Global Fund Distribution

Best Practices, Key Trends, and Operational Models to Grow Sales Worldwide

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* Refers to Strategic Insight Mutual Fund Research and Consulting Electronic Products Inc. and its wholly-owned subsidiary, Strategic Insight Mutual Fund Research and Consulting LLC, both defined as Strategic Insight.

KEY MANAGEMENT THEMES

GLOBAL FORCES CHANGING THE MUTUAL FUND INDUSTRY

Globalization: The new economic world order of fund distribution.
Accidents Happen: Short-term threats and long-term opportunities.
Crisis Mode: Action plan for customer retention and growth in times of severe investor anxiety.
Shifting Tectonic Plates: From pariah to growth engine – emerging market growth vs. mature market decline (more east-east transactions, less Europe and the US).
Watch the Left Field: A more connected and dynamic global fund world requires a broader list of competitors.
Fund Flow Complexities: On- and offshore flows are more complicated and dynamic than ever.
Traditional vs. Alternative: A broader definition of asset management. Who will be the winners?

TRENDS IMPACTING DISTRIBUTORS AROUND THE WORLD

Distribution Opportunity Matrix (DO Matrix): How distributors approach fund selection and partnerships with asset managers.
Of Apples and Oranges: Misaligned expectations and preconceived notions between distributors, asset managers, and clients.
Moving Beyond Select Lists: "Flight to quality and simplicity" creates new forms of collaboration; how to go beyond the "official selection route" to grow sales.
Changes in the Operational Setup of FSUs: Fund selection for Asia and emerging markets brings significant operational challenges.
Distributor Case Studies: Similarities and differences between global and regional distribution.

BEST PRACTICES FOR ASSET MANAGERS TO GROW SALES

The Few, The New, The Proud: Product innovation and management in a global fund world (back to basics asset allocation, themes, concentration of global flows and specific local demands); strategic versus tactical product lines.
Long-Distance Relationships: Wholesale distribution through global distributors versus the need to be fully operational on the ground.
More than Meets the Eye: Smaller markets often provide greater opportunities than larger markets to build sticky, sustainable long-term relationships.
Power to the CDAs: Creating a senior team of "creative data analysts" with strategic and tactical decision making power to leverage distribution.
Breeding New Sales People: Setting up the operational structure and incentives to create a new, "selfless", breed of sales for long-term growth.
New Era of Advice, Client Service and Marketing: Beyond a 5-Star rating, the service proposition is the differentiator from "select list" to "priority product".
Lost in Translation: Global/emerging market opportunities require local knowledge, language skills, and creative multi-cultural asset managers.

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Presentations and Tables

Introduction

As part of our global mutual fund research and project work with clients over the last two years we spent most of our time traveling the world – mostly to Asia, the Middle East and Latin America, as compared to more Europe and the US in the prior decade. During this time we were fortunate enough to present and participate on public and private industry panels with experts ranging from public policy, investment banking, consultants, and institutional research and academia. We were also able to work closely with a few dozen CEOs on consulting projects and strategic product reviews to implement their offshore distribution efforts.

Strategic Insight never could have put together this distribution analysis without the invaluable assistance from many of our key clients around the world. Dozens of CEOs, Heads of Sales, Product Development and Strategy were kind enough to spend time with us in person or on conference calls to provide details and feedback on their firms, strategy and distribution efforts. In addition, a few long-term key clients reviewed the report during its creation and provided us with their thoughts, editorial comments and best practice anecdotes. We are deeply grateful for their time and insights, as the details on their respective sales and distribution approaches combined with our data and analysis form the core of this study.

During these challenging times, we return to our past research which followed other traumatic events to put recent developments in perspective and to offer ongoing assistance to our clients. More than ever before, Strategic Insight focuses on providing essential data, business analytics, and in person presentations and meetings to our clients to help them overcome short-term challenges and capitalize on long-term opportunities.

Our travel schedule through the end of 2008 will be intense, as we are asked to present to industry associations, regulators and company boards across the US, Asia, Europe and the Middle East. At the same time it will allow us to meet with many of you to assist with advice and perspective. For those that we cannot touch base with in person, we will conduct a number of webex presentations and conference calls to allow for discussion of your specific distribution needs.

