

iFAST Mutual Funds Distribution Report

2nd Quarter 2014

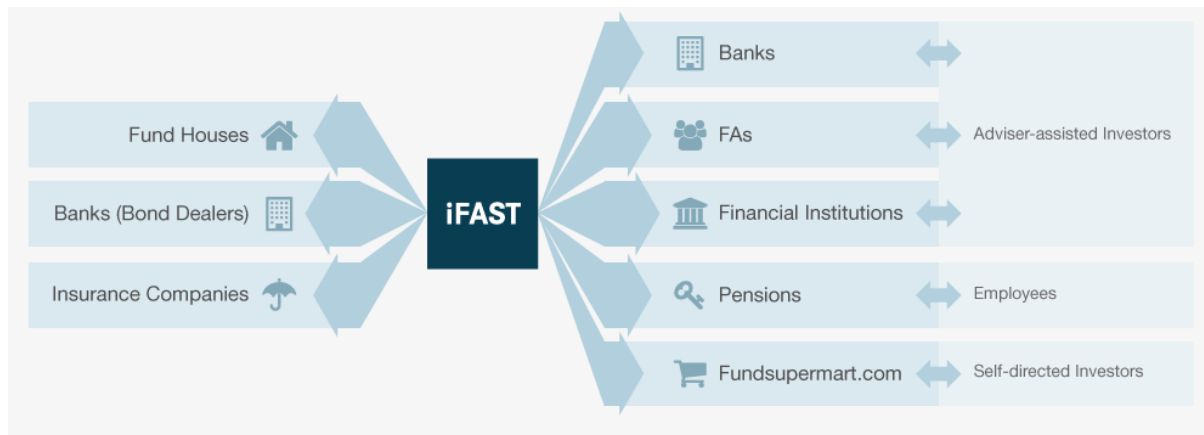
A quarterly snapshot of iFAST distribution in Asia



About iFAST

<www.ifastcorp.com>

iFAST Corporation is a leading funds and investments distribution platform headquartered in Singapore, providing a comprehensive range of services, including investment administration and transactions services, research and investment trainings, IT services and backroom functions to banks, financial advisory firms, financial institutions, multinational companies, as well as retail and high net worth investors in Asia. The company is also present in Hong Kong and Malaysia.



About iFAST Institutional Services

<insti.ifastfinancial.com>

iFAST Institutional Services provides back and front office infrastructure support for distribution of over 40,000 funds in 25 countries to financial institutions, fund of funds managers, pension fund managers, family offices and multinational companies. Our services include fund trading and custody, collection and payment of fund rebates, provision of fund information and materials, management of distribution agreements. Through a single point of contact, distributors gain instant access to a large and dynamic fund range, lower transaction costs, reduced operational risk and better commercial terms. For asset managers, our services translate to access to new distribution channels, automated computation and payment of rebates to distributors, minimal servicing costs and cross border distribution.

Our back office support includes IT services such as the development of online distribution channel like Fundsupermart and award-winning integrated mobile applications.

FOREWORD

An open architecture investment platform is a relatively new distribution channel in Asia. When we started in Singapore with Fundsupermart back in 2000, online investing in mutual funds was an unchartered territory in a retail distribution industry largely dominated by banks. 14 years later, the banks still dominate distribution but we estimate that the “alternative” channels such as the Independent Financial Advisers (IFA) and DIY investors powered by platforms have carved out a combined market share of about 20% of mutual fund sales in Singapore.

Regulatory reforms are the single biggest catalyst for change. The Financial Advisers Act in 2002 created the IFA channel and consequently the fee charging wrap model was born. For the first time, investors can engage a financial adviser who is not tied to any product provider to actively manage a portfolio of funds selected from a wide range of products for an on-going wrap fee.

Many thought that the IFA channel will not survive competing with the low cost B2C (DIY investor) and the traditional banks channels. Instead of surviving, the IFA channel thrived with a larger slice of market share than the B2C channel in the alternative space, similar to trends in the developed markets.

Over the years, platforms in many developed countries evolved to cater to more than just the IFA. Financial institutions looking for a scalable and cost effective turnkey wealth management solution turn to platforms. Multi-national companies such as INSEAD, Barclays and BlackRock use our pension platform to administer their employee corporate pensions. Fund of funds managers, family offices and discretionary fund managers manage their investment mandates through institutional platforms.

Little is known about the investment trends and investor behavior in this “niche” channel. As the biggest platform provider in Asia, we are able to share insights into the fund flows, popular asset classes and funds and investment trends. For a start, we will look at Singapore, Hong Kong and Malaysia. Under the adviser-assisted group, it includes financial institutions that distribute through their intermediary channel but excludes corporate pensions and investment management on our institutional platform.

After going through two cycles of booms and busts, we observed that the advisors-assisted investors are less prone to react to short term market movements, and hence stickier assets. DIY investors tend to display the classic greed and fear overreaction behaviour. Corporate pension trustees, who are typically senior management of the pension plan sponsor, are generally risk averse.

Regulatory and legislative changes will continue to shape the product manufacturing and distribution landscape. In Europe, commissions have been banned in the UK and the Netherlands. Portfolio managers and funds of funds are not permitted to keep fund manager rebates in Italy, Norway, Finland and Switzerland. Indemnity commissions will be banned in Hong Kong from 2015. The development of fund passporting frameworks in various jurisdictions in Asia such as the ASEAN CIS Framework will precipitate cross border distribution.

While the growth of platforms has not reached the same levels seen in developed markets such as the UK and Australia, we believe that the on-going march towards transparency, increasing investor sophistication, demand for client centric fiduciary-based business models that eliminate conflict of interests and margin pressure on distribution bode well for the future of platforms. We would like to share our journey with you.

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1.0 Fund Distribution Statistics

Table A1 - Top Equity Fund Categories by AUA

Table A1a - Top Equity Fund Categories by AUA (iFAST Overall)

Rank	SG	HK	MY
1	Asia Equity	Asia Equity	Local Equity
2	Global Equity	Local Equity	Asia Equity
3	GEM Equity	Global Equity	Global Equity
4	US Equity	Europe Equity	US Equity
5	Local Equity	US Equity	GEM Equity

Table A1b - Top Equity Fund Categories by AUA (DIY Investors)

Rank	SG	HK	MY
1	Asia Equity	Asia Equity	Local Equity
2	Global Equity	Global Equity	Asia Equity
3	US Equity	Europe Equity	Global Equity
4	Local Equity	GEM Equity	US Equity
5	GEM Equity	US Equity	GEM Equity

Table A1c - Top Equity Fund Categories by AUA (Adviser Assisted)

Rank	SG	HK	MY
1	Asia Equity	Asia Equity	Local Equity
2	Global Equity	Local Equity	Asia Equity
3	GEM Equity	Global Equity	Global Equity
4	US Equity	Europe Equity	GEM Equity
5	Local Equity	US Equity	US Equity

Source: iFAST Compilations, data as of end 30-Jun-2014

Table A2 - Top Bond Fund Categories by AUA

Table A2a - Top Bond Fund Categories by AUA (iFAST Overall)

Rank	SG	HK	MY
1	SD and MMF	Local Bonds	Local Bonds
2	High Yield Bonds	Global Bonds	SD and MMF
3	Global Bonds	High Yield Bonds	GEM Bonds
4	Local Bonds	US Bonds	Asia Bonds
5	Asia Bonds	GEM Bonds	Global Bonds

Table A2b - Top Bond Fund Categories by AUA (DIY Investors)

Rank	SG	HK	MY
1	SD and MMF	High Yield Bonds	SD and MMF
2	High Yield Bonds	Global Bonds	Local Bonds
3	Asia Bonds	GEM Bonds	GEM Bonds
4	Global Bonds	Asia Bonds	Asia Bonds
5	GEM Bonds	US Bonds	Global Bonds

Table A2c - Top Bond Fund Categories by AUA (Adviser Assisted)

Rank	SG	HK	MY
1	High Yield Bonds	Local Bonds	Local Bonds
2	SD and MMF	Global Bonds	SD and MMF
3	Global Bonds	High Yield Bonds	GEM Bonds
4	Local Bonds	US Bonds	Asia Bonds
5	Asia Bonds	GEM Bonds	Global Bonds

Source: iFAST Compilations, data as of end 30-Jun-2014

Table A3 - Top Selling Equity Funds

A3SG - SG Top Selling Equity Fund for the Quarter

Table A3SGa - SG Top Selling Equity Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	Aberdeen China Opportunities	Asia Equity
2	DWS China Eqty Fund CI A SGD	Asia Equity
3	First State Dividend Advantage	Asia Equity
4	Aberdeen India Opportunities	Asia Equity
5	Fidelity China Focus A SGD	Asia Equity
6	Aberdeen Global Opportunities	Global Equity
7	Schroder Asian Growth Fund	Asia Equity
8	Aberdeen Pacific Equity	Asia Equity
9	Aberdeen Global Emerging Markets	GEM Equity
10	Eastspring Inv China Eq Fund SGD AS	Asia Equity

Table A3SGb - SG Top Selling Equity Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Aberdeen India Opportunities	Asia Equity
2	Aberdeen Indonesia Equity	Asia Equity
3	First State Dividend Advantage	Asia Equity
4	Aberdeen Thailand Equity	Asia Equity
5	Aberdeen Global Opportunities	Global Equity
6	LionGlobal Vietnam SGD	Asia Equity
7	Amundi India Infrastructure Fd SGD CI AS	Asia Equity
8	Aberdeen Pacific Equity	Asia Equity
9	First State Regional China Fund	Asia Equity
10	PineBridge India Equity A5 SGD	Asia Equity

Table A3SGc - SG Top Selling Equity Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Aberdeen China Opportunities	Asia Equity
2	DWS China Eqty Fund CI A SGD	Asia Equity
3	Fidelity China Focus A SGD	Asia Equity
4	Schroder Asian Growth Fund	Asia Equity
5	First State Dividend Advantage	Asia Equity
6	Eastspring Inv China Eq Fund SGD AS	Asia Equity
7	Aberdeen Pacific Equity	Asia Equity
8	Aberdeen Global Opportunities	Global Equity
9	Aberdeen Global Emerging Markets	GEM Equity
10	Aberdeen India Opportunities	Asia Equity

Source: iFAST Compilations, data as of end 31-Mar-2014

A3HK - HK Top Selling Equity Fund for the Quarter

Table A3HKa - HK Top Selling Equity Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	Schroder ISF-Hong Kong Equity (HKD) A Acc	Local Equity
2	AllianceBernstein - International Health Care Portfolio (USD) A	Global Equity
3	Neuberger Berman US Multi Cap Opportunities Fund (USD)1 A Acc	US Equity
4	Franklin MENA Fund (USD) A(acc)	EEMEA Equity
5	CCB International - China Policy Driven Fund (HKD)	Asia Equity
6	JPMorgan India Smaller Companies (acc) - USD	Asia Equity
7	Franklin Biotechnology Discovery Fund (USD) A(acc)	Global Equity
8	BOCHK China Consumption Growth Fund (HKD)	Asia Equity
9	First State China Growth Fund (USD) I	Asia Equity
10	Manulife Global Fund - Dragon Growth Fund (HKD) AA	Local Equity

