Asset Flows Forecasting

Introducing eVestment Asset Flows Forecasting

Asset flows are a driving factor in the analysis of universe, firm and product performance in our industry. Historical flows provide insight into flow trends but can be enhanced with performance, macroeconomic and product review factors highly correlated with flows.

Using proprietary data and modeling, eVestment has created a methodology and framework to provide a quantitative and comprehensive insight into future flows activity. eVestment forecasts anticipate institutional market trends in the upcoming year on a cumulative or quarterly basis.

**Proactive Tool** – Use forecasting data to proactively inform your business decisions rather than relying solely on historical trends

**Gauge Future Demand** – Asset flows forecasts give managers insight into the areas gaining and losing favor with investors, allowing them to gauge future demand for their strategies and make more informed decisions sooner

**Predict Flow Capture** - Combining flow forecasts and historical flow capture rates allows managers to anticipate growth trajectory

**Unparalleled Data Penetration** – Leverage the unmatched scope of eVestment’s data on over 20,000 traditional strategies, proprietary product review data, and analytical insights from extensive flow analysis and experience

**Global Coverage** – Gain coverage through a series of custom asset flow models providing over 200 universes comprised of over 20,000 products around the globe as well as a suite of analytics tools around each

**Unbiased Insight** – Ensure the exclusion of human bias in forecasts at a step in which unbiased analysis is crucial

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4Q 2014
- Global Floating-Rate Bank Loan Fixed Income: 5.96%
- Global Agg Fixed Income: 0.56%
- Global Multi-Sector Fixed Income: 2.16%
- Australian Equity Shares – Long Only: -0.01%

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1Q 2014, 2Q 2014, 3Q 2014
Asset Flows Forecasting

The eVestment Forecasting Model

Each quarter the eVestment forecasting model produces quarterly flow forecasts for the upcoming year. These models reflect the most up-to-date data producing quarterly forecasts for each universe in the eVestment database. The eVestment forecasting model includes database search activity of 84% of the top fifty consultants institutional consultants ranked by assets under advisement.

How Does the Model Stack Up?

The eVestment forecasting model has been back-tested on more than seven years of historical flows data for more than 200 eVestment universes.

Large shifts in flows are where the real risk and opportunity lie. Since the beginning of 2006, twenty-two percent of quarterly universe net flows have been greater than +/- 5%. For these important events, the eVestment model has a 68.5% improvement over using historical flows alone, and is 87.7% accurate in directionally forecasting flows of magnitude equal to or greater than 5% of AUM.

Compared against the current best alternative, historical flows, we see an 87.4% improvement in forecasting error rate and are 75.9% accurate in directionally forecasting flows across all universes.

When forecasting directional changes in flows of +/- 5%, the eVestment model is 83.3% accurate, an improvement of 41.6% over the benchmark, historical flows.

Key Features

Extensive analysis performed on over 76 million data points and 240 factors, including database search trends, to discover tendencies and relationships in the data forms the foundation for the eVestment models.

Product review data employed to provide proprietary insight into consultant and investor product searches.

Cutting edge forecasting technology utilized to capture complex variable relationships and unique data characteristics.

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**Including:** Raw flow values, flow momentum, flow consistency  
**Including:** Excess returns, relative peer performance, risk adjusted performance, and batting average, yield curve traits and economic growth indicators  
**Including:** Consultant reviews, universe reviews, and trend capturing combinations  
**Including:** Size, style, number of products, and track record
Asset Flows Forecasting

2013 In Review

Through the third quarter of 2013 the institutional asset management industry reported net inflows totaling $38.8 billion. Fixed income strategies rebounded in 3Q 2013 with net inflows totaling $39.1 billion after the threat of rising interest rates prompted net outflows of $25.2 billion in the second quarter. Despite markets approaching record levels, equity strategies recorded net outflows of in $145.1 billion in 2013. Outflows of $93.1 billion in the third quarter marked the ninth consecutive quarter of net outflows for equity strategies. For the twelfth consecutive quarter Balanced strategies recorded net inflows totaling $9.0 billion, bringing the inflow total to $37.4 billion in the first three quarters.

