International Research

Complimentary for Survey Participants

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Key Findings

Ben Phillips
Managing Director
US +1 617 437 1098
x124
bphillips@cerulli.com

Shiv Taneja
Associate Director
UK +44 20 8823 0605
staneja@cerulli.com

CA: Multimanager Assets Rise 28% During 2003

CA is pleased to provide the final tranche of results from its third annual Manager of Managers survey, the findings from which form part of our **Cerulli Quantitative Update: Global Multimanager Products,** available at the end of this month. This year's survey compiled information from most of the world's largest managers of managers, including almost all respondents from our 2003 survey as well as a number of new entrants. Respondents to the 2004 survey should have received three documents in return for their cooperation:

- A preliminary results factsheet, transmitted in June;
- A preliminary benchmarking document customized for each respondent, transmitted in June;
- The executive summary of the final report, enclosed within.

CA updates multimanager statistics annually. More frequent qualitative updates of this research can be found in our monthly research notes publication, **The Cerulli Edge—Global Edition,** which provides regular analysis and commentary on topical issues affecting non-U.S. asset management marketplace. CA's semiannual **Cerulli Global Update** also provides regular updates regarding market-sizing projections, as well as explains recent events affecting distribution and product development in the non-U.S. marketplaces for which our firm provides primary coverage.

All figures presented herein are in 2003 U.S. dollars, with any data from previous years restated in current dollars to reflect true growth rates. Therefore data in this document is designed to replace statistics CA has issued in its previous multimanager reports.

CA thanks all respondents for their kind cooperation. The next Manager of Managers Survey will be issued in March 2005.

Definitions

Various industry professionals use multimanager and its related nomenclature in different contexts. CA defines *multimanager asset management products* as those managed by multiple subadvisors. Our product universe currently concentrates on traditional securities portfolios and excludes multimanager alternative investments, such as funds of hedge funds (handled separately in the report).

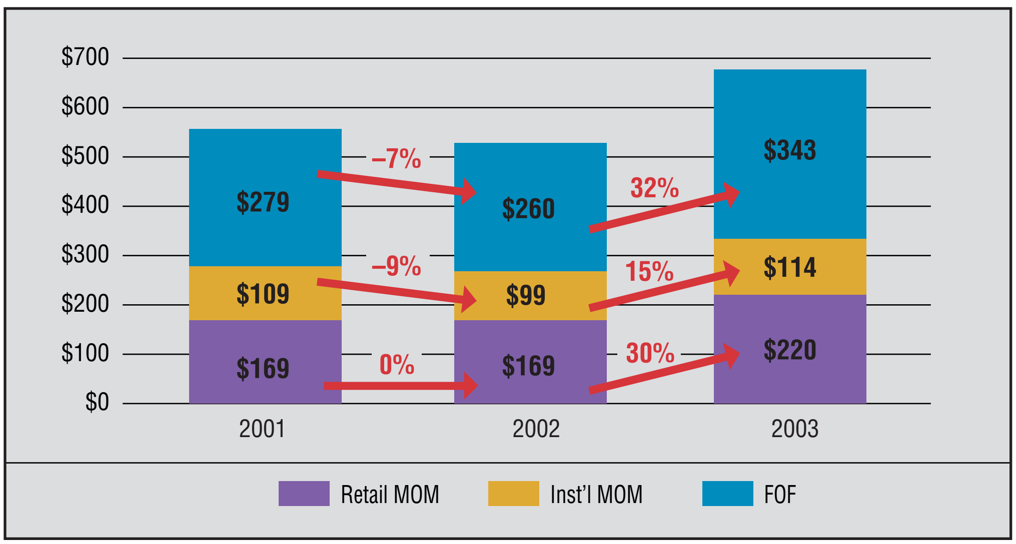
Cerulli Associates, Inc.
575 Boylston Street
Boston, MA 02116
United States
US +1 617 437 0084
www.cerulli.com

Manager-of-managers multimanager products are collective investment funds or institutional separate accounts with assets managed as segregated mandates by multiple underlying managers. They differ from *funds of funds,* the other component in our multimanager universe. *Funds of funds* are collective investment schemes investing in other public-offer funds. Subadvisors to manager-of-managers products receive their mandates in the form of separate accounts.

