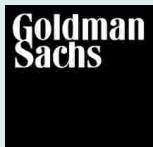

Report on Alternative Investing by Tax-Exempt Organizations 2003

A survey of organizations in North America,
Europe, Australia, and Japan



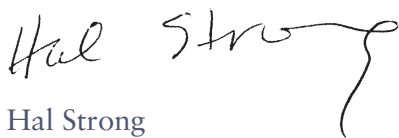
We are pleased to present the sixth edition of the *Goldman Sachs International and Russell Investment Group Report on Alternative Investing by Tax-Exempt Organizations*. The Report aims to provide meaningful insights into current alternative investing practices around the world and how these practices continue to evolve.

We first published the Report in 1992 to fill a significant void in useful information about private equity investment practices among the largest tax-exempt organizations. Historically, information on how these organizations approach alternative investing had been extremely difficult to find. We believed that we would be able to collect and provide important general representations about the alternative investment universe by directly surveying institutions in an objective format about their views and methodologies concerning alternative investments. Thanks to a positive response from the participating institutions, we believe that we have created a valuable global resource that is proving useful for many investing entities and professionals.

The Report grows more illuminating as we accumulate progressively longer streams of historical data, and this year adds an additional wrinkle: a dramatically different market environment than during any past Report. This year's findings add depth to previous Reports by offering insights into how different kinds of organizations react to declining public markets. Not unexpectedly, several of the trends observed in previous Reports were reversed, yet many trends defied expectation and continued unabated.

We would like to thank each of the 325 organizations that responded to this year's survey, without whose help the statistical summaries found on the following pages would have been impossible.

Sincerely,



Hal Strong
Russell Investment Group



Nigel O'Sullivan
Goldman Sachs International



Patrick Cunningham
Goldman Sachs International

Table of Contents

Executive Summary	1
North America	9
Private Equity	9
Hedge Funds	17
Real Estate	21
Europe	27
Private Equity	27
Hedge Funds	33
Real Estate	37
Australia	41
Private Equity	41
Hedge Funds	46
Real Estate	47
Japan	51
Private Equity	51
Hedge Funds	52
Methodology and Definitions	55

Executive Summary: Overview of Findings

Investing large pools of assets is a continually evolving pursuit. One of the most important developments of the last two decades has been the growing acceptance of, and focus on, alternative investments. Real estate led the way in the early 1980s in North America and has since become a stable component of most institutional portfolios worldwide. During the same time, private equity gained acceptance among North American institutions, and continues to gain broader acceptance across the globe today. While utilized by endowments and foundations in North America for some time, hedge funds are still moving from the periphery to the mainstream among most other institutions.

Overview of Findings

Private Equity

- Average strategic allocations to private equity increased or remained steady across all regions except Australia, where they declined significantly.
- Most regions' total commitments decreased; however, Australian commitments increased modestly and commitments in the nascent Japanese market grew as the number of investors doubled from 2001.
- Commitments to private equity in excess of strategic allocations (overcommitments) continued to grow in North America and Australia, but reversed the previous trend and declined in Europe.
- The composition of investors' portfolios by investment type remained fairly consistent in North America and Europe, but changed substantially in Australia.
- The percentage of respondents' capital committed to special situations surged in all regions.
- Funds of funds continue to garner increasing percentages of committed capital in all regions.
- Predictably, respondents' private equity returns fell from 2001 to 2003.
- Three-year return predictions also fell worldwide, from 15% - 20% in 2001 to 10% - 12%, consistent with current estimates for public market performance plus a 3% - 5% private equity return premium.

Hedge Funds

- The number of respondents that invest in hedge funds grew by 40% worldwide. Total commitments and average strategic allocations also grew substantially in all regions.
- Those respondents who do not invest in hedge funds are concerned foremost with transparency and risk, and many also cite a shortage of internal resources.
- The percentage of capital committed to funds of hedge funds continues to grow.
- General equity long/short and convertible arbitrage remain among the most popular hedge fund strategies in all regions.
- European respondents reported higher historical returns than North American respondents, but predicted lower returns for the next three years.

Real Estate

- The real estate section of the survey was expanded substantially in 2003. Our findings indicate that real estate investing is marked by stability worldwide.
- Investors have comparatively high current strategic allocations, and they expect to increase them modestly.
- Respondents in all regions commit most of their capital to direct investments in land and buildings. European capital is almost entirely committed to direct investments, while approximately half of North American and Australian capital is committed to direct investments.
- European and North American respondents strongly favor commingled investments in their own regions; in Australia, respondents favor global funds.

Executive Summary:

Overview of Regional Findings

Real Estate (cont.)

- Respondents' median historical returns were steady in all regions, at 9% - 10%.
- Interestingly, respondents across all regions forecasted median returns for the next three years that are slightly lower than historical medians, at 7% - 9%.

Overview of Regional Findings

North America

- The most interesting findings in North America are the different changes in average strategic allocation to private equity among different size institutions and the continued brisk rise in hedge fund investment.
- Strategic allocations to private equity increased among the smallest investors and dropped among larger investors. The dollar strategic allocation to private equity among respondents dropped from US\$175 billion to US\$109 billion.
- Overcommitment to private equity rose among North American respondents, both in dollar terms and as a percentage of dollar strategic allocation.
- The percentage of private equity capital committed to special situations increased significantly, from 8% to 14%.
- North American respondents increased both their overall commitment and average strategic allocation to hedge funds by over 40%, and they expect to increase their strategic allocations further.
- Real estate investors revealed steady returns over the last ten years ranging from 9% - 10%, and predicted similar returns going forward.

Europe

- The United Kingdom and Continental Europe were analyzed separately and exhibit as many differences as similarities.
- Average strategic allocation to private equity rose in Continental Europe and dipped slightly in the UK.
- Overcommitment to private equity decreased in Europe.
- Leveraged buyouts held steady at half of European commitments. The percentage of capital committed to special situations funds increased dramatically.
- Investment through private equity funds of funds increased in both regions; UK portfolios had a majority of capital committed to funds of funds while Continental European portfolios had most of their capital committed to single-fund partnerships.
- European respondents more than doubled their average strategic allocation to hedge funds.
- Over a quarter of respondents indicated that they intend to launch new hedge fund programs by 2005.
- Average strategic allocation to real estate among European investors is predicted to rise from 8.3% to 8.8% by 2005.
- European real estate investors continue to have nearly 90% of their capital committed to direct investments in land and buildings.

Executive Summary:

Overview of Regional Findings

Australia

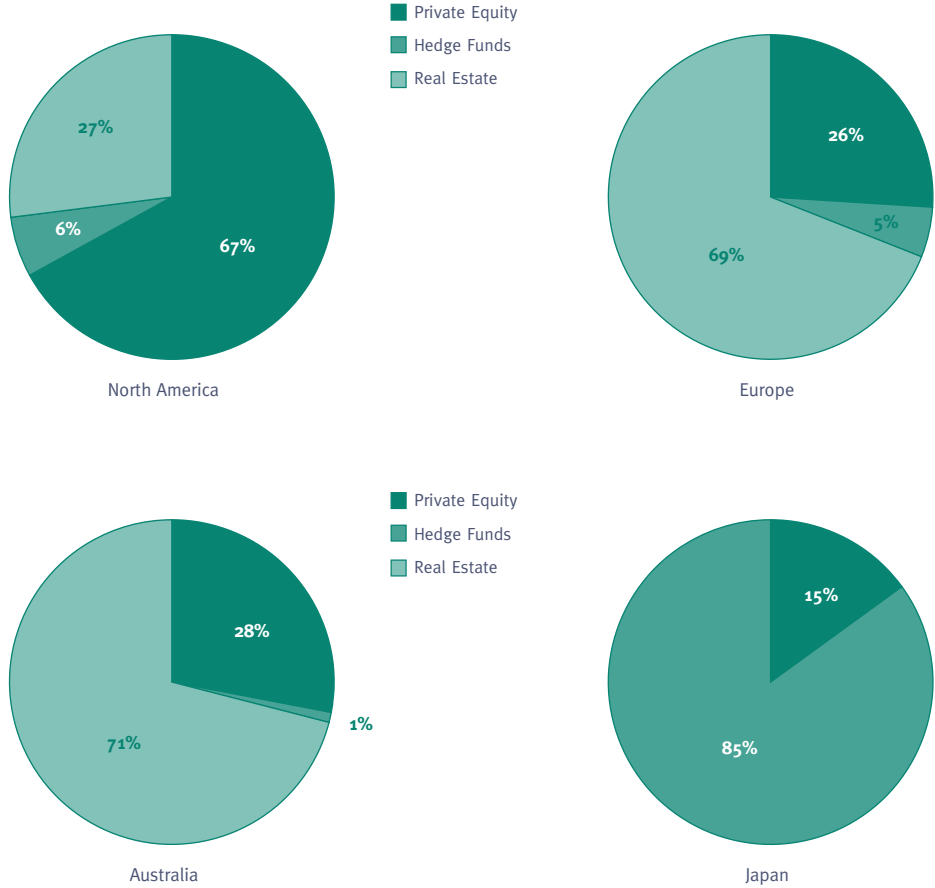
- Real estate is the most important alternative investment in Australia; private equity is relatively new to many Australian investors and very few respondents invest in hedge funds.
- Average strategic allocation to private equity dropped in 2003 from 6.5% to 5.0%, but commitments to private equity actually increased, as institutions made new commitments in an effort to meet their existing allocations.
- 72% of Australian respondents invest in real estate, and their average strategic allocation is relatively high at 11.5%.

Japan

- Japan's private equity market is still nascent with low participation (12%) and small commitment levels (US\$360 million).
- 41% of Japanese respondents invest in hedge funds (up from 30% in 2001), with an average strategic allocation of 7.1%, up substantially from 4.5% in 2001.
- Overall commitments to hedge funds among Japanese respondents rose threefold from US\$665 million to US\$2 billion.
- Over half of respondents invest in both separate hedge funds and funds of hedge funds.

Executive Summary: Regional Commitments

Exhibit 1: Regional Commitments to Alternative Investments

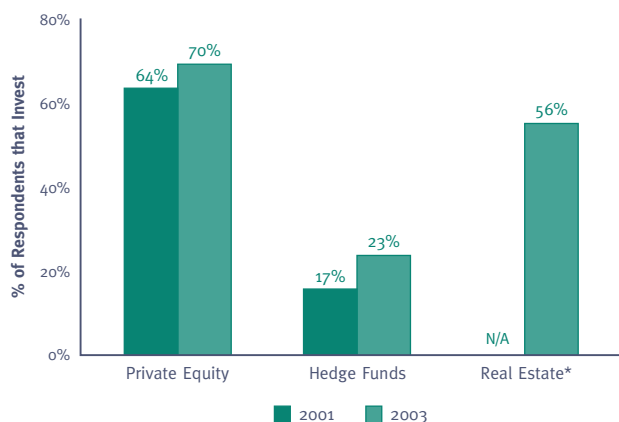


Respondents in North America have far more of their alternative investment capital committed to private equity than to hedge funds or real estate. European and Australian respondents' alternative investment capital is predominantly committed to real estate investments. A large majority of Japanese respondents' alternative investment capital is committed to hedge funds (the survey did not include a real estate section in Japan).

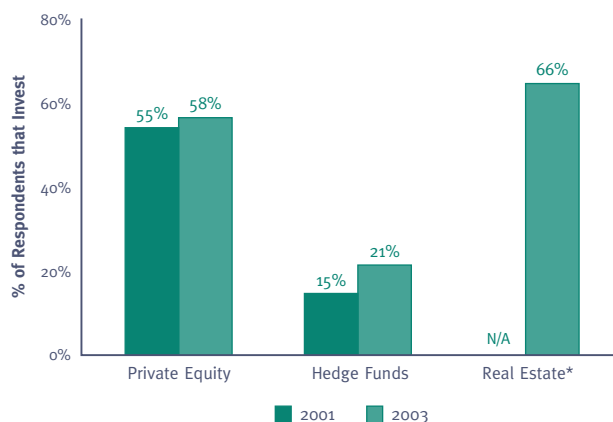
Executive Summary: Regional Participation

Exhibit 2: Regional Participation in Alternative Investments

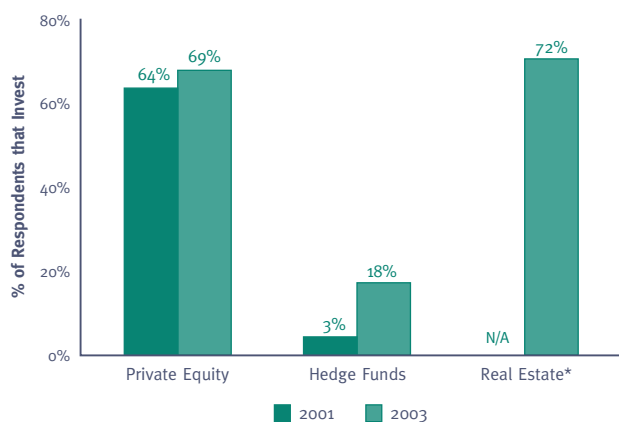
North America



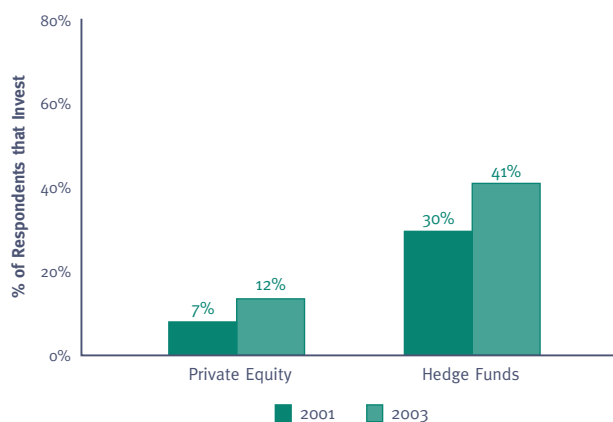
Europe



Australia



Japan

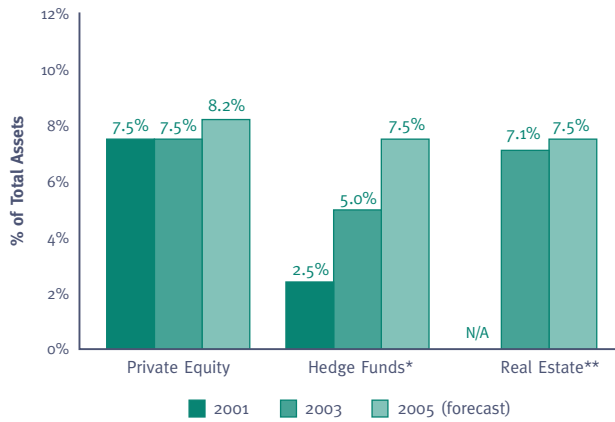


(*) 2003 represents the first year in which information on real estate was collected.

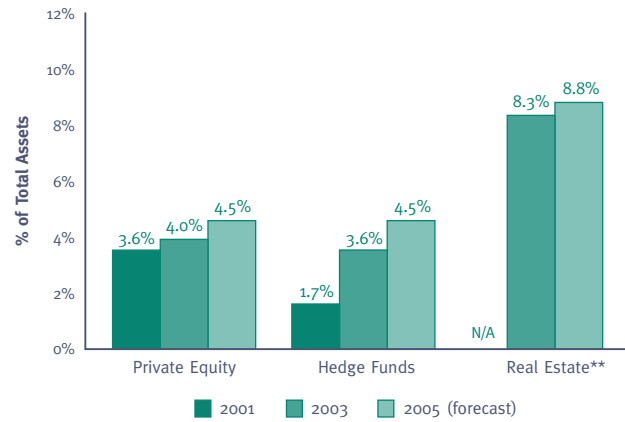
Executive Summary: Strategic Allocations

Exhibit 3: Current and Forecast Strategic Allocation to Alternative Investments

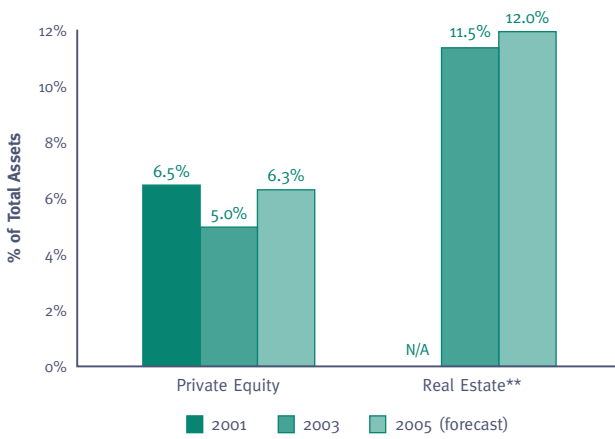
North America



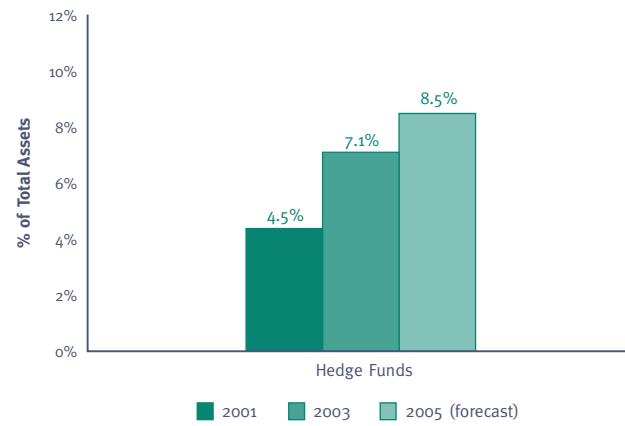
Europe



Australia



Japan



(*) Median hedge fund allocations among North American respondents; average allocations were skewed by a single outlying data point, which has been excluded.

