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WINDOWS
Into the
Mutual Fund Industry
February 2011

An Upbeat Perspective

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Improving Stock Funds, Moderating Bond Fund Inflows

In the first six weeks of 2011, equity and hybrid funds enjoyed more than $50 billion of net inflows, a pace not seen since early 2007. Net flows to US funds have been the strongest in seven years.

SI's 2011 Forecast 45-page study (click HERE or visit sionline.com) projects about 20% sales gains for US stock funds**, with Large Cap strategies leading gains in the US and globally. More on pages 17-18.**

Fund Sales Projections for 2011: Open-End, Exc. VAs and ETFs $B

	2009 $B	2010 $B	2011P $B	'11 Share %	YTY % Change
US Equity	650	746	**897**	40%	20%
Int'l Equity	246	329	**422**	19%	28%
Hybrid	115	127	**147**	6%	16%
Taxable Bond	643	724	**673**	30%	-7%
Tax-Free Bond	140	137	**118**	5%	-14%
Total	*1,793*	*2,063*	***2,256***	100%	9%

Source: ICI, SI 2011 projections; P: projected

With lingering economic uncertainty, a focus on bond funds as cash substitutes, as well as on flexible and opportunistic bond funds, should continue in 2011. Slowing bond fund sales in recent months resulted in moderating net inflows to taxable bond funds (led by Floating Rate, High Yield, and global funds), while tax-free bond funds net redemptions slowed lately.

Fund innovations: In 2010, newly introduced stock and bond funds collected $43 billion last year ($9 billion to new ETFs and $34 billion to other new funds). Innovations are detailed in SI's weekly and monthly reports (SimfundFiling.com, SIonline.com). SI will offer a **new quarterly study, Fund Innovation Insight, accompanied with a Webcast.**

SI Developments

- In December, our parent company, Asset International, Asset International, acquired the leading mutual fund data company in Australia: Melbourne's Plan For Life. **This Windows edition provides a short briefing of the $1 trillion fund market in Australia on pages 8-10.**
- **SI will soon offer a Web-based version of Simfund Global.** Our associates in New York, London or Hong Kong will be able to demo the revealing new system as well as assist your team in its global expansion.
- **Simfund MF**, already used in-house by managers of about 85% of 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 advice and perspective. Simfund data integrity is enhanced with **actual flow reports** from numerous managers (nearly $1.5 trillion of assets; such actual flow data added up to over $110 billion during 2010) as well as adjustments to fund's estimated flows when such flows are impacted by non-recurring company actions (e.g., large transfers among share classes, fund mergers, etc.; such adjustments exceeded $300B in 2010, suggesting **large share-class level differences between Simfund and other cash flow sources**. You may also **incorporate ICI Confidential sales and redemption share class level data into your Simfund system.**
- SI's Retirement Income / VA team will soon offer **data books on sub-advisory opportunities**.
- **Our by-subscription, quarterly report** analyzing National BD distribution trends will be out soon.
- **ETFs:** Watch for our new, for-sale report on advisor use of ETFs within wraps.
- **SI Publication schedule:** Click here or visit SIonline.com.
- Save the Date: **On June 27-28, 2011, we expect over 125 senior executives in investment management in New York for SI's "Fund Trends 2011"** conference – to examine trends in distribution and fund innovation. More information, including the working agenda, is available here. Look for an invitation to register soon.

Domestic Funds: 2010 in Review

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Fund Industry Overview
(Excludes ETFs and VA Underlying Funds)

	Net New Flows $B			
	2008	2009	2010	Q4'10
US Equity/Hybrid	-136.3	-27.1	-49.4	-13.3
Int'l Equity	-56.9	41.0	71.7	32.3
Total Equity	***-193.2***	***13.9***	***22.3***	***19.1***
Taxable Bond	17.8	281.1	213.4	19.5
Muni Bond	4.6	69.1	10.5	-19.4
Total Bond	***22.4***	***350.2***	***223.9***	***0.2***
Total Equity & Bond	***-170.8***	***364.1***	***246.2***	***19.2***
Money Market	594.6	-505.9	-509.4	7.7
Total Industry	***423.8***	***-141.8***	***-263.2***	***26.9***

Source: Strategic Insight Simfund MF; Note: Flow figures exclude all funds-of-funds.

In the context of dramatically improving inflows in early 2011, we note that, while overall flows for US equity funds were negative last year, there were many individual successes, though. Some 320 actively managed open-end US equity mutual funds each attracted over $100 million of net inflows in 2010.

International/Global equity fund flows for Q4 2010 remained strong and represented almost half of annual fund flows for that particular market segment. (For more on international funds, see page 11.)

Long-term mutual funds drew $246.2 billion in total inflows for 2010, led by bond funds. While off the record pace that bond fund inflows achieved in 2009, bond funds continued to attract strong inflows, partly in a search for yield and partly due to investors' cautious outlook.. Rising rates (and falling NAVs) in Q4 led to a drop-off in bond-fund demand from the torrential pace of Q2 and Q3. Meanwhile, worries about states' and municipalities' finances spurred outflows from muni bond funds in the fourth quarter – muni funds' first quarterly net outflows since 2006's second quarter.

Led by institutions, investors withdrew a cumulative $509 billion from money market funds in 2010, almost the same amount redeemed for 2009. Very low yields continued to push short-term investors elsewhere, including short-duration bonds funds as well and other investment strategies.

Thanks largely to smaller cap stock funds outperforming large cap ones, active US equity funds' average return of 16.7% bested the S&P 500's 15.1% return for 2010. (For more on small cap vs. large cap, see page 4). Similarly, the MSCI EAFE index's 4.9% return was bested by the average international equity fund's 13% return for 2010.

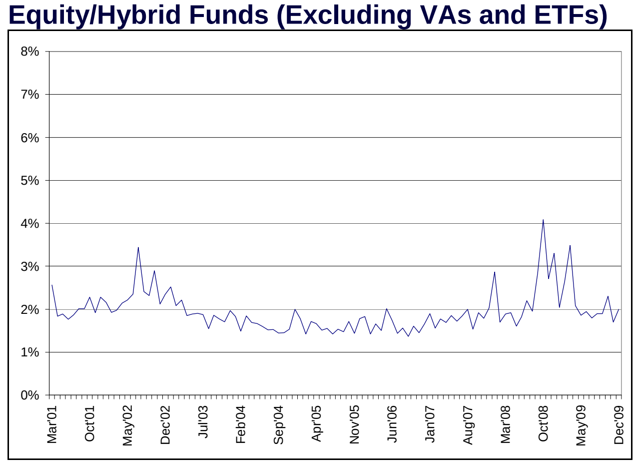
Average Asset-Weighted Annualized Returns %

	2008	2009	2010	Q4'10
US Equity *	-36.9	31.1	16.7	10.8
Int'l Equity	-42.0	40.2	13.0	7.1
Taxable Bond	-6.2	18.2	8.5	0.0
Muni Bond	-10.2	17.8	2.0	-4.4
Money Market	2.31	0.31	0.08	0.02

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

Although the worst of the economic crisis seems to be over, anxieties about economic and employment recovery have not faded. As a result, the pace of new equity fund investments for most of 2010 has been slow. While the sales pace remains moderate, the pace of stock fund redemptions continued at its normalized, pre-crisis pace of around 2%, as the graph below shows.

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



Source: Strategic Insight Simfund TD (ICI Trends)

As we have noted before, and observed in past bear markets, redemption spikes tend to be short-lived.

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

	Net New Flows $B		
	2008	2009	2010
Actively Managed Funds	-234.6	-15.5	-18.4
Index Funds (non-ETF)	41.2	29.0	37.3
ETF Open-End Funds	96.2	57.5	75.4
ETFs structured as UITs / Grantor Trusts / ETNs /Other	56.9	10.0	6.8

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)

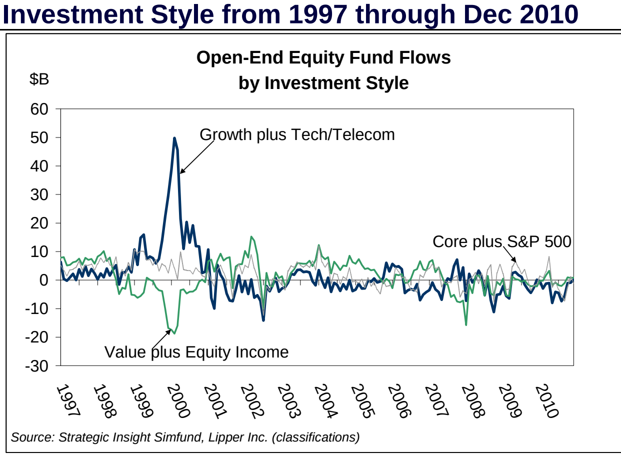
	Net New Flows $B		
	2008	2009	2010
Actively Managed Funds	11.9	322.1	192.5
Index Funds (non-ETF)	10.4	26.1	27.4
ETF Open-End Funds	22.5	46.1	29.6

Source: Strategic Insight Simfund MF

Growth vs. Value

For the full year 2010, core and growth styles ended the year relatively flat in terms of net inflows while value (including equity income) ended with modest outflows. Naturally, **many individual higher-performing value and growth funds continued to attract significant inflows.**

Open-End Domestic Equity Fund Flows by Investment Style from 1997 through Dec 2010



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

Flows and returns among diversified actively managed US equity funds are summarized below.

