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# Thriving in a Post-DOL Rule World



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## Global Flow Trends

### Trends – The Move from Commission to Fee-Based Advice is Driving Everything

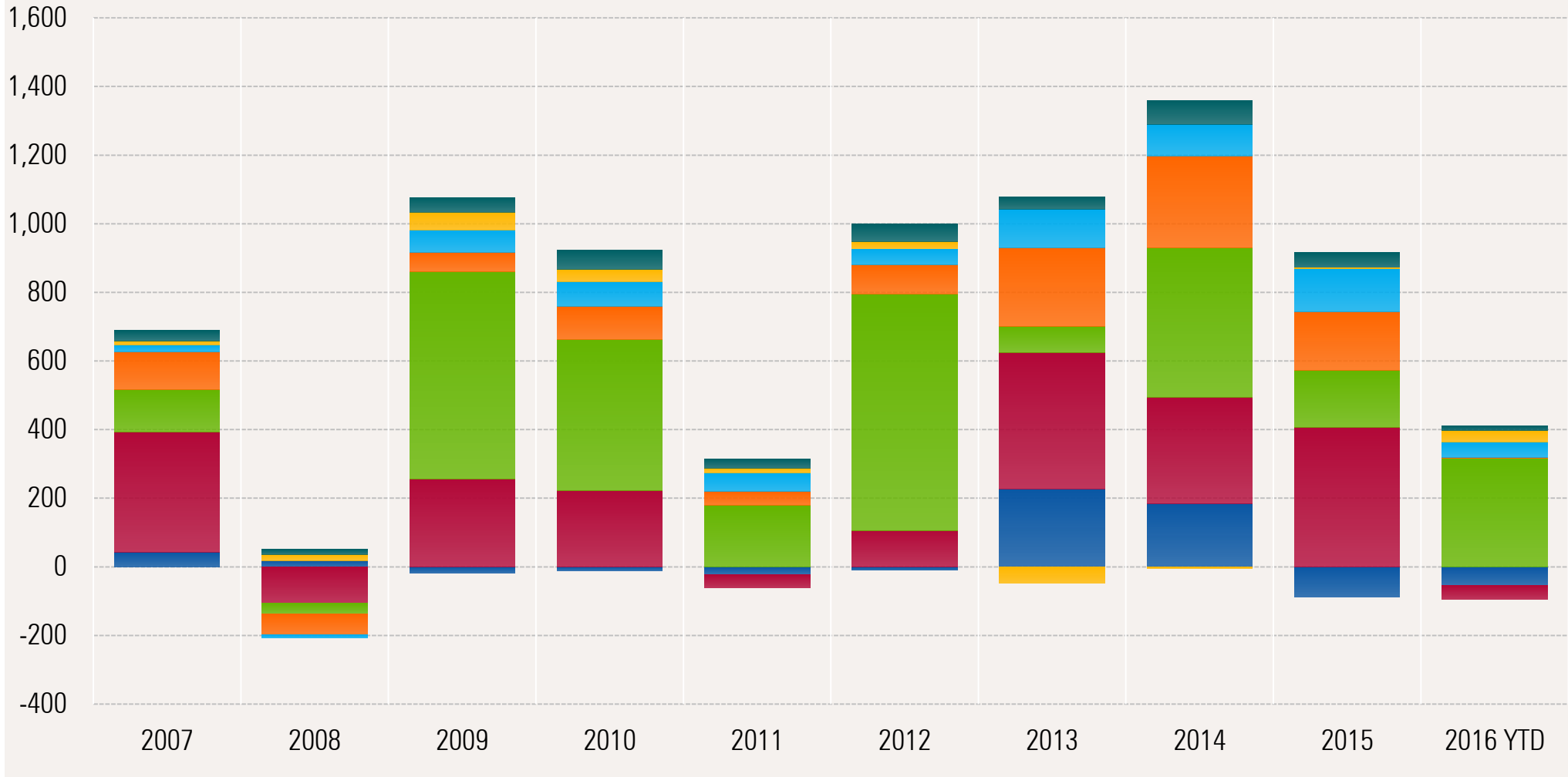
- ▶ The changing landscape of fund distribution is in full swing in the US and growing Internationally
- ▶ We can now safely say from the US experience that this shift creates the following changes in investor behavior
  - ▶ Costs matter, a lot – expect flows into indexes and ETFs and “clean/institutional” share classes
  - ▶ Advisors and retirement plans look for more packaged solutions as they reframe their value propositions – expect growth in Multi-Asset, Fund-of-Funds and “Solutions”
  - ▶ Advisors will seek to de-risk portfolios – expect less direct equities and more alternatives and fixed income
  - ▶ Robo/Automated Advice will grow – advisors will need to scale smaller accounts
- ▶ All of these are the **rational response** of advisors adopting a basis points on assets business model

# Global Flow Trends

## Annual Flows by Global Category Group

Global Estimated Net Flows by Broad Category Group, USD Bil

■ U.S. Equity   
 ■ World ex-U.S. Equity   
 ■ Fixed Income   
 ■ Allocation   
 ■ Alternative   
 ■ Commodities   
 ■ Other



