Cerulli Quantitative Update

The State of U.S. Retail and Institutional Asset Management 2012:
Addressing Professionally Managed Assets

CERULLI ASSOCIATES
Global Analytics

Overview

In its seventh iteration, this report provides a framework through which asset management firms can evaluate and sharpen business plans. It is a user's guide to the U.S. asset management landscape, as it examines all market segments, client types, and vehicles within the retail and institutional marketplaces. It explores asset management organizations and the major trends driving change in the dynamic business of asset-gathering.

This report provides a foundation for understanding the size, scope, and segmentation of professionally managed assets in the United States. It is a must-have for any firm seeking growth and greater distribution.

Methodology:

- More than 50 interviews with asset management firms
- Proprietary surveys of retail and institutional asset managers measuring their expected sources of growth, profitability, and staffing trends

Key Reasons to Buy This Report:

- Analyze the size and growth rates of professionally managed retail and institutional assets. Which segments are most addressable to asset managers?
- Examine industry profitability rankings
- Review projected growth rates by product segment
- Benchmark staffing levels for key retail and institutional roles
- Evaluate retail and institutional channels by distribution method (direct, third-party, and affiliated)

Answer These and Other Critical Questions:

1. How big is the professionally managed U.S. asset management market?
2. Which segments are considered most addressable?
3. Which retail and institutional channels are the most profitable?
4. How do asset managers staff key functions?
5. What are the projected growth rates for specific segments?
6. What is the marketshare of retail and institutional assets by investment vehicle?
7. Which channels are growing the fastest?
8. How has mutual fund ownership changed over time?

Research Included with Subscription

A subscription to this report remains active through 11/8/2013 and includes online access to the following related Cerulli research:

- Four years of: Cerulli Quantitative Update: The State of U.S. Retail and Institutional Asset Management
- Best Practices for Portfolio Management Organizations 2008
- Trends and Opportunities in Subadvisory 2008
- Two years of: Cerulli Quantitative Update: Asset Manager Addressable Marketplaces
- Institutional Sales and Relationship Management 2007
- U.S. Multiaffiliate Marketplace 2006
- Professional Buyers and Manager Selection 2005
- Evaluating Asset Manager Addressable Marketplaces 2005
- U.S. Subadvisory Marketplace: Metrics for Strategic Assessment and Business Planning 2004
- Asset Management: Institutional Sales & Marketing 2004
- Investment Consultants: A Strategic Outlook 2003

263 pages, 203 exhibits

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LOOK INSIDE
13 pages of report content

Table of Contents - *Expanded*

Key Questions Answered **19**
1. What is the size of the addressable market in the U.S.? *19*
2. What product vehicles are growing in the U.S. market? *20*
3. How does the growth among retail and institutional client assets differ? *21*
4. What is the ownership breakdown of U.S. mutual fund assets? *22*
5. What do asset managers rate as the most effective sales and marketing activities when distributing to institutional clients? *23*
6. What channels are responsible for asset managers' asset base and how do they expect this to change in the future? *24*
7. Within the retail intermediary market, what is the asset share by advisor channel? *25*

Section I: U.S. Market Overview
Chapter 1: U.S. Asset Management Overview

Market Overview *27*
Exhibit 1.01. U.S. Market Sizing: Total Assets Under Management, 2001-2011 27
Exhibit 1.02. U.S. Market Sizing Components by Channel, 2001-2011 28
Exhibit 1.03. U.S. Market Sizing Components by Channel Growth Rates, 2001-2011 29
Exhibit 1.04. Total and Professionally Managed U.S. Assets Under Management, 2001-2011 30
Exhibit 1.05. U.S. Market Sizing Double-Counting and Non-Professionally Managed Assets, 2001-2011 31
Exhibit 1.06. Professionally Managed U.S. Market Sizing Components by Channel, 2001-2011 32
Exhibit 1.07. Professionally Managed U.S. Market Sizing Components by Channel Growth Rates, 2001-2011 33
Exhibit 1.08. U.S. Market Sizing Components by Channel Marketshare, 2001-2011 34
Exhibit 1.09. U.S. Market Sizing Components by Investment Vehicle, 2001-2011 35
Exhibit 1.10. U.S. Market Sizing Components by Investment Vehicle Growth Rates, 2001-2011 36
Exhibit 1.11. U.S. Market Sizing Components by Investment Vehicle Marketshare, 2001-2011 37
Exhibit 1.12. U.S. Professionally Managed Assets Distribution Matrix, 2011 38