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

	Flows $B		
	2009	2010	2010 Returns *
Large-Cap Growth	-9.6	-26.6	14.6%
Multi-Cap Growth	-1.2	-2.3	26.3%
Mid-Cap Growth	-4.1	-8.6	19.1%
Small-Cap Growth	1.3	-0.8	27.8%
Growth Funds	***-13.5***	***-38.3***	***18.3%***
Large-Cap Core	-17.0	-31.0	12.6%
Multi-Cap Core	0.5	-1.5	22.7%
Mid-Cap Core	-2.9	-6.1	17.4%
Small-Cap Core	4.0	0.1	25.3%
Core Funds	***-15.4***	***-38.6***	***17.0%***
Large-Cap Value	-11.5	-10.7	13.1%
Multi-Cap Value	2.0	1.2	19.5%
Mid-Cap Value	-3.9	-0.6	15.3%
Small-Cap Value	0.5	1.5	26.4%
Value Funds	***-12.8***	***-8.6***	***15.8%***

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

Funds with Highest Inflows: Some Risk-Return Characteristics

The decision to invest in a particular fund or with a particular fund manager is based on numerous factors, but 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.** Relative total returns remain the chief determinant for fund selection**.**

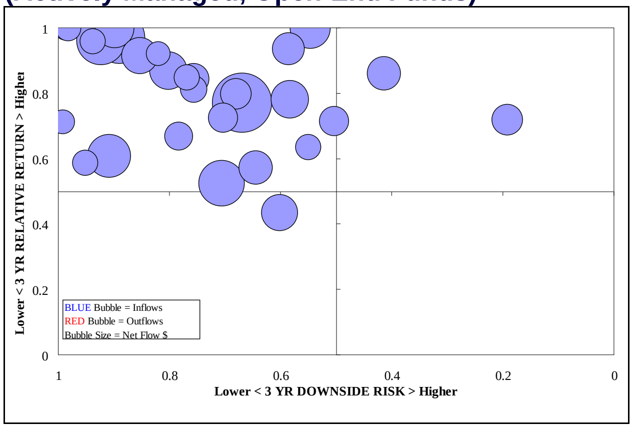
SI's "Bubble" charts, generated in Simfund, plot funds on a relative risk/return basis versus similarly invested peers. Funds in the top-left quadrant have superior positioning relative to peers, displaying below-average risk (defined as cumulative monthly losses over 36 monthly observations) while achieving above-average returns. And **2010** was another period for which the top-left quadrant of graphs housed the highest-inflow funds.

As an illustration of cash flow results for 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 (trailing 3-year risk and return as of year-end 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 2010 net inflows.**

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

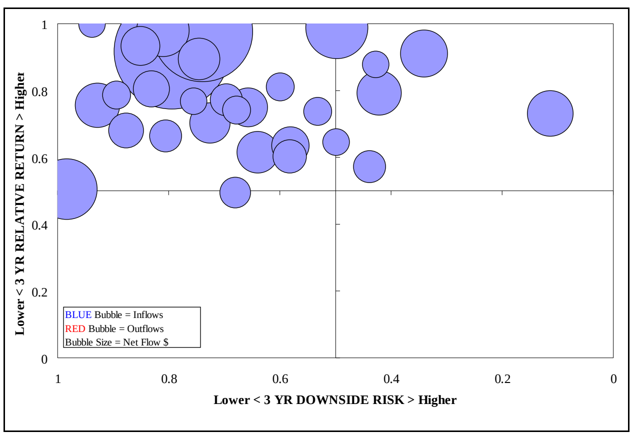
Risk-Return Characteristics of Best Selling Mutual Funds in 2010

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



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

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



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

2010 Flows by Manager

The tables below present the managers making the most cash flow progress in 2010 in active, long-term funds.

All Equity and Bond Actively Managed Funds (excl. VAs): Highest Cash Flow Managers in 2010

	Flows ($B)		2010 Flow	12/10 Assets
Manager	2009	2010	Rate*	$B^
PIMCO	79.9	**62.8**	19%	416.6
JPMorgan Funds	26.2	**20.7**	23%	118.9
Franklin Templeton	18.4	**20.2**	7%	335.9
BlackRock	10.5	**13.9**	10%	164.0
T. Rowe Price	13.2	**12.3**	6%	250.9
Eaton Vance	4.0	**9.8**	11%	99.8
DFA	7.3	**9.2**	9%	128.7
Thornburg	5.1	**9.0**	27%	46.5
Lord Abbett	6.5	**7.7**	15%	64.9
MFS	4.3	**5.3**	7%	85.1
Harbor Capital	4.4	**5.0**	11%	57.2
Matthews Asian Funds	3.3	**4.6**	44%	17.5
Fairholme Capital	1.0	**4.6**	41%	19.2
Metropolitan West	1.6	**4.5**	45%	15.8
First Eagle	0.5	**4.4**	14%	42.1
Intl Value Advisors	2.9	**4.4**	116%	9.3
John Hancock	3.8	**4.3**	8%	63.3
OppenheimerFunds	-3.3	**4.1**	3%	143.6
DoubleLine Capital		**4.0**		4.1
Lazard Asset Mgmt	3.6	**3.9**	29%	20.9

**Flow rate = 2010 flows as a pct. of 12/09 assets; ^Active long-term assets only; Source: Strategic Insight Simfund MF*

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

	Flows ($B)		2010 Flow	12/10 Assets
Manager	2009	2010	Rate*	$B**
Yacktman	1.3	2.9	**139%**	5.4
Intl Value Advisers	2.9	4.4	**116%**	9.3
Absolute Investment Adv	0.9	1.7	**86%**	3.7
PRIMECAP Management	0.4	1.2	**80%**	3.2
Pacific Heights	0.9	3.8	**76%**	10.2
Tortoise Capital Advisors	0.1	1.0	**70%**	3.0
Westchester	0.8	1.6	**69%**	3.9
Osterweis Capital	0.7	1.0	**67%**	2.7
Van Eck	1.3	1.5	**46%**	6.2
MetWest Asset Managemt	1.7	4.5	**45%**	15.7

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

Global Trends: MetaTrends for 2011

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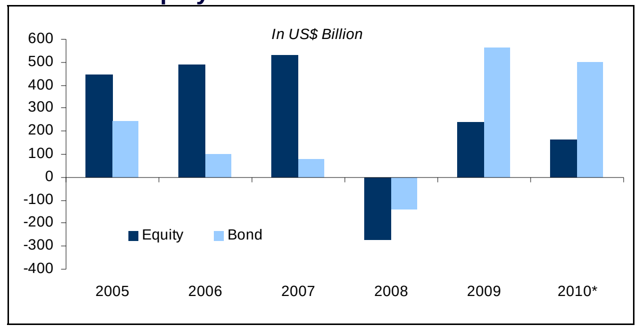
Many of the patterns and issues in the U.S. fund industry can be seen around the world: massive inflows to **bond funds**, **the strengthening role of emerging markets, accelerating product innovation**, and huge sums in money market funds and bank accounts earning at times low yields are part of the context in which money managers in Europe, Asia, and other parts of the globe operate. Thus, the planning considerations are **similar despite the wide differences in local market needs and requirements.**

- Last year, funds outside of the U.S. accounted for 55% of long-term fund flows globally. Worldwide, long-term mutual funds collected nearly $900 billion in net gains during 2010, with close to two-thirds of the total coming from bond funds and one-third from equity/balanced products.
- Since the fourth quarter of 2008 and the global financial crisis, bond and equity funds in aggregate have captured nearly $1.8 trillion in cash net flows worldwide. A good portion of the activity continues to reflect risk aversion and income needs, and a business focus on "back-to-basics."
- Regional and asset class shifts continue in 2011. Over 2005-2007, equity funds accounted for three quarters of long-term fund flows globally, compared to one quarter to fixed-income products. Since 2008, however, fixed-income funds have gathered three quarters of long-term fund flows, and equity fell to one quarter of the total. (See these trends in the following graph.) As in the US, internationally we anticipate moderated yet sustained bond demand around the themes of "safety & income", alongside a cautious return to equity funds in 2011. This should result in a growing proportion of equity fund flows over time.

Worldwide Equity vs. Bond Fund Historical Net Flows

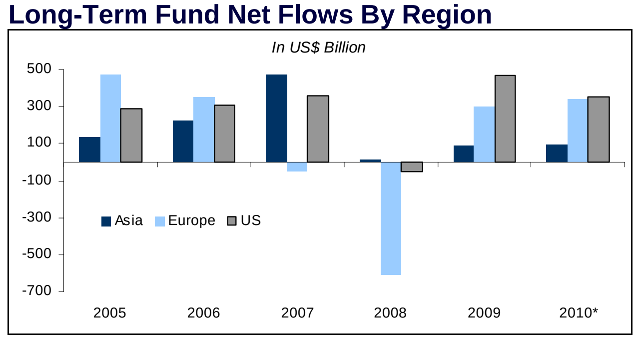


Source: Strategic Insight Simfund MF, Simfund GL

Developed vs. emerging mutual fund markets: In the period from 2005 through 2007, combined flows to local and cross-border funds in Asia jumped to one third of the total worldwide, behind the United States at 38%, but ahead of Europe, with 29% of global long-term net flows. Flows over 2005-07 were thus almost evenly distributed by region, although Asia only accounts for a fraction of the assets managed.

