Pension Assets: Aging Society and Its Implication on Asian Capital Markets

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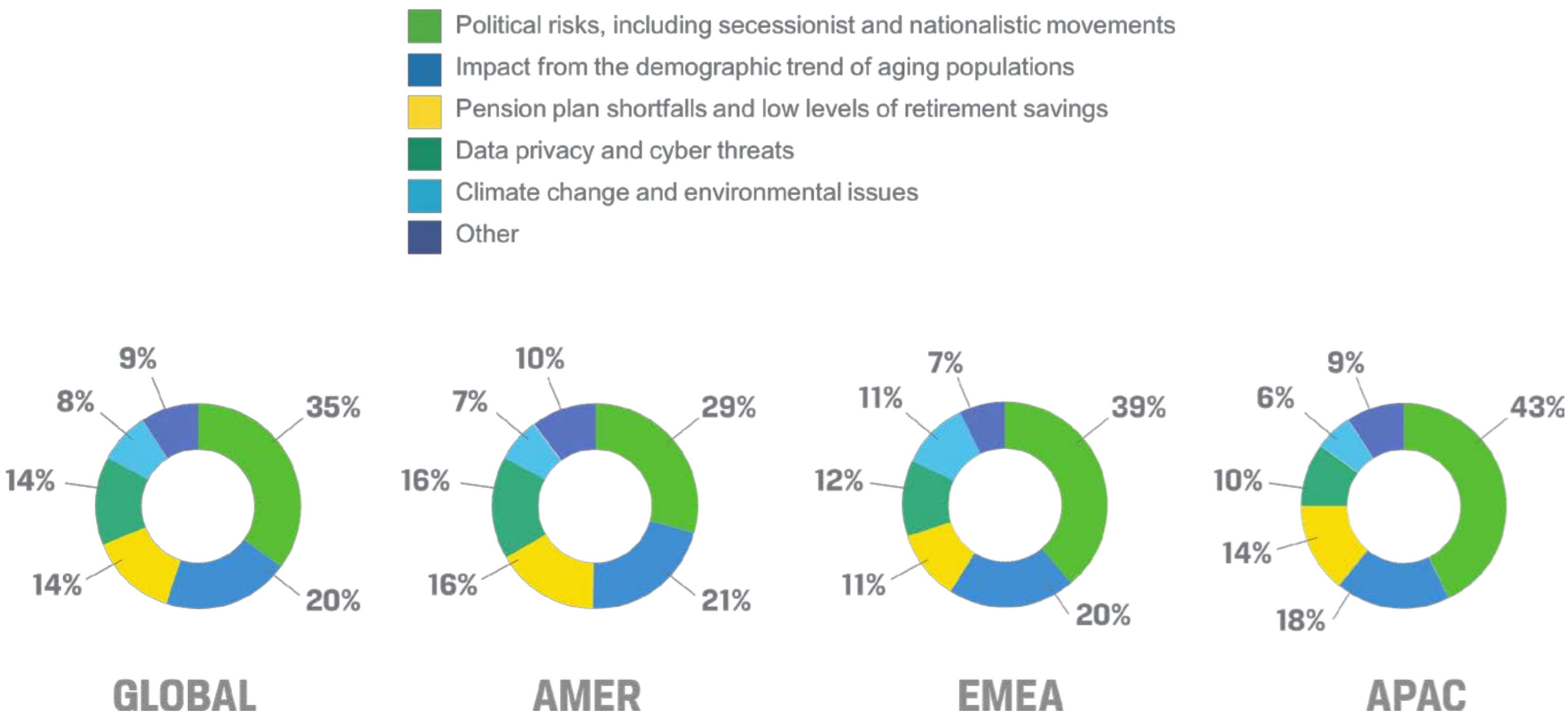
The retirement issue directly impacts markets

OVER THE NEXT FIVE YEARS, WHAT IS THE MOST UNDERESTIMATED RISK THAT COULD NEGATIVELY IMPACT GLOBAL CAPITAL MARKETS?



Source: CFA Institute Global Market Sentiment Survey 2015

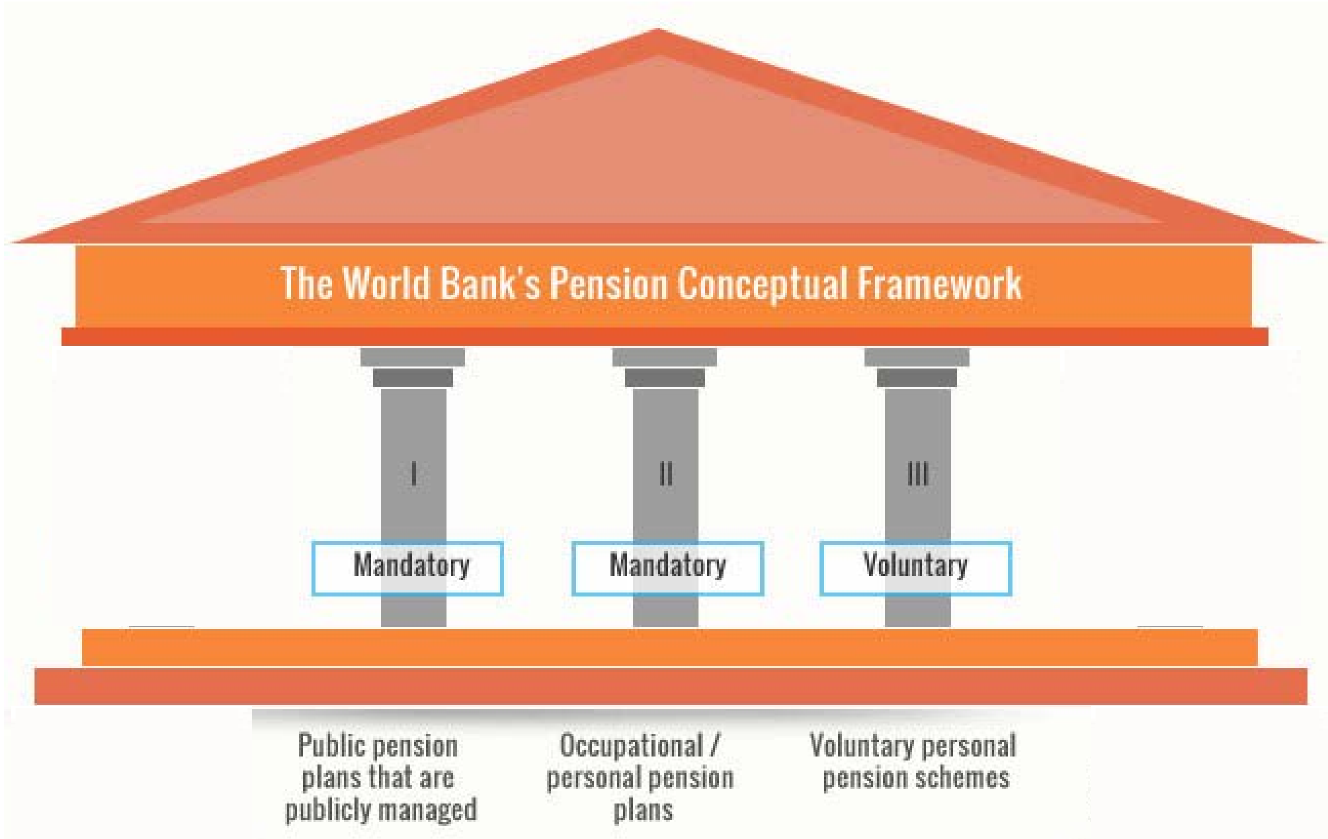
Agenda

Pension Assets: Aging Society and Its Implication on Asian Capital Markets

- Retirement Savings: the need
- Retirement Savings: market maturity
- Japan case study
- Panel discussion

