

# *Strategic Insight*

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March 20, 2009

## *Windows into Global Asset Management, Global Fund Distribution*

**Enclosed is the latest edition of Strategic Insight's Global Windows publication,** which we felt would be helpful to share with all of our clients this month. **Appended to the report are commentaries from our Global Fund Distribution website (GlobalFundDistribution.com).** We are finding that many executives are addressing today's challenges and strengthening the foundations for future growth by thinking and acting with a broader international perspective. We hope that by sharing this research, more of our clients will benefit.

Not surprisingly, many organizations have scaled down their global efforts recently. But this has opened the door for other companies that instead are intensifying these efforts, looking to the longer-term opportunities arising from the dramatic changes underway in the industry.

Strategic Insight continues to help organizations strategically and tactically around the world through customized research and consulting, and through our Simfund Global databases that track funds in **Europe, Asia, offshore,** and (soon this year) in **Latin America and Canada.** We are also adding a US module to our Simfund Global interface, which would allow clients to seamlessly analyze products and businesses from a unified perspective.

In addition to our international databases and consulting, we produce several regularly updated resources including an in-depth Global Fund Distribution report, an Asia Fund Management Study, and monthly Global, Asia, and Europe FlowWatch change monitoring tools.

Sincerely,

Jag Alexeyev  
Head of Global Research

Daniel Enskat  
Head of Global Consulting

For more information on Strategic Insight's Global Research, including Windows into Global Asset Management, FlowWatch reports, and in-depth studies on Asia Fund Management and Global Fund Distribution, please visit:

[www.StrategicInsightGlobal.com](http://www.StrategicInsightGlobal.com)

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## WINDOWS Into Global Asset Management

March 2009

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## Reviewing the Facts, Assessing Strategies, Taking Action

- The magnitude and pace of change in the fund industry is exceeded only by the challenges, even in segments benefiting from growing demand. Take money market products for example. **Sought after as a liquid safe haven, with \$800 billion of net inflows worldwide in 2008, money funds now face challenges and potential regulatory changes that could radically alter that business** in the US and other markets. Financial reform recommendations by the Group of Thirty would lead money fund providers in the US to give up stable net asset value pricing or reorganize as special purpose banks. This comes as the need for cash managers expands and a few equity houses try to redefine themselves around a wider range of conservative investments, even as providers wrestle with how to balance fees with lowered cash yields.
- More broadly, fund executives internationally are grappling with growing complexities and uncertainties about how the industry will evolve. Reduced sales volumes, assets, revenues, and margins make for an extremely challenging operating environment, but their implications are relatively discernable and understandable. In contrast, the transformations among financial intermediaries, in fund distribution dynamics, regulatory direction, client needs, and risk aversion would leave a more lasting imprint, but are more ambiguous at the moment.
- Amidst the most severe financial market conditions in eighty years, **mutual funds worldwide recorded net inflows of around \$100 billion during 2008, supported primarily by money market funds. Long-term fund flows were down \$1.5 trillion compared to the prior year.** This swing in flows along with 40% to 50% NAV declines among equity funds caused a marked shift within most companies towards a lower fee, lower margin product mix, leading to adjustment in cost structures and scaling back of many efforts.
- The **flight to greater safety drove \$625 billion of net flows into money market funds in the US and \$170 billion into offshore liquidity programs** (Dublin and Luxembourg, with assets sourced from Europe but also Asia and elsewhere). **Local money funds in Asia gained another \$40 billion,** supported by institutional purchases in China in the fourth quarter. The desire for stable income and

capital preservation strategies has risen, but the ability to satisfy these needs are compromised by the environment. Beyond the challenges faced by money funds, bond vehicles are constrained by low yields and the potential long-term inflationary impact of global monetary stimulus and deficit spending to accommodate recovery.

### Mutual Fund Net Flows 2005-2008, \$ Billion

	2005	2006	2007	2008
Asia	106	162	408	73
Europe	290	191	-30	-335
Int'l/Offshore	254	274	172	-151
US	369	560	1,038	526
<b>Total above</b>	<b>1,019</b>	<b>1,188</b>	<b>1,588</b>	<b>112</b>
<i>Memo:</i>				
<i>MMF Flows</i>	138	326	801	793

Source: Strategic Insight Simfund.

### Mutual Fund Net Flows, excluding Money Market 2005-2008, \$ Billion

	2005	2006	2007	2008
Asia	101	169	403	35
Europe	249	146	-58	-328
Int'l/Offshore	223	217	64	-288
US	308	330	379	-99
<b>Total above</b>	<b>881</b>	<b>862</b>	<b>787</b>	<b>-680</b>

Source: Strategic Insight Simfund.

- Bond funds in the US captured \$50 billion of inflows,** benefiting various active, index, ETF, and specialist vehicles. PIMCO's flagship Total Return fund pulled in \$16 billion (the highest cash flow actively managed fund in the US), bringing assets to \$132 billion. Highlighting differences in product success in the US and demand and marketing limitations in the rest of the world, the offshore version of PIMCO Total Return posted outflows of about 10% of assets, despite positive returns (augmented in Euros by dollar appreciation). **In Asia, bond funds collected \$40 billion of inflows,** 60% of which was in Japan around global and emerging market themes, and 40% into stable income and enhanced yield products in China.
- Bond funds in Europe on the other hand suffered \$220 billion of net redemptions. **Long-term funds overall in Europe lost \$620 billion (€430 billion) to outflows including product liquidations.** Each of the four main

segments in the region – equity funds onshore / offshore, and bond funds onshore / offshore – lost more than \$100 billion each to net redemptions.

**Mutual Fund Flow Highlights by Asset Class and Region, 2008, \$ Billion**

**Highest Inflows**

Money market funds in the US	+625
Money funds offshore* (exc. cash plus)	+167
Bond funds in the US	+51
Money market funds in Asia	+38
Bond funds in Asia	+38
<i>Memo: ETFs worldwide</i>	+268

**Highest Outflows**

Bond funds in Europe (onshore*)	-121
Equity funds in the US	-118
Equity funds in Europe	-109
Equity funds offshore	-108
Bond funds offshore	-100
<i>Memo: All long-term funds in Europe</i>	-616

\* "Offshore" includes cross-border International in Luxembourg and Dublin, plus other offshore; "Europe" is onshore only, excluding offshore international; US categories include variable annuities; Worldwide includes Asia, Europe, offshore, and US; excludes Australia & Canada; Source: Strategic Insight Simfund.

- Global mutual fund industry assets contracted by 25% in US dollar terms during 2008**, declining by \$7 trillion to roughly \$22 trillion worldwide. **Excluding money market funds, global AUM declined by \$8 trillion or 36%.** Asia, with a greater share of assets in equity than Europe, suffered a steeper percentage decline despite positive inflows. The asset shrinkage and shift to lower margin products have sharply cut forward revenue expectations within management companies, influencing spending and operations. **But companies excessively cutting client facing time and service levels are risking their distribution relationships.** Fund selectors are reassessing providers, and are taking note of partners that continue to support them more than others. Upheaval among banks is further affecting distribution dynamics, which will remain a key area of transition through 2009.

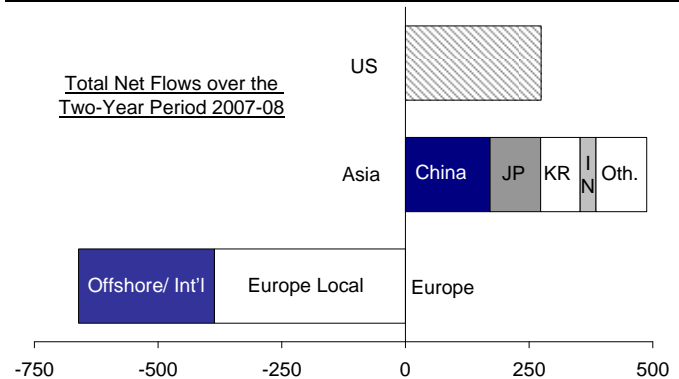
**Global Industry Summary  
Long-Term Funds in 2008**

	LT Funds Asset Chng	Net Flows \$ Billion
Asia	-36%	35
Europe	-35%	-328
Offshore	-46%	-288
US	-35%	-99
<b>Total</b>	<b>-36%</b>	<b>-680</b>

Source: Strategic Insight Simfund.

