ASEAN's Investment Trust Markets: Current Conditions and Challenges

Tetsuya Kamiyama
Financial Industry Analyst,
Nomura Institute of Capital Markets Research

I. Introduction

The rise in income levels and expansion of the middle class that has accompanied economic growth in Asia offers significant potential to the investment trust business, a segment that offers small investors the ability to diversify their investments (Figure 1). Most countries in Asia still have fairly bank-centric financial systems in which bank deposits account for a large share of household financial assets. If these funds were to be shifted into investment trusts, whether in the home country or elsewhere in Asia, it would not only spur growth in Asian firms, it would also meet the objectives of policies such as the Asian Bond Markets Initiative (ABMI), which seeks to recirculate Asian funds within the Asia region. Growth of Asia's investment trust market should create significant business opportunities for Japan's asset management companies. This is particularly true of the Association of Southeast Asian Nations (ASEAN), which has young demographics relative to Asia as a whole, as well as stable socioeconomic conditions. With 2013 marking the 40th anniversary of the ASEAN-Japan dialog for friendship and cooperation, Japan is likely to be strengthening its relationship with ASEAN going forward.

Referring to the ASEAN countries in the collective sense does not mean there are no differences among member nations in the rules and economic environment affecting investment trusts. In this paper, while summarizing their individual financial assets, pension systems, and sales channels, we look at the state of investment trust

Figure 1: Estimates of middle class size by region

	2009		2020		2030	
	People	Global share	People	Global share	People	Global share
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1,740	54%	3,228	66%
Sub-Saharan Africa	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	1,845	100%	3,249	100%	4,884	100%

Note: The numbers of people are given in millions.
The middle class is defined as people living on \$10–100 per day.
Source: OECD, "The Emerging Middle Class in Developing Countries," January 2010

Figure 2: Assets under management by Southeast Asia's asset management industry

	2007	2008	2009	2010	2011
Thailand	43.7	38.4	48.2	53.8	55.2
Singapore	46.9	28.7	40.1	44.1	44.7
Malaysia	22.6	19.5	24.4	30.0	31.7
Indonesia	10.1	8.2	12.5	16.3	18.2
Philippines	5.4	3.4	4.0	5.0	5.6
Vietnam	0.02	0.01	0.02	0.02	0.01

Note: In billions of US dollars.
Figures for Singapore include foreign-registered funds.
Figures for Malaysia exclude the Bumiputera funds.
Source: Cerulli Associates, "Asset Management in Southeast Asia 2012"

markets in the three ASEAN members where those markets are the largest, Thailand, Singapore, and Malaysia (Figure 2).

II. Thailand's investment trust market

1. Legal framework

The core piece of legislation governing securities markets and companies in Thailand is the Securities and Exchange Act, which was created in 1992 by combining a number of different securities-related laws. The Act is governed by the Securities Exchange Commission Thailand (SEC). Thailand also has a Capital Market Supervisory Board, which is chaired by the SEC Secretary-General, includes as members the SEC Deputy Secretary-General, the Director-General of the Fiscal Policy Office of the Ministry of Finance, and several outside experts, and shares a Secretariat with the SEC. Administrative rules, notices, and directives are issued in the name of either the SEC Secretariat or the Capital Market Supervisory Board. For example, the Guidelines Relating to Operating Systems of Fund Management Business[1] is a notice issued by the SEC that provides administrative guidelines for mutual funds, private funds, and provident funds (pension funds). The Association of Investment Management Companies (AIMC) was established pursuant to the Securities and Exchange Act, and its members are asset management companies that manage mutual funds, private funds, and/or provident funds. The AIMC establishes various industry standards and also provides dispute arbitration.

Under the Securities and Exchange Act, securities companies can obtain securities business licenses for (1) securities brokerage, (2) securities dealing, (3) investment

[1] Notification from the Office of the Securities and Exchange Commission No. OrKhor./Nor. 5/2549 Re: Guidelines Relating to Operating Systems of Fund Management Business. This notification sets down rules regarding the organization of asset management companies (segregation of work units and responsibilities and the role and responsibility of senior management), qualified personnel, operating systems (systems to handle enrollment/redemption and manage assets, and back-office systems (including to calculate NAV), compliance systems, and document creation and record keeping systems), and internal control systems.

advisory services, (4) securities underwriting, (5) mutual fund management, (6) private fund management, and (7) other securities-related businesses specified by the competent Minister based on the SEC's recommendation. Of these, licenses for mutual fund management and private fund management are needed for the asset management business. As of the end of 2012, 23 securities companies had acquired licenses for mutual fund management and 37 for private fund management. The companies with a private fund management license include all of those with a mutual fund management license, as well as securities companies, commercial banks, and insurance companies without that license (below, we refer to securities companies with either of these licenses as asset management companies).

For an asset management company to establish a mutual fund, it must meet the conditions for submitting an application set forth by the Capital Market Supervisory Board, and then be approved by the SEC Secretariat. An asset management company must also appoint a mutual fund supervisor. This mutual fund supervisor must be either a commercial bank or a financial institution that meets the conditions in the SEC notice, and is obligated to provide safe custody of the mutual fund assets, ensure that the asset management company performs its duties in accordance with the Securities and Exchange Act, and report any violations to the SEC Secretariat.

Private funds are an asset management service aimed at one or a group of persons[2], typically insurance companies or other institutional investors and/or wealthy individuals. The asset management company enters into an agreement with its clients based on the terms set forth by the Capital Market Supervisory Board, and manages the assets in accordance with that agreement. The safekeeping of assets can be done by the asset management firm (securities firm) itself or, as with a mutual fund, can be entrusted to a third-party institution.

The individuals in charge of making investment decisions for a mutual fund or private fund must (1) be approved by the SEC, (2) have either a Certified Financial Analyst (CFA) or a Certified Investment Securities Analyst (CISA) qualification[3], and (3) take and pass the fund manager course run by the Association of Investment Management Companies.

For provident funds, the governing legislation is the Securities and Exchange Act as well as the Provident Fund Act of 1987. Specifically, the asset management company or other service provider is regulated by the Securities and Exchange Act, while the registration and operation of provident funds is regulated by the Provident Fund Act. The SEC Secretariat is the regulatory and supervisory authority for both acts. The asset management company for a provident fund must be a securities company with a private fund management license under the Securities and Exchange Act.

[2] Groups are from 2 to 35 natural or juridical persons.

[3] In the case of mutual funds, must meet one of these conditions: (1) have a CFA or CISA designation and employment in related businesses for three of the past five years; (2) have a level 3 CSA or CISA designation; or (3) be certified by an overseas authority to work as a fund manager.

2. Product trends

1) Mutual funds

Mutual funds in Thailand had net assets of 1.7673 trillion baht (about ¥5.7 trillion) as of end-March 2011 (Figure 3). Based on a notice from the SEC Secretariat, Thai mutual funds can be broadly categorized as (1) domestic investment funds or overseas investment funds, (2) open-end funds or closed-end funds, and (3) equity funds, bond funds, or mixed (balanced) funds). Because there are very few closed-end funds, Figure 4 shows a breakdown of the different types of products omitting the second category.

It is important to note here the large share accounted for by overseas funds. Overseas investment funds were introduced in 2002, and based on rules from the Bank of Thailand (the country's central bank), the industry overall can have up to $50 billion invested in securities issued overseas[4]. Although there are also feeder funds and funds of funds[5], most of the funds invest directly. Overseas bond funds have consistently had at least an 80% share of the market for overseas investment funds, and their growth has been driven by the popularity of Korean government bond funds. These are designed as short-term funds maturing within a year. The first such fund offered by Krung Thai Asset Management offered an annualized yield of 4%. The net inflow of money into overseas bond funds, particularly Korean government bond funds, since 2007 can be mostly attributed to the interest rate differential between Thailand and Korea and the use of that spread as a promotional tool by the company's marketing the funds, mostly the banks (Figure 5).

In 2011–2012, however, a rate hike by the Bank of Thailand reduced this spread and sparked an outflow from Korean government bond funds into bank deposits. According to Cerulli Associates, all funds specializing in Korean government bonds matured at end-2012, prompting asset management companies to consider creating more diversified overseas bond funds to include bonds from China, United Arab Emirates, and Korea. Some asset management companies are apparently focusing on equity funds in 2013[6].

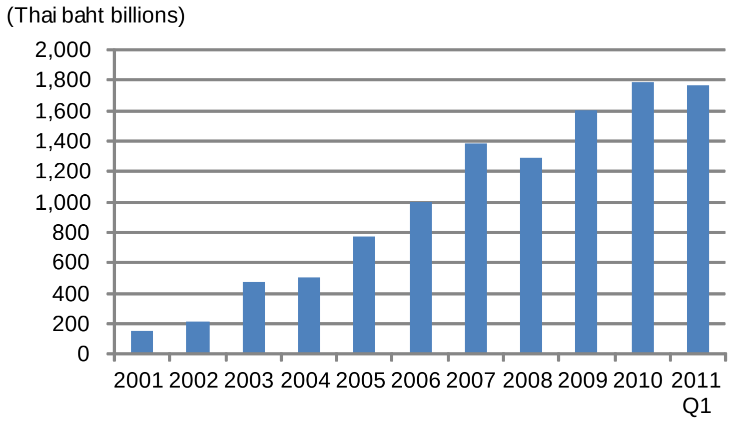
Thailand has the lowest mutual fund fees in Southeast Asia. This has been attributed to the leading asset management companies having lowered their fees to attract more assets. To attract assets, the trend has been to offer no-load mutual funds, particularly retirement mutual funds and long-term equity funds, and to keep management fees low. As explained later, there is also a tradition of offering gifts to attract clients, and this makes it difficult to generate profit for at least the first year.

4 There is no limit on the amount that Thai corporations can invest in securities issued overseas.

5 The direct sale of funds registered overseas is not allowed.

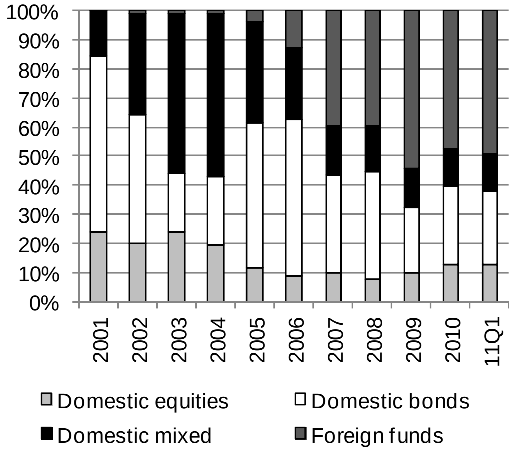
6 "Thailand: Asset manager likes stocks in 2013," Thai News Service (14 September 2012)

Figure 3: Mutual fund assets



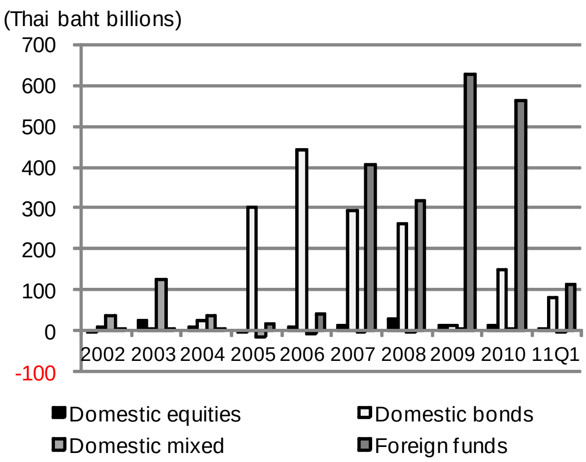
Source: Nomura Institute of Capital Markets Research, based on Thailand SEC data.

Figure 4: Asset breakdown (based on holdings)



Source: Nomura Institute of Capital Markets Research, based on Thailand SEC data.

Figure 5: Asset breakdown (based on flow)



Source: Nomura Institute of Capital Markets Research, based on Thailand SEC data.

