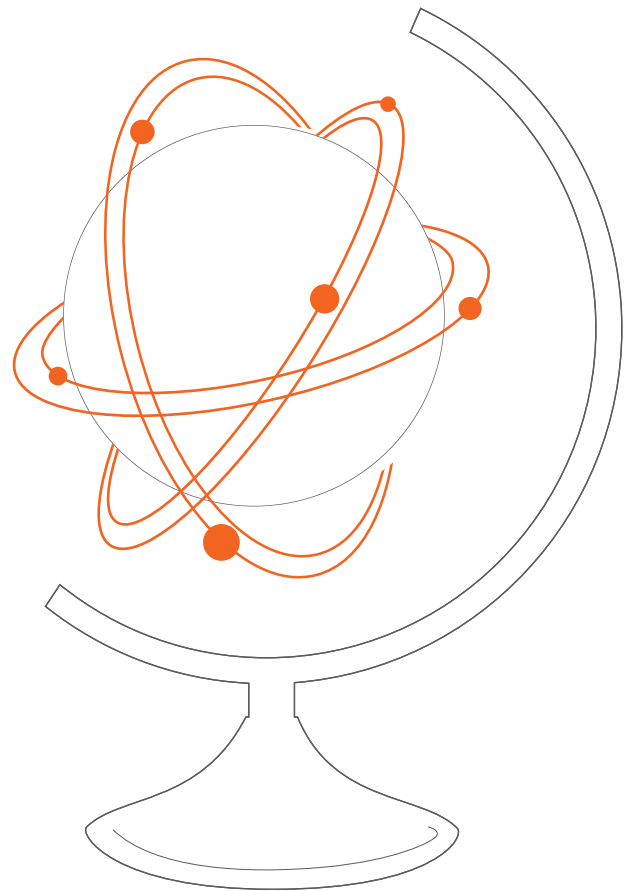


Trends in Fund Distribution

Fund Distribution Poll Summary Results

February 2010



RBC Dexia Investor Services

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Table of contents

Foreword	5
Executive Summary	6
1. What are the most important global trends in the funds market?	8
2. How do you expect the market for investment funds to develop beyond national borders?	10
3. Has the success of UCITS, combined with the number of fund investments and variety of fund choices, brought additional complexities to the fund distribution process?	12
4. Is trading in third-party funds (onshore & offshore) a key component of your value proposition?	13
5. If you expect your buying behaviour for third-party funds to increase in the coming year, what key challenge do you foresee?	14
6. What do you think are the most important elements of a fund ordering platform?	16
Respondent profiles	18
About us	20

Foreword

Rapid globalisation of the investment fund business has been a key feature of the industry during the last decade. In this highly competitive market investors face a more sophisticated and international range of fund products than ever before.

Effective fund distribution is key to success in the cross-border funds market as new borders open and fund structures become ever more complex. Moves to open architecture, which allows institutions to provide clients with access to third-party funds, and the multiplication of distribution channels present a growing range of operational challenges and opportunities for players operating throughout the entire investment fund value chain.

RBC Dexia Investor Services provides a full suite of services to match the needs of global institutional investors and our services include distribution support for investment managers and fund promoters.

As a leading investor services provider, we understand that market knowledge is a powerful tool that can help shape and refine business decisions and we are committed to providing dedicated research in this area. In 2008 we commissioned the most extensive study then available on the future of the fund distribution market. And this, our latest market survey, was designed to explore the very latest market trends in 2010, following a global financial crisis that significantly impacted asset managers, distributors and their clients.

While recent events have presented various challenges to the global funds market, our survey highlights the strength of the sector and the ability of its players to adapt to change. The global financial crisis has driven fresh focus on risk management, transparency and bottom line investment performance as investors seek to safeguard their assets and maximise returns in volatile markets.

Our survey results are published as a mood of cautious optimism returns to the funds industry. With new regulation under debate and UCITS IV set for implementation in 2011, the cross-border funds market looks set to expand even further, becoming more sophisticated and creating new challenges and potential opportunities for investors, fund promoters and distributors.

We hope that you will find this report informative and useful in shaping your future strategies and initiatives in this important sector.

Sincerely

Rob Wright

Global Head, Product & Client Segments
RBC Dexia Investor Services

Executive summary

Introduction and context

The rapid evolution of the cross-border fund business continues to create a range of challenges for asset managers, promoters, distributors and their service providers, keen to source new markets and extend product ranges for underlying investors.

Over time, the industry has overcome a number of traditional cross-border financial barriers, thanks partly to the development of successful international brand products driven by UCITS legislation. UCITS funds are no longer the preserve of mainstream investment managers and the market now embraces a growing range of alternative instruments and hedge fund style strategies.