**Asia In Front Again, but Global Issues to Impact Region**

**Long-Term Fund Flows  
2007-2008 Total, \$ Billion**



Sources: Strategic Insight Simfund; excludes money market funds and internal fund-of-funds.

- Investors in Asia contributed over net \$70 billion to locally domiciled mutual funds during 2008, after \$400 billion of flows in the prior year** (excluding internal fund of funds programs). Adding Asian flows to offshore cross-border international funds pushes the total to around \$0.5 trillion of new money over the past two years. **Excluding money market, net new business in the region has been almost twice as high as in the US.** This benefited primarily local fund managers but also many international groups; and while most executives still agree \* that **the Asia business may grow more**

\*See our "Asia Fund Management" 150-page study for details.

vigorously over time compared to other regions, it will be strongly impacted near-term by global interdependencies. Among other developments, asset divestitures and reorganizations by global financial institutions most affected by the crisis will reshape distribution in Asia as in the rest of the world. International money managers struggling to cut costs are doing so across the board worldwide, even if the current reality and prospects for the region might be better. Relatively small assets raised by some global organizations also makes their Asia effort seem like an ancillary non-core activity, and difficult for some executives to defend. With the exception of a few dedicated and forward-looking international groups, the business thus might shift temporarily toward local institutions.

**Mutual Fund Net Flows in Asia  
2005-2008, \$ Billion**

	2005	2006	2007	2008
Equity	27	85	309	7
Mixed	25	44	38	-13
Bond	36	20	36	38
Other	13	20	20	3
<b>Long-Term</b>	<b>101</b>	<b>169</b>	<b>403</b>	<b>35</b>
Money Market	5	-7	5	38
<b>Total</b>	<b>106</b>	<b>162</b>	<b>408</b>	<b>73</b>

*Includes offshore funds exclusively sold in the region but not Asia sourced assets in cross-border international; excludes Australia; excludes Internal FoFs; Source: Strategic Insight Simfund.*

- Regional, global and emerging markets attracted money in 2008, but with a switch from equities to fixed income and on a smaller scale. Most of the best selling funds were in China (Harvest, BOCOM Schroders, China AMC), Japan (UBS, Nissay, JPM, Kokusai, Daiwa, Nomura) and India (Reliance), along with the Hong Kong trackers. Some of the underpinnings for new funds earlier in the year unwound, notably the yen “carry trade”, the basis of Brazil Bond and other emerging income themes in Japan, but are in the process of resetting as securities and currency markets adjust. The table below provides a full-year view, but our Asia FlowWatch series reveals more detailed recent progress, such as Shinko Brazil Bond raising a quarter billion dollars in December, even after the violent moves in the yen.

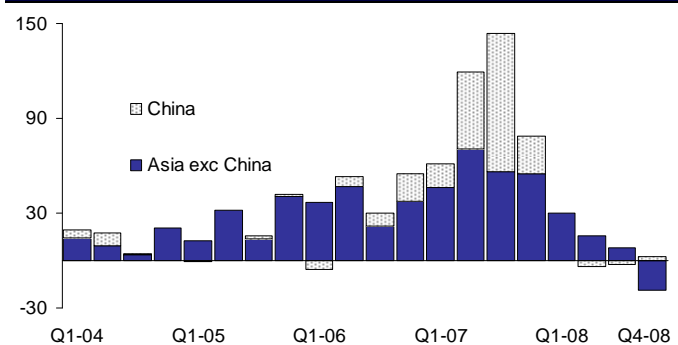
**Highest Cash Flow Funds, Asia  
2008, \$ Billion**

Fund Name	Category	Flows
iShares FTSE/Xinhua A50 China Tracker	Eq. Asia Pac.	4.5
Harvest Ultra-Short Term Bond Fund	Bd. Asia Pac.	3.0
UBS Brazil Real Bond Fund	Bd. Emg Mkts	3.0
China 50 Exchange Traded OE Index	Eq. Asia Pac.	2.8
Tracker Fund of Hong Kong	Eq. Asia Pac.	2.7
Nissay High Interest Country Bond Fund	Bd. Global	2.7
JPM Emerging Country High Yield Bond	Bd. Emg Mkts	2.6
Kokusai Global Sovereign Open	Bd. Global	2.5
Daiwa World Bond Fund	Bd. Global	2.1
Nomura New World High Int. Currency	Bd. Global	2.0
Reliance Mid Term Fund	Bd. Asia Pac.	1.8
BOCOM Schroders Enhanced Yield Bond	Bd. Asia Pac.	1.5
Reliance Natural Resources	Eq. Sec./ Oth.	1.4
Daiwa High Grade Oceania Bond Open	Bd. Asia Pac.	1.3
ChinaAMC XiWang Bond Fund	Bd. Asia Pac.	1.3

**Total above 35.4**  
*Includes offshore funds exclusively sold in the region but not cross-border international; excludes Australia; excludes Internal FoFs and money markets; Source: Strategic Insight Simfund.*

- The stickiness of the large volume of assets absorbed by funds in China has been remarkable, with only minimal net redemptions from equity products during 2008, offset by inflows to bond programs and, in the fourth quarter, a surge in money fund activity by institutions. Also, with January and February bringing stock market gains in China (while most of the rest of the world was down), discussions in the mainland are going back to the possibility of sentiment change and a return to equity products sooner rather than later.

**Asia: Monthly Long-Term Fund Net Flows  
\$ Billion**



*Includes offshore funds exclusively sold in the region but not Asia sourced assets in cross-border international; excludes Australia; excludes internal fund-of-funds; Source: Strategic Insight Simfund.*

## Addressing Europe’s Challenges, with a Global View

- The nearly \$500 billion (€300 billion) outflow from funds in Europe during 2008 has underscored the need for renewal. Some executives are sounding a “call to arms” with a nine-point program of recommendations to support the role of UCITS in long-term savings\*. But many of the recommendations have been floating for years without much avail. For example, reducing fund costs and offering better pricing for investors through rationalization was on the industry agenda for at least a decade. Cost savings will help the industry remain viable, but would not directly stimulate long-term savings. A pan-European pension framework and structure to encourage regular savings through harmonized tax incentives could be powerful, but seems rhetorical given the massive attention and focus already given to it and the inability to make progress. **Firms must take it upon themselves to encourage regular savings programs independent of any framework**, as Mirae did with great success in Korea.
- Similarly, creating a pan-European educational foundation to initiate investor education programs might only bring slow and limited rewards. **Developing advisor education programs to cultivate knowledgeable, responsible, and trusted long-term oriented advisors – while adapting and aligning compensation and incentives – may yield better results.** Financial relationships are undergoing rapid change as banks restructure, opening the door for some asset managers to play a greater role in influencing distribution evolution and best practice “advice”. Some asset managers are actually looking to forge their own distribution networks, contrary to the maxim of “separating manufacturing from distribution”. Solving Europe’s challenges thus must go far beyond the familiar recommendations, to understanding and addressing the structural obstacles to implementation. Moreover, the issues are internationally relevant and not Europe specific, thus much scope exists for executives in the region to interact with their colleagues globally, especially as UCITS tries to solidify worldwide credentials.

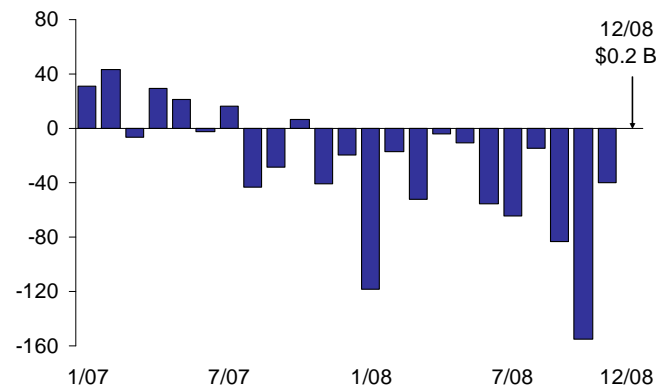
\*See “Building Long-Term Savings in Europe: The case for UCITS in the post credit crunch era”, Invesco Think Tank.

