Cerulli Quantitative Update

Managed Accounts 2012

CERULLI ASSOCIATES
Global Analytics

Overview

This annual subscription-based report, in its 10th year, provides firms with a single source of in-depth research, data, and analysis on the entire fee-based landscape, including the five managed account program types; mutual fund advisory, separate account consultant, rep-as-advisor, rep-as-portfolio manager, and UMA. It also includes perspectives gleaned from proprietary survey findings of all the major players involved in managed accounts; advisors, broker/dealers, asset managers, third-party vendors, and retail end-investors.

Key Reasons to Buy This Report:

- Reliable strategic business tool built from 17 years of asset manager and program sponsor surveys that represent 95% of industry assets
- Tactical insights on prevailing trends gleaned from conversations with more than 50 industry executives
- New thematic chapters on UMAs, shifts in the use of discretion, and distribution opportunities
- Comprehensive data on advisor and end-investor behavior and use of managed accounts
- Difficult-to-obtain, and granular managed account program-specific details, which identify opportunities within channels and platforms
- Opportunity Index that rates and evaluates firms and platforms based on their attractiveness to asset managers

Answer These and Other Critical Questions:

1. Which channels are most important for asset managers in terms of fee-based distribution?
2. How are the priorities of asset managers distributing into the various managed accounts segments changing?
3. How is the use of share classes changing within mutual fund advisory programs?
4. What is Cerulli's outlook for rep-driven programs?
5. How have advisor-directed programs performed relative to home-office-directed programs?
6. What obstacles must broker/dealers overcome to grow their managed accounts business?
7. What is Cerulli's outlook for UMAs?
8. What does the future hold for separate accounts?

245 pages and 187 exhibits

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15 pages of report content

Table of Contents - *Overview*

Methodology **14**

Executive Summary **15**

Key Questions Answered **17**

Chapter 1: Capitalizing on Distribution Opportunities 23

Program Types and Vehicle Use *23*

ETF Strategists *24*

Channel *24*

Addressing the Pro Buyer *26*

Chapter 2: Discretionary Tug of War 29

Growth in Rep-Driven Programs *29*

Broker/Dealers Walking a Fine Line with Their Advisors *31*

Steps in the Right Direction *33*

Increasing Fund Opportunity in Rep-Driven Programs *34*

Chapter 3: Developments in UMA Programs 36

Earn Your Stripes *37*

Come One, Come All *38*

You Can Never Be Too Educated *42*

Chapter 4: Introduction to Managed Accounts 44

Chapter 5: Asset Manager Distribution 57

Chapter 6: Mutual Fund Advisory Programs 64

Chapter 7: Rep-as-Portfolio-Manager Programs 90

Chapter 8: Rep-as-Advisor Programs 106

Chapter 9: Unified Managed Account Programs 119

Chapter 10: Separate Account Consultant Programs 137

Chapter 11: Separate Account Asset Managers 158

Chapter 12: Program Sponsor Channel Analysis 185

Chapter 13: Advisor Dynamics 217

Chapter 14: Retail Investor Dynamics 229

Appendix 236

Glossary 238

Index of Companies 224

Table of Contents - *Expanded*

Key Questions Answered **17**
1. Which channels are the most important for asset managers in terms of fee-based distribution? *17*
2. What do broker/dealers view as the greatest challenges to growing their managed account programs? *18*
3. In the last year, how have the priorities of asset managers distributing into various managed account segments changed? *19*
4. Can advisors in flexible, open mutual fund advisory programs outperform packaged programs being run by their home office? *20*
5. How is the use of share classes changing within mutual fund advisory programs? *21*
6. Will advisors continue to increase their use of rep-driven programs? *22*

Chapter 1: Capitalizing on Distribution Opportunities **23**

Program Types and Vehicle Use
Exhibit 1.01. Managed Accounts Industry Grid, 2011 23

ETF Strategists
Exhibit 1.02. ETF Strategists in Separate Account Programs, 2010 vs. 2011 24

Channel
Exhibit 1.03. Asset Managers' Fee-Based Distribution Priority and Profitability by Channel, 2012 25
Exhibit 1.04. Asset Managers' Fee-Based Distribution Outlook for Upcoming Three Years by Channel, 2012 26

Addressing the Pro Buyer
Exhibit 1.05. Asset Managers' Perspective on Most Effective Way to Increase Distribution on Platforms, 2012 27

Chapter 2: Discretionary Tug of War **29**
Exhibit 2.01. Managed Account Assets by Discretion, 2009-2011 29

Growth in Rep-Driven Programs
Exhibit 2.02. Managed Account Marketshare by Program Type, 4Q 2008-4Q 2011 30

