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January 9, 2012, Boston, MA – As has become annual custom, the senior team at FUSE Research Network LLC kicks-off each calendar year by looking into their crystal ball to identify noteworthy trends for the upcoming year. For 2012, the team at FUSE has come up with 11 predictions covering hiring, product development and fund flows, to name a few. There is also a bonus, 12th prediction related to major sports championships. Without further ado, here are FUSE's predictions for 2012:

1. Firms to Watch:

- **Natixis** – exceptional relative performance at the firm. Look for Loomis Sayles and AlphaSimplex to draw significant attention.
- **Delaware** – excellent relative performance across the board (25th percentile as a firm). Sales opportunities exist in domestic equity, international equity, and fixed income.
- **DoubleLine** – what can they do for an encore? Well, relative performance is off the charts and with the legal matters settled, it appears asset growth may actually accelerate on an absolute basis.
- **Legg Mason** – fixed-income flows are likely to pick up at Legg Mason in 2012. Relative performance is very good (25.4% on an asset weighted basis), and strong performance in 2010 and 2011 has buoyed net sales of its flagship fixed-income offering Western Core Plus Bond.
- **John Hancock –** a concerted effort was made to diversify sales and the results have been impressive with 12 funds capturing net inflows in excess of $100 million over the last 12 months. This sales diversity should help Hancock navigate a shifting market and produce excellent sales results in 2012 as well.
- **RidgeWorth –** has successfully transitioned its sales focus over the last three months and solid relative performance across the product suite enabled RidgeWorth to make this shift (from Floating Rate to High Yield, Large Cap Value, and Total Return Bond). This type of diversity and flexibility will lead to solid sales in 2012.

2. **Hiring Trends – Distribution:** Firms will continue to commit incremental resources dedicated to distribution. In a survey of distribution leaders, no firm indicated plans to reduce headcount across any function in 2012. Areas where firms are looking to invest incremental resources include:

    - **92%** of firms indicated they would add incremental resources to the sales desk;
    - **57%** of firms plan to place more bodies in the field;
    - **50%** of firms are preparing to add to their key account staff.

3. **Sales Alpha:** Managers will devote significantly more time and attention to building the infrastructure that creates the ability to identify, create, and/or develop salespeople that deliver incremental impact. Retention will be the buzzword of the year, and it will drive advanced segmentation projects (for our industry that is) at 47% of all firms with at least $10 billion in long-term assets. Over half of these same firms will revisit their CRMs (and the connections to their sales data files) in order to ensure that the foundation for segmentation is firmly in place; it is not currently at 73% of firms. These initiatives will be performed at the distribution firm and FA levels and will connect with products that result in the most profitable sales relationships. Sales force compensation will continue to evolve with more and more firms working activity / behavioral-based criteria into their pay plans.

4. **Product Development:** The thought processes behind new product development will grow in terms of sophistication and segmentation. Asset managers will launch hundreds of mutual funds in 2012 but many new funds will struggle to reach adequate scale. For example, of the 503 funds launched in 2010, only 15% have reached $100 million in AUM: over three years, only 27% of launched funds have achieved $100 million in AUM. More asset managers will build thorough business cases for their product launches, which maps an investment strategy to a particular need in the market within specific distribution channels. In addition, firms will more closely monitor the economics of the product down to the platform level (at a minimum) in order to measure its margin contribution.

5. **Sub-Advisory:** New product development will follow the general product development themes of 2011. Alternative strategies featuring downside protection, equity income, and emerging markets will be the top new offerings during 2012. Fund adoptions will grow in importance as the challenge of raising assets through organic fund launches forces an increasing number of managers to seek distribution partners such as John Hancock, Pioneer, Touchstone, etc.

6. **Target-Date:** Large rationalization of target-date funds will begin due to the realization that the investment-only opportunity for non-proprietary active funds is not going to materialize. A positive for investment-only firms is that model portfolio and unitized custom target-date solutions continue to build momentum.