Table A3HKb - HK Top Selling Equity Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	JPMorgan India Smaller Companies (acc) - USD	Asia Equity
2	Franklin Biotechnology Discovery Fund (USD) A(acc)	Global Equity
3	CCB International - China Policy Driven Fund (HKD)	Asia Equity
4	Franklin MENA Fund (USD) A(acc)	EEMEA Equity
5	JPMorgan Asia New Frontiers (acc) - USD	Asia Equity
6	Amundi Funds Equity MENA (USD) A2U Acc	EEMEA Equity
7	AllianceBernstein - International Health Care Portfolio (USD) A	Global Equity
8	JPMorgan US Technology A (dist) - USD	US Equity
9	Fidelity Funds - Indonesia Fund A-USD	Asia Equity
10	First State China Growth Fund (USD) I	Asia Equity

Table A3HKc - HK Top Selling Equity Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Schroder ISF-Hong Kong Equity (HKD) A Acc	Local Equity
2	AllianceBernstein - International Health Care Portfolio (USD) A	Global Equity
3	Neuberger Berman US Multi Cap Opportunities Fund (USD)1 A Acc	US Equity
4	BOCHK China Consumption Growth Fund (HKD)	Asia Equity
5	Manulife Global Fund - Dragon Growth Fund (HKD) AA	Local Equity
6	First State China Growth Fund (USD) I	Asia Equity
7	Principal LSF - Hong Kong Equity Fund (HKD)	Local Equity
8	Macquarie IPO China Gateway Fund (HKD) A3	Asia Equity
9	Invesco Emerging Markets Equity Fund (USD) A	GEM Equity
10	Franklin MENA Fund (USD) A(acc)	EEMEA Equity

Source: iFAST Compilations, data as of end 31-Mar-2014

A3MY - MY Top Selling Equity Fund for the Quarter

Table A3MYa - MY Top Selling Equity Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	Kenanga Growth Fund	Local Equity
2	Eastspring Investments Small-Cap Fund	Local Equity
3	Eastspring Investments MY Focus Fund	Local Equity
4	Hwang Select Asia (Ex Japan) Quantum Fund	Asia Equity
5	Manulife Investment - India Equity Fund	Asia Equity
6	Franklin U.S. Opportunities	US Equity
7	RHB-OSK Emerging Opportunity Unit Trust	Local Equity
8	Aberdeen Islamic World Equity Fund - Class A	Global Equity
9	Eastspring Investments Dana Al-Ilham	Local Equity
10	AMB Dividend Trust Fund	Local Equity

Table A3MYb - MY Top Selling Equity Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Kenanga Growth Fund	Local Equity
2	Eastspring Investments Small-Cap Fund	Local Equity
3	Franklin U.S. Opportunities	US Equity
4	RHB-OSK Emerging Opportunity Unit Trust	Local Equity
5	Eastspring Investments MY Focus Fund	Local Equity
6	CIMB-Principal Asia Pacific Dynamic Income Fund	Asia Equity
7	AmAsia Pacific Equity Income	Asia Equity
8	RHB-OSK Small Cap Opportunity Unit Trust	Local Equity
9	AMB Dividend Trust Fund	Local Equity
10	Aberdeen Islamic World Equity Fund - Class A	Global Equity

Table A3MYc - MY Top Selling Equity Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Kenanga Growth Fund	Local Equity
2	Eastspring Investments Small-Cap Fund	Local Equity
3	Manulife Investment - India Equity Fund	Asia Equity
4	Hwang Select Asia (Ex Japan) Quantum Fund	Asia Equity
5	Aberdeen Islamic World Equity Fund - Class A	Global Equity
6	Eastspring Investments MY Focus Fund	Local Equity
7	Eastspring Investments Dana Al-Ilham	Local Equity
8	Eastspring Investments Equity Income Fund	Local Equity
9	Hwang AIIIMAN Growth Fund	Local Equity
10	RHB-OSK US Focus Equity Fund	US Equity

Source: iFAST Compilations, data as of end 31-Mar-2014

Table A4 - Top Selling Bond Funds

A4SG - SG Top Selling Bond Fund for the Quarter

Table A4SGa - SG Top Selling Bond Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	Nikko AM Shenton ShortTerm Bond(S\$)	SD and MMF
2	United SGD Fund CI A Acc	SD and MMF
3	Cash Fund	SD and MMF
4	Allianz US High Yield AM Dis H2-SGD	High Yield Bonds
5	LionGlobal SGD Money Market	SD and MMF
6	DWS Lion Bond CI A	Global Bonds
7	Phillip Money Market	SD and MMF
8	Aviva Inv Glb HY Bd Axx SGD	High Yield Bonds
9	Eastspring Investments MIP M	High Yield Bonds
10	Fidelity Asian HY AMDIST SGD Hedged	High Yield Bonds

Table A4SGb - SG Top Selling Bond Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Nikko AM Shenton ShortTerm Bond(S\$)	SD and MMF
2	United SGD Fund CI A Acc	SD and MMF
3	Cash Fund	SD and MMF
4	Allianz US High Yield AM Dis H2-SGD	High Yield Bonds
5	Fidelity Asian HY AMDIST SGD Hedged	High Yield Bonds
6	Eastspring Investments MIP M	High Yield Bonds
7	Schroder Global High Yield Fund	High Yield Bonds
8	Aviva Inv Glb HY Bd Axx SGD	High Yield Bonds
9	United Emerging Markets Bond Fund	GEM Bonds
10	Nikko AM Shenton ShortTerm Bond(A\$)	SD and MMF

Table A4SGc - SG Top Selling Bond Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	United SGD Fund CI A Acc	SD and MMF
2	Nikko AM Shenton ShortTerm Bond(S\$)	SD and MMF
3	Allianz US High Yield AM Dis H2-SGD	High Yield Bonds
4	DWS Lion Bond CI A	Global Bonds
5	Cash Fund	SD and MMF
6	Phillip Money Market	SD and MMF
7	Aviva Inv Glb HY Bd Axx SGD	High Yield Bonds
8	LionGlobal SGD Money Market	SD and MMF
9	Eastspring Investments MIP M	High Yield Bonds
10	FTIF-Templeton Glb Total Ret A(mdis) SGD-H1	Global Bonds

Source: iFAST Compilations, data as of end 31-Mar-2014

A4HK - HK Top Selling Bond Fund for the Quarter

Table A4HKa - HK Top Selling Bond Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	BOCHK Hong Kong Dollar Income Fund (HKD)	Local Bonds
2	Allianz US High Yield (USD) A MDis	High Yield Bonds
3	Jupiter Global Fund - Jupiter Dynamic Bond (USD) L Q-Inc	Global Bonds
4	Principal LSF - Hong Kong Bond Fund (HKD)	Local Bonds
5	Schroder ISF-Hong Kong Dollar Bond (HKD) A Acc	Local Bonds
6	Invesco Emerging Markets Bond Fund (USD) A Dist	GEM Bonds
7	IP Renminbi High Yield Bond Fund (USD) 2A Acc	High Yield Bonds
8	Allianz US High Yield (USD) AT	High Yield Bonds
9	Templeton Global Total Return Fund (USD) A (acc)	Global Bonds
10	Schroder ISF-Hong Kong Dollar Bond (HKD) A QDis	Local Bonds

Table A4HKb - HK Top Selling Bond Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	Allianz US High Yield (USD) A MDis	High Yield Bonds
2	Invesco Emerging Markets Bond Fund (USD) A Dist	GEM Bonds
3	Amundi Funds Bond Global (USD) A2U Acc	Global Bonds
4	BlackRock Global Funds - Asian Tiger Bond Fund (USD) A3 Mdis	Asia Bonds
5	AllianceBernstein - Global High Yield Portfolio (HKD) AT	High Yield Bonds
6	Principal GIF - Preferred Securities Fund - A Class QDis Unit (USD)	Global Bonds
7	Old Mutual Emerging Market Debt Fund (USD) A	GEM Bonds
8	Templeton Global Total Return Fund (HKD) A(Mdis)	Global Bonds
9	Invesco Global High Income Fund (USD) A-MD-Dist	High Yield Bonds
10	Franklin High Yield Fund (USD) A(Mdis)	High Yield Bonds

Table A4HKc - HK Top Selling Bond Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	BOCHK Hong Kong Dollar Income Fund (HKD)	Local Bonds
2	Jupiter Global Fund - Jupiter Dynamic Bond (USD) L Q-Inc	Global Bonds
3	Principal LSF - Hong Kong Bond Fund (HKD)	Local Bonds
4	Schroder ISF-Hong Kong Dollar Bond (HKD) A Acc	Local Bonds
5	Allianz US High Yield (USD) A MDis	High Yield Bonds
6	IP Renminbi High Yield Bond Fund (USD) 2A Acc	High Yield Bonds
7	Allianz US High Yield (USD) AT	High Yield Bonds
8	Schroder ISF-Hong Kong Dollar Bond (HKD) A QDis	Local Bonds
9	Templeton Global Total Return Fund (USD) A (acc)	Global Bonds
10	Franklin U.S. Government Fund (USD) A (Mdis)	US Bonds

Source: iFAST Compilations, data as of end 31-Mar-2014

A4MY - MY Top Selling Bond Fund for the Quarter

Table A4MYa - MY Top Selling Bond Fund for the Quarter (iFAST Overall)

Rank	Fund Name	Region
1	RHB-OSK Cash Management Fund 2	SD and MMF
2	Hwang AIIMAN Income Plus Fund	Local Bonds
3	AmBond	Local Bonds
4	AmBon Islam	Local Bonds
5	RHB-OSK Money Market Fund	SD and MMF
6	KAF Bond Fund	Local Bonds
7	RHB-OSK Emerging Markets Bond Fund	GEM Bonds
8	Eastspring Investments Bond Fund	Local Bonds
9	AmDynamic Bond	Equity Exposed Bonds
10	AMB Dana Arif Class A-MYR	Local Bonds

Table A4MYb - MY Top Selling Bond Fund for the Quarter (DIY Investors)

Rank	Fund Name	Region
1	RHB-OSK Cash Management Fund 2	SD and MMF
2	KAF Bond Fund	Local Bonds
3	RHB-OSK Emerging Markets Bond Fund	GEM Bonds
4	Eastspring Investments Bond Fund	Local Bonds
5	AmDynamic Bond	Equity Exposed Bonds
6	AmlIncome Plus	Local Bonds
7	Hwang AIIMAN Income Plus Fund	Local Bonds
8	AmBon Islam	Local Bonds
9	CIMB-Principal Bond Fund	Local Bonds
10	Kenanga Bond Fund	Local Bonds

Table A4MYc - MY Top Selling Bond Fund for the Quarter (Adviser Assisted)

Rank	Fund Name	Region
1	Hwang AIIMAN Income Plus Fund	Local Bonds
2	AmBond	Local Bonds
3	RHB-OSK Cash Management Fund 2	SD and MMF
4	AmBon Islam	Local Bonds
5	RHB-OSK Money Market Fund	SD and MMF
6	Hwang AUD Income Fund - MYR	Asia Bonds
7	Eastspring Investments Dana Al-Islah	Equity Exposed Bonds
8	AMB Dana Arif Class A-MYR	Local Bonds
9	Hwang Select Bond Fund	Asia Bonds
10	RHB-OSK Emerging Markets Bond Fund	GEM Bonds

