Barings Asia Regional Conference

15th October 2015

Wing Chan, Director of Manager Research, Asia

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Agenda

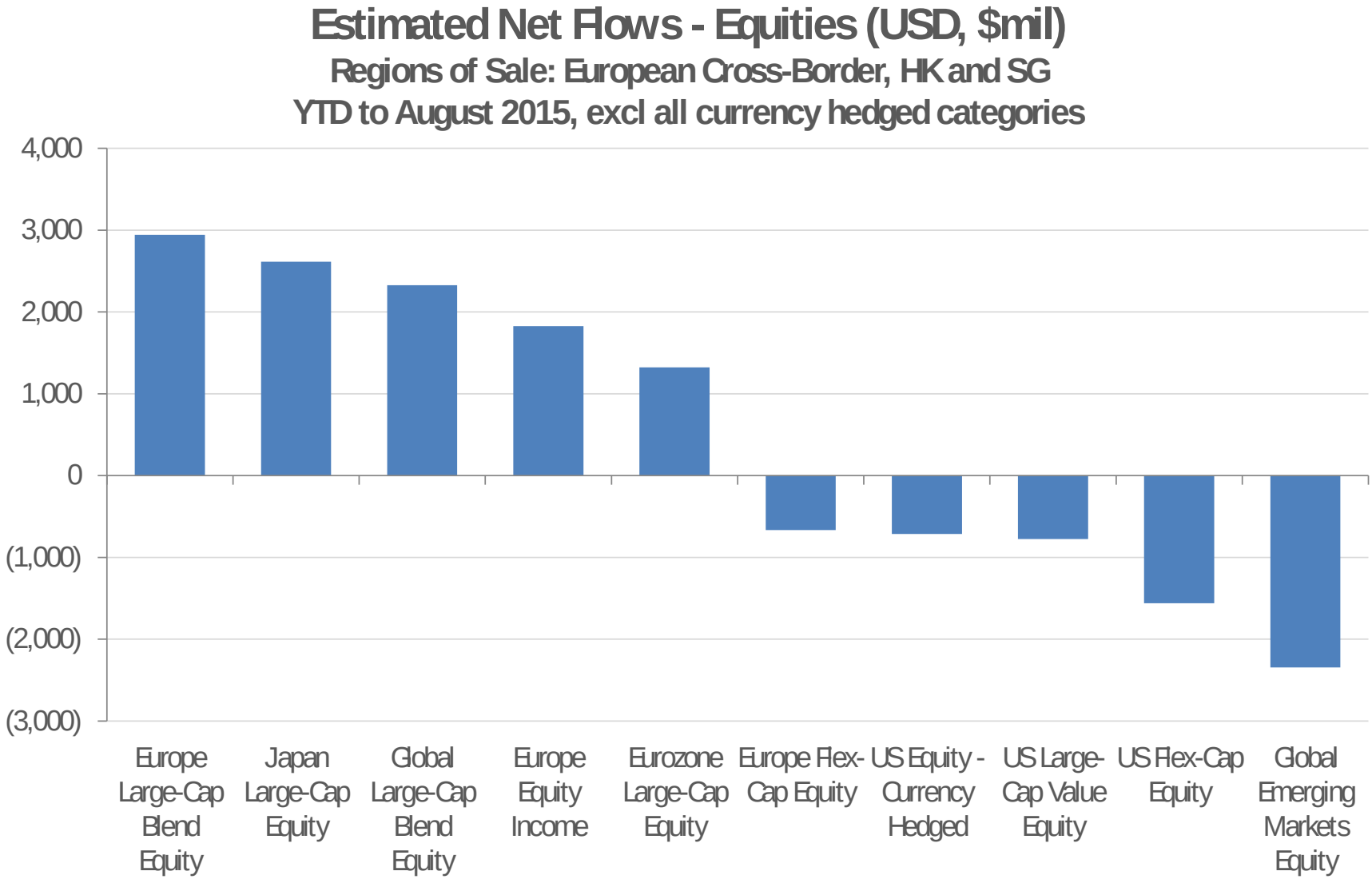
- Industry Trends and Developments
  - Asset Flows
  - Asia Fund Passports
- Fund Selection – Why it matters
- Morningstar Manager Research

  – a globally consistent, five pillar approach to identify outperforming funds

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Industry Trends and Developments – Asset Flows

What type of funds are cross-border investors getting in and out of?



