



Competition For Mutual Funds

Wohlstetter Conference Center
Washington, D.C.
April 26, 2006



FRC Overview

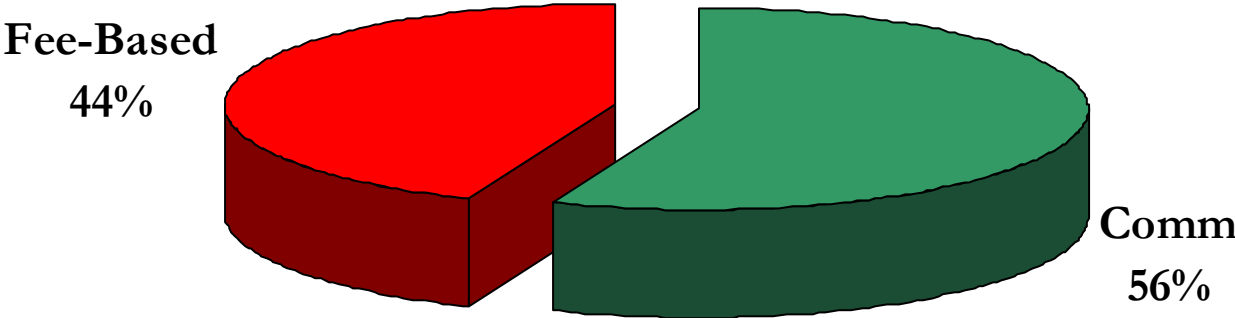
- ◆ Founded 1987...staff of 30
- ◆ Consulting Support for Investment Managers
- ◆ +200 clients account for 95% of fund industry assets
- ◆ Focus: Distribution of retail investment products (sales, marketing and product development)
- ◆ Approach: Analytic, forward thinking, practical, objective and extremely candid
- ◆ Goal: To optimize sales and asset growth (retention) results

Distributor Evolution

Shifting Points of Influence

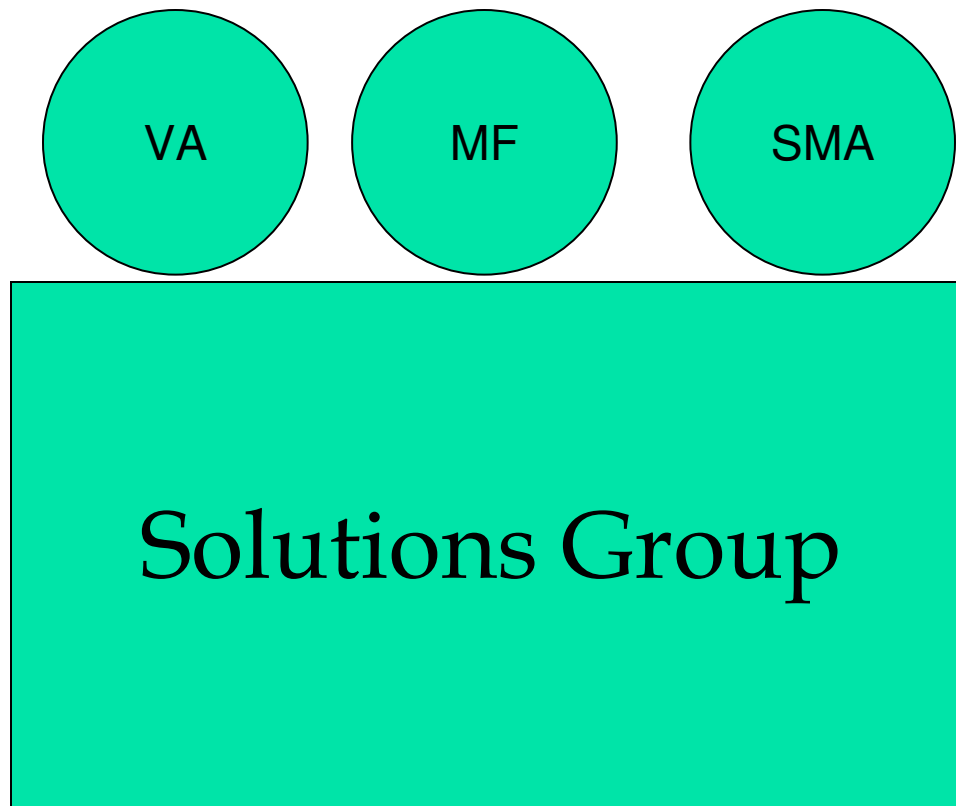
- ◆ Evolution of brokers to financial advisors requires “solutions” focus
- ◆ Fee-based approach leads to product indifference
- ◆ Due diligence teams as a center of influence as advisors accept pre-packaged solutions
- ◆ Migration from preferred groups to recommended funds

