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**From:** Stringer Gary [Gary.Stringer@morgankeegan.com]  
**Sent:** Tuesday, May 15, 2007 4:10 PM  
**To:** Hennek, Roderick  
**Subject:** Re: RMK Intermediate Bond Fund

Rod,

I did notice that you didn't cc anyone on your email, and I appreciate that. We've always had good, candid conversation.

You have a good point in that we have some low correlation equity strategies on the Traditional side. What worries me about this bond fund is the tracking error and the potential risks associated with all that asset-backed exposure. Mr & Mrs Jones don't expect that kind of risk from their bond funds. The bond exposure is not supposed to be where you take risks. I'd bet that most of the people who hold that fund have no idea what's it's actually invested in. I'm just as sure that most of our FAs have no idea what's in that fund either. They think the return are great because the PM is so smart. He definitely is smart, but it's the same as thinking your small cap manager is a hero because he beat the S&P for the last 5 years.

If people are using RMK as their core, or only bond fund, I think it's only a matter of time before we have some very unhappy investors.

With respect to the fund investing in long-only in fixed income securities, it's not the only long-only fund we classify as alternative. The RS Global Natural Resources fund is long-only and invests in stock of mining & energy-related companies, etc. It doesn't utilize derivatives to mimic commodity price changes, but it fits the alternative bill nicely.

At the end of the day, the fund does exactly what we'd want from our low volatility alternative allocation: low vol and low correlation.

And I'm sure you're right about is having a tough sale. That's ok. We're here to follow our process and help educate people. Even if they don't want to hear it. That said, I definitely don't want to be bull headed on this. The Advisory Council is supposed to the PCG's board of directors, and of course my team has to acknowledge that. I just wonder what message we're sending if we're comparing RMK to the Dodge & Cox bond fund in the intermediate category. Would we be doing our FAs and clients a disservice for the sake of easy marketing? Also, are we compromising our due diligence process for the same reason? We did away with the b-list of Preferred Managers. Is it a slippery slope to start changing what the team thinks of something because it's not real popular in the field? I keep thinking about Kim's years of experience in the fixed income space. I tend to think that when you have someone as talented as her making a recommendation, you tend to follow it. Not to mention Tom's 20 years in alternatives. Sometimes you let the experts make the call.

Will Deupree made an interesting suggestion that we classify it differently from the likes of Western Core bond, put with a name that's more clear like "Alternative fixed income".

What do you think?

Gary S. Stringer, CFA  
Senior Vice President  
Morgan Keegan

----- Original Message -----

From: Hennek, Roderick  
To: Stringer, Gary  
Sent: Tue May 15 18:01:47 2007  
Subject: Re: RMK Intermediate Bond Fund

Gary  
I like your explanation very much but is it a better fit in the Alternative space? First of all, the underlying securities are all fixed income securities, although the sector allocation is certainly not similar to any index. They do not use any derivatives that I am aware

of to adjust yield, maturity, or sector weightings, or apply leverage, all characteristics of alternatives. There are no shorting or Hedging strategies used to my knowledge, again typical Alternative characteristics. We have a number of Equity funds that employ very different strategies that based on your forementioned logic, (low correlation, do not match up with an index, very different tracking error, etc) might be classified "alternatives" such as Longleaf Partners, Kinectics, and maybe even Snow. Finally but more importantly, a widespread, internal and external MARKETING effort that this is a BOND FUND! Regardless of what you might consider (remember it is called the RMK Select Intermediate BOND fund via prospectus, which I believe makes no mention of Alternative strategies), if it sounds like a \_\_\_\_\_, looks like a \_\_\_\_\_, and kind of acts like a \_\_\_\_\_, what is it? I really think you have a big sell job on your hands, an uphill battle! Note I copied no one on this email.

Rod

----- Original Message -----

From: Stringer, Gary

To: Deupree III, William

Cc: Cain, Sean; Crocker, Dow; Davis, Jim; Fowler, Brian; Griffin, Justin; Lyons, Jonathan; Matthews, John; Miller, Rolfe; Patton, Doug; Shaw, Lynn; Thompson, Van; Tennyson, J; Stieffel, Diana; Wilfong, John; Hennek, Roderick; Parrish, James

Sent: Tue May 15 17:05:38 2007

Subject: Re: RMK Intermediate Bond Fund

Will,

That is a great question and thank you for giving me the opportunity to address it. I think that the classification of the RMK Intermediate Bond Fund shows how our due diligence process works and can lead us to opinions that differ from consensus. In most cases we agree with the Morningstars of the world. In this case we do not. I think it represents a great opportunity to educate our clients on our due diligence process.

