Strategic Insight

805 Third Avenue, New York, NY 10022
Tel: (212) 944-4455, Fax: (212) 730-7730
Available at **www.sionline.com**

WINDOWS
Into the
Mutual Fund
Industry
August 2010

First-Half Perspectives

Avi Nachmany
(212) 944 4451
avi@sionline.com

Globally, $500B+ of Bond, Stock Net Inflows through Aug. 2010:

- Over half of total global inflows in Europe, Asia, and elsewhere outside the US; search for income continues to fuel demand, helped by oceans of cash held around the world (about $10 trillion in the US)
- A slow recovery of equity fund appeal and flows in 1Q, a 2Q reversal, and a slow rebuild lately
- Meta-trends globally: Back-to-basics approaches; transparency; the attraction of investment manager independence; flows of capital from East-to-West as well from West-to-East.

Rule 12b-2: A Long-Awaited, Thoughtful Proposal

- Our brief summary of the proposal is discussed in this edition, with a more detailed report due out soon. Our initial observation: the SEC's proposed revamp of 12b-1 is thoughtful and sensitive to many marketplace participant concerns, and open for fine-tuning; this is a transitional, not a transformational rule change. To listen to our 12b-2 Webcast or get the PowerPoint presentation, go HERE. (Separately, SI recently published a number of fee-benchmarking studies and is expanding its 15(c) support and relationships.)

In-depth Studies for Sale

- Developments and Opportunities at the **National Broker-Dealers**, a quarterly report series (powered by data from Coates Analytics).
- ***Managing Investment Fund Innovation****:* A 60-page study focusing on the accelerating growth of alternative, absolute return and multi-asset investing as well as analysis of UCITS funds available around the world.

Simfund, Tracking over $20 Trillion of Funds around the World:

- Simfund Global is increasingly used by investment managers around the world; we continue to **develop a web-version of Simfund GL**. In addition, SI will soon service its global clients from London, Hong Kong, and NYC, with our data services building on relationships with over 70 global organizations and their CEOs, including recent discussions in China, Hong Kong, and India.
- The US version, **Simfund MF**, **is now shared** with subscribers – collectively responsible to over 85% of the industry's assets – **by the ninth business days after month-end**. Simfund data and process integrity, personal assistance by informed analysts, and supportive and balanced use of SI proprietary data for the public remain the hallmarks of SI convictions; note that managers of over $1 trillion provide us actual flows included in Simfund.

Accelerating Client Engagement via SI Webcast Series

- Increasingly, our clients benefit from SI Webcasts (our latest session was attended by over 200 executives from throughout the industry). **Our August 10th Webcast will focus on US Investment Product Innovations.** Register HERE.
- Presentations and audio are posted after each Webcast on SIonline.com (e.g., Rule 12b-2, 1H/2H Trends, Subadvisory Research via Simfund, etc.)

Client Conferences

- In June, 125+ executives from over 75 investment management organizations, as well as senior relationship managers from many of the most important distribution companies, attended SI's conference focusing on "Evolving Opportunities in Fund Distribution, Product Innovation & Retirement Markets."
- SI is pleased to announce our **"Future of Funds" Conference**, focusing on product innovation, to be held on **October 18** in New York's Le Parker Meridien Hotel. The one day (8:30-4:00) event will provide a mix of moderated panel discussions and SI research presentations.

Domestic Funds: Q2 2010 in Review

Adam Feldstein
(212) 217 6935
afeldstein@sionline.com

Susan Belle
(212) 217 6948
susan@sionline.com

Fund Industry Overview
(Excludes ETFs and VA Underlying Funds)

	Net New Flows $B			
	2008	**2009**	**Q1'10**	**Q2'10**
US Equity	-137.3	-26.2	7.9	-5.1
Int'l Equity	-57.9	41.2	27.8	5.5
Total Equity	**-195.1**	**15.0**	**35.8**	**0.3**
Taxable Bond	17.7	280.9	74.1	45.4
Muni Bond	4.6	69.1	13.2	5.2
Total Bond	***22.3***	***350.1***	***87.3***	***50.6***
Total Equity & Bond	**-172.8**	**365.1**	**123.0**	**50.8**
Money Market	594.6	-505.9	-330.5	-171.6
Total Industry	**421.7**	**-140.9**	**-207.5**	**-120.8**

Source: Strategic Insight Simfund MF

US equity funds saw just modest redemptions in Q2, notable given the sharp correction of stock prices and lasting economic uncertainty. International/Global equity fund flows, while positive in Q2, slipped from Q1's pace – in part due to heightened worries about European sovereign debt and Euro depreciation. (For more on international funds, see page 8.)

Long-term mutual funds drew $174 billion in total inflows in the first half, led by bond funds. Following the record bond fund inflows achieved in 2009**,** bond fund continued to attract strong inflows, partly in a search for income and partly as investors sought to re-engage in financial markets but with caution. Taxable bond fund flows of nearly $120 billion through 1H 2010 were quite lower than net inflows during 2H 2009 due to a slowdown in Q2 2010. The first half of 2010 witnessed the continued flight to relative safety: $51 billion, or 43% of taxable bond inflows, went to short and intermediate-term corporate bond funds. Muni bonds saw inflows of roughly $18 billion during 1H, with 60% of those flows going into short and intermediate-term national muni portfolios.

Led by institutions, investors withdrew a total $502 billion from money market funds in 1H 2010; this is almost the same amount redeemed for the full calendar year 2010. Near-zero yields continued to push MMF investors elsewhere, including short-term bond funds favored by individual investors, searching for yield.

During 1H smaller cap stock funds outperformed large cap ones as well as the S&P 500 (which returned -6.7% during 1H 2010). Actively managed small cap funds outperformed large cap funds by more than 5% during the first half, as they experienced a smaller loss (-2% total return).. Similarly, the MSCI EAFE index's -13.2% return was bested by the average international equity fund, which returned -9.1% during 1H. Post-1H, July's 6%+ rebound in stock market prices significantly improved YTD returns.

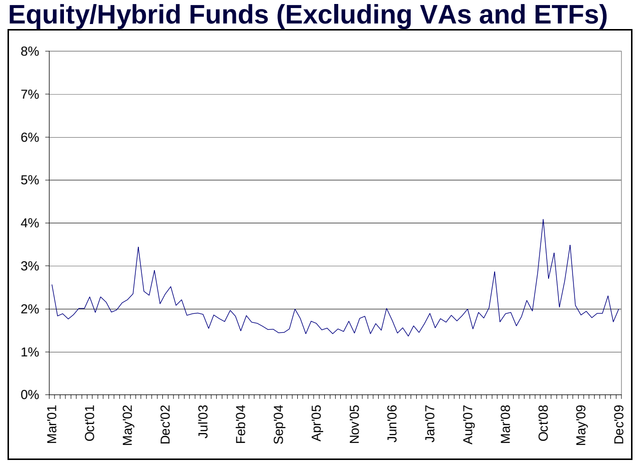
Average Asset-Weighted Annualized Returns %

	2008	**2009**	**Q1'10**	**Q2'10**
Domestic Equity *	-36.9	31.0	5.3	-10.1
Int'l Equity	-42.0	40.2	2.0	-10.8
Taxable Bond	-5.1	17.1	2.5	1.8
Muni Bond	-9.0	16.1	1.4	1.6
Money Market	2.3	0.3	0.01	0.02

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

Anxieties about economic and employment recovery continue to depress the pace of new equity fund investments. While the sales pace remains moderate, the pace of stock fund redemptions has normalized to 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		
	2008	2009	1H'10
Actively Managed Funds	-236.5	-14.4	11.3
Index Funds (non-ETF)	41.2	29.0	23.1
ETF Open-End Funds	96.2	57.5	21.7
ETFs structured as UITs / Grantor Trusts / ETNs /Other	56.9	10.0	-2.7

Source: Strategic Insight Simfund MF

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

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

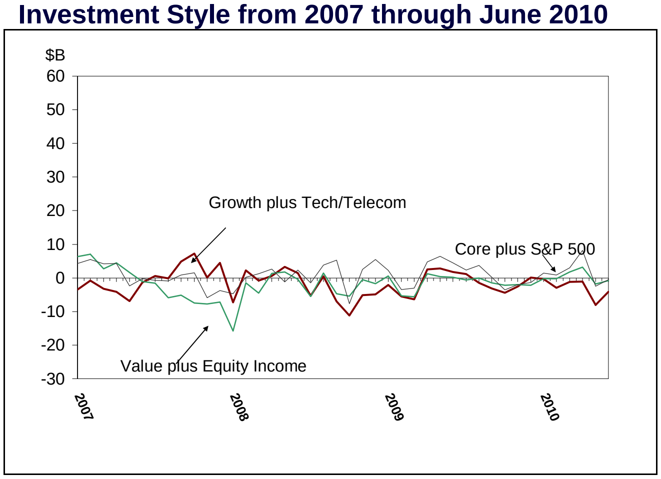
	Net New Flows $B		
	2008	2009	1H'10
Actively Managed Funds	11.8	321.9	123.7
Index Funds (non-ETF)	10.4	26.1	13.0
ETF Open-End Funds	22.5	46.1	21.3

Source: Strategic Insight Simfund MF

Growth vs. Value

In 1H 2010, **c**ore and growth styles experienced net outflows from US equity funds while value-style flows remained flat. Naturally, **many individual higher-performing value and growth funds continued to attract significant inflows**.

Open-End Domestic Equity Fund Flows by Investment Style from 2007 through June 2010



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

Flows and returns among **diversified actively managed US equity funds** are summarized below. Core style funds outperformed growth and value funds through 1H 2010.

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

	Flows $B		
	2009	H1'10	H1'10 Returns *
Large-Cap Growth	-7.6	-7.9	-7.9%
Multi-Cap Growth	-1.5	-1.7	-2.6%
Mid-Cap Growth	-6.6	-5.4	-6.4%
Small-Cap Growth	1.3	-0.6	-2.2%
Growth Funds	***-14.4***	***-15.6***	***-6.4%***
Large-Cap Core	-12.5	-7.4	-8.1%
Multi-Cap Core	1.4	2.0	-3.2%
Mid-Cap Core	-2.3	-1.8	-5.8%
Small-Cap Core	2.9	0.0	-2.0%
Core Funds	***-10.6***	***-7.2***	***-5.8%***
Large-Cap Value	-14.7	-3.6	-7.3%
Multi-Cap Value	1.5	0.9	-3.6%
Mid-Cap Value	-4.3	0.1	-6.2%
Small-Cap Value	1.0	2.6	-1.6%
Value Funds	***-16.5***	***0.0***	***-6.0%***

** 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.**

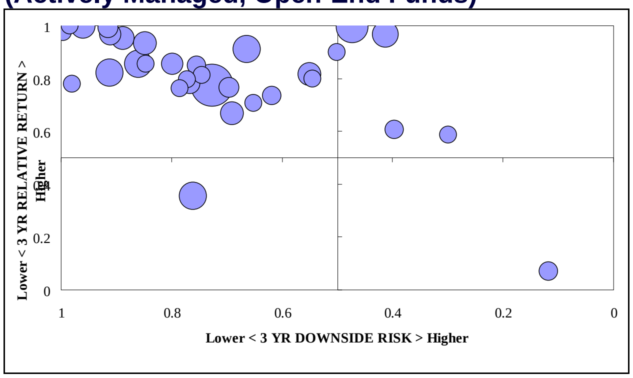
SI's "Bubble" charts, generated in Simfund, plot funds on a relative risk/return basis versus similarly invested peers. Funds in the top-left quadrant have superior positioning relative to peers, displaying below-average risk (defined as cumulative monthly losses over 36 monthly observations) while achieving above-average returns. And **1H 2010** 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 1H 2010, we capture below the "trailing three-year risk-return vs. cash flow bubbles" of the industry's 40 highest cash flow funds in 2010's first half (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 1H 2010 net inflows.**

The funds in the charts clearly share appealing risk-return characteristics for the 36 months ending June 2010. 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.

