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Outsourced Fund Management Set to Rebound, FRC Reports

New study shows demand for external managers will grow in 2010 as new financial products emerge

Boston, MA – November 30, 2009 – [Financial Research Corporation](http://www.frcnet.com) (FRC) released a new study titled *Building a Better Sub-Advisory Business: Hiring, Retaining, & Firing in a Changing Market*. Building on FRC's landmark study published in 2005, the new report delivers a compelling view of how investment managers have responded to the credit crisis. In this report, FRC reveals product changes and strategic initiatives investment managers plan to take over the next year. The report also highlights new and more effective ways for sponsor firms to manage their external relationships to drive better business results.

"As the market rebounds from the recent crisis, FRC expects to see escalating demand for external management expertise over the next five years," said Lynette DeWitt, study author and FRC's Director of Sub-advisory Research. "Firms surveyed by FRC state that in 2010, external investment managers will be hired to support new product strategies such as global asset allocation, absolute return, micro-cap growth, and alternative funds."

The research report is based on several data sources, including two separate surveys conducted by FRC with major sub-advisor and sponsor firms. The report also incorporates historical and current data from FRC's proprietary database resources—FRC's Sub-Advised IMPACT, and FRC's Mandate Changes database. FRC augmented this data with information gathered during interviews with clients and top industry executives.

Key findings in the study include:

- **Five-Year Growth Projections**—If the market remains stable and does not go through another crisis within the next five years, FRC projects sub-advised mutual fund and variable annuity assets to grow to \$2 trillion by 2014, up from \$1 trillion at the end of 2008.
- **Performance Focus**—Investors can feel confident that fund manufacturers continue to consider product performance to be the primary factor in deciding whether or not to hire, retain, or fire external managers on a fund. However, other factors such as the stability of the sub-advisory firm, the track record of the portfolio manager, and the quality of the risk management have become more important to the evaluation process since the credit crisis.
- **Product Reorganizations to Persist**—All of the fund manufacturers surveyed by FRC anticipate merging or liquidating funds in 2009-2010. While this will reduce the number of existing funds, new domestic and international funds in a variety of asset classes will be rolled out to replace those being merged away, creating a new product landscape in 2010.

More information about this new study is available on FRC's Web site (www.frcnet.com). The study's author, Lynette DeWitt, is available for comment.

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About Financial Research Corporation (FRC)

FRC provides the knowledge to build stronger relationships through product development and management, distribution solutions, and marketing strategies. For more than 20 years, our insightful research and consulting services have been assisting marketing, product development, and strategic planning professionals in the creation of innovative products and services. Based in Boston, FRC is at the forefront of assisting its clients to comprehend and respond to the rapid changes occurring in the manufacturing and distribution of investment products. Our more than

200 clients include the world's leading asset managers and distributors. For more information, visit the FRC Web site at www.frcnet.com.

