Global Industry Trends in Asset Flows

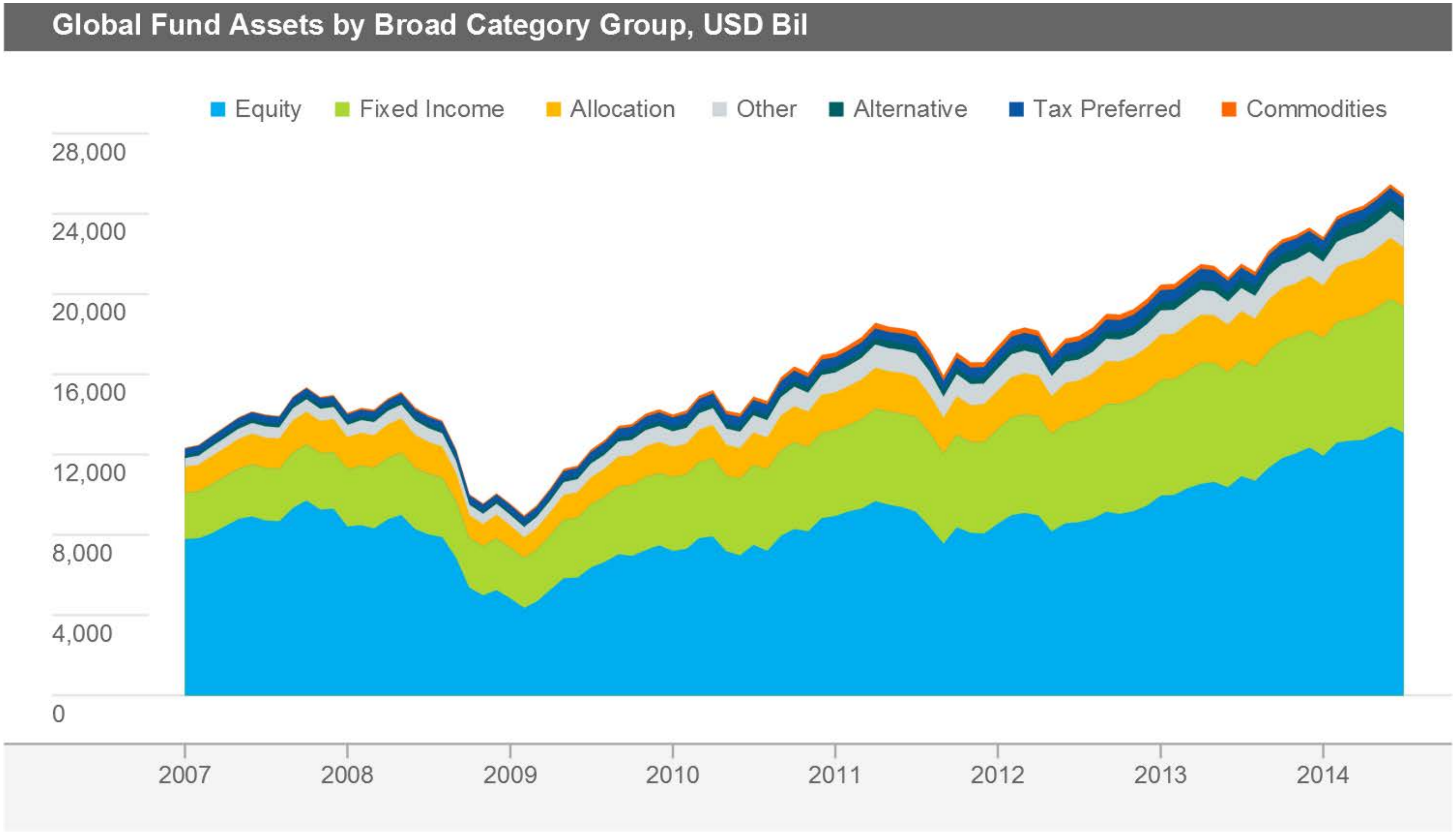
Data as of October 2014

Summary

- Global Fund Flows: A Frame of Reference
  - In a Global Investment Landscape, Not All Investors Agree
- U.S. Fund Flow Themes
  - Inflows Are Strong and Balanced in 2014
  - Emerging Markets: ETF Investors Diverge from Mutual Fund Investors
  - The Trend Toward Passive Investing Continues
  - Flows Shift From High-Credit Risk to Traditional Fixed Income Categories
  - Not Your Fathers Bond Portfolio
  - Vanguard Overtakes PIMCO
  - Not Every Firm Enjoying Growth in Alts

Industry Assets Hit Record Levels in 2014

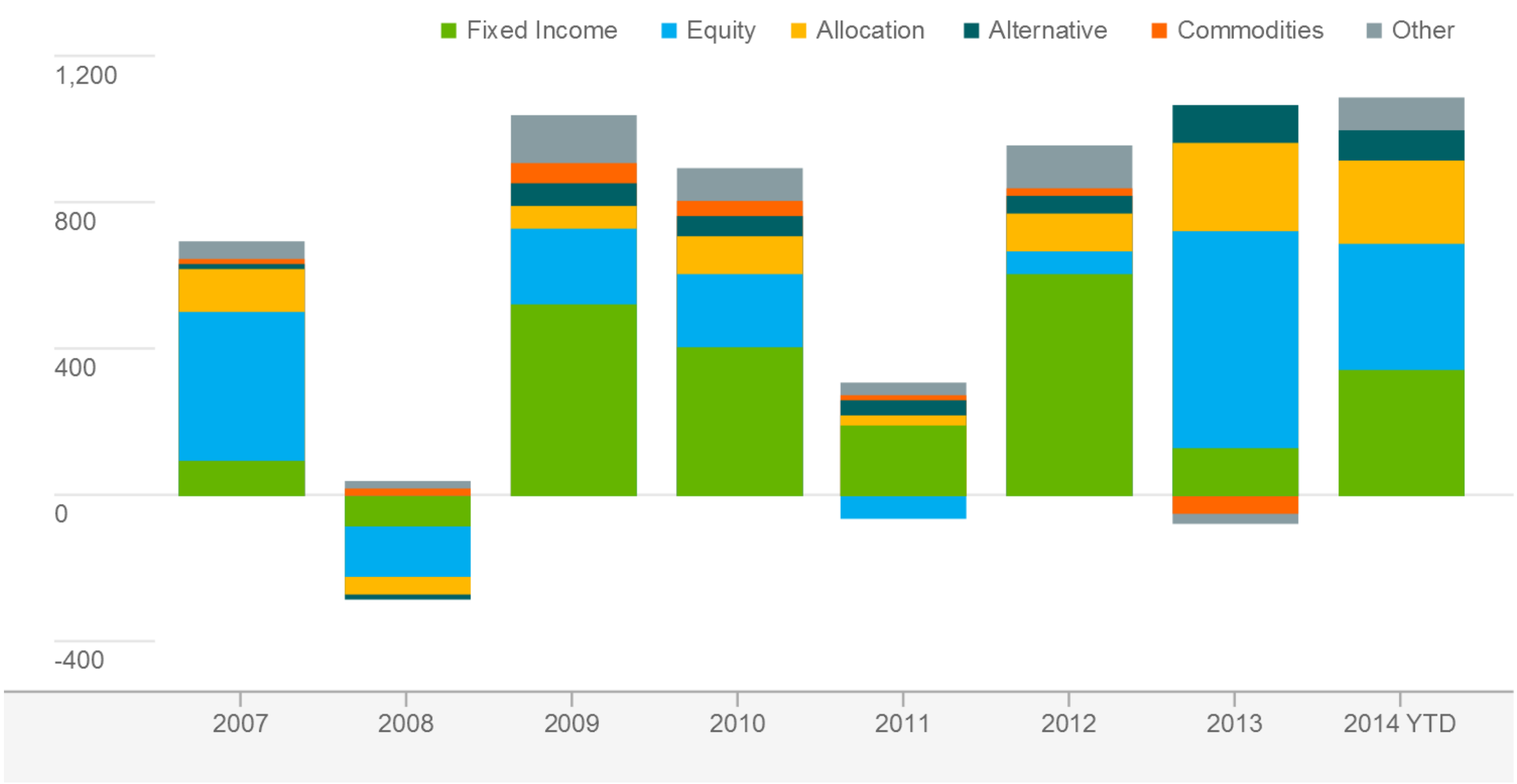
- Strong inflows helped to fuel what has become another record level in assets. As of July 2014, the global industry assets under management were valued at almost 25 trillion U.S. dollars.