2) Other categories of mutual funds

In addition to the categories outlined above, Thai mutual funds also include retirement mutual funds and long-term equity funds, which had total assets at end-2012 of 130 billion baht and 206.5 billion baht, respectively (Figure 6)[7]. Retirement mutual funds were introduced to encourage households to save for old age. Deductions from taxable income, the lower of 15% of income or 500,000 baht, for the total of investments in retirement mutual funds or contributions to provident funds or other retirement funds are allowed, as long as investments/contributions are made every year, made for at least five years, and not redeemed until age 55 or later.

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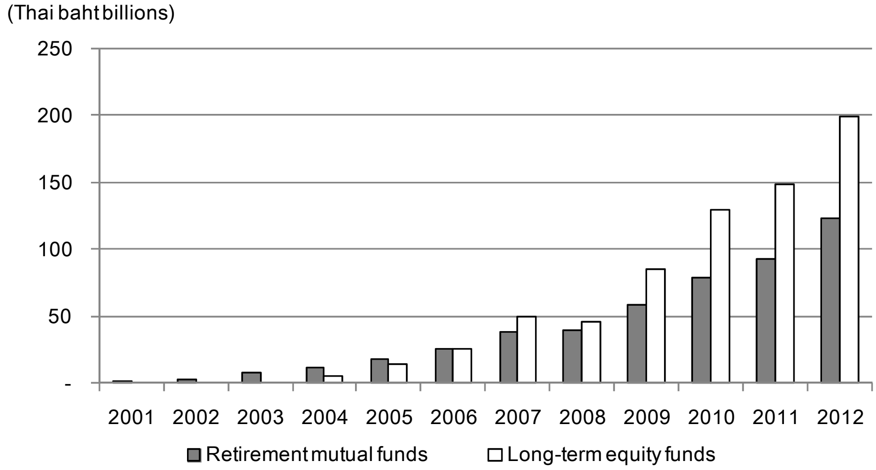
[7] These amounts include the above-noted domestic equity, domestic bond, and domestic mixed funds.

Figure 6: Retirement mutual fund and long-term equity fund asset



Source: Nomura Institute of Capital Markets Research, based on Association of Investment Management Companies (AIMC) data.

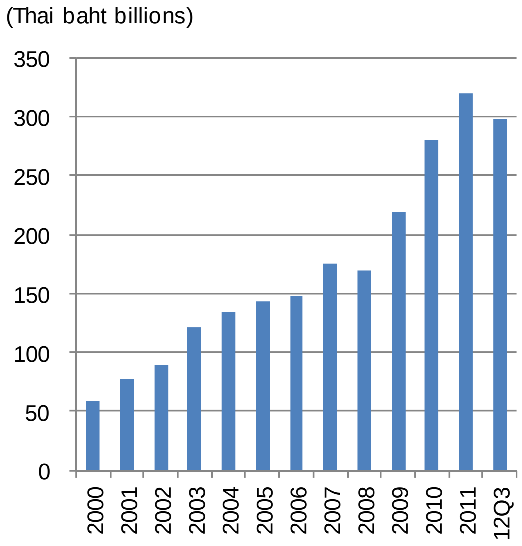
In contrast, the long-term equity fund was introduced under direction of the IMF in order to promote the development of Thailand's stock market, and thus investments are in principle limited to stocks listed on the Thai exchange. Separate from provident funds and other retirement programs, investments up to the lesser of 500,000 baht or 15% of income can be deducted from taxable income, and if held for at least five years can be redeemed tax-free (unlike retirement mutual funds, there is no requirement for continuous investment). For both types of funds, retirement mutual and long-term equity, these tax deductions are disallowed, and all capital gains are taxed at a rate of 10%, if these requirements are not met[8].

Because individual investors buy these funds in order to reduce their tax burden, investment in them tends to be concentrated at the end of the year. On the other hand, these investments are a source of long-term funding for the asset management companies, who aggressively seek to attract investors with mobile phones, travel coupons, and other gifts. The SEC limits the gifts to a value of 2% of the amount of the investment.

There are also property (real estate) funds that are not included in the above-noted mutual fund category. As of end-2010, Type 1 property funds had 89.5 billion baht under management, Type 2 property funds, for resolving non-performing assets at financial institutions, had 41.7 billion baht, Type 3 mutual funds, also for resolving the non-performing assets at financial institutions, had 10 billion baht, and Type 4 property and loan funds had 102.8 billion baht. The Type 2 to 4 funds were introduced to deal with financial institutions' non-performing assets in response to the 1997 Asian financial crisis, whereas the Type 1 fund category, closed-ended listed investment trusts offered to retail investors, is the only of the four types that has recorded growth in assets under management since 2005. The Association of Investment Management Companies extols the virtues of property funds on its website, including their low

8 In Thailand, capital gains from the sale of listed stocks and mutual funds are not taxed.

Figure 7: Private fund asset



Source: Nomura Institute of Capital Markets Research, based on SEC data.

Figure 8: Private fund asset breakdown

Asset	Amount (Thai baht billions)
Domestic securities investment	**292.9**
Registered securities	**236.8**
Stocks	64.0
Warrants, etc.	10.2
Corporate bonds, etc.	44.4
Government bonds, etc.	117.2
Other registered securities	0.9
OTC securities	**56.1**
Investment trusts	20.5
Corporate bonds, etc.	9.1
CDs, etc.	24.7
Other OTC securities	1.8
Foreign securities	**4.9**
Investment trusts	1.0
Corporate bonds, etc.	1.3
Derivatives	2.4
Other foreign securities	0.2
Other assets	**2.6**
Other liabilities	**3.2**
Net asset value	**297.3**

Source: Nomura Institute of Capital Markets Research, based on SEC data.

correlation with other asset classes and their medium levels of risk and return, to make them more appealing to individual investors.

3) Private funds

The amount of assets held by private funds totaled 297.3 billion baht as of end-September 2012. Investors include corporate pension funds, government employee pension funds, wealthy individuals, and life insurance companies. In recent years, smaller life insurance companies with a limited ability to invest on their own have increased their mandate to private funds.

Their assets are more heavily allocated to equities than mutual funds, which mostly invest in bonds, and they probably offer asset management companies an opportunity for higher profits (Figure 8). According to Cerulli Associates, there is strong downward pressure on the fees collected from investors in these funds, which are said to be 20-30bp under the small-size mandate for insurance companies. Consequently, funds targeting wealthy individuals interested in overseas investment opportunities probably provide the best opportunity for asset management companies to improve profitability in the private fund space.

3. Trends at asset management companies

Thailand's wealth management sector was launched in 1975 with the establishment by the Thai government, with assistance from the United Nations' International Finance Corporation (IFC), of The Mutual Fund Public Company Ltd. (now MFC

Figure 9: Mutual fund management companies

Asset management co.	Mutual fund AUM (Q1 2011)	Property fund AUM (end-2010)	Private fund AUM (Q3 2012)	Provident fund AUM (Q3 2012)	Total (reference)
Kasikorn Asset Management	465.3	11.7	54.2	154.0	685.2
SCB Asset Management	431.2	26.4	31.8	70.3	559.7
MFC Asset Management	223.4	18.2	21.2	105.3	368.1
BBL Asset Management	133.7	23.6	8.5	33.4	199.2
TMB Asset Management	130.9	2.0	0.4	11.8	145.1
Thanachart Fund Management	79.9	1.3	9.4	9.6	100.2
Krung Thai Asset Management	68.3	93.0	17.1	75.2	253.6
Ayudhya Fund Management	52.5	4.6	30.0	19.6	106.7
UOB Asset Management (Thailand)	40.2	0.7	6.1	10.2	57.2
ING Funds (Thailand)	22.8	18.1	36.0	44.6	121.5
One Asset Management	20.5	22.5	22.2	0.9	66.1
Asset Plus Fund Management	18.8	-	8.9	-	27.7
Finansa Asset Management	18.7	-	0.5	12.3	31.5
Aberdeen Asset Management	17.8	3.2	0.1	3.5	24.6
Tisco Asset Management	17.3	-	32.9	92.0	142.2
CIMB-Principal Asset Management	10.3	1.5	0.5	9.1	21.4
Siam City Asset Management	9.9	17.3	-	-	27.2
Seamico Asset Management	3.0	-	-	0.0	3.0
Manulife Asset Management (Thailand)	2.2	-	2.5	-	4.7
Phillip Asset Management	0.3	-	-	-	0.3
Kim Eng Asset Management (Thailand)	0.3	-	0.1	-	0.4
PrimaVest Asset Management	0.0	-	-	-	0.0
Total:	1,767.3	244.0	297.3	682.3	2,990.9

Note: In billions of Thai Baht.
The total for private funds and provident funds includes that managed by other than mutual fund management companies.
Siam City is now Kiatnakin Fund Management, Ayudhya Fund Management is now Krungsri Asset Management, and Seamico Asset Management is now Solaris Asset Management.

Source: Nomura Institute of Capital Markets Research, based on SEC data

Asset Management Public Company Ltd.). That company had a monopoly on asset management for a while, until the Securities and Exchange Act passed in 1992 created Thailand's SEC, which promptly granted licenses to seven companies. It has continued granting licenses since then, and there are now 22 asset management companies with a mutual fund license, 47 with a private fund license, and 25 with a provident fund license (Figure 9).

One notable feature of their ownership structure is the strong control exerted by local banks. The asset management companies that are wholly owned subsidiaries of banks include Kasikorn Asset Management (Kasikorn Bank), SCB Asset Management (Siam Commercial Bank), Krung Thai Asset Management (Krung Thai Bank), and Tisco Asset Management (Tisco Bank)[9], while BBL Asset Management, TMB Asset Management, Kiatnakin Fund Management, and Krungsri Asset Management all have

[9] Tisco differs from the others in that the asset management company was established in 1992 but the bank was not established until 2005 (see footnote 15, referencing the paper by Akiko Nomura).

local banks with stakes ranging from 60 to 77%. The government also still has a stake in some asset management companies[10].

Because the local banks have such a strong degree of control, if the parent bank wants, for example, to attract more deposits by offering favorable interest rates, it can cause an outflow of funds from a fund operated by its asset management subsidiary, and thus parent bank policies can influence fund sales.

In addition, assets are concentrated among the major asset management companies, with the top five mutual fund companies controlling about 80% of all assets managed by mutual funds. Kasikorn Asset Management, in particular, has further increased its share of the market. Its popular K Gold Fund, which invests in overseas gold ETFs and has performed well over the past few years, had a net inflow of 16 billion baht in 2011.

Overseas asset management companies are in principle restricted by capital regulations to no more than 49% ownership of local asset management companies, although increases to 100% ownership can now be approved on a case-by-case basis, and from 2012 they have been allowed to establish their own wholly-owned local subsidiaries. Thus capital restrictions do not present a significant barrier.

The bigger problem is that it is difficult to form alliances with the leading local banks, which own asset management companies and operate as oligopolies, offering low fees and exerting strong control over sales channels, and there are only limited sales channels for products that compete with such asset management companies. Consequently, probably the most effective way for overseas asset management firms to generate profit in the Thai market is to form alliances with local asset management firms to invest in overseas investment funds from offshore. Additionally, in order to prevail in the offshore market, it is necessary to provide differentiated products, as is done by Aberdeen Asset Management, whose strength is in global equity investment[11].

4. Sales channels

1) Overview and rules

The banks dominate the sales channels for mutual funds in Thailand (Figure 10). Thailand's big four banks, Bangkok Bank, Siam Commercial Bank, Krung Thai Bank, and Kasikorn Bank, all have strong asset management subsidiaries, and because they are not geared to handle funds managed by asset management companies outside of their group (i.e., they do not have an open architecture), the barriers to market entry are high for overseas asset management firms.

