Next Generation Alternative Investing
Key findings from JPMorgan’s survey of major U.S. institutional investors

Overview
Over the last decade, “alternative” investments have seen steady growth, to the point that many in the industry question whether they are truly “alternative” any more. Our most recent survey of some of the nation’s largest institutional investors should put to rest any lingering doubt. The survey confirms that these strategies—now established components of many institutional portfolios—are no longer “alternative” at all.

In fact, alternatives now play an essential role in institutional portfolio strategies, and we expect across-the-board allocation increases despite recent market turmoil.

Growth in assets, growth in options
Our survey results clearly indicate that institutional investors as a whole are embracing all available options within alternatives—both the more traditional and the cutting edge. Strong inflows are expected for the largest and most well-established alternative asset classes (real estate, private equity, absolute return/hedge funds), as well as a range of new, innovative strategies that are already taking hold.

For this survey, we expanded the universe of alternatives to include several of these newer strategies and found substantial growth potential in categories such as:

- **Infrastructure**, which is becoming an important diversification strategy within “real assets,” a category increasingly used to refer to “tangible” assets (e.g., real estate, commodities, infrastructure, farmland/timber, etc.) which can help preserve the “real” value of portfolios.

- **Green/sustainable investing**, which captures a rapidly emerging trend—a non-traditional thematic investment approach where economic/market opportunities can meet policy considerations and environmental concerns.

- **Portable alpha and net long (equity 130/30)** strategies, which may not be categorized as “alternatives” but have a philosophical or functional connection to alternatives. These strategies seek to help investors add alpha to traditional allocations, either by porting alpha from other sources, or making traditional assets work harder and smarter. Alternative strategies and investment approaches are often used to generate the additional alpha.

Alternatives are helping investors meet their objectives
As investor sophistication increases—and plans are less constrained in their views of asset class boundaries and the management of alpha and beta—alternatives are playing an ever more important role in enhancing portfolio risk/return characteristics. An expanding opportunuity set within alternatives gives investors many more options regarding how and where to incorporate them.

Ultimately, some of the most interesting survey data concerns the question of “why?”

Here we see that within each investor segment—corporate plans, public funds, and endowments and foundations—alternative asset classes are being custom fit into portfolios with a specific purpose, to help address sector-specific issues and challenges. These new tools have been a critical complement to traditional portfolios, and planned increases to alternatives are a
testament to their overall effectiveness in helping investors meet their unique objectives.

The future of alternatives will not be without challenges—e.g., how to access top managers and high-quality opportunities. Liquidity, transparency, education, and resource issues will also grow with the size of these allocations. But our survey suggests that, in the view of investors, such concerns continue to be outweighed by the benefits investors are reaping and continue to expect from alternatives.

We believe the survey tells a powerful and very positive story about alternatives—one that will continue to unfold over the next several years.

I. Alternative or essential?

Alternatives have become an essential part of portfolio strategies for institutional investors employing them. Growth expectations for alternatives remain strong—despite current market disruptions, dislocations, and subprime contagion. Institutional assets are shifting from the traditional to the alternative.

- Among total survey respondents, average allocations to alternatives exceed 18% and are expected to exceed 22% by 2010—an increase of over 20% (Exhibit 1).

Endowments and Foundations (E&Fs) continue to lead the way with a projected 36% of portfolio assets committed to alternatives by 2010.

- Growth is being driven by a pervasive need to enhance and diversify returns, and alternative allocations are being funded by a shift in allocations away from traditional assets. Across all investor segments, broad issues of “diversification” and “increased returns” were cited as the primary drivers of changes to alternative allocations.

Exhibit 1: Allocations continue to shift from the traditional to the alternative.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
<th>Corporate</th>
<th>Public</th>
<th>E&amp;F</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>55%</td>
<td>63%</td>
<td>57%</td>
<td>47%</td>
</tr>
<tr>
<td>2009</td>
<td>86%</td>
<td>83%</td>
<td>78%</td>
<td>74%</td>
</tr>
<tr>
<td>2010</td>
<td>91%</td>
<td>89%</td>
<td>87%</td>
<td>84%</td>
</tr>
<tr>
<td>2011</td>
<td>94%</td>
<td>92%</td>
<td>90%</td>
<td>88%</td>
</tr>
</tbody>
</table>

Source: Data for year-end 2004 is from the JPMorgan Asset Management New Sources of Return Survey, 2005.

