

Strategic Insight

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Introducing a new Strategic Insight publication:

WINDOWS Into GLOBAL ASSET MANAGEMENT

Nearly a decade ago, we shared with our clients a study entitled “A History of Mutual Funds in the 20th Century”. Looking back at that time, assets in mutual funds outside of the U.S. amounted to just \$2.5 trillion, roughly 30% less than the U.S. market. Since then, we have witnessed tremendous growth in funds around the world, along with an accelerating globalization of the asset management industry. Today, assets of the global fund management industry total around \$20 trillion, and more than half are in funds registered outside the U.S.

Ideas, trends, products, and relationships now run across geographical borders, and across business lines that used to be managed on a more stand-alone basis. Today, fund managers and distributors are benefiting from the inter-linkages and dependencies of retail and institutional, traditional and alternative, and domestic and global initiatives.

This brings more opportunities, but also greater complexities and challenges to executives at asset management organizations. Thus, having access to integrated data, consultative-based analysis, and a global perspective is more valuable now than ever.

It is against this backdrop that we are very pleased to introduce our new report series, ***Windows into Global Asset Management***. This report will be available on an ongoing basis to senior executives and analysts among the nearly 50 organizations already subscribing to our global research suite of services.

We are also sharing this first Global Windows issue with SI’s broader client base since we know many of the themes discussed are relevant to all U.S. centered asset managers – and also because some of you are unfamiliar with SI’s international research and with ways we are helping asset managers expand globally or benefit from innovations and ideas already successful overseas.

Windows into Global Asset Management will be the main publication of our Global research team. For more than half a decade, this team has been analyzing, writing about, and consulting on non-U.S. investment management developments. It now tracks monthly more than 30,000 funds in Europe and 18,000 funds in Asia. In addition to mutual funds, our Global unit monitors developments in institutional asset management, structured products, private client business, and alternative investments to offer a more holistic view of asset management.

We hope you would find this report as interesting and as valuable as we have. We look forward to your input and suggestions about topics and themes to cover in future editions, to be available to subscribers of SI’s global research. You may also call the head of our global research team, Jag Alexeyev (212-944-4456; Jag@sionline.com) to learn more about SI’s global services.

Sincerely,

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WINDOWS Into Global Asset Management

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Strategic Insight is delighted to launch the first issue of *Windows Into Global Asset Management*, focusing on opportunities and developments in fund industries around the world.

Regular features will provide an international perspective on fund demand and industry developments, in-depth analysis of new funds and the highest selling funds in Europe and Asia, innovative investment approaches and products, as well as distribution and sub-advisory opportunities. It will cover not only mutual funds, but also institutional asset management and mandates, alternative investments, and structured products.

We are substantially expanding our analysis of the rapidly growing fund industries in Asia, and this report will soon include pages dedicated to Asia top funds and new funds, just as it does for Europe. In addition, a "Fund Analytics" section offers examples, ideas, and analytical best practices for using data and research to expand product, marketing, and distribution potential.

Our global research team has been providing analysis on the non-U.S. industry for more than a half decade, and offers Global FlowWatch reports, in-depth thematic studies, and customized research and consulting for clients. The group now calculates monthly net flows on over 30,000 funds in Europe, will add next month similar calculations on 18,000 funds in Asia, and is planning to introduce SIMFUND databases on Europe and Asia domiciled funds in early 2007.

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Perspectives

360° View of Asset Management

June brought a diversity of experiences to fund managers around the world, varying from sustained long-term fund inflows in Asia, modest outflows in the U.S., to nearly €30 billion in net redemptions in Europe. Yet outflows amounted to only 0.8% of assets for long-term funds in Europe, and 1.2% among equity funds. In addition, **more than 40% of all fund managers in Europe experienced positive net flows.**

Despite the near-term volatility and impact on the industry, **mutual funds worldwide nonetheless captured around €415 billion in net flows in 1H'06, a third higher than in the same period last year.** This report highlights a range of progress among funds and managers around the world, focusing on Europe and Asia (our sister publication, *Windows into the Mutual Fund Industry*, provides details on the U.S.). Among the key themes discussed in the following pages:

- Despite outflows from equity funds in Europe in the last two months, the **continued and growing appeal of absolute/ total return, asset allocation, and similar investment themes with a focus on income and protection** is likely to prevail.
- The fifteen **highest cash flow long-term funds in Europe captured over €26 billion** in 1H'06 (excluding new funds). Six out of the fifteen were **absolute/ total return vehicles.**
- In addition, **many absolute return products classified as enhanced money market programs** also got strong inflows, with CAAM's Arbitrage VaR 2 product attracting more than €6 billion in flows to its onshore and offshore versions.
- **Another €15 billion went to the fifteen top-selling new funds** in the first half, which included five **Guaranteed** funds, emphasizing the continued appeal of protection vehicles in domestic European markets. Another six funds were **absolute return vehicles in Italy**, among them funds that invest up to 20% in hedge strategies.
- Highlighting the diversity and innovation in Europe's fund industry, other top-selling existing and new products in this report include a **sub-advised** U.S. equity fund distributed by a subsidiary of an Asian bank in Europe, success of

certain Asia strategies including **China** equity, a concentrated "freestyle" Emerging Market product, a **global resource** fund investing in water, renewable energy, and agro-chemistry, and a fund that invests in **structured derivative certificates.**

- We also provide new information on **foreign fund managers in Germany**, for which data has recently become available, and which suggests that **30% of Q1'06 flows to 400 Luxembourg funds were sourced from Germany.**
- **Mutual fund flows in Asia reached \$83 billion in 1H'06**, already surpassing 2005 levels. Stock fund activity in **Japan** is especially notable, with gains among index-linked funds, BRIC and Emerging Country offerings, and dividend-oriented equity programs. **International money managers in Japan are also participating in the growth**, some benefiting from **exclusive distribution partnerships and co-branded products** with large domestic asset managers and distributors.
- A guest article by research firm *Plan for Life* highlights **changes in government policy in Australia** that is **expected to encourage major growth in its retail funds market.**
- On the **institutional** asset management side, the progress of **liability driven investments (LDI)**, particularly among **pooled fund vehicles**, is getting more attention, especially since some of the **approaches pioneered in Europe are now being introduced in the U.S. market.**
- A commentary on **hedge funds and fund-of-funds** highlights recent top gainers, including Phenix, La Fayette, and Permal, as well as **structured products** (e.g., Permal notes sold in the **Mideast**; and the largest guaranteed structured hedge offering yet from Man Investments).
- Our "Fund Analytics" feature closes with an **evaluation of mid-size equity fund managers in Europe** with the best relative returns, along with their relative risk positioning and corresponding net flows. The analysis supports one of the truisms in our industry, that "performance matters", but also shows how fund managers and distributors **can illustrate the relationship between investment quality and net flows to aid in sales, marketing, and brand awareness.**

We hope that this publication helps to provide our readers with the ongoing value of a "360-degree" view on asset management, **looking past and forward, but also around the world for ideas and perspectives.**

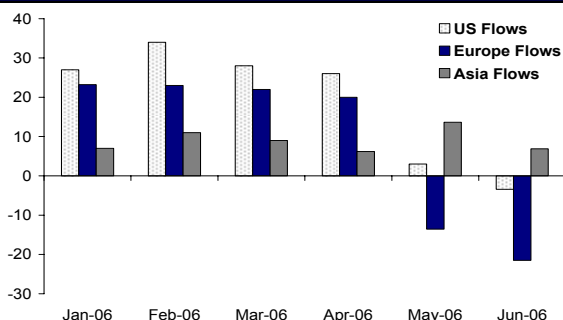
Global Flows

Net Redemptions in June Limited, Compared to Recent Gains

Stock market declines led to a sharp slowdown in industry net growth in May and outflows in June across most markets, with Asia the exception where inflows to equity/mixed, bond and other long-term funds persisted. Net redemption activity was strongest in Europe, but even there, long-term fund outflows amounted to just 0.8% of assets in June.

