NEW PUBLICATION

CERULLI ASSOCIATES

THE CERULLI EDGE®
INSTITUTIONAL
EDITION

Inaugural Issue

RFP Teams and Process Issue

Footprint in the Trillions

Projected institutional asset growth entices managers

Topping $13.2 trillion at the end of 2011, the U.S. institutional market is massive—enticing asset managers with its potential. The U.S. institutional market grew at a compound annual growth rate (CAGR) of 4.2% during the past decade, and Cerulli projects the U.S. institutional market to grow at a 5-year CAGR of 5.2%, approaching $18.0 trillion by 2016. Breathtaking numbers aside, managers face a fiercely competitive market for institutional assets. Fortunately for managers seeking to build marketshare, assets are not controlled by only a few managers—the top-25 defined benefit (DB) managers, for example, accounted for $2.4 trillion, 47.4% of total DB assets in 2011.

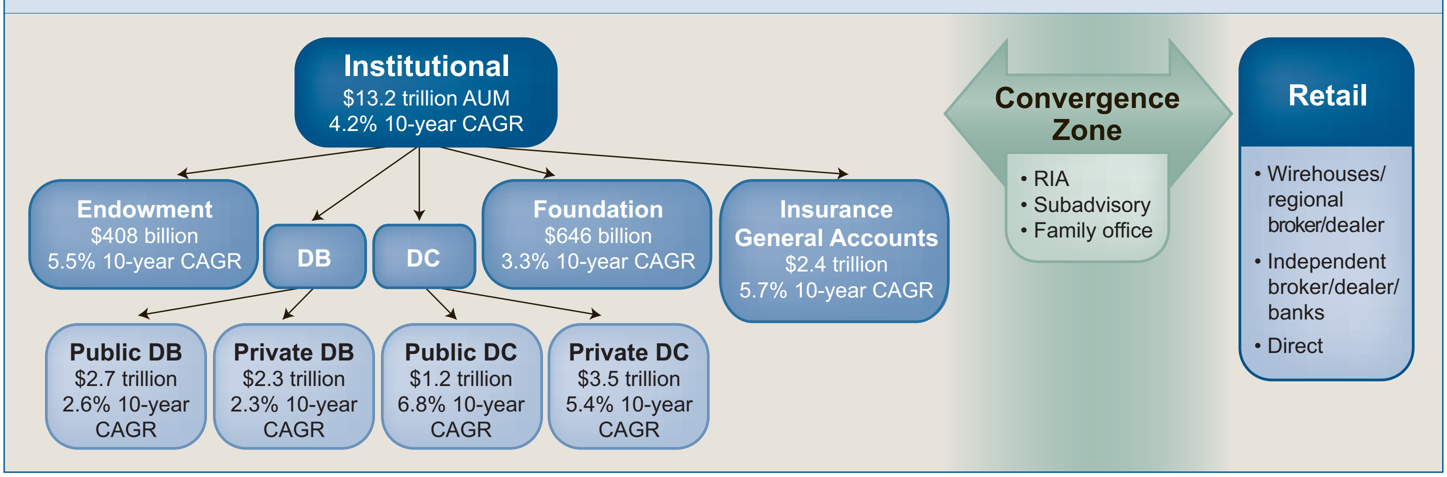
The keys to success in the coveted institutional marketplace are not as straightforward as they appear. Managers know that without solid and consistent investment performance, doors to this market shut, and they understand that building client-focused organizations and recruiting distribution talent are vital to success. Institutional asset managers confront the challenge of getting airtime with clients—some managers gripe that the lack of an open-door policy among investment consultants makes it difficult for them to tell their investment story. *The Cerulli Edge—Institutional Edition* will provide expert analysis and recommendations for managers seeking to build their footprint in the institutional marketplace, including firms' best practices based on our extensive research interviews and proprietary surveys.

Each quarter, the *Institutional Edition* will delve into the opportunities and threats that managers face as they navigate the institutional marketplace. In future issues, we will examine how managers' product strategies are evolving to meet their institutional clients' demands as they seek to derisk their portfolios,

Cerulli Institutional Channel Market Sizing, 2011

With more than $3.5 trillion in assets as of 2011, private DC comprises the largest U.S. institutional channel. By contrast, the endowment channel is relatively small with $408 billion in assets.

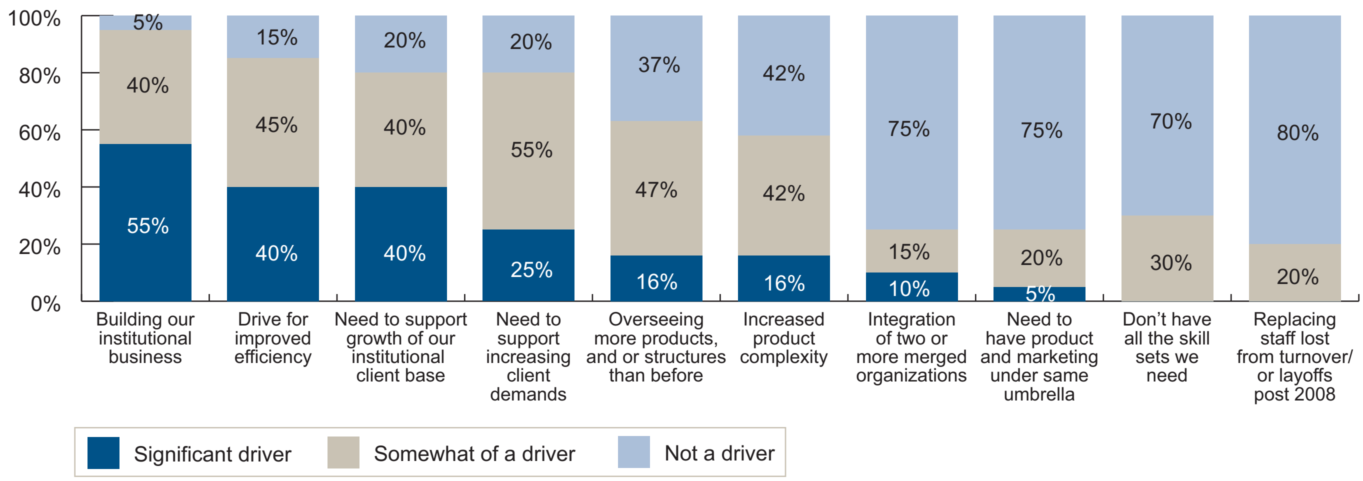
Sources: Department of Labor, Investment Company Institute, U.S. Census Bureau, Federal Reserve, PBGC, EBRI, Cerulli Associates, NACUBO, The Foundation Center, InsuranceAssetManager.com



Issues and Trends Driving Organizational Changes in Institutional Sales and Services Groups, 2012

Surveyed managers are growing or plan on growing their institutional businesses. This anticipated growth requires greater efficiency and support of their institutional clients' increasing demands.

Sources: Cerulli Associates, in partnership with the Institutional Investor Institute



incorporate more alternative strategies, and make other changes. This publication will also examine how managers are recalibrating their organizations to gain a competitive edge in client service and other key functions.

Strong relationships with investment consultants are essential to building a meaningful footprint in this market, but managers have no authority over the investment consultants. Institutional groups can control the factors that help them foster strong relationships with consultants, such as the timely and complete response to requests for proposal (RFPs), which most (90.5%) managers rate as highly important, and the depth and frequency of meetings to update portfolio performance, which many managers (81%) consider highly important to this effort. In this issue, we assess how RFP teams are responding to pressures of rising volume, increasing complexity, and shorter deadlines; identify best practices among these groups; and analyze use of win/loss analysis to improve win rates.

In future issues, we will examine how institutional clients are seeking more comprehensive relationships with asset managers and investment consultants. Faced with more demands on their time, concerns about fiduciary liability, and volatile capital markets, certain institutional clients are opting for an outsourced chief investment officer (CIO) arrangement. Investment consultants, multimanagers, and other outsourced CIO providers promote their capabilities to operate as the fiduciary and take on a range of investment activities, from asset allocation decisions and manager due diligence to creating and implementing a derisking glidepath.

This publication will also examine distribution channels that do not fit neatly into either the institutional or retail markets, but straddle both—for example, subadvisory and defined contribution investment-only (DCIO). Pursuing subadvisory mandates is largely an institutional sale, but the mutual fund and other subadvised products often are distributed largely to retail clients. Some asset managers approach their DCIO business as an institutional sale, employing key salespeople to manage recordkeeper, consultant, and third-party platform relationships. Other managers tap their retail wholesalers to identify retirement specialist advisors to target via their DCIO specialists. ◆

Defining Institutional

The label institutional is used differently across the financial services landscape. Cerulli defines the term institutional based on the identity of the end-client. We classify assets as institutional only when the asset manager's end-client is an institution. We segment institutional assets into five channels—defined benefit plans (both private and public), defined contribution (both public and private), endowments, foundations, and insurance general accounts.

