

Asset Management Industry *Trends & Developments*

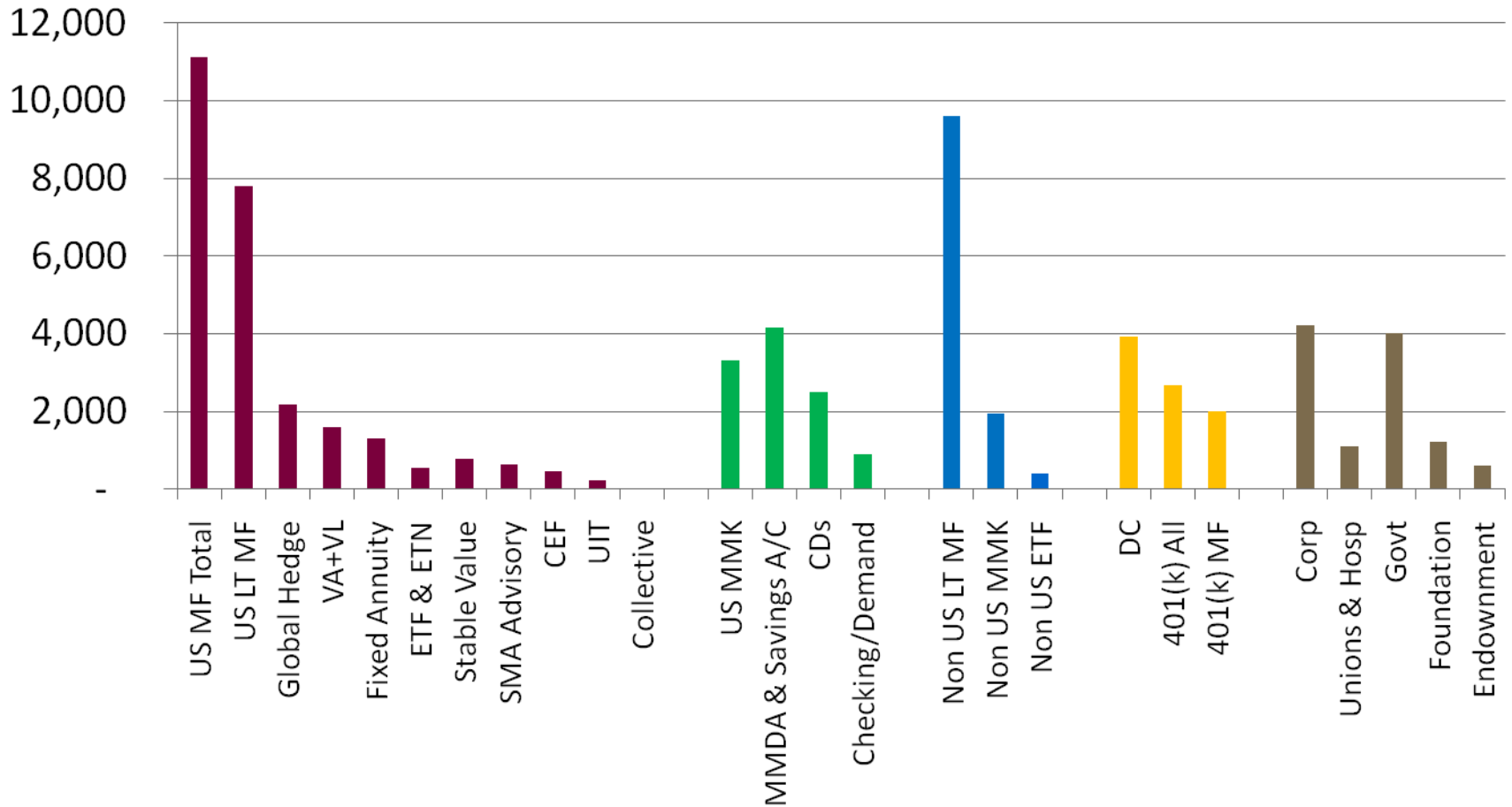
FUSE Research Network
December 2010

This is really about change

- Change is inevitable. Change is constant.
[Benjamin Disraeli](#)
- Any change, even a change for the better, is always accompanied by drawbacks and discomforts.
[Arnold Bennett](#)
- All change is not growth, as all movement is not forward.
[Ellen Glasgow](#)
- If there is no struggle, there is no progress.
[Frederick Douglass](#)
- If you don't like something, change it. If you can't change it, change your attitude.
[Maya Angelou](#)
- Failure is not fatal, but failure to change might be.
[John Wooden](#)
- To really get things to change you need to make real changes.
[Maya Angelou](#)

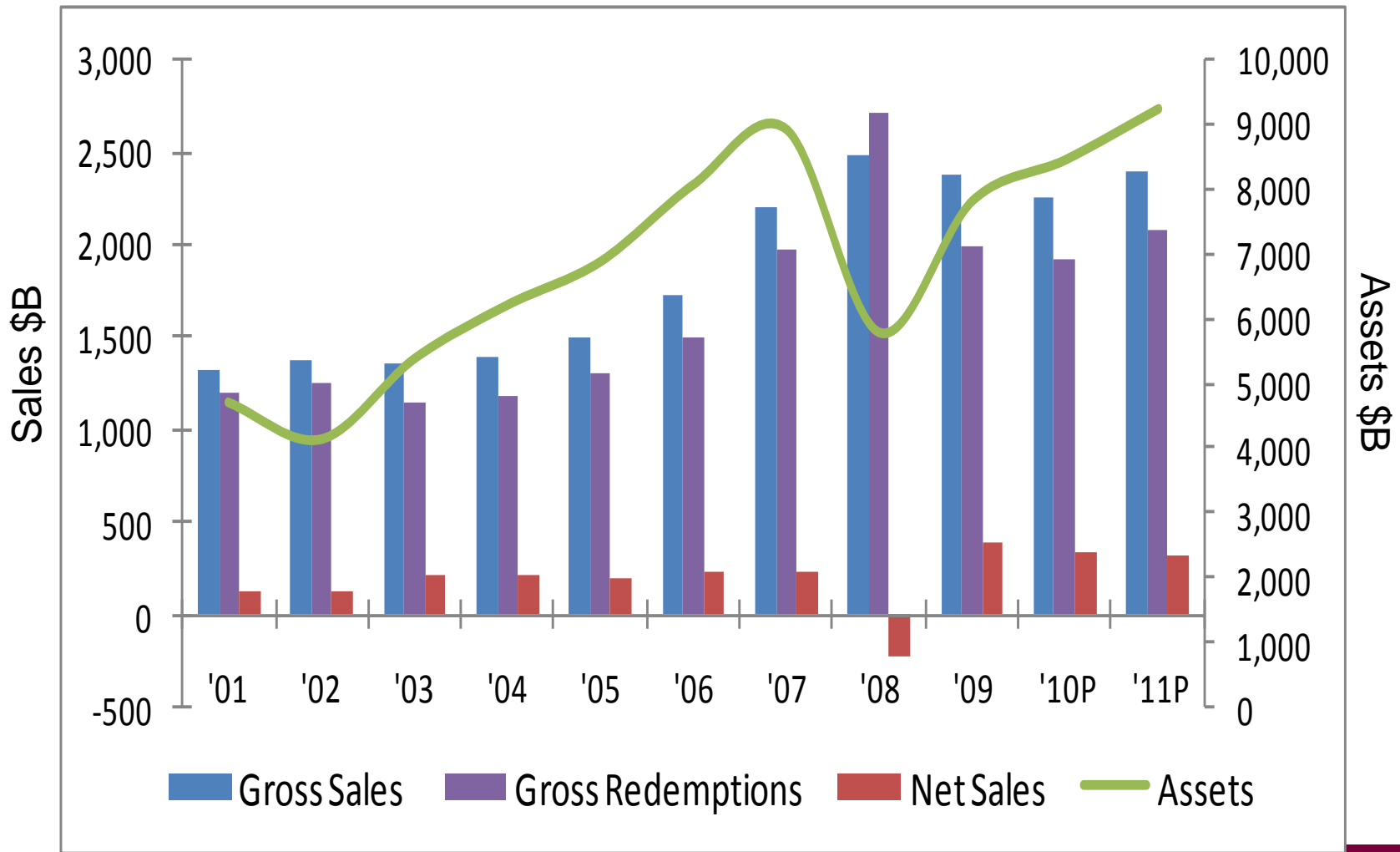
Industry Overview

Assets by Product Structure (\$B)









Sources: ICI, FDIC, Morningstar, NAVA, MMI, Hedge Fund Research, Stable Value Association
 Various Dates: 3Q09, YE '09

Sales & Asset Trends (L-T MFs & ETFs)



Growth by Product Structure

Structure	Sep '10 AUM (\$ bil)	CAGR Range		Growth Projection
Mutual Funds	8,469	8-10%		
ETFs	777	14-18%		
Closed-End	243	4-6%		
Alternatives (incl Hedge)	1,600	12-14%		
Sep Accts*	468	6-8%		
Variable Annuity*	1,311	5-7%		

Source: ICI, NAVA, MMI/Dover Financial Research, Hedge Fund Research

*(fvVA a/o 3Q09, SMA a/o 2Q09)

Largest Fund Groups: 1985

<u>COMPLEX</u>	AUM
	<u>\$ Bil</u>
Franklin	20.5
Fidelity	19.7
Vanguard	13.5
IDS (now RiverSource)	13.3
Van Kampen (now INVESCO)	12.1
Putnam	11.6
Morgan Stanley (no funds today)	10.9
Dreyfus	10.8
American Funds	10.7
DWS Investments (Kemper)	10.4

Top Selling Firms (YTD '10)

Rank	Firm Name	AUM Oct '10	YTD Flows	2009 Flows
1	Vanguard	\$1,347,334	\$87,812	\$123,565
2	PIMCO Funds	\$431,049	\$67,662	\$83,084
3	Franklin Templeton	\$324,880	\$19,153	\$19,015
4	JPMorgan	\$118,929	\$18,920	\$26,378
5	iShares	\$426,758	\$18,229	\$36,373
6	T. Rowe Price	\$252,356	\$11,835	\$15,093
7	BlackRock	\$126,009	\$11,284	\$10,707
8	Eaton Vance	\$64,271	\$9,362	\$4,556
9	DFA	\$123,618	\$7,479	\$7,292
10	Lord Abbett	\$62,474	\$7,428	\$6,546
11	Thornburg	\$43,609	\$7,390	\$5,122
12	SSgA	\$230,346	\$5,896	-\$1,768
13	Harbor	\$55,727	\$5,443	\$4,579
14	MFS	\$79,383	\$5,057	\$4,289
15	Fairholme	\$17,031	\$4,191	\$1,098
16	Metropolitan West Funds	\$15,381	\$4,053	\$1,728
17	ProFunds/ProShares	\$26,558	\$3,819	\$7,159
18	TIAA-CREF Mutual Funds	\$28,882	\$3,812	\$3,917
19	Ivy Funds	\$40,920	\$3,624	\$9,134
20	Matthews Asia Funds	\$16,440	\$3,624	\$3,319

Top Selling Funds (YTD '10)

Rank	Fund Name	Morningstar Category	AUM Oct '10	YTD Flows	2009 Flows
1	PIMCO Total Return Instl	Intermediate-Term Bond	\$255,907	\$31,984	\$51,609
2	Vanguard Emerging Markets Stock ETF	Diversified Emerging Mkts	\$40,817	\$16,824	\$9,006
3	Templeton Global Bond A	World Bond	\$42,635	\$14,406	\$11,905
4	Vanguard Total Stock Mkt Idx Inv	Large Blend	\$129,160	\$12,038	\$10,721
5	Vanguard Total Intl Stock Index Inv	Foreign Large Blend	\$39,443	\$11,393	\$1,609
6	PIMCO Unconstrained Bond A	Multisector Bond	\$13,218	\$9,295	\$2,837
7	Vanguard Total Bond Market Index Inv	Intermediate-Term Bond	\$80,140	\$9,016	\$10,179
8	BlackRock Global Allocation Inv B	World Allocation	\$45,660	\$7,121	\$6,294
9	Eaton Vance Gbl Macr Absolute Return A	World Bond	\$7,445	\$6,416	\$844
10	Lord Abbett Short Duration Income A	Short-Term Bond	\$10,994	\$6,156	\$3,987
11	Strategic Advisers Core	Large Blend	\$6,603	\$5,992	\$0
12	Vanguard Institutional Index Instl	Large Blend	\$80,405	\$5,521	\$5,438
13	Vanguard Total Bond Market II Idx Inv	Intermediate-Term Bond	\$35,191	\$5,486	\$12,712
14	Strategic Advisers Value	Large Value	\$6,410	\$5,162	\$789
15	PIMCO All Asset All Authority Inst	World Allocation	\$8,821	\$5,096	\$1,409
16	JPMorgan Core Bond Select	Intermediate-Term Bond	\$19,069	\$4,656	\$6,750
17	Oppenheimer Developing Markets B	Diversified Emerging Mkts	\$18,618	\$4,618	\$2,416
18	Strategic Advisers International	Foreign Large Blend	\$9,713	\$4,597	\$2,406
19	JPMorgan Strategic Income Opps A	Multisector Bond	\$10,296	\$4,585	\$5,171
20	PIMCO Low Duration Instl	Short-Term Bond	\$21,855	\$4,400	\$5,219

Notable Fund Launches (last 12 months)

Rank	Family Name	Fund Name	Morningstar Category	AUM \$M
1	DoubleLine	DoubleLine Total Return Bond I	Intermediate-Term Bond	\$2,712.7
2	Van Eck	Market Vectors Junior Gold Miners ETF	Equity Precious Metals	\$1,427.0
3	Russell	Russell Commodity Strategies Y	Commodities Broad Basket	\$931.4
4	JPMorgan	JPMorgan International Currency Inc Sel	World Bond	\$848.0
5	Vanguard	Vanguard Short-Term Corp Bd Idx ETF	Short-Term Bond	\$796.0
6	PIMCO	PIMCO EqS Pathfinder Institutional	World Stock	\$709.5
7	PowerShares	PowerShares Build America Bond	Long-Term Bond	\$569.8
8	ETF Securities Ltd	ETFS Physical Platinum Shares	Commodities Prcs Metals	\$533.0
9	MassMutual	MassMutual Select Global Allocation S	World Allocation	\$503.6
10	PIMCO	PIMCO CommoditiesPLUS Strategy Instl	Commodities Broad Basket	\$472.2
11	ETF Securities Ltd	ETFS Physical Palladium Shares	Commodities Prcs Metals	\$404.4
12	AQR Funds	AQR Managed Futures Strategy I	Long-Short	\$398.9
13	AllianceBernstein	AllianceBernstein High Income Muni A	High Yield Muni	\$372.7
14	JPMorgan	Highbridge Dync Cmdts Strat Sel	Commodities Broad Basket	\$370.1
15	PIMCO	PIMCO Enhanced Short Maturity Strgy ETF	Short-Term Bond	\$349.1
16	USAA	USAA Managed Allocation	World Allocation	\$330.1
17	Aberdeen	Aberdeen As Pac ex-Jap Eq Instl Fd Instl	Pacific/Asia ex-Japan Stk	\$327.0
18	Schwab Funds	Schwab International Equity ETF	Foreign Large Blend	\$327.0
19	Vanguard	Vanguard Interm-Tm Corp Bd Idx ETF	Intermediate-Term Bond	\$324.7
20	Schwab Funds	Schwab U.S. Broad Market ETF	Large Blend	\$315.7

Active/Passive Debate

- Challenges for Active
 - Increased adoption by advisors
 - Cost versus value-prop
 - Product readily available
 - Preferred arrangements – Schwab w/prop; iShares and Fidelity
- Response to Challenge
 - Segmentation – exclusive users versus dabblers
 - Verify true value prop of process
 - Better able to partner with distributors (wholesaling/sponsorships/etc.)
 - Deliver sophisticated attribution analysis

