

Key National Broker Dealer Demand Trends to Watch in 2011

March 3, 2011

Presenter

Dennis Bowden

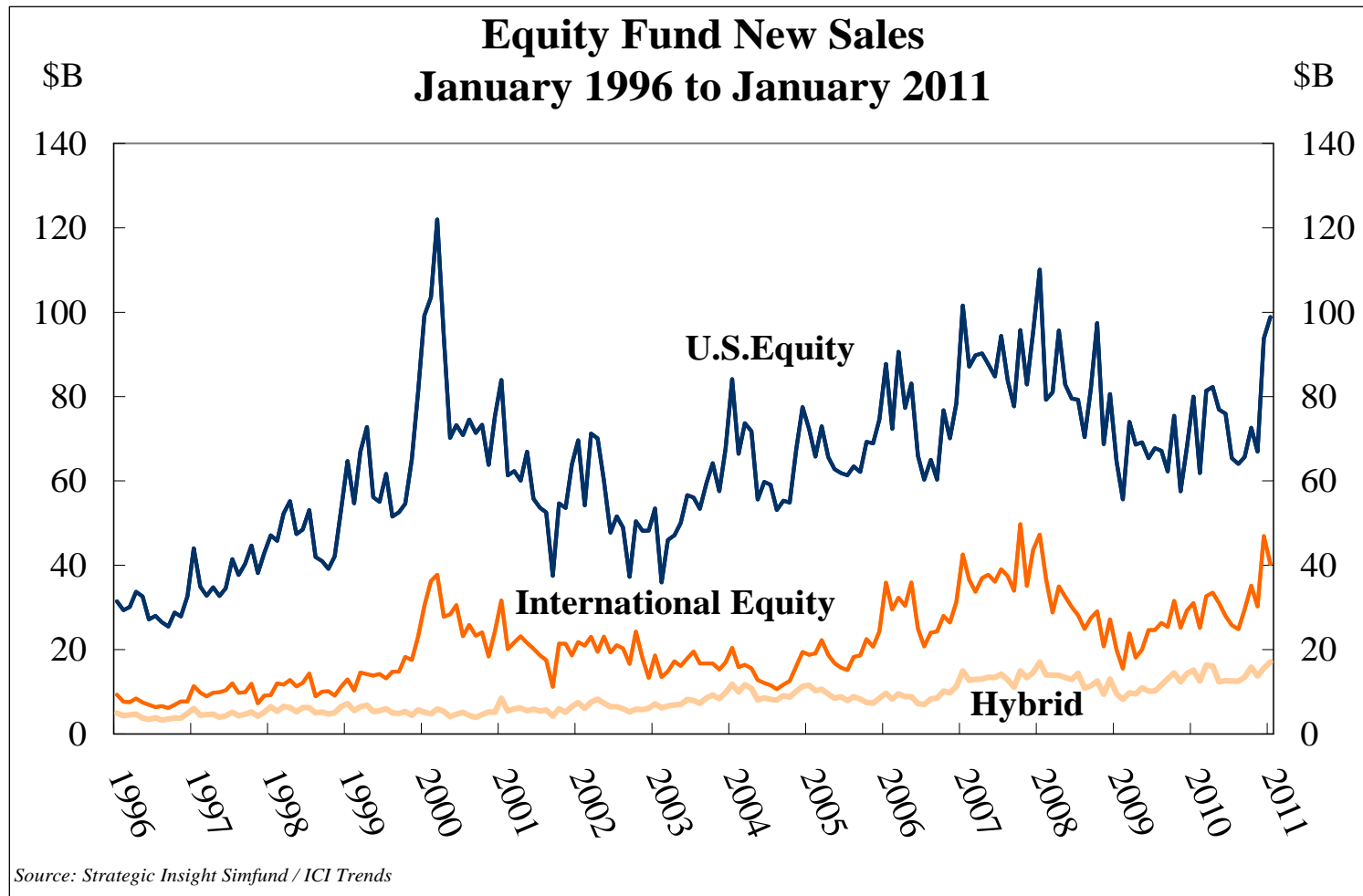
Senior Research Analyst

dbowden@sionline.com; 212-217-6895

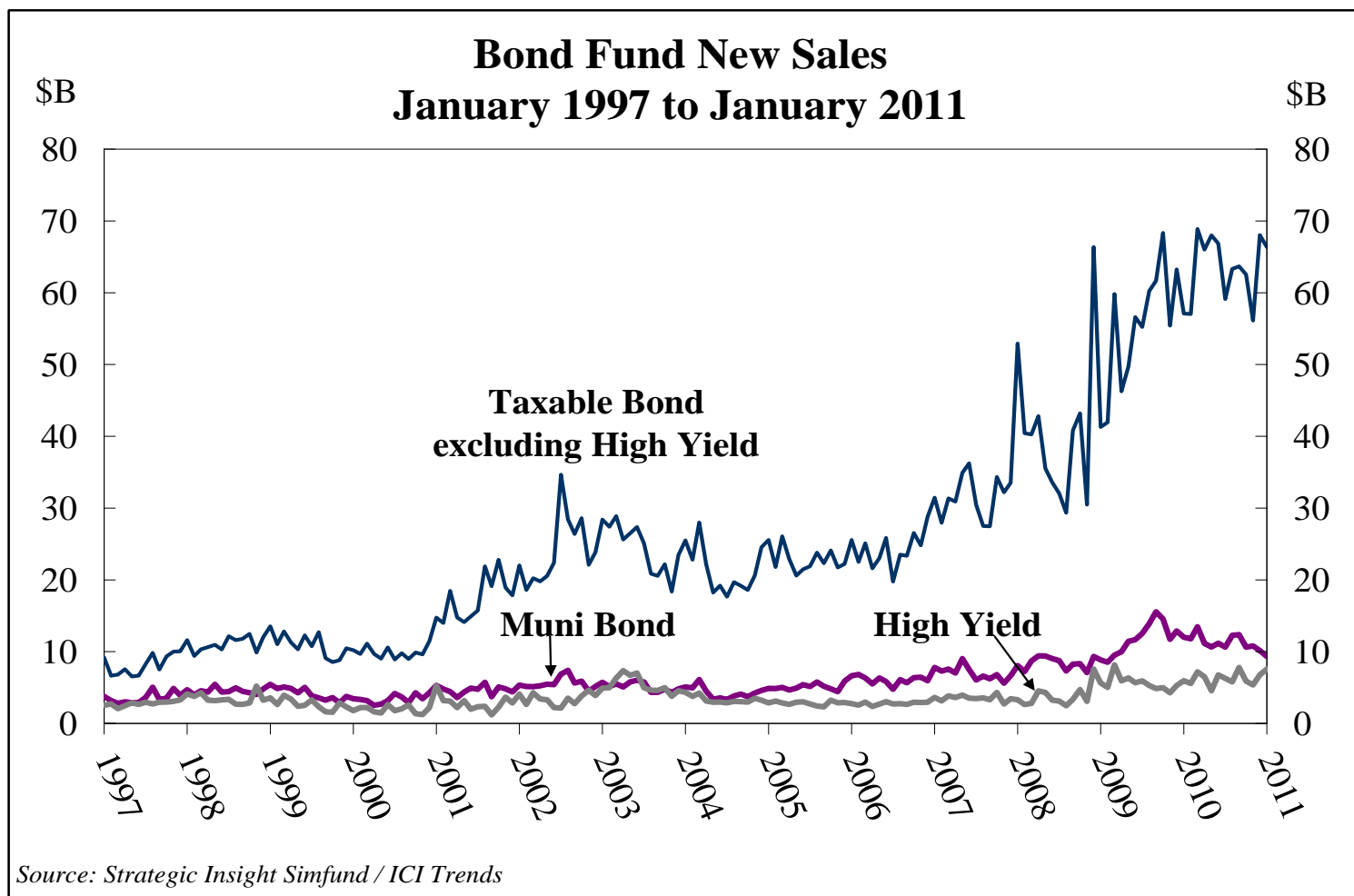
Big Picture – 2011 Forecast: Long-Term Fund Sales Rise ~10%, Following 2010 YTY Gains of 15%

- A modestly positive year for the economy, stock markets; small economic improvements, lingering concerns keep short-term interest rates very low
- **Bond funds:** slowing sales, but continuing wide interest
- **US 3x3 Style Box:** more sales in both Large Cap and Small Cap, following their valuations and good recent returns
- Dedicated **Emerging Market funds:** rose to 20% of all int'l equity fund sales in '10; while today's demand is secular (not cyclical), less euphoria is projected in '11 (valuations, fatigue, capacity concerns, price volatility)?
- **Diversified Int'l Equity funds:** further sales gains projected in '11
- More buying of **asset allocation “solutions”**, less 1-investment-at-a-time
- **ETFs:** more traction, but just \$20-30B of active fund substitution for now, annually (vs. long-term fund sales annually exceeding \$2 trillion)

