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|   |                                | Page |
|---|--------------------------------|------|
| <u>The Many Sources of Industry Growth, and More to Come</u>              | <b>Perspectives</b>            | 2    |
| <u>2005 Highlights</u>  | <b>US Fund FlowWatch</b>       | 3    |
| <u>Noteworthy New Funds-of-Funds Filed</u>                                | <b>New Fund Filings</b>        | 4    |
| <u>International Funds' Extraordinary Gains to Persist</u>                | <b>International Funds</b>     | 5    |
| <u>Successful FoFs: Beyond LifeCycle Programs</u>                         | <b>Funds-of-Funds</b>          | 6    |
| <u>Contributors to 2005 ETF Growth</u>                                    | <b>Exchange-Traded Funds</b>   | 7    |
| <u>New Filings for Adjustments to Asset Allocation Programs</u>           | <b>Inside FundFiling.com</b>   | 8    |
| <u>Varying Structures in Performance-Based Advisory Fees</u>              | <b>Fees &amp; Expenses</b>     | 9    |
| <u>Performance-Based Advisory Fees: Asymmetries, Limitations</u>          | <b>15(c)</b>                   | 10   |
| <u>Advisory Contract Renewal: New Rules, New Disclosures</u>              | <b>Board Talk</b>              | 11   |
| <u>Global 2005 Flow Highlights, and New Fund Introduction Trends</u>      | <b>Global FlowWatch</b>        | 12   |
| <u>Balancing Return, Income, and Protection</u>                           | <b>Global Horizons</b>         | 13   |
| <u>VAs Finishing 2005 Strongly; Focus on New RMD Calculations</u>         | <b>Variable Annuities/Life</b> | 14   |
| <u>Due Diligence, Competitive Monitoring: E-Mail Alerts in FundFiling</u> | <b>Tools Time: FundFiling</b>  | 15   |

This issue summarizes key 2005 mutual fund statistics and our outlook for further gains this year. As always, we welcome your inquiries. If you would like additional details on matters discussed in this issue, please call us. We also welcome your suggestions regarding topics for discussion in future issues.

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# Perspectives



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The **average investor in equity funds earned 9.2% last year, notably above the 4.8% return of the S&P 500** (asset-weighted returns). Stock funds' attractive investor returns in 2005 followed gains of 31% in 2003 and 13% in 2004. **In 2005, 73% of all actively managed equity funds experienced returns exceeding those of the S&P 500.** These recent results support continued equity investor confidence and inflows.

In 2005, **net inflows into actively managed stock and bond funds** (including closed-end fund IPOs and VA funds) topped **\$210 billion, just slightly behind their pace during both 2003 and 2004** (index funds added \$82 billion in 2005 flows, two-thirds within ETFs). MMFs net inflows for 2005 reached \$60 billion, with this sector again exceeding \$2 trillion in total assets.

**Expansion of higher-fee equity funds helped the industry's aggregate advisory fee revenues to increase an estimated 11% in 2005,** despite a slight decline in effective advisory fee ratios.

**Returns for international equity funds in 2005 exceeded 16% (asset-weighted), more than double the comparable results of US funds.** Last year was the **fourth consecutive year in which international funds out-earned US funds.** These relative gains, and an **intensified desire by financial advisors and investors for more prudent, globally-centered asset allocation,** propelled **international / global fund inflows in 2005 to \$156 billion** (\$15 billion in December 2005 alone), dramatically eclipsing the \$102 billion in flows for the year within US equity/balanced funds. Even with these extraordinary inflows and relative out-performance in recent years, **international equity funds' share of all equity fund assets was just 19% at year-end.**

Trailing returns, geopolitical concerns, a fluctuating US-dollar exchange rate, the perceived "flattening" of wealth creation opportunities worldwide, and diversification prudence will together result, in our view, in **persistent high demand for international funds for a long time.** Such demand caused liquidity pressures, which already have triggered self-reinforcing stock price appreciation in less liquid

markets around the world, and should continue to extend similar patterns in selected capital markets.

International equity fund **investment management capacity and fee optimization,** investment management **partnerships,** international **fund-of-funds,** and **new windows for participation** opportunities due to persistent high demand, will all remain **important strategic fund company influences.**

December was another month when US **growth-style** investing captured **higher inflows than value funds,** continuing growth funds' **2H2005 rebound.**

In 2005, industrywide, **FoFs of all colors** experienced net inflows exceeding \$80 billion. In particular, **target-maturity FoFs increased** their inflows last year by **50%** from 2004's pace. Target maturity FoFs' December 2005 net inflows of \$3 billion were double their monthly run-rate during the year. Accelerating acceptance of such target-maturity funds, especially within bundled DC plans, was most likely the trigger behind such rising demand. Last month's *Windows* discussed trends in Life Cycle funds; in this issue we detail some **successful fund-of-funds not structured as Life Cycle programs.** Also, our Inside FundFiling section highlights some asset allocation modification themes. Addressing the very **important need of monitoring of SEC filings, for competitive and due diligence purposes—via your personalized e-mail alert—is discussed on Page 15.**

Last month's *Windows* also discussed the return of large **capital gains distributions** after years of minimal payouts. **December witnessed a 3.85% average payout ratio** (asset-weighted) among actively-managed equity funds declaring capital gains distributions (127 large funds—each with more than \$250 million in assets—paid in excess of 10%). Industrywide, **capital gains distributions in 2005** neared or exceeded **\$200 billion,** reinforcing, when appropriate, a tax management focus.

**Performance-based advisory fees** are discussed in this issue. While only marginally employed within the mutual fund industry, the recent adoption of performance adjustments at Janus and Evergreen brought such arrangements more into the forefront. The structure of such fees—buffer zones and ceilings, and the myriad ways to compute such fees—is detailed in a study just published in the Executive Insight section of [www.sionline.com](http://www.sionline.com). We also address what is one of the **fundamental limitations of such fees: the asymmetric nature of performance-based advisory fee revenue bonuses and penalties,** which we believe is **one of the reasons behind the still very limited use of performance fees within our industry.**

# US Fund FlowWatch



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The decline in US equity fund flows in 2005 was in contrast to gains at international equity and bond funds.

|                            | Flows        |              |            | Assets       |
|----------------------------|--------------|--------------|------------|--------------|
|                            | 2003         | 2004         | 2005       | 12/05        |
| U.S. Equity                | 154          | 164          | 88         | 3,665        |
| Hybrid/Allocation          | 16           | 28           | 14         | 357          |
| Int'l/Global Equity        | 35           | 97           | 143        | 1,019        |
| <b>Total Equity</b>        | <b>205</b>   | <b>288</b>   | <b>244</b> | <b>5,041</b> |
| Taxable Bond               | 60           | 19           | 31         | 1,001        |
| Muni Bond                  | (6)          | (17)         | 2          | 432          |
| <b>Total Bond</b>          | <b>54</b>    | <b>2</b>     | <b>32</b>  | <b>1,433</b> |
| <b>Total Equity + Bond</b> | <b>259</b>   | <b>290</b>   | <b>277</b> | <b>6,474</b> |
| <b>Money Market</b>        | <b>(213)</b> | <b>(143)</b> | <b>60</b>  | <b>2,011</b> |
| <b>Total Exc. VAs</b>      | <b>46</b>    | <b>146</b>   | <b>337</b> | <b>8,485</b> |