# Global Flow Trends

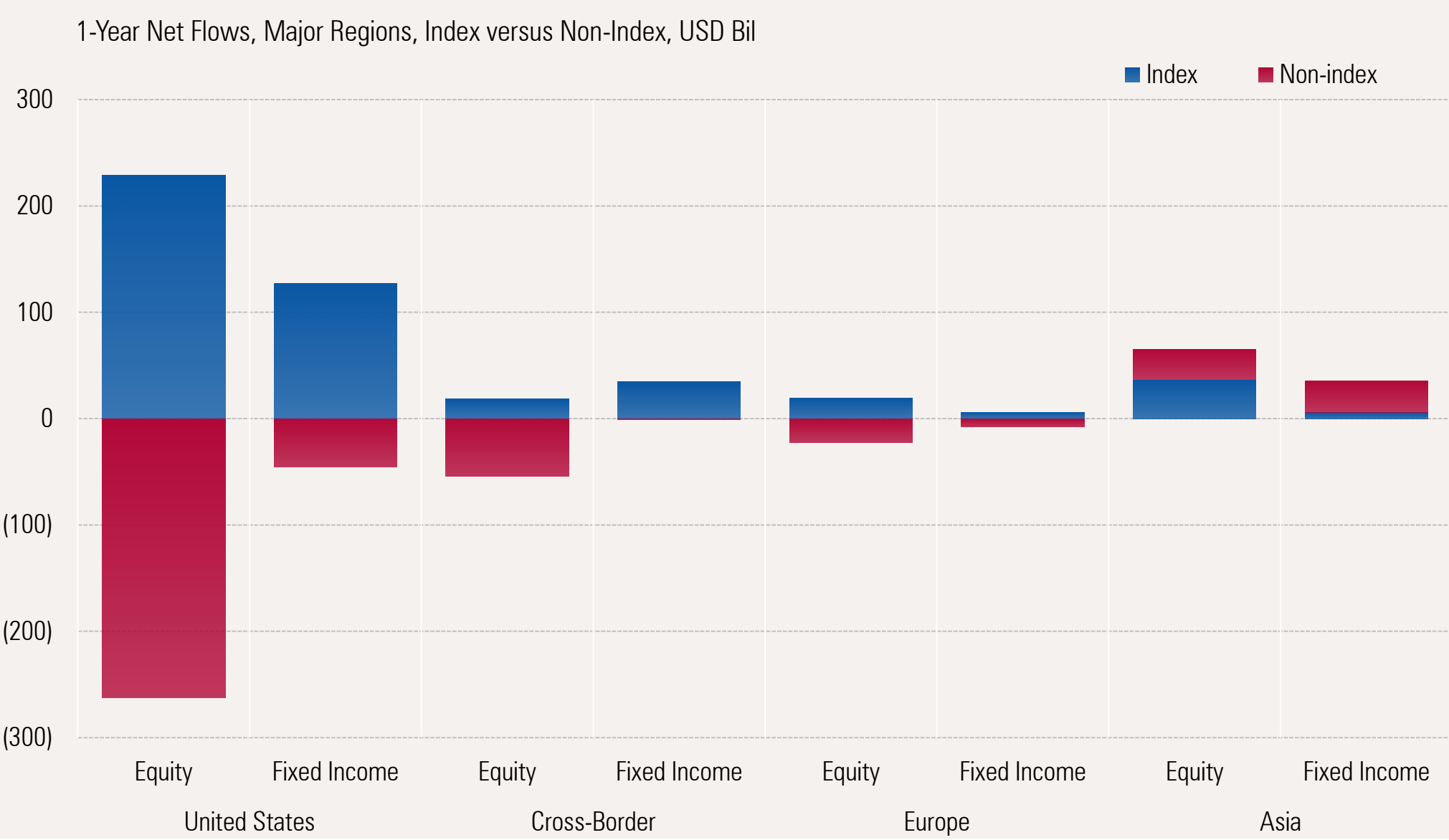
## Estimated Net Flows by Region and Category, 2015

	Allocation	Alternative	Commodities	Convertibles	Equity	Fixed Income	Misc.	Money Market	Property
Africa	4.4	0.0	-0.6		-0.6	-0.9	0.0	0.7	
Asia	13.3	8.6	1.0	0.0	51.9	35.4	45.7	27.3	
Canada	4.7	1.7	0.0		7.3	5.5	-0.1	-0.2	
Cross-Border	69.8	61.4	3.5	2.4	58.3	71.7	-0.1	27.1	1.4
Europe	92.9	25.0	0.9	1.2	5.8	-13.5	-3.4	51.1	8.8
Latin America	1.3	-1.2			-4.1	5.5	-6.8	0.1	
Middle East	1.0	0.0	0.0		0.2	-2.8	-0.2	-5.0	
Oceania	2.3	1.5	0.0		-6.6	2.7	1.1	0.9	-0.1
Other Europe	0.2	-0.1			0.0	0.0	-0.1	0.0	
United States	-15.1	19.2	-0.5	-2.2	170.7	27.1		40.3	21.8

Source: Morningstar Direct Asset Flows. All figures in USD billion unless stated otherwise. © Morningstar. All Rights Reserved.

# Global Flow Trends

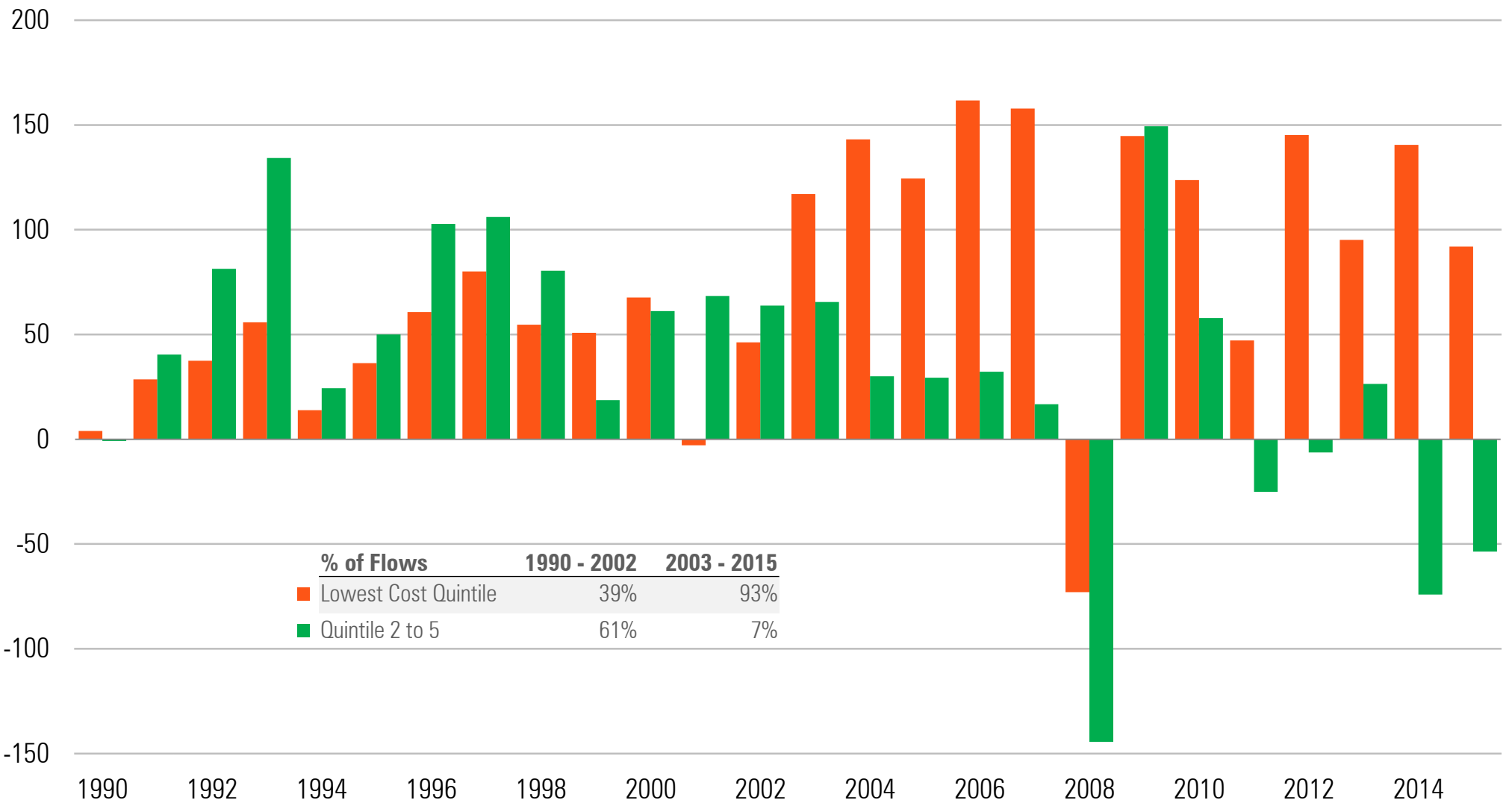
## Indexing Continues to Dominate in US, On the Move Elsewhere