Broker/Dealers Walking a Fine Line with Their Advisors
Exhibit 2.03. Sponsor Challenges to Growing Managed Account Programs, 2012 31
Exhibit 2.04. Sponsor Outlook for Rep-Driven Programs, 2012 32

Steps in the Right Direction
Exhibit 2.05. Sponsor Strategy for Rep-Driven Programs, 2012 33

Increasing Fund Opportunity in Rep-Driven Programs
Exhibit 2.06. Rep-as-Portfolio-Manager Program Assets by Investment Vehicle, 2008 vs. 2011 35

Chapter 3: Developments in UMA Programs **36**
Exhibit 3.01. Managed Accounts Assets and Growth Rates, 2011 36

Earn Your Stripes
Exhibit 3.02. Unified Managed Account Packaging and Growth, 2011 38

Come One, Come All
Exhibit 3.03. Advisor Perception of UMAs by Use, 2011 39
Exhibit 3.04. Unified Managed Account Program Average Account Size by Channel, 2011 40
Exhibit 3.05. Unified Managed Account Vehicle Availability, 2011 40

You Can Never Be Too Educated
Exhibit 3.06.Asset Managers: Managed Accounts Distribution Prioritization by Program Type, 2012 42

Chapter 4: Introduction to Managed Accounts 44

Assets
Exhibit 4.01. Managed Account Assets and Growth, 1999-2011 46
Exhibit 4.02. Managed Account Industry Net Cash Flow by Program Type, 2008-2011 47
Exhibit 4.03. Managed Account Assets and Projections by Segment, 2011-2015E 48
Exhibit 4.04. Managed Account Industry Assets, 2009-2011 49
Exhibit 4.05. Managed Account Assets by Vehicle, 2008 vs. 2011 50
Exhibit 4.06. Program Marketshare of Managed Accounts Industry, 2007-2011 51
Exhibit 4.07. Total Managed Account Assets vs. Long-Term Mutual Fund Assets, 2000-2011 52
Exhibit 4.08. Managed Account Assets by Discretion, 2009-2011 53
Exhibit 4.09. Managed Account Discretionary vs. Nondiscretionary Assets (Excluding Separate Accounts) by Channel, 2011 54

Players
Exhibit 4.10. Top-30 Managed Account Program Sponsors Across All Industry Segments, 2004-2011 55
Exhibit 4.11. Top-35 Sponsor Managed Account Segment Assets, 2011 56

Chapter 5: Asset Manager Distribution 57
Exhibit 5.01. Managed Accounts Opportunity Index Weightings, 2011 58
Exhibit 5.02. Advisor-Directed Assets: Managed Accounts Sponsors by Opportunity Index, 2011 59
Exhibit 5.03. Sponsor-Discretionary Assets: Managed Accounts Sponsors by Opportunity Index, 2011 60
Exhibit 5.04. Breakdown of Estimated Annual Revenue Generated by Different Asset Management Vehicles, 2008 vs. 2011 61
Exhibit 5.05. Estimated Performance of Packaged vs. Open Mutual Fund Advisory Programs, 1Q 2010-4Q 2011 62
Exhibit 5.06. Single Firm Comparison of Performance for Packaged and Open Mutual Fund Advisory Programs, 1Q 2010-4Q 2011 63

Chapter 6: Mutual Fund Advisory Programs 64

Assets
Exhibit 6.01. Mutual Fund Advisory Program Assets, 1999-2011 66
Exhibit 6.02. Mutual Fund Advisory and ETF Advisory Program Projections, 2011-2015E 67
Exhibit 6.03. Mutual Fund Advisory Packaging Grid, 2011 68
Exhibit 6.04. Mutual Fund Advisory Program Assets by Program Type: Packaged, Hybrid, and Open, 2001-2011 69
Exhibit 6.05. Mutual Fund Advisory Program Assets by Asset Class, 2007-2011 70
Exhibit 6.06. Mutual Fund Advisory Program Source of New Assets, 2008-2011 71
Exhibit 6.07. Mutual Fund Advisory Sales, Redemptions, and Net Cash Flows, 2004-2011 72
Exhibit 6.08. Growth of $100,000: Mutual Fund Advisory vs. Blended Benchmark, 1Q 2009-4Q 2011 73

Players
Exhibit 6.09. Top-15 Mutual Fund Advisory Program Sponsors' Marketshare, 2004-2011 74
Exhibit 6.10. Top-40 Mutual Fund Advisory Programs, 2011 75

Program
Exhibit 6.11. Estimated Number of Mutual Fund Advisory Program Accounts, 2001-2011 76
Exhibit 6.12. Mutual Fund Advisory Program Average Account Size, 2001-2011 77
Exhibit 6.13. Mutual Fund Advisory Program Average Account Size, Discretionary vs. Nondiscretionary, 2008-2011 78
Exhibit 6.14. Mutual Fund Advisory Program Average Annual Program Fee vs. Annual 'All-in' Client Fees, 2003-2011 79
Exhibit 6.15. Mutual Fund Advisory Program Average Annual Client Fees, Discretionary vs. Nondiscretionary, 2002-2011 80
Exhibit 6.16. Mutual Fund Advisory Program Overview of Mutual Funds Used by Firm Examples, 2011 81

