Emerging Wealth Region
Mutual Funds:
Diversification and Strategic Allocations as Our Global Industry Grows to $100 Trillion

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Mutual Funds: Investing in the Future
$100 Trillion by 2030

In US$ Trillion

$37 T

Source: Strategic Insight Simfund; Strategic Insight research
The Global Mutual Fund Industry Adds about $1T of Net New Money Each Year

Long-Term Net Flows by Region
In US$

Source: Strategic Insight Simfund; data exclude money market funds; Latin America data is available from 2008 onwards
Who Is Strategic Insight?

- We offers business intelligence, research, and market-entry guidance to mutual fund companies globally, backed by 150+ associates; SI has offices in Melbourne, Hong Kong, London, Toronto, Vancouver, Denver, San Francisco, Boston, and New York.

- Tracking, reporting monthly on ~ $40 trillion on mutual fund AUMs: flows, new funds, distribution channels, performance, fees, market shares, partnerships, etc.

- Our research and technologies are used by investment managers overseeing over 90% of the U.S. fund industry’s assets, industry associations, regulators, investment banks, sell-side and buy-side analysts, consulting and law firms; and dynamic asset managers aspiring to benefit from the opportunities for investment management worldwide.
A Thought Exercise:

➤ For your personal investments in stocks:

➤ During the next 12 months you modify your stock exposures: % allocations to Emerging Wealth regions (commonly called EM), % in Developed Markets x US, and % in US

➤ By 11/2015 you freeze your allocations for 20 years

➤ What would your strategic allocation to Emerging Wealth Region funds be?
Answers:

- 50%, 33%, 25%, 20%, 15%, 10%, 5%, 1%?
- Based on market cap today?
- Based on today’s PPP (purchasing power parity)?
- Based on projected market cap or PPP allocations in 2035?
Today Discussion:

➤ Looking back, briefly

➤ Looking ahead: lessons from the US, where about half of mutual fund investments reside today
Worldwide: $1 Trillion Diversification Away From Home Markets Over Past Six Years

Stock Mutual Fund Flows $B
Emerging Market Funds vs. Developed Capital Markets x US

Source: Strategic Insight Simfund, Strategic Insight Research
The U.S. Mutual Fund Industry (and Its Lessons to Harmonized Investment World Elsewhere?)

- $18 Trillion AUMs; 86% in stock / bond funds
- Two-thirds of stock funds are held in tax-advantaged retirement accounts; thus each year at least 65% (some years ~100%) of stock fund net flows are deposited into retirement savings held for the very long-term
- Nearly every U.S. household with wealth to invest already uses mutual funds
- An American culture of ‘investing for the future,’ supported by regulatory and legislative initiatives
Lessons from the U.S. II

• ~ 80% of U.S. fund investors get help from a financial advisor (FA) to manage all or majority of their invested assets

• Past 20 years: from opportunistically selling today’s ideas (stocks, funds) to an asset allocation DNA; from point-of-sales compensation to asset-based fees-for-service

• Global narrative more harmonized, and U.S. trends showing everywhere: mutual funds for retirement savings (thus increasing regulatory guidance), investor sentiment and fund choices, fund innovation, asset allocation attitudes, fee transparency

• What lessons from the evolution of the U.S. mutual fund landscape are applicable elsewhere?
Multiple investment sleeves of (active, passive) funds wrapped by financial advisors, or pre-packaged into a single fund.

In total, over 80% of fund sales by FAs today is done within framework of asset allocation.

Pro: good funds across a wide range of strategies continue to find growth opportunities.
U.S.: Implications of Emerging Asset Allocation Culture

Mutual Fund Industry: Share of Long-Term Fund Sales by Fund Type
January 1999 to September 2014

Source: Strategic Insight Simfund / ICI Trends
Actively Managed Funds Sold in U.S.: Asset Allocation Offers Opportunities for Sales of Many Strategies, but a Conservative Shift since 2008

Source: ICI/Strategic Insight
U.S. Stock Funds: Investor Re-engagements Likely to Continue across the Board

Equity Fund New Sales
January 1996 to September 2014

- U.S. Equity
- International Equity
- Hybrid

Source: Strategic Insight Simfund / ICI Trends
U.S. Sales: EM Diversified Equity Funds (x ETFs)

