



CREATE-Research Future of Investment: the next move?



Introduction to the Research

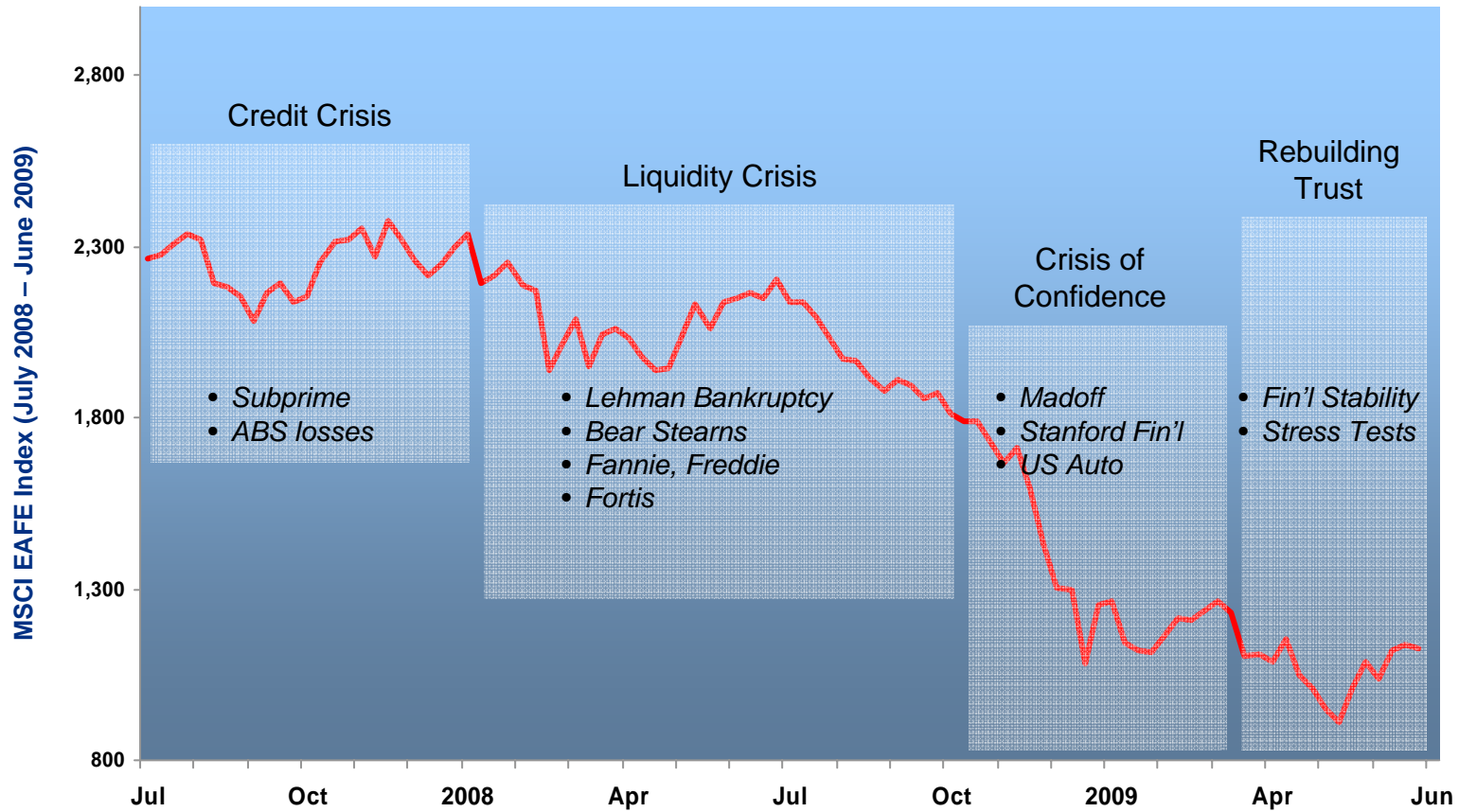
Asset Management is at an inflection point