Global Asset Management Industry in Good Health

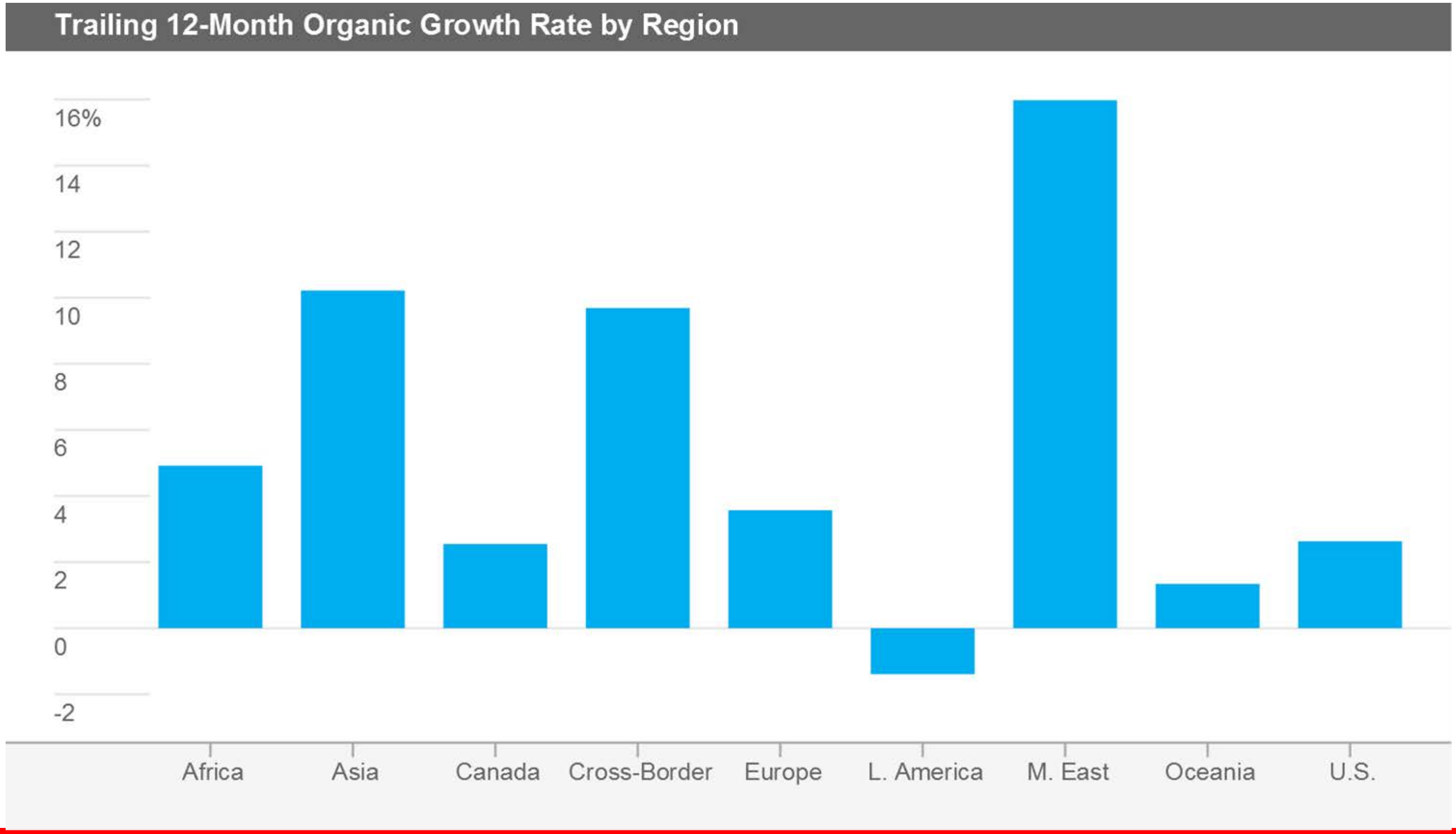
- Strong inflows continue across multiple categories so far in 2014. Unlike previous years, this year can be characterized by a very balanced flows pattern especially between equity and fixed income categories.

Global Estimated Net Flows to Broad Category Group, USD Bil



Developing Markets Show Strong Growth

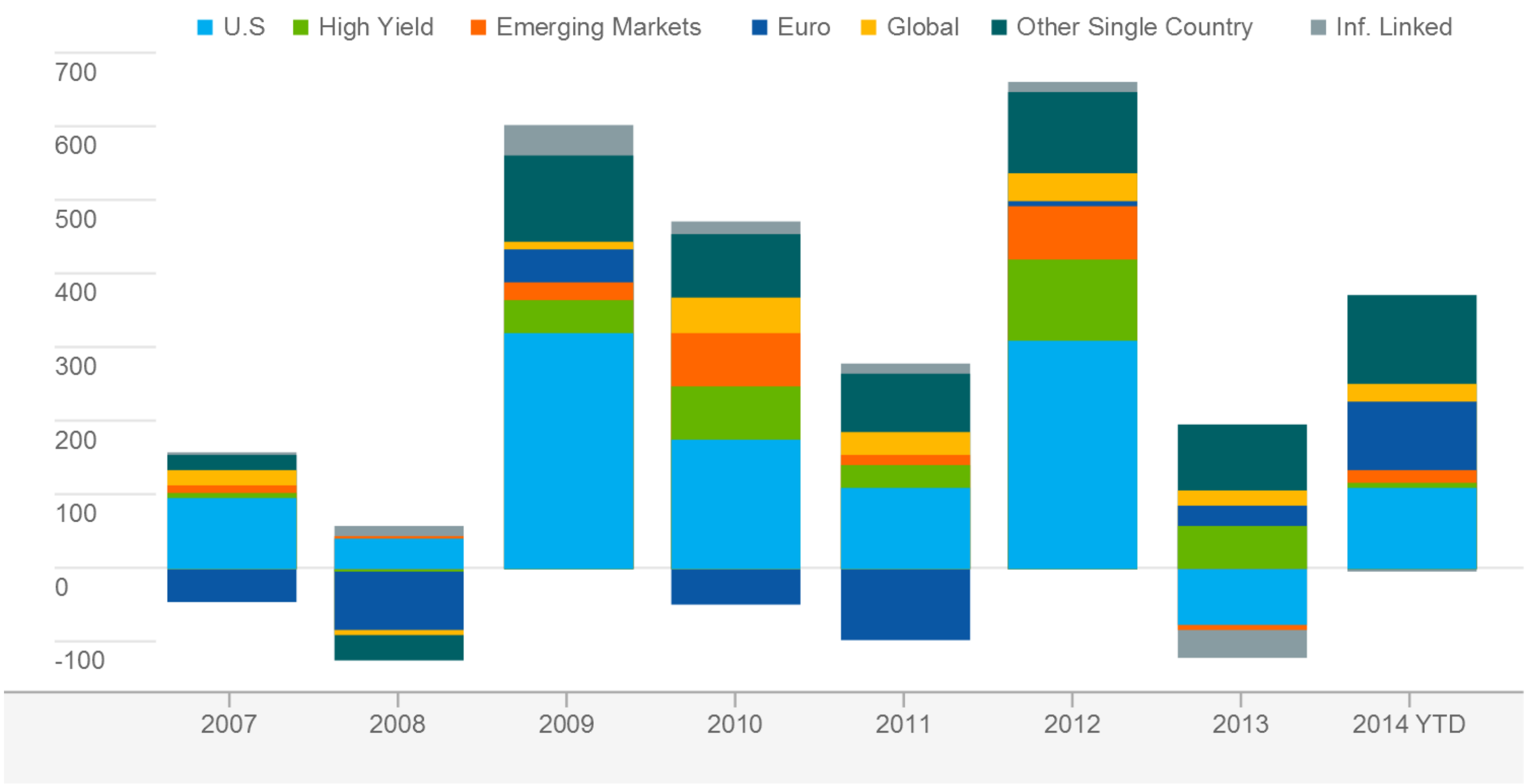
- Most global fund industries showed positive and fairly strong growth over the past 12 month. The growth story has been especially notable in the Middle East where assets increased nearly 16% over the past year.



