Cerulli Quantitative Update

Asset Management in Southeast Asia 2012

CERULLI ASSOCIATES
Global Analytics

Overview

This annual report analyzes the mutual fund industries in Malaysia, Thailand, Indonesia, Philippines, and Vietnam. In its sixth iteration, the report focuses on market sizing, product development, distribution strategies, competitive analysis, projections, key regulatory developments, and investor behavior. This year's report also includes analyses of three key region-wide themes: what it takes to succeed in Southeast Asia, cost-revenue analysis, and distribution and product issues for foreign firms.

Unique proprietary research elements and analyses include:

- 179 pages and 119 exhibits
- 60 executive interviews
- Asset allocation projections to 2016
- Proprietary survey findings of asset managers in Malaysia, Thailand, and Indonesia
- Projections on AUM growth by country
- Analysis of revenues and costs, including projections to 2016
- Local asset managers' views on working with external managers in 2012 (*e.g.* master-feeder funds, funds of funds, subadvisory arrangements, white-labeling)

What's New in 2012?

- Regulatory changes and the implications for global firms
- Key factors firms must consider before entering or expanding in Southeast Asia
- Level of demand for external managers in subadvisory, feeder funds, and white-labeling
- Revenue-cost analysis from foreign asset managers' perspective

Answer These and Other Critical Questions:

1. What is the size, growth, and outlook of Southeast Asia's mutual fund industry?
2. How much of Southeast Asia's marketplace is accessible to foreign asset managers?
3. What are the key regulatory developments and what opportunities and challenges do they present to foreign asset managers?
4. What is the mutual fund penetration in Southeast Asia, and how has it changed over the years?
5. How have revenues and costs changed in recent years, and what is the outlook?
6. Who are the key fund distributors in Southeast Asia?

137 exhibits, 179 pages

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Methodology

Cerulli Quantitative Update: Asset Management in Southeast Asia 2012 is an analysis of asset management trends in Malaysia, Thailand, Indonesia, the Philippines, and Vietnam. Singapore data has been included in the regional chapter for purposes of comparison and completeness.

An extension of the firm's research coverage in Asia, this report forms an important part of our ongoing coverage of the world's developed and developing asset management marketplaces. Cerulli believes that Southeast Asian countries will continue to widen their influence within Asia, a region which in the long run will probably represent the largest mutual fund marketplace in the world outside of the United States.

Report Focus

The following pages focus on several key areas in Southeast Asia's asset management industry: market sizing, product development, distribution strategies, competitive analysis, projections, key regulatory developments, and investor behavior. This year's report also includes an in-depth discussion of three key region-wide themes: what it takes to succeed in Southeast Asia, analysis of costs and revenues, and distribution and product issues for foreign firms.

Proprietary Research

While anecdotal information on the Southeast Asian markets abounds, quality and reliability of information remains sketchy. Our firm, however, is striving to sort through the anecdotes and disparate statistics and begin assembling more actionable data in two forms:

- *Granular quantitative information* designed to help clients determine the size of publicly available investment assets, thereby providing a better picture of the current and potential opportunities in the various customer and product segments.
- *Consultative qualitative information* designed to help clients understand how to tap these opportunities via an informed assessment of the latest product, distribution, and regulatory trends.

Central to achieving the goal of providing useful quantitative information are our proprietary surveys of asset managers in the region. These are *bottom-up surveys* to understand the relationship between asset management firms and their clients. Cerulli is pleased to say that close to 60 highly focused and in-depth research meetings and conference calls were conducted with asset managers, distributors, fund associations, and regulators in the region. In addition, Cerulli surveyed asset managers in Malaysia, Thailand, and Indonesia.

Cerulli believes that the data herein is reliable and has made every reasonable effort to verify statistics presented. However, Cerulli does not guarantee its accuracy or completeness. Key data in this report is calculated and presented in U.S. dollars to allow for comparative analysis. Exchange rates from year-end 2011 have been used.

