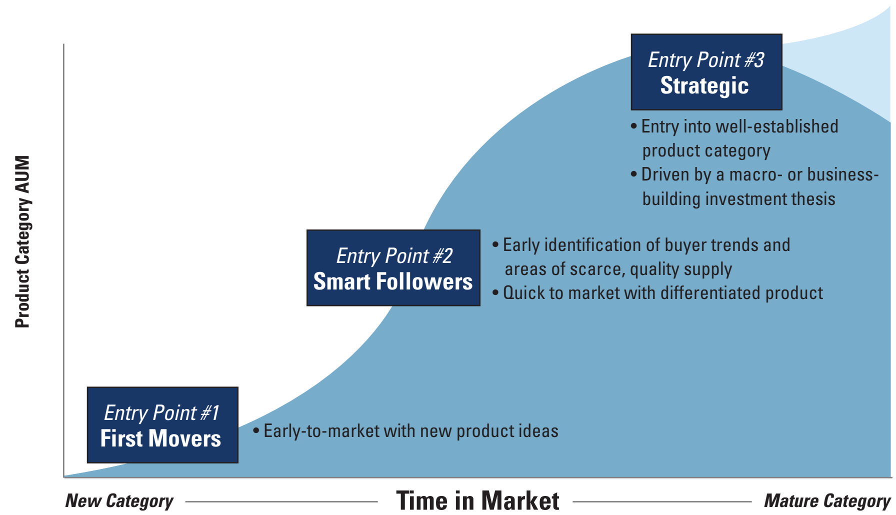
Exhibit 6

Investment Product Development Lifecycle



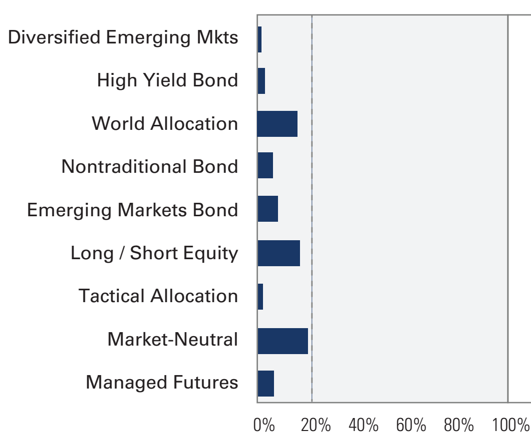
Source: Casey Quirk by Deloitte

Importantly, given the low (if rising) barriers to entry in asset management, the first-mover advantage that competitors find difficult to overcome in many industries is more difficult for an investment firm to sustain over time. In many asset classes, the first fund to market fails to remain the largest product, or even among the five largest, over time.

Exhibit 7

Importance of First-Mover Advantage in Select Morningstar Categories, Q1 2015

% of Category AUM Controlled by First 5 Entrants



Largest 3 Funds' Entry Point

Category	Market Size (US$B)	Largest Fund Entry Point	2nd Largest Fund Entry Point	3rd Largest Fund Entry Point
Diversified Emerging Mkts	$387	60th	27th	47th
High Yield Bond	$326	81st	79th	64th
World Allocation	$324	20th	6th	3rd
Nontraditional Bond	$153	17th	26th	19th
Emerging Markets Bond	$77	28th	15th	9th
Long / Short Equity	$56	1st	69th	43rd
Tactical Allocation	$38	24th	26th	64th
Market-Neutral	$29	52nd	1st	17th
Managed Futures	$19	5th	8th	32nd

1-3 4-10 11-25

Note: Time of entry determined by fund inception date.
Sources: Strategic Insight, Casey Quirk by Deloitte analysis

Product Development Process Best Practices

Common best practices in process and execution shape all three types of product development strategies, and play a significant role in creating an organizational structure that, even if it fails to spark innovation itself, can capably and repeatedly bring innovative products to market.