(**) 2003 represents the first year in which information on strategic allocations to real estate was collected.

Executive Summary: Historical and Expected Returns

Exhibit 4: Median Annualized Historical Returns*

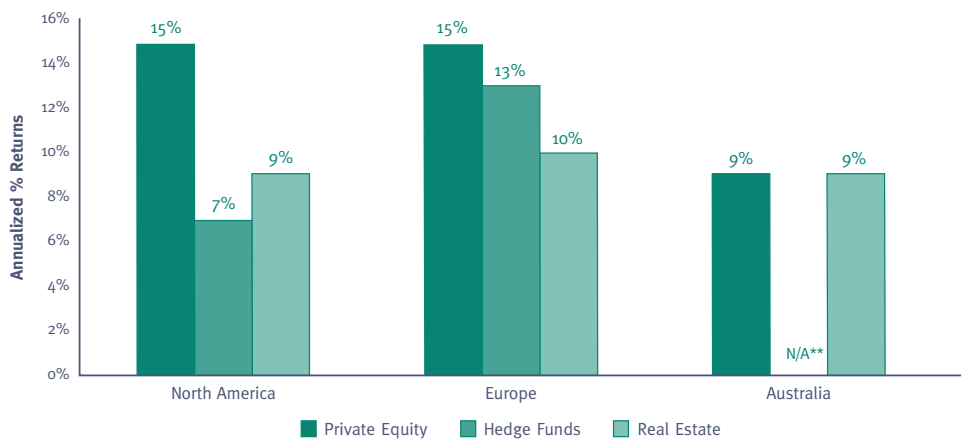
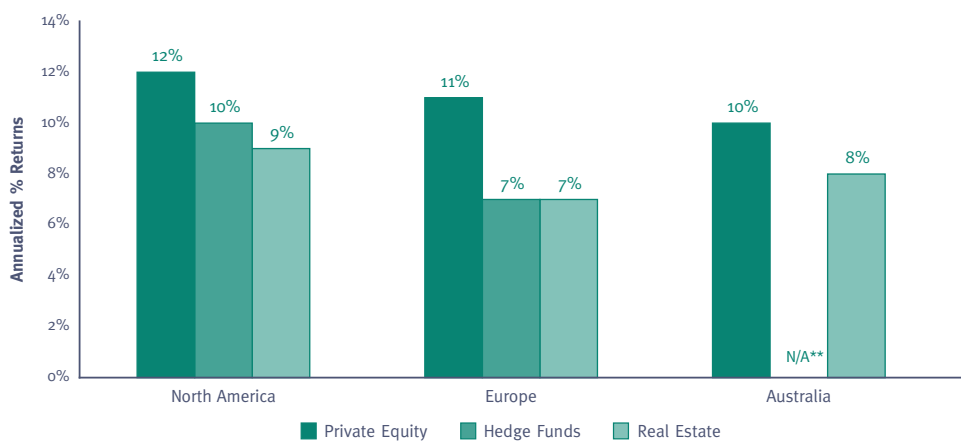


Exhibit 5: Median Annualized Return Forecasts (2003-2005)

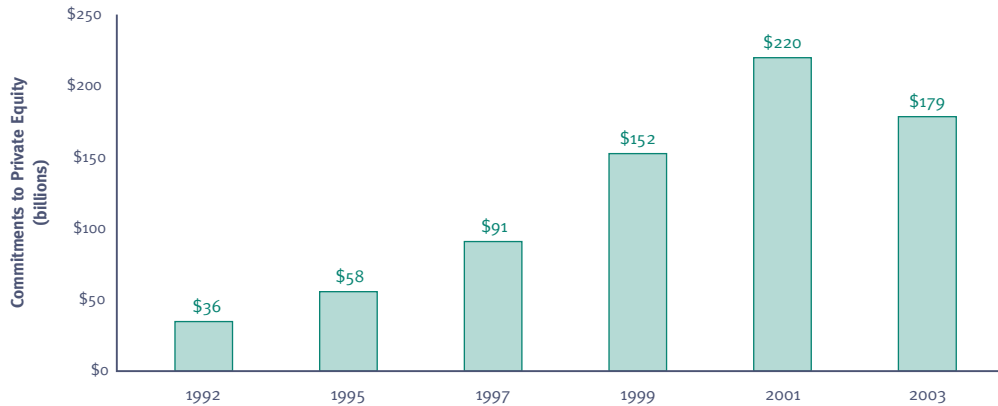


(*) Actual net returns reported for the 10 years ending 2002 for private equity and real estate, 5 years ending 2002 for hedge funds.

(**) Australian hedge fund participation rate was insufficient to generate meaningful return data

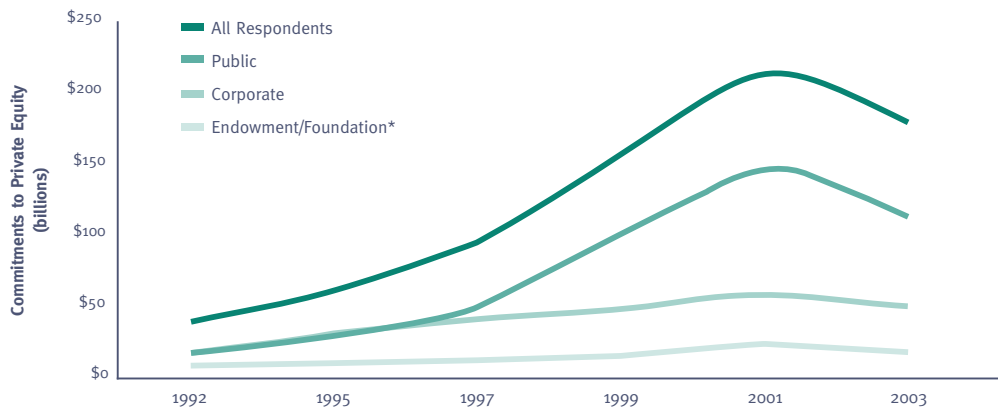
North America: Private Equity Commitments

Exhibit 6: Private Equity Commitments



Of the 166 North American respondents to the 2003 survey, 116 (70%) invest in private equity and have committed \$179 billion to the asset class. This represents a 19% decline in commitments from 2001, the first decrease since the survey began in 1992. \$179 billion is nevertheless the highest commitment level in the survey's history, excluding 2001. The number of respondents continues to remain consistent.

Exhibit 7: Private Equity Commitments by Type of Organization

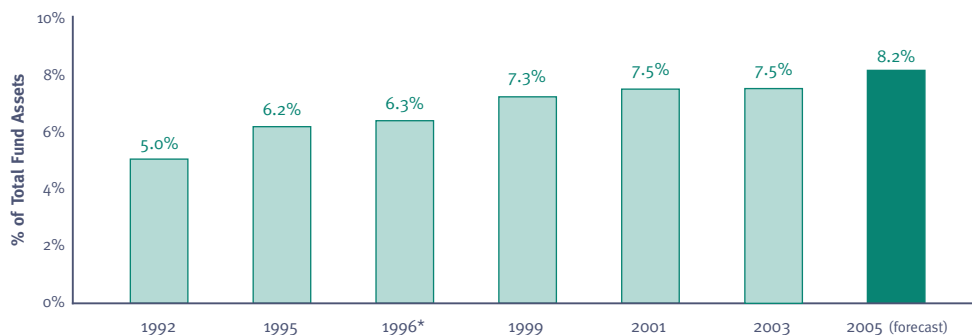


Much of the decline in overall commitments to private equity is attributable to public funds, whose commitments grew much more quickly from 1997-2001 and then dropped much more substantially from 2001-2003 than other types of organizations. The \$31 billion drop in public fund commitments represents over 76% of the overall drop in commitments.

(*) Endowment/Foundation includes Other in 2003 (for a complete list of Other fund types, see p.58).

North America: Private Equity Commitments

Exhibit 8: Strategic Allocation to Private Equity



Respondents' average strategic allocation to private equity remained steady at 7.5% in 2003 and was forecasted to rise to 8.2% by 2005. Respondents predicted in 2001 that strategic allocations would reach 8.1% in 2003.

(*) Arithmetic average of 1996 strategic allocations of 1999 survey respondents.

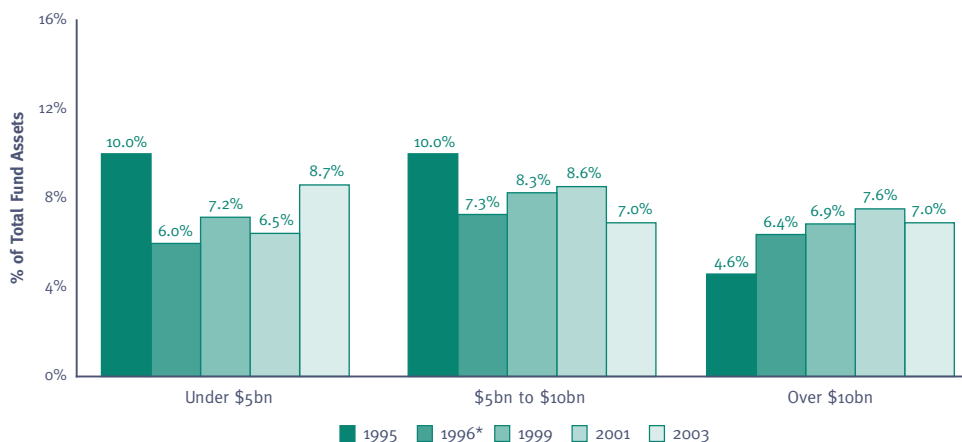
North America: Private Equity Allocations

Exhibit 9: Strategic Allocation to Private Equity by Type of Organization



Strategic allocations to private equity among endowments and foundations and public funds fell slightly in 2003 for the first time in the survey’s history, while average strategic allocation rose among corporate funds. Not surprisingly, endowments and foundations continued to allocate a substantially larger percentage of their capital to private equity than other types of organizations. It is also worth noting that public funds control 68% of the overall capital among North American respondents, so changes in strategic allocation among these investors have an amplified effect on the market.

Exhibit 10: Strategic Allocation to Private Equity by Size of Organization

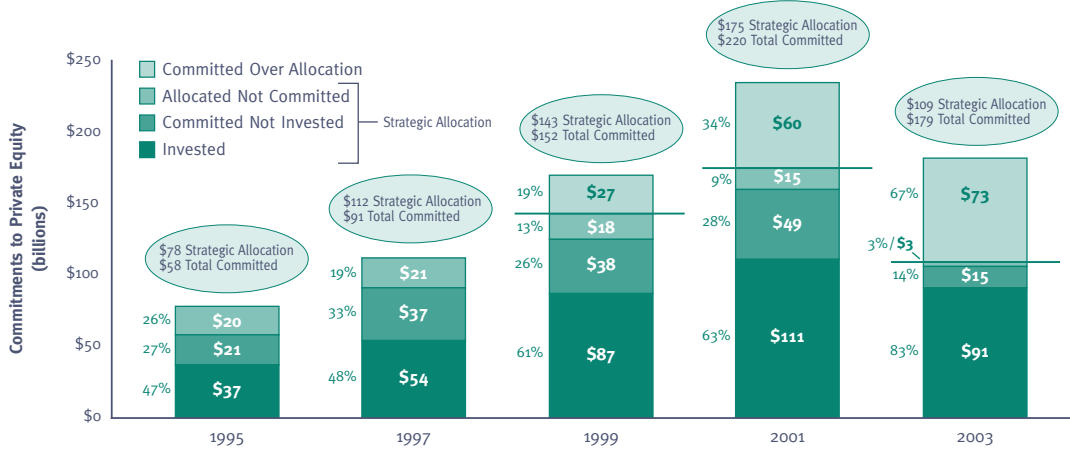


Average strategic allocation to private equity increased substantially among the smallest institutions (under \$5 billion total assets) in 2003. Average strategic allocations declined significantly among mid-sized institutions and modestly among the largest institutions. The larger institutions in the 2003 survey (those with over \$5 billion in assets) control 98% of the overall capital among North American respondents.

(*) Arithmetic average of 1996 strategic allocations of 1999 survey respondents.

North America: Private Equity Commitments

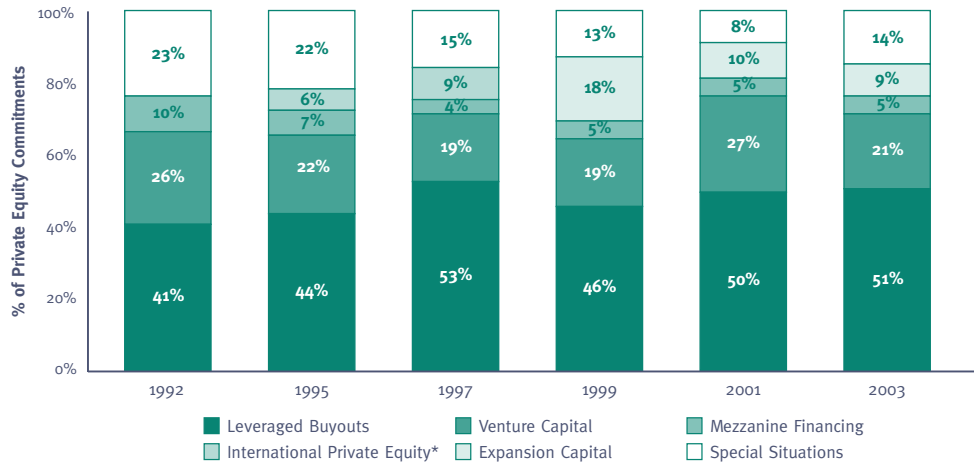
Exhibit 11: Strategic Allocations, Commitments, and Investments



Overcommitment to private equity rose among North American respondents, both in absolute dollar terms and as a percentage of the total dollar strategic allocation (each fund's percentage strategic allocation multiplied by its total fund size). Overcommitments rose from \$60 billion in 2001 to \$73 billion in 2003 and from 34% to 67% of dollar strategic allocation. This increase was primarily attributable to two factors: a 20% drop in the total assets of respondents (from \$2.5 trillion in 2001 to \$2.0 trillion in 2003), and a drop in the percentage strategic allocation among larger institutions (see Exhibit 10), both of which caused the dollar strategic allocation to private equity to drop among North American respondents.

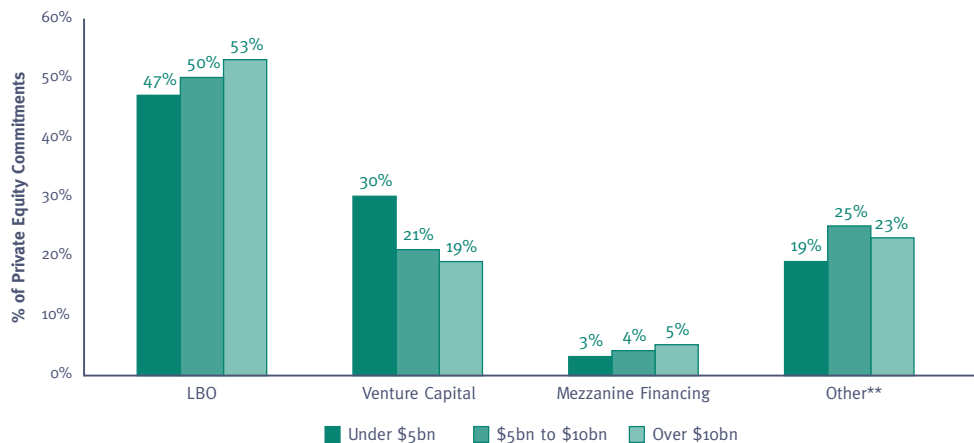
North America: Private Equity Commitments

Exhibit 12: Commitments by Investment Type



Leveraged buyouts continue to represent the majority of the respondents' commitments in 2003. The most significant change in the composition of respondents' commitments is an increase in special situations from 8% to 14%. This increase is likely attributable to new commitments to distressed debt funds between 2001 and 2003. The percentages of other investment types remained roughly the same.