After getting €25 billion on an average monthly basis in the first four months of the year, equity funds in Europe experienced net outflows of €14 billion in May, widening to €21 billion in June.

Equity Fund Net Flows 1H'06, € Billion



Source: Strategic Insight estimates.

Meanwhile, equity funds in the U.S. industry, benefiting from a more stable foundation of retirement investing, recorded €3 billion of inflows in May despite a sizable contraction, and only a marginal €4 billion of net redemptions in June.

The pace of investment remained strong in Asia however, with €14 billion going into stock funds in May, plus another €9 billion of inflows in June (data excludes Australia).

Global Mutual Fund Net Flows June 2006, € Billion

	Equity	Mixed	Bond	Other	Subtotal L-T	Money Market	Total
Europe	-21	-1	-7	2	-27	-2	-28
US*	-4	-1	1	-	-4	15	10
Asia**	9	1	3	1	13	-14	-2
Total	-17	0	-4	3	-18	-1	-19

*Includes open-end and closed-end funds; excludes variable annuities. **Excludes Australia. Source: Strategic Insight Inc.

Some additional highlights in the context of annual growth:

- Despite recent outflows in Europe, on a year-to-date basis the region still achieved €177 billion of flows across all asset classes. In contrast, funds in the U.S. gained €163 billion, and in Asia funds collected €68 billion. **Thus, European mutual funds still accounted for roughly half of all global net contributions in 1H'06.**
- **Total net flows worldwide** to mutual fund vehicles in 1H'06 approached €415 billion, a **third higher than in the same period last year.**
- **Mutual fund flows in Asia have already surpassed 2005 levels**, driven by growing local demand and stronger relative performance of local markets, with gains most prominent in Japan.
- **Equity fund flows in 1H'06 exceeded €240 billion worldwide, 60% higher than during the first half of 2005.**

Global Mutual Fund Net Flows 1H'06, € Billion

	Equity	Mixed	Bond	Other	Subtotal L-T	Money Market	Total
Europe	63	44	8	19	136	41	177
US*	118	-4	26	-	140	23	163
Asia**	58	4	0	5	66	1	68
Total	241	48	38	24	353	63	416

*Includes open-end, closed-end fund and variable annuities.

**Excludes Australia. Source: Strategic Insight Inc.

Furthermore, equity fund outflows in Europe were in part counterbalanced by the **continued and growing appeal of absolute/ total return, asset allocation, and similar investment themes with a focus on income and protection.**

Such products accounted for a large portion of the highest selling funds and most successful new product launches in the first half of 2006, and given the recent market declines, absolute return and related protection themes may play an even more visible role in coming months. Moreover, many equity products are part of the underlying investment vehicles of such vehicles, especially those with an asset allocation structure. Thus, the focus on diversification and delivery of packaged investment solutions is likely to **reassure investor needs for security and income generation, but also act as a buffer for specialized funds and keep redemption levels within historical limits.**

Europe Highlight

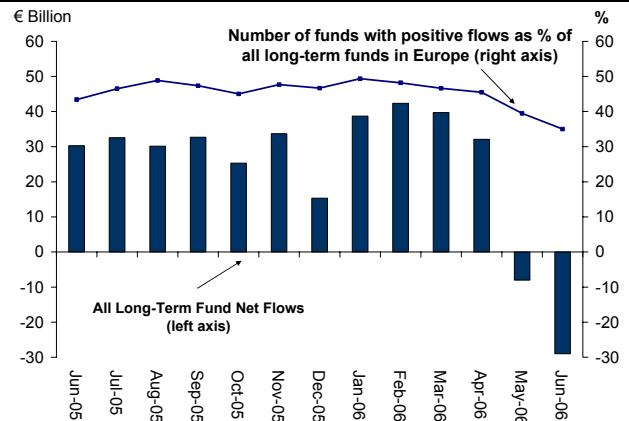
June and Beyond

Long-term mutual funds in Europe witnessed €27 billion of net redemptions in June, a marked widening of outflows from €8 billion in May and a sharp turnaround from strong gains over the past year.

However, the repercussions are not likely as negative as some headlines in the media will inevitably suggest. Worth noting:

- During June, **more than 40% of all fund managers in Europe experienced positive net flows** (outside of money market programs).
- Of those that suffered outflows, 40% did not experience net redemptions worse than 1% of beginning assets.
- Overall, long-term fund outflows in June amounted to 0.8% of assets, and about 1.2% for equity funds.
- Just over seventy management companies each suffered net outflows exceeding €100 million from their long-term funds, but even among them, outflows averaged 3% of assets.
- Seven managers each experienced net redemptions over €1 billion, but outflow rates averaged just 2% of assets.
- Equity Europe & Europe Small-Cap funds collectively gave up nearly €9 billion to net outflows, followed by Equity Asia Pacific and Equity Emerging Market, each witnessing €5 billion in net redemptions.
- Money market funds outside of France benefited from inflows of €14 billion, partly as a result of defensive switching. In France, recurring seasonal activity resulted in €14 billion in net outflows. Thus across Europe, money market funds recorded a marginally negative flow.
- At an individual fund level, **65% of long-term mutual fund portfolios were in net redemptions during the month, while 35% achieved inflows** (see chart on the right). While the share of funds capturing inflows is not surprisingly lower in June than at any point in the past year, the more apparent change in the aggregate volumes comes through compression of inflows and expansion of outflows among individual funds and categories.

Long-Term Fund Net Flows in Europe, € Billion and Funds with Positive Flows as % of All LT Funds



Source: Strategic Insight Inc., Industry Associations, Lipper Inc., and EuroPerformance (France).

Europe Mutual Fund Net Flows by Domicile 1H'06, € Billion

	Equity	Mixed	Bond	Other	Money Market	Total
Europe Total	63	44	8	19	41	177
Lux/Dublin*	51	20	28	13	18	130
France	12	15	0	1	24	53
Scandinavia**	6	3	4	5	2	19
U.K.	8	2	5	-	1	16
Germany	-3	3	2	-4	9	8
Switzerland	-1	1	1	7	-1	8
Spain	7	2	-5	-1	2	5
Greece	0	1	-5	-	0	-4
Italy	-3	0	-16	21	-7	-5

Source: Strategic Insight, Inc., Industry Associations, Lipper Inc., and EuroPerformance (France). * Includes round trip funds. ** Includes Denmark, Sweden, Finland and Norway. Europe total adjusted for double-counting of round-trip funds.

Two-third of flows went to Luxembourg- and Dublin-domiciled funds, reflecting the **continuing rise of importance of offshore centers for cross-border fund distribution and offshore “round-trip” funds**. For instance, such funds gathered €22 billion in cash contributions in Italy so far this year, while local funds suffered €27 billion in outflows. In Germany, offshore funds collected €16 billion in flows, while net redemptions from local funds reached €9 billion.

Yet, local funds continue play an important role in Europe, especially among new domestically-tailored offerings (especially guaranteed funds), institutional funds, and offerings by local boutiques.

Foreign Fund Managers: Germany

The industry associations of some European mutual fund markets over the last five years have continuously expanded their statistical coverage to increase transparency in their respective marketplaces.

