



Research Insight

2008 Consultant Search Forecast Annual Survey

February 2008

- **Our coverage increased to 74 consulting firms, including 16 of the top 20 U.S. firms and 11 Canadian firms**
- **Overall search activity is expected to increase substantially in 2008**
- **Alternatives, particularly hedge funds/fund of hedge funds, will be the most important area of focus**
- **Foreign equity products, including global equity mandates, will see more interest**
- **Demand for U.S. equities will continue to decline substantially, especially among defined benefit pension plan sponsors**
- **Core and core plus fixed income products are losing interest across the board**
- **Liability-driven investing is still mainly the interest of corporate plan sponsors**
- **Target date retirement funds will soak up the vast majority of defined contribution searches**
- **130/30 and portable alpha products will get more attention from the larger consultants**
- **Canadian investors will be mainly focused on foreign equity investments**

Introduction

Casey Quirk and eVestment Alliance have worked together to produce the second annual consultant search forecast. In this report, we summarize search activity for 2007 as reported by consultants in the United States and Canada and provide a forward-looking perspective into search activity for 2008. We have made a number of improvements to our research since last year, including a more detailed view on liability-driven investing and defined contribution searches. We hope this report will help the investment management community better understand the expectations of buyers and influencers in the upcoming year.

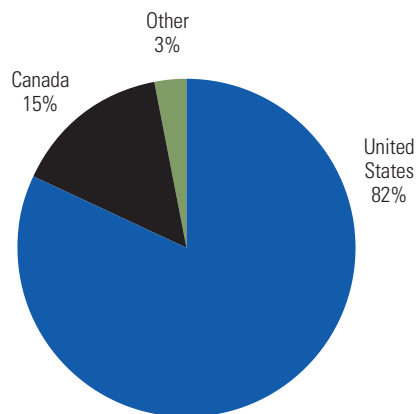
Increasing Coverage of the Survey

In 2008, 74 consulting firms based in the United States and Canada responded to the survey. This is more than a 50% increase from last year when 47 consulting firms responded to the survey. Sixty-one of the consultants are based in the United States and have combined assets under advisement (“AUA”) of \$10 Trillion, representing approximately 75% of the AUA in the U.S.

In addition, 16 of the top 20 consulting firms in the United States are represented in this year’s results. The number of U.S. firms was evenly split across large, mid-sized, and small firms. We defined firms with over \$100 Billion AUA as large, firms with \$25-100 Billion AUA as mid-sized, and firms with under \$25 Billion as small. Eleven firms are based in Canada, and their combined \$735 Billion AUA represents approximately 80% of the Canadian market.

Exhibit 1

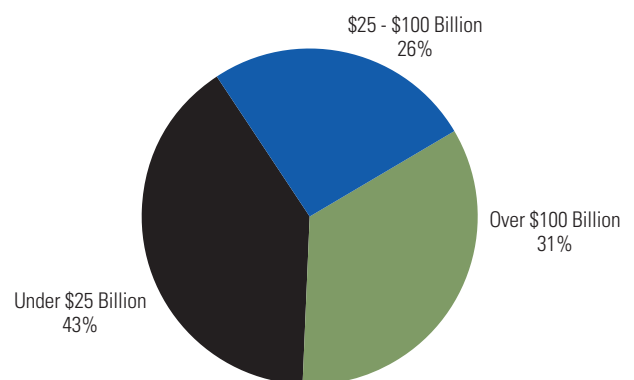
Respondent Universe by Geography



Total Number of Respondents: 74

Exhibit 2

Respondent Universe by Assets Under Advisement



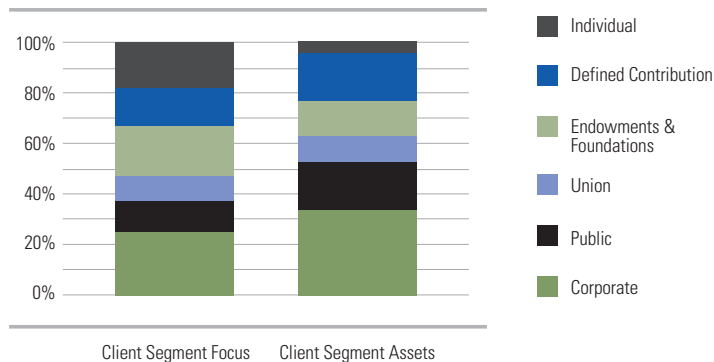
Total Number of Respondents: 74

Primary Client Segments

Two-thirds of the U.S.-based firms have institutions as their primary client segment. Institutions include corporate, public, Taft-Hartley/multi-employer defined benefit pension plans, and endowments and foundations. On an asset-weighted basis, institutions represent 75% of the assets under advisement. Although 16% of the U.S. consultants focus on the individual market, they are in the small-end of the spectrum and only make up 2% of the total assets represented in the survey.

Exhibit 3

Respondent Universe by Primary Client Segment and Client Segment Assets



Search Activity

Consultants in the survey conducted approximately 4,000 searches in 2007 and placed an estimated \$550 Billion in those searches. The consultants that participated in last year's survey conducted approximately 3,000 searches in 2006 and placed an estimated \$250 Billion in those searches. The average search size grew by 80% from \$71 Million in 2006 to \$132 Million in 2007.