Retirement Savings: the need

World Bank three pillar retirement system model

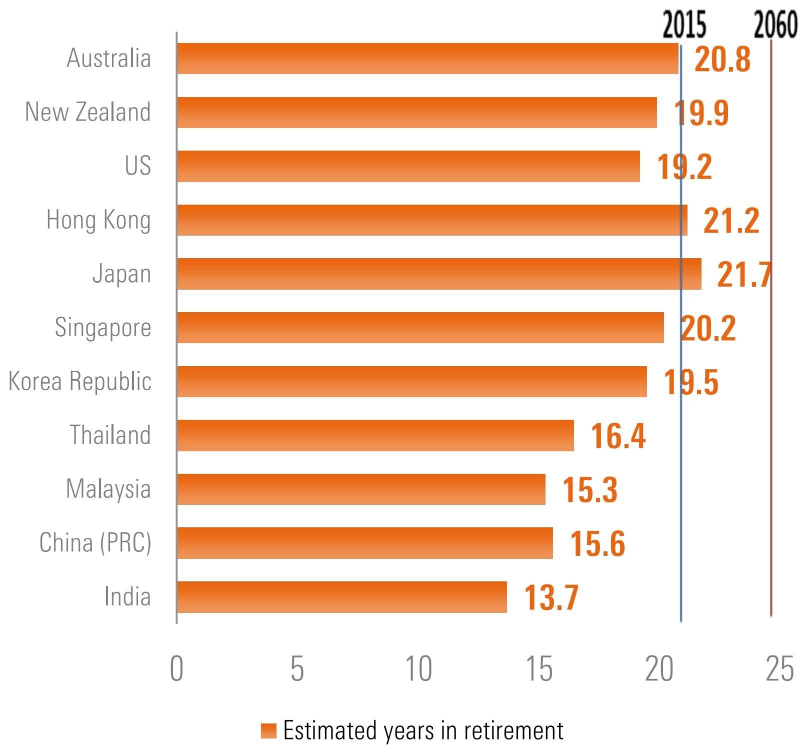


- In 2005, Pillar 1 and 3 were split.
  - Pillar 0 funded from public finances e.g. tax
  - Pillar 4 recognises other assets in providing financial retirement support e.g. personal savings and real estate

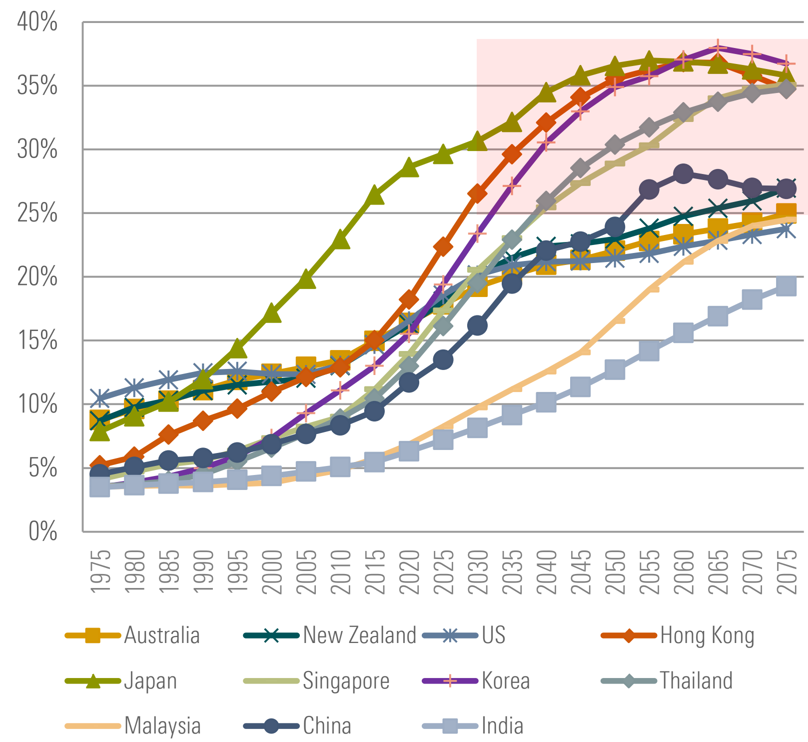
Source: World Bank,

Years spent in retirement is expected to increase 20% because of increased life expectancy.

Current and forecast average years in retirement



Population over 64 to total population



The average years in retirement are expected to increase 4.2 years to 25 years.

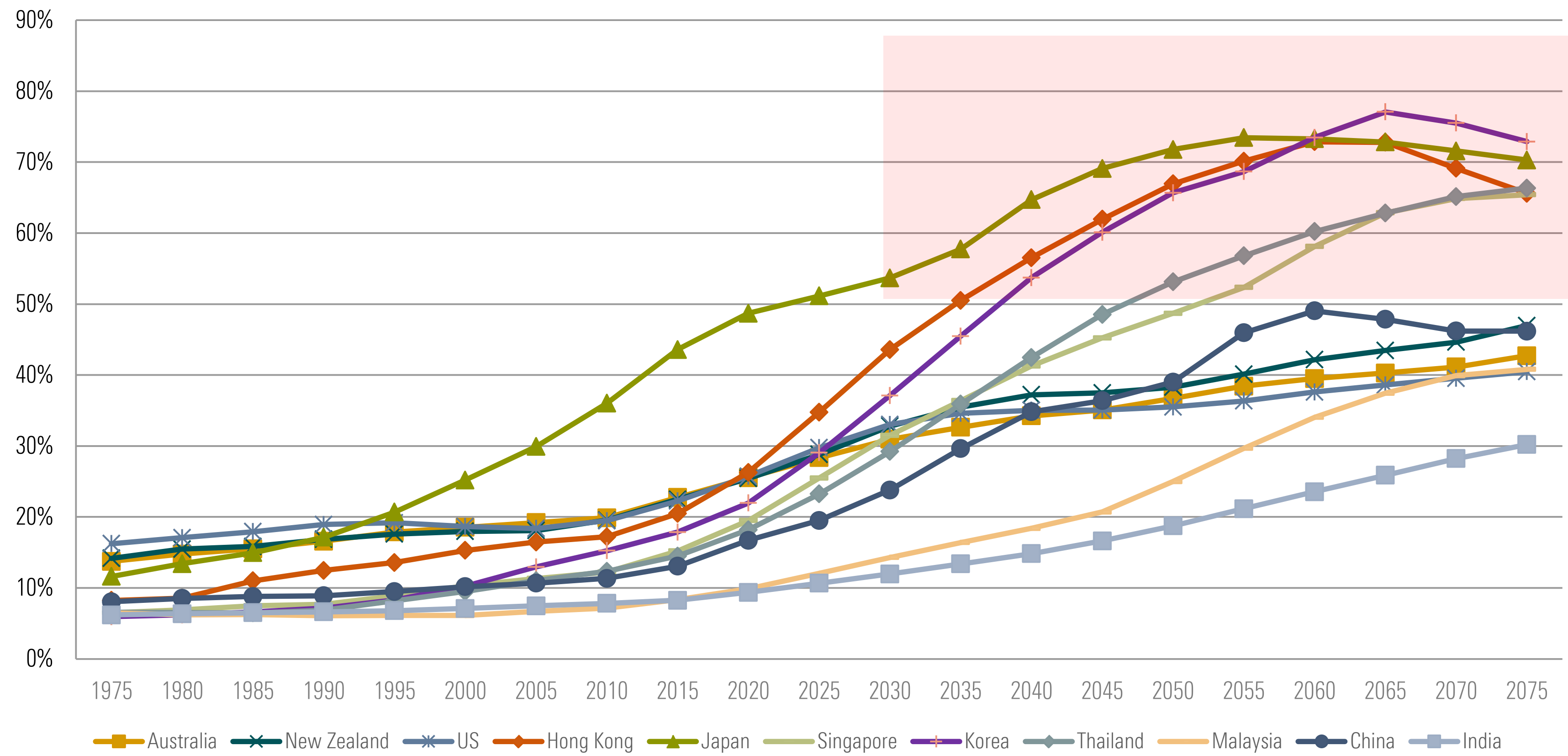
By 2030, 25% of Japan, Hong Kong and Korea population will be over 64.

Subsequent retiree cohorts will need larger retirement assets to manage longevity risk.