Cerulli benefited from the cooperation of a number of regulators and trade industry associations in the region, and is especially grateful for assistance from the following:

- Securities Commission, Kuala Lumpur
- Federation of Investment Managers Malaysia, Kuala Lumpur
- Bapepam-LK, Jakarta
- Association of Indonesian Mutual Fund Managers, Jakarta
- Bank Indonesia, Jakarta
- Securities and Exchange Commission, Bangkok

- Bank of Thailand, Bangkok
- Association of Investment Management Companies, Bangkok
- Trust Officers Association of the Philippines, Manila
- Bangko Sentral ng Pilipinas, Manila
- Investment Company Association of the Philippines, Manila
- State Securities Commission, Hanoi
- The State Bank of Vietnam, Hanoi

SAMPLE SECTION
from

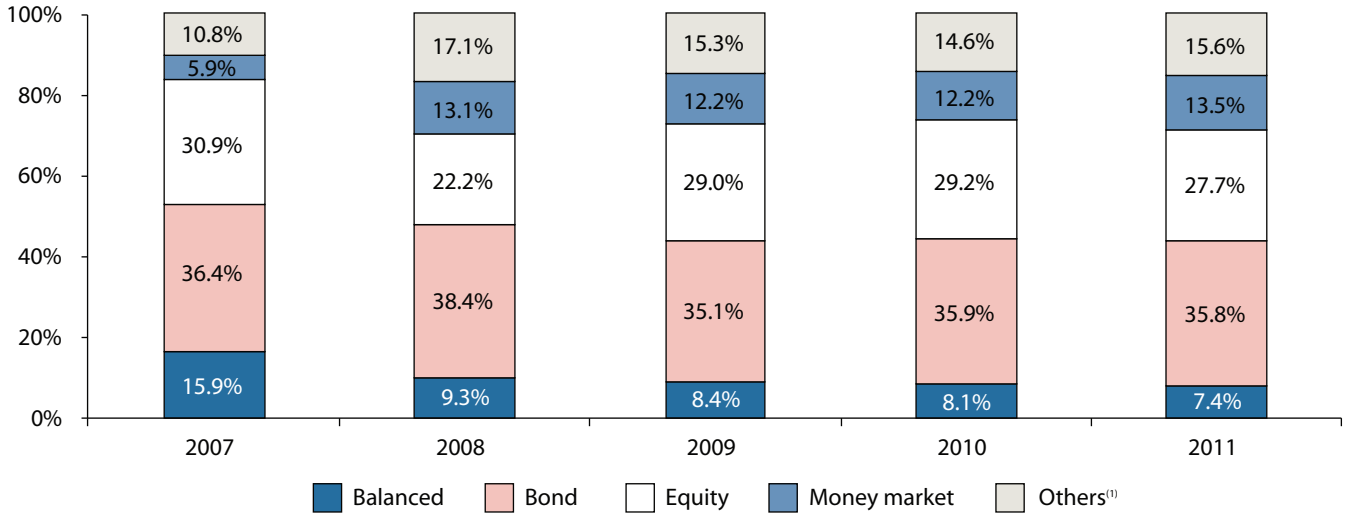
CERULLI QUANTITATIVE UPDATE:
ASSET MANAGEMENT IN SOUTHEAST ASIA 2012

EXHIBIT 4.2.02

Southeast Asian Mutual Fund Assets Under Management Marketshare by Investment Objective, 2007–2011

Sources: Cerulli Associates, based on data feeds from various organizations

Analyst Notes: Excludes Bumiputra funds in Malaysia. (1) Others includes Islamic, capital-protected/guaranteed funds, and property funds.



