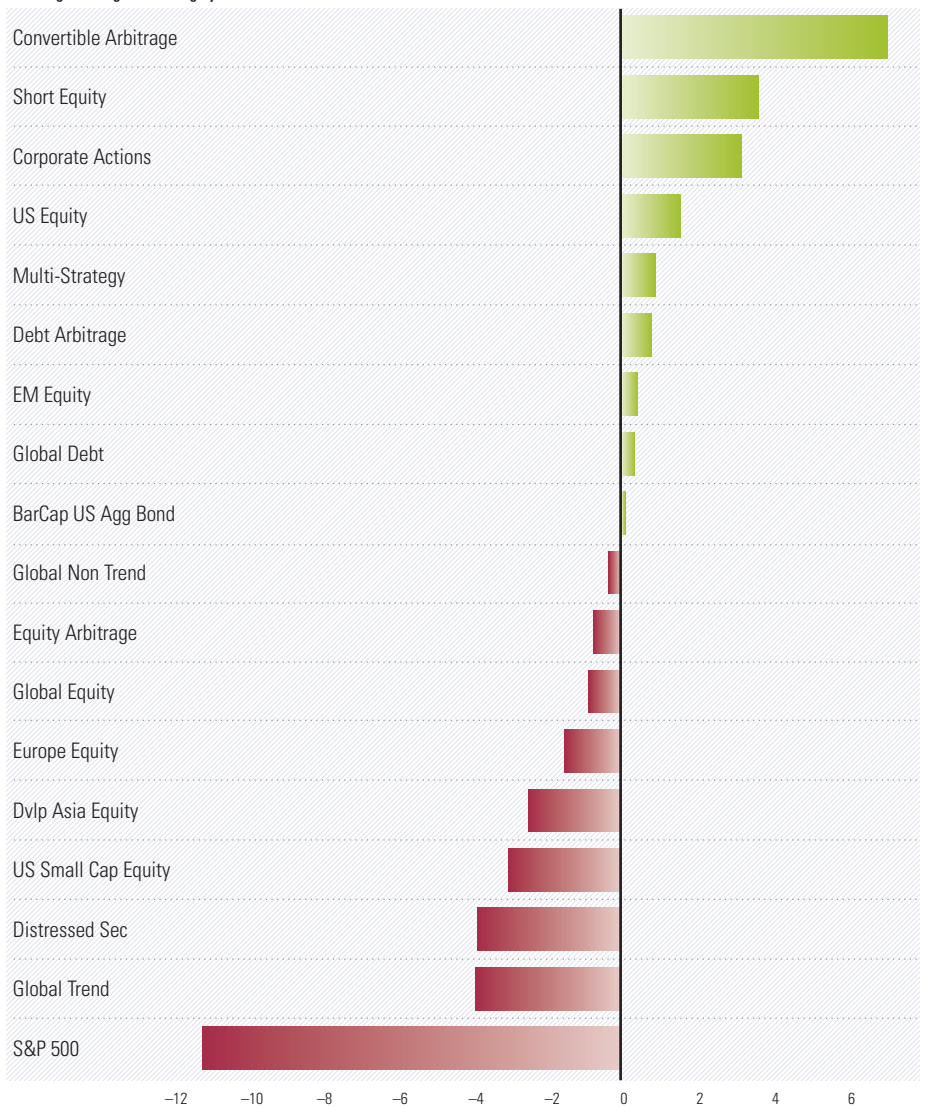
Morningstar Alternative Mutual Fund Category Averages: Quarter 1 2009 Total Returns %



### Hedge Funds

Convertible arbitrage hedge funds made the most headway in 2009, gaining 7% through March, after experiencing significant losses in the fourth quarter of 2008. Similarly, corporate actions hedge funds, many of which participate in merger arbitrage, gained 3.2% on average in the first quarter of 2009, after a record number of deal failures caused losses in late 2008. Global trend hedge funds lost 3.8% on average in the first quarter, as these price-trend-following hedge funds experienced major whipsaws in futures markets. All hedge fund category indexes outperformed the S&P 500 Index.