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Institutional asset managers confront the challenge of getting airtime with clients—some managers gripe that the lack of an open-door policy among investment consultants makes it difficult for them to tell their investment story.

Demanding Documents

More complex investment strategies, deeper due diligence, and tighter timelines are challenging RFP teams amid high-stakes competition for new mandates

Summary

An RFP is an investment manager's resume, and effective oversight of an RFP group enhances the likelihood of a prospect saying, "You're hired!"

Key Implications

- Although RFP teams cannot directly control the volume that they process during any given week or month, they can manage the ebbs and flows of their workload. **One of the most impactful methods of managing RFP volume is an effective qualification process.**
- There has been a palpable compression of timelines in which to complete complex documents, a situation that forces managers to set realistic timeframes. **Only half of the RFP groups that target 1-2 weeks for document completion achieve this goal 100% of the time, underscoring the importance of negotiating achievable deadlines.**
- One of the best means by which managers can get ahead of more complex documents and questions is to catalog the answers immediately after they have been developed, and approved by compliance if needed. **To take this step, managers must be equipped with the systems to warehouse and maintain the content.**

To capture a significant share of the $13.2 trillion U.S. institutional market, asset managers must arm themselves with consistently strong investment performance and a compelling investment philosophy. Sometimes, managers do not even get the chance to compete directly for institutional mandates. Clients screen managers in consultant or other third-party databases, and instead of submitting an RFP, the consultant asks the managers a few targeted questions. While RFP leaders whose teams are taxed with spiking document volumes relish the chance to see volumes normalize, most have not witnessed any reduction in volume, and know that the opportunity to complete this comprehensive application remains vital to their employer's asset-gathering success.

RFPs are more than a calling card—they are an investment manager's resume. Yet investment consultants and many institutions are demanding that RFPs and related documents be turned around more quickly than ever. At the same time, the volume of documents that many RFP teams process has mounted. Fortunately for busy RFP crews, this is one of the few support areas where budget-conscious managers have added staff recently. Unfortunately, boosting staff has not solved all of their challenges, in part because these documents are becoming more complex and fragmented. All of these factors conspire to make it very difficult for asset managers to polish their resumes. More than one RFP executive we interviewed maintained that it is impossible to produce high-quality, 100-page documents in just a few days.

So how can RFP teams successfully navigate the challenges of heavy document volume, shrinking timeframes, and increased complexity? RFP managers need to manage proactively both volume and complexity to prevent volume and complexity from derailing their team. These groups must also continue to optimize efficiency.

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Qualification

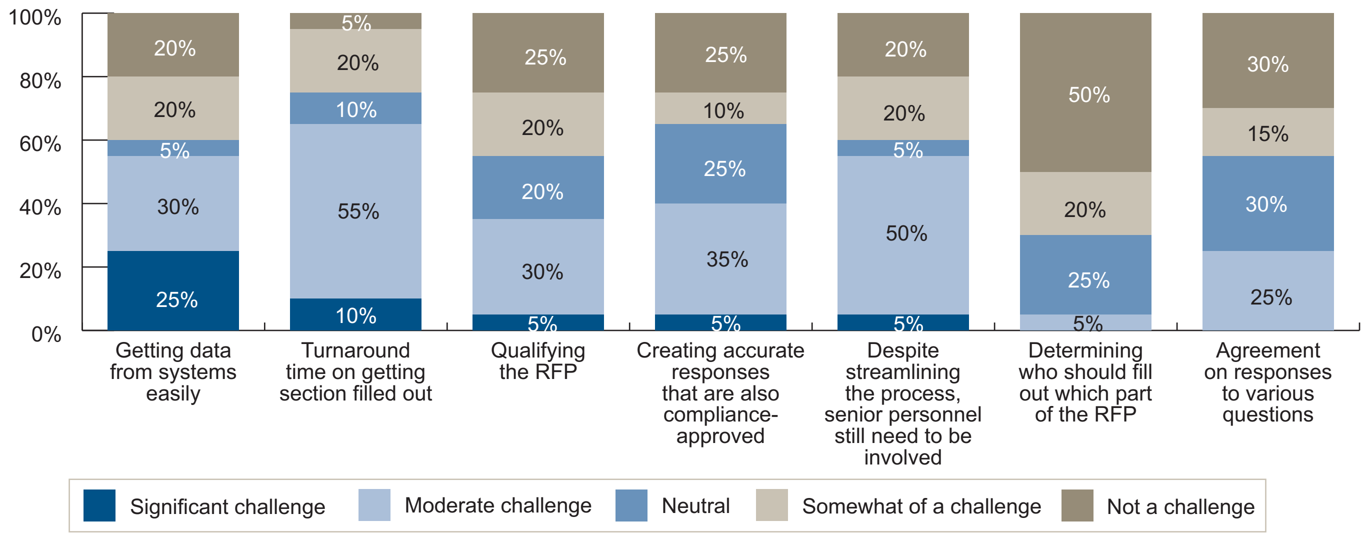
The leadership and culture of a firm has a significant bearing on an RFP team's ability to work on RFPs that are qualified. The ability to qualify RFPs effectively—especially as many managers have seen the volume of RFP and related documents skyrocket—is a key factor in enabling RFP teams to operate more efficiently. Qualification of RFPs remains a bone of contention among some RFP team managers. One-third of surveyed managers consider it to be a significant to moderate challenge. Other managers have had the support of their firm to maintain an effective qualification process.

Senior management must recognize both the importance of RFP teams in helping their firm win new mandates and the benefits of an effective approach to qualifying RFPs. Strong RFP team leaders guide their staffs in earning the respect of their peers throughout the organization. Enjoying a high level of respect is vital to creating an environment in which the RFP team can institute a qualification process that reduces the potential for long and frustrating work hours squandered on poorly qualified document requests. According to one RFP executive we interviewed, after his firm put an RFP qualification process in place, the number of proposals declined 38%, but win rates escalated.

Managers Rate RFP Completion Challenges, 2012

RFP teams grapple with many challenges. Data extraction from complex systems and completion of RFPs in a timely manner are among the greatest obstacles.

Source: Cerulli Associates



When senior management values RFP teams' important role in winning mandates, it paves the way for these teams to overcome challenges.

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When the qualification process works, RFP teams report that they do not have to turn away documents because the salesforce understands the importance of qualifying these requests upfront.

The first step in the process after the manager receives an RFP or gets word that one is on its way is qualifying it. Who "owns" the qualification of RFPs is a chief consideration for RFP teams. RFP managers concur that their firms' sales personnel must be accountable for vetting each RFP, because they are in the best position to determine whether it makes good business sense for them to respond. One RFP head interviewed by Cerulli Associates requires that the salesperson physically sign off on the qualification to eliminate ambiguity.

The qualification process must fully vet potential mandates by asking questions such as: Does the firm have a competitive product that meets all of the qualifications set forth by the prospect? Is the investment strategy a core competency or a stretch? Does the firm have sufficient investment capacity in the strategy to manage additional assets? When the qualification process works, RFP teams report that they do not have to turn away documents because the salesforce understands the importance of qualifying these requests upfront.

Organizational structure

Organizational structure also has a consequential effect on a team's ability to manage document volume successfully. Not only is it vital to have a sufficient number of capable RFP writers and other staff to handle the volume, but it also is important to structure the group in a manner that optimizes efficiency. Additionally, RFP crews should take advantage of the natural ebbs and flows of document requests to focus on tasks or issues that will help them handle high periods of RFP volume more effectively.

Creating a streamlined organization with a sufficient number of flexible and well-trained professionals is key. Although a small cohort of managers we polled do not plan to change their RFP group's structure, most are retooling their organizations. More than one-third (34%) of the surveyed RFP teams have already implemented organizational changes and have no additional changes planned for the next 12 months. Nearly 40% of RFP teams have recently implemented some changes and anticipate making further alterations during the next 12 months, and a small group of RFP teams are considering changes. These changes include hiring writers and editors, creating a position that manages the third-party RFP content, and stratifying institutional and retail RFP writers.

Although they share the same basic function, from an organizational perceptive every

RFP group is distinct. Depending on the scope and scale of their firm's business, the geographic regions served, and other factors, RFP teams exhibit myriad organizational structures. Assets under management, specific investment expertise, historical performance, and the number of distinct strategies that a firm oversees all directly impact the volume of proposals that an RFP group processes.

Managers land at different points along the spectrum of centralized to decentralized RFP organizations. A centralized group can enable a more organized, efficient approach to completing RFPs and other questionnaires, as well as a more cohesive presentation to clients. A centralized RFP team is not the optimal approach for every manager—a number of factors determine the right structure.

A manager's distribution strategy and breadth also shape the RFP process. Managers that distribute both in the United States and globally, or in certain regions such as Asia or Europe, place different demands on the RFP organization compared with managers that distribute only within the United States. Nearly half of surveyed managers (48%) operate one central RFP group that covers both the United States and non-U.S. areas of the business. RFP departments are also molded by asset managers' manufacturing approach. Managers that operate multiple offices in which they house their portfolio managers, run investment affiliates, or employ unaffiliated subadvisors to manage some or all of their investment portfolios face different organizational challenges compared with managers that rely solely on inhouse, centralized investment management groups. More than one-quarter (27%) of RFP teams are decentralized groups based at the parent company, completing some RFPs on behalf of affiliates and leaving others, or sections, for completion by the affiliates themselves.

