Fund Distribution in Asia

A Growing Role for Asia Fund Managers Globally

Key themes discussed in this white paper:

- **A Shifting Landscape:** Asia and Emerging Markets Drive Growth and Innovation Globally
- **Distribution Channels in Asia:** A Variety of Regional Trends and Needs
- **The Blockbuster Phenomenon:** 95% of Global Cash Flows go to 0.5% of the Products
- **Asia & LatAm:** Japan & Brazil Lead Emerging Market Investment and Distribution Bridges
- **Distribution Success Factors:** Organizational Stability, Performance, Service, & Brand
- **Product Development:** Thematic Success Stories & a New Global Core Portfolio
- **Top Cash-Flow Managers:** Global Communication & Non-Headquarter Centricity
- **Metatrends:** Multi-Convergence Is Changing Distribution Partnerships

Fund Expansion in Asia Creates Opportunities for Managers from Across the Globe – and from Japan

Mutual Fund Assets in Asia's Markets

Data as of December 2011
Source: Strategic Insight Simfund GL

The growth of mutual funds in Asia, characterized by the highly visible success of international investment firms across the region, is capturing the attention of Japan's asset managers. Some of them are committing greater resources to expanding regionally, but the complexities of distributing funds in Asia remain enormous, especially as investors concentrate and entrust their financial assets to a smaller number of leading providers.

At the same time, the unique product approaches and skills that Japan's managers have developed over the years for their own market — such as dividend and income solutions, asset allocation, and sub-advisory partnerships with well-known global specialists — are beginning to appeal to investors in Hong Kong, Taiwan, and other countries in the region.

A more integrated role for Japan's asset managers in Asia thus seems logical, but achieving fund distribution across the region's fragmented industry is remarkably difficult. Marketing and product support, brand management, building trust, holistic communication and information delivery, and client support efforts need to match the best practices of the world's most effective fund management organizations, and then go another step beyond to stand out from the crowd. Meanwhile, Japan's asset managers, who have learned to navigate the challenges of fund distribution in their own market, will find their experiences to be valuable when establishing businesses and relationships across borders. The global mutual fund industry currently has more than $30 trillion in assets under management and remains equity centric, but growth in recent years has come primarily from fixed-income and alternative asset classes.

Multi-Local Asia, Fast Growth Led by Themes

Asia, a fragmented "glocal" region: The main challenge for fund managers, whether from Japan, the US, or Europe, is how to approach the region from an operational standpoint. While broad regional trends can be identified, firms are faced with a fragmented "multi-local" region encompassing several languages, regulatory frameworks, asset potentials, cultures, investment mindsets, business practices, and local idiosyncrasies. At the same time, the prevalence of international money managers in many markets and products with a distinct international investing orientation makes it a complex global and local ("glocal") business. Of the $2.2 trillion in local and cross-border fund assets across Asia, Japan accounts for $0.8 trillion with a non-domestic investment bias. Next in line are China ($0.4 trillion), Korea ($0.2 trillion), and India ($0.15 trillion), which have much more of a domestic focus. Cross-border UCITS-dominated Hong Kong, Singapore, and Taiwan combined hold $0.5 trillion in assets.

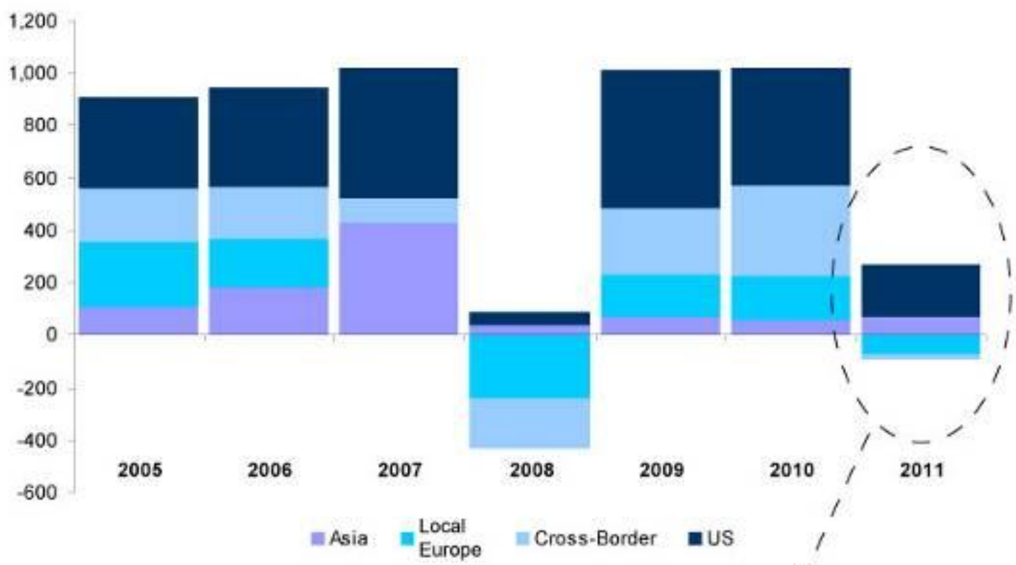
Growth in Asia drives the worldwide fund industry: Asia is the fastest growing region globally, both from an investment and distribution perspective, and could surpass the US and Europe in overall assets by 2025.[1] Institutional and high-net-worth (HNW) opportunities are already substantial, and Asia-Pacific HNW investors (after surpassing Europe on assets) are now almost on par with North America to lead the world. Moreover, an exploding middle class and their long-term financial goals around retirement needs — the global middle class will grow from 450 million people today to about 2 billion in the next 10-15 years, primarily from Asia — will tip the balance in the latter part of the decade toward a greater share of retail flows.

[1] For more details, please see Strategic Insight's 2011 in-depth studies, *Building Bridges: Views from the leading regional institutions and distributors on how to build a successful Asia Pacific asset management business*, and *Capturing the Promise: Funds in Asia, and Asia in funds worldwide.* http://www.strategicinsightglobal.com/service/AFM-2011/index.asp

The Rise and Resilience of the Fund Industry in Asia

Historical Long-Term Net Flows & 2011 Breakdown

In US$ Billion



	Equity	Mixed	Bond	Other*	Long-Term	MMF	Total
Asia	30	-18	18	39	69	19	88
Local Europe	-35	5	-44	3	-72	-86	-158
Cross-Border	-41	2	34	-10	-16	52	36
US	23	8	167	na	197	-133	64
Total	***-24***	***-3***	***171***	***33***	***177***	***-148***	***29***
Memo: 2H/2011	*-164*	*-27*	*25*	*-29*	*-195*	*55*	*-140*

*Other includes Absolute Return, Commodities, Hedge, Guaranteed, Real Estate and certain unclassified funds.