# Global Flow Trends

## The Move to Institutional Shares is a Long-Term Trend in U.S.

Annual Net Flows for Active Funds, USD Bil



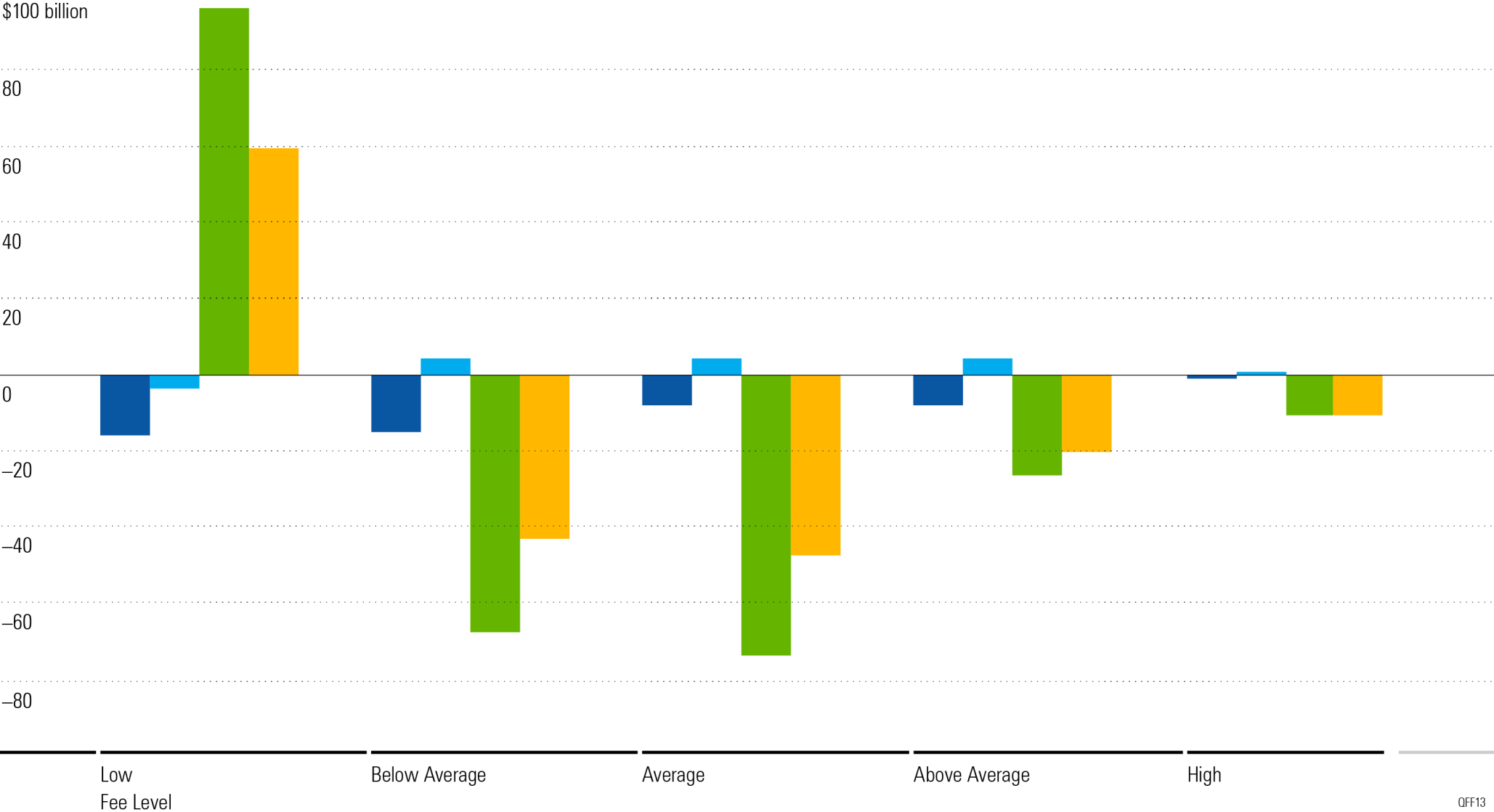
% of Flows	1990 - 2002	2003 - 2015
Lowest Cost Quintile	39%	93%
Quintile 2 to 5	61%	7%

# Global Flow Trends

## Preference for Low-Cost Funds is Accelerating in the U.S. in the Core

Trailing 12-Month Flows into Open-End Funds by Category Group and Fee Level

● Allocation ● Alternative ● Equity ● Fixed Income



# Global Flow Trends

## Fastest Growing Fund Family in U.S. is Really a Wealth Platform!

In terms of trailing-12-month organic growth rate, the top 10 fund families among the 100 largest

