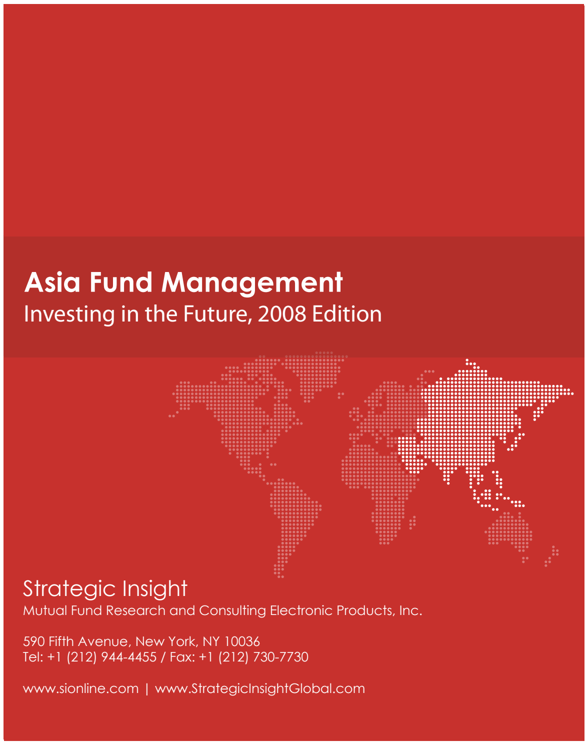
Asia Fund Management
Investing in the Future, 2008 Edition



Investors across Asia demonstrated exceptional resilience through the year-long bear market, contributing $140 billion of net inflows to mutual funds in the twelve months through September. But the global financial crisis has accelerated dramatic realignments in demand, market direction, competitive dynamics, and distribution focus, changing the balance between companies. Eight out of the fifteen highest cash flow managers in Asia a year ago are not among the top ranked today, and such rotations appear set to accelerate.

While most executives are concerned about deepening challenges in the near-term, some are viewing it as an opportunity to reposition for greater gains in the future. The Asia region stands out with higher equity fund flows than the US, and with long-term funds in sharp counterpoint to the European industry suffering over $500 billion in net redemptions during the last year alone. These trends underscore the broad and persistent shift of flows and focus of asset management globally, while reconfirming the current importance and future potential of Asia.

But projections for growth in the next five years vary substantially, and the greater risk now is of underestimating the potential of Asia, and consequently under-investing or misaligning resources, which will prove competitively detrimental to fund managers.

Getting the basic facts and conclusions right are also a challenge for many. This year's edition of our Asia Fund Management study draws from Strategic Insight's comprehensive databases of more than 20,000 local funds and many more offshore funds sold in the region, as well as our focused research on Asia over the past several years and recent discussions and consulting work with CEOs and head of product and distribution in the region.

* Fund industry assets in Asia reached $1.9 trillion last year and declined to $1.6 trillion in September 2008, but year-to-date inflows reached $50 billion.
* This year's inflows come on top of $450 billion of flows in 2007 into local funds and another $50 billion to offshore funds from the region.

Asia Fund Management is not a "primer" on the business but rather written for experienced executives active or with new interests in the region, as an in-depth complement to our suite of ongoing research and resources.

For a detailed discussion of the book's key findings please contact the author at +1-212-944-4456 or Jag@sionline.com

Report also includes:

* Top selling funds by market
* Select lists for key distributors
* Key opportunities going forward
* Strategies that worked up to now, and what will work in the future
* Viewpoints from industry CEOs and head of product and distribution
* Flow and asset details by segment
* Examples of sub-advisory/ fund-of-fund opportunities
* Realistic growth projections
* Strategic thinking about Asia in the context of global funds industry

* 150 pages
* 70 tables and charts
* Data and analysis updated through September, 2008

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Strategic Insight*

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* Refers to Strategic Insight Mutual Fund Research and Consulting Electronic Products Inc. and its wholly-owned subsidiary, Strategic Insight Mutual Fund Research and Consulting LLC, both defined as Strategic Insight.