Sourcing: Compiled from OECD database, Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2012 Revision

Developed Asian countries have the highest old age dependency (OAD)

Ratio of population aged ≥ 65 to population aged 15–64, 1975–2075



Subsequent **cohorts will put pressure on** the pension system and are likely **to receive less benefits when they retire.**

Source: Compiled from Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2012 Revision

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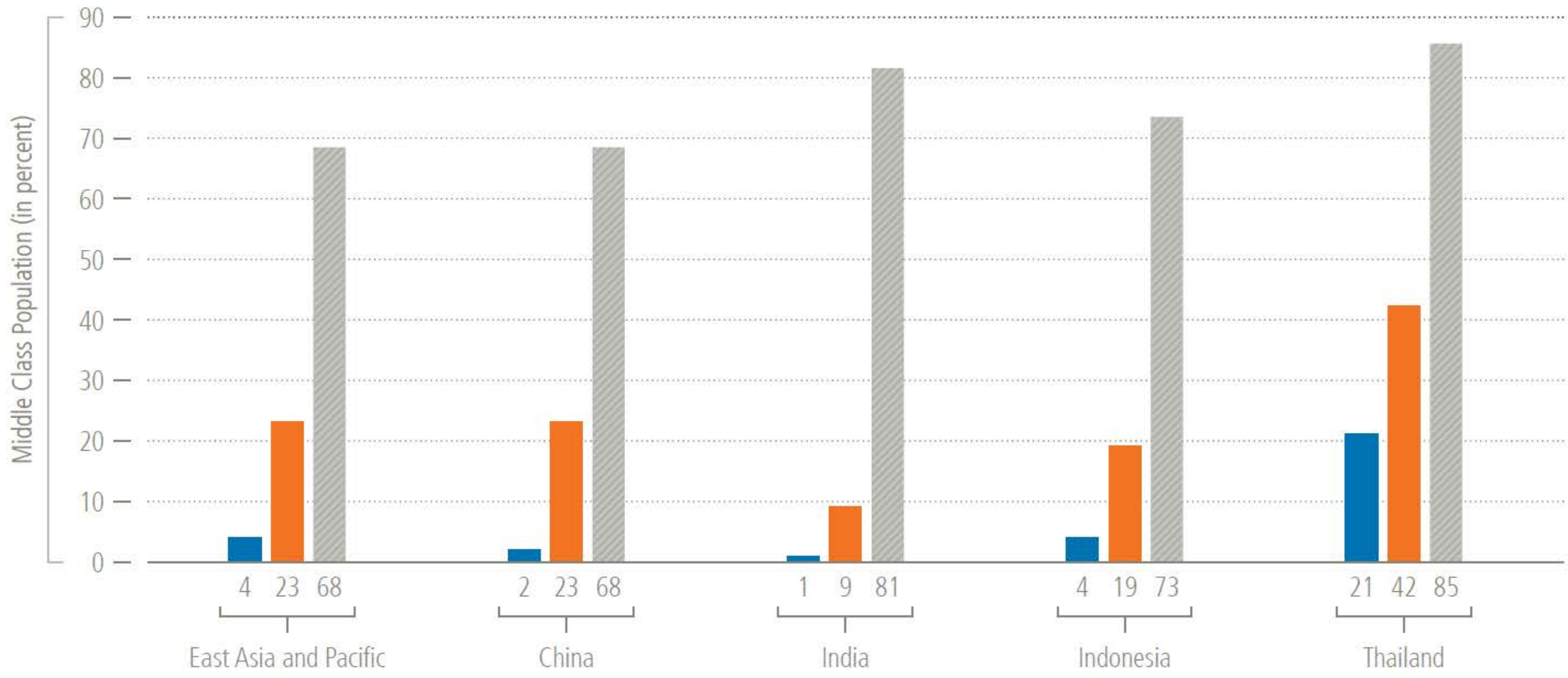
Asian countries 'middle class' will exceed 50% of the population by 2030

Rapid increase of the middle class in Asia



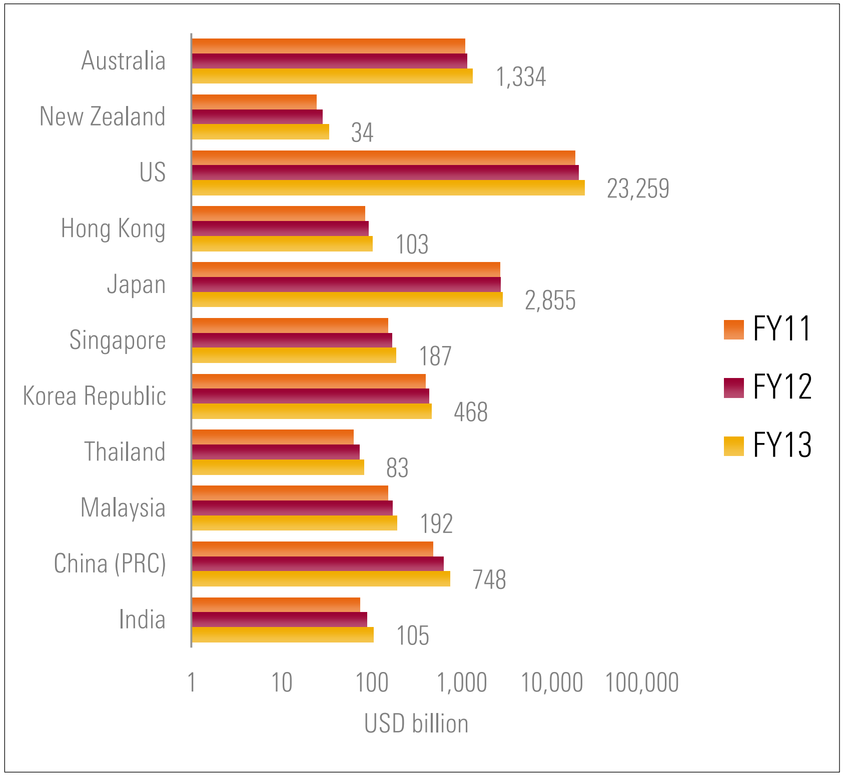
Note: The middle class includes people earning or spending US$10 – 100 a day (2005 purchasing power parity).
Source: "Development, Aid and Governance Indicators (DAGI)", Brookings Institution, 2012.

- The middle class will have higher expectation of retirement needs'.
- The needs increase because of cost of living associated with increase urbanisation, higher standard of living and medical cost.
- The societal impact is lower fertility rate and longer life expectancy.

Retirement Savings: market maturity

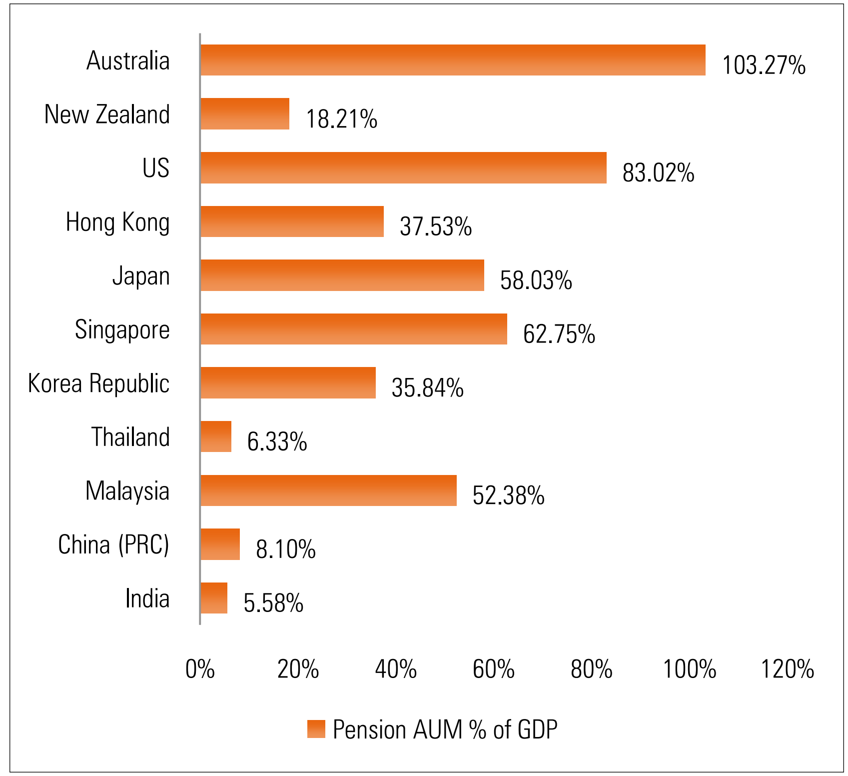
Retirement Savings: Market maturity

Pension Asset Under Management (PAUM)



PAUM is currently increasing across all nations. China has the highest rate of increase in effort to address a rapidly aging population.