● Contribution of top-flowing fund

Top fund for each family

Morningstar Category

Active/Passive

Fund Family	Contribution of top-flowing fund (%)	Top fund for each family	Morningstar Category	Active/Passive
Bridge Builder	77%	Bridge Builder Core Plus Bond	Intermediate-Term Bond	Active
AQR Funds	62%	AQR Managed Futures Strategy	Managed Futures	Active
Schwab ETFs	41%	Schwab International Equity ETF	Foreign Large Blend	Passive
DoubleLine	29%	DoubleLine Total Return Bond	Intermediate-Term Bond	Active
Baird	27%	Baird Aggregate Bond	Intermediate-Term Bond	Active
ProShares	21%	ProShares Short S&P 500	Trading-Inverse Equity	Passive
SunAmerica	16%	SunAmerica Focused Dividend Strategy	Large Value	Active
Cohen & Steers	16%	Cohen & Steers Preferred Sec & Inc	Preferred Stock	Active
Metropolitan West	12%	Metropolitan West Total Return Bond	Intermediate-Term Bond	Active
Victory	12%	Victory Sycamore Established Value	Mid-Cap Value	Active

-10 0 10 20 30 40 50 60 70 80

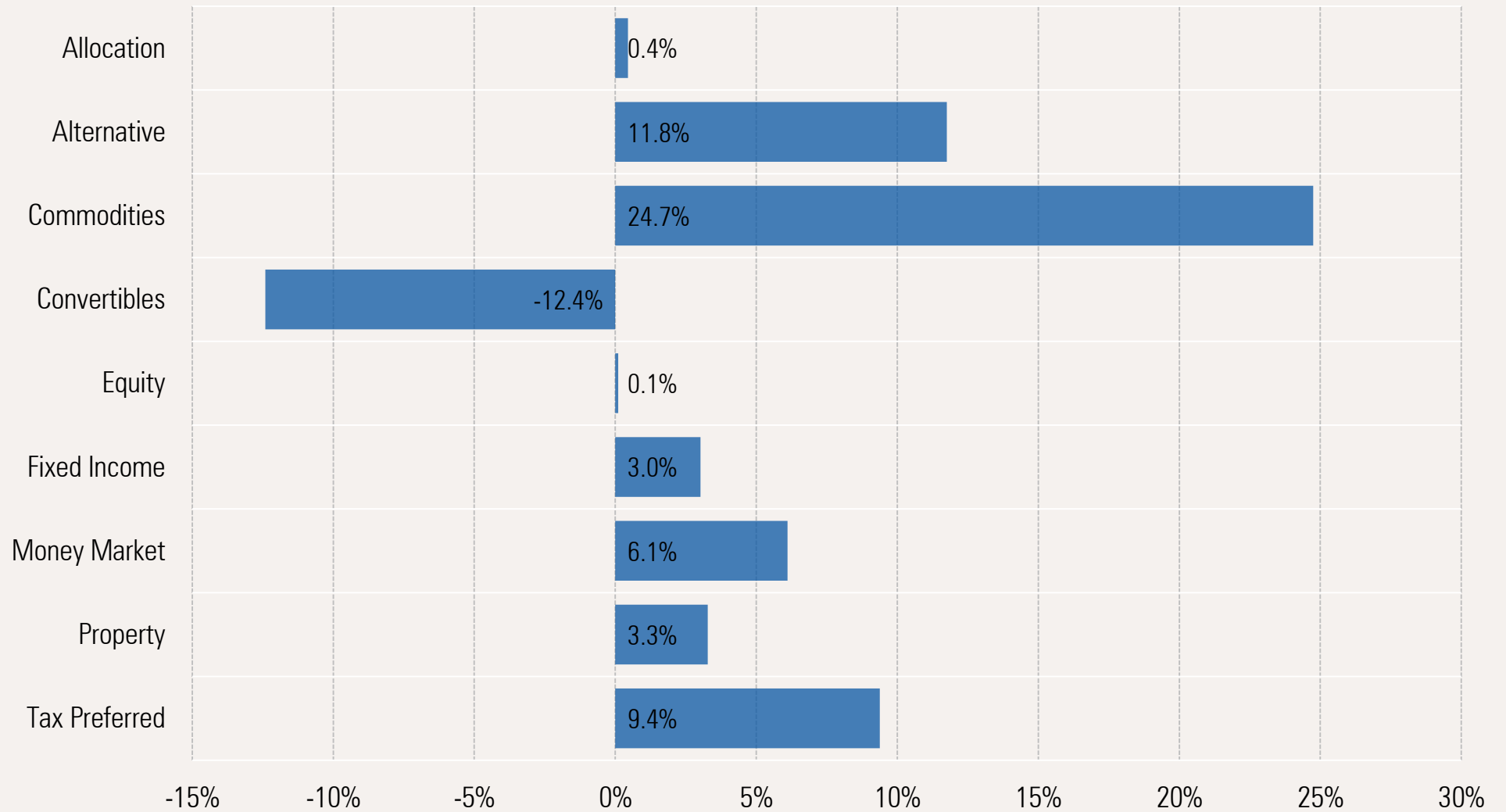
TTM Organic Growth Rate (%)



