130/30 Uncovered

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See “Important Information” for a discussion of standard performance data, some of the principal risks related to this investment strategy and other information related to this presentation.

What is a 130/30 Strategy?

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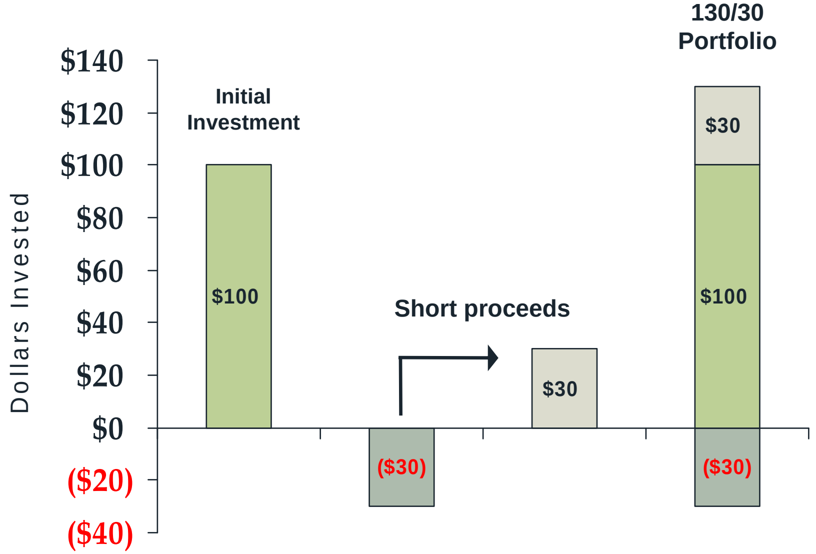
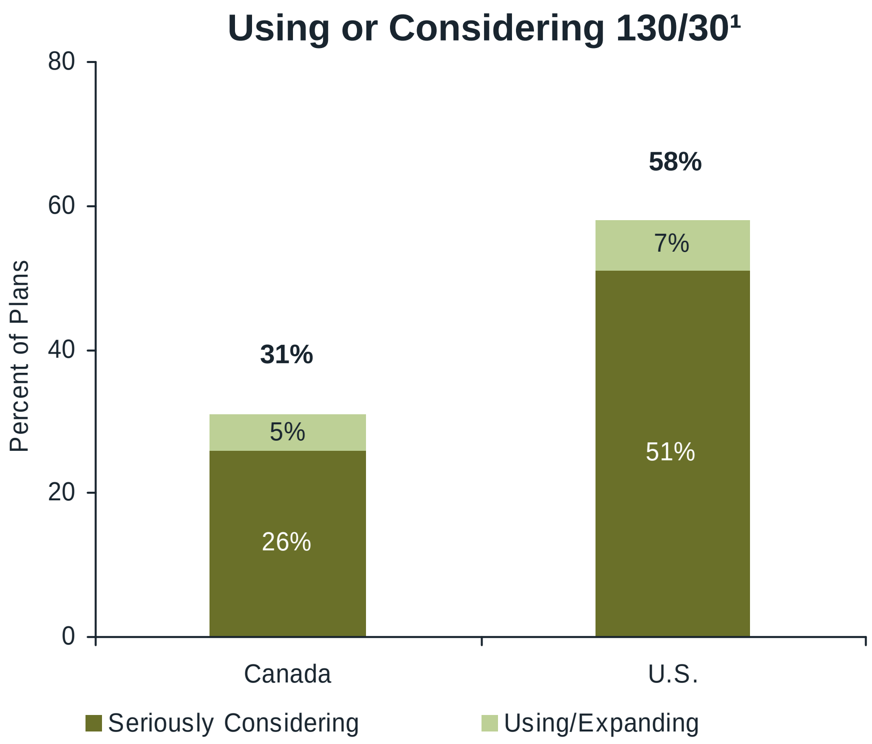
What is a 130/30 Strategy?

- An equity portfolio with 130% long equity exposure and 30% short exposure
- Managers sell short stock they have a negative view on
- Proceeds from the short sales are then invested in additional long exposure
- Final portfolio seeks to have the same overall market exposure (beta) of a normal long-only portfolio



Note: For illustrative purposes only.