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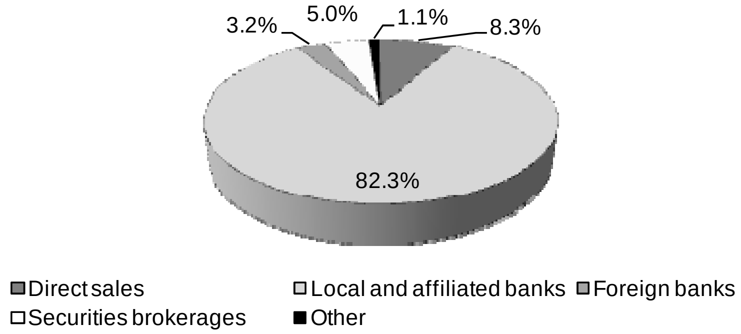
[10] MFC Asset Management is 25% owned by the Government Savings Bank and the 17% by the Ministry of Finance. Thanachart Fund Management is 25% owned by the Government Savings Bank and Kiatnakin Fund Management is 40% owned by the Government Employee Pension Fund of Thailand.

[11] The remarks on overseas asset management companies in this section are from Cerulli Associates" "Asset Management in Southeast Asia 2012."

Figure 10: Sales channels



Note: As of 2011. AUM basis.
Other category includes insurance companies and online platforms.
Source: Nomura Institute of Capital Markets Research, based on Cerulli Associates, "Asset Management in Southeast Asia 2012"

The regulations governing sales first of all require obtaining a securities brokerage license. If providing advice, an investment advisory service license is also need, and that advice must be offered based on suitability rules. A "know your customer rule" was introduced in 2011, whereby people selling funds and other investment products must have their customer fill out a questionnaire, and must execute an agreement in order to sell a customer products that have more risk than fits that customer's profile[12].

In 2012, the SEC and the Capital Market Supervisory Board introduced the Accredited Investor Scheme. In addition to opening up broader channels for nonfinancial businesses in Thailand to obtain funding, this is aimed at providing risk-tolerant investors with opportunities to invest in high-risk products. An accredited investor is either (1) an institutional investor, (2) an individual investor with total assets of at least 50 million baht, annual income of at least 4 million baht, or total securities holdings of at least 10 million baht, or (3) a corporation with shareholders' capital of at least 100 million baht or securities holdings of at least 20 million baht.

Asset management companies can create and offer to these accredited investors without limit (although each individual issuer cannot account for more than 25% of the fund's NAV) non-retail mutual funds that invest in unrated bonds or non-investment-grade bonds[13]. They can offer non-retail mutual funds to other than accredited investors is conditional upon (1) the initial investment being at least 500,000 baht, (2) an explanation of the product's risks in the factsheet of critical information, and (3) stricter requirements for investor diversification (nonfinancial corporations limited to 15%, and financial corporations to 20%, of the fund's NAV). In addition, the sales company must establish procedures for determining whether an investor is accredited and make commonly known the possibility that the volume of information obtained will be less than is normally the case for publicly offered securities. Starting in July 2012, the sale to accredited investors of collective

[12] This is not required for money market funds denominated in Baht.
[13] Outside of non-retail mutual funds, it is now possible to sell un-rated bonds to accredited investors.

investment schemes authorized by ASEAN countries that meets certain conditions was allowed[14]. The eventual aim is to allow their sale to retail investors in the future.

The SEC is also looking at changing the rules governing type D licenses in order to broaden the base of securities investment. A type D license is a limited license for brokerage, dealing, and investment unit underwriting, and the proposed change would allow businesses other than existing banks and securities firms to engage, while avoiding conflicts of interest with their main business, in limited securities brokerage under more accommodative conditions. Ways to lower costs for type D licensees are also being considered, including reducing capital requirements for providers engaged only in brokerage and reducing annual licensing fees for providers offering only a fund supermarket. The SEC accepted public comments on the proposed changes in March 2013.

2) Defined contribution pensions

Pensions in Thailand include the Social Security Fund, which is the public pension, and workplace pensions called provident funds. In addition, employees of the central government have the old civil service pension at the first level and the Government Pension Fund (GPF) at the second level. Of these, provident funds and the GPF are defined contribution plans. Enrollment in the GPF is mandatory and investments are commingled, with no investment instructions from participants, whereas enrollment in provident funds is voluntary, and there is a choice between commingled accounts and accounts allowing investment instructions[15].

Provident funds had total assets under management at end-2012 of 696.1 billion baht, an amount that has been consistently increasing, even during the global financial crisis. Overall management of the funds is conservative, with over 80% of investments consistently allocated to deposits, government bonds, and other low-risk assets (Figure 11).

Investment accounts were originally only commingled, but rules changes in 2000 gave business owners the option of allowing enrollees to give investment instructions, known as "employee's choice." Under these rules, the asset management company offers a master fund comprising sub-funds with various investment strategies. Another operational rules change in 2007 was aimed at encouraging accounts with investment instructions. Very few business owners implemented the changes initially because they did not want to make the system more complex, but implementation has been increasing recently, and as of end-2011, 3,348 businesses allowed their participants to give investment instructions (Figure 12). That is equal to 30% of the 11,249 businesses that offered provident funds at the time.

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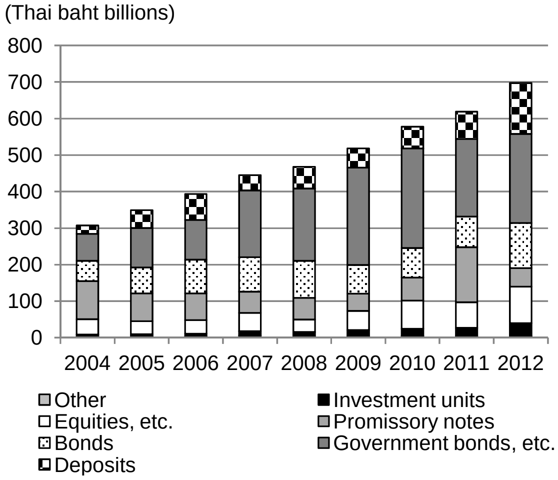
[14] This is part of the plan for integrating ASEAN capital markets (see later in the report for details).

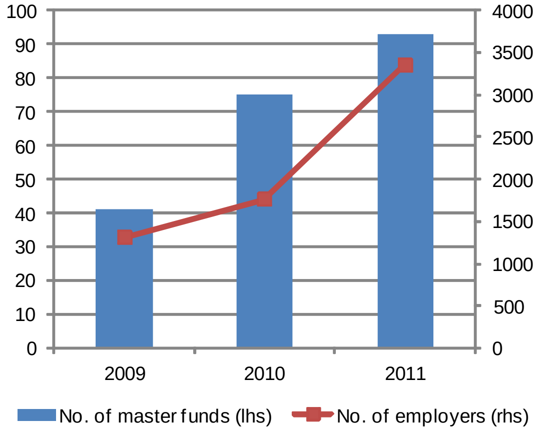
[15] For an overview of Thailand's pension system and provident funds, see Akiko Nomura, *Tai no Kigyou Nenkin Seidou no Genjou to Saikin no Doukou* (Thailand's corporate pension system, current status and recent trends), in the fall 2008 issue of the Capital Market Quarterly (in Japanese).

Figure 11: AUM and distributions



Source: Nomura Institute of Capital Markets Research, based on provident fund data.

Figure 12: Access to accounts allowing investment instructions from participants



Source: Nomura Institute of Capital Markets Research, based on provident fund data.

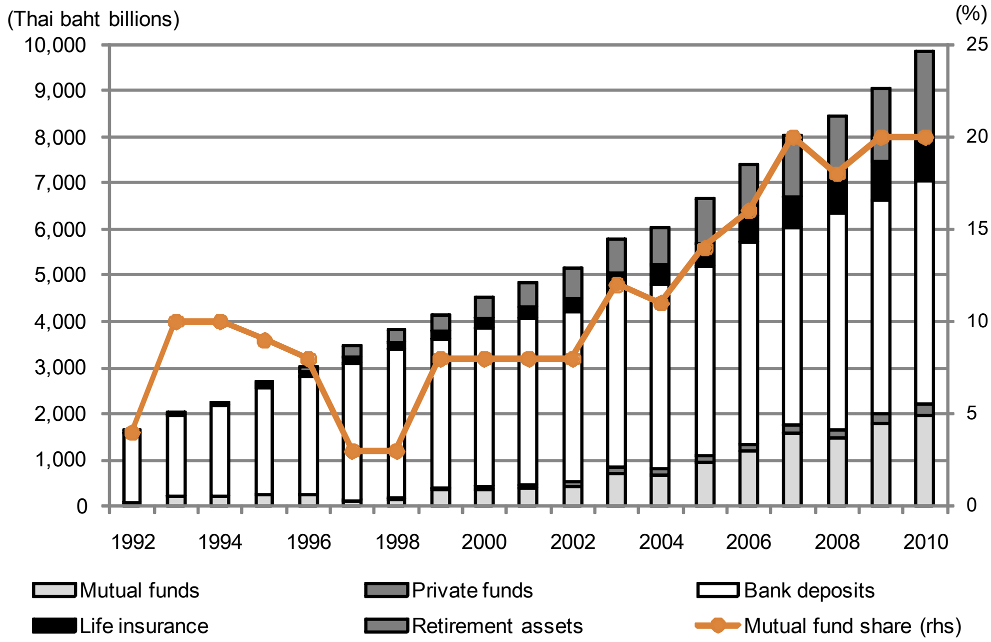
Additionally, the Thai government, seeing a need to expand pension coverage to sole proprietors and non-regular employees, has been trying to establish a National Savings Fund (NSF), a mandatory enrollment defined contribution pension plan for private-sector employees. It had initially planned to launch the NSF in 2007, but delays set in, and in March 2013, Thailand's Deputy Prime Minister and Finance Minister, Kittiratt Na-Ranong, said that the law establishing the NSF proposed by the previous administration was unnecessary, in part because it overlapped with the current Social Security Act. He is supposed to submit an alternative proposal by April 2013, and it will be interesting to see the direction that takes.

3) Household financial assets

The amount of household financial assets in Thailand[16] totaled 9.9 trillion baht at end-2010. Most of these assets were held as bank deposits, but the share invested in mutual funds has been growing every year, and was up to 20% by 2010 (Figure 13). This is higher than the equivalent figures in Japan (4% at end-2012) and the US (10.3% at end-September 2012). This growth in allocations to mutual funds can be attributed to an increase in mutual fund assets driven by Korean government bond funds, most of which came from a shift out of bank deposits, i.e., the decline in the share of household financial assets invested in bank deposits was matched by an increase in the share invested in mutual funds.

[16] Because the Bank of Thailand does not publish data on household financial assets (only on household bank deposits), in this paper we use data from the Association of Investment Management Companies, supplemented with additional data from the Bank of Thailand, the Thai Life Assurance Association, the Social Security Office, and the Government Pension Fund.

Figure 13: Household financial assets



Note: Retirement assets include provident funds, the Government Pension Fund, the Social Security Fund, and retirement mutual funds (data for mutual funds do not include retirement mutual funds)

Source: Nomura Institute of Capital Markets Research, based on Association of Investment Management Companies (AIMC) data.

Individual investors in Thailand are known to be conservative, and often make their investments in mutual funds based on a comparison with bank deposits. Because of this, bond funds and money market funds are the core products, and investment behavior is affected by changes in the interest rate paid on bank deposits. This probably also explains the affinity between individual investors and bank-affiliated asset management companies.

The SEC does not think this alone goes far enough in promoting asset formation by the people, and it is making efforts to educate individual investors, including by pasting a link on its front page to its Start-To-Invest investment education site (in Thai only).

III. Singapore's investment trust market

1. Legal framework

The basic law covering Singapore's securities markets and providers is the Securities and Futures Act (SFA), and the ministry in charge is the Monetary Authority of Singapore (MAS). Numerous regulations, codes, and guidelines have been established within this framework. Investment trusts are defined in the SFA as "collective investment schemes," and below that are rules and guidelines concerning approvals, registration and business conduct, as well as the Code on Collective Investment Schemes.