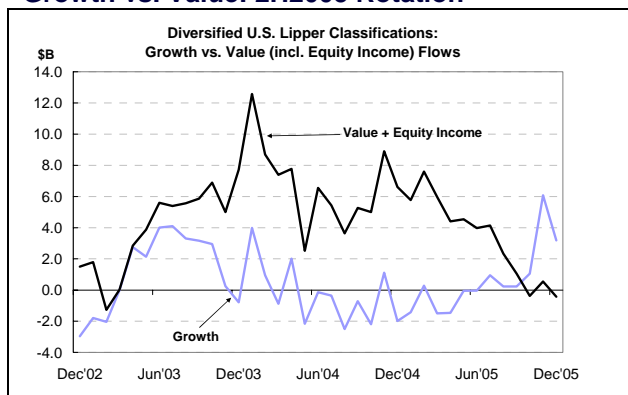
Source: Strategic Insight Simfund MF

Actively managed equity funds, together with active bond funds, captured roughly \$200 billion last year. Index funds flows slowed, while ETF flows persisted.

|                        | Flows \$B |       |       |
|------------------------|-----------|-------|-------|
|                        | 2003      | 2004  | 2005  |
| Actively Managed Funds | 157.7     | 208.2 | 175.9 |
| Index Funds (non-ETF)  | 29.4      | 33.9  | 21.6  |
| ETF Open-End Funds     | 18.1      | 45.9  | 46.9  |

Source: Strategic Insight Simfund

## Growth vs. Value: 2H2005 Rotation



Source: Strategic Insight Simfund; Lipper Inc. (Classifications)

Inflows to growth style funds rebounded in 2H05; value funds shrunk in 2H05, but still led 2005 flows.

|                        | 2005<br>Tot Ret % * | 2005<br>Flows \$B |
|------------------------|---------------------|-------------------|
| Large-Cap Growth Funds | 6.55                | (14.9)            |
| Multi-Cap Growth Funds | 12.86               | 24.5              |
| Mid-Cap Growth Funds   | 11.96               | (0.6)             |
| Small-Cap Growth Funds | 8.38                | (1.3)             |
| <b>Growth Funds</b>    | <b>10.14</b>        | <b>7.6</b>        |
| Large-Cap Core Funds   | 5.68                | (47.2)            |
| Multi-Cap Core Funds   | 7.45                | 9.5               |
| Mid-Cap Core Funds     | 10.75               | 13.7              |
| Small-Cap Core Funds   | 7.67                | 4.8               |
| <b>Core Funds</b>      | <b>7.17</b>         | <b>(19.2)</b>     |
| Large-Cap Value Funds  | 5.91                | (3.2)             |
| Multi-Cap Value Funds  | 7.32                | 18.8              |
| Mid-Cap Value Funds    | 9.82                | 8.9               |
| Small-Cap Value Funds  | 7.68                | 1.9               |
| <b>Value Funds</b>     | <b>7.11</b>         | <b>26.4</b>       |

\* Asset Weighted. Source: Strategic Insight Simfund MF, Lipper Inc. (Classifications)

Managers with the highest long-term fund inflows last year included some familiar names, as well as smaller companies. And, as documented in our December 2005 *Windows*, many small but distinctive fund managers also grew remarkably last year.

| Manager Name       | 2005 Flows \$MM | 12/05 Assets \$MM | 2005 Growth %* |
|--------------------|-----------------|-------------------|----------------|
| American Funds     | 76,156          | 776,493           | 11.9           |
| Vanguard           | 43,874          | 797,757           | 6.2            |
| Barclays Global    | 42,305          | 170,198           | 37.1           |
| PIMCO/Allianz Gbl  | 22,108          | 204,822           | 12.3           |
| Dodge & Cox        | 15,403          | 98,762            | 20.2           |
| Franklin Templeton | 13,386          | 256,154           | 5.9            |
| T Rowe Price       | 12,552          | 158,774           | 9.3            |
| John Hancock       | 11,509          | 43,843            | 46.7           |
| DFA                | 11,034          | 60,144            | 25.4           |
| OppenheimerFunds   | 10,830          | 125,775           | 10.0           |
| Grantham Mayo      | 7,911           | 53,702            | 20.4           |
| Princor            | 5,827           | 20,458            | 44.3           |
| Eaton Vance        | 5,581           | 69,346            | 9.1            |
| Legg Mason Capital | 5,440           | 45,976            | 14.1           |
| Goldman Sachs      | 5,332           | 35,770            | 18.8           |
| Davis-Selected     | 5,223           | 45,734            | 14.2           |
| Julius Baer        | 4,921           | 17,548            | 48.1           |
| Hotchkis & Wiley   | 4,835           | 11,459            | 81.9           |
| Fidelity           | 4,372           | 737,961           | 0.6            |
| Third Avenue       | 4,264           | 13,943            | 52.3           |

\* 2005 Flows as a percentage of 2005 beginning assets. Source: Strategic Insight Simfund MF

# New Fund Filings



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## Noteworthy Funds-of-Funds Filed

### Funds Filed in December 2005

**Columbia Management Advisors** has registered three new FoFs, which will each assign assets on a fixed percentage basis into their respective underlying funds. According to the filing, the funds' adviser will monitor allocations to the underlying funds on a daily basis and rebalance whenever actual allocations go over +/- 3% of the pre-determined fixed allocation percentages.

- The Columbia Masters International Equity will have an allocation of 80% in the Columbia Multi-Advisor International Equity fund and 20% in the Columbia Acorn International fund.
- The Columbia Masters Navigator fund will divide assets equally between the Columbia Strategic Investor, Columbia Marsico 21st Century, and Columbia Strategic Income funds.
- The Columbia Masters Global Equity fund will assign assets into these Columbia funds: Multi-Advisor International Equity (40%), Strategic Investor (25%), Marsico 21st Century (25%), and Acorn International (10%).

Evolving its **fund wrap program**, **Fidelity** registered the PAS International Fund of Funds, which will be offered exclusively to affiliated **Strategic Advisers'** mutual fund wrap program clients. This FoF will invest in shares of other international equity funds using an allocation strategy designed to achieve portfolio characteristics similar to that of the MSCI EAFE Index. Generally, the **fund will invest in unaffiliated open-end funds that participate in Fidelity's FundsNetwork on a no-transaction-fee (NTF) basis.**

**Transamerica IDEX** has proposed the TA IDEX Multi Manager International fund, which will allocate to a blend of underlying Transamerica IDEX funds that

invest primarily in equity securities of issuers that are economically tied to a number of countries (both developed and emerging) throughout the world. **Morningstar** will serve as the fund's "Portfolio Construction Manager," as it does for the manager's four risk-based lifecycle funds-of-funds, which collectively held \$5.1 billion at the end of 2005.

### Fund Filed in November 2005

**Van Kampen** has filed the Van Kampen Leaders FoF, which will pursue its objective of capital appreciation by allocating its assets equally among three affiliated funds: the Van Kampen Comstock, the Van Kampen Equity and Income, and the Van Kampen International Growth funds. The Leaders FoF would seek to monitor allocations to underlying funds on a daily basis and rebalance whenever the actual allocations exceed +/- 5% of the pre-determined fixed percentage allocation.

### Fund Filed in October 2005

**Federated's** planned Balanced Allocation fund FoF will seek capital appreciation by evenly dividing its assets (excluding a cash position to meet redemptions) among these Federated stock and bond funds: American Leaders, Capital Appreciation, Kaufmann, and Intermediate Corporate Bond.