In both the current and 2005 surveys, respondents were drawn from the largest 350 pension plans (corporate and public), but the composition of the respondent base varies. Base for 2005 Survey: corporate (64), public (50); base for 2008 survey (2007, 2010): total (146, 133), corporate (62, 56), public (39, 34), E&F (43, 40).

Note: Totals may not sum to 100% due to rounding. Allocations presented here are averages of allocations provided by respondents at the total alternatives, fixed income and equity levels. Similarly, allocations to alternative asset categories (e.g., those presented in Exhibit 3) reflect the average of allocations provided at the specific strategy level. The number of respondents providing allocation data may differ across these component strategies. Therefore, this component data will not necessarily sum to these total alternative values.
For this asset class, strong growth is expected to come from two sources: new investors planning to start using these strategies and existing investors planning to increase their allocations. This growth dynamic differs from that of the most traditional alternatives (e.g., private equity) where growth will come primarily from existing investors, or the newer alternatives (e.g., infrastructure) where new investors are likely to be the principal drivers of growth.

II. Sizing up strategies

*Growth in average allocations is expected across all major alternative asset classes, with absolute return/hedge funds and private equity growing the fastest.*

- **Absolute return/hedge funds**: Across total survey respondents (investors and non-investors), absolute return/hedge funds have the highest average allocation of any alternative asset class (Exhibit 3)—driven largely by E&Fs. We estimate that these strategies will account for approximately 40% of net inflows into alternatives through 2010.

Note: Allocations presented here are averages of allocations for specific alternative investment strategies. The number of survey respondents providing allocation data may differ across these component strategies. Total alternative allocations presented in Exhibit 1 are averaged across all respondents providing allocations at this aggregate level. Therefore, the total alternative allocations presented in Exhibit 1 do not represent the sum of component average allocations presented here.

For this asset class, strong growth is expected to come from two sources: new investors planning to start using these strategies and existing investors planning to increase their allocations. This growth dynamic differs from that of the most traditional alternatives (e.g., private equity) where growth will come primarily from existing investors, or the newer alternatives (e.g., infrastructure) where new investors are likely to be the principal drivers of growth.
– The average allocation for current investors in absolute return/hedge funds is higher than that of any other alternative asset class, with average allocations expected to increase from 11.5% to 13.4% by 2010 (Exhibit 4).

While large allocations from E&Fs boost these averages, corporate and public plans that currently invest in absolute return/hedge funds also have significant allocations to the asset class (averaging 8.5% for corporate plans and 7.4% for public funds).

– An additional 10% of respondents are planning to invest in these strategies, with a large number of new investors among public and corporate plans.

Private equity: Growth for this more “traditional” alternative will also be strong, led by 62% of current investors planning to increase allocations, the highest across all alternative asset classes (Exhibit 5). The percent of new investors, however, is expected to be relatively low (Exhibit 6).

Real assets/real estate: This mainstream portfolio component will experience more modest growth—receiving a boost from new and existing E&F investors—with an increasing emphasis on diversification into non-U.S. assets.

Exhibit 5: Percent of total respondents currently investing in and planning to increase (decrease) allocations to...

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute return, hedge funds</td>
<td>11.5%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Private equity</td>
<td>6.6%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Real estate</td>
<td>6.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>2.4%</td>
<td>3.0%</td>
</tr>
<tr>
<td>Other real assets</td>
<td>4.5%</td>
<td>5.0%</td>
</tr>
</tbody>
</table>

* Based on respondents currently investing in the specific alternative strategy. Respondent base is in parenthesis.

Exhibit 4: Average allocation for existing investors in each individual alternative asset class

Exhibit 6: Percent of total respondents currently investing or planning to invest in...

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>2007</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute return, hedge funds</td>
<td>59%</td>
<td>75%</td>
</tr>
<tr>
<td>Private equity</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Real estate</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Other real assets</td>
<td>38%</td>
<td>7%</td>
</tr>
</tbody>
</table>

* Respondent base is in parenthesis.

Getting the big picture:

Exhibit 3, in combination with Exhibits 4 through 7, capture our broad findings regarding the growth of individual alternative asset classes across all survey respondents. Similar exhibits throughout this report provide additional detail at the investor segment level.

