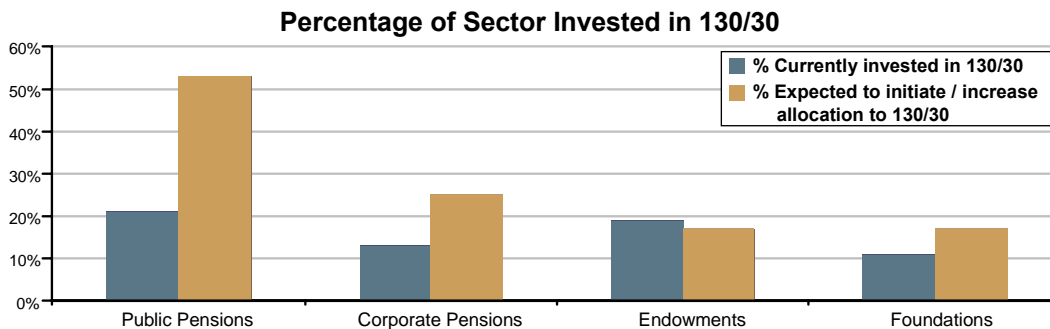


# The Landscape for 130/30 Strategies

## Institutional Investors Shift into 130/30 Strategies

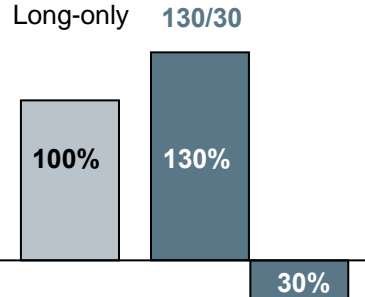
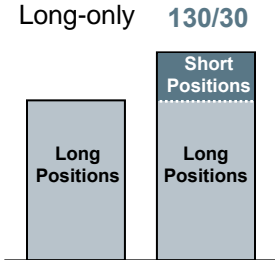

- US institutional assets in 130/30 strategies currently exceed \$50 billion and are projected to reach \$1 trillion by 2011
- Over two-thirds of 130/30 institutional investors surveyed currently have allocated more than 2% of their total assets
- 18% of European Public and Corporate Pensions surveyed are currently invested in 130/30 strategies
- More than one-third of institutional managers surveyed expect to invest in 130/30 strategies during the next three years
- Institutional investors are projected to shift 5%-20% of their assets to 130/30 strategies during the next three years
- 26% of European Public and Corporate Pensions surveyed plan to increase/initiate a 130/30 strategy



Source: Merrill Lynch Pensions & Endowments 21: Institutional Demand for 130/30, January 2008 160 US institutional investors with assets totaling \$1.5 trillion and 40 institutional investors with assets over \$0.5 trillion were surveyed.

## What is 130/30

**130/30 strategies make traditional equity allocations work harder and smarter, generating greater returns by investing in highest conviction ideas.**

<p><b>Long and Short Stock Positions</b></p> <p>Long-only constraint is removed, affording the manager freedom to express negative views on a security.</p> 	<p><b>Increased Number of Stocks</b></p> <p>Opportunity set is broadened; increased opportunity to add value at the stock-specific level.</p> 	<p><b>Net 100% Market Exposure</b></p> <p>Proceeds from the short sale are used to purchase an additional 30% of long exposure; net exposure is 100%, beta is maintained close to 1.</p> 	<p><b>Components of Return</b></p> <ol style="list-style-type: none"> <li>Return from 130% long</li> <li>+ Return from the 30% short</li> <li>+ Interest on short collateral</li> <li>- Financing costs</li> <li>= <b>Greater Alpha Potential</b></li> </ol>
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

Source: JP Morgan 130/30 Large Cap Product Profile, December 31, 2006

# The Landscape for 130/30 Strategies

## Active Extension Benefits: Why 130/30?

### What are the benefits of adding a short component?

Increased alpha potential, increased risk-adjusted returns (i.e. increased information ratio) and risk mitigation (ability to protect yield in down markets, less volatile) compared to long-only portfolios.

- ✓ **Better alpha: 130/30 offers greater alpha potential than long-only strategies**
- ✓ **Risk-adjusted return: increased active risk can be converted into excess returns**
- ✓ **Information Ratio: Higher leverage and shorting strategies generate higher IR**

SSI Portfolio Examples	Expected		Realized	
	SSI Core Equity (long-only)	SSI 130/30 (long-only extension)	SSI Core Equity (long-only)	SSI 130/30 (long-only extension)
Alpha (Gross)	2.50%	5.00%	4.50%	7.00%
Tracking Error	2.50%	4.00%	1.77%	4.51%
Information Ratio	1.00	1.25	2.54	1.55
Beta	1.00	1.00	1.01	0.90

