

With 194 pages and 163 exhibits, this report includes the following chapters:

- Strategic Focus and Innovation
- New Product Development
- Mutual Fund Fees and Share Class Pricing
- Traditional Mutual Funds: Single-Strategy Investment Solution
- Alternative Investments and ETFs
- Portfolio Solutions: Target-Date/Lifecycle and Risk-Based/Lifestyle Funds
- Retirement Products: Retirement Income Solutions and Variable Annuities
- Socially Responsible Investments
- The College Savings Product Market
- Product Groups
- Product Implementation

Table of contents, user examples and sample exhibits are included in this attachment

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CERULLI QUANTITATIVE UPDATE

RETAIL PRODUCTS AND STRATEGIES 2009

New in 2009: Quantitative Updates are now subscription-based and include online access to a library of previous year iterations, and other related thematic reports. For more information, see page 3.

This annual report examines product strategy and innovation in the U.S. retail asset management marketplace. It provides insight into trends and strategies, such as pricing, product governance, and development and implementation, of mutual funds, retirement products, embedded-advice products, ETFs, alternative investments, annuities, and 529 plans. The report also examines the groups that support these products including headcounts and organizational structure. Two proprietary surveys of asset managers were conducted, one focused on product development organizations and the other on lifecycle and lifestyle funds.

This report allows asset managers and distributors to:

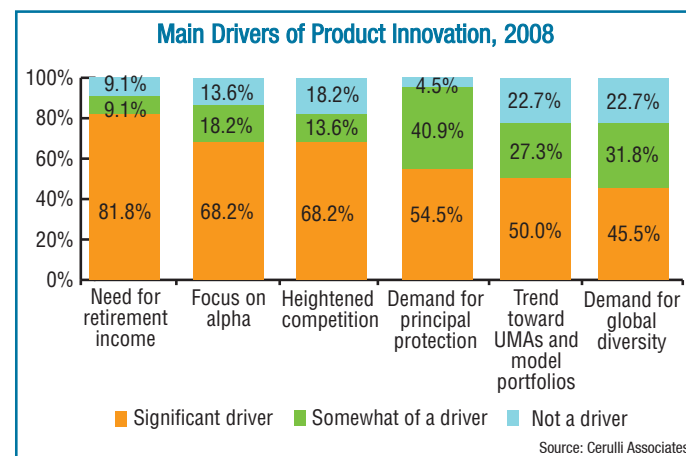
- Analyze the retail product landscape across multiple products
- Make decisions around key market segments
- Formulate competitive strategies for retirement income solutions and embedded-advice funds
- Organize product development efforts
- Gain intelligence on challenges and trends in developing new products for the retail third-party marketplace
- Compare internal product organizational structure to peers
- Validate initiatives

Exclusive Data:

- New product development plans amid a turbulent economic environment
- Strategies around product, portfolio construction, investment vehicles, and market segments
- Size of traditional and alternative investment products
- Embedded product development trends
- Trends in mutual fund fees and share class pricing
- Product group headcount by function and organizational structure of product group
- 529 plans, ETFs, socially responsible assets, retirement income, and annuity trends

Key Findings:

- Most asset managers (82%) believe that the need for retirement income is a significant driver of product innovation.
- The top three products that advisors are requesting and that product developers are considering are retirement income, alternative strategies, and global asset allocation.
- In 2009, 71% of asset managers believe it is highly likely that the next generation of target-date/lifecycle and risk-based/lifestyle funds will guarantee part of the return or yield, versus only 6% in 2008.



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RETAIL PRODUCTS AND STRATEGIES 2009

USER EXAMPLES:

The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: A traditional long-only fund manager has lost significant assets and is struggling to increase net flows. The manager is seeking research to evaluate opportunities across multiple markets (e.g., mutual funds, ETFs, alternatives, target-dates). The report, *Cerulli Quantitative Update: Retail Products and Strategies 2009* provides insight into the following questions:

- Which products provide the largest opportunity to raise assets? (Ex. 1.10)
- How are asset managers manufacturing their products and in what markets are they focusing these products? (Ex. 1.13, 1.14)
- Who are the top players in each market? (Ex. 4.13-4.17, 5.05, 8.09, 10.15)

Scenario 2: An asset manager offering target-date/lifecycle and risk-based/lifestyle funds is evaluating its existing allocations and the marketplace for these products, while also contemplating a next generation product. The report, *Cerulli Quantitative Update: Retail Products and Strategies 2009* provides insight into the following questions:

- Which distribution channels and target markets are most attractive to asset managers offering embedded-advice solutions (retail versus institutional)? (Ex. 6.03 - 6.04)
- How are investment consultants impacting the development of embedded-advice solutions? (Ex. 6.05)
- How do asset managers assess the future attractiveness of risk-based/lifestyle products versus target-date/lifecycle products? (Ex. 6.06)
- How are asset managers addressing their recent disappointing performance (Ex. 6.10)
- What will the -next generation of target-date/lifecycle and risk-based/lifestyle funds look like? (Ex. 2.14)
- Which investments do asset managers use and plan to use in the portfolio construction of target-date/lifecycle and risk-based/lifestyle funds? (E. 6.12)

Scenario 3: An asset manager is reviewing its new product initiatives scheduled for the next 6 to 12 months and is looking to validate its strategic plan with the industry as a whole, as well as identify any challenges they may encounter as they implement its strategy. The report, *Cerulli Quantitative Update: Retail Products and Strategies 2009* provides answers to the following questions:

- What products are asset managers considering for development over the next 12 months? (Ex. 2.03-2.07)
- Which products are in demand by advisors? (Ex. 2.08)
- What are the greatest challenges asset managers face in launching new products? (Ex. 11.01)
- How long does it take on average to launch new products? (Ex. 11.02)
- What are the most time consuming activities in the product implementation process? (Ex. 11.03)

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RETAIL PRODUCTS AND STRATEGIES 2009

NEW: Quantitative Updates are now subscription-based and include online access to a library of previous year iterations of this study and other related thematic reports.

A subscription to *Cerulli Quantitative Update: Retail Products and Strategies 2009* remains active through 6/30/2010 and includes online access to the five related reports below at no cost. See the green Purchase tab on www.cerulli.com for more information on these reports.

- Cerulli Quantitative Update: Product Strategy 2007
- Asset Management: Next-Generation Strategic Marketing Organizations
- Mutual Fund Revenue Sharing: Current Practices and Projected Implications
- Asset Management: Conquering Compliance Challenges
- Cerulli Quantitative Update: Product Strategy 2004

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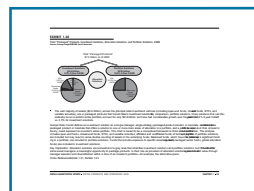
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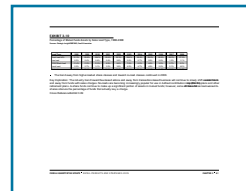
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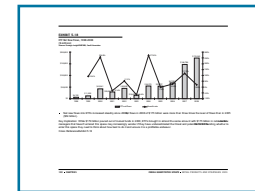
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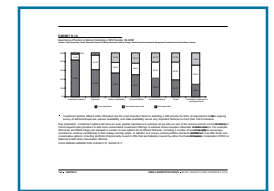
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INTRODUCTION & METHODOLOGY

Cerulli Quantitative Update: Retail Products and Strategies 2009 is the second report in an annual series, which is the result of ongoing research and analysis of asset managers that manufacture and distribute U.S. retail products through third-party intermediaries, by Cerulli Associates (CA). The report focuses on three key areas: strategy and innovation of asset managers around their product line, new product development plans, and product organizations and implementation of these products.

Cerulli Quantitative Update: Retail Products and Strategies 2009 leverages CA's ongoing qualitative analysis of the asset management industry, and utilizes several proprietary surveys of asset management firms. The majority of research exhibits were compiled from the proprietary surveys titled *Retail Products and Strategies Survey* completed in November 2008, and the *Target-Date/Lifecycle and Risk-Based/Lifestyle Funds Survey* completed in January 2009. Other results were compiled using the proprietary surveys titled *Portfolio Construction & Product Development*, completed in February 2008 and *Alternative Investments in the Retail Market*, completed in August 2008.

The report is designed as a business planning tool, and additional support interpreting this data is also available. All exhibits include explanations that highlight key developments and implications, each of which state the important tactical ramifications for asset managers. In addition, most exhibits contain cross references to other related charts in this publication.

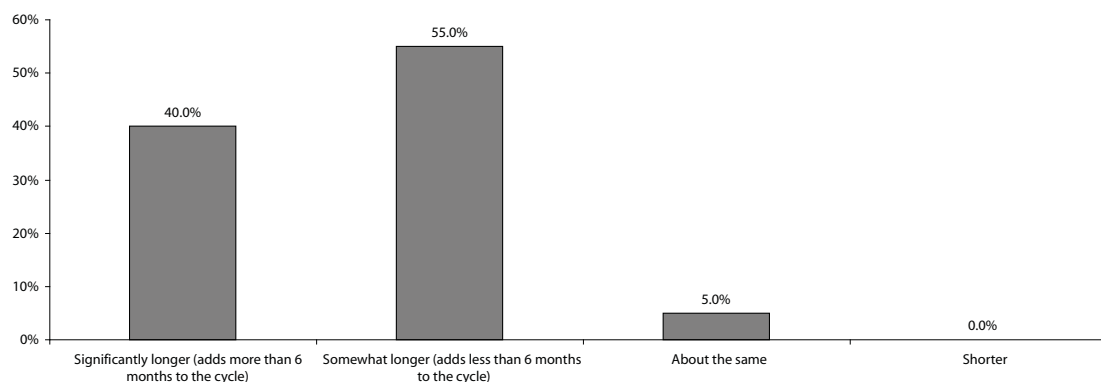
CA analysts' opinions and perspectives are shaped by a methodology based on three components:

- **Industry understanding:** All CA analysts come to the firm with a background shaped by relevant experience at leading financial services firms, which contributes to the internal pool of industry knowledge fed by more than 10 years of proprietary research and consulting.
- **Quantitative analysis:** CA maintains an online, password-protected survey engine as part of a voluntary, information-sharing relationship whereby participants complete confidential surveys in exchange for an aggregate summary of key findings. All information is presented in aggregate form, and proprietary survey information is not directly attributed to participants.
- **Qualitative research:** CA analysts conduct background research interviews with industry executives in a confidential format allowing for open dialogue about the current state and future outlook for the industry. This provides a means for synthesizing the other components of our methodology into research products that are independent, insightful, and grounded in the industry's current climate.

In addition to survey data, CA analysts compiled information available through third parties, such as Strategic Insight, ICI, Morningstar Direct, NAVA, College Savings Plan Network, SavingforCollege.com, HedgeFund.net, Barclay Trading Group, Arete Consulting, and Social Investment Forum.

ucts with more than \$10 million, as compared to only 19% and 13% of asset managers that seed domestic equity and international/global funds, respectively at this same dollar level.

Exhibit 5.08: Asset Managers Indicate the Length of the Development and Implementation Cycle of Alternative Products (Excluding ETFs) Compared to Traditional Products, 2008



Source: Cerulli Associates

Section II: Product Landscape

2008 was a difficult year for asset managers; the stock market fell 37% (as measured by the S&P 500 Index), leaving firms to make some tough decisions as their assets plunged. Many asset managers endured layoffs and are now in the midst of evaluating their business strategies. Asset managers will need to be prudent in their decision-making, product line evaluation, determining primary versus ancillary businesses, and establishing programs to support advisors and their investors. While some asset managers are expanding their product lines to include less mainstream products, such as ETFs and alternative asset classes, most remain loyal to the long-only mutual fund, which continues to be a staple for U.S. investors.

The first ETF was launched in the U.S. in 1993 and remained on the periphery for several years— attracting assets from a small group of retail and institutional investors while other products, notably mutual funds, gathered assets at a record pace. Following 2007's impressive \$609 billion, ETF assets ended 2008 with \$532 billion, falling 13%—notable given the long-term mutual fund's 35% decline during the same period. ETF assets have grown worldwide as both institutional and retail channels have adopted these vehicles. The ETF blends elements of both passively managed open-end mutual funds

