

Comparative Performance Analysis of TRAKRSSM, Mutual Fund, and Hedge Fund Platforms

by Ibbotson Associates

TRAKRSSM (Total Return Asset ContractsSM) are designed to provide customers with a cost-effective way to participate in a variety of investment strategies based on indices, stocks, bonds, currencies, commodities or other financial instruments. TRAKRS are cash-settled, electronically traded futures contracts that can offer performance characteristics similar to hedge funds and mutual funds, while reducing many of the inefficiencies of such other diversified investment vehicles.

TRAKRS mirror a published index that implements a particular investment strategy. The exchange-traded feature of TRAKRS reduces many of the costs associated with comparable investments using vehicles such as hedge funds or mutual funds.

Unlike more traditional diversified investment funds, where buying and selling underlying securities incurs costs and subjects customers to potential adverse tax consequences, TRAKRS do not represent a direct holding in an underlying asset. TRAKRS do not make interim taxable distributions.

In principle, the transaction and tax efficient structure of TRAKRS translates into enhanced returns for the individual customer. Ibbotson Associates compared the expected returns to an individual customer of a TRAKRS contract, a mutual fund, and a hedge fund, assuming the same trading and/or market results. Results from a simulated performance analysis¹ show that, under three hypothetical risk-return scenarios and over different time horizons, the after-fee, after-tax performance² of a long TRAKRS position consistently outstrips that of a mutual fund or a hedge fund investment that pursues the same strategy and achieves the same trading/market results. From the perspective of an individual customer, a large measure of the performance advantage of a long TRAKRS position comes from the fact that the holder of a TRAKRS contract is not subject to tax liabilities arising out of taxable distributions.

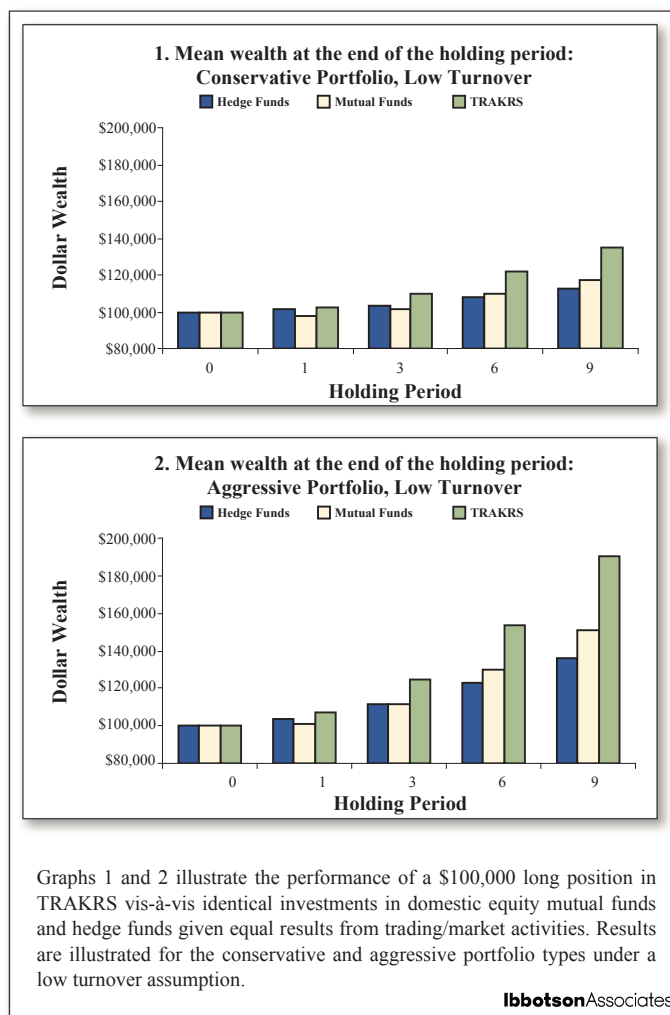
The mean results from the simulated performance analysis show that:

Assuming a conservative portfolio³ with a low turnover, over a one-year horizon, given identical trading and/or market results, the annualized holding period return is 2.35 percent for the hypothetical long TRAKRS position, -2.41 percent for a similar investment in a mutual fund and 1.19 percent for a hedge fund.

Over a 9-year horizon, given identical trading and/or market results, the annualized holding period return is 3.38 percent for the long TRAKRS position, 1.79 percent for a mutual fund and 1.34 percent for a hedge fund.