## Top New Actively-Managed Funds

### New 2005 Funds (Not FoFs) Raising Most Money Lately\* Actively Managed Stock and Bond Open-end Funds \$MM

| Portfolio Name                        | Assets | Net Flows |       |
|---------------------------------------|--------|-----------|-------|
|                                       | 12/05  | Q4'05     | 2005  |
| <b>Domestic Equity</b>                |        |           |       |
| PIMCO Fundamental IndexPLUS TR        | 465    | 191       | 461   |
| Schwab Premier Equity                 | 1,007  | 147       | 911   |
| <b>International Equity</b>           |        |           |       |
| Julius Baer Intl Equity II            | 781    | 433       | 742   |
| UBS Dynamic Alpha                     | 1,549  | 406       | 1,481 |
| SEI SIIT World Equity EX US           | 746    | 361       | 580   |
| Fidelity Intl Small Cap Opportunities | 507    | 306       | 459   |
| Wm Blair Emerging Markets Growth      | 249    | 158       | 225   |
| Lazard Intl Strategic Equity          | 136    | 132       | 132   |
| Merrill Lynch Gbl Equity Opportunity  | 119    | 116       | 116   |
| NB International Institutional        | 174    | 101       | 165   |
| BlackRock All Cap Global Resources    | 328    | 87        | 294   |
| Matthews India                        | 81     | 79        | 79    |
| <b>Bond</b>                           |        |           |       |
| PIMCO Developing Local Markets        | 1,235  | 921       | 1,215 |
| Reserve Yield Plus                    | 1,076  | 264       | 1,066 |
| Hartford Floating Rate                | 449    | 249       | 445   |
| Access Flex Bear High Yield           | 269    | 124       | 267   |
| UBS Absolute Return Bond              | 371    | 120       | 368   |
| Fidelity Strategic Real Return        | 587    | 102       | 139   |

\* With 4Q05 flows > \$75 MM; excludes funds launched by John Hancock, GMO and DFA.

Source: Strategic Insight Simfund MF

# International Funds



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US-based international / global mutual funds ended 2005 with solid returns, asset growth, and flows. For the year, net flows into these funds totaled \$156 billion, compared with less than \$100 billion for domestic equity funds.

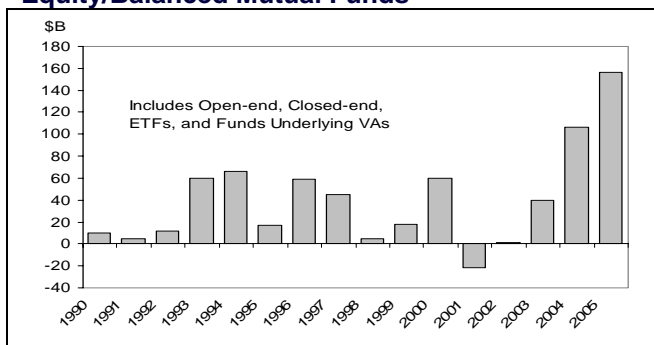
## US-Based International/Global Equity Mutual Funds\*

| Structure/Type  | Assets \$B |      | Net New Flows \$B |      |      |       |       |
|-----------------|------------|------|-------------------|------|------|-------|-------|
|                 | 12/05      | '00  | '01               | '02  | '03  | '04   | '05   |
| Open-End Active | 885        | 45.4 | -21.6             | -0.9 | 27.3 | 71.6  | 104.8 |
| Open-End Index  | 44         | 1.9  | 1.2               | 1.6  | 2.2  | 5.7   | 8.9   |
| ETFs            | 65         | 0.7  | 1.3               | 3.8  | 5.7  | 15.3  | 23.0  |
| Closed-End      | 25         | 0.0  | 0.0               | 0.0  | 0.3  | 4.4   | 6.7   |
| VA Funds        | 115        | 12.1 | -2.8              | -3.3 | 4.8  | 9.2   | 12.3  |
|                 | 1,134      | 60.1 | -21.9             | 1.1  | 40.3 | 106.2 | 155.7 |

\*Equity and Balanced Funds, Open-end, Closed-end, ETFs, VA.  
Source: Strategic Insight Simfund MF, VA

Conditions appear favorable for these trends to continue into 2006, given economic and political factors (e.g., Japan's recovery, potential for a weakening dollar), as well as continued recommendations from financial planners that clients increase their non-US allocations.

## Flows to US-Based International and Global Equity/Balanced Mutual Funds



Source: Strategic Insight Simfund MF

The top international fund style outperformed US funds in a dramatic fashion in 2005. Last year, 22 of the top 25 performing equity categories were international or global (also, Gold holds 85% foreign stocks), while no international category fell in the bottom 20 performing classes (out of 55).

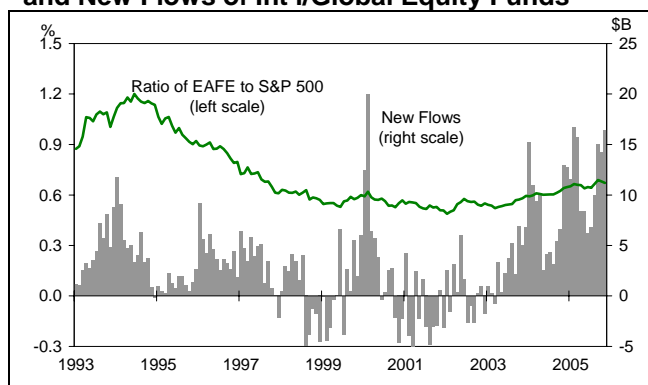
## 2005 Top Performing Open-end Equity Styles

|                                    | 1 Yr Rank | 3 Yr Rank | 5 Yr Rank |    |       |    |
|------------------------------------|-----------|-----------|-----------|----|-------|----|
| Latin American                     | 53.38     | 1         | 51.04     | 1  | 21.29 | 2  |
| Natural Resources                  | 41.11     | 2         | 34.17     | 3  | 15.93 | 5  |
| Japanese                           | 33.64     | 3         | 27.21     | 10 | 4.26  | 29 |
| Emerging Markets                   | 31.89     | 4         | 36.43     | 2  | 19.36 | 3  |
| Gold-Oriented *                    | 30.53     | 5         | 23.80     | 16 | 29.89 | 1  |
| Pacific Ex Japan                   | 27.88     | 6         | 29.28     | 7  | 15.93 | 6  |
| Pacific Region                     | 27.43     | 7         | 28.74     | 8  | 9.70  | 12 |
| International Small/Mid-Cap Growth | 25.25     | 8         | 33.86     | 4  | 9.49  | 13 |
| International Small/Mid-Cap Value  | 21.67     | 9         | 33.85     | 5  | 15.21 | 7  |
| International Small/Mid-Cap Core   | 18.42     | 10        | 29.50     | 6  | 13.16 | 9  |
| S&P 500 Index Funds                | 4.36      | 50        | 13.75     | 47 | -0.02 | 48 |

\*85% Foreign Allocation  
Source: Strategic Insight Simfund MF, Lipper Inc. (Classifications)

Flow trends, and the relative performance of the EAFE vs. the S&P 500 are captured below.

## Relative Performance of US vs. Foreign Stocks and New Flows of Int'l/Global Equity Funds



Source: Strategic Insight Simfund MF, Standard & Poor's

## International Fund Assets and Flows

There were slight changes to the asset ranking of the 10 largest styles lately. Notably, excluding index funds and ETFs, Emerging Markets equity funds jumped two spots to finish 2005 as the fourth largest active international style, boosted by dramatic appreciation and \$11 billion in net flows for the year.