• Exhibit 3 shows average alternative allocations—current 2007, and anticipated 2010—for all survey respondents, regardless of whether they currently invest, plan to invest or are not considering investing. This view captures the combined effect of new investors adopting these strategies and existing investors planning to change current allocations.

• Exhibit 4 shows current 2007 and expected 2010 allocations for each of five key alternative asset classes, for all respondents that currently invest in those strategies.

• Exhibit 5 shows the percent of respondents currently investing in and planning to increase/(decrease) allocations to specific asset classes.

• Exhibit 6 shows current participation rates for each of five key alternative asset classes, as well as the percentage who do not currently invest but plan to do so.

• Exhibit 7 shows current investor participation rates, as well as the percent planning to invest in newer “alternatives.”
III. Diversification within alternatives

Investors are emphasizing diversification within their alternative portfolios—among various established and new types of alternative strategies, as well as across geographic regions.

- As investors seek to diversify holdings within “real assets,” two asset classes in this category are expected to see substantial growth:
  - Real assets/infrastructure is expected to see its relatively small investor base more than double over the next three years—led by new investors in the corporate and public plan segments (Exhibit 6).
  - Other real assets (e.g., oil & gas, commodities, farmland/timber, maritime, etc.) will see the greatest growth from allocation increases by current investors—largely E&Fs—with moderate growth among new investors (Exhibits 5, 6).

- Portable alpha is currently used by 31% of respondents; an additional 15% expect to add these innovative strategies by 2010 (Exhibit 7).

- Net long equity strategies (e.g., 130/30) are used by about a quarter of investors, with 9% intending to add them, primarily to enhance returns of traditional equity allocations.

- Green/sustainable, with a small current investor base, showed surprising strength, with a significant boost expected from public plans over the next three years.

- Survey results reveal a fast-growing emphasis on geographic diversification. Among all alternative asset classes, real estate features the most pronounced preference for non-U.S. assets, across all investor segments. However, the appeal of non-U.S. assets is also evident in private equity, where corporate plans and public funds prefer developed non-U.S. markets, and E&Fs lead the way in Asia/Pacific and Emerging Markets.

IV. Investor dynamics

Although all investors share a common need for return enhancement and diversification, the growth dynamics of alternatives play out differently in each investor segment, due to unique issues and concerns—e.g., institutional objectives, regulatory challenges, financial and board constraints, and levels of experience.

- Corporate plan sponsors appear somewhat more cautious than other investors with regard to alternatives. They have the lowest average total alternative allocations (13%); they also have the lowest participation rates in absolute return/hedge funds, private equity and real estate, and the lowest percentage of current investors increasing allocations to these major alternative asset classes.

We see this posture driven primarily by regulatory and accounting reforms (e.g., the Pension Protection Act, SFAS 158, an anticipated Phase II to the FASB pension accounting project, and FSP SFAS 132(R)-a), which address a range of issues, such as: minimum funding requirements, corporate balance sheet impacts, income statement presentation, and disclosures. Ongoing reform will continue to pose a two-pronged challenge for corporate plan sponsors: controlling the impact of the plan on corporate financials, while still earning returns sufficient to meet benefit obligations.
To address their unique situation, corporate plan sponsors are continuing to decrease traditional equity allocations while significantly increasing both fixed income allocations and durations (Exhibits 8, 9). Such large-scale shifts indicate just how much the changing regulatory environment is affecting corporate plan sponsors and how deeply engaged they are in managing their pension plan’s funded status volatility. We see their more cautious approach to alternatives as being related to this evolving corporate pension environment.

Among corporate plans, specifically, over the next three years:
- Absolute return/hedge funds, infrastructure, and portable alpha will have the highest rate of new investors (Exhibits 10, 11).
- Private equity shows the highest percentage of current corporate investors planning to increase their allocations (Exhibit 12).

Exhibit 8: Corporate plans are shifting toward fixed income and alternatives.

Exhibit 9: Corporate plans expect to significantly extend duration.

Exhibit 10: Percent of corporate respondents currently investing or planning to invest in...

Exhibit 11: Percent of corporate respondents currently investing or planning to invest in...

Exhibit 12: Percent of corporate plans currently investing in and planning to increase (decrease) allocations to...*

* Based on respondents currently investing in the specific alternative strategy. Respondent base is in parenthesis.

