Cerulli Quantitative Update

Institutional Asset Management in Asia 2012:

Navigating Institutions' Fundamental Changes

CERULLI ASSOCIATES
Global Analytics

Overview

Asia's sovereign wealth funds, pension funds, insurers, and official institutions present substantial and growing asset-gathering opportunities. These opportunities and their accompanying challenges are evolving along with the institutions' approach to risk, internal investment expertise, performance requirements, and overall sophistication. This report, in its 4th iteration, assesses what these developments mean for external asset managers. It examines how institutions' internal teams are developing, and the unmet needs that can be addressed by external managers. This includes an examination of how institutions evaluate external managers.

Data from more than 45 interviews with the region's largest asset managers and institutions contributed to this research.

Key Reasons to Buy This Report:

- Review Asian institutions' expectations of external managers, including investment expertise, servicing, and performance, and how these expectations are changing in light of a tougher investment climate
- Understand the viability of Asia's institutional market, in terms of fees and profitability
- Assess current market potential and target opportunities
- Examine how asset managers are allocating resources and planning future shifts in allocations
- Detailed overview of successful products and strategies

Answer These and Other Critical Questions:

1. What is the current size of Asia's institutional market? What is its projected growth?
2. Who are Asia's major institutional investors?
3. How are institutions responding to complex market conditions? What factors contribute to their decision-making process?
4. Which institutions offer higher AUM and profitability? How has this changed over time?
5. What criteria do institutions consider when hiring and firing an external fund house?
6. What products and strategies will be in demand from asset owners over the next two years?
7. How are Asian institutions' alternative allocations changing?

Research Included with Subscription

A subscription to this report remains active through 11/16/2013 and includes online access to the following related Cerulli research:

- Three years of Cerulli Quantitative Update: Institutional Asset Management in Asia
- Asia Pensions: An Emerging Opportunity 2010
- Asian Insurance: Outsourcing Opportunities for Asset Managers 2007

241 pages, 176 exhibits

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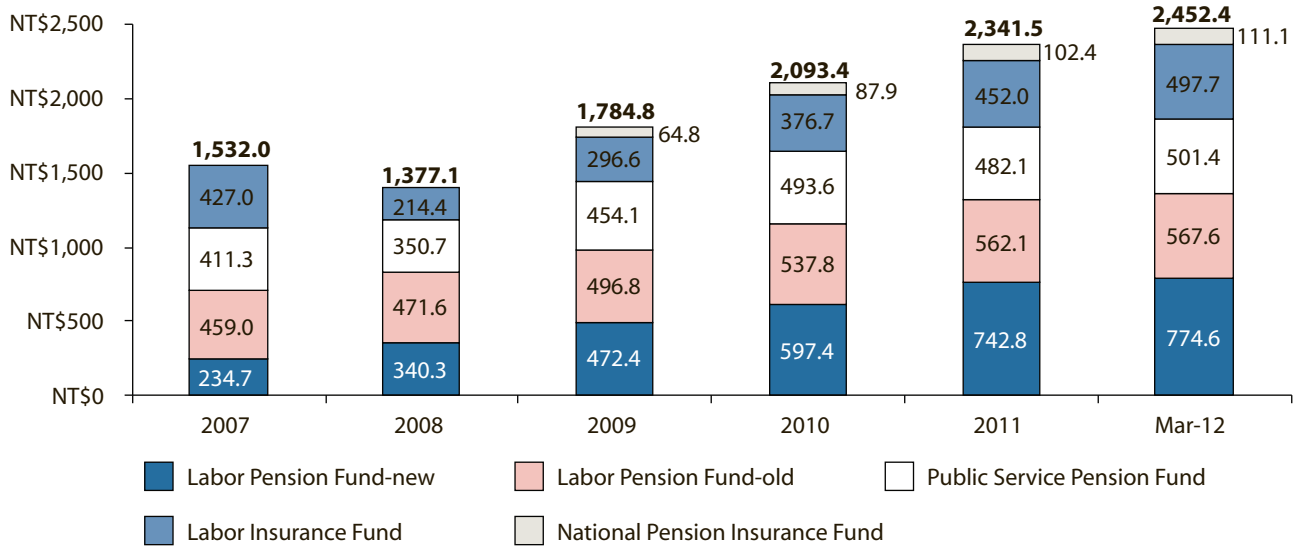
INSTITUTIONAL ASSET MANAGEMENT IN ASIA 2012