Exhibit 4

Respondent Universe
by Number of Searches Conducted in 2007

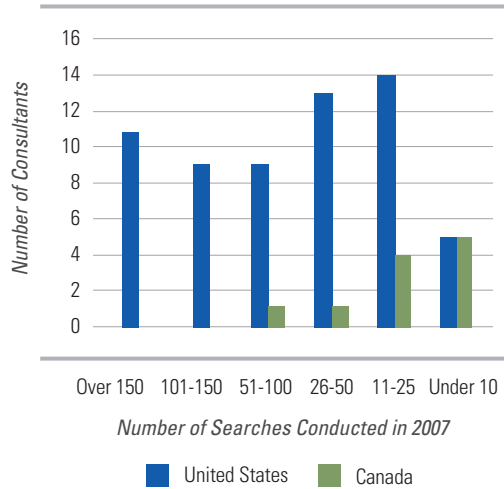
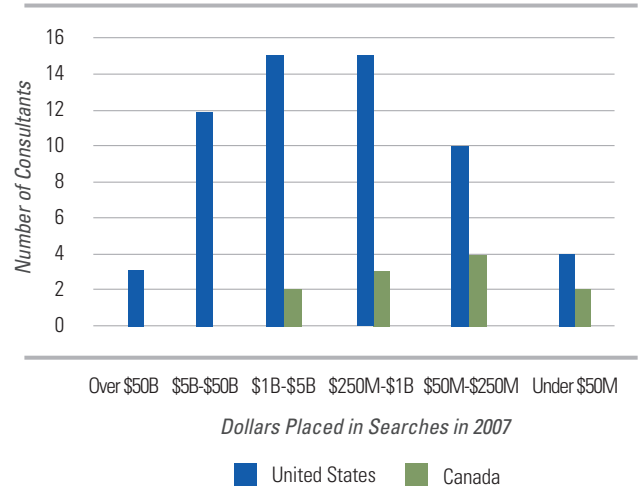


Exhibit 5

Respondent Universe
by Dollars Placed in Searches in 2007

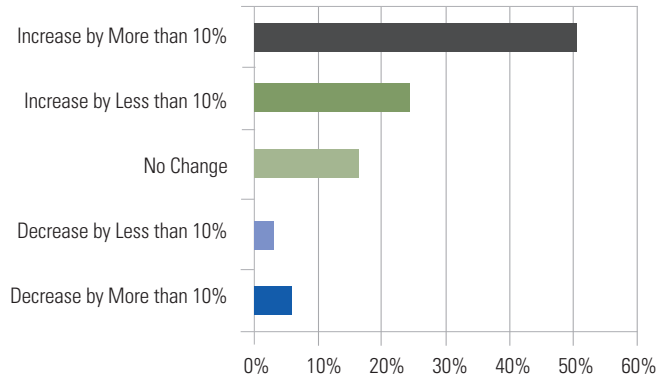


Continued Increase in Search Activity

Both U.S. and Canadian consultants expect search activity to increase substantially in the upcoming year. Over half of the U.S. consultants expect to see a large change in search activity in the upcoming year and in aggregate expect a 7% increase from last year. Last year, the survey respondents expected a similar increase of 6% in search activity from 2006 to 2007.

Exhibit 6

2008 Search Expectations Relative to 2007



Small consultants expect the greatest increase in search activity, with over 70% of these consultants expecting an increase of more than 10% of their 2007 search activity. This finding is similar to last year, and it may be a result of increased usage of many specialist firms in the consulting arena. Nevertheless, the large consultants will likely place over 80% of search dollars in 2008.