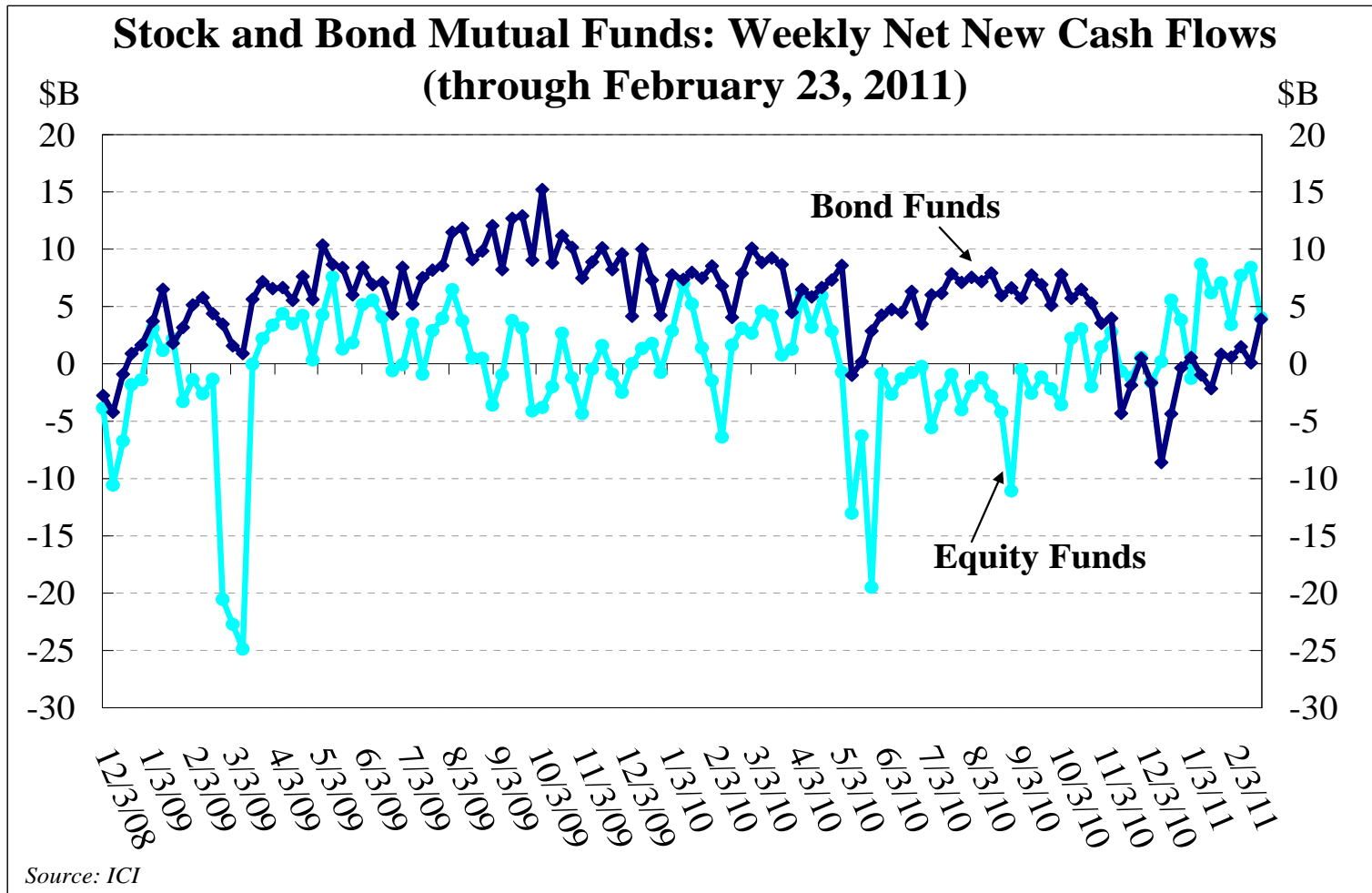
Sales of Equity Funds: Rose 16% in 2010 (Big Jump at Year-End) and Projected to Rise ~20% in 2011



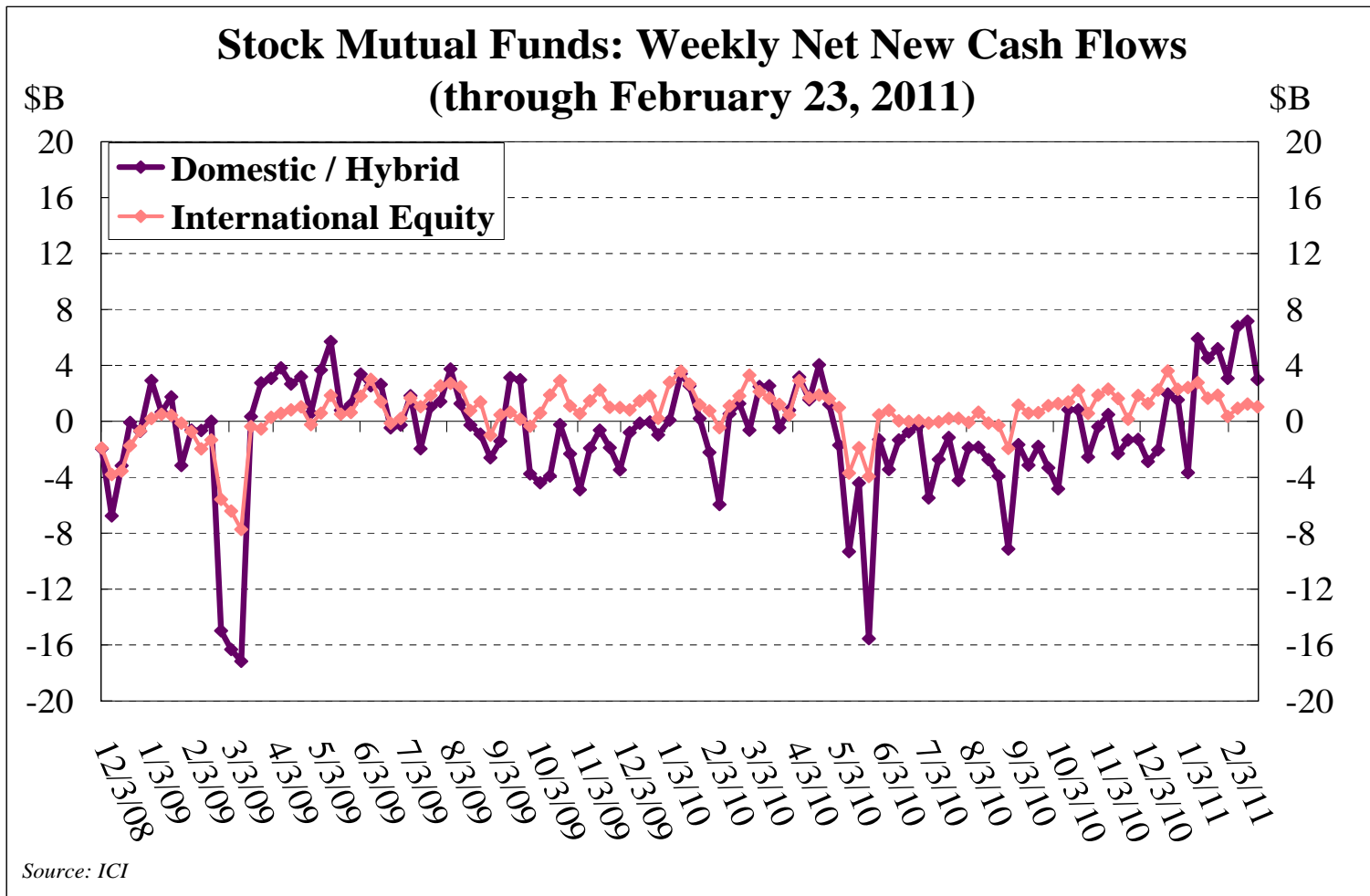
Bond Fund Sales Projected to Moderate in 2011 but Still Exceed \$750 Billion; After 30 Years of Falling Interest Rates, Investment Flexibility into Rising Rate Periods



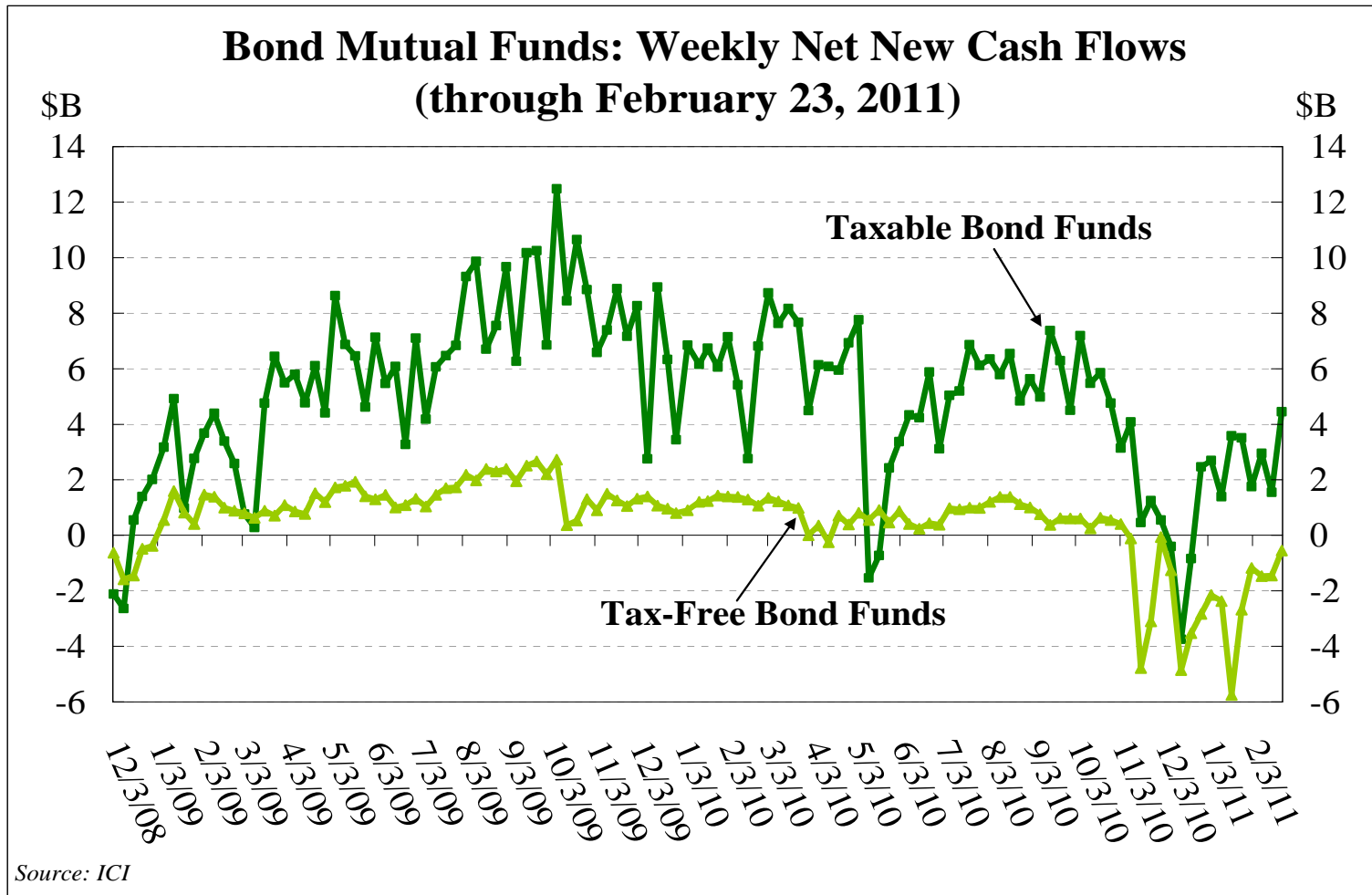
Reversal of Flow Pattern in Recent Weeks – Recovery for Equity Funds, Contraction for Bond Funds