There are various ways to classify collective investment schemes, depending on the entry point. The SFA defines two categories based on the regulated activities subject to approval, (1) fund management and (2) real estate investment trust management. There are also categories based on the home jurisdiction of the collective investment scheme: (1) domestic authorized schemes and (2) overseas recognized schemes. There is another category, restricted scheme, meant for either accredited investors or investors who invest at least 200,000 Singapore dollars[17]. In addition to these, the Code on Collective Investment Schemes includes special rules for specific investment methods, including (1) money market funds, (2) hedge funds, (3) capital guaranteed funds[18], and (4) index funds.

The main feature of Singapore's investment trust market that can be discerned here is that because Singapore's securities market is an "offshore market," the regulatory environment was built with overseas institutional investors and wealthy individual investors in mind. For example, a hedge fund regulated as a collective investment scheme is allowed, as is an overseas-based fund deemed a recognized scheme, provided that the investor protection laws of that fund's home country are deemed equal to those of Singapore.

Under the SFA, the collective investment scheme format is in principle treated as a trust-type unit trust if an authorized scheme and as a trust-type listed fund if a real estate investment trust. Authorized schemes in which both the asset management company and the scheme are deemed by MAS to meet certain conditions are allowed to use a format other than a unit trust. An example of this would be a scheme that meets the conditions for a hedge fund outlined in the Code on Collective Investment Schemes.

MAS tightened regulations on asset management companies in August 2012. The changes require already licensed fund management companies to get independent custodial and valuation services for investor assets, use an outside auditing firm for independent annual audits, and incorporate a risk management framework suitable to the fund management company's investment methods and scale. Meanwhile, even asset management companies that were previously exempt from the authorization process now must register as a registered fund management company, conditional upon having (1) up to 30 qualified investors as clients and (2) no more than 250 million Singapore dollars in assets under management. This appears to be an effort to incorporate the rapidly growing number of hedge funds into the regulatory regime.

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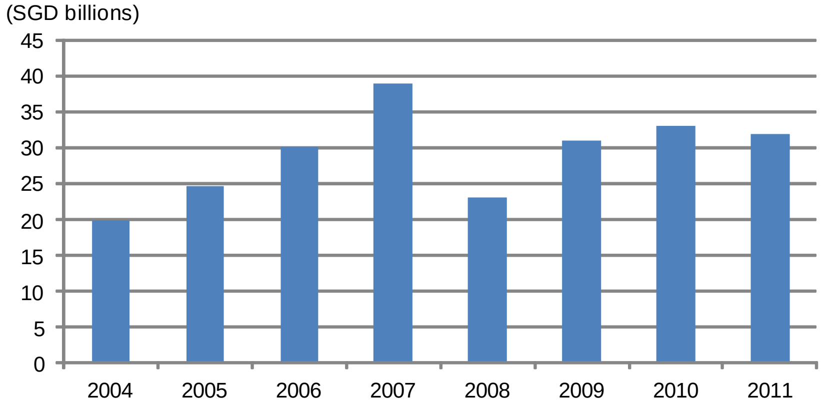
17 An accredited investor as defined in the Securities and Futures Act is either (1) an individual with more than 2 million Singapore dollars in financial assets or at least 300,000 Singapore dollars of income over the previous 12 months, or (2) a corporation with net assets over 10 million Singapore dollars.

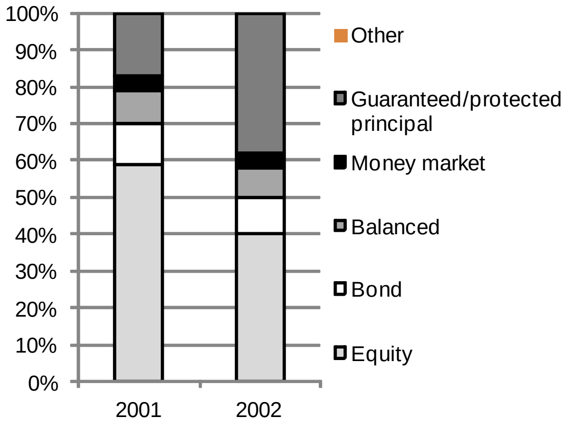
18 A fund in which the principal is guaranteed by a bank or other entity. This is in contrast with a capital protected fund (explained later), which refers to a portfolio maturing on a previously designated capital protection date.

Figure 14: AUM for collective investment schemes



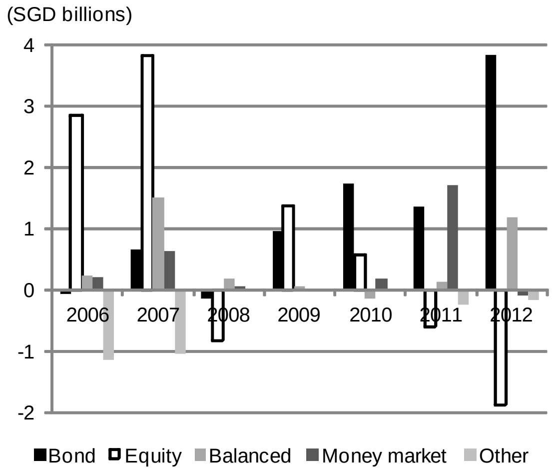
Source: Nomura Institute of Capital Markets Research, based on Singapore Asset Management Industry Survey from MAS.

Figure 15: Asset breakdown (AUM basis)



Source: Nomura Institute of Capital Markets Research, based on Singapore Asset Management Industry Survey from MAS.

Figure 16: Asset breakdown (based on flow)



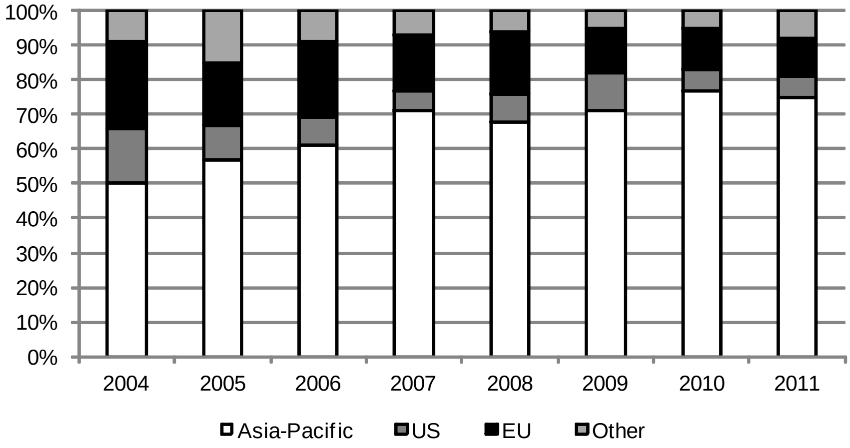
Source: Nomura Institute of Capital Markets Research, based on IMAS data.

2. Product trends

The MAS publishes an annual survey it takes on Singapore's asset management industry (the survey tabulates data on hedge funds separately from collective investment schemes). According to the survey, the total assets under management of collective investment schemes managed by asset management companies located in Singapore was 32 billion Singapore dollars (approximately ¥2.4 trillion) as of end-2011 (Figure 14).

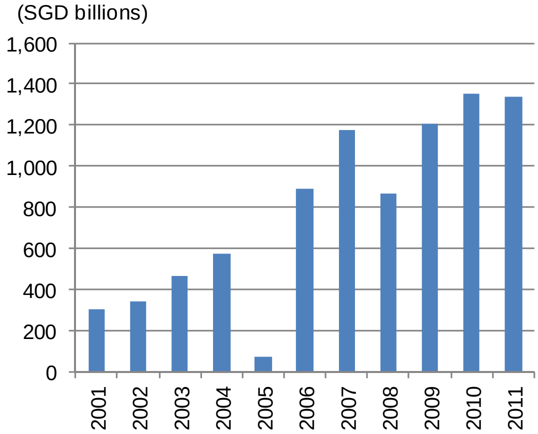
The most recent data on assets under management (AUM) did not include breakdowns for each asset class held by collective investment schemes, but in 2001-02 equity funds were at the core of the market (Figure 15). Data on the flow since

Figure 17: Collective investment scheme investment destination by region



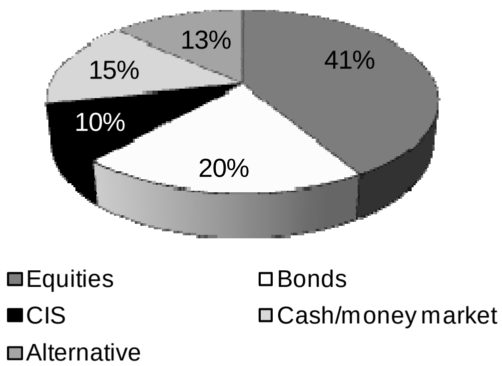
Source: Nomura Institute of Capital Markets Research, based on Singapore Asset Management Industry Survey from MAS.

Figure 18: AUM in asset management industry



Source: Nomura Institute of Capital Markets Research, based on Singapore Asset Management Industry Survey from MAS.

Figure 19: Asset investment industry assets by class



Source: Nomura Institute of Capital Markets Research, based on Singapore Asset Management Industry Survey from MAS.

then shows noticeable net inflows into equity funds up until 2007, the year before the financial crisis, and into bond funds since 2009 (Figure 16)[19].

Looked at by region, investments by collective investment schemes into Europe and the US have been in a declining trend, while allocations into the Asia-Pacific region have been rising (Figure 17). Within the Asia-Pacific, data on domestic

19 The MAS has not published data showing the breakdown of collective investment scheme assets by class since 2003. Meanwhile, the Investment Management Association Singapore (IMAS) did not publish any flow data up until H1 2006. Capital guaranteed and capital protected funds, which were core products along with equity funds in 2002, experienced a sharp decrease in their assets under management from 2004 until 2006. According to Cerulli Associates, the decline in capital guaranteed and capital protected funds was a result of the spread of structured products, which offered similar results at a lower cost. Another reason was probably a shift into equity funds prompted by the global stock market rally that occurred at that time.

investments is unavailable since 2005, but until then roughly 1/3 to 1/2 of investments were allocated to Singapore.

According to the MAS survey, Singapore's broader asset investment industry (including collective investment schemes, discretionary accounts, and investment advisory) had 1.3 trillion Singapore dollars (approximately ¥98.7 trillion) in assets under management (Figure 18), and thus the 32 billion Singapore dollars of assets under management in collective investment schemes is only a small part of the total. More than half of those funds are invested by asset managers entrusted to make investment decisions (i.e., non-advisory assets). The most common asset class is equities (Figure 19).

Over 70% of the managed assets came from overseas investors. As of end-January 2013, there were 305 domestic collective investment schemes registered with the MAS (25 of which were real estate funds), versus 826 overseas recognized schemes and 4,120 restricted schemes meant for accredited investors. These numbers also show how the Singapore market has the characteristics of an offshore market.

Reflecting these market characteristics, product regulation is also fairly loose. There is no limit on overseas investments by a collective investment scheme, and cross-border investments are also allowed for master funds and funds of funds[20]. There are also no restrictions on the overseas ownership of Singapore-domiciled asset management companies. Performance fees are also allowed for collective investment schemes, and the Code on Collective Investment Schemes spells out the requirements in that case, including certain disclosures in the prospectus[21].

3. Trends at asset management companies

Reflecting the offshore characteristics of Singapore's market, some of its leading asset management companies are foreign capitalized. The market share of local asset management companies in 2006, the last time that the NAS published such data, was 18% based on amount of non-advisory assets (versus 25% in 2004) and 33% based on number of staff (also 33% in 2004). In 2004, there were 132 asset management companies with less than 1 million Singapore dollars of net assets under management, and the majority of those companies were local. Singapore has advertised itself as the asset management hub of Asia, and participation by foreign capitalized asset

[20] If over 10% of the net asset value of a collective investment scheme is entrusted overseas or invested into an overseas collective investment scheme, the overseas asset management company must have a total, including group companies, of at least 500 million Singapore dollars invested in Singapore. In addition, MAS must confirm that said overseas asset management company (1) is reputable and (2) is supervised by the appropriate financial regulators in its home country (Code on Collective Investment Schemes).