### Mutual Fund Net Flows in Europe / Offshore 2005-2008, \$ Billion

	2005	2006	2007	2008
Equity	159	141	-30	-188
Mixed	66	70	26	-69
Bond	154	9	-69	-221
Other	92	142	79	-138
<b>Long-Term</b>	<b>472</b>	<b>363</b>	<b>6</b>	<b>-616</b>
Money Market	72	103	137	130
<b>Total</b>	<b>544</b>	<b>465</b>	<b>142</b>	<b>-486</b>

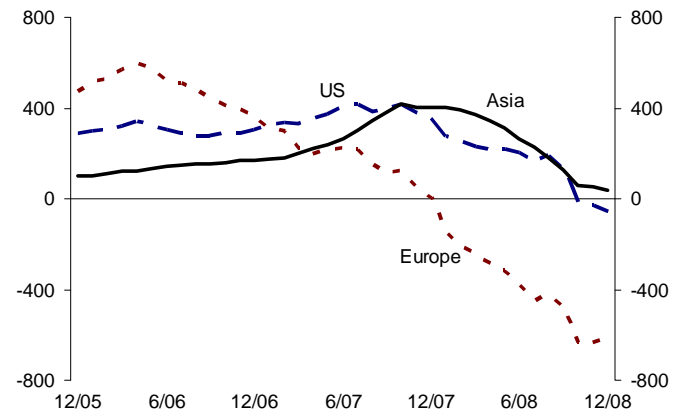
*Includes locally domiciled funds and international/offshore funds, but excludes offshore funds sold primarily in Asia; Source: Strategic Insight Simfund.*

### EUROPE: Monthly Long-Term Fund Net Flows \$ Billion



*Includes cross-border international funds; Source: Strategic Insight Simfund.*

### Stock and Bond Fund Flows by Region Rolling 12-months, \$ Billion



*Europe includes offshore and cross-border international; Source: Strategic Insight Simfund.*

## Fund Darwinism: Selection and Survival

- Aggregate results provide an incomplete view on opportunities in the industry, especially when the overall trend is negative. For instance, **against the tide of redemptions in Europe, well over 3,600 equity products each had inflows in 2008.** They summed to €126 billion net captured by various managers, and reflect the ongoing sales opportunities today albeit at a lower level than before.
- Focusing on the positive side isolates 1,300 Europe Equity funds, each with inflows, adding up to €49 billion of net gains. This provides an entirely different picture of the Equity Europe category, compared to results across all funds including both inflow and outflow products. The story is similar for Bond Europe (heavy outflows overall, sizeable combined inflows for selected portfolios). Distinguishing this dichotomy helps fund managers to more appropriately allocate resources to investment capabilities, and decide where to put marketing emphasis.

### Funds in Europe, Inflows vs. All Funds Net Flows 2008, €Billion

	Inflow Funds	All Funds
<b>Selected Categories:</b>		
Bond Europe	59	-95
Equity Europe	49	-90
Equity Global	31	-3
Equity North America	18	-11
Bond Global	13	-22
Equity Emerging Markets	11	-16
Equity Asia Pacific	10	-31
<b>By Fund Type:</b>		
Equity	126	-163
Bond	86	-160
Mixed Asset	47	-48
Guaranteed	34	-13
Absolute Return	11	-51
<b>Total Long-Term exc. ETF*</b>	<b>335</b>	<b>-471</b>
<b>Long-Term ETFs</b>	<b>50</b>	<b>43</b>
Sum of the above	385	-428
ETF % of Total LT	13%	n/a

\*Excludes ETFs and internal fund-of-funds; Source: Strategic Insight Simfund.

- Analyzing the inflow side also lends perspective on ETFs. Over 420 (70% of all) long-term ETFs achieved inflows, and these added up to €50 billion in 2008. But 3,600 non-ETF long-term funds achieved inflows, together gathering €385 billion. Thus, **positive flow non-ETFs in Europe outsold exchange traded funds by a factor of six.** The top 100 best selling ETFs in Europe captured €43 billion combined; the top 100 net flow non-ETFs took in nearly twice as much, €77 billion. These perspectives are more in line with the role we have seen such exchange traded products play in prior years' gross sales and asset market share, and consistent with their development in the US, even though the importance of the segment has clearly amplified.

## The Billionaires' Club: Winners and Losers

- Another perspective on the business comes from a closer look at the very top and bottom funds in 2008. This "Billionaires' Fund Club" comprises products that either gained or lost in excess of \$1 billion net last year. **Globally in 2008, some 190 long-term funds collected at least \$1 billion in net flows, totaling \$450 billion.** Asia had 27 funds with \$1 billion inflows each, while Europe (ex-crossborder) supported 29 such products, plus an additional 23 offshore funds. These received combined contributions of \$150 billion, compared with 111 such funds in the US and \$290 billion in flows.
- Over 100 of the billion dollar inflow funds were equity vehicles, but the overwhelming majority of them index funds/ETFs. Transfers of discretionary HNW assets to funds and German tax law driven product gains were also evident. Independent firms with pro-active communication were among the winners for top selling funds. Those new entries in the Billionaire Fund Club suggest a rotation in leadership that is likely to accelerate.
- While **domestic European distributors will try to retrench and fight to protect proprietary distribution** (or what is left of it), independent firms have an advantage over universal banks from a brand and trust perspective. There is a debate about whether the retrenchment of European distributors from their global ambitions will set back open architecture in a major way or whether this actually is an opportune time for third-party providers to gain market share from proprietary distributors. Some suggest it might be a good time for fund firms to spend money on advertisement and broad

communications to connect with investors and put pressure on distributors.

### Highest Cash Flows, Europe Local Funds\* 2008, \$ Billion

Fund Name	Category	Flows
Deka-OptiRent 1y	Bd. Europe	6.1
Deka-OptiRent 2y	Bd. Europe	5.6
db PrivatMandat Comfort - Garant	Guaranteed	3.6
ETFlab DAX®	Eq. Europe	3.6
Deka-OptiRent 3y	Bd. Europe	3.1
Lyxor ETF CAC 40	Eq. Europe	2.4
XMTCH (CH) on SMI®	Eq. Europe	2.2
SWIP Corporate Bond Plus	Bd. Europe	2.1
HVB Vermoegensdepot privat Balance	Mix Bal. Flex.	2.1
BlackRock UK Absolute Alpha	Abs. Rtn.	2.0
Invesco Perpetual Corporate Bond	Bd. Europe	1.7
BG Selection ARC	Mix Bal. Flex.	1.7
Standard Life Inv Gbl Abs Ret Strategies	Abs. Rtn.	1.6
CSIF Switzerland Bond Index AAA-BBB	Bd. Europe	1.5
Invesco Perpetual High Income Inc	Eq. Europe	1.4
<b>Total Above</b>		<b>40.1</b>

\*Excludes money market; Source: Strategic Insight Simfund.

### Highest Cash Flows, Offshore/ Int'l Funds\* 2008, \$ Billion

Fund Name	Category	Flows
Lyxor ETF DJ Euro Stoxx 50	Eq. Europe	5.3
iShares S&P 500 USD	Eq. North Am.	4.1
Carmignac Patrimoine	Mix Bal. Flex.	3.3
iShares DJ Euro STOXX 50 EUR	Eq. Europe	2.6
iShares FTSE 100 GBP	Eq. Europe	2.5
Focused Sicav - Global Bond	Bd. Global	2.3
Putnam Global Fixed Income Alpha	Bd. Global	2.1
db x-trackers MSCI USA TRN IND.ETF	Eq. North Am.	1.9
iShares DJ EURO STOXX 50	Eq. Europe	1.6
Carmignac Investissement	Eq. Global	1.5
db x-trackers MSCI WLD TRN IND. ETF	Eq. Global	1.5
db x-trackers DJ EURO STOXX 50 ETF	Eq. Europe	1.5
SGAM Index Eurozone 300 SE	Eq. Europe	1.4
iShares MSCI World	Eq. Global	1.3
Vanguard US Investment Grade Credit	Bd. USD	1.3
<b>Total above</b>		<b>34.1</b>

\*Excludes money market; Source: Strategic Insight Simfund.

