

Strategic Insight

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Perspectives



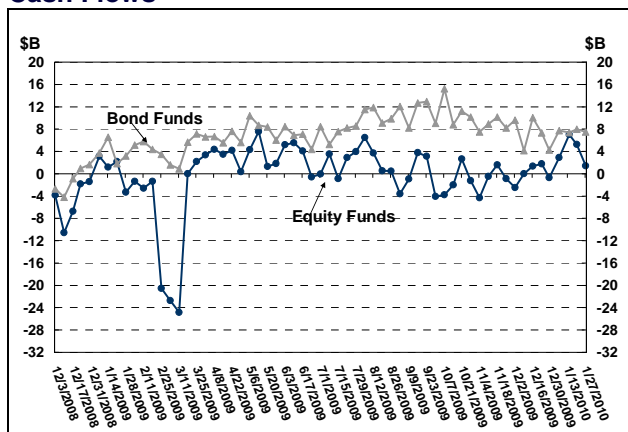
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In this edition: summaries of 2009 flow trends globally and in the US, evolution in “alternative” and flexible funds as well as among ETFs and retirement income, bond fund redemption patterns, and more.

Improving January Flows, but Uncertainty Ahead

The year 2010 started with mutual fund investors adding nearly \$50 billion in bond and stock fund net inflows during January, with about one third going to stock and hybrid funds.

Stock and Bond Mutual Fund Weekly Net New Cash Flows



Source: ICI

With lingering economic uncertainty, the focus on bond funds as cash substitutes, as well as on flexible and opportunistic funds, should continue in 2010. Many of the themes forecasted for this year were covered in our recent [Looking Ahead to 2010](#) Executive Insight report.

Fund innovations continue: Stock and bond funds introduced in 2009 collected \$42 billion last year (\$8 billion to new ETFs and \$34 billion to other new funds). More than 40 such new actively managed funds raised at least \$100 million during the year. Fund innovations are discussed in SI's weekly and monthly reports, available

on our websites (SimfundFiling.com, Sionline.com, StrategicInsightGlobal.com).

Recent SI Developments

In late December SI moved to an **expanded office at 805 Third Avenue** (on 50th Street) in midtown Manhattan. This new facility enables us to expand our staff over time, accelerate our client roundtables, seminars, training, webcasts, video conferencing, and industry community events. We welcome your visit!

Simfund MF, already used in-house by managers of over 85% of US industry assets as their source of business and competitive intelligence, is now offered on **the 8th/9th business day after month-end**. Beyond data, **25+ researchers and analysts at SI** are on-call to help you with perspective and advice.

Simfund data integrity is enhanced with actual flows from numerous managers; such actual flow data added up to more than \$120 billion of flows during 2009. We also take care to adjust funds' estimated flows when those flows are affected by non-recurring company actions (e.g., large transfers among share classes, fund mergers, etc.). **Actual flows and adjustments** (which Simfund MF has included for many years) result each month in **\$15 billion+ in share-class-level differences between Simfund and other cash flow sources**. Lastly, a number of Simfund clients have recently looked at adding new sales (not just flows) data by incorporating the **ICI Confidential** sales/redemption share-class-level data into their Simfund systems. You may learn more about this unique data source by contacting your SI analyst.

The **SI Global** team is expanding and a London office will be opened in a few months. The global version of Simfund, increasingly in use in the US and elsewhere, will be offered through **an online version later this year**.

The **SI Retirement Income / VA team** is now offering statistical data books focusing on sub-advisory opportunities. Updated quarterly, these data books provide key information on the competitive landscape on both sub-advised funds and their sub-advisors.

Our research venture with **Coates Analytics** will shortly offer its **Q4 2009 report** on National Broker-Dealer distribution developments (for funds, ETFs, and SMAs).

Lastly, for a review of SI's publication schedule and the many topics covered in our 2009 studies, click [here](#) or visit www.Sionline.com.

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Domestic Funds: 2009 in Review



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Fund Industry Overview (Excludes ETFs and VA Underlying Funds)

	Net New Flows \$B			
	2007	2008	Q4'09	2009
US Equity	-34.0	-138.6	-19.4	-24.7
Int'l Equity	<u>175.9</u>	<u>-58.8</u>	<u>18.8</u>	<u>38.3</u>
Total Equity	142.0	-197.4	-0.6	13.6
Taxable Bond	92.3	17.5	84.8	280.7
Muni Bond	<u>9.2</u>	<u>4.6</u>	<u>14.4</u>	<u>69.2</u>
Total Bond	101.5	22.1	99.2	349.9
Total Equity & Bond	243.5	-175.3	98.6	363.5
Money Market	653.2	609.3	-110.8	-506.9
Total Industry	896.6	434.0	-12.1	-143.4

Source: Strategic Insight Simfund MF

Last year, and despite the strong recovery of stock prices, equity funds in aggregate enjoyed just modest net inflows. More than 500 individual equity funds, two-thirds of which focus on the US, each attracted over \$100 million of net inflows in 2009.

As shown in the table above, US equity funds saw outflows in Q4 2009, as investor confidence in domestic equities continued to lag behind the performance of US markets. In contrast, International equity fund flows continued to grow in Q4, led by emerging markets and global asset-allocation funds. (For more on international funds, see page 8.)

Bond fund inflows achieved a record of over \$400 billion in 2009 (in addition to the flows captured above, ETFs and VA funds also experience strong bond fund inflows). That was impressive, considering that neither bond fund nor stock fund flows had ever individually topped \$300 billion in any one year. Of the \$281 billion of taxable bond fund flows in the above table, \$112 billion, or 32%, went to short and intermediate-term corporate bond funds – as many investors sought higher-yielding investments than available in money funds. Muni bond funds also saw robust inflows of \$69.2

billion in 2009, with 70% of those flows going into short- and intermediate-term national muni portfolios.

Investors withdrew a cumulative \$507 billion from money market funds in the year; the fourth-quarter outflow of \$110 billion was half the amount net redeemed by investors in the third quarter.

Following the stock market/economic turmoil of the prior three years, high-tracking-error investments proved superior to index funds in 2009. Although the S&P 500 index gained a robust 26.5% in 2009, **the average domestic equity fund investor surpassed the benchmark index with a 31.0% gain** on an average asset-weighted basis through 2009. (Similarly, the average international equity fund gained 40.1% in 2009, outpacing the MSCI EAFE index's 31.8% gain.)

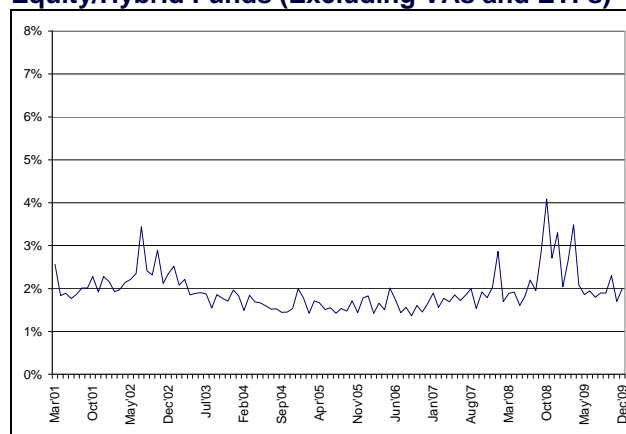
Average Asset-Weighted Annualized Returns %

	2007	2008	Q4'09	2009
Domestic Equity *	7.2	-37.0	5.7	31.0
Int'l Equity	16.3	-41.9	4.1	40.1
Taxable Bond	5.7	-5.0	1.6	17.1
Muni Bond	1.2	-9.0	-1.0	16.1
Money Market	4.7	2.3	0.0	0.3

* Includes hybrid/allocation funds. Sources: Strategic Insight Simfund MF; Morningstar. Data excludes Funds of Funds

Although the worst seems to be over, financial anxieties have not abated. Consequently, the pace of new equity fund investments has been slow. While the sales pace remains moderate, the pace of stock fund redemptions fell to its normalized, pre-crisis pace of around 2%. As we have noted before, redemption spikes tend to be short-lived.