U.S. Distribution *39*
Exhibit 1.13. Asset Manager Addressable Marketplace Model, 2011 39
Exhibit 1.14. Retail and Institutional Client Assets, 2001-2011 40
Exhibit 1.15. Retail and Institutional Client Assets: Growth Rates, 2011 41
Exhibit 1.16. Marketshare of Retail and Institutional Client Assets, 2001-2011 42
Exhibit 1.17. Retail Client Assets by Distribution Method, 2005-2011 43
Exhibit 1.18. Retail Client Assets: Growth Rates by Distribution Method, 2011 44
Exhibit 1.19. Marketshare of Retail Client Assets by Distribution Method, 2005-2011 45
Exhibit 1.20. Institutional Client Assets by Distribution Method, 2005-2011 46
Exhibit 1.21. Institutional Client Assets: Growth Rates by Distribution Method, 2011 47
Exhibit 1.22. Marketshare of Institutional Client Assets by Distribution Method, 2005-2011 48
Exhibit 1.23. Ownership of U.S. Products by Client Type, 2011 49

Projecting the Future *50*
Exhibit 1.24 . U.S. Investment Vehicle Projections, 2011-2016E 50
Exhibit 1.25. U.S. Market Segment Projections, 2011-2016E 50
Exhibit 1.26. Projected Asset Marketshare by Channel, 2011-2014E 51

Mutual Fund Ownership *52*
Exhibit 1.27. Ownership Breakdown of Mutual Funds, 2011 52
Exhibit 1.28. Ownership of Mutual Funds, 2008-2011 53
Exhibit 1.29. Ownership Marketshare of Mutual Funds, 2008-2011 54

Chapter 2: The Intermediary Landscape 55
Exhibit 2.01. Historical Change in Total Advisors by Channel, 2004-2011 55

Pinpointing Headcount Losses *56*

Fee Pricing and Wealthy Clients *56*
Exhibit 2.02. Advisor Assets Under Management by Revenue Source, 2012 56
Exhibit 2.03. Advisor Core Market by Revenue Source, 2012 57
Exhibit 2.04. Fee-Priced Retail Assets, 2008-2011 58

Professional Buyers Abound *58*
Exhibit 2.05. Most Important Elements in Developing Relationships with Professional Buyers, 2012 58

Structuring Key Accounts *60*
Exhibit 2.06. Primary Method for Differentiation at Focus B/Ds, 2012 60

Preparing Wholesalers *61*
Exhibit 2.07. Advisor Perceived Value of Wholesaler Services, 2012 62

Chapter 3: The Institutional Sale 63
Exhibit 3.01. New Business: Lead Sources and the Sales Process, 2012 63

Addressing Consultants *64*
Exhibit 3.02. Asset Manager: Effectiveness of Strategies for Targeting Investment Consultants, 2012 64
Exhibit 3.03. Asset Manager: Importance of Qualities in Relationships with Consultants, 2012 65
Exhibit 3.04. Asset Manager: Greatest Sources of Frustration with the Consultant Community, 2012 67

The Direct Sale *68*
Exhibit 3.05. Asset Manager: Effectiveness of Sales and Marketing Activities in Reaching the Institutional Client, 2012 68

Win/Loss Analysis *70*
Exhibit 3.06. Asset Manager: Type of Win/Loss Analysis Conducted, 2012 70
Exhibit 3.07. Asset Manager: Major Goals of Win/Loss Evaluation, 2012 71
Exhibit 3.08. Asset Manager: Most Important Factors in Recent Losses, 2012 72

Summary *73*

Chapter 4: U.S. Asset Management Organizations 74
Exhibit 4.01. Asset Managers' Current Distribution Capabilities, 2012 76

Staffing and Structure
Exhibit 4.02. Reporting Structure for Key Functions, 2012 77
Exhibit 4.03. Tier I Asset Managers: Average Staffing 2012 78
Exhibit 4.04. Tier II Asset Managers: Average Staffing 2012 79
Exhibit 4.05. Tier III Asset Managers: Average Staffing 2012 80

Retail Distribution
Exhibit 4.06. Retail Channel Rankings: Gross Sales, Sales and Service Costs, and Profitability, 2012 81
Exhibit 4.07. Retail Channel Profitability Rankings, 2012 82
Exhibit 4.08. Retail Third-Party Channel Rankings: Gross Sales, Service Costs, and Profitability, 2012 83
Exhibit 4.09. Retail Third-Party Channel Profitability Rankings, 2012 84

Institutional Distribution
Exhibit 4.10. Institutional Channel Rankings: Gross Sales, Sales and Service Costs, and Profitability, 2012 85
Exhibit 4.11. Institutional Channel Profitability Rankings, 2012 86
Exhibit 4.12. Channels Primarily Responsible for Asset Managers' Historical Asset Base and Expectations for Future Flows, 2012 87
Exhibit 4.13. Overall Length of Average Institutional Sales Cycle, 2012 88
Exhibit 4.14. Asset Managers Estimate Length of Average Sales Cycle for New Mandates by Institutional Market, 2012 89