So Far Positive Inflows Across Almost All Fixed Income Categories

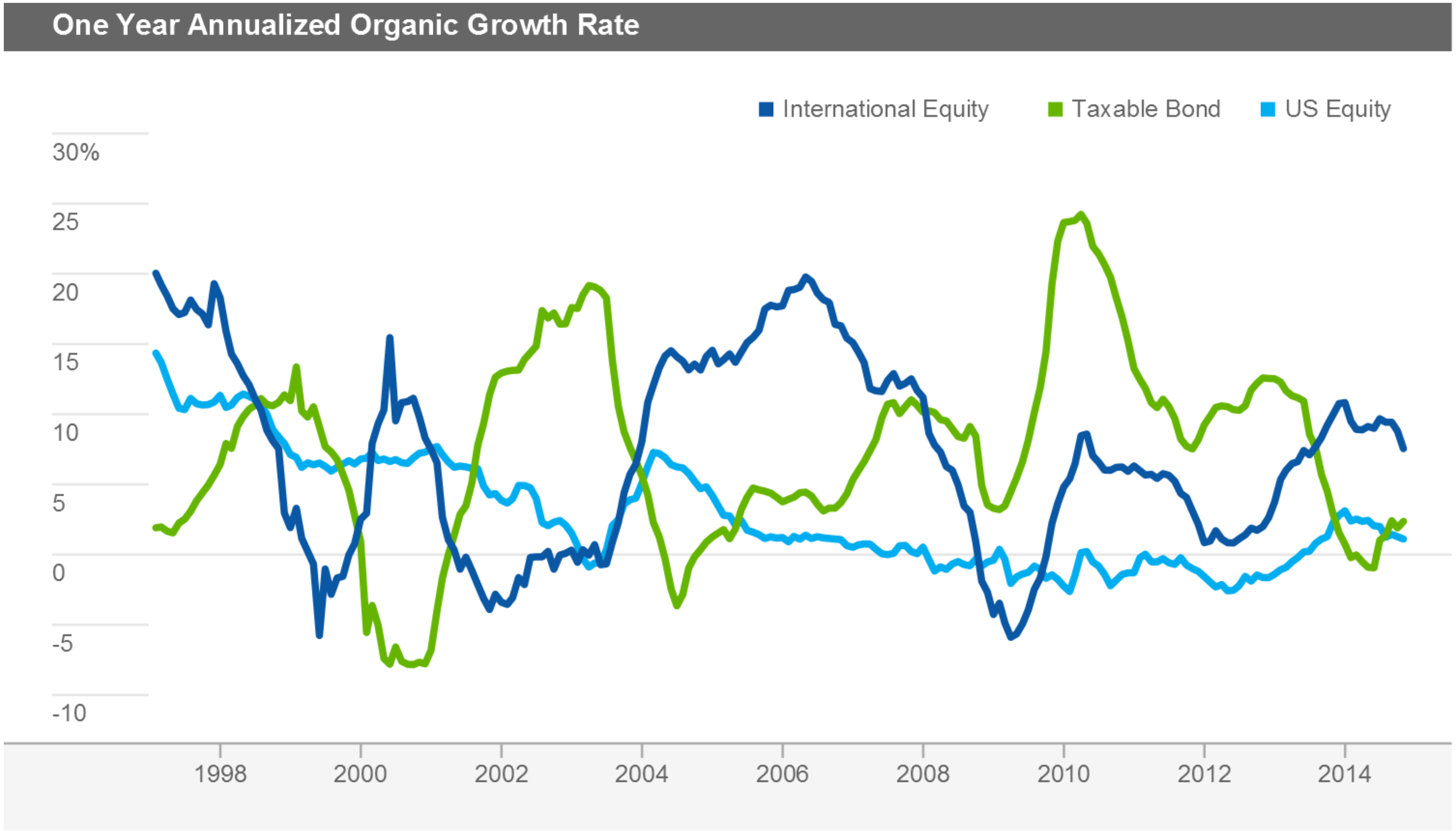
- Most fixed-income categories recorded positive inflows thus far in 2014, with U.S. and Euro funds leading the pack. Noncore funds continue to be popular although not nearly as much as they were last year. Inflation-linked category fails to attract any assets for the second consecutive period.

Global Flows to Various Fixed-Income Categories, USD Bil



Bond and U.S. Equity Growth Rates Converge

- It might not have ultimately proven to have been the great rotation that so many were wishing for, but for now US Equity and Taxable Bonds are growing at par.



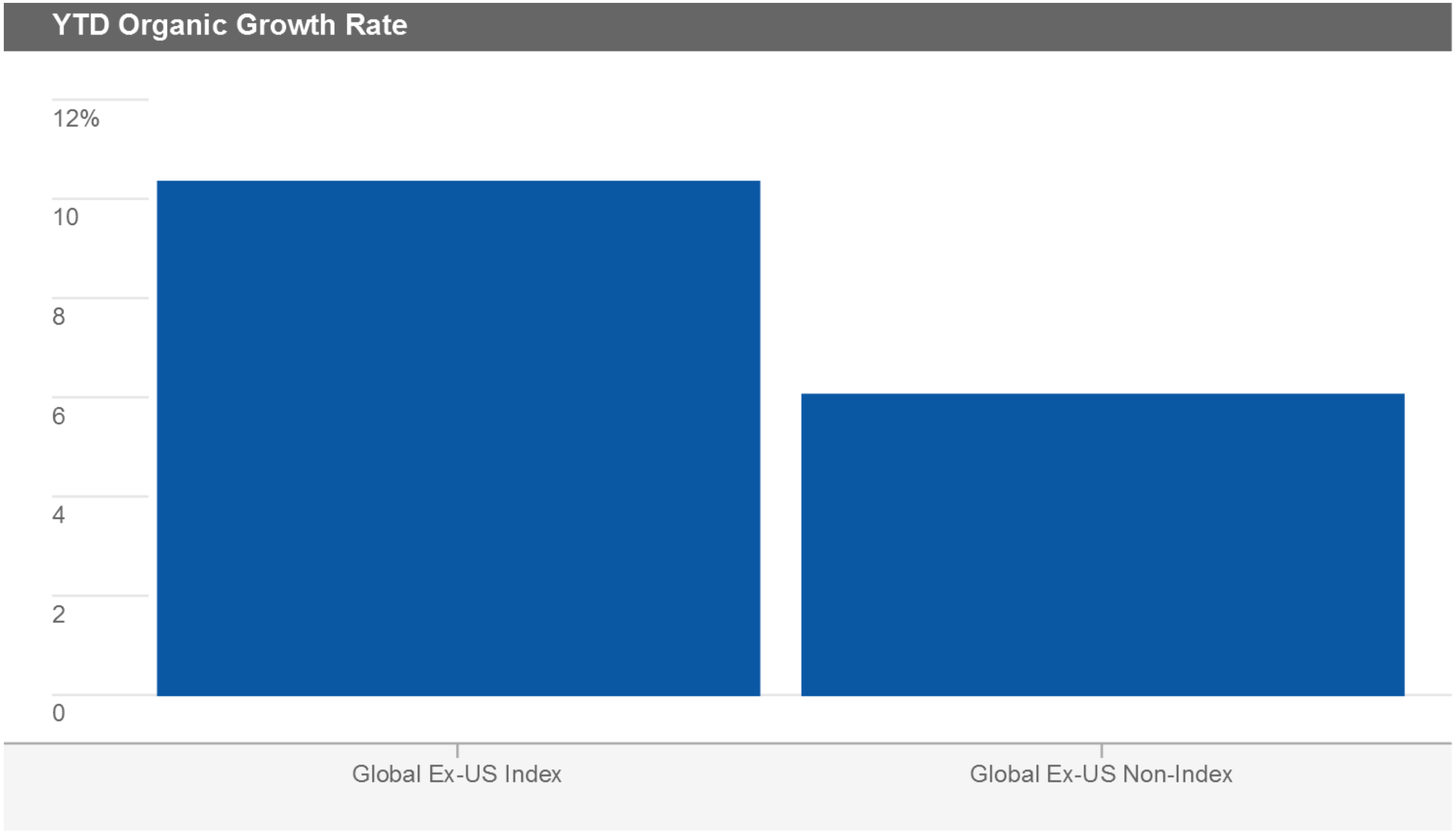
In a Global Investment Landscape, Not All Investors Agree

- U.S. and Asian investors allocated heavily into European large cap equities, while off-loading some of their exposure to emerging markets fixed income. Investors in Europe, on the other hand, did not seem to have the same level of conviction in large European equities, cautiously increasing their exposure by just 5%.

Global Broad Category Group	Global Category	Geographic Region of Domicile	Organic Growth Rate (Trailing 1-Year)
Equity	Europe Equity Large Cap	United States	102%
Equity	Europe Equity Large Cap	Asia	136%
Equity	Europe Equity Large Cap	Latin America	579%
Equity	Europe Equity Large Cap	Europe	5%
Equity	India Equity	United States	70%
Equity	India Equity	Asia	-4%
Equity	India Equity	Europe	-14%
Fixed Income	High Yield Fixed Income	United States	3%
Fixed Income	High Yield Fixed Income	Asia	20%
Fixed Income	High Yield Fixed Income	Cross-Border	15%
Fixed Income	Emerging Markets Fixed Income	United States	-7%
Fixed Income	Emerging Markets Fixed Income	Asia	-31%
Fixed Income	Emerging Markets Fixed Income	Latin America	6%
Fixed Income	Emerging Markets Fixed Income	Europe	5%

Passive Enjoys Faster Growth Even Outside the U.S.