Exhibit 6.17. Mutual Fund Advisory Sponsors' Use of Institutionally Priced Share Classes, 2008-2011 82
Exhibit 6.18. Share of Advisors Actively Participating in Mutual Fund Advisory Programs, 2011....83
Exhibit 6.19. Share of Mutual Fund Advisory Programs Offering Recommended Asset Allocation Models, 2011 84

Channel
Exhibit 6.20. Mutual Fund Advisory Program Assets by Channel, 2001-2011 85
Exhibit 6.21. Mutual Fund Advisory Program Advisor Economic Breakdown Examples by Firm, 2011 86

ETF Advisory Programs
Exhibit 6.22. ETF Advisory Assets and Growth, 2007-2011 87
Exhibit 6.23. Top-5 ETF Advisory Programs, 2011 88
Exhibit 6.24. ETF Advisory Program Attributes, 2011....89

Chapter 7: Rep-as-Portfolio-Manager Programs....90

Assets
Exhibit 7.01. Rep-as-Portfolio-Manager Program Assets, 1999-2015E 92
Exhibit 7.02. Rep-as-Portfolio-Manager Program Assets by Investment Vehicle, 2008 vs. 2011 93
Exhibit 7.03. Rep-as-Portfolio-Manager Program Assets by Asset Class, 2011 94
Exhibit 7.04. Rep-as-Portfolio-Manager Program Sales, Redemptions, and Net Cash Flows, 2008-2011....95

Players
Exhibit 7.05. Top-15 Rep-as-Portfolio-Manager Program Sponsors' Marketshare, 2004-2011....96
Exhibit 7.06. Top-15 Rep-as-Portfolio-Manager Programs, 2011 97

Program
Exhibit 7.07. Estimated Number of Rep-as-Portfolio-Manager Program Accounts, 2000-2011 98
Exhibit 7.08. Rep-as-Portfolio-Manager Program Average Account Size, 2000-2011 99
Exhibit 7.09. Rep-as-Portfolio-Manager Program Average Annual Client Fees, 2000-2011 100
Exhibit 7.10. Share of Programs Offering Guided Portfolios of Specific Securities/Vehicles in Rep-as-Portfolio-Manager Programs, 2008-2011 101
Exhibit 7.11. Share of Advisors Actively Participating in Rep-as-Portfolio-Manager Programs, 2011 102
Exhibit 7.12. Rep Criteria Requirements to Participate in Rep-as-Portfolio-Manager Programs, 2011 103

Channel
Exhibit 7.13. Rep-as-Portfolio-Manager Program Assets by Channel, 2000-2011....104
Exhibit 7.14. Rep-as-Portfolio-Manager Program Advisor Economic Breakdown Examples by Firm, 2011 105

Chapter 8: Rep-as-Advisor Programs 106

Assets
Exhibit 8.01. Rep-as-Advisor Program Assets, 1999-2015E....108
Exhibit 8.02. Rep-as-Advisor Program Assets by Product Type, 2008-2011 109
Exhibit 8.03. Rep-as-Advisor Program Sales, Redemptions, and Net Cash Flows, 2008-2011....110

Players
Exhibit 8.04. Top-15 Rep-as-Advisor Program Sponsors' Marketshare, 2008-2011....111
Exhibit 8.05. Top-15 Rep-as-Advisor Programs, 2011....112

Program
Exhibit 8.06. Estimated Number of Rep-as-Advisor Program Accounts, 2005-2011....113
Exhibit 8.07. Rep-as-Advisor Program Average Account Size, 2005-2011 114
Exhibit 8.08. Share of Advisors Actively Participating in Rep-as-Advisor Programs, 2011....115
Exhibit 8.09. Rep-as-Advisor Program Average Annual Client Fees, 2006-2011....116

Channel
Exhibit 8.10. Rep-as-Advisor Program Assets by Channel, 2000-2011 117
Exhibit 8.11. Rep-as-Advisor Program Advisor Economic Breakdown Examples by Firm, 2011 118

Chapter 9: Unified Managed Account Programs 119

Assets
Exhibit 9.01. Unified Managed Account Program Assets, 2005-2015E....121
Exhibit 9.02. Unified Managed Account Packaging, 2011 122
Exhibit 9.03. Unified Managed Account Program Sales, Redemptions, and Net Cash Flows, 2008-2011 123
Exhibit 9.04. Unified Managed Account Assets by Investment Vehicle, 2005-2011 124
Exhibit 9.05. Unified Managed Account Investment Vehicle Use by Channel, 2011 125