# Global Flow Trends

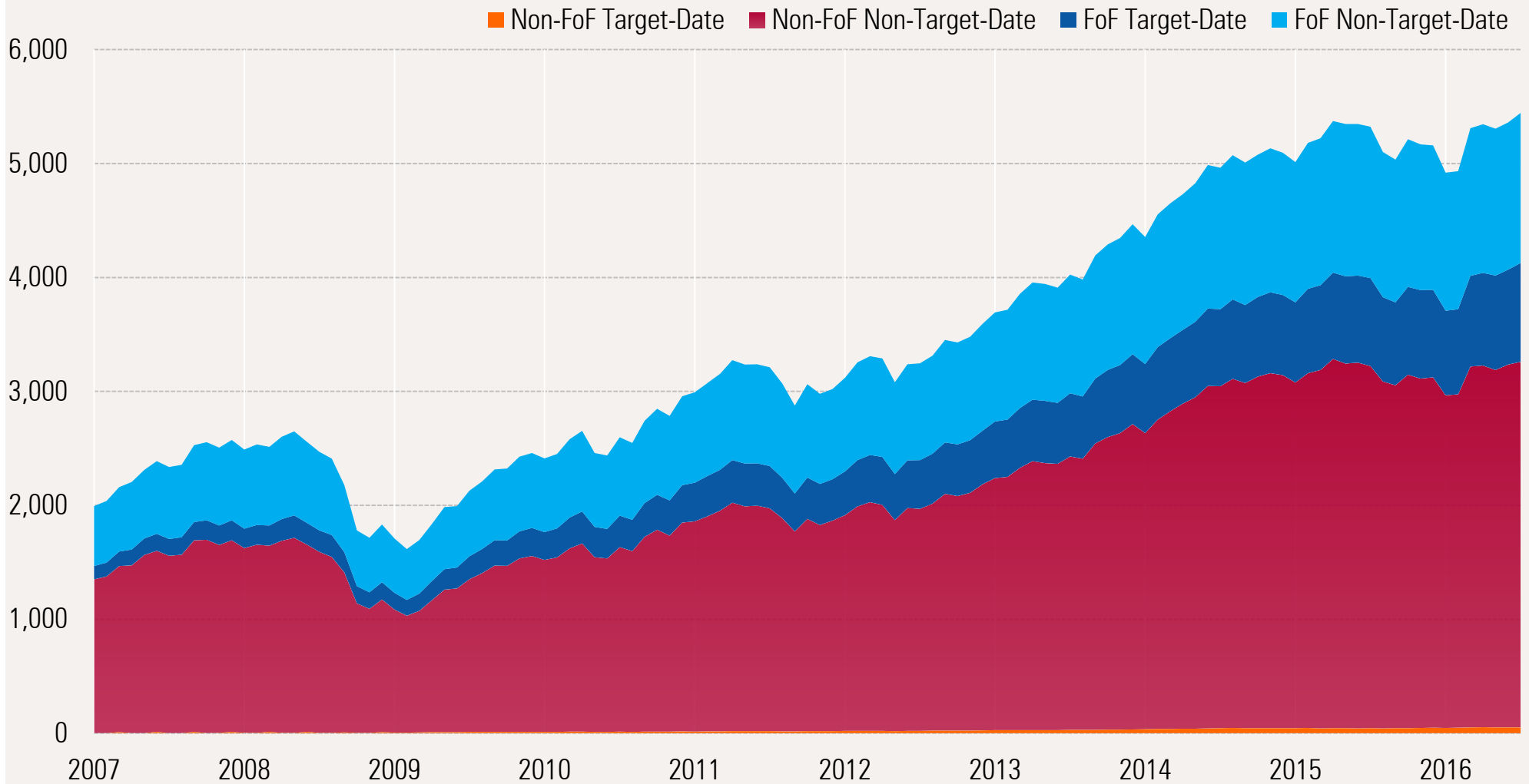
## Alternatives and Gold Funds Outpacing the Field

Global Organic Growth in Assets in Last 12 Months



# Funds of Funds Continue to Drive Growth in Allocation Category Group

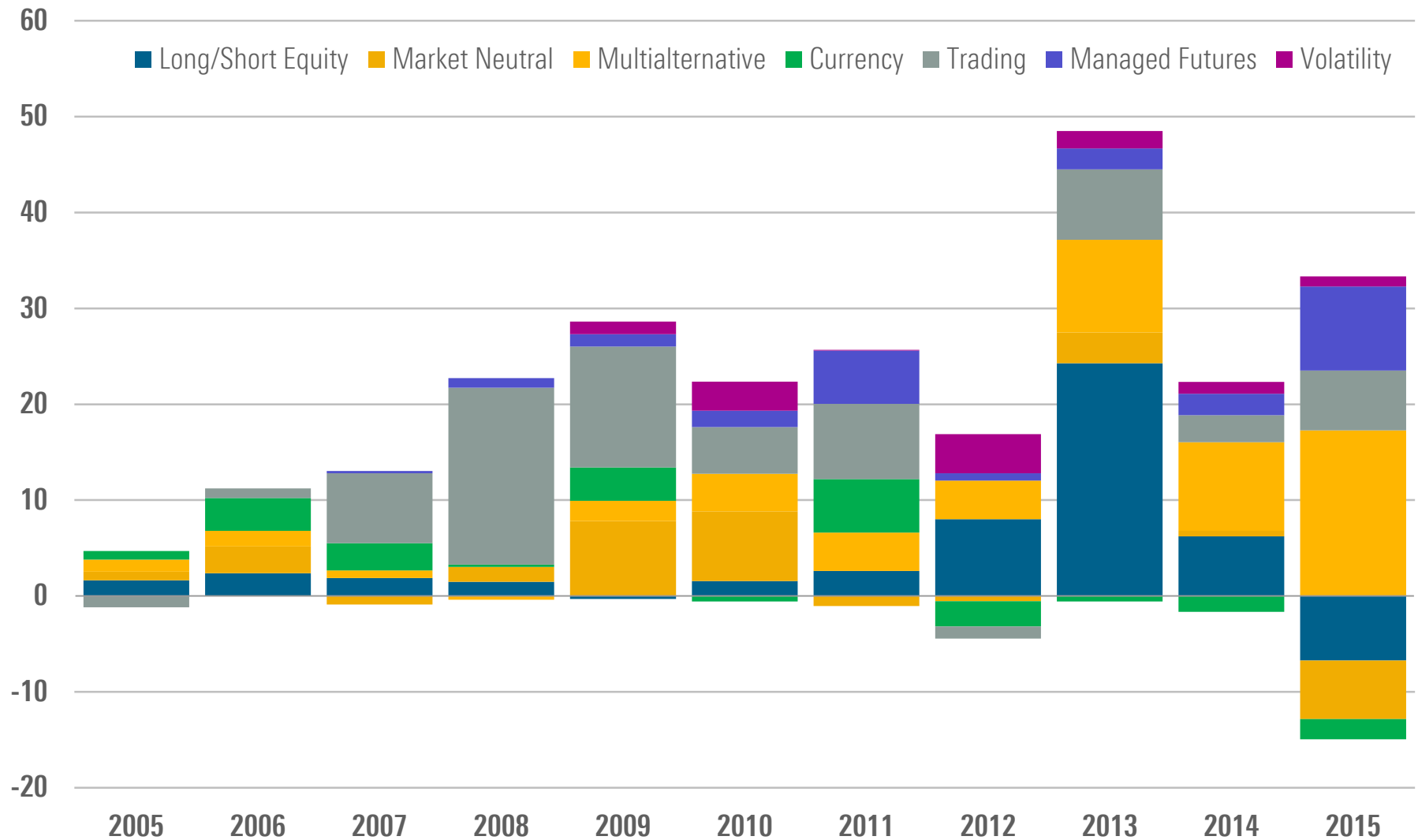
Total Global Assets in Allocation Funds, USD billions