Many believe that the trend toward passive is strictly a U.S. phenomena, but passive is growing faster than active outside of the U.S. as well



Equity and Bond Inflows Show Balance in 2014

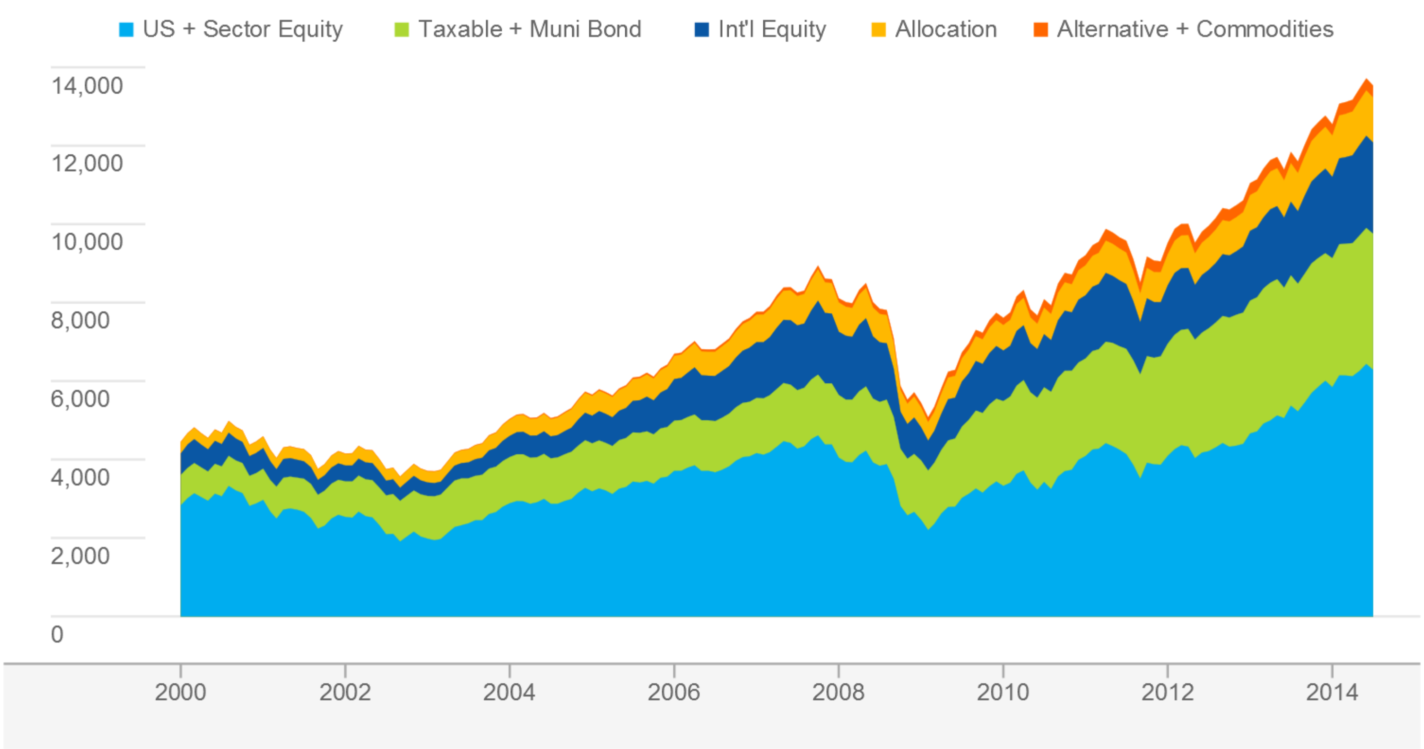
- After equity-dominated 2013, this year is showing a lot more balance between equity and fixed-income net flows. Meanwhile, alternative and commodity funds continue their streak of positive flows for over a decade now.

U.S. Category Group Estimated Net Flows by Year, USD Bil

Price Appreciation & Decent Flows Drive Record Asset Levels in the U.S.

- Assets under management for U.S. domiciled funds and ETFs have reached a new all time high in 2014, topping 13.5 trillion dollars. The new record can be attributed to the strong inflows across all categories and the continued market rally among many asset classes.

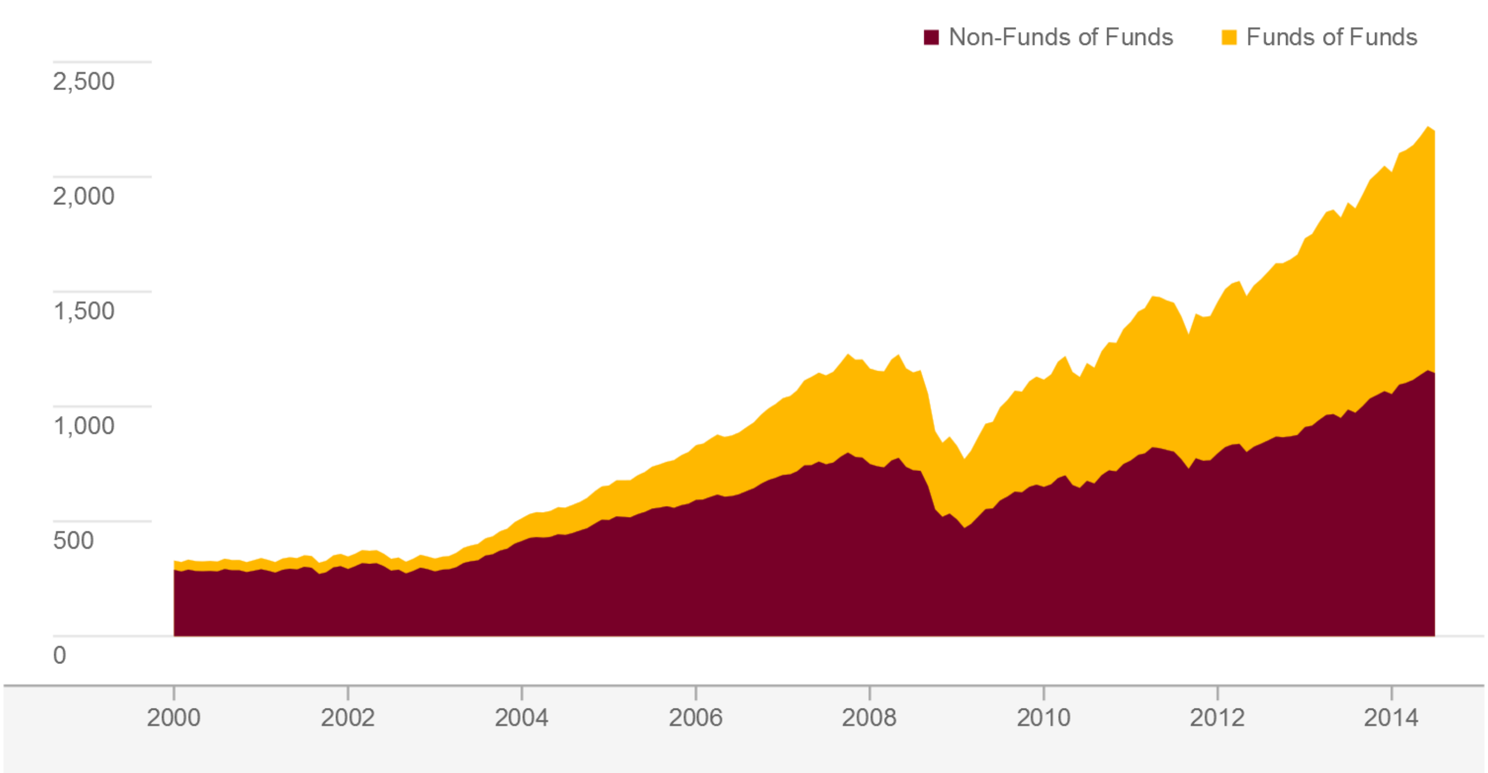
Total Assets in Mutual Funds and ETFs, USD Bil



Fund of Funds Continue to Drive Growth in Allocation Category Group

- After six years of consecutive inflows, allocation fund assets reach another all-time high. While the growth in overall category remains rapid, it is mainly due to the increase in assets in fund of funds.