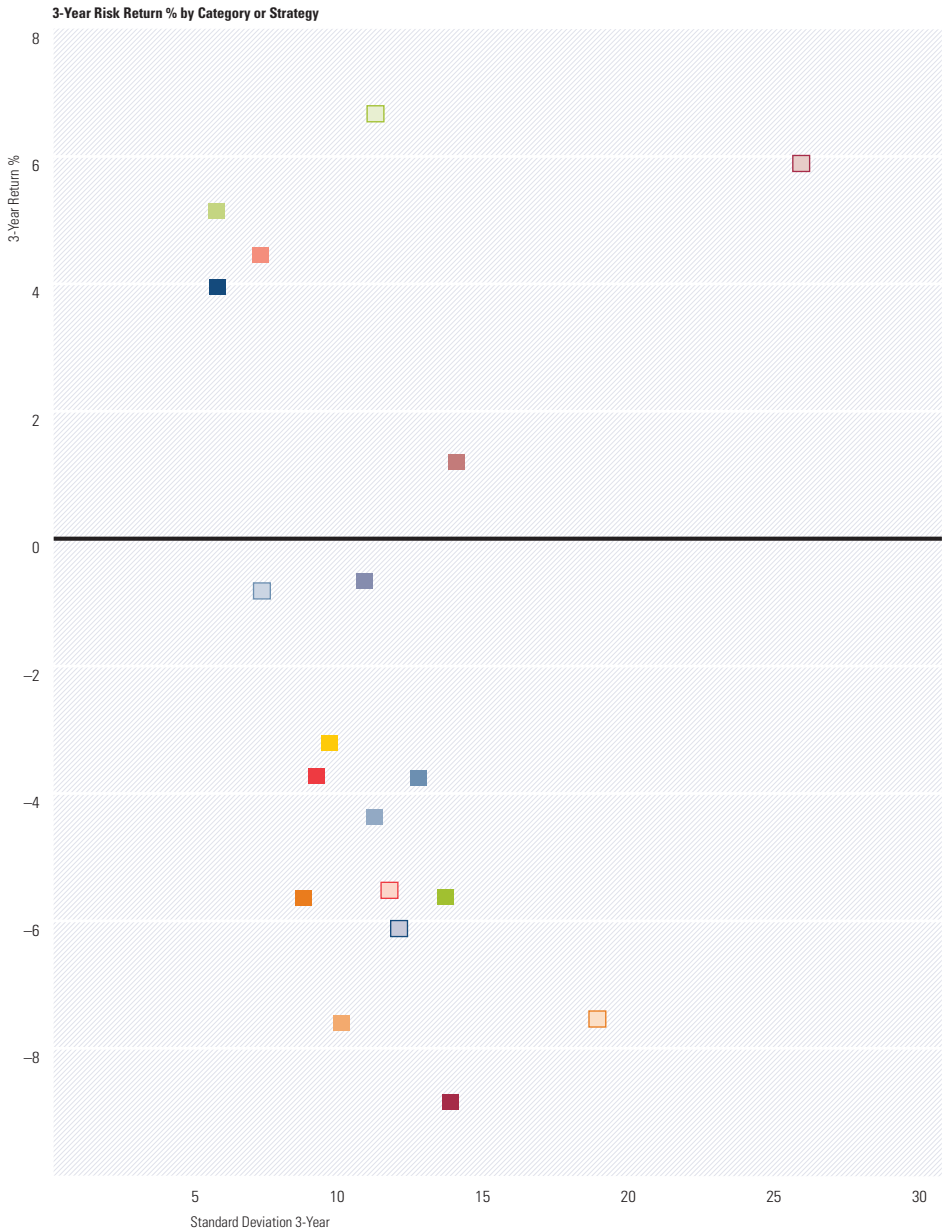
Morningstar Hedge Fund Category Indexes: Quarter 1 2009 Total Returns %



## Risk versus Return: Alternative Mutual Funds and Hedge Funds

### Three-Year Standard Deviation and Return

Six alternative investment category indexes and averages provided positive returns over the three years ended March 2009: global trend hedge funds, global non-trend hedge funds, equity arbitrage hedge funds, short equity hedge funds, bear-market mutual funds, and currency mutual funds. These positive returns were largely due to performance in 2008. Global trend and non-trend hedge funds, as well as currency mutual funds, take advantage of global macro events, which was crucial to surviving 2008. Equity arbitrage hedge funds often trade volatility, which reached a record high in 2008. Finally, short equity hedge funds and bear-market mutual funds take opposite views to the equity markets, which tanked in 2008. Global non-trend hedge funds, also known as global macro funds, provided the best risk-adjusted return in the three years ended March 2009, while U.S. small-cap equity hedge funds provided the worst.



- Convertible Arbitrage
- Corporate Actions
- Debt Arbitrage
- Distressed Securities
- Dvlp Asia Equity
- EM Equity
- Equity Arbitrage
- Europe Equity
- Global Debt
- Global Equity
- Global Non Trend
- Global Trend
- Multi-Strategy
- Short Equity
- US Equity
- US Small Cap Eqty
- US OE Currency
- US OE Bear Market
- US OE Long-Short

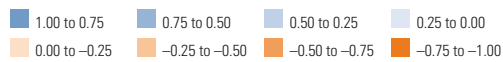
## Correlations by Alternative Fund Strategy

Three-Year Correlations: Alternative Mutual Fund Categories

	1	2	3	4
1 US OE Currency Cat Avg	1			
2 US OE Bear Market Cat Avg	-0.23	1		
3 US OE Long Short Cat Avg	0.46	-0.87	1	
4 Morningstar 1000 HF Index Cat Avg	0.51	-0.69	0.87	1

