Cerulli Quantitative Update

Retail Products and Strategies 2012:

Formulating a Product Line Strategy in a New Era

CERULLI ASSOCIATES
Global Analytics

Overview

In its fifth iteration, this annual report analyzes strategy and innovation surrounding the U.S. product landscape. It focuses on investment product demand and developments in the area of investment strategy. Products examined include mutual funds, closed-end funds, retirement income products, target-date and target-risk products, and 529 plans.

The report provides insight into current trends around pricing, governance, implementation, and the groups that support these products.

This research also helps asset managers develop products based on the optimal vehicle structure for the strategy being considered.

Methodology:

- 3 proprietary surveys: large, medium, and small retail asset managers; closed-end fund managers; target-date fund managers
- 25 interviews with executives at global asset management firms

Key Reasons to Buy This Report:

- Comprehensive data on investment vehicles and proven strategies, including fee and share-class pricing trends
- Detailed analysis of product group structure and staffing levels
- Unique analysis of passive and actively managed products
- Framework for product rationalization, including extensive vehicle and strategy data to aid in product packaging decisions
- In-depth look at total assets and net flows of mutual funds by asset class, category, asset manager, as well as number of funds, new funds, and eliminated funds
- Insight into current trends and challenges within the closed-end fund marketplace

Answer These and Other Critical Questions:

1. Which investment vehicles are poised for growth?
2. Which asset classes are on asset managers' radar for new product development?
3. How is share-class pricing evolving?
4. Which investment strategies are more heavily saturated?
5. How are passive investments positioned for the future given recent traction?
6. Can we expect to see more open architecture in the target-date marketplace?
7. Are there opportunities for closed-end fund product development?
8. What changes are firms making to how they structure their product groups?

Research Included with Subscription

A subscription to this report remains active through 11/6/2013 and includes online access to the following related Cerulli research:

- 4 years of Cerulli Quantitative Update: Retail Products and Strategies
- Target-Date Funds: Still Viable? 2009
- Product Development in an Evolving Portfolio Construction Environment 2008
- Asset Management: Next-Generation Strategic Marketing Organizations 2008
- Mutual Fund Revenue Sharing: Current Practices and Projected Implications 2005
- Asset Management: Conquering Compliance Challenges 2004
- Asset Management: A Product Strategy Framework 2004

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CERULLI QUANTITATIVE UPDATE: RETAIL PRODUCTS AND STRATEGIES 2012: FORMULATING A PRODUCT LINE STRATEGY IN A NEW ERA

At this juncture, firms that have passive management capabilities are focused on building up their fund lineups and strengthening their brand. One large firm that Cerulli interviewed indicated that the media portrays firms that offer both passive and active strategies as having funds that compete with one another. However, the firms believe this to be false, citing that clients desire a wide variety of strategies, and although where an active strategy may suit one client, a passive strategy could suit another better. They believe offering a robust suite of products works in harmony rather than cannibalizing.

The majority of surveyed managers (44%) will plan to build out their passive strategies in-house. Because passive management is less complex than active, firms often will have the necessary resources within their organization to build this product lineup. Most firms choose to do this because it is the most cost-effective way to develop a passive strategy. One-third of respondents cite that they plan to hire a subadvisor, oftentimes for expertise in minimizing index tracking error.

EXHIBIT 1.07: How Managers Plan to Offer Passive Investment Management Capabilities, 2012

44% of surveyed asset managers plan to build passive management capabilities in-house, as these are typically less complex to manage, compared to active.

Source: Cerulli Associates
Analyst Note: Total may not sum to 100% due to rounding.