Client needs are changing, demanding safety, simplicity and safety

There will be no return to business as usual in the existing business models

Financial Crisis

A perfect storm



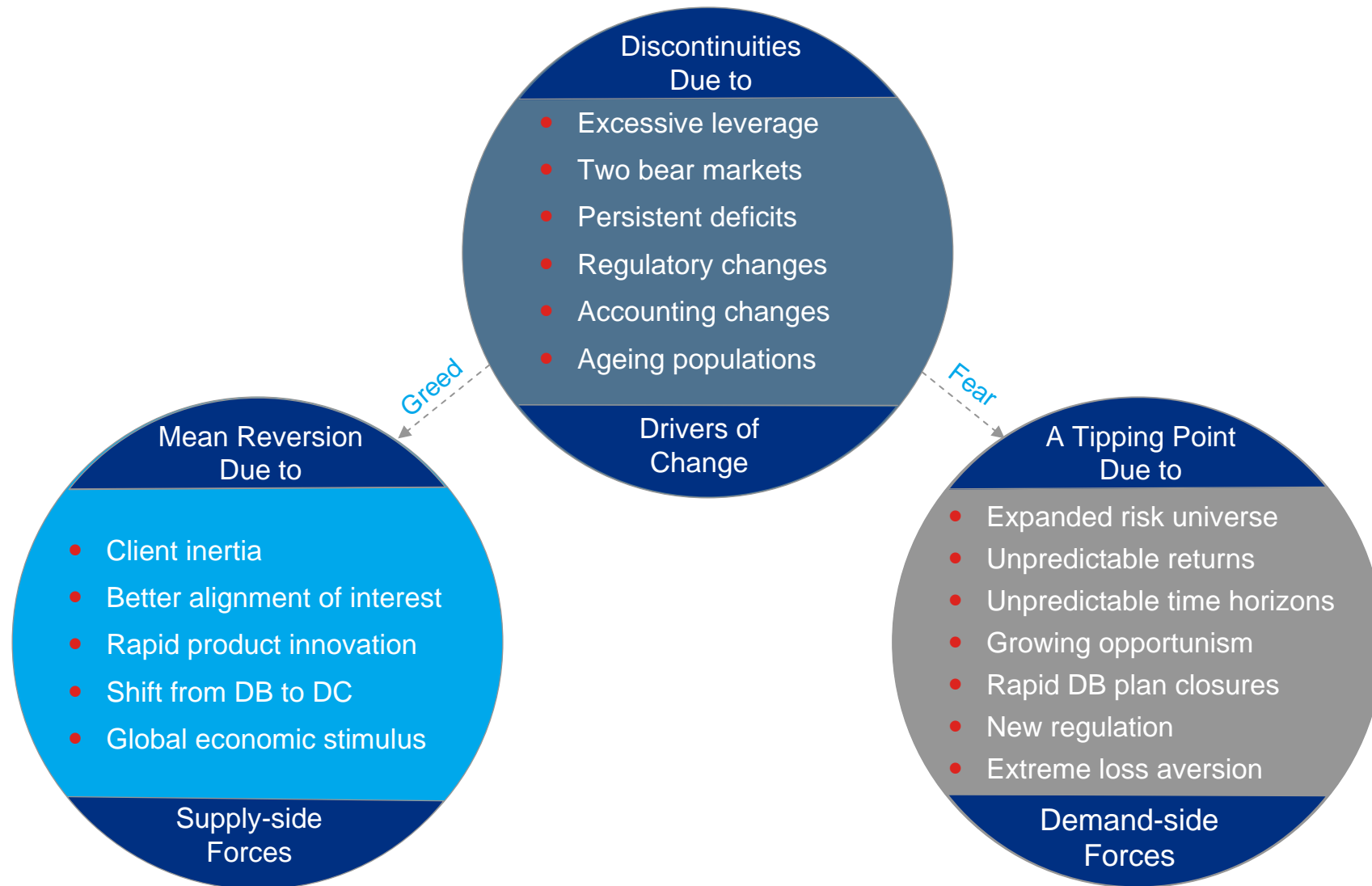
Key Themes

Asset Management is at an inflection point

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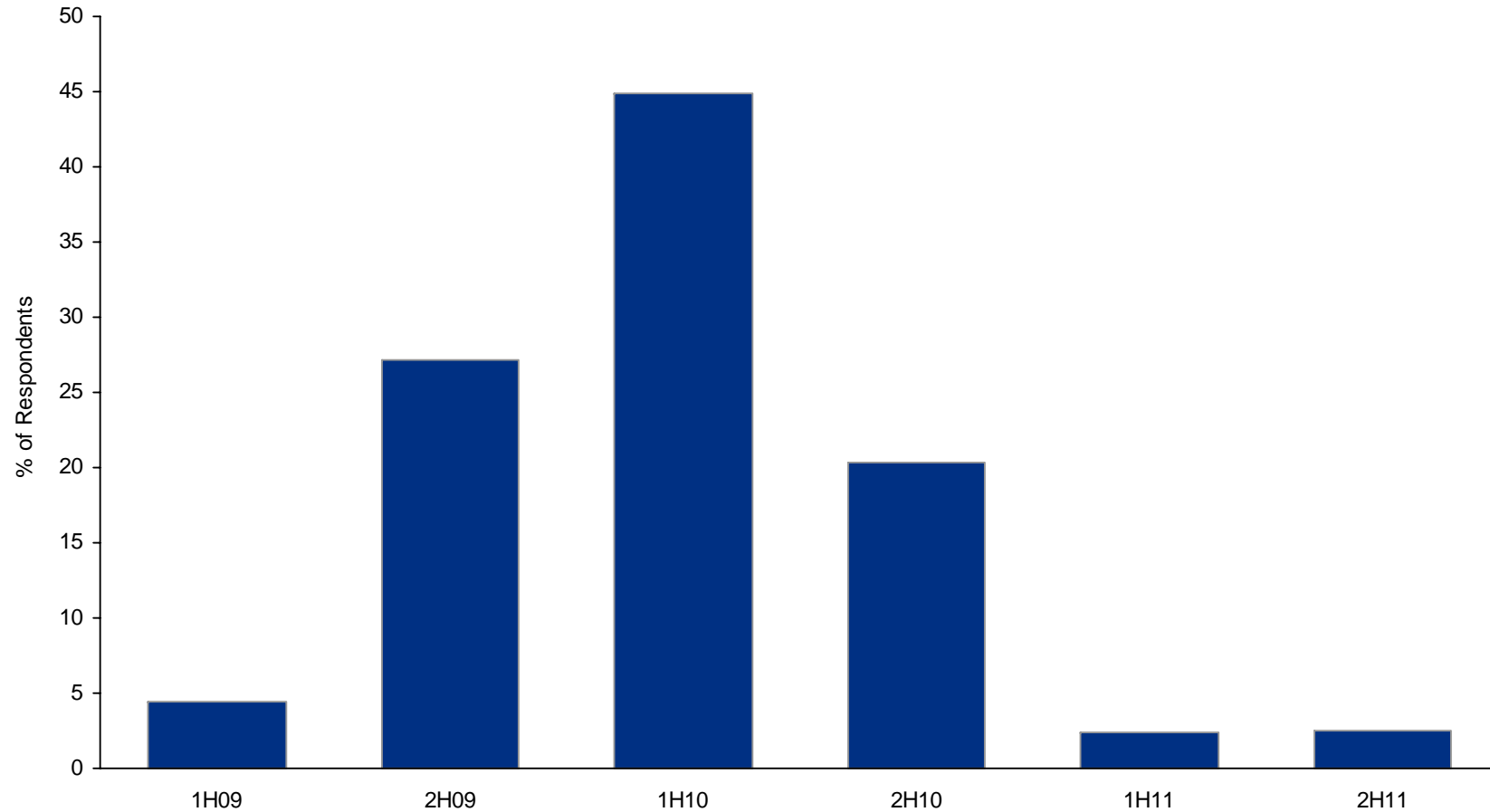
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Causes and Consequences of Discontinuities



Significant Market Recovery is More Likely in 2010

When do you think the worst of the current crisis will end?

