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A Perspective on 2008 for the US Mutual Fund Industry: Diverse Group of Managers Still Attracting Positive Inflows

NEW YORK, NY – January 22, 2009 – During 2008, investors in stock and bond mutual funds withdrew roughly 2% of their holdings, on a net basis -- using these withdrawn assets for savings elsewhere, debt reduction, consumption, or paying expenses. Some additional amount was transferred to money market mutual funds, which, benefitting from institutional investors' deposits and individual's defensive switches, captured more than \$600 billion for the full year, according to new data from Strategic Insight, a business intelligence provider to the fund industry.

Net redemptions from mutual funds during 2008 remained relatively small – and in line with historical experience -- during the most horrifying financial market of our lifetime. “This phenomenon reaffirms that for most American, mutual funds remain the preferred way to invest,” said Avi Nachmany, Strategic Insight’s Director of Research.

The uncertainty surrounding hedge funds and other alternative investments imply that more high net worth investors would also migrate towards the transparent, liquid, and highly regulated mutual fund vehicle in the coming years. Assuming a slow rebound of investor confidence, coupled with slowing redemption activity, Strategic Insight projects that long-term mutual fund flows industrywide would turn positive this year.

Even in 2008, many investment managers successfully expanded their appeal. These include a range of small and large managers of actively-managed funds, other organizations focusing on the benefits of traditional index funds and index-linked ETFs, and many companies serving as safe havens for stable money market fund allocations. Below Strategic Insight presents its 2008 cash flow results for such managers, whose achievements underline the resilience of the fund business.

Organic Growth at Managers of Active, Long-Term Funds

For example, 27 fund firms each drew \$1 billion or more in net new flows in 2008 to their actively managed, long-term mutual funds, according to data from Strategic Insight’s Simfund databases of mutual fund industry assets, flows and performance.

Active Stock & Bond Fund Managers: Top 20 Asset Gatherers in 2008			
Fund Management Firm	Net New Flows \$B 2008	Total Assets \$B Dec. '08	'08 Flows As % of 12/07 Assets
PIMCO/Allianz Global	23.6	238.4	10%
Waddell & Reed/Ivy	6.6	34.4	14%
Vanguard	6.2	381.8	1%
Harbor Capital	5.9	30.8	14%
DFA	4.7	69.2	4%
BlackRock	4.0	103.8	3%
Fairholme Capital	3.5	7.2	53%
The Hartford	3.4	32.4	7%
CGM Funds	2.8	5.7	32%
Loomis Sayles	2.7	20.8	11%
Pacific Heights	2.4	3.5	154%
Eaton Vance	2.2	66.9	2%
TIAA-CREF	2.1	10.4	17%
Natixis Asset Mgmt	1.8	16.0	9%
Frost Investment	1.7	1.3	N/A
Keeley Asset Mgmt	1.7	4.5	28%
Victory Capital	1.6	6.1	21%
Bessemer Trust	1.4	3.4	34%
Diamond Hill Capital	1.2	3.0	14%
Hussman Funds	1.2	4.0	41%

Source: Strategic Insight Simfund MF; Excludes VA funds

The success of so many active fund managers reflects the continued high demand for active fund management, especially as investors seek informed experts to navigate the tumultuous economic landscape. Active long-term funds continue to comprise the core of investing for retirement.

Meanwhile, the list above shows that some smaller players, such as Fairholme Capital Management and CGM Funds (respectively, the seventh- and ninth-biggest asset gatherers among active long-term fund managers) were able to attract substantial assets from US investors based on their prowess in actively managed mutual funds. Even though stock and bond funds in general experienced net outflows in 2008, some 200 managers – large and small – of active, long-term mutual funds experienced positive net flows during the year.

“The ability of so many investment boutiques to find audiences among individual investors and financial advisors is heartening, but not surprising,” said Strategic Insight’s Nachmany. “A back-to-basics approach with strong investment convictions will be increasingly important to engage investors, both in the US and abroad. And those qualities are part of the DNA of investment boutiques.”