Exhibit 7

2008 Search Relative to 2007 Expectations by Consultant Size

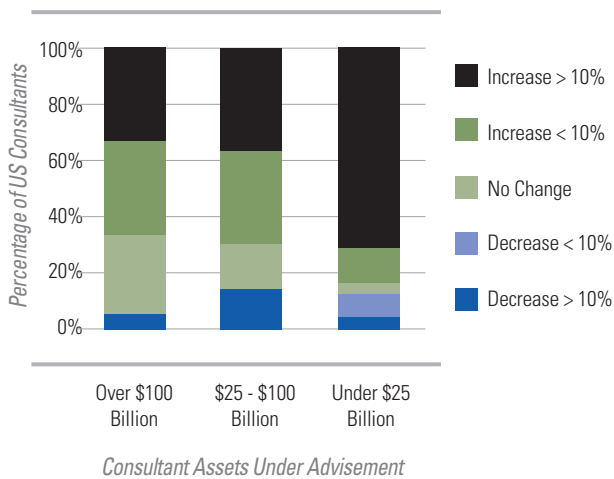
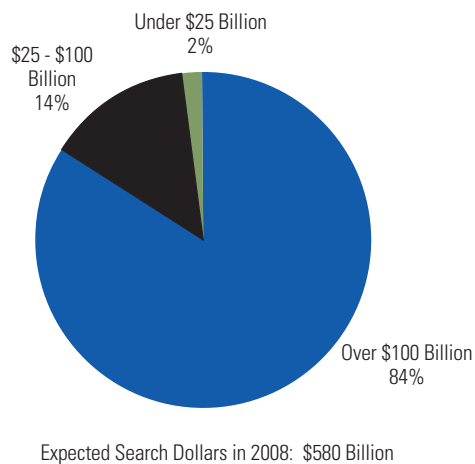
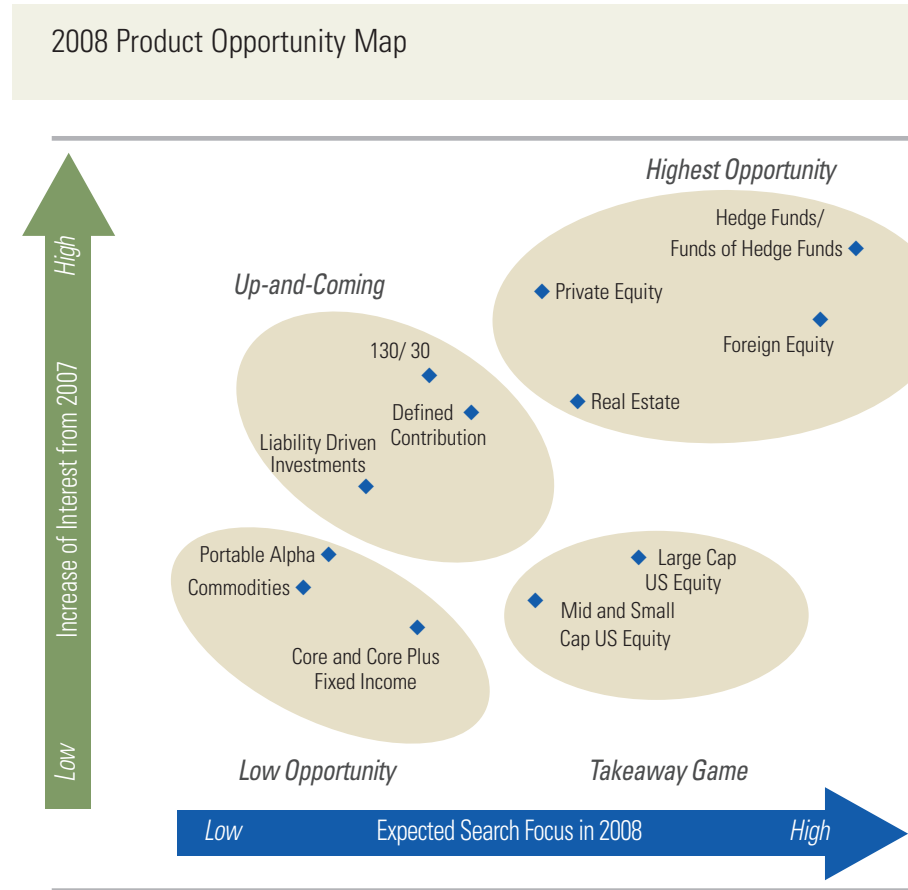


Exhibit 8

2008 Search Expectations in Dollars by Consultant Size





2008 Product Opportunity Map

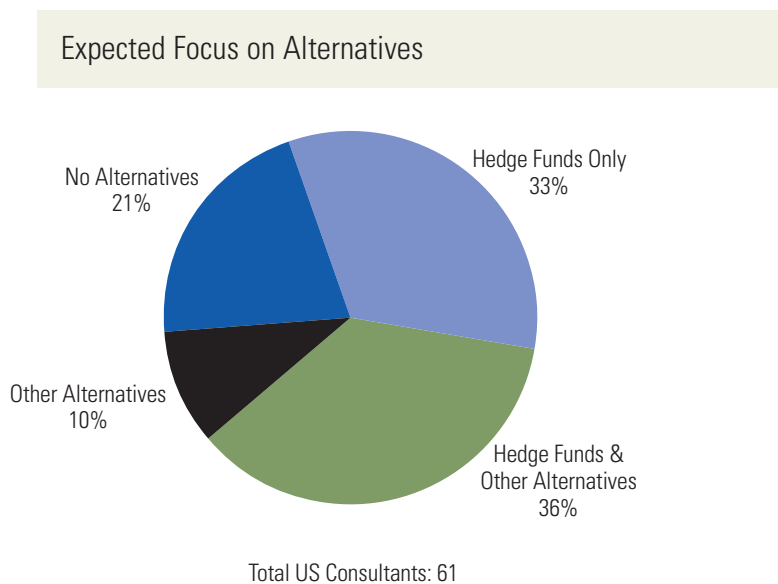
The 2008 product opportunity map shows the expected demand for product areas in 2008 and the relative increase of interest in these product areas from the previous year. We have divided the universe into four primary categories and have defined them below.

1. The Highest Opportunity asset classes will be the largest areas of focus for consultants in 2008, and will experience the most growth from the previous year.
2. The Up-and-Coming asset classes are areas of rising interest, and are expected to grow substantially in the upcoming year.
3. The asset classes in the Takeaway Game category will see a fair amount of searches, but will not be an area of growth, resulting in significant turnover within the asset classes.
4. The Low Opportunity asset classes will be faced with declining interest and little focus from the consultants in 2008.

Alternatives Lead Demand in 2008

Alternatives, as a whole, will see strong demand from consultants in 2008, with 80% of consultants expecting to focus on alternatives. As in 2007, hedge funds, including fund-of-hedge-funds (“FoHFs”) will be the most sought after products. Seventy percent of the consultants surveyed expect to conduct the most searches in the hedge fund area, with nearly half of these consultants expecting to focus solely on hedge funds. Pension plan sponsors, in particular, are expected to increase their demand for alternatives, with over 90% of pension consultants, representing \$6.5 Trillion AUA, expecting to focus on alternatives in 2008, up almost 50% from 2007.