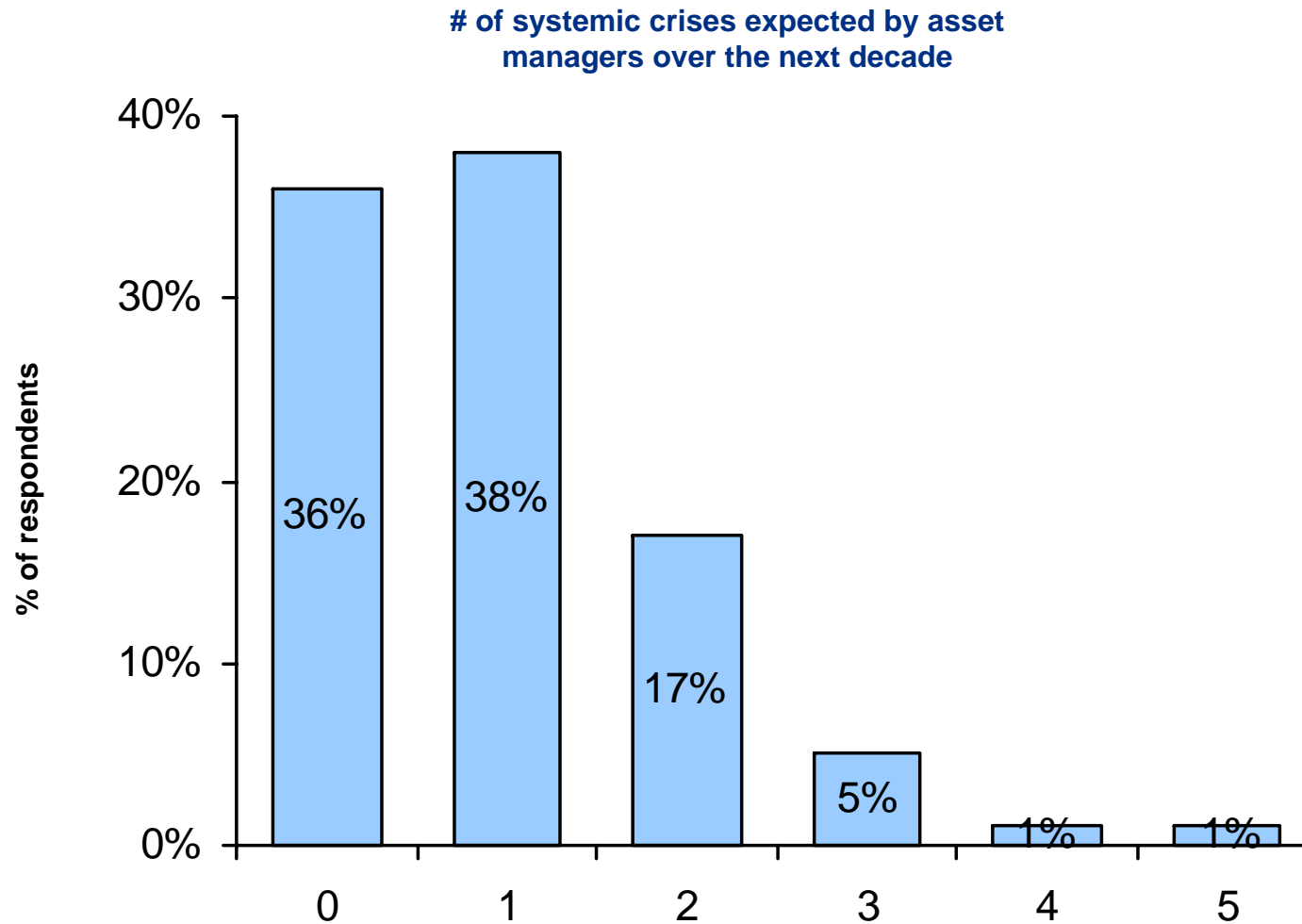


Source: Citi/Principal/CREATE Survey 2009.



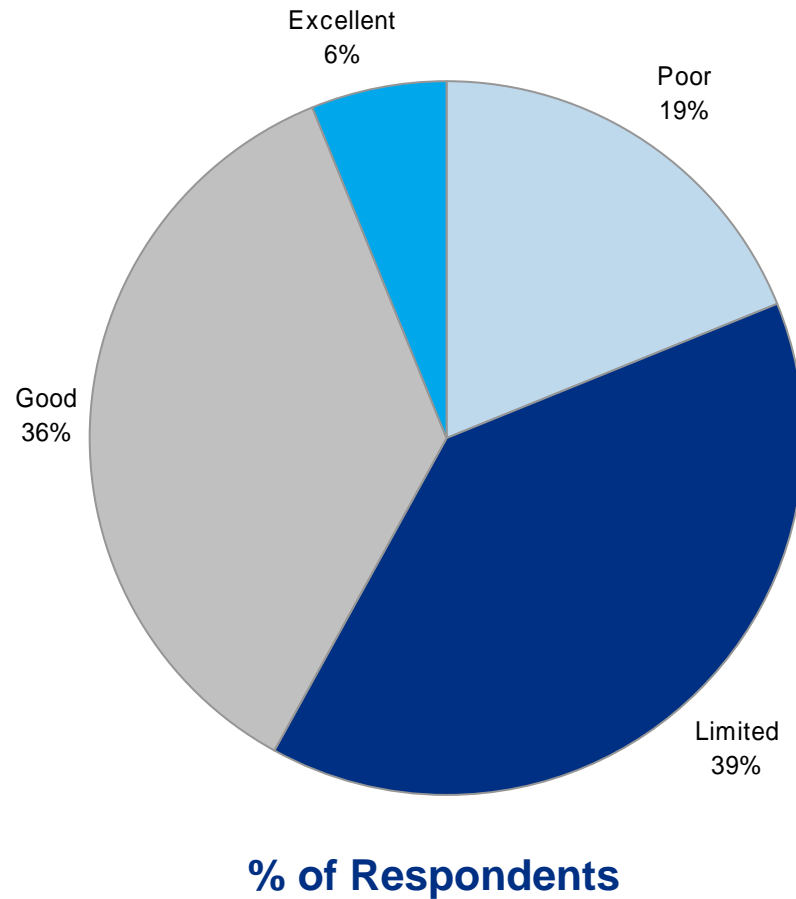
The Future is Not Clear But Volatility is Inevitable

How many more systemic crises do you expect between now and 2020?



There is Only Guarded Optimism About Growth Prospects

Once the current crisis is over, how would you describe the industry's growth prospects in the following three years?



Source: Citi/Principal/CREATE Survey 2009.