Equity Funds: Flows to US Equity Funds in Early 2011 Strongest in 7 Years



Bond Funds: Stronger Taxable Demand Resuming in Recent Weeks; Tax-Free Funds Recovering Somewhat



National BD Trends

➤ Drivers of growth

- Resumption of fee-based sales dominance, but shifting influence among wrap program types

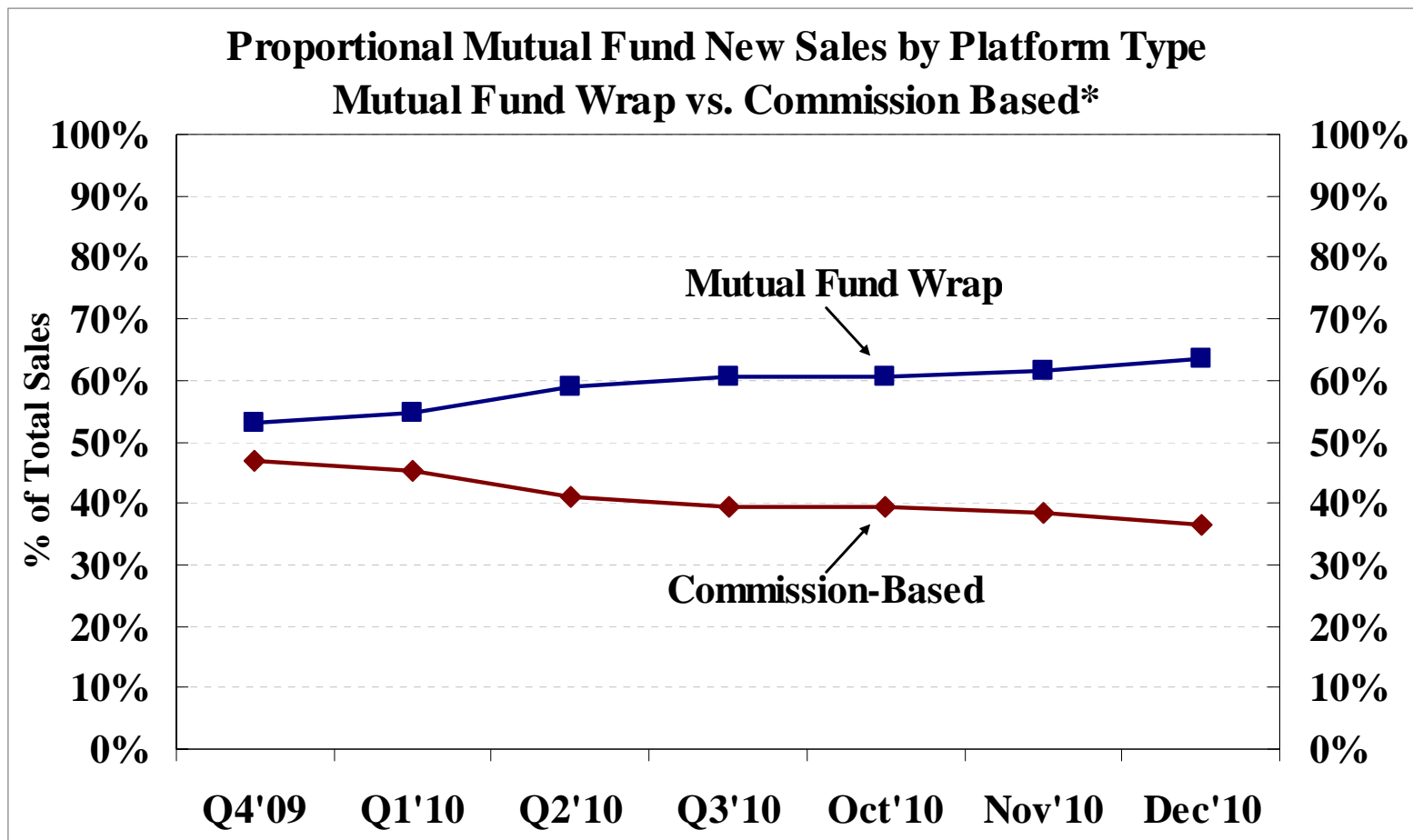
➤ Demand differences across platforms

- Equity vs. Bond
- US vs. International / Global
- Traditional vs. Alternative
- Flexible vs. Narrower Mandates
- Dec'2010 = Inflection point for investor demand into 2011?

➤ *National Broker Dealer Product Strategy & Distribution Trends* quarterly report series

- Learn more – Dennis Bowden (dbowden@sionline.com)

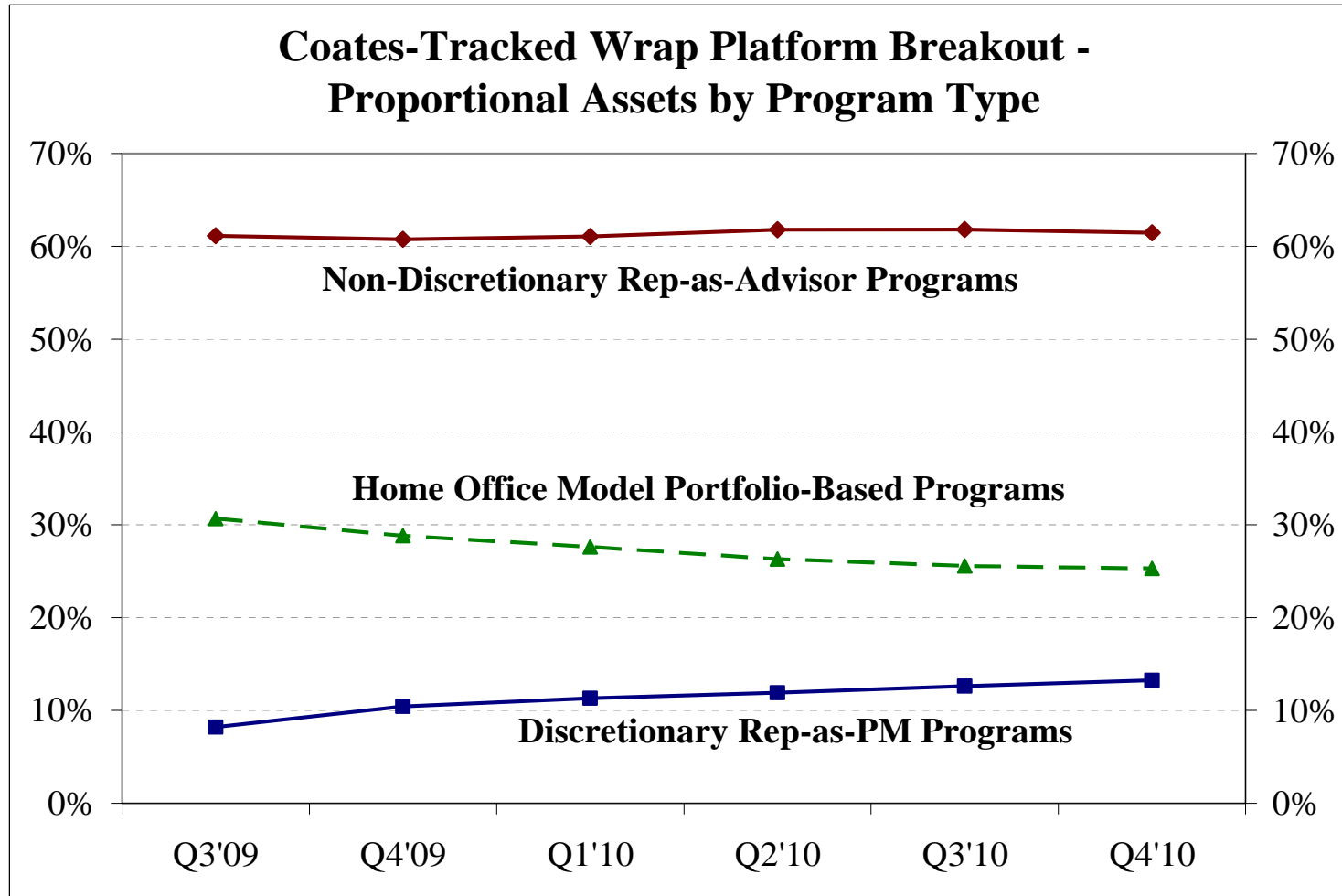
After Elevated Sales of Commissionable (Low-Commission) Bond Funds in 2009, Mutual Fund Wrap Sales Accelerating into 2011



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.