Source: ICI Trends, Strategic Insight Simfund; 2014 Est.
EM Stock Funds Acceptance w/in Int’l Equity Allocations: 20-25%, Varied Across Channels

Actively Managed Emerging Markets Equity Assets as % of Total Active International/Global Equity Fund Assets

- August 2012
- August 2013
- August 2014

Private Bank: 25%
RIA: 24%
Wirehouse: 23%
Indep/Reg'l BD: 18%

Note: Universe includes diversified emerging markets and single country/region funds
*Wirehouse channel excludes Merrill Lynch data
Source: Strategic Insight Simfund Pro, 7.0
EM Stock Funds*: Flow Winners, Losers YTD 2014: Below-Peer Risk, Above-Peer Return, or Opposite?

* Selected actively managed, trailing 3-Years Return and Risk Ranking w/in Morningstar EM Equity Fund Category Source: Strategic Insight Simfund
A Winning EM Equity Fund: Luck vs. Talent?
Rolling 3-Year Risk-Return Rankings, w/in Category

Rolling, trailing 3-Years Return and Risk Ranking w/in Morningstar EM Equity Fund Category
Source: Strategic Insight Simfund
Int’l Equity Funds Sold in the U.S.: Flows Correlate with Relative Stock Market Returns

Relative Performance of U.S. vs. Foreign Stocks and Net New Flows of Int’l / Global Equity Funds

- Ratio of MSCI EAFE to S&P 500 (left scale)
- Net Flows (right scale)

Source: Strategic Insight Simfund MF; Standard & Poors
# U.S. Sold Diversified Int’l/Global Equity Funds: Strong Flows to Continue

<table>
<thead>
<tr>
<th>Lipper Classifications</th>
<th>Assets, $B</th>
<th>Net New Flows, $B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YTD - 9/14</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Diversified International /Global Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intl Multi-Cap Core</td>
<td>368.3</td>
<td>18.8</td>
</tr>
<tr>
<td>Intl Large-Cap Core</td>
<td>183.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Global Asset Allocation*</td>
<td>420.8</td>
<td>23.0</td>
</tr>
<tr>
<td>Intl Multi-Cap Growth</td>
<td>170.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Intl Multi-Cap Value</td>
<td>70.0</td>
<td>(3.5)</td>
</tr>
<tr>
<td>Intl Sm/Mid-Cap Growth</td>
<td>46.7</td>
<td>2.8</td>
</tr>
<tr>
<td>Global Large-Cap Core</td>
<td>106.3</td>
<td>(5.0)</td>
</tr>
<tr>
<td>Global Large-Cap Growth</td>
<td>76.4</td>
<td>(2.8)</td>
</tr>
<tr>
<td>Global Large-Cap Value</td>
<td>42.8</td>
<td>0.0</td>
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<tr>
<td>Global Multi-Cap Core</td>
<td>39.1</td>
<td>1.5</td>
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<tr>
<td>Intl Large-Cap Value</td>
<td>35.1</td>
<td>4.5</td>
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<tr>
<td>GL Sm/Mid-Cap</td>
<td>44.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Global Multi-Cap Value</td>
<td>46.1</td>
<td>(1.1)</td>
</tr>
<tr>
<td>Intl Large-Cap Growth</td>
<td>302.8</td>
<td>(0.9)</td>
</tr>
<tr>
<td>Other</td>
<td>76.7</td>
<td>(1.7)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,028.9</td>
<td>43.1</td>
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</tbody>
</table>

*SI objective name

Source: Strategic Insight Simfund MF/ Lipper Inc. (Classifications)
# U.S. Sold Regional and EM Stock Funds

<table>
<thead>
<tr>
<th>Objective Name (SI)</th>
<th>Assets, $B</th>
<th>Net New Flows, $B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YTD - 9/14</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Emerging Markets, Regional, and Sector Funds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int'l Emerging Market Equity</td>
<td>407.3</td>
<td>56.5</td>
</tr>
<tr>
<td>Int'l European Equity</td>
<td>56.9</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Int'l Single Country Equity</td>
<td>59.8</td>
<td>8.7</td>
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<tr>
<td>Global Equity Sector</td>
<td>92.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Int'l Latin America Equity</td>
<td>4.9</td>
<td>(1.2)</td>
</tr>
<tr>
<td>Int'l Japanese Equity</td>
<td>30.9</td>
<td>(1.0)</td>
</tr>
<tr>
<td>Int'l China Equity</td>
<td>18.2</td>
<td>(2.8)</td>
</tr>
<tr>
<td>Pacific Equity</td>
<td>13.7</td>
<td>2.1</td>
</tr>
<tr>
<td>Pacific Equity without Japan</td>
<td>30.3</td>
<td>3.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>714.7</td>
<td>68.6</td>
</tr>
</tbody>
</table>