For example, the German asset management association, BVI, earlier this year started to break out **asset and flow information for the portion of Luxembourg-based cross-border funds of foreign fund managers sold in Germany.**

Largest Foreign Managers In Germany Assets and Flows*, € Billion

	AUM - 3/2006			Flows - Q1/2006		
	Ger- many	Lux RFS**	% share	Ger- many	Lux RFS**	% share
Fidelity Int'l	15	57	27%	0.4	4.2	9%
Franklin Templeton	11	21	47%	0.2	0.9	21%
UBS	3	88	4%	0.6	-0.7	>100%
Nordea	2	8	20%	-0.1	-0.6	11%
Pioneer	1	9	14%	0.3	0.6	44%
Total Above	32	184	17%	1.3	4.5	30%

* Data includes cross-border funds sold in Germany and reported in BVI statistics only. ** Funds registered for sale in Germany and elsewhere. Sources: Strategic Insight Inc., BVI, Lipper Inc.

Above we estimate the share of assets sourced from Germany within Luxembourg funds that are registered for sale in Germany and elsewhere.

For example, **Fidelity International had €57 billion in total assets in Luxembourg cross-border funds registered for sale in Germany and elsewhere, with €15 billion, or 27%, of that total coming from Germany.** Fidelity funds or share classes not registered for sale in Germany (but registered for sale elsewhere in Europe and/or Asia) are not included in the analysis.

The largest five foreign fund managers in Germany offer around 400 Luxembourg-domiciled cross-border funds which collectively took in €4.5 billion worldwide, of which 30% came from Germany.

The data also shows that a **large portion of the assets in cross-border Luxembourg flagship funds of leading fund managers comes from Germany**, in many cases well over 50%. Nordea is somewhat of an exception, with only 13% and 26% of total assets in its North American Value and European Value funds being held in Germany.

Largest Funds as of March 2006, € Billion Luxembourg Cross-Border Funds Sold in Germany

Fund Name	AUM - 3/2006		
	Ger- many	Lux Total	% Share
Fidelity Funds - European Growth	9.8	23.5	42%
Templeton Growth (Euro)	6.4	7.3	88%
Fidelity Funds - Germany	1.0	1.7	60%
Templeton Asian Growth	0.9	1.3	73%
UBS (Lux) Equity Fund - European Opp.B	0.8	2.2	38%
Nordea 1, SICAV European Value	0.7	2.8	26%
Templeton Global Bond	0.7	1.0	69%
Templeton Global (Euro)	0.6	0.8	77%
UBS (Lux) Bond Fund - Euro High Yield B	0.6	0.7	73%
Nordea 1, SICAV North Amer. Value	0.5	3.7	13%
Total Above	21.9	44.8	49%

Sources: Strategic Insight Inc., BVI, Lipper Inc.

Similarly, the largest proportion of first quarter net inflows from Germany went to a handful of products at each company, including one or two **flagship products with long track records and brand recognition, and two or three niche funds, often focusing on Asia-Pacific.**

For example, Franklin Templeton offers forty-five Luxembourg funds in Germany, with total assets of €11 billion. **Templeton Growth (Euro) Fund** has more than €7 billion, but **nearly 90% of assets were sourced from Germany.** Also, during Q1'06, Templeton's Asian Growth and Global Bond funds each attracted €120 million. In a recent press release Templeton stated that its €15 billion in total assets in Germany (the Lux funds plus other assets) increased 43% during 2005, underscoring the importance of the market for the firm.

Unicredito Pioneer, with 117 Luxembourg share classes available for purchase in Germany, has a high concentration of flows among two funds. Out of the €0.3 billion in aggregate flows from Germany in Q1'06, 80% went to its flagship Top European Players fund.

Note also that **UBS** in late 2004 as part of its expansion strategy in wealth management purchased German family office **Sauerborn Trust**; adding a local fund range marketed to HNW investors, which now has €3.5 billion in total assets, brings total fund assets for UBS in Germany to €7 billion.

Europe Top Funds

Highest Flows to Bond, Absolute Return, and Select Sector Themes

The fifteen best selling long-term funds in Europe, excluding new funds introduced this year, attracted €25 billion of net flows from investors during 1H'06. Flows into these funds accounted for nearly 20% of all long-term fund flows during the period.

Highest Cash Flow Funds in Europe, 1H'06 Excludes Money Market Funds and New Funds* Net Flows, € Billion

Fund Name	Category	Flows
INVESCO Bond Return Plus	Bond EUR**	2.6
MLIIF US Flexible Equity	Eq. North America	2.2
Activest TotalReturn	Bond Global**	2.0
Julius Baer Absolute Return Bond	Bond Global**	1.9
Fortis L Abs. Return Bond Euro Plus	Bond EUR**	1.9
UOB Kinetics Paradigm	Mixed Asset	1.8
MLIIF New Energy	Utilities	1.7
CS Bond (Lux) Target Return Euro	Bond EUR**	1.6
Pioneer Euro Enhanced Short-Term	Bond EUR Corp.	1.6
Pioneer Euro Curve 1-3 Years	Bond EUR ST	1.5
MLIIF World Mining	Gold&Prec Metals	1.5
JPMF US Dynamic	Eq. North America	1.5
Fidelity Funds - China Focus Fund	Equity China	1.4
Phenix Alternative Holdings	Hedge	1.2
JPMF Global Capital Preservation	Mixed Asset**	1.2

Total Above **25.6**

Sources: Strategic Insight Inc., Lipper Inc.; Data includes all share classes of a fund; categories based on Lipper Classification; *Excludes new funds launched after 12/31/2005; **Absolute/total return oriented fund

Nearly half are bond funds, capturing just over half of net flows to the fifteen products shown above. This contrasts markedly with the overall data for Europe, which indicates that €7 billion went to all Bond funds, accounting for only 8% of total long-term fund net flows. The discrepancy is related to the fact that many large bond funds have experienced net redemptions during in 2006, particularly in some markets such as Italy, reducing the overall net flows figure. Thus, the aggregate data masks the ongoing **sales and marketing reality: many bond products from a wide range of promoters continue to meet substantial demand in Europe, particularly from institutional investors.**

Indeed, over 250 bond funds in Europe captured more than €100 million each during 1H'06, and together took in €80 billion, a sizeable piece of business by any measure.

The sustained growth of bond funds is also partly related to the **absolute return theme**, whose appeal is growing across Europe. Sometimes referred to as "Total Return" or "Cash Plus", generally with a cash benchmark, and usually built around a **bond portfolio** (and classified as such), they include **Activest TotalReturn**, among the best sellers from 2005 whose marketing success has been sustained this year at #3 on the list above.

Indeed, six out of the fifteen highest cash flow funds this year can be considered absolute/total return oriented vehicles, gathering €11 billion combined.

We roughly estimate that all absolute/total return mutual funds in Europe, numbering over 400 portfolios, collected around €38 billion in net flows year-to-date. This already exceeds the estimated €30 billion into such funds in all of last year, and double the amount in 2004.

