Journal for Members of the Association of
Investment Management Sales Executives

AIMSE

ADVISOR

Fall 2005

In this Issue:

AIMSE 2005 Annual Conference

Highlights

A capacity crowd turned out for AIMSE's 28th Annual Conference at the Westin La Paloma Resort & Spa in Tucson, Arizona. Conference Co-Chairs **Joanne Hickman** and **Kurt Wood** programmed an agenda of powerful keynote speakers and presenters in a highly concentrated format that proved a very effective environment for learning and networking.

Keynote Speakers

Keynote addresses were very well received from **Tom McCarthy** of *Tom McCarthy & Associates* and **Peter Ricchiuti** of *Tulane University's A.B. Freeman School of Business.* Corporate consultant, trainer and coach McCarthy gave attendees a roadmap to dramatically increase their level of performance in business and in life. Tulane Assistant Dean Ricchutti had the crowd rolling in the aisles—a great way to start day 2 of the conference—with his sense of humor and insight into the capital markets and how trustees and institutional investors are reacting to them. Many of the conference participants noted that Ricchiuti was "one of the best speakers AIMSE has ever had" at an annual conference.

General Session—"In Search of Alpha"

In addition, conference attendees were treated to a highly informative general session entitled "Searching for Alpha" and featuring **Nancy Everett,** former Chief Investment Officer of the Virginia Retirement System (and now current *Chief Investment Officer of General Motors Pension Plan*), **Michael Polon,** Vice President, Financial Risk Management in the Corporate Treasury Department of *The Walt Disney Company*, and **Alexander Klikoff,** Managing Partner of *Fintan Partners, LLC* and former Managing Director of the absolute return portfolio for Stanford University. In this off the record session, moderator **Marsha Roth,** Partner of *Angelo, Gordon* had Everett, Polon and Klikoff speaking very candidly about the challenges of trying to achieve a reasonable return in a very low rate environment. These leading institutional investors offered their insights and advice to traditional and non-traditional investment firms about which alpha generating strategies are of interest going forward and why, as well as how these programs are bought (and sold) most effectively. Finally, each of the investors gave the audience perspective on how they monitor portfolios and what information they require from managers to successfully implement these programs.

Everett led by detailing the asset allocation of the Virginia Retirement System as follows:

- 20% Fixed income
- 40% Long only US equity
- 17% Non US
- 9.0% Global equity
- 4.5% Private equity
- 3.5% Real estate
- 3.5% Hedge funds

She stated that alpha is by definition a relative term—that one must talk about benchmarking with respect to describing alpha. "Value relative to what?" is her question. While this may be an easy calculation for publicly traded strategies, it is not easy when investing in private assets and trading strategies. "We need to understand how much risk you took to produce that alpha."

Everett described for the audience 5 ways to add alpha to a pension fund. These include:

1. Leverage—rare at a total fund level but being discussed
2. Active management—more typical
3. Tactical asset allocation—popular in the 80s and 90s when markets were returning 15% but a bit "tarnished" currently. Also value trading.
4. Lower cost of management
5. Strategic asset allocation

Virginia's historical returns have been dominated by private equity. Pension funds are worried about how liabilities match those returns—"you've got to protect your downside." The reality is that volatility in the short term is very difficult for pension funds to withstand.

"Every 10 years you need to make one really good decision. And then you need to be able to have the fortitude to stick to that decision." Private equity was Everett's "good decision" but it did not look so good through most of the 90s.

Everett's advice to marketers? See the person who deals in your asset class and be prepared to have a benchmark discussion. In addition, be prepared to have a candid discussion of risk. At the total fund level, be prepared to look at your strategy relative to other places the fund is investing.

Polon described the Disney Company fund as $5B total with $3B in defined benefit plans and $2B in 401K assets.

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28th Annual Conference Highlights

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Disney uses alternatives for return premium but also for diversification. They have a higher risk tolerance due to the younger age of their beneficiaries and the subsequent longer duration of liabilities.

The company uses limited partnerships and some separate accounts and does not manage assets internally. Planning cash flows is important.