Source: Morningstar Direct, Allocation Funds including Funds of Funds, U.S. Domiciled Mutual Funds and ETFs. Data as of August 2015

# Strong Recent Flows into Multi-alternative and Managed Futures Categories

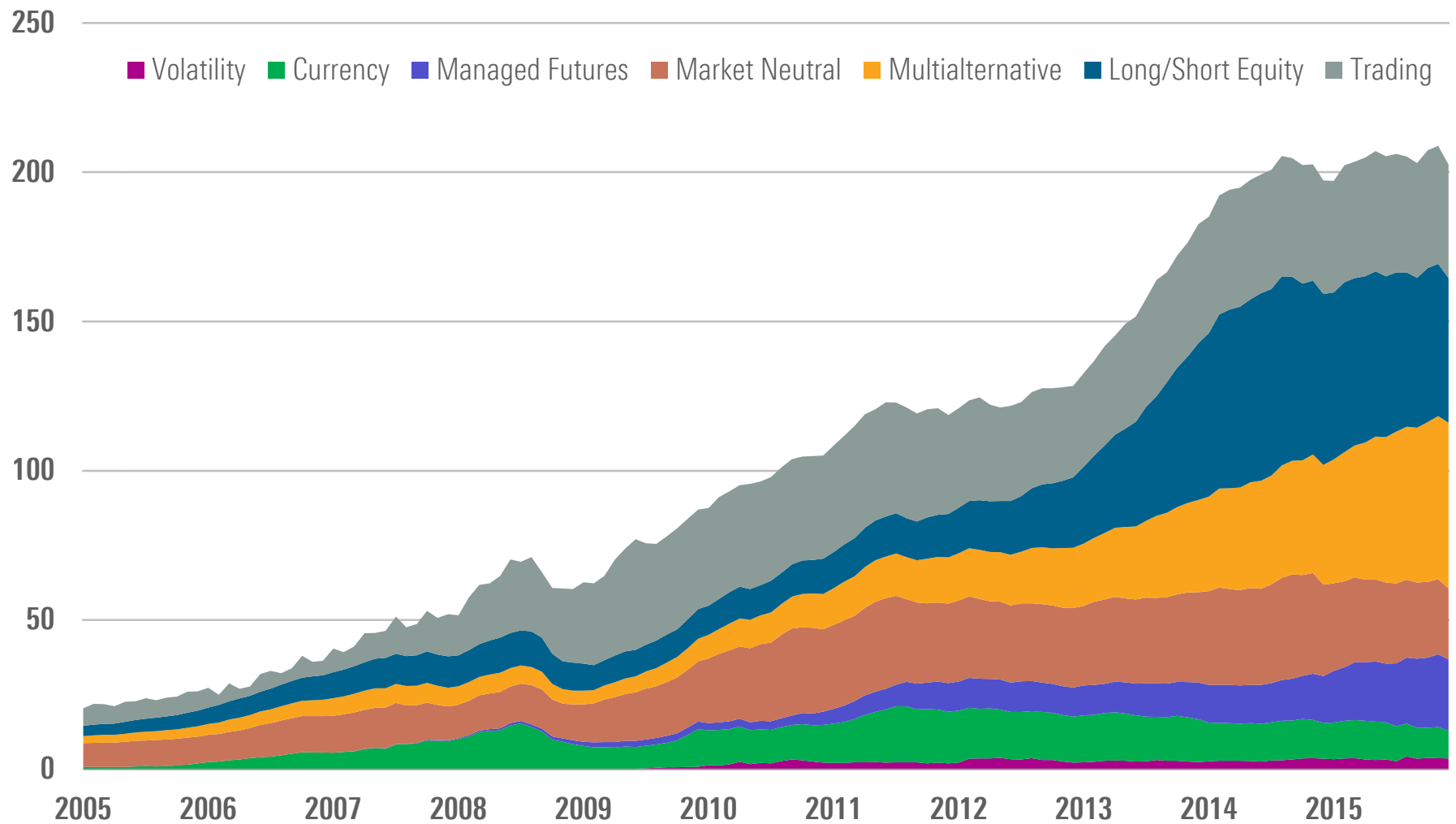
U.S. Alternative Category Flows, USD Bil



Source: Morningstar Direct, U.S. Mutual Funds and ETFs, excluding Funds of Funds. Data as of December 2015.

# Growth in Alternatives Stagnated in the Last Year

Total Assets in Alternative Mutual Funds and ETFs, USD Bil



Source: Morningstar Direct, U.S. Mutual Funds and ETFs, excluding Funds of Funds. Data as of December 2015.