Small Managers Growing Rapidly in 2008: Actively Managed Stock & Bond Funds			
	Net New Flows \$B 2008	2008 Flows As % of 12/07 Assets	Total Assets \$B Dec. '08
Fairholme Capital	3.5	52.6%	7.2
Diamond Hill	1.2	43.6%	3.0
Hussman Funds	1.2	36.8%	4.0
Leuthold Weeden	1.0	33.9%	2.8
Bessemer Trust	1.4	33.8%	3.4
CGM Funds	2.8	31.9%	5.7
Keeley Asset Mgmt	1.7	27.6%	4.5
Heartland Group	0.6	24.4%	1.9
Victory Capital	1.6	21.1%	6.1
Scout Investment	0.8	17.2%	3.4
TIAA-CREF	2.1	16.6%	10.4
Waddell & Reed / Ivy	6.6	13.8%	34.4
Harbor Capital	5.9	13.5%	30.8
Sentinel Asset Mgmt	0.6	13.0%	3.8
Lazard Asset Mgmt	1.1	12.8%	5.5

Source: Strategic Insight Simfund MF; Excluding VA funds

Flows to Managers of Money-Market Funds

The money-fund segment of the industry saw net inflows of \$600 billion in 2008, overcoming uncertainties in September and October to confirm its place as a safe haven for investors. This growth meant that 32 individual firms drew at least \$1 billion in net new money-fund flows last year; and five managers each captured at least \$50 billion for money funds.

Money-Fund Managers: Top 10 Asset Gatherers in 2008		
Manager Name	Net New Flows \$B 2008	Total Assets \$B 2008
JPMorgan Funds	132.6	362.6
Federated	104.1	313.3
Fidelity	91.1	477.0
Dreyfus	76.7	254.0
Goldman Sachs	67.3	219.0
Wells Fargo	30.9	139.1
BlackRock	28.4	274.5
Barclays Global	23.7	40.2
Schwab	22.3	208.5
FAF Advisors	21.2	75.3

Source: Strategic Insight Simfund MF

Because of the traditional low margins, the money-market fund business continues to favor those players with scale – so most of the biggest asset gatherers in this space in 2008 were the larger money-fund players.

Lifecycle Funds Continue to Grow

One area of continued growth is the lifecycle fund, driven by investor demand for one-stop solutions for diversified portfolios designed for retirement. In all, lifecycle funds took in \$37 billion in net new flows in 2008 despite the market difficulties, and 2008 marked the ascendance of target-date funds over risk-based funds as the dominant lifecycle fund type.

US Lifecycle Funds			
Lifecycle Fund Type	No. of Funds Dec. '08	Total Assets \$B Dec. '08	Net New Flows \$B 2008
Target Date	378	157.6	41.5
Risk Based	385	140.8	-4.2
Total above	763	298.4	37.3

Source: Strategic Insight Simfund MF; Excludes VA funds

The growth of lifecycle funds, despite the difficult environment in 2008, was a testament to the importance of defined-contribution retirement plans, the key market for lifecycle funds.

Flows to Managers of Index Funds

In 2008, seven fund management firms saw net inflows of \$1 billion or more to their traditional index funds (excluding ETFs). Vanguard, the best-known index fund provider, saw the most organic growth (\$39 billion in net inflows). But firms such as John Hancock and Northern Trust also benefited.