Disney first started investing in private equity in 1992. Its "sweet spot" is lead investors, consumer retail-oriented funds, small to mid size target companies and mid-size funds. Currently they are invested in 25 funds.

With respect to venture capital, they want to be with top tier funds as "they get the best deals." Polon focuses on technology and biotech—mostly early stage. Disney started investing in venture in 1997 and currently has 18 funds. Venture has been the best performing asset class but also the most volatile—"you need to have the stomach for it."

In real estate, Polon primarily use opportunistic funds as the company does not need the liquidity of core funds. First investment in real estate took place in 1995 and the fund currently has 19 funds with 10 general partners. Polon currently is increasing allocation to this sector.

Alex Klikoff believes that the measurement of alpha is critical and that one must define benchmarks in advance. Klikoff is critical of benchmarks generally and believes peer universes to "be even worse."

However, as a practical matter, Klikoff prefers to use cash based benchmarks—looking at absolute returns relative to cash. He prefers to focus on downside protection believing that standard deviation, value-at-risk and Sharpe ratios understate risk.

Klikoff focuses on fixed income and emerging markets—"this is a dangerous time to be looking at past performance to evaluate any manager." He believes that past performance does not capture the impact of capital flows and that many alternative strategies are not scalable.

Roundtables

AIMSE members had four two-hour opportunities to meet with consultants and investment officers in the ever-popular roundtable format. Moderators **Cheryl King** of *Victory Capital Management* and **Keith Lewis** of *T. Rowe Price Associates, Inc.* arranged two opportunities on Monday for attendees to meet with investment officers including:

Jesse Bean, *Catholic Healthcare West*
Lisa Higa, *Fluor Corporation*
Jerome R. Judd, *Catholic Healthcare Partners*
Clare Murphy, *San Francisco City and County*
Christina Samson, *American Red Cross*
Thompson H. Sawyer, Jr., *Communities Foundation of Texas*
Annette St. Urban, *San Joaquin County Employees Retirement Association*
Doug Wynkoop, *Houston Municipal Employees' Pension System*

It was standing room only on Tuesday as moderators **Chris Austin** of *Standish Mellon Asset Management* and **Robert Connin** of *Lazard Asset Management* provided conference participants with the opportunity to share information at individual discussion groups with consultants:

Toni Brown, *Callan Associates Inc.*
Sarah Cleveland, *CRA RogersCasey*
KC Connors, *Jeffrey Slocum & Associates Inc.*
David Katz, *Rocaton Investment Advisors, LLC*
Chris Meyer, *Fund Evaluation Group, LLC*
Greg Nordquist, *Frank Russell Company*
Kristin E. O'Donnell, *Mercer Investment Consulting, Inc.*
Patrick Thomas, *Strategic Investment Solutions*
Howard Yata, *Wilshire Associates Inc.*

Workshops

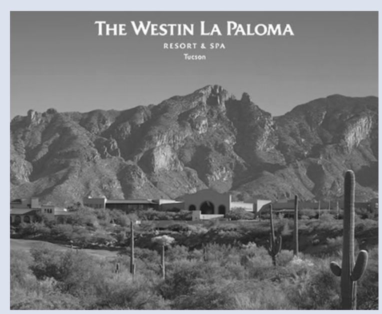
Workshops were concentrated with 6 offerings in two-hour sessions to give participants a real opportunity to "dig into" subjects including the nature of institutional credibility, building effective sales presentations, building and managing effective sales teams, a crash course in the hedge fund marketplace, mastering finals presentations, compliance issues for marketers, and a very candid session with veteran institutional marketers **Dick Graf** of *WestAM*, **Susan Leader** of *Trust Company of the West*, **Rick Rockwell** of *T. Rowe Price Associates, Inc.* and **John Seiter** of *Capital Guardian Trust Company*.

