

RIDING THE WAVE

Capitalizing on the growth trends in Asia Pacific

THE ONSET of the financial crisis has impacted global investment but has also prompted many to flock back to emerging markets. The lure of better returns and higher valuations has led to sizable inflows returning to Asia, with shifts into different investments, the introduction of new players and a more risk adverse attitude driving investors.

As Asia continues to be an attractive proposition to investors, the responsibility of securities services partners is clearly evolving. The ability to provide integrated services effectively across markets and globally consistent but locally focused capabilities remains crucial. New requirements such as product flexibility, customized solutioning for complex client needs, as well as continuous investments in technology and market interfaces are becoming more important as investors of all strategies flock back to Asia.

Asia in Flux

On the surface, it has become clear to investors both globally and regionally that Asia is not immune to the global financial turmoil. Indices across the region sunk in line with international benchmarks, including the Dow Jones Industrial Average and the FTSE 100, and economies have contracted significantly. But unlike more developed markets like North America and Europe, there are more conspicuous positives in the markets of Asia Pacific.

From late October 2008 when it hit the bottom, the MSCI Asia Pacific Index has experienced its share of volatility but stands 37% stronger as of the first week of July, according to MSCI Barra.

Given this scenario, it is not surprising that since April 2009, the long-term confidence in and appetite for investment into Asia remain strong. According to EPFR Global, emerging market funds and in particular, Asia have seen significant interest from investors, generating mostly positive inflows. In second quarter 2009, emerging market funds absorbed new

inflows of \$26.5 billion, surpassing the previous record of \$22.4 billion in net inflows in the fourth quarter of 2007.

According to Citi Investment Research and Analysis, country funds have become large recipients of investments by institutional investors, asset managers and alternative investors. This shift is for good reason given the substantial improvements in indices and the solid economic fundamentals in selected markets.

Drivers of Inter-Asian Investment

No conversation of Asia can exist without China and India. Both markets are front-and-center to the continuation of inflows into Asia. However, both markets present investors with highly distinct regulatory and infrastructure frameworks, and rely on the experience and services of on-the-ground providers to successfully navigate.

China

The slowing economy of China has been mirrored in the performance of the domestic equity market. The Shanghai Stock Exchange (SSE) Composite Index which bottomed in late October 2008 has climbed approximately 70% from the trough as of the first week of July. The comeback has impacted fund flows into the region at large, accounting for 73% of total inflows into Asia in late June, according to EPFR Global. This is consistent with the return of investors into China, with China equity funds taking in a net \$3.8 billion of direct inflows in second quarter 2009, according to Citi Investment Research and Analysis.

China remains a highly regulated market for Qualified Foreign Institutional Investors (QFIs), which can result in long lead times in accessing the market. Multiple regulator touchpoints also create challenges in the smooth implementation of regulatory changes.

To assist clients, Citi is working with local regulators as a partner and adviser, drawing on its deep understanding of the needs of both

QFIs and Qualified Domestic Institutional Investors (QDIIs). "Citi is the leading QFII and QDII custodian bank in China, with over 21% of the QFII custody market and over 60% of the insurance QDII custody market. Citi profoundly understands the needs of cross-border investors that are investing out of, or into, China," said Alvin Goh, Citi's China Securities and Fund Services Head.

In 2009, Citi introduced a new nominee account structure for asset segregation purposes for China QFII clients, allowing clients to segregate their proprietary assets and client assets when trading. Citi China also implemented proxy voting by fax, providing clients with more flexibility and convenience when they exercise their voting rights.

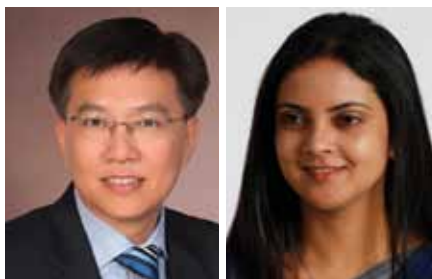
India

India is also attracting a large portion of Asia inflows and will continue to lure emerging market investors. In May alone, the MSCI India Index rose by 37%, outpacing all developed and emerging market country indices. Up to July 2009, figures from the Securities and Exchange Board of India show over \$6 billion have been pumped into India by FIIs.



