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## **FUSE 2010 Recap**

### **A Period of Reassessment, Reevaluation, and Redefinition**

*December 23, 2010, Boston, MA* – As a part of our thought-leadership position, the senior team at FUSE Research Network LLC has identified some of the key themes from 2010.

### **Product Trends**

Bond Funds dominate once again

- \$270 billion dollars flowed into bond funds YTD through November. Taxable bond funds accounted for 71% of industry net flows.
- Four of the top five selling categories were fixed income objectives – Intermediate Term Bond (+\$77B), Short-Term Bond (+\$39B), World Bond (+\$31B), and Multi-Sector Bond (+\$24B). The lone outlier was Emerging Market Equity (+\$26B).
- Of note, near-term trends indicate money is transitioning away from fixed income products. In four of the past five weeks, fixed income funds sustained net redemptions, which is the first time investors have shifted substantial money from fixed income since December 2008.

Successful Product Launches

- DoubleLine Capital made a big splash in 2010, both in terms of its headline grabbing split from TCW, and its successful fund launches. The firm launched Total Return Bond Fund in April of 2010 and it was the most successful new fund for 2010 with assets of \$3.8 billion as of December 17.

- Perhaps overshadowed by other PIMCO accolades, the firm's foray into equities was another big story of 2010. The PIMCO EqS Pathfinder Fund launched on 4/14/10 now stands just shy of \$800 million.
- On the product innovation front, SteelPath, which spun off from Alerian, introduced the first open-end funds focused on MLPs. Its three funds have grown to \$675 million in assets, and have contributed to a surge in MLP product development.

### Rise of Alternative Products

- Mutual Funds featuring 'hedge-like' strategies sold well in 2010, capturing \$25 billion in net inflows through November. While a couple of absolute return world allocation funds from brand name firms such as Eaton Vance and PIMCO had enormous success, some lesser known firms also experienced strong net sales. The Arbitrage, Merger, Absolute Strategies, and Hussman Strategic Growth funds each experienced net inflows exceeding \$1 billion through November.

### **Firms Trends**

- Compared to their 2009 net flows, OppenheimerFunds, Eaton Vance, Putnam, Fairholme, and First Eagle were the five firms with the largest absolute growth in net flows from 2009 to 2010. In the aggregate, net sales went from \$25 million in 2009 to \$22 billion during the first 11 months of 2010 for Oppenheimer, Eaton Vance, Putnam, Fairholme, and First Eagle.

### **Economy**

- Consensus predictions on the return of the S&P 500 for 2010 ranged from 15% to 25%, which barring any strong last minute surge or decline looks to be pretty accurate, with the S&P 500 having returned 15.14% as of 12/22/10. For 2011, the consensus has the S&P 500 ending the year at 1,425, which would be about a 13% return for the year.

### **M&A Activity**

- It was a relatively quiet year for major transaction in the US. The two standouts were the RiverSource/Columbia deal and LPL's initial public offering.

## **What didn't make a splash?**

- Regulation – there was a great deal of talk about major overhauls (12b-1, fiduciary standard, etc.); however, the time horizon for major change seems to be much longer than initially anticipated, as little substantive change has occurred.
- Rep Movement – explosive growth in rep movement away from wirehouse firms to either independent broker/dealers or independent RIAs was more hype than reality, as more reps moved between firms (intra-wirehouse) than left for independence.
- UMAs – adoption has been slower than anticipated and total assets under management account for a small component of fee-based advisory assets. We anticipate UMAs being the platform of choice in the future but widespread adoption will take significantly longer than many pundits felt.
- Active ETFs – lots of filings; a number of launches; save for PIMCO, little money raised. The filings appear to be defensive moves by most organizations – “in case” active-ETFs are the next big thing.
- Retirement Income – still searching for that silver bullet – we aren't sure it is there to be found, as it is much more of a distribution solution on client by client basis.

## **Service Provider Trends**

FUSE is the fastest growing firm

- According to “independent” research conducted by PMR Associates, FUSE Research Network is the fastest growing research firm of the new millennium. The firm grew its client base by 425% during 2010 largely in response to its positioning as a decision support group vs. firms that seek to maximize annual page counts on their generic papers and studies. Preliminary research findings suggest FUSE will experience strong growth in the years to come.

## **About FUSE Research Network LLC**

FUSE Research Network was launched with the view that research and consulting support for asset managers has failed to evolve with the changing needs of the client. The future competitive environment will demand that clients make important business decisions within shorter and shorter timeframes.

In order to support clients in this setting, FUSE provides a dynamic research platform that covers our clients' current and future decision areas (strategic and tactical). Our goal is to become an invaluable business partner through the delivery of highly informed and forward-looking recommendations that are among the critical inputs our clients need to optimize results.

### **INNER WORKINGS OF FUSE**

It is the goal of FUSE to develop a level of partnership with each client that transcends traditional vendor relationships. In order to achieve this, the day-to-day activities of FUSE are guided by the following principles:

- Ardent Client Advocacy
- Absolute Candor and Objectivity
- Incisive and Tangible Guidance

Our ability to adhere to these principles is supported by our commitment to constantly be looking for ways to improve our support offerings through ongoing feedback and innovation. In addition, we will take steps to insure that FUSE staff members are among the best informed in the business so as to achieve a thought leadership position on the behalf of clients. Finally, we will provide a superior level of client service that sets FUSE apart from all other decision support firms. It is important to note that the FUSE service model accepts the fact that we do not have all of the answers in-house but our network of contacts, which is one of the best in the industry, helps to insure that we will always know someone who does.

### **Other Differentiators:**

- Formal evaluation of client needs to initiate relationship
- Customized service offering
- Dynamic research support...not static annual updates
- Proactive advice, guidance, and recommendations
- Formal periodic review of service and support