Some of the pearls of wisdom from these sessions include:

1. Credibility in a nutshell is telling the truth, managing expectations and execution.
2. Common sense strategies to achieve institutional credibility include:
   a. clients first
   b. rally the troops
   c. lead by listening
   d. honesty is the best policy
   e. focus your message
   f. get the bad news out of the way early and move forward
   g. under-promise and over-deliver
   h. seek advice—don't think you know everything
   i. speak from the heart—what convinces is conviction.
3. Your most valuable players are able to demonstrate leadership, collaborate and deliver performance.
4. The great differentiator is the ability to collaborate—you don't want "lone stars."
5. Through collaboration, MVPs take their success and "spread it around."
6. The MVP matrix:

	Competencies	Behaviors
Collaboration	Team orientation	Sociable Communicative Open
Leadership	Problem solving Advanced social skills Success orientation	Extroverted Principled Value creators
Performance	Top performance Role expertise Learning orientation	—

7. Beware the "dark twin"—they look like MVPs but can be really dangerous—these are the prima donnas. Know the difference.



Tucson, AZ

Dick Graf Receives 2005 Lothrop Award

At the Annual Conference, AIMSE announced the recipient of the 2005 Richard A. Lothrop Award recognizing an individual who, through his/her efforts and activities in the investment management industry and in his/her community, has contributed significantly to the betterment of the investment management industry and to mankind. The Lothrop Award was established in memory of Dick Lothrop, formerly of the Frank Russell Company and a pioneer and innovator in the investment management marketing and sales industry. Lothrop is recognized as the founder of AIMSE. The 2004 Lothrop Award winner Mike Fisher presented this year's award to Dick Graf of WestAm. The full text of Graf's comments follows:

I want to thank AIMSE, the Board and Staff for the Lothrop Award. I am humbled to receive it—thank you.

Just a few comments:

I have always believed that ours is a people business. And I have believed in the adage "You are only as good as the people that surround you." I have been fortunate throughout my career to have been surrounded by wonderful people.

I look at the people spectrum in two areas: personal and professional.

In the personal area there are your family and friends. I have been blessed with a great family. Our daughter, Alyssa, who is not here because in her position with the Society Of Petroleum engineers she is handling their annual conference in Houston which is a little bigger than ours—40,000 plus. Chris, our son, is also busy in his job at Sanford Bernstein tending to clients' needs.

Of course the anchor to our family is my wife Annette, without whose support none of us would be where we are today. And, she is as worthy of the Lothrop award as I am. I thank her and love her dearly.

Professionally the people around us are many and diverse; our colleagues, our support teams, and our clients, to highlight a few.

AIMSE has been the heart of this industry and profession. Some of those I have worked with are here today including Neal Howe, Mark Sullivan and Jan Pieterse. I thank them. I thank the support people behind the scenes without whom we can not do our jobs as well as we do. We would not be in business without our clients and many in my case have become my friends. I thank them too and I cherish those relationships.

Dick Graf receives the 2005 Lothrop Award from Mike Fisher, former AIMSE president and previous Lothrop Award winner

I am only here today because of the people around me. I accept the Lothrop Award on their behalf.

A final comment in closing: the next time you are in an airport lamenting a tough day and where you are going or where you have been— look around the terminal and when you see a young man or woman in desert fatigues, stop and think about where they are going or where they have been. You will realize that you do not have it quite so tough and take a moment to thank those soldiers for their service to our country. They are so very important to our way of life.

Thank you.

MESSAGE
FROM THE PRESIDENT

Dear AIMSE Members,

I have had the privilege of being a member of AIMSE since Dick Lothrop and the Frank Russell Company decided that the investment management industry needed help in selling its products. Watching our Association grow to its status today has been exciting, rewarding and very beneficial to me in my career. Where else can any of us go and share ideas with peers who actually want to help you succeed and get educated at the same time?

As I look forward, as your President, I see your Board and Staff working on a very ambitious agenda for 2005–2006. We have completed a very successful 28th Annual Education Conference in Tucson and are in the planning stages for the 29th Annual Conference in Orlando next spring. Between now and then you will have great opportunities to attend our Fall Conference in New York on September 19–20, regional breakfasts, an exciting Hedge Fund Conference in New York in February 2006 and the AIMSE Wharton Investment Institute in January, 2006. Remember, the Wharton experience is only available every other year so please plan now to attend.