In turn, an industry once driven by sales of proprietary products and in-house funds has given way to open architecture and new distribution channels, spurring competition and allowing greater access to new markets, but also introducing new complexity.

The resilience of the funds market is apparent in our latest survey results, but some other clear trends also emerge. Investor demand for greater transparency and a tighter focus on risk management and investment returns are key features of the current market. This reflects increased caution following investment losses and a resulting loss of trust among investors during the downturn.

A renewed focus on investment returns has also subsequently emerged.

From a distribution perspective, open architecture remains an important focus in a market where our survey respondents predict a significant increase in the growth of third party funds. With protection, transparency and investment returns increasingly paramount, distributors and promoters must look to heighten the efficiency of their services, focus on core competencies and deliver world class products.

While the market looks set to become ever more sophisticated, through the launch of UCITS IV and other initiatives, the need to understand underlying market dynamics, raise standards and develop new solutions in the area of distribution has never been more important.

Key messages

The headline findings of our survey were as follows:

- **Investors are demanding greater information transparency but are not reluctant to invest.**

They are still committed to the market but are more cautious as a result of the recent financial crisis and want more information on how their funds are invested.

- **The jury is out on whether traditional or alternative funds are the way forward.**

There is a clear division of opinion, with many investors retreating to more traditional investments while others still see the benefits in alternative funds.

- **Open architecture remains important.**

There is significant interest in this facility to increase cross-border competition and boost efficiency.

- **Investors are more interested in protection, transparency and investment returns than national domicile or jurisdiction.**

Recent market conditions have fuelled concerns over investment returns, protection and transparency. However, investors are open on jurisdiction providing it is reputable.

- **Competition between foreign and national investment funds looks set to increase.**

Investors are willing to consider non-national funds providing they are properly regulated.

- **UCITS and increased fund choice have introduced complexities in fund distribution but they are generally manageable.**

The position is already complex and most feel confident that they can handle any additional complexities.

- **A significant minority already see third-party funds as a key component of their value proposition and most think third-party funds are set to increase**

This is driven by open architecture and the impact of UCITS on the market.

- **Risk management presents the most significant market challenge for third-party funds.**

There is a major need for investor security following the financial crisis.

- **Online reporting is the most important element of a fund ordering platform, followed by ability to compare funds, then cost and processing speed.**

Again transparency is important. Cost and processing speed are important but less than the ability to see how funds are performing.

Methodology

RBC Dexia surveyed a range of global fund promoters and distributors to understand the key trends, challenges and opportunities facing the international fund distribution business.

The survey was conducted during a two week period from late November to early December and the results reflect feedback from 94 respondents worldwide. In total 64% of respondents were fund promoters and 36% were fund distributors. Most (71%) had their main operating centres in Europe, with 22% in Asia/Pacific and 7% in North America.

Our respondents were active in areas such as asset management, private banking, insurance and corporate investment, handling assets under management ranging from under €500 million to €1.5-2 billion. Further details of the respondent profile can be found at the end of this report.

We extend our appreciation and thanks to survey participants for their time and insight.

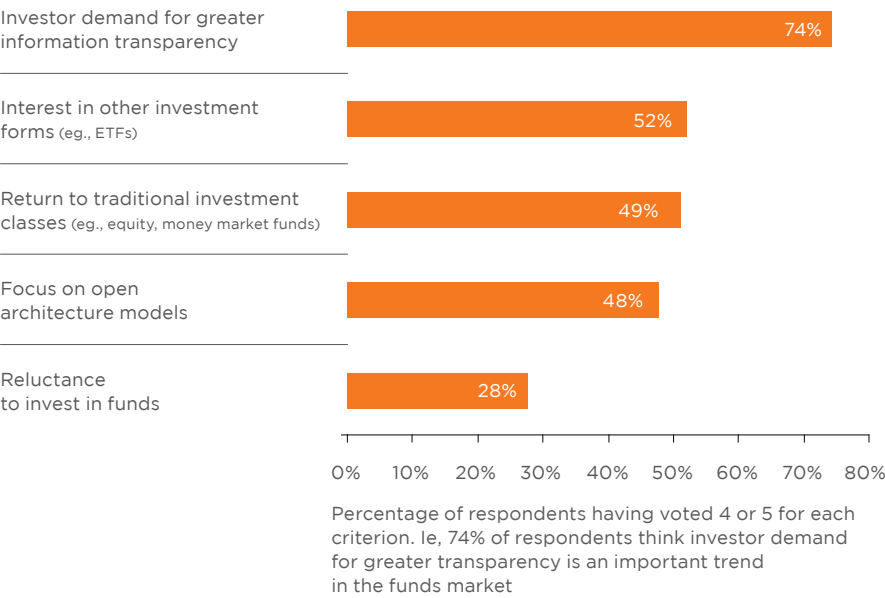
1. What are the most important global trends in the funds market?