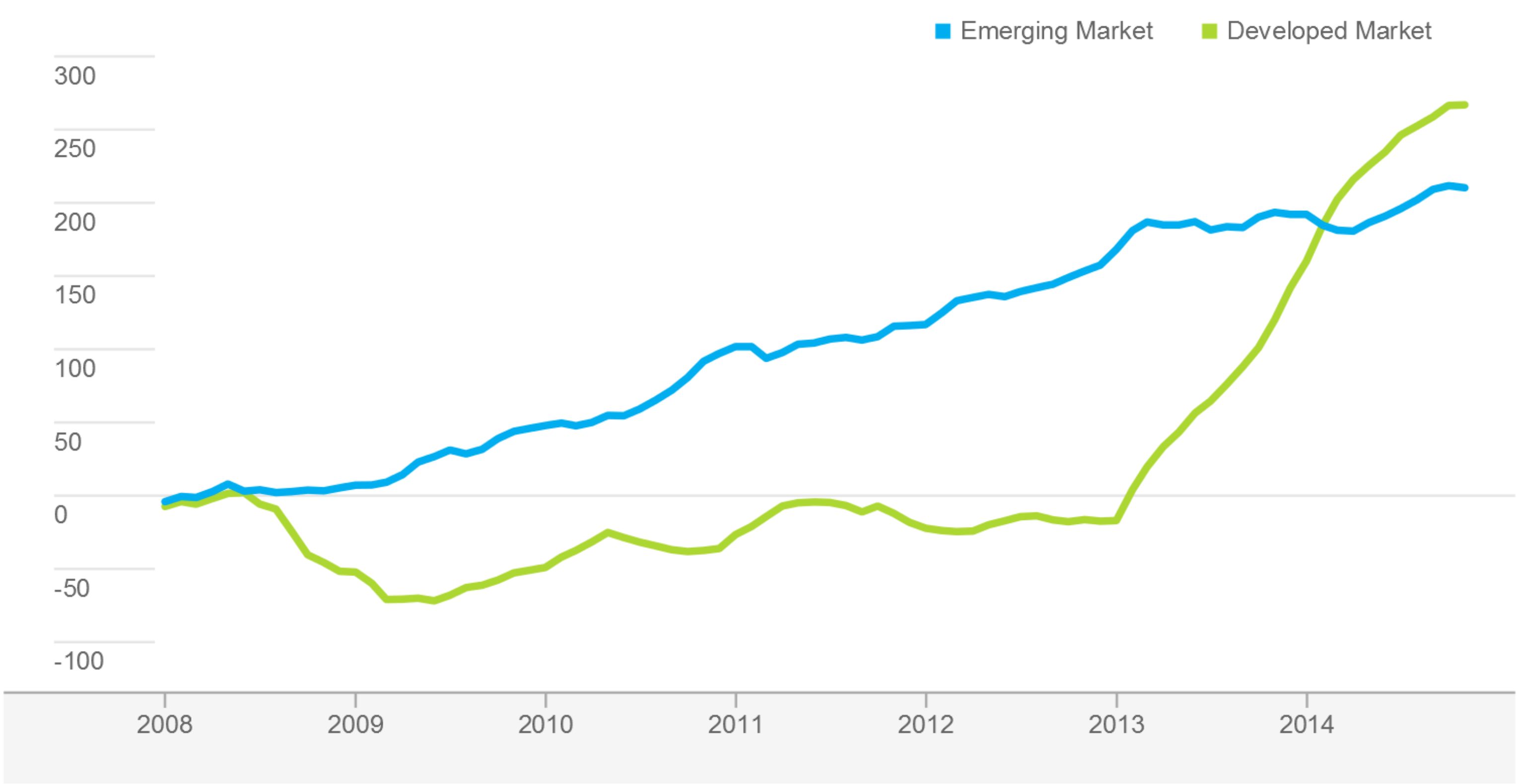
Total Assets in Allocation Funds, USD Bil



Developed Markets Flows Continue to Trump Emerging Markets…

- After surpassing emerging markets flows in January 2014, developed markets continue to attract more assets as lower-than-expected returns, disappointing economic growth rates, and geopolitical risks all weigh on emerging market investors.

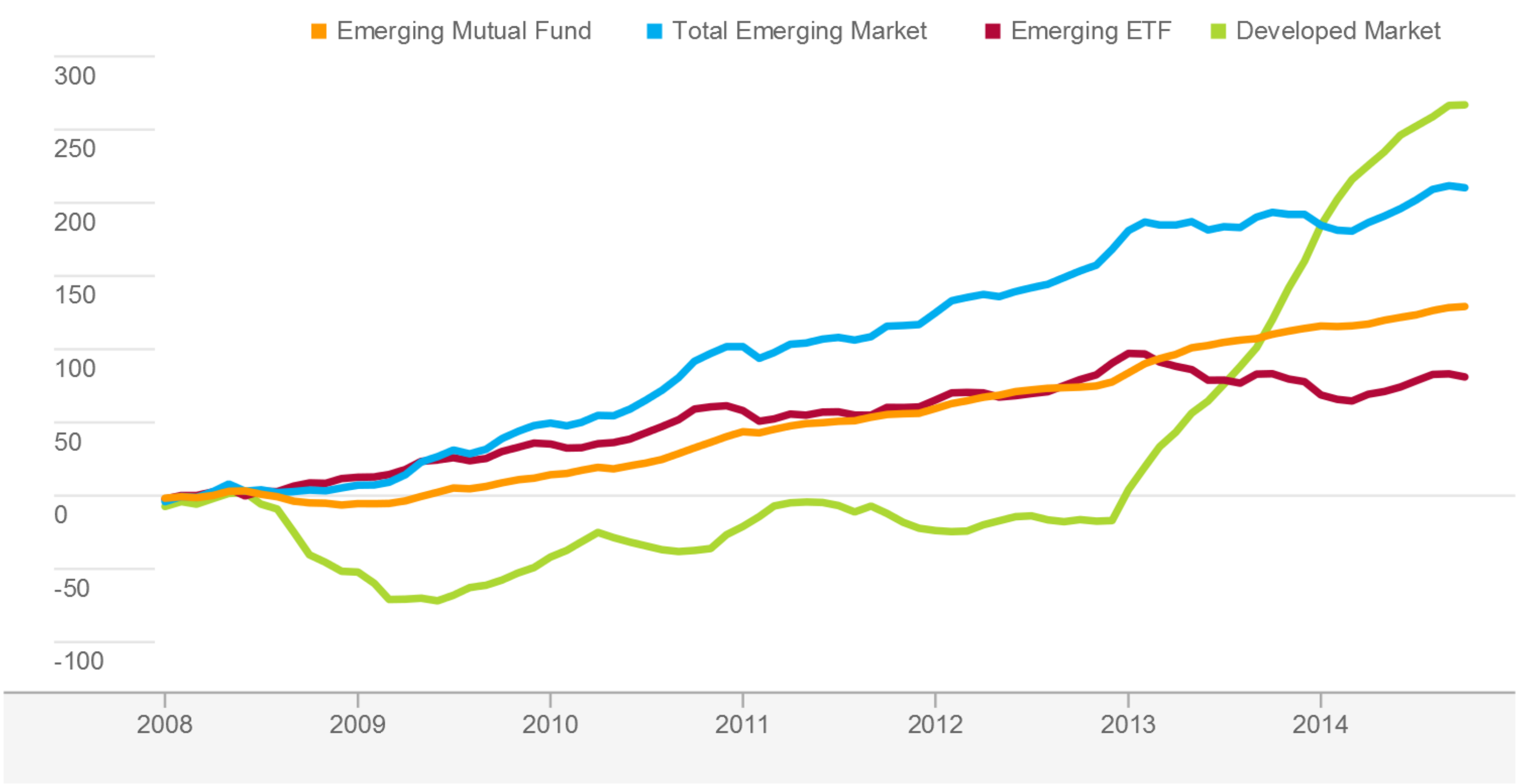
Cumulative Flows to Developed and Emerging Markets Mutual Funds and ETFs, USD Bil



…But It's Partially Due to trend following ETF Investors

- While emerging market flows are not booming, the stagnant flows can be partially attributed to the unconvinced ETF investors that are reacting to negative momentum in emerging markets.