Players
Exhibit 9.06. Top-15 Unified Managed Account Program Sponsors, 2006-2011....126
Exhibit 9.07. Top-20 Unified Managed Account Programs, 2011 127
Exhibit 9.08. Estimated Number of UMA Program Accounts, 2006-2011....128
Exhibit 9.09. Unified Managed Account Program Average Account Size, 2006-2011....129
Exhibit 9.10. UMA Program Average Annual vs. Average Annual 'All-In' Client Fee by Channel, 2011 130
Exhibit 9.11. Unified Managed Account Program Source of New Assets, 2009-2011....131
Exhibit 9.12. Share of Advisors Actively Participating in UMA Programs, 2011 132
Exhibit 9.13. Morgan Stanley Smith Barney Strategic Asset Allocation Model 5 for Select UMA Program (U.S.-Based), October 2011 133

Program
Exhibit 9.14. Unified Managed Account Assets by Channel, 2006-2011....134
Exhibit 9.15. Unified Managed Account Program Advisor Economic Breakdown Examples by Firm, 2011....135
Exhibit 9.16. Attributes of Recently Launched UMA Programs, 2011....136

Chapter 10: Separate Account Consultant Programs 137

Assets
Exhibit 10.01. Separate Account Consultant Program Assets, 1999-2011....139
Exhibit 10.02. Separate Account Consultant Program Projections, 2011-2015E....140
Exhibit 10.03. Separate Account Consultant Program Assets, Subadvisory vs. Open, 2004-2011 141
Exhibit 10.04. Separate Account Consultant Program Source of New Assets, 2002-2011 142
Exhibit 10.05. Separate Account Industry Sales, Redemptions, and Net Cash Flows, 2006-2011....143

Players
Exhibit 10.06. Top-15 Separate Account Consultant Program Sponsors' Marketshare, 2004-2011 144
Exhibit 10.07. Top-30 Separate Account Consultant Program Sponsors by Total Separate Account Assets, 2011....145
Exhibit 10.08. Top-25 Subadvisory Separate Account Consultant Program Sponsors, 2011 146
Exhibit 10.09. Top-10 Open Separate Account Consultant Program Sponsors, 2011 147

Program
Exhibit 10.10. Estimated Total Separate Account Program Industry Accounts, 2004-2011 148
Exhibit 10.11. Estimated Total Subadvisory Separate Account Program Industry Accounts, 2002-2011....149
Exhibit 10.12. Estimated Total Open Separate Account Program Industry Accounts, 2004-2011....150
Exhibit 10.13. Separate Account Program Average Account Size, Subadvisory and Open, 2004-2011....151
Exhibit 10.14. Subadvisory Separate Account Consultant Program Average Investment Minimums, 2011 152
Exhibit 10.15. Subadvisory Separate Account Client Average Relationship Size, 2002-2011 153

Exhibit 10.16. Subadvisory Separate Account Average Annual Client Fees, 2001-2011 154
Exhibit 10.17. Share of Brokerage Firm Advisors Actively Participating in Separate Account Programs, 2011 155

Channel
Exhibit 10.18. Separate Account Consultant Program Assets by Channel, 2000-2011 156
Exhibit 10.19. Separate Account Program Advisor Economic Breakdown Examples by Firm, 2011 157

Chapter 11: Separate Account Asset Managers 158
Exhibit 11.01. Asset Managers' Fee-Based Distribution Priority by Channel, 2012 160
Exhibit 11.02. Asset Managers' Fee-Based Distribution Outlook for Upcoming Three Years by Channel, 2012 161

Players
Exhibit 11.03-Part 1. Top-100 Separate Account Program Asset Managers, 2011 162
Exhibit 11.03-Part 2. Top-100 Separate Account Program Asset Managers, 2011 163
Exhibit 11.04. Top-15 Separate Account Program Asset Managers, 2004-2011 164
Exhibit 11.05. Top-15 Separate Account Consultant Program Asset Management Groups, 2011 165
Exhibit 11.06. Largest Growth and Core Managers, 2011 166
Exhibit 11.07. Largest Value, Global, and International Managers, 2011 167
Exhibit 11.08. Largest Fixed-Income, Balanced, and Other Managers, 2011 168
Exhibit 11.09. Top Proprietary Separate Account Asset Managers, 2011 169
Exhibit 11.10. Highest Asset Manager Consultant Program Asset Growth Rates, 2006-2011 170
Exhibit 11.11. Top-20 Separate Account Strategies by 1-Year Performance, 2011 171
Exhibit 11.12. Separate Account Asset Managers: Segmentation by Total Firm AUM, 2011 172
Exhibit 11.13. Separate Account Asset Managers: Segmentation by Total Separate Account AUM, 2011 173