Since the crisis however, **fund inflows in Europe have rebounded to 43% of the global total** (despite its very public debt crisis), as the net intake of Asia fell to 10% (despite its very visible economic growth), due to a combination of lackluster local flows and more-complicated sales procedures for cross-border products in the aftermath of the accumulator and mini-bond scandals. While the mood and economic outlook in Europe is depressed, fund flows have rebounded from the disastrous long-term fund net redemptions in 2008, and **independent asset managers have a continued tactical advantage to gain market share in 2011 in a 'back-to-basics' business environment**.

Long-Term Fund Net Flows By Region



Source: Strategic Insight Simfund MF, Simfund GL

In Asia, on the other hand, the mood and economic outlook is buoyant – Asia net flows stayed marginally positive in 2008 – but **investors and distributors in light of burdensome sales processes and regulatory uncertainty have not gone back to mutual funds in**

numbers similar to 2005 through 2007. For 2010, net flows to local and cross-border Asia funds totaled around $110 billion (an estimated $70 billion to local funds, plus around $40 billion from cross-border vehicles)—far from the stellar 2007 figures, when flows approached $500 billion for the region.

Asia Pacific and other emerging markets face short-term challenges, including onshore/cross-border flow trends, multiple languages, distribution channels, scalability, regulatory changes, target markets, headquarter centricity, and, above all, profitability and sustainability of the regional business. However, emerging markets will most likely move from an inchoate to **an increasingly seminal role in the global fund industry in the coming five to ten years**. Large cash reserves, a quickly rising high-net-worth population and an exploding global middle class of investors point towards Asia for secular growth, both from investment management and distribution standpoints.

In line with these developments, **international money managers are increasingly moving from West-to-East** and are leading the league tables both in Asia and Europe. Among the growth drivers are a focus on "back to basics" and selected themes that support the growing appeal of independent asset managers among distributors who are trying to rebuild trust with investors, restructure their business models and fine-tune selection criteria post-crisis. Importantly, we also note **a strengthening trend of East-to-West**, with Asian specialists registering funds overseas to sell into Europe and the US, and targeting acquisition opportunities and partnerships. A partial list of East-to-West aspirants includes Mirae, Mitsubishi UFJ, Nikko AM, Fullerton, Aberdeen, Nomura, ICICI, Reliance, Bank of China and Macquarie.

Three meta-trends—future asset class/investment category demand, regional flow potential (developed vs. emerging), and concentration of leadership via selected blockbuster products— are part of the conceptual framework for fund managers as they map out brand positioning and growth strategies for the coming years. In recent years, many global distributors emphasized individual funds' investment "themes" as well as mutual fund "simplicity" (vs. other investment vehicles). Yet, many institutions and distributors around the world expect a gradual shift towards "bridge" products: those that forms a bridge from individual funds' "stories" to packaged investment "solutions," or "absolute return themes," albeit with geographical nuances.

Highest Cash Flow, Long-Term Cross-Border Fund Managers, 2010

Manager	Net Flows 2010 in $USB	Assets $USB Dec. 2010
Franklin Templeton	**43**	123
PIMCO	**30**	69
Carmignac	**22**	70
Deutsche DWS	**17**	125
Blackrock	**15**	209
Pictet	**12**	53
Schroders	**11**	83
M&G Investments	**9**	49
Fidelity	**9**	99

Source: Strategic Insight Simfund GL.

Meanwhile concentration of leadership is growing: Out of roughly $850 billion in global net inflows in 2010, $800 billion went to only 350 products, meaning 94% of the net inflows went to roughly 5% of the fund products — marking an acceleration of leadership turnover and concentration of success among fewer managers and products.

Highest Cash Flow, Long-Term Funds Europe/Cross-Border 2010

Fund Name	Launch	Inflows 2010 $USB	Assets Dec.'10 $USB
Templeton Global Bond	Feb-91	**18**	36
Carmignac Patrimoine	Nov-89	**13**	37
PIMCO GIS Total Return Bd	Jan-98	**11**	21
Templeton Global Total Return	Aug-03	**8**	14
Standard Life Inv Glo Abs Ret	Jan-08	**7**	11
Pictet-Emerging Local Curr Debt	Jun-06	**7**	9
AXA IM FIIS US ShrtDur HiYield	Apr-04	**6**	10
Templeton Asian Growth	Jul-91	**5**	17
AllianceBernstein-Global HiYield	Sep-97	**5**	16
Carmignac Securite	Jan-89	**5**	9
Aberdeen Glbl – EmMkts Eqty	Jun-03	**5**	9
PIMCO GIS Global Inv Grd Crdt	Jul-03	**4**	10
Schroder ISF EM Debt Abs Ret	Aug-97	**4**	10
Vanguard Emerg Mkts Stk Index	Jun-06	**4**	8
Fidelity Funds - US HiYield Fund	Sep-01	**3**	6

Source: Strategic Insight Simfund GL

Global Trends: Briefing on Mutual Funds in Australia

Melbourne's Plan For Life (PFL) provides the Australian financial marketplace with independent research on superannuation, retail and wholesale managed funds, master funds and platforms, annuities, life insurance and risk products in Australia and New Zealand. The firm has been a consulting actuary, researcher and independent financial publisher for over 20 years.

Among others, PFL tracks sales, net flows, and assets data by distribution platforms, fund, management company, investment strategies, and much more.

In December 2010, Asset International, the parent company of Strategic Insight, acquired Plan For Life.

SI's new affiliate will allow us to expand our services in the Asia-Australia region, provide PFL's clients in Australia with an Asian and a global perspective and growth opportunities, and assist international asset managers building their relationships in the Australian market.

To learn more about PFL services: Rael Solomon rsolomon@planforlife.com.au

The following brief article combines Plan For Life's revealing proprietary data with some additional input from Simfund Global data for Australia.

A few background facts: **the Australian stock market (measured by S&P/ASK200) peaked at near 6800 in October 2007, fell to about 3200 by March 2009, and has rebounded to 5000 lately**. The **yield curve is relatively flat** (4.96% for 90-Day and 5.71% for 10-Year bond). The Australian Dollar appreciated vs. the US Dollar about 35% over the past five years and is now at parity. **Australia GDP exceeds US$1 trillion, and per capita GDP exceeds US$41,000** (while the per capita GDP in the US exceeds US$47,000).

Managed funds in Australia reached A$1.36 trillion as of September 2010. In addition to **the near A$800 billion in retail managed funds and unitized wholesale funds,** as detailed below, managed assets include Public Sector funds, Unit Trusts, and other investment pools.

Australia Mutual Funds Under Management, A$ Billion

	All Assets	Long-Term Sales*	Long-Term Net Flows*
	9/10	1-9/10	1-9/10
Retail Managed Funds	504	58	5.1
Unitized Wholesale Funds	271	44	4.1

*Source: Plan For Life; *PFL uses the term "inflows" or "gross inflows" similar to SI's "sales" in the US; long-term fund data excludes cash fund sales and net flows*

While overall net flows were modest in 2010, as suggested above, we note the success of many individual funds to attract large net inflows, while others funds suffered large net redemptions, similar to the US experience.

For example, **Simfund Global data for Australia identifies over 100 funds each gaining at least $100 million during all of 2010**. The list of the **fastest-growing funds, includes, among others, numerous funds from Schroeder, Vanguard, BlackRock, DFA, Russell, MFS, Lazard, DWS, and other US and European asset managers**, as well as investment managers headquartered in Australia.

Aggregating fund flows by management company, we note the **$3 billion+ net flows during 2010 into Schroeder's funds in Australia** (led by Global Equity, Global Dynamic, Real Return, Fixed Income, etc.), as well as **Vanguard's $4 billion of net inflows**.

Reviewing net flows by investment sectors based on Simfund Global data, we note the highest net-inflow fund during 2010 was the low-fee CBUS Self Select Super-Core Strategy ($1.8 billion of 2010 net flows; on 10/31/10 this fund invested 36% in Australia shares, 17% in international shares, and 14% in direct property). High net flow sectors were **Large Blend funds (both Australia and Global), World Large Growth, Bond Global / Australia, and Bond Australia** (while some bond categories gained assets, mortgages suffered the largest net redemptions exceeding $3 billion).

Simfund GL allows correlating inflows and outflows to return and risk rankings, both within Lipper or Morningstar categorizations. Not surprisingly, and considering the maturity and the retirement screens for fund selections, net flows results of individual funds do often correlate with risk-adjusted ratings. Many of the highest net flow funds carry a 4/5 Leader ratings from Lipper and 4/5 Stars from Morningstar, as is common in the US. Last year, of the **20 highest net inflow actively-managed equity funds that are rated, 16 had 4 or 5 ratings**. Bond funds with high net inflows experience similar proportion of high ratings. Interestingly, mixed funds (which are much harder to categorize and rate) did not show the same correlation between net flows and ratings.

Retail Managed Funds: Investments

Retail Managed Funds are investment products available to individual investors with a relatively low minimum investment (usually up to A$5,000) and generally marketed through advisers. These include Superannuation, Allocated Pension and Investment Platforms, Unit Trusts, Cash Trusts, Bonds and Annuities.