*Source: Strategic Insight Simfund MF*
Emerging Market Funds in the U.S.: Net Flow Trends
Active Funds and (More Volatile) ETFs

Source: Strategic Insight Simfund MF
EM Equity Funds: Active vs. Passive Demand

Emerging Markets Equity Net Flows ($B) by Channel - Year-to-Date August 2014: Active Mutual Funds vs ETFs

Note: Universe includes diversified emerging markets and single country/region funds
*Wirehouse channel excludes Merrill Lynch data
Source: Strategic Insight Simfund Pro, 7.0
Because of Asset Allocation mindset adopted locally and globally, allocation to good Emerging Wealth Region funds (stock, balanced, bond) increase

Such funds’ share of invested wealth in 2035: 33%, 25%, 20%, 15%, 10%, 5%?

Will HSBC still inspire us when we travel in 2035, with creative, uplifting Ads as we board a self-flying plane?
Strategic Insight services benefit managers of 92% of U.S. fund industry assets, fund distributors, Variable Annuity providers, leading Wall Street sell and buy-side analysts, investment banks, regulators, fund trustees and lawyers, industry associations, and globally, over 100 of the leading and dynamic investment managers.

For more than 25 years, Strategic Insight has been at the forefront of thorough, unbiased mutual fund industry research and business intelligence. We believe in the mutual fund industry. Our core mission has always been to strengthen the industry and help each of our clients succeed in the global marketplace by providing them with the business intelligence, research, data, and analytical support they need to identify product innovations and distribution opportunities and make smart business decisions.

Today we serve our clients from offices in New York, Boston, Denver, Toronto, London, Hong Kong, and Melbourne.

Simfund, The World’s Databases for Mutual Fund Business Intelligence,

SI On Line.com  Strategic Insight Global.com
SimFund Filing.com  Annuity Insight.com
Appendix: Trends in Diversification Away from Home Equity Markets Around the World
Worldwide: Acceleration of Diversification from Home Market

Stock Mutual Fund Flows $B
Emerging Market Funds vs. Developed Capital Markets x US

Source: Strategic Insight Simfund, Strategic Insight Research
US Sold Stock Funds: Global Diversification

Stock Mutual Fund Flows $B
Emerging Market Funds vs. Developed Capital Markets x US

Source: Strategic Insight Simfund, Strategic Insight Research
US Sold Variable Annuities Global Diversification

Stock Mutual Fund Flows $B
Emerging Market Funds vs. Developed Capital Markets x US

Source: Strategic Insight Simfund, Strategic Insight Research
Europe Sold Stock Funds*: Global Diversification

[Diagram showing stock mutual fund flows in billions from 2009 to YTD-8/14, comparing Emerging Market Equity and Developed Market (x U.S.) Equity]

Source: Strategic Insight Simfund, Strategic Insight Research; * local and cross-border funds sold in Europe
Asia-Pacific Sold Stock funds: Global Diversification

Source: Strategic Insight Simfund, Strategic Insight Research
Latin America Sold Stock Funds: Global Diversification

Stock Mutual Fund Flows $B
Emerging Market Funds vs. Developed Capital Markets x US

$ Billion

Emerging Market Equity
Developed Market (x U.S.) Equity

Source: Strategic Insight Simfund, Strategic Insight Research
Canada Sold Stock Funds: Global Diversification

Stock Mutual Fund Flows $B
Emerging Market Funds vs. Developed Capital Markets x US

Emerging Market Equity
Developed Market (x U.S.) Equity

Source: Strategic Insight Simfund, Strategic Insight Research
New Stock and Bond Fund Introductions: Slowdown in Europe, Asia Takes Lead

Number of New Portfolios Launched, Rolling 3-Month

Source: Strategic Insight Simfund; excludes money market funds, internal fund of funds and fund of hedge funds