Investment Style Analysis
Exhibit 11.14. Separate Account Program Asset Allocation Shift, 2001-2011 174

Model Submission and Fee Analysis
Exhibit 11.15. Percentage of Asset Managers Submitting Models to Program Sponsors/Overlay Managers, 2006-2011 175
Exhibit 11.16. Summary of Asset Managers That Do and Do Not Submit Models, 2011 176
Exhibit 11.17. Asset Manager Reported Range and Asset-Weighted Average Management Fees, 2011 177
Exhibit 11.18. Asset Manager Reported Average Management Fees, Subadvisory and Open Programs, 2011 178

Model Metrics
Exhibit 11.19. Top-15 Model Portfolio Managers, 2011 179
Exhibit 11.20. Top-15 Model Portfolio Strategies, 2011 180
Exhibit 11.21. Model Portfolio Asset Allocation, 2Q 2009-4Q 2011 181

Sponsor Relationships
Exhibit 11.22. Manager Segmentation by Number of Subadvisory Program Sponsor Relationships, 2011 182
Exhibit 11.23. Broker/Dealer Separate Account Consultant Program Relationships, 2011 183
Exhibit 11.24. Asset Manager Model Strategy Submission by Separate Account AUM, 2011 184

Chapter 12: Program Sponsor Channel Analysis 185

Headcount
Exhibit 12.01. Historical Change in Total Advisors by Channel, 2004-2010 187
Exhibit 12.02. Asset Marketshare by Channel, 2007-2010 188

Channel Overview
Exhibit 12.03. Managed Account Assets by Distribution Channel, 2001-2011 189
Exhibit 12.04. Total Managed Accounts Assets by Channel Scorecard, 2001-2011 190

Exhibit 12.05. Estimated Number of Accounts by Channel, 2011 191
Exhibit 12.06. Managed Account Channel Demographics, 2010 192
Exhibit 12.07. Projected Managed Accounts Marketshare by Distribution Channel, 2011-2013E 193

Wirehouses
Exhibit 12.08. Wirehouse Mix of Managed Account Assets by Program Type, 2001-2011 194
Exhibit 12.09. Wirehouse Channel Managed Account Scorecard, 2001-2011 195
Exhibit 12.10. Top Wirehouse Sponsors by Managed Account Assets, 2011 196
Exhibit 12.11. Wirehouse Average Account Sizes Across Program Types, 2011 197
Exhibit 12.12. Wirehouse Broker/Dealers by Advisor Headcount and Client Assets, 2011 198

Independents
Exhibit 12.13. Independent Broker/Dealer Mix of Managed Account Assets by Program Type, 2001-2011 199
Exhibit 12.14. Independent Broker/Dealer Channel Managed Account Scorecard, 2001-2011 200
Exhibit 12.15. Top Independent Broker/Dealer Sponsors by Managed Account Assets, 2011 201
Exhibit 12.16. Independent Broker/Dealer Channel Average Account Sizes Across Program Types, 2011 202

Regionals
Exhibit 12.17. Regional Channel Mix of Managed Account Assets by Program Type, 2001-2011 203
Exhibit 12.18. Regional Channel Managed Account Scorecard, 2001-2011 204
Exhibit 12.19. Top Regional Sponsors by Managed Account Assets, 2011 205
Exhibit 12.20. Regional Channel Average Account Sizes Across Program Types, 2011 206

Discount Brokerage
Exhibit 12.21. Discount/Direct Channel Mix of Managed Account Assets by Program Type, 2001-2011 207
Exhibit 12.22. Discount/Direct Channel Managed Account Scorecard, 2001-2011 208
Exhibit 12.23. Top Discount/Direct Sponsors by Managed Account Assets, 2011 209

Banks
Exhibit 12.24. Bank Channel Mix of Managed Account Assets by Program Type, 2001-2011 210
Exhibit 12.25. Bank Channel Managed Account Scorecard, 2001-2011 211

Third-Party Vendors
Exhibit 12.26. Third-Party Vendor Mix of Managed Account Assets by Program Type, 2001-2011 212
Exhibit 12.27. Third-Party Vendor Managed Account Scorecard, 2001-2011 213
Exhibit 12.28. Top Advisory Third-Party Managed Account Providers, 2011 214
Exhibit 12.29. Top Nonadvisory Third-Party Managed Account Full-Service Providers, 2011 215
Exhibit 12.30. Third-Party Vendor Channel Average Account Sizes Across Program Types, 2011 216

