

Strategic Insight

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WINDOWS Into Global Asset Management

September 2008

In this edition:

- July Simfund Global data reaffirms the trend of Asia inflows and Europe outflows. Over \$70 billion net went into Asia based funds so far in 2008, while European funds suffered net redemptions exceeding \$190 billion.
- Many avenues for growth remain, including new stable income fund launches in China, Brazil funds in Japan, and ETFs across Europe and Asia.
- Asia has especially demonstrated encouraging resilience. Even China, where many new investors suffered equity fund price declines averaging 20% during the second quarter, recorded just \$5 billion in net redemptions.
- Announcing two upcoming in-depth studies: “The Global Mutual Fund Distribution Landscape” and “Asia Fund Management in the Age of Global Distribution”.

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Scheduled for publication in September / October

Asia Fund Management in the Age of Global Distribution

- Combining top-level and in-depth perspectives on fundamental industry changes, to help companies more profoundly understand the business in the region and better respond to its opportunities
- Outlining the solid business case to build in Asia, but highlighting the risks and possible traps and ways to avoid them
- Detailing trends in investor activity to help match fund company capabilities with rapidly evolving market demand, using Strategic Insight's unique net flows data and research
- Analyzing product development trends, successes and failures to maximize sales from new launches
- Evaluating distribution imperatives and dynamics to increase fund selection probabilities
- Realistically forecasting the near and long-term potential of Asia fund markets
- Supporting planning and resource allocation decisions, to help avoid costly mistakes and get the best returns on investment, especially in the currently challenging environment
- Revealing ideas and views based on discussions with CEOs and regional heads of strategy, marketing, distribution, and product
- Incorporating analysis of data from Simfund on 20,000 local funds in Asia and 8,000 offshore funds and share classes sold in the region
- Building on and extending our widely acclaimed study, "Investing in the Future: Asia Fund Management and Middle East Opportunities"
- Taking a thematic approach to decoding the business in the context of expanding dependencies between Asia and the rest of the world, and addressing many new topics
- Reflecting Strategic Insight's expertise on the Asia and global fund industry built over 20 years and with more than 250 clients currently
- 100+ pages of commentary, presentations, conclusions, and advice
- Please call Jag Alexeyev at +1-212-944-4456 to discuss details and reserve your copies in advance.

- along with -

The Global Mutual Fund Distribution Landscape

Also scheduled for publication in the next few weeks is a comprehensive 100+ page study that takes an international perspective on sales and distribution but delves heavily into Asia. [See page 9 of this Windows for more details](#); discounted package pricing for clients who wish to receive both studies.

Perspectives

Drawing a Larger Multi-Centric Fund Industry Map

Rising inflows to funds in Asia in July, and heavy net redemptions again in Europe, highlight the varying reactions of investors to market volatility and deepening economic uncertainties. So far in 2008, over \$70 billion of net inflows went to funds domiciled or primarily sold in Asia, while Europe based and international funds suffered net redemptions exceeding \$190 billion. But the latter reflects strong gains among money markets; excluding liquidity programs, European outflows reached \$350 billion to date.

Meanwhile in the US, investors net redeemed from stock funds in July, but year-to-date progress has been better than many anticipated. Long-term funds captured \$90 billion through July, and money markets net gained another \$300 billion.

Equity funds are averaging NAV declines of -11% to -30% in local terms over the twelve months through July, making the sales and retention process difficult. Still, companies are finding growth avenues, as seen with **new stable income fund launches in China, Brazil funds in Japan, and ETFs across Europe and Asia.**

The financial backdrop remains tough as some describe the “worst crisis since 1974”. Concerns about Vietnam and more recently in Korea, with memories of 1997/98, have stirred fears of another ‘Asia crisis’. But as revealed before, opportunities for investors and the fund industry often are greatest when confidence is lowest, when flows are weakest, and when returns are most abysmal. Unfortunately, such times are also when many companies experience the greatest strains, cut back on budgets and expansion plans, lose people and talent, and retreat into self-protective silos.

Bill Miller of Legg Mason in his second quarter commentary to shareholders admits that calling a bottom is often futile. But his views on the longer perspective are notable in their conviction:

“I do think some things are obvious: it is obvious the credit crisis will end, and it is obvious the housing crisis will end, and that credit markets will function satisfactorily and house prices will stop going down and then start moving higher.”

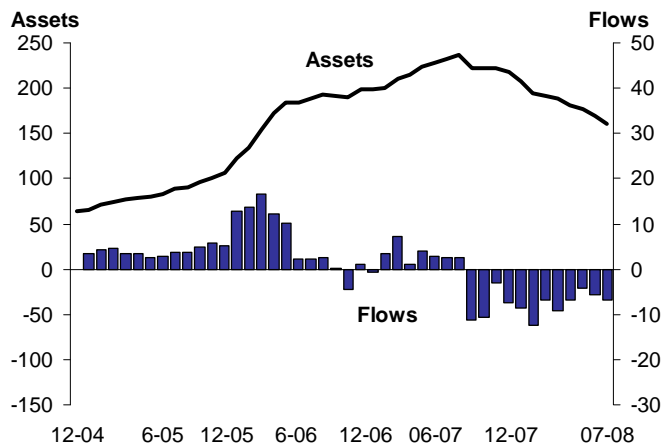
Furthermore: *“It is obvious stock prices will be higher in the future than they are now.”*

Others may share similar views. Bloomberg reports that three of the world’s largest asset managers are identifying “stock bargains” in India, Taiwan, and Japan, buying into recent declines that brought “unfathomable” share values in Asia.

Despite truisms of buying low and selling high over the long-term, distributors are finding it especially hard to lend courage **in Europe, where investors net redeemed \$145 billion from equity funds this year, compared to inflows in Asia.** Defined payouts through structured products and guaranteed funds are more comforting, along with ‘absolute return’ promises. Yet absolute return mostly failed to deliver; ‘cash plus’ became ‘cash minus’, followed by a 45% decline in assets and \$100 billion of outflows in Europe over the past year. A few absolute return approaches, however, are still selling very well. Meanwhile, customers in markets such as Spain have looked to structured deposits, some yielding over 6%, unaware of the mortgage related pressures forcing banks to attract cash with high payouts. It will take education, advice, and foundational changes (retirement structures and incentives) to encourage more equity purchases over time, but investment cycles will eventually also make stocks and funds appealing again.

The Asia industry has shown encouraging resilience. **Even China, where many new investors suffered equity fund price declines averaging 20% during the second quarter, recorded just \$5 billion in net redemptions.** The outflows resulted from a sharp drop in sales, not increasing redemptions. Indeed, the number of share units redeemed from the ten largest funds fell 50% in the second quarter. Looking beyond China to Asia overall, as we do throughout this edition, the case for a larger and more multi-centric fund industry approach remains in place.

Absolute Return Funds in Europe, AUM & Flows \$ Billion



Source: Strategic Insight Simfund Global.

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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.

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