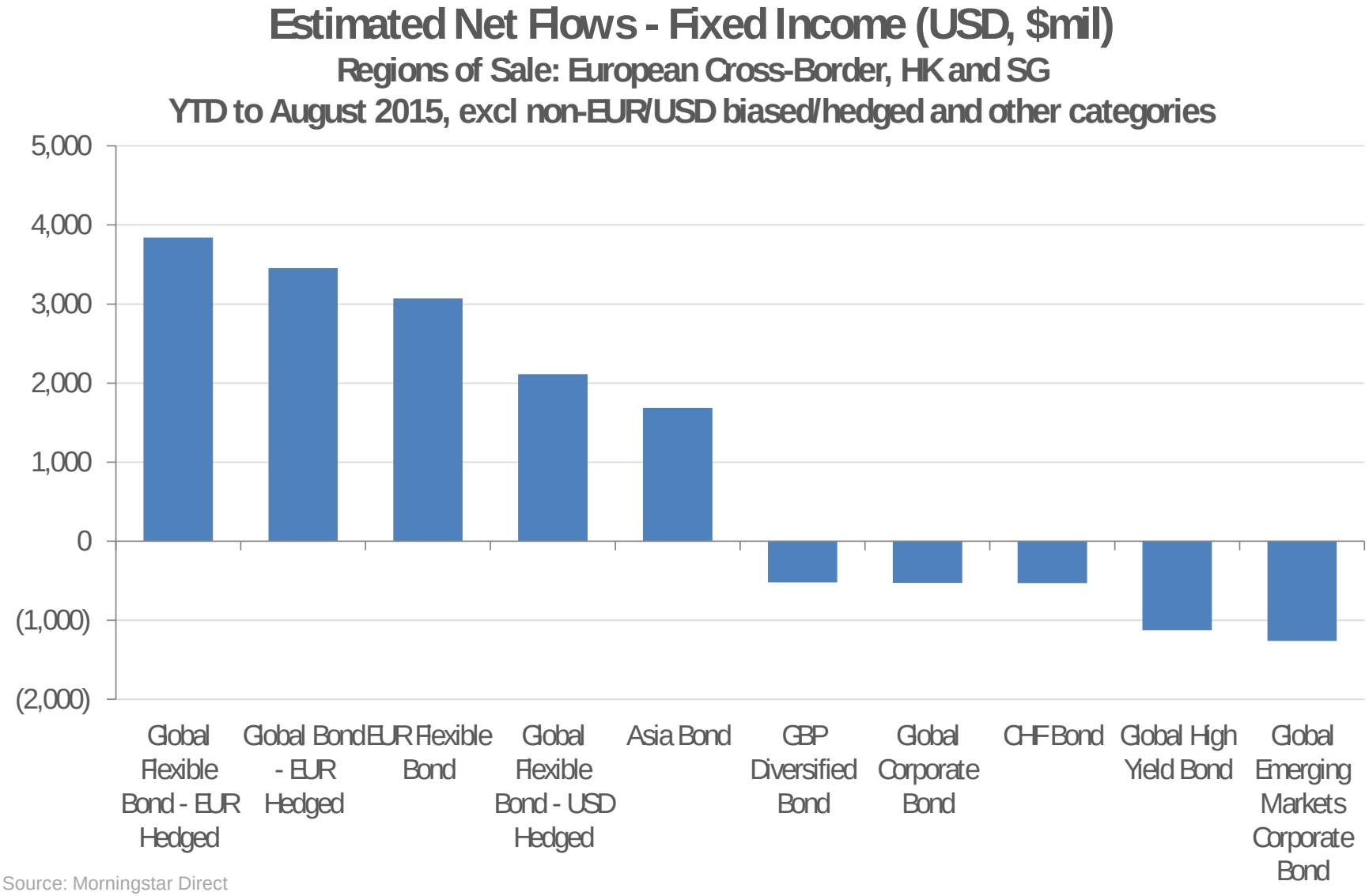
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Industry Trends and Developments – Asset Flows

What type of funds are cross-border investors getting in and out of?

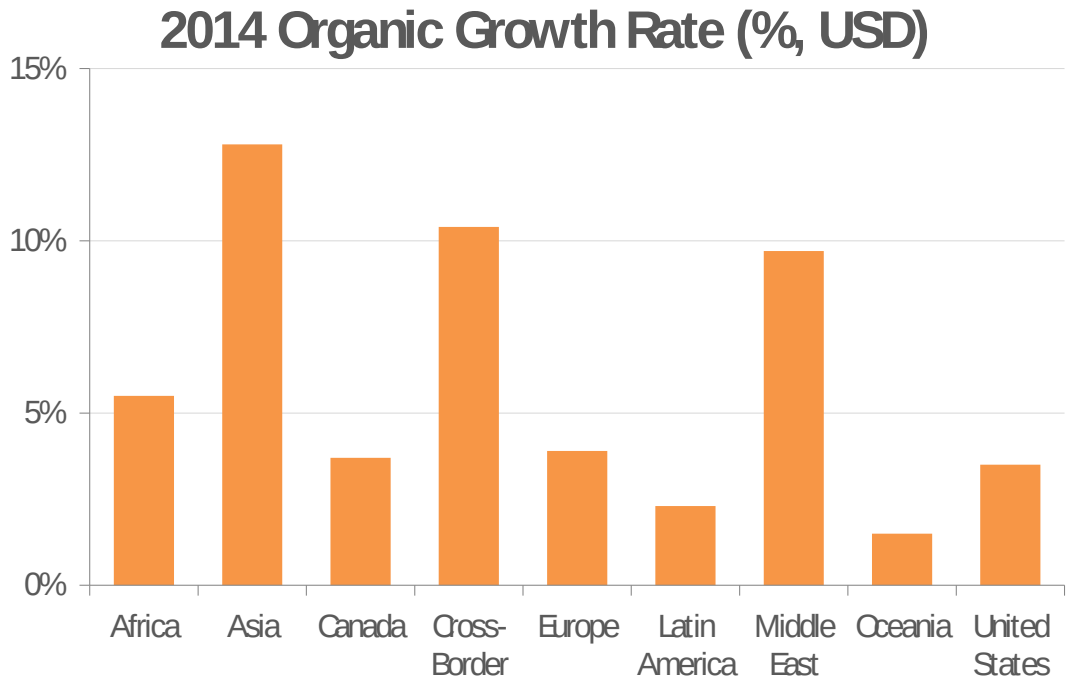


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Industry Trends and Developments – Asia Fund Passports
Fund passports can fuel further growth in cross-border fund sales

- Asia's low level of fund penetration today is not representative of the region's fast growing middle class and the increasing need for retirement savings.
- Cross-border funds are the second largest group by size, after the US.
- For a few years now we have seen funds licensed for cross-border sales growing at a considerably faster rate than single jurisdiction funds.



Source: Morningstar

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Industry Trends and Developments – Asia Fund Passports
UCITS vs Proposed Asia-Pacific Fund Passport Schemes

	UCITs	Hong Kong and China Mutual Recognition	ASEAN Collective Investment Scheme (CIS)	Asia Region Fund Passport (ARFP)
Fund Markets	EU member states + offshore markets	Hong Kong and China	Singapore, Malaysia and Thailand	Japan, South Korea, Singapore, Philippines, Thailand, Australia and New Zealand
Additional Markets?		Taiwan?	Indonesia, Philippines	
Announcement Date	1985	23 January 2013	02 October 2013	22 September 2013
(Expected) Launch Date	1985	1st July 2015	25 August 2014	2016
Latest Status	-	Operational, but no funds have yet been approved for sale in either HK or China	Operational, but initial take up has been relatively muted	Statement of Understanding (SOU) signed between all countries on 11th September 2015, with the exception of Singapore

Source: Citi, EY, Morningstar

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Industry Trends and Developments – Asia Fund Passports
The ASEAN CIS has been operational for a year now

- The cross-border offering of Collective Investment Scheme (CIS) became operational for **Singapore, Malaysia and Thailand** on **25th August, 2014**.

