

Strategic Insight

590 Fifth Avenue, New York, NY 10036
Tel: +1 (212) 944-4455, Fax: +1 (212) 730-7730
Available at www.StrategicInsightGlobal.com

WINDOWS Into Global Asset Management

June 2008

In this edition:

- Emerging market equity funds collected \$300 billion of net flows worldwide over the past year, with \$20 billion in April alone. This has widespread implications for global liquidity, stock prices, volatility, and investor decisions. It has also led to capacity problems for many managers, encouraging fund selectors to widen their search.
- Asia déjà vu: Mutual funds in the region attracted \$100 billion of net flows in four months, identical to the gains in the same period in 2007 - when the final tally eventually reached \$500 billion.
- The April 2008 downloads of Simfund Global (GL) databases are now available covering 50,000 funds and many more share classes across Asia, Europe, and Offshore, with monthly flows and assets, performance, ratings, portfolio holdings, and multiple classification schemes.
- Visit us at the Fund Forum International in Barcelona, 30 June to 3 July. We will be presenting new distribution research, moderating a panel, and unveiling Simfund Global at Stand # 127 in the exhibition area.

Jag Alexeyev, Director of Global Research, jag@sionline.com

	Page
<u>Emerging Market Funds Absorb \$300 Billion</u>	Perspectives 2
<u>Q1 and April Results: Asia on Track; Europe Finally Turns</u>	Global Summary 3
<u>Asia Déjà Vu: \$100 Billion Flow in Four Months, Again...</u>	Asia Highlights 4
<u>Japan: Emphasis on Bond and Emerging Market</u>	Asia Focus 5
<u>China: Q1 Positive and Encouraging, Shift to Bonds</u>	Asia Focus 6
<u>Europe: Modest Relief from the Negative Trend</u>	Europe Highlights 7
<u>Emerging Markets: Matching Capacity to Demand</u>	Product Focus 8
Simfund GL Profile: <u>Top Selling Funds Europe/Int'l</u>	Europe-Intl Funds 9
Simfund GL Profile: <u>Top Selling Funds Asia (ex China)</u>	Asia Funds 10
Simfund GL Profile: <u>Top Selling Funds China</u>	China Funds 11

Perspectives

Emerging Markets Absorb \$300 Billion through Funds – What Next?

Heavy volumes continue into emerging market funds, impacting global liquidity, stock prices, volatility, and investor decisions:

- Over \$20 billion of net flows around the world went to funds investing in “emerging market” (EM) stocks during April.
- 80% of this was contributed by investors across Asia and Europe. Asia-domiciled EM funds drew \$8 billion while Europe-based and cross-border international EM funds absorbed a similar amount, with significant portions sourced in Asia. US-based EM funds garnered \$4 billion.
- Preliminary data for May suggests another strong result with around \$10 billion of EM flows outside the US (versus \$16 billion in April).
- Outside of the US, EM funds captured nearly 90% of April’s equity fund inflow. Including US, EM strategies accounted for half of stock fund flows globally.
- **In all, EM soaked up more than \$300 billion net over the past year** through April, according to our Simfund Global databases which track funds totaling \$25 trillion of assets worldwide.
- This includes \$60 billion to diversified programs across Asia, Europe, and Offshore. But the greater part represents country funds such as China, Korea, and India, which together absorbed \$200 billion, primarily from investors in those countries. US investors channeled nearly \$30 billion to EM funds.
- Most gains in the past year went into China and Korea stocks, but other segments such as Middle East, “new emerging” and “frontier” strategies are now also benefiting.
- Inflows to EM funds contrast sharply with outflows from other categories, especially \$140 billion of net redemptions from funds investing in Europe over the past twelve months.
- The remarkable gains to emerging equity do not include rising pension fund allocations through mandates, and rising allocations to EM within

broader global equity programs; these further add to the overall liquidity impact.

Equity Funds by Category, Net Flows \$ Billion across Asia, Europe, Offshore; excludes US

	<u>4/08</u>	<u>12 Mths</u>
Equity Emerging Markets	4.8	47.8
Equity China	2.9	133.9
Equity Korea	2.3	52.3
Equity Asia Country	1.9	16.1
Equity India	1.6	14.6
Equity Latin America	1.4	14.9
Equity Asia Pacific Ex Japan	0.9	9.9
Equity Russia	<u>0.4</u>	<u>4.2</u>
Total Emerging Market Above	16.3	293.8
% of Total Equity	89%	158%

Equity Europe strategies*	2.1	-139.3
Other Equity (ex EM, ex Europe)	-0.1	31.8
Total Equity Funds	18.3	186.3

**Excludes Russia funds but includes other European country and diversified strategies; April inflow to Europe Country mostly ETFs. Source: Strategic Insight Simfund Global.*

The emerging market equity story is closely related to the **ongoing and broader growth of mutual funds across Asia,** another dominant theme for our industry.

- **Investors across Asia-Pacific placed \$100 billion net into mutual funds during 2008 through April.**
- **April was very strong with nearly \$40 billion of net inflows to local funds in Asia.**
- **Flows in Asia every month this year have been positive,** despite NAV declines and market uncertainties.

Interestingly, progress in the region this year is identical to the same period a year ago. We wrote in our June 2007 edition of Global Windows:

“\$100 billion net has been placed by investors across Asia-Pacific into mutual funds during 2007 through April. Given the persistence of gains in the region, even through two periods of sharp stock market declines, it would not be surprising to see at least \$350 billion registered during all of 2007.”

Asia went on to record \$500 billion of inflows last year. Given current uncertainties, it is impossible to project for 2008; but so far, the parallel, and persistence of the expansion, is striking.

For the remainder of this report, as well as access to other reports,
please visit: www.StrategicInsightGlobal.com

Windows Into Global Asset Management is provided to clients of
Strategic Insight's Global Research service.

Additional publications include:

- *Global FlowWatch*
- *Asia FlowWatch*
- *Europe/Int'l FlowWatch*
- *Asia Fund Management*
- *Global Fund Distribution*
- Plus a wide range of reports on the US fund industry

SI's international analysis draws from a broad range of data sources, including our Simfund Global data analysis platform, which provides fund net flows, assets, returns, risk, ratings, portfolio holdings, and hundreds of other details on 60,000 portfolios across Asia, Australia, Europe, Offshore, and the US. This uniquely global tool will soon include coverage of Canada, Latin America, Middle East, and Eastern Europe markets.

Beyond Simfund® and published reports, our service also incorporates customized research and consulting, through which our analysts address each client's specific needs for information, data analysis, discussions, and special projects related to funds and asset management around the world.

For further details, please contact Jag Alexeyev or Daniel Enskat
at +1-212-217-6885 or global@sionline.com.