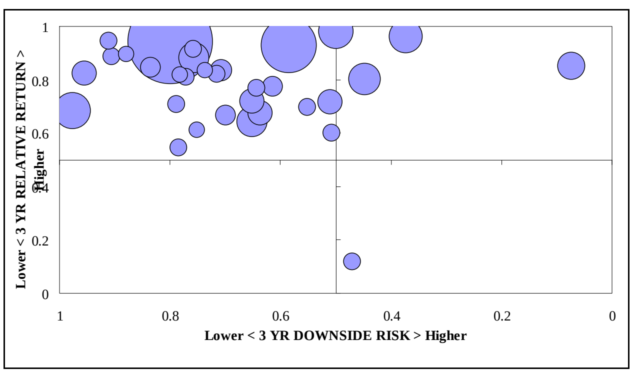
Risk-Return Characteristics of Best Selling Mutual Funds in 1H 2010

Highest Net Inflow Equity Funds in 1H 2010 (Actively Managed, Open-End Funds) *



**1H 2010 Flows and 3-Yr. Risk/Return Analysis within Lipper Classifications; Source: Strategic Insight Simfund MF*

Highest Net Inflow Bond Funds in 1H 2010 (Actively Managed, Open-End Funds) *



**1H 2010 Flows and 3 Year Risk/Return Analysis within Lipper Classifications; Source: Strategic Insight Simfund MF*

1H 2010 Flows by Manager

The following tables summarize the managers making the most cash flow progress in 1H 2010 in actively managed, long-term funds.

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

	Flows ($B)		1H'10 Flow	6/10 Assets
Manager	**2009**	**1H'10**	**Rate***	**$B^**
PIMCO/Allianz Global	74.0	**34.2**	10%	393.5
JPMorgan Funds	26.0	**12.8**	15%	100.3
Franklin Templeton	18.4	**10.8**	4%	294.6
Vanguard	46.6	**9.7**	2%	502.2
T. Rowe Price	13.2	**9.0**	4%	205.8
BlackRock	10.5	**6.5**	5%	140.1
Eaton Vance	4.0	**5.5**	6%	86.9
Thornburg	5.1	**4.5**	14%	35.4
Lord Abbett	6.5	**4.2**	8%	54.1
Harbor Capital	4.3	**3.9**	8%	45.9
DFA	4.6	**3.6**	4%	84.5
MFS Invstmt Mgmt	4.3	**3.5**	5%	72.0
Fairholme Cap Mgmt	1.0	**3.3**	30%	14.3
Waddell & Reed	9.0	**2.9**	5%	53.6
John Hancock	3.8	**2.4**	5%	52.1
Harris Associates	1.7	**2.3**	8%	30.9
Nuveen	4.0	**2.2**	3%	68.2
Lazard Asset Mgmt	3.6	**2.1**	16%	15.0
The Hartford	2.8	**2.0**	5%	45.3
Intl Value Advisers	2.9	**2.0**	53%	5,758

**YTD 2010 flows as a pct. of 12/00 assets; ^Active long-term assets only; Source: Strategic Insight Simfund MF*

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

	Flows ($B)		1H'10 Flow	6/10 Assets
Manager	**2009**	**1H'10**	**Rate***	**$B^**
Yacktman	1.3	1.4	**66%**	3.2
Intl Value Advisers	2.9	2.0	**53%**	5.8
Absolute Investmnt Adv	0.9	0.9	**48%**	2.9
Westchester Capital	0.8	0.9	**41%**	3.2
Osterweis Capital	0.7	0.5	**36%**	2.0
PRIMECAP Mgmt	0.4	0.5	**33%**	2.0
Fairholme Cap Mgmt	1.0	3.3	**29%**	14.3
Van Eck	1.3	0.9	**27%**	3.9
Jensen Investment	0.0	0.6	**27%**	2.6
Pacific Heights	0.9	1.3	**25%**	6.5

*^ $1B+ in AUM at 12/09; * YTD 2010 flows as pct. of 12/09 assets; ** Active long-term assets; Source: Strategic Insight Simfund MF*

Global Trends: Mapping Opportunity

Jag Alexeyev
(212) 944 4456
jag@sionline.com

Daniel Enskat
(212) 217 6859
daniel@sionline.com

SI's Global team is excited to announce that following the opening of our office in London in March, we will soon open a Hong Kong office.

Mutual funds around the world expanded with strong commitments in 1H 2010, totaling an estimated $490 billion of net inflows into long-term funds – despite global market volatility and concerns about economic growth. **More than half of these inflows occurred in Europe and Asia**. While most inflows went to bond funds, equity and other fund types also drew inflows.

Globally, investors likely reallocated north of $100 billion of assets from money market funds back into long-term vehicles in 1H'10. With $60 trillion in cash on the sidelines around the world, much of it in Europe and Asia, we see a continued tactical opportunity for asset managers to benefit from various secular meta-trends (back-to-basics approaches, transparency, the lure of investment manager independence, flows of capital from East-to-West as well from West-to-East, and more).

Long-Term Funds by Region, Jan.-May 2010 US$ Billion

Region	Net New Flows, Ytd-5/10	Total Assets, May 2010
U.S.	$189	$7,898
International/Offshore	131	2,078
Europe	54	3,050
Asia	51	1,389
Australia	1	510
Total Above*	**426**	**14,925**

** Excludes Latin America. Figures include ETFs.*
Source: Strategic Insight Simfund GL, Simfund MF

From an asset-gathering perspective, Europe appears as a tactical and Asia as a strategic opportunity. After some $1 trillion in long-term fund redemptions in Europe in the last few years, hundreds of billions have come back to the industry in the last 12 months (but often not to the same firms that suffered the redemptions). Asia, on the other hand, held on to its 2007 record flows throughout the financial crisis, but in some ways only slowly is developing to address expectations of regulator and investor. Asia only gathered $51 billion in combined long-term fund flows through May 2010. Still, even while aggregate inflows have been subdued, the product level data below shows strong net inflows to numerous products. Our discussions with executives in the region showed a lot of momentum for change and willingness to try new things. Once the regulatory uncertainties work themselves out, we expect regional flows to pick up.

Accelerating Leadership Turnover

The turnover of leadership among top-selling funds and managers is accelerating, along with a discernable rise in the concentration of success – the "winner takes all" phenomenon. The 25 highest cash flow long-term products in the 12 months ending in May in the US gathered $244 billion (or on average about $10 billion per product) and the 25 highest cash flow long-term products outside the US took in $136 billion (or $5.4 billion per product). However, concentration within this list is extreme: PIMCO Total Return fund alone was responsible for over $50 billion of flows, while in Europe, Carmignac attracted $16 billion in net cash flows. Franklin Templeton was number two on the list in both the US and Europe/Asia, with aggregate flows of $33 billion to Global Bond in the last 12 months.

Top Selling Long-Term Funds, Europe/ Offshore, 12 Months Thru May 2010

Portfolio	Net New Flows 12 Mos. Ended May'10 US$B	Total Assets May' 10 US$B
Carmignac Patrimoine	**16.2**	28.5
Templeton Global Bond	**15.5**	25.2
PIMCO GIS Total Return	**8.2**	13.7
Pictet-Em Local Curr. Debt	**6.2**	6.3
BlueBay Invst Grade Bond	**6.1**	14.3
Carmignac Securite	**6.0**	6.8
Templeton Glbl Tot Return	**6.0**	8.6
AllianceBernstein-Glbl HYld	**5.9**	11.9
Schroder ISF Em Mkt Debt	**4.4**	7.1
Schroder ISF EURO Co Bd	**4.3**	6.9

Source: Strategic Insight Simfund GL

Carmignac, Franklin Templeton and PIMCO took advantage of strong demand and 'outlier' appeal. For fund select lists and distribution partnerships, two clear trends are emerging: **Investment Solutions vs. Themes** and **Large Investment Houses vs. Boutiques**, with little room in between.

Top Selling Long-Term Funds, Asia 12 Months Thru May 2010

Portfolio	Net New Flows 12 Mos. Ended May 2010 US$B	Total Assets May 2010 US$B
Daiwa Brazil Bond	**5.4**	5.8
SM-SMBC Nikko New Wrld	**5.2**	5.0
Fidelity US REIT Fund B	**4.6**	4.5
Daiwa Foreign Bond Fund	**4.1**	4.0
ChinaAMC CSI 300 Index	**4.1**	3.2
Nomura Global High Yield	**3.8**	3.6
T&D Nomura Emgng Bond	**3.6**	3.5
DaiwaSB Short Term AU	**3.5**	5.4
MitsubishiUFJ Em Ctry Bd	**2.9**	3.5
E Fund SSE 100 ETF	**2.8**	2.2

Source: Strategic Insight Simfund GL

Success Criteria Are Changing

Business models and success criteria are different and changing. **The tables on this page line up Strategic Insight manager-level flows with distributors' supplier rankings based on business drivers from Metrinomics**. Metrinomics is a Berlin-based research firm that provides distributor rankings for the European fund industry; its Fund Market Focus is an annual survey of 900 leading buyers of third-party funds in 11 key European markets. SI Global collaborated with Metrinomics on the following commentary in this article.

The first table shows how fund selection criteria (including product quality, client service, fees, brand, marketing and account management) shifted over time. The second table shows the best selling fund managers in Europe from 2006-2009, measured by aggregate long-term fund flows from Simfund Global.

Key observations: (a) product quality and track record almost always has been the most important fund selection criterion (top position 2007, 2010); (b) client service has moved up the ranks in recent years, and became the key factor in the crisis (2009); (c) brand has become less important, falling from #2 to #4.

Business Drivers to Become a Preferred Provider, 2007-2010

Business Driver Position	2007	2008	2009	2010
1	PQ	PC	CS	PQ
2	PC	CS	SAM	CS
3	SAM	BP	PQ	PC
4	MC	PQ	BP	BP
5	CS	SAM	MC	MC
6	BP	MC	PC	SAM

Source: Metrinomics, Strategic Insight

PQ = Product Quality
BP = Brand Preference
PC = Pricing & Cost
SAM = Sales & Account Mgmt
MC = Mrktng & Communctions
CS = Client Service

The dominant business model is shifting from branding and broad economies of scale back to basics. With very few exceptions product alone does not suffice, though product quality is seen in the success of Blackrock or Carmignac. Notably, however, Blackrock has been a top-selling fund firm (see below) due to its range of product offerings, broad support, and customized/local information delivery as well its global brand strength.

As client service rose in importance, firms such as JP Morgan, Schroders and – under the radar, Templeton – moved to the top of the bestseller lists, alongside boutiques with specific appeal to distributors, such as Pictet, Carmignac, and Bluebay. Fund buyers and investors are changing their asset allocation models and preferences to differentiate themselves, while focusing more on transparency and due diligence.