Broker Assets by Account Type



Source: SIA

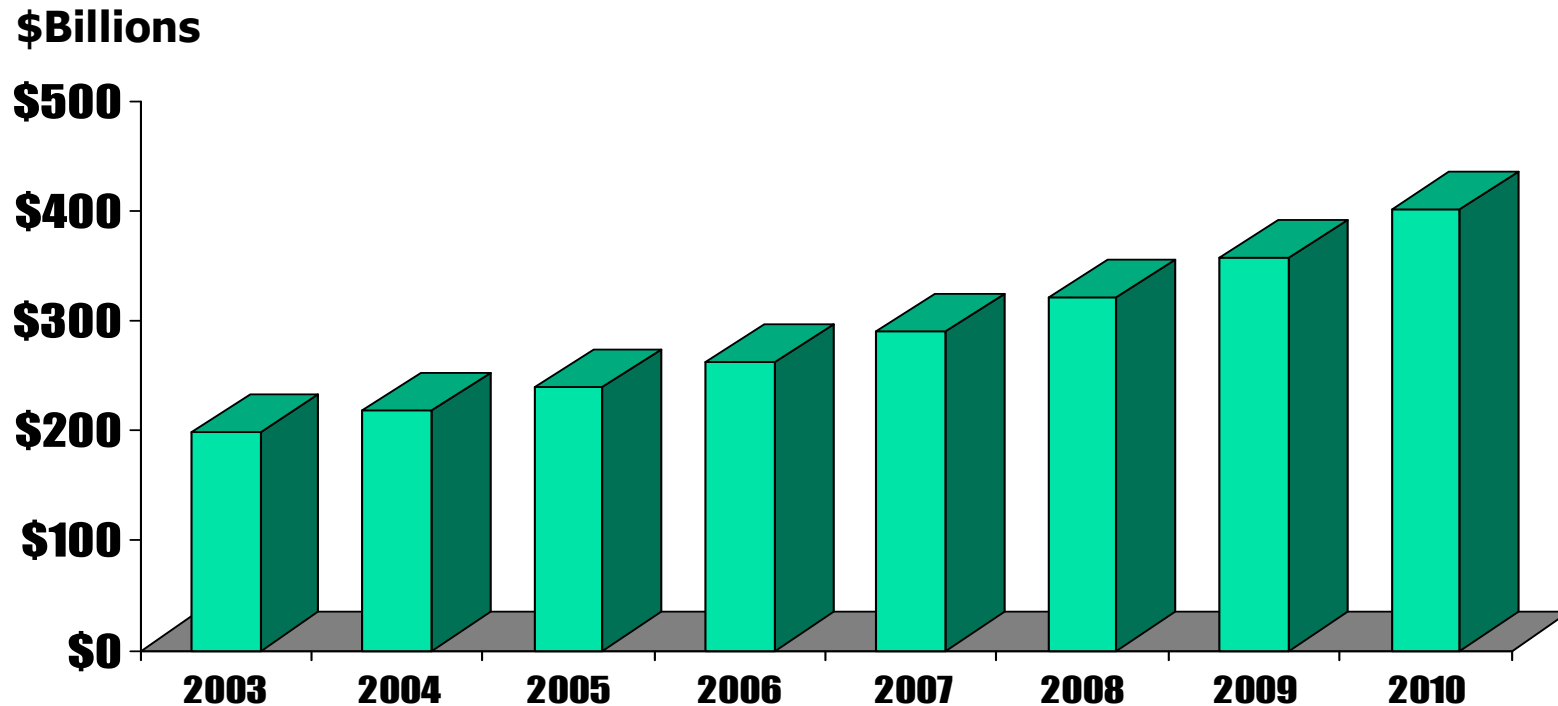
Due Diligence Evolution



Product Reviews

Money in Motion

\$1.9T in Rollover Flows 2005 – 2010

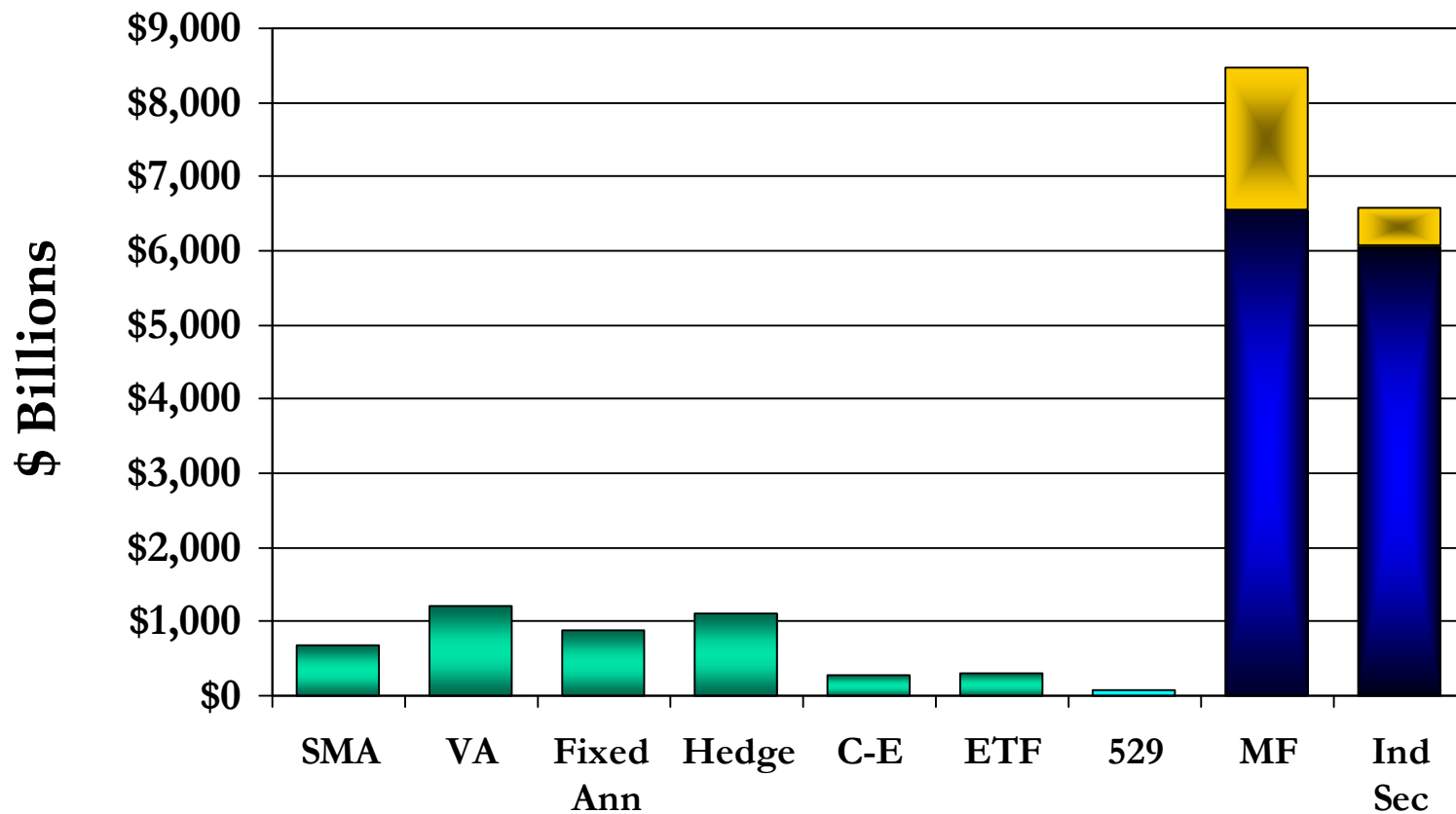


Source: Financial Research Corporation (FRC)

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Assets of Alternatives

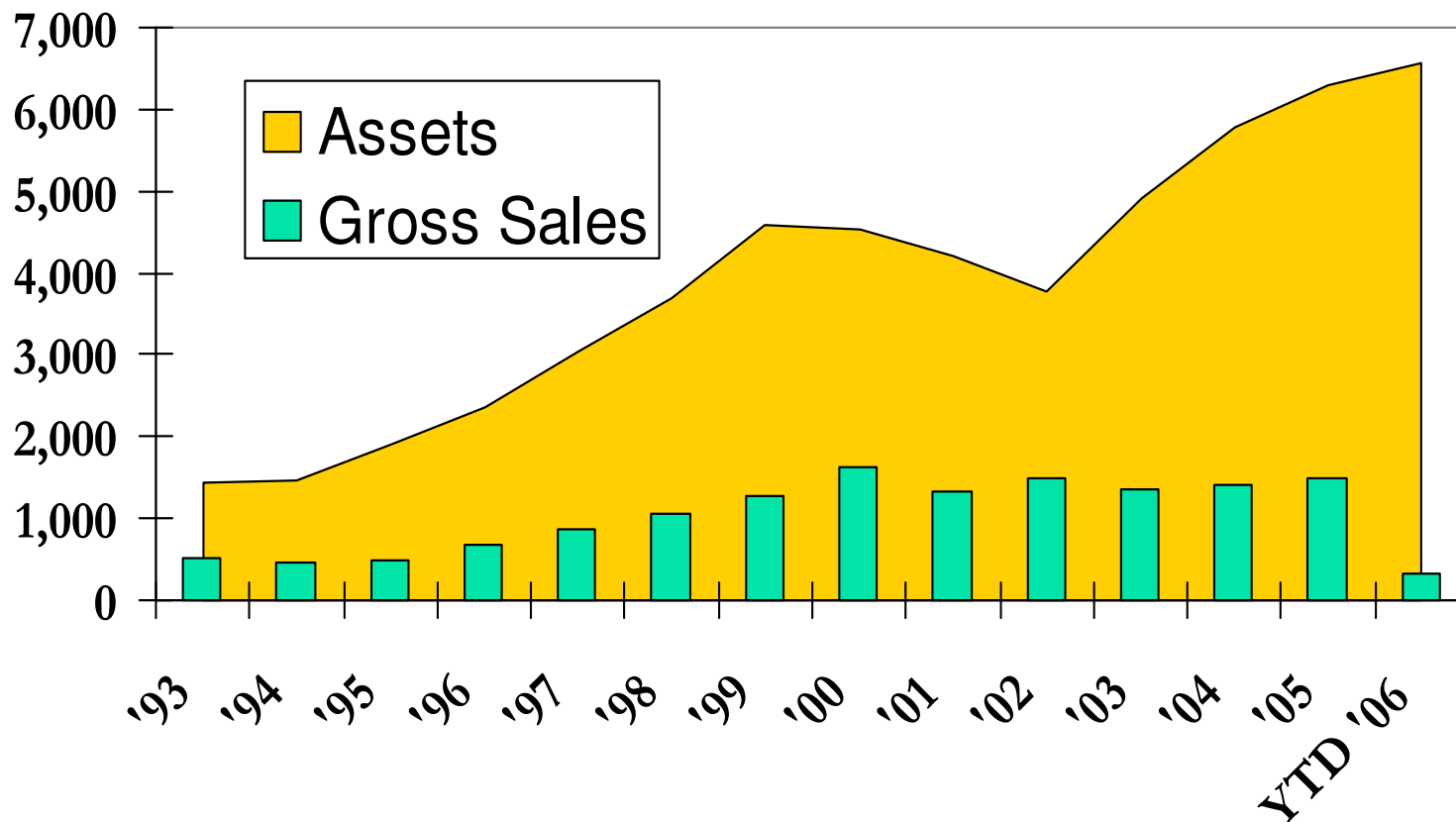


Sources: FRC, ICI, MMI, Hedge Fund Research, Beacon Research, Federal Reserve

Mutual Funds

Asset Growth (L-T Mutual Funds and ETFs)

