

Round Table 2:

“Asset Management Industry: Meeting the Needs of the Fast-Growing Economies”

www.paris-europlace.net

www.paris-europlace.net

***Asset Management Industry:
Meeting The Needs of
the Fast-Growing Economies***

Jean-Baptiste de FRANSSU

**Chief Executive Officer,
INVESCO Continental Europe**

Paris –



Table of Contents

Section 01 Overview of China's Asset Management Market

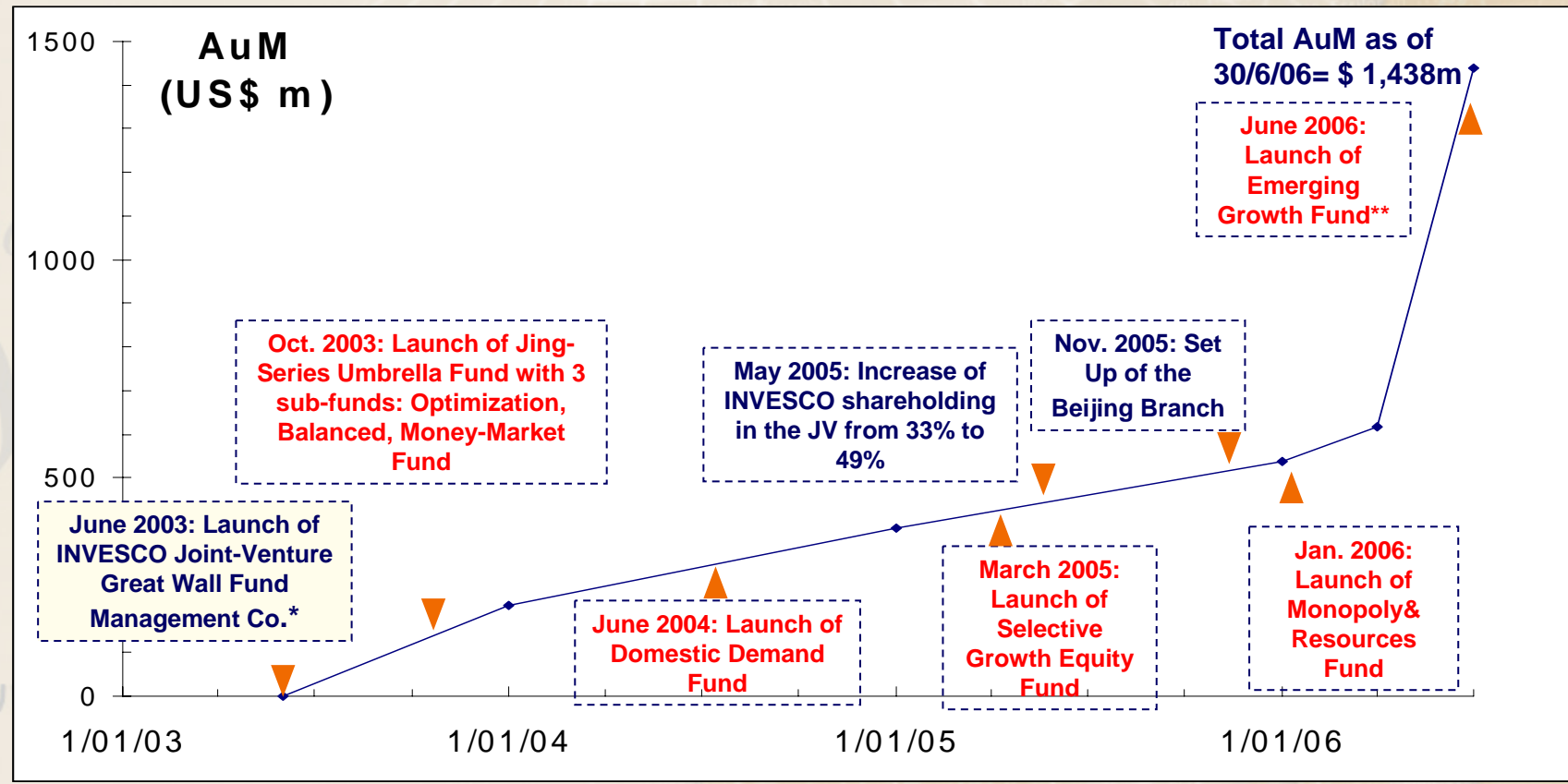
Section 02 Meeting Needs Through Joint Ventures

Section 03 Product Segmentation

www.paris-europlace.net

www.paris-europlace.net

INVESCO Great Wall's History in China



*JV between AMVESCAP, Great Wall Securities Co., Ltd., Kailuan Group Co., Ltd. and Dalian Shide Group Co., Ltd

Overview of China's Asset Management Market

01

China's Asset Management Industry Is Gaining Momentum...

- At end of Q1 06, AuM in China's Asset management industry represent over \$ 62bn (RMB 500bn) for the first time
- In spite of a deceleration of the rate of growth (7% for the quarter), the industry is showing long-term perspectives and could be over \$ 75bn (RMB 600bn) by year-end 06 (Source Z-Ben Advisors Ltd)
- Fund flows into new products amounted to \$ 4.9bn during Q1 06
- Domestic players remain ahead of foreign competitors (JV and Foreign Invested) and their market share has increased over the last 2 years, from 73.3% to 74.8%.