Assuming an aggressive portfolio⁴ with a low turnover, over a one-year horizon, given identical trading and/or market results, the annualized holding period return is 6.93 percent for the hypothetical long TRAKRS position, 1.29 percent for a similar investment in a mutual fund and 3.70 percent for a hedge fund.

Over a 9-year horizon, given identical trading and/or market results, the annualized holding period return is 7.25 percent for the long TRAKRS position, 5.45 percent for a mutual fund and 3.99 percent for a hedge fund.



The cost structure assumptions for each platform are presented in the table below.

	Mutual Funds	Hedge Funds	TRAKRS
Annual Turnover	116%	116%	116% ⁵
Fees			
Acquisition costs	0.00% ⁶	0.00%	0.00% ⁷
Bid-Ask Spread	0.0188%	0.0188%	0.0188%
Annual Expenses	1.48% ⁸	1.34%	1.50%
Financing costs	0.00%	0.00%	0.25%
Performance Fees	0.00%	17.00%	0.00%

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The following table presents the mean and median annualized holding period return⁹ on a \$100,000 long position in TRAKRS vis-à-vis identical investments in domestic equity mutual funds and hedge funds given equal results from trading/market activities. The numbers shown assume a low turnover ratio, over short-term (ST) and long-term (LT) holding periods for three different hypothetical portfolios.

	Annualized Returns					
	Conservative Portfolio		Moderate Portfolio		Aggressive Portfolio	
Holding Period	□ ST (1 yr.) □	LT (9 yrs.)	□ ST (1 yr.) □	LT (9 yrs.)	□ ST (1 yr.) □	LT (9 yrs.)
Mean Results						
TRAKRS	□ 2.35% □	3.38%	□ 5.55% □	6.73%	□ 6.93% □	7.25%
Mutual Funds	□ -2.41% □	1.79%	□ 0.08% □	4.81%	□ 1.29% □	5.45%
Hedge Funds	□ 1.19% □	1.34%	□ 3.40% □	3.69%	□ 3.70% □	3.99%
Median Results						
TRAKRS	□ 2.32% □	3.12%	□ 4.48% □	5.88%	□ 4.80% □	5.58%
Mutual Funds	□ -2.72% □	1.58%	□ -0.35% □	4.23%	□ -0.66% □	4.28%
Hedge Funds	□ 1.30% □	1.19%	□ 3.11% □	3.29%	□ 3.50% □	3.09%

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¹□ Details of the assumptions made and the methodology used can be found in the executive summary associated with this study, which is available at www.trakrs.com. The simulated performance analysis is not intended to demonstrate hypothetical past or future performance results of a particular TRAKRS Index, but rather to demonstrate the effects of taxes and other transaction costs on TRAKRS, mutual funds and hedge fund investments with the same trading/market results. While the simulated performance analysis assumes positive trading/market results, negative results are also possible. A comparison of the effects of taxes and other transaction costs on TRAKRS and mutual fund and hedge fund investments in a negative trading/market environment can be found in the executive summary associated with this study, which is available at www.trakrs.com.

²□ TRAKRS generally have a 3-year maturity. Analysis over 6 and 9-year time periods assumes that the CME offers a new TRAKRS contract on the same TRAKRS Index as prior TRAKRS mature.

³□ In the context of this study, a conservative portfolio is an illustrative portfolio that represents a hypothetical low risk-low return scenario. It is composed of 100 percent fixed income instruments.

⁴□ An aggressive portfolio is an illustrative portfolio that represents a hypothetical high risk-high return scenario. It is composed of 100 percent equity instruments.

⁵□ In the case of a long TRAKRS position, the assumed turnover ratio is used for the calculation of bid-ask spread costs associated with the underlying Index. This assumed turnover does not result in taxable distributions to the individual customer holding a TRAKRS contract.

⁶□ The acquisition costs for mutual funds are based on a contingent deferred sales load (CDSL) which is a sliding scale dependent on the length of time the asset has been held. It is assumed that a sales load of 4 percent applies if interest in mutual funds is redeemed within a 0-2 year holding period, 3 percent within 2.01-4 years, 2 percent within 4.01-5 years and 1 percent within 5.01-6 years.

⁷□ For the purpose of this study, it is assumed that there is no cost associated with acquiring or liquidating a TRAKRS contract upon expiry. However, for liquidation of a TRAKRS contract prior to expiry, a 1 percent commission is assumed.

⁸□ The annual expense fee for mutual funds includes the 12 b-1 costs.

⁹ The annualized holding period return computation assumes a constant annual return for each year. This representation of performance makes it easier to compare platforms that have markedly different characteristics.