Half of RFP groups report to marketing, underscoring the prevailing view of RFPs as a marketing function. While compliance concerns prevent approaching these documents with marketing-style prose, RFPs shape brand perception. More than a quarter of RFP teams report to either client service (13%) or to sales (13%). A smaller group of RFP crews (8%) are under the product management function. A number of the RFP group leaders (16%) we polled are housed in other areas of the organization, such as the centralized investment group or consultant relations team. At least one RFP team interviewed by Cerulli reports to the office of the chief operating officer.

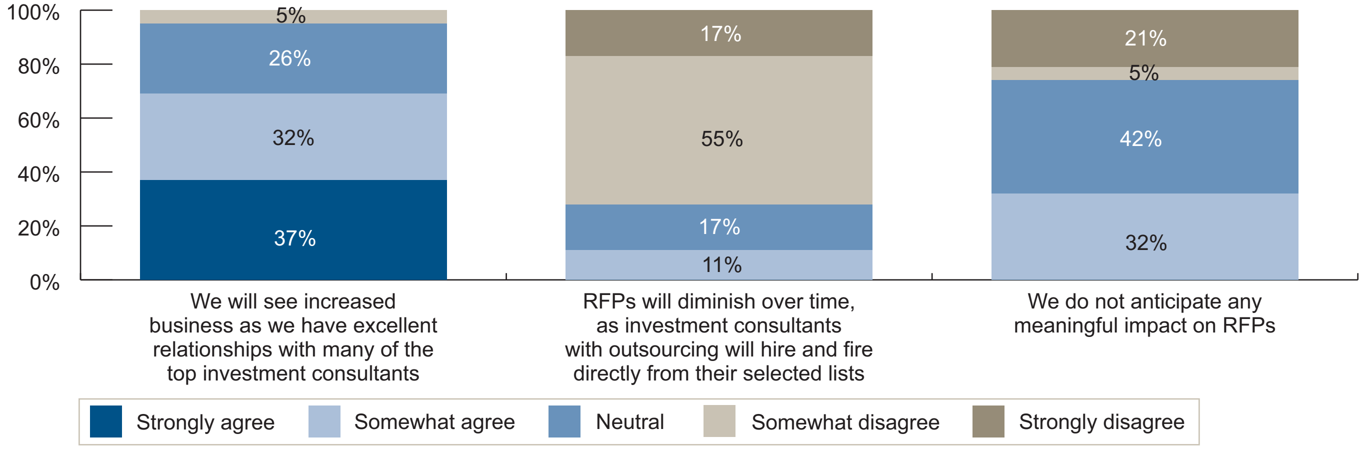
Other demands

If an RFP group performs duties in addition to writing and managing the completion of RFPs and directly related tasks, its leader addresses unique challenges that groups solely

RFP Teams' View on Potential Impact of CIO Outsourcing Trend, 2012

Managers have not witnessed any reduction in the volume of RFPs, but some anticipate that RFP volume will diminish over time as CIO outsourcing takes hold. However, most RFP teams believe that their business will increase as a result of CIO outsourcing.

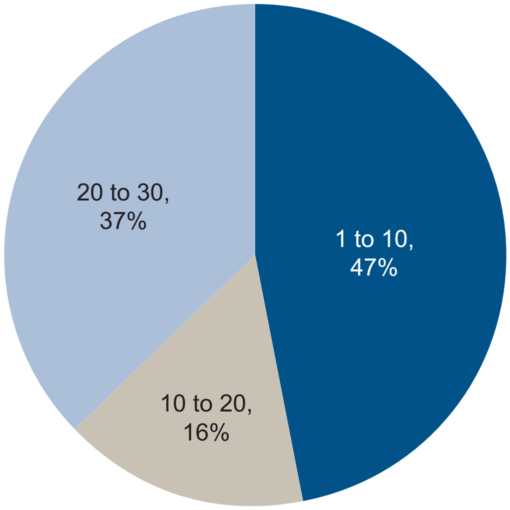
Source: Cerulli Associates



Number of Databases That Each Consultant Database Analyst Is Expected to Populate per Quarter, 2012

Among managers that operate a separate consultant database analyst function, the number of databases that each analyst is expected to populate per quarter ranges significantly.

Source: Cerulli Associates



Note: Greater than 30 databases was not chosen by any participant.

devoted to RFPs do not consider. More than two-thirds (67%) of managers operate an RFP function that is performed by a centralized team solely devoted to RFPs. More than one-fourth (29%) of RFP managers surveyed oversee a centralized team that has a range of responsibilities beyond RFPs (*e.g.,* marketing duties).

Some RFP teams are responsible for updating consultant databases. Investment consultant and other third-party databases play an increasingly important role for managers as they seek to secure mandates. The work involved in maintaining these databases is grueling because each database asks for the information in a different format under a tight deadline. Although asset managers typically do not maintain records for their firm in every database, more than one-third (37%) input updates to 20-30 databases on a monthly and quarterly basis. Close to half (47%) of the managers we surveyed work with between one and 10 databases, but to support their firm's pursuit of asset growth, many of the consultant database professionals we spoke with acknowledged pressure to reach out to more consultant and third-party databases. More managers are adopting eVestment's Omni software to facilitate efficiency in maintaining these databases.

The volume of RFP and related document requests is never static. The number of these requests ebbs and flow throughout a given year. During periods of peak volume, most groups put all hands on deck and often work overtime to keep pace. When the level of requests trails off for a week or two, or even longer, RFP leaders must be deliberate and be pragmatic in how their groups deploy their time.

Retaining strong contributors for RFP teams can be problematic as the combined pressures of rising volume, increasing complexity, and shorter deadlines can chip away at morale. To avoid burning these valuable professionals, firms must be committed to hiring adequate number of staff and retaining them. Retention starts with hiring the best people to begin with, but that alone is insufficient. Nearly 70% of managers agree that promoting RFP writers' contribution to the firm is an important factor in increasing staff retention. We encourage RFP team supervisors to be proactive in bringing recognition to their teams, both for the group and for individuals. Team members that are included in distribution meetings and in discussions about key decisions benefit both by being better informed about their firm's strategic priorities and their clients' needs, and feeling like

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a valued member of the team. Cerulli recommends that RFP managers use downtime to reward top performers with “soft” compensation, such as an extra vacation day, flexible hours, and even social gatherings (*e.g.*, RFP team dinners). These rewards can go a long way toward helping prevent burnout when volume spikes and eats into RFP professionals’ personal time at night or on weekends.

We encourage RFP managers to align their group’s priorities with strategic goals of the broader organization. This practice enables a manager to mitigate some of the stress associated with heavy RFP volume. One RFP team leader interviewed by Cerulli prioritizes content maintained in the RFP content library according to strategies on the firm’s focus product list. Understanding which strategies clients are requesting can also help RFP teams prioritize content management.

Reality-driven timeframes

Meeting deadlines is an ongoing challenge for RFP teams. Required turnaround is driven by many factors, from the type of client, to how long a sales person or relationship manager held on to the document request before sending it along to the RFP team for completion. Cerulli counsels RFP teams to set realistic timeframes when targeting a completion time for a document. RFP teams should operate at optimum but not always maximum speed. Although there has been a palpable compression of timelines for completing often complex documents in recent years, and ongoing pressure to fit workflow requirements into fewer weeks and days, managers must set realistic timeframes.

This is not easy. Some of the RFP team managers and writers with whom we spoke acknowledged that they feel caught between “a rock and a hard place” when it comes to meeting deadlines. On one hand, they work hard to create accurate and compelling documents—which takes time. On the other hand, they have little control over the time allotted to complete an RFP, especially if it comes from an investment consultant. Indeed, the relatively short amount of time allocated to completing an RFP and related documents—that can run 100 pages in length—startles those unfamiliar with the day-to-day workings of RFP teams.