PAUM % of GDP (2013)

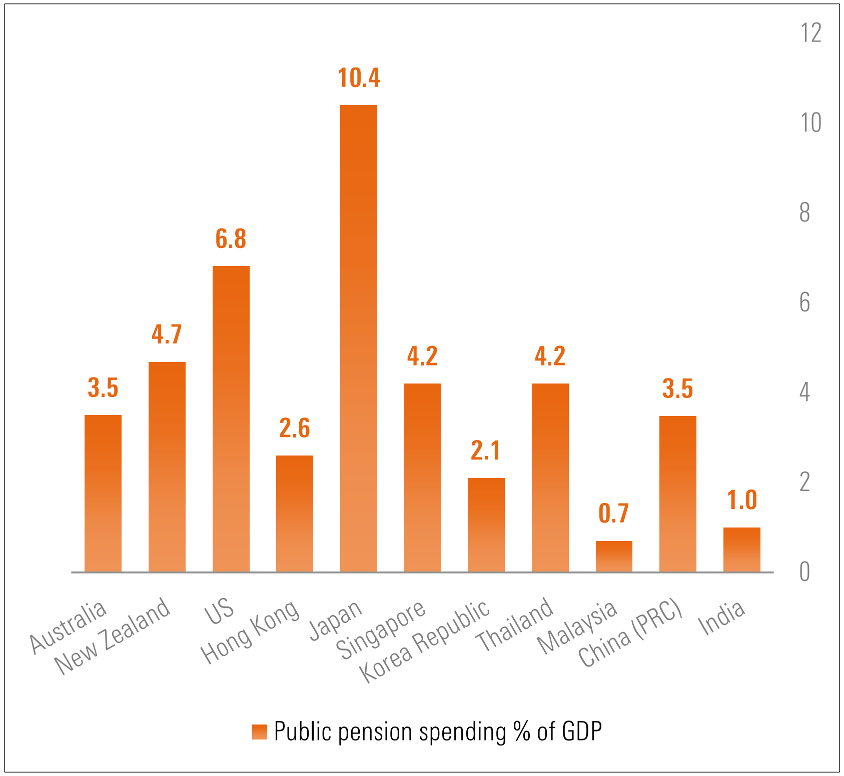


Size of PAUM to GDPs' varies significantly across selected countries. A GDP over 50% indicate a relative mature pension system.

Source: Compiled from OECD database, World Bank database, and various national sources.

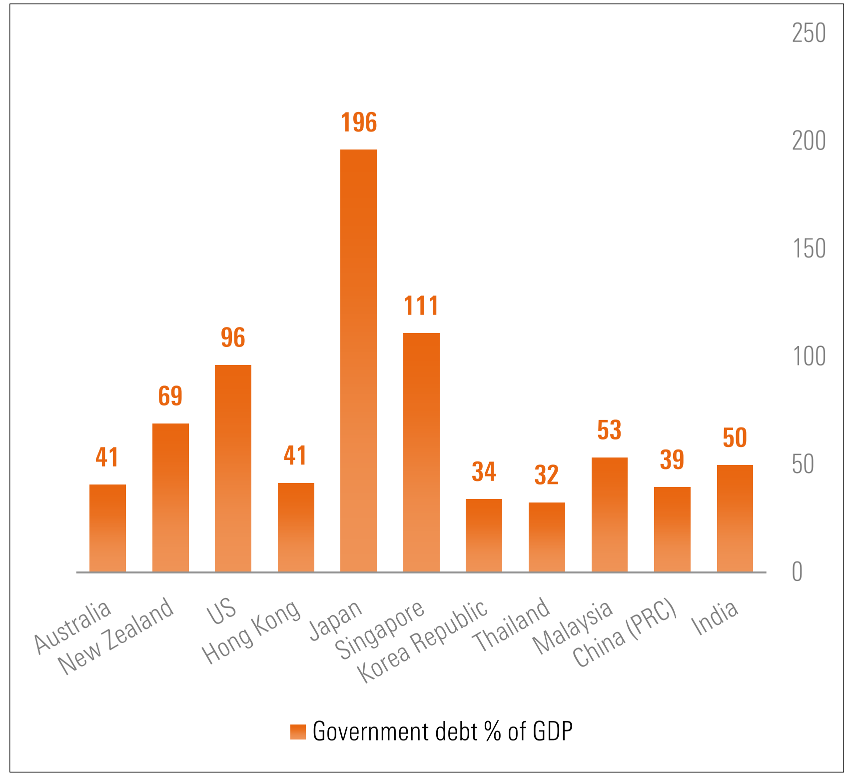
Retirement Savings: Fiscal pressure may limit Government expansion of pension expenditure.

Public expenditure on pensions to GDP



Public spending on old-age pensions and increased on average 27% faster than the growth in national income between 1990 and 2009 for G1 countries and Japan.

2013 Government debt to GDP



Japan, United States and Singapore have high level of government debt limiting expansion of public pension expenditure.

Source: *OECD database and World Bank database*

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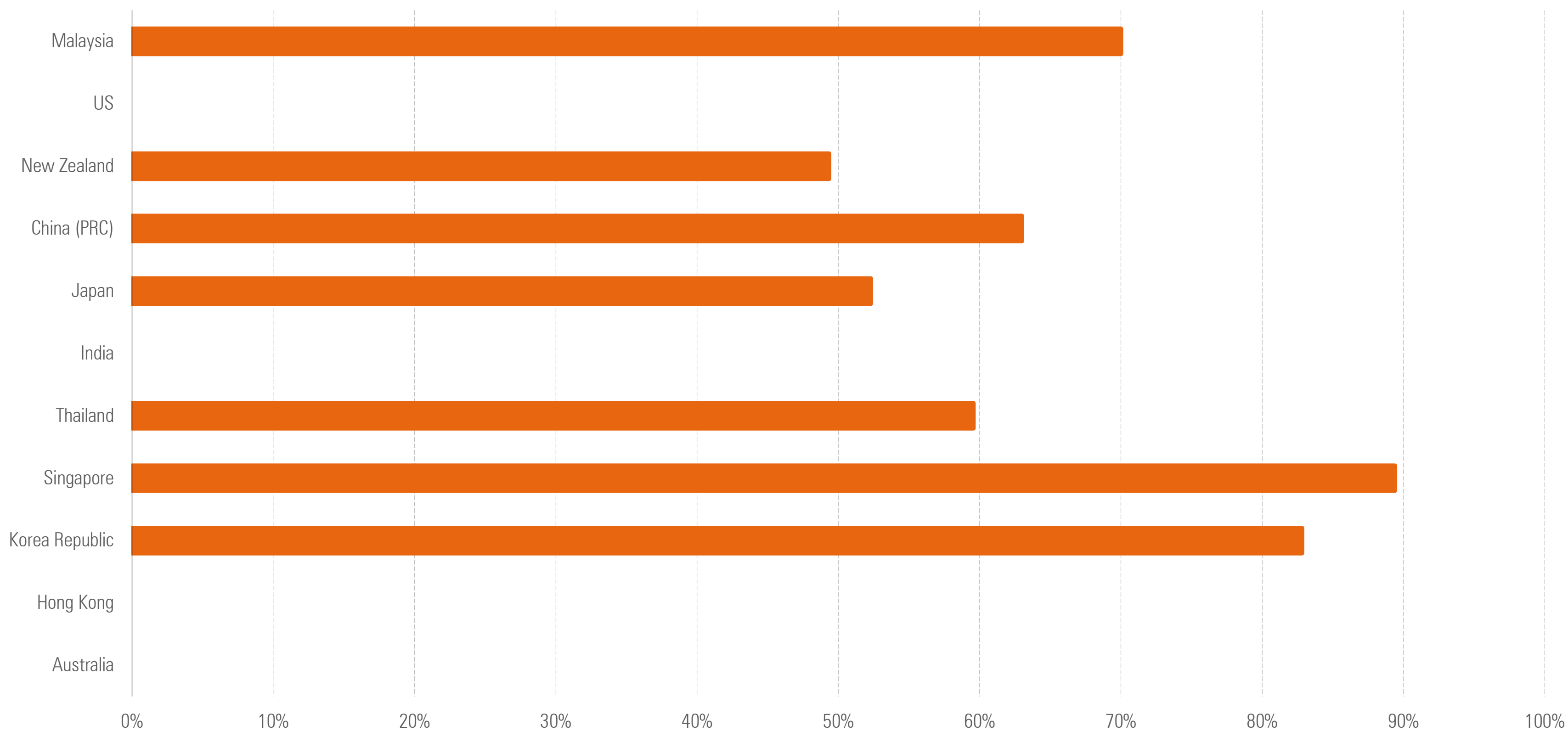
Retirement Savings: market maturity

National scheme % of total retirement assets[1]



1 National scheme total does not include the multipurpose retirement accounts e.g. Accounts that can be used for other purposes such as house deposit, medical etc.
Source: Morningstar

What is the impact for capital markets and the businesses that surround them?

