



# CERULLI QUANTITATIVE UPDATE SUBSCRIPTION

## RETAIL ALTERNATIVE PRODUCTS AND STRATEGIES 2010

Recent Cerulli research reveals most asset managers are considering adding alternative products to their lineup. But before a manager tries to be “everything to everyone,” they should consider all retail alternative products and strategies to determine which are right for them. This new report examines market size, product development trends, and distribution hurdles for retail alternative products, including **alternative mutual funds, ETFs, structured products, collective trust funds (CTFs), and hedge funds.**

### This report helps asset managers:

- Create tools and provide education to help advisor adoption of alternatives
- Develop a distribution strategy that incorporates trends in advisor use
- Assess active ETF hurdles
- Understand the core market of each type of alternative product
- Review obstacles for newcomers in the CTF market
- Build a framework to support marketing and sales of alternatives
- Communicate a clear definition of alternatives

**This report contains 147 exhibits and 183 pages. It includes the following chapters:**

1. Beyond Traditional Long-Only Mutual Funds
2. New Product Development
3. Distribution and Marketing
4. Alternative Mutual Funds
5. Hedge Funds
6. The ETF Market Size and Scope
7. Advisor Demand and Use of ETFs
8. ETF Product Development and Distribution
9. Structured Products (Including ETNs)
10. Collective Trust Funds

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

## INSIDE LOOK:

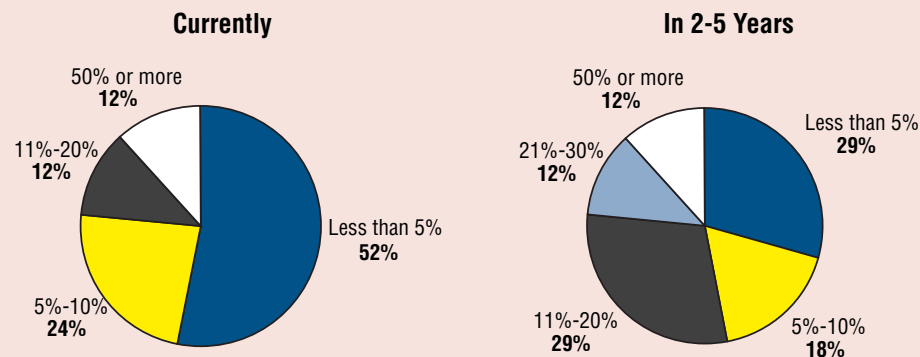
### Key findings:

- Most managers believe the market crisis helped the case for alternatives, emphasizing a need for diversification.
- Absolute return is the most sought-after alternative strategy.
- 1940-Act mutual funds are the ideal vehicle for distribution of alternatives to the retail intermediary marketplace.
- Low cost, transparency, and tax considerations are factors favoring ETF growth, but 44% of advisors still value active management.
- Growth in alternatives depends on: advisor adoption; use of alternatives in managed account programs; and percent allocated to alternatives in investors’ portfolios.

### Exclusive data:

- Top-selling alternative mutual fund and ETF strategies
- Challenges to product development of alternatives
- Asset managers’ recommended investment allocation by risk tolerance, and wealth tier
- Advisor use of alternatives by channel, core market, and practice type
- Assets and flows for each type of alternative strategy or vehicle
- Size and scope of the alternative mutual fund market

**Sample Exhibit: Asset Managers: Percentage of Alternative AUM Currently Versus in 2-5 Years, 2010**



Source: Cerulli Associates



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March 2010



### USER EXAMPLES:

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

**Scenario 1:** A mutual fund manager is considering creating an alternatives product for retail clients. They are not sure what the demand is for alternative investments and what distribution channels they should target. *Cerulli Quantitative Update: Retail Alternative Products and Strategies* answers the following questions:

- What channels use alternative investments the most?
- What are the most popular alternative strategies currently?
- How can an asset manager effectively educate advisors on using alternatives?
- What investor wealth tiers are best suited for alternative investments?

**Scenario 2:** An ETF sponsor with passive ETFs would like to create an active ETF or an alternative strategy ETF. They need background on the market before devoting more time to this project. *Cerulli Quantitative Update: Retail Alternative Products and Strategies* answers the following questions:

- What types of ETFs are other sponsors developing?
- What attributes of ETFs should sponsors promote to advisors?
- What are advisors' opinions on active ETFs?
- What percentage of advisors are planning to increase their use of alternative ETFs?