But even as they wait for clarity and finality—on issues such as transparency, reporting, valuation, etc.—our findings suggest that corporate plans recognize the benefits of alternatives in improving overall risk-adjusted return and managing volatility. Alternatives have played, and will continue to play, a key role in this effort.
– While absolute return/hedge fund allocations may see slower growth among corporate plans than among public fund and E&F investors, we expect this asset class to account for the largest increase in alternative dollar flows for corporate pension portfolios: this asset class has a higher expected rate of new investors than more established private equity or real estate. Across all asset classes, absolute return/hedge funds have the highest anticipated allocations for 2010 (9.6%), among current corporate pension investors.

For public funds, the main issue of concern is consistently delivering required returns to meet benefit obligations over the long term. The vast majority of plans (75%) are currently underfunded, leading to a sharpened focus on improving risk-adjusted performance of the overall portfolio (Exhibit 13).

Exhibit 13: The majority of public funds are underfunded.

As a result, the current posture of public funds toward alternatives is more active than for corporate plans, particularly with respect to absolute return/hedge funds. Here, participation rates have increased almost four-fold (to 42% of plans invested) since our first survey in 2005.1

In absolute return/hedge funds, our survey indicates that public funds will have:
– the highest percentage of current investors increasing allocations, compared to corporate and E&F investors
– substantial inflows, 60% of which we estimate will come from public fund investors new to the asset class
– a participation rate reaching 58% by 2010, overtaking that of corporate plans (Exhibit 14).

Exhibit 14: Percent of public fund respondents currently investing or planning to invest in...

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Currently Invest</th>
<th>Plan to Invest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute return, hedge funds</td>
<td>42%</td>
<td>16%</td>
</tr>
<tr>
<td>Private equity</td>
<td>76%</td>
<td>7%</td>
</tr>
<tr>
<td>Real estate</td>
<td>0%</td>
<td>90%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>4%</td>
<td>17%</td>
</tr>
<tr>
<td>Other real assets</td>
<td>4%</td>
<td>30%</td>
</tr>
</tbody>
</table>

Respondent base is in parenthesis.

Private equity will also show strong growth, driven by increasing allocations from 75% of public funds currently investing in the asset class—the highest percentage across all investor segments (Exhibit 15).

Exhibit 15: Percent of public fund respondents currently investing in and planning to increase (decrease) allocations to...

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Plan to Increase</th>
<th>Plan to Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute return, hedge funds</td>
<td>60%</td>
<td>0%</td>
</tr>
<tr>
<td>Private equity</td>
<td>75%</td>
<td>6%</td>
</tr>
<tr>
<td>Real estate</td>
<td>44%</td>
<td>10%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>25%</td>
<td>0%</td>
</tr>
<tr>
<td>Other real assets</td>
<td>17%</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Based on respondents currently investing in the specific alternative strategy. Respondent base is in parenthesis.

For real estate—a longtime anchor of public plans’ alternative portfolios—we expect average allocations to remain flat, with a shift toward international and global investments.

Infrastructure will be a growth area, as public plans work to diversify their sometimes large real estate holdings with other real assets.

1 JPMorgan Asset Management New Sources of Return Survey, 2005.
Green/sustainable is also growing rapidly, albeit from a small base, with a participation rate expected to nearly triple by 2010, to just under a third of public funds, encouraged in part by state treasurers’ efforts to channel funds toward green investment programs (Exhibit 16).

Finally, GASB accounting for Other Post Employee Retirement Benefits (OPEB) is in transition, requiring disclosure of the funded status of OPEB plans, historically funded on a pay-as-you-go basis. At the time of our survey, there was a great deal of uncertainty around whether, and to what extent, these benefits would be prefunded, as well as how to invest any assets set aside for funding. It remains to be seen how extensive a role alternatives will play in these funds.

For Endowments and Foundations (E&Fs) the challenge is to maintain current payouts while protecting the real value of assets. With less restrictive investment policies and a longer history with alternatives, average allocations to alternatives for E&Fs are 75% to 100% larger than those for public and corporate plan sponsors—and projected to comprise more than a third of overall portfolio assets by 2010.