Redemptions as a Percentage of Assets Equity/Hybrid Funds (Excluding VAs and ETFs)



Source: Strategic Insight Simfund TD (ICI Trends)

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

	Net New Flows \$B		
	2007	2008	2009
Actively Managed Funds	73.3	-237.5	-14.9
Index Funds (non-ETF)	45.1	40.0	28.1
ETF Open-End Funds	90.6	96.1	57.4
ETFs structured as UITs / Grantor Trusts / ETNs /Other	43.4	56.9	10.0

Source: Strategic Insight Simfund MF; historical assets and flows have been restated and may not match past reports

Equity index and open-end ETFs continued to draw investors' interest. On the bond side, actively managed funds drew relatively greater net inflows.

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

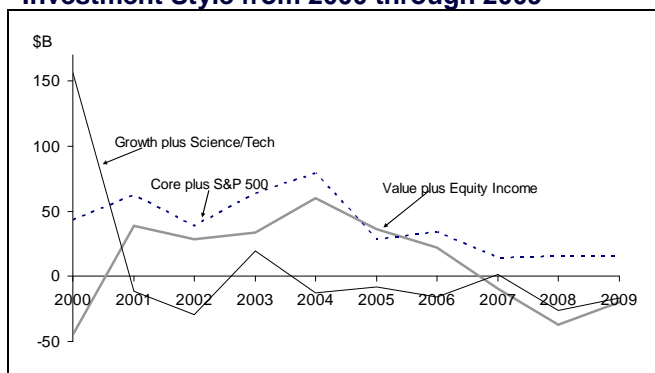
	Net New Flows \$B		
	2007	2008	2009
Actively Managed Funds	80.8	12.4	322.5
Index Funds (non-ETF)	16.6	9.6	25.4
ETF Open-End Funds	13.1	22.5	46.1

Source: Strategic Insight Simfund MF; historical assets and flows have been restated and may not match past reports

Growth vs. Value

As can be seen in the following chart, **core style funds (plus S&P 500 index funds) outdrew both growth-oriented and value-oriented funds in 2009**, as growth and value styles experienced net outflows from US equity funds while core styles drew net inflows of \$15.9 billion. It was the third straight year that core funds led in net flows despite net outflows from large-cap core funds. Naturally, many individual value and growth funds continued to attract significant inflows.

Open-End Domestic Equity Fund Flows by Investment Style from 2000 through 2009



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

Flows and returns among diversified actively managed US equity funds are summarized below. Growth style funds outperformed core and value funds in 2009.

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

	Flows \$B		2009 Returns *
	2008	2009	
Large-Cap Growth	-13.2	-9.5	36.5%
Multi-Cap Growth	-6.0	-0.9	41.4%
Mid-Cap Growth	-5.8	-8.5	37.7%
Small-Cap Growth	-3.3	0.3	38.5%
Growth Funds	-28.3	-18.5	37.7%
Large-Cap Core	-15.1	-10.9	28.4%
Multi-Cap Core	-13.7	3.8	39.4%
Mid-Cap Core	-5.3	0.1	38.1%
Small-Cap Core	-4.4	3.0	33.5%
Core Funds	-38.6	-4.0	33.3%
Large-Cap Value	-24.9	-13.5	24.3%
Multi-Cap Value	-3.4	0.7	37.2%
Mid-Cap Value	-11.7	-6.6	29.8%
Small-Cap Value	-0.5	1.9	33.8%
Value Funds	-40.5	-17.6	28.2%

* Weighted by ending assets; Source: Strategic Insight Simfund MF; Lipper Inc. (Classifications and Returns)

Funds with Highest Inflows: Some Risk-Return Characteristics

While the decision to invest in a particular fund or with a particular fund manager is the result of numerous factors, SI has observed that **trailing three-year rankings, within the fund's investment style and on both relative-return and relative-risk dimensions, offer predictive value for flows**. Following the sharp losses for many funds in 2008, we reviewed whether relative (vs. absolute) total returns remain the primary determinant for fund selection, and concluded that **relative returns are indeed still the key for resultant net 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. And **2009** was another period for which the top-left quadrant of graphs housed the highest-inflow funds (even when many such funds saw losses in the trailing three years).

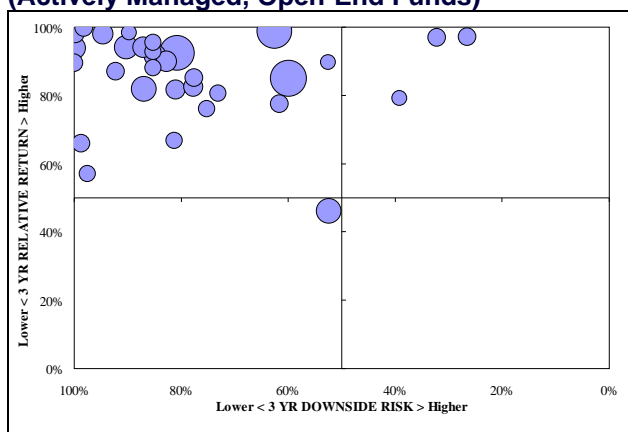
As an illustration of cash flow results for 2009, we capture below the "trailing three-year risk-return vs. cash flow bubbles" of the industry's 40 highest cash flow funds in the year to date through December '09 (risk and return measured within each fund's Lipper investment classification). Simfund subscribers can easily replicate

these graphs for their peer funds (and can run such graphs within the funds' Morningstar category as well). **Note that bubble size corresponds to 2009 net inflows.**

The funds in the charts clearly share appealing risk-return characteristics for the 36 months ending December 2009. The few outliers are funds from respected managers benefiting from a "halo" effect, hard-to-classify funds, or those reflecting strong performance in earlier periods. In the bond area, some funds with high relative yields (but below-average relative returns) saw high net inflows in 2009 – hence the lesser concentration of bond funds in the optimal, top-left quadrant when compared to equity funds.

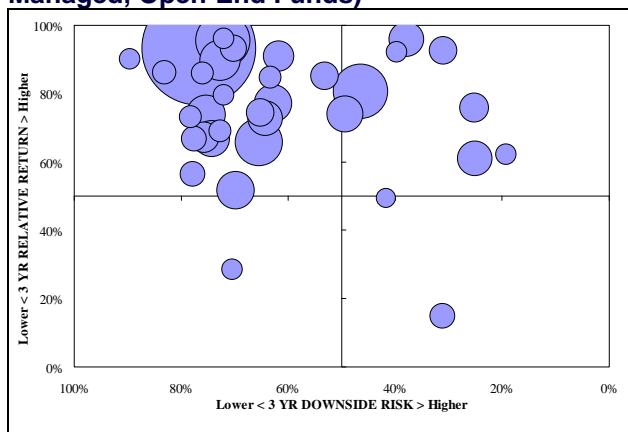
Risk-Return Characteristics of Best Selling Mutual Funds in 2009

Highest Net Inflow Equity Funds in 2009 (Actively Managed, Open-End Funds) *



*2009 Flows and 3-Yr. Risk/Return Analysis within Lipper Classifications; Source: Strategic Insight Simfund MF

Highest Net Inflow Bond Funds in 2009 (Actively Managed, Open-End Funds) *



*2009 Flows and 3 Year Risk/Return Analysis within Lipper Classifications; Source: Strategic Insight Simfund MF

2009 Flows by Manager

The following tables summarize the managers making the most cash flow progress last year in actively managed, long-term funds.