Three-quarters of firms target a 1-2 week turnaround time for RFPs. A much smaller group (25%) set a goal of 3-4 weeks for completing an RFP. Despite the pressure for fast turnaround of these documents, no manager expects to complete an RFP, except in rare situations, in a week or less. At the same time, while RFP teams would appreciate more time

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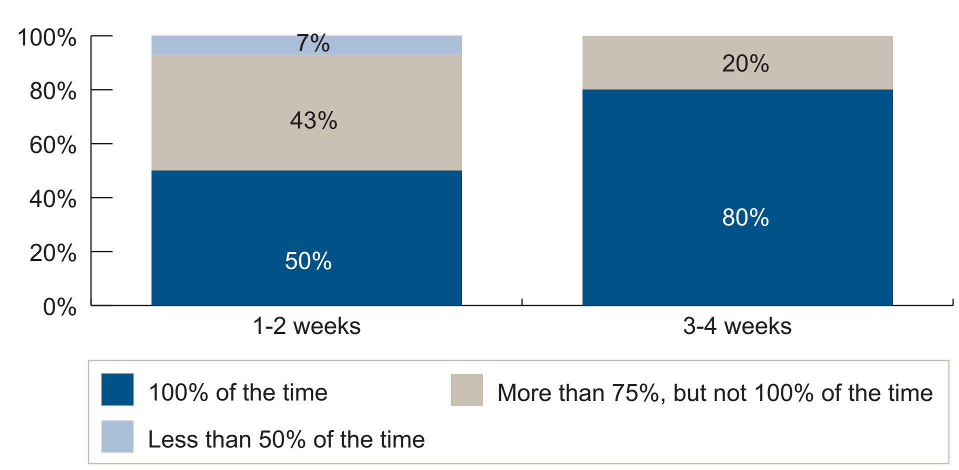
One RFP team leader interviewed by Cerulli prioritizes content maintained in the RFP content library according to strategies on the firm’s focus product list.

Percentage of Managers Who Met RFP Turnaround Times, 2012

The majority (80%) of RFP groups who target 3-4 weeks report that they always meet this deadline, whereas only half the RFP crews who target 1-2 weeks achieve this goal 100% of the time.

Source: Cerulli Associates

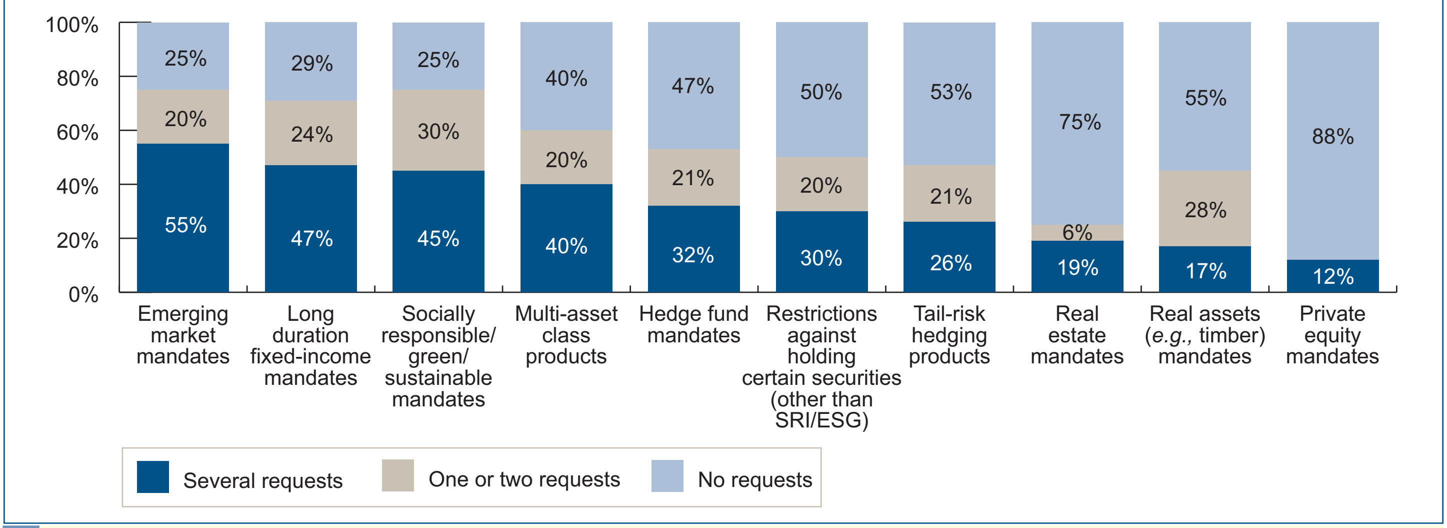


Note: 50%-75% of the time was not chosen by any participant.

Managers' Most Frequently Requested Products from the Past 12 Months, 2012

Understanding which strategies clients are requesting can help RFP teams prioritize which of their own funds to maintain robust content on in their content library (*i.e.*, third-party software).

Sources: Cerulli Associates, in partnership with Institutional Investor Institute



Close to half (47.1%) of mangers reported clients are asking for long duration fixed-income mandates.

to complete these sizeable documents, they know that setting a 4-week or greater goal for completing these documents would place them at a competitive disadvantage; therefore, they target less than four weeks.

Setting a timeframe and meeting it are two different challenges, with the latter much more difficult for these exceedingly busy teams. Four-fifths of RFP groups that target 3-4 weeks report that they always meet this deadline goal, whereas only half the RFP crews that target 1-2 weeks achieve this goal 100% of the time. This trend underscores the validity of setting achievable deadlines to manage expectations.

Taming complexity

The complexity of RFP documents has intensified during the past three to six months, according to managers interviewed by Cerulli. As clients conduct more in-depth due diligence on managers, they are sometimes conducting background checks and asking for personal information such as Social Security numbers. This presents a privacy dilemma for managers as they seek to determine information that they can and should divulge.

The development of more complex investment strategies is also showing up in document requests as clients ask more intricate and multifaceted questions. We were not surprised to hear from RFP groups that clients sometimes send generic RFP documents, but we were astonished to learn that managers' clients sometimes send documents meant for completely different investment strategies; for example, a traditional equity strategy questionnaire sent for an alternative investment strategy. This adds to RFP writers' headaches as they attempt to comprehensively and accurately describe a strategy based on inexact questions.

One of the best means by which managers can get ahead of these more complex, document-related requests or questions is to catalog the new questions and answers immediately after they have been answered, and approved by compliance, if needed. To take this step, managers must be equipped with the systems to warehouse the data. At this juncture, most managers have adopted third-party RFP software (*e.g.*, PMAPs or Qvidian) or collaboration software (*e.g.*, SharePoint), but some remain committed to their proprietary systems, typically built off a Microsoft Excel spreadsheet.

Managers across all areas of an asset management firm—including client service, consultant relations, and sales—stand to learn from RFP leaders' solid efforts to identify challenges, to manage their work flow, and to retain strong contributors. ◆

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Three-quarters of firms target a 1-2 week turnaround time for RFPs. A much smaller group (25%) set a goal of 3-4 weeks for completion.

Related Research

- Cerulli Quantitative Update: Institutional Markets 2012

Beyond the RFP: Winning New Mandates

Clear communication and an emotional connection are essential

Summary

With fierce competition for new business in the institutional marketplace, being prepared for finals presentations pays off.

Key Implications

- The quality of the presentation content and delivery are critical to winning new mandates. **Asset managers should tailor their presentations and demonstrate how they will help prospects meet their goals and objectives.**
- Debriefing and conducting win/loss analysis helps asset managers improve their win rates and learn more about the competition. **Understanding why the winners were selected can be used to assess the threat posed by the usual suspects encountered during finals presentations.**

Your firm has made it past the request for proposal (RFP) process and rigorous due diligence screening. Your efforts have started to pay off—the prospect wants to meet your team to see how you stack up relative to the competition. Managers who are fortunate enough to get invited to the finals presentation need to pull out all the stops to impress investment committees and consultants and to distinguish their firm from the competition. Effective strategies for finals presentations are at the top of asset managers' minds and are increasingly essential to growth. Winning the mandate rests on the combined abilities of your portfolio management and sales teams to articulate clearly how you can meet the prospect's unique needs and objectives. To get a better sense of how firms deal with these challenges, Cerulli Associates recently surveyed asset managers to get their perspectives on what is required to win mandates.

Effective marketing techniques

Two-thirds (67%) of asset managers surveyed believe that the quality of the presentation content and delivery are critical to winning mandates. Another half cite the quality of the pitch book as being very important. The finals presentation will most likely be the investment manager's last time to impress the client. This forum provides an opportunity to make a personal connection with and to win the trust and confidence of the investment committee.

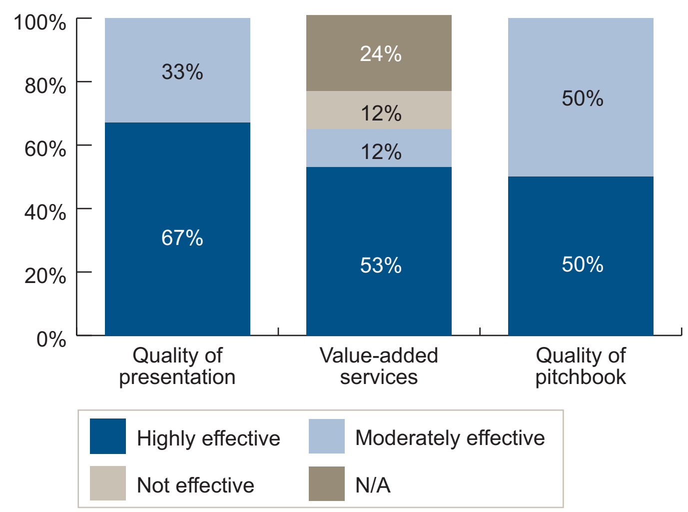
An asset manager's investment strategy may seem great on paper and may have historically demonstrated success through gathering assets and strong investment performance. Yet to win over the prospect and to close the deal, the investment manager must be able to clearly articulate their investment process and show how their strategy and firm can help the client achieve their objectives. Moreover, investment committees typically meet with multiple finalists on the same day, so it is important for asset managers to differentiate themselves and to make a memorable impression. In these situations, less is more and it's essential to keep the presentation to the allotted time.