Key Themes

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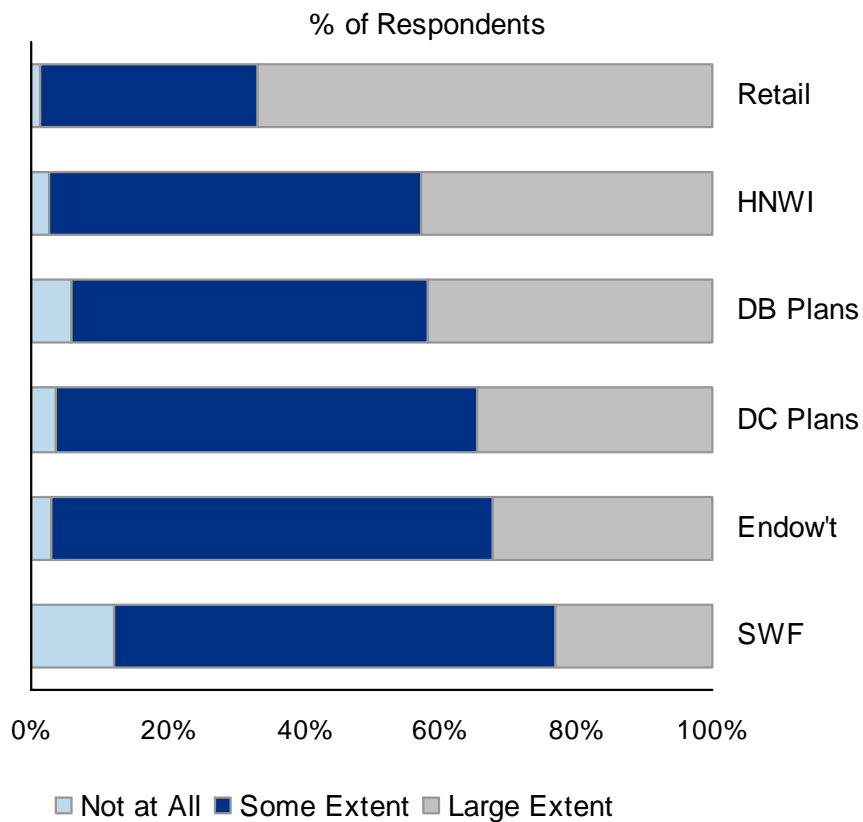
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Client Needs

One size will not fit all and customization will be required

Impact of Crisis on Clients' Investment Behavior in the medium term

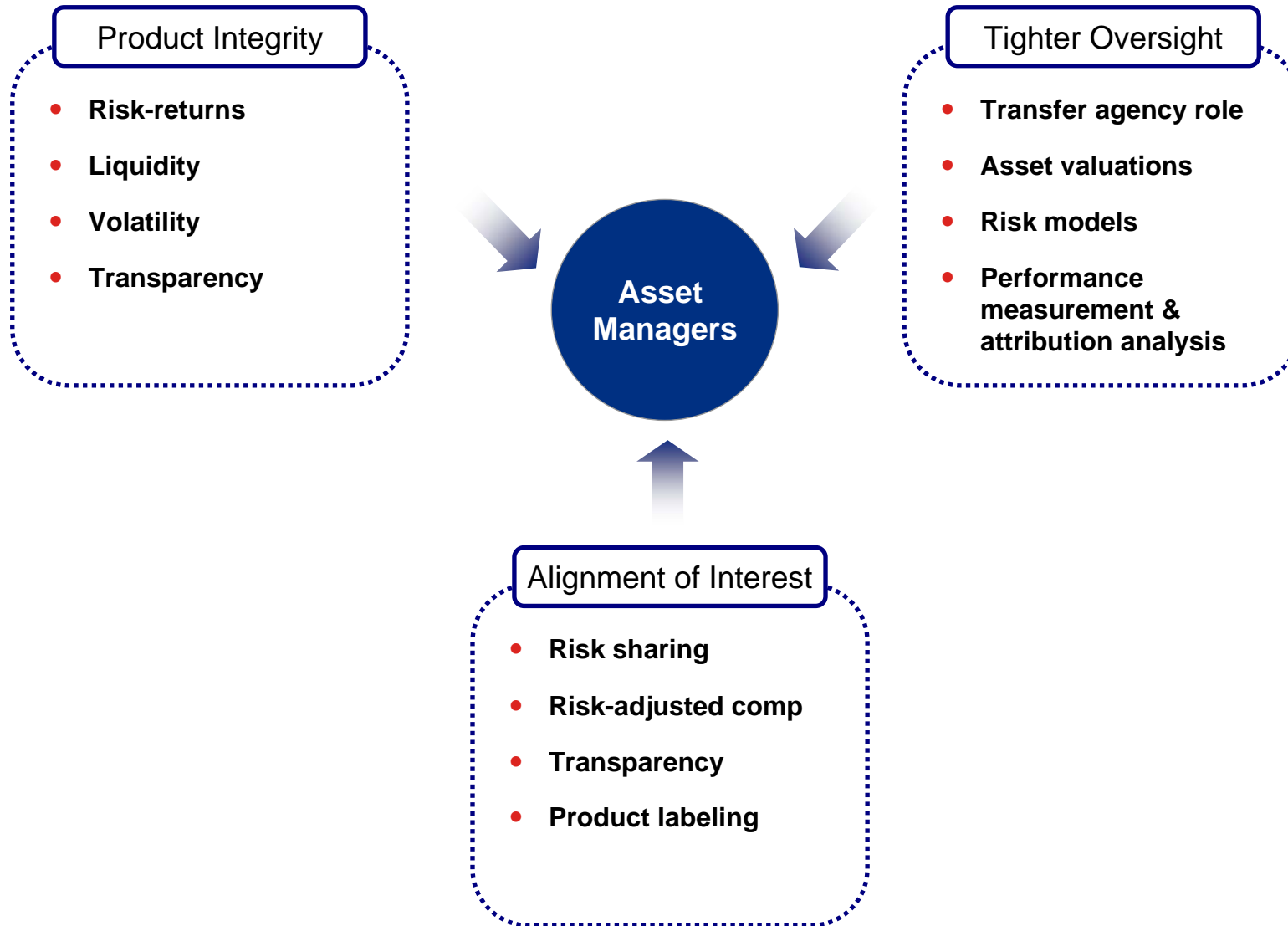


The Future...

		Allocation Philosophy	
		Strategic	Tactical
Client	Institutional	Returns & Liquidity	High Risk & High Returns
	Retail	Capital Protection & Income Upside	Absolute Returns