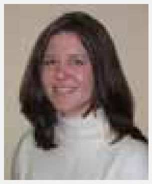
Selected Top Firms in Flows, Annually

2006	2007	2008	2009
BlackRock	BlackRock	BlackRock	BlackRock
UBS	Schroders	Carmignac	Carmignac
JP Morgan	Pictet	Bluebay	JP Morgan

**Money market funds excluded*
Source: Strategic Insight Simfund GL, Metrinomics

International Funds: 1H 2010 Update

Adam Feldstein
(212) 217 6935
afeldstein
@sionline.com



Susan Belle
(212) 217 6948
susan
@sionline.com

US-Based International/Global Equity Mutual Funds $ Billion

Structure/Type	Assets $B 6/10	Net Flows, $B 2008	2009	Q1'10	Q2'10
Open-end Active	**1,192**	**-69.8**	**33.7**	**22.7**	**3.9**
Open-end Indexed	86	12.5	9.7	4.9	2.9
ETFs*	257	27.6	53.6	1.0	18.0
Closed-End	32	0.1	0.0	0.4	0.0
VA Funds**	172	4.0	7.0	1.7	2.0
Total	**1,739**	**-25.2**	**104.0**	**30.7**	**26.7**

*Source: Strategic Insight Simfund MF / VA. *ETFs include UIT and open-end ETFs; Int'l Equity includes Gold.*

Flows into US-domiciled International / Global equity funds continued to be strong through Q1, but slowed down in Q2 due to Euro and global stock market uncertainties US equity funds, meanwhile, experienced essentially no flows in Q2 (following Q1's improvements), as a collapse in stock prices combined with ambivalence about the sustainability of the economic recovery.

Euro depreciation helped US equity funds outperform international/global equity funds by more than 3% in 1H, reversing some historical patterns.

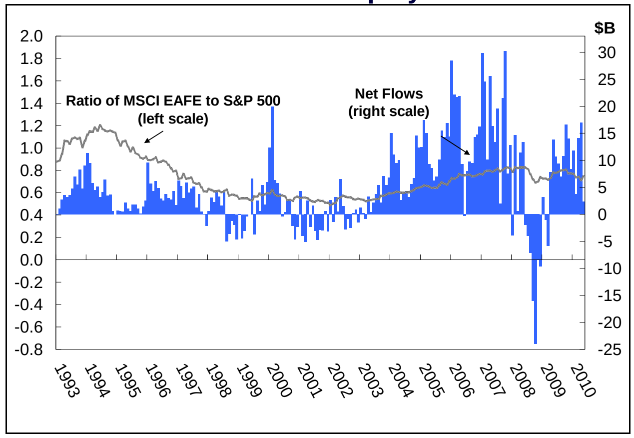
Int'l Equity , US Equity, and World Bond Funds Annual Average Total Returns (Asset-Weighted)

	2005	2006	2007	2008	2009	1H10
U.S. Equity*	7.96	14.10	7.15	-37.91	31.44	-5.79
Int'l/Glbl Equity	16.21	24.33	16.51	-41.92	40.43	-8.75
World Bond^	-2.09	6.63	8.95	0.23	13.68	1.37

*Source: Strategic Insight Simfund MF; * Exc. Balanced/Hybrid, Int'l Equity includes Gold; ^ Morningstar category.*

The relative performance of the EAFE vs. the S&P 500, and the recovery of inflows this year (albeit at a reduced pace in Q2) are 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 1H'10, with more than double the net inflows of the next closest style (see below). Some of those flows, as always, may have reflected performance-chasing. But flows to international/global equity funds in general 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 renewed weakening dollar.

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

	Net Flows $B 2Q10	1H10	Assets $B 6/10
Emerging Markets	3.41	**8.26**	133.5
Intl Multi-Cap Value	2.59	**3.84**	37.7
Intl Multi-Cap Growth	1.44	**2.80**	37.6
Intl Multi-Cap Core	-0.02	**1.58**	45.0
Gold Oriented	1.22	**1.43**	25.1
Intl Large-Cap Growth	-2.08	**1.19**	191.8
Pacific Region	0.34	**0.62**	3.2
Pacific Ex Japan	0.28	**0.50**	18.2
Intl Large-Cap Core	-1.29	**0.46**	128.6
Global Funds	0.00	**0.35**	8.0

Source: Strategic Insight Simfund MF; Excludes index funds and ETFs, as well as VA funds.

ETF Update: Growth Diversifies Further

Loren Fox
(212) 944 4460
lfox@sionline.com

Exchange-Traded Funds in the US drew net new flows of $39 billion in the first half of 2010, slightly ahead of the $35 billion in net inflows they gathered in 2009's first half. **At the end of June 2010, US ETF assets (including ETNs) were $785.4 billion** in 976 products.

ETFs By Investment Type

	Assets $B 06/10	Net Flows $B 2008	2009	1H 2010	# of Funds 06/10
US Equity					
Diversified	285.2	87.4	-14.1	-2.2	251
Sector	90.8	33.1	16.4	3.0	228
Subtotal US Equity	**376.0**	**120.5**	**2.4**	**0.8**	**479**
Int'l/Global Equity					
Divsfd Emerg Mkts	65.3	9.3	17.0	6.9	32
Diversified	50.8	9.1	0.7	3.6	58
Single Country	50.4	-0.4	12.2	-0.1	79
Regional	13.9	-0.8	3.0	-0.8	32
Sector	10.0	2.4	4.1	-0.3	74
Subtotal Int'l/ Global Equity	**190.5**	**19.6**	**37.1**	**9.2**	**275**
Bond					
Taxable Bond	122.2	20.8	42.8	20.3	89
Muni Bond	7.0	1.7	3.6	1.0	27
Subtotal Bond	**129.3**	**22.5**	**46.4**	**21.3**	**116**
Specialized					
Commodity	83.5	13.0	27.9	9.1	71
Currency	6.1	0.4	4.0	-1.5	35
Subttl Specialized	**89.6**	**13.4**	**31.8**	**7.6**	**106**
Total	**785.4**	**176.0**	**117.7**	**39.0**	**976**

Source: Strategic Insight Simfund MF

The inflows into ETFs in 1H 2010 followed three straight years of $100B+ in inflows, as they have consistently drawn capital from individuals, advisors and institutions through varying market conditions. Similar to the traditional mutual fund market, the ETF market's inflows this year have been led by bond products: fixed income ETFs drew $21.3 billion in the first six months, close to the $22.5 billion they drew in all of 2008. Commodity ETFs drew $9 billion in inflows in 1H, but those figures were driven by gold ETFs, while other commodity ETFs in aggregate saw net outflows.

Although commodity products didn't provide the flow boost that they did last year, 2010's fixed income-led growth demonstrates the increasing diversity of the ETF marketplace. ETFs were essentially vehicles for US equity exposure until five years ago, yet bond ETFs have accounted for 55% of net inflows this year, and as of June, bond ETFs represented 16.5% of ETF assets, up from 14% a year earlier.

Most Popular ETFs in 1H 2010

The table below lists the highest cash-flow ETFs of 2010's first six months. Besides containing one emerging markets ETF, **the list was defensive-oriented**: the safe haven of gold was the top attraction and seven of the top 10 were fixed-income products, as ETF buyers mirrored the cautious activities of fund shareholders at large.

Highest Cash Flow ETFs in 1st Half 2010

Fund Name	Assets $B 06/10	1H 2010 Net Flows $B	Rate*
SPDR Gold Shares	52.8	**7.7**	19%
Vanguard Emrg Mkts Stock Index	24.7	**6.8**	35%
iShares Barclays Shrt Trsy Bond	4.2	**2.4**	138%
iShares Barclays 1-3yr Trsy Bd	9.5	**1.7**	22%
UltraSh 20+ US Trsy ProShares	4.5	**1.6**	35%
iShares Barclays 1-3yr Crd Bd	6.5	**1.5**	32%
Vanguard Total Bond Mkt Index	8.0	**1.4**	23%
iShares Barclays TIPS Bond	20.5	**1.4**	7%
Vanguard Short Bond Index	5.2	**1.4**	37%
Vanguard Dividend Apprec Index	2.9	**1.2**	61%

**1H 2010 Net Flows as a % of 12/09 assets.*
Source: Strategic Insight Simfund MF

The popularity of fixed income is a big reason why eight of the top 10 were either iShares (BlackRock) or Vanguard ETFs: those two firms, as well as State Street Global Advisors (sponsor of SPDR ETFs) have the most fixed income ETFs, as well as the largest and most established. They're also the three largest US ETF managers by a fair margin.

Excluding offerings from the Big Three, other ETFs that drew large inflows in 1H'10 included Van Eck Market Vectors Gold Miners ETF ($1B of inflows), PIMCO Enhanced Short Maturity Strategy ETF ($0.6B), Direxion Daily Financial Bull 3X ETF ($0.6B), UltraShort S&P 500 ProShares ($0.5B) and PowerShares DB Commodity Index Tracking Fund ($0.5B).

Leveraged/Inverse ETFs

Leveraged and inverse ETFs (and ETNs) continued to draw inflows in the first half of 2010 – beyond the UltraShort 20+ US Treasury ProShares that landed in the preceding Top 10 list. **These products drew $4.8 billion in flows, ending June with $32 billion in assets**.

Leveraged/Inverse ETFs 1H 2010

	June'10 Assets $B	1H 2010 Net Inflows $B	June'10 Fund Count
Leveraged	10.6	0.3	70
Inverse	21.4	4.5	88
Total Leveraged/Inverse	**32**	**4.8**	**158**

Source: Strategic Insight Simfund MF

Leveraged/inverse ETFs have drawn positive inflows in five of the past six quarters; the exception was the third quarter of last year, following FINRA's late June '09 warning about the suitability of investing long-term in leveraged/inverse ETFs and the subsequent sales restrictions on these products set up by a few national broker-dealers. Thus, leveraged/inverse ETF activity may have shifted further to institutional and trader use.

New ETF Launches 1H 2010

The first half saw **107 new ETFs launch, drawing an aggregate $2.1 billion in inflows**. By contrast, in 2009's first half 46 new ETFs launched, raising $1 billion.

Top New ETFs H1 2010, By Flows

Product	Category	Net New Flows $MM 1H 2010
ETFS Physical Platinum	Precious Metals	**487**
ETFS Physical Palladium	Precious Metals	**361**
Schwab Emerging Mkts Equity	Emerg Mkt Equity	**103**
PowerShares CEF Inc Comp	Income & Growth	**101**
UltraPro QQQ ProShares	Aggress Growth	**70**
Global X Silver Miners ETF	Eq Precious Mtls	**52**
Schwab Intl Small Cap Equity	Int'l Small Cap	**47**
iShares MSCI Poland Invst Mkt	Single Cntry Eqty	**47**
CreditSuisse Cush30 MLP ETN	Income & Growth	**45**
Direxion Daily SemiCnd Bull 3X	Technology	**38**

Source: Strategic Insight Simfund MF

London's ETF Securities, a large player in Europe, made the biggest splash with products aimed at physical exposure to platinum and palladium. Among other notables, Schwab continued to build out its ETF family, launched in 2009; and Invesco PowerShares produced the first ETF tracking an index of closed-end funds.

Actively Managed ETFs

More firms filed for exemptive relief to enter the "active" ETF space. These included Dreyfus and Huntington Asset Advisers (proposing to roll an existing mutual fund into an active ETF) in June, and AllianceBernstein, Nuveen and ALPS in July. As the table shows, though, only a few active ETFs have drawn robust inflows. Total active-ETF assets were just $2.1 billion at mid-year.