We all are working very hard on your behalf but, as I learned many years ago, to really benefit from your association with AIMSE you have to get involved. We have seven standing committees that could use your help. Contact the Chairman of the committee that interests you and volunteer to participate. The Board will appreciate your help but, more importantly you will benefit from the interaction with other members who have volunteered their time to move AIMSE forward and make it stronger for us all.

You can expect to hear from me often during the year. I welcome your input and ideas that will help me lead the organization and ultimately make your membership in AIMSE as rewarding as possible.

Safe Travel and Best Regards,

Gregg J Smolenski

Gregg Smolenski

14th Annual Fall Conference Preview

Save the dates **September 19–20** for a rare opportunity to meet and learn from top industry consultants and plan sponsors at AIMSE's Annual Consultant-Manager-Plan Sponsor Dialogue to be held at the Grand Hyatt in New York.

The conference will begin with a keynote presentation on September 19 at 6:00 pm with **Jim Ware** of *Focus Group Consulting* who will offer techniques for developing and leveraging the talent within investment organizations. A principal at Focus Consulting Group, he is the author of "The Psychology of Money: An Investment Manager's Guide to Beating the Market" and "Investment Leadership: Building a Winning Culture for Long-term Success." His presentation, **Seven Critical Behaviors for Institutional Investment Marketing Sales Professionals** is sure to stimulate your thinking and help you generate ideas for your own organization. Ware's presentation will be followed by a reception complete with wine tasting.

On September 20, come prepared for a jam-packed agenda beginning with **"Shaping Leaders—Driving Results"** a discussion with **John Casey,** *Casey, Quirk & Associates;* **Mike Manning,** *New England Pension Consultants;* and **Allen Reed,** *General Motors Asset Management* of the three major trends that have had a major impact on our industry. Led by **Larry Pokora** of *Chartwell Investment Partners*, these industry leaders will offer insight on how these trends affect our ability to perform sales and marketing duties as well as shape and guide our organizations.

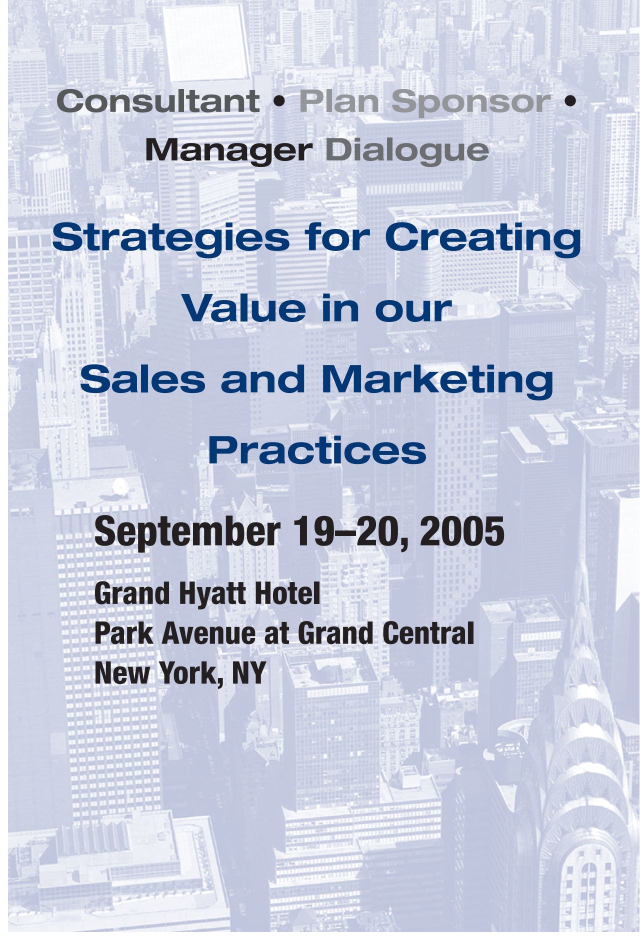
Following the opening session, stay tuned as panelists **Nick Visconti,** *New York City Firefighters;* **Larry Zielinski,** *Evaluation Associates Inc.* give you the **"Keys to the City"** or the insider's view to their organizations. This session will reveal board insights, historical decision processes and general plan information to help you make educated decisions in your sales and marketing efforts.