- **Eligible criteria**
  - Operator, i.e. experience, AUM size, shareholders' equity
  - Personnel, i.e. experience and academic qualifications
  - Investment Limits

- **Distribution** – funds must be distributed through local distributors licensed or regulated in the host country.

- **Disclosure** – funds are subjected to disclosure and reporting requirements in the host country.

- **Application process** – Needs approval by both home and host regulators, and accompanied by an offering document that complies with the host regulator.

- Initial take up appears to be relatively muted.

Source: ASEAN Capital Markets Forum (ACMF)

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Industry Trends and Developments – Asia Fund Passports Mainland-Hong Kong Mutual Recognition of Funds

- The China Securities Regulatory Commission (CSRC) and Hong Kong's Securities and Futures Commission (SFC) launched the Mainland-Hong Kong Mutual Recognition of Funds, or MRF, on **1st July, 2015**.

- A memorandum was signed by the CSRC and SFC that set eligibility standards on **asset class, fund size, track record, investment mandate,** and more.

- No funds have yet been approved by either the CSRC or the SFC but as of 31st March 2015, there were **844 onshore Chinese domiciled funds** and **103 Hong Kong domiciled funds** potentially eligible for the scheme.

- Within the 844 onshore funds, **equity funds** made up the biggest group at 371 (44%), followed by Aggressive Allocation (133, or 16%), and Aggressive Bond (85, 10%).

- Among the 103 Hong Kong-domiciled funds, about 68% are **equity funds**, followed by fixed-income funds at 22% and allocation funds at 10%.

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Industry Trends and Developments – Asia Fund Passports Mainland-Hong Kong Mutual Recognition of Funds

- **Greater Choice and Diversity in funds available for sale in Hong Kong**
  - Ability to access a diversified range of A-share (371) and onshore fixed income (194) strategies managed by onshore specialists, an asset class previously only accessible through limited QFII and RQFII quotas managed by offshore managers.
  - If successfully implemented, there may be scope to expand the scheme to other fund markets in Asia, providing even more choices for fund investors in the future.
- **Similarly in China,**
  - Ability to access a diversified range of international strategies managed by offshore specialists. Previously, Chinese fund investors could only invest offshore through the QDII quotas.
  - Limited number of investment options today (just over 100), but this is set to expand over the years as more global managers set up Hong Kong domiciled vehicles in the coming years.

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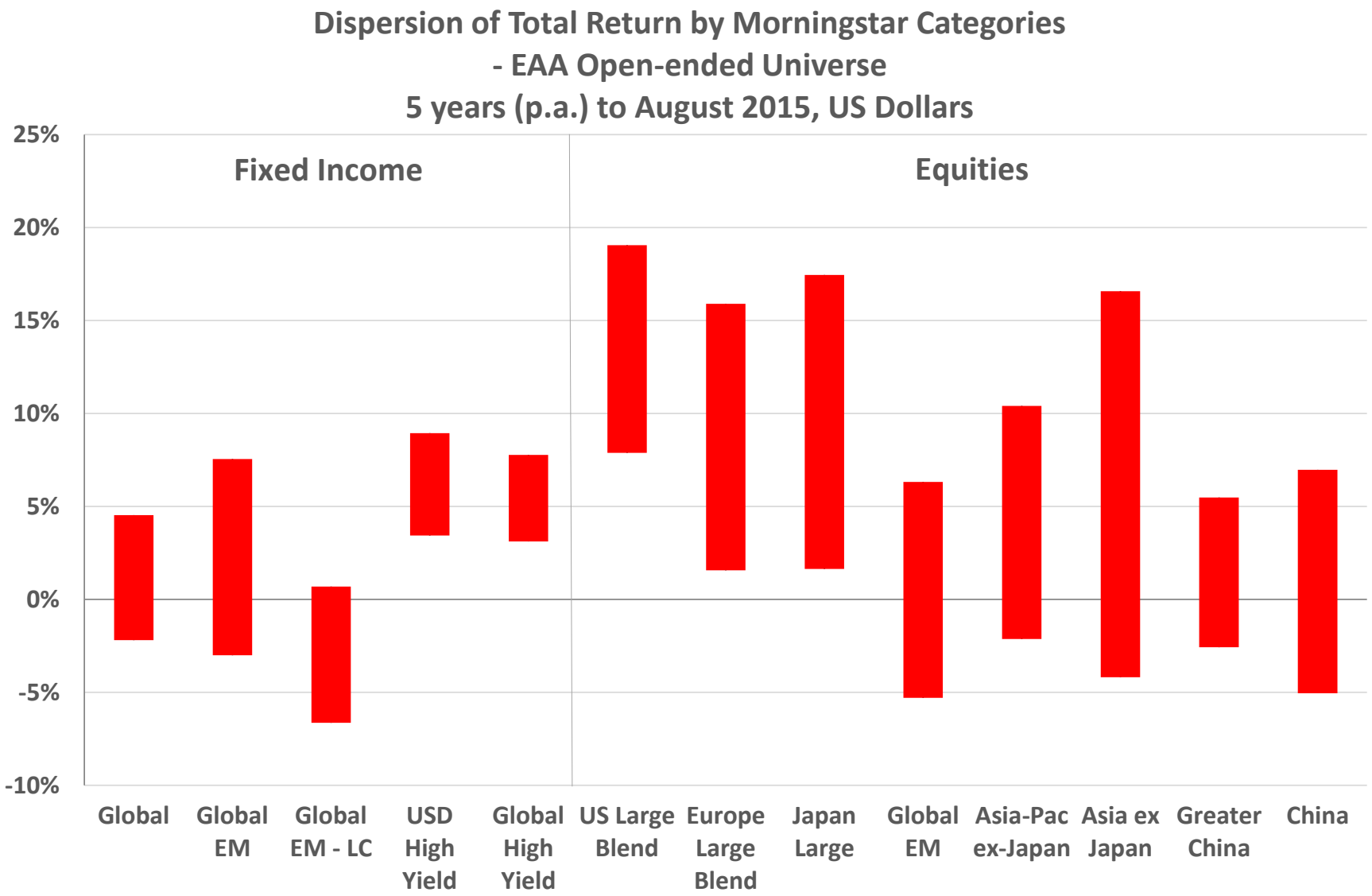
Industry Trends and Developments – Asia Fund Passports Challenges Ahead