Exhibit 13: Commitments by Investment Type by Size of Organization



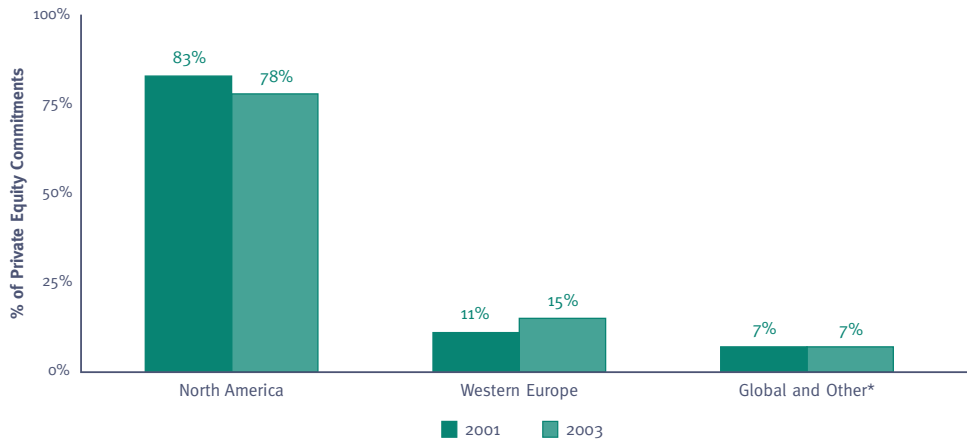
Leveraged buyout commitments comprise the largest part of portfolios of respondents of all sizes. As the size of institutions increases, the percentage of capital committed to leveraged buyouts increases while the percentage of capital committed to venture capital decreases. Also notable is the percentage of mid-sized respondents' capital committed to special situation funds, which is likely primarily composed of distressed debt funds.

(*) Beginning in 1999, we eliminated the category of International Private Equity; international commitments are reflected within their investment types for 1999-2003.

(**) Other includes Special Situations and Expansion Capital.

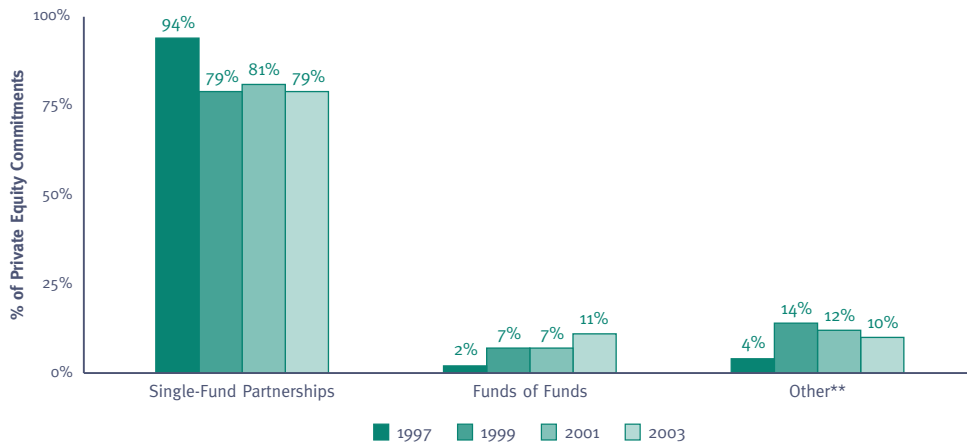
North America: Private Equity Commitments and Investment Structures

Exhibit 14: Geographic Allocation



The regional breakdown of North American private equity commitments remained fairly steady from 2001 to 2003. The substantial concentration of commitments to North America decreased slightly from 83% to 78%, while the percentage of capital committed to Western Europe increased slightly from 11% to 15%. Commitments to global-targeted funds and funds targeting regions outside North America or Western Europe remained the same at 7%.

Exhibit 15: Private Equity Investment Structures



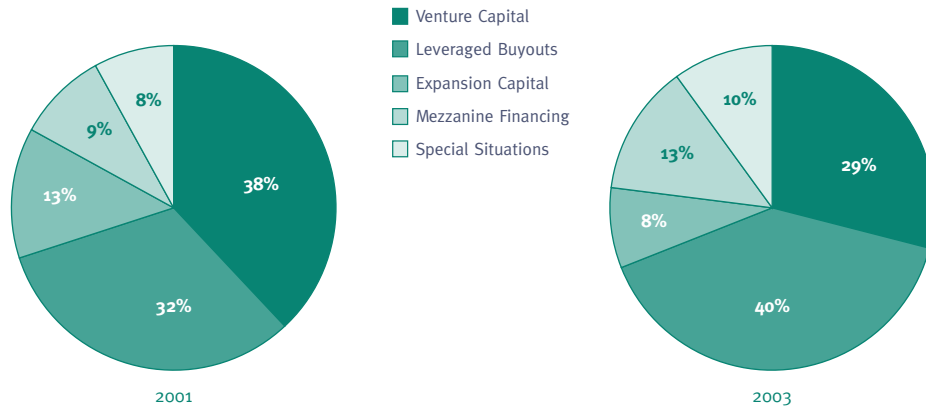
Respondents continue to have a large majority of their capital committed to single-fund partnerships, though these partnerships' percentage of commitments has dropped from 94% in 1997 to 79% in 2003. Funds of funds have comprised a steadily growing portion of commitments over the same period, rising from 2% in 1997 to 11% in 2003. Co-investments, direct investments, and secondary investments represent relatively small and decreasing portions of respondents' commitments.

(*) Other includes funds targeting regions outside of North America or Western Europe.

(**) Other includes Co-Investments, Direct Investments, Secondaries, and Special Situations.

North America: Private Equity Demand for Investment Types

Exhibit 16: Most Attractive Private Equity Investments Over the Next Three Years



When asked to rank the attractiveness of five types of private equity investments over the next three years, 40% of respondents gave leveraged buyouts top ranking, while 29% preferred venture capital. In 2001, 38% gave preferred venture capital top ranking, while 32% favored leveraged buyouts. Mezzanine, expansion capital, and special situations continue to be most attractive to a small subset of respondents.

North America: Private Equity Investment Returns

Exhibit 17: Annualized Net Returns



Respondents reported lower historical private equity returns in 2003. Median returns dropped from 15% for the last 10 years, to 8% for the last five years, to -3% for the last three years. Respondents forecasted 12% median returns for the next three years, a 3% drop from the 2001 median returns forecast of 15%.

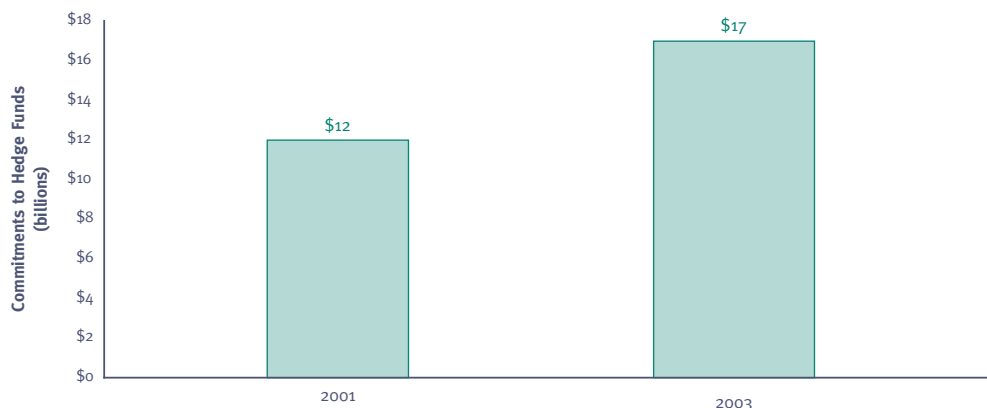
(*) Ending 2002

(**) Beginning 2003

Note: outliers omitted for clarity.

North America: Hedge Fund Commitments and Allocations

Exhibit 18: Hedge Fund Commitments

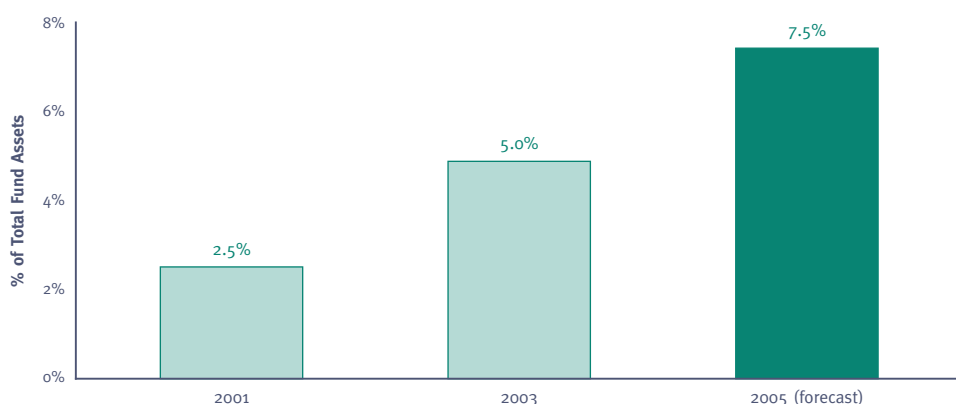


39 respondents (23%) reported that they invest in hedge funds in 2003 and another 13 respondents (8%) indicated they intend to begin investing in hedge funds in the next two years. Hedge fund commitments increased by 42% from 2001 to 2003, from \$12 billion to \$17 billion. This increase is partially attributable to increases in both the number of respondents that invest in hedge funds and strategic allocations to hedge funds (see Exhibit 19).

Reasons Cited for Not Investing in Hedge Funds

The reasons cited for not investing in hedge funds in 2003 included many of the same concerns as in previous surveys, such as transparency (23% of respondents), risk (16%), fees (11%), and staff resources (7%). In 2001, by far the most common concern was risk, mentioned by fully 50% of respondents. Another prominent sentiment voiced in 2001 questioned the value of hedge funds given the strong performance in traditional investments. This sentiment disappeared in 2003, but a new concern appeared: that a bubble might be forming in the hedge fund market.

Exhibit 19: Median Strategic Allocation to Hedge Funds*

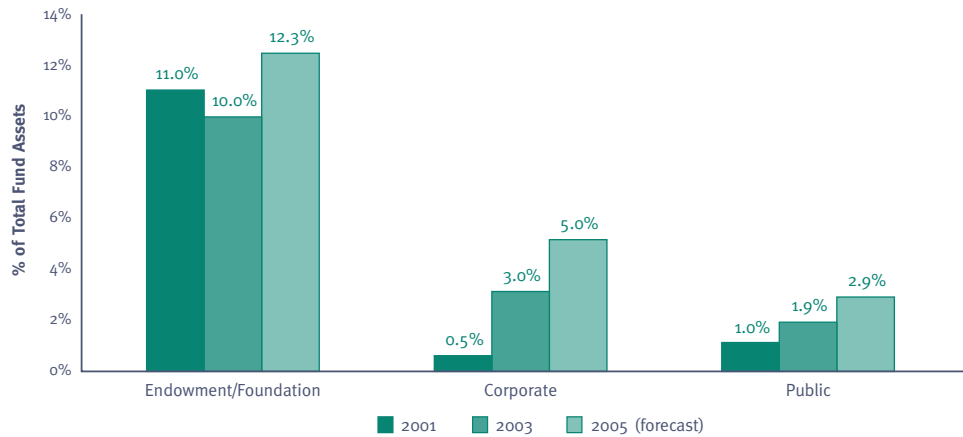


Respondents' median strategic allocation grew significantly from 2.5% in 2001 to 5.0% in 2003. Median allocation is expected to grow further to 7.5% by 2005.

(*) Exhibit 19 presents median allocations; average allocations were skewed in 2003 by a single outlying data point, which has been excluded from this analysis.

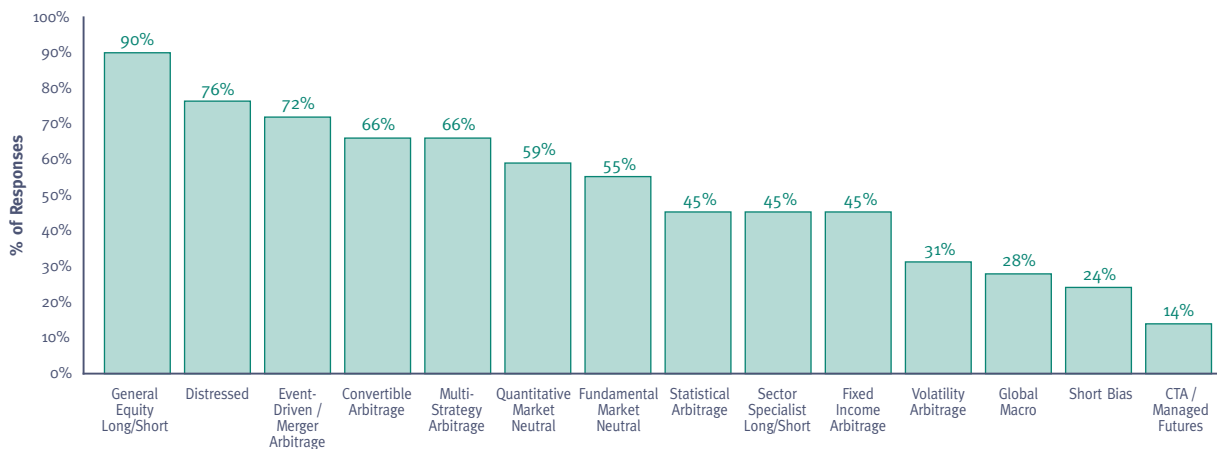
North America: Hedge Fund Allocations and Investment Strategies

Exhibit 20: Median Strategic Allocation to Hedge Funds by Type of Organization



Median strategic allocation to hedge funds increased significantly among corporate respondents and public respondents in North America from 2001 to 2003. The median allocation decreased among endowments and foundations, from 11.0% in 2001 to 10.0% in 2003. All types of organizations forecasted strong increases in allocations to hedge funds by 2005.

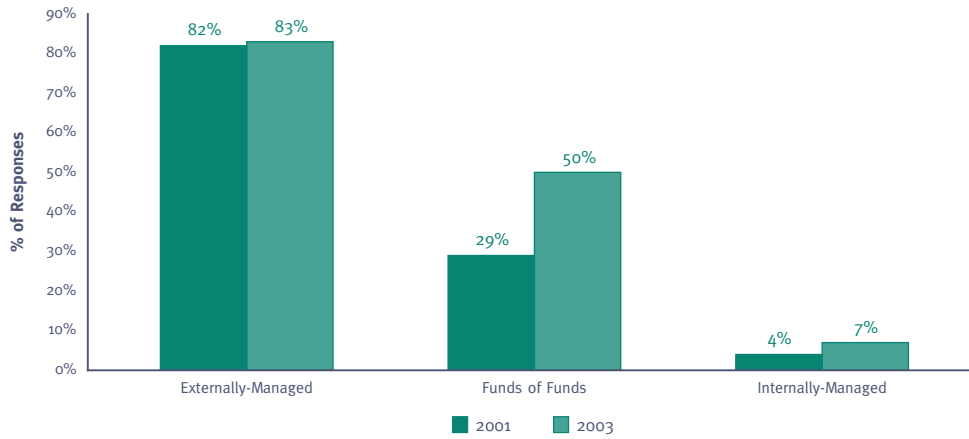
Exhibit 21: Hedge Fund Strategies Used



The most popular hedge fund strategy among respondents is general equity long/short (90%), followed by distressed (76%), event-driven / merger arbitrage (72%), convertible arbitrage (66%), and multi-strategy arbitrage (66%).

North America: Hedge Fund Investment Structures

Exhibit 22: Hedge Fund Investment Structures

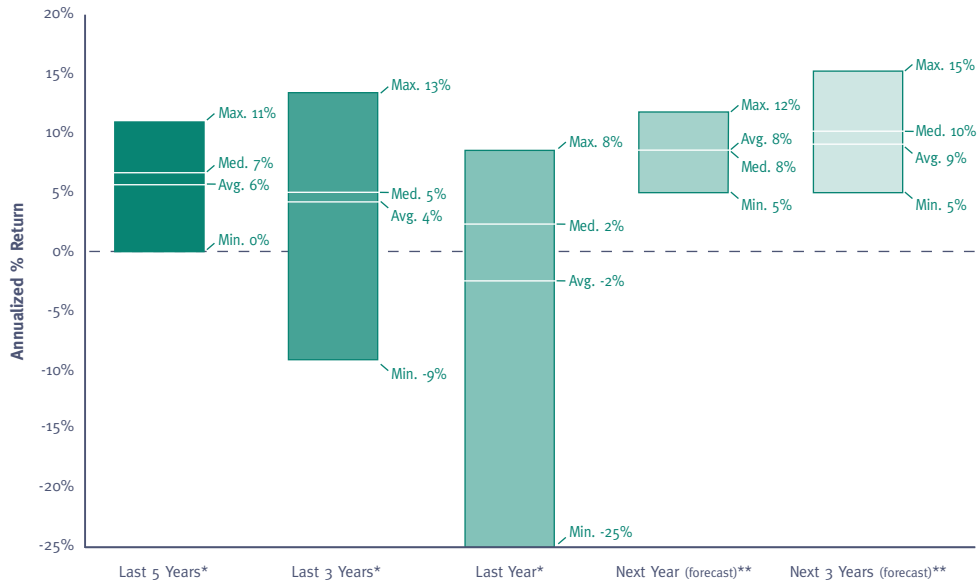


Far more respondents reported investing in externally-managed hedge funds (83%) than in funds of funds (50%) or internally-managed hedge funds (7%). However, the percentage of respondents that reported investing in externally-managed hedge funds remained fairly stable, while the percentage investing in funds of funds increased considerably from 2001 to 2003.