Australia Retail Funds A$ Billion

	Assets	Sales/Inflows			
Investment	**9/10**	**2007**	**2008**	**2009**	**1-9/10**
Stock and Bond	**460.5**	149.9	89.4	79.7	**65.1**
Cash	**43.4**	172.8	160.4	132.8	**67.6**
Total	**503.9**	322.7	249.9	212.6	132.8
Australian Equity	**48.7**	13.4	7.6	7.2	**6.7**
Equity Growth	**19.9**	6.2	3.1	2.8	**2.4**
Equity Balanced	**17.7**	2.8	1.7	1.7	**1.5**
Mixed Portfolios	**123.5**	54.2	34.5	32.9	**18.7**
Property	**5.5**	3.3	1.3	0.7	**0.7**
Property Balanced	**1.9**	0.9	0.3	0.1	**0.1**
Property Securities	**1.8**	1.2	0.4	0.2	**0.2**
Property Growth	**0.9**	0.4	0.2	0.3	**0.0**
Overseas	**20.5**	7.6	3.7	3.3	**3.5**
Global	**11.2**	5.3	2.2	1.8	**1.5**
Pacific Region	**1.2**	0.4	0.1	0.2	**0.1**
Japan	**0.0**	0.0	0.0	0.0	**0.0**
European	**0.1**	0.0	0.0	0.0	**0.0**
American	**0.0**	0.0	0.0	0.0	**0.0**
Managed Growth	**66.5**	16.3	10.5	8.4	**8.1**
Managed Balanced	**62.0**	16.0	10.7	9.4	**8.3**
Managed Stable	**28.5**	8.4	5.3	3.9	**3.8**
Fixed Interest	**25.1**	7.6	3.7	4.4	**7.4**
Capital Guaranteed	**17.4**	3.3	2.3	1.6	**1.2**
Mortgage	**4.8**	2.4	1.5	0.1	**0.1**
Fixed Rate	**2.3**	0.0	0.1	0.4	**0.7**
Glbl Fixed/Currency	**0.8**	0.3	0.1	0.1	**0.1**

Source: Plan For Life, SI analysis

For retail managed funds, stock and bond fund gross inflows (sales) for the third quarter of 2010 reached A$25 billion, 39% higher than Q1'10. With stock price improvements late in 2010 (and into 2011), 4Q'10 gross sales should have brought full-year 2010 sales to just above 2008's pace, yet still well below 2007.

Wholesale Funds: Investments

The Wholesale Funds that Plan For Life currently reports on are Unitised Wholesale Investment Trusts and Mezzanine Funds, available to large-scale direct investors or, more often, through Retail Platforms. These are funds that have large minimum investments (historically up to A$100,000 although more recently as low as A$25,000) and minimal fees.
(Separately Managed and Mandated Wholesale Funds are currently beyond the scope of these data.)

Australia Wholesale Funds $A Billion

	Assets	Sales/Inflows			
Investment	**9/10**	**2007**	**2008**	**2009**	**1-9/10**
Stock and Bond	**246.5**	101.1	56.5	56.9	**43.9**
Cash	**24.1**	49.4	36.3	22.5	**17.9**
Total	**270.6**	150.6	92.8	79.4	**61.8**
Equity Growth	**41.7**	19.2	10.2	10.1	**8.5**
Equity Balanced	**23.5**	7.0	4.7	4.9	**3.1**
Australian Equity	**1.1**	0.2	0.1	0.1	**0.1**
Mixed Portfolios	**5.0**	1.0	1.0	1.1	**0.6**
Property Growth	**5.9**	0.9	1.5	1.0	**0.7**
Property Securities	**4.6**	2.9	1.6	1.5	**0.9**
Property Balanced	**5.4**	2.6	2.1	0.9	**0.6**
Property	**3.4**	1.3	0.1	0.0	**0.1**
Global	**59.6**	26.1	14.4	16.9	**10.9**
Pacific Region	**5.3**	1.7	0.9	1.1	**0.6**
Japan	**0.4**	0.3	0.1	0.2	**0.0**
European	**0.2**	0.2	0.0	0.0	**0.0**
American	**0.0**	0.0	0.0	0.0	**0.0**
Overseas	**0.3**	0.1	0.1	0.0	**0.0**
Managed Growth	**31.3**	8.3	3.9	4.5	**5.3**
Managed Balanced	**16.6**	3.4	3.4	3.0	**2.4**
Managed Stable	**5.4**	2.0	0.9	0.9	**1.0**
Fixed Interest	**22.2**	10.9	5.0	6.3	**5.4**
Glb Fixed/ Currency	**11.2**	4.8	2.4	3.9	**3.0**
Mortgage	**3.7**	8.3	4.1	0.5	**0.4**
Capital Guaranteed	**0.0**	0.0	0.0	0.0	**0.0**

Source: Plan For Life, SI analysis

Looking back, looking forwards: Sales of managed funds in Australia peaked in 2007 and has been running at a lower pace since. A few explanations:

- Bond funds in Australia control only about 12% of managed assets through retail and wholesale funds and did not experience meaningful post-crisis sales gains (the yield curve in Australia is nearly flat today)

- As importantly, for about a year ending mid-2007, the Australian Government raised the non-concessional super contributions cap (above which you cannot claim an income tax deduction) from A$150,000 to A$1 million annually. **This temporarily led to a surge in contributions into superannuation funds that year**. In the ensuing September 2007 quarter there was, we believe, a related surge in contributions into allocated pensions as people moved their inflated super funds into pensions. Most of these funds were directed into Retail Platforms, which are the main driver of growth in the underlying wholesale funds. Inflows over 2008 and 2009 dropped off, both in comparison to the strong 2007 and in reaction to global stock market declines.

Retail Managed Funds: By Market

Australia Retail Managed Funds, A$ Billion

By Market	Assets 9/10	Sales* 12 Mos. Ending 9/10	Net Flows 12 Mos. Ending 9/10
Superannuation/Rollovers	244.4	56.2	11.5
Retirement Income	108.2	24.9	2.7
Cash Trust	13.5	79.7	-7.1
Unit Trust / Investment Funds	131.0	27.0	-2.5
Investment Bond	6.8	0.5	-0.2
Total	503.9	188.2	4.3

*Source: Plan For Life; PFL uses the term "inflows" or "gross inflows" similar to SI's "sales" in the US; * Because cash fund sales are included, sales data are somewhat misleading (cash sales were about equal to long-term fund sales in aggregate)*

The importance of Masterfunds (see definitions below) is captured in the following table.

Australia Retail Fund Assets A$ Billion

	12/06	12/07	12/08	12/09	9/10
Masterfunds: Super, Pension, Investment	386	445	341	413	418
Cash Trust	33	40	36	26	14
Unit Trusts	53	52	32	34	31
Super Bonds / Annuities	43	42	35	34	33
Rollovers	5	5	3	3	3
Insurance Bonds	8	8	7	7	7
Total	**528**	**592**	**453**	**517**	**504**

Source: Plan For Life

The total Masterfund market stood at A$418 billion at the end of September 2010. Trailing 12-month Inflows of A$102 billion were A$17 billion above the previous year's result of A$85 billion. These were offset by 12-month trailing Outflows rising to A$84 billion, which were A$11 billion more than the A$73 billion recorded in the 12-months to September 2009. Most major firms reported growth over the trailing 12 months.

Notes about distribution platforms in Australia:

- **Masterfunds** are retail products that have a wide range of investment options from internal and external investment managers, and which generally offer services across a range of markets, e.g. Corporate / Personal Super, Pension, and Investment.
- **Wrap** products are Masterfunds through which investors can invest in direct shares, and which generally charge one consolidated fee.
- **Platform** products are Masterfunds which have multiple divisions – generally Super, Allocated Pension, and Investment divisions.
- **Master Trust** products encompass the remaining Masterfund products.

Wholesale Funds: By Market

As detailed in the prior page (by investment strategy, sales, and net flows), Wholesale funds' assets reached A$271 billion as of September 2010.

Australia Unitized Wholesale Funds, A$ Billion

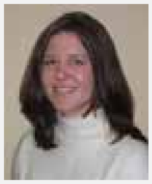
By Market	Assets 9/10	Sales * 12 Mos. Ending 9/10	Net Flows 12 Mos. Ending 9/10
Investments	246.6	80.1	1.5
Superannuation	24.0	3.6	0.6
Pension	0.1	0.01	-0.02
Total	270.6	83.7	2.1

*Source: Plan For Life; PFL uses the term "inflows" or "gross inflows" similar to SI's "sales" in the US; * since cash fund sales is included, sales data is somewhat misleading (cash sales were about one-quarter of total fund sales)*

Plan For Life's full-year data for Australia will be published in the coming month and will be made available to subscribers.

For further information about Plan For Life services you may reach Rael Solomon in Melbourne *rsolomon@planforlife.com.au*.

International Funds: 2010 Update



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US-Based International/Global Equity Mutual Funds $ Billion

Structure/Type	Assets $B 12/10	Net Flows, $B 2008	2009	2010	Q4'10
Open-end Active	1,513	-68.9	33.4	55.9	23.2
Open-end Indexed	120	12.5	9.7	19.0	10.4
ETFs*	344	27.6	53.6	49.2	15.2
Closed-End	37	0.1	0.0	0.7	0.3
VA Funds	215	3.8	7.0	6.9	3.0
Total	**2,228**	**-24.8**	**103.8**	**131.7**	**52.1**

*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 finished the year strong with total inflows, including VA funds, of over $130 billion, which represented a 27% increase from 2009; the fourth quarter was particularly strong, with demand for emerging markets, diversified international, and global asset allocation funds. In contrast, US equity funds saw net outflows in 2010 (even including ETFs and VAs).

After outperforming domestic equity funds in 2009, Int'l/Global equity underperformed average US equity funds in 2010, as the table below shows.

