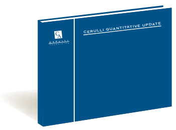
2011

Cerulli Quantitative Update

Intermediary Distribution 2011



Release: October 2011

"By 2015, Cerulli projects that 44% of the industry's advisors will be within independent channels."

This annual publication, in its eighth iteration, provides comprehensive data on financial product distribution through intermediaries. Analysis includes Cerulli's annual advisor market sizing, as well as an examination of the distribution dynamics and advisor preferences and behaviors related to retirement plans, 529 plans, insurance, managed account programs, mutual funds, annuities, and alternative investments. There is also comprehensive analysis of wholesaling teams (including compensation trends) and the national sales manager role.

Key findings:

- Given an expected reduction in wirehouse marketshare, and the high costs of distributing in the channel, product providers are increasingly turning their efforts to alternate distribution outlets.
- Even those advisors not operating within their B/D's discretionary portfolios are often using the recommendations used in the portfolios as a foundation of their own manager selection process.
- Since the market declines of 2008, the share of managed account assets in advisor-driven programs has increased from 29% to 39%. Advisors recognize that their value to clients' portfolios can be as a tactical technician or manager of managers.
- 50% of advisors project additional increases in ETF allocations within their client portfolios.
- Commissions on gross sales currently make up the majority of wholesaler compensation, but sales managers would prefer to add weighting to net sales and other metrics not tied directly to sales tonnage.

Exclusive data in this report:

- Current and projected advisor headcount and AUM by channel
- Top B/Ds by headcount and AUM
- RIA firms, assets, and advisors by affiliation model
- Market sizing, distribution dynamics, and advisor preferences and behaviors related to mutual funds, annuities, managed accounts, retirement and alternative products
- External salesforce headcounts, organizational structures, compensation
- Hybrid/e-wholesaling compensation and staffing

Sample Exhibit: Exhibit 2.03: Historical Change in Total Advisors by Channel, 2004-2010

Sources: Cerulli Associates and other sources

Channel	1-Year CAGR	3-Year CAGR	6-Year CAGR
IBD	-1.1%	-0.6%	-0.8%
Including dually registered	0.1%	0.2%	0.5%
Insurance B/D	-6.6%	-1.4%	-1.6%
Wirehouse	1.1%	-3.7%	-3.0%
Regional B/D	-10.2%	1.3%	-1.1%
RIA	0.3%	6.7%	4.5%
Including dually registered	3.9%	6.9%	8.4%
Bank B/D	-5.9%	-3.2%	-0.7%
Dually registered	10.2%	7.2%	17.9%
Total	**-3.1%**	**-0.6%**	**-0.7%**

This report allows firms to:

- Size advisors by channel including projections
- Identify and target advisors, refine sales strategies
- Position products given how portfolio construction practices are changing
- Address RIAs
- Create products that address advisor concerns: flexibility, choice, and pricing
- Benchmark wholesaling staff

Exhibits and Chapters:

# of Exhibits: 209

Chapters:

1. Channel Strategy
2. Advisor Sizing
3. B/D Sizing
4. RIAs Sizing
5. Product Use by Channel
6. Advisor Portfolio Construction
7. Mutual Funds
8. Annuities
9. Alternative Investments and ETFs
10. Managed Accounts
11. Retirement Products
12. Sales Management
13. Key Account and Marketing Support
14. Field Wholesaling
15. Sales Support

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Attached: Table of contents, exhibit list, user examples, sample exhibits, order form

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USER EXAMPLES

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The following are examples of how this report can be applied to business planning and strategic decision-making:

Scenario 1: A mid-size asset manager is trying to reduce costs by assessing its current distribution strategy. They are interested in comparing their salesforce structure to other managers. ***Cerulli Quantitative Update: Intermediary Distribution 2011*** answers the following questions:

- What is the average salesforce headcount for mid-size asset managers?
- What are wholesaler compensation trends?
- How are firms using hybrid wholesalers?

Scenario 2: A boutique asset manager is trying to understand the trend of advisor movement towards independent channels. They think they have a unique offering that RIAs would be interested in, but they aren't sure how to address this channel. ***Cerulli Quantitative Update: Intermediary Distribution 2011*** answers the following questions:

- How many RIA firms, advisors, and assets are there in the U.S.?
- How significant is the growth of independent channels? Which channels are losing advisors?
- What types of products are RIAs using?
- Who are the top RIA custodians and how do asset managers access these platforms?

Scenario 3: An insurance firm is revamping their marketing strategy and hoping to get new advisors interested in their products. ***Cerulli Quantitative Update: Intermediary Distribution 2011*** answers the following questions:

- What types of advisors are planning to increase their use of annuities?
- How do advisors select an annuity provider?
- How are advisors using annuities in retirement income planning?