Note: totals exceed 100% because some respondents selected more than one structure.

North America: Hedge Fund Investment Returns

Exhibit 23: Annualized Net Returns



This is the first time the survey has included questions about hedge fund returns. Respondents reported lower returns in the last year than in the last three-year and five-year periods. It is worth noting that, while public markets have fallen at double digit rates over the last several years, median reported hedge fund performance was positive for the same period. Respondents' median return forecasts are for 8% over the next year with 4% volatility, and 10% annualized over the next three years. Note that reported returns include all strategies in which respondents invest; the range of returns would be narrower for any single strategy.

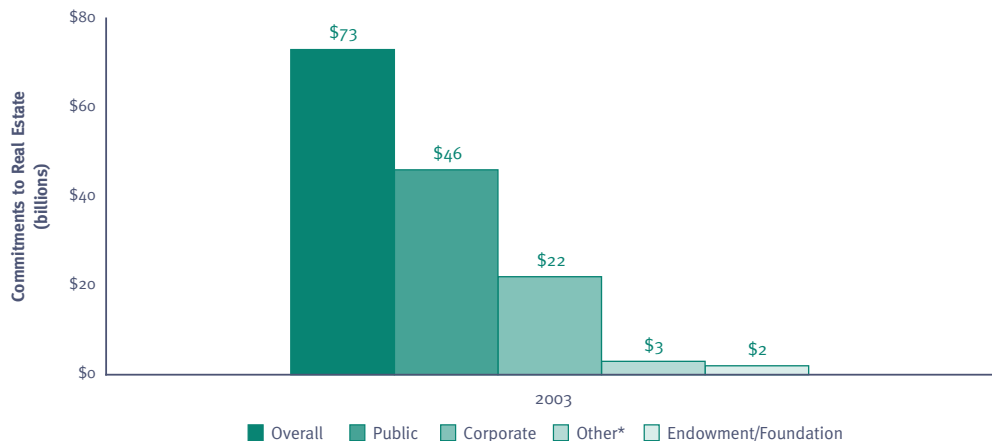
(*) Ending 2002

(**) Beginning 2003

Note: outliers omitted for clarity.

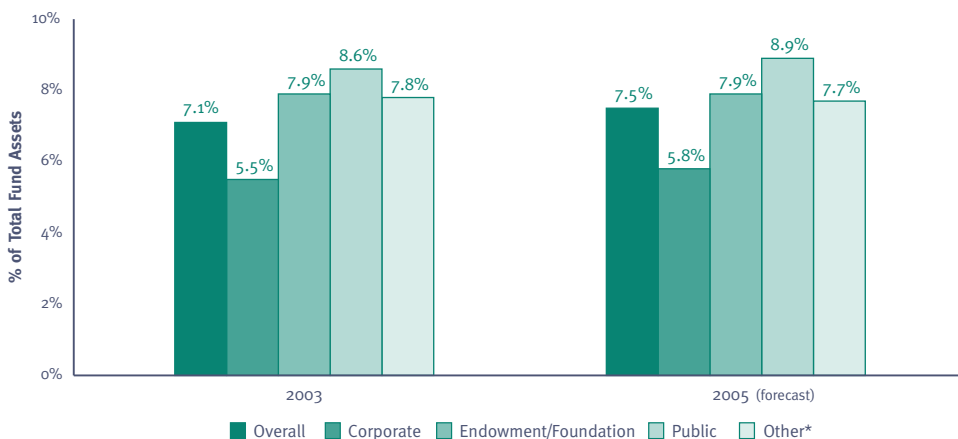
North America: Real Estate Commitments and Allocations

Exhibit 24: Real Estate Commitments



56% of respondents indicated that they invest in real estate. These investors have \$73 billion committed to the asset class in 2003, the first survey in which this information was collected. Not surprisingly, public funds have the largest amount committed to real estate, followed by corporate funds, other funds, and endowments and foundations.

Exhibit 25: Strategic Allocation to Real Estate

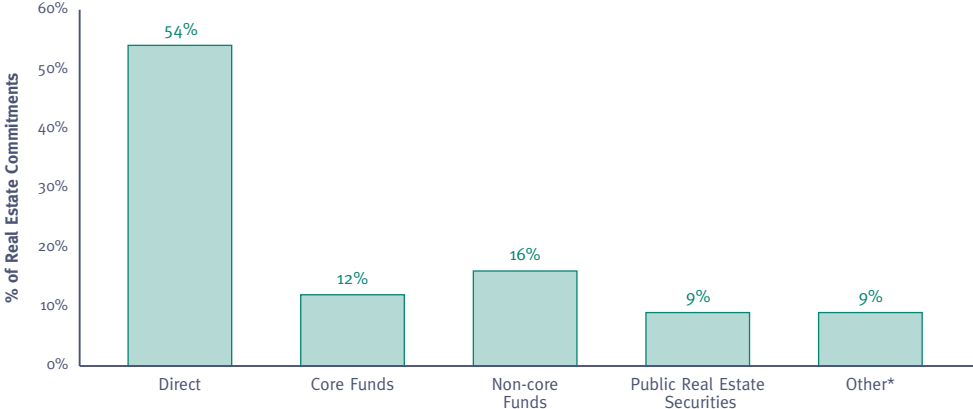


Public funds have the highest average strategic allocation to real estate (8.6%), followed by endowments and foundations (7.9%) and corporate funds (5.5%). Corporate and public funds forecast increases to their strategic allocations to real estate by 2005.

(*) Other includes Taft-Hartley plans, industry pension schemes, religious pensions, life insurance companies, and others (for complete list, see p. 58).

North America: Real Estate Commitments

Exhibit 26: Commitments by Investment Type



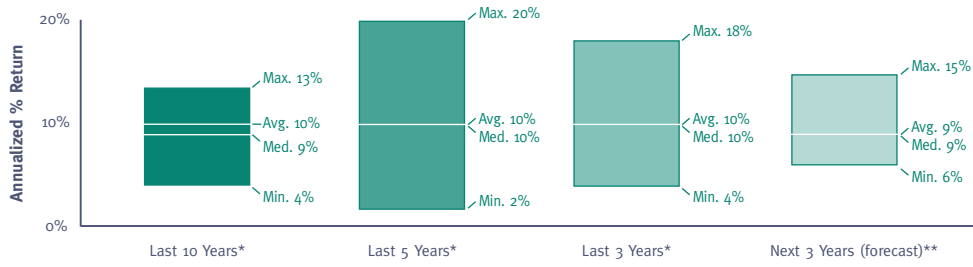
Over half of respondents' capital is currently committed to direct investments in land and buildings and 28% is committed to commingled funds. Public real estate securities represent approximately 9% of respondents' commitments, and 9% falls into the Other category (which respondents did not choose to define).

Respondents reported that 69% of their commingled fund capital committed before 1996 had been returned and that 33% of their fund commitments from 1996-2000 had been returned.

(*) Respondents chose not to specify what is included in their Other category.

North America: Real Estate Investment Returns

Exhibit 27: Annualized Net Returns



This is the first time the survey has included questions about real estate returns. Reported median historical returns were fairly consistent over different time periods. Respondents predicted that real estate returns for the next three years will equal the ten-year historical median.

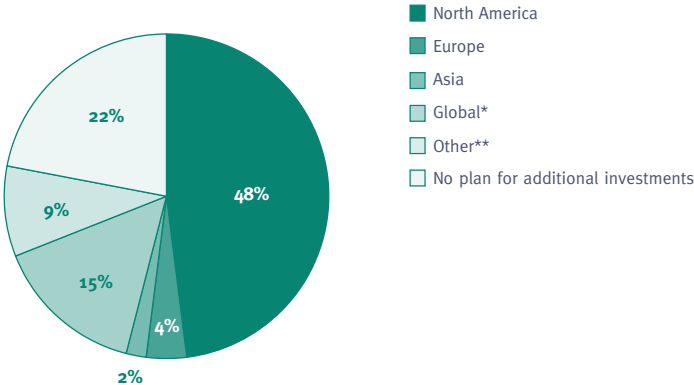
(*) Ending 2002

(**) Beginning 2003

Note: outliers omitted for clarity.

North America: Real Estate Demand for Regional Investments

Exhibit 28: New Real Estate Commingled Fund Investments Over the Next Three Years



North American respondents overwhelmingly prefer commingled funds targeting North American investments over the next three years. Nearly a quarter of respondents reported that they do not plan to make additional investments in regionally-targeted commingled funds.

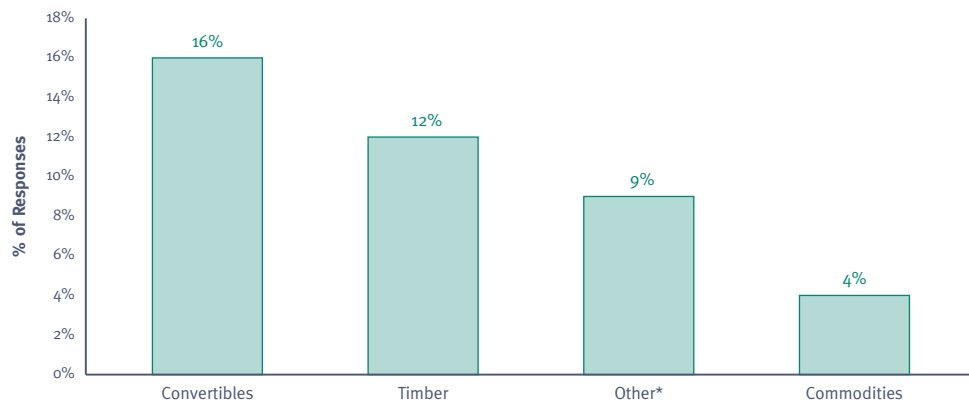
On average, respondents reported that only 3.5% of their real estate capital is invested internationally.

(*) Funds without a regional target.

(**) Respondents chose not to specify what is included in their Other category.

North America: Other Alternative Investments

Exhibit 29: Other Alternative Investments

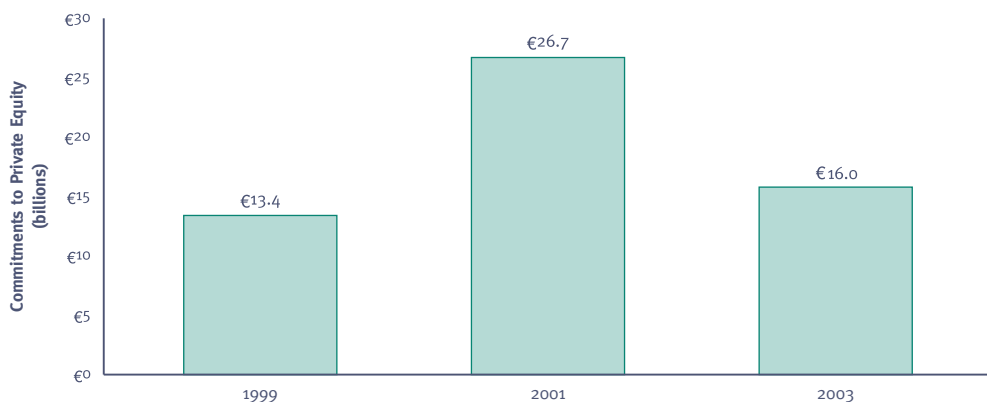


For the first time the 2003 survey included questions about investments in timber, commodities, convertibles, and other alternatives. The most popular among these in North America are convertibles and timber.

(*) Respondents specified oil & gas, farmland, and infrastructure investments in their Other category.

Europe: Private Equity Commitments

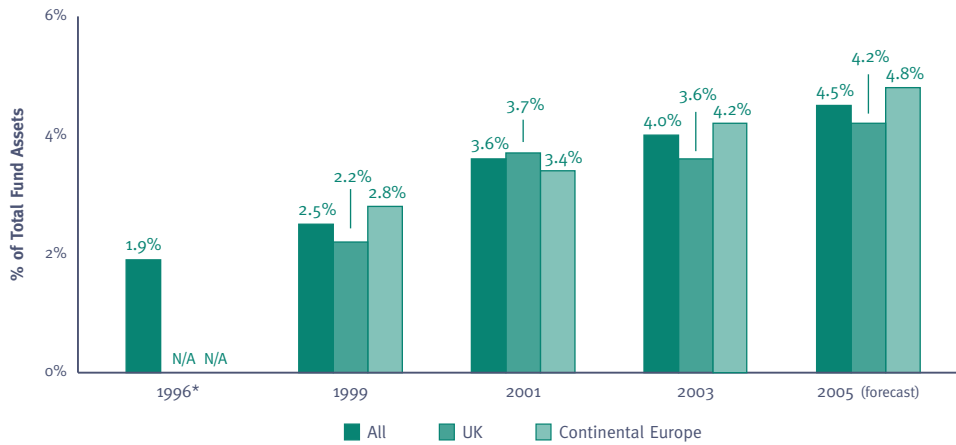
Exhibit 30: Private Equity Commitments



Total commitments to private equity among European respondents fell from 2001 levels, despite a rise in average strategic allocation to private equity (see Exhibit 31). This is at least partially attributable to a decrease in the number of survey respondents in 2003.

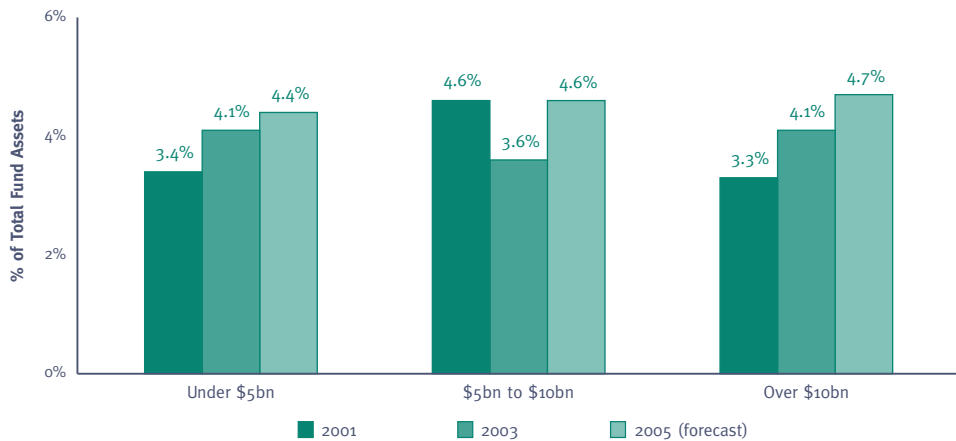
Europe: Private Equity Allocations

Exhibit 31: Strategic Allocation to Private Equity by Region



European respondents' average strategic allocation to private equity has grown steadily since 1996, with the strongest growth coming from Continental Europe. Among all European respondents, the average strategic allocation grew from 3.6% in 2001 to 4.0% in 2003. In the UK, the average strategic allocation remained fairly steady, dipping from 3.7% to 3.6% despite the expected positive influence from the Myners Review^{**}. Respondents project increases in average strategic allocations by 2005.

