

Maintaining an Edge in the IODC Market: *Evaluating the Asset Manager Opportunity*

Defined contribution plans remain the primary retirement savings vehicle for workers, but they have suffered deep market losses in the closing months of 2008. This study examines how steep market declines, legislative and regulatory activity, and other key trends are impacting investment-only defined contribution (IODC) asset managers. Market sizing, updated from our 2007 study, will allow managers to benchmark their current market participation against their peers. FRC also explores the impact on product development, organizational structure, profitability metrics, and other key business metrics.

This study is FRC's fourth study on the IODC market and focuses on strategic business analysis that is necessary in this competitive marketplace during unprecedented markets.

In this study, FRC delivers the following:

- Highlights the state of the retirement markets with data analysis on net flows, and the loss of DC plan assets.
- Identifies factors, such as QDIA and auto-enrollment, which are driving the DC and IO markets.
- Updates market sizing analysis based on IO manager growth trends, IO investment vehicle usage, and the IO market by investment objectives.
- Evaluates organizational changes and business metrics in order to gain an upper-edge in this competitive marketplace.
- Assesses the challenges and opportunities for IO players with key products including target-date, stable value, guaranteed products, R-shares, and collective trusts.
- Provides our prognosis for success, despite market challenges, in the IODC market.

For more information on this report, contact FRC today at 866-532-8009 or e-mail frcinfo@frcnet.com.

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**MAINTAINING AN EDGE
IN THE IODC MARKET**

Evaluating the Asset Manager Opportunity

FRC

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METHODOLOGY

Maintaining an Edge in the IODC Market: Evaluating the Asset Manager Opportunity is FRC's fourth study on the investment-only defined contribution (IODC) market. This study examines how steep market declines, legislative and regulatory activity, and other key trends are impacting investment-only defined contribution (IODC) asset managers. Market sizing, updated from our 2007 study, will allow managers to benchmark their current market participation against their peers. FRC also explores the impact on product development, organizational structure, profitability metrics, and other key business metrics.

FRC surveyed asset managers of various sizes with differing experience levels in the IODC business from February through April 2009 to provide a clearer picture of the 2008 market experience. The 31-question Asset Manager Survey is located in Appendix A of this study.

In total, 15 asset managers responded to the asset manager survey, representing approximately \$500 billion in IODC assets under management and \$13 billion in net flows. To better assess the positioning and strategies of firms participating in the IODC market, FRC divided the survey respondent firms into three tiers based on asset size, when applicable. As indicated in the exhibit below, Tier 1 represents the smaller firms while Tier 3 represents the largest amount of IODC assets.

Fund Group Tiers for IODC Assets

Tier	Range
Tier 1	Less than \$10 billion
Tier 2	\$10 billion to \$20 billion
Tier 3	More than \$20 billion

Source: Financial Research Corporation (FRC)

In addition to the survey, FRC conducted extensive, personal interviews with a number of executives, primarily at asset management firms, in order to capture their views on IODC and to gain a more comprehensive understanding of the how the IODC business fared during the unprecedented market downturn as well as how the IODC business continues to evolve. Interview discussions included state of the retirement markets, factors driving the investment-only and DC markets, organizational changes, business metrics, and business threats and opportunities among other issues.

FRC incorporated primary research gathered from the survey and interviews with industry executives, along with secondary research and our own analysis and opinions to produce this study.

In addition to this latest study, our series of studies on the IODC market includes:

- *IODC Growth Opportunities: Capitalizing on Changes in a Dynamic Market – 2007*
- *Optimizing IODC Distribution: New Tactics for Growing DC Market Share – 2005*
- *IODC Trends: Gathering Assets in the Investment-Only Defined Contribution Market – 2004*

* Note: Some charts within the study may not add to 100% due to rounding.

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STUDY AUTHOR

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Luis is Vice President, Director of Retirement Markets, responsible for leading FRC's research and consulting in both the retail and institutional retirement markets. This role includes the development of primary research, identifying and tracking industry best practices, analyzing and evaluating market developments, market sizing, and other client specific needs. Luis is also responsible for leveraging the extensive retirement research developed by FRC to assist clients in arriving at tactical and strategic business decisions through consulting engagements.

Luis co-authored *IRA Rollover Dynamics 2008: Market Sizing, Benchmarks, & Best Practices* and *Building & Positioning Retirement Income Solutions: Innovation from 2005 to 2007 and Beyond* and authored *IODC Growth Opportunities: Capitalizing on Changes in a Dynamic Market*, which is a dedicated FRC study to the Investment-Only Defined Contribution market. He is also quoted often by the media and frequently invited to speak at industry conferences as well as client meetings to facilitate strategic planning sessions.

Prior to working with FRC, Luis was a strategic consultant with Spring Consulting Group, LLC where he primarily focused on retirement markets. His responsibilities also included broader healthcare and employee benefits markets. Before joining Spring, Luis was a senior analyst with Cerulli Associates, responsible for the firm's retirement research. At Cerulli, he authored multiple studies, including:

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- *Capturing and Retaining Rollovers: Positioning for Success*
- *Retirement Income: Positioning for Success*
- *Quantitative Update: Retirement Markets 2003, 2004 and 2005*

Luis began his career at State Street Bank and spent five years in various divisions of the bank. Luis graduated with a MBA from Boston University's School of Management, and he has a Bachelor of Arts degree in international relations from the College of William and Mary.