Due to their unique skill set and experience level, E&Fs (at least among the larger investors) have a distinct approach to alternative investing:

– They have a more pronounced opportunistic posture (Exhibit 17).
– They are comfortable with much higher allocations (Exhibit 18). Other survey questions reveal that about one-third see no natural limit on alternatives.
– Some have gained recognition for eschewing traditional asset categories altogether, preferring to see portfolio components purely in terms of alpha and beta.

Exhibit 16: Percent of public fund respondents currently investing or planning to invest in...

Respondent base is in parenthesis.
* Several plans indicated that they were not currently planning to implement portable alpha strategies, but were considering their use.

Exhibit 17: E&Fs can and have taken advantage of shorter-term opportunities alongside their longer-term investment horizon.

Flexibility to implement shorter-term ideas?

<table>
<thead>
<tr>
<th></th>
<th>Yes, we have taken advantage of shorter-term opportunities</th>
<th>Yes, we have flexibility to take advantage of shorter-term opportunities, but have not implemented</th>
<th>No, we do not typically invest this way, other than when our existing managers do so within their current mandate</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>43%</td>
<td>5%</td>
<td>22%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>63%</td>
<td>13%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>48%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>63%</td>
</tr>
<tr>
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<tr>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

Who implements these ideas?

<table>
<thead>
<tr>
<th>In-house investment staff</th>
<th>Existing managers</th>
<th>Other good managers who provide the insightful ideas</th>
<th>Foundation (21)</th>
<th>Endowment (32)</th>
<th>Total E&amp;Fs (53)</th>
</tr>
</thead>
<tbody>
<tr>
<td>64%</td>
<td>36%</td>
<td>21%</td>
<td>7%</td>
<td>15%</td>
<td>64%</td>
</tr>
<tr>
<td>89%</td>
<td>48%</td>
<td>33%</td>
<td>12%</td>
<td>22%</td>
<td>89%</td>
</tr>
</tbody>
</table>

“Alongside your longer-term investment horizon, do you exercise shorter-term investing flexibility to take advantage of current market opportunities?”
“*If you have implemented shorter-term opportunities, or have this flexibility, who has implemented/is likely to implement these ideas?”
Only asked of E&Fs. Respondent base is in parenthesis. Multiple responses accepted.
For E&Fs, we expect to see the following trends over the next several years:

- **Strong growth in private equity**, led by a 42% increase in average allocations among E&Fs currently investing in the asset class.
- A slower growth rate in **absolute return/hedge fund allocations** for those currently investing. However, at close to 16% of total portfolio assets, these allocations are already more than double the average private equity allocations of current investors in that asset class.
- **Real estate** will be a dynamic asset class for E&Fs—reflecting their opportunistic bias:
  - E&Fs have the highest number of existing real estate investors increasing their allocations (Exhibit 19).
  - A large jump in new investors will result in E&Fs’ participation rate in real estate (92%) approaching that of public funds by 2010 (Exhibits 13, 20).
- Growth in large part will be focused on non-U.S. assets.
- In **other real assets**, E&Fs are expected to continue to lead the way with the highest participation rates by far, as well as the highest rate of new entrants, reflecting in part a concern with protecting assets against inflation (Exhibit 20).
- A significant share of E&Fs are already employing **portable alpha, net long equity (130/30)** and **green sustainable investment strategies** (Exhibit 21).

Respondent base is in parenthesis.
Concerns do vary to a degree across client segments, with public funds notably more concerned about a strain on staffing and oversight capabilities, corporate plans more worried than their counterparts about volatility, and E&Fs more likely to express concern about the quality of managers and tools.

Among the most frequently cited factors preventing investment in additional alternative asset classes are the need to obtain board approval and to gain a greater degree of comfort/knowledge with specific alternative investments.

While fees are not cited among the top investor concerns, there is clearly emerging pressure on fees. Investors believe that fees are fair as long as performance expectations are met, which should be a red flag to managers that there could be a backlash on fees, or a greater demand for performance-based fee schedules, should performance start to lag expectations.

V. Meeting expectations

For the vast majority of investors surveyed, alternative investments are currently meeting performance expectations, across asset classes.

Currently, investors show a relatively high rate of satisfaction across all alternative categories, with E&Fs showing a slightly lower satisfaction level overall (Exhibit 22).

VI. Growing pains

Growth continues, despite some common concerns and constraints.