Also on offer is the **Pension Plan Roundtable,** an opportunity to meet top plan sponsors in an intimate roundtable setting. Ask them the questions you have always wanted the answers to and learn more about how to gain access and meet their needs. **Jack Gastler,** *Acadian Asset Management* will moderate a panel including **Keith Bozarth,** *Orange County ERS;* **Larry Krummen,** *MoDot & Patrol Employees' Retirement System;* **Denise Outram,** *NY City Employees Retirement System;* **Frederick Volp,** *NY State Teachers Retirement System* and **Steve Yoakum,** *Public School Retirement System of Missouri.*

As if that weren't enough, AIMSE also gives you the **Consultants Roundtable.** Roll up your sleeves and join top consultants for true "roundtable" discussions of the pertinent issues we all face today. There's no podium and no audience—just individual discussion groups at each roundtable. You'll benefit from the insights of the consultant at your table and the final "reporting back" from other groups. In an intimate and interactive setting, you'll hear straight talk on how to streamline your sales and marketing efforts, develop productive relationships with influential consultants and connect with the plan sponsors who need your services most. **Maureen Beshar,** *Lazard Asset Management* will moderate and panelists include: **Cliff Axelson,** *Callan Associates Inc.;* **Bruce Graham,** *Shields Associates;* **Orim Graves,** *Fiduciary Investment Solutions;* **Beth Henderson,** *CRA RogersCasey;* **Lillian Jones,** *Dahab Associates* and **Ron Partain,** *Consulting Services Group.*

Finally, no AIMSE Fall Conference would be complete without the **"Candid Conversation with Plan Sponsors and Consultants."** As the conference finale you will have the opportunity to ask the really tough questions—the ones you have always wanted to ask but you couldn't—or wouldn't. Consultants who have spoken throughout the day will join this no-holds-barred session and take on those probing questions that have been submitted anonymously to protect the innocent.

For more information or to register for the Fall Conference, please contact AIMSE at 800-343-5659 or 202-296-3560 or visit www.AIMSE.com.



Callan Proudly Continues its Institute

"We think that education and networking in this industry are extremely important because all parties have to understand each other's issues and problems"

Ron Peyton, *President and Chief Executive Officer of Callan Associates, Inc.* is proud of his firm's educational activities, including its Callan Investments Institute. The industry flap about potential conflicts of interest hasn't convinced him to end this well-known educational business which brings together plan sponsors and money managers annually for a major conference and other activities.

The main message that Peyton wants to convey is that "We're committed to education. We think that education and networking in this industry are extremely important because all parties have to understand each other's issues and problems — and we have to work together as a team — to achieve the best results for the beneficiary."

The flap started back in May 2005 when an SEC Staff Report said, "Concerns exist that pension consultants may steer clients to hire certain money managers and other vendors based on the pension consultant's (or an affiliate's) other business relationships and receipt of fees from these firms, rather than because the money manager is best-suited to the clients' needs." For example, the report mentioned eight consultants hosting conferences that plan sponsors attend for free, while money managers pay fees. Since that report was issued, most of those firms canceled their conferences. Peyton says, "The SEC has never said anything about that to us. I've only read about it in the press."

The press has focused its attention on these conferences and performance software for which many investment firms pay consultants. A large part of the SEC consultant investigation, mostly ignored by the press, identified conflicts of those pension consultants with affiliated broker-dealers or relationships with unaffiliated broker-dealers. Fifty-eight percent of the 24 consulting firms examined by the SEC had such a conflict. Callan does not.

Peyton says that any business has the potential for conflicts of interest. Callan addresses that through disclosure and by putting firewalls in place. However, says Peyton, "The bottom line is that you've got to have honest and ethical people working for you."

The front page of the latest *Callan Letter* features an article called "Celebrating 25 Years of Fiduciary Education." The article states that "the real value-added of the Institute lies in the white papers and surveys it produces to help participants better fulfill their fiduciary roles." As examples, it cites Callan's periodic survey of actual fees paid by plan sponsors to investment managers and a white paper on small cap equities recently published in the *Journal of Portfolio Management.* The article concludes with a quote from Ken Brunke, executive director of the institute. "We'll never lose sight of who we're all working for," says Brunke.