All Equity and Bond Actively Managed Funds (excl. VAs): Highest Cash Flow Managers

Manager	Flows (\$B)		2009	12/09
	2008	2009	Flow Rate*	Assets \$B^A
PIMCO/Allianz Global	23.6	79.9	33.5%	363.6
Vanguard	6.2	46.0	12.0	507.3
JPMorgan Funds	-3.0	26.2	51.2	89.0
Franklin Templeton	-20.2	18.4	8.6	288.8
Fidelity	-40.1	13.4	2.7	673.3
T Rowe Price	1.0	13.2	9.6	204.6
BlackRock	4.0	10.5	10.1	137.8
Waddell & Reed	6.6	9.0	26.2	54.6
Wells Fargo	-1.3	8.8	32.7	41.7
Goldman Sachs	-6.2	7.5	22.0	51.7
DFA	4.7	7.3	10.6	100.6
Federated	-0.3	6.9	21.9	43.6
Lord Abbett	-4.7	6.5	18.4	50.8
Janus	-1.7	6.3	11.4	84.5
Northern Trust	1.0	6.3	54.4	20.6
Thornburg	1.2	5.1	24.2	33.1
Harbor Capital	5.9	4.4	14.3	46.3
Natixis Asset Mgmt	4.2	4.4	21.0	31.7
MFS	-5.7	4.3	8.1	71.8
Manning & Napier	2.9	4.2	91.0	11.0

* 2009 flows as a pct. of 12/08 assets; ^Active long-term assets only; Source: Strategic Insight Simfund MF

Fastest Growing Managers: Actively Managed Long-Term Funds (excl. VAs) ^

Manager	Flows (\$B)		2009	12/09
	2008	2009	Flow Rate*	Assets \$B**
Van Eck	0.1	1.3	119%	3.3
Manning & Napier	2.9	4.2	91.0	11.0
Matthews Asian Funds	-2.4	3.3	82.8	10.4
Robert W Baird	0.4	1.4	71.5	3.6
Hussman Econometrics	1.2	2.7	68.1	6.8
Saturna	0.6	0.9	66.7	2.7
Credit Suisse	0.1	1.2	66.0	3.6
Bessemer Trust	1.4	2.2	65.4	6.7
Lazard Asset Mgmt	1.3	3.6	64.8	13.4
Sentinel Asset Mgmt	0.6	2.4	62.5	7.2

^ \$1B+ in AUM at 12/08; * 2009 flows as pct. of 12/08 assets; ** Active long-term assets; Source: Strategic Insight Simfund MF

Global Trends: Room for Growth



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Industry Proves Resilient

The magnitude of the industry rebound last year was impressive, with investors around the world committing the most ever to long-term mutual funds. Including the US, global net inflows to long-term funds topped \$850 billion in 2009. Significantly, this record in long-term inflows happened despite limited gains in Asia and among US equity funds. While the industry displayed resilience in 2009, the upside is that results could be even more robust when confidence improves.

Sharp market reversals or range-bound volatility will delay the uptick in confidence. Fund managers and distributors are therefore exploring alternate strategies, such as asset allocation-based solutions, that could prove more appealing in variable conditions.

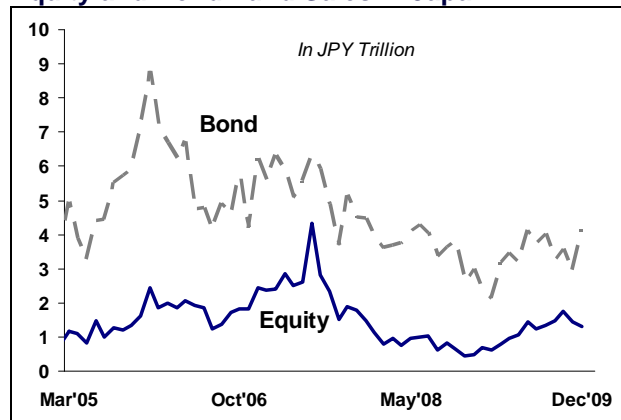
Long-Term Funds by Region, 2009 US\$ Billion		
Region	Net New Flows, 2009	Total Assets, Year-End 2009
International/Offshore	211	2,075
Europe	104	3,238
Asia	55	1,400
Australia	8	625
U.S. (excl. VA funds)	478	7,801
U.S. VA funds	30	1,158
Total Above	886	16,297

Source: Strategic Insight Simfund GL, Simfund MF

For now, despite the dramatic rise of stock prices since March, investors have not significantly increased their gross purchasing of equity funds. Current stock fund sales in Japan, well under 2 trillion yen per month, are around 40% below their pace in 2007 (see the graph that follows, for example). In Hong Kong, stock fund sales are more than 60% lower than the 2007 levels.

However, equity fund sales have steadily improved throughout last year. The situation in Taiwan and Korea are similar.

Equity and Bond Fund Sales in Japan



Source: Strategic Insight Simfund GL

Fund inflows in Asia reached \$80 billion last year (including money funds); adding regional contributions to cross-border international funds, the total is near \$100 billion. Though respectable, these inflows are less than a quarter of the volume in 2007 and half of 2006's tally. Thus, just returning to the old baseline would prove a powerful catalyst for the industry.

In contrast to Asia, equity fund sales in the UK are just 25% lower than in 2007. The sales recovery this year, however, has been shallow. This is not very different from the picture in the US, where the stock-fund sales recovery has been modest. The rebound in stock prices during 2009 clearly has not been supported by significant liquidity from individual investors through funds (see page 3). Cross-border international funds in Luxembourg and Dublin, however, did log some improvement on the net sales side, accounting for much of the \$140 billion of net flows to equity funds across Europe.

(Besides Japan, we have similar fund-sales snapshots for Taiwan, U.K., and other markets; our analysts at global@sionline.com can provide more on request).

Extending the Asset Management Toolkit: Asset Allocation, etc.

SI's recently published Global Research analysis, "Extending the Asset Management Toolkit", focuses on various inter-related themes impacting the industry across the world and in the US, including:

- **Asset allocation and the role of alternative investments in the mix:** How innovation is allowing new solutions, but also implementing "re-

innovation” – investment ideas that we analyzed in detail in our “Search for Alpha” series of studies half a decade ago. Many firms are picking up on these concepts again today, such as GTAA (global tactical asset allocation), portable alpha, absolute return multi-asset strategies, CTA and commodity-linked investments, active risk allocation and volatility/VaR strategies, unconstrained approaches, and other inter-related themes.