- Management groups with different funds both gaining and losing large assets chunks in some cases were able to redirect withdrawals into lower margin

products and maintain customer relationships, potentially allowing them to switch assets back when confidence rebounds.

- While cutting costs to balance lower revenues/assets with fixed costs, some of these firms are doing it moderately to keep morale high and allow for future growth, while others in the crossfire of shareholder anxieties will likely end up cutting too much.
- Traditional fund managers with a strong brand and conviction-based investment philosophy on diversified long-term investing (“back to basics”) were in a good position to capture market share. Boutiques passing due diligence tests for distributors continue to grow, while larger European asset managers are in the more difficult position as they are trying to defend their domestic businesses while cautiously attempting growth in selected markets beyond their home to diversify their revenues. However, smaller managers without distinct capabilities and with only average track records are also suffering, especially those with limited product ranges. (For more details, see ongoing commentary and updates to our 150-page Global Fund Distribution report on [www.GlobalFundDistribution.com](http://www.GlobalFundDistribution.com).)

### Smaller Fund Groups and Rotations of Leadership

- Difficult financial periods spark questions about whether smaller fund companies can compete against larger groups with greater resources, but past experiences and current data reveal many small and mid-size managers are making progress through both rising and declining markets. **Smaller fund groups in Europe realized stronger net inflows than larger ones last year: 17 out of the 20 highest net flow management groups began 2008 with less than €30 billion in assets**, excluding money market funds and ETFs.
- Larger groups in Europe had a difficult time in retaining assets. Among 35 groups with over €30 billion AUM, just 17% had net inflows. This compares with 35% of all fund groups in Europe getting inflows.
- Among smaller managers doing well, Carmignac Gestion, a French group offering its products across Europe, captured nearly €3 billion in 2008, primarily into its Patrimoine fund, a balanced vehicle with an absolute return orientation. In the UK, Neptune Investment Management’s inflows approached €2 billion, with gains

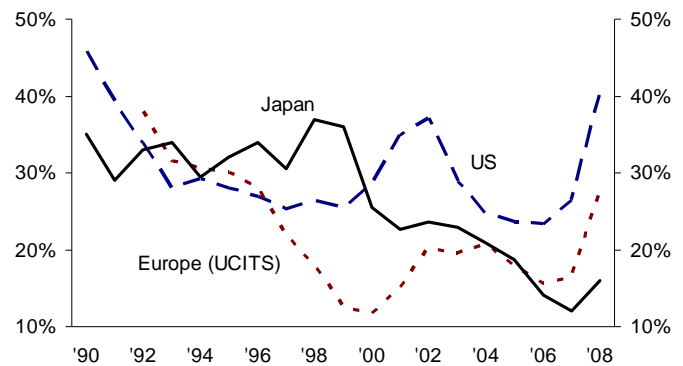
across a range of products including Global Equity, Income, European Opportunities, and a Russia fund.

- We expect many individual success stories with an increasing rotation of industry leadership as the global financial crisis runs its course, especially for (smaller) firms not tarnished by the financial crisis. As in the past, the entrepreneurial and creative nature of the fund business, the variability and unpredictability in performance, and constant changes in management company leaderships have allowed many small companies to be very successful.
- Many firms admit client communication mistakes during the crisis, and having opened the door for independent pro-active firms and domestic competitors to step in and acquire new clients in a time when retention matters most. Management boards of universal banks that view asset and fund management purely as a line item in the cost cutting process are likely to cut themselves out of the rebound and growth for the mid- and long-term. Conversely, independent fund firms without “toxic assets” are in a strong competitive position.
- Regulators under pressure to act decisively to address the shortcomings of the financial services industry, including funds, are looking for leadership and advice on best practices and practical suggestions from within the industry. Just as after the Great Depression in 1933, 1934 and finally with the 1940 investment act in the US, industry associations and executives now participating globally in the dialogue will be the architects designing the future shape and brand of the fund business.

stabilized the business afterwards, with total MMF assets in the US inching to nearly \$4 trillion.

- The Group of Thirty (G30), a consultative group chaired by Paul Volcker and others focusing on financial reform, issued recommendations in January that if implemented would radically alter the money fund business. According to the G30, money funds wishing to offer bank-like services such as transaction account services, withdrawals on demand at par, and assurances of maintaining a stable NAV at par, should be required to reorganize as special-purpose banks.
- With money funds now accounting for 40% of US mutual fund assets, and close to 30% of European UCITS fund assets, and continuing strong inflows, addressing these issues will be of central concern in coming months.

**MMF Share as % of Total Mutual Fund Assets by Region 1990-2008**



Sources: Strategic Insight Simfund, EFAMA, JITA.

## Money Funds as Source of Comfort Challenged

- Money market mutual funds collected \$800 billion of net inflows last year as investors sought them out for their liquidity and stability, but they are now encountering a number of challenges. In the US, money funds are trying to balance lowered yields against fees and the promise of stable NAVs, in light of the Reserve Funds “breaking the buck” and freezing redemptions in the autumn. The liquidity pressures were exemplified last September, when hundreds of billions of dollars were transferred from non-Government MMFs to safer funds. Numerous US Government funding facilities and guarantees

## New Fund Development and Innovation

- **Product development did not slow in Asia, with 2,300\* portfolios launched during 2008, the same as in the prior year.** Volumes did fall, however, with about \$100 billion captured by introductions (compared to a quarter trillion dollars in '07). Significantly, **flows into new funds in Asia exceeded total flows** in the region – thus companies without an effective product pipeline had a much harder time participating in gains or maintaining

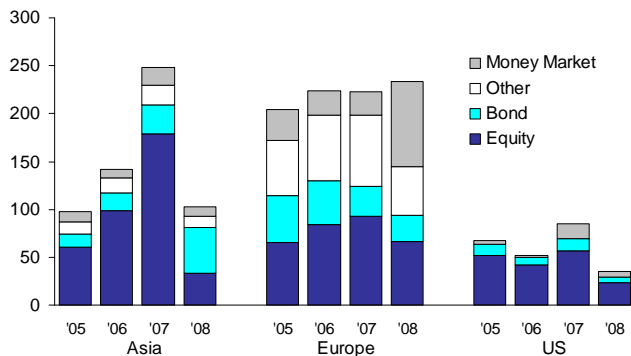
\* Excludes private placement bond offerings in Korea; includes offshore funds dedicated to Asia markets.

market share. On the other hand, these numbers also raise issues about long-term asset retention and turnover.

- In Europe, the number of new launches declined by 20% in 2008, but the amounts raised by them actually rose to \$230 billion, with a noticeable shift to cash vehicles.** The importance of new fund development thus remains undiminished overall – and slightly reduced among long-term funds – although a deceleration was evident toward year-end. In the US, product development has been less important and further declined during 2008. Internationally, the difficult environment has cut into development efforts at companies, but the ongoing appeal of new and compelling “stories” assures no shortage of suppliers in coming years.

Europe and offshore (including Luxembourg and Dublin) are smaller than \$50 million in size. Europe is expected to undergo the most rationalization in the coming years, as the **UCITS IV revisions facilitate cross-border sales and fiercer competition in the region.** The UK domestic fund market, for instance, had remained relatively insulated from cross-border competition but is already seeing a greater number of Luxembourg and Dublin funds competing with traditionally local providers. Well over fifty fund management companies outside the US each have at least 100 such smaller portfolios; *six managers each have more than 500 funds managing less than \$50 million.* Several large management groups are currently undergoing broad restructuring or have recently announced mergers, so the process is underway.

**Flows into New Funds  
2005-2008, \$ Billion**



Source: Strategic Insight Simfund Global.