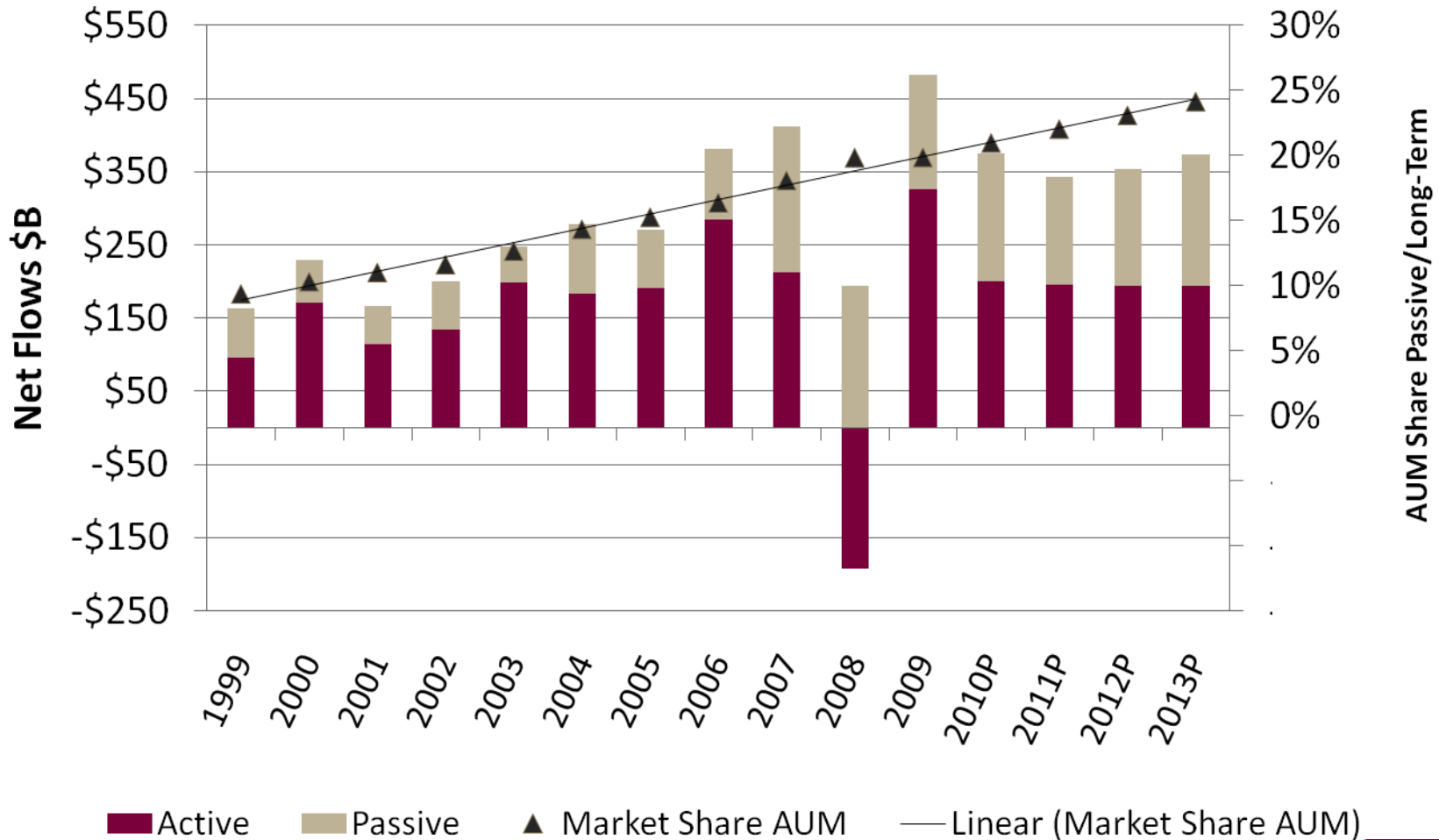
Do active managers provide alpha?

	# of Funds	% of Funds	Aggregate Assets (\$B)	% of AUM
Funds Produced Positive Alpha	3,163	36%	\$1,859.3	49.7%
Funds Produced Negative Alpha	5,595	64%	\$1,887.4	50.3%
Total	8,758		\$3,746.7	

Assumptions: Snapshot view, 3-year best fit alpha, all equity funds and share classes

Source: Morningstar

Growth of Passive Investing



Alternative Strategy Products

Assets & Estimated Net Flows (Long-Term Open End Funds, \$'s Millions)

	AUM 10/10	Estimated Net Flows		
		Oct 10	YTD	2009
Absolute Return	19,118.5	-234.3	11,897.7	3,546.1
Risk Managed Equity	13,834.1	164.5	1,967.2	1,735.5
Long/Short	7,282.0	-18.2	1,669.8	728.3
Multi-Strategy	7,279.7	324.3	2,847.5	1,277.7
Arbitrage	6,902.2	251.7	3,307.7	1,536.9
Market Neutral	6,393.4	-127.4	534.8	2,378.1
Managed Futures	3,518.7	54.3	639.0	1,300.5
Fund of Alternatives	3,389.2	80.6	636.3	339.6
Total	67,717.7	495.5	23,499.8	12,842.7

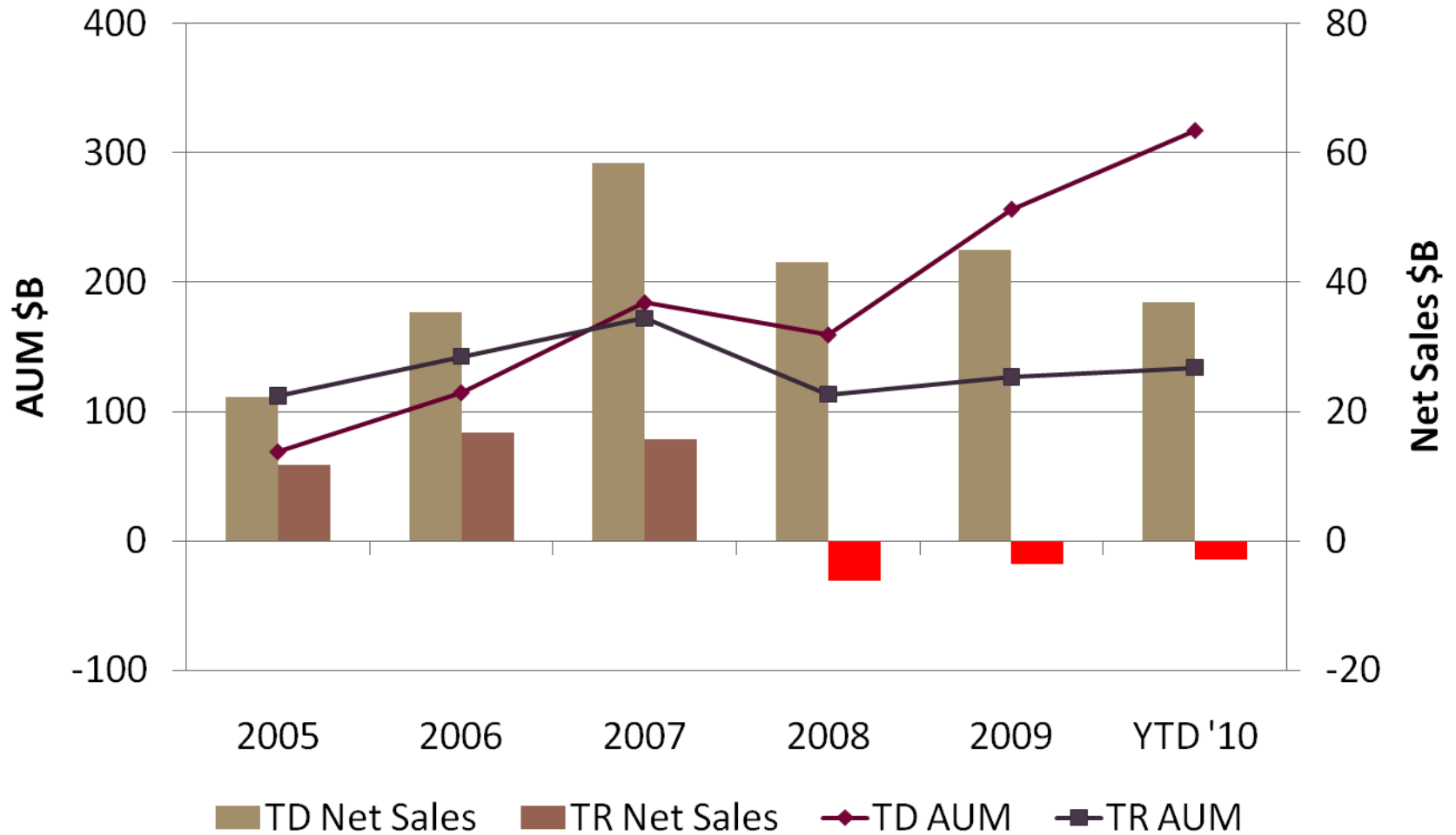
Alt Strategies – Largest Firms

Rank	Firm	AUM	Net Sales		
		10/10	Oct-10	YTD	2009
1	Eaton Vance	\$7,783	\$278	\$6,563	\$1,005
2	Hussman Investment	\$6,731	\$126	\$1,182	\$1,940
3	Natixis Funds	\$5,656	\$137	\$557	-\$108
4	PIMCO	\$4,901	-\$687	\$2,777	\$1,500
5	JPMorgan	\$4,568	-\$128	\$114	\$1,778
6	Merger	\$3,694	\$123	\$1,356	\$857
7	Absolute Strategies	\$3,479	\$217	\$1,439	\$866
8	Rydex SGI	\$2,597	-\$50	\$126	\$1,182
9	Putnam	\$2,508	\$36	\$1,404	\$886
10	The Arbitrage Fund	\$2,116	\$128	\$1,413	\$452
11	Driehaus	\$2,019	\$51	\$865	\$236
12	Diamond Hill Funds	\$1,929	-\$19	\$46	-\$370
13	Goldman Sachs	\$1,912	\$83	\$713	\$767
14	Federated	\$1,877	-\$68	\$556	\$748
15	AQR Funds	\$1,676	\$0	\$833	\$228
	Grand Total	\$67,718	\$495	\$23,500	\$12,843

Alt Strategies – Top Sellers

Rank	Fund	Category	AUM 10/10	Net Flows	
				YTD	2009
1	Eaton Vance Gbl Macr Absolute Return A	Absolute Return	7,445	6,416	844
2	PIMCO Fundamental Advantage Total Ret A	Absolute Return	4,901	2,777	1,499
3	Arbitrage I	Arbitrage	2,113	1,413	452
4	Merger	Arbitrage	3,694	1,356	857
5	Absolute Strategies C	Multi-Strategy	3,051	1,275	695
6	Hussman Strategic Growth	Risk Managed Equity	6,731	1,182	1,940
7	JPMorgan Research Market Neutral A	Market Neutral	1,440	949	433
8	Driehaus Active Income	Multi-Strategy	2,019	865	236
9	Forward Tactical Growth A	Risk Managed Equity	837	622	183
10	Putnam Absolute Return 300 A	Absolute Return	973	614	290
11	Federated Prudent Bear A	Long/Short	1,877	556	748
12	AQR Diversified Arbitrage I	Arbitrage	1,064	514	228
13	Goldman Sachs Absolute Return Tracker A	Absolute Return	1,193	504	542
14	Putnam Absolute Return 500 A	Absolute Return	649	337	240
15	Calamos Market Neutral Income A	Market Neutral	DNR	328	291
16	Managers AMG FQ Global Alternatives A	Absolute Return	575	325	71
17	AQR Managed Futures Strategy I	Managed Futures	613	319	-
18	Putnam Absolute Return 700 A	Absolute Return	569	306	210
19	Natixis ASG Global Alternatives A	Multi-Strategy	513	278	185
20	Vantagepoint Diversifying Strategies	Fund of Alternatives	763	276	92

