

## Strategic Insight

590 Fifth Avenue, New York, NY 10036

Tel: (212) 944-4455, Fax: (212) 730-7730

Available at [www.sionline.com](http://www.sionline.com)

		Page
<a href="#"><u>Looking Back, and Ahead</u></a>	<b>Perspectives</b>	2
<a href="#"><u>US Mutual Funds: 2006 Highlights</u></a>	<b>US Fund FlowWatch</b>	3
<a href="#"><u>New Fund Successes; Closed-End Fund Filings and Trends</u></a>	<b>New Fund Filings</b>	10
<a href="#"><u>International Funds: A Record-Setting Year</u></a>	<b>International Funds - I</b>	11
<a href="#"><u>In a "Flat World", Are Investors Transitioning Away from "Home Bias"?</u></a>	<b>International Funds - II</b>	12
<a href="#"><u>Some Key Drivers of the Assembled Advice Culture</u></a>	<b>Assembled Advice - I</b>	13
<a href="#"><u>Funds-of-Funds and Lifecycle Programs: Persistent Demand</u></a>	<b>Assembled Advice - II</b>	14
<a href="#"><u>Fund Selection Units: Accelerating Focus in the US and Internationally</u></a>	<b>Distribution</b>	17
<a href="#"><u>ETF Progress in 2006: Net Issuance Growth; Wave of New Funds</u></a>	<b>ETFs</b>	21
<a href="#"><u>Inside FundFiling.Com: A Year of Changes</u></a>	<b>Inside FundFiling.com</b>	24
<a href="#"><u>Fees &amp; Expenses: Highlights of SI Research in 2006</u></a>	<b>Fees &amp; Expenses</b>	26
<a href="#"><u>15(c) : Highlights of SI Research in 2006</u></a>	<b>15(c)</b>	27
<a href="#"><u>Board-Related SI Research: 2006 Highlights</u></a>	<b>Board Talk</b>	28
<a href="#"><u>The Global Fund Industry: A Year-End Review</u></a>	<b>Global Trends</b>	29
<a href="#"><u>The Year in Variable Annuities</u></a>	<b>Variable Annuities/Life</b>	31
<a href="#"><u>Strategic Insight: In Our 21st Year and Planning Ahead</u></a>	<b>Tools Time</b>	33

During the first two months of 2007, the US-based mutual fund industry has garnered nearly \$100 billion in stock and bond fund net inflows. This expansion follows a record year for both US mutual funds and the wealth management business worldwide. This expanded Windows edition is a forward-looking annual review of some key developments in 2006. Besides summarizing the fastest growing investment segments, managers, and new funds, the report discusses Fund Selection Units, ETFs, Funds-of-Funds, and why high demand for International Funds is likely to persist. Opportunities in Asia and Europe, VA industry trends, and summaries of SI's fee and expense and trustees-centered research published in 2006 are also provided. We conclude the report by outlining some of the initiatives Strategic Insight has planned for the coming year, which is SI's 21<sup>st</sup>.

**Joel Rosenthal, Avi Nachmany and Phil Herzog**

This page was intentionally left blank

# Looking Back, and Ahead



**Avi Nachmany**  
(212) 944 4451  
[avi@sionline.com](mailto:avi@sionline.com)

- 2007:** improving financial conditions and stock markets helped the mutual fund industry attract about \$100 billion during the first two months of 2007. Despite the stock market correction on February 27<sup>th</sup>, we assume that underlying mutual fund investor confidence will be sustained once price levels stabilize
- US 2006 records:** by December 2006, assets managed within open-end funds (including VA funds and ETFs structured as mutual funds) and closed-end mutual funds reached \$11.2 trillion, \$1.6 trillion above year-end 2005 levels; US industry 2006 cash flows reached an estimated \$540 billion
- Worldwide:** dramatic expansion was also evidenced among mutual funds outside the US, where 2006 flows neared an amount equal to \$600 billion; total managed fund assets exceeded \$12.3 trillion by year-end; and Asia-resident investors contributed about \$240 billion to long-term fund flows last year, exceeding net investments by Europe-resident investors!
- US cash flow highlights 2006:** international equity funds captured net flows in excess of \$190 billion, mostly within diversified large cap strategies (we suggest that demand for international diversification, in the US and Europe, is a secular trend and will persist, driven by a lessening of home-bias in investors' portfolios). Bond fund flows eclipsed \$75 billion despite a flat yield curve; money fund inflows exceeded \$220 billion
- US equity funds 2006:** actively-managed diversified US equity funds experienced, on aggregate, no flows in 2006 (however, many individual fund complexes grew rapidly in this area, as detailed in the coming pages); among sector funds, the real estate and natural resources segments each garnered large flows
- Closed-end fund IPO** volume, weak for much of the year, recovered dramatically in November 2006; January 2007 witnessed a new record IPO
- Asset allocation:** a persistent unifying theme in recent years for investors, retirement plan providers, and financial advisors has been an increasing focus on asset allocation and pre-packaged advice. Aggregate flows into funds-of-funds of all kinds (including VA FoFs) reached \$110 billion in 2006; together with mutual fund "wraps", balanced funds, and other allocation strategies, such programs garnered flows of around \$200 billion in 2006. A detailed summary of FoF trends, in the context of their use in improving realized returns and dealing with liability concerns, is offered in this issue of Windows
- Fund Selection Units:** for many fund managers, Fund Selection Units (FSUs) influence 30-50% of sales today, sometimes even more. Increasing institutionalization of investment management selection is in evidence throughout the asset management industry—both in the US and internationally. The 4-page discussion on this subject in this Windows issue provides suggestions and observations on the intensifying engagement of fund management companies with FSUs
- ETFs:** we detail the dynamic pace of innovation in the ETF marketplace
- Fees, 15(c), and Trustees' questions:** many reports published by SI over the past year touched on areas of interest to fund boards. We offer some highlights in this Windows.
- Not a rising tide:** demand for mutual funds remains strong both in the US and abroad, with a large number of fund managers, small and large, benefiting. Yet, four in ten US fund managers suffered net redemptions last year, the pace of M&As for fund managers was steady, and providing investment excellence and open capacity in an increasingly competitive wealth management business is an ever-challenging task
- Strategic Insight**, in its 21st year, continues to expand the range of services it offers to nearly 300 financial services client organizations in the US and abroad. A few of our initiatives for 2007: new Simfund versions, including a revised Simfund Lipper module, an expanded FundFiling.com, the nearly 50,000 funds in Asia and Europe we now track monthly, new features planned for AnnuityInsight.com, and improvements in our on-demand research and 15(c) services.

# US Mutual Fund 2006 Highlights



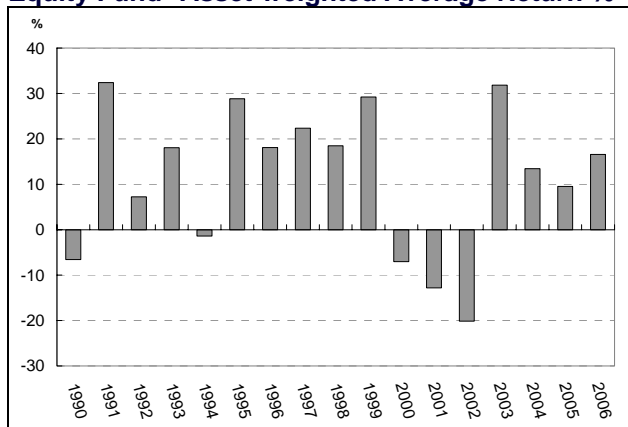
**Wontak Kim**  
(212) 944 4453  
[wkim@sionline.com](mailto:wkim@sionline.com)



**Avi Nachmany**  
(212) 944 4451  
[avi@sionline.com](mailto:avi@sionline.com)

During 2006, the average investor in equity funds earned 16.4%; gains for internationally-focused equity funds were higher (24%), while investors in US equity funds earned 14% (these ratios are asset weighted to capture the experience of the “average investor,” not simply the “average fund”).

### Equity Fund\* Asset-weighted Average Return %



\* Does not include hybrid funds or VA-underlying funds  
Source: Strategic Insight Simfund; Standard & Poor's

Fund Type	Average Asset-Weighted Annualized Returns %		
	Trailing Periods, as of 12/06		
	1 Year	3 Year	5 Year
Domestic Equity *	14.14	11.41	7.99
International Equity	24.18	19.97	15.76
Taxable Bond	5.40	4.42	5.74
Tax-Free Bond	5.08	4.25	5.09

\* Includes hybrid/allocation funds.  
Source: Strategic Insight Simfund MF, Standard & Poor's

Despite the attractive performance of US equity funds and persistent confidence in the US economy, flows into US equity funds shrunk dramatically, in aggregate, last

year (however, as captured in the following pages, many individual managers with attractive funds and visible brands continued to expand, sometimes faster than in prior years.)

While US equity fund flows contracted, **international equity fund** (as well as bond fund) **flows increased notably. This phenomenon was observed not just in the US; in many European countries also a diversification away from the “home country” and “home biased” equity fund choices could be seen.** We believe **this is a secular trend that transcends opportunistic return-chasing by investors** (international equity funds have outperformed US equity funds during each of the past five years).

Last year, the interest rate yield curve was largely flat or inverted. Historically (1988-1990, 1994, 2000), such rising short rates and flattening yield environment resulted in lower sales and at times bond fund net redemptions, as MMF yields became more attractive. **But in 2006, bond funds actually experienced significant net inflows.** Shorter duration branded funds, global and multi-sector funds benefiting from US Dollar depreciation, and high-yield muni bond funds, among other bond fund types, continued to grow. Such **bond fund demand was helped by the emerging asset allocation mindset, which demands bond fund allocations somewhat independent of interest rate cycles.**

Overall, actively managed stock and bond funds garnered \$192 billion in 2006 net inflows, in line with volumes seen in recent years.

Money market mutual funds captured a remarkable \$220 billion-plus in cash inflows in 2006, as taxable MMF yields inched up to exceed 5% by year-end.

### Fund Industry Overview (Active Funds Only, Excluding ETFs, Index, and VA Funds) \$B

	Net New Flows			Assets
	2004	2005	2006	12/06
U.S. Equity	105.3	51.9	7.6	3,497
Hybrid/Allocation	27.0	13.6	0.6	389
International Equity	75.0	110.1	134.0	1,261
<b>Total Eqty / Hybrid</b>	<b>207.2</b>	<b>175.6</b>	<b>142.2</b>	<b>5,147</b>
Taxable Bond	8.0	18.9	37.4	1,001
Muni Bond	-17.2	1.3	12.8	459
<b>Total Bond</b>	<b>-9.1</b>	<b>20.2</b>	<b>50.2</b>	<b>1,460</b>
<b>Total Equity / Bond</b>	<b>198.1</b>	<b>195.8</b>	<b>192.4</b>	<b>6,607</b>
Money Market	-143.0	60.8	221.2	2,316
<b>Total</b>	<b>55.1</b>	<b>256.6</b>	<b>413.6</b>	<b>8,923</b>

Source: Strategic Insight Simfund MF

For greater clarity, **the table above excludes ETFs and other index funds.** (So far, most ETFs are used by institutional investors, and by financial advisors, RIAs, or individual investors drawing on ETFs as alternatives to stock and SMA portfolios, and not as substitutes for mutual funds. But some “early adopters” are using ETFs in place of traditional index, sector, or other active core funds’, either picking the ETFs individually or in the form of wrapped solutions. Further ETF evolution and expanding retail use is inevitable.)

Index fund and ETF flow gains were notable in 2006, as shown in the tables below.

**Equity / Hybrid Funds: Active vs. Passive (excl. VAs)**

	Net New Flows \$B		
	2004	2005	2006
Actively Managed Funds	207.2	175.6	142.2
Index Funds (non-ETF)	33.6	21.3	27.6
ETF Open-End Funds	45.9	46.9	62.5
ETFs structured as UITs / Grantor Trusts / Other *	5.0	0.5	-0.1

Source: Strategic Insight Simfund; \*significant gains were experienced among ETFs focusing on commodities, metals, currencies, and oil, while some traditional UIT-type ETFs experienced redemptions

Among **bond funds**, specialized and other large scale, branded, low-fee, actively managed funds continued to dominate.

**Bond Funds: Active vs. Passive (excl. VAs)**

	Net New Flows \$B		
	2004	2005	2006
Actively Managed Funds	-9.1	20.2	50.2
Index Funds (non-ETF)	6.2	7.1	9.6
ETF Open-End Funds	3.6	6.3	5.1

Source: Strategic Insight Simfund

**Equity Funds: Additional Details**

**US vs. International Funds**

**U.S. Equity / Hybrid Funds: Active vs. Passive (excl. VAs)**

	Net New Flows \$B		
	2004	2005	2006
Actively Managed	132.3	65.5	8.3
Index Funds (non-ETF)	28.3	12.8	16.3
ETF Open-End Funds	30.6	24.1	35.8
ETF (UITs / Grantor Trusts / Other)	5.0	0.2	-0.3

Source: Strategic Insight Simfund

In a reflection of a sobering shift in investors’ choices, **actively-managed, diversified US equity funds experienced virtually no net flows last year, despite their appealing total returns during 2006 and in prior years.** Secular forces of prudent diversification, evidenced both in the US and Europe, could continue to make “aggregate” cash flow expansion among diversified US equity funds a challenge. (Of course, many individual high reputation US funds continued to expand strongly, but mediocre funds suffered redemptions.)

**Int'l / Global Equity Funds: Active vs. Passive (excl. VAs)**

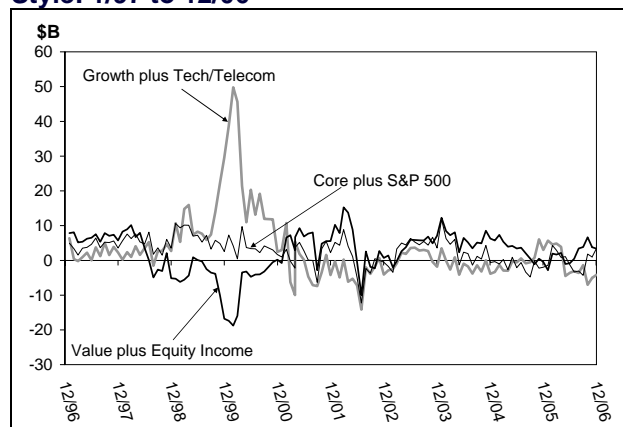
	Net New Flows \$B		
	2004	2005	2006
Actively Managed Funds	75.0	110.1	134.0
Index Funds (non-ETF)	5.4	8.5	11.3
ETF Open-End Funds	15.3	22.7	26.7
ETFs structured as UITs / Grantor Trusts / Other	0.0	0.3	0.2

Source: Strategic Insight Simfund

**Growth vs. Value**

As illustrated below, growth funds enjoyed a brief period of recovery in investor interest in late 2005 and in early 2006. But the sharp price correction in May triggered a decline in flows into growth funds. Inversely, value funds experienced, in aggregate, a modest increase in flows.

**Open-End Equity Fund Flows by Investment Style: 1/97 to 12/06**



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

Flow trends and total returns among diversified actively managed equity funds are summarized below.

**Actively Managed Diversified U.S. Equity Flows and Performance (Excl. VAs)**

	Flows \$B		2006
	2005	2006	Returns *
Large-Cap Growth	-33.5	-33.9	6.0
Multi-Cap Growth	31.4	26.7	9.7
Mid-Cap Growth	-1.9	-5.2	9.8
Small-Cap Growth	-0.4	-6.0	10.6
<b>Growth Funds</b>	<b>-4.4</b>	<b>-18.3</b>	<b>8.5</b>
Large-Cap Core	-18.9	-21.7	13.8
Multi-Cap Core	3.7	8.7	13.7
Mid-Cap Core	2.3	0.7	13.7
Small-Cap Core	5.1	5.5	14.0
<b>Core Funds</b>	<b>-7.7</b>	<b>-6.9</b>	<b>13.8</b>
Large-Cap Value	1.9	-3.0	17.7
Multi-Cap Value	9.7	10.9	17.7
Mid-Cap Value	13.1	0.2	16.3
Small-Cap Value	-0.5	0.7	16.2
<b>Value Funds</b>	<b>24.2</b>	<b>8.8</b>	<b>17.4</b>

\* Weighted by average assets. Source: Strategic Insight Simfund MF; Lipper Inc. (Classifications), Standard & Poor's (Returns)

Among international / global funds, diversified large (multi) cap strategies dominated, including in Diversified Emerging Markets; for additional details refer to page 11.