- **Regulatory hurdles**
  - More regulatory bodies with different regulatory regimes = more difficult to reach consensus
- **Tax**, e.g.
  - Failure of the Australia – Hong Kong mutual recognition scheme in 2008
  - Singapore's refusal to sign the Statement of Understanding for the ARFP in September 2015
- **For asset managers**
  - Differentials in investment cultures
  - Distribution issues
- **For fund investors**
  - Cheaper fees are not a given

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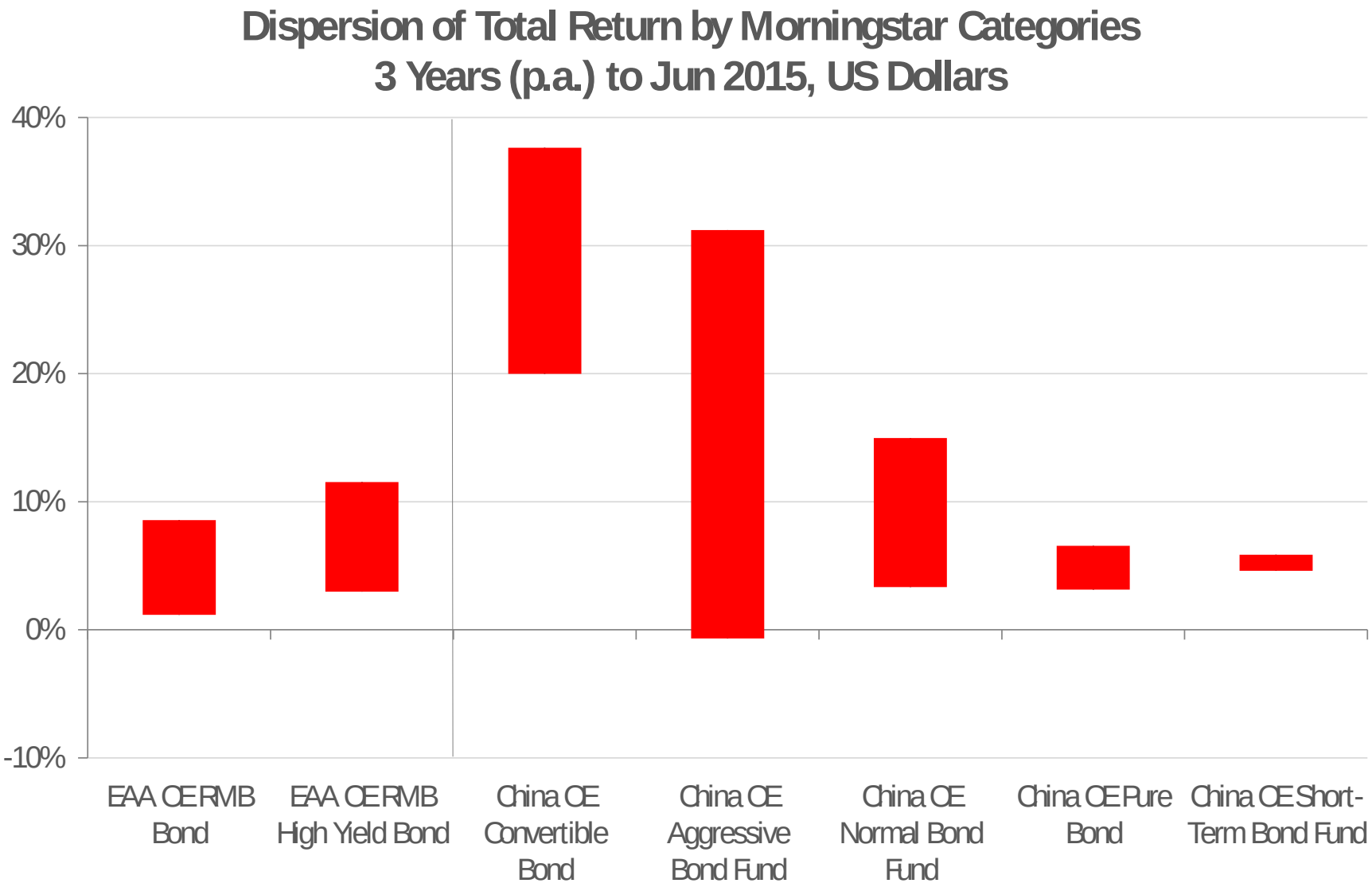
Fund Selection – Why it matters
Performance dispersion is high, so it pays to pick the right funds



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Fund Selection – Why it matters
And the dispersion (or opportunity) is wider in China…