Target Date/Target Risk

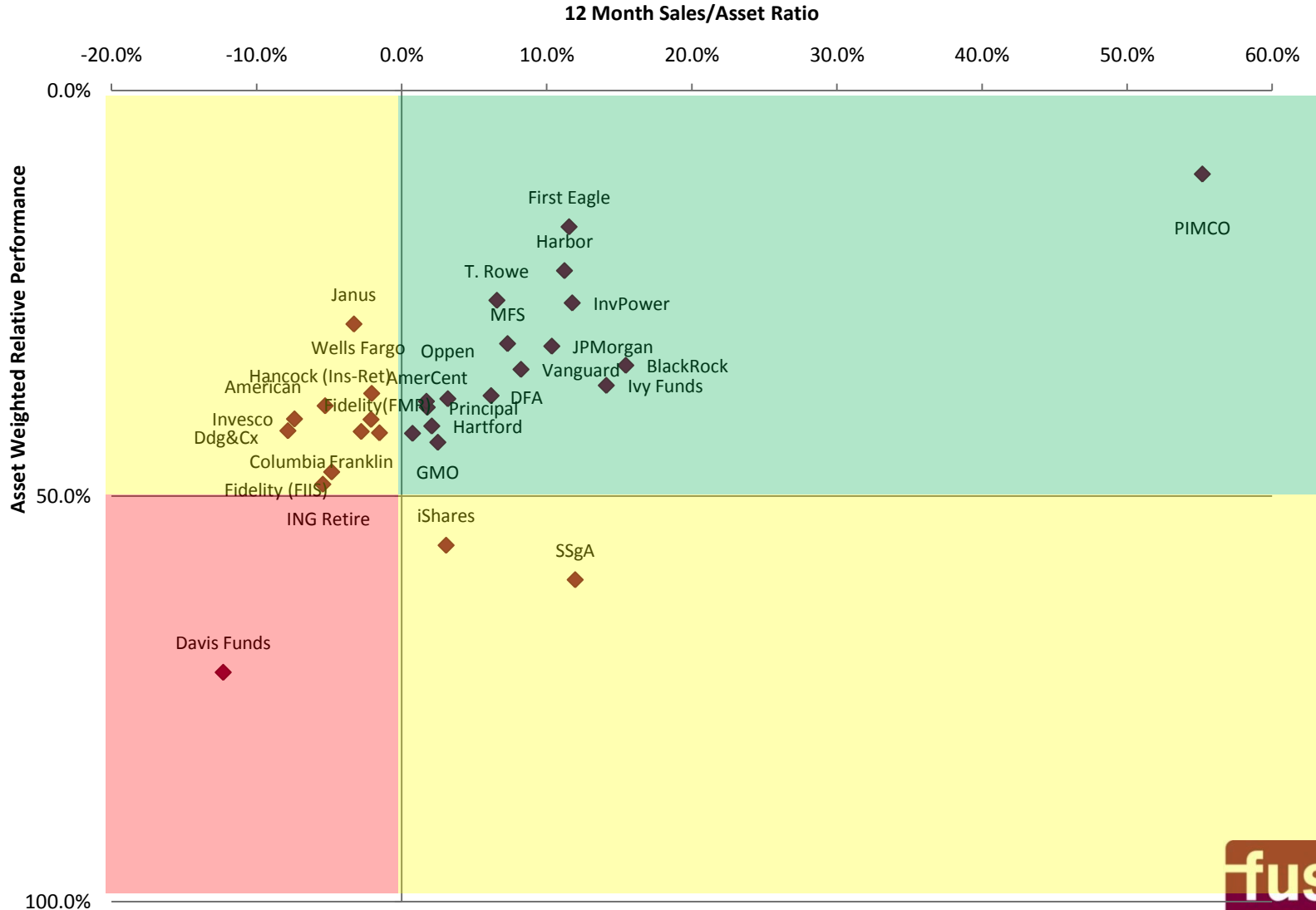


Competitor Report Cards

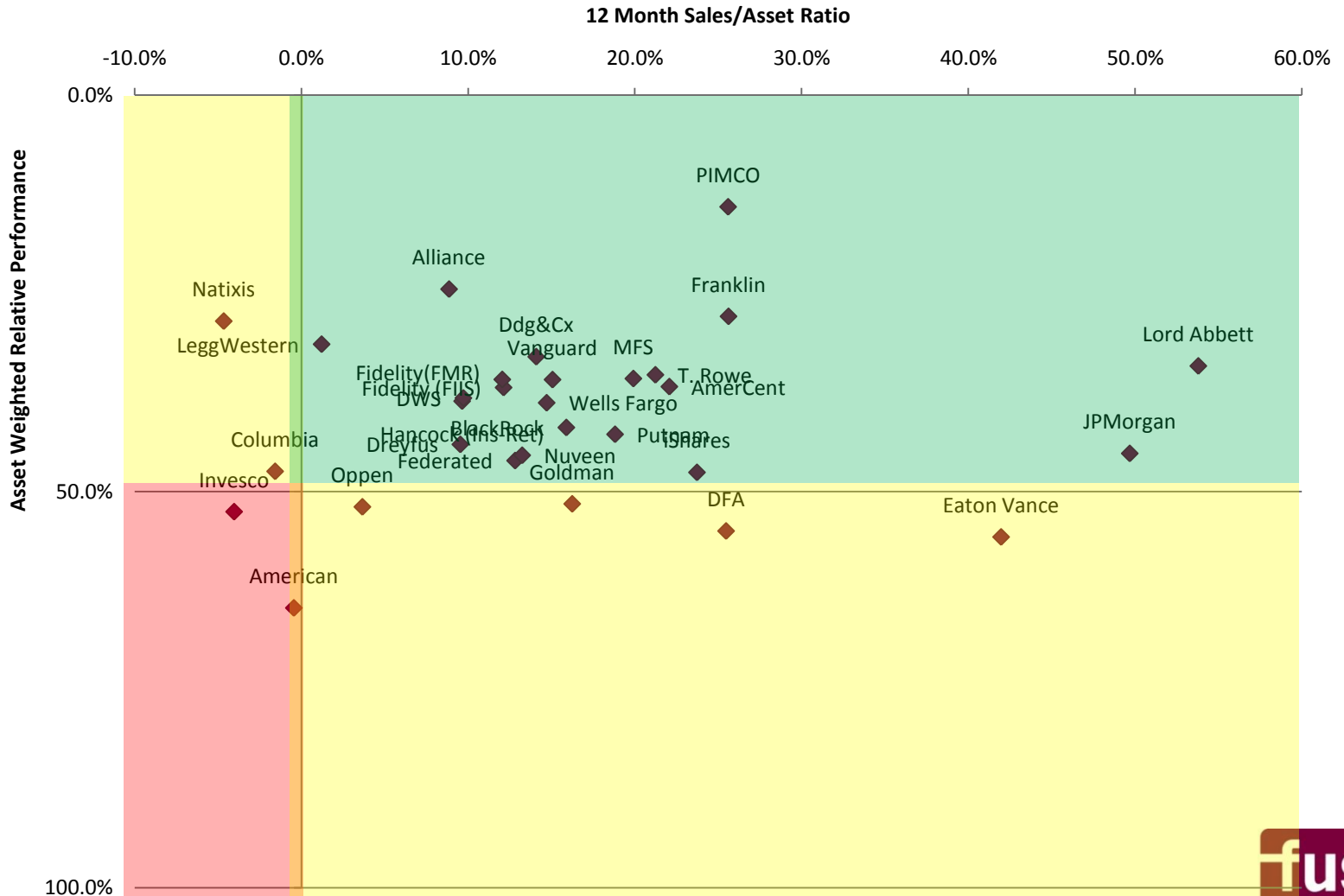
Top Firms – Long Term



Top Firms - Equity



Top Firms – Fixed Income

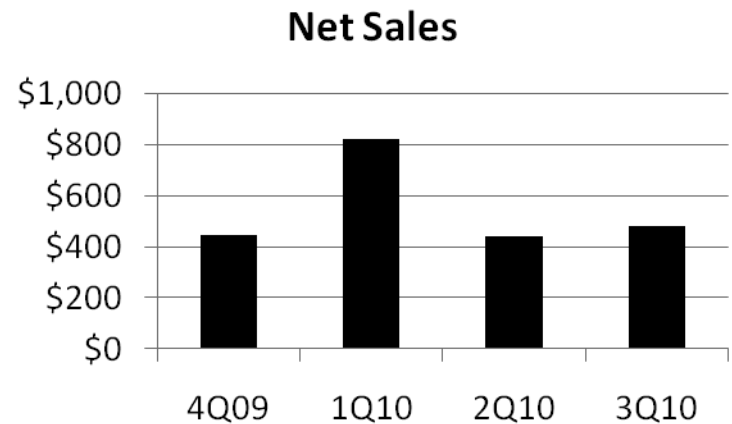
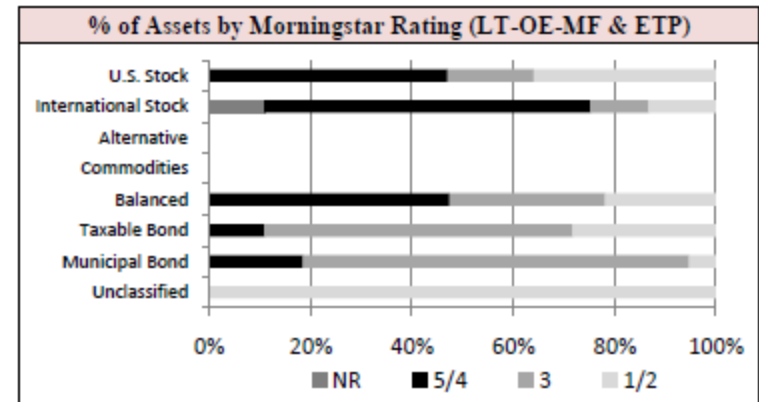


Methodology

- Asset weighted performance
 - Weights 1-, 3-, and 5-year relative performance on an asset weighted basis.
 - Weightings:
 - For funds with a 5-year track record: 1 year – 20%; 3-years - 40%; 5-years 40%)
 - For funds with a 3-year track record: 1 year – 30%; 3-years – 70%
 - Funds with < 3-year track record excluded
- Sales/Asset Ratio
 - 12 months of net sales/AUM 12 months ago
- Quadrants:
 - Sales/Asset Ratio is broken out at 0%
 - Asset Weighted Performance is driven by median of group:
 - For example – Top 30 are included in these charts and the median relative performance for

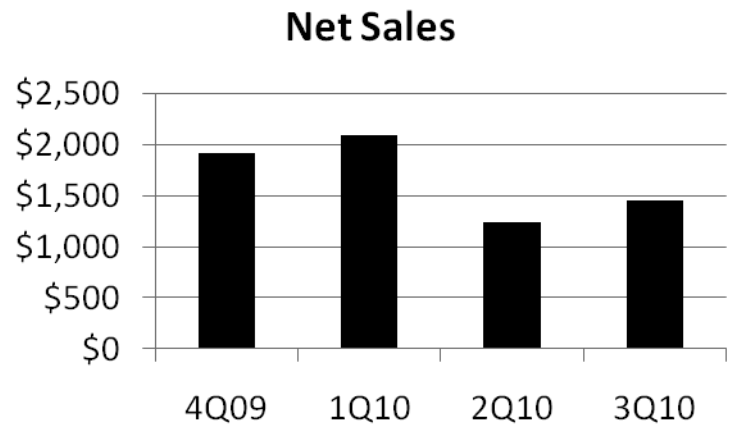
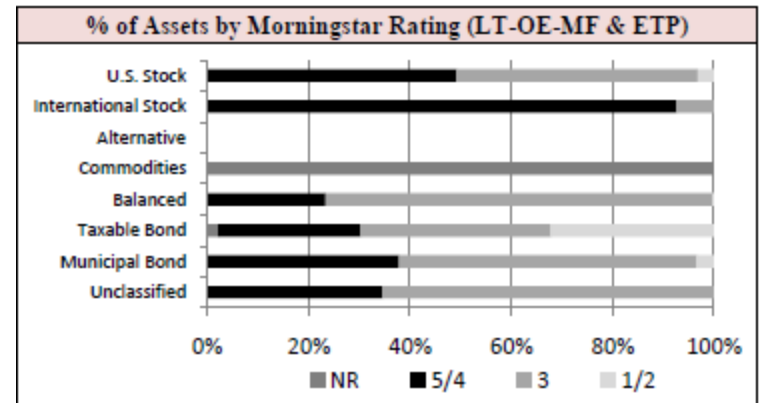
John Hancock

- **Investment Management – B**
 - Leverages a manager of manager approach and has successfully integrated multiple fund adoptions
- **Sales – B+**
 - On pace for the strongest sales year on history for Hancock; channeled wholesale approach; committing new resources to pro buyer space
- **Marketing – B**
 - Aggressive utilization of new media;
- **Overall – B**
 - Diversified product development/management effort has led to savvy adoptions; very successful in packaging products



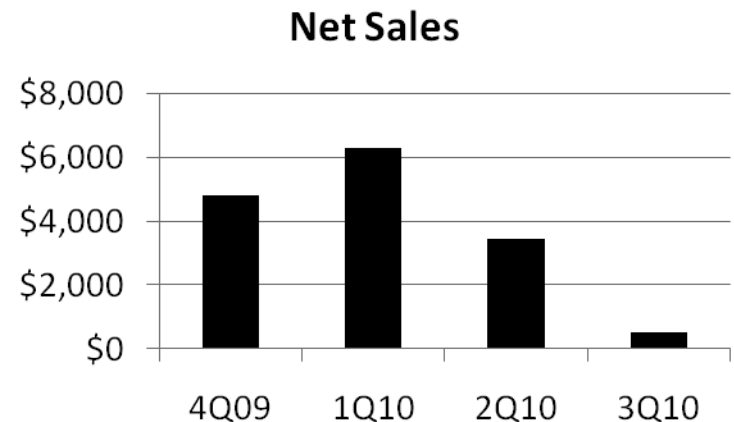
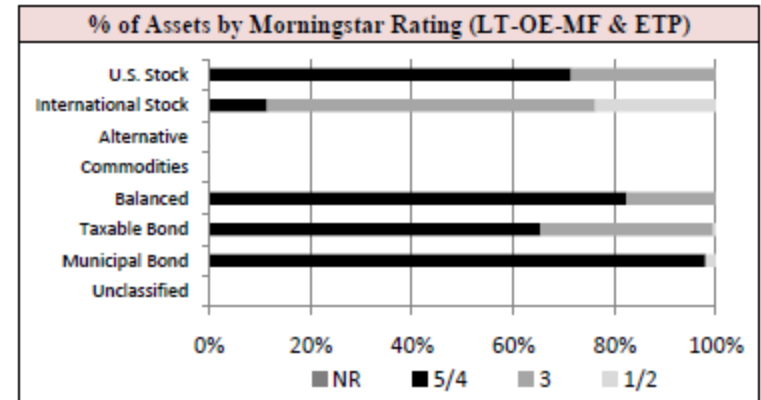
MFS

- **Investment Management – B+**
 - Exceptional relative performance; numbers are particularly strong in the equity space
- **Sales – B**
 - Diversified effort; early to build out committed effort to pro buyers
- **Marketing – B**
 - Organization has significant history which works its way materials; dedicated site for different segments and for its value-add services
- **Overall – B+**
 - Strong turnaround story with a foundation on investment strength; sales and marketing have shifted focus and delivered sustained flows



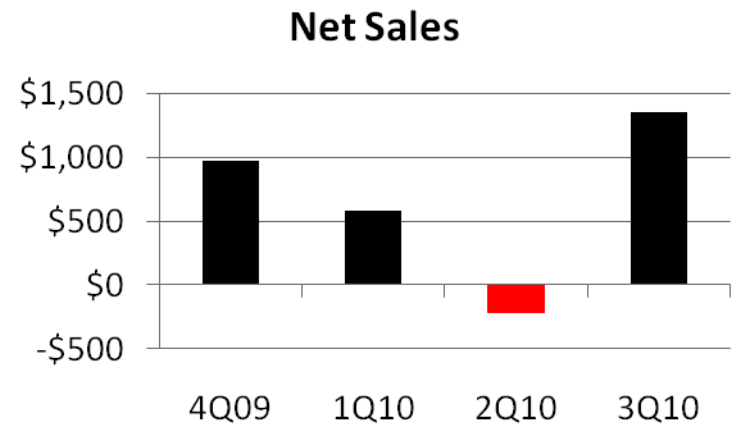
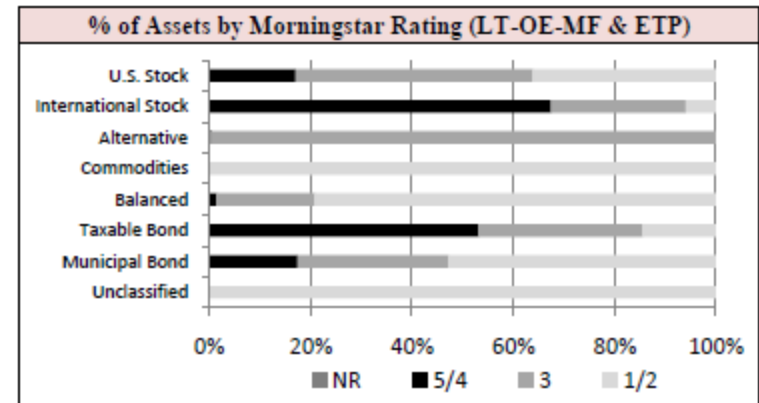
T. Rowe Price

- **Investment Management – B+**
 - Terrific capabilities; diverse product effort; international equity numbers good, not M-star ratings
- **Sales – B+**
 - DC market leader; burgeoning advisor distribution effort; favorite of RIAs
- **Marketing – A-**
 - Strong brand; able to leverage direct marketing metrics for its advisor marketing
- **Overall – A-**
 - One of the premier firms; scale, competitive pricing, quality investment management and diverse distribution



OppenheimerFunds

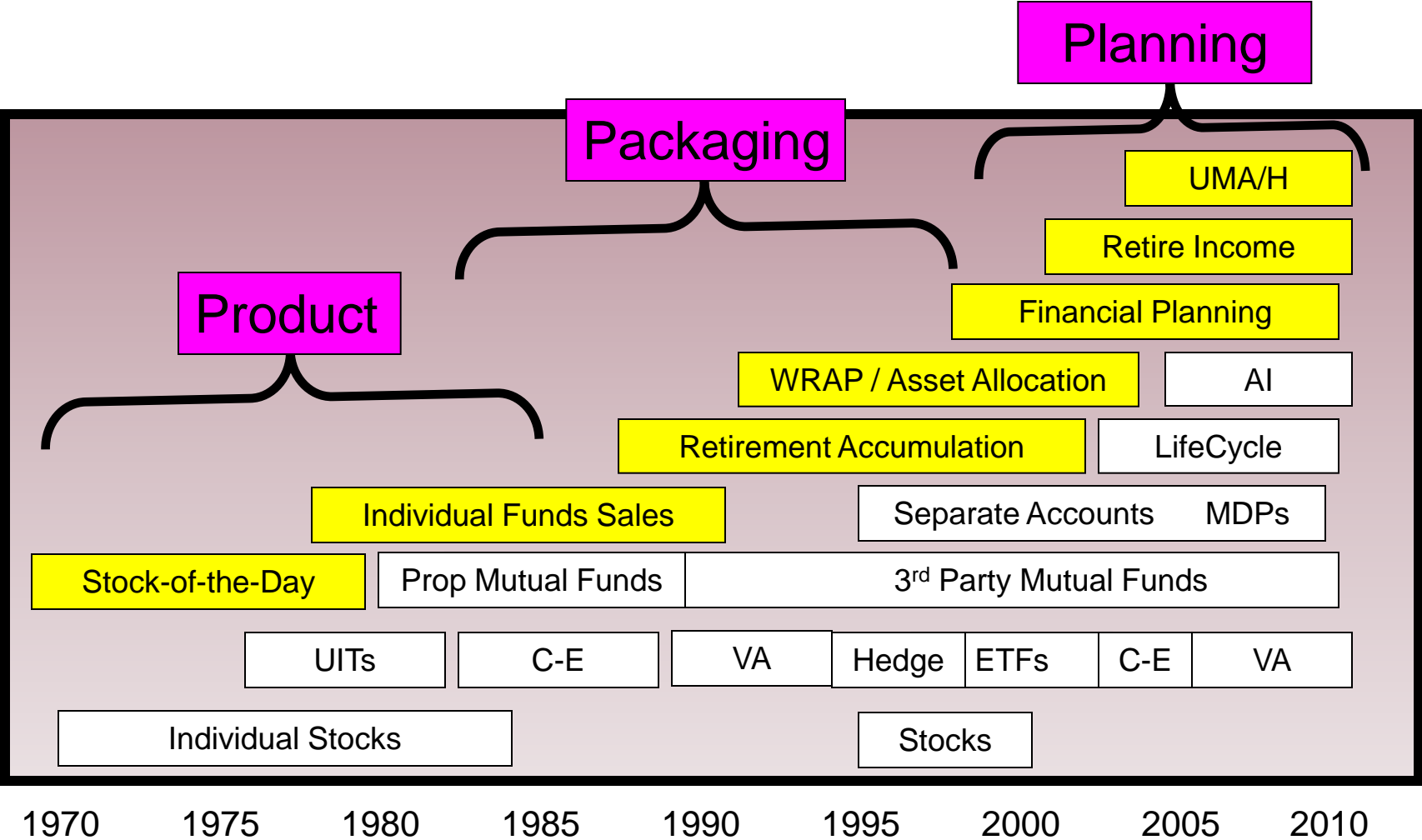
- **Investment Management – B**
 - Diverse product capabilities; international and taxable fixed income current drivers
- **Sales – B**
 - Recent change in leadership; substantial resources; been historical leader in value-add
- **Marketing – B**
 - Strong brand; committed to messaging
- **Overall – B**
 - One of the premier firms; scale, competitive pricing, quality investment management and diverse distribution



