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FundQuest Releases “When Active Management Shines vs. Passive” White Paper on Optimizing Active and Passive Investment Approaches in Portfolios

BOSTON, MA, July 7, 2010 – [FundQuest](#) released a new white paper titled, “When Active Management Shines vs. Passive: Examining Real Alpha in 5 Full Market Cycles Over the Past 30 Years.” This twenty-four page study compares the potential/historical benefits of active versus index-based passive portfolio management in seventy-three categories of investments.

The study provides actionable information as a reference tool for portfolio construction. It provides recommendations for each investment category, as to if an active or passive bias should be utilized. This study may help financial advisors and investors in their efforts to create optimal mixes of active and passive strategies. The study also provides insight on the types of market environments in which active management has added value. In addition, the study identified other factors that have been shown to have an impact on real alpha generation.

This new white paper enhances FundQuest’s past research by including broader coverage, and a more robust methodology. The research examines the historical performance of 31,991 U.S. domiciled mutual funds representing over \$7 trillion of assets as of February 28, 2010. The seventy-three fund categories include stock, bond, domestic, and international mutual funds and covers both all live (in operation) and 12,083 obsolete mutual funds in the Morningstar database. By including obsolete funds, the data better reflects the reality of each category’s historical returns. Every mutual fund’s behavior pattern and performance was analyzed for the 30-year period from January 1, 1980 to February 28, 2010, covering five full market cycles divided into bull and bear market periods.

According to the study’s author, Jane Li, Manager, Investment & Research, at FundQuest, “The discussion on the benefits of active and passive management continues, especially after 2008, a year in which active equity managers failed to generate positive excess returns. While investors often use excess returns to measure if a manager has added value compared to a benchmark, we believe alpha is a more appropriate measurement of a manager’s relative performance after adjusting for risk. Our analysis found that after adjusting for risk, active managers on average generated positive alpha in bull markets and negative alpha in bear markets over the thirty year period.”

“Investors may find some of the study’s findings surprising. For example, conventional wisdom is that the small- and mid-cap U.S. equity markets are less efficient, providing active managers with ample opportunity to generate alpha. As a result, many investors consistently use an active approach when investing in these categories. The study indicates that it has become more challenging for portfolio managers to identify opportunities within this market segment. This may be due to the additional resources

investment firms have dedicated to their research coverage of these categories,” said Tim Clift, Chief Investment Officer for FundQuest. “While opportunities remain in this space, this indicates that additional due diligence may be required to identify the best active managers in these categories.”

In 2007, FundQuest launched a family of funds based on the research approach described in the white paper.

Download a copy of this new white paper at: <http://www.fundquest.com/press-resea.htm>

About FundQuest

FundQuest is a partner to RIAs, independent broker-dealers, banks, credit unions, and trust companies, and seeks to help them grow, improve profitability, and expand their product and services offerings. FundQuest’s services are employed by more than 180 financial advisory firms. The company’s innovative investment research, advanced technology, and strong sales support services assist financial advisers in their efforts to deliver highly competitive personal wealth management services. Financial advisers leverage FundQuest’s flexible wealth management solutions to provide: unified managed accounts, mutual fund advisory, separately managed accounts, income portfolios, trust services, annuities, exchange-traded funds, and alternative investments.

FundQuest’s parent company, BNP Paribas, is one of world’s largest and most stable financial services institutions. BNP Paribas was recently ranked the 4th largest bank in the world in terms of revenueⁱ. In addition, BNP Paribas was ranked #9 on the list of the World’s Safest Banksⁱⁱ. BNP Paribas has credit ratings of AA+ (S&P), Aa1 (Moodys) and AA (Fitch)ⁱⁱⁱ. FundQuest’s services are offered in the U.S. through FundQuest Incorporated, a registered investment adviser. www.fundquest.com/usa

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ⁱ Fortune.com, July 2009

ⁱⁱ *Global Finance*, February 26, 2009

ⁱⁱⁱ S&P gives AA letter ratings to companies with a very strong capacity to meet financial commitments. This rating may be modified by the addition of a plus (+) or minus (-) to show relative standing within categories. Moodys judges obligations rated Aa1 to be high quality with very low credit risk but their susceptibility to long-term risks appears somewhat greater. Fitch’s AA rating denotes expectations of very low default risk and indicate very strong capacity for payment of financial commitments. The modifier “1” indicates the security ranks in the higher end of its generic rating category.