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Introduction: Reinvesting in the future

One of the better decisions in the Asia fund industry was made ten years ago, amid severe declines in stock prices, corporate bankruptcies, currency devaluations, and billion dollar bailouts (challenges quite similar to those today). The shock and uncertainty led many companies to scale back their plans, yet one firm opened its doors for business and invested in the future. Now it is the largest and most successful asset manager in its market, with tens of billions under management and millions of customers.

This story, along with its facts and lessons, is just one of many that serve as guideposts for executives as they plan for the future. Indeed, the evidence in this study suggests that the Asian fund industry will continue to grow in importance over the next decade. In the past year, despite severe market disruptions, mutual funds in the region benefited from $140 billion of net inflows, a slower pace than before but still remarkable and encouraging. Although hurdles remain and are high, the facts suggest that the foundation remains in place for companies to expand meaningfully in the long-term, if they do not let fears distract from commitment and focus.

Yet priorities are changing rapidly and existing maps are being redrawn, as the extraordinary events of late transform individual opportunity sets for asset managers and distributors in the region. We already see major rotations in company progress. Among the ten highest cash flow managers last year, only four remain on the 2008 list. Shifts in industry leadership will accelerate as some companies more skillfully align resources with the changing demands of investors and advisors, and the many crosscurrents within different segments. The complexity of building and sustaining disparate yet interdependent asset management businesses in Asia, in an increasingly global context rather than local or regional, puts further pressures on organizations.

"Investing in the future" was the theme of our first report on the fund business in the US in 1986, and was also the theme of our Asia study last year. Today, we again highlight the importance of such a mindset, and of continuously and prudently *reinvesting* in the future, especially during difficult times. We have personally reinvested much in this new edition to help expand our clients' understanding of the business, provide a competitive edge, and support strategies and direction. Our perspectives have been shaped by research and analysis of a vast amount of industry data, countless hours spent talking with CEOs and heads of product and distribution around the world, and the knowledge gained through work completed with hundreds of clients over twenty plus years.

This study should also be viewed as one of many inter-related and synergistic resources provided by Strategic Insight to help fund managers and distributors address market opportunities, from our annual service relationships and regularly published commentaries (Asia FlowWatch, Global Windows, etc.), to our Simfund Global databases and analytical tools, consulting services and presentations, and our recently published companion study *Global Fund Distribution: Best Practices, Key Trends, and Opportunities to Grow Sales Worldwide*, which puts a number of the themes raised in this Asia-focused report in a more international context.

November, 2008

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Executive Summary: Taking the longer perspective

- The global financial crisis has accelerated dramatic realignments in the fund industry, with the center of activity tilting further towards Asia. Investors across the region demonstrated exceptional resilience through the year-long bear market, contributing $140 billion of net inflows to mutual funds in the twelve months through September. Globally, the implications for fund managers and distributors are among the most significant in years, with major changes in industry leadership already seen. While most executives are concerned about deepening challenges in the near-term, some are viewing it as an opportunity to reposition for greater gains in coming years.

- Fund industry assets in Asia declined to $1.6 trillion in September 2008 from more than $1.9 trillion at year-end, but year-to-date inflows reached $50 billion[1], an encouraging pace given the challenges, and coming on top of a half trillion dollar inflow last year. The Asia region stands out with higher equity fund flows than the US, and with long-term funds in sharp counterpoint to Europe funds suffering over $500 billion in net redemptions[2]. These trends underscore the persistent shift of flows and focus of asset management globally, while reconfirming the current importance and future potential of Asia.

- But extreme volatility has magnified the transformations in investor demand, market direction, competitive dynamics, product choices, and distribution focus, changing the balance between winning and losing companies. Eight out of the fifteen highest cash flow managers in Asia from a year ago are not among the top ranked today, and such rotations appear set to accelerate, along with turnover in executive suites and staff. The flight to perceived safety will

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[1] Flows through September 2008; as of June, first half flows approached $70 billion.