Board and committee members have diverse backgrounds and may have limited investment knowledge. For that reason, investment consultants often stress the importance of explaining the investment process in layperson's terms. Investment committee members tasked with choosing the investment manager must have sufficient information to make an informed decision. Clearly communicating how

Effectiveness of Marketing Materials and Activities in Reaching Institutional Clients, 2012

Two-thirds (67%) of asset managers believe that the quality of the presentation content and delivery are critical.

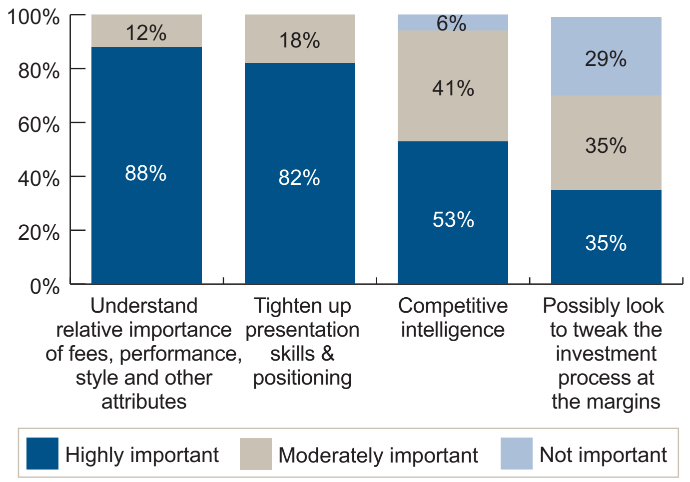
Sources: Cerulli Associates, in partnership with the Institutional Investor Institute



Major Goals of Win/Loss Evaluation, 2012

88% of asset managers surveyed said the most important goal of win/loss analysis is understanding the relative importance of fees, performance, style, and other attributes.

Sources: Cerulli Associates, in partnership with the Institutional Investor Institute



Note: For the answer choice "Possibly look to tweak the investment process at the margins," the example "if prospect was uncomfortable with volatility, keep philosophy & process the same, but limit position sizes to reduce volatility" was given.

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Conducting win/loss analysis helps an asset manager glean valuable information about the real reason for a win or loss, and how the firm may improve its success rate in the future.

ideas are generated and providing concrete examples of how buy and sell decisions are made is crucial. Furthermore, making an emotional connection and building chemistry with the prospect are vital to winning finals presentations. Of course, this is not always possible if the prospect is working through an investment consultant. Understanding the prospect's needs and objectives is also critical for new business success. Asset managers should review the prospect's investment policy statement and tailor their presentation to let the prospect know that thought has been given to their unique situation and the challenges they may be facing. Cerulli counsels managers to articulate how your firm's strategy will address the prospect's needs. It is also helpful to highlight whether your firm has experience managing money for similar types of clients.

Conducting win/loss analysis

As managers compete for fewer traditional mandates, as well as more complex investment strategies such as alternatives, it has never been more essential to know what attributes are important to clients. Cerulli recommends conducting win/loss analysis, as it helps the manager to know what the real reason for the win or loss was and how they may improve their success rate in the future. In an effort to glean valuable information, 84% of asset managers surveyed conduct win/loss analysis. From a strategic viewpoint, 74% of respondents also try to learn more about the competitors and why the winner was chosen.

Cerulli also asked survey respondents what they want to learn from conducting win/loss analysis. The majority (88%) of managers surveyed said the most important goal of win/loss analysis is understanding the relative importance of fees, performance, style, and other attributes. While historical performance cannot be changed, other attributes, such as fees, can be modified. It is also important to identify the issues that drove the sale and to determine whether there was any single factor that took the investment manager out of the running and led the client to favor another manager. Following a successful presentation, win analysis can be equally helpful in affirming what appeals to clients.

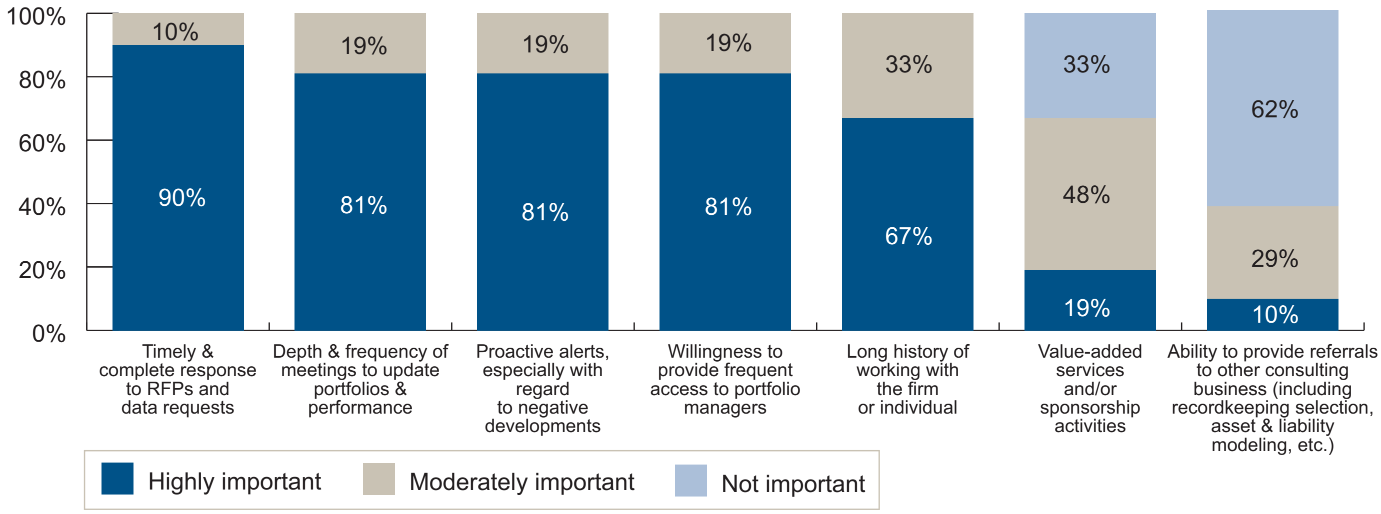
Another important goal of win/loss analysis is to refine presentation skills and positioning, as cited by 82% of participants. The good news is that changes to presentation content and refinement of presentation skills are correctable and are reasonable goals. Formal presentation training can often help presenters to avoid common missteps of unsuccessful presentations. In many instances it's a quick fix, and may be as simple as showing more enthusiasm, rearranging the presentation deck to have a strong opening, and addressing the prospect's needs up front.

Given increased competition, it makes sense that more than half (53%) of our survey respondents cite competitive intelligence as another important goal of win/loss analysis. Learning about the competition and why the firm was selected can be used to assess and to respond to the threat posed by the usual suspects encountered in finals presentations. Understanding the competitor's investment strategy provides valuable insight and helps to differentiate an investment team's approach.

In an increasingly competitive institutional marketplace, quality presentation content and delivery are keys to winning new business. If managers want to increase win ratios, they must clearly articulate their investment process and demonstrate how their strategy can help clients achieve their goals. ◆

Asset Manager Attributes That Foster Relationships with Investment Consultants, 2012

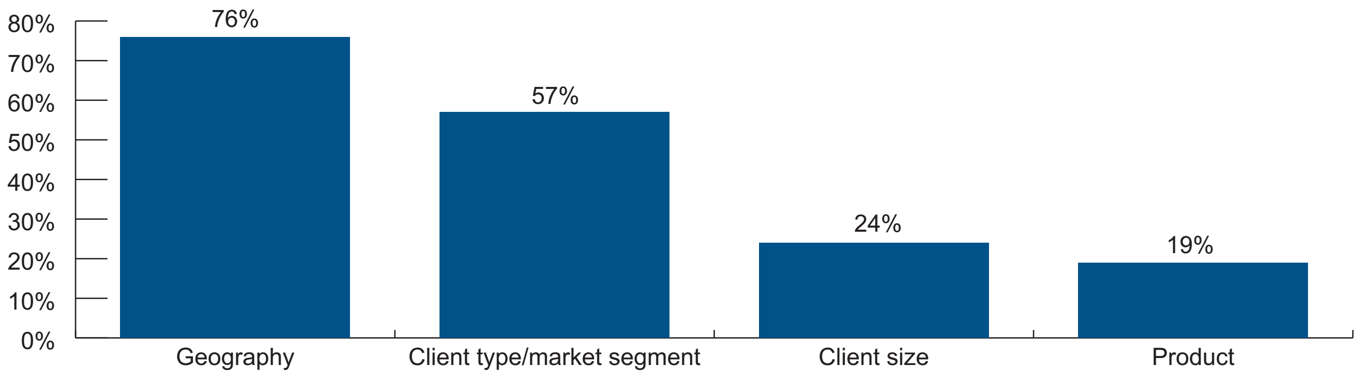
Sources: Cerulli Associates, in partnership with Institutional Investor Institute