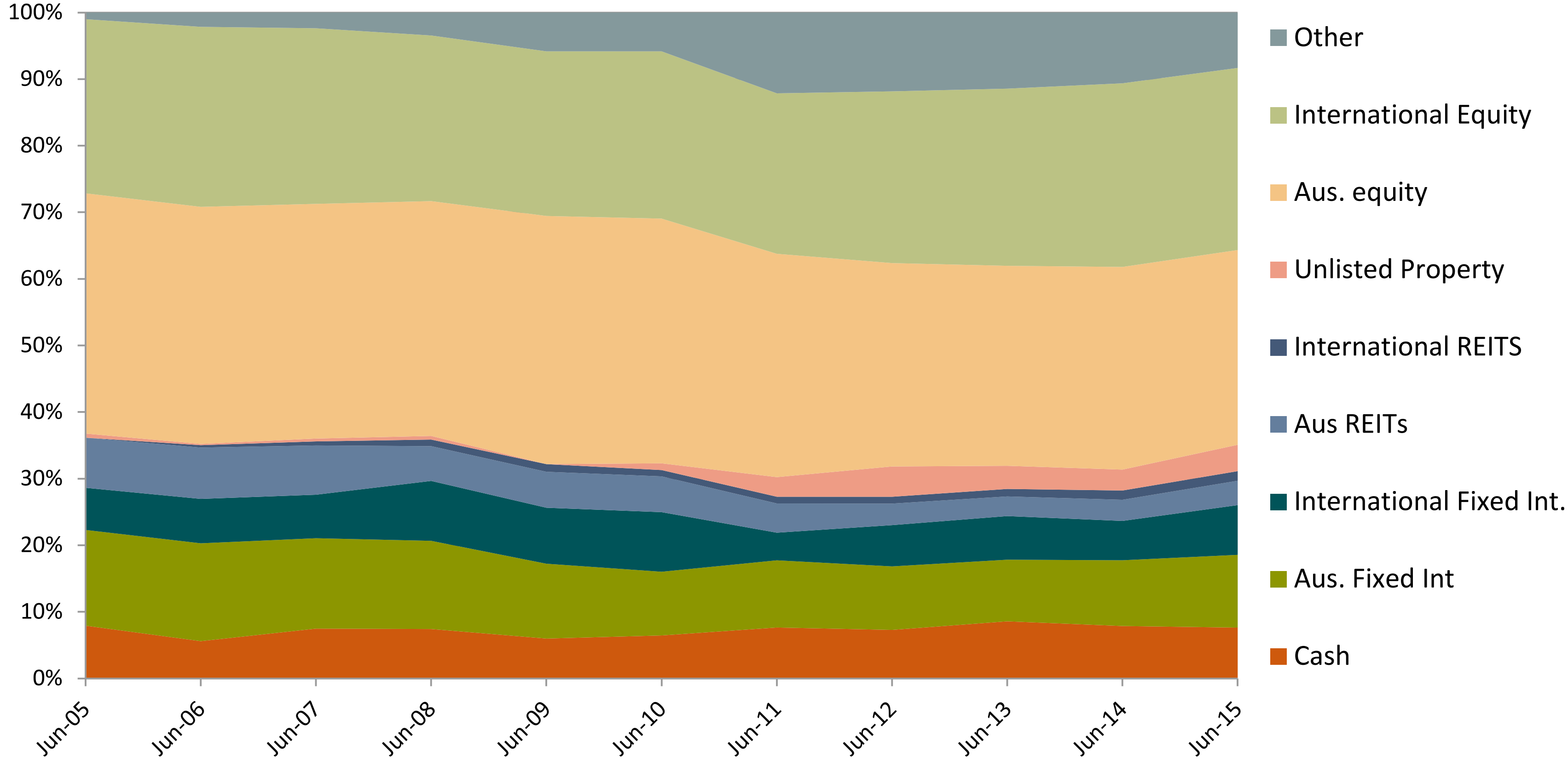
Growing Retirement Asset Pool
The issue is for Governments and Individuals alike

- The vast majority of the return on investment has to go to the actual saver, not the financial services industry.
  - MySuper requirements for default funds in Australia
  - Capping of default fund MPF fees in Hong Kong
  - Pension funds insourcing asset management
- "Our current fee debate is only a symptom. The root cause is somewhere else: we never discussed or agreed on our delivery and compensation model for pension and retirement outcomes." Leading US pension and retirement executive.
  "The $500 trillion prize", Ernst & Young 2015

Growing Retirement Asset Pool

Australian superannuation funds have diversified exposures

Exposures to international equities, unlisted property and other assets including unlisted infrastructure, private equity and alternative strategies have all increased



Source: Monthly Average Asset Allocations – Morningstar Growth Universe

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Growing Retirement Asset Pool

Changing needs of those managing assets

- Unlisted assets
  - The need for securitisation
- Growing international programmes
  - The need for currency management
- The structure of debt markets
  - Who will fund the future

Growing Retirement Asset Pool
The increasing role the individual

- What products will be demanded
  - ETFs
  - Managed funds – unlisted or on Exchange
  - Corporate and Government Bonds
- What is the right distribution model
  - Fiduciary duty for advisers
  - Banning of commissions
  - Fee based accounts
  - Utilising technology

Who we Are
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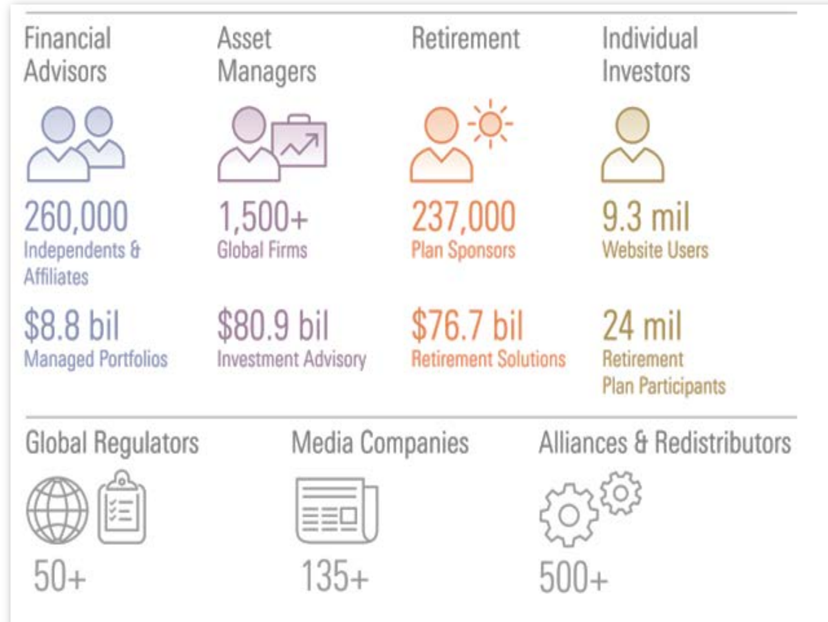
Our mission is to create great products that help investors reach their financial goals.