David Russell, Asia Pacific Region Head, Securities and Fund Services

Left: Alvin Goh, China Securities and Fund Services Head; right: Debopama Sen, India Securities and Fund Services Head



"India has weathered the storm fairly well by comparison," said Debopama Sen, Citi's Securities and Fund Services Head. "Not only have foreign inflows recovered significantly in the second quarter, the strength of the market infrastructure has been tested for events of extreme volatility. For instance, on May 18, 2009, the day after the announcement of the national election results when the market rose 17% in less than a minute, trading had to be halted due to breach of circuit filters," said Sen.

Further, significant changes in the FII regulations have been introduced over the last 18 months. Key changes include easing of the registration norms for FIIs and sub-accounts, reduction in registration fees for FIIs and sub-accounts, removal of the restriction on FIIs for issuing offshore derivative instruments, and permitting direct market access to institutional investors.

"Citi, with its strong expertise and knowledge of the local market, is well positioned to help our clients in entering the Indian market and setting up suitable processes for investing in India," said Sen. "We continue to be a leader and an innovator in the Indian marketplace. We have implemented a series of "firsts" among foreign custodian banks, including being the first to offer the most flexible margining process to clients, the first to extend the Stock Exchange set-up cross margining benefits to its clients, and the first to clear and settle FII Securities Lending and Borrowing (SLB) trades in the market," notes Sen.

Strength of Citi

The likely sustainability of fund flows into Asia plays to the strengths of Citi. Citi's Securities and Fund Services touches every point along the investment servicing lifecycle by serving clients across all segments in all geographies and across all asset classes. This unique positioning and the bank's long history of involvement in the Asia Pacific securities markets give Citi an un-

matched insight into the evolution of markets, allowing Citi to monitor the changing landscape as well as the evolving requirements of market participants.

Citi's dedicated Securities and Fund Services sales and product specialists across 16 countries in Asia Pacific, as well as Asia Desks in London and New York, allow it to adopt a consultative approach towards sales, product development and deal implementation. The bank has the most comprehensive suite of flexible solutions, operational support and on-the-ground experience to service intermediary, investor and issuer clients, enabling them to boost their bottom lines in Asia Pacific and focus on their core business.

"Institutional investors into Asia need a provider that is firmly established in the region, understands clients' needs, and can keep pace with the changing environment," said David Russell, Citi's Asia Pacific Regional Head of Securities and Fund Services. "Our country teams leverage the global strengths of the organization to provide the operational infrastructure and customized solutions that clients require when committing large inflows into the region."

Although fund flows are likely to remain highly volatile in the remaining months of 2009 and into the early stages of 2010, the prospects of recovery and the attractiveness of individual markets remain stronger than other regions.

To ensure that investors are maximizing their investments in Asia, as choppy as they may be, a solid relationship with an experienced securities and fund services provider has never been more pivotal. The peace of mind provided by a comprehensive, flexible and experienced provider of securities and fund services is a proposition no investor can ignore. Fortunately for investors committing inflows into Asia, Citi is the one provider that ticks all the boxes, offering highly diversified solutions and the greatest consistency across markets.

CONTACT

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In 2008, Citi's Securities and Fund Services business in Asia was recognized as Best Direct Custody and Clearing Bank and Best Middle Office Outsourcing Provider by *AsianInvestor*; Best Local Custodian in Asia by Asia Asset Management, and #1 ranking in Asia in *Global Custodian's* Global Custody Survey.

In 2009, the bank earned #1 ranking and 'Top Rated' in Asia in *Global Custodian's* Mutual Fund Administration Survey for the fourth year in a row; and 'Commended' status in the Hedge Fund Administration Survey. It also won Fund Administrator of the Year in Asia Pacific by *ICFA*.