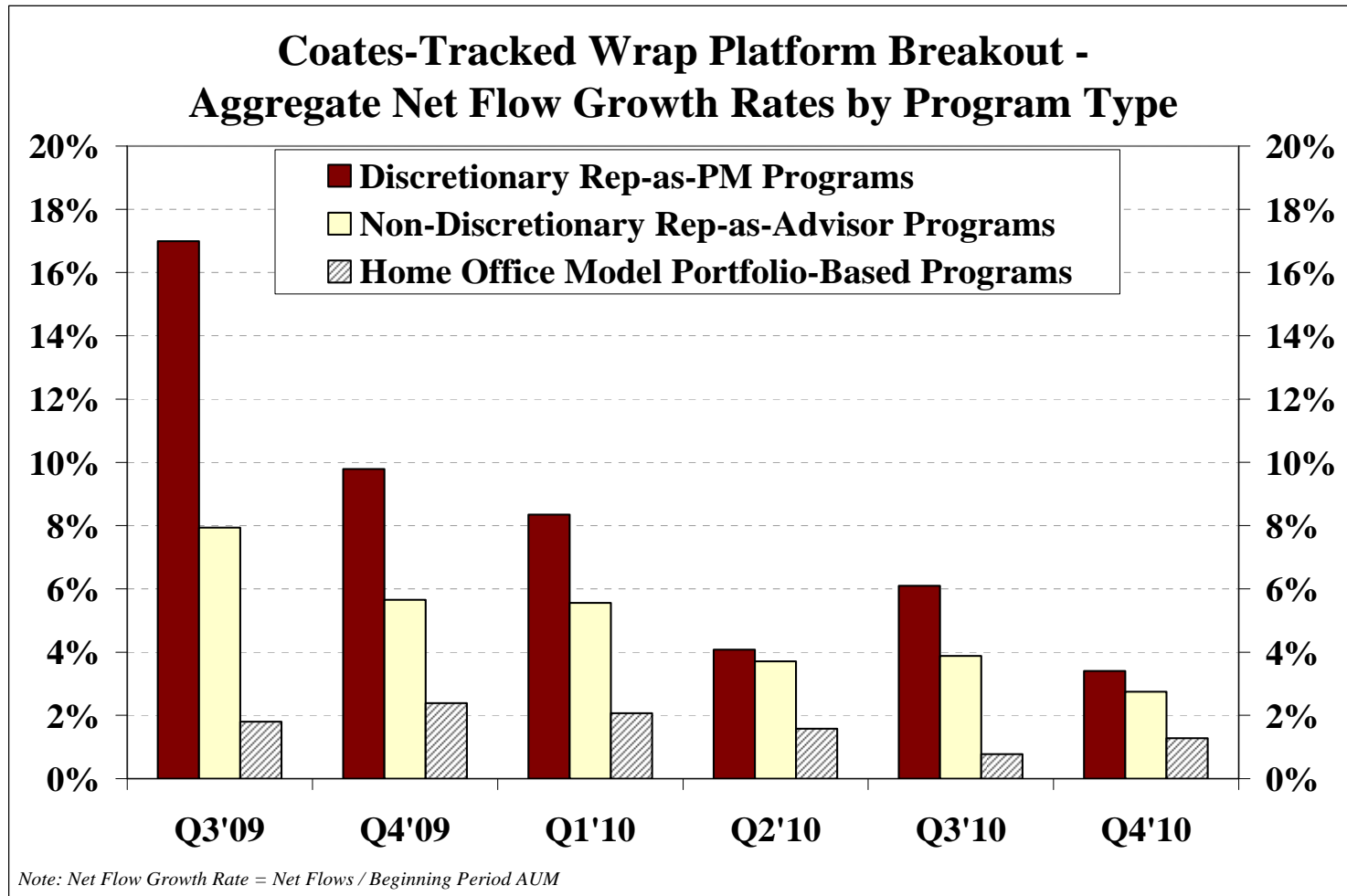
Fund Selection Decision Making – FA Controlled Wrap Platforms Retain Lead; Home Office Models Declining



Source: Coates Analytics Distribution Management System / SI Analysis

Shift Toward Even Greater FA Control?

Discretionary Rep-as-PM Programs Growing Rapidly



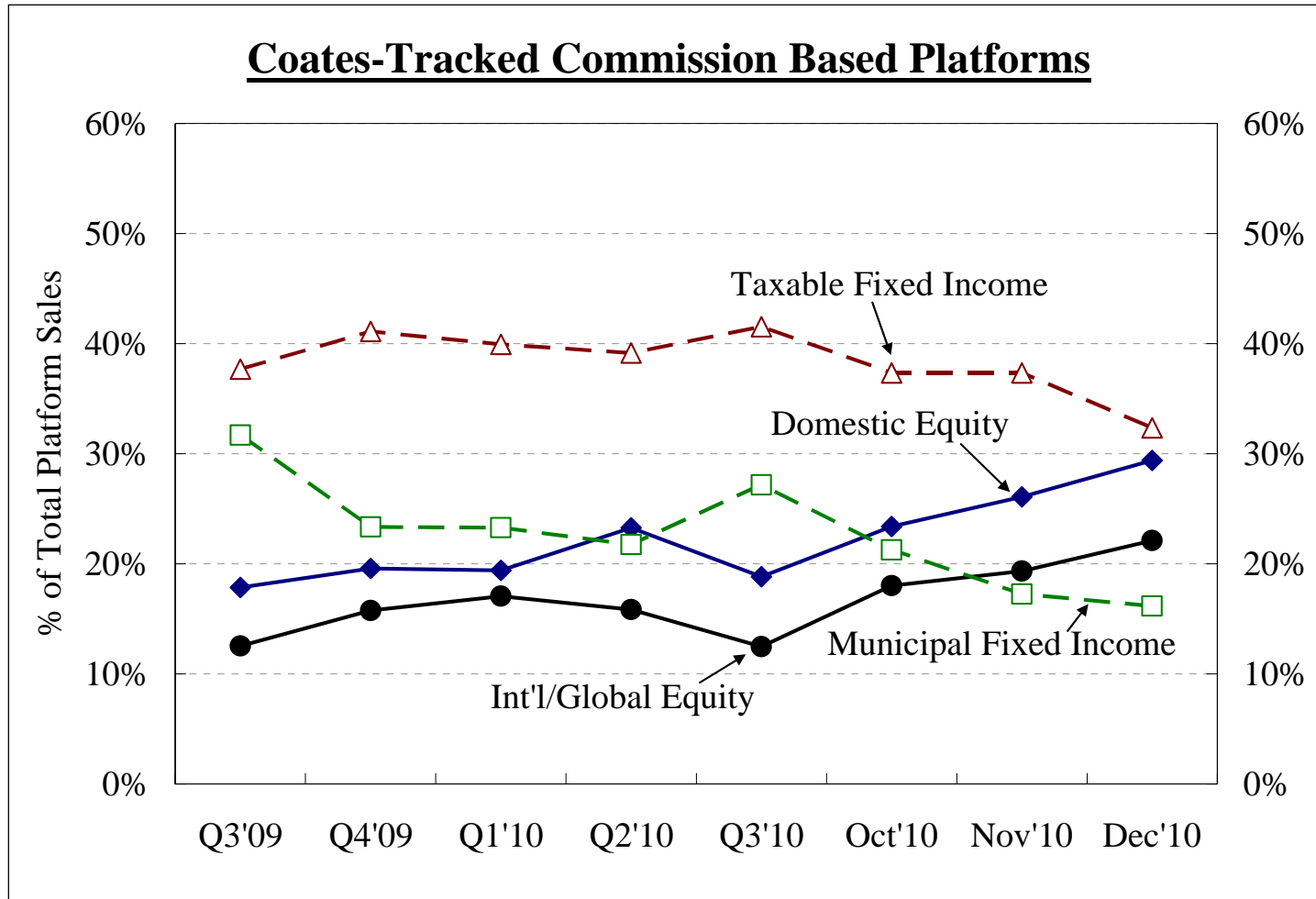
Source: Coates Analytics Distribution Management System / SI Analysis