In addition to the Activest fund, some absolute return products with accelerating flows in 2006 compared to last year include:

- **Invesco Bond Return Plus**, targeting a total return of 2.6% (gross) above 3-month Euribor with an average volatility of 2% (max. 3%), invests in a diversified portfolio of fixed income assets worldwide. Marketing literature highlights a process "where over 1000 alpha sources" are evaluated; the main "Alpha families" include Term Structure, Investment Grade Bonds, Securitized Bonds, Country, Currency, High Yield, and Emerging Markets. The fund has attracted €2.6 billion in the first half of this year.
- **Julius Baer Absolute Return Bond**, with €1.9 billion in flows so far this year, invests globally in bonds and derivative financial instruments, seeking to achieve positive returns irrespective of market performance.
- **Fortis L Fund Absolute Return Bond Euro Plus** aims to outperform the EONIA Index by 2% (gross) by investing in international bonds and currencies. According to company documents, the fund is "structured to minimize investors' passive exposure to interest rate movements and to promote generation of excess returns in both rising and falling markets". It has also collected an estimated €1.9 billion in six months through June.

- Other notable absolute/total return funds with significant inflows this year include products from **Credit Suisse, JPMorgan, ABN AMRO, Intesa (CAAM), UBS, and Pioneer.**
- As a product development theme, at least 40 new absolute/total return portfolios have been introduced since December, versus more than 110 such launches last year. Notably, **Sanpaolo's Abs Attivo** and **Abs Prudente** offerings captured €3.4 billion (see page 9 for more details on this and other high cash flow new "Abs" products).

Beyond absolute return, highest cash flow themes and funds include the following:

- Activity within niche investment strategies with recent high returns such as **commodity** or **energy funds**, but often with flows concentrated in a limited number of funds. For instance, **MLIIF New Energy** collected €1.7 billion or 90% of total flows this year to "Utilities" funds. Similarly, **MLIIF World Mining** captured €1.5 billion this year, accounting for 60% of total year-to-date flows to "Gold&Prec Metals" funds.
- UOB Kinetics Paradigm** is a value-oriented U.S. equity fund in Dublin managed by **Kinetics Asset Management** and distributed in Europe by **UOB Global Capital**, the international subsidiary of Singapore-based United Overseas Bank. The fund captured €1.8 billion in the first half of this year, partly through multi-managers in the U.K. after receiving "distributor status" in the market.
- Fidelity Funds - China Focus** collected €1.4 billion in the first half of 2006. The sub-fund invests in securities listed in China and Hong Kong and in non-Chinese companies that carry out a large portion of their economic activity in China.

Absolute Return as Cash Substitutes

Above we discussed only long-term funds, i.e., excluding "short-term" money market funds (MMFs). Of course, many MMFs continue to attract new money, particularly institutional liquidity cash management vehicles. Offshore MMFs in Luxembourg and Dublin getting cash flows between €2 billion and €3 billion during 1H'06 include products from JPM, DWS, Goldman Sachs, and SWIP.

Beyond traditional MMFs, Europe has produced many funds classified as "**enhanced**" or "**leveraged**" **money funds**, but which are **managed and marketed similar**

to other absolute return products in long-term categories.

The most prominent are **Credit Agricole's** absolute return funds, found amongst their "**Arbitrage**" and "**Dynarbitrage**" offerings. While generally classified as enhanced or leveraged MMFs, they are "managed with the goal of maximizing absolute performance using multiple arbitrages between financial markets with a controlled risk budget namely the Value At Risk (VaR)", may invest in international bond and currency markets but "may use all types of financial instruments", and employ leverage. Dynarbitrage Volatility strategies in particular "are set up using derivatives, convertible bonds and ... directional positions in markets through options". They are **distinctly marketed as absolute return vehicles.**

As shown in the table below, the **Arbitrage VaR 2 product is the best selling of any in 1H'06** through both the onshore (CAAM) and offshore (CA Funds) versions, **together attracting €6 billion in net flows.** Meanwhile, **Dynarbitrage VaR 4 collected another €4 billion** through both onshore and offshore versions.

Highest Cash Flow Enhanced/ Leveraged Money Market Funds, 1H'06, € Billion

Fund Name	Domicile	Flows
CAAM Arbitrage VaR 2	France	3.1
CA Funds Arbitrage VaR 2	Luxembourg	2.9
CA Funds Dynarbitrage VaR 4	Luxembourg	2.5
BBVA Monetario Dinámico	Spain	2.4
CAAM Dynarbitrage VaR 4	France	1.5
JPM RV 2 EUR	Luxembourg	1.0
BNP Paribas ABS Euribor	France	0.9
Dexia Money + Risk Arbitrage	France	0.8
SGAM Invest Total Return Credit	France	0.7
Alternatime (HSBC-Sinopia)	France	0.6

Total Above **16.4**

Data includes all share classes of a fund. Sources: Strategic Insight, Inc.; Lipper Inc.

Other managers' products include **Dexia Money + Risk Arbitrage**, which invests partly in event-driven strategies related to European and Northern America mergers and acquisitions; and **JPMorgan's "RV" series**, including **RV 2** (managed with a target VaR of 2%) and **RV 4** (VaR of 4%), both with EUR and USD portfolios, aim to produce enhanced cash returns by using overlay positions and opportunities in interest rate, currency and credit markets; the RV 2 EUR version has collected over €1 billion through June.

Europe: New Funds

Diversity of Product Development across the Risk Spectrum

The rapid pace of product development continues with **at least 690 new funds raising almost €52 billion during 1H'06** across the major markets of Europe. Offerings revealed much diversity across the risk spectrum, including guaranteed structures, absolute return funds, bond, mixed asset, and equity, hedge exposure, and fund-of-funds/ multimanager. Although equity products accounted for 34% of new funds, they captured just 27% of new monies raised. Meanwhile guaranteed and protected offerings accounted for 17% of new funds but captured 25% of flows.

Among the top new funds, investors' preference for protection and diversification through the lower-risk end of the spectrum was even more evident. **The top fifteen fund introductions in 1H'06 gathered nearly €15 billion in net new money**, and included mostly locally domiciled funds with a capital guarantee, an absolute/ total approach, or an asset allocation dimension.

Top New Funds in Europe, 1H'06 Net Flows Excludes Money Market Funds; € Billion

Fund Name	Category	Flows
Intesa Garanzia Attiva I Semestre 2006	Guaranteed	3.7
SPI Fund ABS Attivo	Mixed Asset	1.8
ZIF Obligationen CHF Inland	Bond CHF	1.7
SPI Fund ABS Prudente	Bond Global	1.4
HSBC GIF Glo Emg Mkts Eq Freestyle	Eq. Emg Mkts	1.1
Pioneer Target Controllo	Mixed Asset	0.7
Ducato Multimanager Cash Premium	Mixed Asset	0.6
DWS Zukunftsressourcen	Equity Global	0.5
Arca Rendimento Assoluto t3	Mixed Asset	0.5
Arca Rendimento Assoluto t5	Mixed Asset	0.5
Al Dente 3	Guaranteed	0.5
Tonga 2	Guaranteed	0.4
Deka-KickGarant 2006	Guaranteed	0.4
dit-Deep Discount	Equity Europe	0.4
UniGarant: Deutschland (2012)	Guaranteed	0.4

Total Above 14.7
Sources: Strategic Insight Inc., Lipper Inc.; Data includes all share classes of a fund; categories based on Lipper Classification.

Comfort through Guaranteed Funds

New capital guaranteed funds raised over €13 billion in cash flows through June, mostly in Italy and Spain, followed by France and Luxembourg, with a few "round-trip" products into Germany accounting for a large share of the Luxembourg flows.