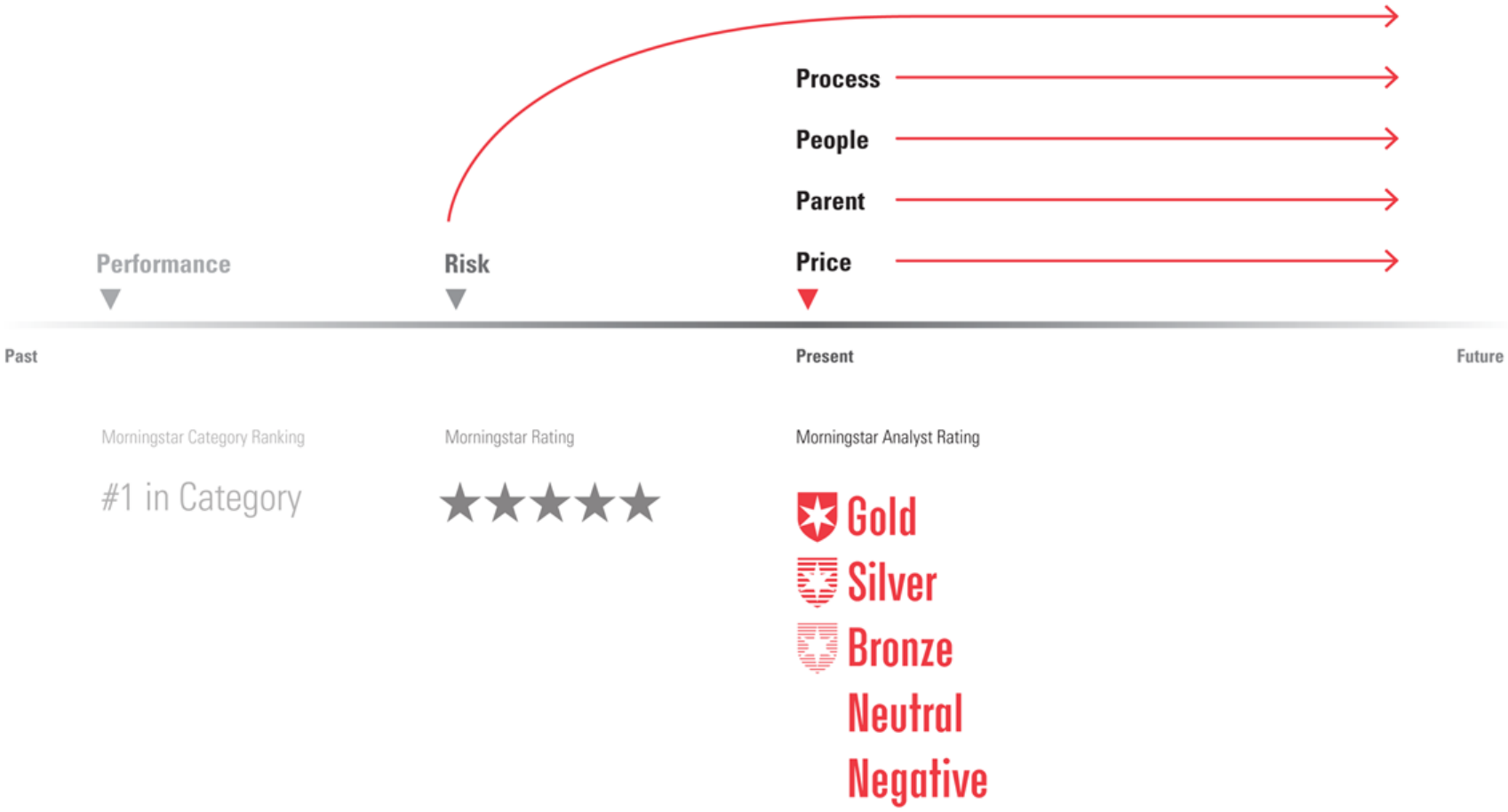
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Morningstar Manager Research

Evolution of Manager Research and Ratings



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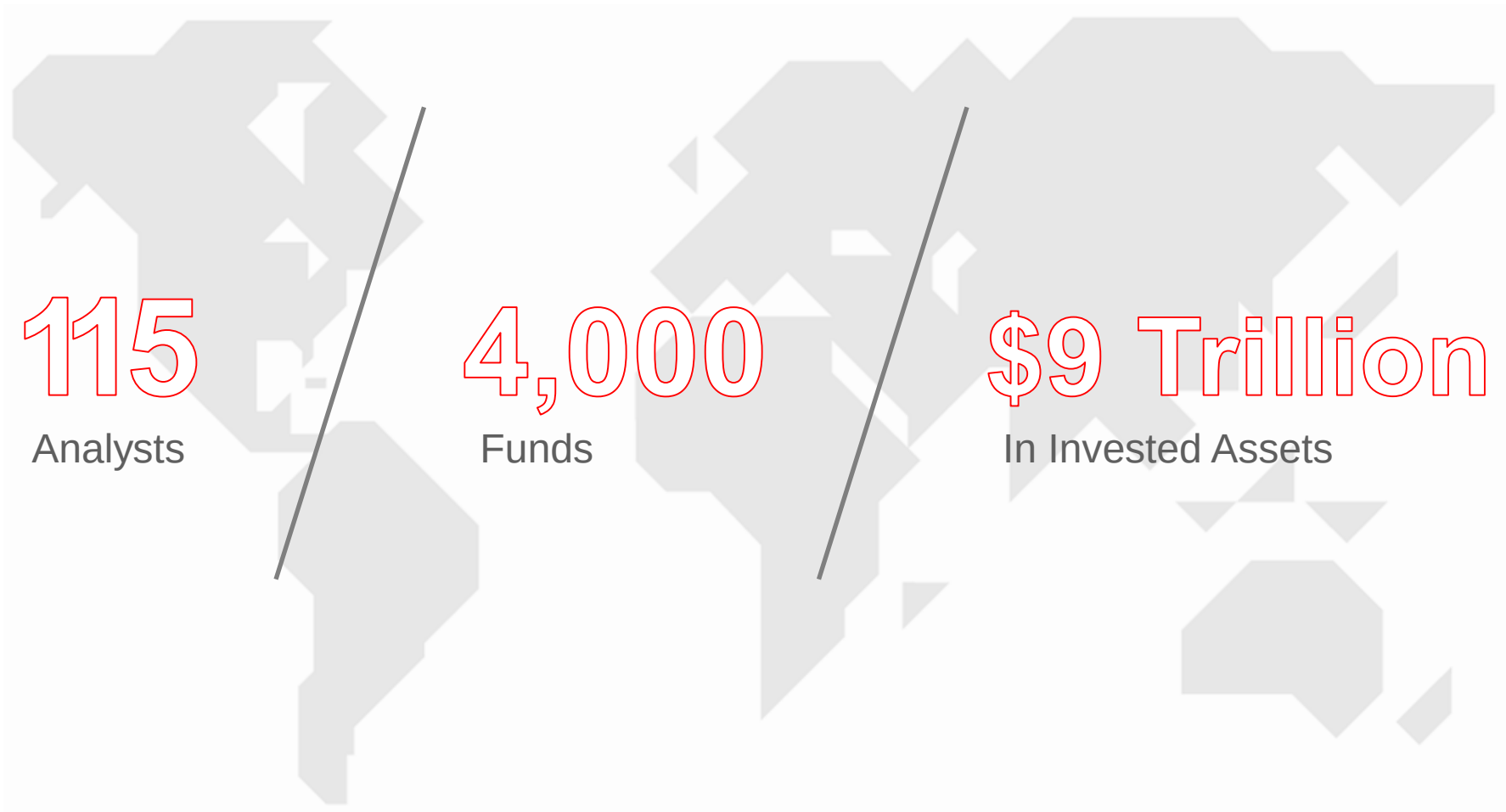
Morningstar Manager Research
The Morningstar® Analyst Rating