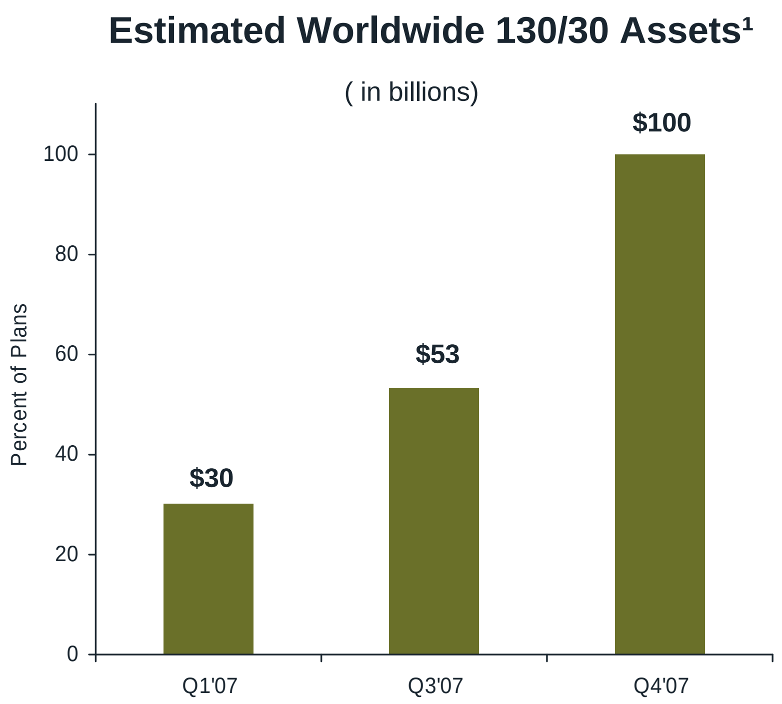
North American DB Plans Express Interest in 130/30



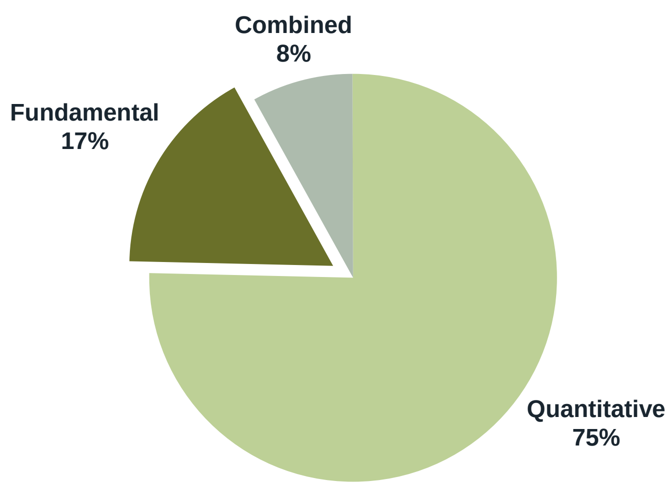
- Majority of U.S. DB plans seriously considering or using/expanding 130/30 compared to one third of Canadian plans
- In both countries, large plans[2] have greater interest: about three-quarters seriously considering 130/30

[1] Canadian Source: Pyramis survey of Canadian DB Plans, “Exploring New Ground: Key Global Pension Strategies for Today's Investment Landscape”, 2007; U.S. Source: Pyramis survey of U.S. DB plans, “Today’s Pension Investing Playbook: Key Strategies for a New Era”, 2007.
[2] In the U.S. “large plans” were defined as plans with over $5 billion for public DB plans and plans with over $1 billion for corporate DB plans, while in Canada large plans were defined as having over $5 billion for both corporate and public DB plans

Worldwide 130/30 Market Growing Rapidly



- Merrill Lynch estimates that global 130/30 assets could reach as high as $1 trillion over the next few years[1]
- Based on U.S. eVestment Alliance universe, quantitative managers hold the greatest 130/30 market share[2]



[1] Source: Pensions & Investments (Q1 ’07, Q3 ’07); Q4 ’07 and future estimates from Merrill Lynch, “Institutional Demand for 130/30”, Jan 2008.
[2] Source: eVestment Alliance, US database, Dec 2007

Why Invest in 130/30?