Top Actively Managed ETFs, By 1H'10 Flows

	Inflows 1H 2010 $MM	AUM $MM 06/10	Start Year
PIMCO Enhncd ShrtMtr Stgy ETF	**603**	649	2009
WisdomTree Dryfs Ch Yuan ETF	**301**	713	2008
WisdomTree Dryfs EmCurrcy ETF	**101**	312	2009
iShares Dvrsfd Alternatives Trust	**50**	65	2009
PIMCO Intrmd MuniBd Strgy ETF	**30**	44	2009
PIMCO ShrtTrm Muni Bond Strgy	**18**	18	2010
PowerShares Active AlphaQ	**17**	20	2008
RP Focused Large Cap Growth	**4**	6	2009
WisdomTree Dryfs InRupee ETF	**3**	28	2008
One Fund ETF	**3**	3	2010

Source: Strategic Insight Simfund MF

Biggest ETF Managers

The US ETF market remains concentrated: BlackRock, State Street and Vanguard together control 83% of the assets. The Top 10 ETF managers run 96% of the assets.

Top 10 ETF Managers as of June 2010

Manager	Assets June'10 $B	Market Share June'10	Net Inflows 1H 2010 $B
BlackRock	**362.9**	46.2%	11.9
State Street Global	**185.1**	23.6%	-0.5
Vanguard	**102.8**	13.1%	16.4
InvescoPowerShares	**32.1**	4.1%	0.9
ProFunds	**25.4**	3.2%	3.4
Van Eck	**14.5**	1.9%	1.9
DB Commodity Svcs	**9.6**	1.2%	-2.0
Bank of New York	**8.6**	1.1%	0.4
Barclays Capital	**6.7**	0.9%	0.6
WisdomTree Asset	**6.2**	0.8%	0.2

Source: Strategic Insight Simfund MF

However, the top-10 rankings have shifted since a year ago: ProFunds slipped to 5th and PowerShares rose to 4th; Barclays Capital rose to 9th from 13th; WisdomTree rose to 10th from 12th; and Direxion/Rafferty slipped to 11th from 10th.

The Evolution of Packaged Asset Allocation Funds

Sonia Mata
(212) 217 6947
sonia@sionline.com

Asset allocation has become a vital part of the financial services industry in the US as it has transitioned away from selling individual "hot" stocks and highly rated funds, and towards diversified portfolios and dynamic rebalancing as a healthier and more prudent foundation for financial advisors and investors. The trend has been fueled by the compliance and fiduciary liability concerns of financial services companies, as well as these firms' efforts to better manage investor expectations and improve asset retention. Another important contributing factor has been adjustments made on the legislative and regulatory fronts.

Assets in prepackaged mutual funds-of-funds, for instance, are up from just about $60 billion at the end of 2001 and about $250 billion at the end of 2005, to more than half a trillion dollars at the end of June 2010. Roughly 80% of the fund-of-fund assets at the end of June resided in target-date or target-risk programs.

Long-Term Funds: A Summary

Fund Category	Assets $T 6/10	Net Flows $B 2007	2008	2009	1H'10
US Equity	3.3	8.5	-33.9	2.3	14.7
Int'l/Global Equity	1.3	192.5	-50.0	63.2	30.4
Hybrid/Allocation	0.5	36.3	-15.0	6.9	12.7
US	*0.3*	*1.4*	*-26.5*	*-7.1*	*0.3*
Global	*0.2*	*34.9*	*11.5*	*14.0*	*12.4*
Bond	2.5	114.8	44.8	396.2	159.4
Total Long-Term	**7.5**	**352.2**	**-54.2**	**468.7**	**217.2**
Memo					
Funds-of-Funds	***0.5***	***93.0***	***41.6***	***44.4***	***40.4***

Source: Strategic Insight Simfund MF. Data excludes VAs

Target-Date, Target-Risk

In recent years, policy makers sought to tackle retirement security issues by encouraging increases in DC plan participation and more age-appropriate or diversified asset allocations through automatic enrollment and diversified defaults. A growing body of behavioral finance research highlighting the role of investor inertia and "choice overload" in the under-diversification of DC plan accounts, and expanding acceptance of the simplified and automated approaches it suggested for less engaged participants had already begun placing the focus on Target-Date Funds, including as defaults. Following the 2006 Pension Protection Act, Target-Date Fund (TDF) adoption within DC plans simply accelerated.

Although the severe damage many portfolios suffered during the 2007-09 crisis led some to question the theoretical underpinnings of "traditional" asset allocation and also prompted a reassessment of TDF methodologies, glide paths, and nomenclature, TDFs saw net inflows persist even during that time of extreme market turmoil. While TDF flows weakened in the third and fourth quarters of 2008, the category as a whole did not experience net outflows in any single month over that period, and flow levels quickly recovered and have been remarkably steady since. Steady dollar cost-averaging investments by DC plan participants engaging in one-stop shopping, and the long-term investment horizon of retirement investors in general (DC/IRA accounts represented 88% of TDF assets at the end of 2009) have translated into relative flow stability. TDF assets had crossed the $265 billion mark by the end of June 2010, up from $180 billion at the end of 2007 and just $70 billion at the end of 2005.

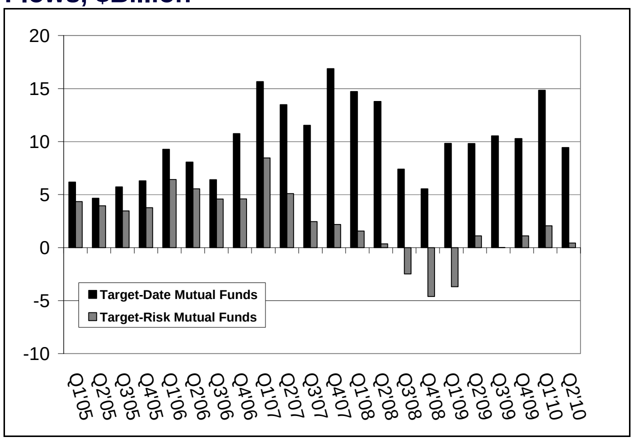
Some TDF design questions discussed: should the funds be constructed to primarily help the investor save up *to* the retirement date or help investors save *through* retirement; what should the equity allocations be for the near-term vs. distant dates, and what should be the pace of their modification; what should allocations be at and after the retirement date; what are the appropriate asset classes and sub-asset classes to be incorporated at various stages of the "roll down"; and whether tactical adjustments should be permitted.

Meanwhile the ongoing process of fine-tuning of existing TDF glide paths continues (including through inclusion of additional asset or sub-asset classes, such as TIPs, commodities, global bond, or incorporating absolute return approaches) as does fund companies' focus on communicating their products' strategies.

For target-risk funds, a declining role within DC plans because of the additional active decision making such funds require on the part of participants—determining their own risk profiles and moving from one target-risk fund to another when that profile changes—has meant a diminishing asset share from that area, and correspondingly lesser asset stability. (DC plans account for just about a quarter of target-risk fund assets, down from 27% in 2004; IRAs hold another fifth of assets.) Target-Risk funds experienced flow deterioration starting in the latter half of 2007, and saw their net new intake dip into negative territory in 2H08 as the crisis deepened, with outflows persisting in Q1'09. From Q2'09 onwards the net outflows stemmed but inflows have remained subdued.

Target-risk fund assets totaled $180 billion at the end of June'10; about four-fifth of these assets reside in a fund-of-fund structure. (In the case of TDFs, virtually all assets are housed within some kind of a FoF structure.)

Target-Date and Target-Risk Funds*: Quarterly Flows, $Billion



** Excludes VAs and 529 plan portfolios*
Source: Strategic Insight Simfund MF

Fund-of-Fund Packaging Beyond Lifecycle Programs

As mentioned earlier, nearly 80% of the $520 billion in assets held in pre-packaged funds-of-funds is in target-date and target-risk fund series—the remainder is other types of specialized strategies generally offered through a single fund-of-funds that is not part of a series. While the non-lifecycle fund-of-fund area includes all kinds of variations on single-asset-class and multi-asset class flexible and strategic allocation, some of the distinct roles the products try to play in an investor's portfolio are: tactical, global asset allocation, unconstrained by style boxes, where the PM acts more like an overall portfolio manager than just the manager of an individual mutual fund; products that can serve as the international equity or fixed income sleeve within a portfolio, providing one-stop diversification and rebalancing for that asset class; "one ticket" investing in three or four of the manager's top equity/hybrid/bond funds (as from Franklin Templeton and The Hartford, for example); funds allocating to various alternative strategy funds and serving as a one-stop "satellite"; retirement income-focused strategies; long/short investing; sector rotation funds, etc.

Aggregate flows into the residual "non-lifecycle" category of funds-of-funds have recovered strongly from the dip they experienced in 2008 (see following table), and have been buoyant this year. The inflows even rose month-to-month in both May and June in the face of renewed global market anxieties, and in the latter month actually outdrew target-date funds-of-funds (the last time that happened was in September 2005, around the time target-date FoFs experienced a pickup in pace, which accelerated post-PPA.) All told, the non-lifecycle FoF area has seen nearly $16 billion in net flows in the first half.

Non-Lifecycle Funds-of-Funds
Excluding VAs and 529 Plan Portfolios

	Assets $B	Net New Flows $B			
	6/10	2007	2008	2009	1H'10
Intl/Global Equity	**73.1**	**11.4**	**1.1**	**4.7**	**11.8**
Global Asset Alloc	*49.7*	*7.3*	*-0.3*	*0.8*	*4.1*
Other Intl/Glb Eqty	*23.4*	*4.1*	*1.5*	*3.9*	*7.6*
US Equity/Hybrid	**34.9**	**4.0**	**1.3**	**0.7**	**2.1**
Bond / Currency	**11.0**	**1.7**	**0.1**	**1.7**	**1.8**
Total above	**119.0**	**17.1**	**2.5**	**7.1**	**15.6**

Source: Strategic Insight Simfund MF

About half of the flows into non-lifecycle FoFs this year have gone into wrap-dedicated single asset-class FoFs from Fidelity using affiliated and unaffiliated underlying funds, and serving as sleeves for use within the manager's advisory accounts.

More than two-thirds of the overall 1H flows into non-lifecycle FoFs have gone into international/global equity/hybrid programs of various types (including $4 billion into global asset allocation funds), driven by continued investor/advisor desire for international diversification.

Highest Cash Flow Non-Lifecycle Funds-of-Funds*

Portfolio Name	Start Year	Assets $B 6/10	Net Flows $MM 2009	1H'10
PIMCO All Asset All Authority	2003	5.3	1,448	**1,871**
PIMCO All Asset	2002	16.0	-724	**1,340**
PIMCO Global Multi Asset	2008	2.2	1,365	**590**
GMO Alpha Only	1994	1.8	-338	**343**
Stadion Managed Port Trust	2003	0.6	197	**320**
GMO Strategic Opport Alloc	2005	1.8	226	**317**
GMO Crncy Hedgd Intl Eqty	1995	0.3	0	**303**
Virtus AlphaSector Rotation	2003	0.4	69	**276**
BlackRock Strategic Inc Opp	2008	0.3	7	**256**
MFS Intl Diversification	2004	2.0	11	**244**

* Excludes wrap-dedicated funds
Source: Strategic Insight Simfund MF

Global Asset Allocation: Tactical Funds Drive Flows

Global Asset Allocation has been an increasingly popular theme, accessed through funds-of-funds as mentioned above but even more so through standalone funds investing for the most part directly in securities or derivatives (see table below.)