- Multi-asset and flexible solutions growing sales globally:** The top selling fund from Carmignac in Europe is a balanced, absolute return strategy capturing \$13 billion in 2009. But there are many more examples – such as from Blackrock and PIMCO – of multi-asset strategies finding simultaneous appeal around the world and in multiple formats (UCITS, U.S. mutual fund, institutional mandate, etc.) For example, Blackrock’s Global Allocation vehicle collected nearly \$6 billion of inflows, and now manages \$35 billion in its ‘40 Act format; it’s also available as a UCITS fund in Luxembourg that drew \$0.5 billion last year and is up to \$14 billion in assets.
- Portfolio construction and distribution dynamics:** Conflicting financial advisory trends are affecting investment design, allocation approaches, and product structures. Some advisors, disappointed by home-office portfolio recommendations, are becoming more engaged in portfolio construction, interested in discretionary account management, and more flexible investment solutions. At the same time, concerns by some private wealth and advisory organizations about giving too much flexibility to advisors – with the potential for making wrong choices for clients, and associated liabilities – are leading the home office to exert more authority over selection approaches. In these cases, funds with a strong and credible asset-allocation strategy with sufficient transparency are benefiting from more demand.
- The asset allocation and the butterfly effect:** Our in-depth global research paper contrasts the conflicts between asset allocation *funds*, and asset allocation *solutions*, where a greater focus on processes encompassing various building blocks (Unified Managed Accounts, ETFs, securities, derivatives, etc.) may de-emphasize the use of certain actively managed funds over time. These forces are playing out in different markets, and in some, in the context of shifts to fee-based advisory

due to “butterfly effects” from regulatory changes (such as the Retail Distribution Review in the UK).

Best-Selling Funds

The following tables summarize the long-term mutual fund categories drawing the most cash in 2009, in Europe/Offshore and Asia:

Top Selling Long-Term Categories in Europe & Offshore, 2009

Fund Category	Net New	Total Assets
	Flows, 2009	Year-End 2009
	US\$B	US\$B
Bond Europe	58.5	912.3
Equity Emerging Mkts	41.6	250.7
Equity Europe	41.1	1,062.9
Mixed Balanced Flex	36.1	387.5
Equity Global	31.9	448.4
Commodities	20.2	48.9
Equity Asia Pacific	19.4	275.4
Absolute Return	19.1	127.4
Bond Global	18.1	192.1
Bond High Yield	16.5	88.1

Source: Strategic Insight Simfund GL

Top Selling Long-Term Categories in Asia, 2009

Fund Category	Net New	Total Assets
	Flows, 2009	Year-End 2009
	US\$B	US\$B
Bond Emerging Mkts	16.7	40.1
Bond Asia Pacific	15.5	142.1
Real Estate	14.7	60.5
Bond High Yield	11.5	25.8
Equity Asia Pacific	7.2	659.0
Unclassified	3.3	7.7
Equity Emerging Mkts	2.2	40.0
Equity Global	0.5	57.7
Commodities	0.5	2.2
Guaranteed/Protected	0.4	28.6

Source: Strategic Insight Simfund GL

This article is adapted from SI’s recent in-depth Global Research, including “Extending the Asset Management Toolkit: Asset Allocation, Alternatives, and Innovation in the Fund Industry”, and “The Decade in Asset Management” update which can be found at:

www.StrategicInsightGlobal.com
www.GlobalFundDistribution.com

International Funds: 2009 Update



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

Structure/Type	Assets	Net Flows, \$B				
	\$B 12/09	2006	2007	2008	Q4'09	2009
Open-end Active	1,265	147	138	-69	16	32
Open-end Indexed	90	13	18	11	4	9
ETFs*	254	31	51	27	19	53
Closed-End	34	3	19	0	0	0
VA Funds	185	22	20	4	1	7
Total	1,829	216	248	-26	40	101

Source: Strategic Insight Simfund MF / VA. *ETFs include UIT and open-end ETFs; Int'l Equity includes Gold; historical assets and flows have been restated and may not match past reports.

Flows into US-domiciled International / Global equity funds continued to be strong through 2009, with inflows, including VA funds, of \$101 billion.

Domestic equity funds, meanwhile, saw net outflows in 2009, as US investors expressed ambivalence about the sustainability of the economic recovery.

Part of international funds' success was fueled by ETF flows, including \$16.4 billion to Gold ETFs, which are accounted within our International Equity universe. Also notable was \$10 billion of inflows to global asset allocation funds, which are increasingly popular due to their flexible mandates and attractive recent returns.

Sustained outperformance of international/global funds persisted in 2009, as these funds out-earned domestic funds by a 9% margin (on average) this past year.

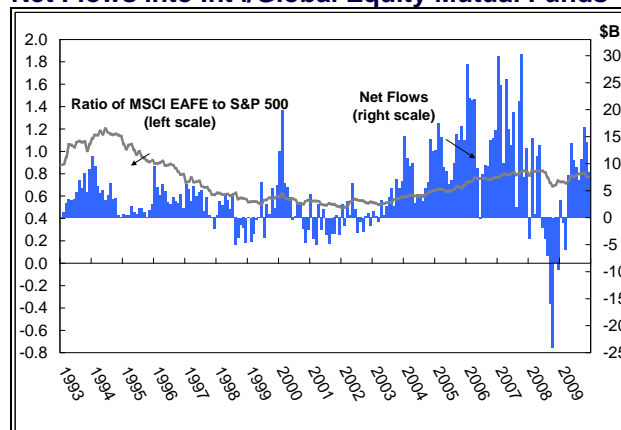
Int'l Equity, US Equity, and World Bond Funds Annual Average Total Returns (Asset-Weighted)

	2004	2005	2006	2007	2008	2009
U.S. Equity*	12.70	7.95	14.08	7.20	-37.95	31.46
Int'l/Glbl Eqty	18.37	16.23	24.34	16.43	-41.83	40.36
World Bond^	8.96	-2.10	6.62	8.94	0.23	13.69

Source: Strategic Insight Simfund MF; * Exc. Balanced/Hybrid, Int'l Equity includes Gold; historical data may not match prior reports. ^ Morningstar category.

The trend of the outperformance of the EAFE and the recovery of inflows since April 2009 continued through year-end 2009, as captured in the chart below:

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



Source: Strategic Insight Simfund MF, Standard & Poor's; Int'l flows include Gold funds

Actively managed emerging markets funds top the list of highest flow classifications for the year, with more than triple the net inflows of the next closest style (see below). Some of those flows reflected performance-chasing, but flows to international/global equity funds also stem from investors' search for more global diversification – a shift we expect will be buoyed in the next few years by expectations of a weakening dollar.

Actively Managed Int'l/Global Equity Funds 10 Highest YTD Net Flow Classifications

	Net Flows \$B		Assets \$B
	Q4'09	2009	12/09
Emerging Markets	4.01	14.38	130.2
Intl Large-Cap Growth	1.53	4.39	103.4
Intl Multi-Cap Core	1.88	4.02	50.0
Pacific Ex Japan	0.41	3.33	18.2
Intl Multi-Cap Growth	1.13	3.00	36.7
China Region	0.65	2.58	9.2
Intl Multi-Cap Value	0.51	2.43	37.2
Gold Oriented	0.63	2.26	22.1
Latin American	0.44	1.03	9.9
Intl Large-Cap Core	1.79	0.93	250.8

Source: Strategic Insight Simfund MF; Excludes index funds and ETFs, as well as VA funds; historical assets and flows have been restated and may not match past reports.

ETF Update: 2009 in Review



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ETF growth continued in 2009, with US net inflows of \$117.6 billion. That marked the third straight year of \$100B+ inflows into ETFs and ETNs. **At the end of 2009, US ETF (and ETN) assets were \$785 billion.** [Including data from our Simfund Global database, worldwide ETF assets topped \$1 trillion in 2009.]