Unfortunately I'm at the airport on my way to due diligence meetings in Houston & Dallas with one of our analysts, so I'm going to have to be brief. However, should anyone like to discuss this further I can be reached on my cell phone at 443 562 8868.

Kim Escue, Tom McQuiston, Chet Pinckernell and I have discussed this fund's classification at length. I think that putting the RMK Intermediate Bond Fund in the Non-Traditional Funds space under Alternative Investments was one of the best decisions the group has made.

The fund simply does not invest in your typical fixed income investments. These non-traditional exposures result in lower correlation, higher tracking error, and most importantly, far different risks than most bond funds exhibit.

Consider the following sector comparison to the Lehman Agg:

RMK Select Interm. Bond Fund:

Corporate Bonds 36.8%

CMOs 14.6%

Cash and Cash Equivalents 3.6%

Preferred Stock 2.7%

US Government Agencies 2.4%

Asset Backed Securities 39.9%

Lehman Brothers Aggregate:

Treasury/Agencies 34.1%

ABS/CMO/CMBS 6%

Corporate Bonds 22.1%

Mortgage Pass Through 37.8%

The RMK fund has a huge underweight in Govt bonds, a large overweight in asset-backed securities and an overweight in Corp bonds. Again, these differences result in lower correlation, higher tracking error, and most importantly, far different risks than the broad market and than what most investors would expect from their fixed income portfolio.

Consider the correlation of two other popular bond funds, Western Core Bond and PIMCO Total Return, to the Lehman Agg compared to RMK's:

Correlation to LB Agg

Western

3 yr = 0.95

PIMCO Total Return:

3 yr = 0.99

RMK:

3 yr = 0.66

As a result of the non-traditional exposures, RMK simply does not act like a traditional bond fund.

While correlation is important, it only measures direction. Tracking error should also be considered because it measures the magnitude of the difference. Using the same funds compared to the Lehman Agg:

3-Yr Tracking Error vs. LB Agg:

PIMCO - 0.4147

RMK - 2.9334

Western - 1.2042

Clearly RMK acts differently than the market, but the magnitude of that difference is comparatively large. Again, this is all a result of the holdings within the fund.

Finally, there are some risk exposures with this fund that are just different than more traditional bond funds. For example, the exposure to so much spread product means that this fund is particularly susceptible to under performance as a result of spreads widening. I think we can see some of that risk in the fund's relative returns this year. In addition, this fund has a fair amount of liquidity risk, especially as it grows in size. The Govt bond market is very liquid, but this fund has little exposure there. Compared to Govt bonds, the Asset Backed market is rather illiquid. When the fund trades, someone has to be on the other side of that trade. In the Asset Backed space, there aren't nearly as many "some ones". That can hurt execution, and in a worst case scenario the fund may get stuck with a losing position.

We like this fund very much, and use it extensively. We just hope that it is used properly and that our investors have proper expectations. As a result of the fund investing in non-traditional areas, this fund is a great candidate for our Non-Traditional funds list, and compliments traditional core fixed income funds quite well.

Unfortunately, the data providers, like Morningstar, have not yet developed categories for non-traditional fixed income funds to the extent they have on the equity side. I think that may be one of the reasons this fund is dropped into the intermediate or core categories. They don't have any other place to put them.

I hope this email was helpful. Again, I apologize for having to be short. Please feel free to contact me with any questions.

Gary

Gary S. Stringer, CFA  
Senior Vice President  
Morgan Keegan

----- Original Message -----

From: Deupree III, William

To: Stringer, Gary

Cc: Cain, Sean; Crocker, Dow; Davis, Jim; Fowler, Brian; Griffin, Justin; Lyons, Jonathan; Matthews, John; Miller, Rolfe; Patton, Doug; Shaw, Lynn; Thompson, Van; Tennyson, J; Stieffel, Diana; Wilfong, John; Hennek, Roderick; Parrish, James

Sent: Tue May 15 15:25:33 2007

Subject: RMK Intermediate Bond Fund

Gary

There is some debate among those of us on the Advisory Council as to how to classify the RMK Intermediate Bond Fund. Most of the committee are using the fund as a fixed income fund rather than an alternative asset. The various rating services are using various bond fund indexes for comparative purposes. Please share your thoughts in a reply to all so that we may have your insight as well.

Given the new proposal system we would like to clarify how this fund will be listed in the future. If you have any specific questions as to this debate call me.

Thanks

Will