Chapter 13: Advisor Dynamics 217
Exhibit 13.01. Projected Experienced Advisor Moves, 2011 219
Exhibit 13.02. Importance of Managed Account Platform Attributes for Advisors Seeking to Change Broker/Dealers, 2011 220
Exhibit 13.03. Advisor Likelihood to Allow B/D Discretion by Situation, 2011 221
Exhibit 13.04. Advisor Opinion of Managed Account Types, 2011 222
Exhibit 13.05. Interest in Managed Account Program by Attribute, 2011 223
Exhibit 13.06. Advisor Perception of UMAs by Use, 2011 224
Exhibit 13.07. Advisor Opinion of Optional Insurance Wrappers on Managed Accounts, 2010 vs. 2011 225
Exhibit 13.08. Advisor Satisfaction with B/D Supplied Program, 2011 226
Exhibit 13.09. Advisory Fee by Client Assets, 2011 227
Exhibit 13.10. Preferred Managed Program by Client Assets, 2011 228

Chapter 14: Retail Investor Dynamics **229**
Exhibit 14.01. Mutual Fund Advisory Account Ownership Databank, 2011 231
Exhibit 14.02. Mutual Fund Advisory Account Balance, 2011 232
Exhibit 14.03. Separate Account Ownership by Investable Asset Range, 2011 233
Exhibit 14.04. Percent of Investors Willing to Pay for Advice Databank, 2011 234
Exhibit 14.05. Desired Account Features, 2011 235

Appendix **236**

Glossary **238**

Index of Companies **244**

Methodology

Cerulli Quantitative Update: Managed Accounts 2012 is the result of ongoing research and analysis of the managed account marketplace by Cerulli Associates (CA). The fee-based managed account marketplace has been a core research focus within CA since the firm's inception in the early 1990s. Cerulli Associates has previously released 20 in-depth studies in **The Cerulli Report™** series that tracked the development and growth of the managed account market. In addition to reports, CA provides the industry its perspective through ***The Cerulli Edge™—Managed Accounts Edition***, our quarterly publication updating our most current quantitative and qualitative industry research.

CA analysts' opinions and perspectives are derived from our ongoing research, which is shaped by a methodology based on three components:

- **Industry understanding:** All CA analysts come to the firm with a background shaped by relevant experience at leading financial services firms, which contributes to the internal pool of industry knowledge that is fed by this experience.
- **Quantitative analysis:** CA independently maintains surveys tracking business metrics from nearly 200 managed account industry participants (asset managers and sponsors combined) on a quarterly basis, representing the industry's only comprehensive source of sizing, participant ranking, and other competitive analysis. CA adds information from third-party databases and public company reports to complement analysis from our proprietary database.
- **Qualitative research:** CA analysts conduct background research interviews with hundreds of industry executives annually in a confidential format allowing for open dialogue about the current state and future outlook for the industry. This last research method provides a means of synthesizing the other components of our methodology into research products that are independent, insightful, and firmly grounded in the industry's current climate.

Specific to Quantitative Update: Managed Accounts 2012, the data comes from our proprietary database, with most data points updated with fourth quarter 2011 survey findings. The managed account survey effort tracks data from the early 1990s to present. Currently, CA maintains an online password-protected survey engine that reaches out each quarter to more than 50 managed account program sponsors and more than 120 asset managers offering separate accounts on brokerage consultant programs. This report also incorporates survey findings from the intermediary and retail investor practices within CA. Firms participate in data collection as part of a voluntary information-sharing relationship, completing the survey in exchange for an aggregate summary of key findings and market sizing information. As reflected in this report, all firms' competitive information is presented in industry aggregate or in nonspecific form, as proprietary survey information is never directly attributed to participants. For more information about our survey process for the managed accounts industry, please contact CA or see our survey website at www.cerulli.com.

In addition to survey data, CA analysts compiled information available through third parties, such as eVestment Alliance and Prima Capital, as well as publicly traded firms' financial filings, to enhance the analysis contained in this publication.