**Scenario 3:** An asset manager who has alternative products in their lineup is considering hiring an executive to support the marketing and distribution of alternatives. The asset manager wants to see how other firms are handling this role. *Cerulli Quantitative Update: Retail Alternative Products and Strategies* answers the following questions:

- What types of marketing support are managers using to educate advisors on alternatives?
- For large, medium, and small asset managers, how many staff members are dedicated to the distribution and marketing?
- How many asset managers have a head of alternative investments?
- Are asset managers training alternatives staff in-house or hiring from other firms?

### MORE INFORMATION:

To learn how to apply this report to your firm's unique needs, please contact:

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- Cerulli Quantitative Update: Product Strategy 2007
- Hedge Funds: The Market for Absolute Return 2005
- Mutual Fund Alternatives: Distribution Trends and Advisor Utilization 2004

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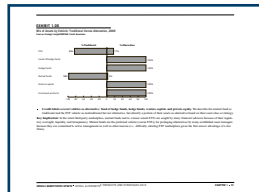
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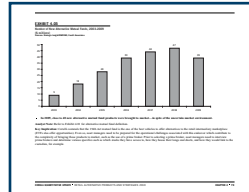
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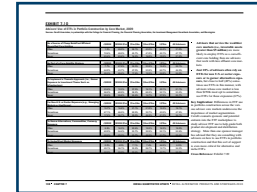
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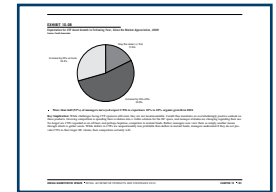
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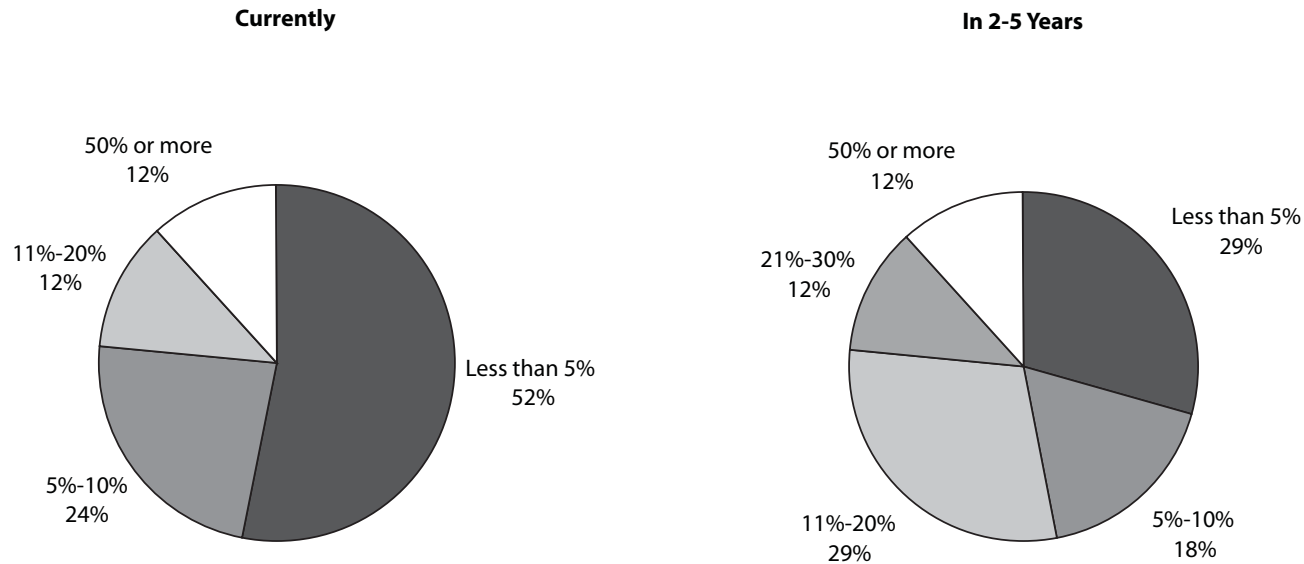
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## EXHIBIT 1.09

### Asset Managers: Percentage of Alternative AUM Currently Versus in 2-5 Years, 2010

Source: Cerulli Associates



- **More than half (52%) of asset managers surveyed estimate alternative assets at less than 5% of total firm assets currently;** while only 29% anticipate that alternatives will account for less than 5% of their assets in 2-5 years.