Key Findings

Multimanager asset management products worldwide held nearly US$680 billion at year-end 2003, up 28% from year-end 2002. Multimanager products include assets in *funds of funds*—collective investment schemes that in turn invest in shares of other publicly offered collective investment schemes—and both retail and institutional *manager-of-managers products,* which are funds or institutional mandates where assets are divided among multiple subadvisors. **Funds of funds accounted for US$343 billion of the total, while retail manager-of-managers funds held US$220 billion and institutional manager-of-managers products comprised US$114 billion.**

Exhibit 1: Global Multimanager Assets Under Management (US$ billions)



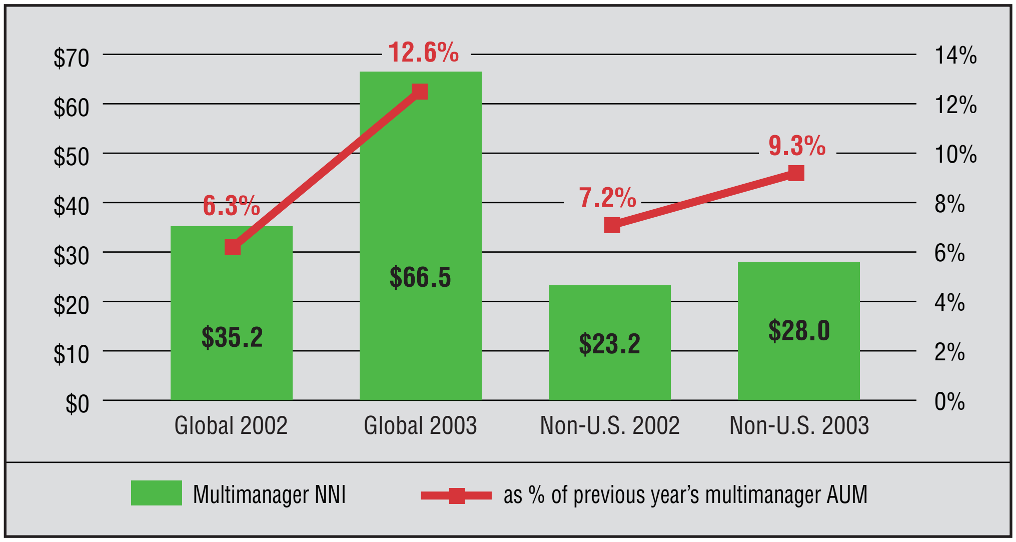
Source: Cerulli Associates

Multimanager product assets maintain a four-year compound annual growth rate of 14%, compared to a 3% CAGR for all mutual funds during the same time frame, and 1% for all professionally managed assets. **Multimanager products continue to represent one of the fastest growing subsets of the fund management industry.**

CA expects multimanager assets to maintain their 14% CAGR through 2008. Far from being a fad, multimanagement products continue to benefit from long-term growth catalysts present in the industry, including increased outsourcing from key fund distributors and a growing demand for advice. Growth rates will remain relatively similar between FOFs and retail manager-of-managers products, hovering around 14% compounded annually, with FOFs continuing to grow slightly faster. Institutional MOM portfolio assets should grow at a 8.5% CAGR through 2008.

Multimanager products recorded more than US$66 billion of net new business during 2003, a record amount and nearly double similar metrics posted in 2002. Most of the growth, however, remained concentrated in the United States, where lifecycle funds exploded in size, and the United Kingdom, where multimanager products in any form attracted attention during 2003. Growth among Continental European funds of funds, a traditional engine of growth, leveled off somewhat, as investors throughout the region continued to shy away from equity-objective funds. Expansion in Australia also remained cool.

Exhibit 2: Global Multimanager Net New Inflow (US$ billions)



Source: Cerulli Associates

Interest in traditional long-only multimanagement product at least matched, if not exceeded, that in funds of hedge funds, despite the hype. Even CA's most aggressive estimates for net new business in funds of hedge funds (FOHFs) worldwide during 2003 only amount to about US$65 billion, and the actual amount may be less, although it remains difficult to say anything decisive about opaque hedge funds. A number of sources place FOHF asset levels at around US$280 billion as of year-end 2003.

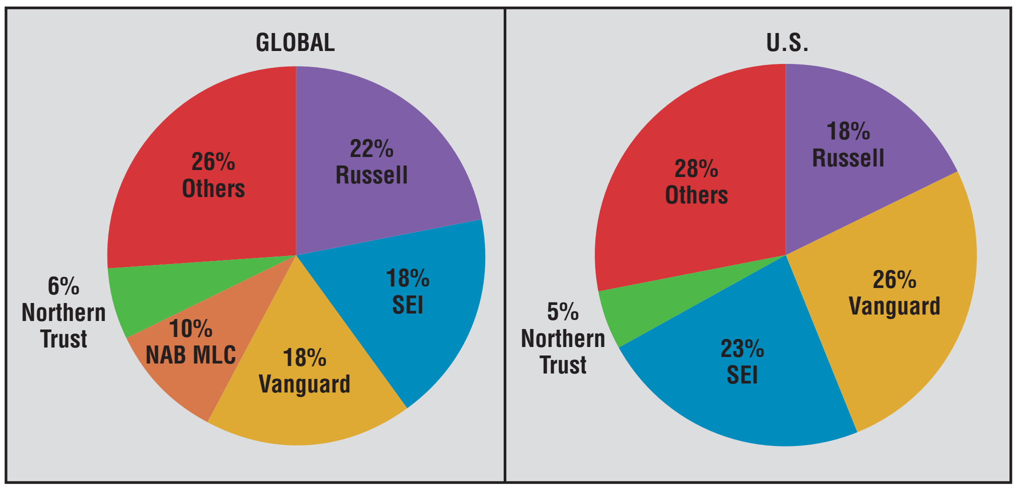
Growth rates for funds of funds and retail manager-of-managers products are beginning to converge as expected. FOF assets grew 32% year-over-year during 2003, compared to a 30% rise in retail manager-of-managers assets during the same time period. Funds of funds realized more than US$43 billion of net new business in 2003, a number that initally appears to dwarf the US$9 billion that retail MOM products realized. But net new business accounted for five-sixths of the growth in retail manager-of-managers funds, compared to representing only about half the delta in fund-of-funds asset levels. **CA expects retail manager-of-managers funds to receive a growing share of new retail multimanager business**, as the format permits fund sponsors to more quickly compress the costs they pay third-party managers for component product. FOFs will remain attractive due to their simple structure and, more importantly, the tax breaks they hold.