[21] The Code on Collective Investment Schemes requires that net asset value (NAV) be calculated and published every trading day. If an error in the NAV is discovered, both the trustee and the MAS must be notified promptly in the required format. If the error is 0.5% or more of the NAV, it must compensate for the resulting losses and send notice to investors. The exception to this, however, is if compensation of over 20 Singapore dollars is not required for any investor.

Figure 20: Top 10 asset management companies based on assets in Singapore dollars

	Asset management co.	AUM (S$ millions)	Notes
1	CapitaLand	11,396.32	Real estate development and investment company focused on Singapore and China. Manages CapitaMall Trust, Singapore's larges REIT, and CapitaCommercial Trust
2	Prudential Assurance	8,412.97	Affiliated with a major UK insurance company
3	American International Assurance	6,208.61	Affiliated with a major US insurance company
4	Mapletree Industrial Trust	5,815.39	Asian real estate development and investment company; based in Singapore
5	Ascendas	5,436.30	Asian office property development and investment company; based in Singapore; a member of the Hong Kong-based Cheung Kong (Holdings) Limited group
6	Schroder	4,716.79	A major UK asset management company
7	ARA Trust Management (Suntec)	4,660.20	Asian real estate development and investment company; based in Singapore
8	UOB	4,105.13	Affiliated with UOB, a major Singapore bank
9	Aberdeen	4,016.56	A major UK asset management company
10	First State Investments	3,869.04	The international division of Colonial First State Global Asset Management, an affiliate of the Commonwealth Bank of Australia

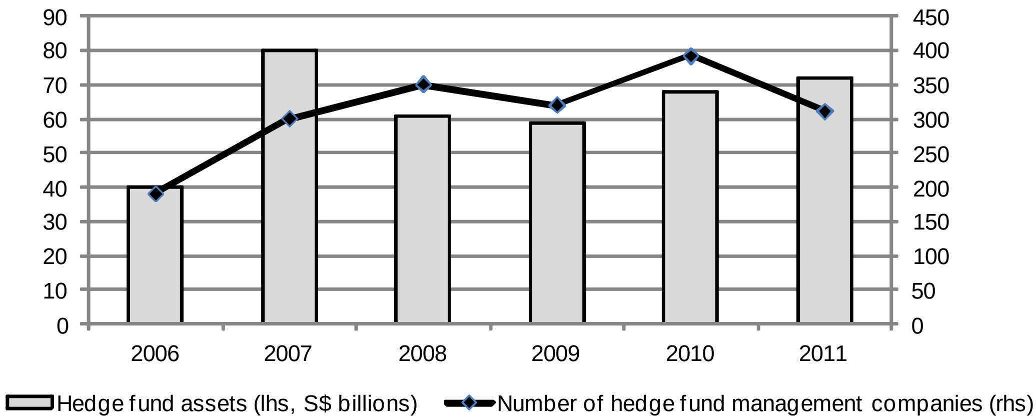
Note: As of end of February 2013.
Source: Nomura Institute of Capital Markets Research, based on IMAS data and each company's website.

management companies has increased, especially in recent years. This has resulted in Singapore's asset management industry being led by large foreign-capitalized firms and a very large number of smaller local firms. According to MAS, the top 20 asset management firms had a market share of around 40% in 2008–11, making it a less concentrated market than elsewhere in Asia.

It is difficult to tell which asset management firms rank where, because in Singapore both domestic and overseas asset management firms invest in and offer both domestic and overseas products. By one measure, looking at the top asset management firms in terms of the amount under management of Singapore dollar-denominated product registered in Singapore, the overseas asset management companies managing REITs have a major presence (Figure 20). In fact, of the top 10 Singapore dollar-denominated funds, eight are REITs, and the top two, CapitaMall Trust and CapitaCommercial Trust, are managed by CapitaLand, Singapore's largest Singapore dollar-denominated fund. In recent years, a number of overseas REITs have listed in Singapore, which is becoming a hub for the REIT market, as well.

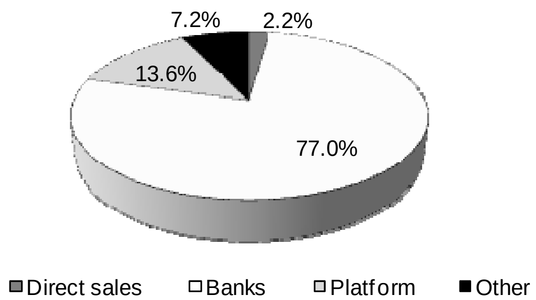
Hedge funds also have a major presence in Singapore. There were 190 hedge funds located in Singapore in 2006, and that number had grown to 311 in 2011, with net assets under management of 71.8 billion Singapore dollars (Figure 21).

Figure 21: Hedge fund assets under management



Source: Nomura Institute of Capital Markets Research, based on Singapore Asset Management Industry Survey from MAS.

Figure 22: Sales by channel



Note: Data as of 2007. AUM basis.
Source: Nomura Institute of Capital Markets Research, based on Cerulli Associates "Asian Distribution Dynamics 2007"

4. Sales channels

1) Overview and rules

As in many other countries in Asia, in Singapore the bank sales channel has a dominant share of the sales of collective investment schemes. This is particularly true of the local banks. According to estimates made in 2007 by Cerulli Associates, the banks had a 77.0% share of total sales in 2011 (Figure 22). Meanwhile, platforms consisting primarily of non-bank financial advisors have been gradually increasing their share as Singapore's mass affluent have become less resistant to the idea of paying for investment advice.

Regulations relating to distribution require first of all that people who provide advice and conduct sales of investment products, including collective investment schemes, be certified as financial advisors under the Financial Advisers Act[22]. The law also includes rules of conduct related to product information disclosures and recommendations to customers, and the receipt of customer funds.

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22 Individuals offering services as an employee of a financial advisor are recognized as financial advisor representatives under that Act.

The Securities and Futures Act sets out conditions for signing up investors to collective investment schemes. There is an obligation, for example, to use either a prospectus registered with MAS or a profile statement formatted properly and registered with MAS, and related advertising must be approved by MAS. There are also requirements that must be met for private placements and when signing up institutional investors[23].

2) Defined contribution pensions

Sales channels for collective investment schemes in Singapore include the Central Provident Fund Investment Scheme (CPFIS), which is a part of the Central Provident Fund (CPF). The CPF is a commingled defined contribution pension plan offered as a social safety net to the people by the Singaporean government. Contributions of a set percentage of salary are made to the subscriber's personal account by both the employer and employee, and then allocated among a regular account, a special account, and a Medisave account[24]. The regular CPF account provides a government-guaranteed 2.5% interest rate, while the special and Medisave accounts offer a guaranteed 4% until end-2013. An additional 1% interest is paid on the first 60,000 Singapore dollars in all CPF accounts combined (but only the first 20,000 Singapore dollars in the regular account).

The CPFIS is a subscriber-directed defined contribution pension plan for CPF participants seeking further returns. Participants can invest funds beyond the 20,000 Singapore dollars in the regular account and 40,000 Singapore dollars in the special account for which they receive an interest rate premium in the CPFIS. Funds in the special account are invested in unit trusts, variable annuity insurance, ETFs, and other investment vehicles chosen by the Central Provident Fund Board (CPFB, which is run by the CPF) on the basis of such metrics as fund-level expense ratios and three-year track record. In contrast, the regular account also invests in financial products more broadly traded on the market, and in addition to the products that the special account invests in, can invest in stocks, REITs, corporate bonds, and gold ETFs, among others[25].

As of end-2010, assets under management at CPFIS totaled only 28.4 billion Singapore dollars, out of 230.2 billion Singapore dollars managed by CPF overall

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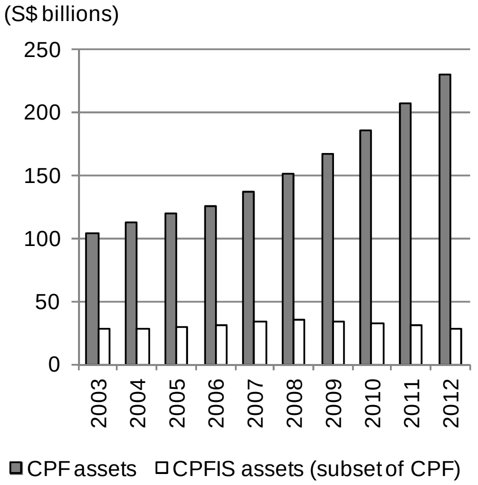
[23] For both, there is no advertising, and a prospectus is in principle unnecessary. For private placements, offerings cannot be made to more than 50 people within 12 months, and for products offered to institutional investors, the minimum investment is 200,000 Singapore dollars.

[24] (1) Regular accounts can be used for purchasing a home, education expenses, and purchasing insurance, (2) special accounts are for preparing for old-age, and (3) Medisave accounts can be used for healthcare and medical insurance. The employee/employer contribution ratios differ based on the participant's age, and the allocation across accounts differs based both on the participant's age and the type of account.

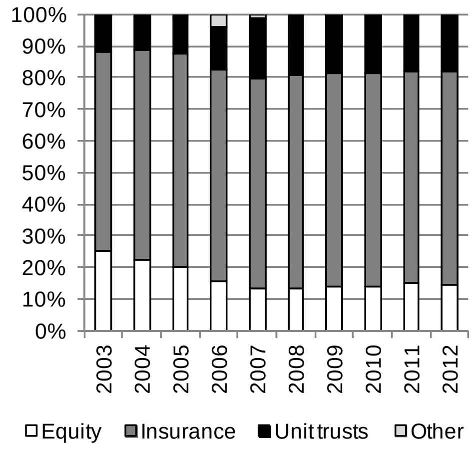
[25] The maximum investment in stocks, REITs, and corporate bonds is 35% of investable savings (the amount in the regular account plus the amount in the CPF that can be withdrawn for investment or education) and the maximum investment in gold ETFs and other gold-related products is 10% of investable savings.

Figure 23: CPF and CPFIS assets under management



Source: Nomura Institute of Capital Markets Research, based on data from CPFB.

Figure 24: CPFIS assets by class



Source: Nomura Institute of Capital Markets Research, based on data from CPFB.

(Figure 23). One reason behind this is that just by leaving assets in the CPF special account, it is possible to get a maximum guaranteed yield of 5% even within the current global environment of low yields. In fact, even the CPFB emphasizes CPF's advantages, advises caution when investing in CPFIS, and does not always aggressively encourage participants to build up their assets in CPFIS.

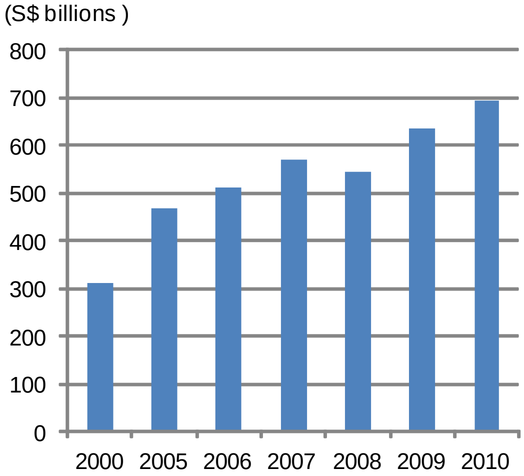
Insurance products account for the largest share of CPFIS assets. There are 180 different variable annuity insurance products offered through CPFIS, and these appear to account for a substantial portion of the insurance products used. The CPFIS has 116 unit trusts, accounting for about 20% of assets under management (Figure 24). Of the products from Europe and the US, it uses at least 10 from Schroder and about five each from Legg Mason, Fidelity, and Aberdeen[26].