**Other Highlights of 2006**

- **Assets (including VA funds):** For all of 2006, mutual fund asset growth exceeded \$1.6 trillion. By year end, assets held in US registered mutual funds eclipsed \$11 trillion (traditional open-end funds \$9.3 trillion; VA underlying funds \$1.3 trillion; ETFs structured as mutual funds with \$309 billion; additional assets in UIT ETFs and ETF-like non-RIC exchange-traded vehicles; and nearly \$300 billion in closed-end mutual funds). SI's Global research team ([www.StrategicInsightGlobal.com](http://www.StrategicInsightGlobal.com)) detailed similar record growth among mutual funds worldwide.
- **Cash flows (including VA funds):** Industry cash flows for full year 2006 are estimated at \$540 billion. Money Market fund inflows reached over \$220 billion, as their yields crept up to eclipse 5%. **Bond fund inflows (including VAs) totaled \$76 billion. As mentioned before, these were remarkable gains for a flat / inverted yield curve period, and mirroring a relentless advance towards prudent diversification among fund investors.**

- **Sector-based funds in 2006: Natural Resources** funds led in inflows among individual sectors, garnering \$6.6 billion; US-focused Real Estate funds attracted \$4.7 billion; while **globally-oriented real estate funds** brought in \$5.1 billion; precious metal mutual funds pooled in close to \$2 billion in full year 2006 (additional large gains where noted among non-fund ETFs focusing on commodities, reflecting the expanding use of ETFs for sector investing).
- **Funds-of-funds:** For the full year, flows into all kinds of fund-of-fund programs added up to \$76 billion (versus \$59 billion in 2005 and \$51 billion in 2004.) Virtually all of 2006's upsurge in FoF flows could be attributed to lifecycle, mainly target-date, funds. (Additional elevated inflows of \$34 billion were experienced last year within the VA fund-of-fund space, where risk-based programs continue to dominate.)
- **529 Plans:** Flows in 2006 are estimated at \$13-14 billion, in line with prior years. **Going forward, more favorable tax rules should result in faster evolution and use of such plans.**
- **New equity fund innovations:** Common themes among new equity fund launches were fund-of-fund packaging and allocation funds of many stripes, funds providing international exposure, clone funds to manage capacity, quantitative products, funds focused on the US or global real estate or commodity / natural resources sectors, long/short funds in various permutations, institutional stand-alone funds, many innovative / sector-oriented ETFs, etc.
- **New bond funds:** Funds focused on investments in International bonds, Floating Rate, TIPS, Multi Sector, short duration, and more.
- **Capital gains distributions:** In December, about \$200 billion in capital gains distributions were paid out among open-end funds. Combined with capital gains distributions from the rest of the year, and similar distributions among VA underlying funds paid in tax-deferred accounts, we roughly estimate that **total capital gains distributions in 2006 neared \$300 billion.** (according to the ICI, the highest annual amount ever—\$326 billion—was paid out during the boom-and-bust year of 2000; in 1999, \$238 billion was paid). While **only about a third of 2006's capital gain distributions were collected within households' taxable accounts,** the remarkable (and unfair vs.

alternative stock investments) taxation of mutual funds will likely be a topic of intensified debate and may trigger further innovation in tax-managed investing. (While, in aggregate, tax-managed fund flows were modest last year, we count **18 individual tax-managed funds that received at least \$100 million each in net inflows in 2006.**)

- Among those **fund management companies** in the US that had over \$1 billion in assets at the beginning of 2006, about 60% attracted positive cash flows last year (isolating just stock and bond funds, **the positive flow ratio was a similar 56%**). Fund managers, **small and large, that offered “centers of investment excellence,” benefited from rising sales.** Open-architecture, institutional measurement of excellence through Fund Selection Units, and asset allocation mindsets have facilitated interest in quality funds even when managed in an “out of current favor” style. But for many fast-growing funds, **capacity management has become a greater challenge.** It was also encouraging to see that many of the asset managers that had suffered large redemptions in prior years experienced much smaller attrition in their fund business in 2006, besides experiencing inflows in non-fund units in the US or internationally that helped them maintain their financial health.
- While many fund managers continued to grow and remain highly profitable, 2006 witnessed a steady pace of **mergers & acquisitions** and persistence in ownership restructuring for both large and smaller managers. A transition away from legacy proprietary distribution among investment and commercial banks, a desire to overcome size limitations, or to become one of several investment boutiques under a supportive, “non-invasive” corporate parent, were a few of the themes driving M&As as of late.
- Fund Selection Units (FSUs) became more dominant last year. But wholesaling remained critical and, in fact, a number of managers further augmented their wholesaling efforts. Fund managers with attractive (or unique) non-core investment strategies effectively used traditional wholesaling for successful expansion. Mutual fund “wraps” continued their fast expansion, and reportedly were the fastest growing segment among a number of Broker/Dealers.

## Funds with Highest Inflows: Some Risk-Return Characteristics

While the decision to invest in a particular fund or with a particular fund manager, as well as retention choices, are the result of many analytical and ranking methodologies and qualitative considerations, SI has observed that **trailing three-year rankings, within the fund’s investment style and on both relative-return and relative-risk dimensions, offer very strong explanatory as well as predictive value for fund flows.**

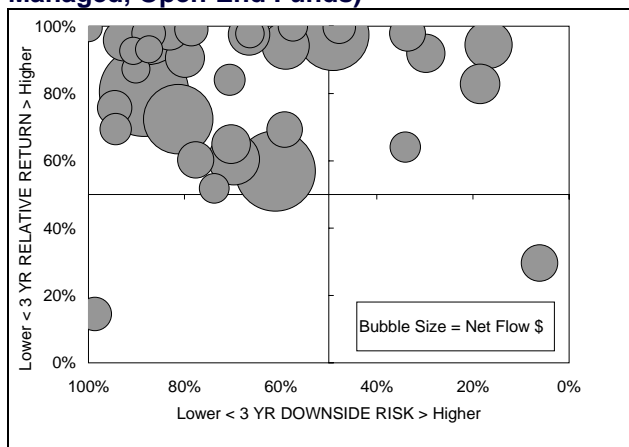
SI’s “Bubble” charts generated in Simfund, plot funds on a relative risk/return basis versus similarly invested peers. Funds in the top-left quadrant have superior positioning relative to peers, displaying below-average risk (defined as cumulative monthly losses over 36 monthly observations) while achieving above-average returns. 2006 was another period for which the top-left quadrant of such graphs housed the highest-flow funds. Beyond relative performance, we note that with the fund industry having climbed out of the depths of the 2000-2002 bear market, the impact of trailing three- and five-year look-back performance would be even more significant, and should help fund managers in presenting and marketing their funds.

As an illustration of 2006 cash flow results, we capture below the “trailing three-year risk-return vs. cash flow bubbles” of the industry’s 40 highest cash flow funds during 2006 (risk and return measured within each fund’s narrow Lipper investment classification). (Simfund subscribers who also have access to the Simfund Lipper Module can replicate easily such graphs for their peer funds; all Simfund users can run such graphs within the fund’s Morningstar Category.) Note that **bubble size corresponds to 2006 net inflows.**

While we have not identified the individual funds in the bubble charts, they clearly share very appealing risk-return characteristics for the 36-month period ending December 2006. The few outliers are funds offered by well respected managers benefiting from a “halo” effect, or unique thus hard-to-classify funds, or those reflecting strong performance in periods prior to last year.

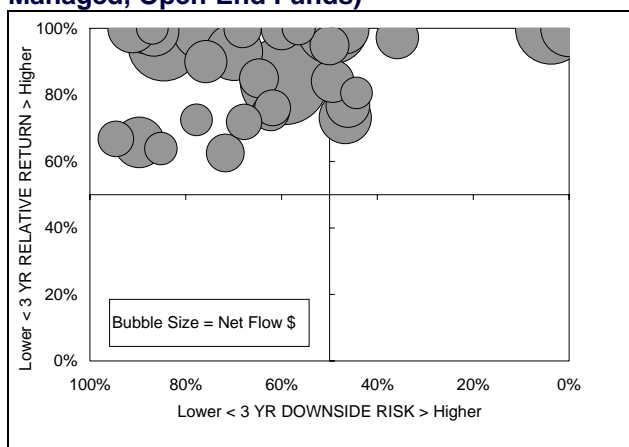
## Risk-Return Characteristics of Best Selling Mutual Funds in 2006

### Highest Flow Equity Funds in 2006 (Actively Managed, Open-End Funds) \*



\* 2006 Flows and 3 Year Risk/Return Analysis within Lipper Classifications; Source: Strategic Insight Simfund MF

### Highest Flow Bond Funds in 2006 (Actively Managed, Open-End Funds) \*



\* 2006 Flows and 3 Year Risk/Return Analysis within Lipper Classifications; Source: Strategic Insight Simfund MF

When we study some newly launched funds gathering high flows last year, despite lacking three-year performance records and therefore, having no “star” ratings, we find, not surprisingly, clones of highly rated funds, brand-line extensions by managers of high reputation, innovative multi-strategy funds, and numerous short duration bond funds, at times offered within quasi-proprietary distribution.

## 2006 Flows by Manager

Aggregate industry flow trends at times mask the wide range of individual managers benefiting from meaningful growth in each investment area. The most striking example is in the US equity fund business, an area with little aggregate cash flow gains last year, but with 15 managers each capturing at least \$2 billion in flows during 2006, as shown on the following page.

The following series of tables summarize, for each investment area, the managers making the most cash flow progress last year. Note that **for clarity we show actively managed funds separately from index funds (including ETFs); detailed ETF data can be found later in this annual review.**

Ultimately, each manager identified below has presented an array of investment “Centers of Excellence.”

### Int'l / Global Equity Actively Managed Funds (Exc. VAs) Highest Cash Flow Managers

Manager	Net New Flows		2006 Flow Rate *	Assets 12/06 \$B
	2005 \$B	2006 \$B		
American Funds	24.9	31.3	16%	276.3
Fidelity	13.6	18.8	25%	111.7
Dodge & Cox	7.7	12.4	93%	30.9
DFA	4.9	6.2	33%	31.4
AllianceBernstein	2.3	5.9	29%	31.7
Vanguard	2.5	5.0	24%	31.4
Thornburg	2.0	3.6	77%	10.0
OppenheimerFunds	3.4	3.2	11%	37.4
Harbor Capital	1.1	2.9	24%	19.2
BlackRock	2.9	2.9	13%	29.8
JPMorgan Funds	0.3	2.8	65%	8.4
Julius Baer	4.9	2.6	15%	25.6
T Rowe Price	2.0	2.4	15%	23.0
MFS	2.2	2.2	21%	15.3
UBS Gbl Asset Mgt	2.4	2.2	32%	10.2
Goldman Sachs	0.8	2.1	81%	5.6
The Boston Co.	0.6	1.6	131%	3.4
State Street Gbl	0.3	1.5	81%	4.1
William Blair	1.5	1.5	22%	10.1
Evergreen InvMgmt	3.3	1.5	13%	14.8

\* 2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**US Equity Actively Managed Funds  
(Exc. VAs and Hybrid Funds)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
American Funds	40.9	<b>33.8</b>	7%	582.8
Davis Selectd Adv	2.1	<b>5.0</b>	10%	62.7
T Rowe Price	9.5	<b>4.8</b>	4%	132.0
John Hancock	7.2	<b>4.3</b>	17%	33.2
Eaton Vance	2.7	<b>4.2</b>	14%	38.5
Dodge & Cox	4.6	<b>4.2</b>	8%	66.2
The Hartford	1.4	<b>3.5</b>	15%	29.8
Goldman Sachs	3.5	<b>2.8</b>	16%	23.8
Columbia Funds	-0.2	<b>2.8</b>	6%	57.7
DFA	1.6	<b>2.7</b>	33%	12.5
Schwab	3.0	<b>2.7</b>	39%	10.4
American Beacon	1.7	<b>2.6</b>	52%	8.7
Royce & Assoc	-0.3	<b>2.3</b>	10%	27.2
Keeley AM	0.7	<b>2.1</b>	187%	3.6
Princor	4.2	<b>2.0</b>	14%	18.4
Fairholme	1.2	<b>1.8</b>	117%	3.8
Thornburg	0.0	<b>1.8</b>	76%	4.9
UST Advisers	0.8	<b>1.7</b>	21%	11.0
Grantham Mayo	2.4	<b>1.7</b>	16%	12.6
Russell Invst Grp	0.6	<b>1.6</b>	13%	15.9

\*2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**Taxable Bond Actively Managed Funds  
(Exc. VAs)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
Fidelity	6.6	<b>9.1</b>	13%	83.4
American Funds	3.6	<b>5.2</b>	12%	51.5
Legg Mason Cap.	3.4	<b>4.6</b>	34%	19.3
Loomis Sayles	1.4	<b>4.4</b>	71%	11.4
PIMCO/Allianz Glb	17.5	<b>4.3</b>	3%	169.2
Schwab	1.4	<b>4.0</b>	55%	11.6
IXIS Asset Mgmt	1.2	<b>3.7</b>	136%	6.9
The Hartford	0.6	<b>2.4</b>	81%	5.5
OppenheimerFnds	2.0	<b>2.3</b>	11%	24.0
Grantham Mayo	1.0	<b>2.2</b>	31%	9.9
Highland Cap Mgt	0.5	<b>2.1</b>	84%	5.0
DFA	1.2	<b>2.0</b>	29%	9.4
T Rowe Price	-0.1	<b>2.0</b>	15%	16.5
Dodge & Cox	1.7	<b>1.9</b>	20%	12.0
Metropolitan West	0.3	<b>1.3</b>	46%	4.3
SEI	1.3	<b>1.3</b>	10%	15.6
Calvert	0.8	<b>1.3</b>	28%	5.9
Russell Invst Grp	0.9	<b>1.2</b>	19%	7.8
Princor	0.8	<b>1.1</b>	39%	4.0
TA IDEX Funds	0.4	<b>1.0</b>	56%	2.9

\*2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**Hybrid / Balanced Actively Managed Funds  
(Exc. VAs and FoFs)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
Franklin Templeton	8.4	<b>5.5</b>	14%	52.6
Waddell & Reed	0.3	<b>2.0</b>	73%	5.1
Thornburg	0.5	<b>0.9</b>	86%	2.3
Calamos Advisors	-0.3	<b>0.6</b>	18%	4.4
Dodge & Cox	1.4	<b>0.6</b>	3%	27.5
Fidelity	0.4	<b>0.6</b>	1%	61.0

\*2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**Tax-Free Bond Actively Managed Funds  
(Exc. VAs)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
OppenheimerFds	5.3	<b>7.2</b>	33%	30.8
Eaton Vance	0.7	<b>2.8</b>	23%	15.5
Vanguard	0.8	<b>2.6</b>	6%	51.6
Goldman Sachs	1.3	<b>2.1</b>	35%	8.5
American Funds	1.2	<b>1.6</b>	19%	10.8
Nuveen	1.0	<b>1.6</b>	3%	50.8
JPMorgan Funds	-1.0	<b>1.1</b>	15%	8.3
AllianceBernstein	0.4	<b>0.8</b>	7%	11.8
Lord Abbett	0.5	<b>0.7</b>	27%	3.4
Schwab	0.5	<b>0.4</b>	31%	1.9

\*2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**Index Funds other than ETFs (Exc. VAs)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
Vanguard	24.4	<b>30.2</b>	8%	471.8
Fidelity	3.8	<b>6.5</b>	13%	63.7
DFA	3.2	<b>4.1</b>	16%	35.3
Gartmore Mutual	1.8	<b>1.4</b>	18%	10.0
T Rowe Price	0.6	<b>1.2</b>	18%	9.0
Northern Trust	1.1	<b>0.4</b>	13%	4.1
Wells Fargo	-0.1	<b>0.2</b>	13%	2.3
Princor	0.2	<b>0.2</b>	19%	1.5
John Hancock	0.2	<b>0.1</b>	74%	0.4
Diversified Invest	0.2	<b>0.1</b>	10%	1.5

\* 2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**All Equity and Bond Actively Managed Funds  
(Exc. VAs)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
American Funds	76.2	<b>70.4</b>	9%	977.7
Dodge & Cox	15.4	<b>19.1</b>	19%	136.5
DFA	7.9	<b>11.1</b>	32%	53.9
OppenheimerFds	10.8	<b>10.6</b>	8%	151.2
T Rowe Price	12.0	<b>9.7</b>	6%	184.2
Schwab	5.8	<b>8.0</b>	44%	28.1
Goldman Sachs	5.3	<b>7.1</b>	20%	48.3
Eaton Vance	5.8	<b>6.9</b>	10%	84.1
PIMCO/Allianz Gbl	22.1	<b>6.8</b>	3%	219.7
Franklin Templeton	13.4	<b>6.6</b>	3%	301.5
John Hancock	11.3	<b>6.2</b>	14%	55.0
Thornburg	2.2	<b>6.1</b>	55%	19.7
The Hartford	1.6	<b>5.8</b>	19%	39.8
Legg Mason Cap.I	5.4	<b>5.3</b>	11%	54.8
Davis-Selected Adv	2.1	<b>5.0</b>	10%	62.8
Fidelity	0.4	<b>4.8</b>	1%	774.1
Loomis Sayles	1.5	<b>4.5</b>	61%	12.9
Vanguard	14.7	<b>4.5</b>	1%	455.0
JPMorgan Funds	-4.4	<b>4.5</b>	8%	70.5
AllianceBernstein	-0.3	<b>4.3</b>	7%	73.8