Section II: Retail Markets
Chapter 5 : Advisor Distribution 91

Retail Intermediaries
Exhibit 5.01. Intermediary Matrix, 2011 92
Exhibit 5.02. Number and Percentage of Advisors by Channel, 2011 93
Exhibit 5.03. Historical Change in Total Advisors by Channel, 2004-2011 94
Exhibit 5.04. Assets by Channel, 2007-2011 95
Exhibit 5.05. Marketshare of Advisors and Assets by Channel, 2011 96
Exhibit 5.06. Average Advisor AUM and Productivity Index (PX) by Channel, 2007-2011 97
Exhibit 5.07. Projected Advisor Headcount by Channel, 2011-2016E 98

Chapter 6: Direct Providers 99
Exhibit 6.01. Direct Provider Assets, 2008-2011 101
Exhibit 6.02. Top-10 Direct Firms by Assets, 2011 102
Exhibit 6.03. Direct Assets by Product, 2011 103
Exhibit 6.04. Direct Assets by Product and Growth, 2008-2011 104
Exhibit 6.05. Direct Platform Sources of Revenue, 2011 105
Exhibit 6.06. Direct Platform Expected Growth Opportunities, 2011 106
Exhibit 6.07. Direct Account Balance by Investable Asset Range, 2011 107

Chapter 7: Individual Retirement Accounts 108
Exhibit 7.01. Total IRA Assets and Growth Rates, 2001-2011E 110
Exhibit 7.02. IRA Assets by Type of IRA, 2001-2011E 111
Exhibit 7.03. Growth of IRA Assets by Type of IRA, 2001-2011E 112
Exhibit 7.04. IRA Assets: Traditional and Other, 2001-2011E 113
Exhibit 7.05. Other IRA Assets by Type as Percentage, 2001-2011E 114
Exhibit 7.06. IRA Assets by Investment Product, 2001-2011E 115
Exhibit 7.07. Growth of IRA Assets by Investment Product, 2001-2011E 116
Exhibit 7.08. Top-15 IRA Providers by AUA, 3Q 2011-4Q 2011 117
Exhibit 7.09. IRA Rollover Contributions, 2001-2011E 118

Chapter 8: High-Net-Worth Markets 119
Exhibit 8.01. Understanding the Family Dynamic, 2012 121
Exhibit 8.02. Distribution of Household Investable Assets by Type of Asset and Investable Asset Range, 2011E 122
Exhibit 8.03. Household Non-Financial Assets by Type of Asset and Investable Asset Range, 2011E 123
Exhibit 8.04. High-Net-Worth Provider AUM by Firm Type, 2005-2014E 124

High-Net-Worth Providers
Exhibit 8.05-Part 1. Top U.S. Wealth Managers, 2Q 2012 125
Exhibit 8.05-Part 2. Top U.S. Wealth Managers, 2Q 2012 126
Exhibit 8.06. Top-25 Banks by Personal Trust & Agency Assets, 1Q 2012 127
Exhibit 8.07. Top-25 Worldwide Multi-Family Offices by Assets, 2011 128
Exhibit 8.08. Consulting Firms Advising Wealthy Clients or Family Offices, Ranked by Total Assets Under Advisement, 2012 129
Exhibit 8.09. HNW Providers: Priority and Distribution of Services Provided, 2011 130
Exhibit 8.10. Asset Managers: Relative Attractiveness of Targeted Distribution Channels for HNW Prospects, 4Q 2011 131
Exhibit 8.11. Asset Managers: Reasons for Attractiveness of HNW Providers Relative to Other Business Lines, 2011 132
Exhibit 8.12. Asset Managers: Relative Frequency of Products Used to Target HNW Clients, 2011 133

Chapter 9: Mutual Funds 134
Exhibit 9.01. Total Mutual Fund Assets and Growth, 2001-2011 136
Exhibit 9.02. Mutual Fund Assets by Subset: Long Term, Money Market, and Closed End, 2001-2011 137
Exhibit 9.03. Mutual Fund Net Flows by Subset: Long Term, Money Market, and Closed End, 2001-2011 138
Exhibit 9.04. Number of Mutual Funds by Subset: Long Term, Money Market, and Closed End, 2001-2011 139
Exhibit 9.05. Total Open-End Mutual Fund Assets by Fund Type, 2001-2011 140
Exhibit 9.06. Total Open-End Mutual Fund Net Flows by Fund Type, 2001-2011 141
Exhibit 9.07. Top-35 Long-Term Open-End Mutual Fund Asset Managers, 2011 142
Exhibit 9.08. Top-35 Money Market Mutual Fund Asset Managers, 2011 143
Exhibit 9.09. Top-35 Closed-End Mutual Fund Asset Managers, 2011 144