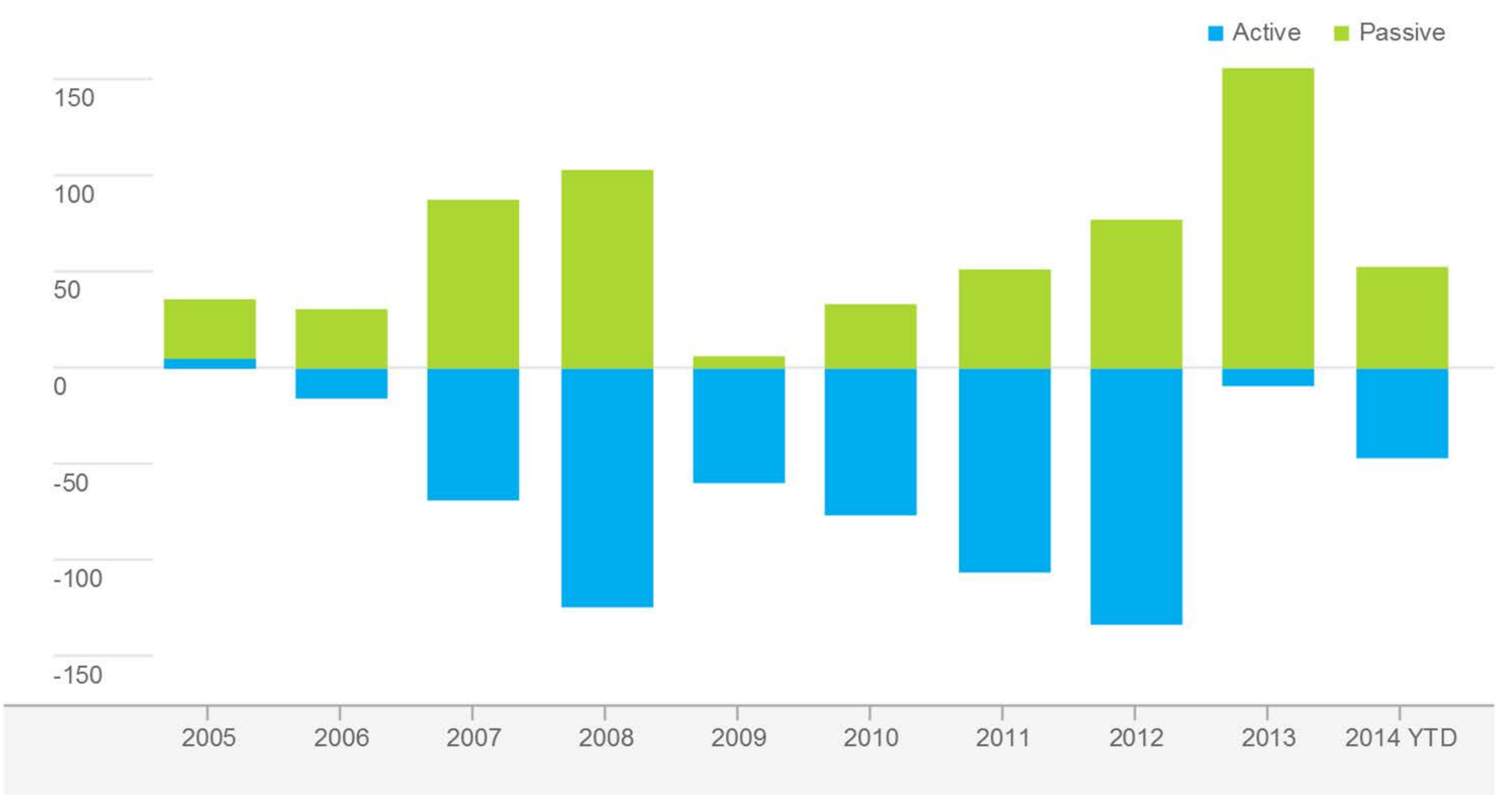
Cumulative Flows to Developed and Emerging Markets Mutual Funds and ETFs, USD Bil



The Industry Trend Towards Passive Investing Remains Intact

- So far, 2014 marks the ninth consecutive year of outflows from active equity funds, while passive investments continued to gain market share. Despite the drastic shift in the industry, actively managed funds in general still account for over 70% of the total assets.

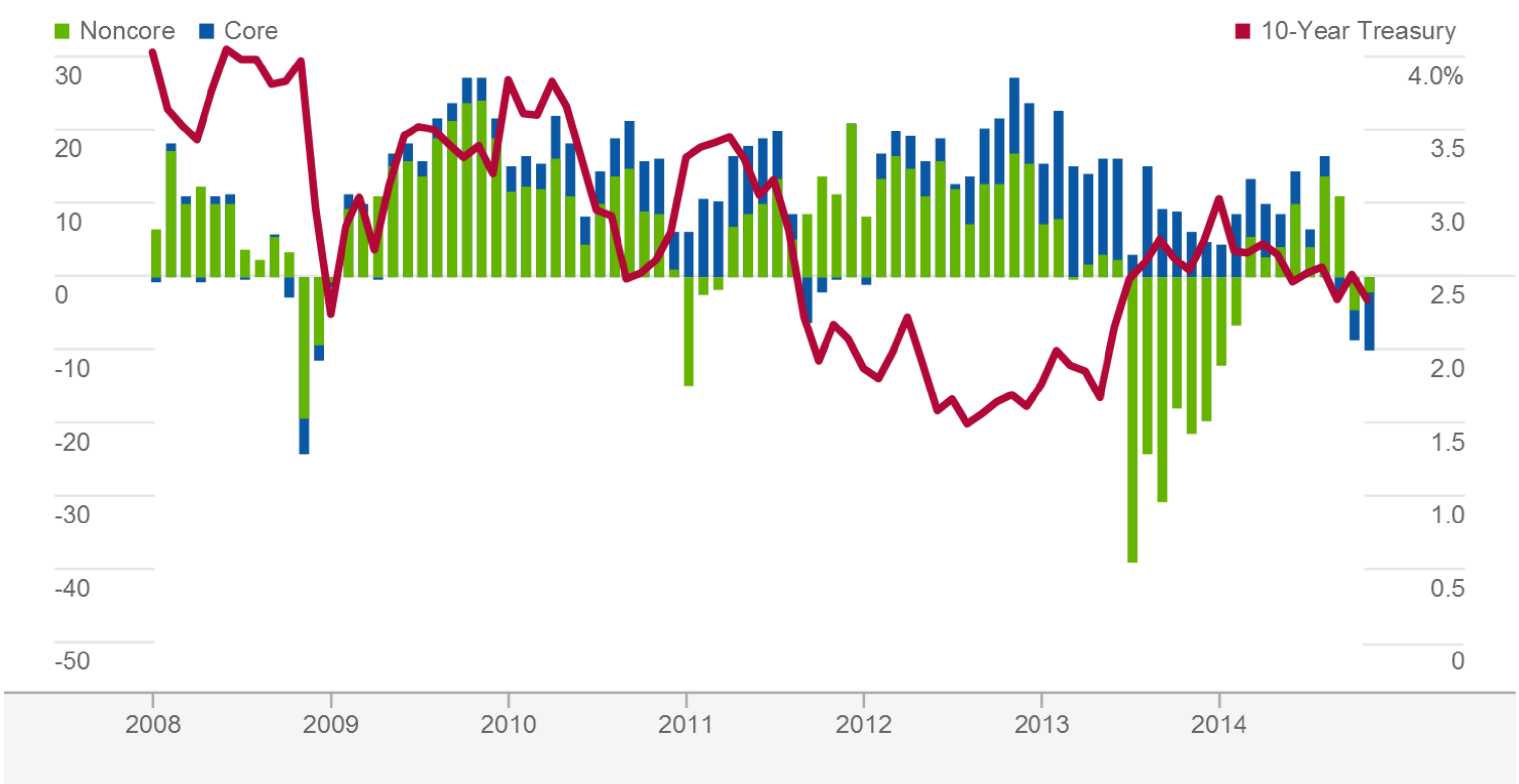
Flows to Active and Passive U.S. Equity Funds, USD Bil



Noncore Funds Drive the Bond Category Flows

- Despite negative flows in July, noncore fixed-income investments still accounted for majority of the assets that flew into the taxable bond category so far this year. Noncore flows accounted for 64% of the total taxable bond inflows as interest rates continued to edge lower.

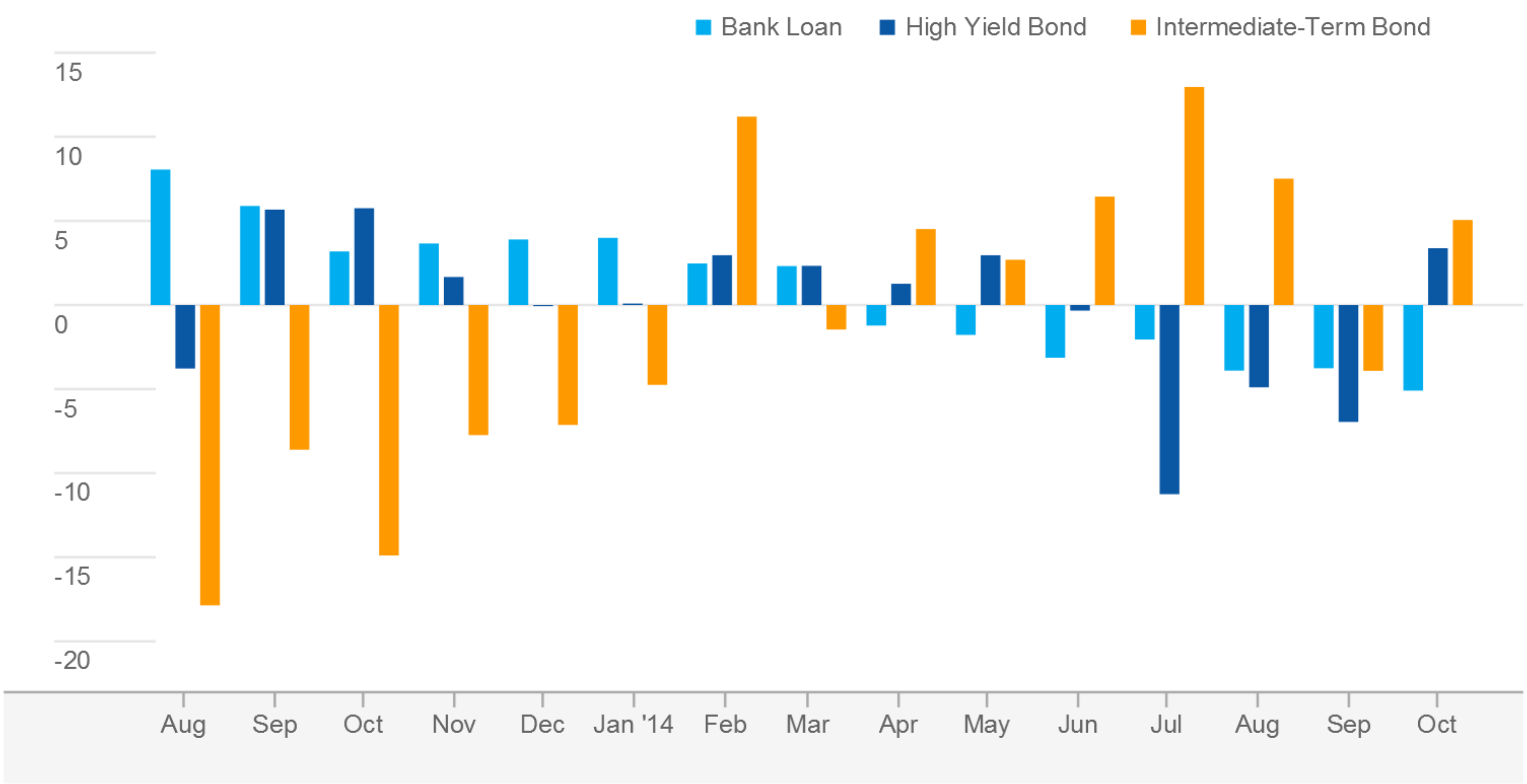
Flows Into Various Bond Categories (Bil USD) Vs. 10-Year Treasury Yield



