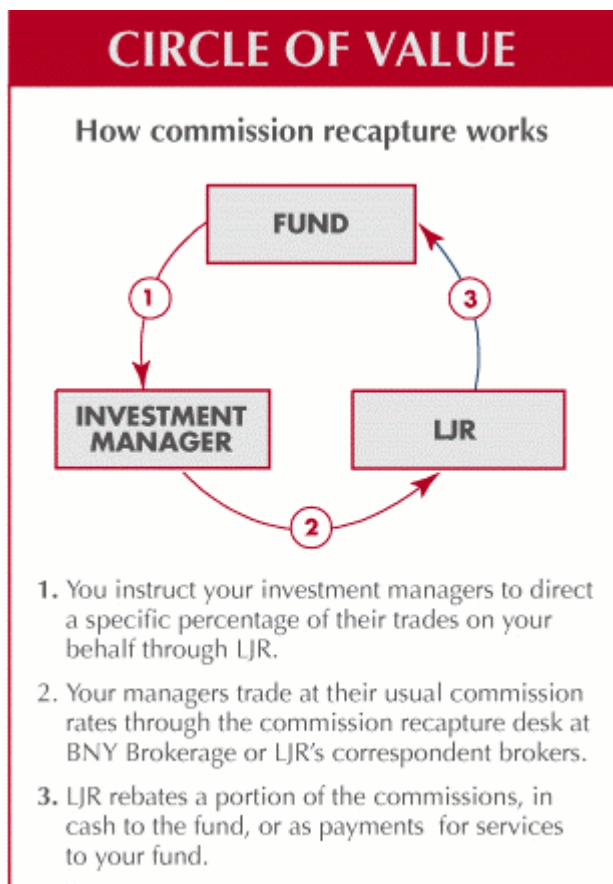


What is Commission Recapture?

Commission recapture is a form of institutional discount brokerage that rebates a portion of trading commissions directly to the pension plan or investment fund. This helps to reduce expenses to save money for the fund.



In a typical commission recapture program, a fund directs its investment managers to execute a portion of trades made on behalf of the fund through Lynch, Jones and Ryan* (1). The manager pays LJR its usual negotiated commission rate to execute the trade (2). LJR then rebates a portion of that commission, agreed-upon in advance, back to the fund (3).

The rebate can be in cash to the fund, typically reinvested by the fund and directly benefiting the fund's participants. It can also be used in payment to the fund's service providers for legitimate services like actuarial, accounting, consulting, etc.

Recapture may also be applied to trades in other instruments like bonds, where the rebate is generated from a spread rather than a commission.

There is nothing new about commission rebates. Investment managers have for many years used commission credits as "soft dollars" to purchase research. In commission recapture, by contrast, the credit is remitted directly to the fund itself, since brokerage commissions are ultimately paid from the assets of the fund.

**Trades are executed through the commission recapture desk at BNY Brokerage, Inc.*

Why Use Commission Recapture?

Commission recapture is institutional discount brokerage. It allows a fund to unbundle commissions and pay only for execution.

Most commissions in institutional trading are bundled -- that is, they include a charge for both execution and the broker's research. The research charge is typically neither measurable nor separable.

However, the research may not benefit all advisory clients equally, so clients may cross-subsidize each other.

Despite this, bundling remains an industry practice. It allows brokers to post a standard price structure in the market but vary effective prices by client. And it allows investment managers to charge research to the capital account (the client's money) rather than to operating expenses (the manager's money).

Commission recapture makes it easy for funds to unbundle commissions. With recapture, you pay only for execution. The portion of your commission that might otherwise be spent on research is rebated directly to the client reducing the client's effective transaction cost.

Who Should Use Commission Recapture?

Commission recapture can reduce trading costs for most institutional investors.

Pension funds

Commission recapture is consistent with a pension fund's fiduciary obligations. The US Department of Labor, in Technical Bulletin 86-1, noted in 1986 that "commissions are pension assets and trustees have a fiduciary responsibility to monitor and control them." In the UK, commission recapture programs are consistent with English law, the rules of the London Stock Exchange, the rules of the Financial Services Authority (FSA), and may assist trustees comply with their fiduciary duties. In Europe, Lynch Jones & Ryan is a division of BNY Securities Limited, registered in England and Wales No. 3766757, authorised and regulated by the Financial Services Authority (FSA).

Foundations and endowments

Foundations and endowments need to meet minimum annual spending targets. Transaction expenses detract from this aim. Commission recapture reduces trading costs and allows funds to retain more capital to meet their primary spending goals.

Mutual and variable annuity funds

Fund boards and their advisers owe fiduciary duties to shareholders that are similar to the fiduciary obligations of plan sponsors to their beneficiaries.

If your pension or profit-sharing plan invests in mutual funds, LJR can help you save money by recapturing 12b-1 fees. A 12b-1 fee is a fee paid for with the assets of the mutual fund to cover the so-called "distribution cost" component of a mutual fund's expenses.

In an LJR 12b-1 recapture program, we assist you in obtaining a "change of broker notice" from your mutual fund that will name LJR as your broker of record. LJR enters into a broker's agreement with the mutual fund, recaptures the 12b-1 fees for your account and rebates a percentage of the fees back to your plan, just like a commission recapture program. There are absolutely no costs involved.