Key Trends to Watch in 2011: Shifting Platform Sales & Increasing FA Discretion

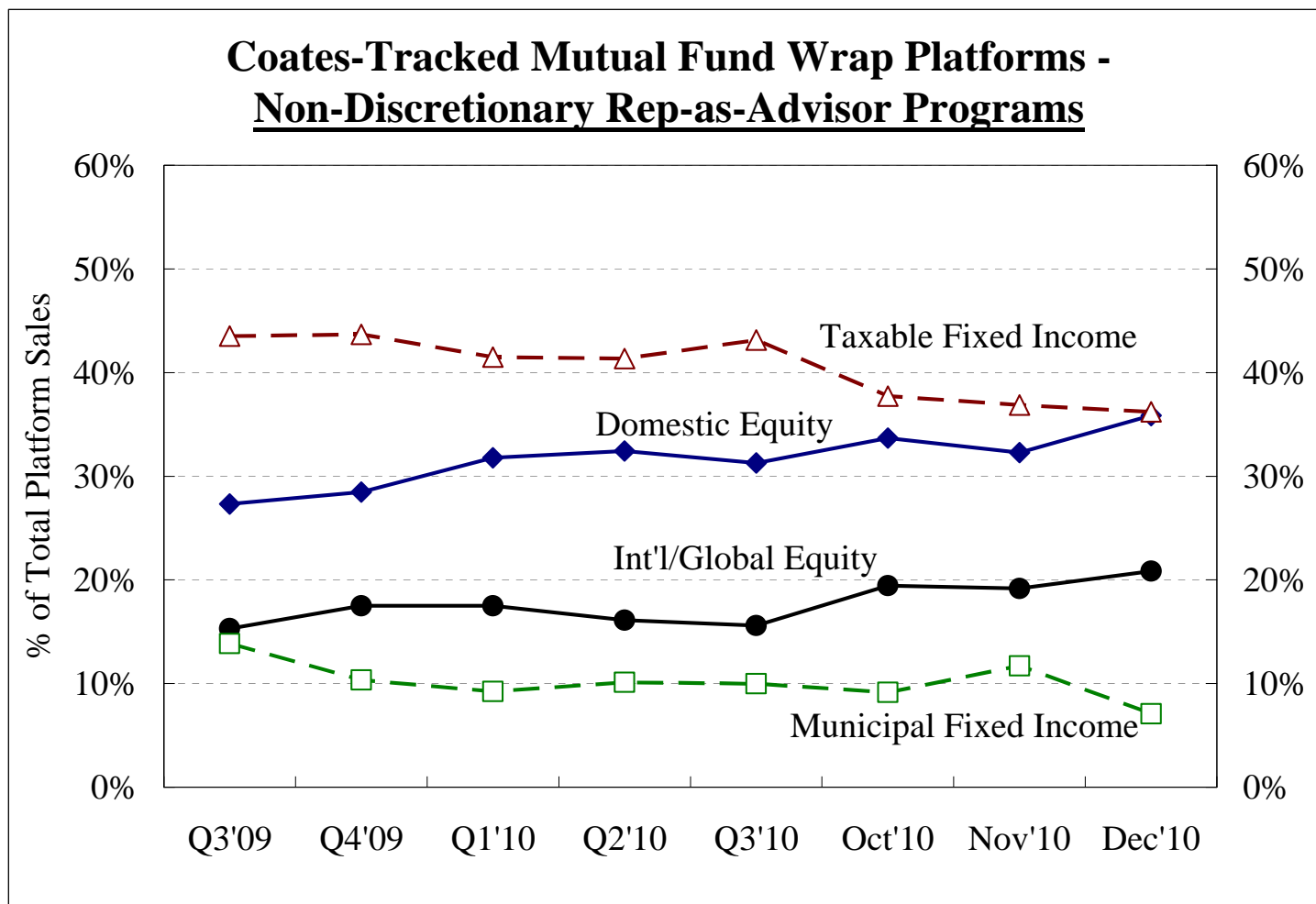
- Continued expansion of fee-based platform sales
 - Opportunities for certain income-producing funds via commission-based programs in sustained near-zero cash yield environment?
- Wrap platforms: FA/Investor-Controlled vs. Home Office Model programs
 - Secular shift in FA business model vs. cyclical derivative of post-crisis market demand?
 - Fund selection decision-makers – continued importance of boots on the ground

Bond Fund Sales (mainly short duration) via Nat'l BD Commission-Based Platforms Fell Significantly as Rates Rose in Q4'10



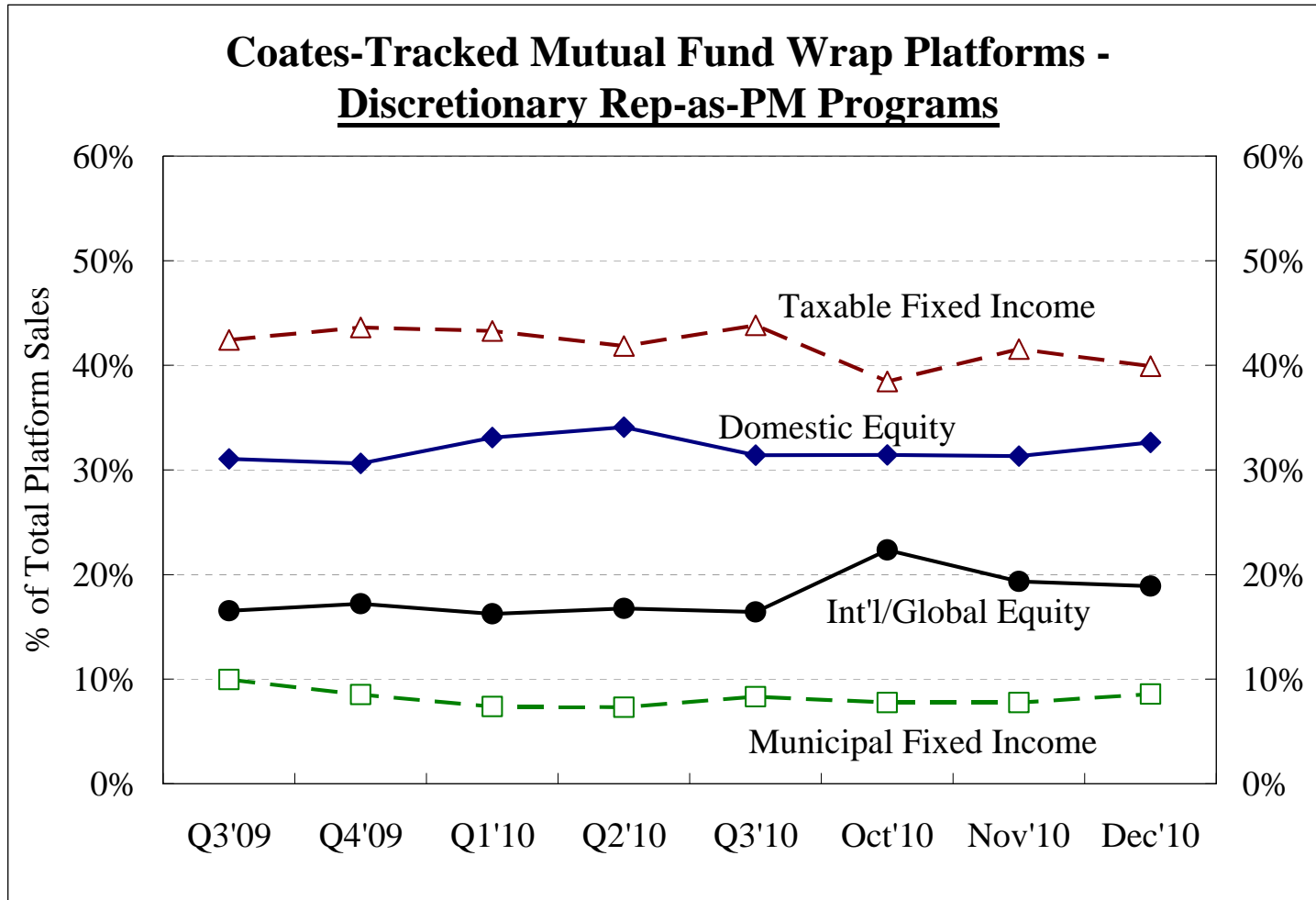
Source: Coates Analytics Distribution Management System / SI Analysis

Rep-as-Advisor Programs – Shift Toward Equity in Q4'10; Continuing in 2011?



Source: Coates Analytics Distribution Management System / SI Analysis

“Rep-as-PM” Advisors Remained More Committed to Bond Funds in Q4’10 – Longer Lasting Equity Skepticism? Greater Demand for Alternatives?



Source: Coates Analytics Distribution Management System / SI Analysis

December 2010 Demand Trends – Inflection Point?

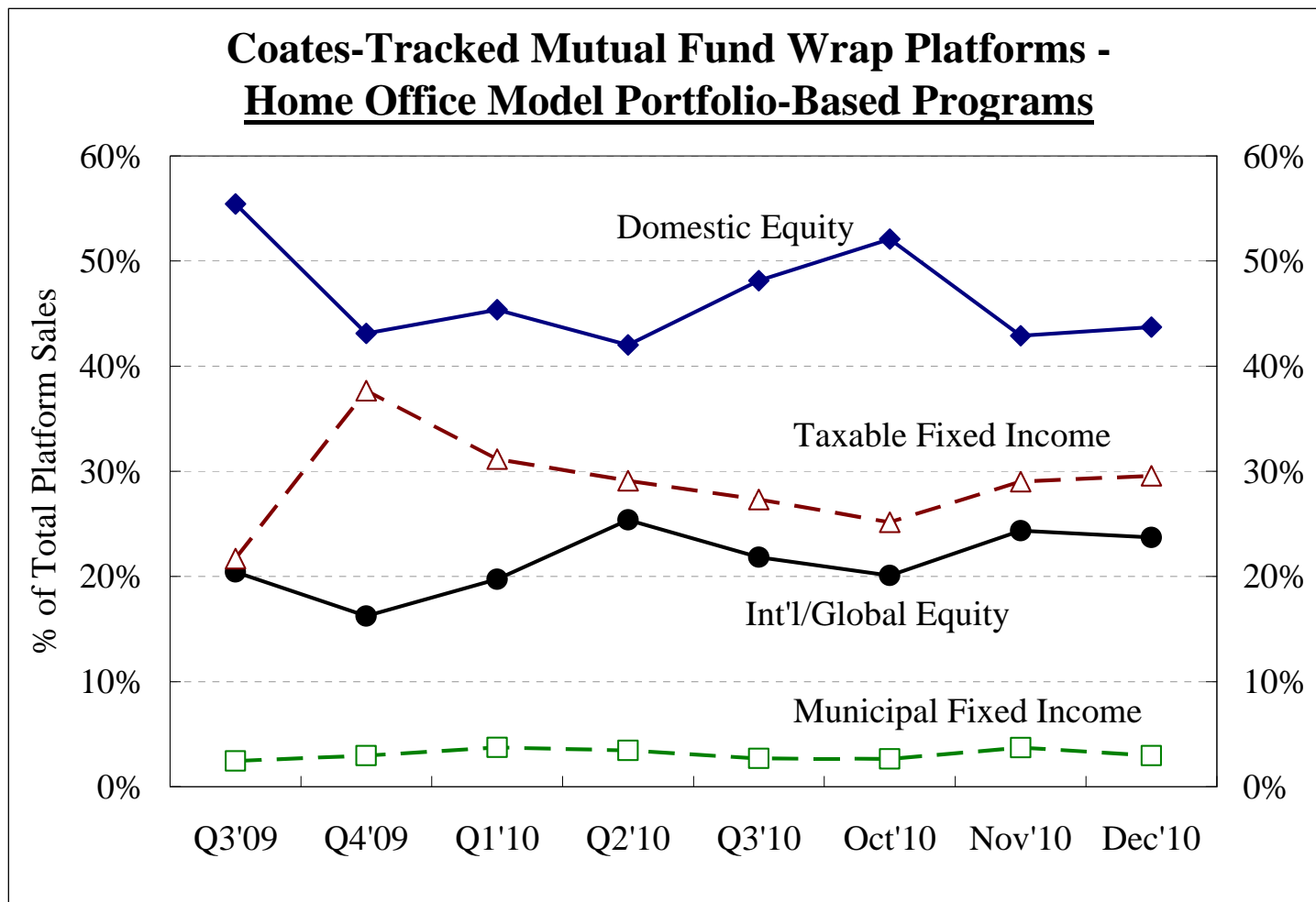
**10 Fastest Growing Investment Styles by Platform Type
November 2010 to December 2010 New Sales Share % Growth**