\* 2006 Flows as a percentage of 12/05 Assets  
Source: Strategic Insight Simfund MF

**Fastest Growing Managers: Actively Managed  
Long-Term funds (Exc. VAs) \***

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate ^	\$B
Keeley Asset Mgt	0.7	2.1	<b>187%</b>	3.6
The Boston Co.	0.7	2.0	<b>120%</b>	4.4
Fairholme	1.2	1.8	<b>117%</b>	3.8
Henderson Global	0.6	1.4	<b>106%</b>	3.2
LSV Asset Mgmt	0.8	1.2	<b>93%</b>	3.0
Highland Cap Mgt	0.5	2.1	<b>84%</b>	5.0
Loomis Sayles	1.5	4.5	<b>61%</b>	12.9
IXIS Asset Mgmt	0.9	3.4	<b>60%</b>	9.9
Thornburg	2.2	6.1	<b>55%</b>	19.7
Rainier Inv.	1.1	1.5	<b>53%</b>	4.9
Wilmington Trust	0.1	0.6	<b>51%</b>	2.0
The Reserve	1.0	0.6	<b>48%</b>	1.9
Alpine Woods	0.7	0.9	<b>46%</b>	3.6
Cambiar	1.3	0.7	<b>46%</b>	2.7
Schwab	5.8	8.0	<b>44%</b>	28.1
Metropolitan West	0.3	1.3	<b>44%</b>	4.5
Forward Mgmt	0.3	0.5	<b>40%</b>	2.0
Denver Inv.	0.4	0.5	<b>37%</b>	1.8
US Gbl Investors	0.7	0.9	<b>35%</b>	4.2
Bridgeway Capital	0.4	0.7	<b>34%</b>	3.1

\* Over \$1B in Assets as of 12/05; ^ 2006 flows as % of 12/05 assets. Source: SI Simfund MF

**Money Market Funds (Exc. VAs)  
Highest Cash Flow Managers**

Manager	Net New Flows			Assets
	2005	2006	2006 Flow	12/06
	\$B	\$B	Rate *	\$B
Fidelity	17.3	<b>45.1</b>	21%	273.0
Vanguard	10.8	<b>26.4</b>	23%	146.7
Schwab	0.9	<b>19.3</b>	18%	133.9
JPMorgan Funds	5.6	<b>16.4</b>	11%	172.0
Dreyfus	11.9	<b>14.7</b>	16%	108.1
Credit Suisse	0.3	<b>14.4</b>	1,235%	15.8
Morgan Stanley	4.9	<b>12.6</b>	54%	37.5
Columbia Funds	10.4	<b>10.1</b>	9%	133.3
Northern Trust	5.6	<b>9.2</b>	22%	52.3
Wells Fargo	6.3	<b>7.7</b>	11%	79.4
FAF Advisors	0.9	<b>7.5</b>	21%	43.0
Federated	11.5	<b>5.5</b>	4%	149.0
UBS Gbl AM	-2.9	<b>5.4</b>	19%	35.2
AIM Investments	-0.3	<b>4.9</b>	12%	46.0
American Beacon	0.9	<b>3.8</b>	60%	10.7
Putnam	-0.1	<b>3.4</b>	84%	7.7
Legg Mason Ptnrs	-0.6	<b>3.1</b>	4%	83.1
TD Asset Mgmt	1.0	<b>3.1</b>	30%	13.7
DWS Scudder	1.7	<b>2.9</b>	7%	46.5

\* 2006 flows as % of 12/05 assets; Source: SI Simfund MF

# New Fund 2006 Successes; Closed- End Fund Trends



**Jennifer Mann**  
(845) 252 6565  
[jennifer.mann@sionline.com](mailto:jennifer.mann@sionline.com)



**Sonia Mata**  
(212) 217 6947  
[sonia@sionline.com](mailto:sonia@sionline.com)

## Notable New Closed-End Funds

Closed-end fund (CEF) IPO activity remained subdued for much of 2006 (a total just over \$10.4 billion was raised over the year, half the prior year's pace), but an acceleration became apparent starting in November, suggesting more innovation and offerings could be forthcoming in 2007. January 2007 witnessed the largest closed-end fund IPO ever: Alpine Woods Capital Investors' **Alpine Total Dynamic Dividend** fund raised net proceeds of \$3.36 billion, after brokers' commissions.

### Closed-end Fund IPOs: Net Flows \$B

2004	2005	2006	Nov'06	Dec'06	Jan'07
22.9	20.4	10.4	3.9	1.1	4.0

Source: Strategic Insight Simfund MF, SI research.

**Five new CEFs were filed in January.** Dividends and options strategies were a common theme in the proposed funds, as exemplified below:

- **Nuveen** filed the **Core Equity Alpha** fund, which will be sub-advised by Janus subsidiary and quantitative specialist **INTECH**. The fund's "Large Cap Core" strategy will seek incremental returns over the S&P 500 Index of 3-4% annually; plus the fund will have an options strategy managed by Nuveen.
- **BlackRock's Global Enhanced Equity Income** fund will invest globally in dividend-paying common stocks and in derivatives, plus write call options on broad-based stock indexes.
- **Evergreen's Global Dividend Opportunity** fund will be sub-advised by **Crow Point Partners**. This

dividend-focused fund will have the option to short equity securities in an amount up to 30% of the fund's total assets. The fund may also write call options with an aggregate net notional amount of up to 50% of its assets.

**Other managers filing closed-end funds lately: ING, Morgan Stanley, Pioneer and RMR Advisors.**

\*\*\*\*\*

### Funds Started in 2006 Raising Most Flows Lately\* Actively Managed Long-Term Open-End Funds \$MM

	Assets	Net Flows	
	12/06	2006	Q4'06
<b>Stand-alone Funds</b>			
<b>Domestic Equity</b>			
Vanguard Structured Large Cap Eqty	718	670	<b>354</b>
JPMorgan HighBridge Stat Mkt Neutr	998	963	<b>246</b>
SEI SIIT Large Cap Diversified Alpha	376	360	<b>189</b>
Leuthold Asset Allocation	250	243	<b>167</b>
JPMorgan US Large Cp Core +	221	206	<b>124</b>
Vanguard Structured Broad Market	103	99	<b>99</b>
MFS Diversified Income	163	158	<b>94</b>
Hartford Select Small Cap Value	98	96	<b>81</b>
<b>International Equity</b>			
GS Intl Real Estate Securities	629	618	<b>462</b>
Northern Multi Mgr Intl Equity	781	717	<b>173</b>
Oakmark Global Select	126	124	<b>124</b>
Fidelity International Value	276	254	<b>118</b>
DFA Emerging Markets Social Core	373	325	<b>117</b>
Templeton BRIC	177	157	<b>92</b>
DWS RREEF Global Real Estate Sec	338	304	<b>89</b>
Dreyfus Premier Global Alpha	130	123	<b>86</b>
Kensington Intl Real Estate	135	123	<b>82</b>
NB International Large Cap	94	90	<b>82</b>
ING International Real Estate	146	139	<b>78</b>
First Am International Select	77	76	<b>76</b>
<b>Bond</b>			
GMO Strategic Fixed Income	876	846	<b>152</b>
STI Classic SEIX Floating Rate Hilnc	562	546	<b>131</b>
SEI SIMT Enhanced Income	358	156	<b>120</b>
GMO Inflation Indexed Plus Bond	2,139	2,125	<b>114</b>
RVS Floating Rate	504	492	<b>100</b>
<b>Funds-of-Funds</b>			
Vanguard Target Retirement 2020	407	396	<b>281</b>
Vanguard Target Retirement 2010	282	276	<b>201</b>
Vanguard Target Retirement 2030	239	231	<b>163</b>
GMO Intl Opport Equity Allocation	388	359	<b>137</b>
Changing Parameters	119	116	<b>116</b>
RVS Income Builder Moderate Inc	333	316	<b>112</b>

Source: Strategic Insight Simfund MF

# International Funds: 2006 Records



**Susan Belle**  
(212) 217 6948  
[susan@sionline.com](mailto:susan@sionline.com)

Both in the US and abroad, demand for global diversification has been remarkable in recent years. Since the second half of 2003, US-registered international / global equity funds have garnered nearly \$500 billion in net inflows. It is conceivable that a similar amount was net purchased by portfolio managers of US-centered equity funds and of institutional investment pools and hedge funds. And European money managers similarly transferred large holdings away from Europe and into other developed markets and emerging countries.

## US-Based International/Global Equity Mutual Funds \$ Billion

Structure/Type	Assets		Net Flows			
	12/06	2002	2003	2004	2005	2006
Open-end Active	1,230	-0.9	27.3	71.6	104.8	131.2
Open-end Indexed	65	1.6	2.2	5.7	8.9	11.3
ETFs	111	3.8	5.7	15.3	23.0	26.8
Closed-End	31	0.0	0.3	4.4	6.7	2.7
VA Funds	162	-3.2	4.9	9.3	12.3	18.8

Source: Strategic Insight Simfund MF / VA

In 2006, combining stock gains and currency appreciation, **international / global equity funds returned 24% (asset weighted), on average, or nearly double the returns of US equity funds.** World bond funds also out-earned US taxable bond funds last year by about 2% partly reflecting US Dollar depreciation.

## Int'l Equity, US Equity, and World Bond Funds Annual Average Total Returns (Asset-Weighted)

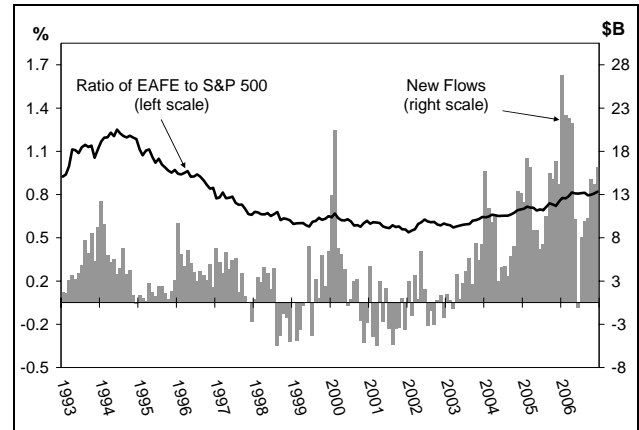
	'01	'02	'03	'04	'05	'06
Int'l/Glbl Eqty	-15.2	-15.4	37.5	18.5	16.4	24.0
U.S. Equity*	-11.7	-20.5	30.9	12.5	7.9	14.1
World Bond^	1.3	13.3	13.2	8.9	-2.1	6.7

Source: Strategic Insight Simfund MF; \* Exc. Balanced/Hybrid, ^ Morningstar category.

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

below. The graph shows the 2H'06 slowdown in flows, but also the steady recovery from the short period (just one month) of defensive switches following the sharp May 2006 correction.

## Relative Performance of US v. Foreign Stocks and Net Flows into Int'l/Global Equity Mutual Funds



Source: Strategic Insight Simfund, Standard & Poor's

## By Investment Style: Net Flows and Assets

### Actively Managed International/Global Equity Fds 20 Highest 2006 Net Flow Classifications

	Net Flows \$B		Assets \$B
	2005	2006	12/06
Int'l Multi-Cap Growth	17.4	29.5	215
Int'l Multi-Cap Value	14.1	21.8	96
Global Multi-Cap Value	17.8	19.4	113
Int'l Multi-Cap Core	20.4	14.1	177
Emerging Markets	11.8	9.2	103
Int'l Large-Cap Value	1.7	4.2	15
European Region	-0.3	2.6	17
Pacific Ex Japan	2.0	2.6	18
Int'l Small/MidCap Value	2.0	2.0	10
Int'l Large-Cap Core	-3.5	1.9	81
Global Large-Cap Value	2.5	1.9	39
Int'l Sml/MidCap Growth	4.6	1.8	30
Global Funds	1.2	1.7	7
China Region	0.2	1.7	5
Gold Oriented*	0.9	1.5	16
Latin American	1.5	1.4	9
Global Small/Mid Growth	0.7	1.4	25
Global Multi-Cap Growth	0.1	1.2	23
Pacific Region	0.6	0.7	6
Int'l Large-Cap Growth	-0.1	0.5	19

Excludes index funds and ETFs, as well as VA funds

\* Investing mostly in non-US stocks.

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

# In a “Flat” World, Are Investors Transitioning Away From “Home Bias”?



**Jag Alexeyev**  
(212) 944 4456  
[jag@sionline.com](mailto:jag@sionline.com)



**Avi Nachmany**  
(212) 944 4451  
[avi@sionline.com](mailto:avi@sionline.com)

**Will the surge in international equity fund investing persist? Is this just another example of cyclical “return-chasing” behavior?** For some guidance, we turn to choices made by and attitudes apparent among European fund investors.

## Increasing International Diversification in Europe Too

As in the US, a transition away from a “home bias” in investing and towards international diversification was common in many of the developed countries in Europe.

**Est. Equity Mutual Fund Net Flows in 2006 (Euro Billion) Major Developed Markets in Europe\***

	Home		North		Global	Sector
	Country	Europe	America	Other**		
UK	7.5	-1.5	2.9	-1.9	3.3	1.4
France	-0.6	8.0	2.2	2.8	2.4	2.6
Switzerland	-0.3	-1.2	0.5	0.0	0.4	0.0
Spain	-2.0	1.7	0.1	-0.2	0.2	0.1
Germany	-2.4	-2.8	0.1	0.2	-2.3	-0.5
Italy	-3.0	-2.6	-1.8	-1.6	-2.7	-0.6
subtotal	-0.9	1.7	4.0	-0.6	1.3	3.0
Luxembourg/ Dublin***	1.2	14.3	13.6	27.6	6.5	9.0

\* Each market includes both local funds, and offshore funds primarily sold in that market.

\*\* “Other” includes Asia Pacific and Emerging Markets.

\*\*\* Home country category for Luxembourg/Dublin refers to equity funds primarily investing in single European countries.

Source: Strategic Insight, Lipper Inc.

Last year, investors in Germany, Italy, Spain, France and Switzerland generally shied away from home-

country / home-region investing, often redeemed European stock funds, and net purchased significant amounts away from Europe.

**Interestingly, SI data shows that investors in these six European countries net invested in North American funds last year about the same amount as in all European funds.**

## In the US: Correction of Past Allocation Biases Still Has Room to Continue

As mentioned before, international / global equity funds have garnered nearly \$500 billion in total net flows since the summer of 2003, and have attracted record inflows in 2006. Returns of such funds have been remarkable over a similar time period; for the five years ending December 2006, int’l / global equity funds cumulatively returned an average 113% (asset-weighted, reflecting the experience of the average investor), more than double the average returns for US equity funds (49%), and bested US funds again in 2006, by a large margin of 10%.

But despite the recent additions to international / global equity funds, in aggregate, **US equity fund investors still have as much as 78% of their total holdings in US-centered funds, and just 22% in international / global equity funds.** And US-centered funds still dominate stock fund new sales (excluding hybrid/balanced funds), controlling 72% in 2006 (as per the ICI).

Concerns about the US Dollar and US economic leadership are common. Some US wealth managers are recommending allocations more in line with the US share of global capitalization (around 50%). Possibly, **more and more investors are coming to the realization that in the “Flat World” Thomas Friedman hypothesized for wealth opportunities and risks, prudence dictates a greater exposure to intellectual capital outside the US, especially for very long-term oriented retirement portfolios.**

**This suggests that the interest in investing abroad goes beyond the cyclical nature of investors chasing yesterday’s winners (which lately happen to be foreign funds), and that the desire for worldwide diversification is here to stay for years to come.**

**If we are right, this secular demand coupled with liquidity pressures will continue to push prices up, especially among low-liquidity markets, and also serve as somewhat of a buffer for periodic reversals in return-chasing flows.**

# Some Key Drivers of the Assembled Advice Culture



**Avi Nachmany**  
(212) 944 4451  
[avi@sionline.com](mailto:avi@sionline.com)

There are many forces converging to influence the emerging “obsession” with asset allocation. Clearly, a diversified portfolio increases the actual returns earned by many investors. It is also better for managing expectations, and thereby minimizing disappointments and premature redemptions.

One finding from behavioral finance research suggests that fewer investment choices (or just one pre-assembled portfolio) result in higher participation / adoption rates as well as higher satisfaction with choices made (in contrast, more choices result in lower rate of actual investments and lower satisfaction for choices made—see for example, some revealing studies by Barry Schwartz, a Professor at Swarthmore College <http://www.swarthmore.edu/SocSci/bschwar1/srp.html>.) For policy makers tackling retirement security issues, increases in DC plan participation and more age-appropriate or diversified asset allocation, through automatic enrollment and more diversified defaults (as suggested in new rules the DOL proposed recently for DC plan default options) are critical for the long-term viability of the income-at-retirement social network.

In addition, an important driver of the pre-assembled advice culture may be the recognition of a possible contingent liability for distributors that do not advocate asset allocation more forcefully. This is because far too many people still “invest as consumers.”