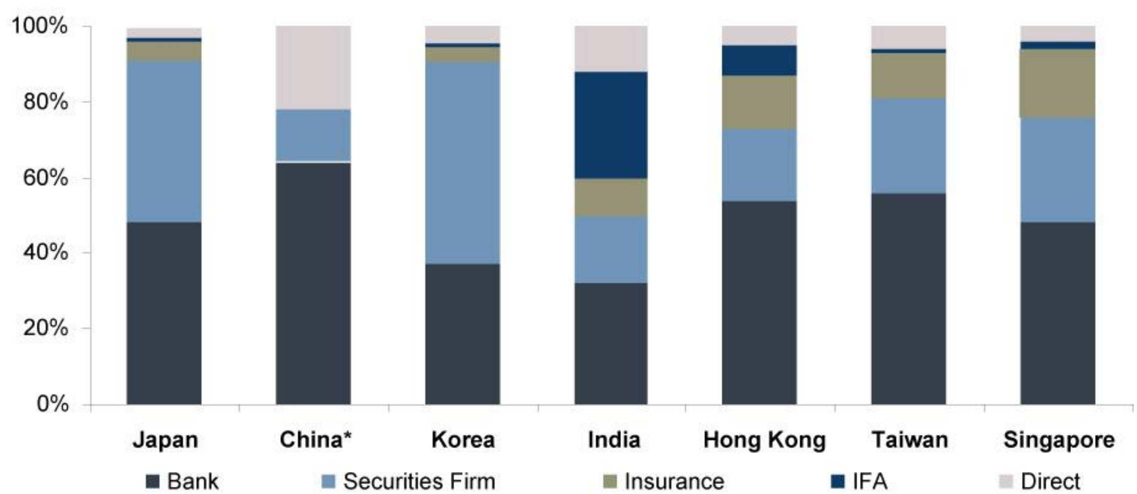
Source: Strategic Insight

The fund industry in Asia has demonstrated the ability to achieve a high volume of growth *before* the 2007 global financial crisis and a high degree of resilience *after* the crisis. Between 2005 and 2007, global fund flows were at record levels and fairly evenly split between regions. Asia was almost on par with the US, despite having only one fifth of the assets, driven by strong demand for equity and mixed asset strategies. In 2008, Asia was the only region able to maintain positive cash flows globally. Post-2008, investors moved back to basics with a focus on global bond investing. Asia witnessed lower growth as regulatory changes slowed down fund sales, but a number of firms grew in the region nonetheless, as flows were concentrated to leaders with compelling products and global brands, such as PIMCO and Franklin Templeton, leading to a global "blockbuster" fund phenomenon.

Getting Distribution Right in Asia

Locally domiciled funds in Asia collected $0.7 trillion in net flows in the past five years, accounting for over 30% of total global long-term fund flows, underscoring the importance of market specific wrappers in countries such as Japan, Korea, China, and India. However, **cross-border funds took in $0.4 trillion in net flows from investors in Asia**, evenly split between equity/mixed and fixed-income products, through hubs such as Hong Kong, Singapore, and Taiwan, but also through feeders and fund-of-funds in other markets. Importantly, the muted aggregate flows for 2011 mask the blockbuster amounts of cash to flagship products of selected leading fund managers.

Distribution Channels in Asia



*Please note: Insurance companies are not authorized to sell mutual funds in China; China has only recently approved allowing third-party financial institutions including IFAs and foreign firms to distribute funds.

Source: Strategic Insight estimates, Asian Industry Associations

Competition between **banks and securities houses** remains a key element of distribution in Asia, notably in Japan and Korea. **Japan** in recent years has shifted from bank to broker distribution, with an emphasis on exotic themes, monthly yields, and sub-advisory. According to NRI data, monthly dividend funds now account for 70% of AUM in Japan. NRI has also analyzed the key differences and expectations within sales channels that fund providers need to manage *(see our case study on PIMCO on page 18).*

As in Japan, banks in **Korea** have captured a decreasing share of fund sales post-crisis, substituted primarily by securities firms. **Hong Kong, Taiwan, and Singapore**, where banks dominate, have a fairly diverse mix in other distribution channels, but for now regulatory uncertainty has impacted sales of mutual funds overall due to scandals such as those seen with accumulators and minibonds.

Independent financial advisors (IFAs) play a leading role in **India**, while bank-dominated **China** just approved third-party financial institutions to distribute funds, opening the door for IFAs and foreign financial institutions.

Southeast Asia has become a profit center for firms that early on committed local resources and built those markets with products and support from the ground up. (Such firms include Franklin Templeton, Alliance Bernstein, Schroders, Fortis, Prudential, and others).

Changing Set of Distribution Requirements

Since 2008 Strategic Insight has conducted proprietary surveys of 1,250 institutional and wholesale fund buyers around the world to understand the most important decision-making criteria for manager and fund selection. In Asia, **organizational stability, global expertise, and consistency** (both from an investment process and client relationship perspective) have become tremendous competitive brand advantages in the aftermath of the financial crisis. Fund buyers are looking for large, stable, and reliable providers, and distributors are trying to **rebuild trust with their clients**.

Distribution Success Factors by Channel – Asia-Pacific

Ranked by Priority on a Scale of 1 to 10

	Wholesale	Institutional
Performance	**9.6**	**9.0**
Organizational Stability	**9.5**	**9.4**
Client Service	**8.9**	**7.3**
Brand	**8.4**	**6.0**
Understanding of Investment Needs	8.4	5.5
Product Range	7.5	5.3
Product Innovation	7.5	5.2
Marketing & Communication	7.2	5.2
Online Presence	7.0	5.2

Source: Strategic Insight

Client relationships and the **quality of the people** servicing institutions and intermediaries across Asia are ranked on par with **performance** to select key providers and strategic partners post-crisis. Performance can get a product on the radar, but relationships determine how long it stays. Service excellence, unlike many aspects of performance, can be controlled. Service satisfaction is slightly higher on the institutional versus the intermediary side — 73% of institutions we surveyed are satisfied with the service levels provided in the region compared to 57% on the intermediary side. This is partially due to institutions having more specific needs and being less demanding than distributors. Also, results for distributors have greater variability market by market in Asia.