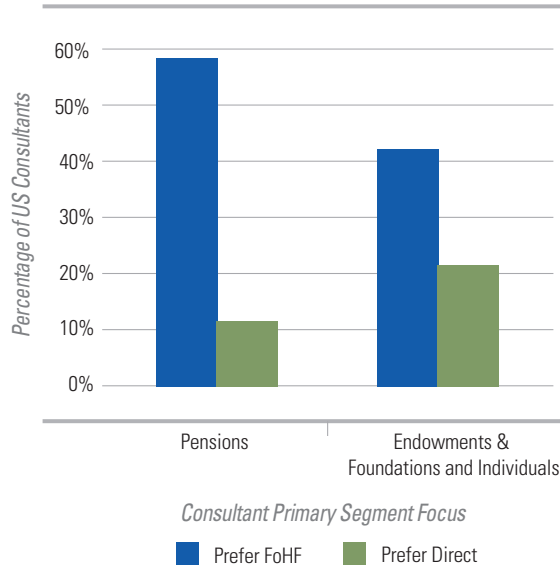
Exhibit 10



The majority of defined benefit pension consultants expect to conduct hedge fund searches through fund-of-hedge-funds (“FoHFs”) instead of investing directly in individual hedge funds. Nearly 60% of these consultants have a preference for investing in FoHFs, and over one-third of these consultants have a strong preference for FoHFs, which is a three-fold increase from last year. Many institutional investors are new to investing in hedge funds and feel more comfortable with the diversified investment strategy utilized by FoHFs and also believe FoHFs have greater capacity to accept the large amounts of capital that they are investing. The negative headlines in 2007 have also increased the apprehension and reluctance to invest directly in hedge funds. Endowments and foundations (“E&F”) and individual consultants also expect an increased preference for FoHFs. Over 40% of E&F and individual consultants expect a preference for FoHFs, with half of them expecting a strong preference. This is a significant increase from 2007, when only 5% of E&F and individual consultants had a strong preference for FoHFs. Overall, the number of consultants that have a strong preference for FoHFs has increased by almost six-fold from 6% to 35%.

Exhibit 11

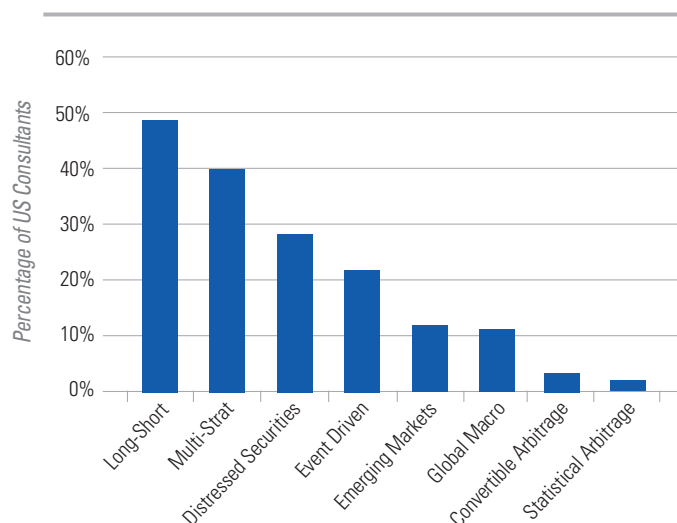
Preference for Hedge Fund Investing



For direct hedge fund searches, consultants expect to rely on long-short equity strategies and multi-strategy funds and to avoid more exotic and complex strategies. Distressed strategies are expected to be in demand in 2008, perhaps because some believe the aftermath of the sub-prime crisis and the potential recessionary environment offer attractive investment opportunities for these strategies. Statistical arbitrage funds particularly suffered in 2007, and consultants expect them to be unpopular in 2008.

Exhibit 12

Areas of Focus for Direct Hedge Fund Searches

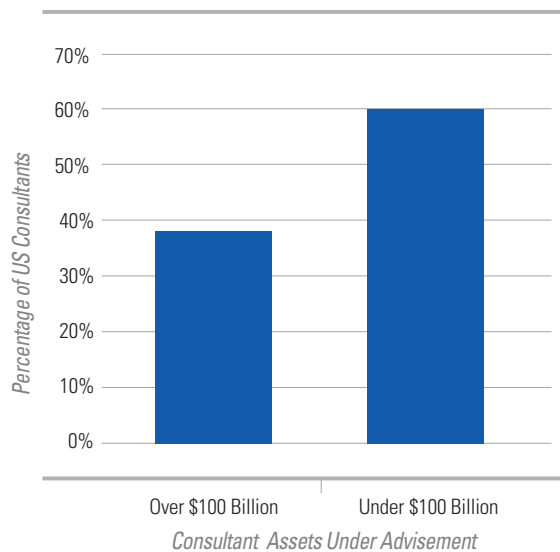


Demand for Foreign Equity Continues

Foreign equity is expected to be the second most common search in 2008 overall. In particular, 60% of small and mid-sized consultants expect to focus on foreign equity searches, up from about 50% last year. Forty percent of large consultants also expect to focus on foreign equity searches, down from 50% in 2007. The large consultants may have performed enough searches in 2007 to warrant a decrease in 2008. Among corporate consultants, 60% expect to focus on foreign equity searches, a three-fold increase from 2007. Canadian consultants also expect a strong interest for international products and actually expect international equity searches to be the biggest area of focus for Canadian investors in 2008. (See Canadian insert.)