SAMPLE SECTION

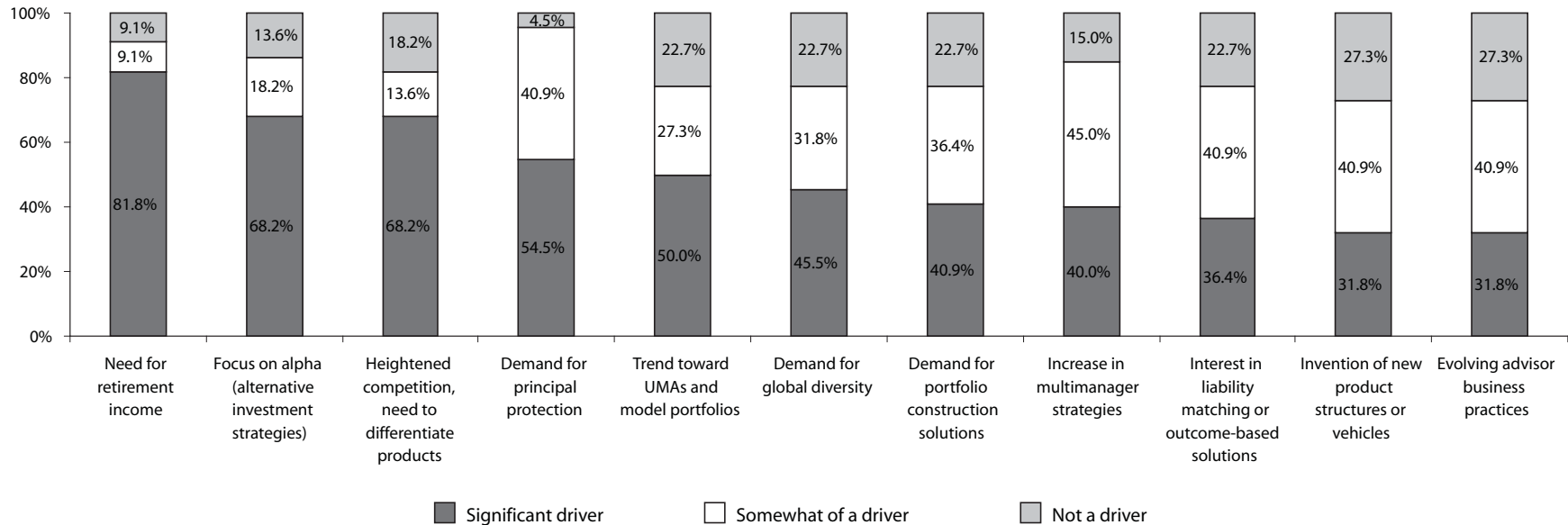
from

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RETAIL PRODUCTS AND STRATEGIES 2009**

EXHIBIT 1.04

Main Drivers of Product Innovation, 2008

Source: Cerulli Associates



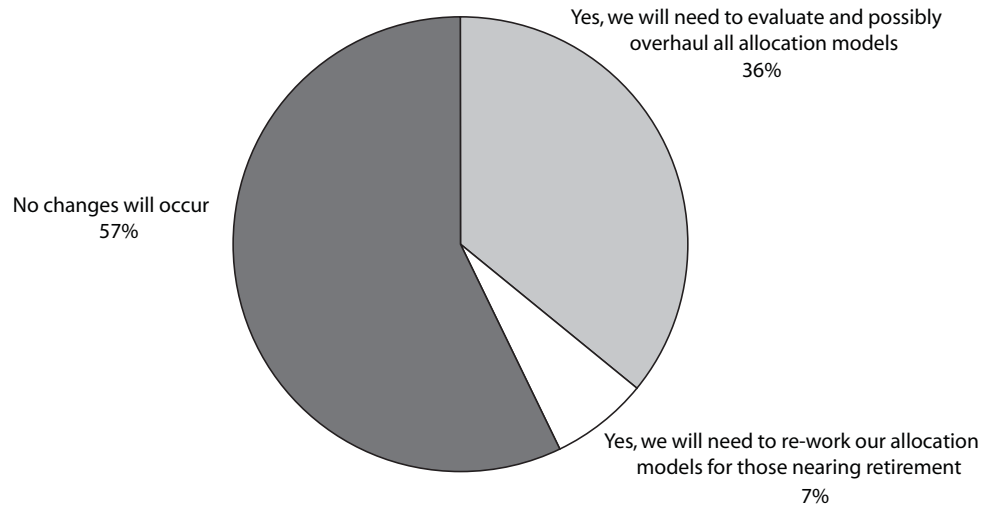
- **The need for retirement income, alternative investment strategies, heightened competition, and the demand for principal protection are the most significant drivers for product development efforts**, as reported by retail asset management firms surveyed late in 2008.
- **More than one-quarter of asset managers state that the invention of new product structures or vehicles and evolving advisor business practices to have no bearing on product development efforts.**

Key Implication: Most executives expect product development to be fueled by investor demands for retirement income, alternative investments, and principal protected products that typically gain traction in bear markets. In speaking with many industry executives, Cerulli discerned that retirement income is at the forefront for most product developers, although one product development professional noted: retirement income is the biggest trend but it's not moving the markets much.

EXHIBIT 6.10

Anticipated Changes to Target-Date/Lifecycle Funds in Response to Recent Disappointing Performance, 2009

Source: Cerulli Associates



- Most surveyed asset managers (57%) do not intend to alter the asset allocation of their target-date or risk-based funds despite the upheaval in the capital markets over the past year.
- A somewhat larger percentage (36%) of asset managers indicated that there is a need to evaluate and possibly overhaul the allocation of their models.

Key Implication: The majority of target-date funds in the marketplace are first generation. While they may have tinkered some with their portfolio construction to optimize the glidepath or distinguish themselves from the competition, most are rooted in traditional asset allocation approaches. Even before the market correction began, glidepath architects debated the appropriate mix of asset classes. They continue to wrestle with these issues, particularly as many target-date funds aimed at older investors (*i.e.*, 2010 or 2015) have generated negative returns in the double digits.