\$ in billions

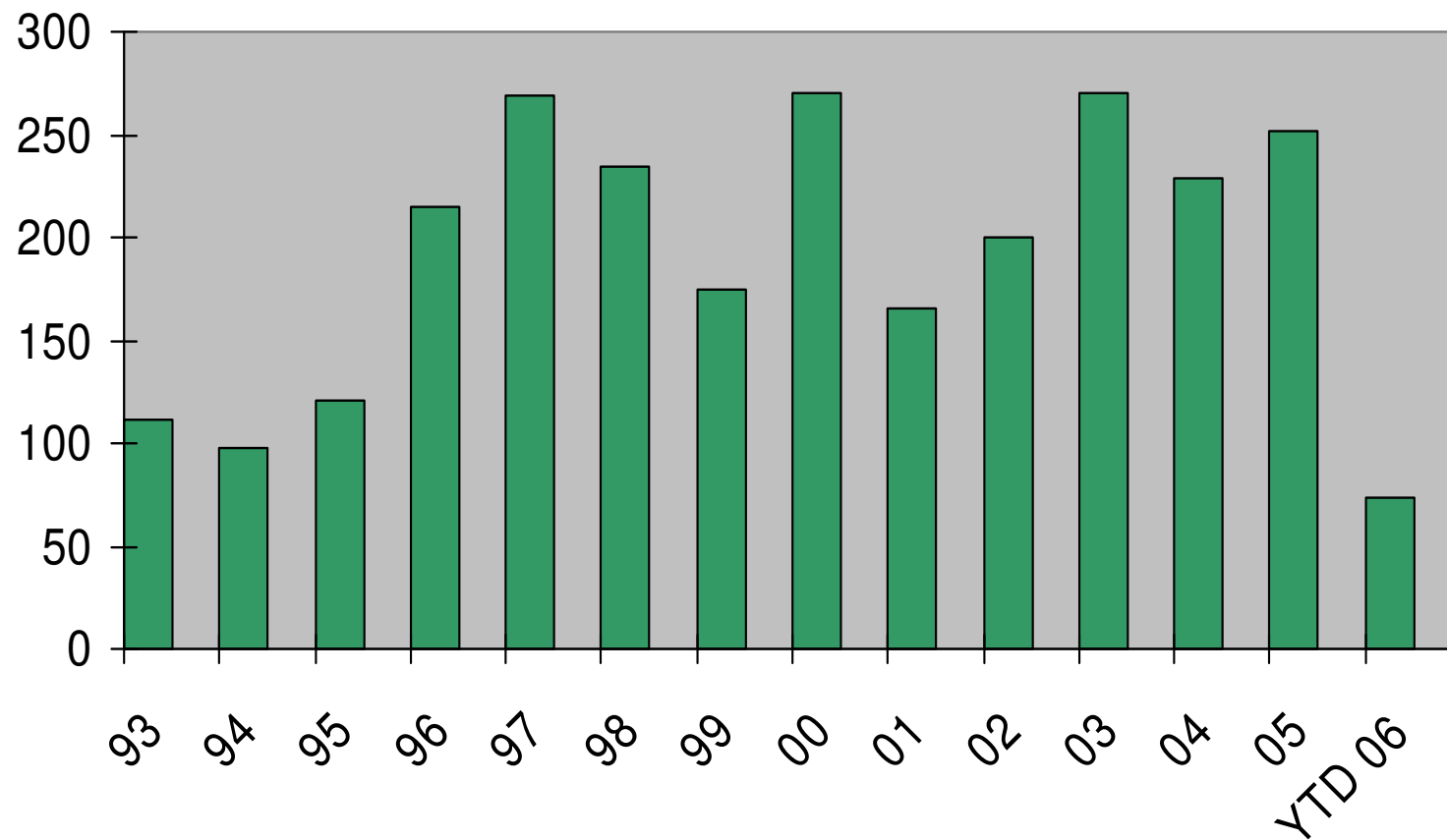


Sources: FRC, ICI

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Net Sales (All L-T Funds and ETFs)



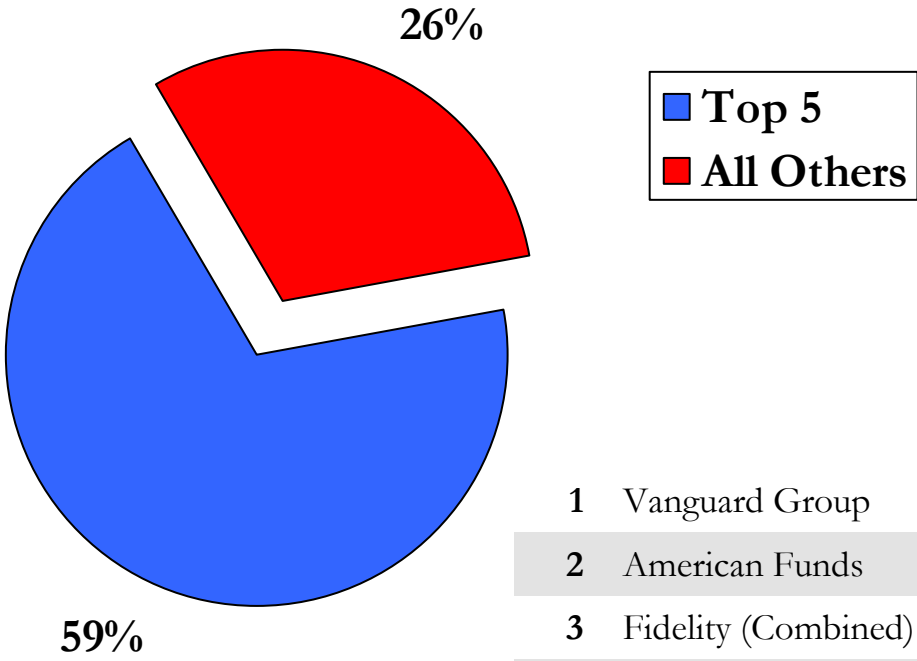
\$ in billions

Top Selling Objectives – YTD 2006

Rank	Category	Net Flows	YTD Flows	
		Jan '06	2006	2005
1	Foreign Large Blend	6,354	6,354	3,049
2	Intermediate-Term Bond	5,221	5,221	3,698
3	Diversified Emerging Markets	3,767	3,767	(87)
4	World Stock	3,324	3,324	1,417
5	Moderate Allocation	2,982	2,982	5,913
6	Large Growth	2,755	2,755	(2,030)
7	Foreign Large Value	2,667	2,667	1,733
8	Specialty-Natural Resources	2,576	2,576	686
9	Foreign Large Growth	2,489	2,489	1,453
10	Specialty-Precious Metals	2,115	2,115	796

\$ in millions

Top 5 Share of Net Sales (YTD '06)