Credit Agricole Asset Management's unit in Italy takes credit for the most successful offering so far, **Intesa Garanzia Attiva I Semestre 2006**, which attracted over **€3.7 billion in cash flows**. The fund invests in money market, bond, and equity funds (primarily proprietary products), and does not manage against a benchmark; allocation to fixed income ranges from 25% and 100%, equity is limited to 75%. Marketed from the start of the year through June, principal is guaranteed after five years based on the date of investment. It is offered as a low-risk alternative to cash, short-term bond, insurance products, and deposits. **CAAM is offering a sequel, Intesa Garanzia Attiva II Semestre 2006 from July through December.**

In France, **Caisse d'Epargne collected €0.5 billion to Al Dente 3**, which offers principal at maturity (8 years) and upside exposure to 80% of the performance of a basket of 15 international stocks. The fund launched in the beginning of the year is the third installment of Caisse d'Epargne's Al Dente series.

BNP Paribas' Tonga 2 also took in €0.5 billion, with capital guaranteed over four years and an early payout feature. At maturity investors will receive their initial investment plus 75% of the average performance of a basket of three indices (Nikkei 225, DJ Euro Stoxx 50, and S&P 500). However, if in April 2008 each of the 3 indices have not recorded negative returns since inception, investors will get 14% (i.e. 6.58% p.a.) and the fund will be liquidated. Otherwise, the fund will mature on April 2010 and returns will be based on the average quarterly performance of each index.

Deka-KickGarant 2006, a guaranteed fund-of-funds investing in 11 internal equity, bond or commodity funds, gathered €0.4 billion from German investors. It has a seven year time horizon and is guaranteed with zero coupon bonds.

Also in Germany, Union Asset Management's **Unigarant: Deutschland 1/2012** raised a similar amount into a product that invests in fixed income along with call and other options to provide participation in the DAX index.

Absolute Return, Especially in Italy

Beyond funds offering a formal guarantee, the **appeal of fund of funds, multi-manager, asset allocation, and absolute/ total return approaches** were also very visible, particularly in Italy with the launch of several flexible (“flessibili”) funds with some or all of these elements. The Italian funds highlight risk management techniques, risk levels (medium, high, etc.), time horizons, and benchmark “MTS BOT + x%” targets (BOT = Buoni Ordinari del Tesoro, i.e. treasury bills, hence an absolute return target).

The most successful in marketing terms were **Sanpaolo’s ABS Attivo and ABS Prudente**, which **raised a combined €3.4 billion**. Both use strategic (investment horizon over twelve months), tactical (one month time horizon) and trading (time horizon less than one month) strategies to take full advantage of the flexibilities permitted under UCITS III. Having an absolute return objective, the funds aim to outperform the MTS BOT government bond index by 0.6% (ABS Prudente) and 1.4% (ABS Attivo) annually, with an investment time horizon of 18 and 24 months, respectively. In particular, for alpha generation the funds take directional positions between asset classes, “relative value” long-short strategies for individual securities, and volatility strategies via options. Exposure to equities, fixed-income, credit and emerging markets, and active management of currencies and volatility is employed to achieve a broadly diversified portfolio.

In May, **Pioneer Investments** launched **Target Controllo** and **Target Equilibrio**, raising €0.7 billion and €0.1 billion respectively. They join **Target Sviluppo**, created through the restructuring of other funds, to form a “Total Return” suite of products, each covering different risk segments and investment horizons. Controllo targets MTS BOT + 0.5% over three years and can invest up to 30% in equities; Equilibrio targets MTS BOT + 0.8% over five years and can invest up to 50% in equities; and Sviluppo targets MTS BOT + 1.1% over seven years with an equity cap of 80%.

Ducato Multimanager Cash Premium, a fund-of-funds launched in February by **Monte Paschi Asset Management**, invests in bond and money market vehicles, real estate, and **up to 20% of assets in “speculative” funds (Italian and foreign hedge funds)**, taking advantage of new investment fund regulations (**Regolamento Unico**) by the Bank of Italy. The product started in March and has attracted €0.6 billion.

Arca Rendimento Assoluto t3 and t5, launched in February and respectively targeting time horizons of three-years and five-years, are absolute return “**multi strategy multi manager**” funds developed in cooperation with **Russell Investment Group**. In addition to traditional investments, it invests in a range of strategies including **real estate securities, hedge funds, active currency management, and portable alpha strategies**. Together, t3 and t5 collected €1 billion of net flows.

New Equity and Bond Funds

HSBC GIF Global Emerging Markets Equity Freestyle was launched in May and in two months captured €1.1 billion of net flows. The fund is managed by HSBC Halbis Partners, the group’s specialist business focusing on fundamental active investment strategies. A concentrated portfolio, the ‘freestyle’ approach refers to its flexibility to invest in markets and stocks without benchmark constraints. Class M shares have a 1% management fee and a **20% performance fee** in excess of a 5% annual hurdle.

DWS Zukunftsressourcen, a global resource fund launched in February, has attracted more than €0.5 billion through June 2006 and underlines the possibility of significant flows to distinct niche investment strategies. The fund is sold in Germany and invests in companies worldwide that operate in the following sectors: **water, renewable energy and agro chemistry**.

Launched in June with €0.4 billion of assets, **Allianz Group’s dit Deep Discount** fund expands the company’s offerings that invest in **certificates** (structured derivative products linked to equities or stock indices, which are popular in Germany). Deep Discount has a two-pronged strategy of (i) purchasing discount certificates “in the context of deep discount structures”, or sale of call options to create premiums and (ii) purchase of put options on European stocks, indices, or baskets.

ZIF Obligationen CHF Inland with €1.7 billion is the largest of the **Julius Baer’s** Zurich Invest Institutional Funds created for institutional investors. The ZIF range includes 14 funds launched this year with a combined €3.3 billion in assets. It is among the most visible of many mutual funds set up lately for institutions, especially in Switzerland where funds have certain tax advantages versus mandates, and also where the allowance of “single investor funds” encouraged insurance and other institutions to establish and benefit from investments in fund structures.

Asia Highlights

Rapid Growth with Expanding International Partnerships

Mutual fund flows in Asia reached \$83 billion in the first half of this year, already surpassing 2005 levels. Progress remained strong even in May and June, when funds in Europe and the U.S. were impacted by stock market declines. Drivers of Asian fund growth include strong relative performance, growing local demand, and institutional contributions to offshore funds through partnerships between international money managers and local distributors.

Mutual Fund Net Flows in Asia*, 1H'06 \$ Billion

	2003	2004	2005	1H'06
Equity	24	42	47	71
Mixed	-10	0	4	4
Bond	-14	-5	16	0
Other	6	1	11	6
Long-Term	6	38	78	81
Money Market	-15	15	-2	2
Total	-8	52	77	83

Source: Strategic Insight estimates; *Includes Japan, Korea, India, Taiwan and Hong Kong.

Equity funds account for 98% of all long-term flows in Asia this year, and with over \$70 billion into the five primary markets shown below, have already surpassed their net gains in 2005 when they collected \$50 billion.

Asia Net Flows by Country in \$ Billion, 1H'06

	Japan**	Korea	India	HK	Taiwan	Asia Total
Equity	46.9	12.6	6.3	4.6	0.5	70.9
Mixed	-	4.9	0.1	-0.1	-0.5	4.4
Bond	4.0	-2.4	1.0	0.2	-3.0	-0.1
Other*	-	6.0	-	-1.3	1.0	5.7
Long-Term	50.9	21.1	7.3	3.4	-1.9	80.8
Money Mkt.	-2.7	-5.5	9.6	0.1	0.2	1.8
Total	48.3	15.6	16.9	3.5	-1.7	82.6

*Other includes mostly guaranteed funds and ETFs in Taiwan, and REITs, FoFs and commodity funds in Korea; **Japan data from JITA adjusted for certain bond funds in the balanced equity category. Source: Strategic Insight Inc., Industry associations

Stock funds in Japan benefited from the greatest net gains this year, primarily into **Nikkei 225 and Topix index-linked funds**, but also into several **Emerging**

Country and BRIC funds, as well as **dividend-oriented equity programs**. Gains were apparent among domestic managers, with the **largest five companies expanding fund assets by an average of 28%** during the twelve months to June.

