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### **FUSE Ten Trends for 2010**

*January 6, 2010, Boston, MA* – As a part of our thought-leadership position, the senior team at FUSE Research Network LLC has identified ten trends for the upcoming year. Without further adieu, here are FUSE's Ten Trends for 2010:

- 1) ETFs will continue to be characterized as a competitive threat to mutual funds despite the fact that they are mutual funds. In addition, many in the press will continue to suggest that ETFs are appreciably less expensive than mutual funds (which is really just a function of index ETFs accounting for 99% of ETF AUM), until they see the fees on the new actively managed entrants. Most firms among the Top 50 will file for an active ETF with a handful of firms launching new products. The notion that an ETF eliminates the need for revenue sharing will be challenged.
- 2) The number of interested buyers will be at an all time high and deals will spike, but most of the firms that are involved in a transaction will be small / mid-tier shops that have core products and little distribution. This trend will keep valuations at subdued levels. There will be a surge in talks among asset management firms to combine their efforts so as to create complimentary suites of products with a centralized distribution platform (somewhat like the AMG model); with only one or two deals getting done. There will be at least three major deals in which Top 50 firms: combine with another, go public, go private, or are acquired by an off-shore insurance company.
- 3) Home Office teams will receive the staffing support they desperately need to keep up with due diligence on existing products. By mid-year a more welcoming environment for new products will materialize. Before year-end, these solutions groups (having morphed from the research group) will begin to make strides on matters such as retirement income and the expanded use of alternatives in asset allocation models. The lull that the industry experienced in 2009 with regard to the use of centralized models by advisors will disappear.

- 4) Eight firms among the top 100 will reassess their long-term strategic plan in 2010 to determine if capabilities and resources are properly aligned (a new record). Six of these firms will decide that substantive enhancements / improvements can be made. Four of the firms will proceed with change initiatives. Only two of the firms will stick with their plans for improvement through year-end (note: both of these firms will be clients of FUSE).
- 5) Alternative investments will have their best year of the new millennium in terms of sales among retail investors. The burst in activity will be largely driven by sophisticated asset allocation models that are able to more easily access asset classes that had previously been available primarily to HNW clients (i.e. commodities from ETFs, market neutral in '40 Act funds). Many of the largest traditional long-only mutual fund groups will feel compelled to play in this space, with half of the firms entering via acquisition.
- 6) Net Sales for 2010 will rank among the strongest sales year in history, but it will lag the \$400 plus billion of 2009. The massive influx into fixed-income offerings will subside in the 2<sup>nd</sup> quarter. Active managers on the equity side of the business will benefit from short-term performance, but by year-end discussion about the use of indexes for the core (and some of the satellite areas) will accelerate. At some point during the year interest rates will move higher and many investors will blame their reps (who will blame the asset managers) for loss of principle. For 2010, the average management fee on newly invested dollars will be the 2<sup>nd</sup> lowest in the last 20 years (2009 being the lowest since the mid-'80s).
- 7) The 12(b)-1 fee effectively made the investment firm a pay agent for distributors in which the mutual fund was used to extract, in a somewhat non-transparent way, money from investors, which was then transferred to distributors and sometimes their reps. The notion that the fee was required to grow the assets so that the overall fees could be lower has never really held water. In the fee-based environment, the rep more clearly delineates the cost of their services, which makes the notion that the underlying product should also contribute appear a bit outdated. Expect Mary Shapiro to come to the same conclusion.
- 8) Morningstar (and perhaps the Wall Street Journal) will denounce the growing use of 12 month performance results in fund advertising / promotion. Regardless, at least 17 funds with a little twist in their investment story (but with poor long-term track records and with PMs that have been in place for less than three years) will realize net sales in excess of \$1 billion. Most of these gains will be gone in 2011.
- 9) Investors will continue on their path of heightened awareness in terms of what they should expect from their advisors. They will seek those who provide a comprehensive solution (although they might piece this together with multiple sources of input and guidance) rather than one-off product

pushes that do not take into account the full picture. In increasing numbers, clients will want a financial plan, which properly matches their goals (but more importantly their needs) with the risks in their investment portfolio (LDI will finally begin to take hold). Investors in retirement will realize that their big problem is not whether or not they have enough income for the next 10-15 years, but rather whether they will be wiped out by medical expenses.

- 10) Increased hiring across the board, including more senior management changes at top tier firms.

## **About FUSE Research Network LLC**

FUSE Research Network was launched with the view that research and consulting support for asset managers has failed to evolve with the changing needs of the client. The future competitive environment will demand that clients make important business decisions within shorter and shorter timeframes.

In order to support clients in this setting, FUSE provides a dynamic research platform that covers our clients' current and future decision areas (strategic and tactical). Our goal is to become an invaluable business partner through the delivery of highly informed and forward-looking recommendations that are among the critical inputs our clients need to optimize results.

### **INNER WORKINGS OF FUSE**

It is the goal of FUSE to develop a level of partnership with each client that transcends traditional vendor relationships. In order to achieve this, the day-to-day activities of FUSE are guided by the following principles:

- Ardent Client Advocacy
- Absolute Candor and Objectivity
- Incisive and Tangible Guidance

Our ability to adhere to these principles is supported by our commitment to constantly be looking for ways to improve our support offerings through ongoing feedback and innovation. In addition, we will take steps to insure that FUSE staff members are among the best informed in the business so as to achieve a thought leadership position on the behalf of clients. Finally, we will provide a superior level of client service that sets FUSE apart from all other decision support firms. It is important to note that the FUSE service model accepts the fact that we do not have all of the answers in-house but our network of contacts, which is one of the best in the industry, helps to insure that we will always know someone who does.

Other Differentiators:

- Formal evaluation of client needs to initiate relationship
- Customized service offering
- Dynamic research support...not static annual updates
- Proactive advice, guidance, and recommendations
- Formal periodic review of service and support