ETFs: By Investment Type

	Assets				# of Funds
	\$B	Net Flows \$B			
	12/09	2008	2009	Q4'09	12/09
US Equity					
Diversified	303.3	87.4	-14.1	13.4	238
Sector	90.1	32.6	15.8	4.7	218
Subtotal US Equity	393.5	120.0	1.8	18.1	456
Int'l/Global Equity					
Diversified Dvlpd	54.9	9.0	0.7	2.3	51
Divsfd Emerg Mkts	64.5	9.3	17.0	7.9	28
Single Country	55.7	-0.4	12.2	3.3	63
Regional	17.0	-0.8	3.0	1.1	27
Sector	12.0	2.4	4.1	1.5	75
Subtotal Int'l/Global Equity	204.0	19.5	37.1	16.1	244
Bond					
Taxable Bond	100.8	20.8	42.8	10.0	73
Muni Bond	6.0	1.7	3.6	0.8	19
Subtotal Bond	106.7	22.5	46.3	10.7	92
Specialized					
Commodity	73.3	13.5	28.5	5.1	66
Currency	7.9	0.4	4.0	3.3	35
Subttl Specialized	81.1	13.9	32.4	8.4	101
Total	785.3	175.8	117.6	53.4	893

Source: Strategic Insight Simfund MF

Echoing trends in the traditional fund space, bond ETFs and ETNs led net flows, accounting for 39% of the cash that went into ETFs in 2009. Commodity ETFs accounted for 24% (with the SPDR Gold Shares ETF alone representing 11% of all ETF inflows last year).

The number of exchange-traded products continued to grow, reaching 893 at year-end 2009, up from 818 at the end of 2008.

One of the notable phenomena in 2009 was the growth and then halt of **leveraged and inverse ETFs**. After robust growth, a FINRA warning and sales restrictions adopted by several broker-dealers resulted in third-quarter net outflows of \$2.6 billion. These products rebounded a bit with \$800 million of net inflows in the fourth quarter of 2009; for the full year they had net inflows of \$12.2 billion. Leveraged/inverse ETFs and ETNs ended 2009 with 141 products, and total assets of \$29.8 billion, up from \$22 billion at year-end 2008.

The table below lists **the highest cash-flow ETFs of 2009**. Five of the top 10 were fixed-income ETFs, and two of them invested in emerging markets:

Highest Cash Flow ETFs in 2009

Fund Name	Start Year	Assets		
		\$B	2009 Net Flows	
		12/09	\$B	Rate*
SPDR Gold Shares	2004	40.2	13.6	63%
Vanguard Emrg Mkts Stk Index	1994	19.4	9.0	179%
iShares Barclays TIPS Bond	2003	18.5	8.9	103%
US Natural Gas	2007	4.5	5.3	754%
iShares MSCI Emerging Mkt Idx	2003	39.4	5.3	28%
iShares iBoxx \$ Invst Grd Idx	2002	12.7	4.9	70%
iShares Barclays 1-3yr Crd Bd	2007	4.9	4.0	508%
UltraSh 20+ US Trsy ProShares	2008	4.6	3.1	199%
Vanguard Total Bond Mkt Index	1986	6.2	3.1	104%
PowerSharesDB US Dollar Bull	2007	3.2	2.9	944%

*2009 Net Flows as a % of 12/08 assets.

Source: Strategic Insight Simfund MF

ETF Managers: The top five managers at year-end 2009 were: BlackRock (47.5% of US ETF assets); State Street (24.1% market share); Vanguard (11.6% share); Invesco PowerShares (4.3% share) and ProShares (3.1% share). **Together the Top five managed 91% of assets and 58% of products.**

Three of the year's new entrants joined the ranks of the Top 25 US ETF managers: ETF Securities, which amassed \$495 million in two commodity ETFs at year-end; PIMCO, which had \$475 million in nine fixed-income ETFs at year-end; and Schwab, which had gathered \$345 million in six equity ETFs at year-end.

The Growing Appeal of ‘Alternative’ Open-End Mutual Funds



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There has been a swelling of interest lately in open-end mutual funds implementing “alternative” strategies or providing exposure to alternative asset classes. Driving this trend is investors’ desire to increase portfolio diversification beyond the traditional stocks and bonds that both posted significantly negative returns in 2008, and to do so preferably within vehicles that restrict leverage and are overall more regulated, transparent, liquid, and accessible than hedge funds. Traumatized by the extreme market volatility of 2008-09 into greater risk-aversion, fund investors and advisors have been drawn to products offering the potential of downside protection and “absolute returns” in any environment as they cautiously wade back into the markets.

Flows into open-end mutual funds (excluding ETFs) providing exposure to selected alternative strategies and asset classes jumped to \$27 billion in 2009 from just about \$4 billion in each of the prior two years, and eclipsed the \$9-10 billion annual volumes posted over 2004-06. (We include here Market-Neutral, Long-Short, Bearish, Gold, Commodities, and Currencies; clearly, not all hedge fund strategies can be implemented within an open-end fund structure.) Even these net flow numbers actually understate the appeal of the alternative mutual fund area last year, as they represent primarily single “alternative” strategies and asset classes, and exclude some of the **Global Tactical Asset Allocation (GTAA)** funds (such as the *Ivy Asset Strategy* and *BlackRock Global Allocation* funds), which experienced strong demand last year. Also excluded are the newer, **single -asset class “unconstrained” funds** not adhering to style boxes or traditional benchmarks, some of which gathered significant net new commitments from investors in 2009. (See pages 14-15 of the [December’09](#) issue of *Windows* for an article on the recent appeal of “unconstrained” and global asset allocation investment approaches, including such strategies among newer funds.)

This explosion in flows in alternative mutual funds has occurred against a background of depressed demand for long-only active US equity funds despite the strong market recovery last year.

Selected Alternative Strategy / Alternative Asset Class Open-End Mutual Funds, Excluding ETFs					
Fund Type	Assets	Net Flows \$B			
	\$B	2006	2007	2008	2009
Mkt-Neutral / Long-Short	43.2	7.4	5.4	6.0	12.3
Broad Commodities	23.2	0.8	-1.6	-0.4	10.1
Bearish	4.9	-0.7	-0.1	-2.0	2.5
Gold Stock	23.1	1.5	0.2	0.7	2.2
Currency	1.1	0.3	0.5	0.5	-0.3
Total Above	95.5	9.2	4.3	4.6	26.7

Source: Strategic Insight Simfund MF

The bulk of last year’s open-end fund flows into the selected alternative categories listed in the above table came within **market-neutral / long-short** funds (\$12.3 billion) and broad-based **commodities** funds (\$10.1 billion), with the latter benefiting also from their use for inflation-hedging. The individual funds with the highest cash flows across all of the abovementioned alternative categories last year were: **PIMCO’s Commodity Real Return Strategy**, which drew a huge \$6.7 billion; Hussman Econometric’s hedged equity fund **Hussman Strategic Growth** (\$1.9 billion); and another **PIMCO** offering, the **Fundamental Advantage Total Return Strategy** (\$1.5 billion), which adopts an equity market-neutral approach, and has received the bulk of its assets from **PIMCO’s All Asset and All Asset All Authority** funds-of-funds.

The growth of the alternative mutual fund area has been supported overall by a greater intersection of the alternative and traditional investment worlds in recent years. More traditional or long-only managers have entered the alternatives space in a bid to complement traditional approaches with sources of uncorrelated alpha and beta amid expectations of future low equity returns, and because of an emphasis within new product development efforts on “outcome-orientation,” such as through Retirement Income and Liability Driven Investing approaches. Alternatives have also been buoyed by traditional managers’ pursuit of goals like meeting the needs of institutional and HNWI clients, retaining investment management talent, diversifying revenue streams, and adding asset-class and strategy diversity within lifecycle or other packaged / fund-of-fund products. One reflection of traditional asset managers’ greater interest in the

alternatives area was in the acquisition of hedge fund firms by the asset management arms of some investment banks, and also in mutual fund firms starting hedge funds for their institutional clients, which also provided training ground for their managers in shorting and other alternative strategies.