One of the most frequently heard complaints by both institutions and intermediaries in the region is that "nobody goes beyond the basic requirements." The lack of proactive initiatives by asset managers to show creativity and commitment is widely noted. While many firms during the crisis focused on getting the basics of service and communication right, those that provided **thought leadership and proactive guidance** stood out and gained market share.

Asset holders in Asia are increasingly looking for strong brands to help them shape their views on metatrends, educate investors, inform regulators, and help defend and expand the industry. As in other regions, these **asset holders are working with fewer strategic partners and use even fewer blockbuster funds post-crisis**. Key differentiating factors to get selected are alpha in investment performance, brand, client service, and organizational stability.

Often asset managers with a great brand have weaker client service and vice versa. Better aligning those worlds is critical. Those in the sweet spot with a good brand and strong client service should make better use of this competitive advantage.

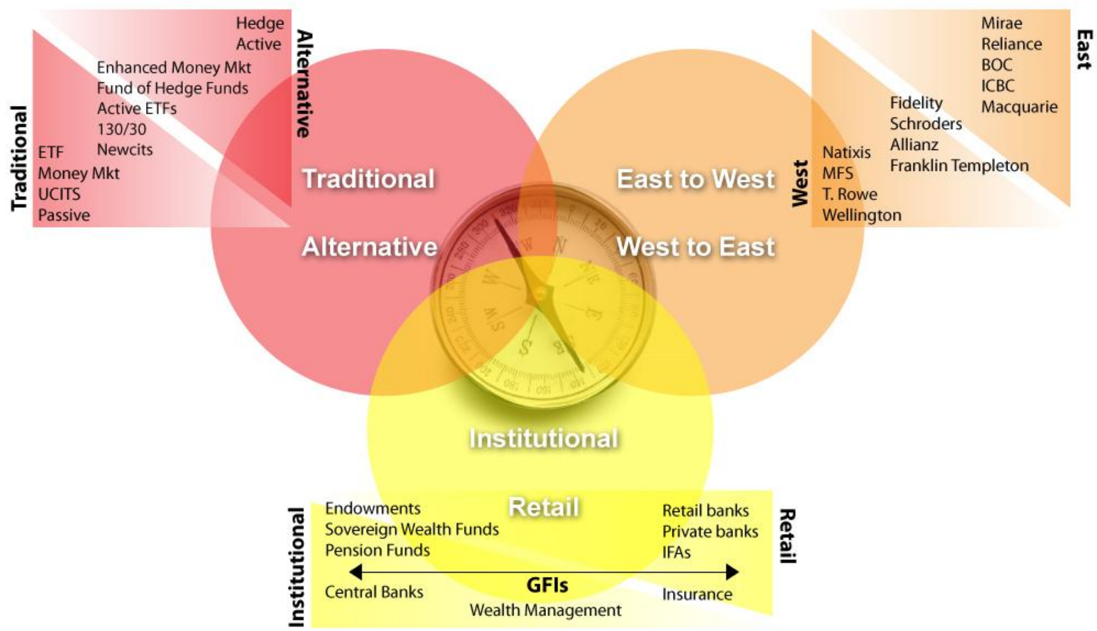
With increasing product and business complexities, **clients are looking for brand simplicity** around one or two areas of investment expertise. On one hand, this can lead to blockbuster product flows for managers able to position themselves in popular niches/themes (e.g. Alliance Bernstein High Yield bond fund in Taiwan). On the other hand, it possibly pigeonholes managers and limits their appeal as asset class or investment theme demands change.

Product Considerations Reflect Global Trends

From a product perspective, the clarity of the investment process and the logical positioning of the product line are crucial. Global firms such as Franklin Templeton or Schroders, with more than two-thirds of their business outside of their domestic markets, are looking at global product development both from a local investor need and global theme provision standpoint. While sometimes it makes sense to structure a local vehicle to gain market share in Indonesia, India, Malaysia, Brazil, or Hong Kong, economies of scale and thematic consistency in a global fund range guide the overall decision-making, especially given higher turnover rates in Asia. Moreover, the future of a global core product for investors around the world in a new risk management and absolute return framework is currently being redrawn. Some firms continue to see traditional long-only active management at the core of the solution, while others are thinking through an alternative asset classes and structures — often under one roof.

Globally, the **mutual fund industry is entering an age of "multi-convergence,"** as shown in the diagram below, with blurring lines of demarcation between traditional and alternative investment approaches and vehicles; a growing competitive undercurrent between both West & East and East & West; and more consistency between what institutions, global financial institutions, and distributors are asking for from asset managers.