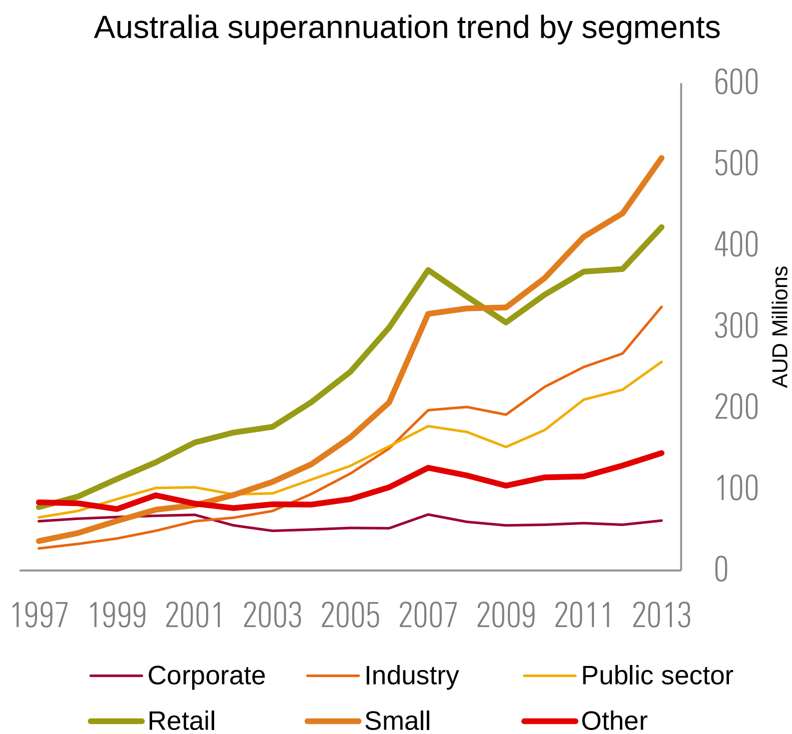
We have 3,800+ employees in 27 countries worldwide, providing local market expertise.

Our clients range in size from individual investors all the way up to the world's top asset management firms



Appendices

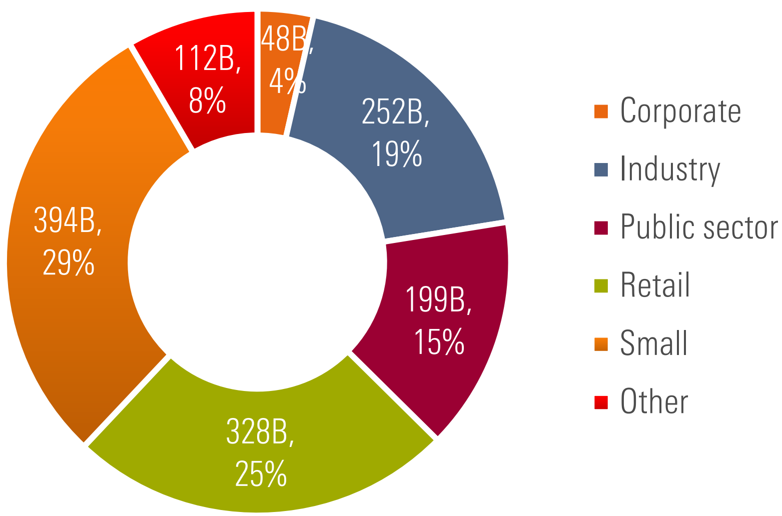
Australia Retirement Asset Segments



- Over the last 13 years, corporate and public sector segments share of assets have the lowest rate of increase.
- The industry and small segments have the largest rate of AUM increase with 13 year CAGR of 16% and 17% respectively.
- Self Managed Superannuation Funds comprise 90% of the Small funds segment
- AUM increase mainly driven by DIY SMSF and public offer super funds, making up 78% of the total retirement assets as of 2013.

Source: Morningstar

Australia

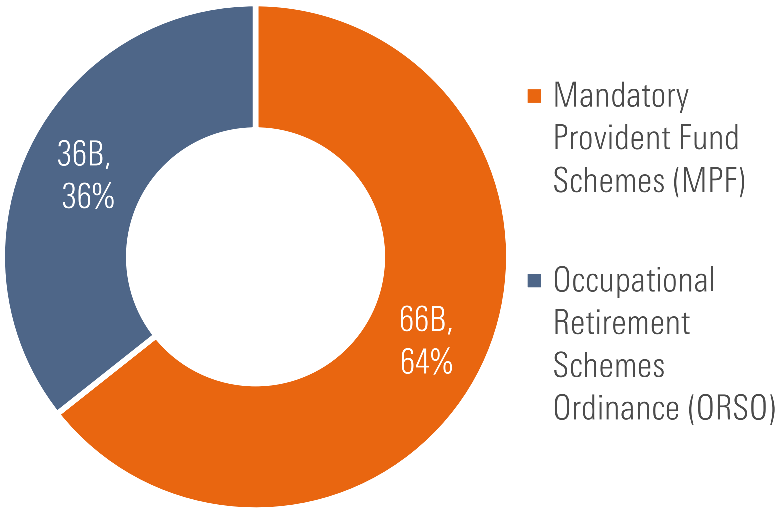


FY13 est. total retirement assets by segments

- Regarded as one of the best in the world; reasonably high savings, broad coverage and highly contested by suppliers.
- Three pillar system:
  - 1st: Means tested government funded scheme (Old Age Pension)
  - 2nd & 3rd: Mandatory DC superannuation guarantee scheme and voluntary DC normally through "salary packaging".
- Fastest growth in SMSF, 10 year CAGR was 17% p.a.
- Coverage is 91% of labour force.
- High freedom of choice under the superannuation guarantee scheme.

Source: Morningstar

Hong Kong

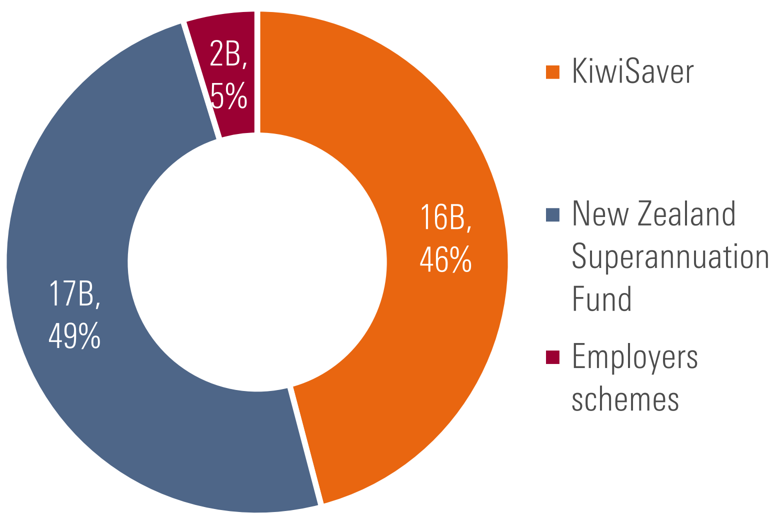


FY13 est. total retirement assets

- Two pillar system:
  - 1st: Government funded scheme mainly as a safety net for the really needy.
  - 2nd: DC ORSO and MPF schemes. The mandatory MPF was introduced in 2000.
- Pension asset as of FY13 was c.40% of GDP, up from 20% in 2003.
- HK pension asset 10 year CAGR was 12% p.a.
- Coverage is 79% of labour force, however only 55% of working-age population.
- High freedom of choice under MPF scheme.

Source: Cheng 2013, Chung 2013)

New Zealand



FY13 est. total retirement assets

- Intergenerational cost shifting in NZ, since the fiscal cost of NZ super is approximately twice that of Australia's age pension.
- The introduction of KiwiSaver (government-subsidised voluntary retirement saving scheme) in 2007 reversed the previous negative trend on private pension coverage.
- Two pillar system:
  - 1st: Government funded NZS
  - 2nd: KiwiSaver is now the primary scheme with over 2.3 million members.
- Contributions are invested by default or approved providers

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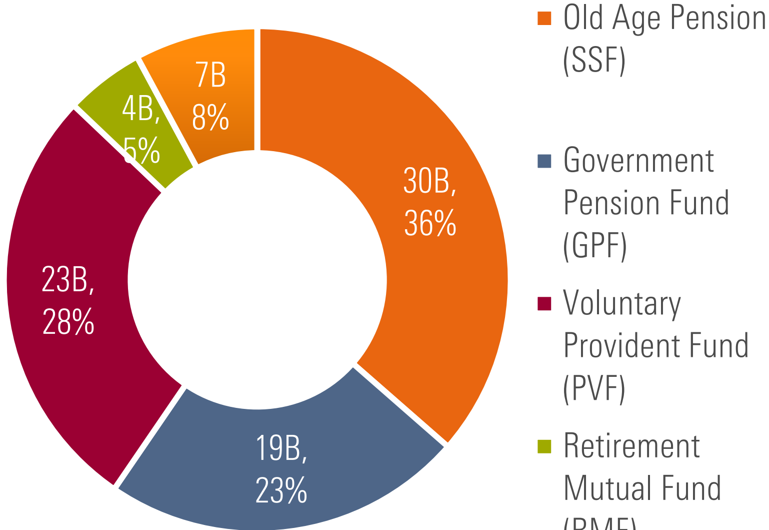
Thailand