As the number of participants in alternative markets increases, and we see larger inflows (particularly from large public funds), investors are most concerned about the potential impact on performance. Two of the top three concerns cited by respondents focused on declining returns and overcrowding of the alternatives space—with E&Fs showing the highest sensitivity to these issues.
Exhibit 23: Greatest concerns as alternatives become more popular with respect to managing portfolios in the current market environment

<table>
<thead>
<tr>
<th>Concern</th>
<th>% of total respondents citing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Falling returns/performance</td>
<td>23%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>15%</td>
</tr>
<tr>
<td>Overcrowding of space</td>
<td>13%</td>
</tr>
<tr>
<td>No concerns</td>
<td>11%</td>
</tr>
<tr>
<td>Risk</td>
<td>10%</td>
</tr>
<tr>
<td>Quality managers/tools</td>
<td>10%</td>
</tr>
<tr>
<td>Staffing/oversight capabilities</td>
<td>8%</td>
</tr>
<tr>
<td>Transparency</td>
<td>7%</td>
</tr>
<tr>
<td>Volatility</td>
<td>6%</td>
</tr>
<tr>
<td>Fees</td>
<td>5%</td>
</tr>
<tr>
<td>Valuations</td>
<td>3%</td>
</tr>
<tr>
<td>Accounting concerns</td>
<td>3%</td>
</tr>
<tr>
<td>Blow up/melt down</td>
<td>3%</td>
</tr>
<tr>
<td>Counterparty relationship</td>
<td>1%</td>
</tr>
<tr>
<td>Global recession</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
</tbody>
</table>

“As alternative investments become more popular, what is your greatest concern with respect to managing your plan assets/portfolio in the current market environment?”

Multiple responses accepted. Respondent base = 176.

VII. Conclusion

It appears that the anticipated risk-adjusted returns, diversification benefits, and high satisfaction rates with alternatives will continue to support their growth across the board—in all investor segments and alternative asset classes—outweighing investors' concerns about overcrowding and its potential impact on performance.

Market dislocations have not dissuaded institutions from their program of using alternatives to add sources of uncorrelated return and improve risk-adjusted portfolio performance. In fact, many investors see niches of opportunity and are adjusting their alternative asset strategies accordingly. What they are not doing in any substantial way is pulling back.

What this survey indicates is that alternatives, used in the right way, are enabling investors to better tailor investment strategies to address their myriad financial and investment concerns—e.g., controlling volatility, boosting returns, or hedging inflation.

In this regard, “alternative” assets have indeed become an essential part of the portfolio, and the survey data suggest that as investors’ comfort levels rise, so do their overall alternative allocations as well as their diversification within alternative asset classes.

Continuous innovation will be required to meet the needs—and appetites—of institutional investors that have become reliant on these strategies. They will require ever-more options for sourcing high-quality, uncorrelated alpha opportunities around the world.

For asset managers, this growth will pose a challenge. Investors will demand an increase in the availability and diversification of alternative offerings—challenging managers to maintain quality and performance standards even while significantly increasing capacity. They are also likely to demand more assistance in educating themselves and their boards, and in effectively incorporating alternatives into their portfolio strategies.

Thus far the industry has proven itself up to the task, with continuous innovation in nearly every aspect of alternative investing. Over the next several years, however, asset managers will likely have to redouble these efforts to meet or exceed clients’ performance expectations for both risk and return.
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This material contains certain projections and assumptions with regard to the opportunities described therein. This material must
not be relied upon as advice or interpreted as a recommendation by JPMorgan Asset Management that the opportunities are a
suitable investment for any recipient of this information.

Investors may experience results that differ materially from any information shown. The return on the opportunities will depend
on the actual investments made and the economic, interest rate and regulatory environment during the relevant period.

Infrastructure investments may be subject to risks including, but not limited to, declines in the value of real estate, risks related
to general and economic conditions, changes in the value of the underlying property owned by the trust and defaults by
borrowers.

Investing in foreign countries is heightened when investing in emerging markets. In addition, the small size of securities markets
and the low trading volume may lead to a lack of liquidity, which leads to increased volatility. Also, emerging markets may not
provide adequate legal protection for private or foreign investment or private property.

Please note that investments in offshore markets are subject to special currency, political, and economic risks. Exchange rates
may cause the value of underlying overseas investments to go down or up. Investments in certain markets may be more volatile
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