EXHIBIT 6.07

Taiwanese Retirement Investable Assets, 2007–March 2012 (NT$ billions)

Sources: Public Service Pension Fund, Council of Labor Affairs, Central Bank of the Republic of China, Bureau of Labor Insurance, Cerulli Associates



- Pension assets continue to increase, **albeit at a decreasing rate**. The 17.3% growth in assets from 2009 to 2010 is followed by an 11.8% growth from 2010 to 2011. The 1Q 2012 growth of 4.7% from 2011 is a promising start, although much depends on how the markets develop in 2012.

- The old LPF's assets are **leaning toward overseas exposure**, possibly due to the need to match liabilities at a time when the scheme has stopped receiving inflows. Over time, the old LPF's assets should decrease as it is slowly being phased out.

- The LIF and NPIF have scheduled a gradual increase to their insurance premium rates, up to a **maximum of 13% and 12%** respectively from their current rates of 7.5% and 7%. The LIF's premium rate will increase faster initially until it reaches 10%, then will increase at 0.5% every two years until the limit is reached. The NPIF's premium increase is more gradual with a similar phase-in rate of 0.5% every two years.

Key Implication: Inflows to Taiwan's pension funds should continue to grow, as the country's politicians tweak regulations to build up a sufficient pool of retirement assets. Both domestic and foreign asset managers stand to gain as pension funds seek diversification in their portfolios.

EXHIBIT 4.06

Largest 10 Asia ex-Japan Institutional Investors by Total Assets, 2012

Sources: AsianInvestor, Cerulli Associates

Rank	Institution	Type of Institution	Country	Date	2012 Asset Size (US$ billions)	Marketshare (%)
1	People's Bank of China	Central bank	China	Jun-12	3,240.0	17.9%
2	Industrial & Commercial Bank of China	Commercial bank	China	Mar-12	1,191.1	6.6%
3	China Construction Bank	Commercial bank	China	Mar-12	1,008.6	5.6%
4	Agricultural Bank of China	Commercial bank	China	Dec-11	941.7	5.2%
5	Bank of China	Commercial bank	China	Mar-12	935.6	5.2%
6	Postal Savings Bank of China	Official institution	China	Nov-11	628.4	3.5%
7	SAFE Investment	Sovereign wealth fund	China	Dec-11	499.8	2.8%
8	China Investment Corporation	Sovereign wealth fund	China	Jul-11	409.6	2.3%
9	Central Bank of China	Central bank	Taiwan	May-12	389.3	2.2%
10	Bank of Communications	Commercial bank	China	Mar-12	325.4	1.8%
	Others				*8,515.6*	*47.1%*
	Total				**18,085.0**	

- **All but one of Asia ex-Japan's largest asset owners are in China**. People's Bank of China, which has the **world's largest foreign exchange reserves**, is the largest institution with US$3.2 trillion in total assets as of June 2012, capturing nearly 18% of regional assets.

- The Chinese institutions—comprising mostly commercial banks—held about US$9.2 trillion for a collective 50.8% share. The **only non-Chinese institution on the list is Taiwan's central bank** with US$389 billion in assets.

Key Implication: Cerulli believes Chinese institutions, flush with cash, will continue to lead the region in size. But China on the whole still offers less outsourcing potential than markets such as Hong Kong and Korea (see **Exhibit 4.04**), although this will likely grow in future.

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