[2] Europe-domiciled funds excluding money markets; includes offshore/international but not funds sold exclusively or primarily in Asia markets. Excluding ETFs, Europe outflows reached $560 billion in the twelve months through September. Source is Strategic Insight's Simfund Global databases, as for most of the data and analytics in this study. Data in this study updated through September 2008 unless otherwise noted.

intensify the competition between bank deposits and asset management solutions, but the perception of structured products has been damaged in some key markets. As in prior periods of crisis, decisions made over the coming months will have lasting consequences, but many companies have shifted to survival mode and are letting important opportunities pass.

- China provides the most vivid example of the enormous changes, near-term challenges, and long-term potential. Fund flows went from $180 billion in 2007 to ‘zero’, but as a result of declining sales, not higher redemption activity. Dozens of products continue to capture gains, including pre-existing funds and newly launched ‘enhanced yield’ bond and ‘stable income’ vehicles. In addition, the growth of regular savings programs (Ding E Ding Tou) will support industry expansion over the long-term, while the wide relative outperformance of QDII funds has set the stage for greater international diversification[3].

- In Japan, sales opportunities remained huge in some cases, especially for global and emerging bond and emerging equities despite an overall decline in flows. Our “opportunity matrix” reveals over $90 billion going to products with meaningful inflows, a very different perspective than most have from the industry totals[4]. Specific launches as recently as this summer absorbed more than $3 billion, while fund-of-funds and sub-advisory remain important avenues for international managers, which will further loosen up potentials as packagers rethink asset allocations and replace underlying managers. Meanwhile, sharp yen movements combined with ongoing demand for yield are providing a new

[3] QDII funds averaged -36% total returns during 2008 through September, versus -46% for local stock funds (analysis from Strategic Insight’s Simfund Global which carries performance data and ratings from Lipper Inc. and Morningstar Inc. on funds in China and across the Asia region).

[4] Japan industry total suggests $1 billion inflows from equity funds and $36 billion in total over the past year through September, a less helpful gauge of the true underlying opportunities than gains among “high inflow” products (with at least $25 million of flows each); we provide a detailed “opportunity matrix” for Japan and other Asia markets in this study. Strategic Insight’s Simfund Global database has detailed information on over 3,500 Japan funds which has been extensively analyzed in this study (along with similar analysis of all the other key markets of Asia).

impetus for dividend-driven solutions, even though the FIEL enactment has imposed sales constraints and a reversal in the trend between bank versus securities distribution.

- Korea's fund industry grew rapidly with wide acceptance of regular savings plans, which serve as a foundation for higher and more stable investments and longer holding periods (we see similar programs being adopted in several other Asian markets). Korea's business further benefited from the trust placed with some home-grown managers, changes in tax rules favoring onshore fund growth, and efforts by customers to diversify their investments internationally. One international manager raised billions of dollars of assets in a year, considerably enlarging its imprint across the region, but many others are benefiting as local banks and securities firms expand the proportion of external fund sales.

- Hong Kong reveals the disparity of experiences recently, with reports of "blood in the streets" after market declines and publicized failures of certain structured products, in contrast to rising flows to MPF schemes, ETFs, and select guaranteed alternative programs. Net gains to offshore international funds sold through the market exceeded $20 billion last year, and while this diminished recently, registrations of UCITS and new themes suggest future potentials for resident retail and regional private banking clients. Rapidly changing select lists among global and regional distributors are further contributing to fund and manager realignments.

- India's fund investors moved into equity and infrastructure introductions through the early part of this year, unfortunately just in time for the downturn. They have since switched back to money and bond programs, yet redemptions proved reassuringly low. But we know from our Europe fund research that such 'late arrivals' to a boom run can leave a mark on investor habits for years to come; thus it worth thinking about India and other Asia markets outside their local context for lessons and direction for the future.