Inception dates – SSI 130/30: 07/01/2007; SSI Core Equity: 01/01/1988

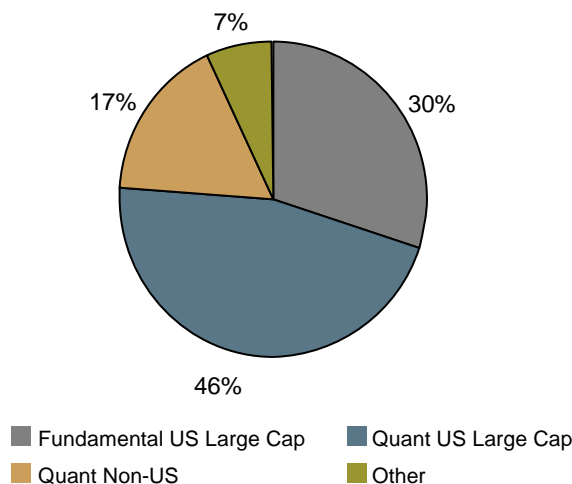
## 130/30 Strategies Vary

### Types of Managers

- Quantitative only
- Fundamental only
- Quantitative + Fundamental
- US vs. Global

### Market Capitalization

Over 3/4 of current 130/30 mandates are invested in US large cap equity



### Benchmarks

- S&P 500
- Russell 1000
- S&P Small Cap
- S&P Mid Cap

Additional Risks	
Tracking Error	Active extension strategies may have increased tracking error.
Shorting	Short positions increase risk when prices move up. Theoretically, there is no limit to how high the stock price that has been shorted can rise. The potential loss on an individual short position is unlimited.
Leverage	Leverage can increase volatility, however in a 130/30 portfolio, it is not in the form of market exposure, but active exposure.
UBTI	Tax exempt organizations are not allowed to borrow funds to earn a profit. Short positions must be carefully monitored and controlled to avoid inadvertently triggering UBTI (Unrelated Business Taxable Income).

Manager Due Diligence		
Short Selling Experience	√	Does your manager have a proven record of identifying overvalued and undervalued stocks?
Short Sell Discipline	√	Does your manager have experience with shorting and the use of leverage?
Short Squeeze	√	Does your manager have guidelines on the types of stocks to short (minimum liquidity, maximum total market short exposure, maximum loss).
Operational expertise/ Infrastructure	√	What is your manager's operational experience with short trading and leverage?
Prime Broker Relationship	√	What is your manager's relationship with Prime Brokers? Prime brokerage accounts are required to short securities and purchase on margin.

## Selected Bibliography

1. Gringold, Richard C., "The Fundamental Law of Active Management," *The Journal of Portfolio Management*, Vo. 15, No. 3 (spring)
2. JPMorgan Asset Management, "Pension Investment Strategies for a New Playing Field," December, 2006
3. JPMorgan Asset Management, "Why You Should Let Your Long-Only Manager Short Stocks," *Equity Insights*, August 2006
4. UBS Global Asset Management, "130/30 Equity Investing – Relaxing the Long Only Constraint," June 27, 2007
5. AllAboutAlpha.com, "130/30 rationale, value & 'myths' covered in newly released slideware," June, 2008
6. Merrill Lynch, "Institutional Demand for 130/30," *Pensions & Endowments 21*, January 2008
7. "Long-Short Extensions: How Much Is Enough?" Summarized by Roger Clarke, Harindra de Silva, CFA, Steven Sapra, CFA, and Steven Thorley, CFA – *CFA Digest*, May 2008, Vol. 38, No. 2: 101-102
8. "Understanding 130/30 Equity Strategies," Gordon B. Fowler, Jr. – *CFA Institute Conference Proceedings Quarterly* (Sep 2007): 11-16
9. Jacobs, Bruce I., and Kenneth N. Levy, "Enhanced Active Equity Portfolios are Trim Equitized Long-Short Portfolios," *The Journal of Portfolio Management*, Summer 2007b, pp. 19-225
10. Sorensen, Eric, Ronald Hua and Edward Qian, "Aspects of Constrained Long-Short Equity Portfolios," *The Journal of Portfolio Management*, Winter 2007, pp. 12-22
11. Jacobs, Bruce I., and Kenneth N. Levy, "Enhanced Active Equity Strategies: Relaxing the Long-Only Constraint in the Pursuit of Active Returns." *The Journal of Portfolio Management* (Spring 2006), pp. 45-55
12. Sorensen, Ronald Hua, and Edward Qian. "Aspects of Constrained Long-Short Equity Portfolios." *The Journal of Portfolio Management* (Winter 2007), pp. 12-20
13. Gastineau, Gary L., "The Short Side of 130/30 Investing for the Conservative Portfolio Manager." *The Journal of Portfolio Management* (Winter 2008)
14. Lo, Andrew W. and Patel, Pankaj N., "130/30: The New Long Only." *The Journal of Portfolio Management* (Winter 2008)
15. Johnson, Gordon, Ericson, Shannon and Srimurthy, Vikram, "An Empirical Analysis of 130/30 Strategies: Domestic and International 130/30 Strategies Add Value over Long-Only Strategies." *The Journal of Alternative Investments* (Fall 2007)
16. Joseph, J., "Traditional Meets Alternative in the Form of 130/30 Fund", *Investment Advisor Magazine*, May 2007
17. "130/30: Going Short is the Way to Gain Alpha," *European Pensions & Investment News*, May 2006

## About SSI

SSI Investment Management (SSI) specializes in alpha generating investment strategies. Founded in 1973, SSI is recognized as a pioneer and innovator in systematic investment strategies and the integration of a disciplined quantitative process with fundamental analysis. SSI has successfully managed long-only products since 1981 and its expertise in short selling has been honed by the Firm's 35 years of experience in the alternative marketplace. The Firm has 30 employees, including 12 investment professionals. The Senior Investment Team has worked together for more than 14 years with no turnover during that period. SSI is 100% employee-owned and based in Los Angeles, California.