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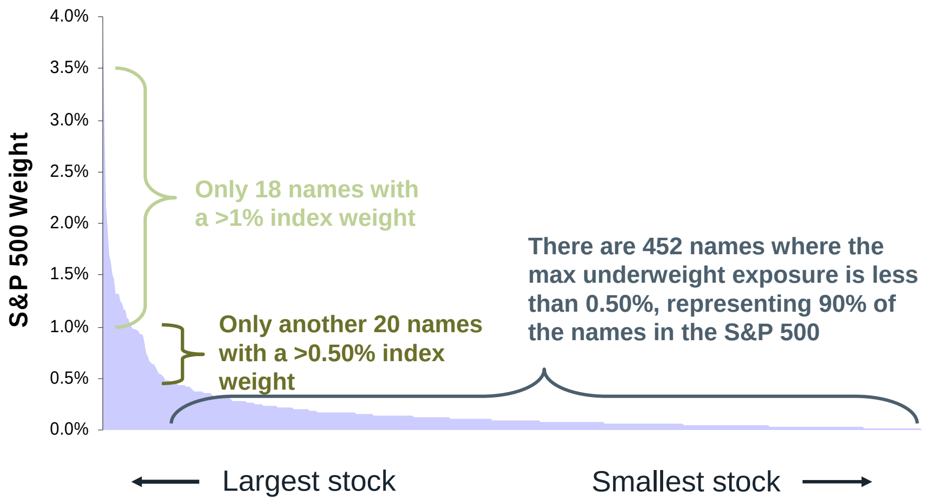
Why the Interest in 130/30?

- Future return environment expected to be low
- Plans are searching for additional alpha to minimize future contributions
- 130/30 portfolios can generate the alpha plans are searching for through:
  - Elimination of the short constraint
  - Greater exposure to a manager's skill
- Natural extension of a long-only strategy

Long-only Constraint Limits Opportunity Set

- The long only constraint severely limits a manager's ability to capitalize on the information advantage created by predicting the lowest performing stocks
- Being underweight a benchmark weight for most securities may not have a meaningful impact on the total return
  - Currently 452 S&P 500 stocks with less than 0.50% weighting
  - Opportunity cost in terms of both performance and risk
- 130/30 manager can underweight an overvalued security by a margin larger than its benchmark and overweight long positions in undervalued securities



Source: Factset Research Systems. S&P 500 holdings information as of as of January 31st, 2008

Manager Skill May be Better Utilized

- 130/30 portfolios have greater exposure to a manager's skill
- Structure allows for leverage of the manager's skill while market leverage remains constant at net 100% long
- At present, larger market inefficiencies exist on the short side due to the disproportionately large amount of positive research versus negative research
- Potential for increase in return also comes with potential for higher information ratios

Shorting Can Lead to More Efficient Portfolios

- Adding shorting to a portfolio has the similar effect of adding a non-correlated asset to a portfolio – shifts the efficient frontier outward
- Can result in increased risk-adjusted returns and information ratio

Source: FMRCo. For illustrative purposes only.

Evaluating 130/30 Strategies

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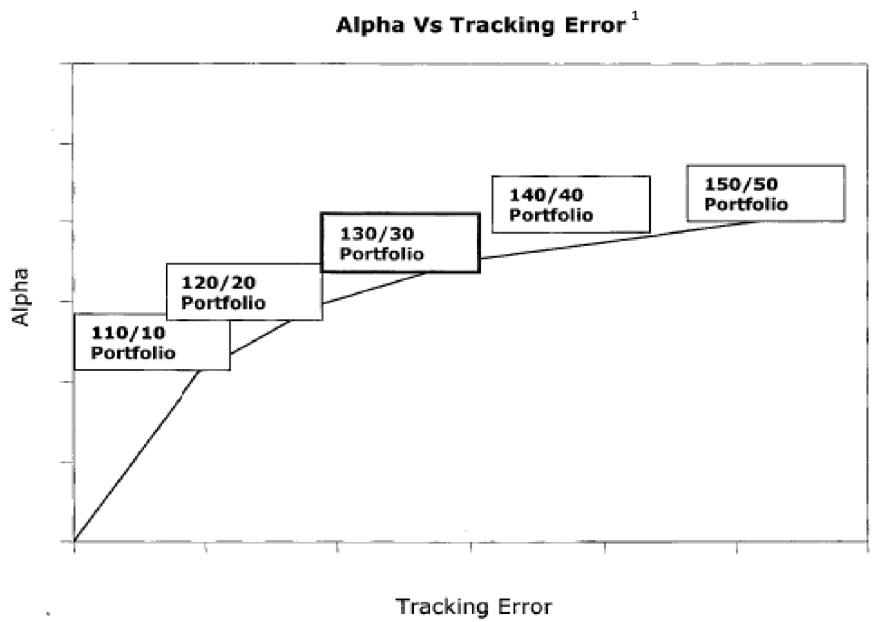
Considerations When Investing in a 130/30 Strategy

- What is the most appropriate level of shorting?
- Quantitative vs. Fundamental
- Does the investment manager have the capability?
  - Short <u>and</u> long experience
  - Risk management
  - Depth of resources
  - Prime broker arrangement
  - Trading platform

What is the Most Appropriate Level of Shorting? 130/30?