## Product Line Consolidation and Rationalization

- Declining assets and revenues and resulting strains on profitability, along with financial service firm restructurings and transfers of asset management units and mergers, are encouraging fund complexes to consider serious rationalization of product lineups. **More than 30,000 portfolios (combining multiple share classes) across Europe, offshore, and Asia manage less than \$50 million in assets each.** This represents over half the total number of funds in these regions. Together, these now represent less than \$0.5 trillion in assets, and in Europe and offshore account for \$125 billion of the net outflows seen during 2008. More than 16,000 portfolios in
- Exchange traded funds in Europe and offshore captured \$74 billion in 2008, while ETFs in Asia gained \$18 billion.** This is around half the level of flows in the US (\$176 billion) to exchange traded products (ETFs, trusts, and ETNs), propelled by a broadening buyer pool, with awareness, acceptance and usage rising among both institutional and retail-intermediary driven clients.
- A growing piece of the industry is in using ETFs as building blocks for multiasset class portfolios, including lifecycle-based and tactical allocation strategies, implemented within regular single ETFs, or funds-of-ETFs, and ETFs-of-ETFs.
- Growth will be supported by simultaneous expansion of asset allocation and fee-for-advice compensation models (in the US, and potentially more around the world as distribution restructures). More investors see ETFs as vehicles for beta exposure in asset-allocation. And expanded use of fee-based distribution creates a larger framework within which financial advisors can use ETFs, which lack trailing revenue.
- ETF use is growing even faster in Europe, a mostly institutional market, than in the US. Similar asset-allocation trends are helping the younger ETF industry, as are regulations that make it easy to cross-list certain ETFs on many exchanges. **Deutsche Bank and their db x-trackers business captured \$18 billion in 2008, second only to Barclays with \$30 billion in flows outside the US;** Societe Generale through Lyxor also gained \$16 billion in flows. These three companies

## Exchange Traded Funds Play an Expanding Role

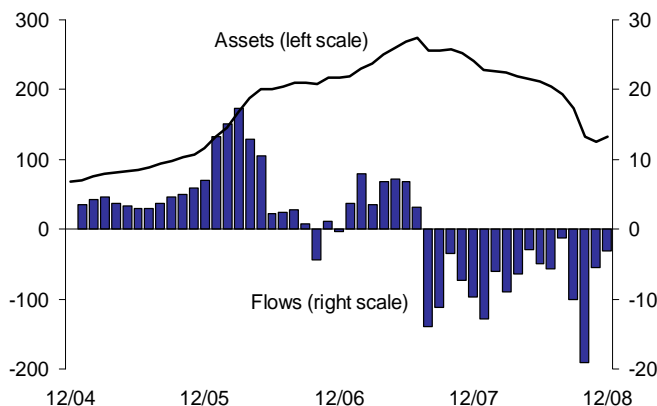
accounted for 70% of total ETF net gains outside the US, raising the usual questions about concentration and scale limitations for new entrants. Asia also holds much potential for the ETF business, but the uptake of passive vehicles in the region has been slower.

- Market appreciation in the near term is uncertain, and advisor compensation issues limit how quickly ETFs will be adopted. Yet ETF expansion is almost certain, although it is not clear how much actively managed versions will be received in the next few years. (For more details, see our new in-depth analysis, [ETFs: Growth, Innovation, Competition](#), with over 200 pages covering the US and global markets.)

### ***Absolute Return Travels from Continent to UK and US***

- We mentioned in our last client note that **investment ideas are migrating more visibly than before across regions**. Absolute return for instance: an unfamiliar concept in the US mutual fund market, with just ten portfolios and under \$2 billion in assets, absolute return is generating more interest, at least on the offer side if not yet on the purchase side. (Putnam introduced four such products in January in the US.) **But lessons can be learned by looking at the experience globally, to help avoid the same mistakes again, and to support more sustainable demand in the future.**

**Absolute Return Funds in Europe  
2004-2008, \$ Billion**



Source: Strategic Insight Simfund.

- In Europe, managers launched more than one thousand absolute return funds over the years, collecting \$130 billion of inflows during 2005 to 2006, according to our Simfund Global database. However, misleading promises, poor expectation management, and performance disappointments resulted in nearly \$100 billion of net redemptions in 2007 to 2008 and several recent liquidations.
- Absolute return is building deeper roots in the UK**, inspiring greater media coverage and notable recent investor commitments, and new offerings in development. Blackrock's fund in the UK captured \$2 billion last year, and Standard Life's gained \$1.4 billion. JPMorgan and Mellon, among others, also benefited from the segment's growing appeal in that market.
- Absolute return notions of reducing volatility and limiting negative return periods are enormously and universally appealing, yet extraordinarily difficult to construct and deliver. Yet the industry will continue trying to offer them, especially after down market periods. Europe-based managers with experience in such approaches, having seen the limitations firsthand and learned from them, may play a greater role internationally in developing the next generation of solutions internationally, particularly in the US, and possibly Asia where they are not yet common.

### ***Structured Product, Guaranteed Fund Limitations***

- Structured products, like absolute return, appeal during periods of market uncertainty as investors seek alternatives to long-only drawdowns. In the US, structured note sales have been very low compared to mutual funds, but recently some products have found appeal (for example, certain principal protected products that provide a leveraged absolute return if the underlying reference index stays within a band). **Structured solutions however have been widely bought in Europe and Asia, and their limitations now recognized.** Lack of transparency, high fees, liquidity and pricing issues, ability to maintain funding positions, complexity, and counterparty risks offset the benefits of faster time to market, flexibility, well defined return/risk payout, and (contingent) return of principal. Also, **many structured products launched in recent years delivered poor performance**, breaching their barriers or having their "formulas" work against the buyer. Private banks and client advisors did not explain the downside risks

adequately, resulting in disappointment. In Asia, losses on “accumulator” structured notes and Lehman linked “minibonds” shattered confidence in structured vehicles and perceptions of safety, and triggered mis-selling investigations from the authorities.

- **Capital protection, whether through structured notes or funds, generally finds higher demand after market downturns, but volumes so far are modest.** Guaranteed mutual funds launched in 2008 across Europe and Asia raised \$43 billion, 30% less than new guaranteed funds in the prior year. This amount is also just 13% of flows raised by all new funds last year; factoring in older guaranteed products that matured and liquidated, guaranteed funds were in net redemptions in Europe last year, as the rest of the industry. Guarantees are difficult to structure under current market conditions as the cost of hedging and insurance rises, and with greater counterparty awareness, making fees higher and/or features less appealing (this is being seen also with guarantee features in variable annuity products).

## ***Hedge Funds and Influences on the Investment Industry***

- The loss of life savings by some investors through Madoff and other affected funds reinforces in the public’s mind the **crucial need to diversify financial intermediary risks and relationships**, even if the investor does not have any dealings with hedge funds or alternatives. The fragility of many banks and concerns about deposits despite government guarantees further adds to this impression. As a result we expect fragmentation of individuals’ financial holdings across a wider range of providers to reduce product, manager, financial intermediary, and depository risks. This division of assets will influence how funds and deposits are bought and held, potentially reducing the power of many financial organizations.
- Meanwhile, the importance of hedge funds and lightly regulated investments in asset management globally is falling, mired by outflows, liquidations, capital losses magnified by leverage in reverse, loss of prime brokerage support, gates, side pockets, redemption suspensions, fee and watermark issues, less correlation with long-only than hoped, levered beta disguised as alpha, and highly visible blowups. Single manager hedge fund net redemptions and

liquidations reached \$0.5 trillion in Q4’08 according to estimates by HedgeFund.net. In our Simfund Global database, a universe of fund-of-hedge-funds suffered nearly \$50 billion of outflows in 2008. One of the more prominent vehicles, Reichmuth Matterhorn, a \$4 billion Swiss fund-of-hedge-funds with underlying Madoff exposure, saw a proposal to the Swiss banking regulator to create a “side pocket”, a separate portfolio for illiquid fund assets, rejected in February, and decided to “temporarily defer redemption payments, dissolve Reichmuth Matterhorn and to create a new investment vehicle”.