Largest Asset Managers in Japan June '06

Company	US\$ Bil.	¥ Trillion	% Change*
Nomura	109.6	12.58	21%
Daiwa	67.3	7.72	32%
Kokusai	58.7	6.74	17%
Nikko	58.1	6.67	51%
Mitsubishi UFJ	42.0	4.83	33%
Total	335.7	38.54	28%

Source: JITA, Strategic Insight Inc; *% change of assets in yen

However, strong growth also benefited funds run by foreign and international managers in Japan, including **Pictet, Deutsche/DWS, Alliance Bernstein, JPMorgan, Fidelity, Invesco, Credit Agricole, and HSBC**. This coincides with large distributors offering their clients access to international equity money managers through **exclusive distribution partnerships and co-branded products**.

For example, **Nikko AM** has formed a number of distribution relationships under CEO Timothy McCarthy, including with Fidelity and Pictet, both of which benefited from strong net flows into offshore funds included in Nikko's retail offering. Also notable is **Nikko's "World Series" platform, which packages external asset management expertise into co-branded products**. The platform was a springboard to introduce new asset classes to clients and asset allocation products that highlight the benefits of diversification. One example, and one of the highest cash flow products across Asia so far in 2006, is **Nikko's GW Seven Eggs Fund**. A global asset allocation product with **seven asset classes sub-advised** by external managers, its 1H'06 net flows exceeded \$2.5 billion. The most recent sub-advisory appointments were Mitsui, Capital Guardian Trust, and Schroder at the end of last year. The fund's distribution channels have also expanded, including 10 securities firms, 18 banks, and two insurance companies.

Similarly, **Nomura** supplemented its in-house product range with co-branded, specialized funds such as Japan-domiciled **DWS Russia and Emerging Europe Equity**. The product was heavily promoted during Nomura's annual asset management fair in Osaka and in a matter of weeks attracted over €1 billion in flows.

Guest Focus

Perspective on the Australian Retail Funds Market

Simon Solomon, Managing Director, Plan For Life

Plan For Life is a group of Actuaries and Researchers, specialising in providing key decision support information covering financial services, life insurance and banking industries in Australia and New Zealand. Plan For Life collects data directly from an extensive range of financial institutions, enabling reporting and consulting on the latest product, company and industry activities. www.planforlife.com.au

Within the total Managed Funds industry of A\$1.26 trillion (as reported by the Australian Bureau of Statistics for March 2006), **Retail Funds hold a very significant A\$467 billion**, or a 37% share. This Retail market consists of two primary segments – **Superannuation** retirement savings (A\$285 billion) and non-Superannuation or ordinary investment moneys (A\$182 billion) – and acts as the main catchment area for **Master Funds and Wraps** (or **Platforms** as they are also known), as well as the majority of **Income Stream Products (Annuities and Pensions)**.

Over the 12 months to March 2006, the size of Retail Funds grew by 20%, fuelled by **net flows of A\$23 billion** (inflows of A\$211 billion offset by A\$188 billion outflows), with investment income and transfers making up a further A\$55 billion of increase.

The Retail market is set for major growth over forthcoming months, due to one of the more significant changes in Government policy, announced in June 2006. Under the new policy (effective from July 2007), lump sum tax on Superannuation (usually occurring on exits), will largely disappear, while the vast majority of the populace, retaining their funds in a Superannuation Retirement Account (in other words drawing a retirement income), will pay no tax on earnings and capital gains within the account and no tax when receiving the income.

This change has dramatic implications, as it will create a major tax haven within which retirees can purchase a multiplicity of assets and generate income in a myriad of ways. It creates substantial **opportunities for Life Companies to sell both short and long term capital**

guaranteed products such as Annuities, for all Retail players to sell Pensions, and for specialists to introduce products hitherto lacking in the Australian Market, namely Longevity Protection.

The expectation is that contributions into Superannuation, which can be made by way of salary sacrifice and transfer of non Superannuation assets, will soar over forthcoming months; at the same time, moneys which would have been cashed out and withdrawn from Superannuation at retirement, are likely to remain within the accounts – figures in the order of **A\$10 billion extra contributions over 12 months, rising rapidly thereafter by 15% and more p.a., are currently forecast.**

The big players in the Retail market are the ones most likely to enjoy the lion’s share of the increases in payments. The **top five managers held 57% (\$266 billion) of Retail Funds** as of March. Of these five, four are owned by large banking groups who are able to use a combination of internal bank distribution coupled with distribution through external financial advisers to generate very substantial sales of products. Apart from the large players, there are also many medium and smaller managers, offering over 100 different product-sets to the market, demonstrating the diversity and complexity of the Australian market.

Retail Funds in Australia, March '06 A\$ Billion

	Assets	12 Mth % Chg	12 Mth Net Flow
Retail Superannuation	285.0	21%	15.1
Retail Discretionary	182.4	18%	8.3
Total Retail Products	467.4	20%	23.4

Top 10 Retail Managers

Commonwealth / Colonial	73.3	29%	7.3
National Australia / MLC	58.7	19%	1.5
BT / Westpac	49.1	23%	2.8
AMP	45.6	22%	2.3
ING Australia	39.3	18%	1.6
Macquarie	33.4	24%	4.9
St George	29.0	28%	2.6
AXA Australia	22.4	20%	1.0
Aviva	16.1	20%	1.0
Perpetual	12.5	15%	0.4

Source: Plan For Life

Institutional

Liability Driven Investment (LDI) Pooled Funds

Although LDI has captured much attention within the institutional and pension marketplace, business progress suggests it is still in its infancy. According to Pensions & Investments, **BGI manages about \$40 billion in LDI strategies and SSgA around \$20 billion, mostly in Europe.** In the context of total AUM managed by these firms and the overall institutional business worldwide, these numbers are clearly miniscule. Still, many in the industry expect a larger role for LDI in the near future.

LDI refers to approaches that focus more on a pension plan's projected liabilities, reduce funding ratio volatility, and better manage interest rate and duration risks. Solutions involve constructing an appropriate liability benchmark and using long bonds, swaps and/or pooled funds to match cash flows to projected liabilities. Various accounting regulations (Dutch FTK, U.K. FRS 17, and IFRS/ IAS 19), combined with unexpectedly high funding deficits among pension funds in recent years, led to the initial growth of LDI in Europe.

But interest is spreading, with **more asset managers introducing LDI solutions in the U.S.**, as the debate on pensions regulations in the country moves in a direction similar to Europe to focus on asset-liability mismatches.

Pooled LDI solutions generally comprise a series of funds with varying maturities that can be combined to match the full range of a pension fund's liabilities. They may be especially suited to small and mid-size pension plans that cannot justify a custom LDI solution. Some examples:

SSgA's Euro Pooled Asset Liability Matching Solution (EuroPALMs) is a family of **ten commingled funds**, each one representing a specific five-year maturity period and structured with zero coupon swaps to provide annual payments to investors when needed (e.g., 2005-2010 fund, 2011-2015, etc.). New five year liability funds will be added to maintain the 50-year structure, for as long as demand exists. Assets in EuroPALMs totaled roughly €140 million as of late. **In April, SSgA launched a U.S. version of its PALMs solution.**

Barclays Global Investors is also planning to launch LDI funds in the U.S. and Canada in the fourth quarter of 2006. Last Spring it introduced **20 LDI funds** in Europe, followed by an **additional 16 pooled vehicles** during the Summer.