Commission-Based		Non-Discretionary Rep as Advisor		Discretionary Rep as PM	
Investment Style	Sales Share % Growth Nov'10 to Dec'10	Investment Style	Sales Share % Growth Nov'10 to Dec'10	Investment Style	Sales Share % Growth Nov'10 to Dec'10
Global Equity	2.3%	Global Equity	1.5%	High Yield Muni	1.8%
Large Cap Value	0.8%	International Equity	0.6%	Global Equity	1.6%
Large Cap Core	0.5%	Large Cap Growth	0.6%	Taxable Fixed Income	1.6%
Mid Cap Growth	0.4%	Large Cap Value	0.4%	Specialty	1.1%
Mid Cap Core	0.3%	Mid Cap Core	0.4%	Convertibles	0.6%
Large Cap Growth	0.3%	Mid Cap Growth	0.4%	Global Fixed Income	0.6%
International Equity	0.3%	Balanced	0.3%	Large Cap Growth	0.5%
Small Cap Growth	0.2%	Small Cap Core	0.3%	Large Cap Core	0.4%
Small Cap Core	0.2%	Large Cap Core	0.3%	Large Cap Value	0.4%
Specialty	0.2%	Specialty	0.3%	Small Cap Core	0.4%

Source: Coates Analytics Distribution Management System / SI Analysis

- Global allocation funds main beneficiary of increased equity demand across FA/investor-controlled platforms
 - US style-box equity funds also gaining
- Unique demand among “Rep-as-PM” advisors persists

While Home Office Model-Based Programs Have Remained Equity-Biased Post-Crisis



Source: Coates Analytics Distribution Management System / SI Analysis

Home Office Model Platforms – Fastest Growing Styles in December 2010 – Non-US Equity, Taxable Bond

10 Fastest Growing Investment Styles via Home Office Model Platforms November 2010 to December 2010	
Investment Style	Sales Share % Growth Nov'10 to Dec'10
Global Equity	1.1%
Taxable Fixed Income	0.8%
International Equity	0.5%
Balanced	0.4%
Mid Cap Growth	0.3%
Large Cap Core	0.2%
Mid Cap Core	0.2%
Long/Short Equity	0.1%
High Yield Taxable	0.1%
Specialty	0.1%

Source: Coates Analytics Distribution Management System / SI Analysis

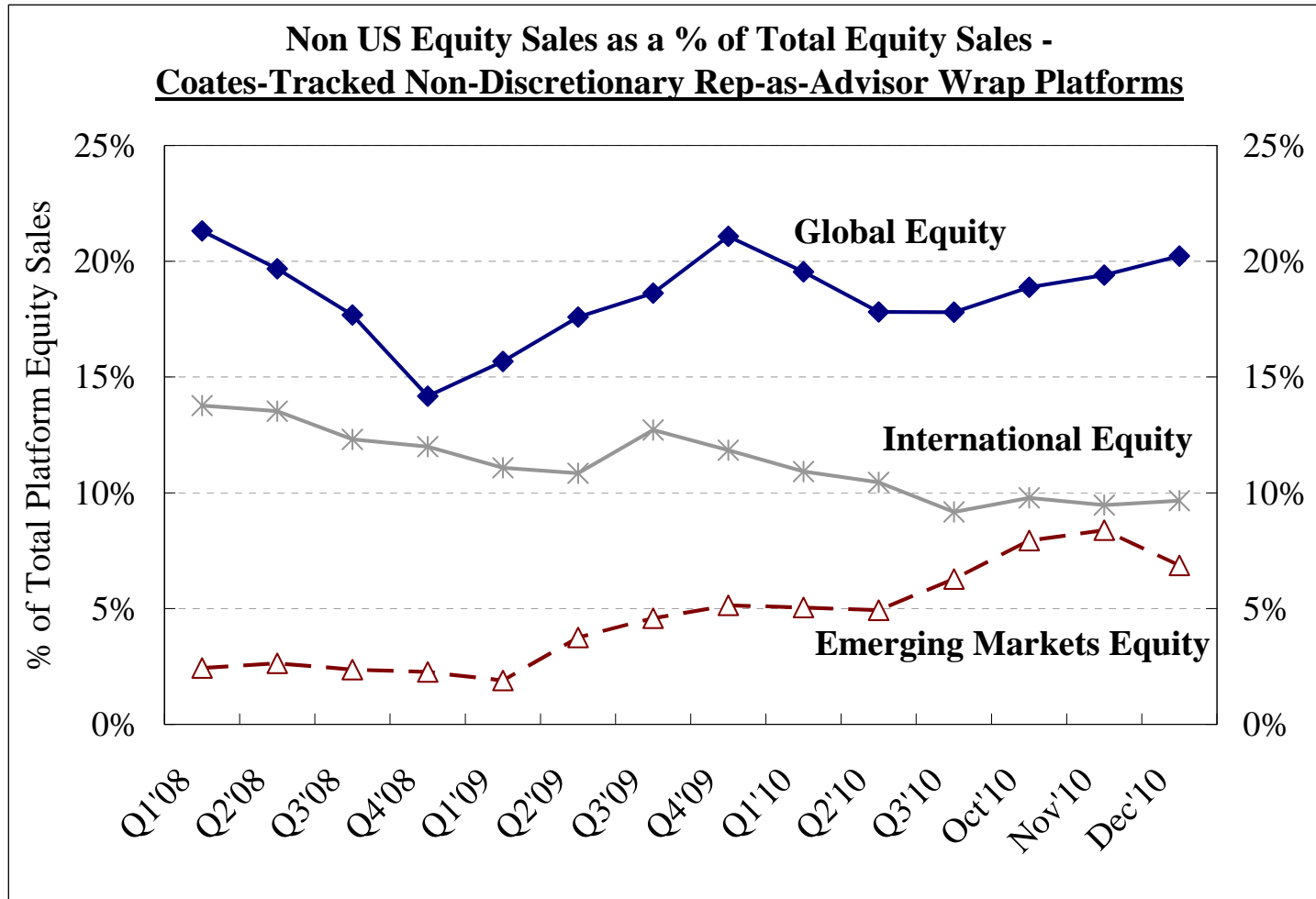
Key Trends to Watch in 2011: Thawing Equity Demand; Similarities/Differences in Asset Allocation Mindset Across Platforms

- Rethinking by many FAs of traditional US style-box equity-based core of asset allocation
- As equity demand recovers, how do longer-term fixed income allocations evolve? (given overall more cautious investor climate, demographic factors, etc.)
 - Bond fund in 2011 – continued demand for interest rate “nimble” strategies (flexible mandates, floating rate, global bond, multi-sector income)
- Evolving equity fund demand