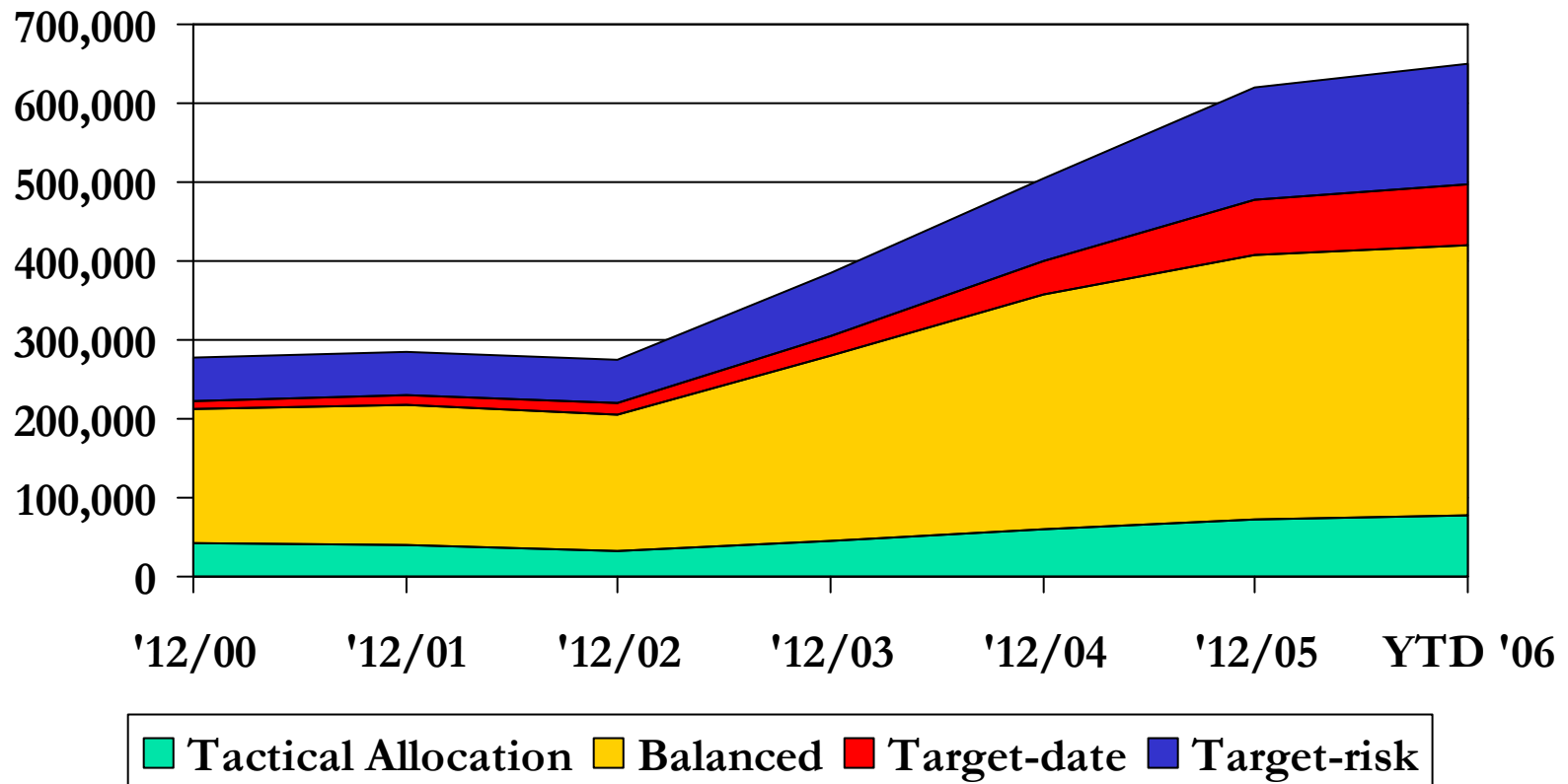
- 1 Vanguard Group
- 2 American Funds
- 3 Fidelity (Combined)
- 4 Franklin Templeton Investments
- 5 Barclays Global Investors Funds

LT Funds and ETFs

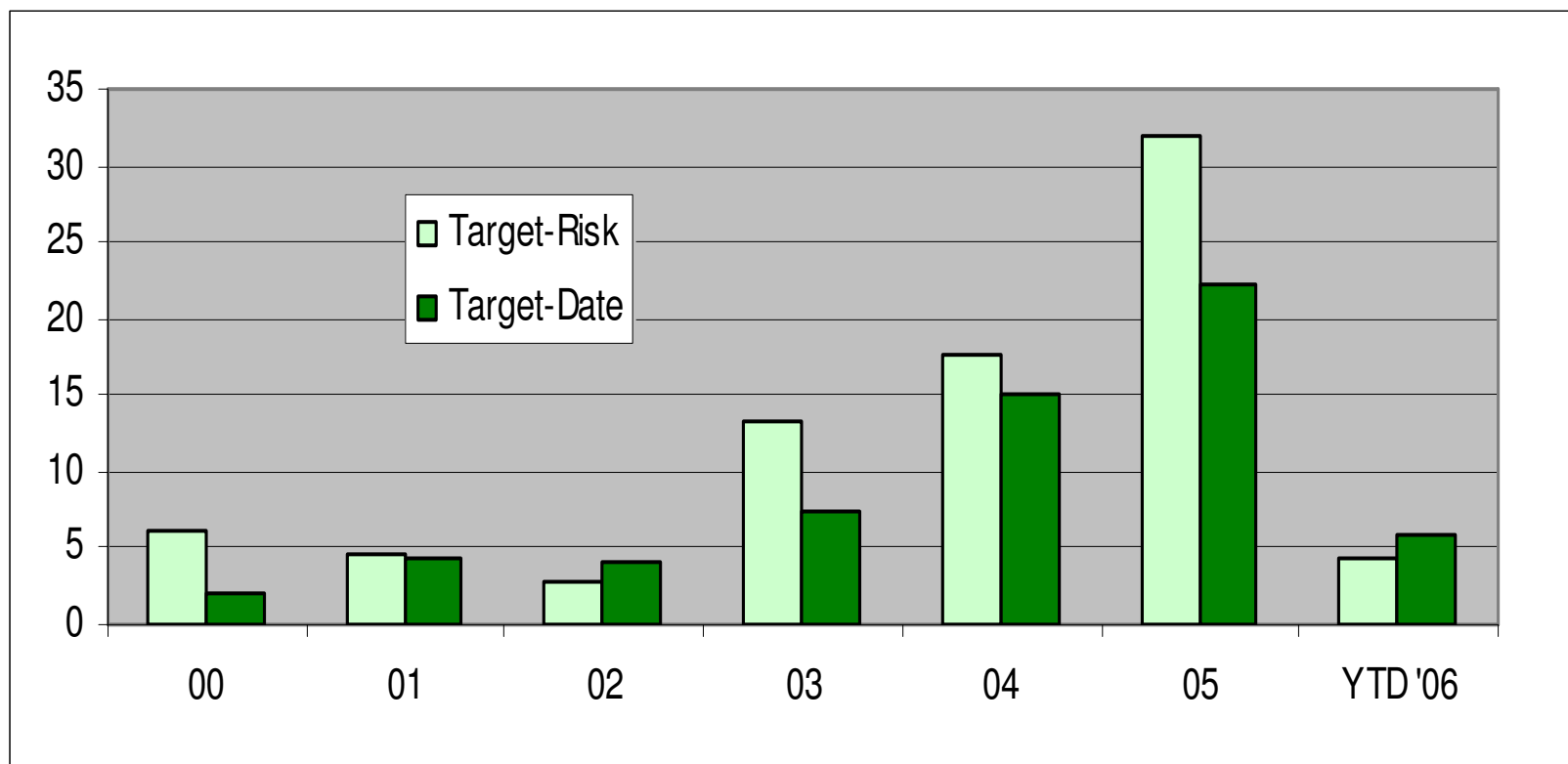
Future Sales

Category	Current Share AUM	Mkt Share Flows (last 5 years)	Mkt Share Flows (last 21 months)	Projected Sales Share 2006-2009
Fixed Income	19.5%	21.1%	2.5%	10.0%
Large Blend	15.1%	8.1%	-0.5%	5.0%
Large Value	11.7%	9.1%	12.5%	10.0%
Asset Allocation	11.1%	19.8%	33.0%	25.0%
Large Growth	10.7%	4.1%	-4.7%	10.0%
Intl Core	10.0%	10.3%	23.3%	15.0%
Mid Cap	7.1%	9.4%	11.5%	7.5%
Small Cap	6.7%	8.7%	6.3%	7.5%
Intl Other	4.0%	5.3%	10.2%	5.0%
Other Equity	4.0%	4.0%	5.9%	5.0%
Total	100.0%	100.0%	100.0%	100.0%