- Appropriate level of shorting depends on desired risk profile
- Majority of active extension products use a 130/30 strategy[2]
  - Other levels of shorting do exist (i.e. 150/50, 110/10, etc.)
- Most studies exhibit two key findings:
  1. The slope of the Information Ratio (IR) flattens as short exposure increases
  2. A significant amount of the benefit comes from the first 30% short exposure



[1] Source: Callan. For illustrative purposes only.

[2] Source: eVestment Alliance, US database, Dec 2007

Quantitative or Fundamentally-Based 130/30?

	Quantitative	Fundamental
Investment Approach	▪ Utilize complex mathematical models to (potentially) identify attractive investment opportunities	▪ Traditional "stock pickers" who work exhaustively to understand a company before investing in it
Investable Universe	▪ Models evaluate and rank every stock in the investable universe	▪ Limited to number of stocks the research analysts can cover
Portfolio Construction	▪ Typically holds larger number of stocks ▪ Greater diversification	▪ More concentrated portfolio ▪ Can benefit from pairs trades and other unique situations and "can be managed to be risk aware"

Sources: Mercer Perspective, *Active Extension Strategies – Relaxing the Long-Only Constraints July 2007;*
Wilshire Consulting, *Short Extension Strategies, To 130/30 and Beyond!*

Shorting Requires Risk Management

- Short sales have different risks compared to long positions:

  - Maximum gain on long position = unlimited
  - Maximum loss on long position = 100% of the purchase price (if price falls to zero)
  - Maximum gain on short sale = 100% of the sell price (if price falls to zero)
  - Maximum loss on a short sale = unlimited (same as long gain)

- Introducing shorting can introduce more tracking error

- Managers should have tools and shorting experience to manage the added risk exposures of a 130/30 portfolio

Broad Resources Required to Generate Short Ideas

- 130/30 portfolios constantly require approximately 30% of short investments
- Structure forbids managers from only shorting opportunistically
- Firm must have the resources to generate a robust pool of short ideas
- Particularly important for fundamental 130/30 managers

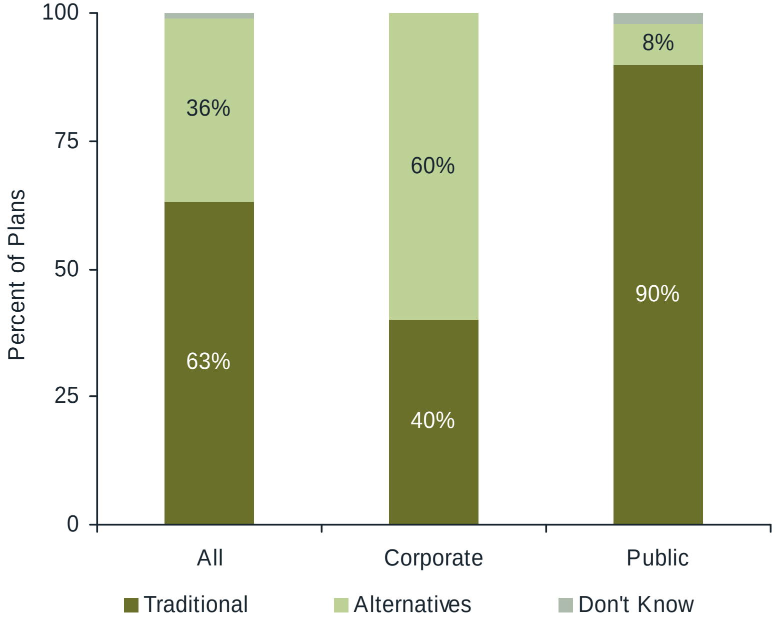
Be Sure to Ask Why a Manager is Shorting

- There are a variety of different reasons to short, each with their own implications for risk and return
- Manager could short strictly for alpha
- Manager could short as a hedge
- Manager could short to raise cash
- Fundamental managers can short for different reasons than quant managers

Where Does 130/30 Fit?

