

Life Cycle Investing Strategies

Life cycle investing allows not only to set clear return goals but also to rebalance a portfolio at the most appropriate rate. Manning & Napier utilizes a team approach and extensive research to provide investors in the Pro-Blend Conservative Term Series with absolute returns while minimizing risk through active asset allocation.

What is the company's background?

The company was founded in 1970 and the basic tenets of investment process that we use today have been retained for the last four decades. We used life cycle investing approaches for defined benefit plans, endowments, and individuals. In the eighties, when 401(k) retirement plans got traction, it was realized that individuals had a very difficult time making investment decisions; they typically made the wrong decision at the wrong time. We recognized this and started promoting three balanced funds in the portfolio of different risk levels where Manning & Napier handled the asset allocation decisions.

Originally, those were separate accounts and as all 401(k) plans were, they had yearly, semi-annually, or quarterly valuations. We put 401(k) wrappers around the investment strategies that we have been using as separate accounts for many, many years, and created mutual funds in 1993. At the time, seven mutual funds were classified as life cycle funds while now there are almost 1,000.

How do you define the investment philosophy behind the fund?

We believe that people who are investing in life cycle funds are concerned about getting good absolute returns, and concentrating on those returns is in our client's best interest. We also believe that active asset allocation is one of the best ways to manage risk. You can move in and out of securities and, based upon valuations, you are not putting a chain attaching yourself to a set out.

Over long periods, a 60% to 40% or 55% to 45% blend of stocks and bonds typically helps in optimizing returns. There are a lot of periods when

being static to either index or to a specific asset allocation, precludes you from getting a positive return because the markets are just that bear. Over short periods, markets do not act as they do over a 60-year period. Therefore, having the flexibility to move in and out of equities and using bottom-up research process serves clients' needs in the best possible way.

What is the level of absolute return you are targeting?

It is not a specific target level. It is just about making sure that we have a process and a compensation structure inside the organization, which puts absolute returns at a premium.

How does your philosophy translate into a successful investment strategy?

We believe that if you buy a good company undervalued, you will squeeze out most of the risk. We also employ within our portfolios active asset allocation, and we have done that from the beginning. Our lifestyle funds have different allocation of stocks depending on the risk appetite of the investor. The stock allocation range is 70% to 95% for the most aggressive. For the next step down in risk, 40% to 70% stock allocation range, for the moderate it is 20% to 60% and for the most conservative it is 5% to 35%.

We use very specific stock selection strategies focused on a fundamental investment style. We are not going to use industry weightings that are comparable to any index. For example, for two years we had no exposure to consumer durables; three years ago we had over 15% of the portfolio in energy, while as of the end of 2007 we had less than 3% in energy. We sold most of our energy stocks in 2007.



ABOUT THE INTERVIEW

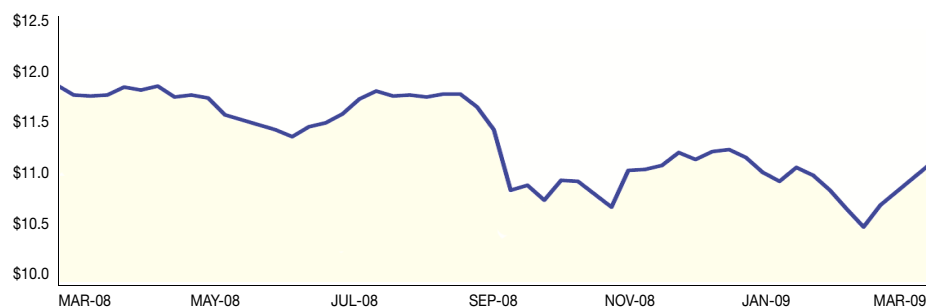
The interview was conducted with **PATRICK CUNNINGHAM**, Managing Director at Manning & Napier Advisors, Inc. He is also coordinator of the Executive Group and an employee owner of Manning & Napier. His primary responsibilities are client service and sales management, and has spent over 25 years of professional experience, with 15 years at Manning & Napier.

Cunningham earned his B.S. from the Massachusetts Institute of Technology.

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Performance - Price History N.A.V.

Manning & Napier Pro-Blend Conservative Term Fund (EXDAX)



	2006	2007	2008
S&P 500 Daily Reinv Index	15.79%	5.49%	-38.49%
Manning & Napier Pro-Blend Conservative Term Fund	8.56%	6.47%	-5.04%

What are the virtues of life cycle investing and why should people consider that?