## Actively Managed International/Global Funds: 10 Largest Styles

|                                  | Assets \$B |      | Net New Flows \$B |      |
|----------------------------------|------------|------|-------------------|------|
|                                  | 12/05      | 2005 | 12/05             | 2005 |
| International Multi-Cap Growth   | 166        | 18.9 | 2.4               |      |
| International Multi-Cap Core     | 112        | 16.2 | 0.6               |      |
| Global Multi-Cap Value           | 75         | 17.8 | 1.5               |      |
| Emerging Markets                 | 66         | 10.8 | 1.3               |      |
| International Multi-Cap Value    | 63         | 15.4 | 1.4               |      |
| International Large-Cap Core     | 62         | -4.4 | -0.3              |      |
| Global Flexible Portfolio        | 50         | 10.0 | 0.5               |      |
| Global Large-Cap Core            | 50         | -0.4 | 0.0               |      |
| Global Large-Cap Value           | 31         | 2.5  | 0.1               |      |
| International Small/Mid-Cap Core | 25         | 1.9  | 0.0               |      |

Source: Strategic Insight Simfund MF, Lipper Inc. (Classifications)

# Funds-of-Funds



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Asset allocation products structured as funds-of-funds (FoFs) have captured large inflows in recent years. FoF sales growth is occurring not only as a result of retirement plan one-stop shopping through lifecycle FoF programs, but also due to **advances made by certain specialized FoF** products that in many cases are single funds and not offered as part of any series. Such specialized FoFs are the focus of this write-up and include: a) funds that opportunistically **allocate across multiple asset classes**; b) funds **that invest in underlying funds** according to a **fixed percentage** allocation; and c) **single balanced funds** that are not part of a lifecycle program.

Among some of the top selling FoFs last year were **global asset allocation products** that began taking off in 2003. These funds typically have the latitude to invest in stocks, bonds, and cash instruments in any proportion globally, and often in other asset classes, such as commodities, precious metals, and real estate. Because of their broad mandate, global asset allocation funds usually follow a top-down strategy based on macroeconomic and sector research, with varying degrees of fundamental analysis:

- **PIMCO's "All Asset"** FoF, which seeks **real returns**, pulled in \$5.3 billion in net flows last year. Along with traditional stocks and bonds, the fund makes active use of alternative asset classes such as inflation-indexed debt, global bonds, emerging market debt, real estate, and commodities. Since its inception in 2002, the fund has for the most part adopted a somewhat bearish stance with respect to the US stock market. At the end of September 2005, it had as little as 5% allocated to US equity funds, and only an additional 2% to international equity funds. The manager's **"All Asset All Authority"** FoF has a similar real return strategy but also uses leverage. Both these FoFs invest in PIMCO funds (including many alpha-transport vehicles) and are subadvised by the Pasadena, CA-based advisory firm **Research Associates, headed by Robert Arnott.**
- **Evergreen's** highest inflow fund, its **Asset Allocation** FoF, provides retail investors access to

the institutionally-oriented strategies of GMO (from whom the fund was adopted in 2002). The fund, which invests in GMO funds, attracted \$2.9 billion last year. It tactically shifts its weightings between US and foreign equity and debt, but normally devotes at least a quarter of its assets to debt, and at least a quarter to equity investments.

- **GMO's** own institutional **Global Balanced Asset Allocation** FoF, managed similarly to the Evergreen Asset Allocation, attracted nearly \$600 million in net flows in 2005.

**Vanguard's STAR** fund invests in other actively managed Vanguard products using a balanced approach. It targets a relatively rigid equity-fixed income mix (60%-70% in stocks and the balance in bonds/fixed income securities). The manager's **Total International Stock Index** and **Developed Market Index** FoFs passively track international equity indexes by investing in affiliated index funds.

**The second highest cash flow non-lifecycle FOF last year was Franklin Templeton's Founding Funds Allocation**, which divides its assets equally among three affiliated funds—two equity and one hybrid—that each utilizes a value approach, and is rebalanced periodically to maintain the equal weighting of the underlying funds. (This general theme of fixed percent allocation has been replicated in some recent FoF launches, including the Eaton Vance offering mentioned below, and in a few FoFs currently on the drawing board.)

#### Some successful single asset-class FoF products:

- The **MFS International Diversification** fund started in 2004 aims to provide non-U.S. exposure with lower volatility by combining five different strategies: emerging markets, international growth and value, and international small/mid- and large-cap.
- **Eaton Vance's Diversified Income** fund assigns its assets equally to three affiliated funds: **high yield, floating rate, and US mortgage-backed** securities. The FoF collected net flows in excess of \$200 million last year (not showing below).

#### Highest 2005 Cash Flow Non-Lifecycle FoFs (\$ Million)

| Portfolio Name                     | Assets<br>12/05 | Net Flows |              |
|------------------------------------|-----------------|-----------|--------------|
|                                    |                 | 2004      | 2005         |
| PIMCO All Asset                    | 10,282          | 3,639     | <b>5,270</b> |
| Franklin Templeton Founding Allocn | 6,835           | 2,477     | <b>3,325</b> |
| Evergreen Asset Allocation         | 7,758           | 2,673     | <b>2,918</b> |
| Vanguard Total Intl Stock Index    | 12,696          | 1,873     | <b>2,565</b> |
| Vanguard Developed Markets Index   | 3,655           | 683       | <b>848</b>   |
| GMO Global Balanced Asset Allocn   | 1,697           | 486       | <b>595</b>   |
| Vanguard Star Fund                 | 12,168          | 542       | <b>588</b>   |
| PIMCO All Asset All Authority      | 570             | 70        | <b>462</b>   |
| MFS International Diversification  | 631             | 117       | <b>440</b>   |
| GMO Strategic Balanced Allocation  | 296             | -         | <b>287</b>   |

Source: Strategic Insight Simfund MF

## ETFs



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Demand by institutions, brokers and investors using ETFs in lieu of stocks, and slowly expanding interest among fund investors and their financial advisors, all combined to increase ETF use in recent years.

### ETF Assets and Flows: By Type

|              | Assets \$B   |             | Flows \$B   |             |             |
|--------------|--------------|-------------|-------------|-------------|-------------|
|              | 12/05        | 2002        | 2003        | 2004        | 2005        |
| Open-End     | 201.3        | 19.8        | 18.7        | 49.5        | 53.2        |
| UIT/Others   | 100.0        | 24.2        | -4.7        | 5.0         | 0.6         |
| <b>Total</b> | <b>301.4</b> | <b>44.0</b> | <b>14.0</b> | <b>54.6</b> | <b>53.7</b> |

Source: Strategic Insight Simfund MF

As was the case elsewhere in the industry, gains among international equity ETFs were most pronounced.

### ETF Assets and Flows: By Investment Area

|              | Assets \$B |      | Flows \$B |      |      |
|--------------|------------|------|-----------|------|------|
|              | 12/05      | 2002 | 2003      | 2004 | 2005 |
| US Equity    | 220.9      | 36.5 | 7.7       | 35.6 | 24.3 |
| Int'l Equity | 65.4       | 3.8  | 5.7       | 15.3 | 23.0 |
| Bond         | 15.0       | 3.8  | 0.6       | 3.6  | 6.3  |

Source: Strategic Insight Simfund MF

Note that among traditional Index funds (not ETFs), modest flows gains were also observed within international equity and bond funds in 2005; but US equity index fund flows fell sharply, from \$28 billion to just \$13 billion.