Asset Allocation Funds: Assets

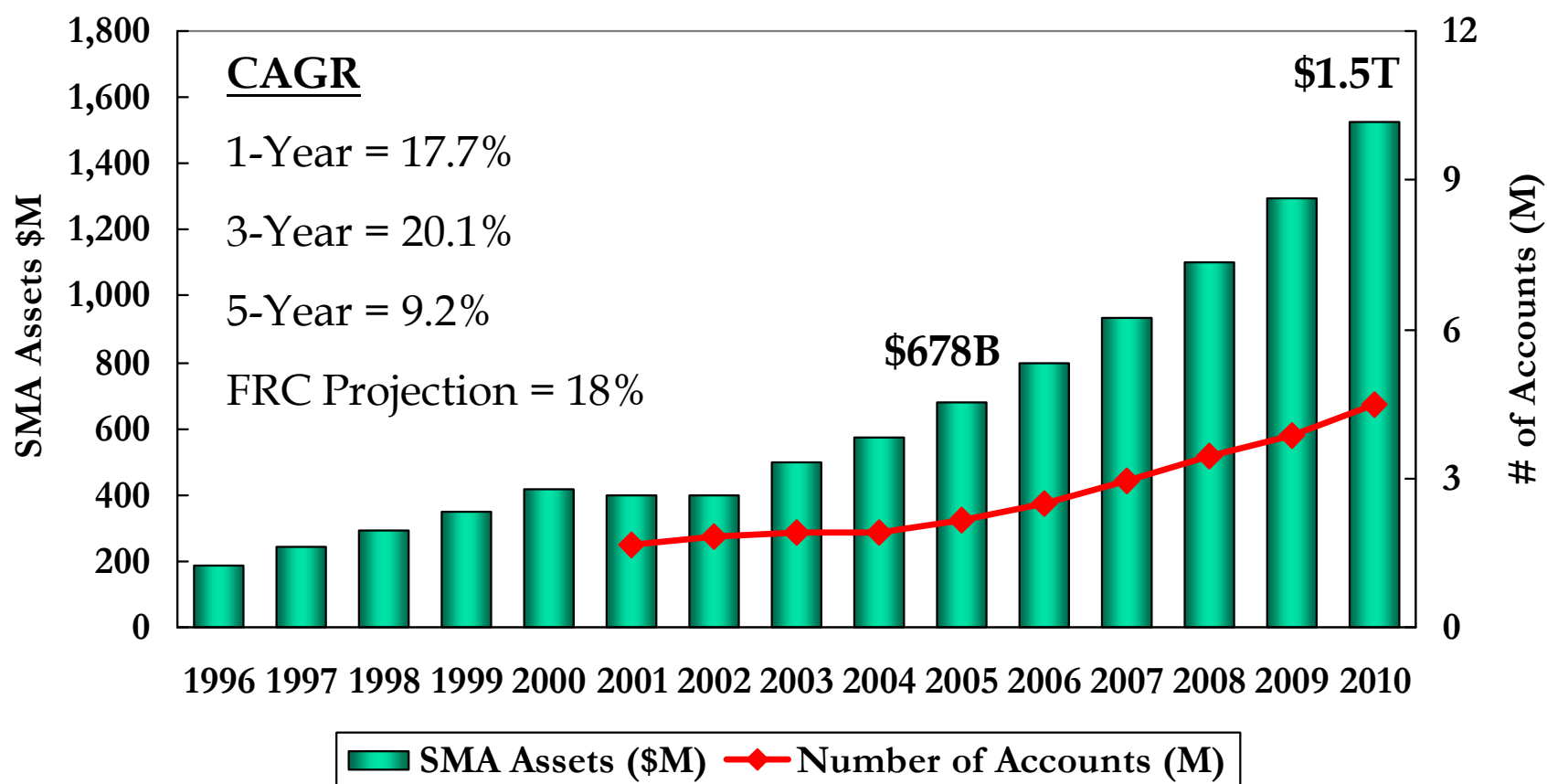


Lifecycle Fund Net Sales (\$Billions)



Separately Managed Accounts

SMA Assets Top \$1.5T by 2010



Source: Money Management Institute, FRC

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Top Selling Disciplines (12 Months)

Discipline	Market Share Net New Accts	Market Share AUM
Large Cap Value	42%	23%
Large Cap Growth	40%	9%
All-Cap	24%	6%
Mid-Cap	13%	8%
International	11%	13%

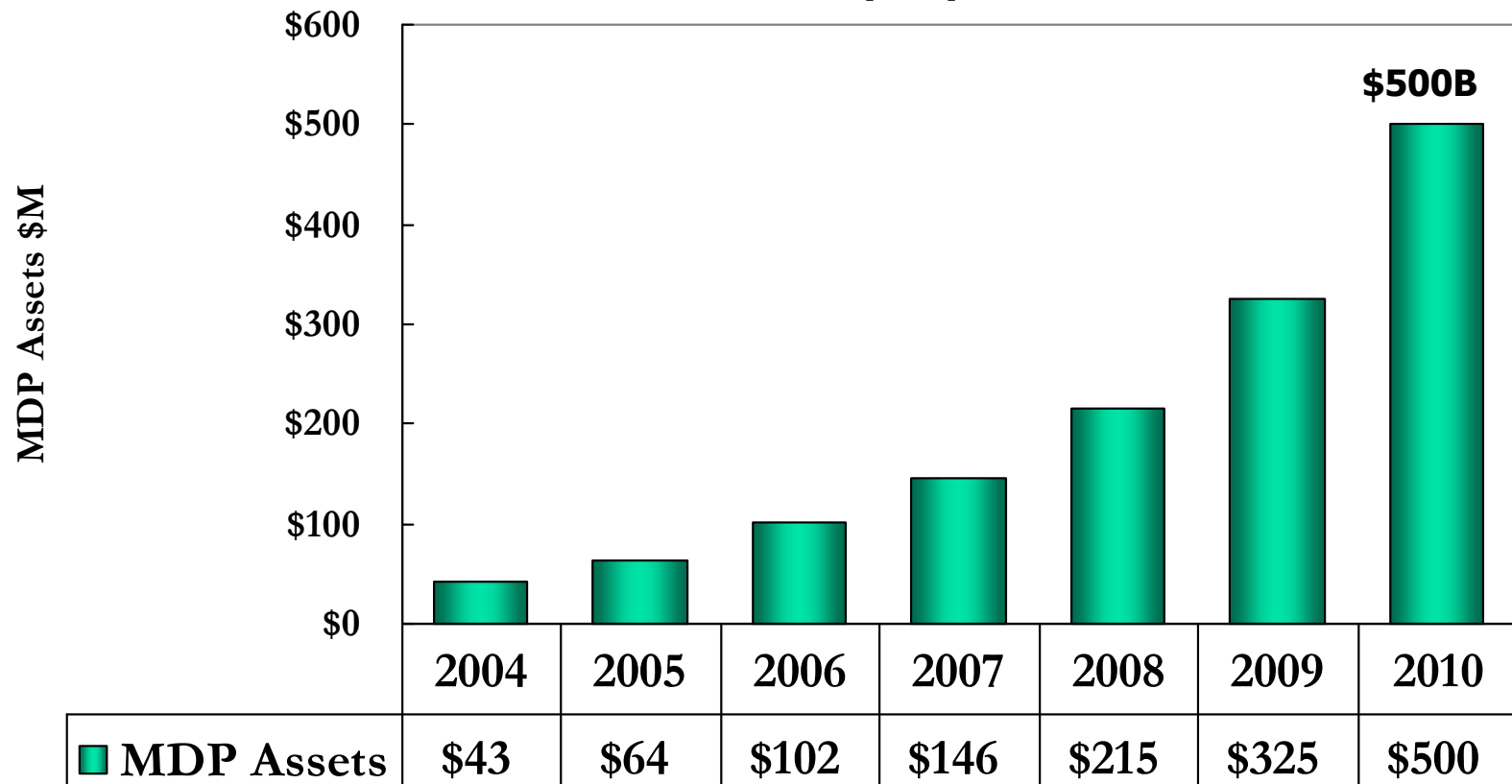
Net new accounts based change in the number of accounts over the last year.

