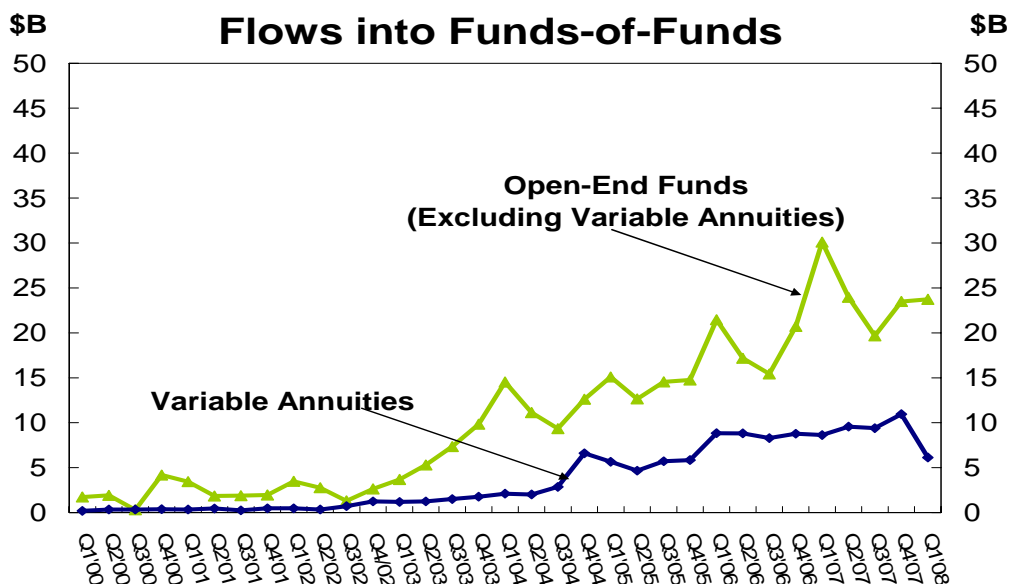


SI Quick Insight: Investors Have Gotten Asset Allocation ‘Religion’

The mutual fund industry has evolved from selling one fund at a time to planning portfolios that allocate money among diversified asset classes. Asset-allocation funds-of-funds have been a chief beneficiary, as they can offer a one-stop solution for diversified portfolios. In 2007, flows into US funds-of-funds reached roughly \$140 billion, up from \$110 billion the previous year.



Source: Strategic Insight Simfund MF and Simfund VA

The shift to packaged asset allocation is evident in product platforms as well. **Last year, some \$100 billion flowed into mutual fund “wrap” programs, up from about \$60 billion of flows in 2006.** Investors are catching on that diversifying risk is the safest long-term investment strategy. Advisors realize that providing “solutions” rather than “products” helps asset retention.

On the product side, most of the flows into funds-of-funds have been to lifecycle asset-allocation funds – and **the bulk of recent lifecycle fund flows have gone to target-date funds.** Much of target-date funds’ appeal is their simplicity: investors understand that they provide an increasingly conservative portfolio mix as the investor approaches retirement. The Pension Protection Act of 2006 protects Defined Contribution plan providers who offer lifecycle funds as a default investment for employees. As a result, and as more companies put employees into DC plans through auto-enrollment features, **we expect to see accelerated growth of lifecycle funds.**

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