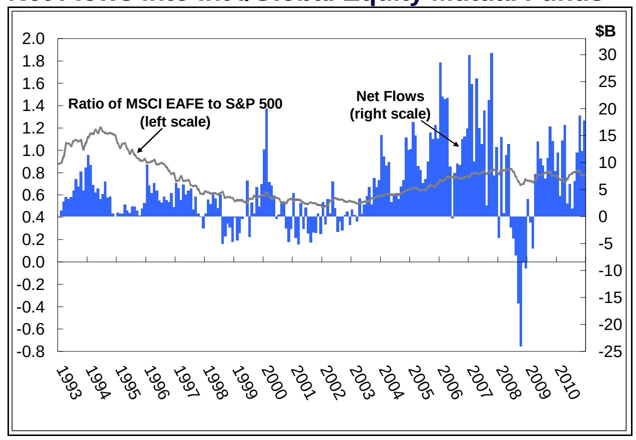
Int'l Equity , US Equity, and World Bond Funds Annual Average Total Returns (Asset-Weighted)

	2006	2007	2008	2009	2010	Q4'10
U.S. Equity*	14.19	7.12	-37.90	31.51	16.82	11.24
Int'l/Glbl Equity	24.36	16.64	-41.92	40.47	13.62	7.24
World Bond^	7.14	8.94	-0.97	15.04	8.85	-0.22

*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 since April 2009 is 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 topped the list of highest flow classifications for Q4 2010 as well as for the full calendar year, fourth-quarter inflows were more than 10 times the net inflows of the next-closest style in Q$'10 (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 long-term shift in portfolios.

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

	Net Flows $B Q4'10	2010	Assets $B 12/10
Emerging Markets	11.45	**27.35**	188.9
Intl Multi-Cap Growth	1.76	**5.11**	62.6
Precious Metals	1.58	**4.00**	36.0
Intl Multi-Cap Core	1.50	**5.00**	54.0
Global Multi-Cap Value	1.21	**3.55**	29.6
Pacific Region	0.86	**2.32**	8.7
Pacific Ex Japan	0.85	**1.91**	21.1
Intl Sm/Mid-Cap Growth	0.77	**1.78**	21.5
Global Multi-Cap Growth	0.38	**0.60**	10.4
Intl Small-Mid-Cap Core	0.28	**0.07**	15.9

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

ETF Update: $1 Trillion In the US and Counting

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Exchange-Traded Funds in the US drew net new flows of $111 billion in 2010, including $36 billion in fourth quarter. That was a slight drop from 2009's net inflows of $118 billion; 2010 marked the fourth consecutive year of $100B+ in net flows to ETFs. **At the end of 2010, US ETF assets (including ETNs) were $1.006 trillion in 1,080 products – topping the $1 trillion mark in assets for the first time.**

ETFs By Investment Type

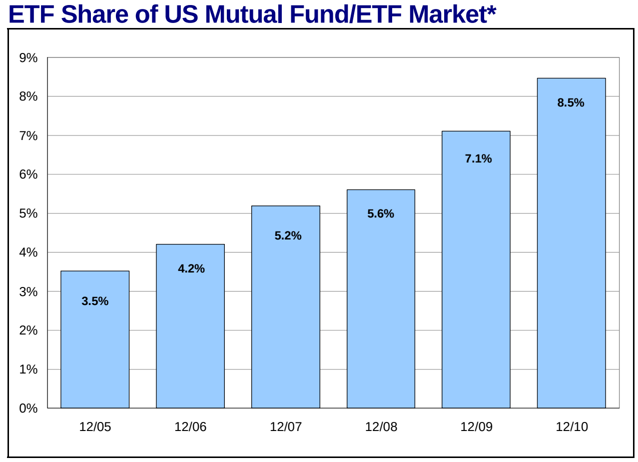
	Assets $B 12/10	Net Flows $B 2009	Net Flows $B 2010	Net Flows $B Q4 2010	# of Fnds 12/10
US Equity					
Diversified	371.5	-13.6	17.1	10.2	277
Sector	111.4	13.7	13.7	7.5	248
Subtotal US Eqty	**482.9**	**0.1**	**30.7**	**17.7**	**525**
Int'l/Global Equity					
Diversified	50.2	-1.0	2.6	0.6	26
Divsfd Emerg Mkts	102.6	17.0	25.2	6.6	35
Single Country	67.8	12.2	6.2	4.1	90
Regional	18.8	3.0	0.4	0.7	30
Sector	14.7	4.1	2.2	1.9	86
Subtotal Int'l/ Global Equity	**254.1**	**35.3**	**36.6**	**13.9**	**267**
Subtotal Equity	**737.0**	**35.5**	**67.4**	**31.6**	**792**
Bond					
Taxable Bond	143.9	44.1	30.9	0.8	138
Muni Bond	6.9	3.6	1.1	-0.3	27
Subtotal Bond	**150.8**	**47.6**	**32.0**	**0.5**	**165**
Specialized					
Commodity	111.7	30.6	13.0	3.5	87
Currency	6.0	4.0	-1.7	0.2	36
Subttl Specialized	**117.7**	**34.6**	**11.4**	**3.8**	**123**
Total	**1,005.5**	**117.7**	**110.8**	**35.8**	**1,080**

Source: Strategic Insight Simfund MF

Similar to the traditional mutual fund market, the ETF market's inflows in 2010 showed great strength in international and global funds – driven mostly by demand for emerging markets ETFs. Unlike the traditional mutual fund market, domestic equity ETFs saw robust inflows, too, especially small cap equity and sector (particularly natural resources) equity ETFs. Bond ETFs also did well in 2010, despite a slowdown in flows in Q4 (caused by rising rates and echoing the traditional mutual fund market). Gold ETFs spurred flows into commodity ETFs for most of the year until Q4: then, gold ETFs saw duller flows and other commodity ETFs gained in popularity.

ETFs continued to take market share from traditional mutual funds. At the end of 2010, ETFs accounted for 8.5% of the combined mutual fund/ETF market in the US for long-term funds (excluding funds underlying variable annuities), up from 7.1% at the end of 2009 and 5.6% at the end of 2008.

ETF Share of US Mutual Fund/ETF Market*



** Includes mutual funds and ETFs, excludes VA funds*
Source: Strategic Insight Simfund MF

While ETFs are mostly being used as substitutes for individual stocks and for separate accounts, ETFs are taking some market share from traditional index mutual funds (now a slightly smaller market with $938 billion in assets at the end of 2010) and, notably, some actively managed funds. We believe ETFs are capturing a portion of new flows to funds, rather than inspiring investors to redeem out of traditional mutual funds in order to invest in ETFs. ETF use is difficult to track, but our sense is that roughly half of ETF assets are invested with retail accounts (both direct and through financial advisors) and half with institutions (including hedge funds and trading desks).

ETF product rationalization: The total number of ETFs and ETNs continues to grow on a net basis – to 1,080 at 2010's end, up from 895 at the end of 2009. Yet, smaller ETFs are also being liquidated. In 2010, 45 ETFs were shut down, including a number from PowerShares, Rydex, and WisdomTree. In 2009, 60 ETFs were liquidated, up from 49 in 2008. Meanwhile, hundreds of ETFs are in registration at the SEC.

Most Popular ETFs in 2010

The table below ranks the 10 highest cash-flow ETFs of 2010. Emerging markets equities was a big theme, with the two biggest EM ETFs, those of Vanguard and iShares, drawing robust inflows. Also, income was a major theme: six of the top 10 were income-oriented, including five bond ETFs and one dividend-focused equity ETF. "Defense" was another story in 2010, with the SPDR Gold Shares and Barclays's ETN investing in short-term futures on the VIX making the top 10.

Highest Cash Flow ETFs in 2010

Fund Name	Assets $B 12/10	Net Flows 2010 $B	Net Flows 2010 Rate*
Vanguard Emrgng Mkts Stk Index	44.7	**18.9**	97%
SPDR Gold Shares	58.0	**6.9**	17%
SPDR S&P Dividend ETF	5.0	**3.0**	246%
iShares S&P US Prfd Stock Index	6.1	**2.8**	91%
iShares iBoxx $ HiYld Corp Bond	7.3	**2.6**	58%
iShares MSCI Emerg Mkts Index	47.5	**2.5**	6%
Vanguard Total Bond Market Index	9.0	**2.4**	39%
SPDR Barclays CptHiYld Bond	6.3	**2.4**	70%
iPath S&P 500 VIX ShFutures ETN	1.4	**2.3**	292%
iShares Barclays Shrt Trsy Bond	4.0	**2.2**	128%

** Rate = Flows As Pct. of 12/31/09 Assets*
Source: Strategic Insight Simfund MF

Nine of the 10 bestselling ETFs last year were from iShares, State Street and Vanguard. If one excludes these Big Three ETF players, the 10 ETFs in net inflows is more diverse:

Highest Cash Flow ETFs in 2010, excluding iShares, SSgA and Vanguard

Fund Name	Assets $B 12/10	Net Flows 2010 $B	Net Flows 2010 Rate*
iPath S&P500 VIX ShrtFuture ETN	1.4	**2.3**	292%
UltraSh 20+ US Treasry ProShares	5.4	**2.2**	49%
S&P 400 Midcap SPDR	12.2	**1.4**	17%
JPMorgan Alerian MLP Index ETN	2.3	**1.2**	170%
Rydex S&P500 Equal Weight Indx	3.2	**1.0**	58%
Direxion Daily SmallCap Bear 3X	0.6	**0.9**	199%
Van Eck Mkt Vector Russia ETF	2.6	**0.8**	58%
WisdomTree India Earnings	1.7	**0.8**	106%
PIMCO Enhncd ShrtMaturity ETF	0.8	**0.7**	1636%
Van Eck MktVector JrGoldMiner	2.1	**0.7**	108%

** Rate = Flows As Pct. of 12/31/09 Assets*
Source: Strategic Insight Simfund MF

The iPath implied volatility ETN is the only holdover from the first list. This ranking of top-inflow ETFs includes products from nine different managers; the categories represented include US Treasury, PIMCO's money-fund alternatives strategy, small cap and mid cap stocks, fundamental indexing, natural resources, and single-country emerging markets (Russia and India).