- The growing complexity of running an asset management business across the region is obvious from the breadth of issues across just the few markets mentioned above, and more apparent when adding the details across the many Asian corridors. Taiwan's fund business is being reassessed given the lower gains sourced by offshore funds this year, rising onshore fund flows, and the polarization between foreign/local and equity/bond opportunities. Singapore's local fund industry grew in similar direction and proportion to Hong Kong's, but the offshore segment remains substantially smaller. Meanwhile, Southeast Asia's overlooked potential has allowed faster and stickier gains by some managers than in the rest of the region.

- Beyond the challenges of getting specific market details right, complexity also stems from the many changes within distribution organizations operating across the region and internationally, and their impact on asset manager outcomes and strategies. The growth of emerging market centers, changes within Fund Selection Units, decentralization of distribution and empowerment of local analysts, diverging needs for simple stories and theme funds versus asset allocation and advice, and the convergence between traditional and alternative investments are just a few of the forces affecting the business globally as well as locally in Asia markets.

- Product complexity and confusion resulted through the use of new structures and proliferation of themes, and many distributors and investors are demanding simpler products and ideas. At the same time, global distributors are asking for solutions that can be packaged and simultaneously sold to clients in multiple markets. Sales, marketing, and distribution support structures are changing within organizations to try to meet the new demands, but not all companies are making progress, resulting in changes in asset and sales market shares.

- Trends reconfirm the central role of product development and innovation, more sophisticated flows and investment demand monitoring, and more coordinated efforts within organizations to try to build and sustain their businesses across the region. Nearly $150 billion of flows went to new funds in Asia over the past year, representing more than 100% of net gains, and the concentration into new introductions is rising.

- Competition within Asia is intensifying as more companies from around the world try to participate in the region's growth, but revenue and margin compression from lower assets and transaction volumes are leading to reassessments of business strategies going forward. Some companies are looking to Asia not only for tangible business opportunities, but also to partake in the competition, which they feel will make them stronger in their home markets and internationally by providing new ideas and relationships.

- Underestimating the potential of Asia, and consequently under-investing or misaligning resources, could erode the long-term competitive advantage of fund managers. We heard suggestions, for example, of assets falling until 2010 and only matching last year's levels by 2013. This could occur only with massive cumulative net redemptions over the next half decade and very low equity returns. More reasonable scenarios which consider the history and current reality of investor behavior suggest assets in Asia increasing at a 12% average annual rate even under very modest and cautious assumptions, and the share of emerging fund industries overall rising vis-à-vis Europe and the US. Asset management across Asia will continue to benefit from stronger economic growth rates relative to other regions. The resulting wealth generation, expanding needs to protect and grow that wealth, ongoing shift from savings to managed assets, and more rapid acceptance of new investment themes as global financial markets recover will only serve to perpetuate this trend in the future.

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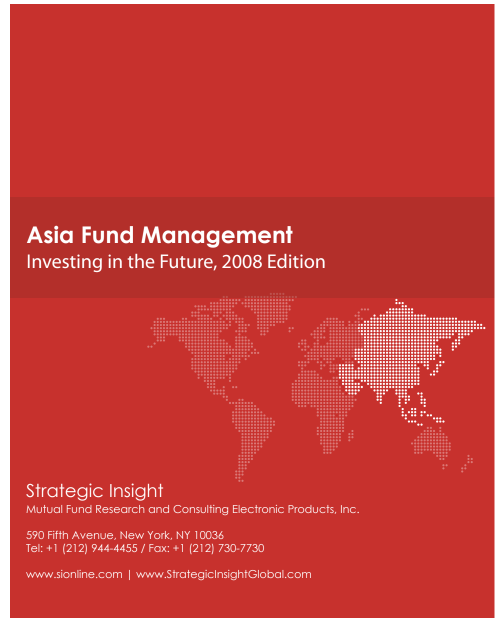

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