While BGI maintained its leadership and steady out-sized inflows, Vanguard's ETF flows expanded too, and **PowerShares added almost \$3 billion of 2005 inflows** within its 36 ETFs, **eight of which captured more than \$100 million each on the strength of their distinctness.**

### ETF Assets and Flows: By Manager

|              | Assets \$B |      | Flows \$B |       |
|--------------|------------|------|-----------|-------|
|              | 12/05      | 2003 | 2004      | 2005  |
| Barclays     | 170.6      | 15.9 | 43.5      | 42.7  |
| Vanguard     | 11.3       | 0.8  | 2.7       | 4.7   |
| PowerShares  | 3.3        | 0.05 | 0.3       | 2.8   |
| World Gold   | 4.3        | —    | 1.4       | 2.6   |
| State Street | 80.3       | -3.3 | 11.0      | 1.7   |
| Rydex        | 1.5        | 0.19 | 0.48      | 0.71  |
| First Trust  | 0.0        | —    | —         | 0.04  |
| Fidelity     | 0.1        | 0.15 | -0.06     | -0.01 |
| Bank of NY   | 29.8       | 0.3  | -4.8      | -1.5  |

Source: Strategic Insight Simfund MF

The largest ETFs, as of December 2005, are listed below.

### Largest\* ETFs

|                                | Assets \$B  |             | Net Flows \$B |  |
|--------------------------------|-------------|-------------|---------------|--|
|                                | 12/05       | 2004        | 2005          |  |
| <b>Domestic Equity</b>         |             |             |               |  |
| iShares Russell 1000 Growth    | 5.4         | 1.5         | 2.1           |  |
| iShares DJ Select Dividend Idx | 7.3         | 4.1         | 2.0           |  |
| iShares S&P 500 Index          | 14.2        | 2.9         | 1.8           |  |
| iShares Russell 1000 Value     | 6.2         | 1.9         | 1.1           |  |
| Vanguard Total Stock Mkt Index | 5.6         | 1.4         | 1.1           |  |
| iShares S&P 500 Growth Index   | 3.2         | 0.8         | 1.0           |  |
| iShares S&P Mid Cap 400 Index  | 3.4         | 0.6         | 0.7           |  |
| iShares Russell 2000 Index     | 7.4         | 1.5         | 0.1           |  |
| S&P 400 Midcap SPDR            | 8.9         | 0.4         | 0.1           |  |
| iShares Russell 2000 Value     | 3.0         | 0.9         | 0.0           |  |
| iShares S&P 500 Value Index    | 3.0         | 1.1         | -0.1          |  |
| DJIA DIAMONDS                  | 7.6         | 0.9         | -0.5          |  |
| S&P 500 SPDR                   | 57.8        | 7.6         | -0.6          |  |
| iShares S&P Sml Cap 600 Index  | 3.9         | 1.7         | -0.6          |  |
| NASDAQ 100 Index Tracking Stk  | 20.6        | -5.3        | -1.9          |  |
| <b>International Equity</b>    |             |             |               |  |
| iShares MSCI EAFE              | 22.7        | 6.5         | 6.6           |  |
| iShares MSCI Emerging Mkt Idx  | 10.3        | 2.3         | 4.4           |  |
| iShares MSCI Japan Index       | 13.0        | 3.1         | 4.3           |  |
| streetTRACKS Gold Shares       | 4.3         | 1.4         | 2.6           |  |
| <b>Bond</b>                    |             |             |               |  |
| iShares Lehman 1-3 yr Trea Bd  | 4.4         | 0.9         | 2.1           |  |
| iShares Lehman TIPS Bond       | 3.3         | 1.3         | 1.7           |  |
| <b>Other ETFs</b>              | <b>85.8</b> | <b>17.4</b> | <b>25.5</b>   |  |

\* ETFs with 12/05 assets greater than \$3 billion.

Source: Strategic Insight Simfund MF

Note, though, that ETFs not listed above captured an aggregate \$25 billion in 2005 flows. Obviously, many smaller ETFs are also growing and establishing size and high liquidity. Additional information about these ETFs is available in Simfund, or by calling us.

## Inside FundFiling.Com



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### Asset Allocation Programs: Recent New Offerings

#### **PIMCO Small Cap StocksPLUS TR**—(1-13-06)

...to exceed the Russell 2000 Index by investing ... in Russell 2000 Index derivatives, backed by a diversified portfolio of actively managed fixed income instruments. ...up to 10% of assets in high yield securities and up to 30% in securities denominated in foreign currencies.

#### **UBS Pace Alternative Strategies**—(12-19-05)

A multi-managed fund looking for capital appreciation through a broad investment mandate permitting investment in a wide range of equity, fixed income and derivative securities by managers **Analytic Investors** and **Wellington Management Company**.

#### **Federated Target ETFs 2015, 2025, 2035**—(12-19-05)

...investing primarily in exchange-traded funds in a mix of equity and fixed income using an asset allocation process and managed according to the specific target retirement date.

#### **Managers AMG FQ Global Alternatives**—(12-16-05)

...total return from investments in the global equity, fixed income and currency markets, independent of market direction, through risk-controlled exposure to long and short positions using a wide range of derivative instruments and direct investments to allocate exposure among asset classes, countries and currencies.

### Asset Allocation Programs: Selected Structure Change

Almost half of SEC filed strategy changes last year were actual allocation adjustment changes, as exemplified below.

Other changes included the addition or subtraction of investment options, or the incorporation of more comprehensive definitions of existing investment choices. Only three of these effected investment objective changes. In total, the FundFiling team identified 80 strategy changes for Asset Allocation funds since the beginning of 2005.

**Asset allocation adjustments:** adjusting (1) the composition of underlying funds; (2) the percentage allocated to each underlying fund; and (3) the percentages allocated to fixed/equity securities.

**Underlying fund changes:** a number of GMO allocation funds added the **Alternative Asset Opportunity** fund; **JP Morgan** added a **Real Return** fund; **First American** fund removed the **Tech** fund. **Citigroup** added a **Core Bond Plus** as an underlying fund replacing others. **Wells Fargo** increased allocation percentages in the **Managed Fixed Income** and added **Total Return** and **Inflation Protected Bond** funds.

**Allocation to Equity/Fixed:** The **ING** increased the allowable equity percentage from 60% to 75%;

**RiverSource Balanced** fund reduced investment by 15% in equity and 10% in fixed income to allow the addition of foreign investment. **JP Morgan Diversified** fund increased the investment range by up to an additional 17% for US small cap securities and an additional 10% for foreign equity. The **Scudder Total Return** fund removed its allowance of 25% of investment in foreign securities, and replaced it with 25% in fixed income senior securities. **Hartford Advisers** fund introduced a set asset allocation model of 50%–70% equity, 30%–50% debt and 1%–10% money market.

**Modifying Permitted Securities:** **AB Balanced Share**... of 25% in fixed income, 20% may now be in high-yield securities. **SunAmerica Balanced Assets**—the fund changed its fixed income focus from high quality to investment-grade securities. The **USAA** and **Columbia** funds now allow investment in ETFs. **Allegiant, AIM, Calamos** and **Oppenheimer** programs added the ability to invest in derivatives. **Columbia Asset Allocation** removed the ability to invest in REITs; inversely, **Morgan Stanley funds** introduced REITs as an investment option.

# Fees & Expenses



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## Performance-Based Fee Structures

Performance-based fees are one dimension of the ongoing discussions between fund managers and their boards on ways to improve the application of advisory fees and align the long-term interests of management and investors. While still used by only a few managers and just roughly 200 funds, such fees have attracted new interest and were recently added to funds from Janus and Evergreen. **You may review our recent in-depth study on this topic on [www.sionline.com](http://www.sionline.com).**

The performance-based fee ratio arrangements invariably provide for a base fee plus a performance adjustment. **By law, the fee-ratio incentives must be symmetrical—a higher fee ratio adjustment for out-performance should match the fee ratio reduction for under-performance.**

Beyond that, however, the **performance-based formulas vary substantially**. At some funds (but not many), performance-based compensation is a very large percentage of the adviser's overall fees. At others, a performance-based adjustment will kick in only in instances of extreme over- or under-performance.

