

THE VALUE OF COMMISSION RECAPTURE IN A CHANGING INDUSTRY

Q: How does the move toward unbundled commissions impact Commission Recapture?

A: In the UK, the Financial Services Authority has recently enacted guidelines that suggest investment funds break out their trading and research costs separately for clients. Referred to as “unbundling,” this type of disclosure helps Plan Sponsors identify *how* their commissions are spent but does nothing to reduce *how much* is spent on commissions.

According to the FSA, up to 40% of total commissions are spent acquiring services additional to trade execution, such as investment research and technology. Unbundling makes these commissions transparent to the Plan Sponsor, while Commission Recapture enables the Plan itself to reclaim excess commissions.

Although the SEC has not yet addressed “unbundling” it is generally thought similar guidelines will be adopted in the US. The SEC’s Division of Investment Management is currently working on a release, which will address disclosure, and transparency issues with respect to research-commission arrangements. In the recent July 12, 2006 SEC Open Meeting, the Director of Investment Management indicated that the release might be ready by the end of this year.

Q: Have commissions fallen to the point that Commission Recapture is no longer necessary?

A: Commission Recapture continues to be a highly effective discounting method available to control commission spending. For example a pension fund with \$1 billion in actively managed domestic equities might expect commission recapture payments of more than \$320,000 per year.*

Q: Which brokers are participating in correspondent networks?

A: In addition to CAPIS’s domestic and international trading desk, we have a strong network of trading partners worldwide to satisfy your direction requests. While some brokers have chosen to exit correspondent networks, CAPIS continues to add new brokers to enhance its program. We are confident that our global broker network will be more than able to satisfy your investment manager’s direction requests. A complete list of our trading partners is attached. We are also happy to establish a relationship with other brokerage firms your investment managers may wish to use.

We look forward to more fully explaining the benefits of the CAPIS Global Commission Recapture program and demonstrating how Commission Recapture can help you control your commission spending.

*Assumptions – 4 cps, avg stock price \$40.00, 85% turnover, 30% direction, 1.5 net execution cost