3) Household financial assets

Singapore's household financial assets totaled 694.33 billion Singapore dollars at end-2010, more than double what they were in 2000 (Figure 25). In per capita terms, this comes to 137,000 Singapore dollars (about ¥10 million), the highest in Asia ex-Japan. Securities account for about 20% of that amount, putting Singapore much closer to what is typical for a developed economy than to other countries in Asia outside of Japan (Figure 26).

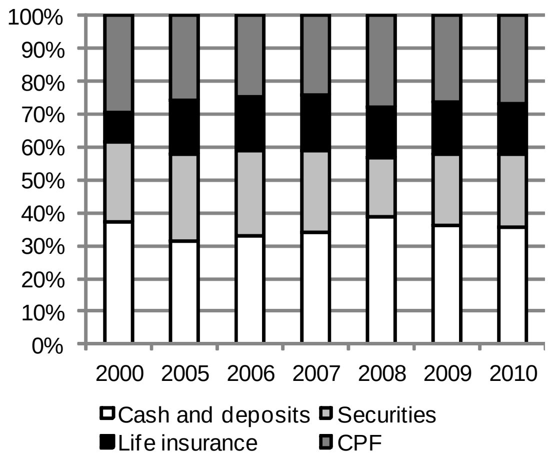
26 These numbers are as of end-September 2012 and from the IMAS.

Figure 25: Household financial assets



Source: Nomura Institute of Capital Markets Research, based on data from Department of Statistics Singapore.

Figure 26: Household financial assets by class



Source: Nomura Institute of Capital Markets Research, based on data from Department of Statistics Singapore.

IV. Malaysia's investment trust market

1. Legal framework

The basic law governing Malaysia's securities markets and providers is the Capital Markets and Services Act of 2007, which consolidates and supersedes the previous Securities Industry Act and Futures Industry Act. There are various regulations, notices, and guidelines pursuant to that Act, but it is the guidelines produced for different areas that are important in practical terms[27]. The governing body for the Act is the Securities Commission, which was established in 1993 and has the authority to receive public comments and issue regulations, notices, and guidelines.

The Federation of Investment Managers Malaysia, as the self-regulatory organization (SRO) under the Capital Markets and Services Act, administers the Computerized Unit Trust Examination (CUTE) for sellers of unit trusts, and also has the authority to resolve investor complaints, create rules and guidelines, and administer reprimands or other penalties for violations[28]. As the industry association, it also provides a conduit for industry opinions and conducts investor education[29].

Investment trusts are defined as unit trusts under the Capital Markets and Services Act. Unit trusts in Malaysia are the same as what are called contractual investment trusts in Japan, under which management and administration is conducted based on a

[27] In the area of asset management, there are specific guidelines for unit trust funds, wholesale funds, REITs, ETFs, the marketing and sale of unit trust funds, advertising and promotional material for unit trusts, offering, marketing, and sale of overseas funds, prospectuses, and the back office outsourcing by capital market intermediaries.

[28] There were two written reprimands sent to unit trusts consultants in 2012.

[29] The Malaysian Association of Asset Managers is another asset management industry organization, albeit one that does not have any SRO functions.

trust agreement signed between the asset management company and the trustee (beneficiary)[30].

The services regulated under the Capital Markets and Services Act are (1) dealing in securities, (2) trading of futures contracts, (3) fund management, (4) advice on corporate finance, (5) investment advice, and (6) financial planning. A fund management license is required to invest in unit trusts. Selling these at the corporate level requires licenses for dealing securities as an institutional unit trust advisor (IUTA) or corporate unit trust advisor (CUTA), or as a financial planner[31], while sales at the individual level requires passage of the CUTE exam and licensing as a unit trust consultant.

The direction of Malaysia's capital market promotion measures is spelled out in the Securities Commission's Capital Market Master Plan. The Capital Market Master Plan devised in April 2011 covers two phases from 2011 until 2020, and proposals related to the asset management industry include (1) promoting the asset management industry's participation in bond markets, (2) establishment of a private retirement scheme industry (explained later), (3) creation of a framework for boutique asset management firms, (4) improving the asset management industry's branding through socially responsible investment (SRI), (5) diversification of the asset management industry's investment strategies, and (6) broadening the range of derivative products[32].

In step with phase 2 of the Capital Market Master Plan, the central bank, Bank Negara Malaysia, devised a financial sector blueprint in December 2011. It covers Malaysia's entire financial sector, including capital markets, from 2011 until 2020, and its proposals for the asset management industry include (1) supporting for global Islamic asset management companies for purposes of promoting participation, and the employment of talented people, in the domestic asset management industry, (2) creating an environment for Islamic banks to get involved in asset management, global funds and their administration, and other value added sectors, and (3) supporting the establishment of asset management businesses in Malaysia (including at the Labuan International Business and Financial Center).

2. Product trends

Asset management products in Malaysia can be broadly categorized as (1) unit trusts and wholesale funds for retail investors, (2) Islamic funds and non-Islamic (conventional) funds, and (3) Bumiputera funds and non-Bumiputera funds. All of them are unit trusts legally speaking, and many of the regulations are the same for all,

[30] These are open-ended funds, but there is also one closed-ended fund.
[31] Unit trusts consultant, IUTA, and CUTA are registration categories of the Federation of Investment Managers Malaysia.
[32] As explained later, the Capital Market Master Plan 2 includes numerical targets to be achieved by 2020 for each capital market sector. In contrast, the numerical targets in the financial sector blueprint put more emphasis on macro indicators and indicators for the financial sector.

including Securities Commission approvals related to the fund's maximum assets under management.[33,34]

Wholesale funds, geared toward institutional investors and wealthy individuals, were introduced in 2009 as a replacement for restricted investment schemes. Only qualified investors, specifically (1) individuals with net assets of at least 3 million ringgit, (2) corporations with net assets of at least 10 million ringgit, (3) various types of financial service providers, and (4) pension funds, can invest in wholesale funds[35]. Recently, corporations and institutional investors have increasingly used these as a place to store liquid funds, and thus many are money market funds.

Islamic funds invest in accordance with sharia law. Specifically, these funds avoid investing in rate products (*riba*), as well as in businesses related to pork or alcohol, all of which are forbidden (*haraam*) under sharia law. For example, a bond fund would invest in Islamic bonds (Sukuk), which produce periodic income without paying interest, and an equity fund would avoid investing in companies involved in forbidden businesses. The Sharia Advisory Council, established by the Securities Commission, maintains a regularly updated list of listed companies in Malaysia that are sharia compliant[36], and the companies that invest in Islamic funds have established sharia boards to screen non-listed companies and overseas firms for sharia compliance and to screen listed firms in Malaysia more strictly than the Securities Commission[37]. Although there are also Sukuk funds, about 60-70% of Islamic funds on a NAV basis are equity funds, because of the affinity for sharia stocks.

The Bumiputera funds are a family of funds managed by Amanah Saham Nasional Malaysia (ASM), a subsidiary of Malaysia's largest asset management company, the government-affiliated Permodalan Nasional. Established under a national policy of promoting savings via securities holdings by indigenous Malays (Bumiputra) that began in the 1980s, the fund offers some very favorable advantages, including (1) a guaranteed yield higher than that offered by bank deposits, (2) no taxes, and (3) the right to purchase privatized state-operated enterprises at a low price. To promote ownership by Bumiputra there are limits on ownership based on ethnic city, and only Bumiputra are allowed to invest in Amanah Saham Bumiputera, the flagship fund established in 1990[38]. The Malaysian government is heading toward rolling back

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33 The Securities Commission must approve increases above the minimum, not only upon establishment but anytime afterwards.

34 In addition, the NAV of unit trusts sold to domestic retail investors must be reported daily in both Malaysian- and English-language nationwide newspapers. Any mistakes in the NAV must be reported by the asset management company to the trustee and to the Securities Commission, and the necessary monetary adjustments between the asset management company, the fund, and investors must be done immediately. That is not necessary, however, when the error is deemed by the trustee to be minor.

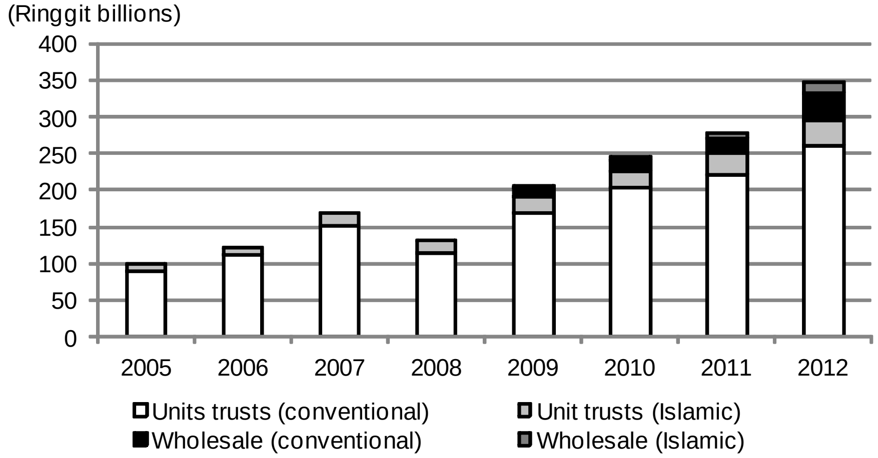
35 Restricted investment schemes were limited to only 50 investors, but this restriction was removed for wholesale funds. In addition, borrowing from wholesale funds is allowed.

36 As of end-2012, 817 of Malaysia's 923 listed companies were deemed sharia compliant (83% of the companies and 64% of their market cap).

37 For details, see Tetsuya Kamiyama, (Malaysian market becoming center of Islamic securities business), Fall 2008 edition of Capital Market Quarterly (in Japanese).

38 This fund also has an ownership category for 12–18 year olds in order to promote savings among young people.

Figure 27: Assets under management for all products



Source: Nomura Institute of Capital Markets Research, based on data from the Securities Commission

policies favoring Bumiputra, and if part of that process includes either reducing the advantages of the Bumiputera funds or completely eliminating them, it should create more business opportunities for private-sector asset management companies.

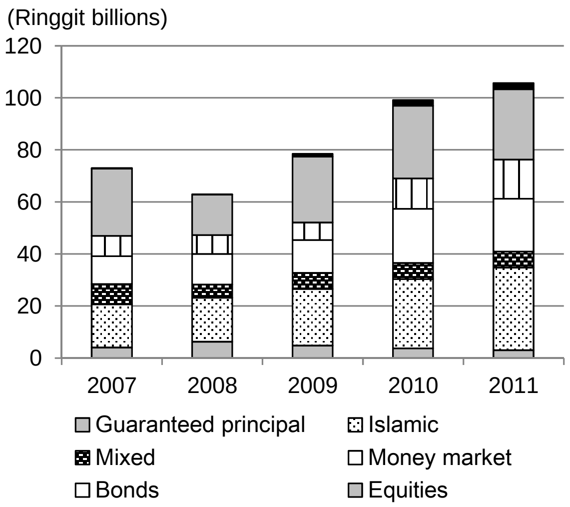
Unit trusts, wholesale funds, Islamic funds, and the Bumiputera funds combined had net assets under management at end-2012 of 347.4 billion ringgit (approximately ¥10.8 trillion), making Malaysia's market the largest in Southeast Asia (Figure 27). The Capital Markets Master Plan 2 targets growth in net assets under management by 2020 to 827.9 billion ringgit for unit trusts for retail investors (conventional unit trusts shown in Figure 27) and to 158 billion ringgit for Islamic funds (Islamic unit trusts shown in Figure 27).