Multi-Convergence is Changing the Industry



Source: Strategic Insight

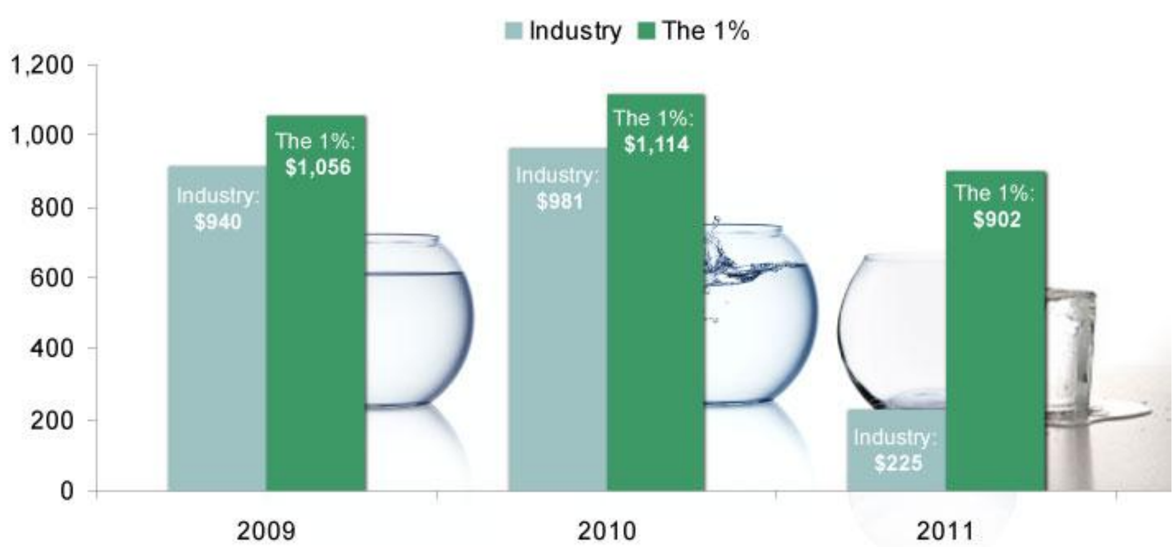
Traditional and alternatives: the increasing complexity of the business in the last decade has led to new investment strategies and combinations. Asset managers are adapting to changing regulatory frameworks and experimenting with new investment strategies and vehicles, leading to greater competition between traditional and alternative managers, along with convergence between strategies. Such convergence is most evident in the US market and in Europe where alternative strategies are being implemented in UCITS. However, such convergence products have begun to be structured in Japanese investment trusts, notably with this year's launch of the $2 billion Nomura Global Trend fund, which is advised by Man Investments and features their managed futures AHL trading strategy. Japan's asset managers, who have a long history of experience in selecting international investment experts through sub-advisory and fund-of-fund programs, may play a key role in the introduction of alternative approaches — not just in Japan but across Asia over time.

Blurring lines of institutional and wholesale: In our 1,250 global meetings and discussions with asset holders, we saw firsthand that best practices are becoming more global in nature, with universal principles applying for RFPs and manager selection. Oftentimes, global private bank distribution with multiple relationships around platforms, turnkey advisory teams, and local advisors is more complex than local mid-size institutional demands or specific SWFs needs. While local investment mindsets, languages, and regulatory frameworks increase the need for local expertise, the lines of channel specificities are being blurred by content, speed and style of investment, and brand messages. Moreover, retail firms are entering the institutional space. Institutional firms are moving into the wholesale business and institutional funds and share classes are being launched to serve institutions in a fund context.

The Critical Importance of Developing Blockbusters

The evolving phenomenon of a small number of flagship fund blockbusters capturing an increasing proportion of industry flows is as evident in Asia as it is globally, and has a huge impact on the operations and success of asset managers. Around the world, close to 95% of all flows (excluding money markets) went to one-half of one percent of all registered products available in 2010. So far 2011 has brought an even greater concentration: 0.3% of the products have gathered the equivalent of 100% of industry cash flows worldwide.

The Global Blockbuster Phenomenon



Note: Money Market Funds excluded; data includes Canada and Brazil
Source: Strategic Insight

Institutional and wholesale fund buyers across Asia are working with fewer strategic partners post-crisis. To be successful, fund managers need to have a recognizable blockbuster or help build asset allocation bridges with appropriate thematic funds and absolute return strategies.

The table below highlights the extent of this phenomenon and the current blockbusters in the cross-border international fund space — funds that are increasingly sold in Asia. Alliance Bernstein (high yield in Taiwan), Fidelity (REITS, Japan), Franklin Templeton (global bond, Asian equities, regionally), and Value Partners (China equities) are examples of top cross-border funds in terms of new money collection, along with co-branded products in Japan (Nomura, Nikko, et al) and new themes (DaiwaSB with Australian dollar shares).

CROSS-BORDER: Top-Selling Funds 2011

In US$ Billion

Portfolio	Domicile	Objective	Launch	Net Flows 2011	AUM 12/11
iShares DAX®	Germany	Equity Eur Country	Dec-00	**11.4**	14.0
Templeton Global Total Return	Lux	Bond Global	Aug-03	**9.4**	21.6
Templeton Global Bond	Lux	Bond Global	Feb-91	**8.3**	41.0
db x-trackers DAX ETF	Lux	Equity Eur Country	Jan-07	**5.7**	7.6
M&G Optimal Income	UK	Bond Other	Dec-06	**4.0**	8.9
PIMCO GIS Global Inv Grd Crdt	Ireland	Bond Global	Jul-03	**3.0**	12.7
AllianceBernstein-Global High Yield	Lux	Bond High Yield	Sep-97	**2.8**	17.0
Morgan Stanley Global Brands	Lux	Equity Global	Oct-00	**2.5**	5.1
Muzinich ShortDuration HighYield Hedged	Ireland	Bond USD	Oct-10	**2.3**	2.5
Aberdeen Global - Emg Mkts Eq	Lux	Equity Emg Mkts	Aug-01	**2.2**	9.8
PIMCO GIS Unconstrained Bond	Ireland	Bond Global	Dec-08	**2.1**	5.2
Standard Life SICAV Global Abs Ret Strat	Lux	Absolute Return	Jan-11	**1.9**	1.9
ACL Alternative Limited	Bermuda	Hedge Multi Strat	Dec-03	**1.8**	4.1
BlackRock Emg Mkts Index	Ireland	Equity Emg Mkts	Mar-09	**1.8**	2.8
M&G Recovery	UK	Equity UK	May-69	**1.7**	11.2
PIMCO GIS Diversified Income Inst	Ireland	Bond Global	Jun-05	**1.7**	3.7
Eurizon Strategia Flessibile Obbligaz 06-2016	Lux	Bond Global	Apr-11	**1.6**	1.4
PIMCO GIS Global Multi-Asset Inst	Ireland	Mixed Flexible	Apr-09	**1.6**	2.8
UBS ETFs plc - MSCI EM TRN Index SF	Ireland	Equity Emg Mkts	Apr-11	**1.5**	1.2
iShares S&P 500	Ireland	Equity N. America	Mar-02	**1.4**	9.1
Total above				***68.6***	***183.5***

Source: Strategic Insight

Franklin Templeton – from 15% to 60% in 15 years: Franklin Templeton occupied three of the top 10 cross-border products worldwide in the last 12 months, due to a combination of global campaigns (global is the new core, etc.), local staff, thought leadership from visible investment managers, and a selection of flagship funds. In 1995, just 15% of the firm's business came from outside of the US; the number in 2011 was more than 60%. Other blockbuster cash flow themes shown above are around ETFs (iShares, db X-trackers), alternatives (PIMCO), emerging markets (Aberdeen, Julius Baer), income (M&G, JP Morgan), and high yield (AllianceBernstein, Neuberger Berman).