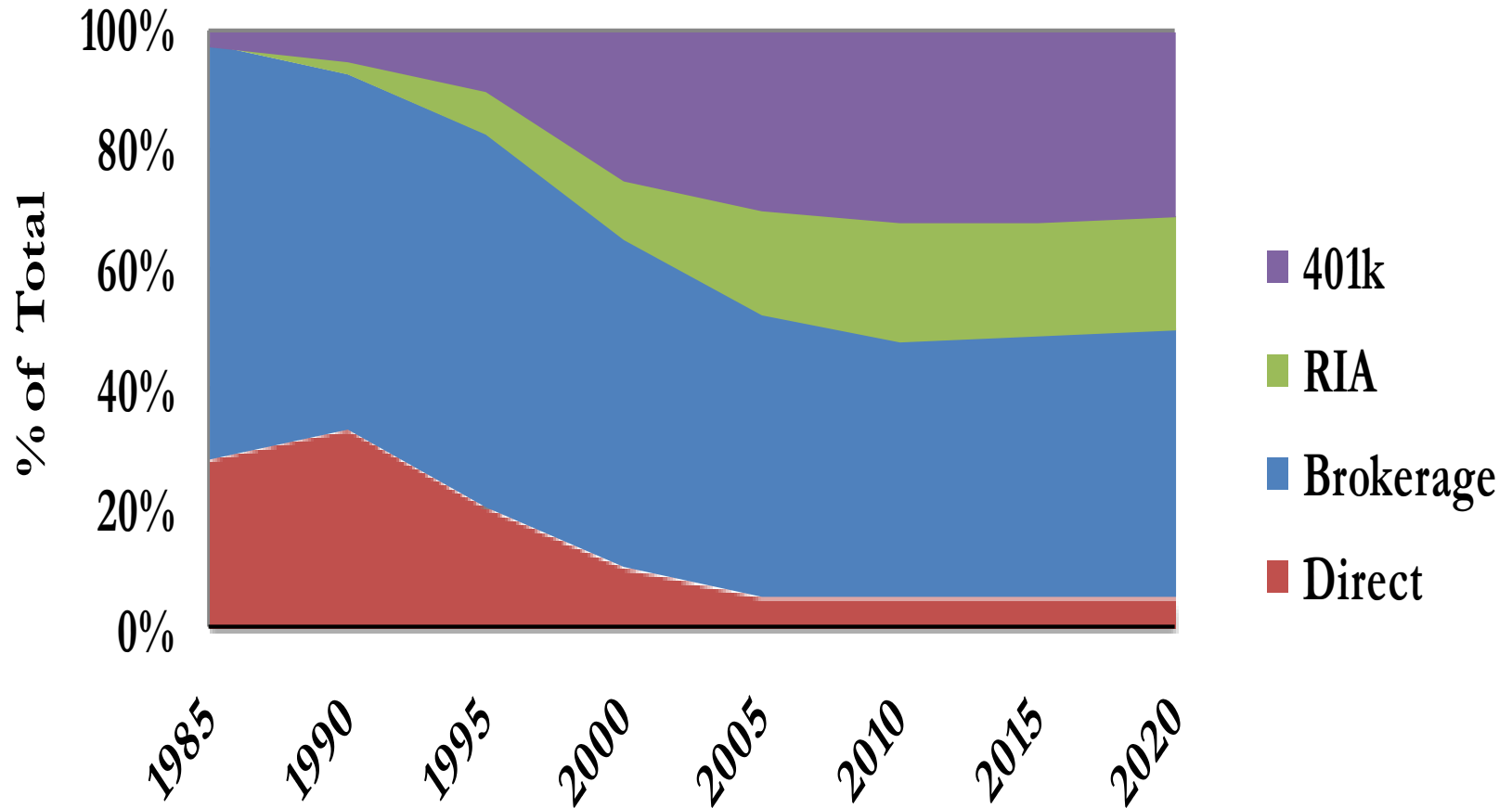
Distribution Trends

Distribution Trends

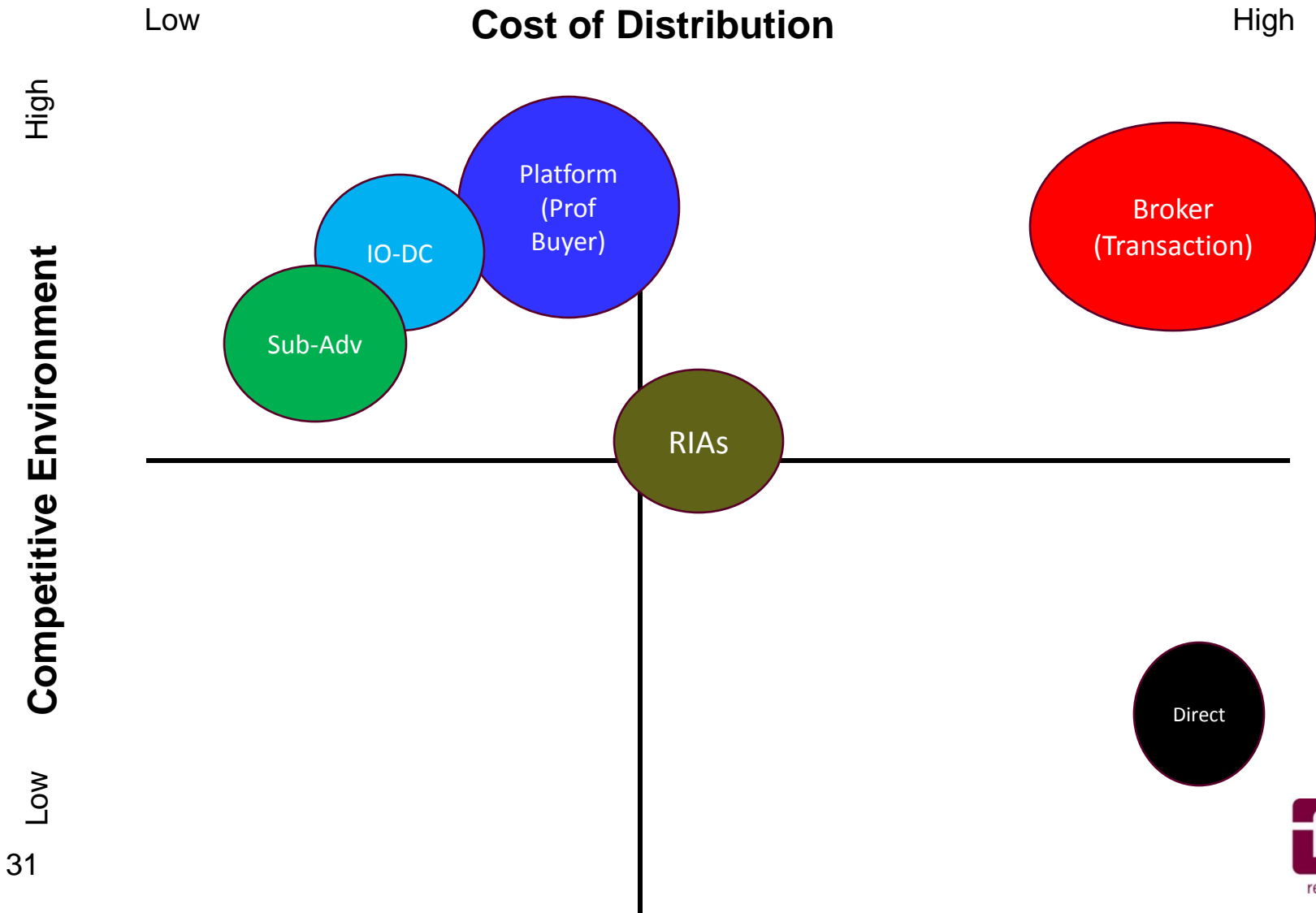
Natural Evolution



Source of Retail Sales



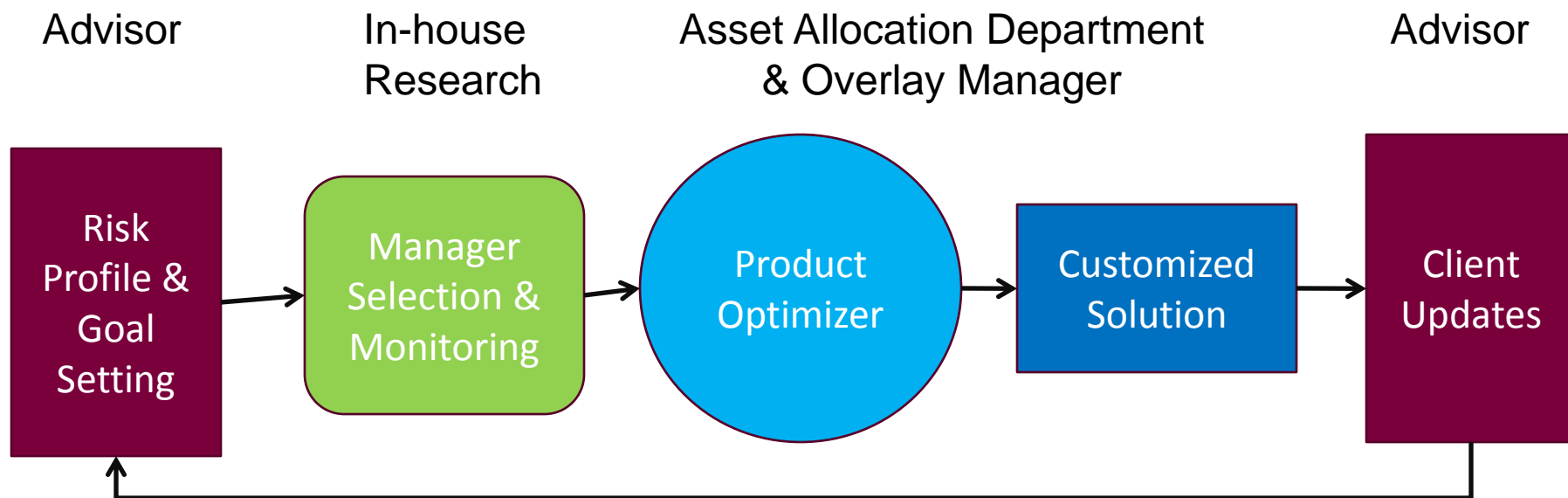
Channel Comparison



Big Distributors of the Past

- Kidder Peabody
- PaineWebber
- Dean Witter
- E.F. Hutton
- Merrill Lynch Pierce Fenner & Smith
- Prudential Bache
- Shearson Lehman
- AG Edwards / Wachovia
- Salomon Brothers
- Bear Stearns