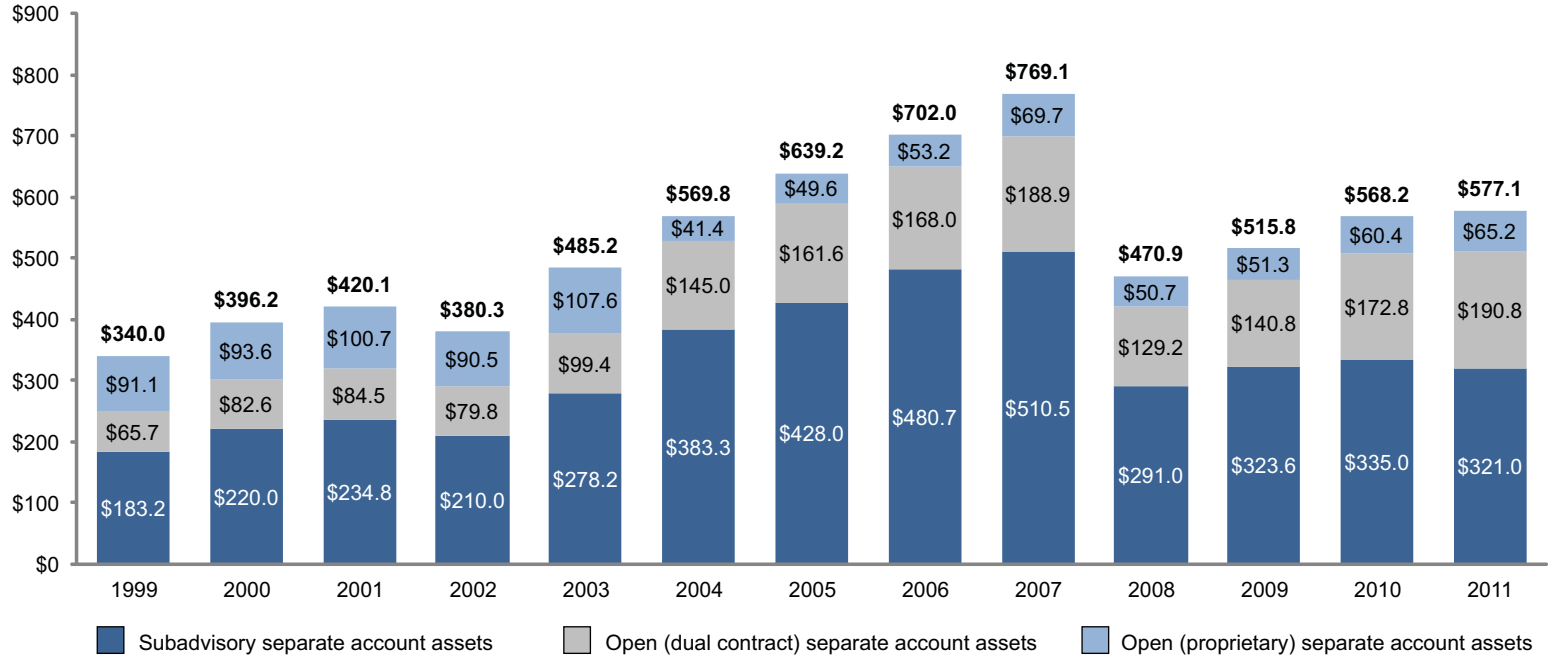
SAMPLE SECTION
from

CERULLI QUANTITATIVE UPDATE:
MANAGED ACCOUNTS 2012

EXHIBIT 10.01

Separate Account Consultant Program Assets, 1999-2011 ($ billions)

Source: Cerulli Associates



- Dual-contract separate account programs represent 33% of total separate account assets at the end of 2011, significantly higher than the 19% of assets they controlled in 1999. Both dual-contract and proprietary separate account programs are rebounding back to the asset levels seen in 2007.

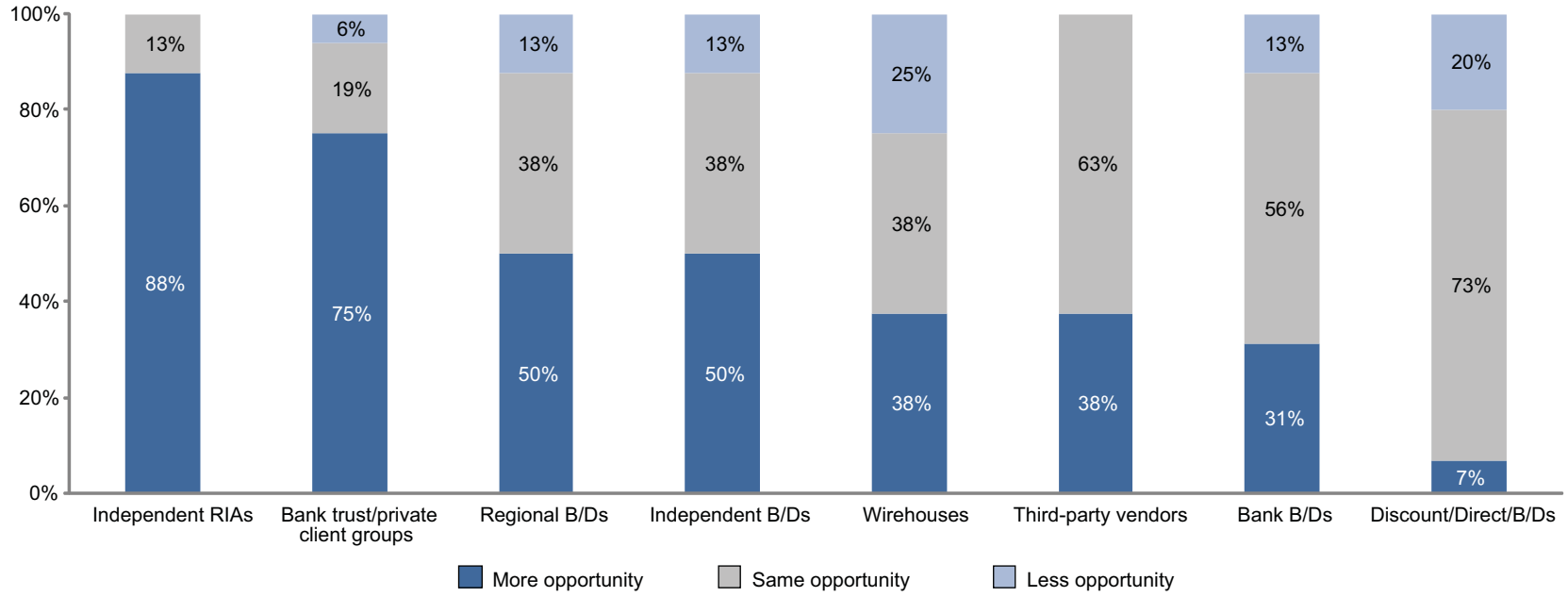
- Separate account consultant programs ended 2011 with $577.1 in AUM, still nearly $200 billion below the previous high of $769.1 billion in 2007. Subadvisory separate account programs are the main reason for the drop in assets since 2007.