Approximately 6,000 UCITS cross-border funds and share classes are available for sale in Asia. International firms such as Franklin Templeton, AllianceBernstein, Pimco, and Aberdeen have attracted **significant flows from Asian investors with blockbusters** listed above, at times combining them with local offerings where needed (e.g. Schroders' top cash fund in 2007 was a Korea-domiciled BRIC fund and this year it was a Hong Kong-domiciled multi-asset income fund). Top cross-border funds have also shown growing links between Asia and Latin America. For example, the Franklin Templeton Asian Growth fund has the largest AUM and is the best seller in its category with 25% of the assets coming from Chilean pension funds.[2]

[2] For details, please see Strategic Insight's new 110-page research study, "State of the Asset Management Industry – Latin America": http://www.strategicinsightglobal.com/service/SOTILatAM/index.asp

LOCAL ASIA EX-JAPAN: Top-Selling Local Asia Funds 2011

In US$ Billion

Portfolio	Domicile	Objective	Launch	Net Flows 2011	AUM 12/11
Polaris Taiwan Top 50 Tracker Fund	Taiwan	Equity Asia Country	Jun-03	**2.4**	3.4
JPMorgan Korea Trust Equity	Korea	Equity Korea	Jun-07	**1.5**	1.3
HSBC Asian High Yield Bond	Cayman	Bond Asia Pac	May-11	**1.2**	1.2
Samsung KODEX200 ETF	Korea	Equity Korea	Oct-02	**1.1**	2.5
Schroder Asian Asset Income Fund	HK	Mixed Flexible	Jun-11	**1.0**	1.0
HDFC Top 200 Fund-Dividend	India	Equity India	Oct-96	**1.0**	1.9
Samsung KODEX Leverage Derivatives ETF	Korea	Equity Korea	Feb-10	**0.9**	0.9
Tracker Fund of Hong Kong	HK	Equity Asia	Nov-99	**0.9**	6.3
E Fund SSE 100 ETF	China	Equity China	Mar-06	**0.8**	2.7
Shanghai Stock Exchange 180 ETF	China	Equity China	Apr-06	**0.8**	1.4
China 50 Exchange Traded Open-End Index Fund	China	Equity China	Dec-04	**0.8**	3.3
Yinhua SZSE 100 Index Classification Fund	China	Equity China	May-10	**0.8**	1.2
HDFC Equity Fund-Growth	India	Equity India	Jan-95	**0.7**	1.7
KB South Korea Representative Group Eq	Korea	Equity Korea	Aug-09	**0.7**	1.1
China Southern Principal-guaranteed Fund	China	Guaranteed	Jun-11	**0.7**	0.7
KB Value Focus Equity Class	Korea	Equity Korea	Nov-09	**0.7**	1.0
Allianz Corporate Value Rising Long-term Eq	Korea	Equity Korea	Aug-06	**0.6**	1.1
Bosera YuXiang Classification Bond Fund	China	Bond CNY	Jun-11	**0.6**	0.4
E Fund Healthcare Sector Equity Fund	China	Equity China	Jan-11	**0.6**	0.5
Changsheng Tongxi Debenture Bonds Fund	China	Bond CNY	Dec-11	**0.6**	0.6
Total above				***18.3***	***34.3***

Source: Strategic Insight

In Asia excluding Japan, more than half of the local top sellers are equity products. China theme funds continue to draw inflows, and demand for RMB-denominated dim sum bond funds is likely to grow, driven primarily by speculation that the RMB will appreciate over time. Multi-asset income funds have also gained popularity in Asia recently, providing income and a promise of diversification (and a theme taken from Japan, among others). Schroders in partnership with HSBC (and a few other key distributors) developed and launched the Asia Asset Income fund, which has attracted $1 billion in cash flows since June: an example of **greater partnerships between asset managers and distributors in Asia**. JP Morgan in Hong Kong followed suit with a similar product in partnership with Citi. Schroders, in turn, plans to replicate the strategy as a Luxembourg-domiciled UCITS fund targeting European investors, as well.

JAPAN, THEMATIC LEADER: Top-Selling Local Japan Funds 2011

In US$ Billion

Portfolio	Domicile	Objective	Launch	Net Flows 2011	AUM 12/11
Shinko US-REIT Open	Japan	Real Estate	Sep-04	**7.9**	8.9
DaiwaSB Short Term AU Bond OP M Sttl	Japan	Bond AUD	Apr-03	**6.4**	15.4
Daiwa US REIT Fund M Sttl	Japan	Real Estate	May-04	**5.2**	5.2
Nikko Lasalle Global REIT M Sttl	Japan	Real Estate	Mar-04	**4.5**	8.3
Daiwa US-REIT Open B Course	Japan	Real Estate	Jul-04	**4.1**	3.8
Nomura Nikkei 225 Index Linked Listed Inv	Japan	Equity Japan	Jul-01	**3.1**	8.6
Nomura Deutsche HighDiv Infra Rltd	Japan	Equity Sector	Oct-10	**2.5**	3.8
Kokusai World REIT Open	Japan	Real Estate	Jul-04	**2.5**	5.7
Nikko Hybrid Trichotomy(M Sttl/EmgCny)	Japan	Mixed Balanced	Oct-10	**2.4**	1.8
Fidelity US High Yield	Japan	Bond High Yield	Apr-98	**2.0**	6.0
Nomura Topix Linked Listed Investment	Japan	Equity Japan	Jul-01	**1.9**	8.6
Nikko Emerging High Yield Bond Fund BRL	Japan	Bond Emg Mkts	Dec-10	**1.7**	1.4
Daiwa High Grade Oceania Bond Open	Japan	Bond AUD	Jun-03	**1.7**	11.9
DaiwaSB Emerging Bond F BRL(M Sttl)	Japan	Bond Emg Mkts	Jul-09	**1.7**	4.5
Daiwa Japan Government Bond Fund (M Sttl)	Japan	Bond JPY	Jun-06	**1.7**	2.7
Chuo Mitsui Australia Public&Corporate Bond	Japan	Bond AUD	May-10	**1.7**	1.8
Kokusai US High Yield Bond OP BRL (M Sttl)	Japan	Bond High Yield	Sep-10	**1.6**	1.5
LM Brazil Govt Bond Fund (M Sttl)	Japan	Bond Emg Mkts	Oct-08	**1.6**	4.3
Nomura Global CB Fund (Envmt Crny M Sttl)	Japan	Bond Convertibles	Jul-10	**1.5**	2.3
MitsubishiUFJ Emerging Country Bond	Japan	Bond Emg Mkts	Apr-09	**1.5**	7.7
Total above				***57.1***	***114.4***