>Key messages

- Investors are demanding greater information transparency but are not reluctant to invest.
- The jury is out on whether traditional or alternative funds are the way forward.
- Open architecture remains important.

Survey findings

Survey participants were asked to assess the importance of five possible trends in the funds market, using a 5-point scale where 5=very important and 1=not at all important. The chart below gives the percentages of respondents rating each of these items as important (rating 4-5).



Greater transparency

Of the trends assessed, by far the most important was investor demand for greater information transparency. Three-quarters of the respondents (74%) said that this was an important trend, including nearly half (48%) who said that greater transparency was very important. Only 7% thought that this was not an important factor.

These findings reflect a post financial crisis mood, in which investors remain committed to markets but, in order to feel confident, need a higher level of information as to how their funds are invested and what parties are involved in the process. The growing demand for transparency and openness in the light of recent market events has to be fully recognised by fund promoters and distributors.

While efforts to increase transparency, accountability and investor protection are crucial, legislative developments may also drive change. At a European level UCITS IV implementation in 2011 is expected to help bolster the simplicity and transparency of the cross-border fund market. But, at the same time, an investment industry hard hit by recent events must also work to reassure sceptical investors of the quality, transparency and value of its products.

Traditional or alternative investments?

Our survey respondents were almost equally divided on whether the funds market was *experiencing an interest in other alternative investment forms or a return to more traditional classes of investment*. Just over half (52%) thought that interest in other investment forms such as Exchange Traded Funds (ETFs) was an important trend, while just under half (49%) saw a return to more traditional classes of investment such as equity and money market funds. In each case 22-23% disagreed that these were important trends and the balance were undecided i.e. there is a clear division of opinion on what investment products will be favoured going forward.

Our survey findings underline investor caution in a market where security, transparency and protection are now key. While there is still some appetite for alternative investments, there is a sense amongst some respondents that this may not be the preferred option in the current scenario. Nevertheless, emphasis on the type of investment strategy adopted appears less important than transparency, confidence in the product and focus on investment returns.

Open architecture

Another trend rated as important by around half of respondents (48%) was a focus on open architecture models, including 22% who saw this as very important. Relatively few (17%) thought this was unimportant, but the balance of 35% were undecided.

While these results were mixed, the findings indicate that there is significant interest in open architecture distribution. Benefits of the widest possible distribution of funds remain broadly acknowledged within the market. Open architecture has the potential to significantly increase cross-border competition and boost efficiency.

Are investors reluctant to invest?

According to our survey, reluctance to invest in funds was not a major issue. Only 28% agreed that this was an important trend and these were counterbalanced by 41% who did not see this as an important factor in current markets.

This is an extremely positive finding, which suggests that investors have not been alienated by the recent market crisis, although the mood is now more cautious. In particular, as the financial storm subsides, the market is demonstrating a more sober, thoughtful attitude to risk. Investors will continue to invest; however they now expect greater openness and transparency in terms of both the products they buy and those who promote and distribute them.