Exhibit 32: Strategic Allocation to Private Equity by Size of Organization



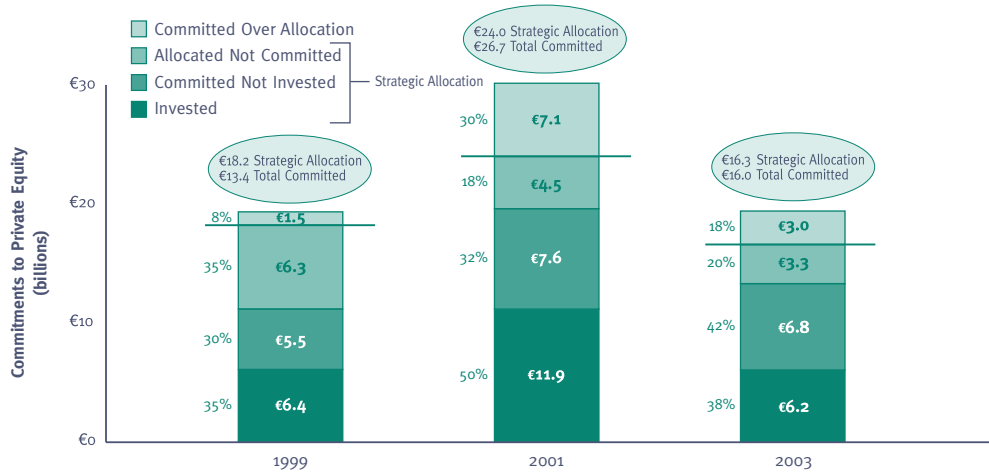
Average strategic allocation rose among the smallest and largest institutions in 2003. Average strategic allocation to private equity decreased among mid-sized institutions by 1.0%. Respondents of all sizes projected increases in average strategic allocations by 2005.

(*) Arithmetic average of 1996 strategic allocation of 1999 survey respondents.

(**) The "Myners Review", *Institutional investment in the UK: a review*, was published in March 2001 by Paul Myners, an investment expert appointed by the government of the UK. The review recommends implementation of a variety of 'best practices', including considering a full range of investment opportunities, including private equity.

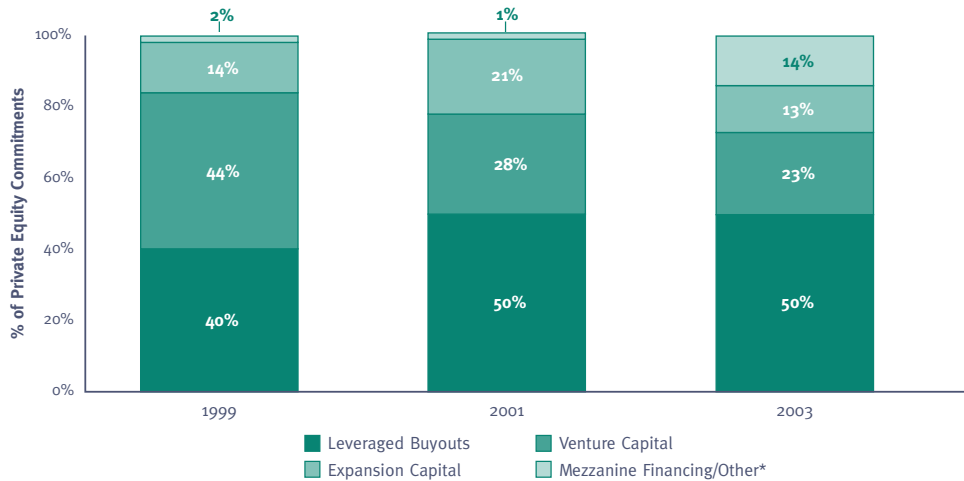
Europe: Private Equity Commitments

Exhibit 33: Strategic Allocations, Commitments, and Investments



Private equity commitments in excess of their strategic allocations dropped for all European respondents from 2001 to 2003 both in terms of absolute Euros and as a percentage of strategic allocation, reversing a trend observed in 2001.

Exhibit 34: Commitments by Investment Type

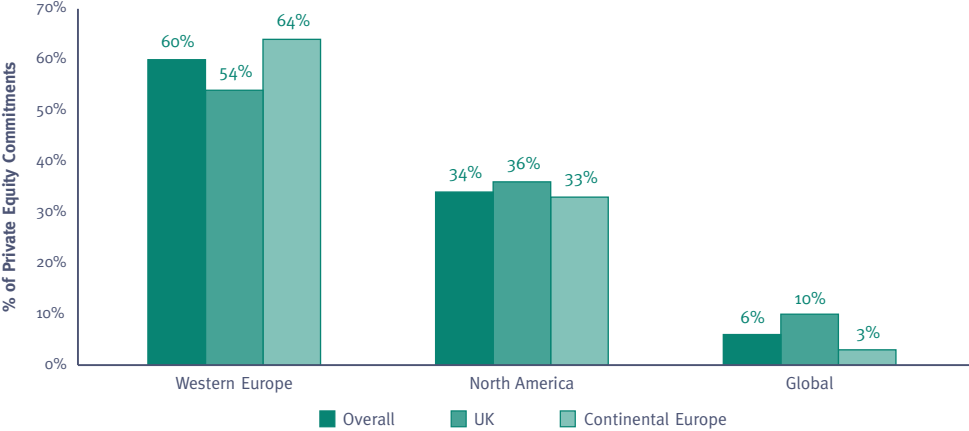


The total amount of capital among European respondents committed to venture capital and expansion capital dropped in 2003, offset by a substantial rise in mezzanine financing/other. This likely represents significant new commitments to distressed debt funds.

(*) Mezzanine Financing/Other includes Special Situations.

Europe: Private Equity Commitments

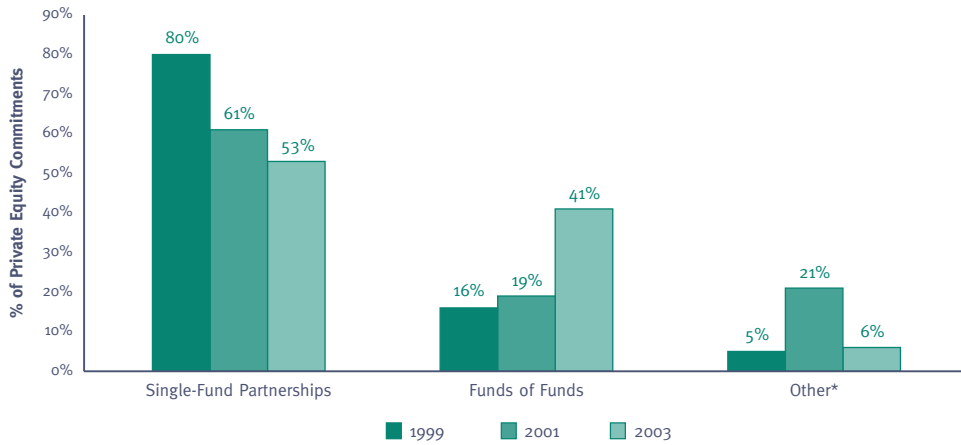
Exhibit 35: Geographic Allocation



European respondents’ capital is committed mostly to Western European investments (60%), with North American investments (34%) and global investments (6%) comprising the rest. Continental European respondents have a larger portion of their capital committed to Western European investments than UK respondents and a smaller portion to North American and global investments.

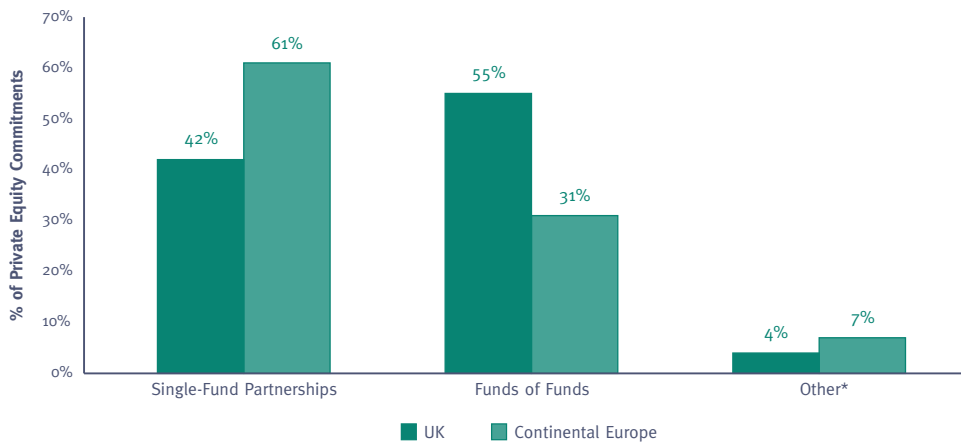
Europe: Private Equity Investment Structures

Exhibit 36: Private Equity Investment Structures



European respondents' capital continued to shift from single-fund partnerships to funds of funds in 2003.

Exhibit 37: Investment Structures by Region

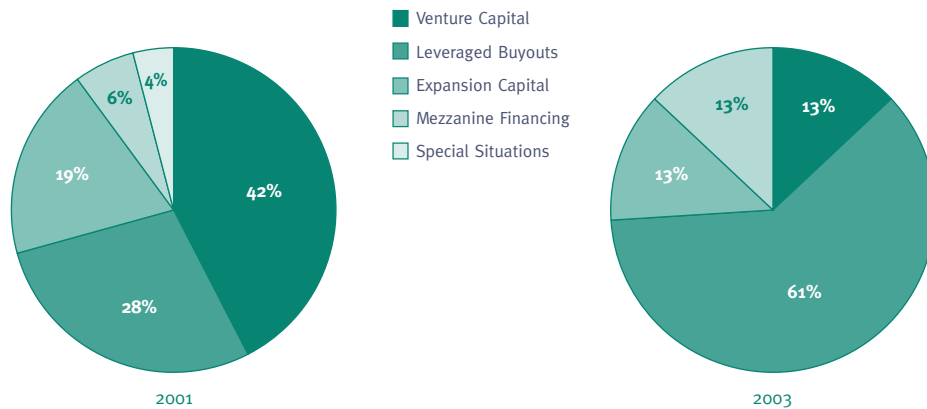


Respondents from different regions of Europe exhibit widely varying use of private equity investment structures. A substantially larger portion of UK respondents' capital is committed to funds of funds than to single-fund partnerships. Among Continental European respondents, the situation is reversed.

(*) Other includes Co-Investments, Secondaries, Direct Investments, and Special Situations.

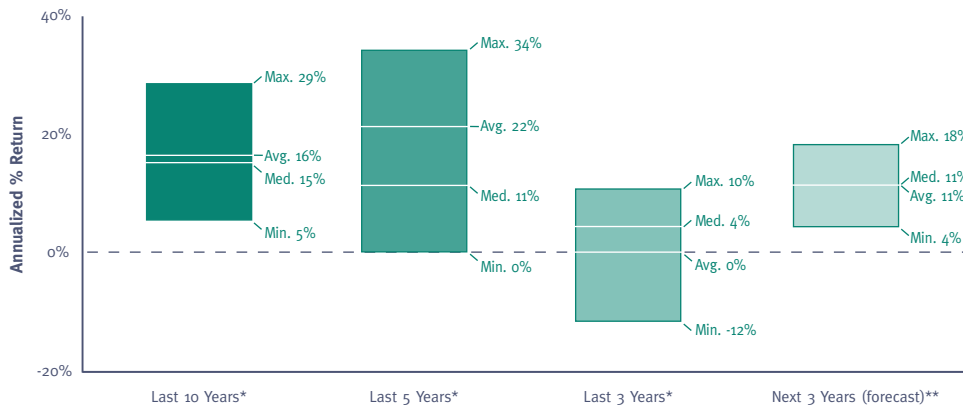
Europe: Private Equity Demand for Investment Types and Investment Returns

Exhibit 38: Most Attractive Private Equity Investments Over the Next Three Years



When asked to rank the attractiveness of five types of private equity investments over the next three years, fully 61% identified leveraged buyouts as most attractive, a substantial rise from 2001 when 28% preferred leveraged buyouts. The percentage of respondents that prefer mezzanine financing investments also rose sharply. The percentage of respondents that favor venture capital funds dropped sharply, as did the percentage that prefer special situation funds.

Exhibit 39: Annualized Net Returns



Not surprisingly, respondents reported declining median private equity returns. Respondents predicted that private equity would generate median returns equal to the five-year historical median returns. European respondents reported higher historical returns than North American respondents, yet they predicted lower returns going forward than their North American peers.

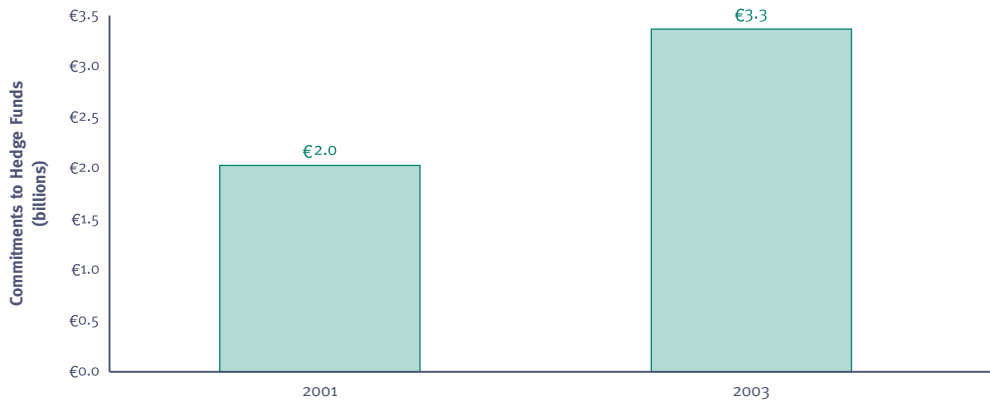
(*) Ending 2002

(**) Beginning 2003

Note: outliers omitted for clarity.

Europe: Hedge Fund Commitments and Allocations

Exhibit 40: Hedge Fund Commitments

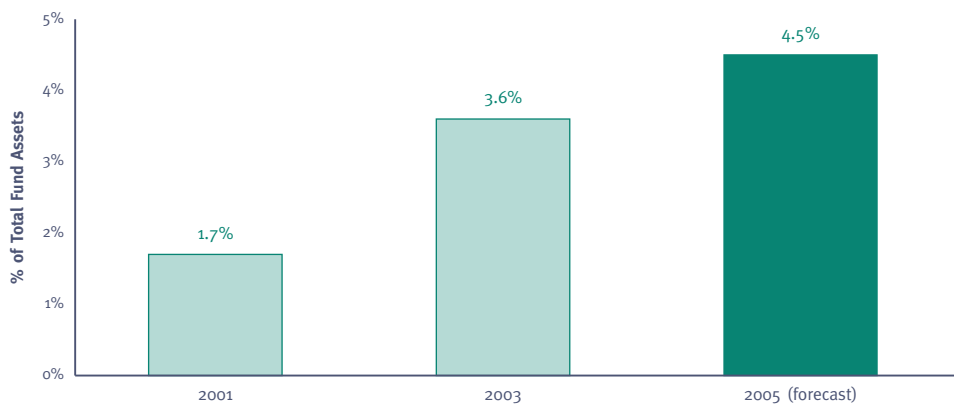


21% of European respondents reported that they invest in hedge funds (up from 15% in 2001) with another 27% indicating that they intend to begin investing in hedge funds in the next three years. Hedge fund commitments increased 65% from 2001 to 2003.

Reasons Cited for Not Investing in Hedge Funds

European respondents listed risk (23%), lack of internal resources (20%), and transparency (17%) most frequently as reasons they do not invest in hedge funds. Illiquidity and high fees were also mentioned, but less frequently than in 2001.

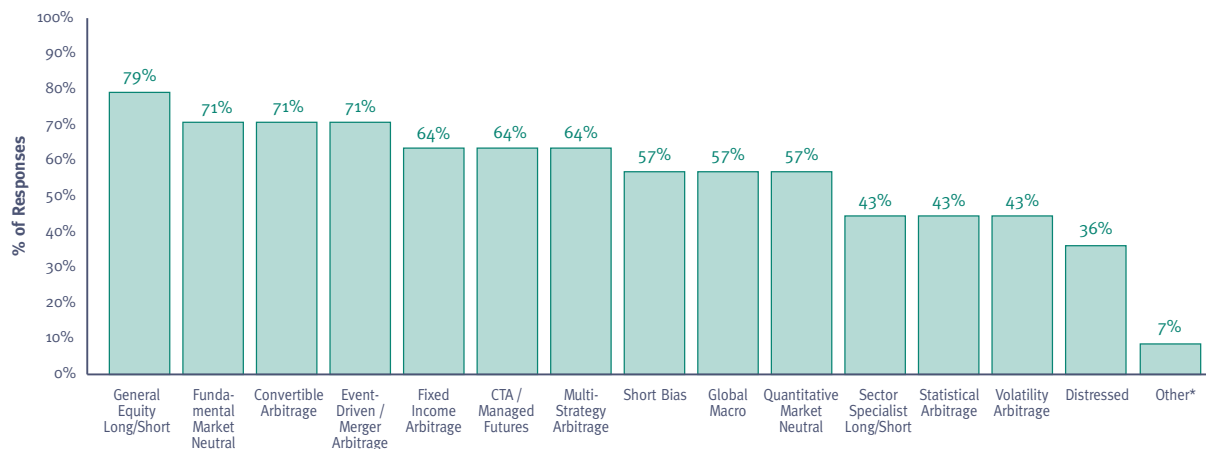
Exhibit 41: Strategic Allocation to Hedge Funds



European respondents' average strategic allocation more than doubled from 2001 to 2003, exceeding the allocation projected in 2001 (3.4%).