Source: Money Management Institute, FRC



MDP Asset Growth Projection

MDP Assets (\$B)



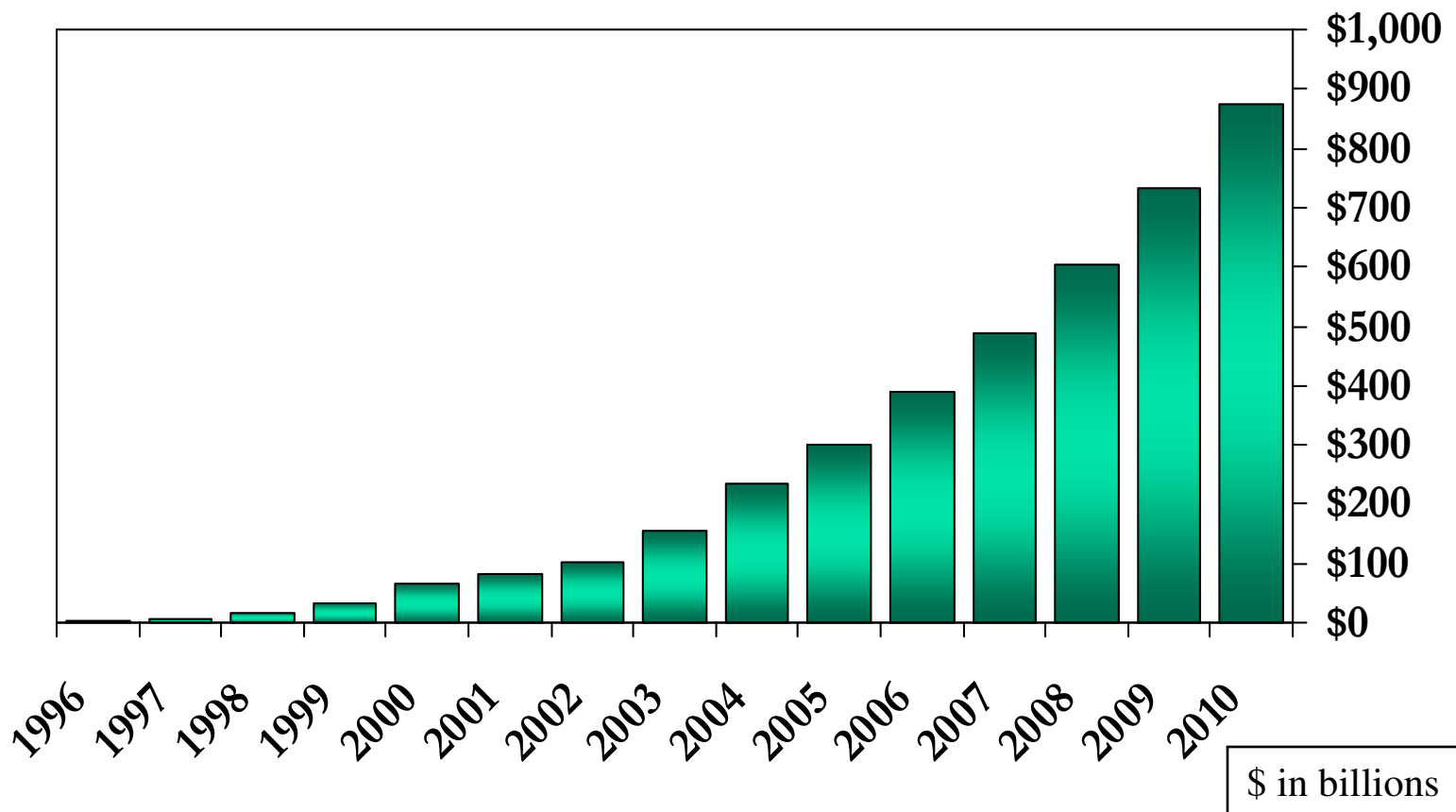
Source: Money Management Institute, FRC

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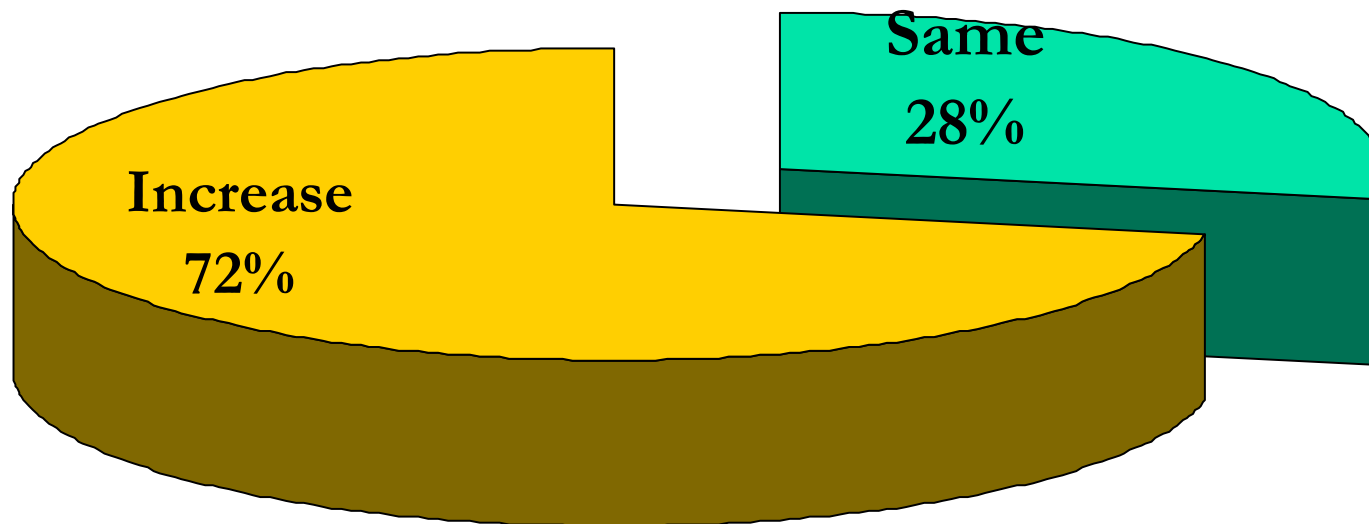


Exchange Traded Funds

ETF Asset Growth (1996 – 2010)

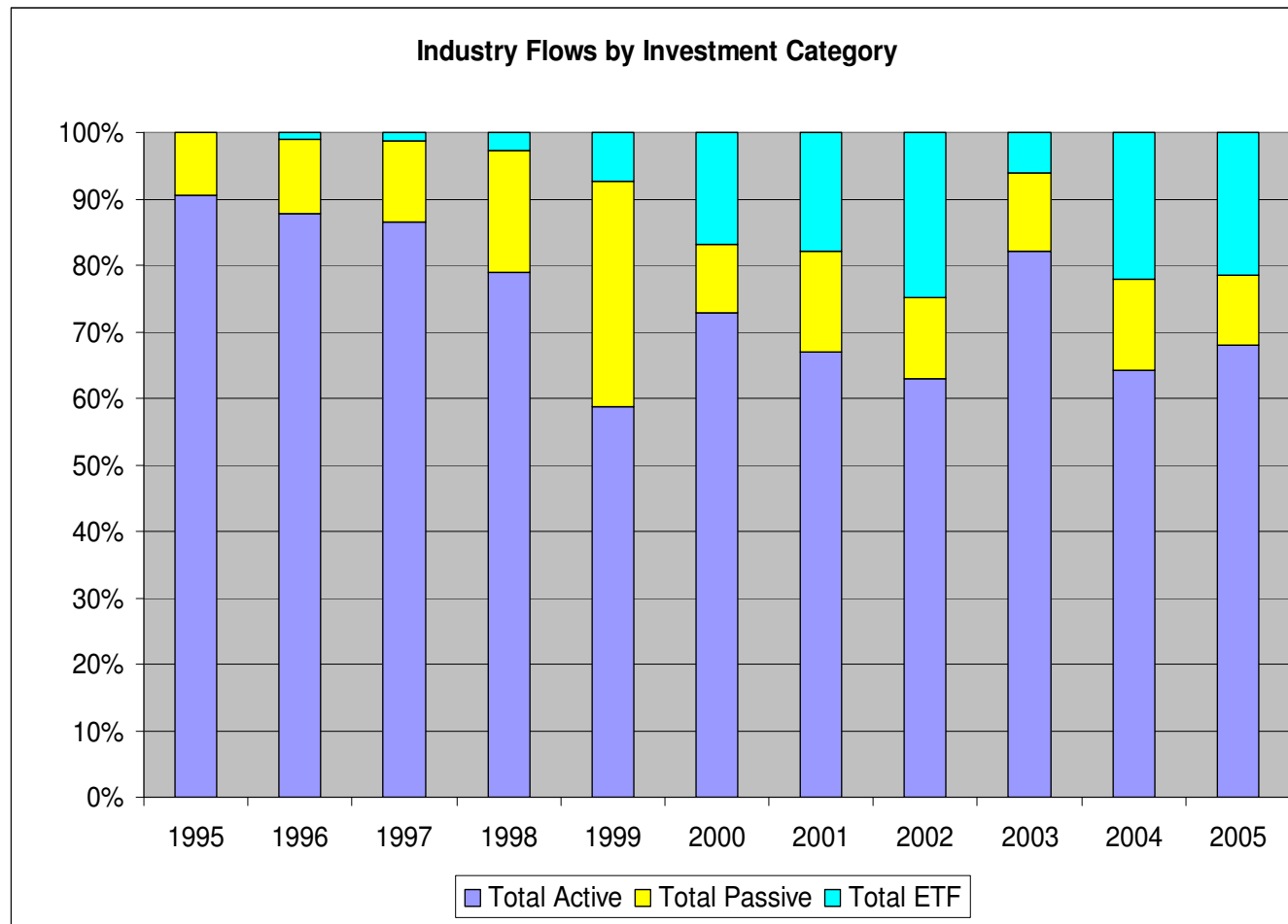


ETFs Usage by Advisors (Next 12- 18 Months)