Source: iFAST Compilations, data as of end 31-Mar-2014

A5SG - iFAST Pensions Top Selling Funds

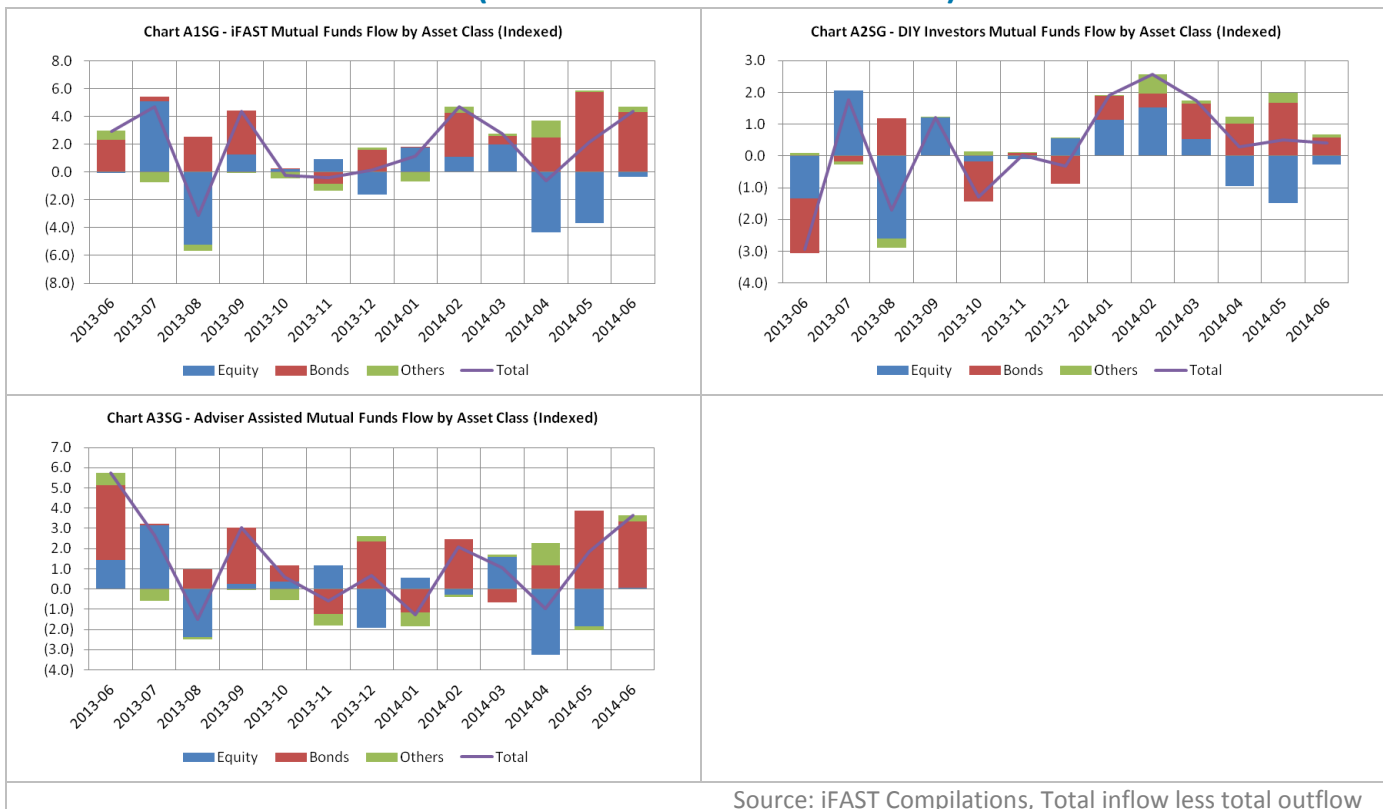
Table A5SGa - SG Top Selling Funds for the Quarter (iFAST Pensions)

Rank	Fund Name	Region
1	LionGlobal SGD Money Market	SD and MMF
2	Cash Fund	SD and MMF
3	Infinity Global Stock Index	Global Equity
4	Phillip Money Market	SD and MMF
5	LionGlobal Short Duration Bond Fund	Global Bonds
6	FTIF-Templeton Global Fd A(acc) SGD	Global Equity
7	LionGlobal Short Duration Bond Fund cd	Global Bonds
8	Aberdeen Global Opportunities	Global Equity
9	Vanguard U.S. 500 Stock Index Fund	US Equity
10	Vanguard European Stock Index Fund	Europe Equity

2.0 Mutual Funds Flow by Asset Classes

Singapore

Charts ASG – Net Funds Flow (total inflow less total outflow)

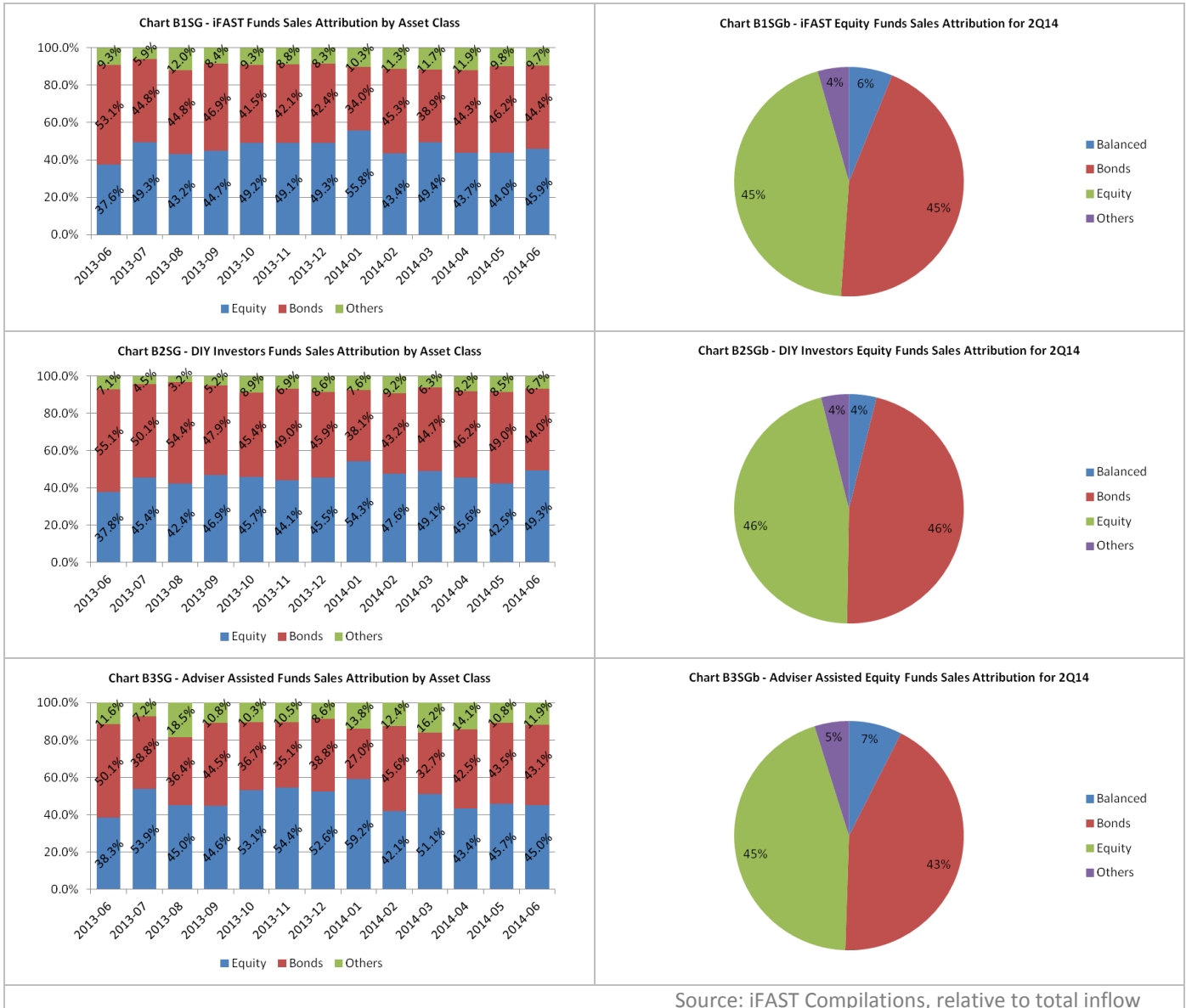


Our Commentary

While returns were generally positive in 2Q14, investors in Singapore were withdrawing from the equity markets. As we can observe from Chart A1SG to Chart A3SG, the result was homogeneous across both adviser assisted investors and DIY investors, marked by the negative equity fund flows observed specifically in April 2014 and May 2014. While the outflow abated in June 2014, the impact to 2Q14 was for a net outflow from equity funds. At the same time, there is a corresponding inflow into bond funds; though the chart does suggest lagged reaction (April outflow from equity saw a subsequent inflow to bonds in May). On the whole, investors were accumulating investment assets, a sign of sustained confidence on a growing global market.

Our observation was further reinforced from the sales distribution data compiled. As the series of Charts presented in Charts BSG show, bond funds sales in 2Q14 was on par with equity funds sales.

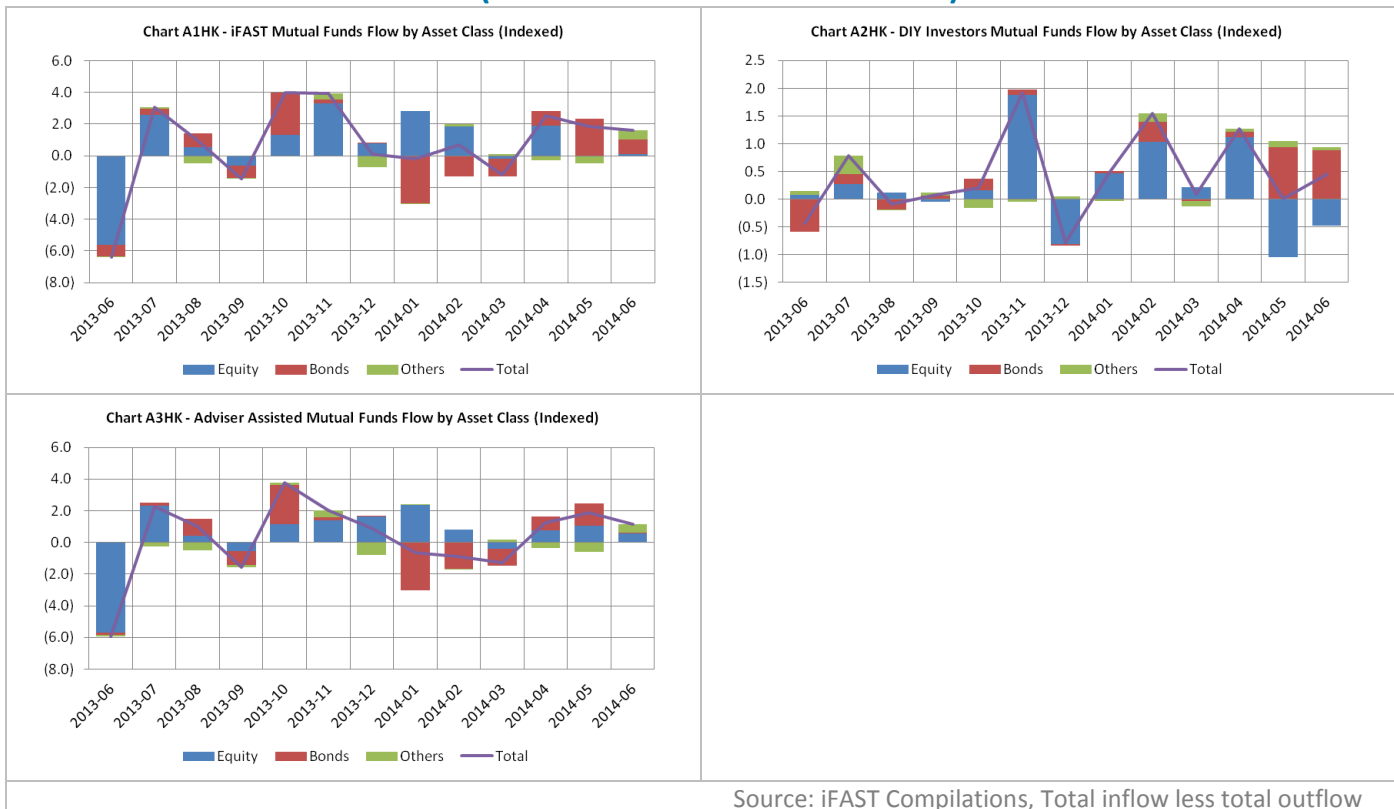
Charts BSG – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Hong Kong

