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Stock & Bond Mutual Funds Draw \$176B in Inflows In 1H 2010 Despite Market Volatility

Strategic Insight Sees More Growth for Fixed Income, Non-Traditional Strategies

NEW YORK, NY – July 15, 2010 – Led by robust demand for bond mutual funds as investors seek income amid a low-yield environment, US investors put \$176 billion into stock and bond mutual funds (excluding ETFs) in the first half of 2010. Strategic Insight, a business intelligence provider to the fund industry, said that 1H inflows to bond mutual funds totaled \$138 billion.

US Long-Term Mutual Fund Results					
Fund Type	2008	2009	1st Half 2010	June'10	June'2010
	Net New Flows \$Billion	Net New Flows \$Billion	Net New Flows \$Billion	Net New Flows \$Billion	Total Assets \$Billion
Domestic Equity	-137.0	-25.8	3.7	-4.1	3,333.5
International Equity	-58.5	41.2	33.8	0.9	1,294.1
Total Equity	-195.5	15.4	37.5	-3.1	4,627.6
Taxable Bond	17.8	281.1	119.7	17.1	1,751.1
Tax-Free Bond	4.6	69.1	18.3	1.8	575.4
Total Bond	22.4	350.3	138.0	18.8	2,326.5
Total Stock & Bond	-173.0	365.7	175.5	15.7	6,954.1

Source: Strategic Insight Simfund MF; Data exclude ETFs and mutual funds underlying annuities

First-half 2010 inflows were led by taxable bond funds (net inflows of \$120 billion). Many of those flows went to short- and intermediate-term corporate bond funds, as they drew investors fleeing near-zero yields in cash accounts (there is nearly \$10 trillion still idling in cash in banks and money funds).

“We expect continued sizeable inflows to bond funds, and not just as cash substitutes. More flexible bond funds appeal to investors in a defensive mood and their financial advisors, with such flexibility helpful to address some (but not all) of the concerns about rising interest rates in the coming years,” said Avi Nachmany, director of research at Strategic Insight. “Bond fund demand has evolved from cyclical play on interest rates to a fundamental part of Americans’ asset-allocation approach.”

International equity funds (1H net inflows of \$34 billion) also saw healthy demand. Part of this growth was driven by emerging markets equity funds, which drew just over \$10 billion in the first half – ahead of the \$7 billion they drew in the first half of 2009. “Long term, there’s rising interest in international diversification as a core element of investors’ portfolios,” said Nachmany.

A limited appetite for risk restrained demand for US equity funds in 1H 2010, resulting in net inflows of just \$4 billion. “Yet, given all the anxiety in the global stock markets during the second quarter, it is reassuring that US equity funds flows largely stabilized in recent weeks

following a short period of heightened redemptions during May,” said Nachmany. “If economic and employment gains on Main Street persist in the second half, this foundation of confidence and a positive Wall Street sentiment would trigger moderate stock fund inflows in the coming months.”

Other trends that Strategic Insight has identified that will influence the rest of 2010:

- Some financial advisors and investors are inching towards go-anywhere, “global tactical asset allocation” funds, which have less constrained mandates and allow their portfolio managers to invest in multiple asset classes around the world. The emerging category of global tactical asset allocation funds drew \$13 billion in net new flows in 1H 2010, versus \$2 billion in net inflows in 2009’s first half. We expect further growth and more launches of these more-flexible funds.
- The fund industry should also continue to see rising demand for “alternative” mutual funds – those offering exposure to market-neutral strategies, long/short strategies, hard commodities, and other less-correlated asset classes. In the first half of 2010, alternative mutual funds (excluding ETFs) drew net inflows of \$13 billion. Alternative mutual funds ended the first half with a record \$116 billion in assets, up from \$102 billion at the end of 2009. This growth results from more investors seeking “absolute returns” and downside protection in the wake of the financial crisis, as well as diversification of correlations to reduce volatility.
- Demand for actively managed mutual funds remains strong. During the first half, over \$1 trillion of actively managed stock and bond funds were purchased by investors (these are SI’s estimates based on ICI reported gross purchases, not “net” flows); more than 80% of funds purchased by investors and advisors are actively managed, with the balance put into passive products (whose market share is slowly rising). “In times of uncertainty, most investors and their advisors prefer the focus and strong sense of conviction that active managers have for their strategies/philosophies,” said Nachmany.

Separately, Strategic Insight announced that Exchange-Traded Funds (ETFs) took in \$39 billion in net flows during the first half of 2010. That was slightly ahead of the \$35 billion in net inflows ETFs gathered in the first half of 2009. Net inflows to ETFs were led by gold ETFs, emerging markets ETFs, and short-term bond ETFs. US ETF assets (including ETNs) totaled \$785 billion at the end of June, invested in a record 977 products.

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Teleconference: Please join Strategic Insight for a teleconference for the press to discuss this press release, and SI’s projections for the second half. The live call will include Strategic Insight Research Director Avi Nachmany discussing his views and taking questions from reporters

When: July 15, 11:00 am – 11:30 am EDT

Dial-in Number: 1-866-469-3239

Attendee Access Code: 216 067 58

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