Flows Shift From High-Credit Risk to Traditional Fixed Income Categories

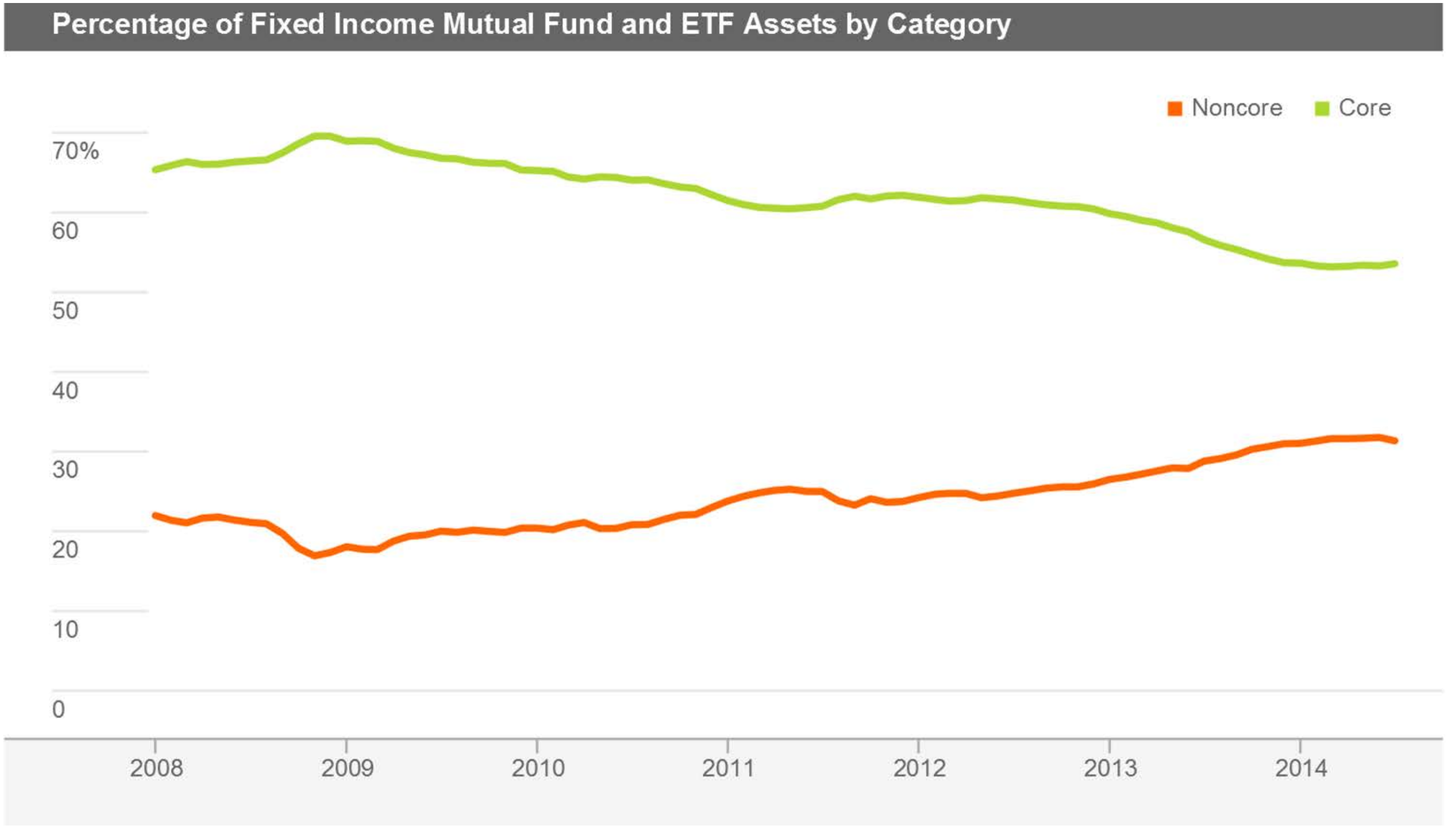
- Despite the improving economy and higher credit quality, investors seem to be losing their credit risk appetite. For the past few months, bond investors have been shifting away from bank loan and high yield funds and allocated their money back into more traditional bond funds.

Flows into Various Fixed Income Categories, USD Bil



Not Your Father's Bond Portfolio

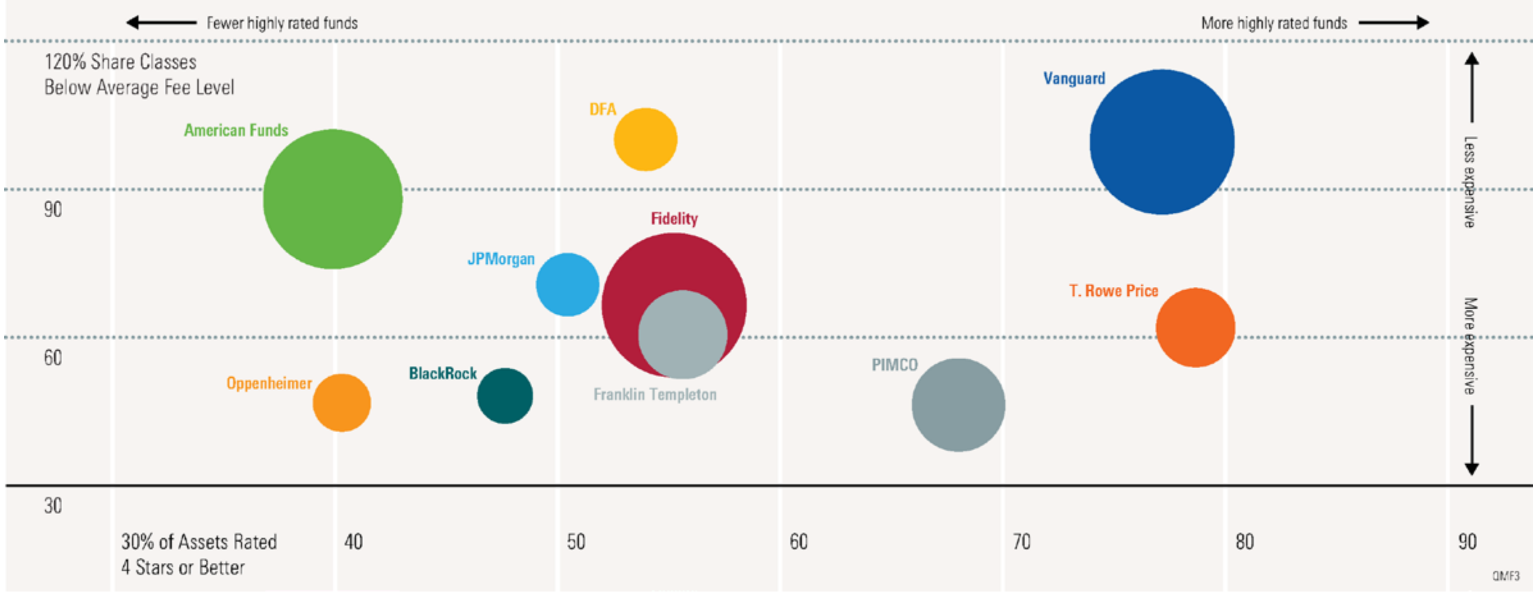
- The breakdown of a typical bond portfolio is gradually changing as investors incorporate increasingly more noncore holdings in their portfolios. Those noncore categories include constituents such as high-yield bonds, bank loans, and emerging-market bonds to name a few.