Charts AHK – Net Funds Flow (total inflow less total outflow)

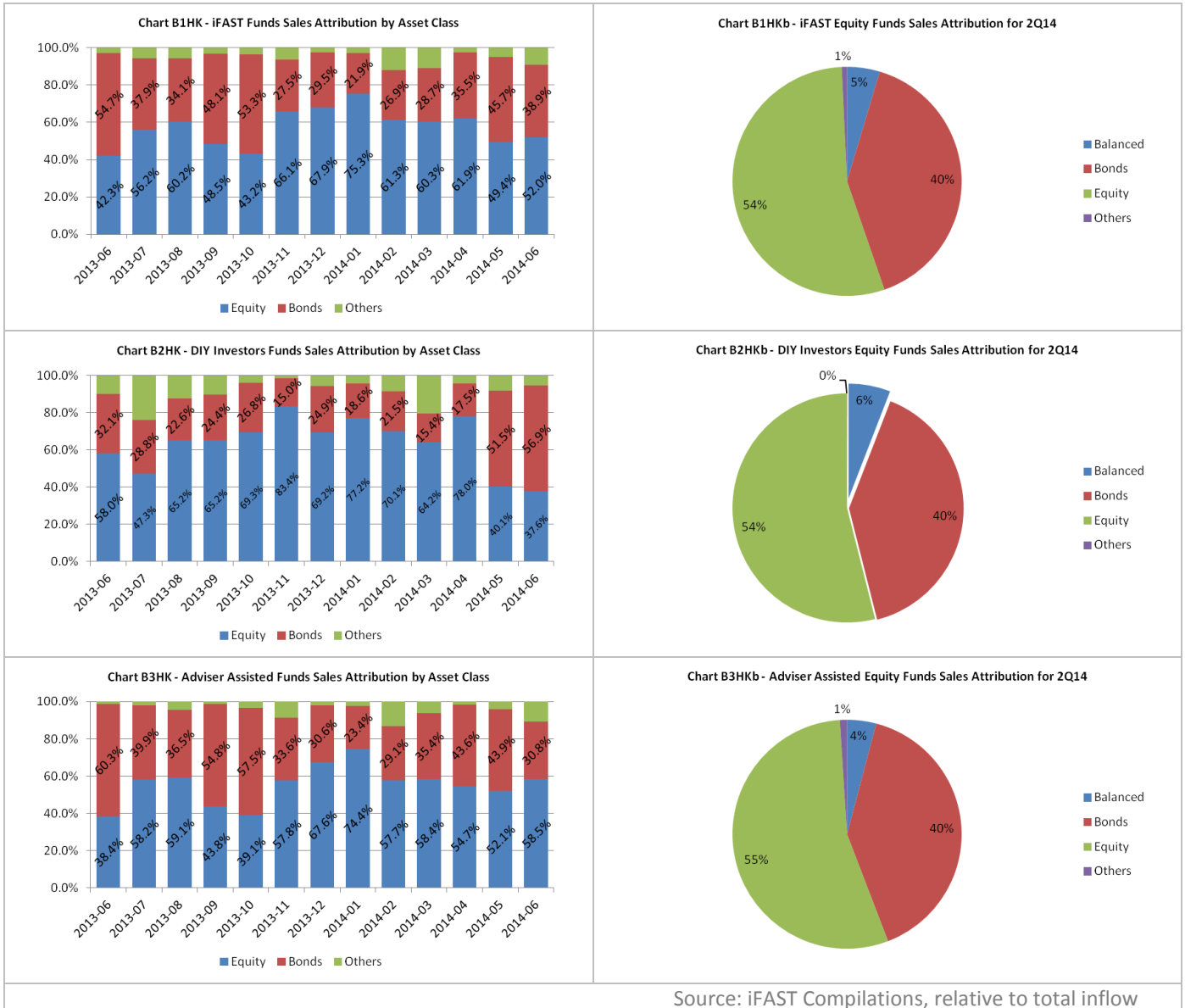


Our Commentary

Based on the data we have compiled, it is observed that Hong Kong investors are exhibiting similar behaviors to Singapore investors. The positive correlation is however a relatively weak one. We attribute the weak correlation to be a function of the difference in depth of our data sources. Nevertheless, it is evident that there was an increase in demand for bond funds over equity funds. This reversal is more prominent as Hong Kong investors were favoring equity funds over the last 9 months prior to 2Q14. The reversal is primarily driven by DIY investors who withdrew from equity funds in favor of bond funds. For investors who were assisted by advisers, they continue to accumulate equity funds, but have also added bond funds to their portfolios.

Taking reference from the sales data compiled and presented in the series of charts found in Charts BHK, there is a sudden drop in equity funds sales in May 2014 and June 2014. Prior to these two specific months, DIY investors allocated in excess of 60% of the funds into equity funds but May and June 2014 saw the figure dropped significantly to below 40%. It may be premature to determine if the sentiments are turning negative but we think that this situation is worth monitoring.

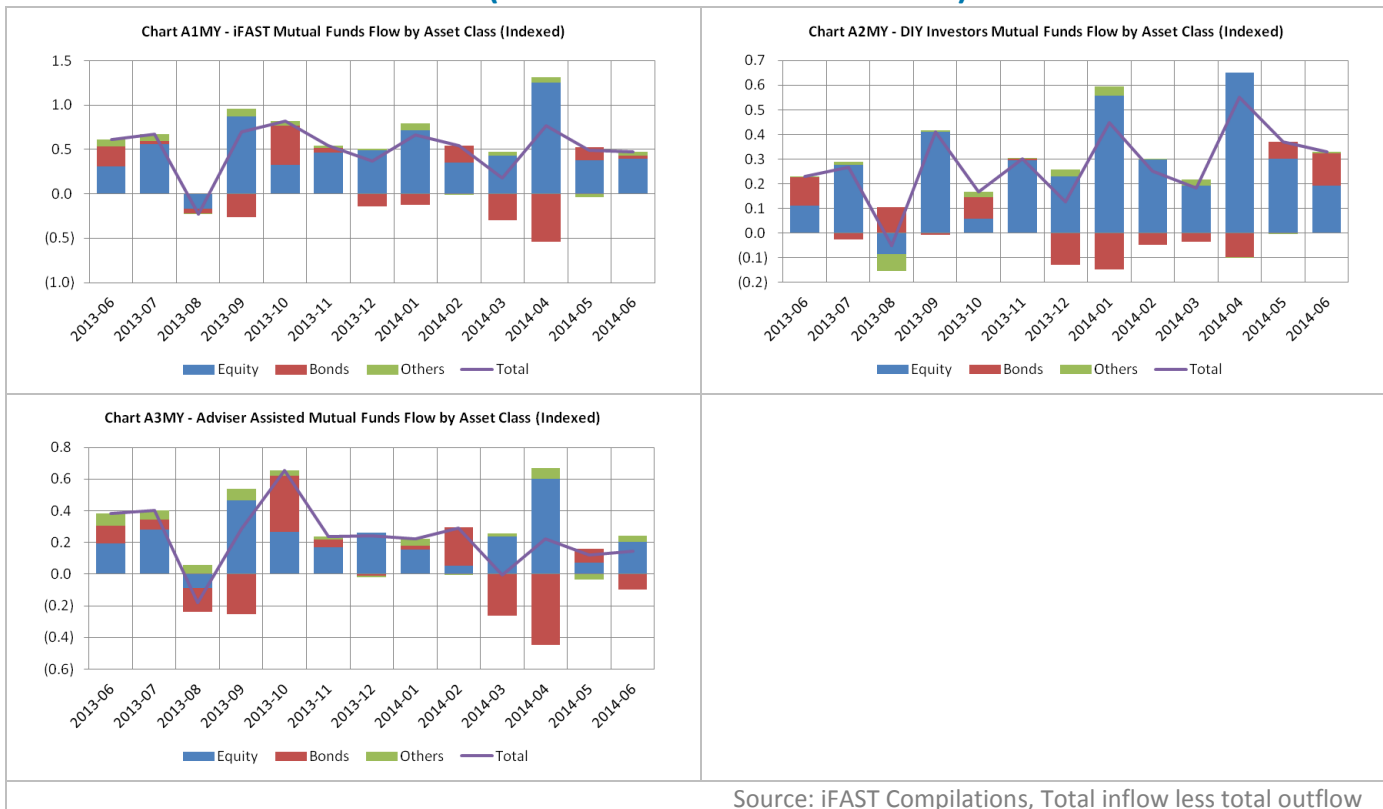
Charts BHK – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Malaysia

Charts AMY – Net Funds Flow (total inflow less total outflow)