Exhibit 8

Product Development Process Best Practices

- ❑ Strong governance: product development is a prioritized initiative with clear accountability and metrics
- ❑ Process-oriented: disciplined, detail-oriented, repeatable processes
- ❑ Control/Creativity balance: process that allows for creativity and swift execution
- ❑ Cross-functional: collaborative process that balances views from investments, distribution, and business management
- ❑ Invest aggressively: dedicate significant senior talent to process, bet "big" on new ideas, deploy seed capital thoughtfully, and resource / sustain the required marketing and sales effort
- ❑ No sacred cows: openness to discuss which long-held beliefs are key for future growth and which will lead to irrelevance

Source: Casey Quirk by Deloitte

- *Disciplined, detail-oriented:* Product development only works as a process that streamlines execution and aims to repeat success, reducing the chance of "one-hit wonders." Strong product development processes often relies on playbooks and strong process management. Ad hoc product development rarely ends well.
- *Strong governance:* Effective product development processes are prioritized initiatives, with short- and longer-term objectives of which all stakeholders are aware. Dedicated resources —with clear accountability, measured by transparent metrics—manage these processes and senior management actively oversees them.
- *A balance of creativity and control:* Innovation only succeeds if brought to market. The best product development processes provide enough latitude and time to nurture or acquire new capabilities, yet set deadlines and goals to manage expectations and ensure execution.

- *Cross-functional collaboration:* Successful product development processes include stakeholders from the investments, distribution and (importantly) operations functions. This not only creates a broad consensus, but also ensures risk and return for a new product initiative gets viewed from all objectives, improving overall product design.
- *Appropriate resources:* Strong product development processes are fully resourced: not just financially (with judiciously applied seed capital), but also in terms of management attention. Asset managers with strong product development groups staff them with senior talent that often sits on executive and operating committees. Competitive product development groups have adequate budgets for competitive intelligence, external advice and support professionals. And asset managers with effective product development teams realize that large-scale product development initiatives often have the potential to transform the firm, and therefore must be done right, not simply quickly.
- *"No sacred cows" policy:* Most well-intentioned asset managers agree to develop products within existing investment theses and beliefs without questioning their future relevance. This leads to product proliferation: development groups add products to innovate, but simultaneously maintain legacy products, often at the behest of portfolio managers who argue that the product represents a "call option" in case of any of several reasons: its performance may improve, demand may re-emerge, or other arguments. Such call options are expensive, however – they stretch fixed product management resources and often result in several subscale products with little flow. Asset management firms that agree to question all beliefs, and design product arrays without pre-existing conditions, tend to fare better.

Next Steps: Improving The Product Development Process

Changing business management processes is trying enough for any enterprise, but it remains a particular challenge in asset management, where business management is a relatively newly developed skill set. Three initiatives can help an asset management firm strengthen its product development process:

1. Reshape the process around prioritized entry points in the innovation cycle
2. Strengthen corporate development capabilities
3. Define success metrics

Reshape the Process

Selecting a product development strategy—one of the three outlined earlier in this paper—can help a firm determine the best approach to creating new products and bringing them to market. While an asset management firm's operating model somewhat informs the product development strategy that may be easiest to implement, a firm's competitive advantages better indicate which type of product development strategy will prove most effective over time. First movers, smart followers and strategic players each possess different best-in-class skill sets which give them an edge in developing products in certain ways.

Exhibit 9

Product Development Strategies by Required Competitive Advantages

Entry Point #1 **First Movers**	*Entry Point #2* **Smart Followers**	*Entry Point #3* **Strategic**
❑ Culture of investments innovation ❑ Resource commitment to research and development ❑ Identify unmet client needs ❑ Market-leading thought leadership	❑ Identify buyer trends early in cycle ❑ Identify categories with scarce quality supply or potential differentiated product ❑ Quickly source investment capabilities / bring products to market ❑ Market-leading thought leadership ❑ Ability to proselytize via best-in-class distribution	❑ Identify established products / categories with strong, near-term return potential ❑ Identify strategic gaps in current product suite ❑ Strong corporate development function ❑ Brand / distribution flexibility to incorporate inorganic capabilities
Can we be first to market with new products?	**Can we out-execute first movers?**	**Can we make the right macro calls?**

Source: Casey Quirk by Deloitte

There are three key elements of the product development process:

- *Idea generation:* The most creative part of the process, this involves creating the differentiated investment ideas that serve as a kernel of a new product.
- *Idea vetting:* This “safety testing” step in the process ensures not only that the idea is viable and different from (or better than) those already in the market, but also that there is client demand for the new strategy.
- *Manufacturing fulfillment:* This step involves locating, sourcing, and securing the necessary skills, and often talent, required to execute the new product idea.

