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New Product Priorities

Product development a priority despite economic and market uncertainty

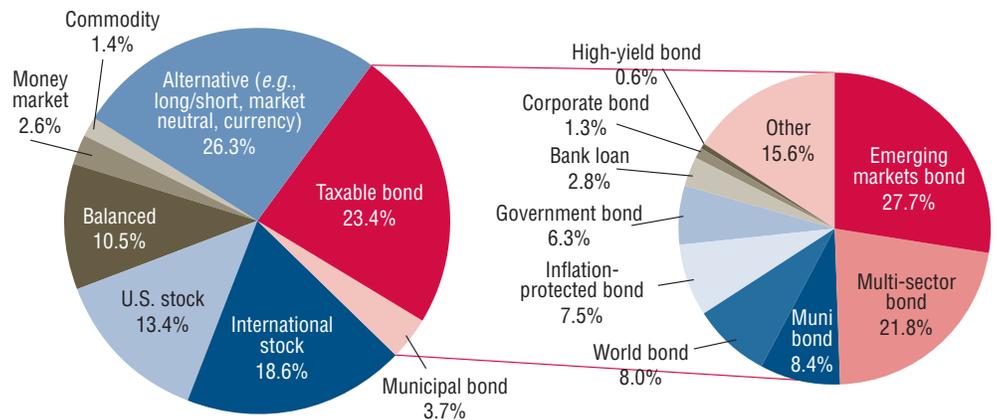
Product innovation is a priority for asset managers for the foreseeable future. Half of managers intend to launch five or more products during the next 12 months. The majority of these products will move from concept to launch in a six- to nine-month period. At launch, these new funds will be three years away from being awarded a star rating by Morningstar (4- or 5-stars can meaningfully help sales), but unrated funds also garner substantial flows. Unrated mutual funds pulled in \$116.7 billion AUM in 2010 and \$66.6 billion AUM during the first half of 2011 — underscoring the willingness of advisors and investors to try new products.

A few pioneering managers will introduce truly unique products; the rest will launch “me too” products. More than one-third of managers reported that most of their ideas are generated by investment management and research personnel, yet myriad new product ideas are also suggested by others, most notably, product management and development professionals based on their competitive intelligence as well as input from the front lines.

More than one-quarter of the new products planned, on average, are slated to invest in alternatives, and a large share (23%) will be taxable fixed-income funds. The taxable fixed-income products planned for development are generally not the usual fixed-income suspects that dominated fund flows in recent months (i.e., short- and intermediate-term bond funds). Managers are attempting to avoid a rear-view mirror approach; instead focusing on developing products in categories that are gaining traction and

Allocation of New Product Development by Asset Class and New Fixed-Income Strategy Retail Product Plans, 2011

Nearly one-quarter of new products planned, on average, are bond funds. Of the fixed-income products slated for launch, emerging market and multi-sector bond funds top the list.



Source: Cerulli Associates