Global Asset Allocation Funds

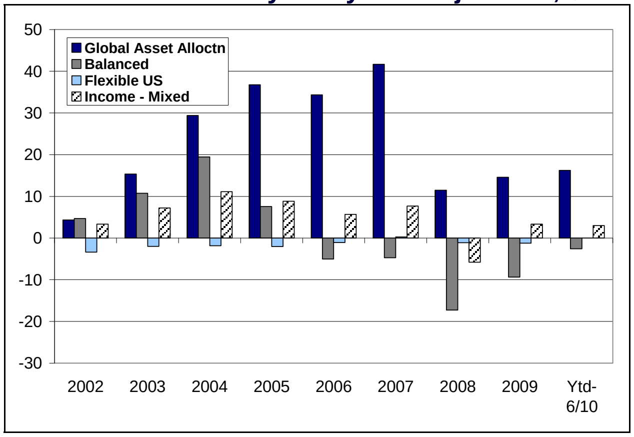
Structure	Assets $B 6/10	Net Flows $B 2006	2007	2008	2009	1H'10
Standalone Fd	207.1	26.1	34.4	11.8	13.8	12.1
FoFs	49.7	8.3	7.3	-0.3	0.8	4.1

Source: Strategic Insight Simfund MF

The SI **Global Asset Allocation** objective, which includes both tactical and strategic global hybrid approaches, has since 2008 seen flows dominated by the tactical variety of funds. Tactical global asset allocation funds have flexible mandates to invest in a wide range of asset classes globally (including commodities, currencies, and cash), in their attempt to participate in bull markets, while providing downside protection in bear markets. Several of these tactical funds make extensive use of derivatives either to obtain exposure to certain asset classes or to hedge market exposure or both.

Because of their broad mandates, global asset allocation funds typically follow a top-down investment strategy based on macro-economic and sector research, with varying degrees of active, bottom-up security selection. The attractive performance of many of these funds during the 2000-02 bear market drew the attention of investors, and the category drew large flows over 2003-07 helped by use as a conservative way to participate in the then-underway multi-year international-stock outperformance of US stocks. The appeal of Global Asset Allocation funds has also been significant following the recent financial crisis, as several such funds outperformed the market in 2008, and caught the attention of investors and advisors gravitating towards "absolute return" themes. Some of the top cash flow funds in recent periods have seen performance declining of late though, pointing to the implementation challenges over a full market cycle.

Flows into Non-Lifecycle Hybrid Objectives, $B

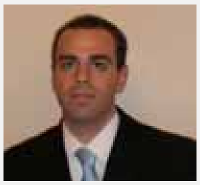


Source: Strategic Insight Simfund MF

Traditional Balanced Funds

Traditional (single) balanced funds, which have some variation of a fairly stable 60:40 stock and bond mix, and typically limit their non-US equity allocation to about 20%, have experienced aggregate net outflows in recent years. Although Balanced funds gathered about $50 billion in net flows over 2001-05 helped by investors' perception of comfort in them during and coming out of the 2000-02 bear market, annual aggregate flows turned negative starting in 2006. The outflows have stemmed partly from cannibalization by alternative hybrid solutions mentioned above that developed and came to resonate. In the DC plan area these hybrid products were TDFs, which unlike traditional balanced funds systematically change their allocation mix to become more conservative over time, and target-risk programs, which offer different asset mixes to target different risk profiles. Traditional balanced funds have also had to contend with newer "balanced"-type offerings with more asset classes than just stock and bond, and newer approaches to risk management.

National Broker Dealer Distribution Trends in Q1'10

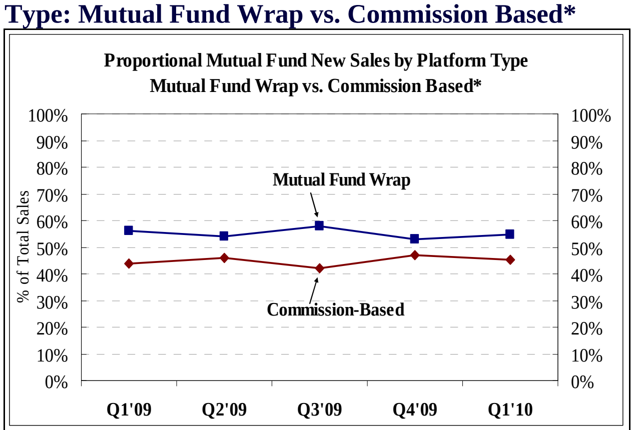


Dennis Bowden
(212) 217-6895
dbowden@sionline.com

The first quarter of 2010 offered a brief glimpse of improved retail investor demand for equity funds, with over $35 billion of net inflows to stock mutual funds (before reversing during the global market uncertainty of May and June). This improvement in sentiment was especially stark in the US equity space, as investors committed a net $8 billion to US equity funds during Q1, following more than $25 billion of net redemptions during 2009. The Q1 shift, though short-lived, did provide an interesting case study of financial advisor (FA) and investor demand trends within National Broker Dealers (NBDs) that may prove informative once equity fund sales begin a sustained recovery.

This article summarizes a few of the important macro-level findings from the Q1'10 version of our continued joint research series with Coates Analytics – *National Broker Dealer Distribution Opportunities*. [For more information regarding subscription options for this quarterly report series, contact Dan Weinerman – dweinerman@sionline.com; 212-217-6897.]

Proportional Mutual Fund New Sales by Platform Type: Mutual Fund Wrap vs. Commission Based*

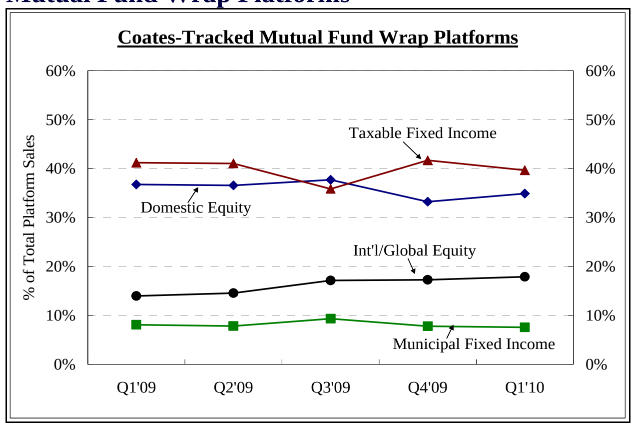


Source: Coates Analytics Distribution Management System / SI Analysis
**Note: Reflective of data from national broker dealer firms with both commission-based and wrap platform data captured in Coates Analytics Distribution Management System.*

Within the NBD space, the changing investor sentiment of Q1'10 resulted not only in improved US equity fund sales but also improved overall sales to mutual fund wrap programs (which traditionally tend to be equity-biased). Sales within Coates-tracked NBD wrap platforms increased 4% during Q1'10 versus their levels in Q4'09, while sales to commission-based platforms contracted by 4% during the quarter.

This increase in wrap sales was driven by an 8% rise in US equity fund sales within these programs (the highest growth rate of any fund type within wraps during the quarter). Interestingly, sales to US equity funds within Coates-tracked commission-based platforms actually fell by 4% during the quarter, as the main driver of sales via these programs continued to be bond funds.

Proportional Mutual Fund New Sales by Fund Type: Mutual Fund Wrap Platforms



Source: Coates Analytics Distribution Management System / SI Analysis

Spurred by this Q1 sales growth, equity funds saw their share of sales within mutual fund wrap programs increase from 51% in Q4'09 to 53% in Q1'10. Meanwhile, bond funds continued to make up more than 60% of new sales within NBD commission-based platforms during Q1'10.

While overall investor demand for equity funds has largely not carried forward into Q2'10, these first quarter results offer valuable insight into the importance of equity-based investments to investor and FA demand within mutual fund wrap programs – as well as the correlation between improved investor equity sentiment and increased overall sales to wrap platforms.

Evolving Equity Demand within Wrap Programs – Shifting Asset Allocation Mindset?

In the context of this equity-based demand within wrap programs, the makeup of such fund sales during Q1'10 reflects several notable potential shifts in longer-term FA and investor asset allocation mindset.

The table below captures the top-10 fastest growing investment styles within Coates-tracked mutual fund wrap platforms during Q1'10, expressed as the change in new sales "market share" when comparing Q1'10 to Q4'09. So, for example, Global Equity grew its share of sales within wraps by 0.8% during Q1'10 – rising from 7.6% of total new sales during Q4'09 to 8.4% in Q1'10.

Top 10 Fastest Growing Investment Styles within Mutual Fund Wrap Platforms by Q4'09 to Q1'10 New Sales Share % Growth

Investment Style	Sales Share % Growth Q4'09 to Q1'10	Share % Q1'10 New Sales
Taxable Strategic Income	**0.9%**	3.5%
Global Equity	**0.8%**	8.4%
Long/Short Equity	**0.5%**	3.0%
Balanced	**0.5%**	2.6%
Global Fixed Income	**0.5%**	7.2%
Mid Cap Value	**0.3%**	1.5%
Mid Cap Growth	**0.3%**	2.2%
Small Cap Core	**0.3%**	1.6%
Mid Cap Core	**0.2%**	2.2%
High Yield Municipal	**0.2%**	0.5%

Source: Coates Analytics Distribution Management System / SI Analysis

Notably, despite the overall increase in sales to US equity funds during Q1'10, none of the three US Large Cap Equity style-box categories scored among the top-10 fastest growers within wraps during the quarter. Rather, the three fastest growing equity styles were made up of two broadly mandated categories – Global Equity and Balanced – as well as an alternative classification – Long/Short Equity.

- This increasing demand for more flexibly mandated Global Equity funds may be reflective of some FAs' desire to "outsource" a larger portion of the global diversification and allocation decisions within clients' portfolios away from multi-fund, home-office models and toward individual asset managers within a single fund structure. [More on this in pages 22-23 of this issue.]
- Similarly, a number of the key funds driving sales to the Balanced investment style represented more broadly mandated strategies, which also embed a certain level of asset allocation decision-making within a single product (such as PIMCO All Asset fund, for example).
- Additionally, the increasing sales to Long/Short Equity funds reflect the growing demand for non-correlated investment strategies within an overall asset allocation framework. In fact, beyond the NBD marketplace, market neutral/long-short funds attracted over $6 billion of net inflows industry-wide during Q1'10 according to SI's Simfund MF database. And not surprisingly, in the volatile Q2, Long/Short Equity continued to see strong inflows – bringing in a total of $10.5 billion for the year-to-date period ended June 30).

Taken in combination, these trends suggest that some FAs and investors within NBD wrap programs may be taking a new fundamental approach to constructing the "core" of their asset allocation portfolios. The more broadly mandated and non-traditional styles of funds benefitting from this demand also suggest that these sales are most likely being driven by open-architecture platform structures – as opposed to home-office model based programs, which tend to utilize combinations of multiple narrowly mandated investment strategies in constructing a portfolio.