Standard Life Investment's Liability Managed Credit Funds comprise **50 pooled vehicles**, each representing one year of maturity, and thus covering 50 years of cash flows and liabilities. Every year, one vehicle matures and another one is created. The pricing of the funds is based on the assumption that 1 unit should buy £1 of cash flow in the required maturity year; thus, the longer dated the maturity year, the cheaper the units today.

Fortis LDI Solution Duration Matching Euro Funds includes **seven vehicles** within a Luxembourg SICAV structure. Durations of the funds range from 2.5 years to 42.5 years (i.e., five funds with five-year maturity periods covering up to 25 years, one 25-35 year fund, and one 35-50 year fund). They invest in government bonds, interest rate swaps, and fixed income futures. The funds apply **"controlled" leverage so that liabilities can be matched with less than 100% of assets.** The proportion of assets that is not devoted to matching liabilities is invested in a portfolio aiming to generate excess returns. The Fortis funds manage €0.5 billion, representing over €0.9 billion of pension liabilities due to the leverage effect.

Merrill Lynch's High Performance Bond Funds represents a simpler variation though still tied to LDI in its marketing, with three underlying funds (the High Performance Over 15 Year Gilt Fund, Over 5 Year Index Linked Gilt Fund, and a Cash Fund).

Several others are already in or positioning into the LDI space, among them **Blackrock, Goldman Sachs, PIMCO, and Threadneedle.** **AXA Investment Managers** has offered LDI to external clients since 2000, and according to the group now manages €22.5 billion in such strategies.

In the U.K. in May, **Russell Investment Group** joined **Insight Investment** in a strategic alliance to offer a solution combining Insight's LDI Solutions Plus Fund and swap overlays in a "liability hedging portfolio" with Russell **multi-manager** and Insight **absolute return** and **long-only funds** into a "growth generating portfolio". Moreover, this venture highlights how LDI links to the "alpha" argument and opens opportunities to a much broader group of fund and asset managers.

Alternatives

Hedge Funds and Structured Products

Investors put \$25 billion net into hedge funds during the first quarter of 2006, a substantial improvement over last year, when net contributions declined by at least 35% and perhaps as much as 60% from 2004, depending on which estimates you take (HFR, Tremont).

Hedge Fund Flows, \$ Billion

Estimates	2003	2004	2005	1Q06
HFR	71	74	47	24
Tremont	72	123	48	27

Source: Strategic Insight Inc., HFR, Tremont Research

Although this amount remains small compared to the \$350 billion of net flows into mutual funds worldwide in the first quarter this year, selected strategies, funds, and managers continue to gain. Of note:

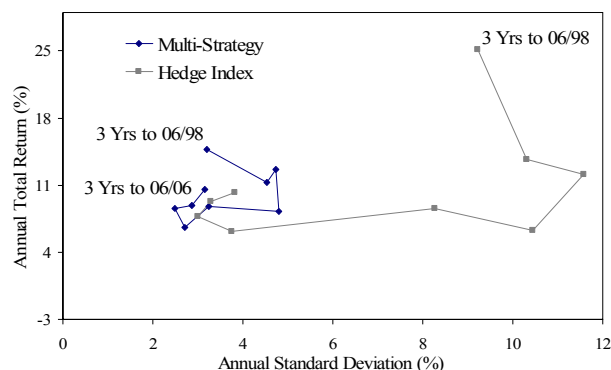
- Additional insight is provided by Lipper Inc., whose offshore and onshore funds databases for Europe includes many hedge/fund-of-funds products; we estimate that these captured more than \$15 billion of flows in Q1'06, and a similar amount in Q2. Among them:
 - Phenix Alternative Holdings**, a France based fund-of-funds (FCP structure) run by AGF Alternative Asset Management (subsidiary of insurance firm Assurances Generales De France), has seen assets increase 80% since year-end 2005 to \$3.5 billion as of June.
 - La Fayette Holdings**, a global multi-strategy fund-of-funds, collected \$1.5 billion during 1H'06. La Fayette, founded in 1992, is based in London.
 - Permal FX, Financials & Futures**, a fund-of-funds, gained nearly \$2 billion in net contributions since the start of the year, increasing assets to \$7 billion in June. Permal was acquired by U.S. based Legg Mason last year.
 - Structured products linked to hedge fund strategies**, often with capital protection, is another way that private banks and investment firms offer clients exposure to absolute return products. For example, early in 2006, the National Bank of Bahrain offered PROtected Structured PERmal (PROSPER) Notes, a five-year USD

investment linked to the performance of the Permal FX, Financials & Futures fund, with 100% principal protection at maturity, a contingent annual coupon of up to 6% in the first four years

- Similar structured products based on Permal funds have been offered in the past year in different markets, such as notes by Citibank in the United Arab Emirates, and "Zertifikats" issued by BNP Paribas in Germany, also distributed by Citibank.
- One of the largest ever launches of a global private client structured hedge product occurred in March 2006, when the Man Group collected \$2.3 billion into Man IP 220 International Ltd. It is based on their IP 220 strategy, launched in 1996, and comes with principal guaranteed by Citibank at maturity in 2018.

Many of the funds that continue to gather flows are multi-strategy in nature, supported by their risk-adjusted performance, as well as reassuring capacity and diversification arguments. As shown in the chart below, funds in the CSFB/Tremont Multi-Strategy Hedge Index over time have delivered returns consistent with the broader hedge index, but within a narrower band of return and volatility. Each point in the chart represents three-year rolling returns and volatility for each index, starting at three-years to December 1997.

Multi-Strategy versus Overall Hedge Index 3-Year Rolling Return and Volatility



Source: CSFB/Tremont Index, LLC., Strategic Insight Inc.

While hedge funds will continue to grow from HNW and institutional demand, the broadening range of mutual funds that incorporate many of the strategies of hedge funds, with greater transparency and under a more comforting regulatory structure, will encourage further convergence between the traditional and alternative sides of the business.

Fund Analytics

Equity Fund Managers in Europe: Investment Quality and Flows

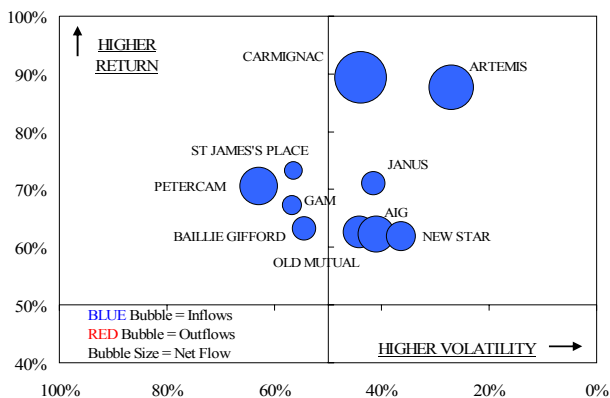
How can you best illustrate the investment quality of a company versus peers and its relationship to flows, in a concise and intuitive way?

By integrating data from multiple sources, fund managers and distributors can produce powerful analytics to aid in sales and marketing, management review, securing wider distribution, selecting products and partners, and conveying important messages to financial advisors and sophisticated clients.

This is especially important in the context of growing third party distribution, sub-advisory arrangements, preferred provider partnerships, multi-manager solutions, and institutionalization of product buying through Fund Selection Units (FSUs) around the world.