In 3Q 2013, emerging markets equity strategies reported net outflows of $1.8 billion for the first time since 4Q 2007. Through the third quarter, the eVestment All Emerging Markets Equity universe has recorded inflows of $24.4 billion.

Third quarter gains in fixed income markets were led by $29.7 billion in net inflows into U.S. fixed income, following $45.1 billion in net outflows in the first half of 2013. Global fixed income products continued to attract assets in the third quarter, posting $10.5 billion in net inflows, marking the seventh consecutive quarter of inflows.

**Top Universes by Net Inflows in 2013**

Emerging Mkts Small Cap Equity
U.S. Sector Focus Equity
ACWI ex-US Small Cap Equity
U.S. Floating-Rate Bank Loan...
Overseas China Equity
Global Balanced - Hedged
U.S. Passive Large Cap Value Equity
Canadian Long Duration Fixed...
Global Multi-Sector Fixed Income
Global Tactical Asset Allocation -...

**Top Searched Universes in 2013**

Emerging Mkts All Cap Equity
Global Multi-Sector Fixed Income
Emerging Mkts Small Cap Equity
ACWI ex-U.S. Large Cap Value...
ACWI ex-U.S. All Cap Growth...
EAFE Small Cap Value Equity
Emerging Mkts Large Cap Equity
EAFE Small Cap Growth Equity
Frontier Mkts Equity
EAFE Large Cap Value Equity

Consultant and institutional investor database activity tracked by eVestment Advantage has historically led to future flows activity one to three quarters in advance.

The eVestment Emerging Markets All Cap Equity was the most searched universe through the first three quarters of 2013 when looking at average monthly views and total monthly views. In terms of total views, the eVestment U.S. Large Cap Growth Equity universe was the single most searched universe through 3Q 2013.

The eVestment Global Multi-Sector Fixed Income universe was the most searched fixed income universe through the first three quarters.
eVestment forecasts that many of the broad trends in institutional investor asset flows will continue in 2014.

Asset Classes: The movement from equity to debt strategies is forecast to continue in 2014. Over $100 billion is forecasted to move from equity to debt strategies. Balanced strategies are forecast to continue growing.

Geographies: Even with the U.S. market at record highs, assets are moving from U.S. focused markets to non-U.S. markets on the geography side. The forecasted largest beneficiary of asset flows out of United States focused markets is to strategies with a global focus. This allows many institutional investors to keep some exposure to the U.S. markets while diversifying the portfolio. eVestment believes that Emerging market growth will continue on both the debt and equity sides; however, the growth is forecast to be significantly off of the highs in 2011 and 2012.

Fixed Income: Institutional investors appear to be preparing for potential inflation as well as a rising interest rate environment in 2014. Many of the fixed income strategies that have some type of protection against interest rate increases such as Floating Rate Bank Loans or inflation adjustment such as TIPS are forecast to increase. Out of the geographies for investment, Global Fixed Income strategies are forecasted as the largest recipients of Institutional Asset Flows in 2014.

Equity: Global equity is forecast to exhibit the largest growth in 2014. U.S. equity is forecast to continue to decline in 2014. This decline is especially prevalent in the large cap space with each of the three U.S. large cap peer groups losing over $20B in 2014. Emerging markets equity is forecast to continue, although the rate of growth will be significantly slower than prior years.
Emerging Markets Debt: The eVestment All Emerging Markets Fixed Income universe is predicted to gain over $50 billion in net inflows through 2014. The universe has experienced two consecutive quarters in net outflows, but has recorded inflows totaling $8.7 billion in 2013. The universe was the third most searched universe in 3Q 2013 in terms of average views per product.

Global Multi-Sector Fixed Income: The eVestment Global Multi-Sector Fixed Income universe is predicted to record cumulative inflows of $30 billion in 2014. Through the first three quarters of 2013 the universe has recorded inflows of $21.1 billion. During the same period search activity in the eVestment database increased 64% indicating these strategies are gaining traction with investors and will continue to see inflows through 2014.