## Contact Information

**Damon Skinner, CIMA®**  
*Vice President, Institutional Sales*

**Direct: 310.595.2027**  
**E-mail: [DamonS@ssi-invest.com](mailto:DamonS@ssi-invest.com)**

**SSI Investment Management**  
9440 Santa Monica Boulevard, 8<sup>th</sup> Floor  
Beverly Hills, CA 90210

Telephone: 310.595.2000  
Facsimile: 310.595.2089  
[www.ssi-invest.com](http://www.ssi-invest.com)

## Performance Disclosure

The 130/30 Extended Alpha ("Strategy") began July 1, 2007. The portfolio is an estimated 130% long (with 70-90 positions) and 30% short (with 20 to 40 positions). All returns are based in U.S. dollars and reflect, on a percentage basis for each of the periods indicated: (a) the net increase (decrease) of the Strategy, dollar-weighted, including adjustments for unrealized gains and losses, the reinvestment of dividends and other earnings, the deduction of costs, except for SSI's management fees, time-weighted to adjust for additions and withdrawals, and (b) the net increase (decrease) of the Index. SSI believes a performance comparison versus the total return of the S&P 500 ("Index") is appropriate. However, the volatility of this strategy could be greater than the volatility of the S&P 500 due to the inclusion of slight margin and short positions. The return, if any, above the Index is dependent upon SSI's discretionary management. The other indices shown are not necessarily comparable to SSI's Strategy. These are widely recognized market indices that are shown for informational purposes only. The performance returns from May 1998 through June 2007 are back-tested and generated solely based on SSI's quantitative model used for the Long/Short Equity Market Neutral Strategy. Simulated performance results have many inherent limitations, some of which are described below. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are often significant differences between simulated results and actual results subsequently achieved. One of the limitations of simulated performance results is that they are prepared with the benefit of hindsight. In addition, hypothetical trading does not involve financial risk, and no hypothetical trading record can completely account for the impact of financial risk in actual trading. The results may not reflect the impact that any material market or economic factors might have had on SSI's use of the simulated model, if the model had been used during the period to actually manage client assets. SSI was not managing money within this strategy during the period of the simulation. There are numerous other factors related to the markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of simulated performance results and all of which can adversely affect actual trading results. A client's actual return will be reduced by the advisory fees and any other expenses which may be incurred in the management of an investment advisory account. See SSI's Form ADV, Part II for a complete description of the investment advisory fees customarily charged by SSI. As an example, an account with an initial \$1,000,000 investment on January 1, 2003, earning a recurring 5% semi-annual gross return (10.25% annualized), and paying a .375% semi-annual management fee (0.75% annual fee) would have grown to \$1,310,225 on a gross of fees basis and \$1,300,392 on a net of fees basis by December 31, 2005 (3 years).

THIS MATERIAL IS INTENDED ONLY FOR QUALIFIED INVESTORS. IT DOES NOT CONSTITUTE AN OFFER TO PURCHASE AN INTEREST IN ANY PRIVATELY OFFERED FUND MANAGED BY SSI. SSI INVESTMENT MANAGEMENT INC. BELIEVES THAT RESULTS WERE GENERATED WITH AN INVESTMENT PHILOSOPHY AND METHODOLOGY SIMILAR TO THAT DESCRIBED HEREIN. FUTURE INVESTMENTS, HOWEVER, WILL BE MADE UNDER DIFFERENT ECONOMIC CONDITIONS, IN DIFFERENT SECURITIES AND USING DIFFERENT INVESTMENT STRATEGIES. IT SHOULD NOT BE ASSUMED THAT FUTURE INVESTORS WILL EXPERIENCE RETURNS, IF ANY, COMPARABLE TO THOSE DISCLOSED HEREIN. THE INFORMATION GIVEN IS HISTORIC AND SHOULD NOT BE TAKEN AS ANY INDICATION OF FUTURE PERFORMANCE. THE PERFORMANCE DATA WAS PREPARED BY SSI INVESTMENT MANAGEMENT INC. AND WAS NOT COMPILED, REVIEWED OR AUDITED BY AN INDEPENDENT ACCOUNTANT. ANY INVESTMENT IS SUBJECT TO RISK OF LOSS. THE USE OF LEVERAGE INCREASES THE INVESTMENT GAIN OR LOSS IN DIRECT PROPORTION TO THE DEGREE OF LEVERAGE USED.