Peyton says that Callan lists the names of all of its money manager clients and will disclose amounts paid by a manager upon plan sponsor request, if the manager agrees.

"The institute has been part of our basic business strategy for the last 25 years," says Peyton. If he has his way, those 25 years are only the beginning.

China to Play Larger Role in Global Portfolios

Everybody's talking about China. Sometimes your clients speak at a general level — about the revaluation of China's currency or the country's impact on the global economy. At other times, their talk is specific to investments. When will there be a good way to harness China's power in their investment portfolios? Some of them reckon there's a big hole in their portfolio where China should be. If you can tell your clients something that they don't already know about this kind of new investing frontier, you'll be a more effective salesperson, says AIMSE Vice President **Kurt Wood** of *DePrince, Race & Zollo.*

Lack of liquidity in the Chinese stock market has deterred investments there, says Wood. Indeed, according to **Chris Ruffle,** Shanghai-based director of *Martin Currie Investment Management Ltd.*, more than 65% of China's market capitalization — domestically-listed Chinese stock, known as A shares and denominated in local currency — has been locked away in the hands of the Chinese state or company owners. But that is changing. The Chinese government is pushing hard to make more Chinese shares tradable.

The shift began earlier this year, when the government decreed that managements should come up with a compensation package to make all shares tradable. The solution, according to Ruffle, is that each existing holder of a company's tradable shares receives additional shares — for example, each holder of 10 shares gets an additional three. "That way there's no dilution," he says. The actual proportion of new shares varies by company, with management-owned companies generally being more generous than state-owned companies.

If you can tell your clients something that they don't already know about this kind of new investing frontier, you'll be a more effective salesperson...

The project started with four companies in May and added another 42 in June. Ruffle anticipates that the project will expand to include the entire market by the end of August.

London-based **Alexander Treves,** fund manager, Asia Pacific equities, with *Merrill Lynch Investment Managers* is not as optimistic. "First, we believe that it's not quite true that the Chinese government is going to make all of its nontradable shares tradable this year. Rather, it is making some first exploratory steps." And, making additional shares available comes at a significant cost. "It depresses valuations, raises the cost of capital, diminishes its own eventual proceeds, aggravates current investors etc, etc.," says Treves. In the meantime, "Offshore investors with access to Chinese equities — not to mention Mainland investors themselves — are likely to find their positions buffeted as China moves to a solution."

On the positive side, "This appears to signal that China's government is moving towards placing more reliance on market mechanisms, with ramifications for the way in which China interacts with the rest of the world in general. They should see this as a money-making opportunity for clients in the long run once the problem has been sorted out, given increased investor

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Canadian Opportunities Beckon

The lifting of Canada's limit on foreign content in pension plans presents opportunities for U.S. money managers with expertise in managing U.S. and global stocks and bonds. The old 30% limit has been abolished, retroactive to January 1, 2005.

It's a development that's welcomed by Canadian pension funds, including the Association of Canadian Pension Management (ACPM/ACARR), which published a paper on "The Foreign Property Rule: A Cost-Benefit Analysis" in 2002 and had lobbied for elimination of the limit.

But is a quick and dramatic change in Canadian pension plans' asset allocation in the cards?

Industry pundits suggest that foreign content will rise to 50% over the next five years, says **Michael Gillis,** vice president of marketing with *SEAMARK Asset Management* in Toronto. "I personally think it will grow faster because the Canadian market could slow and the U.S. could do well."

Current Status of Canadian Pension Plans

A recent survey put many Canadian pension plans in the low to mid-20% range for foreign content, according to Gillis. Those plan sponsors apparently haven't felt cramped by the 30% limit.

Investing in the U.S. has been a tough sell for some because Canada has performed well, partly because of foreign exchange rates. "The Canadian dollar rose — or the U.S. dollar fell — significantly in 2003 and 2004, causing the Canadian dollar to look good in comparison," says Gillis. Managers of U.S. equities for Canadian clients have felt the pain of exchange rates. In 2003, SEAMARK's U.S. equity product beat the Standard & Poor's 500 by 800 basis points, but when returns were translated into Canadian dollars at year end, they didn't even beat bonds. "That's why some plan sponsors don't go up to the 30% limit," says Gillis. It's also an indication that currency hedging strategies will be critical if and when allocations outside Canada rise significantly.