2. How do you expect the market for investment funds to develop beyond national borders?

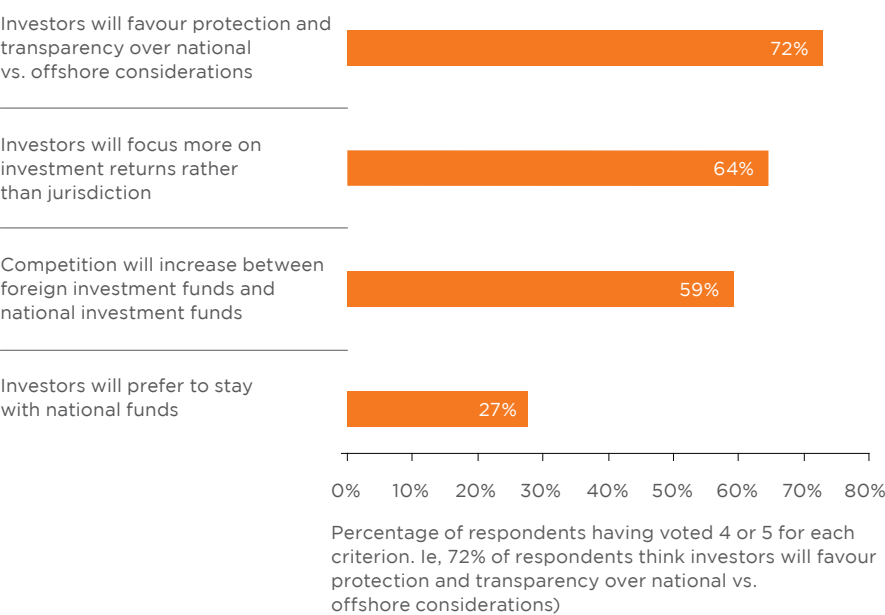
>Key messages

Investors are more interested in protection, transparency and investment returns than national domicile or jurisdiction.

Competition between foreign and national investment funds looks set to increase.

Survey findings

Survey participants were asked to assess the importance of four aspects of cross-border investment, using a 5-point scale where 5=significant and 1=not at all important. The chart below gives the percentages of respondents rating each of these items as significant or important (rating 4-5).



The key survey finding of this section is that investors place greater store on protection, transparency and investment returns than on national domicile or jurisdiction. Only one in four respondents (27%) felt that *investors will prefer to stay with national funds* while almost half (45%) disagreed.

Almost three-quarters of respondents (72%) agreed that *investors will favour protection and transparency over national vs offshore considerations*, including 35% who felt this was a significant consideration. Similarly, two in three (64%) agreed that *investors will focus more on investment returns rather than jurisdiction*.

A majority (59%) also thought that *competition will increase between foreign and national investment funds*.

Our finding that protection, transparency and investment returns are now considered more important than domicile or jurisdiction is highly significant.

The themes reflected earlier in our survey regarding investor caution, transparency and the need for robust products are also apparent here. But the low figure for respondents who felt that investors will prefer to stay with national funds, coupled with the majority who thought that competition will increase between foreign and national investment funds, suggests a mood for greater cross-border competition and that domestic market loyalties may be dwindling.

Key requirements

From a European perspective, the fact that almost three quarters of respondents agreed that investors will favour protection and transparency over national vs offshore considerations underlines the current appetite for well regulated products and transparency. It could also indicate the increased comfort investors feel towards well regulated internationally marketed products such as UCITS – with a traditional

investor preference for home markets now secondary to the actual quality and strength of fund products, regardless of their country of origin, assuming that the country of origin has an established reputation.

In Europe and beyond, UCITS products have been central to cross-border investment initiatives and their success and sustained market appeal continue to impress. The forthcoming UCITS IV initiative seeks to offer even greater flexibility to promoters through features such as the new Management Company passport and could increase the popularity of UCITS funds still further.

On the basis of this poll, long term industry efforts to create a truly globalised fund business – removing barriers to cross border fund distribution, widening choice for investors and boosting international competition between market players – appear to be succeeding.

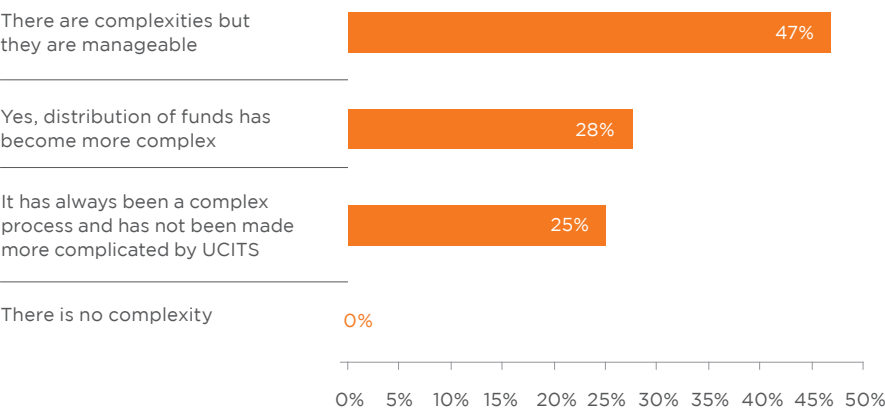
3. Has the success of UCITS, combined with the number of fund investments and variety of fund choices, brought additional complexities to the fund distribution process?

>Key message

UCITS and increased fund choice have introduced complexities in fund distribution but they are generally manageable.

Survey findings

Survey participants were asked whether the fund distribution process had been made more complex as a result of UCITS and the increase in fund choice:
The results are illustrated in the chart below.



As noted earlier in this report, the increasing complexity of fund products and the proliferation of distribution channels has created significant challenges for fund distributors and promoters.