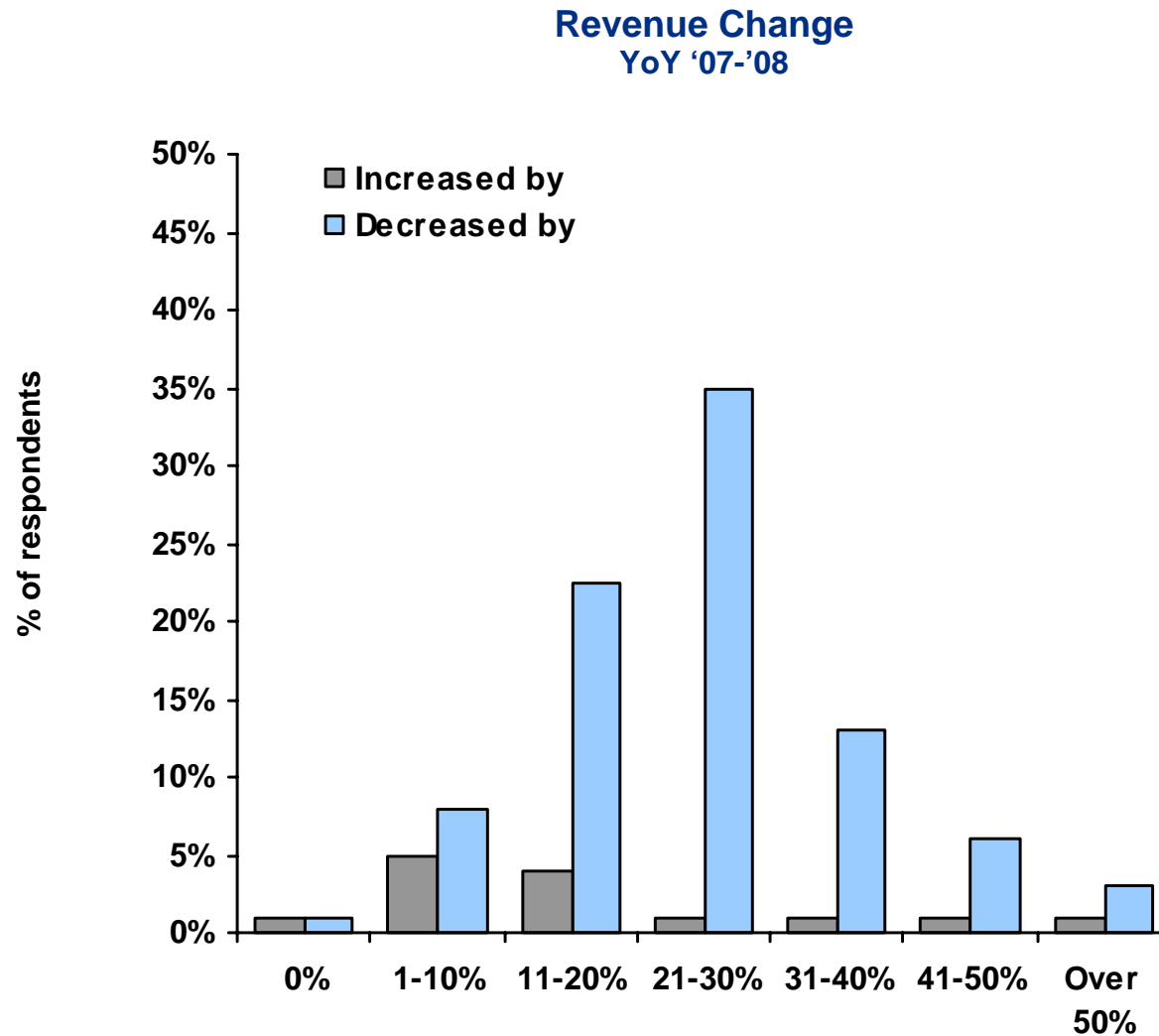
Regulatory Change

Push to transparency, simplicity, and low cost



Pressure on the Investment Management Industry is Evident

Declining surplus for reinvestment will compel sharper investment choices



Source: Citi / Principal / CREATE Survey 2009

Key themes

Asset Management is at an inflection point

Client needs are changing, demanding safety, simplicity and safety

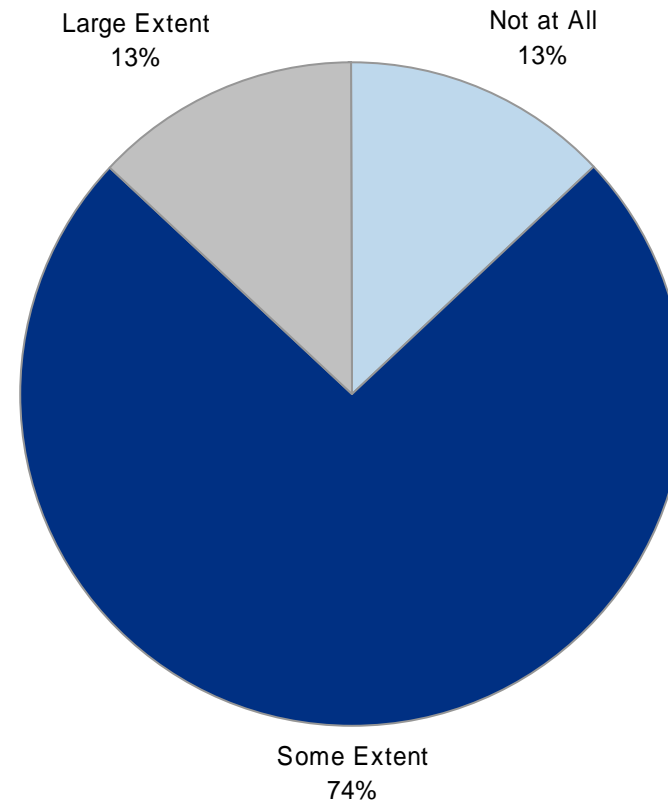
**There will be no return to business as usual in the existing
business models**

Business Models

Current Generation of Business Models Have Yet to Develop Cost Shock Absorbers to Protect Net Profits When Revenues Take a Hit