Actively Managed ETFs

Actively managed ETFs had $2.4 billion in assets at the end of December, up from $1.9 billion at the end of September. Of the 34 active ETFs in operation at the end of Q2010, only five had $100 million or more in assets.

Top Active ETFs By Assets, Dec. 2010

Fund Name	Assets $B 12/10	New Flows $B 2010
PIMCO Enhncd ShrtMtr Strgy ETF	**785**	736
WisdomTree Dryfs Chin Yuan ETF	**640**	212
WisdomTree Dryfs EmgCrncy ETF	**297**	54
WisdomTree Dryfs Brzl Real ETF	**133**	-61
iShares Dvrsfd Alternative Trust	**111**	95
Cambria Global Tactical ETF	**69**	67
PIMCO Intrmd MuniBd Strgy ETF	**63**	50
Mars Hill Global Relative ETF	**39**	39
WisdomTree Dryfs NewZland Dollr	**28**	8
PowerShares Active AlphaQ	**28**	19

** Rate = Flows As Pct. of 12/31/09 Assets*
Source: Strategic Insight Simfund MF

The four biggest active ETFs aren't very active: PIMCO's Enhanced Short Maturity Strategy remained the biggest active ETF, followed by three WisdomTree currency ETFs – taken together, four big money-fund-like ETFs. The first global tactical asset allocation ETF (Cambria) made the top 10, as did the first long-short active ETF (Mars Hill). The industry is watching closely which mutual fund firm will next enter the active ETF arena.

Leveraged, Inverse ETFs

Leveraged/inverse ETFs took in net flows of $4.7 billion in 2010, ending the year with $31.7 billion in 205 funds. The continued growth of these products demonstrates the importance of the trading population to the ETF universe.

US Leveraged & Inverse ETFs

	Dec.'10 Assets $B	2010 New Flows $B	Dec.'10 Fund Count
Leveraged	13.3	-2.9	92
Inverse	18.4	7.6	113
Total Leveraged & Inverse	31.7	4.7	205

Source: Strategic Insight Simfund MF

Biggest ETF Managers

Top 10 ETF Managers as of Dec. 2010

Manager	Assets Dec.'10 $B	Market Share Dec.'10	Net Inflows 2010 $B
BlackRock	**448.5**	44.6%	30.7
State Street Global	**234.7**	23.3%	11.8
Vanguard	**148.2**	14.7%	37.9
InvescoPowerShares	**41.5**	4.1%	2.7
ProFunds	**23.6**	2.3%	2.9
Van Eck	**19.9**	2.0%	3.3
Bank of NY Mellon	**12.2**	1.2%	1.4
DB Commodity Services	**11.6**	1.2%	-2.1
WisdomTree	**9.9**	1.0%	2.5
Barclays Capital	**8.5**	0.9%	3.5

Source: Strategic Insight Simfund MF

The US ETF market remains concentrated, with the top three managers controlling 83% of US ETF assets, and the Top 10 managers controlling 95.3% of assets. This contrasts with the traditional, open-end fund market, where the Top 10 managers have roughly 54% of the assets. However, the US ETF marketplace has been slowly becoming more fragmented: market share of the top three players has dropped from 89% at the end of 2006 to 83% at the end of 2010.

This is a natural evolution of a maturing (but still far from "mature") market – new players capture larger portions of new growth, so the biggest players see their market shares shrink even as their total business expands. In 2011 and beyond, we expect to see market share gains from relatively new entrants such as Schwab (which plans to roll out an all-ETF 401(k) plan) and PIMCO (an early leader in active ETFs), as well as firms that have yet to launch ETFs.

ETFs Outside the US

ETFs are a global phenomenon, and the forces driving adoption in the US are at work outside the US too: ETFs' relatively lower cost, transparency, intraday tradability and their role providing access to diverse (and sometimes exotic) strategies. Thus, the ETF industry has been growing outside the US in assets and number of products.

Some ETFs are suitable for exchange cross listings in multiple countries. For example, SPDR Gold Shares were hatched in the US, then listed in Tokyo, Hong Kong and Singapore. Similarly, the iShares MSCI Emerging Markets Index ETF, which trades in the US, is also available in a version domiciled in Dublin and offered in 11 European countries as well as Japan, Chile, Australia and the UAE. One major difference from the US is that non-US markets for ETFs tend to be largely institutional – with the exception of the U.K. and a few other countries (but that is slowly changing)..

Europe and Offshore/International ETFs

Fund Type	Net Flows 2010 US$Billion	Assets Dec.'10 US$Billion	No. of Funds Dec.'10
Equity	28.8	192.7	813
Bond	8.5	49.0	165
Other	9.9	46.0	269
Money Mkt	-1.2	7.7	60
Real Estate	1.1	3.7	26
Mixed	0.3	0.7	9
Guaranteed	0.0	0.0	2
Total above	***47.4***	***299.7***	***1,344***

Source: Strategic Insight Simfund GL

The European and offshore region, including ETFs domiciled in Dublin and Luxemburg but offered across borders, is the second-largest ETF "market" after the US (with the acknowledgement that Europe is really a collection of local markets). Europe/Offshore ETFs had $300 billion in assets at the end of 2010, which was up from $240.4 billion at the end of 2009.

Asia-Pacific ETFs

Fund Type	Net Flows 2010 US$Billion	Assets Dec.'10 US$Billion	No. of Funds Dec.'10
Equity	11.7	**77.4**	236
Bond	0.6	**4.4**	13
Other	0.3	**1.7**	24
Real Estate	0.1	**0.5**	6
Mixed	-0.1	**0.1**	6
Money Mkt	0.0	**0.1**	1
Total above	***12.6***	***84.3***	***286***

Source: Strategic Insight Simfund GL

The Asia-Pacific region, including Australia, is the third-largest "market" for ETFs; it ended 2010 with $84 billion in assets, up from $67 billion at the end of 2009.

There has been some limited cross-border activity by ETF managers – notably, US-based iShares, which is the #1 ETF manager in Europe and #3 in Asia-Pacific, and US-based State Street Global Investors, which is #2 in Asia-Pacific. In 2009, London's ETF Securities, the 4th-largest ETF manager in Europe, entered the US market and at the end of 2010 it was the no. 16 ETF player with $3.5 billion in assets.

All together, the global ETF industry stood at roughly $1.4 trillion in assets at the end of 2010. That figure should grow to $2 trillion over the next few years, as both institutional and retail use of ETFs expand.

Trends in National Broker Dealer Wrap Platform Sales

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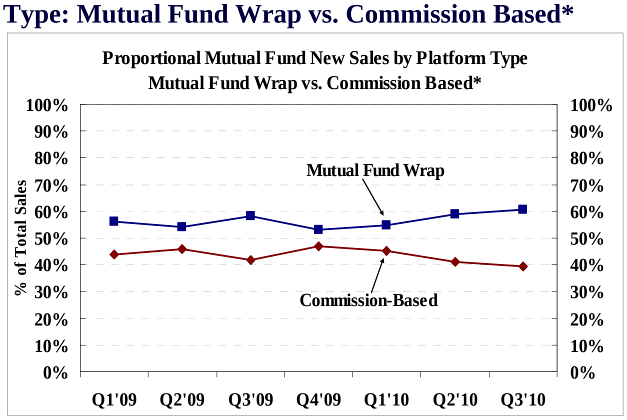
The movement toward the asset-based fee-for-advice compensation model among financial intermediaries has been one of the most important secular trends impacting the fund industry over the past decade. This trend temporarily slowed down during 2009 as many advisors and investors turned to short term bond fund purchases via the commission-based avenue as a substitute for near-zero yielding money market funds. But since then, mutual fund wrap platform sales have slowly been returning to their pre-crisis proportional levels at National Broker Dealer (NBD) firms, as seen in the graph below.

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



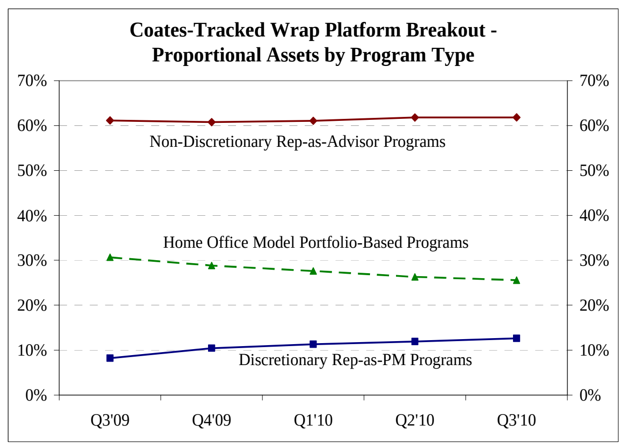
Source: Coates Analytics Distribution Management System / SI Analysis
**Note: Reflective of data from national broker dealer firms with both commission-based and wrap platform data captured in Coates Analytics Distribution Management System.*

Within this movement back toward fee-based platforms, however, important trends have emerged in the types of wrap programs (Non-Discretionary Rep-as-Advisor vs. Discretionary Rep-as-PM vs. Home Office Model-Based) gaining the most traction among financial advisors (FAs) at NBDs.