Advisory fee compensation agreement language employs several mechanisms to regulate the magnitude of the performance-fee adjustment:

**Buffer Zones.** The buffer zone is an out- (or under-) performance hurdle that a fund must surpass before any performance adjustment kicks in. In the individual funds that we examined, some funds have no buffer zones (any deviation in performance from the benchmark calls for a performance-fee adjustment); others use a 6% hurdle, i.e. the fund's performance would have to exceed its benchmark by 6% or more (over the measurement period) before there is any adjustment to the base fee. In between these extremes, some funds have very small buffer zones, from 0.25%–1%, while others have substantial ones, of 3%–4%.

**Performance Adjustment Maximums.** Many funds limit the impact, on both investors and fund managers, of the performance-based fee adjustment through upper and lower fee limits, thus putting a ceiling on the maximum annual fee adjustment—at some funds as low as 0.1% of assets under management, and usually less than 1%.

**Benchmarks** naturally vary by fund objective. The S&P 500 is commonly used for large cap funds; various Russell indexes are used for small cap and growth funds; and various Morgan Stanley (MSCI) indexes apply for international funds.

**Performance periods.** The most typical performance period (over which a fund's performance is measured against the benchmark) is a rolling 36 months, although some advisers' performance is measured over as much as five years and, in one case we identified, the performance period was only three months.

## Varied Formulas

For some funds, the **fee adjustment is set as a percentage of assets**. For others, it is **set as a multiple of the base advisory fees**.

**Performance-fee formulas can be quite complicated.**

In some cases, rather than a fixed adjustment for each percentage point of difference between the performance of the fund and its benchmark, funds set a sliding scale for performance adjustments.

Several of the funds examined provide for **linear adjustments**, with maximum upward and downward adjustments to the base rate ranging from 25% to 67% (for a performance differential of more than 20% vs. the index). In such cases, there is no buffer zone. Rather, there are an infinite number of potential upward or downward adjustments to the base rate.

**Multi-manager funds** sometimes specify **different performance-based fees** for each of their advisers, at times influenced by the varying investment styles and capacity management considerations.

## Small Funds, Large Performance Ties

Some smaller funds employ performance-based fee adjustments that have the widest impact on advisory fees. The seven smallest of the funds surveyed, all with assets under management of less than \$100 million and base fees of more than 1% of assets under management, were weighted toward performance-based adjustments as a portion of total compensation.

Only two of the seven have buffer zones before the performance-based adjustment kicks in, and their performance adjustments can add 0.25%–0.75% to the above-average base fee.

# 15(c)



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## Performance-Based Fee Revenue Asymmetry

**Performance-based fee ratios** within mutual funds must be set in a **symmetrical** way (add to, or subtract from, an identical fee percentage ratio adjustment). Yet, their impact on a fund’s **actual dollar revenue** is **most likely asymmetrical**.

Investors’ performance-fee adjustments vary, depending on when they initially buy, add to their holding, redeem shares, or use dollar-cost-averaging into or out of the fund. Similarly, the impact on the fund manager’s revenues is asymmetrical.

## Timing and Cost: High Performance Funds and Performance-Based Fees

Fee adjustments are affected by the timing of cash flows, the frequency of performance-fee adjustments, and the length of performance periods over which the fund vs. index comparison takes place (three years most common, but sometimes five years, etc.). Clearly, an investor who buys into a fund late in its out-performance cycle will be paying a higher (performance-adjusted) fee—sometimes without enjoying any of the benefits of superior out-performance.

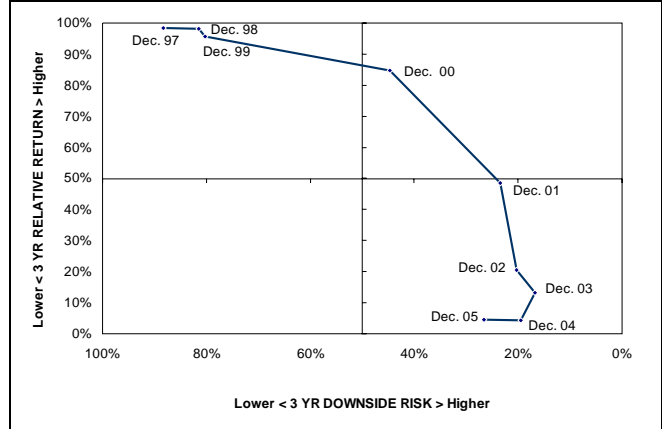
## Fee Revenue Asymmetry: One Example of Bubble and Burst

Funds that out-perform their peers and benchmarks, especially within a popular investment style, and succeed in maintaining such high rankings over time, will attract significant new inflows, with these new shareholders anticipating future out-performance. Inversely, under-performing funds would generally suffer accelerating redemptions and falling sales.

Funds with above average returns vs. their investment peers, especially if they accomplished it with below-average risk (the top-left quadrant in next graph),

capture the highest cash inflows. No wonder the fund illustrated enjoyed large inflows in the late 1990s.

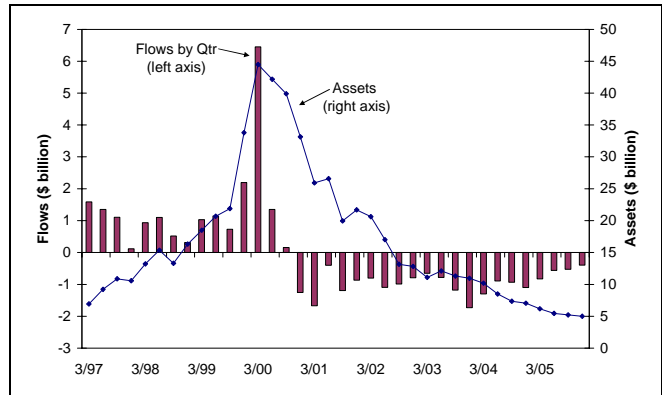
## ABC Fund Rolling 3-Year Relative Risk/Return Positioning Within its Morningstar Category



Source: Strategic Insight Simfund MF

Inflows and high returns propelled this fund’s assets to more than \$45 billion in 2000; yet, subsequent relative under-performance and poor returns led to sharp asset declines since. **For such a fund, performance fee adjustments during the 1990s and in recent years might have resulted in a much higher advisory fee dollar revenue bonus than the dollar revenue penalty.**

## ABC Fund: Assets and Flows 1997—2005



Source: Strategic Insight Simfund MF

Buffer zones and ceilings, formulas adjusting the base fees (not just adding / reducing advisory fee basis points), and longer calculation periods are some ways to smooth, but clearly not eliminate, the performance-based fee asymmetrical dollar bias. Possibly, the limited use of such fees suggests awareness of such bias, which should continue to curtail the use of mutual fund performance-based fees.

## Board Talk



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### Boards' Advisory Contract Approval: New Disclosure Language

A 2004 SEC rule mandated **more explicit disclosure regarding the material factors on which fund Boards of Directors base their approval of advisory contracts**, and specified that these disclosures be published in various fund shareholder reports.

**In a recent six-page study (with an extensive annotated annexure showing actual disclosure language) published on [www.sionline.com](http://www.sionline.com), we took a look at revised disclosures from many management companies**, using Strategic Insight's SEC Edgar filing monitoring service (<http://www.fundfiling.com>). A methodical approach to advisory contract renewal, that naturally mirrors the new SEC requirements, was a common theme.

The scope of the disclosures regarding advisory contract renewal is broad and language varies greatly. Clearly, all reports include Board commentary on fees and expenses, performance, and profitability.