- Forward-Looking
- Investor-Focused
- Comprehensive

- Not a Short-Term Recommendation
- Not a Market Call
- Not Pay to Play

Morningstar Manager Research
Global Scope, Local Expertise



Data as of December 31, 2014.

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Morningstar Manager Research
Global Analyst Team

Our analysts each have, on average, more than a decade of industry experience across a wide range of sectors and investment types.

Region	Number of Analysts	Average Industry Experience (Years)	Average Morningstar Experience (Years)	Number of CFAs	Number of Advanced Degrees
North America	46	11.9	8.2	15	23
Asia/Pacific	30	9.2	3.7	6	13
EMEA	39	11.3	5.2	11	19
Total/Average	**115**	**10.9**	**5.7**	**32**	**55**

Data as of December 31, 2014.

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Five Pillars of the Morningstar Analyst Rating

Our five-pillar research framework reinforces a consistent, long-term investment process and gives advisors the resources they need to provide justified recommendations that are well suited to client needs.



People

Team

~~Quality/Experience~~

~~Team Depth~~

~~Team Continuity~~

Alignment of Interests



Process

Security Selection/Idea Generation

Valuation Discipline

Portfolio Construction/ Risk Management

Capacity



Parent

Structure/Ownership

Organization Stability/ Financial Strength

Culture/Stewardship

Regulatory/Compliance



Performance

Rolling Risk-Adjusted Returns

~~vs. Style Benchmark~~

~~Downside Statistics~~

Attribution



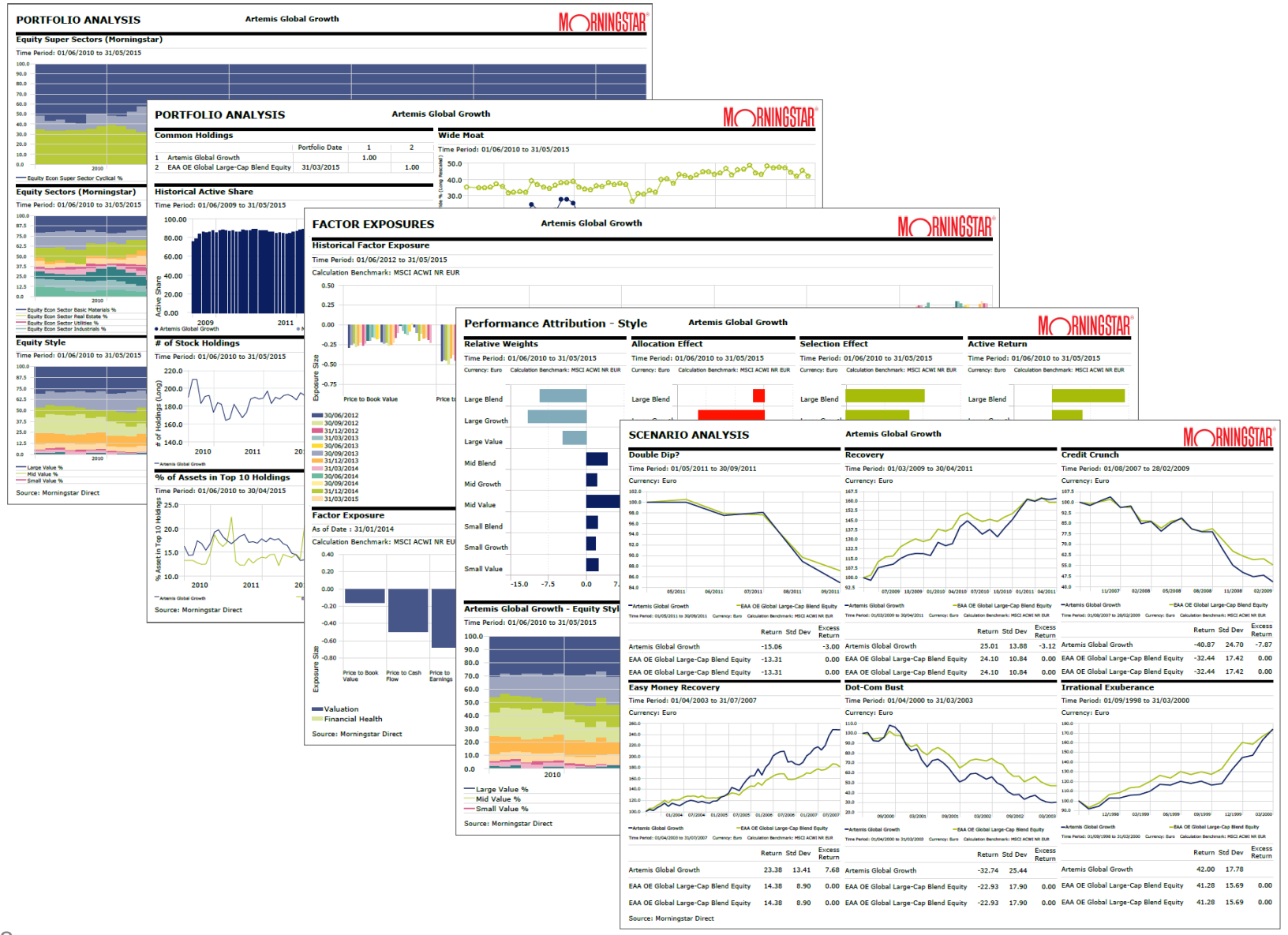
Price

Expense Ratio Relative to Peer Group

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Morningstar Manager Research
Access to data and analytical tools a distinct advantage