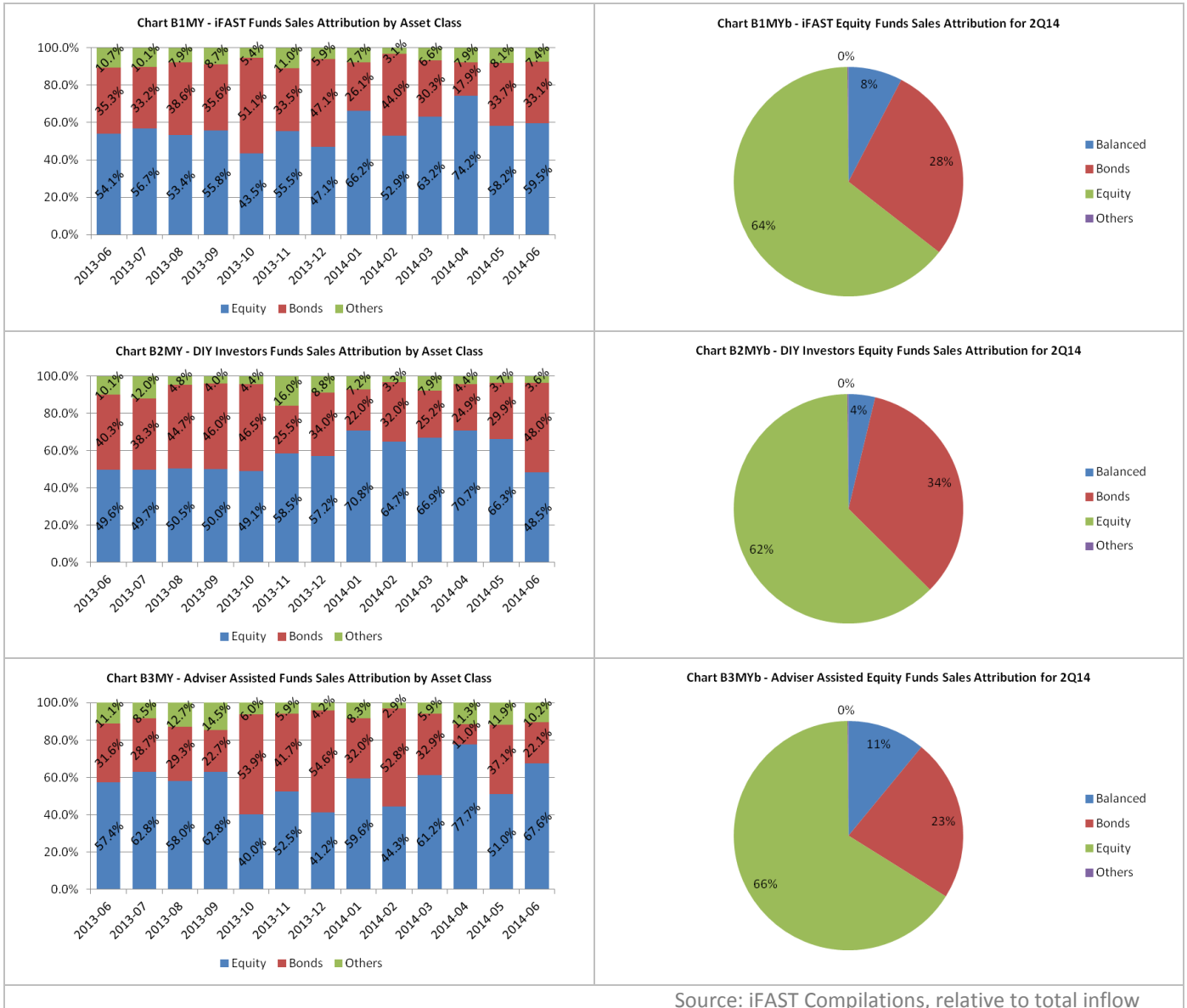


Our Commentary

Investors in Malaysia have always exhibited unique investment behavior which we believe is a function of products availability, as well as a stronger bias towards local markets. Fund flows continue to be bias towards equity funds and that is primarily fueled by DIY investors. Unlike Singapore and Hong Kong, the market share of financial advisers is relatively smaller in Malaysia, which we believe is a key attribution to the different actions undertaken by the two different groups of investors.

As the series of charts presented in Charts BMY suggest, investors continue to favor equity funds over bonds funds and the trend has yet been bucked over the observation period presented. This is particularly obvious for the case of DIY investors but less so for investors who were assisted by advisers when making their investment allocation.

Charts BMY – Mutual Funds Sales Distribution

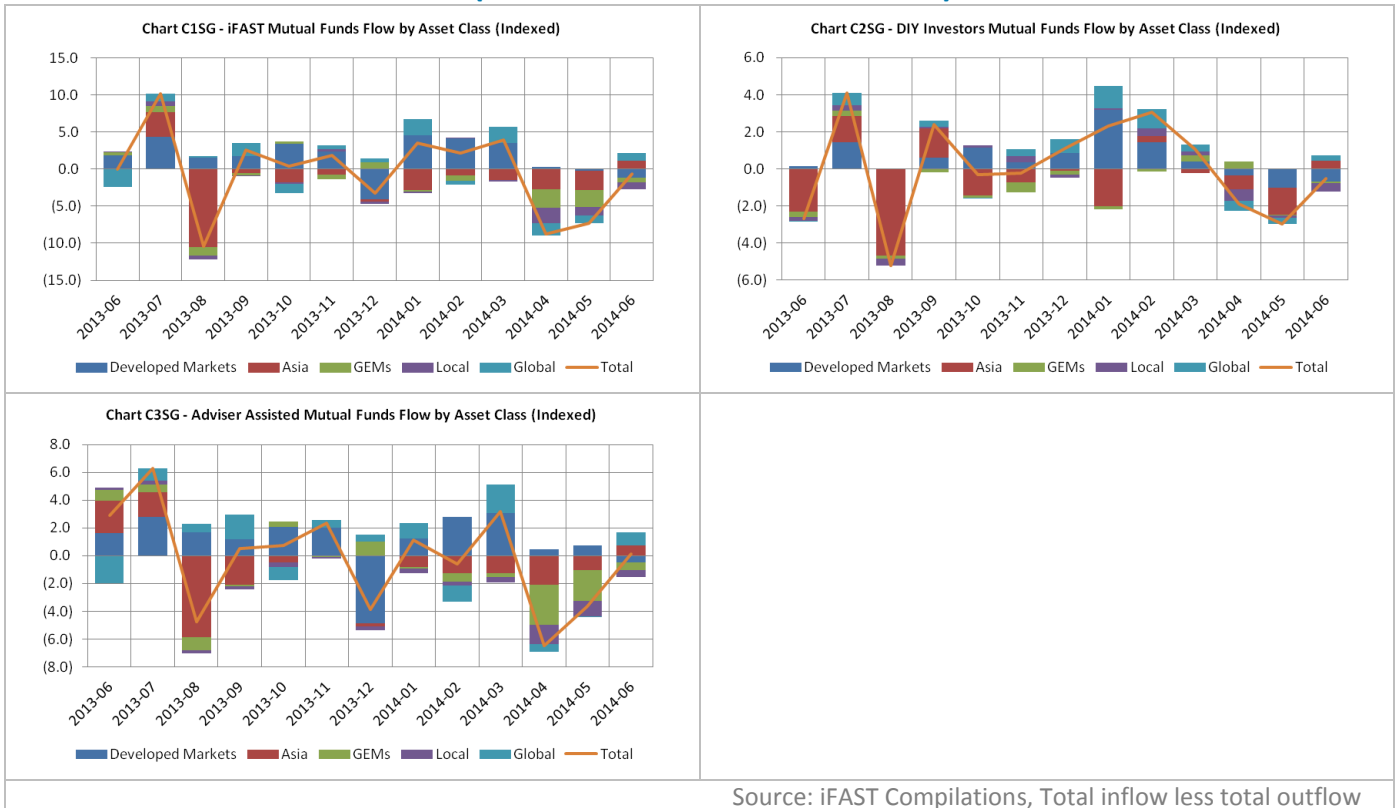


Source: iFAST Compilations, relative to total inflow

3.0 Equity Funds Flow

Singapore

Charts CSG – Net Funds Flow (total inflow less total outflow)



Our Commentary

Investors in Singapore did not show any sign of market bias as the withdrawal from equity markets was almost evenly distributed across all regions. We were unable to ascertain the fundamentals behind this withdrawal as equity markets perform reasonably well over the same period. The possible reasons are profit taking as well as knee-jerk reactions to geopolitical tensions in Ukraine.

Disregarding the net outflow from equity funds, the sales distribution data presented in the series of charts in Charts DSG saw interest in Asia and Global emerging markets picking up. There was less allocation into developed market equities which were relatively more expensive by valuations. The move to seek more attractive investment upside is a reinforcement of investors' bullishness of risk assets, which as the trend suggests is likely to see further extension.

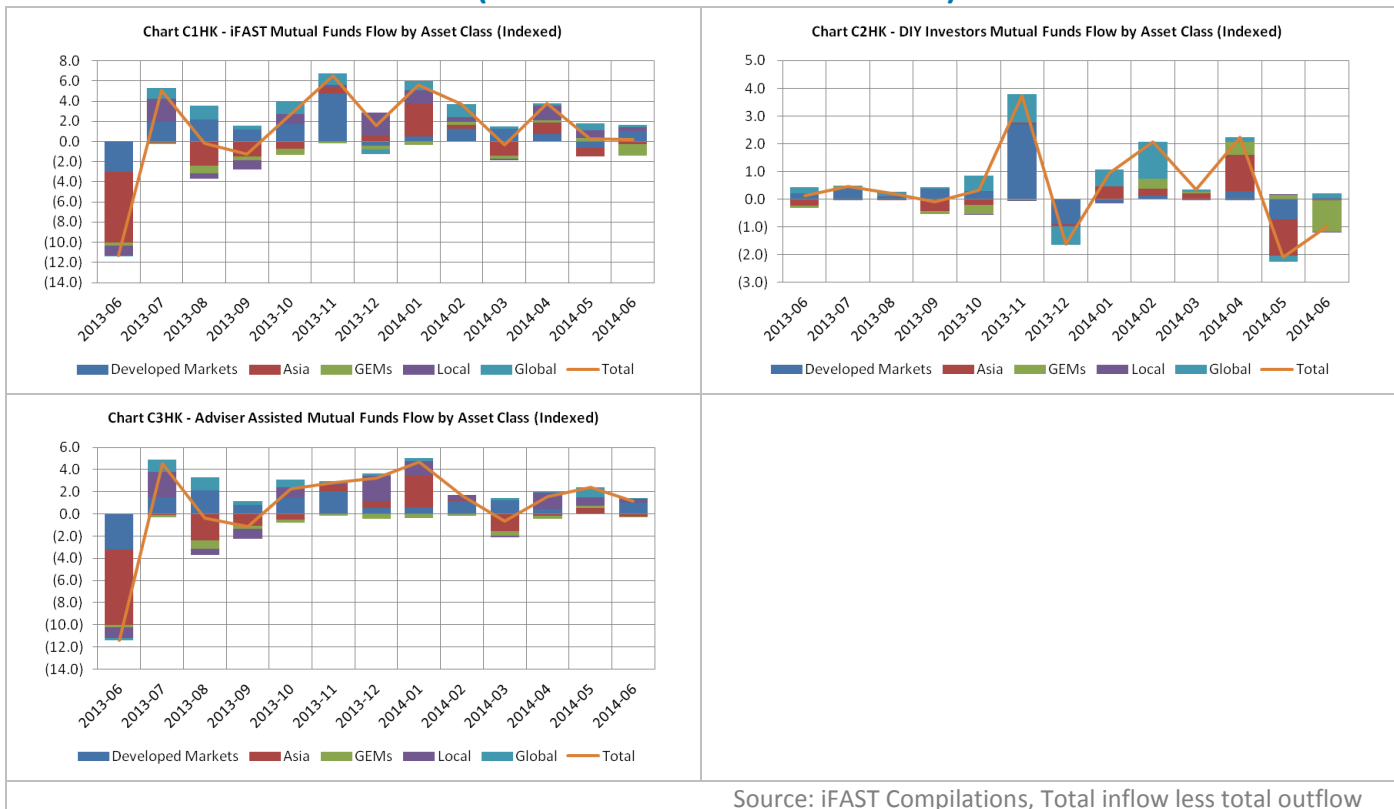
Charts DSG – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Hong Kong

Charts CHK – Net Funds Flow (total inflow less total outflow)