Source: Strategic Insight

In terms of cash flows and thematic ideas, Japan, has been a leader for Asia: Bond and real estate products dominated the cash flow best-seller list in Japan for the last 12 months. Aside from Fidelity and Legg Mason, the top sellers were mostly Japanese managers, led by Nomura, Daiwa, and Nikko. For many years these firms have successfully packaged international fund managers into exotic themes either as co-branded products or via sub-advisory solutions. The top foreign sub-advisors year-to-date include Ashmore, Lasalle, Deutsche, and Pimco. Shinko US-REIT Open recently took over the top-selling fund spot, with close to $10 billion through September. The blockbusters above added almost $75 billion in cash flows combined in the last year through September.

High Yield has been a popular investment theme in the region, especially in Japan, with numerous innovative products in recent years, often featuring monthly distributions linked to the Brazilian Real, Australian Dollar, Chinese RMB, and other currencies. The most successful product, Nomura Global High Yield Bond, raised more than $16 billion last year through various currency-linked versions of the fund. This is three times higher than all flows to the popular cross-border Alliance Bernstein Global HY fund on a worldwide basis during the same year. However, Alliance Bernstein has been able to establish itself as the Global HY expert for Asia ex-Japan investors. Similarly, Schroders in Hong Kong is establishing a status of Asia HY expert with its top launch this summer. As **the theme is being featured in product launches around the world**, Japanese managers could export their progress to other Asian markets, across Latin America, and also in Europe and the US.

Emerging Market Bridges to Asia

Emerging market investment has become a central theme for the fund management industry globally, and especially for distributors and investors within Asia. Japan's asset managers have been at the forefront of developing and distributing emerging market strategies, a competence that is likely to serve many of them well as they develop wider distribution across Asia.

The growing link between **Japan and Brazil, for instance, is an excellent case study of building emerging market bridges**. Brazil was and still is home to the largest Japanese population outside of Japan, and due to high interest rates, the best-selling investment products in the last few years have combined Brazilian and Japanese products in a variety of ways. As visible with products such as the Nomura High Yield bond fund linked to the Brazilian real, "bridging emerging markets" is becoming an investment theme around the world.

The data below shows the extent and appeal of the Japan-Brazil bridge. In Japan in recent years, themes around Brazil and Latin America combined grew to more than $115 billion in a variety of products.

BRICs, Latin America, and Brazil Funds in Japan

In US$ Billion

	Net Flows 12 Mth-9/11	AUM 9/11
Emerging Equity and Bond Funds	-2.5	33.6
Brazil Currency-Linked Funds in Japan	29.6	56.7
Japanese Funds Investing in Brazil Stocks and Bonds	-1.6	26.4
Total above	***25.6***	***116.8***

Source: NRI

Brazil's Bank Itaú manages $11.5 billion of Brazilian Real linked fund assets in the Japanese market through sub-advisory and distribution platform with Nikko, Daiwa, and Shinko. It also established Itaú Japan Asset Management last year, focusing on serving Japanese institutional investors.

We also see a strong appeal for Asian investments in Latin America, another example of emerging market bridges. Chilean pension funds have a concentration of assets to flagship products of international fund managers. Total assets for the top 10 cross-border equity funds equal 26% of all offshore investments and slightly more than 11% of total pension fund assets. The most prominent investment category in Chilean pension funds is Asia in various permutations — dozens of Asian regional and country-focus funds are part of the Chile pension fund equity cross-border universe.

Emerging market links between Latin America and Asia are growing fast from an investment perspective, and many US and European asset managers are benefiting from cash flows. For instance, US firms are distributing cross-border UCITS funds, US 1940 Act funds, and local investment vehicles with Asia themes into the region. Highlighting investment expertise and participating in this growth is a strategic opportunity for Asian and emerging market managers overall ("a golden age for Asia"). Moreover, we see a **unique tactical advantage for Japanese managers** as they are the only ones from a top-rated developed market and already have strong cultural links into Brazil and Latin America.

Success in Asia Distribution: Case Studies

Schroders: Local to local & global to local partnerships

Schroder **Asian Asset Income Fund**, the firm's top-selling June introduction, is the best-selling actively managed Hong Kong local unit trust so far this year, collecting more than $1 billion in AUM. The marketing message, "Power Your Way to Higher Yields," has been well-received by Hong Kong investors, as the fund provides a fixed monthly payout totaling 6% per year in addition to any long-term capital appreciation — a successful concept gleaned from Japan. The fund utilizes a multi-asset approach, allowing it to invest in Asia-related, high-yielding asset classes, including high yield bonds and high dividend paying equities, commodities, and real estate. Strategically developed with HSBC, it is on the select list of the bank's Fund Express tool. Other distributors, such as Hang Seng and BOC, have been promoting the new Schroders fund as well on their "New Funds Express" lists.

Schroders has more than 70% of its business outside of its domestic market in the UK, and over time has built its business local to local at first, followed by a global to local distribution approach. For example, the firm has a 25% market share in Indonesia and has been in Brazil for decades. The distribution focus on investment solutions, across channels and (multi) asset classes (including alternatives with GAIA), has contributed most of the firm's growth of late.

