MUTUAL FUND RESEARCH PROCESS

Identifying high-quality managers // Clearly defined process

KEY TAKEAWAYS

Raymond James believes that providing in-depth, unbiased research is an important tool for making high-quality investment decisions.

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In evaluating portfolio managers/fund performance, the Mutual Fund Research & Marketing team uses a well-defined, five-step research process.

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Focusing on managers with clearly defined processes that can be executed in a repeatable fashion is key, as opposed to focusing on current trends or on popular funds.*

*Past performance may not be indicative of future results.

RAYMOND JAMES®

INTRODUCTION

At Raymond James, we strive to give our clients and financial advisors the tools and support to make high-quality investment decisions. Providing in-depth, unbiased mutual fund research is a component of this philosophy. Raymond James even has the distinction of being among the first, and still few, firms to publish mutual fund research reports recommending individual funds to clients.

The following pages provide a detailed look at how the Raymond James Mutual Fund Research & Marketing team is organized and how the five-step research process works, including initial screening of managers, quantitative analysis, portfolio manager interview, recommendations and monitoring.

MISSION

The goal of the Raymond James Mutual Fund Research process is to identify managers who have exhibited consistent results across all major asset classes that may outperform other comparable mutual funds over a full market cycle.*

In seeking to accomplish this goal, the research team compiles a list of recommended funds, conducts upfront and ongoing due diligence and makes changes to individual fund ratings as necessary. The Mutual Fund Research team applies ratings of "Highly Recommended," "Under Review" or "Not Recommended" to the mutual funds it covers.

RATINGS

Highly Recommended
A fund is rated "Highly Recommended" if it passes the research process that is detailed in this report.

Under Review
A fund that is highly recommended may be changed to "Under Review" if concerns arise over a variety of issues such as underperformance, style drift or management changes.

Not Recommended
If it is determined that a fund no longer possesses the characteristics that earned its recommended rating, it may be downgraded to a rating of "Not Recommended" based on the team's opinion.

*Past performance may not be indicative of future results.
There is no assurance the funds recommended will achieve this goal.

RESEARCH TEAM STRUCTURE

Research analysts have specialized roles and are dedicated to the evaluation and analysis of assigned asset classes and mutual fund categories. The group is divided into three specialized teams.

This specialized team structure allows for in-depth knowledge of asset classes and provides a high level of flexibility and agility to address immediate fund-related issues.

HIGHLY RECOMMENDED FUND SELECTION PROCESS

The Raymond James Mutual Fund Research fund selection process attempts to set forward-looking expectations rather than simply relying on historical performance. The process combines a thorough analysis of how a fund has performed in the past with an effort to understand and define a portfolio manager's expertise, investment process and style. Through frequent contact with the portfolio management team, the research team seeks to gain an understanding of not just how a fund has performed, but whether a fund may continue to deliver relative outperformance by means of a clearly defined process that can be executed in a repeatable fashion.*

The team monitors over 40 broadly defined asset classes and attempts to offer at least one or more recommendations within each asset class in order to provide a variety of attractive options for core portfolio needs as well as sector and/or more specialized investment options. These asset classes may not be suitable for all investors. Recommended funds are clearly defined in terms of their investment asset classes, as well as their stated objectives and investment styles. These definitions serve as a guideline for peer group comparisons and, ultimately, for future expectations of individual fund performance. Funds are monitored for their adherence to these definitions. Each fund is judged on its performance not only against its stated benchmark, but also against its peers.

*Past performance may not be indicative of future results.