Nevertheless, according to our survey, almost three-quarters of respondents (72%) do not perceive a major increase in complexity that cannot be managed. Almost half (47%) agreed that there were indeed increased complexities, but saw these as manageable, while a further 25% felt the fund distribution process had always been complicated, with UCITS adding no additional complexity. The balance of 28% agreed that fund distribution had become

more complex but reserved their view on manageability.

Looking ahead, there is little doubt market complexity will increase and is likely to present a number of fresh challenges in the fund distribution arena. With new markets and distribution channels opening and new products under constant development, cross-border distribution is becoming increasingly challenging, even if the scale of current complexities is seen as manageable by many market participants.

In Europe, the advent of UCITS IV, and regulation surrounding its passporting arrangements, could help streamline and simplify the regional distribution

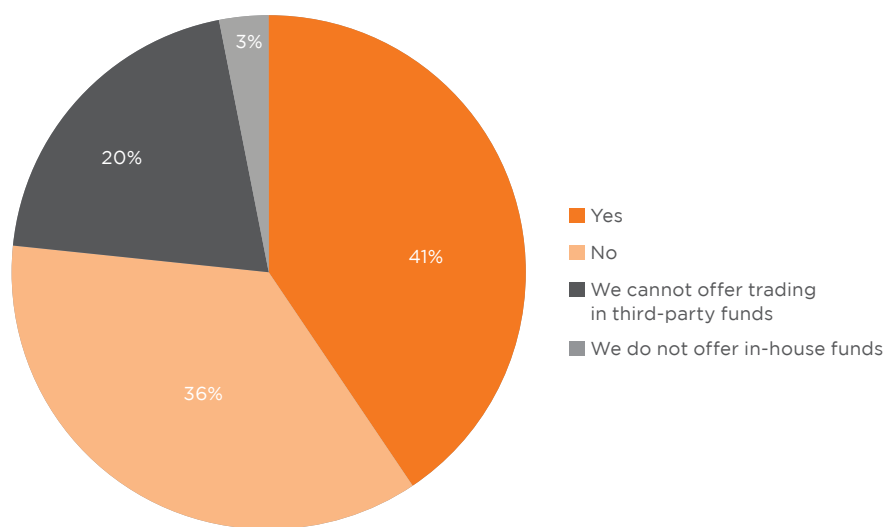
process, allowing for easier access to cross-border distribution. But with a limited range of distribution channels in EU member countries and overarching questions over tax treatment remaining, this may take some time.

Any moves to create more harmonised and transparent standards across markets should be welcomed, but growing market sophistication continues to present a real need for dedicated cross-border distribution expertise and support. This is an area on which promoters, distributors and their service providers must focus closely.

4. Is trading in third-party funds (on or offshore) a key component of your value proposition?

Survey findings

Survey participants were asked whether trading in third-party funds was a key proponent of their value proposition. The chart below illustrates our findings.



Our survey drew on a mix of responses from both promoters and distributors. Amongst respondents, 41% said trading in third party funds was a key component of their value proposition, 36% said it was not and 23% said they could not offer trading in third party funds.

The number of respondents who see third party funds as a key component of their value proposition confirms that, while adoption of open architecture may be far from universal, it remains an important feature of the fund distribution business.

In practice open architecture widens the range of funds available to clients and should

reduce costs and improve efficiency. From a fund management perspective, developing a robust distribution model is critical and knowledgeable and efficient distribution partners are essential to success.

In 2010, as our survey figures illustrate, the cross-border funds landscape remains fragmented with varied approaches to third party funds. The ultimate success of the open architecture model will depend on a concerted effort by fund managers and distributors, regulators and other market intermediaries to deliver robust well serviced distribution channels and harmonised market standards.

>Key message

A significant minority already see third-party funds as a key component of their value proposition.

5. If you expect your buying behaviour for third-party funds to increase in the coming year, what key challenge do you foresee?

>Key messages

Third-party funds are set to increase.

Risk management presents the most significant market challenge.

Managing multiple fund set-up parameters and multiple trading counterparties is also challenging.

Survey findings

Survey participants were asked whether they expected their buying behaviour for third-party funds to increase in the coming year and asked about key possible challenges they foresaw. The results are shown in the chart below.



According to our survey, the large majority of respondents (82%) expect to see an increase in buying behaviour for third-party funds over the coming year.

Yet in terms of the specific challenges our poll considered, none were seen as a problem by more than a minority. The only aspects that were seen as problematic by more than one in four were *risk management* (29%)

and *managing multiple fund set-up parameters and multiple trading counterparties* (26%).