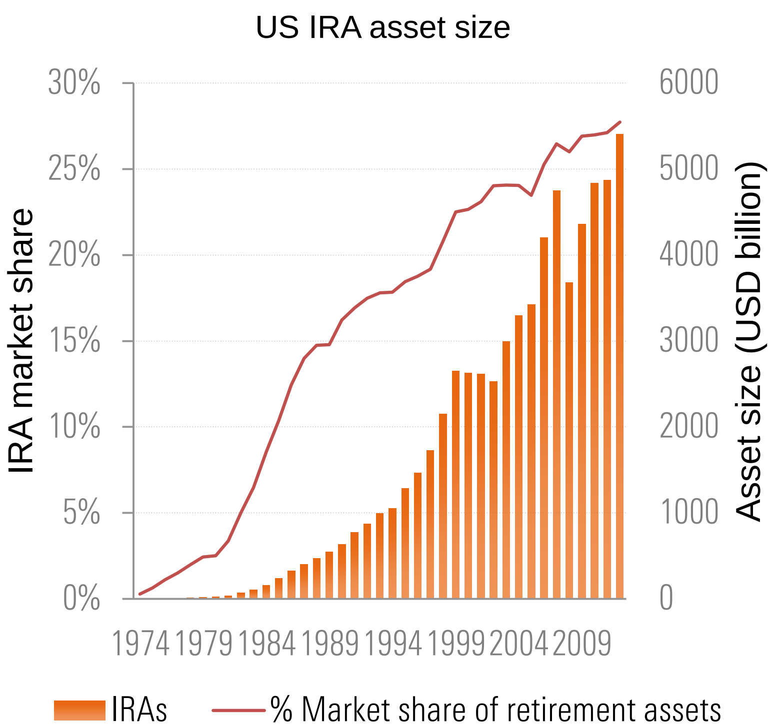


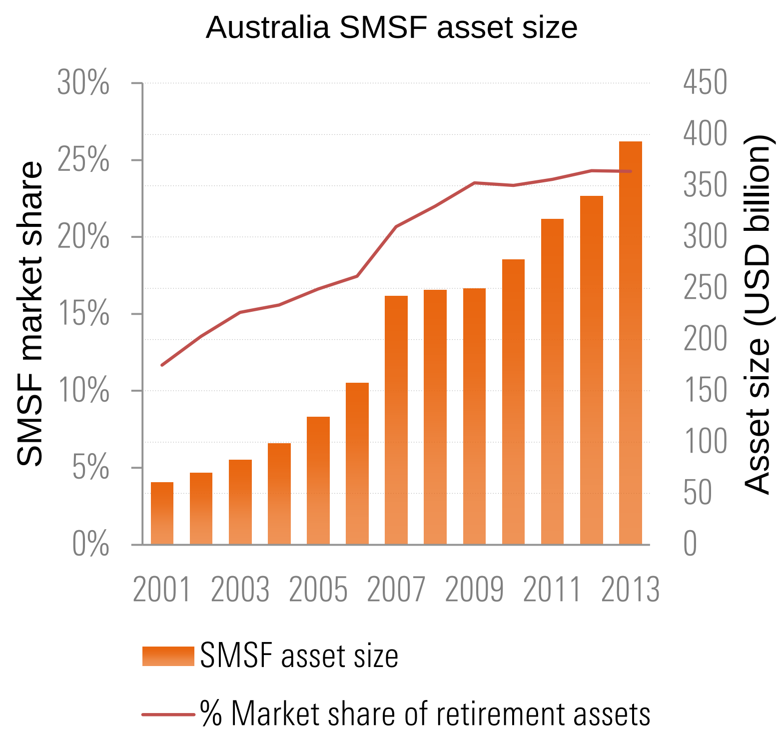
FY13 est. total retirement assets

- The first pension system was enacted by King Rama V in 1902 for government officials.
- Complete restructuring of the system in the 1990s and now a three pillar system:
  - 1st: DB Social Security Fund (Old Age Pension)
  - 2nd: Mandatory DC GPF and PVD
  - 3rd: Voluntary DC RMF and LTF
- RMF & LTF segments have the fastest growth.
- High freedom of choice under PVD, RMF and LTF schemes with over 500 funds collectively.

Source: Morningstar

Individual managed retirement funds are popular and make up c.25% of the retirement assets market share in the US and Australia.





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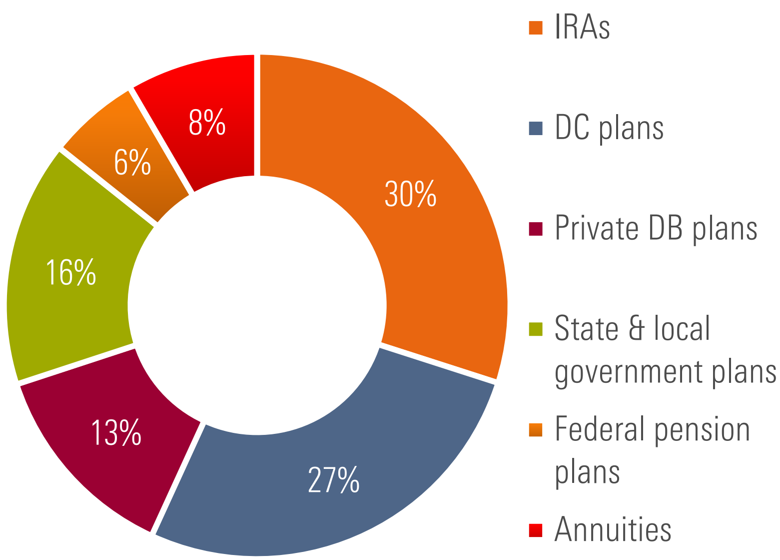
The US Evolution of “Retirement”

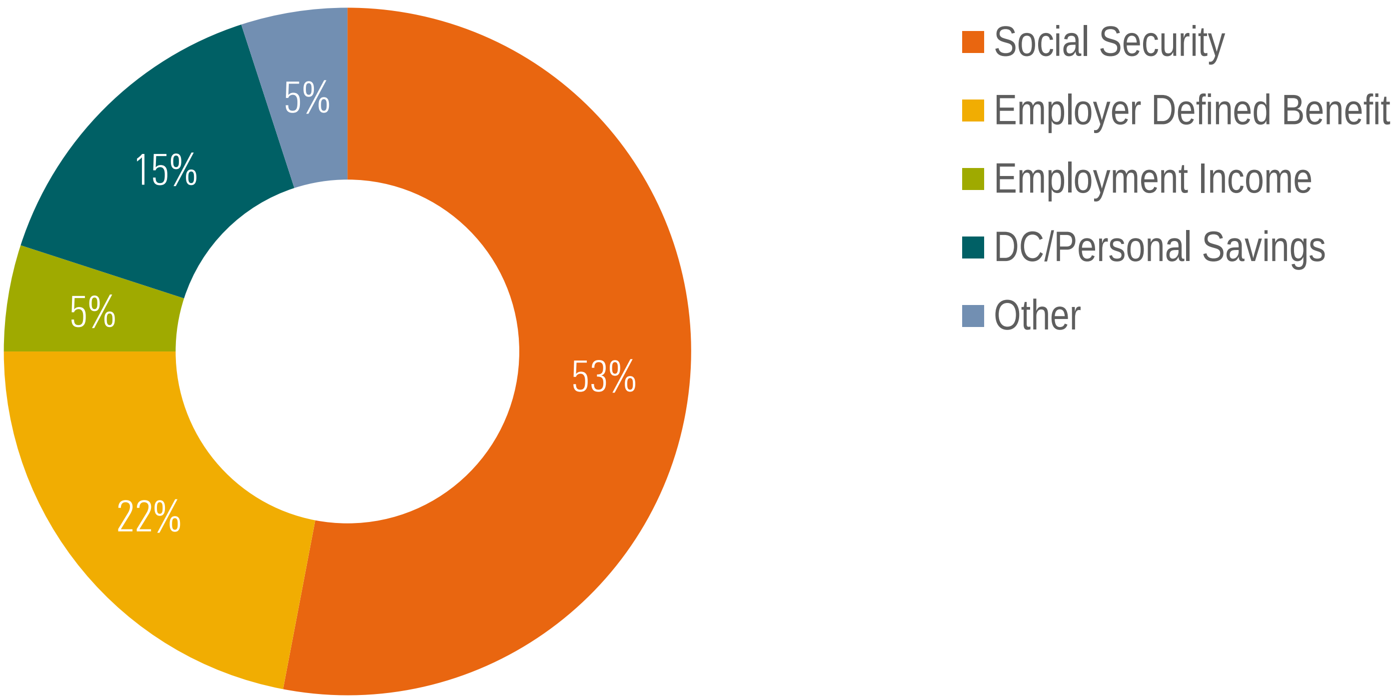
US Retirement Asset Segments



- Over the last thirty years DB plans' share of assets has fallen by 22 percentage points with annuities and state plans also losing ground
- IRAs have been the big winners (up 23 points) with DC plans (including 401k) also growing share (up 6 points)
- 401K plans represent approximately 70% of the DC plan assets