Funds of Funds
Exhibit 9.10. Total Fund-of-Fund Assets and Net Flows, 2006-2011 145
Exhibit 9.11. Fund-of-Fund Assets by Subset: Target Risk, Target Date, and Other, 2006-2011 146
Exhibit 9.12. Fund-of-Fund Net Flows by Subset: Target Risk, Target Date, and Other, 2006-2011 147

529 Savings Plans
Exhibit 9.13. 529 Savings Plan Assets, 2001-2011 148

Chapter 10: Exchange-Traded Funds 149
Exhibit 10.01. ETF Assets and Growth, 2001-2011 151
Exhibit 10.02. ETF Assets by Fund Type, 2001-2011 152
Exhibit 10.03. ETF Net Flows, 2001-2011 153
Exhibit 10.04. ETF Net Flows by Fund Type, 2001-2011 154
Exhibit 10.05. Number of Total and New ETFs, 2001-2011 155
Exhibit 10.06. Top-15 ETF Sponsors, 2011 156

Exchange-Traded Notes
Exhibit 10.07. Exchange-Traded Notes Assets and Growth, 2006-2011 157
Exhibit 10.08. Exchange-Traded Notes Net Flows, 2006-2011 158

Chapter 11: Managed Accounts 159

Total Managed Accounts
Exhibit 11.01. Total Managed Account Assets by Program, 2001-2011 161

Mutual Fund Advisory Programs
Exhibit 11.02. Mutual Fund Advisory Program Assets and Growth, 2001-2011 162
Exhibit 11.03. Mutual Fund Advisory Program Assets by Program Type: Packaged, Hybrid, and Open, 2001-2011 163
Exhibit 11.04. Top-20 Mutual Fund Advisory Program Sponsors, 2011 164

Rep-Driven Programs
Exhibit 11.05. Managed Account Marketshare by Program Type, 4Q 2008-4Q 2011 165
Exhibit 11.06. Rep-as-Portfolio-Manager Program Assets by Investment Vehicle, 2008 vs. 2011....166
Exhibit 11.07. Top-10 Rep-Driven Program Sponsors, 2011 167

Unified Managed Accounts
Exhibit 11.08. Unified Managed Account Assets by Investment Vehicle, 2005-2011 168
Exhibit 11.09. Top-20 Unified Managed Account Programs, 2011....169

Separate Account Consultant Programs
Exhibit 11.10. Separate Account Consultant Program Assets and Growth, 2001-2011 170
Exhibit 11.11. Separate Account Consultant Program Assets by Program Type, 2001-2011....171
Exhibit 11.12. Top-25 Separate Account Consultant Program Sponsors, 2011 172
Exhibit 11.13. Top-35 Separate Account Consultant Program Asset Managers, 2011 173

Chapter 12: Annuities....174
Exhibit 12.01. Total Annuity Assets by Product Type, 2001-2011....176

Variable Annuities
Exhibit 12.02. Variable Annuity Gross and Net Sales, 2001-2011....177
Exhibit 12.03. Variable Annuity Total Flows by Distribution Channel, 2001-2011....178
Exhibit 12.04. Top-25 Variable Annuity Issuers by Sales, 2011....179

Fixed and Fixed-Indexed Annuities
Exhibit 12.05. Fixed-Indexed Annuity Sales as Percentage of Total Fixed Annuity Sales, 2001-2011....180

Variable Annuity Fund Management
Exhibit 12.06. Key Variable Annuity Fund Management Metrics, 2001-2011....181
Exhibit 12.07. The 25 Largest Variable Insurance Asset Managers, 2011 182

Insurance General Account
Exhibit 12.08. Insurance General Account Assets and Growth, 2001-2011 183
Exhibit 12.09. Insurance General Account Assets by Manager Affiliation, 2007-2011 184
Exhibit 12.10. Top-35 Managers of Unaffiliated Insurance General Account Assets, 2010-2011....185
Exhibit 12.11. Top-10 Managers of Affiliated Insurance General Account Assets, 2011....186

Section III: Institutional Markets
Chapter 13: Defined Benefit Plans....188

Assets and Managers
Exhibit 13.01. Total Defined Benefit Assets and Growth, 2001-2011 189
Exhibit 13.02. Defined Benefit Assets by Subset, 2001-2011E....190
Exhibit 13.03. Top-25 Defined Benefit Asset Managers by Assets, 3Q 2011 191
Exhibit 13.04. Asset Allocation of the Largest 1,000 DB Plans, 3Q 2011....192