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Morningstar Manager Research
Global Fund Report

Since 1986, Morningstar has provided independent qualitative research on managed products. The Morningstar Analyst Rating is supported by a consistent global methodology.



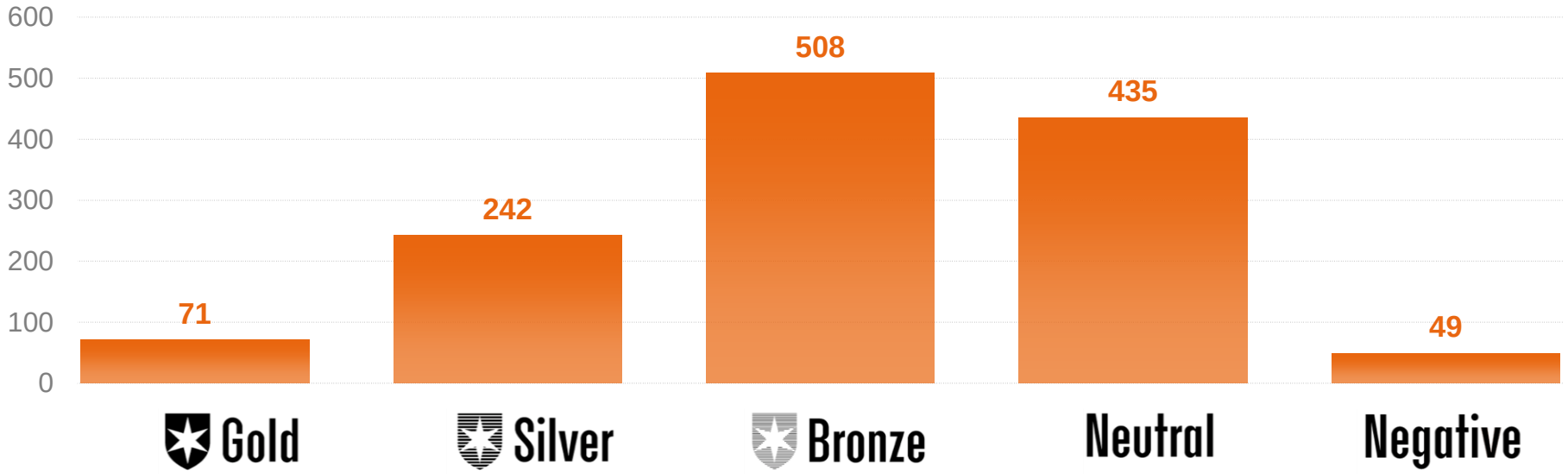
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Morningstar Manager Research
Distribution of Analyst Ratings - EMEA

In practice, our coverage is skewed towards positively rated funds as we prefer to dedicate analysts to funds we believe will be of interest to our research clients, but there is no set distribution across the rating scale.