Question

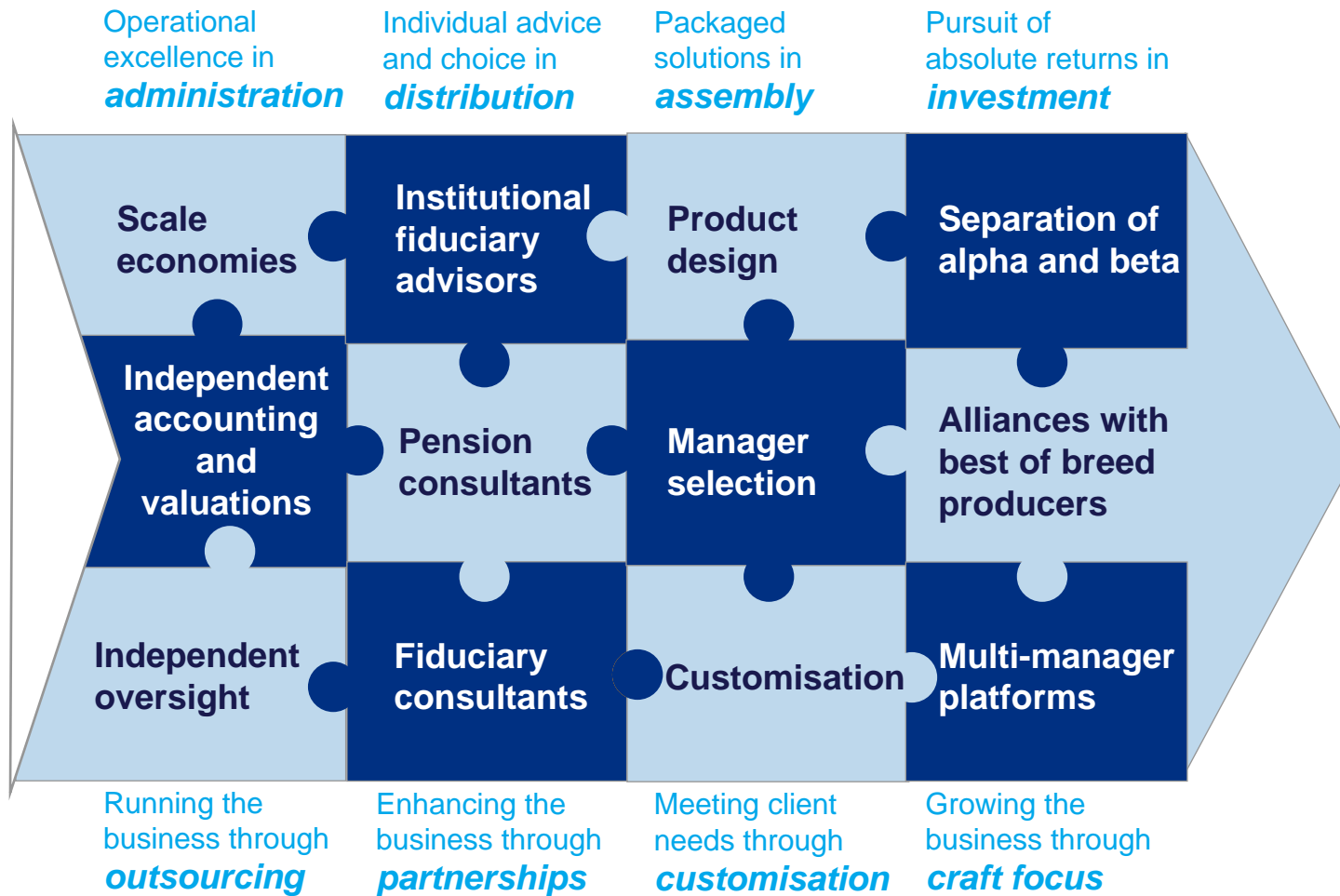
To what extent do costs vary directly with the level of activity in different parts of your business, so as to help preserve the net profit margins in difficult markets?



% of Respondents

What is the Nature of the Emerging Industry Architecture?

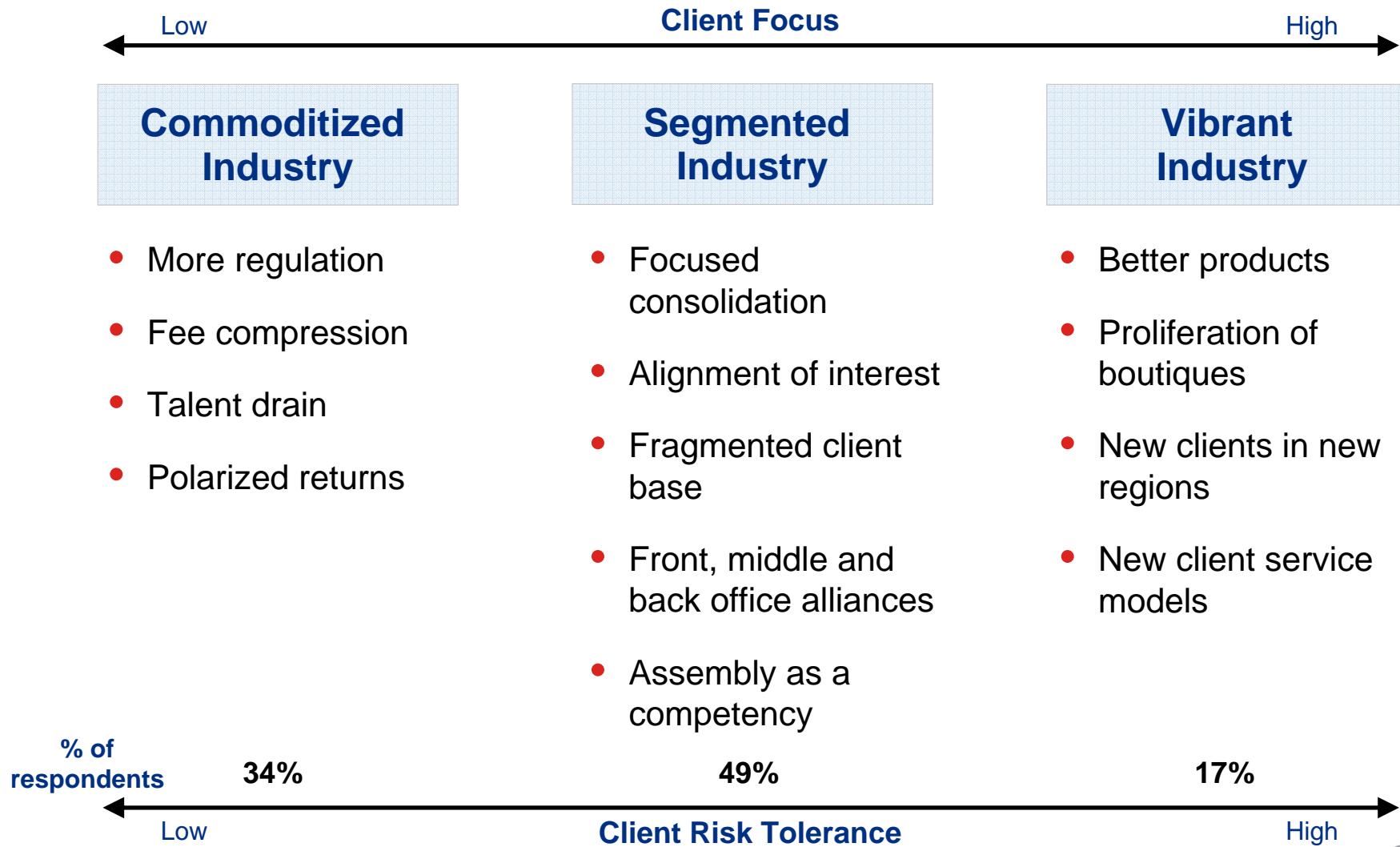
... breaking up the value chain and focusing on alpha



Source: Citi/Principal/CREATE Survey 2009.