PIMCO in Japan: Sub-advisory growth and brand strength

PIMCO is the largest foreign mutual fund manager in Japan, followed by Western AM, Fidelity, Pictet, and Goldman Sachs. Driven by the firm's powerful brand around thought leaders Bill Gross and Mohamed El-Erian, practically all of PIMCO's assets in Japan represent sub-advisory business.

Foreign Asset Management Company Rankings in Japan

In US$ Billion as of March 2011

	AUM Split		
	As Main Manager	**As Sub-Advisor**	**Total**
PIMCO	0.1	53.8	**53.9**
Western AM	n/a	42.8	**42.8**
Fidelity	25.1	16.7	**41.8**
Pictet	14.9	11.4	**26.3**
Goldman Sachs	8.9	7.7	**16.6**
HSBC	9.9	6.3	**16.2**
JP Morgan	6.3	7.8	**14.1**
Itau	n/a	13.5	**13.5**
UBS Global	8.4	2.8	**11.2**
Cohen & Steers	n/a	11.2	**11.2**
Total above	***73.6***	***174.0***	***247.6***

Source: NRI

As of March 2011, PIMCO moved to the number one spot with a local staff of 70 (of which 10 focus on portfolio management), compared to 273 people on the ground for Fidelity and 92 for Pictet, two of the other foreign managers with strong penetration and a long presence in Japan. Notably, in the last five years PIMCO's staff numbers have not changed much, but the firm has been able to leverage the sub-advisory model and its strength in client support to grow assets both in the institutional and retail businesses.

The case of PIMCO highlights a few common and uncommon traits of success. In our discussions, more than 90% of distributors and institutions across Asia emphasized their increasing need for access to portfolio managers — with the exception of Bill Gross. Gross' thought leadership around his "new normal" and investment outlook, along with leadership in social media and content, speed, and style of information delivery, has been very visible. So much so, that a few months ago PIMCO separated its distribution efforts from parent Allianz to leverage its brand strength and visibility across channels, with a specific focus on Asia and Japan.

PIMCO has also navigated the expectations of the different sales channels in Japan, whose characteristics have been analyzed by NRI.

Distribution Channel Characteristics

	Broker/Dealers	Banks
Characteristics of products	- Importance of differentiated products - Large brokers demand large capacity to several billion US dollars at the same time	- Preference to products which have already sold well in other bank channels
Inception speed	- Only two months between planning and completion - Few large asset managers are able to respond to this request	- Up to three months between planning and completion
Sales support	- Focused and on-demand support from asset managers during the three-month period after inception required - Number of branches is relatively low and concentrated in large cities; supporting staff is therefore often limited	- Up to three months between planning and completion - Long-term support required - Number of branches is relatively high and regionally dispersed, requiring a large supporting staff
Reporting demands	- Regular reporting not often required	- Weekly or monthly reporting typically required - Ad-hoc reporting required depending on market conditions

Source: NRI

Moreover, global brand and local excellence in execution in Japan is further cemented by the leadership of PIMCO's Japan Managing Director and President, Makato Takano. As so often with case studies of local leadership of international fund firms, the combination of global and local leadership — along with strong brand attributes translated into the specific local context — has enabled PIMCO Japan to become the largest foreign mutual fund manager.

Franklin Templeton, global success away from "home"

Since the global financial crisis — for the first time in its history — Franklin Templeton become the leader in cash net flows worldwide. Moreover, post-crisis, the firm has received more than 60% of all flows from outside the US (compared to 15% in 1995), with significant contributions from investors in Asia and Latin America, which have been the fastest growing regions from both an investment and distribution standpoint. An **emphasis on operating without "headquarter centricity"** has enabled Franklin Templeton to learn from local trends around the world to build global blockbusters around local distribution and information delivery.

Global long-term investment campaigns and education have been key factors in its success. Last year the firm started to roll out a global marketing campaign around the "case for equities in the decade ahead," their 2020 vision. This is despite — or perhaps largely because — 90% of their flows during the last two years have come from global fixed income. This campaign — in conjunction with local expansion during the crisis — was started back in 2005 when the company introduced "the Franklin Templeton Academy," a training program for financial advisors, (insurance agents, bankers, and distribution partners) which emphasized the benefits of long-term diversification and was subsequently rolled out in Europe, the US, and Latin America.

It was followed up with another **metatrend campaign this year called "Global – The New Core,"** , which asks the question, "Is your portfolio as global as it should be" and offers four strategic trends detailing why an emerging middle class in Asia and Latin America will change the investment world going forward.

Our research and proprietary survey work show that such industry thought leadership themes around metatrends are a crucial component to developing blockbuster products with institutions and wholesalers alike.

AllianceBernstein: High Yield as a Big Niche

AllianceBernstein's top-selling Global High Yield fund attracted 20% of all cross-border flows to High Yield funds since the start of 2009, as shown below, with the majority (around $7-8 billion) of that coming from Asia and especially Taiwan.

Top-Selling Cross-Border High Yield Bond Funds

In US$ Billion

Portfolio	Manager	Launch	Net Flows 2006	2007	2008	2009	2010	Ytd-8/11
AllianceBernstein-Global High Yield	AllianceBernstein	Sep-97	**2.4**	**1.6**	-2.1	**4.8**	**5.1**	**3.5**
Neuberger Berman High Yield Bond	Neuberger Berman	May-06	0.0	0.0	0.1	0.2	**2.6**	**1.6**
Pioneer Funds Global High Yield	Unicredit/Pioneer	Jun-04	0.1	0.0	0.1	0.6	**1.4**	**0.8**
UBS (Lux) Bond Sicav - Short Duration HY	UBS	Jan-11						**0.8**
PIMCO GIS Global High Yield Bd	PIMCO	Jun-05	0.0	0.1	0.3	0.4	**1.1**	**0.6**
Fidelity Funds - US High Yield	Fidelity	Sep-01	0.7	-0.1	-0.2	1.2	**3.5**	**0.5**
Pictet-US High Yield-P USD	Pictet	Nov-09				0.4	0.6	**0.4**
Fidelity Funds - European High Yield	Fidelity	Jun-00	0.3	-0.4	-0.3	0.3	0.7	**0.4**
iShares Markit iBoxx Euro High Yield	Blackrock	Sep-10					0.5	**0.4**
Putnam Global High Yield Bond	Putnam	Oct-98	0.0	0.2	0.1	0.0	0.2	**0.4**
Total above			***3.5***	***1.5***	***-2.1***	***8.0***	***15.6***	***9.4***
Total Cross-border HY funds			***7.3***	***5.8***	***-6.6***	***16.2***	***44.4***	***5.5***