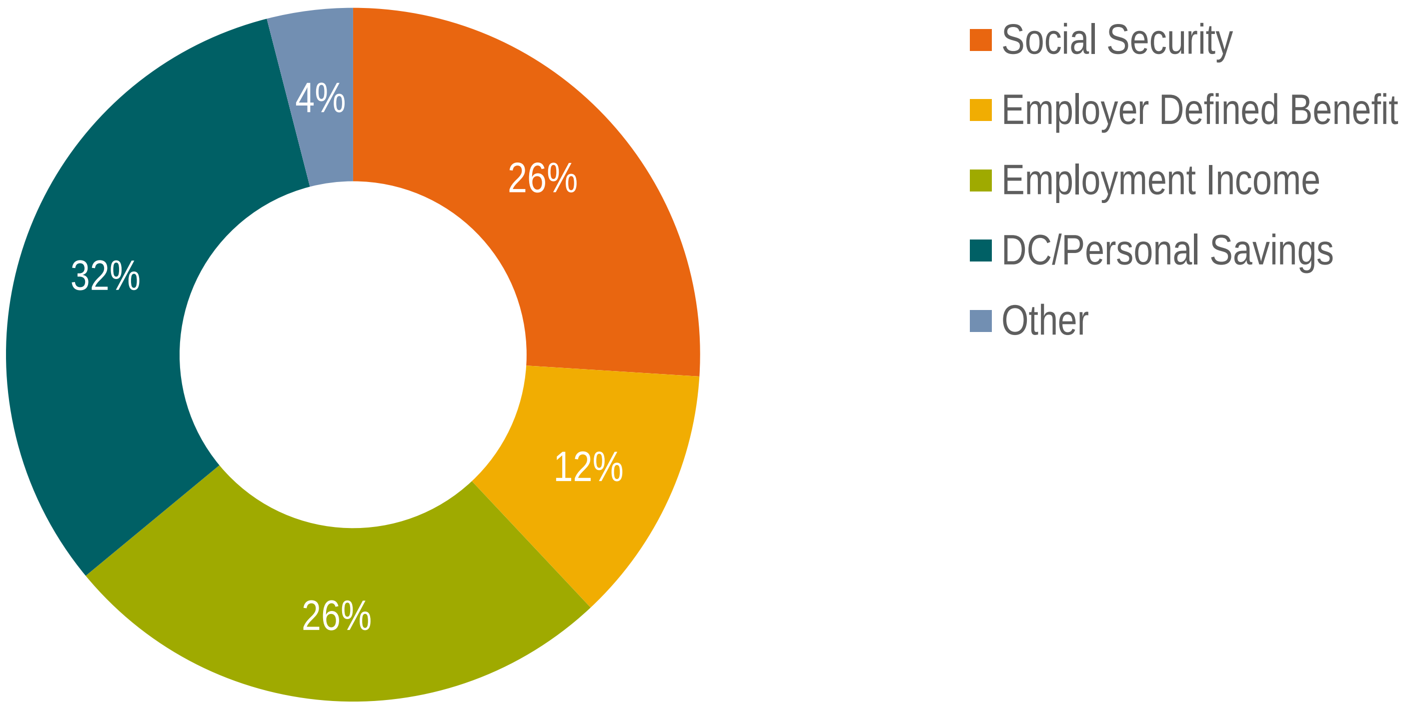
Source: Morningstar

Today's Retirees
The Perfect Balance?



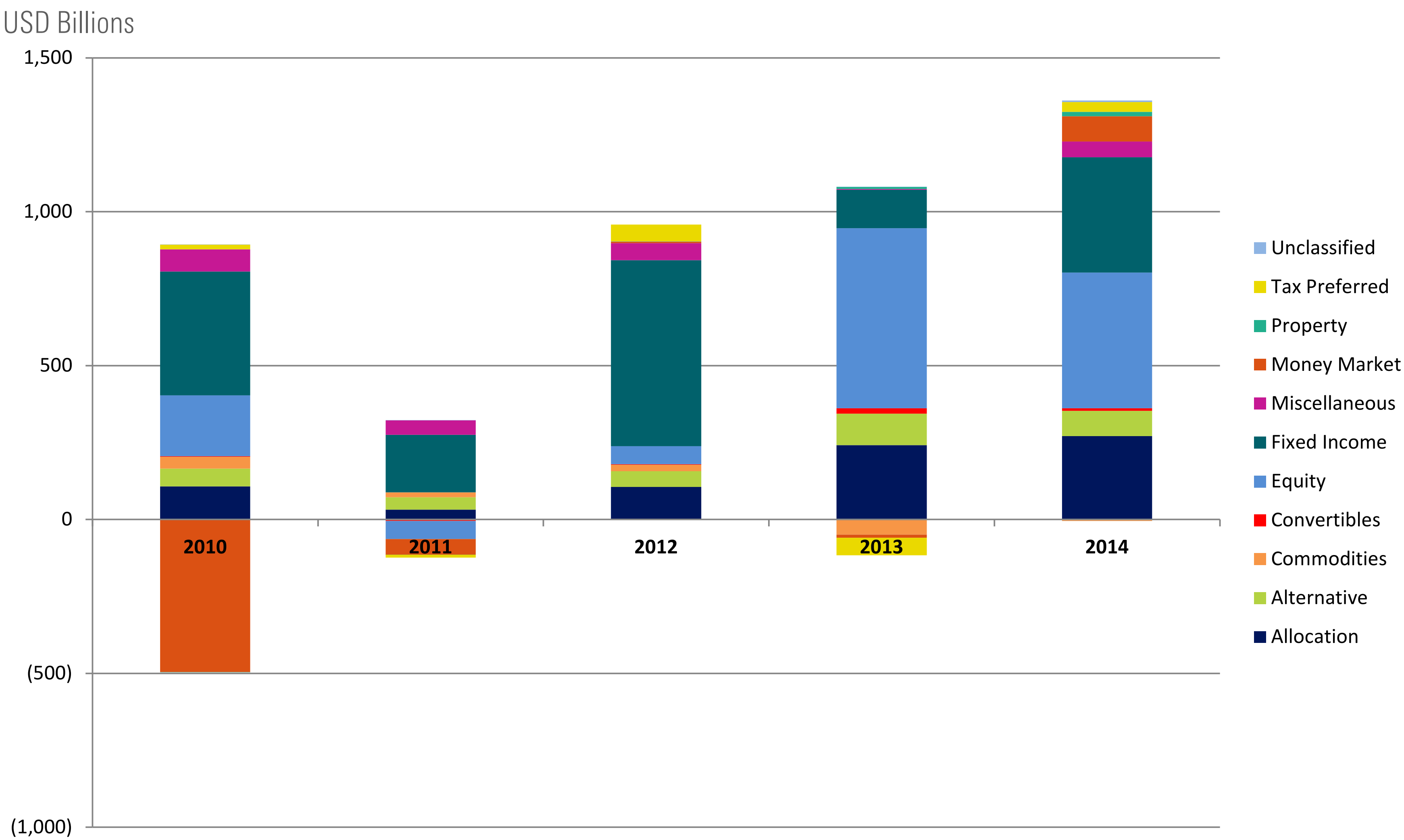
Source: Work in Retirement: Myths and Motivations, Merrill Lynch and Age Wave, 2014

Gen Y
Working in "Retirement"



Source: Work in Retirement: Myths and Motivations, Merrill Lynch and Age Wave, 2014

2014 a strong year for worldwide fund flows



Source: Morningstar Fund Flows Analysis: Worldwide Funds 2015