Key Implication: Cultivating solid relationships with investment consultants helps asset managers access a wide range of institutional investors in a variety of channels, including defined benefit, defined contribution, and nonprofits. Asset managers rated timely and complete responses to requests for proposals and data requests as highly important methods of fostering relationships with consultants. Managers also think that frequent updates on portfolio holdings and performance attribution is highly regarded among consultants. However, there is always an opportunity cost for portfolio managers (PMs) associated with high-touch activities that ingratiate managers with key gatekeepers. **Many asset managers hire portfolio specialists to gain an intimate understanding about the investment process and to act as a pinch hitter for PMs in many forms of client communication.**

Segmentation of Salesforce, 2012

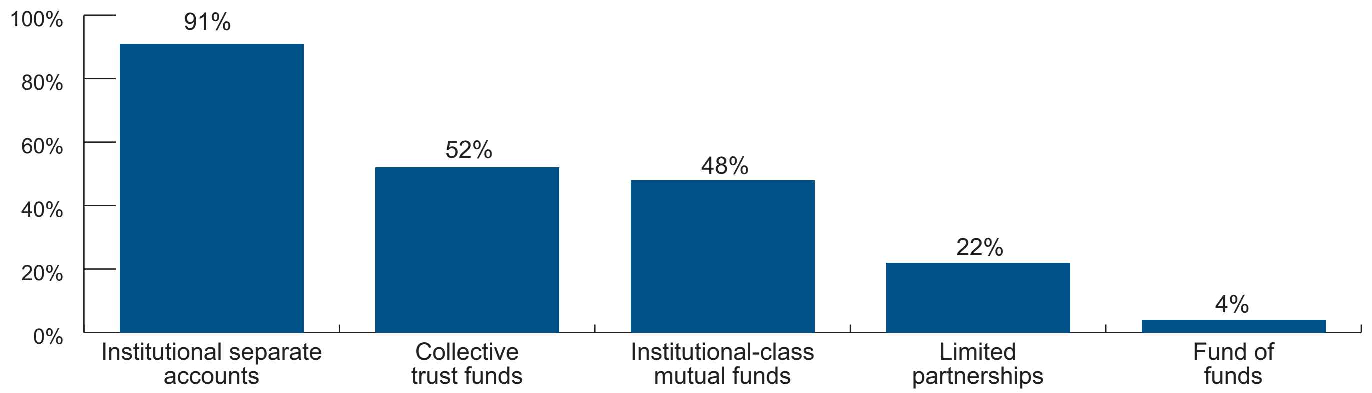
Sources: Cerulli Associates, in partnership with Institutional Investor Institute



Key Implication: Geographic segmentation of sales teams is simple and clear-cut. Focusing sales professionals in one region of the country can reduce travel time and costs while fostering fewer but deeper relationships with key contacts in the region. Many institutional sales leaders of larger firms stated that their salesforces were segmented geographically and further cut by market segment, such as a Northeast Regional Marketing Director for endowments and foundations. **Although most firms don't segment their salesforces by product, many leverage the expertise of product specialists (client portfolio managers)—a role that entails a deep understanding of the investment strategy and portfolio characteristics for one or for a series of products. This role satisfies some of the need for deeper engagement among more technical clients.**

Asset Manager Vehicles Used in Product Development, 2012

Sources: Cerulli Associates, in partnership with Institutional Investor Institute

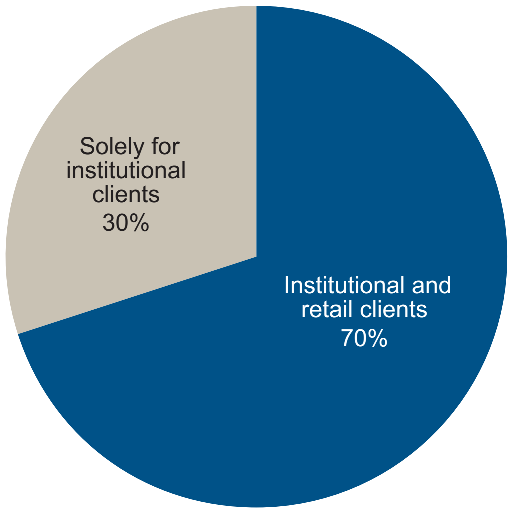


Separate accounts are typically used for large institutional clients ($100 million+).

Key Implication: Institutional separate accounts allow for a higher degree of investment customization relative to other types of vehicles. Additionally, fees for separate accounts generally are lower compared to both mutual funds and collective trust funds (CTFs). CTFs began to attract more attention from consultants and defined contribution plan sponsors beginning in 2003, as operational challenges that previously plagued these funds began to improve. **Due to advances in technology, CTF sponsors can now value most of their offerings daily, allowing for more timely performance reporting. Reduction of administrative costs, improved customization, more transparency, and negotiable fees also increase the appeal of CTFs.**

Asset Manager Target Markets for Anticipated Launches, 2012

Sources: Cerulli Associates, in partnership with Institutional Investor Institute

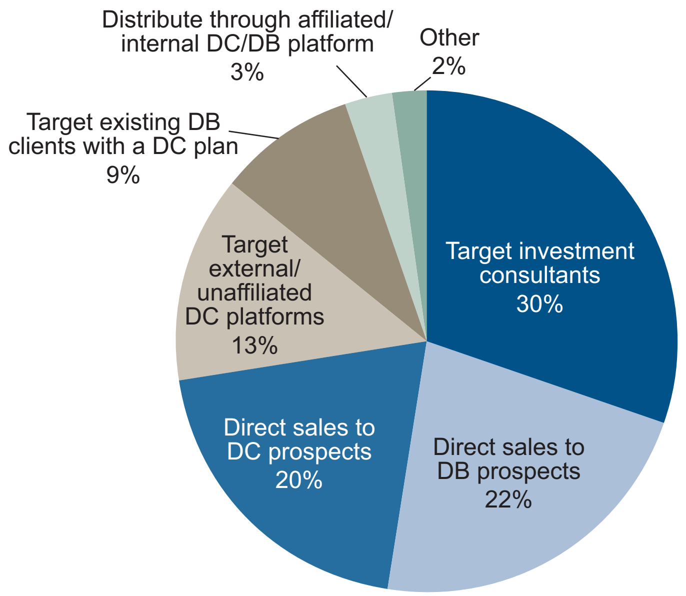


Products that can be used by both institutional and retail clients are more likely to benefit from economies of scale from the perspective of increased assets under management.

Key Implication: The majority (70%) of asset managers develop products that are used by both retail and institutional clients. **In many instances, asset managers will employ the same investment strategy and portfolio manager, and customize the investment guidelines, vehicle type, or share class based on the target audience.** Institutional investment strategies often are distributed subsequently to retail clients through mutual funds. The robust growth of alternative mutual funds, even as some traditional actively managed product flows have languished, exemplifies this dynamic.

Asset Manager Expected CTF Inflow Attribution for Next Two Years, 2012

Source: Cerulli Associates

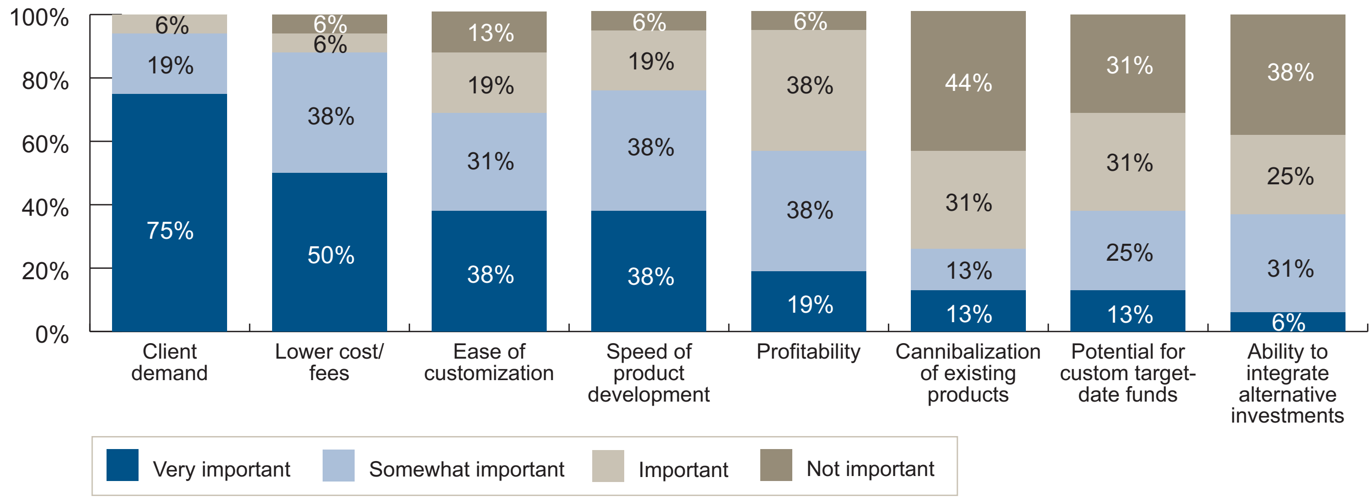


Like DC managers, investment consultants also leverage their existing DB plan sponsor relationships to compete for DC business.