Plans and Participants
Exhibit 13.05. Private Defined Benefit: Plans and Participants, 2001-2011E....193
Exhibit 13.06. Public Defined Benefit: Systems and Participants, 2000-2010 194

Taft-Hartley
Exhibit 13.07. Taft-Hartley Assets and Growth, 2001-2011E....195
Exhibit 13.08. Top-25 Taft-Hartley Asset Managers by Assets, 2011 196
Exhibit 13.09. Top-35 Taft-Hartley Sponsors by AUM, 2011....197

Chapter 14: Defined Contribution Plans 198

Assets and Managers

Exhibit 14.01. Total Defined Contribution Assets and Growth, 2001-2011 200
Exhibit 14.02. Defined Contribution Assets by Subset, 2001-2011 201
Exhibit 14.03. 401(k) Investment-Only Asset Totals and Growth, 2003-2011E 202
Exhibit 14.04. Top-35 Defined Contribution Asset Managers, 2011 203
Exhibit 14.05. Top-25 Defined Contribution Recordkeepers: Assets, Plans, and Participants, 2011 204

Private Defined Contribution

Exhibit 14.06. Total Private Defined Contribution Net Flows by Plan Type, 2001-2011E 205
Exhibit 14.07. Total Number of Private DC Plans by Plan Type, 2001-2011E 206
Exhibit 14.08. Total Number of Private DC Participants: Active vs. Retired/Separated, 2001-2011E 207

Public Defined Contribution

Exhibit 14.09. Most Frequently Used 457 Providers by Number of Plans, 2011 208
Exhibit 14.10. Leading 457 Recordkeepers by Assets, 2011 209
Exhibit 14.11. Most Frequently Used 403(b) Providers by Number of Plans, 2011 210
Exhibit 14.12. Leading 403(b) Recordkeepers by Assets, 2011 211
Exhibit 14.13. Federal Thrift Savings Plan Net Flows, 2001-2011 212
Exhibit 14.14. Federal Thrift Savings Plan Asset Allocation, 2011 213

Chapter 15: Endowments and Foundations 214

Exhibit 15.01. Total Endowment and Foundation Assets and Growth, 2001E-2011 FYE 215
Exhibit 15.02. Endowment and Foundation Assets by Subset, 2001E-2011 FYE 216
Exhibit 15.03. Top-35 Endowment and Foundation Asset Managers, 2011 217

Endowments

Exhibit 15.04-Part 1. Top-50 College and University Endowments, 2010-2011 FYE 218
Exhibit 15.04-Part 2. Top-50 College and University Endowments, 2010-2011 FYE 219
Exhibit 15.05. Top-35 Performing College and University Endowments, 2011 FYE 220
Exhibit 15.06. Endowment Asset Allocation, 2010-2011 FYE 221

Foundations

Exhibit 15.07. Top-25 Foundations, 2011 FYE 222
Exhibit 15.08. Number of Foundations by Type 2007-2010 223
Exhibit 15.09. Foundation Assets and Flows, 2010 224

Chapter 16: Subadvisory 225

Exhibit 16.01. Total Subadvised Assets by Investment Vehicle, 2005-2011 226
Exhibit 16.02. Unaffiliated Subadvised Assets by Investment Vehicle, 2005-2011 227

Subadvised Long-Term Mutual Funds

Exhibit 16.03. Long-Term Mutual Funds: Unaffiliated Single-Advisor and Multiple-Advisor Arrangements, 2005-2011 228
Exhibit 16.04. Marketshare of Long-Term Mutual Funds: Unaffiliated Single-Advisor and Multiple-Advisor Arrangements, 2005-2011 229
Exhibit 16.05. Marketshare of Total Long-Term Mutual Fund Assets by Affiliation, 2005-2011 230
Exhibit 16.06. Top-10 Long-Term Mutual Fund Sponsors: Multiple Subadvisor, 2008-2011 231
Exhibit 16.07. Top-10 Long-Term Subadvisory Mutual Fund Sponsors: Unaffiliated Single Advisor, 2008-2011 232
Exhibit 16.08. Top-10 Long-Term Subadvisory Mutual Fund Managers: Unaffiliated Single Advisor, 2008-2011 233

Subadvised Retail Separate Accounts
Exhibit 16.09. Separate Account Consultant Program Assets, Subadvisory vs. Open, 2004-2011 234
Exhibit 16.10. Key Subadvisory Separate Account Consultant Program Metrics, 2001-2011....235
Exhibit 16.11. Top-25 Subadvisory Separate Account Consultant Program Sponsors, 2011....236