Exhibit 13

Expected Focus on Foreign Equity Products

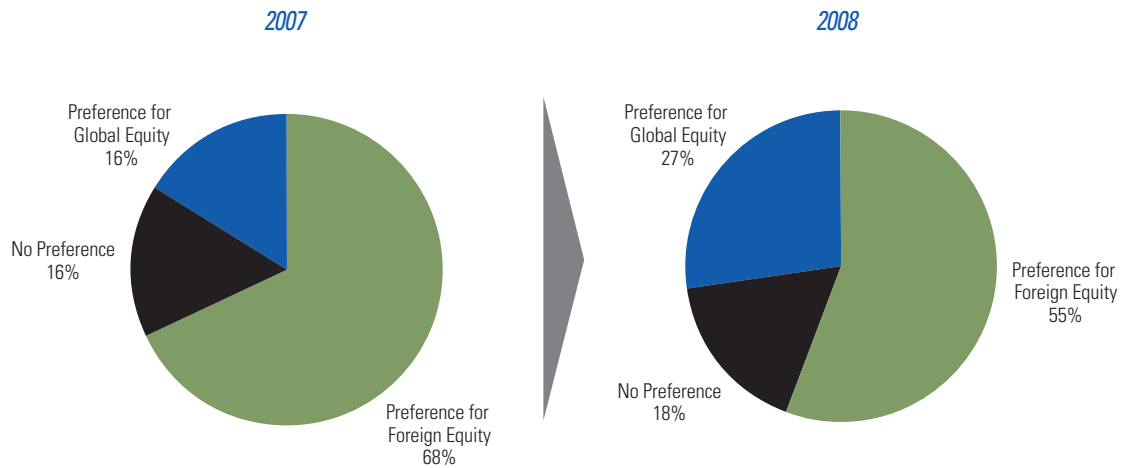


Are We Shifting to Global Mandates?

In 2008, 27% of consultants expect a preference for global equity mandates. In 2007, 16% of consultants had a preference for global equity. The increase in preference for global mandates is nearly identical to the decrease in preference for foreign mandates. The preference for global mandates is greater among the mid-sized and large consultants. Nearly 40% of the mid-sized and large consultants expect this preference in 2008, which is a four-fold increase from 2007. Only 13% of the small consultants expect a preference for global mandates in 2008, which is actually a decrease from the 24% in 2007. Previously, global mandates have been more popular with foreign investors, but this may be the beginning of a shift from U.S. investors to adopt a similar allocation strategy.

Exhibit 14

Shift in Preference for Foreign and Global Equity Mandates

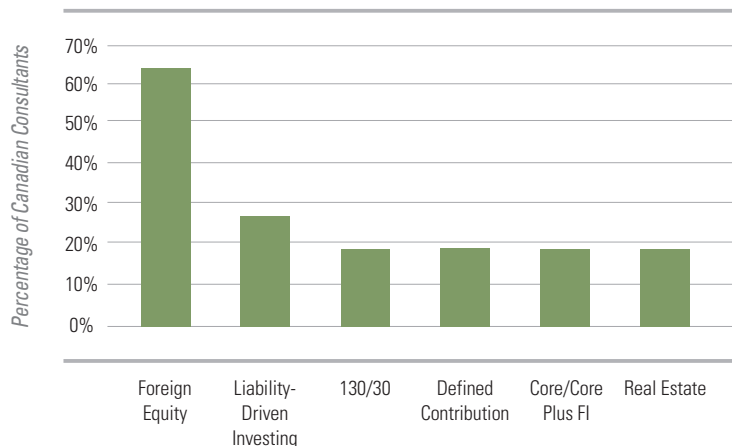


Canadian Investors Focused on Foreign Equity

International equity products will be in highest demand by far in Canada in the upcoming year. Sixty-four percent of Canadian consultants expect international equity to be one of the most important areas of focus in 2008. Regulatory changes in Canada have increased the ability of Canadian institutional investors to allocate their assets to foreign managers. This has caused much interest among these investors to further diversify their asset allocation with foreign equities and access the foreign investment talent in this area. LDI is expected to be the next important area of focus, but is a distant second to international equity. A handful of product areas, 130/30, defined contribution, real estate, and core/core plus fixed income, are tied for the third important areas of focus.

Exhibit 25

Expected Areas of Demand in Canada

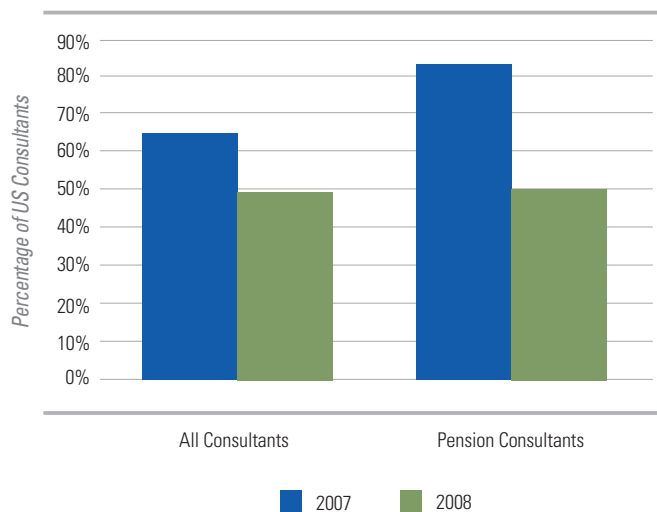


Declining Demand for U.S. Equities

In 2008, 50% of consultants expect to focus on U.S. equity searches in some part of the capitalization spectrum. This is a drop from 2007 when 64% of consultants expected U.S. equity searches to be very common. Large, mid-sized, and small consultants all expect interest to drop. However, 63% of small consultants expect to focus on U.S. equities, while 50% of mid-sized consultants and 33% of large consultants expect the same focus. Pension consultants, in particular, expect a significant decrease in demand for U.S. equities. Half of these consultants expect to conduct a high number of searches for U.S. equities in 2008, which is significantly down from the 80% that expected the same in 2007.