Europe: Hedge Fund Investment Strategies

Exhibit 42: Hedge Fund Strategies Used

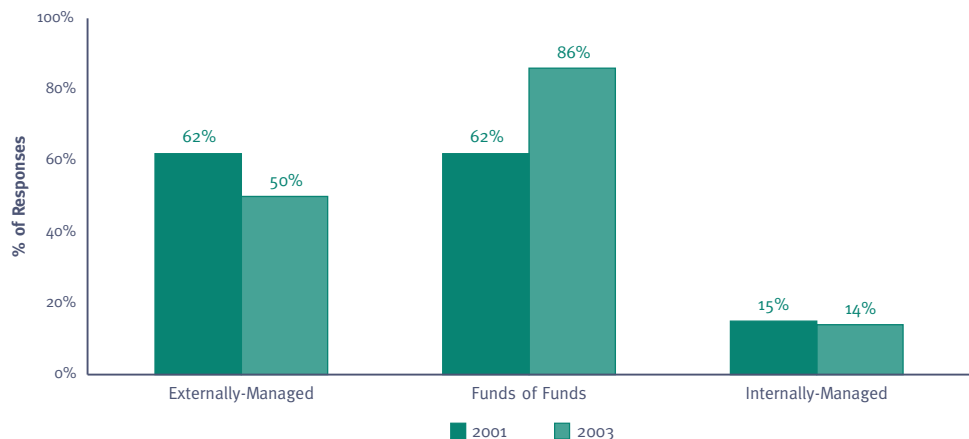


The most popular hedge fund strategy among respondents is general equity long/short (79%), followed by fundamental market neutral (71%), event-driven / merger arbitrage (71%), and convertible arbitrage (71%). European and North American use of hedge fund strategies is generally similar.

(*) Respondents chose not to specify what is included in their Other category.

Europe: Hedge Fund Investment Structures

Exhibit 43: Hedge Fund Investment Structures

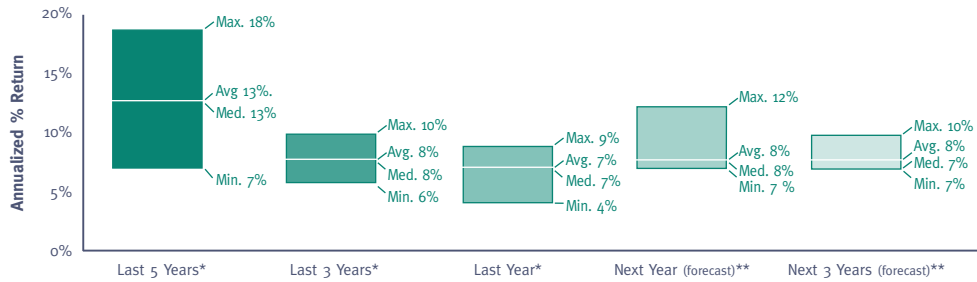


Investment in hedge funds shifted away from externally-managed funds toward funds of hedge funds from 2001 to 2003. The percentage of respondents indicating they invest in funds of funds increased from 62% to 86%, while the percentage of respondents investing in externally-managed hedge funds decreased from 62% to 50%.

Note: totals exceed 100% because some respondents selected more than one structure.

Europe: Hedge Fund Investment Returns

Exhibit 44: Annualized Net Returns



European respondents reported declining annualized historical hedge fund returns, as expected given the public market environment. It is worth noting that over the last one-year and three-year periods, which were very poor periods for public markets, respondents' median hedge fund returns exceeded 7%, indicating that their hedge fund programs added absolute returns. Respondents forecast steady returns over the next year of 8% with median volatility of 6%.

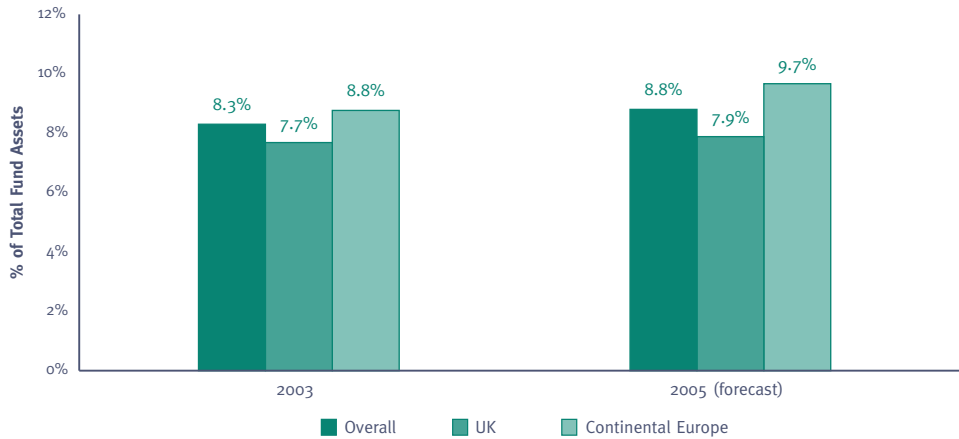
(*) Ending 2002

(**) Beginning 2003

Note: outliers omitted for clarity.

Europe: Real Estate Commitments

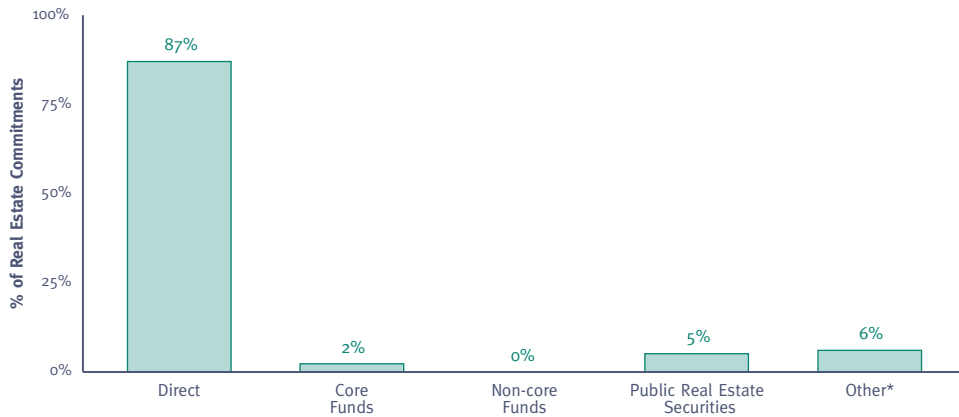
Exhibit 45: Strategic Allocation to Real Estate



47 European respondents (66%) indicated they invest in real estate (“property”). Average strategic allocation among these respondents is 8.3%, expected to rise to 8.8% by 2005. UK respondents have a lower average strategic allocation to real estate than Continental European respondents, and they predict a smaller increase in allocation by 2005.

Respondents have €43 billion committed to real estate in 2003, the first year in which this information was collected.

Exhibit 46: Commitments by Investment Type

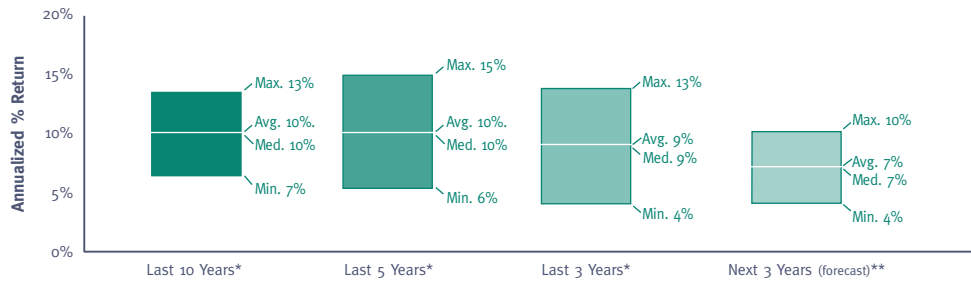


European respondents’ capital is overwhelmingly committed to direct investments in land and buildings (87%). European investors have long invested directly in land and buildings because suitable tax-efficient and well-diversified commingled funds have been available for a shorter time in Europe than in North America.

(*) Respondents chose not to specify what is included in their Other category.

Europe: Real Estate Investment Returns

Exhibit 47: Annualized Net Returns



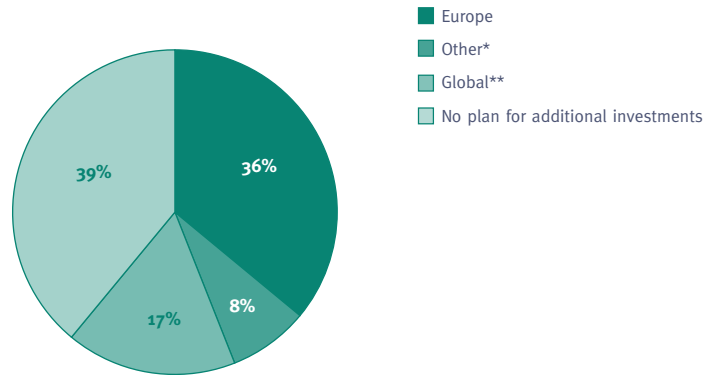
This is the first time the survey has included questions about real estate returns. Reported median returns were consistent over the different time periods. Respondents predicted real estate returns for the next three years that are lower than long-term historical returns.

(*) Ending 2002

(**) Beginning 2003

Europe: Real Estate Demand for Regional Investments

Exhibit 48: New Real Estate Commingled Fund Investments Over the Next Three Years



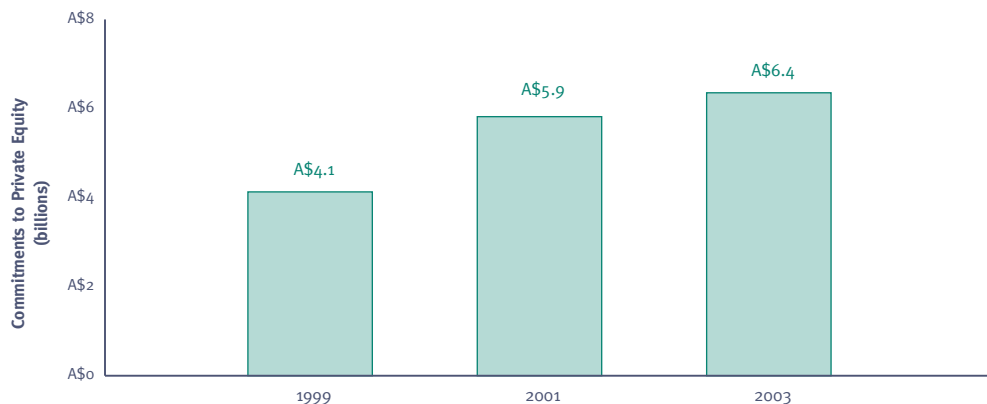
When asked about new investments in commingled funds in the next three years, 39% of respondents indicated that they do not intend to make additional investments through these vehicles. 36% indicated that they are likely to invest in commingled funds investing in Europe only, and 17% indicated they are likely to invest in globally-targeted funds. Respondents indicated little interest in funds exclusively targeting North America or Asia.

(*) Respondents chose not to specify what is included in their Other category.

(**) Funds without a regional target.

Australia: Private Equity Commitments

Exhibit 49: Commitments to Private Equity



Commitments to private equity increased among Australian respondents by a modest degree (8%) from A\$5.9 billion in 2001 to A\$6.4 billion in 2003. Australia is the only region in the survey except Japan to experience an increase in private equity commitments from 2001 to 2003. This is likely attributable to new commitments made by Australian investors in an effort to meet their existing allocations.

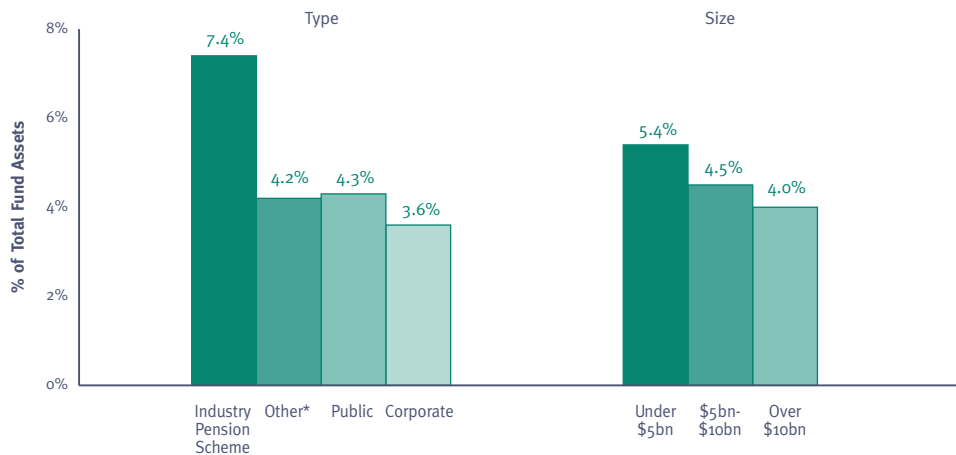
Exhibit 50: Strategic Allocation to Private Equity



Of the 39 respondents to the 2003 survey, 27 (69%) invest in private equity and have A\$6.4 billion committed to these investments. Respondents' average strategic allocation to private equity dropped from 6.5% in 2001 to 5.0% in 2003. This is the first drop in Australian respondents' average strategic private equity allocation since the survey began collecting this information in 1999. Respondents projected an increase to 6.3% by 2005, equaling the average strategic allocation in 1999.

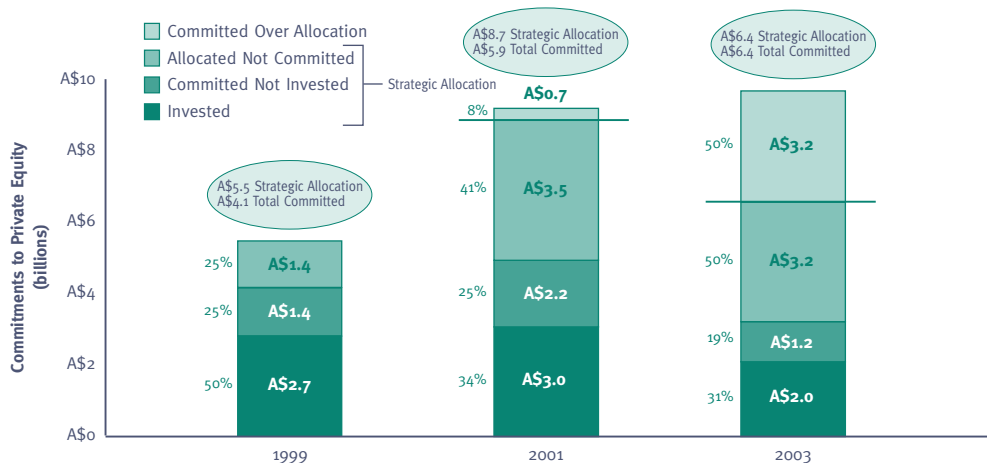
Australia: Private Equity Commitments

Exhibit 51: Strategic Allocation to Private Equity by Type and Size of Organization



Average strategic allocation to private equity was highest among industry pension schemes in 2003 at 7.4%, nearly double the average allocation of any other type of organization. As institutional size increases, the strategic allocation to private equity decreases.

Exhibit 52: Strategic Allocations, Commitments, and Investments

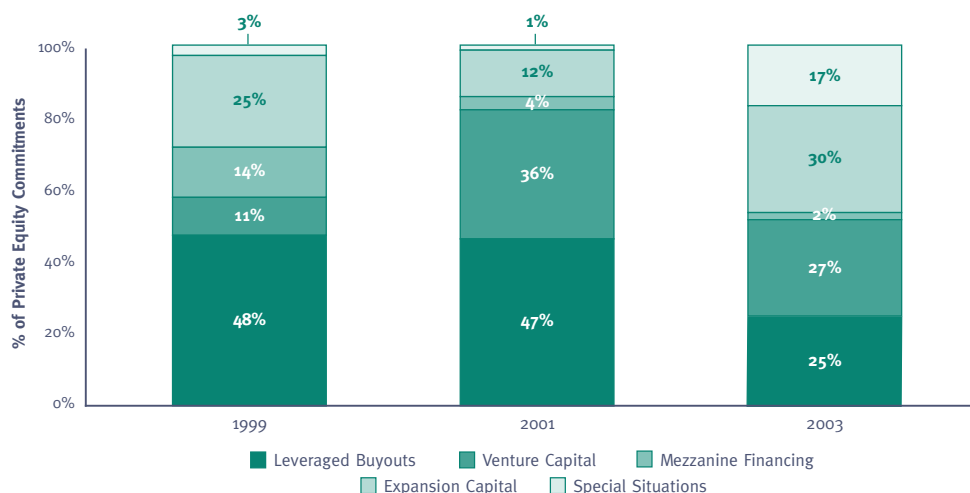


In Australia, overcommitment increased from A\$700 million in 2001 to A\$3.2 billion in 2003 as a result of decreased strategic allocation (from A\$8.7 billion in 2001 to A\$6.4 billion in 2003) and increased commitments (see Exhibit 49).