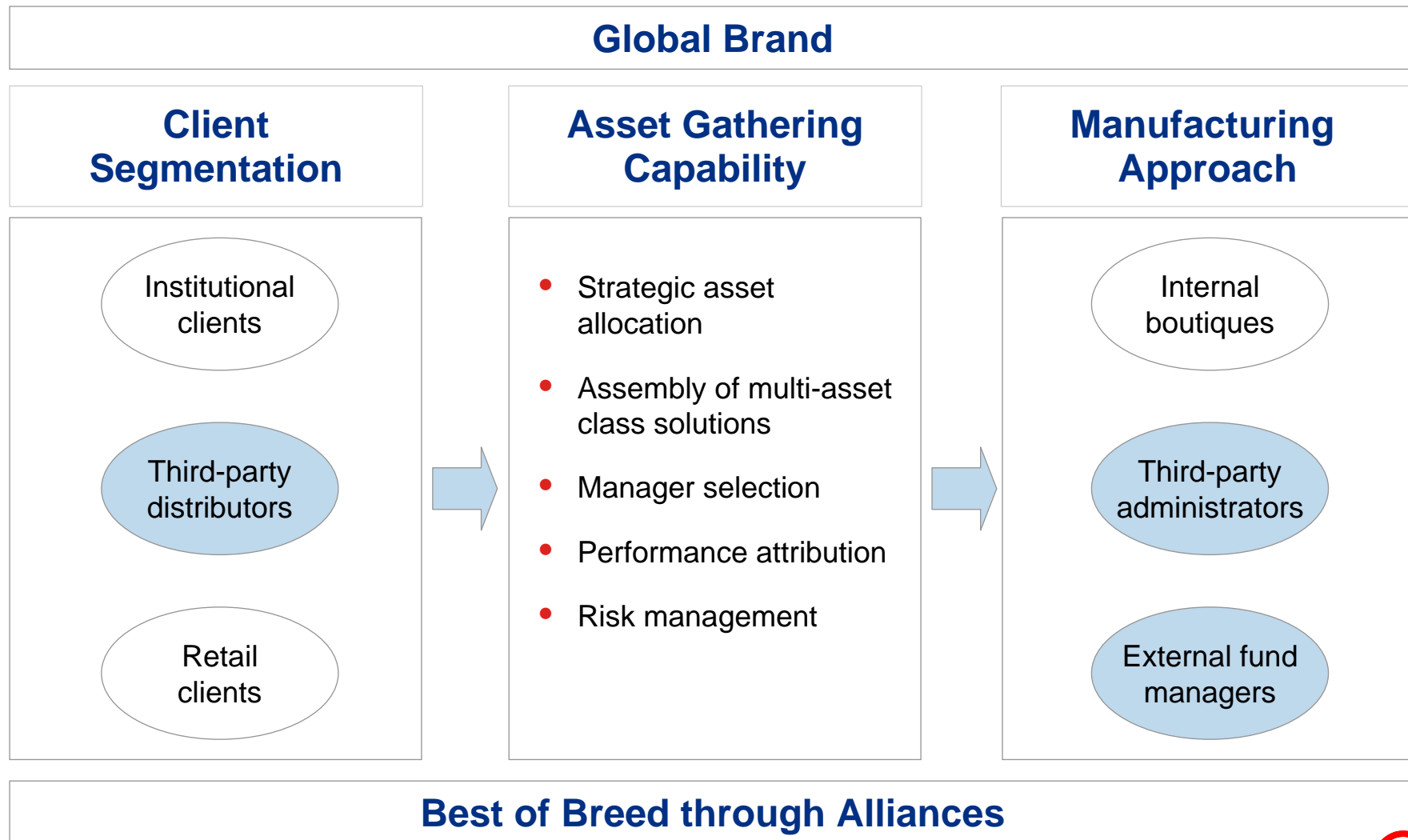
Future Industry Scenarios

Based on client focus and risk tolerance level



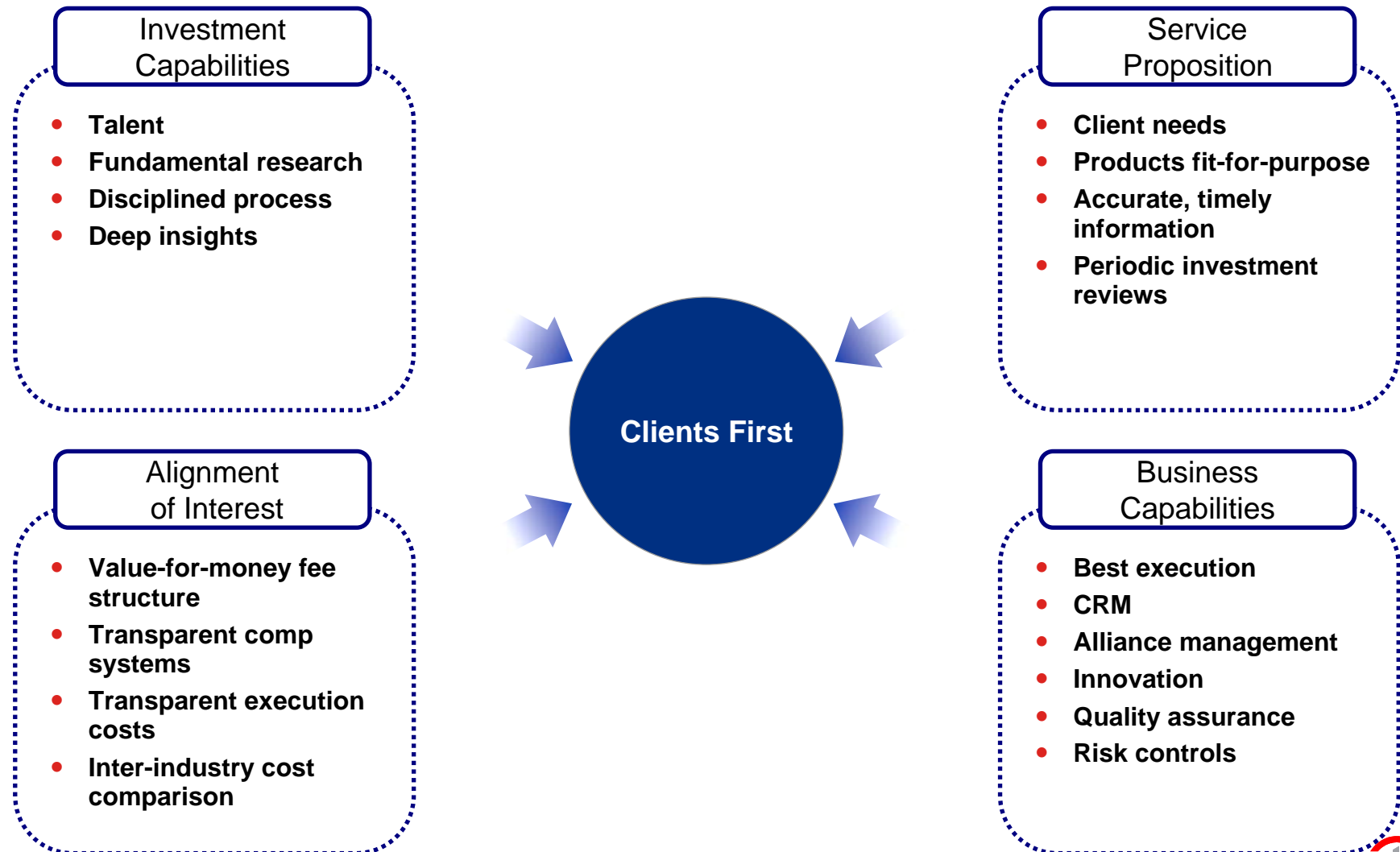
Segmented Industry Business Model

Three building blocks



Winning Business Model

Key features

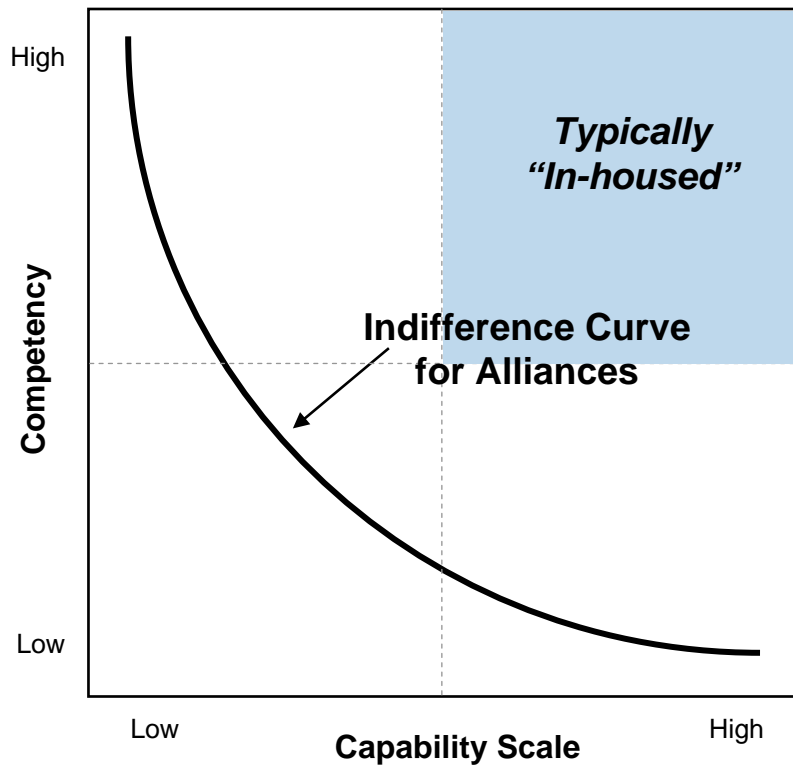


Administration: Approach to Alliances

Asset management firms can use alliances to balance capabilities with competencies

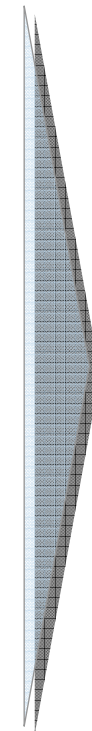
Illustrative

Alliance Considerations



Decision Factors

- Comparative Advantage
- Cost
- Control
- Quality
- Risk Management



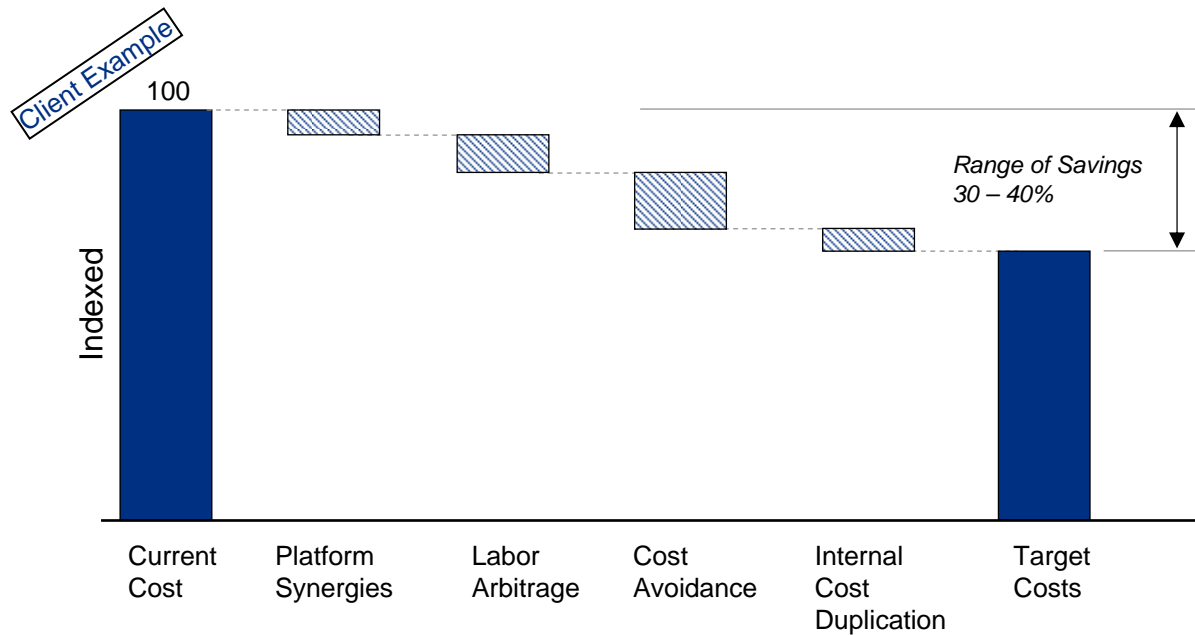
Winning Solution

- Open Architecture
- Flexible
- Global
- Modular
- "Best of Breed" Solution

Administration: Benefits

Reducing Total Cost of Ownership

Potential Cost Savings



Range of Potential Savings

5 – 7%

10 – 12%

10 – 15%

5 – 7%

How Achieved ?

Platform rationalization

Off shoring

New vendor capabilities

Embedded service model activities

Strategic Benefits

- Enabling growth
- Variable cost model
- Flexibility

Without the strength to endure the crisis, one will not see the opportunity within. It is within the process of endurance that opportunity reveals itself.

Chin-Ning Chu
(The first Emperor of the Ming Dynasty)

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