In this article, we summarize some of the important macro-level findings from the Q3'2010 version of our newly expanded joint research series with Coates Analytics – *National Broker Dealer Product Strategy & Distribution Trends*. [For more information regarding subscription options to this 40-page plus quarterly study, or to order the 4Q'2010 report, contact Dan Weinerman – dweinerman@sionline.com; 212-217-6897.] **In particular, our ongoing quarterly analysis now includes a breakout of trends within the NBD mutual fund wrap platform space across each of Non-Discretionary Rep-as-Advisor, Discretionary Rep-as-PM and Home Office Model-Based programs.** This newly expanded research encompasses growth trends by platform structure, as well as unique and granular data and perspective on best-selling investment styles, managers and individual funds via each respective program type.

Wrap Program Platform Trends

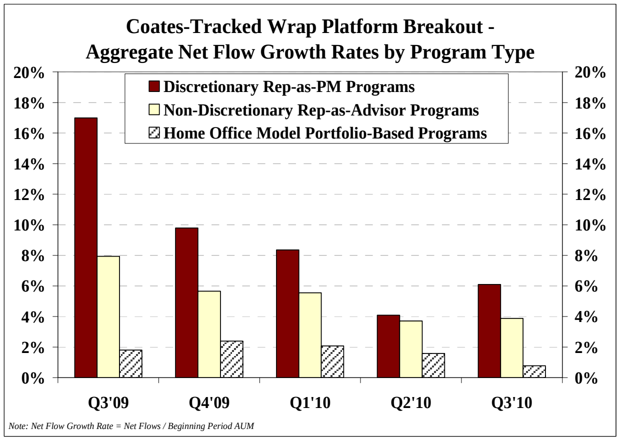
The post-crisis period has been marked by increased desire among many FAs to maintain (or expand) much of the control over the decision-making process for their clients' assets within their own office – as opposed to outsourcing such responsibility to home office research teams. The graph below charts asset market share across each of Non-Discretionary Rep-as-Advisor, Discretionary Rep-as-PM and Home Office Model Portfolio-Based wrap programs within the Coates-tracked universe of NBDs.



Source: Coates Analytics Distribution Management System / SI Analysis

Wrap programs in which the fund selection process resides with the FA and/or the investor (Non-Discretionary Rep-as-Advisor and Discretionary Rep-as-PM) account for a majority of assets within the NBD mutual fund wrap space and have also been the main drivers of growth. Such programs accounted for 74% of wrap platform assets as of the end of Q3'10 within the Coates universe (up from 69% in Q3'09). Over the same period, Home Office Model Portfolio-Based programs have decreased from 31% of total wrap platform assets to 26%.

The graph below captures a purer measure of organic growth across each respective wrap platform structure, charting quarterly net flow growth rates (defined as net flows divided by beginning-period assets).



Source: Coates Analytics Distribution Management System / SI Analysis

While representing the smallest asset base among wrap platform types, Discretionary Rep-as-PM programs have scored the highest net flow growth rate of any wrap program over each of the past five quarters ended Q3'10. At the same time, Home Office Model Portfolio-Based programs have registered the lowest growth rate among these platform types by more than a two-to-one margin during each quarter since Q3'09.

These trends in wrap platform sales clearly hold significant implications for both fund firms' interactions with FAs, as well as such advisors' product demand preferences. The trends captured above emphasize the important value of fund firms' direct relationships with FAs in influencing fund selection. While home office research and recommendations clearly maintain a role for many advisors within the portfolio construction process, it is also clear that asset managers continue to maintain valuable opportunities to closely partner with FAs in delivering investment solutions to their clients.

Implications for Fund Demand

The demand picture among investors and FAs continues to evolve post-crisis with regard to portfolio construction across asset classes, as well as the composition of the "core" total return-generating engine of investor portfolios. Clearly, the top-line growth trends across wrap program structures offer valuable insights into the fund selection decision-making process. A more granular analysis of sales across each of these wrap programs, however, offers notable differences – as well as important similarities – in some of the factors which will influence FA and investor demand moving forward.

The table below lists the five top-selling equity funds for the first nine months of 2010 across each of Non-Discretionary Rep-as-Advisor, Discretionary Rep-as-PM and Home Office Model Portfolio-Based wrap programs within the Coates-tracked universe of NBDs.

Top Selling Equity Funds via Coates-Tracked Mutual Fund Wrap Platforms - YTD Q3' 2010

Fund	Style	% of YTD Q3'10 Total Program Equity Sales
Non-Discretionary Rep-as-Advisor Wrap Platforms		
BlackRock Global Allocation	Global	3.7%
Ivy Asset Strategy	Global	3.4%
First Eagle Global	Global	2.7%
Thornburg International Value	International	2.1%
Oppenheimer Developing Markets	Emerging Markets	2.0%
Discretionary Rep-as-PM Wrap Platforms		
Federated Prudent Bear	Specialty	3.3%
Ivy Asset Strategy	Global	2.8%
BlackRock Global Allocation	Global	2.6%
PIMCO All Asset All Authority	Asset Allocation	2.4%
First Eagle Global	Global	2.2%
Home Office Model-Based Wrap Platforms		
Lazard Emerging Markets Equity	Emerging Markets	4.0%
Growth Fund of America	Large Cap Growth	4.0%
Janus Forty Fund	Large Cap Growth	2.9%
Dreyfus Appreciation	Large Cap Core	2.9%
Europacific Growth Fund	International	2.7%

Source: Coates Analytics Distribution Management System / SI Analysis

Clearly, the demand for non-US equity strategies such as BlackRock Global Allocation Fund and Ivy Asset Strategy can be seen across the top selling funds via both Non-Discretionary Rep-as-Advisor (top list) and Discretionary Rep-as-PM platforms (middle). Within Home Office Model-Based programs, however, traditional style-box-based US equity offerings maintain a significant presence. In fact, since the start of 2009, style-box-based US equity funds have accounted for at least 60% of total equity fund sales in six out of seven quarters via Home Office Model-Based programs.

Within programs where the fund selection process lies more directly with the FA and investor, the demand for global tactical allocation funds (as well as other more broadly mandated offerings) points to **a growing desire among many for more holistically-managed "solutions", as opposed to traditional narrowly-mandated fund strategies.** Interestingly, even among the more investment-centric advisors within Discretionary Rep-as-PM programs these more flexibly mandated strategies encompass a significant portion of recent equity mutual fund allocations. From a more conceptual level, these trends highlight the desire among a growing swath of advisors to partner more closely with asset managers in delivering diversified asset allocation solutions to their clients.

Planning for 2011: Investment Outlook

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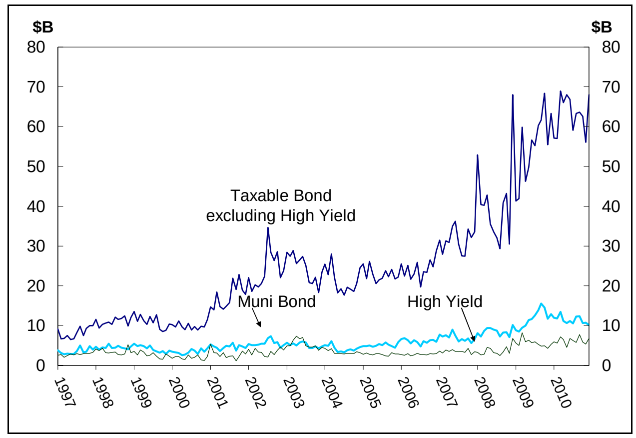
This article is an excerpt from our Executive Insights report, "Forces Shaping the Mutual Fund Industry in 2011 and Beyond", published in January. The report reviews many of the trends influencing our industry today, and includes a stock and bond fund sales forecast for 2011. SI research clients can see the 45-page report by clicking the report title above or at www.SIonline.com..

