WINDOWS
Into
Global Asset
Management
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In this edition:

€18 billion in outflows from long-term funds in Europe during February • Sustained inflows in Asia of $16 billion, similar to the prior month • Nearly five hundred funds each collect more than $100 million in two months across Europe and Asia, with a few attracting billions • Commodities funds generate spectacular returns and among the top sellers now • Building links between Asian and European product strategies • More links through JVs such as Ping An's $3 billion investment for 50% of Fortis • Encouraging asset retention in Europe as the industry moves toward an inflection point • Reviewing gross and net sales, asset turnover and "churning" among European funds • Just 0.6% more assets redeemed every month from cross-border funds compared to four years ago • Overcoming industry crisis: evidence of investor behavior in various markets • Announcing the launch of Simfund Asia and Europe databases, which along with US data encompasses 120,000 funds and share classes globally with monthly flows and assets, performance, ratings from Lipper and Morningstar, portfolio holdings, multiple classification schemes, and much more, all in one powerful analytical application for our clients.

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Perspectives

Looking Past the Horizon during Challenging Times

Mutual fund inflows across Asia in February, running at a level similar to the prior month, provided optimism against a backdrop of sustained market declines. However, the **€100 billion of net redemptions from long-term funds in Europe** during the past two months alarmed many. While a few observers are pessimistic about the industry's prospects, the global experience over the past twenty years provided different lessons about expansion and opportunity, despite the temporary and sometimes severe setbacks.

Over time, investors recognize the advantages of mutual funds, and expect and benefit from daily liquidity and NAV price continuity, in contrast to some other investment vehicles. Moreover, a diversified investment pool protects them from the catastrophic price declines experienced at times (and quite visibly lately) in individual stocks. These essentials continue to underlie the growing acceptance of funds around the world.

While many expect the net flows and marketing environment to remain difficult, some fund industry executives are **choosing not to cut back on strategic and business development plans. Indeed, a few are seeing this period as an opportunity to position their company for future growth:**

- A closer analysis beyond the headlines reveals **500 funds across Europe and Asia each collecting more then $100 million in the past two months – with a few attracting billions.**
- **Mutual funds in Asia excluding China collected $16 billion in February, similar to the prior month.** Although this is 30% off the pace of 2007, it is still encouraging given the NAV declines experienced by investors, and also compares favorably to the $22 billion in net flows to stock funds in the US, a mature market supported by recurring long-term retirement flows.
- **European-domiciled funds suffered €18 billion in net redemptions from long-term funds during February**, following the prior month's €80 billion outflow. **Money market funds again served as a buffer, gaining over €23 billion** of net money (in January, they collected €67 billion).
- **The average equity fund in Luxembourg and Ireland lost -8% during the three months ending Februar**y, ranging from -4% among Emerging Markets to -8% for Europe funds, and -14% for funds investing in China (USD funds only). The average equity fund retained a 9% average return over twelve months and 15% annually over three years, still better than many CIOs' assessments of long-term equity risk premia, although March declines have further eroded performance. **Commodities funds generated spectacular returns and are among the top selling products now** (e.g., Schroder AS Agriculture, with a significant portion of gains coming from Asia).
- **Managers in Asia suggest that while purchasing volumes fell, redemptions have not risen as much as anticipated in many cases**. **But in Europe, comparisons of gross sales trends with net sales are raising worries about fund switching activity (however, we estimate that the monthly redemption rate is only higher by about 0.6% compared to four years ago).** Expectation and customer relationship management will remain keys to asset retention and further sales.

Average Total Return % to Feb. '08
Luxembourg and Ireland Funds, USD Only*

Asset Class	3 Mth	1 Yr	3 Yr (ann*)
Equity	**-8.3%**	9.4%	14.8%
Bond	**1.2%**	5.4%	4.7%
Money Market	**0.6%**	3.5%	3.7%
Select Categories:			
Commodities	**20.3%**	40.4%	12.6%
Absolute Return	**-0.8%**	5.4%	7.1%
Equity Emerging Mkt	**-3.5%**	33.3%	30.0%
Equity Europe	**-7.5%**	6.5%	21.7%
Equity Asia Pacific	**-8.5%**	19.6%	20.5%
Equity Global	**-8.7%**	0.9%	9.6%
Equity North America	**-9.2%**	-3.9%	4.4%
Real Estate	**-11.6%**	-17.2%	8.3%
Equity China	**-14.4%**	35.4%	31.9%

**Only US Dollar primary class portfolios included; 3-year total return is average annual; Source: Strategic Insight Simfund Global, Lipper Inc., Morningstar Inc.*

- **Distinguishing between an "Asian" and "European" product is becoming less meaningful as similar themes resonate around the world.** Allianz, for instance, will be launching in Germany a fund that has already found much appeal in Taiwan. **Crosslinkages between the regions are being further strengthened through JVs and M&A, exemplified recently by the announcement of China's Ping An Insurance to pay over $3 billion for a 50% stake in Fortis Investments.**

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