Subadvised Variable Annuities
Exhibit 16.12. Subadvised Variable Insurance Assets: Affiliated and Unaffiliated Arrangements, 2001-2011....237
Exhibit 16.13. Variable Annuity Assets by Structure and Distribution, 2001-2011....238
Exhibit 16.14. Top-10 Subadvised Variable Insurance AUM with Unaffiliated Subadvisors by Insurer, 2008-2011....239
Exhibit 16.15. Top-10 Unaffiliated Subadvisory Variable Insurance Asset Managers, 2008-2011....240

Chapter 17: Collective Investment Funds....241
Exhibit 17.01. Total Collective Investment Fund Assets and Growth, 2008-2011....242
Exhibit 17.02. Top-10 Collective Trust Fund Managers, 2011....243
Exhibit 17.03. Top and Bottom Estimated CTF Net Flows by Category, 2011....244
Exhibit 17.04. Largest CTF Strategies, 2011....245
Exhibit 17.05. Percentage of A2 Fund Assets and Net Flows Attributed to DC Plans, 2011....246
Exhibit 17.06. Asset Manager: Considerations for Development and Distribution of CTFs, 2012....247

Chapter 18: Hedge Funds....248
Exhibit 18.01. Global Single-Manager Hedge Fund Assets, 2001-2011....249
Exhibit 18.02. Global Single-Manager Hedge Funds Databank, 2001-2011....250
Exhibit 18.03. Global Single-Manager Hedge Funds by Domicile Databank, 2003-2011....251
Exhibit 18.04. Global Single-Manager Hedge Funds by Investment Manager Location Databank, 2003-2011....252
Exhibit 18.05. Global Single-Manager Hedge Fund Assets by Investment Region Databank, 2003-2011....253
Exhibit 18.06. Global Single-Manager Hedge Fund Assets by Primary Market Databank, 2003-2011....254
Exhibit 18.07. Global Single-Manager Hedge Funds by Directional Bias/Style Databank, 2003-2011....255
Exhibit 18.08. Global Single-Manager Hedge Fund Assets by Sector/Strategy Databank, 2003-2011....256
Exhibit 18.09. Top-25 Hedge Fund Firms by AUM, 2011....257

Funds of Hedge Funds
Exhibit 18.10. Global Single-Manager and Fund-of-Hedge-Fund Assets, 2003-2011....258
Exhibit 18.11. Global Single-Manager and Fund-of-Hedge-Fund Performance, 2007-2011....259
Exhibit 18.12. Global Fund-of-Hedge-Funds Databank, 2003-2011....260

Company Index....261

SAMPLE SECTION
from

CERULLI QUANTITATIVE UPDATE: THE STATE OF U.S. RETAIL AND INSTITUTIONAL ASSET MANAGEMENT 2012: ADDRESSING PROFESSIONALLY MANAGED ASSETS

EXHIBIT 1.18: Retail Client Assets: Growth Rates by Distribution Method, 2011

Though growing in 2011, the retail direct channel struggled over a 3- and 5-year period, losing assets.

Sources: Department of Labor, Judy Diamond, CFO, Investment Company Institute, Federal Retirement Thrift Investment Board, PlanSponsor, Insuranceassetmanager.com, The Foundation Center, NACUBO, Investment Company Institute, Insured Retirement Institute, VARDS, Morningstar Direct, Strategic Insight/SIMFUND, Securities Industry and Financial Markets Association, Investment News, Financial Planning, Bank Insurance Market Research Group, Meridian IQ, S&P Capital IQ MMD, The Institute of Management and Administration, Pensions & Investments, FDIC, OCC, Barron's, Cerulli Associates, in partnership with Advisor Perspectives, Financial Planning Association, Investment Management Consultants Association, and Morningstar