# Target-Date is Basically a U.S. Only Category

Allocation and Target-Date Flows by Structure and Region, USD billions



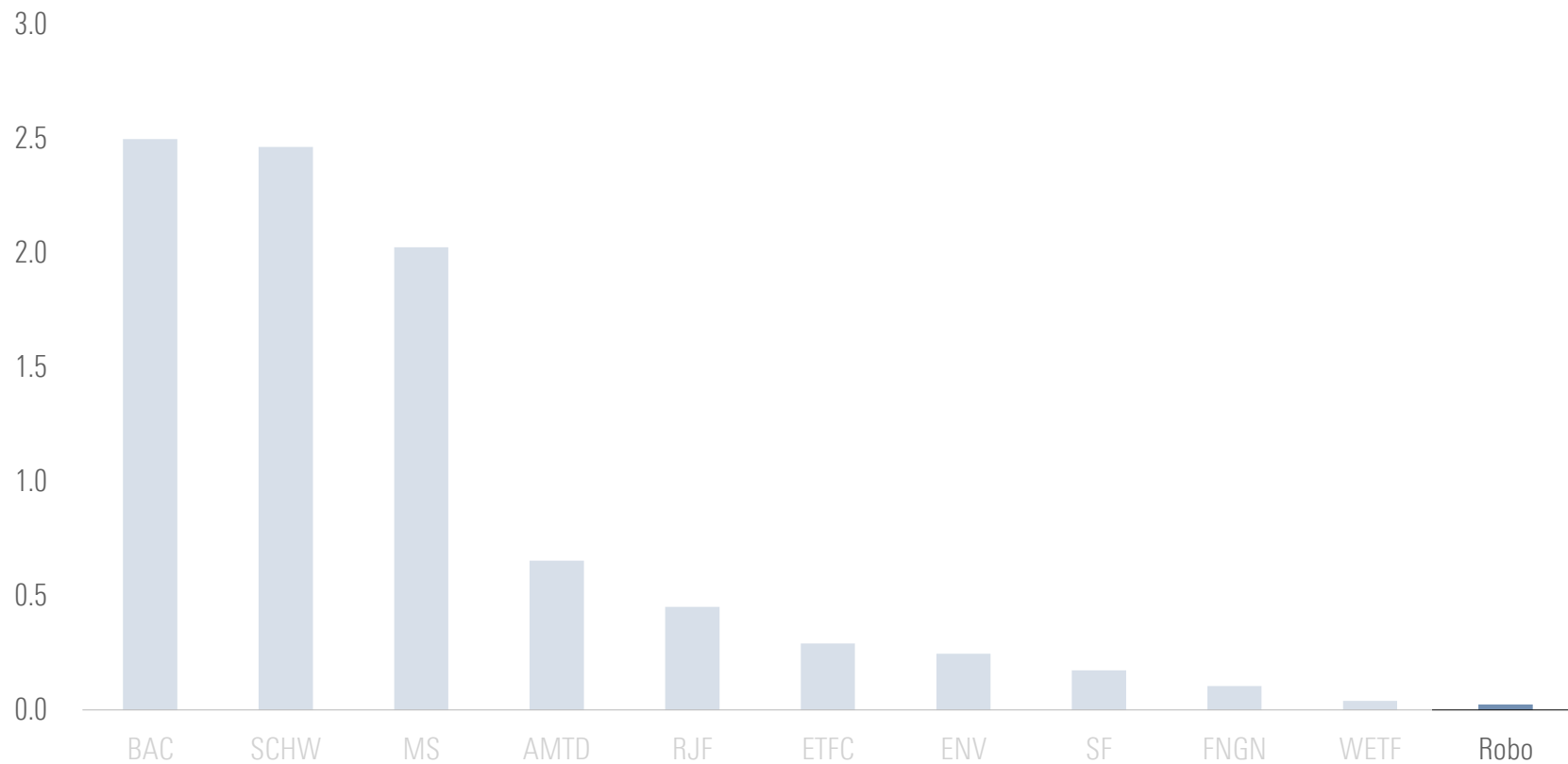
Source: Morningstar Direct, Worldwide Mutual Funds and ETFs

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## Robo-Advice

# Incumbent Players Currently Dwarf the Entire Robo-Advisor Industry

Client Assets \$trillions.



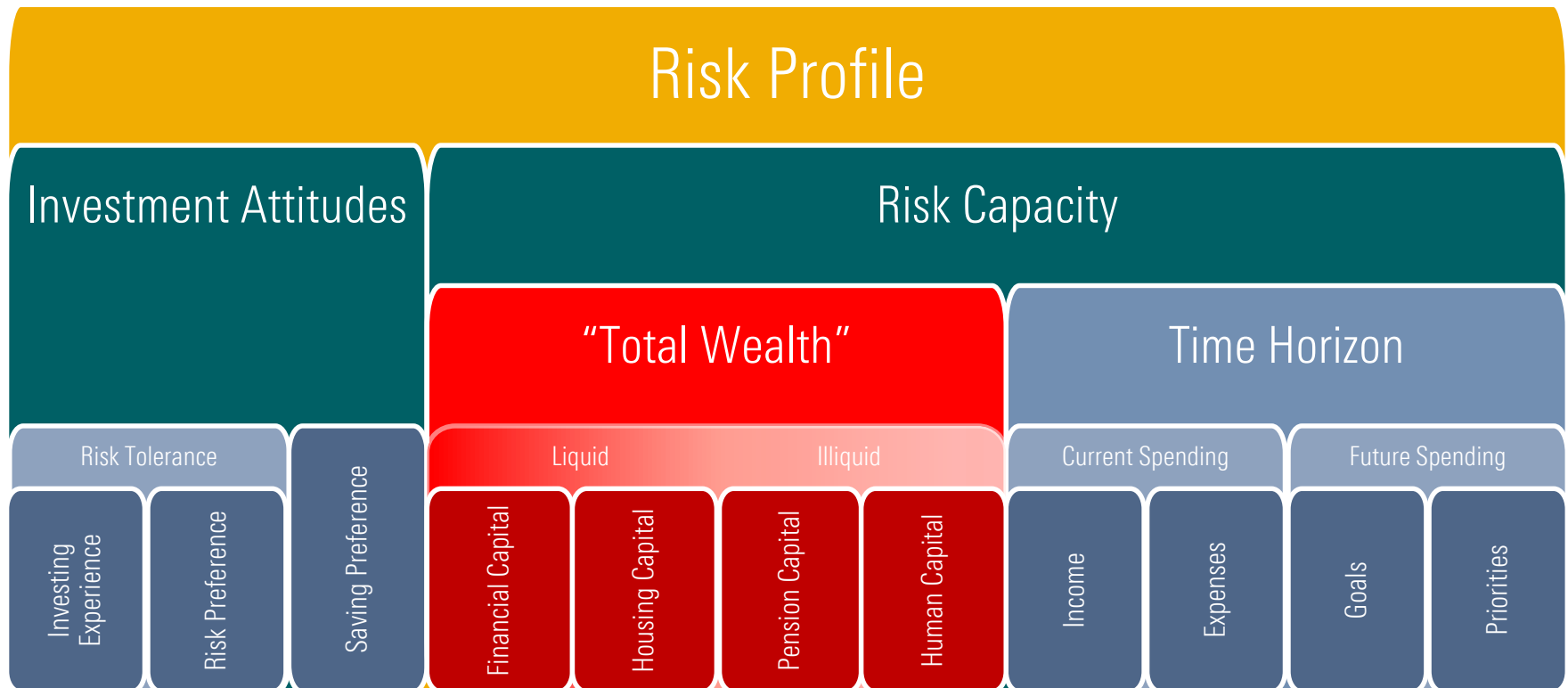
Source: Company filings, Corporate Insight

# The Wealth Manager Value Proposition Must Align With Client Needs

	<b>Discount Brokerage</b>	<b>Robo-Advisor</b>	<b>Cyborg-Advisor</b>	<b>Full-Service Wealth Manager</b>
Client	DIY Trader & DIY Long-term Investor	Mass Affluent	Mass Affluent	High-Net-Worth & Ultra HNW
Service	Low Cost Trade Execution  Trading Tools  Investment Information	Low Cost Asset Allocation	Low Cost Asset Allocation  Electronic Communication  Basic Financial Plan	Personalized Asset Allocation  Human Relationship  Holistic Goal & Financial Planning  Product Access (IPOs, Alternatives)  Loans  Insurance  Tax Optimization  Investment Alpha

Source: Morningstar. For Illustrative Purposes Only.