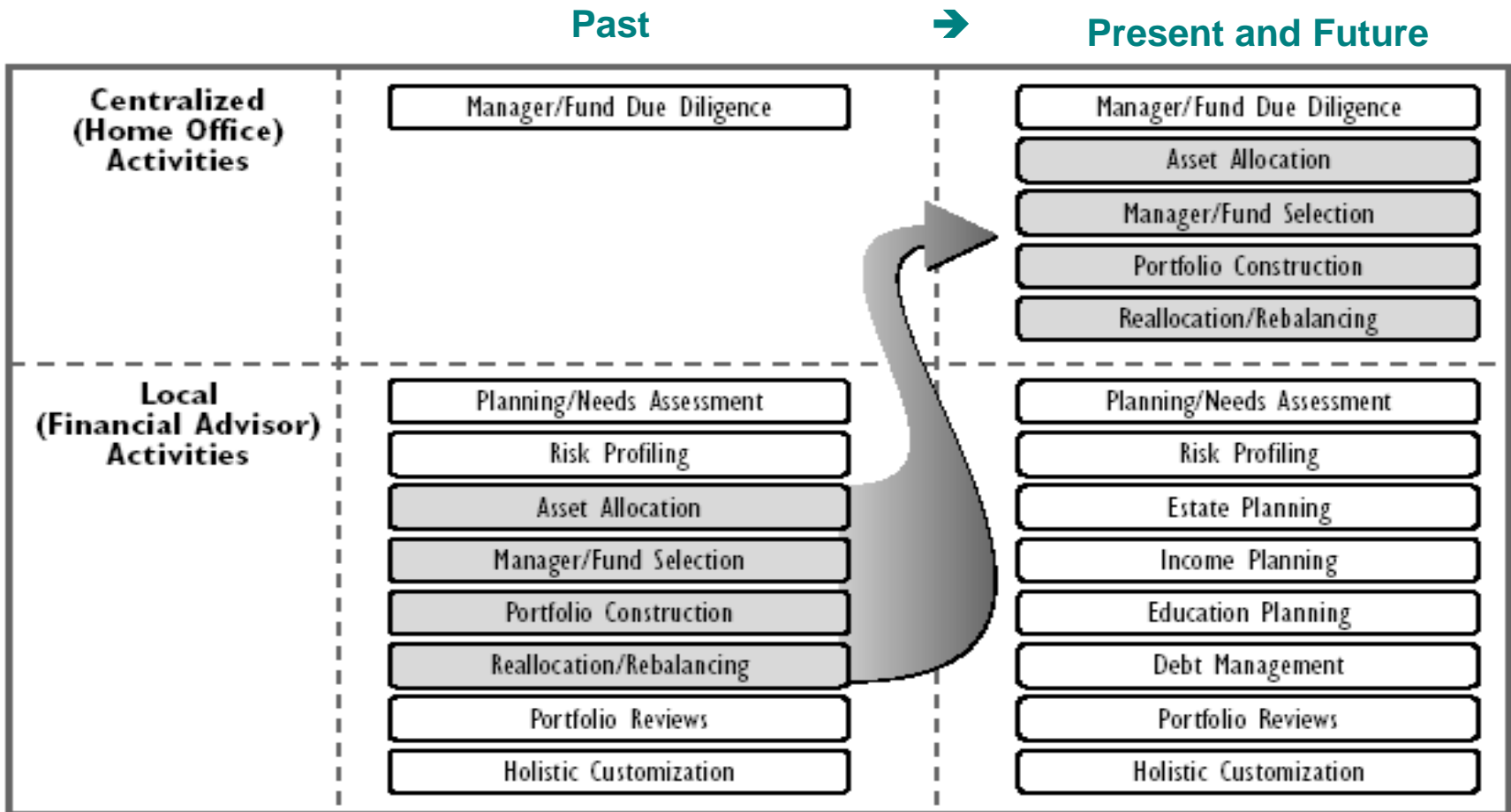
Home Office Solutions



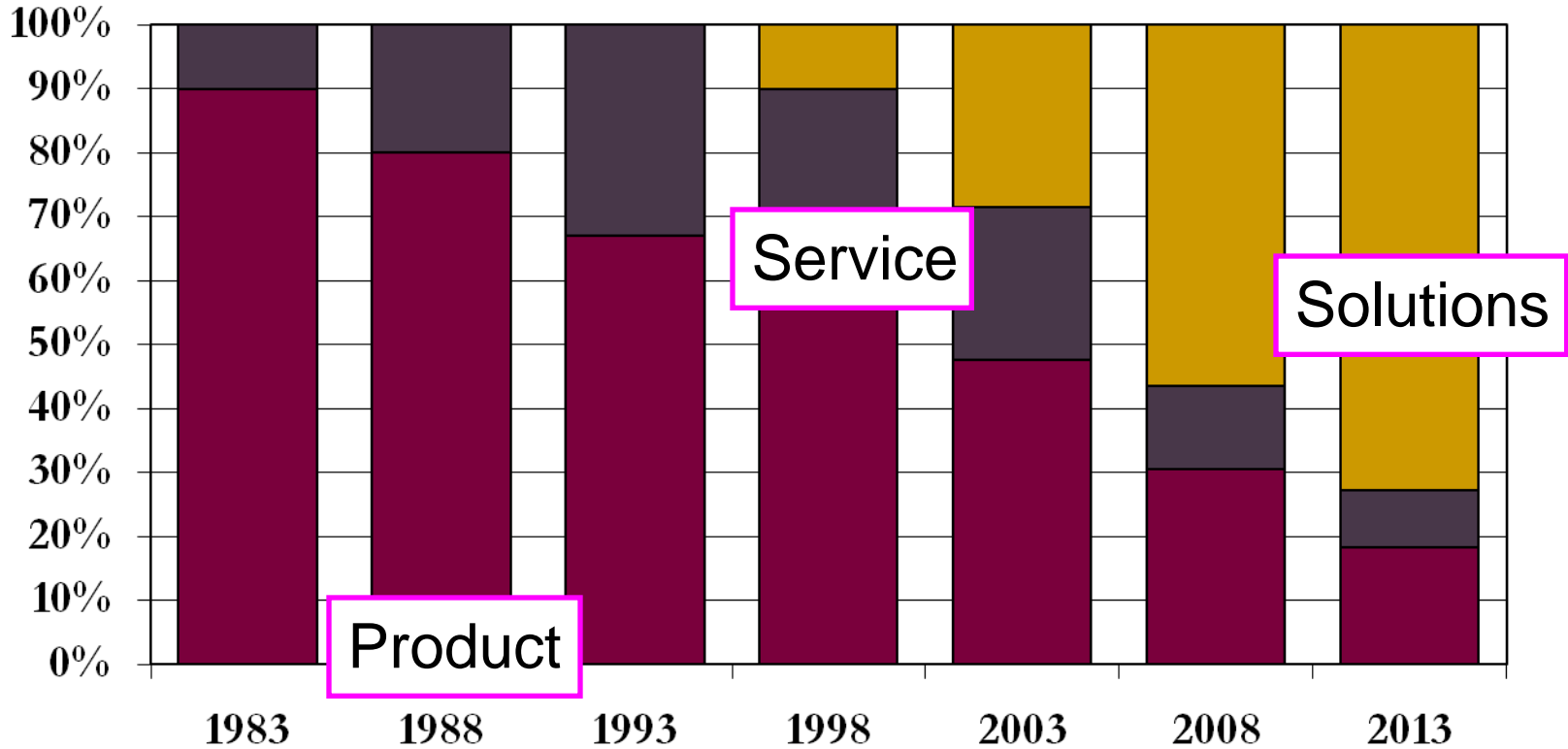
Improves Advisor / Client Dynamic
Inserts “Company” into Relationships

Greater Consistency in Results
Enhances Rep Productivity

Migration of Advisor Functions



Rep Value Proposition



Future of Distribution

Paul Hatch

Head of Investment Strategy & Solutions for Morgan Stanley
Smith Barney

Speaker Notes: Session 5

Future of Distribution

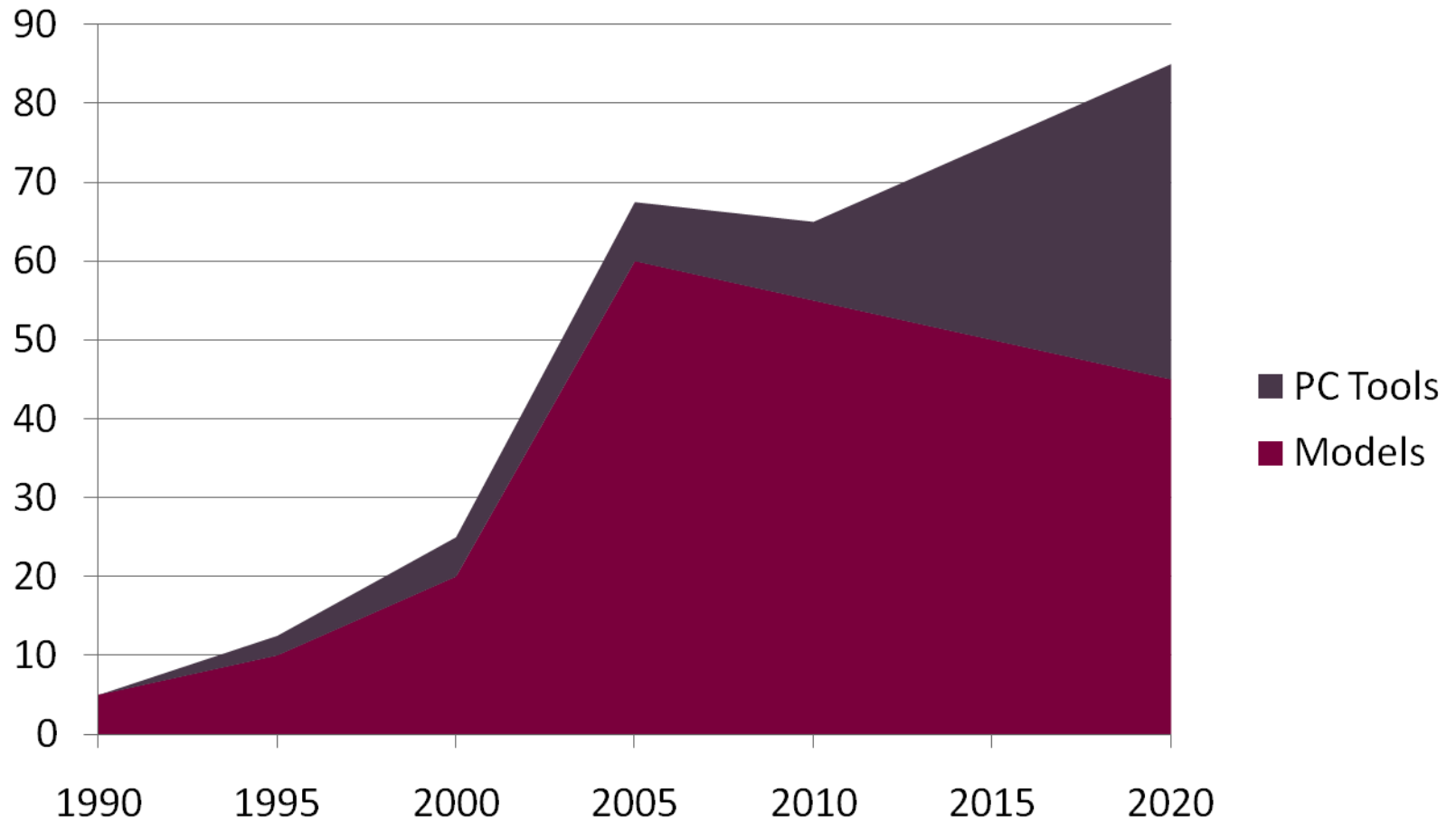
- Investors are not interested in complex, illiquid products with a lock-up periods. This is a challenge to overcome with Alternatives, and Retirement Income Products.
- Research groups no longer focus on how many managers/funds to be put on a platform. An average financial advisor uses 350 different mutual funds, but the bottom 100 funds are only utilized for 3-4 clients. So bringing in more managers/funds won't help. **What they really need is the assistance with portfolio construction!**
- Deepening relationships with business partners (emphasis is on fewer but deeper relationships) to create a collaborative environment is also crucial.
- Financial advisors will shift from a b/d model to an asset management model, so **there is tremendous value in sharing investment management expertise to help the FA's run discretionary portfolios. Providing solutions-oriented products and introducing institutional products to the retail marketplace will also be appreciated.**
- Asset management firms need to differentiate themselves. The strategy for getting on a platform is different from that for staying on the platform. The true value added would be to give financial advisors tools, education, and opportunities to sit down with portfolio managers so that they talk like portfolio managers when they meet with their clients. **Practice management programs have run their course.**

Speaker Notes: Session 5

- Asset managers should grasp new ways to communicate with advisors. The Web communication represents a pull strategy. The new model would be to embrace social media for constant interaction, instead of a one-time lunch or a golf outing.
- It is essential for asset managers to recognize unique characteristics of their products and work with organizations to identify specific advisors that the products cater to.
- **Research analysts will move from pure research to portfolio construction. Their future function will be to aid financial advisors and construct quantitative-driven models.** Wirehouses will be more open to models, but they do not want to be tied to a firm. Gatekeepers will be less important.
- Firms should work with regulators because more transparency and lower costs would protect the best interests of investors and firms will eventually have to adapt to a new regulatory environment.
- **The team approach is the best way to achieve productivity and efficiency.**
- Characteristics of the future platform will be product-agnostic, fewer choices, more asset classes, single contract, technology-driven, and household-oriented vs. account-oriented).

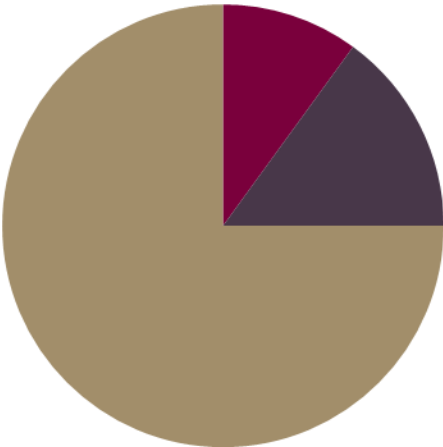
The Rise of Portfolio Construction

% of Intermediary Sales

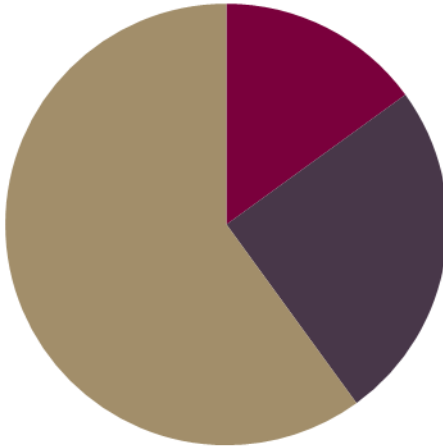


Advisor Composition - 1990

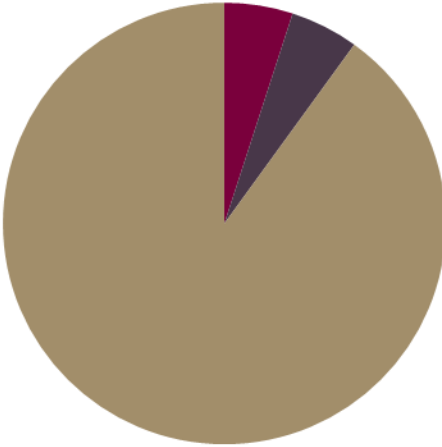
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Merrill



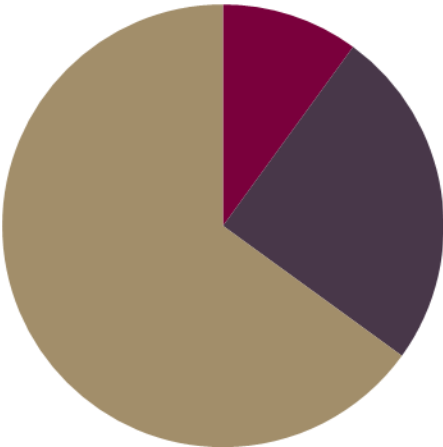
Edward Jones



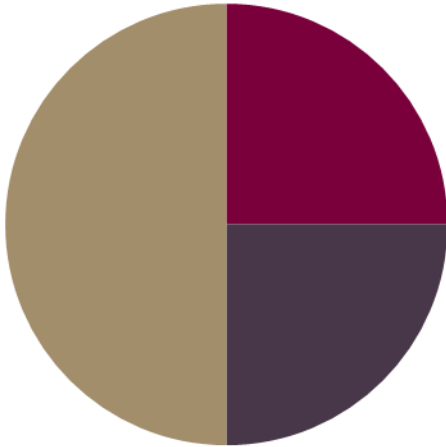
- HNW Team
- Fincl Plan
- Ind Broker

Advisor Composition - 2010

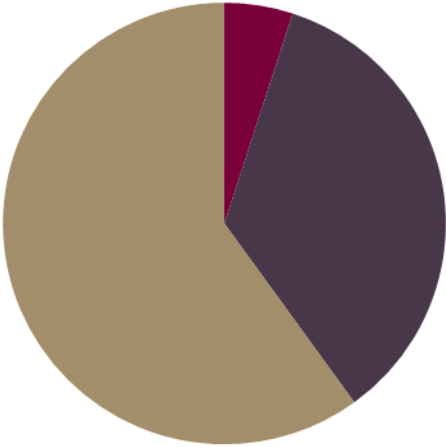
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Merrill



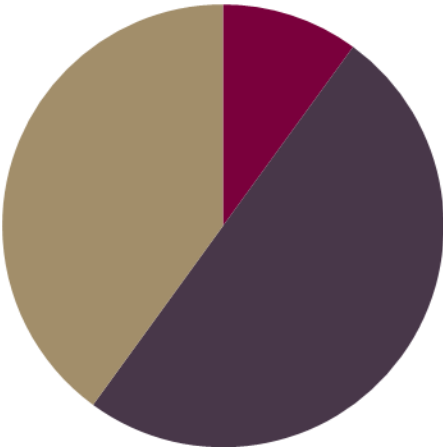
Edward Jones



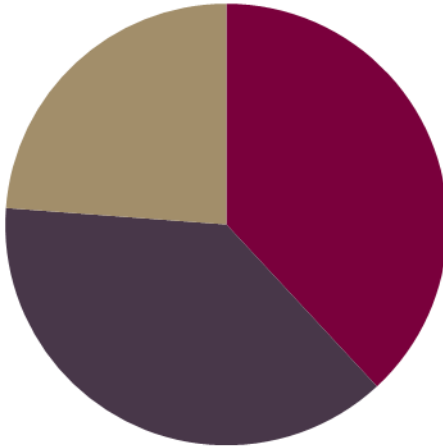
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Advisor Composition - 2020

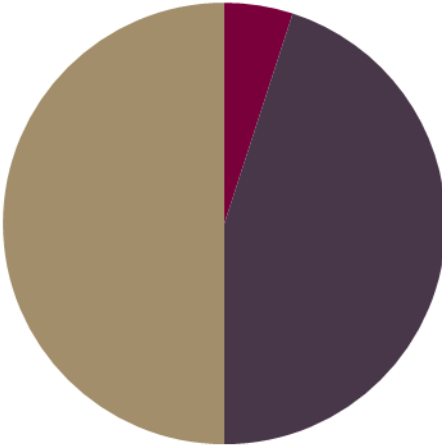
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Merrill



Edward Jones



- HNW Team
- Fincl Plan
- Ind Broker

Marketing Summary

- Brand as Selection Criteria (Reputation, Image & Identity, Positioning, etc.)
- Revisit (or eliminate) Most of the Materials
- PR First and Foremost
- Advertising to build awareness
- Selective conference support
- Website
 - ✓ Basic info
 - ✓ Investment process
 - ✓ Thought pieces (in support of brand – portfolio construction)