Source: Strategic Insight

The firm has focused on cross-border markets in the region: out of 50+ share classes within its Global High Yield portfolio, close to 40 classes are registered for sale in Taiwan, Hong Kong, and/or Singapore. The fund also offers local Asian currency classes including HK and SG Dollar. Moreover, Alliance Bernstein has developed a **large local distribution network regionally** over the years. For instance, in Taiwan the Global High Yield fund was the top-selling fund in the bank channel (through more than 40 local/regional banks), accounting for 60%-80% of the total bank sales in some cases. AllianceBernstein has actively promoted and marketed its $18 billion blockbuster. As a result, **the firm has occupied investor mind share** and been directly linked to being the High Yield expert by many investors in Taiwan and the region.

Key themes going forward:

- **A Shifting Landscape –** Asia and emerging markets drive growth and innovation globally: Asia is the fastest-growing region globally, both from an investment and distribution perspective, and could surpass the US and Europe by 2025 in overall assets. Institutional and high-net-worth opportunities are leading today, but a growing middle class and their long-term financial goals will tip the balance toward a greater share of retail flows.
- **Distribution Channels in Asia –** A variety of regional trends and needs: Most of Asia is bank dominated, but we have seen growth of securities houses post-crisis, especially in Japan and Korea. Cross-border dominated HK, Taiwan, and Singapore have a fairly diverse distribution mix and insurance-linked products have grown of late. IFAs play a leading role in India, while first steps have been taken in China as well. Southeast Asia has become a profit center for firms that committed local resources around local products early.
- **The Blockbuster Phenomenon:** Globally, 95% of cash goes to 0.5% of products, as distributors work with fewer managers and use fewer flagship funds. The key to success for asset managers will be how to build a combination of local and global blockbusters. Large global Goliath firms and specialist David boutiques have a competitive advantage.
- **Product Development:** The future of a global core product for investors around the world in a new risk and absolute return framework is currently being redrawn. Some firms continue to see traditional long-only active management at the core of the solution, while others are exploring alternative asset classes and structures — often in the same firm.
- **Asia and Latin America are Building Investment and Distribution Bridges:** Asia is the most important investment theme for distributors and institutions in Latin America, yet mostly US and European fund managers have benefited thus far. Japanese managers should leverage the cultural and investment ties with Brazil beyond those markets.
- **Distribution Success Factors**: Organizational stability, global expertise, and consistency (both from an investment process and client relationship perspective) have become tremendous competitive brand advantages in the aftermath of the financial crisis. Post-Lehman and Madoff, fund buyers are looking for large, stable, and reliable providers, and distributors are trying to rebuild trust with their clients. Thought leadership around global campaigns and non-headquarter centricity are key ingredients in succeeding locally.

- **Multi-Convergence Is Changing Distribution Partnerships:** The industry is entering an age of "multi-convergence" with blurring lines of demarcation between traditional and alternative investment approaches and vehicles; a growing competitive undercurrent between both West & East and East & West; and more consistency between what institutions, global financial institutions, and distributors are asking for from asset managers.

About this report

Daniel Enskat
Head of Global Consulting

Jag Alexeyev
Head of Global Research

Sadayuki Horie
Senior Researcher

Hisashi Kaneko
Senior Researcher

This paper has been prepared by Strategic Insight's Daniel Enskat, head of global consulting, and Jag Alexeyev, head of global research, with contributions by the firm's senior analysts, including Bryan Liu and Lise Carpenter. It includes major findings of the group's ongoing research on fund distribution globally and in Asia. Prior studies by Strategic Insight which formed the foundation of this white paper include:

- ***Building Bridges:*** *Views from the leading regional institutions and distributors on how to build a successful Asia Pacific asset management business (2011)* – The study combines more than 1,000 discussions with fund and wealth management executives since 2008 with an in-depth proprietary survey of more than 300 key institutions and intermediaries across Asia Pacific between October 2010 and March 2011.

- ***Capturing the Promise:*** *Funds in Asia, and Asia in Funds Worldwide (2011)* – The study explores key forces driving the industry, focusing on a regional and country-level analysis of the fund business in Asia combined with a global perspective on the growth of Asia strategies and allocations around the world.

- ***State of the Asset Management Industry: Latin America*** *(2011)* – The study shares results from a year's worth of time spent on the ground with asset managers, regulators, associations, and distributors in Brazil, Mexico, Peru, Chile, Colombia, Uruguay, and Venezuela throughout 2011. The issues, local viewpoints, and anecdotes we took away from our time there have been summarized in our comprehensive Latin America Fund Management Report.

This paper also includes analysis from the Nomura Research Institute, Ltd. provided by Hisashi Kaneko and Sadayuki Horie, senior researchers focusing on asset management and fund distribution in Japan. Prior studies by Nomura Research Institute, Ltd. include overviews for Japan's Asset Management Business (2006, 2007, 2008, 2009, 2010, and 2011).

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For further information, please contact:

Daniel Enskat, Head of Global Consulting
daniel@sionline.com, +852 2251 8428

Jag Alexeyev, Head of Global Research
jag@sionline.com, +1 212 944 4456

Nomura Research Institute, Ltd. (NRI) was established in 1965 as Japan's first private-sector think tank. NRI provides a wide range of navigation and solution services. Our navigation services include research, management consulting, and system consulting. NRI has conducted extensive surveys and other research regarding the asset management business in Japan. Our research spans a broad range of areas, including regulatory compliance, new portfolio management techniques, performance evaluation methods, governance, and the asset management business' institutional and retail environment.

NRI is a global research partner of The Rotman ICPM (International Centre for Pension Management) of the University of Toronto, which strives to become a global catalyst for improving pension management. NRI dedicates to improve pension fund management in Japan through this activity.

For further information, please contact:

Sadayuki Horie, Senior Researcher,
Financial Technology
s-horie@nri.co.jp

Hisashi Kaneko, Senior Researcher,
Financial Technology
h-kaneko@nri.co.jp