The relative importance of risk management in this section can again be attributed to recent global financial events – with the collapse of market counterparties, discovery of inadequate risk controls and isolated cases of financial fraud raising new concerns and

driving new investor demand for transparency and tighter risk control.

Concern has not been restricted to end investors. Regulation has tightened in many major markets, encouraging financial institutions to focus more closely on operations, risk assessment of counterparties and areas such as asset and fund valuation.

Focus on risk

This fresh focus on risk could hold significant cost implications for asset managers and distributors driven to invest in risk monitoring and management. Some smaller distributors may be forced to rethink their business model in light of recent market events and regulatory change to come. The current market may also hold significant business potential for third-party service providers who are able to invest and develop risk management systems and support investment managers and distributors.

Managing multiple fund setup parameters and multiple trading counterparties was identified as a key challenge by a minority of respondents. This finding points to the sheer complexity of the investment/distribution markets and again underlines the potential scope for third-party service providers to assist in supporting the sophisticated needs of market counterparties.

Only a limited number of respondents (12%) saw ensuring transparency of fees as a key challenge, perhaps because this can be readily incorporated in the fund proposition or this level of detail is not required by investors providing that the fees of the main provider are transparent and the benefits of third-party distribution are clear. There are already concerted industry efforts to offer accurate and comparable fee charging information. UCITS IV implementation is also likely to improve this situation further. Its streamlined Key Investor Information (KII) feature is designed to improve pricing transparency.

6. What do you think are the most important elements of a fund ordering platform?

>Key messages

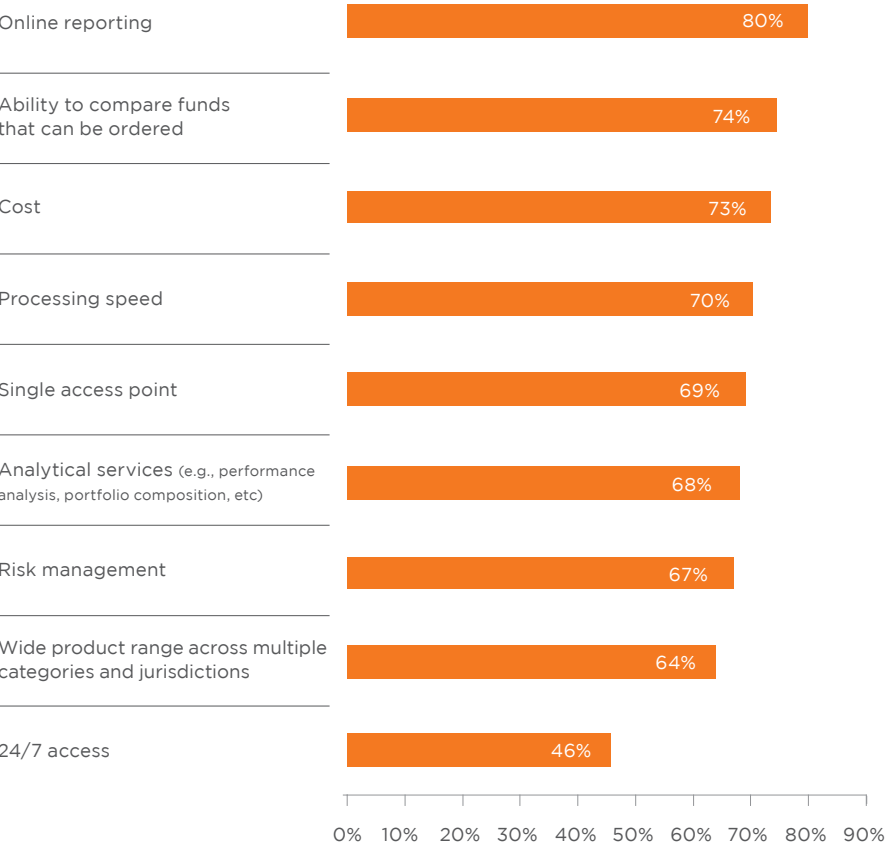
Online reporting is the most important element of a fund ordering platform, closely followed by ability to compare funds, cost and processing speed.

Single access point, analytical services, risk management and wide product range are also important.

24/7 access is less important.

Survey findings

Survey participants were asked to assess the importance of nine elements of a fund ordering platform, using a 5-point scale where 5=very important and 1=not at all important. The chart below gives the percentages of respondents rating each of these items as very important or important (rating 4-5).



Percentage of respondents having voted 4 or 5 for each criterion. I.e, 80% of respondents think online reporting is an important element of a fund ordering platform

Overall the most important element was considered to be *online reporting*: this was rated as important by as many as 80% of respondents.