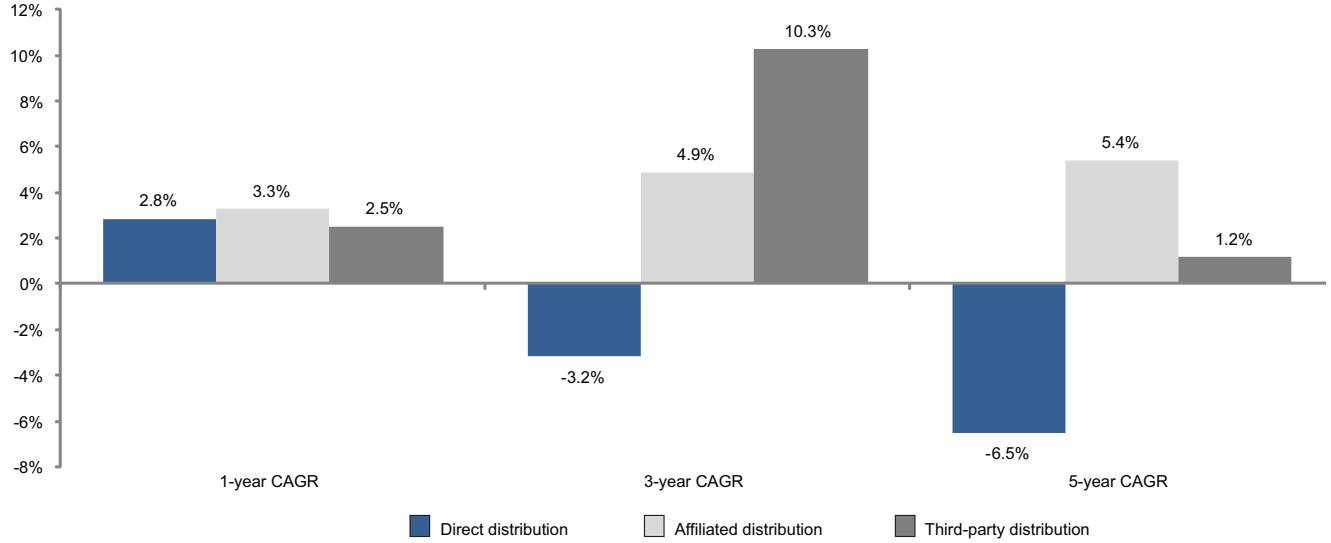
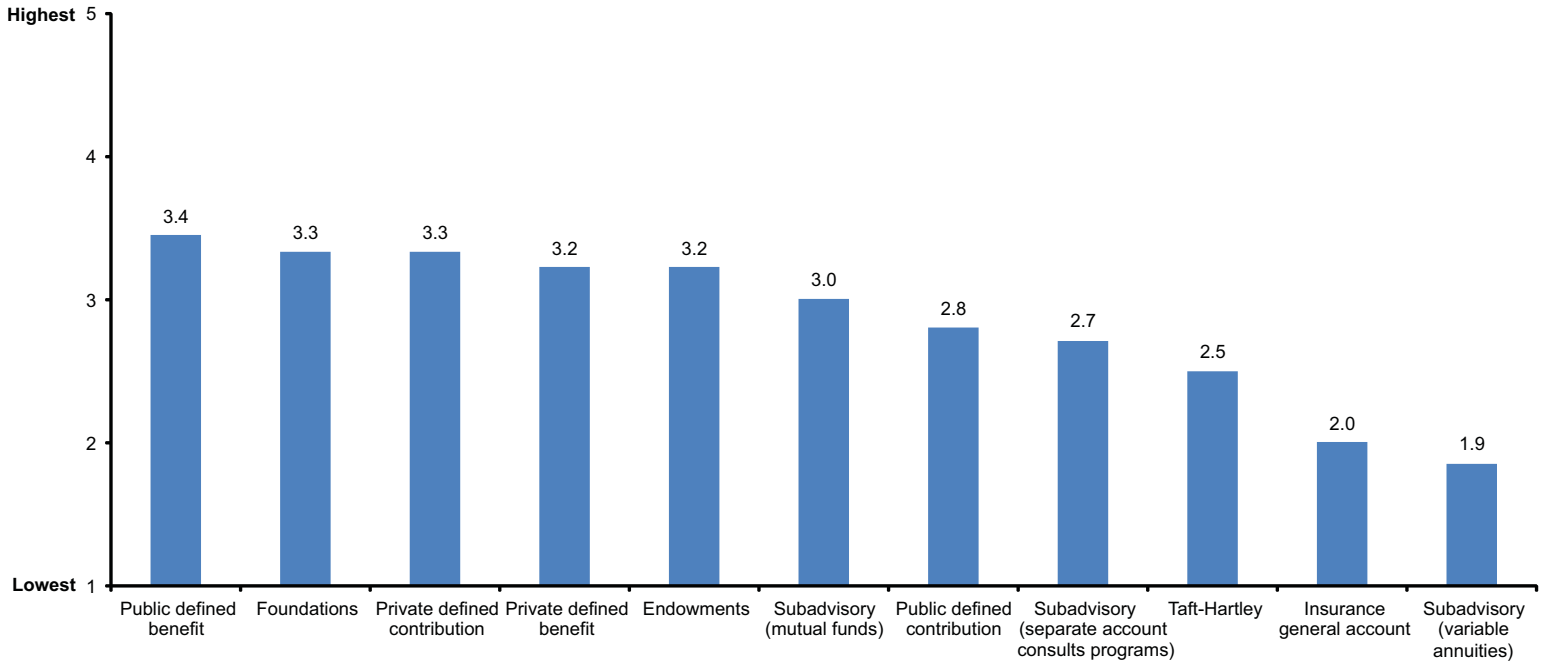