As consumers, we are driven by past experiences. A satisfying experience with a product reinforces our choice, and make us more likely to repeat it in the future (replacing one Lexus with another, an iPod with a newer version, or going back to one’s favorite fashion designer). A painful past experience has an even more lasting effect. One can argue that **learning and extrapolating from past experiences is innate** to human beings, as part of our evolutionary history (“*an unknown plant: sweet fruit or poison?*”) Judgment and

emotional well-being are naturally supported by rewarding past experiences.

Unfortunately, **too many people also simply extrapolate past experiences with investments into the future**; “if it went up yesterday, this investment (stock, fund, or style) must also be good for tomorrow.” The steeper the slope of past appreciation, the more convinced they become that such a trend will continue.

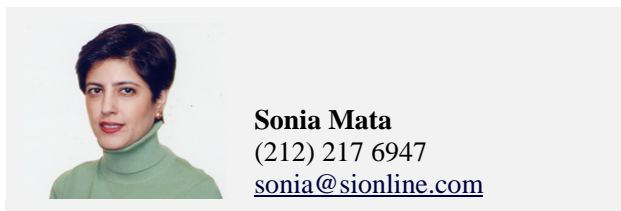
This maybe why many buy at the top of an investment cycle, and sell out-of-favor styles at their bottom. Many investment advisors who advocated asset allocation in the late 1990s were “fired” by their fund clients, who, together with others acquired during the first quarter of 2000, and just before the “bubble” burst, \$150 billion in “Mega Cap S&P 50” stocks through growth / tech funds (and redeemed \$40 billion out of value funds). Ill-timed investments in real estate, commodities, long-duration bonds, value equity, Japanese stocks, “junk” bonds, or cash litter everyone’s under-diversified investment path, yet only in retrospect.

Its because investing by looking-back and projecting forward (“investing as consumers”) is so ingrained in our emotional makeup that rational investor education about asset allocation is such a Herculean task.

Fast forward from the depth of the bear market of 2000-2002, to early 2004, when the U.S. Senate Banking Committee held a series of intense, sometimes angry hearings addressing a range of concerns about the mutual fund industry. This led to the emergence of an even more attentive fiduciary fund culture.

Given the sober and weighty reality of the mutual fund industry being the guardian of much of the nation’s retirement savings, the highest standards of prudence are expected. Yet, in a severe future financial crisis, today’s relentless focus on disclosure, education, open-architecture, a multiplicity of FSU-screened investment choices, and the “Merrill Rule”, may not sufficiently shield providers of financial advice from criticism (and potential liability). To prudently invest the nation’s retirement savings pool, an aggressively enforced culture of asset allocation (matched to investors’ lifestyles and time horizons) is no longer just a business choice, but a necessary corporate “protective shield”. Target-date, risk-based lifecycle, and other FoFs; mutual fund “wrap” / advisory programs; multi-style SMAs; the rush to increase international equity exposure, add non-market-correlated strategies, including hedge funds, and the focus on “outcome-based structured investments” for pension portfolios, may all be originating as a way of counterbalancing the penchant of individuals to “invest as consumers” and its embedded contingent liabilities.

# Funds-of-Funds and Lifecycle Funds



**Sonia Mata**  
(212) 217 6947  
[sonia@sionline.com](mailto:sonia@sionline.com)

- In 2006, fund investors continued their shift away from single “hot” funds or “hot” styles, and towards diversification and dynamic rebalancing through investment in packaged asset allocation products like funds-of-funds and lifecycle programs. Persistence of diversification mindsets, retirement account one-stop shopping for novice investors or those affected by a “choice overload”, plan sponsor compliance and liability concerns and regulatory adjustments, all will sustain the attraction of such allocation programs for some time to come.
- **Funds-of-funds** attracted a record \$76 billion (excluding VAs and 529 plans) in new money industrywide in 2006, helped by the continued rapid development of **lifecycle programs**, the majority of which use affiliated or unaffiliated funds to achieve asset allocation targets, as opposed to directly investing in securities. Lifecycle FoFs accounted for a higher 75% of total FoF flows last year (versus 67% in 2005, and 63% in 2004). Details on lifecycle funds in following section.

## Funds-of-Funds\* Retirement and Non-Retirement Investors Excluding VAs and 529 Plans

FoF Type	Assets				Flow Rate <sup>^</sup>
	\$B	Net Flows \$B			
	12/06	2004	2005	2006	
Target- Date	113.6	15.0	22.5	<b>34.6</b>	50%
Risk-Based	145.6	16.9	16.7	<b>21.7</b>	20%
Non-Lifecycle	119.9	18.7	19.5	<b>19.6</b>	23%
<b>Total above</b>	<b>379.1</b>	<b>50.6</b>	<b>58.7</b>	<b>75.8</b>	--

\* Open-end funds.

<sup>^</sup> 2006 net flows as a % of 12/05 assets.

Source: Strategic Insight Simfund MF

- As detailed below, aggregate net flows into **non-lifecycle FoF allocation strategies** (usually a single fund and not offered as part of a series) were large and stable at \$20 billion. Two concurrent trends—the growing interest in “assembled advice”, and the upping of international stakes within portfolios—together generated flow acceleration among a handful of FoFs focused on strategic allocation within the international equity asset class. Tactical global asset allocation strategies, however, saw flows somewhat declining below their elevated levels over the prior two years.
- New non-lifecycle FoF development in 2006 was focused on international and income-focused products; niche areas like small-cap and alternative strategy FoFs that could be used as “sleeves” within customized allocation models; and on funds-of-ETFs. (Within the income-focused area, an interesting development was the filing by Russell of a Retirement Distribution series.)

## Non-Lifecycle Funds-of-Funds\* Retirement and Non-Retirement Investors Excluding VAs and 529 Plans

	Assets				# of Funds
	\$B	Net Flows \$B			
	12/06	2004	2005	2006	
US Equity	36.5	3.5	1.6	<b>2.7</b>	107
Global Asset Alloc.	41.4	10.2	12.9	<b>8.1</b>	24
Other Global Equity	5.0	0.2	1.3	<b>1.4</b>	15
International Equity	32.3	3.2	4.0	<b>7.9</b>	15
Bond / MM	4.8	1.6	-0.3	<b>-0.5</b>	14
<b>Total Above</b>	<b>119.9</b>	<b>18.7</b>	<b>19.5</b>	<b>19.6</b>	<b>176</b>

\* Open-end funds. Source: Strategic Insight Simfund MF

- **Continued growth in FoF flows was also seen within the VA segment.** VA FoFs, which are dominated by risk-based lifecycle programs, garnered \$34 billion in new cash flows last year, up from \$22 billion in 2005 and \$13.5 billion in 2004. The top five cash flow VA-underlying funds in 2006 had a FoF structure, and attracted a collective \$15 billion. Of course, **an important factor driving FoF use in the VA space is that many living benefits require investments in such asset allocation products to help insurers manage risk.**

## Lifecycle Funds: Target-Date Funds Had a Big Year

### Lifecycle Mutual Funds Retirement and Non-Retirement Investors Excluding VAs and 529 Plans

Lifecycle Fund Type	Assets		Net Flows \$B			# of Funds 12/06
	\$B 12/06	2004	2005	2006	12/06	
Target-Date	115.4	15.3	22.8	<b>34.6</b>	188	
Risk-Based	172.3	16.8	15.8	<b>20.0</b>	266	
<b>Total above</b>	<b>287.7</b>	<b>32.0</b>	<b>38.6</b>	<b>54.6</b>	<b>454</b>	

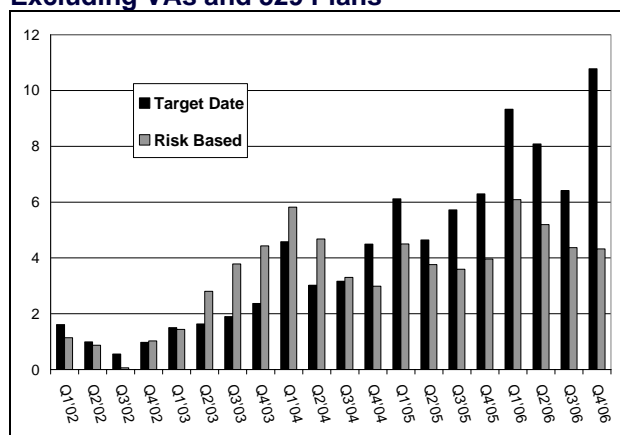
Source: Strategic Insight Simfund MF

- **Net flows into target-date lifecycle funds continue to grow rapidly year-over-year, as their use and importance within DC plans grows. In 2006, target-date funds drew \$35 billion in aggregate**—it was the second consecutive year that flows rose by 50% over the prior year.
- **The target-date fund area remains dominated by bundled DC plan providers.** For an indication of growth in plan-level adoption: within Fidelity’s record-kept business, 83% of plans used its target-date Freedom portfolios at the end of 2005: the percentage was up from 78% in 2004, and 72% in 2003. Within the universe of Vanguard administered DC plans, two-thirds of plans offered lifecycle funds in 2005, up from one-third in 2000. (Among Vanguard-administered DC plans, through 2003, risk-based funds were the only type of lifecycle program offered. The manager launched target-date funds towards the end of 2003, and over 2004-05, growth in lifecycle fund adoption came largely from target-date funds; some plan sponsors switched risk-based funds with target-date funds, while others opted to offer both kinds of funds on their menus, in some cases by permitting participants to keep existing assets in the risk-based funds and making target-date funds available for new contributions.)
- **New DC plan default option regulations proposed by the Department of Labor to implement certain provisions of the Pension Protection Act of 2006 (PPA)** have heightened interest in lifecycle funds. The proposed rules, if adopted, would provide fiduciaries relief from liability for investment outcomes if assets are invested in three “**qualified default investment alternatives**” (QDIA). The three QDIAs listed are target-date lifecycle funds, balanced funds and

managed accounts. (Stable value and money funds, the traditional default option for many DC plans, were not included in the proposed safe harbor.) If approved, the DOL rule will encourage more plans to implement automatic enrollment and diversified defaults. (In Fidelity’s record-kept business, the number of plans with automatic enrollment in 2006 nearly doubled as compared to the prior year, while employer adoption of automatic increase programs increased 26% and number of plans making use of Fidelity Freedom funds as a plan default increased 130%.)

- Some major players that have entered the target-maturity arena in the wake of the PPA and DOL’s proposed rule: **American Funds, OppenheimerFunds, AIM and John Hancock.**

### Lifecycle Mutual Fund Flows Retirement and Non-Retirement Investors Excluding VAs and 529 Plans



Source: Strategic Insight Simfund MF

- **Although target-date funds have taken a noticeable lead in the lifecycle fund business, target-risk funds have also been drawing meaningful inflows. In 2006, they attracted \$20 billion, up from \$16 billion in the prior year.** More broadly used, risk-based funds have a significant percentage of assets in taxable accounts, and a greater dependence on third-party distribution.
- Fund companies continue trying to differentiate themselves through elements such as: a) portfolio allocations to the various asset classes held: the equity / fixed income mix (e.g., AllianceBernstein, T. Rowe Price and Vanguard have a higher equity allocation than most among 2035 date funds – see table below); the percentage of equities assigned to foreign equities; whether and to what extent alternative asset classes / strategies are held, etc.;

b) for target-date funds, how the glide path or equity / bond split evolves over time, with the equity exposure at retirement being an important differentiating theme; c) whether active or indexed underlying funds or ETFs, or a combination, are used; d) what the management structure of the funds is—are they internally managed or use multiple external best-of-breed managers; e) the approach used for underlying manager selection and optimization (to reduce stock overlap).

**taxable account investors.** The periodic rebalancing within FoFs, generally involving selling sectors that “made money”, creates a specific challenge for tax-management within such funds. One interesting initiative in this area comes from **Eaton Vance**—its **Supplemental Retirement Account (SRA)** is a web-based program for systematic retirement savings outside of qualified plans. Investors can pick from five preset risk-based portfolios or work with advisors to create custom blends from the eight tax-managed funds and a number of muni bond funds offered under the program. Participants are able to pick starting and ending target allocations, and the time over which they want to move towards their target. The product uses cash flows to shift asset allocations rather than selling over-weighted positions (triggering taxable events) and adding to underweighted positions. (Minimum initial investment \$20,000.)

	Assets	Asset Allocation %		
	\$MM			Cash/
	12/06	Stock	Bond	Other
AllianceBernstein Rtrmnt 2035	28	97.72	0.00	2.29
STI Life Vision Target 2035	1	92.80	0.97	6.18
T. Rowe Price Retirement 2035	829	89.09	6.44	4.14
Vanguard Trgt Rtrmnt 2035	3,050	89.05	9.96	0.87
Vantagepoint Milestone 2035	16	86.51	10.81	2.67
RVS Retirement Plus 2035	11	85.84	4.96	9.05
Putnam RetirementReady 2035	69	84.25	9.20	6.31
Fidelity Freedom 2035	1,994	81.41	13.92	4.40
Fidelity Adv Freedom 2035	219	81.01	13.83	4.87
Am Cent LIVESTRONG 2035	97	77.65	17.94	4.30
Federated Target ETF 2035	2	76.42	5.62	17.92
TIAA-CREF Lifecycle 2035	34	73.26	24.30	2.44

Source: Strategic Insight Simfund MF

- Some significant recent variations in strategy include: **SEI’s** series of 10 **age-based institutional pools**, which are designed around participants’ current ages rather than expected retirement dates and combine features of target-date and target-risk approaches. At one end of the spectrum is a pool intended for participants under 40; the target ages increase at five-year increments, ending with the one for retirees aged above 80. Participants are automatically shifted from one age-appropriate portfolio to the next, with assets being transferred away from growth-focused strategies, and towards “stability-focused” ones, which aim to minimize the risk of loss and protect what participants have. Alternatively, participants can choose to keep their allocation static based on their current risk-profile by remaining in any one age-based portfolio. Each portfolio would contain between one and five of SEI’s risk-based funds-of-funds.
- The extraordinary acceleration in FoF flows, combined with the possibly \$300 billion in capital gains distributions realized during 2006, suggests that **going forward the industry may explore the development of tax-managed FoFs to target**

**2006: Highest Cash Flow Lifecycle Fund Managers Retirement and Non-Retirement Investors Excluding VAs and 529 Plans**

	Assets	Net Flows \$MM			2006
	\$MM				Flow
	12/06	2005	2006	Q4'06	Rate*
<b>Target-Date</b>					
Fidelity	63,644	9,446	14,985	4,310	35
T. Rowe Price	17,258	4,319	7,272	2,836	87
Vanguard	16,484	5,396	6,692	2,154	80
Princor	6,691	1,507	2,534	566	72
State Farm	2,012	466	567	88	45
TIAA-CREF	425	26	366	153	926
MassMutual Finl	1,715	402	348	94	28
JPMorgan Funds	350	-	329	186	na
AllianceBernstein	342	9	300	145	2,898
American Century	541	183	254	61	104
<i>Other Managers</i>	5,973	1,028	953	186	
<b>Risk-Based</b>					
John Hancock	22,632	536	3,999	979	25
Goldman Sachs	4,968	929	2,428	803	117
Vanguard	25,842	1,623	1,896	513	9
Russell Invst Grp	11,896	1,714	1,861	584	21
OppenheimerFds	2,720	730	1,771	389	236
AllianceBernstein	5,492	1,253	1,762	382	57
TA IDEX Funds	7,341	895	1,526	334	30
Thrivent Finl	1,441	324	1,004	186	302
Gartmore Mutual	4,656	1,048	861	390	25
RiverSource	3,152	1,080	690	143	32
<i>Others</i>	82,172	5,686	2,178	-379	

\* 2006 net flows as a % of 12/05 Assets.  
Source: Strategic Insight Simfund MF

# Fund Selection Units: Accelerating Focus in the US and Internationally



**Avi Nachmany**  
(212) 944 4452  
[avi@sionline.com](mailto:avi@sionline.com)



**Daniel Enskat**  
(212) 217 6859  
[daniel@sionline.com](mailto:daniel@sionline.com)



**Sonia Mata**  
(212) 217 6947  
[sonia@sionline.com](mailto:sonia@sionline.com)

**For many fund managers, Fund Selection Units (FSUs) influence 30-50% of sales today, sometimes even more.** Among some distributors, nearly all sales are in funds pre-screened by a FSU. Many fund managers are increasingly organizing themselves to match the needs of FSUs within their key accounts. Throughout the asset management industry, both in the US and internationally, we observe increasing institutionalization of investment management selection, wrapping an array of programs all of which may be managed by the same investment process: mutual funds, SMAs, VA funds, 529 and retirement plans, closed-end funds, etc.

Use of professionally screened “select lists” monitored by FSUs (instead of permitting financial advisors (FAs) to use any fund they like); a focus on asset allocation (driven by forces discussed previously in this report); the ongoing transition to fee-based FA compensation (and away from “potentially conflicted” point-of-sales compensation); and increased dialogue with mutual fund trustees, are all part of a mosaic of intensified attitudes towards liability-protection and conflict-preemption, wherever feasible. **An even greater dependency on FSUs, both in the US and abroad, is in our view inevitable.**

Not intended as a comprehensive list, the following observations capture many themes and issues to consider and address around such intensifying engagement with FSUs.