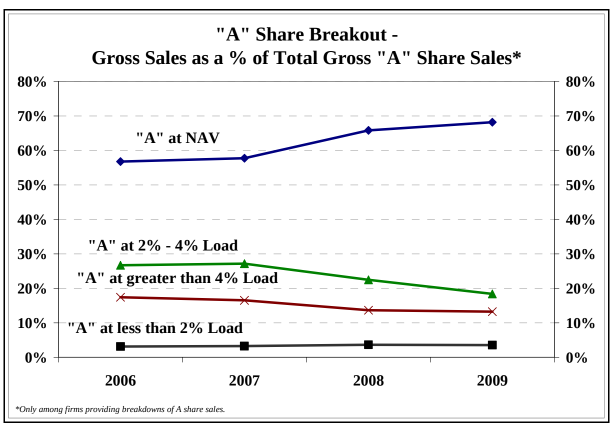
This potential evolution in portfolio construction, in turn, offers fund firms more direct access to investment selection decisions through FAs themselves. And it reinforces the continued importance of quality communication with such advisors, as well as the wholesaling forces behind this interaction.

Perspectives on Class "A" Share Sales

Dennis Bowden
(212) 217-6895
dbowden@sionline.com

Point-of-sale commissions continue to fade from the mutual fund sales process as advisors increasingly sell funds in fee-for-advice arrangements. This was among the key trends analyzed in *The Strategic Insight 2009 Fund Sales Survey: Perspectives on Intermediary Sales by Distribution Channel and Share Class.* The study was based on SI's proprietary survey of 32 fund firms that distribute primarily through financial advisors. Survey participants managed in aggregate $3.3 trillion in U.S. open-end stock and bond fund assets as of the end of 2009, representing roughly half of industry-wide long-term fund assets.

Among long-term mutual funds, sales via class "A" shares – traditionally the primary share class pricing structure through which brokers and financial advisors sell funds – continue to accelerate toward sales done at NAV (without any type of front-end sales load).



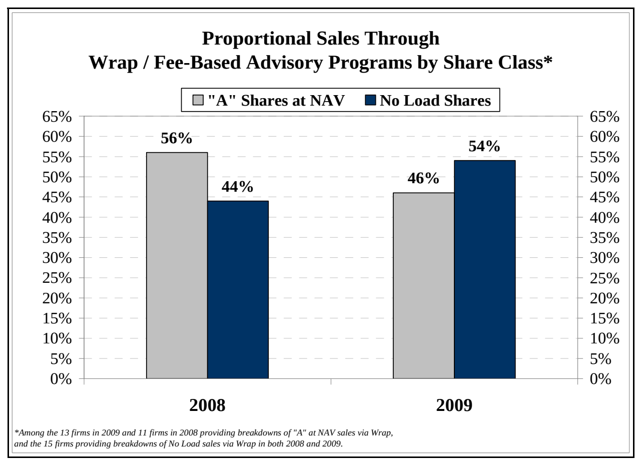
Source: 2009 Strategic Insight Fund Sales Survey

During 2009, 68% of "A" share sales among fund managers primarily selling through FAs were made at NAV, up from 66% of "A" share sales in 2008 and 58% in 2007. At the same time, "A" shares sold at 4% or higher commissions declined to just 13% of total "A" share sales in 2009, down from 14% of total "A" share sales in 2008 and 16% in 2007. Even this low proportion was influenced by a handful of fund managers still relying more significantly on high-commission "A" shares, as evidenced by the median firm in our survey garnering just 8% of total "A" share sales at these high commission levels in 2009.

Key Drivers of "A" Share Sales

While sales at NAV continued to make up an increasingly dominant portion of total "A" share sales, **overall fund sales through "A" shares (both with a front-end load and without) continued to decline during 2009** – accounting for 40% of total mutual fund sales among our survey participants, down from 43% in 2008 and 46% in 2007. On a dollar-for-dollar basis, "A" sales at NAV fell 10% in 2009 from 2008 levels, while commissionable "A" shares (sold with any type of front-end load) contracted by 21% year-over-year.

This decline in "A" share sales was driven particularly by a decrease in sales of "A" shares at NAV within fee-based advisory programs (including mutual fund wrap platforms), as demand continued to increase for lower-priced, no-load share classes within certain programs of this type.



Source: 2009 Strategic Insight Fund Sales Survey

"A" shares at NAV accounted for 46% of total fee-based advisory sales among fund managers primarily selling through financial advisors during 2009, down from 56% of such sales during 2008. Meanwhile, "No Load" shares accounted for 54% of total fee-based advisory sales during 2009, up from 44% in 2008.

While the pricing flexibility of "A" shares continues to meet the needs of a wide range of investors and financial advisors, the share class does face challenges in maintaining its traditional dominance over fund sales. The chief challenges include the continued overarching movement toward the fee-for-advice model, and the coming adaptations to Rule 12b-2.

Money Management Profitability in '09

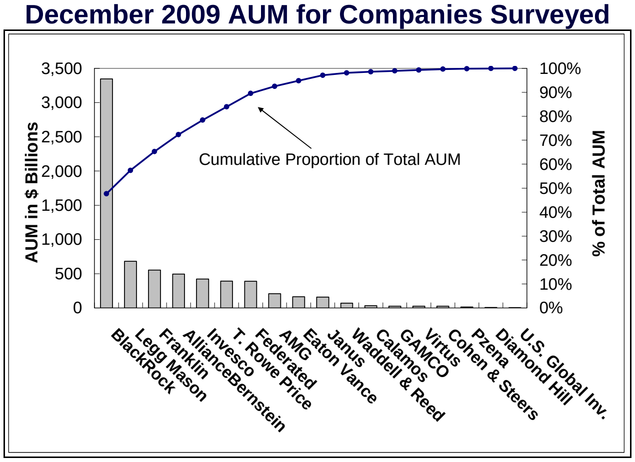
Eric Sprow, CFA
(212) 217-6907
esprow@sionline.com

The 2009 Financial Results of Publicly Held Money Managers

After experiencing brutal declines in 2008 and the first quarter of 2009, the rebound in securities prices and investor sentiment through the remainder of the year greatly expanded mutual fund industry assets and triggered an increase in net inflows, particularly into bond funds. The 18 money managers with publicly held equity surveyed this year by SI *("Public Companies")* saw a 56% increase in year-end assets under management (23% excluding BlackRock's acquisition of BGI), after a drop of 25% in 2008.

Despite the rebound in financial markets, average AUM for the full year remained below 2008 levels, leading to lower fee revenue for every manager in this study. Significant expense reductions were insufficient to offset the greater loss of fee revenue, leading to reduced pre-tax operating margins in 2009 for all 18 companies. The public companies generated profits of $3.0 billion on collective revenue of $24.6 billion and AUM of $7.0 trillion at year-end. Net income was up 47% from $2.0 billion in 2008, but still below 2007's $7.1 billion. [SI clients can access the full 46-page report here.]

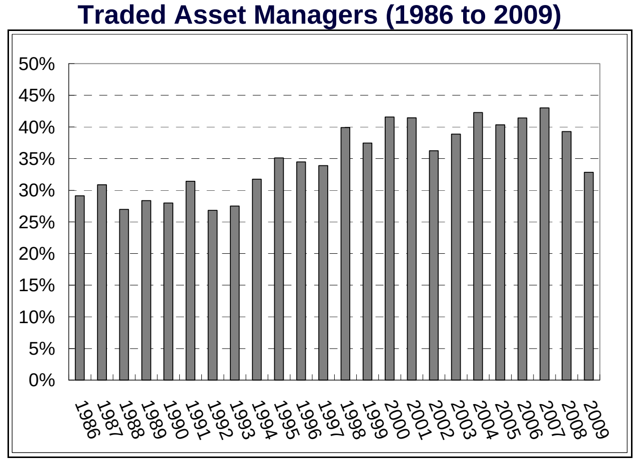
December 2009 AUM for Companies Surveyed



Source: Company Reports, Strategic Insight

As illustrated in the following chart, last year's median pre-tax operating margin of 33% represented a significant decline from the prior-year level of 40%. Last year's decline exceeded that experienced by the industry during any year since SI began conducting this survey in 1986, including the bear markets of the early 1990s and 2000s. Not surprisingly, 2009's profit margins were much lower largely due to the limited extent to which fund firms can manage their expenses in an intellectually-driven industry while attempting to maintain a stronger business for the future. Despite last year's decline, industry operating margins have generally experienced secular improvement over the past two decades, evidence of the leverage inherent in the asset management business model and the power of economies of scale.

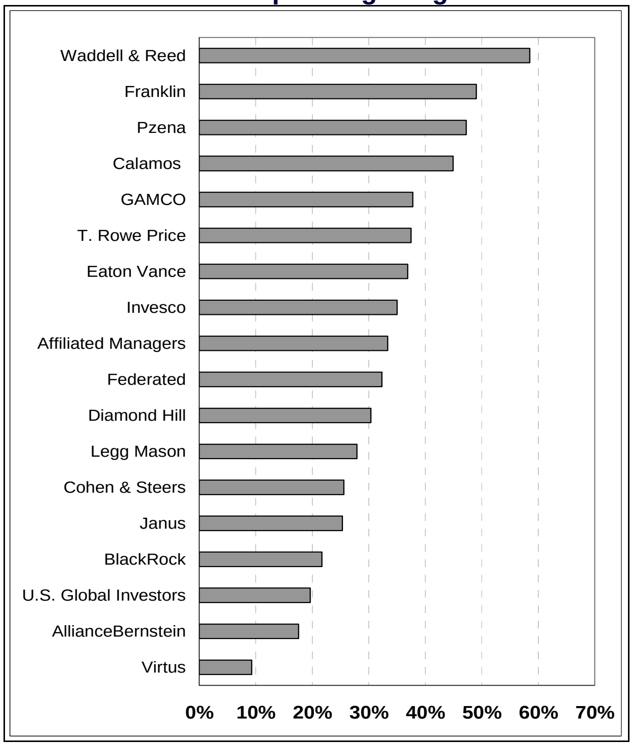
Median Pre-Tax Operating Margins for Publicly Traded Asset Managers (1986 to 2009)



Results for each year include the historical data of Public Managers during that year, based on SI's past surveys; Sources: Company reports, Strategic Insight

All 18 Public Companies experienced lower pre-tax operating margins. The lowest operating profit margin, as calculated by SI, was 9% at Virtus Investment Partners, which became a publicly traded company after its spin-off from The Phoenix Cos. on Dec. 31, 2008. Waddell & Reed, which benefited from strong investment performance and growth in its wholesale advisor distribution channel, posted the highest operating margin (calculated by SI at 59%; SI's WDR calculations atypically account for commission revenues from the company's affiliated BD network). The most significant margin reductions occurred at AllianceBernstein and Cohen & Steers, with margins falling 18 percentage points at both companies. GAMCO fared best, with only a 1% drop in operating margins.

Pre-Tax Operating Margins



Source: Company Reports, Strategic Insight

Public Managers' 2009 Revenues

All 18 of the Public Companies suffered revenue declines last year. As stated, year-end assets under management increased over prior-year levels, but average AUM (on which fee revenues are based) declined for the full year for most companies. In addition, a general shift away from equity funds, which tend to carry higher management fees, into lower-fee bond funds reduced fee revenues during 2009 (as did the increasing share of assets managed passively, for example, at BlackRock). **Overall, average operating revenues declined 19% in 2009, on top of a 10% drop in 2008.**

Public Company Average Operating Revenue Growth Rates

	2005	2006	2007	2008	2009
Operating Revenues	16%	49%	28%	-10%	-19%

Source: Company reports, Strategic Insight

… And Their Expense Trends

Under mounting pressure to keep expenses in check amid the loss of fee revenue, the **group in aggregate managed to lower operating expenses by an average of 8% in 2009, following a 7% reduction in 2008**. **Seven out of the 18 Public Companies were able to lower expenses by more than 10% from 2008 levels**.