- The sum effect of these events will be a **reappraisal of hedge funds, fund-of-hedge-funds, and other opaque alternatives, benefiting traditional and transparent investing**. Furthermore, approaches with an echo of alternative techniques, such as short extension 130/30 funds, have also failed to impress after receiving disproportionate attention. In Europe, registered 130/30 funds collected just \$0.3 billion during 2008 with assets reaching only \$4 billion, and fewer than twenty products launched last year. The experience in the US is similar; fewer than ten 130/30 or long/short mutual funds started in ‘08, and all but one raised very little (most captured less than \$10 million; Fidelity in the US and JPM in Europe were the exceptions). Even where assets were raised, **alpha claims around unconstrained investing have not yet materialized**: the biggest US-focused 130/30 fund in Europe had the same return as the iShares S&P500 ETF, and seven others lost more than the benchmark.

## ***Port in the Storm: Protection, Liquidity, Simplicity, and Income***

- We have stressed in our recent commentaries and client engagements the many currents affecting the fund industry worldwide, as investors increasingly seek **protection, liquidity, simplicity, income, and someone to trust**. Diversification and asset allocation are more important than ever, even after their limitations have been realized. The potential role for fund managers as stewards of the public’s savings actually seems stronger than before, given the many problems affecting other financial products compared to funds. While the challenges are greater than ever, the dislocations are creating opportunities which, through concerted effort, will help move our industry forward.

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In addition to published reports, our service incorporates customized research and consulting, through which our analysts address each client's needs for information, data analysis, discussions, and special projects related to funds and asset management around the world.

SI's international analysis draws from a broad range of data sources and research, including our calculations of net flows for mutual funds in Europe, Asia, and the US, and our Simfund® data analysis platform.

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- A powerful tool for product development, fund line rationalization, marketing and sales, new idea generation, strategic planning, building and protecting fund businesses

Please call Jag Alexeyev or Daniel Enskat at +1-212-217-6885 to discuss details.

### Selected Recent Topics in Windows and other Client Notes:

*Fund Management Industry in Transition*

*Adapting to Transformative Events in the Investment World*

*Ensuring Confidence and Growth, Beyond Crisis to Renewed Opportunity*

*Forecasting AUM and Flows 2009-2011*

*Drawing a Larger Multi-Centric Fund Industry Map*

*Asia: Reinforcing the Foundation for Decades of Expansion*

*Sao Paulo to Tokyo Express: Japan Links to Brazil*

*China and Stable Income: Redemptions Fall with Sales*

*Fallacy of the New as Future: ETFs, Absolute Return, 130/30, etc.*

*Best Practices, Key Trends and Operational Models to Grow Sales*



## The 2008 Billionaires' Fund Club – Top and Bottom [Selected Excerpts Only]

Tuesday, February 24, 2009 at 9:48PM  
 Daniel Enskat

Going beyond aggregate flows, below we take a closer look at the top and bottom funds in 2008. This “Billionaires' Fund Club”, shown in the table below, is comprised of funds that either gained or lost in excess of \$1 billion in flows during the last year. The light green rows show the number of **Billion Dollar Inflow Funds**, along with their combined flows, the red rows show the same statistics for the Billion Dollar Outflow funds.

Billionaire's Club: Number of Funds (underlined) and Flows (in \$B) by Region and Type, 2008* (Annual Inflows >\$1B <span style="background-color: #e0ffe0;"> </span> ; Annual Outflows > \$1B <span style="background-color: #ffe0e0;"> </span> )							
	Equity	Mixed	Bond	Other	Total L-T	MMF	Total
Europe (Local)	<u>7</u>	<u>3</u>	<u>8</u>	<u>11</u>	<u>29</u>	<u>63</u>	<u>92</u>
	12.9	5.0	22.3	17.1	57.3	180.7	238.0
	<u>12</u>	<u>5</u>	<u>34</u>	<u>22</u>	<u>73</u>	<u>62</u>	<u>135</u>
	-17.3	-7.6	-57.0	-40.8	-122.7	-135.4	-258.1
Offshore	<u>16</u>	<u>1</u>	<u>5</u>	<u>1</u>	<u>23</u>	<u>39</u>	<u>62</u>
	31.1	3.3	8.1	1.1	43.6	200.9	244.5
	<u>40</u>	<u>5</u>	<u>28</u>	<u>14</u>	<u>87</u>	<u>23</u>	<u>110</u>
	-65.8	-8.6	-49.1	-27.7	-151.2	-55.6	-206.9
Asia	<u>8</u>	-	<u>18</u>	<u>1</u>	<u>27</u>	<u>21</u>	<u>48</u>
	16.4	-	31.9	1.2	49.4	41.6	91.0
	<u>1</u>	<u>1</u>	<u>3</u>	-	<u>5</u>	<u>4</u>	<u>9</u>
	-1.5	-2.7	-4.2	-	-8.4	-6.9	-15.3
US*	<u>79</u>	<u>2</u>	<u>30</u>	-	<u>111</u>	<u>119</u>	<u>230</u>
	205.4	2.3	85.9	-	293.7	909.0	1,202.7
	<u>94</u>	<u>9</u>	<u>22</u>	-	<u>125</u>	<u>74</u>	<u>199</u>
	-202.4	-20.6	-43.1	-	-266.1	-333.2	-599.3
Total Above	<u>110</u>	<u>6</u>	<u>61</u>	<u>13</u>	<u>190</u>	<u>242</u>	<u>432</u>
	265.7	10.6	148.2	19.4	444.0	1332.2	1,776.2
	<u>147</u>	<u>20</u>	<u>87</u>	<u>36</u>	<u>290</u>	<u>163</u>	<u>453</u>
	-287.0	-39.5	-153.4	-68.5	-548.4	-531.3	-1,079.6

\* US data excludes ETF UIT/Other and all 529 Fund of Funds.  
 Source: Strategic Insight Simfund GL/MF.

Three kinds of firms stand out:

1. Firms that suffered from strong outflows (in the bottom list) unable to counterbalance redemptions with inflows from other markets (non-domestic distribution) or institutional fund switching (from equity to money market funds), among them those with flagship funds in redemption prone areas such as absolute return, enhanced money funds and VAR, but also a number of firms caught in the fire of Europe Equity and Europe Fixed Income.
2. Visible independent firms with pro-active communication were among the winners for top selling funds in 2008 – without simultaneously being on the bottom list. Those new entries in the Billionaire Fund Club reflect a rotation in leadership likely to accelerate. While domestic European distributors will try to retrench and fight to protect proprietary distribution (or what is left of it), independent firms have an advantage over universal banks from a brand and trust perspective[1].
3. Firms on both the top and bottom lists, able to partially shift outflows into other lower margin products and maintain customer relationships, allowing them to potentially switch them back into those products when confidence rebounds. We see two camps of such firms: while cutting costs to balance lower revenues/assets with fixed costs, some firms are doing it moderately in order to keep morale high and allow for future growth, while others in the crossfire of shareholder anxieties will likely end up cutting too much.

That leaves traditional fund managers with a strong brand and conviction based investment philosophy on diversified long-term investing back to basics are in a good position to capture market share. Secondly, boutiques that can pass due diligence tests for distributors will continue to grow, while larger European asset managers are in the most difficult position as they are trying to defend their domestic businesses while cautiously attempting growth in selected markets beyond their home to diversify their revenues.

### **Long-Term Fund Winners and Losers: Europe/Asia vs. US**

**Globally in 2008, some 190 long-term funds collected at least \$1 billion in net flows, totaling \$450 billion.** Roughly 25-30 billion dollar funds each in Asia (27), Europe (29) and Offshore cross-border funds (23) with combined contributions of \$150 billion compared with 111 such funds in the US and \$290 billion in flows.