Exhibit 15

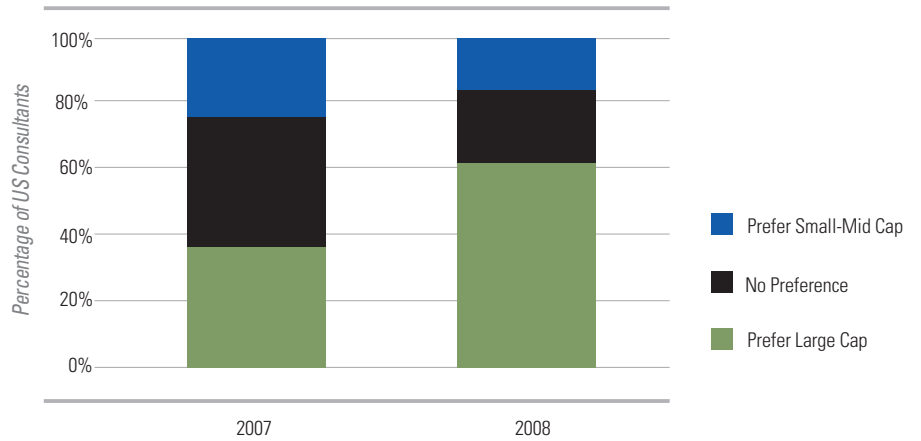
Expected Focus on U.S. Equities



For U.S. equity searches, the majority of the consultants expect a preference for U.S. large cap equity products over small and mid-cap equity products. In 2008, over 60% of the consultants expect a preference for large cap equities over small and mid-cap equities. This is a significant increase from 2007, when only 36% of the consultants expected a preference for large cap equities, and 40% did not have a preference either way. Many consultants expect their clients to look for safety in more established and global large cap companies in light of recent market volatility.

Exhibit 16

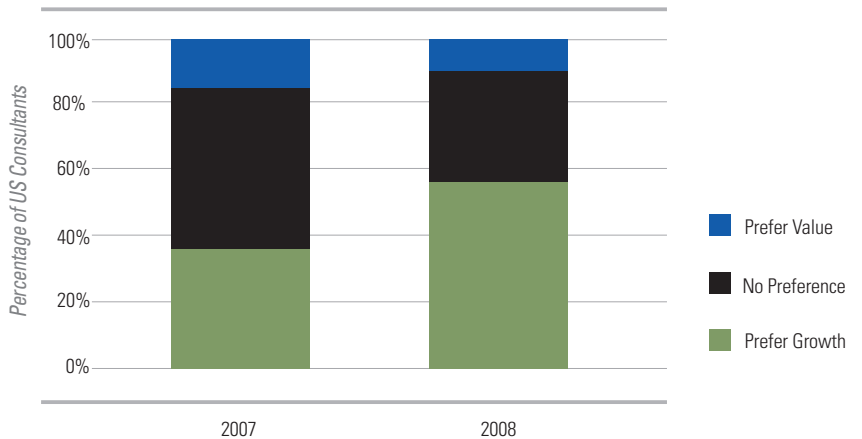
U.S. Equity Capitalization Preferences



In the early part of the decade, there was a strong demand for U.S. value equity products and a shift away from U.S. growth equity products. From 2001 to 2006, U.S. value equity products had an inflow of \$233 Billion from institutions, while U.S. growth equity products only had an inflow of \$93 Billion. In 2008, however, consultants expect to see a small preference for growth products. Growth's recent out performance may be a factor in increased demand. Nearly 60% of consultants expect a preference for growth over value products in the upcoming year, an increase from last year when 36% of consultants expected a preference for growth products. Sixty-seven percent of individual consultants expect a preference for growth, which is slightly higher than the 54% of institutional consultants that expect a growth preference.

Exhibit 17

Equity Preference: Growth vs. Value

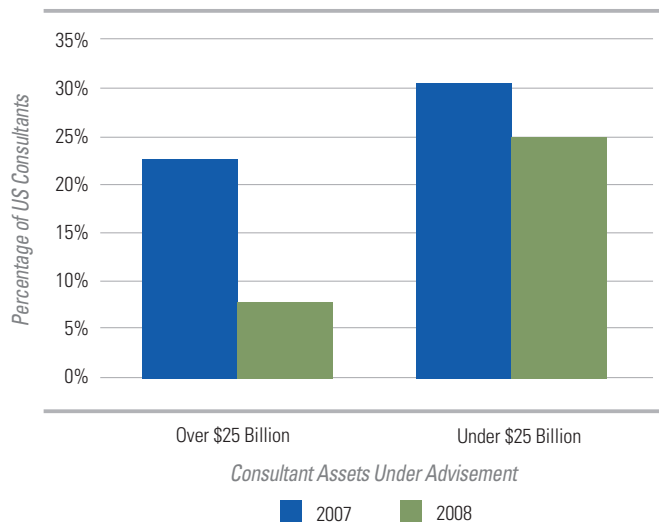


Core and Core Plus Fixed Income Losing Interest

Overall, U.S. consultants expect the demand for core and core plus fixed income products to dramatically decrease in 2008. Only 14% of consultants expect to focus on core and core plus, which is nearly half of the 27% of consultants that focused on these products in 2007. Large and mid-sized consultants expect the largest drop in demand, with only 6% of these consultants expecting to focus on core and core plus in 2008. Twenty-five percent of small consultants expect core and core plus to be an area of focus in 2008, which is a slight decrease from the 30% in 2007. This decrease in interest is expected across all institutional and individual client segments.