Key Implication: Success within the retirement space requires a two-pronged distribution approach. Both engaging plan sponsors directly and cultivating relationships with investment consultants will increase the chances for a manager to compete for new defined benefit (DB) or defined contribution (DC) business. CTFs have gained traction among DB plans for decades and are increasingly used in DC plans as well. **Offering investment strategies packaged through CTFs gives asset managers another vehicle for their prospects and clients. Managers that are unaffiliated with a trust company may consider "renting" a trust charter if client demand dictates a CTF offering.**

Asset Manager Considerations for Development and Distribution of CTFs, 2012

Source: Cerulli Associates

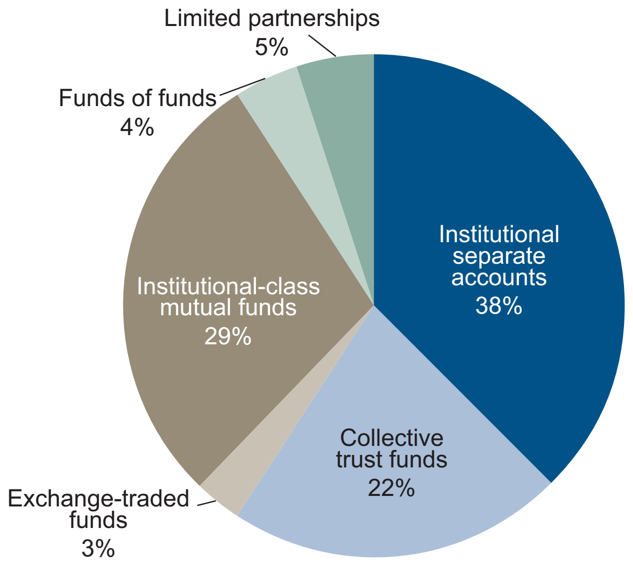


Key Implication: Oftentimes, asset managers use institutional clients' capital to seed new CTF strategies. This ensures that these strategies will be well on the path to raising sufficient assets to be profitable. **The recent creation of the "R6" mutual fund share class, which strips out all revenue-sharing expenses, helps to level the playing field between CTFs and mutual funds when discussing the various fee components for investment products offered in plans governed by the Employee Retirement Income Security Act. This may reduce the incentive for an asset manager to launch a CTF, if they are not already in this business.**

Investment Consultants

Investment Consultants' Client Asset Allocation by Vehicle Type, 2012

Sources: Cerulli Associates, in partnership with Institutional Investor Institute

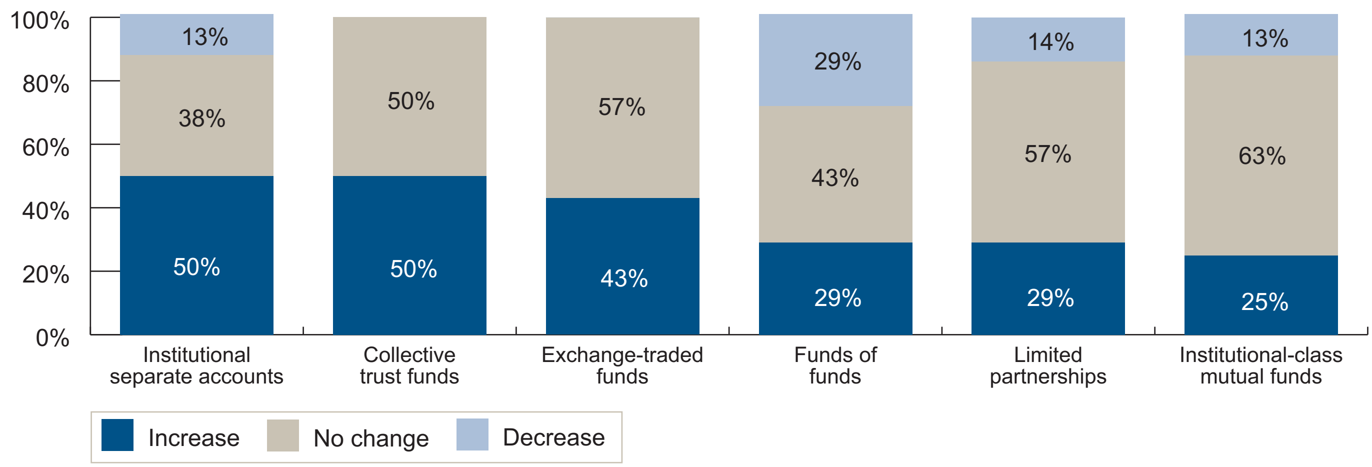


Note: Excludes limited partnerships, the most common structure for alternatives, including private equity and hedge funds. Components may not sum to 100% due to rounding.

Key Implication: Consultants often have a variety of clients, from DC and DB plans, to endowments and foundations. **Generally, the largest DB and DC plans by assets ($500 million and up) have the scale to access an institutional separate account. This vehicle is the most flexible and lowest cost for most traditional strategies.** CTFs have been gaining traction within DC plans during the past decade.

Investment Consultants' Expected Change in Use of Various Investment Vehicles Among Clients, 2012

Sources: Cerulli Associates, in partnership with Institutional Investor Institute

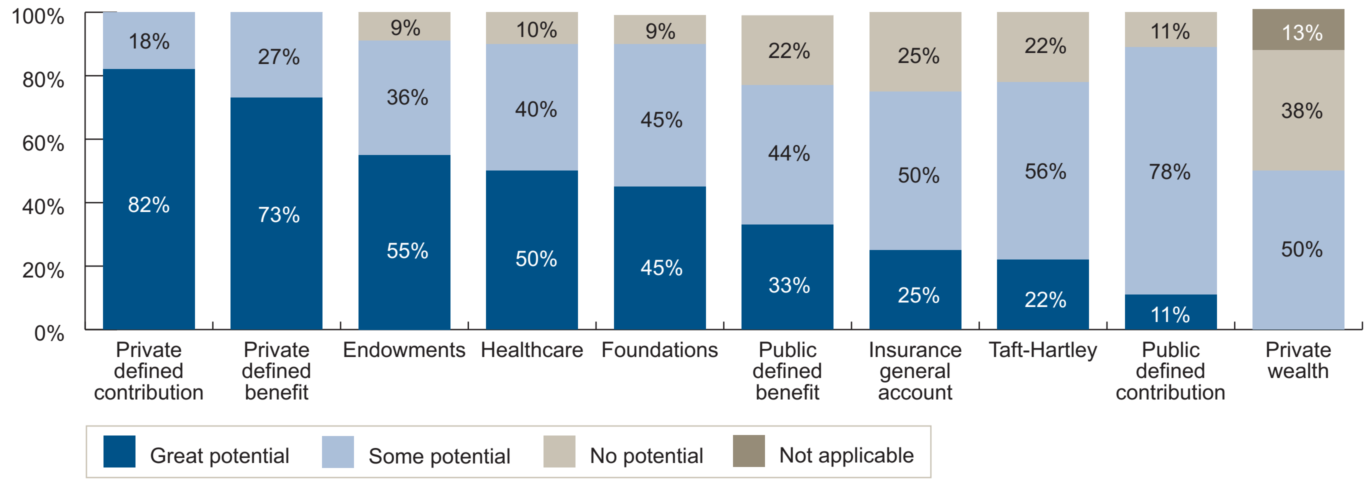


Key Implication: More consultants expect their clients' use of lower-cost vehicles (separate accounts, CTFs, and exchange-traded funds) to increase relative to mutual funds, funds of funds, and limited partnerships. Separate accounts are generally the lowest-cost delivery vehicle for many investment strategies. Some institutions, including pensions run by CalPERS, CalSTRS, and the New York State Common Retirement Fund, allocate to hedge funds through separate accounts, which offer clients greater transparency than the traditional limited partnership structure. **Cerulli notes that client demand often dictates the delivery vehicle for an investment strategy. As such, large institutions can leverage their ample asset base to negotiate fees for the benefit of their participants.**

Investment Consultants cont.