(*) Other includes life insurance companies, endowments and foundations, workers' liability funds, and other tax-exempt organizations.

Australia: Private Equity Commitments

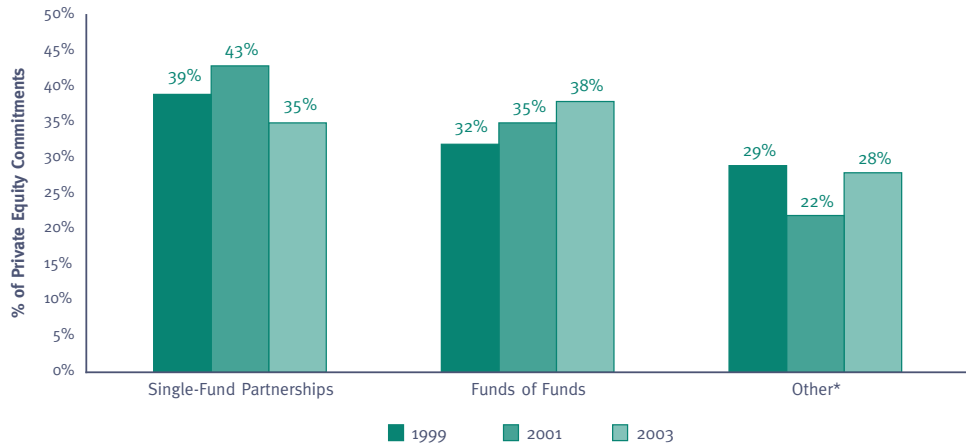
Exhibit 53: Commitments by Investment Type



The proportion of respondents' portfolios that each investment type represents has fluctuated substantially more in Australia than in other areas covered by the survey. Leveraged buyouts and venture capital together dropped from 83% of respondents' overall commitment to 52%. Respondents' commitments to expansion capital and special situations rose dramatically from 2001 to 2003, from 12% to 30% and 1% to 17%, respectively. Respondents listed infrastructure, distressed, and secondaries as the specific types of special situation funds to which they had committed capital.

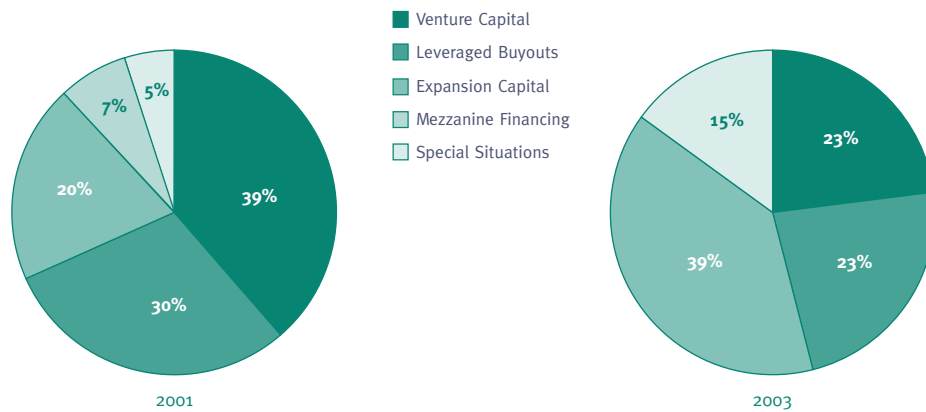
Australia: Private Equity Investment Structures and Demand for Investment Types

Exhibit 54: Private Equity Investment Structures



Fund of funds commitments among respondents have risen steadily since 1999, while single-fund partnerships have decreased as a percentage of respondents' commitments.

Exhibit 55: Most Attractive Private Equity Investments Over the Next Three Years

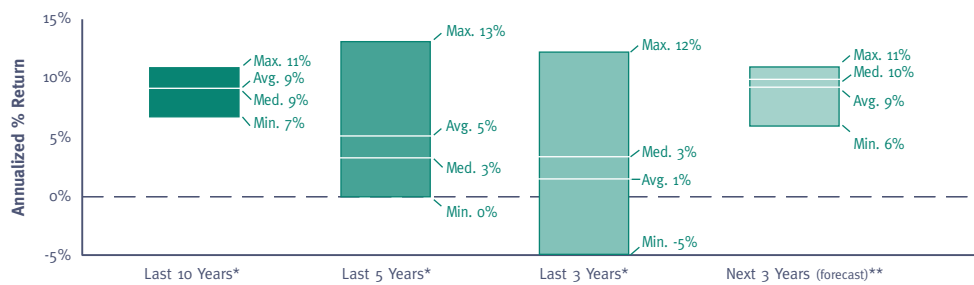


When asked to rank the attractiveness of five types of private equity investments over the next three years, more Australian respondents selected special situations as their preferred investment type. This reflects Australia's shift in commitments (see Exhibit 53).

(*) Other includes Co-Investments, Direct Investments, and Secondaries.

Australia: Private Equity Investment Returns

Exhibit 56: Annualized Net Returns



Respondents' median private equity returns dropped sharply from ten-year returns (9%) to five-year returns (3%). Respondents predicted that private equity would approximate ten-year historical median returns for the next three years.

(*) Ending 2002

(**) Beginning 2003

Note: outliers omitted for clarity.

Australia: Hedge Funds Summary

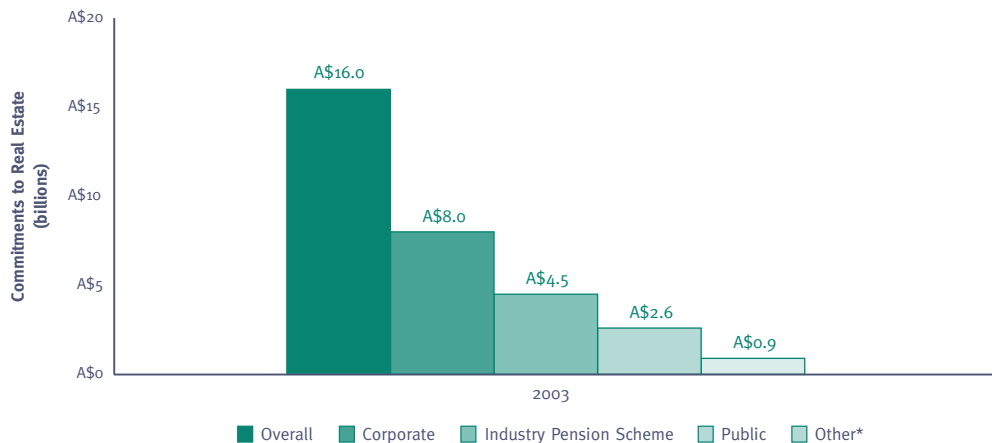
Hedge fund investing in Australia has expanded somewhat since 2001, but is still in its infancy. The number of respondents reporting that they invest in hedge funds grew from one in 2001 to seven in 2003. The number indicating that they intend to invest in hedge funds rose from two in 2001 to nine in 2003. Among those that invest in hedge funds, allocations are relatively high; the average allocation among respondents in 2003 is 11.2%. Moreover, 80% indicated that their allocation would rise in the next three years and no respondents said it would decline.

Australian respondents invest in external hedge fund structures, 29% in single hedge funds and 71% in funds of hedge funds.

Australian respondents that do not invest in hedge funds cited risk, lack of returns, and lack of interest on the investment committee most commonly as reasons for not investing.

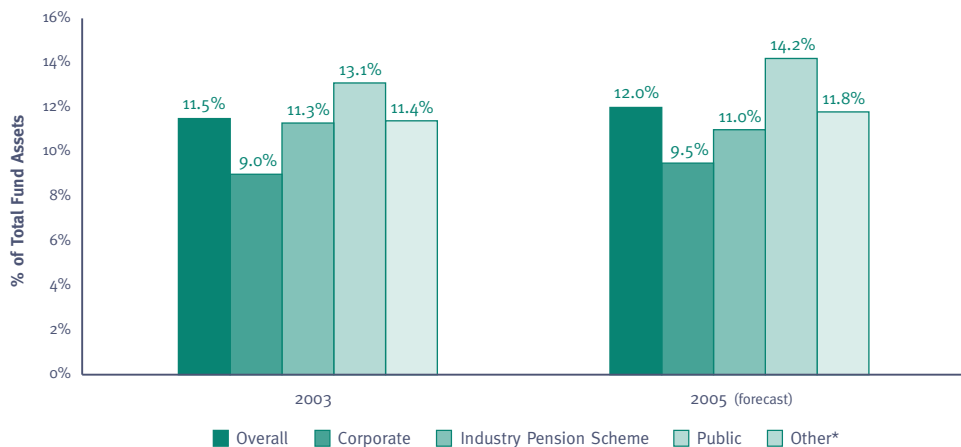
Australia: Real Estate Commitments

Exhibit 57: Real Estate Commitments



For the first time in the survey’s history, Australian respondents were asked about their real estate (“property”) investments. 28 Australian respondents (72%) indicated that they invest in real estate, allocating 11.5% of their overall capital on average, with total commitments of A\$16 billion.

Exhibit 58: Strategic Allocation to Real Estate

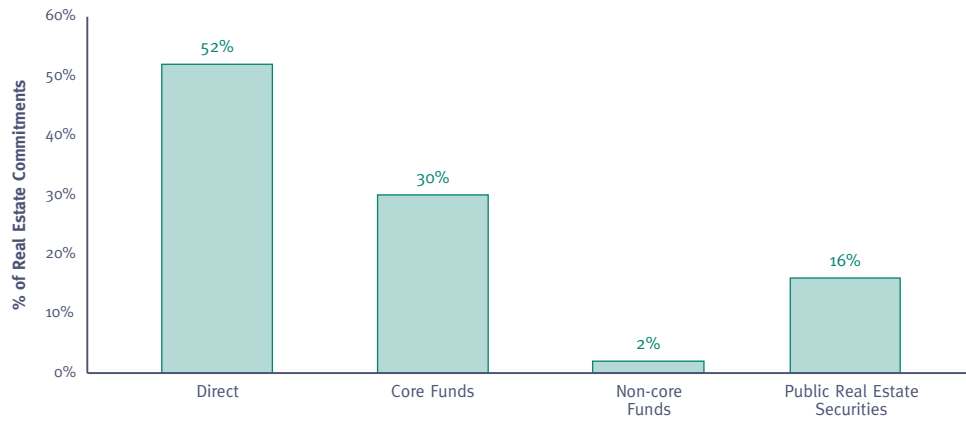


Strategic allocation to real estate among Australian respondents is relatively high in 2003, and is expected to rise further by 2005 among all types of organizations except industry pension schemes, in which it is expected to fall slightly (from 11.3% to 11.0%).

(*) Other includes life insurance companies, endowments and foundations, workers’ liability funds, and other tax-exempt organizations.

Australia: Real Estate Commitments

Exhibit 59: Commitments by Investment Type



Australian respondents commit the bulk of their capital to direct real estate investments. Substantial amounts are also committed to core commingled funds and public real estate securities.

Australia: Real Estate Investment Returns

Exhibit 6o: Annualized Net Returns



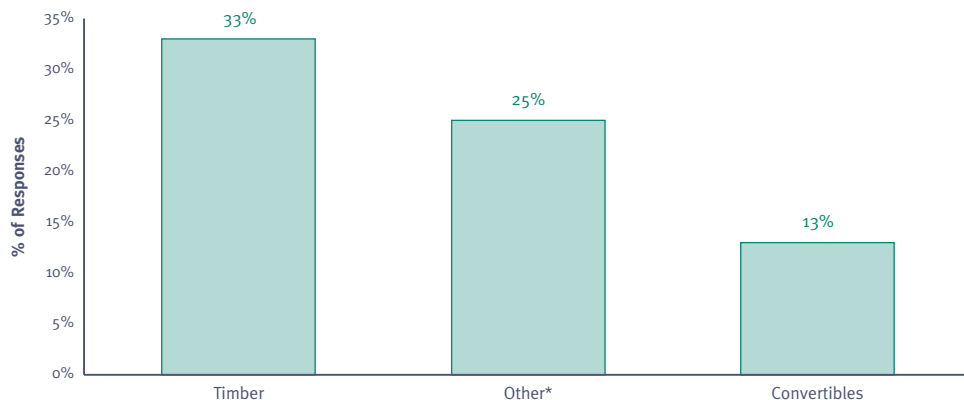
Median real estate returns among Australian respondents have been fairly stable over the last decade. However, respondents predict slightly lower returns going forward.

(*) Ending 2002

(**) Beginning 2003

Australia: Other Alternative Investments

Exhibit 61: Other Alternatives



Timber properties are very popular among Australian respondents; 33% of respondents reported investing in timber. “Other”, which was defined by respondents as primarily infrastructure investments, was also very popular.

(*) Respondents indicated that Other is primarily infrastructure investments.

Japan: Private Equity Summary

Of the 49 Japanese respondents to the 2003 survey, only six (12%) invest in private equity, yet this is double the number that invested in 2001. An additional three indicated they plan to invest in private equity in the next two years.

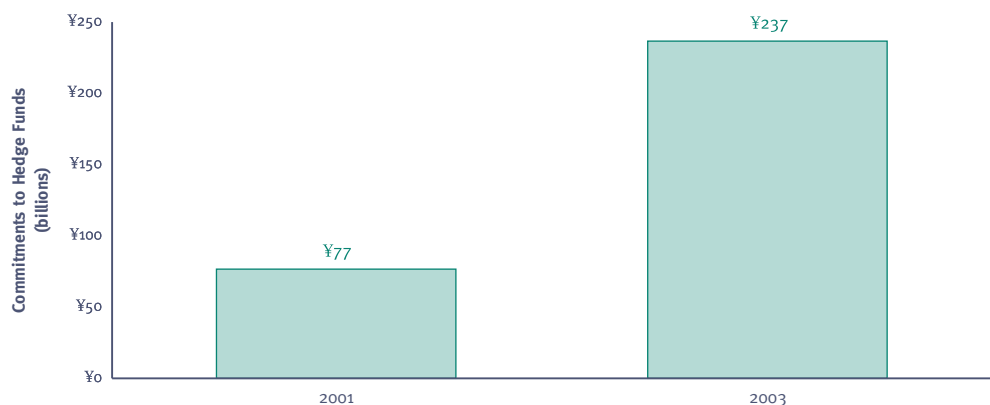
All three respondents from the 2001 survey who invested in private equity continue to do so. One of the six respondents who invests in private equity in 2003 reported plans to raise their strategic allocation in the next three years.

Total commitments to private equity among Japanese respondents in 2003 are US\$360 million, up over 170% from US\$133 million in 2001. This is primarily attributable to the increase in the number of respondents who invest in private equity. It is also attributable to the short elapsed time since most Japanese respondents' allocations were initially made; there is a delay between allocating and committing capital to private equity. Japanese respondents most likely had not yet had a chance to commit their allocated capital to funds in 2001. This assertion is underscored by the relatively low percentage of committed capital that has been invested (31%).

Japan: Hedge Fund Commitments and Allocations

20 Japanese respondents (41%) invest in hedge funds, an increase of over 50% from 2001, when 13 invested in hedge funds. An additional eight respondents in 2003 reported plans to start investing in hedge funds in the next three years.

Exhibit 62: Hedge Fund Commitments



Respondents to the 2003 survey reported total hedge fund commitments of ¥237 billion (US\$2.0 billion), a threefold increase over the ¥77 billion (US\$665 million) in hedge fund commitments reported in 2001. This is largely attributable to increases of nearly 50% in the average strategic allocation and the number of respondents that invest in hedge funds from 2001 to 2003.

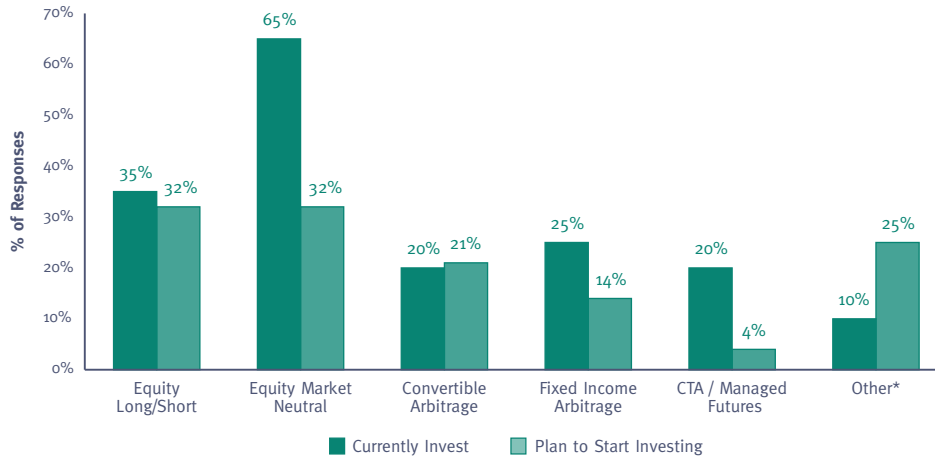
Exhibit 63: Strategic Allocation to Hedge Funds



Respondents' average strategic allocation to hedge funds increased from 4.5% in 2001 to 7.1% in 2003, exactly as predicted in 2001. Japanese respondents projected a further increase to 8.5% by 2005.