Exhibit 18

Expected Focus on Core and Core Plus Fixed Income



Corporate Plan Sponsors Taking a Serious Look at Liability-Driven Investing

Liability-driven investing remains the domain of the mid-sized and large corporate consultants. Forty percent of mid-sized and large corporate consultants expect LDI to be one of the most common searches in 2008. This is a slight increase from the 33% of these consultants in 2007. Among the corporate consultants, two-thirds expect an increase in LDI search activity as compared to last year. We believe that regulation specifically affecting the corporate plan sponsors and the possibility of a lower interest rate environment will continue to increase the interest in LDI. In regards to strategy, these consultants expect to focus mainly on simply extending duration, but also expect material interest from the majority of their clients in cash-flow matching and overlay strategies that utilize derivatives.

Exhibit 19

Expected Focus on Liability-Driven Investing

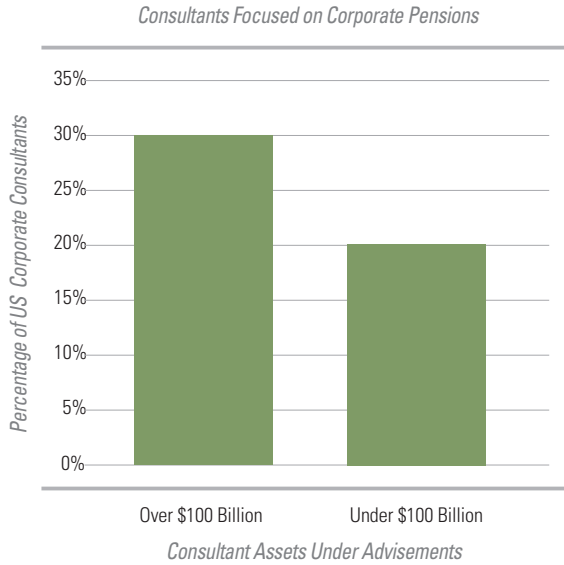
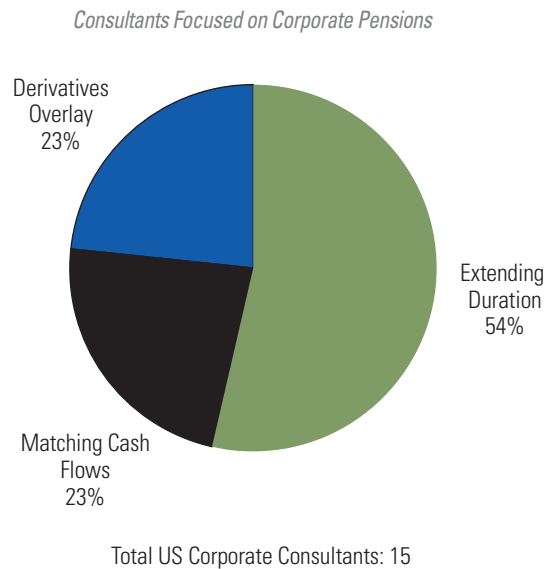


Exhibit 20

Expected Focus on Liability-Driven Investing Strategies

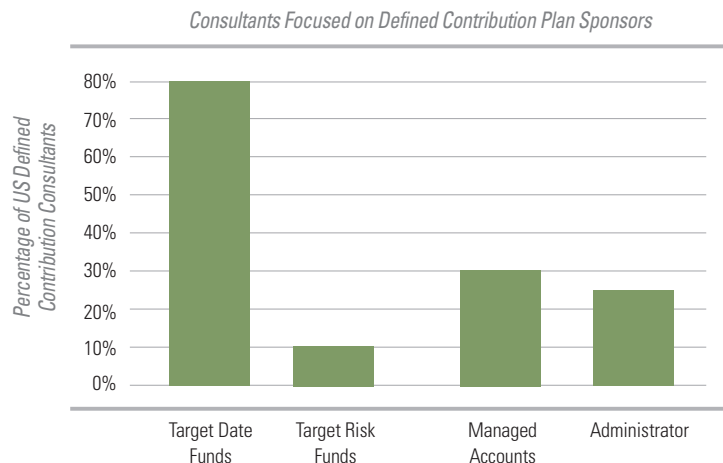


Defined Contribution: All About Target Date in 2008

The consultants focused on the defined contribution market expect a substantial growth in interest for DC searches. Three-quarters of these consultants expect an increase in interest in 2008, while only 10% of them expect a decrease in interest. Eighty percent of the DC consultants expect strong interest in target date funds, and these products are expected to soak up the overwhelming majority of the product searches. The Pension Protection Act and the Department