Overview of China's Asset Management Market

01

Sustained By A Solid Macroeconomic Outlook

- Nominal GDP is expected to continue to grow at double digit rates until 2010
 - Therefore by 2010 per capita income is expected to reach \$2,400 per annum and national GDP approx. \$3.8 trillion
- Savings and investment rates are close to 40% of GDP in China
- By 2010 investment flows are expected to reach almost \$1.5 trillion per annum. (By comparison, investment flows in the US in 2005 were just over \$2.0 trillion.)

Sources: Datastream, UN World Population Prospects, and INVESCO forecasts

02

Meeting Needs Through Joint Ventures

Foreign Asset Managers: 18.6% Marketshare

JV Fund Managers (As At Mar 31, 2006)	Operational Date	% Foreign Owned	AUM (USD millions)	% Share
Fortis Haitong	Apr 2003	49%	1,633.67	2.62%
Fortune Soc Gen AM	Feb 2003	33%	1,613.18	2.58%
China Merchants (ING)	Dec 2002	30%	1,413.17	2.26%
ICBC Credit-Suisse	Jun 2005	25%	1,340.03	2.15%
ABN AMRO Xiangcai	Jul 2002	49%	897.19	1.44%
GTJA Allianz	Mar 2003	33%	692.03	1.11%
BOC International (Merrill Lynch)	Jun 2004	16.5%	649.63	1.04%
INVESCO Great Wall	Jun 2003	49%	618.06	1.00%
Everbright Pramerica	Mar 2004	33%	565.81	0.91%
Bank of Communications-Schroders	Aug 2005	30%	516.69	0.83%
CCB-Principal	Sep 2005	25%	439.61	0.70%
SYWG BNP Paribas	Dec 2003	33%	438.21	0.70%
China International (JP Morgan)	May 2005	49%	398.94	0.64%
UBS-SDIC Hongtai Trust	Jun 2002	49%	248.70	0.40%
AIG Hua Tai	Mar 2004	49%	71.47	0.11%
Franklin Templeton Sealand	Sep 2004	49%	49.33	0.80%
CITIC Prudential (UK)	Aug 2005	33%	-	-
HSBC-Jinxi Trust	Oct 2005	49%	-	-
Total			11,589.44	18.56%

Product Segmentation

Cash Equivalent Products Are Historically In High Demand

Product Type	4Q 2005	1Q 2006	% Change	1Q 2006 % Share
Closed End Fund	10,231	11,538	12.80%	18.5%
Equity Fund	7,938	6,850	-13.70%	11.00%
Balanced Fund	10,537	7,960	-24.50%	12.70%
Bond Fund	2,782	4,019	44.50%	6.40%
Guarantee Fund	1,215	1,459	20.20%	2.30%
Money Market Fund	23,246	28,272	21.60%	45.30%
Index/ETF	2,436	2,361	-2.9%	3.80%
Total	58,383	62,460	7%	100.00%

Product Segmentation

Cash Equivalent Products Are Historically In High Demand

- During Q106, demand was driven by cash equivalent products: money market funds and short term bond funds
- These funds represent \$ 32bn, which is more than 50% of the total AuM
- These flows reflect the first real disintermediation of capital from the banking system
- Some capital may be redirected from Money market to Equities and Balanced funds in the future, but it will likely not be on mass.

Product Segmentation

But Non Cash Equivalent Products Gaining Favour

- Closed-end funds are still the major category (\$ 11.6bn as of end Q1 06), followed by balanced funds (\$ 8.0bn) and equity funds (\$ 6.8bn)
- Over the past 2 years, total AuM in Non cash equivalents have stagnated over \$ 30bn, despite an increase in the number of products (from 127 to 193)
 - poor investment performance in equity markets in 2004&2005 implied limited demand for most equity/balanced funds and investors' preference for money-market funds
 - Without taking into account flows into new funds, net redemptions were still \$ 4.6bn for these products for Q1 06, and despite the fact Q1 06 was the first real rebound in share prices over the last 2 years
- Redemptions were particularly strong for older actively managed funds with high retail participation and which have underperformed over the last two years, as clients are focusing on absolute returns rather than relative ones

Product Segmentation

But Non Cash Equivalent Products Gaining Favour

- INVESCO's AuM in China (\$ 618m) consist of 52% in Equity (3 funds), 32% in Balanced funds (2 funds) and 16% in Money markets (1 fund)
- As most major JV operators with older actively managed products, INVESCO has experienced some outflows in its product range over Q1 06
- However, its two major funds have experienced positive inflows over the quarter:
 - The Equity fund INVESCO Great Wall Domestic Demand Fund (\$ 178.9m in AuM), increasing by 6%
 - The Balanced fund INVESCO Great Wall Monopolistic Resource Equity Fund (\$ 175.4m in AuM), increasing by 22%



Fresh ideas for...

...a successful partnership
with INVESCO.

... innovative products.

... your success.



PARIS
EUROPLACE

FINANCIAL FORUM

Pavillon d'Armenonville

Tuesday 4 & Wednesday 5 July, 2006

www.paris-europlace.net

www.paris-europlace.net