Bond Funds

- The recent increase in long-term interest rates signals to some advisors and investors that the three-decade run of falling rates is over. Many believe that in the coming years, interest rates in the US (as well as in other developed economies) are certain to increase, and possibly meaningfully. Yet, there are no economic signals suggesting that short-term interest rates will be pushed higher in 2011. Real interest rates remain negative; some speculate that it would not be until 2012 and possibly after the Presidential elections that short-term interest rates are increased meaningfully.
- Nevertheless, concerns about the future returns of bond funds would inevitably slow down the sales of such funds. It is our assumption though that such moderation in sales would be small in 2011. Bond funds that have a global orientation and flexibility in making duration, credit, and sector allocations; bond funds set to benefit from economic improvement (High Yield, Floating Rate, etc.); and core bond funds anchoring asset allocation programs would continue to find significant appeal among risk-averse investors and their financial advisors or asset allocation overseers.
- The search for yield continues to support bond fund sales, yet at a lower volume (we project aggregate bond fund sales to decrease by about 10% in 2011). Last year, sales of bond funds totaled about $860 billion globally and accounted for 42% of the industry's long-term fund new sales. The spike in interest rates in the last quarter of 2010 and NAV erosion triggered a jump in redemptions from bond funds and resulted in overall net withdrawals during the ending weeks of the year (tax-free bond funds suffered the most net withdrawals, which continued in January 2011 but appear to be slowing).
- The recent moderation in bond fund demand notwithstanding, bond funds still accounted for nearly 40% of all long-term fund sales during the fourth quarter. **In 2011, bond funds' share of long-term fund sales is projected to drop to 35%.**

Bond Fund New Sales 1997– 2010



Source: Strategic Insight Simfund / ICI Trends

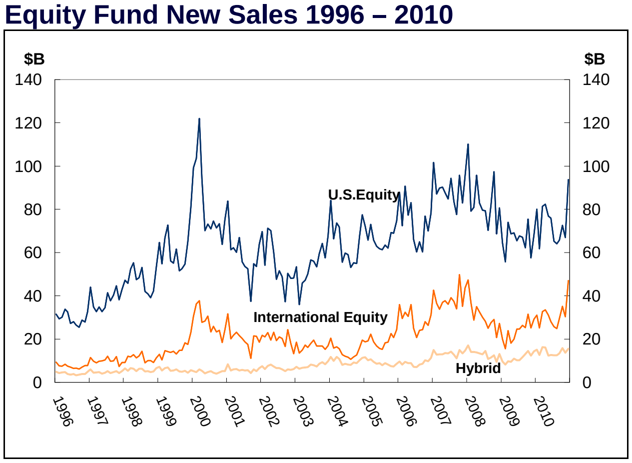
- Looking back: the last time short-term interest rates were extremely low and the yield curve differential exceeded 3% was in late 2003. Unsurprisingly, as short-term rates climbed for the next four years until the yield curve flattened, sales of bond funds declined. It is our current belief that the decline in sales of bond funds in 2011 and possibly 2012 would be much more modest than the one experienced in 2004-2006, as demand will be shored up by more flexible, global offerings and the need to populate asset allocation solutions with bond fund sleeves.
- **Despite continued moderation, we expect new sales of bond funds in 2011 to exceed $750 billion, and offer a wide range of opportunities for fund managers.**
- **From cash in the bank to an income-oriented mutual fund:** There is more than $10 trillion held throughout the banking system and in money market mutual funds earning near-zero yields. Migration from such assets to bond funds, while remarkable at maybe $500 billion (or more) since the market crash, accounted for at most 4-5% of such cash deposits. We believe that ongoing shifts of cash into higher-yielding income vehicles will continue to stimulate new mutual fund relationship opportunities, besides enabling innovation through income solutions in 2011. We also argue that

savings held for "safety and income" are largely compartmentalized for such purposes, and are not available for "capital appreciation" investments through stocks or stock funds. Thus, only a tiny portion of cash holdings will shift to providing liquidity to the stock market in the coming years.

Stock Funds

- **Lingering Risk Aversion vs. Rebounding Economic Confidence**: While demand for bond funds has moderated in recent months, inflows to stock funds spiked in December and are accelerating in 2011. Economic conditions are gradually improving, yet against a backdrop of lingering employment and real estate wealth uncertainties. Looking ahead, up-trending economic and employment indications should further improve the nation's confidence and stimulate demand for stock funds.

Equity Fund New Sales 1996 – 2010



Source: Strategic Insight Simfund / ICI Trends

- New sales of stock funds in 2010 expanded 19% from 2009. The sales rise was dramatically larger for international equity funds, at 34%, versus US stock funds' gain of only 15%. Hybrid/balanced funds – many of which have been replaced by target-date or other FoFs, or by more flexible asset allocation funds – saw sales gains of just 10%.
- The remarkable increase in stock prices in recent years, and consensus expectations for 2011 to be another year of gains, should continue to stimulate sales increases for equity funds—we project equity fund sales growth of 22% in 2011 (which would still yield a pace similar to the 2007 run-rate). We also assume that **in 2011, gains in stock fund sales would be widespread, led by further gains among higher dividend US stock funds, both Large- and Small-Cap US funds, and developed-market international funds.**
- **Past Inflows to International Equity Funds**: From 2003 through 2007, roughly $700 billion was net invested in international equity funds, and an additional similar amount was allocated to non-US securities held in US-centered equity funds. Together with similar actions among institutional investors, it is likely that more than $2 trillion was transferred to international securities and away from US securities during those five years. This massive rebalancing in the US, and parallel actions taken in a number of other developed countries, triggered massive liquidity-induced price appreciation in certain overseas capital markets (and US Dollar depreciation), especially within emerging economies.
- Emerging markets have been the biggest beneficiaries of significant net inflows to equity funds in recent years. This liquidity propelled a dramatic appreciation in the prices of many emerging markets stocks, but liquidity from capital inflows may also dry up at times. Still, we assume that future liquidity-induced price volatility in emerging markets will be more moderate than in prior periods of capital flights – in view of the secular demand for Emerging Market exposure, and a higher allocation to such funds in investors' core equity (and income) portfolios.

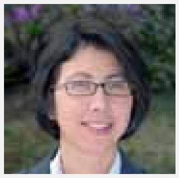
US-Based Emerging Markets Equity Mutual Funds* $ Billion

Structure/Type	Assets $B 12/10	Net Flows, $B 2009	2010	Q4'10
Open-End Active	228.0	21.1	29.4	13.4
Open-End Index	17.2	2.3	2.7	0.7
ETF	164.5	29.0	30.2	10.1
Closed-End	9.6	0.0	0.0	0.0
Total	**419.3**	**52.4**	**62.3**	**24.2**

*Source: Strategic Insight Simfund MF. *Includes Diversified and relevant Regional and Single-Country Funds*

- Concerns about the long-term fate of the US Dollar, prudent diversification away from domestic securities US stock fund investors, and the growing emergence of global asset allocation funds as a core strategy suggest that **a secular trend towards higher allocation of financial assets to international stock funds will persist in 2011 and beyond.**

Variable Annuities: Targeting Rollovers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While the industry has been working on approaches to provide DC plan participants with guaranteed income solutions, insurance companies have been trying to figure out how to penetrate this market with no proven strategy for success. Beyond the DC marketplace, alternative approach that many insurers are pursuing is the targeting of rollover IRAs.

Of course, VAs have been used as rollover vehicles for many years, but we are now seeing the creation of many new products that are tailored specifically for that market.

Many contracts intended primarily for rollovers are not labeled as such. Just looking at only the rollover-specific contracts, half of those filed in 2010 were designed as vehicles to receive assets and guarantees from in-plan products. The other half are retail contracts that are intended to capture retirement plan assets. *All of these contracts offer a GLWB (Guaranteed Lifetime Withdrawal Benefit).* Some of the notable products:

Integrity Life - *VAROOM* (Variable Annuity for Roll Over Money Only) – Released in December, this five-year L-share contract provides access to individual ETFs. Although the contract loses its tax-preferred status, the IRA itself confers tax deferral.

Lincoln - *ChoicePlus Rollover* – Still yet to be released, this B-share contract offers Lincoln's standard retail benefits.

[Sunamerica] VALIC - *Equity Director* – Released in December, this five-year, L-share chassis varies the M&E fee by separate account. There is a single life version of the IncomeLOCK GLWB.

As evidenced by these examples, the GLWBs in dedicated rollover IRAs may either be tailored specifically for this market or replicate the standard retail features. Mainstream designs may appeal to certain advisors. And if the intention is to capture the attention of reps who haven't been working much with VAs, then it makes sense that insurers can and will produce simpler/more transparent features for IRA rollovers. The same can be said for the base chassis that we see in these products, which are likely to reflect the diversity of the advisors that insurers are targeting.

Sowing Rollover Seeds

There is a strong rationale for pursuing the rollover market as an adjunct to or even replacement for an aggressive in-plan strategy. One of the reasons for creating DC plans in the first place was to accommodate shorter periods of employment with a single employer. A mobile workforce means that employees are able, even at a young age, to take assets outside of a plan through a qualified rollover. Younger investors are responsible for their fare share of rollovers. The ICI reports that investors of all ages made rollovers in 2008, with investors from 30 to 34 representing 10.6% of rollovers, compared with 12.6% for those between 60 and 64.

Not surprisingly, the rollover amounts generally increase with age; the mean rollover amount for the 30-to-34 group was $18,620 (median $7,510), while it was $137,260 (median $58,470) for the older cohort. However, **it is the younger investors who are more likely to start a new account with the rollover**. Initiating a relationship earlier in a client's working life creates the opportunity for additional contributions and rollovers. While an individual rollover may represent a relatively small lump sum, that seed may grow into a more significant relationship in time.

A Healthy Change

The recovering stock markets should stimulate higher VA sales in 2011 and beyond. And, as the VA industry enters a new phase of evolution, it leaves behind the era of fast followers and the dreaded arms race of VA features. Already, insurers are pursuing more disparate strategies in search of greener pastures. The historical path for VAs has resulted in the predominance of a narrow distribution focus, but insurers are pushing into new realms and are developing strategies that will ultimately help the whole category.

We already see that insurers have different approaches for IRA rollovers and expect to continue to find a range of contracts for different channels and markets. All of this bodes well for the health of the VA industry. Whether guarantees are sold inside of retirement plans or capture assets during the IRA rollover process, DC plan savings represent an important component for future VA growth.

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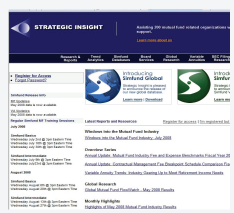

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