This includes the Bumiputera funds, however, and given their nature this is not a good indication of the potential for private-sector providers to compete in the Malaysian market. Data on private-sector unit trusts excluding the Bumiputera funds is published by the Federation of Investment Managers Malaysia. According to this data, which is based on answers given in surveys of its member firms and inconsistent with the data from the Securities Commission, the size of the market excluding Bumiputera funds at end-2011 was 105.7 billion ringgit (¥3.3 trillion) (Figure 28)[39]. Equity funds showed the largest flow by asset class (Figure 29), as well as the largest amount of assets under management, because the majority of Islamic funds are equity funds. As of end-January 2013, there were five ETFs, one of which was an Islamic ETF, and a total of 16 listed REITs, managed by 16 different asset management companies[40].

39 Cerulli Associates estimates the size of the market excluding Bumiputera funds was 128.3 billion ringgit at that time.

40 In legal terms, REITs are unit trusts, and they are managed by asset management companies with a fund management license. The regulations also apply to unlisted REITs, although at this point all REITs are listed.

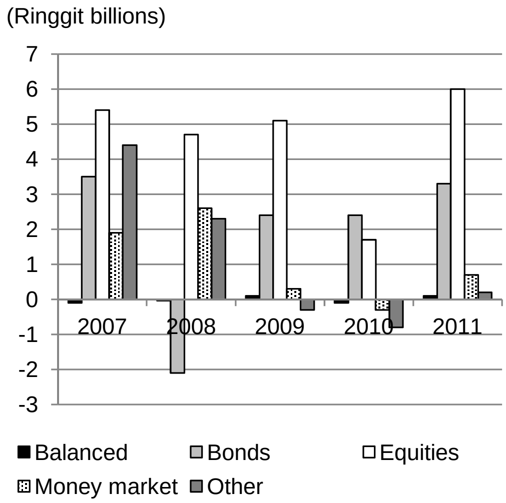
Figure 28: Assets under management (excluding Bumiputera funds)



Note: Data for bond funds includes bond ETFs (600 million ringgit as of 2011) and for equity funds includes equity ETFs (400 million ringgit). REITs are not included.

Source: Nomura Institute of Capital Markets Research, based on data from the Federation of Investment Managers Malaysia

Figure 29: Net asset flows



Note: Excluding Bumiputera funds. Data on equity funds for 2011 from Cerulli Associates. Islamic funds are included in their respective asset class.

Source: Nomura Institute of Capital Markets Research, based on Cerulli Associates, "Asset Management in Southeast Asia 2012"

Regulations allow conventional unit trusts to invest up to 50% of their net assets under management overseas, while Islamic funds are allowed to invest up to 100% overseas. These investments can take the form of direct investment, feeder funds, or funds of funds, but direct investment accounts for the majority, and there are signs that local asset management companies have improved their ability to invest overseas. There is not much overseas investment through unit trusts because of the relatively strong performance of the Malaysian stock market in recent years and owing also to the domestic bias of Malaysia's individual investors. The net assets under management of funds that invest overseas totaled only 30.5 billion ringgit at end-2011, a small proportion of the total and very far from reaching the overseas investment limits described above.

Malaysia's fee structure is high relative to other Southeast Asian countries, particularly sales commissions, which are 5–6%. Nearly all of the sales commission goes to the company making the sale, and if that company is a bank, it takes 50–80% of the management fee. Additionally, many asset management companies have a policy of focusing on providing sales assistance to the sales company.

3. Trends at asset management companies

The history of unit trusts in Malaysia begins in 1959 with the establishment of private-sector Malaysian unit trusts. During the subsequent 20 years, however, only four companies entered the market, which barely grew at all. Serious growth did not

Figure 30: Leading unit trust management companie

Asset management co.	2011	Share	2010	Shareholders	EPF-MIS	PRS
Public Mutual	44.6	42.2%	40.4	Wholly owned subsidiary of Public Bank, a major local bank	○	○
AmInvestment Services	12.6	11.9%	12.0	Subsidiary of AMMB Holdings, a major local banking group; the group includes the listed AmInvestment Group	○	○
CIMB-Principal Asset Management	9.3	8.8%	9.0	Owned 60% by CIMB, a major local banking group, and 40% by Principal Financial, a US financial group.	○	○
Hwang Investment Management	6.4	6.1%	4.7	Wholly owned subsidiary of Hwang DBS, a major local brokerage house	○	○
OSK-UOB Investment Management	4.0	3.8%	4.1	Owned 70% by OSK Investment Bank, a major local securities company, and 30% by the Malaysian subsidiary of Singapore's UOB	○	
Amanah Mutual	3.6	3.4%	3.4	Wholly owned subsidiary of the government-affiliated asset management company Amanah Saham Nasional	○	
Hong Leong Asset Management	2.5	2.4%	3.4	Subsidiary of Hong Leong, a local conglomerate; the group includes the Hong Leong Bank	○	
Eastspring Investments	2.4	2.3%	2.7	Subsidiary of UK-based Prudential; previously named Prudential Fund Management	○	
MAAKL Mutual	1.9	1.8%	1.8	Wholly owned subsidiary of MAA group; group includes an insurance company, Malaysian Assurance Alliance	○	
Pacific Mutual Fund	1.8	1.7%	2.0	Owned 30% by the savings Koperasi Angkatan Tentera Malaysia, and 70% by Lion Global Investors, a subsidiary of Singapore OCBC.	○	
Total for top 10:	89.1	84.3%	83.5	-	-	-
Overall:	105.7	100.0%	99.2	-	-	-

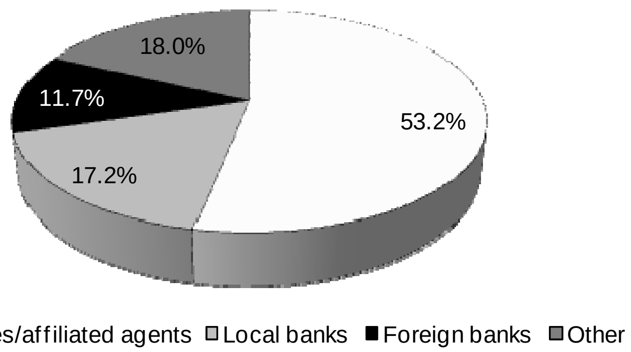
Note: Units shown in ringgit billions
These are management companies that use EPF-MIS and PRS under their respective rules (explained later).
Source: Nomura Institute of Capital Markets Research, based on Cerulli Associates, “Asset Management in Southeast Asia 2012” and on data from each company's website.

begin until 1978, when Permodalan Nasional was established as part of a policy to promote savings by the people, and 1979, when Amanah Saham Nasional was established. Those companies generated rapid growth in their total assets under management as a result of offering funds with favorable treatment, as described earlier, and this helped to widen the base of investors and encouraged a number of private-sector asset management firms to enter the market.

As of end-January 2013, 41 companies had acquired a fund management license. Excluding Permodalan and Amanah Saham, the top 10 private-sector asset management firms had 84% of the market, making it a fairly concentrated one, and Public Mutual is by far the biggest of those, having further increased its market share in recent years based on the strong performance of its funds, its broad product lineup, and, as explained later, its powerful distribution network (Figure 30). Public Mutual managed assets within Islamic funds totaling 18.4 billion ringgit at end-2011, more than quadruple the 4.3 billion ringgit of Islamic funds managed by second-place CIMB-Principal Asset Management.

Wholesale funds, as well as other discretionary accounts for institutional investors, are allowed to be 100% owned by foreign capital. Foreign ownership is limited to

Figure 31: Sales by channel



Note: As of 2011. AUM basis.
Source: Nomura Institute of Capital Markets Research, based on Cerulli Associates "Asian Distribution Dynamics 2007"

70% for unit trusts for retail investors, however[41], although companies managing Islamic funds can be 100% foreign-owned. Islamic fund management companies are also exempt from income tax (until 2016), an indication that the Malaysian government is trying to promote growth in the Islamic finance sector.

4. Sales channels

1) Overview and rules

Unlike in many other countries in Asia, mutual fund sales channels in Malaysia are dominated not by banks but by direct-selling, affiliated agents, which account for a majority of sales, as shown in Figure 31. By affiliated agent, we mean unit trust consultants that have a relationship with only one asset management company, most of whom are sole proprietor securities brokers known as remisier. As of end-2011, there were 43 IUTAs, fund sales companies that are primarily banks; seven CUTAs, which are independent providers that handle products from multiple asset management firms, known as IFAs in the UK; 9,157 unit fund consultants who are employed by the above companies, and 51,237 unit fund consultants affiliated with a single asset management firm (a total of 60,394 consultants).

The high percentage of direct agents and affiliated agents can be attributed to Public Mutual, which has 36,504 (60% of the total) unit fund consultants. Excluding them, both local banks and foreign-capitalized banks are also important sales channels.

Progress toward open architecture varies greatly. Among the large banks, Maybank and RHB Bank also handle third-party products, whereas Public Bank offers only products from Public Mutual. According to Cerulli Associates, even those sales companies with open architecture in practice tend to favor the products from asset management firms with which they have an affiliate relationship. In addition, many

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41 This is based on rules from the Foreign Investment Committee. Foreign ownership restrictions in the nonmanufacturing sector require 30% ownership by Bumiputra capital.

CUTA handling funds from multiple asset management firms appear to have a preference for funds from Public Mutual, and it seems that one reason for the growth in Public Mutual's assets under management is its distribution network.

Rules of conduct governing the sale of funds are primarily spelled out in the 2007 Capital Markets and Services Act as well as in guidelines from the Securities Commission on the marketing and sale of unit trust funds. These include a number of obligations, including providing a prospectus, being familiar with the client, offering funds that are suitable for the particular client to the extent possible, and providing a clear explanation of the fund as it relates to the client's situation. When selling wholesale funds, they must confirm that their client is an accredited investor.

2) Defined contribution pensions

Defined contribution plans in Malaysia include (1) the Employees Provident Fund (EPF) and the EPF Members' Investment Scheme (EPF-MIS), a sub-fund within the EPF that allows participants to give investment instructions, and (2) private retirement schemes (PRS). As shown below, the EPF-MIS is similar to Singapore's CPFIS in that it is a voluntary system allowing investment instructions for savings over and above a certain level in the obligatory commingled defined contribution pension plan. The PRS is similar to Australia's Superannuation fund in that participants select an asset management company to provide the fund platform, from which they select individual funds[42].

The EPF is a mandatory defined contribution pension introduced in 1952 for private-sector employees as well as public-sector employees that do not qualify for pension benefits. It is currently based on the 1991 Employees Provident Fund Act and overseen by the Ministry of Finance. It had 13.58 million participants as of end-2012 (6.38 million of them still working), enrolled through 503,000 employers. Assets under management totaled 469.2 billion ringgit as of end-2011.

Contribution amounts are set at (1) 11% of the employee's salary from the employee and 13% from the employer if the employee's monthly salary is 5,000 ringgit or less or (2) 11% of the employee's salary from the employee and 12% from the employer if the employee’s monthly salary is over 5,000 ringgit. Of the total contribution, 70% is allocated to Account 1 for retirement, and cannot be withdrawn prior to age 55. The remaining 30% is allocated to Account 2, and can be withdrawn for purchasing a home, education, or medical expenses. Participants are legally guaranteed an annual dividend of 2.5%, and the actual dividend was 6.15% in 2012. Investment is done 90% in-house, primarily into passive investments, and 10%

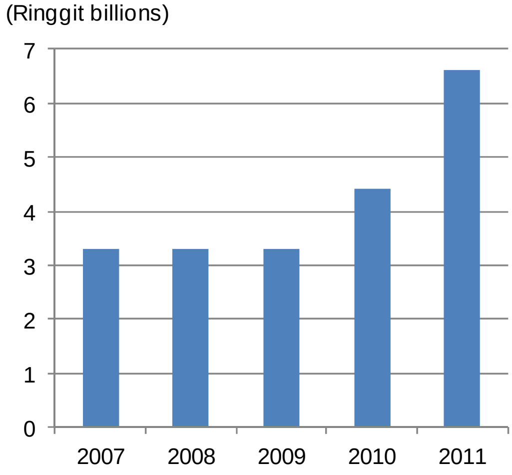
[42] There are differences, however: (1) the PRS is voluntary, whereas enrollment in Superannuation is mandatory and (2) the PRS is primarily on an individual basis while Superannuation is mostly handled through the workplace. For details, see Tetsuya Kamiyama, *Oustoraria ni okeru Suupaaanyueishon no Genjou* (Current status of Superannuation in Australia), Spring 2008 edition of Capital Market Quarterly (in Japanese).