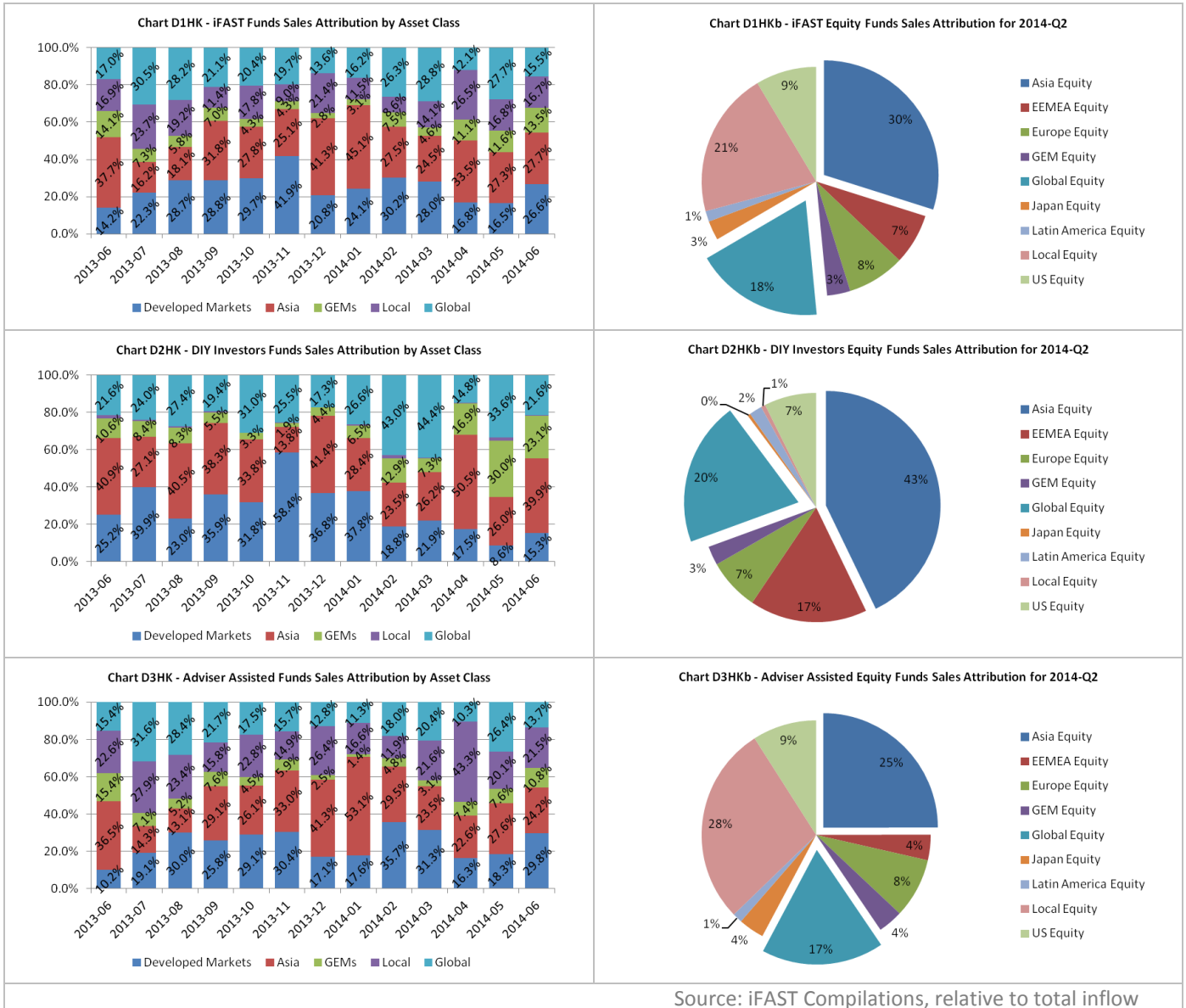
Source: iFAST Compilations, Total inflow less total outflow

Our Commentary

As highlighted earlier, the net outflow from equity funds is primarily driven by DIY investors in Hong Kong. The withdrawal is once again similar to what we had observed with Singapore investors. Outflows were observed in both developed market equities, as well as higher beta markets like Asia and Global emerging market equities.

In terms of sales distribution, there was no marked trend observed. This may mean that Hong Kong investors have a higher tendency to react to a “flavor of the month”, a more speculative approach to asset allocation. There was however a stark difference in allocation preference between DIY investors and investors who were assisted by their financial advisers. For example, we observed that the DIY investors gravitated to Asia and Global emerging markets equities in 2Q14 while those assisted by advisers continue to maintain their allocation into local equity markets.

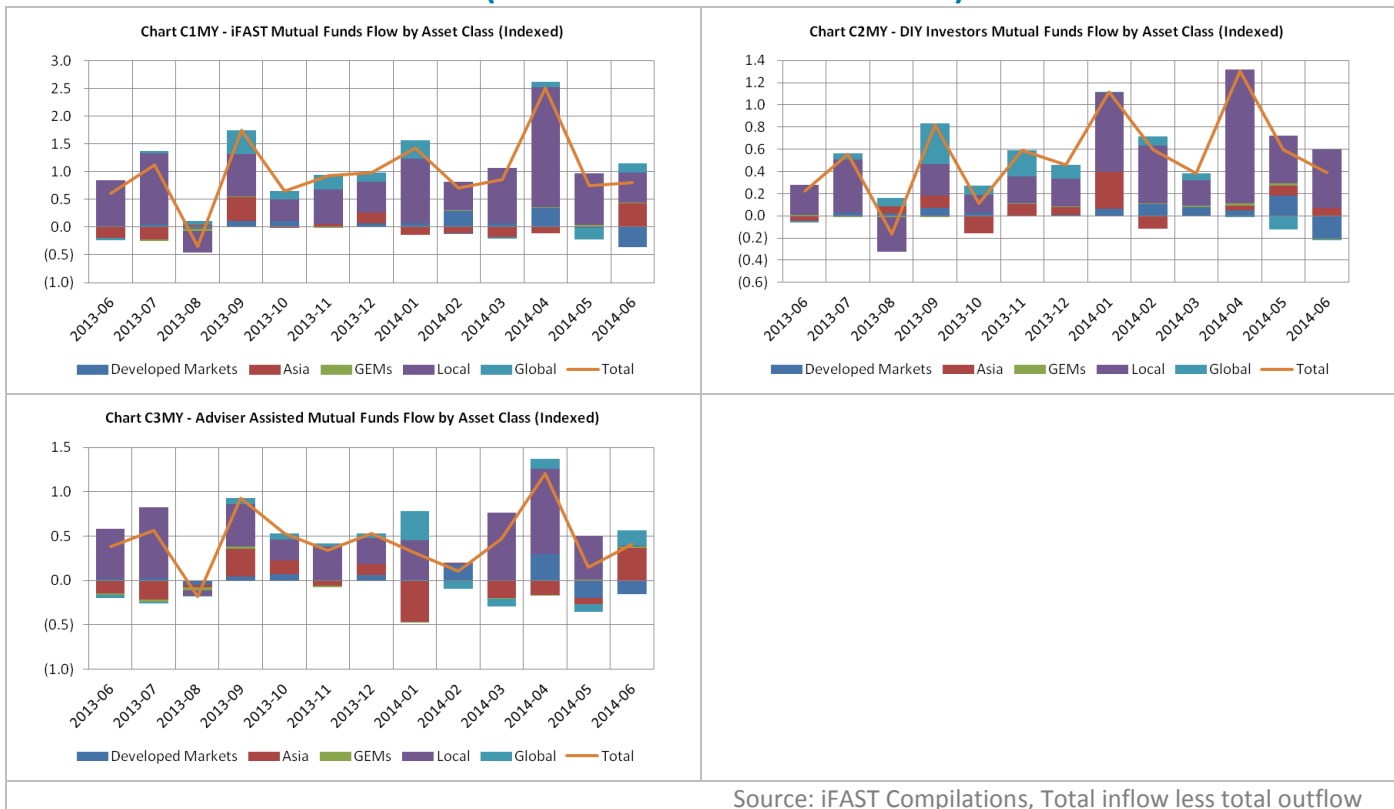
Charts DHK – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Malaysia

Charts CMY – Net Funds Flow (total inflow less total outflow)



Our Commentary

The series of charts presented in Charts CMY display clear evidence of local market bias as equity fund flows is dominated by flows into the local equity market. This strong market trend has found no respite although we observed that the net inflow surging in April was driven mainly by DIY investors with above average inflows in April, May and June 2014.

The dominance of local equity fund sales is likewise obvious as presented in the series of charts from Charts DMY. Allocation into local equity funds account for more than 50% of total sales, with DIY investors recording a distribution of 65% into local equity funds in 2Q14. Investors who were assisted by their advisers, while continue to favor local equity funds are however more receptive to diversifying their allocation, with 26% of total sales going to Asian equity funds.

Charts DMY – Mutual Funds Sales Distribution

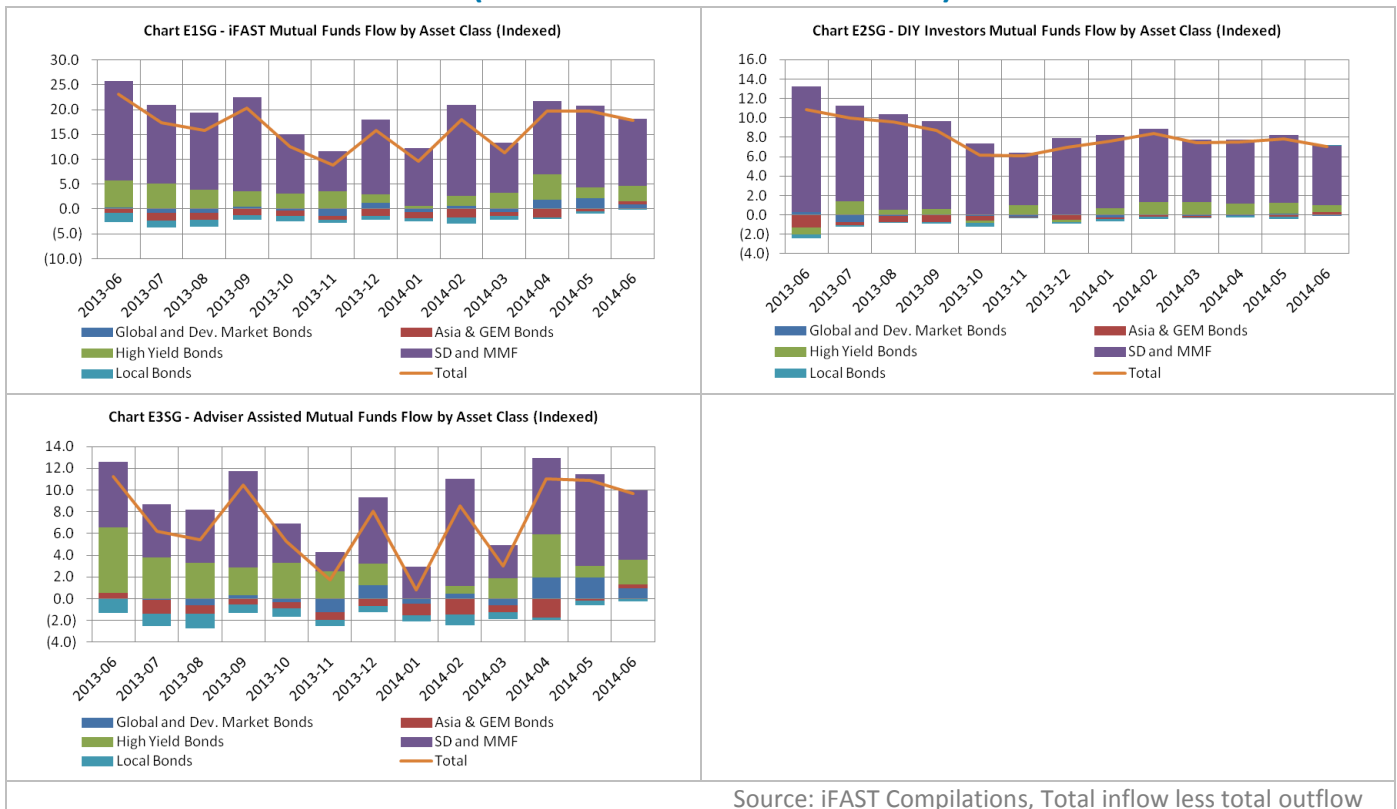


Source: iFAST Compilations, relative to total inflow

4.0 Bond Funds Flow

Singapore

Charts ESG – Net Funds Flow (total inflow less total outflow)