- **Money market funds grew their share** of AUM by the most—1.3 percentage points—to 13.5% in 2011, likely an indication of **investors' desire to maintain liquidity** amid heightened market volatility.
- "Others"—which includes capital-protected/guaranteed and property funds—was the only other category that boosted its share of AUM in 2011, to 15.6% from 14.6% in 2010. **Allocation to property funds in Thailand jumped, and several manufacturers have such products in the 2012 pipeline**. Most property funds in Thailand invest in **just a single local asset**.
- After a brief respite between 2008 and 2010, when equity allocations rose for two consecutive years, **equities' share of assets fell by 1.5 percentage points to 27.7% in 2011**. However, equity funds in most markets received inflows.
- Among the Southeast Asian markets, **Indonesia has the highest allocation to equities, but bond, money market, capital-protected, and guaranteed products together make up a large proportion** (about 48% as of 2011) of industry AUM. **Fixed income is also a mainstay in Thailand and the Philippines**: in 2011, bonds and money markets collectively accounted for 71.0% of Thai mutual fund AUM and 68.1% of Philippine AUM (both mutual funds and unit investment trust funds; see **Chapter 8: Philippines**).

Key Implication: 2012 could yet be another year in which investors and distributors opt for safer products, given lingering uncertainties in the global economy stemming from the eurozone crisis and other political issues around the world. Indeed, funds paying regular dividends are gaining traction in Malaysia, while in Thailand, investors want implicitly guaranteed returns, which has helped trigger funds make headway. Cerulli understands that Thai investors, motivated by loss aversion, tend to redeem their funds once they make a small return of say, 5%. Equity funds taking a backseat may mean reduced fees for managers, but this hasn't stopped them from putting equity funds (especially locally invested ones) in their product pipeline.

EXHIBIT 5.3.02

Top 10 Managers for Malaysia-Domiciled Islamic Funds, 2011

Sources: Morningstar Direct, Cerulli Associates

Analyst Notes: Excludes wholesale fund assets. (1) Islamic licensee. (2) Includes Amanah Mutual, ASM Investment Services, and Permodalan BSN.

Rank	Manager	No. of Funds	AUM (MYR bn)
1	Public Mutual	33	18.4
2	CIMB-Principal Asset Management(1)	17	4.3
3	Hwang Investment Management	3	2.1
4	MAAKL Mutual	9	0.8
5	AmInvestment Services(1)	11	0.6
6	RHB Investment Management	7	0.4
7	Permodalan Nasional(2)	11	0.4
8	Eastspring Investments(1)	8	0.4
9	Pacific Mutual Fund	6	0.3
10	Alliance Investment Management	3	0.3

- The largest 10 managers of locally domiciled Shariah funds are **roughly the same names as the top players for overall mutual fund AUM, except for the presence of Alliance Investment Management and Permodalan Nasional on the Shariah list**. The top 10 Shariah managers had **108 funds and nearly MYR28 billion in AUM as of end-2011**.
- **Public Mutual takes a clear lead** with 33 funds and MYR18.4 billion in Shariah AUM, far outpacing second-placed CIMB-Principal, which had 17 funds and MYR4.3 billion in 2011. Public Mutual's success is driven by solid fund performance and its massive tied agency network. Tied agents, Cerulli understands, are **particularly effective in targeting the close-knit Malay Muslim community: an investor who makes money from a fund spreads the word to their relatives and friends, who will in turn approach the agent to buy the particular product. In this respect, word-of-mouth helps**.
- Some global players that have Islamic fund management licenses and have been managing institutional assets for some time are considering launching Shariah mutual funds. **Aberdeen Asset Management, for example, plans to roll out one or two Shariah equity funds**. The firm may **target smaller institutions first while building up a track record and understanding the retail market better**, before selling the fund to private, high-net-worth, and mass retail investors.

Key Implication: Local players dominate the retail Shariah space in terms of number of funds and AUM. The newer global players without local partnerships and shareholdings that started in Malaysia by managing institutional Shariah assets have found it tough to penetrate the retail market so far. This is primarily due to the closed distribution architecture and stiff competition. Even so, a few, such as Aberdeen, plan to do so, and their experience in the next few years will be instructive.

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