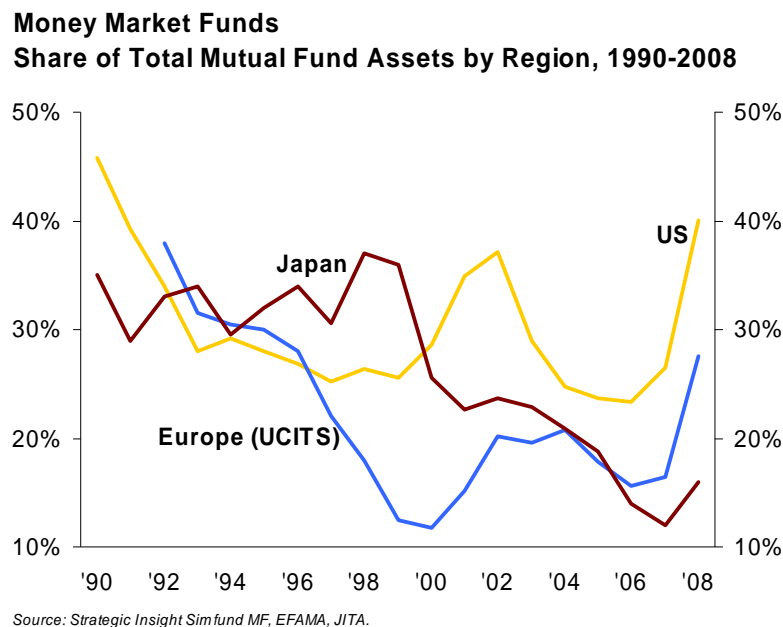
However, **2008 was the year of cash parking and flight to safety – some 242 money market funds captured \$1.3 trillion**, primarily in the U.S. with \$900 billion, **more than three times the long-term total.**

On the flip side, 290 long-term funds suffered outflows of over \$1 billion each, for a total of \$550 billion. The US ratio of inflow to outflow funds was 1:1 (with 25% higher flows for the inflow funds), for the rest of the world it was 2:1 (in terms of number of funds and flows).

On the bright side, over 100 of the billion dollar funds with \$266 billion in flows were equity funds, but the overwhelming majority of them index funds/ETFs.

### Money Market Funds: Safe Haven, But Selected Punishment

Worldwide, money market funds were a safe haven, especially in the US. Yet, the highest redemptions by far were among the Reserve Fund in the US (-\$40 billion), in the aftermath of breaking the buck and establishing a temporary gate for fund redemptions.



The graph shows the share of Money Market funds as a % of total mutual fund assets by region from 1990 through 2008. In the US, the share of money funds at over 40% of industry assets now approaches the highs of the late 1980s and early 1990s[2]. Similarly, in Europe money funds approached 30% of all assets under management in 2008, a share not seen since 1996.

In Europe and offshore, some \$220 billion in outflows from money market funds mostly came from **“enhanced money market” funds. This latter investment category, along with absolute return and VAR themes, in recent years went from panacea to pariah.** Back in 2001, we started writing about the inflow phenomenon of enhanced money funds (fonds monetaire dynamique) among institutional investors in France, which spilled over to other European markets in

subsequent years. Industry conferences established special workshops to discuss the details on how to extract a few extra basis points from a liquidity product – a concept that in today’s environment would be considered ludicrous.

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[1] There is a debate on whether the retrenchment of European distributors from their global ambitions will set back open architecture in a major way or whether this actually is an opportune time for third-party providers to gain market share from proprietary distributors. Flows overall are much smaller than in the past, but some suggest it might be a good time for fund firms to spend money on advertisement to connect with investors and put pressure on distributors.

[2] US investors first poured flows into money market funds in the early 1980s, when short interest rates rose and money fund yields peaked at 17.17% in August 1981.

Full article originally appeared on Global Fund Distribution: Best Practices, Key Trends, and Opportunities to Grow Sales Worldwide (<http://www.globalfunddistribution.com>). See website for complete article licensing information.

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## Forecasting AUM and Flows 2009-2011: Success Stories, But Leaner Times Ahead

[Selected Excerpts Only]

Tuesday, February 24, 2009 at 11:41AM  
Daniel Enskat

Aside from collective dysthymia with the Dow Jones back at 1997 levels, is there another way to view 2008 flows in the global mutual fund industry? A **black swan, four standard deviation and once in a century year**, with drastic drops in assets under management, large net redemptions and switches from higher to lower margin investment vehicles opposing high fixed costs. **Going beyond the aggregate data points to a complicated picture – flows vary drastically, year on year and by region.**

**In the US, a flight to safety and cash** (\$600 billion in money fund flows), **massive long-term outflows from Europe and offshore cross-border funds** (a combined total of \$620 billion) and **strong resilience with moderate inflows across Asia** (\$75 billion net flows, after \$500+ billion in 2007).

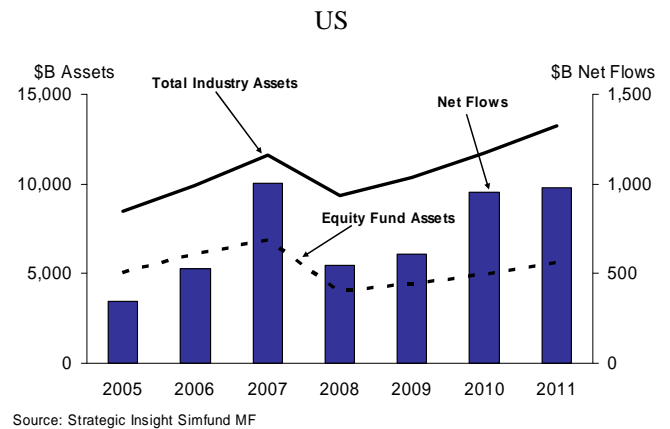
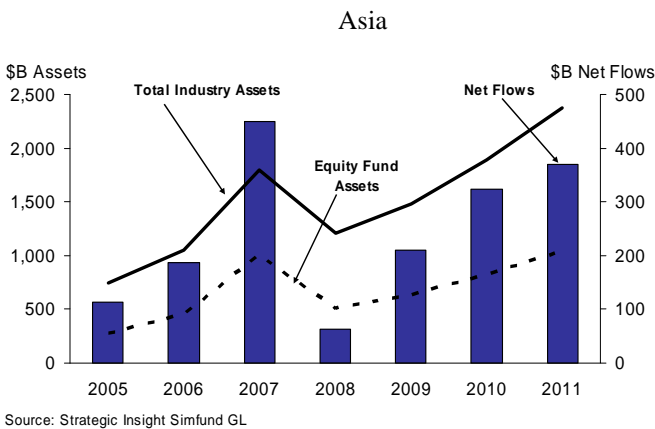
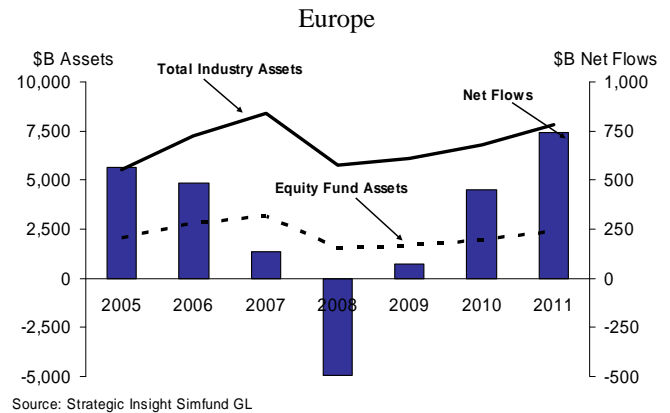
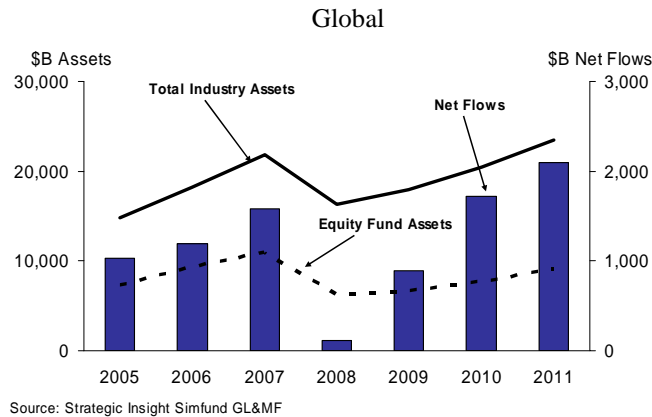
<b>Global Mutual Fund Flows 2008 (in US\$ billion)*</b>				
	<b>Europe (Local)</b>	<b>Offshore</b>	<b>Asia</b>	<b>US</b>
Equity	-79	-109	7	-78
Mixed	-56	-13	-13	-26
Bond	-121	-100	38	44
Other	<u>-71</u>	<u>-66</u>	<u>3</u>	=
<b>Total L-T</b>	<b>-328</b>	<b>-288</b>	<b>35</b>	<b>-61</b>
Money Market	<u>-6</u>	<u>137</u>	<u>38</u>	<u>604</u>
<b>Total Industry</b>	<b>-334</b>	<b>-151</b>	<b>73</b>	<b>543</b>
<i>Memo:</i>				
<b><u>Best 3 Categories</u></b>	<b>6</b>	<b>3</b>	<b>43</b>	<b>52</b>
1	<i>Equity Global</i>	<i>Commodities</i>	<i>Bond Asia Pacific</i>	<i>Government Backed</i>
2	<i>Bond Other</i>	<i>Real Estate</i>	<i>Bond Global</i>	<i>Muni Short/Int</i>
3	<i>Target Maturity</i>	-	<i>Bond Em Markets</i>	<i>Corp/Income Gen'l</i>
<b><u>Worst 3 Categories</u></b>	<b>-183</b>	<b>-124</b>	<b>-14</b>	<b>-93</b>
1	<i>Bond Europe</i>	<i>Bond Europe</i>	<i>Mixed Conserv</i>	<i>Int'l/Global Equity</i>
2	<i>Equity Europe</i>	<i>Equity Europe</i>	<i>Bond USD</i>	<i>Hybrid/Allocation</i>
3	<i>Absolute Return</i>	<i>Absolute Return</i>	<i>Mixed Aggressive</i>	<i>Capital Apprec</i>
* Excludes internal FoFs.				
Source: Strategic Insight Simfund GL/MF.				