Although many companies implemented aggressive expense reduction programs, the cuts failed to keep pace with the drop in revenues.

Public Company Average Operating Expense Growth Rates

	2005	2006	2007	2008	2009
Operating Expenses	13%	45%	25%	-7%	-8%

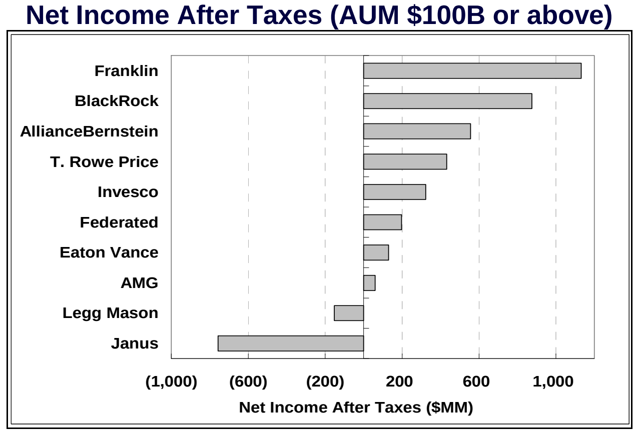
Source: Company reports, Strategic Insight

Public Managers' 2009 Net Income

Net income ranged from a loss of more than $750 million at Janus to more than $1 billion in net income (for the fifth straight year) at Franklin Resources. Janus' net loss was due primarily to goodwill impairment charges recognized during 2009 related to acquisitions, as deterioration in global markets led the firm to downwardly revise its forecast of operating earnings. Excluding Janus' loss, aggregate net income for the group would have been $3.7 billion, as opposed to the $3.0 billion figure inclusive of all firms.

Larger Asset Managers

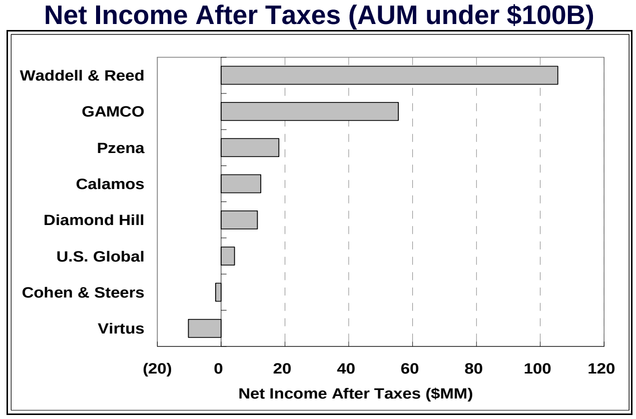
Net Income After Taxes (AUM $100B or above)



Source: Company Reports, Strategic Insight

Smaller Asset Managers

Net Income After Taxes (AUM under $100B)



Source: Company Reports, Strategic Insight

Rule 12b-2: Initial Observations

Avi Nachmany
(212) 944 4451
avi@sionline.com

Our initial thoughts on the SEC's proposed overhaul of 12b-1: In the big picture, Rule 12b-2 is thoughtful and sensitive to many of the concerns of market participants. Fine-tuning is possible.

While the Rule touches many aspects of a fund organization (legal, operations, sales, strategy, board relationships, Broker-Dealer guidance / support, etc.), the overall revenue impact near-term is smaller than at one time feared. For BDs and FAs, fee revenues for assets now on their books won't change until late 2017.

The biggest uncertainty today is not directly due to 12b-2, but rather to the impact on access, delivery and price of financial advice from all new regulations (fiduciary standard, point-of-sales disclosures, Wall Street Reform and Protection Act, 12b-2's allowance of BDs determining their own commission/sales charges). We need to see if these, in total, become transformational for the fund industry.

Rule 12b-2 Fees

- **Compliance Date**: 18 months after Effective Date (SI estimate: roughly Sept. 2012)
- **"Marketing and Service Fees"** capped at 0.25%, no time limits
- **"Ongoing Sales Charges" (OSC)**: as percentage of purchase price, determined / disclosed at point-of-sales, permitted for certain number of months for each purchase tax-lot. Cumulative OSC to match maximum sales load (for example, 5.75%; or 6.25% if no such Reference Load is available); # of months for OSC calculated, disclosed at point-of-sales. (SI: Should the SEC mandate one Reference Load – and thus, one aging clock – for all funds, thereby creating fewer opportunities for conflicts?)
- Level, variability of OSC not mandated; only cumulatively. SI: Variable OSC might trigger, at times, compensation-driven FA activity not to the shareholder's benefit. Should a constant OSC less than or equal to 0.75% be mandated / encouraged? And by whom – the SEC, the BD, or the fund manager?

Timeline

- **Comments to SEC by Nov. 5**
- **Effective Date** we estimate in early '2011; will Final Rule be aligned with other expected BD regulations due early next year?
- **Compliance Date**: 18 months after Effective Date (SI estimate: roughly Sept. 2012)
- **Grandfathered assets: assets previously acquired are Grandfathered for five years after compliance date** (thus through roughly Sept. 2017). After that, all such assets with 12b-1 fees > 0.25% must be converted to a class without OSC, and that share class may charge the 0.25% "Marketing and Service Fees."
- **New sales:** After the Compliance Date, new sales in funds need to adhere to 12b-2

Disclosure

Purchase confirmation disclosures: Marketing and Service Fees %, OSC (annual levels %, duration in months, cumulative % charges up to conversion date, etc.). 12b-2 disclosure is post sale, but pre-sale may be dictated by Wall Street Reform and Protection Act. Multi-class fund prospectus: articulate when each share class is advantageous over another. Intra-fund family switches and tax-lot transfers to another BD: disclose relevant information about past and future OSC (as the aging clock for each tax lot continues to run).

22(d) Exceptions

A fund may create a new share class with no OSC to be sold through BDs. Using such classes, a BD can create its own sales charge grid, and collect commissions or other types of charges. How to: match sales charges to depth of advisory services, construct and disclose cost equivalency of alternative sales-charge approaches, provide quantity discounts to HNW clients, etc.? (Should FINRA illustrate, recommend, mandate such a grid?)

Combined with new Fiduciary Standards, this exemption, also influenced by future point-of-sale disclosures and other regulatory considerations, may dictate **the necessity for BDs to offer their own pricing model (using appropriate active or passive funds).** Yet the complexity, technology and costs of such pricing models may be prohibitive to some BDs.

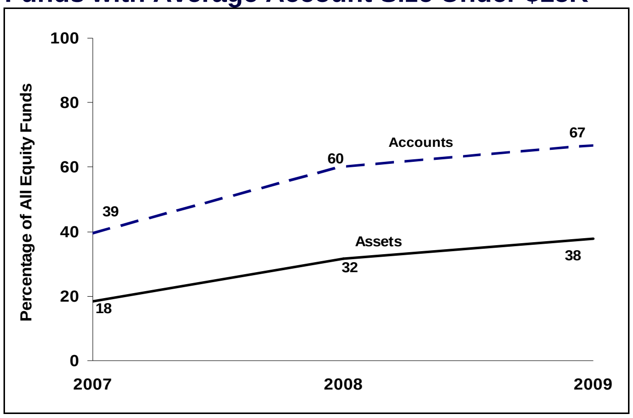
Fees & Expenses: Small Account Fees

Kevin Shine
(212) 217 6941
kshine@sionline.com

Early last year, Strategic Insight published a report exploring the decline in assets under management of stock and bond funds, and this decline's impact on mutual fund fee-related analysis and benchmarking. (SI clients can access that report here.) Due to the severe market downtown during the fourth quarter of 2008, SI estimated that median shareholder stock fund account balances may have fallen to around $5,000 each. Account balances across many asset classes have since benefited from strong performance throughout much of 2009. **Yet many mutual funds continue to have a large proportion of small accounts and their attendant high-administration problems**.

As the table below presents, SI estimates that at fiscal 2009 end, 38% of equity fund assets and 67% of equity fund shareholder accounts are less than $15,000 in size:

Funds with Average Account Size Under $15K



Source: Strategic Insight Research, SI Simfund MF

Beyond poor inflows and periodic sector and fund's NAV declines, some funds continue to have a large proportion of small shareholder accounts for the following reasons, among others:

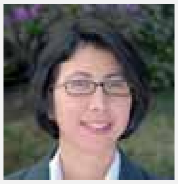
- Narrow sector-based funds (technology, financial services, Latin America, etc.);
- Funds that experienced temporary "hot" performance: these often trigger a single "exploratory" purchase but with no additional subsequent investments;
- Affinity distribution: minimum purchase amounts for affinity groups are generally low, and initial purchases are not followed up too often;
- High dependency on insurance agent sales: these at times accommodate small deposits with no follow-through;
- Funds serving as building blocks for lower-end mutual fund wrap programs (where multiple funds are used to seed a relatively small $25,000-$50,000 wrapped portfolio).

A fund with a high proportion of small accounts ends up being more expensive for its shareholders holding larger accounts. **Transfer agent (TA) fees, which often run at $20-$25 per account, are apportioned based on each account's assets, with larger accounts subsidizing smaller ones because of the "mutualization" of the mutual fund structure.**

Initiatives to reduce the occurrence of an excessive number of small accounts in order to lower TA costs for other shareholders may include "small account fees" compensating for small accounts' high TA costs. Recently, SI reviewed the small account fee policies of the 50 largest long-term fund managers. The following observations should be noted:

- Typically, an accountholder has between 30 – 60 days to reestablish the minimum account balance.
- The median minimum account balance requirement was $1,000.
- Five managers indicated that NAV declines contribute to the account balance minimum thresholds being met.
- Four managers take into consideration investors' aggregate holdings throughout the fund family.
- While a majority of the managers redeem shares and close the account once a balance falls below the account minimum, roughly one quarter of firms charge an annual fee ranging from $9 to $25.

Variable Annuities: Interest in TIPS


Kevin Ng
(212) 217 6922
kng@sionline.com

Tamiko Toland
(212) 217 6949
tamiko@sionline.com

Jeffrey Hutton
(212) 217 6954
jeff@sionline.com

The financial crisis has inspired many changes in the financial services industry, not the least of which is the reassessment of asset allocation and managing market risk. Refinement of asset allocation strategies helps clients smooth their returns, with or without guarantees. Treasury Inflation Protected Securities (TIPS) constitute an area of new interest that has emerged on the radar, leading us to project growing use of this category within VAs.

TIPS (or inflation-linked annuities) have long been a favored product for experts like Boston University Finance Professor Zvi Bodie. Concerns over equity risk have sent many investors leaning more heavily towards fixed income, making rapidly rising inflation a greater potential risk for portfolios. Thus, TIPS ameliorates that risk, yet this class of investments has yet to reach its potential among VA offerings for various reasons.

Why So Few TIPS VA Funds?

Strategic Insight's Simfund VA database track 15 VA underlying funds in Morningstar's Inflation-Protected Bond category. In aggregate these funds manage $23 billion after garnering $3.3 billion of inflows during the past 18 months. This category was the third-largest bond fund category. Most of these funds, nine out of the 15, were started before 2005.