Focusing on Equity Fund Demand – Key Differences Across Wrap Platforms

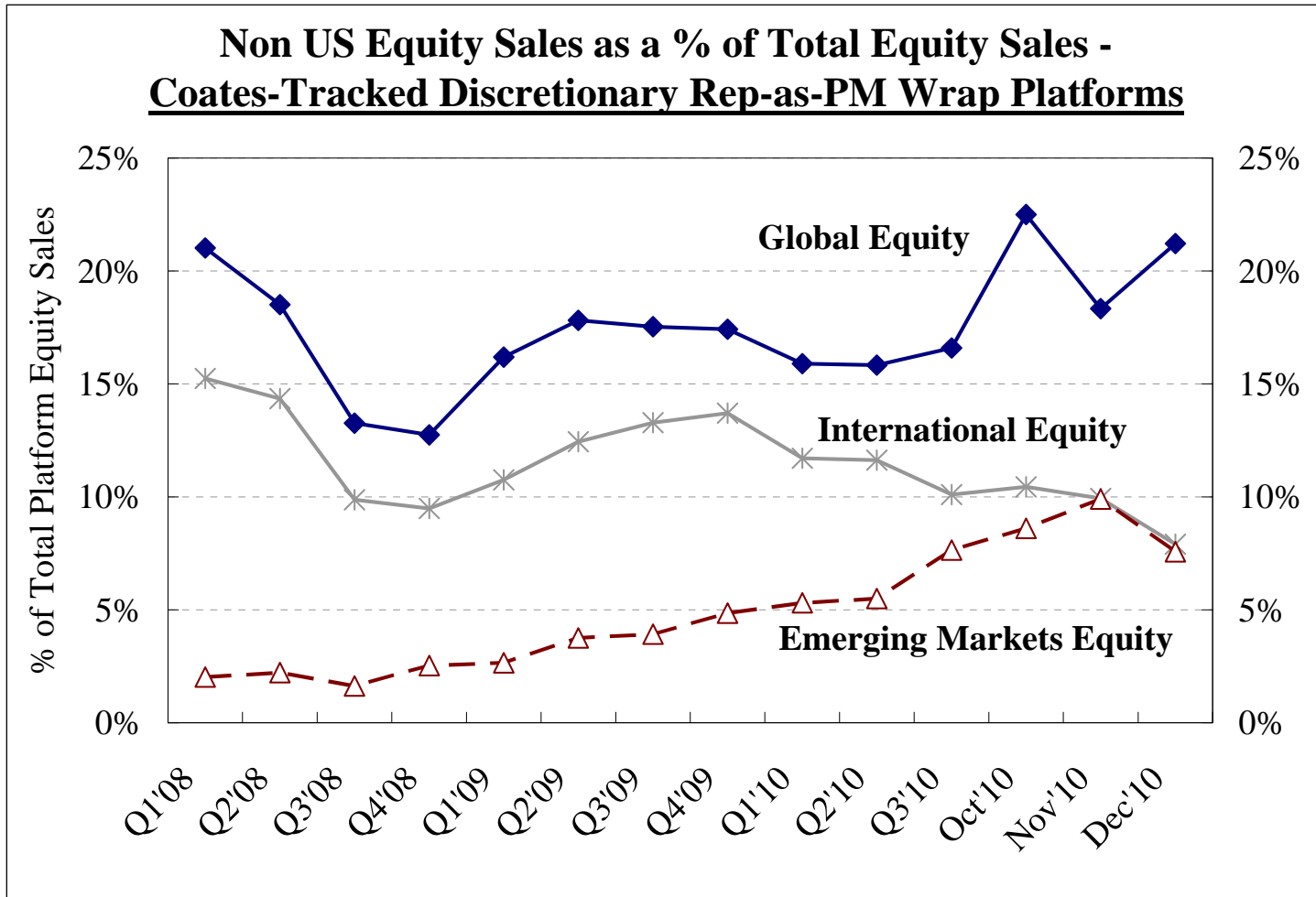
- Equity style sentiment; portfolio construction views
 - Non-US Equity exposure
 - Narrow vs. Flexible mandates
 - Developed vs. Emerging Markets
 - The role of US Style-Box Equity
 - Demand for Alternative strategies

Rep-as-Advisor Programs – Prevalence of Global Allocation Solutions, Emerging Markets Gains



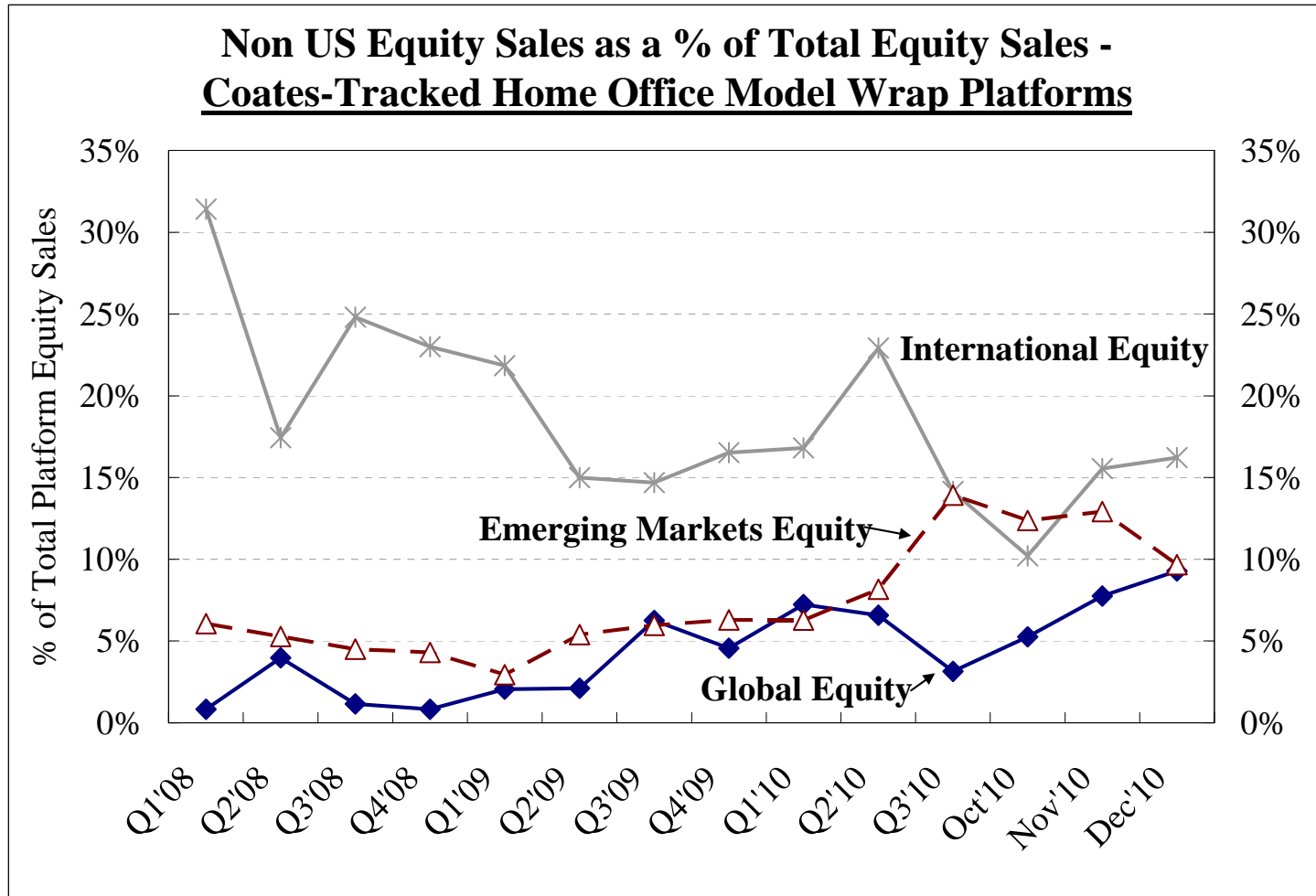
Source: Coates Analytics Distribution Management System / SI Analysis

Rep-as-PM Wrap: Global Allocation Funds, Emerging Markets Funds Led 2010 Demand



Source: Coates Analytics Distribution Management System / SI Analysis

Home Office Model-Based Wrap Platforms – Higher Demand for More Narrowly Mandated Int’l Equity Funds; But Global Equity Funds Picking Up Gains in Q4’10



Source: Coates Analytics Distribution Management System / SI Analysis

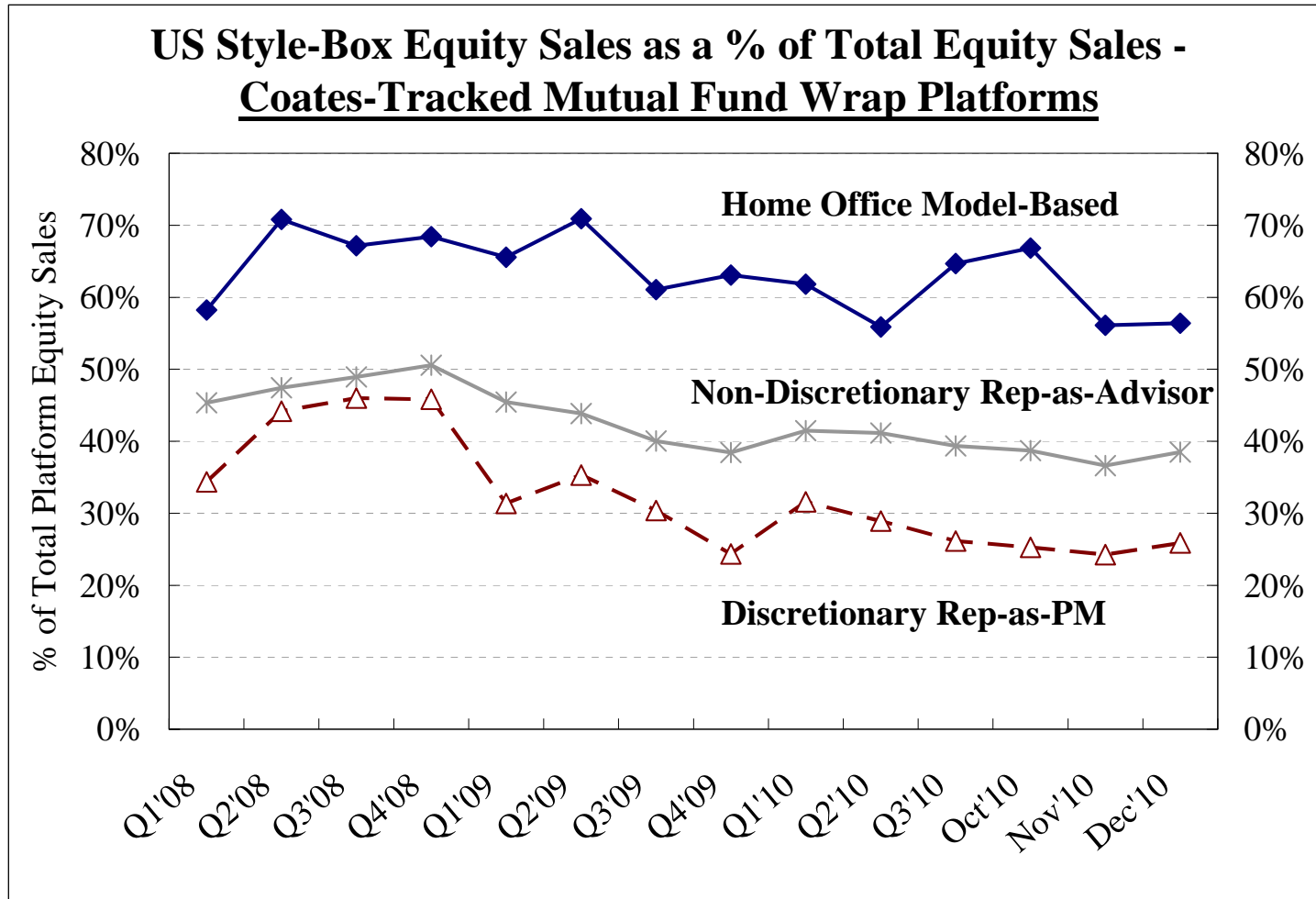


Top 5 Selling Equity Funds in 2010 by Wrap Platform: Non-US Strategies; Solutions – Not Funds – Dominate FA/Investor Fund Selection