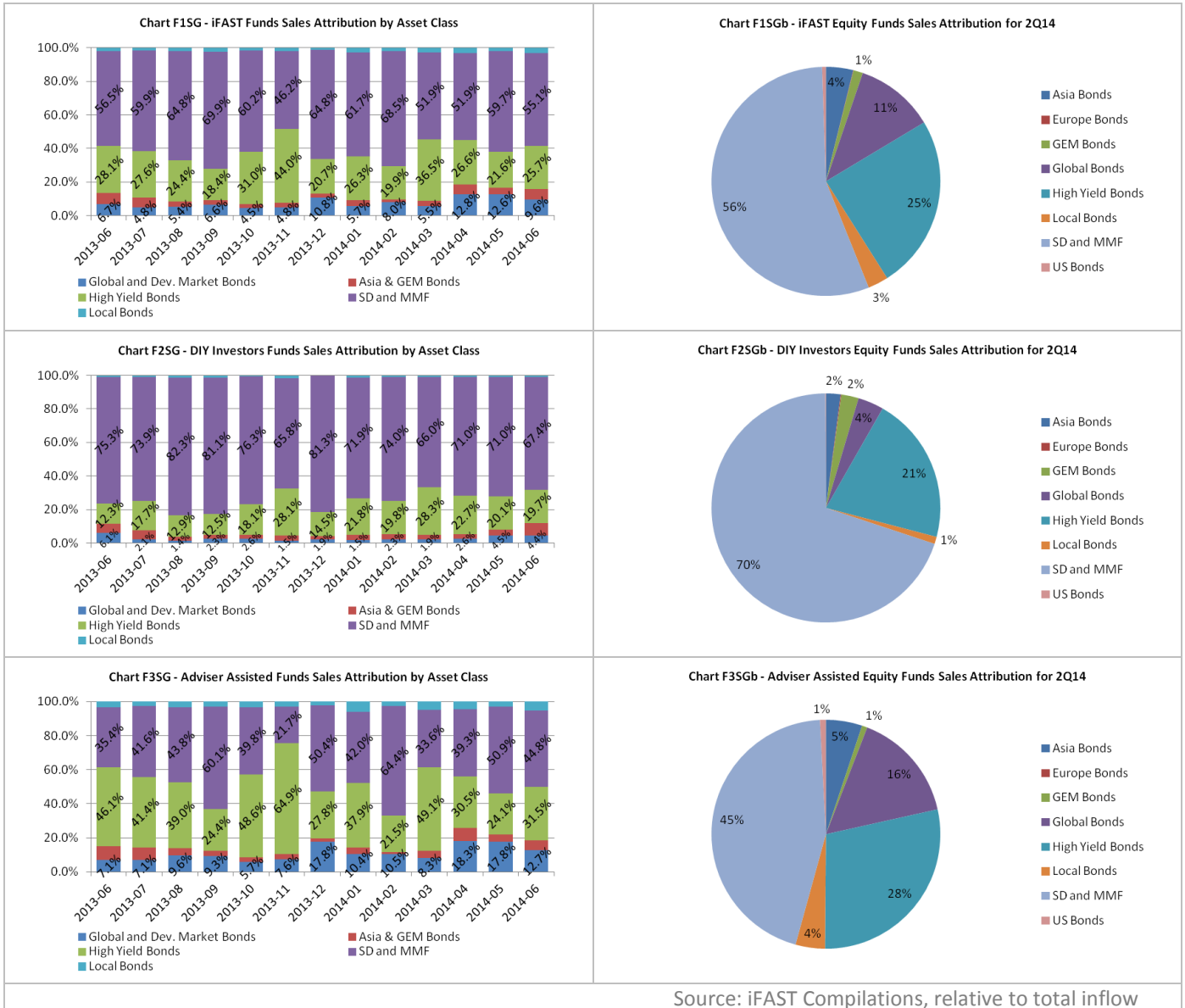


Our Commentary

The low yield environment in Singapore drove investors to seek higher yielding alternatives. The short duration and money market funds (SD and MMF) are widely accepted in Singapore as a low risk alternative to deposits. As a result, there is a healthy trend of consecutive months of net inflows into short duration and money market funds in general. This bond segment is however better received by the DIY investors but relatively less so for investors assisted by advisers. This not surprising as advisers can add value to their clients by offering well diversified alternatives while DIY investors may have a tendency to favor lower risk but relatively more stable options.

From the data presented in the Charts FSG, DIY investors allocate as much as 70% into short duration and money market funds while only 45% were allocated into the same segment by investors assisted by their advisers. A simple comparison of the charts shows investors assisted by their advisers to hold a preference for global bonds funds that are dominated by managers who have flexible mandates to invest in all types of bonds in an attempt to maximise total returns. The FTIF-Templeton Glb Total Ret A(mdis) SGD-H1 is one such example and the fund was one of the top selling bond funds subscribed by this group of investors (see Table A4SGc - SG Top Selling Bond Fund for the Quarter (Adviser Assisted)).

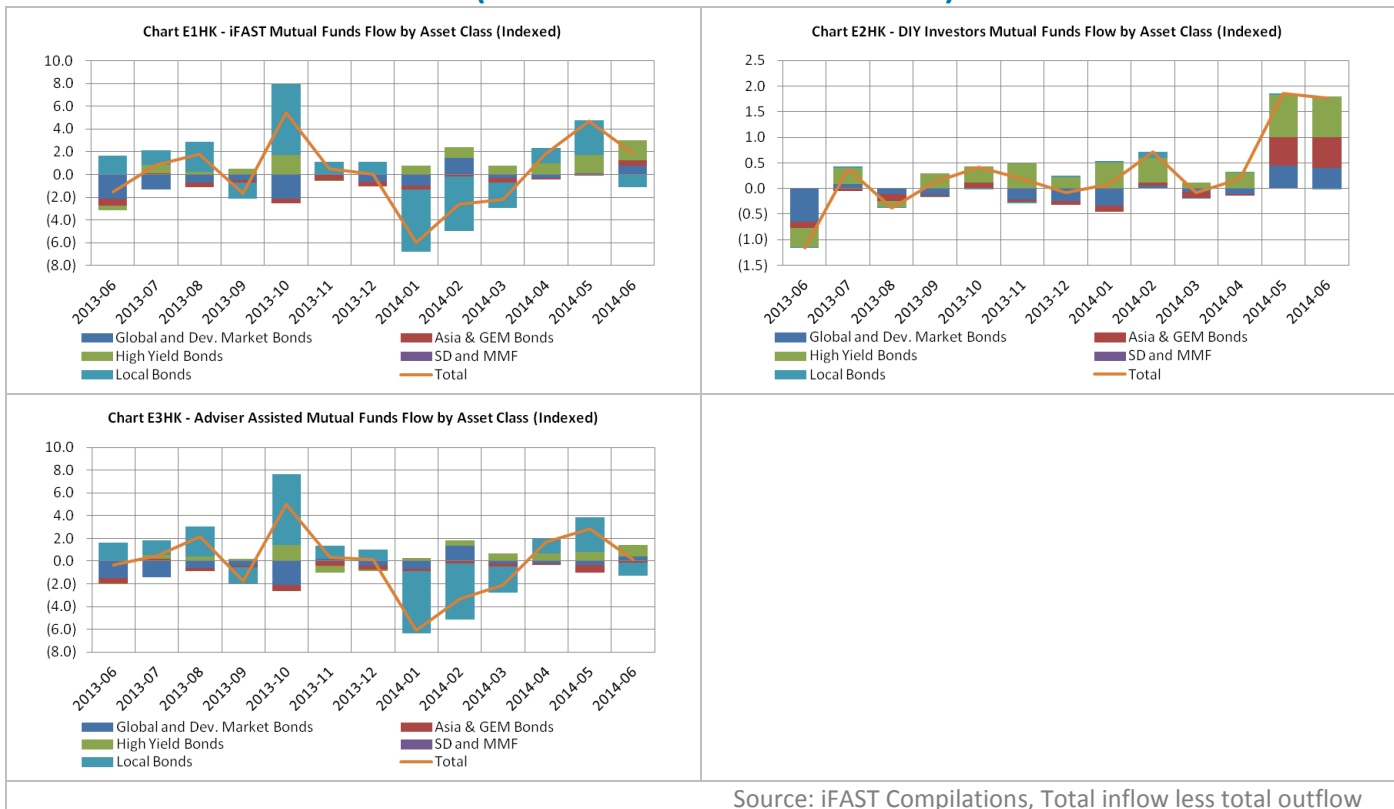
Charts FSG – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Hong Kong

Charts EHK – Net Funds Flow (total inflow less total outflow)



Our Commentary

Unlike Singapore, Hong Kong investors have relatively lesser alternative savings options available. This product gap resulted in a significant difference between bonds funds take up in Singapore and Hong Kong.

Nevertheless, the primary objective of investors in Hong Kong is to seek higher yielding alternatives. Based on the series of charts presented in Charts FHK, we observed that a strong trend of DIY investors allocating heavily into high yield bond funds. While that allocation took a sharp dip in May 2014 and June 2014, the overall allocation to this bond segment remained the highest at 47% in 2Q14.

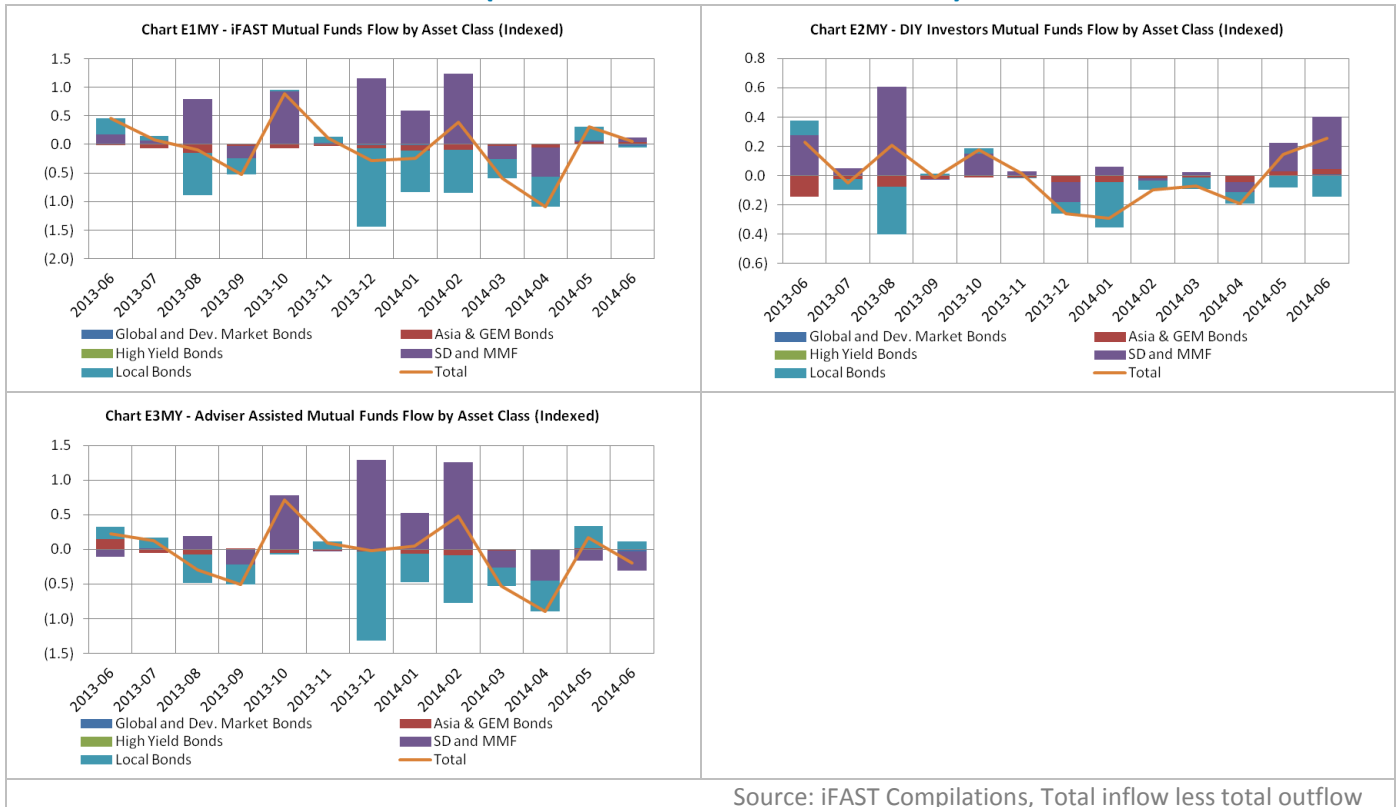
Charts FHK – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Malaysia