On the other hand, prior to the removal of the limit, plan sponsors who wanted to exceed 30% foreign content have achieved that legally by using derivatives or a master trust structure. RBC Financial Group reached 40% foreign content using a master trust, according to **Terri Troy,** director of pension investments with *Royal Bank of Canada* (RBC) in Toronto.

Until this year, Canadian pension plans have allocated most of their foreign investments to equities, mostly typically splitting their foreign content equally between U.S. and international equities, says Gillis. A classic 60–40 stock-bonds mix might include 30% Canadian equities, 15% U.S. equities and 15% international equities, says Gillis. His personal preference is to weight the U.S. more heavily. Over at RBC, the 60% equity weighting is 20% Canadian equities, 12.5% U.S. equities (large-cap and mid-cap), 12.5% EAFE equities and 15% global equities, says Troy.

Bonds will be Big

However, look beyond equities to find the biggest opportunities for foreign managers. RBC is on the verge of allowing their fixed income managers to tactically manage Canadian and non-Canadian bonds. "We're looking for fixed income managers who have expertise in managing Canadian and foreign bonds in an integrated fashion," says Troy.

Gillis agrees that bonds will be the biggest beneficiaries. "When you could only do 30% foreign content, you wouldn't use it on bonds," he says.

Passive hedging strategies and active currency managers could also benefit as Canadian pension funds allocate more to foreign markets. "Significant foreign exposure translates into significant currency risk which will need to be managed either strategically or tactically," says Troy.

Outlook for U.S. Firms

Can American firms compete in Canada? Troy sees tremendous opportunities for experienced global bond managers. "Foreign managers have the specialized global credit capability for corporate bonds including high yield debt, mortgage-backed securities, and emerging market debt and they can make sector and country calls," says Troy. For structural reasons, Canadian fixed income managers haven't fully developed those capabilities, but they could.

Gillis points out that Canada has many more balanced mandates than in the U.S., though the number is shrinking. Those could present an appetizing opportunity for U.S. firms.

American firms don't need to open a Canadian office to compete in this market, according to Troy, though Pimco, at least, did open an office there during the last year. With or without an office, however, U.S. firms must raise their profile in Canada to make local fund sponsors aware of their expertise.

And what of the outlook for Canadian money managers? According to a study by Mercer Investment Consulting - Canada, "Over 70% of the Canadian investment managers surveyed in Mercer's 2004 Fearless Forecast . . . believed the removal [of the foreign content limit] would not have a significant adverse impact."

Some Canadian money managers are hustling to form alliances with foreign firms. For its part, SEAMARK is working to boost its credibility in Canada as a manager of U.S. equities by marketing its U.S. equity management in the U.S. through a third-party marketing firm. "There is a bias among larger Canadian plans that Canadian managers can't manage as well as a U.S. manager," he says. U.S. managers might be wise to start their marketing now, before that bias is overcome by more Canadians building marketing track records.

China's Role in Global Portfolios

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choice, the theory of improved corporate governance, and the removal of the overhang," says Treves.

However, an increase in tradable shares doesn't mean that foreign investors can immediately grab a large proportion of Chinese market capitalization. That's because foreigners can only buy through the Qualified Foreign Institutional Investor (QFII) program. It's a quota that's currently limited to $4 billion. To put that in perspective, $4 billion accounts for less than 1% of overall Chinese market capitalization.

However, the Chinese are expected to make an additional $6 billion available by the end of August 2005, says Ruffle.

With these changes, Treves expects "both supply and demand of investment products incorporating A shares to increase, barring the sort of economic and stock market meltdowns there which cause investors to flee an asset class (not our central scenario)."

All of these moves are gradually reducing the barriers to Chinese A shares being incorporated into MSCI's broader indexes. Once that happens, investors may pile into China. "It'll be a bigger risk not to invest in China," says Ruffle.