Scenario 4: The head of distribution at a large asset management firm is working on his team's annual business plan. He is seeking data that will help him formulate his recommendations related to channel resource allocation. ***Cerulli Quantitative Update: Intermediary Distribution 2011*** provides answers to the following questions:

- Given our firm's current position, for which channels should we increase, decrease, or maintain our resource allocation?
- What are best practices related platform support?
- How are firms tackling the independent channels from a sales perspective?

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2. Cerulli Quantitative Update: Intermediary Markets 2009
3. Cerulli Special Report: Market Update: RIA Channel Sizing and Assessment
4. State of Independent Broker/Dealers: Channel Sizing and Industry Implications 2008
5. Cerulli Quantitative Update: Intermediary Markets 2008
6. Registered Investment Advisors 2007
7. Cerulli Quantitative Update: Intermediary Markets 2007
8. State of Wholesaling: Next-Generation Coverage Models 2006
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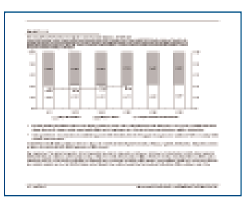

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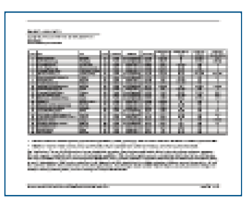

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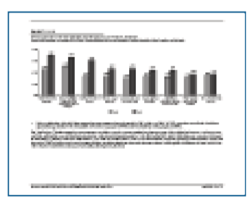

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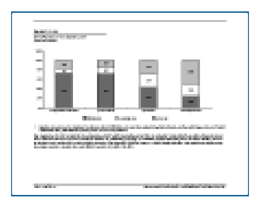

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Methodology

Cerulli Quantitative Update: Intermediary Markets 2011 is the eighth report in an annual series, which is the outcome of ongoing research and analysis of the intermediary marketplace by Cerulli Associates. The report focuses on financial products and product distribution, including market sizing, advisor product usage and preferences, and product provider salesforces. ***Cerulli Quantitative Update: Intermediary Markets 2011*** leverages CA's continuous research and analysis of the marketplace, including proprietary surveys of advisors and asset managers conducted through CA's proprietary survey engine. A number of these surveys were conducted in partnerships with industry organizations, such as the Investment Management Consultants' Association, the College for Financial Planning, Morningstar, Sequoia System and the Financial Planning Association. The proprietary data in this report is supplemented with government sources (FDIC, Federal Reserve, Department of Labor, National Regulatory Services, etc.), as well as third-party sources (Strategic Insight/SIMFUND, Morningstar Direct, Insured Retirement Institute, etc.).

Cerulli Quantitative Update: Intermediary Markets 2011 is designed to serve as a stand-alone publication, but also as a complement to other publications, specifically the Cerulli Quantitative Update: Advisor Metrics 2011, which focuses on advisor trends and consumer information. Each exhibit includes charts and commentary, including the important tactical ramifications for asset managers and broker/dealers. The report is designed as a business planning tool.

Market sizing Methodology: Cerulli's annual sizing of the advisor marketplace provides assets under management and advisor headcounts by channel for retail advisors. Cerulli defines retail advisors as those advisors in the business of offering financial advice to retail clients and who seek to manage an entire asset allocation strategy for their clients. Cerulli's definition of retail advisors excludes registered personnel such as wholesalers and home-office staff who are not addressable for asset managers and broker/dealers, but who are commonly included in other attempts at sizing the advisor marketplace. The SEC and FINRA regulatory filings serve as a starting point from which Cerulli analysts individually remove broker/dealer and RIA firms not engaged in financial advising for retail clients. Using third-party industry sources, firm filings, regulatory filings, and interviews with executives, Cerulli analysts assign advisor headcounts to each firm. Firm headcounts are then aggregated into overall channel advisor headcounts.

In general, CA's opinions and perspective are shaped by a robust methodology that includes:

- **Industry understanding:** All Cerulli analysts come to the firm with a background shaped by relevant experience at leading financial services firms, which contributes to the internal pool of industry knowledge.
- **Quantitative analysis:** CA maintains an online, password-protected survey engine as part of a voluntary, information-sharing relationship whereby participants complete confidential surveys in exchange for an aggregate summary of key findings. All information is presented in aggregate form, and proprietary survey information in not directly attributed to participants.
- **Qualitative research:** Cerulli analysts annually conduct background research interviews with industry executives and advisors in a confidential manner, which allow for candid commentary regarding the state of the advisor markets and potential future trends.