Some examples of recent moves by traditional fund managers into the non-correlated /alternative **mutual fund** space include:

- **Putnam**—the firm has crossed the \$1 billion mark in assets within its GTAA “**Absolute Return**” mutual fund series (100, 300, 500, 700) within a year of launch. The funds adopt a flexible approach in their attempt to outperform inflation as measured by US Treasury Bills (by 1%, 3%, 5%, and 7% respectively, over a period of three years or more). They are also being used as underlying investments within Putnam’s target-date fund series. Last year, the firm also announced plans to start hedge funds.
- At the end of 2007, **Vanguard** acquired the Laudus Rosenberg U.S. Large/Mid Cap Long/Short fund from Schwab and reorganized it into the Vanguard Market Neutral fund. Vanguard also just recently filed an exemptive relief application to enable its three Managed Payout funds to allocate up to 20% of their assets to an affiliated, non-UCITS Irish fund called *Alternative Strategies*. (Started in 2008, Vanguard’s Managed Payout funds seek to preserve or build capital over the long term while providing level monthly payments throughout each year; their investment mandate permits a fairly wide range of alternative asset classes and strategies in pursuit of a more consistent return pattern than traditional balanced funds; the three funds already have small allocations—5% each as of 12/09—to the affiliated Market Neutral mutual fund.)
- **Fidelity** started a 130-30 mutual fund in 2008 and commodities mutual funds in 2009.
- Multi-boutique asset manager **Natixis** entered the alternatives marketplace in 2008 through the acquisition of the option-hedging **Gateway Fund** and then went on to acquire alternatives specialist **AlphaSimplex**, in partnership with whom it started hedge fund replication and tactical allocation mutual funds.

Despite initiatives of this kind, some fund firms are still questioning the enduring investment merits of some alternative strategies, and whether a particular non-traditional strategy or asset class can be truly non-correlated (and hence diversify a stock and bond

portfolio on a consistent basis). They also wonder about the level and sustainability of demand for such strategies in all market cycles, especially among retail investors.

Considerations for fund managers looking at whether to offer alternative funds include: the ability to obtain access to the right managers and strategies given the capacity limitations of the high quality managers; the ability to properly benchmark the products (say against a hedge fund or commodities index); and the capability to deal with operational issues, conflict-of-interest perceptions, reputational risks from disappointing performance, and the challenges of educating investors as to how alternatives fit within a traditional portfolio.

At the same time as some traditional, long-only managers look more closely at the alternatives space, some hedge fund firms are re-evaluating their business models because of: a competition for assets with traditional asset managers; a desire for less-volatile income streams; the adverse impact of the recent financial crisis on asset bases; and concerns that more regulation may be coming down the pipeline for their industry in the wake of it. Some hedge fund firms have recently diversified into institutionally focused long-only investments or broadened their investor base by getting into retail distribution via the launch of 1940 Act funds or separately managed accounts or even teamed up with traditional fund managers on a sub-advisory basis. A few illustrations of hedge fund firms entering the ’40 Act fund space:

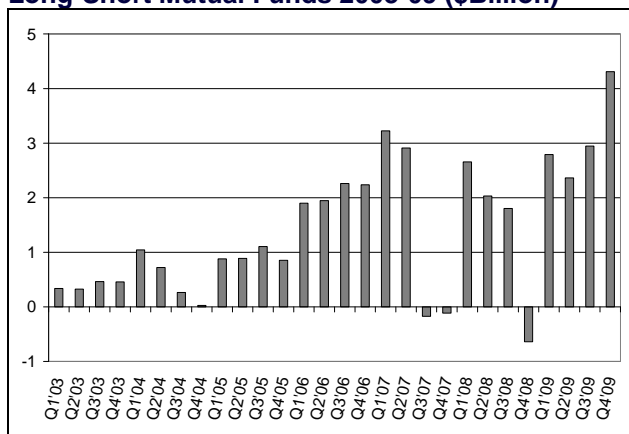
- **AQR’s** entry into the mutual fund marketplace in January last year with the Diversified Arbitrage fund, followed by six other ’40 Act offerings, including most recently a Managed Futures fund. The firm’s seven mutual funds, including two converted from private offerings, collectively held \$1.1 billion in assets at the end of January 2010.
- **Broadmark Asset Management’s** teaming up with **Forward Funds** last year to offer SMAs and launch a long/short mutual fund (Forward also acquired minority equity ownership in Broadmark.) As per a January 2010 filing with the SEC, Broadmark will also sub-advise a long/short mutual fund for Value specialist **Keeley Asset Management** – the two had previously partnered on a hedge fund.
- **Hatteras’s** acquisition in September ’09 of **AIP’s** two multi-managed hedged strategy mutual funds
- **Bull Path Capital Management’s** conversion last year of one of its long/short hedge funds into a long/short mutual fund.

The challenges facing hedge fund firms entering the '40 Act fund space include: adjusting to greater investment restrictions and compliance requirements; dealing with daily investor cash flows; less attractive fee structures than in hedge funds; and building scale and distribution to compete with established mutual fund brands.

Drilling Down into the Market-Neutral / Long-Short Mutual Fund Category

Although still a small segment of the fund industry—the SI category of Market-Neutral / Long-Short open-mutual funds held just about \$43 billion in assets at the end of 2009—an upsurge in the demand for such funds was evident in 2006 and early 2007 (see chart below), before flows suffered a setback in the latter half of 2007, affected partly by disappointing performance during the subprime crisis of some of these products. Flows recovered well in 2008, until its final volatile quarter, and in 2009 the category gathered \$2-3 billion in each of the first three quarters before capping the year with a record volume of nearly \$4 billion flows over the final three months.

Quarterly Flows into Open-End Market-Neutral / Long-Short Mutual Funds 2003-09 (\$Billion)



Source: Strategic Insight Simfund MF

Among Market-Neutral Long-Short Funds drawing the most net flows last year could be seen a host of strategies, including option-hedged, equity market-neutral, managed futures, short extension (commonly known as 130/30), flexible long/short, hedge fund replication, and convertibles arbitrage. Eight of the 20 highest 2009 cash-flow funds listed in the following table were newer funds started over 2008-09.