## Strengthen Internal Analytics

- **Strengthen internal team of information gatekeepers:** provide funding, technology, and people resources to the internal investment analysis team; expand and strengthen this business intelligence unit so it facilitates an awareness within your entire organization about FSUs and their institutional-type evaluation of investment excellence; additional staffing also ensures continuity of engagement with FSUs (which themselves tend to experience high turnover)
- **Redefine competitive intelligence:** link, match investment analytics under the CIO with analytics used by the sales team; explore the possibility of competitive analysts working part- or full-time within the CIO unit and sharing their knowledge of your investment process with the sales team, as well as externally with FSUs
- **Elevate role of analyst:** the role of investment analysts inside a fund manager has sometimes been structured as a junior position, simply bridging portfolio management and sales/marketing—a reconsideration may be in order
- **Which classification scheme, peer group to use:** which database and which classification system? Morningstar, Lipper, S&P, some other vendor, a customized solution? Morningstar, which has captured the imagination of investors and has provided a range of solutions, tools, and accessible, integrated datasets, is the recognized leader; yet its style-boxes include many funds quite dissimilar to most others in the same group (Consider “ownership zones” and other alternative classifications or customized peer groups.)
- **Expand competitive peer group:** open-architecture screens necessitate expanding competitive peer group beyond traditional retail peers

## Management Company Internal Organization

- **Concentration of influence:** a small number of FSUs influence a high share of your sales opportunities—match these units with your best personnel and invest the time in getting to know them
- **Expand team, skills:** hire or train institutional wholesalers / relationship facilitators; transition qualified wholesalers to consultant / investment specialists (some of those transitioning successfully to the new paradigm may significantly increase their compensation)
- **Reorganize as needed:** FSUs necessitate review of the traditional wholesaling structure (in some cases, senior relationship managers/wholesalers are being supported by a broader, dedicated investment research team; in other cases, specialist wholesalers are being developed and deployed based on product expertise, distribution channel, and/or geographical focus)
- **Internal collaboration:** sometimes a portfolio manager or senior investment professional, that has had experience in running the funds, is placed in charge of or made a key partner in the institutional / wholesaling process, and ends up spending most of his or her time in the field in front of the FSU or distributors
- **RFP Ready To Go:** a trend also noted internationally, the increasing use by FSUs of RFPs for qualified funds requires a timely, “ready-to-go” response
- **Manage conflicts:** the growing use of mutual funds by institutional investors sometimes causes investment or resource conflicts between the institutional and retail mutual fund sides of some fund managers; it may also encourage integration of the two sides
- **Pricing:** increasingly, institutional share classes are being offered to FSUs (but not yet required generally); “A” shares are more commonly used, but competitive expense

ratios are expected, unless funds offer great performance

## Fund Managers Organize around Communication

- **Data:** provide raw data so FSUs can download and run through their own tools. This leads to the questions: What to provide? How to deliver? And in what frequency? Once committed, ensure you have a dedicated team to deliver; also, ensure funds are included in key databases used by FSUs
- **Attitude:** FSUs expect to be treated similar to institutions or consultants in regard to reporting, information, and overall interaction
- **Accessibility** of portfolio managers and senior investment staff is key
- **Teach:** creatively articulate to and educate FSUs about portfolio construction, ways of researching and managing money
- **Engagement continuity** through internal research personnel that speak the same “language” as the FSU. Some firms share with the FSU their own research process, including watch lists, the evaluation process, entire communication structure, and at times, funds’ board reporting—this helps develop an ongoing dialogue with the FSUs
- **PR:** conduct strategic and tactical public relations; raise visibility through road-shows and seminar attendance
- **Culture:** overall company philosophy, portfolio manager structures, continuity and contingency, infrastructure, etc.
- **Monitor change:** personnel turnover in many FSUs is high; its important to keep contact lists updated, build central relationship with the FSU head

## Monitoring Opportunities to Engage with FSUs

- **Capacity limitations constantly trigger new opportunities:** concentration of selection power within a relatively small number of FSUs, many using similar technologies (e.g., Zephyr, MPI) and similar screens (e.g., Information or Sharpe Ratios) has already led to cash flow concentration within a small number of selected funds, forcing frequent fund closures due to capacity considerations. This constantly triggers new openings for other highly rated funds
- **Shadow FSU matrix:** understand analytics / matrix used within FSUs at top distribution partners; shadow / replicate such in-house to identify which of your improving-performance funds are qualified to be “selected” (and which “selected” funds are vulnerable)
- **Anticipate:** proactively communicate to the FSU when your fund becomes qualified to be included
- **FSU adding asset classes:** be aware of who is adding asset classes
- **Communicate “bad” news:** through a phone call, not blast e-mail
- **PM Stability:** portfolio management turnover as a trigger event, an opportunity for a competing firm
- **Business intelligence and critical changes** (fund closure, PM transition, investment style fine-tuning, fee changes, company news, etc.): a number of **fund managers, as well as some key FSUs, are using SI’s FundFiling.com daily-alert e-mail as one monitoring tool**
- **Improved awareness:** train sales organization and other units about investment analytics; participate in conferences (MPI, Zephyr events, for example), etc.

## Fund Selection Unit Diversity

- **Focus (deep or wide?):** largest and most established accounts (10-20 firms); in Europe, some firms focusing exclusively on building deep relationships with the largest five global distributors, while others try to reach as many prospects as possible
- **Key ratios used:** FSUs focus on a number of key variables and use a number of tools (Zephyr, MPI). Key variables used are Information and Sharpe Ratios and Style drift (majority); up-down capture (a large minority); expenses are reviewed but tolerance for great funds with above-average costs is still found; five-year performance and risk-control now almost as important as three-year rankings
- **A dynamic FSU matrix:** distributors are reviewing their FSU matrix periodically. Especially in Europe, global distributors may bring a matrix used in one area and adopt elsewhere
- **Returns or risk-adjusted:** transitioning to risk management mindset, but total returns are still the main selection criterion. In Europe, risk management tools are still mostly used on the institutional side, but some retail migration (e.g., of Variance-at-Risk)
- **Even more complex internationally:** some of the large global private banks and investment product distributors have grown their FSUs in size, merged SMA and mutual fund screening processes (as well as other programs); implemented clearer business guidelines and incentives; and have built sophisticated analytics to select mutual funds and other investment vehicles. In contrast, other FSUs still have high internal turnover, small teams, and a simple matrix
- **Diverse solutions:** FSUs have different levels of sophistication, varying criteria, and different expectations from fund manager presentations, necessitating flexible and diverse approaches. Targeting the diverse needs of various distributors involves **greater complexity and diversity in distribution**

**relationships**, and the associated challenge of managing them

- **FSU as a competitive advantage?** Can the Wealth Management firm use the quality of its FSU as a competitive advantage? Can the selection methodology and results of one FSU be compared to that of another FSU? How to define quality of guidance?

## The Financial Advisor Angle

- **Outcome-based portfolios:** with Financial Advisor (FA) discussions more goal (outcome) oriented, less investment driven, FAs expect more help from their internal research and analytical departments to pick investments, construct portfolios with an appropriate model; identify collaboration ideas
- **Collaborate with the Wealth consultant:** more FAs are acting as wealth consultants and need help on the investment management side. Especially in the HNW sector, FAs have their own ideas, principles, and approach to doing business. While some rely on internal analytics, many seek external input, especially in the RIA / IFA and private banking channel. Analytics around a few themes / bullet points and tailored portfolio ideas give wholesalers a reason to schedule follow-up meetings with a specific call-to-action

## Evolving Role of Relationship Wholesalers

- **Wholesalers still very helpful in many places:** the more complex products (e.g., derivatives-based mutual funds, long/short strategies, commodity funds, absolute return, multi-asset/multi-manager, tax-managed investing, high-yield munis, specialized international, etc.) continue to provide engagement opportunities to “relationship” wholesalers; even among core funds, traditional wholesalers are important in facilitating sales once funds have passed through FSU screens. Also, many FAs still need guidance and reassurance (FAs are migrating at different pace to an institutional mindset...)
- **Focus:** many fund managers have narrowed distribution and wholesaling focus to key

accounts, to deepen local (and global) relationships and ensure sustained flows; asset “stickiness” is increasingly a consideration; with some fund managers under-serving 2<sup>nd</sup> tier Broker/Dealers, room to feel the void

- **Talent hurdle:** it takes somewhat of a “Renaissance man” to facilitate sales of mutual funds today, including ongoing development, guidance and training of personnel, analytical support, joint calls, cooperation between investment and marketing, as well as retail and institutional teams, ongoing monitoring and quality control
- **Wholesaler segmentation:** firms differentiate between retail and institutional sales teams, and/or general or product specialists
- **Evaluation:** how to structure wholesaler evaluation and compensation metrics to align skills and actions to meet the FSU needs
- **Learn and profit:** wholesalers, at times new to a company, that take advantage of internal research units (or have an investment management background), can become very successful salespeople
- **Where to find help:** in addition to being supported by internal research units, wholesalers may rely on portfolio managers to articulate the investment process
- **Funds vs. structured products:** in Europe, internal wholesalers take more of a consultative approach with FSUs in order to compete with structured products, which are gaining ground
- **Local and global:** globally, centralization of fund selection within a large global distributor who has multi-country presence; it is necessary to build multiple relationships, both at FSU central as well as local country.

## ETF Progress in 2006



**Sonia Mata**  
(212) 217 6947  
[sonia@sionline.com](mailto:sonia@sionline.com)

2006 was a year of accelerating growth for ETFs. Assets, net issuance, new product development, and the number of sponsors were all noticeably up.

### ETFs: By Legal Structure

	Assets				# of Funds
	\$B	Net Flows \$B			
		12/06	2004	2005	
Open-End Fund	309.4	49.5	53.2	67.5	335
UIT	97.6	3.6	-2.5	-8.7	8
Other*	15.8	1.4	3.1	9.7	20
<b>Total</b>	<b>422.9</b>	<b>54.6</b>	<b>53.7</b>	<b>68.5</b>	<b>363</b>

\* Structured as Grantor Trusts / Partnership / Exchange-Traded Notes. Source: Strategic Insight Simfund MF

ETF assets grew by 40% in 2006, to \$423 billion. Unlike on the traditional fund side, ETF flows were quite evenly divided between US Equity and International Equity products, with each area drawing \$27 billion last year. Commodity- / currency-based products, an important area of growth in 2006, brought in an additional \$9 billion, while bond ETFs—just six in number as of 12/06; all from Barclays Global Investors (BGI)—garnered about \$5 billion.

### ETFs: By Investment Type

	Assets				# of Funds
	\$B	Net Flows \$B			
		12/06	2004	2005	
<b>US Equity</b>					
Diversified	231.1	27.9	15.1	16.9	133
Sector	44.8	6.3	6.2	10.1	121
<b>Subtotal US Equity</b>	<b>275.9</b>	<b>34.2</b>	<b>21.3</b>	<b>27.0</b>	<b>254</b>
<b>Int'l/Global Equity</b>					
Diversified	40.0	6.7	7.0	10.3	14
Single Country	38.2	5.1	8.1	8.5	29
Regional	11.8	0.9	2.2	3.7	16
Diversfd Emrg Markets	18.3	2.3	5.1	3.5	4
Sector	2.4	0.3	0.6	0.8	21
<b>Subtotal Int/Glb Eq</b>	<b>110.7</b>	<b>15.3</b>	<b>23.0</b>	<b>26.8</b>	<b>84</b>
<b>Specialized</b>					
Commodity	14.5	1.4	3.0	8.5	11
Currency	1.3	-	0.1	1.1	8
<b>Subtotal Specialized</b>	<b>15.8</b>	<b>1.4</b>	<b>3.1</b>	<b>9.6</b>	<b>19</b>
<b>Bond</b>	<b>20.5</b>	<b>3.6</b>	<b>6.3</b>	<b>5.1</b>	<b>6</b>
<b>Total</b>	<b>422.9</b>	<b>54.6</b>	<b>53.7</b>	<b>68.5</b>	<b>363</b>

Source: Strategic Insight Simfund MF

2006 saw six **new providers** enter the fray. Besides four firms that already had a presence on the traditional fund side (directly or through an affiliate)—**ProFunds**, **Van Eck**, **Claymore** and Deutsche Bank subsidiary **DB Commodity Services**, the new entrants included **WisdomTree Asset Management** and **Victoria Bay Asset Management**. (Note: one of the portfolio managers of Victoria Bay Asset Management's sole ETF, the United States Oil Fund, is also the PM of the \$600 million Ameristock fund, a conventional large cap value fund.) Each of the new ETF providers came to market with innovative products / approaches. Some other companies have their first products under registration, many of which are based on differentiated indexes or narrow niches unoccupied by the larger players.

**BGI** maintained its formidable lead in the marketplace: its ETF assets grew by nearly 50% in 2006 and reached \$252 billion by year-end. The manager's net issuance totaled an estimated \$48 billion last year, up from roughly \$43 billion in each of the prior two years. In fact, BGI assumed the number two spot among all mutual fund complexes—behind American Funds—in terms of long-term fund net new cash flows last year (it came in third in 2004 and 2005). BGI brought 22 new products to the market in 2006, including commodity-based, international sector, US sub-sector and socially conscious funds. And in January '07, it expanded its bond ETF lineup with eight new funds.

BGI also unveiled an alternative product structure last year in the form of its four **iPath Exchange-Traded Notes (ETNs)**—three based on commodity indexes and one on India—which together held \$1 billion-plus in assets at the end of the year (these four products included in the total of 22 new products mentioned above.) Although akin to open-end and UIT ETFs in that they are exchange-listed instruments that can be shorted, the iPath ETNs have a security structure that is dissimilar in key respects. The ETNs are not investment companies, and do not represent ownership in a basket of securities. Rather, they are debt instruments that represent a promise from Barclays Bank to deliver a return that tracks an index, less expenses. Like any debt security, they carry credit risk.

**Vanguard** made steady inroads into the business, garnering \$8 billion in total ETF flows last year, including \$2.7 billion within the three international equity ETFs it started in 2005. Having diversified into and made noteworthy gains in 2006 on the international equity front, the firm is now looking to make its first foray into the bond ETF space. It filed four bond ETFs this January that would be structured

as share classes of existing Vanguard index funds, and would each feature a 0.11% expense ratio (in comparison, BGI charges 0.15% to 0.20% for its existing bond products.)

Other providers to make meaningful gains included **PowerShares**, which gathered close to \$5 billion in its own sponsored ETFs, besides developing an alliance with DB Commodity Services to co-brand products developed by the latter. (DBCS is focused on the alternative assets—commodities /currencies—space.) Water infrastructure and technologies, alternative energy and fundamentally-weighted indexes proved to be the most successful themes among products PowerShares has sponsored itself. Its Water Resources and WilderHill Clean Energy funds gained \$1.1 billion and \$600 million in net issuance, respectively, over the year, while the PowerShares FTSE RAFI US 1000 Index fund gained roughly half a billion dollars.

ETF Managers					
Manager	Assets				# of Fnds
	\$B	Net Flows \$B			
		12/06	2004	2005	
Barclays Global	252.3	43.5	42.7	48.0	124
Vanguard	22.3	2.7	4.7	8.3	27
PowerShares	8.5	0.3	2.8	4.7	69
World Gold Trust	9.3	1.4	2.6	3.7	1
ProFunds	2.2	-	-	2.2	12
Rydex Global	3.7	0.5	0.7	1.9	24
WisdomTree	1.5	-	-	1.4	30
Victoria Bay	0.8	-	-	0.8	1
DB Cmmnty Svcs	0.8	-	-	0.8	2
Van Eck	0.5	-	-	0.5	3
Claymore Advrs	0.4	-	-	0.42	11
State Street Glbl	92.5	11.0	1.7	0.41	42
First Trust Adv	0.7	0.00	0.04	0.05	10
Fidelity	0.1	-0.06	-0.01	0.01	1
Bank of NY	27.2	-4.8	-1.5	-4.8	6
<b>Total above</b>	<b>422.9</b>	<b>54.6</b>	<b>53.7</b>	<b>68.5</b>	<b>363</b>

Source: Strategic Insight Simfund MF

The **World Gold Trust's** sole offering, the **StreetTracks Gold Trust**, which is marketed by **SSgA**, recorded the second highest net issuance volume (\$3.7 billion) last year among all ETFs.

**Rydex Global Advisors**, raised an estimated \$1.9 billion in its ETFs in 2006, including \$800 million within its CurrencyShares Euro Trust. The manager significantly expanded its ETF lineup last year, adding 21 new funds, including funds based on six additional currencies, ETFs tied to “pure” style indexes, and

sector ETFs. In February, Rydex added an ETF based on the Japanese Yen.