Global Credit Fixed Income: The eVestment Global Credit Fixed Income universe is predicted to gain over $25 billion in net inflows through 2014. Global credit strategies have seen five consecutive quarters of net inflows, much of which has been driven by investors in Europe and the U.K. In the second half of 2013, search activity for global credit strategies by consultants and investors in the U.K. rose 28%, indicating inflows will continue to be driven by investors in the United Kingdom.

Emerging Markets All Cap Equity: Emerging Markets All Cap Equity strategies are predicted to attract inflows over $20 billion during 2014. Through 3Q 2013 the universe has reported ten consecutive quarters of net inflows. In 2013 these strategies gained traction with U.S. investors, reporting inflows of $2.7 billion.

Global Aggregate Fixed Income: The eVestment Global Aggregate Fixed Income universe is predicted to attract net inflows totaling more than $20 billion in 2014. Since 1Q 2012, Global aggregate strategies have recorded net inflows of $18.9 billion.

Quarterly Net Flow Forecasts

Emerging Markets Debt
Emerging Mkts All Cap Equity
Global Multi-Sector Fixed Income
Global Credit Fixed Income
Global Agg Fixed Income
U.S. Large Cap Value Equity: The eVestment U.S. Large Cap Value Equity universe is forecasted to record net outflows in all four quarters of 2014, leading to over $40 billion in net outflows. Large Cap Value managers have been steadily increasing exposure to Apple, as 41% of portfolios in the universe allocate an average of 1% to Apple through 3Q 2013.

U.S. Large Cap Growth Equity: The eVestment U.S. Large Cap Growth Equity universe is projected to record net outflows in 2014 of more than $30 billion. Over a one year period the universe has outperformed the S&P 500 by 1.43%. Despite this performance, the trend of outflows seen since 4Q 2009 is expected to continue through 2014.

U.S. Large Cap Core Equity: The eVestment U.S. Large Cap Core Equity universe is projected to see net outflows totaling more than $20 billion in 2014. Through the third quarter of 2013 the universe has seen thirteen consecutive quarters of net outflows. In the third quarter managers looked to boost performance by increasing exposure to Twenty-First Century Fox and Facebook while decreasing exposure to Microsoft and IBM.

EAFE Large Cap Core Equity: The eVestment EAFE Large Cap Core Equity universe is projected to see more than $10 billion through 2014. Investors have been withdrawing assets from EAFE Large Cap strategies consistently since 2008, and this trend looks to continue through 2014.

U.S. Small Cap Value Equity: The eVestment U.S. Small Cap Value Equity universe is forecast to see net outflows in all four quarters of 2014, totaling more than $10 billion. U.S. Corporate accounts have driven outflows in recent quarters, so look for continued outflows for these accounts in 2014.
eVestment Asset Flows Forecasting Methodology and Disclaimer: eVestment produces its quarterly institutional asset flows forecasts using a proprietary forecasting engine. This engine is trained on historical data in eVestment's database including asset flows, product reviews and performance data. The statistical model analyzes these proprietary data points along with macroeconomic factors through statistical methodologies to show relationships in the data. Each quarter, eVestment uses the forecasting engine to apply historical data relationships to produce flow forecasts for the next four quarters.

The forecasts set forth in this report are strictly opinions of what eVestment believes may happen due to results from the application of data through its statistical, forecasting models. These forecasts are opinions and are not guarantees of any particular occurrence or outcome and should not be read or interpreted as guarantees. There is no guarantee that any of the forecasts made will come to pass. This report is provided for informational purposes only. Under no circumstances should it be used, or considered, as an offer to sell or a solicitation of any offer to buy the securities or other instruments mentioned in it. This report is intended for the institutional investment community and all information presented in this report is general in nature. This report is not intended to provide investment advice and is not intended as an endorsement or assessment of any specific investment, security, universe or any other investment product or strategy. Due to the time-sensitive nature of the content, the opinions stated in this report are subject to change without notice. The information and opinions are derived from proprietary and non-proprietary sources and eVestment does not represent that information or opinions are accurate or complete and they should not be relied upon as such.

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