Although the TIPS category may be attractive within VAs, there are relatively few inflation-protected offerings and even fewer "pure" TIPS funds available for variable contracts. For example, the Summit Inflation Protection Plus Portfolio invests 44% of assets in corporate securities. The issue is the so-called "diversification rule" from the IRS that applies to variable funds, mandating that, in order to receive the benefits of tax deferral, the funds within a VA must be adequately diversified. **Funds that do not comply with the rule render the entire contract ineligible for tax deferral.**

One approach suggested as a way to provide VA investors the benefits of TIPS funds: maintaining a higher allocation of TIPS intra-quarter, then reallocating at the end of the quarter to comply with the rules. This would create a fluctuation in holdings where the fund holds a greater amount of TIPS most of the time (80%, for instance), only briefly reallocating to meet the IRS's diversification rule (closer to 50%). The fund would always maintain certain amounts of the other investments.

TIPS within VA Funds

Another concept that could work well for insurers and sub-advisors alike is to simply increase the allocation of TIPS within diversified fixed income offerings. The appeal of investment sleeves within a single portfolio is that it provides the manager with a greater degree of control, a particularly keen point for insurers.

The $3.3 billion of VA TIPS over the past 18 months were the second-most-successful bond fund category over the period, behind intermediate-term bond funds.

Targeting Global Diversification

According to a report from First International Advisors, a division of Wells Capital Management, global inflation-protected securities (IPS) are a ripe and growing area of investing. Though IPS has been the fastest-growing global bond sector, growing four-fold since 1997, it commanded only 4% of the global bond market in 2009. The U.S. is the biggest producer of these securities, followed by the U.K. and France.

Diversification across global locations, which typically is a tactic to increase the number of issuers in domestic TIPS funds, is also a means to reduce volatility of returns. In fact, the report recommends adopting a core-satellite strategy by converting a small portion of single-market IPS holdings to global IPS positions, potentially increasing returns for the portfolio. This also validates the common strategy of using non-U.S. IPS within TIPS funds.

Since IPS tend to rise as interest rates go down (but benefit if rising inflation push rates higher), this sector (whether TIPS or global IPS) provides a compelling story for individual investors as well as insurers that are looking to stabilize returns.

Observations from Our June Conference

Loren Fox
(212) 944 4460
lfox@sionline.com

*On June 28-29, 125+ executives from over 75 investment management organizations gathered in New York for the **2010 Strategic Insight National Conference**. The theme of the 1 1/2-day event was "Evolving Opportunities in Fund Distribution, Product Innovation & Retirement Markets." Panels and presentations covered major topics such as what fund distributors want and where product innovation is headed. This article summarizes just a selection of key observations from the panel discussions.*

The View From Distributors

Our conference featured two panels of key decision-makers from broker-dealers. The independent/regional BD panel, made up of senior executives from Ameriprise Financial Services, MetLife Broker Dealer Group, Janney Montgomery Scott and Cadaret Grant, stressed the fact that their advisors are in many cases small businesspeople who need advice from mutual fund wholesalers on running their businesses (one suggestion was to help train FAs' sales assistants). And all four panelists agreed that fee-based programs were their firms' biggest areas of growth. But, some pointed out, many FAs don't know *how* to add fee-based accounts to their businesses. Panelists said they rely on wholesalers for FA training and education. Also:

- They are more interested in "alternative" '40 Act funds, including long/short and absolute return funds, and adding them to models and platforms. The appeal is downside protection and non-correlation. But, they stressed, fund firms need to educate FAs on how to use alternatives.
- The firms are also more interested in products with advice embedded in them. Thus, they prefer to work with fund firms that can help FAs understand advice-embedded solutions.
- Along the lines of solutions, the panelists have seen an uptick in variable annuity demand because many clients value a sense of security. Investors look for outcome-based solutions, not necessarily a way to beat the S&P 500.

The national broker-dealer panel consisted of senior distribution execs from Merrill Lynch, Morgan Stanley Smith Barney and Wells Fargo Advisors. They agreed that the fee-for-advice model is growing and represents half or more of flows into mutual funds. More than independent/regional BDs, the national BDs have seen growth in rep-as-portfolio manager programs, which represented their #1 or #2 platforms in terms of flows. In the wake of the financial crisis, panelists explained, rep-as-PM has grown as advisors try to keep themselves at the center of the client relationships – and this means there are opportunities for fund wholesalers to influence sales at the FA level. Also:

- Panelists agreed that flows are increasing into "alternative" '40 Act funds, and this is much more than just a fad. They would like to see more flows into non-correlated asset classes, and like the liquidity offered by mutual funds.
- "Style box" funds aren't doing well in commission-based program, where FAs increasingly use products with more flexible mandates. All three panelists also agreed that a notable number of their FAs continue to like closed-end funds (which have shown signs of IPO recovery this year), in both commission-based and advisory programs.
- Even with the growth of rep-as-PM, centralized fund selection units remain important, especially as vehicles for expressing strong convictions. In some programs, greater weight is being put on consistency and other metrics apart from alpha.

Effective Wholesaling

Distribution chiefs and national sales managers from Franklin Templeton, Prudential Investments, Neuberger Berman and RidgeWorth that made up this panel all said that a successful wholesaler must be a good presenter/communicator and must "own" their channels and territories – requiring a good work ethic and superior organizational skills. Other traits mentioned included intellectual curiosity and knowledge of the markets (thus, many have CIMA designations). And:

- Fund firms try to track everything related to wholesaler productivity, often emphasizing cross-selling, market share and product diversity. Some firms track activity, including wholesalers' schedules, while other firms track just the results.

- All four panelists said their firms have certain FAs that they target. Sometimes this involved developing a "focus list" of 150 to 250+ top-producing FAs per wholesaler; sometimes this segmenting involves picking "target" branch offices. They try to maintain a diversity of distribution channels within these lists of targets.
- Panelists said their firms have product specialists and/or portfolio manager proxies that travel with wholesalers.
- Compensation practices vary. All the firms compensate wholesalers on gross sales, but a few are trying to add net sales or redemptions as a factor, or compensate on assets in addition to gross sales.

Non-Traditional Retail Products

The panelists – representing PIMCO, J.P. Morgan and AllianceBernstein – believe that the industry is in a new, post-crisis environment that features greater demand for non-traditional retail products, including non-traditional structures like ETFs and CITs, and non-traditional strategies, such as long/short and commodity exposure. They agreed that more flexible portfolio construction and tactical responses will be increasingly important. Other highlights:

- The "active" vs. "passive" debate is misleading, panelists said, as a mix of active and passive is becoming more prevalent. And as passive investing rises in profile, active is gradually shifting to emphasize more flexibility – giving portfolio managers more room to roam.
- With the advent of actively managed ETFs, the ETF structure should be separated from the active-vs.-passive debate that ETFs have done so much to highlight. The key is figuring out the right strategy and then product structure comes second. Regarding active ETFs, one panelist predicted that daily portfolio disclosure may remain a hurdle.
- Advisors are "outsourcing" or loosening their asset allocation views. This results in more demand for products with tactical asset allocation decisions built-in, or multi-manager lifecycle funds.
- Marketing non-traditional approaches require a lot of effort to educate the marketplace. And while many advisors continue to be risk-averse, a lot of the "alternative" products being introduced are aimed at managing risk.


Marc Brookman


The National Broker-Dealer Panel


SINC Attendees Mingle


2010 SINC Audience

Addressing the IODC Market

This panel included investment-only DC executives from MFS and JPMorgan, and gatekeepers from ING U.S. Retirement Services and Hartford Life. They agreed that the IODC market can be difficult to get one's arms around: for example, both fund firms use a mix of retail and institutional wholesalers in IODC. The gatekeepers noted that, to select funds for their IODC platforms, they first use quant screens and then look at qualitative factors such as understanding of the DC space, investment process and the quality of wholesaling support – and they segment their platforms between larger and smaller plans, with slightly different fund-selection processes for each. Also:

- Both sides said that offering flexibility in share classes and product structures is key: DC plan sponsors need to be able to choose from collective investment trusts (CITs), separate accounts, mutual fund "R" shares, and more. Panelists also agreed that custom target-date funds will see further growth. One panelist said CITs are trickling down-market from mega- and large-size plans.
- Panelists noted that FAs focused on DC plans have different jobs than retail FAs because they have to know about ERISA, recordkeeping, form 5500s and other areas. So IODC wholesalers must know the DC world and be able to discuss it in depth.
- The better value-added programs offered by wholesalers provide genuinely relevant tools for DC-focused advisors. These include leveraging relationships on FAs' behalf, practice management assistance and helping funnel prospects to the FAs.

Strategic Insight

Learn how over 250 investment managers and related companies benefit from their Strategic Insight Partnerships

Database and Web-Based Services

Global Research
Global service used by over 70 of the world's largest asset managers

Simfund GL
Global Database

- Track over 30,000 funds in Europe/Offshore and 20,000 funds in Asia and Australia
- Provide a global perspective on fund flows and trends
- Cover more than 20 key markets throughout the world
- Monthly Flows, Assets, Performance, Ratings, Fees

Asia FlowWatch

Monthly: Highest Selling Funds, Newest Funds, Innovations, Investment Demand by Country and Across Region

US Registered Mutual Funds
Fund research suite used by managers of 90% of the US fund industry's total assets

Simfund MF
Mutual Fund Database

- Used by managers overseeing 85% of industry assets
- Training on demand
- Sub-advisory mapping
- Fee benchmarking
- Monthly cash flows and assets
- Lipper, Morningstar, SI: One Platform

SimfundFiling.com

- SEC: Daily Fund Changes
- New Fund Registrations
- New Prospectus Data Profile
- Customizable email alert
- Instantly connect between Simfund and each fund's SEC Filings
- Weekly and monthly synopsis

Data Feeds

Compliance Assistance

Private Label Simfund

Variable Annuities/VA Funds
VA research suite used by a great majority of industry participants

Simfund VA
Variable Annuity Database

- Monthly assets and net flows
- Comprehensive sub-advisory data and analytics
- Performance and risk data
- Fee benchmarking

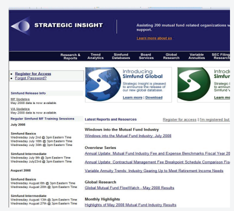
AnnuityInsight.com
Daily and Weekly Synopses of VA innovations

- Daily tracking VA filings with the SEC
- Weekly write-ups of industry trends
- Essential for contract design

Research and Consulting Services

StrategicInsightGlobal.com
For Investment Companies Worldwide

- Monthly flow data on fastest growing funds in Asia and Europe
- Research and consulting on more than 20 countries
- In-depth analysis of Industry Developments
- Opportunities for Marketing and Distribution
- Product Development Ideas and Benchmarking



SIonline.com

- Online Library of On-Going Reports
- Past studies since 1994 archived
- Trends, Product, Distribution, Fees

Fee and Expense Consulting

- Interpreting the Data
- Analytical Integrity
- Hard to Find Historical Data
- Integration with SEC Edgar

Consulting

Industry Trends, Strategy, Marketing and Distribution, On-line Industry Briefings

On Demand Research

Responsive Solutions for your information needs

Board of Director Services

- Prism Review: 15(c) Analytics (Advisory Contract Renewal)
- On Demand Reports

Variable Annuity Consulting

- Library of VA research reports
- On-site industry trend presentations
- Contract feature trends
- Best practice analytics on targeting sub-advisory opportunities

To learn more, visit www.SIonline.com, www.StrategicInsightGlobal.com, www.SimfundFiling.com, www.AnnuityInsight.com
For additional information, contact Rita Leytush, [212 944 4466, rita@sionline.com]