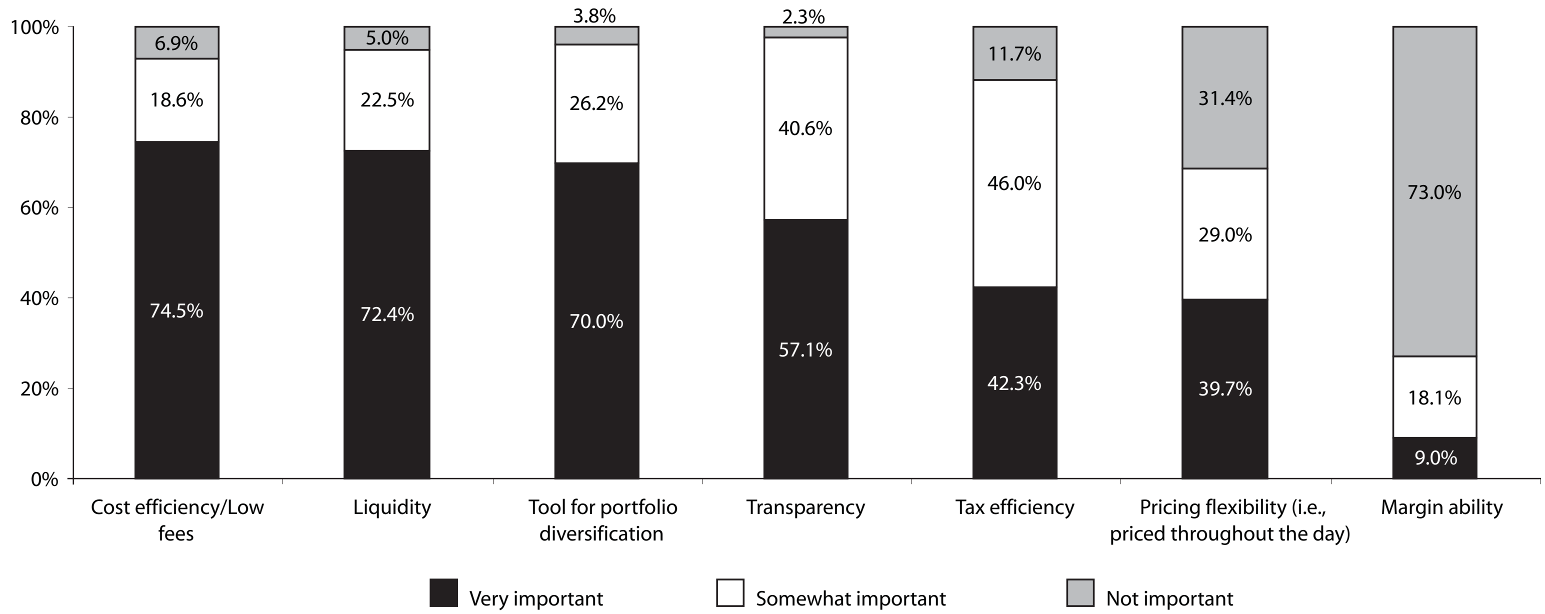
SAMPLE SECTION
from

CERULLI QUANTITATIVE UPDATE:
INTERMEDIARY DISTRIBUTION 2011

EXHIBIT 9.06

ETF Attributes Important to Advisors, 2Q 2011

Sources: Cerulli Associates, in partnerships with the College for Financial Planning, the Financial Planning Association, the Investment Management Consultants Association, Morningstar, and Advisor Perspectives



- **Cost (75%), liquidity (72%), and diversification (70%) are the three top-cited reasons for advisors to utilize ETFs within their client portfolios.** Intraday pricing and margin benefits of ETFs appeal to active traders, whose aggressive portfolios are unsuitable for the majority of advisory clients.

Key Implication: The tax efficiency of ETF products is an underutilized selling point for advisors considering allocation changes to passive products. Cerulli investor research indicates that end investors place a greater emphasis on investment related taxes than their advisors. ETF product providers who work to align interests between investors and advisors will open the window for added share in advisor portfolios.

EXHIBIT 14.17

Criteria Utilized for Advisor Segmentation, 2011

Sources: Cerulli Associates, in partnerships with Sequoia and the Investment Management Consultants Association

Criteria	% of All Wholesalers
Sales of my product	84%
Product use	66%
Sales of competitor products	61%
Production	53%
AUM	35%
Product decision-making criteria	33%
Platform use	31%
Growth of advisor practice	31%
End clients	30%
Marketing strategy	28%
Team structure	20%
Pricing (fees vs. commission)	19%
Portfolio construction methodology	18%
Other	3%

- **Current sales of wholesalers' product (84%) is the most frequent segmentation metric wholesalers apply to advisors.** Current overall production and product use are also considered by a majority of advisors.

Key Implication: Somewhat surprisingly, an advisors' AUM is only an active concern for 35% of wholesalers. While focusing on current production, or "money in motion," wholesalers are able to determine where their best short term opportunities lie. However, wholesalers should also be very aware of an advisor's legacy assets. Though the advisor may not be currently looking to move existing assets in the short term, understanding what holdings exist can help a wholesaler better determine what additional opportunities may exist in an advisor's book.

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