- Majority of U.S. DB plans (63%) believe 130/30 equity strategies fit within the traditional asset class
- Benchmark for 130/30 portfolio typically the same as long-only portfolio, however explicit 130/30 benchmarks do exist
- Alpha target for the long/short portfolio should be higher than the long-only alpha target due to leverage

Asset Category of 130/30: Traditional vs. Alternative



Source: Pyramis survey of corporate and public DB plans, "Today's Pension Investing Playbook: Key Strategies for a New Era", 2007.

Operational Considerations

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Prime Broker Relationship

- **Stock Borrow Inventory**
  - Access to deep pools of liquidity, including the “hard to borrows”
  - Quality of the borrow inventory (i.e. pension vs. retail lenders)
  - Expansive global coverage
  - Beneficial call-back sequence
- **Stable of Prime Brokers**
  - Allows access to multiple inventories and competitive pricing
  - Traders should focus on inventory and best pricing while portfolio managers focus on idea generation
- **Pricing**
  - Competitive borrow and financing rates
- **Operational Efficiency**
  - Robust reporting capabilities
  - Use of experienced consultant services
  - Operational compatibility with investment manager

Trading and Derivatives Issues to Contemplate

- Trading expertise
  - Stock borrow/lending rates and availability
  - Extensive international complexities
  - Currency - share class hedging
  - Algorithmic and program trading
  - Maintain desired portfolio construction during rebalance

- Managing long and long/short on one platform
  - Conflict management
  - Personal trading of investment personnel
  - Front-end compliance

- Derivatives execution
  - Product oversight and portfolio management tools
  - Derivatives market expertise
  - Communication and transparency across functional areas

Summary

- Interest in 130/30 portfolios expected to continue to grow as pension plans search for additional sources of alpha
- 130/30 portfolios have the ability to generate additional alpha through:
  - Elimination of the short constraint
  - Greater exposure to a manager’s skill
- Investors need to consider many factors when investing in 130/30:
  - Quantitative vs. Fundamental
  - Long and short track record
  - Investment resources
- Managing a 130/30 portfolio requires a robust operational platform
- Despite complexity, most pension plans still view 130/30 as a traditional asset class

Biographies

John Power
Senior Vice President

John Power is senior vice president of U.S. equities for Pyramis Global Advisors, a Fidelity Investments Company. JP has helped build the firm's institutional equity management capabilities since his arrival in early 2005. He is team leader for the Pyramis large cap core, large cap 130/30, small/mid cap core, and concentrated small cap strategies in addition to managing the Fidelity Growth America Fund and other mutual fund portfolios available exclusively to Canadian investors.

Prior to joining Pyramis, JP was a principal and member of the Investment Strategy Committee at Oechsle International Advisors. In this role, he ran the firm's risk management process and worked closely with the firm's clients and industry consultants. From 1997 to 2000, he served as head of Fixed Income for Santander Global Advisors. JP was with Baring Asset Management from 1987 to 1997, serving as senior vice president and head of North American Fixed Income in both Boston and London. He has more than 23 years of investment industry experience.

JP earned a Bachelor of Arts degree in Economics from Middlebury College in 1982 and a Master's degree in Business Administration from The Wharton School at the University of Pennsylvania in 1986. He holds the Financial Industry Regulatory Authority (formerly NASD) Series 7 license.

Biographies

Jim Dwinell
Vice President

Jim Dwinell is a vice president and institutional portfolio manager at Pyramis Global Advisors, a unit of Fidelity Investments. In this role, he is responsible for the portfolio positioning, as well as sales and client service interaction for U.S. equity disciplines.

Prior to joining Pyramis, Jim was a managing director and senior product manager for all domestic equity investment products at Babson Capital Management from 2000 to 2006. He was responsible for developing and launching new domestic equity strategies, as well as distribution and client service support for established equity strategies. From 1998 through 2000, Jim worked at Putnam Institutional Management covering domestic, international, and global growth equity portfolios in a product management role. He began his career as an associate at Massachusetts Financial Services, and served in the institutional sales and trading groups at Prudential Securities in New York.

Jim earned a Bachelor of Arts degree from Hobart College.