Top Selling 2010 Equity Funds via Coates-Tracked Mutual Fund Wrap Platforms		
Non-Discretionary Rep-as-Advisor Wrap Platforms		
Fund	Style	% of 2010 Total Program Equity Sales
BlackRock Global Allocation	Global	3.5%
Ivy Asset Strategy	Global	3.1%
First Eagle Global	Global	2.8%
Oppenheimer Developing Markets	Emerging Markets	2.5%
Thornburg International Value	International	2.1%
Discretionary Rep-as-PM Wrap Platforms		
Fund	Style	% of 2010 Total Program Equity Sales
Ivy Asset Strategy	Global	2.9%
Federated Prudent Bear	Specialty	2.5%
BlackRock Global Allocation	Global	2.5%
PIMCO All Asset All Authority	Asset Allocation	2.5%
First Eagle Global	Global	2.2%
Home Office Model-Based Wrap Platforms		
Fund	Style	% of 2010 Total Program Equity Sales
Lazard Emerging Markets Equity	Emerging Markets	4.6%
Growth Fund of America	Large Cap Growth	3.8%
Janus Forty Fund	Large Cap Growth	2.6%
Europacific Growth Fund	International	2.6%
Dreyfus Appreciation	Large Cap Core	2.5%

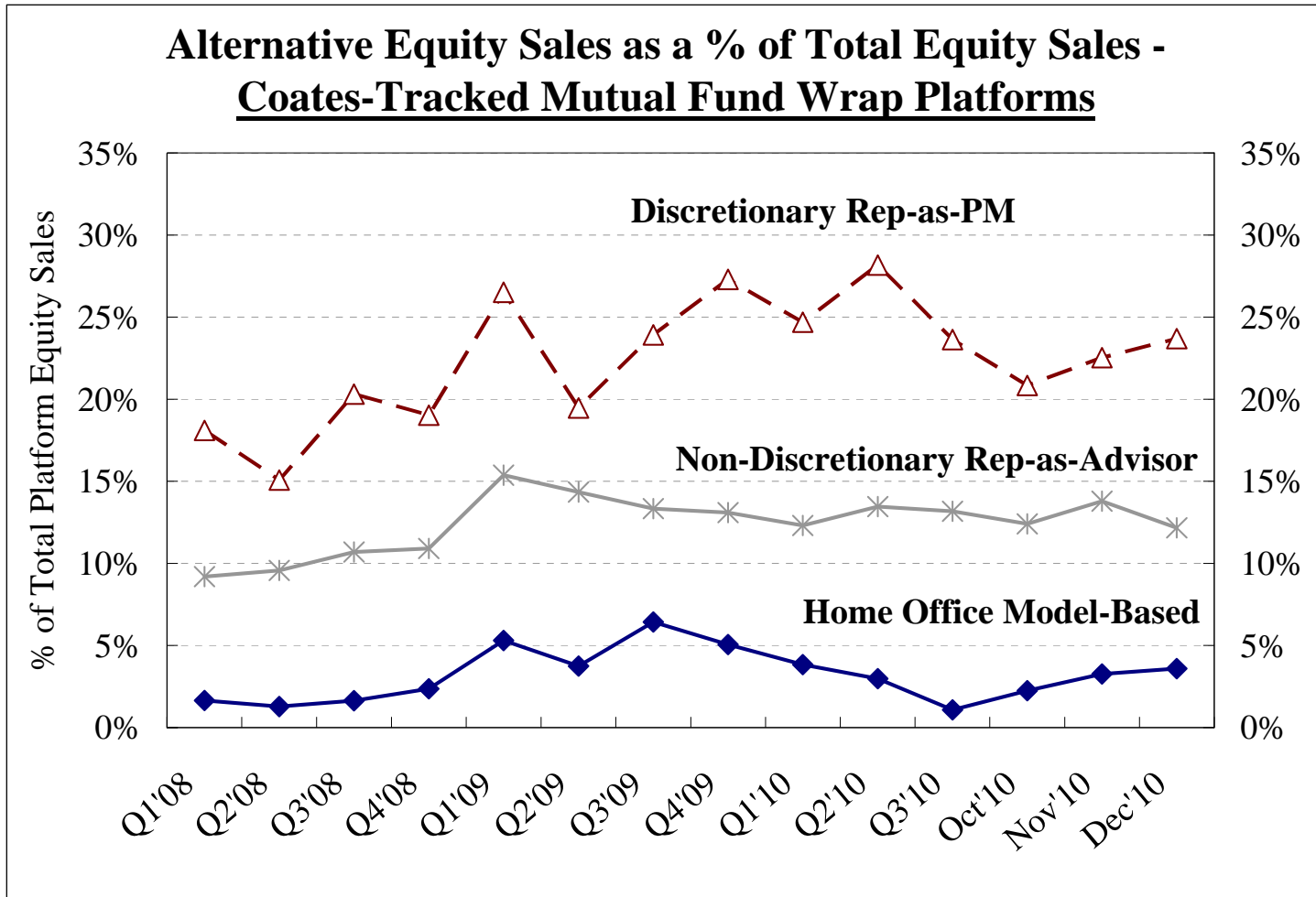
Source: Coates Analytics Distribution Management System / SI Analysis

US Style Box Equity Sales – Declining in Share within FA & Investor Controlled Wrap Platforms, but Beginnings of Recovery in December?



Source: Coates Analytics Distribution Management System / SI Analysis

Alternative Strategies (market neutral/long-short, commodity, natural resources, bear market) Picking Up Increased Traction Among Rep-as-PM Advisors



Source: Coates Analytics Distribution Management System / SI Analysis

Key Trends to Watch in 2011 – Equity Fund Demand

- Continued globalization of investors’ equity portfolios
 - Role of tactical global allocation “solutions” in portfolio construction
 - Larger portion of “core” equity holdings within FA/investor controlled platforms
 - Emerging Markets Equity – secular vs. cyclical demand
- Traditional US equity strategies
 - Turning point in late 2010 and early 2011?
 - Important differences across platform structures/FA types
- Alternative strategies
 - Continued engagement by Rep-as-PM advisors
 - Some tactical allocations, some more secular – but overall, more esoteric demand among such FAs continues

National Broker Dealer Product Strategy & Distribution Trends quarterly report series

For Subscription Options contact:

Dan Weirnerman

dweirnerman@sionline.com

212-217-6897

For More Info on Report Content:

Dennis Bowden

dbowden@sionline.com

212-217-6895



© Copyright 2011 Strategic Insight, an Asset International company, and when referenced or sourced Morningstar Inc. and Lipper Inc. All rights reserved. The information, data, analyses and opinions contained herein (a) include confidential and proprietary information of the aforementioned companies, (b) are provided solely for information purposes, and (c) are not warranted or represented to be correct, complete, accurate, or timely. Past performance is no guarantee of future results. The aforementioned companies are not affiliated with each other.

This report has been prepared using information and sources we believe to be reliable; however, we make no representation as to its accuracy, adequacy or completeness, nor do we assume responsibility for any errors or omissions or for any results obtained from the use of this report, including any action taken with respect to securities referred to in this report. Our employees may from time to time acquire, hold or sell a position in securities mentioned herein. We may from time to time perform services for any company mentioned in this report. This report is not a prospectus or representation intended to use in the purchase or sale of any securities mentioned in this report.

Strategic Insight is available by subscription and by single copy upon request to the publisher.

SI Research Services Already Used by Managers of 90% of U.S. Fund Industry Assets, B/D Distributors, Nearly All Key VA Providers, and Globally, over 80 Leading Managers, Distributors

*Simfund, The World's Databases
for Mutual Fund Competitive Intelligence
Tracking ~ \$25 Trillion: Flows, Innovations, and Much More*

[SI On Line.com](http://SIOnLine.com)
[Annuity Insight.com](http://AnnuityInsight.com)

[Strategic Insight Global.com](http://StrategicInsightGlobal.com)
[Global Fund Distribution.com](http://GlobalFundDistribution.com)

[Fund Innovation.com](http://FundInnovation.com)

[SimFund Filing.com](http://SimFundFiling.com)

US Funds: Avi@sionline.com Dennis@sionline.com
Sonia@sionline.com Loren@sionline.com

15(c) and Board Research: KShine@sionline.com

VA, Subadvisory: KNg@sionline.com Tamiko@sionline.com

Global: Jag@sionline.com Daniel@sionline.com