**Highest Cash Flow ETFs in 2006**

Fund Name	Start Year	Assets \$B	2006	
			Net Flows \$B	Net Flow Rate*
iShares MSCI EAFE	2001	37.06	8.4	37%
streetTRACKS Gold Shares	2004	9.26	3.7	86%
iShares Russell 2000 Index	2000	12.50	3.5	48%
iShares FTSE/Xnhua China25	2004	5.73	2.5	183%
iShares S&P 100 Index	2000	3.20	2.2	316%
iShares MSCI Emerg Mkt Idx	2003	15.67	2.1	21%
iShares Lehman Agg Bond	2003	4.91	1.9	65%
iShares Russell 1000 Gro	2000	7.70	1.8	33%
iShares Russell 1000 Val	2000	9.22	1.6	26%
iShares Silver Trust	2006	1.55	1.5	na
iShares S&P 500 Index	2000	18.06	1.4	10%
Vanguard Emerging Mkt ETF	2005	2.06	1.2	218%
iShares Lehman 1-3 yr Trsry	2002	5.66	1.1	25%
PowerShares Water Resrcs	2005	1.33	1.1	792%
iShares MSCI EMU	2000	2.21	1.1	146%
<b>Total above</b>		<b>136.15</b>	<b>35.1</b>	

\* 2006 Net Flows as a % of 12/05 assets.

Source: Strategic Insight Simfund MF

**As many as 158 new ETFs were launched last year** (as compared to 52 in 2005), bringing the total number of products in the marketplace to 363. The rapid pace of new fund launches led the average size of an ETF to fall from \$1.47 billion at year-end 2005, to \$1.17 billion; however, the number of ETFs with a \$1 billion-plus size grew from 53 at the end of 2005, to 71. It remains to be seen how many of the new more narrowly focused products are able to build sufficient traction and volume to become viable competitors.

**The new ETFs started in 2006 raised a collective \$12.3 billion in net flows.** The specialized **commodity/currency products space**, which had been populated with just three funds at the end of 2005 (two-gold-based and one tracking the Euro), saw a combined \$4.6 billion in net flows being raised last year in new funds started by BGI, DB Commodity Services, Victoria Bay, Claymore and Rydex. By the end of the year, investors for the first time had access to ETFs based on two additional single commodities—silver and oil—besides those tracking diversified commodity indexes and several other individual currencies.

The **international equity segment** also saw many new ETFs being introduced. This area has for long been dominated by BGI through its well-diversified lineup

but other established and new sponsors are now looking to build their presence in this area.

- **Vanguard** is looking to supplement its three international equity ETFs (one emerging market, one European equity and one Pacific equity) with a broadly diversified product based on the FTSE All-World Ex USA Index.
- **SSgA**, the second-largest ETF sponsor in the US, has started five international ETFs in quick succession since November: these include two Japan-based funds (one large-cap and another small-cap), one broad-based world-ex US product, one international REIT fund and one global infrastructure ETF. (Just prior to the recent expansion, international representation on the manager’s lineup was limited to three funds— two European and one based on the Dow Jones Global Titans index.) SSgA also has several additional international products in registration, including other broad-based funds, and regional and single country-focused ETFs.
- **WisdomTree** brought out 24 dividend-focused international ETFs last year: six broad-based (including the first to track international small-cap stocks), five regional, three single country (Japan), and ten international sector funds.

Besides more international equity / commodity and currency coverage, other important themes featured in new and filed equity products are:

- **“Alternatively-weighted” indexes** or indexes that weight constituent securities by different metrics from the traditional market-cap—these include equal-weighted products as well as those weighted by dividends, earnings, style, or some other factor or combination of factors;
- **Leveraged/inverse funds (ProFunds)** entered the ETF arena last year with a lineup of such funds and quickly gathered a collective \$2.2 billion in assets—it added a slew of similar funds in February; Rydex has multiple such funds under registration).
- **US sub-sector** as well as **international sector-tracking funds**.

**2007 could bring more choices among bond ETFs:** including high yield, emerging / developed market, muni and others. Besides the Vanguard filings mentioned earlier, in January, BGI filed a high yield bond product; Ameristock had filed last year for Treasury bond ETFs based on Ryan’s indexes. More

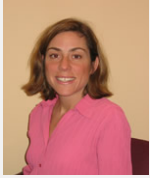
bond investable benchmarks are being developed as well.

**Also likely to come to market are additional funds based on commodities and currencies** (e.g., DB Commodity Services has brought out seven new commodity-based products, including funds tracking base metals and agricultural commodities indexes, besides a US dollar-bearish and a US-dollar bullish fund, all jointly branded with PowerShares). **More ETFs tracking the global real estate sector, single emerging markets** (e.g. Van Eck has registered an ETF based on Russia; also, First Trust Advisors plans a “Chindia” fund, which will invest in both China and India), **blends of indexes, besides more funds quantitatively screened for certain parameters may also be forthcoming.**

ETFs Started in 2006 Sorted by Q4'06 Cash Flows \$ Million			
Fund Name	Assets	Est. Net Flows	
	12/06	2006	Q406
<b>US Equity</b>			
UltraShort QQQ ProShares	670	713	371
streetTracks KBW Regional Bank	269	264	261
Van Eck MktVector GoldMnrs ETF	441	418	151
Ultra QQQ ProShares	255	246	140
UltraShort Dow 30 ProShares	159	171	111
Ultra S&P 500 ProShares	323	308	103
WisdomTree Large Cap Dividend	203	192	91
WisdomTree Dividend Top 100	116	112	83
Short S&P 500 ProShares	108	114	77
<i>Others (99)</i>	3,862	3,737	1,030
<b>Subtotal US Equity</b>	<b>6,404</b>	<b>6,275</b>	<b>2,418</b>
<b>International/Global Equity</b>			
streetTrck Rsl/Nmra PRIME Japan	166	163	163
WisdomTree Intl Dividend Top 100	152	143	116
Claymore/BNY BRIC ETF	142	135	107
WisdomTree Intl Sml Cap Dividend	113	106	79
<i>Others (31)</i>	957	892	476
<b>Subtotal Int'l/Global Equity</b>	<b>1,531</b>	<b>1,438</b>	<b>942</b>
<b>Commodity-/ Currency-based</b>			
iPath DJ AIG Cmdty Index Tot Rtm	835	826	432
United States Oil	794	809	368
iShares Silver Trust	1,555	1,513	215
iPath GSCI Tot Return Index	208	205	113
PowerShrs DB G10 Crmcy Hrvst	130	129	104
iShares GSCI Commodity Indexed	143	156	94
<i>Others (10)</i>	1,007	964	166
<b>Subtotal Specialized</b>	<b>4,671</b>	<b>4,603</b>	<b>1,491</b>
<b>Total</b>	<b>12,607</b>	<b>12,316</b>	<b>4,852</b>

Source: Strategic Insight Simfund MF

## Inside FundFiling.Com: A Year of Changes



**Jennifer Mann**  
(845) 252 6565  
[jennifer.mann@sionline.com](mailto:jennifer.mann@sionline.com)



**Pamela Hill**  
(570) 504 8451  
[pamela.hill@sionline.com](mailto:pamela.hill@sionline.com)

At FundFiling.com, we observe each day a constant stream of fine-tuning: mergers, realignment of investment policies, changing sub-advisor and portfolio management relationships, and much more. For all of 2006, some common themes of change were increasing funds' investments abroad, introducing (quantitative) strategies, rolling out ETFs, or embracing derivative instruments. This review of 2006 incorporates some of these themes, and others.

### Fee and Expense/Pricing Changes

SI identified over 300 [contractual advisory fee changes](#) in 2006 (not dissimilar to the prior years' pace, and impacting less than 5% of all portfolios). Not surprisingly, in most cases fees were reduced (through additional breakpoints when schedules were in place; or lowering the advisory fees for "flat" fee structures). A deviation noted were funds moving [from breakpoint schedules to flat fees](#): **Allegiant United Association S&P 500 Index**, **IXIS Asset Management's Harris Associates Focused Value**, **John Hancock Special Value**, **Credit Suisse Large Cap Value**, **ING National Tax-Exempt**, and the **ING Intermediate Bond**. In rare cases, some funds [raised their advisory fees](#). Some of the atypical changes to advisory fees were: **John Hancock II Absolute Return fund** separating affiliate fees from non-affiliated fees; **Fidelity**, **Janus**, **USAA** and **Vanguard** [changing performance fee benchmarks](#); **Touchstone** and **Stratton** eliminating their performance-based fees; and **Evergreen** aggregating the assets of the fund and its variable annuity fund counterpart for computing the advisory fee.

**Minimum initial investment changes** consisted mainly in increasing complexity. **DWS**, **American Century**, **MFS**, **Evergreen**, **Pioneer**, **TA IDEX** and **Transamerica** waived and/or eliminated the minimum

initial investment for asset based fee programs/wrap accounts, **Dreyfus** waived the minimum subsequent investment for asset-based fee programs, and **Alger** instituted a new \$250 minimum for asset-based fee programs. **ING** funds introduced a separate minimum initial investment amount for omnibus accounts, and **JP Morgan** and **Legg Mason** introduced a separate investment minimum for trustees and employees. **Evergreen** increased the minimum for IRA accounts from \$250 to \$1,000. Several other funds and fund families raised the minimum initial investment: **Columbia Acorn and Columbia Acorn USA** funds raised the minimum from \$1,000 to \$75,000 in classes A, B and C, in a permutation of the "soft close" to new investors theme, as smaller-cap fund investment management capacity became an industrywide challenge (in general, **Columbia funds** raised the minimum from \$1,000 to \$2,500, and removed the minimum for [health savings accounts](#)); the Investor shares of **Vanguard's Wellington**, **Windsor II**, and **Strategic Equity** funds raised minimums from \$3,000 to \$10,000 (*the costs of small accounts, borne by larger accounts, was the topic of an article in the May '06 issue of Windows*), the **John Hancock Classic Value** and **Oppenheimer International Small Companies** funds from \$1,000 to \$50,000 (same theme as Acorn). Some of the larger *reductions* in minimums: **Federated's** Short-Term Income and Intermediate Municipal Trust funds reduced the minimum on Class Y shares from \$5 million to \$100,000, and **Morgan Stanley** reduced the minimum on Cash Management shares from \$10 million to \$1 million.

The fund industry continues to focus on ensuring that opportunities for breakpoint discounts, as articulated in prospectus language, are clear and operationally feasible. Following many modifications in prior years, 2006 also saw plenty of changes to the Rights of Accumulation (ROA) and Letter of Intent (LOI) policies, the most significant of which was the removal by **Franklin Templeton**, **BlackRock** and **MFS** of the ability to incorporate purchases made within 90 days before the filed Letter of Intent. **BlackRock** also modified the ROA with the inclusion of additional eligible classes, and **MFS** stated that the broker of record at the time of the current purchase must now "be the [broker of record](#) for any additional accounts to be linked under the policies of LOI and ROA," and made [W shares ineligible](#) for both ROA and LOI (MFS's new "W" classes charge 0.10% 12b-1 fees and are intended to be used in advisory / wrap programs; they have not yet gained much sales though). **Pioneer** specified classes for eligibility under the LOI, and also

established a \$100,000 separate minimum for fixed income funds.

## Sub-Advisory/Advisory Relationship Changes

M&As such as the [BlackRock](#) and [Merrill Lynch](#) merger, and [ABN AMRO](#) selling its US mutual fund business to [Highbury Financial](#), necessitate changes in advisory relationships. Some fund complexes with funds featuring multiple external money managers increased the number, diversity, and capacity of sub-advisers; e.g., [SEI](#) continues to add or subtract sub-advisors ([SEI made 34 sub-advisory relationship changes in 2006](#)). Some relationship changes involved bringing in affiliates as sub-advisers, for example, [Phoenix's](#) addition of [Kayne Anderson, Duff & Phelps](#), [Euclid](#) and [Engemann](#) as sub-advisers, or [John Hancock's](#) addition of [Sovereign Asset Management](#). Some managers appointing unaffiliated companies to the post of sub-adviser were driven by the funds' former reputable portfolio managers setting up shop independently, yet continuing to run the same fund (e.g., Timothy O'Brien and his [Crow Point Partners](#) as sub-advisor to the [Evergreen Utility and Telecommunications fund](#)).

## Service Provider Changes

PFPC took on certain [Allegiant](#), [Citigroup](#), [Legg Mason](#), and [BlackRock](#) funds as transfer agent, [EII Realty](#) and [Accrued Equity](#) funds as distributor and [Bridgeway](#) funds as custodian. [BISYS](#) became the new administrator, accounting agent, distributor, and transfer agent to [Capital One](#) and [FCA Corporation](#) funds, and transfer agent to [Firsthand Capital Management](#) funds.

## Investment Policy Changes

Many small cap funds increased market cap ranges to manage capacity, focused funds fiddled with increases and decreases in the number of allowable holdings, [Florida municipal funds dealt with the repeal of the Florida intangibles tax](#), fund objectives in general were adding investment in derivative instruments to their strategies and, some US-centered funds increased permitted percentage allowed in international investment. The adoption by the SEC of new rules facilitating investments in money market funds as a cash sweep arrangement and allowing affiliated funds-of-funds to invest also in unaffiliated stock and bond funds led to many funds filing to take advantage of such flexibility. The [Gartmore Optimal Allocations](#) funds included unaffiliated TIPS bond funds, unaffiliated international bond funds, and unaffiliated commodity-linked funds

to their list of investments. The [Phoenix Pholio](#) funds disclosed that the new ruling would open up investment in unaffiliated ETF funds. [ING](#) announced that all [ING](#) funds sub-advised by [ING Investment Management Company](#) will be permitted to invest end-of-day cash balances into affiliated [ING](#) money market funds.

## Openings/Closings/Reorganizations

Capacity management led to many closings (to new investors) and re-opening of funds at times. Naturally, some closings are a precursor to liquidation. Of the 26 funds that re-opened to investment in 2006, 19 were small-cap and emerging market funds, with 11 of these directly citing asset levels as the reason they had originally closed (and three funds giving a maximum dollar figure for closing: [BlackRock Schneider Small Cap Value](#) closed at \$100 million, [Dreyfus Premier Enterprise](#) closed at \$300 million, and the [Munder Small Cap Value](#) closed at \$1 billion). How big is too big? The range of asset levels was wide. The [Baron Growth](#) and [Baron Small Cap](#) funds re-opened this past August, so they can attract inflows, matching natural redemptions; this allows the PM to more optimally manage cash flows; these funds have present assets over \$6 billion and \$3 billion, respectively. [Longleaf Partners International](#) fund, which re-opened in July, runs over \$3 billion. Two funds reopened were under \$40 million, [Columbia CMG Small Cap Growth](#) and [Franklin International Small Companies](#) fund. The average time spent closed was 18 months.

## Fund Liquidations

Liquidations stemmed from M&As that led to redundancies, sub-scale and poor returns, mergers to create MMF and bond fund fee and scale optimization, and, in a few cases, managers "giving up" on the retail fund business (sub-scale to succeed, rising operational and compliance costs, or conflicts with their institutional or alternative strategies). [SI's Simfund](#) marked nearly 550 portfolios (including fund-of-funds and VA funds) as having been liquidated in 2006, and 2,150 since December 2002 (including FoFs and VA funds), near the bottom of the recent bear market. Thus, during the past four years, 21% of the funds in existence on December 2002 have been liquidated.

## Newly Registered Funds

FundFiling.com continues to be a useful tool for discovering new fund registrations way ahead of such funds' actual appearance in the marketplace. As discussed before, international/global funds, ETFs, and FoFs dominated new registrations in 2006.

# Fees & Expenses: 2006 SI Research Highlights



**Kevin Shine**  
(212) 217 6941  
[kshine@sionline.com](mailto:kshine@sionline.com)



**Rita Leytush**  
(212) 944 4466  
[rita@sionline.com](mailto:rita@sionline.com)



**Julia Toutounar**  
(212) 217 6917  
[julia@sionline.com](mailto:julia@sionline.com)

**Advisory Fee Contracts and Economies of Scale:** roughly 82% of conventional (non-ETF) open-end mutual funds (controlling about 69% of fund assets), charge an advisory fee based solely on fund assets. (The remaining 18% of funds incorporate a variety of contractual advisory fee structures such as performance-based fees, unified (all-inclusive) fees, “group fees” based on total assets of the management company, etc.)

Approximately two-thirds of funds that charge advisory fees based solely on fund assets are structured with “flat” (no breakpoint) advisory fees (of course, a much smaller percentage of assets reside in these funds.) And, among the one-third of advisory fee-based funds that do have break points, about half were too small to trigger their first contractual breakpoint.

While many funds do not have contractual breakpoints, a significant number of them are using non-contractual fee waivers. Approximately 49% of fund assets had an advisory fee waiver during the latest fiscal year that SI tracked for them (2005 or 2006). The median domestic equity fund advisory fee waiver last year was 10.4 basis points. The use of fee waivers has been increasing in the last few years. For example, among domestic equity funds, 51% provided fee waivers or reimbursements in 2006 (includes annual reports filed through October 2006, when available; excludes index funds.) In comparison, during fiscal 2003, the percentage of domestic equity funds waiving fees was 46%. Among international equity funds, 49% of funds provided waivers in 2006, in line with the percentage in 2003. Among bond funds, fee waivers have become even more common. For example, 61% of taxable bond

funds waived some fees in 2006, as compared to 55% in 2003, and among tax-free bond funds, 53% waived fees in 2006, versus 49% in 2003.