Our research library with almost 700 studies covers over twenty years of data analytics and qualitative research on the core issues fund managers and distributors are facing on an ongoing basis. Throughout this report, footnotes will point to in-depth studies we have written in the past that provide additional details, data and perspective. For example, just last week both Strategic Insight's president and director of research published reports on customer retention and mutual fund strategies for uncertain times to provide clients perspective and reassurance in the current global financial crisis.

All the tables and data provided in this report were generated using our proprietary global database Simfund Global, which integrates key data points including assets, flows, performance, ratings/rankings, fees and portfolio holdings from Morningstar, Lipper, local data providers, and Strategic Insight, updated through July 2008. Clients of the distribution report will get access to a dedicated "Global Mutual Fund Distribution Landscape" website for one year (launched in late 2008), with key data tables, graphs, and select lists updated on a quarterly basis to keep the data behind the analysis current and to allow for thought exchange and ongoing feedback. We are currently reviewing September 2008 data and the strong outflows for the month and will update the quarterly data on the site in the coming weeks.

At the end of this report, following the closing thoughts, we offer clients Strategic Insight's ongoing reporting of key trends, product, distribution, and overall industry research, and annual surveys, for their ongoing distribution research needs.

New York, October 2008

Daniel Enskat
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Executive Summary

We have divided this report on global fund distribution into three broad chapters, with each chapter organized into five to six themes discussed in detail:

1. **Global Forces Changing the Mutual Fund Industry**
2. **Trends Impacting Distributors Around the World**
3. **Best Practices for Asset Managers to Grow Global Sales.**

The global distribution landscape currently is being reshaped by several fundamental factors – the impact of which will be felt for years to come and will provide both challenges and opportunities for asset managers and client facing firms.

- <u>The inherent benefits of mutual funds – easy access, transparency, liquidity, conservative pricing methodologies, sound regulatory framework, diversification, and compatibility with long-term investing – will become even greater strategic advantages in the wake of the current global financial crisis.</u> The largest financial shock since the Great Depression has governments, financial institutions and investors around the world in survival mode, with extreme market volatility and trillions of retirement assets wiped out. Investors that redeemed during the downturn will miss the market rebound, amplifying their losses. Those that continued with a dollar cost averaging approach through the crisis, however, reduced their relative losses and stand to gain from a potential rebound. Similarly, while the industry is facing strong redemptions, lower sales, and a flight to safety in the near-term, the crisis is a major opportunity for the many benefits of mutual funds – only highlighted when compared with derivatives based structured products, hedge funds, and direct stock investing. Ultimately, <u>those companies able and courageous enough to plan for growth now will gain significant market share in the future.</u>

- The sustained growth of funds in Asia even during the current crisis confirms the powerful shift of investor demand, flows, and the center of asset management focus, which, more than anything else, will influence distribution opportunities in coming years. Fund inflows in Asia through August stood at $60 billion despite sharp NAV declines. In contrast, long-term funds across Europe gave back $360 billion in net redemptions (even more considering strong inflows to ETFs). While US funds have also continued to benefit from net inflows in 2008, the center of asset management growth opportunities is shifting, with Asia as a likely long-term beneficiary.

- This growth of emerging regions and corresponding business complexity is encouraging the decentralization of distribution efforts. Global fund selectors, while still leaning on centralized processes, are empowering local units in the growth centers of Asia, Latin America, and the Middle East. The power of some centralized fund selection units (FSUs) is also waning largely due to their inability to cater to the specific needs of the local markets. This in turn is encouraging asset managers to go beyond the FSU and develop relationships with local sales and product teams. Meanwhile, the question of open, guided or closed product platform architecture continues to be a central question for distributors. The question is multi-faceted and distributors consider costs, marketing/sales efficiencies, economics, competitiveness of product menu and ability to maintain a sufficient level of oversight. Furthermore, as distributor product menus evolve, it is clear that simply getting on select lists is thus not enough – value-added services and influencing key advisors are needed to get flows.

- Diverging needs for theme/transaction-based products versus asset allocation/fee-based solutions are also strongly influencing distribution structures and priorities. The balance between these two needs, along with product design, support, and fund selection criteria also vary by market maturity. Addressing the needs of multiple markets at different stages of their evolution has become remarkably complex, impacting both asset managers and distributors.

