SHARPEN YOUR EDGE℠

Mutual Fund Market Sizing, 2009-2013:
An Analysis of Channels, Sales, & Assets

This study serves as a reference source for investment management firms to understand the changing dynamics of the key distribution channels with regard to mutual fund sales. In this study, FRC provides its latest model of the fund distribution landscape, and forward-looking projections for mutual fund sales and assets under management, including analyst commentary explaining the trends and business activities shaping these projections.

FRC also provides a detailed cross-channel analysis for gross sales, redemptions, net sales and assets as well as growth rates for the following channels:

- National Broker/Dealers ("wirehouses")
- Regional Broker/Dealers
- Independent Broker/Dealers
- Banks
- Insurance Companies
- RIAs
- Direct-to-Investor
- Retirement/Institutional

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

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About Financial Research Corporation

Financial Research Corporation (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 manufacture 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 Website at www.frcnet.com.

MUTUAL FUND
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An Analysis Of Channels, Sales, & Assets

FRC

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STUDY OBJECTIVES

This advanced research study, *Mutual Fund Market Sizing, 2009-2013: An Analysis of Channels, Sales, & Assets*, is the follow-up to similarly titled 2007 and 2005 studies. Our clients found the previous studies to be highly valuable and encouraged FRC to develop a follow-up study. Each study focuses on the U.S retail mutual fund industry. In discussing with representative clients the key values they took from earlier studies, a clear consensus was identified: forecasts, projections, and forward-looking analyses.

Intermediary delivery channels, on which this study concentrates, continue to grow in importance to our clients. Intermediaries, which may have represented less than 10% of sales two decades ago, represent nearly 60% of sales today.

FRC developed this study to provide investment management firms with an unbiased, third-party source for assessing the relative attractiveness of different distribution channels for mutual fund sales. Additionally, in conducting the research for this study, FRC determined that the results could serve as a useful tool for distribution firms in evaluating competitive forces within their own channels, as well as other channels.

The study is structured in a way that allows readers to easily access comparative information for the major mutual fund industry distribution channels before drilling down into chapter-level discussions on the following six intermediary distribution channels:

- Wirehouses
- Regional Broker/Dealers
- Independent Broker/Dealers
- Banks
- Insurance Companies
- RIAs

METHODOLOGY

Each chapter dedicated to channel analysis and commentary is based upon several research efforts. The chapters consist of:

- Channel Overview
- Sales & Asset Estimates and Projections
- Firm Rankings
- Advisor Concentration

Channel Overview

As in all our studies, one of FRC's key value-added research strengths is our closeness to the industry and its leaders. We continually study and speak with the influencers of the asset management industry, as well as stay current on key secondary research and news sources. These proprietary and public research sources were utilized in the development of the channel overview section, where we discuss key trends and business issues impacting the future state of the channel. In addition to supplying estimates and projections, this study also discusses the changing marketplace forces that influenced FRC's predictions for the future.

Sales & Asset Estimates and Projections

This study makes historical estimates and future projections for long-term fund assets and sales. To establish these estimates and projections, FRC analyzed our own proprietary data of mutual fund assets and net sales, as well as data from other industry sources, including the Investment Company Institute (ICI). We also took the data a step further to provide the following estimates and projections for each of the channels:

- Gross Sales
- Net Sales
- Assets
- Growth Rates

We employed both a top-down and bottom-up methodology to develop our projections.

Using actual data from the ICI, as well as FRC's own data and forecast protocols, we developed a top-down approach to estimating forward-looking industry-wide macro numbers: gross sales, redemptions, net sales, and assets.

The top-down approach involved examining:

- Historic sales rates
- Household savings rates—investor ability and willingness to save
- Investor risk tolerance with a particular emphasis on behavior following market downturns
- Growth of competing investment vehicles
- Impact of the size of existing mutual fund asset base on sales and redemptions
- Velocity of movement for mutual fund assets—trends in the rate of gross sales and redemptions as a percent of mutual fund assets

Once our top-line projections were established, we began a second set of top-down analyses allocating those sales and asset forecasts across the three broad distribution outlets:

- Intermediary Channels
- Direct-to-Investor
- Retirement & Institutional

We then began a series of bottom-up analyses to distribute our estimates among the six intermediary-assisted sub-channels. These analyses utilized FRC proprietary methodologies, and included many different industry data points, such as:

- Historic and projected growth rates and number of brokers/advisors per channel
- Trends in movement of advisors among firms
- Percentage of those brokers and advisors producing
- Average gross production rates
- Payout ratios
- Average net production rates
- Commission-based/fee-based ratios
- Percentage of total book related to mutual funds

For our projections of market appreciation, we assumed an 8% rate of return for equity and a 5% rate of return for fixed income. These estimates are based on historical rates of return for major indices and forward-looking estimates by economic groups. In creating a base for projections, FRC first estimated asset levels as of March 13, 2009. Typically, FRC made historical estimates of assets as of year-end 2008 or month-end January or February 2009. We applied estimates of market appreciation or depreciation from our historical estimates of assets through March 13. As a result, the significant market depreciation experienced from the beginning of the year through March 13 is factored into our projections. Our market projections do not capture significant market shifts occurring after March 13.

Firm Rankings

FRC utilized firm-specific data of advisor counts provided by Discovery, a database product maintained by The Financial Information Group, Inc. (For more information on Discovery or The Financial Information Group, see discoverydatabase.com.). The Discovery database provides breakdowns of advisors' functional positions, which enabled FRC to create channel estimates of the percentage of advisors in production versus non-production roles. We also examined press releases and news stories concerning advisor counts.

Advisor Concentrations

The advisor counts supplied by Discovery were added to our proprietary databases and fed into our algorithms. These efforts enabled us to not only examine the advisor channel concentrations, but also gauge future advisor counts.

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Maurice leads FRC's mutual fund practice and the development of new product and service offerings across the firm. He brings nearly two decades of experience leading product organizations for investment managers and consulting to financial services firms.

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Kristin is Senior Editor at FRC. In this role, she provides editorial and writing support to FRC subject matter experts, and other members of a project team, to develop knowledge publications such as studies, white papers, and other analytical reports related to trends in the financial services industry. She also serves as editor in chief of the *FRC Monitor*, a monthly research report focused on forward-looking trend assessments.

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