In an increasingly automated open architecture environment our survey results indicate the need for fund ordering platforms to deliver extensive and consistent state of the art online communications and analytics to clients in a timely manner.

However other elements also had a high importance rating. *Ability to compare funds that can be ordered, cost and processing speed* were all rated as important by 70-74%: while *single access point, analytical services, risk management* and *wide product range across multiple categories and jurisdictions* were each rated as important by around two-thirds of respondents (64-69%).

New demands

A growing mood for fund transparency, reflected elsewhere in our survey, is driving new demand for analytical web-based services and placing fresh emphasis on functions such as performance analysis and portfolio composition monitoring. Risk management was also considered important and a wide product range allowing maximum choice was widely favoured.

While cost continues to be an important factor in the equation our survey clearly shows that it is just one consideration that must be weighed against a range of other factors and that performance, fund comparison and portfolio monitoring are also highly prized.

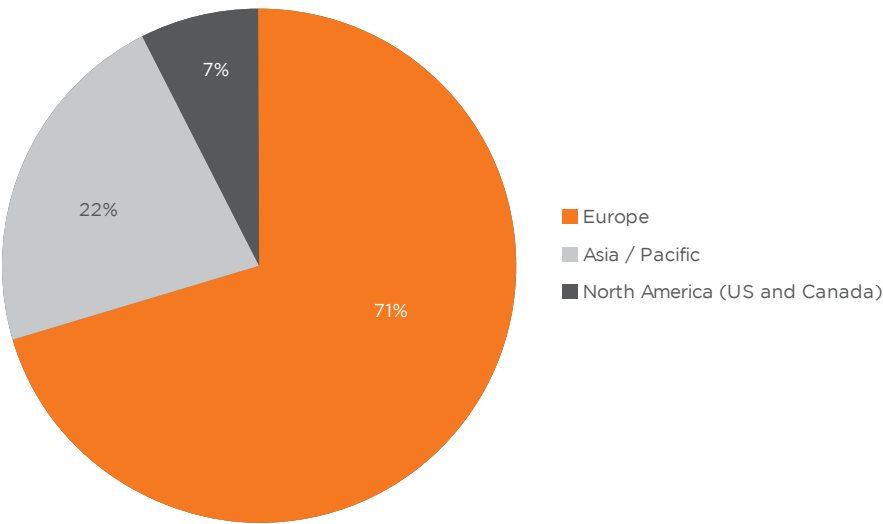
The least important of the elements rated in our survey was *24/7 access*. This was the only aspect to be rated as important by fewer than half of the respondents (46%), with one in four (27%) saying that this was not an important factor for them.

While strong demand for online instant access and reporting is clear from our survey, global 24 hour coverage appears less important, perhaps indicating the sheer fragmentation of the global market and varying geographic needs. The current appetite for online delivery of extensive analytics and data is clear, but demand for universal 24/7 coverage remains patchy.

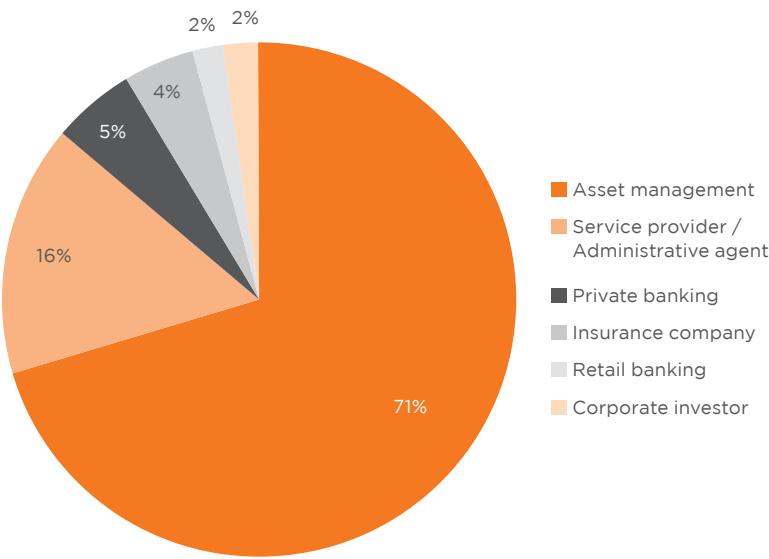
Our latest survey finds the established open architecture approach in a state of evolution. Clearly influenced by recent market events, there is a strong client appetite for transparency, information and analytics with online access the preferred medium of delivery.

