

Innovation in Action

Sharpe...Arditti...Chicago Mercantile Exchange Names Known for Creative Ideas in the Financial Services Industry



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William F. Sharpe
1990 Nobel Prize
Winning Economist

Nobel Prize winner William F. Sharpe is like many innovators and inventors: He believes his best work still lies ahead.

But it is his past work in the financial services industry for which Sharpe is being honored as the first recipient of the Fred Arditti Innovation Award presented by the Chicago Mercantile Exchange Center for Innovation, which was established in 2003 to identify, showcase and foster examples of significant innovation and creative thinking. The award honors an individual or group whose innovative ideas, products or services have created significant change to markets, commerce and trade.

Sharpe, STANCO 50 Professor of Finance, Emeritus, at Stanford University, has a long list of innovations that make him a well-deserved choice for the award selected by CME's Competitive Markets Advisory Council, which includes three Nobel Prize winners. Sharpe was one of the originators of the Capital Asset Pricing Model and developed the Sharpe Ratio, an analysis of investment performance that he introduced as the Reward-to-Variability Ratio in a January 1966 paper, "Mutual Fund Performance," but which others gave the Sharpe Ratio name that has become synonymous with evaluating money manager performance.

As a pioneer in analyzing mutual fund performance and the balance between risk and return going back to the 1950s, Sharpe also developed the binomial method for the valuation of options, the gradient method for opti-

mizing asset allocation and returns-based style analysis for evaluating investment funds. He was an early computer programmer and teacher and was one of the first to recognize the value of applying technology to financial analysis and portfolio management.

Together with the late Merton Miller and Harry Markowitz, Sharpe shared the 1990 Nobel Prize in economics for ground-breaking work in financial economic theory that helped usher in the modern era of risk management. He has written six books on portfolio theory, asset allocation and investment fundamentals.

In 1996, Sharpe co-founded Financial Engines, a firm that provides online investment advice and management for individuals, currently working with nearly a thousand large employers with three million employees. Converting economic theory into practical application, Sharpe continues to work on equilibrium models to help people make savings and investment decisions and is completing work on a book and an innovative simulation program to analyze a variety of decisions in the area. He is also embarking on a new field that he calls "retirement economics" where he hopes to develop his next "best" idea.

CME's award to Sharpe, to be presented at a dinner in Chicago on January 18, 2005, is named after the Exchange's former chief economist, Fred Arditti, himself a well-known innovator who led the development of CME's Eurodollar futures contract, the world's first cash-settled futures contract when it was launched in December 1981 and now the most actively traded futures contract in the world (see "Innovation's Results").

"I am deeply grateful to be the first recipient of this prestigious award," Sharpe said. "CME, one of the most innovative institutions in the world, has accounted for much of the progress in using financial instruments to allow risks to be shared efficiently. It is also a special pleasure to have my name associated with that of Fred Arditti. Fred, a good friend for many years, has been instrumental in the creation of products and services based on sound financial principles."

CME's long tradition as a leading innovator in the global derivatives marketplace goes far beyond the Eurodollar futures contract. As an international marketplace for trading futures on interest rates, stock indexes and foreign

exchange and the largest U.S. futures exchange today, CME launched the financial futures era in 1972 with foreign exchange futures. The cash-settled Eurodollar contract in 1981 led to the 1982 introduction of stock index futures, where CME is the world leader.

"Understanding what drives innovation is the first step. Putting it into action is what makes it real," stated CME Chairman Terry Duffy.

To facilitate global trading around the clock, CME pioneered electronic trading in 1987 with the conceptual launch of CME Globex®, the first global electronic trading system, followed by the introduction of the first electronic trading platform in 1992. That led to the popular CME E-mini™ contracts traded completely electronically, beginning in 1997 and helping CME account for more than 90% of all U.S. stock index futures trading. CME also was the first exchange to demutualize in 2000 and the first to become a for-profit, publicly traded exchange in 2002.

"Innovation is CME's middle name," says Leo Melamed, CME Chairman Emeritus and Senior Policy Advisor. "Through the CME Center for Innovation, we hope to demonstrate this commitment and serve as a creative force by supporting continuous development of original ideas."

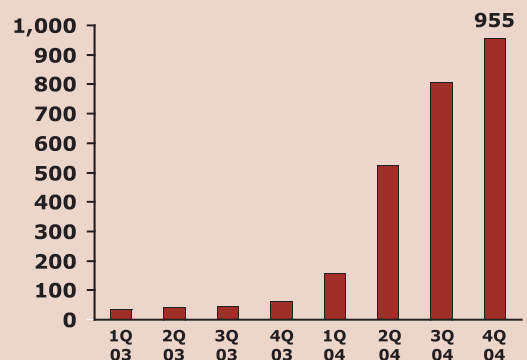
For more information about CME or the CME Center for Innovation, please visit www.cme.com.

Innovation's Results

The CME Eurodollar futures contract, the first cash-settled futures contract in the world, has grown into the world's most actively traded futures contract with the recent surge of growth coming from another CME innovation, the Globex electronic trading platform.

Average Daily CME Globex Volume (round turns, in thousands)

CME Eurodollar Futures



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