Exhibit 10

Reshaping the Product Development Process: Key Steps

	Idea Generation ***Source(s) of new product ideas***	**Idea Vetting** ***Process for assessing new ideas***	**Manufacturing Fulfillment** ***Identifying / sourcing needed investment talent***
Entry Point #1 **First Movers**	• Internal R&D • Unmet customer needs	• On-paper investment thesis testing • Distribution assesses new product salability and business potential	• Organic
Entry Point #2 **Smart Followers**	• Competitors: new product launches/filings • Investments focuses on product improvements	• Distribution assesses new product differentiation / salability	• Legacy: organic • Emerging: inorganic (M&A and sub-advisory)
Entry Point #3 **Strategic**	• Investments identifies established categories, investment themes with strong return/business potential	• Management assesses cost/risk/ feasibility of market entry	• Inorganic: M&A

Source: Casey Quirk by Deloitte

Each product development strategy emphasizes different skills in each step of the process:

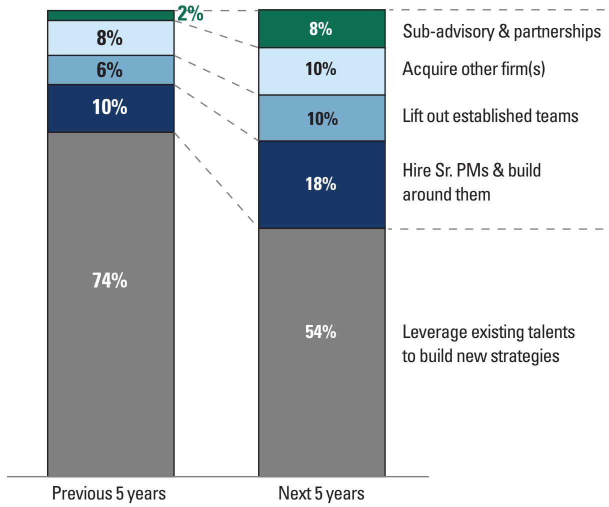
- *First movers* tend to concentrate on idea generation—leveraging in-house investment talent, their primary (if not sole) competitive advantage. They use internal R&D and current client feedback to catalyze new ideas. While distribution checks for demand, internal resources often test and refine the new ideas. Because the innovation often comes from inside, most manufacturing fulfillment among first movers is organic.
- *Smart followers* tend to get ideas from their clients and the marketplace, rather than internally. Rather than use a clean sheet of paper, most smart followers first examine whether they can generate new products as extensions of existing ones, wherever possible. As distribution-focused organizations, their sales and service organizations play a critical role in safety-testing product ideas. Historically smart followers fulfilled manufacturing internally, especially for product extensions. But as new standards in active asset management take hold, increasingly they are using inorganic means to secure talent.
- *Strategic firms* tend to use product development teams to seek and identify new product opportunities proactively. They view the exercise as a business management function, and so safety testing often involves financial modeling and calculating risk-adjusted franchise value potential. Execution is increasingly inorganic.

Strengthening Corporate Development Capabilities

Given the dramatic changes unfolding in the operating environment, a large number of asset managers are impatient to re-orient their product arrays. Many are discovering that their current investment teams lack the skills required to do so. Consequently, firms are more willing than ever to look outside their walls for new talent. Robust capital markets in recent years have fueled earnings and boosted balance sheets, increasing the number of strategic acquirers in the marketplace seeking liftouts, bolt-on purchases and larger acquisitions. Product development will be a substantial catalyst to an ongoing boom in M&A activity throughout asset management, and will influence the skill sets asset managers will require to succeed going forward—particularly around corporate development.

Exhibit 11

Asset Management Executive Perceptions Regarding Sourcing New Investment Talent, 2014



Sources: Casey Quirk by Deloitte / U.S. Institute 2014 CIO Survey

Boosting corporate development activities often involves the following:

- *A target acquisition strategy:* Asset management firms that approach corporate development opportunistically rather than strategically tend to consume far too much time reviewing publicly known deals and less time seeking less obvious targets that may meet their product development needs. Outlining the criteria of a successful acquisition before entering the marketplace prevents emotion from driving needless deal reviews or driving up pricing.