ASSET CLASSES

EQUITY

DOMESTIC EQUITY

Large Cap Blend	Mid Cap Blend	Small Cap Blend
Large Cap Growth	Mid Cap Growth	Small Cap Growth
Large Cap Value	Mid Cap Value	Small Cap Value

EQUITY SECTOR STRATEGIES

Technology	Healthcare
Utilities	Precious Metals
Real Estate	Communications
Financials	Infrastructure

INTERNATIONAL EQUITY

Emerging Market Equity	Developed Market Equity	Global Equity

FIXED INCOME

FIXED INCOME - INVESTMENT GRADE

Corporate Long Maturity	Municipal Long Maturity	US Gov. Long Maturity
Corporate Intermediate Maturity	Municipal Intermediate Maturity	US Gov. Intermediate Maturity
Corporate Short Maturity	Municipal Short Maturity	
Global Fixed Income Strategies	Convertible Bonds	

FIXED INCOME - NON-INVESTMENT GRADE

Corporate Non-Investment Grade	Municipal Non-Investment Grade

ALLOCATION

Balanced Allocation Strategy	Alternative Strategies	World Allocation Strategies

Investment style refers to the philosophy an investor or portfolio manager employs to select securities. There are two broad equity investment styles – growth and value. The Mutual Fund Research team further expands these basic definitions into six distinct styles to distinguish specific nuances that may more accurately pinpoint what types of markets might be most favorable or detrimental to each specific style. The six styles are deep value, basic value, relative value, growth at a reasonable price, high growth and momentum growth.

Growth or value markets may have several distinct phases in which very specific stock or company characteristics are favored within the equity markets. Each of these six styles, by virtue of the factors on which the management teams place the greatest emphasis, may perform very differently from one another, regardless of the fact that they share the similar broad style of growth or value. Further, each style may be viewed in terms of general risk tolerance, which may assist mutual fund investors in choosing profiles most appropriate for their needs and risk appetites. The following graph highlights the general investment focus of each style.

STYLE CONTINUUM

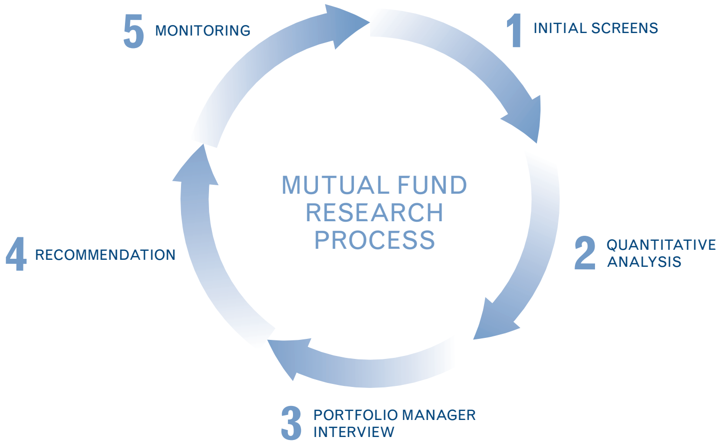
VALUE ▼ GROWTH ▼

DEEP VALUE	BASIC VALUE	RELATIVE VALUE	BLEND	GROWTH AT A REASONABLE PRICE	HIGH GROWTH	MOMENTUM GROWTH
Companies believed to be valued at substantial discounts	Depressed companies or industries believed to be on the verge of an upswing	Companies believed to be experiencing short-term setbacks		Companies that have offered stable, sustainable earnings growth and may be trading at a discount	Companies that have experienced increasing earnings growth	Companies that have experienced momentum in stock price due to market perceptions of earnings potential
Breakup and/or bankruptcy situations	Typically companies within traditional value sectors	Attractive prospects of sustained growth in future		Similar to relative value style	Focused on sustainability of earnings	

Fixed-income mutual funds may also be defined by distinct investment styles, which may give an investor some indication of how a fund may perform. Instead of growth or value, fixed income managers may focus on macroeconomic predictions of interest rate shifts, or they may focus on finding the most attractively valued individual debt securities. They may invest within specific areas of the fixed income market, such as treasury, corporate or high-yield securities, each of which may have varied risk/return profiles.

There is no assurance that recommended mutual funds will be able to achieve their investment objectives. Investing involves risk including the possible loss of capital.