**Performance-based Fee Revenue Asymmetry:** January 2006 Windows issue discussed the many ways performance-based fees within funds are structured. We also addressed the concern that, while such fees are set in a symmetrical way (i.e. they add or subtract an identical fee percentage adjustment for outperformance or underperformance relative to the benchmark), their impact on a fund’s actual dollar revenue is most likely asymmetrical. (SI study “[A Status Report on the Use of Performance-Based Fees in Mutual Funds](#)”, is available on [sionline.com](http://sionline.com).)

**Fee and Expense Benchmarks:** Each year, SI publishes a detailed Overview of [Fund Fee and Expense Benchmarks](#) and of [Contractual Advisory Fee Breakpoint Schedule Comparisons](#). The November’06 issue of Windows offered additional details on fees within the fast growing international equity fund segment. The June’06 Windows included fee benchmarks for VA underlying funds.

**The Large Variability in Pre-Expense Total Returns** (Windows March’06): Total return variability—before accounting for fund expenses—remains extraordinarily high, even among the more “commodity-like” large cap equity sectors; Large Cap Growth fund pre-expense returns over the three years ending 1/06 had a standard deviation of nearly 17%; smaller cap styles, both in the US and internationally, experienced even bigger return variability; bond fund variability was much smaller, especially for lower duration funds.

### Estimated Pre-Expense Total Return % Trailing 3-Years to 1-06

Morningstar Category	Standard Deviation %	Average Return %
US Large Cap Growth	16.6	62
US Large Cap Value	13.5	67
US Small Cap Growth	24.8	99
US Small Cap Value	22.4	108
Int’l Large Cap Growth	17.3	107
Int’l Large Cap Value	16.7	115
Int’l MidSml Cap Growth	38.1	174
Int’l MidSml Cap Value	28.0	150
Corp. High Yield	9.3	43
Muni High Yield	6.3	26
Intermediate US Gov’t	3.5	11
Intrmd Corp. Bond	3.6	14

Source: Strategic Insight Simfund, SI research; 1/06 data

# 15(c): 2006 Strategic Insight Research Highlights



**Kevin Shine**  
(212) 217 6941  
[kshine@sionline.com](mailto:kshine@sionline.com)



**Rita Leytush**  
(212) 944 4466  
[rita@sionline.com](mailto:rita@sionline.com)



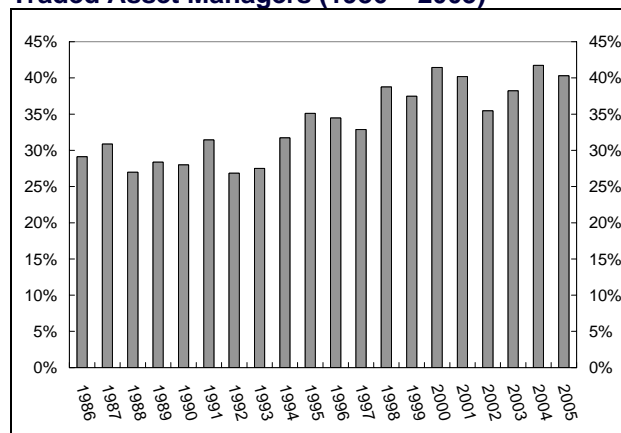
**Julia Toutounar**  
(212) 217 6917  
[julia@sionline.com](mailto:julia@sionline.com)

**12b-1 Fees at “Closed” Funds:** Our early 2006 study found that less than 10% of funds closing to new investors filed for changes in their 12b-1 fees, with all such filings set to reduce 12b-1 fees from a fee ratio of 0.30% or 0.35% (class A) to the more common 0.25% fee ratios typical of service fees. Even among “closed” funds, 12b-1 fees for certain share classes have not changed—e.g., for “B” or “C” share classes, where 12b-1 fees need to continuously be paid to financial advisors, or to amortize previously occurring distribution costs.

**Small Shareholder Accounts, High Costs (May 2006 Windows):** Some funds, and some fund complexes, experience a high proportion of small shareholder accounts. TA fee ratios for funds with the smallest retail-type accounts could be 0.30% (or more) higher than those among funds enjoying much larger average accounts. We provided some data and discussed some initiatives to reduce the occurrence of too many tiny accounts and thus lower TA costs for other shareholders.

**Publicly-held Investment Management Company Profitability:** 14 large management companies surveyed by Strategic Insight saw pre-tax operating margins hit an aggregate 40% of asset management revenues in 2005. The lowest profitability ratio among the public companies in 2005 by SI’s calculation was 17%, and the highest, 65%.

**Median Pre-Tax Operating Margin for Publicly Traded Asset Managers (1986 ~ 2005)**



Results for each year include the historical data of Public Managers during that year, based on SI’s past surveys, which date back to 1986.

Source: Company reports, Strategic Insight

**New advisory contract renewal language (Windows January 2006):** we analyzed fund Boards’ disclosure mirroring new SEC requirements.

**Boards Look at Sub-Advisory Pacts (Windows February 2006):** Our sample review of fund disclosures, using Strategic Insight’s daily-updated SEC Edgar filing monitoring service (<http://www.fundfiling.com>) suggests that mutual fund boards are addressing the issue of sub-advisory contracts in ways reflecting the new rules.

**Understanding Biases in Performance Benchmarking (Windows March ’06):** measuring your investment returns only once for each fund (“primary class”) instead of for every share class, survivorship bias, and funds’ re-classifications were discussed. For example, computing in 2006 the average returns for the year 2000 of the “Large Cap Value” category shows a 1.36% difference between the “Primary Class” survivorship bias-free average and the current live funds only “All Classes” return. For categories that experienced high fund liquidation, the gap is much wider.

# Board Talk: 2006 Strategic Insight Research Highlights



**Kevin Shine**  
(212) 217 6941  
[kshine@sionline.com](mailto:kshine@sionline.com)



**Rita Leytush**  
(212) 944 4466  
[rita@sionline.com](mailto:rita@sionline.com)



**Avi Nachmany**  
(212) 944 4451  
[avi@sionline.com](mailto:avi@sionline.com)

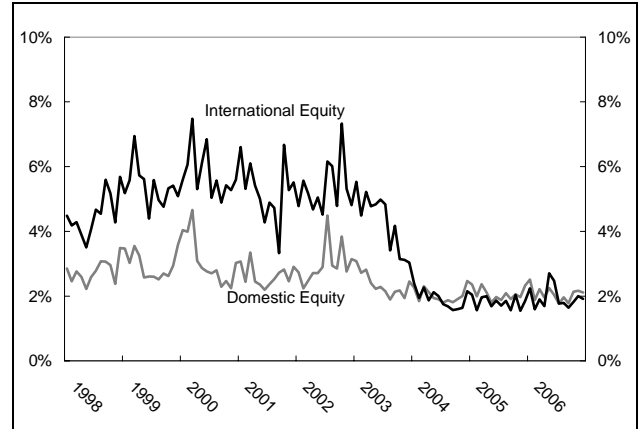
**Board Compensation, an Illustration:** SI studied 17 fund complexes with between \$20 billion and \$65 billion each in open-end, closed-end, and variable annuity (underlying fund) mutual fund assets. For a non-interested director / trustee, median total compensation per fund was \$2,459; median total compensation per complex was \$89,643; median annual retainer fee was \$45,300; median in-person meeting fee was \$3,600; median Audit committee chairman/financial expert fee was \$10,000. Of the 17 fund complexes we studied: 11 had a majority of the directors / trustees owning greater than \$100,000 in fund shares; 16 boards had a nominating committee; 70% had a governance committee; nearly half had a valuation committee.

**Morningstar® Investor Returns™ vs. Fund Returns:** “Investor Returns” is a newly offered Morningstar measure, yet with some limitations. For example, dollar-weighted “investor returns” could largely lag the fund’s trailing returns among very well-run funds which benefited from significant cash inflows; inversely, underperforming funds suffering redemptions (or funds closed to investors) may show “investor returns” equal or higher than the fund’s trailing return. These relationships between “investor” and “fund” returns could often be misunderstood. Ultimately, the need to exercise prudence through asset allocation and the avoidance of “hot” funds at the tail-end of their style’s out-performance are well-recognized themes; it is unclear how this new measure trying to capture the illusive concept of the “average

investor’s experience” would help beyond reinforcing such themes.

**Rule 22c-2:** Data on fund redemption irrefutably shows that corrective actions taken have resulted in the virtual disappearance of abusive time-zone arbitrage within international equity funds for the past three years. Why 22c2?

## Monthly Equity Fund\* Outflow Rates 1/98 to 12/06



\* Excludes variable annuities.  
Source: Strategic Insight Simfund, ICI

**Brokerage Commissions (April 2006 Windows):** For the industry’s 25 largest actively-managed equity funds, commission costs in recent years generally declined, as fund sizes increased and turnover slowed down; **median** brokerage commission ratios for this group fell from 9.3 basis points (2003) to 6.2 basis points (2005). Trading costs for smaller funds with higher turnover, and especially international funds with higher custody, transaction costs, and market impact are significantly higher. Trading costs and market impact in small specialized funds are estimated at many multiples of the costs suggested above.

**SarboX Audit Disclosures:** In SI’s sample study, non-audit fees averaged 18% of total audit and non-audit fees. No fund manager in our sample reported non-audit fees exceeding one-third of total fees paid to its accounting firm. (Windows December 2005)

**Funds Closed to Investors (March 2006 Windows):** Our discussion analyzed fund closures to “new investors,” and touched on some of the benefits of such a closing strategy as opposed to a “hard close”.

# Global Trends



**Jag Alexeyev**  
(212) 944 4456  
[jag@sionline.com](mailto:jag@sionline.com)



**Daniel Enskat**  
(212) 217 6859  
[daniel@sionline.com](mailto:daniel@sionline.com)

## Global Fund Industry Results—2006

Mutual fund flows set a new record of over **\$1.1 trillion (€900 billion) worldwide in 2006**, compared to \$940 billion in 2005 and \$560 billion in 2004. The expansion occurred **despite much slower sales in the second half of the year, particularly in Europe.**

Progress was most remarkable in Asia, where long-term fund flows probably exceeded those in Europe. Excluding money market programs, Europe-domiciled funds captured an amount equal to \$257 billion while Asia-domiciled funds took in \$206 billion. However, some estimates suggest that roughly 20% of flows to cross-border funds domiciled in Luxembourg and Dublin where sourced in Asia, thus possibly putting the gains attributable to the region ahead of those in Europe.

### Global Mutual Fund Net Flows Full-Year 2006, \$ Billion

	Equity	Mixed	Bond	Other	Sub-total L-T	Money Mkt	Total
Europe	133	79	-6	52	257	121	378
US*	239	-2	76	-	313	227	540
Asia**	121	18	29	35	203	-7	196
<b>Total***</b>	<b>494</b>	<b>106</b>	<b>107</b>	<b>86</b>	<b>793</b>	<b>341</b>	<b>1,133</b>

\*Includes open-end, closed-end fund and variable annuities.  
\*\* Includes Australia. \*\*\*Total includes Canada, not shown in the breakdown. Source: Strategic Insight.

Long-term fund net flows reached \$800 billion globally, down slightly from 2005 partly due to sharp reversal in bond fund gains in Europe. Excluding bond funds, **equity, mixed and other long-term funds combined ran 20% higher than the prior year.**

Worldwide gains among money market funds reached \$340 billion, two and a half times higher than last year. A flat yield curve in the US helped bring over \$200

million to MMFs. In Europe, **product themes such as enhanced money market and absolute return**, many of which are classified as cash programs, helped this sector double its flows last year.

**Equity/mixed funds collected \$600 billion net, up from \$500 billion in 2005, accounting for 55% of all global flows and 75% of long-term flows worldwide.**

Global Mutual Fund Net Flows 2004 - 2006, \$ Billion							
	Equity	Mixed	Bond	Other	Subtotal L-T	Money Mkt	Total
2004	444	54	107	61	666	-105	561
2005	413	88	244	70	815	119	935
2006	494	106	107	86	793	341	1,133
<b>YTY chg</b>	20%	20%	-56%	23%	-3%	187%	21%

Source: Strategic Insight.

Equity fund investments were the dominant theme in 2006 across every region, with \$496 billion in net flows worldwide accounting for more than 60% of long-term fund gains during the year.

**Stock funds in Europe and Asia collected very similar levels of new assets, with each region recording around \$130 billion. Stock fund flows in Europe were 12% higher than in 2005, while in Asia they were 150% higher.** However, a portion of the flows in Europe represents assets sourced in Asia by cross-border funds; accounting for this, we estimate that **equity fund flows actually raised in Asia probably exceeded the amounts sourced in Europe by 25%.**

The highest cash flow cross-border funds included Fidelity China Focus (\$4.4 billion), MLIIF US Flexible Equity (\$3.8 billion), JPMF Europe Strategic Value (\$3 billion), and SGAM Equities US Relative Value (\$2.8 billion).

**Mixed funds reflect a primarily European phenomenon, with the \$80 billion in flows in Europe representing 80% of global contributions for that category.** Ten mixed funds achieved over \$1 billion in 2006 net flows in Europe, both cross-border programs as well as locally domiciled funds.

Among the cross-border Mixed asset funds were UOB Kinetics Paradigm (\$3.2 billion in flows), MLIIF Global Allocation (\$2.5 billion), and UBS Lux Key Global Allocation (\$1.3 billion). Locally, funds in Italy, Germany, and France posting between \$1 billion and \$2.5 billion in flows included SPI Funds Attivo, Pioneer Target Controllo, db Privat Mandat Invest

Einkommen, UBS Vitainvest and Carmignac Patrimoine.

## Asia Flows Double in 2006, Concentration of Flows

Long-term fund flows in Asia exceeded \$200 billion in 2006, twice as high as last year and almost four times higher than in 2004.

### Mutual Fund Net Flows in Asia/Pacific\* 2003-2006, \$ Billion

	2003**	2004	2005	2006
Equity	10	45	49	123
Mixed	-10	0	5	19
Bond	-1	-1	22	29
Other	2	10	23	35
<b>Long-Term</b>	<b>1</b>	<b>55</b>	<b>99</b>	<b>206</b>
Money Market	-14	18	2	-7
<b>Total</b>	<b>-14</b>	<b>73</b>	<b>102</b>	<b>199</b>

\*Includes Japan, Korea, India, Taiwan, Hong Kong and Australia.  
\*\*2003 Australia data not available. Sources: Strategic Insight; Industry associations.

Equity fund flows went from \$50 billion in 2005 to \$125 billion this year, accounting for two-thirds of all flows in Asia. Bond and mixed programs also grew strongly, albeit from a lower base.

Within Asia, Japan led the way in terms of flows with more than 50% in the region, yet Australia, Korea and India also made visible progress.

### Asia/Pacific Mutual Fund Net Flows by Domicile Full-Year 2006, \$ Billion

Asia/Pacific Total	Equity	Mixed	Bond	Other *	MMF	Total
Japan**	80	7	23	1	-3	108
Australia***	7	5	4	22	-2	36
Korea	22	7	-2	13	-8	32
India	8	0	8	-	7	23
Hong Kong	5	0	1	-2	0	4
Taiwan	1	0	-4	2	-1	-3

\*Other includes mostly guaranteed funds and ETFs in Taiwan, REITs, FoFs and commodity funds in Korea, and alternative funds as well as fund wrap programs in Australia. \*\*Japan data from JITA adjusted for certain bond funds in the balanced equity category. In addition, Japan data also includes offshore funds tracked by Lipper. \*\*\*Australia data estimated by Strategic Insight. Sources: Strategic Insight; Industry associations; Lipper, Inc.

In Japan, equity/mixed, bond and other long-term fund flows attracted nearly \$110 billion during 2006,

with equity/mixed accounting for 75% of that total, including another roughly \$6-8 billion to offshore funds primarily sold in Japan.

In particular, two launches representing **cooperation between Nikko and Mellon**, the Cayman-domiciled GW Select Fund Aggressive and GW Select Fund Moderate funds each attracted \$2.6 billion in Japan. Offered through **Nikko Mellon GW Select Best Nine**, which **combines traditional and alternative investments across nine asset classes**, the investment universe includes five Mellon subsidiaries, and Mellon Capital Management also provides a **Global Tactical Asset Allocation overlay for the entire portfolio**.

Another Cayman-domiciled fund, **Nikko Rockefeller Global Energy**, advised by New York based Rockefeller & Co., also garnered over \$1 billion this year.