- *A well-articulated buyer proposition:* The need for highly differentiated investment skills has created a seller's market for smaller asset management firms and teams. Price is only one, and often not the primary, criterion many firms use in selecting a buyer. Autonomy, access to strong distribution, balance sheet support, a powerful brand and cutting-edge operations and technology are equally, if not more, important. Investment firms that spend time constructing a case that stands out in a crowded field of potential buyers improve their odds of closing deals.

- *Dedicated resources:* Mergers and acquisitions, even of smaller firms or teams, require a specialist set of skills, including negotiation, financial modeling, and incentive alignment design. Successful product development teams increasingly seek out former investment banking officers to gain advantage in a heated marketplace for investment talent.
- *Onboarding operations.* Execution risk is high in asset management deals, particularly because the industry's highly mobile talent—the principal competitive advantage of any investment firm—is difficult to keep secure during a transaction. Strong product development teams are able to show teams and targets with whom they're negotiating that they have experience with the rockier transition issues, including client consents, legal and regulatory compliance, rebranding, operations integration, marketing and communications, governance and incentives.
- *Thorough due diligence*. Either with internal or external resources, comprehensive due diligence is essential to successfully developing products inorganically. For investment firms, due diligence should involve not only a review of financial strength, employment agreements and client contracts, but also a thorough review of investment talent, systems operations and existing incentive alignment schemes.

Define Success Metrics

Well-built product development teams use clear, quantifiable metrics to measure progress against short-term objectives for execution, as well as long-term strategic goals.

Exhibit 12

Defining Product Development Success

	Targeted Approach	Venture Capital Approach
Common Firm Attributes	• Smaller AUM • Limited range of capabilities	• Larger AUM • Broad range of capabilities
# of Launches	• Very limited	• Many new launches • Compete in all categories
Success Expectations	• "Failure is not an option" • Long-term, patient view	• Payoff from handful of "category killers" • Many product closures
Financial Metrics*	**Product-level:** • Flow capture / share • P&L	**Firm-level:** • Profitability of new product suite • Wallet-share of target clients
Brand Impact	• New product re-enforces current brand / positioning / strengths	• New product enhances view as market innovator – "creative failure" does not tarnish market perception • New product re-enforces positioning as broad capabilities provider

**common examples; not meant to serve as a comprehensive list*

Source: Casey Quirk by Deloitte

As with all functions in an asset management firm, metrics should reflect financial and operating performance as well as cultural tenets. For product development in particular, either of two sets of metrics tend to work best:

- *Targeted metrics:* where product development is viewed as a sequence of steps to transition the product array away from legacy and toward future competitive requirements. Smaller firms launching products tend to use targeted metrics: because of their size, the business risk created by a failed product is greater. The number of launches is fewer, and the tolerance for post-launch error is low. Conversely, however, targeted metrics have long, patient time horizons, to ensure each launch is optimized for success.

- *Venture capital metrics:* where product development is viewed less as a response to market condition and more as a way to grow and diversify revenues. Large, multicapability firms with a strategic approach to product development, as well as a brand reflecting success in product innovation, tend to embrace these metrics. The number of product launches is larger; the tolerance for failure, as a result, is higher. With appropriate branding as an innovator, firms using these metrics can tolerate higher numbers of failed product launches. And unlike targeted metrics, which focus on specific strategic goals, venture capital metrics are more driven by financial results—increased franchise value.

Conclusion

Product development will become one of the most sustainable competitive advantages an asset management firm can possess. The approaching end of a decades-long rally in bond prices has pushed investors into one of the most sweeping shifts in portfolio assembly and construction ever experienced by the industry,
and demand will push assets from old products into new ones. The investment firms with the skills and sustainable processes needed to navigate this secular transformation will weather the change far better than those who either remain wedded to old processes or opportunistic acquisitions ill-suited for a smooth transition to a new operating environment.

New Arrows for the Quiver:

Product Development for a New Active and Beta World

CaseyQuirk
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Casey Quirk by Deloitte helps clients develop broad business growth strategies, improve investment/product appeal and growth prospects, evaluate new market and product opportunities, and enhance incentive alignment structures. Our unparalleled industry knowledge and experience, detailed proprietary data, and global network of relationships make Casey Quirk by Deloitte a leading advisor to the owners and senior executives of investment management firms in the world.

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