THE PROCESS



1 INITIAL SCREENS

The first step in the research process begins with an initial screen of historical performance. The initial screen is intended to identify both outperformance and consistency of performance, while factoring in risk characteristics. Quantitative screens are used to help narrow the universe of funds, focusing only on those that have demonstrated the ability to outperform within their categories over a full market cycle.

Generally, three- to five-year time horizons may be long enough for a fund to experience a variety of different market conditions and long enough to satisfy questions regarding how consistently it has navigated through previous cycles.

2 QUANTITATIVE ANALYSIS

During the second step, the specialist teams further evaluate performance using a scorecard approach that assesses:

- The fund's relative quartile performance compared to its benchmark and peers
- Risk-adjusted returns to measure how much return is generated for each unit of risk
- Upside and downside capture as it relates to index benchmark performance

The most appropriate benchmark or peer group is determined and a fund is analyzed, in isolation and in comparison with its benchmark and peers on a variety of risk and reward metrics. The scorecard provides a measure of consistency over time and is used as a guide for the analysts in further refining their research. The scorecard does not encompass holdings-based and returns-based attribution analysis, which occurs later in the process.

While a variety of metrics are considered, the team has found that standard deviation and Sharpe ratio are particularly useful because they are easily comparable across peer groups.

Standard deviation is a statistical measure of the fluctuation (volatility), both positive and negative, around a fund's average return. It conveys an idea of the volatility that may be expected from a particular fund, based on historical data like all other risk/reward metrics. Sharpe ratio measures how much additional return a fund achieved over a risk-free rate of return, such as a Treasury bill, given the amount of volatility it took to achieve that return. The Sharpe ratio is useful as a comparative tool when considering several funds within the same asset class.

The team then uses its proprietary scorecard for each fund peer group that includes the standard deviation and Sharpe ratio, along with eight other metrics, for each fund being evaluated. The scorecard seeks to identify top quartile managers by weighting data according to relevance. The metrics are assigned a score depending on quartile rank within the peer group and attempt to identify those funds that have clearly defined processes that can be executed in a repeatable manner.

The team uses these and other standard risk measures to determine how a fund has performed in the past and to get a sense of how it may be expected to behave in the future. For example, is a fund's performance fairly evenly spread over a particular time period, or is its outperformance based on an unusually large gain within a short time period? The team seeks to derive whether a fund exhibits a cyclical or more stable return pattern or whether it achieves better returns in bullish or bearish markets.

The information and data collected up to this point serve as filters to reduce the number of potential funds to what the team believes are the most attractive funds, generally two to five, which are selected for further research.

HOW THE SCORECARD WORKS:

Identify top-performing managers by weighting data according to relevance

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Metrics are assigned a score depending upon a quartile rank within the peer group

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A time-period score is calculated based on the sum of individual data scores where a lower score is preferred

It is at this point that the subset undergoes attribution analysis. This aids in identifying drivers of returns, whether they be security- or sector-based. Additionally, the attribution analysis incorporates individual holdings, which helps detect deviations from the manager's stated style.

3 PORTFOLIO MANAGER INTERVIEW

At this phase of the five-step research and selection process, the specialist teams are responsible for interviewing the prospective funds' portfolio management teams to gain a deeper understanding of their team structure and investment philosophy, process and style. Clues as to a fund's investment style may be gained from historical performance and portfolio positioning, but it is only through a discussion with the management team that the mutual fund research team is able to solidify its understanding of how a fund may be expected to perform going forward. In the interview, the team seeks to determine the soundness of the management team and process through a variety of questions such as, but not limited to:

- Does the portfolio management team adhere to a well-defined investment philosophy and process?
- What is the team's sell discipline?
- How do the portfolio holdings reflect the team's philosophy?
- What attributes does a particular security have that makes it either attractive or unattractive, given the team's philosophy?
- Has the philosophy changed over time, and if so, how?