Highest 2009 Cash Flow Market-Neutral / Long-Short Fds

Portfolio Name	Assets	Flows	Total Return	3 Year Beta
	\$MM 12/09	\$MM 2009	% 2009	Vs S&P 500
Hussman Strategic Growth	5.4	1.9	4.63	0.16
PIMCO FndmtlAvtg Tot Rtrn	1.8	1.5	16.51	n.a.*
JPMrgn Hibrdg Stat Mkt Neut	3.3	1.4	-4.64	-0.04
Rydex Mngd Futures Strtg	2.3	1.2	-4.25	n.a.*
JPMorgan US Lrg Cp Core +	5.3	1.2	36.43	0.99
Merger Fund	2.3	0.8	8.52	0.16
Absolute Strategies	1.7	0.7	18.10	0.36
Goldman S. Abs Rtn Tracker	0.7	0.5	5.75	n.a.*
Arbitrage Fund	0.7	0.5	10.05	0.13
TFS Market Neutral	0.9	0.4	16.64	0.27
JPMorgan Market Neutral	0.5	0.4	10.15	0.01
Putnam Absolute Return 300	0.3	0.3	8.23	n.a.*
Calamos Market Neutral Inc	1.7	0.3	13.79	0.37
Putnam Absolute Return 500	0.3	0.3	9.92	n.a.*
Aberdeen Equity Long Short	0.4	0.2	7.21	0.22
AQR Diversified Arbitrage	0.2	0.2	n.a.†	n.a.*
Forward Tactical Growth	0.2	0.2	n.a.†	n.a.*
Putnam Absolute Return 700	0.3	0.2	14.42	n.a.*
Caldwell & Orkin Market Opp	0.4	0.2	-3.39	-0.06
ASG Global Alternatives	0.2	0.2	8.95	n.a.*

* Funds have less than 3-year history. † Fund started in 2009. Source: Strategic Insight Simfund MF

The following table hones in on equity market-neutral funds within the overall Market-Neutral / Long-Short Mutual fund category (funds that seek to generate consistent returns in both up and down markets by maintaining a net market exposure of zero). Looking at the highest 2009 cash flow or largest funds within that subset, the implementation challenges are evident – several of these funds were down much less than the broad market in 2008 but only two posted positive returns in that year, and these two were not able to sustain the positive returns in 2009’s equity bull market.

Lipper Classification: Equity Market Neutral Funds with 2009 Net Flows > \$100 million or 12/09 Assets > \$100 MM

Portfolio Name	Total Return %		3 Yr Beta Vs S&P 500	Assets \$B 12/09	Flows \$B 2009
	2008	2009			
Absolute Strategies	-14.01	18.10	0.36	1.7	0.7
TFS Market Neutral	-7.29	16.64	0.27	0.9	0.4
PIMCO Fndmntal Avtg TR	-	16.51	-	1.8	1.5
Calamos Mkt Ntrl Inc	-13.28	13.79	0.37	1.7	0.3
JPMorgan Mkt Neutral	-0.55	10.15	0.01	0.5	0.4
Arbitrage Fund	-0.63	10.05	0.13	0.7	0.5
Gateway	-13.92	6.57	0.51	4.7	-0.3
EatonVnce RM Eq Opt Inc	-	6.36	-	0.2	0.2
JPMorgan MultiCp Mkt Ntrl	-0.33	-0.30	0.04	0.6	-0.1
DWS Disciplined Mkt Ntrl	6.80	-1.96	-	0.3	0.1
JPMrgn Hibrdg Stat MNtrl	9.79	-4.64	-0.04	3.3	1.4
Am Cent Long Short MNtrl	-2.91	-7.97	-0.06	0.1	-0.1
AQR Diversified Arbitrage	-	-	-	0.2	0.2

Source: Strategic Insight Simfund MF

Perspectives on Taxable Bond Fund Redemption Patterns

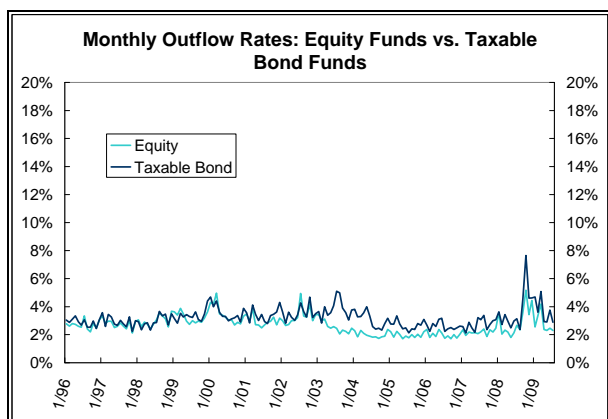


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The record inflows into bond funds during 2009 have provided a range of new relationship opportunities and investment solutions for asset managers. Yet, it triggers many concerns. Bond fund total returns exceeding 15% in 2009 may be creating unrealistic expectations on the part of many investors. The inevitable “unwinding” of some of today’s massive bond fund inflows in future years bring many implications to the possible large-scale asset movement from bond funds in the future. This article excerpts a recent, 12-page “Executive Insight” report that SI clients can access [here](#).

Historical Trends

As depicted in the chart below, monthly redemption rates of taxable bond funds have generally remained within a narrow 2.5-3.5% band over the past 20+ years.

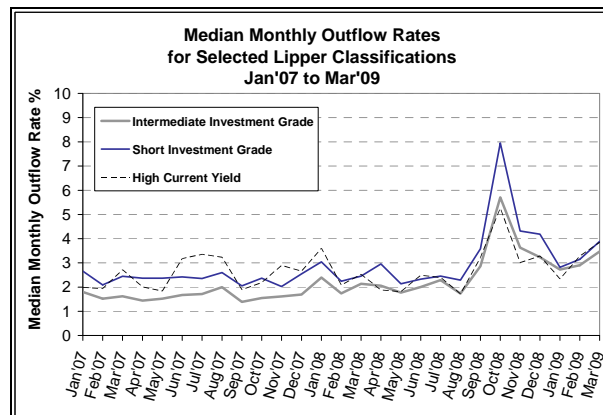


Source: Strategic Insight Simfund TD / ICI

Notably, taxable bond-fund outflow rates have tended to consistently exceed equity-fund outflow rates. With only one-third of total bond fund assets held in qualified retirement accounts (versus two-thirds of equity fund assets), bond funds do not benefit to the same extent as equity funds from the long-term focus of many retirement investing portfolios. Thus, they are less protected from shorter-term investor mindsets and purchasing activity.

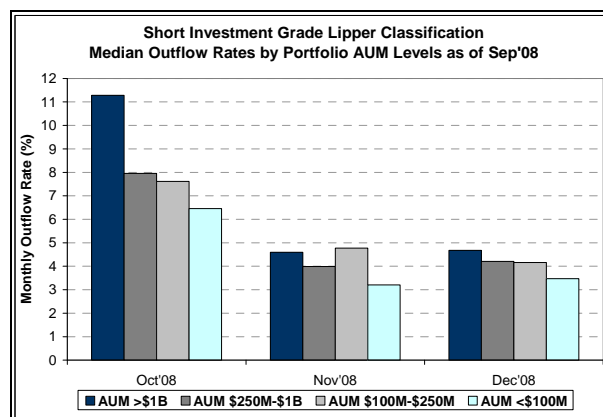
Observations from Q4 2008

The extreme market environment of Q4 2008 created a useful top-line benchmark upon which to gauge outflow and liquidity pressures on taxable bond funds during subsequent future periods of stress.



Source: Strategic Insight Simfund MF / Lipper (Classifications)

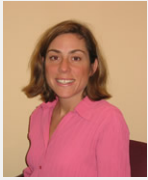
As seen above, as outflows spiked to their peaks during October 2008, the spread in median outflow rate between the Short and Intermediate Investment Grade Lipper classes widened to 2.3%, over three times the average monthly spread between the two strategies from January 2007 to March 2009. We hypothesize that investors (especially institutional ones) sold their most liquid positions during this period, as they were seeking to raise cash wherever possible.



Source: Strategic Insight Simfund MF / Lipper (Classifications)

The graph above further implies the institutional use of the largest (and often most liquid) funds. During times of significant duress, as was seen in Q4 2008, some institutions were most active in withdrawing cash, as compared to financially paralyzed individual investors. Based on such hypothesis, bond fund managers may need to coordinate the liquidity expectations of their institutional investors in planning around future periods of potential outflow pressure.