International vs. Global

International Versus Global

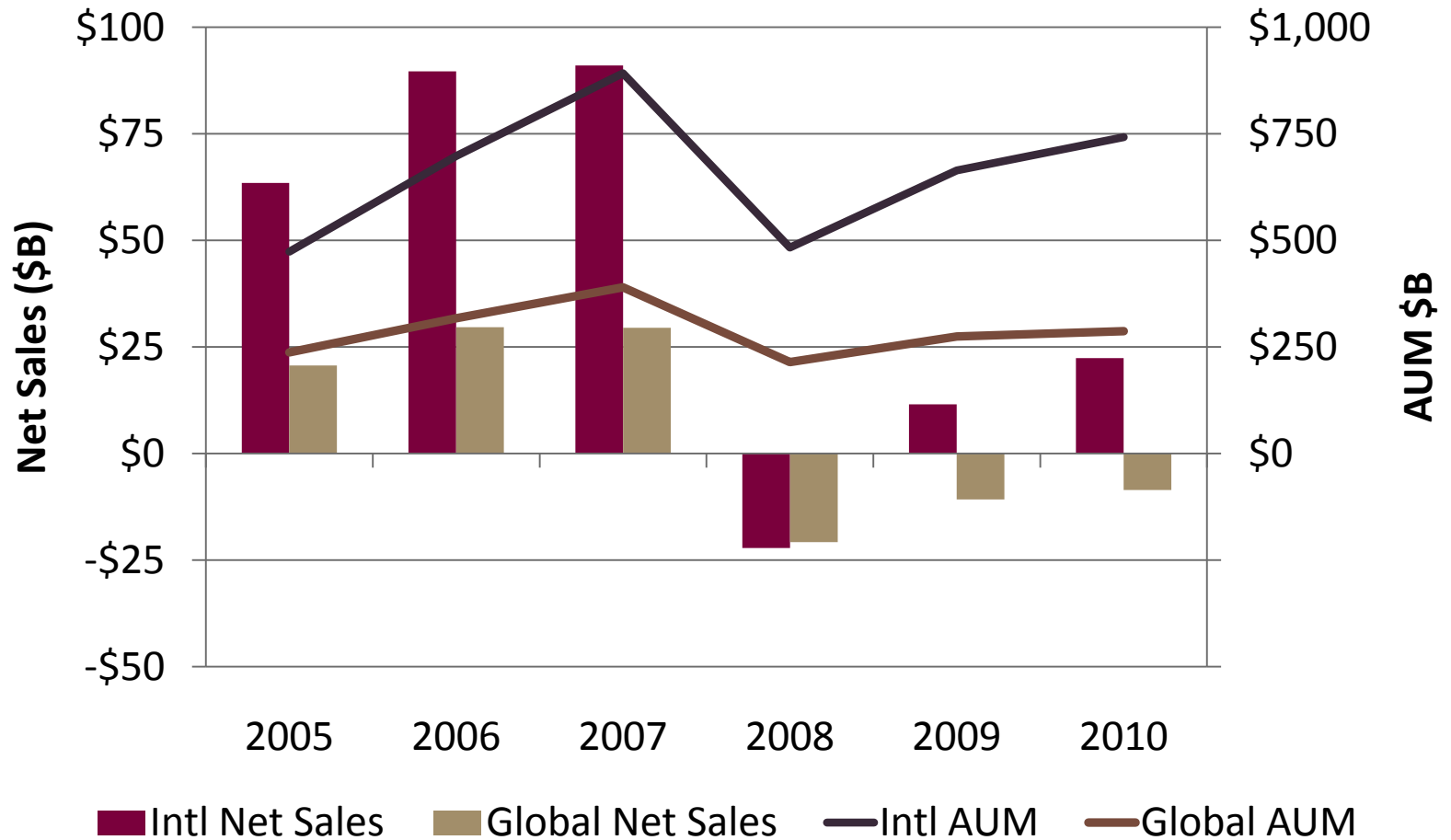
	2005	2006	2007	2008	2009	2010
Intl Net Sales	\$63,473	\$89,622	\$91,030	-\$22,148	\$11,545	\$22,362
Intl AUM	\$473,525	\$697,851	\$891,752	\$482,904	\$664,284	\$742,391
Global Net Sales	\$20,633	\$29,598	\$29,499	-\$20,776	-\$10,755	-\$8,583
Global AUM	\$237,150	\$317,205	\$389,583	\$214,105	\$274,434	\$287,221
Intl/Global Total Sales	\$84,106	\$119,220	\$120,529	-\$42,925	\$790	\$13,780
Intl/Global Total AUM	\$710,675	\$1,015,056	\$1,281,335	\$697,008	\$938,719	\$1,029,612

	2005	2006	2007	2008	2009	2010	Change
Intl Market Share AUM	67%	69%	70%	69%	71%	72%	0.05
Global Market Share AUM	33%	31%	30%	31%	29%	28%	(0.05)

Excludes: Intl Small Cap, Regional, Sector, and Emerging Market Categories

Source: Morningstar

International versus Global



International vs. Global

- Global's growth is tied to specific channels
 - Transaction oriented reps are selling tactical allocation
 - Platforms / Professional Buyers prefer purity of international
- American Funds accounts for 50% of Global assets
- Index offerings have fully infiltrated international...extensive product development under way on the global front

Fund Name	Morningstar Category	Instl. Category	AUM 8/10
GLOBAL ETF			
iShares MSCI ACWI Index	US ETF World Stock	World Large Core	1,206,551,464
iShares S&P Global 100 Index	US ETF World Stock	World Large Value	735,385,889
Vanguard Total World Stock Index ETF	US ETF World Stock	World Large Core	627,382,621
iShares MSCI Kokusai Index	US ETF World Stock	World Large Core	236,285,842
SPDR Dow Jones Global Real Estate	US ETF Global Real Estate	World Real Estate	128,843,498
			2,934,449,314
GLOBAL MF			
American Funds Capital World G/I A	US OE World Stock	World Large Value	72,540,516,114
American Funds New Perspective A	US OE World Stock	World Large Core	39,259,563,467
American Funds SMALLCAP World A	US OE World Stock	World Mid Cap	18,060,396,384
Mutual Global Discovery Z	US OE World Stock	World Large Core	16,263,500,902
Templeton Growth A	US OE World Stock	World Large Value	15,987,087,397
			162,111,064,264
INTERNATIONAL ETF			
iShares MSCI Emerging Markets Index	US ETF Diversified Emerging Mkts	Diversified Emerging Markets	39,767,145,256
iShares MSCI EAFE Index	US ETF Foreign Large Blend	Foreign Large Core	32,097,272,815
Vanguard Emerging Markets Stock ETF	US ETF Diversified Emerging Mkts	Diversified Emerging Markets	30,346,274,328
iShares MSCI Brazil Index	US ETF Latin America Stock	Latin America	9,240,531,690
iShares FTSE/Xinhua China 25 Index	US ETF Pacific/Asia ex-Japan Stk	China	7,564,458,854
			119,015,682,943
INTERNATIONAL MF			
American Funds EuroPacific Gr A	US OE Foreign Large Blend	Foreign Large Core	93,970,202,277
Dodge & Cox International Stock	US OE Foreign Large Value	Foreign Large Value	35,626,170,814
Fidelity Diversified International	US OE Foreign Large Blend	Foreign Large Core	31,520,888,458
Harbor International Instl	US OE Foreign Large Blend	Foreign Giant	26,725,262,776
Vanguard Total Intl Stock Index	US OE Foreign Large Blend	Foreign Large Core	25,240,496,280
			213,083,020,605

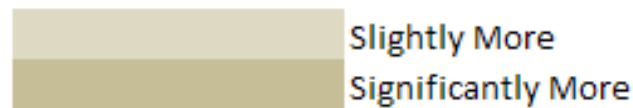
Global Asset Allocation

Fund Name	Morningstar Category	Instl. Category	AUM 8/10
GLOBAL ASSET ALLOCATION			
American Funds Capital Inc Bldr A	US OE World Allocation	Global Allocation	74,092,002,097
BlackRock Global Allocation B	US OE World Allocation	Global Flexible Allocation	41,043,639,097
Ivy Asset Strategy C	US OE World Allocation	Global Flexible Allocation	21,408,829,538
First Eagle Global A	US OE World Allocation	Global Flexible Allocation	21,251,113,395
Wells Fargo Advantage Asset Alloc A	US OE World Allocation	Global Allocation	7,979,815,739
			165,775,399,866

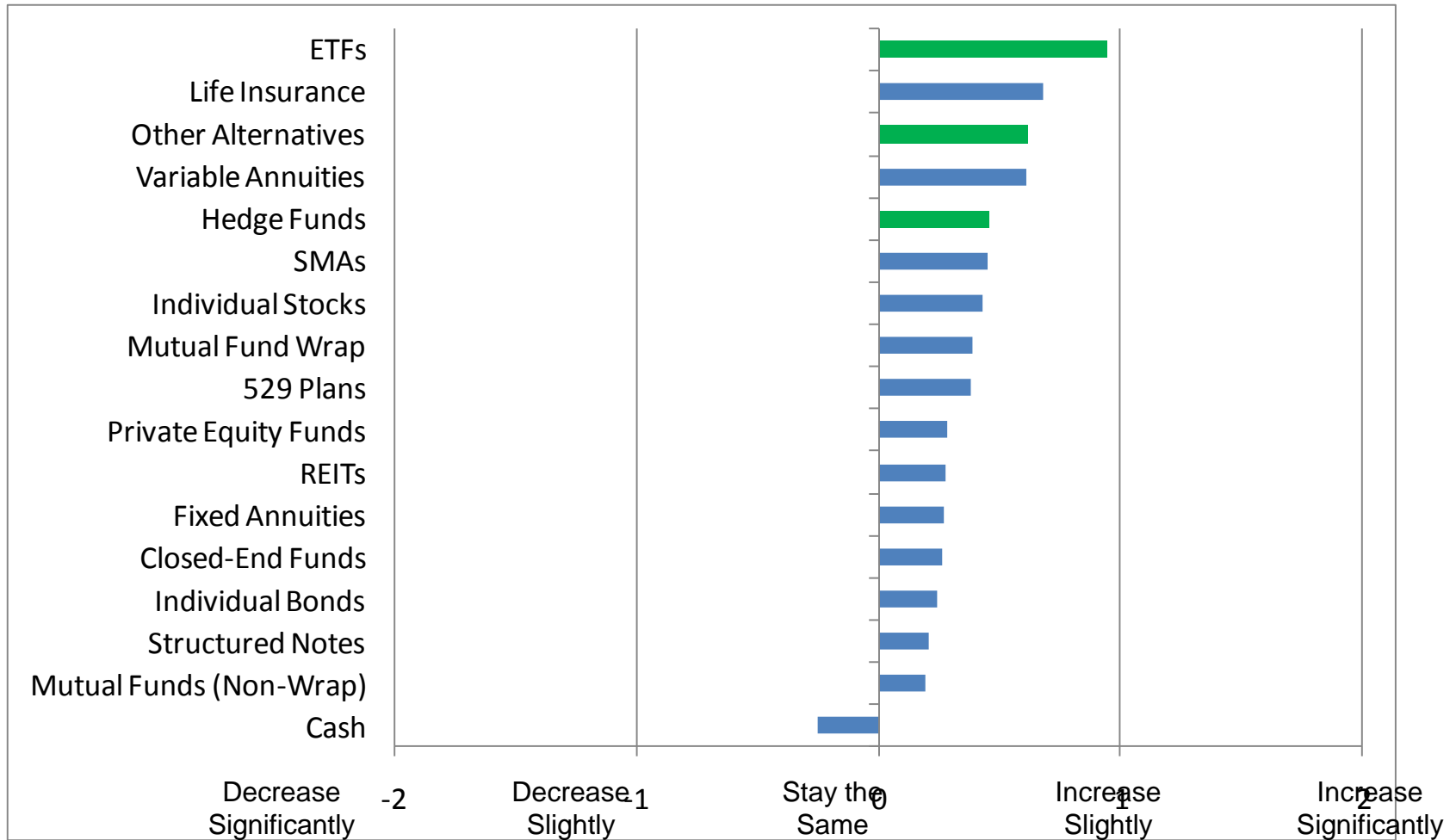
Distribution Channel Research

Product Usage

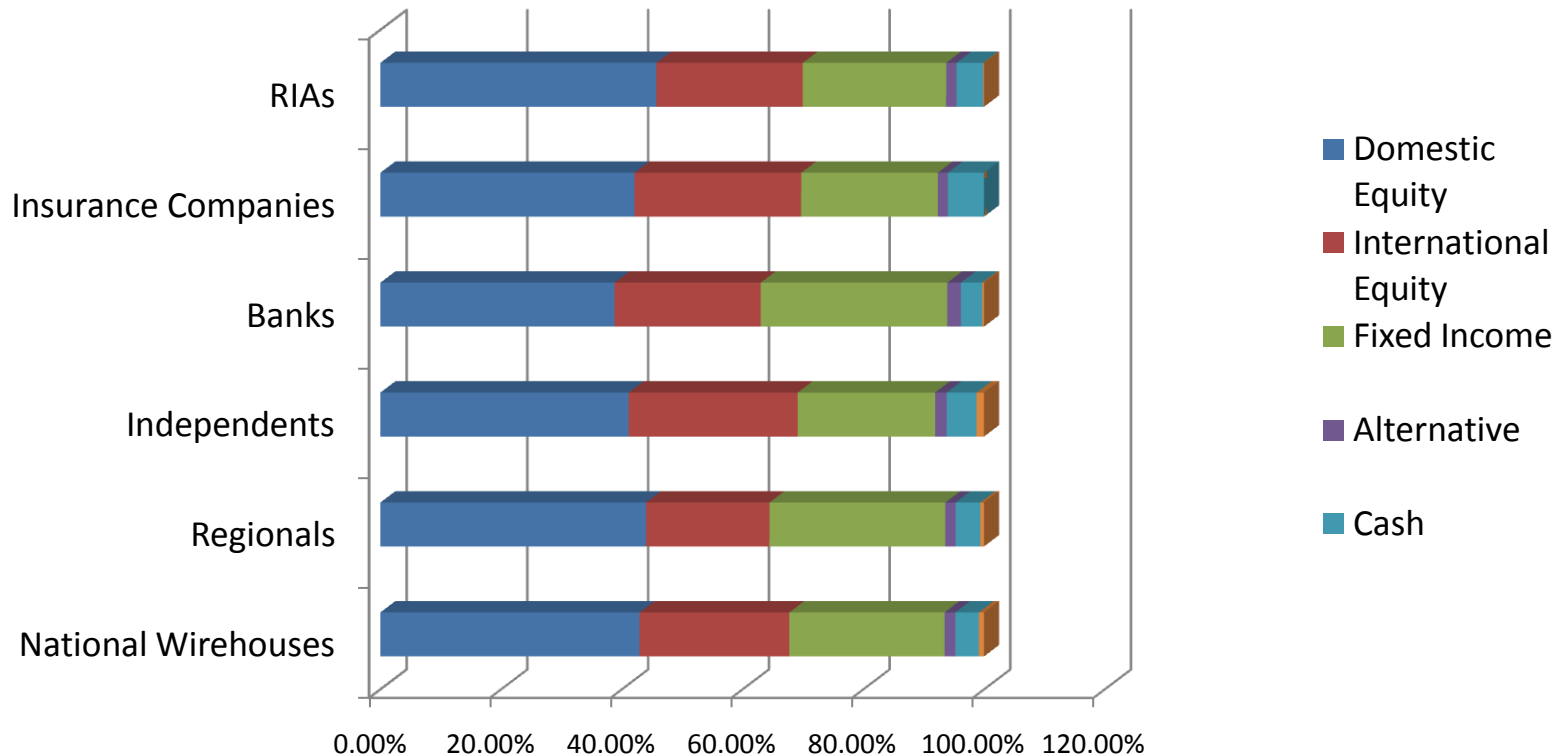
Product	RIAs	Industry	Difference
Individual Stocks	71.6%	82.2%	-10.6%
Individual Bonds	80.5%	84.9%	-4.4%
Mutual Fund	85.4%	93.4%	-8.0%
Mutual Fund Wrap	67.0%	76.4%	-9.3%
SMA's	73.6%	76.4%	-2.8%
ETFs	83.1%	80.5%	2.7%
Hedge Funds	41.6%	36.2%	5.4%
Private Equity Funds	47.2%	40.1%	7.1%
529 Plans	82.0%	82.5%	-0.4%
Variable Annuities	69.7%	82.5%	-12.8%
Fixed Annuities	62.9%	73.1%	-10.2%
Structured Notes	42.7%	46.3%	-3.6%
Closed-End Funds	59.6%	67.8%	-8.3%
Life Insurance	70.8%	79.2%	-8.4%
REITs	80.9%	77.3%	3.6%
Other Alternatives	65.2%	64.9%	0.3%
Cash	94.1%	92.3%	1.8%