Life cycle funds help investors to rebalance their portfolios on a regular basis. They will rebalance to a specific risk level or they will be rebalancing to a lower allocation as they get closer and closer to retirement if they are invested in a life cycle fund. They will be selling the winners and buying the losers at the appropriate time.

As far as Manning & Napier is concerned, we also think that by having active asset allocation we can control risk even better. By being able to move out of equities or sectors in the equity market when they are overvalued into equities or sectors of the equity markets when they are undervalued you can get better returns and control volatility better. We believe people who invest in life cycle funds want risk management too.

And when you say risk management, what kind of risk are you talking about?

Primarily capital risk, and we manage this through absolute return orientation. The way we translate that is by sticking to an investment discipline. We don't use a portfolio management system. We have 30 stock analysts, 10 economists and six fixed income specialists. Those 30 stock pickers are looking for companies that meet one of our three stock selection strategies.

Would you elaborate on your stock selection strategies?

One is how we buy growth companies. The second is how we buy companies in cyclical industries. The third is how we buy deep value

strategies. We buy companies in our cyclical strategy when they go through very difficult periods. We buy the strongest survivors in one of those cyclical industries. For example, last year we bought FedEx and UPS because of high fuel costs and slowing economies, globally. That's a recipe for a disaster. UPS and FedEx have great balance sheets that we are confident will be in a much stronger position because their competition will be knocked out.

We look for deep value opportunities for our third strategy. We bought Club Med after 9/11 and SARS. At the time we bought it, the analysts looked at the land values that were close to Club Med properties, and at the time we bought Club Med, its stock was selling below the value of the raw land.

We call the cyclical strategy hurdle rate driven; we call the deep value strategy bankable deal; and the growth strategy we call profit driven.

For example, we bought Research in Motion when they had a patent infringement lawsuit back in 2006. We bought Bausch & Lomb on the moisture lock corneal fungus issue. For growth companies that have high multiples, we are typically waiting for the company specific, industry specific or markets in general to decline to get a discount their fair value and eliminate any risk related to investors enthusiasm.

What is your research process?

In our research process we strive to find the fair market value of a company. Based upon our strategies, we will do a detailed write up and we

will have an earnings projection, looking ahead three to five years. Based upon that, you come up with a fair market value for that business. That fair market value becomes our sell price and then we discount that 20% to 30%. In today's market, it falls around 40% based upon the potential sell off but we will only buy it at a discount to our estimated fair market value.

Before a stock is purchased we know the buy price and the sell price. For example, an analyst covering technology or one of our technology sectors finds that Research in Motion Limited meets one of our three investment strategies. In order to get that approved, that analyst will have to go to another analyst who will then become his partner on that stock. The lead analyst is the 80% analyst and the reviewing analyst is the 20% analyst in that partnership. Both will have to agree on the future of the stock and set a target price to exit.

Of those 45 research professionals there are ten who comprise our senior research group. The senior research lead analyst would present Research in Motion to this group of seven people. Those seven people are all owners of the firm. When I present the stock to them, they will rank that stock. The ranking scale is 1 to 5 with 5 being good and 1 being real bad. The scores are then averaged. If the average score is below a cutoff point in the 3s, that stock is never going to be purchased because it doesn't meet the strategy well enough. If it gets a score of 4 and is trading below the price we are willing to pay, then we will generally buy it across the board.

What is your buy and sell discipline?

For our lifestyle funds, with the conservative risk profile we would buy a small position size of 0.5% of the market value, in the moderate at 1%, in the extended at 1.25%, and in the maximum a 2% position. The position size changes depending upon the risk level of the portfolio, allowing for slight differences in price. We may make it a tighter buy price for the market service account than would be for the more growth-oriented account. That stock is approved with position sizes and pricing already determined.

What do you think are the advantages of the team approach?

Any portfolio manager will typically have some bias. We want to be as objective and disciplined as we can possibly be. One advantage is that

you do not have that sort of institutional bias that you might have based upon our portfolio manager's likes and dislikes.

We also believe you have greater continuity. If I should lose one member of my senior research group, that isn't going to cripple what we do. If you have a stable team, you will be able to give good, consistent, reliable results.

The majority of our analyst's compensation is bonus, over 50% of the average of their pay. The majority of that bonus is dependent upon the stock having a positive return for the client regardless of what is happening in that industry.

What is the rationale of not having the real absolute return as the target and just the absolute return strategy as the goal?