EXHIBIT 4.11

Institutional Channel Profitability Rankings, 2012

Source: Cerulli Associates



- Despite its increased sales and service costs (see Exhibit 4.10), public defined benefit is rated as the most profitable institutional channel.
- Foundations are rated lower for gross sales compared to other channels (see Exhibit 4.10), but are rated only slightly below public defined benefit for profitability.

Key Implication: Foundations and endowments are on average more likely to not use or deemphasize RFPs in their screening process. They also do not have the same regulatory requirements that public pensions face. These factors lower the sales and servicing costs for managers. Many of these funds may also do their own research and approach asset managers themselves. The lower costs make these mandates more profitable than many other institutional channels. At the same time, the size of this opportunity is much smaller than defined benefit plans. Mandate sizes for defined benefit plans tend to be large and therefore may be more profitable. Public defined benefit plans continue to increase their opportunity set of investable assets and are using more alternative assets and other specialty asset classes, which charge higher fees than some of the more commonly used traditional long-only products. Additionally, non-profit clients are known for their large exposure to alternative investments, which command greater fees.

Insurance general account fees tend to be lower, due to their more conservative asset allocation, as the majority of assets tend to be invested in fixed income. Furthermore, the due diligence cycle for insurance general accounts tends to run longer, thus greater resources are needed for prospecting. This translates into an expense. Lastly, subadvisory fees tend to be lower, as the investment manager shares a portion of the fee with the insurer, who handles the bulk of the servicing and marketing responsibilities.

Company Index

ADP 206
Alerian 157
AllianceBernstein 185
Allianz Global Investors 179, 182
American Funds 142, 182, 241
Ameriprise 56
AON Hewitt 129, 204
Aquila Investment Management 135, 139
AXA 182, 208
Baird 56
Bank of America Merrill Lynch 74, 82, 125, 127
Bessemer Trust 128, 231
BlackRock 17, 74, 82, 108, 115, 144, 156, 157, 173, 182, 184, 185, 191, 203, 213, 243
BlackRock iShares 156
BlueCrest Capital Management 248, 252
Brevan Howard Asset Management 248, 252
Bridgewater Associate 257
Charles Schwab 16, 34, 104, 171, 172, 199, 236, 244
Conning 184, 185
Deutsche Bank 184, 185
Eaton Vance 173
Edward Jones 164, 169
Fidelity 16, 46, 59, 99, 106, 117, 143, 164, 169, 171, 199, 203, 209, 211, 233
Galliard 244
Gannett Welsh & Kotler 173
Geode Capital Management 203
Goldman Sachs 147
Grail Advisors 149, 155
Guggenheim Partners 185
GuideStone Capital Management 231
HSBC 128
ING 204, 225, 227
Invesco 185, 244
J.P. Morgan Chase 125, 127, 169, 204, 241

Jackson National 179, 239
Janney Montgomery Scott 56
John Hancock 179, 225, 227, 240, 241
Lazard Asset Management 231
Legg Mason 143
Loomis Sayles 185
LPL Financial 51, 56
Mass Mutual 208
BNY Mellon 128, 217
Mercer 129
Metropolitan Life 179, 182, 239
Morgan Stanley Smith Barney 125, 169, 172
Nationwide 208
Northern Trust 128, 231
Nuveen Asset Management 144, 173
Oppenheimer 147
PIMCO 149, 150, 154, 182, 186, 217, 240
PNC 119, 125
Principal 241
Prudential Financial 179, 182, 240
Raymond James Financial Services 51, 56
RBC Wealth Management 56
Segal Rogerscasey 197
Russell Investment Group 149, 155, 243
State Street Global Advisors (SSgA) 217, 243, 244
SunAmerica 179
Sun Life 179, 225, 227
SunTrust 119, 125
TD Ameritrade 16, 59, 199
The Hartford 179, 204, 208, 225, 227, 237
TIAA-CREF 46, 169, 182, 208, 209, 211
Transamerica 179
U.S. Bank 119, 125
U.S. Trust 125
UBS 172
USAA Investment Management 164, 169

VALIC 208
Vanguard 46, 99, 104, 106, 142, 156, 225, 231, 232, 233
Wellington Management 217, 225, 232, 233, 243
Wells Fargo 51, 127, 172
Winton Capital Management 257