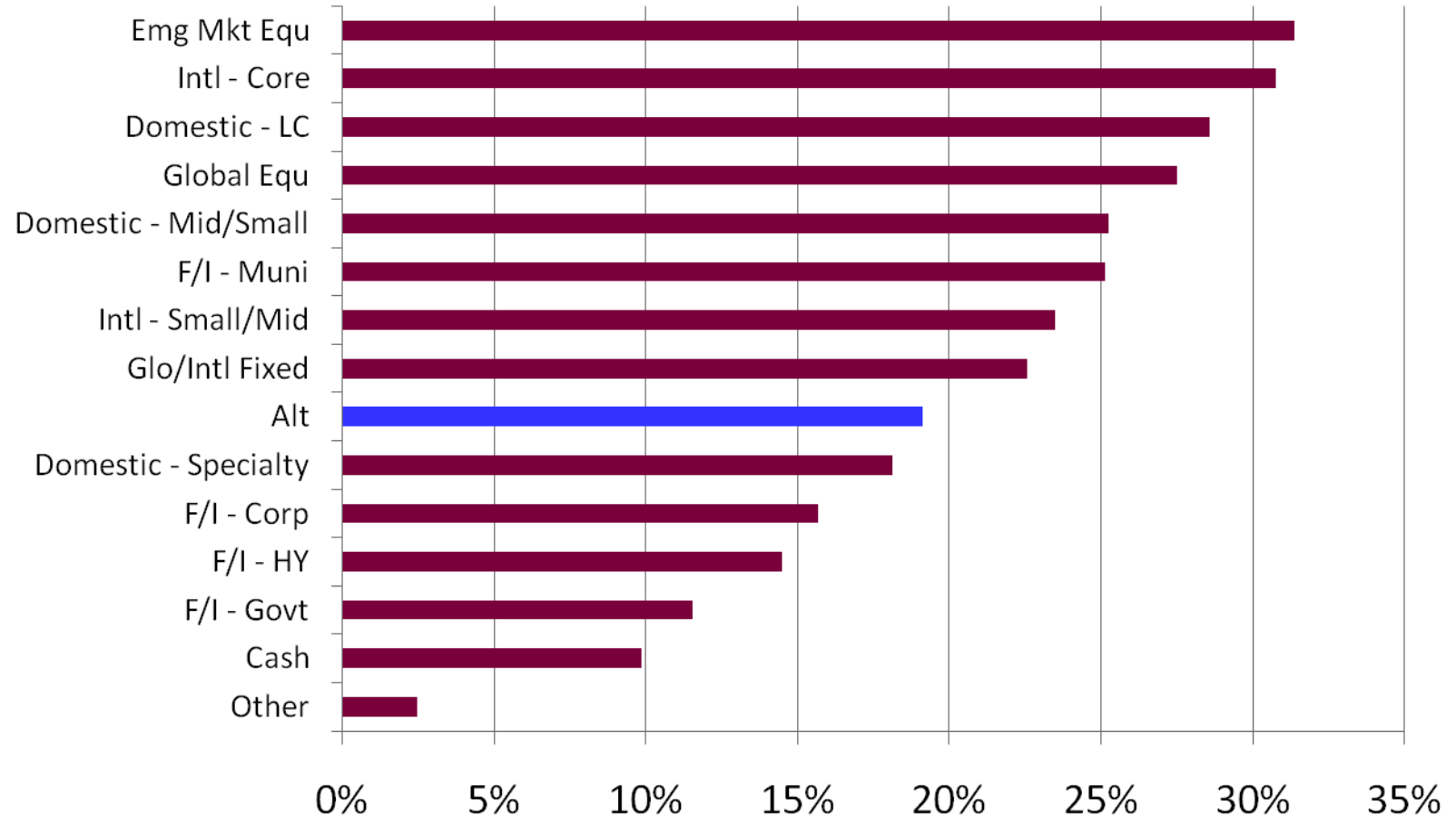
Expected Change in Product Usage



Asset Allocation: Déjà vu All Over Again



Plan to increase allocation next 12 months



International Products Next Winner

National Wirehouses

Regionals

Independents

IE-Emerging Markets	0.48	IE-Emerging Markets	0.35	Global Equity	0.41
DE-Large Cap	0.39	Global Equity	0.34	Alternative	0.38
IE-Core	0.38	DE-Large Cap	0.33	IE-Emerging Markets	0.38
FI-HY	-0.18	FI-Corporate	-0.17		
Cash	-0.41	FI-Gov't	-0.26	FI-Gov't	-0.08
FI-Gov't	-0.43	Cash	-0.30	Cash	-0.12

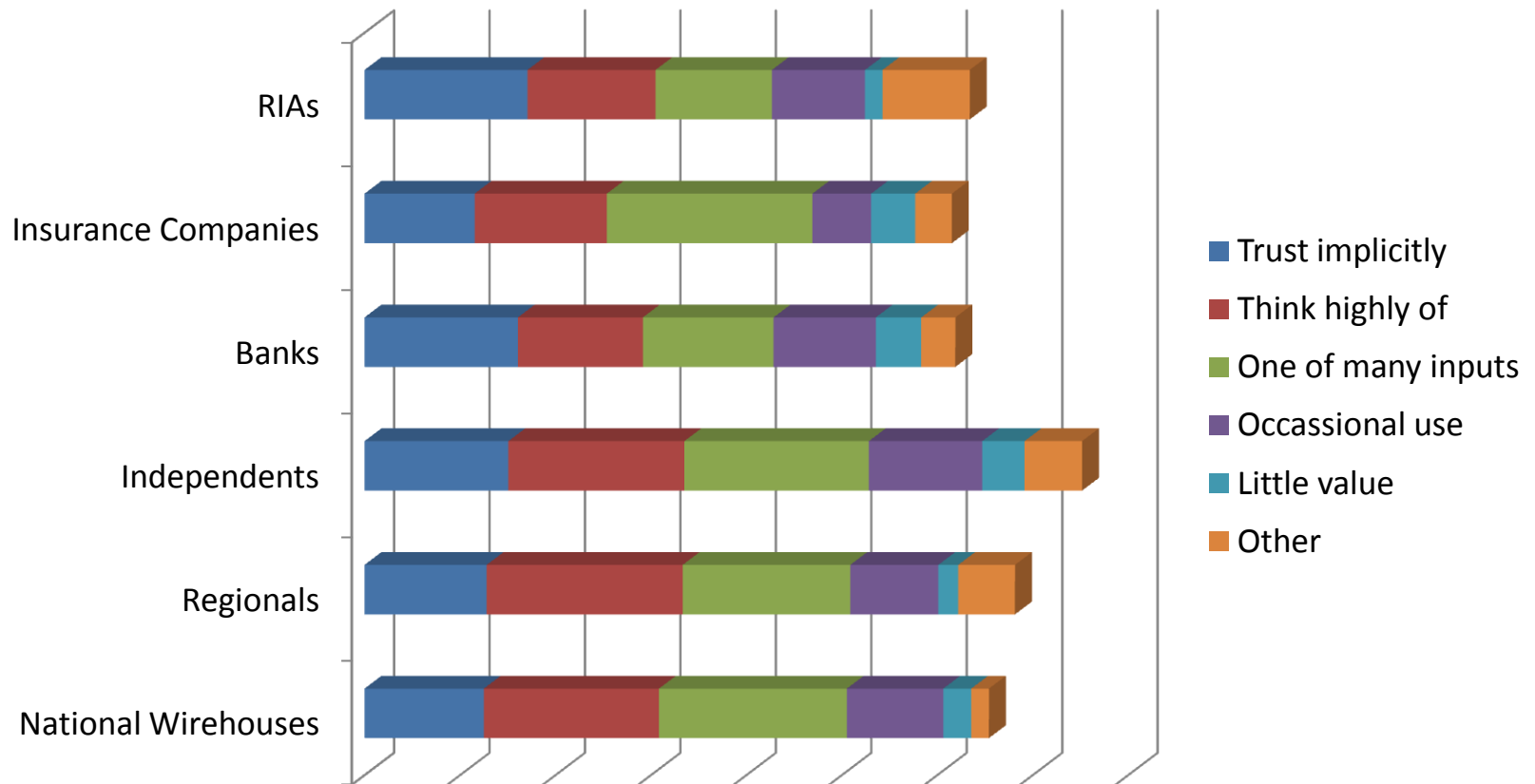
RIAs

Banks

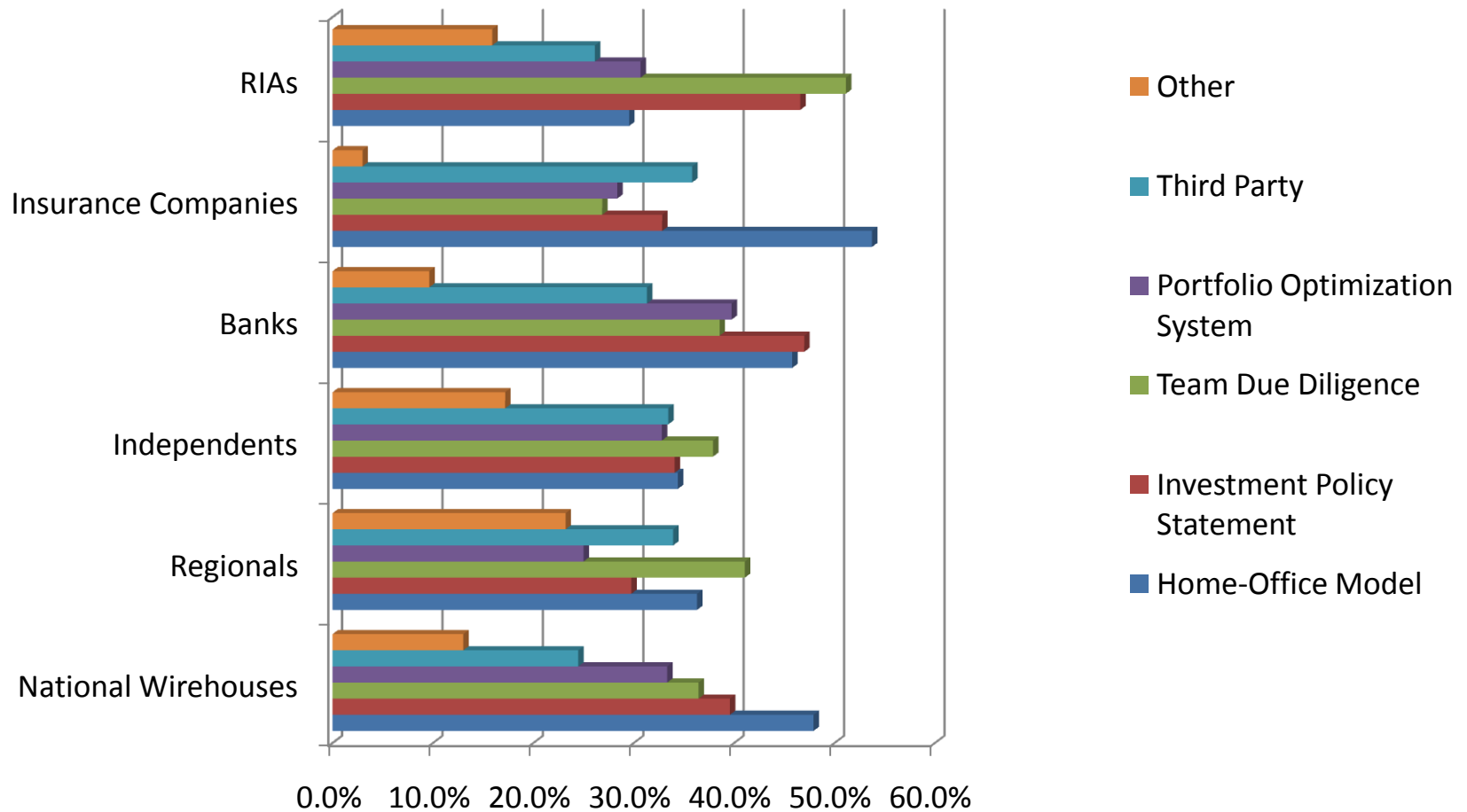
Insurance Companies

IE-Emerging Markets	0.44	Global Equity	0.56	IE-Emerging Markets	0.43
IE-Core	0.38	IE-Emerging Markets	0.46	IE-Core	0.40
Global Equity	0.32	Global/Intl FI	0.42	Alternative	0.33
FI-Corporate	-0.06				
FI-Gov't	-0.20	Cash	-0.26	FI-HY	-0.06
Cash	-0.24	FI-Gov't	-0.31	FI-Gov't	-0.09