The memo in the table above compares the best- and worst-selling categories by region:

- **Europe Equities and Bonds sink 2008 Europe/Cross-Border Fund Flows:** \$10 billion in contributions to selected global equities, commodities, real estate and target maturity products compared with \$310 billion in outflows from Europe equities, Europe fixed-income and absolute return vehicles (1:30 Winner to Loser flow ratio).
- **Regional, Global and Emerging Market Bond Funds Keep Asia Afloat:** Across Asia, regional Asia-Pacific, global and emerging market fixed income themes gathered \$43 billion in 2008 net flows, while balanced funds and US denominated bond funds lost \$14 billion (3:1 Winner to Loser flow ratio).
- **US flight to Fixed Income Safety, Away from International Equities:** Investors in the US added \$50+ billion to government, municipal and corporate bonds, while redeeming over \$90 billion from international equities, hybrid and capital appreciation funds (1:2 Winner to Loser flow ratio).

## Planning Ahead – Structural Challenges and Accelerating Rotation of Leadership

We assume that it will take three years or more for equity assets under management to reach 2007 levels once again. As shown in global and regional scenarios below, Europe will have the hardest time to eclipse prior AUM highs, as it lacks the retirement foundation of the US and the willingness of Asian investors to embrace risks and chase performance.



Assuming average annual equity returns of 6% for the US and Europe, and 8% for Asia, along with 3% (US/Europe) and 4% (Asia) for fixed income, along with a gradual recovery of flows[3], we expect assets under management to come back to the \$30 trillion mark in 2011, with one third of the total in equity programs. While somewhat recovered from 2008, flows in Europe for 2009 still will end up marginally negative for long-term funds on aggregate, making it difficult for companies to find an equilibrium between defending domestic territory and cautiously planning for regional and/or global expansion.

The drastic decline in asset levels and the shift toward lower margin money funds and ETFs has cut into management fees and revenues for asset managers and makes planning for growth in many cases difficult, especially for larger European firms. Despite the drop in profitability[4], however, firms that were able to proactively communicate with clients and retain assets in money funds and other lower margin vehicles have an opportunity to discuss reallocating assets back into higher margin products when investor confidence recovers. Those that lost the relationships face a more difficult challenge. Paradoxically, one of the fundamental shifts in the industry now is the argument for active asset management, matched by the singularly difficult task of appropriately making the case to investors.

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[1] Excerpt not included.

[2] Excerpt not included.

[3] For Europe, we expect long-term flows in 2009 to be slightly negative at -\$30 billion, followed by \$300 billion in 2010 and \$600 billion in 2011; in Asia, we estimate \$200 billion in 2009, \$315 billion in 2010 and \$360 billion in 2011 long-term net flows. The numbers for the US are similar, with \$220 billion, \$525 billion and \$515 billion.

[4] In our 2008 edition of financial results for public money managers in the US, the group of 17 firms with \$6 trillion in assets had increased their average pre-tax operating margin for the fourth straight year to 44%. The 2009 edition will detail the impact of the crisis on profitability and fund firms' strategies to align costs and revenues during the downturn. [www.sionline.com/reports/603.pdf](http://www.sionline.com/reports/603.pdf)

Full article originally appeared on Global Fund Distribution: Best Practices, Key Trends, and Opportunities to Grow Sales Worldwide (<http://www.globalfunddistribution.com>). See website for complete article licensing information.

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## London, Tokyo, Sydney – Responding to the Crisis [Selected Excerpts Only]

Friday, January 16, 2009 at 6:27PM  
Daniel Enskat

Over the last month, our work with clients in London, Tokyo and Sydney showed a **dichotomy of approaches on how to deal with the changed financial world** and reduced assets and flows on various levels: **What immediately stands out?**

**Navel- and Star-Gazing:** Since the fall of 2008, mutual fund companies and their senior executives by and large have reacted to the crisis by combining the necessary focus on short-term challenges with assessing and planning for the longer-term opportunities, or in other words, with “navel-or star-gazing”.

Navel-gazing includes expense management (reduction of fixed costs and discretionary expenses, layoffs, etc.) client retention focus, and a realization of the challenging sales environment for 2009. Yet, star-gazing highlights the promise of a \$20 trillion industry today and a larger one in the future. After a prolonged swan song over the last few years in favor of hedge funds, structured products and alternative investment vehicles, the head of distribution for one of our global clients active in Europe commented that, for the first time in years, her description of the organization as “one of the most boring long-only fund managers out there” is opening doors and “an exciting story”.

Fund industry navel-gazing is driven partly by many large fund managers suffering multibillion dollar redemptions from flagship products in recent months. Retrenchment by some such investment managers is opening doors for smaller boutiques and other large firms with a strong brand that proactively communicated with clients throughout the downturn. Star-gazing is helped by more visible competitive and brand advantages of mutual funds (transparency, liquidity, strong regulatory protection, unleveraged mark-to-market holdings, etc.) over alternative vehicles, hedge funds and complex structured products.

As an illustration, on New Year’s Eve, Aberdeen Asset Management announced an agreement with Credit Suisse Group to acquire certain fund management assets and businesses, primarily long-only asset management capabilities across fixed-income, money market and equities to fill out the existing product line and, as highlighted by CEO Martin Gilbert, “greater access to the distribution network of Credit Suisse and its Private Banking division”. Two months prior, Aberdeen entered into a business and capital alliance with Mitsubishi UFJ to exclusively promote its global and emerging market fund range to Japanese institutional investors.

A number of financially strong public fund managers and especially selected private firms with a long-term commitment to asset and fund management are seeing plenty of opportunities to pick up domestic market share and broaden their global reach, including acquisitions. Across the board, in our strategic discussions in London, Tokyo and Sydney, the defensive focus for the domestic business was matched with the increasing need (and the "exceptional current opportunities") to build distribution and product offerings abroad - via offshore platforms and selected onshore offerings, with Asia-Pacific and Emerging Markets as the most common main target.

Full article originally appeared on Global Fund Distribution: Best Practices, Key Trends, and Opportunities to Grow Sales Worldwide (<http://www.globalfunddistribution.com>). See website for complete article licensing information.