Investment Consultants' Anticipated Future Asset Growth by Institutional Segment, 2012

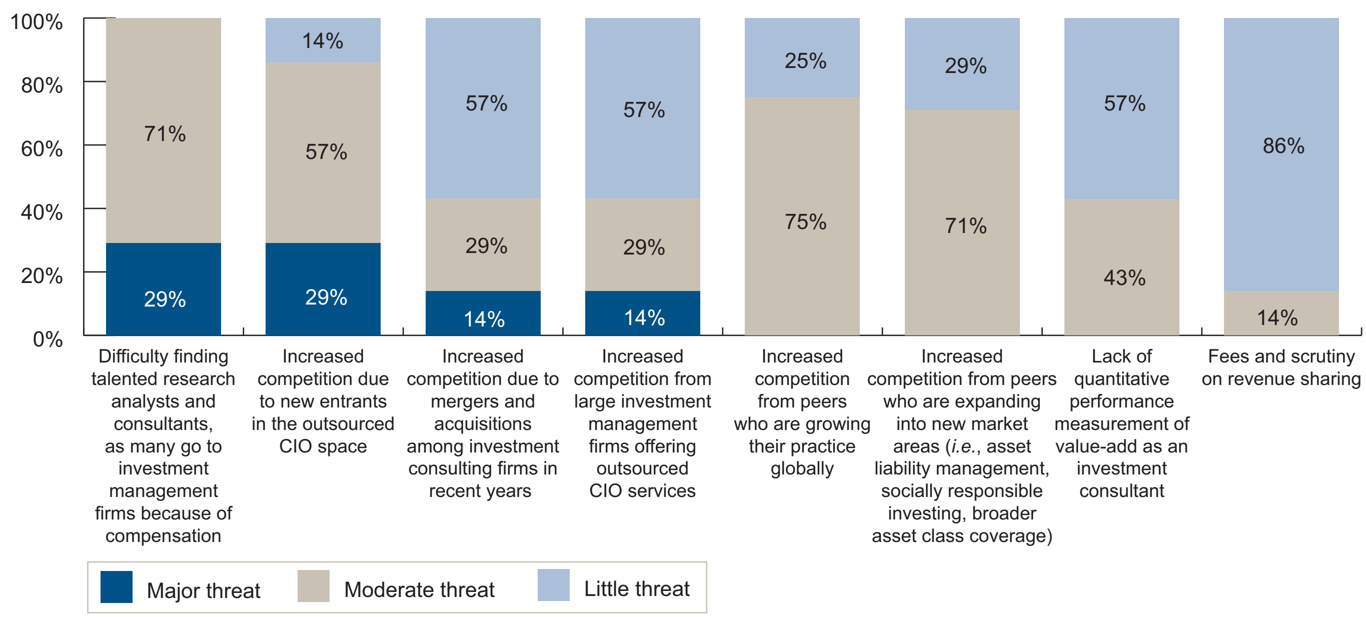
Sources: Cerulli Associates, in partnership with Institutional Investor Institute



Key Implication: Investment consultants are most bullish on potential growth of the private DC market, followed by private DB, endowments, healthcare organizations, and foundations. Some of this enthusiasm is likely a function of the sheer size of some of these markets—$3.5 trillion for private DC and $2.3 trillion for private DB. In DC, the line between an advisor and a consultant has blurred as some cream-of-the-crop retirement specialist advisors now work with plans up to $50 million-$100 million in assets. National or global consulting firms are most influential among plans with greater than $100 million in assets. **CA believes that as private DB plans continue to derisk, consultants and other investment outsourcing firms well versed in liability-driven investing will win mandates.**

Greatest Threats Presently Challenging Investment Consultants, 2012

Sources: Cerulli Associates, in partnership with Institutional Investor Institute

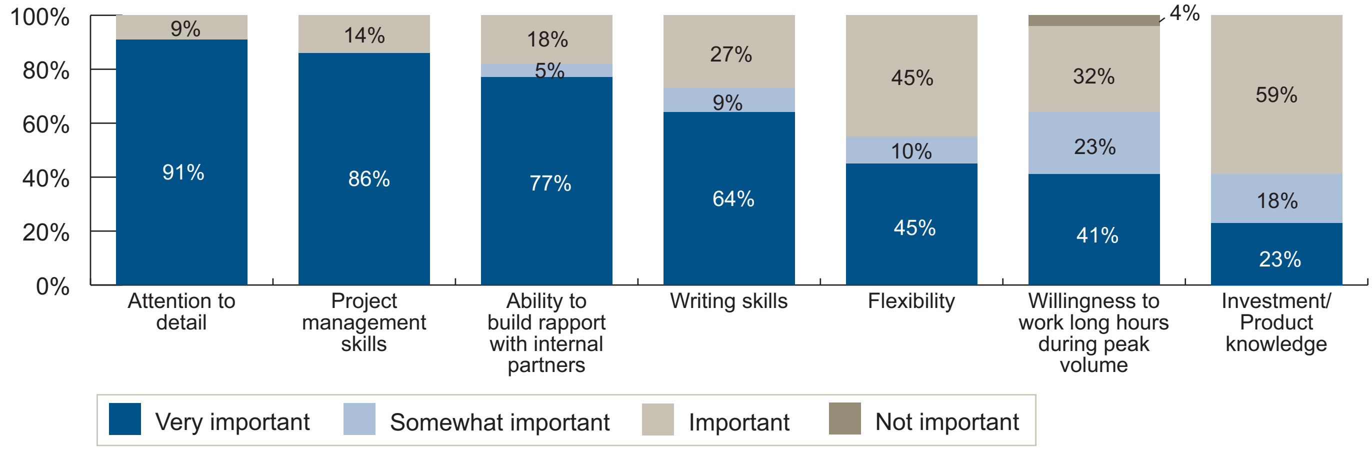


Key Implication: Skilled investment professionals will always be in high demand. Asset managers earn higher margins than investment consultants, enabling them to offer more compelling financial incentives to attract and retain top talent. **Consultant firms that offer implemented services typically generate more revenue with these services, which may in turn help level the playing field with asset managers in terms of hiring and retaining employees.** Profit margins tend to be higher for implemented services after the first few years. Outsourced Chief Investment Officer tends to have high start-up costs and relationships are often unprofitable in the first year or two due to the heavy implementation work.

RFP Groups

Key Skills and Qualifications for a Quality RFP Writer, 2012

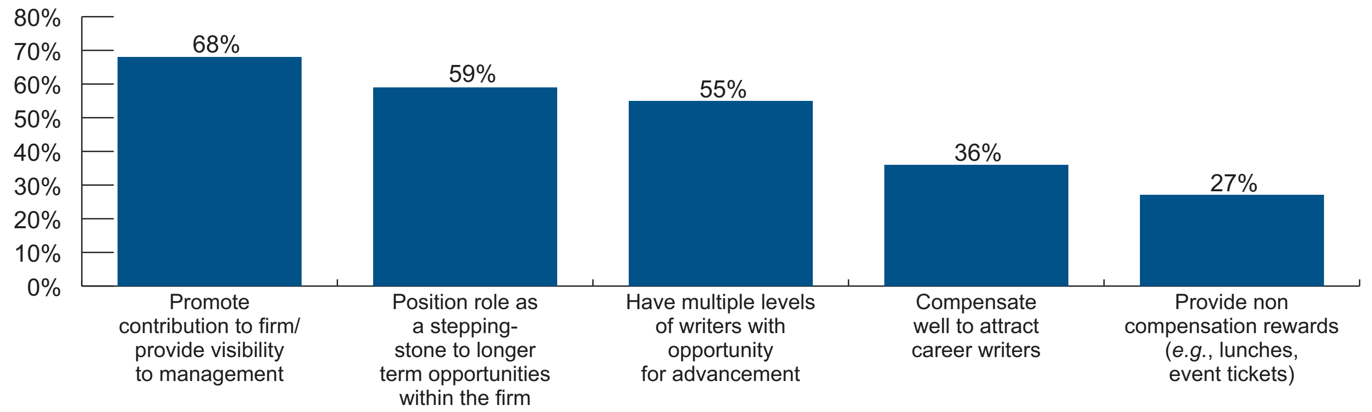
Source: Cerulli Associates



Key Implication: Attention to detail is an essential quality for a request for proposal (RFP) writer to possess. **Project management skills and the ability to build rapport are also extremely important, as RFP writers are tasked with quarterbacking a complex and time-sensitive process across various organizational groups.** All of the managers that CA surveyed rely on "hands-on training" to develop their newly hired professionals. Some RFP team leaders host "lunch and learn" sessions with portfolio managers to boost RFP writers' product knowledge.

Methods to Retain RFP Personnel, 2012

Source: Cerulli Associates



Key Implication: Retaining RFP personnel has been cited by many RFP managers as a significant challenge. **Firmwide visibility and recognition for their contribution is the most frequently mentioned method for managers to ensure RFP writers feel valuable to the organization.** Although many of the RFP managers we surveyed chose to create different levels of seniority, without the budget to offer higher compensation for senior levels, some firms will struggle to retain competent personnel. CA believes that there are three principal areas that RFP managers should focus on to retain strong employees: compensation, training and development, and leadership. We counsel RFP managers to be proactive in recognizing their teams, for both their collective and individual achievements.