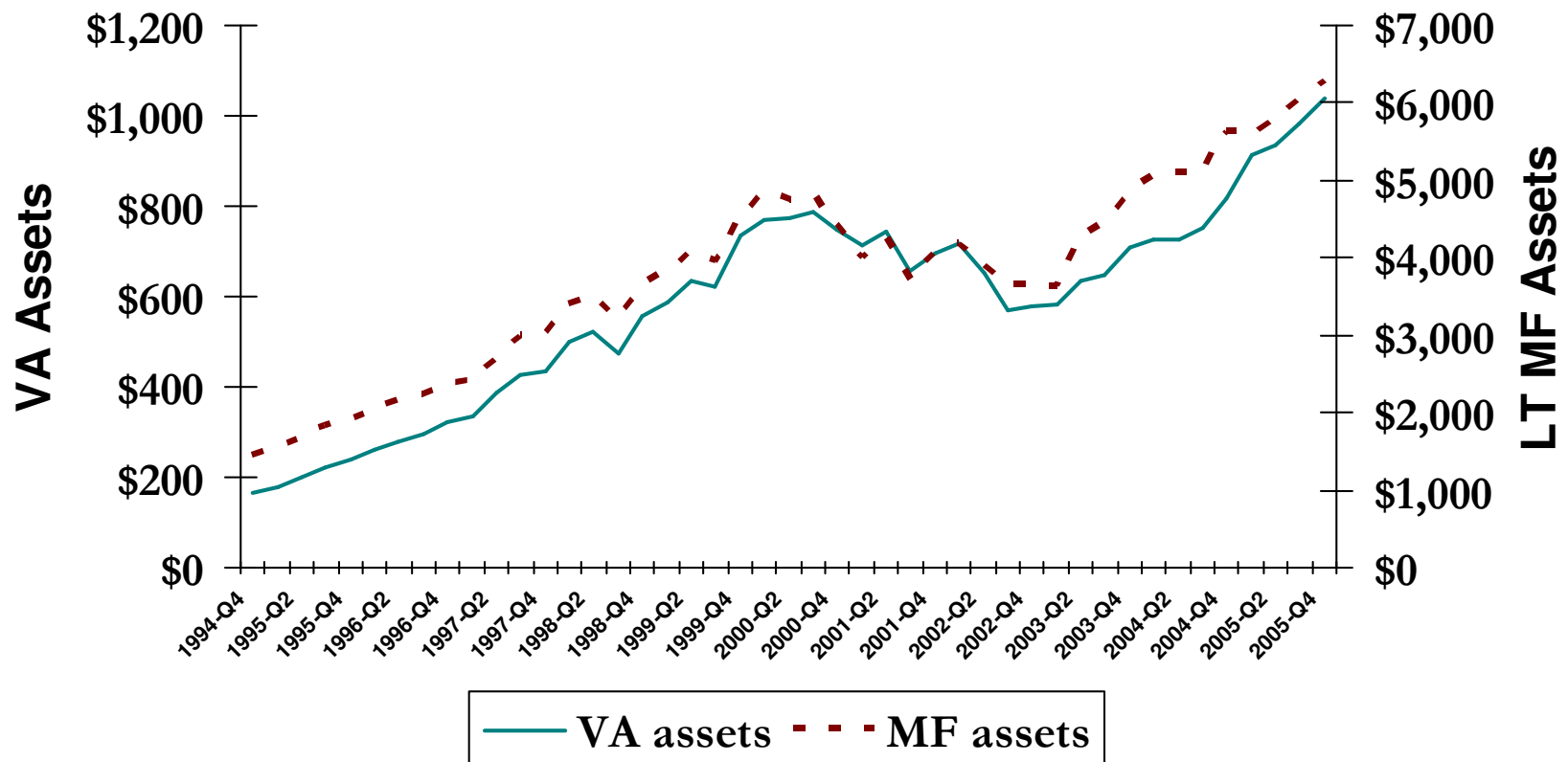
Source: FRC survey " Effectively Servicing and Supporting the Independent Advisor"

Passive Investing



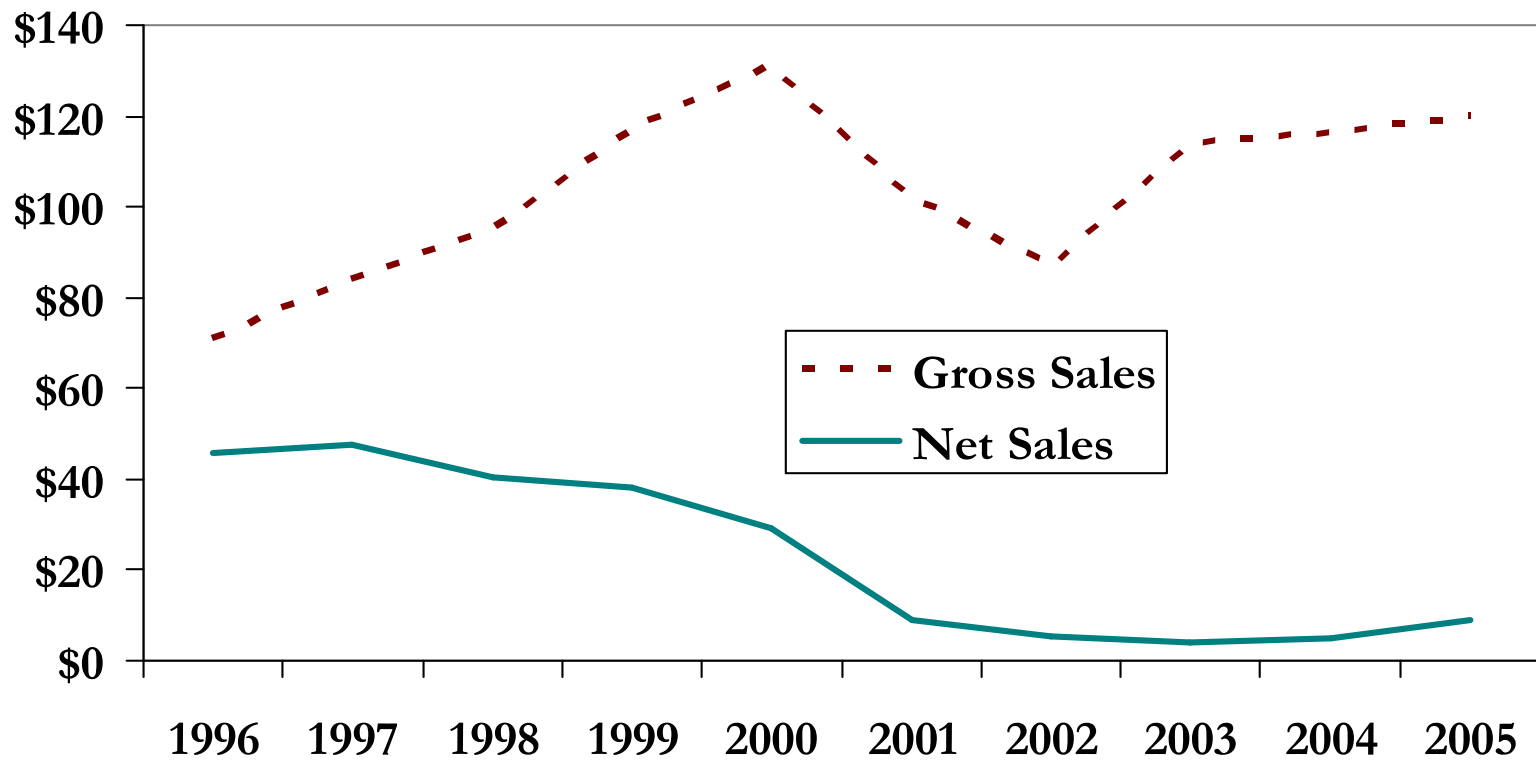
Variable Annuities

VA Asset Growth (\$Billions)