# View Investing More Holistically -- Household Investor Profile Framework

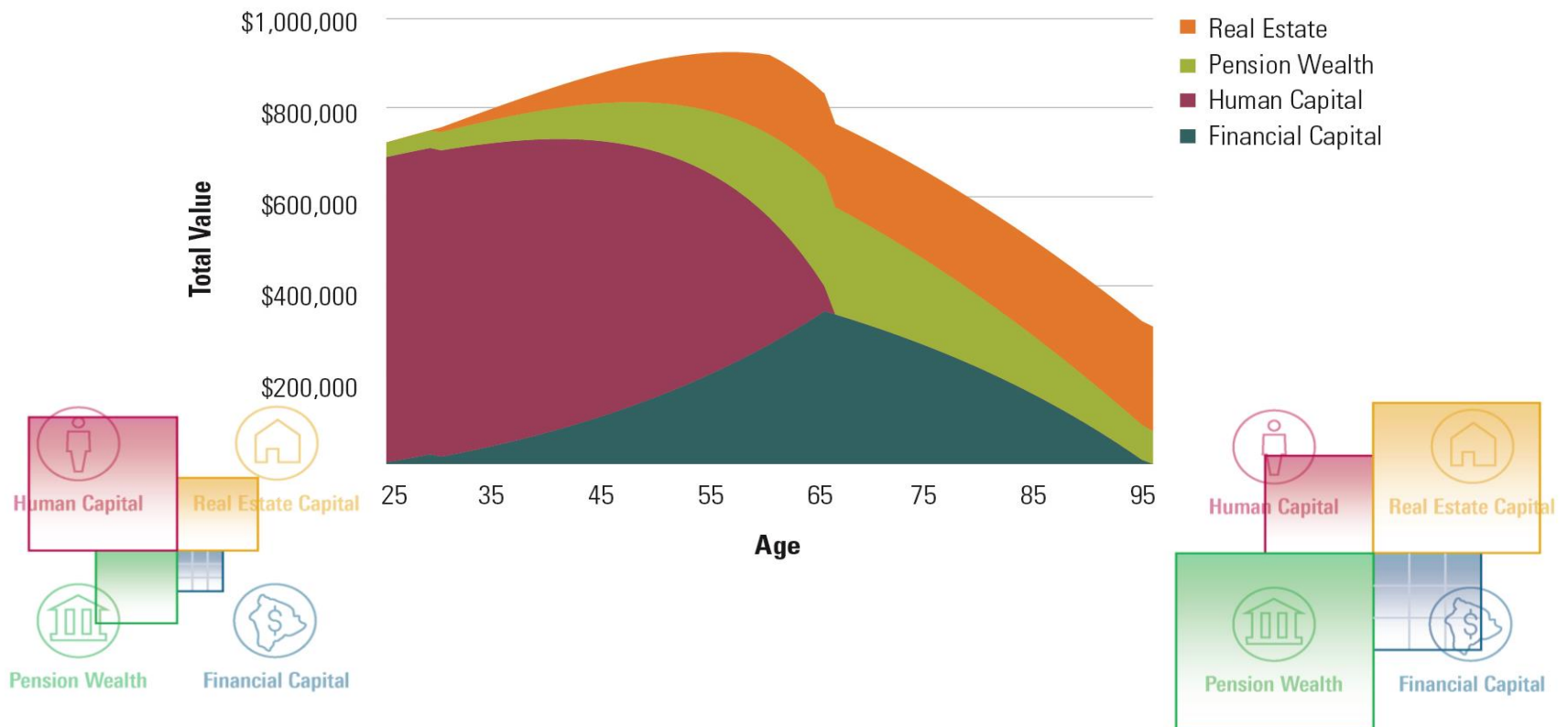




# Total Wealth Approach

## How Will Big Data Transform Your Approach to Product Construction?

The Total Wealth Approach encompasses the methodologies Morningstar applies to help investors understand, plan for, and meet their future spending goals going beyond the realm of Financial Capital.



# The Sales Team of Tomorrow

## Tomorrow's Team: Defined Processes and Consistent, Compliant Materials

The sales team of tomorrow has one point of contact for content strategy, creation, and distribution, while compliance has oversight into the entire process. Morningstar Direct<sup>SM</sup>, combines solutions and aligns teams firm-wide.



# When you engage advisors and investors online and help them solve a problem, you can begin to nurture them as leads.



Social Media, Online Search, Websites, Ads, Media, Emails using any device

## User Need

## How to Meet This Need



I want to check a fund.

Deliver information that's easy to find and understand.



I need to make a change to my portfolio.

Offer tools to help the user find an appropriate fund.



I want to explore an investment theme.

Provide compelling content that explains the investment theme.

CRM Tracking



## Raising AUM by Leveraging Digital Tools

**Profile:** Large Asset Manager (Top 30)

**Business Challenge:** Highlight benefits of their funds within portfolios

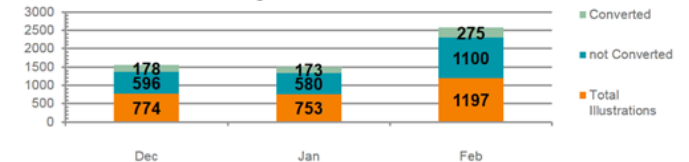
**Solution:** Morningstar Portfolio Analysis Capability

- Offered to registered reps
- Portfolio X-Ray, analytics, metrics on performance, holdings, geographic exposure, portfolio risk
- Usage statistics gathered and linked to their CRM
- Client uses this as a basis for follow up calling campaigns

**Result:** Almost 1,200 illustrations run in one month; 24% converted to actual sales; \$18.2 million in added AUM in one month (Feb. 2016)

### Data Usage Challenge Condition

Each converted call averages a 66K sale



#### Challenge Condition:

Voya should call a Morningstar API web to pull usage data, at any interval we choose.

- Data would be real time for our wholesalers to drive sales.
- Simplified process by elimination of steps.

**MORNINGSTAR<sup>®</sup>**