Fastest Growing Index Fund Managers: 2008		
Manager Name	Net New Flows \$B 2008	Total Assets \$B 12/31/2008
Vanguard	39.0	396
Fidelity	6.2	60
John Hancock	2.5	2.8
T Rowe Price	1.6	8.8
Northern Trust	1.1	5.0
TIAA-CREF	1.1	4.0
Rydex Global	1.0	1.3

Source: Strategic Insight Simfund MF; Excludes VA funds

ETF Inflows Hit Record

Exchange-traded funds (ETFs), including UITs, trusts, partnerships and ETNs, were another sector of the industry that saw impressive growth in 2008. Net new flows to ETFs in 2008 were a record \$176 billion, breaking 2007's record of \$150 billion in net new flows. Beyond the US, ETF flows were also robust, especially in Europe; in all, investors around the globe poured more than \$250 billion in ETFs in 2008. (Strategic Insight will soon publish a major report on the ETF industry explaining the growth, product development trends, and distribution issues.)

US ETF Overview 2008			
Includes UITs, Trusts, Partnerships and ETNs			
ETF Type	No. of Funds	Assets \$B Dec. '08	Net New Flows \$B 2008
Domestic Equity	507	363.7	133.5
International Equity	221	110.9	19.8
Taxable Bond	42	55.2	20.9
Tax-Free Bond	15	2.2	1.7
Money Market	37	3.6	0.3
Total above	822	535.6	176.1

Source: Strategic Insight Simfund MF

Many individual ETF managers experienced significant growth in 2008:

Fastest Growing ETF Managers: 2008		
ETF Manager Name	Total Assets \$B 12/31/2008	Net New Flows \$B 2008
State Street Glbl	161	68.8
Barclays Global	257	54.8
Vanguard	46	24.0
ProFunds	20	14.0
Van Eck	4.5	4.1
US Commodity Funds	3.3	3.8
InvescoPowerShares	22	1.6
Bank of New York	6.8	1.2
Rafferty Asset	0.9	0.9
Deutsche Bank	0.7	0.8

Source: Strategic Insight Simfund MF

Net new flows in 2008 benefited State Street Global Advisors and Barclays Global Investors especially. Vanguard's flows were comparable when factoring in its large lead in non-ETF index funds (see above). Last year was also extraordinary for some emerging players in the ETF space, including ProFunds and Van Eck. Investor demand favored large providers or exchange-traded products that easily enabled directional bets on markets and sectors. The US ETF market remained concentrated, with the three largest ETF providers accounting for 87% of assets.

2008 In Review

Unprecedented volatility and tumult led to a challenging 2008 for all investors, including mutual fund shareholders. Fixed-income markets seized up, the S&P 500 index fell by 38%, and the US government intervened in the financial sector to an exceptional degree.

US Fund Industry Overview		
Excluding ETFs and VA funds		
Fund Type	Assets \$B Dec. '08	Net New Flows \$B 2008
Domestic Equity	2,741.2	-138.1
International Equity	974.8	-62.6
Taxable Bond	1,111.3	17.1
Tax-Free Bond	414.4	4.3
Money Market	3,748.5	603.5
Total above	8,990.3	424.2

Source: Strategic Insight Simfund MF; Includes Closed-end funds

Net outflows from stock mutual funds peaked in October, and then moderated in November and December. Bond mutual funds had a net positive year, with total net new flows of \$21 billion for 2008.

These cash flow results are from Strategic Insight's Simfund databases, the principle business intelligence tool for mutual fund data, tracking monthly \$22 trillion+ of assets and flow trends.

"Last year saw growth stories across the spectrum of mutual funds," said Loren Fox, senior research analyst at Strategic Insight. "The mutual fund industry's array of skill sets and diversity of managers, as seen in our research findings above, offer a foundation for serving the wide range of investors' needs in these extraordinary times."

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*In its 23rd year, Strategic Insight is a widely used and respected research firm for the mutual fund and wealth management industry, providing clients with in-depth studies, consultation, and electronic decision support systems. **Strategic Insight assists over 250 organizations worldwide**, including the largest mutual fund management companies operating in the U.S. and the largest insurance companies serving the VA business. **SI clients manage about 90% of U.S. mutual fund assets.** Strategic Insight also serves many Wall Street firms, service companies, and many of the largest asset managers in Europe and Asia. For more information, visit our home at www.sionline.com.*