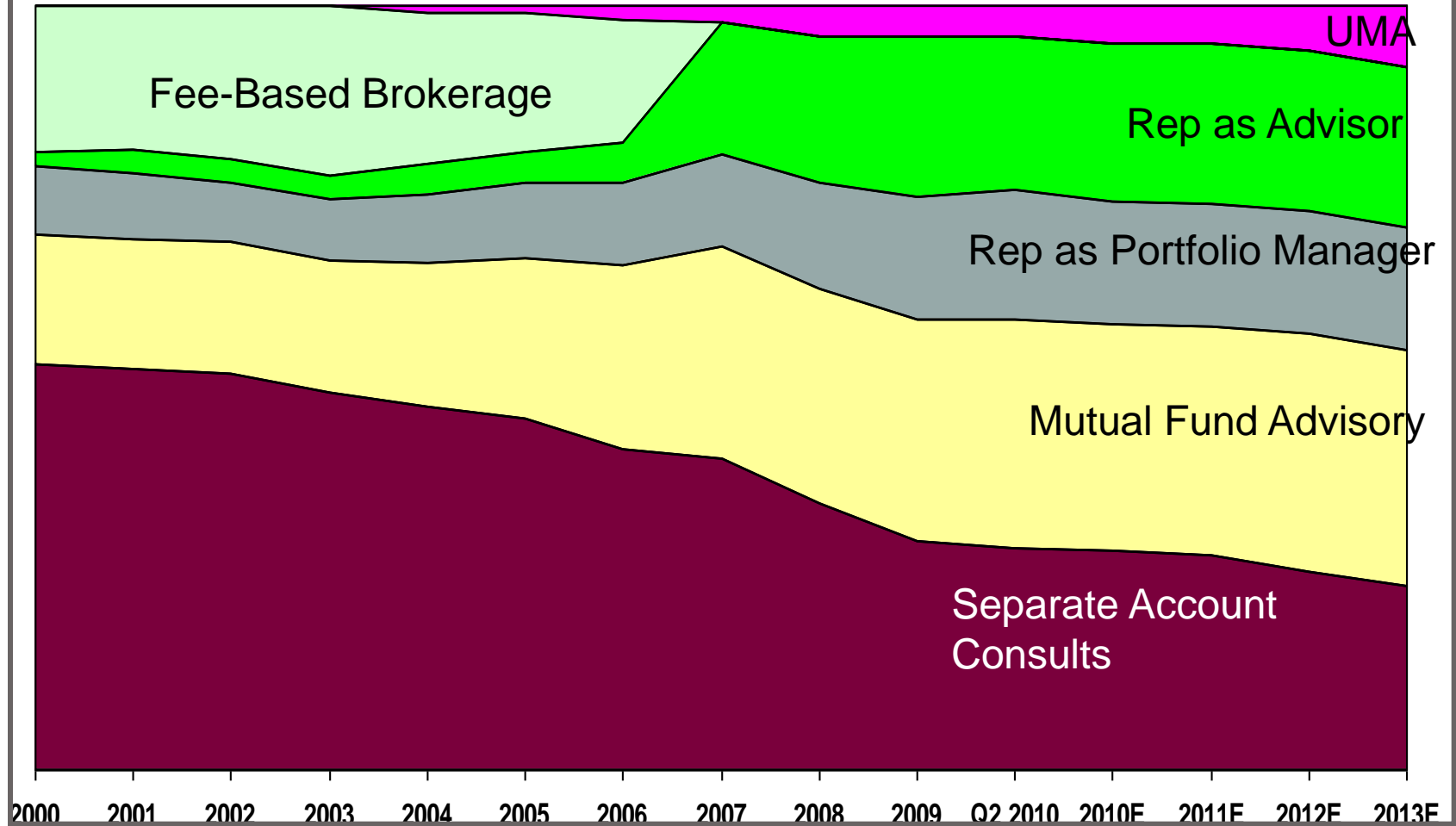
Reliance on Home Office Models



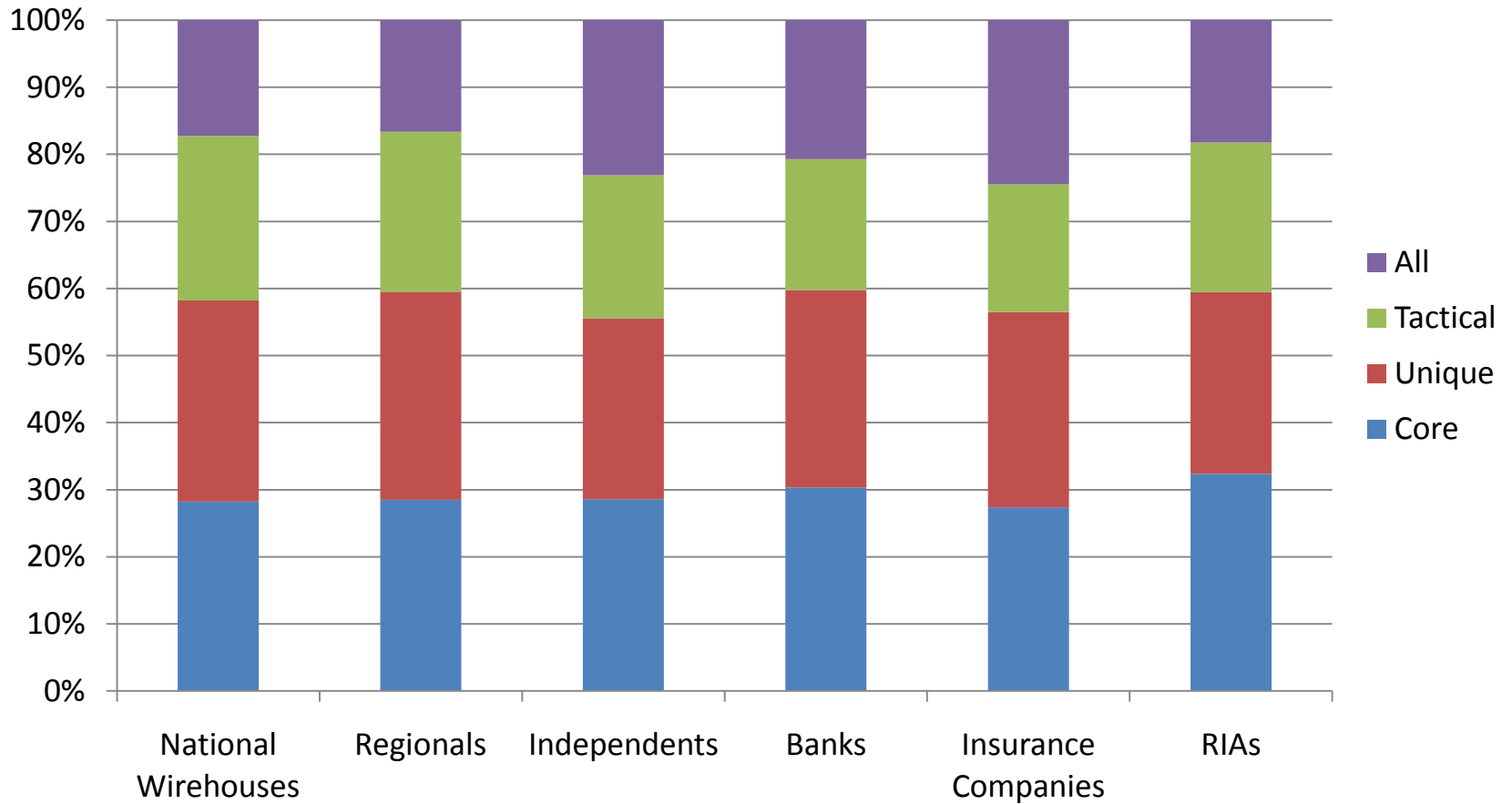
Portfolio Construction: Rubber Meets the Road



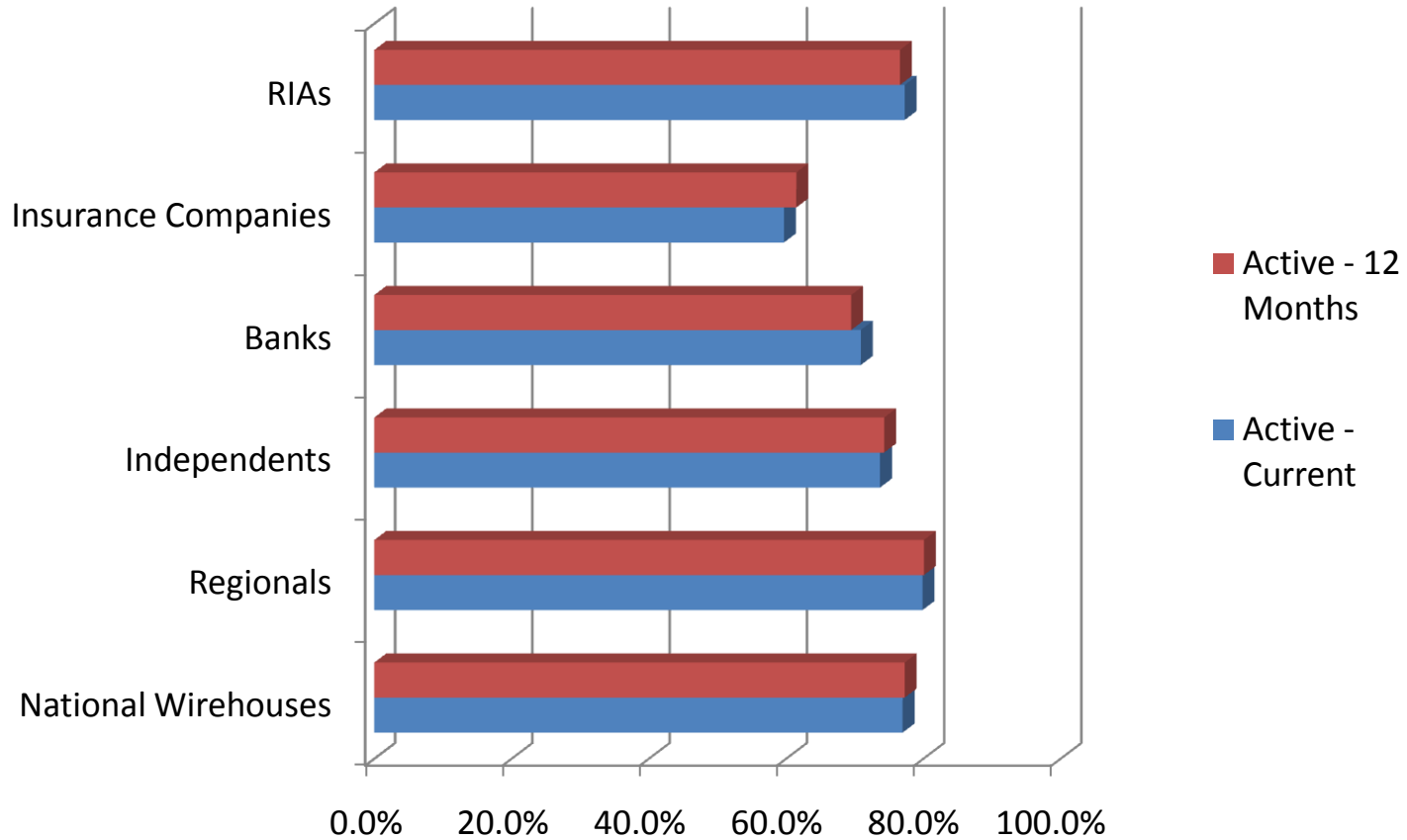
Distribution of Managed Account Assets 2000 – 2013E



Passive Investing



Commitment to Active



Bonus Section: Change Management

Change Management Summary

- The natural and normal reaction to change is resistance.
- Every individual has a threshold for how much change they can absorb.
- Some people will resist the change no matter what. Even when individuals can align the change with their self-interest and belief system, the uncertainty of success and fear of the unknown can block change.

Top 10 Changes for Sales

1. Scale no Guarantee
2. Shifting Focus (Product → Solutions)
3. Institutional Best Practices
4. Blurring of Channels
5. Clarifying Impact
6. Marketing Support
7. Intense Training
8. New Territories
9. New Focus
10. No more “Wholesalers”

10 Keys To Successful Change

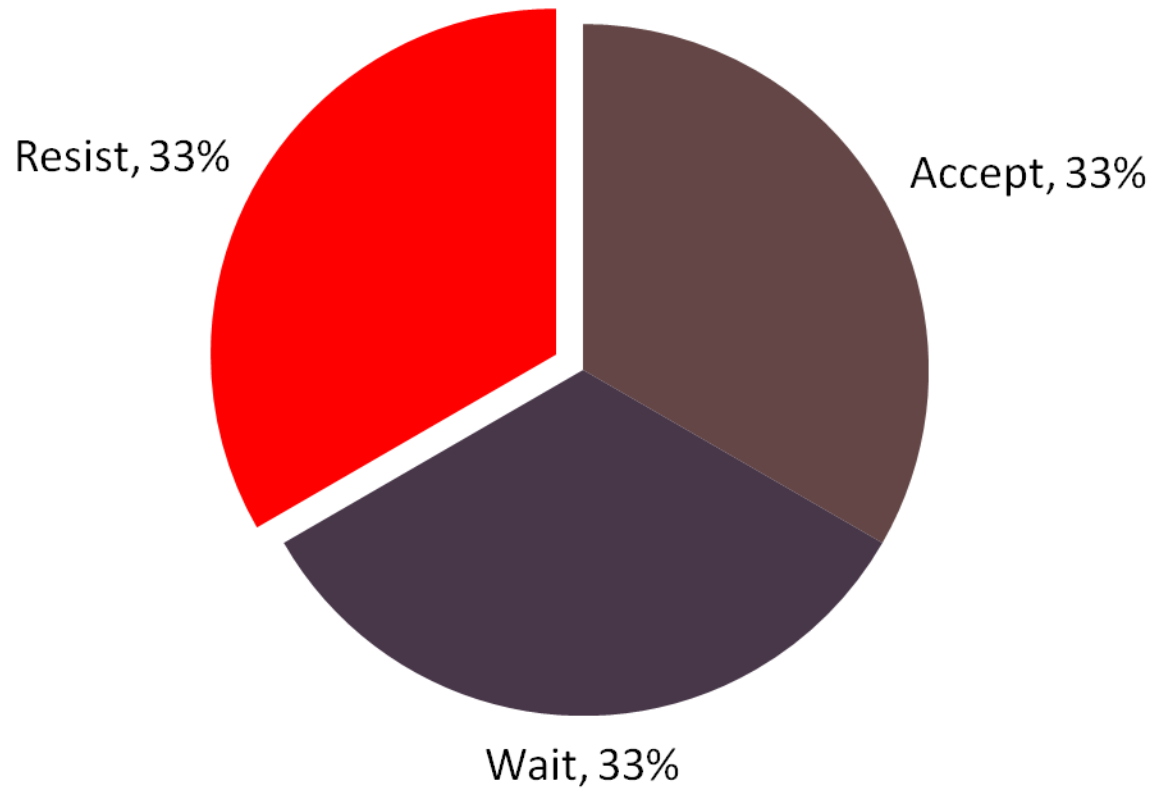
- 1. Address the “human side” systematically.** Any significant transformation creates “people issues.” New leaders will be asked to step up, jobs will be changed, new skills and capabilities must be developed, and employees will be uncertain and resistant. Dealing with these issues on a reactive, case-by-case basis puts speed, morale, and results at risk. A formal approach for managing change — beginning with the leadership team and then engaging key stakeholders and leaders — should be developed early, and adapted often as change moves through the organization.
- 2. Start at the top.** Because change is inherently unsettling for people at all levels of an organization, when it is on the horizon, all eyes will turn to the CEO and the leadership team for strength, support, and direction. The leaders themselves must embrace the new approaches first, both to challenge and to motivate the rest of the institution.
- 3. Involve every layer.** As transformation programs progress from defining strategy and setting targets to design and implementation, they affect different levels of the organization. At each layer of the organization, the leaders who are identified and trained must be aligned to the company’s vision, equipped to execute their specific mission, and motivated to make change happen.
- 4. Make the formal case.** Individuals are inherently rational and will question to what extent change is needed, whether the company is headed in the right direction, and whether they want to commit personally to making change happen. They will look to the leadership for answers...
 - First, confront reality and articulate a convincing need for change.
 - Second, demonstrate faith that the company has a viable future and the leadership to get there.
 - Finally, provide a road map to guide behavior and decision making.
- 5. Create ownership.** Leaders of large change programs must overperform during the transformation and be the zealots who create a critical mass among the work force in favor of change. This requires ownership by leaders willing to accept responsibility for making change happen in all of the areas they influence or control.

10 Keys To Successful Change

- 6. Communicate the message.** Too often, change leaders make the mistake of believing that others understand the issues, feel the need to change, and see the new direction as clearly as they do. The best change programs reinforce core messages through regular, timely advice that is both inspirational and practicable.
- 7. Assess the cultural landscape.** Successful change programs pick up speed and intensity as they cascade down, making it critically important that leaders understand and account for culture and behaviors at each level of the organization.
- 8. Address culture explicitly.** Once the culture is understood, it should be addressed as thoroughly as any other area in a change program. Leaders should be explicit about the culture and underlying behaviors that will best support the new way of doing business, and find opportunities to model and reward those behaviors. This requires developing a baseline, defining an explicit end-state or desired culture, and devising detailed plans to make the transition.

Company culture is an amalgam of shared history, explicit values and beliefs, and common attitudes and behaviors. Change programs can involve creating a culture (in new companies or those built through multiple acquisitions), combining cultures (in mergers or acquisitions of large companies), or reinforcing cultures (in, say, long-established consumer goods or manufacturing companies).
- 9. Prepare for the unexpected.** Effectively managing change requires continual reassessment of its impact and the organization's willingness and ability to adopt the next wave of transformation.
- 10. Speak to the individual.** Change is both an institutional journey and a very personal one. People will react to what they see and hear around them, and need to be involved in the change process. Highly visible rewards, such as promotion, recognition, and bonuses, should be provided as dramatic reinforcement for embracing change. Sanction or removal of people standing in the way of change will reinforce the institution's commitment.

Response to Change



Where I see SGI | Rydex today

The competitive landscape remains wide open. And those who forge leadership positions now will be difficult to dislodge, if history is any guide. Given these conditions, the market is likely to be disproportionately kind to those with high aspirations and a bias towards action – sound strategies and execution will be critical requirements, as ever.

But companies that sit on the sidelines – waiting to see how others fare, or expecting automatic windfalls – are likely to lose significant ground in the years ahead to more agile competitors.

I am looking for a lot of men [and women] who have an infinite capacity to not know what can't be done.

Henry Ford

I am looking for a lot of men [and women] who have an infinite capacity to not know what can't be done.

Henry Ford...or Rich Goldman?