Charts EMY – Net Funds Flow (total inflow less total outflow)



Our Commentary

While exhibiting investment behavior unique to the local market, we can draw some similarities in bond funds preference between investors in Malaysia and investors in Singapore. The observation is particularly true for DIY investors in Malaysia as we saw relatively stronger net inflows into this bond segment (short duration and money market funds) over the last two months. The shift suggested a heightened wariness against interest rate risk among DIY investors.

DIY investors' preference for short duration and money market funds is however not a new trend. They had been actively allocating into this bond segment over the observation period even though the net inflows only started picking up in the last two months after almost six months of even net flows.

Charts FMY – Mutual Funds Sales Distribution



Source: iFAST Compilations, relative to total inflow

Industry Insights

ASEAN CIS Framework Finalised

The ASEAN CIS Framework which was first proposed in October 2013 during the ASEAN Capital Markets Forum has recently been finalised. The framework should fuel asset management growth in the Southeast Asia region.

Back in October 2013, in the ASEAN Capital Markets Forum (“ACMF”), the Securities Commission of Malaysia, the Monetary Authority of Singapore and the Securities and Exchange Commission, Thailand have signed a Memorandum of Understanding (“MOU”) to establish the ASEAN CIS Framework for cross-border offering of collective investment schemes (“CIS”).

The ASEAN CIS Framework is one of the initiatives undertaken by the ACMF as part of the regional capital market integration plan endorsed by the ASEAN Finance Ministers in 2009. The Framework enables fund managers operating in a member jurisdiction to offer CIS constituted in that jurisdiction (“ASEAN CIS”) to retail investors in other member jurisdictions under a streamlined authorization process.

The finalised framework was announced recently on 25 August 2014 whereby the Handbook for CIS operators of ASEAN CISs was released. The handbook provides guidance on various administrative and procedural matters including application procedures, the use of local distributors in the offering process, and the procedures for remittance of funds. A copy of the handbook can be downloaded from http://www.theacmf.org/ACMF/upload/asean_cis_handbook.pdf.

In the ASEAN region, strong economic growth is driving the increase of affluent individuals, the savings rate is high and there is a strong sense of self reliance for retirement. The initiative will cater to the increased demand for investment products by the consumer and also helps to develop domestic financial industry.

From an investor’s point of view, the initiative is welcomed because of various benefits; wider access to products previously not available and possibly lower charges due to keener competition. For example, the investors in Singapore and Thailand may get more access to Islamic products (Shariah-compliant) that are available in Malaysia. More cross border products also increase the competition and investors may be able to benefit from the lower management fees.

Fund management companies (who are qualified) would be taking a positive view because the initiative means their products can be distributed across borders in Singapore, Malaysia and Thailand.

Table 1. Mutual Fund Assets under Management in Southeast Asia (US\$ Bn)

Country	2008	2009	2010	2011	2012	CAGR
Malaysia ¹	\$41.90	\$70.60	\$78.90	\$89.00	\$111.60	27.70%
Thailand	\$39.50	\$49.50	\$55.30	\$56.70	\$73.20	16.70%
Singapore ²	\$30.40	\$42.50	\$46.80	\$46.90	\$53.10	14.90%
Indonesia	\$7.40	\$11.20	\$14.30	\$15.80	\$18.50	26%
Philippines	\$3.70	\$4.40	\$5.40	\$6.10	\$8.60	23.60%
Vietnam	\$0.10	\$0.20	\$0.20	\$0.10	\$0.20	2%
Total	\$123.00	\$178.40	\$200.90	\$214.60	\$265.10	21.2%

Source: Cerulli Associates, based on data feeds from various organizations.

¹ Includes Bumiputra and wholesale fund assets

² Includes offshore assets

Other than an immediate increase in market size (see table 1), the Southeast Asian market is expected to experience double digit growth over the next few years. In its annual publication, Asset Management in Southeast Asia 2014, Cerulli's[^] expects AUM in Southeast Asia to grow at a compound rate of 12% over next 5 years, reaching US\$503 billion in 2018 from US\$286 billion as at year end 2013.

While everyone wants to participate in this growth in the asset management business, not everyone can be a winner. From the handbook provided, one key criterion is that related companies must have assets under management (AUM) of at least US\$ 500 million. With regards to this criterion, Singapore fund management companies will have the upper hand in terms of numbers of qualifying fund houses. For the other two countries, we may start to see more consolidation of smaller players so as to compete against the bigger players. In fact, we have already seen some consolidations taking place in Malaysia; Affin Holdings Bhd bought HwangDBS (M) Bhd in January this year while last November, Manulife Holdings Bhd expanded its asset management business by buying MAAKL Mutual Bhd.

In all, we expect to see more vibrancy in the financial services sector which will be a good development for both the industry and consumers in the region.

Banning of Indemnity Commissions in Hong Kong

The ban starts from 1st Jan 2015 for Class C business (Investment Linked Assurance Scheme “ILAS”) in Hong Kong

US\$2.5bn premium went into ILAS in Hong Kong in 2013. From 2015, the ILAS industry is expected to undergo significant change when the ban of the extremely lucrative indemnity commissions becomes effective.

ILAS products have been used as an investment vehicle to access mutual funds via an insurance wrapper as the insurance component of such products are minimal and usually only at 1% of the asset value. The high profile Hobbins High Court case, heightened media scrutiny and increasing complaints from disgruntled investors have pressured the regulators to take drastic action on an industry with a remuneration structure that its opponents argued is tantamount to bribery.

Interestingly, insurance agents and brokers are not regulated under statutory power but through self-regulated trade bodies that consist of industry players. To be in-line with other developed economies in regulating the insurance industry, Hong Kong is in the process to setup an Insurance Authority in 2015.

Prior to the establishment of Insurance Authority, the office of commissioner of insurance issued a guidance note in July 2014 which among other measures specified the ban of indemnity commission from 1 Jan 2015. It read “Accordingly, indemnity commission, or any standing arrangement that offers advance payment of commission, is strictly prohibited.” under the heading of “Appropriate Remuneration Structure”. It further elaborated that “insurers should only pay commission on an earned basis”. The banning of indemnity commission is an important step to realign the interest of the financial advisers’ with that of clients’ by ensuring that ongoing remuneration must be matched by ongoing good service by the financial advisers.

The banning of indemnity commissions is not new in matured markets. The United Kingdom banned all forms of commissions including indemnity commissions as part of the Retail Distribution Review (“RDR”) since end 2012. The spirit of the ban, as stated in the 15th Report of Session 2010-2012 of RDR, is that “providers cannot use their own funds to advance this money to advisers before it has been collected from regular premium insurance products as they currently can by using indemnity commissions”. The same report also highlighted that the feature of indemnity commissions existed only in the insurance industry but not in other financial services industries such as mutual funds. The trend in the UK is that advisers must agree explicit advice charges with the customer instead of relying on commissions and product providers can no longer influence sales through commissions-based remuneration structure.

After more than a year of RDR implementation, the results have been surprisingly positive. On a report about RDR cited by Natixis Global Asset Management, 67% of advisers have not lost clients as a result of charging fees, and 26% have said their clients’ response has been positive. Another important finding is that the platform AUA have substantially grown with an average quarterly growth of 5.8% in 4Q2013 compared with 2Q2013.

Annex A – Category Description

Category Description
Balanced
Funds that allocate assets into both bonds and equities.
Bonds
<i>Asia & GEM Bonds</i>
Asia Bonds
Such funds invest primarily in Asian debt securities. Consist of both sovereign and corporate issues, as well as both local and hard currency issues.
GEM Bonds
Such funds invest primarily in global emerging market debt securities. Consist of both sovereign and corporate issues, as well as both local and hard currency issues.
Global & Dev. Market Bonds
Europe Bonds
Such funds invest primarily in mainly in investment-grade issues of European issuers (includes both sovereign and corporate) although some of the funds do have exposure to sovereign issues as well. High yield bonds are not covered under this category.
Global Bonds
Such funds have a bias towards investment-grade issues from both sovereign and corporate issuers. However, most of these funds operate on flexible global strategic mandates that target to maximise returns based on the fund's reference currency.
US Bonds
Such funds invest primarily in mainly in investment-grade corporate issues of US issuers (includes both sovereign and corporate) although some of the funds do have exposure to sovereign issues as well. High yield bonds are not covered under this category.
High Yield Bonds
All high yield bonds funds are included in this category. While dominated by US high yield funds, this category includes both Asian high yield and European high yield bond funds.
Local Bonds
Local refers specifically to the country in discussion. For example, a local bond for Singapore is one that invest either in Singapore bonds or is bias towards the SGD.
SD and MMF
Bond funds that are actively managed to reduce interest rate risk. Most of these funds' mandate does not invest in bonds with duration exceeding 5 years.
Equity
Asia
This category includes all Asian equity funds, sub-regional Asian funds (such as Greater China equity funds) and all single Asian country funds with the exception of equity fund specific to the local country. For example, a Singapore equity fund is excluded from this category when compiling for Singapore but not for Hong Kong and Malaysia.
Developed Markets
Europe Equity
All European equity funds.
Japan Equity
All Japanese equity funds.

US Equity
All US equity funds.
GEMs
EEMEA Equity
Emerging Europe, Middle East and Africa. This category consists of both regional equity funds, as well as single country funds within this region. For example, Russia and Turkey equity funds fall under this category.
GEM Equity
Specific to only global emerging market funds and does not contain any single emerging market equity fund.
Latin America Equity
This category consists of both regional equity funds, as well as single country funds within this region. For example, Brazil equity funds fall under this category.
Global
Specific to only global equity funds and does not contain any single country or regional equity fund. These funds are however biased towards developed market equities.
Local
Local equity funds refer to equity funds invested their specific local market. For example, a Malaysia equity fund is categorised as local equity when compiling Malaysia data but not so for both Hong Kong and Singapore.
Others
All other funds that do not fall under bond funds, equity funds and balanced funds.

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Our institutional team is available to discuss your requirements for a tailored solution. For more information or to arrange a meeting, please contact us at:

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