Following the interview, an analyst will draft a detailed, internal overview of the portfolio management team, philosophy and process and distribute it to the other analysts within the team.

4 RECOMMENDATION

At this point, the analysts within the specialist team combine the initial, secondary and management interview research to construct a detailed picture of the fund and its management team. All of the available information on performance, investment style, portfolio management team depth and consistency is considered in selecting the funds that are believed to have the highest potential to continue to deliver above-average results. Next, a recommendation is presented to the Investment Committee, which is comprised of senior Raymond James management. No recommendation is accepted without a unanimous decision from the Investment Committee.

5 MONITOR

The fifth stage of the continuous mutual fund research process is the monitoring of the manager's performance. The monitoring process includes:

- Speaking with portfolio management teams at least twice per year
- Assessing relative and absolute performance using the scorecard system described above
- Conducting attribution analyses across industry sectors and at the individual security level
- Performing "style" analyses to gauge whether a fund has moved substantially from its original or stated investment focus
- Identifying any management changes to determine if the focus has changed significantly from the original recommendation to the Investment Committee

PERFORMANCE MONITORING

While the research team adds funds to the list based on performance expectations over a full market cycle, it is also important to detect potential performance problems in their early stages. On a monthly basis, the respective teams review the performance of all of the funds under coverage. The entire list is screened for shorter-term, 12-month average returns and longer-term, three- and five-year average returns. The funds that fall below the 50th percentile for the three- and five-year periods are flagged for further analysis, which encompasses the scorecard review process.

A deeper analysis is conducted to determine if the underperformance may be due to a temporary setback or circumstances beyond the management team's control, such as a current market that favors investments outside of the fund's scope. For instance, in a market environment where large-cap stocks are out of favor, is the fund being unduly punished for simply staying within its investment parameters? If, however, the analysts determine that there are no sound explanations for why the fund is underperforming, the process to determine if there has been a fundamental breakdown in the investment process that earned the initial recommendation will begin. Actions taken may include a rating change to "Under Review" or a rating downgrade to "Not Recommended" if the team's confidence in a fund has eroded.

DOWNGRADE PROCESS

If a fund has been identified as a candidate for downgrade, the specialist team will meet to discuss its findings and conclusions with the entire research team.

If a fund is placed "Under Review," it is typically unclear how a specific concern may impact a fund in the future; for instance, a management change, poor performance or style drift that are not clearly tied to a breakdown in the investment process. The analysts will monitor the fund closely for improvement in the areas of concern. The team also re-evaluates the reasoning behind the initial recommendation to determine if it remains intact.

A downgrade to "Not Recommended" is issued when the research team's opinion of a fund is no longer in line with the original recommendation. This may be due to any of the reasons highlighted above when it is determined that such reasons have meaningfully changed the fund's fundamental characteristics. A "Not Recommended" rating is not necessarily an indication to sell. Instead, it is up to the investor and his or her financial advisor to decide whether to sell or to hold. It simply means a fund no longer possesses all of the fundamental characteristics that caused the team to initially recommend it. After a period of three months, funds rated "Not Recommended" are dropped from coverage altogether.

CONCLUSION

Ultimately, the team strives to construct a core list of mutual funds that may be used to fill most asset allocation needs. The team focuses on consistent performance over a full market cycle rather than current hot funds or trends and does not attempt to predict short-term performance. Recommended funds are chosen for the long term, with an understanding that their particular asset classes or investment styles may not be in favor in all markets. They are expected, in the team's opinion, however, to outperform similar funds over time and to adhere to their stated objectives and investment strategy. There is no assurance that this will occur. Within the client-approved research reports, the team clearly defines a recommended fund's strategy and risks, as well as the team's expectations. The reports further serve to update clients on current fund positioning, with commentary from the portfolio management teams.

Investors should carefully consider the investment objectives, risks, and charges and expenses of mutual funds before investing. The prospectus contains this and other information about mutual funds. The prospectus is available from your financial advisor and should be read carefully before investing.

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