**Many Boards disclosed that they had used data from third-party consultants**—some cited by name and others not—in arriving at their decisions to renew advisory contracts. Third-party information was cited most frequently in the review of fees and expenses and performance, and less frequently on profitability.

All Boards cited performance as a major focus of their reviews. Comparisons with benchmarks and peer groups were noted, and third-party data was often relied upon in the review process. Funds that outperformed the median returns of their benchmarks and peer groups generally were considered to be performing acceptably, while those that did not achieve those hurdles were flagged. For example, the board of one fund noted that the fund outperformed its selected peer group median returns for the most recent quarter, year-to-date, and one-year periods, but underperformed its benchmark index for all remaining periods reviewed by the board. The board noted that the adviser had acted to address board concerns about the fund's performance and that it would be **appropriate to allow some time to evaluate the impact of those actions**.

### Fee Comparisons

Usually, similarly invested, similar size portfolios, and similar share class (most often "A" share class) are referenced. At times, similar distribution characteristics are used. **Often, the sum of advisory and administrative fee ratios is the one compared across funds.** Observations are made before and after the inclusion of 12b-1 distribution fees. Sometimes, when the peer group was quite small, specific reference is made (e.g., eight other funds...).

### Profitability

Boards looked at profitability, sometimes using third-party information. **Boards evaluate direct and indirect benefits to the management company and acknowledge that cost allocation methodologies are imperfect.** The discussion generally concludes that the level of profits of the advisers was not excessive considering the services provided. Some **Boards pointed out that profitability and financial viability of the manager are important if the manager is to continue to provide significant services to the funds and its shareholders.** These boards noted that sufficient profitability is important for personnel stability and continuity, as well as to maintain the corporate culture and independence.

**Passing on savings from economies of scale was central to the trustees' discussions.** For example, one fund had grown to exceed its last management fee breakpoint; its Board requested—and management agreed to—a revised schedule that added a new breakpoint. Inversely, for another fund, the Board indicated that there was no evidence that assets had reached a level at which economies of scale would be available. Naturally, boards look favorably on funds that enacted voluntary fee waivers.

### Compliance Issues

**Compliance issues also were an important part of the trustees' discussions.** Many Boards discussed the use of soft dollars—which have been cited in recent years as a possible conflict of interest for funds—to obtain research, with some funds noting that they did not use soft dollars, others mentioning that soft-dollar use was recently stopped by the management company, and still others concluding that the continuing use of soft dollars has benefited their funds.

Often independent trustees, assisted by legal counsel, met separately from the full board. Some boards pointed out that they had received assistance from independent counsel in arriving at their decisions to renew the advisory contracts.

# Global FlowWatch



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Mutual funds around the world captured more than €680 (\$850 billion) in net new flows between January and November 2005, across all asset classes. Of that total, equity and balanced programs accounted for 55%, or €375 billion, similar to last year but with a notable regional shift in terms of contributions. European equity flows accounted for more than half of the world's gains in 2005 (up from one-quarter last year), while those in the US represented one-third (down from two-thirds). Including December estimates, global mutual fund flows could approach \$1 trillion for full-year 2005.

## Global Fund Flow Highlights

### Global Mutual Fund Net Flows January–November 2005 (€Billion)

|              | Equity/<br>Balanced | Bond       | Other     | Subtotal<br>Long-<br>Term | Money<br>Market | Total      |
|--------------|---------------------|------------|-----------|---------------------------|-----------------|------------|
| Europe       | 153                 | 141        | 33        | 329                       | 52              | 381        |
| US           | 188                 | 34         | -         | 223                       | 15              | 238        |
| Asia         | 28                  | 9          | 7         | 45                        | 2               | 47         |
| <b>World</b> | <b>373</b>          | <b>197</b> | <b>40</b> | <b>612</b>                | <b>68</b>       | <b>680</b> |

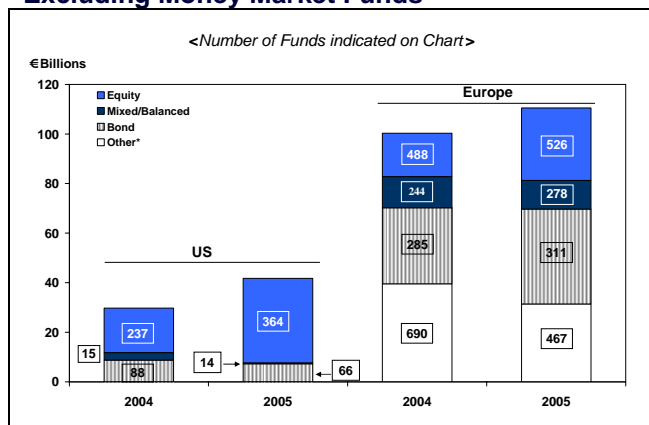
Source: Strategic Insight, Industry Associations; results converted using 12-month average exchange rates

- Europe accounted for more than half of worldwide fund flows, with more than €380 billion in net flows through November 2005. Roughly 40%, or €150 billion, went to equity and balanced funds. Bond fund flows totaled €140 billion in 2005 through November, more than twice as much as in 2004. One-third of global flows (€240 billion/\$300 billion) went to funds in the US, primarily to equity funds.
- Equity/balanced fund flows improved by 75% month on month, to €52 billion globally in November, roughly split between Europe and the US. Notably, half of total equity flows in Europe went to Luxembourg-domiciled equity funds,

reflecting the continuous use of roundtrip and cross-border offshore investment vehicles across Europe (and increasingly, Asia).

## New Fund Introductions

### Flows into New Long-Term Funds by Year, Excluding Money Market Funds



\*"Other" includes Guaranteed, Hedge, and Real Estate Funds. Source: Strategic Insight Estimates; Lipper Inc.

- About 1,600 new long-term funds were launched across the key markets in Europe in 2005, with combined flows of €10 billion.
- Almost one-quarter of all long-term flows (€5 billion) were concentrated among the 20 highest cash flow funds, including both retail and institutional fund products. Within the institutional space, we have seen increasing fund switching activity from segregated and managed accounts to mutual funds. Also, Luxembourg SICAV II funds taking advantage of loopholes in the European Savings Directive recorded significant inflows.
- Investors in the US contributed €42 billion on aggregate to new long-term funds, mostly to equity products. The top 20 fund launches gathered about €16 billion in flows.
- UBS Dynamic Alpha was the highest cash flow fund launch in the US open-end fund space in 2005, with \$1.5 billion in net flows. The fund's success highlights a number of trends visible in the industry today, among them blurring lines of demarcation between retail and institutional businesses and sustained demand for protection and diversification. It also is an example of a successful European institutional product finding appeal in the US, indicating increasing cross-fertilization of investment concepts globally.

# Global Horizons



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## Balancing Return, Income, and Protection

Many investors in various markets around the world continue to respond to new products that offer an appealing mix of potential returns, income and protection—in effect, **structured or engineered products that are often non-correlated with traditional equity or bond investments.**

This is especially evident among recent guaranteed and protected fund offerings in Europe, Australia, and Asia.

They reveal a **wider range of underlying assets and exposures** (including alternative investments, credit, real estate, commodities, multi-asset, etc.), and **more features demanded by investors** (annual coupons, rising guarantees and profit lock-ins, greater liquidity, more diverse guarantee periods, longer or open-ended/continuous subscription periods, and/or no set maturity dates).

In addition, many new protection vehicles use **Constant Proportion Portfolio Insurance (CPPI)** and **Dynamic Portfolio Insurance (DPI)**, rather than the traditional zero-coupon bond plus options approaches, to achieve their objectives.