One example is the chart below, which shows the positioning of mid-size equity fund managers in Europe across three dimensions: three-year relative return, relative risk, and year-to-date net flows.

Mid-Size Equity Fund Managers in Europe 3-Yr Relative Risk/Returns to 6/06



Source: Strategic Insight Inc., Lipper Inc.; Includes managers with equity fund assets in Europe between €2 billion and €10 billion in at least five funds with 3-yr performance records; managers with outflows excluded; returns and risk are relative to other funds by investment classification; size of bubble related to 1H'06 flows.

How was this analysis generated, what does it mean, and how can it be used? First, on methodology:

- We focused on **mid-size managers** in Europe with total assets between €2 billion and €10 billion in at least five equity funds with a three-year performance record.

- Each fund's three-year total return (in Euro terms) and standard deviation of returns were compared against all funds across Europe within their specific investment objectives (using Lipper Global classifications). Percentile relative rankings were calculated for each fund using Strategic Insight's proprietary statistical methodology. Fund results were averaged for each company, then the managers with the highest average relative return rankings were plotted, along with net flows which determines the size of each 'bubble'. Managers with outflows were excluded.
- **Many CIO's might aim to position their funds in the upper-left quadrant, which represents better relative returns and better relative risk compared to peers** (note: better relative risk = lower volatility = higher percentile risk score; i.e., a fund with a 90% risk score did better than most peers in achieving lower volatility).
- Providing support for one of the truisms in our industry – that "performance matters" - funds and managers positioned in the **upper-left quadrant** (higher returns, lower risk) often **capture strong net inflows**. But managers in the **upper-right** (higher returns, higher risk) also capture high inflows, suggesting the insensitivity of most investors during up-market cycles to volatility (more on this on the next page).

What do we learn about the business through this particular chart, the data, and the process behind it?

- The ten companies shown have among the best relative returns from a group of over eighty mid-size equity fund managers in Europe. Some are familiar "boutique" or specialist managers in their markets, for instance **Artemis** and **New Star** in the UK, and others well-known worldwide, such as **GAM** (part of Julius Baer) and **Janus**.
- Of the ten managers shown, France's **Carmignac Gestion** had the highest net inflows in 1H'06 into its equity funds, totaling nearly €1 billion, a meaningful amount and among the top 20 cash flow equity managers in Europe.
- **Both Carmignac and Artemis achieved the highest flows within the group, along with the highest relative total return rankings.** The equity funds of each manager beat, on average, nearly 90% of other funds in the same investment objectives over the trailing three-year period. **However, both achieved their returns by taking on greater than average risk/volatility.**

- Looking more broadly beyond this group, it is telling that **the four highest cash flow equity fund managers so far this year** (Merrill Lynch, JP Morgan, AXA, and Fidelity) **have similar characteristics**: above average relative returns for the kind of funds they manage (falling in the 60% range on the vertical axis), but slightly higher than average relative volatility (in the 45% range).
- Indeed, including all managers in Europe with equity funds having at least a three-year track record, those with **products positioned in the upper-right (higher returns, higher volatility) collectively took in the majority of flows so far this year**; upper-left occupiers captured flows too, but the rest were in net redemptions.

All Equity Fund Managers in Europe by 3-Yr Risk/Return Position; Net Flows 1H'06, € Billion

	Low Relative Risk	High Relative Risk
High Relative Return	8	30
Low Relative Return	-12	-5

Source: Strategic Insight Inc., Lipper Inc.; Includes only funds with 3-year performance records.

Brand and the Investor Experience

Such relative risk-return charts can provide a very incisive **snapshot of the average investor experience** with a particular fund group.

While the chart above represents a simple average of the relative returns and risk of each equity fund within a complex, arguably an **“asset-weighted” average**, giving more weight to the relative position of the larger funds in each company, **may provide an even more representative picture of the experience of a manager’s client base.**

Many companies have broad product lines with smaller, poorer performing funds. But because those products have few investors and limited assets, most clients do not associate those funds with the manager. Rather, **the quality of the “flagship” funds most feeds into a manager’s brand.**

To illustrate the difference, the chart below shows the positioning of one manager, Janus Group’s Ireland-domiciled equity funds, both as a simple average and as an asset-weighted average.

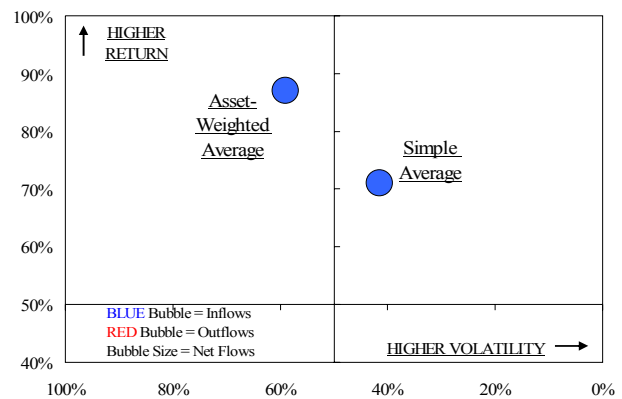
Janus has fourteen equity funds (not counting pricing variations) across their Janus World and Janus

Selection lines in Ireland. However, one portfolio, **Janus World U.S. Risk Managed Core** with well over €2 billion in assets, represents nearly half of Ireland-based equity assets within the group. It is run by Janus unit INTECH using a mathematical investment process, and captured €0.5 billion in flows in 1H’06, on top of more than a billion last year.

The three-year total return of the U.S. Risk Managed Core fund exceeded 95% of all other funds in the major markets of Europe within its classification (Equity North America). Giving greater weight to this fund and other large funds within the group pushes Janus higher on the relative return dimension.

In addition, the fund has better than average risk management, with standard deviations lower than 70% of peers over the past three years. This shifts the positioning further left.

Janus Equity Funds in Europe 3-Yr Risk/Return to 6/06



Source: Strategic Insight Inc., Lipper Inc.; Includes funds with 3-yr performance records only; returns and volatility are relative to all other funds in Europe by investment classification.

Strategic Insight provides many variations of the above types of analysis, including:

- Customized peer groups and classifications;
- Aggregation on multiple levels (by portfolio, fund objective, asset class, or for entire product lines);
- Results relative to various fund universes and specific markets;
- Different risk measures (standard deviation, downside risk, number of negative months, etc.), and returns and risk over different time periods;
- “Rolling” analysis over time showing the evolution of a company’s investment process over multiple periods;
- Coverage across funds in Europe, U.S., and Asia.

Contributors



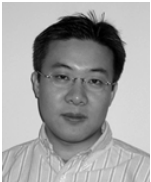
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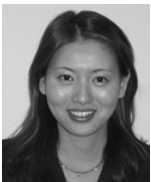
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About this report

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It joins our other internationally-focused publications, including a monthly Global FlowWatch (a 40+ page analysis of mutual fund demand across more than 20 markets around the world), our Highest Cash Flow Fund reports published twice a year, and additional periodic thematic studies.

The Global service also includes customized research and consulting through which our analysts address each client's specific needs for information, data, analysis, industry discussions and presentations, and special projects related to funds and asset management around the world.

SI's international analysis draws from a broad range of data sources and research, including our calculations of net flows for all funds in Europe and Asia.

The Global service is separate from our U.S. mutual fund research service and is provided through a separate subscription.

Strategic Insight is also planning to introduce SIMFUND Europe and SIMFUND Asia, two powerful databases and analytical tools on non-U.S. funds that will mirror the unique content, integration, and software of our existing SIMFUND U.S. modules already used within nearly 200 financial service companies.

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