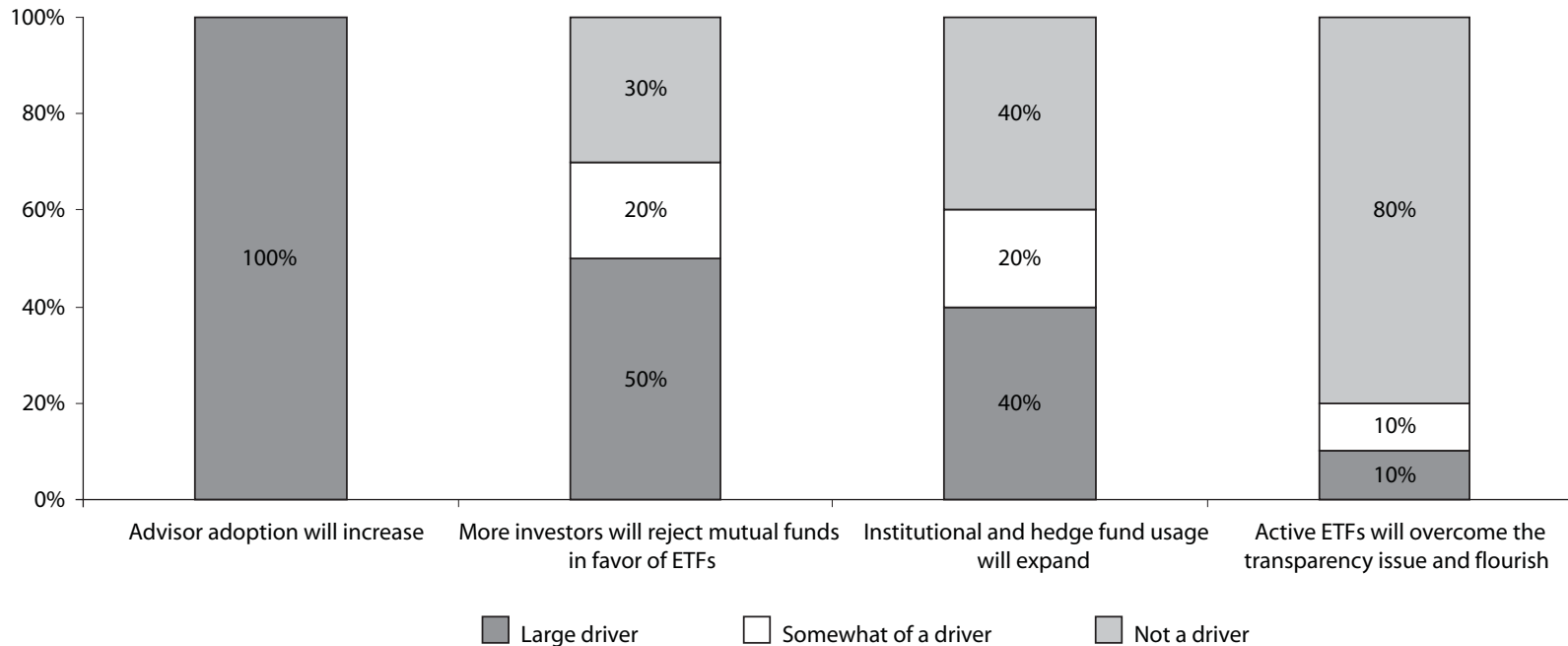
**Key Implication:** Many asset managers anticipate that alternative assets will account for a larger piece of their business in the future. In fact, nearly half of asset managers deem alternatives very important to their strategy and 47% consider them very important to their retail strategy (see Exhibit 1.11). Cerulli asserts that alternatives are a meaningful opportunity for a select group of asset managers armed with the investment expertise and distribution resources to invest in the significant amount of education needed to successfully distribute alternatives in the retail third-party marketplace.

**Cross Reference:** Exhibit 1.11

## EXHIBIT 6.12

### ETF Sponsors Rate ETF Growth Drivers, 2009

Source: Cerulli Associates



- **All surveyed ETF sponsors rated increased advisor adoption as a large driver of future ETF growth.** A majority (50%) also thought that more investors would reject mutual funds in favor of ETFs
- **Sponsors are less enthusiastic about active ETFs, with just 10% of respondents citing these ETFs as a driver in asset growth.**

**Analyst Note:** Survey question asked for rating of growth drivers across the industry in next few years.

**Key Implication:** Increased advisor adoption is a key for the continued growth of ETFs. To that end, many sponsors have poured resources into advisor education in addition to the traditional product marketing. Tools such as SPDR University offered by SSgA help advisors that may not be familiar with indexing or using commodities in a client's portfolio learn the advantages and unique uses that ETFs provide. At the same time established sponsors are not counting on active ETFs to drive growth in the next few years. There are still several hurdles that active products will need to overcome, including transparency and simply establishing a three-year track record.

**Cross Reference:** Exhibit 6.11, Exhibit 6.13