7. **Active ETF:** Product proliferation by several large providers to spur the next round of filings by firms that have been anxiously waiting in the wings. While the number of active offerings will grow, assets will not directly follow as the industry waits on the performance of the PIMCO offering for a sense of acceptance. It will also become clear that the motivations of some active ETF shops (SSgA in particular) may be decidedly different than those of the traditional mutual fund shop. No final decisions are forthcoming, but the SEC inches closer to making decisions on allowing the use of derivatives. Next generation variations in structure (i.e. Eaton Vance and Blackrock) will receive more time and attention from product development groups

8. **Flows:** Net sales will be up substantially in 2012, as long-term mutual fund net flows will approach $240 billion compared to approximately $70 billion in 2011. At the broad objective level --

    - While we do not anticipate 2012 will see a return to positive net sales for domestic equity mutual funds, we do anticipate that the outflows will stem compared to the last four years;

    - Non-US equity will continue its strong run of flows, capturing about $70 billion of net inflows;

    - Fixed-income product flows will be highly positive once again, with net inflows in 2012 only slightly lower than 2011 results.

9. **Social Media:** A growing number of investment firms will come to realize the need to communicate through whatever medium their clients prefer – including enhanced Websites, on-demand video, audio, Twitter, LinkedIn and Facebook. As more firms provide the basics, expectations for the impact of one's social media efforts will become more realistic (i.e. a standard business requirement versus a determinant of success). Firms will also come to realize that the resources required to keep the social media pipelines filled with quality content are significant. Despite the hype to the contrary, social media will prove its inability to overcome poor messaging and underperformance.

10. **Alternative Investments:** Total assets in alternatives (in '40 Act structures) will reach $400 billion by year-end 2012 with $55 billion in net sales. Asset will be evenly split between asset classes (e.g. precious metals) and investment strategies (e.g. market neutral). However, passive managers will extend their

lead over their actively managed counterparts with market share of assets moving to 57%. Alternatives will continue to be dominated by managers with recognized expertise in their discipline (currently the top 2 managers in each category combine for an average 60% share of assets). Product development will increase, but many firms will be disappointed to find long queues already in place at the research groups at their distribution partners.

11. **Variable Annuities:** Sales in 2012 will exceed $165 billion, despite cost increases across the board of 4% – 6%. While sales will continue to be dominated by the independent channel, acceptance of VA's in the wirehouse channel will finally gain some traction, as rank and file producers and their clients jump on the guaranteed income bandwagon resulting in a 20% increase in market share of total sales. RIA's will continue to shun VA's as the vast majority still struggle to justify cost. Living benefits will continue to be the driving force in VA sales even though the guaranteed rates associated with them continued to be scaled back. What was once a 7% guarantee a few years ago may be reduced to 5.5% or less by the end of 2012. Another impact of increased scrutiny and management of hedging strategies will result in additional limitations placed on investment options when a living benefit is selected. In spite of these trends, the percentage of VA contracts sold with a living benefit will continue to increase and reach 95% in 2012.

12. **Bonus Predictions**

- **College Football** - Alabama over LSU in a tight defensive contest;
- **NFL** – Super Bowl XLVI will feature an offensive shootout between Green Bay Packers and New England Patriots (70 points and 1000 yards of offense at a minimum);
- **College Basketball** - a Final Four consisting of Syracuse, North Carolina, Duke, and Kentucky (Marquette will make a valiant run to the Final Eight);
- **NHL** - Boston Bruins defend their Stanley Cup championship by beating the Detroit Red Wings in the finals;
- **NBA** - Miami Heat (as much as it will pain all of us non Miami Heat fans);
- **MLB** - Baltimore Orioles win 82 games for the first time in 14 years; Boston Red Sox avoid beer and fried chicken in the clubhouse in 2012 and win the AL East.

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:

- Customized service offering
- Dynamic research support…not static annual updates
- Proactive advice, guidance, and recommendations
- Formal periodic review of service and support