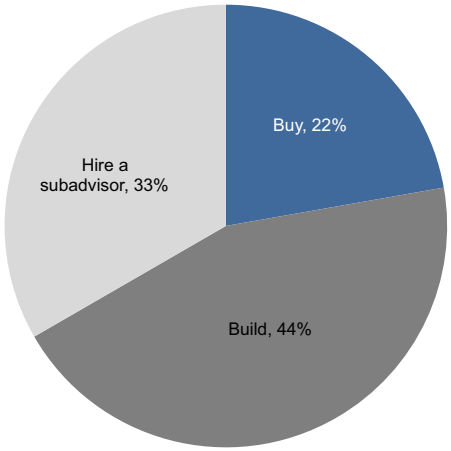
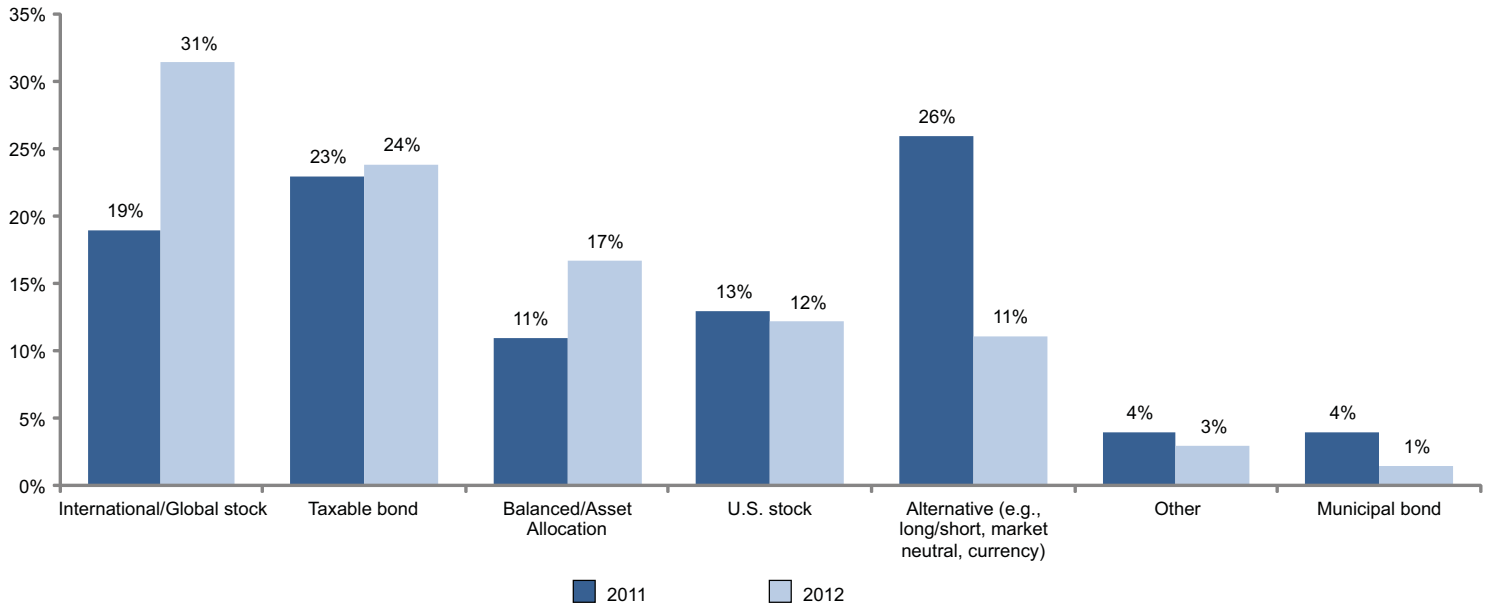


EXHIBIT 6.11

Allocation of New Product Development Plans Over the Next 12 Months by Asset Class, 2012

Source: Cerulli Associates

Analyst Note: Other may include portfolio solutions.



- Over the next 12 months, asset managers plan 31% of their product development to be in international/global asset classes, up from 19% in 2011.
- Just 11% of product development is expected to be in alternative investment products, down from 26% in 2011.
- Plans for taxable bond product development is on par with last year's survey results—roughly one-quarter of product development in this asset class.

Key Implication: Over the last few years, many product developers were focused on alternative product development, but reveal they are now focusing more attention on deepening their international/global offerings. Managers are mostly focused on emerging markets (25%), global equity (19%), and asset allocation (15%)—refer to Exhibit 6.13. The industry has seen some of this product development over the past few months, such as Ivy's global equity-income fund and Columbia's risk allocation fund. Some of the global funds being created address one of the major demands of investors right now—income. Others are focusing on risk mitigation. Columbia Risk Allocation Fund allocates similar amounts of risk (measured as expected volatility) across stocks, fixed-income securities, and inflation-hedging assets with the intended goal being to mitigate risk concentration in any single asset class. According to Columbia, the process seeks to ensure diversification by balancing risk across asset classes that may respond differently under various economic and market environments. Traditional balanced funds' outcome is largely determined by the direction of equity markets, therefore, this fund may underperform a traditional balanced portfolio during equity bull markets. However, the firm believes a risk-balancing approach can provide similar types of returns without subjecting investors to extremes in market volatility.

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