CPPI and DPI are “cushion management” techniques that involve managing the allocation between risky and non-risky assets. If the underlying investment or risky asset performs well, the weight of the underlying assets is increased based on a pre-determined multiplier. If the price of the underlying investment declines, assets are sold based on the formula to ensure sufficient capital to cover the principal guarantee. Aimed at maximizing returns, DPI approaches do not use a pre-defined multiplier to determine the allocation between risky and non-risky assets. Rather, the allocation is actively managed; as a result the DPI methodology better suits volatile assets as it adapts to market volatility.

**Some have described CPPI and DPI products as more similar to mutual funds,** compared to other guaranteed and structured products that are based on derivatives, **and thus a better fit for asset management companies.** Fund managers may offer CPPI/DPI based products without relying on investment banks, and the techniques provide various advantages including better liquidity, access to investors, transparency, extended offer periods, daily NAVs, and fees similar to traditional fund products.

As the use of CPPI and DPI grows, the overall demand for investments with some protection continues. **More than 320 guaranteed mutual funds were launched in the major markets of Europe in 2005, collecting €23 billion combined in net new flows** and representing about a fifth of total contributions into all new products this year.

Guaranteed product innovation across Europe, Australia, and Asia has been driven partly by growing demand from investors for more diversification and flexibility, the **growing appeal of absolute return and alternative products,** and efforts by asset managers to try to optimize the characteristics of guaranteed products so they are less expensive to produce and maintain while still offering capital protection and the potential for an attractive return.

This has led to the search for new underlying assets such as funds or indices invested in commodities, hedge funds, emerging market bond or equities, real estate, credit derivatives, fund of funds, and beyond. At the same time, demand has evolved simpler structures, in contrast to the exotic pay-off formulas of some guaranteed products from previous years. Providers are attempting to select alpha-generating underlying assets and/or strategies that will boost product returns while protecting the invested capital.

These developments suggest that instead of falling in importance if markets rise on a long-term basis, **guaranteed and protected products may play a sustained and perhaps greater role in our industry,** and may even make inroads into markets where they have been less visible up to now (such as the US).

Our Global team’s recently published study, *“Balancing Investor Needs for Return, Income, and Protection,”* further discusses developments in this area with details on about 50 new and innovative products that have demonstrated marketing success.

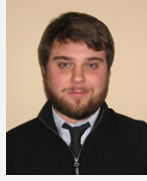
# Variable Annuities



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## Quick Takes on Variable Net Flows

Variable annuities/life (VA/L) results improved in the last months of 2005, and we estimate that **net inflows for VA/L underlying funds, for all of 2005, neared \$19 billion**, as tracked by Simfund VA (not including funds-of-funds or fixed-account options). By year-end, assets held by such funds (excluding fixed sub-accounts) reached \$1.1 trillion, a more than \$80 billion gain for the year.

**Inflows to VA/L equity funds late in 2005 reached or exceeded \$3 billion monthly, at the high end of the typical run-rate earlier in 2005.**

**VA/L international/global equity funds recorded \$12 billion in net flows in 2005, notably higher than 2004's \$9.4 billion (which was nearly double 2003's flows).**

## Insurers Utilize New Required Minimum Distribution (RMD) Calculations

With the New Year, insurers started to use new calculations for Required Minimum Distributions (RMDs), **which must be taken from annuities in qualified plans and some IRAs prior to annuitization, starting at age 70 ½ of the owner.** What is new is that the IRS ruled that RMDs must factor in the actuarial present value of an annuity's "additional benefits," such as enhanced death and living benefits as well as bonuses. Further, only those benefits that are "in-the-money" by a certain amount will be subject to adjustment under the new calculations.

Our take on the situation: the IRS will need to issue further guidance in the future, as there are various methods being used to comply with the regulations; there remains ambiguity over the kinds of benefits that must be adjusted; and the calculations may not address some unique VA features devised in recent years.

## Highlights of New Variable Annuity Fund Filings in December 2005

Twelve new variable insurance funds were registered in December and among them were types we have been seeing more of lately: there were funds-of-funds, master feeders, even one using "non-traditional" and hedging strategies. Highlights of this group were:

- A **socially-responsible fund** that screens out "sin stocks" from the **OneAmerica** series;
- **American Skandia** registered two funds-of-target portfolios and one using "advanced strategies," run by several managers, some of whom will take hedge-fund style positions;
- **Rydex** filed a **Fund of Exchange-Traded Funds (ETFs)** that will feature **CLS Investment Firm, LLC** as the sub-advisor; and
- The **Gartmore Variable Insurance Trust** filed four master feeder funds investing in **American Funds Insurance Series (AFIS)** portfolios.

## Positioning Annuities in Terms of Retirement-Related Risks

In preparing for the upcoming wave of Baby Boomers transitioning out of the workforce, insurers are spending much time identifying the specific risks and themes this demographic group will be facing in the future—and designing annuity and life products accordingly.

**Insurers are marketing** annuity attributes as solutions to various forms of risk that older Americans will face. Some of these include: **rising annuity payments** to curb or eliminate the effects of inflation; **deferred income annuities**, which determine, in advance, the exact level of guaranteed annuity income one will receive in the future; **longevity insurance**, handling when one has outlived life expectancy; **long-term care features**, such as CDSC waivers or cash payouts to help cover costs; **flexible annuitization options** allowing for withdrawals or full surrenders after annuitization begins; and **underwritten annuities** that will give higher payouts for impaired lives.

With such provisions, insurers have a head-start in segmenting and addressing retirement-specific risks of the future. If they can capitalize on this advantage, they will be well positioned for the Boomer's golden years and beyond.

# Tools Time: FundFiling



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## Saved Searches and Email Alerts

A new, advanced feature of FundFiling.com allows you to quickly set up **Saved Searches and E-mail Alerts**. Due diligence or competitive monitoring changes, via such customized (daily, weekly, or monthly) alerts, are easily facilitated; now you can pro-actively **keep track of any filed revisions, daily, without screening for such filings**, or visiting SI's FundFiling.com site and re-creating your search criteria each time.

**Saved Searches and E-mail Alerts** features are available across all Fund Filing sections: Edgar Library, New Fund Registrations, and Fund Changes.

With **Fund Changes E-mail Alerts** you can monitor all the changes for a **particular peer group of managers**, funds or objectives; or you can also **focus in on specific change types (fund closing, sub-advisory changes, investment strategies, etc.)** and find out **who among your peers, or among the funds sold within your system, is implementing them**.

## An Illustration: Tracking Changes

Select your universe from the Daily Alerts - Fund Changes page:

**Select Filing Date:** Latest

**Select Objective Filter:** Int'l Emerging Market equity funds, or **International Small Cap** funds

### Selection Page

**Select Category of Change Filter: Fund Closed to New Investors, Performance Benchmark Index, Portfolio Manager**

### Category of Change Filter

**Click on the Search button, run the query:** relevant records will appear on the results page shown below.

### Results Page

**Save the search** by clicking on the Save Search button on the top right hand corner of the page. From the Save Search screen, you can give your search a name and description for future reference. **Choose frequency of e-mail notifications: daily, weekly, or monthly.**

### Save Search

Now, each time a new change fitting the criteria saved is identified, you will receive an email alert containing a link to the change details as shown below:

### Email Alert

**From:** FundFiling Notification Service [mailto:ffnotify@fundfiling.com]  
**Sent:** Wednesday, February 01, 2006 6:48 AM  
**To:** Maria Garcia  
**Subject:** The FundFiling Alerts You Requested

Dear maria,

You have new FundFiling Alerts. Click on the title of your alert to view all new records.

[International Objectives Changes](#)  
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