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WINDOWS Into Global Asset Management

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In this issue:

Reflecting back on a year with over \$1 trillion of net flows to mutual funds globally, Strategic Insight looks forward to supporting our clients around the world in 2008. In this edition, we discuss preliminary November results that indicate over €30 billion in net redemptions from long-term funds in Europe, in contrast to sustained inflows across Asia (notably Korea, with a \$5 billion new fund launch); year-to-date Asia highlights, including the exceptional \$80 billion inflow in China during the third quarter, plus QDII launches totaling \$16 billion in September and October; funds in Europe that continue to do well (Emerging Markets, China, and Asia Pacific Equity) despite aggregate industry outflows; challenges and opportunities in global distribution, including the influence and limitations of fund selection units, concentration of flows in a few funds and managers, and implications for manager selection and monitoring; fund-of-fund and subadvisory opportunities in Japan; the distribution landscape in Korea, including external fund sales details for key banks and securities firms; and the impact of Asia flows and liquidity on investment management globally, as weightings in “EAFE” and other international benchmarks change in coming years.

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		Page
<u>Europe Losses Mount in November; \$5 Billion Fund Launch in Korea</u>	Perspectives	2
<u>Asia-Pacific Flows Exceed U.S. Levels</u>	Global Trend	3
<u>China Q3 Flows Top \$80 Billion, with QDII Just Beginning</u>	Asia Highlights	4
<u>Amidst Industry Outflows, 100 Funds with €250 Million Each in Q3</u>	Europe Highlights	5
<u>Challenges and Opportunities in Global Distribution</u>	Distribution: Global	6
<u>Concentration of Flows and Investment Capacity Issues</u>	Distribution: Int'l/ Asia	7
<u>Manager Selection and Monitoring: Performance and Screening</u>	Distribution: Global	8
<u>Fund-of-Funds and Subadvisory Opportunities</u>	Distribution: Japan	9
<u>Broadening Fund Sales through Banks and Securities Firms</u>	Distribution: Korea	10
<u>Asia Liquidity to Shape Investment Management Globally</u>	Investing in the Future	11

Perspectives

Europe Losses Mount in November; while a \$5 billion Fund Launches in Korea

Sharply declining stock prices throughout most of the world in November, and its influence on investor confidence, affected equity fund flows in Europe and the U.S., but to a lesser extent in Asia:

- **Preliminary November data on Europe-domiciled funds suggests around €20 billion in net redemptions from equity funds, and €12 billion of outflows from other long-term funds** during the month. Equity fund outflows were the highest of any month this year in Europe, coming after a modest inflow during October. Roughly half of net redemptions came out of Luxembourg-domiciled funds. **An estimated €11 billion was net redeemed from Europe Equity categories** (such funds posted an average negative return of -4.7% in the month, although one-year trailing results still exceed 13%). North America equity funds recorded €3 billion of outflows, while Asia Pacific, Japan, China, and India funds (in Europe) together suffered around €5 billion in net redemptions. With **Emerging Market equity fund net redemptions limited to €0.5 billion in the month, the category’s net inflow total for 2007 still surpasses €19 billion**, with several such funds continuing to gain in November.

Equity Fund Average % Returns to Nov. 2007 Europe-Domiciled, Euro-Currency Funds Only

<u>Fund Category</u>	<u>1 Mth</u>	<u>3 Mth</u>	<u>1 Yr</u>	<u>3 Yr</u>
Equity India	-2.6	22.8	51.8	159.8
Equity Europe	-4.7	1.2	13.1	71.9
Equity Japan	-4.7	-6.3	-8.8	23.0
Real Estate	-4.9	-0.2	-0.4	46.2
Equity Global	-5.5	1.9	9.2	48.3
Equity North America	-5.7	1.2	1.5	21.5
Equity Emerging Markets	-6.9	10.1	40.7	150.4
Equity Asia Pacific	-8.1	8.0	29.2	88.3
Equity China	-12.5	28.0	99.2	186.9

Source: Strategic Insight; Lipper Inc.; fund categories are SI broad groupings based on Lipper Global classifications; total returns are cumulative through latest month; only Euro-denominated primary share classes included.

- In contrast to the worsening business environment in Europe, **preliminary November data on Asia-domiciled funds indicate sustained inflows on top of the robust gains earlier this year.** Korea in particular looks to stand out, especially with news of **Mirae Asset’s launch of its Insight fund, collecting \$5 billion in one month** (just as the company takes step to build its business worldwide).
- **Exceptionally strong flows in China during the third quarter**, along with continued expansion across the rest of Asia, placed the region’s long-term flows on par with the U.S. fund industry for the year. **Asia local funds attracted \$340 billion in net inflows this year through September-end, an annual pace of \$450 billion. Adding offshore cross-border funds sold across Asia, regional flows are exceeding one-half trillion dollars annualized.** October results reveal at least another \$50 billion into funds in Asia including rough China estimates (China reports quarterly; however, we know that **\$12 billion went to three new QDII launches** in China during October, and probably additional amounts to other existing funds).
- **In the U.S., November’s collapse in equity prices led to \$18 billion of net redemptions from domestic equity programs, but inflows continued into international and global equity funds, benefiting from \$7 billion** during the month. Reassuringly, many of the investment themes evidenced over the year persisted, in particular the trend to global diversification and demand for asset allocation and fund-of funds.
- **Distribution dynamics are discussed throughout this edition. In particular, while the influence of fund selection units (FSU’s) has grown, many of them, due to lack of personnel, resources or expertise, end up using the same databases and methodologies to select managers, with only very few groups given appropriate incentives to develop unique screens of fund selection.** Especially for selecting boutiques, more in-depth qualitative analysis is needed and most selection units currently do not have the organizational structure to carry it out. Similarly, often the FSU analysts’ time horizon during the screening process is between one and three years, making it hard for managers with a longer-term investment horizon to position themselves strategically with such units.

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