Among the highest cash flow funds across Asia in 2006 was **Pictet Global Income Equity (Monthly Distribution)**. With \$12.5 billion in full year contributions, the fund is now the **second largest fund in Japan**, and, paying monthly distributions along with additional higher payouts quarterly, **returned 35.3% in 2006**. It almost entirely invests in the institutional Pictet Global Selection-Global Utilities Equity fund, which is run by the same portfolio counselor as Pictet's Luxembourg domiciled Water fund, one of the highest cash flow funds in Europe.

**Similar to Europe and the US, we note in Asia a large concentration of flows among the top cash flow products and managers:**

- For example, the **five highest cash flow funds in Japan (listed below) captured over \$37 billion in net new money** in 2006: Pictet Global Income Equity, Nomura MyStory Distribution (\$8 billion), Daiwa Global Bond Fund (\$8 billion), Nikko Property Trichotomy (\$6 billion) and Kokusai Global Sovereign Open (\$4 billion).
- **In Korea, the top five funds collected \$12 billion** in net inflows. Yet, three of the top five funds were money market funds (Woori Asset Frontier Government Bond MMF, KB Star Government Bond MMF P-101, SH Asset Govt Bond SJ MMF Bond II 5) gathering a combined \$8 billion in flows.
- **The five best selling funds in India raised about \$7 billion**, with about half of that total going to the two leading cash flow funds, the LIC MF Liquid Fund-Growth and the UTI Liquid Fund-Cash Plan Growth.

# Variable Annuities 2006



**Kevin Ng**  
(212) 217 6922  
[kng@sionline.com](mailto:kng@sionline.com)



**Tamiko Toland**  
(212) 217 6949  
[tamiko@sionline.com](mailto:tamiko@sionline.com)



**Jeffrey Hutton**  
(212) 217 6954  
[jeff@sionline.com](mailto:jeff@sionline.com)

## The Year in Variable Annuities

VA sales increased in 2006 (total sales through the third quarter rose to \$117 billion, 20% above 2005's pace; source: NAVA and Morningstar). Yet, combined with a corresponding rise in withdrawals and transfers driven by the appeal of new living benefits over aging books of VA business, aggregate cash flows for the year remained largely stable, and still somewhat below the recent peak level of 2004 (see table below). Naturally, some carriers and funds experienced higher sales and inflows, while others suffered declines in their business.

During 2006, assets held by VAs rose by \$165 billion, or 15%, mostly due to equity fund appreciation. (These figures as well as the data below exclude over \$250 billion in fixed accounts, not structured as mutual funds, held within variable annuity contracts.)

	Net Flows			Assets
	2004	2005	2006	12/06
U.S. Equity	25.1	5.2	-11.2	832
Hybrid/Allocation	-1.0	-3.6	-2.9	81
Int'l/Global Equity	9.3	12.3	18.8	162
<b>Total Equity/Hybrid</b>	<b>33.4</b>	<b>13.9</b>	<b>4.6</b>	<b>1,076</b>
Taxable Bond	4.7	6.9	11.5	144
<b>Total Equity/Bond</b>	<b>38.1</b>	<b>20.7</b>	<b>16.1</b>	<b>1,220</b>
<b>Money Market</b>	<b>-3.7</b>	<b>-0.9</b>	<b>5.8</b>	<b>42</b>
<b>Total</b>	<b>34.3</b>	<b>19.8</b>	<b>21.9</b>	<b>1,262</b>

Source: Strategic Insight Simfund VA

As evidenced elsewhere in the fund industry, **asset allocation constituted a powerful force in the VA business**. International/Global equity funds experienced rising inflows, as did bond funds. By contrast, US-centered funds and Hybrid/Allocation funds suffered modest redemptions, partly due to fund-of-fund substitutions and other rebalancing and replacement trends.

In particular, funds-of-fund experienced dramatic gains last year, with their flows spiking more than 50%, reaching \$34 billion for the year (vs. \$22 billion during 2005 and just \$13 billion in 2004). This suggests that over \$40 billion of VA new sales last year were garnered within FOFs.

## VA Funds: Asset Allocation and ETFs

Asset allocation and ETFs are clearly among the watchwords in variable fund development. The former trend is similarly predictable: asset allocation funds are increasingly popular both because they are often required for use in living benefits and because of their overall appeal to consumers. As carriers look to the retirement plan rollover market, these funds also make a lot of sense as part of simplified design and to follow through with offerings similar to what is becoming more popular in retirement plans.

With increasing focus on FoFs and on their composition and management by the program manager, carriers now typically lean towards using an institutionally-driven Fund Selection Unit (FSU). This additional layer of oversight and externally managed selection criteria naturally reduces the ability of fund managers to influence which funds or sub-advisors are added or kept at the insurer platforms. Overall, FoFs provide more control and at times more pricing power to the insurance carrier.

As for ETFs, acceptance has been modest so far (for greater discussion on ETFs inside VAs see AnnuityInsight.com article from August'06). Yet, in the last quarter of 2006, we saw a boom in ETF fund registration, with 23 new ETF-based funds filed. During the first three quarters of last year, we reported only five ETF fund registrations, and tracked an additional existing 14 funds.

Moving into 2007, we see little reason to predict that 2006 VA trends will change significantly. For one thing, they go hand-in-hand: using ETFs in asset allocation funds is one way that carriers have developed new series of funds-of-funds. However, one variable that may reveal itself in the coming year is the ability to effectively sell ETF-based VA funds. Given

that many carriers have stalled investigations into using ETFs in their own funds, the success of some competitors may sway those that are on the fence about the feasibility of ETFs.

## VA Product Trends

On the product front, for an industry that has long spoken in terms of dramatic change, there was little of that in 2006, and the change that did come was largely predictable: many carriers came out with **new or updated versions of Guaranteed Minimum Withdrawal Benefits (GMWBs)**. We did not see the emergence of a brand new flavor of living (or other) benefit to supersede the GMWB; to the contrary, there has been considerable **rumbling about the application of GMWB type guarantees outside of VAs**.

Although comprehensive industry-wide data on guaranteed living benefit (GLB) elections remains elusive, **over 90% of policies sold include one or more GLB as an option**. Surveys suggest that **between 30% and 50% of new policies included a GLB election, continuing the transition of the VA business from its original tax deferral/death benefit focus**. As such, **VAs and their many and evolving GLBs remain in the forefront of the wealth management industry search for retirement income solutions**.

We predict that 2007 will bring more of the same. However, we note that we are beginning to see some product innovation outside of GMWBs that may ultimately develop into a growing diversity of solutions in the retirement income marketplace. Nevertheless, we do not see this innovation as a hallmark of profound shifts within the market.

Several of the new product launches in 2006 that caught our eye did not involve fundamental innovation but instead entailed re-packaging and/or re-pricing of existing benefits. Specifically, New York Life's Longevity Benefit VAs (released both under the Mainstay and Lifestages brands) are unique because of the way a fixed guarantee is structured into a VA. Similarly, an as-yet-unreleased Genworth VA filed in October provides a wide range of payout floor rider options. Admittedly, these guarantees are not brand-new as the GMWB was at the time of its initial introduction, but with guaranteed income a growing concern for retirees and the advisers who serve them, **a fresh approach to older features may end up gaining traction in the coming years**.

## GMWB Trends During 2006

Last year was an opportunity for many carriers to play catch-up with updated versions of GMWBs. While the approaches to offering GMWBs varies (i.e. a wide variety of different features with fixed functions, versus a small variety of features with many options), the field has generally become more consistent.

**Spousal benefits have become nearly ubiquitous and many carriers have been tweaking the step-up periods**, making them shorter, often without increasing the cost.

A few carriers have GMWB features that are new and not yet replicated throughout the industry. In September, Sun Life filed a **guaranteed cumulative withdrawal benefit** that allows the rollover of unused withdrawals. Protective Life is set to release a new GMWB filed in October that offers an option called RightTime that allows policyholders to **add the GMWB after election for a higher cost**; although some carriers allow post-purchase elections, this is the first time we have seen this feature packaged for a higher price.

In December, AIG filed a GMWB benefit with novel treatment for bonuses applied for non-withdrawals during the first ten years; most features pay the bonus until the first withdrawal, but this one only stops paying the bonus during years in which withdrawals are taken. In subsequent withdrawal-free years (during the period when the bonus applies), the policyholder continues to receive the bonus.

These adjustments to features, although they do not represent a significant departure from available options, represent the kind of change that carriers are likely to adopt in the coming year. As economic conditions and other factors change, certain tweaks to benefits may gain more appeal. Insurance companies have adapted to the rapid pace of innovation in the industry and many are now able to quickly accommodate small-scale trends, rather than simply waiting for macro level changes.

In examining both VA product and fund trends, it is critical for carriers and asset managers alike to keep a finger in the wind and gauge the smaller and larger shifts that represent a market opportunity. With the course of Boomer retirement still unclear, the VA industry is poised to answer the needs of that demographic and capture retirement income assets.

**SI's AnnuityInsight.com site will continue to monitor and share with you, daily and weekly, our observation and interpretations of VA innovations.**

## SI: In Our 21<sup>st</sup> Year, Planning Ahead

Our more than 60 associates (we expect that number to exceed 70 by mid-year) continue to expand the range of services we offer now to nearly 300 financial services client organizations in the US and internationally.

In the coming year, we will **roll out new versions of enhancements to each of our Simfund databases -- MF: mutual funds, VA: variable annuities; MF with a Lipper Data Module; private label Simfund, and the future Simfund Asia and Simfund Europe.**

Our web libraries, simplifying and facilitating access to SEC filings, are also being enhanced. **FundFiling.com** subscribers will be offered an expanded tool in 2007. We are also exploring new ways of using the data already collected on **AnnuityInsight.com** to bring, for example, timely comparisons of GLB features.

Our **global team** now tracks **results on a monthly basis for nearly 50,000 funds internationally, including from many fast growing fund markets in Asia. Just published on SIG web site are two studies with nearly 90 pages covering key 2006 data.**

We have grown our services aimed at **supporting management company relationships with their fund boards**, both through responding to **specific board inquiries as well as in the form of 15(c) tasks** (we now permit a non-systematic sharing of our research reports with your funds' board.)

Our **US fund research team is expanding** its number of analysts and researchers in response to the growing volume of on-demand research requests received from our clients.

### SI Technological Enhancements

**New Lipper Module** for Simfund MF (**selected fields only**): Lipper **Classifications**, Lipper **Leader**, and a link to **Lipper Fund Fact-Sheet**

#### Simfund Lipper Performance Module

Some Simfund subscribers already have access to a large set of Lipper data via Simfund, including Lipper official performance and rankings, survivorship-bias-free-rankings, and more. Lipper data within Simfund was a top request in our recent Simfund enhancement survey -- suggesting that many are not familiar with the fact that a **Simfund Lipper module has been launched in early 2006!** (Contact Kevin Shine at [kshine@sionline.com](mailto:kshine@sionline.com) or 212-217-6941.)

### Upcoming Simfund VA 5.0

Integrating more than 300 Morningstar data items: official Morningstar performance and rankings; performance benchmarks (primary, secondary, best fit, and Morningstar average); Morningstar rating and risk scores; MPT statistics; portfolio composition; top 10 holdings; and more. The new Morningstar data will complement the wide range of Lipper data already included. Version 5.0 also offers new pre-formatted graphs and reports; improved search interface; floating bar performance graphs; new fee and expense graphs. (Kevin Ng at [kng@sionline.com](mailto:kng@sionline.com) or 212-217-6922.)

### Fundfiling.com New Version

- Search Daily Alerts, New Registrations, and SEC documents based on Simfund flags (life-cycle, tax-managed, market neutral, enhanced index, TIPs, focused fund, etc.)
- Search by portfolio name, which enables the creation of a "Fund Changes" e-mail alert for a list of pre-defined portfolios
- Upcoming Features: A Prospectus Data Fund Profile that will offer official performance benchmark, fees, including advisory and sub-advisory fees, redemption fees, portfolio manager name and tenure, and more.
- Others: search results from the New Fund Registrations system will soon distinguish between launched funds and those awaiting a launch; an improved home page with links directly to the most recent research (Quick Searches).

(Maria Hykin, [mhykin@sionline.com](mailto:mhykin@sionline.com), 212-217-6925.)

**Simfund MF 5.0: Enhancements planned for the Next Version** (new data / features will be released throughout the year, before the full new version is made available). Wontak Kim [wkim@sionline.com](mailto:wkim@sionline.com) or Phil Herzog, [pherzog@sionline.com](mailto:pherzog@sionline.com), 212-944-4452 can provide more information:

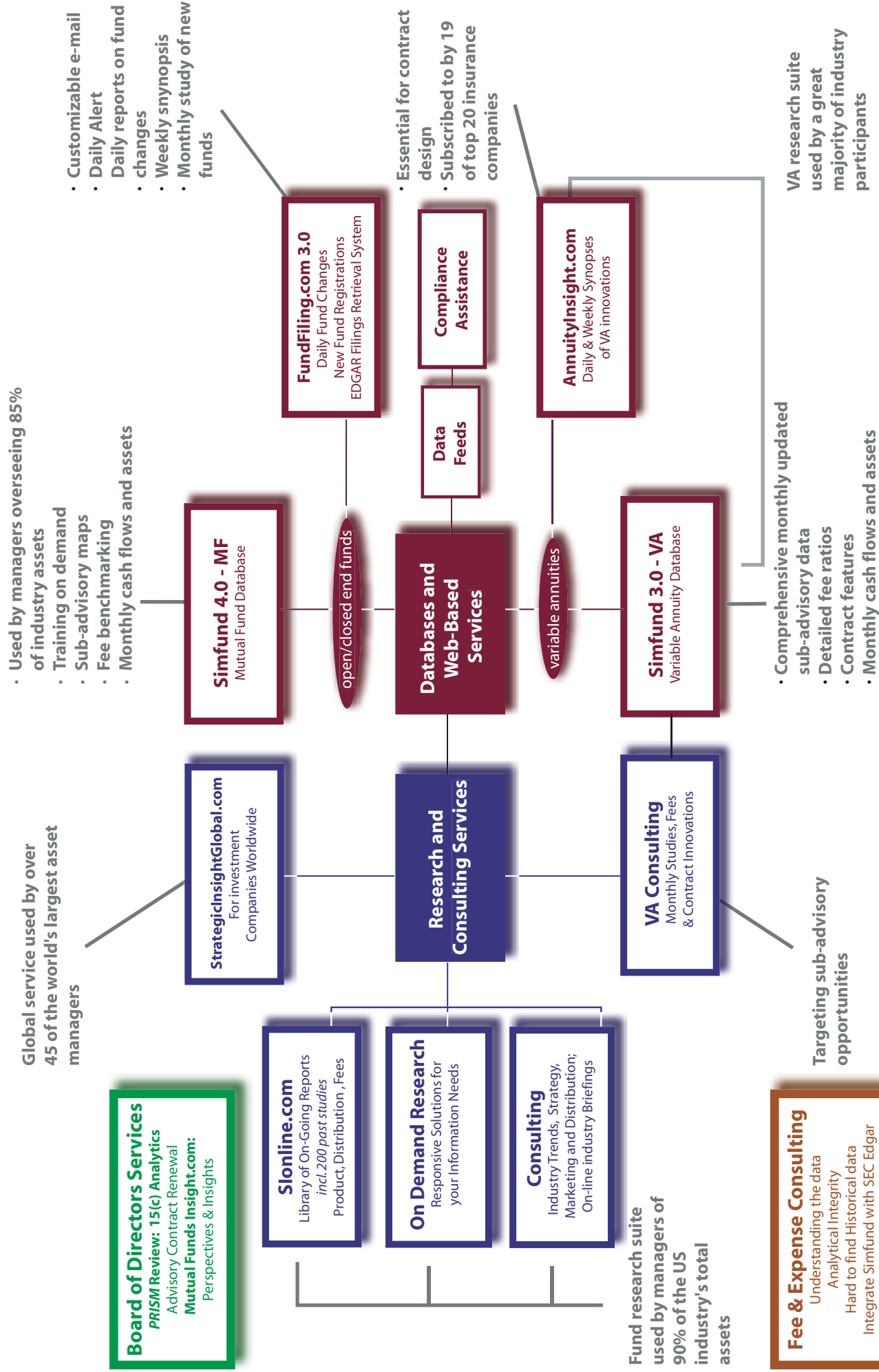
- Support for Windows Vista and Office 2007
- Latest Prospectus stated performance benchmark
- Market Indices Performance data
- Monthly Total Return Data – 10-year history
- Early release of total return data
- Multiple Sub-advisor data
- Latest Prospectus advisory and sub-advisory fee schedules and Fee Table
- Quicker access to fund-of-funds or ETFs
- New graphs and reports
- Increase number of exported columns to 125 from 100 to allow a data dump of 10 years.

This page was intentionally left blank



**Strategic Insight**  
founded 20 years ago

**Learn how over 250 Asset Managers and Related Companies Benefit from their Strategic Insight Partnerships**



To learn more, visit [www.stionline.com](http://www.stionline.com)  
For additional information, contact Rita Leytush, [212 944 4466, [rita@stionline.com](mailto:rita@stionline.com)]