VA totals excludes fixed rate accounts, money market, and funds-of-funds

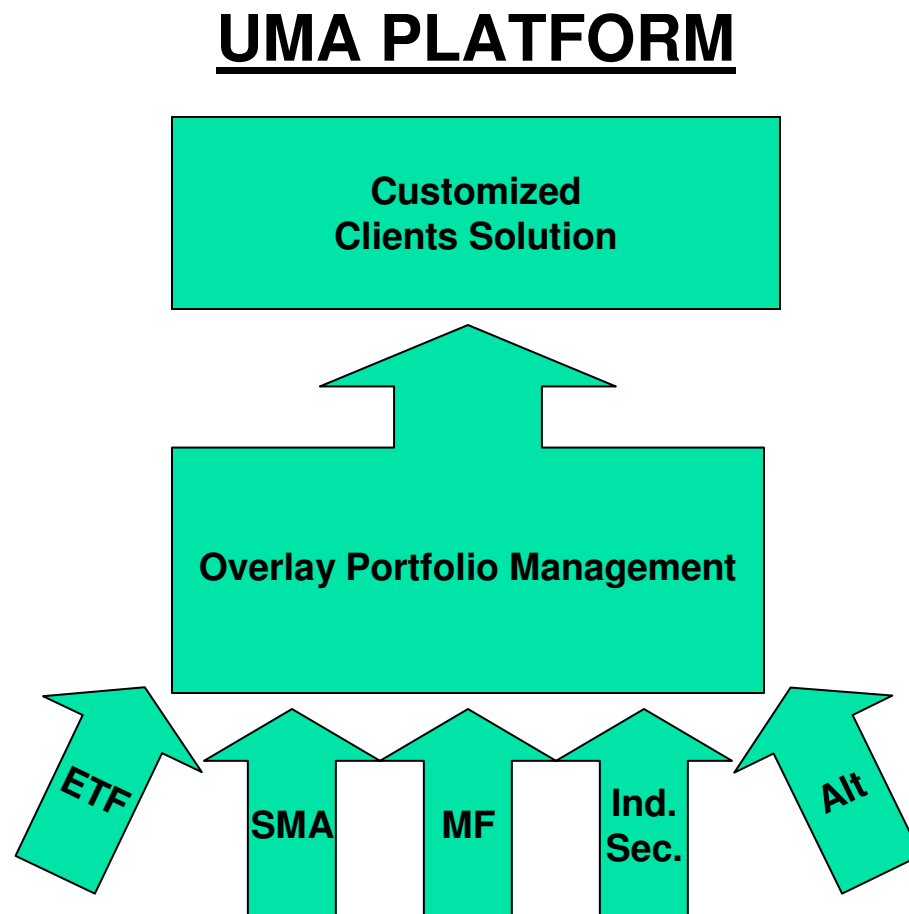
VA Sales (\$Billions)



Sources: FRC, NAVA

Summary

The **UltiMAte** Goal



Professional Buyers

- ◆ Performance
- ◆ Investment Process
- ◆ Client Service
- ◆ Sales Presentation
- ◆ Image & Reputation

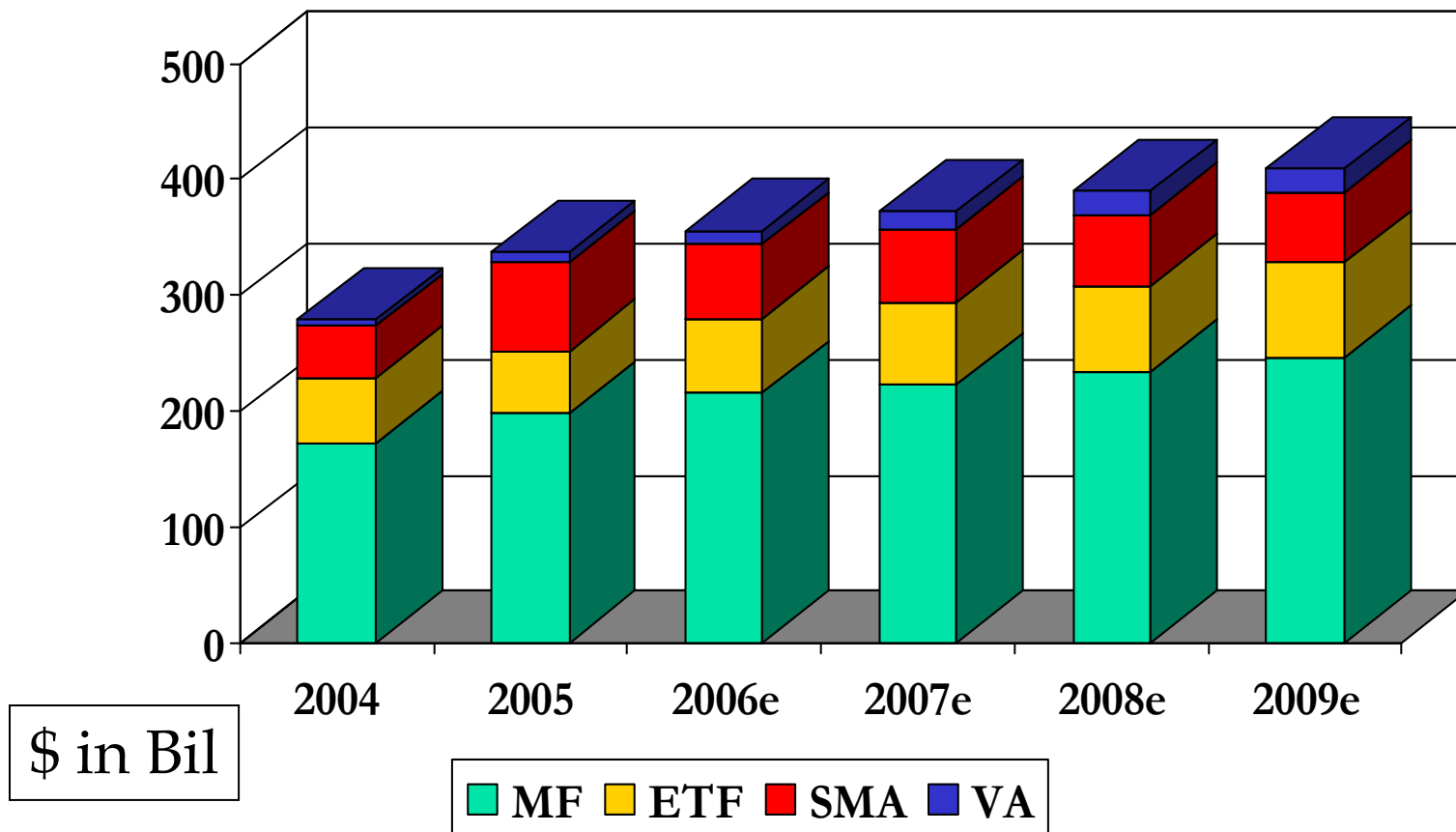
Points of Differentiation

- ◆ ~~Product~~
- ◆ ~~Performance~~
- ◆ ~~Pricing~~
- ◆ ~~Promotion~~
- ◆ ~~Packaging~~
- ✓ Investment Process
- ✓ Corporate Culture
- ✓ Image / Reputation (experiential)
- ✓ Distributor Focus (solution support)

Outlook

- ◆ **Mutual Funds** – retains place as mainstay offering for the majority of retail investors
- ◆ **Variable Annuities** – in need of “extreme makeover” in order to be a meaningful participant in retirement income wave
- ◆ **ETFs** – will benefit from growth of fee-based business (UMAs), greater use of indexing for the core, enhanced portfolio construction techniques
- ◆ **Separately Managed Accounts** – greater use of customization and tax-efficiency benefits will draw expanded support among HNW clients

Net Sales by Product



\$ in Bil



Competition For Mutual Funds

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