- To cater to the different needs and stages of distributors worldwide (theme/ transaction versus allocation/ fee-based), asset managers are paying more attention to both "strategic" and "tactical" product lines. Distributors note a desire for simple products with strong conviction of investment approach and see less room for benchmark products, yet more use of exchange-traded funds (ETFs) for beta exposure. Though still in the early stages of implementation for non-institutional investors, the splitting of alpha and beta is an important trend with a significant impact on the industry. Many expect the continued growth of ETFs, outcome oriented solutions, success for top long-only diversified fund managers, and growing inflows to boutiques. Moreover, with increasing regulatory scrutiny, developments in asset allocation modeling, challenges to margin expansion and the movement of so-called "alternative" investments down-market, convergence across a wide variety of asset management strategies will continue. Both "traditional" and "alternative" asset managers will have to redefine themselves to grow.

- Communicating the benefits of mutual funds effectively remains the central challenge. Outside of markets with a strong retirement foundation and comfort with mutual fund investing, such as the US or Australia, a key challenge is to communicate the advantages of mutual fund investing to overcome investor anxiety and structural limitations of bank distribution, and to maintain confidence in the vehicle. A positive side effect of the financial crisis will be the increased opportunity to educate investors in Asia and emerging markets about diversification and long-term fund investing in which mutual funds play an important role. Globally, distributors need to work in partnership with investment product specialists and their sales teams to ensure proper expectation management at the point of sales. Further co-education at the distributor sales person and client level will be important, particularly for large scale managers with the requisite resources to make such efforts effective. And some key firms and chief executives need to take a public leadership role with governments, regulators, the media and industry associations to inform and educate all parties about the role of mutual funds in the investment process.

- The growing fiduciary role of distributors is leading to greater concentration of fund flows regionally. This contrasts with the growth of emerging regions and complicates the decentralization of distribution efforts. It also accelerates the pace of change in the industry and leadership rotation: two thirds of the largest 50 fund managers today were not among the top 50 ten years ago. We have seen numerous examples around the world of how one blockbuster product can either help build or destroy a company brand. Diversification of product lines for asset managers will only become more important as market volatility and uncertainty remains high. These developments reiterate the heightened attention to product development and management.

- Greater business and product complexities require a new “breed” of analytical sales and product specialists. The necessity to build multiple relationships with key advisors in distribution firms locally requires what Strategic Insight calls “creative data analyst” (CDA) teams to work closely with sales teams and management on an ongoing basis to educate the political center at home about the importance of non-domestic opportunities in the coming years. There is a clear need for a “renaissance” sales person, but within a team of specialized skills and with a broad mandate and concrete incentives across channels (insurance, retail, wholesale, institutional, etc), markets or product lines, as in the past a lot of firms have been constrained by legacy silo sales structures with no monetary reward to “reach across the aisle”. Only CDA teams and senior executives with the necessary firm-wide authority can implement such broad structural changes. Fund managers building global distribution need to find new ways to partner with distribution organizations and to offer credible analysis, pro-active communication and innovative marketing ideas that go beyond product and performance analytics. The CDA team should include experienced analysts and senior executives with strategic and tactical responsibilities along with incentives to build relationships and raise sustainable assets (retention versus sales based bonus). For many years in the US, Strategic Insight enabled the “information gatekeepers” to stimulate their company’s expansion through early use of competitive intelligence. Today, Strategic Insight’s global research team, guided by the powerful lens of our Simfund Global database, is observing similar competitive benefits for some of our global clients, who already have a CDA team in place.

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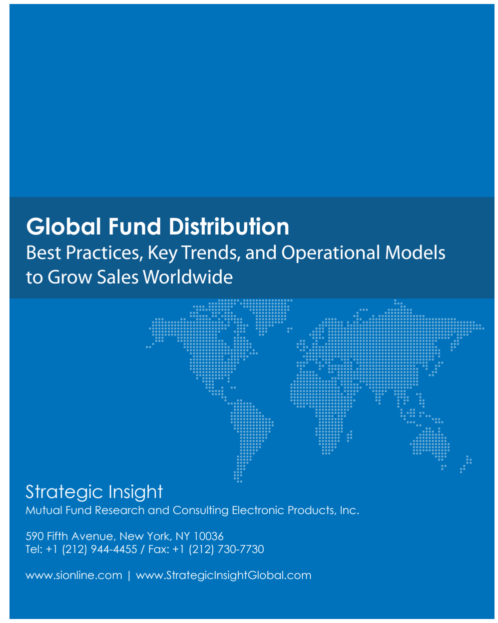

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