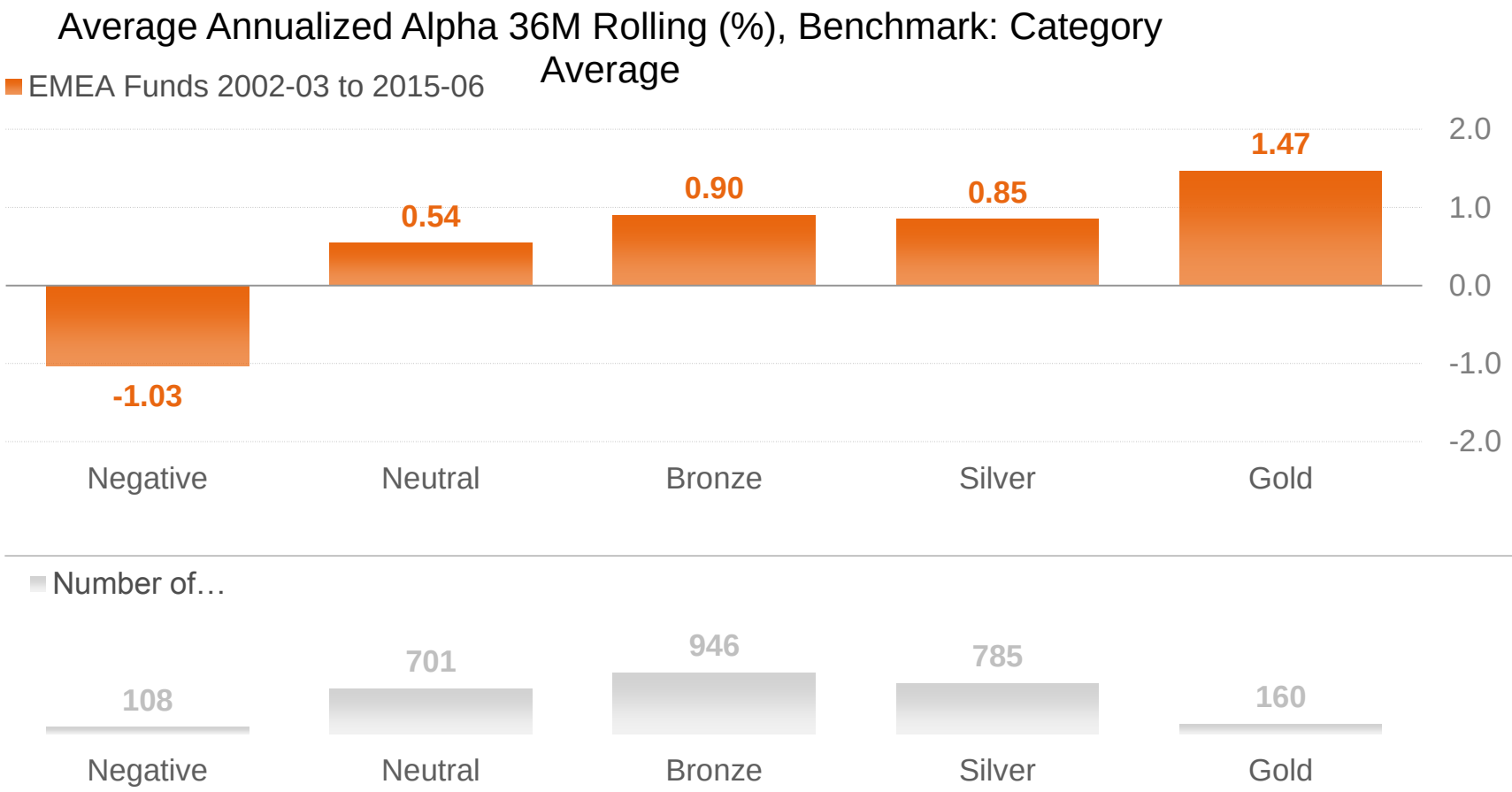


EMEA Open-End & Closed-End Universe; Data as of 8/21/2015.

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Morningstar Manager Research

EMEA Analyst Rating Performance 2015-Q2 - Alpha 36M Rolling Window

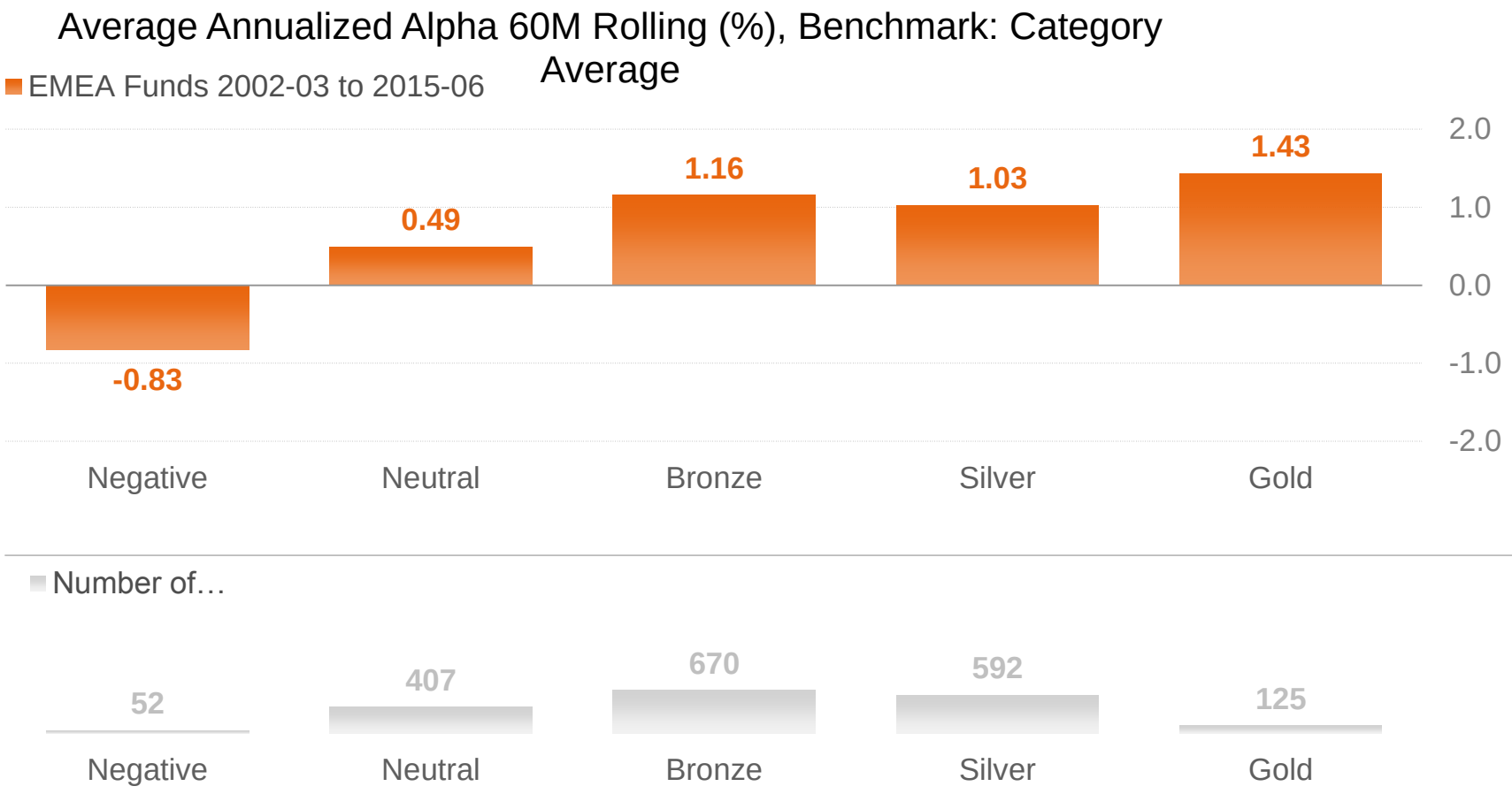


Source: Morningstar, Inc. as of 2015-03-31

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Morningstar Manager Research

EMEA Analyst Rating Performance 2015-Q2 - Alpha 60M Rolling Window



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Mr. Wing Chan is a Director of Manager Research for Morningstar Investment Management Asia Limited

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