Respondent profiles

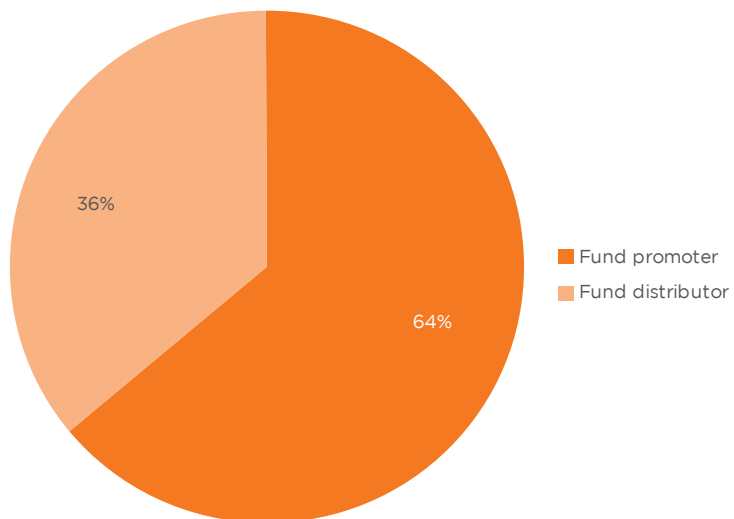
Main operating centre



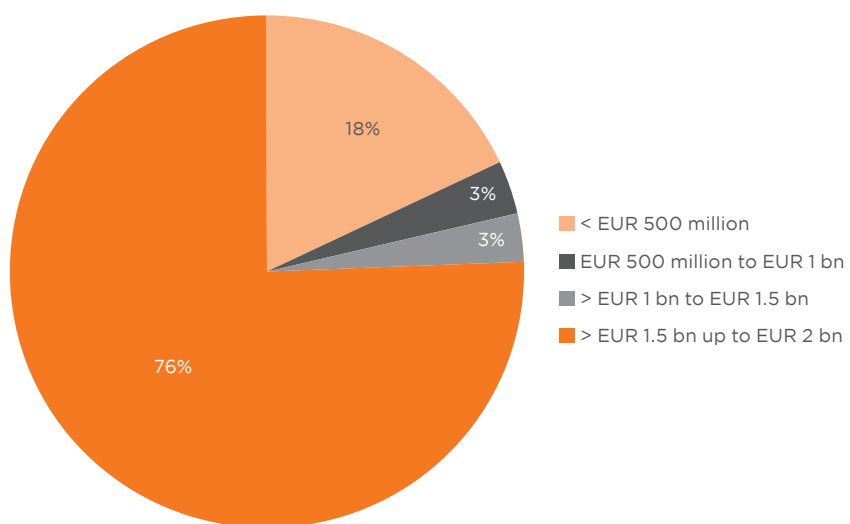
Business segment



Fund promoter or fund distributor



Assets under management (Euros)



About quick polls

RBC Dexia's Quick Polls are designed to provide timely, relevant and insightful commentary on issues of the day. We look forward to your ongoing support and participation. If you would like to be added to our mailing list to receive future quick polls, or if you have any ideas you would like to share with us on topics for our future polls and publications, please contact us at: **www.rbcdexia.com**

About us

RBC Dexia offers a complete range of investor services to institutions worldwide. Our unique offshore and onshore solutions, combined with the expertise of our 5,400 professionals in 16 markets, help clients grow their business and sustain enhanced performance through efficiency improvement and robust risk management practices. Equally owned by RBC and Dexia, the company ranks among the world's top 10 global custodians with USD 2.4 trillion in client assets under administration.

RBC Dexia also has exceptional capabilities in fund distribution, supported by in-depth knowledge of the local markets in which we operate. Our expertise enables us to sustain and develop strong relationships with both promoters and distributors. Our value chain of services includes order routing and settlement services, administration and negotiation of trailer fees and analytical services. For more information on RBC Dexia's fund distribution capabilities, visit our website at rbcdexia.com or contact the representative nearest you:

Distribution

Edouard Bokuetenge

Director, Distribution Support

edouard.bokuetenge@rbcdexia.com

T +352 2605 9676

Europe

Simon Shapland

Head, Europe

Sales & Distribution

simon.shapland@rbcdexia.com

T +44 (0) 20 7029 7811

North America

Brent Wilkins

Head, North America

Sales & Distribution

brent.wilkins@rbcdexia.com

T +416 955 2495

Asia

Scott McLaren

Head, Asia Pacific

Sales & Distribution

scott.mclaren@rbcdexia.com

T +852 2978 5656