Worldwide, retail multimanagement products—funds of funds and retail manager-of-managers vehicles—**accounted for 15% of net new inflows into mutual funds** in the domiciles for which CA tracks multimanager product growth. Retail multimanager products now account for roughly 7% of mutual fund assets under management in these countries.

The proportion of assets in unfettered FOFs—*i.e.,* those investing in a substantial number of third-party subfunds—**continues to grow.** Unfettered funds' marketshare of all fund-of-funds assets remains around 15%, but this number includes cross-border FOFs, for which data on holdings is more difficult to track, and the United States, where regulations favor fettered products. Removing these to focus on locally domiciled, non-U.S. funds of funds shows that **unfettered funds now represent 30% of assets, up from 24% in 1999.**

Russell Investment Group remains the world's largest manager of managers, although Vanguard Group can now lay claim to the top post within the United States, thanks to dramatic growth in its retail mutual funds managed by multiple subadvisors. **But the collective marketshare of the world's five largest managers of managers**—Russell, SEI Investments, Vanguard, National Australia Bank's MLC, and Northern Trust—**continues to drop** as a number of new entrants proliferate, particularly in the United Kingdom. **Wellington Management and Barrow, Hanley, Mewhinney and Strauss are two of the largest subadvisors to manager-of-managers programs, largely thanks to mandates they hold from Vanguard.**

Exhibit 3: Manager-of-Managers AUM Marketshare by Vendor, 2003



Source: Cerulli Associates

Growth in the U.S. multimanager marketplace, traditionally one of the slower-growing segments of the multimanager industry, **was the most dramatic measured in recent history,** with U.S. multimanager products growing 44% between December 2002 and December 2003, compared to the 17% growth recorded among products outside the United States. CA attributes the powerful growth to interest in Vanguard products following the mutual fund trading scandals in America, as well as significant attention paid to lifecycle funds in 401(k) plans. It remains too early to tell, however, if this powerful growth is merely a short-term spike or something more systemic.

Japan and Spain actually posted the fastest and second-fastest local-market growth rates for 2003, although both recorded their growth from small asset bases. In Japan, new defined contribution schemes build demand for lifecycle products, and in Spain, new tax laws and banks' rediscovery of fund distribution practices have led to large-scale expansion. The broadest expansion, however, remains centered in America and Britain.

Exhibit 4: Global Multimanager AUM by Country and Type, 2003 (US$ billions)

	2001	2002	2003	CAGR 01–03	YOY 02–03
U.S.	$233	$227	$326	18%	44%
Canada	$26	$25	$31	9%	27%
Japan	$4	$6	$11	69%	73%
S. Africa	$22	$20	$14	-21%	-32%
Australia	$45	$45	$50	5%	10%
U.K.	$26	$24	$36	18%	53%
France	$62	$62	$70	6%	14%
Germany	$34	$31	$33	-1%	5%
Italy	$12	$11	$13	5%	14%
Spain	$7	$9	$14	35%	57%
Other Europe	$44	$37	$42	-2%	15%
Dublin & Luxembourg	$39	$27	$38	-2%	39%
Other Non-Europe	$3	$5	$2		
TOTAL	**$556**	**$528**	**$678**	**10%**	**28%**
of which non-U.S.	$324	$301	$353	4%	17%

Source: Cerulli Associates, industry associations, Europerformance, Investor Economics, Nomura Research Institute, Nomura Institute of Capital Markets Research, Plan for Life

Multimanager products finally are starting to gain traction in Asia outside Japan, with marketplaces in the region now accounting for nearly US$2 billion in fund management assets. There has been strong growth in several newly introduced funds of funds and manager-of-managers products. CA notes, however, that Asian investors have different attitudes about advice than their counterparts elsewhere in the world, and consequently these products may encounter short-term difficulties in achieving the same rapid growth rates measured elsewhere in the world.

About Cerulli Associates

Headquartered in Boston, Cerulli Associates provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

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