Top 10 Mutual Fund Companies by Assets

- For majority of fund families, performance is closely linked with expenses. From the bottom left, representing lower risk-adjusted returns and higher costs, the bubbles tend to move up and to the right, toward higher returns and lower costs.

		New Asset Flow ($ mil), YTD	Morningstar Stewardship Grade	Manager Retention Rate	Success Ratio	Manager Investment >$500,000
1	Vanguard	96,077	A	91	75	31
2	Fidelity	−9,920	B	91	49	60
3	American Funds	144	A	96	60	99
4	PIMCO	−60,858	C	92	55	4
5	Franklin Templeton	3,438	B	96	39	62
6	T. Rowe Price	11,577	A	95	78	42
7	JPMorgan	20,707	C	94	52	64
8	DFA	21,421	B	95	69	5
9	BlackRock	9,026	C	86	29	73
10	Oppenheimer	4,344	C	88	46	62



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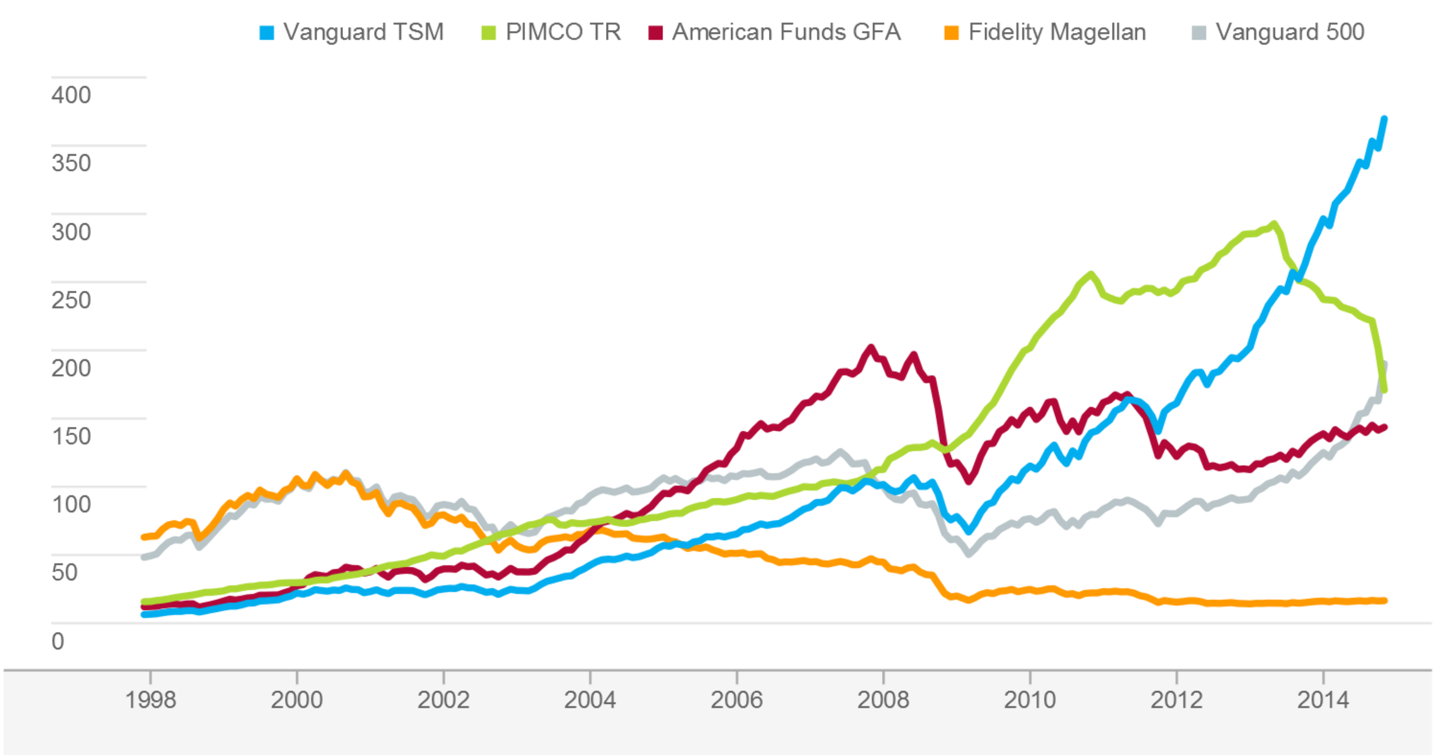
Vanguard Total Stock Market Index Fund Overtakes PIMCO Total Return

- Vanguard Total Stock Market Index overtakes PIMCO Total Return bond fund as the largest fund. This is emblematic of the secular shift toward passive investment strategies. Unlike active funds, where large size can hinder performance, a bigger asset base actually helps index fund investors as economies of scale result in lower per unit costs and help reduce tracking error.

Total Assets in Notable Funds, USD Bil



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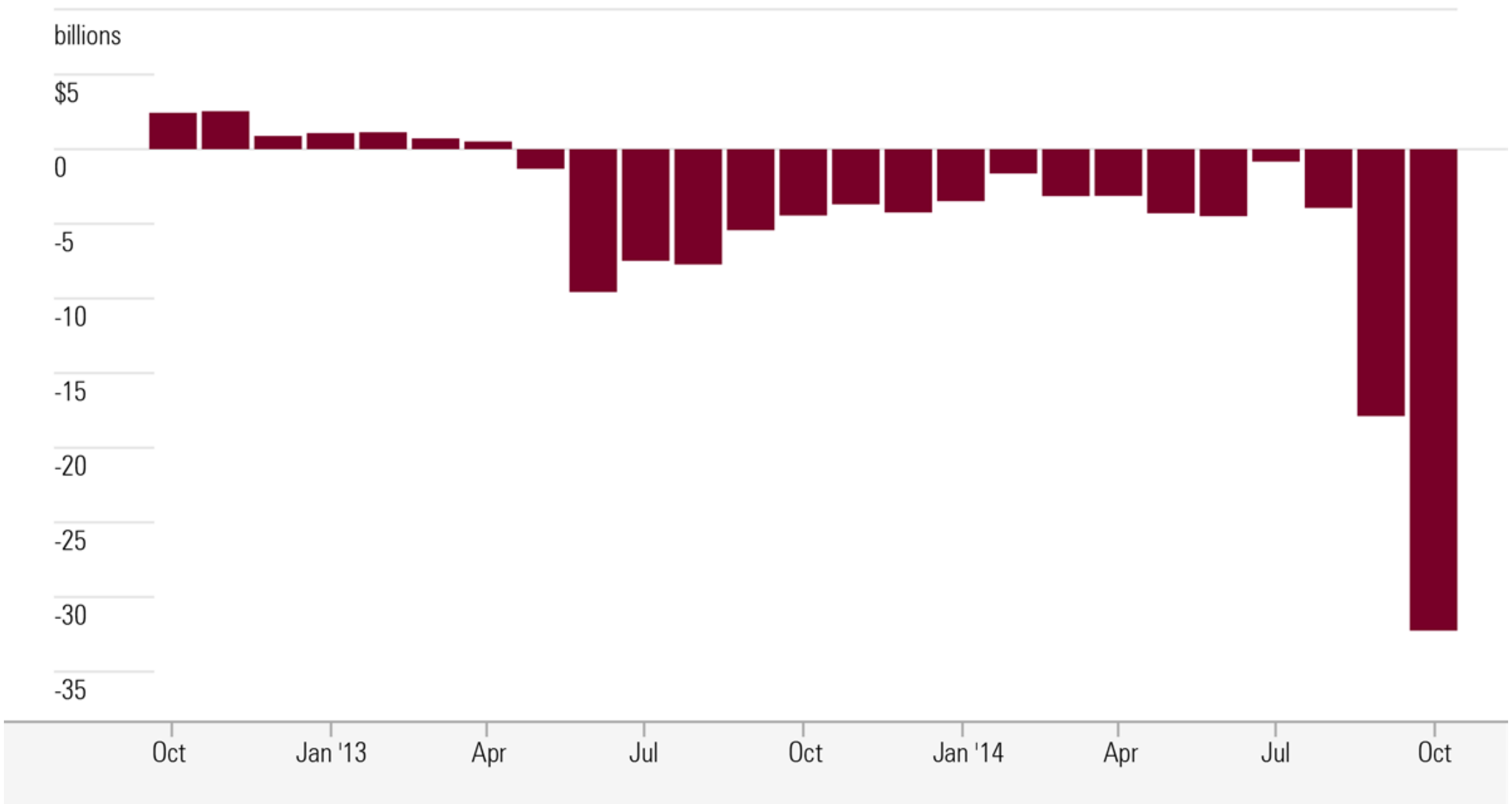
PIMCO Total Return Has Record Outflows

The unprecedented multi-year inflows followed by sharp outflows stand as a warning sign: erratic flows can be destabilizing to company culture.



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