

U.S. Product Development 2020

Prioritizing Investment Product Initiatives

OVERVIEW & METHODOLOGY

This report is focused on how asset managers are pursuing various product initiatives, including expanding their investment vehicle offerings, incorporating environmental, social, and governance (ESG) criteria into investment products and processes, developing/distributing asset allocation model portfolios, and fee modification and innovation. Additionally, this report takes a deeper dive into mutual fund fees, how they are changing, and the resulting impact on mutual fund manager revenue.

The quantitative sections of this report look at the portfolio objectives that financial advisors are helping clients solve, what investment strategies they are using, and how asset managers need to position their product offerings to meet the demand that results. Finally, this report examines product groups' organizational structure within large and medium/small-sized firms.

USE THIS REPORT TO

- Gain insight into the pursuit of vehicle proliferation and how it fits into product team plans moving forward, especially as investors' appetite for different wrappers is increasing
- Understand the fee landscape and learn how asset managers are reacting to fee compression
- Evaluate how financial advisor portfolio objectives have shifted as a result of the COVID-19 pandemic in terms of vehicle allocations, asset class allocations, and sub-asset-class allocations
- Review where the limited opportunity within the subadvised landscape lies as firms are challenged by outflows, mandates being pulled in house, consolidation, and other factors

QUESTIONS ANSWERED

- Which product initiatives are teams most commonly prioritizing and how has that evolved over time?
- How are mutual fund managers responding to fee compression?
- Which portfolio objectives are advisors focused on when constructing portfolios for clients and which asset classes and investment vehicles are they using?
- How has the size of the U.S. subadvised market changed over time and what are key factors impacting opportunity across mutual funds, retail variable annuities, and ETFs?
- How are product organizations being segmented and where are product management and development functions allocating most of their time?

PRODUCT DETAILS

Included with Purchase

- Digital report in PDF format
- Unlimited online firm-wide access
- Exhibits in Excel
- Key findings
- Analyst support
- Interactive Report Dashboards

Interactive Report Dashboards

Interact and explore select report data with Cerulli's visualization tool.

- **Asset Projections:** Measure Cerulli's historical and projected assets for various product types against customizable user growth rates.
- **Product Plans and Initiatives:** Review asset managers' level of priority placed on select product-related initiatives and building out new investment vehicle offerings, and learn about new product plans by asset class and management style over the next 12 months.
- **Product Organizations:** Compare organizational features for large and medium- to small-sized asset managers, which includes product personnel staffing levels by role, allocation of product groups' time by responsibility, and the top factors driving organizational change.
- **Share Class Comparison:** Analyze side-by-side comparisons of several different share classes' percent of gross sales over the last three years and expected changes during the next 12 months.
- **Vehicle Comparison:** Review detailed analyses of select investment vehicles, with details covering fees, set-up costs, liquidity, speed to market, etc.
- **Vehicles and Structures:** Gain an understanding of investment vehicle/structure use, levels of opportunity for each, and firms' plans for building vehicles/structures that they do not currently offer.



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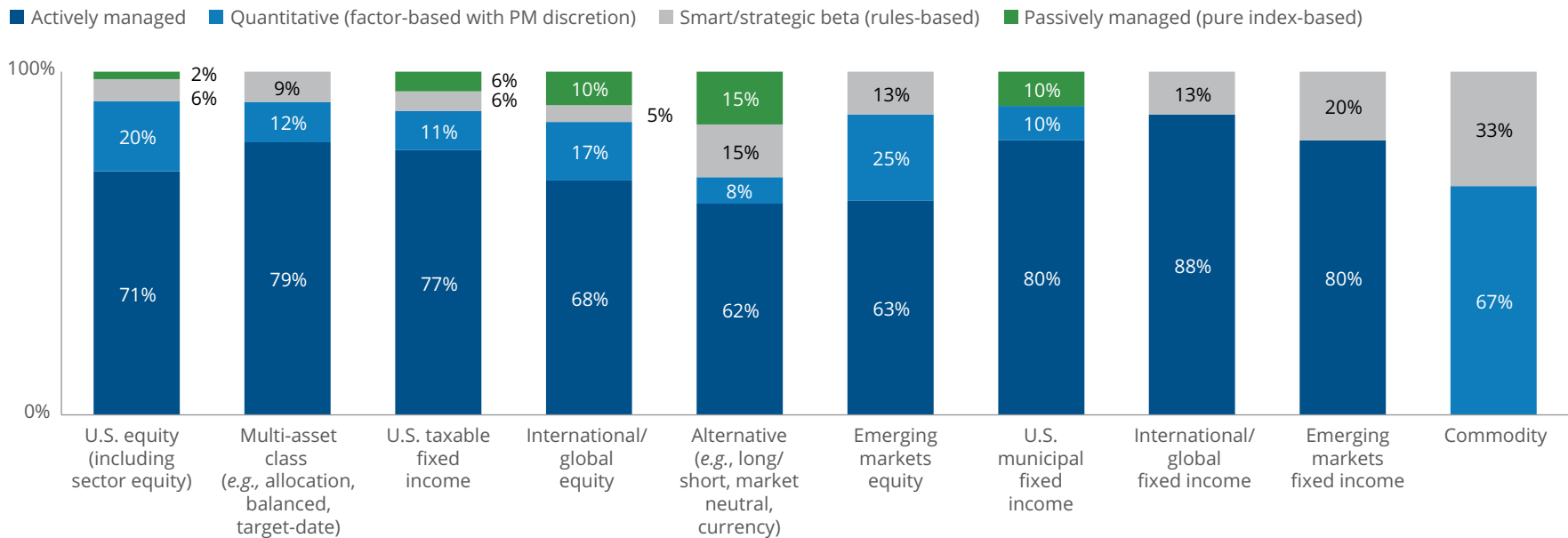
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Exhibit 4.09

New Product Plans by Asset Class and Management Style Over the Next 12 Months, 2020

Source: Cerulli Associates

Analyst Note: Asset classes are ordered based on the percentage allocation of product development plan efforts over the next 12 months, as outlined in Exhibit 4.08. Money market is excluded from the analysis.



- Asset managers continue to look to develop product using their active management capabilities. The style dominated new product plans in all asset classes, gathering 60% or more in all but commodities.
- Asset managers have almost no plans outside of active management in fixed income, with all fixed-income sub-asset classes seeing over 75% of plans in active.

Key Implication: Some of the more recent product development efforts within equities have come in the form of thematic funds. Many of these strategies have been launched using the ETF vehicle, including cloud computing-focused strategies from Global X (CLOU) and WisdomTree (WCLD), a 5G Next Gen Connectivity fund from Defiance (FIVG) and tech focused funds from iShares (US Tech Breakthrough Multisector ETF – TECB) and Ark (Fintech Innovation ETF – ARKF). Other more esoteric thematic products include Roundhill’s Sports Betting & iGaming ETF (BETZ), iShares Genomic Immunology & Healthcare ETF (IDNA), and AdvisorShares Pure Cannabis ETF (YOLO). Thematic products are not necessarily a new concept, as this effort is an evolution of exposure beyond traditional sector equity categories. Acknowledging this, one industry expert Cerulli spoke with highlighted potential demand because “in general, humans are novelty-seeking creatures. Conversational alpha is an important value-add for advisors.” Cerulli believes that managers can find success in areas that pique investor interest, assuming they can market them to the extent that they tap into that interest. However, that opportunity can be fleeting, as themes come in and out of favor.

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