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\$900 billion in 2010 stock and bond fund flows, mostly around risk aversion and income needs; top five 2011 themes from strategic insight survey of key institutions and distributors

Hong Kong – January 3, 2011 – 2010 net flows to stock and bond funds amounted to over \$900 billion worldwide, according to Strategic Insight’s *2010 Global Asset Management Review/2011 Outlook*, mostly around risk aversion and income needs, and a business focus back-to-basics.

Among the best selling investment categories were Global, Emerging Market, Asia Pacific, ‘balanced’, and absolute return. “The top five 2011 focus areas for institutions and global distributors based on a proprietary Strategic Insight survey are investment solutions, absolute return, client service, thought leadership and better digital information delivery,” according to Daniel Enskat, Head of Global Consulting for Strategic Insight.

“Three quarters of all global net flows since the crisis benefited fixed income products, a complete reversal from 2005-2007, where equity funds accounted for three quarters of flows on aggregate globally,” says Enskat. “While the size and scope of bond flows going forward is a debate in the industry, we anticipate continued demand around flexible ‘safety & income’ solutions, alongside a cautious return to equity funds in 2011.”

Many of the forces that influenced investor behavior and choices in 2010 are likely to remain in place for at least part of 2011. Financial uncertainty, very low cash yields (in some developed capital markets), a secularly depreciating US Dollar, quantitative easing the sequel, the debt crisis in Europe, lackluster aggregate demand for funds across Asia, regulatory changes and uncertainties, convergence of multiple parts of the industry and investor compartmentalization between “safety & income” and “risk capital” in an overall context of risk aversion.

“From a flow perspective, three meta-trends – future asset class/investment category demand, regional flow potential (developed vs. emerging) and concentration of leadership via selected blockbuster products – will be part of the conceptual framework for fund managers as they are mapping out brand positioning and growth strategies for the coming years,” added Enskat.

While themes and simplicity currently dominate the product landscape, institutions and distributors around the world going forward expect a gradual shift towards “bridge” products, leading towards investment solutions and absolute return themes, albeit with geographical nuances.

The crisis also sharply delineated outcomes for fund managers. Companies that “wasted the crisis” by not doing enough to reach out to clients, that cut back on resource and geographic commitments, and that did not innovate and adapt, experienced very different outcomes compared to those who followed a more committed strategy.

The decision by distributors to reduce the number of managers and funds that they work with has led to a distinct “winner takes all” phenomenon over the past few years and the concentration of flows in the last two years to a few key managers and flagship funds around the world has been accelerating.

Explains Enskat: “Over \$900 billion in net flows went to long-term funds worldwide in 2010. With around 60,000 long-term mutual funds worldwide, \$800 billion in cash flows went to only 350 products – in other words, one half of one percent of products accounted for 94% of 2010 industry flows to long-term products –marking an acceleration of leadership turnover and concentration of success among fewer managers and products.”

“Products such as PIMCO Total Return, Templeton Global Bond, Carmignac Patrimoine, Pictet Local Emerging Market, or Schroders ISF Euro Corporate Bond reached blockbuster status as the above mentioned themes were implemented by distributors: back to basics, sexy but simple products, independent brands and thematic product appeal. At the same time, some distributors might seek to reverse such extreme concentration going forward, opening new relationship opportunities.”

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