Inside SimfundFiling: Fund Changes and More



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Fund Reorganizations/Adoptions

In the wake of the financial crisis, fund firms continued to streamline and adjust their families of fund offerings – a movement that continued apace in the fourth quarter of 2009. Notably, **Transamerica** reorganized 19 of its funds into affiliated funds, four of which went into the newly created **Transamerica Diversified Equity** fund (following their plans, filed in Q3, to liquidate seven funds); **Allianz** made plans to reorganize 11 of its **Nicholas-Applegate Institutional** funds into affiliated funds and to liquidate one of them; and **SunAmerica** planned to reorganize nine of its funds into six existing funds within its lineup.

Companies that filed to consolidate their fund offerings during the last quarter also included **Pioneer**, **Principal**, and **Federated** among others, with most funds reorganizing into funds with similar or more encompassing strategies. **BB&T** decided, however, to merge one of its growth funds into a value fund, while **Members**, **Federated**, **ING Investments**, and **Hartford** each made plans to move one of their value funds into a growth fund.

Of particular interest were the filings for the planned reorganization of the **Fidelity Spartan 500 Index** (\$13 billion in assets) into the **Fidelity Spartan U.S. Equity Index** (\$22.6 billion in assets), and the reorganization of the **Vanguard Institutional Total Bond Market Index** fund (\$4 billion in assets) into the **Vanguard Total Bond Market Index** fund (\$67.6 billion in assets). **Vanguard** expects the combined fund will have “*greater operating economies and, therefore, an opportunity to attain better performance.*”

Other fund companies adopted/absorbed unaffiliated funds into their lineups. **FBR** absorbed the **AFBA 5Star** funds, while sending off its **FBR Fund for**

Government Investors to **Legg Mason**, which in turn, rolled it into its **Western Asset Government Money Market** fund. **MainStay** adopted four **Epoch** funds, retaining the funds’ former advisor as the sub-advisor, and reorganized eight of its funds into existing funds.

Share Classes: B Share Closings

The financial crisis also helped support distributors’ broader shift toward fee-based compensation models for advisors. Partly as a result, B shares continue to shrink as a portion of the fund business; according to the Simfund database, assets held in B shares accounted for 1% of mutual fund assets (excluding ETFs or VAs) at the end of 2009, half their share two years ago, as their share of intermediary sales fell below 2%. Earlier in 2009, **American Funds**, the largest manager of B share assets, stopped allowing new investments in B shares. The momentum continued in the fourth quarter of 2009, as **JPMorgan** filed in September to close its Class B shares to new and existing investors on November 1, 2009. Nine managers followed suit in the quarter, filing with the SEC in the subsequent order and followed by the effective date of the closing shares: **Virtus** (effective 12/1/2009), **American Century** (12/1/2009), **ING** (1/4/2010), **Security Investors** (1/4/2010), **Pioneer** (12/31/09), **DWS** (3/1/2010), **Calvert** (2/26/2010), **Principal** (3/1/2010), and **Lord Abbett** (3/31/2010).

New Funds: Looking Ahead

Global investing, inflation, investment flexibility and less-correlated strategies were among the noteworthy themes in new funds proposed in Q4 2009. Among the dozens of new fund registrations in the quarter, some notable ones were: **PIMCO** filed to launch the **PIMCO Global Opportunities** fund. The fund will follow a bottom-up, value-oriented approach and provide the flexibility to invest in a wide range of securities, including stocks and bonds. **Principal** filed the **Principal Diversified Real Asset** fund, which will use five sub-advisors to invest primarily in five investment categories – inflation-indexed bonds, commodity index-linked notes, REITs, natural resources company stocks, and master limited partnerships – designed to offer protection against the effects of rising inflation. **Vanguard** filed the **Explorer Value** fund, which plans to take an actively managed, value-oriented approach to small- and mid-cap stocks and use three advisors. **SEI** registered the multi-managed **SEI SIIT Dynamic Asset Allocation** fund, which would use an opportunistic, “factor-driven” tactical asset allocation strategy to invest both long and short in U.S. and foreign stocks, bonds and options, currencies, commodities, and other asset classes.

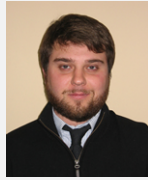
Variable Annuities: A New Era for Retirement Income?



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The well-pondered wave of retiring Baby Boomers, coupled with the volatility many investors experienced in their 401(k) plans and similar retirement accounts in 2007-09, has spurred much speculation about the role of guaranteed retirement income products. The relative “quiet” we saw in 2009 has been the kind of quiet that is incipient to great change. We have noted many signs of new activity and forecast that 2010 will bring even greater vigor to the retirement income space.

Dismantling Product Silos

In recent months, one catchphrase that has begun to replace asset allocation is **“product allocation,” which shifts the conceptualization of financial risk from asset classes of securities to the risk mitigation properties of various products.** This creates a more comprehensive framework within which consumers can structure retirement planning. For example, an investor may have a “product allocation” mix of an immediate annuity, a GLWB (guaranteed lifetime withdrawal benefit) product and a systematic withdrawal plan, rather than an “asset allocation” mix of bonds and stocks. Asset allocation necessarily limits the use of products to securities, ignoring the value of annuities, life insurance, long-term care insurance, and other products that offer guarantees. In addition, it provides a different schema for income strategies that involve securities, such as CDs or bond ladders.

Such an approach de-emphasizes any single product, shifting the focus to the right “solution” for each investor. Yet the structure necessary to holistically support cross-product management has proven more challenging to embrace; after all, the industry has spent many years building its product silos. In many ways, the industry’s need has been less for new products to

address consumer needs, and more for robust and useful processes that deploy existing products. That said, there are reasons why certain products are avoided. For instance, the question of illiquidity has plagued the marketing of immediate annuities.

A Dead Horse?

Some insurers have remained committed to marketing immediate annuities, because in actuarial terms they are well-suited for generating income, and it’s relatively easy to manage their risk and financing. But lifetime annuity payments have failed to gain enough traction to establish themselves as the retirement income answer, as many once expected they would.

There are annuitization products with features that address concerns over illiquidity, but these features reduce income payments. The loss of liquidity in immediate annuities is a trade-off for maximizing income payments, whereas other assets/products can be used to provide liquidity. The bottom line message is that **annuitization requires a comprehensive planning process that implements product allocation**, so the time may at long last be coming for annuitization. Product allocation will not represent the salvation of annuitization because there is too much demand for non-annuity solutions, and old habits die hard. However, annuities will play a key role in financial planning for a good deal of investors.

Reinventing the Mouse Trap

Some insurers have taken the path of least resistance, giving up on annuitization in favor of living benefits. In addition, we have seen the innovation of a new twist, the **standalone living benefit (SALB)**, which marries the living benefit guarantee with assets held outside of an annuity. While the financial crisis slowed the momentum of SALBs, there are hopeful signs; **Great West-Life** entered the arena, filing in November for a SALB on a series of mutual funds designed specifically for the guarantee, available in “G-shares.”

More Change Afoot

SALB guarantees are valuable in providing more options for investors rather than serving as completely novel methods for addressing retirement income needs. That said, we anticipate continued evolutionary changes in retirement income products, both in guarantees and in non-guaranteed products. Indeed, 2009 saw intriguing innovations in product features, variable pricing, and simplified product design. And product allocation, by taking pressure off any one product, may help spur further innovation in retirement products in general.

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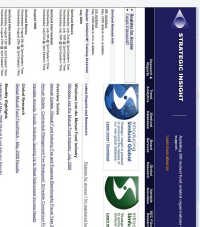
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