Exhibit 21

Expected Focus on Defined Contribution Products and Services

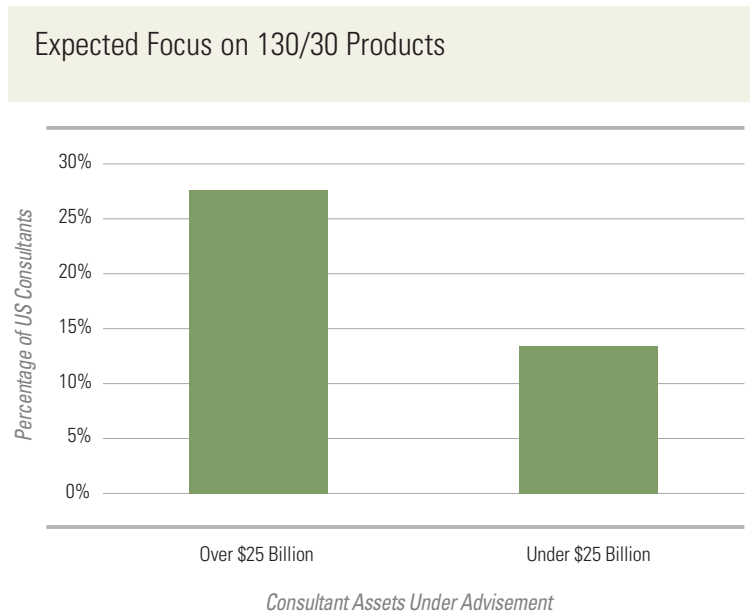


of Labor Statement that were announced in 2006 have helped target date funds become the product of choice for default options in defined contribution plans. The plan sponsors view this as the best choice for a universe of participants that have not historically managed their investment decisions appropriately in their retirement plans. In addition, the consultants also expect interest for managed products and new administrators in DC plans.

Large Consultants Expect Some Focus on 130/30 and Portable Alpha

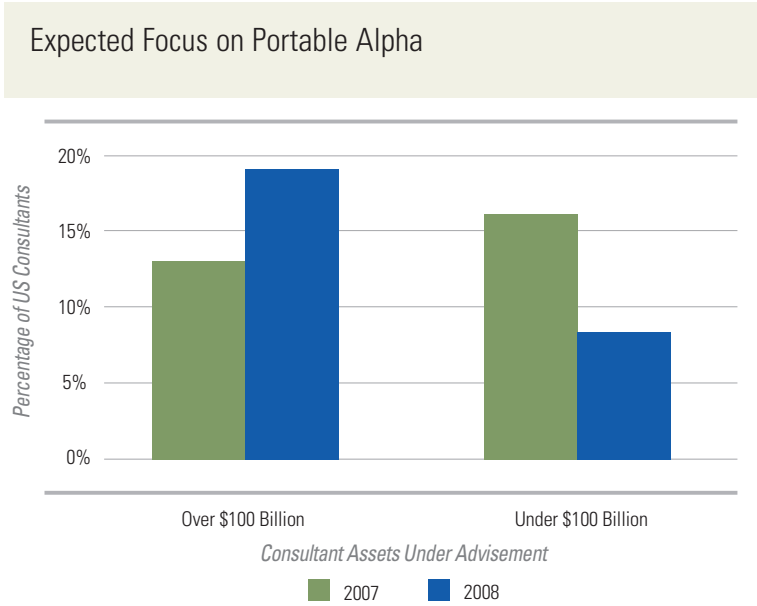
Over one-quarter of mid-size and large consultants expect to focus on 130/30 searches in 2008. Due to this fact, 130/30 is expected to be one of the largest growth areas for 2008 on a search dollar weighted basis. On the other hand, less than 10% of small consultants expect to focus on 130/30. Individual consultants expect more demand for 130/30 products than institutional consultants. Fifty percent of individual consultants expect to focus on 130/30, while only 24% of institutional consultants expect to focus on these products.

Exhibit 22



The number of large consultants focusing on portable alpha will grow substantially in 2008. Twenty-two percent of the large consultants expect to focus on this area in 2008, up from 13% in 2007. A number of these large consulting firms have committed to build dedicated groups specifically for educating the investment community about portable alpha and assisting with portable alpha searches. Small and mid-sized consultants, on the other hand, plan to decrease their focus on portable alpha. Only 8% of small and mid-sized consultants expect to conduct a substantial amount of portable alpha searches, which is a significant drop from 16% of these consultants in 2007.

Exhibit 23

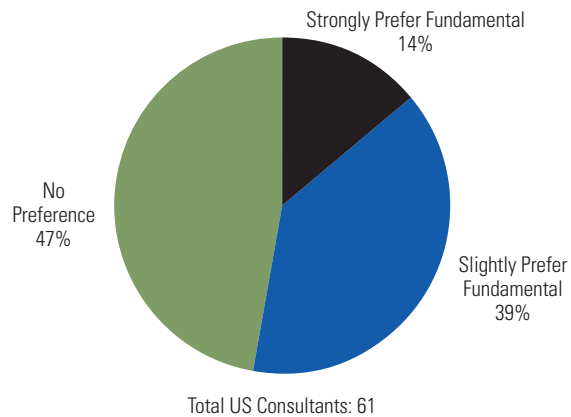


Flight to Fundamental Products

For the prior three to five years, quantitative (“quant”) products had outperformed their fundamental counterparts and attracted an increasing share of asset flows. However, following a year with numerous negative headlines regarding quant products, consultants expect investors to be more comfortable with investing in fundamental products in 2008. No consultants expect investors to have a preference for quant products in the upcoming year, and they expect this phenomenon to be slightly more prevalent in the institutional market.

Exhibit 24

Investment Process Preference: Fundamental vs. Quantitative





John F. Casey, Chairman
David J. Bauer, Partner
Jeb B. Doggett, Partner
Yariv Itah, Partner
Kevin P. Quirk, Partner

Casey, Quirk & Associates (Casey Quirk) provides management consulting services exclusively to investment management firms. The firm specializes in developing business strategy, enhancing investment practices, and crafting distribution plans. The firm draws on 35 years of experience in delivering value to its clients and partners through a unique combination of deep industry knowledge and experience, solutions-oriented thought leadership, and a proven ability to create change within organizations.

Casey Quirk periodically publishes *Research Insight* on topics of interest generated by its ongoing industry research. To discuss this Casey Quirk *Research Insight*, please contact:

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