Japan: Hedge Fund Investment Strategies

Exhibit 64: Hedge Fund Strategies Used

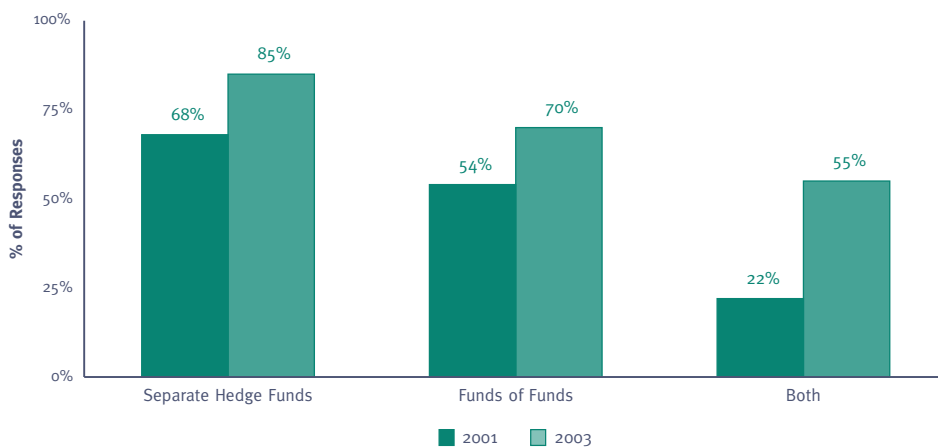


By far the most popular hedge fund strategy is equity market neutral, in which 65% of respondents indicated investing, followed by equity long/short (35%), and fixed income arbitrage (25%). An additional 32% indicated the intention to invest in two categories, equity long/short and equity market neutral, and 25% reported that they intended to invest in the Other category, adding they do not have a plan for which specific strategies to use.

(*) Respondents chose not to specify what is included in their Other category.

Japan: Hedge Fund Investment Structures

Exhibit 65: Hedge Fund Investment Structures



Separate hedge funds are the most popular structure among Japanese respondents. The percentage of respondents indicating that they invest in both separate hedge funds and funds of hedge funds more than doubled from 2001 to 2003.

Methodology and Definitions: Definitions of Private Equity

Private Equity: Privately negotiated investments with equity or equity-like features into companies that are generally not traded or otherwise do not provide investment liquidity.

- **Co-Investment With Partnership:** The investor invests in an operating company in parallel with the partnership.
- **Direct Investments:** A direct equity investment in a company not using a partnership or fund vehicle.
- **Distressed Debt:** Investment in equity or debt of companies that are unable to service existing debt, often including companies in, or preparing to enter, bankruptcy.
- **Expansion Capital:** Equity or equity-like investments in public or private companies that have been operating for a sufficient amount of time to develop a sustainable business. The investment will be used to expand the operations of the company.
- **Fund of Funds:** Multiple-manager vehicle with investments in more than one partnership.
- **Leveraged Buyout:** Equity investments in public or private companies that result in the purchase of a significant portion, or majority control, of the company.
- **Mezzanine:** Investment in the subordinated debt and/or equity of privately owned companies. The debt holder participates in equity appreciation through conversion features such as rights, warrants, or options.
- **Partnership:** Limited partnership or other commingled vehicle.
- **Secondaries:** Investment in a previously owned limited partnership or investment in previously owned limited partnership via a secondary fund.
- **Single-Fund Partnership:** see “Partnership”.
- **Special Situations:** Includes investment in a wide range of assets and entities, including the exploration for oil and/or gas reserves or in the development of proven reserves; investment in land to harvest timber; investments that have a special component usually related to geographical, economic, or social issues sometimes referred to as “ETIs,” or “economically targeted investments”; etc. In recent years, this term has been used increasingly as a proxy for distressed debt funds.
- **Venture Capital:** Equity or equity-like investments in companies that have undeveloped or developing products or revenue.

Methodology and Definitions: Definitions of Hedge Funds

Hedge Funds: A skill-based investment strategy that generally involves the use of leverage and/or short selling, and a fee that is based on performance. There is a broad range of risk and return objectives among various hedge fund strategies. A common element is the use of investment and risk management skills to seek positive returns regardless of market direction.

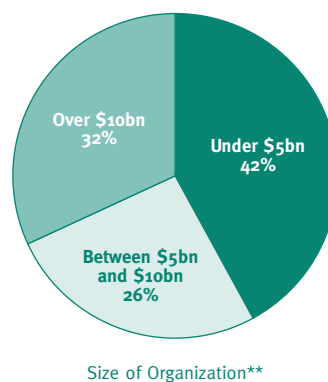
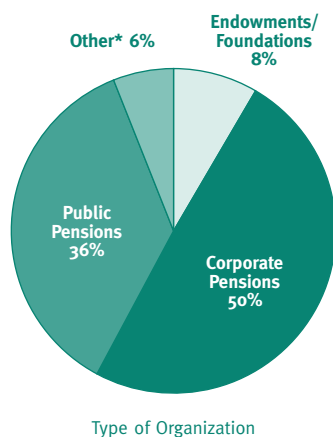
- **Arbitrage:** Strategies that seek to profit by exploiting pricing inefficiencies between related securities.
- **Convertible Arbitrage:** A strategy in which managers purchase a portfolio of convertible securities.
- **CTA/Managed Futures:** (Short for “Commodity Trading Advisor”), a strategy in which managers typically trade commodity, equity, financial, and/or currency futures contracts.
- **Distressed:** A strategy in which managers invest in the debt and/or equity of companies that are currently or recently in bankruptcy reorganization, or may declare bankruptcy in the near future.
- **Event-Driven/Merger Arbitrage:** A strategy in which managers invest in opportunities created by significant transactional events, such as spin-offs, mergers and acquisitions, bankruptcy reorganizations, recapitalizations and share buybacks.
- **Fixed Income Arbitrage:** A general term describing a variety of strategies involving investment in fixed income instruments in an attempt to exploit relative mispricing between related sets of securities.
- **Global Macro:** A strategy in which managers employ a “top-down” global approach, and may invest in any markets using any instruments to profit from expected market movements resulting from shifts in world economies, geopolitical conditions, global supply and demand balances, or other large-scale changes.
- **Long/Short:** Strategies in which managers take long positions in securities expected to rise in value and short positions in securities expected to fall in value in an effort to insulate the portfolio from market volatility. One example of this strategy is to build a portfolio made up of long positions in the strongest companies in an industry and corresponding short positions in the weakest companies.
- **Market Neutral:** A category of long/short strategies in which managers invest the same amount of capital in offsetting long and short positions, maintaining a portfolio with zero or near-zero net market exposure.
- **Sector Specialist Long/Short:** Long/short hedging strategies categorized on the basis of the industry sectors in which they invest. While most hedge funds are diversified among several different sectors, sector specialist long/short funds target one sector, devoting 50% or more of their portfolio to such securities.
- **Short Bias:** A strategy in which managers maintain a consistent net short exposure in their portfolios, i.e. more capital is invested in short positions than in long positions.
- **Statistical Arbitrage:** A strategy in which managers utilize quantitative analysis of technical factors to exploit pricing inefficiencies between related equity securities. Statistical arbitrage portfolios are typically structured to be market, industry, sector, and/or dollar-neutral.
- **Volatility Arbitrage:** A strategy in which managers sell short-term call and put options to profit from option premium decay and volatility mean-reverting tendencies using index options and/or options on futures contracts.

Methodology and Definitions: Definitions of Real Estate

- **Core Commingled Funds:** Vehicles that hold substantially-leased office, industrial, retail, and apartment properties.
- **Direct Investments:** Single property or portfolio investments, wholly owned rather than owned in a commingled vehicle.
- **Non-Core Commingled Funds:** Vehicles that invest with a value-added or opportunistic strategy targeting higher returns. Strategies may include property lease-up or repositioning, development/redevelopment, non-performing loans, and non-traditional property types and may include significant leverage.
- **Public Real Estate Securities:** Real estate companies traded on a public exchange. Includes real estate investment trusts (REITs), real estate operating companies (REOCs) and listed shares of land companies.

Description of 2003 Survey Respondents: North America

Respondents (166)



Overall Respondents

Survey Targets	257
Number of Respondents	166
Number of Declines	91
Response Rate	65%

Private Equity

Of the 166 Respondents, Number Who Invest in Private Equity	116
Private Equity Investing Rate	70%

Hedge Funds

Of the 166 Respondents, Number Who Invest in Hedge Funds	39
Hedge Fund Investing Rate	23%

Real Estate

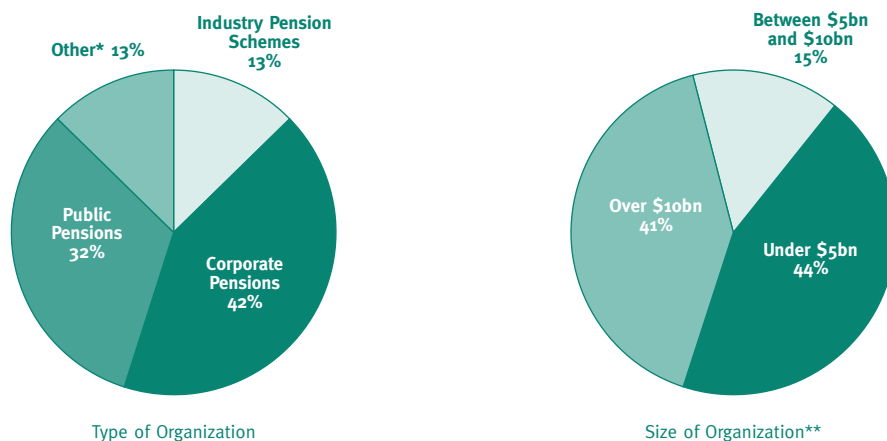
Of the 166 Respondents, Number Who Invest in Real Estate	93
Real Estate Investing Rate	56%

(*) Other includes Taft-Hartley Plans, industry pension schemes, religious pensions, supranational plans, and life insurance companies.

(**) 28 respondents chose not to reveal their asset levels.

Description of 2003 Survey Respondents: Europe

Respondents (71)



Overall Respondents

Survey Targets	95
Number of Respondents	71
Number of Declines	24
Response Rate	75%

Private Equity

Of the 71 Respondents, Number Who Invest in Private Equity	41
Private Equity Investing Rate	58%

Hedge Funds

Of the 71 Respondents, Number Who Invest in Hedge Funds	15
Hedge Fund Investing Rate	21%

Real Estate

Of the 71 Respondents, Number Who Invest in Real Estate	47
Real Estate Investing Rate	66%

(*) Other includes endowments and foundations, life insurance companies, combined closed schemes, and other tax-exempt organizations.

(**) 10 respondents chose not to reveal their asset levels.

Description of 2003 Survey Respondents: Australia

Respondents (39)



Overall Respondents

Survey Targets	51
Number of Respondents	39
Number of Declines	12
Response Rate	76%

Private Equity

Of the 39 Respondents, Number Who Invest in Private Equity	27
Private Equity Investing Rate	69%

Hedge Funds

Of the 39 Respondents, Number Who Invest in Hedge Funds	7
Hedge Fund Investing Rate	18%

Real Estate

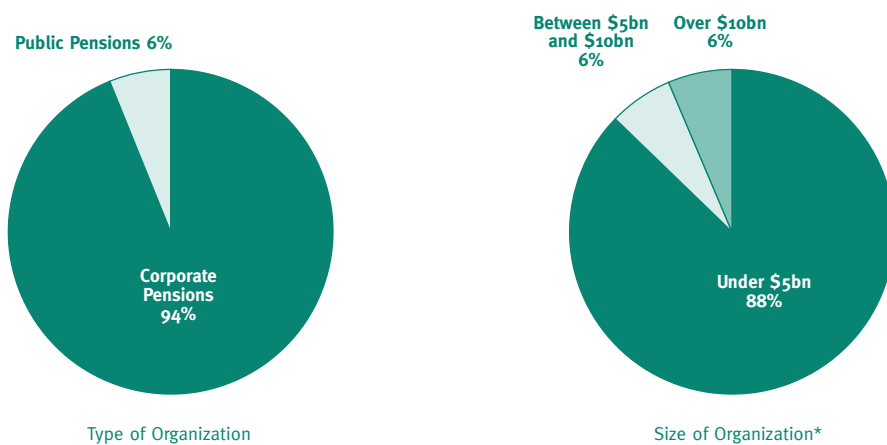
Of the 39 Respondents, Number Who Invest in Real Estate	28
Real Estate Investing Rate	72%

(*) Other includes life insurance companies, endowments and foundations, workers' liability funds, and other tax-exempt organizations.

(**) 4 respondents chose not to reveal their asset levels.

Description of 2003 Survey Respondents: Japan

Respondents (49)



Overall Respondents

Survey Targets	88
Number of Respondents	49
Number of Declines	39
Response Rate	56%

Private Equity

Of the 49 Respondents, Number Who Invest in Private Equity	6
Private Equity Investing Rate	12%

Hedge Funds

Of the 49 Respondents, Number Who Invest in Hedge Funds	20
Hedge Fund Investing Rate	41%

(*) 2 respondents chose not to reveal their asset levels.

Acknowledgements

The 2003 Survey team leaders were Nigel O'Sullivan of Goldman Sachs International and Hal Strong of Russell Investment Group.

Goldman Sachs International and Russell Investment Group acknowledge particularly the contributions of Patrick Cunningham, Debbie Vichot, Karl Scheer, Deepak Abraham, Ian So, and Martin Pitzer in the execution of the survey, the analysis of the data, and the preparation of the Report.

The following individuals assisted in the report review or editing phases of the project:

Lisa Burrows, Jeff Ganung, Vic Leverett, Linda Lewis, and Bruce Tao.

For additional information, please contact:

Goldman Sachs – New York

Karen Seitz 212-902-0005
karen.seitz@gs.com

Dulcie Lin 212-902-0590
dulcie.lin@gs.com

John Shearburn 212-357-2100
john.shearburn@gs.com

Hugh Lawson 212-902-1000
hugh.lawson@gs.com

Goldman Sachs International – London

Nigel O'Sullivan 44-20-7774-2369
nigel.osullivan@gs.com

Patrick Cunningham 44-20-7552-9785
patrick.cunningham@gs.com

Goldman Sachs Asset Management – Japan

Shunichi Yamada 81-3-5573-7965
shunichi.yamada@gs.com

Russell Investment Group – Tacoma

Hal Strong 253-502-2510
hstrong@russell.com

Karl Scheer 253-502-2503
kscheer@russell.com

Debbie Vichot 253-502-2515
dvichot@russell.com

Frank Russell Company Limited – London

Zillah Dyason 44-20-7024-6103
zdyason@russell.com

Frank Russell Company S.A. – Paris

Helen Steers 331-53-57-40-23
hsteers@russell.com

Frank Russell Japan Co., Ltd. – Japan

Kenji Ono 81-3-5411-3687
kono@russell.com

Copyright ©2003, Goldman Sachs International and Russell Investment Group. All rights reserved.

Russell is a trademark and service mark of Russell Investment Group. Goldman Sachs is a tradename and service mark of Goldman Sachs International.

These materials are being provided to customers on the conditions that they will not form a primary basis for any investment decision by or on behalf of customers and that neither Goldman Sachs International nor any of its affiliates shall be a fiduciary or adviser with respect to customers.

This material is for your private information, and we are not soliciting any action based upon it. This report is not an offer to sell or the solicitation of an offer to buy any security. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. In particular, we have not undertaken any independent review of the information, including estimated return and other performance information, reported by respondents. Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to update the information discussed in this material. We may be in a position to benefit, as an investor, manager, advisor or other service provider, from increased interest in investments of the type described in this report.

Information contained in this report includes information developed by and/or supplied under license by Russell Investment Group as well as information developed by and/or supplied under license by Goldman Sachs International. In particular, the methodology and data in this survey are the exclusive property of Goldman Sachs International and Russell Investment Group and any use without the prior express written permission of Goldman Sachs International and/or Russell Investment Group is strictly prohibited.

Notes

Notes