Three-Year Correlations: Hedge Fund Category Indexes

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1 Morningstar Convtbl Arbitrage HF USD	1															
2 Morningstar Corporate Actions HF USD	0.88	1														
3 Morningstar Debt Arbitrage HF USD	0.94	0.89	1													
4 Morningstar Distressed Sec HF USD	0.72	0.86	0.81	1												
5 Morningstar Dvlp Asia Equity HF USD	0.77	0.83	0.79	0.63	1											
6 Morningstar EM Equity HF USD	0.77	0.92	0.83	0.80	0.89	1										
7 Morningstar Equity Arbitrage HF USD	0.78	0.85	0.82	0.68	0.83	0.84	1									
8 Morningstar Europe Equity HF USD	0.79	0.90	0.83	0.74	0.86	0.94	0.94	1								
9 Morningstar Global Debt HF USD	0.94	0.90	0.94	0.85	0.74	0.83	0.82	0.86	1							
10 Morningstar Global Equity HF USD	0.84	0.94	0.87	0.78	0.92	0.95	0.92	0.96	0.86	1						
11 Morningstar Global Non Trend HF PUSD	0.58	0.70	0.65	0.51	0.79	0.76	0.85	0.81	0.60	0.83	1					
12 Morningstar Global Trend HF USD	0.03	0.25	0.10	0.13	0.28	0.28	0.52	0.40	0.09	0.37	0.69	1				
13 Morningstar Multi-Strategy HF USD	0.89	0.97	0.92	0.86	0.84	0.90	0.89	0.91	0.91	0.95	0.76	0.33	1			
14 Morningstar Short Equity HF PUSD	-0.54	-0.40	-0.53	-0.20	-0.30	-0.26	-0.49	-0.40	-0.46	-0.36	-0.33	-0.04	-0.39	1		
15 Morningstar US Equity HF USD	0.84	0.94	0.84	0.89	0.80	0.88	0.77	0.84	0.87	0.91	0.62	0.15	0.94	-0.24	1	
16 Morningstar US Small Cap Eqty HF USD	0.81	0.90	0.84	0.84	0.88	0.92	0.76	0.85	0.83	0.93	0.65	0.16	0.93	-0.17	0.96	1



## Correlations of Alternative Funds to Traditional Asset Classes

Correlation of Hedge Funds to US Stocks and Bonds	S&P 500 Correlation (USD)			BarCap US Agg Correlation (USD)		
	2006-04-01 to 2009-03-31 3-Year	2004-04-01 to 2009-03-31 5-Year	1999-04-01 to 2009-03-31 10-Year	2006-04-01 to 2009-03-31 3-Year	2004-04-01 to 2009-03-31 5-Year	1999-04-01 to 2009-03-31 10-Year
US OE Currency	0.28	0.26	0.08	0.10	0.11	0.30
US OE Bear Market	-0.95	-0.95	-0.93	-0.40	-0.27	0.04
US OE Long-Short	0.93	0.91	0.67	0.24	0.15	0.12

Correlation of Hedge Funds to US Stocks and Bonds	S&P 500 Correlation (USD)			BarCap US Agg Correlation (USD)		
	2006-04-01 to 2009-03-31 3-Year	2004-04-01 to 2009-03-31 5-Year	2003-01-01 to 2009-03-31 Since Index Inception	2006-04-01 to 2009-03-31 3-Year	2004-04-01 to 2009-03-31 5-Year	2003-01-01 to 2009-03-31 Since Index Inception
Morningstar 1000 HF USD	0.73	0.74	0.74	0.27	0.16	0.20
Morningstar Convtbl Arbitrage HF USD	0.65	0.62	0.59	0.44	0.31	0.31
Morningstar Corporate Actions HF USD	0.69	0.70	0.70	0.21	0.10	0.13
Morningstar Debt Arbitrage HF USD	0.66	0.65	0.63	0.38	0.26	0.33
Morningstar Distressed Sec HF USD	0.72	0.72	0.73	-0.08	-0.13	-0.05
Morningstar Dvlp Asia Equity HF USD	0.71	0.67	0.65	0.41	0.19	0.15
Morningstar Equity Arbitrage HF USD	0.55	0.54	0.53	0.39	0.24	0.27
Morningstar Europe Equity HF USD	0.70	0.68	0.69	0.32	0.19	0.22
Morningstar Event HF USD	0.72	0.72	0.73	0.11	0.02	0.07
Morningstar Global Debt HF USD	0.73	0.71	0.70	0.34	0.25	0.30
Morningstar Global Equity HF USD	0.73	0.74	0.75	0.28	0.16	0.16
Morningstar Global Non Trend HF PUSD	0.38	0.40	0.41	0.29	0.21	0.32
Morningstar Global Trend HF USD	-0.05	0.07	0.11	-0.07	-0.01	0.10
Morningstar Multi-Strategy HF USD	0.69	0.69	0.68	0.22	0.11	0.18
Morningstar Short Equity HF PUSD	-0.15	-0.09	-0.12	-0.53	-0.42	-0.30
Morningstar US Equity HF USD	0.82	0.83	0.84	0.13	0.04	0.07
Morningstar US Small Cap Eqty HF USD	0.85	0.85	0.85	0.18	0.07	0.06