We don't think you can promise our client an absolute return. I can't say we want to make inflation plus 5%. We just don't think that this is an exact enough science that you can possibly do that. I can actually assure you that we are going to make 7% but I can assure you that I have motivations, systems, and strategies in place that will certainly give you a better chance of getting good absolute positive returns over the long term.

What is your portfolio construction process?

I believe the average investor does a lot of knee jerking. Even if they had good investments, they don't use them wisely. The life cycle investing approach takes the asset allocation decision off the shoulder of the participant.

In terms of portfolio construction, the senior research group makes the recommendation. They make the recommendation in terms of position size. The final pricing that is implemented depending upon the risk level of the portfolio will depend on the position size of the price. If it has a higher score than something else does in the portfolio, it will replace that stock.

How do you mitigate risk in the portfolio?

The best risk management tool that we have is sticking to our pricing disciplines and to our process. We also have a bias in the fixed income side towards high quality fixed income. We are market sensitive but not benchmark aware, not benchmark managed.

Our quantitative strategy's group acts as the risk control. They sort of are looking over the shoulder of the portfolio. If there are any significant overweight or underweight on risks, they make the senior research group aware of that. We also put risk control alternatives. We put ranges on equities. It can never be a 100% in equities in our conservative fund.


I think there are three basic risks. One risk is capital risk and our goal is to prevent sustained capital losses as one can't prevent capital loss. The second is what we call reinvestment rate risk. Last is inflation risk. Inflation risk really has not been a problem the last 20 years, but there was a problem clearly in the seventies, you have to be able to manage in terms of those three risks.

What do you do to improve your team management investing process? How do you measure the team approach over a number of years?

We are an employee-owned firm; we are not part of a bank or insurance company, or a brokerage firm. All of the senior research group members are shareholders. As a shareholder, you get part of the profit of the firm. You think a little bit differently when you are an owner than when you are not.

We have had changes in the senior research group. There are senior research group members who have been replaced and we have had additions to the senior research group over the years because there were people who have proven themselves to be very good at applying the strategies to their particular industry.

Every month we have 'missed opportunity' meetings, we do that once a year too. We look at our mistakes. The manuals for our three strategies are continually updated. We are constantly trying to fine-tune and look at certain nuances based upon our mistakes and those are shared by the group; the senior research group is the group that does that.

We don't work on a consensus at the senior research group level. If I'd have all seven people agree that we should own a stock, it is probably going to be the wrong stock. Sometimes groupthink is when you have to have consensus. We don't have to have consensus on the senior research group level in order to put a stock in the portfolio. That is exactly what keeps some of that groupthink out of the process. 

Manning & Napier Pro-Blend Conservative Term Fund

Symbol	EXDAX
Website	www.manningnapieradvisors.com
Address	Manning & Napier Advisors Inc 290 Woodcliff Drive Fairport, NY 14450
Telephone	800-466-3863
Inception	11/01/1995

PORTFOLIO	
Total Net Assets*	\$162.5
Avg Mkt Cap (\$ Weighted)*	\$39,600
Average Price/Earnings Ratio	16.81x
Average Price/Book Ratio	2.51x
Turnover Ratio	45%

INVESTMENT INFORMATION	
New Investment	Open
Min Initial Investment	\$2,000
Min Subsequent Investment	N/A
Min Initial IRA Investment	N/A

RISK (AGAINST S&P 500 DAILY REINV INDEX - 3 YRS)	
Alpha	0.48
Beta	0.27
R-Squared	0.78
Ann Std Deviation	5.75
Sharpe Ratio	-0.02

RETURNS VS. 15%/5%/80% BLENDED INDEX**		
	EXDAX	Index
1 Year (Cum.)	-7.09%	-6.70%
3 Year (Ann.)	2.99%	2.78%
5 Year (Ann.)	5.01%	4.38%

FEES AND EXPENSES	
Max Sales Charge - Front	0.00%
Max Sales Charge - Deferred	0.00%
Max Redemption Fee	0.00%
Total Expense Ratio	0.90%

PORTFOLIO MANAGER	
Team Managed	06/15/2006

*millions ** The 15%/5%/80% Blended Index is 15% Russell 3000® Index, 5% Morgan Stanley Capital International ("MSCI") All Country World Index excluding the United States ("ACWIxUS"), and 80% Barclays Capital Intermediate U.S. Aggregate Bond Index ("BCITA") 03/31/2009; Source: Company Documents

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