But doesn't MSCI already have an A share index? you may ask. Yes, there's the MSCI China A Index, launched in May 2005. But that's an index for domestic Chinese investors because they have much more access than foreigners to A shares, emphasizes **Ken O'Keefe,** an executive director with *MSCI Barra*. That's different from the firm's international indexes, which are built from the perspective of foreign investors. As noted above, the QFII program puts strict limits on foreign investors buying Chinese shares. That's why they're not incorporated into an MSCI international index. "MSCI has no current plans or a fixed time frame for incorporating A shares into MSCI international indexes," says O'Keefe.

MSCI could change its mind about Chinese shares. Indeed, in its press release about the A share index it announced plans to open a sales and client service office in Shanghai. However, incorporating A shares into other MSCI indexes wouldn't happen overnight. Such changes can take more than a year and would include a formal review process that be announced in advance, says O'Keefe.

Treves suggests that investors consider making money on the Chinese economy through vehicles other than A shares. "Chinese companies may be poor stewards of minority investors' capital, and A share valuations may not reflect that yet. The Chinese economic model appears to favor revenues and market share over profitability, and as such the equities of foreign companies which sell to China, or which benefit from cheap Chinese costs, may outperform Chinese equities."

Institutional investors will watch closely as the Chinese stock market drama continues to unfold.

AIMSE International Update

So Far in 2005

AIMSE International has already enjoyed a busy and successful 2005 with much still on the agenda. In February we held our Annual Conference in London, attended by over 60 delegates, on **Looking Forward – Learning from the Past.** In June we held a roundtable on **Body Language in Business – Instinct or Extinct?** which was a lively event attended by over 30 delegates.

Coming Up in 2005

Our next event will be the AIMSE Negotiation Skills Workshop held on 5-7th September at the Lythe Hill Hotel in Surrey followed by our annual Consultants Conference which will be taking place on 20th October at the Russell Hotel in London. The topic this year will be **What Are the Challenges Facing Asset Managers and Consultants in the Rapidly Changing Pensions World.** More news later this year on our European Consultants Conference. The date for our 2006 Annual Conference is set for February 2; we hope some of our overseas colleagues can join us.

Encouraging Wider Membership

As always, we are looking to welcome any new members to join AIMSE International. This is an exceptional forum for anyone wanting to get involved in the European Asset Management Industry.

We are also always on the look out for new and other successful ideas for our events and welcome any feedback for any other members or non- members on this. Feel free to let us have any comments.

I look forward to seeing you at an AIMSE International event in the near future.

John Gee-Grant
International Director

AIMSE Standing Committees and Responsibilities

Strategic Planning Committee
Chair: Neal J. Howe
Merrill Lynch Investment Managers
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Program Committee
Chair: Tom Barron
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Canadian Committee
Chair: Michael Gillis
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Communications Committee
Chair: J. Kurt Wood
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Education Committee
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International Committee
Chair: John Gee-Grant
Merrill Lynch Investment Managers
020 7743 2121
John_gee-grant@ml.com

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CALENDAR

AIMSE North America Events

September 19–20 Grand Hyatt Hotel New York, NY	**AIMSE Fall Conference Consultant-Plan Sponsor-Manager Dialogue**
January 8–13, 2006 The Wharton School University of Pennsylvania Philadelphia, PA	**AIMSE/Wharton Investment Institute**
April 23-26, 2006 Omni Orlando Resort ChampionsGate, FL	**AIMSE 29th Annual Marketing and Sales Conference**

AIMSE *Advisor* Welcomes Susan B. Weiner, CFA, Associate Editor

AIMSE is pleased to welcome Susan Weiner to the team at the *Advisor.* A CFA charterholder and Harvard University graduate, Susan is an experienced manager of investment-related marketing communications for major asset management firms. She is a seasoned reporter for business and financial publications and has been published in *American Banker, Boston Business Journal, Boston Globe, CFA Magazine, Foreign Trade, Mutual Fund Market News,* and *Registered Investment Advisor*.

Check out Susan's stories on Callan, China and the Canadian pension market in this issue.

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