Key Implication: The popularity of the rep-driven programs and the continued success of mutual fund advisory (MFA) programs continue to impede the recovery of separate account programs. In addition to the programs mentioned, unified managed account (UMA) programs are also competing for separate account assets. Model-driven separate accounts in UMA programs now control $86.4 billion in AUM, which would have otherwise landed in a traditional separate account program (see Exhibit 4.04). Even with two years of positive inflows (see Exhibit 10.05), separate account programs have struggled to regain their marketshare since 2007.

EXHIBIT 11.02

Asset Managers' Fee-based Distribution Outlook for Upcoming Three Years by Channel, 2012

Source: Cerulli Associates



- Asset managers expect to see increasing distribution opportunities among registered investment advisors (RIAs), bank trust groups, and regional B/Ds. Somewhat surprisingly, 38% of asset manager respondents expect to experience increased opportunities within wirehouses.

Key Implication: The ongoing migration of advisors toward more independent models has created excitement among asset managers about growth prospects within the RIA channel. Pure RIAs and dually registered firms account for approximately 20% of retail investor assets, the next largest segment outside of the wirehouse channel. As advisors move from the B/D world, many will continue to rely on the product sets they became familiar with at their firms, in many cases creating opportunities for managers within RIA firms that had previously not used their products.

Company Index

AG Edwards 204
Ameriprise 97, 201, 242
Bank of America/Merrill Lynch 39, 57, 112, 164, 169, 175, 179, 198, 207, 242
BlackRock 158, 162, 164, 165, 172, 180, 181
Brinker 242
Charles Schwab 15, 17, 24, 25, 112, 137, 144, 145, 156, 209, 231, 238, 242
Chase 49, 57, 126, 129, 136, 241
Clearbridge 162, 164
Columbia 165, 166, 179
Curian Capital 119, 126
DA Davidson 175
Deutsche Bank 97
E*Trade, ... 209
Eaton Vance 170
Edward Jones 55, 57, 64, 69, 74, 75, 85, 186, 189, 193, 203, 204, 205, 242
EnvestnetPMC 18, 88, 214, 215
Fidelity 15, 17, 24, 25, 57, 74, 75, 119, 120, 125, 126, 134, 136, 156, 209, 231, 238, 241
Fortigent 26
FundQuest 214
Gannett Welsh & Kotler 162
Janney Montgomery Scott 111
Kayne Anderson 171
Ladenburg Thalmann 97
Legg Mason 164
LifeYield 120, 131
Lockwood/Pershing 215
LPL 24, 200, 201, 202, 207, 242
Miller/Howard Investments 170
Morgan Stanley Smith Barney 57, 127, 133, 137, 144, 145, 196, 198, 242
NASD 241
Northwestern Mutual 111, 242
NSCC 243
Nuveen, ... 165, 179
NWQ Investment Management 165
PIMCO 158, 179, 180, 181
Prima Capital 14, 26
Raymond James 57, 201

RBC Wealth Management 205, 242
Riverfront Investment Group 34
Robert W. Baird 242
Securities America 97
Smith Barney 164
SunTrust 241
TIAA-CREF 15, 39, 119, 126, 129, 193, 209
Tradewinds 165, 167
UBS 57, 112, 144, 145, 196, 198, 242
USAA 209
Wells Fargo Advisors 57, 88, 144, 145, 169, 198, 210, 241, 242