Figure 32: Basic savings amount by age

Age	Basic savings amount
18	1,000
20	3,000
25	9,000
30	18,000
35	29,000
40	44,000
45	64,000
50	90,000
55	120,000

Note: The actual rules prescribe amounts for each 1-year increment in age, but to keep the table more compact we just show the amounts for every 5 years of age. Units are in ringgits.
Source: Nomura Institute of Capital Markets Research, based on EPF data

Figure 33: Withdrawals deposited in EPF-MIS



Source: Nomura Institute of Capital Markets Research, based on EPF data.

outsourced, primarily active investments. This is done in a commingled account, and participants cannot give investment instructions.

The EPF-MIS was established in 1996 to allow participants to give investment instructions on a portion of their funds, however. Up to 20% of the excess over the basic savings amount determined by age in account 1 (Figure 32)[43] can be invested in the unit trusts of asset management companies approved by the Ministry of Finance. For example, a participant who has saved 25,000 ringgit in account 1 at age 30 has a basic savings level of 18,000 ringgit, and thus is able to invest 1,400 ringgit, 20% of the excess, into a unit trust under the EPF-MIS. Although the amount of investment on a stock basis has yet to be announced, investment amounts have grown every year since 2009, and in 2011 6.6 billion ringgit was withdrawn from account 1 to invest in EPF-MIS (Figure 33).

There were 28 unit trust asset management companies as of end-March 2013, but all of these funds went into the top 10 (Figure 30 noted previously). In addition, there are 206 funds, including 96 equity funds, 50 balanced funds, 28 bond funds, 31 money market funds, and one REIT.

[43] To ensure that 120,000 ringgit is saved by age 55, enough money to cover clothing, food, and housing, a basic level of savings is calculated for each age, assuming (1) annual salary increases of 3%, (2) an annual dividend yield of 4% for the EPF, and (3) an EPF contribution rate of 23% of monthly income. Previously, it was set at a uniform 20% of the excess over 55,000 ringgit in account 1, irrespective of age, but the current age-based levels were introduced in 2008 in order to promote savings by the young. The basic savings amounts for each age group are revised every five years.

Figure 34: Types of default funds in the PRS

	Growth fund	Intermediate fund	Conservative fund
Age group	Below 40	40-50	At least 50
Asset class	Maximum allocation to equities of 70%	Maximum allocation to equities of 60%	Maximum allocation to equities of 20%, minimum bond allocation 80%, minimum money market allocation 20%
Overseas investments	Possible	Possible	Prohibited

Source: Nomura Institute of Capital Markets Research, based on data from the Securities Commission

The 2.5% dividend guarantee does not apply to the EPF-MIS, and losses must be borne by participants. In addition, although sales commissions are applied to unit trust investments in the EPS-MIS, they were capped at 3% in 2008, making this an exception to the high sales commissions mentioned earlier.

Another defined contribution pension, the PRS, is a new plan begun in November 2012 in order to prepare for retirement given the increased longevity of the population as well as expand pension coverage for the self-employed. While the EPF is under the jurisdiction of the Ministry of Finance, the PRS is under the jurisdiction of the Securities Commission, and came about with an amendment to the 2007 Capital Markets and Services Act, the creation of related rules and guidelines, and the establishment of a Private Pension Administrator in July 2012.

The participant must first select a private-sector unit trusts asset management company as a PRS provider, and then decide where to allocate funds from among a family of funds provided for PRS[44]. If a participant chooses only an asset management company but not any funds, those funds are allocated to a previously determined default fund. Regulations require the default funds to have risk levels that match each age group (Figure 34). Unlike the ETF, there is no predetermined frequency, amount, or allocation for the contributions.

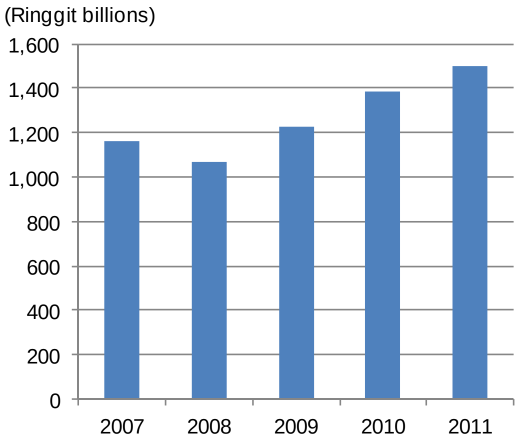
The subscriber accounts are administered by private-sector pension administrators, who also handle the record keeping. Subscriber contributions are allocated 70% to subaccount A, which can be withdrawn after reaching retirement age, and 30% to subaccount B, from which one withdrawal can be made each year. Employer contributions are voluntary, but contributions from both participants and employers receive tax breaks[45].

Both PRS providers and PRS funds must be approved by the Securities Commission, and as of end-March 2013 eight providers were approved, of which four were among the 10 largest (Figure 30 above). Five of the companies have decided on the fund they will offer, and Public Mutual and CIMB Principal also offer Islamic funds.

[44] Multiple providers can also be chosen.

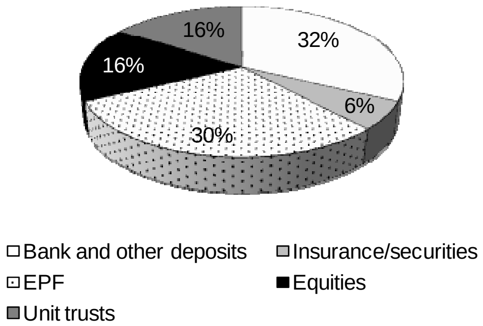
[45] Participants can get a tax deduction of up to 3000 ringgit for the 10-year period from 2012, while employers can deduct up to 19% of the participants salary for EPS contributions over the legally required minimum.

Figure 35: Household financial assets



Note: Figures for 2011 are estimates.
Source: Nomura Institute of Capital Markets Research, based on Bank Negara Malaysia "Financial Stability and Payment Systems Report 2012

Figure 36: Household financial assets by type



Note: As of 2011.
Source: Nomura Institute of Capital Markets Research, based on Bank Negara Malaysia "Financial Stability and Payment Systems Report 2012

Because the plan was recently launched, no data has come out yet on the amount of assets held in the PRS, but the Capital Market Master Plan 2 targets total PRS assets of 30.9 billion ringgit by 2020.

3) Household financial assets

We estimate Malaysia's household financial assets totaled 1.5 trillion ringgit as of end-2011 (Figure 35). As in other Asian countries, bank deposits have the biggest share, but savings through the EPF account for a notably high share (Figure 36). Another notable characteristic is that unit trusts account for 16% of the total. As in Thailand, this is higher than in either Japan or the US, and we attribute this in large part to the Bumiputera funds noted earlier. The Capital Markets Master Plan 2 calls for further growth in the use of unit trusts by the household sector, and targets an increase in unit trusts net assets under management as a percentage of total stock market capitalization from 18% in 2010 to 34% in 2020.

Because the Capital Markets Master Plans (1 and 2) place importance on broadening the individual investor base and have established various targets toward that end, the Securities Commission is also focused on investor education. For example, under the banner "Your Investment, Your Rights, Your Responsibilities," it offers a variety of investor education materials on its website, and the Securities Industry Development Corporation (SIDC), a Securities Commission affiliate that provides training programs for investors, brokers, and corporate executives, has also created Malaysian Investor, a website dedicated to providing investor education to individual investors, including (1) separate financial education sites for children, teenagers, and college students, (2) a site offering information on financial planning, including loan repayment and tax strategies, and (3) simple planning tools.

V. The fund passport concept and the future of ASEAN investment trust markets

As shown above, the investment trust markets of three ASEAN countries have generated nearly consisting growth, and the percentage of individual investors who use investment trusts exceeds that in Japan and the US. There are different explanations for this. In Thailand, the banks aggressively sell investment trusts to their depositors using affiliated asset management companies. In Singapore, there is a diversity of products and brokers for its offshore market and in Malaysia there are government-affiliated funds offering tax advantages. With economic growth in Asia expected to continue outpacing that in the advanced economies, we expect growth in household financial assets and the high household penetration rate of investment trusts to lead to growth in the investment trust market.

Progress in market integration is probably important to achieving further growth in Asia's investment trust market. Asia does not have the common regulatory infrastructure that Europe has, while the size of each country's market is not that large, making it difficult to leverage economies of scale to efficiently operate asset management businesses. One initiative aimed at solving this problem is the Asia Region Funds Passport.

The concept of the Asia Region Funds Passport is similar to the UCITS in Europe, and allows for a fund that has been approved by the authorities of one country in the Asia region to be sold in another Asian country after taking some simple steps. It was originally conceived in Australia in 2010, and the forum for debate was subsequently moved to APEC. In Kuala Lumpur in October 2010, a policy dialogue was held that included Singapore and Japan, and at the APEC summit held in Yokohama in November that year, Price Waterhouse Coopers was commissioned to write a report[46]. A workshop was held in Hong Kong in March 2011 where Australia, Hong Kong, Japan, Korea, Singapore, Malaysia, New Zealand, Thailand, the Philippines, and Vietnam debated the technical aspects of the plan, and agreement was reached to launch a pilot program in a small number of countries in 2012. There has been no visible progress since then, however.

There is still a strong tendency to doubt the viability of the Asia Region Funds Passport, given that unlike the EU, Asia does not have a common regulatory infrastructure or common currency. The large asset management firms using UCITS to develop their business in Asia are particularly opposed to the idea. There are also many who support the concept, because it would increase efficiency on the cost side and also lead to a greater choice for investors. Singapore and Australia are particularly supportive of the plan. Singapore aspires to be an asset management hub, while Australia wants to leverage its Superannuation, and both want to protect their lead in the asset management industry while looking at the Funds Passport as a bridgehead into the China market.

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[46] “Asia Region Funds Passport: The Future of the Funds Management Industry in Asia”

ASEAN is also thinking along the lines of a Funds Passport. At the ASEAN Capital Markets Form, there was a call for implementing the ASEAN Economic Community (AEC) blueprint aimed at creating the AEC by 2015, and in 2009 a plan for integrating ASEAN capital markets, Implementation Plan 2015, was produced[47]. This included a proposal for mutual recognition of collective investment schemes, i.e., a funds passport, targeting implementation for products for non-retail investors by 2012 and for retail investors by 2015. So far, the Thai SEC has eliminated restrictions on the sale of collective investment schemes from other ASEAN countries to accredited investors (as noted earlier), and in April 2012, Singapore's MAS submitted a consultation paper to other ASEAN country authorities regarding mutual recognition within ASEAN on collective investment schemes for retail investors. This is also being considered by Malaysia and Indonesia[48]. Such an effort requires participation by multiple countries, and there is currently no visible path toward achieving an ASEAN funds passport on products for retail investors by 2015.

Although it is unclear at this point whether the funds passport concept can actually be implemented, it has the potential to have a significant impact both on the development of business in Asia for asset management companies and on further growth in the ASEAN investment trust market. The direction this takes will be important to watch, along with other initiatives aimed at integrating capital markets in Asia and ASEAN.

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47 For details, see Daisaku Kodomae, *Tounan Ajia Shihonshijo tougou he no Daiippo to naru Asean toreidingu rinku* (ASEAN trading link, the first step toward integrating Southeast Asian capital markets), Spring 2012 issue of the Capital Market Quarterly (in Japanese).

48 Dechert LLP “An ASEAN Funds Passport?" 27 September 2012